

A B S T R A C T

The collapse of the Bretton Woods system of fixed par values in the early seventies, consequent upon the decision by the United States of America to suspend convertibility of the U.S. dollar into gold, occasioned a re-assessment of exchange rate policy by both developed and developing countries.

The basic choice facing countries, in the context of the evolving monetary instability, was that between the adoption of a floating rate system and maintenance of the existing system of fixed par values. However, those countries which opted for a fixed system had to further decide on an appropriate intervention medium.

Trinidad and Tobago was among those developing countries which chose to maintain a fixed rate system. The intervention medium for the TT dollar was however changed from the Pound Sterling to the U.S. dollar. This decision by the monetary authorities of Trinidad and Tobago was only one of a historical sequence of exchange rate policy decisions which have been made in response to external stimuli. Thus, exchange rate policy in Trinidad and Tobago has tended to be passive in nature.

An active exchange rate policy on the other hand, envisages the use of the exchange rate as an instrumental variable, capable of impacting on specific target variables within the economy, as an integral part of a perceived strategy of economic development.

In arriving at such a policy for Trinidad and Tobago, the ability of the exchange rate to assist the achievement of national economic

objectives, must be determined in the context of the structural characteristics of the Trinidad and Tobago economy, and the country's overall economic objectives. It follows that an optimum exchange rate policy for Trinidad and Tobago, would be one which recognises the limitations imposed by the structural characteristics of the economy on the choice of an exchange rate system, while at the same time seeking to actively utilise such a system in the pursuit of specific national objectives, either directly or in a supportive capacity.

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