



CENTRAL BANK OF
TRINIDAD & TOBAGO

Business Cycle Dynamics in Trinidad and Tobago

Alvin Hilaire

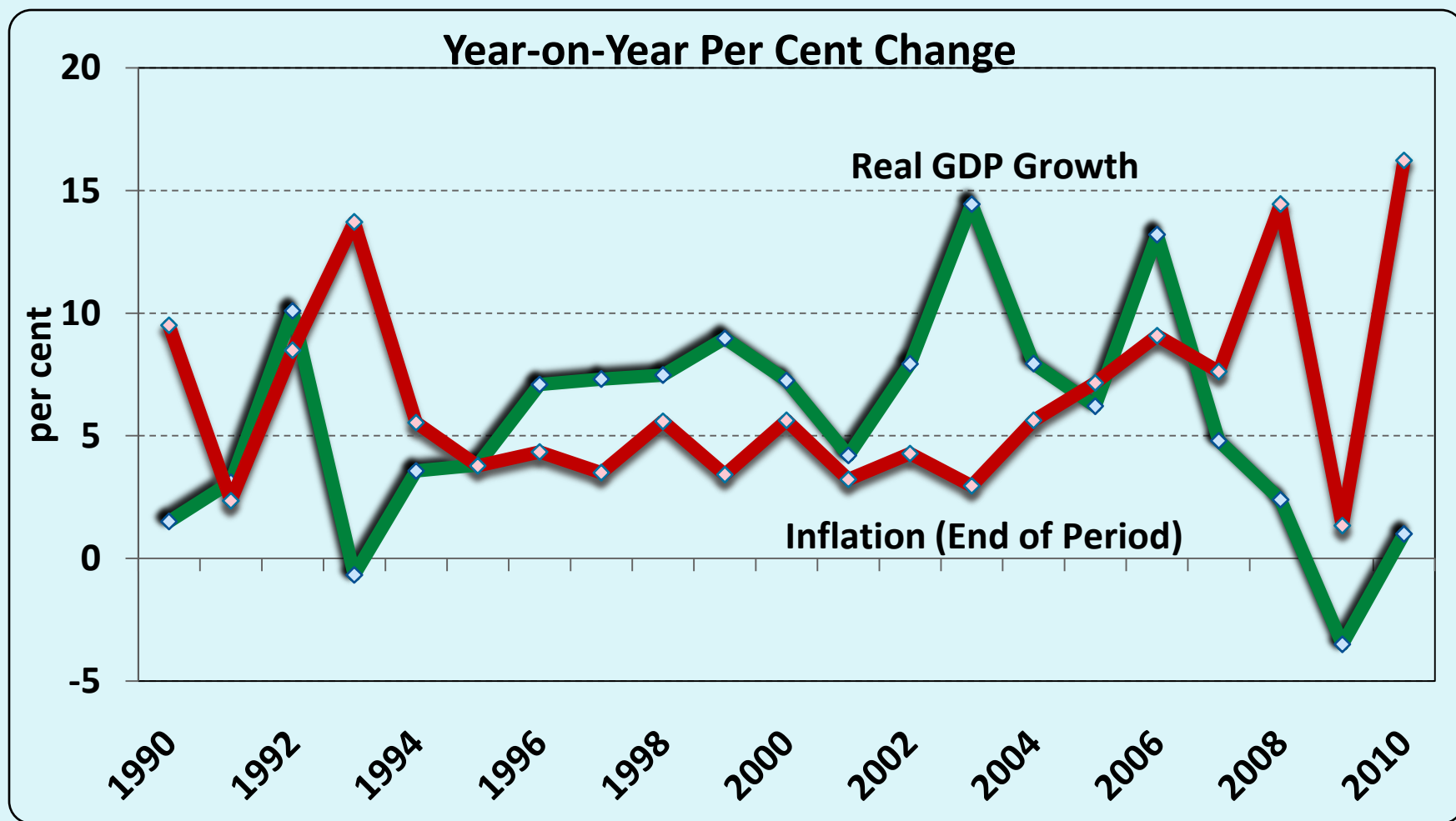
Chief Economist & Director of Research
Central Bank of Trinidad and Tobago

Conference on the Economy 2010
University of the West Indies (St. Augustine)
October 7, 2010

Trinidad & Tobago economy in mid -2010: —an unlikely configuration

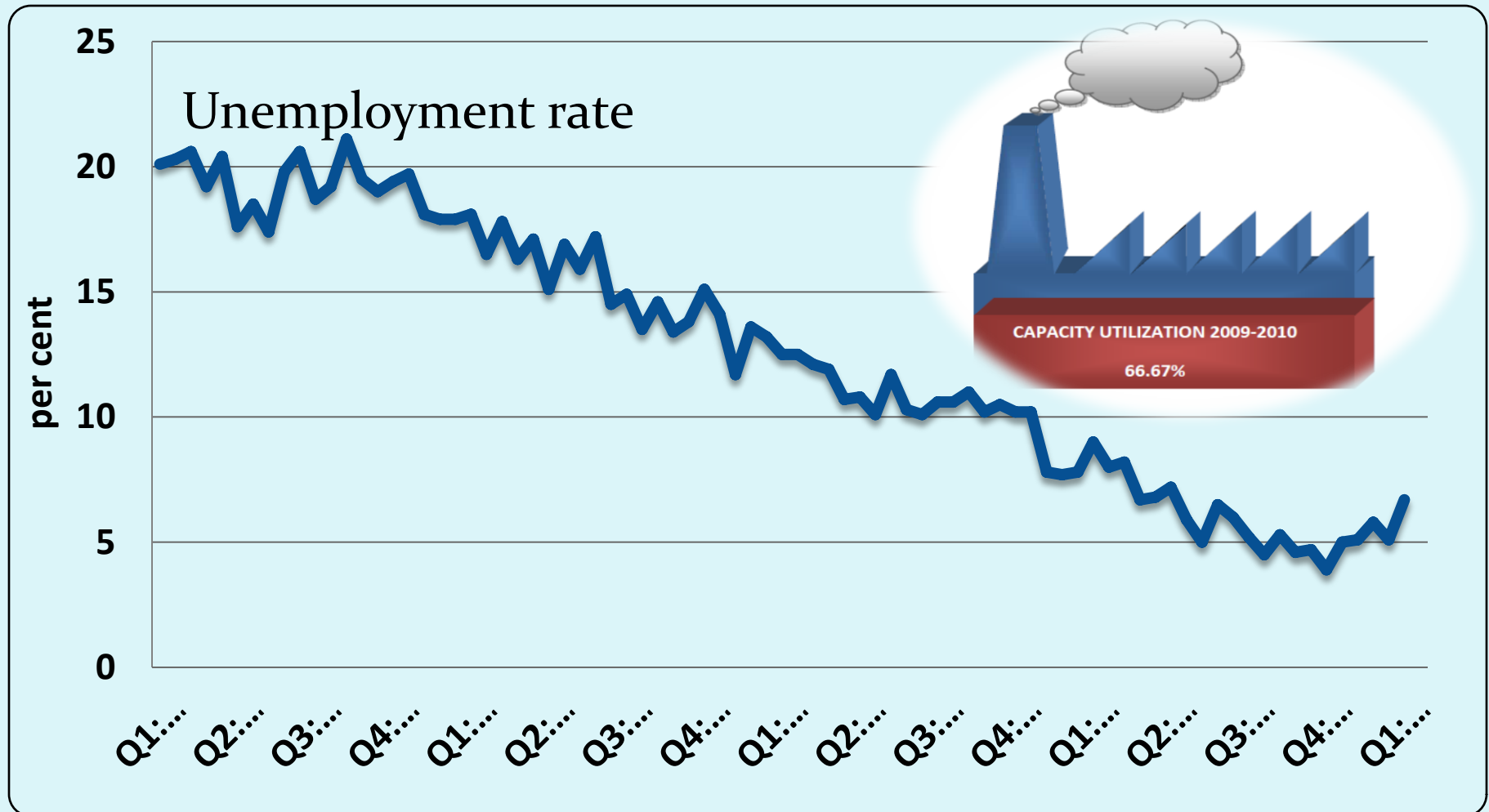
- Slow economic activity but rising prices
- Evidence of job losses and unused capacity
- Record low interest rates
- Continued fiscal deficits
- A delicate balance for monetary policy

A. Slow growth accompanied by inflation



Source: Central Bank of TT

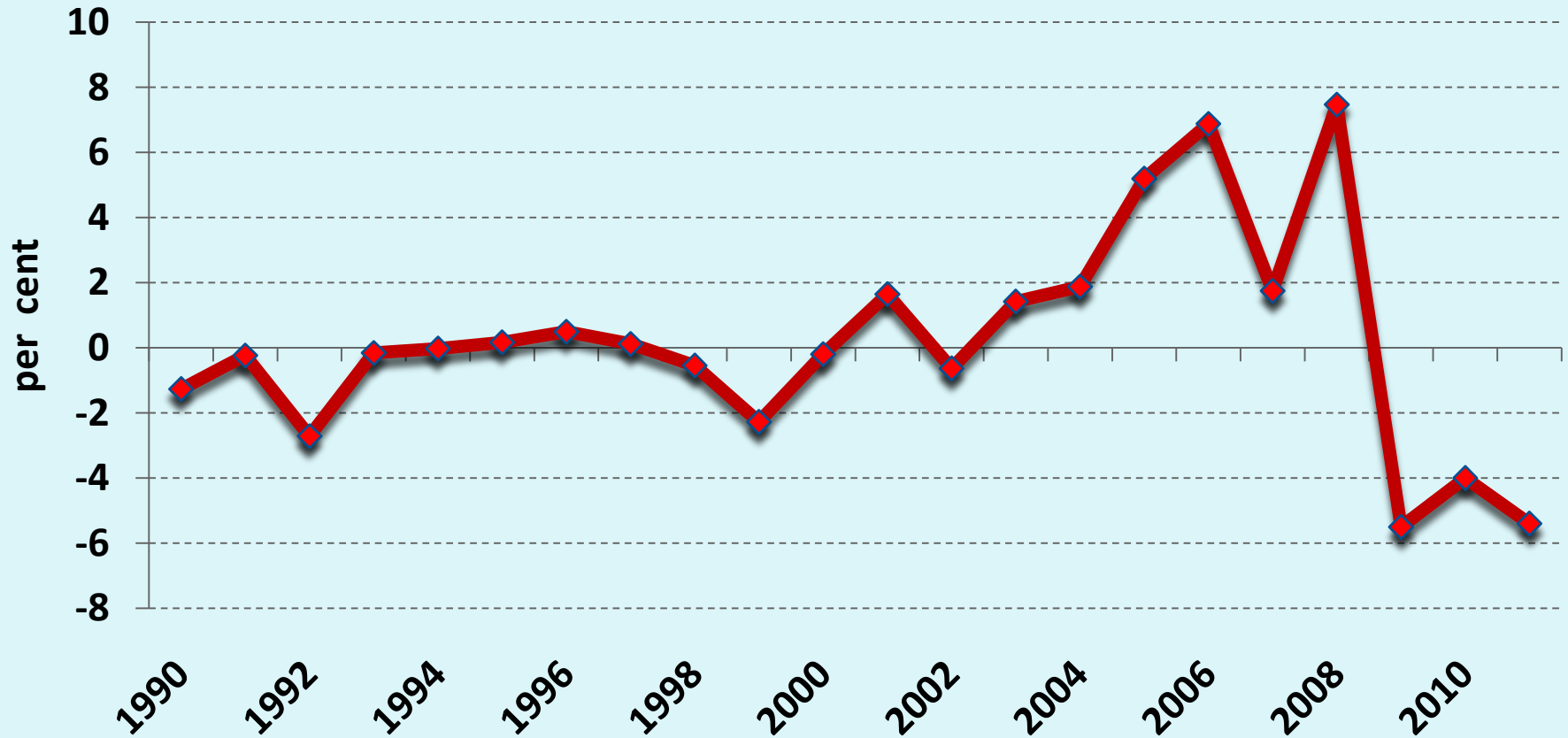
B. Signs of job losses and economic slack



Sources: CSO and CBTT

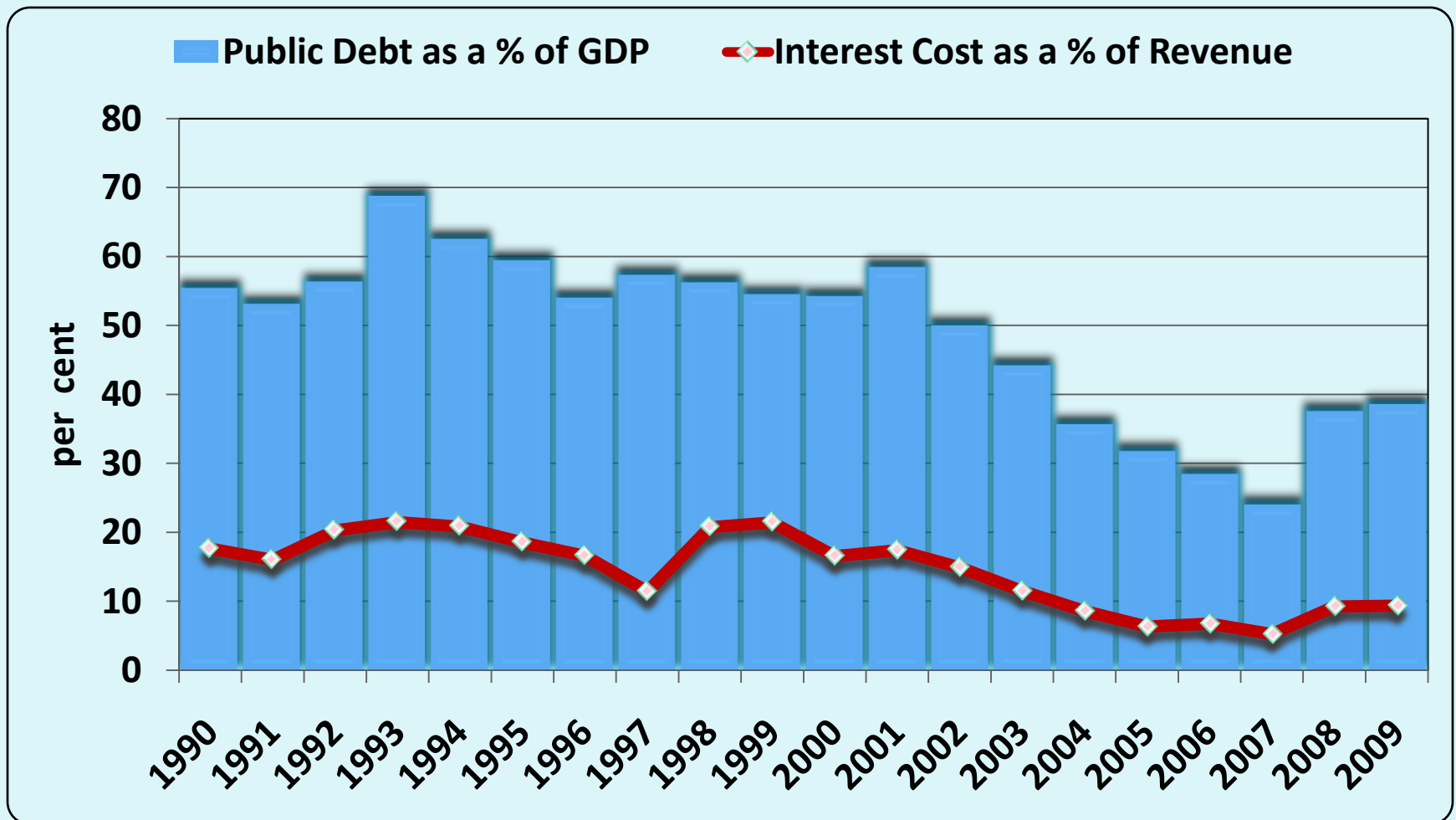
C. Fiscal stimulus after surplus years

Fiscal Balance in Per Cent of GDP



Source: Ministry of Finance

D. Naturally this has implications for debt

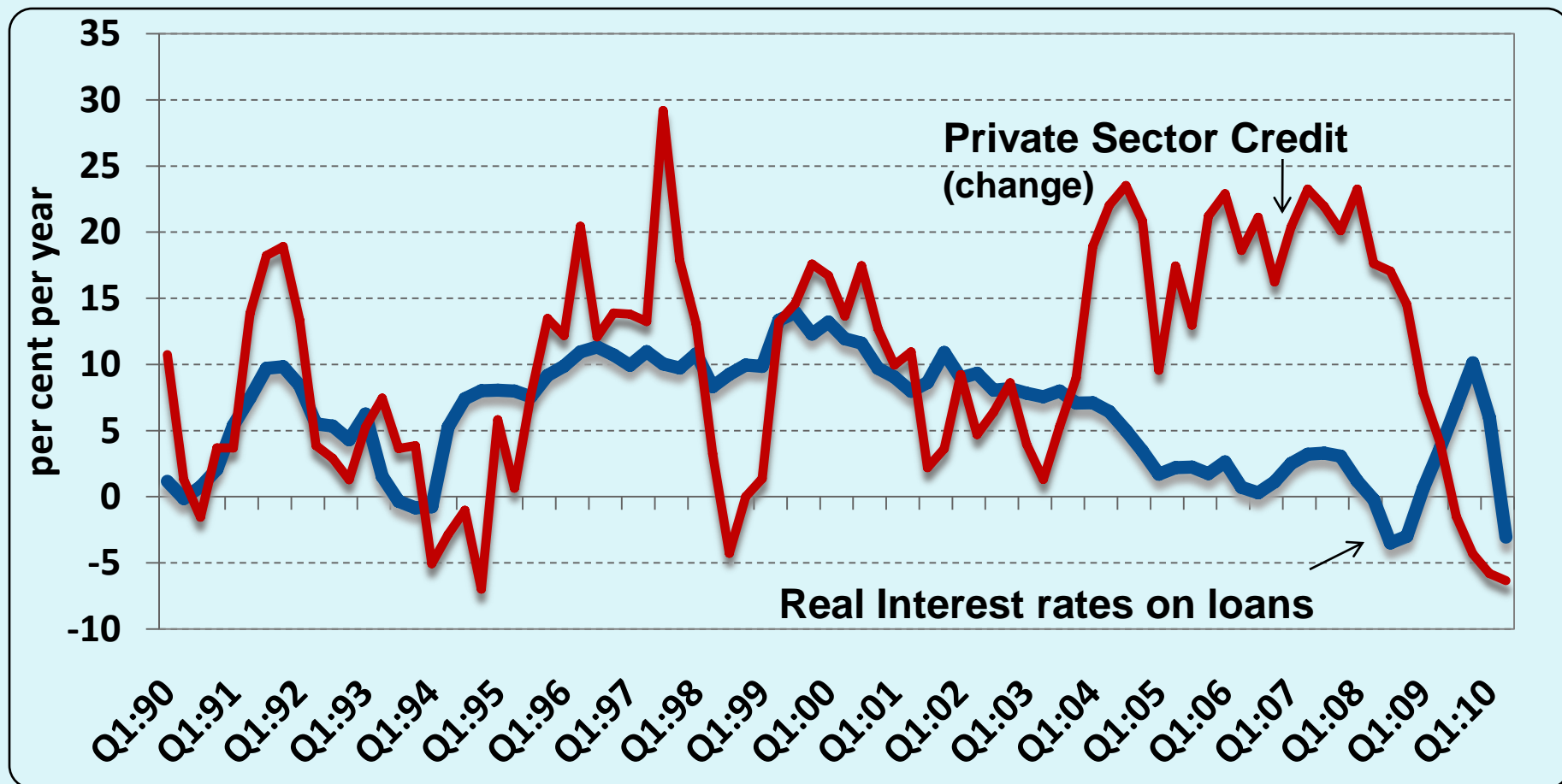


Source: Ministry of Finance

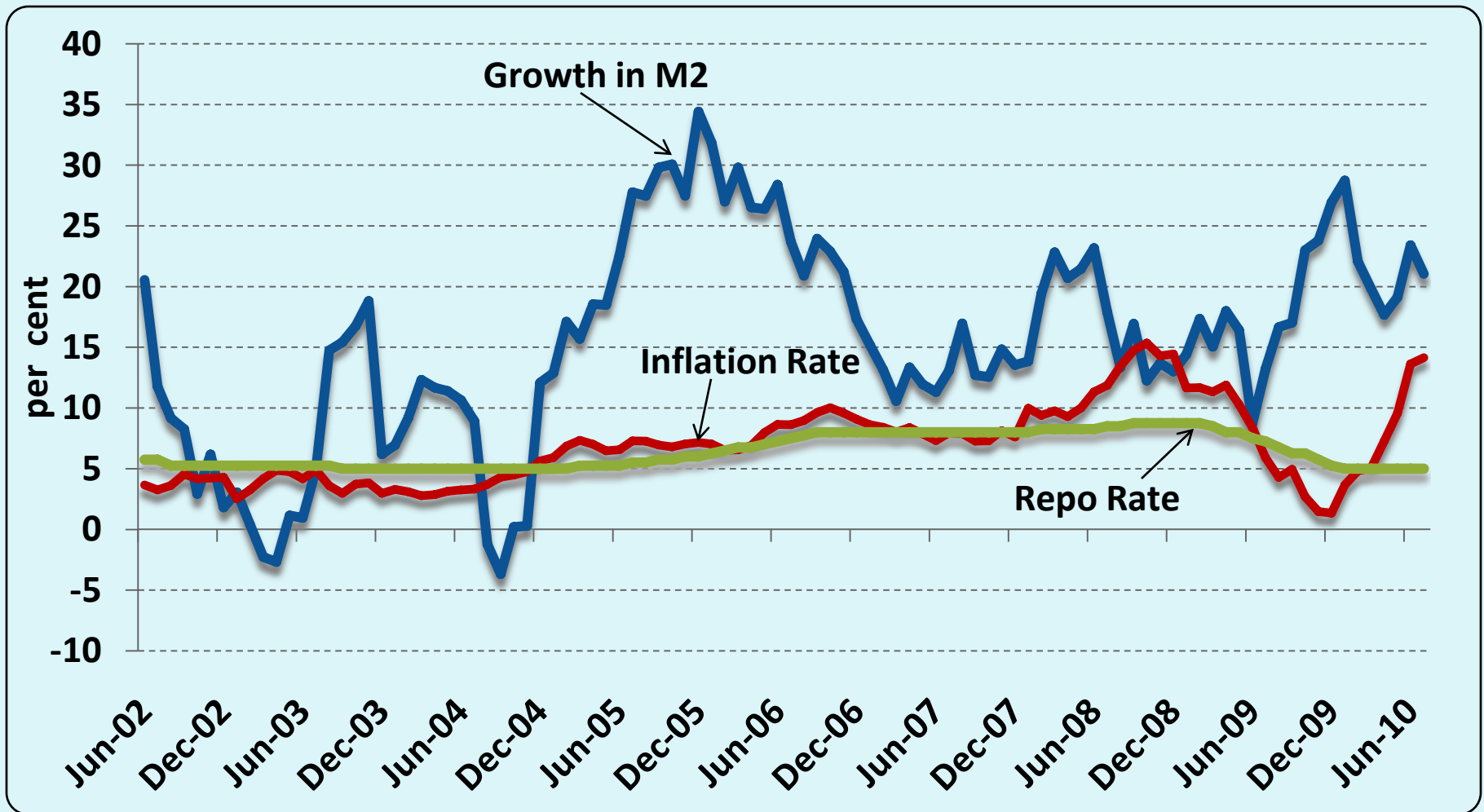
Interest rates- how low can you go?



E. Negative real rates but credit declining

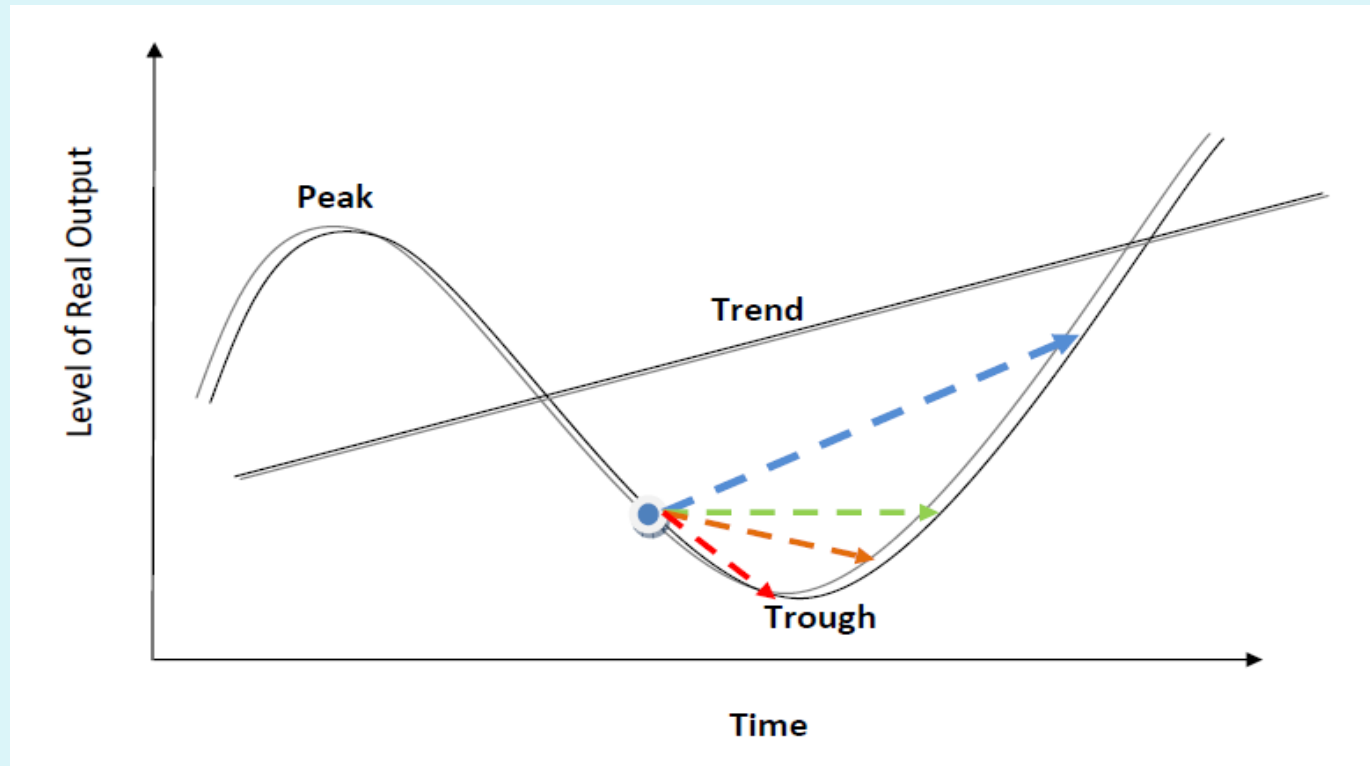


F. Monetary policy pushing on a string



Where are we on the business cycle?

- We appear to be close to or at the trough given current dynamics.
- Our future trajectory depends on several factors....



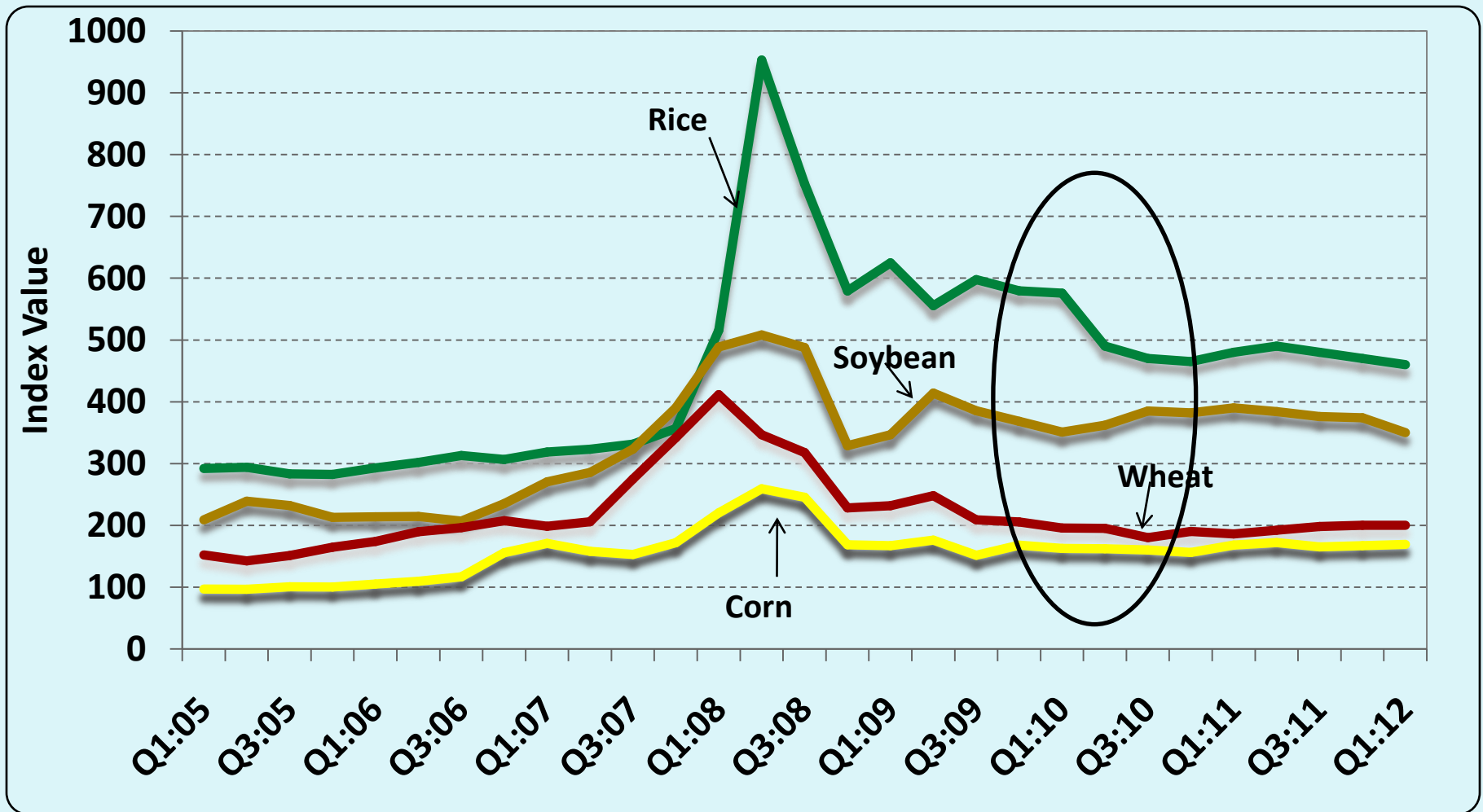
The global environment is key

(IMF: World Economic Outlook projections)

	Growth				Inflation			
	2009	2010	2011	2015	2009	2010	2011	2015
United Kingdom	-4.9	1.7	2.0	2.6	2.1	3.1	2.5	2.0
United States	-2.6	2.6	2.3	2.6	-0.3	1.4	1.0	1.9
Japan	-5.2	2.8	1.5	1.7	-1.4	-1.0	-0.3	1.0
China	9.1	10.5	9.6	9.5	-0.7	3.5	2.7	2.0
India	5.7	9.7	8.4	8.1	10.9	13.2	6.7	4.0
Barbados	-5.5	-0.5	3.0	2.5	3.7	5.0	3.6	2.1
Jamaica	-3.0	-0.1	1.8	2.1	9.6	12.7	5.8	5.5
Guyana	3.0	2.9	3.1	3.0	3.0	3.7	4.6	4.0

Global food prices have started to turn up

(2000=100)



Source: World Food Organization

In the short run, public sector stimulus would need to continue

- As in many other countries, it is still too early for the public sector to take a back seat.
- The public sector could concentrate on providing the infrastructure, enabling environment for the private sector and “public goods”.
- Monetary policy can play a supporting role by encouraging financial intermediation, while keeping an eye on inflation.

Ultimately, a sustainable upswing depends on private sector activity

- Over time, the private sector needs to take the lead role in the economy; confidence is key.
- A strong durable recovery must be based on improved efficiency in all markets:
 - a. employment of best practices to world standards;
 - b. efficient financial markets;
 - c. rising labor productivity

Conclusion

- The international financial and economic crises have contributed to the Trinidad and Tobago economy moving into the downward phase of the business cycle.
- The global environment remains a key influence on domestic prospects.
- Public sector action can help to boost the economy in the short run but ultimately must give way to a strong private sector.