A Crisis of Foreign Reserves: The Case of Trinidad and Tobago: 1983-1989

Luke Gittens (University of the West Indies, St. Augustine, Trinidad & Tobago)

The purpose of this paper is to explicate on the foreign exchange crisis which gripped the nation of Trinidad and Tobago between 1983 and 1989 and the role of the Central Bank of Trinidad and Tobago during this crisis. As a developing economy, the importance of the balance of payments and the inflow of foreign exchange into the economic apparatus is a superlative factor in maintaining economic stability as it is the driver for imports and foreign payments. This period is significant as the economy contracted severely during these years after a decade of rapid growth. This was further compounded by the ever dwindling foreign reserves condition which became despondent by 1987 as the demand and supply equilibrium of foreign exchange tipped into negative status. There were several mitigating strategies and approaches by the Central Bank to stabilize the deteriorating situation, however, a pragmatic analysis utilizing empirical data will demonstrate the eventual nugatory impact of these and the entering into an arrangement with the International Monetary Fund (IMF) by 1989.

Farrell (1990) provides insight into the situation which impacted the country during the aforementioned period which is critical in understanding key aspects at that time. His work is significant as it also provides central banking perspectives.

The foreign reserve dilemma that Trinidad and Tobago faced in the latter part of the 1980s remains to date an underdeveloped and underexplored topic in terms of Central Banking in Trinidad and Tobago and the workings of monetary and fiscal policy during this time. This paper will provide a historical analysis of the monetary and fiscal policy frameworks and actions during the crisis as well as perspectives on central banking during that time. This study will also augment the Caribbean economic historiography.