ISSN 1817-9959



2025



MONETARY POLICY **REPORT**

MAY 2025 VOLUME XXVII No. 1

Central Bank of Trinidad and Tobago P.O. Box 1250 Port of Spain Republic of Trinidad and Tobago www.central-bank.org.tt

© Copyright 2025 Central Bank of Trinidad and Tobago

Central Bank of Trinidad and Tobago

Monetary Policy Report MAY 2025 VOLUME XXVII NUMBER 1

The Central Bank of Trinidad and Tobago conducts monetary policy geared towards the promotion of low inflation and a stable foreign exchange market that is conducive to sustained growth in output and employment. This Report provides an account of how monetary policy actions support this objective, in light of recent economic developments.

Preface

The Central Bank of Trinidad and Tobago's monetary policy framework is guided by the objectives of maintaining low and stable inflation in an environment conducive to economic growth and financial system development. The Central Bank employs a range of instruments (direct and indirect) to effect monetary policy. Prior to the 1990s, the Central Bank utilised direct policy tools such as reserve requirements and direct credit controls. However, the onset of trade and financial liberalisation in the 1990s brought about a greater emphasis on market-based instruments such as Open Market Operations. Since mid-2002, the Central Bank's monetary policy framework was revised to include the use of a Repurchase ('Repo') rate as a key policy tool. The Central Bank utilises the Repo rate to signal to the banking system the direction in which it wishes short-term interest rates, and ultimately, the structure of interest rates, to move. Open Market Operations involve the purchase and sale of Government securities by the Central Bank to impact the level of liquidity in the domestic financial system.

The Monetary Policy Committee (MPC) develops and communicates the Central Bank's overall monetary policy stance. The MPC currently comprises members of the Central Bank's Senior Management and is chaired by the Governor. The Committee issues quarterly Monetary Policy Announcements (MPA), which provide insights into the MPC's deliberations, and oversees the preparation of the semi-annual Monetary Policy Report (MPR). The MPC is assisted by the Monetary Policy Secretariat (MPS), made up of staff from various Departments, which undertakes ongoing economic and financial analysis. The Central Bank utilises the MPR to communicate to the public its views on economic and financial developments and the main factors that influence the Central Bank's monetary policy decisions.

TABLE OF CONTENTS

	List of Abbreviations	9
	Key Messages	12
	Overview and Outlook	13
CHAPTER ONE	The International Economic Context	16
	Recent Economic Developments and Outlook	16
CHAPTER TWO	Domestic Economic Activity and Prices	
	Recent Economic Developments and Outlook	24
BOX ONE	The Impact of US Tarriffs on Trinidad and Tobago's Trade	32
	Domestic Financial Conditions	39
CHAPTER THREE	Liquidity Conditions and Interest Rates	39
	Private Sector Credit	42
	Foreign Exchange Market Developments	43
	Capital Markets	45
BOX TWO	Understanding the Mortage Market Reference Rate	52
CHAPTER FOUR	Monetary Policy Assessment (November 2024-May 2025)	54
FEATURE ARTICLE	Inflation Expectations and Inflation Modelling: The Case of Trinidad and Tobago	59

TABLE OF CONTENTS

CHARTS

U

Chart 1.1	Global Growth: Annual Real GDP Growth	16
Chart 1.2	Selected Economies: Headline Inflation	18
Chart 1.3	FAO Real Monthly Food Price Index	19
Chart 1.4	Natural Gas and Crude Oil Prices	20
Chart 1.5	Advanced Economies Equity Market Indices	23
Chart 2.1	Non-Energy Indicators (Cement Sales, Vehicle Registrations)	26
Chart 2.2	Consumer Price Index	28
Chart 2.3	Trends in Exports and Imports	29
Chart 3.1	Commercial Banks' Excess Reserves	39
Chart 3.2	3-Month and 10-Year TT-US Differentials	40
Chart 3.3	Commercial Banks' Interest Rates	41
Chart 3.4	Private Sector Credit	42
Chart 3.5	Sales of Foreign Currency by Authorised Dealers to the Public	45
Chart 3.6	Secondary Government Bond Market Activity	47

TABLE OF CONTENTS CHARTS CONT'D

Chart 3.7	Trinidad and Tobago Central Government Treasury Yield Curve	48
Chart 3.8	Movements in the Composite Price Index and Stock Market Capitalisation	49
Chart 3.9	Trinidad and Tobago Mutual Funds Under Management by Fund Type	51
Chart 4.1	Repo Rate	55
Chart 4.2	Liquidity Management	55
Chart 4.3	Forecast Error Variance Decomposition	57
	TABLES	
TABLE 1	Authorised Dealers' Purchases and Sales of Foreign Currency	44
TABLE 2	Primary Debt Security Activity	46

LIST OF ABBREVIATIONS

ABBREVIATION NAME

AEs	Advanced Economies
ATI	All Trinidad and Tobago Index
AUM	Assets Under Management
BMI	Index of Retail Prices of Building Materials
BoE	Bank of England
BOJ	Bank of Jamaica
Central Bank	Central Bank of Trinidad and Tobago
CIS	Collective Investment Scheme
CLI	Cross Listed Index
COF	Commercial Banks' Cost of Funds
COVID-19	Coronavirus Disease 2019
CSO	Central Statistical Office
ECB	European Central Bank
ECCB	Eastern Caribbean Central Bank
ECPI	Energy Commodity Prices Index
EMDEs	Emerging Market and Developing Economies
FAO	Food and Agriculture Organisation
FEVD	Forecast Error Variance Decomposition
FOMC	Federal Open Market Committee
FSI	Financial Soundness Indicator
GDP	Gross Domestic Product
GORTT	Government of the Republic of Trinidad and Tobago
GOVB	Government Borrowing
IMF	International Monetary Fund
LA	Latin American
lng	Liquefied Natural Gas
LPR	Loan Prime Rate
mmbtu	Million British Thermal Unit
MPA	Monetary Policy Announcement
MPC	Monetary Policy Committee

LIST OF ABBREVIATIONS CONT'D

ABBREVIATION NAME

MPR	Monetary Policy Report
MPS	Monetary Policy Secretariat
NIF	National Investment Fund
OMOs	Open Market Operations
PBoC	People's Bank of China
PPI	Producer Price Index
REPO	Repurchase Rate
the Fed	Federal Reserve
TTSE	Trinidad and Tobago Stock Exchange
TTSEC	Trinidad and Tobago Securities and Exchange Commission
US	United States
VIX	Volatility Index
WALR	Weighted Average Lending Rate
WEO	World Economic Outlook
VVTI	West Texas Intermediate

KEY MESSAGES

- The global economy was plunged into uncertainty by a marked shift in trade policies by several key economies, most notably the United States (US).
- The International Monetary Fund (IMF), in its April 2025 World Economic Outlook (WEO), estimates global growth will decline from 3.3 per cent in 2024 to 2.8 per cent in 2025.
- Central banks worldwide have adopted a more cautionary stance, noting that trade policy uncertainty has affected their economic outlooks and policy decisions.

- Domestically, the latest data published by the Central Statistical Office (CSO) points to a pickup in domestic economic activity in the third quarter of 2024. Meanwhile, headline inflation drifted upwards in April 2025, but remained contained.
- Commercial banks' excess reserves remained ample following the reduction of the reserve requirement in July 2024.
- At its meetings in December 2024 and March 2025, the Monetary Policy Committee (MPC) maintained the Repo rate at 3.50 per cent – unchanged since March 2020.

MONETARY POLICY OVERVIEW AND OUTLOOK

Overview

The global economy was plunged into uncertainty by a marked shift in trade policies by several key economies, most notably the US. The threat of the imposition of tariffs by the US on several countries during the first quarter of 2025 sparked financial market volatility. Financial stability concerns are not yet apparent as central banks have thus far remained focused on their main mandate of inflation containment. However, given the sharp increase in geopolitical tensions and the potential for trade wars, the IMF advises financial institutions to have adequate capital and liquidity as heightened risk can lead to large investment losses.

Central banks worldwide have broadly struck a cautionary tone by either halting or slowing progress towards less restrive monetary policy, noting that trade policy uncertainty has affected their economic outlooks and policy decisions. Against that backdrop, the Bank of England (BoE) and the European Central Bank (ECB) reduced their benchmark interest rates while the US Federal Reserve (the Fed) maintained its policy rate during the first quarter of 2025. Among Emerging Market and Developing Economies (EMDEs), central banks also lowered their monetary policy rates but some countries are battling above-target inflation.

As countries begin to navigate the almost universal imposition of tariffs by the US, economic activity varied in the first quarter of 2025. Most notably, output in the US decelerated to its lowest outturn since the fourth quarter of 2022, posting growth of 2.0 per cent (year-on-year), from 2.5 per cent in the previous quarter. China, which is facing the brunt of tariff impositions, recorded steady growth of 5.4 per cent in the fourth quarter of 2024 and in the first quarter of 2025. Given the influence of these economies on global activity, further slowdowns could disrupt global economic performance in 2025.

On the domestic front, latest official data from the Central Statistical Office indicated that the economy rebounded in the third quarter of 2024, driven by improvements in energy sector production. During the period, growth was further enhanced by the positive performance of the non-energy sector. Data from the Ministry of Energy and Energy Industries suggests the energy sector posted a modest recovery during the fourth guarter of 2024. Nonetheless, labour market data from the Central Statistical Office (CSO) showed that the unemployment rate inched up in the fourth quarter of 2024, compared to the corresponding quarter of 2023.

Headline inflation inched up while the balance of payments (BOP) recorded a deficit. In April 2025, headline inflation increased to 1.5 per cent from 0.5 per cent in November 2024. Higher food prices (4.7 per cent in April 2025 compared to 3.1 per cent in November 2024) and core inflation (0.7 per cent in April 2025 from -0.3 per cent in November 2024) were responsible for the

rise in overall inflation. Meanwhile, Trinidad and Tobago's BOP recorded an overall deficit of \$60.2 million during the fourth quarter of 2024.

The reduction in the reserve requirement on July 24, 2024 helped to shore up liquidity. The 400 basis points reduction helped to boost liquidity by releasing \$4,021.8 million into the financial system. Since then commercial banks' excess liquidity remained ample. Daily average excess liquidity increased to \$7.3 billion by March 2025 compared to \$6.6 billion in November 2024. Thus far in 2025, the Bank's monetary policy stance remains unchanged. At its meetings in December 2024 and March 2025, the MPC maintained the Repo rate at 3.50 per cent – unchanged since March 2020.

Outlook

Global monetary policy is expected to vary in 2025 as policy uncertainties affect countries differently. According to the IMF's April 2025 WEO, global inflation is forecasted to decelerate to 4.3 per cent in 2025 from 5.7 per cent in 2024, with inflation in AEs converging to central bank targets quicker than in EMDEs. As inflation recedes during the year, monetary policy is anticipated to become less restrictive. Hence, policy rates in some of the major AEs' Central Banks are projected to be further reduced by the end of 2025. However, ongoing trade policy uncertainty can slow the pace of rate cuts. Lower interest rates may augur well for EMDEs as currencies strengthen against the US dollar, imported inflation eases, and financial conditions improve. EMDEs are anticipated to expand by 3.7 per cent in 2025, but the recovery path for AEs remains sluggish at 1.4 per cent in the same year. Given these factors, the IMF forecasts world growth to decrease from 3.3 per cent in 2024 to 2.8 per cent in 2025.

The lower growth outlook is further challenged by an amplification of downside risks. For example, ongoing conflicts in the Middle East and Russia-Ukraine could continue to hinder the region's growth, stability and global supply-chains. Planned expansionary fiscal policies by the new US administration, such as tax cuts, could have positive spillover effects in the short-term but interrupt the disinflationary process in the longterm.

An intensification of protectionist policies—such as tariffs—could destabilise global trade volumes, even encouraging an escalation in trade disputes among countries. Furthermore, trends in services price inflation remain above pre-pandemic levels, which can further interrupt the disinflationary process.

Moreover, if inflationary pressures pick up this may prompt a more restrictive monetary policy stance by central banks globally. In this vein, the global economy faces the task of navigating these challenges while balancing the disinflationary process to minimise negative impacts on economic growth and labour markets.

Domestically, economic activity will be buttressed by the stabilisation of energy

sector output and modest expansion of the non-energy sector over the short to medium-term. Improvements in energy sector production observed during the fourth quarter of 2024 are anticipated to spillover into 2025. Natural gas production is projected to improve following the start up of bpTT's Cypre field in April 2025. Production will also experience upticks from EOG's Mento field. In the nonenergy sector, prospects for public sector wage settlements could underpin business and consumer optimisim. Continued credit expansion alongside improvements in several supplemental indicators of non-energy sector activity, such as cashless payments, suggest aggregate demand may remain bouyant.

Labour market conditions are likely to stabilise following an increase in the unemployment rate in 2024. Employment growth is expected in a few sectors, particularly the Community, Social, and Personal Services sector and Construction (including Electricity and Water) sectors. Meanwhile, headline inflation is expected to increase in the shortterm given challenges on the international trade front. Trinidad and Tobago's overall BOP is anticipated to record a deficit in 2025. This performance will stem from a surplus on the current account, owing to a healthy goods balance, coupled with a net outflow on the financial account, driven by increased potfolio and other investments. Notwithstanding, the varying tarrifs implemented by the US can add upward pressure to import prices. The Central Bank will continue to closely examine developments and stands ready to take appropriate actions to safeguard internal and external stability.

1. THE INTERNATIONAL ECONOMIC CONTEXT

Heightened uncertainty in the global trade and financial markets surrounding the imposition of tariffs on various nations can threaten financial stability. While central banks maintained a less restrictive monetary policy stance as inflation converged toward targets, rising geopolitical and trade tensions could derail the global economic growth.

Recent Economic Developments and Outlook

The almost universal imposition of tariffs by the United States in the first quarter of 2025 prompted financial market turmoil, but central banks have remained focused on their primary duty of containing inflation. Central banks generally maintained a less restrictive monetary policy posture as inflation converged near-targets, while acknowledging that trade policy uncertainty has influenced their economic outlooks and policy actions¹.

Global growth was moderate in 2024, with EMDEs outperforming Advanced Economies (AEs). In its April 2025 WEO, the IMF estimated that global growth decelerated by 0.2 per cent to 3.3 per cent in 2024 compared to 3.5 per cent in 2023. Growth in AEs for 2024 was estimated at 1.8 per cent, up from 1.7 per cent in 2023, on account of higher consumption and investments in some of the larger economies. Despite easing slightly to 4.3 per cent in 2024 from 4.7 per cent in 2023, growth remained solid among the EMDEs, supported by activity in China and India (Chart 1.1).

Emerging Market and Developing Economies





Latin America and the Caribbean

Global Growth: Annual Real GDP Growth

Source: International Monetary Fund, World Economic Outlook, April 2025

Advanced Economies

e estimated

World

f forecasted

¹ These include the Central Bank of Canada, the Bank of Mexico and the US Fed. This sentiment was expressed in their respective press conference releases in response to the US' announcement of tariffs. Additionally, on April 5, 2025, the Fed Chairman noted that the US administration's imposed tariffs were larger than expected and the economic fallout from this is likely to be large in the form of higher inflation and slower growth.

While inflation among the AEs came down, trade tensions could add upward pressure

Inflation hovered above-taget in most

AEs. US inflation was recorded at 2.3 per cent (year-on-year) in March 2025, down from 2.7 per cent one month earlier. The UK's inflation rate accelerated to 3.5 per cent (year-on-year) in April 2025, from 2.6 per cent the previous month, remaining above-target. The ECB noted that the disinflation process in the Euro Area is on track; however, an escalation in trade tensions could fuel inflation. The inflation rate remained above the ECB's 2.0 per cent target, standing at 2.2 per cent (year-on-year) in March and April 2025 (Chart 1.2).

Regarding industrial policy, 'regime uncertainty' manifested following the US administration's impositions and plans to further increase trade tariffs on several countries. For instance, the 25 per cent tariff on steel and aluminium imports announced in March will lead to EU countries and others to retaliate with counter measures. Additionally, the US administration announced a broader scope of reciprocal tariffs on April 2, 2025, targeting imports from several developed and developing countries. Globally, these tariffs triggered financial market volatility as equity prices fell-off significantly and gold surged to new all-time highs. Consequently, there has been an intensification of tensions as some affected countries announced retaliatory intent with their own tariffs, while others stated plans to negotiate with the US.

Inflation in EMDEs declined, however Latin American (LA) countries observed some upward pressure

In EMDEs, inflation declined, though it picked up in Latin American economies. China's inflation fell by -0.1 per cent (yearon-year) in April 2025, unchanged from the previous month. India's inflation edged down to 3.2 per cent (year-on-year) in April 2025 from 3.3 per cent in the previous month, remaining below the RBI's 4.0 per cent inflation target. Slower price increases for food were mainly responsible for this outturn. For the Latin American countries, year-on-year inflation rates recorded mixed performances during early 2025.



CHART 1.2 Selected Economies: Headline Inflation (Year-on-Year Per Cent Change)

Source: Bloomberg

The Target Inflation Rate represents the rate for the US and Euro area as China's Target Inflation Rate is set at 3.00 per cent

In the Caribbean inflation rates were mixed

In a few countries inflation trended upward while it slowed in others. Lower international commodity prices and slower price increases for domestic goods and services contributed to subdued inflation rates during 2024.Inflation in the Eastern Caribbean Curreny Union (ECCU) increased to 2.7 per cent in 2024, compared to 2.2 per cent in 2023. Despite some fluctuations in inflation during 2024, Jamaica's inflation remained within target for most of the year. More recently, the rate accelerated to 5.3 per cent (year-on-year) in April 2025, from 5.0 per cent in the previous month. Inflation in Barbados remained contained in 2024 but disinflation has raised concerns. Latest inflation data

available for Barbados point to a rebound in cosumer prices, moving from deflation of 0.3 per cent (year-on-year) in February 2025 to an expansion in prices of 0.4 per cent in March 2025.

International food prices continue to climb upwards

In April 2025, the United Nations Food and Agricultural Organisation (FAO) Real Food Price index increased. The FAO Food Price Index rose by 5.7 per cent (yearon-year) in April 2025 from 4.0 per cent in November 2024 (Chart 1.3). Price increases were observed in several categories, namely the, Oils (18.6 per cent in April 2025), Dairy (20.7 per cent in April 2025) and Meat (2.4 per cent in April 2025) categories. These were due to a combination of lower supplies and higher import demand. Meanwhile, the Cereals (-2.3 per cent in April 2025) and Sugar (-12.5 per cent in April 2025) sub-indices were still in decline, but not as weak on a year-on-year basis signalling strengthening of prices.



Source: Food and Agriculture Organisation

Global uncertainty can add further pressure to commodity prices

The Energy Commodity Prices Index (ECPI)² decreased by 0.6 per cent in the six months ending April 2025. The index fell to an average of 100.54 with lower prices being recorded for half of the commodities included in the index. Over the period November 2024 to April 2025 crude oil prices fell, due in part to weak global demand. The average of West Texas Intermediate (WTI) and Brent crude oil prices fell by 10.8 per cent to US\$71.73 per barrel during the six-month period. Brent prices averaged US\$73.96, while WTI prices averaged US\$69.49 over the reference period. WTI prices fell to a low of US\$63.08

² In 2024, the Central Bank updated the ECPI's base year to Q3 2023 and revised the weighting structure of the export commodities included in the index. See Annual Economic Survey Appendix I, Technical Note, "Rebasing the Energy Commodity Price Index", for more details.

per barrel in April, which is the lowest price observed in that market since April 2021. The reduction in crude oil prices passed through to derivative commodities in the index, resulting in price declines for jet fuel (-17.8 per cent), gas oil (-14.1 per cent) and motor gasoline (-11.9 per cent).

In the natural gas market, the basket of LNG prices experienced significant increases over the six-month period ending April 2025. The natural gas basket price averaged US\$13.43 per million British Thermal Units (mmbtu) between November 2024 to April 2025, representing a 13.7 per cent improvement over the same period one year earlier. Prices in the European market, the UK National Balancing Point (NBP) price, rose by 39.4 per cent to average US\$13.80 per mmbtu. Meanwhile, the Japan/Korea Marker (JKM) price, which covers the Northeast Asian LNG market, increased by 22.9 per cent (yearon-year) to average US\$13.75 per mmbtu (Chart 1.4).

Gas prices in the European market surged due to reduced renewable energy power generation, a long and cold winter season and supply concerns that have put a strain on storage levels across Europe. As for the Asian market, the Russia-Ukraine conflict and associated supply disruptions continued to affect energy markets in that region. The growing economies of the Far East also placed some upward pressure on prices through higher demand for gas. These robust prices filtered through to most of downstream products with the exception of natural gasoline prices, which fell by 6.4 per cent. All other gas-based commodities included in the ECPI experienced price increases such as methanol (35.6 per cent), urea (9.1 per cent), UAN (6.3 per cent) and ammonia (1.0 per cent).



Source: Bloomberg

Monetary policy remained mixed among the AEs as central banks continued to work towards converging inflation rates to their target

In May 2025, the US Federal Reserve maintained the fed funds target range at 4.25 to 4.50 per cent. This decision came as labour market conditions remained stable but short-term inflation expectations trended upward, primarily driven by the imposition of tariffs and trade policy uncertainty. Against the backdrop of heightened global economic uncertainties, the BoE reduced its Bank rate to 4.25 per cent in May 2025. This cut was geared towards supporting economic activity in the midst of easing inflation. The ECB continued to ease its monetary policy stance in 2025. The ECB reduced the interest rate on its main refinancing operations by 25 basis points each in March and April 2025, bringing the rate to 2.4 per cent. These mark the sixth and seventh rate cuts since the start of the ECB's monetary policy easing cycle in June 2024.

In the EMDEs and LA regions monetary policy was also mixed

During early 2025, China's monetary authority maintained its key loan prime rates, while the Reserve Bank of India (RBI) cut its policy rate. In its May 2025 meeting, the People's Bank of China (PBoC) reduced the 1-year and 5-year Loan Prime Rates (LPRs) to 3.0 per cent and 3.5 per cent, from 3.1 per cent and 3.6 per cent, respectively. RBI lowered its policy rate by 25 basis points each in February and April 2025, which brought the rate to 6.0 per cent. The decisions were attributable to easing inflation, slowing domestic economic activity and growing global trade tensions. As some Latin American economies experienced improvements in economic activity, several regional central banks either maintained or lowered their monetary policy stances during early 2025.

In the Caribbean region, monetary policy actions continued to support economic growth

Monetary policy in the ECCU remained supportive of economic activity during the first quarter of 2025. The Eastern Caribbean Central Bank (ECCB) maintained its minimum savings rate at 2.0 per cent and the discount rates for short-term and long-term credit at 3.0 per cent and 4.5 per cent, respectively, in February 2025. Amid slower economic growth and inflation within its target range (4.0 to 6.0 per cent), the Bank of Jamaica (BOJ) lowered its monetary policy rate by 25 basis points to 5.75 per cent in May 2025.

Economic growth looks promising but can be derailed if trade wars escalate

Amid above-target inflation and still relatively low unemployment, US economic activity grew. On a year-on-year basis, economic activity decelerated to 2.0 per cent in the first quarter of 2025, down from 2.5 per cent one quarter earlier and marking the slowest rate of growth since the fourth quarter of 2022. This outturn largely reflected an increase in imports as businesses and consumers stockpiled goods ahead of the anticipated tariff hikes by the US Government. In the UK, economic growth remained modest, expanding by 1.3 per cent (year-on-year) in the first quarter of 2025, lower than the 1.5 per cent in the fourth quarter of 2024. This was due to slower growth in services, and household and government spending, coupled with a decline in industrial output.

Despite some headwinds, economic activity in the EMDEs appeared resilient. In the three months to March 2025, China's real GDP maintained the same pace of growth from the previous quarter at 5.4 per cent (year-on-year), driven by industrial output, retail sales and exports. India's real GDP growth expanded by 6.2 per cent (year-onyear) in the fourth quarter of 2024 from 5.6 per cent (year-on-year) in the previous quarter. This improvement in real GDP growth was on account of increased private consumption and public expenditure.

Economic activity continued to register positive outturns in the first quarter of 2025 for some LA countries while others slowed. Notably, Colombia and Mexico's economic activity expanded, while Brazil and Chile's slowed.

Global equities markets were volatile emanating from US policies

Thus far in 2025, global equity market performance has been volatile. Concerns about the heightened risk of a recession and the imposition of tariffs have influenced US stock indices. In January 2025, the Chicago Board Options Exchange's CBOE Volatility Index rose by more than 15 per cent reflecting investor concerns about market developments. Following promised tariff impositions between the US and China the index further rose to its highest level since the COVID-19 pandemic in April 2025 (averaging around 48 per cent). Further, the yield on the S&P 500 index declined while European stocks rallied due to optimism of fiscal stimulus from Germany's Government and further monetary easing by the ECB. The 10-year US treasury yields slipped on bets that an economic slowdown would force the Federal Reserve to cut rates (Chart 1.5).

In other AEs, some market recovery was recorded. At the beginning of the year, Japanese stock indices (Nikkei 225) fell sharply amid a significant rise in the Japanese bond market as well as concerns about the impact of tariff imposition by the US administration. However, the index has since rebounded following reports that the US President may exempt selected automakers from tariffs. In the United Kingdom, the FTSE 100 fell after data suggested that strong wage growth prompted investors to cut bets on BoE interest rate cuts in 2025. Notably, the aforementioned index has improved following US tariff reprieve.



CHART 1.5 Advanced Economies Equity Market Indices

Source: Bloomberg

2. DOMESTIC ECONOMIC ACTIVITY AND PRICES

During the third quarter of 2024, overall economic growth was bolstered by an expansion in energy sector production. This represented the first yearon-year improvement in the sector's output in nearly two years. Growth conditions were further supported by improved non-energy sector output. Indicators monitored by the Central Bank suggest that the positive performance of the energy sector extended into the fourth quarter of 2024 and was complemented by improved activity in the nonenergy sector during the period.

Recent Economic Developments and Outlook

Growth conditions in the third quarter of 2024 reflected positive performances in both the energy and non-energy sectors

Based on data from the Central Statistical Office (CSO), real GDP improved by 2.0 per cent (year-on-year) in the third quarter of 2024.³ This reflected improvements in both the energy and nonenergy sectors (2.1 per cent and 1.9 per cent, respectively). Energy sector increases were broad-based as higher output was recorded for several commodities, prompting improved performances across several sub-sectors. These included: Condensate Extraction (26.5 per cent); Manufacture of Petrochemicals (10.4 per cent); and Petroleum and Natural Gas

Distribution (3.9 per cent), which outweighed declines in Asphalt (-97.4 per cent); Crude Oil Exploration and Extraction (-5.6 per cent); Natural Gas Exploration and Extraction (-1.6 per cent); and Refining (including LNG) (-4.9 per cent) sub-sectors. Expansion in the nonenergy sector reflected improved year-on-year performances mainly in the Manufacturing (excluding Refining and Petrochemicals) (13.0 per cent); Transport and Storage (11.9 per cent); Financial and Insurance Activities (2.8 per cent); and Trade and Repairs (excluding Energy) (1.1 per cent) sectors. These outweighed declines in the Information and Communication (-6.1 per cent); Construction (-1.3 per cent); and Accommodation and Food Services (-1.1 per cent) sectors.

conditions Economic continued to improve in the fourth quarter of 2024. Energy sector output was bolstered by heightened production among upstream participants. Data from the Ministry of Energy and Energy Industries (MEEI) showed year-onyear improvements in the production of both crude oil (4.6 per cent) and natural gas (5.6 per cent) over the fourth quarter of 2024. As a result, activity in the Mining and Quarrying subsector increased (3.3 per cent). Activity in the Refining sector were positively affected. Rising liquefied natural gas (LNG) production (12.8 per cent) was complemented by an increase of 6.5 per cent in the output of natural gas liquids (NGLs). Further downstream, ammonia production was bolstered by a base effect,

³ Revisions were also noted for the first and second quarter of 2024 wherein real GDP growth measured 0.7 per cent and -1.9 per cent respectively as opposed to the previously reported 1.5 per cent and -2.1 per cent.

given the closure of the AUM-NH3 facility in the second half of 2023. Consequently, ammonia output grew by 14.6 per cent during the fourth guarter of the year. Activity in the Petrochemicals sector was further propelled by improved urea production (258.3 per cent), again reflecting a base effect, given maintenance activty in the fourth quarter of the previous year. Conversely, methanol output declined (-16.5 per cent) over the period as the Atlas facility was idled due to the unavailability of natural gas. In 2023, parent company Methanex, announced intentions to shut down the facility and restart operations at the smaller Titan methanol plant, which was closed in March 2020, in response to a falloff in alobal methanol demand emanating from the COVID-19 pandemic.

Non-energy sector activity improved in the fourth quarter of 2024, according to estimates from the Central Bank's Quarterly Index of Real Economic Activity (QIEA). Upward movement of the Cashless Payments Index (9.5 per cent), a proxy for non-energy sector activity, was supported by an uptick in the volumes of automated teller machine (ATM), internet banking, real time gross settlement (RTGS) and automated clearinghouse (ACH) credit transactions, during the period. These outweighed declines in the number of transactions conducted via telephone banking and cheque.

On a sectoral basis, improved activity was estimated in the Wholesale and Retail Trade (excluding Energy) sector, reflecting movements in the Index of Retail Sales during the period. This was driven by improvements in the Household Appliances, Furniture and other Furnishings (6.8 per cent) and Supermarkets and Groceries (1.1 per cent) sub-indices. Notwithstanding, reduced sales were noted in the Textiles and Wearing Apparel (-4.4 per cent), and Dry Goods Stores (-0.7 per cent) sub-indices. Movements in supplementary indicators reinforced the estimated increase in the sector's activity. Increases were evident in the volume of point of sale (13.3 per cent) and internet merchant (23.8 per cent) transactions during the fourth quarter of 2024.

Heightened Construction sector activity (4.0 per cent) was also estimated for the period, reflecting a pickup in the local sales of cement (Chart 2.1). This was also supported by a rise in the number of building permits issued and refused during the period (52.6 per cent), suggesting a marked uptick in domestic construction projects. Growth in the volume of loans, deposits and investments of commercial banks coupled with an increase in gross premiums in the insurance industry led to an estimated uptick in the Financial and Insurance Activities sector (4.0 per cent). Agriculture sector activity also improved (7.2 per cent) during the period, given increased supply of non-perennial crops. Further improvements were also estimated in the Manufacturing (excluding Refining and Petrochemicals) (0.2 per cent) and the Accommodation and Food Service Activities sectors (1.5 per cent). For the latter, this reflected a rise in the number of rooms sold.

Conversely, activity in the Electricity and Water (excluding Gas) sector fell (-0.3 per cent) as reduced water supply outweighed an increase in power generation during the period. In the

Transportation and Storage sector, estimates suggest a year-on-year decline (-2.5 per cent), as increased air travel was countered by reductions in land transportation, warehousing and courier activities.







Source: Central Bank of Trinidad and Tobago

Labour market conditions slipped during the fourth quarter of 2024

Unemployment trended upward, according to the official statistics published by the CSO. The unemployment rate measured 5.5 per cent in the fourth quarter of 2024, compared with 4.1 per cent in the same period of 2023. During the fourth quarter of 2024, the labour force participation rate improved to 55.9 per cent from 55.5 per cent in the corresponding quarter of 2023, as the labour force increased by 3.0 thousand persons. Expansion in the labour force reflected a decrease in the number of employed persons

(5.4 thousand persons) which coincided with an increase in the number of persons without jobs and actively seeking employment (8.2 thousand persons).

Job losses occurred in several sectors. Employment losses were recorded in the Wholesale and Retail Trade; Restaurants and Hotels (5.3 thousand jobs); Manufacturing (excluding Sugar and Oil, and including Mining and Quarrying) (5.2 thousand jobs); Petroleum and Gas (including Production, Refining and Service Contractors) (3.9 thousand jobs); and Transportation, Storage and Communication (0.5 thousand jobs) sectors. Conversely, gains in employment were recorded in the Finance, Insurance, Real Estate and Business Services (8.8 thousand jobs); Construction (including Electricity and Water) (5.1 thousand jobs); and Community, Social and Personal Services (0.7 thousand jobs) sectors.

During the first quarter of 2025, preliminary data on job advertisements hint at declines in the demand for labour. During January to March 2025, printed job adverts in the daily newspapers (532) fell by 11.8 per cent (year-on-year), from the 603 job adverts published in the daily newspapers in the first quarter of 2024. Official retrenchment notices filed with the Ministry of Labour for the period January to April 2025 indicate that four persons were retrenched, compared to the 96 persons in the corresponding period of 2024, representing a year-on-year decrease of 95.8 per cent. Job separations occurred in both the Distribution (2 persons retrenched) and Personsal Services (2 persons retrenched) sectors.

Headline inflation increased during the six months ending April 2025

Headline inflation, measured by the CSO's Consumer Price Index (CPI), accelerated over the six-month period (November 2024 to April 2025). Headline inflation rose to 1.5 per cent in April 2025 from 0.5 per cent in November 2024 (Chart 2.2). This was attributed to price increases in food inflation, which averaged 4.0 per cent over the period and an increase in core inflation.

Food inflation increased to 4.7 per cent in April 2025 from 3.1 per cent in November 2024, fashioned by faster price increases in several sub-indices. The Food Products Not Elsewhere Classified (NEC) sub-index rose (7.9 per cent in April 2025 from 2.7 per cent in November 2024) due to sharp price hikes for hot peppers, pimento and garlic. Fresh, chilled frozen or seasoned beef, chilled or frozen lamb, pork as well as fresh goat, pork, chicken, duck resulted in higher prices for the Meat sub-index (8.0 per cent in April 2025 from 4.3 per cent in November 2024). The Bread and Cereals sub-index (6.3 per cent in April 2025 from 2.8 per cent in November 2024) also rose due to higher prices for parboiled rice. Price hikes for oranges, mangoes, apples, melons and coconuts were responsible for the increase in the Fruit sub-index (7.4 per cent in April 2025 from 2.9 per cent in November 2024). Faster price increases were also recorded for the Fish sub-index (5.7 per cent in April 2025 from 4.8 per cent in November 2024) due to upward prices for fresh carite, shrimp, crab and shark and chilled or frozen carite and king fish. Milk, Cheese and Eggs sub-index (2.9 per cent in April 2025 from 1.1 per cent in November 2024) also rose due to higher prices for pasteurised milk, powdered milk and cheese.

A slowdown in prices occurred in a few food categories. Softer price increases for the Vegetables sub-index (2.2 per cent in April 2025 from 5.3 per cent in November 2024) were recorded. Slower price increases were also observed for the Sugar, Jam and Confectionery (3.6 per cent in April 2025 compared to 9.3 per cent in November 2024, and Non-Alcoholic Beverages (0.8 per cent in April 2025 from 2.5 per cent in November 2024) sub-indices. Additionally, a slower price decline was noted for the Butter, Margarine and Edible Oil sub-index (-0.8 per cent in April 2025 compared to -4.0 per cent in November 2024).

Core inflation, a measure of underlying inflation, rose (0.7 per cent in April 2025 from -0.3 per cent in November 2024). Several sub-indices reported price increases. Slower price increases in Alcoholic Beverages and Tobacco (3.3 per cent in April 2025 from 3.5 per cent in November 2024), Health (1.3 per cent in April 2025 from 2.6 per cent in November), Hotels, Cafes and Restaurants (1.8 per cent in April 2025

from 1.9 per cent in November 2024) and Communication (0.3 per cent in April 2025 from 5.1 per cent in November 2024) were reported. Housing, Water, Electricity, Gas and Other Fuels (0.9 per cent in April 2025 from -1.5 per cent in November 2024) and Recreation and Culture (2.1 per cent in March 2025 from -2.0 per cent in November 2024) sub-indices registered higher prices. The Transport sub-index recorded no change in April 2025 compared to -0.9 in November 2024. Weaker prices were observed for the Furnishings, Household Equipment and Routine maintenance (-1.5 per cent in April 2025 from -2.4 per cent in November 2024 and Clothing and Footwear sub-indices (-0.1 per cent in April 2025 compared to a flat position in November 2024), while the Education subindex remained steady.



CHART 2.2 Consumer Price Index

Source: Central Statistical Office

Building material prices softened whilst wholesale prices rose

The CSO's Index of Retail Prices of Building Materials (BMI) marginally decreased in the first quarter of 2025. In March 2025, the BMI stood at 2.3 per cent (year on year) compared to 2.5 per cent (year-on-year) in the fourth quarter of 2024. This was attributed to slower price increases in the Site Preparation, Structure, & Concrete Frame category (4.1 per cent in the first quarter of 2025 compared to 6.8 per cent in the fourth quarter of 2024), and Walls and Roofs (0.9 per cent in the first quarter of 2025 compared to 1.8 per cent in the fourth quarter of 2024). Further, lower prices were recorded for Plumbing and Plumbing Fixtures and Windows, Doors and Balustrading. Stronger price increases were registered for Finishing, Joinery and Painting and External Works and Electrical Installation and Fixtures in the first quarter of 2025.

Producer prices, as measured by the CSO's Producer Price Index (PPI), expanded minimally to 2.4 per cent in the first quarter of 2025 compared to 2.5 per cent in the previous quarter. Faster price increases were noted in the Chemicals and Non-Metallic Products industry (4.1 per cent in the first quarter of 2025 compared to 3.3 per cent in the final quarter of 2024). Softer price increase was recorded for Assemblytype and Related Industries (7.9 per cent in the first quarter of 2025 compared to 8.3 per cent in the final quarter of 2024), Drink and Tobacco (0.8 per cent in the first quarter of 2025 compared to 1.0 per cent in the final quarter of 2024) and Food processing (2.3 per cent in the first quarter of 2025 compared to 2.4 per cent in the final quarter of 2024) industries. Meanwhile, producer prices in a few industries, namely; Textiles, Garment and Footwear and Printing, Publishing and Paper Converters and Wood Products, held steady.

Goods trade balance deteriorated as imports gained momentum

Over the fourth quarter of 2024, the goods balance decreased by 37.5 per cent (year-on-year) to US\$417.5 million, when compared to the similar quarter of 2023.

Despite a minor improvement in exports, it was not sufficient to temper the growth in imports. Total export earnings increased by 3.5 per cent to US\$2,430.7 million in the fourth quarter of 2024. The slightly higher outturn stemmed from an improvement in non-energy exports, which expanded by US\$116.7 million or 30.4 per cent (year-on-year) to US\$500.1 million. Somewhat dampening the overall increase in export earnings, energy exports recorded a minor falloff of 1.7 per cent (year-on-year) to US\$1,930.5 million in the fourth quarter of 2024, compared to the same period in 2023. The reduction in energy exports was attributable to a sizeable decline in the gas sub-category (-35.4 per cent) on account of lower international gas prices and export volumes. Notwithstanding, exports of petroleum, crude and refined products and petrochemicals, grew by 19.3 and 15.1 per cent (year-on-year), respectively, reflecting

higher international prices for methanol⁴, coupled with increased export volumes of ammonia, urea, and petroleum products.

Total imports increased by US\$333.5 million to US\$2,013.2 million during the fourth quarter of 2024 (Chart 2.3). Nonfuel imports picked up by US\$219.7 million or 16.0 per cent (year-on-year) to US\$1,592.6 million. Notably, this outturn was driven by an increase in imports of manufactured goods and capital imports. Fuel imports increased by 37.1 per cent (year-on-year) to US\$420.6 million, which was due to an uptick in imports of refined products for the purpose of exporting to regional markets.



CHART 2.3 Trends in Exports and Imports*

Source: Central Bank of Trinidad and Tobago

* Energy goods data comprise estimates by the Central Bank of Trinidad and Tobago.

⁴ Over the fourth quarter of 2024, methanol, ammonia and urea prices averaged US\$590.7 per tonne, US\$524.0 per tonne and US\$320.9 per tonne, respectively. Meanwhile, over the similar period of 2023, methanol, ammonia and urea prices averaged US\$396.3 per tonne, US\$549.2 per tonne and US\$336.5 per tonne, respectively.

The portfolio investment account registered a net outflow in the fourth quarter of 2024

Portfolio investment recorded a net outflow of US\$28.8 million, driven primarily by increased holdings of portfolio assets abroad (US\$30.3 million) in the fourth quarter of 2024. In particular, there was a rise in short-term debt securities held by domestic banks during the period. Compounding this was a moderate increase in foreign equity securities held by the Heritage and Stabilisation Fund (HSF) and pension funds. Portfolio investment liabilities increased marginally over the reference period (US\$1.5 million) as non-residents increased

their holdings mainly of long-term domestic debt securities. Meanwhile, the net outflow of US\$284.7 million recorded in the direct investment category stemmed largely from a reduction of US\$229.9 million in direct investment liabilities (direct investment in Trinidad and Tobago by foreign investors). This outturn reflected a decline in equity capital by energy sector companies. Compounding this flow was the simultaneous rise in direct investment assets (US\$54.8 million) due to an uptick in intercompany lending among associated enterprises in the energy sector.

The Impact of US Tariffs on Trinidad and Tobago's Trade

Introduction

Trade protectionist policies, including tariffs, have played a role in varying economic strategies throughout history. Tariffs, in particular, were used as a means of both protecting and reviving domestic industries, and as a tool to generate government revenue in postwar periods. Following the stock market crash of 1929, protectionist sentiment through international trade barriers gained popularity with the enactment of the Smoot-Hawley Tariff Act in the United States of America (US) (Foundation for Economic Education 2019). This Act introduced tariffs on over 20,000 imported goods in order to support the US economy from foreign competition, with the international community responding with countermeasure tariffs. Economists have widely regarded this policy as a misstep which triggered unemployment and deepened the Great Depression. Subsequently, this led to a shift in protectionist policies to wards the implementation of more liberal trade agreements which have continued to characterise trade policies to the present day.

On April 02, 2025, the US Administration announced the implementation of a "reciprocal tariff" scheme which forms part of the "America First Trade Policy" Presidential Memorandum signed on January 20, 2025. This broad-based tariff scheme, which will become effective in mid-July 2025, targets just over 180 countries and territories with which the US has large and persistent goods trade deficits. The reciprocal tariff rate is aimed at balancing bilateral trade deficits between the US and each of its trading partners by imposing an additional ad valorem duty on all imports which starts at a baseline 10 per cent and varies per country (The White House 2025)⁵. While most imports to the US will be subjected to the reciprocal tariff, some goods exemptions were identified⁶.

⁵ Generally, the reciprocal tariff assigned to each country is calculated by factoring the tariff rate required to bring a country's trade balance with the US to zero, i.e. the country's level of exports to the US will be equal to its level of imports from the US. See link for more information.
6 Goods that will not be subject to the reciprocal tariff include: (1) articles subject to 50 USC 1702(b); (2) steel/aluminum articles and autos/auto parts

⁶ Goods that will not be subject to the reciprocal tariff include: (1) articles subject to 50 USC 1702(b); (2) steel/aluminum articles and autos/auto parts already subject to Section 232 tariffs; (3) copper, pharmaceuticals, semiconductors, and lumber articles; (4) all articles that may become subject to future Section 232 tariffs; (5) bullion; and (6) energy and other certain minerals that are not available in the United States. See link for more information.

The Impact of US Tariffs on Trinidad and Tobago's Trade (cont'd)

Regionally, the Caribbean Community (CARICOM), including Trinidad and Tobago, has a long-standing economic relationship with the US. In this vein, the Caribbean Basin Initiative (CBI) was established in 1983 to support trade relations by providing beneficiary countries with duty-free and quota-free access to the US market for certain⁷ goods (Office of the United States Trade Representative n.d.). The US stands as Trinidad and Tobago's largest trading partner, accounting for just above one third (approximately 37.0 per cent) of the country's total trade balance over the recent five-year period, 2020 to 2024 (Table 1)⁸.

2020 2021 2022 2023 2024 Rank Country Value Country Value Country Value Country Value Country Value U. S. A. 2,076.9 U. S. A. 3,353.2 U.S.A. 4,881.3 U. S. A. 2,454.3 U. S. A. 3,094.0 Guyana 492.1 Guyana 573.7 Belgium 831.7 China 379.5 Guyana 412.4 Exports Brazil 202.9 Mexico 369.9 Morocco 749.3 Guyana 372.6 Belgium 385.9 China Belgium 353.1 Netherlands 153.0 305.4 Guyana 651.9 Belgium 271.7 Spain 152.0 Colombia 294.8 Spain 603.9 Morocco 318.9 Brazil 220.4 5,479.6 7.806.2 8,567.7 13,196.1 7,852.7 Total U. S. A. 1,799.3 U.S.A. 1,967.3 U.S.A. U. S. A. 3,888.2 U. S. A. 2,424.1 2,386.6 China 486.7 China 602.0 China 747.9 China 714.7 China 1,055.3 mports Brazil 252.0 Mexico 401.1 Brazil 349.7 Italy 396.8 Brazil 451.2 United Japan 191.6 Brazil 321.1 Canada 226.3 Brazil 388.5 450.6 Kingdom Canada 177.3 Canada 259.1 Turkey 153.4 241.2 Japan 296.7 Japan 5,725.5 6.190.5 9.095.3 Total 4.841.1 7.613.6

 TABLE 1

 Trinidad and Tobago's Top Trading Partners 2020-2024 (US\$ Millions)

Source: Central Bank of Trinidad and Tobago

8 Trade data are sourced from the Central Statistical Office and based on the Harmonised System (HS).

⁷ Approximately 38 per cent of Trinidad and Tobago's exports enters the US under the CBI agreement. This note assumes that the goods covered under the CBI arrangement are also subject to reciprocal tariffs.

The Impact of US Tariffs on Trinidad and Tobago's Trade (cont'd)

According to the US' tariff calculations, Trinidad and Tobago currently charges a 12 per cent tariff (which also accounts for currency manipulation and trade barriers) on imports of US goods, which resulted in the imposition of a discounted reciprocal tariff of 10 per cent on Trinidad and Tobago's exports to the US. Currently, Trinidad and Tobago applies the standard Most Favoured Nation (MFN) tariff on goods imported from the US, ranging from 0 per cent to 40 per cent (UNCTAD TRAINS 2025).

Potential Impact On Trinidad and Tobago's Trade

From Table 1, there was an uptick in Trinidad and Tobago's exports to the US post-2020, largely driven by higher international energy commodity prices and the recovery of the global economy. In 2024, Trinidad and Tobago's non-exempted domestic exports⁹ to the US amounted to US\$1,358.95 million (Table 2), with chemical products and other manufactured goods representing the greatest proportion of the non-exempted exports. The top three categories are Base Metals^{10,} Chemical Products¹¹ and Prepared Foodstuffs¹². While some of Trinidad and Tobago's main energy exports to the US, such as crude petroleum and liquefied natural gas, are exempted, exports of petrochemicals including ammonia, methanol and urea, are anticipated to be affected by the imposition of these new tariffs. Consequently, Trinidad and Tobago's exports of petrochemicals could become less competitive in the US market, given that the US can access this commodity from an alternative source without tariffs. Notwithstanding the potential impact in the US market, the overall effect on the domestic economy's petrochemical export volumes may be limited as companies may be able to divert cargoes from the US towards alternative import markets such as Europe and Asia. Overall, the impact of US tariffs on the value of Trinidad and Tobago's petrochemical exports depends on how these new trade measures will affect global demand and prices for energy commodities, as well as the ability of energy companies to

⁹ This note focuses on the non-exempted energy and non-energy goods exported to the US. Goods exempted from reciprocal tariffs are outlined in <u>Annex</u> <u>II</u> of the US President's Executive Actions.
10 The top 3 exports in this HS section are: Iron pellets or lumps made from reduced iron ore (US\$554.7 Million); Tubes and Pipes (US\$125.0 Million) and Unprocessed Brass Alloys (US\$0.3 Million).
11 This category mainly consists of non-exempted petro-chemicals like Anhydrous Ammonia (US\$315.4 Million), Methanol (US\$154.2 Million) and Urea (US\$81.6 Million).
12 The top 3 exports in this HS section are: Average to Pitter (US\$20.2 Attlibute Coll or Constraints).

The top 3 exports in this HS section are: Aromatic Bitters (US\$28.3 Million); Other Sauces and Condiments N.E.S. (US\$3.5 Million), and Pepper Sauce (US\$2.2 Million).

The Impact of US Tariffs on Trinidad and Tobago's Trade (cont'd)

divert to alternative markets. To assess the possibility of trade diversion in the case of nonenergy commodities, the main source markets for the US were identified for the broad category of products. The most common market—China—is facing a 30 per cent tariff on its exports to the US following their 90-day agreement, while a 10 per cent tariff is applied to all other top import markets. Hence, the possibility of diversion from domestic products is unlikely. In addition, for products such as Prepared Foodstuffs and Works of Art, which are likely favoured by Trinidad and Tobago's diaspora in the US, demand is likely to be highly inelastic¹³.

While the reciprocal tariff scheme has introduced these levies on exports to the US, it can lead to an overall increase in the prices for commodities globally as countries implement their own countermeasures. Consequently, this can result in an uptick in import prices for commodities into Trinidad and Tobago. Apart from increases in the cost of consumer products, it can amplify import prices for intermediate products used by the domestic manufacturing sector given its reliance on these goods as inputs into the production process. Overall, this pass-through can stoke inflationary pressures for both producers and consumers. Higher import prices, all other things being equal, can also adversely affect Trinidad and Tobago's indicators of external sustainability such as import cover and import capacity. This can further increase the country's vulnerability to external shocks.

¹³ While the newly implemented tariff regime does not impact services trade, it is important to note that in 2023, Trinidad and Tobago recorded a services trade deficit with the US.

BOX 1 The Impact of US Tariffs on Trinidad and Tobago's Trade (cont'd)

TABLE 2 Trinidad and Tobago's Non-Exempted Domestic Exports¹⁴ to the US in 2024 (US\$Millions)

Section Description ¹	Export Value	Tariff Value	Importer Total ²	Top US import market	Tariff Rate Applied ^{3,4}
Animal or Vegetable Oils	\$0.01	\$0.00	\$0.02	Canada	-
Articles of Stone	\$0.01	\$0.00	\$0.01	China	30%
Base Metals	\$680.66	\$68.07	\$748.72	Canada	-
Chemical Products	\$607.51	\$60.75	\$668.26		
Energy based	\$607.30	\$60.73	\$668.03	Canada	-
Non-energy based	\$0.21	\$0.02	\$0.23	Ireland	10%
Footwear and Clothing	\$0.00	\$0.00	\$0.00	China	30%
Section Description	Export Value	Tariff Value	Importer Total	Top US import market	Tariff Rate Applied
Articles of Leather	\$0.26	\$0.03	\$0.29	China	30%
Animal Products	\$7.66	\$0.77	\$8.42	Canada	-
Mineral Products	\$0.07	\$0.01	\$0.08	Canada	-
Miscellaneous	\$0.03	\$0.00	\$0.04	China	30%
Mechanical Appliances	\$1.94	\$0.19	\$2.13	China	30%
Optical Instruments	\$0.26	\$0.03	\$0.29	Mexico	-
Precious or Semi-Precious Stones	\$2.14	\$0.21	\$2.36	Switzerland	10%
Plastics and Rubbers	\$3.96	\$0.40	\$4.36	China	30%
Prepared Foodstuffs	\$48.63	\$4.86	\$53.49	Mexico	-
Paper Products	\$0.05	\$0.00	\$0.05	Canada	-
Railway Vehicles and Parts	\$0.59	\$0.06	\$0.65	Mexico	-
Textiles	\$0.04	\$0.00	\$0.04	China	30%
Vegetable Products	\$2.31	\$0.23	\$2.54	Mexico	-
Articles of Wood	\$0.45	\$0.04	\$0.49	Canada	-
Works of Art	\$2.39	\$0.24	\$2.63	France	10%
Total	\$1,358.95	\$135.90	\$1,494.85		

Sources: Central Statistical Office and UN Comtrade.

1) Data based on the Harmonised System (HS). 2) The importers' total does not consider Cost, Insurance, and Freight (CIF). 3) Mexico and Canada are exempted from reciprocal tariffs but face a non-USMCA¹⁵ compliant goods tariff or 12 per cent. 4) Based on the latest updates from the White House, the US administration placed a 90-day pause on implementing its reciprocal tariffs on countries.

¹⁴ Re-exports are not considered in this analysis. It should be noted that the impact on Trinidad and Tobago's exports can be marginally larger than reported as re-exports may be subject to the tariffs of the origin country. 15 The United States-Mexico-Canada Agreement (USMCA) is a free trade agreement that replaced NAFTA and came into effect on July 1, 2020.
BOX 1

The Impact of US Tariffs on Trinidad and Tobago's Trade (cont'd)

Conclusion

The US reciprocal tariff scheme has the potential to reshape international trade relationships with adverse consequences for the global economy. Given Trinidad and Tobago's significant trade relationship with the US, the introduction of these new trade measures may impact the country's exports, particularly petrochemicals¹⁶. Exports of petrochemicals could become less competitive as the US can source these commodities from alternative markets, where no reciprocal tariffs were imposed. However, the impact on Trinidad and Tobago's petrochemicals export volumes could be limited by diverting to other markets including Europe and Asia. It is expected that the country's non-energy exports would be modestly impacted. Notably, the main source market for similar products imported by the US from Trinidad and Tobago is China, which is subject to a 30 per cent levy under the reciprocal tariff scheme. It is likely that given the significantly larger tariff rate being imposed on Chinese goods, domestic products may continue to experience a similar level of demand from the US as previously experienced. In terms of imports into Trinidad and Tobago, both consumer and intermediate goods may face higher prices. Based on the magnitude of increases, it can disrupt the domestic economy's existing supply chains, requiring importers to seek new source markets for less costly product alternatives. Domestically, given the limited exposure of non-energy exports to the reciprocal tariffs, it is unlikely that the local labour market would be adversely impacted. In spite of this, there are potential spill-over effects that could impact the global environment, such as financial market volatility, inflationary pressures, and economic downturns, which in turn can have a ripple effect on the local economy.

¹⁶ Notably, petrochemicals accounted for just under 8.0 per cent (7.6 per cent) of real gross domestic product (GDP) over 2020 to 2023, and 7.2 per cent of real GDP over the first nine months of 2024.

BOX 1

The Impact of US Tariffs on Trinidad and Tobago's Trade (cont'd)

References

Foundation for Economic Education. 2019. "Foundation for Economic Education." Protectionism's Long and Infamous History. February 04. Accessed April 08, 2025. <u>https://fee.org/articles/protectionisms-long-and-infamous-history/.</u>

Furceri, Davide, Swarnali A. Hannan, Jonathan D. Ostry, and Andrew K. Rose. 2019. Macroeconomic Consequences of Tariffs. Working Paper 19/9, Washington D.C.: International Monetary Fund.

Office of the United States Trade Representative. n.d. "Office of the United States Trade Representative." Caribbean Basin Initiative. Accessed April 08, 2025.<u>https://ustr.gov/</u> <u>issue-areas/trade-development/preference-programs/caribbean-basin-initiative-cbi.</u>

The White House. 2025. "The White House." Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits. April 02. Accessed April 08, 2025. <u>https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/.</u>

3. DOMESTIC FINANCIAL CONDITIONS

Over November 2024 to April 2025, monetary policy remained relatively unchanged. Geopolitical developments and trade policy adjustments drove uncertainty in the external environment. Domestically, economic activity was modest while inflation remained contained. Commercial banking rates inched upward in the latter half of 2024. A pickup in fiscal injections and net maturities of Treasury instruments by the Central Bank led to increased liquidityin early 2025. At the December 2024 and March 2025 MPC meetings, the Committee held the Repo rate at 3.50 per cent.

Liquidity Conditions and Interest Rates

Buoyant liquidity conditions in the financial system supported economic activity

Excess liquidity remained ample over November 2024 to April 2025 (Chart 3.1).

Over the period, fiscal operations, largely the main driver of excess liquidity, resulted in net injections of \$3,356.6 million, compared to net withdrawals of \$1,946.8 million in the same period one year earlier. Central Bank Open Market Operations (OMOs) resulted in \$1,485.0 million in net maturities over the reference period, compared to net maturities of \$2,310.0 million over the same period one year earlier. Furthermore, Central Bank sales of foreign currency to authorised dealers indirectly removed \$4,612.0 million from the system, compared to \$4,209.7 million in the same period a year earlier. As a result of these developments, daily average excess liquidity increased to \$6,598.8 million by April 2025 compared to \$6,590.4 million in November 2024.



CHART 3.1

Source: Central Bank of Trinidad and Tobago

Daily interbank borrowing averaged \$13.5 million over November 2024 to April 2025, compared to \$188.5 million over the same period a year prior. Lower interbank activity was directly related to buoyant liquidity conditions. Ample liquidity levels meant that there was no activity on the Repurchase Facility extended to banks for overnight liquidity over November 2024 to April 2025, compared to a daily average of \$20.3 million in the same period a year prior.

Short-term interest rates slipped over November 2024 to April 2025. The TT 91day OMO Treasury Bill rate decreased by 11 basis points over November 2024 to April 2025 to reach 2.14 per cent. Unpredictable trade policy and equity market declines drove short-term US yields downward. The US 91day short-term benchmark yield reached 4.31 per cent by the end of April 2025, from 4.58 per cent in November 2024. As a result, the TT-US 91-day differential improved to -217 basis points in April 2025 compared to -233 basis points in November 2024 (Chart 3.2). The TT 1-year Treasury rate increased by 31 basis points over the reference period, settling at 4.25 per cent in April 2025. However, the US 1-year Treasury rate decreased by 45 basis points over November 2024 to April 2025 to reach 3.85 per cent. These movements resulted in a TT-US 1-year differential of 40 basis points in April 2025, from -36 basis points in November 2024.

The US 10-year Treasury rate declined by 1 basis point over November 2024 to April 2025 to reach 4.17 per cent. The decline came about despite stable policy by the US Fed, and is likely related to emergent uncertainty sourrounding trade policy and geopolitical conflict. The TT 10-year Treasury rate increased over the period to reach 5.55 per cent, resulting in a 3 basis point increase in the 10-year yield differential to 142 basis points in April 2025.



Sources: Central Bank of Trinidad and Tobago and the US Department of Treasury

Commercial banking rates increased by March 2025. The commercial banks' weighted average lending rate (WALR) increased to 6.65 per cent in March 2025, 2 basis points higher than in September 2024. Additionally, the weighted average deposit rate increased by 1 basis points to reach 0.77 per cent over the same period. Tighter liquidity conditions in early to mid-2024 passed through to lending rates by the end of the year. However, maintaining ample liquidity drove competitive lending practices, causing the WALR to remain at 6.65 per cent between December 2024 and March 2025. As a result, the rounded banking spread increased by 1 basis point to reach 5.88 per cent over the period September 2024 to March 2025.

Commercial banks' return on assets remained at 2.6 per cent over September 2024 to March 2025, while return on equity decreased from 13.4 per cent to 12.9 per cent. The interest margin-to-gross income of commercial banks decreased from 68.0 per cent to 66.2 per cent over the period. Meanwhile, commercial banks' median prime lending rate remained at 7.50 per cent (Chart 3.3). Owing to ample liquidity over November 2024 to April 2025, the interbank borrowing rate decreased to an average of 0.50 per cent. While it was the same rate recorded over the same period a year prior, it represented an 8 basis point decline from the rate observed in the previous six-month period of May to October 2024.



CHART 3.3 Commercial Banks' Interest Rates

Source: Central Bank of Trinidad and Tobago

Private Sector Credit

Overall private sector credit remained robust with signals of continued expansion

Consolidated system credit continued to expand in 2024 and into early 2025.

On a year-on-year basis, consolidated system credit reached 8.8 per cent in March 2025,



CHART 3.4

Private Sector Credit

Source: Central Bank of Trinidad and Tobago

Despite remaining robust, consumer lending decelerated between October 2024 and March 2025. On a year-on-year basis, consumer lending slowed to 10.9 per cent in March 2025, down from 12.0 per cent in October 2024. Quarterly data over December 2024 and March 2025 showed a deceleration in lending for Bridging Finance (from 13.8 per cent to 12.8 per cent), Home Improvement and Renovation (from 3.6 per cent to 2.8 per cent), Motor Vehicles (from 15.2 per cent to 14.0 per cent). The loan category Purchase of Financial Assets recorded a decline (from 9.3 per cent to -0.1 per cent). On the other hand, a few categories accelerated, lending for the purchase of Land

slightly higher than the 8.5 per cent in October 2024. While consumer and business lending decelerated, real estate mortgage lending picked up (Chart 3.4).

and Real Estate (from 20.3 per cent to 23.7 per cent), Refinancing (from 7.5 per cent to 8.1 per cent) and Consolidation of Debt (from 11.2 per cent to 11.6 per cent).

Business lending held trend since its turnaround in late 2021, although growth may be slowing. On a year on-year basis, business lending expanded by 10.8 per cent in March 2025, lower than the 12.4 per cent in October 2024. The slowdown in growth in early 2025 can be attributed to declines in non-bank lending. Commercial bank business lending expanded by 12.1 per cent in March 2025, while non-bank lending declined by 3.7 per cent. Quarterly data showed a slowdown in lending over December 2024 and March 2025. Specifically, Distribution (from 10.4 per cent to 9.6 per cent) and Construction (from 19.7 per cent to 11.9 per cent). On the other hand, loans to a few sectors accelerated, in particular Manufacturing (from 0.2 per cent to 3.2 per cent), Finance Insurance and Reals Estate (from 5.5 per cent to 8.3 per cent) and Other Services (from 5.2 per cent to 6.7 per cent).

Real estate mortgage lending accelerated over October 2024 to March 2025. In March 2025, real estate mortgage lending reached 6.6 per cent, up from 6.2 per cent in October 2024. Lending by banks reached 6.7 per cent, while lending by nonbanks slid by 4.7 per cent. The demand for residential real estate mortgages picked up, outpacing the demand for commercial mortgages. In March 2025, the growth in residential and commercial real estate mortgages reached 7.0 per cent and 6.0 per cent, respectively.

Foreign currency borrowing and foreign currency deposits slipped over the period. In March 2025, foreign currency credit slowed, expanding by 13.1 per cent compared to 25.3 per cent in October 2024. Growth slowed on account of a deceleration in commercial bank foreign currency lending coupled with a decline in non-bank lending. Similarly, foreign currency deposit growth decelerated in March 2025 (7.7 per cent), compared to 8.4 per cent in October 2024. Despite this, deposits by businesses picked up to 5.8 per cent compared to 4.2 per cent in October 2024; while deposits by consumers slid further into negative territory (-1.7 per cent compared to -1.3 per cent in October 2024).

Growth in the monetary aggregates continued to narrow. On a year-on-year basis, M1-A continued to decline, slipping by 3.6 per cent in March 2025, an improvement from October 2024 (-6.1 per cent). Both demand deposits (-4.1 per cent) and currency in active circulation (-2.2 per cent) declined. On the other hand, M-2 registered no growth in March 2025 compared to a decline of 8.4 per cent in October 2024. Both time and saving deposits expanded in March 2025 by 16.9 per cent and 0.3 per cent, respectively.

Foreign Exchange Market Developments

The local market for foreign currency has remained tight

Foreign exchange market conditions remained tight thus far in 2025 (Table 1). Purchases of foreign exchange by authorised dealers from the public amounted to US\$1,502.0 million over January to April 2025, a decrease of 1.6 per cent relative to the same period a year earlier. The decrease in purchases followed a 6.4 per cent decline in conversions by energy companies relative to the same period in 2024. For the period January to April 2025, purchases from the energy sector accounted for 64.8 per cent of total foreign currency purchases over US\$20,000 in value. Other sectors with notable inflows were Central and Local Government (9.1 per cent), Services (7.5 per cent) and Credit Cards (6.6 per cent).

Sales of foreign exchange by authorised

dealers to the public reached US\$1,848.2 million over January to April 2025, a decrease of 3.7 per centrelative to the same period a year prior¹⁷. Based on reported data for transactions over US\$20,000, credit cards (43.1 per cent), retail and distribution (21.2 per cent), energy companies (11.3 per cent), automobile companies (6.3 per cent) and Telecommunications (5.1 per cent) made up the bulk of foreign exchange sales by authorised dealers to the public (Chart 3.5). The net sales gap reached US\$346.2 million during the period. To support the market, the Central Bank sold US\$401.5 million to authorised dealers.

TABLE 1	
Authorised Dealers' Foreign Exchange	Market Activity ¹
(US\$ Million)	

Date	Authorised Dealers Purchases from Public	Authorised Dealers Sales to Public	Authorised Dealers Net sales	Authorised Dealers Purchases from CBTT ¹
2019	4,285.6	5,939.8	1,654.2	1,504.0
2020	3,298.2	4,504.1	1,206.0	1,292.2
2021	4,148.9	4,969.4	820.5	1,212.1
2022	5,528.8	6,551.2	1,022.4	1,270.6
2023	4,614.6	6,228.4	1,613.7	1,341.9
2024	4,544.7	5,899.4	1,354.7	1,363.0
Jan - Apr 2024	1,526.5	1,918.9	392.5	400.0
Jan - Apr 2025	1,502.0	1,848.2	346.1	401.5
Y-o-Y Per cent Change	-1.6	-3.7	-11.8	0.4

Source: Central Bank of Trinidad and Tobago

1 Purchases from the Central Bank of Trinidad and Tobago include transactions under the Foreign Exchange Liquidity Guarantee facility, and excludes sales under the EXIM Bank and Other Public Sector provisional facilities.

¹⁷ Note, sales of foreign currency to authorised dealers by the Central Bank are consistently smaller than sales of foreign exchange by authorised dealers to the public and tends to approximate the net sales gap. Over January to April 2025, interventions by the Central Bank were only 21.7 per cent the size of total sales of foreign exchange by authorised dealers to the public, up from 20.8 per cent a year prior.



CHART 3.5

Sales of Foreign Currency by Authorised Dealers to the Public*

Source: Central Bank of Trinidad and Tobago * Represent sales in excess of US\$20,000.

Capital Markets

Primary debt market activity was robust over the period October 2024 to March 2025

Over the period October 2024 to April 2025, activity on the primary debt market was strong. The domestic capital market recorded eight bond issues at a face value of \$8,401.01 million. The Government was the only issuer in the market over the period, raising funds for the settlement of Value Added Tax (VAT) refunds, debt refinancing and budget support (Table 2). Over the comparative period, the domestic primary debt market recorded 11 bond issues raising \$7,978.12 million.

TABLE 2 Primary Debt Security Activity (October 2024 to April 2025)^p

Period Issued	Borrower	Face Value (TT\$ M)	Period to Maturity	Coupon Rate Per Annum	Placement Type
Oct-24	Government of Trinidad and Tobago				
	(Tranche 1 of 2)	600.0	7.0 years	Fixed Rate 5.50%	Private
	(Tranche 2 of 2)	400.0	20.0 years	Fixed Rate 5.85%	Private
	Government of Trinidad and Tobago	500.0	4.0 years	Fixed Rate 6.50%	Private
Nov-24	Government of Trinidad and Tobago				
	(Tranche 1 of 2)	500.0	5.0 years	Fixed Rate 5.25%	Private
	(Tranche 2 of 2)	200.0	9.0 years	Fixed Rate 6.15%	Private
	Government of Trinidad and Tobago	500.0	15.0 years	Fixed Rate 6.80%	Private
Jan-25	Government of Trinidad and Tobago	3,000.0	3.0 years	Fixed Rate 4.01%	Private
Feb-25	Government of Trinidad and Tobago	459.3	5.0 years	Fixed Rate 5.10%	Private
Feb-25	Government of Trinidad and Tobago				
	(Tranche 1 of 2)	550.0	8.0 years	Fixed Rate 5.57%	Private
	(Tranche 2 of 2)	450.0	7.0 years	Fixed Rate 6.80%	Private
Mar-25	Government of Trinidad and Tobago	141.8	4.0 years	Fixed rate 5.75%	Private
Mar-25	Government of Trinidad and Tobago				
	(Tranche 1 of 2)	200.0	7.0 years	Fixed rate 5.60%	Private
	(Tranche 2 of 2)	900.0	18.0 years	Fixed rate 6.90%	Private

Sources: Ministry of Finance and Market Participants <code>p</code> Provisional

Over the seven months ending April 2025, the secondary Government bond market remained healthy

Activity on the secondary Government bond market remained robust over October 2024 to April 2025. The listing of the Government Series II bond in January 2023 continued to influence trading volumes, with 208 trades recorded at a face value of \$65.3 million. In comparison, 289 trades at a face value of \$39.0 million were recorded during the same period one-year prior.

Similarly, over the same period, activity on the secondary corporate bond market grew. The market registered 90 trades at a face value of \$6.6 million. Comparably, in the same period one-year earlier 45 trades were recorded at a face value of approximately \$1.2 million. The Government yield curve displayed a general upward trend over October 2024 to April 2025

Over the period October 2024 to April 2025, the standardised Government yield curve recorded mainly increases in rates (Chart 3.7). At the short end, the 3-month rate fell by eight basis points to 2.14 per cent while the 6-month and 1-year rates recorded notable gains. The 6-month and 1-year rates advanced by eight and 57 basis points to 2.72 per cent and 4.25 per cent, respectively at the end of April 2025. The 2-year and 3-year rates increased by 39 and 27 basis points to 4.35 per cent and 4.13 per cent, respectively. Meanwhile, the 5-year rate advanced by one basis point to 4.78 per cent. There were also broad-based gains in the long-term rates. The 10-year rate increased by three basis point to 5.59 per cent while the 15-year and 20-year rates increased by 21 and eight basis points, respectively. The 25-year and 30-year rates also jumped by 13 and 19 basis points to 7.30 per cent and 7.70 per cent, respectively.



CHART 3.6 Secondary Government Bond Market Activity

Source: Trinidad and Tobago Stock Exchange

47



CHART 3.7 Trinidad and Tobago Central Government Treasury Yield Curve October 2024 and March 2025

The domestic stock market continued to decline over November 2024 to April 2025

Over the period, the Composite Price Index fell by 1.0 per cent, resulting in total stock market capitalisation decreasing by \$1,024.2 million, to end the period at \$100.0 billion (Chart 3.8). The market decline was driven primarily by a 1.6 per cent decrease in the All Trinidad and Tobago Index (ATI), though the Cross Listed Index (CLI) increased by 1.0 per cent. Performance of the first tier sub-indices was mixed. The Property sub-index increased over the period (39.7per cent), along with Non-Banks (6.0 per cent), Trading (4.6 per cent), Manufacturing II (6.9 per cent) and Manufacturing I (1.6 per cent). All other indices recorded declines. The Energy index registered the largest fall (-31.2 per cent) reflecting the challenges in the domestic energy sector. Additionally, notable declines were recorded in Conglomerates (-6.3 per cent) and Banking (-0.7 per cent).

Source: Central Bank of Trinidad and Tobago Note: The spread represents the difference in yield for a specific maturity along the Central Government yield curve.



CHART 3.8 Movements in the Composite Price Index and Stock Market Capitalisation

Source: Trinidad and Tobago Stock Exchange

During the first quarter of 2025, domestic mutual funds reported an improvement

Aggregate funds under management18 steadily grew by 1.2 per cent to \$53,410.5 million in March 202519, compared to \$52,780.0 in the same period one year prior (Chart 3.9). The growth in the industry was driven by the money market and income fund types. The Money Market fund gained 5.1 per cent to \$16,408.2 million. Similarly, the income fund category rose by 0.9 per cent to \$28,729.7 million. On the other hand, Equity and 'Other'²⁰ funds slipped. Equity funds stood at \$7,826.9 million reflecting a dip of 5.0 per cent while 'Other" funds declined marginally by 0.9 per cent. Over the period, movements in the industry reflected challenging conditions in the domestic equity markets, an increase in short-term domestic Treasury rates, and heightened volatility in advanced economy capital markets.

¹⁸ Aggregate funds under management refer to mutual fund information collected by the Central Bank of Trinidad and Tobago, including funds managed by the Trinidad and Tobago Unit Trust Corporation, Royal Bank of Trinidad and Tobago, Republic Bank Limited and First Citizens Bank Limited.

¹⁹ As at the end of March 2025, this value accounted for 82.6 per cent of total industry assets under management as given by the Trinidad and Tobago Securities and Exchange Commission (TTSEC) Collective Investment Scheme (CIS) data.

²⁰ Other funds represent high yield funds and special purpose funds.

Data suggest that fixed net asset value (NAV) funds supported the industry. There was growth of 3.5 per cent in fixed Net Asset Value (NAV) funds to \$41,109.1 million. This increase may be a reflection of investors preference for fixed/guaranteed returns, given global economic uncertainty, which has led to volatility in international equity markets. Conversely, floating NAV funds fell by 5.8 per cent to \$12,301.4 million. In terms of currency composition, domestic and foreign currency dollar-denominated mutual funds increased by 1.1 per cent to \$43,167.3 million for the former and 1.6 per cent to \$10,243.2 million for the latter.

During March 2025, the industry observed withdrawals. net Despite an improvement in overall funds under management, the industry observed net withdrawals of \$26.1 million in March 2025. This comprised \$8,017.2 million in sales and \$8,043.2 million in redemptions. The net redemption position in March 2025 was driven mainly by \$338.5 million and \$96.2 million in net withdrawals from Income Funds and Equity Funds, respectively. On the other hand, money market funds recorded net sales of \$413.3 million. Domestic currency funds registered \$140.1 million in net redemptions while, foreign currency funds recorded \$114.0 million in net sales.

Collective Investment Scheme (CIS)²¹ data published by the Trinidad and Tobago Securities and Exchange Commission (TTSEC) suggests the total Assets Under Management (AUM) for all registered funds recorded a negligible increase of 2.4 per cent to \$64,660.9 million in the first quarter of 2025. Additionally, the industry recorded net sales amounting to \$517.6 million.

²¹ At the end of March 2025, CIS data from the TTSEC represents 84 registered funds from 16 issuers.



CHART 3.9

Trinidad and Tobago Mutual Funds Under Management by Fund Type

Source: Central Bank of Trinidad and Tobago

BOX 2

Understanding the Mortgage Market Reference Rate

Following surveillance reports suggesting that many consumers were ill-informed about key components of their residential real estate mortgage contracts, the Central Bank of Trinidad and Tobago introduced a Residential Real Estate Mortgage Market Guideline in September 2011. The Guideline applied to all new and existing residential real estate variable rate mortgages granted by licensees. The Guideline featured i) a requirement for licensees to provide a 'Disclosure Statement' to customers and ii) outlined the newly introduced Mortgage Market Reference Rate (MMRR). The MMRR is intended to serve as an interest rate benchmark against which variable rate mortgages are priced and repriced. It should be noted that the MMRR is not a policy rate of the Central Bank of Trinidad and Tobago. The mortgage rate faced by consumers is based on the MMRR plus a margin charged by the issuing bank.

The components outlined in the MMRR were, firstly, the banking system's cost of funds, and secondly, a representative interest rate. Information on the cost of funds is derived from the weighted average cost of banks' liabilities and other funding liabilities and policy and deposit insurance costs. The 15-year Treasury bond yield is currently used as the representative interest rate²². Upon its inception in 2011, the weighting of the cost of funds in the MMRR formula was 40 per cent, while the weighting of the representative interest rate reached 60 per cent. In a review of the Guideline, published in October 2017, the weighting scheme was equalized, with 50 per cent weight allocated to each component. The MMRR is calculated as follows:

$$MMRR_{t} = 0.5YC_{t} + 0.5COF_{t}$$
 eq. 1

where:

MMRR_t = Mortgage Market Reference Rate, in time period t;

 $\mathbf{YC}_{\mathbf{t}}$ = the applicable treasury bond yield (50 per cent weighting); and

COF₊ = Cost of Funds (50 per cent weighting).

²² The representative bond rate moved form the 10-year yield to the 15-year yield.

BOX 2

Understanding the Mortgage Market Reference Rate (cont'd)

The Guideline also suggests that adjustable and variable rate mortgages may not be re-priced more frequently than once every twelve months on the anniversary date of the mortgage. Over any three-year period, residential mortgage rates cannot rise or fall by more than 350 basis points or by the change in the Central Bank's Repo rate, whichever is larger. The MMRR is subject to be reviewed every five years. Mortgages utilising the MMRR are calculated as follows:

$$MR_{t} = MMRR_{t} + Margin;$$
 eq.2

where:

MR, = the Mortgage Rate for time period t; and

 $MMRR_{t}$ = the Mortgage Market Reference Rate for time period t

Following the onset of the COVID-19 pandemic, the Central Bank in conjunction with licensees agreed to pause the calculation of the MMRR for a two-year period effective October 1, 2021. Additionally, licensees were allowed to lower their adjustable mortgage rates outside of the anniversary date, and/or more than once a year. Other requirements in the Guideline however, including those for Disclosure Statements, remained applicable. As the pandemic receded, the publication of the MMRR resumed in March 2024. The March 2024 MMRR was based on the rate calculated before the MMRR's last measurement in September 2021 (3.00 per cent), meaning changes in the cost of funds and the reference bond rate observed during the period of pandemic-related suspension were not considered.

In addition, commercial banks may choose to use a different base rate for their adjustable mortgage rates and banks' actual mortgage rates may reflect the specific add-ons that the institutions use. Customers should review carefully their mortgage contracts to understand fully the details of the loan terms and all charges²³.

²³ Updates to the terms and calculation of the MMRR can be found here: https://www.central-bank.org.tt/news-centre/mortgage-market-reference-rates

4. MONETARY POLICY ASSESSMENT (NOVEMBER 2024-MARCH 2025)

In December 2024, and March 2025, the MPC considered a number of domestic (contained inflation and the recovery of credit) and external factors (geopolitical and policy-generated economic uncertainty) which informed the monetary policy stance.

The main policy tool of the Bank, the Repo rate, has remained unchanged at 3.50 per cent after being lowered by 150 basis points in March 2020, following the onset of the COVID-19 pandemic (Chart 4.1).

Effective July 24, 2024 the reserve requirement was reduced by 400 basis points. This reduction resulted in an immediate injection of \$4,021.8 million into the financial system through the reduction of commercial banks' required reserves. As a result, required reserves declined from \$13,707.9 million in May 2024 to \$9,985.9 million in April 2025.

OMOs however tend to affect broader measures of the money supply than the reserve requirement. Over November 2024 to April 2025, the Bank's OMO activity injected \$1,485.0 million into the financial system. Notably, at the end of April 2025, the combined total of outstanding short-term Treasury bills and notes available to the Central Bank as injectable funds from the Blocked Accounts amounted to \$1,245.0 million. Prior to the COVID-19 pandemic in January 2020, this figure stood at \$12,646.0 million. This means that the Central Bank has been a net injector of liquidity since the pandemic.

Changes in the money supply originating in the from movements reserve requirement and OMOs result in changes to excess liquidity. Since the pandemic, the Bank has prioritised amplifying liquidity. Declining availability of injectable funds from the Blocked Accounts limited the Bank's ability to substantially boost liquidity via the broad money route. As liquidity tightened, the reserve requirement was lowered in July 2024 to keep liquidity at ample levels. In early 2025, net fiscal injections have bolstered the Bank's efforts to maintain ample liquidity. It should be noted that in cases where liquidity reaches levels beyond the threshold considered necessary to support economic activity and financial stability, the Bank can issue net OMOs to keep liquidity near to an acceptable level while replenishing its stock of indirect broad money instruments for future liquidity provisioning (Chart 4.2).



CHART 4.1

Source: Central Bank of Trinidad and Tobago



Source: Central Bank of Trinidad and Tobago

Bank lending rates stabilised in early 2025

The Bank's commitment to ample liquidity drove increased competition to supply credit, buttressing the WALR against volatility. Liquidity levels declined in mid-2024, reaching a daily average of \$3,462.4 million in July from \$4,261.3 million in May 2024. This decline was driven by large fiscal withdrawals over the period. Following the reduction in the reserve requirement at the end of July 2024, daily average excess liquidity increased to \$6,026 million in December 2024 before reaching \$6,598.8 million in April 2025. Tighter liquidity conditions in the first half of 2024 passed through to interest rates by the end of the year, with the WALR increasing to 6.65 per cent by December 2024. However, ample liquidity in early 2025 meant the WALR remained unchanged in March 2025.

Based on the interest rate and money supply channels, the size and direction of the combined effect of the Central Bank's monetary policy tools on commercial

banking rates can be related. Chart 4.3 shows the historical evolution of the forecast error variance decomposition (FEVD) derived from a model²⁴ estimating the effect of the Repo rate and excess liquidity on the WALR, against the WALR itself. When the values of the FEVD are positive, policy exerts pressure on the WALR to increase and vice versa. After March 2020, the combined policy effect begins declining, showing that monetary policy has generally anchored commercial banking rates. Monetary policy has also demonstrated credibility in achieving its objective, delivering a mitigating effect on banking rates into 2025 despite some marginal increases observed in 2022 and 2024, related to the effect of Government borrowing on liquidity conditions. The Central Bank has sufficient space to achieve the objective of facilitating economic activity through the use of direct and indirect tools related to liquidity.

²⁴ Vector auto-regression utilising data from March 2006 to March 2025. The model now includes exogenous effects related to i) changes in the reserve requirement and ii) pre- and post-pandemic levels of domestic borrowing by the Central Government.



CHART 4.3

Source: Central Bank of Trinidad and Tobago

FEATURE ARTICLE



INFLATION EXPECTATIONS AND INFLATION MODELLING: THE CASE OF TRINIDAD AND TOBAGO

Andell Nelson and Nikkita Persad²⁵

Summary

Global policy uncertainty has since intensified following the United States (US) authorities' announcement of implementing a tariff schemes, raising concerns about its broader macroeconomic implications, including for inflation expectations and inflation dynamics. As businesses and consumers grapple with rising costs and supply chain disruptions, understanding how inflation expectations are evolving becomes critical. Anchoring inflation expectations is a concern for many central banks around the world, especially those that have adopted inflation targeting as their monetary policy regime. In this paper, we examine the influence of inflation expectations (proxied by a news-based inflation expectations index) on shaping actual inflation outturns for Trinidad and Tobago. We also evaluate whether there is predictive gain from including the expectations index in inflation forecasting. The results of the study confirm that inflationary expectations directly influence headline, food, and core inflation in both the short and long-run. Additionally, contractionary monetary policy was found to have dampening effects on inflation expectations.

Introduction

Monitoring and predicting inflation are integral roles of central banks globally, especially if their core mandate is price stability. An inflation rate that is either too high or too low can present socio-economic challenges for example purchasing power can be impacted; therefore, maintaining a low and stable rate of inflation is important. In 2022, inflation surged in many countries around the world owing to supply side disruptions from the coronavirus disease (COVID-19) and geopolitical tensions between Russia and Ukraine. While inflation retreated globally, the rate was still above targets for some countries in 2024. More recently, heightened policy uncertainty, driven largely by escalating trade tensions due to the imposition of world tariffs by the US administration have disrupted international trade flows, heightened market volatility, and raised concerns about broader macroeconomic implications. As businesses and consumers grapple with rising costs and supply chain disruptions, understanding how inflation expectations are evolving becomes critical, particularly, for reigniting inflation.

Inflation expectations (IE) can provide a signal of where inflation is likely to be in the future and can determine the credibility of monetary policy. Leduc, Sill, and Stark (2007) investigated the influence of IE on inflation for the US. Utilising data obtained from the Philadelphia

²⁵ The authors are economists in the Research Department of the Central Bank of Trinidad and Tobago. The views expressed are those of the authors and not necessarily that of the Central Bank of Trinidad and Tobago.

Fed's Livingston Survey on forecasters' expectations of inflation, it was revealed that IE had a significant effect in the variability of inflation (20.0 to 30.0 per cent variability) in comparison to monetary policy shocks (3.0 to 7.0 per cent variability). While IE is not directly observable, many researchers have attempted to measure it via surveys of consumers and firms, professional forecasting models, inferences from market prices of financial instruments and machine learning techniques. Domestically, the Bank explored the efficacy of text-mining newspaper articles to construct a news-based inflation index that tracks IE in Trinidad and Tobago²⁶. In the literature, studies have popularly investigated incorporating IE in regression models to forecast inflation. However, for the Caribbean, the literature is sparse²⁷.

In this study, we evaluate how inflation expectations (using the aforementioned newsbased IE index) influences inflation in Trinidad and Tobago. Understanding how IE influences inflation can support the Bank's mandate of ensuring price stability, especially from the perspective of a small open economy vulnerable to external shocks that can directly affect domestic prices and expectations. Expectations of higher inflation based on fiscal measures or some development with perceived inflationary (such as the US imposition of trade tariffs) or deflationary tendency (removal of Value Added Taxes (VAT)) can influence agents' expectations of inflation and by extension their behaviour. We also examine the incorporation of the IE index developed by Ramlogan, Persad and Nelson (2023).

Literature Review

Predicting inflation is a challenging task for central banks but is crucial for appropriate monetary policy decision making, particularly for those practicing inflation targeting.

Central banks often rely on econometric models to aid in assessing inflation dynamics. Studies have concluded added predictive gains from utilising IE to forecast inflation. Given that consumption, investment choices and price setting behaviours (including wage negotiations) partially reflect household and firm perspectives on future price changes, IE play a critical role in influencing inflation dynamics and monetary policy.

In terms of empirical studies, Stockhammar and Osterholm (2016) examined whether IE granger causes inflation in Sweden. They noted that IE would have causation with inflation if its inclusion in a model improves the forecast accuracy compared to if it was excluded. A Bayesian Vector Auto-Regression (BVAR) approach that included IE was used to conduct an out-

²⁵ For details on the methodology, refer to Ramlogan, Avinash, Persad Nikkita, and Nelson Andell. 2023. "Developing a News-Based Index of Inflation Expectations for Trinidad and Tobago." Research Review Seminar 2023.

²⁶ In the Caribbean, there are two surveys of IE, both of which are conducted for Jamaica.

of-sample forecast, which was compared to models that did not include IE. The IE data was sourced from two surveys, that is; TNS Sifo Prospera's inflation survey (Central Bank of Sweden survey that gauges businesses' IE) and the National Institute of Economic Research's Economic Tendency Survey – which captures IE of households and businesses. Other variables included in the modelling exercise were inflation, the unemployment rate and the 3-month Treasury bill rate. Forecast evaluation using the Root Mean Squared Error (RMSE) showed that the inclusion of IE improved forecast precision (Stockhammar and Österholm 2016).

Rohoia & Sharma (2021) utilised a Hybrid New Keynesian Phillip curve model (HNKPC)²⁸ **to examine the inflation dynamics in the Solomon Islands.** The HNKPC is an augmentation of the New Keynesian Phillips Curve model that projects inflation by incorporating current and lagged inflation rates. The variables employed in the study were; lagged inflation, expected inflation derived from surveys, fuel prices, real effective exchange rate, reserves, the output gap and a dummy to account for a rise in inflation due to a supply-side shock. The authors also applied the generalised methods of moments approach to estimate the HNKPC model to correct for autocorrelation and address the issue of endogeneity. Findings of the study highlighted that individuals are more back-ward looking in forming IE, as economic agents base their choices largely on past information rather than future information due to uncertainty and the lack of accurate information on the future. Notably, the results indicated that fuel prices were important for assessing IE since the country is vulnerable to global price shocks due to its trade in this product.

In the Caribbean, the literature on IE and inflation modeling is quite sparse. A scan of the literature revealed two major studies that consider expectation in the inflation dynamics - Henry (2013) and Greenidge and DaCosta (2008). Henry (2013) attempted to explore the dynamics of how inflation expectations are formed among businesses in Jamaica. The study utilised a two-stage procedure that included a SARIMA model to estimate expected inflation in the country which was compared to survey data on inflation, followed by a reduced form equation that included inflation expectations, modelled as a function of country-specific monetary and macroeconomic variables as well as lags of inflation to deduce its major determinants. The study found that international fuel prices in real terms were also found to have a positive impact on expectations. Additionally, monetary policy has a statistically significant but relatively small impact on inflation expectations, as against exchange rate depreciation which had a more significant impact.

²⁸ While BVAR estimates the relationships amongst multiple variables, the NKPC focuses on inflation dynamics and the rational expectations and forward looking behavior of economic agents (Rohoia and Sharma 2021).

Greenidge and DaCosta (2008) on the other hand, examined the determinants of inflation in the Caribbean – Trinidad and Tobago, Jamaica, and Barbados. Though inflation expectation was not explicitly modelled in the paper, using an unrestricted error-correction model and Pesaran et al. (2001) bounds test for cointegrating analysis, the study alluded to some inertia in the inflation process for Trinidad and Tobago, which they perceived to reflect economic agents' revisions to their inflation expectation. The authors concluded that that the determinants for inflation in the Caribbean are both cost-push and demand-pull.

Stylised Facts

To measure inflation in Trinidad and Tobago, the Central Statistical Office (CSO) calculates a monthly Consumer Price Index (CPI). The CPI captures the overall price of a fixed group/ basket of goods and services in 15 jurisdictions in Trinidad and Tobago. The rate of change in the CPI for a given period compared to the corresponding period one year earlier represents the headline inflation (INF) rate. INF is sub-divided into two categories: food inflation (FINF) and core inflation (CINF). The former reflects movements in general food prices and is typically more volatile due to the susceptibility of both internal (for example, the weather) and external factors (for example, changes in international food prices). The latter category removes the food component and reflects a measure of underlying inflation.

Generally, inflation has coincided with the domestic economic cycle, rising in periods of economic boom and falling during recessions. The oil price shock of 2014, which represented an end to the commodity boom, saw inflation decelerate (Figure 1). Immediately following the COVID-19 pandemic, INF remained low (less than 1.0 per cent) up until March 2021 when it accelerated to reach a high of 8.7 per cent in December 2022. This was due to supply chain disruptions stemming from the pandemic, as well as increased international energy and food commodity prices owing to Russia's invasion of Ukraine. Meanwhile, economic conditions as reflected by the Quarterly Index of Economic Activity (QIEA), deteriorated following the pandemic reaching a low of -15.3 per cent in June 2020. In the latter half of 2023, economic activity improved though remaining subdued, whilst inflation decelerated due to declining international food commodity prices and increased availability of local produce. However, in early 2024 with the intense heatwaves experienced over the dry season, vegetable prices accelerated, leading to an uptick in FI, and overall INF²⁹.

²⁹ In May 2024 the Vegetables Sub-Index accelerated to 15.3 per cent from -7.3 per cent in January 2024. As such, Fl accelerated to 3.1 per cent from -1.9 per cent in January 2024. INF rose to 0.9 per cent in May 2024 from 0.3 per cent in January 2024. Cl on the other hand decelerated to 0.3 per cent in May 2024 from 1.0 per cent in January 2024. The Vegetable Sub-Index accounts for 14.0 per cent of the Food Sub-Index while, Food sub-index account for 17.0 per cent of INF.



FIGURE 1 Economic Activity and Inflation

Sources: Central Statistical Office and Central Bank of Trinidad and Tobago

In 2023, the bank began utilising the news-based IE index to support its economic surveillance. A historical analysis of the IE index and INF reveals both indicators have been moving in tandem with each other (Figure 2). The trend suggests that the pass-through from IE to inflation tends to be higher in periods of higher inflation. The periods recording above average inflation rates also correspond with an expectation index value that is above average. This may be attributed to economic agents adjusting their expectations based on observed trends or experiences with price changes. This relationship is critical for policymakers as IE can influence consumer behaviour and future INF³⁰. Analysis over the period December 2023 to May 2024, showed that both INF and IE improved. This was reflected by a decline in negative sentiments in May 2024 compared to December 2023. This outturn may have been attributed to future economic prospects relating to the signing off the Dragon gas deal that is expected to boost the accessibility of natural gas. However, impending utility rate hikes and implementation of the property tax, can adversely influence IE in the future.

³⁰ According to the granger causality test, there appears to be unidirectional causality. That is, INF granger causes IE while IE does not granger cause INF.



FIGURE 2

Headline Inflation and IE

Sources: Central Statistical Office and Central Bank of Trinidad and Tobago

Data and Methodology

To relate the IE index with inflation, a HNKPC model similar to Rohoia & Sharma (2021) was adopted. The HNKPC describes how past inflation, expectations about future inflation and a measure of aggregate demand, drive the current inflation rate. It was specified utilising IE³¹, output

(Y) - estimated as the year-on-year change in the QIEA, international food prices (FAO), the gross fiscal ratio (GFR) – calculated as the ratio of government revenue to expenditure; INF – measured as the year-on-year change in the CPI; repo rate (REPO); and temperature (TEMP). These variables constitute the vector of endogenous variables in equation 1 below. Food inflation (FINF) and core inflation (CINF) which are subcomponents of the CPI are also included in the model for granularity of analysis³². To estimate the HNKPC, a VAR approach was adopted in the first instance but was

³¹ IE provides an indication of economic agents' perception of price movements in the future. The measure of IE is derived from a news-based index constructed from web-scraped text data published in the Trinidad Express newspaper and captures a time horizon of 2 months ahead. For details on the methodology, refer to: Ramlogan, A., Persad, N. and Nelson, A. September 2023. "Developing a News-Based Index of Inflation Expectations for Trinidad and Tobago." Research Review Seminar 2023.

³² Other macroeconomic variables were also considered in the model such as the unemployment rate, Treasury Rates, West Texas Intermediate (WTI) Prices, the exchange rate and the CSO's quarterly index of real gross domestic product. However, based on their level of responsiveness to inflation and output and stationarity properties among other factors they were excluded from the model.

subsequently preceded with VECM utilising data for the period 2012Q1 to 2022Q4. The VAR framework is specified based on the following equation:

$Zy_{t} = W + \Gamma(L) y_{t,1} + \varepsilon_{t}$ Equation 1

where Z is an $n \ge n$ matrix of contemporaneous coefficients of y_t ; W denotes the $n \ge 1$ vector of constant; $\Gamma(L)$ is the n x n matrix of lag operator polynomials which captures the lags of the endogenous variables; and e_t is the $n \, x \, 1$ vector of white noise processes that is normally distributed with a mean O and variance of 1 (that is, $\varepsilon_{t} \sim N(0,\Omega)$). It should be noted that three models were estimated, each utilising a different measure of inflation. Model 1 relates headline inflation with world food prices, IE, output, monetary and fiscal policy and TEMP. Model 2 relates food inflation with world food prices, IE , output, monetary and fiscal policy and TEMP. Model 3 relates core inflation with world food prices, IE, output, monetary and fiscal policy and TEMP. The model specification is guided by the theories of cost-push inflation, demand-pull inflation and the Structuralist model of imported inflation³³.

Discussion and Results

Prior to estimation, cross-correlation was evaluated in the model to assess intensity and direction of the variables with INF, specifically IE and INF. While correlation does not imply causation, the results yielded some interesting findings. IE and REPO were found to have a moderate and positive association of 0.55 and 0.48, respectively with INF when compared to all other variables in the model³⁴. The positive relationship between IE and headline inflation implies that inflationary expectations increases headline inflation. However, the positive relationship with the REPO implies that contractionary monetary policy increases headline inflation, which seems counterintuitive and requires further investigation³⁵. All other variables were found to have a weak association with headline inflation. CINF and FI were also evaluated to determine their association with inflation expectations. It was found that CINF and FI are more correlated with the news-based inflation expectation index than INF. The results of the correlation matrix suggest that inflationary expectations can increase FINF and CINF, and based on the intensity of the relationship FINF and CINF could be more responsive to inflationary expectations.

³³ The demand-pull theory regards price changes as a market clearing mechanism and inflation is seen as a result of excess demand in commodity and factor markets. So the dendata put mean regards pice changes as a marker clearing mechanism and mindation is seen as a result of excess dendata in commodity and adolor markers. Conversely, the cost-push theory, regards inflation as the result of factor prices accelerating more rapidly than factor productivity. The Structuralist school of thought, more specifically the Scandinavian model, hypothesises that inflation is influenced by world prices, wages and productivity (Greenidge and DaCosta 2009).
Correlation coefficients between: (i) 0 and 0.2 are regarded as very weak; (ii) 0.2 and 0.4 are regarded as weak; (iii) 0.4 and 0.6 are regarded as moderate; (iv) 0.6 and 0.8 are regarded as strong; and (v) 0.8 and 1 are regarded as very strong. +/- indicates the direction (same/opposite) of the correlation.

³⁵ May be due to imported inflation which is exogenous and the reportate responding with a lag when inflation inertia is already at play.

The results of the VECM models are evaluated using Impulse Response Functions (IRFs)³⁶. A generalised impulse response ordering was adopted³⁷. From the IRFs, it was revealed that a onestandard-deviation shock to IE results in an instantaneous increase in INF. The inflationary impact lasts for five guarters ahead before becoming deflationary. Similarly, in the long-run³⁸, a onestandard-deviation shock in IE increases INF over the forecast horizon (Figure 3 and 4). This implies that the news-based IE can be a forward-looking indicator in predicting future inflation in both the short and long-run. Looking more closely at the short-run impact, a shock to IE increases inflation by five basis points in the first quarter. In the second quarter it reaches its peak at seven basis points before declining to its trough. The one quarter delay of inflation towards its peak, according to Greenidge and DaCosta (2009), may capture inertia in the inflation process as economic agents' revise their inflation expectations. It could also reflect the time it takes for firms to adjust their prices to rising cost of inputs.

Considering FINF, a one standard deviation shock to IE increases food price inflation.

The increasing effect last for three quarters ahead before becoming deflationary. In the long-run inflationary expectations increases FINF over the forecast horizon. CI also responds positively to increasing expectations in the short-run. Similarly, in the long-run inflationary expectations has an increasing effect on CINF (Figure 3 and 4). This implies that factors that increases individuals' perception of future inflation such as budgetary measures (for example impending electricity rate hikes announced in October 2023 and the introduction of residential property taxes which took effect in January 2024) can impact agents' expectations of inflation and increase underlying inflationary pressures³⁹.

To relate IE with other factors of the real economy, the impact of macroeconomic variables on IE is also analysed in the study. A one-standard-deviation shock to international food prices increases INF, and future expectations of inflation in the short-run. This overall positive response has been verified in the literature by Nelson and Cox (2024) who outlined the centrality of international food prices in driving INF and domestic food price inflation. Given that a large share of the food consumption basket is imported, an increase in international food prices is expected to increase consumers' expectation of future price increases. Firms alike would adjust their prices to reflect the higher input cost. This pass-through of higher international prices to domestic prices generally occurs with a lagged effect. Mahabir and Jagessar (2011) revealed that changes in international commodity prices (rice, wheat, milk and soya beans) have an impact on related domestic items

³⁶ This is based on the characteristic that VAR models are a-theoretical and its estimation output should not be interpreted.

 ³⁷ Given the sparse literature on studies that have employed the VAR and VECM methodologies to explore the response of inflation to shocks, particularly for small open developing economies (see for example, Christiano et al. 2005), the generalised impulse response ordering was adopted.
38 The IRFs of the VECM are considered long-run results while the IRFs of the VAR are short-run responses.

³⁹ Property taxes and utility rates are captured in the Housing, Water, Electricity, Gas and Other Fuels sub-index which was identified by Nelson and Cox (2024), as a net receiver of inflation, implying that it is very responsive to price changes and could fuel inflation spirals.

by the second month, and the effects last between five to nine months. In the long-run, a shock to the FAO is found to have a negative effect on INF and a positive effect on IE. The reduction in domestic prices on account of a spike in international food prices is possible in the long-run is possible if there are Government policy intervention at play⁴⁰.

A one standard deviation shock to the GFR (contractionary fiscal policy) is found to have deflationary effects on inflation and future expectations of inflation. This seems intuitive, considering the procyclical nature of fiscal policy in Trinidad and Tobago. In the long-run, contractionary fiscal policy reduces INF following an initial shock for about four quarters ahead, while inflation expectations decelerate over the forecast horizon. From the IRFs, inflationary expectations dissipate from contractionary monetary policy (increasing REPO) three quarters ahead in the short-run. However, in the long-run contractionary monetary policy reduces inflationary expectations.

FIGURE 3

Accumulated Generalised Impulse Response Functions of Inflation from Inflationary Expectations (Short-run)

Model 1: Accumulated Generalised Impulse Response Function: Headline Inflation



Model 2: Accumulated Generalised Impulse Response Function: Food Inflation





Source: Source: Authors' Construction

The figure show IRFs using the VAR method. X-axis in quarters; t=0 is the year preceding the expectations shock; t=1 is the first year of impact. The solid black line denotes the response of INF, FINF and CINF to a shock in expectations.

⁴⁰ For example policy intervention to infuse the domestic economy from international food prices shocks such as those taken in 2022 in light of the emergence of the COVID-19 pandemic.

FIGURE 4

Accumulated Generalised Impulse Response Functions of Inflation from Inflationary Expectations

(Long-run)

Model 1: Accumulated Generalised Impulse Response Function: Headline Inflation



Model 2: Accumulated Generalised Impulse Response Function: Food Inflation



Model 3: Accumulated Generalised Impulse Response Function: Core Inflation



Source: Source: Authors' Construction

Figure 4 shows IRFs using the VECM method. X-axis in quarters; t=0 is the year preceding the expectation shock; t=1 is the first year of impact. The solid black line denotes the response of INF, FINF and CINF to a shock in expectation.

Forecasting Inflation

Inflation forecasting at the Bank dates back to the 1980s with the commencement of the Trends, Analysis and Projections exercise. This was proceeded with the Financial Programming and Policy (FPP) forecasting exercise. More recently, as a modification of the FPP excercise a HNKPC model which includes future expectations of inflation was adopted to forecast inflation. The new approach utilised the VAR methodology to make out-of-sample forecasts of both CINF and FINF inflation on a quarterly basis over a three-year forecast horizon. Using the estimates of core and food inflation, a weighted summation was utilised to derive headline inflation. Since IE was found to have increasing effects on INF, FINF and CINF, it is incorporated into the forecasting equation to determine whether it enhances model forecast performance. The model incorporates exogenous shocks, such as those associated with the COVID-19 pandemic and the Russia/Ukraine conflict. Additional variables such as US real GDP, the FAO Food Price Index (FAO), climate change and inflation expectations. The Root Mean Squared Error (RMSE)⁴¹, Mean Absolute Error (MAE)⁴², and the Theil Inequality Coefficient are used to evaluate model forecast accuracy, similar to Stochhammar and Osterholm (2016) and others. These measures are computed for three models (INF, FI and CI) with IE (HNKPC_IE) and three models without (INF, FINF and CINF) expectation (HNKPC) based on in-sample estimates for the period 2020Q1 to 2022Q4. With IE included in all three models and the RMSE, MAE, and Theil coefficient evaluated, the analysis suggests incorporating expectations in the inflation modelling equation can improve forecasting performance. This is particularly evident with the forecasts of FINF and CINF. The summary measures associated with the forecasts of FINF and CINF in the model that includes IE were lower when compared to the models without IE⁴³. Model 2 was also found to forecast IE with greater precision when compared to the other two models that includes IE. From the analysis the study confirms that accounting for IE can improve the Bank's forecasting framework and support policy analysis.

Conclusions and Recommendations

Globally, anchoring IE has become a major concern for many central banks in the post COVID-19 era given the concerted effort to bring inflation back to their targets. It is for this reason, in this study, CBTT's recently developed news-based index of IE is incorporated into our HNKPC model to examine its interaction with inflation. The study confirms that IE positively impact INF, FINF and CINF in both the short and long-run. The study also found that incorporating expectations in the Bank's policy analysis and forecasting framework can assist with improving inflation projections.

The migration to the digital space following the pandemic is altering the way economic agents interact. Access to information, almost in real time is shaping agent's expectation of inflation. This makes the news-based inflation expectation index developed a good gauge for forecasting inflation. Consequently, given the increasing effect inflationary expectations has on FINF, CINF and INF, in both the short and long run, it can be suggested that the Central Bank - though not an inflation targeter, consider managing inflation, by shaping expectations through its communication across various platforms, including social media. A key prerequisite would be becoming more proficient at what is communicated and how it is communicated.

⁴¹ The root mean squared error (RMSE), which takes the square root of the average of the sum of the squared forecast errors was utilised.

⁴² The Mean Absolute Error (MAE) measures the average difference between the model's predicted values and the actual values

⁴³ A lower RMSE, MAE, and Theil coefficient imply greater forecast accuracy.

Additionally, developing a complementary measure of expectations may also serve as a better gauge of future inflation and can further enhance model performance. Having survey data (consumer and/or firm) could provide additional information to better understand expectations, further strengthening monetary policy decision-making. Measures of inflation expectations at different time horizon could be of utility. A central measure of IE at different horizons, for example, three-year and five-year ahead, could assist with the short and medium -term calibration of inflation forecast.

References

Araujo, Gustavo Silva , and Wagner Piazza Gaglianone. 2023. "Machine learning methods for inflation forecasting in Brazil: New contenders versus classical models."

Bańbura, Marta , Danilo Leiva-León, and Jan-Oliver Menz. 2023. "Do inflation expectations improve model-based inflation forecasts?" ECB Working Paper Series No. 2604.

Christiano, Lawrence J, and Martin Eichenbaum. 2005. Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy. Accessed 2024.

Clements, Michael P., and J. James Reade. 2020. "Forecasting and forecast narratives: The Bank of England Inflation Reports." International Journal of Forecasting 1488-1500.

Eric. 2021. "Introduction to the Fundamentals of Vector Autoregressive Models." Data Analytics Blog.

Faccia, Donata, Miles Parker, and Livio Stracca. 2021. "Feeling the Heat: Extreme Temperatures and Price Stability." European Central Bank, Working Paper Series, No. 2626. Accessed March 2024.

Greenidge, Kevin , and Dianna DaCosta. 2009. "Determinants of Inflation in Selected Caribbean Countries." Business Finance and Economics in Emerging Economies. Accessed 2024.

Henry, Ralston. 2013. Exploring the Formation of Inflation Expectations in Jamaica: A Pragmatic Approach. Accessed 2024.

Jagessar, V, and R Mahabir. 2011. " An Examination of the Import Price Transmission Mechanism in Trinidad and Tobago." "Central Bank Working Paper 02/2011.

Kotzé, Kevin. 2019. "Vector Autoregression Models." Github.

Leduc, Sylvain, Keith Sill, and Tom Stark. 2007. "Self-fulfilling expectations and the inflation of the 1970s: Evidence from the Livingston Survey." Journal of Monetary Economics, v.54 433-459.

Meinerding, Christoph, Andrea Poinelli, and Yves Schüler. 2022. "Inflation Expectations and Climate Concern." Deutsche Bundesbank, Discussion Paper, No 12/2022. Accessed July 2024.

Meinerding, Christoph, Andrea Poinelli, and Yves Schüler. 2022. "Inflation Expectations and Climate Concern." Deutsche Bundesbank, Discussion Paper, No 12/2022.

Nelson, Andell, and Delvin Cox. 2024. Measuring Price Spillovers: An Investigation of Relative Prices. Accessed 20245.

Özer, Yasemin Barlas, and Defne Mutluer. 2005. Inflation Expectations in Turkey: Statistical Evidence from the Business Tendency Survey. Central Bank of the Republic of Turkey.

Ramlogan, Avinash, Nikkita Persad, and Andell Nelson. 2023. "Developing a News-Based Index of Inflation Expectations for Trinidad and Tobago." Research Review Seminar.

Reserve Bank of Australia. 2024. The Transmission of Monetary Policy. Accessed 2024.

Rohoia, Angeline B., and Parmendra Sharma. 2021. "Do Inflation Expectations Matter for Small, Open Economies?Empirical Evidence from the Solomon Islands." Journal of Risk and Financial Management 1-18.

Rudd, Jeremy B. . 2021. "Why Do We Think That Inflation Expectations Matter for Inflation? (And Should We?)." Finance and Economics Discussion Series 2021-062. Washington: Board of Governors of the Federal Reserve System.

Stockhammar, Pär , and Pär Österholm. 2016. "Do Inflation Expectations Granger Cause Inflation?" National Institute of Economic Research Working Paper No. 145.

Trinidad and Tobago Express Newspaper. 2024. Farmers brace for harsh dry season. Accessed March 2024.

Zou, H. 2006. "The adaptive lasso and its oracle properties."


CENTRAL BANK OF TRINIDAD & TOBAGO