Economists warn $9 exchange rate a ‘dangerous move’ for T&T

Retired UWI professor of economics, Patrick Watson PHOTO BY PATRICK WATSON/ FACEBOOK

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Several economists are saying it would be a dangerous move for this country's economy to raise the exchange rate of the US dollar from TT$6.79 to TT$9. They say such an adjustment, without solving structural economic issues in Trinidad and Tobago, will not augur well.

Professor Patrick Watson strongly opposes the idea of a direct devaluation to TT$9.

Drawing from the experiences of other Caribbean nations like Jamaica and Guyana, he warned that such a move often triggers a speculative spiral. He said once a signal is sent that devaluation is acceptable, "everybody will start thinking that this thing will just get worse," prompting hoarding and speculation.

Watson said this can drive the exchange rate well beyond the intended TT$9, perhaps even up to TT$20, as seen in Jamaica's history, where the dollar spiralled from J$9 to over J$150 per US dollar. He insisted that the textbook theory of devaluation improving exports does not apply in T&T's case because "nobody wants our goods."

He explained that because the country remains heavily reliant on oil and gas commodities priced in US, devaluation simply earns more TT dollars for the same US dollar revenue, without increasing total foreign earnings. Meanwhile,Watson said imports become significantly more expensive, hurting consumers.

He emphasised the lack of diversification as the real root of the forex crisis.

"We are a foreign exchange-losing country," Watson stated bluntly.

Large forex consumers like PriceSmart, he outlined, do not earn forex but still demand it, creating an imbalance that cannotbe fixed by simply adjusting the rate. Unless T&T creates and exports more of what the world wants, devaluation will only worsen cost-of-living pressures without addressing the underlying problem, he said.

Dr Ralph Henry said the TT dollar had already depreciated in practice, even if the official rate has not changed. He explained that there is a dual market, with the official exchange rate around TT$6.80 and a de facto market rate of TT$7.50 or more.

Henry said in this context, Elias' call merely formalises what is already happening informally.

However, he cautioned that pushing the rate to TT$9 would cause serious inflationary effects, particularly in a highly import-dependent society.

He advocated instead for a managed float, where the exchange rate is adjusted more frequently in small increments based on market conditions. This, he said, would prevent the kind of massive, sudden shocks that a large devaluation could trigger.

Henry said T&T's foreign exchange problem is tied directly to declining oil and gas production and insufficient foreign revenue from other sectors.

While he sees merit in encouraging more domestic production, especially in agriculture, he warned that structural change will take time and cannot be driven by exchange rate policy alone.

"Until then, the country's reliance on imports (even for everyday items like fast food and coffee) will continue to leak foreign currency from the system," Henry explained.

Meanwhile, economist Dr Justin Ram, in contrast, supports depreciation but not for speculative or reactive reasons. Instead, he views the exchange rate as a critical price signal that tells the economy whether it should be consuming or producing.

For the last 15 years, he argued, the TT dollar has been overvalued, encouraging a consumption-based economy flooded with imports rather than incentivising domestic production.

Ram believes the exchange rate should reflect economic fundamentals and production capacity. A higher rate, in his view, would make local production more competitive, reduce reliance on imports, and encourage exports. He sees this as central not just to economic reform but also to social well-being.

"If we are to give people dignity, then it is imperative that Trinidad and Tobago once more becomes a production economy," Ram said.

Another economist and former senator, Taharqa Obika, noted that this would disproportionately hurt pensioners, minimum wage workers, students and the 500,000- plus labour force members who earn fixed incomes, effectively cutting the value of their salaries and savings by 30 per cent.

Obika rejected the notion that the market will "settle" at TT$9, highlighting the lack of evidence and the likely escalation of the black-market rate to TT$10 or more.