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CHALLENGES IN ACCESSING FOREIGN EXCHANGE

Business Insights

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2025

FOREIGN EXCHANGE SURVEY REPORT

THE BROADER ECONOMIC IMPLICATIONS OF RESTRICTED FOREX AVAILABILITY AND SHORTAGE

Coordinated by
Trade and Business Development Unit

Survey Period
November 13 – December 12 , 2024

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ABSTRACT

The persistent foreign exchange (forex) shortage in Trinidad and Tobago has become a significant concern, impacting various sectors of the economy. This document aims to analyze the underlying causes, effects, and potential solutions to this issue. Recent reports indicate that while the demand for forex has risen, the supply from domestic sources has failed to keep pace, creating a shortage.

The forex crunch has tangible effects on both businesses and individuals. Businesses, especially small and medium-sized enterprises (SMEs), struggle to access the necessary foreign currency for imports and international transactions, leading to operational challenges and increased costs. Individuals face difficulties in obtaining forex for travel, online purchases, and other personal needs. This shortage has led to the emergence of unregulated markets where forex is traded at higher rates, further complicating the economic landscape.

"Trinidad and Tobago’s forex shortage threatens business and economic stability, requiring urgent reforms and equitable solutions."

The business survey report was compiled using dipstick testing, a qualitative research method. The survey was conducted over a one-month period from November 12 to December 13, 2024. We conducted the survey by posing targeted questions to a small group of businesses to quickly gather insights into their preferences and perceptions regarding the forex challenges in Trinidad and Tobago. This method allowed us to obtain immediate feedback on specific aspects of the issue. By employing dipstick testing, we were able to gather valuable information about the complexities of the forex shortage. The approach enabled the Chamber to compile relevant data in a short time, which guided the conclusions and recommendations presented in this document.

EXECUTIVE SUMMARY

Trinidad and Tobago is currently facing significant challenges in accessing foreign exchange (forex), which have become a major obstacle to bilateral trade. The country's currency is considered overvalued, leading to an excess demand for foreign exchange.

As a result, smaller local companies, particularly those that do not generate their own U.S. dollars through exports, often experience delays ranging from three to nine months in acquiring the necessary foreign exchange to pay U.S. suppliers.

The Central Bank of Trinidad and Tobago manages the foreign exchange market under a managed float system, intervening when necessary to contain undue volatility in the exchange rate. Since adopting a floating exchange rate regime in April 1993, the value of the Trinidad and Tobago dollar has been determined by supply and demand conditions in the forex market, alongside the Bank's intervention policies.

The International Monetary Fund (IMF) has noted that while the Central Bank of Trinidad and Tobago manages the foreign exchange market under a managed float system, shortages of foreign exchange created by the government's local currency exchange rate policy cause considerable delays in payments and transfers for international transactions.

These forex shortages have significant implications for the local economy, affecting the ability of businesses to operate efficiently and meet their financial obligations. The delays in accessing foreign currency can hinder the importation of goods and services, disrupt supply chains, and potentially lead to increased costs for consumers.

Addressing these challenges is crucial for improving the business environment and ensuring the stability of Trinidad and Tobago's economy.

1. https://www.trade.gov/country-commercial-guides/trinidad-and-tobago-market-challenges?utm_source=chatgpt.com
2. https://www.central-bank.org.tt/faqs#:~:text=FOREIGN%20EXCHANGE%20MARKET-,1.,in%20cases%20of%20excess%20supply
3. .https://www.state.gov/reports/2024-investment-climate-statements/trinidad-and-tobago/?utm_source=chatgpt.com

ANALYSIS ON SURVEY RESULTS

Figure 1 below provides an insightful overview of the core business activities of 111 survey respondents, highlighting the diverse sectors represented in the study. It reveals that the Services sector dominates the membership of the TT Chamber, comprising 32% of respondents.

Manufacturing and Distribution collectively emerged as the largest respondents to the survey, comprising 45.0% of respondents. Sectors such as Logistics/Shipping, Tourism, Restaurant Chains, and the Sale and Service of Oilfield/Industrial Equipment are also represented.

The vast distribution of the core business activities of the respondents underscores the need for targeted policies to support underrepresented sectors such as agriculture and tourism, which could play pivotal roles in foreign exchange generation. Furthermore, it highlights the vulnerabilities of an economy heavily reliant on services and distribution, both of which are dependent on forex availability for international trade and transactions. This report provides an insightful analysis of the foreign exchange experiences of the members of the Trinidad and Tobago Chamber of Industry and Commerce.

FIGURE 1: INDUSTRIES CAPTURED

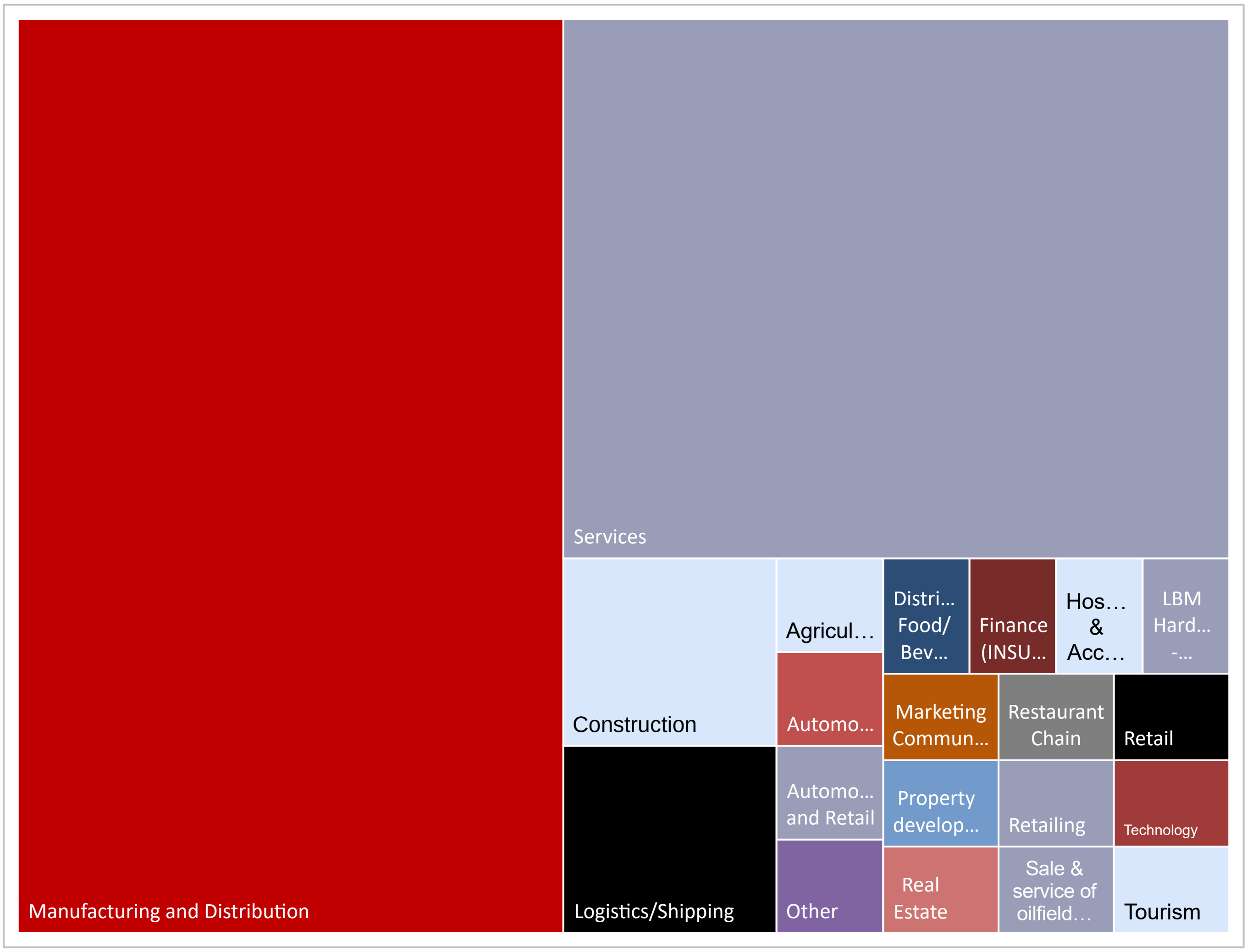
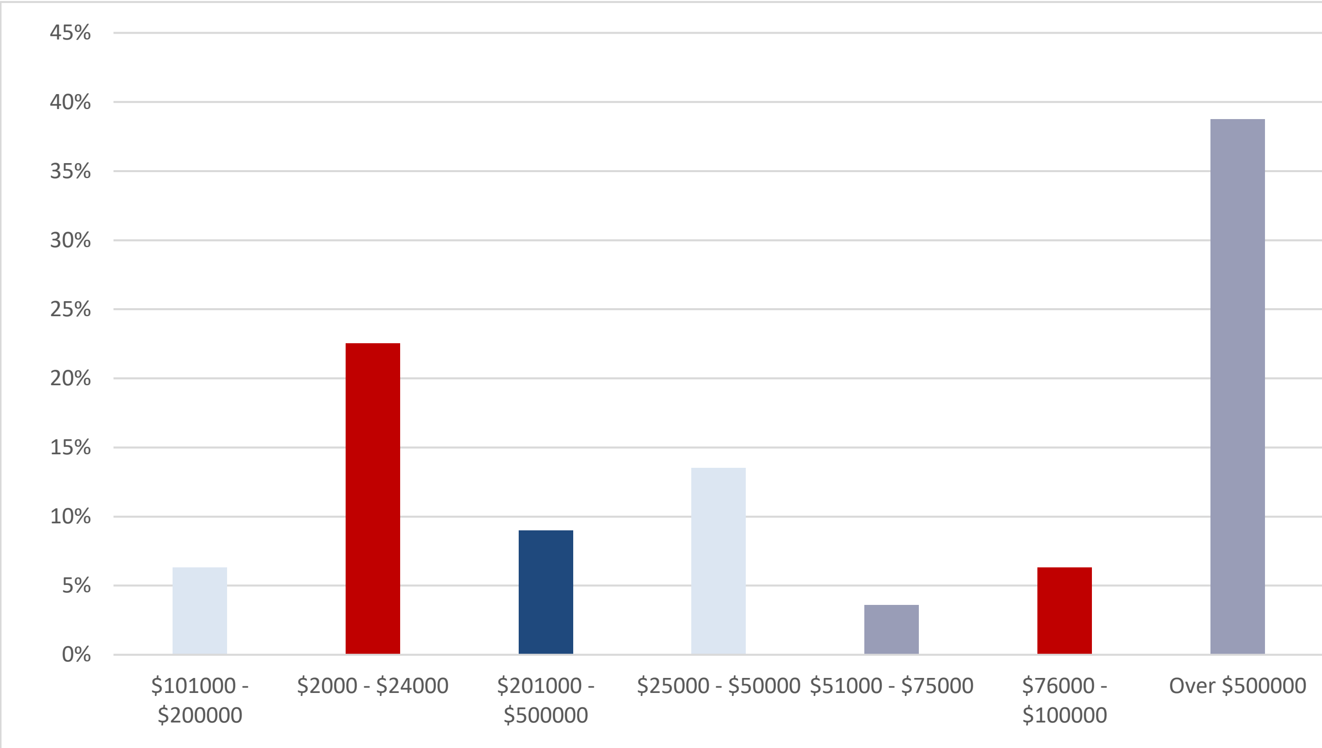


FIGURE 2: FOREX DEMAND



The survey data reveals that forex requirements vary significantly, reflecting the diverse operational needs of these businesses.

Key Findings

Figure 2 demonstrates the following:

1. High Forex Demand:

A substantial 39% of respondents require over $500,000 in foreign exchange. This indicates that a significant portion of businesses are involved in large-scale operations such as importing raw materials or capital goods, which necessitate higher forex allocations.

2. Moderate Demand:

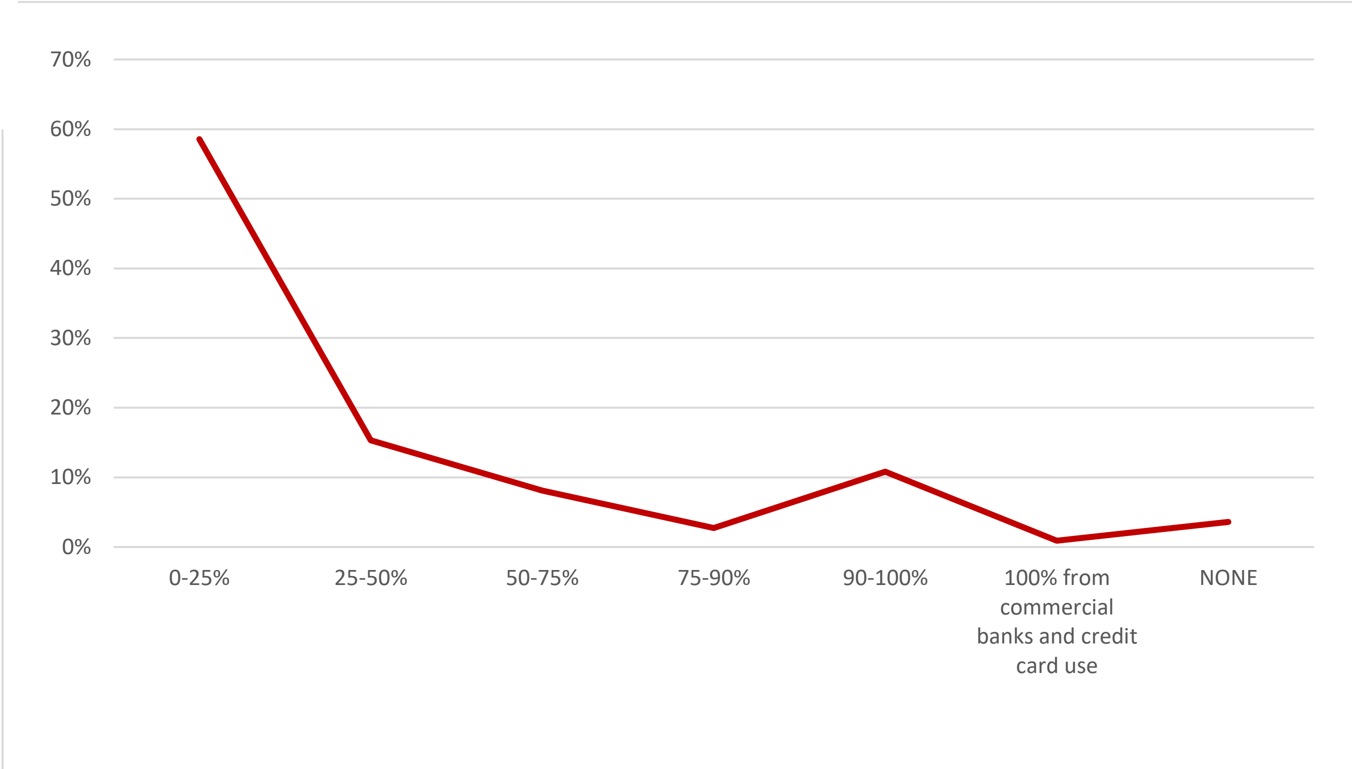
About 22.5% of businesses need between $2,000 and $24,000, while 13.5% require between $25,000 and $50,000. These figures suggest that many businesses operate on a moderate scale, possibly focusing on smaller import/export transactions or servicing international commitments.

3. Low Forex Demand:

Only a small percentage of businesses (6%) require between $101,000 and $200,000 or between $76,000 and $100,000, while 4% need between $51,000 and $75,000. These categories reflect businesses with relatively low forex dependency, potentially due to a focus on local markets or limited international exposure.

Policymakers and financial institutions should prioritize forex allocation strategies that address the needs of large-scale businesses while ensuring equitable access for smaller entities. Additionally, targeted support for businesses with moderate forex requirements could foster their growth and enhance their contribution to international trade.

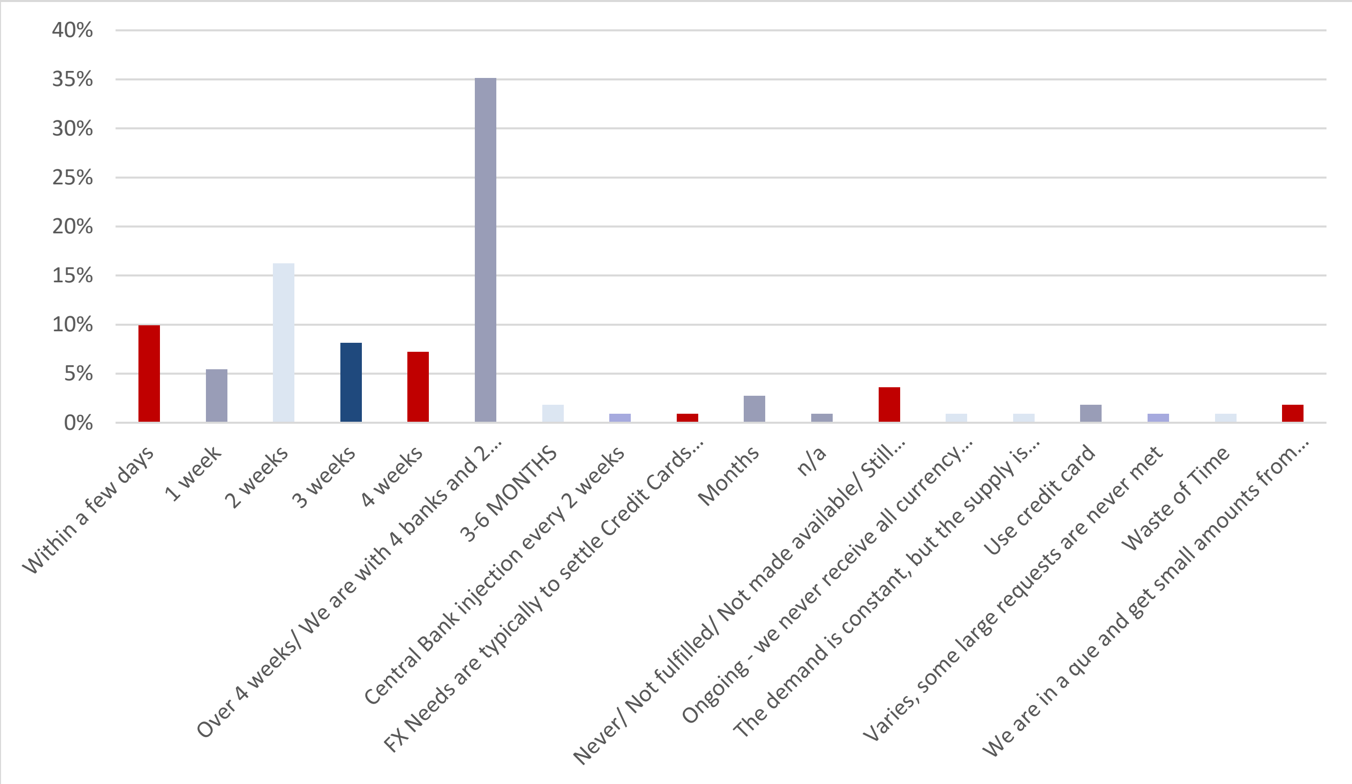
FIGURE 3: PERCENTAGE OF MONTHLY DEMAND SATISFIED BY BANK



Meeting foreign exchange (forex) demands is a critical challenge for businesses, and the data paints a concerning picture. Over half of the respondents (58.6%) reported that only 0-25% of their forex needs are being met by commercial banks, leaving the majority of businesses struggling to fund their operations effectively. For 15.3% of respondents, 25-50% of their monthly forex demands are satisfied, while only 8.1% can secure 50-75%. The situation is slightly better for 10.8% of businesses, who manage to receive 90-100% of their forex requirements, but this represents a small fraction of the business landscape.

This shortfall in forex availability has far-reaching implications. Businesses rely on forex to pay for imports, settle international transactions, and maintain competitiveness in global markets. The inability to meet these demands hinders growth, disrupts supply chains, and forces companies to explore costly alternatives, such as informal markets or reduced operations. Addressing this issue requires urgent attention from policymakers and financial institutions to streamline forex allocation and ensure equitable access for businesses across all sectors.

FIGURE 4: MONTHLY SATISFACTION LEVELS

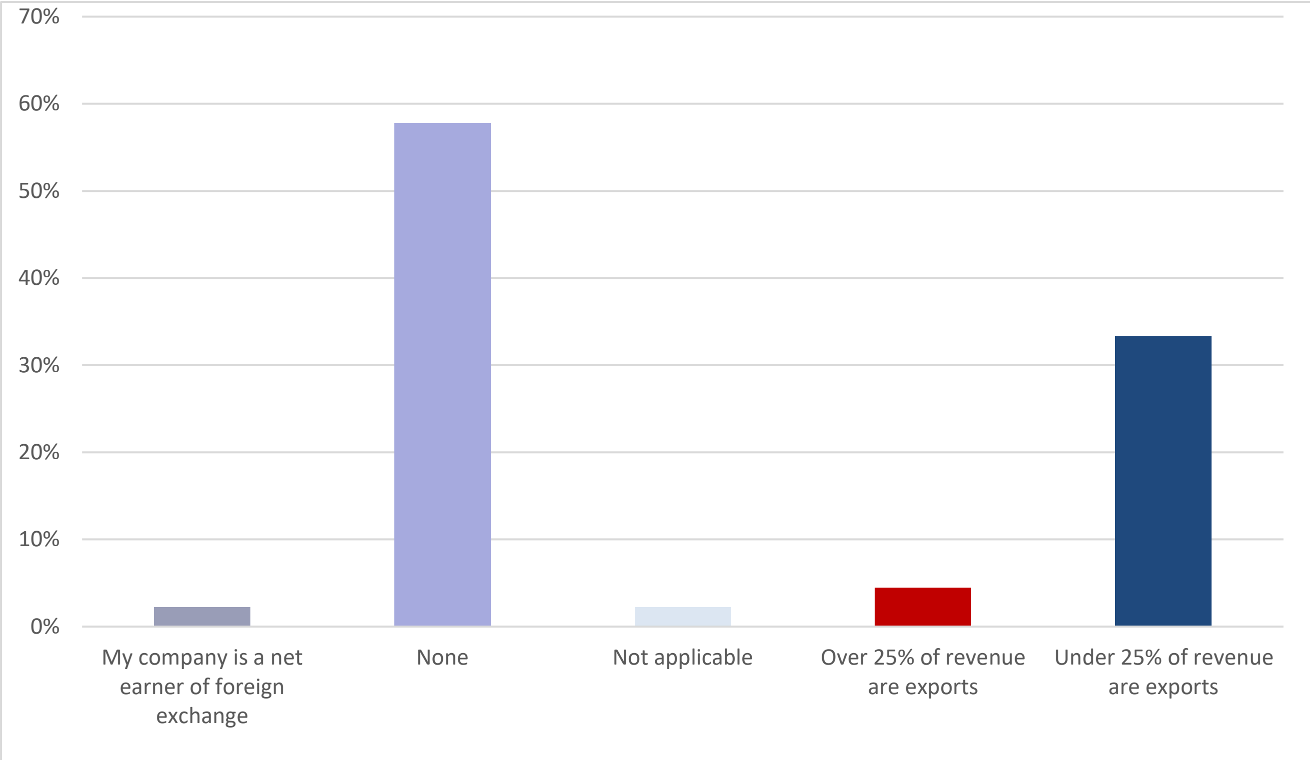


The survey data reveals significant challenges faced by businesses in accessing foreign currency in Trinidad and Tobago. Over one-third (34.2%) of respondents reported waiting over four weeks for their foreign currency requests to be fulfilled, highlighting the long delays that disrupt business operations. 24.3% of businesses reported having their requests processed within two to three weeks, a wait that is more manageable but still not ideal. Only a few businesses reported receiving foreign currency within a week or even a few days, indicating that these instances are rare.

In addition to the delays, some businesses also face ongoing shortages of foreign currency, which results in partial fulfillment of requests or, in some cases, requests that are never completed. Comments such as “Still waiting!” and “We never receive all the currency we need” reflect the systemic issues businesses are grappling with in securing the necessary currency to operate effectively.

Overall, the data highlights that the delays and shortages of foreign currency are not just minor inconveniences, but serious barriers that hinder business growth and survival. Many businesses struggle to meet payroll, pay suppliers, and keep their operations running smoothly. These persistent issues continue to add pressure on businesses, leaving many questioning how long they can continue under such circumstances.

FIGURE 5: EXPORT LEVELS AMONG MANUFACTURERS



Among manufacturing companies 37.7% are involved in activities that contribute to the generation of foreign exchange through exports, this indicates a strong participation in international trade, enhancing the nation's forex reserves. The remaining responses reflected diverse scenarios, including those identified as net earners of foreign exchange and respondents for whom the question was not applicable. This is an important sector to support as the country aims to boost exports.

FIGURE 6: EXPORT LEVELS AMONG NON-MANUFACTURERS

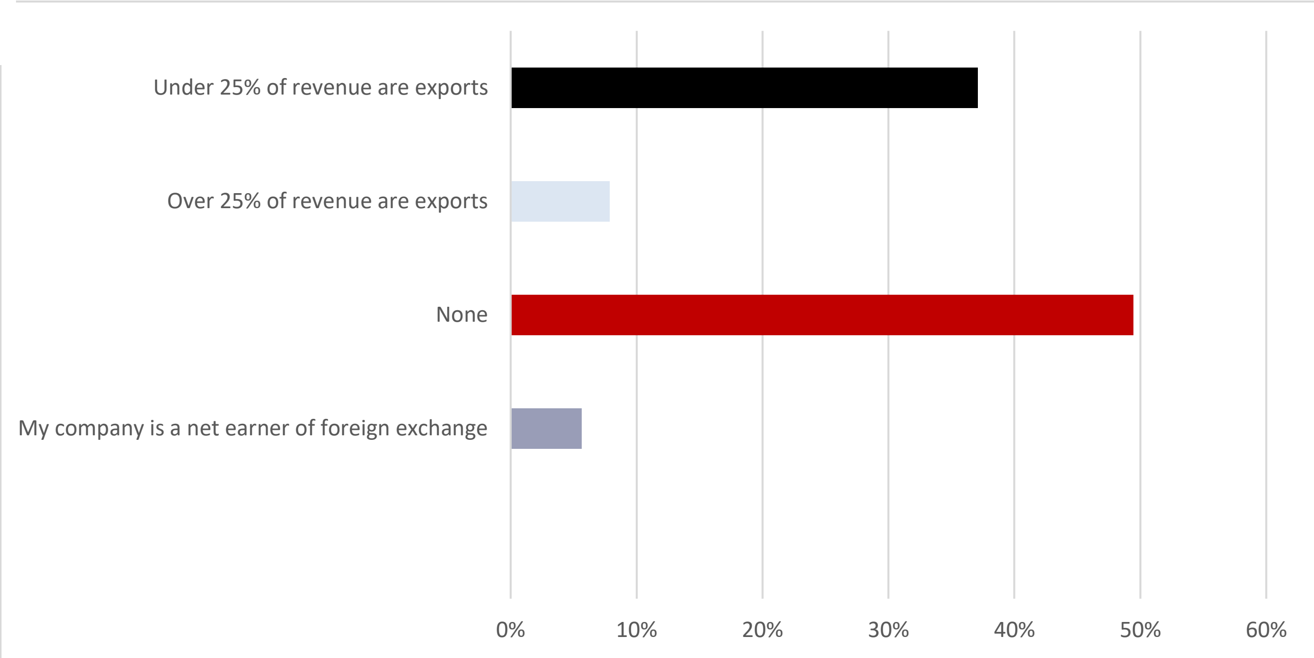


Figure 6 illustrates export engagement and foreign exchange contributions by non-manufacturing firms. 44.5% are contributing to the forex generation through exports. This underscores the diverse sectors in the economy that are actively contributing to the inflow of foreign exchange.

These findings highlight that both manufacturers and non-manufacturers contribute to foreign exchange generation through exports, underscoring the significant role of these firms in bolstering the country's forex reserves. This demonstrates the viability of international trade as a revenue stream. To increase business expansion into international trade, initiatives such as trade missions, export financing programs, and market access support have been introduced by the TT Chamber to help manufacturers and the services sector to expand regionally and globally.

OPERATIONAL IMPACTS

The forex shortage has had severe operational impacts on businesses, disrupting their ability to function effectively and maintain growth. One of the most significant challenges is the inability to meet financial commitments, with 62.2% of businesses unable to pay their suppliers on time. This not only strains supplier relationships but also threatens the continuity of supply chains, creating a ripple effect across operations.

Production is another area heavily affected, as 20.7% of businesses struggle to procure essential raw materials. This shortage of inputs leads to production delays, which can disrupt schedules, delay order fulfillment, and erode customer trust. The impact extends beyond delays, affecting the core offerings of businesses; 58.2% of respondents report having to reduce their range of products or services. This limitation not only affects revenue streams but also undermines customer satisfaction, as businesses cannot fully meet demand or offer diverse options.

The financial toll is clear, with 59.5% of businesses reporting an overall decline in profitability. The combined pressures of missed payments, production challenges, and reduced offerings compound to weaken financial performance, making it difficult for businesses to reinvest or plan for growth. The situation is dire enough that nearly one in five businesses (19.8%) surveyed are considering relocation to regions with more stable financial systems. This potential exodus could result in job losses, decreased local investment, and a weakened economy.

The survey findings indicate that the foreign exchange shortage transcends being merely an operational inconvenience; it represents a structural challenge that jeopardizes the sustainability and competitiveness of businesses. Tackling these issues is imperative to foster a stable business environment and ensure the long-term health of the economy.

SYSTEMIC CHALLENGES

Results highlight several systemic challenges in the foreign exchange (forex) allocation system, focusing on issues such as favoritism, failure to adapt to current market conditions, and unequal access between large businesses and small and medium-sized enterprises (SMEs). A substantial 69.3% of respondents feel that unequal treatment in forex distribution, particularly favoritism, is a major issue. This suggests a lack of transparency and fairness in the system, which could erode public trust and lead to economic inefficiencies, as businesses with preferential access may hoard forex, creating artificial shortages for others. Additionally, 67.5% of respondents believe that consumption patterns have not adjusted to current forex availability, exacerbating demand pressures. This indicates that businesses and individuals continue to expect the same level of forex access, despite changing market conditions, resulting in increased competition for a limited resource. Moreover, a striking 80.2% of respondents perceive large businesses as receiving preferential access to forex, which puts SMEs at a disadvantage. This unequal access could hinder the growth and sustainability of SMEs, limiting their ability to secure the necessary forex for operations and expansion, thereby stifling innovation and competition.

Together, these challenges point to significant market distortions, where large businesses benefit from more favorable forex access, leading to inflated prices and limited availability for smaller players. The failure to adapt to the current forex availability creates further inefficiencies, as businesses may overstock or mismanage their forex needs, worsening shortages and economic instability. These findings underscore the need for policy changes that ensure a fairer, more transparent forex allocation system, particularly one that supports the needs of SMEs. Addressing these issues could promote a more balanced and stable economic environment, fostering growth and innovation across all sectors.

POLICY PERSPECTIVES

The survey results show varied opinions on key policy measures regarding the foreign exchange (forex) system. When it comes to floating the exchange rate, 40.5% of respondents support the idea, believing that it could help align the supply of forex with the actual demand in the market. This approach could offer a more market-driven mechanism, potentially leading to more stability and flexibility in forex allocation. However, 32.4% of respondents are opposed to this idea, citing concerns about potential inflation and the unpredictability of costs. They fear that allowing the exchange rate to float could lead to rapid fluctuations in prices, making it harder for businesses and consumers to plan and budget effectively. Meanwhile, 27% of respondents remain neutral on the issue, suggesting that more education and clearer communication are necessary for stakeholders to fully understand the implications of floating the exchange rate. This highlights a gap in knowledge or understanding, which could be addressed through further discussions and informative initiatives.

Regarding forex allocation reforms, a significant 83.8% of respondents strongly support changes aimed at ensuring that banks have a sufficient supply of forex for equitable distribution. This reflects widespread concern about the fairness and efficiency of the current system.

Many respondents seem to believe that ensuring banks have the necessary forex resources would help ensure a more balanced and transparent allocation process, benefiting a wider range of businesses and reducing the disparities between large corporations and smaller enterprises. These findings suggest that there is strong public backing for measures that prioritize fairness and accessibility in forex distribution, which could lead to a more stable and inclusive economic environment.

REASONS FOR SHORTAGES: VIEWS FROM RESPONDENTS

FAVORITISM IN FOREX DISTRIBUTION

A large portion of respondents, 70.8% combined, believe that favoritism plays a significant role in the distribution of foreign exchange. The majority rated this issue highly (49.5% at level 5), signaling that businesses feel there is unequal treatment in how forex is allocated. This perception points to a need for greater transparency and fairness in the system.

CONSUMPTION PATTERNS NOT ADJUSTED TO FOREX AVAILABILITY

67.5% of respondents agree that consumption patterns have not adapted to the current forex availability. This suggests that businesses or consumers may still be operating under the assumption that foreign exchange is readily accessible, leading to increased competition for a limited supply. The issue points to the need for adjustments in behavior and potentially targeted policies to better manage forex resources.

PRIORITY GIVEN TO LARGE BUSINESSES

A significant majority (80%) believe that large businesses are given priority over smaller businesses when it comes to forex allocation. With 59.5% rating this issue at the highest level (5), the results reflect widespread dissatisfaction with the current prioritization system. Many respondents feel that smaller businesses are at a disadvantage, highlighting the need for more equitable forex distribution practices.

FLOATING THE EXCHANGE RATE

26.1% of respondents strongly agree with floating the exchange rate to address the shortfall in foreign exchange supply relative to demand, while 18.9% moderately agree. Another 27% remain neutral, suggesting that a portion of the population is uncertain about the potential effects of this measure. On the other hand, 10.8% are slightly against the idea, and 21.6% strongly disagree. These results indicate a clear divide in opinion regarding the fluctuation of the exchange rate.

A total of 45% of respondents support floating the exchange rate, seeing it as a possible solution to better align forex supply with demand. This group likely views a floating exchange rate as a more flexible system that could help stabilize the market by allowing the currency value to adjust according to market forces. However, 32.4% of respondents (ratings 1 and 2) who oppose this idea may be concerned about the risks associated with it, particularly the potential for increased inflation and greater unpredictability in operating costs. These concerns are valid, as a floating exchange rate can cause significant fluctuations in currency value, which could affect pricing stability and business operations.

The 27% neutrality suggests a segment of the respondents are unsure about the consequences of floating the exchange rate, possibly due to a lack of understanding of how it would affect the broader economy or individual businesses.

The mixed response highlights a contentious debate within the business community on the potential benefits and risks of floating, the exchange rate. This divergence in opinion suggests the need for further education and discussion on the implications of such a policy to build consensus or explore alternative solutions

PRIORITY FOR RECEIVING FOREIGN EXCHANGE

In this survey respondents were asked to rank various categories of businesses and individuals based on their priority for receiving foreign exchange (forex). The results reveal clear preferences for allocating forex to essential industries and economic activities.

Highest Priority

Suppliers of Critical Items: Overwhelmingly ranked as the highest priority, with 70.3% of respondents placing them at Rank 1 and 87.4% within the top two. This includes essential goods like pharmaceuticals and basic foods.

Producers of Goods Reducing Imports: Highly prioritized as well, with 63.9% assigning them Rank 1 or 2, emphasizing the importance of import substitution.

Moderate to High Priority

Earners of Foreign Exchange: Ranked highly by 67.5% of respondents (Ranks 1 and 2), reflecting their role in replenishing forex reserves.

Importers of Finished Products: Given moderate priority, with 33.3% ranking them at Rank 3, indicating a recognition of their importance but less urgency.

Lowest Priority

Suppliers of Luxury Goods: Deprioritized, with 38.7% ranking them at Rank 5 and only 16.2% in the top two.

Consumers Purchasing Foreign Products: A clear majority (76.6%) considered this a low priority, preferring the forex to be directed toward more impactful sectors.

The responses suggest a clear consensus for allocating foreign exchange to businesses and activities that support essential needs, economic resilience, and foreign exchange generation. Personal and luxury uses are seen as less significant.

Highest Priority

1. Health and healthcare-related imports, beyond pharmaceuticals
2. Foreign Education
3. Trade and Supply Chain Support
4. Immigration and Family Support

Low Priority

1. Luxury and Non-Essential Items - cars and firecrackers.
2. Individual consumer shopping abroad or online.

RECOMMENDATIONS

Addressing Foreign Exchange Shortages in Trinidad and Tobago

The persistent challenges in accessing foreign exchange (forex) continue to threaten business sustainability and competitiveness in Trinidad and Tobago. This Report synthesizes recommendations from the TT Chamber's "Forex Insights 2024" survey findings and the "2024/2025 National Budget Recommendations" to provide a comprehensive strategy for addressing these issues. The recommendations are structured under key thematic areas:

Enhanced Transparency and Oversight in Forex Allocation

Introduce automated, AI-driven systems for equitable and transparent forex distribution to eliminate perceived favoritism and inefficiencies. Secondly, mandate periodic public disclosures from banks on forex allocation data to ensure accountability and equitable access across industries. Thirdly, develop clear and objective criteria for forex allocation, prioritizing businesses that contribute significantly to exports and economic diversification.

Managed Exchange Rate Policy

Implement a phased and carefully managed float of the exchange rate to better align supply with demand while mitigating inflationary pressures. -Engage stakeholders, including the business community, in dialogue and education campaigns to build consensus and prepare for the transition to a managed float.

Support for Export-Oriented and SME Sectors

Expand SME-specific forex facilities at institutions such as the EXIM Bank, including simplified application processes and reduced collateral requirements. - Incentivize exporters to repatriate earnings by offering tax breaks and grants tied to forex contributions. - Provide targeted grants and technical support to SMEs to improve export readiness, including training on international market access.

Reduction of Non-Essential Forex Demands

Impose higher tariffs on luxury imports such as non-essential food items and goods (e.g., fireworks, imported cereals, and vehicles). - Limit forex access for non-priority imports and implement caps for luxury goods. - Encourage shifts in consumer behavior through public campaigns promoting local products as substitutes for imported goods

RECOMMENDATIONS (CONTINUED)

Economic Diversification and Export Growth

Accelerate diversification efforts by prioritizing investment in high-potential sectors such as agriculture, manufacturing, tourism, ICT, renewable energy, and the Orange Economy. - Promote the Orange Economy by increasing rebates for national and international producers on local production expenditures and incentivizing investments in creative industries such as film, music, and fashion. - Develop co-production agreements and establish a TT Film Fund to attract international film projects and boost creative exports. - Provide incentives for businesses to scale operations and focus on exports, including grants for agricultural and manufacturing innovation. - Develop and promote "Brand Trinidad and Tobago" to enhance the global market appeal of locally produced goods and services, incorporating cultural and creative products from the Orange Economy.

Government Oversight and Collaboration

Strengthen government oversight mechanisms to penalize forex hoarding and excessive expatriation of foreign currency. - Foster public-private partnerships to develop long-term solutions, including infrastructure investments to support export competitiveness. - Collaborate with regional and international financial institutions to bolster forex reserves and address structural supply gaps

Consumer Education and Behavior Modification

Launch targeted awareness campaigns encouraging the purchase of locally produced goods.
- Educate businesses and individuals on responsible forex usage to reduce demand pressures.
- Advocate for private-sector-led initiatives to improve supply chain efficiency and reduce reliance on imported inputs

There is clearly a disconnect between the banking system, government policies, and the needs of the business community. There is a strong desire for fairer distribution and a more transparent allocation system. The lack of trust in the current system is evident, with many respondents advocating for market‑driven solutions and active exchange rate management. To address the forex crisis, there needs to be a more inclusive approach that considers the needs of both large and small businesses, while ensuring that forex is allocated to meet national priorities such as healthcare, education, and food security

CONCLUSION

The persistent foreign exchange (forex) shortages in Trinidad and Tobago present critical challenges to the nation's economic stability, affecting businesses and individuals across various sectors. As outlined in the document, this crisis stems from an overvalued local currency, unequal forex allocation, and structural inefficiencies in the current system. SMEs are particularly disadvantaged, experiencing delays of up to nine months to access forex, which hampers their ability to import goods, pay suppliers, and sustain operations. Large businesses, on the other hand, often receive preferential treatment, further exacerbating inequities. These issues undermine business competitiveness, disrupt supply chains, and strain relationships between suppliers and buyers, compounding operational and financial difficulties.

The document also highlights those systemic challenges, such as favoritism and outdated consumption patterns, contribute to the crisis. Approximately 69% of businesses perceive unequal treatment in forex allocation, while consumption behaviors have not adapted to the reduced forex supply, creating unsustainable demand pressures. Additionally, the limited focus on export-oriented growth exacerbates forex shortages, as most manufacturing and non-manufacturing firms operate with minimal involvement in international trade. The reliance on services and distribution sectors, which are heavily dependent on forex availability, underscores the vulnerability of the current economic structure.

Addressing these challenges requires a multifaceted approach. Key recommendations include enhancing transparency in forex allocation through automated systems, implementing a managed float exchange rate policy to better align supply and demand, and prioritizing forex access for SMEs and export-oriented businesses. Targeted support for manufacturing, tourism, and other underrepresented sectors can drive economic diversification and reduce dependency on imported goods. Behavioral adjustments, such as promoting local substitutes and responsible forex usage, will also be crucial in mitigating demand pressures. Policies to discourage luxury imports and encourage consumer education can further stabilize the forex market.

In conclusion, the forex shortage in Trinidad and Tobago is a systemic issue that threatens the sustainability of businesses and the broader economy. Without urgent reforms, the country risks continued economic stagnation, declining profitability for businesses, and potential job losses. Implementing the proposed solutions, such as equitable forex distribution, economic diversification, and supportive policies for SMEs, can create a more resilient and inclusive economy. By addressing these challenges comprehensively, Trinidad and Tobago can foster sustainable growth, reduce vulnerabilities, and enhance its global competitiveness.

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