

Monetary Policy Report



CENTRAL BANK OF
TRINIDAD & TOBAGO

Alvin Hilaire, Governor, Central Bank of Trinidad and Tobago

Launch of *November 2018 Monetary Policy Report*
Central Bank Conference Facilities,
November 15, 2018

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Key Points

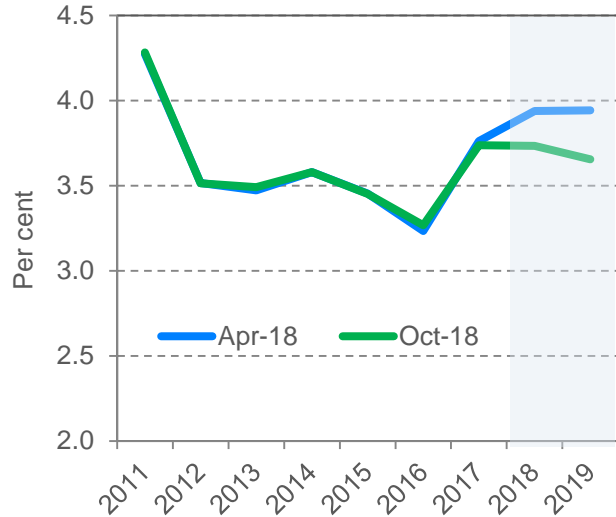
1. Some fears earlier in the year have materialized, dampening the global outlook.
2. After several years of contraction, the Trinidad and Tobago economy is poised for a moderate, energy-based recovery.
3. The spillover to non-energy sectors is however taking some time.
4. Better targeted transfers should help the fiscal position, but the shape of deficit financing will be critical.
5. The mid-year increase in the repo rate translated into a rise in both lending and deposit rates.
6. Foreign exchange inflows have picked up but we are not out of the woods yet.



1. Some fears earlier in the year have materialised, dampening the global outlook.

Chart 1: Global Growth Comparison

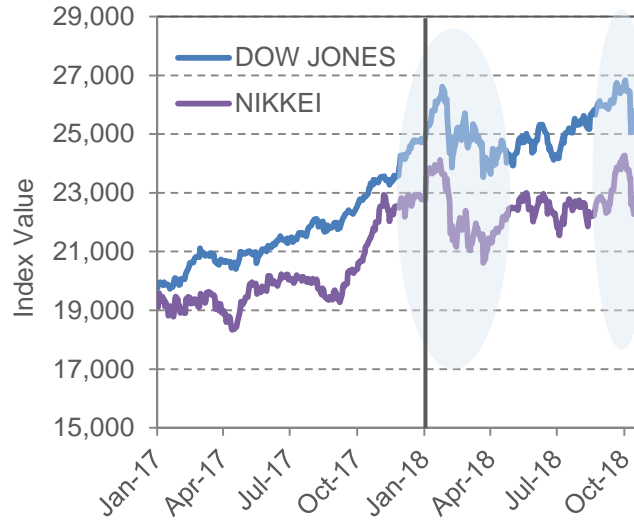
April 2018 vs October 2018 WEO*



Source: International Monetary Fund
* World Economic Outlook

Trade tensions, political uncertainty and US monetary policy normalisation affected the outlook for global growth.

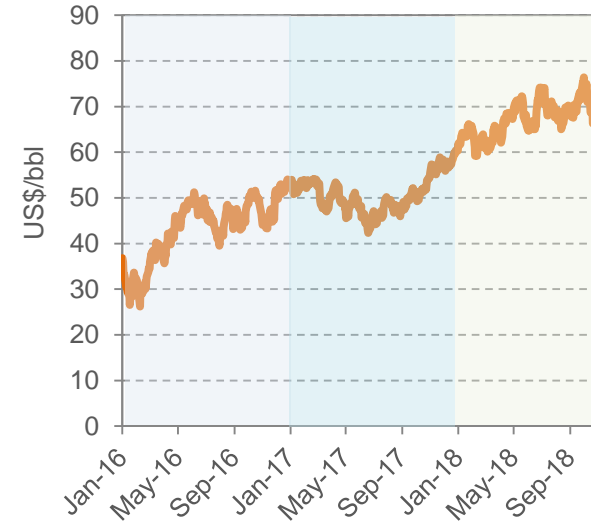
Chart 2: International Stock Market Indices



Source: Bloomberg

Volatility in stock markets has affected the short-term performance of funds with large equity exposures.

Chart 3: Crude Oil Price (WTI)



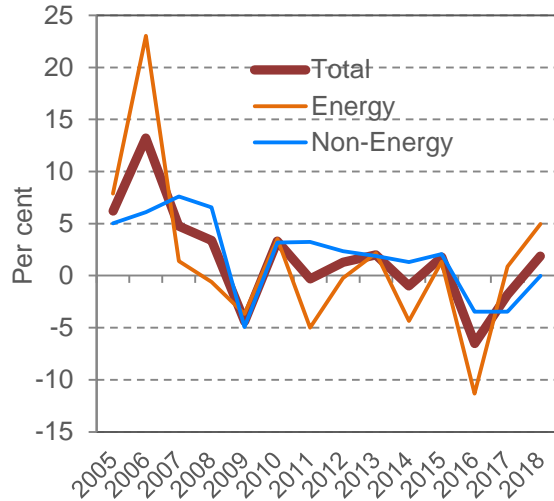
Source: Bloomberg

OPEC efforts to cut global output along with growing demand influenced increases in the price of crude oil.



2. After several years of contraction, the Trinidad and Tobago economy is poised for a moderate, energy-based recovery.

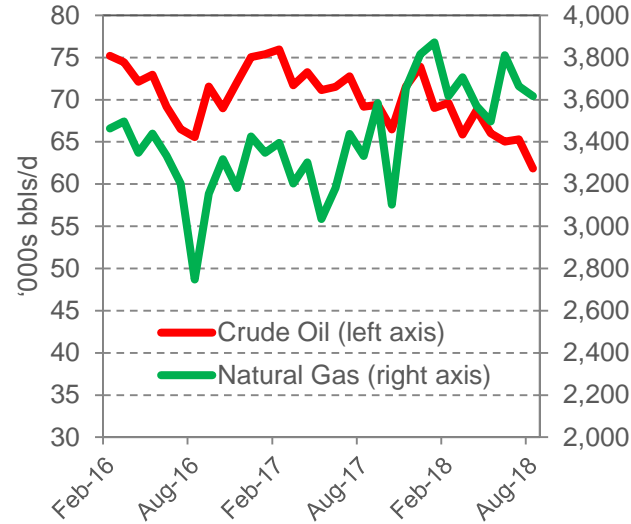
Chart 4: T&T GDP Growth



Source: Central Statistical Office

In the domestic economy, a small recovery is anticipated.

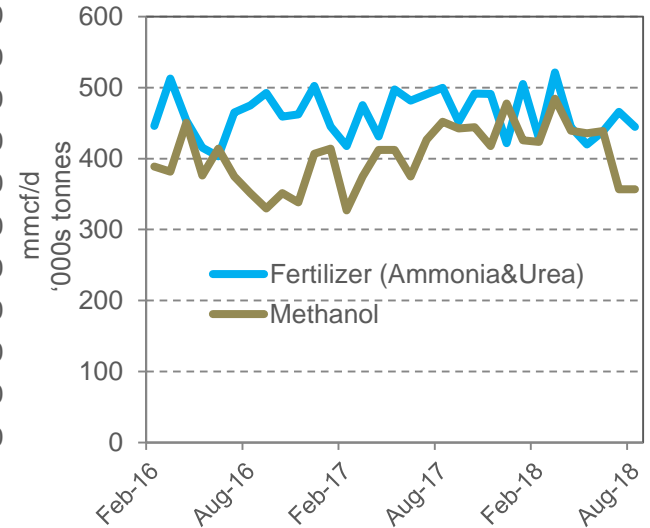
Chart 5: Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Industries

Juniper and other projects led to a boost in natural gas production...

Chart 6: Petrochemical Production



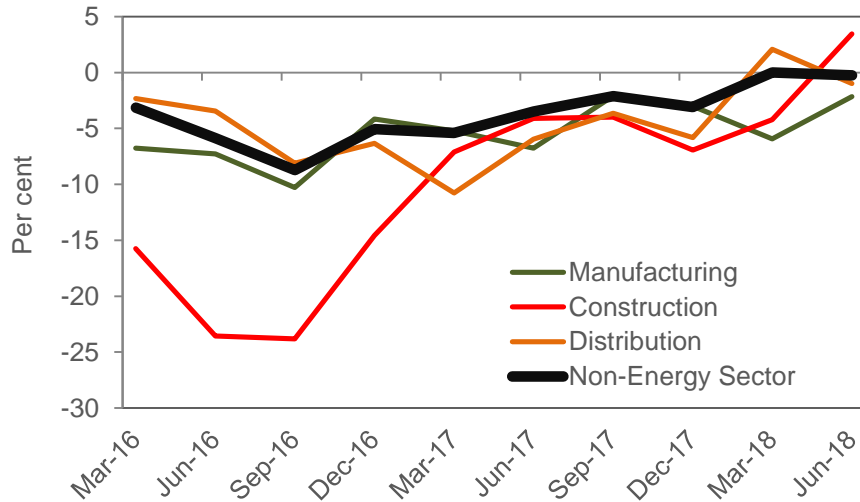
Source: Ministry of Energy and Energy Industries

...helping to counter feedstock shortages for petrochemical production.



3. The spillover to non-energy sectors is however taking some time.

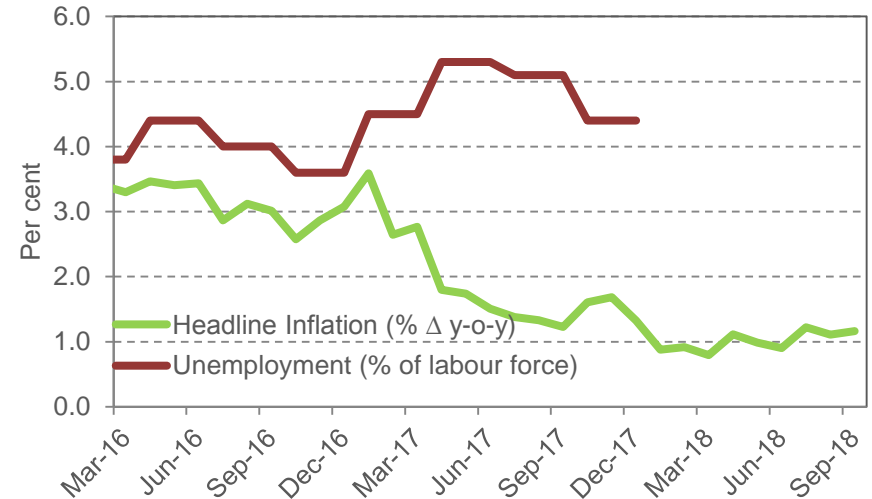
Chart 7: Non-energy Sector Activity
(y-o-y %Δ)



Source: Central Bank of Trinidad and Tobago

Activity in the non-energy sector declined slightly in the first half of 2018.

Chart 8: Inflation and Unemployment



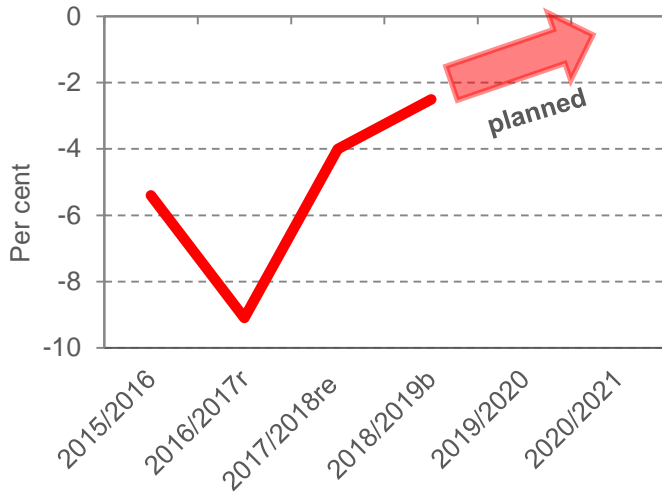
Source: Central Statistical Office

Inflation remained low and the unemployment rate last year was also relatively low.



4. Better targeted transfers should help the fiscal position, but the shape of deficit financing will be critical.

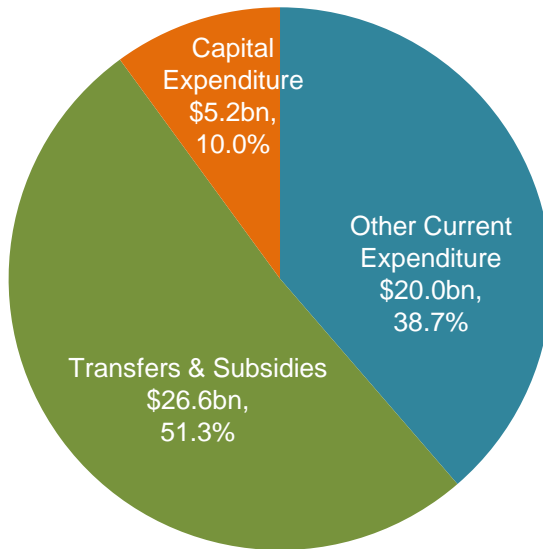
Chart 10: Fiscal Balance to GDP



Source: Ministry of Finance

The Government has announced a fiscal consolidation plan...

Chart 11: Central Government Expenditure – FY2017/18



Source: Ministry of Finance

...based in part on focusing transfers and subsidies on targeted groups.

Financing the deficit needs to be carefully balanced:

- *Asset sales can help but tend to be one-off;*
- *External funding, except for grants, need to be repaid over time;*
- *Central Bank financing has monetary and inflationary implications;*
- *Domestic debt funding can lead to crowding out of the private sector and heightened sovereign exposure for financial institutions.*

Continued fiscal consolidation towards a balanced budget is required to avoid debt buildup.



5. The mid-year increase in the repo rate translated into a rise in lending and deposit rates.



Inflation stood at **1.2%** in September 2018.



Repo rate increased to **5.00%** in June and held steady in September.



The 3-mth TT-US differential stood at **-104bps** in October 2018.



Private sector credit grew by **7.0%** in August 2018 above the **5.0%** average for 2018.



Excess reserves averaged **\$3.6bn** for May-October 2018.



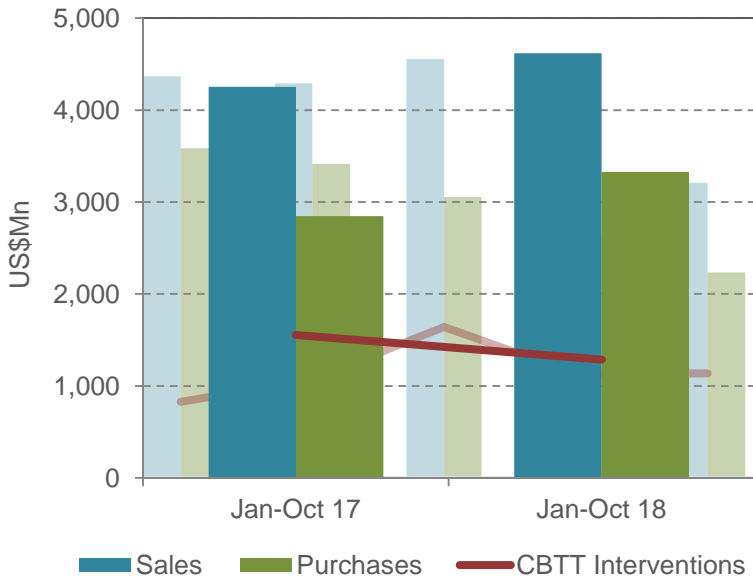
Energy output rose by **9.1%** in first half 2018, but the non-energy sector is still sluggish.

- *After holding steady for 29 months, the Central Bank increased the repo rate by 25 basis points in June 2018.*
- *The transmission to other domestic rates is slow and some banks subsequently increased their deposit and loan rates.*
- *The removal of the 2.00 per cent Secondary Reserve Requirement is another step towards more market-based monetary policy.*
- *Monetary policy will continue to balance internal and external considerations.*



6. Foreign exchange inflows have picked up but we are not out of the woods yet.

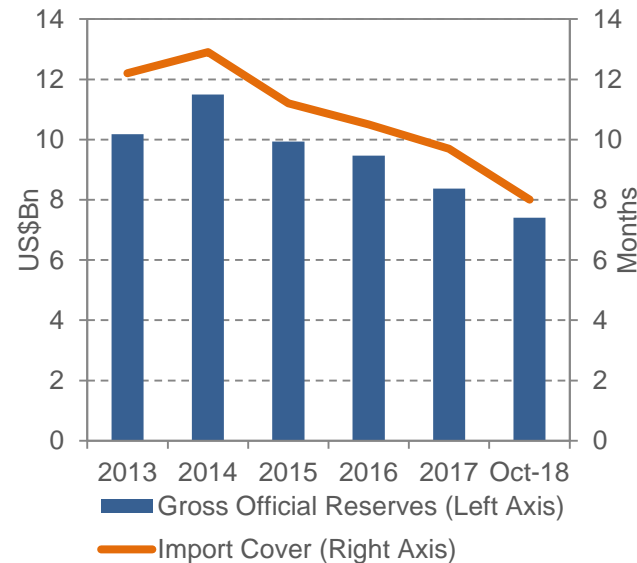
Chart 12: Authorised Dealers' Purchases and Sales of Foreign Currency



Source: Central Bank of Trinidad and Tobago

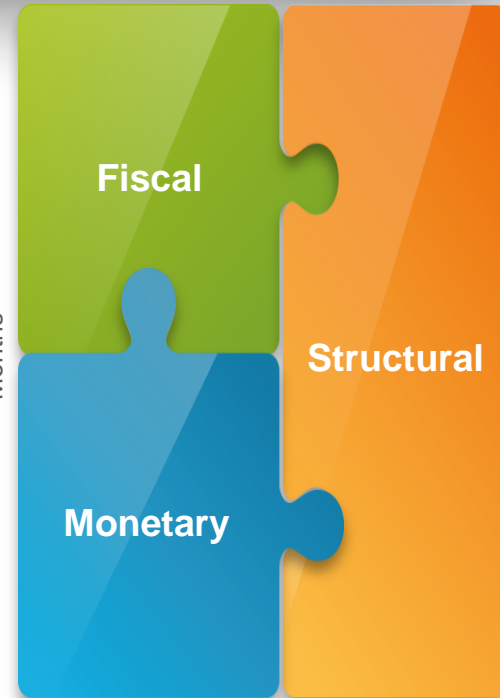
Higher inflows meant that Central Bank had to intervene less this year.

Chart 13: Gross Official Reserves and Import Cover



Source: Central Bank of Trinidad and Tobago

International reserves have declined but remain substantial.



More market-based monetary policy needs to be closely coordinated with fiscal and structural policies to restore durable economic balance. 8



Thank You