



CENTRAL BANK OF
TRINIDAD & TOBAGO

Monetary Policy Report

November 2017

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MONETARY POLICY REPORT

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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.

Monetary Policy Report

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PART I – OVERVIEW AND OUTLOOK**Overview**

Since the May 2017 Monetary Policy Report global economic conditions have improved and optimism has grown. According to the International Monetary Fund's (IMF) October 2017 World Economic Outlook (WEO), global economic activity strengthened modestly over the first half of 2017, supported by higher investment growth, an increase in global trade, and the stabilization of oil prices. Several market sentiment indicators also point to strong growth momentum into the third quarter of 2017. Growth in the advanced economies (AEs) generally accelerated, while some emerging market and developing economies (EMDEs) continued to improve; notably, a turnaround has become evident in Brazil. Growth in the Caribbean remains fragile and, in some territories, was adversely affected by hurricanes in September 2017.

Monetary policy has been generally accommodative amongst central banks, but may be at a turning point in some developed countries. After leaving its policy rate unchanged in September 2017, the US Federal Reserve (Fed) began lowering the level of monetary accommodation by reducing its holdings in treasury and agency securities in October 2017. Later, in October, the European Central Bank (ECB), while keeping its policy rate unchanged, decided to extend its Asset Purchase Programme until September 2018 or beyond if necessary. However, from January 2018 asset purchases will be reduced from €60 billion to €30 billion. Meanwhile, the Bank of England (BOE) increased its policy rate in November 2017 in light of rising inflation but left its Asset Purchase Programme unchanged. Among the EMDEs, the central banks of India, Brazil

and Russia reduced their key policy rates in August and October 2017. In Latin America, weak domestic economic activity has prompted most central banks to maintain their accommodative monetary policy postures despite accelerating inflation.

International crude oil prices strengthened over the first 10 months of 2017, helped by the Organization of Petroleum Exporting Countries' (OPEC) decision in November 2016 to reduce oil production. Natural gas prices also increased during the year, reflecting a pick-up in demand. Over the first 10 months of the year, West Texas Intermediate (WTI) oil prices averaged US\$ 49.63 per barrel, Brent crude oil US\$ 53.13 per barrel and natural gas prices at the Henry Hub averaged US\$ 2.98 per mmbtu. By mid-November WTI crude oil prices reached US\$55 per barrel.

In contrast to the brightening global picture, the Trinidad and Tobago economy remained downbeat in the first half of 2017, reflecting slow activity in both the energy and non-energy sectors. This performance came on the heels of a significant 6 per cent decline in GDP in 2016. Over the first half of 2017, the energy sector saw lower output of natural gas and petrochemicals (year-on-year), despite upticks in depth drilled and rig days. However, partial data for the third quarter of 2017 suggest that energy sector activity has been picking up, buoyed by new output from the Juniper gas project. Indicators of non-energy activity monitored by the Central Bank of Trinidad and Tobago (Central Bank), including local sales of cement and sales of new motor vehicles, point to weakness in construction, distribution and manufacturing sectors over the first half of 2017.

With respect to the public finances, the sharp falls in public revenues in the fiscal year (FY) ending

September 2017 were not fully offset by the adjustment in public expenditure. As a result, the impact of the terms of trade shock due to the decline in external energy prices has not been fully reflected to date in the contraction in government expenditure and the spill-over effects on the rest of the economy. For example, the rate of unemployment increased to 4.5 per cent in the first quarter of 2017 (a still relatively low level when compared with other countries) from 3.8 per cent in the corresponding quarter of 2016. Provisional estimates from the Ministry of Finance (MoF) indicate that Central Government operations resulted in a budget deficit of \$12.6 billion (8.4 per cent of GDP) in FY2016/17 compared with much lower deficits in prior years. This outturn was partly attributable to higher outlays for wages and salaries as a result of payment of salary arrears.

Inflation has remained contained through 2017 partly due to the subdued economic conditions. In September, headline inflation stood at 1.2 per cent (year-on-year) down from the 1.7 per cent in May 2017. Food inflation, however, stayed at 1.8 per cent as in May 2017, the rigidity partly reflecting some curtailment of domestic food supply on account of Tropical Storm Bret. Higher international dairy prices have impacted imported dairy products within the milk, cheese and eggs sub-index. The low inflationary environment was underscored by the continued easing of core inflation over the five-month period to September 2017.

The slow domestic economy and benign inflation provided an important backdrop for the conduct of monetary policy in 2017; at the same time, the Central Bank expressed concern at the narrowing domestic/foreign interest differentials. Balancing these considerations, the Central Bank maintained a neutral policy stance so far for the year. This stance is reflected in the Bank's policy rate, the "Repo" rate,

which has been kept at 4.75 per cent. In managing liquidity levels during the period, the Bank's timing of its open market operations took account of the rise in the public sector's domestic financing requirements. Excess banking system liquidity moderated over May to October 2017, mainly as a result of a decline in fiscal injections.

Growth of private sector credit and interest rate movements, have been restrained while the monetary aggregates have declined. Credit expansion to the private sector by the consolidated financial sector was negligible over the five-month period to September 2017. Business lending rose marginally, while real estate and consumer lending maintained moderate growth rates. The main monetary aggregates contracted steadily over the five-month period to September 2017, as net domestic fiscal injections and credit growth remained weak. Meanwhile, commercial banking interest rates (i.e. the prime and weighted average loan and deposit interest rates) have remained sticky thus far in 2017.

Conditions in the foreign currency market remain tight in the context of lower foreign currency inflows, particularly from the energy sector. Both purchases and sales of foreign exchange by authorized forex dealers from and to the public (i.e. excluding the Central Bank) declined. There may be signs that market participants are tapping precautionary foreign currency holdings as foreign currency deposits of the financial system (denominated in TT dollars) contracted over the five-month period to September 2017. Meanwhile the Central Bank continued to intervene with fortnightly sales of around US\$75 million in the year to early November 2017; intervention in 2017 so far amounted to US\$1,631 million, compared with US\$1,577 million in the year earlier period.

Outlook

In light of the faster-than-expected growth over the first half of 2017, the IMF revised its forecast for global growth to 3.6 per cent in 2017 and 3.7 per cent in 2018 — an upward revision of 0.1 per cent for each year relative to April 2017 (WEO). Growth for both AEs and EMEs was revised upwards. Nevertheless, growth may remain weak in many countries and pockets of economic and political uncertainty persist. The US economy is forecast to expand by 2.2 per cent in 2017 and 2.3 per cent in 2018 which, although lower than in the April forecast, is still above the potential GDP trend and much higher than the 1.5 per cent recorded for 2016. In the Caribbean, growth is expected to be hampered in some tourist-dependent economies in the Eastern Caribbean Currency Union (ECCU) such as Anguilla, Antigua and Barbuda and Dominica where hurricanes have caused severe infrastructural and agricultural damages.

Financial markets in the US believe that the probability of a further rate increase by the US Fed in 2017 is high, and further normalization of monetary policy is expected in 2018. A further rise in interest rates in the US would, other things being equal, create incentives for portfolio outflows from many countries, including from Trinidad and Tobago. In other AEs such as the Euro area and Japan, monetary policy will remain very accommodative in 2017. Also, reflecting EMDEs' diverse cyclical positions, their monetary policy stances will continue to vary. Global financial conditions may remain accommodative for the remainder of the year. In the final quarter of 2017, demand for energy is expected to increase because of heating requirements during the winter season in the Northern Hemisphere. Additionally, the OPEC meeting to be held in November 2017 has raised speculation of an extension to production cuts by the oil cartel. Nevertheless, energy

prices are likely to remain relatively stable around US\$50 per barrel as shale oil output in the US may also rise.

Trinidad and Tobago is likely to experience an improvement in economic activity during the latter part of 2017 as a result of a boost in energy production from the Juniper facility. The additional natural gas production would also assist downstream refining and petrochemical production. This could help to gradually pull up non-energy activity. Much will depend on the fiscal response, especially the pace of execution of the capital programme.

The still relatively low energy prices in the near term will continue to create fiscal challenges. The Central Government budget plans for FY 2017/18 outline a projected deficit of \$4.8 billion (or 3.1 per cent of GDP). Revenues are expected to be boosted by several higher taxes, including on casinos, corporations and motor vehicles, while current spending would be curtailed and capital expenditure expanded. An external current account deficit is projected for 2017 — which would not be offset by corresponding capital inflows — suggesting that the external accounts will remain under pressure. The low energy prices in particular would impact the growth of official reserves which slipped to US\$8.5 billion in early November 2017, from US\$9.5 billion at the start of the year.

Headline inflation is likely to remain subdued for the remainder of 2017 and into 2018. Though certain food prices may be adversely affected due to weather-related supply shortages (for example vegetables and fresh seasoning), subdued demand and slackening labour market conditions are expected to keep prices restrained. Most of the price level increases are expected to be related to imported inflation.

In the short term, the spotlight will continue to be on the coordination of fiscal, structural and monetary policies.

The direct impact of fiscal activity will be felt among other things on the spending capacity of public sector employees, the size and direction of transfers and subsidies, and the momentum of public infrastructure and other capital works. Moreover, in the absence of external borrowing, domestic financing needs of the public sector could potentially crowd out some credit to the private sector, and have implications for the size

of the public debt. Structural reforms to improve the business climate, reduce bureaucracy and increase efficiency overall could reap rich dividends in not only boosting the effectiveness of the public sector but also facilitating the expansion of private business activity. In this environment, monetary policy would need to be dynamic and responsive to the evolving domestic and external financial conditions.

Table Ia: Summary of Economic Indicators

	2015	2016	Jan-Sep 2016	Jan-Sep 2017
Real Sector Activity				
Energy Sector				
Total Depth Drilled (metres)	147,075.4	108,886.1	80,345.3	104,158.1
Crude Oil Production (b/d)	78,697.1	71,503.6	71,331.2	72,246.7
Crude Oil Exports (000 bbls)	11,318.6	10,291.7	7,143.4	7,710.7
Refinery Throughput (b/d)	125,307.5	148,251.4	147,242.3	128,873.0
Natural Gas Production (mmcf/d)	3,833.2	3,326.6	3,332.6	3,313.1
Natural Gas Utilization (mmcf/d)	3,578.3	3,103.8	3,111.0	3,134.0
LNG Production (000 cubic metres)	28,909.5	24,408.2	18,219.0	18,401.8
Fertilizer Production (000 tonnes)	5,452.7	5,421.9	3,998.4	4,190.9
Fertilizer Exports (000 tonnes)	4,946.3	5,149.8	3,902.3	3,827.5
Methanol Production (000 tonnes)	5,515.9	4,655.0	3,558.4	3,635.6
ECPI (Jan 2007 = 100)	83.3	67.8	66.0	81.0
Non Energy				
Local Sales of Cement (000 tonnes)	656.0	524.3	405.6	385.4
New Motor Vehicle Sales	18,765.0	16,203.0	11,838.0	10,091.0
Average Daily Job Vacancy Advertisements	765.7	577.0	604.0	459.0
Prices (Average)				
<i>Year-on-Year per cent change</i>				
Producer Prices	2.4	1.2	1.2	2.2
Headline Inflation	4.7	3.1	3.2	2.0
Food Inflation	8.6	7.5	7.9	2.6
Core Inflation	1.8	2.2	2.2	1.9
Monetary (end of period)				
<i>Year-on-Year per cent change</i>				
Private Sector Credit*	6.1	3.3	3.1	3.7
Consumer Lending*	8.7	6.6	8.0	3.3
Business Lending*	2.9	0.3	-2.8	2.7
Real Estate Mortgages*	8.9	4.4	5.7	6.1
M-1A*	-7.3	2.6	-1.9	0.1
M-2*	-1.4	3.2	0.5	-1.1
Commercial Banks' Daily Average Excess Reserves (TT\$ millions)	3,399.4	3,959.8	4,132.1	3,137.2
TT 91 day Treasury Bill Rate (end of period; per cent)	1.00	1.20	1.20	1.20
Financial Stability - Commercial Banks				
Non-Performing Loans (per cent)*	3.4	3.1	3.3	3.3
Capital Adequacy Ratio (per cent)*	22.1	21.9	22.4	21.9
Capital Market				
Composite Price Index (1983 = 100; end of period)	1,162.3	1,209.5	1,156.8	1,241.6
Volume of Shares Traded (millions)	78.2	92.0	72.3	61.0
Mutual Funds Under management (\$Billions)**	41.4	43.0	42.4	42.7
External				
<i>US\$ millions</i>				
Sales of Foreign Exchange to Public	7,382.5	5,776.8	4,238.0	3,858.2
Purchases of Foreign Exchange from Public	4,941.3	4,289.0	3,268.6	2,608.5
CBTT Sales to Authorized Dealers	2,640.9	1,811.6	1,211.6	1,431.0
Net Official Reserves (end of period)	9,933.0	9,465.8	10,008.8	8,506.6

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

* Representd data as at end August for the respective years.

** Represents data as at end June for the respective years.

PART II – INTERNATIONAL AND REGIONAL MONETARY POLICY DEVELOPMENTS

Since the global financial crisis of FY 2008/09 monetary policy in many countries has been decidedly supportive of economic recovery. Interest rates were reduced to unusually low levels — sometimes below zero — in some countries and several central banks purchased assets to supply liquidity to financial markets. With the strengthening of the global economy in the last two years, central banks in AEs have been more actively addressing how to withdraw these unconventional market supports. However, in 2017 so far, monetary policy has remained broadly accommodative against the backdrop of firm global growth, stable commodity prices and modest inflationary pressures (Chart Ila). Nevertheless, EMDEs are carefully monitoring normalization of the Fed's balance sheet and prospective interest rate increases in the US, which can tighten global financial conditions and foster capital reflows from their economies.

Advanced Economies

Since the last Monetary Policy Report in May 2017, the United States has advanced its efforts to reduce stimulus and return to a more normal monetary environment. After a halt in Fed Fund rate increases since March 2017, the Fed increased the rate in June 2017 by 25 basis points (Chart IIb). Moreover, the Fed began curtailing its holdings of treasury and agency securities in October 2017, amidst strong labour market conditions and solid economic growth. Real GDP expanded by an annualized rate of 3.0 per cent (quarter-on-quarter) in the third quarter (Chart IIc) while the unemployment rate dipped to 4.1 per cent in October 2017, the lowest rate since February 2001.

Nevertheless, inflation has remained below the target rate of 2.0 per cent (Chart IId).

In the UK, the Bank of England increased its benchmark interest rate by 0.25 per cent to 0.5 per cent in November 2017, perhaps signalling the beginning of a gradual tightening in its monetary policy stance. This was the first increase in a decade as inflation and inflation expectations have risen sharply due to the depreciation of the pound sterling on one hand, and a downshift of the economy's potential for non-inflationary growth on the other. In October 2017, inflation measured 3.0 per cent for the second consecutive month — the highest level in five years. However, in some quarters concerns remain about the possible impact on the economy of interest rate increases in an environment of Brexit-related uncertainty. Indeed, the UK's growth remains modest: year-on-year growth slowed to 1.5 per cent in the third quarter, weighed down by the poor outturn from construction.

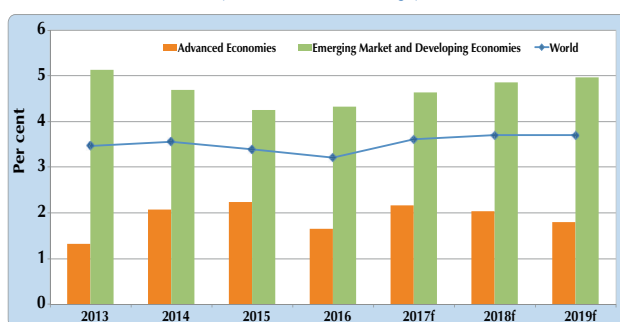
Meanwhile, in the Euro area the pace of economic activity has picked up beyond expectations thus far in 2017, but inflation (1.4 per cent in October), has remained subdued and below the 2.0 per cent target of the European Central Bank (ECB). In October 2017, therefore, the ECB concluded that substantial monetary accommodation was still needed for a meaningful rise in inflation to occur and decided to keep interest rates at their current levels for an extended period of time. The ECB also pledged to continue the asset purchase programme until September 2018 or as long as was necessary in the circumstances, taking into account the seemingly intractable unemployment rate, which measured 8.9 per cent in September 2017.

September 2017 marked the one-year anniversary of the Bank of Japan's (BOJ) Quantitative and Qualitative Monetary Easing (QQE) framework. The strategy

aims to support growth with inflation of 2.0 per cent through management of the yield curve. However, despite achieving moderate economic growth over six consecutive quarters and rising business confidence, Japan has not yet been able to substantially spur inflation, which in September measured 0.7 per cent.

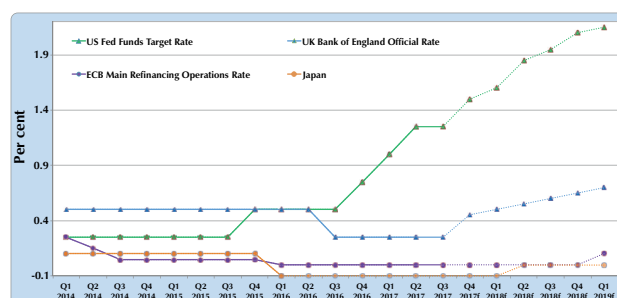
Chart IIa: Global Growth: Real GDP

(Annual Per cent Change)



Source: International Monetary Fund, World Economic Outlook, October 2017

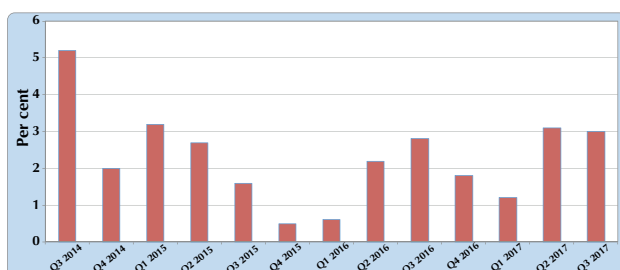
Chart IIb: Selected Advanced Economies – Policy Rates



Source: Bloomberg

Chart IIc: US Real GDP Growth

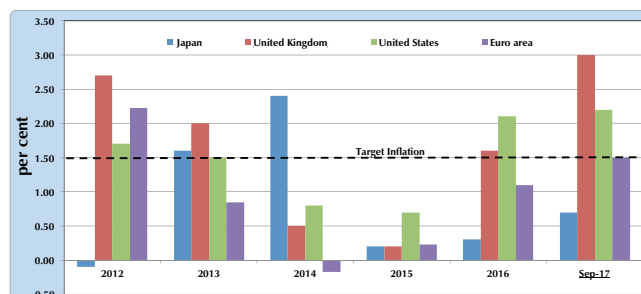
(Annualised Quarter-on-Quarter Per cent Change)



Source: Bloomberg

Chart IIc: Selected Advanced Economies – Headline Inflation

(Year-on-Year Per cent Change)



Source: Bloomberg

Emerging Market Economies

After reducing its benchmark interest rate in August 2017, the Reserve Bank of India (RBI) held the rate stable at 6.0 per cent in October. Monetary policy in India has been concerned with keeping inflation under control—at or below its target of 4.0 per cent—while providing support to growth. India has experienced a prolonged stretch of below-par growth, with the most recent figures showing an expansion of 5.7 per cent in the second quarter of 2017, the lowest quarterly return since the first quarter of 2014 ([Chart IIe](#)). Nevertheless, the RBI held the rate constant on the expectation that structural changes currently in train would improve growth in the medium term.

The People's Bank of China held its key policy rate at 4.35 per cent in September 2017 in support of economic activity under its “neutral and stable” monetary policy. Growth in the Chinese economy slipped to 6.8 per cent (year-on-year) in the third quarter of 2017 due to a slowdown in fixed-asset investment. On the financing side, the economy is being supported by relatively strong credit expansion and robust government spending. China's inflation rate rose to 1.9 per cent in October 2017, the highest level since January 2017¹.

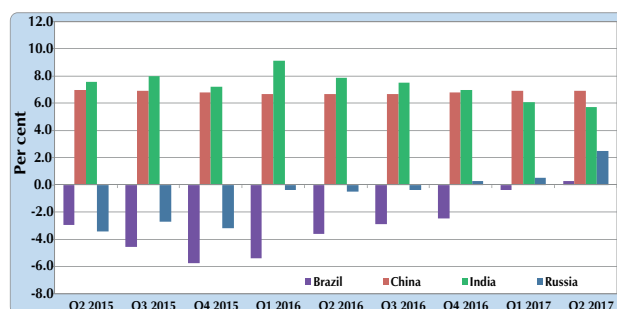
¹ The People's Bank of China has set an inflation target of 3.0 per cent.

Meanwhile, the central banks of Russia and Brazil further cut their key policy rates in October 2017. With inflation well under control in Brazil, the central bank was able to progressively slash its key rate, the SELIC, to the current 7.5 per cent from 14.00 per cent one year earlier. Both Brazil and Russia emerged from recession in 2017 on the backs of improving commodity prices and rebounds in consumer and business sentiment.

Economic growth in the Latin American region improved modestly in the second quarter of 2017 following a weaker-than-expected economic outturn in the first quarter of 2017. Inflation rates in the Latin American region generally accelerated in October 2017, following a slowdown in September (Chart 11f). Meanwhile, monetary policy remained supportive of domestic activity. In October 2017, the Central Bank of Colombia lowered its key policy rate by 25 basis points to 5.0 per cent. More recently, in the November 2017 monetary policy meetings, the Central Bank of Peru also reduced its key policy rate by 25 basis points to 3.25 per cent while the central banks of Chile and Mexico kept their key policy rates unchanged (Table 11a).

Chart 11e: BRICS Countries – Quarterly Real GDP Growth

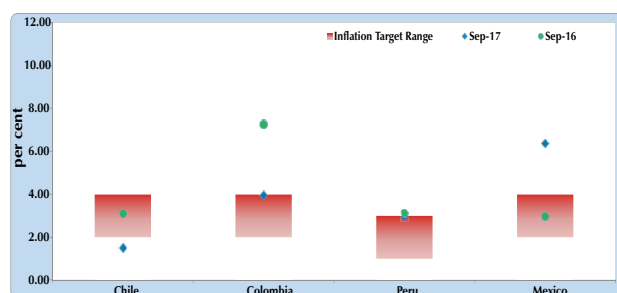
(Year-on-Year Per cent Change)



Source: Bloomberg

Chart 11f: Selected Latin American Countries - Inflation Target

(Annualised Quarter-on-Quarter Per cent Change)



Sources: Bloomberg, Banco Central de Chile, Banco Central de Colombia, Central Reserve Bank of Peru and Banco de Mexico

Table 11a: Selected Key Central Bank Policy Rates in the Region

(Per Cent Per Annum)

	Current Rate ¹	Last Change	Amount of Change
Chile	2.50	May. 2017	-0.25
Colombia	5.00	Oct. 2017	-0.25
Peru	3.25	Nov. 2017	-0.25
Mexico	7.00	Jun. 2017	+0.25
Brazil	7.50	Oct. 2017	-0.75

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 November 16, 2017

The Caribbean

The Central Banks in Jamaica and Guyana maintained accommodative monetary policy stances in August 2017. In August 2017, the Bank of Jamaica (BoJ) reduced its policy interest rate by 25 basis points to 3.5 per cent. Jamaica's inflation rate registered 4.6 per cent in September 2017, remaining anchored within the BoJ's target range of 4.0 to 6.0 per cent for fiscal year

FY 2017/18. Meanwhile, Guyana's bank rate remained stable at 5.0 per cent in August 2017. The tightened monetary policy stance by Central Bank of Barbados is reflective of efforts to support the government's fiscal consolidation efforts. In its October 2017 monetary policy meeting, the Monetary Council of the Eastern Caribbean Central Bank agreed to maintain the minimum savings rate at 2.0 per cent and the discount rate at 6.5 per cent.

PART III – DOMESTIC ECONOMIC CONDITIONS

Signs of a revival in global economic activity are yet to be fully reflected in the performance of the Trinidad and Tobago economy which contracted by 6 per cent in 2016. Activity in the energy sector was significantly hampered in the first half of 2017, led by a 6.8 per cent decline in production of natural gas. However, the strengthening of energy commodity prices during the first half of 2017 contributed to moderate improvements in the current account balance and fiscal revenues and inflation remained contained. The gradual adjustment of the US monetary policy stance led to a narrowing of the TT-US interest rates differentials; margins may tighten further if the Fed takes further rate action before the end of 2017.

a) Real Economic Activity

The Central Statistical Office (CSO) estimates that real gross domestic product contracted by 6.0 per cent in 2016 after increasing by 1.5 per cent in 2015, as key sectors declined². The mining and quarrying industry contracted by 13.2 per cent on account of the lower exploration and production of crude oil and natural gas which had ripple effects in the midstream and downstream energy industries. The manufacturing industry is estimated to have declined by 5.5 per cent in 2016 on account of the falloff in the natural gas feedstock which negatively affected the production of LNG, NGLs and petrochemicals. Similarly, the trade and repairs industry contracted as decreased discretionary spending among citizens resulted in slower wholesale and retail activity. Construction was also negatively affected as the implementation of some projects was

delayed or stalled. However, growth in financial and insurance activities remained strong in 2016. For 2017, based on information for the first half of the year, the CSO projects a contraction in real GDP of 2.3 per cent.

Selected indicators of economic activity monitored by the Central Bank of Trinidad and Tobago point to ongoing weakness in the economy in 2017 on account of slowdowns in both the energy and non-energy sectors. According to provisional estimates from the Central Bank's Quarterly Index of Real Economic Activity (2010=100), domestic output declined by 5.1 per cent (year-on-year) in the energy sector while the non-energy sector contracted by 4.5 per cent during the first six months of 2017. Preliminary data for the third quarter of 2017 indicate a nascent turnaround in the energy sector while other key sectors lag behind.

Energy sector activity in the first half of the year was characterized by declines across the majority of sub-sectors. While crude oil output was relatively maintained, natural gas production declined 6.8 per cent as the slump in production seen in previous years extended into the first half of 2017. As a result, natural gas-based industries were similarly affected. Output of both liquefied natural gas (LNG) and natural gas liquids (NGLs) contracted while the decline in methanol production was exacerbated by the closure of the TTMC 1 and CMC plants in the first half of the year. Activity at the Petrotrin refinery was also adversely affected during the period.

Industrial action at the facility coupled with the passing of Tropical Storm Bret led to a 13.5 per cent (year-on-year) decline in refinery throughput over January to June 2017. On a brighter note, fertilizer production

² In 2017, the Central Statistical Office (CSO) changed the national accounts compilation methodology from the Trinidad and Tobago System of National Accounts (TTSNA) to the International Standard Industrial Classification of All Economic Activities, Revision 4 (ISIC, Rev 4). Under ISIC, Rev 4, GDP is classified and presented at the industrial grouping level which distinguishes industries by types of economic activity rather than by type of product. One fundamental change is that some aspects of energy are now being classified as manufacturing. The largest industrial groupings are mining and quarrying, manufacturing, trade and repairs and financial and insurance activities. Under the TTSNA, GDP was classified into the major sectoral levels of Petroleum and Non-Petroleum.

increased 3.1 per cent year-on-year over the first half of 2017 as the industry recovered from major turnaround activity in the previous year while total depth drilled and rig days improved considerably, mainly reflecting ramped up exploration by state-owned Petrotrin.

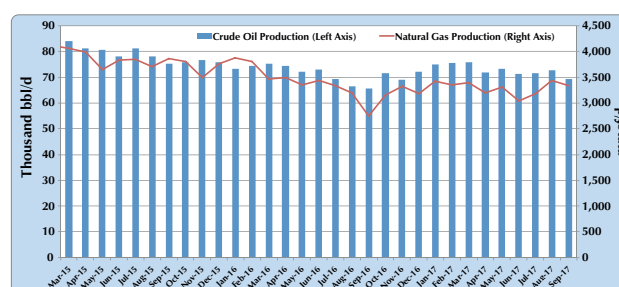
Meanwhile, preliminary data for third quarter of 2017 offer a more promising outlook for the energy sector. Improved output from bpTT buoyed production of both crude oil and natural gas resulting in increases of 3.7 per cent and 13.8 per cent in output respectively. Much of this gain came as first gas from Juniper was announced in August 2017 (**Chart IIIa**). On account of the improved natural gas output, NGL and LNG production rose by 27.7 per cent and 23.9 per cent, respectively, over the quarter. Fertilizer output also benefitted from the increase in natural gas production, improving 8.3 per cent over the period. Methanol production jumped 25 per cent, bolstered by the reopening of the CMC plant in May.

Available indicators monitored by the Central Bank suggest that non-energy activity remains lethargic. For example, declines of 6.8 per cent in retail sales and 19.6 per cent in new motor vehicle sales for the first six months of the year indicate slow distribution sector activity. Fall-offs in local sales of cement (5.4 per cent) and sales of mined aggregates (28.3 per cent) during the first half of 2017 point to weak construction activity, partly reflecting delayed implementation of public and private sector projects. Within manufacturing, sub-sectors such as food, drink and tobacco, assembly-type and related industries, printing and publishing and miscellaneous manufacturing all recorded year-on-year declines in the first half of the year, but there was a minor pickup in activity in the chemicals and assembly-type sub-sector which produces blocks, bricks and cement. The slower activity in manufacturing meant

that the capacity utilization in the sector fell to 67.0 per cent during the first half of 2017, when compared to 69.1 per cent for the same period in 2016. Financial data show a marginal decline in the finance, insurance and real estate sector. Activity within the transport sector — as measured by tonnage of cargo handled and passenger arrivals and departures — was down, as was electricity generation, which suffered from reduced demand due to the closure of two methanol plants, TMC 1 and CMC, during this period.

The distribution sector however may continue to exhibit weakness in the third quarter of 2017, as the sales of new motor vehicles have declined — the fall in private motor vehicle sales (6.7 per cent) overshadowed the minor pickup in commercial vehicles (1.8 per cent). Similar outcomes are envisaged for the construction sector, as local sales of cement fell by 13.6 per cent in the third quarter of 2017.

Chart IIIa: Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Industries

b) Retail Prices

Inflation has remained subdued since May 2017. The CSO's Index of Retail Prices (RPI) indicated that inflation measured 1.2 per cent in the twelve months to September 2017, slightly lower than in May 2017 (**Chart IIIb**). Core inflation (which excludes food prices) eased over the five-month period to September 2017 in a climate of weak aggregate demand pressures. A fall in the prices of foreign-used private motor vehicles induced a mild decline in the Transportation sub-index (Table IIIa). Lower prices were recorded for the health, clothing and footwear and miscellaneous goods and other services sub-indices, as consumers may have limited their discretionary spending related to these items.

Food inflation measured 1.8 per cent in the twelve months to September 2017, unchanged from May 2017. Declines in the bread and cereals and meat sub-indices were offset by upward impetus emanating from supply disruptions associated with Tropical Storm Bret. Meanwhile, higher international prices of dairy products³ boosted the milk, cheese and eggs sub-index.

Producers' Prices

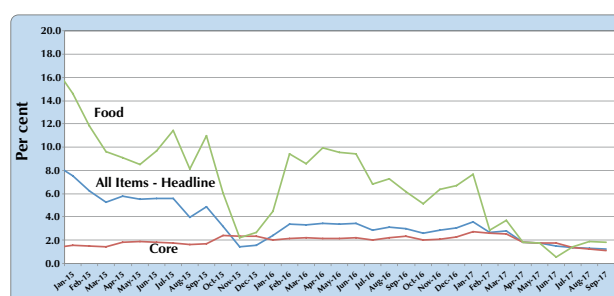
Following a pickup in the first half of 2017, producers' prices slowed in the third quarter of 2017. The Index of Producers' Prices (PPI) of the CSO, which is an indicator of wholesale prices, rose by 1.8 per cent (year-on-year) in September 2017, following increases of 2.8 per cent in March 2017 and 2.2 per cent in June 2017. The deceleration was driven by a decline (2.4 per cent) in the Chemicals and Non-Metallic Products sub-index,

as the index for 'readymix'⁴ concrete contracted by 18.3 per cent — reflective of the overall sluggishness in construction as well as competition among suppliers. Similarly, the Index of Retail Prices of Building Materials declined by 0.6 per cent (year-on-year) and 0.1 per cent in the second and third quarters of 2017. Costs associated with site preparation, structure and concrete frame and finishing, joinery units and painting and external works generally remained constant or declined marginally.

Some fiscal measures announced in the FY 2017/18 budget are expected to result in direct price rises for several products, with spill-over effects in some cases. The substantial price hikes for super gasoline and diesel fuels (10.9 and 48.3 per cent respectively) are likely to have second round effects on the cost of transportation services. The 30 per cent customs duty introduced on used tyres, and the removal of incentives (exemptions with regard to duty, motor vehicle tax and VAT) on clean or alternative fuel vehicles with engine sizes over 1599cc will similarly affect the prices of these goods.

Chart IIIb: Index of Retail Prices

(Year-on-Year Per Cent Change)



Source: Central Statistical Office

³ Food and Agriculture Organisation's (FAO) price index.

⁴ Readymix concrete refers to concrete mixed in a plant instead of on the job site.

Table IIIa: Index of Retail Prices

(Per Cent Change)

January 2015 = 100	Year-on-Year		
	Weights	May-17	Sep-17
Headline Inflation	1000	1.7	1.2
Food and Non-Alcoholic Beverages	173	1.8	1.8
Bread and Cereals	33	1.7	(0.1)
Meat	31	(1.2)	(1.4)
Fish	11	5.5	0.8
Vegetables	24	(1.3)	(0.4)
Fruits	6	5.8	9.8
Milk, Cheese & Eggs	21	3.8	5.3
Butter, Margarine, Edible Oils	10	4.4	5.6
Sugar, Jam, Confectionery, etc.	6	6.7	5.9
Food Products NEC	13	3.0	8.4
Non-Alcoholic Beverages	18	1.9	0.5
Core Inflation	827	1.7	1.1
Alcoholic Beverages & Tobacco	8.7	5.8	6.5
Clothing and Footwear	56.7	2.1	(1.2)
Furnishings, Household Equipment and Routine Maintenance	67.2	1.1	2.0
Health	40.6	18.3	12.3
<i>Of which: Medical Services</i>	10.4	8.9	7.3
Housing, Water, Electricity, Gas & Other Fuels	274.6	(0.0)	0.1
<i>Of which: Rent</i>	21.5	1.2	1.9
<i>Home Ownership</i>	193.3	(0.1)	0.0
Education	9.9	0.0	0.0
Recreation & Culture	65.5	1.1	0.8
Hotels, Cafes & Restaurants	24.9	3.4	3.3
Transport	147.4	0.5	(0.3)
Communication	45.1	0.1	0.2
Miscellaneous Goods and Other Services	85.9	2.4	1.2

Source: Central Statistical Office

c) Labour Market

The unemployment rate increased to 4.5 per cent in the first quarter of 2017 from 3.8 per cent in the corresponding quarter of 2016. Between March 2016 and March 2017, the number of persons employed declined by 6,700 persons. At the same time, the labour force lost 1,700 persons, some of whom may be discouraged workers⁵. Consequently, the total number of persons classified as unemployed increased by 5,000 during the twelve-month period to March 2017. The labour force participation rate fell to 59.8 per cent in the first quarter of 2017 from 60.1 per cent in the first quarter of 2016. The highest rates of unemployment during the first quarter of 2017 were observed in the petroleum and gas (9.1 per cent) and construction (8.0 per cent) industries.

Retrenchment notices filed with the Ministry of Labour and Small Enterprise Development indicate that during the first 10 months of 2017, 1,020 persons were retrenched, compared with 1,100 persons in the corresponding period of 2016, suggesting a slowing in the rate of job losses⁶.

During the second quarter of 2017, labour productivity in the manufacturing sector continued to trend downward, driven by a faster fall in domestic production than in the number of hours worked⁷. At the same time, wage pressures have eased given the current economic environment and slack labour market conditions. The Index of Average Weekly Earnings in the manufacturing sector, which is calculated as the total earnings paid to employees divided by the number of employees, declined by 2.1 per cent (year-on-year) during the second quarter of 2017.

d) Fiscal Operations

Central Government operations remained challenged in fiscal year (FY) 2016/17. Provisional estimates from the Ministry of Finance show that the Central Government realised an overall deficit of \$12.6 billion (8.5 per cent of GDP), a much higher deficit than envisioned in the initial and (mid-year) revised budgets for FY 2016/17 ([Table IIIb](#)). Despite higher energy receipts⁸, the substantial fall-off in non-energy revenues and lower than anticipated capital revenues precipitated a decline in total revenue. Total revenue amounted to \$37.8 billion in FY 2016/17, roughly \$7.2 billion less than the previous fiscal year and \$10.0 billion less than originally anticipated. As a result, the non-energy fiscal deficit increased to \$20.4 billion at the end of FY 2016/17, from \$14.6 billion in FY 2015/16.

Central Government total expenditure amounted to \$50.5 billion in FY 2016/17, \$2.5 billion lower than FY 2015/16. The fall in aggregate expenditure was largely on account of lower spending on goods and services and transfers and subsidies, in line with fiscal consolidation efforts. Notably, the decline in transfers and subsidies was primarily due to the fall-off in transfers to households, including the petroleum subsidy, as well as decreased transfers to statutory boards and similar bodies. In contrast, expenditure on interest payments and wages and salaries increased by 20.6 per cent and 4.4 per cent respectively, on account of a larger stock of domestic debt and payment of arrears for revised salaries and cost of living allowances (COLA) to public officers. Meanwhile, smaller outlays on the capital programme were largely due to administrative delays and variations in some projects ([Table IIIc](#)).

⁵ Those persons of legal employment age (15-65) who are not actively seeking employment or who cannot find employment after long-term unemployment.

⁶ However, there have also been reports of job cuts, voluntary separation of employment packages (VSEP), and non-renewal of contracts in both public and private enterprises.

⁷ Labour productivity in the manufacturing sector is measured by the Index of Productivity which is calculated as the ratio of the Index of Domestic Production to the Index of Hours Worked.

⁸ Energy revenue increased by \$1,146.6 million, year-on-year, in FY 2016/17.

The FY 2016/17 deficit was financed through a US\$250.0 million drawdown from the Heritage and Stabilisation Fund (HSF), as well as borrowings from domestic and external sources. On the domestic front, Central Government borrowed roughly \$8.2 billion through the issuance of bonds. On the external side, a US\$300.0 million, 15-year loan from the Corporación Andina de Fomento (CAF) was accessed. This compared with a US\$1.0 billion international bond issued one year earlier.

in the existing rate of duty on all mechanical games of chance for gambling to 40.0 per cent from 20.0 per cent. On the expenditure side, the immediate increase in the price of diesel and super gasoline by 48.3 per cent and 10.9 per cent respectively, will further reduce spending on the fuel subsidy in FY 2017/18.

The Central Government budget for FY 2017/18 was presented in Parliament on October 2, 2017. A fiscal deficit of \$4.8 billion is projected, equivalent to 3.0 per cent of GDP. Total revenue is expected to amount to \$45.7 billion, with \$10.1 billion to be collected from the energy sector and \$29.1 billion from the non-energy sector. Capital revenue is anticipated to amount to \$6.4 billion in FY 2017/18 and is expected to include proceeds from the sale of CL Financial assets. Meanwhile, total expenditure is projected to remain flat at \$50.5 billion. The Central Government plans to finance the FY 2017/18 budget deficit through a combination of domestic and external borrowing and withdrawal from the HSF.

Central Government revenue is expected to increase in FY 2017/18. According to the Budget Statement, the Central Government intends to recover the \$15.0 billion owed by CL Financial, commencing in FY 2017/18. Apart from these extraordinary revenues, other noteworthy measures aimed at revenue generation include an extension of the royalties on oil to gas and gas condensate, the harmonisation of corporation tax to 30.0 per cent⁹, an increase in corporation tax for commercial banks to 35.0 per cent and an increase

⁹ In FY 2016/17, one of the budget measures introduced was a two-tier tax regime for companies, whereby annual profits above \$1.0 million was taxed at 30.0 per cent. This change was effected in January 2017.

Table IIIb: Summary of Central Government Fiscal Operations
(TT\$ Millions)

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017 ^a	2017/2018 ^b
Revenue	52,760.1	58,378.7	57,233.7	44,972.6	37,835.7	45,741.8
Current	52,259.1	57,062.2	52,244.5	41,158.9	36,135.5	39,321.8
Energy	26,603.6	28,070.5	18,660.9	6,644.4	7,791.0	10,127.2
Non-Energy	26,156.6	28,950.6	33,583.7	34,514.5	28,344.5	29,194.6
Capital	501.4	1,316.5	4,989.2	3,813.7	1,700.2	6,420.0
Expenditure	57,668.5	62,820.9	59,943.7	52,944.7	50,479.2	50,501.5
Current	49,228.7	54,386.3	52,322.9	48,546.4	46,907.7	45,378.5
Wages and salaries	9,171.5	8,590.8	10,077.1	9,601.9	10,021.5	9,346.5
Goods and services	7,180.1	8,008.8	8,105.4	7,326.1	5,914.2	6,628.8
Interest payments	2,808.7	3,122.6	3,438.4	3,762.4	4,537.5	3,572.7
Transfers and subsidies ¹	30,068.4	34,664.1	30,702.0	27,856.1	26,434.5	25,830.5
Capital expenditure and net lending ²	8,439.8	8,434.6	7,620.8	4,398.3	3,571.5	5,123.0
Overall Non-Energy Balance	-31,512.0	-32,553.4	-21,233.6	-14,616.5	-20,434.5	-14,886.9
Overall Balance	-4,908.4	-4,442.2	-2,709.9	-7,972.1	-12,643.5	-4,759.7
Total Financing (Net)	4,908.4	4,442.2	2,709.9	7,972.1	12,643.5	4,759.7
Net Foreign Financing	-155.1	3,312.4	-199.2	8,954.0	3,247.5	3,690.5
Net Domestic Financing	5,063.5	1,129.8	2,909.0	-981.9	9,396.0	1,069.2
Per cent of GDP						
Revenue	31.1	33.6	35.7	29.9	25.3	29.1
Current	30.8	32.9	32.6	27.4	24.2	25.0
Energy	15.7	16.2	11.6	4.4	5.2	6.4
Non-energy	15.4	16.7	21.0	22.9	19.0	18.6
Capital	0.3	0.8	3.1	2.5	1.1	4.1
Expenditure	34.0	36.2	37.4	35.2	33.8	32.1
Current	29.0	31.3	32.6	32.3	31.4	28.9
Wages and salaries	5.4	4.9	6.3	6.4	6.7	5.9
Goods and services	4.2	4.6	5.1	4.9	4.0	4.2
Interest payments	1.7	1.8	2.1	2.5	3.0	2.3
Transfers and subsidies	17.7	20.0	19.2	18.5	17.7	16.4
Capital expenditure and net lending	5.0	4.9	4.8	2.9	2.4	3.3
Overall Non-Energy Balance	-18.6	-18.8	-13.2	-9.7	-13.7	-9.5
Overall Balance	-2.9	-2.6	-1.7	-5.3	-8.5	-3.0
Total Financing (Net)	2.9	2.6	1.7	5.3	8.5	3.0
Net Foreign Financing	-0.1	1.9	-0.1	6.0	2.2	2.3
Net Domestic Financing	3.0	0.7	1.8	-0.7	6.3	0.7
Memorandum Items						
Nominal GDP (in TT\$ million, FY)**	169,612.4	173,553.7	160,300.0	150,464.9	149,449.8	157,200.1
HSF Transfers (+) / Withdrawals (-)	271.7	0.0	0.0	-2,498.4	-1,712.2	0.0

Sources: Ministry of Finance and Central Bank of Trinidad and Tobago

^a Budgeted data based on an oil price of US\$48.00 per barrel and Natural Gas price of US\$2.25.¹ Adjusted for transfers to the Infrastructure Development Fund, Government Assisted Tertiary Education Fund and CARICOM Petroleum Fund.² Includes an adjustment for Repayment of Past Lending in FY 2013, FY 2014 and FY 2015.

** Nominal GDP is sourced from the Review of the Economy and converted into fiscal years for 2013 to 2017; the 2018 data are sourced from the Ministry of Finance.

Table IIIc: Costing of Selected Capital Projects in the FY 2017 and 2018 Budget

(TT\$ Millions)

Projects	2017 Provisional	2018 Budgeted
Total Capital Expenditure	3,571.6	5,123.0
<i>of which:</i>		
Drainage and Irrigation and Upgrading of Water Resources	355.2	672.0
<i>of which: Multi-Phase Wastewater Rehabilitation Programme</i>	281.0	413.9
Early Childhood, Primary and Seamless Education System Project	414.2	573.4
Roads and Bridge Construction and Rehabilitation	258.0	523.0
Construction of Hospitals and Health Centres	258.9	325.0
<i>of which: The National Oncology Centre</i>	17.3	5.0
<i>Couva Children's Hospital and Multi-Training Facility</i>	15.6	0.0
Accelerated Housing Programme and Housing Settlement Development	323.2	256.3
Local Government Services	153.2	208.8
Establishment of the Main Campus of UTT - Tamana and Construction of Public Buildings	101.3	163.2
Construction and Refurbishment of Police Stations	56.9	85.2
National Operations Centre Construction Project	218.0	80.0
Construction of Fire Stations and Expansion of prison facilities	98.5	75.0
Construction and Upgrading of Sporting Facilities	4.5	48.7
Construction of Community centers and upgrade of performance art centers	20.8	47.2
Construction of Administrative Complexes	0.0	30.0
Development of Industrial Sites	0.0	21.0
Construction and upgrade of fishing facilities	9.1	20.0
Construction of Tourism Facilities	1.5	19.7
Construction of National Libraries	15.9	7.0
Construction of an Integrated Fishing Port and Facilities at Gran Chemin Moruga	1.0	6.0

Source: Ministry of Finance and the Economy, Estimates of the Development Programme 2018

e) External Accounts

Balance of Payments

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

Trinidad and Tobago's external accounts recorded an overall deficit of \$729.8 million over the first six months of 2017, larger than the deficit of \$367.3 million registered in the corresponding period one year earlier (Table IIId). This decline is partly reflective of increasing domestic holdings of foreign securities. The deficit on the

external current account declined significantly mainly due to the surplus recorded on the Goods account. Meanwhile, the financial account recorded a net outflow over the reference period linked to increased holdings of foreign assets by domestic investors.

Following a deficit of \$982.6 million (8.7 per cent of GDP) over the period January to June 2016, the external current account posted a narrowed estimated deficit of \$246.9 million (2.2 per cent of GDP) in the similar period of 2017. Primarily owing to an expansion in

energy exports, total exports¹⁰ increased by 18.5 per cent. Energy export earnings were estimated at \$3,720.1 million, 18.5 per cent higher than the \$3,139.0 million recorded in the first half of 2016, indicative of the recent strength in crude oil and natural gas prices¹¹. In particular, natural gas exhibited strong export growth, closely followed by petrochemicals. Furthermore, total estimated imports amounted to \$4,431.1 million in the first half of 2017, exceeding the 2016 level by just 0.6 per cent, reflective of increased energy imports. Over the reference period energy imports increased by 7.2 per cent to \$1,669.1 million.

Continuing the trend of previous years, the services account revealed a deficit of \$576.4 million in the first half of 2017, compared to a deficit of \$646.0 million recorded in the corresponding period one year earlier. The smaller deficit is mainly a reflection of a higher surplus on the travel, sub-account coupled with a lower deficit on the insurance and pension services sub-accounts. Over the first six months of 2017 visitors increased their expenditure in the domestic economy by 5.3 per cent, while locals traveling abroad reduced their spending by over 57.0 per cent. Due to an increase in dividend payments abroad by foreign-owned energy companies, the surplus recorded on the primary income account over the first six months of 2016 reversed to register a deficit of \$35.0 million in the corresponding period of 2017. Meanwhile, the surplus on the secondary income account declined due to increased private out-bound transfers.

In line with the deficit recorded on the external current account, the financial account registered a net outflow

of \$86.1 million over the six month period of January to June 2017. This also represents a reversal of the net inflow posted over the similar period one year earlier. In particular, direct investment recorded a lower net inflow of \$195.3 million in contrast to the previous year's net inflow of \$222.1 million. The improvement in direct investment assets was primarily linked to an uptick in reinvestment of earnings abroad and augmented by a minor increase in foreign equity investments by domestic enterprises. Furthermore, increased holdings of domestic equity securities by foreign-owned energy companies contributed to an increase in direct investment liabilities. Over the reference period domestic portfolio investors increased their holdings of equity securities while commercial banks improved their portfolio holdings through debt securities investments. Notwithstanding, foreign portfolio investors reduced their holdings of domestic securities resulting in a reduction in portfolio investment liabilities. The other investment account registered a net outflow of \$231.0 million mainly due to increased currency and deposits abroad. This outturn was also representative of a reduction in trade credits, loans, and currency and deposits due to non-residents.

At the end of the first nine months of 2017, gross official reserves amounted to \$8,506.6 million, compared with \$9,465.8 million as at December 31, 2016. This represents 9.8 months of prospective imports of goods and non-factor services. Moreover, it suggests that the external accounts registered an overall deficit of \$959.2 million in the first nine months of 2017.

¹⁰ Over the period 2011 to Q2 2017, the CBTT has constructed estimates of energy trade using volume data from direct data sources, along with international commodity prices. Total exports are then estimated using a factor of 0.78 (it is assumed, based on historical ratios, that energy exports are 78.0 per cent of total exports). Having derived total exports, non-energy exports are computed by deducting energy exports from total exports. Meanwhile non-energy imports are estimated by extrapolating non-energy imports from the corresponding period of the previous year using the growth rates in non-energy real economic activity and the inflation rate for advanced economies. Non-energy trade data for the period Q4 2015 to Q2 2017 has been estimated by the CBTT using the aforementioned methodologies, while data prior to this period are sourced from CSO. For a Technical Note on estimated trade data, refer to Box 3 of the Economic Bulletin, March 2017.

¹¹ In the first half of 2017, crude oil prices as reflected in the WTI market increased to \$50.0 per barrel from \$39.4 while natural gas prices as measured by the Henry Hub benchmark averaged \$3.0 per million British Thermal Units (mmbtu) up from an average price of \$2.1 per mmbtu.

Table III.d: Trinidad and Tobago: Summary Balance of Payments

(US\$ Million)

	2011	2012	2013	2014	2015 ¹	2016 ¹	Jan-Jun 2016 ^p	Jan-Jun 2017 ^p
Current Account	4,293.6	3,381.9	5,410.9	4,006.4	939.7	-2,553.7	-982.6	-246.9
Goods and Services	7,143.2	5,581.8	6,949.0	5,752.0	1,409.3	-2,351.1	-1,025.9	-238.1
Goods, net*	7,879.5	6,440.1	7,596.8	6,406.3	2,529.0	-1,128.7	-379.9	338.2
Exports	17,041.3	16,324.7	17,593.1	14,964.5	11,130.5	8,244.7	4,024.4	4,769.4
Energy	14,694.9	13,189.9	14,036.3	12,491.5	8,767.3	6,430.8	3,139.0	3,720.1
Non-energy	2,346.4	3,134.8	3,556.7	2,473.0	2,363.2	1,813.8	885.4	1,049.3
Imports	9,161.8	9,884.5	9,996.2	8,558.2	8,601.5	9,373.3	4,404.2	4,431.1
Energy	3,981.9	3,829.8	4,508.6	2,867.7	2,428.4	3,507.6	1,556.8	1,669.1
Non-energy	5,179.9	6,054.8	5,487.7	5,690.5	6,173.1	5,865.7	2,847.5	2,762.0
Services, net	-736.3	-858.3	-647.8	-654.3	-1,119.7	-1,222.4	-646.0	-576.4
Primary income, net	-2,872.6	-2,238.6	-1,566.2	-1,728.3	-431.4	-259.1	14.2	-35.0
Secondary income, net	23.0	38.6	28.1	-17.4	-38.1	56.4	29.0	26.2
Capital Account	0.1	-0.6	1.0	0.3	0.5	2.8	-0.3	0.0
Financial Account	1,110.7	4,009.0	-32.8	119.5	279.7	-1,927.7	-574.9	86.1
Direct investment	29.3	2,094.9	1,192.8	-682.4	-255.0	-134.3	-222.1	-195.3
Net acquisition of financial assets	67.2	189.4	62.5	-17.7	128.3	-193.3	-236.0	63.0
Net incurrence of liabilities	37.9	-1,905.5	-1,130.3	664.7	383.4	-59.0	-13.9	258.3
Portfolio investment	1,165.5	1,587.9	142.6	846.0	803.9	-1,573.1	-391.2	47.8
Net acquisition of financial assets	1,090.9	1,130.8	574.1	739.1	677.0	-100.2	-499.0	14.5
Net incurrence of liabilities	-74.5	-457.1	431.5	-107.0	-126.8	1,472.9	-107.8	-33.3
Financial derivatives	-1.9	-2.6	4.2	-3.2	-1.0	0.0	-1.2	2.6
Net acquisition of financial assets	-1.9	-2.3	3.9	-1.8	-1.9	0.0	-0.4	2.7
Net incurrence of liabilities	0.0	0.2	-0.2	1.3	-0.9	0.0	0.8	0.1
Other investment	-82.2	328.8	-1,372.4	-40.9	-268.1	-220.3	39.5	231.0
Net acquisition of financial assets	88.5	-271.9	-1,426.9	254.6	-706.8	-209.4	579.8	230.5
Net incurrence of liabilities	170.6	-600.6	-54.5	295.5	-438.7	10.9	540.2	-0.5
Net errors and omissions	-2,381.5	15.6	-4,639.5	-2,565.9	-2,224.7	156.1	40.7	-396.8
Overall Balance	801.6	-612.2	805.2	1,321.3	-1,564.2	-467.2	-367.3	-729.8
Per Cent of GDP								
Current Account	16.9	13.1	20.3	14.7	3.8	-11.4	-8.7	-2.2
Goods, net	30.9	25.0	28.5	23.5	10.3	-5.0	-3.4	3.1
Exports	66.9	63.5	65.9	54.8	45.4	36.8	35.5	43.0
Imports	36.0	38.4	37.5	31.3	35.1	41.8	38.8	40.0
Services, net	-2.9	-3.3	-2.4	-2.4	-4.6	-5.5	-5.7	-5.2
Primary income, net	-11.3	-8.7	-5.9	-6.3	-1.8	-1.2	0.1	-0.3
Overall balance	3.1	-2.4	3.0	4.8	-6.4	-2.1	-3.2	-6.6
Memorandum Items								
Gross Official Reserves**	9,982.8	9,370.7	10,175.9	11,497.1	9,933.0	9,465.8	9,565.7	8,735.9
Import Cover (months)**	13.7	10.6	12.2	12.9	11.2	10.5	11.3	10.1

Source: Central Bank of Trinidad and Tobago

Note: This table is an analytical presentation of the Balance of Payments and is presented in the accordance with the IMF's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6). Refer to Box 3 of the Economic Bulletin, March 2017 for a Technical Note on the Transition to BPM6.

p Provisional.

* Energy goods data for 2011-2017 comprise estimates by the Central Bank of Trinidad and Tobago.

** End of Period.

International Investment Position

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

At the end of the first half of 2017, Trinidad and Tobago's net international investment position fell by \$527.6 million reaching \$4,973.4 million (Table IIIe). The lower net international investment position is representative of a decline in international assets coupled with an increase in international liabilities. International assets decreased by 0.9 per cent to \$23,434.5 million primarily due to a reduction in reserve asset holdings. Ongoing foreign exchange interventions by the Central Bank coupled with reduced inflows of foreign exchange earnings continue to weigh on the overall level of reserve assets. However, increases in direct investment, portfolio investment and other investment assets partly offset the overall decline in the stock of international investment assets.

Meanwhile, Trinidad and Tobago's international liabilities reversed its usual downward trend, increasing by \$311.2 million to \$18,461.1 million primarily on account of higher direct investment liabilities. A combined increase in the holdings of domestic direct investment equity securities and debt instruments resulted in the growth in direct investment liabilities. Over the review period, non-resident portfolio investors reduced their holdings of domestic securities while there was a reduction in trade credits, loans, and currency and deposits due to non-residents, resulting in lower international investment liabilities. However, this reduction was outweighed by the increase in direct investment liabilities.

Table IIIe: Trinidad and Tobago: International Investment Position (At End of Period)
(US\$ Million)

	2011	2012	2013	2014	2015 ^p	2016 ^p	Jun-2017 ^p
Net International Investment Position	-33.9	3,497.1	4,687.4	6,755.3	6,179.1	5,501.0	4,973.4
Assets	22,083.3	22,697.4	23,751.9	26,006.3	24,837.6	23,650.8	23,434.5
Direct investment	426.7	555.2	616.2	599.5	785.0	462.8	470.0
Portfolio investment	5,124.3	6,290.6	7,834.6	8,611.2	9,519.7	9,335.4	9,562.2
Financial derivatives	2.3	0.0	3.9	2.1	0.2	0.2	2.0
Other investment	6,547.2	6,481.0	5,121.2	5,296.3	4,599.7	4,386.7	4,664.3
Reserve assets	9,982.8	9,370.7	10,175.9	11,497.1	9,933.0	9,465.8	8,735.9
Liabilities	22,117.2	19,200.4	19,064.5	19,251.0	18,658.6	18,149.8	18,461.1
Direct investment	12,813.8	11,012.5	10,444.9	10,389.3	10,055.6	8,489.4	9,031.0
Portfolio investment	2,989.8	2,676.3	3,086.5	2,992.9	2,885.9	4,338.9	4,295.3
Financial derivatives	0.0	0.0	0.0	0.0	0.6	1.9	1.6
Other investment	6,313.5	5,511.5	5,533.1	5,868.8	5,716.5	5,319.5	5,133.1

Source: Central Bank of Trinidad and Tobago

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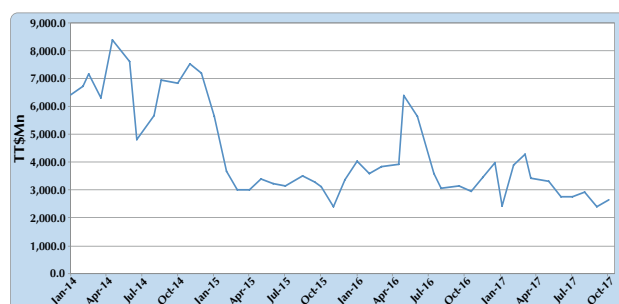
PART IV - MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

Monetary Developments

In 2017 so far, the Central Bank has maintained a neutral monetary policy stance. At its five meetings thus far for the year (January, March, May, July and September) the Monetary Policy Committee (MPC) of the Central Bank maintained the Bank's main policy rate, the "Repo" rate, at 4.75 per cent. In arriving at its decisions, the MPC considered domestic economic activity, the trajectory of inflation and international financial developments as reflected in interest rate differentials.

The Bank's open market operations took into account the dynamics of financial system liquidity. Over May to October 2017, excess liquidity (measured by commercial banks' holdings of reserves at the Central Bank in excess of statutory obligations) decreased to a monthly average of \$2,802.8 million relative to an average of \$4,137.7 million in the corresponding period a year earlier. This resulted mainly from a decline in net domestic fiscal injections (the excess of Government's domestic financial outflows over domestic inflows) to a total of \$623.5 million over May to October, less than one third the level for the corresponding period in 2016 (**Chart IVa**). The lower net domestic fiscal injection

Chart IVa: Commercial Banks – Excess Reserves



Source: Central Bank of Trinidad and Tobago

over the period reflected several large payments to the Central Government and Government borrowing from the financial system. On the other hand, sales of foreign exchange to authorised dealers (TT\$5,890.9 million) extracted 4.1 per cent less liquidity than in the corresponding period of 2016. Additionally, open market operations effectively injected \$2,250.5 million into the financial system over May to October 2017 compared with a withdrawal of \$634.6 million in year-earlier period (**Table IVa**).

Between May and October 2017, because of the dramatic year-on-year fall in excess liquidity, daily average interbank borrowing mushroomed and reached \$104.7 million over the period compared to \$21.2 million in the corresponding period of 2016.

Table IVa: Fiscal Injections and Liquidity Absorption

(TT\$ Million)

	MAY-OCT-16	MAY-OCT-17
Fiscal Injections	2,275.9	623.5
Liquidity Absorption Measures		
Open Market Operations (OMOs)	-634.6	2,250.5
Central Gov't Treasury Bond Issues	0.0	0.0
Commercial Banks' Fixed Deposits	-1,000.0	0.0
MEMO ITEM:		
Central Bank Sale of Foreign Exchange ¹	6,139.6	5,890.9

Source: Central Bank of Trinidad and Tobago

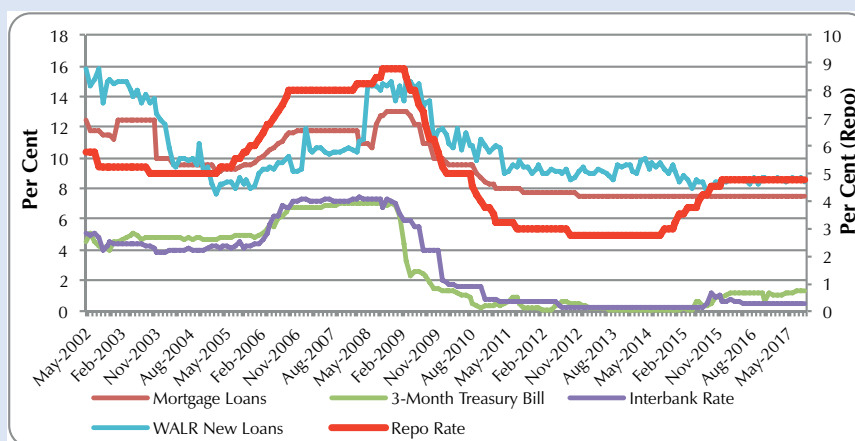
Note: A negative sign means that there was a net issue of OMOs and commercial banks' fixed deposits resulting in a withdrawal of liquidity and a positive sign means a net redemption of OMOs and maturity of commercial banks' fixed deposits which injects liquidity. Central Bank Sale of Foreign Exchange includes transactions under the Foreign Exchange Liquidity Guarantee facility.

BOX A

MONETARY TRANSMISSION IN TRINIDAD AND TOBAGO

In May 2002, Trinidad and Tobago introduced a new monetary policy framework which involved using a policy interest rate, called the Repurchase (or “Repo”) rate¹². The traditional view of monetary transmission via interest rates assumes that policy rate changes will sequentially pass-through to short-term (such as the inter-bank and Treasury-bill rates) and long-term market interest rates within the financial sector. Changes in longer-term market interest rates (such as bank lending rates), in turn, affect the saving, borrowing and investment behaviour of households and firms, and then output and ultimately inflation in the economy. Figure A.1 shows the similarity in the movements of selected market interest rates in response to movements in the Central Bank’s Repo Rate.

Figure A.1
Repo Rate vs. Selected Market Interest Rates



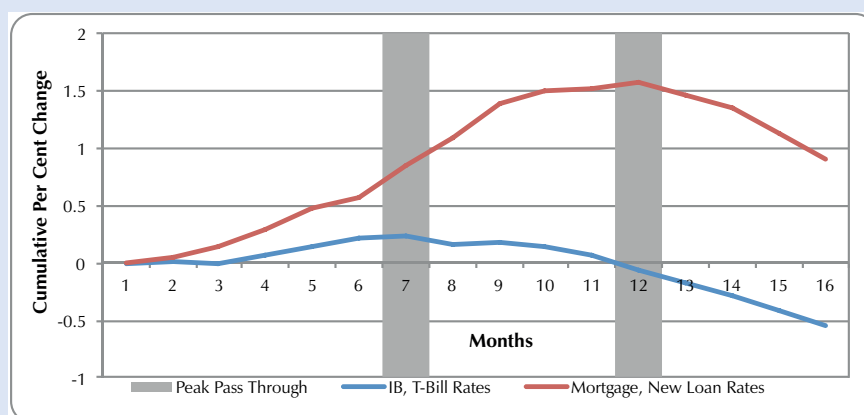
Source: Central Bank of Trinidad and Tobago

While the Repo rate framework assumes traditional transmission to domestic interest rates, transmission occurs indirectly through changes in banks’ funding costs. Banks’ funding costs are impacted when they access funds via the market for short-term funds. The effectiveness of transmission is generally assessed with respect to the extent and speed with which changes in the Repo rate pass through to short-term interest rates. Based on the results of a vector auto-regression (VAR) model¹³, the cumulative response of the selected market rates shown in Figure A.1 above, to a 50 basis-point disturbance in the Repo rate is considered in Figure A.2. The Figure shows that such a change in the Repo Rate can take up to 7 months to fully pass through to short term rates and 12 months to fully pass through to bank lending rates.

¹² For an extensive treatment of the conduct of Monetary Policy in Trinidad and Tobago see: <https://www.central-bank.org.tt/sites/default/files/page-file/uploads/Public%20Education%20Pamphlet%20The%20Implementation%20of%20Monetary%20Policy%20In%20Trinidad%20and%20Tobago.pdf>

¹³ Conducted on the extracted principal components of each interest rate grouping.

Figure A.2
Cumulative Interest Rate Response to Repo Rate

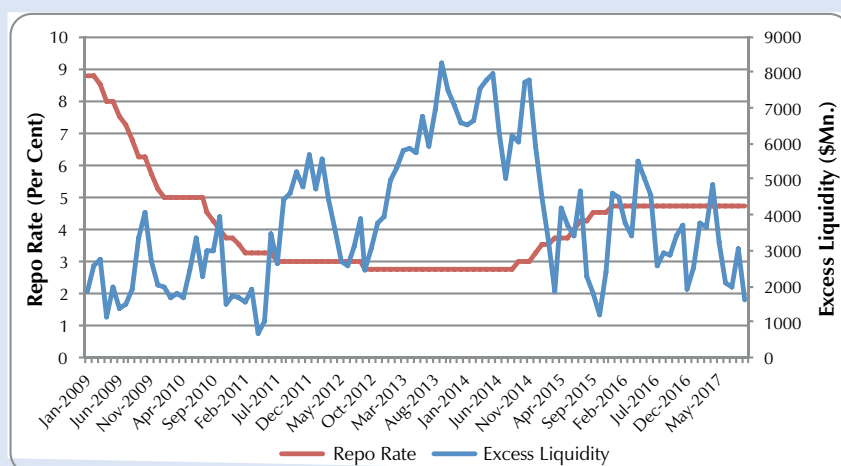


Source: Central Bank of Trinidad and Tobago

There are some factors which impede the pass-through of changes in policy rates to short-term rates in the financial system, especially in developing countries. Of key relevance to Trinidad and Tobago is the existence of structural excess liquidity. In Trinidad and Tobago structural excess liquidity has traditionally resulted from Government's conversion into local currency — and spending — of huge levels of foreign exchange inflows. The availability of high levels of liquidity in the banking system means that Repo rate adjustments do not impact the banks' cost of funds — through interbank borrowing or the Treasury bills market — as envisaged because of the availability of large pools of funding. High excess liquidity, therefore, undermines the pass-through of Repo rate movements on the market interest rates related to the financial sector's cost of funds.

Managing excess liquidity therefore forms part of the policy framework of the Central Bank. For example, along with tightening monetary policy conditions over 2014 and 2015 by increasing the Repo rate, a concurrent aim of the Bank was to 'mop-up' any excess liquidity in the system. This decline in excess liquidity was brought about by expanding open market operations via the use of short term Treasury Bills. Excess liquidity is not the only factor that affects monetary transmission, but this action is consistent with facilitating the cost of funds aspect of the interest rate channel of monetary transmission, and is seen in Figure A.3:

Figure A.3
Repo Rate vs. Excess Liquidity



Source: Central Bank of Trinidad and Tobago

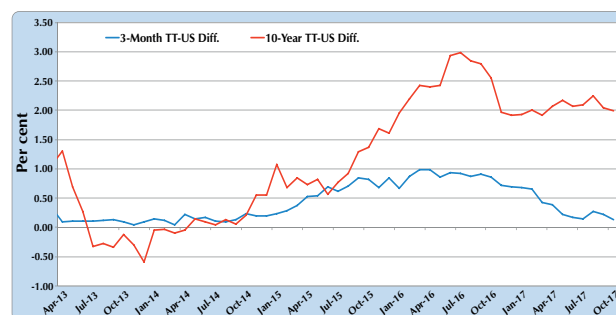
Facilitating a more effective transmission of monetary policy would require the Central Bank to consistently manage liquidity at levels that encourage financial institutions to more frequently access the interbank market or the Repo facility of the Central Bank. Given the large impact it can have on excess liquidity, fiscal activity is monitored closely by the Bank. The Bank also communicates on occasion with the Ministry of Finance with respect to projections and scheduling of their fiscal programme. These projections are in turn considered in the Bank's liquidity management operations.

Short-term rates increased over May to October 2017. The TT 3-month Treasury Bill rate increased 8 basis points to reach 1.28 per cent over the reference period May to October 2017. With the rate on the US 3-month Treasury also increasing 17 basis points to reach 1.15 per cent in October, the 3-month TT-US differential declined by 9 basis points to reach 13 basis points by the end of the reference period. Higher interbank activity in the reference period did not result in higher average interbank rates, which remained at 0.50 per cent, equivalent to the corresponding period of the previous year.

Longer term yields continued to be influenced mainly by volatility in the US term structure, which was affected by uncertainty concerning the US Government's debt ceiling, particularly in the third quarter of 2017. Despite gaining 17 basis points over the reference period, the US 10-year Treasury bond rate displayed some variability.

The US 10-year Treasury bond rate reached 2.31 per cent at the end of June 2017, before declining to 2.12 per cent at the end of August and then rebounding to 2.38 per cent in October. The rate on the corresponding TT 10-year Treasury bond remained at 4.38 per cent over May to September 2017. The combination of these movements resulted in a long term differential that decreased from 217 basis points in May 2017 to 200 basis points in October (Chart IVb).

Chart IVb: 3-Month and 10-Year TT-US Differentials



Source: Central Bank of Trinidad and Tobago

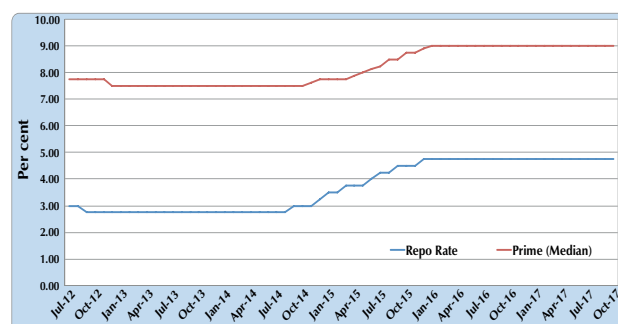
Commercial banking weighted average lending rates have remained stable thus far in 2017, reaching 8.24 per cent in June. This follows the unchanged Repo rate thus far for the year, as well as the median prime lending rate which has remained at 9.00 per cent in 2017 (**Chart IVc**). The weighted average lending rate on new loans reached a monthly average of 8.61 per cent over January to August 2017, 7 basis points higher than the average of 8.54 per cent observed for the same period a year earlier.

Growth in private sector credit is yet to signal a substantial and sustained recovery (**Chart IVd**). Lending by the consolidated financial system rose by 3.6 per cent in September 2017, compared with an increase of 2.5 per cent in May 2017. Commercial bank lending was restrained, while credit by the non-bank financial institutions declined in September 2017.

Business and consumer lending rose at a slow pace, while real estate lending maintained a moderate growth rate. Business credit rose by 0.4 per cent in September 2017, compared with 0.3 per cent in May 2017. For September 2017, the sectoral decomposition of business lending showed that loans to the other services (8.3 per cent) and finance, insurance and real estate sectors¹⁴ (15.4 per cent) remained robust, while lending to the distribution sector accelerated (4.3 per cent). As activity in the construction sector remained subdued, lending to construction companies declined¹⁵ (31.2 per cent), while the sluggish economic conditions and tighter foreign exchange supply may have affected lending to the manufacturing sector (0.7 per cent).

Lending to consumers rose at a moderate pace over the five-month period to September 2017. Credit to consumers rose by 4.5 per cent in September 2017,

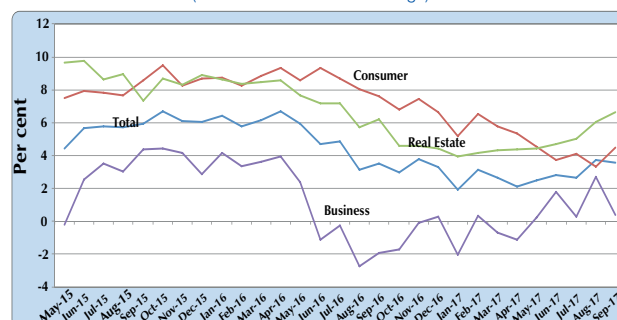
Chart IVc: Repo Rate and Commercial Banks' Median Prime Lending Rate



Source: Central Bank of Trinidad and Tobago

Chart IVd: Private Sector Credit to the Consolidated Financial System

(Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago

unchanged from May 2017. Within the consumer credit sector, lending to consumers for the purchase of motor vehicles slowed (4.2 per cent) for the seventh consecutive quarter in September 2017, while lending for home improvement and renovation was also subdued (2.4 per cent). Credit card balances (11.6 per cent) and loans for consolidation of debt (12.4 per cent) rose strongly, which may suggest that some borrowers are rationalizing their loan obligations to possibly take advantage of a lower overall interest rate.

Real estate mortgage lending rose by a robust 6.7 per cent over the five-month period to September 2017, as interest rate conditions eased. The weighted average lending rate on new mortgages fell by 22 basis

¹⁴ Some of this increase may also be due to the reclassification of a loan at one financial institution from construction to real estate.

¹⁵ Some of this decline was also due to the reclassification of a construction loan to a real estate loan at one financial institution.

points to 5.79 per cent over the period two quarters ending September 2017; the rate on new commercial mortgages fell by 44 basis points to 6.91 per cent while the rate on new residential mortgages declined by 18 basis points to 5.06 per cent. As interest rates eased, commercial mortgage loans accelerated to 7.0 per cent, while the decline in residential mortgage rates was accompanied by a pickup in residential mortgage lending (6.3 per cent). A disaggregation of residential real estate loans for September 2017 indicated faster growth of loans for existing houses (9.2 per cent), new houses (8.1 per cent) and renovation (4.1 per cent).

The decline in commercial banks' foreign currency loans to the private sector observed in early 2017 abated somewhat over the five-month period to September 2017 as foreign currency loans to businesses recovered. On a year-on-year basis, commercial banks' foreign currency loans (almost 10.0 per cent of commercial bank loans) declined by 1.8 per cent in September 2017, compared with 8.3 per cent in May 2017. Commercial banks' foreign currency loans to businesses, which comprise over 90 per cent of foreign currency loans and almost a quarter of business loans, declined by 3.4 per cent, after a falloff of 8.1 per cent in May 2017.

The decline in the main monetary aggregates continued over the five-month period to September 2017, as net domestic fiscal injections remained restrained. M-1A declined by 1.7 per cent in September 2017, compared with a decline of 1.3 per cent in May 2017. As the decline in demand deposits persisted (2.6 per cent), the marginal growth of savings (0.4 per cent) coupled with the decline in time deposits (6.8 per cent) resulted in a contraction in M-2 (-1.6 per cent).

Foreign currency deposits of the financial system (denominated in TT dollars) declined slightly over the five-month period to September 2017. On a

year-on-year basis, commercial banks and non-bank financial institutions' foreign currency deposits contracted marginally by 0.3 per cent in September 2017, compared with a decline of 0.6 per cent in May 2017. The decline was driven by businesses' foreign currency deposits (approximately 36 per cent of total foreign currency deposits), which fell by 4.9 per cent in September 2017, compared with an increase of 7.6 per cent five months earlier. Consumers' foreign currency deposits, which comprise approximately 35 per cent of total foreign currency deposits, declined by 1.0 per cent, compared with an increase of 1.5 per cent four months earlier. This suggests that the tightened foreign currency market is encouraging businesses and consumers to use their precautionary holdings.

FINANCIAL SECTOR DEVELOPMENTS

Developments in the Foreign Exchange Market

Lower energy sector conversions increased tightness in the local foreign exchange market over January to October 2017 ([Table IVb](#)). Sales of foreign currency by authorized dealers to the public over January to October amounted to US\$4,251.3 million, 9.9 per cent lower relative to the reference period a year earlier. For sales in excess of US\$20,000, reports by dealers show that foreign exchange usage was driven mainly by the retail and distribution sector (24.1 per cent), credit card sector (22.5 per cent), manufacturing (8.6 per cent), and automobile companies (5.8 per cent).

Purchases of foreign exchange from the public (except from the Central Bank) by authorized dealers over the reference period, however, amounted to US\$2,848.4 million, a 21.1 per cent decrease from the same period a year earlier. From January to September 2017, the energy sector, which has traditionally been a key source of currency for authorized dealers, accounted for 57.9

per cent of total purchases over US\$20,000. The excess of sales over purchases amounted to US\$1,402.9 million for January to October 2017. The Central Bank sold US\$1,556.0 million to the market, relative to the US\$1,352.0 million provided over January to October 2016.

In October 2017, the weighted average selling rate stood at US\$1 = TT\$6.7824, from US\$1 = TT\$6.7776 in January 2017.

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

Date	Purchases from Public	Sales to Public	Net Sales	Purchases from CBTT ¹
2013	5,802.2	7,076.4	1,274.2	1,315.0
2014	5,525.2	6,956.0	1,430.8	1,715.0
2015	4,941.3	7,382.5	2,441.2	2,640.9
2016	4,289.0	5,776.8	1,487.8	1,811.6
Jan - Oct 2016	3,611.5	4,721.1	1,109.5	1,352.0
Jan - Oct 2017	2,848.4	4,251.4	1,402.9	1,556.0
Y-o-Y Per cent Change	-21.1	-9.9	26.4	15.1

Source: Central Bank of Trinidad and Tobago

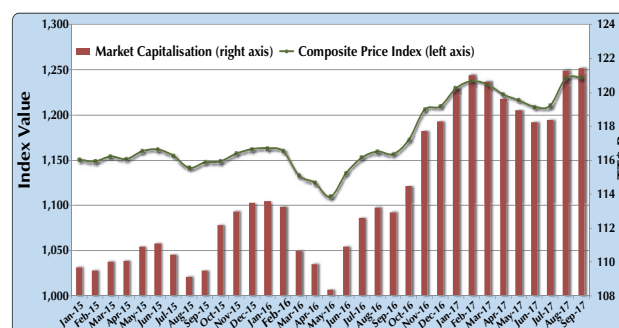
¹ Purchases from the Central Bank of Trinidad and Tobago include transactions under the Foreign Exchange Liquidity Guarantee facility

Stock Market Developments

Performance of the domestic stock market continued to be mixed during the first three quarters of 2017 (Chart IVe).

The major Composite Price Index (CPI) ended the period 2.7 per cent higher. The performance of the CPI was buoyed by the strong performance of regionally listed firms, represented by the Cross Listed Index (CLI) which advanced by 20.5 per cent over the year ending September 2017. However, the CPI also experienced some downward pressures, exerted by a 2.8 per cent decline in the All T&T Index (ATI), reflective of subdued domestic economic conditions. In line with the overall market performance, total stock market capitalization expanded by 2.7 per cent to TT\$121.4 billion.

Chart IVe: Composite Price Index and Stock Market Capitalization

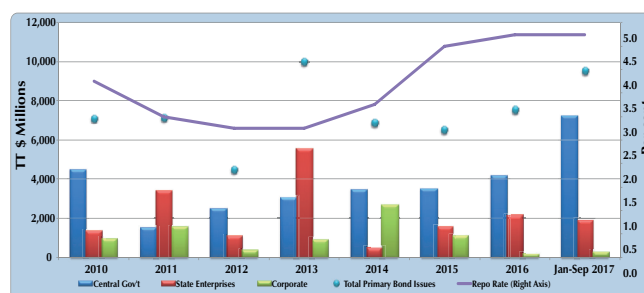


Source: Trinidad and Tobago Stock Exchange

Primary Debt Market Activity

Provisional data suggest that during the first nine months of 2017 activity on the primary debt market increased substantially when compared to the same period in 2016 (Chart IVf) and (Table IVc). Over the period January to September 2017 there were 13 primary issues at a value of approximately \$9,536.0 million compared to ten (10) primary issues at a value of roughly \$5,922.5 million in the same period one year earlier. In light of lower energy revenues, the Central Government continued to be the major borrower during the nine-month period, issuing five (5) bonds totalling \$7.2 billion. In comparison, the Central Government issued two bonds at \$3,162.9 million during the same period in 2016. Four state enterprises also accessed the domestic market financing roughly \$1,901.4 million over the period, compared to two state enterprises financing roughly \$1,567.7 million. Furthermore, during the half-year, two private sector entities accessed the market for \$284.6 million in funding compared to three private entities funding \$655.6 million in the same period in 2016.

Chart IVf: Primary Debt Security Activity



Source: Central Bank of Trinidad and Tobago

Secondary Government Bond Market Activity

Despite being significantly lower than the same period in 2016, trading activity on the secondary government bond market continued to be strong over the first nine months of 2017 (Table IVc). Over the period ending September 2017, 74 trades occurred at a face value of roughly \$499.8 million. Comparatively, during the same period in 2016, the exchange witnessed 137 trades at a face value of \$1,519.3 million.

Table IVc: Primary Debt Security Activity January – September 2017 ^p

Period Issued	Borrower	Face Value (TT\$ M)	Period to Maturity	Coupon Rate per annum (Per Cent)	Placement Type
February	Urban Development Corporation of Trinidad and Tobago Limited (UDECOTT)	39.7	9.5 years	Amortizing 5.0%	Private
	Central Government of Trinidad and Tobago	1,000.0	8.0 years	Fixed Rate 4.10%	Public Auction
March	Central Government of Trinidad and Tobago	1,500.0	0.5 years	Fixed Rate 1.70%	Private
	Telecommunications Services of Trinidad & Tobago Limited (TSTT) Tranche 1	1,000.0	12.0 years	Fixed Rate 6.01%	Private
	Tranche 2	500.0	5.0 years	Fixed Rate 5.51%	Private
	HADCO	15.0	10.0 years	Fixed Rate 4.62%	Private
	Trinidad and Tobago Mortgage Finance Company Limited (TTMF)	60.0	1.0 year	Fixed Rate 2.90%	Private
April	ANSA Coatings International - Tranche 1	202.2 (US\$30.0 Mn)	7.0 years	Fixed Rate 4.62% Amortizing	Private
May	Housing Development Corporation (HDC)	301.7	7.0 years	Fixed Rate 4.15% Amortizing	Private
June	ANSA Coatings International - Tranche 2	67.5 (US\$10.0 Mn)	7.0 years	Fixed Rate 4.62% Amortizing	Private
	Central Government of Trinidad and Tobago	1200.0	0.5 year	Fixed Rate 1.90%	Private
	Central Government of Trinidad and Tobago	1000.0	15 years	Fixed Rate 4.25%	Private
July	Home Mortgage Bank (HMB) Tranche 1	75.0	0.5 year	Fixed Rate 3.00%	Private
	Tranche 2	75.0	1.0 year	Fixed Rate 3.97%	Private
September	Central Government of Trinidad and Tobago	1,000.0	12.0 years	Fixed Rate 3.85%	Private
	Central Government of Trinidad and Tobago	1,500.0	5.0 years	Fixed Rate 4.15%	Private

Source: Central Bank of Trinidad and Tobago

p Provisional.

