

# Monetary Policy In Trinidad and Tobago: How it stacks up to other Central Banks



CENTRAL BANK OF  
TRINIDAD & TOBAGO

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# Main Points



1. Central Banks worldwide are becoming more communicative about monetary policy.
2. Monetary policy is often tasked with other goals besides inflation control.
3. Trinidad and Tobago's energy-exporting nature forms the backdrop for monetary action.
4. The Central Bank has moved progressively towards more market-determined policy instruments.
5. This requires constant adaptation to market behaviors, and could be complicated with digital currencies.
6. The country is still in the early stages of adjustment to a shift in the terms of trade.
7. The short term prospects for non-energy exporters are looking very good.
8. Monetary policy is aiming to control inflation, facilitate a recovery and maintain external balance.
9. Central Banks in other countries are also responsive to their specific circumstances.
10. Successful macroeconomic adjustment requires fiscal, structural and monetary policy coordination.
11. Excessive Central Bank financing of governments must be avoided, given the implications for inflation.
12. Macroeconomic adjustments should be made from a position of strength.
13. Monetary policy needs to maintain its dynamism to deal with current and future financial challenges.

THE WONDERFUL

WORLD OF

# MONETARY POLICY



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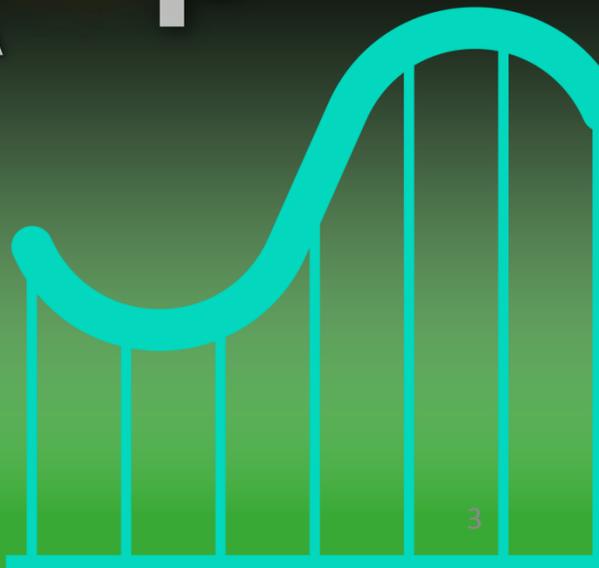


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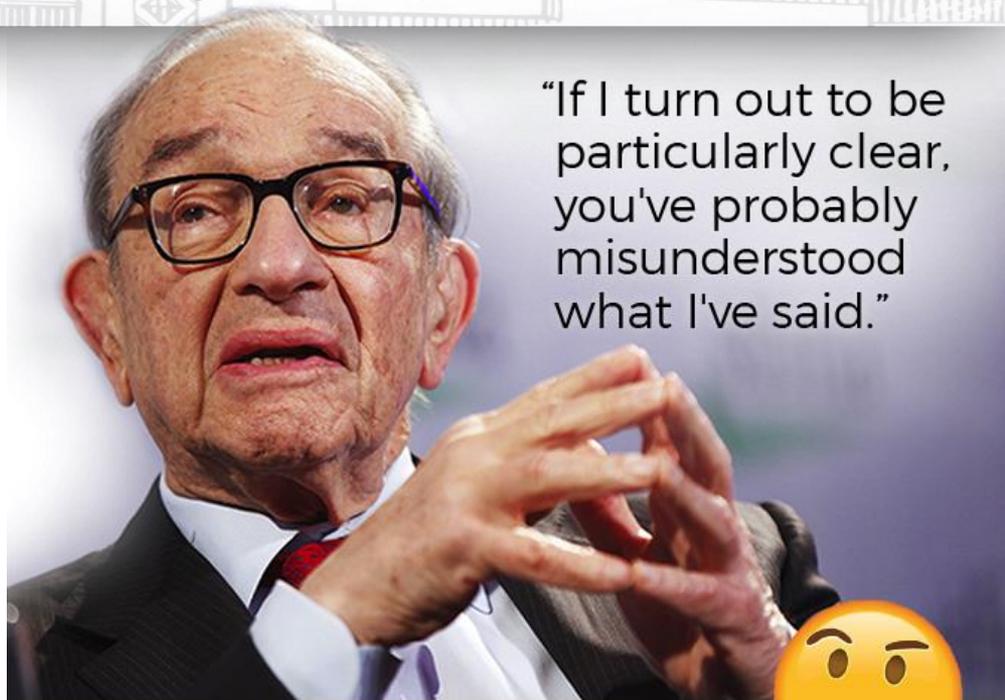
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# Central Banks are making increasing efforts to lift the veil of mystery surrounding monetary policy



- Realization that communication could make monetary policy more effective
- **Forward Guidance** – e.g. the US Federal Reserve
- European Central Bank **Conference on Central Bank Communication**, Nov 2017
- **Strategic Plan** – Central Bank of Trinidad and Tobago



“If I turn out to be particularly clear, you've probably misunderstood what I've said.”



**Alan Greenspan**

Chairman, Federal Reserve  
(1987-2006)

# While inflation control is a well established objective, monetary policy is often tasked with other goals



Central Bank goals have changed through the years:

**Inflation**  
**Economic Growth**  
**Economic Development**  
**Employment**  
**Value of Currency**

Some inflation targeters are:

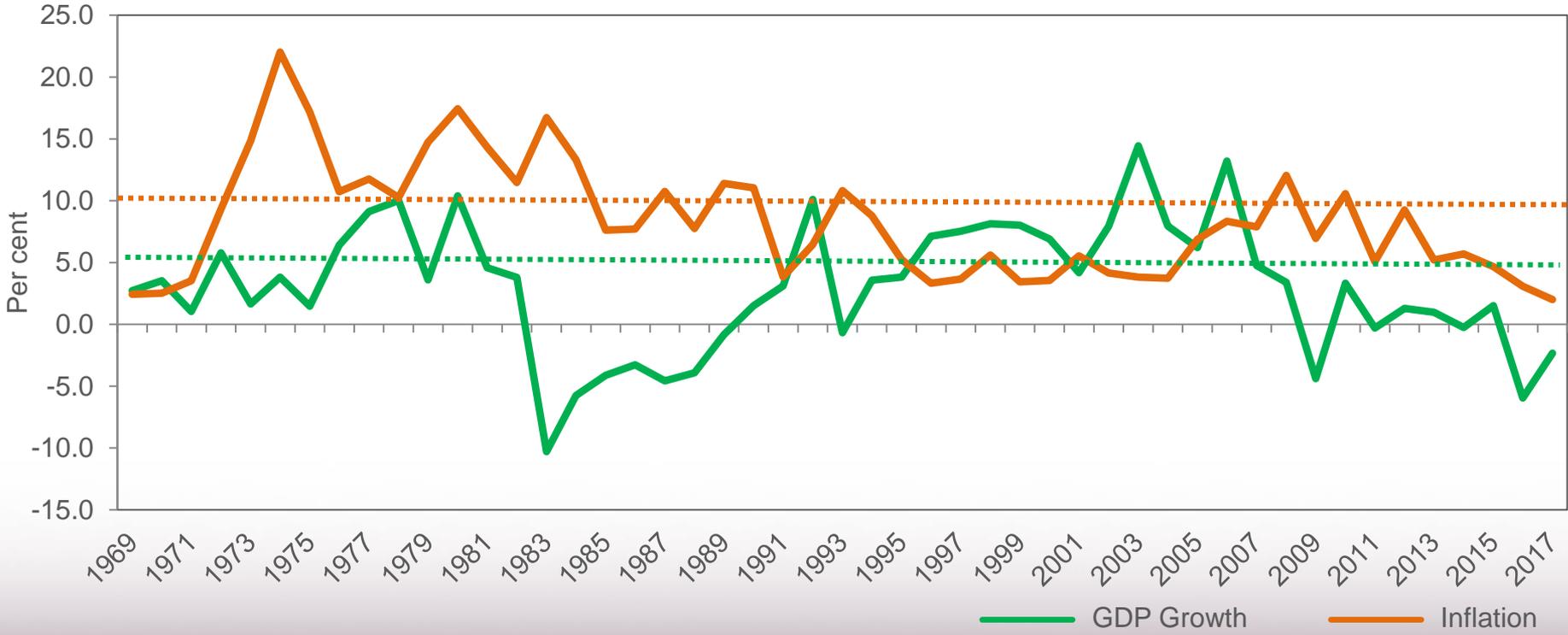
- **Canada**
- **Colombia**
- **Mexico**
- **New Zealand**

Trinidad and Tobago's Central Bank Act specifies objectives including to “*maintain monetary stability, control and protect the external value of the monetary unit...[and] encourage expansion in the general level of production, trade and employment*”.

# Monetary action in T&T has to respond to the economy's energy-exporting nature and associated growth/inflation cycles...



### GDP Growth and Inflation

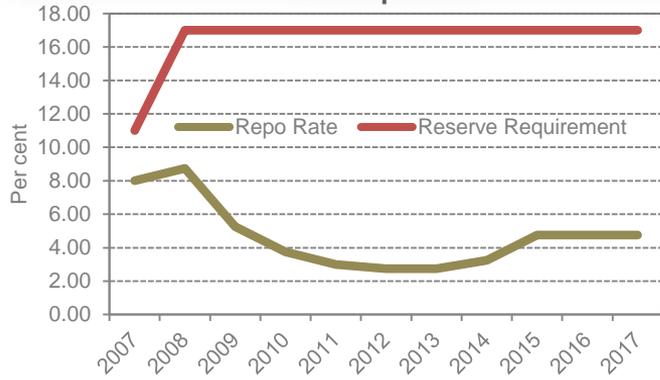


Source: Central Statistical Office

# In adapting over time, the Central Bank has moved towards more market-determined instruments



**Commercial Banks Reserve Requirement and Repo Rate**

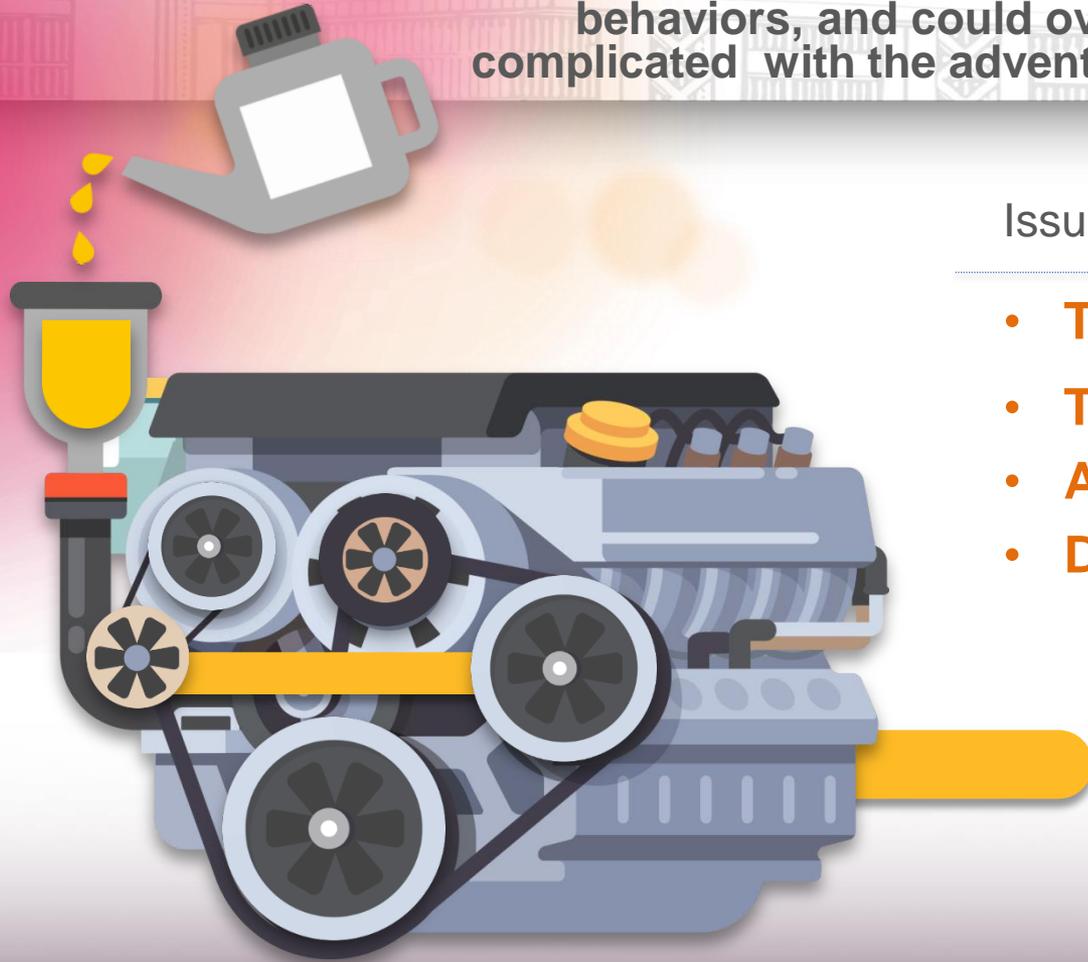


**Commercial Banks Excess Reserves and Fixed Deposits at the Central Bank**



Period	Monetary Policy Instrument(s)
1966-present	Reserve Requirements - Currently 17% for Commercial Banks and 9% for Non-Bank Financial Institutions
1966-present	Rediscount Rate – Currently 2% above the Repo Rate
1984-1986	Financial Support to Non-Bank Financial Institutions
1970-1994	Selective Credit Controls eg. lending to non-residents, state enterprises and statutory bodies, rediscount facility to agriculture sector, installment credit guidelines on consumer credit
1998-present	Open Market Operations – System for Primary Dealers Established in 1998
2002-present	Repo Rate – Currently 4.75%
2005-2017	Fixed Deposits

But this requires constant adaptation to market behaviors, and could over time be more complicated with the advent of digital currencies



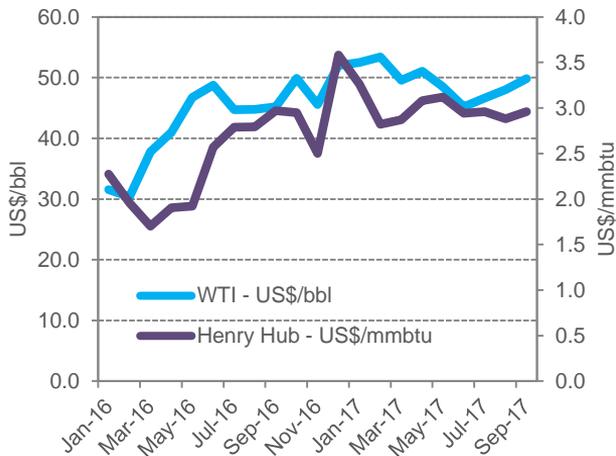
Issues include:

- **Transmission mechanism**
- **Tools**
- **Asymmetry in responses**
- **Digital currencies**

# The country now finds itself in the early stages of adjustment...



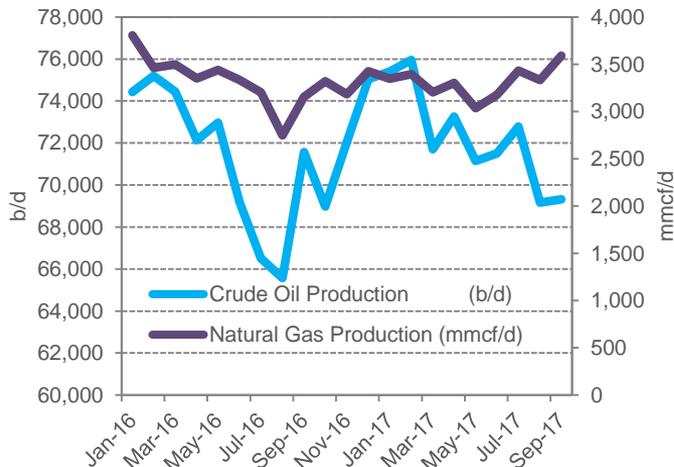
## International Energy Prices



Source: Bloomberg

**International energy prices have remained at their new low...**

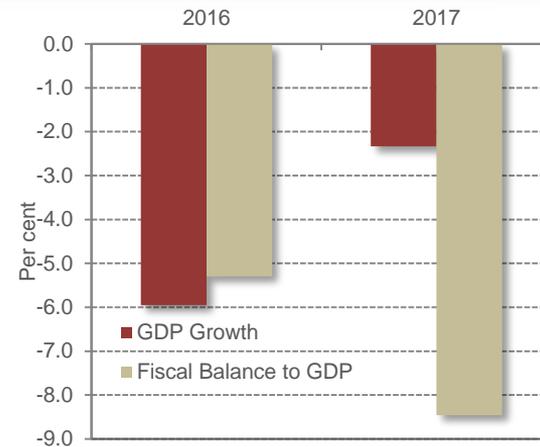
## Energy Sector Production



Source: Ministry of Energy and Energy Industries

**Domestic energy sector production has also been affected by maintenance activities and aging fields ...**

## GDP Growth and Fiscal Balance\*



Sources: Central Statistical Office, Ministry of Finance and Central Bank of Trinidad and Tobago

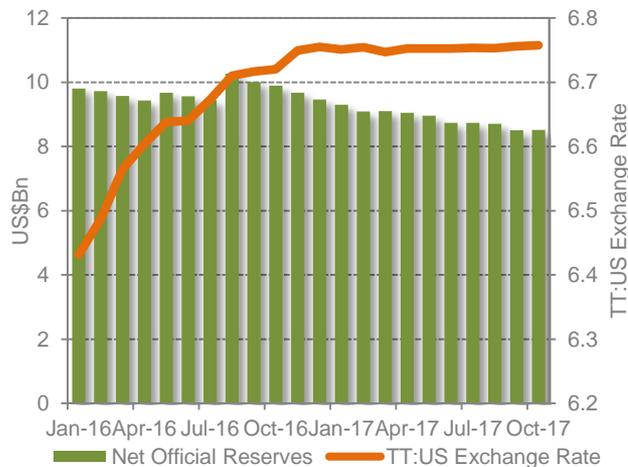
\* Data are on a fiscal year basis.

**GDP growth and the fiscal balance are both in negative ...**

# ... to a potentially permanent shift in the terms of trade



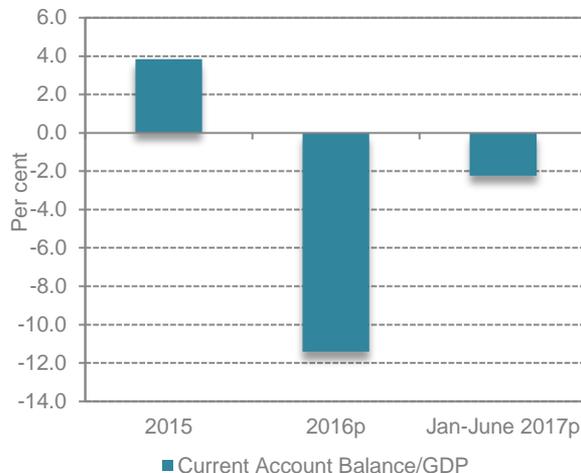
## Reserves and Exchange Rate



Source: Central Bank of Trinidad and Tobago

*There has been a decline in reserves and some currency depreciation in 2016...*

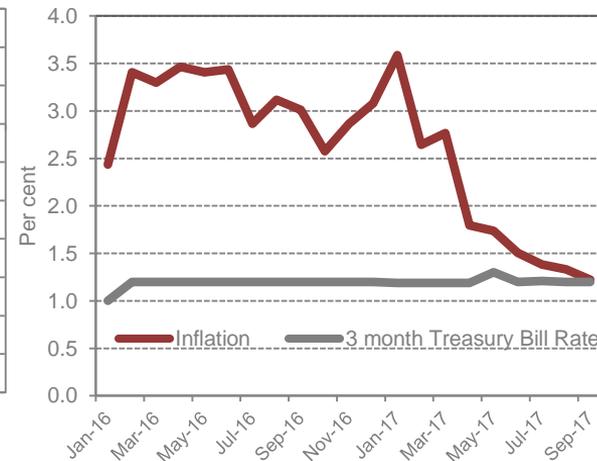
## Balance of Payments



Source: Central Bank of Trinidad and Tobago

*Associated with a weakening in the external current account...*

## Inflation and Interest Rates



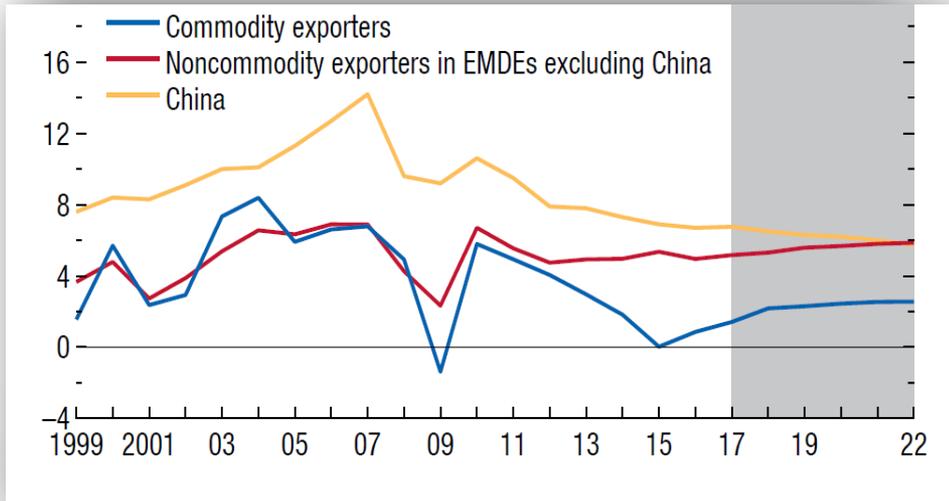
Sources: Central Statistical Office and Central Bank of Trinidad and Tobago

*Meanwhile, inflation remains subdued and interest rates steady...*

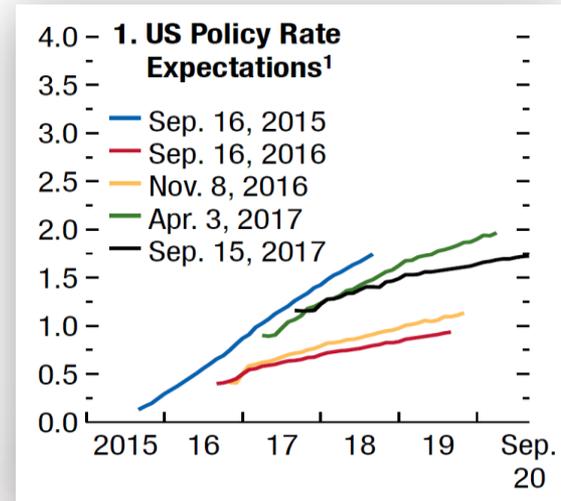
# Meanwhile, the short term prospects for non-energy exporters are looking very good...



## Growth in Emerging Market and Developing Economies



## US Policy Rate Expectations



Source: International Monetary Fund

*... while there is broad consensus that the Fed will continue to raise interest rates.*

In this context monetary policy is simultaneously aiming to keep inflation low while facilitating economic recovery and maintaining external balance



**Lowering** interest rates could:

- Stimulate credit growth and aid in recovery

**But**

- Exacerbate the already narrow interest rate differential.

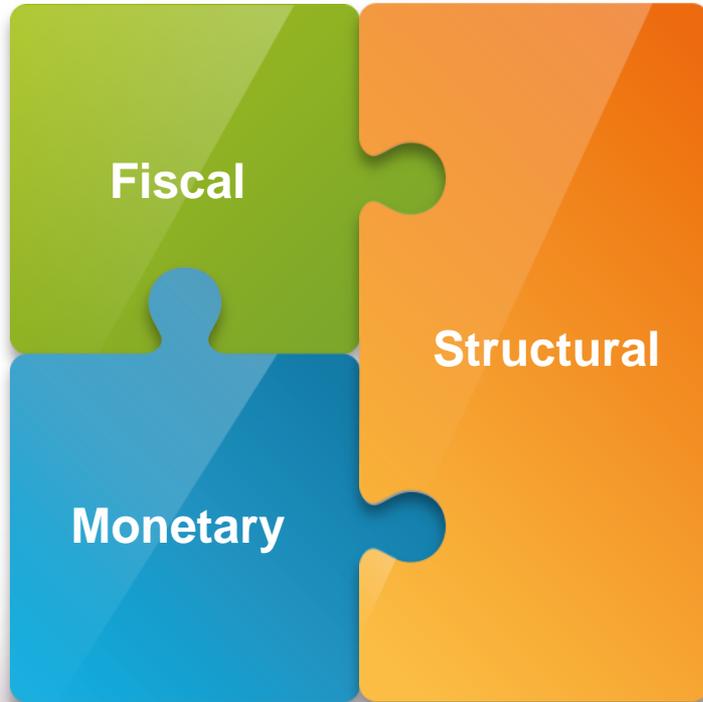
**Raising** interest rates would have opposite effects.

# Central Banks in other countries are also responsive to their specific circumstance



Country		Economic Growth	Inflation Rate	Unemployment Rate	Monetary Policy
USA		3.0% ↓	2.2% ↑	4.1% ↓	1.00 -1.25% ↑
UK		1.5% →	3.0% →	4.3% →	0.50% ↑
Euro Area		2.5% ↑	1.4% ↓	8.9% ↓	0.00% →
Japan		1.4% ↓	0.7% →	2.8% →	-0.10% →
Colombia		1.3% ↑	4.1% ↑	9.2% ↑	5.00% ↓
Brazil		0.3% ↑	2.7% ↑	12.4% ↓	7.50% ↓
Trinidad and Tobago		-6.0% ↓	1.2% ↓	4.5% ↑	4.75% →

# A clear lesson from global experience is that for successful macroeconomic adjustment, there must be effective policy coordination



Fiscal, structural and monetary policies need to be closely coordinated.

Structural actions needed include changes in:

- legislation,
- institutions,
- attitudes,
- technology,
- modernization of standards,
- strengthened accountability.

## At the same time constant attention must be paid to avoiding excessive Central Bank financing of governments, given the implications for inflation



- Ability of a Central Bank to lend to a government differs among countries.
- Some Central Banks are prohibited by law from lending to governments.
- In Trinidad and Tobago, the legal limit is **15 per cent** of estimated Government revenue, with the borrowing to be repaid “as soon as possible.”

## Finally, it is better for macroeconomic adjustments to be made from a position of strength



- Trinidad and Tobago is still in a relatively strong position with **high international reserves, the Heritage and Stabilization Fund and a relatively low level of debt;**
- But the degrees of freedom would be reduced over time;
- Actions should be taken to engender necessary reforms as early as possible.

Looking forward, monetary policy in Trinidad and Tobago will need to maintain its dynamism to deal not only with current but with future domestic and external financial challenges...





Thank You