ISSN 1817-9959

CENTRAL BANK OF
TRINIDAD & TOBAGO

2026

MONETARY POLICY REPORT

MAY 2026 | VOLUME XXVIII 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

Central Bank of Trinidad and Tobago

Monetary Policy Report

MAY 2026

VOLUME XXVIII 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

TABLE OF CONTENTS

CHARTS

TABLE OF CONTENTS

CHARTS CONT'D

TABLES AND FIGURES

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
BSE	Barbados Stock Exchange
Central Bank	Central Bank of Trinidad and Tobago
CEI	Caribbean Exchange Index
CEPEP	Community-Based Environment Protection and Enhancement Programme
CIS	Collective Investment Scheme
CLI	Cross Listed Index
CSO	Central Statistical Office
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
GDP	Gross Domestic Product
IMF	International Monetary Fund
JSE	Jamaica Stock Exchange
LA	Latin American
LNG	Liquefied Natural Gas
mmbtu	Million British Thermal Unit
MPA	Monetary Policy Announcement
MPC	Monetary Policy Committee
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

LIST OF ABBREVIATIONS CONT'D

ABBREVIATION	NAME
Repo rate	Repurchase Rate
SME	Small and Medium Enterprise
the Fed	Federal Reserve
TTSE	Trinidad and Tobago Stock Exchange
TTSEC	Trinidad and Tobago Securities and Exchange Commission
URP	Unemployment Relief Programme
US	United States of America
VIX	Volatility Index
WALR	Weighted Average Lending Rate
WEO	World Economic Outlook
WTI	West Texas Intermediate

KEY MESSAGES

- Rising geopolitical tensions following the outbreak of the United States (US)-Israel war with Iran heightened global economic uncertainty as energy prices spiked, supply chains were disrupted, shipping costs increased, financial market volatility intensified, and inflationary pressures mounted.

- The International Monetary Fund (IMF) in its April 2026 World Economic Outlook (WEO), estimates global growth will decline from 3.4 per cent in 2025 to 3.1 per cent in 2026.

- Domestically, data from the Central Statistical Office (CSO) indicates that economic growth moderated in the third quarter of 2025, reflecting an increase in energy sector production while non-energy sector output declined.

- Headline inflation slowed marginally over the period November 2025 to April 2026.

- Commercial banks' excess liquidity remained stable while interest rates trended upward.

- In December 2025 and March 2026, the Monetary Policy Committee (MPC) held the Repo rate at 3.50 per cent – unchanged since March 2020.

MONETARY POLICY OVERVIEW AND OUTLOOK

Overview

Since the last Monetary Policy Report, the global economy—still grappling with the implications of tariffs—was further unsettled by the emergence of new tensions. The US Supreme Court's decision in February 2026 to repeal previously imposed tariffs—and the subsequent proposal of a new 10 per cent tariff propelled uncertainty. In addition, the escalation of geopolitical tensions arising from the US-Israel conflict with Iran in late February 2026, heightened global economic uncertainty. The conflict's abrupt intensification, resulting in the collapse of commerce via the Strait of Hormuz and renewed Red Sea threats, spiked energy prices, disrupted supply chains, and increased financial market volatility and inflationary pressures. Central banks worldwide have responded cautiously, prioritising macroeconomic stability and delaying previously planned policy changes.

The global economy recorded modest yet resilient growth in 2025, supported by cautious monetary policy easing amid waning inflationary pressures. In its April 2026 WEO, the IMF estimated global growth at 3.4 per cent in 2025, unchanged from the previous year. Emerging Market and Developing Economies (EMDEs) remained the principal drivers of global activity with real gross domestic product (GDP) growth estimated to ease slightly to 4.4 per cent in 2025, from 4.5 per cent in 2024. However, the growth performance was uneven across regions, as several major EMDEs—including select BRIC economies—recorded weaker outcomes due to shifts in consumer demand and trade disruptions. On the other hand, growth among the Advanced Economies (AEs) increased slightly to 1.9 per cent in 2025 from 1.8 per cent in 2024.

While the ongoing conflict has already contributed to higher energy prices and disruptions to trade and financial markets, the extent of inflationary pass-through to consumer prices remains uncertain and has led to a cautious monetary policy approach by major central banks. Following a deceleration in 2025, global headline inflation is projected to pick up in 2026. In its April 2026 WEO, the IMF estimated a decline in global headline inflation to 4.1 per cent in 2025, from 5.8 per cent in the previous year, largely reflecting softened demand conditions. Central banks in AEs held their monetary policy rates. At its April 2026 meeting, the US Federal Reserve (the Fed) maintained its target range at 3.50 per cent to 3.75 per cent, amid increased downside risks. Similarly, the European Central Bank (ECB) and the Bank of England (BoE) both maintained their monetary policy rates in their April 2026 meeting, with the ECB indicating that despite a challenging global environment and volatile financial markets, economic activity continued to expand modestly, signalling regional resilience.

On the domestic front, economic growth was modest in the third quarter of 2025. Data from the CSO indicated that real GDP grew by 0.1 per cent, reflecting improved energy sector production (3.4 per cent) together with reduced non-energy sector output (-1.1 per cent). Preliminary estimates suggest that overall economic activity waned during the fourth quarter of 2025 owing to reduced activity in both the energy and non-energy

sectors. Labour conditions improved marginally, with the unemployment rate slipping to 4.6 per cent in the fourth quarter of 2025, from 4.8 per cent in the corresponding quarter of 2024. Meanwhile, headline inflation softened over November 2025 to April 2026, mainly on account of lower core inflation (which excludes food prices).

Domestic financial conditions remained favourable. Ample system liquidity was supported by increased net fiscal injections and reduced sales of foreign currency to authorised dealers by the Central Bank. As a result, commercial banks' excess liquidity which reached $4.4 billion in November 2025 remained steady in April 2026. While the interbank market remained active, the pace of borrowing slowed significantly since late 2025. Notably, short-term interest rates lost momentum over November 2025 to April 2026 with the TT 91-day OMO Treasury bill rate declining by 13 basis points to reach 2.77 per cent. The overall rise in interest rates in the banking sector contributed to an uptick in the weighted average lending rate (WALR) which increased by 13 basis points between September 2025 and March 2026. These higher rates led to a slowdown in the velocity of private sector credit, nonetheless, it remained buoyant.

At its latest meeting in March 2026, the MPC held the Repo rate steady at 3.50 per cent. The MPC considered a number of domestic (contained inflation and the credit-growth nexus) and external factors including geopolitical and policy-generated economic uncertainty, which informed the monetary policy stance.

Outlook

According to the IMF's April 2026 WEO, global growth is expected to remain moderate with output projected to expand by 3.1 per cent in 2026 and 3.2 per cent in 2027. Growth among the EMDEs is expected to outpace that of the AEs. Additionally, global inflation is projected to increase, inching up to 4.4 per cent in 2026, before dipping to 3.7 per cent in 2027. While previously imposed US reciprocal tariffs are being rescinded, proposed new trade measures by the US, including a global 10.0 per cent tariff, are expected to exert upward pressure on global inflation and weigh on growth, particularly if trade demand weakens. Moreover, ongoing geopolitical conflicts in Eastern Europe, the Middle East, and parts of Africa continue to pose downside risks to the global outlook for 2026, threatening an already fragile economic recovery.

The outlook for energy commodity prices will depend on global demand conditions, supply dynamics and geopolitical developments. Ongoing conflict in key regions poses a risk to energy markets by threatening supply routes, infrastructure and market confidence. This could place temporary upward pressure on prices, particularly for crude oil and natural gas. On the supply side, production decisions by major oil-producing countries, including OPEC+ members, will remain a key determinant of price movements. Meanwhile, demand prospects will be shaped by the pace of global economic activity, with weaker growth conditions limiting the extent to which supply disruptions translate into sustained price increases.

Domestically, improved activity in the energy sector will hinge on the timely execution of upstream projects, successful drilling outcomes, and sustained investment in upstream capacity. New gas developments are likely to help stabilise natural gas output by mitigating existing declines. In the non-energy sector, sectoral buoyancy is contingent on the ability to realise material gains from policy initiatives such as the Ministry of Trade and Industry's "Buy-Local" campaign. In the medium-term, the Trinidad and Tobago Revitalisation Blueprint should bolster economic activity, particularly in the Construction sector.

Labour market conditions are expected to remain soft, while inflation is anticipated to heighten in the near term. Labour market conditions are expected to remain balanced, as temporary public sector employment is reduced and private sector hiring proceeds cautiously. Over the medium-term, conditions should gradually stabilise, supported by ongoing restructuring efforts and a modest recovery in domestic economic activity. Several factors may contribute to rising prices in the coming months such as the escalation of geopolitical tensions, US tariffs, increasing international food prices and the increase in cement and natural gas prices. Further, adverse weather conditions could impact agricultural supplies. Nonetheless, inflation is expected to remain contained as gas subsidies can aid by buffering against imported inflation.

While system liquidity is expected to remain ample, a higher interest rate environment could place a further drag on private sector credit. Notwithstanding available capacity for credit expansion, the pace of borrowing may be hindered by the uptick in interest rates and a more cautious approach to lending terms and conditions by commercial banks. The Central Bank remains poised to calibrate its monetary policy in light of emerging developments.

1. THE INTERNATIONAL ECONOMIC CONTEXT

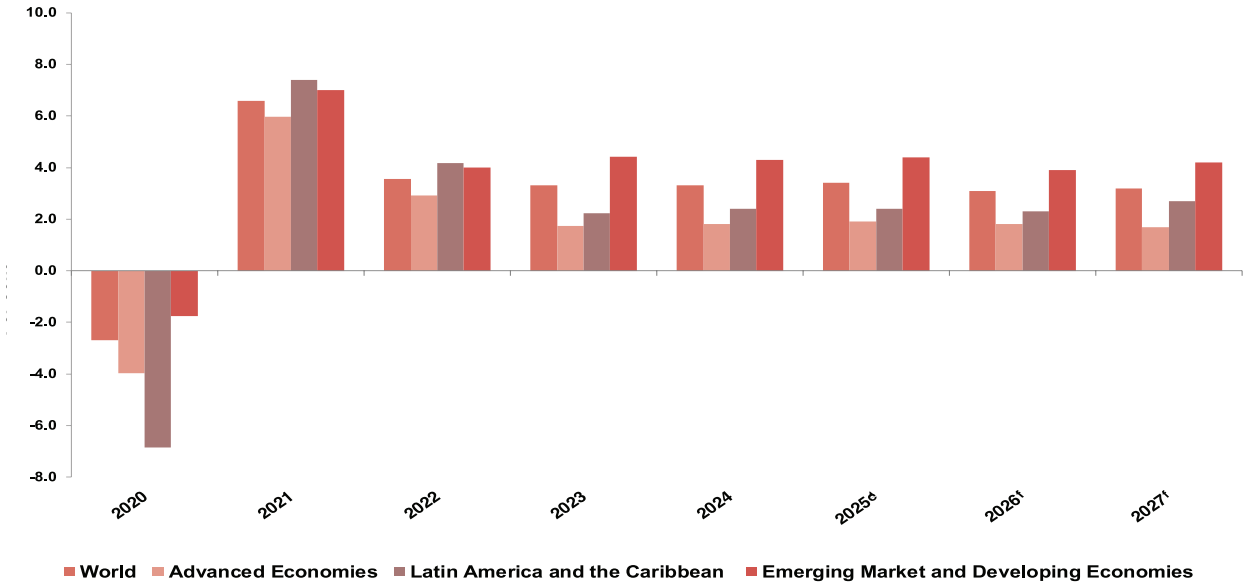
As geopolitical conflicts intensified, the global economy was thrust into further uncertainty. Energy markets reacted to the war and oil prices soared, since February 2026. Inflation is expected to inch up as supply chain disruptions and shipping costs mount. Moreover, financial market volatility is anticipated to worsen. In response, central banks remain cautious in their monetary policy stance and have delayed previously planned policy changes.

Recent Economic Developments and Outlook

Central banks worldwide reacted cautiously, prioritising macroeconomic stability and postponing previously anticipated policy adjustments in light of the recent escalation in geopolitical tensions. In the IMF's April 2026 WEO, world output was estimated at 3.4 per cent in 2025, unchanged from 2024. EMDEs propelled global activity with real GDP growth estimated to decelerate to 4.4 per cent in 2025, from 4.5 per cent in 2024. However, the growth performance was uneven across regions. Growth among the AEs increased slightly, moving to 1.9 per cent in 2025 from 1.8 per cent in 2024 (Chart 1.1).

CHART 1.1

Global Growth: Annual Real GDP Growth



Source: International Monetary Fund, World Economic Outlook, April 2026
e estimated
f forecasted

Inflation among the AEs exceeded benchmark interest rates owing to higher fuel costs in response to the Middle East war

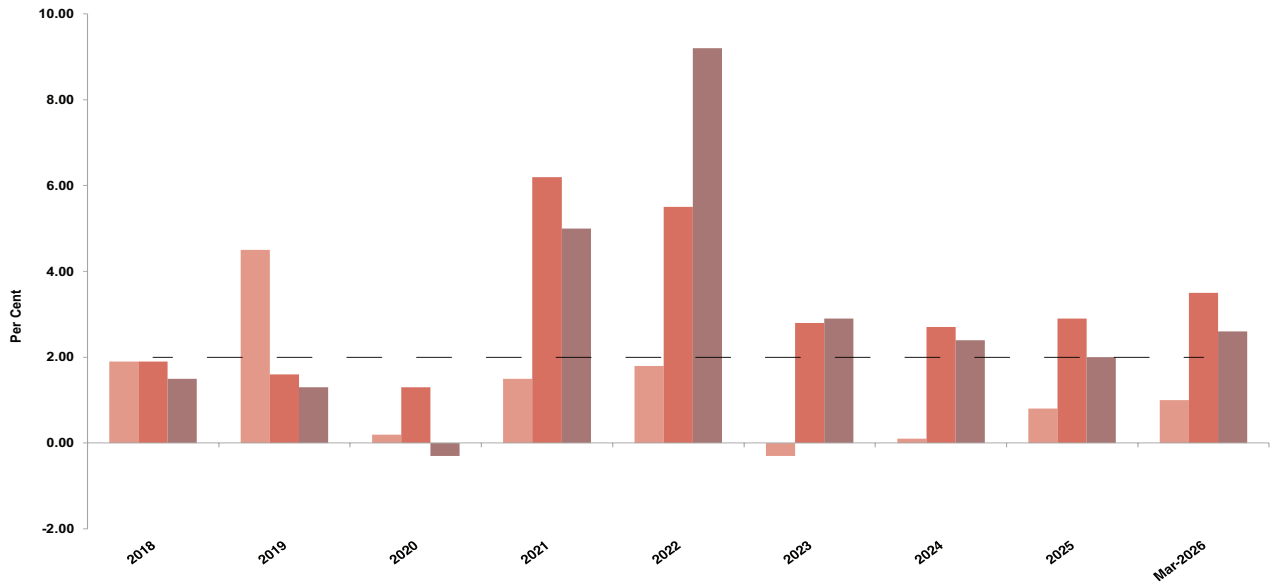
Inflation was tame in the AEs but the potential for upward movement remains. Inflation in the US, as measured by the US Personal Consumption Expenditure (PCE) index, was recorded at 3.5 per cent (year-on-year) in March 2026, higher than the previous month's outturn of 2.8 per cent. The UK's inflation rate accelerated to 3.3 per cent (year-on-year) in March 2026, from 3.0 per cent in February 2026, driven by higher transport costs. Notably, inflation remained above the BoE's 2.0 per cent inflation target. In the Euro area, faster price increases for energy, led to an inflation rate of 3.0 per cent (year-on-year) in April 2026, up from 2.6 per cent in March 2026, and above the ECB's 2.0 per cent target (Chart 1.2).

Inflation also picked up across EMDEs, with ongoing risks persisting in the Latin American and Caribbean (LAC) region

Inflationary pressures continued to mount in the EMDEs while the LAC region faces potential upticks. Inflation in India accelerated to 3.5 per cent (year-on-year) in April 2026, up from 3.4 per cent in March 2026, still below the Reserve Bank of India's (RBI) 4.0 per cent inflation target. The upward movement mainly reflected higher prices for food. China's inflation rate accelerated to 1.2 per cent in April 2026, from 1.0 per cent in March 2026, owing to price increases for transport. Although, inflationary pressures have continued to ease across Latin American countries, price shocks from international markets present new risks to inflation expectations for 2026.

CHART 1.2

Selected Economies: Headline Inflation



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 AEs, real GDP growth was mixed

US economic growth accelerated as gains in government spending, investments and exports more than offset weaker consumer spending. Real GDP in the US inched up to 2.7 per cent (year-on-year) in the first quarter of 2026, from 2.0 per cent in the previous quarter. In contrast, real GDP in the Euro area edged down to 0.8 per cent, from 1.3 per cent in the fourth quarter of 2025, partly reflecting a slowdown in activity across several member states, amid trade policy uncertainty and other economic challenges. UK growth slowed to 1.0 per cent (year-on-year) in the fourth quarter of 2025, down from 1.3 per cent in the previous quarter, as the economy navigated the challenges of fluctuating trade tensions, tax increases and muted business and consumer confidence (Figure 1.1).

For the EMDEs and LAC region, economic growth was mixed

Economic activity among the EMDEs remained solid despite the challenging global context and domestic headwinds. In the first quarter of 2026, economic output in China recorded an expansion of 5.0 per cent (year-on-year), slightly up from 4.5 per cent in the fourth quarter of 2025. In India, growth eased to 7.8 per cent (year-on-year) in the fourth quarter of 2025, lower than the previous quarter's outturn of 8.2 per cent. Despite the slowdown, growth was supported by tax cuts, which bolstered consumer confidence and private investment, alongside increased government spending (Figure 1.2).

FIGURE 1.1

Advanced Economies

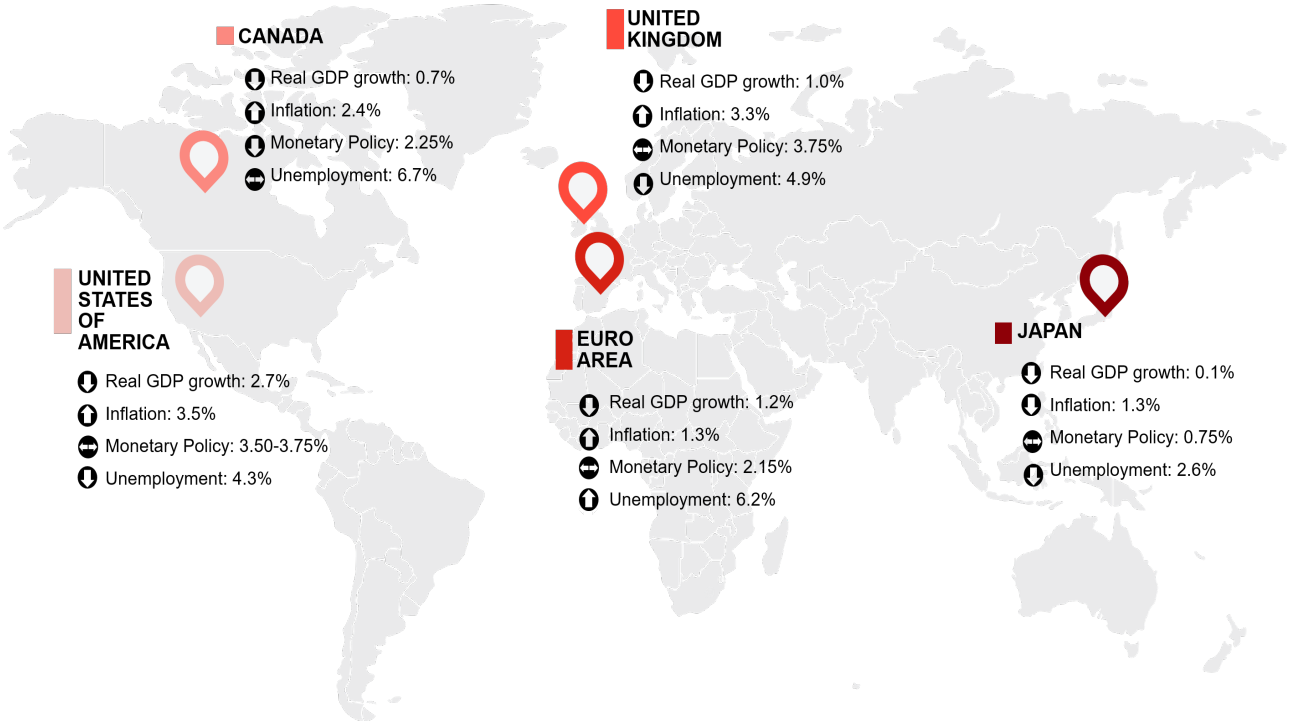
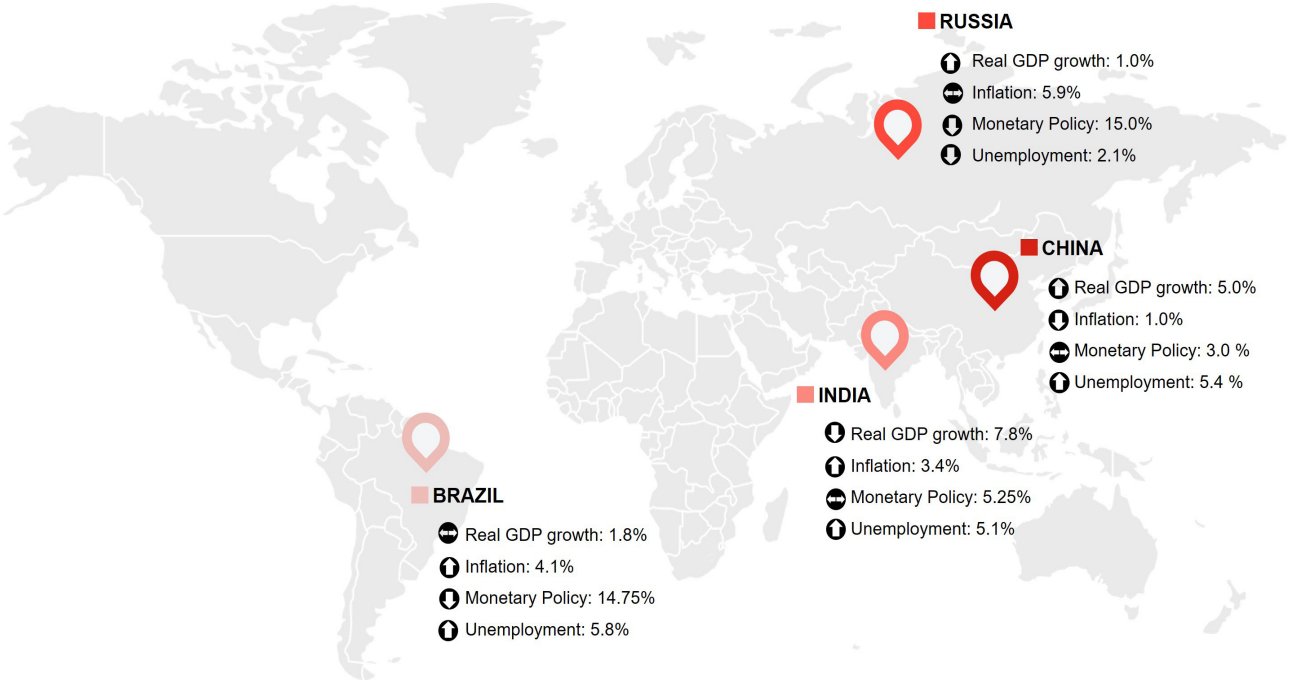


FIGURE 1.2

Emerging Market and Developing Economies



Source: Bloomberg
Note: ⇧ (increase) ⇩ (decrease) ⇔ (no change)

Monetary policy among AEs, EMDEs and the LAC region remained cautious

Against the backdrop of moderating economic growth and increasing downside risks to employment, the US Federal Reserve (the Fed) lowered its policy rate in December 2025 to a target range of 3.50 to 3.75 per cent, and maintained this rate at subsequent meetings to April 2026. Moreover, the Fed noted that it remains vigilant as the war in the Middle East could affect inflation in the medium-term and add to prevailing economic uncertainty. Taken together, these factors may delay anticipated policy rate cuts in 2026.

Despite heightened policy uncertainty, the BoE and the ECB maintained an accommodative monetary policy stance throughout 2025. During the year, the BoE reduced its benchmark interest rate by a cumulative 100 basis points, bringing the level to 3.75 per cent in December 2025. This rate was held at three successive Monetary Policy Committee meetings in February, March, and April 2026. The BoE indicated that it expected consumer price inflation to remain broadly at current levels and as such, any future rate cuts would be implemented gradually. Likewise, the ECB reduced its main refinancing rate on four occasions in 2025, with the last cut in June 2025, bringing the rate to 2.15 per cent, its lowest level since November 2022. The rate remained unchanged to April 2026. The ECB noted that despite challenging global and financial market conditions, economic activity continued to expand modestly, signaling regional resilience, notwithstanding elevated geopolitical risks stemming from the war in the Middle East.

EMDEs engaged in less restrictive monetary policy, as most central banks continued to monitor developments surrounding escalating international tensions. At its April 2026 monetary policy meeting, the People's Bank of China (PBoC) maintained its one-year and five-year loan prime rates (LPRs) at 3.00 per cent and 3.50 per cent, respectively. This decision reflects the PBoC's monetary policy stance aimed at supporting economic activity amid structural imbalances, trade frictions and rising geopolitical uncertainty. In December 2025, the Reserve Bank of India (RBI) lowered its benchmark interest rate by 25 basis points to 5.25 per cent, bringing the total rate cuts to 125 basis points since the start of the year. Subsequently, the rate was maintained at 5.25 per cent in the February and April 2026 monetary policy meetings.

Monetary policy decisions varied across Latin America in early 2026 in line with domestic economic conditions. In April 2026, the Central Bank of Chile kept its benchmark interest rate unchanged at 4.50 per cent, citing uncertainty regarding the economic outlook as global commodity prices accelerated and financial conditions tightened. Similarly, in April 2026, the Central Bank of Peru held its benchmark interest rate steady at 4.25 per cent. This decision was driven by rising global fuel prices, adverse weather conditions that affected agricultural output and a domestic natural gas crisis that contributed to higher inflation expectations. Following a 50 basis point reduction in March 2026, the Central Bank of Brazil further reduced its selic rate by 25 basis points to 14.50 per cent in April 2026, citing an uncertain external environment as the key reason for the reduction. More recently, in May 2026, the Bank of Mexico reduced its benchmark policy rate to 6.50 per cent, amid efforts to balance external risks and weakening domestic activity.

In the Caribbean monetary policy decisions varied

Monetary policy rates across Caribbean central banks remained largely unchanged, though some easing measures were implemented. In its first monetary policy meeting for 2026 (February), the Eastern Caribbean Central Bank (ECCB) maintained its minimum savings rate at 2.00 per cent and the discount rates for short-term and long-term credit at 3.00 per cent and 4.50 per cent, respectively. The decision was taken in light of stable domestic conditions and moderating global inflation. Conversely, the Bank of Jamaica (BOJ) lowered its policy interest rate by 25 basis points to 5.50 per cent in February 2026. The BOJ reiterated its commitment to supporting economic activity while ensuring that inflation expectations remain anchored. At its March 2026 meeting, the BOJ maintained this rate as it was cautious of geopolitical factors that can place upward pressure on prices.

Commodity-exporting countries, particularly Guyana, continued to fuel economic growth in the Caribbean, while their counterparts faced challenges. In 2025, Guyana's real GDP expanded by 19.3 per cent as the country continued to benefit from increased productive capacity owing to its oil discoveries along with expansions in the non-energy sector. Over 2025, real GDP in Barbados expanded by 2.7 per cent, driven by strong activity in tourism, business and other services, construction, and agriculture. On the other hand, Jamaica's GDP contracted sharply by 7.1 per cent (year-on-year) in the fourth quarter of 2025, following an expansion of 5.1 per cent in the previous quarter. This contraction was largely driven by lower output from the mining and quarrying, accommodation and food services and agriculture, forestry and fishing sectors.

Inflation rates remained relatively contained. In March 2026, Jamaica's inflation edged up to 4.3 per cent, from 3.9 per cent in the previous month, just above the BOJ's target range. In Barbados, inflation stood at 1.3 per cent (year-on-year) in February 2026, unchanged from the previous month, as prices for imported goods and domestic consumables remained moderated.

Energy prices were up on account of geopolitical tensions

The Energy Commodity Price Index (ECPI)[1] increased markedly between November 2025 and April 2026. The index rose from 99.96 in November 2025 to 161.58 in April 2026, representing a 61.6 per cent increase. Price increases were recorded across all commodities included in the index, largely driven by an escalation of geopolitical conflict and reassessment of risk across international energy markets.

Crude oil prices increased sharply between November 2025 and April 2026, reflecting a pronounced tightening in market conditions in 2026. The average of West Texas Intermediate (WTI) and Brent crude oil prices rose by 75.0 per cent, from US$61.69 per barrel in November 2025 to US$107.96 per barrel in April 2026. Brent crude prices increased by 83.8 per cent, rising from US$63.80 per barrel to US$117.29

1 The ECPI is a summary measure of the price movements of Trinidad and Tobago's top ten energy-based commodity exports. 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.

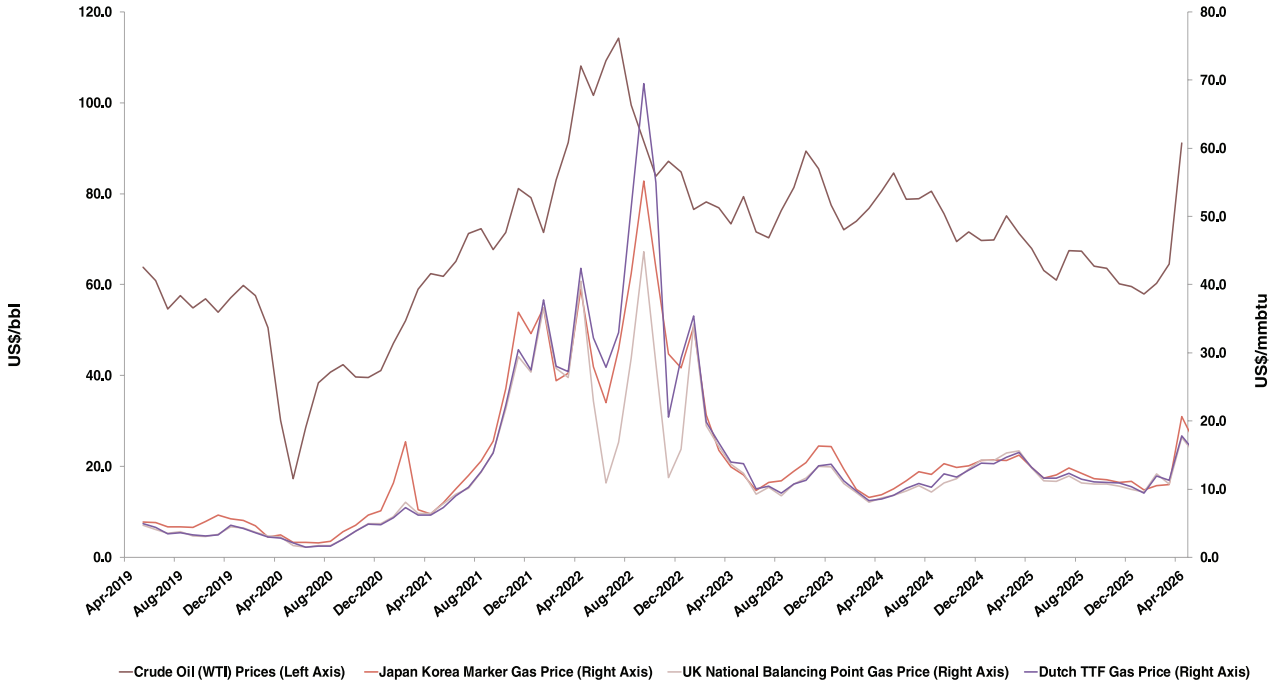
per barrel, while WTI prices rose by 65.6 per cent, from US$59.57 per barrel to US$98.63 per barrel over the same period.

The sharp rise in crude oil prices reflected heightened conflict involving the US, Israel and Iran. The conflict significantly increased uncertainty around global oil supply and critical shipping corridors, including the Strait of Hormuz, through which a substantial share of global crude oil trade transits. These developments led to an abrupt reassessment of supply risks in international oil markets and outweighed earlier factors associated with ample production, contributing to strong upward pressure on crude oil prices by April 2026. Price increases in crude oil were accompanied by substantial gains in refined petroleum product prices over the same period. Motor gasoline prices rose by 66.9 per cent, while jet fuel and gas oil prices increased by 74.0 per cent and 65.5 per cent, respectively, between November 2025 and April 2026. These movements indicate a broad-based adjustment in refined product prices in response to higher crude oil prices and evolving market conditions associated with the escalation in geopolitical risks.

International LNG prices also rose sharply between November 2025 and April 2026, reversing earlier weakness. The LNG basket price rose by 63.5 per cent, from US$10.68 per million British Thermal Units (mmbtu) in November 2025 to US$17.47 per mmbtu in April 2026. In Europe, the UK National Balancing Point (NBP) price increased to US$15.26 per mmbtu in April 2026, reflecting a sharp rise of 53.8 per cent from earlier levels amid increased market uncertainty. In the Northeast Asian market, the Japan/Korea Marker (JKM) increased to US$16.96 per mmbtu in April 2026, representing a 52.1 per cent increase compared with November 2025 (Chart 1.3). These movements highlight a broad-based repricing of natural gas markets driven by heightened supply risk perceptions and the potential for disruption to international LNG trade. Gas price increases were accompanied by significant adjustments in several gas-based downstream commodities such as urea (81.2 per cent), methanol (65.1 per cent), natural gasoline (62.9 per cent), UAN (50.8 per cent), and ammonia (20.5 per cent).

CHART 1.3

Natural Gas and Crude Oil Prices



Source: Bloomberg (NBP price converted from Pence Sterling per therm to US$ per mmbtu) and Platts

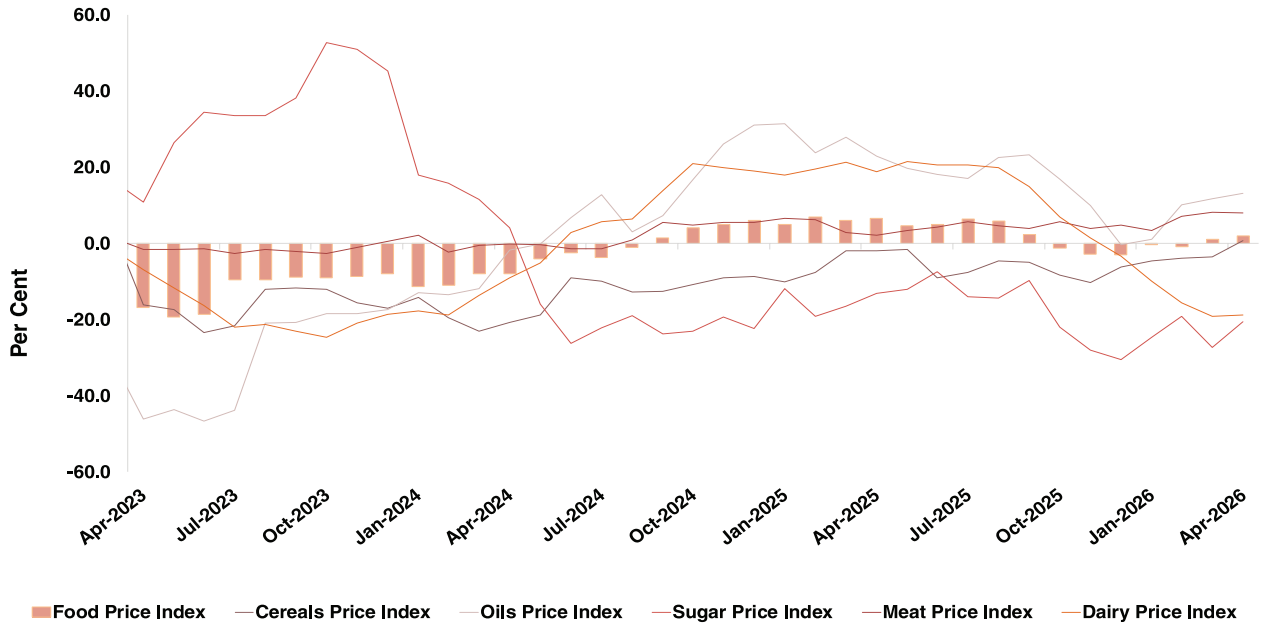
International food prices edged up

In April 2026, the United Nation's Food and Agricultural Organisation (FAO) Real Food Price index rose. The FAO Food Price Index increased to 2.0 per cent (year-on-year) in April 2026 from -2.8 per cent in November 2025 (Chart 1.4). The increase was attributed to higher prices in several categories: Oils (22.7 per cent in April 2026 compared to -0.3 per cent in November 2025), Meat (6.4 per cent in April 2026 compared to 4.8 per cent in November 2025) and Cereals (0.4 per cent in April 2026 compared to -6.1 per cent in November 2025). Further, the Sugar (-21.2 per cent in April 2026 compared to -30.5 per cent in November 2025) and Dairy (-21.2 per cent in April 2026 from -3.4 per cent in November 2025) sub-indices recorded weaker prices on a year-on-year basis. Market fundamentals (availability of supply and higher demand) as well as the uncertain global outlook contributed to rising prices.

CHART 1.4

FAO Real Monthly Food Price Index

(Year-on-Year Per Cent Change)



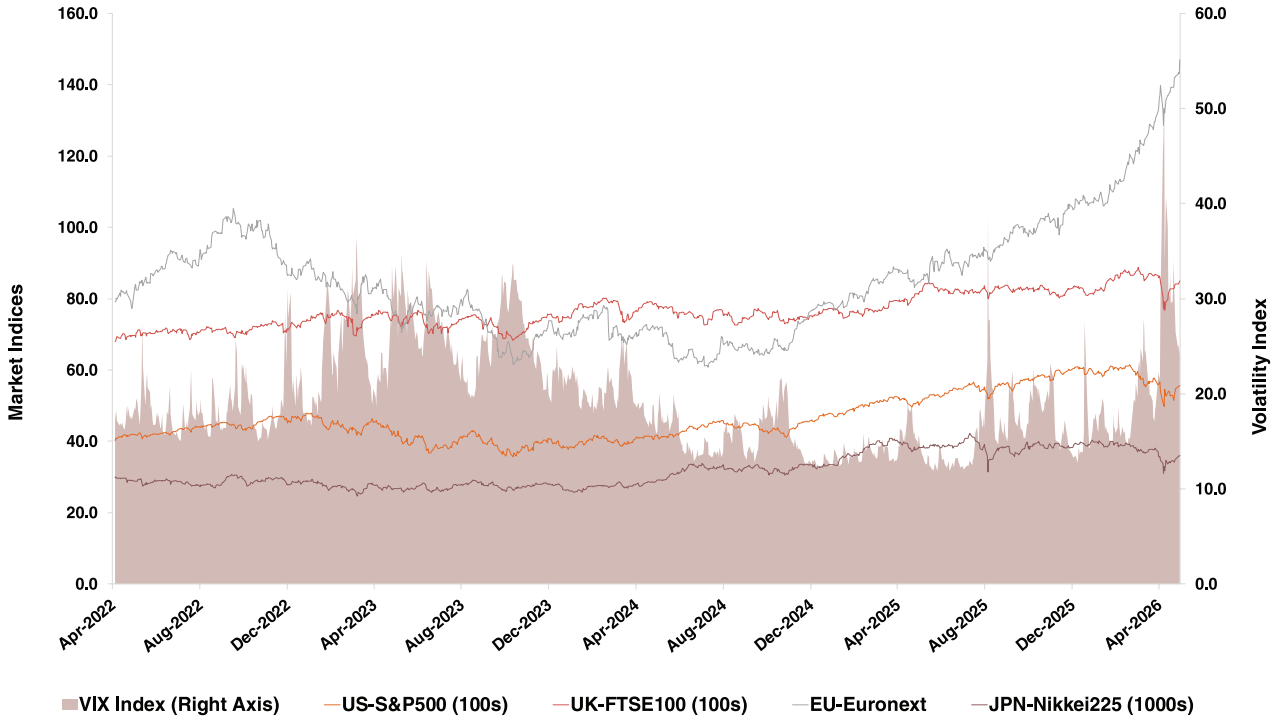
Source: Food and Agriculture Organisation

Global equity markets were volatile in early 2026

Global equity markets oscillated in early 2026 driven by concerns of US tariff policy and geopolitical tensions between Iran and the US. In the US and European stock markets, despite continued optimism in the technology sector, markets remained challenged by geopolitical risks and policy uncertainty, resulting in volatility in the S&P 500 index and European stocks. The US president's statement that the Middle East war may end soon, coupled with the two-week ceasefire resulted in a rebound in stock markets in late March and April 2026. The CBOE Volatility Index (VIX) was volatile reflecting market tensions however, as equity markets rebounded the index fell at the end of April. Similarly, in the UK and Japan, the FTSE 100 index and Nikkei 225 index dipped following tensions in the Middle East and the US. Notably, in April 2026, the FTSE 100 recovered due to easing geopolitical tensions, supportive monetary policy and strong earnings. The Japanese stock market surged in April 2026, supported by strong AI related demand and corporate performance (Chart 1.5).

CHART 1.5

Advanced Economies Equity Market Indices



Source: Bloomberg

Box 1
Implications of the War in Iran

1. Introduction

In February 2026, ongoing hostilities between Israel and Iran intensified as the United States of America joined the Israeli front. This escalation has heightened geopolitical uncertainty with the potential to upend international energy markets and global trade. The region is home to one of the most critical global maritime corridors, the Strait of Hormuz, which lies between Iran and Oman. The Strait is a conduit for global energy trade, carrying roughly 20–25 per cent of seaborne crude oil and petroleum products and close to one-fifth of global liquefied natural gas (LNG) flows, primarily from Gulf producers to Asian and European countries. Beyond energy, the Strait also supports international trade in dry bulk, containerised goods and general cargo, making it an essential node in global supply chains; it also facilities imports of critical food, medicine and other consumer necessities to the ports within the Gulf. Given the strategic importance of this maritime chokepoint, any disruptions to flows could have significant spillover effects on global economic activity.

2. Impact on International Trade and Commodity Prices

Prior to the onset of hostilities, shipping volumes through the Strait of Hormuz were relatively stable (Figure 1). Total daily transits generally fluctuated in the 70–105 vessels. Tankers represented the largest and most stable component, typically accounting for 40–65 transits per day. Following the escalation of the war, on February 28, there was a sharp falloff in shipping activity. At the end of March, shipping activity remained severely depressed relative to pre-war levels. Daily traffic shows modest, irregular upticks, occasionally reaching 8–15 vessels per day, often driven by isolated tanker movements that are permitted by Iran to enter the Strait. Following the commencement of an official ceasefire on April 8, Iran's blockade in the Strait was relaxed, allowing for an uptick in vessels moving through the transit point. However, peace negotiations broke down, leading to subdued shipping activity by the end of April reaching 5–10 vessels per day.

International crude oil markets responded quickly to the escalation of hostilities, with prices rising as conflict risks intensified around the critical global transit corridor (Figure 2). In early February, prior to the shipping disruption, Brent crude prices were broadly stable in the US$68-$73 per barrel range, reflecting balanced market conditions and ample near-term supply. As the conflict progressed, prices rose sharply through late February and March, surpassing US$90 per barrel in early March and exceeding US$100 by the end of the month. These increases reflected heightened market perceptions of supply risk rather than immediate physical shortages as the uncertainty behind the duration of disruption led to substantial risk premiums being priced into crude markets. In April, prices remained highly volatile but elevated, with Brent averaging around US$117 per barrel, recording a peak of roughly US$138 per barrel in early April, before fluctuating between US$98 and US$125 per barrel by the end of

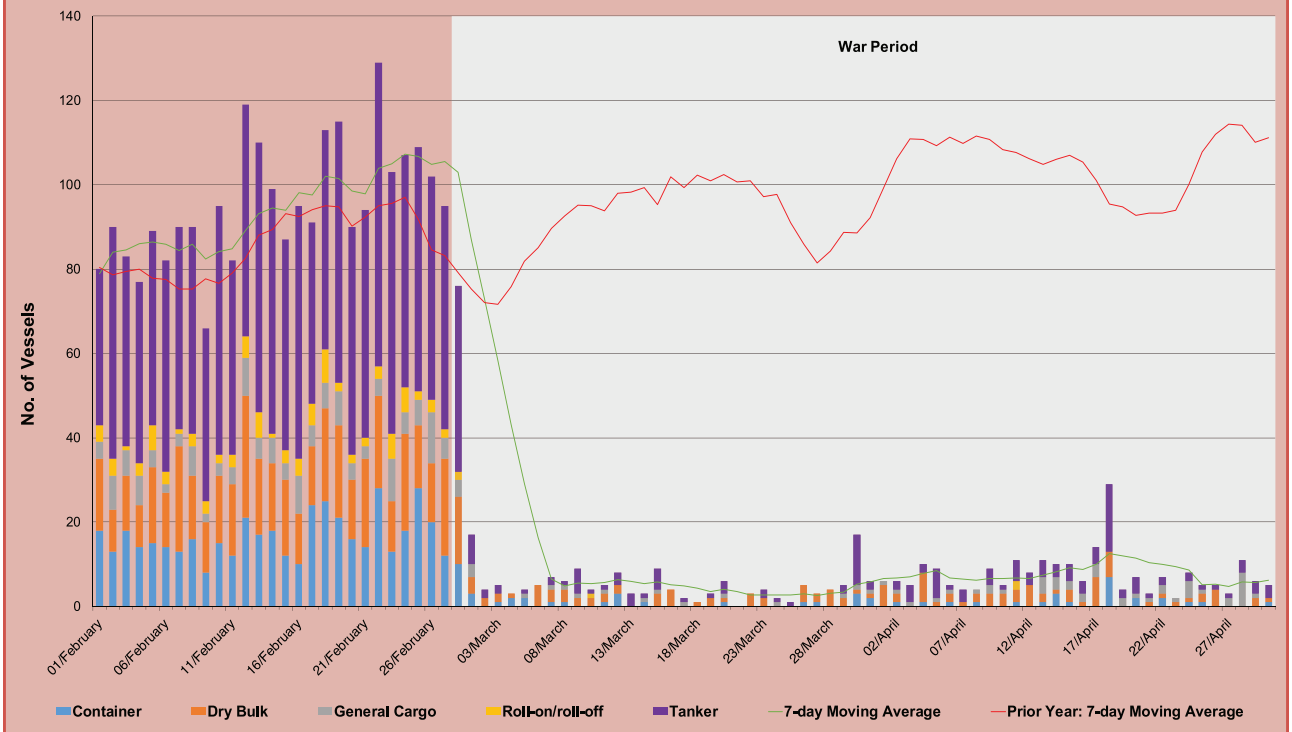
Box 1 (cont'd)
Implications of the War in Iran

the month as markets adjusted to disrupted flows and intermittent geopolitical developments. In contrast, Henry Hub natural gas prices trended downward over the same period, falling from around US$3.0 to $3.2 per MMBtu in March to approximately US$2.6 to $2.7 per MMBtu by the end of April, reflecting seasonal demand weakness, above-average storage

FIGURE 1

Shipping Activity in the Strait of Hormuz

February 1 - April 30, 2026



Source: Portwatch, IMF and Oxford University

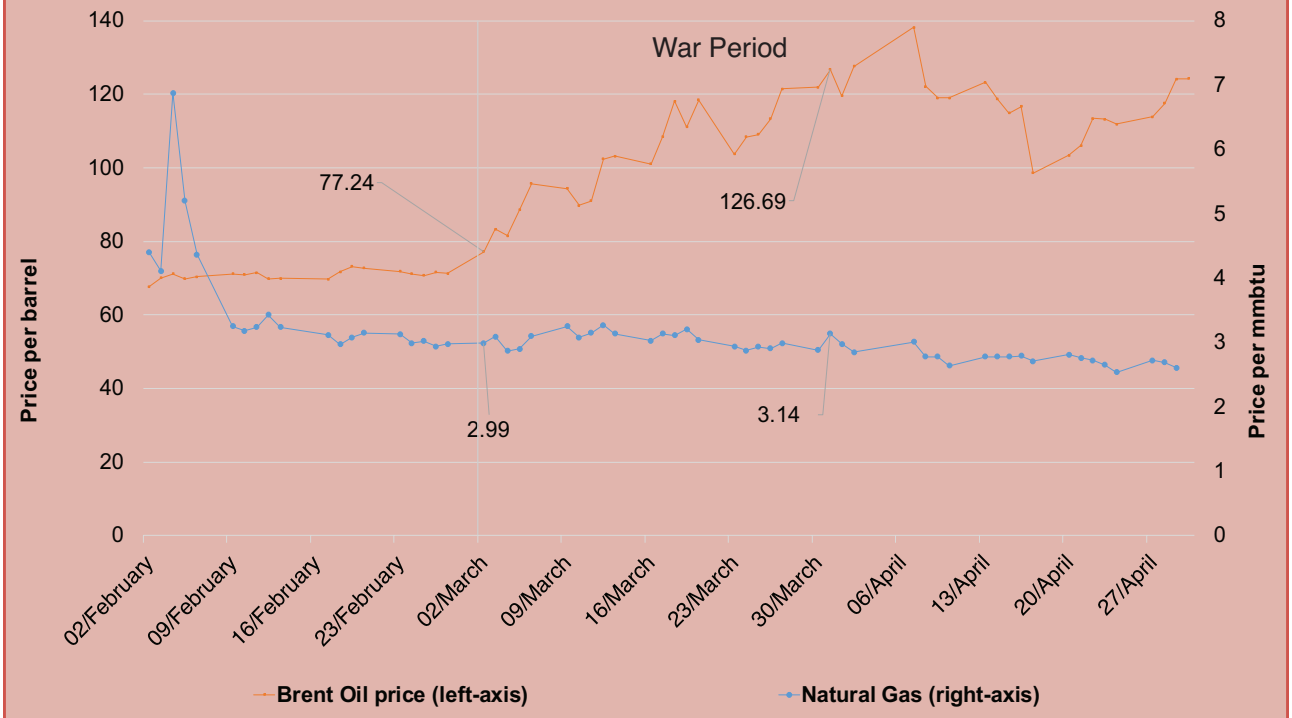
Note: Due to the conflict in the region, there are reports of GPS jamming, AIS spoofing and vessels going dark. These may lead to distortions in the data.

Box 1 (cont'd)
Implications of the War in Iran

FIGURE 2

Movements in Energy Commodity Prices

February 1 - April 30, 2026



Source: Bloomberg and Thomson Reuters accessed through the Energy Information Administration (EIA)

levels, and robust production; notably, Henry Hub prices fell below US$3.0 per MMBtu and reached as low as US$2.5 in late April, as mild spring weather and rapid storage injections reduced near-term demand pressures.

3. Supply Chain Constraints

Beyond energy markets, global supply chains, already strained by legacy disruption from the pandemic, are facing renewed pressures in the form of delays, stranded cargo and rising shipping costs. These frictions have adversely affected trade flows across all transport modes including ocean, air and inland routes, through higher freight, transport and insurance costs. At the initial stage of transmission, the energy price shock triggered immediate hikes in fuel prices across road and maritime transport, which were passed through to shipping rates. Heightened risks associated with transiting the Strait of Hormuz led to a rerouting of tankers and container vessels away from Gulf routes, with traffic diverted through the Cape of Good Hope. In some cases, these diversions extended transit times by an additional 10 to 14 days.

Box 1 (cont'd)
Implications of the War in Iran

Consequently, container freight rates[2] and tanker charter costs have risen sharply, compounded by higher insurance premiums applied to vessels operating in or near conflict-affected zones. In response to these challenges and the unpredictability of ocean traffic, shipments of time-sensitive goods are shifting to airfreight, and with a higher demand placing pressure on capacity, rates have also begun to climb[3].

Apart from supply chain constraints, other important commodities, including fertilisers and chemicals, are facing logistical challenges. Approximately one-third of fertiliser shipments transit through the Strait of Hormuz, and with ongoing threats to Gulf shipping lines, suppliers have been forced to reroute exports, while also facing raw material shortages. This disruption can lead to spikes in fertiliser prices[4] and by extension threaten crop yields, particularly for low-income developing countries.

4. Inflation Outcomes

The combined effects of higher fuel prices, rerouting of transit lines, increased container rates and insurance premiums, and capacity pressures in airfreight have introduced multiple sources of inflationary pressure. In the case of a short-lived war, limited in duration and magnitude, the resulting inflationary effects may remain contained. However, in the event of a more protracted conflict, persistently elevated energy, transport and raw material costs are likely to feed through into prices of manufactured goods and services over time. These mounting pressures could reignite inflationary concerns, and risk undoing the progress made by countries in returning inflation to target levels, while also stoking inflationary expectations. In this event, if inflation is expected to remain high for a prolonged period, it could also fuel spikes in wages and salaries.

5. Impact on the Domestic Economy

For a small, open, energy-exporter with a heavy reliance on imports, Trinidad and Tobago faces vulnerabilities to the conflict through several channels. Key transmission channels include; raising import and transport costs, a falloff in tourism demand, and a slowdown in economic growth. In terms of energy, a prolonged war could affect the domestic economy on two fronts;

---

2 Between February 05th to April 30th, the Drewry World Container Index (WCI)—which is a composite of 40-foot ocean container freight on eight major routes to/from the US, Europe and Asia as assessed by Drewry Maritime Research and Consulting—rose steadily from US$1,959 to US$2,216 per 40 foot container.

3 According to Drewry Maritime Research and Consulting, their Airfreight Price Index-which is a weighted average of all-in airfreight 'buy rates' paid by forwarders to airlines for standard service airport-to-airport airfreight services- moved from US$3.28 per kilogram (kg) in February 2026 to US$3.80 per kg in April 2026, driven by reduced capacity and higher fuel costs, with the steepest increases observed on routes such as Shanghai–Dubai due to capacity constraints and operational disruptions in the Middle East.

4 Based on the World Bank's Commodity Markets Outlook April 2026, its fertiliser price index (FPI) is expected to increase by 31.0 per cent to 181.3 in 2026, from the previous year, on account of the war in Iran. The FPI is a weighted average of global price trends for key nutrients, primarily nitrogen, phosphate, urea and potassium.

Box 1 (cont'd)
Implications of the War in Iran

higher prices for hydrocarbon products could result in increased energy export earnings, while a corresponding pickup in prices for refined products could raise spending on imports. Whether the impact of this occurrence is positive or negative for the local economy depends on the direction and magnitude of these price increases. At the same time, higher fuel costs will also make it more expensive for air and maritime services, which could raise the prices for some non-energy commodities including food. Additionally, a deterioration in global economic conditions, particularly in key source markets,could negatively impact tourism activity. While Trinidad and Tobago possesses financial buffers, such as its reserves holdings, to safeguard against economic spillovers from this crisis, taken together, these factors have the potential to dampen domestic economic growth unless there is a timely resolution to the conflict.

REFERENCES

Adrian, T., Jihad Azour, Nigel Chalk, Pierre-Olivier Gourinchas, Alfred Krammer, Abebe Aemro Selassie, Kishna Srinivasan and Rodrigo Valdes. (2026, March 30). How the War in the Middle East is Affecting Energy, Trade, and Finance. Washington D.C. Retrieved from https://www.imf.org/en/blogs/articles/2026/03/30/how-the-war-in-the-middle-east-is-affecting-energy-trade-and-finance

US Energy Information Administration (EIA). 2026a. "Crude Oil and Petroleum Product Prices Increased Sharply in the First Quarter of 2026." Today in Energy, April 7, 2026. https://www.eia.gov/todayinenergy/detail.php?id=67424.

US Energy Information Administration (EIA). 2026b. "Global Oil Markets." Short-Term Energy Outlook, April. https://www.eia.gov/outlooks/steo/report/global_oil.php.

2. DOMESTIC ECONOMIC ACTIVITY AND PRICES

In the third quarter of 2025, growth softened as the slowdown in non-energy sector output outweighed the gains in the energy sector. Preliminary indicators monitored by the Central Bank suggest a dip in economic activity in the fourth quarter of 2025 due to reduced activity in both the energy and non-energy sectors.

Recent Economic Developments and Outlook

Growth moderated as shortfalls in non-energy sector output countered the buoyancy of the energy sector, in the third quarter of 2025

Economic growth slowed in the third quarter of 2025 as waning non-energy sector production diminished the favourable outturn of the energy sector. Data from the CSO indicated that real GDP grew marginally by 0.1 per cent (year-on-year) in the third quarter of 2025, compared with 2.6 per cent in the previous quarter. Notwithstanding, the marginal uptick in economic growth, during the period, remained consistent with the average growth rate over the first three quarters of the year (0.2 per cent). Conditions reflected a surge in energy sector production (3.4 per cent), outweighed by a decline in the non-energy sector (-1.1 per cent). Sub-sectoral upticks in some areas characterised strong energy sector performance. These included the Petroleum support services (71.4 per cent), Condensate Extraction (24.8 per cent); Refining (18.8 per cent), and Crude Oil Exploration and Extraction (2.6 per cent) sectors. Conversely, contractions occurred in the Manufacture of Petrochemicals (-5.1 per cent), Petroleum and natural gas distribution (-3.7 per cent), and Natural Gas Exploration and Extraction (-0.9 per cent) sub-sectors. Weak performance in the non-energy sector reflected declines in several key sub-sectors. Notably, the Trade and Repairs (excluding Energy)[5] sub-sector declined by 4.3 per cent during the period. Additionally, the Construction (-15.4 per cent), Agriculture, Forestry and Fishing (-3.5 per cent), and Transport and Storage (-0.9 per cent) sub-sectors all experienced a falloff, which outweighed improvements in the Manufacturing (excluding Refining and Petrochemicals) (10.7 per cent) and Financial and Insurance Activities (2.5 per cent) sub-sectors.

Energy sector performance was stymied by lower upstream activity during the fourth quarter of 2025. Data from the Ministry of Energy and Energy Industries, for the period October to November 2025, reported a year-on-year falloff in natural gas production (-8.6 per cent) over the two-month period. The decline reflected maintenance activity undertaken by key upstream producers. This posed setbacks for activity in both the Refining and Petrochemicals sectors. In the Refining sector, reduced output of liquefied natural gas (LNG) (-6.5 per cent) constrained activity. This countered a marginal improvement in the production of natural gas liquids (NGLs) (0.9 per cent). Further downstream, reduced output of ammonia (-3.4 per cent), urea (-59.9 per cent) and methanol (-9.5 per cent) marred activity in the Petrochemicals sector. Beyond the reduced availability of natural gas, the

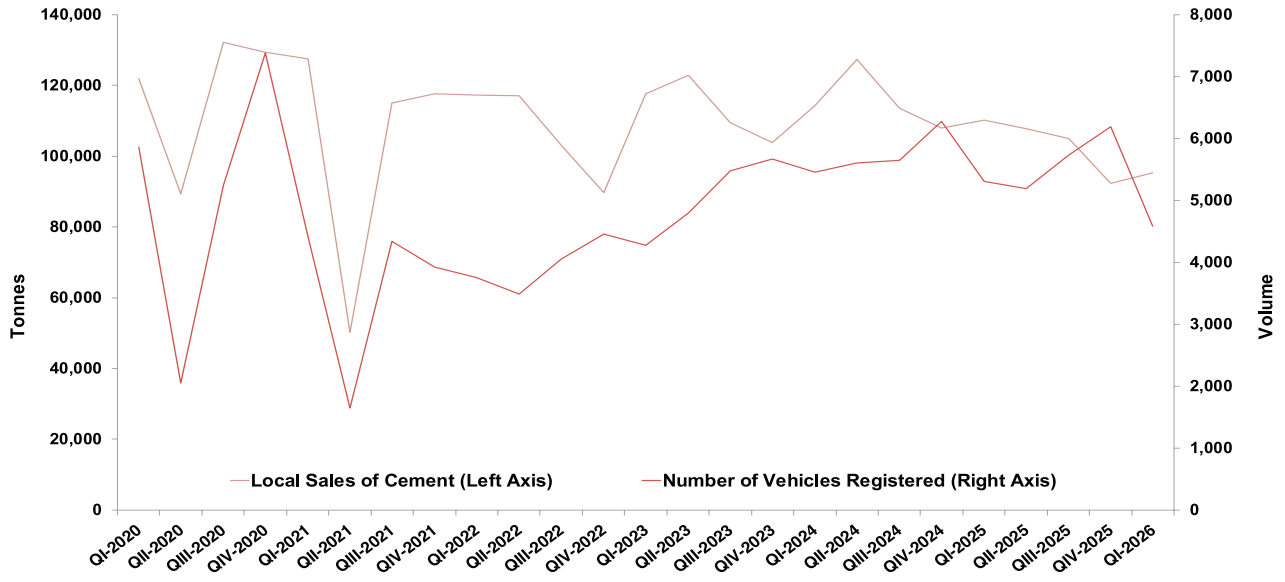
5 This sub-sector accounts for over 28.7 per cent of overall output of the non-energy sector.

closure of the Nutrien facility in November 2025 constrained the output of nitrogenous fertilisers. Conversely, crude oil production increased by 3.1 per cent over the two-month period.

Initial estimates from the Central Bank's Quarterly Index of Real Economic Activity (QIEA), suggest that reduced non-energy sector activity continued into the fourth quarter of 2025. The slowdown in the Cashless Payments Index, a supplementary indicator[6] of non-energy sector activity, mirrored similar sentiments. Growth in the Cashless Payment Index slowed to 4.3 per cent in the fourth quarter of 2025, compared to 9.5 per cent in the corresponding period of 2024. This reflected decelerations in the volumes of automated teller machine (ATM), internet banking and automated clearinghouse (ACH) credit transactions over the period. On a sectoral level, indicators point to reduced activity in the Construction sector, reflecting a falloff in the local sales of cement (Chart 2.1). Preliminary estimates also suggest a decline in the Financial and Insurance Activities sector, led by a reduction in the volume of gross insurance premiums. Conversely, indicators point to heightened activity across several sectors. Among these were Electricity and Water (excluding Energy)—premised by increased water supply, Transport and Storage, Agriculture and Real Estate Activities sectors in the fourth quarter of 2025. Elsewhere, year-on-year activity in the Wholesale and Retail Trade (excluding energy) sector was relatively unchanged, reflecting a marginal uptick in the CSO's Index of Retail Sales during the fourth quarter of 2025. The period observed increased sales in the Dry Goods Stores (8.0 per cent); Textiles and Wearing Apparel (5.8 per cent); and Other (2.8 per cent) sub-sectors. Offsetting these increases were decreased sales in the Construction Materials and Hardware (-4.8 per cent); Household Appliances, Furniture and other Furnishings (-3.4 per cent); and Supermarkets and Groceries (-0.1 per cent) sub-sectors.

CHART 2.1

Non-Energy Indicators (Cement Sales, Vehicle Registrations)



Source: Central Bank of Trinidad and Tobago

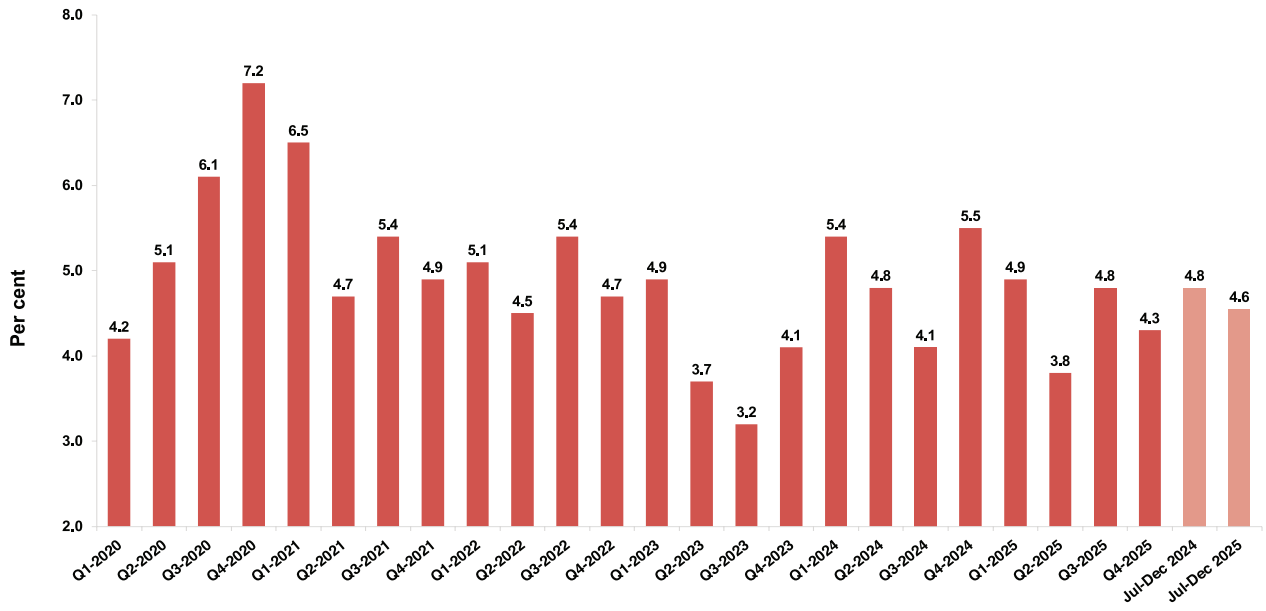
6 The Cashless Payments Index is one of several indicators developed by the Central Bank to gauge the performance of the non-energy sector.

Labour market conditions improved, albeit marginally, during the second half of 2025

Data from the CSO indicates a modest improvement in labour market conditions over the second half of 2025, alongside continued easing in labour market participation relative to the same period in 2024. The unemployment rate averaged 4.6 per cent during the period July to December 2025, down from 4.8 per cent one year earlier (Chart 2.2). Over the six-month period, the labour force contracted by 7.5 thousand persons, reflecting a decline in the number of employed persons (5.9 thousand persons) and a fall in the number of persons without jobs and actively seeking work (1.7 thousand). Consistent with these contractions, the labour force participation rate fell to an average 54.9 per cent in the latter half of 2025, from 55.5 per cent recorded in the corresponding period of 2024. On average, the number of persons outside the labour force rose by 6.6 thousand persons, primarily due to an increase in the number of retired individuals.

CHART 2.2

Quarterly Unemployment rate (Per Cent)



Source: Central Statistical Office

Sectoral employment over the second half of 2025 broadly aligned with prevailing labour market conditions. Job losses were concentrated within the Community, Social and Personal Services (16.3 thousand persons) and Construction (including Electricity and Water) (7.7 thousand persons) sectors. Observed contractions within the former sector occurred alongside adjustments in public sector employment arrangements, particularly the mid-2025 suspension of the Community-Based Environmental Protection and Enhancement Programme (CEPEP) and the Unemployment Relief Programme (URP). The Financing, Insurance, Real Estate and Business

Services sector recoded a modest reduction of 2.1 thousand persons. In contrast, year-on-year job growth occurred across the remaining sectors, including the Wholesale and Retail Trade, Restaurants and Hotels (11.6 thousand persons), Not Stated (2.6 thousand persons) and Transport, Storage and Communication (2.4 thousand persons) sectors.

Supplementary indicators monitored by the Central Bank point to mixed conditions at the start of 2026. Partial data on retrenchment notices filed with the Ministry of Labour indicate that 38 persons were retrenched during January to February 2026, compared with 12 persons in the corresponding period of 2025 (an increase of 216.7 per cent, year-on-year). These separations were concentrated in Distribution (35 persons) and Finance, Insurance, Real Estate and Business Services (3 persons) sectors. Meanwhile, the number of print job advertisements[7] fell to 423 in the first quarter of 2026 from 542 one year earlier (a decline of 22.0 per cent, year-on-year), signalling weaker measured labour demand.

Headline inflation softened marginally over the six months ending April 2026

Headline inflation, measured by the CSO's Consumer Price Index, slowed over the six-month period (November 2025 to April 2026). Domestic inflation softened to 0.4 per cent in April 2026 (year-on-year) from 0.5 per cent in November 2025 (Chart 2.3). Although food inflation rose, a slower price increase in core inflation was observed over the period.

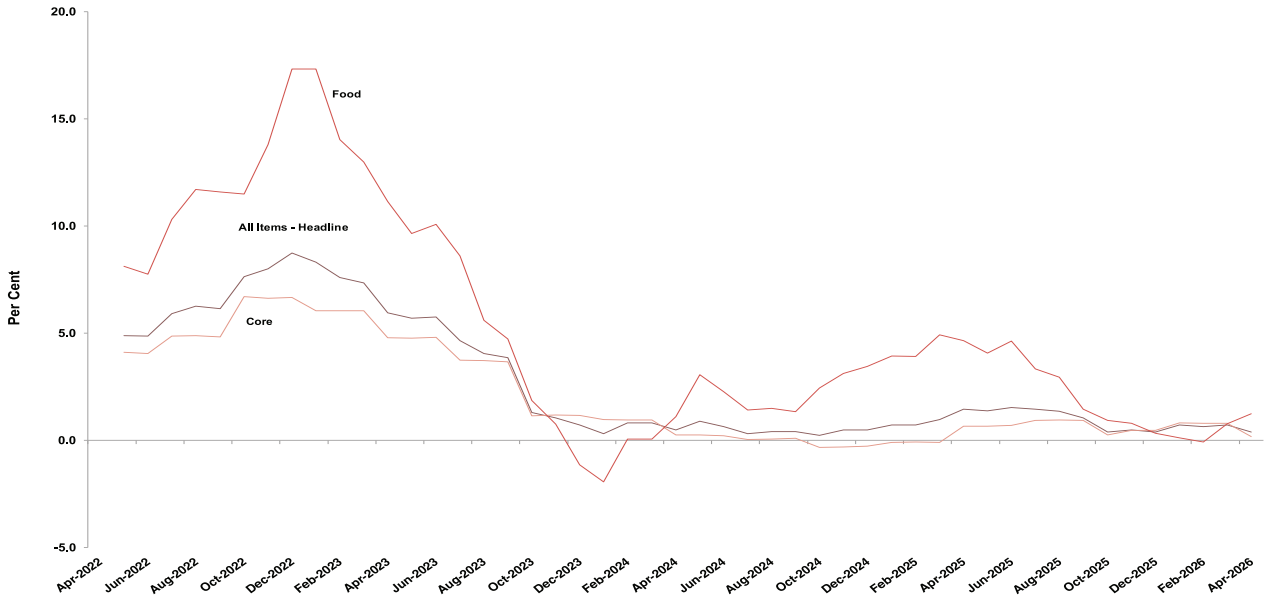
Food inflation inched up to 1.2 per cent in April 2026. The Milk, Cheese and Eggs sub-index (4.0 per cent in April 2026 from 3.3 per cent in November 2025) recorded a faster price increase as the prices for pasteurised milk, evaporated milk and eggs became more expensive. Stronger price increases were also observed for the Fruits (1.7 per cent in April 2026 from 1.6 per cent in November 2025) and Non-Alcoholic Beverages (3.5 per cent in April 2026 from 2.8 per cent in November 2025) sub-indices due to higher prices for oranges, apples and grapes for the former and higher cost for bottled water and soft drinks for the latter. A price increase was registered for the Meats sub-index (4.8 per cent in April 2026 from -0.9 per cent in November 2025) attributed to higher prices for steak, fresh and chilled and frozen goat, chilled or frozen turkey and fresh chicken. Higher prices for cavalli, king fish, red fish, salmon, chilled or frozen sea food and salted fish resulted in a price increase in the Fish sub-index (4.6 per cent in April 2026 from -0.4 per cent in November 2025). Slower price increases were also observed for the Bread and Cereals (0.6 per cent in April 2026 from 1.4 per cent in November 2025) and the Butter, Margarine and Edible Oil (4.2 per cent in April 2026 from 5.9 per cent in November 2025) sub-indices. Price declines were also reported in a few categories. Softer price declines were recorded for Vegetables sub-index (-3.0 per cent in April 2026 from -4.6 per cent in November 2025) as prices for melongene, pumpkin, patchoi and bodi were weak. Lower prices for jams, ice-cream and sugar were responsible for the price decline in the Sugar, Jam and Confectionery sub-index (-0.4 per cent in April 2026 from 0.8 per cent in November 2025). A price decline was also recorded for the Food Products Not Elsewhere Classified (NEC) sub-index (-6.3 per cent in April 2026 from 4.3 per cent in November 2025) as the prices for hot peppers, garlic, pimento, celery and chive slid.

7 Sources: Trinidad Guardian and Trinidad Express.

CHART 2.3

Consumer Price Index

(Year-on-Year Per Cent Change)



Source: Central Statistical Office

Core inflation, which excludes food prices and reflects underlying inflationary pressures, slowed to 0.2 per cent in April 2026 from 0.5 per cent in November 2025. Lower and steady prices were also reported for some indices. Faster price declines were reported for the Transport sub-index (-2.1 per cent in April 2026 from -1.3 per cent in November 2025) as the purchase of foreign used motor vehicles became cheaper. Lower prices for men's formal shirt, jeans and footwear resulted in a stronger price decline for the Clothing and Footwear (-1.7 per cent in April 2026 from -0.8 per cent in November 2025) sub-index. The Housing, Electricity, Gas and Other Fuels sub-index reported a price decline (-0.1 per cent in April 2026 from 0.8 per cent in November 2025) as prices for paints and vanish, plumbing services and tiles became cheaper. The Communication sub-index (-0.1 per cent in April 2026 from a flat position in November 2025) also registered a price decline due to lower prices for telephone equipment. The Education and Health sub-indices remained steady. Faster price increases were recorded for the Alcoholic Beverages and Tobacco sub-index (29.6 per cent in April 2026 from 26.0 per cent in November 2025) due to higher prices for whisky, brandy, vodka and shandy. The increase in prices were primarily driven by higher excise and custom duties for alcoholic beverages and tobacco as announced in the FY2026 national budget. A stronger price increase was also observed for the Miscellaneous sub-index (1.5 per cent in April 2026 from 1.4 per cent in November 2025) due to higher prices for jewellery and barbershop and hair dressing services. Increased prices for dining room furniture washing machines and matches were responsible for a faster price increase in the Furnishings, Household equipment sub-index

(0.4 per cent in April 2026 from 0.3 per cent in November 2025). A price increase for the Recreation and Culture (0.9 per cent in April 2026 from -0.8 per cent in November 2025) sub-index was also recorded.

While building material prices eased, wholesale prices edged up

The CSO's Index of Retail Prices of Building Materials (BMI) marginally decreased in the first quarter of 2026. In March 2026, the BMI stood at 1.3 per cent (year on year) compared to 1.4 per cent in the final quarter of 2025. This was attributed to slower price increases in the Electrical Installation and Fixtures (2.5 per cent in the first quarter of 2026 compared to 2.8 per cent in the fourth quarter of 2025) and the Site Preparation, Structure and Concrete Frame (1.4 per cent in the first quarter of 2026 compared to 2.1 per cent in the fourth quarter of 2025) categories. The Walls and Roofs category recorded a faster price increase (1.9 per cent in the first quarter of 2026 compared to 1.7 per cent in the fourth quarter of 2025). Faster price declines were also reported for the Finishing, Joinery and Painting and External Works (-1.6 per cent in the first quarter of 2026 from -0.9 per cent in the fourth quarter of 2025). Further, the Plumbing and Plumbing Fixtures (-0.9 per cent in the first quarter of 2026 from -2.4 per cent in the fourth quarter of 2025) and Windows, Doors and Balustrading (-0.9 per cent in the first quarter of 2026 from 0.1 per cent in the final quarter of 2025) registered weaker prices.

Wholesale prices, as measured by the CSO's Producer Price Index (PPI), edged up to 1.8 per cent (year-on-year) in the first quarter of 2026 compared to 0.5 per cent in the previous quarter. The rise in producer prices was attributed to price increases in the Drink and Tobacco (3.8 per cent in the first quarter of 2026 compared to a flat position in the fourth quarter of 2025) and Chemicals and Non-Metallic Products (2.6 per cent in the first quarter of 2026 compared to 2.3 per cent in the fourth quarter of 2025) industries. Meanwhile, a slower price decline was recorded for the Assembly-type and related industries (-0.1 per cent in the first quarter of 2026 compared to -0.2 per cent in the fourth quarter of 2025) and a price decline for the Printing, Publishing and Paper Converters industry (-0.3 per cent in the first quarter of 2026 compared to 0.3 per cent in the final quarter of 2025). Steady prices were recorded for the Food Processing, Wood Products and Textiles, Garments and Footwear.

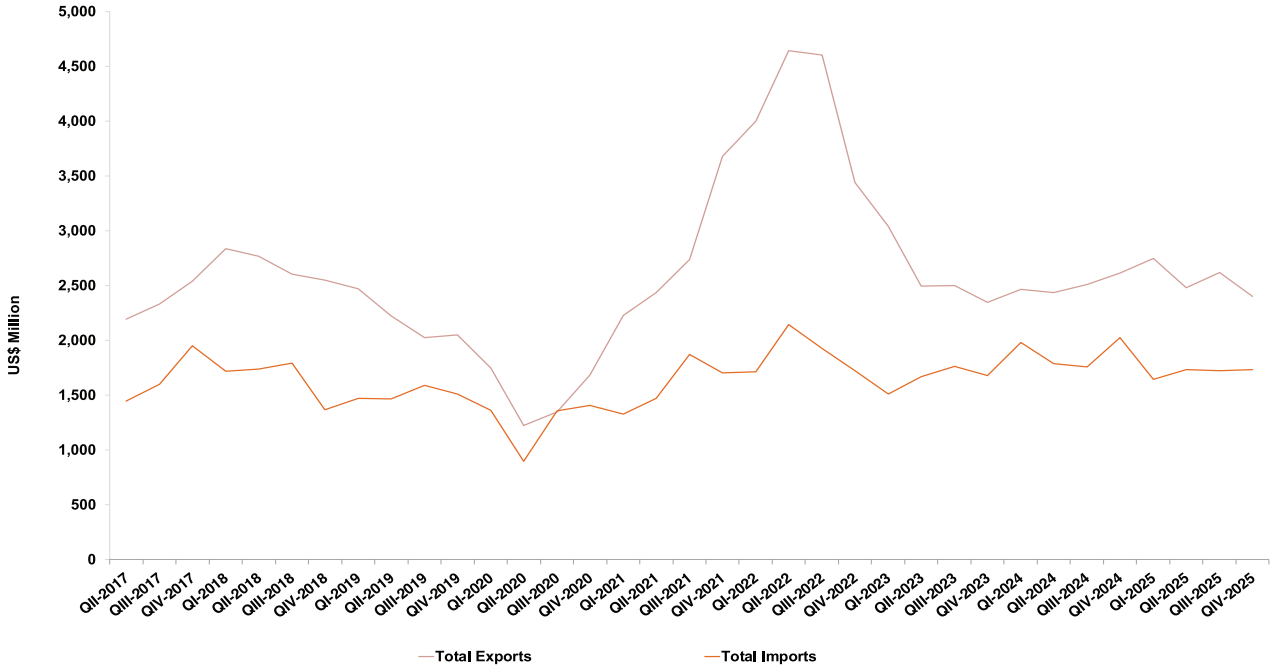
Despite the falloff in energy exports, the goods trade balance rose as imports decreased

Export revenue declined. In the fourth quarter of 2025, export earnings fell by 8.1 per cent (year-on-year) to US$2,400.5 million, reflecting dampened performances in both energy and non-energy exports. Energy exports declined by 3.5 per cent to US$2,037.4 million. This outcome was driven by a 7.7 per cent decrease in petrochemicals exports on account of lower export volumes for methanol, ammonia and urea. Additionally, petroleum crude and refined exports declined by 4.9 per cent, as international crude oil prices fell in the fourth quarter of 2025. Nevertheless, the decline was partially offset by an increase in gas earnings which expanded by 3.7 per cent, owing to a pickup in international gas prices. Driving the overall decrease in export earnings was a decline in non-energy exports of 27.6 per cent (year-on-year) to US$363.1 million in the fourth quarter of 2025, compared to the same period in 2024.

Total imports decreased year-on-year by US$287.1 million to US$1,735.0 million during the fourth quarter of 2025 (Chart 2.4). This was driven by a decline in non-fuel imports, and to a lesser extent fuel imports. Non-fuel imports declined by 17.1 per cent to US$1,327.0 million. Impacting the decline in non-fuel imports, was a fall-off in capital imports by 19.5 per cent or US$71.2 million to US$293.8 million in the fourth quarter of 2025. Fuel imports decreased by 3.0 per cent to US$408.1 million, reflecting a decline in international crude oil prices.

CHART 2.4

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

The portfolio investment account registered a net inflow in the fourth quarter of 2025

A decline in overseas asset holdings was primarily responsible for a net inflow of US$726.5 million in the portfolio investment account. This outturn reflected the combined effects of decreases in the holdings of long-term debt securities by the Heritage and Stabilisation Fund (HSF) and mutual funds, and short-term debt securities by banks and other financial institutions. Over the same period, portfolio investment liabilities recorded a small inflow of US$2.9 million due to repayments on non-resident holdings of debt securities.

3. DOMESTIC FINANCIAL CONDITIONS

Over November 2025 to April 2026, monetary policy held steady, however, active assessments of global economic developments and their possible spillover effects for domestic inflation and economic growth will guide future policy decisions. Commercial banks' excess liquidity remained ample with some volatility evident over the reference period, lending to higher interest rates. At the December 2025 and March 2026 MPC meetings, the Committee held the Repo rate at 3.50 per cent.

Liquidity Conditions and Interest Rates

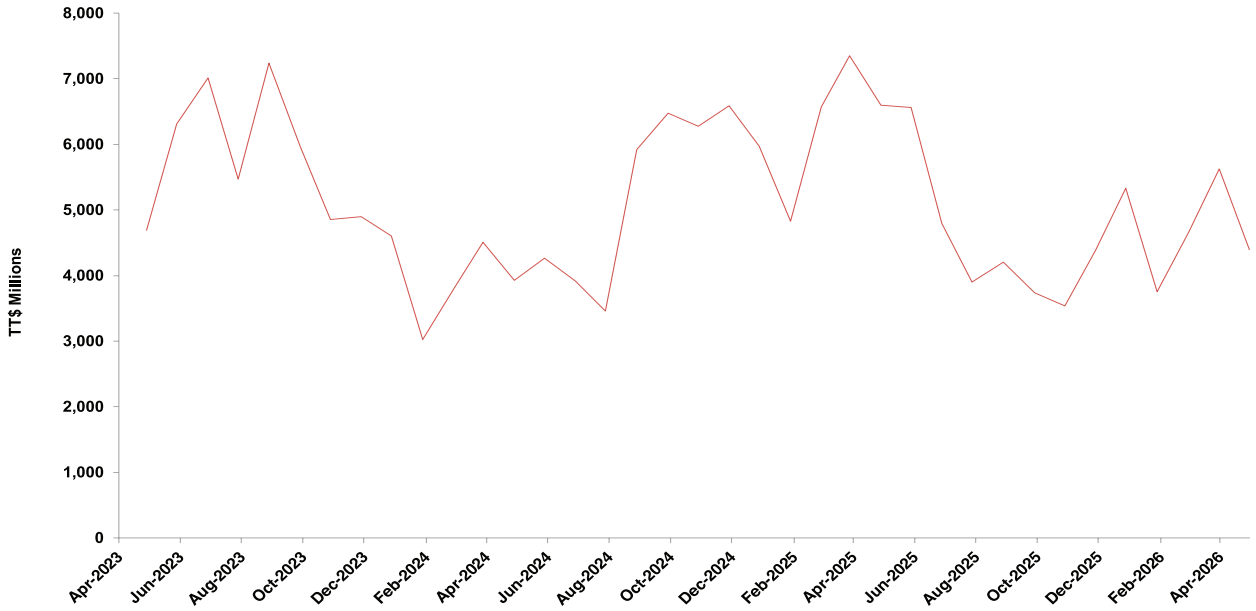
Financial system liquidity supported economic activity

Excess liquidity remained stable over November 2025 to April 2026 (Chart 3.1).

Over the period, fiscal operations, largely the main driver of excess liquidity, resulted in net injections of $5,658.9 million, compared to net injections of $3,356.6 million in the same period one year earlier. Central Bank's Open Market Operations (OMOs) resulted in net withdrawals of $3,200.0 million during the reference period, compared to net maturities of $1,485.0 million over the same period one year earlier. Furthermore, Central Bank sales of foreign currency to authorised dealers indirectly removed $4,009.5 million from the system, compared to $4,612.0 million in the same period a year earlier. Because of these developments, daily average excess liquidity remained steady at $4,394.3 million by April 2026 compared to $4,387.8 million in November 2025. Based on variability in net fiscal operations, as well as large OMO withdrawals over the period, excess liquidity experienced greater volatility during the six months through April 2026.

CHART 3.1

Commercial Banks' Excess Reserves



Source: Central Bank of Trinidad and Tobago

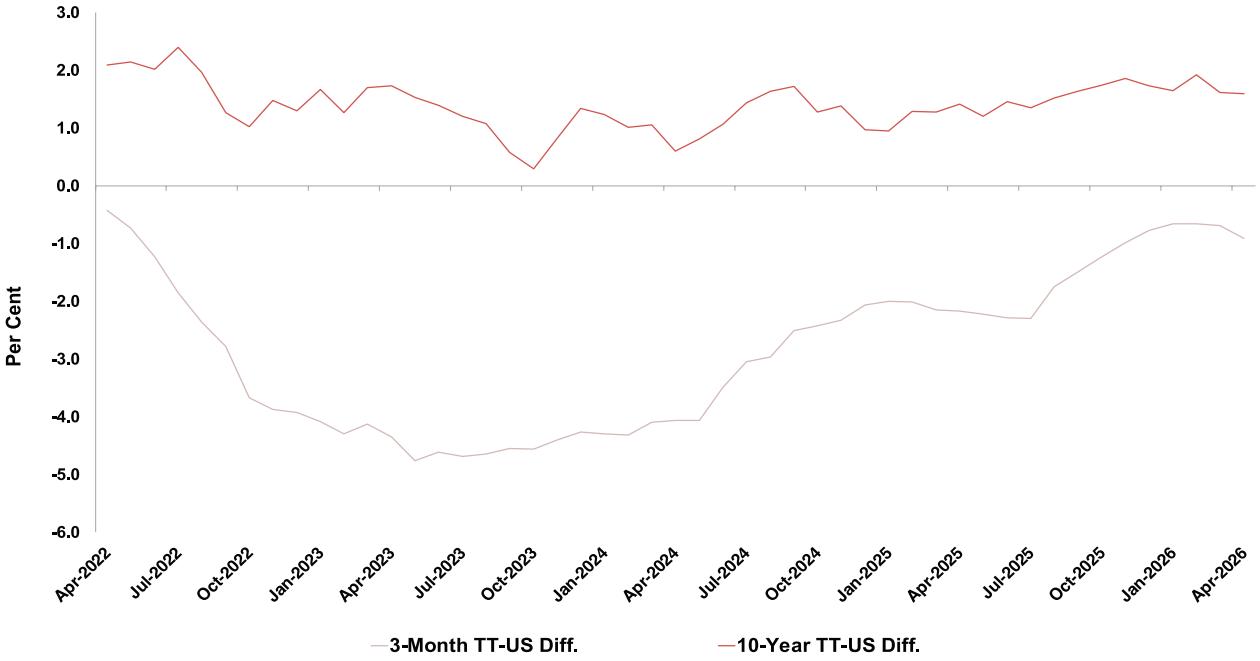
Daily interbank borrowing averaged $243.9 million over November 2025 to April 2026, compared to $13.5 million over the same period a year prior. Higher interbank activity was related to fiscal withdrawals around the turn of the year, with banks accessing the market 91 days over the period. Activity on the Repurchase Facility extended to banks for overnight liquidity over November 2025 to April 2026 reached a daily average of $35.8 million mainly due to activity over 16 days, while there was no activity in the same period a year prior.

Short-term interest rates decreased over November 2025 to April 2026. The TT 91-day OMO Treasury bill rate declined by 13 basis points over November 2025 to April 2026 to reach 2.77 per cent. Policy rate cuts by the Federal Reserve in late 2025 and the broad expectation of at least one rate cut during 2026 weighed on the US 91-day short-term benchmark yield, which declined by 20 basis points over the period to reach 3.68 per cent in April 2026. As a result, the TT-US 91-day differential improved to -91 basis points in April 2026 compared with -98 basis points in November 2025 (Chart 3.2). The TT 1-year Treasury rate increased by 7 basis points over the reference period, settling at 4.66 per cent in April 2026, while the US 1-year Treasury rate increased by 11 basis points over November 2025 to April 2026 to reach 3.72 per cent. These movements resulted in a TT-US 1-year differential of 94 basis points above parity in April 2026, from 98 basis points in November 2025.

The US 10-year Treasury rate gained 38 basis points over November 2025 to April 2026 to reach 4.40 per cent. This increase is likely related to inflation that remains persistently above target, portfolio rebalancing away from longer term US Treasuries owing to geopolitical uncertainty, and the elevated pace of debt accumulation by the US Government. The TT 10-year Treasury rate increased by 11 basis points over the period to reach 5.99 per cent, resulting in a 27 basis point decline of the TT-US 10-year yield differential to 159 basis points in April 2026.

CHART 3.2

3-Month and 10-Year TT-US Differentials

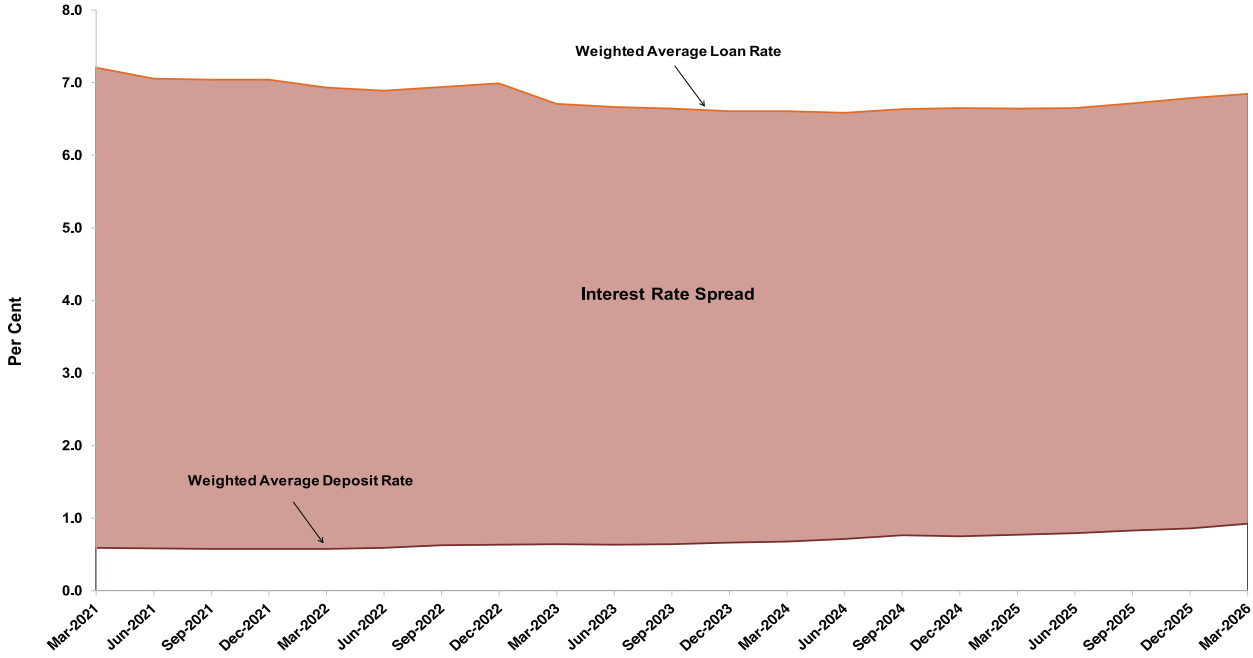


Sources: Central Bank of Trinidad and Tobago and the US Department of Treasury

Liquidity conditions drove higher commercial banking rates in March 2026. The commercial banks' weighted average lending rate (WALR) increased to 6.85 per cent in March 2026, 13 basis points higher than in September 2025. Additionally, the weighted average deposit rate increased by 9 basis points to reach 0.92 per cent over the same period. Episodes of tight liquidity in late 2025 and 2026 passed through to lending rates despite ample baseline levels of liquidity and competitive lending practices. As a result, the rounded banking spread increased by 4 basis points to 5.93 per cent over the period September 2025 to March 2026. Commercial banks' return on assets increased from 2.5 per cent to 2.8 per cent over June to December 2025, while return on equity increased from 12.7 per cent to 14.5 per cent. The interest margin-to-gross income of commercial banks decreased from 66.2 per cent to 64.3 per cent over the period. Meanwhile, commercial banks' median prime lending rate remained at 7.50 per cent (Chart 3.3). Despite ample liquidity over the period, the interbank borrowing rate increased to an average of 0.63 per cent over November 2025 to April 2026, from 0.50 per cent in the same period a year prior.

CHART 3.3

Commercial Banks' Interest Rates



Source: Central Bank of Trinidad and Tobago

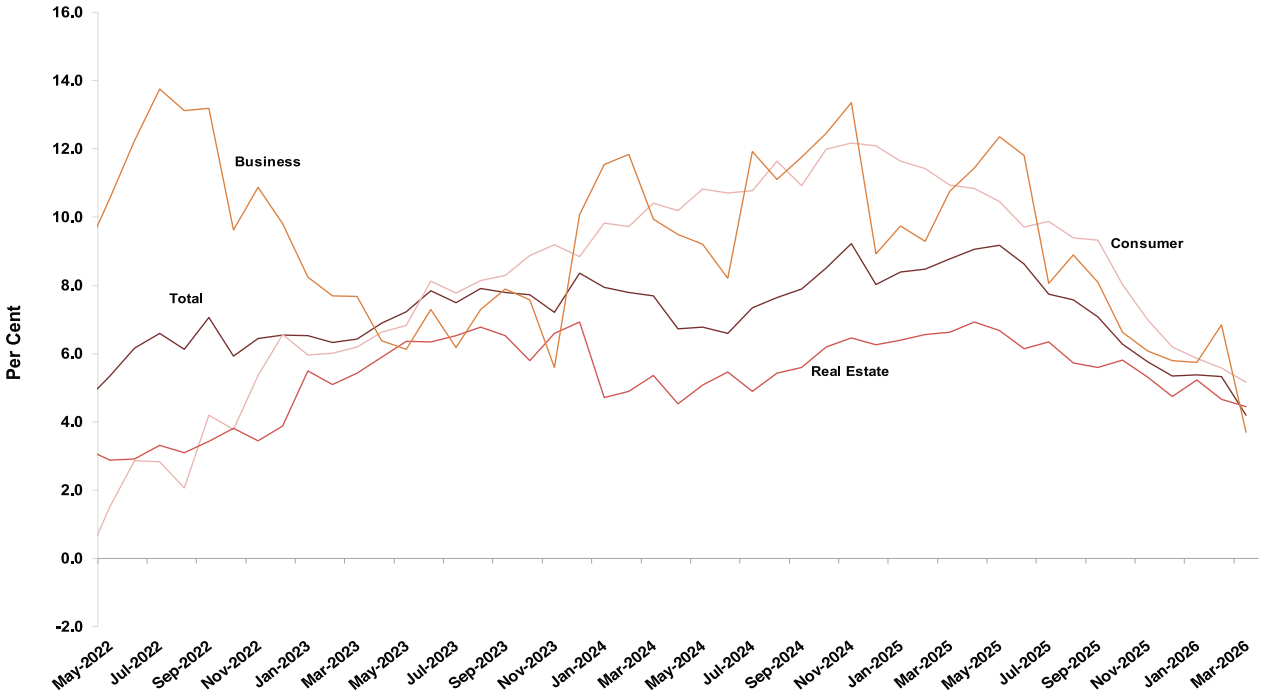
Private Sector Credit

Credit to the private sector continued to expand albeit at a slower pace

Growth in consolidated system credit slowed over the period October 2025 to March 2026. On a year-on-year basis, consolidated system credit recorded an increase of 4.2 per cent in March 2026, down from 6.3 per cent in October 2025. There was a deceleration across all major lending categories (consumer credit, real estate, and business lending) over the review period (Chart 3.4).

CHART 3.4

Private Sector Credit



Source: Central Bank of Trinidad and Tobago

Consumer lending decelerated between October 2025 and March 2026. On a year-on-year basis, compared to an increase of 8.0 per cent in October 2025, consumer lending slowed to 5.2 per cent in March 2026. Factors such as changes in labour market dynamics, higher lending rates, and broader macroeconomic uncertainty, coupled with the recent scaling back of card transaction limits, may have contributed to the slowdown in overall consumer loan activity. Quarterly data over December 2025 to March 2026 showed a deceleration in lending for Motor Vehicles (from 10.2 per cent to 9.0 per cent), Consolidation of Debt (from 5.8 per cent to 4.0 per cent), Refinancing (from 2.2 per cent to 1.4 per cent), and Other Purposes (7.1 per cent to 6.2 per cent) which contributed to the slowdown in consumer lending. Additionally, the Home Improvement and Renovation category declined from -0.8 per cent to -1.9 per cent between December 2025 to March 2026. On the other hand, Land and Real Estate expanded from 21.5 per cent to 22.2 per cent.

Business lending experienced a slowdown in growth in March 2026. In March 2026, lending to firms expanded by 3.7 per cent (year-on-year), down from 6.6 per cent in October 2025. Developments in economic activity, shifts in operating costs, and heightened market uncertainty likely shaped corporate financing decisions. This deceleration in growth in early 2026 can be attributed to a decrease in commercial bank lending over the period. Commercial bank business lending decelerated to 3.7 per cent while non-bank lending expanded by 3.7 per cent. According to quarterly sectoral business lending, the

Distribution (from 5.8 per cent to 3.7 per cent) and Manufacturing (from 4.3 per cent to 1.9 per cent) sectors decelerated over December 2025 to March 2026. This overshadowed an uptick in lending to several sectors, specifically the Construction (from 4.4 per cent to 12.5 per cent), Finance, Insurance and Real Estate (from 15.2 per cent to 16.3 per cent), and Other Services (from 3.0 per cent to 3.9 per cent) sectors.

Higher interest rates spurred a slowdown in real estate mortgage lending over the review period. Real estate mortgage loans grew by 4.4 per cent in March 2026, down from 5.8 per cent in October 2025. Slower growth was reported in lending by banks (4.4 per cent in March 2026 compared to 5.8 in October 2025) as opposed to non-bank lending which significantly increased from 8.8 per cent to 17.7[8] per cent in the same period. Upticks in the interest rate environment evidenced by the general increase in interest rates on 'new' commercial bank real estate mortgages, moving from 4.84 per cent in March 2025 to 5.23 per cent in December 2025 along with the increase of the Mortgage Market Reference Rate (MMRR)[9] from 3.00 per cent to 3.50 per cent by the end of 2025 contributed to this deceleration. The demand for commercial real estate mortgages was lower than residential mortgages. In March 2026, the growth in residential and commercial real estate mortgages reached 5.8 per cent and 1.8 per cent, respectively.

As the foreign exchange market remained tight, foreign currency borrowing declined while deposits inched up over the review period. On a year-on-year basis, foreign currency credit[10] fell (-1.3 per cent) in March 2026 compared to 8.7 per cent in October 2025. This was attributed to a decline in both commercial bank lending and non-bank lending . In March 2026, foreign currency deposits expanded by 7.9 per cent (year-on-year), an improvement from October 2025 (6.5 per cent). Over the period, deposits by businesses grew by 8.9 per cent in March 2026 compared to 6.9 per cent in October 2025, while deposits by consumers fell from 10.0 per cent to -1.3 per cent in the same period.

Growth in monetary aggregates continued to narrow into 2026. On a year-on-year basis, M1-A, which comprises currency in active circulation plus demand deposits, continued to decline, slipping by 2.1 per cent in March 2026, faster than the decline of 0.7 per cent in October 2025. Currency in active circulation expanded by 3.1 per cent whilst demand deposits declined by 3.0 per cent. On the other hand, M-2 slowed to 0.9 per cent in March 2026, compared to the increase of 1.2 per cent in October 2025. The growth in time deposits accelerated to 16.5 per cent, while saving deposits declined marginally (-0.2 per cent) in March 2026.

Foreign Exchange Market Developments

Tight conditions persisted in the local market for foreign currency thus far in 2026

Conditions in the foreign exchange market remained tight during the first four months of 2026 (Table 1). Purchases

8 Due in part to the reclassification of loans.
9 An interest rate benchmark against which mortgages are to be priced and re-priced.
10 Includes loans and investments to resident individuals and businesses.

of foreign exchange by authorised dealers from the public amounted to US$1,345.8 million over January to April 2026, a decrease of 10.4 per cent relative to the same period a year earlier. The decrease in purchases emerged despite a 2.2 per cent increase in conversions by energy companies relative to the same period in 2025. For the period January to April 2026, purchases from the energy sector accounted for 73.6 per cent of total foreign currency purchases over US$20,000 in value. Other sectors with notable inflows were Services (7.4 per cent) and Credit Cards (6.8 per cent).

Sales of foreign exchange by authorised dealers to the public reached US$1,836.9 million over January to April 2026, a decrease of 0.6 per cent relative to the same period a year prior[11]. Based on reported data for transactions over US$20,000, credit cards (38.8 per cent), retail and distribution (22.4 per cent), energy companies (14.3 per cent), manufacturers (7.5 per cent), and automobile companies (5.5 per cent) accounted for the majority of foreign exchange sales by authorised dealers to the public (Chart 3.5). The net sales gap reached US$491.1 million during the period. To support the market, the Central Bank sold US$400.0 million to authorised dealers.

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

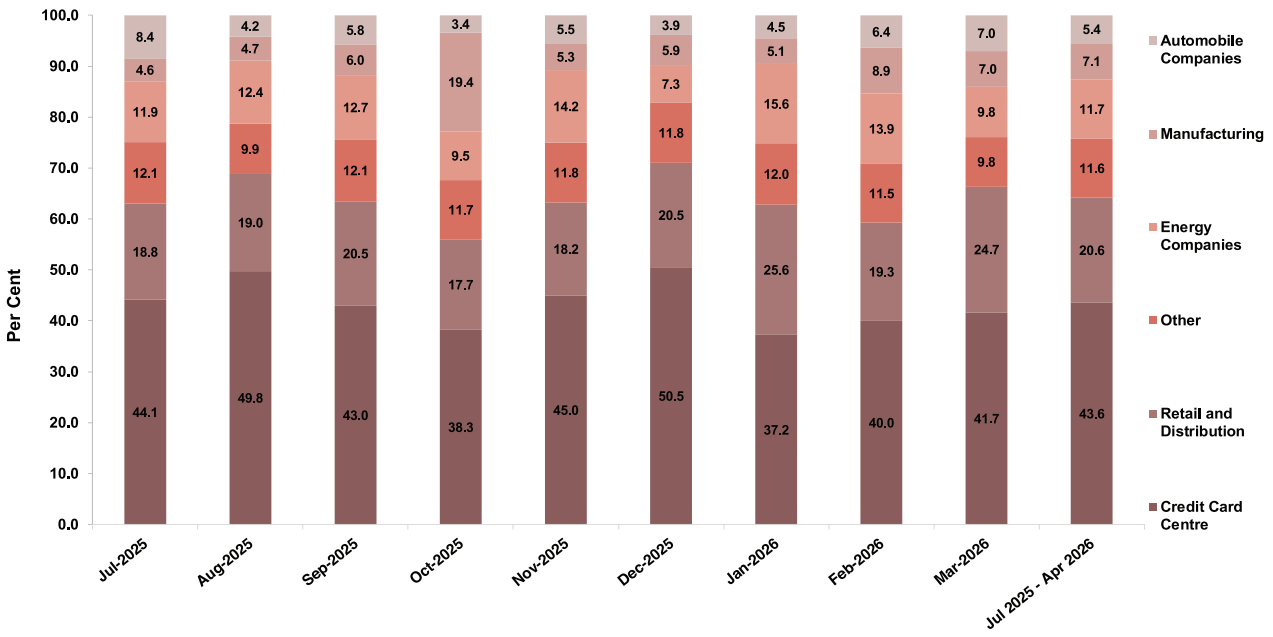
Date	Authorised Dealers Purchases from Public	Authorised Dealers Sales to Public	Authorised Dealers Net sales	Authorised Dealers Purchases from CBTT[1]
2020	3,298.2	4,504.1	1,206.0	1,292.2
2021	4,148.9	4,969.4	820.5	1,212.1
2022	5,528.8	6,551.2	1,022.4	1,270.6
2023	4,614.6	6,228.4	1,613.7	1,341.9
2024	4,544.7	5,899.4	1,354.7	1,363.0
2025	4,030.6	5,462.6	1,432.0	1,287.7
Jan - Apr 2025	1,502.0	1,848.2	346.1	401.5
Jan - Apr 2026	1,345.8	1,836.9	491.1	400.0
Y-o-Y Per cent Change	**-10.4**	**-0.6**	**41.9**	**-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.

11 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 2026, interventions by the Central Bank accounted for 21.7 per cent of total sales of foreign exchange by authorised dealers to the public, essentially the same proportion as 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 muted over the period October 2025 to April 2026

Over the period October 2025 to April 2026, activity on the primary debt market was subdued. The domestic capital market recorded three bond issues at a face value of $2,322.5 million. The Government was the only issuer in the market over the period, raising funds for budget support. Meanwhile, a US$1.0 billion fixed rate bond was issued on the international capital market for debt refinancing and budget support (Table 2). Over the comparative period one year earlier, the domestic primary debt market recorded eight bond issues raising $8,401.1 million exclusively for the Government.

TABLE 2
Primary Debt Security Activity
(October 2025 to April 2026)[p]

Period Issued	Borrower	Face Value (TT$ M)	Period to Maturity	Coupon Rate Per Annum	Placement Type
Oct-25	Government of Trinidad and Tobago (Tranche 1 of 2)	350.0	6.0 years	Fixed Rate 5.50%	Private
	(Tranche 2 of 2)	760.0	20.0 years	Fixed Rate 7.25%	Private
Nov-25	Government of Trinidad and Tobago	200.0	20.0 years	Fixed Rate 6.75%	Private
	Government of Trinidad and Tobago	US$150.0 Mn (TT$1,012.5 Mn)	3.0 years	Fixed Rate 6.0%	Private
Jan-26	Government of Trinidad and Tobago	US$1,000.0 Mn (TT$6,075.0 Mn)	10.0 years	Fixed Rate 6.50%	Public

p Provisional
Source: Ministry of Finance and market participants
*An international bond issued at a discount to face value

Activity on the secondary Government bond market remained healthy

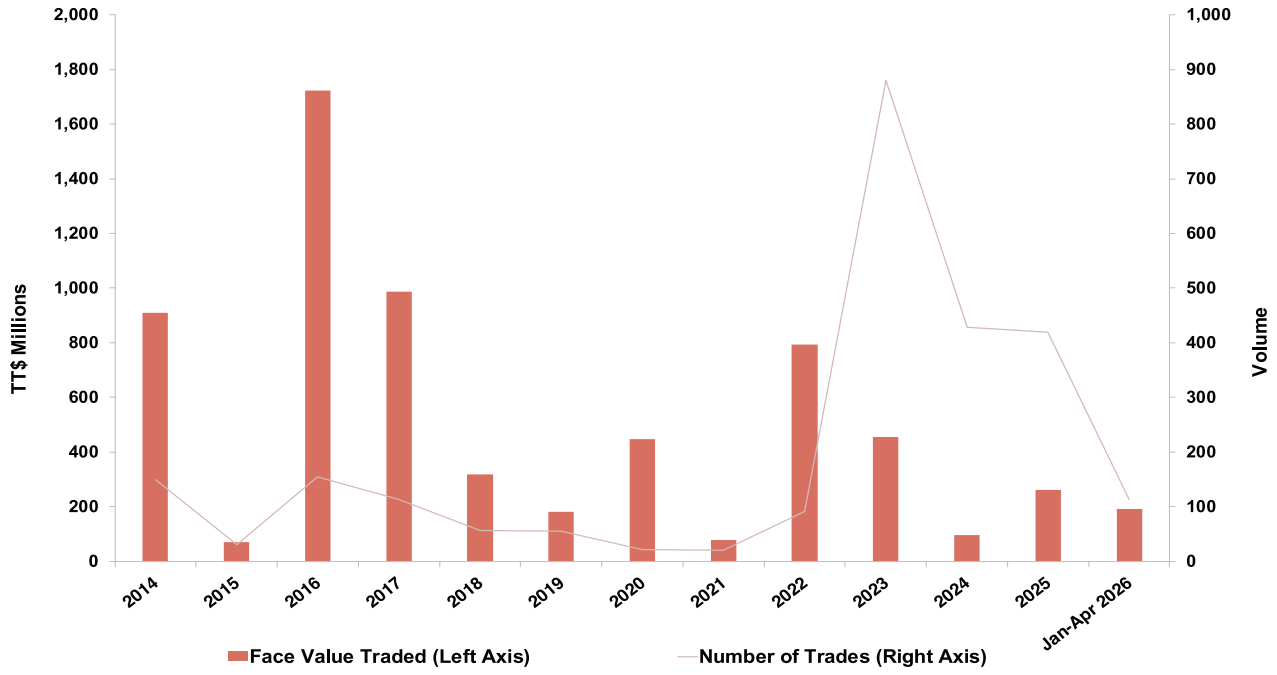
Over the period October 2025 to April 2026 activity on the secondary Government bond market was robust. The listing of the Government Series II bond in January 2023 continued to influence trading volumes, resulting in the market recording 219 trades at a face value of $364.7 million[12]. In comparison, 208 trades were recorded at a face value of $65.3 million during the same period one-year prior.

Similarly, over the same period, activity on the secondary corporate bond market grew. The market registered 129 trades at a face value of $79.2 million compared to 90 trades at a face value of approximately $6.6 million over the comparable period one year earlier.

12 The Government Series II bond recorded a total of 206 trades over the period October 2025 to April 2026.

CHART 3.6

Secondary Government Bond Market Activity



Source: Trinidad and Tobago Stock Exchange

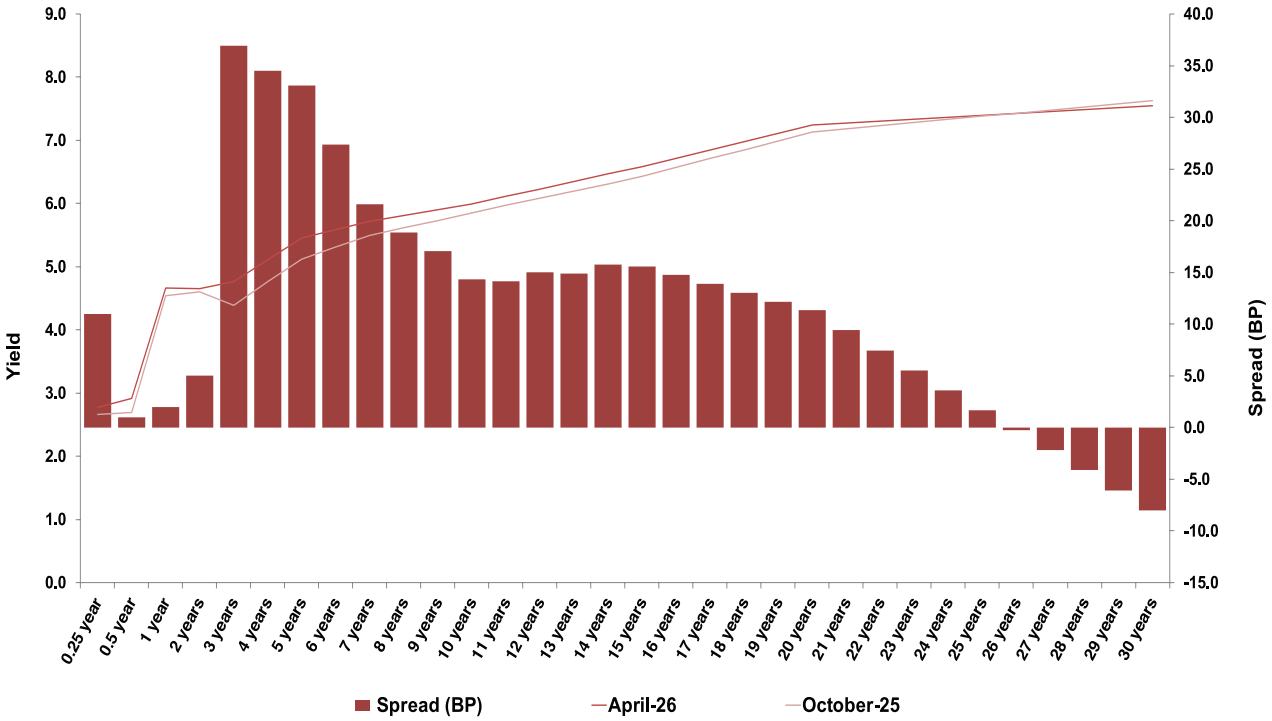
The Government yield curve displayed a general upward trend over October 2025 to April 2026

Over the period October 2025 to April 2026, the standardised Government yield curve showed mixed movements, though rates generally increased (Chart 3.7). At the short end of the curve, the 3-month and 6-month rates recorded increases, expanding by 11 and 23 basis points to 2.77 per cent and 2.92 per cent, respectively. The 1-year and 2-year rates advanced by 12 and 5 basis points to 4.66 per cent and 4.65 per cent, respectively at the end of April 2026. Additionally, the 3-year and 5-year rates recorded notable increases, growing by 37 and 33 basis points to 4.76 per cent and 5.45 per cent, respectively. Broad-based gains were also observed in the long-term rates up to the 25-year tenor. The benchmark 10-year rate increased by 14 basis point to 5.99 per cent while 15-year and 20-year rates increased by 16 and 12 basis points, respectively. The 27-year tenor and above recorded lower rates, reflecting a flattening of the curve at the very long end, possibly relating to investors' lowering their expectation of inflation and lower prospects about economic growth.

CHART 3.7

Trinidad and Tobago Central Government Treasury Yield Curve

October 2025 and April 2026



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.

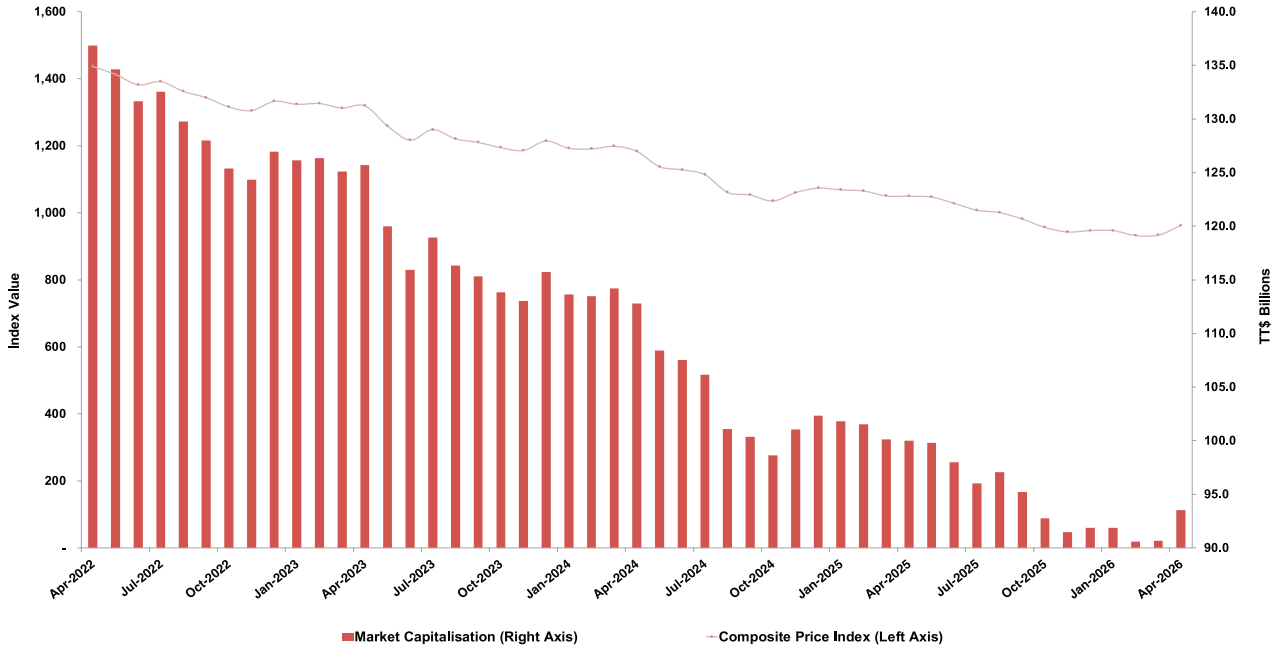
The domestic stock market showed signs of improvement over November 2025 to April 2026

Over the five-month period ending April 2026, the Composite Price Index trended upward (2.1 per cent), resulting in total stock market capitalisation inching up by $2.0 billion to $93.5 billion (Chart 3.8). Improved earnings across most sectors led to increases in both the All Trinidad and Tobago Index (ATI) and the Cross Listed Index (CLI) (2.1 per cent and 1.9 per cent, respectively). The performance of the first tier sub-indices reflected the improvement of several categories, including, Energy (188.5 per cent)[13], Property (62.5 per cent), Non-Bank (16.4 per cent) and Banking (2.8 per cent) sub-indices. On the other hand, declines were recorded in the Trading (-11.1 per cent), Manufacturing I (-9.6 per cent), Conglomerates (-1.1 per cent), and Manufacturing II (-3.9 per cent) sub-indices. Over November 2025 to April 2026, the SME Market capitalisation recorded a decline of 6.8 per cent.

13 NGL, which is the only listed company under the Energy sub-index has benefitted from the improvement in global gas prices, energy sector developments and a dividend payment announcement, all of which positively affected their share price.

CHART 3.8

Movements in the Composite Price Index and Stock Market Capitalisation



Source: Trinidad and Tobago Stock Exchange

Regional indices recorded a mixed performance over the same period, reflecting uneven investor sentiment and divergent developments across markets. The Caribbean Exchange Index (CEI)[14] advanced (0.8 per cent) over the five months ending April 2026. The performance reflected gains in the Jamaican (JSE) and Guyanese stock exchanges, while the weak performance of the Barbadian (BSE) stock exchange weighed on the CEI. The JSE index gained 8.8 per cent and the Guyanese exchange rose by 1.8 per cent, over the review period, while the BSE index inched up by 1.0 per cent.

The mutual funds market increased in the first quarter of 2026

Aggregate funds under management[15] inched up by 1.0 per cent to $53,959.0 million in March 2026[16] compared to $53,410.5 in the same period of 2025. This was largely attributed to an increase in Money Market funds, which gained 4.5 per cent to reach $17,148.8 million. 'Other'[17] funds increased by 1.6 per cent to $452.9 million. Equity funds and Income funds marginally declined to -0.4 per cent to $7,799.2 million and -0.6 per cent to $28,558.2 million, respectively.

14 The CEI was launched in October 2022, as a collaborative effort by five regional stock exchanges: Jamaica, Barbados, The Eastern Caribbean, Guyana, and Trinidad and Tobago. The index consolidates the activity of the main market stocks across the different exchanges into a single performance measure and is intended to be an indicator of the performance of the Caribbean region.exchanges into a single performance measure and is intended to be an indicator of the performance of the Caribbean

15 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.

16 As at the end of March 2026, data collected by the Central Bank accounted for 83.0 per cent of the industry's 80 TTSEC registered funds.

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

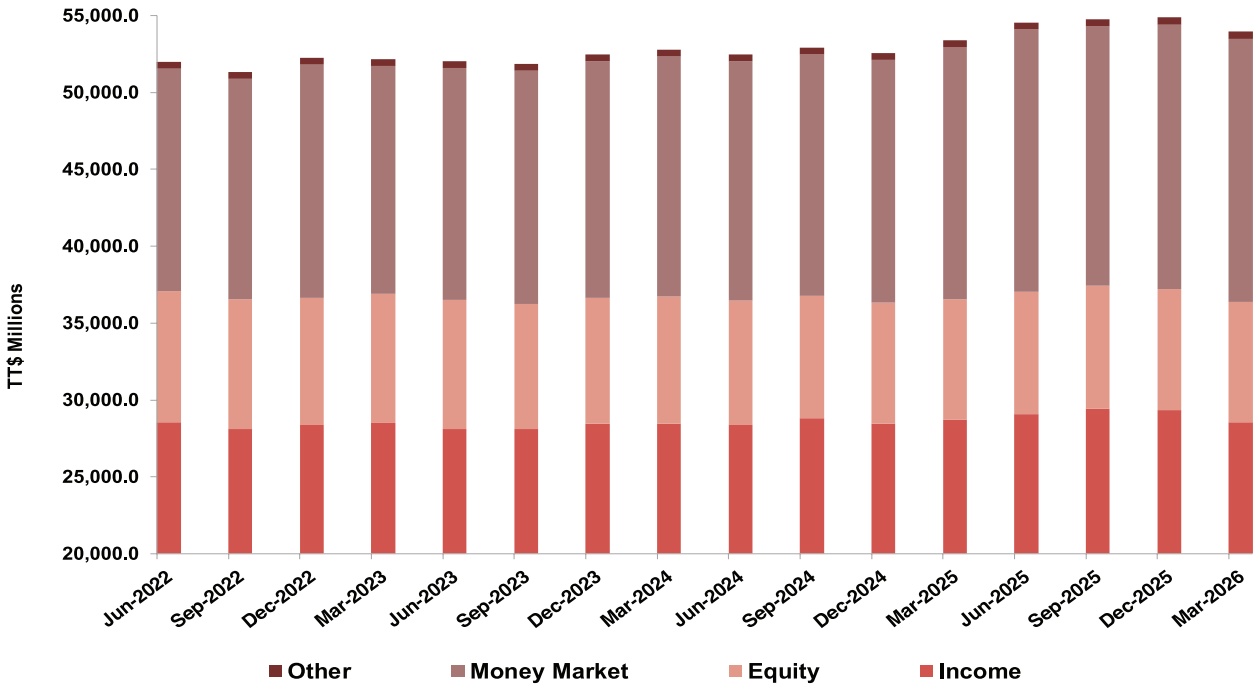
Fixed net asset value (NAV) funds continue to support the industry. Fixed NAV funds increased by 1.9 per cent to $41,896.6 million, reflecting greater investor preference for fixed/guaranteed returns in light of uncertain global economic conditions. On the other hand, floating NAV funds decreased (-1.9 per cent) to $12,062.4 million. In terms of currency composition, domestic and dollar-denominated mutual funds increased by 3.5 per cent to $44,692.9 while foreign dollar-denominated mutual funds declined (-9.5 per cent) to $9,266.1 million.

The industry recorded net sales of $125.8 million in March 2026. This comprised $4,206.7 million in sales and $4,080.9 million in redemptions. The net redemption position in the first quarter of 2026 was attributed to $217.9 million, $74.3 million and $1.6 million in net sales from Income Funds, Equity funds and Other Funds, respectively. Domestic currency funds recorded $22.1 million in net withdrawals while foreign currency funds recorded $147.9 million in net sales.

Collective Investment Scheme (CIS) data published by the Trinidad and Tobago Securities and Exchange Commission (TTSEC)[18] suggests that for the first quarter of 2026, the total value of Assets Under Management (AUM) for all registered funds recorded a 0.5 per cent increase to $64,992.8 million compared to the same period one year earlier. The industry also recorded net sales amounting to $80.1 million.

CHART 3.9

Trinidad and Tobago Mutual Funds Under Management by Fund Type



Source: Central Bank of Trinidad and Tobago

18 CIS data from the TTSEC represents 80 registered funds from 17 issuers.

Box 2
The Repurchase (Repo) Rate – Influences and Economic Impact

I. Introduction

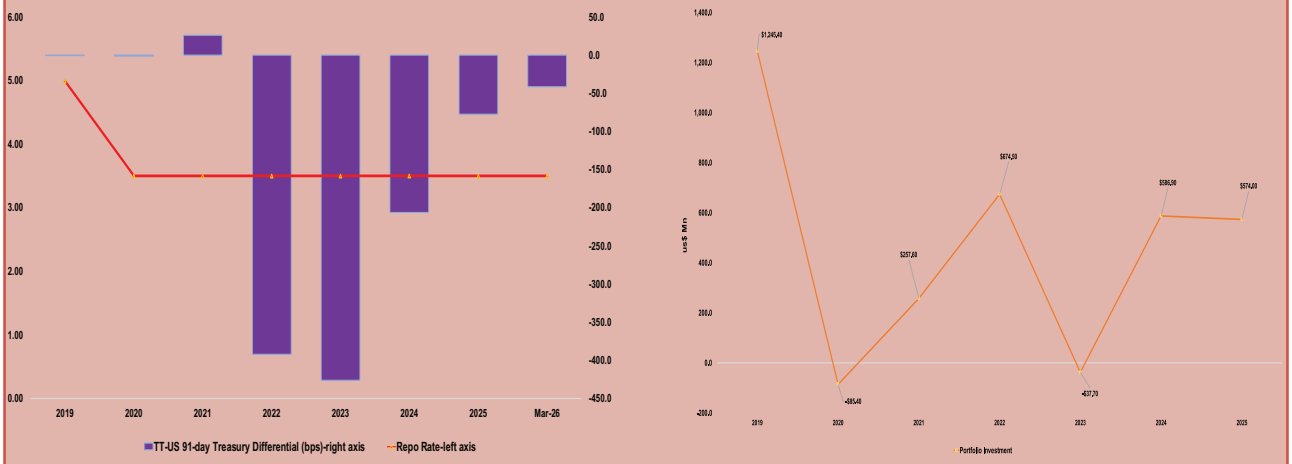
The Repurchase (Repo) rate is the principal tool used by the Central Bank of Trinidad and Tobago (the Bank) to implement monetary policy. Notably, the Bank's monetary policy seeks to promote low inflation, a stable foreign currency market, and increased employment and output. The Repo rate is meant to affect deposit and lending rates (the credit channel), which are then projected to influence savings and investment, resulting in changes in real variables. There is no established methodology for adjusting the Repo rate based on the level, trend or changes in the contributing factors. While the decisions strive to be data-driven, ultimately the application of expert judgment is the main determinant. This note assesses the variables considered in determining the Repo rate, as well as the potential consequences of a Repo rate adjustment.

II. Variables that Influence the Repo rate

Interest rate differentials and the possible impact on capital outflows are important elements considered when formulating the domestic Repo rate. Short-term and occasionally longer-term investments become more attractive when the US Federal Reserve (the Fed) raises its policy rate, widening the TT-US interest rate disparity and increasing the likelihood of disruptive capital outflows. Evidence suggests that foreign investments are driven by excess liquidity, limited domestic investment opportunities, and risk perceptions, while short-term interest rate differentials play only a minor role in shaping portfolio outflows. The ease of access to foreign currency and the opportunity to invest overseas may limit capital outflows from Trinidad and Tobago if US interest rates climb faster than TT rates. Chart 1 shows a net outflow in 2020 of US$85.40 million with the larger part of the outflow occurring in the first six months during the onset of the COVID-19 pandemic and 2023 (US$37.70 million) when the TT-US 91 -day differential reached -426 basis points after the US Fed began its rate hike cycle in 2022.

Box 2 (cont'd)
The Repurchase (Repo) Rate – Influences and Economic Impact

CHART 1:
TT-US Differential, Repo and Portfolio Investment



Source: Central Bank of Trinidad and Tobago and US Federal Reserve

The amount of gross official reserves a country has is another key consideration in determining the Repo rate. A significant build-up or depletion of these reserves often necessitates adjustments to the policy rate in order to sterilize liquidity; a large reserve balance serves as a buffer, allowing central banks to maintain lower interest rates. Furthermore, having substantial foreign exchange reserves strengthens the credibility of monetary policy. This could lead to lower risk premiums and allow the bank to maintain a lower policy rate than it otherwise might.

Policy rate decisions are directly influenced by the inflation rate; with central banks typically hiking policy rates to combat high inflation and reducing them to stimulate a stagnating economy. In Trinidad and Tobago as inflation inched up in 2014, coupled with other factors, the Bank opted to increase the policy rate in increments of 25 basis points from 2.75 per cent in 2014 to 4.75 per cent in 2015. While the Bank does not target inflation, a rising inflation rate usually spurs some policy response. Higher policy rates raise borrowing costs, which lowers consumer and business expenditure and cools the economy. On the other hand, low inflation may lead to rate reductions that promote borrowing and expansion.

Box 2 (cont'd)
The Repurchase (Repo) Rate – Influences and Economic Impact

CHART 2

Gross Official Reserves, Repo Rate and Inflation

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

Private sector credit is also taken into account while establishing the Repo rate. Raising the rate tends to increase general interest rates and makes credit more expensive, discouraging borrowing and encouraging saving. Maintaining a low Repo rate is likely to spur private sector lending and stimulate economic activity, all of which should be taken into consideration when calibrating the policy rate. In Trinidad and Tobago the non-energy sector is likely more affected by changes to the policy rate than the energy sector, however the transmission from the policy rate to real variables like output is thought to be slow and in some instances heavily dependent on other factors.

III. Historical Reasons for and Impacts of a Repo Rate Change/Hold

(a) 2014 to 2017

Over 2014 to 2015, the Bank repositioned its monetary policy stance to address international and domestic concerns. Following an increase in the main policy rate in September 2014, the Bank raised the Repo rate by 25 basis points in successive meetings of the Monetary Policy Committee (MPC) in November 2014, January 2015, March 2015, May 2015, and July 2015. As a result, the Repo rate stood at 4.25 per cent at the end of July 2015, up from

Box 2 (cont'd)
The Repurchase (Repo) Rate – Influences and Economic Impact

2.75 per cent prior to September 2014.

The Bank's decision was based on three main considerations: first, the increase in US policy rates, which narrowed the TT-US interest rate differentials and had the potential to trigger disruptive capital outflows; second, rising inflationary pressures; and third, evidence that the non-energy sector showed signs of improvement. The latter allowed the Bank to shift its monetary policy focus from boosting the local economy to moderating capital outflows and reducing inflationary pressures. To facilitate the transmission of Repo rate hikes, the Bank implemented a strong liquidity management strategy, which resulted in a significant tightening of domestic liquidity conditions in 2015.

In 2016, the domestic economy contracted on account of slowdowns in both energy (low price and curtailed production) and non-energy output. The lacklustre performance coupled with an average inflation rate of 3.1 per cent led the Bank to hold its Repo rate at 4.75 per cent following a series of increases over 2014 to 2015. Notably, gross official reserves stood at approximately US$9.5 billion representing 10.3 months of import cover over that period. The pause in Repo rate hikes were implemented to support the domestic economy considering that inflationary pressures eased and stresses for capital outflows abated as the US Fed halted their rate increases.

By 2017 real GDP remained constrained as non-energy activity contracted. The earlier hikes in the Repo rate can be seen as a proactive move, even though the non-energy sector subsequently slipped into negative territory. Though overall private sector credit expanded, growth came largely from consumer and real estate mortgage lending as business lending creeped up. Inflation slowed significantly as the base effect from a re-introduction of VAT in 2016 nullified the uptick in food inflation. Gross official reserves slipped to US$ 8.4 billion but remained adequate as this represented 9.7 months of import cover. Throughout 2017 the Bank held the Repo rate constant at 4.75 per cent.

(b) 2018 to 2021

In 2018 the decline in real GDP slowed, with a rebound in 2019 as the non-energy sector improved. Inflation remained relatively low, averaging 1.0 per cent in both 2018 and 2019. In June 2019, the MPC opted to increase the Repo rate to 5.00 per cent, citing a possible turnaround in economic activity, momentum in private sector credit and contained inflation. The Committee specifically noted the strong upward trajectory of external interest rates, particularly in the US, and the effect on Trinidad and Tobago's external balance. Importantly, the level of gross official reserves slipped to US$6.9 billion in 2019; the continued fall in reserves since 2016 showed that the country's usage of foreign exchange outweighed its earning ability.

Box 2 (cont'd)
The Repurchase (Repo) Rate – Influences and Economic Impact

By 2020, the onset of the COVID-19 virus spurred a lockdown of all non-essential services in Trinidad and Tobago. In an attempt to mitigate the financial fallout, the Bank engaged in accommodative monetary policy, reducing the Repo rate to 3.50 per cent and the reserve requirement to 14 per cent, with the main aim of providing support to the domestic economy. The Bank undertook a number of financial stability and monetary policy measures to ensure the financial system remained well capitalised and liquid during that time. Real GDP contracted by 8.8 per cent in 2020 and fell by 0.7 per cent in 2021. The effects of the COVID-pandemic and its resultant lockdowns continued to put downward pressure on private sector credit, while inflation started to inch up in 2021 (mainly on account of rising international food prices and adverse weather locally). Notably, the Bank maintained an accommodative monetary policy stance as it remained committed to supporting the domestic economic recovery.

(c) 2022 to 2025

Over the period 2022 to 2023, inflation began to inch up due mainly to adverse domestic weather conditions and higher prices internationally as supply chains were constrained. With the domestic economic recovery in progress, the Bank maintained its accommodative policy stance and held the Repo rate at 3.5 per cent. In 2024, the International Monetary Fund's (IMF) Article IV report cautioned against holding the Repo rate at 3.50 per cent given the change in US monetary policy, widening TT-US differentials and the possibility of heightened capital outflows[19].

> *"The CBTT should remain vigilant and stand ready to increase its policy rate...Together with the U.S. monetary policy tightening, the US-TT interest rate differentials widened. While these differentials have narrowed more recently, they incentivize potential capital outflows. Although capital outflows currently remain contained, the CBTT is encouraged to remain vigilant and stand ready to increase its policy rate if this risk intensifies."*- ***Staff Concluding Statement of the 2024 Article IV Mission***

In July 2024, the MPC conducted a special meeting to review the decline in liquidity, as the daily average of excess reserves was $2.8 billion from July 1 to July 18, 2024, compared to $3.9 billion in June 2024. In order to increase liquidity in the financial system, the MPC reduced the reserve requirement from 14 per cent to 10 per cent. The Repo rate remained at 3.5 per cent. In 2025, liquidity issues returned as the bank neared its OMO issuance limit. To help the market, Treasury bills were issued in December 2025, and the Repo rate stayed at 3.5 per cent. Gross official reserves continued to decline, reaching $5.4 billion by the end of 2025. Nonetheless, inflation remained low, the economic recovery was progressing, and private sector credit were decelerated.

---

19 Capital outflows remain difficult to measure due to the data collection method of the BOP survey, which assess net capital flows and not capital inflows and outflows separately.

Box 2 (cont'd)
The Repurchase (Repo) Rate – Influences and Economic Impact

IV. Conclusion

Historically, Repo rate increases have been targeted, with the goal of stifling potential capital outflows, controlling inflation, or supporting an economic rebound. Importantly, the decision of an optimal Repo rate is strongly reliant on a number of factors acting in tandem. The local and international economic environments should serve as a foundation for change, but judgment is also important. With a dynamic environment and the recent escalation of the US-Israel war with Iran, as well as the possibility of commodity price increases, market volatility, and inflationary pressures, a wait-and-see strategy may be required. While the transmission of any Repo rate move may be slow, and the financial sector has already built-in upward pressure on interest rates, the Bank's signal should be credible.

4. MONETARY POLICY ASSESSMENT (NOVEMBER 2025 – APRIL 2026)

In December 2025 and March 2026, the MPC considered a number of domestic (contained inflation and the credit-growth nexus) and external factors (geopolitical and policy-generated economic uncertainty) which informed the monetary policy stance.

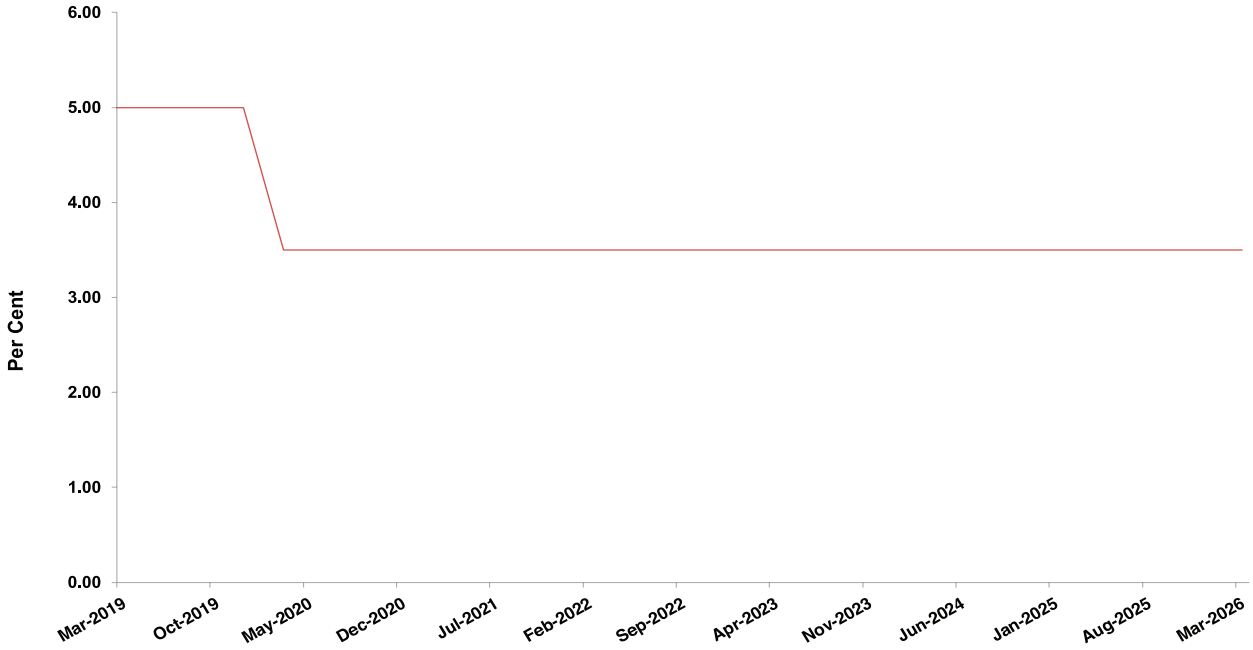
The main policy tool of the Bank, the Repo rate, remained unchanged at 3.50 per cent after being lowered by 150 basis points in March 2020, following the onset of the COVID-19 pandemic (Chart 4.1).

The Bank also manages narrow and broad money aggregates through its direct and indirect instruments, respectively. Direct influence over the money supply transmits through the reserve requirement, while indirect influence occurs through OMO instruments. The reserve requirement was reduced twice in the last six years, before which commercial banks' required reserves stood at $14,942.7 million (February 2020). One reduction occurred in March 2020 and the second in July 2024. As at April 2026, commercial banks' required reserves stood at $9,872.2 million. The stock of outstanding OMO instruments was depleted for a brief period in 2025, as total outstanding short-term Treasury bills and notes issued by the Central Bank for monetary purposes temporarily reached zero in October 2025. With the aim of supporting credit growth via ample liquidity, the Central Bank injected liquidity into the financial system during January to October 2025 via net maturities of $2,455.0 million. In December 2025, pending sale transactions in foreign markets were deemed likely to increase banking system liquidity, and the Central Bank issued $3,200.0 million in OMOs to keep liquidity from inordinately exceeding the ample range. Over November 2025 to April 2026, the Central Bank's OMO activity withdrew $3,200.0 million from the financial system.

The stock of broad money instruments remains constrained. Limited availability of injectable funds from the Blocked Accounts continued to dampen the Central Bank's ability to manage liquidity via the OMO channel. This constraint means fiscal conditions may continue to underpin the movement of liquidity levels into the medium-term. Liquidity management may thus exhibit increased dependence on direct instruments like the reserve requirement. Reliance on direct instruments however, structurally increases the potential volatility of excess liquidity, given that interventions via this channel tend to be much larger and less frequent than interventions occurring through broad money instruments. However, it should be noted the Central Bank retains the capability to address the overall liquidity needs of the financial system (Chart 4.2).

CHART 4.1

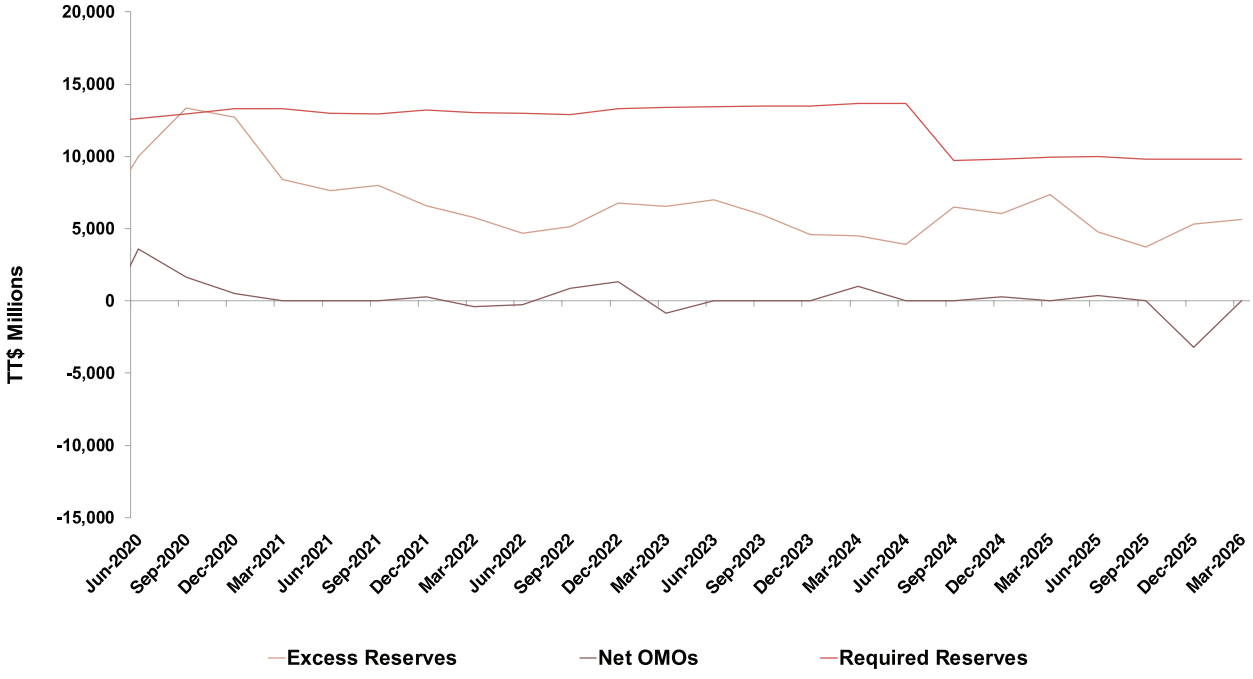
Repo Rate



Source: Central Bank of Trinidad and Tobago

CHART 4.2

Liquidity Management



Source: Central Bank of Trinidad and Tobago

Bank lending rates edged up in 2025 and early 2026

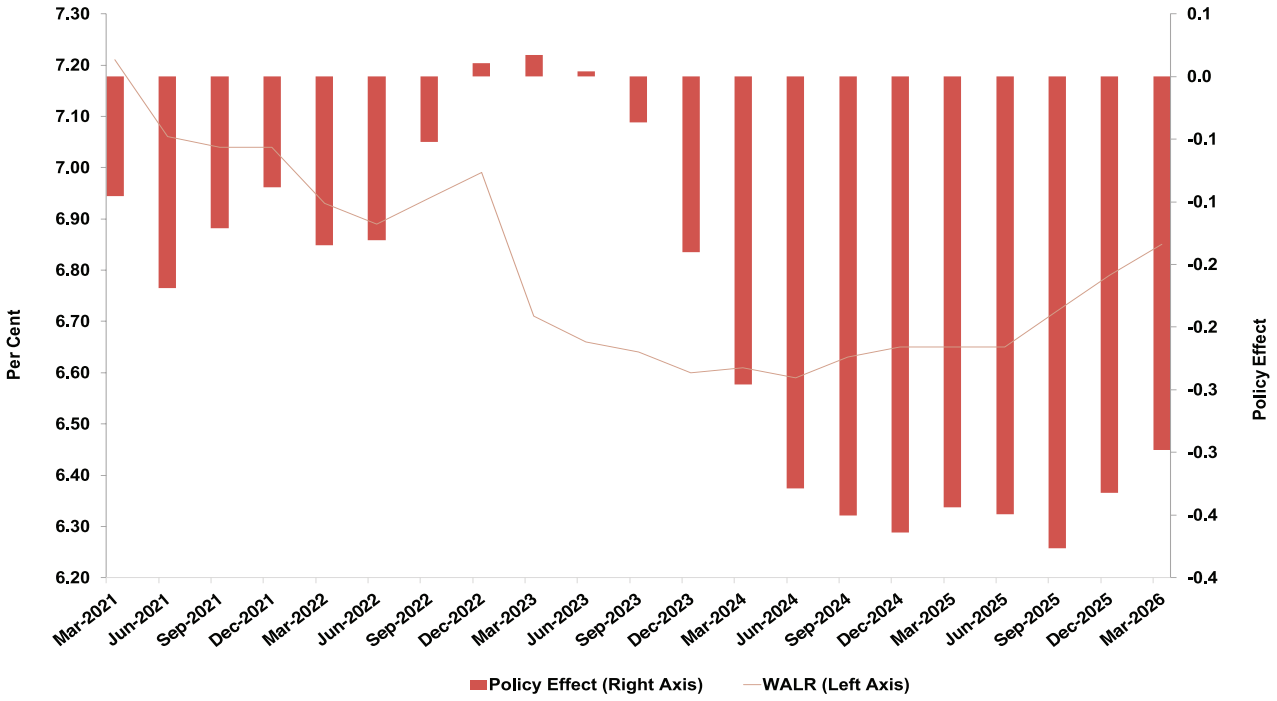
The Bank's commitment to maintaining ample liquidity intensified competition among lenders to supply credit, but periods of tight liquidity resulted in increased commercial banking rates. Liquidity levels remained ample in early 2025, reaching a daily average of $6,330.0 million over January to May 2025. However, liquidity declined to a daily average of $4,014.4 million over June to October 2025, related to net fiscal withdrawals over the period. Over November 2025 to April 2026, daily average excess liquidity reached $4,689.3 million, with the period characterised by net fiscal injections. The WALR increased from 6.72 per cent in September 2025 to 6.85 per cent in March 2026, following lower liquidity levels recorded in the latter half of the year.

Based on the interest rate and money supply channels, the direction of the combined effect of the Central Bank's monetary policy tools on commercial banking rates can be outlined. Chart 4.3 shows the historical evolution of the forecast error variance decomposition (FEVD) derived from a model[20] 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. During 2020, the combined policy effect begins declining; exerting pressure on the WALR itself to decline, showing that monetary policy has generally anchored commercial banking rates. Notably, the increase in the WALR since late 2025 follows the weakening accommodative effect of monetary policy, likely related to episodes of tighter liquidity over the period. It should be noted that baseline levels of liquidity remained ample over the period, and that the Central Bank has sufficient space to achieve the objective of facilitating economic activity through its liquidity management toolkit, and stands ready to facilitate the smooth operation of financial markets.

20 Vector auto-regression utilising data from March 2006 to March 2026.

CHART 4.3

Forecast Error Variance Decomposition



Source: Central Bank of Trinidad and Tobago

FEATURE ARTICLE

RESERVE REQUIREMENTS: USE, CASES AND EFFECTIVENESS IN TRINIDAD AND TOBAGO

Nikkita Persad and Natalie Thomas[21]

Summary

The Reserve Requirement (RR) is a monetary policy tool for managing bank system liquidity, and credit.. In recent times, the current economic environment has been clouded by heightened policy uncertainty, weakening global economic prospects and tightening financial conditions. Domestically, although financial conditions have remained favourable, economic growth and liquidity have deteriorated. This therefore signals that looser RR policy may be warranted to support a recovery in economic activity by ensuring funding markets have ample liquidity to support credit financing economic activities. This article therefore seeks to assess the effectiveness of the RR as a monetary policy instrument as it can enable the central bank to influence liquidity and credit conditions in the economy. Findings suggest that although changes in the RR affect lending capacity, the estimated impact on credit is muted[22] due to factors such as credit demand, banks' risk appetite and prevailing economic conditions.

Introduction

Reserve requirements (RRs) are one of the oldest monetary policy tools. RRs are used by central banks/monetary authorities to manage liquidity, influencing credit creation and overall monetary stability, and, in more modern times, financial stability. While, its importance has diminished over the years for AEs, it is still a key instrument for emerging market and developing economies (EMDEs).

The design of RRs plays a crucial role in determining its effectiveness and impact on the macrofinancial system. Higher RRs ensure that banks have an adequate buffer to meet sudden withdrawals, while lower RRs can make banks more vulnerable to liquidity shocks. However, though a safeguard, it could also tax regulated institutions, if un- or under-remunerated. Regulators are of the view that appropriately calibrated reserve requirement ratios (RRRs) are key for mitigating systemic risks and preventing bank runs. However, banks view high RRRs as a drag on profitability, as this limits the amount of funds available for interest-generating activities.

In Trinidad and Tobago, an unremunerated primary RR exists. The primary or cash RR is one of the monetary policy instruments used by the Central Bank of Trinidad and Tobago (the Central Bank) to influence monetary conditions. All licensed financial institutions are required to maintain a fraction of their prescribed deposit liabilities in a non-interest-earning cash reserve account with the Central Bank.[23] As of

21 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.
22 All scenarios impact is estimated to account for less than 10 per cent of total bank credit to the private sector.
23 Represents the portion of prescribed liabilities that institutions must maintain at the Central Bank. According to the Financial Institutions Act (FIA), 1993, prescribed liabilities include demand, saving, and time deposits denominated in local currency, short-term credit instruments placed on a wholesale basis with maturity from one day up to one year and fundraising instruments maturing within or beyond one year. While the new FIA 2008 allows for alterations to these limits.

November 2025, the primary RRR stands at 10 per cent and 9 per cent for non-bank financial institutions. An occasionally remunerated secondary RR also existed but was eliminated. Changes in the RRR may be made to complement the Repo rate and Open Market Operations (OMOs) or in isolation to address concerns in the monetary sector. Over the years, RR adjustments have been countercyclical, aiming to release liquidity and manage credit.

Global economic prospects are being clouded by a combination of geopolitical tensions and trade policy uncertainty, which can have adverse spillover effects on EMDEs. Against this backdrop, domestic economic growth has contracted and although domestic financial conditions were favourable, liquidity remains volatile. In an attempt to support an economic recovery and financial stability, adjustments to monetary policy particularly the RR may be warranted. This study aims to evaluate the impact of RR changes. The remainder of this paper is organised as follows. The next section reviews the design and effectiveness of RRs globally. Then a domestic overview of RRs is provided. Next, an analysis and a discussion on the impact of RRs domestically are presented. The last section provides implications and recommendations.

Literature Review

The use and design of RRs have morphed over the years. One such change has been its objectives. Known for its simplicity for managing liquidity and credit, the role of RRs has expanded, helping central banks/monetary authorities to manage the money supply and inflation, maintain banking system (banks and non-banks) stability and foster economic growth. Hence, central bank utilisation of RRs is now more aligned with attaining multiple goals.

According to Valle, King and Veyrun (2022), RRs are aimed at achieving either monetary or prudential policy objectives or a combination of both. The authors explained that monetary policy-directed objectives mainly seek to manage liquidity/reserves and short-term interest rate stability, while prudential-directed objectives seek to build buffers and restrict riskier bank behaviour. The authors warned that the use of RRs to achieve multiple policy objectives simultaneously may not be possible, noting design complexity, trade-offs and inefficiencies that could occur. Thus, the authors concluded that RRs should have a single targeted policy goal at a particular point in time.

The application of RRs varies across and within AEs and EMDEs, with greater usage by the latter since the inception of inflation-targeting regimes (Cantú, Gondo and Martinez 2024). Due to factors such as shallower financial markets, liquidity volatility and a higher sensitivity to capital flows RRs were retained by EMDEs. In contrast, several AEs have shown a declining appetite for RRs (Chu 2006, Federal Reserve Board 2020). During, the 1980s-90s, several countries such as Australia, Canada, New Zealand, Sweden, Switzerland and the United Kingdom abolished their RR. Reasons included RRs' effectiveness when compared to other tools, such as interest rates and their impact on depository institutions (especially regarding smaller institutions that may have less competitive advantage) (Sellon and Weiner 1996).

In recent times, the US Federal Reserve (Fed) reduced their RRs to zero per cent (March 15, 2020). This action eliminated RRs for all their depository institutions[24]. Following the Fed's decision to implement monetary policy in an ample reserve regime, the Fed concluded that RR would not have a significant role in this framework and was disbanded. It was also reduced its support lending to households and businesses during the pandemic (Federal Reserve Board 2020). While most AEs have eliminated their RRs, some economies such as the Euro zone and Japan still use RRs; however, the rates are very low (1.0 per cent and 0.8 per cent, respectively).

On the other hand, EMDEs tend to use RRs on bank deposits as an additional policy instrument, alongside conventional interest rate policy. Cantú, Gondo, & Martinez (2024) study highlighted that RR had a stronger effect in EMDEs, resulting in higher costs and higher benefits when compared to AEs. EMDEs tend to have a low degree financial development and is mainly dominated by banks, thus, banks can effectively pass the cost of the tax to economic agents as there are less substitutes for financing. Concurrently, RR are considered less effective at lowering financial stress in AEs as financial market are more developed. Further, unremunerated RRs act as an implicit tax on banks. To cope with this perceived loss banks may widen their intermediation spreads which can distort credit and savings pricing thereby affecting the efficiency of the financial system (Valle, King and Veyrun 2022).

Typically, adjusting RRRs downward can impact the economy via several channels namely credit through increased credit and liquidity availability as well as lower interest rates as credit supply increases. According to, Glocker and Towbin (2011), RRs are deemed to reduce domestic credit, without generating excessive capital inflows and appreciating the currency. In this instance, RR are applied as a macroprudential tool (MT) and has been used as a MT by economies such as Turkey, Brazil, Croatia, Columbia, Peru and Russia to control credit. Further, adjustments to the RR can stabilise inflation via the money multiplier effect[25] and control liquidity. China uses the RR as a measure to contain inflation and safeguard liquidity (Glocker and Towbin 2011). RR can also reduce the incidence and severity of financial stress episodes. Further, Chu (2006) highlighted that RRs enable monetary authorities to manage the money supply and by extension economic activity. While RRs can have its benefits, there are also several challenges with its use such as:

- Reducing financial institutions profitability if the reserves are not remunerated commensurate with market rates or are required to be held in low yield assets.
- Can constrain credit availability which may have implications for economic growth.
- Reserve avoidance - deposits could be kept at non-bank subsidiaries within bank conglomerates or are moved off-shore.

24 Defined as commercial banks, savings banks, savings and loan associations, credit unions, U.S. branches and agencies of foreign banks, edge corporations, and agreement corporations.
25 Adjustments to RRs can alter the money multiplier as money supply growth/credit creation changes. Ultimately, this can affect inflation by either restricting or promoting aggregate demand.

Table 1 shows the latest RR adjustments to cope with evolving macro-economic conditions.

TABLE 1

Selected Countries with Recent Reserve Requirement Actions

Country	Economy	Recent Actions	Reasons for Action/Impact
Angola	Oil based	July 2025: Cut the RR by 100 basis points to 18%	To increase liquidity and stimulate growth. The reduction in the RR in January 2025 resulted in an increase in liquidity of 100 billion kwanzas.
Nigeria	Oil based	September 2025: Cut the Cash Reserve from 50% to 45% for commercial banks	To improve lending and economic growth.
Colombia	Oil based	August 2024: Cut the RR from 8% to 7% for savings and chequing accounts and 3.5% to 2.5% for term deposits	To improve liquidity. The adjustment in RR resulted in an injection of 6.1 trillion in liquidity in the last quarter of 2024.
Curacao and Sint Marteen	Tourism	December 2024: Cut RR from 19% to 18.5%	Reduced the RR due to an improved foreign exchange position and adequate import coverage.
China	Oil based	May 2025: Cut RR by 0.5 percentage points for eligible financial institutions	Aims to generate 138.9 billion U.S. dollars in long-term liquidity.

Source: Various Central Bank's websites

Stylised Facts[26]

The Central Bank's monetary policy toolkit has evolved over the years, shifting from direct control measures to market-determined instruments. Pre-liberalisation, RRs complemented moral suasion and selective credit controls (SCCs), such as interest rate ceilings and differentiated credit ceilings. As markets became liberalised, the RR was steadily reduced, OMOs were introduced (1980s) and interest rate and loan controls were removed. Later a shift in attention to controlling short-term interest rates occurred, thus by 2002 the Central Bank ushered in a policy interest rate (Repo Rate)[27] as its main operating instrument and by 2003 the secondary RR was eliminated.

Over the years, oil-price cycles, credit growth and financial market innovations prompted RR adjustments.[28] Complementing other tools, during boom periods, the RR was raised. A notable hike occurred over 1960 to early-1980s—peaking oil prices fuelled domestic economic activity and banking system deposit growth, resulting in significant increases in credit and inflation. To curb overheating and inflation, a marginal RR (15 per cent) was imposed on incremental deposits and a RR of 3 per cent for

26 Given commercial banks' dominance in the financial system, the rest of the analysis will be the focus.
27 Rate at which the Central Bank provides overnight collateralised funding to commercial banks.
28 CERT (1983), Farrell (1986) and (1990), Central Bank of Trinidad and Tobago (2005) and Hilaire (2017).

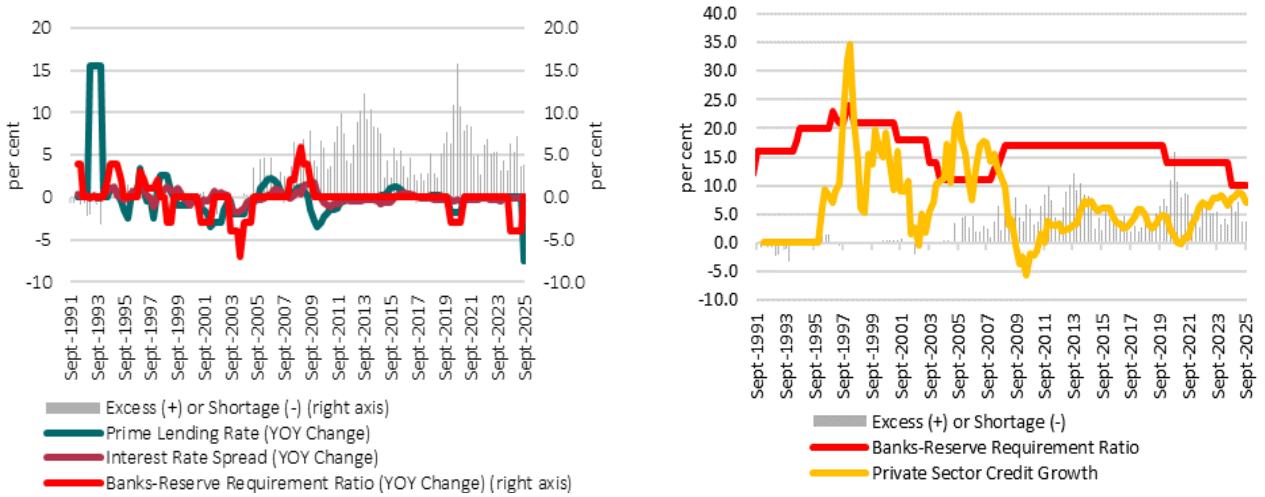
non-banks, joining SCCs. In contrast, during bust periods and the change to market-based tools the RR was lowered or kept unchanged, supporting other tools. Notable drops occurred over 2020 to 2024 due to the COVID-19 pandemic. Lower oil demand, fiscal stress, weak economic activity and credit growth saw two cuts in the RR to help revive the economy.

Historically, individual banks in Trinidad and Tobago appeared to hold excess funds after required reserves are set aside (Figure 1). This perhaps is due to several considerations. First, banks may hold excess reserves for precautionary purposes-an insurance against liquidity shocks. Second, excess reserves might arise due to banks' holding of liquid assets to meet regulatory liquidity requirements or to ensure adequate liquidity levels are maintained to meet daily payment obligations. Finally, banks hold excess reserves because credit conditions are not favourable or to have available funds to take advantage of opportunistic investments (discretionary).

Based on the earliest available data, RR changes have had an impact, mainly short-term, (Figure 1). Over the years, expanding the share of bank deposits held as reserves at the Central Bank have coincided with wider loan-deposit spreads, lower liquidity, a higher prime lending rate, and a lagged deceleration in credit to the private sector and vice versa for decreases in the RR.

FIGURE 1:

Impact of RR on Selected Variables

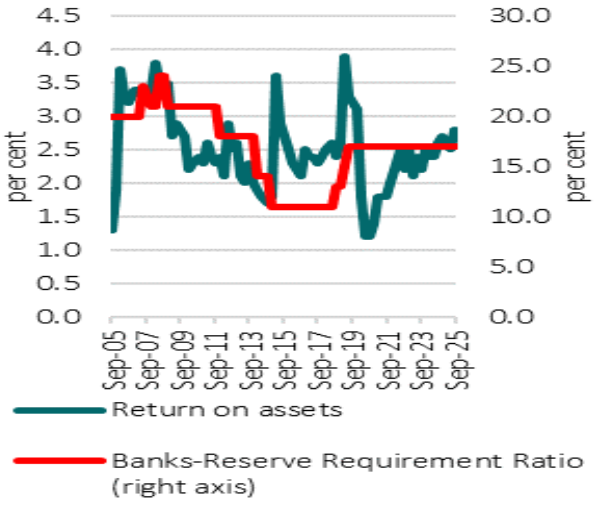


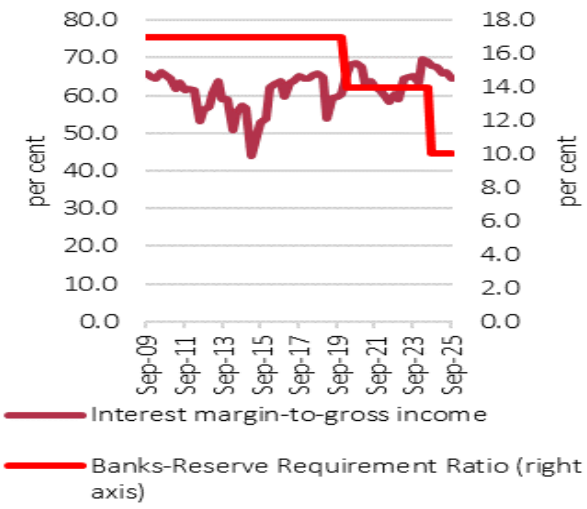
Source: Central Bank of Trinidad and Tobago

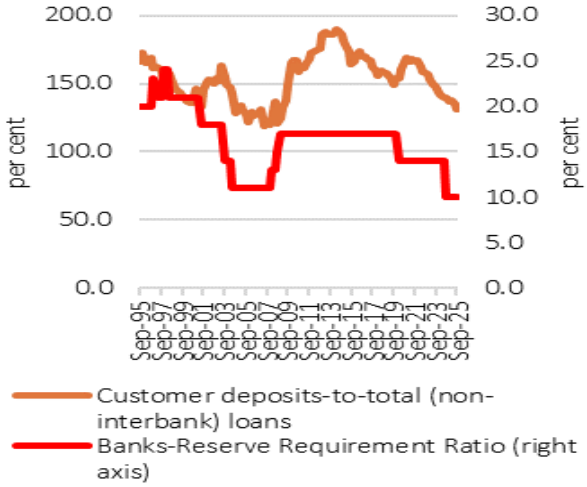
The impact on banks' profitability was also noted (Figure 2). Banks' interest margin-to-gross income ratio showed a negative correlation to the RR, indicating that changes in the RR have affected the relative contribution of interest income. But, despite this, overall profitability, as shown by banks' return on assets (ROA), appeared to have a muted net reaction to RR changes, suggesting that banks are able to adapt, especially to tighter reserve conditions. The response may also be attributed to prudent risk management strategies. Further, the presence of structural liquidity surpluses, domestically, is also noted to have had an effect on the transmission of RR policy.

FIGURE 2:

Impact of RR on selected profitability indicators







Source: Central Bank of Trinidad and Tobago

Scenario Analysis and Discussion

Against a backdrop of heightened policy uncertainty, weakening global economic prospects and tightening financial conditions, domestic financial conditions have remained favourable but growth has contracted and system liquidity has started to shrink. Thus, in an attempt to support the economic recovery while maintaining financial stability, looser RR policy may be needed.

RRs are simple-to-use and immediate and hence, useful monetary tools to influence the money supply, bank credit, and borrowing costs. This paper uses three scenarios to assess the impact of RR changes on commercial banks:

Scenario 1: RRR returns to pre-pandemic levels (to 14 per cent from the current level of 10 per cent)
Scenario 2: RRR gradually declines over a defined period of time until it reaches 5 per cent
Scenario 3: RRR is eliminated (to 0 per cent)

Each scenario is expected to either tighten or release additional liquidity into the banking sector. The aim is to understand the impact of RR changes on the (i) banks' lending capacity, (ii) implicit cost for banks and (iii) potential change in credit (Figure 3).

FIGURE 3:

Estimated Impact of RR Changes, TT$ Billion/Per Cent

	Prescribed Liabilities (PL)	Reserve Ratio (RR)	Required Reserves (RES)	Opportunity Cost of Reserves (OPP)*	Loan Demand Adjustment Factor (LDAF)**	Adjusted Lending Capacity (AdjL)	Implicit Cost of RR (RES X OPP)	Change in Credit (ΔCrdt)***
Current (Sep 2025)	98.26	10.00%	9.83	6.89%	0.75	87.12	0.68	-
Higher RR	98.26	14.00%	13.76	6.89%	0.75	83.25	0.95	-2.96
Lower RR	98.26	5.00%	4.91	6.89%	0.75	91.96	0.34	3.7
No RR	98.26	0.00%	0	6.89%	0.75	96.8	-	7.4

Source: Authors' calculation
Notes: * Based on the Commercial Bank Weighted Average Lending Rate. ** Based on the Commercial Bank Loan-to-Deposit Ratio. *** (PL*(Change from current RR))*LDAF

Lending Capacity

To assess how much banks could lend under constraints, the lending capacity is derived. This measure calculates the maximum stock of loans banks can theoretically support given its deposit base, RRs and other prudential constraints. Given that credit is not expected to proportionally adjust to RR changes due to risk appetite of banks, consumer demand and excess liquidity, an adjusted variation which incorporates a Loan Demand Adjustment Factor (LDAF) is used, capturing factors such as actual bank risk appetite, borrower demand and macroeconomic conditions.

Thus, the LDAF is proxied using bank's ratio of gross loans-to-deposits (LDR)[29]. To capture the LDR based on the current RR, an average of the LDRs over September 2024 to September 2025 is used.[30] The result was 0.75 for the sector, hence 75 per cent of liquidity released is estimated to materialise into credit growth. Results showed that RR cuts caused a bump up in banks' lending capacity and vice versa when RR was increased at the commercial banking sector level. However, the change in bank credit to the private sector was not significant (Figure 3).

Implicit Costs

Implicit losses that commercial banks would incur if a higher RR, lower RR or an elimination of the RR were also included in the analysis. To do so, we factored in the foregone return that commercial banks would have generated if required reserves were utilised to earn interest. The opportunity cost is measured by employing the banks' weighted average lending rate. Figure 3 illustrates that a RR rise hinders efforts to foster economic growth as more funds will be immobilised, weakening credit growth and compressing the money multiplier. In contrast, as RR decreases the losses incurred by banks diminishes, increasing lendable funds, expanding the money multiplier and improving profitability as banks will have more reserves available to be used for loans or other interest-bearing activities.

Policy Implications and Recommendation

Tradeoffs between liquidity efficiency, credit, and bank profitability exist when using RR policy. Hence, the impact of reducing or eliminating the RR are is follows:

29 A measure of bank's liquidity. The higher the ratio, the more a bank may be relying on its deposits to fund loans, increasing profits but also leaving less cash to cover withdrawals, RRs, and unexpected funding needs.
30 A constraint on lending is evident, as despite higher liquidity releases less than 100 per cent is likely to be utilised for loans.

Liquidity

A reduction or removal of RRs will unlock reusable funds for banks. Hence, given the constrained effect on credit and already structural liquidity surpluses it may add to idle liquidity rather than stimulate intermediation. Additionally, being a small and open economy, Trinidad and Tobago is susceptible to external shocks. In crisis times, liquidity buffers are often deployed, as buffers are by RRs. Consequently, in the absence of adequate liquidity buffers, the likelihood of bank failures can arise.

Deposit insurance/Depositor protection

RRs play an implicit protective role in the macrofinancial system, ensuring a minimum liquidity buffers which aids in settlement stability and lower liquidity risks. A downward shift in RR can shrink the liquidity safety net of banks, shifting more responsibility on the insurer and Central Bank's supervision. Public confidence can also be affected if banks are perceived as having lower liquidity, triggering withdrawals which could destabilise the system.

Bank Profitability

RR cuts are also often a booster for bank profitability. The Central Bank's RR is unremunerated hence released liquidity provides an avenue for banks to invest in higher interest-bearing assets, strengthening profitability indicators. On the flip side, more available funds can prompt greater risk taking by banks, creating vulnerabilities in stress times.

Credit

RR changes are expected to affect lending, though not commensurately. Results revealed that although, lending capacity via a RR cut or removal increased, the change in private sector bank credit was not significant. Under the three scenarios, the estimated impact on credit accounts for -4 per cent (Higher RR), +5 per cent (Lower RR) and +9 per cent (Elimination of the RR) of total bank credit, respectively. These results imply a weak transmission of RRs domestically, due to factors such as a credit demand and the risk appetite of financial institutions.

In light of the above repercussions, RRs should not be discarded but be utilised with other tools to ensure macro-financial stability. Enhanced market surveillance and supervision is also encouraged, especially expanding the Central Bank's regulatory reach. Strategies to enhance the growth of Trinidad and Tobago Deposit Insurance Corporation via expanding coverage and stronger crisis management and resolution frameworks are recommended.

Conclusion

Domestic RR policy appears effective at influencing bank liquidity, credit and profitability in a banking market with excess reserves. However, although changes in the RR affect lending capacity, the estimated credit impact remains hindered by underlying factors such as credit demand and banks' risk appetite. This suggests that the RR is partially effective as a credit tool and should be complemented with other tools (such as policy adjustments and moral suasion) to improve credit conditions.

Works Cited

Cantú, Carlos, Rocio Gondo, and Berenice Martinez. 2024. "Reserve Requirement as a financial stability instrument." BIS Working Paper No. 1182.

Caribbean Economic Research Team. 1983. "The Trinidad and Tobago Economy: Trends and Prospects." Annual Monetary Studies Conference. CERT. 43-56. https://cert-net.com/files/publications/conference/158.pdf.

Central Bank of Trinidad and Tobago. 2021. Compilation of Working Papers Vol. 2. 2021. Compilation of Working Papers, Port of Spain: Central Bank of Trinidad and Tobago.

Central Bank of Trinidad and Tobago. 2005. The Implementation of Monetary Policy in Trinidad and Tobago. Public Education Report, Port-of-Spain: Central Bank of Trinidad and Tobago. https://www.central-bank.org.tt/sites/default/files/page-file-uploads/Public%20Education%20Pamplet%20%20The%20Implementation%20of%20Monetary%20Policy%20In%20Trinidad%20%26%20Tobago.pdf.

Chu, Kam Hon. 2006. "Reserve Requirements and money multiplier predictability: the Canadian Experience." Banks and Bank System Volume 1, Issue 3, 100-115.

Farrell, Terrence W. 1990. Central Banking in a Developing Economy: A Study of Trinidad and Tobago, 1964-1989. Mona: Institute of Social and Economic Research. https://cert-net.com/files/publications/monograph_book/CentralBankinginaDevelopingEconomy.pdf.

—. 1986. "Monetary Policy in Trinidad and Tobago." Regional Programme of Monetary Studies Conference. Caribbean Economic Research Team. https://www.cert-net.com/files/publications/conference/4.pdf.

Federal Reserve Board. 2020. "Federal Reserve Actions to Support the Flow of Credit to Households and Businesses." Board of Governors of the Federal Reserve System. 15 March. https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm.

Glocker, Christian, and Pascal Towbin. 2011. "The macroeconomic effect of reserve requirement."

Hilaire, Alvin. 2017. "Monetary Policy in Trinidad and Tobago: How it stacks up to Other Central Banks." Port-of-Spain: Central Bank of Trinidad and Tobago. Accessed December 20, 2022. https://www.central-bank.org.tt/sites/default/files/2017-11/Monetary%20Policy%20in%20TT%20-%20How%20it%20Stacks%20up%20with%20Other%20Central%20Banks%20Nov%202017.pdf.

Sellon, Gordon H., and Stuart E. Weiner. 1996. "Monetary Policy without Reserve Requirements: Analytical Issues." Economic Review.

Valle, Guido Della, Darryl King, and Romain Veyrun. 2022. "Reserve Requirements Monetary and Capital Markets Department, Technical Assistance Handbook.

Central Bank of
Trinidad & Tobago