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CENTRAL BANK OF
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Monetary Policy Report

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MONETARY POLICY REPORT

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

Monetary Policy Report

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MONETARY POLICY REPORT

May 2014

PART I – Overview and Outlook

Against the backdrop of a nascent economic recovery and relatively subdued inflationary pressures, the Central Bank of Trinidad and Tobago maintained its accommodative monetary policy stance in the first five months of 2014, keeping its main policy rate at an all-time low. Evidence has emerged to suggest that the prolonged period of low interest rates has helped the domestic economic recovery gain some foothold. While maintenance-related shutdowns and other planned stoppages affected production in the energy sector in the second half of 2013 and early 2014, activity in the non-energy sector over this period has been quite robust ([Table 1b](#)). Indeed, results from the inaugural Business Confidence Survey, showed that businessmen were “cautiously optimistic” on the economic outlook, with the majority of respondents indicating plans to maintain or increase hiring. To corroborate these results, business sector lending emerged from a year-long period of decline in the first quarter of 2014. Consumer and real estate lending were also fairly robust during the first three months of 2014.

Inflationary pressures to April 2014 have been subdued. Despite a small pick-up in early 2014, core inflation remained within comfortable levels. However, with economic activity expected to strengthen, already elevated and rising liquidity levels in the banking system have the potential to fuel inflationary pressures. Cognizant of this, the Bank paid particular attention to liquidity management and gained Parliament’s approval for an increase in the borrowing limits under the Treasury Bills and Notes Acts. As a result, the Bank began to expand its open market operations in April 2014, thereby withdrawing some excess liquidity from the banking system.

Liquidity levels in the banking system continued to be fuelled by net domestic fiscal injections as work continues on several large public sector projects. While preliminary data for the first half of fiscal year 2013/2014 showed that the Central Government accounts recorded a net surplus, the fiscal stimulus may have in fact been stronger than suggested by the reported outturn. A large one-off dividend payment from a state enterprise and receipts from the First Citizens Bank initial public offering drove the increase in total Government revenues when compared with a year ago. Excluding these receipts, the non-energy fiscal deficit would have been much wider.

The global economic recovery has gained traction and is expected to strengthen over the medium term. The growth dynamic experienced within the past decade has shifted, as strengthening advanced economies, such as the United States and the United Kingdom are now lending momentum to the global economy. Meanwhile, the prospects for emerging markets have been tempered by slowing growth in China, the reversal of capital flows away from emerging economies and geopolitical tensions stemming from the Russia-Ukraine stand-off. Central banks have responded to the varying economic situations facing their respective economies. The monetary policy stance of central banks in advanced economies has been largely accommodative (Table Ia), while that of their major emerging market counterparts has been more restrictive. One common theme, particularly in the advanced markets, has been the use of "forward guidance" by central banks to relay their views and expectations about the economy and the future path of monetary policy.

Table Ia
Key Central Bank Policy Rates
(Per Cent Per Annum)

	Current Rate	Last Change	Amount of Change
United States	0 to 0.25	Dec-08	-0.75
Euro Area	0.25	Nov-13	-0.25
United Kingdom	0.50	Mar-09	-0.50
Japan	0 to 0.10	Oct-10	- (0 to 0.10)
China	6.00	Jul-12	-0.31
India	8.00	Jan-14	+0.25
Brazil	11.00	Apr-14	+0.25

Source: Bloomberg.

Thus far in 2014, conditions in the major global financial markets have been relatively stable. Although the Russia-Ukraine conflict created some volatility in early 2014, market tensions have since eased, with contagion thus far limited to those countries with direct trade and financial links to the Eastern European region. After peaking in February, by the end of May 2014, the Chicago Board Options Exchange Volatility Index (VIX) had fallen below pre-conflict levels. International equity markets in developed countries have trended higher, while there was also healthy appetite for global corporate bonds as Bloomberg's Global Investment Grade Corporate Bond Index trended upwards in the first five months of 2014. Meanwhile, sovereign yields of the PIGS¹ countries all trended lower thus far in 2014, suggesting that the tensions from Europe's debt crisis continued to subside. In addition, notwithstanding losses posted by some major emerging nations such as China, Brazil and Russia, equity markets in several other emerging markets have reversed the declines experienced in the second half of 2013, with the MSCI Emerging Markets Index posting a moderate increase in the first five months of 2014.

Janet Yellen's appointment as the Chair of the US Federal Reserve (Fed) Board of Governors in February 2014 came when the US economy began showing signs of moderate growth. The Fed started tapering its quantitative easing programme in January 2014, under former Chairman Bernanke. Chair Yellen has so far continued to gradually reduce the Fed's asset purchases in the first five months of her stewardship. However, there has been a change in the Fed's forward guidance, with the new Chair indicating that any decision on the future path of policy rates will take into consideration a wide range of economic information rather than an unemployment threshold. Her speech on April 16, 2014, reiterated that US policymakers will assess the economy's progress towards full employment and stable inflation and further reassured markets that US policy rates can remain at record lows for a "considerable" time after asset repurchases end.

¹ PIGS refers to Portugal, Italy, Greece and Spain.

Activity in the Eurozone is gradually picking up, but the European Central Bank (ECB) is concerned about the risk of deflation. Over the last six months, the ECB has maintained its accommodative monetary policy stance and kept its policy rate at a record low. With interest rates already near zero, the ECB in May 2014 signalled the possibility of further monetary easing to avert deflation. The Bank of England continues to signal that monetary policy in the UK will remain accommodative as long as necessary.

Meanwhile, a surge in private consumption ahead of a sales tax increase in April 2014 led to strong economic growth in Japan in the first quarter of 2014. However, trade deficits and falling consumer confidence (notwithstanding higher personal spending during the first quarter), coupled with the anticipated fall-out from the increase in consumption tax, have raised concerns on whether the Japanese economy can maintain this momentum for the rest of 2014. The Japanese public is awaiting the “third arrow” – structural reforms – of Prime Minister Shinzo Abe’s “Abenomics” as a means of reviving the embattled economy. Thus far in 2014, the Bank of Japan maintained its commitment to increasing the country’s money supply in an effort to meet its inflation target.

Emerging market economies have faced several challenges in recent times, prompting varying central bank responses. With the exception of China, the central banks of the four other BRICS nations have raised their monetary policy rates thus far in 2014. Faced with depreciating currencies and higher inflationary pressures, the central banks of India and Brazil continued to implement rate increases in the first four months of 2014 ([Table 1a](#)). The Bank of Russia, facing additional challenges arising from the geopolitical conflict with Ukraine, also hiked its policy interest rate. On the other hand, the People’s Bank of China has kept interest rates on hold since 2012, as the Chinese Government plans to implement structural reforms aimed at achieving more balanced and sustainable growth.

Economic fortunes have also varied in the English-speaking Caribbean. Buoyant commodity prices, particularly gold prices, have continued to positively impact economic prospects for Guyana and Suriname. Jamaica's economic outlook has improved, as the country has so far met the necessary targets under its International Monetary Fund (IMF) Standby Agreement. On the other hand, economic activity in Barbados came to a virtual standstill in the first quarter of 2014. With its major tourism product facing strong global competition, Barbados is at the same time restrained by limited fiscal space and relatively high public sector debt.

Outlook

The global economy is expected to strengthen over the medium term. The outlook is positive for advanced economies, particularly the US, where despite a sluggish first quarter, activity is expected to increase over the course of 2014. Given this, markets anticipate that the Fed will continue to reduce its asset purchase programme and at the current pace, US quantitative easing will come to an end by October 2014. The move away from extraordinary accommodation by the Fed has already seen US treasury rates creep upwards and prior to the Russia-Ukraine conflict, the general consensus was for treasury rates to rise further as US monetary policy normalizes.

The Russia-Ukraine conflict, which started in early 2014, has added a dimension of uncertainty to the global economic outlook. Russia supplies the Euro area with essential energy products and is also an important market for European goods and services. The conflict in Ukraine also has implications for global agricultural commodity prices, as both Ukraine and Russia are large wheat producers. Severe weather conditions in several key agricultural areas in the US have already resulted in higher agricultural commodity prices thus far in 2014. Prolonged drought in the US, coupled with any disruptions to supply in wheat from Russia and Ukraine, pose upside risks to global food prices.

Broadly, the economic outlook for Trinidad and Tobago mirrors the general sentiment garnered from the inaugural Business Confidence Survey, that is, one of cautious optimism. After posting slightly faster-than-expected growth in 2013, the pace of activity is expected to strengthen in 2014. Stronger growth is based on an improvement in energy sector output, as well as continued momentum in the non-energy sector. Public and private sector-oriented projects are being undertaken in various areas of the country. In Couva, construction is on-going on the Children's Hospital and a state-of-the-art National Aquatic Centre, and work continues on the Point Fortin Highway. Some of the larger on-going private sector projects include a cinema and shopping complex in Corinth, south Trinidad.

The accommodative monetary policy stance of the Central Bank and the subsequent low interest rate environment has supported the domestic economic recovery. However, with interest rates at record lows, consumption is on the rise, as evidenced by robust growth in consumer borrowing and sharp increases in sales figures for high-priced durables such as motor vehicles. The faster pace of economic growth, coupled with rising consumption and the threat of higher international agricultural prices, have the potential to stoke inflationary pressures over the coming year. Another area of interest is the outlook for US interest rates and, by extension, TT-US treasury rate differentials. While there has been limited evidence of large portfolio outflows to date, for a small open economy such as Trinidad and Tobago, compressed treasury rate differentials may not be sustainable in the near future.

The Central Bank is committed to providing the necessary support to the economic recovery underway, but will have to start giving greater weight to managing inflationary expectations in its monetary policy deliberations. With the increase in the borrowing limits under the Treasury Bills and Notes Acts, the Bank has already begun to withdraw some of the excess liquidity from the banking system by intensifying its open market operations. The Bank will continue to use available instruments and other liquidity absorption methods to further contain banking system liquidity and rein in potential underlying inflationary pressures.

Table Ib
Summary Economic Indicators for 2013-2014

	Jan-Mar 2013	Jan-Mar 2014
REAL SECTOR ACTIVITY		
Energy Sector		
Total Depth Drilled (metres)	29,008	26,235
Crude Oil Production (b/d)	81,575	79,524
Crude Oil Exports (bbls)	3,389,085	2,222,698
Refinery Throughput (b/d)	112,757	76,456
Natural Gas Production (mmcf/d)	4,359	4,253
Natural Gas Utilization (mmcf/d)	4,047	3,963
LNG Production (cubic metres)	8,697,215	8,211,689
Fertilizer Production (000 tonnes)	1,377	1,440
Fertilizer Exports (000 tonnes)	1,285	1,407
Methanol Production (000 tonnes)	1,420	1,438
ECPI (Jan 2007 = 100)	142	148
Non-Energy		
Local Sales of Cement (000 tonnes)	150	162
Motor Vehicle Sales	3,797	4,275
Daily Job Vacancy Advertisements	733	1,183
Prices		
<i>Year-on-Year Per Cent Change</i>		
Producer Prices	2.2	3.0
Headline Inflation*	5.5	3.3
Food Inflation*	9.4	4.1
Core Inflation*	2.4	2.6
Monetary**		
<i>Year-on-Year Per Cent Change</i>		
Private Sector Credit	2.4	5.8
Consumer Lending	4.1	5.8
Business Lending	-3.1	3.3
Real Estate Mortgages	14.9	11.1
M-1A	12.9	24.4
M-2	10.0	14.1
Average Commercial Banks' Excess Reserves (\$ millions)***	4,975.5	6,653.4
TT 91-day Treasury Bill Rate (per cent)*	0.15	0.06
Financial Stability**		
Non-Performing Loans (per cent)	4.7	4.2
Capital Adequacy Ratio (per cent)	24.4	23.7
Capital Market		
Composite Price Index (1983 = 100)*	1,106.2	1,179.7
Volume of Shares Traded (millions)***	23.9	40.0
Mutual Funds Under management (\$ billions)**	40.5	40.0
External		
<i>US\$ Millions</i>		
Sales of Foreign Exchange to Public ***	2,168.5	2,085.9
Purchases of Foreign Exchange from Public ***	1,740.5	1,845.2
CBTT Sales to Authorized Dealers ***	390.0	360.0
Net Official Reserves*	9,278.4	10,362.2

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

* As at end of April.

** As at end of March.

*** For the period January-April.

PART II – International and Regional Monetary Policy Developments

Introduction

Monetary conditions remained generally supportive in advanced economies over the last six months, as policy rates were kept near zero. However, with signs of improving macroeconomic fundamentals, the US Federal Reserve (Fed) began to taper its asset purchasing programme in January 2014. Meanwhile, with the risk of deflation threatening, the European Central Bank (ECB) in May 2014 has alluded to the possibility of further monetary easing. On the other hand, the reversal of quantitative easing (QE) in the US has had significant monetary spill-over effects in several emerging market economies. Since the last Monetary Policy Report in November 2013, central banks in several emerging markets continued to raise their policy rates in 2014, facing capital outflows, depreciating currencies and inflation.

International

With the global economy beginning to strengthen, the monetary policy stance and tools used by advanced economies have been modified to facilitate the changing economic environments. After first hinting of the possibility of tapering its QE programme in May 2013, the US Fed began to reduce its asset purchases programme by US\$10 billion in January 2014, and it is largely expected that QE will come to an end by the fourth quarter of 2014 if the positive outlook for the US economy holds. Since the first announcement in May 2013, markets have responded to the reduction (or potential reduction) in US monetary stimulus. For instance, the benchmark 10-year US treasury bond yield rose from 1.70 per cent in April 2013 to 2.48 per cent at the end of May 2014.

However, the Fed has kept the target for the federal funds rate between 0 and 0.25 per cent. In fact, under the new Chair, Janet Yellen, the Fed's forward guidance

has been modified to suggest that the decision on the future path of policy rates will depend on a wide range of information, including labour market conditions, indicators of inflation pressures, inflation expectations and analyses of financial developments. With the US unemployment rate falling in April 2014 to below the 6.5 per cent threshold specified previously by the Fed, the change in the forward guidance went some way to assure markets that policy rates will not be increased in the near term. The Bank of England (BoE) maintained its policy rate at 0.50 per cent and upheld its asset buying programme at £375 billion over the period, despite unemployment falling below the 7.0 per cent threshold in March 2014. With inflation averaging around 1.7 per cent (year-on-year) in the first three months of 2014, the Bank stated that its policies were now geared towards inflation targeting, as there remains scope to further absorb spare capacity in the economy before increasing its policy rate.

In January 2014, the ECB, BoE, Bank of Japan (BoJ) and Swiss National Bank (SNB) began to gradually reduce the number of operations used to provide US dollar liquidity to the markets, with the intention of eventually phasing them out, in response to waning demand. In Europe in particular, financial market tensions have eased significantly since the height of the sovereign debt crisis. For instance, sovereign debt spreads on 10-year bonds for two of the most embattled European countries, Greece and Portugal, have fallen to 4.9 per cent and 2.3 per cent, respectively, at the end of May 2014 from a daily average of 8.3 per cent and 4.5 per cent in 2013, respectively. In fact, the improving financial sentiment prompted both Greece and Portugal to return to the international debt market in 2014.

However, while financial tensions may have eased, the economic outlook for the Euro area (or Eurozone) is not as strong as in the US and UK. The preliminary growth estimate of just under 1.0 per cent (annualized) in the first quarter of 2014 for the 18-member Eurozone was below market expectations. Headline inflation in the Euro area remained under 1.0 per cent for the last seven months (October 2013 – April 2014), well below the ECB's 2.0 per cent target, further suggesting that the

economy may be coming to a standstill. Furthermore, geopolitical tensions with Russia over the impasse in Ukraine pose a significant threat, as the former is a major trading partner and important supplier of energy to the Euro area. The ECB has maintained its policy rate at 0.25 per cent since November 2013 and with the threat of deflation looming, the Bank may also be considering new stimulus measures.

The BoJ continued its policy of expanding the monetary base by an annual 60 trillion to 70 trillion yen (US\$670 billion), even after the U.S. Federal Reserve decision to taper helped weaken the yen to a five-year low against the dollar. The BoJ also extended and expanded its special loan programmes in February 2014, aimed at enhancing the transmission mechanism of quantitative easing by encouraging banks to boost lending and mitigate the adverse effects of the sales tax increase in April 2014 without additional stimulus.

Emerging Markets

The growth outlook, while still generally positive, is not as strong as it was a few years ago for emerging markets. Negative monetary spill-over effects from US QE tapering, coupled with the slowdown in China's economy has dampened the growth prospects for emerging market economies. Despite successive rounds of policy rate increases in the second half of 2013, Brazil and India continued to face weakening currencies and inflationary pressures. In light of this, the central banks in both countries implemented further policy rate hikes in 2014. The Reserve Bank of India raised its key policy rate by 25 basis points to 8.0 per cent in January 2014, while Brazil's Central Bank has so far increased its policy rate by 100 basis points to 11.0 per cent by April 2014 from the end of 2013. The latter also extended a programme of foreign-exchange swap sales, albeit at a reduced level, by six months into June 2014, to support the foreign exchange market and bolster the currency. However, India's growth is expected to pick up in 2014 due to an improvement in the current account balance and policies to stimulate investment. In addition, with

“pro-business” Narendra Modi emerging victorious from India’s general elections in April-May 2014, markets are optimistic that the new prime minister will take steps to boost economic growth. On the other hand, faced with weak investment growth and supply constraints, Brazil’s growth rate is expected to remain subdued in 2014 despite hosting the FIFA World Cup in 2014.

South Africa and Russia also faced similar downward pressures on their exchange rates and higher inflation, although the situation in the latter may be more extenuating, given the geopolitical climate. In early 2014, South Africa’s currency weakened beyond 11 rand per dollar for the first time since 2008, prompting the Central bank to raise its benchmark interest rate for the first time in almost six years, increasing the rate to 5.5 percent in March 2014 from 5.0 percent. Facing sanctions and condemnation by their Western neighbours and the US in light of the turmoil with Ukraine, Russia’s ruble has depreciated by 7.1 per cent from the beginning of January 2014 to the end of April 2014 and inflation has reached 7.3 per cent in April 2014 from 6.1 per cent at the start of 2014. In response, the Central Bank of Russia raised its key lending rate from 5.5 per cent at the end of 2013 to 7.0 per cent in March and then further to 7.5 per cent in April 2014. As a result, following weak growth in 2013, economic activity is projected to remain subdued in 2014, as geopolitical tensions and financial volatility continue to constrain investment.

Meanwhile, the People’s Bank of China (PBoC) has kept its policy rates on hold as Chinese policy makers seek to transform their economy from being highly dependent on investments to one which is more internally driven. However, the PBoC continued to grapple with excess liquidity in order to mitigate the risks of shadow banking. With the aim of moderating the growth of credit and maintaining price stability, several policies were put forward, such as interest rate liberalization, foreign exchange rate flexibility and convertibility of the yuan under the capital account. Although these policies should temper credit expansion, the continued accommodative stance of fiscal policy is expected to ensure that growth remains robust.

Regional

Central banks in the Caribbean region have continued to maintain generally accommodative monetary policy stances to facilitate the economic recovery (Table IIa). The Bank of Jamaica (BOJ) introduced a new standing liquidity facility (SLF) to assist deposit-taking institutions to clear their positions at the end of the day. The BOJ also uses a series of special certificates of deposit to absorb liquidity from the market as a tool to manage demand in the foreign exchange market.

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

	Current Rate	Last Change	Amount of Change
Trinidad and Tobago ¹	2.75	Sep. 12	-0.25
Barbados ²	7.00	Jun. 09	-1.00
Jamaica ³	5.75	Feb. 13	-0.50
Guyana ⁴	5.00	Mar. 13	-0.25

Sources: Central Banks of Trinidad and Tobago, Barbados, Jamaica and Guyana.

- 1 Repo rate as at March 2014.
- 2 Bank rate as at February 2014.
- 3 30-day Open Market Instrument Rate as at December 2013.
- 4 Bank rate as at March 2014.

Within Latin America, Venezuela's strained economic situation, including the growing spread between the parallel and official exchange rates, resulted in several currency downgrades to below investment grade. In an attempt to mitigate some of these issues, a tourist currency exchange rate was implemented in December 2013, which allowed tourists to purchase the Venezuelan currency at 11.3 bolivars per US dollar, compared with the official 6.3 bolivars per US dollar rate for most transactions. Further to this, in March 2014, a new market-based foreign exchange platform dubbed "Sicad II" was introduced with the intent to ease US dollar shortages and combat black market trading. Government officials say they will only intervene in Sicad II to prevent erratic price movements.

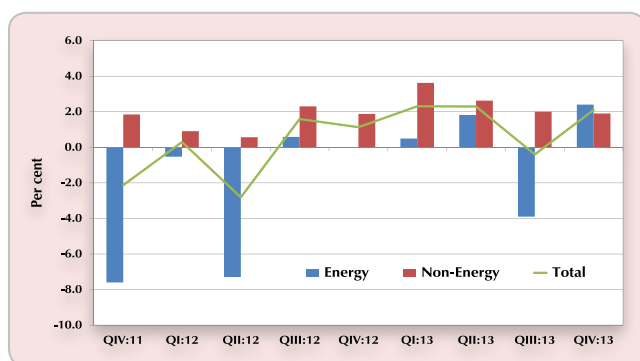
Economic conditions have varied in the rest of Latin America. Copper producers such as Chile and Peru have been negatively impacted by the slowdown in Chinese

demand, which pushed copper prices to the lowest levels in almost four years. Anticipating a slowdown in economic activity in 2014, the Central Bank of Chile lowered its benchmark rate to 4.0 per cent in March 2014 from 4.5 per cent at the beginning of the year. To stabilize its currency, Peru's Central Bank conducted several large interventions in the foreign exchange market, as well as reduced reserve requirements on local currency deposits in 2014. On the other hand, with evidence of relatively robust economic activity and low inflation, the Central Bank of Colombia held its benchmark policy rate at 3.25 per cent in the first four months of 2014. Likewise, following a series of downward adjustments in 2013, the Mexican Central Bank kept its policy rate unchanged at 3.5 per cent thus far in 2014.

PART III – Domestic Economic Conditions

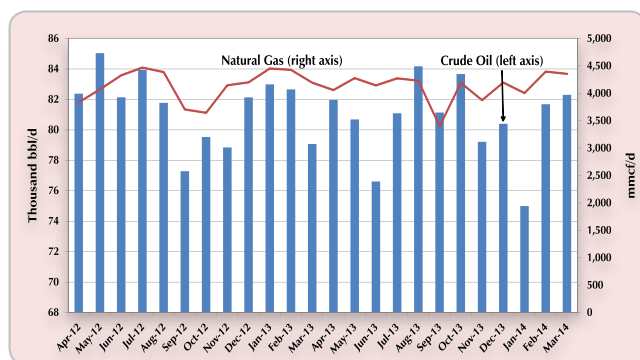
a) Real Gross Domestic Product¹

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



Source: Central Bank of Trinidad and Tobago.

Chart IIIb
Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Affairs.

The domestic economy rebounded in the fourth quarter of 2013 on the strength of a resurgence of activity in the energy sector. Provisional estimates from the Central Bank’s Quarterly Gross Domestic Product (QGDP) Index suggest that the Trinidad and Tobago economy grew by 2.1 per cent on a year-on-year basis in the fourth quarter of 2013 (**Chart IIIa**). The energy sector expanded by 2.4 per cent as operations in the oil and gas industries normalized following extensive maintenance activity in the previous quarter, while the non-energy sector returned a fair performance, increasing by 1.9 per cent.

During the fourth quarter of 2013, natural gas and gas-based industries drove the expansion in the energy sector. Natural gas output improved 2.4 per cent (year-on-year) during the period, while LNG and petrochemical output rose 3.5 per cent and 15.5 per cent, respectively (**Chart IIIb**). The Finance, Insurance and Real Estate sector led growth within the non-energy sector, increasing by 3.9 percent, while the Construction and Distribution sectors rose by 2.5 per cent and 1.2 per cent, respectively. Output in the Manufacturing sector was relatively robust at 2.1 per cent in the fourth quarter. However, manufacturing companies continued to utilize just about two-thirds of their existing capacity (**Table IIIa**). Meanwhile, following several quarters of modest growth, the agriculture sector posted a decline of 3.6 per cent in the fourth quarter of 2013.

Available information for the first quarter of 2014 suggests a mixed economic performance for the energy and non-energy sectors. The pick-up in the energy sector experienced in the fourth quarter of 2013 did not carry over into early 2014. Oil and gas production were adversely affected in January 2014 when bpTT temporarily took down its Savonette Platform to

accommodate drilling at another well. As a result, crude oil production fell 2.6 per cent (year-on-year) during the first quarter of 2014, while natural gas output slipped 2.5 per cent over the same period. Petrotrin's planned maintenance at its facilities in Pointe-à-Pierre during early 2014 negatively affected the refining sub-industry (-7.0 per cent). However, production of oil and gas rebounded during March 2014. Meanwhile, output in the petrochemical sector was up 2.9 per cent (year-on-year) in the first quarter of 2014, with increased production of both methanol (1.2 per cent) and fertilizers (4.6 per cent).

Table IIIa
Capacity Utilization Rate
Manufacturing Sector
(Per Cent)

	2012				2013			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Manufacturing	63.4	65.0	64.7	64.1	62.3	67.2	65.6	62.1
Food, Drink & Tobacco	70.1	72.3	69.1	71.0	67.7	74.5	72.8	61.7
Chemicals and Non-Metallic Minerals	49.4	50.0	61.3	62.0	59.4	63.3	58.8	62.2
Assembly-Type and Related Industries	57.0	61.1	54.9	50.8	55.8	54.0	56.8	57.3

Source: Central Bank of Trinidad and Tobago.

Initial indicators point towards a favourable outturn by the non-energy sector in the first quarter of 2014. Increases in local sales of cement (7.4 per cent) and new motor vehicles sales (12.6 per cent), which are gauges of economic activity within the Construction and Distribution sectors, indicate that these sectors should maintain their growth momentum in the first quarter of 2014. The Construction sector is expected to benefit from several on-going large public sector projects such as the highway to Point Fortin, the Housing Development Corporation's (HDC) Housing Repair Programme, the National Aquatic Centre, the Children's Hospital, the National Tennis Complex, the Valencia by-pass and the Bridges Programme. The private sector is also expected to provide a fillip to economic activity through several on-going projects, including a \$500 million 'C3' movie

and shopping complex in Corinth, south Trinidad. Moreover, increasing deposit and credit activity within the commercial banking system suggests that output in the Finance, Insurance and Real-Estate sector is likely to continue to trend upward.

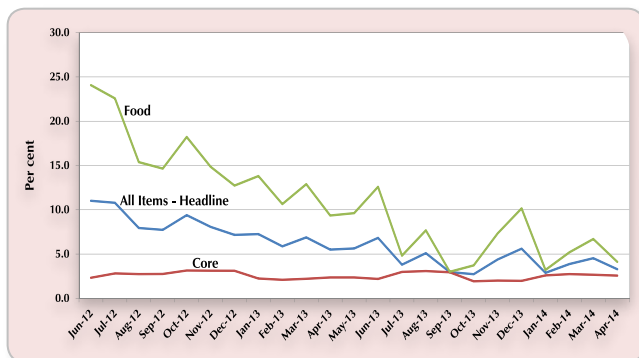
Additionally, following a contraction in the fourth quarter of 2013, the agriculture sector is anticipated to rebound in the first quarter of 2014. This is due in part to the harvesting of crops that were planted late in 2013 and increased crop production under the Caroni Green Initiative (CGI).

Business Confidence Index – Outlook as at January 2014

The inaugural Business Confidence Survey indicated that the business community is cautiously optimistic in its outlook for business activity and the strength of the economy over the next six to twelve months. The overall Business Confidence Index (BCI) was +37 and confidence indices across all economic sectors were positive. Firms in the Hotels/Guest Houses sector adopted the most optimistic outlook, recording a BCI reading of +52 for the survey period. The BCI levels of Chemical and Miscellaneous Manufacturers were marginally lower, while firms in more traditional trades were the least optimistic. Businesses located on the Eastern corridor of Trinidad logged a BCI of +53, the highest reading by region, making that business community the most optimistic for the survey period. Conversely, firms in Tobago were the least positive about the short-term business outlook. Three quarters of the respondents anticipated that their financial outlook would improve over the next year and 90 per cent of respondents expected to maintain or increase their workforce over the next 12 months. Notably, the respondents alluded to several impediments to doing business, with current economic conditions unanimously agreed to be the most significant constraint. Other constraints included a shortage of skilled labour, lack of financing and competition.

Chart IIIc
Index of Retail Prices

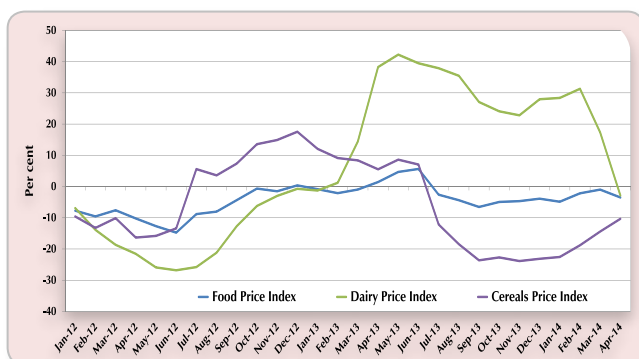
(Year-on-Year Per Cent Change)



Source: Central Statistical Office of Trinidad and Tobago.

Chart III d
FAO Food Price Index

(Year-on-Year Per Cent Change)



Source: Food and Agriculture Organization.

b) Prices

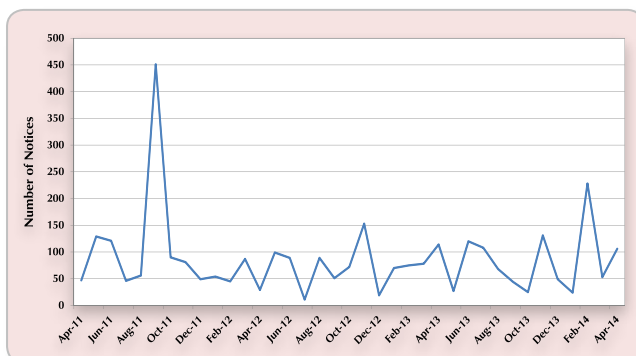
Since the last Monetary Policy Report in November 2013, inflationary conditions remained relatively subdued. On a year-on-year basis, headline inflation measured 3.3 per cent in April 2014, which was lower than 4.4 per cent in November 2013 and 5.5 per cent in April 2013 (Chart IIIc). However, core inflation accelerated to 2.6 per cent in April 2014 from 2.0 per cent in November 2013. Movements within the health, clothing and entertainment-related sub-indices were key drivers of core inflation in the first quarter of 2014. Going forward, if economic activity improves as expected and both private and public consumption increases, there may be further upside risk to core inflation.

Softer food inflation was the main factor behind the overall slowdown in headline inflation in the first four months of 2014. By April 2014, food inflation slowed to 4.1 per cent from 7.3 per cent in November 2013 and 9.4 per cent in April 2013. Favourable domestic weather conditions and higher output from the Caroni Green Initiative contributed to an easing of food price inflation. Regarding international food prices, the Food and Agriculture Organization’s (FAO) Food Price Index fell by 2.9 per cent (year-on-year) in the first four months of 2014, in spite of drought conditions across parts of the United States and spill-over effects from the Russia-Ukraine impasse on global commodities markets (Chart III d).

c) Labour Market

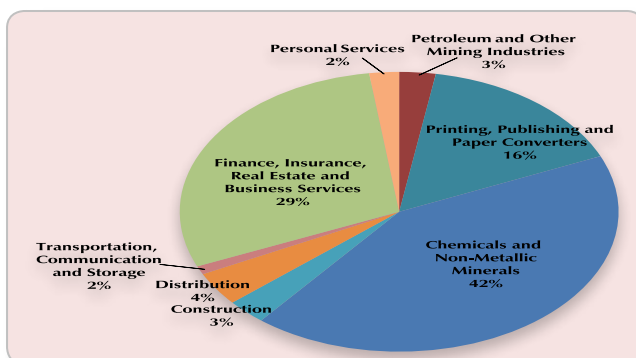
Official labour market statistics continued to be significantly lagged. According to the latest official information from the Central Statistical Office (CSO), the unemployment rate fell to a historic low of 3.7 per cent in the first quarter of 2013 from 5.4 per cent in the corresponding quarter of 2012. In the absence of more timely labour market statistics, retrenchment notices filed at the Ministry of Labour and Small and Micro Enterprise

Chart IIIe
Retrenchment Notices Registered



Source: Ministry of Labour and Small and Micro Enterprise Development.

Chart IIIf
Retrenchment Notices Registered By Sector
January - April 2014
As a Proportion of Total Notices Filed



Source: Ministry of Labour and Small and Micro Enterprise Development.

Development (MLSMED) were used as a gauge of the labour market. Retrenchment notices increased by 22.0 per cent in the first four months of 2014 compared with the corresponding period a year earlier (**Chart IIIe**). The bulk of notices originated in the sectors of Finance, Insurance, Business Services and Real Estate, Chemical and Non-Metallic Minerals and Printing, Publishing and Paper Converters (**Chart IIIf**). On the other hand, there have been several reports of labour shortages during the first four months of 2014, particularly within the Manufacturing and Agriculture sectors.

d) Fiscal Operations

The Central Government accounts recorded an overall surplus of just under 0.5 per cent of GDP in the first half of the fiscal year 2013/14 (October 2013 – March 2014), in contrast to a deficit of over 2.0 per cent of GDP in the corresponding period in FY2012/13 (**Table IIIb**). Despite several on-going public sector projects such as the Point Fortin Highway, the Children's Hospital and the National Aquatic Centre in Couva, recorded expenditure was 6.9 per cent lower than in the corresponding period one year ago. There was a substantial fall-off in transfers and subsidies, as petroleum subsidy payments amounted to \$700.3 million in the first half of FY2013/2014 compared with \$4,230.6 million in the same period one year earlier. Nevertheless, these payments are expected to increase in the second half of the fiscal year as the Government seeks to reduce the petroleum subsidy arrears. Meanwhile, thus far in FY2013/14, total Government revenue was up marginally from a year earlier as higher non-energy receipts compensated for a drop in energy revenues. Non-energy revenues were boosted by a large one-off dividend payment by a state enterprise and receipts from the First Citizens Bank Limited initial public offering.

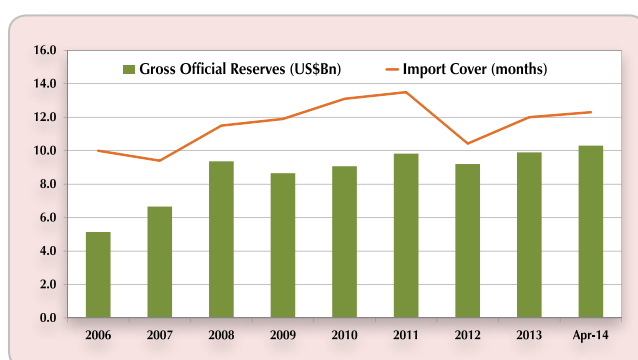
Consistent with higher non-energy revenues, the non-energy fiscal deficit fell to roughly 11.0 per cent of GDP from 18.0 per cent in the first six months of the previous fiscal year. While the resulting net domestic fiscal injection of \$6,221.3 million (October 2013 – March 2014) was roughly 40 per cent lower than a year ago, when added to an already liquid banking system,

it placed considerable upward pressure on commercial banks' excess reserves. Further, in line with the Central Government's expansionary fiscal stance, the pace of spending is expected to increase during the second half of FY2013/14. This in turn has implications for monetary policy as the rise in spending will lead to an increase in net domestic fiscal injections and add to the liquidity in the financial system.

e) External Accounts

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

Chart IIIg
Trinidad and Tobago Official Gross Reserves



Source: Central Bank of Trinidad and Tobago.

The movement in international reserves suggests that the external accounts registered an overall surplus of \$786.4 million ([Chart IIIg](#)) in 2013. Strengthened by inflows from an external bond issued by the Government in December 2013, the level of gross official reserves climbed to \$9,987.1 million or 12 months of prospective imports of goods and non-factor services at the end of 2013. The current account is estimated to have recorded a surplus of \$2,571.5 million, while the capital and financial account posted a deficit of \$1,785.1 million.

Based on the change in international reserves, the external account is expected to realize a surplus of \$26.2 million in the first quarter of 2014. The major contributor to foreign exchange inflows were Oil and Gas Receipts which rose by 25.8 per cent (year-on-year), while partial outflows data show a slight decline in Government payments to international agencies. Central Bank sales of foreign exchange for the first quarter of 2014 were recorded at \$360 million, an increase of \$55 million over the first quarter of 2013.

Table IIIb
Summary of Central Government Fiscal Operations

	2010/2011	2011/2012	2012/2013 ^p	Oct.-12 - Mar.-13	Oct.-13 - Mar.-14	2013/2014 ^b
Revenue	47,500.6	49,277.9	52,656.6	24,568.5	24,746.2	55,040.8
Energy	27,340.9	26,625.8	26,521.4	12,830.7	9,695.9	29,096.9
Non-Energy	20,159.7	22,652.1	26,135.2	11,737.9	15,050.3	25,944.0
Expenditure	48,602.5	51,474.8	56,831.6	26,327.2	24,499.3	61,397.9
Current	41,649.9	44,487.1	48,562.5	23,841.6	22,357.6	53,397.9
Wages and salaries	7,179.7	7,282.3	9,382.5	3,788.9	4,050.7	8,942.3
Goods and services	6,504.3	7,061.6	7,012.4	2,759.4	3,479.8	8,887.7
Interest payments	2,866.4	2,937.1	2,604.0	939.2	1,166.8	2,968.3
Transfers and subsidies	25,099.5	27,206.1	29,563.6	16,354.1	13,660.3	32,599.6
Capital expenditure and net lending	6,952.6	6,987.7	8,269.3	2,485.6	2,141.7	8,000.0
Overall Non-Energy Balance	-28,442.8	-28,866.1	-31,189.4	-14,589.4	-9,448.9	-35,454.0
Overall Balance	-1,101.9	-2,196.9	-4,175.2	-1,758.7	247.0	-6,357.1
Total Financing (net)	1,101.9	2,196.9	4,175.2	1,758.7	-247.0	6,357.1
Net Foreign Financing	545.2	1,054.1	-563.1	-303.8	3,392.4	2,856.7
Net Domestic Financing	556.6	1,142.8	4,738.3	2,062.5	-3,639.4	3,500.4
<i>Of which: Transfers to Heritage and Stabilization Fund</i>	-2,890.0	1,332.1	271.7	0.0	0.0	0.0
<i>(In Per Cent of Fiscal Year GDP)</i>						
Revenue	32.6	32.3	32.4	30.3	28.5	31.2
Energy	18.8	17.4	16.3	15.8	11.2	16.5
Non-Energy	13.8	14.8	16.1	14.5	17.3	14.7
Expenditure	33.4	33.7	35.0	32.4	28.2	34.8
Current	28.6	29.1	29.9	29.4	25.7	30.2
Wages and salaries	4.9	4.8	5.8	4.7	4.7	5.1
Goods and services	4.5	4.6	4.3	3.4	4.0	5.0
Interest payments	2.0	1.9	1.6	1.2	1.3	1.7
Transfers and subsidies	17.2	17.8	18.2	20.2	15.7	18.5
Capital expenditure and net lending	4.8	4.6	5.1	3.1	2.5	4.5
Overall Non-Energy Balance	-19.5	-18.9	-19.2	-18.0	-10.9	-20.1
Overall Balance	-0.8	-1.4	-2.6	-2.2	0.3	-3.6
Total Financing (net)	0.8	1.4	2.6	2.2	-0.3	3.6
Net Foreign Financing	0.4	0.7	-0.3	-0.2	3.9	1.6
Net Domestic Financing	0.4	0.7	2.9	2.5	-4.2	2.0
<i>Of which: Transfers to Heritage and Stabilization Fund</i>	-2.0	0.9	0.2	0.0	0.0	0.0
Memorandum Items						
Nominal GDP (in TT\$ Million, FY)	145,602.3	152,784.1	162,288.5	81,144.3	86,868.4	176,586.8

Sources: Ministry of Finance and the Economy and Central Bank of Trinidad and Tobago.

p Provisional.

b Budgeted data based on an oil price of US\$80 per barrel and natural gas price of US\$2.75.

PART IV – Monetary and Financial Sector Developments

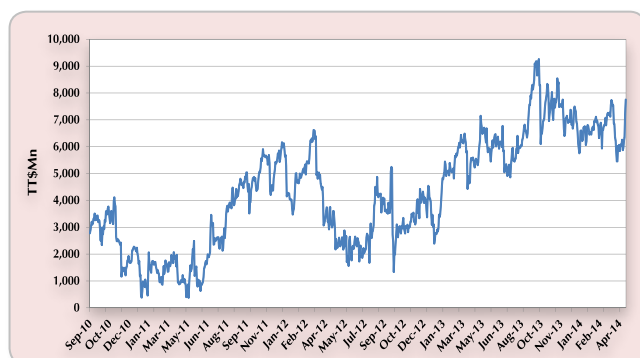
Monetary Developments

With inflationary pressures relatively subdued, the Central Bank's monetary policy remained supportive of the domestic economic recovery in the first five months of 2014. While there has been a small pick-up in core inflation, overall headline inflation has been under 5 per cent in the first four months of 2014. By the end of the first quarter of 2014, signs that the economic recovery is gaining further strength began to emerge. Early indicators point to continued growth in the non-energy sector and business lending has recovered in the first quarter of 2014 from a year-long slump.

Since the last Monetary Policy Report in November 2013, the Bank kept its main policy rate, the Repo rate, unchanged at 2.75 per cent. In December 2013, the Bank's liquidity management framework was improved by an increase in the borrowing limits under the Treasury Bills and Notes Acts and the subsequent Gazetting of these new limits. Over the six month period October 2013–March 2014, commercial banks' excess reserves averaged just over \$7 billion monthly compared with roughly \$4.1 billion in the same period one year ago ([Chart IVa](#)). With liquidity levels elevated, the Central Bank intensified its open market operations (OMOs) in April 2014, removing roughly \$1.2 billion from the banking system ([Table IVa](#)). Despite the maturing of a liquidity sterilization treasury bond at the end of April, increased OMOs resulted in banks' excess reserves falling to a daily average of \$6.3 billion in the month.

Other liquidity management measures undertaken by the Central Bank over the period October 2013–April 2014, included the rolling over of three commercial banks' fixed deposits held by the Central Bank which matured during the period. These deposits had a total value of \$5 billion and each was rolled over for one year. The Bank also indirectly removed approximately \$4.8 billion from the system via the sale of US\$750 million in the same seven-month period.

Chart IVa
Commercial Banks: Excess Reserves



Source: Central Bank of Trinidad and Tobago.

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

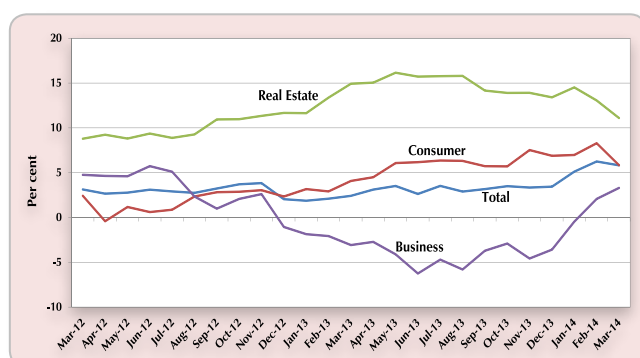
	2010	2011	2012	2013	Jan-Apr-13	Jan-Apr-14
Fiscal Injections	12,301.9	14,002.6	14,938.2	10,364.6	3,340.3	4,884.6
	Liquidity Absorption Measures					
Open Market Operations (OMOs)	156.9	-656.8	260.1	-260.1	-260.1	-1,000.0
CBTT Sale of Foreign Exchange	9,767.5	9,353.1	11,366.4	8,367.0	2,484.6	2,285.6
Central Gov't Treasury Bond Issues	0.0	0.0	0.0	1,559.3	0.0	0.0
Commercial Banks' Fixed Deposits	1,000.0	0.0	1,500.0	0.0	0.0	0.0

Source: Central Bank of Trinidad and Tobago.

With the expansion in the Central Bank's open market operations in April 2014, short-term treasury rates have picked up since the start of the year. The 3-month treasury bill rate rose to 0.14 per cent in May 2014 from 0.06 per cent in December 2013. Hence, the TT-US interest differential on 3-month treasury bills widened to 11 basis points in May 2014 from -0.01 per cent at the end of 2013. Meanwhile, weak economic data in the US for the first quarter of 2014 and investors returning to safe haven assets in the wake of the geopolitical tensions in Ukraine pushed longer term US treasury yields downwards in May 2014. With the similar TT security yield trending upwards since the end of 2013, the interest rate differential between the TT and US 10-year treasury yields moved into positive territory (roughly 15 basis points as at the end of May 2014) for the first time since mid-2013.

To encourage borrowing, commercial banks further lowered their lending rates in the first quarter of 2014. Commercial banks' weighted average lending rate fell 23 basis points (from the fourth quarter of 2013) to 8.28 per cent in the quarter ending March 2014 – the largest quarterly decrease for more than two years. With the weighted average deposit rate (0.55 per cent) falling by just 1 basis point, the spread between the weighted average lending and deposit rates narrowed to 7.72 per cent at the end of March 2014 from 7.96 per cent at the end of 2013.

Chart IVb
Consolidated Financial System: Private Sector Credit
 (Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago.

After posting relatively modest growth in 2013, the expansion in private sector credit has accelerated in early 2014 (**Chart IVb**). Lending to the private sector by the consolidated financial system rose by 5.8 per cent on a year-on-year basis to March 2014, up from 3.2 per cent in September 2013 and 2.4 per cent one year earlier. Commercial bank lending to the private sector continued to rise steadily, expanding by 6.0 per cent in March 2014 compared with 4.6 per cent in March 2013.

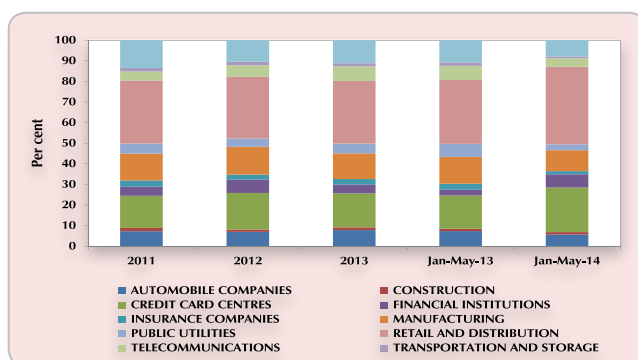
Early information also suggests that the growth in private sector credit has become more balanced, as business lending recovered from a year-long decline in the first quarter of 2014. Following 14 consecutive months of year-on-year decline, business loans granted by the consolidated financial system rose by 2.1 per cent (year-on-year) in February 2014 and 3.3 per cent in March 2014. A disaggregation of commercial banks' loans to businesses in March 2014 indicated that the recovery in business lending was driven by strong loan growth to the distribution sector (23.1 per cent), while loans to the other services sector also increased at a fair pace (7.9 per cent). On the other hand, there were year-on-year contractions in lending to the finance, insurance and real estate (6.5 per cent), manufacturing (6.4 per cent) and construction (5.4 per cent) sectors in March 2014.

Meanwhile, consumer loans maintained its fairly robust momentum in the first quarter of 2014. On a year-on-year basis to March 2014, consumer loans grew by 5.8 per cent compared with 5.7 per cent in September 2013 and 4.1 per cent in March 2013. A sectoral breakdown of consumer credit showed strong growth in housing-related loans such as bridging finance and loans for home improvement/renovation, which grew by 13.3 per cent and 5.7 per cent, respectively, in March 2014. Motor vehicle loans (13.9 per cent), credit card loans (7.1 per cent) and loans for refinancing (5.7 per cent) also recorded significant growth rates.

Record low mortgage rates continued to spur demand for real estate mortgage loans. In the first three months of 2014, the rate of expansion in real estate mortgage loans granted by the consolidated financial system remained

Chart IVc
Authorized Dealers: Sales of Foreign Exchange to the Public by Sector

As a Proportion of Total Sales

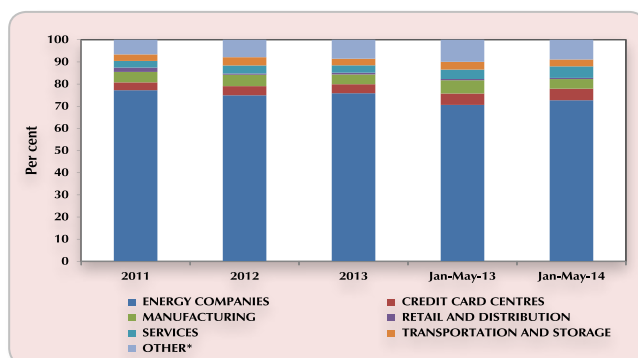


Source: Central Bank of Trinidad and Tobago.

- * Other includes Agriculture, Central and Local Government, Cultural and Community Services, Education, Energy Companies, Entertainment, Hotels and Guest Houses, Individuals, Media, Other Services, Overseas Customers and Real Estate and Stockbrokers.

Chart IVd
Authorized Dealers: Purchases of Foreign Exchange from the Public by Sector

As a Proportion of Total Purchases



Source: Central Bank of Trinidad and Tobago.

- * Other includes Agriculture, Central and Local Government, Cultural and Community Services, Education, Energy Companies, Entertainment, Hotels and Guest Houses, Individuals, Media, Other Services, Overseas Customers and Real Estate and Stockbrokers.

in double-digit territory. However, while there has been an increase in property prices over the past few years, there is limited evidence to suggest overheating in the residential property market.

Financial Sector Developments

Foreign Exchange Market

Sales of foreign currency by authorized dealers to the public during January-May 2014 amounted to US\$2,760.8 million, almost identical to the US\$2,761.6 million sold over the same period in 2013 (Table IVb). For sales in excess of US\$50,000, preliminary reports by dealers show that the demand for foreign exchange continued to be driven by the retail and distribution sector over the first five months of 2014 (Chart IVc). Likewise, evidence also suggests that credit card centres, manufacturing, telecommunications and automobile companies also accounted for a significant proportion of foreign exchange sales during the first five months of 2014.

Purchases of foreign exchange from the public (except from the Central Bank) by authorized dealers, however, amounted to US\$2,220.6 million during January-May 2014, a 1.9 per cent increase in the amount purchased over the same period in 2013. The energy sector, which has traditionally been a key source of foreign currency for authorized dealers, accounted for the majority of total supply (Chart IVd). The higher level of inflows, coupled with lower sales, resulted in a smaller net sales gap of US\$540.2 million during January-May 2014, compared with US\$583.9 million in the same period one year ago. This shortfall was completely off-set by the Central Bank's sales to authorized dealers of US\$610 million in the first five months of 2014.

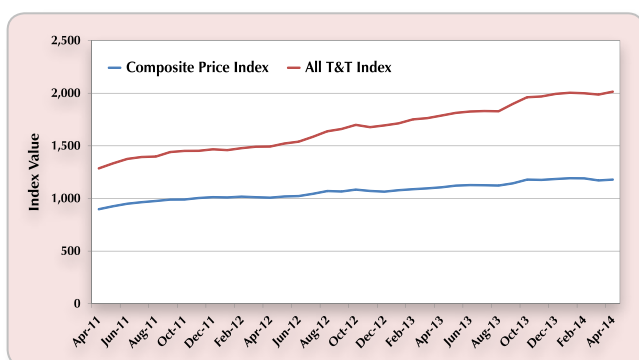
Prevailing conditions had only a slight impact on the TT/US dollar exchange rate. At the end of May 2014, the weighted average selling rate stood at US\$1 = TT\$6.4521, a slight appreciation from US\$1 = TT\$6.4577 at the end of May 2013.

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

Date	Purchases from Public	Sales to Public	Net Sales	Purchases from CBTT
2009	3,808.2	5,637.2	1,828.9	1,899.1
2010	4,043.3	5,536.0	1,492.7	1,550.0
2011	4,755.5	6,186.8	1,431.4	1,475.0
2012	4,859.1	6,713.7	1,854.6	1,785.0
2013	5,802.2	7,076.4	1,274.2	1,315.0
Jan-May 2013	2,177.6	2,761.6	583.9	490.0
Jan-May 2014	2,220.6	2,760.8	540.2	610.0
Y-o-Y Per Cent Change	1.9	0.0	-7.5	24.5

Source: Central Bank of Trinidad and Tobago.

Chart IVe
Composite and All T&T Stock Price Indices



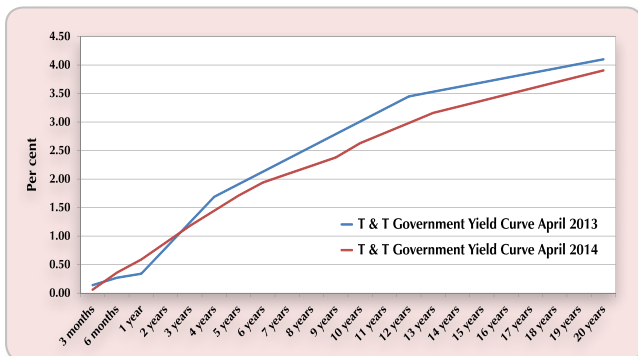
Source: Central Bank of Trinidad and Tobago.

Capital Markets

On the heels of a healthy performance in 2013, the local stock market has thus far disappointed early in 2014 ([Chart IVe](#)). Following an 11.3 per cent increase in 2013, the Composite Price Index (CPI) declined by 0.5 per cent on a year-to-date basis in April 2014. Despite the All Trinidad & Tobago Index (ATI) delivering a modest 1.1 per cent gain in the four months to April 2014, the overall market was weighed down by the continued weakness in the Cross Listed Index (-8.6 per cent). With respect to sectoral performance, the Banking sector exhibited the sharpest year-to-date decline of 3.2 per cent, as both First Citizens Bank Limited and First Caribbean International Bank Limited's share prices fell in the first four months of 2014. However, trading activity in the domestic stock market picked up during the first quarter of 2014, with 36.4 million shares being traded at a value of around \$328 million, compared with 16.5 million shares (\$248 million) changing hands in the comparative period in 2013.

With the exception of some short-term tenors, there was a general downward shift in the Central Government of Trinidad and Tobago yield curve in the 12 months to

Chart IVf
Central Government of
Trinidad and Tobago Yield Curve



Source: Central Bank of Trinidad and Tobago.

April 2014 (**Chart IVf**). The 1-year rate rose 25 basis points to 0.59 per cent in April 2014 from a year ago. On the other hand, given the structural liquidity overhang and limited suitable investment opportunities, there continued to be strong appetite for medium to long-term Central Government securities. The benchmark 10-year and 15-year yields fell by 38 basis points and 32 basis points, respectively, to 2.63 per cent and 3.37 per cent, respectively, in April 2014 from a year earlier. Traditionally low yields on medium to long-term bonds suggest that inflationary expectations are well anchored.

Following a decline of approximately 1.0 per cent in 2013, mutual funds under management grew by 1.7 per cent on a year-to-date basis to March 2014. Income funds under management reversed the decline posted in 2013 (4.3 per cent), increasing by 0.7 per cent in the first quarter of 2014. Meanwhile, equity funds under management maintained its strong growth momentum, expanding by 5.8 per cent during the period. In terms of the industry currency profile, foreign currency funds grew by 3.3 per cent in the first quarter of 2014, following a sizeable 9.4 per cent decline during 2013. Local currency funds continued to trend upwards by 1.3 per cent during the first three months of the year, as investors searched for higher local currency returns.

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