



CENTRAL BANK OF  
TRINIDAD & TOBAGO

# Legacies of the Global Recession

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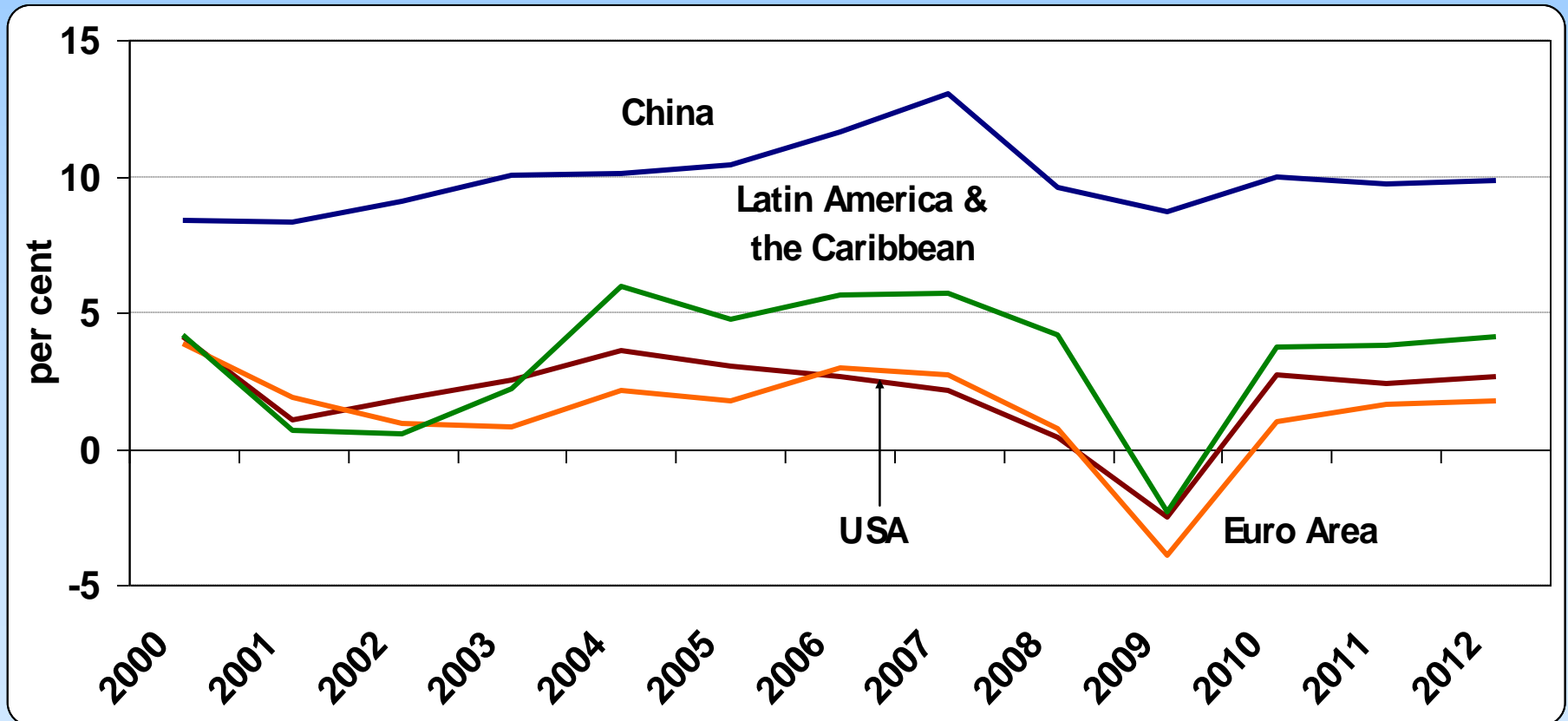
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# Background:

Following the international financial crisis and a deep recession, signs are emerging that the worst may have passed...

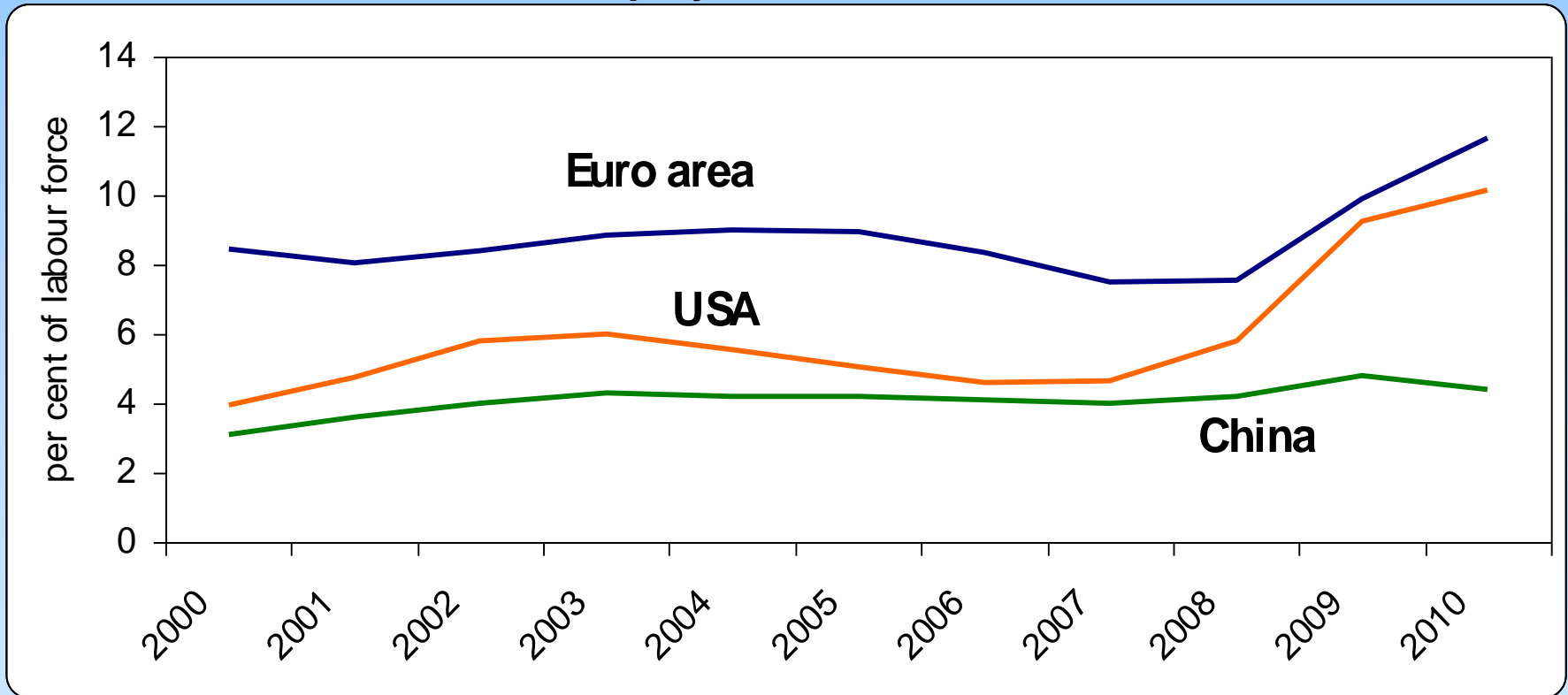
Annual Real GDP Growth



# ...but are we there yet?

- Unemployment remains high with 6.3 million jobless for over 6 months in the US.

Unemployment Rates



Source: IMF

- High unemployment slows the recovery, increases risk of loan defaults, burdens social services.

## **..while the real estate market is not yet settled**

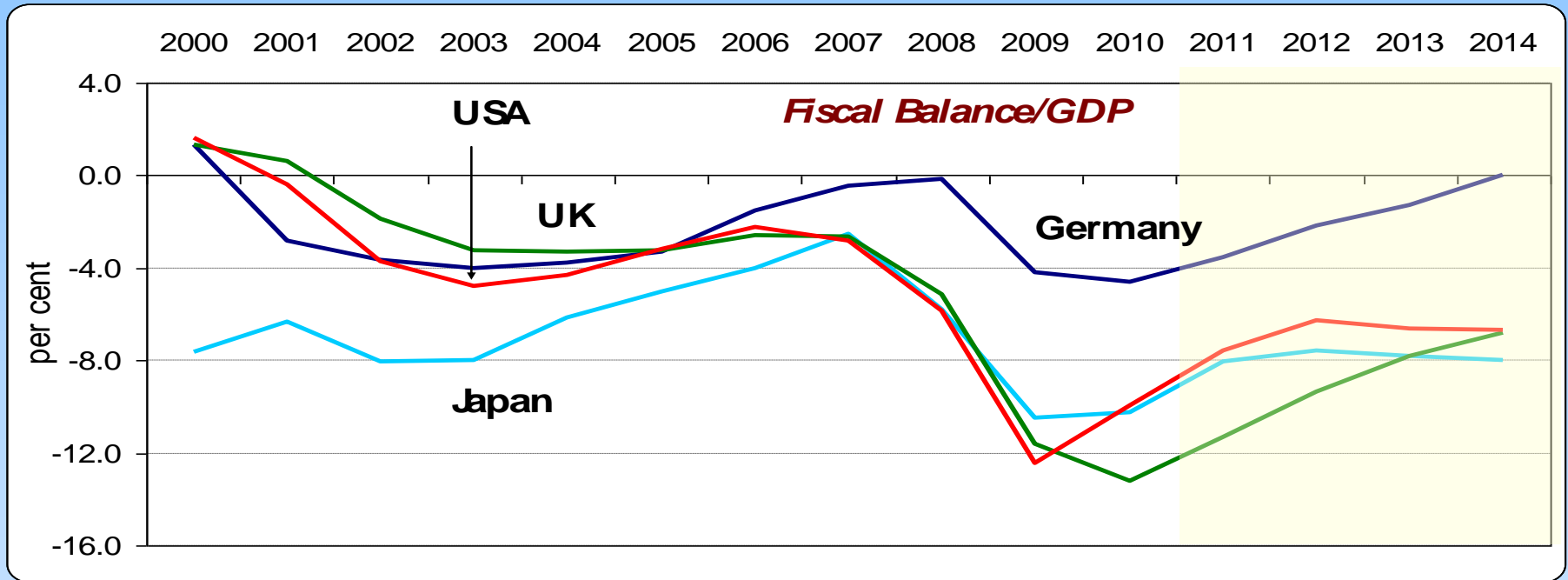
- with lower house prices, sales are picking up and delinquency rates in US declined in December.
- but declining loan-to-value ratios affects lenders, and foreclosures continue to increase.
- *“More pain likely lies ahead for the [commercial property] industry and for those banks with heavy commercial real estate exposures.”*  
NY Fed President William Dudley
- Canada and Sweden are among those countries introducing stricter mortgage rules.

# Some important legacies of the crises...

1. **Public debt takes center stage.**
2. **Monetary policies strike a delicate balance.**
3. **A more muscular China emerges.**
4. **The IMF ramps up its role in the Caribbean.**
5. **Trinidad and Tobago dips into 'rainy day' savings.**

# 1. Public debt issues take center stage

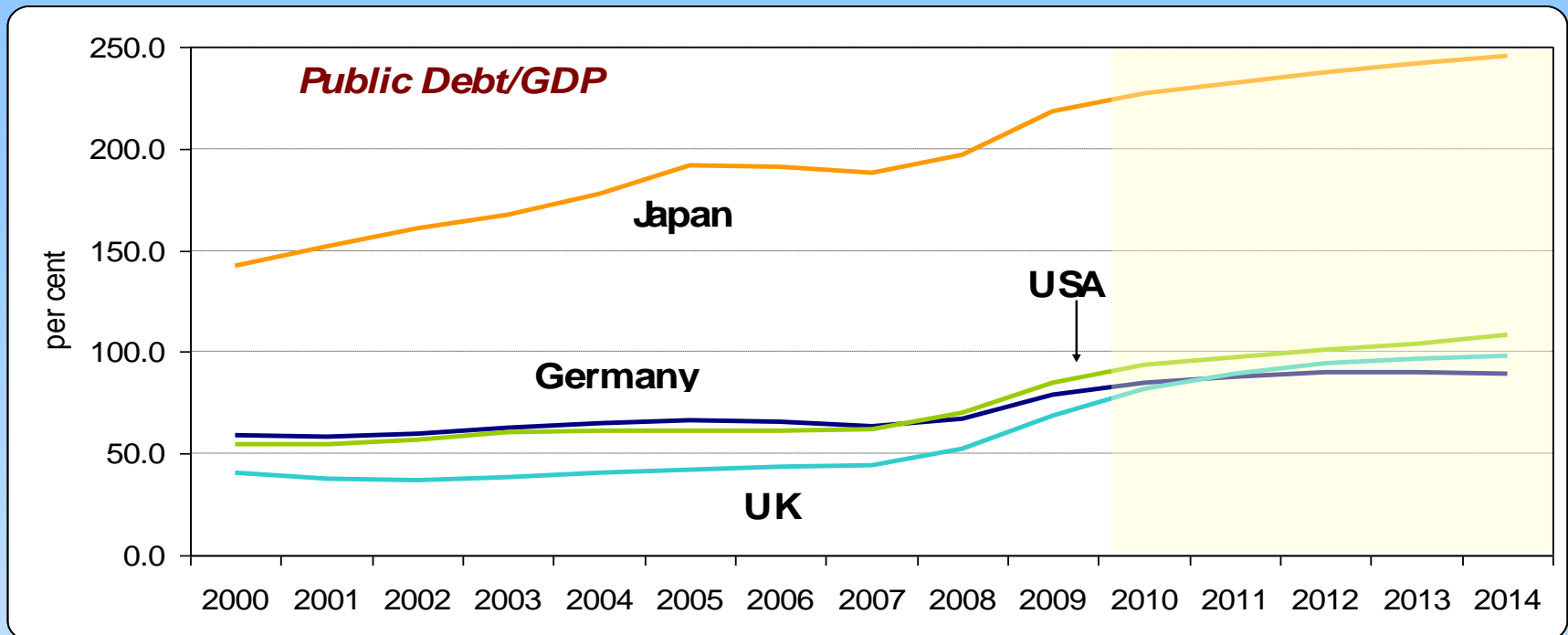
- Large fiscal stimuli assisted the recovery...



| / per cent / | 2000 | 2003 | 2006 | 2009 <sup>e</sup> | 2012 <sup>f</sup> | 2014 <sup>f</sup> |
|--------------|------|------|------|-------------------|-------------------|-------------------|
| Germany      | 1.3  | -4.0 | -1.5 | -4.2              | -2.2              | 0.0               |
| Japan        | -7.6 | -8.0 | -4.0 | -10.5             | -7.6              | -8.0              |
| UK           | 1.3  | -3.3 | -2.6 | -11.6             | -9.4              | -6.8              |
| USA          | 1.6  | -4.8 | -2.2 | -12.5             | -6.2              | -6.7              |

Source: IMF, World Economic Outlook.

## ...while adding to public debt burdens...



| / per cent /   | 2000         | 2003         | 2006         | 2009 <sup>e</sup> | 2012 <sup>f</sup> | 2014 <sup>f</sup> |
|----------------|--------------|--------------|--------------|-------------------|-------------------|-------------------|
| <b>Germany</b> | <b>58.7</b>  | <b>62.8</b>  | <b>65.9</b>  | <b>78.7</b>       | <b>89.7</b>       | <b>89.3</b>       |
| <b>Japan</b>   | <b>142.1</b> | <b>167.2</b> | <b>191.3</b> | <b>218.6</b>      | <b>237.2</b>      | <b>245.6</b>      |
| <b>UK</b>      | <b>40.9</b>  | <b>38.5</b>  | <b>43.2</b>  | <b>68.7</b>       | <b>94.1</b>       | <b>98.3</b>       |
| <b>USA</b>     | <b>54.7</b>  | <b>60.2</b>  | <b>60.9</b>  | <b>84.8</b>       | <b>100.9</b>      | <b>108.2</b>      |

Source: IMF, World Economic Outlook.

## **... EU sovereign debt create problems for banks**

- **Aided by opaque deals, Greece borrowed beyond its means.**
- **€39 billion of Greek sovereign debt held by Greek banks; 30% of Greek government bonds held by other European banks.**
- **Barclays Capital estimates total exposure of 10 largest US banks to PIGS (Portugal, Italy, Greece, Spain) at around US\$176 billion.**
- **Sovereign debt problems affect banks' provisioning, capital, profits as well as their access and terms of financing.**
- **Debt problems in EU affecting value of euro.**
- **In US bipartisan commission established to examine debt.**







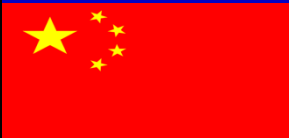


## **2. Monetary policies strike a delicate balance**

- **In 'normal' times, monetary policy often acts as a counterweight to expansive fiscal policy.**
- **The crises ushered in a period of monetary easing alongside fiscal stimulus to spur economies.**
- **With negative inflation and rock-bottom interest rates, Central Bank turned to nontraditional tools.**
- **...these included quantitative easing and some countries employed capital controls.**

## **Supervision and regulation have been beefed up...**

- **Failure of large banks and insurance companies prompted countries to tighten up on financial oversight.**
- **Global coordination also improved—to deal with multinational financial companies and contagion effects.**
- **A major development was the strengthening of the Financial Stability Forum and moves to set international standards to prevent regulatory arbitrage.**
- **...but there remains disquiet about whether financial institutions have changed their behavior—huge executive compensation packages have not helped.**

# ...Central Banks are now cautiously trying to exit from easing

| Country   | Latest Policy Actions |
|---|-----------------------|
|    | ↑                     |
|    | No Change             |
|    | No Change             |
|    | No Change             |
|   | ↑                     |
|  | ↑                     |
|  | ↓                     |

### 3. A more muscular China emerges

- **Already a large economy, the global crises pushed up China's relative status as other economies contracted...**
- **China is also leaping forward in other areas—e.g. alternative energy and transportation—that would give it a competitive advantage.**
- **China's sovereign wealth fund (Chinese Investment Corporation) can move markets...**
  - **China's December sale of US\$34 billion in US treasuries, reducing its holdings to less than Japan's, raised eyebrows.**
  - **the currency composition of its reserves affects the value of major currencies.**

# Why China matters...economic size

**Population: China (World)** **1.34 billion** (6.79 billion)  
*(20% of world population)*

**GDP (current prices)**  
*(third largest economy)*

1. USA – US\$14,266 bn
2. Japan – US\$5,049 bn
3. **China – US\$4,758 bn**
4. Germany – US\$3,236 bn
5. France – US\$2,635 bn

**Quarterly GDP Growth**

|  | Q1   | Q2   | Q3  | Q4   |
|--|------|------|-----|------|
| <i>(consistently high and positive in 2008 and 2009)</i> |      |      |     |      |
| 2008   | 10.6 | 10.1 | 9.0 | 6.8  |
| 2009   | 6.2  | 7.9  | 9.1 | 10.7 |

**Exports – 2009** *(overtook Germany as largest exporter)* **US\$1,202.0 bn**

## ...China is expressing a new self-confidence

- There is a fresh edge to traditional disputes with the US—on Taiwan, Tibet etc.
- Despite much international prodding, there has been little movement on the Chinese currency.
- For the Caribbean, China matters more due to:
  - its investments, mainly FDI;
  - product competition; and
  - effect of its demand on world prices of energy, food and other commodities—natural gas, methanol, grain etc.

## 4. The IMF ramps up its role in Caribbean

- **In early 2008, the IMF was soul searching—**
  - Its income stream was weak as most countries repaid loans;
  - New loan activity was minimal;
  - It launched a major resizing program, involving staff cuts, charging for services, streamlining activities.
- **By late 2008, things had changed dramatically—**
  - Resurgence of lending throughout the world;
  - Provider of expanded global liquidity—US\$250 billion SDRs;
  - Larger role in surveillance, including of financial systems.
- **Overall, the IMF is demonstrating greater flexibility—  
to the extent that it plans on managing a **Green Fund!****
- **IMF involvement in the Caribbean has also expanded...**

# ...but the IMF prognosis is for a very shallow recovery in the Caribbean ...

|                  | 2007       | 2008        | 2009 <sup>e</sup> | 2010 <sup>f</sup> | 2011 <sup>f</sup> | 2012 <sup>f</sup> |
|------------------|------------|-------------|-------------------|-------------------|-------------------|-------------------|
| <b>Barbados</b>  | <b>3.4</b> | <b>0.2</b>  | <b>-3.0</b>       | <b>0.0</b>        | <b>3.0</b>        | <b>2.5</b>        |
| <b>Grenada</b>   | <b>4.9</b> | <b>2.2</b>  | <b>-4.0</b>       | <b>0.0</b>        | <b>1.1</b>        | <b>2.0</b>        |
| <b>Guyana</b>    | <b>5.4</b> | <b>3.0</b>  | <b>2.0</b>        | <b>4.0</b>        | <b>5.0</b>        | <b>4.9</b>        |
| <b>Jamaica</b>   | <b>1.5</b> | <b>-1.0</b> | <b>-3.6</b>       | <b>-0.2</b>       | <b>1.7</b>        | <b>1.8</b>        |
| <b>St. Lucia</b> | <b>1.7</b> | <b>0.7</b>  | <b>-2.5</b>       | <b>-0.4</b>       | <b>1.8</b>        | <b>3.7</b>        |

Source: IMF World Economic Outlook.



# IMF recent financial assistance in the Caribbean

| Country                      | Date of Arrangement | Amount (US\$ m) | Purpose   |
|------------------------------|---------------------|-----------------|---|
| Belize                       | February 20,2009    | \$6.9           | • Natural Disaster Assistance.  |
| Dominica                     | February 06,2009    | \$8.4           | • Natural Disaster Assistance.  |
| Dominican Republic           | November 09, 2009   | \$1,700         | • Stand-By Arrangement.   |
| Grenada                      | June 04,2009        | \$6.8           | • ECF <sup>1</sup> increased to combat the financial crisis.                        |
| Haiti                        | January 14, 2010    | \$100           | • Emergency Financing.  |
| Jamaica                      | January 14,2010     | \$1,270         | • 27-month loan Stand-By Arrangement to combat the global financial crisis.         |
| St. Kitts & Nevis            | May 19,2009         | \$3.4           | • Natural Disaster Assistance.  |
| St. Lucia                    | July 27, 2009       | \$10.7          | • ESF <sup>2</sup> support to mitigate the effects of the global economic slowdown. |
| St. Vincent & the Grenadines | May 31,2009         | \$5.7           | • To mitigate the effects of the global economic slow down                          |

Source: *International Monetary Fund*.

<sup>1</sup> The Exogenous Shock Facility (ESF) provides policy support and financial assistance to low-income countries facing exogenous shocks.

<sup>2</sup> The Extended Credit Facility (ECF) is a 3-year arrangement for lower income countries. It succeeded the Poverty Reduction & Growth Facility (PRGF).

# The Jamaica program was a key breakthrough...

## Main features of the arrangement

### Objective

### Approach

**Put public finances on a sustainable footing**

- Tax package to generate 2% of GDP in revenue
- Extend public sector wage freeze for 2 years
- Divest loss making public enterprises

**Remove debt overhang and reduce interest costs**

- Debt exchange to generate savings of 3% of GDP and 65% reduction in maturing debt over next 3 years

**Reduce systemic financial sector risks**

- Establish Financial Stability Support Fund
- Legislative and regulatory reform (Omnibus Banking Law, Amendment to Bank of Jamaica Act, reform of deposit-taking institutions and securities dealer sector)

**Protect vulnerable groups**

- Increase in targeted social spending—health, education, social safety net

**Increase external financing**

- IMF Stand by arrangement of US\$1.27 billion
- Program expected to generate additional US\$1.1 billion from other multilateral financial institutions

# 5. Trinidad & Tobago dips into 'rainy day' savings

- **The global crises hit Trinidad and Tobago, but with a lag, partly due to:**
  - lack of sub-prime exposure; and
  - little direct reliance on short term international financing.
- **The impact mainly came through depressed foreign demand affecting:**
  - international commodity prices (gas, oil, petrochemicals etc.);
  - export volumes, particularly to Caricom countries; while there was
  - some slowdown in investment projects and remittances.
- **The result was that:**
  - the public finances weakened;
  - the economy contracted, the first time in over a decade;
  - unemployment rose while inflation plummeted; and
  - international reserves declined by around US\$700 million in 2009.
- **High reserves, relatively low public debt, and earlier fiscal surpluses created the fiscal space and buffers to temper the impact on the economy.**

# Trinidad and Tobago–Selected Economic Indicators

|   | Actual   |         |         | Estimate | Forecast |
|---|--|---------|---------|----------|----------|
|   | 2006   | 2007    | 2008    | 2009     | 2010     |
| <b>Real Sector Activity</b>             | (annual percentage changes, unless otherwise stated) |         |         |          |          |
| Real GDP                                | 13.5   | 4.6     | 2.3     | (3.0)    | 2.0      |
| Consumer Prices (End-of-period)         | 9.1  | 7.6     | 14.5    | 1.3      | 5.0      |
| Unemployment Rate (average)             | 6.2  | 5.6     | 4.6     | 5.5      | 6.0      |
| <b>Fiscal Operations</b> <sup>1,2</sup> | (in percent of GDP, unless otherwise stated)         |         |         |          |          |
| Central Government Fiscal Balance       | 6.9  | 1.8     | 7.8     | -5.3     | -5.4     |
| Public Sector Debt                      | 31.7   | 29.4    | 25.1    | 31.1     | 35.7     |
| Public Sector External Debt             | 7.1  | 6.7     | 5.8     | 7.8      | 8.4      |
| <b>Money and Finance</b>                | (annual percentage changes, unless otherwise stated) |         |         |          |          |
| Credit to Private Sector                | 11.7   | 16.1    | 10.4    | -3.7     | 10.0     |
| Broad Money Supply                      | 17.3   | 13.5    | 13.0    | 20.0     | 15.7     |
| <b>External Sector</b>                  | (in percent of GDP, unless otherwise stated)         |         |         |          |          |
| Current Account Balance                 | 37.4   | 24.6    | 34.1    | 25.4     | 25.4     |
| Net Official Reserves (US\$ Mn)         | 6,514.7  | 6,558.7 | 9,364.3 | 8,651.7  | 9,000.0  |
| (in months of imports)                  | 9.9  | 9.4     | 11.5    | 12.3     | 12.8     |

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

1. On a fiscal year basis (October - September).

2. Debt data excludes treasury notes and treasury bills used for open market operations.

## ... short-term outlook for Trinidad and Tobago?

- The Central Bank forecasts **growth of around 2 percent** in 2010, but this may not immediately reverse the recent rise in unemployment.
- An **uptick in inflation** is expected as international food prices are already rising.
- Given the sombre outlook for the rest of the Caribbean, Trinidad and Tobago's **manufactured exports** may not revive quickly.
- The **outlook relies on the global recovery** taking place, with no new major shocks.
- Monetary policy will continue to face the challenge of **balancing inflation control with stimulating economic activity**.
- A key priority that Trinidad and Tobago shares with the rest of the world is to assure that the **public debt does not get out of control**.

# **Conclusion—is the world ready for another crisis?**

- **The greatest risk is complacency.**
- **More global coordination is here to stay, despite politics.**
- **The ongoing global power shift—including to accommodate China—is healthy.**
- **In the short run, a focus on jobs will trump other considerations including rising debt.**
- **Banks may not be adapting quickly enough—bailouts create ‘moral hazard’.**
- **Trinidad and Tobago still has high buffers but must use the time to build wider resilience.**

Thank You