

# **Individual country details: Caribbean**

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The tables that follow present for each country by subperiod the summary information on the monetary policy framework which lies behind the classification, followed by a list of selected IMF references and other sources which provide further details.

IMF country-specific papers are referred to as follows (by year of publication, not year of consultation, plus month if there are two issues in the same year):

Economic Development and Selected Background Issues = EDSBI

Memorandum of Economic and Financial Policies = MEFP

Recent Developments and Main Regional Policy Issues = RDMRPI

Recent Economic Developments = RED

Selected Issues = SI

Selected Issues and Statistical Appendix = SISA

Staff Report = SR

Other abbreviations

CD = certificate of deposit

ECF = Extended Credit Facility

GBP = pound sterling

GFC = Global Financial Crisis

OMO = open market operation

USD = US dollar

**Bahamas** became independent from the UK in mid-1973, with its currency already pegged to the USD, and maintained that arrangement throughout the period.

Years	Targets and attainment	Classification
1974-2017	currency fixed at par to USD from February 1973, USD also used; open, liberal economy which trades mainly with the US; established tax-haven with many foreign-affiliated banks providing offshore financial services; low-volume low-premium investment currency market, with exchange controls on residents' capital outflows which to some extent insulate domestic monetary conditions; previous monetary authority replaced mid-1974 by new central bank with authority to set interest rates, cash and liquid asset ratios and credit controls, to rediscount Treasury bills and government bonds, and to lend to government within limits; monetary policy is de facto subordinate to exchange rate peg and largely passive (with inflation moving in line with dominant trading partner US); banks typically hold excess reserves; Treasury bill issues geared to financing deficits, no secondary markets for Treasury bills or bonds, few interbank transactions, no OMOs for liquidity-management purposes; fiscal deficits vary but effects on monetary growth typically contained, mainly by credit controls and moral suasion, supported by infrequent discount rate changes, with focus on maintaining or raising forex reserves; from mid-1990s efforts to reverse decline in role of offshore financial sector; 2002 some relaxation of exchange controls; moves towards indirect monetary instruments discussed in mid-2000s, but shelved with GFC in favour of greater emphasis on financial stability	augmented exchange rate fix AERF

Selected IMF references: RED 1974 pp20-2, 38; RED 1977 pp21-4; RED 1978 pp26-7; SR 1982 pp5-6, 9; RED 1983 pp30-2; SR 1983 pp6-8; SR 1985 p5; RED 1986 p19; SR 1988 pp5-6; SR 1992 pp5-6; SR 1994 pp3-4; RED 1996 pp14-22; SISA 1999 pp5-13; SR 2001 p7; SR 2003 pp4, 9, 17-18; SR 2005 pp33-42, 44-5; SR 2007 pp16-18; SR 2014 p15.

**Barbados** fixed its currency initially to GBP and then from mid-1975 to USD. The scope for monetary policy was limited but, given capital controls, non-zero, and the main instruments were cash and securities reserve requirements, moral suasion and later interest rates. Periodic bouts of fiscal retrenchment were needed to preserve the peg. In the decade after the GFC the central bank found itself financing a large part of the fiscal deficit, which contributed to a reluctance to implement major reforms of the monetary arrangements.

Years	Targets and attainment	Classification
1974-2017	Barbados central bank established mid-1972 and Barbados dollar issued December 1973 to replace East Caribbean dollar, both then fixed to GBP; central bank operates via reserve and liquid asset ratios (including specific treasury bill requirements), moral suasion, interest rates, rediscount facilities and credit controls, within context of substantial exchange controls; July 1975 peg switched from GBP to USD; early 1980s attempts to develop offshore banking; widely varying fiscal deficits lead to recurring falls in forex reserves despite some foreign borrowing, policy reacts with periodic fiscal and monetary tightening (and wage restraint), enough to maintain peg to USD; mid-late 1980s authorities resist IMF pressure for devaluation; early 1990s very strong fiscal adjustment needed; as of late 1990s monetary policy relies on reserve (cash and securities) requirements and interest rates (discount rate and minimum bank deposit rate set by central bank), while OMOs (in primary market, little secondary trading exists) are rare, and authorities are reluctant to liberalise interest rates and capital controls; 2001 introduction of indicative (maximum) lending rate to guide bank loan rates, justified on basis of oligopolistic banking system (later contested by IMF staff study), phased out late 2002; 2004 authorities beginning to respond reluctantly to push for switch to indirect monetary instruments and (as part of Caribbean Single Market and Economy initiative) capital account liberalisation; 2008-9 major shock from GFC, recovery very slow despite large rise in debt (above 100% of GDP), sharp fall in bank lending to private sector; early 2013 new interest rate policy with focus on (lower) treasury bill rate leads to significant deficit monetisation; mid-2013 turn to fiscal consolidation, but continued large financing of fiscal deficit by central bank; 2015 minimum deposit rate ended; 2017 rise in securities reserve requirement transfers much of burden of financing deficit from central to commercial banks; plan for increased central bank autonomy with stricter limits on financing of government; statistical database undergoes some improvement but needs more	augmented exchange rate fix AERF

Selected IMF references: RED 1973 p42; SR 1973 p8; SR 1974 pp10-11; RED January 1975 p44; RED December 1975 pp34-5; RED 1977 p36; RED 1984 p23; RED 1987 pp36-7; SR 1988 p11; SR 1991 p10; RED 1992 p8; SR 1992 pp1-3, 6-7; SR 1997 pp13-14; RED 1998 pp22-3; SR 1999 pp11, 13-14; SR 2000 pp7, 12-13; SISA 2001 pp6-14; SR 2001 pp11-12;

SR 2002 p8; SR 2004 pp11-12; SISA 2005 pp5-27; SR 2005 pp17-18; SR 2006 p14; SR 2007 pp12-13; SR 2008 p13; SR 2009 p10; SR 2011 pp12-13; SR 2014 pp5-67, 15; SI 2015 pp15-19; SR 2015 pp16, 17; SR 2018 pp17, 18-19, 20.

**Dominican Republic** had long pegged its currency 1:1 to the USD, but rising monetary financing and growing controls led to a long period of alternating exchange rate arrangements and gradual improvements in monetary operations. The shift to indirect monetary instruments eventually allowed a transition from 2012 to loosely attained inflation targets.

Years	Targets and attainment	Classification
1974-81	long-standing 1:1 fix of Dominican peso to USD, limits on access to official forex market and tolerated parallel market with spread of up to 20%; main instrument of monetary policy since 1967 is complex system of basic and marginal reserve requirements more focused on distribution than overall level of credit; banking system, with most banks foreign-owned, dominated by large state-owned commercial bank which is government's fiscal agent and lends heavily to public sector, but has difficulty meeting its reserve requirements; rising role of nonbank financial intermediaries, and gradual extension of controls to them; largest country in Caribbean but small open economy exposed to sugar and other price shocks and to hurricanes; monetary policy gradually becomes more active, with more rediscounting and more active interest rates; trend of increasing monetary financing of growing fiscal deficits, parallel market spread begins to rise	augmented exchange rate fix AERF
1982-2011	access to official forex market reduced, rise in share of transactions in parallel market and in spread, which rises above 25% and peaks at 200% in 1984, rising inflation; initial stabilisation efforts unsuccessful; 1985 exchange rates unified and floated; 1985-90 monetary (but not much fiscal) tightening, with reserve requirements repeatedly changed (but imperfectly enforced), interest rate ceilings raised, central bank certificates issued, controls extended to informal financial institutions; 1987 to 1991 exchange rate arrangements oscillate between dual rates, unified floating and fixed rates; 1990-1 repeated devaluations reduce parallel market spread, exchange rates partially reunified and floated, full programme of fiscal tightening and structural reforms, including unification of reserve requirements and end of interest rate ceilings; 1994 policy slippages including return to dual exchange rates, official and interbank market with small spread (also exchange house market), but late 1994 commitment to adjust official in line with interbank rate; growing role of central bank certificates, mostly 1-year term with limited negotiability, gradual decline in role of reserve requirements; as of 2001 central bank has been using credit ceilings and placing central bank certificates to sterilise excess liquidity, but is now aiming to shift to indirect instruments, with auctions rather than placements, and to unify forex markets; long-delayed new central bank law passed 2002, reinforcing gradual shift in objectives to price stability; financial crisis 2003-4 resulting from discovery of fraud at large bank	loosely structured discretion LSD

	impedes move to indirect instruments, and weakens capital position of central bank; 2004 basic standing facilities, with wide initial spread reduced to more normal level by 2007; policy focused on managing base money mainly via (primary market) OMOs, with rising interest in inflation targeting; severe shock from GFC 2008-9, but quick monetary response leads to rapid recovery; mid-2000s efforts to develop domestic debt markets and extend yield curve; by mid-2010 some secondary trading in central bank and government paper, clear interest rate corridor from restructured standing facilities and formal policy rate	
2012-17	narrow inflation targets announced from 2012, though exchange rate still managed; targets attained 2012-13, undershot 2014-16, attained 2017, but expected inflation remains more or less within target range throughout; slow movement towards greater exchange rate flexibility	loose inflation targeting LIT

Selected IMF references: RED 1973 pp80-2; RED 1974 pp28-30, 68; RED 1975 pp22-4; SR 1975 p9; RED 1976 pp19-20; SR 1976 p2; RED 1977 pp37-41; SR 1977 pp7-8; SR 1978 pp8-9; RED 1979 pp18, 38-40; RED 1981 p26; SR 1982 p16; RED 1983 pp29, 45-6; RED 1984 pp1-2, 26-7, 43-7; RED 1985 pp1-2, 25-7, 41-4; RED 1987 pp1-2, 25-8, 29-31, 41; RED 1988 pp23-4, 33-7; SR 1988 pp5, 9; RED 1989 pp24-6, 35-9; RED 1991 pp23-5, 34, 37; SR 1992 pp2-4; RED 1993 pp14-15, 21-2; SR 1995 pp7-8, 9; RED 1996 pp19-22; SI 1999 pp8-17; SR 2001 pp17-21; SR 2002 p20; SR 2003 pp6-8; SR 2005 pp20-1; SR 2008 pp12-15, 19-20; SR 2009 pp21-2; SR 2010 pp18, 23; SR 2012 pp6, 12; SR 2016 pp12-13, 19, 25; SR 2017 pp5-7, 13; SR 2018 pp5-6, 13-15, 24.

**Eastern Caribbean Currency Authority/Central Bank/Currency Union** inherited quasi-currency board status from the colonial arrangements established by the UK. It switched its fix from GBP to USD following the turbulence in the GBP of the early 1970s, and developed from a currency authority into a central bank, but continued to function in largely the same way, with only a slightly more active monetary policy, but with more focus on integration (and more emphasis on financial sector supervision) from the 1990s.

<b>Years</b>	<b>Targets and attainment</b>	<b>Classification</b>
1974-83	Eastern Caribbean dollar fixed initially to GBP, and from 1976 to USD, by Eastern Caribbean Currency Authority (ECCA), institution set up in 1965 as successor to British Caribbean Currency Board (which was dissolved when Trinidad and Tobago and Guyana withdrew); ECCA covers (after Barbados left in 1974) group of very small island economies which had all been UK colonies: Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and Grenadines, and later Anguilla; members operate varying capital controls, and (market determined) interest rates differ between countries; ECCA fixes; ECCA operates largely as currency board with near 100% foreign exchange cover though legal minimum is 60% (70% up to 1975); little monetary or credit policy	pure currency board PCB
1984-2017	Eastern Caribbean Central Bank (ECCB) as relatively independent central bank for Eastern Caribbean Currency Union (ECCU) takes over from ECCA late 1983, with aim of allowing more active and pro-development monetary policy and encouraging economic integration; ECCB can now lend more to member governments (but chooses to do so sparingly), begins to regulate commercial banks more actively, sets uniform reserve requirement in place of previous country-specific special deposits, issues country-coded banknotes which allows allocation of profits in proportion to shares of currency in circulation and imputation of reserves by country; primary concern of monetary policy is stability of exchange rate vs USD: fix is unchanged, forex cover remains higher than required (and IMF refers to ECCB – like ECCA – as quasi-currency board); interbank money market, with ECCB matching bids and offers, set up 1986; 1988 rediscount facilities made available; 1991 members enact uniform banking law covering capital requirements and other issues; over time rise of unofficial interbank market where banks transact with each other; by 1999 plans for regional government securities market and other capital market developments, but unresolved issues between ECCB and member state governments; 2000 ECCB formulates ranges for set of monetary indicators to strengthen policymaking process; concerns about changing international views on offshore financial centres (which had been set up in all ECCU	augmented currency board ACB

	<p>countries), moves to introduce supervision by ECCB; late 1990s and early 2000s high fiscal deficits and rising debt ratios in most members, which become a long-running concern; 2002 regional government securities market (RGSM) launched, most members issue debt there; by 2006 interbank and RGSM volumes much higher; 2006 elimination of most capital controls and other within-ECCU restrictions; rising concern of ECCB with banking sector supervision; growing focus within Organization of Eastern Caribbean States on wider economic union; 2006 authorities resist IMF call to eliminate long-standing minimum saving deposit rate; 2009-12 GFC has large adverse effects, both direct (e.g. falls in tourism and FDI, leading to long-lasting rises in fiscal deficits and debt) and indirect (increased stress in banks, with ECCB limited in its ability to act as lender of last resort); ongoing efforts to strengthen financial sector and its supervision; as of 2009 ECCB's instruments are reserve requirements (never changed), rediscount facilities, minimum savings deposit rate, discount rate, and discount window, but monetary policy remains largely inactive; lack of development of secondary regional securities market inhibits functioning of primary market; 2017 authorities continue to resist pressure to abolish minimum saving deposit rate; statistics improved over time but some need for more improvement</p>	
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Selected IMF references: *Barbados – Economic Situation* 1971 pp65-9; RED St Lucia 1980 pp19-21; RED St Lucia 1983 pp21-3; RED St Lucia 1984 pp18-20; RED St Lucia 1985 pp16-18, 39-43; RED St Lucia 1987 p39; RED St Lucia 1992 p12; *Experiences with Currency Boards* 1996 pp5-6, 11, 16; *Eastern Caribbean Central Bank – Institutional Arrangements and Issues in a Currency Union* 1999 pp4-9, 14-16, 43-7; *Eastern Caribbean Currency Union – Recent Developments and Policy Issues* 1999 pp16-18, 21-2, 26-7; RDMRPI ECCU 2001 pp5-9, 13-16, 19-21, 28; SR ECCU 2006 pp31-2; SR ECCU 2007 pp11, 18-20, 21-2, 32; SR ECCU 2009 pp6-9, 15-16, 35; SR ECCU 2010 pp5-7, 11-12, 15-18; SR ECCU 2013 pp4-7, 10-13, 16; SR ECCU 2016 pp10-12; SR ECCU 2017 pp14-18 53-4.

Other references: Wolf et al. (2008), pp49, 54..



**Haiti** initially continued its long-running fix of its currency to the USD, but central bank financing of government and political instability made that hard to sustain. Monetary policy then shifted towards more emphasis on price stability and, to some extent, the use of indirect instruments, over a period which was interrupted by political crises and civil strife, as well as hurricanes, floods and a major earthquake in 2010.

<b>Years</b>	<b>Targets and attainment</b>	<b>Classification</b>
1974-89	currency fixed since 1954 at 5:1 to USD, which is legal tender in Haiti (and accounts for about 40% of currency in circulation); range of mainly foreign-owned banks which focus on foreign trade-related business, plus some kind of informal credit market; central bank also operates as one of largest commercial banks; central bank lends to government and can use various instruments, but monetary policy is largely passive, with periodic action to regulate interest rates and moral suasion on bank lending, while reserve requirements are high but rarely changed; open and relatively free market economy, in country vulnerable to hurricanes and earthquakes; late 1970s major fiscal reforms tried, but high central bank financing of deficits continues; emergence of parallel forex market with up to 15% premium; 1980-3 commercial bank activities of central bank hived off into new institution, central bank gets more power over interest rates but new commercial bank tends to lend excessively; early 1981 some import controls, eased late 1982; 1982-4 stabilisation efforts but fiscal and monetary slippages, high monetary financing of public sector; new government 1986 tries to change course; 1986-7 some liberalisation of interest rates and of trade, but political instability and repeated military coups lead to falls in external aid and renewed slippages, with parallel premium rising to 50% early 1990	augmented exchange rate fix AERF
1990-2017	early 1990 parallel forex market authorised, most trades undertaken there, with rising spread vs unchanged official rate; end-1989, early 1992 interest rate liberalisation; high central bank financing of fiscal deficits 1990-4, in effect funded by heavy use of reserve requirements and large currency issue; September 1991 official rate abolished, so exchange rate unified (and floating); late September 1991 military coup leads to trade and payments embargo and steep economic deterioration, with sharp depreciation versus USD; return to democracy late 1994, resumption of external aid; 1995 interest rate ceilings eliminated; 1995-6 reforms to internal operations of central bank and to reserve requirements; late 1996 issues of central bank short term paper (which facilitate primary market OMOs), improvements to bank regulation and supervision; severe political tensions from 1997, deadlock from 2000, and withdrawals of donor aid hold up reforms and result in	loosely structured discretion LSD

	<p>continued monetary financing of large fiscal deficits; loan and deposit dollarisation complicate monetary policy; 2001 restructuring of reserve requirements on dollar deposits, with adverse effect on central bank profitability; efforts to support exchange rate are ineffective and costly; 2002 collapse of unregulated credit cooperatives; 2003-4 political turmoil including (forced?) resignation and exile of current president; donors pledge new funds, macro stabilisation, central bank financing of government ended by fiscal tightening and excess liquidity by large central bank bond issues (at fixed volumes and prices, mainly to commercial banks); as of mid-2000s central bank aims to control inflation via broad (later base) money with floating but stable exchange rate, however framework is unclear, instruments ineffective, secondary markets shallow and dollarisation high, while central bank lacks independence and has large operational losses; new president elected early 2006; mid-2008 food price spike leads to civil unrest, political stalemate; bond auctions opened to nonbank financial institutions; severe hurricanes 2008; 182-day central bank bond introduced; major earthquake 2010, hurricanes 2012; new central banking law in principle prohibits government deficit financing, new treasury bill market set up (which will help restructuring of government debt to central bank, future government financing and absorption of excess reserves); as of 2015 central bank aims for low inflation and exchange rate stability mainly via reserve requirements, backed up by OMOs, policy rates (as signals) and periodic forex interventions; rising political tensions, uncertainties; major hurricane 2016 contributes to delay of elections; mid-2017 central bank proves unable to avoid financing government; statistical data need substantial improvement</p>	
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Selected IMF references: RED 1973 pp32; RED 1974 pp17, 35; RED 1975 pp27-8; RED 1976 pp22, 52; SR 1976 pp6, 8; RED 1977 pp45-9; RED 1980 p22, 23; RED 1981 pp33-4, 38-9; SR 1981 pp1-3, 11; RED 1983 pp34, 40-1; RED 1984 pp36, 42, 43-4, 56; RED 1985 pp35-6, 56; RED 1987 pp41-2, 52-3; RED 1989 p48; RED 1991 pp1-4, 41-2, 50-1; RED 1995 pp11-13, 16-17; SR 1995 pp2-3; SR 1996 p12; RED 1998 pp10-11, 17, 20-3; SR 1999 pp11-12; SI 2000 pp20-5; SR 2002 pp6-7, 9, 12, 41; SR 2003 pp4-8, 14; SI 2005 pp24-8; SR 2005 pp15-17; SI 2007 pp20-3, 29-31; MEFP 2009 §8; SR 2013 pp20-1, 39; SI 2015 pp34-41; SR 2015 pp11-12; SR 2019 pp6-8, 18.

**Jamaica** initially fixed its currency to the USD but then underwent a long period of various exchange rate arrangements and gradual reforms to monetary arrangements, with increasing focus on price stability, increasing use of indirect instruments and preparations for a move to formal inflation targeting.

<b>Years</b>	<b>Targets and attainment</b>	<b>Classification</b>
1974-6	long-standing fix of currency to GBP, peg switched to USD 1973; range of commercial banks, all foreign-owned or related, near-banks and other financial institutions; central bank has power to use various measures but relies mainly on liquid asset requirements and credit ceilings, while interest rates are largely market-determined; heavy central bank financing of budget deficits	augmented exchange rate fix AERF
1977-2017	April 1977 to May 1978 dual exchange rate, with ‘basic’ rate for official and other essential transactions initially at previous fixed rate and depreciated ‘special’ rate for other transactions, both rates marginally adjusted at intervals; May 1978 rates merged with large depreciation, and with commitment to depreciate further by small amounts each month for a year, followed by hard peg to USD under which real effective appreciation resumes; continued central bank financing of budget deficits and large balance of payments deficits lead to short-lived stabilisation efforts from mid-1978; new government from 1980 aims at cut in role of public sector and gradual but stronger stabilisation, but both prove difficult; 1982 new government securities (which cannot be used to fulfil liquid asset ratio) to absorb excess liquidity; May 1983 return of dual forex market, late 1983 reunification, followed by short-lived controlled forex auction market and by somewhat freer auction early 1984; late 1984 auction market freed, exchange rate floats; 1984/5 fiscal tightening, credit ceilings and interest rate rises bring short-term monetary slowdown, but monetary financing of deficits resumes in 1986; late 1985 OMOs in form of auctions of central bank CDs, forex intervention to reverse some depreciation followed by peg to USD (with auction continuing); from mid-1986 to mid-1988 CD auctions are set price instead of set quantity; rediscount facilities reinstated, liquidity support facility (providing securitised short-term lending) introduced, interest rates become more important; growing central bank losses feed into rise in domestic credit; major hurricane late 1988, strong national (and international) policy response; new government 1989 maintains stabilisation and structural reform efforts; changes to liquid asset requirements, more emphasis on OMOs but credit ceilings revived late 1989; mid-1989 depreciation despite central bank efforts with restored credit ceilings, late 1989 suspension of auction and new USD peg, but forex flows diverted to forward and parallel markets and pressure continues; 1990 interbank exchange rate system, 1991 forex liberalisation, interbank	loosely structured discretion LSD

	<p>rate moves closer to parallel rate; 1990 floor to interest rate on savings deposits ended, 1991 abolition of credit ceilings, from 1993 reserve requirements rarely varied; 1994 central bank CDs phased out, growth of treasury bills and other government securities; central bank relies on OMOs (mainly repos and reverse repos) in OTC markets operated from 1994 by primary dealers; 1994 further opening of forex market to competition; 1995 monetary policy focus switched to reducing inflation, with monetary base as intermediate target and exchange rate broadly stabilised, but large public sector deficits require very high OMOs which lead to high real interest rates and real appreciation; 1995-7 financial (bank) crisis: interventions, partial nationalisations, restructuring; 1998-2002 reserve requirements equalised and gradually reduced; from late 1990s authorities resist IMF pressure for sharp adjustment of (managed) exchange rate; strong fiscal stabilisation 2000, but debt/GDP ratio very high, partly from costs of financial crisis; 2002 attempts to lengthen term and reduce cost of government debt; forex and financial near-crisis 2003, avoided by sharp monetary and fiscal consolidation; severe hurricanes 2004-5; mid-2000s policy continues to involve very tight monetary conditions but varying budget deficits, with high debt and high interest payments (which vary with fluctuations in exchange rates as well as interest rates), while authorities resist increasing pressures from IMF for much sharper fiscal consolidation to reduce debt ratio; GFC brings about GDP declines 2008-9, currency depreciation and rising budget deficits, and leads to plans for more decisive fiscal consolidation and debt exchange to reduce interest bill/lengthen term of debt, with latter realised but former not; 2012 authorities resist IMF call for (more) sharp depreciation and favour more gradual fiscal consolidation; late 2012 hurricane with severe adverse economic effects leads to stronger and broadly supported reform programme 2013 including major fiscal tightening, more exchange rate flexibility and further debt exchange; 2016 debt markets re-opened after debt exchanges; central bank preparing, but so far without commitment, to move to inflation targeting, first mooted 2012; evidence 2016 that policy rate responds to inflation but not output gap, and is poorly transmitted to other interest rates; statistical database long poor but much improved by end of period</p>	
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Selected IMF references: RED 1973 pp56-61, 63-4; RED 1974 pp50; SR 1974 pp6-9, 14; RED June 1978 pp25-7, 36; RED October 1978 pp23, 51; RED 1982 pp36; SR 1982 pp1-2, 7, 12-14, 16-17; RED 1984 pp45-6; SR 1984 pp9-14, 20-1; RED 1985 pp34, 39, 50; RED 1987 pp34, 39, 53; RED 1988 pp30-3, 37; RED 1989 pp27-32; SR 1989 pp21-2; RED 1990 pp25, 27-8; SR 1990 pp4-11; SR 1992 pp4-5; RED 1993 pp11-12, 14-15, 22; SR 1995 pp8-9; RED 1996 pp2-3, 4-5, 11-14, 36-8, 69; SR 1997 p10; SI 1998 pp17-24, 29; SR 1998 pp7-12; SR 1999 pp4-6, 13-14, 17-18; SR 2002 p7; SR 2003 pp16-17; SI 2004 pp48-54; SR 2004

pp7-9; SR 2006 pp15-16; SR 2008 pp9-13; SR 2010 pp4-5; SR 2012 pp9-10, 16, 18; SR 2014 pp4-6, 18; SR 2016 pp12-13, 14, 25; SR 2018 pp4-6, 13-14, 22.

**Trinidad and Tobago** switched its longstanding peg from the GBP to the USD in the mid-1970s. It floated its currency in 1993 but soon gravitated back towards exchange rate stability and, although no parity was ever announced, operated loose exchange rate targeting from 1997 onwards. Over time it moved towards indirect monetary instruments, but financial markets (including forex) remained relatively underdeveloped and reserve requirements continued to play a major role.

<b>Years</b>	<b>Targets and attainment</b>	<b>Classification</b>
1974-92	long-standing peg to GBP; range of banks, one owned by government and others mostly foreign-owned or related but locally incorporated, plus various nonbank financial institutions; central bank lends to government within limits and has ability to use variety of instruments, but relies on reserve and liquidity requirements, with periodic use of hire purchase controls, and moral suasion on allocation of credit and interest rates; small, open economy, in which government receives large but highly variable revenues from oil and gas production and exports, and gives some aid to other Caribbean states; May 1976 peg switched to USD with appreciation that corrects depreciation (with GBP) since end-1975; 1979 secondary (mainly holdings of treasury bills) and marginal in addition to existing basic reserve requirements; stock exchange set up 1981, initial rise in public and private sector new issues and secondary trading; downturn in oil price late 1981 (plus appreciation with USD and high domestic inflation) triggers deep and prolonged recession lasting for a decade; late 1983 forex budget for imports introduced, in addition to longstanding negative import list; 1984 marginal reserve requirement ended but basic requirement increased; large devaluation vs USD 1985 for non-essential items (to restore heavily eroded competitiveness), with essential items (c. 25% of imports) still traded at old official rate; steeper fall in oil price 1986 leads to rise in budget deficit and central bank financing of it; 1986 various bank and nonbank financial difficulties, growing focus by central bank on supervision and regulation; start-1987 preferential exchange rate for essential items eliminated; selective credit controls and rediscounting used to greater extent through 1980s; 1988 devaluation vs USD within stabilisation and structural reform package (which includes phasing out by 1991 of secondary reserve requirement, to raise competition in treasury bill market), and some forex liberalisation 1990-1	augmented exchange rate fix AERF
1993-96	April 1993 currency devalued by 25% and floated, further forex and wider financial liberalisation, ongoing structural reform; 1994 all selective credit and interest rate controls abolished, reserve requirements raised; 1996 secondary bank reserves revived, OMOs started but suspended after inadequate bids in auctions, reserve requirements raised	loosely structured discretion LSD

1997-2017	<p>from 1997 more frequent temporary intervention plus moral suasion to support currency, which becomes with only occasional interruptions pegged de facto to USD (but no announced parity); some deposit and loan dollarisation; 1997 weakness of OMO operations complicates attempts to cut reserve requirements; new financial instruments used by banks to circumvent requirements, but coverage extended 1998 to include them; over time country becomes important regional financial centre; as of 2001 monetary policy aims at low inflation through liquidity management, and exchange rate stability; ongoing reforms to securities and money markets, improved financial supervision and regulation; 2002 overnight repo rate as key policy rate; 2003-4 reduction in reserve requirements plus special issues of government bonds, but reduction more than reversed 2007-8; monetary transmission mechanism is weak mainly because of dual structure of economy (energy vs non-energy) and recurring excess liquidity arising from oil revenues; limited immediate but stronger later effects from GFC; as of 2010 main monetary instruments are reserve requirements, OMOs (primary issues, since secondary market remains thin) and repo rate, while de facto peg limits scope for monetary policy and transmission from repo rate is weak; serious but temporary deterioration in statistics from mid-2013; forex market development hampered by role of central bank as main seller of foreign exchange (from oil revenues), with periodic forex shortages (though no parallel market); recurring excess liquidity complicates monetary policy; late 2015 modest depreciation but forex shortages persist; 2014-16 oil price fall; 2016 further small depreciation</p>	loose exchange rate targeting LERT
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Selected IMF references: RED 1975 pp25, 43-4; Exchange System – Change of Exchange Rate, June 1976 pp1, 8; RED 1977 p55; RED 1982 pp45, 71; RED 1983 pp26, 33, 44; RED 1985 pp33, 36, 49; RED 1986 pp2-3, 36, 39, 58; SR 1987 pp1-7, 9-10, 11-12; RED 1988 pp31-4, 45; RED 1990 pp33-5; SR 1990 p14; RED 1991 pp28-9, 31; SR 1992 p17; RED 1993 pp23-5; SR 1993 p3; EDSBI pp40-4; SI 1997 pp9, 12, 55; SR 1997 pp15-16; SR 1998 pp6-7, 11, 12-13; SR 1999 pp8-9, 13, 15; SR 2001 pp6, 13; SR 2003 pp18-19; SI 2004 pp31-7; SI 2006 pp15-20; SR 2008 pp6; SI 2011 pp18-20, 25-6; SR 2012 pp10-11; SR 2013 pp5, 15; SR 2014 pp4-5, 10-12, 18, 23; SR 2016 pp3-4, 8, 17-19; SR 2018 pp6, 14-16.

## Reference

Wolf, H., Ghosh, A., Berger, H., and Gulde, A-M. (2008), *Currency Boards in Retrospect and Prospect*, Cambridge, Mass: MIT Press