

Monetary Policy Report – May 2016



CENTRAL BANK OF
TRINIDAD & TOBAGO

Central Bank Conference Facilities, May 27 2016

www.central-bank.org.tt

Presentation flow

1

- **International and Domestic Macro-economic Environments**

2

- **Central Bank's Monetary Policy Actions**

3

- **Macroeconomic Management in a Time of Uncertainty**



1

- **International and Domestic Macro-economic Environments**

2

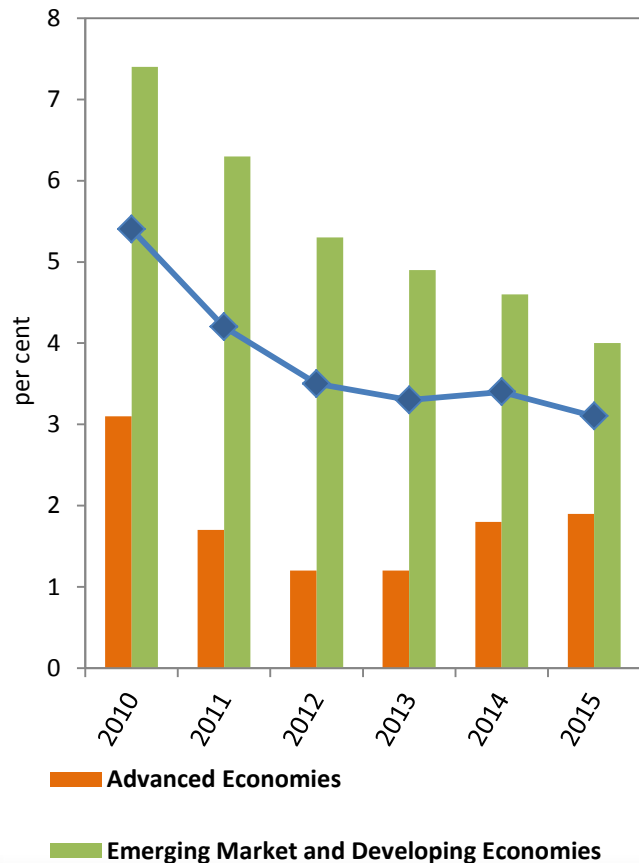
- Central Bank's Monetary Policy Actions

3

- Macroeconomic Management in a Time of Uncertainty

Disappointing global growth, slowdown in BRICs and low energy prices

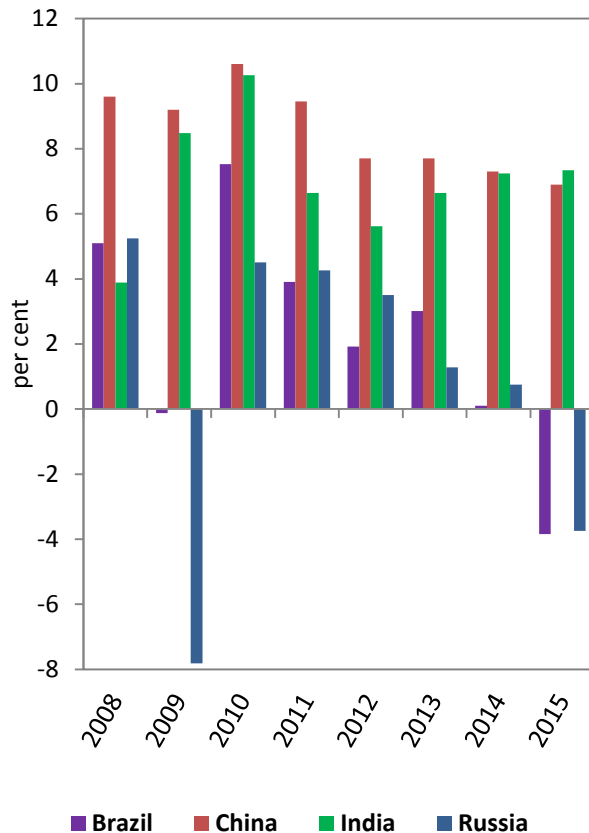
Global Growth (Real GDP – annual percentage change)



◆ World

Source: IMF - World Economic Outlook.

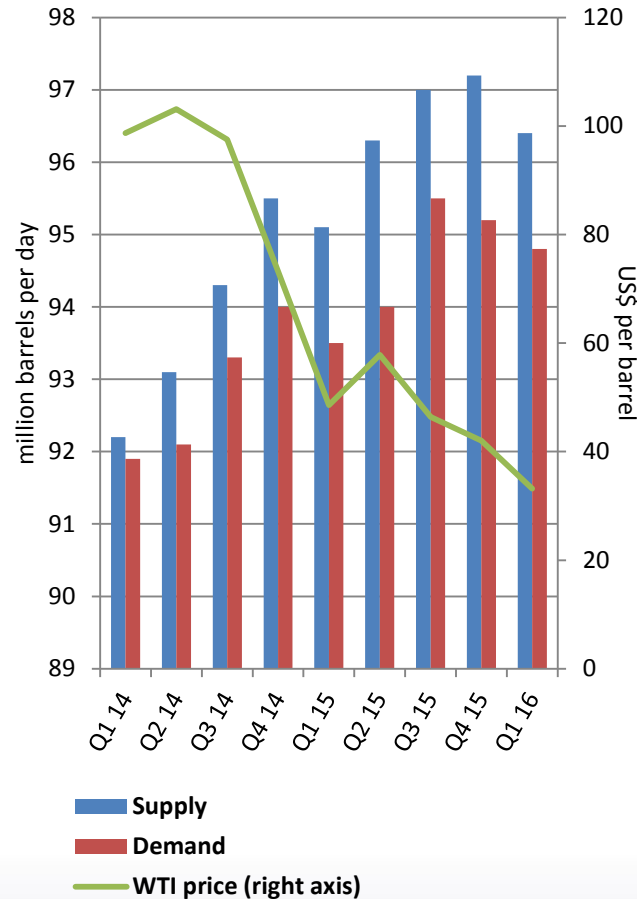
BRICs Nations: Annual Real GDP Growth



■ Brazil ■ China ■ India ■ Russia

Source: IMF - World Economic Outlook.

Global Crude Oil Demand and Supply

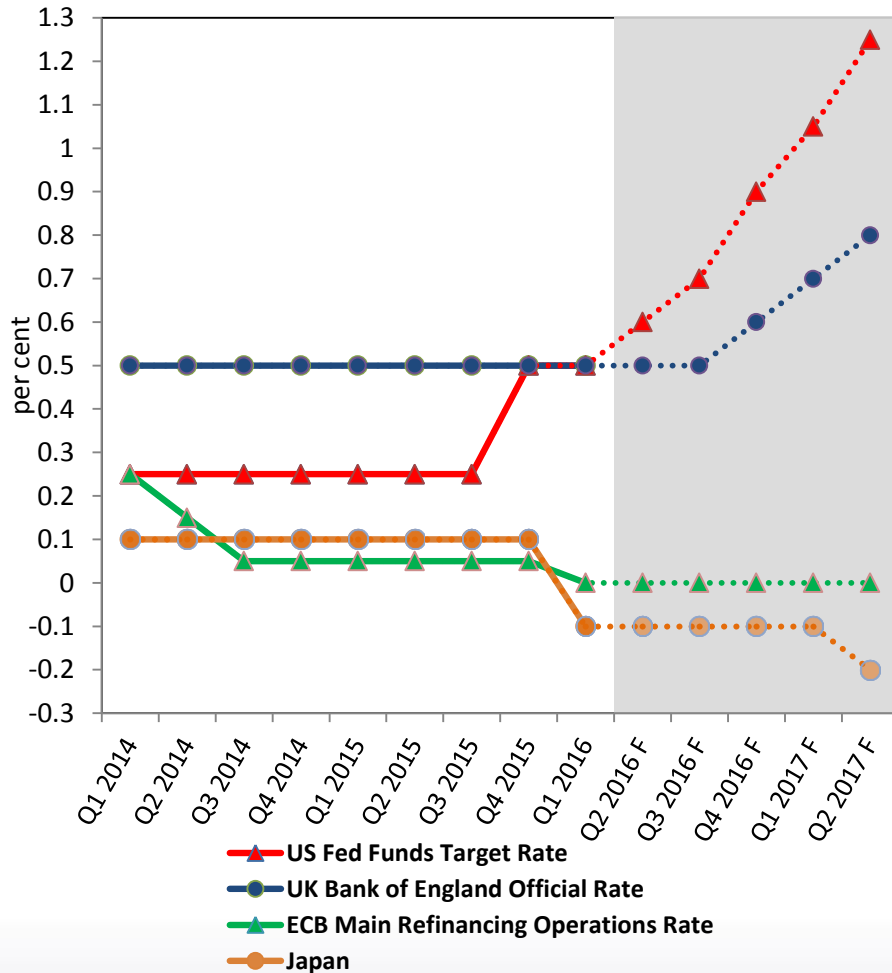


■ Supply
■ Demand
— WTI price (right axis)

Sources: International Energy Agency (IEA), Bloomberg.

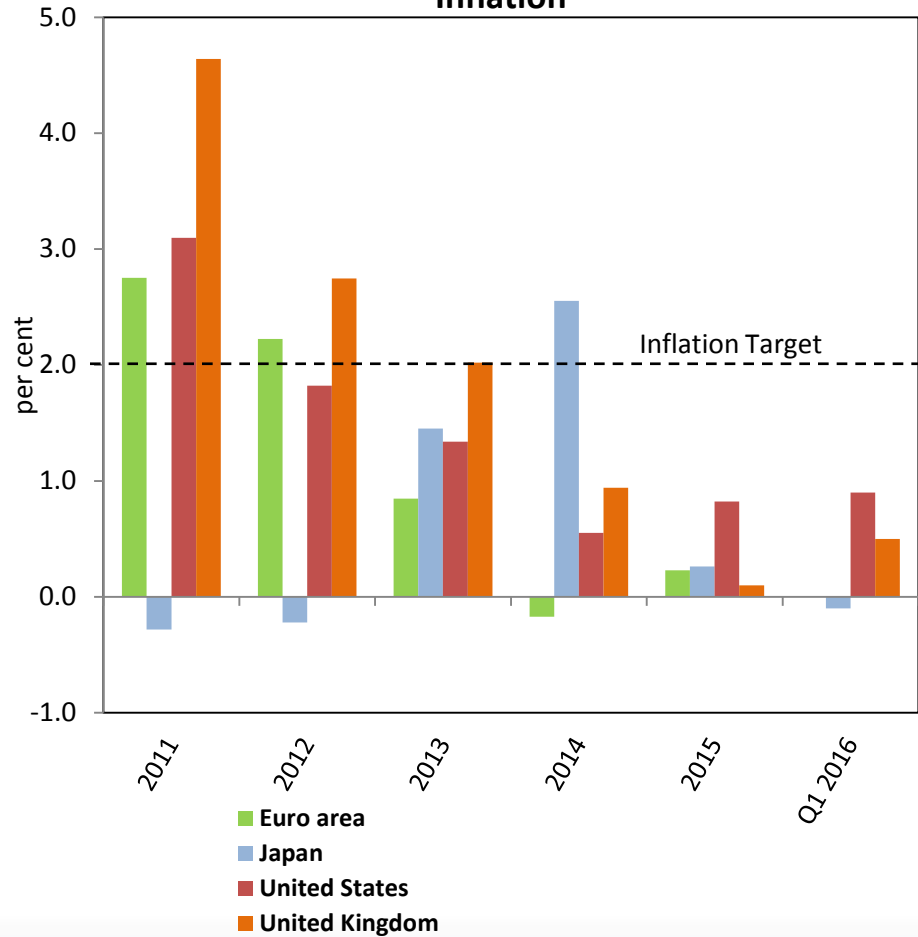
Monetary policies in advanced economies broadly accommodative as inflation rates remain below targets, but some divergence may be expected going forward

Selected Advanced Economies: Policy Rates



Source: Bloomberg.

Selected Advanced Economies: Headline Inflation



Sources: IMF - World Economic Outlook Database, Bloomberg.

Exchange rate and monetary policy adjustments in BRIC nations

BRIC Countries: Exchange Rates per US Dollar



Source: International Monetary Fund.

BRIC Countries: Monetary Policy Positions






| Country | Current Rate ¹ | Last Change | Amount of Change |
|---------|---------------------------|-------------|------------------|
| Brazil | 14.25 | Jul. 2015 | +0.50 |
| Russia | 11.00 | Jul.2015 | -0.50 |
| India | 6.50 | Apr.2016 | -0.25 |
| China | 4.35 | Oct.2015 | -0.25 |

Source: Central Bank of Brazil, The Central Bank of the Russian Federation, Reserve Bank of India, and The People's Bank of China.

¹ As at April 2016.

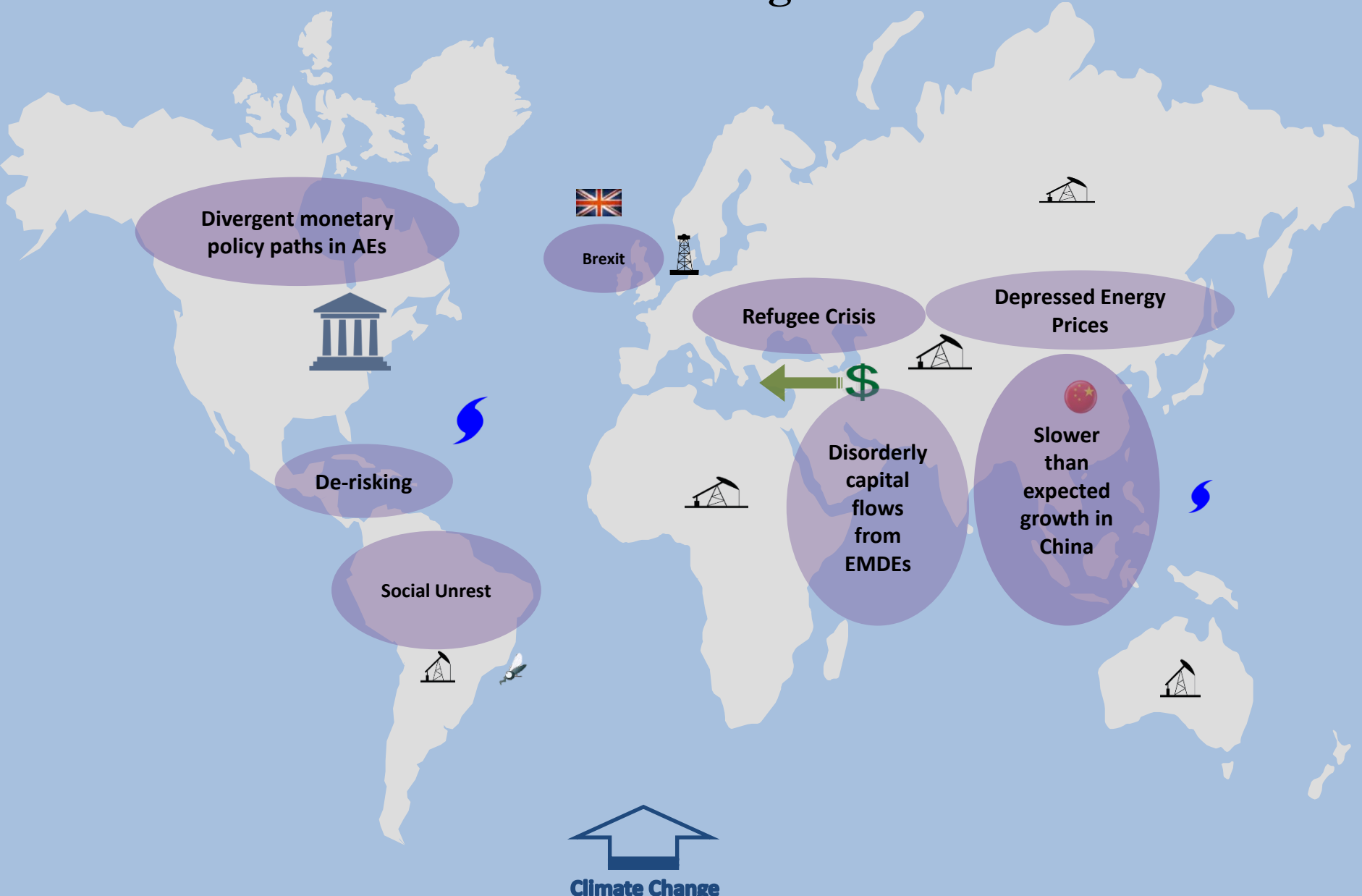
There has been some improvement, but regional growth remains relatively low

Selected Regional Economies: Main Economic Indicators

| Main Economic Indicators | |  |  |  |  |  |
|--------------------------------------|-----------|---|--|---|---|---|
| | | Jamaica | Barbados | ECCU | Guyana | Suriname |
| Output Growth (per cent) | 2013 | 0.2 | 0.0 | 1.7 | 5.2 | 2.8 |
| | 2014 | 0.5 | 0.2 | 2.9 | 3.8 | 1.8 |
| | 2015 Est. | 1.1 | 0.5 | 2.2 | 3.0 | 0.1 |
| Inflation (End of period / per cent) | 2013 | 9.5 | 1.1 | 0.0 | 0.9 | 0.6 |
| | 2014 | 6.4 | 2.3 | 1.2 | 1.2 | 3.9 |
| | 2015 Est. | 3.0 | -0.7 | -1.0 | -1.8 | 25.0 |

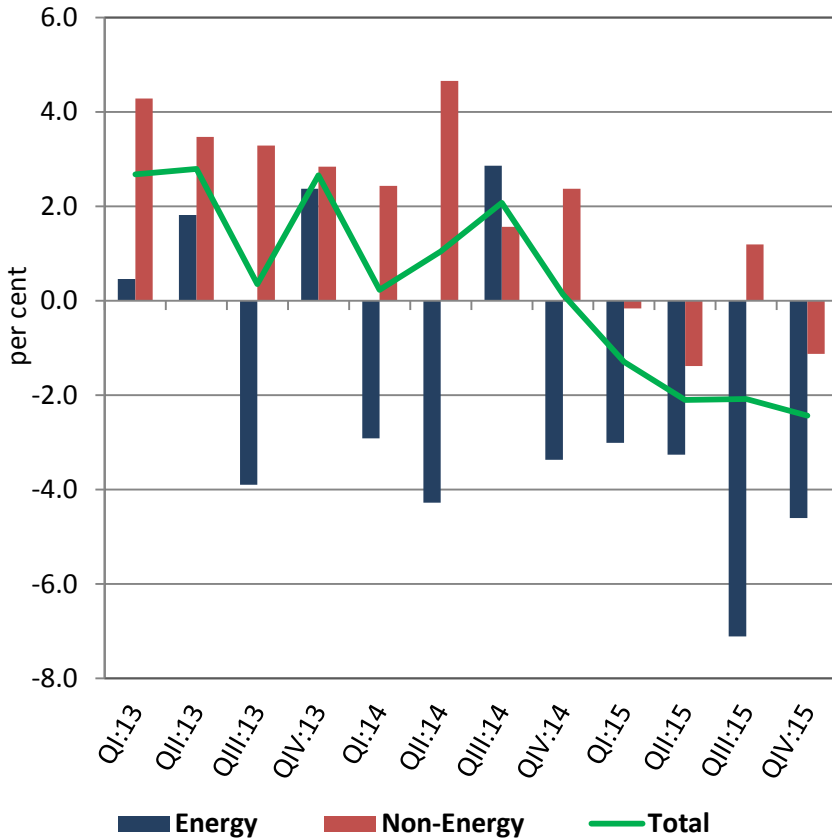
Source: IMF Regional Economic Outlook.

Global Risks Going Forward



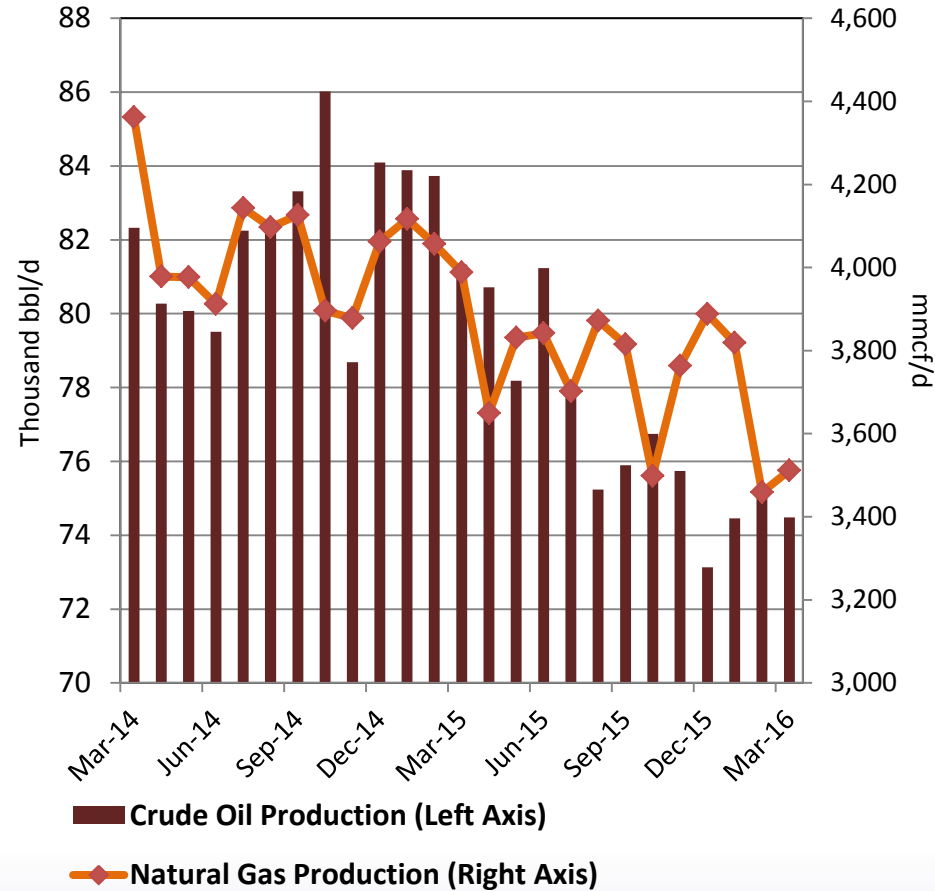
Weak energy sector production has weighed on domestic economic performance

Trinidad and Tobago: Real GDP Growth



Source: Central Bank of Trinidad and Tobago.

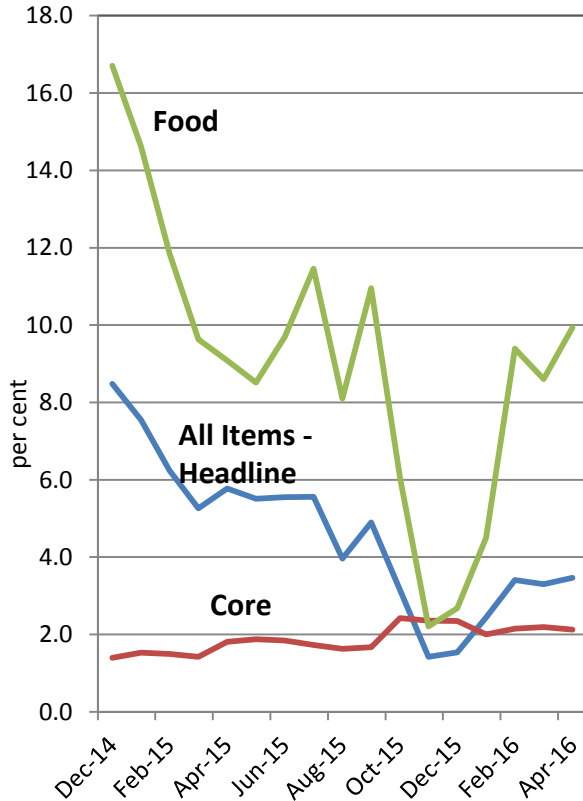
Domestic Crude Oil and Natural Gas Production



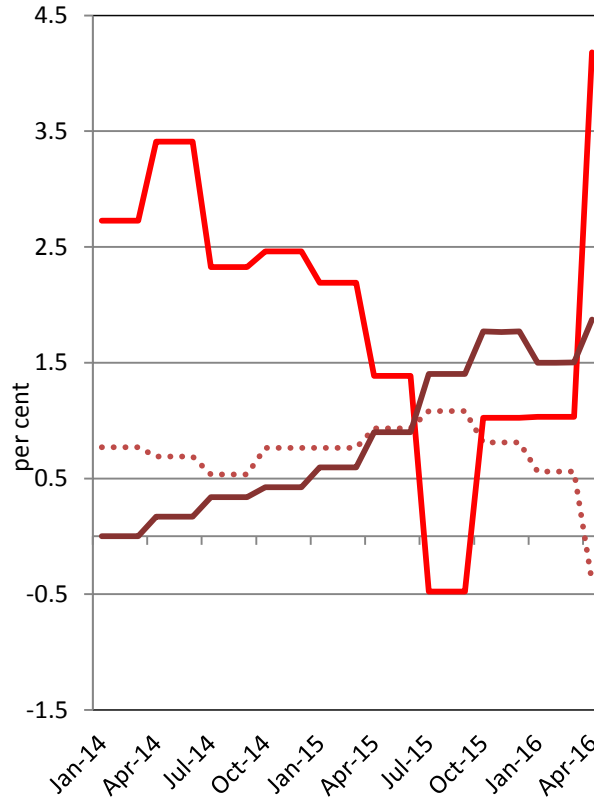
Source: Ministry of Energy and Energy Industries.

Despite an uptick in food prices, headline inflation relatively contained in early 2016

**Index of Retail Prices
(Year-on-Year Per cent Change)**

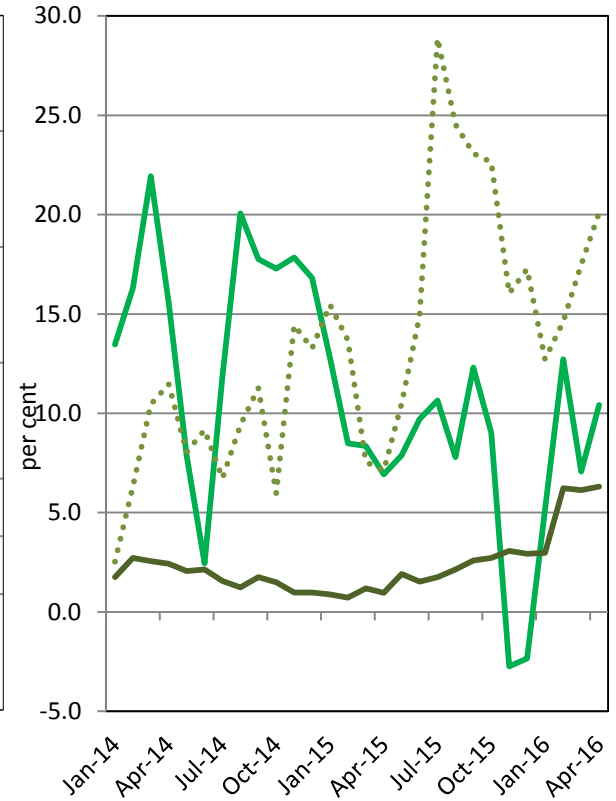


**Index of Retail Prices - Components
of Core Index**



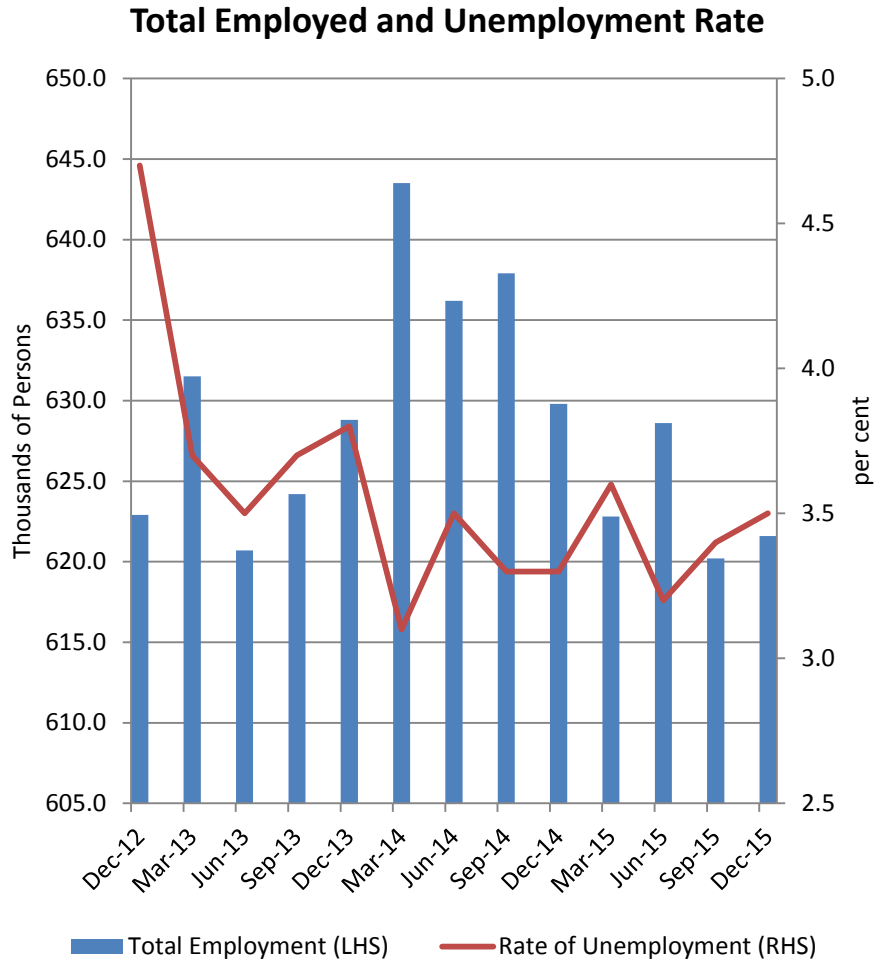
- Housing, Water, Electricity, Gas & Other Fuels - Weight 274.62
- Transport - Weight 147.42
- Furnishings, Household Equipment and Routine Maintenance of the House - Weight 67.21

**Index of Retail Prices - Components
of Food Sub-Index**



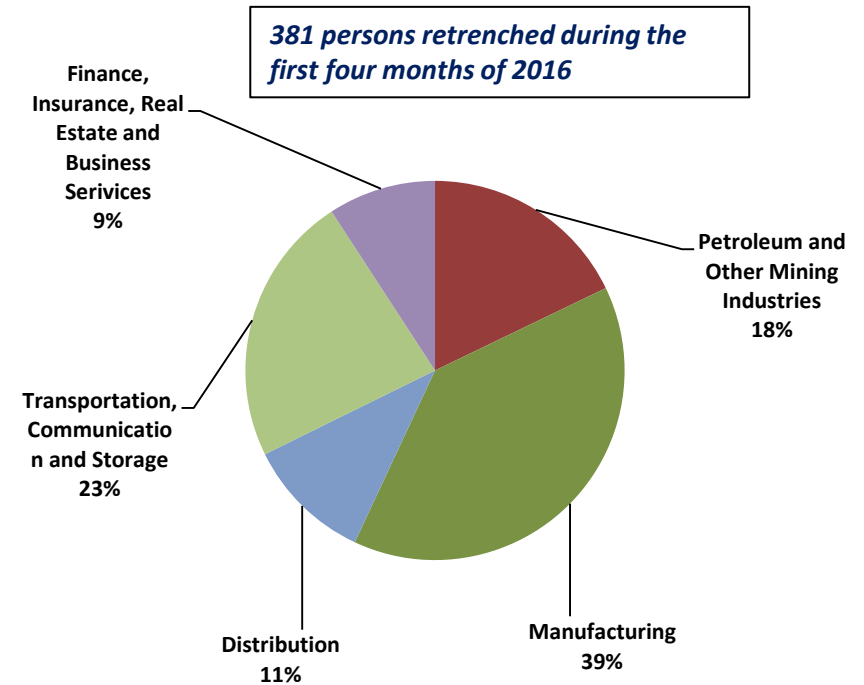
- Vegetables Weight - 24.1
- Meat Weight - 31.5
- Breads and Cereals Weight - 32.6

Labour market conditions have weakened



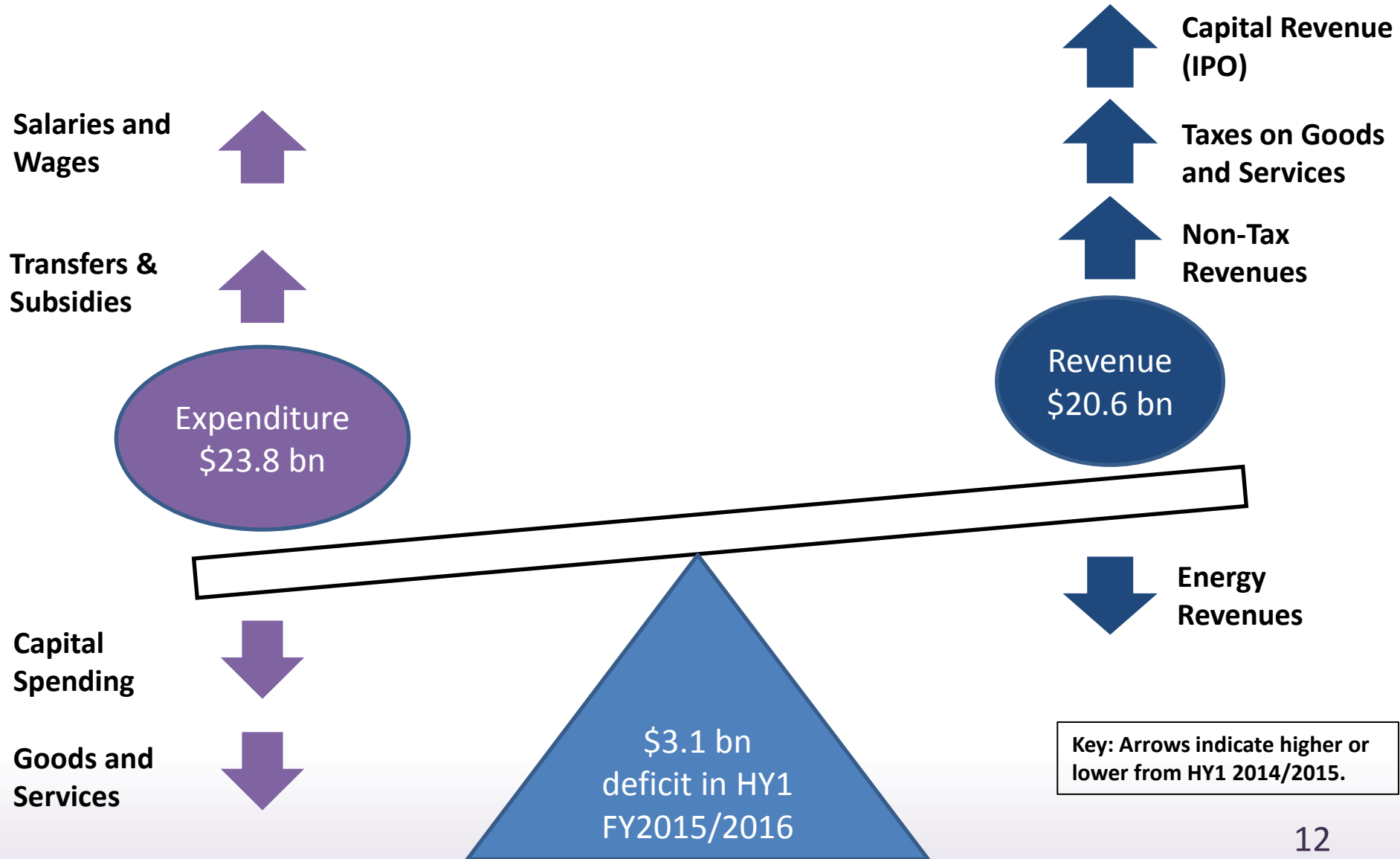
Source: Central Statistical Office.

Retrenchment Notices Registered by Sector January - April 2016 (As a Proportion of Total Notices Filed)

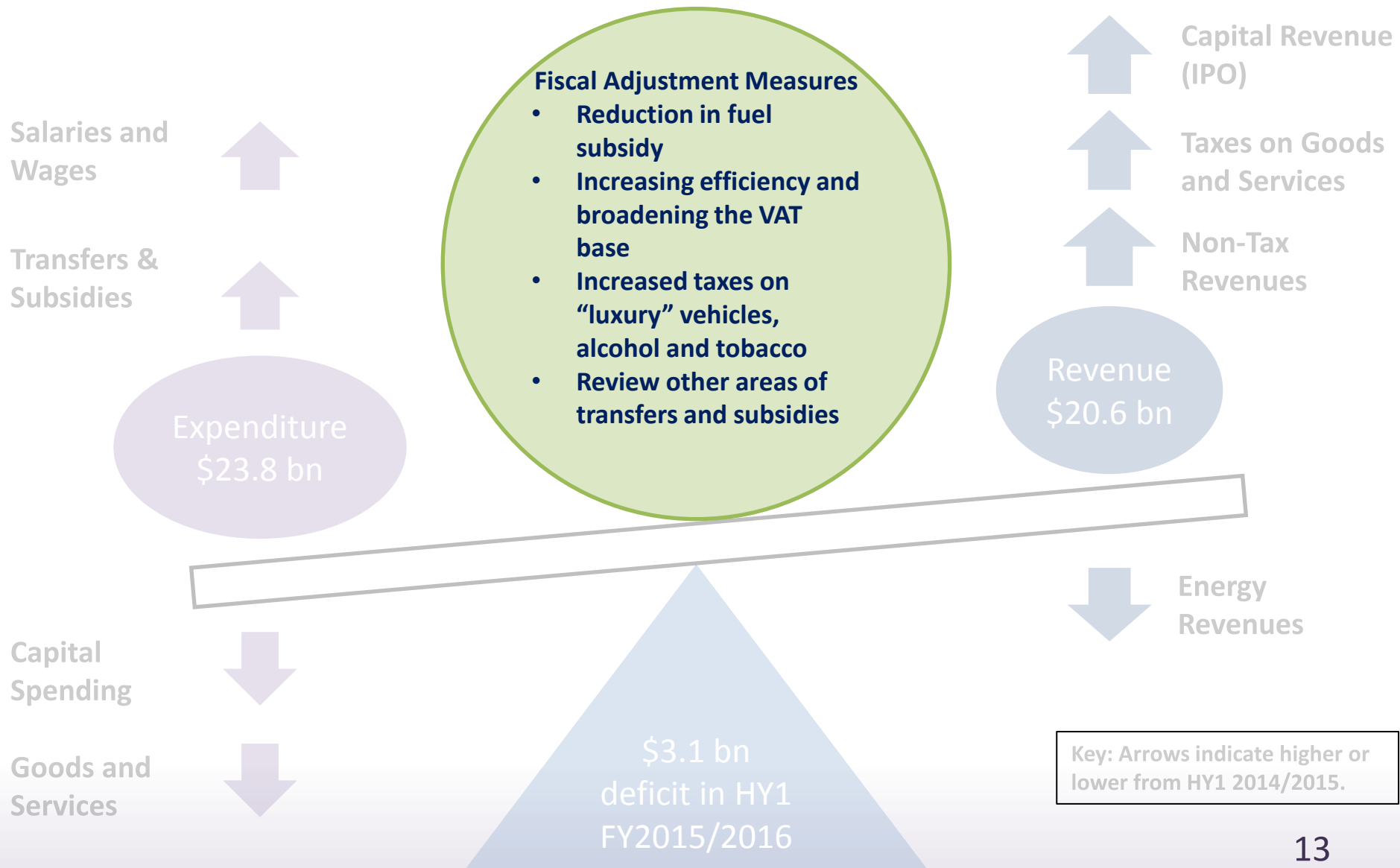


Source: Ministry of Labour and Small Enterprise Development.

Fiscal policy has had to adjust to lower energy revenues



Fiscal policy has had to adjust to lower energy revenues

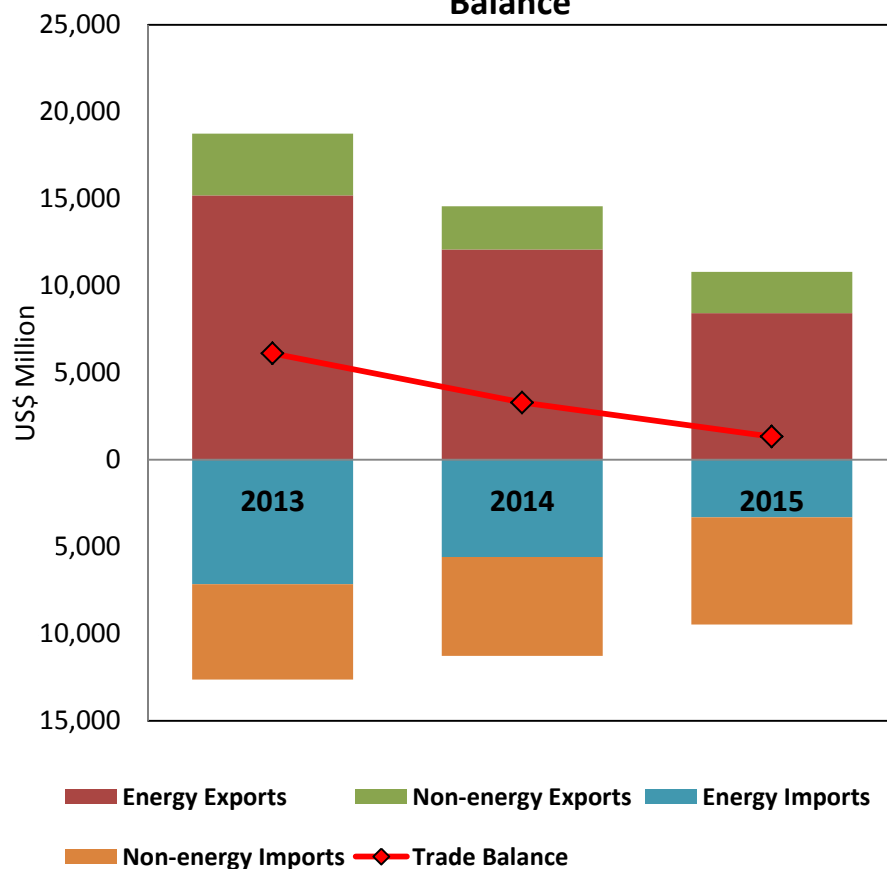


Falling energy exports have led to a decline in the external position in 2015 and early 2016

Trinidad and Tobago: Gross Official Reserves



Trinidad and Tobago: Merchandise Trade Balance



Source: Central Bank of Trinidad and Tobago.



1

- International and Domestic Macro-economic Environments

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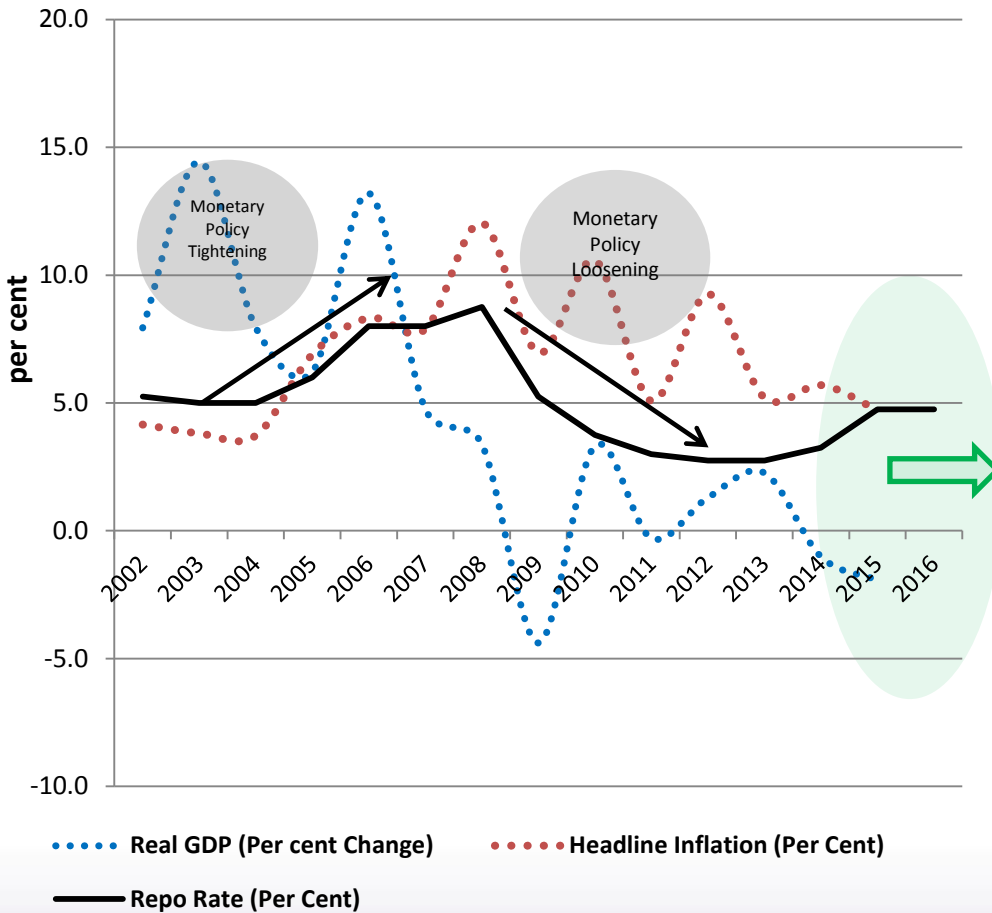
- **Central Bank's Monetary Policy Actions**

3

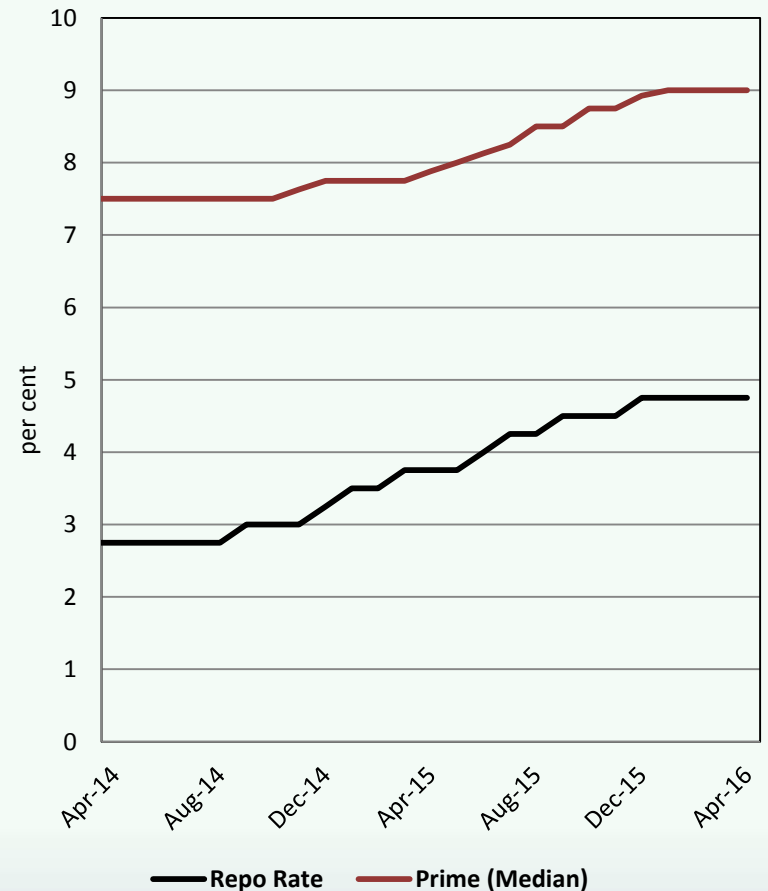
- Macroeconomic Management in a Time of Uncertainty

Following successive policy rate increases in 2015, the Bank has held the Repo Rate at 4.75% in the first four months of 2016, as domestic economic weaknesses emerged

Phases of Central Bank Monetary Policy

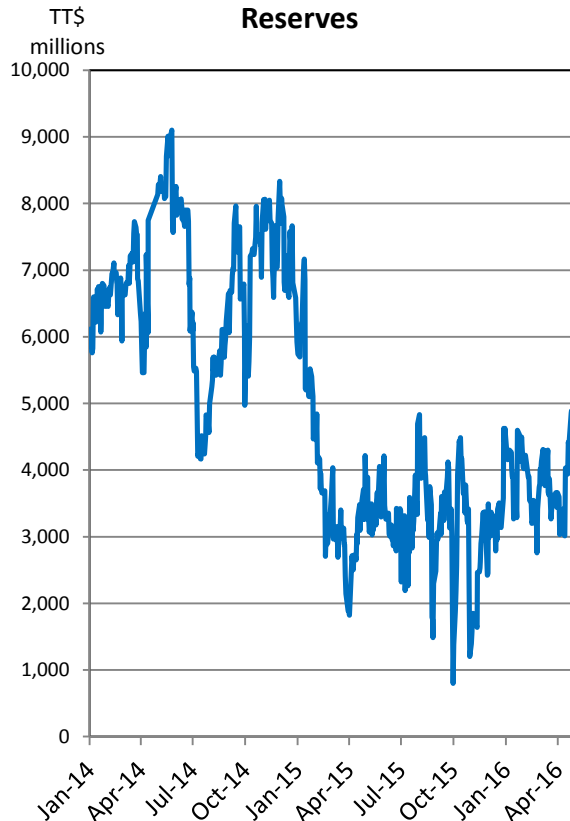


Central Bank's Repo Rate and Commercial Banks' Prime Lending Rate

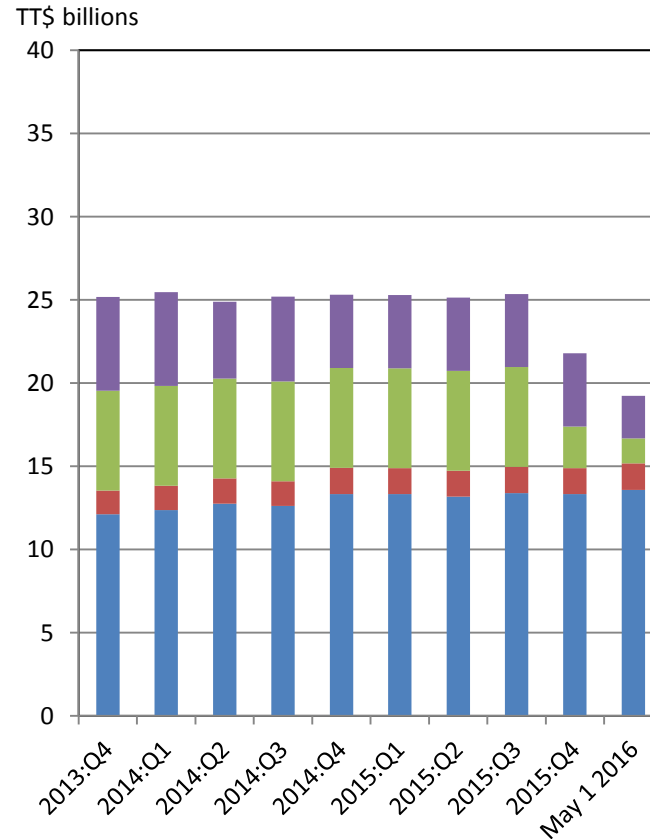


The Bank has kept liquidity within manageable levels

Commercial Banks' Excess Reserves

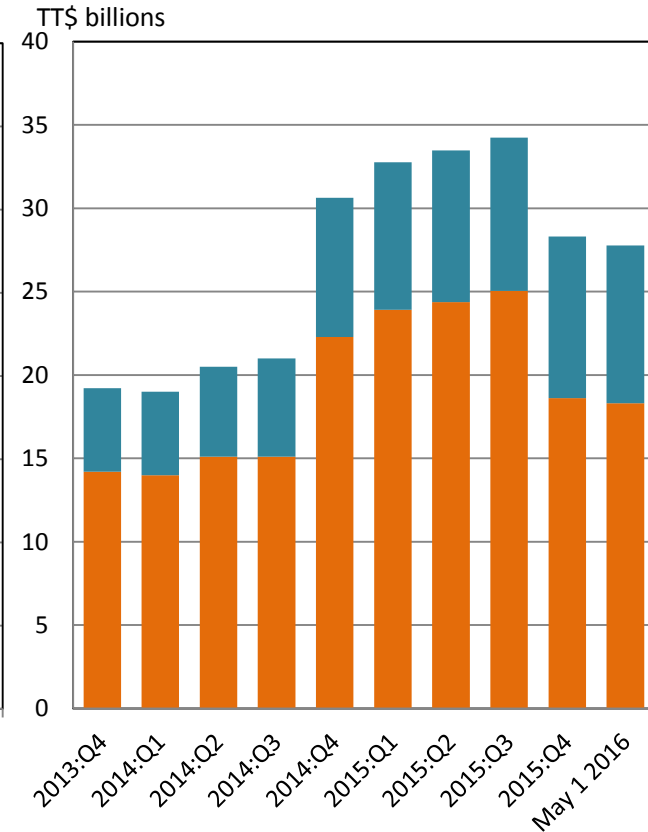


Reserve Requirements and Other Liquidity Absorption Measures



- Liquidity Bonds
- Special Deposits
- Secondary Reserve Requirement

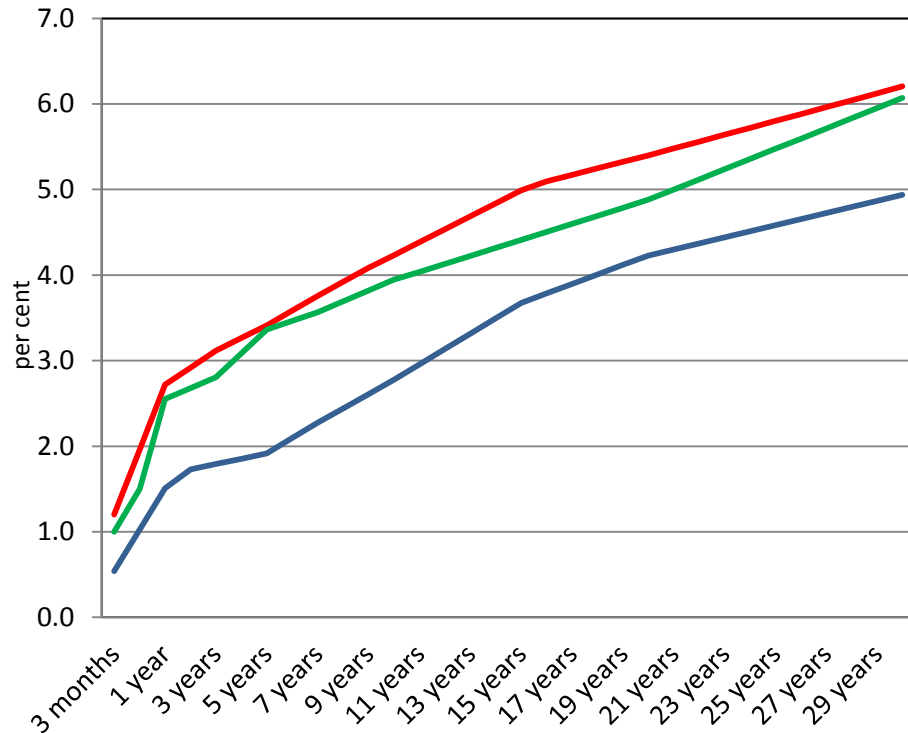
Outstanding Treasury Open Market Operations Bills and Notes Balances



- Treasury Bills
- Treasury Notes

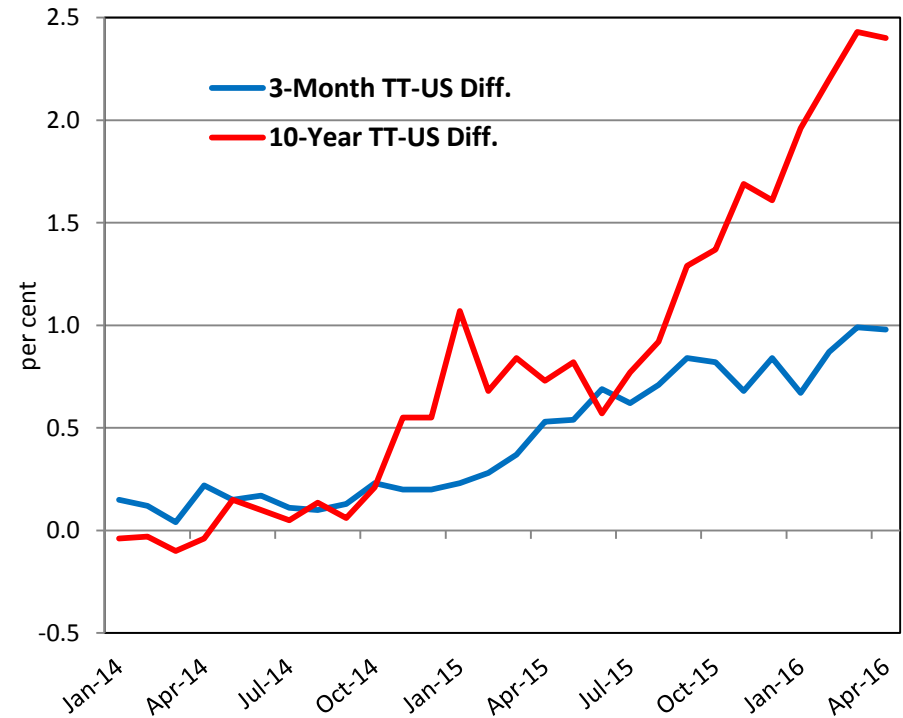
The Treasury yield curve has shifted upwards from one year ago, taking TT – US yield differentials higher

**Central Bank of Trinidad and Tobago:
Standardized TT Treasury Yield Curve**



- T&T Government Yield Curve April 2016
- T&T Government Yield Curve April 2015
- T&T Government Yield Curve December 2015

**3-Month and 10-Year TT-US Treasury Yield
Differentials**

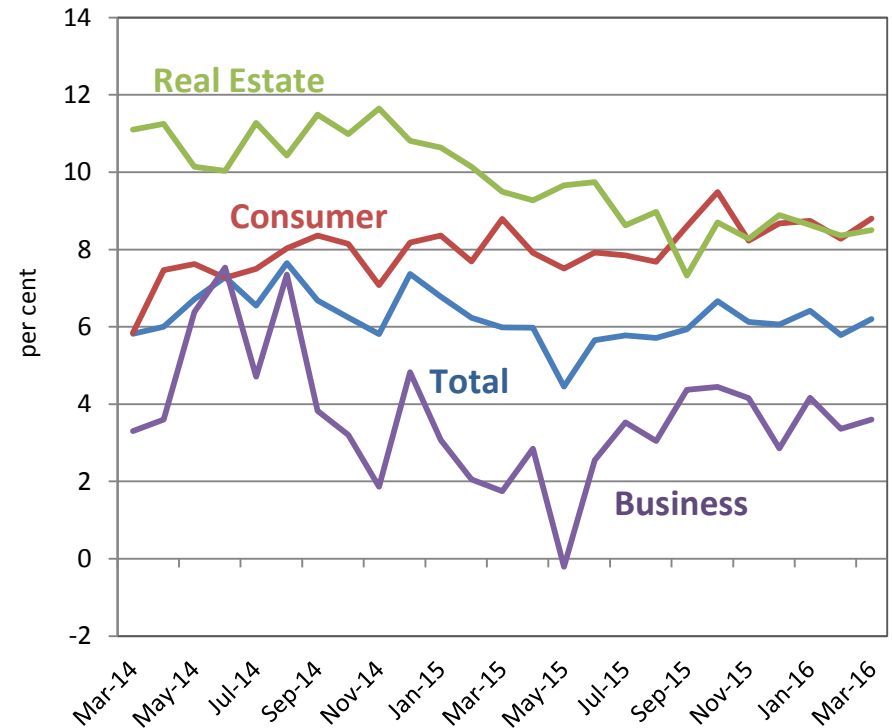


Other lending rates have been slower to adjust upwards, as private sector borrowing remains resilient

Commercial Banks' Lending Rates

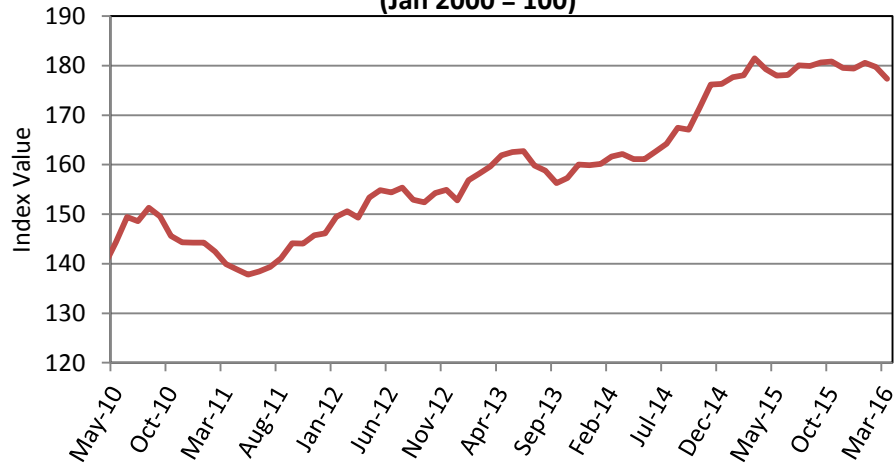


Private Sector Credit by the Consolidated Financial System (Year-on-Year Per Cent Change)

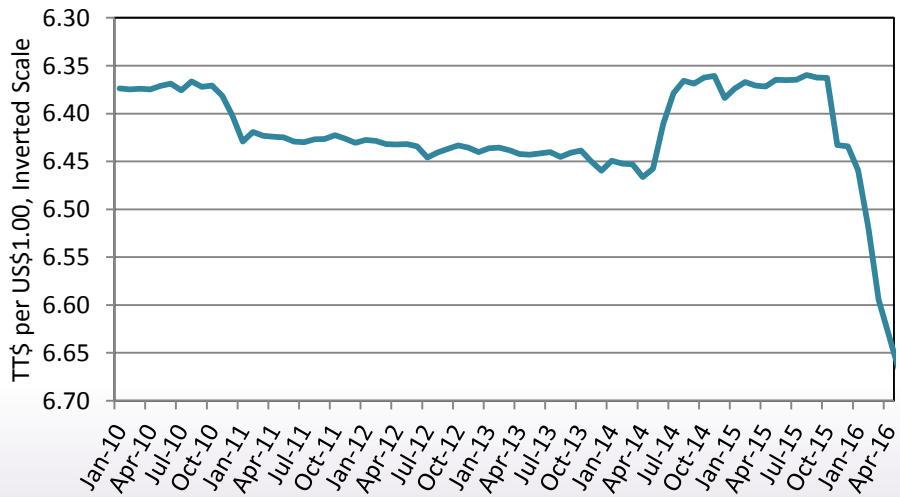


Central Bank continues to support the FX market; the TT\$ has depreciated

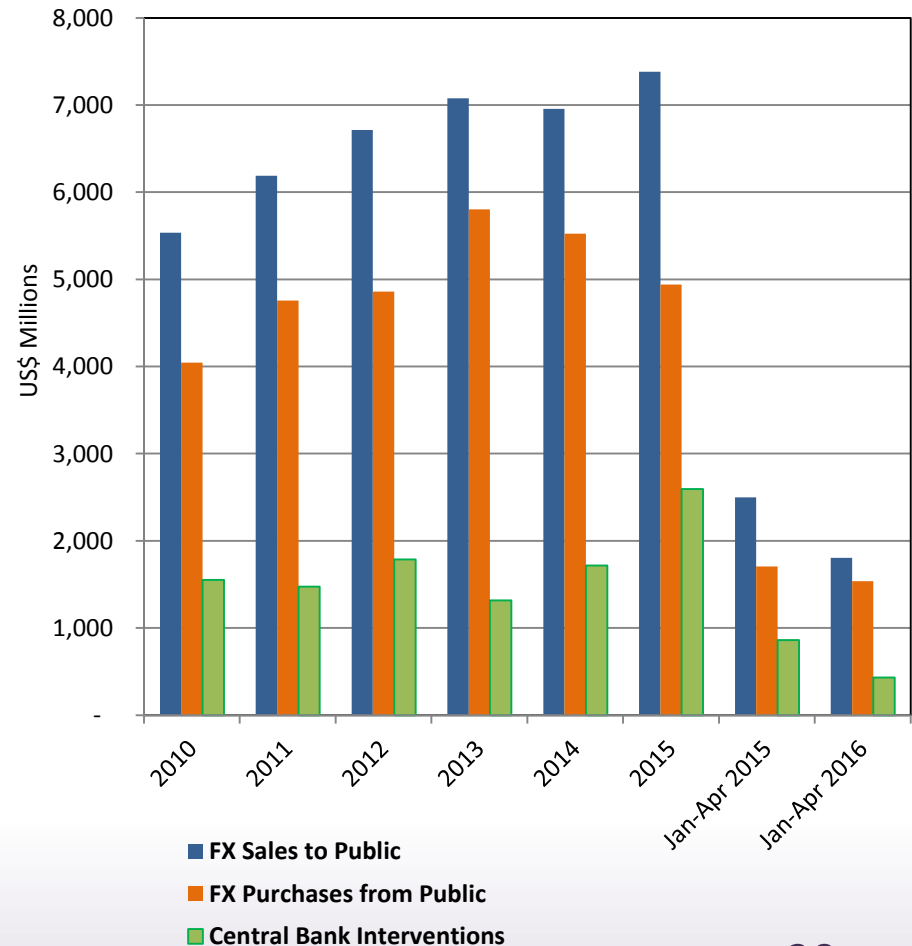
Trade Weighted Real Effective an Exchange Rate
(Jan 2000 = 100)



Nominal TT\$/US\$ Selling Rate



Authorized Dealers' Purchases and Sales of Foreign Currency





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- Macroeconomic Management in a Time of Uncertainty

Macroeconomic Management in a Time of Uncertainty

- Trinidad and Tobago is currently experiencing a large terms-of-trade shock.
- Compounding the energy price situation is the decline in the volume of output of petroleum and natural gas.
- The direct repercussions of the fall in energy prices and production are already evident in the balance of payments and Government revenue.

Macroeconomic Management in a Time of Uncertainty

- Spillover effects have also been seen in overall economic growth and to a more limited extent in the unemployment numbers.
- While the order of magnitude of the shock and the immediate impacts are fairly well known, there is a large degree of uncertainty as to how long the situation will persist.
- It is within this context of uncertainty that macroeconomic policies must be developed and coordinated.

Macroeconomic Management in a Time of Uncertainty

- It would also be prudent to treat the shock as permanent.
- The fiscal response should balance carefully the need for expenditure restraint with the longer term growth objective.
- The opportunity should be taken to advance institutional reforms that may have been delayed when oil prices were buoyant.

Macroeconomic Management in a Time of Uncertainty

- Monetary policy should be responsive to the dynamics of adjustments across the economy.
- Our analysis of the lags in the pace of adjustments in the rest of the economy leads us to the conclusion that monetary and foreign exchange policies would likely not be able to address all short run disequilibria.
- Ultimately, macro policies must be aimed at supporting a bigger role for the private sector and businesses should gear up to fill this role.
- Uncertainty does not provide an excuse for policy inertia; macroeconomic actions should be built on the information available with a view to addressing long term priorities.



Thank you for your attention