ISSN 1817-9959

CENTRAL BANK OF
TRINIDAD & TOBAGO

Monetary Policy Report

May 2016

Volume XVI Number 1

MONETARY POLICY REPORT

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VOLUME XVI NUMBER 1

The Central Bank of Trinidad and Tobago conducts monetary policy geared towards the promotion of low inflation and a stable foreign exchange market that is conducive to sustained growth in output and employment. This Report provides an account of how monetary policy actions support this objective, in light of recent economic developments.

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PART I – OVERVIEW AND OUTLOOK

Overview

More than five years after the Global Financial Crisis of 2008/2009, the global economy remains in a low-growth cycle. Activity in advanced economies has been relatively mundane. With the possible exception of the United States (US), most developed economies remain reliant on unconventional monetary policies to stimulate growth. While the economic improvement in the US has occurred alongside positive developments in the labour market, US policy makers have become increasingly concerned over negative feedback loops from the rest of the world and financial market volatility. Activity in Emerging Market and Developing Economies (EMDEs), once the main driver of global growth, has slowed. The Chinese economy continues to decelerate in the context of structural rebalancing, while commodity exporters such as Brazil and Russia have been impacted by lower product prices.

Overall, the current international landscape is characterized by depressed commodity prices and uncertainty. Low commodity prices have occasioned significant terms-of-trade shocks and fiscal imbalances for several commodity producing nations across the globe. The potential benefits from lower energy prices to net commodity importing economies have been overshadowed by the significant shock faced by energy exporting countries. Meanwhile, rising incidents of bankruptcies by small US energy producers, growing levels of financial distress in China's corporate sector as its economy cools, and uncertainty arising from the possibility of divergent monetary policy paths among advanced nations have seen an increase in global financial market volatility in early 2016. Additionally, the potential for higher US interest rates and narrowing growth differentials between advanced economies and EMDEs have also seen lower capital flows to the latter.

In the protracted low growth environment, most major monetary authorities have opted to provide support to their economies **(Table Ia)**. Since December 2015, the European Central Bank and the Bank of Japan have continued to increase the level of monetary stimulus, while the Bank of England has maintained its accommodative stance. In December 2015, the US Federal Reserve raised its policy rate – its first rate increase since the Global Financial Crisis. However, with the international economic outlook highly uncertain and higher financial market volatility in early 2016, the Fed has kept rates on hold in the first four months of 2016, and has become more measured in communicating its policy rate outlook for the remainder of the year.

Like several other energy exporting countries, Trinidad and Tobago is facing the challenges posed by the significant drop in prices. Moreover, domestic energy sector output has been constrained by maintenance activity, as well as the natural rate of decline in some of country's mature oil and gas fields. Spill-over effects from the energy sector, manifested mainly in lower Government revenue and expenditure, a sharp fall in the balance of trade, and waning confidence levels, have also impacted the performance of the non-energy sector. The Central Bank's quarterly real GDP Index suggests that the domestic economy contracted by 2.3 per cent in the final quarter of 2015. Early indications also point to anaemic economic activity in the first quarter of 2016 **(Table Ib)**.

The terms of trade shock from lower energy prices and lower domestic energy production has resulted in a weakening in the external accounts position. In 2015, Trinidad and Tobago's trade balance fell to approximately 5.1 per cent of GDP from 23.0 per cent of GDP in 2013, largely owing to a sharp drop in energy export earnings. The deterioration in the trade balance contributed to a

decline in gross official reserves to approximately US$9.3 billion (11.0 months of import cover) at the end of April 2016 from US$9.8 billion at the end of 2015.

The sluggish economic growth has been accompanied by deteriorating labour market conditions. Latest official labour market statistics from the Central Statistical Office (CSO) showed a slight increase in the unemployment rate to 3.5 per cent in the last quarter of 2015. Additionally, in early 2016 there have been further reports of job losses, particularly in the energy, construction and manufacturing sectors.

In light of lower revenues, the Central Government revised its expected fiscal outturn downwards in its April 8, 2016 Mid-Year Budget Review. The Government now expects a deficit of roughly 4.0 per cent of GDP in fiscal year 2015/2016, compared with the deficit of 1.5 per cent of GDP stated in October 2015. Within this context, the Minister of Finance announced additional measures to reduce expenditure and bolster revenues, including further reductions in the fuel subsidy, the introduction of taxes on on-line purchases (effective September 2016) and increased taxes on luxury motor vehicles and alcohol and tobacco products.

In the subdued economic environment, headline inflation was well contained in the first four months of 2016. Although there was a pickup in food inflation due in part to the reintroduction of VAT on selected food items effective February 2016, core inflation has been relatively stable. On a year-on-year basis, overall headline inflation averaged just over 3.0 per cent in the first four months of 2016. The pass through effects of i) the increases in fuel prices in April 2016; and (ii) the 3.6 per cent depreciation of the domestic currency in the year to mid-May on the general price level are anticipated to take place over the next few months. In terms of order of magnitude, the full pass through to consumers is likely to be limited because of cooling domestic demand.

The Central Bank's monetary policy has been geared towards keeping core inflation in check while balancing the downside risk to economic growth with the threats posed by higher international interest rates. Following successive increases in 2015, the Central Bank has kept its main policy rate, the Repo rate, unchanged at 4.75 per cent in the first four months of 2016. The Bank's Monetary Policy Committee (MPC) believed that the hold in interest rate movements would in the short run be appropriate given the subdued activity in the domestic economy and the pause in the Fed's upward rate adjustments.

Liquidity levels fluctuated over the first four months of 2016 as commercial banks adjusted their balance sheets to cater for investments in Government instruments. Commercial banks' excess reserves averaged roughly $3.9 billion daily in the first four months of 2016 compared with $3.1 billion daily in the final four months of 2015. The Central Bank adjusted the pace and extent of its open market operations accordingly.

Given the lagged nature of the monetary policy transmission mechanism, increases in the Repo rate in 2015 continued to filter through to other interest rates in the financial system in early 2016. Both short and long-term Treasury yields trended upwards over the first four months of 2016, and by the end of April 2016 the TT – US 91-day and 10-year Treasury yield differentials stood at 98 basis points and 240 basis points, respectively. However, some lending rates in the banking system have been slower to adjust upwards. After rising by 30 basis points from the third quarter of 2015 to 7.74 per cent at the end of 2015, commercial banks' weighted average lending rate fell to 7.49 per cent in March 2016.

Private sector credit extended by the consolidated banking system has been relatively steady, and expanded by 6.2 per cent on a year-on-year basis to March 2016. Growth in consumer loans remained fairly strong, while business lending was less robust. Further, growth in real estate mortgage loans remained relatively robust while slowing somewhat in early 2016, a continuation of a trend observed since the first half of 2015. Meanwhile, provisional information point to two primary private sector debt issues in the first quarter of 2016. Additionally, the Central Government raised roughly $1.1 billion via public bond auction in May 2016 for budgetary financing.

The fall-off in foreign currency inflows from the energy sector contributed in part to conditions in the domestic foreign exchange market remaining relatively tight thus

far in 2016. In the first four months of the year, the gap between reported sales and purchases by authorized dealers to the public amounted to US$269.3 million. The Central Bank supported the market by selling US$430.0 million to authorized dealers during the period; this compares with sales of US$859.9 million in the similar period of 2015. Meanwhile, reflective of demand and supply conditions, the TT$/US$ weighted average selling rate depreciated by around 3.1 per cent in the four months to April 2016 to TT$6.6315/US$1.00. In contrast over 2015 as a whole the currency had depreciated by less than 1.0 per cent.

Table Ia: Key Central Bank Policy Rates

	Current Rate (%)[2]	Last Change	Amount of Change (%)	Size of Monetary Stimulus Programmes
United States	0.25 to 0.50	Dec-15	+0.25	-
Euro Area	0.00	Mar-16	-0.05	€1 trillion
United Kingdom	0.50	Mar-09	-0.50	£375 billion
Japan	-0.10	Jan-16	-0.10	¥80 trillion
China	4.35	Oct-15	-0.25	1 trillion yuan[1]
India	6.50	Apr-16	-0.25	-
Brazil	14.25	Jul-15	+0.50	-

Sources: Bloomberg, European Central Bank, Bank of England and People's Bank of China.

1 Pledged Supplementary Lending.
2 As at April 2016.

Outlook

The global economy is expected to record low to moderate growth in 2016 and 2017. According to the International Monetary Fund (IMF) April 2016 World Economic Outlook, following estimated growth of 3.1 per cent in 2015, the global economy is projected to expand by 3.2 per cent in 2016 and 3.5 per cent in 2017. The slight uptick forecasted in 2016 and 2017 is premised on a baseline scenario of an improvement in energy exporters as prices recover, successful economic rebalancing in China, and resilient growth in non-energy exporting EMDEs. However, the Fund also noted several important risks, including a protracted fall in commodity prices and its impact on exporters, a sharper than expected slowdown in China and disorderly capital flows away from emerging markets. Geopolitical factors such as terrorism, the migration crisis and political instability/corruption issues also pose potentially very serious downside risks to certain regions.

Domestically, macroeconomic conditions are set to remain challenging in the short run. The domestic situation, in the context of the global slump in energy prices faced by oil exporters, is reflected in the downgrade of Trinidad and Tobago's sovereign debt rating by Moody's Investor Service and S&P Global Ratings in April 2016 to Baa3 and A-, respectively, both nonetheless remaining investment grade status. Early available information on domestic energy production, as well as the revised fiscal outlook announced in April 2016, support the Bank's initial projections in March 2016 of a contraction in the order of 2.5 per cent for the whole of 2016 and lower foreign exchange earnings. A gradual revival in growth is anticipated in 2017 and beyond as energy production and global energy prices pick up, although it may take some time for the output losses in 2015 and 2016 to be reclaimed.

There have been reports of a number of job losses across several sectors, primarily energy and energy-related, in early 2016. To the extent that economic activity slows further and businesses respond by reducing man hours via shorter shifts and less overtime, the take home pay of workers will be affected. While underlying inflationary pressures are not very strong in the current economic context some pass through of the increase in fuel prices and the currency depreciation to the price level can be anticipated. Nonetheless, monetary policy will need to be vigilant and flexible, taking into account the evolution of prices, the state of the economy, the trajectory of international interest rates, and the risk of some weakening in the credit portfolios of financial institutions.

In the short to medium term, the conduct of fiscal policy would be key: the mid (fiscal) year review lowered the energy price projections and announced several adjustment measures. Implementation of the announced programme and execution of the plans to finance the budget over the rest of the fiscal year would have a large direct influence not only on the provision of public services but also on domestic capital markets. This would provide a base for the setting of the parameters for the 2016/17 budget where additional fiscal adjustments may need to be put in train. The outlining of a clear timetable for public sector financing in the new fiscal year would add to predictability in the capital markets and could assist in lowering Government's borrowing costs.

Table Ib: Summary Economic Indicators for 2015-2016

	Jan-Mar 2015	Jan-Mar 2016
Real Sector Activity		
Energy Sector		
Total Depth Drilled (metres)	27,237.8	29,333.3
Crude Oil Production (b/d)	82,981.7	74,710.0
Crude Oil Exports (000 bbls)	3,432.8	2,641.6
Refinery Throughput (b/d)	111,880.0	148,046.0
Natural Gas Production (mmcf/d)	4,054.0	3,596.3
Natural Gas Utilization (mmcf/d)	3,808.0	3,366.7
LNG Production (000 cubic metres)	8,051.7	6,612.0
Fertilizer Production (000 tonnes)	1,337.4	1,393.3
Fertilizer Exports (000 tonnes)	1,290.2	1,431.9
Methanol Production (000 tonnes)	1,350.6	1,262.1
ECPI (Jan 2007 = 100)	88.8	59.5
Non Energy		
Local Sales of Cement (000 tonnes)	159.2	134.1
Motor Vehicle Sales	4,321.0	4,302.0
Average Daily Job Vacancy Advertisements	715	640
Prices		
Year-on-Year Per Cent Change		
Producer Prices	2.1	0.9
Headline Inflation*	5.8	3.5
Food Inflation*	9.1	9.9
Core Inflation*	1.8	2.1
Monetary**		
Year-on-Year Per Cent Change		
Private Sector Credit**	6.0	6.2
Consumer Lending**	8.8	8.8
Business Lending**	1.7	3.6
Real Estate Mortgages**	9.5	8.5
M-1A**	1.3	2.8
M-2**	3.9	3.6
Commercial Banks' Average Excess Reserves (TT$ millions)***	3,838.5	3,847.3
TT 91 day Treasury Bill Rate (per cent)*	0.04	1.15
Financial Stability - Commercial Banks		
Non-Performing Loans (per cent)**	4.1	3.4
Capital Adequacy Ratio (per cent)**	23.0	21.0
Capital Market		
Composite Price Index (1983 = 100)*	1,154.3	1,133.2
Volume of Shares Traded (millions)*	17.2	28.5
Mutual Funds Under management ($Billions)**	42.6	42.3
External Sector		
US$ Million		
Sales of Foreign Exchange to Public***	2,498.1	1,803.9
Purchases of Foreign Exchange from Public***	1,705.1	1,534.6
CBTT Sales to Authorized Dealers***	859.9	430.0
Net Official Reserves*	10,812.4	9,230.9

Sources: Central Bank of Trinidad and Tobago, Central Statistical Office and Ministry of Energy and Energy Industries.

* As at April.
** As at March.
*** For the period January-April.

PART II – INTERNATIONAL AND REGIONAL MONETARY POLICY DEVELOPMENTS

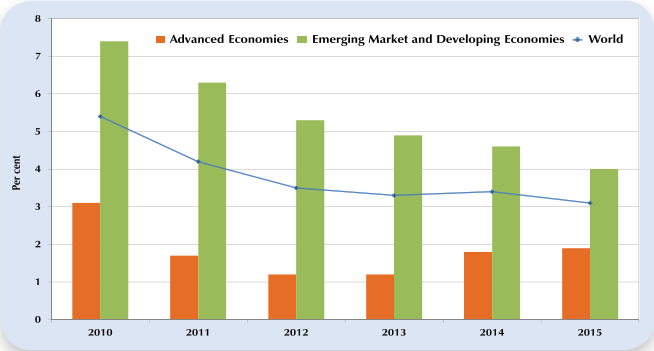
Introduction

Global policy makers' discussions at the 2016 IMF/World Bank Spring meetings centered around the disappointing pace of global economic growth over the last four years. The IMF estimates that the global economy expanded by roughly 3.1 per cent in 2015, and expects the world economy to grow by 3.2 per cent in 2016[1] – which is slightly lower than its earlier estimate at the beginning of 2016. Meanwhile, notwithstanding some uptick in prices from the lows experienced at the beginning of the year, the global energy surplus supply position has kept energy prices at relatively depressed levels **(Box 1)**. The slowdown in global growth which has led to some pull-back from risky international financial assets, lower energy prices and rising bankruptcies in the US energy sector, as well as uncertainty regarding the potential divergence in monetary policy paths among advanced economies, have combined to heighten financial market volatility in January and Febuary 2016.

Growth in EMDEs has slowed significantly since 2010. According to the IMF, EMDEs grew by an estimated 4.0 per cent in 2015 compared with just under 7.5 per cent in 2010. This slowdown was mainly attributed to the deceleration in China and the impact of low commodity prices on energy exporting EMDEs, which grew by a mere 0.8 per cent in 2015. Noticeably, while lower energy prices have aided some net energy importing countries, this benefit has been undermined to some extent by lower capital flows to EMDEs in general. The reversal of capital flows away from EMDEs may be related to the start of monetary policy normalization in the US, as well as the narrowing growth differentials between EMDEs and advanced economies, which measured 2.1 per cent in 2015 compared with 4.3 per cent in 2010 **(Chart IIa)**.

Monetary policy in advanced economies and large EMDEs has largely been geared towards supporting economic growth. The Euro area and Japan have increased the level of their quantitative easing programmes thus far in 2016, while dropping interest rates to zero and into negative territory, respectively. Meanwhile, after increasing interest rates for the first time since the Global Financial Crisis in December 2015, the US Fed kept rates unchanged in the first four months of 2016 **(Chart IIb)**. However, given that interest rates in most advanced economies are at record lows **(Chart IIc)** and the United Kingdom (UK), Euro area and Japan are still maintaining quantitative easing programmes, there are concerns that there may be limited scope for monetary policy to further support growth. There is building consensus that monetary policy may experience "diminishing returns", and that coordination with fiscal policy may be needed to stimulate growth, particularly in advanced economies. For EMDEs, some IMF policy prescriptions include undertaking structural reforms and strengthening financial supervision frameworks, while continuing to allow exchange rates to adjust to buffer external shocks.

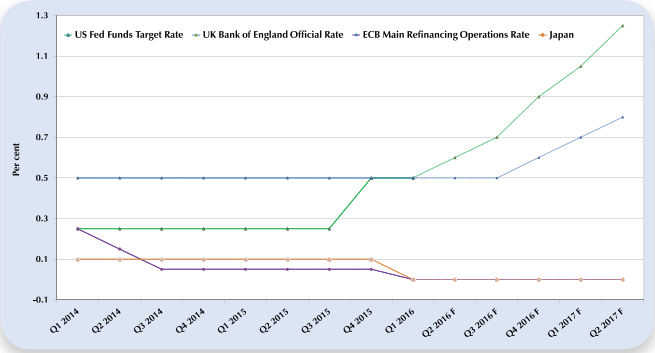
Chart IIa
Global Growth – Real GDP
(Annual Per Cent Change)



Source: IMF World Economic Outlook, April 2016.

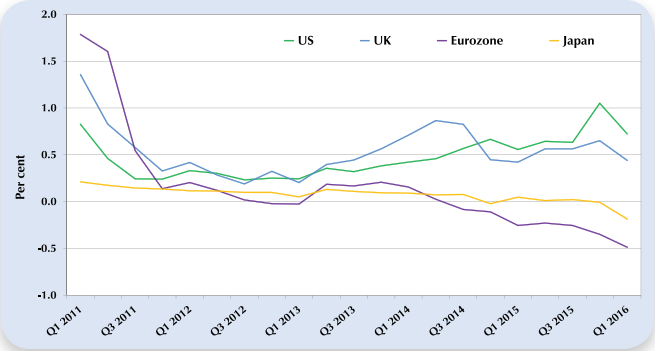
1 International Monetary Fund, World Economic Outlook April 2016.

Chart IIb
Selected Advanced Economies – Policy Rates



Source: Bloomberg.

Chart IIc
Selected Advanced Economies – 2-Year Treasury Note Rates



Source: Bloomberg.

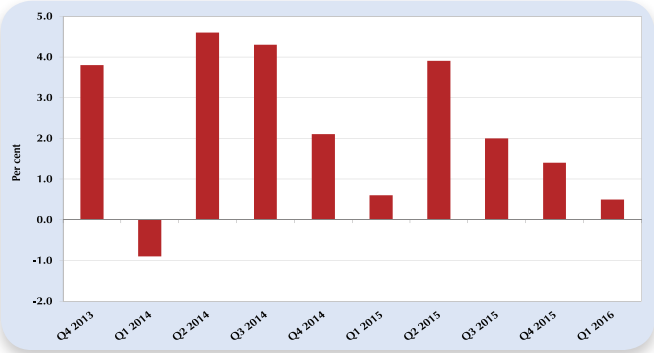
International

Advanced Economies

After taking the first step towards monetary policy normalization in December 2015, the US Fed halted further policy rate increases in the first five months of 2016 prompted by concerns over the health of the global economy. In December 2015, the Fed increased its target range for the federal funds rate to 0.25 to 0.5 per cent from 0.0 to 0.25 per cent. However, concerns over negative feedback loops from slower global growth on the US economy and financial market volatility have influenced the Fed to keep policy rates on hold thus far in 2016. The Minutes of the March 2016 Federal Open Market Committee (FOMC) meeting showed that most Fed Governors now expect interest rates to be lower in 2016 and 2017 than previously anticipated at the end of 2015.

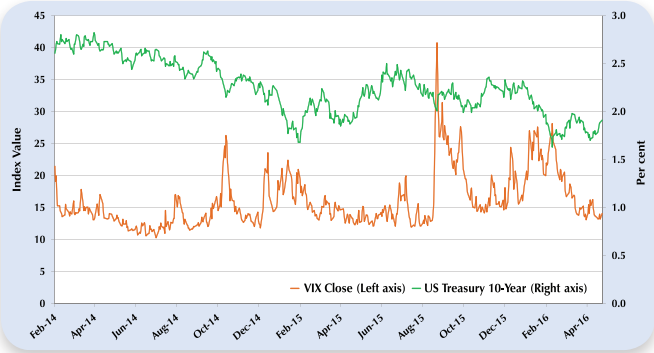
Early information in 2016 seems to support some of the Fed's concern regarding the impact of slow global growth on the US economy. Preliminary estimates showed that the US economy grew at an annualized rate of 0.5 per cent (quarter-on-quarter) in the first quarter of 2016. While the slowdown was not surprising given the recent trend of weak first quarter numbers **(Chart IId)**, this estimate was below market expectations. One of the largest drags on US growth in the first quarter came from a significant pull-back of non-residential fixed investment, particularly in the energy sector as energy prices remained depressed. Lower commodity prices have also led to increased bankruptcies among US oil and gas producers, as several smaller US energy producers have ceased production. Though volatility has since subsided, the financial difficulties experienced by companies in the US energy sector may have also contributed to the elevated levels of financial market volatility experienced in the first couple months of 2016 **(Chart IIe)**.

Chart IId
US Real GDP Growth
(Annualised Quarter-on-Quarter Per Cent Change)



Source: Bloomberg.

Chart IIe
VIX and US 10-Year Treasury Yield



Sources: Volatility Index (VIX) and US Treasury Department.

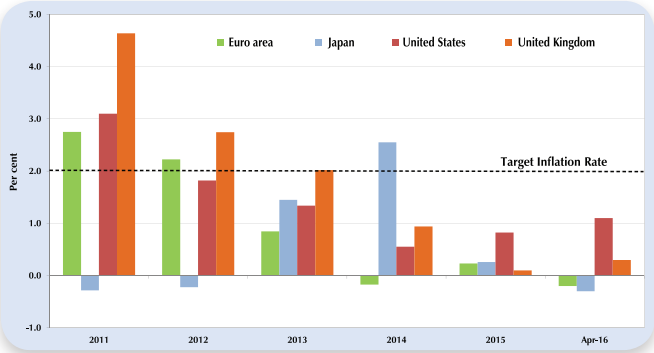
Meanwhile, labour market conditions in the US remained relatively healthy, with the unemployment rate steady at 5.0 per cent in April 2016. However, better job security and salaries, as well as lower fuel prices, have not prompted a strong expansion in US consumption, as US consumers' savings rate continued to rise in 2016. As such, inflation remains below the Fed's 2.0 per cent objective, with the Personal Consumption Expenditure (PCE) inflation rate measuring 0.8 per cent (year-on-year) in March 2016, and the Consumer Price Index (CPI) inflation rate standing at 1.1 per cent in April 2016.

In the UK, the country prepares for a referendum in June 2016 to decide whether it should leave the European Union – the so called Brexit issue. Although the potential impact of the UK's exit is difficult to quantify, the Brexit referendum has increased uncertainty in the global economy. Meanwhile, with inflation (0.3 per cent, year-on-year in April 2016) persistently below the Bank of England's (BoE) 2.0 per cent target **(Chart IIf)**, the Bank maintained its benchmark interest rate at 0.5 per cent and kept its Asset Purchase Programme unchanged at £375 billion (US$540 billion) in the first five months of 2016. Notwithstanding the low rate of inflation, due in part to lower fuel prices, economic activity in the UK has been relatively healthy. The UK economy expanded by 2.1 per cent (year-on-year) in the first quarter of 2016, while the unemployment rate measured 5.1 per cent in the four months to April 2016 – the lowest rate since 2006.

With the threat of deflation continuing to loom over the Eurozone, the European Central Bank (ECB) sought to provide further monetary policy stimulus in 2016. In March 2016, the ECB reduced its key benchmark interest rate to 0.0 per cent after holding the rate at 0.05 per cent since September 2014. Furthermore, after introducing its Asset Purchase Programme at €60 billion (US$65 billion) in March 2015, the ECB expanded the Programme to €80 billion (US$87 billion) effective April 2016. The ECB continues to undershoot its 2.0 per cent inflation target **(Chart IIf)**, with the latest information showing a year-on-year decline in consumer prices of 0.2 per cent in April 2016. On a year-on-year basis, the Euro Area expanded by 1.5 per cent in the first quarter of 2016, slightly lower than in the previous quarter. However, although the unemployment rate has trended downwards over the past few quarters, at 10.2 per cent in March 2016 it is still significantly higher than in other advanced economies.

In January 2016, the Bank of Japan (BoJ) became one of the first major monetary authorities to introduce negative interest rates. The Bank lowered its key policy rate to -0.1 per cent in an effort to stimulate the depressed economy and move towards the Bank's 2.0 per cent inflation target. At its April 2016 MPC meeting, the BoJ kept its benchmark interest rate unchanged and reaffirmed its commitment to maintain its target of enlarging the monetary base by ¥80 trillion (US$724 billion) annually. Meanwhile, consumer prices continued to disappoint as deflation returned to the Japanese economy. In April 2016, consumer prices declined by 0.3 per cent (year-on-year), following a fall of 0.1 per cent in the previous month. The Japanese economy recorded modest growth in the fourth quarter of 2015, with output increasing by 0.7 per cent (year-on-year) in the final quarter of 2015 compared with 1.7 per cent in the previous quarter.

Chart IIf
Selected Advanced Economies – Headline Inflation
(Year-on-Year Per Cent Change)



Sources: IMF World Economic Outlook, April 2016 and Bloomberg.

Major Emerging Market and Developing Economies

The rebalancing of China's economy from being highly trade and investment driven to more service oriented and internally driven has coincided with cooling economic growth. Official data revealed that the Chinese economy grew by 6.9 per cent in 2015 – the slowest rate in more than two decades. Economic activity decelerated further to 6.7 per cent (year-on-year) in the first quarter of 2016. The slowdown in economic activity has also been associated with some financial distress in certain sectors of the economy. With the renminbi to be included in the IMF's SDR[2] basket effective October 2016 and as it becomes closer to being a global currency, developments

2 The SDR value is currently based on four key currencies – the euro, Japanese yen, pound sterling and US dollar.

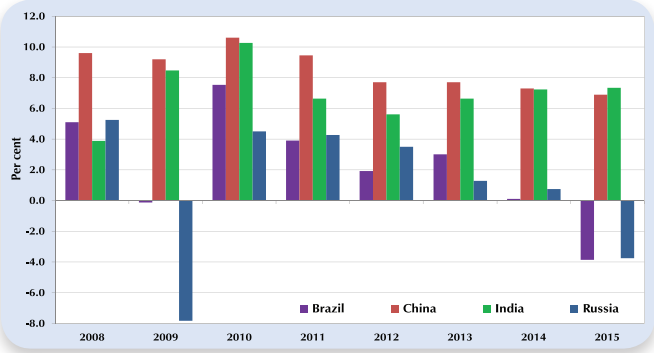
within China will be closely scrutinized by international investors. To ensure adequate liquidity within the financial system, the People's Bank of China (PBoC) lowered commercial banks' reserve requirement ratio by a cumulative 1.0 per cent over the period October 2015 to March 2016 to 17.0 per cent. The PBoC also kept its benchmark interest rate at 4.35 per cent in the first four months of 2016.

The Indian economy was the fastest growing economy in the world in 2015 **(Chart IIg)**. In 2015, the Indian economy rose by 7.1 per cent – outpacing the expansion in China. However, India's strong growth has not added to inflationary pressures. Year-on-year inflation fell below the Reserve Bank of India's (RBI) 6.0 per cent target in January 2016, and stood at 5.4 per cent in April 2016. The RBI revised its inflation target to around 5.0 per cent by March 2017. With inflation relatively well contained, the RBI lowered its benchmark interest rate by 25 basis points to 6.5 per cent in April 2016. This move was aimed at supporting growth amid weak private sector investment.

Being a major exporter of a wide range of commodities from fuel to agriculture, Brazil has been severely impacted by the slump in commodity prices. The Brazilian economy shrank by 3.8 per cent in 2015, which was significantly sharper than the contraction of 0.1 per cent experienced in 2009 – around the last time commodity prices collapsed. Labour market conditions are also weak, with the unemployment rate rising to 8.2 per cent in February 2016 from 6.9 per cent at the end of 2015. Reflecting the declining terms of trade and lower foreign currency inflows, the Brazilian real declined by 19.1 per cent in the twelve months to April 2016 **(Chart IIh)**. While the depreciated currency has partially buffered the impact of the external trade shock, it has contributed to higher inflationary pressures. In April 2016, consumer prices measured 9.3 per cent (year-on-year) – marking 16 consecutive months outside the upper range of its 2.5 – 6.5 per cent target. Despite inflation being above its target, the Central Bank of Brazil has kept its benchmark interest rate unchanged since July 2015.

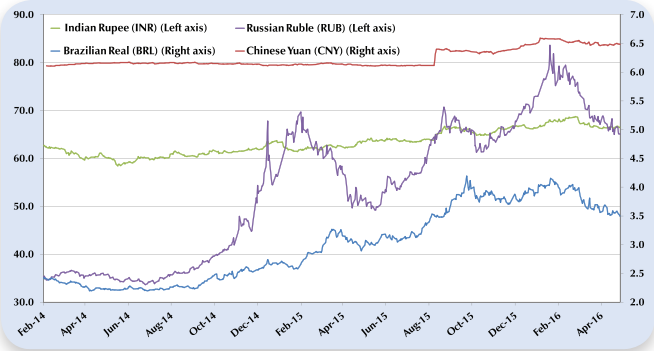
Russia, another large commodity exporter has been negatively impacted by weak energy prices as well as the imposition of economic sanctions. In 2015, the Russian economy contracted by 3.7 per cent. Like Brazil, a negative trade shock has also contributed to the Russian ruble depreciating by 27.3 per cent in the twelve months to April 2016. The depreciation of the ruble combined with bans on foreign food items, have resulted in elevated inflationary pressures in 2015. Although inflation has slowed to 7.3 per cent (year-on-year) in April 2016 compared with an average rate of 15.5 per cent in 2015, it still remains higher than the Central Bank of Russia's inflation target of 4.0 per cent. Thus far for 2016, the Central Bank of Russia has maintained its benchmark interest rate at 11.0 per cent.

Chart IIg
BRIC Countries – Annual Real GDP Growth



Source: IMF World Economic Outlook, April 2016.

Chart IIh
BRIC Countries – Exchange Rates
(Units Per U.S. Dollar)



Source: IMF Exchange Rates.

Regional

Latin America and the Caribbean Region

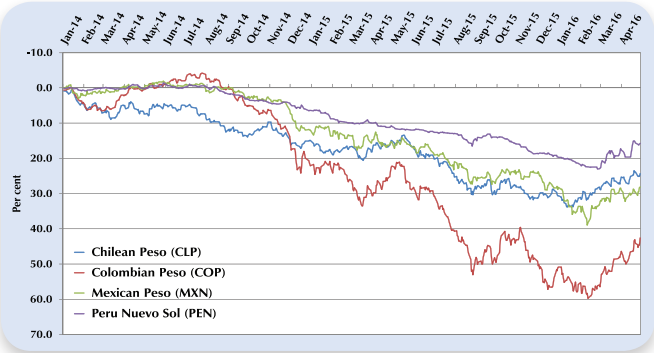
According to initial IMF estimates the Latin American and Caribbean (LAC) Region was one of the worst performing sub-regions in the world in 2015. Economic performance in LAC region was weighed down by Brazil and Venezuela, as other larger Latin American countries such as Chile, Colombia, Peru and Mexico recorded moderate levels of economic growth. Most Latin American countries have also had to adjust to lower commodity prices, and those with flexible exchange rate regimes have seen their currencies depreciate relative to the US dollar in the face of falling capital inflows **(Chart IIi)**. While currency depreciations have to some extent mitigated external trade shocks, the movements have helped to push inflation above central banks' targets **(Chart IIj)**. As such, during late 2015 and early 2016, most central banks have tightened their monetary policies to anchor medium term inflationary expectations **(Table IIa)**.

In the Caribbean, economic performance was varied in 2015. Tourism dependent economies such as Barbados and the member states of the Eastern Caribbean Currency Union (ECCU) outperformed commodity exporters such as Trinidad and Tobago and Suriname. According to the IMF's April 2016 Regional Economic Outlook for the Western Hemisphere, tourism dependent countries grew by an estimated 1.6 per cent in 2015, while commodity exporters grew on average by 0.7 per cent. This divergence in economic performance is expected to continue in 2016, as commodity prices remain subdued. One of the major risks facing the Caribbean region is the growing global trend of de-risking. In the Caribbean context de-risking involves the severing of correspondent banking relationships between large international banks and smaller regional banks. Since regional banks depend on these relationships to facilitate important transactions such as remittances and supplier settlements, the loss of correspondent bank relationships may have negative implications for Caribbean trade and financing.

After entering into a Stand-By Arrangement with the IMF in February 2010 and an Extended Arrangement in May 2013, the Jamaican economy appears to be gaining some traction. According to the IMF, the Jamaican economy grew by an estimated 1.1 per cent in 2015, following sluggish performance in the previous two years. Lower oil prices and a strengthening US economy (a source market for Jamaican tourism) may have contributed to stronger activity in 2015. Meanwhile, inflation ended 2015 at 3.0 per cent – the slowest rate in several years.

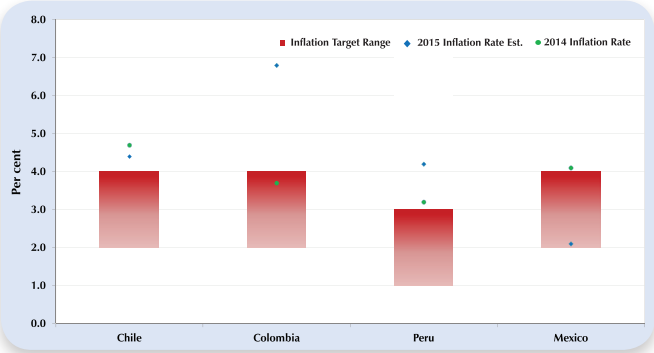
Over 2015, growth in the Barbadian economy remained subdued. Output expanded by 0.5 per cent (year-on-year) in 2015, following growth of 0.2 per cent in 2014. A robust tourism sector primarily contributed to the uptick in overall growth. Meanwhile, deflation continued to be a source of concern as the inflation rate measured -2.8 per cent (year-on-year) and -2.5 per cent in November and December 2015, respectively.

Chart IIi
Selected Latin American Countries – Exchange Rates
(Cumulative Per Cent Change, Inverted Scale)



Source: IMF Exchange Rates.

Chart IIj
Selected Latin American Countries – Inflation Target



Source: IMF Regional Economic Outlook, April 2016.

Unlike other commodity exporters in the Caribbean, Guyana experienced robust economic growth in 2015. Following the conclusion of its Article IV Consultation in March 2016 with Guyana, the IMF stated that the economy expanded by 3.3 per cent (year-on-year) in 2015, following growth of 3.8 per cent in the previous year. Guyana saw a 16.4 per cent growth in gold production in 2015. The increased gold yield was primarily due to more intensive mining efforts of two foreign-owned companies, Guyana Goldfields (Canadian-owned) and Troy Resources (Australian-owned), despite the fall-off and volatility in international gold prices. Real GDP is forecasted to expand by 4.6 per cent in 2016.

On the other hand, after several years of robust growth, weak gold and oil prices over the period 2013 to 2015 have created significant challenges for the Surinamese economy. Latest data from Suriname's General Bureau of Statistics estimated real GDP growth of 1.8 per cent in 2014, down from 2.8 per cent in the previous year. Moreover, in the midst of a windfall from gold and oil production, the Surinamese Government increased its expenditure on wages, goods and services and transfers and subsidies. However, as taxes, royalties, and dividends from the mineral sector declined, the Government incurred a fiscal deficit of 6.75 per cent of GDP in 2013. The external position also reversed, with the balance of payments recording a deficit of 4.0 per cent of GDP and official reserves falling to 3 ½ months of import cover in 2013. The deterioration in the external position, led to the devaluation of Suriname's currency in November 2015, to SD$4.00/US$1.00 from SD$3.25/US$1.00.

As a result of the commodity price shock, the Surinamese Government approached the IMF in January 2016 to discuss support for its economic reform programme[3]. At the end of the IMF's March-April 2016 discussions, the IMF reached a staff-level agreement in the form of a two year Stand-By Arrangement (SBA) in the amount of approximately US$478 million (265 per cent of quota). Further, the Government of Suriname has put forward several measures to stabilize the economy. Fiscal consolidation remains critical to their efforts of achieving recovery. Revenue raising measures include the increased taxes on alcohol, tobacco, gasoline and basic services[4] and plans to introduce VAT by 2018. Reduced spending is also critical; Suriname has begun its efforts to phase out electricity tariffs in an attempt to increase and improve its targeted social support programmes[5].

Table IIa: Selected Key Central Bank Policy Rates in the Region (Per Cent Per Annum)

	Current Rate[1]	Last Change	Amount of Change
Chile	3.50	Dec. 2015	+0.25
Colombia	7.00	Apr. 2016	+0.50
Peru	4.25	Feb. 2016	+0.25
Mexico	3.75	Feb. 2016	+0.50
Brazil	14.25	Jul. 2015	+0.50

Sources: Banco Central de Chile, Banco Central de Colombia, Central Reserve Bank of Peru, Banco de Mexico and Banco Central do Brasil.

1 As at April 2016.

3 Technical and financial support is also expected from the Caribbean Development Bank (CDB), the Inter-American Development Bank (IDB) and the World Bank.
4 Increased taxes on these items were announced in November 2015.
5 The bigger consumers of electricity are expected to bear more of the adjustment.

BOX 1
GLOBAL ENERGY MARKET FUNDAMENTALS

Abundant supplies of crude oil have kept global crude prices low in recent months **(Figure 1)**. This as the United States (US) continued to produce crude at high rates and some Organization of Petroleum Exporting Countries (OPEC) members remained unrelenting with their policies geared at maintaining market share, despite other members including Venezuela and Ecuador calling for production cuts in an attempt to balance the market. Rising supply coupled with tempered increases in demand have led to mounting volumes of crude storage **(Figure 2)**.

As a result, crude oil prices fell significantly over the last twenty-four months, with Brent falling to an average of US$34.7 per barrel in the first quarter of 2016 and WTI price tracking closely at US$33.2 per barrel during the same period. This compares to average prices of US$108.2 per barrel and US$98.7 per barrel, respectively, during the analogous period two years ago. Likewise, Henry Hub prices were also down, dropping 61.5 per cent to US$2.0 per mmbtu in the first quarter of 2016 compared to two years ago as abundant supplies and weak demand weighed on US markets. With gas prices tied to the price of oil in several key markets, global natural gas prices remained generally weak in early 2016. This aided in suppressing fertilizer prices, which were additionally characterized by weak market fundamentals, while methanol prices moved lower as markets remained in oversupply.

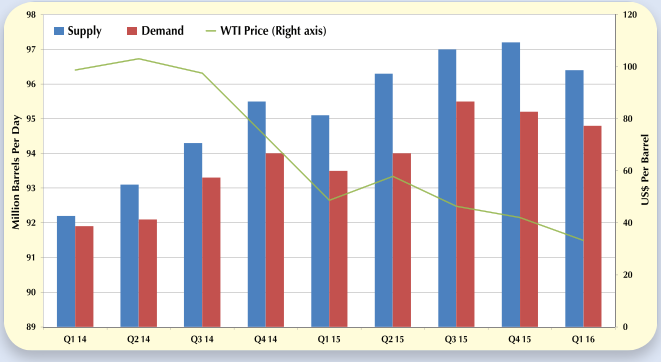
A convergence of bearish factors seems to indicate that markets will continue to be relatively soft in the short to medium term. Output from OPEC carries on unabated as recent attempts to stem production growth were futile. Further, Iran continues to ramp up production after the removal of long standing sanctions on its oil exports. The country has already added 600,000 barrels per day to its output since January 2016. In the Western Hemisphere, a 40-year ban on crude exports in the US was lifted in December 2015, adding more oil to an already saturated global market. However, the influence of US crude may not be as strong as once expected given that lower oil prices have begun to weigh on some of the high-cost shale producers. US production peaked during 2015 and is now on its way down as oil profits begin to subside **(Figure 3)**. On the natural gas side however, production in the US continues to be strong. Natural gas storage ended the 2015 injection season at record levels after a relatively rapid pace of accumulation during the year. In addition, increased availability of LNG from the US and Australia over the next few years may add to downward pressures on natural gas markets.

Crude oil markets are also expected to be affected by the slowdown in China, being one of the largest importers of crude oil. However, Chinese imports have continued to grow despite a slowdown in the economy. China imported 8 million barrels per day of crude in February 2016, up 19 per cent on the previous month and 24.5 per cent year-on-year according to research firm Market Watch. China remains a strong importer of crude despite its slowdown, driven by an increase in independent refineries and the government's push to fill its strategic petroleum reserves (SPR). China is currently developing vast underground storage facilities as it aspires to its target of 550 million barrels of SPR by 2020 from 190 million barrels in mid-2015. As a result, demand from China may continue to be strong in the medium term.

In general, strong demand from China, as well as other emerging markets coupled with falling US production should provide some fillip to crude oil prices in the second half of 2016. However, price increases will be limited by massive inventories and strong output from major producers such as Saudi Arabia, Russia and Iran in the short to medium term.

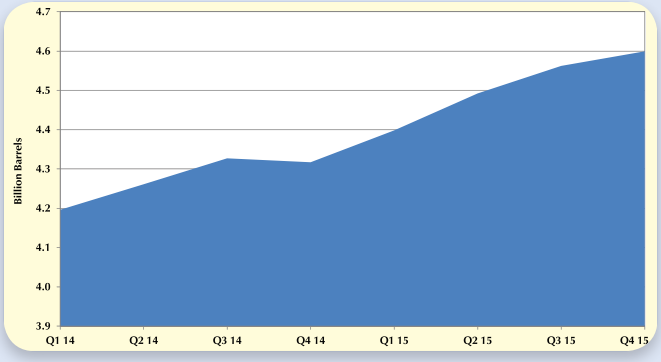
BOX 1 (CONT'D)
GLOBAL ENERGY MARKET FUNDAMENTALS

Figure 1
Global Crude Oil Demand and Supply



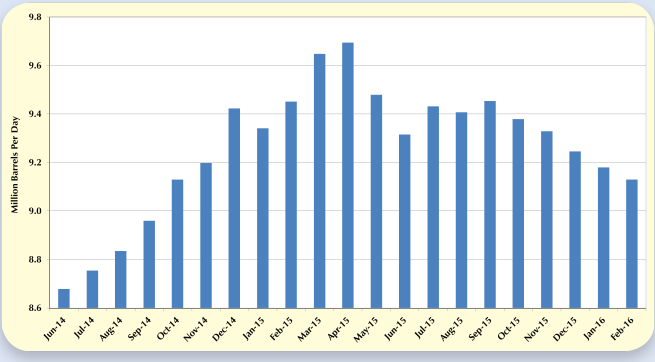
Source: International Energy Agency (IEA), Bloomberg.

Figure 2
Organization for Economic Development and Corporation (OECD) Nations' Crude Oil Stocks



Source: International Energy Agency (IEA).

Figure 3
US Crude Oil Production



Source: US Energy Information Administration (EIA).

PART III – DOMESTIC ECONOMIC CONDITIONS

a) Gross Domestic Product

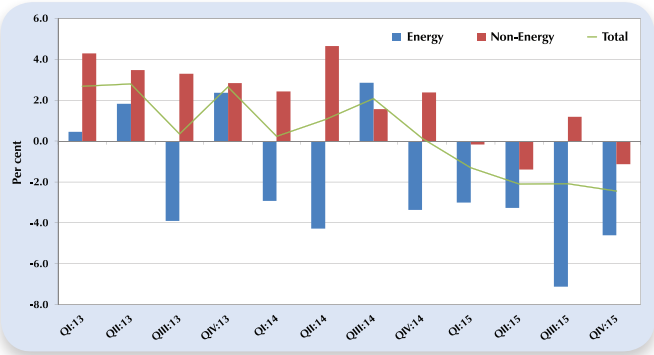
An important factor in the Central Bank of Trinidad and Tobago MPC's recent decisions has been the weak pace of economic activity. Provisional estimates from the Central Bank's Index of Real Quarterly Gross Domestic Product (QGDP) indicate that the domestic economy contracted by around 2.3 per cent (year-on-year) in the final quarter of 2015 – marking the fourth consecutive quarter of negative growth based on Bank estimates **(Chart IIIa)**. Early information also allude to subdued economic activity in the first quarter of 2016. Like most energy exporting economies, Trinidad and Tobago's weak economic performance in 2015 and early 2016 has stemmed largely from the energy sector.

Domestic upstream energy sector production has been adversely affected by the natural decline in the rate of extraction from oil and gas fields, as well as stoppages for infrastructural work, and other operational issues. BP Group's Macondo incident in 2010 triggered intensified infrastructure and upgrade work within the domestic energy industry over the last five years. Other operational issues, like pipeline maintenance in February 2016 by BHP Biliton, have also impacted production periodically. However, one of the main issues facing the domestic industry is the natural decline in the rate of extraction from the country's mature oil and gas fields. In the final quarter of 2015, the energy sector contracted by 4.6 per cent (year-on-year) due to sharp declines in oil (-9.4 per cent) and natural gas production (-5.8 per cent).

The mid- and down-stream industries had contrasting performances in the fourth quarter of 2015. The refining sub-sector recorded a fall in real output (-14.0 per cent, year-on-year) in the fourth quarter due to a significant decline in LNG production (-16.7 per cent). During the quarter, there was a shutdown at the Atlantic Train IV facility for maintenance. On the other hand, output from the petrochemicals sub-sector increased significantly (18.9 per cent) due to notable increases in fertilizer (28.9 per cent) and methanol (10.3 per cent) production in the fourth quarter of 2015, as these industries benefited from diverted gas supplies stemming from the shutdown at Atlantic Train IV. In addition, ammonia output was bouyed by the resumption of production at the Tringen I ammonia plant following its shutdown in the corresponding period of 2014.

Provisional information also point to a contraction in the energy sector in the first quarter of 2016. There continued to be a notable downturn in the Exploration and Production sub-sector, as both crude oil (-9.0 per cent) and natural gas production (-10.2 per cent) fell sharply from a year earlier **(Chart IIIb)**. In addition to the lower extraction rates currently being experienced, production was further hampered by maintenance and upgrade works within the industry, such as the planned shutdown of operations by BHP Biliton for ten days in February 2016 for pipeline maintenance. The fall-off in upstream production undermined refining activity, as LNG output was constrained by lower natural gas supplies. Meanwhile the positive performance in the petrochemical sector was reversed in the first quarter of 2016. Methanol production (-6.6 per cent) was curtailed as one of the country's larger methanol plants undertook maintenance work during mid-February to the end of March 2016. Overall, in the first quarter of 2016 output from the energy sector is estimated to have contracted by roughly 9.9 per cent when compared with the corresponding period one year earlier.

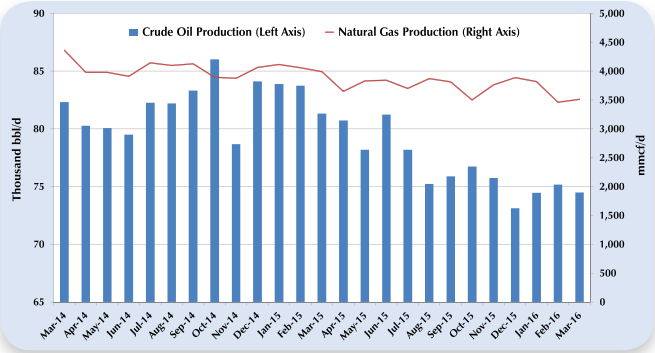
Chart IIIa
Trinidad and Tobago – Real GDP Growth[1]
(Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago.

1 Real GDP growth rates are derived from the Central Bank's Index of Quarterly Gross Domestic Product (the QGDP Index), which is based on indicators of production rather than on value added. The Central Statistical Office (CSO) is the official source of GDP statistics.

Chart IIIb
Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Industries.

The fallout in energy sector output combined with low energy commodity prices, have created negative spillover effects for the rest of the economy. Provisional Central Bank estimates suggest that the non-energy sector contracted by 0.9 per cent (year-on-year) in the fourth quarter of 2015. With lower revenues emanating from the energy sector, the Central Government reviewed major areas of expenditure, including the Public Sector Investment Programme. As such the pace of capital spending by the Government slowed sharply. In addition to the pull back by the public sector, the relatively lazier pace of growth in business loans and waning business confidence, suggest that private sector investment may also be somewhat sedate. Additionally, the Consumer and Labour Confidence surveys point to deteriorating confidence in the first quarter of 2016 **(Table IIIa)**.

The slowed pace of public sector capital spending, as well as evidence of tepid private sector investment, have contributed to the anaemic performance across the main economic sectors. The construction sector is estimated to have contracted sharply (-8.3 per cent) in the fourth quarter of 2015. Information for 2016 also showed that local sales of cement – a key gauge of construction sector activity – fell by 15.8 per cent (year-on-year) in the first quarter of 2016. The sharp fall in construction activity has led to a decline in local demand for key construction-related products such as iron and steel, and has contributed to two of the country's major steel producers shutting down plant operations. Therefore, manufacturing activity may have been relatively mundane in the final quarter of 2015 and first quarter of 2016. Meanwhile, consistent with subdued demand and down beat consumer sentiment, the distribution sector grew by a mere 0.3 per cent (year-on-year) in the fourth quarter of 2015. Additionally, motor vehicle sales, which is used as an indicator of activity in the distribution sector, contracted by 0.4 per cent (year-on-year) in the first quarter of 2016. On the other hand the indicators for finance, insurance and real estate suggest growth of 1.9 per cent (year-on-year) in the final quarter of 2015.

Table IIIa: Summary of Confidence Indices (Quarterly)

	Business Confidence	Labour Confidence	Consumer Confidence
2014 Q4	42.0	30.6	-13.2
2015 Q1	13.0	30.7	-18.9
2015 Q2	43.0	30.1	-12.6
2015 Q3	17.0	32.9	-6.5
2015 Q4	18.0	27.0	-13.9
2016 Q1	2.0	8.2	-30.8

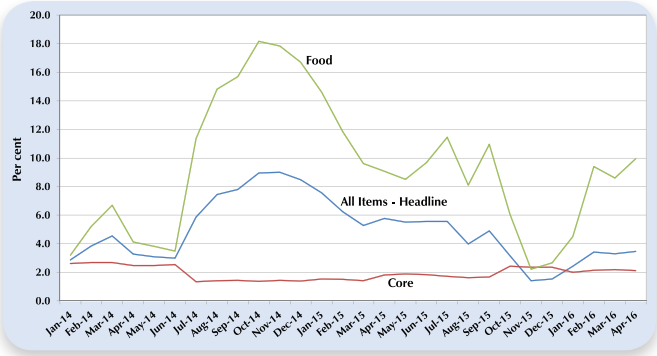
Sources: Central Bank of Trinidad and Tobago.

b) Prices

Retail Prices

In the subdued economic climate, overall price pressures were contained over the first four months of 2016. According to the CSO's Index of Retail Prices (RPI), headline inflation rose on a year-on-year basis by 3.5 per cent in April 2016, up from 1.5 per cent in December 2015 **(Chart IIIc)**. Food inflation, which slowed significantly in the last two months of 2015, has driven the pickup in headline inflation thus far in 2016. Several factors influenced inflation dynamics over the period October 2015 – April 2016. These included the increase in fuel prices (October 2015 and April 2016), re-introduction of VAT on several food items (February 2016) and a depreciated TT dollar. Going forward, the impact of these factors may be dampened by soft domestic demand and rising job losses in light of declining economic growth.

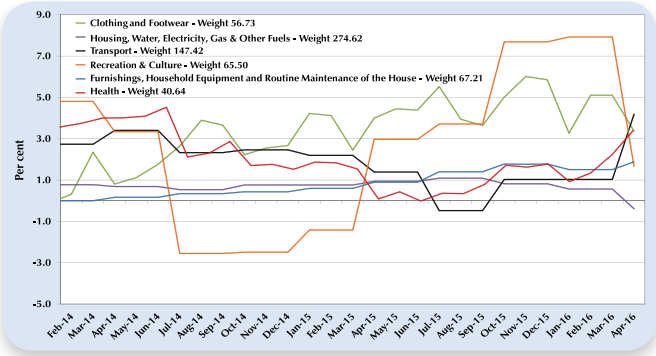
Chart IIIc
Index of Retail Prices (Jan. 2015 = 100)
(Year-on-Year Per Cent Change)



Source: Central Statistical Office.

After rising slightly in the final quarter of 2015, core inflation has been relatively steady in 2016. On a year-on-year basis, core inflation, which excludes food prices, measured 2.1 per cent in April 2016 compared with 2.3 per cent in December 2015. The housing sub-index fell by 0.4 per cent, while the clothing and footwear and recreation and culture sub-indices grew more slowly in April 2016 when compared with the end of 2015 **(Chart IIId)**. On the other hand, following the 15.0 per cent rise in super gasoline and diesel prices as announced in the Mid-Year Budget Review, the transportation sub-index rose by 4.2 per cent from 1.0 per cent in the previous month. There were also faster price increases for the health and communication sub-indices, with some segments attributing higher prices to the depreciation in the TT dollar vis-à-vis the US dollar.

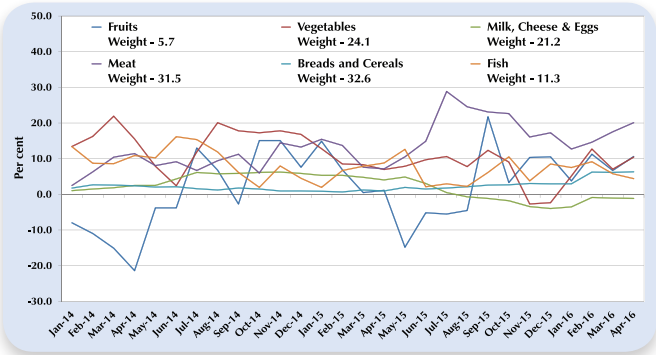
Chart IIId
Index of Retail Prices –
Components of the Core Index (Jan. 2015 = 100)
(Year-on-Year Per Cent Change)



Source: Central Statistical Office.

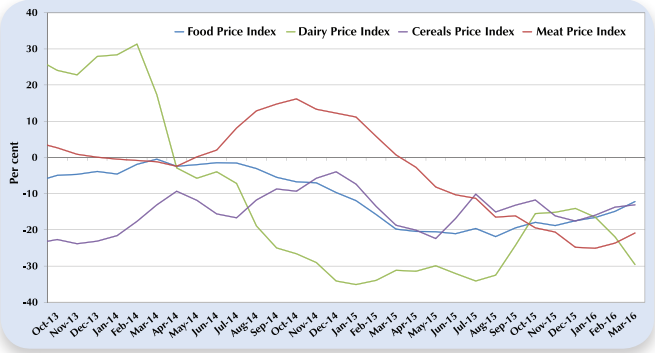
Meanwhile, there was a general increase in food inflation following the widening of the VAT base in February 2016. Latest information showed that food inflation rose on a year-on-year basis to 9.9 per cent in April 2016 compared with 2.7 per cent in December 2015. Despite the reduction in the rate of VAT to 12.5 per cent, its re-introduction on several food items have in part contributed to a pickup in prices across several food sub-indices **(Chart IIIe)**. Additionally, meat prices maintained double-digit rates of increase as poultry prices rose by more than 20.0 per cent during the first four months of 2016. This occurred despite the trend of declining international meat prices, which suggest domestic factors may be more at play **(Chart IIIf)**.

Chart IIIe
Index of Retail Prices –
Components of the Food Sub-Index (Jan. 2015 = 100)
(Year-on-Year Per Cent Change)



Source: Central Statistical Office.

Chart IIIf
FAO Food Price Index
(Year-on-Year Per Cent Change)



Source: Food and Agriculture Organization.

Producer Prices

Producers' prices, as measured by the CSO's Producers' Prices Index (PPI), decelerated at the start of 2016. The PPI rose by 0.9 per cent (year-on-year) in the first quarter of 2016 after a 2.9 per cent increase in the previous three-month period and a 2.1 per cent rise in the first quarter of 2015. The drink and tobacco, chemicals and non-metallic, and printing and paper converters sub-indices were responsible for the overall slowdown in producer prices.

Building Materials Prices

Consistent with the fall-off in construction activity, building material prices increased at a slower rate in the second half of 2015 when compared with the first half of the year. According to the latest Index of Retail Prices of Building Materials produced by the CSO, building materials' prices rose by 3.2 per cent and 3.1 per cent in the third and fourth quarters of 2015, respectively, following increases of more than 5.0 per cent over the first half of the year. In the last quarter of 2015, a slowdown in the categories more closely related to new projects drove the deceleration across the overall Index. Prices within the site preparation, structure and concrete frame sub-component increased by 0.6 per cent at the end of 2015 compared with an average increase of around 5.0 per cent over the first six months of the year. Additionally, the walls and roof sub-index slowed to approximately 5.0 per cent in the last two quarters of 2015 after recording growth in excess of 7.0 per cent over January to June 2015.

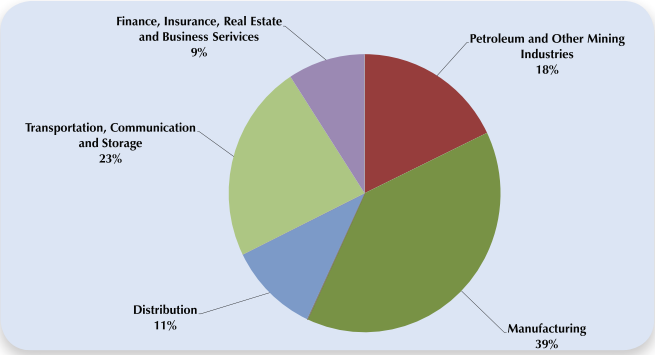
c) Labour Market

Official statistics suggest that the labour market may be slowly adjusting to the economic environment. Data from the CSO showed that the unemployment rate rose marginally to 3.5 per cent in the fourth quarter of 2015 from 3.4 per cent in the previous quarter and 3.3 per cent one year ago. In the fourth quarter of 2015, 8,200 fewer persons were employed when compared with the same period in 2014. However, a simultaneous contraction of the labour force helped to keep the unemployment rate at a relatively low level. The withdrawals from the labour force reduced the labour force participation rate to approximately 60.4 per cent from 61.1 per cent one year ago.

In the fourth quarter of 2015, job losses occurred across several sectors of the economy. Some of the sectors which shed jobs in the fourth quarter when compared with the same period one year ago were the construction (9,400 persons), agriculture (4,800 persons), petroleum (1,900 persons) and manufacturing (1,600 persons) sectors. On the other hand, the community, social and personal services (10,700 persons) and the transport, storage and communications (4,100 persons) sectors added jobs.

Supplemental information provide some evidence of further weakening in the labour market in early 2016. According to retrenchment notices filed at the Ministry of Labour and Small Enterprise Development, 381 persons were retrenched over the period January to April 2016. The majority of retrenchment notices were filed for the manufacturing, transport and petroleum sectors **(Chart IIIg)**. However, the numbers do not include terminations by ArcerlorMittal (644 persons), Centrin (200 persons), Construtora OAS (860 persons) and other companies which ceased operations in 2016. Moreover, according to Central Bank estimates, job vacancies posted in the major daily newspapers over the period January to April 2016 fell by 22.0 per cent. In all, these indicators may point to higher rates of unemployment in the first quarter of 2016.

Chart IIIg
Retrenchment Notices Registered By Sector
January – April 2016
(As a Proportion of Total Notices Filed)



Source: Ministry of Labour and Small Enterprise Development.

d) Fiscal Operations

The precipitous fall in energy prices combined with relatively low domestic production have in part constrained revenues from the energy sector, and have necessitated an adjustment to Central Government's operations. In the October 2015 fiscal package, the Government announced several measures to curtail expenditure and enhance revenues, including the reduction in the fuel subsidy. The Government also committed to review other aspects of transfers and subsidies and increase the efficiency of Value Added Tax (VAT). With energy prices falling even lower in the first quarter of 2016, Government announced further adjustments to its revenue and expenditure profile in its April 2016 Mid-Year Budget Review.

In the April 2016 Mid-Year Budget Review, the Minister of Finance announced significant revisions to Government's revenues and expenditures for the remainder of the fiscal year. Revised estimates indicated that the budgeted deficit for FY2015/2016 may be around 4.0 per cent of GDP, compared with the initial budgeted deficit of 1.5 per cent of GDP. The Minister of Finance proposed several additional measures aimed at revenue generation including: a 50.0 per cent increase in customs duty and motor vehicle tax on "luxury" vehicles; higher taxes on alcohol and tobacco products; and the introduction of a 7.0 per cent levy on on-line purchases from September 2016. Meanwhile, expenditure is anticipated to be lower than initial estimates by as much as $4.0 billion. The Minister announced a further reduction to the fuel subsidy, which will see drivers paying an additional 15.0 per cent for super gasoline and diesel. Nevertheless, Government intends to accelerate capital expenditure in the final six months of the fiscal year to provide some impetus to the domestic economy. Also the Government aims to fulfil some of its commitments with respect to salary arrears.

Despite five consecutive years of fiscal deficits, Central Government still has significant borrowing space available. At the end of 2015 (calendar year), total public sector debt (excluding sterilized debt) stood at 41.7 per cent of GDP, with domestic debt at 34.3 per cent of GDP and external debt at 7.4 per cent of GDP. With Government expected to finance a portion of the 2015/2016 budget deficit through borrowing, public sector debt is expected to increase but remain broadly sustainable.

In the first six months of FY 2015/16 (October 2015 – March 2016), the Central Government recorded a deficit of $3.1 billion, compared with a surplus of $47.3 million in the same period one year earlier. Total revenue declined by 17.6 per cent (year-on-year) to reach $20.6 billion owing to the sharp fall-off in energy revenues. Energy receipts plunged to $2.5 billion for the first six months of FY 2015/16, from $10.0 billion in the corresponding period one year earlier. As Government sought to streamline expenditure, spending fell by $1.2 billion to $23.8 billion during the period. In the first half of the fiscal year, Government undertook an administrative review of capital projects under the Public Sector Investment Programme, partly influencing a fall-off in capital expenditure by $1.0 billion to reach $1.2 billion. Further, expenditure on goods and services declined by $964.4 million during the first six months of the fiscal year.

e) External Accounts

(Data in this section are in US dollars unless otherwise stated)

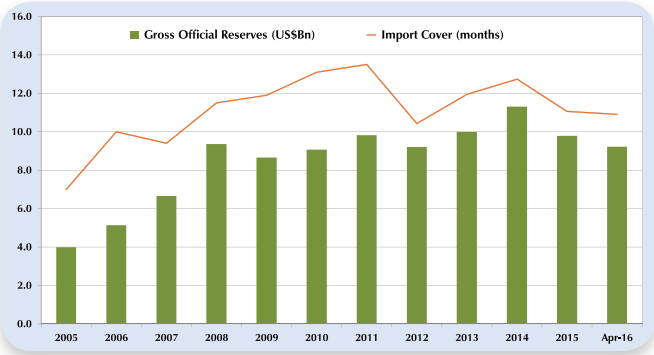
Given the challenges faced in the energy sector, Trinidad and Tobago experienced a significant trade shock in 2015, which had negative consequences for the overall balance of payments position. The trade balance as a per cent of GDP fell sharply over the last two years – to

5.1 per cent in 2015 from 12.0 per cent in 2014 and 23.0 per cent in 2013. Energy exports were 30.4 per cent lower in 2015 than in the previous year. The sharp fall in the trade balance contributed in part to a balance of payments deficit of roughly 5.9 per cent of GDP in 2015 compared with relatively strong surplus positions in the previous two years **(Table IIIb)**. At the end of 2015, gross official reserves stood at $9.8 billion or roughly 11.1 months of prospective import cover **(Chart IIIh)**.

The capital and financial account also recorded a deficit in 2015. Preliminary estimates reveal that net foreign direct investment fell by more than half in 2015 to $582 million, while commercial banks increased their holdings abroad (net foreign assets) to $421.3 million. However, portfolio outflows in 2015 of $96.1 million were lower than in the previous year. In 2015, the capital and financial account registered a deficit of 5.5 per cent of GDP.

Movements in the levels of gross official reserves in the first four months of 2016, allude to a further deterioration in the external position. At the end of April 2016, gross official reserves amounted to $9.3 billion, equivalent to 11.0 months of prospective imports of goods and services. The change in gross official reserves from the end of 2015 was indicative of a balance of payments deficit of roughly $500 million in the first four months of 2016.

Chart IIIh
Trinidad and Tobago Gross Official Reserves



Source:Central Bank of Trinidad and Tobago.

Table IIIb: Trinidad and Tobago Summary Balance of Payments (US$ Million)

	2011[r]	2012[r]	2013[r]	2014[r]	2015[p]
Current Account	**1,787.2**	**-2,738.6**	**3,419.9**	**377.6**	**-101.2**
Trade Balance	5,455.3	1,272.1	6,115.7	3,290.1	1,330.1
Exports	14,943.4	12,916.1	18,744.8	14,566.1	10,803.9
Energy	12,597.0	9,781.3	15,188.0	12,093.1	8,422.6
Non-energy	2,346.4	3,134.8	3,556.7	2,473.0	2,381.2
Imports	9,488.1	11,644.1	12,629.1	11,276.1	9,473.7
Energy	4,308.2	5,589.3	7,141.4	5,585.6	3,300.7
Non-energy	5,179.9	6,054.8	5,487.7	5,690.5	6,173.1
Services (Net)	-627.6	-654.7	-445.4	-470.2	-734.8
Income (Net)	-3,073.8	-3,389.5	-2,275.4	-2,421.0	-649.5
Transfers (Net)	33.3	33.6	25.1	-21.3	-47.1
Capital and Financial Account	**-1,034.5**	**2,116.6**	**-2,633.7**	**952.0**	**-1,427.3**
Private Sector	-718.5	2,943.5	-2,593.6	1,220.3	-1,338.3
Direct Investment	770.6	772.1	-66.3	1,213.8	582.9
Portfolio Investment	-84.9	-445.8	-100.1	-167.1	-96.1
Commercial Banks	-309.8	-668.7	94.4	66.0	-421.3
Other Private Sector Capital*	-1,094.4	3,285.9	-2,521.7	107.6	-1,403.8
Public Sector**	-315.9	-826.9	-40.0	-268.3	-89.0
Overall Balance	**752.7**	**-622.0**	**786.3**	**1,329.6**	**-1,528.5**
Per Cent of GDP					
Current Account	**7.0**	**-10.6**	**12.9**	**1.4**	**-0.4**
Trade Balance	21.4	4.9	23.0	12.0	5.1
Services (Net)	-2.5	-2.5	-1.7	-1.7	-2.8
Income (Net)	-12.1	-13.1	-8.6	-8.8	-2.5
Transfers (Net)	0.1	0.1	0.1	-0.1	-0.2
Capital and Financial Account	**-4.1**	**8.2**	**-9.9**	**3.5**	**-5.5**
Private Sector	-2.8	11.4	-9.8	4.5	-5.1
Direct Investment	3.0	3.0	-0.2	4.4	2.2
Portfolio Investment	-0.3	-1.7	-0.4	-0.6	-0.4
Commercial Banks	-1.2	-2.6	0.4	0.2	-1.6
Other Private Sector Capital*	-4.3	12.7	-9.5	0.4	-5.4
Public Sector**	-1.2	-3.2	-0.2	-1.0	-0.3
Overall Balance	**3.0**	**-2.4**	**3.0**	**4.9**	**-5.9**
Memorandum Items					
Gross Official Reserves***	9,822.7	9,200.7	9,987.0	11,316.6	9,788.0
Import Cover (months)	13.5	10.4	12.0	12.7	11.1

Source: Central Bank of Trinidad and Tobago.

r Revised.
p Provisional. Data for 2015 represents data reported by the Central Statistical Office for January-September 2015 and an estimate for October-December 2015 prepared by the Central Bank.
* Includes Errors and Omissions.
** Includes Official Borrowing, State Enterprises, Heritage and Stabilization Fund, Other Assets and Other Liabilities.
*** End of Period.

PART IV - MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

Monetary Developments

After raising its main monetary policy rate, the Repo rate, on six successive occasions throughout 2015, the Central Bank has paused from further policy rate increases thus far in 2016, prompted by domestic and international economic conditions. Lacklustre economic performance, signs of deteriorating labour market conditions, waning confidence levels and low inflation have all factored into the Bank's decision to hold the Repo rate at 4.75 per cent in the first four months of 2016. Additionally, with the US Fed likely to make only gradual upward adjustments to its policy rates for the remainder of the year and TT – US interest rate differentials still broadly farourable, the threat from higher US interest rates seems contained for the moment.

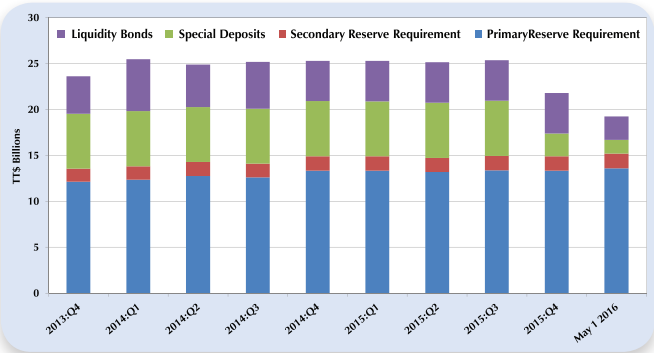
Liquidity levels were more relaxed in the first four months of 2016 when compared with the last four months of 2015 **(Chart IVa)**. Commercial banks' holdings of excess reserves rose to a daily average of $3.9 billion in the first four months of 2016 compared with $3.1 billion in the final four months of 2015. Over the period January to April 2016, net domestic fiscal injections, usually the major source of domestic liquidity, fell to $3.2 billion from $3.9 billion in the last four months of 2015. The Bank allowed net open market Treasury securities of roughly $373.4 million to mature without re-issue in the first four months of 2016. Meanwhile, although not a liquidity sterilization tool, Central Bank's sales of foreign exchange to authorised dealers indirectly withdrew $2.8 billion from the banking system over the same period **(Table IVa)**.

Given the changing liquidity dynamics and public sector financing requirements, the Central Bank was able to reduce the outstanding balances on some supplemental liquidity absorption instruments it had relied on in the past. Beginning in October 2015, a $2 billion commercial bank fixed deposit held at the Central Bank was not reissued upon maturity. A similar approach was taken with respect to two additional deposits having a combined value of $2.5 billion in December 2015 and May 2016. Additionally, proceeds of roughly $1.8 billion from prior Central Government bonds issued under the Development Loans Act[6] for liquidity sterilization purposes were made available to the Government. This transaction in February 2016 occurred following approval by the Securities and Exchange Commission (SEC) and notification to bondholders. Following the increase in the borrowing limits under the Treasury Bills and Notes Acts in late 2013, the Bank was able to employ open market operations more fully in its liquidity management **(Charts IVbi and IVbii)**.

Chart IVa
Commercial Banks – Excess Reserves

Source:Central Bank of Trinidad and Tobago.

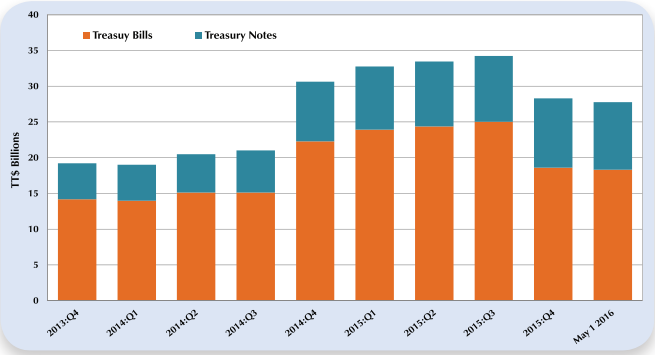
Chart IVbi
Reserve Requirements and Other Liquidity Absorption Measures



Source:Central Bank of Trinidad and Tobago.

6 At the time these bonds were issued on November 6th 2003 and July 2nd 2008, the Treasury Bonds Act (July 30 2008) was not yet passed into law.

Chart IVbii
Outstanding Open Market Operations
Treasury Bills and Notes Balances



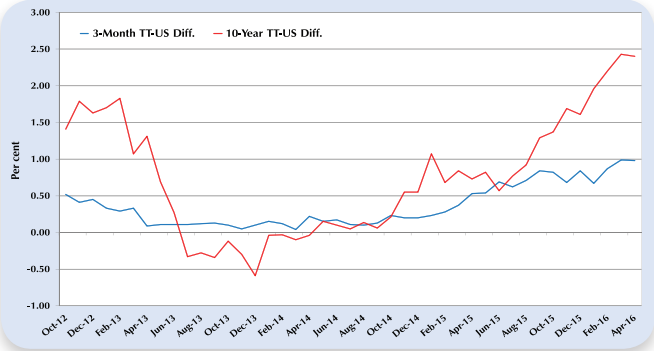
Source:Central Bank of Trinidad and Tobago.

The more relaxed liquidity levels have resulted in less activity on the interbank and repo markets so far in 2016. Inter-bank activity averaged just $31.3 million daily over the first four months of 2016 compared with $226.7 million in the final four months of 2015. As such, the average inter-bank rate fell to 0.60 per cent in April 2016 from 0.66 per cent in December 2015 and a twelve-month high of 1.17 per cent in September 2015. Further, following marginal activity in the last four months of 2015, the Central Bank's repurchase agreement facility has not been accessed by commercial banks thus far in 2016.

Given the lagged nature of the monetary transmission mechanism, past increases in the Repo rate continued to work their way through the system in early 2016, resulting in a general upward trend in interest rates. The 91-day Treasury bill rate rose to 1.20 per cent in April 2016 from 1.00 per cent at the end of 2015, while the 10-year Treasury yield rose by 35 basis points to 4.23 per cent over the same period. The uptick in TT yields meant that the TT – US 91-day (98 basis points) and 10-year (240 basis points) Treasury yield differentials were higher at the end of April 2016 compared with the same period one year ago **(Chart IVc)**. On May 16 2016, the Central Government issued a 4.5 per cent fixed coupon, 12-year year bond at a yield of 4.75 per cent.

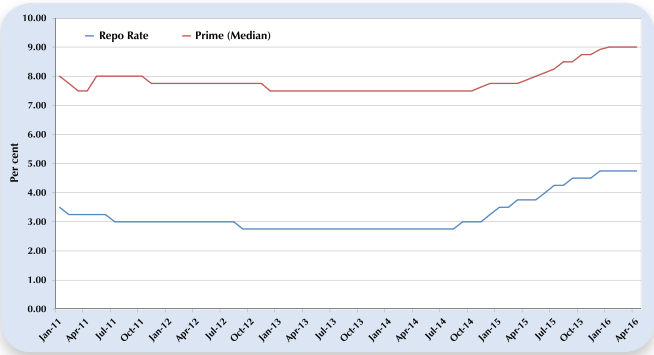
There has been a divergent trend among commercial banks' lending rates thus far in 2016. Following the last increase in the Repo rate in December 2015, the commercial bank median prime lending rate rose to 9.0 per cent in January 2016 and has remained at this level in the subsequent three months **(Chart IVd)**. With the Mortgage Market Reference Rate (MMRR) rising by 50 basis points since September 2015 to 3.0 per cent in March 2016, real estate mortgage rates also trended upwards. The weighted average rate on outstanding residential real estate mortgage loans rose to 5.51 per cent in the first quarter of 2016 from 5.42 per cent in the final quarter of 2015. On the other hand, after increasing by 30 basis points from September to 7.74 per cent in December 2015, banks' weighted average lending rate fell to 7.49 per cent in March 2016. The weighted average deposit rate remained relatively sticky, measuring 0.57 per cent in March 2016 – just one basis point higher than in December 2015.

Chart IVc
3-Month and 10-Year TT-US Treasury Rate Differentials



Source:Central Bank of Trinidad and Tobago.

Chart IVd
Repo Rate and Commercial Banks'
Median Prime Lending Rate



Source:Central Bank of Trinidad and Tobago.

Table IVa: Fiscal Injections and Liquidity Absorption (TT$ Million)

	2011	2012	2013	2014	2015	Jan-Apr-16
Fiscal Injections	14,002.6	14,938.2	10,364.6	11,855.8	13,193.8	3,076.4
Liquidity Absorption Measures						
Open Market Operations (OMOs)	-656.8	260.1	-260.1	-11,434.6	2,332.1	373.4
Central Gov't Treasury Bond Issues	0.0	0.0	1,559.3	1,000.0	0.0	0.0
Commercial Banks' Fixed Deposits	0.0	-1,500.0	0.0	0.0	3,500.0	0.0
Memo Item:						
CBTT Sale of Foreign Exchange	9,353.1	11,366.4	8,367.0	3,380.5	16,330.9	2,781.6

Source: Central Bank of Trinidad and Tobago.

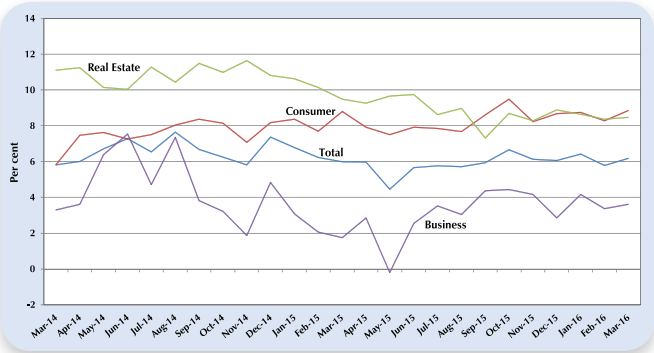
Note:
A negative sign means that there was a net issue of OMOs and commercial banks' fixed deposits resulting in a withdrawal of liquidity and a positive sign means a net redemption of OMOs and maturity of commercial banks' fixed deposits which injects liquidity.

Private sector credit growth has been relatively resilient despite the anaemic macroeconomic environment. On a year-on-year basis, private sector credit granted by the consolidated banking system grew by 6.2 per cent in March 2016 compared with 6.7 per cent in October 2015. The increase in private sector lending has been driven by the consumer and real estate mortgage loans categories, while business lending has grown at a more subdued pace **(Chart IVe)**.

However, while consumer and real estate mortgage loans realised heathy growth rates, the slowdown in these categories over the past six months may suggest that they may be adjusting to the economic climate. Consumer loans rose by 8.8 per cent on a year-on-year basis in March 2016 compared with 9.5 per cent in October 2015. Latest data show that there was relatively robust consumer borrowing for the purchase of new motor vehicles (21.4 per cent) and home improvement/ renovations (7.1 per cent) in March. Meanwhile, real estate mortgages loans which grew by 8.5 per cent in March 2016, slowed consistently over the last two years (Chart IVe). With the number of residential loan applications plunging by 33.9 per cent in the final quarter of 2015, there may be further slowing in mortgage lending in the coming months.

Trends in business lending suggest that the corporate sector has been more guarded in their willingness to increase leverage. In the twelve months to March 2016, business lending grew by 3.6 per cent compared with 4.4 per cent in October 2015. Over the last few months there has been a noticeable decline in demand loan balances, which account for roughly 61.0 per cent of total business loans granted by the consolidated banking system. On the other hand, there has been strong demand for time loans (10.0 per cent of total business loans), during the first quarter of 2016. This may presage some shifting in the funding pattern within the corporate sector given the economic environment. In March 2016, there was robust growth in lending to the manufacturing (23.0 per cent) and distribution sectors (9.0 per cent), while loans extended to the construction (9.2 per cent) and other services (15.1 per cent) sectors declined on a year-on-year basis.

Chart IVe
Private Sector Credit to the Consolidated Financial System
(Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago.

Following some level of lethargy in the final quarter of 2015, growth in the main monetary aggregates recovered over the first three months of 2016. On a year-on-year basis, M1-A grew by 2.8 per cent in March 2016 compared with a decline of 8.1 per cent in October 2015. M-2 rose by 3.6 per cent (year-on-year) in March, as savings deposits expanded by 6.3 per cent. Meanwhile, after recovering over the course of 2015, aggregate balances of time deposits declined on a year-on-year basis by 1.8 per cent in March. Additionally, foreign currency deposits grew strongly by 8.3 per cent in March 2016. In the twelve months to March 2016, businesses reduced their foreign currency deposits holdings by 4.6 per cent, while individuals increased their holdings by 9.4 per cent. These trends suggest that the reduced supply of foreign currency to the market has prompted businesses to draw down on their foreign currency deposits, while individuals have responded by increasing their foreign currency holdings[7].

7 As at March 2016, the main holders of foreign currency deposits were businesses (34.3. per cent of total), individuals (34.2 per cent), private financial institutions (17.7 per cent), other government bodies (7.9 per cent) and state-owned financial institutions (5.1 per cent).

BOX 2
THE EVOLUTION OF THE CENTRAL BANK OF TRINIDAD AND TOBAGO'S MONETARY POLICY STANCE (2002-2015)

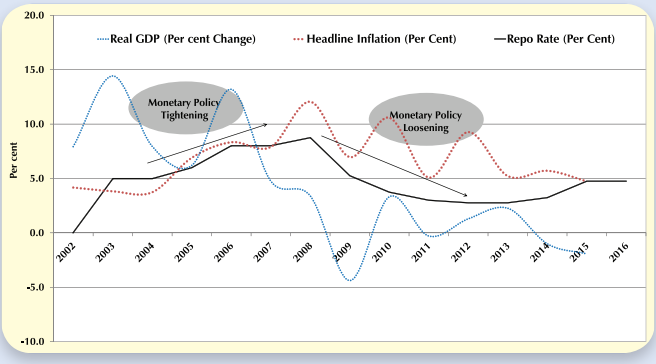
Monetary policy refers to the actions undertaken by a central bank or monetary authority to influence the money supply or level of interest rates in an economy to achieve its objectives. These objectives are usually tied to key macroeconomic variables such as inflation, economic growth, unemployment and exchange rates. While some central banks have adopted a strict inflation targeting regime, other banks operate with a broader mandate of price stability as well as some consideration for economic growth and employment. The Central Bank of Trinidad and Tobago (Central Bank) conducts monetary policy geared towards the promotion of low inflation and a stable foreign exchange market that is conducive to sustained growth in output and employment.

Over time, an economy transitions through the various stages of the economic cycle. Stages of the economic cycle include periods of economic growth, peaks, recessions and troughs, with higher inflation usually associated with the first two phases and lower price pressures usually associated with the latter two phases. With negative consequences attached to both high inflation and recessionary episodes, central banks generally attempt to limit sharp swings in the business cycle. For instance, if faced with high inflation, a central bank may increase interest rates with the aim of cooling economic activity and reducing aggregate demand, thereby eventually lowering inflation. Raising interest rates to slow economic activity and moderate inflationary pressures is generally referred to as a phase of tightening monetary policy or a restrictive monetary policy stance. On the other hand, lowering interest rates to stimulate economic growth is referred to as loosening monetary policy or an accommodative monetary policy stance. Meanwhile, a neutral policy stance aims to have neither a stimulative nor a restrictive impact on the economy.

The Central Bank has utilized a host of tools including the Repo rate, open market operations, reserve requirements, liquidity absorption bonds, fixed deposit facilities requested of commercial banks, and moral suasion to influence interest rates and attain its objectives over the years. The Bank's main interest rate and signaling tool is the Repo rate, which it uses to influence other interest rates in the financial system and provide signals to the market on the direction of monetary policy. The Repo rate is the rate of interest the Central Bank charges to commercial banks to access its overnight repurchase agreement facility. Commercial banks seek to utilize the Central Bank's repurchase facility when they are in need of short term funding. The higher the Repo rate the more costly it is for commercial banks to borrow via the Bank's repurchase facility. Commercial banks will then seek to pass on this higher cost to their customers by increasing their lending rates. A reduction in the Repo rate should have the opposite effect.

The Central Bank's monetary policy has responded to the various stages of the economic cycle experienced domestically over the last decade or so. Figure 1 shows that facing higher inflationary pressures in light of strong economic activity, the Central Bank engaged in cycle of monetary policy tightening, taking the Repo rate up from 5.00 at the end of 2004 to 8.75 per cent at the end of 2008. Conversely, with inflation beginning to trend downwards and economic activity slowing, the Bank loosened its monetary policy stance during the period 2009 to 2012. In a dynamic economic environment, sometimes other considerations are also taken into account by the Central Bank in setting its monetary policy. For example, in 2014 and 2015 one of the main factors influencing the Central Bank's monetary policy decisions was the threat of higher US interest rates and the implications for capital flows. As such, the Bank increased the Repo rate on eight consecutive occasions between September 2014 and December 2015. However, thus far for 2016, as weak domestic economic conditions emerged as a key concern, the Bank has kept the Repo rate at 4.75 per cent – a level still considered conducive to economic growth.

Figure 1
Phases of Central Bank's Monetary Policy



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

Financial Sector Developments

Developments in the Foreign Exchange Market

With low energy prices and sluggish domestic energy sector production, conditions in the foreign exchange market remained relatively tight during the first four months of 2016. Purchases from the public (except from the Central Bank) by authorized dealers in the first four months of 2016 was 10.0 per cent lower when compared to the same period in 2015, as inflows from the energy sector fell by 9.8 per cent to US$1,075.3 million. Meanwhile, sales of foreign currency to the public by authorized dealers amounted to US$1,803.9 million, resulting in a net sales gap of US$269.3 million in the four months to April 2016. The Central Bank continued to provide support to the market, making available US$430 million to authorized dealers **(Table IVb)**.

Sales of foreign exchange continued to be heavily oriented to the distribution and manufacturing sectors. For sales in excess of US$20,000 over the reference period, reports by dealers show that the bulk of foreign exchange sales (71.3 per cent) was driven mainly by the retail and distribution sector (33.3 per cent), the international credit card centres (16.9 per cent), the manufacturing sector (12.9 per cent) and automobile companies (8.3 per cent). Over the previous six-month period these sectors consumed 68.3 per cent of all sales to the public.

Over the past few months, there has been some depreciation in the TT dollar exchange rate vis-à-vis the US dollar. The weighted average TT$/US$ selling rate stood at TT$6.6315 in April 2016, which represented a depreciation of 3.1 per cent from the end of 2015 and 4.2 per cent from September 2015. The depreciation in the nominal exchange rate, has prompted a slight depreciation in the trade weighted real effective exchange rate (TWREER)[8] – helping to improve the country's external competitiveness. In March 2016, the TWREER depreciated by 1.1 per cent on a year-to-date basis and 2.3 per cent on a year-on-year basis.

Table IVb: Authorized Dealers: Foreign Exchange Market Activity (US$ Million)

Date	Purchases from Public	Sales to Public	Net Sales	Purchases from CBTT
2010	4,043.3	5,536.0	1,492.7	1,550.0
2011	4,755.5	6,186.8	1,431.3	1,475.0
2012	4,859.1	6,713.7	1,854.6	1,785.0
2013	5,802.2	7,076.4	1,274.2	1,315.0
2014	5,525.2	6,955.9	1,430.7	1,715.0
2015	4,941.3	7,382.5	2,441.2	2,594.9
Jan to Apr 2015	1,705.1	2,498.1	793.0	859.9
Jan to Apr 2016	1,534.6	1,803.9	269.3	430.0
Y-o-Y Per cent Change	**-10.0**	**-27.8**	**-66.0**	**-50.0**

Source: Central Bank of Trinidad and Tobago.

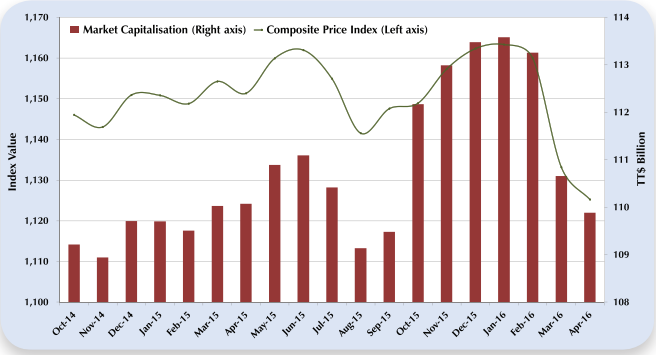
8 The TWREER reflects the weighted average of a country's currency relative to a basket of other major currencies. It is calculated as the trade weighted-nominal effective exchange rate (TWNEER) adjusted for the effects of inflation.

Capital Markets

Stock Market

On a year-to-date basis to April 2016, the Composite Price Index (CPI) was down by 3.2 per cent **(Chart IVf)**. The All Trinidad and Tobago Index (ATI) index, which represents domestically, headquartered firms, fell by 7.7 per cent. In contrast, the Cross Listed Index (CLI) expanded by 21.1 per cent over the first four months of 2016, reflecting in part the more optimistic sentiment regarding the Jamaican economy. Over the same period, four of the six shares composing the Cross Listed Index displayed the largest gains, while all declines were exhibited by locally domiciled firms. During the first four months of 2016, 44.8 million shares were exchanged at a market value of around TT$365.8 million compared with 23.7 million shares at a market value of TT$276.6 million traded during the same period one year earlier.

Chart IVf
Composite Price Index and Stock Market Capitalization



Source: Trinidad and Tobago Stock Exchange.

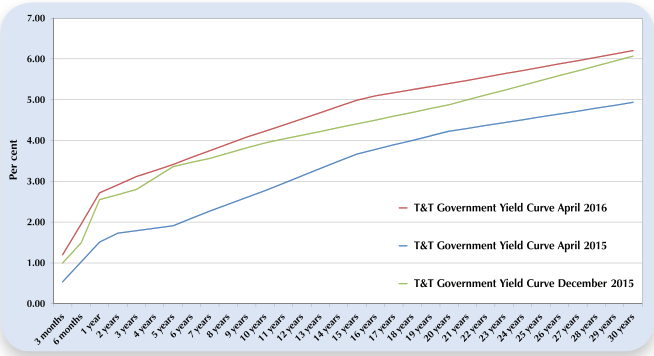
Primary Debt Market

Provisional data for the first quarter of 2016 show that there were three (3) primary bond issues at a value of roughly $592 million. Two (2) private sector entities accessed the market, the first being Sagicor acquiring US$75 million (TT$494.8 million) in short-term funding and the second HADCO procuring $30 million **(Table IVc)**. Additionally, state enterprise Trinidad and Tobago Mortgage Finance Co Ltd (TTMF) financed roughly $70 million over the quarter. Furthermore, the Central Government issued a 4.50 per cent fixed rate coupon, 12-year bond raising roughly $1.1 billion at a yield of 4.75 per cent.

Trading activity on the secondary Government bond market picked up significantly thus far in 2016. During the first three months of the year, 23 trades were conducted at a face value of roughly $275.9 million. In comparison, the twelve months of 2015 observed a total of 31 trades at a face value of just under $71.6 million. Furthermore, the Central Government Bond Index experienced declines for the year thus far. Over the first three months of 2016, the Price Index and Total Return Index both fell by 3.3 per cent and 1.7 per cent, respectively. This is reflective of the increasing yields on Central Government securities. In comparison, over 2015, the Price Index declined by 5.0 per cent while the Total Return Index rose marginally by 0.8 per cent.

Yields on the TT Treasury Yield Curve continued to increase over the first four months of 2016. On the shorter end, the 3-month yield increased by 20 basis points from the end of 2015 to 1.20 per cent in April 2016, while the 1-year yield rose by 17 basis points to 2.72 per cent over the same period. Similarly on the longer end of the curve, the benchmark 10-year yield increased by 35 basis points to 4.23 per cent, while the 15-year benchmark jumped 56 basis points to 4.99 per cent over the first four months of 2016 **(Chart IVg)**.

Chart IVg
Standardized Trinidad and Tobago Government Yield Curve

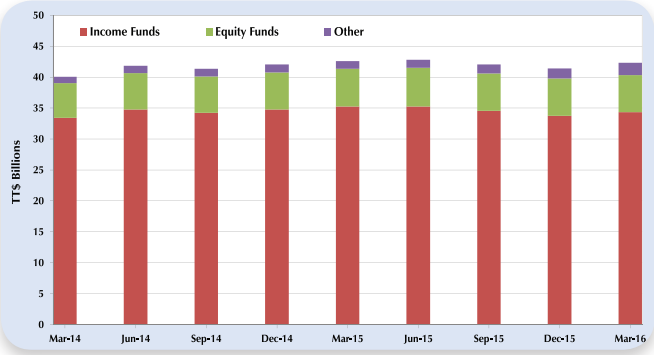


Source: Central Bank of Trinidad and Tobago.

Mutual Funds

Following a contraction in 2015, there was a rebound in mutual funds under management in the first quarter of 2016. On a year-to-date basis, aggregate funds under management[9] rose by 2.1 per cent in the first quarter of 2016 to $42.3 billion **(Chart IVh)**. During the first quarter of 2016, income funds grew by 1.7 per cent to $34.3 billion. Meanwhile, reflecting the weak performance in the stock market, equity funds under management declined by 0.5 per cent to just under $6.0 billion. On the other hand, funds classified as "Other"[10] expanded by 19.2 per cent to just under $2.0 billion over the period. The industry witnessed net sales of just $26.3 million in the first quarter of 2015, of which total sales were $3.41 billion and total redemptions were $3.38 billion.

Chart IVh
Mutual Funds Under Management by Type



Source: Central Bank of Trinidad and Tobago.

Table IVc: Primary Debt Issues (January-March 2016[p])

Period Issued	Borrower	Face Value (TT $M)	Period to Maturity	Coupon Rate per annum (Per Cent)	Placement Type
2016					
January	TTMF – Series 1	53.73	6 years	Fixed rate 4.62%	Private
	HADCO	30.00	11.25 years	Fixed rate 6.0%	Private
February	TTMF – Series 2	14.00	10 years	Fixed rate 4.52%, reset after 5th year	Private
March	Sagicor	494.80 (US$75.00 mn)	1 year	Fixed rate 5.0%	Private

Source: Central Bank of Trinidad and Tobago.

p Provisional.

9 Aggregate funds under management refer to mutual fund information collected by the Central Bank of Trinidad and Tobago, including funds managed by the Trinidad and Tobago Unit Trust Corporation, Royal Bank Trinidad and Tobago, Republic Bank Limited and First Citizens Bank Limited.

10 "Other" funds under management refers to money market funds and sector funds.