

Economist, business leader: Don't float or devalue



Chairman of the Confederation of Regional Business Chambers Vivek Charran



Dr Vaalmikki Arjoon PHOTO BY NICOLE DRAYTON

ANDREA PEREZ-SOBERS SENIOR REPORTER ANDREA.PEREZ-SOBERS@GUARDIAN.CO.TT

Floating the T&T dollar will cause more harm than good in helping to address the current foreign exchange shortfall, according to University of the West Indies economist Dr Vaalmikki Arjoon.

Dr Arjoon was directly responding to a report released by the T&T Chamber of Industry Commerce last week, which detailed challenges being faced by the local business community due to the foreign exchange crisis.

The report highlighted that out of the 111 businesses surveyed 26.1 per cent of respondents strongly agreed with floating the exchange rate to address the shortfall in foreign exchange supply relative to demand, while 18.9 per cent moderately agree.

“Another 27 per cent remain neutral, suggesting that a portion of the population is uncertain about the potential effects of this measure. On the other hand, 10.8 per cent are slightly against the idea, and 21.6 per cent strongly disagree. These results indicate a clear divide in opinion regarding the fluctuation of the exchange rate,” the report outlined.

Speaking on CNC3’s Morning Brew yesterday, Arjoon said, “As a result of how high the demand for foreign exchange is in Trinidad and Tobago, because of how import intensive we are and because of how limited our earnings are, what is going to happen if the dollar is floated is you will have a sharp depreciation of the exchange rate.”

Arjoon also highlighted that the rate is going to far exceed the black-market rates.

“The black-market rate is an ad hoc rate that is pegged at a premium above the official rate. I mean when you look at Jamaica’s experience when they floated their dollar back in the early 1990s in one month. It went up from 18 Jamaican dollars to one US and is now US\$1 to J\$156.

And of course, some may think locally that if the rate becomes very high by a free float It becomes too expensive to import,” he explained.

The reality, the economist said, is that this country does not have much capacity to switch to local commodities because T&T does not produce much of what it consumes, due to the country not being well diversified.

Also speaking on the matter was Confederation of Regional Business Chambers chairman Vivek Charran who some measure of floating is not going to solve the forex problem.

“It is treating the symptom and how it treats the symptom is very simple. It increases the cost of purchasing forex to the business or the individual by increasing the price of forex in terms of purchasing forex. It makes it more difficult for people to afford purchasing forex, so they have to reduce how much forex they want.”

Further, Charran said if the government does devalue or if the exchange rate depreciates, the price at which the bank purchases US dollars from the public or the price at which businessmen sell US dollars to the bank will also increase.

“The only benefit that can happen is if it increases to \$7.50 or \$8 to US\$1, then people may have more confidence in going selling their US dollars or converting their US dollars.

“This is just the general public who earn their forex and that would be a good thing because that’s the sector that the black market caters to,” he emphasised.