



Currency Pressure in Trinidad & Tobago

Structural Context & Financial Infrastructure Considerations



RAFT Global Brief

Issue No. 001
March 2026

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1. Overview

Recent commentary surrounding Trinidad and Tobago's exchange rate regime has focused on the recommendation by international financial institutions that the country consider greater exchange rate flexibility.

These discussions arise within the context of persistent foreign exchange shortages, rising fiscal pressures, and modest economic growth. While exchange rate adjustments are often framed primarily as monetary policy decisions, they are typically symptoms of broader structural dynamics involving fiscal balances, export earnings, and financial system efficiency.

This briefing summarizes key economic indicators relevant to the current debate and highlights the underlying financial infrastructure considerations that often receive less attention in public discussions.



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2. Key Economic Indicators

Country: Trinidad & Tobago

Population: 1.4 million

GDP (Nominal, 2025 est.): US\$28–30 billion

GDP Growth (2025): 0.8%

Public Debt: ~84% of GDP

Fiscal Balance:

Government deficit estimated around **5–6% of GDP**

Foreign Exchange Reserves:

Approximately **US\$5–6 billion**

Heritage and Stabilization Fund:

US\$6.3 billion sovereign wealth fund



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3. Exchange Rate Structure

Trinidad and Tobago operates under a de facto managed exchange rate regime, where the central bank maintains a narrow trading band around the Trinidad and Tobago dollar.

Current exchange rate:

Approximately TTD 6.75–6.80 per USD

Key characteristics:

- Central bank intervention in FX markets
- Foreign exchange allocation through banking system
- Persistent FX shortages reported by private sector firms

These shortages affect:

- manufacturers
- importers
- service providers
- SMEs dependent on foreign inputs



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4. Structural Sources of FX Pressure

Several long-term structural factors influence foreign exchange availability.

Energy Dependence

Trinidad and Tobago's economy remains heavily reliant on the energy sector.

Energy exports account for approximately **70–80% of export earnings**.

Declining production in some gas fields and volatility in global energy prices have contributed to fluctuations in foreign exchange inflows.

Import Dependence

Like many Caribbean economies, Trinidad relies on imports for:

- food
- manufactured goods
- machinery
- industrial inputs

This creates a structural demand for foreign exchange.

Fiscal Pressure

Government spending has remained elevated relative to revenues. When fiscal deficits increase, pressure on the currency system can intensify.



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5. Policy Debate

Current policy discussions focus on two broad approaches.

Option 1: Maintain Managed Exchange Rate

Advantages:

- exchange rate stability
- lower inflation risk
- political stability

Risks:

- continued FX shortages
- reserve depletion
- constrained private sector activity

Option 2: Allow Greater Exchange Rate Flexibility

Advantages:

- improved FX market clearing
- reduced central bank intervention
- potential restoration of external balance

Risks:

- depreciation of the currency
- higher import prices
- inflationary pressure

It is important to note that no government welcomes presiding over currency depreciation, given the political and social consequences associated with rising living costs.



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6. Financial Infrastructure Considerations

Currency debates frequently focus on monetary policy alone. However, the efficiency of the underlying financial infrastructure can also influence how economies absorb external pressures.

Key areas include:

- transparency of FX allocation mechanisms
- efficiency of settlement systems
- liquidity routing across institutions
- cross-border payment infrastructure

Fragmented or inefficient financial systems can amplify currency pressure by slowing the movement of capital and limiting transparency in foreign exchange markets.



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7. Relevance for Emerging Markets

Many emerging economies face similar challenges:

- concentrated export sectors
- external currency exposure
- legacy financial infrastructure
- limited FX buffers

As global financial systems evolve, modernizing financial infrastructure may become an increasingly important component of economic resilience. The debate surrounding Trinidad and Tobago's exchange rate policy reflects broader structural challenges common to many small and mid-sized economies.

While exchange rate flexibility is one policy option, long-term resilience may also depend on the modernization of the financial infrastructure through which liquidity moves across the economy.

Improving transparency, settlement efficiency, and institutional coordination can play an important role in supporting economic stability during periods of adjustment.

Sources:

International Monetary Fund – Article IV Consultation
Central Bank of Trinidad & Tobago
World Bank Data
Caribbean Development Bank
Energy Information Administration



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