CENTRAL BANK OF
TRINIDAD & TOBAGO

WINSTON DOOKERAN
Governor

April 9, 1998

Sent to All Commercial Banks and NFIs

REF: CB: G – 188/98

Dear Sir

Re: Changes in Monetary Policy

The Central Bank wishes to advise that pursuant to section 25(1)(b) of the Financial Institutions Act, 1993 (FIA), the following are to be included in the definition of prescribed liabilities to which the cash reserve requirement is applicable:

1. Total demand, savings and time deposits denominated in local currency

2. All short-term credit instruments placed with the reporting institution on a wholesale basis with a maturity of one day up to and including one year, including commercial paper, negotiable certificates of deposit and repurchase agreements.

3. All fund-raising instruments maturing either within or beyond one year of the reporting date, including mortgage pass-through certificates, floating rate tax-free debentures, investment note certificates and secured commercial paper.

We also wish to advise that pursuant to the aforementioned section of the FIA, the Reserve Accounts which non-bank financial institutions are required to hold with the Central Bank will be maintained at 9 per cent. These changes will take effects from the reserve week commencing April 15 1998.

You are reminded that in accordance with section 25(4) of the FIA, failure to maintain the Reserve Account at the required level will result in the imposition of interest charges of one-thirtieth of 1 per cent per day of any deficiency. For deficiencies extending beyond one week, interest will be charged at double the rate stated above. It should be noted that if circumstances so warrant, the Central Bank may impose interest charges of a maximum of three times the basic rate stated above.

Yours faithfully,

Winston Dookeran

Media Release

The Central Bank wishes to advise the public of the following changes in its monetary policy:

- With effect from April 15 1998, the Central Bank will expand the range of prescribed liabilities on which the statutory cash reserve requirement will be applied in the case of both the commercial banks and non-bank financial institutions licensed under the Financial Institutions Act 1993. The new prescribed liabilities will include, in addition to deposits all credit and other fund raising instruments placed with these on either a long or short term basis.

- Also with effect form April 15 1998, the cash reserve ratio will be set at 21 percent of the expanded prescribed liabilities in the case of commercial banks compared to the previous ratio of 24 percent. The cash reserve ratio for non-bank financial institutions will remain at 9 percent.

While the reserve ratio has been reduced for commercial banks, the expansion of the range of prescribed liabilities will result in an increase in the required reserves to b held with the Central Bank. In effect, liquidity will be tightened. It is recognized that some increase in interest rates is likely to result from the present change in policy but this must be viewed as the unavoidable short-term cost of economic and financial stability.

The reserve requirement has traditionally been applied to deposit liabilities of the banking system. The change has been adopted in the light of the increasing, particularly in the last year, of funding mechanisms that do not fall within the description of deposits but which provide funding capacity to expand credit.

The development of theses new classes of liabilities is not unique to Trinidad and Tobago but has been evident in major financial markets for some time and is a result of continuing process innovation. These new liabilities contribute considerably to the financing of expenditure and thereby fuel demand in the economy while remaining outside the conventional definitions of money. Extending the coverage of reserve requirements to these liabilities will significantly strengthen the effectiveness of monetary policy and enhance the Central Bank's control over the growth of money and credit.

The tightening of financial conditions which will result form the current measure will assist the Central Bank in its efforts to maintain stable domestic prices and to contain demand pressures on the balance of payments and on the exchange rate, which the Bank considers to be broadly appropriate.

The Bank is optimistic that the improved effectiveness of monetary policy and the continuing shift in emphasis toward the use of open market operations will allow for reductions in reserve requirements. The Bank is committed to reducing reserve requirements over time, which will lower the cost of financial intermediation and promote efficiency.

14 April 1998

CENTRAL BANK OF TRINIDAD & TOBAGO

April 15, 1998

REF: CB-DGO-36/98

Changes in Monetary Policy

Further to our letter of April 9 1998, we wish to confirm that the additional balance of 5 percent of prescribed liabilities which commercial banks have been requested to hold in the form of treasury bills or cash will now apply in respect to the expanded scope of prescribed liabilities.

We look forward to your continued co-operation.

Yours sincerely

Amoy Chang Fong
Deputy Governor

CENTRAL BANK OF
TRINIDAD & TOBAGO

April 21, 1998

Sent to All Commercial Banks and NFIs

REF: CB-DGO-38/98

Dear Sir,

Changes in Monetary Policy

With reference to our letter dated April 9, 1998, on changes in monetary policy and queries in respect of which instruments are to be included or excluded from prescribed liabilities, we wish to clarify the following: the prescribed liabilities are denominated in TT dollars. Items to be included and their associated (CB20) Monthly Statement of Condition Account Numbers are:

- Demand, savings and time deposits denominated in local currency
  CB20 Account 21

- All short-term credit instruments placed with the reporting institution on a wholesale basis with a maturity of one day up to and including one year. These include commercial paper, negotiable certificates of deposits and repurchase agreements.
  CB20 Account 2609

- All fund raising instruments maturing either within or beyond one year of the reporting date. These include mortgage pass through securities, floating rate tax-free debentures, investment note certificates, and secured commercial paper.
  CB20 Account 2610, 2704

- **Bonds with an original maturity of not more than five years.**
  CB20 Account 2709

The following items are to be excluded for the time being:

- Bank's Acceptances of its customers' liabilities arising from Bills of collection, letters of credit negotiated and other Bond, Guarantees, Indemnities and Bankers Acceptances
  CB20 Account 15

- Borrowings
  CB 20 Account 24, 2701, 2702, 2703 and 2709 where maturities exceed 5 years

- Bonds, debentures, tax exempt debentures issued under an approved mortgage funding scheme and other long term instruments with maturities longer than five (5) years
  CB20 Account 27 (excluding 2704)

- All credit lines or other lending arrangements where the institution is acting as an on-lending agent (e.g. BEIRL).
  CB20 Account 27 (excluding 2704)

Yours sincerely

Amoy Chang Fong
Deputy Governor – Operations