



CENTRAL BANK OF
TRINIDAD & TOBAGO

Monetary Policy Report

November 2019

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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

Table of Contents

Part I	Overview and Outlook	1
Part II	International and Regional Monetary Policy Developments	7
Part III	Domestic Economic Conditions	12
Part IV	Monetary and Financial Sector Developments	27

MONETARY POLICY REPORT

NOVEMBER 2019

PART I – OVERVIEW AND OUTLOOK

Overview

Since the last Monetary Policy Report in May 2019, global economic growth has softened further due to ongoing trade policy uncertainty and rising geopolitical tensions. The International Monetary Fund (IMF) in its World Economic Outlook (WEO) October 2019, indicated that global economic activity slowed over the first half of 2019 compared with the latter part of 2018, reflecting reduced momentum in both advanced economies (AEs) and emerging market and developing economies (EMDEs). More recent data suggest a further easing of economic activity in some major economies into the third quarter. With persistently low inflation and ultra-low interest rates across many economies, secular stagnation is an emerging concern. Depressed demand conditions have prompted calls for surplus economies to ramp up fiscal spending. The WEO also identified the role of structural reforms in engendering growth. Among the AEs, economic growth in the United States (US) decelerated in the third quarter of 2019 as business spending contracted. In the United Kingdom (UK), economic growth also decelerated in the second quarter of 2019 compared to the first quarter, as the economy continued to grapple with mounting Brexit uncertainty. Economic activity in the Euro area slipped further in the third quarter of 2019 owing to a fall in exports and investment in Germany, and lower spending in France. Japan, however, posted relatively stronger growth in the first half of 2019, due to higher private and public consumption spending.

Economic growth in the EMDEs was modest over the first half of 2019 and lower than in the latter half of 2018. In India, growth was impacted by the poor performance of the agriculture and manufacturing sectors, but also

by decelerations in consumer demand and tepid business investment. Following a strong outturn in the second half of 2018, the oil-dependent Russian economy experienced lacklustre growth as mining activity and crude oil production lost traction. More recent data show China's growth momentum slipping over the first three quarters of 2019 owing to the trade frictions with the US and weaker global demand.

Economic growth in the Latin American and the Caribbean (LAC) region remained subdued in the first half of 2019, owing mainly to a variety of country-specific factors. The ongoing financial crisis in Argentina resulted in significant output contraction in that economy over the first half of 2019. Brazil experienced a slightly faster pace of growth mainly due to improved industrial activity, accommodative monetary policy and a pick-up in investment and trade. In the Caribbean, real output in Jamaica slowed in the second quarter of 2019 compared to the first, while the Barbadian economy recorded lacklustre growth in the third quarter of 2019.

Internationally, inflation generally remained subdued and below the targets set by monetary authorities in many economies. The benign inflation environment has prompted discussions among inflation-targeting central banks on the possible lowering of inflation targets to preserve monetary capacity to tackle future economic downturns. In the US thus far in 2019, inflation has been somewhat lower compared to 2018, despite higher import tariffs, suggesting a low pass-through of cost pressures to US retail prices. In the Euro area, inflation has been persistently below target in 2019, largely because of lower food and energy prices. In the UK, inflation remained depressed in September 2019 owing to low transport prices and weak consumer

spending. The high degree of economic slack in Brazil has resulted in below-target inflation in recent months. Although slightly higher in September due to a pick-up in food prices, inflation in India remained below target reflecting the general economic slowdown in this major emerging market economy. In China, despite higher meat prices, inflation has remained depressed in recent months amid the ongoing trade war with the US. In the Caribbean, inflation in Barbados began to decelerate during the second quarter of 2019 while in Jamaica the rate fell below the target range in September following five consecutive months within the target range.

Amidst softening economic growth conditions and muted inflation, major central banks either lowered their policy interest rates or held them constant. In the US, the Federal Reserve (Fed) lowered the federal funds rate by 25 basis points in October. The Fed also began purchasing short-term treasuries to keep US banks liquid. The tight liquidity in the repo market was due to a build-up of funding pressures emanating from large corporate tax payments becoming due and a surge in Treasury bond issuance in September. In the UK, the Bank of England (BoE) held its policy rate unchanged at its most recent meetings but indicated its intention to adjust policy to keep inflation at target. The BoE also voted to maintain its asset purchase programme (APP) at its October meeting. However, the European Central Bank (ECB) lowered the interest rate on its deposit facility in September 2019 but did not adjust its main refinancing facility in September as well as at its most recent meeting in October 2019. To reinforce the supportive monetary policy stance, the Governing Council of the ECB restarted its APP on November 1, 2019. Among the EMDEs, the Reserve Bank of India (RBI) lowered its repo rate in October 2019 by 25 basis points to 5.15 per cent, following a previous reduction in August. In August 2019, the People's Bank of China (PBoC) designated the Loan Prime Rate (LPR) as its new interest rate benchmark. Since its establishment,

China's new LPR was cut on two occasions to reach 4.20 per cent in September 2019, 15 basis points lower than the prior benchmark. The LPR remained unchanged in October 2019. Within the Latin American region, the Bank of Mexico and the Central Bank of Chile lowered their policy rates at their recent meetings.

Energy prices were generally lower over May to October 2019, compared to the same period a year earlier amid global trade uncertainty and geopolitical tensions. Crude oil prices fell by 18.9 per cent (year-on-year) to average US\$56.42 per barrel (West Texas Intermediate) between May and October 2019, and reached a high of US\$60.84/bbl in May. Milder weather conditions accounted for the fall in natural gas prices, which declined by 18.2 per cent (year-on-year) to average US\$2.42 per million British Thermal Units (MMBtu) over the review period.

Domestically, the energy sector experienced further setbacks in the second quarter. Natural gas production fell primarily due to production curtailments at Atlantic LNG which is a major user of natural gas. Liquefied natural gas (LNG) production declined primarily due to a maintenance shutdown and power outages at the Atlantic LNG facility in June 2019. The petrochemicals sub-sector experienced a boost in the production of ammonia and urea, largely representing a recovery from significant downtime in the comparable period the year before. Preliminary estimates for the first half of 2019 suggest that activity remained moderate in the non-energy sector. Activity declined in several crucial sub-sectors such as manufacturing and construction, while the distribution sub-sector was almost flat. There was, however, an improvement in activity in the finance sector over the review period.

Available labour market data give a mixed picture. The latest data from the Central Statistical Office (CSO) point to a fall in the unemployment rate in the first

half of 2018 relative to a year earlier, but also reveal a marked increase in the number of persons leaving the labour force. More recent data filed with the Ministry of Labour and Small Enterprise Development (MLSED) point to a year-on-year decrease (4.5 per cent) in the number of retrenched persons filed during the first nine months of 2019. At the same time, the average number of vacancies advertised in the print media decreased by 10.1 per cent (year-on-year) during the same period.

Higher energy revenues in FY2018/19 resulted in a much lower deficit than FY2017/18. Preliminary estimates from the Ministry of Finance suggest a deficit of \$3.9 billion in FY2018/19 (or 2.4 per cent of GDP) compared with \$5.7 billion (or 3.6 per cent of GDP) in FY2017/18. Total revenue was higher in FY2018/19 primarily on account of improved energy revenue. Total expenditure surpassed that of FY2017/18, owing to increases in most areas of current spending. Although expenditure rose, the substantial increase in revenues contributed to the Central Government realising a smaller deficit in FY2018/19.

Headline inflation has remained well contained so far in 2019, and stood at 1.1 per cent (year-on-year) in September 2019. In that month, food inflation rose to 1.5 per cent from 0.5 per cent at the start of the year, driven by higher prices for vegetables. Food inflation was otherwise contained given the subdued price movements in imported food, which accounts for a large proportion of the food sub-index. Core inflation slowed to 1.0 per cent in September from 1.6 per cent in January 2019, reflecting slower price increases in the home-ownership, transport and the hotels, cafes and restaurants sub-indices. Similarly, price movements at the producer level have been subdued amidst stable demand conditions.

The Monetary Policy Committee (MPC) of the Central Bank has maintained the Repo rate at 5.0 per cent thus far in 2019. In its meetings held in June and September,

the MPC noted that although inflation remained well contained, activity in key non-energy sectors of the domestic economy had not yet reflected substantial spillover effects of increased Government capital spending. In addition, private sector business credit had not recovered markedly. In its deliberations at the September meeting, the MPC noted the slowing global economy and the actions to lower policy rates by major central banks. The reductions in interest rates by the Fed in July and September contributed to reducing the gap between the domestic and US treasury rates. Taking both internal and external factors into account, the MPC agreed to maintain the Repo rate at the 5.0 per cent level at both meetings.

The Bank also carefully managed liquidity conditions to meet the changing requirements of the domestic financial system. In doing so, the Bank took into consideration public sector financing requirements and credit and inflationary conditions over the period May to October 2019. The Bank, via open market operations, injected a substantial amount of liquidity (almost \$5.7 billion) into the financial system compared with the same period one year earlier in light of Government's capital market activity. Over the period, inter-bank activity was low, and the Repurchase facility was not accessed given the ample liquidity conditions that prevailed.

Private sector credit granted by the consolidated financial system continued its moderate pace of expansion over recent months. In the five months to August 2019, growth in private sector credit continued to be supported by consumer and real estate mortgage lending. Much of this consumer lending was related to refinancing and debt consolidation. Real estate mortgage lending remained the primary driver of financial system credit to the private sector. Business lending remained weak, especially to the construction and manufacturing sub-sectors.

The local foreign exchange market remained relatively tight over the first ten months of 2019. Purchases from the energy sector by the authorised dealers were higher on a year-on-year basis in the first ten months of 2019, contributing to the increase in overall market inflows. Despite this, sales of foreign currency by authorised dealers outstripped total market purchases. The Central Bank maintained a similar level of support to the market via foreign exchange sales to authorised dealers as it did in the same period a year earlier while the exchange rate remained steady. The country's gross official reserves stood at US\$7,110.0 million at the end of October 2019 compared with US\$7,575.0 million at the start of the year.

Outlook

Global economic growth is expected to weaken further over the rest of 2019. A number of headwinds weighing on the global growth momentum include the ongoing trade tensions between the US and China, a protracted Brexit scenario, and rising geopolitical tensions, which can impact crude oil prices. These issues prompted the IMF to revise its forecast for world output growth downwards by 0.3 percentage point to 3.0 per cent for 2019 (WEO, October 2019) compared to its April 2019 forecast. Many central banks have already taken steps to mitigate the impact on their economies. In the US, the Fed indicated a pause in further interest rate cuts in late 2019 while several other central banks have adopted a dovish monetary policy stance. The central banks in the UK and Euro area are likely to lower their interest rates over the short-term to deal with their slowing economies. Several EMDE central banks have likewise signalled further interest rate cuts depending on inflation dynamics.

Global growth prospects for 2020 are more favourable at 3.4 per cent (WEO October 2019) presuming progress towards calming trade frictions. The IMF forecast reflects a combination of a stable growth outturn for the AEs and a recovery in the EMDEs. As for the LAC region, economic output is anticipated to rebound to 1.8 per cent in 2020. The pick-up in 2020 in the LAC region is predicated on gradual growth in Brazil and a recovery in Argentina.

In Trinidad and Tobago, economic activity could improve in the latter part of 2019 if there is a normalisation of natural gas production following temporary disruptions at mid-year. The Ministry of Energy projects a rise in natural gas production to around 3.8 billion standard cubic feet per day (bcf/d), aiding the rejuvenation of downstream refining and strengthening petrochemicals production. LNG production, which was interrupted in June by maintenance activity and power outages at the Atlantic LNG facility, is likely to normalise in the second half of 2019. On the other hand, energy and energy-based companies are continuing to rationalise their operations in the face of increasing global competition and refinery operations have not yet restarted.

Outside of the energy sector, end-of-year seasonal demand is expected to boost distribution, while the acceleration in the pace of implementation of Government infrastructure works will spillover into construction activity. The response of private investment will be key to determining how fast the non-energy economy recovers. Examination of the dynamics of bank liquidity and credit to private businesses suggests that there has so far been limited crowding out by the public sector on private sector access to credit. Over the course of the FY2019/20 however the public

sector domestic borrowing requirements are expected to be substantial, leading financial institutions to further increase their concentration in Government instruments. Mild inflationary impulses may emerge over the short-term. Some recent measures identified in the Budget FY2019/20, such as higher wages could result in higher demand. However, the spare capacity in

the economy may limit demand-pull inflation. Overall, unlocking the potential of the non-energy sectors via structural reforms that enhance the ease of doing business, reduce administrative and other bottlenecks to investment, and engender more flexibility in market responses to global competition will go a long way to fostering durable growth.

Table Ia: Trinidad and Tobago: Summary of Economic Indicators

	2017	2018	Jan-Oct 2018	Jan-Oct 2019
Real Sector Activity				
Gross Domestic Product (GDP) ¹	152.4	161.2	-	-
GDP at Current Market Prices (TT\$ Billions)	-2.3	-0.2	-	-
Real GDP Growth (%)				
Energy Sector				
Total Depth Drilled (metres)	121,396.4	110,181.5	58,155.8*	44,641.0*
Crude Oil Production (b/d)	71,839.4	63,533.3	67,096.1*	59,312.7*
Crude Oil Exports (000 bbls)	9,971.7	8,047.0	5,404.6*	12,856.0*
Refinery Throughput (b/d) ²	130,788.8	118,617.2	129,111.7*	0.0*
Natural Gas Production (mmcf/d)	3,356.2	3,585.1	3,679.9*	3,661.9*
Natural Gas Utilisation (mmcf/d)	3,178.0	3,378.0	3,471.9*	3,486.6*
LNG Production (000 cubic metres)	25,072.8	28,449.5	21,370.6**	21,718.6**
Fertiliser Production (000 tonnes)	5,595.0	5,431.1	3,223.6*	3,474.2*
Fertiliser Exports (000 tonnes)	5,140.8	4,924.3	2,969.2*	3,105.3*
Methanol Production (000 tonnes)	4,974.9	5,081.3	3,003.5*	3,260.5*
Energy Commodity Price Index (ECPI) (Jan 2007 = 100)	83.5	99.0	99.6**	83.9**
Non-Energy				
Local Sales of Cement (000 tonnes)	497.3	483.8	376.8**	378.4**
Vehicles Registered	25,671.0	24,073.0	19,628.0	20,345.0
Average Daily Job Vacancy Advertisements	451.0	357.0	371.0	331.0
Prices (Average)				
	<i>Year-on-Year per cent change</i>			
Producer Prices	1.9	-0.3	-0.6***	0.5***
Headline Inflation	1.9	1.0	1.0**	1.2**
Food Inflation	2.9	1.1	1.5**	0.9**
Core Inflation	1.6	1.0	0.9**	1.3**
Monetary (End-of-Period)				
	<i>Year-on-Year per cent change</i>			
Private Sector Credit	4.6	4.3	6.7 ^	4.2 ^
Consumer Lending	5.1	6.0	8.2 ^	6.4 ^
Business Lending	1.3	0.2	3.0 ^	-2.9 ^
Real Estate Mortgages	8.0	6.6	9.1 ^	8.3 ^
M-1A	-3.0	2.2	4.0 ^	-2.9 ^
M-2	-2.1	3.1	1.3 ^	1.6 ^
Commercial Banks' Daily Average Excess Reserves (TT\$ Millions)	3,060.6	3,254.3	3,219.6	3,702.0
TT 91-day Treasury Bill Rate (End of Period; Per Cent)	1.21	1.30	1.30	1.08
Fiscal (Fiscal Year)				
Overall Fiscal Balance (TT\$ Millions)	-13,531.4	-5,696.8 ^r	n.a.	-3,944.6 ^{re ^ ^}
Overall Fiscal Balance to GDP	-8.9	-3.6	n.a.	-2.4 ^ ^
Financial Stability - Commercial Banks				
Non-Performing Loans to Gross Loans (Per Cent)	2.9	3.1	3.3 ^	3.1 ^
Capital Adequacy Ratio (Per Cent)	21.0	20.9	22.6 ^	21.5 ^
Capital Market				
Composite Price Index (1983 = 100; End of Period)	1,266.4	1,302.5	1,226.9	1,402.9
Volume of Shares Traded (Millions)	84.6	72.3	61.4	62.7
Mutual Funds Under Management (TT\$ Billions)	43.2	44.2	44.3 ^ ^ ^	46.2 ^ ^ ^
External				
	<i>US\$ millions</i>			
Authorised Dealers Sales of Foreign Exchange to Public	5,195.3	5,677.4	4,618.8	5,016.6
Authorised Dealers Purchases of Foreign Exchange from Public	3,606.9	4,101.4	3,326.4	3,608.7
CBTT Sales to Authorised Dealers	1,816.0	1,501.0	1,285.0	1,270.1
Net Official Reserves (End of Period)	8,369.8	7,575.0	7,430.4	7,110.0

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

1 GDP at current market prices and real GDP growth are sourced from the Central Statistical Office (CSO).

2 Petrotrin's Refinery was closed in November 2018.

* For January to July.

** For January to September.

*** For January to June.

^ As at August.

^ ^ For October to September.

^ ^ ^ As at June.

r Revised.

re Revised estimates.

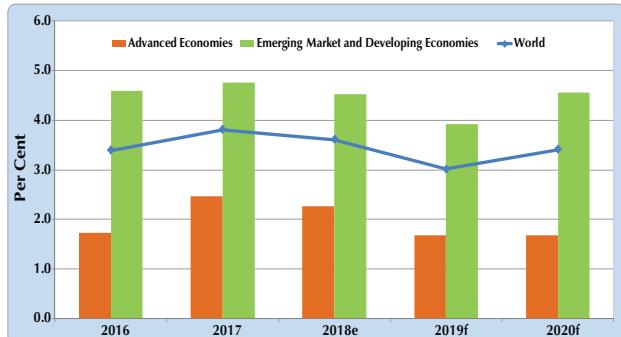
PART II – INTERNATIONAL AND REGIONAL MONETARY POLICY DEVELOPMENTS

Global growth continued to soften during the first half of 2019, held back by a deceleration in trade and investment amid policy uncertainty emanating from trade tensions between US and China and the nearing Brexit deadline. Against this backdrop, the IMF, in its October 2019 WEO downgraded its global growth forecast to 3.0 per cent for 2019, 0.3 percentage points lower than its April 2019 forecast (**Chart IIa**). Slower global growth resulted in a more dovish stance by major central banks as policy interest rates were either lowered or kept steady during the third quarter of 2019 (**Chart IIb**). Meanwhile, central banks in the LAC region have kept monetary policy supportive. Global inflationary pressures remained generally subdued and below the target levels of some major central banks due to depressed consumer spending and low pass-through of import tariffs to domestic prices in some countries.

Advanced Economies

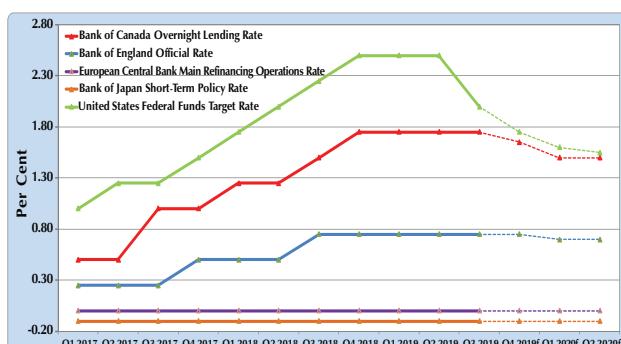
The Fed lowered the target range for the federal funds rate by 25 basis points to 1.50 to 1.75 per cent in October 2019 amid moderate economic growth, muted inflationary pressures and a strong labour market. This followed a similar 25 basis point reduction in September 2019 and represented the Fed's third rate cut since the financial crisis over a decade ago. US economic activity continued to slow in the third quarter of 2019, by 2.0 per cent (year-on-year), as softening business investment signalled a possible slowdown (**Chart IIc**). Inflation, measured by the

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



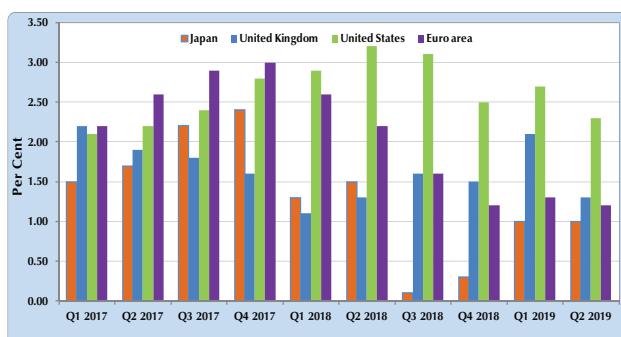
Source: International Monetary Fund, World Economic Outlook, October 2019

Chart IIb:
Selected Advanced Economies – Policy Rates
(Per Cent)



Source: Bloomberg

Chart IIc:
Selected Advanced Economies - Real GDP Growth
(Year-on-Year Per Cent Change)



Source: Bloomberg

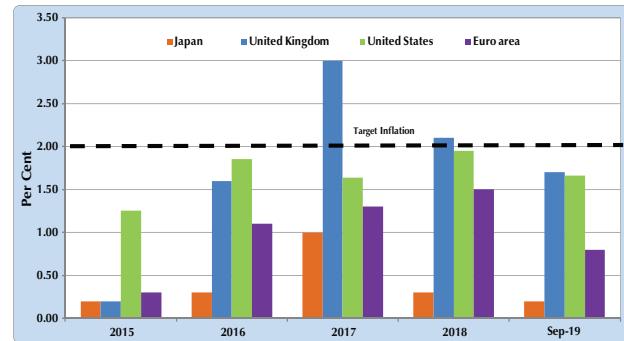
Core Personal Consumption Expenditure Price Index (PCEPI), remained below the Fed's 2.0 per cent target in September 2019 despite increased input costs faced by some US firms from the imposition of import tariffs. However, prices of retail goods were likely to increase with the new wave of tariffs impositions by President Trump on Chinese goods. President Trump has targeted an annual US\$300.0 billion in goods imports from China for increased tariffs in two stages starting on September 1 and December 15, 2019¹. Also, on October 15, 2019, President Trump announced increased tariffs (to 30.0 per cent from 25.0 per cent) on an additional \$250.0 billion of Chinese imports.

Meanwhile, the ECB maintained the rate on its main refinancing operations at zero per cent in its October 2019 monetary policy meeting. This follows a 10 basis point reduction of the interest rate on the deposit facility to -0.5 per cent one month earlier. The ECB underscored the need for a highly accommodative monetary policy for a prolonged period as inflation has been persistently below its 2.0 per cent target. The ECB restarted its asset purchase programme (APP) at a monthly pace of €20.0 billion (US\$22.0 billion) on November 1, 2019. In addition, the new series of the ECB's quarterly Targeted Longer-Term Refinancing Operations (TLTRO III) will be adjusted to preserve favourable bank lending conditions². Economic growth in the Euro area has slowed since mid-2018, decelerating to 1.1 per cent (year-on-year) in the third quarter of 2019 from 1.3 per cent and 1.2 per cent in the first two quarters respectively. The projected slowdown in economic activity resulted in plans for limited tax cuts, and spending increases in Germany, France, and Italy. However, consumer spending remained resilient, supported by growing employment and solid wage growth.

In September 2019, the Bank of England (BoE) maintained its key monetary policy rate at 0.75 per cent. It also kept the stock of Sterling non-financial investment-grade corporate bond purchases at £10.0 billion (US\$12.2 billion) and the stock of UK Government bond purchases at £435.0 billion (US\$530.7 billion). The BoE indicated that future monetary policy will depend on the effects of Brexit on demand, supply and the exchange rate over time. Ongoing Brexit-related uncertainties have weighed on business investment and, along with weaker global net trade, have seen year-on-year economic activity in the UK decelerate to 1.3 per cent in the second quarter of 2019 from 2.1 per cent in the first quarter. Inflation fell below the 2.0 per cent inflation target in September 2019, unchanged from the previous month and to its lowest since December 2016. The BoE anticipates inflation to remain slightly below target in the near term (**Chart IIId**). Although the UK Parliament advanced Prime Minister Boris Johnson's Brexit legislation on October 22, 2019, the timeline for approval of the deal (October 31, 2019) was rejected³. However, the European Union agreed to delay Brexit until January 31, 2020. More recently, the Members of the UK Parliament voted in favour of the Prime Minister's bid for a snap general election, which is scheduled for December 12, 2019⁴.

Chart IIId: Selected Advanced Economies - Headline Inflation

(Year-on-Year Per Cent Change)



Source: Bloomberg

* Core PCE price index.

¹ On September 1, 2019, President Trump increased import tariffs to 15.0 per cent from 10.0 per cent on US\$112.0 billion worth of Chinese imports. In addition, the Trump administration is proposing a second round of 15.0 per cent tariffs on roughly \$160.0 billion of Chinese imports on December 15, 2019.

² The interest rate of the ECB's quarterly Targeted Longer-Term Refinancing Operations (TLTRO III) will now be set at the level of the average rate applied in the Euro system's main refinancing operations over the life of the respective TLTRO.

³ The UK Parliament backed the Brexit deal in principle by voting for the second reading of the Withdrawal Agreement Bill by 329 to 299. However, Members of Parliament rejected the "timetable motion" of October 31, 2019 by 322 votes to 308.

⁴ On October 29, 2019, in an overwhelming vote of 438 to 20, the House of Commons backed Prime Minister's bid for an early election on December 12, 2019.

The authorities in Japan have kept monetary policy rates unchanged in October 2019 in light of subdued economic growth and low inflation. The Bank of Japan (BOJ) held its short-term interest rate steady at -0.1 per cent. Regarding long-term interest rates, the BOJ will continue its purchase of Japanese Government bonds (JGBs) so that 10-year JGB yields hover at around 0.0 per cent. Given the recent slowdown in overseas economies and their increasing downside risks, the BOJ anticipates that short and long-term interest rates would remain at present or lower levels as long as needed. Real GDP growth in Japan was unchanged at 1.0 per cent (year-on-year) over the first two quarters of 2019 and, owing to the falling cost of food, transportation and communication, inflation remained below target. However, an increase of 2 percentage points in the consumption tax rate, which took effect on October 1, 2019, could generate inflationary impulses and falling consumer spending.

Emerging Market and Developing Economies

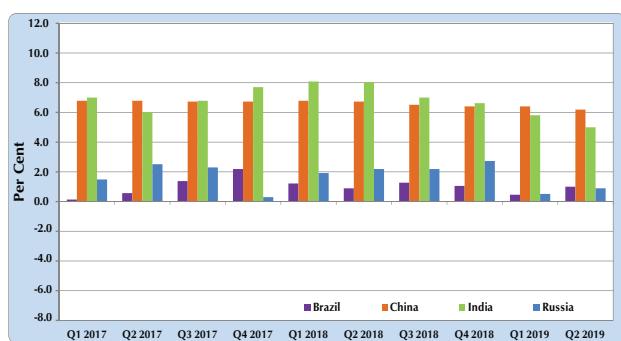
Financial conditions have eased, but this has not yet translated into improved economic performances for EMDEs. Sizeable spare capacity in Brazil continued to produce lower-than-expected inflation rates. As such, in October 2019, the Central Bank of Brazil adjusted its overnight interbank interest rate, the Sistema Especial de Liquidação e Custodia (SELIC) rate, downward by 50 basis points to 5.0 per cent. This follows a similar size reduction in the previous month to promote a sustainable economic recovery and higher inflation which, despite the acceleration in the cost of transportation and housing, remained below its target⁵. The improved performance of the services

sector and the rebound in agriculture and industrial activities underpinned the economic expansion of 1.0 per cent (year-on-year) in the second quarter of 2019 compared to the previous quarter (**Chart IIe**).

In October 2019, the Reserve Bank of India (RBI) lowered its benchmark repo rate by 25 basis points to 5.15 per cent, following a 35 basis point reduction in August 2019. This was the RBI's fifth consecutive rate cut for 2019. Despite the reductions in the interest rates by the RBI, inflation has been consistently below its medium-term target. Furthermore, India's year-on-year real GDP growth in the second quarter of 2019, at 5.0 per cent, was its lowest since the first quarter of 2013. The slowdown was led by sub-par performances in the manufacturing and construction sectors.

Similarly, in the third quarter of 2019, real GDP growth in China decelerated to its weakest pace in 27 years (6.0 per cent). Amid the restrained economic performance, the People's Bank of China (PBoC) reformed its monetary policy strategy to lower financing costs and stimulate economic activity. In August 2019, the PBoC designated the Loan Prime Rate (LPR)⁶ as

Chart IIe:
BRIC Countries - Quarterly Real GDP Growth
(Year-on-Year Per Cent Change)



Source: Bloomberg

⁵ Central Bank inflation target rates and ranges for selected emerging market and developing economies: China (3.0 per cent), Brazil (4.25 +/-1.5 per cent), India (4.0+/-2.0 per cent).

⁶ On August 17, 2019, the People's Bank of China (PBoC) designated the Loan Prime Rate (LPR) as its new benchmark interest rate. The Loan Prime Lending Rate (LPR) is based on a weighted average of lending rates from 18 commercial banks, which will submit their LPR quotations, based on what they have bid for PBoC liquidity in open market operations, to the national interbank funding center on the 20th of every month.

its new lending benchmark rate, replacing the PBoCs benchmark one-year lending rate. The LPR is the rate that banks offer to their best clients. The PBoC requires lenders to price new loans based on the LPR - a move that is expected to align rates more closely to market-determined rates and lower financing costs for private companies. The LPR was introduced at 4.25 per cent, 10 basis points lower than the previous benchmark lending rate. More recently, in October 2019, the LPR was maintained at 4.2 per cent after it was lowered by 5 basis points in September.

Several central banks in the Latin American region either maintained or lowered their key policy rates in recent months amid the low-growth, low inflation environment. In its September 2019 monetary policy meeting, the Bank of Mexico reduced benchmark interest rates to 7.75 per cent. More recently, in October 2019, the Central Bank of Colombia and the Central Reserve Bank of Peru maintained their interest rates at 4.25 per cent and 2.5 per cent respectively. Concurrently, the Central Bank of Chile lowered its benchmark interest rate by 25 bps to 1.75 per cent - the third rate cut for 2019 - bringing borrowing costs to its lowest since 2010 ([Table IIa](#)).

The Caribbean

Notwithstanding the occurrence of a few significant weather-related events, the performance of CARICOM economies is generally improving. The Bank of Jamaica (BoJ) maintained its policy interest rate at 0.5 per cent in September 2019, keeping borrowing costs at a historic low. This decision followed the BOJ's fourth rate reduction for the year in August 2019 and was deemed appropriate to achieve its medium-term inflation target. At 3.4 per cent (year-on-year) in September, Jamaica's inflation rate fell below its 4.0 to 6.0 per cent target range after five consecutive months of within target inflation as prices slowed for food and non-alcoholic beverages, and clothing and footwear. Meanwhile, economic activity moderated to 1.3 per cent (year-on-year) in the second quarter of 2019, down from 1.7 per cent in the previous quarter, on account of contractions in primary activity, construction and utilities. This was Jamaica's weakest growth rate since the fourth quarter of 2017. Jamaica completed its three-year Stand-By Agreement with the IMF on November 8, 2019⁷.

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

	Current Rate ¹	Last Change	Amount of Change
Chile	1.75	Oct. 2019	-0.25
Colombia	4.25	Apr. 2018	-0.25
Peru	2.50	Aug. 2019	-0.25
Mexico	7.75	Sep. 2019	-0.25
Brazil	5.00	Oct. 2019	-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 November 4, 2019.

⁷ IMF Board approved a three-year Stand-By Agreement for US\$ 1.64 billion (SDR1,195.3 million) on November 11, 2016. The program follows the successful Extended Fund Facility Agreement.

Meanwhile, the Barbadian economy continued to progress under the Barbados Economic Recovery and Transformation (BERT) programme, with public finances, public debt and improvements in international reserves. However, real economic activity disappointed with a contraction of 0.2 per cent (year-on-year) during the nine-month period, compared to 0.3 per cent (year-on-year) over a similar period one year earlier, due to delays in private sector investments, low public sector capital spending and weaker tourism activity. In particular, third-quarter economic activity was lacklustre as the improvement in tourism, and business and other services only partially offset declines in other activities. Value Added Tax on the tourism sector, particularly accommodation, is expected to be raised to 10.0 per cent from 7.5 per cent, effective January 2020. Barbados' international reserves continued to recover, registering US\$1.2 billion (15.6 weeks of import cover) at the end of September 2019, up US\$226.4 million since December 2018. The improvement in reserves is reflective of lower debt service outflows (linked to the suspension of commercial external debt service), and receipt of the second loan disbursement under the programme⁸. In October 2019, the Government of Barbados and the Barbados External Credit Committee jointly announced an agreement to exchange certain of the Government's US-dollar denominated debt for new bonds to be issued by Barbados.

In other developments, Guyana's economic prospects brightened further as commercial oil reserves increased following a discovery at the Jethro-1 well drilled⁹ in August 2019 and Joe-1 well drilled¹⁰ in September 2019 on the Orinduik Block by Tullow Guyana B.V. Additionally, in September 2019, ExxonMobil made an oil discovery on the Stabroek Block offshore Guyana at the Tripletail-1 well¹¹ in the Turbot area. The IMF, in its October 2019 WEO, projects Guyana's economy to grow by 85.6 per cent in 2020, following a potential outturn of 4.4 per cent in 2019, due to the expected growth in oil production. Meanwhile, the Bahamas received US\$12.8 million from the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCIF SPC) following the passage of Hurricane Dorian on September 1-3, 2019¹². The Bahamas has three tropical cyclone policies with the CCIF - North West, South East and Central. The widespread devastation caused by Hurricane Dorian in the northern part of the 700-island archipelago triggered the tropical cyclone policy for the North West Zone, which includes the Abaco Islands and the Grand Bahama.

⁸ On June 24, 2019, the Executive Board of the International Monetary Fund completed its first review of Barbados's economic reform supported under the Extended Fund Facility. The completion of the review allows the authorities to draw the equivalent of SDR 35 million (US\$48.7 million), bringing total disbursements to SDR 70 million (approximately US\$97.4 million).

⁹ The Jethro-1 was drilled by the Stena Forth drillship to a Total Depth of 4,400m metres in approximately 1,350 metres of water. Tullow Guyana B.V. is the operator of the Orinduik block with a 60.0 per cent stake. Total E&P Guyana B.V. holds 25.0 per cent with the remaining 15.0 per cent being held by Eco(Atlantic) Guyana Inc.

¹⁰ The Joe-1 exploration well was drilled by the Stena Forth drillship to a total depth of 2,175 metres in water depth of 780 metres.

¹¹ Tripletail-1 encountered approximately 108 feet (33 meters) of a high-quality oil bearing sandstone reservoir. Tripletail-1, drilled in 6,572 feet (2,003 meters) of water, is located approximately 3 miles (5 kilometers) northeast of the Longtail discovery.

¹² The Bahamian Government received US\$11,527,151 from the triggering of its tropical cyclone policy and US\$1,297,002 from its excess rainfall policy for the North West Zone.

PART III – DOMESTIC ECONOMIC CONDITIONS

According to the Central Bank's Quarterly Index of Real Economic Activity (QIEA), energy sector output was lower year-on-year by 3.4 per cent in the first six months of 2019¹³. This was driven by the lower output of crude oil and liquefied natural gas (LNG) over the period. Additionally, non-energy sector activity fell marginally. A better-than-anticipated revenue outturn aided Government's position resulting in a smaller fiscal deficit for FY 2018/19. Inflation remained contained during the first nine months of 2019. In the financial markets, falling US short-term interest rates resulted in the TT-US short-term differential improving in recent months.

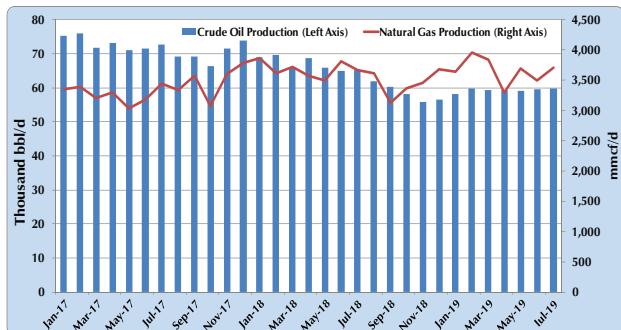
a) Real Economic Activity

Indicators of economic activity monitored by the Central Bank suggest that output in the energy sector fell off in the first half of 2019 (3.4 per cent year-on-year). During the period, the sector experienced setbacks—particularly in the second quarter—which affected natural gas, crude oil and LNG production (**Chart IIIa**). After being boosted in the first quarter by the coming on stream of the Angelin facility in February 2019, natural gas production turned downward in the second quarter as a result of temporary production outages at a major user of natural gas. For the first half of the year, therefore, total natural gas production declined by 0.7 per cent to 3,654 million standard cubic feet per day (mmscf/d). Crude oil output fell by 12.1 per cent to an average of 59,218 barrels of oil per day (bopd), largely reflecting inadequate investment in the industry over time, especially given the mature nature of the acreage. As crude oil production continued

to decline, depth drilled also retreated by 22.6 per cent, which occurred alongside a fall of 16.6 per cent in rig days. Refining activity contracted by 17.7 per cent due to the closure of the Petrotrin refinery, and lower LNG production. LNG output declined by 1.3 per cent owing to scheduled maintenance at the production facilities, and a power outage in June 2019. Conversely, real activity in the petrochemicals sub-sector grew by 6.2 per cent owing to an increase of 9.3 per cent in ammonia production and a 4.3 per cent rise in methanol production. Urea production declined marginally (0.5 per cent).

In the non-energy sector, preliminary estimates suggest some improvement in the finance sub-sector during the first six months of 2019. The finance sector experienced a pick-up of 1.4 per cent on account of growth in the commercial banks, non-bank financial institutions, insurance and real estate and dwellings sub-sectors. Economic activity in the distribution sector grew marginally over the first half of 2019, as evidenced by an increase in CSO's Retail Sales Index. While there were higher sales of hardware and construction materials

Chart IIIa:
Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Industries

¹³ The CSO is the official source of National Accounts (GDP) data in Trinidad and Tobago. The Bank compiles a Quarterly Index of Real Economic Activity (QIEA) to gauge short-term economic activity. The QIEA differs from the CSO's national accounts statistics in terms of methodologies and coverage. The QIEA is based on production indicators, excludes price effects and does not comprehensively cover all sub-industries measured by the CSO. For further details on the QIEA methodology and differences in the data see Box 2 of the March 2017 Economic Bulletin - <https://www.central-bank.org.tt/sites/default/files/reports/ECONOMIC%20BULLETIN%20March%202017.pdf> (pages 19-20) and Public Education Statement – November 2016 - https://www.central-bank.org.tt/sites/default/files/press_releases/MPR-GDP%2014_11_16_0.pdf.

See link to the CSO's quarterly National Accounts (GDP) data <https://cso.gov.tt/subjects/national-accounts/>

(5.1 per cent), vehicle fuels (13.7 per cent), household appliances, furniture and furnishings (21.4 per cent) and dry goods (3.9 per cent), these increases were partially offset by lower sales in major retail categories such as supermarkets and groceries (5.5 per cent) and motor vehicles and parts (0.3 per cent). On the other hand, economic activity in the construction sector is estimated to have eased by 0.6 per cent based on lower sales of cement and mined aggregates. During the period, construction sector activity may have gained only minor impetus from the Public Sector Investment Programme due to the slower-than-anticipated pace of execution. In the manufacturing sector¹⁴, early estimates suggest that economic activity decreased by 2.6 per cent. Lower levels of activity were reported in the Food, Drink and Tobacco (0.9 per cent), the construction-related Chemicals and Non-metallic Minerals (8.6 per cent), and the Printing and Publishing (7.9 per cent) sub-sectors. Meanwhile, in the electricity and water sector, the closure of the Petrotrin refinery, which was a large consumer of electricity, contributed to the decline in electricity generation and the harsh dry season led to a fall in water production in the first half of 2019.

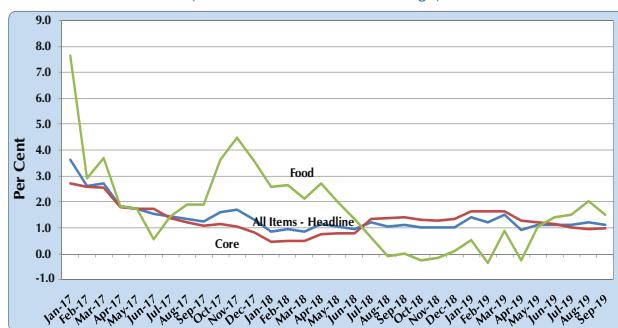
b) Retail Prices

Restrained consumer demand and low international food prices have underpinned a trend of low and stable inflationary conditions throughout 2019 ([Chart IIIb](#)). Consumer spending, as gleaned from the retail sales data produced by the Central Statistical Office (CSO), remains subdued while the Food and Agriculture Organisation of the United Nations (FAO) Food Price Index, which tracks the movement of international food prices, averaged an increase of 0.8 per cent during April to September 2019. Data from the CSO shows

that headline inflation was well contained over the same period, averaging 1.1 per cent (year-on-year) and peaking at 1.2 per cent in August ([Table IIIa](#)). Core inflation, which omits the traditionally volatile food component, measured 1.3 per cent in April but slowed progressively to 1.0 per cent in September 2019. On the other hand, though food inflation remained low, it showed signs of resurgence as the year progressed; food inflation measured 2.0 per cent in August from -0.3 per cent in April.

Core inflation was notably impacted by faster price increases in the health sub-index, which measured 6.5 per cent in September 2019 compared to 5.2 per cent in April 2019. This was primarily on account of faster price increases in the cost of medical services (10.5 per cent in September compared to 5.8 per cent in April); and spectacles (10.3 per cent in September compared to 5.0 per cent in April). The health sub-index peaked in July, measuring 6.6 per cent. Core inflation was also influenced by slower price increases in the housing sub-index (0.1 per cent in September compared to 0.7 per cent in April). This was driven largely by a decline in costs associated with homeownership. Additionally, slower price increases in the hotels, restaurants and

Chart IIIb:
Index of Retail Prices
(Year-on-Year Per Cent Change)



Source: Central Statistical Office

¹⁴ The Manufacturing sub-sectors are food, drink and tobacco, chemicals and non-metallic minerals, assembly type and related industries, printing & publishing, wood and related products, textiles, garments and footwear and miscellaneous manufacturing.

cafes sub-index, along with the communication sub-index, aided the overall slowdown in core inflation. The former measured 2.2 per cent in April and slowed to 1.6 per cent in September as all categories of the sub-index incurred slower price increases. The communication sub-index (0.3 per cent in September compared to 0.4 per cent in April) was affected by slower price increases for mobile phones and accessories.

Food inflation averaged 1.2 per cent over the period April to September 2019. Following a decline in food prices at the beginning of the period, food inflation increased progressively through August 2019 to 2.0 per cent, its highest level since May 2018. Food inflation slowed a bit thereafter, to 1.5 per cent in September 2019. Food inflation over the period was mainly driven by persistent and significant price increases in the vegetables sub-index. Vegetable price changes moved from -3.0 per cent in April to 10.9 per cent in August, driven mainly by increases in the price of fresh vegetables (lettuce, cabbage, ochroes, tomatoes, etc.). Strong growth in this sub-sector can be attributed to the harsh weather conditions experienced earlier in 2019. Meat prices fluctuated over the six months with growth in the sub-index averaging 0.6 per cent. Several sub-indices recorded persistent price declines over the period including bread and cereals and fruits.

Producers' Prices and Building Material Prices

Price developments on the wholesale level also reflected the generally subdued inflationary environment. Producer prices, as measured by the CSO's Producer Price Index (PPI), increased by 0.8 per cent (year-on-year) during the second quarter of 2019 compared with an increase of 0.2 per cent (year-on-year) during the previous quarter. Most of the sub-indices recorded minimal price growth. Meanwhile, the Index of Retail Prices of Building Materials increased by 0.2 per cent (year-on-year) during the third quarter of 2019 reflecting higher costs associated with plumbing and plumbing fixtures (1.7 per cent), site preparation and structure (1.4 per cent) and windows, doors and balustrading (0.6 per cent). On the other hand, price declines were recorded in electrical installation (0.7 per cent) as well as walls and roof (0.3 per cent).

Table IIIa: Index of Retail Prices
(Per Cent Change)

	January 2015 = 100	Year-on-Year		
		Weights	Aug-19	Sep-19
Headline Inflation		1000	1.2	1.1
Food and Non-Alcoholic Beverages	173	2.0	1.5	
Bread and Cereals	33	-0.5	-0.5	
Meat	31	-0.4	0.3	
Fish	11	-1.8	1.1	
Vegetables	24	10.9	6.6	
Fruits	6	-1.6	-1.8	
Milk, Cheese and Eggs	21	0.8	0.7	
Butter, Magerine, Edible Oils	10	0.9	0.5	
Sugar, Jam, Confectionery, etc.	6	-1.7	-2.2	
Food Products NEC	13	8.7	6.0	
Non-Alcoholic Beverages	18	0.9	1.2	
Core Inflation	827	1.0	1.0	
Alcoholic Beverages and Tobacco	8.7	2.7	2.4	
Clothing and Footwear	56.7	-3.1	-3.0	
Furnishings, Household Equipment and Routine Maintenance	67.2	0.0	0.0	
Health	40.6	6.1	6.5	
Of which: Medical Services	10.4	10.5	10.5	
Housing, Water, Electricity, Gas and Other Fuels	274.6	0.1	0.1	
Of which: Rent	21.5	2.0	2.0	
Home Ownership	193.3	0.0	0.0	
Education	9.9	0.0	0.0	
Recreation and Culture	65.5	0.0	0.0	
Hotels, Cafes and Restaurants	24.9	1.6	1.6	
Transport	147.4	2.0	2.0	
Communication	45.1	0.3	0.3	
Miscellaneous Goods and Other Services	85.9	3.1	3.1	

Source: Central Statistical Office

c) Labour Market

Latest official labour market statistics from the CSO indicate that the unemployment rate declined to 3.8 per cent during the first half of 2018 compared with 4.9 per cent during the same period of 2017. On a year-on-year basis, total employment fell by 900 persons, while the labour force contracted by 8,500 persons. This resulted in a decline in the labour force participation rate to 58.7 per cent over the first half of 2018 compared with 59.7 per cent during the corresponding period of 2017. The continued decline in the labour force participation rate is a source of concern since this has implications for future economic prospects. More recent data filed with the Ministry of Labour and Small Enterprise Development (MLSED)¹⁵ indicate a substantial increase in the number of retrenchments¹⁶. In particular, approximately 500 persons were retrenched in the telecommunications sector in December 2018.

Available information on retrenchments and advertised job openings suggest a slack¹⁷ labour market during the first three quarters of 2019. Retrenchment notices decreased by 4.5 per cent to total 879 persons compared with 920 persons in the same period one year earlier. Most of the retrenchments in 2019 occurred in the construction (206 persons), petroleum and gas (183 persons), manufacturing (155 persons), and finance (147

persons) sectors. At the same time, the average number of vacancies advertised in the print media¹⁸ continued to wane, falling by 10.1 per cent (year-on-year) over the first three quarters of 2019.

In early-2019, nominal wages declined at a faster rate than the rate of increase in labour productivity. During the first quarter of 2019, the Index of Average Weekly Earnings (AWE)¹⁹ (including both the energy and non-energy sectors) decreased by 31.7 per cent (year-on-year). The closure of the state-owned oil refining company, Petrotrin, contributed largely to the decline in the AWE. Excluding the energy sector, the Index increased by 2.6 per cent on account of increases in average weekly earnings for several non-energy industries, including the drink and tobacco, assembly type and related products, and printing and publishing industries.

Labour productivity improved during the first quarter of 2019 as output increased while the number of hours worked declined. The Index of Productivity²⁰ increased by 7.0 per cent (year-on-year) in the first quarter of 2019, as domestic production was marginally higher (1.0 per cent) while hours worked declined sharply by 26.8 per cent. The improvement in productivity was largely concentrated in several non-energy sub-sectors, including drink and tobacco and food processing. When the energy sector is excluded, the Index of Productivity increased by 25.0

¹⁵ This indicator for job separation is limited insofar as it only includes registered retrenchment notices, and does not capture other forms of job separation, especially the non-renewal of contracts of temporary or short-term workers. Furthermore, it is important to note that reports of job losses at establishments cannot be equated with an equal rise in the unemployment rate. Official Central Statistical Office (CSO) data on the labour market are not collected from firms and other establishments but from households via the conduct of the Continuous Sample Survey of Population (CSSP). Moreover, persons who have been retrenched or lost their jobs otherwise (expired contract, retired, etc.) and have not sought re-employment during the reference period are not classified as unemployed.

¹⁶ Although not included in the retrenchment data, more than 5,000 jobs were lost in the energy sector when the state-owned oil refinery, Petrotrin, ceased operations at the end of November 2018.

¹⁷ The amount of slack in the labour market is essentially a measure of the quantity of unemployed resources; it represents the quantity of labour that could be employed productively, but is idle.

¹⁸ This indicator is constructed by the Central Bank using the number of employment vacancies advertised in the Daily Express, Newsday and Guardian newspapers.

¹⁹ Index of Average Weekly Earnings, computed by the Central Statistical Office, is based on surveyed companies' employment and wage bill. The average weekly earnings is calculated as the weekly earnings (total amount paid to employees) divided by the number of employees. The Index comprises data from the following industries: manufacturing, electricity, water, and energy (crude oil, natural gas, and petrochemicals).

²⁰ The Index of Productivity is calculated as the Index of Domestic Production divided by the Index of Man Hours Worked. The Index comprises data from the following industries: manufacturing, electricity, water, and energy (crude oil, natural gas, and petrochemicals).

per cent year-on-year during the first quarter of 2019. By contrast, productivity for companies engaged in the oil and gas refining sub-sector declined substantially on account of the closure of Petrotrin.

d) Fiscal Operations

Revised estimates from the Ministry of Finance (MoF) show that the Central Government fiscal accounts registered an overall deficit of \$3.9 billion (2.4 per cent of GDP) in FY2018/19 (**Table IIIb**). This compares with a fiscal deficit of \$5.7 billion (3.6 per cent of GDP) recorded in FY2017/18 and reflects a much lower deficit than anticipated in the initial and mid-year revised budgets for FY2018/19. The smaller year-on-year deficit was primarily on account of higher energy revenue as non-energy receipts declined over the period. Moreover, the non-energy fiscal deficit expanded to \$18.7 billion compared to \$16.7 billion in FY2017/18. Revised estimates show that for FY2018/19 Central Government total revenue amounted to \$46.6 billion, roughly \$3.4 billion higher than the previous fiscal year- supported in part by the recently concluded tax amnesty²¹, which resulted in an estimated \$2.4 billion in tax revenue.

Meanwhile, aggregate expenditure reached \$50.5 billion, an increase of approximately \$1.6 billion from FY2017/18. Higher spending on wages and salaries, interest payments and transfers and subsidies were responsible for the increase in current expenditure in FY2018/19. Outlays on capital projects also increased reaching \$3.5 billion in FY2018/19, slightly higher when compared to \$3.4 billion in FY2016/17 and FY2017/18. In recent years, the

implementation of the capital programme has slowed due to the need to allocate funding to settle arrears to contractors and administrative delays²². Capital expenditure in FY2014/15 and FY2015/16 amounted to \$7.6 billion and \$4.4 billion respectively.

Total public sector debt outstanding at the end of September 2019 reached \$103.4 billion (63.3 per cent of GDP), compared with \$95.5 billion (60.1 per cent of GDP) in September 2018. With regard to domestic debt, roughly \$7.7 billion was contracted during the period October 2018 to September 2019 of which \$6.3 billion was borrowed under the Development Loans Act, while a total of \$1.4 billion in debt management bills were issued under the Treasury Bills Act. The proceeds were used to finance the Central Government's fiscal deficit, facilitate the restructuring of the Petroleum Company of Trinidad and Tobago (Petrotrin), acquire new patrol boats and ferries for the Inter-Island Sea Bridge and refinance maturing debt. External loans contracted over the period amounted to approximately TT\$2.5 billion. They mainly originated from the Corporación Andina de Fomento (CAF), the Development Bank of Latin America (a total of US\$220.0 million was disbursed during the FY2018/19) and the Bank of Austria (€81.3 million towards the Point Fortin Hospital).

Budget estimates for FY2019/20 suggest that the fiscal deficit is expected to increase to \$5.3 billion or 3.1 per cent of GDP²³. Total revenue is projected to amount to \$47.7 billion, an increase from \$46.6 billion estimated for FY2018/19 supported by several revenue-generating measures²⁴. A total of \$16.4 billion in revenue is estimated to be collected from the energy sector and \$30.4 billion from the non-energy sector. Capital revenue is anticipated

²¹ The tax amnesty began in mid-June 2019 and continued for a period of three and a half months ending in September 30, 2019.

²² As at April 2019, the overall amount owed to contractors was \$400 million, of which \$254 million was paid.

²³ On October 7, 2019 the Minister of Finance presented the FY2019/20 Budget, themed "Stability, Strength and Growth". The budget was based on a projected crude oil price of US\$60.00 per barrel and a natural gas price of US\$3.00 per million British Thermal Units (mmbtu).

²⁴ These include: the offering of a second National Investment Fund (NIF) Bond issue for \$2.6 billion in FY 2019/20 and the introduction of a savings bond to accelerate the capital programme. In addition, the Government proposed a straight line approach to calculate capital allowance over five years, i.e. a rate of 20.0 per cent per year and a reduction in the loss relief rate from 100.0 per cent to 75.0 per cent.

to amount to \$950.5 million. Information on budgetary aggregates show total expenditure is expected to increase by \$2.5 billion to \$53.0 billion in FY2019/20, reflecting increases in wages and salaries, goods and services and transfers and subsidies. The Central Government plans to finance the budgeted deficit through a combination of domestic and external borrowings.

Some fiscal measures can lead to an uptick in inflation. However, the magnitude of the impact on final prices depends on how households and businesses adjust. Additionally, increased Government spending on the capital programme could translate into higher net domestic fiscal injections (NDFIs), which continue to be a major source of banking system liquidity ([Table IIIc](#)).

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

	2015/2016	2016/2017	2017/2018 ^r	2018/2019 ^{re}	2019/2020 ^b
Revenue¹	44,972.6	36,180.6	43,169.7	46,559.1	47,748.9
Current	41,158.9	34,870.1	42,331.9	45,586.3	46,798.4
Energy*	6,644.4	7,759.5	11,031.3	14,791.2	16,362.7
Non-Energy*	34,514.5	27,110.6	31,300.6	30,795.1	30,435.7
Capital	3,813.7	1,310.5	837.8	972.8	950.5
Expenditure	52,944.7	49,712.0	48,866.5	50,503.7	53,036.4
Current	48,546.4	46,263.5	45,374.4	46,910.3	47,800.4
Wages and Salaries	9,601.9	9,937.8	9,094.4	9,145.2	9,486.9
Goods and Services	7,326.1	5,827.2	6,102.1	5,570.1	6,951.4
Interest Payments	3,762.4	4,468.4	4,786.8	4,902.3	3,990.1
Transfers and Subsidies ²	27,856.1	26,030.1	25,391.1	27,292.7	27,372.0
Capital Expenditure and Net Lending	4,398.3	3,448.5	3,492.1	3,593.4	5,236.0
Overall Non-Energy Balance³	-14,616.5	-21,290.9	-16,728.1	-18,735.8	-21,650.2
Overall Balance	-7,972.1	-13,531.4	-5,696.8	-3,944.6	-5,287.5
Total Financing (Net)	7,972.1	13,531.4	5,696.8	3,944.6	5,287.5
Net Foreign Financing	8,954.0	3,266.7	1,239.4	1,519.4	1,476.1
Net Domestic Financing	-981.9	10,264.7	4,457.4	2,425.2	3,811.4
Per Cent of GDP					
Revenue	29.7	23.9	27.2	28.5	28.4
Current	27.2	23.0	26.6	27.9	27.8
Energy	4.4	5.1	6.9	9.1	9.7
Non-energy	22.8	17.9	19.7	18.9	18.1
Capital	2.5	0.9	0.5	0.6	0.6
Expenditure	35.0	32.8	30.7	30.9	31.6
Current	32.1	30.6	28.5	28.7	28.4
Wages and Salaries	6.3	6.6	5.7	5.6	5.6
Goods and Services	4.8	3.8	3.8	3.4	4.1
Interest Payments	2.5	3.0	3.0	3.0	2.4
Transfers and Subsidies	18.4	17.2	16.0	16.7	16.3
Capital Expenditure and Net Lending	2.9	2.3	2.2	2.2	3.1
Overall Non-Energy Balance	-9.7	-14.1	-10.5	-11.5	-12.9
Overall Balance	-5.3	-8.9	-3.6	-2.4	-3.1
Total Financing (Net)	5.3	8.9	3.6	2.4	3.1
Net Foreign Financing	5.9	2.2	0.8	0.9	0.9
Net Domestic Financing	-0.6	6.8	2.8	1.5	2.3
Memorandum Items					
HSF Transfers (+) / Withdrawals (-)	-2,498.4	-1,712.2	0.0	0.0	0.0

Source: Ministry of Finance

1 In FY2018, proceeds from the sale of NIF bonds are recorded under non-tax revenue.

2 Adjusted for transfers to the Infrastructure Development Fund, Government Assisted Tertiary Education Fund and CARICOM Petroleum Fund.

3 Computed as the sum of non-energy revenue and capital revenue less total expenditure.

* The energy and non-energy breakdown is based on the Central Bank's computations. Energy revenues comprise oil revenues plus revenues from Petrochemical companies. Data for FY2018/19 and FY2019/20 are estimates.

r Revised.

re Revised Estimates.

b Budgeted data based on an oil price of US\$60.00 per barrel and Natural Gas price of US\$3.00 per mmbtu.

Table IIIc: Costing of Selected Capital Projects in the FY 2019 and 2020 Budget
 (TT\$ Millions)

Projects	2019	2020
	Revised Estimates	Budgeted
Total Capital Expenditure	3,593.4	5,236.0
<i>of which:</i>		
Roads and Bridge Construction and Rehabilitation	494.1	737.2
Early Childhood, Primary and Secondary School	497.1	467.4
Construction of Hospitals and Health Centres	306.4	515.6
<i>of which: Construction of the Arima Hospital</i>	86.2	60.0
<i>Construction of the Point Fortin Hospital</i>	36.9	66.0
<i>Construction of the Couva Children's Hospital</i>	4.2	18.0
<i>Construction of the Sangre Grande Hospital</i>	0.0	10.0
<i>Diego Martin Health Centre</i>	11.7	20.0
Accelerated Housing Programme and Housing Settlement Development	269.3	377.0
Drainage and Irrigation and Upgrading of Water Resources	321.1	370.5
<i>of which : Multi-Phase Wastewater Rehabilitation Programme</i>	99.9	100.0
Local Government Services	137.9	257.2
Purchase of Inter Island Ferries	230.6	194.0
Purchase of Vessels for the Coast Guard and Naval Assets	173.1	179.5
Construction of Community centers and upgrade of performance art centers	73.2	101.2
Construction and Upgrading of Sporting Facilities	23.0	98.6
Restoration of Public Buildings	25.4	81.0
Establishment of the Main Campus of UTT - Tamana and Construction of Public Buildings	90.7	80.0
Construction of Fire Stations and Expansion of prison facilities	43.4	78.5
Coastal Protection	44.9	62.9
Construction and Refurbishment of Police Stations	51.7	153.4
Airfield Pavement Rehabilitation - Piarco and ANR Robinson Airports	1.6	40.0
Construction and Upgrade of Industrial and Technology Parks	13.4	30.9
Construction of Toco Ferry Port	2.3	9.0
Construction and upgrade of fishing facilities	8.2	6.8
Construction of International Fine Cocoa Innovation Center	0.0	7.7
Construction of an Integrated Fishing Port and Facilities at Gran Chemin Moruga	7.2	5.0

Source: Ministry of Finance, Estimates of the Development Programme 2020

BOX 1**THE ROLE OF STRUCTURAL REFORM POLICIES IN MACROECONOMIC MANAGEMENT:
RELEVANCE TO MONETARY POLICY IMPLEMENTATION IN TRINIDAD AND TOBAGO**

This Box discusses the relevance of structural reforms to policy coordination, particularly monetary policy implementation in Trinidad and Tobago. Structural reforms are policies that positively and permanently alter the supply-side of an economy. They can be differentiated from demand-side policies (sometimes referred to as stabilisation policies), which are those measures used to manage overall demand within the economy¹. Stabilisation policies, such as monetary and fiscal policies, usually impact the economy in the short-run, while structural policies impact the economy in the longer-term². Structural policies have significant effects on economic growth and price stability in an economy, which make them relevant to macroeconomic policymakers.

Structural reforms can help close output gaps and improve potential output in an economy. These policies are usually aimed at ensuring that crucial factor inputs into production, such as labour and capital, are used efficiently. Credible structural reforms help reallocate resources efficiently across sectors and foster a higher growth potential in an economy. Promoting greater market competition, for example, can encourage capital investment and economic growth by removing barriers that prevent new firms from entering new sectors. Similarly, reform measures can be geared towards promoting diversification into specific industries which can lead to job creation, capital investment, and higher potential growth. Although some policies like pro-environmental policies that combat negative externalities, can increase the cost of production and lower aggregate supply, they can nonetheless, be socially desirable. Since the global financial crisis of 2008, potential output has been on a declining trend in the Caribbean region. Finch and Nelson (2016) found that a reform agenda has the potential to boost investment and trade substantially and to reinvigorate growth in the Caribbean while improving the ability of countries to adjust to shocks^{3,4}.

Promoting flexible markets through structural policies can strengthen an economy's resilience to shocks that impact price stability. An economy's ability to adjust quickly to shocks can impact price volatility. For instance, when faced with a negative demand shock, in an economy where there is short-term flexibility of wages and product prices, prices may be less sticky downwards. Conversely, in an economy where wages and prices are inflexible, firms may display product price rigidity, and the adjustment to the demand shock would usually occur through higher unemployment. Economies that are inflexible to shocks, thus risk facing prolonged periods of market disequilibria. Indeed, the trade-off between inflation and unemployment is the cornerstone of monetary policy.

There are several reasons why structural reforms are essential and relevant to monetary policy. First, structural policies can improve monetary policy transmission by enabling policy rate changes to affect aggregate demand and inflation. Second, structural policies can support potential growth by raising the equilibrium real interest rate. The equilibrium natural real interest rate is the real interest rate that prevails when an economy is at full employment, and inflation is at target. Economic theory suggests that a slower trend in potential growth implies a lower equilibrium real interest rate or natural interest rate and a lower reference point for a central bank's policy interest rate (neutral policy stance). A central bank, therefore, may be constrained when its neutral interest rate is close to zero. A central bank, faced with a need to stimulate economic activity, may be unable to lower interest rates sufficiently when its neutral policy interest rate is close to zero. The decline in the equilibrium interest rate has recently become topical among major central banks such as the United States and Japan due to the issue of the zero lower bound⁵. Third, reforms which increase the flexibility of wages and prices are likely to reduce inflation and output volatility – thus reducing the central bank's efforts to stabilise the economy. However, in a

BOX 1 (CONTINUED)**THE ROLE OF STRUCTURAL REFORM POLICIES IN MACROECONOMIC MANAGEMENT: RELEVANCE TO MONETARY POLICY IMPLEMENTATION IN TRINIDAD AND TOBAGO**

more rigid economy, inflation and output volatility tend to be higher, requiring more considerable efforts by the central bank to stabilise the economy. In short, reforms that reduce inflation and output volatility create more degrees of freedom for central banks⁶.

Historically, structural reforms that were implemented during the late-1980s and early-1990s contributed to Trinidad and Tobago's recovery from a deep recession. The 1980s were particularly challenging for the country as the collapse of oil prices led to a general deterioration in the macroeconomic environment (for example, the unemployment rate rose sharply, reaching 22 per cent in 1987). In November 1988, the International Monetary Fund (IMF) approved a 14-month Stand-By Arrangement for US\$115 million. This Stand-By Arrangement entailed debt relief and a medium-term adjustment programme which initiated the country's transition from an import-substitution development strategy to an export-led growth strategy instead. The implementation of the IMF-supported programme involved wide-ranging economic and structural reforms, including, among others, the privatisation of state enterprises; trade and financial liberalisation; tax reform; change in the exchange rate regime; removal of exchange controls; fiscal expenditure restraint; and diversification of the hydrocarbon sector into natural gas⁷. Following this period of austerity, between 1990 and 1991, the economy had started to show signs of recovery. By 1997, almost a decade into the reform process, economic activity had recovered, and the country went on to experience twelve successive years of positive economic growth up until 2009⁸. Further, price stability improved as the inflation rate moved from an average of 11.9 per cent during the 1980s to 6.2 per cent in 1990s.

Reform measures implemented during the 1990s enabled the Central Bank to adopt a more market-based approach to monetary policy. In 2002, the Bank introduced a new policy interest rate – the Repo rate – as its primary policy tool. Though in practice, the Repo rate has not been fully effective in signalling a monetary policy stance due to weaknesses in transmission from the policy rate to short-term market interest rates, reform policies could help streamline these rigidities. Studies on the determinants of short-term market interest rates and the effectiveness of monetary transmission have pointed to persistent excess liquidity conditions and the lack of policy tools as major factors preventing a complete and timely transmission⁹.

Within the last decade, the implementation of structural policies in Trinidad and Tobago has slowed, but reforms have been occurring across all major sectors. The implementation of structural policies has helped to cushion external trade shocks and streamline structural impediments. Some of these structural impediments include weak institutions, the emigration of highly educated and trained personnel, high youth unemployment, and poor physical and administrative infrastructure, among others. Figure 1 outlines some of these structural policies that have been implemented in Trinidad and Tobago within the last decade. In the future, implementing structural reforms, such as deepening the local capital market or introducing a calendar for Government bond market, could further improve the efficacy of monetary policy and enhance the monetary-fiscal coordination process. Additionally, reform measures that address liquidity and counteract external shocks could prove beneficial to liquidity management (Birchwood, 2013).

¹ Stabilisation policies can help to lower inflation, smooth out consumption and investment, and reduce Government deficits.

² See Draghi (2015). "Structural reforms, inflation and monetary policy". Speech given at European Forum on Central Banking (ECB) on Central Banking in Sintra, Portugal.

³ Finch and Nelson (2016). "The Role of Structural Reforms in Building Economic Resilience in the Caribbean." Paper presented at Caribbean Centre for Money and Finance (CCMF) annual conference. Available at: http://www.ccmf-uwi.org/files/publications/conference/2016/7_2-Finch_Nelson-p.pdf.

⁴ The authors found that there is a statistically significant relationship between structural reforms and growth outcomes of Caribbean countries in both the short-run and long-run.

⁵ Summers (2014). "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound." *Business Economics*, Vol. 49(2), pp. 65–73.

⁶ Grauwe and Ji (2017). "Structural Reforms and Monetary Policies in a Behavioural Macroeconomic Model." CEPR Discussion Paper No. DP12336.

⁷ Trinidad and Tobago first exported natural gas in May 1999.

⁸ In 2009 the economy faced three simultaneous shocks – the global financial crisis; the end of the country's third energy boom; and the CLICO crisis.

⁹ See Birchwood, A. (2013). "Strength of the Pass-Through of the Policy Interest Rate: The implications for Trinidad and Tobago." Caribbean Center for Money and Finance. Caribbean Center for Money and Finance.

BOX 1 (CONTINUED)

THE ROLE OF STRUCTURAL REFORM POLICIES IN MACROECONOMIC MANAGEMENT: RELEVANCE TO MONETARY POLICY IMPLEMENTATION IN TRINIDAD AND TOBAGO

Figure 1:**Selected Elements of Structural Reforms in Trinidad and Tobago (2010-2019)****Energy Sector**

- Energy Policy - Subscribed to the Extractive Industries Transparency Initiative in 2011.
- Standardised royalty rates for oil and gas in 2017.
- Restructuring of state-owned oil refinery, Petrotrin, in 2018.
- Incentives (e.g. tax credits and capital allowances) for companies involved in exploration and development in the energy industry.

**Non-Energy Sector**

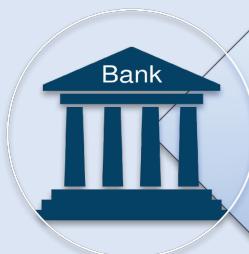
- Divestment of Industrial Estates by Evolving Technologies and Enterprise Development Company Limited (eTeck), which began in 2017.
- The establishment of the Tobago Tourism Agency and Tourism Trinidad Destination Management Company Limited (2017) - geared towards niche marketing the two islands separately (Tobago as a leisure-based destination and Trinidad for meetings, conferences, and exhibitions).
- Tax incentives for the use of solar water heating equipment and compressed natural gas (cng) in motor vehicles.
- Tax incentives for Creative Industries (e.g. fashion, arts and culture).

**External Sector**

- The launch of TTBizLink, a Single Electronic Window (SEW) in 2011.
- The establishment of InvesTT Limited (InvesTT) in 2012, as the country's national investment promotion agency.
- The establishment of the National Export Facilitation Organisation of Trinidad and Tobago, ExporTT, in 2012.

**Government Sector**

- Divestment of First Citizens Bank (2013) and Phoenix Park Gas Processors Limited (2015).
- Subsidy reform - gradual removal of the fuel subsidy which started in 2015.
- The establishment of the Office of the Procurement Regulator in 2018.
- Amendments to the Income Tax Act, to allow for increased penalties for offences in respect of fraud as well as increased business levy.

**Financial Sector**

- The passage of the Insurance Act, 2018.
- The Passage of the Miscellaneous Provisions (Proceeds of Crime, Anti-Terrorism and Financial Intelligence of Trinidad and Tobago) Act No. 20 of 2018 – addresses AML/CFT deficiencies.
- Capital Market Deepening through the listing of one enterprise on the Trinidad and Tobago Stock Exchange Small & Medium Enterprise (SME) Market in 2018; the public offering of bonds by the National Investment Fund Holding Company Limited (NIFHCL); and enactment of the Securities Act, 2012.

e) External Accounts

Balance of Payments

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

Trinidad and Tobago's balance of payments deficit rose to \$356.9 million (5.9 per cent of GDP) in the second quarter of 2019, compared to a deficit of \$171.6 million (2.9 per cent of GDP) in the similar period of 2018 (**Table IIId**). This brought the level of gross official reserves to \$6,993.6 million, equivalent to 7.9 months of prospective imports of goods and services. The surplus on the current account reflected net earnings on the goods account of approximately \$694.0 million. Meanwhile, the financial account recorded a net inflow, mainly due to transactions in the other and direct investment categories.

For the quarter ending June 2019, the external current account posted a surplus of \$432.2 million (7.1 per cent of GDP), or \$1.8 million higher than the corresponding period a year earlier. This improvement was largely attributed to a reduction in the deficit on the services account. Preliminary estimates indicate a decline in total exports of 20.1 per cent (year-on-year) to \$2,166.8 million over the period April to June 2019, on account of a decrease in energy exports. This outcome was primarily reflective of falling international energy prices together with a reduction in the volume of energy exports. In particular, following the closure of the state-owned oil refinery in November 2018, refined products exhibited the most significant falloff (79.6 per cent year-on-year) in energy export earnings, followed by petrochemicals (20.9 per cent), and LNG (11.9 per cent). Partially offsetting this outturn was an increase in non-energy exports, driven in large part by a rise in exports of capital goods. Meanwhile, imports of goods amounted to \$1,472.6 million, lower than

the previous year's level by 16.4 per cent. Fuel imports declined by 42.4 per cent symptomatic of lower refining activity while imports of manufacturing goods, chemicals and capital goods also decreased in line with the slowed pace of economic growth in the domestic economy.

The deficit on the services account narrowed to \$255.1 million (4.2 per cent of GDP) over the second quarter of 2019. The lower deficit in the services account was mainly attributable to a reduction in imports of technical, trade-related, and other business services. On the primary income account, a smaller deficit was recorded due to higher reinvested earnings and interest received from abroad. Meanwhile, a reduction in private outbound transfers was largely responsible for the surplus on the secondary income account.

The financial account registered a net inflow of \$558.3 million in the second quarter of 2019, a reversal of the net outflow of \$116.6 million recorded in the corresponding period in 2018. Other²⁵ and direct investment primarily contributed to the overall net inflow on the financial account. Over the reference period, other investment liabilities increased on account of loans incurred by energy sector companies as well as a rise in accounts payable and trade credits owed to non-residents. At the same time, the increase in other investment assets was underpinned by increases in currency and deposits held abroad and accounts receivable owed to residents.

Financial flows in the portfolio investment account registered a net outflow, which was primarily characterised by an increase in portfolio assets. More specifically, the uptick in portfolio assets was largely attributable to increases in short-term debt securities by financial institutions and energy companies and equity securities by financial institutions.

²⁵ Other investment comprise currency and deposits, loans, trade credit and advances, other accounts receivable/payable and special drawing rights (liabilities).

Meanwhile, the increase in direct investment liabilities (direct investment in Trinidad and Tobago by foreign investors) was primarily on account of the purchase of shares in a local financial holding company by a regional investor. To a lesser extent, higher reinvestment of earnings as well as intercompany loans contributed to the rise in direct investment liabilities. Direct investment assets recorded a net outflow indicative of higher reinvestment of earnings and intercompany lending.

At the end of October 2019, gross official reserves amounted to \$7,110.0 million which was \$465.0 million lower than the level recorded at the end of 2018. This suggests that the external accounts registered an overall deficit in the first ten months of 2019. The level of reserves at the end of October 2019 represents 7.9 months of prospective imports of goods and services.

Table IIId: Trinidad and Tobago: Summary Balance of Payments
(US\$ Millions)

	2017 ^r	2018 ^p	2017 ^t				2018 ^p				2019 ^p		
			I	II	III	IV	I	II	III	IV	I	II	
	1,207.3	1,337.4	642.4	106.2	314.9	143.9	241.2	430.4	9.2	656.6	531.6	432.2	
Current Account													
Goods and Services	880.0	2,200.4	635.9	97.1	29.4	117.7	638.5	484.0	341.2	736.8	641.7	439.1	
Goods, net*	2,994.0	3,852.0	1,067.5	695.9	685.9	544.7	1,076.0	949.3	744.4	1,082.2	914.7	694.2	
Exports**	9,445.7	10,519.9	2,523.9	2,140.6	2,284.6	2,496.6	2,794.3	2,710.3	2,543.5	2,471.8	2,390.8	2,166.8	
Energy	7,668.8	8,855.3	1,940.3	1,772.9	1,872.2	2,083.4	2,475.7	2,327.8	2,152.0	1,899.8	2,000.3	1,701.3	
Non-Energy	1,777.0	1,664.6	583.6	367.7	412.4	413.2	318.6	382.5	391.4	572.0	390.5	465.5	
Imports**	6,451.7	6,667.9	1,456.4	1,444.7	1,598.6	1,951.9	1,718.3	1,761.0	1,799.0	1,389.6	1,476.1	1,472.6	
Fuels***	1,617.7	1,755.4	378.7	349.3	374.1	515.5	470.5	557.4	528.6	198.9	314.7	321.2	
Other	4,834.0	4,912.6	1,077.7	1,095.5	1,224.5	1,436.4	1,247.8	1,203.6	1,270.5	1,190.8	1,161.4	1,151.4	
Services, net	-2,114.0	-1,651.6	-431.6	-598.8	-656.5	-427.0	-437.5	-465.4	-403.3	-345.4	-273.0	-255.1	
Primary Income, net	47.0	-767.2	13.0	14.0	-23.0	43.1	-324.1	-27.3	-328.9	-86.9	-87.2	-7.1	
Secondary Income, net	280.3	-95.8	-6.5	-4.9	308.5	-16.9	-73.2	-26.3	-3.0	6.7	-23.0	0.2	
Capital Account			1.2	2.4	0.0	0.4	0.6	0.2	0.2	1.5	0.5	4.1	0.2
Financial Account	437.0	-242.4	77.8	120.4	-304.0	542.8	-7.7	116.6	391.2	-742.7	837.3	-558.3	
Direct Investment	444.8	667.7	-131.9	-51.1	-33.8	661.6	59.1	38.7	331.0	238.9	144.7	-230.9	
Net Acquisition of Financial Assets	-12.0	65.2	-10.1	-6.5	0.6	4.0	23.0	-12.3	25.9	28.7	119.6	95.9	
Net Incurrence of Liabilities	-456.9	-602.5	121.9	44.5	34.3	-657.6	-36.2	-51.0	-305.1	-210.2	-25.1	326.8	
Portfolio Investment	373.1	418.1	-36.2	91.4	84.0	234.0	182.0	358.7	-62.7	-59.9	436.9	163.8	
Net Acquisition of Financial Assets	224.1	350.4	-44.7	64.1	81.0	123.7	177.9	318.3	-59.6	-86.2	371.7	130.6	
Net Incurrence of Liabilities	-148.9	-67.7	-8.5	-27.2	-3.0	-110.3	-4.1	-40.3	3.1	-26.3	-65.2	-33.2	
Financial Derivatives	4.7	5.3	4.1	-1.5	-1.3	3.4	4.4	-0.6	1.5	0.0	0.3	2.0	
Net Acquisition of Financial Assets	4.4	5.2	4.6	-2.0	-0.9	2.6	5.0	-0.2	0.9	-0.5	1.2	1.2	
Net Incurrence of Liabilities	-0.3	-0.2	0.6	-0.4	0.4	-0.8	0.7	0.4	-0.7	-0.5	1.0	-0.8	
Other Investment****	-385.5	-1,333.6	241.9	81.6	-352.8	-356.2	-253.2	-280.1	121.4	-921.7	255.3	-493.2	
Net Acquisition of Financial Assets	163.1	-311.0	345.6	-12.7	240.7	-410.5	34.8	358.7	-468.5	-236.0	214.8	206.4	
Net Incurrence of Liabilities	548.7	1,022.6	103.8	-94.3	593.5	-54.3	288.1	638.8	-590.0	685.7	-40.5	699.6	
Net errors and Omissions	-1,867.6	-2,377.0	-925.0	-355.7	-848.7	261.8	-630.9	-485.5	29.5	-1,290.1	77.0	1,347.7	
Overall Balance	-1,096.0	-794.7	-360.4	-369.5	-229.3	-136.9	-381.9	-171.6	-351.0	109.8	-224.5	-356.9	
Per Cent of GDP													
Current Account	5.4	5.6	11.4	1.9	5.6	2.6	4.0	7.2	0.2	11.0	8.8	7.1	
Goods, net	13.3	16.1	18.9	12.3	12.2	9.7	18.0	15.9	12.5	18.2	15.1	11.4	
Exports	41.9	44.1	44.7	37.9	40.5	44.3	46.8	45.4	42.6	41.5	39.4	35.7	
Imports	28.6	27.9	25.8	25.6	28.3	34.6	28.8	29.5	30.2	23.3	24.3	24.3	
Services, net	-9.4	-6.9	-7.6	-10.6	-11.6	-7.6	-7.3	-7.8	-6.8	-5.8	-4.5	-4.2	
Primary Income, net	0.2	-3.2	0.2	0.2	-0.4	0.8	-5.4	-0.5	-5.5	-1.5	-1.4	-0.1	
Overall Balance	-4.9	-3.3	-6.4	-6.6	-4.1	-2.4	-6.4	-2.9	-5.9	1.8	-3.7	-5.9	
Memorandum Items													
Gross Official Reserves ^	8,369.8	7,575.0	9,105.4	8,735.9	8,506.6	8,369.8	7,987.9	7,816.3	7,465.3	7,575.0	7,350.5	6,993.6	
Import Cover (months) ^	9.7	8.0	10.5	10.1	9.8	9.7	9.0	8.6	8.1	8.0	8.3	7.9	

Source: Central Bank of Trinidad and Tobago

Note: This table is an analytical presentation of the Balance of Payments and is presented in 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.

The following financial account movements are represented with a negative sign:

- A decrease in assets (inflow)
- A decrease in liabilities (outflow)
- A net inflow in net balances

The following financial account movements are represented with a positive sign:

- An increase in assets (outflow)
- An increase in liabilities (inflow)
- * Energy goods data for 2017-2019 comprise estimates by the Central Bank of Trinidad and Tobago.
- ** Exports and imports are reported on a FOB (Free on Board) basis.
- *** Includes petroleum, petroleum products and related materials. Energy exports include exports of petroleum, petroleum products and related materials and the exports of petrochemicals.
- **** Other investment comprise currency and deposits, loans, insurance, pension, and standardized guarantee schemes, trade credit and advances, other accounts receivable/payable and special drawing rights (liabilities).
- ^ End of Period.
- r Revised.
- p Provisional.

International Investment Position

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

The net international investment position (NIIP) was estimated at \$3,364.7 million at the end of the second quarter of 2019 (**Table IIIe**). This represented a decrease in the net creditor position from the first quarter of 2019 as the increase in the stock of liabilities outweighed the rise in the stock of assets.

Over the reference period, the uptick in stock of assets was mainly as a result of movement in portfolio and other investment. In particular, the movement in portfolio assets was primarily influenced by increased holdings in equity securities by financial institutions and

debt securities by both financial institutions and energy companies. Meanwhile, the rise in other investment assets was driven by higher currency and deposits and accounts receivable. However, reserves assets declined by \$356.9 million during the three-month period, partly reflecting both lower oil and gas receipts and ongoing interventions in the domestic foreign exchange market by the Central Bank.

Movement in the stock of liabilities was attributable to an increase in other investment. More specifically, increases in loans, accounts payable and trade credits owed to non-residents were responsible for the uptick in other investment liabilities.

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

	2017 ^r	2018 ^p	2017 ^r				2018 ^p				2019 ^p	
			I	II	III	IV	I	II	III	IV	I	II
Net International Investment Position	4,657.2	2,822.1	4,375.9	4,555.7	4,014.0	4,657.2	4,093.7	3,962.7	4,040.7	2,822.1	3,823.7	3,364.7
Assets	24,166.5	22,847.4	24,560.4	24,330.7	24,483.6	24,166.5	23,856.7	24,230.3	23,455.1	22,847.4	23,793.9	23,955.1
Direct Investment	829.6	913.2	812.1	816.5	831.0	829.6	869.3	863.0	888.6	913.2	1,342.6	1,367.8
Portfolio Investment	10,007.1	9,692.0	9,473.9	9,614.8	9,771.0	10,007.1	9,972.1	10,173.9	10,187.5	9,692.0	10,298.5	10,577.7
Financial Derivatives	4.4	10.1	4.5	2.0	1.8	4.4	9.1	9.6	10.2	10.1	11.6	13.8
Other Investment*	4,955.6	4,657.0	5,164.5	5,161.4	5,373.2	4,955.6	5,018.4	5,367.5	4,903.5	4,657.0	4,790.8	5,002.3
Reserve Assets	8,369.8	7,575.0	9,105.4	8,735.9	8,506.6	8,369.8	7,987.9	7,816.3	7,465.3	7,575.0	7,350.5	6,993.6
Liabilities	19,509.3	20,025.3	20,184.6	19,775.0	20,469.6	19,509.3	19,763.0	20,267.6	19,414.4	20,025.3	19,970.2	20,590.4
Direct Investment	9,082.9	8,680.1	9,995.6	9,795.1	9,869.3	9,082.9	9,040.1	8,964.3	8,704.5	8,680.1	8,711.3	8,705.1
Portfolio Investment	4,132.4	4,064.1	4,278.4	4,245.5	4,255.4	4,132.4	4,142.8	4,096.1	4,099.2	4,064.1	4,006.5	3,975.5
Financial Derivatives	1.2	0.7	1.6	1.5	1.5	1.2	1.6	2.1	1.0	0.7	1.8	1.6
Other Investment*	6,292.7	7,280.3	5,909.0	5,732.9	6,343.4	6,292.7	6,578.4	7,205.2	6,609.7	7,280.3	7,250.6	7,908.2

Source: Central Bank of Trinidad and Tobago

* Other investment comprise currency and deposits, loans, insurance, pension, and standardised guarantee schemes, trade credit and advances, other accounts receivable/payable and special drawing rights (liabilities).

r Revised.

p Provisional.

PART IV – MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

Monetary Developments

At both its meetings in June and September 2019, the Monetary Policy Committee (MPC) of the Bank held the Repo rate at 5.0 per cent after balancing several considerations. These considerations were mainly the level of inflation, the performance of the domestic economy and movements in international interest rates, particularly, short-term interest rates in the US. Inflation was observed to be contained during the period while the local economy continued along a slow recovery path. The energy sector faced unplanned shutdowns in the second quarter of 2019, but preliminary data suggested that the sector had stabilised somewhat by the third quarter. Furthermore, while preliminary data pointed to improvements in some non-energy sub-sectors, broad-based gains were not yet observable. At the same time, external monetary conditions eased during the period as the US Fed cut the Fed Funds Rate (FFR) in July, September and October as the outlook for economic conditions in the US became less favourable than a year earlier.

Given these conditions, the MPC determined that the balance of considerations weighed in favour of keeping the Repo rate unchanged at both meetings.

Over May to October 2019, excess liquidity increased to a monthly average of \$4,539.5 million, relative to \$3,617.7 million in the corresponding period of 2018 (**Chart IVa**). This increase occurred despite a decline in fiscal injections to a total of \$3,309.1 million over May to October, from \$3,799.1 million a year earlier. Open market operations, however, effectively injected \$5,735.2 million into the financial system over May to October, compared with a smaller injection of \$83.1 million in the same period in of 2018. The Bank sought to manage liquidity conditions taking into account public sector financing requirements. The Central Government borrowed approximately \$2,800.0 million through private placements between May and October 2019. Sales of foreign exchange to authorised dealers reached \$5,316.5 million over May to October 2019 (**Table IVa**). Furthermore, daily average interbank activity slowed to \$66.0 million over

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

	May 2018 - Oct 2018	May 2019 - Oct 2019
Fiscal Injections	3,799.1	3,309.1
Liquidity Absorption Measures		
Open Market Operations (OMOs)	83.1	5,735.2
Central Government Treasury Bond Issues	0.0	0.0
Commercial Banks' Fixed Deposits	0.0	0.0
Memo Item:		
CBTT Sale of Foreign Exchange ¹	5,179.0	5,316.5

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.

1 CBTT Sale of Foreign Exchange includes transactions under the Foreign Exchange Liquidity Guarantee facility.

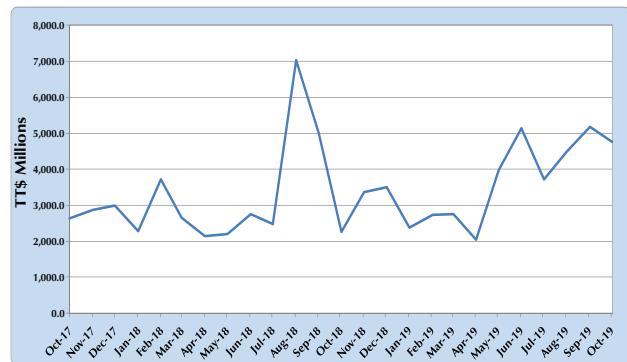
May to October 2019, compared with \$113.1 million a year earlier, mainly as a result of increased excess liquidity. The Repurchase Facility was not accessed over this period.

Short-term rates decreased over May to October 2019. The TT 3-month Treasury bill rate declined by 24 basis points to reach 1.08 per cent at the end of October. This decline was related to the willingness of primary dealers of Treasuries to hold short-term instruments at lower rates owing to higher liquidity levels. However, the rate on the US 3-month Treasury bill declined by 81 basis points over the same period to reach 1.54 per cent in October. This decline corresponded with the accommodative policy actions of the Federal Reserve via cutting the FFR in the second half of 2019. As a result, the 3-month TT-US differential improved by 57 basis points to reach 46 basis points below parity by the end of October. While the rate on the TT 6-month Treasury bill declined by 43 basis points to reach 1.47 per cent over the reference period, the rate on the US 6-month Treasury bill declined by 78 basis points to 1.57 per cent in October. This resulted in the 6-month differential improving, moving from 45 basis points below parity in May to 10 basis points below parity in October. The TT 1-year Treasury rate declined 47 basis points to reach 2.43 per cent in October, while the US 1-year Treasury rate declined by 68 basis points over the period. This resulted in the 1-year differential increasing by 21 basis points to reach 90 basis points. Higher liquidity levels did not result in lower interbank rates, which remained at 0.50 per cent, equivalent to the corresponding period of the previous year.

Increased uncertainty about the US and global economy underpinned the movements of long-term US yields over May to October 2019. Despite some volatility, the US 10-year Treasury bond rate declined

by 45 basis points over the reference period to reach 1.69 per cent by October 2019, largely reflecting flight-to-safety effects. Notably, the US 10-Year Treasury rate has declined by 146 basis points over the last 12 months. The corresponding rate on the TT 10-year Treasury bond rate increased by seven basis points to reach 4.55 per cent over the reference period. The combination of these movements resulted in a long-term differential that increased from 235 basis points in May 2019 to 286 basis points in October ([Chart IVb](#)).

Chart IVa:
Commercial Banks - Excess Reserves



Source: Central Bank of Trinidad and Tobago

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



Source: Central Bank of Trinidad and Tobago

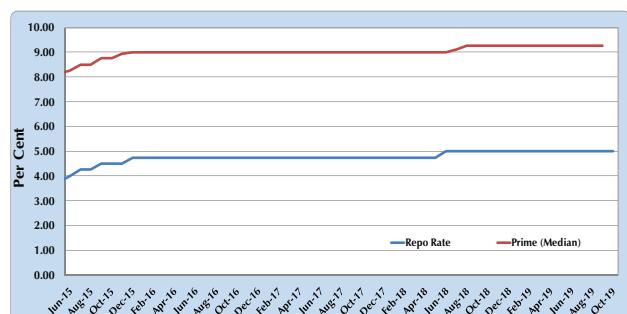
Commercial banks' interest rates declined, as did bank spreads, up to June 2019. The commercial banks' weighted average lending rate (WALR) reached 7.90 per cent in June 2019, 11 basis points lower than in December 2018. The decline in the WALR reflected competition among commercial banks for loan business, including refinancing and debt consolidation, in a still subdued economy. The weighted average deposit rate remained at 0.65 per cent over the same period. As a result, the banking spread decreased by 11 basis points over the period December 2018 to June 2019 to reach 7.25 per cent (**Chart IVc**). It should be noted that while the overall trend of the WALR has been downward for more than two years, the rate of 7.90 per cent observed in June 2019 is an increase of 7 basis points over the rate observed in March 2019 (7.83 per cent). The median prime lending rate of commercial banks remained at 9.25 per cent where it has stood since September 2018.

In the eight months to August 2019, growth in average consolidated financial system credit was weaker than in the comparative period of 2018 (**Chart IVd**). Over the period January to August 2019 consolidated system credit grew at an average rate of 3.8 per cent year-on-year compared to 5.9 per cent, one year earlier. The modest expansion in consolidated system credit was attributed to a deceleration in lending by commercial banks despite an uptick in non-bank lending over the review period.

Lending to businesses has contracted thus far in 2019, falling by an average of 3.8 per cent year-on-year over January to August 2019, compared to growth of 3.1 per cent in 2018. Slow construction activity is reflected in ongoing declines in lending to the construction sector. Data to June 2019 suggests lending to construction declined by 2.1 per cent year-on-year, lower than the decline of 9.6 per cent recorded in March 2019.

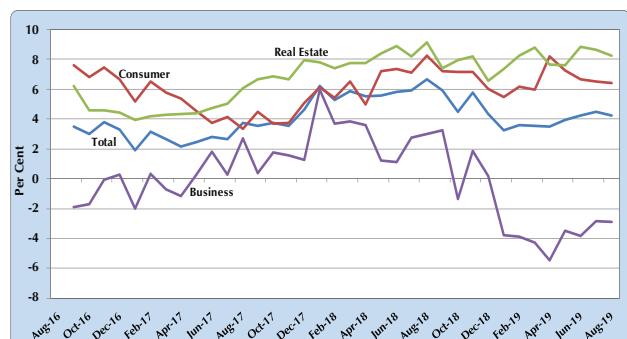
The finance, insurance and real estate sector, usually one of the stronger growing categories, registered declines in March and June 2019 due to a fall-off in real estate lending to businesses. Conversely, lending to the petroleum sector increased by 77.0 per cent year-on-year in June, significantly higher than the 16.1 per cent year-on-year recorded in March 2019. The large increase was based mainly on a facility granted by one commercial bank in the second quarter of 2019. Additionally, manufacturing also registered an expansion in lending of 10.8 per cent year-on-year in June 2019.

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

Consumer and real estate lending remained robust categories throughout 2019. Over the eight months to August 2019 lending to consumers expanded at an average rate of 6.6 per cent year on year – the same rate of expansion when compared to the similar period in 2018. Data to June 2019 showed that credit for debt consolidation and refinancing continued to grow by double digits, extending the robust trend observed over the last 18 months. Credit card lending expanded by 7.7 per cent year on year in June 2019 compared to 4.0 per cent in March. Lending for the purchase of motor vehicles remained subdued owing to a contraction in lending for the purchase of private new vehicles which has been occurring since the last quarter of 2018. The generally low interest rate environment continues to contribute to growth in real estate lending. On a year-on-year basis to August 2019 real estate lending expanded by an average of 8.2 per cent compared to 8.2 per cent one year earlier.

The monetary aggregates remained subdued in the eight months to August on account of declining fiscal injections and depressed credit growth. M1-A, which

consists of currency in active circulation and demand deposits declined by 2.9 per cent in August compared to an expansion of 0.8 per cent in March 2019. While currency in active circulation expanded, there was a fall-off in demand deposits of 3.7 per cent; however, this may be due to a base effect considering the significant expansion of 4.9 per cent one year prior, which coincided with the Government's NIF bond issue. M2, which adds both time and savings deposits, expanded by 1.6 per cent in August 2019 compared to growth of 2.4 per cent in March 2019. Foreign currency deposits in the consolidated financial system declined consistently throughout 2019. On a year-on-year basis to August 2019, foreign currency deposits declined by 2.1 per cent compared to a decline of 0.3 per cent one year earlier. Continued contraction of deposits by both consumers and businesses contributed to the trend.

BOX 2

MONETARY POLICY OBJECTIVES, CHALLENGES AND TRADE-OFFS: CONSIDERATIONS OF MONETARY POLICY IMPLEMENTATION IN TRINIDAD AND TOBAGO

This box takes a detailed look behind recent monetary policy actions by the Central Bank of Trinidad and Tobago (the Central Bank) focusing on key objectives, current challenges and trade-offs.

Monetary policy is the process by which a central bank controls the supply of money or the cost of money (i.e. the interest rate) to achieve a set of objectives which typically include fostering economic growth and macroeconomic stability. Most central banks have price stability (or low inflation) as their primary objective. But central banks can have several other objectives also. The Central Bank has price stability, the maintenance of adequate foreign reserves and an orderly foreign exchange market as its main objectives. Monetary policy is also implemented in line with other functions outlined in Section (3) of the Central Bank Act Chap 79:02¹.

In the case of the Central Bank, the interest rate on its repurchase facility, the Repo rate, is the main policy tool used to influence the cost of money and manage domestic inflation. Using the Repo rate, the Central Bank influences short-term market interest rates, which in turn affect financial sector conditions and ultimately, the macro-economy. The Central Bank also employs open market operations (OMOs)² to manage excess liquidity. Also, the Central Bank periodically intervenes in the local foreign exchange market, usually in the form of foreign currency sales to authorised dealers, to mitigate market volatility.

It is often assumed that central banks can achieve all their objectives simultaneously. The reality, however, is that central banks often face non-trivial trade-offs when executing monetary policy. According to the trilemma concept in international finance, an economy can only ever satisfy two of the following three objectives, i.e., i) perfect capital mobility, ii) domestic monetary independence and iii) exchange rate stability (Chart 1). For instance, in the United States, the Federal Reserve (US Fed) desires a floating exchange rate and free capital flows, and therefore has an automatic ability to use the federal funds rate to influence price conditions in the US economy. In the case of China, the People's Bank of China (PBoC) wishes to control capital flows and has a strictly managed exchange rate (Das, 2019³). In this situation, therefore, it can use its national policy interest rate to influence price conditions in the Chinese economy. Many small open economies also choose two of the three options based on their economic circumstances. However, since many of them suffer from a range of economic and structural impediments, such as lack of financial market development or are price takers in international commodity markets, they are often restricted from simultaneously having a highly flexible exchange rate and free capital flows.

Trinidad and Tobago's economic and structural circumstances make exchange rate stability, and free capital flows important objectives to achieving economic development. The Central Bank provides a framework that allows some nominal exchange rate flexibility, but the rate remains largely stable. This regime provides the opportunity for the Central Bank to limit inflation stemming from wide depreciation in the exchange rate. This regime is important since in Trinidad and Tobago, consumption and manufacturing activities are largely based on imports. The Bank also allows free capital flows which means that investors can move funds in and out of the country easily, thus encouraging foreign investment and economic development.

BOX 2 (CONTINUED)

MONETARY POLICY OBJECTIVES, CHALLENGES AND TRADE-OFFS: CONSIDERATIONS OF MONETARY POLICY IMPLEMENTATION IN TRINIDAD AND TOBAGO

Pursuing a managed float regime and permitting free capital flows places some limits on the Central Bank's ability to use its policy interest rate⁴. If, for example, the US Fed increases the fed funds rate, the returns on US financial assets could become relatively higher than those of domestic financial assets. Higher US interest rates could influence local investors to move funds out of Trinidad and Tobago and into foreign assets (i.e. capital outflows) resulting in depreciation pressure on the local currency. A depreciation can, in turn, impact inflation. To ensure exchange rate stability, therefore, domestic interest rates must increase to re-establish parity. Higher domestic interest rates are also desirable from the perspective of declining foreign reserves as high capital outflows can increase pressures on the Central Bank to support the foreign exchange market through heightened interventions. In the context of multiple objectives, which can sometimes be competing, an increase in domestic interest rates may hamper the Central Bank's aim to stimulate investment and local economic activity.

Recent macro-shocks faced by Trinidad and Tobago after the collapse in energy prices in 2014, and the country's sluggish recovery thereafter, created challenges for the conduct of monetary policy (Figure 1). Lower economic activity would have justified a more accommodative policy stance in response. Still, a recalibration in this fashion would likely have put pressure on the foreign exchange market and may have resulted in depreciation pressures on the exchange rate and likely stoked inflation. Given that accumulated foreign reserves are well beyond international adequacy benchmarks, the policy response to the terms-of-trade (TOT) shock involved managing foreign currency interventions to ensure the continued smooth operation of the foreign exchange market to maintain foreign exchange market stability.

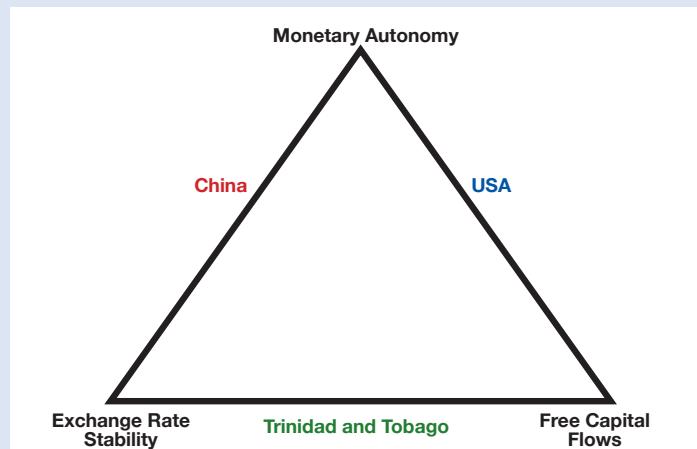
The trade-off faced by the Central Bank in this circumstance manifested in the adoption of a mostly neutral policy stance via the Repo rate to support exchange rate stability. Neutrality was reflected in an eschewing of the tightening approach that was conducted over September 2014 to December 2015, where the Repo rate was increased by 200 basis points. Additionally, potentially accommodative action from 2015 onward was foregone, in the face of subdued economic and financial conditions owing to the TOT shock. The adopted stance echoed the idea that significant variations in the interest rate can compromise foreign exchange market stability. Indeed, with the Central Bank treating the TOT shock as permanent, the Repo rate was only increased once, from 4.75 per cent to 5.00 per cent in June 2018. Excess liquidity was also managed to facilitate the neutral policy stance. These actions came about as a result of an increasingly negative short term interest rate differential with the United States and signs of improving domestic economic activity at the time⁵. A consequence of the policy choice has been a drawing down of international reserves. Maintaining adequate international reserves is also one of the objectives of the Central Bank. If international energy price conditions remain subdued, reserve adequacy would have to be carefully considered.

What then is the way forward? Monetary policy cannot accomplish everything on its own. It has to balance competing objectives and therefore make often difficult choices. Monetary policy cannot operate in a vacuum but requires other supporting frameworks, which include sound fiscal policy and appropriate structural reforms. Structural reforms, in particular, can improve the efficacy of policy actions. Since monetary policy actions tend to take a longer time to impact the economy when compared with fiscal policy, this implies that strong policy coordination is required to facilitate better macroeconomic outcomes.

BOX 2 (CONTINUED)

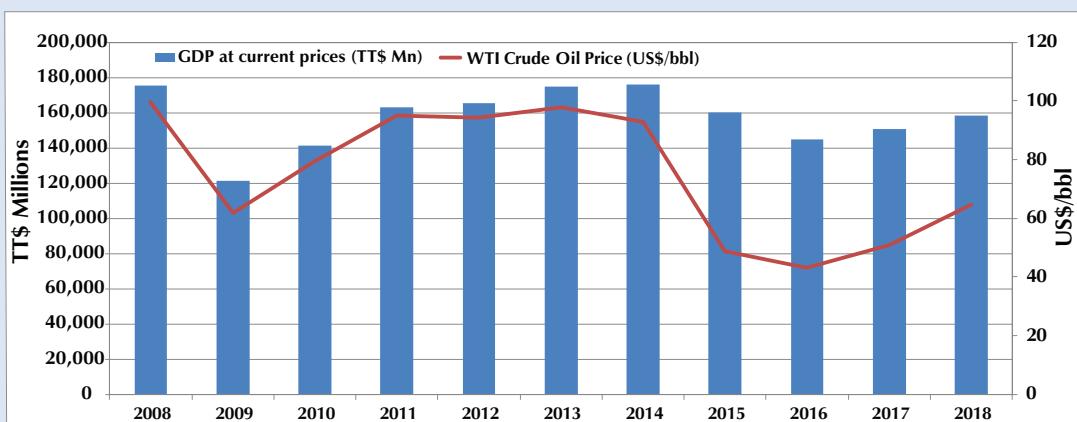
MONETARY POLICY OBJECTIVES, CHALLENGES AND TRADE-OFFS: CONSIDERATIONS OF MONETARY POLICY IMPLEMENTATION IN TRINIDAD AND TOBAGO

Chart 1:
The Impossible Trinity or Trilemma



Source: Central Bank of Trinidad and Tobago

Figure 1:
Oil Prices and GDP levels in Trinidad and Tobago, 2008-2018



Sources: Central Bank of Trinidad and Tobago and Bloomberg

¹ The Central Bank Act of Trinidad and Tobago outlines the main objective of the institution as "...the promotion of such monetary, credit and exchange conditions as are most favourable to the development of the economy of Trinidad and Tobago". The Act then further outlines the required functions of the Bank as the issuer of currency, banker to the Government, regulator of currency and credit markets, and provider of monetary stability with the aims of maintaining external balance and encouraging domestic production.

² Open market operations involve the sales and purchases of short-term Treasury bills and notes to commercial banks in order control financial system liquidity.

³ Das, S., (2019). "China's Evolving Exchange Rate Regime." International Monetary Fund, WP/19/50, March 2019.

⁴ The alternative scenarios where i) a fixed exchange rate and an independent domestic monetary policy require lower capital mobility and ii) an independent domestic monetary policy and perfect capital mobility lead to a loss of exchange rate stability are also possible.

⁵ Monetary Policy Announcement, June 2018, Central Bank of Trinidad and Tobago, retrieved from: https://www.central-bank.org.tt/sites/default/files/latest-news/Monetary_Policy_Announcement_June_2018.pdf

BOX 3

**AN ANALYSIS OF CONSUMER DEBT CONSOLIDATION AND REFINANCING CREDIT:
MOVING BEYOND THE AGGREGATED**

Aggregated data can be useful, but as with most things, it has its limitations. Analysing aggregated credit data is important in informing monetary policy responses. However, a look at more disaggregated data could yield differing conclusions about economic developments, thus requiring different policy responses when compared to aggregated data. This Box discusses recent developments in consumer credit for debt consolidation and refinancing purposes, two sub-categories of private sector credit granted by the consolidated financial system. Specifically, the aims are to: 1) explain the recent trends, levels and composition of debt consolidation and refinancing; and 2) highlight implications/concerns for future monetary policy actions (if any).

The Central Bank has noted the persistent expansion in consumer debt for consolidation and refinancing purposes over the last 4-5 years. In fact, the healthy increase in total consumer lending has been primarily driven by the strong growth in credit for debt consolidation and refinancing. Usually, a look at overall consumer lending data without having disaggregated data at hand would indicate higher borrowing for consumption purposes. From a monetary policy perspective, higher consumer lending would usually signal possible inflationary impetus as well as greater demand for foreign exchange. Such developments would typically warrant contractionary monetary policy responses, however, in moving beyond the overall credit aggregate, the story is quite different.

Debt consolidation entails the borrower combining several loans into a single new loan. Debt consolidation offers the opportunity for the consumer to bring together various debt payments in a single amount which is easier for him/her to track and service. Debt consolidation also gives consumers who are struggling with multiple loans, including high-interest debt (such as credit card debt), the opportunity to meet their obligations and avoid default. Debt refinancing, however, involves closing a single loan and opening a new loan usually at a lower interest rate. Debt refinancing can also mean an extra loan amount added to the balance outstanding from the original obligation. A refinanced debt can also result in the consumer switching to a different type of loan (for example, from a mortgage to a consumer loan) and could even involve consolidating another debt. Hence, debt consolidation and refinancing are not mutually exclusive. Consumers usually seek debt consolidation and refinancing loans to take advantage of lower interest rates and more favourable terms and conditions in an attempt to rationalise their financial positions. In Trinidad and Tobago, loans can be renegotiated a maximum of two times over the life of the original loan and not more than twice in a five-year period in the case of mortgages¹.

An analysis of disaggregated data reveals a substantial increase in the stock of loans held by commercial banks for debt consolidation and debt refinancing purposes. At the end of June 2019, the outstanding value of debt consolidation and refinancing loans held by commercial banks totalled \$4,961.7 million. This amount compared with \$3,486.7 million at the end of 2015, represents an increase of \$1,474.9 million or 42 per cent over the period compared to an increase of \$963.8 million or 38.2 per cent over December 2010 to December 2015. Most other consumer lending categories simultaneously fell over the same period, except for motor vehicles and credit card debt. Among the three groups where lending rose, debt consolidation and refinancing exhibited the highest increase followed by the 'Other' category which mostly includes credit card debt (\$1,341.6 million), and then motor vehicle loans (\$383.4 million). Further, debt consolidation and refinancing loans (as a proportion of total consumer loans) increased from 22.4 per cent at the end of December 2015 to 26.7 per cent at the end of June 2019. An even more detailed breakdown of loans outstanding for debt consolidation and refinancing (\$4,961.7 million) indicate that at the end of June 2019 the debt consolidation loan portfolio was larger (\$2,573 million)

BOX 3 (CONTINUED)

AN ANALYSIS OF CONSUMER DEBT CONSOLIDATION AND REFINANCING CREDIT: MOVING BEYOND THE AGGREGATED

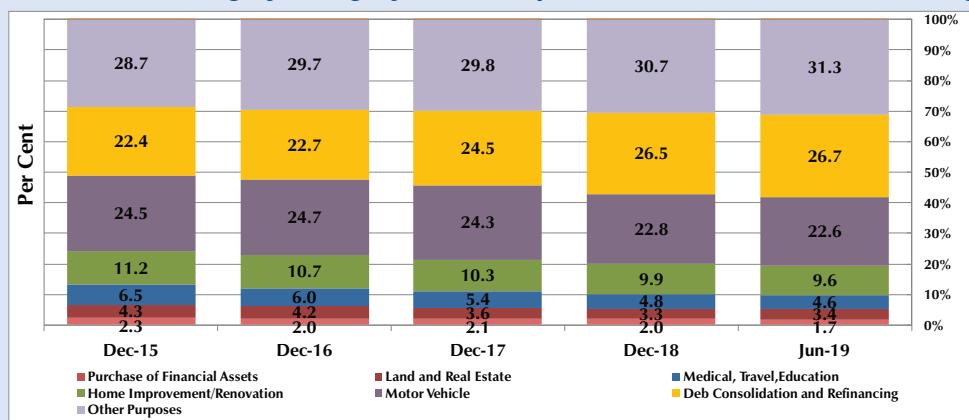
compared to the debt refinancing portfolio (\$2,388.6 million). The increase of \$1,474 million between December 2015 and June 2019 was mainly on account of the debt consolidation of almost \$1 billion while the remainder was debt refinancing.

Table I: Stock of Consumer Loans held by Commercial Banks and NIFs
/TT\$ Millions/

Categories	Dec-10	Dec-15	Jun-19	Change between Dec-2015 and Dec-2010	Change between June-2019 and Dec-2015
Bridging Finance	81.7	338.7	287.2	257.1	-51.5
Land and Real Estate	1,007.2	671.2	634.2	-336.0	-37.0
Home Improvement/Renovation	1,301.7	1,737.2	1,789.3	435.5	52.1
Motor Vehicle	2,298.3	3,807.6	4,191.0	1,509.3	383.4
Private Cars: New	1,400.7	3,094.4	3,426.3	1,693.8	331.9
Private Cars: Used	775.2	615.4	713.3	-159.8	98.0
Other Vehicles	122.5	97.9	51.4	-24.6	-46.5
Electrical and Non Electrical Appliances	39.2	20.7	9.3	-18.4	-11.5
Radios, Musical Instruments, etc.	5.3	2.3	1.4	-3.0	-1.0
Other Furniture and Furnishings	62.4	81.8	67.5	19.3	-14.3
Purchase of Financial Assets	341.7	362.3	316.8	20.6	-45.5
Purchase of New Shares	72.7	131.5	74.6	58.7	-56.8
Purchase of Other Financial Assets	269.0	230.8	242.1	-38.2	11.3
Education	249.9	350.4	295.4	100.4	-55.0
Medical	46.5	53.7	60.8	7.1	7.1
Travel	73.3	106.1	88.5	32.8	-17.6
Insurance (Life and Non Life)	18.9	11.6	11.6	-7.3	0.1
Professional Services (Legal, Funeral, etc)	46.5	50.2	28.8	3.7	-21.4
Refinancing	1,349.0	1,834.7	2,388.6	485.7	553.9
Consolidation of debt	1,173.9	1,652.0	2,573.0	478.1	921.1
Other Purposes	3,841.4	4,464.5	5,806.1	623.1	1,341.6
Total Excluding Real Estate Mortgages	11,937.0	15,544.9	18,549.5	3,607.9	3,004.6

Source: Central Bank of Trinidad and Tobago

Chart 1:
Consumer Lending by Category - As a Proportion of Total Consumer Lending



Source: Central Bank of Trinidad and Tobago

Data on the number of loans outstanding held by commercial banks also point to the shifting into the debt consolidation and refinancing loan categories. Between 2015 to June 2019, the number of loans in several classes of consumer lending recorded a steady decline. For instance, the number of loans outstanding over the period 2015 to June 2019 for the purchase of land and real estate, education, and for the purchase of financial assets fell by 30.9 per cent, 28.4 per cent and 21.8 per cent, respectively. Over the same period, there was a general upward movement in the number of loans held for debt consolidation and debt refinancing categories.

BOX 3 (CONTINUED)

AN ANALYSIS OF CONSUMER DEBT CONSOLIDATION AND REFINANCING CREDIT: MOVING BEYOND THE AGGREGATED

Table 2: Commercial Banks and NFIs: Number of Loans Outstanding by Purpose

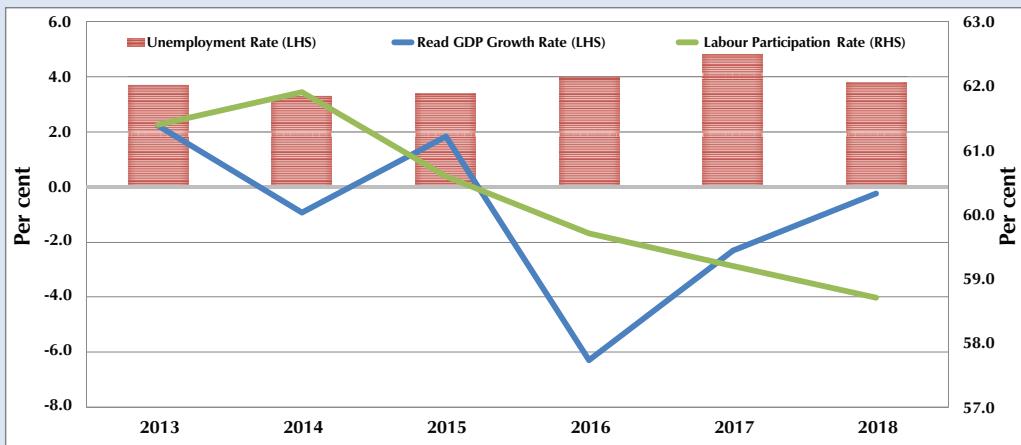
Categories	Dec-15	Dec-16	Dec-17	Dec-18	Jun-19	Per cent Change between Dec 2015 and June 2019
Bridging Finance	613	525	514	516	520	-15.2
Land and Real Estate	1,793	1,602	1,426	1,297	1,238	-31.0
Home Improvement/Renovation	43,139	42,571	41,156	40,034	39,403	-8.7
Motor Vehicle	37,020	38,009	38,448	38,570	38,939	5.2
Electrical and Non-Electrical Appliances, Radios, Musical Instruments, Other Furniture and Furnishings	4,032	3,499	2,861	2,367	2,104	-47.8
Purchase of Financial Assets	5,436	4,899	4,618	4,408	4,249	-21.8
Education, Medical and Travel	13,593	12,824	11,561	10,144	9,722	-28.5
Insurance (Life and Non Life) and Professional Services	1,015	883	819	712	685	-32.5
Refinancing	27,025	27,068	27,618	28,465	28,266	4.6
Consolidation of debt	10,810	11,330	12,793	15,437	16,055	48.5
Other Purposes	457,531	544,928	510,643	480,832	517,410	13.1

Source: Central Bank of Trinidad and Tobago

The current economic overhang has had a significant impact on the consumer loan portfolio of the commercial banking system. The sedate economic conditions in both the energy and non-energy sectors have generally led to a reduction in demand for most types of consumer loans (Chart 2). However, debt consolidation and refinancing loans outstanding by commercial banks have grown as the sedate economic conditions spilt over to consumers.

**Chart 2:
Domestic Economic Conditions**

/Per Cent/



Source: Central Statistical Office of Trinidad and Tobago

Note: Data for the unemployment and labour force participation rates represent January-June 2018.

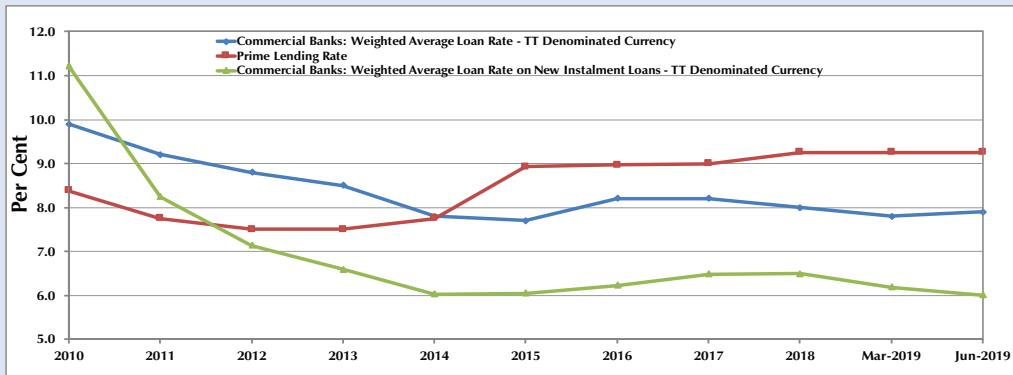
The increase in loans in these categories appear to be both demand and supply-driven. The prevailing low lending rates in the market have prompted many consumers to renegotiate their debt obligations to obtain a more favourable interest rate (Chart 3). Apart from this, some commercial banks have engaged in campaigns to encourage consumers to seek refinancing options which has boosted the refinancing and debt consolidation categories. The year 2017 saw the beginning of double-digit growth rates the value of debt consolidation and refinancing loans outstanding which coincided with the campaign period of some banks to aid consumers.

BOX 3 (CONTINUED)

AN ANALYSIS OF CONSUMER DEBT CONSOLIDATION AND REFINANCING CREDIT: MOVING BEYOND THE AGGREGATED

Chart 3:
Selected Commercial Banks' Loan Interest Rates

/Per Cent/

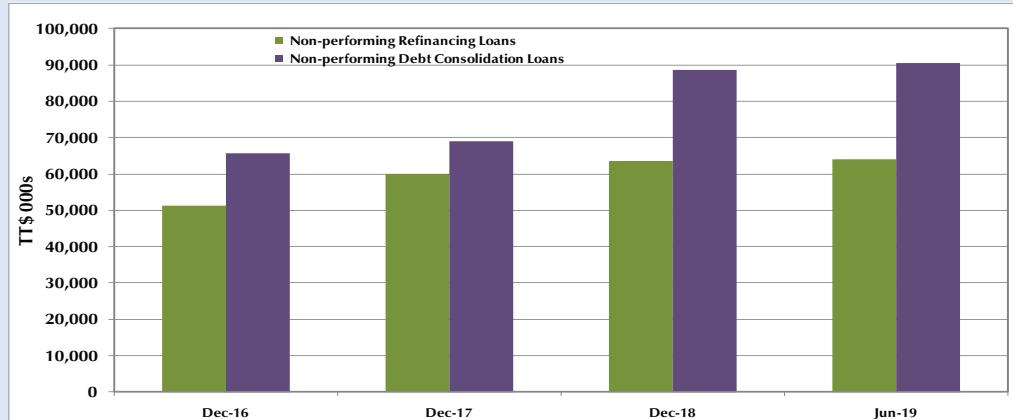


Source: Central Bank of Trinidad and Tobago

Although debt consolidation and refinancing loans have steadily increased in recent years, so too are non-performing loans related to these categories. The value of non-performing loans for debt consolidation and debt refinancing held by banks have also steadily increased in recent years. This trend may indicate that although commercial banks are attempting to renegotiate loan contracts, some consumers are still finding it difficult to service the debt (Chart 4). The regulator has taken note of this as it may imply a significant increase in non-performing loans when contracts can no longer be renegotiated.

Chart 4:
Debt Consolidation and Refinancing Non-Performing Loans

/\$000s/



Source: Central Bank of Trinidad and Tobago

Disaggregated data play an essential role in informing monetary policy decisions of the Central Bank. Data on household debt consolidation and refinancing credit trends serve to improve the Central Bank's understanding of the behaviour of the private sector, especially households. The data show that households are actively engaged in managing their debt levels. The expansion in credit is not geared toward economic activity generation but debt reorganisation and signals to the Central Bank the need to undertake a neutral policy stance. The expansion in debt consolidation, and refinancing may also reduce households' vulnerability to adverse interest rate shocks which may afford the Central Bank more future room for monetary policy rate-setting.

¹ Guideline for the Measurement, Monitoring and Control of Impaired Assets, p.16.

https://www.central-bank.org.tt/sites/default/files/page-file-uploads/Guideline%20for%20the%20Measurement%20Monitoring%20and%20Control%20of%20Impaired%20Assets_0.pdf

FINANCIAL SECTOR DEVELOPMENTS

Developments in the Local Foreign Exchange Market

Despite higher energy sector conversions, the local foreign exchange market remained relatively tight between January and October 2019. Purchases of foreign exchange from the public by authorised dealers amounted to US\$3,608.7 million, an 8.5 per cent increase over the same period a year earlier. From January to October 2019, the energy sector, which has traditionally been a key source of currency for authorised dealers, accounted for 67.6 per cent of total purchases over US\$20,000 and purchases from the sector grew by 7.8 per cent relative to a year earlier.

Sales of foreign currency by authorised dealers to the public over January to October amounted to US\$5,016.6 million, 8.6 per cent higher relative to a year earlier. Reports by dealers show that foreign exchange

usage was driven mainly by the credit cards sector (27.8 per cent) over January to October 2019. Other sectors accounting for significant shares of foreign exchange sales over the same period included the retail and distribution sector (25.3 per cent), energy (11.4 per cent), and manufacturing (8.3 per cent). The significant share of sales to the energy sector corresponds with increased sales of foreign currency to a new fuel trading company following the closure of Trinidad and Tobago's crude oil refinery in late 2018. To support the market, Central Bank interventions over January to October 2019 amounted to US\$1,270.1 million, marginally less than the US\$1,285.0 million provided the year earlier (**Table IVb**).

Prevailing conditions resulted in a stable TT/US dollar exchange rate. In October 2019, the weighted average selling rate stood at US\$1 = TT\$6.7819, a slight appreciation from US\$1 = TT\$6.7835 in January 2019.

Table IVb: Authorised Dealers: Foreign Exchange Market Activity
(US\$ Millions)

Date	Purchases from Public	Sales to Public	Net Sales	Purchases from CBTT ¹
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
2017	3,606.9	5,195.3	1,588.4	1,816.0
2018	4,101.4	5,677.4	1,576.0	1,501.0
Jan-Oct 2018	3,326.4	4,618.8	1,292.3	1,285.0
Jan-Oct 2019	3,608.7	5,016.6	1,407.9	1,270.1
Y-o-Y Per Cent Change	8.5	8.6	8.9	-1.2

Source: Central Bank of Trinidad and Tobago

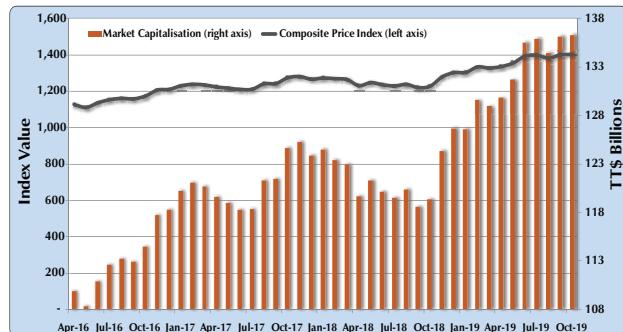
1 Purchases from the Central Bank of Trinidad & Tobago include transactions under the Foreign Exchange Liquidity Guarantee facility.

STOCK MARKET DEVELOPMENTS

The Trinidad and Tobago stock market recorded an improvement over June 2019 to October 2019 (**Chart IVe**). The Composite Price Index (CPI) grew by 3.5 per cent, bringing stock market capitalisation at end-October to \$136.3 billion. The market expansion was supported by a 14.7 per cent jump in the Cross Listed Index (CLI), as the cross-listed equities were among the top performers. On the other hand, the All Trinidad and Tobago index (ATI) recorded a 2.0 per cent decline, reflecting the sedate domestic economic conditions. Conversely, during the same period in 2018, the CPI slipped by 1.6 per cent, driven by declines in the ATI (-1.9 per cent) and the CLI (-0.9 per cent).

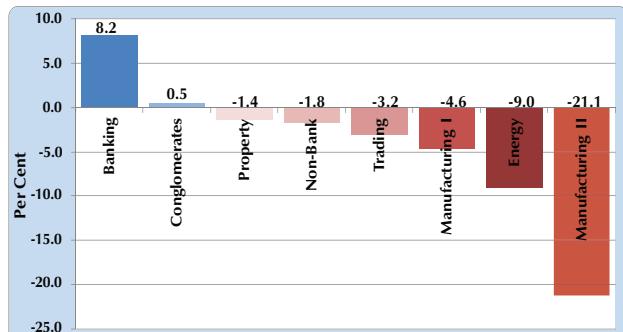
Despite the improvement in overall first-tier market performance, all but two of the sub-indices observed declines over the review period. The Banking sub-index was the best performer, producing a return of 8.2 per cent over the period (**Charts IVf** and **IVg**). Within the Banking sub-index, the NCB Financial Group Limited climbed 26.0 per cent following an increase in income and profit, which was bolstered by the consolidation of two months of revenue from the recently acquired Guardian Holdings Limited. Additionally, First Citizens Bank recorded 5.5 per cent growth stemming from higher profits due to an increase in loans and investments, which improved net interest income. The second sub-index to record growth was Conglomerates (0.5 per cent), primarily due to a 4.6 per cent increase in the share price of Grace Kennedy Limited. On the other hand, small declines were recorded in the Property (-1.4 per cent); Non-Banking Finance (-1.8 per cent); and Trading (-3.8 per cent) sub-indices. Larger declines were recorded in the following sub-indices: Manufacturing I (-4.6 per cent) was negatively impacted by a substantial 38.2 per cent plunge in the share price of Guardian

Chart IVe:
Composite Price Index and Stock Market Capitalisation



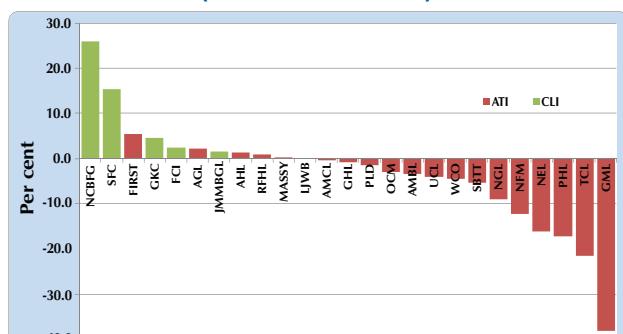
Source: Trinidad and Tobago Stock Exchange

Chart IVf:
Trinidad and Tobago Stock Market Sub-Indices
(June to October 2019)



Source: Trinidad and Tobago Stock Exchange

Chart IVg:
Trinidad and Tobago Individual Stock Prices
(June to October 2019)



Source: Trinidad and Tobago Stock Exchange

Media Limited (GML). GML's financial statements indicated that revenues continue to be impacted by a contraction in spending by businesses and state organisations, in addition to major changes in the advertising environment. The Energy sub-index recorded a decline of 9.0 per cent, reflecting the performance of Trinidad and Tobago NGL (TTNGL). The decline of TTNGL was due to a reduction in income and profit as the natural gas industry continues to adjust to growing volumes from the US shale industry, which has affected Mont Belvieu prices. Additionally, lower natural gas volumes to the Point Lisas plant for processing affected the company. Lastly, the Manufacturing II (-21.1 per cent) declined due to a 21.6 per cent drop in Trinidad Cement Limited, as a result of reduced demand locally and in other key markets.

Over the five months ending October 2019, trading volumes on the first tier market increased to 33.6 million shares compared to 31.6 million shares in the same period in 2018. However, the total value of shares exchanged declined to \$509.4 million from \$532.6 million over the same periods. The largest volume

traded occurred in the Non-Banking Finance sub-index (47.6 per cent), where JMMB Group Limited accounted for 63.3 per cent of the sub-index volume. In terms of total value, the Conglomerates sub-index accounted for 32.2 per cent, with Massy Holdings limited representing 77.1 per cent of the sub-index value.

Primary Debt Market Activity

Provisional data suggests that during April 2019 to September 2019, primary debt market activity was substantially lower (**Table IVc**). Over the period, the market witnessed six primary placements financing \$4,358.7 million, compared to 14 issues raising \$9,435.5 million in the same period one year earlier. The Central Government continued to be the major borrower, financing \$3,342.9 million via five private placements, for budgetary support and the repayment of a maturing bond facility. Conversely, only one private-sector firm accessed financing for US\$150 million on the primary debt market over the period.

Table IVc: Primary Debt Security Activity – April 2019 to September 2019^p

Period Issued	Borrower	Face Value (\$ Mn)	Period to Maturity	Coupon Rate Per Annum	Placement Type
Apr-19	Central Government of Trinidad and Tobago	800	10.0 years	Fixed rate 4.90%	Private
May-19	Central Government of Trinidad and Tobago Tranche A Tranche B	1,000 700	1.0 year 1.0 year	Fixed rate 3.05% Fixed rate 3.05%	Private Private
	Republic Bank Limited	1,015.7 (US\$150)	5.0 years	Fixed rate 5.07%	Private
Aug-19	Central Government of Trinidad and Tobago	300	13.0 years	Fixed rate 5.05%	Private
	Central Government of Trinidad and Tobago	242.9 (US\$36)	7.0 years	Fixed rate 4.25%	Private
Sep-19	Central Government of Trinidad and Tobago	300	6.0 years	Fixed rate 3.99%	Private

Source: Central Bank of Trinidad and Tobago

p Provisional.

Secondary Bond Market Activity

Activity on the secondary Government bond market fell over April 2019 to October 2019. Over the period, 23 Central Government bond trades occurred with a cumulative face value of \$112.1 million, compared to 37 trades with a face value of \$185.4 million in the similar period one year earlier. Conversely, the secondary corporate bond market²⁶ continued to register activity with 72 trades over the period; however, the cumulative face value exchanged was notably low at \$5.1 million.

Central Government Yield Curve²⁷

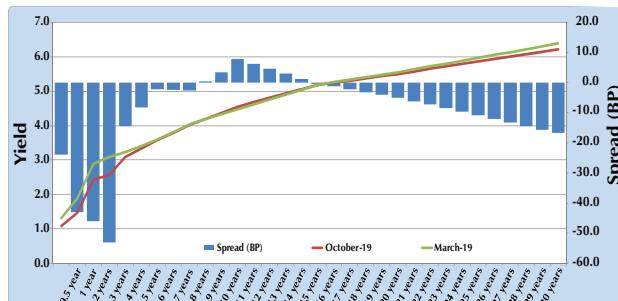
Over the seven months ending October 2019, the Central Government yield curve generally displayed a declining trend apart from a few medium-term tenors. The short-term tenors exhibited the largest declines, suggesting that holders of Treasury securities were willing to invest at lower rates given the consistently elevated liquidity conditions (**Chart IVh**). During the period, the three-month rate fell by 24 basis points to 1.08 per cent, the six-month rate reduced by 43 basis points to 1.47 per cent, the one-year rate dropped by 46 basis points to 2.43 per cent, and the two-year rate deteriorated by 53 basis points to 2.56 per cent.

On the longer end of the curve, the ten-year rate increased by seven basis points to 4.55 per cent, while the 15-year rate dipped by one basis point to 5.18 per cent. Converse to the movements in yields, the Central Government Bond Price Index marginally declined by 0.2 per cent while the Total Return Index gained 3.7 per cent over the review period.

Mutual Fund Industry²⁸

The local mutual funds industry improved during the second quarter of 2019 (**Chart IVi**). Aggregate funds under management²⁹ grew by 2.0 per cent to \$46,197.6 million compared to a 3.1 per cent increase in the same period in 2018. All fund types improved over the period. Income funds expanded by 1.0 per

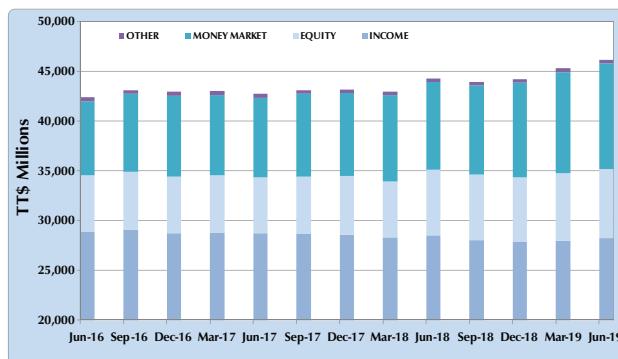
Chart IVh:
Trinidad and Tobago
Central Government Treasury Yield Curve



Source: Central Bank of Trinidad and Tobago

* Spread represents the basis point difference in respective tenor yields.

Chart IVi:
Mutual Funds Under Management:
Disaggregated by Fund Type



Source: Central Bank of Trinidad and Tobago

²⁶ Activity on the TTSE corporate bond market began to improve following the listing of the three National Investment Fund Holding Company Limited (NIFHCL) bonds in September 2018.

²⁷ The TT Treasury Yield Curve is constructed monthly by the Central Bank of Trinidad and Tobago and is based on information from Domestic Market Operations, the Trinidad and Tobago Stock Exchange (TTSE) Secondary Government Bond Market, and market reads from market participants.

²⁸ In September 2018 a reclassification of funds used in this analysis was undertaken to more accurately represent the industry characteristics.

²⁹ 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.

cent to end the quarter at \$28,263.3 million, while Equity funds grew by 2.3 per cent to \$6,923.9 million. Money market funds experienced the most significant improvement, increasing by 4.2 per cent to \$10,632.8 million. Additionally, funds classified as 'Other'³⁰ grew by 3.7 per cent to \$377.6 million.

In terms of currency profile, both domestic and foreign currency funds improved over the second quarter of 2019. Domestic currency funds increased by 2.2 per cent to \$37,342.4 million. Additionally, despite witnessing net redemptions over the period, foreign currency funds grew by 0.5 per cent to the TT dollar equivalent of \$8,855.2 million, likely due to declining US bond yields driving up bond prices.

During the second quarter of 2019, the industry witnessed net sales of \$421.0 million, reflecting total sales of \$4,056.9 million and total redemptions of

\$3,635.9 million. Money Market funds experienced the largest net sales subscriptions at \$433.4 million, while Equity funds and 'Other' funds witnessed negligible net subscriptions of \$8.2 million and \$5.9 million, respectively. On the other hand, an overall net redemption of \$26.6 million was recorded in Income funds which comprised of \$125.5 million in net redemptions from foreign currency income funds and \$98.9 million in net sales from TT dollar income funds. In terms of currency profile, TT dollar funds posted \$503.0 million in net sales during the quarter. Foreign currency funds, however, witnessed the equivalent of \$82.1 million in net redemptions.

³⁰ Other funds represent high yield funds and special purpose funds.