ISSN 1818-9959

CENTRAL BANK OF TRINIDAD & TOBAGO

Monetary Policy Report

November 2013

Volume XIII Number 2

MONETARY POLICY REPORT

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

Monetary Policy Report

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PART I – Overview

Since the last Monetary Policy Report in April 2013, changes in the language of the Chairman of the United States (US) Federal Reserve (Fed) in May 2013 regarding the medium-term outlook of its monetary policy stance resulted in sharp movements in capital flows, yields and currencies around the world. However, while the Fed's Quantitative Easing (QE) programme remained unaltered up to mid-December 2013 after the release of positive economic data, market opinion remains split on whether the Fed will announce any changes in its QE programme at its December 18, 2013 meeting. Meanwhile, monetary policies in other advanced economies such as the United Kingdom (UK), Euro Area and Japan remained highly accommodative. The Bank of England's (BOE) new Governor, Mark Carney, has introduced his style of forward guidance to the BOE's policy framework, indicating that monetary policy will remain accommodative as long as it was needed. The European Central Bank (ECB), in addition to its brand of forward guidance, also cut its main policy rate on two occasions thus far in 2013.

Economic sentiment in advanced economies is improving, while that of emerging markets may be on the wane. The CFA Institute's Global Markets Sentiment Survey 2014, indicated that 63 per cent of its membership expected that the global economy will expand in 2014. However, the Survey also showed that a greater proportion of members in advanced economies expected improving economic conditions in 2014, when compared with their emerging market counterparts. Further, the IMF's World Economic Outlook (October 2013) also reflected some degree of fall-off in the sentiment surrounding the economic performance of emerging markets.

Some emerging markets have been severely impacted by the reversal of capital flows following the speech by the Fed's Chairman in May 2013. As market expectations for higher US treasury yields grew, investors began to re-balance their portfolios towards the US and away from emerging markets. These large-scale capital outflows from emerging markets such as India, Indonesia and Brazil led to a fall in reserves and a depreciation of currencies, prompting several central banks to take actions to defend their currencies and curtail capital outflows.

The central banks of India and Brazil intervened in their foreign exchange markets to support their currencies, while increasing their policy rates to curb inflationary pressures **(Table Ia)**. India's new Central Bank Governor, Raghuram Rajan, has also had to cope with slower economic activity and higher inflation. Both India and Brazil have been grappling with inflationary pressures, with the former experiencing double-digit headline inflation in the first ten months of 2013. The monetary authorities in Indonesia and Turkey, faced with weakening currencies, increased their key policy rates. While the Bank of China kept interest rates unchanged thus far in 2013, it implemented various liquidity management measures to either supply or restrict liquidity when needed.

Monetary policy remained accommodative in the advanced economies. Up to mid-December 2013, the Fed's asset purchasing programme has remained unaltered. The Fed and the BOE kept their key policy rates at record lows, while the ECB lowered its policy rate cumulatively by 50 basis points over the course of 2013 to 0.25 per cent by November. The ECB's decision was taken against a backdrop of "dangerously" low inflation and forecasts that included lower growth and higher unemployment in the European Union in 2014. Both the BOE and ECB have communicated (forward guidance) that their monetary policies will remain accommodative as long as it was required.

In Japan, the aggressive stimulus programmes undertaken since December 2012 showed early signs of achieving the desired impact on the economy. "Abenomics", which refers to the suite of measures implemented by Japan's Prime Minister Shinzo Abe to stimulate the economy following his re-election in December 2012, includes fiscal stimulus, aggressive monetary easing by the Bank of Japan and structural reforms to boost competitiveness. Japan's core consumer inflation achieved the highest levels in nearly five years in the third quarter of 2013, while the economy recorded four consecutive quarters of economic growth over the period October 2012 – September 2013.

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

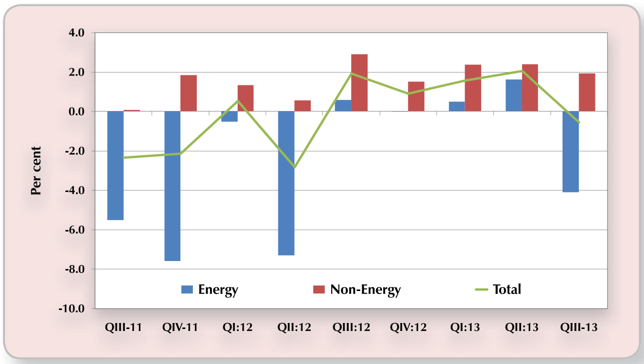
	Current Rate	Last Change	Amount of Change
United States	0 to 0.25	Dec-08	-0.75
Euro Area	0.25	Nov-13	-0.25
United Kingdom	0.50	Mar-09	-0.50
Japan	0 to 0.10	Oct-10	- (0 to 0.10)
China	6.00	Jul-12	-0.31
India	7.75	Oct-13	0.25
Brazil	10.00	Nov-13	0.50

Source: Bloomberg.

Faced with sluggish economic activity, central banks in the Caribbean have in general maintained an accommodative monetary policy stance in 2013. For instance, the Bank of Jamaica cut its policy rate by 50 basis points in February 2013, while the Bank of Guyana reduced its rate by 25 basis points in March 2013. In addition to interest rate adjustments, regional central banks have also implemented measures to augment its liquidity management framework.

Provisional information suggests that the Trinidad and Tobago economy grew by 1.2 per cent in 2012, following an annual average rate of decline of 2.3 per cent over the period 2009 to 2011. Revised estimates from the Central Bank indicate that real Gross Domestic Product increased on average by 2.3 per cent (year-on-year) in the first half of 2013. Economic activity in 2012 and to date in 2013 has been driven by the non-energy sector, as production in the energy sector was affected by large-scale maintenance activities and other unplanned stoppages. During the third quarter of 2013, maintenance work conducted by two major gas producers and the coordinated shutdowns

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



Source: Central Bank of Trinidad and Tobago.

in the downstream industry heavily impacted production in the energy sector and led to an overall decline of 0.5 per cent in economic activity **(Chart Ia)**.

Provisional information from the Ministry of Finance and the Economy show that the Central Government operations in fiscal 2012/2013 resulted in a deficit of $6.2 billion, which was lower than the initial budgeted deficit of over $7 billion. In the 2013/2014 Fiscal Budget, Government revenue is expected to amount to $55 billion, while expenditure is expected to increase to $61.4 billion, resulting in a deficit of $6.4 billion. Meanwhile, capital expenditure is budgeted at $8 billion, the highest budgeted level on record. It is expected that the Government's capital expenditure programme, if implemented as planned, should provide some impetus to economic activity.

In light of the tepid recovery and downward inflationary trend, the Central Bank maintained an accommodative monetary policy stance, leaving the repo rate unchanged since the last Monetary Policy Report. Given the high levels of liquidity in the financial system and with legal limits reached on the issue of Treasury Bills and Notes, the Bank obtained approval from the Ministry of Finance and the Economy to issue two Central Government of Trinidad and Tobago Treasury Bonds, whose proceeds were sterilized. Commercial banks' special deposits were also rolled over. In addition, some of the liquidity in the system was indirectly absorbed as the Central Bank intervened to sell US dollars in the foreign exchange market.

Short-Term Outlook

Improving economic performances in advanced economies are expected to drive global growth in 2013 and 2014. The IMF notes that this represents a changing growth dynamic, as previously, growth was driven by emerging markets. The IMF's WEO October 2013, indicates that the global economy is expected to grow by 2.9 per cent in 2013 and 3.6 per cent in 2014. Advanced economies are projected to grow by 1.2 per cent and 2.0 per cent in 2013 and 2014, respectively, while emerging markets are forecasted to expand by 4.5 per cent in 2013 and 5.1 per cent in 2014.

For Trinidad and Tobago, the significant maintenance work in the energy sector has been completed; as such growth prospects over the short term are positive. Output in the upstream and downstream industries is expected to return to more normal levels in the closing months of 2013 and in 2014. In addition, drilling in the shallow water acreage in blocks which were awarded in 2010, should commence in 2014. Further, the recent on-shore bid round attracted 11 bids, representing the highest level of interest in approximately 30 years. It is expected that award of the blocks for the April 2013 bid round will be announced in January 2014, and this may lead to exploration activity in these blocks in late 2014 to early 2015.

Following two consecutive years of positive economic performance, the non-energy sector is anticipated to remain on its growth path over the period 2013 - 2014. Several projects undertaken by both the public and private sectors are expected to boost the non-energy sector, while spill over effects from improving activity in the energy sector should also positively impact non-energy growth. On-going public sector projects include the Point Fortin Highway, the Accelerated Housing Programme, the Education Modernization Programme and the Roads and Bridges Construction and Rehabilitation Project. In addition, the Caroni GREEN Initiative is expected to continue the enhancement of production in the Agriculture sector. Private sector projects such as the ‘C3’ movie and shopping complex will also provide a fillip to economic activity.

Following the dip in the third quarter of 2013, real GDP growth is expected to recover to around 1.2 per cent (year-on-year) in the fourth quarter of 2013. As a result, for 2013 as a whole, the Bank expects the domestic economy to post growth in the vicinity of 1.5 per cent. Economic activity is expected to strengthen further in 2014 to around 2.5 per cent. Though increased demand side pressures created by the pick-up in economic activity can lead to some up-tick in inflation, core inflation is expected to remain in check. It is anticipated that initiatives under-taken to increase domestic food production would have a dampening effect on food inflation, barring shocks such as unfavourable weather conditions.

There are a number of downside risks to the outlook for both the global and domestic economies. For the international economy, threats include negative policy spill over effects from the US Federal Reserve and slowing growth in China. The domestic economy also faces additional risks such as: 1) unplanned maintenance activity in the domestic energy sector and its associated knock-on effects on wider economic output; 2) a significant fall in international energy prices; and 3) any delays/curtailment in the implementation of the Government's PSIP.

The Central Bank will remain vigilant in monitoring economic activity and movement in prices, as well as risks such as those stemming from an implementation of QE tapering in the US. Against a backdrop of high liquidity in the banking system, the Central Bank's liquidity management framework has been improved by an extension in the borrowing limits under the Treasury Bills Act (to $30 billion from $15 billion) and the Treasury Notes Act (to $15 billion from $5 billion).

Table Ib
Summary Economic Indicators for 2012-2013

	Jan-Sep 2012	Jan-Sep 2013
REAL SECTOR ACTIVITY		
Energy Sector		
Total Depth Drilled (metres)	80,836	88,226
Crude Oil Production (b/d)	82,222	81,155
Crude Oil Exports (bbls)	7,880,263	9,459,561
Refinery Throughput (b/d)	123,325	132,113
Natural Gas Production (mmcf/d)	4,164	4,157
Natural Gas Utilization (mmcf/d)	3,858	3,868
LNG Production (mmcf/d)	2,211	2,304
Fertlizer Production (000 tonnes)	4,271	3,819
Fertlizer Exports (000 tonnes)	3,861	3,532
Methanol Production (000 tonnes)	4,215	4,105
ECPI (Jan 2007 = 100)	137.6	138.7
Non-Energy		
Local Sales of Cement (000 tonnes)	369.9	474.7
Motor Vehicle Sales	10,877	12,222
Daily Job Vacancy Advertisements	730	788
Prices*		
Year-on-Year Per Cent Change		
Producer Prices**	3.4	2.2
Headline Inflation	7.7	3.0
Food Inflation	14.7	3.0
Core Inflation	2.8	2.9
Monetary		
Year-on-Year Per Cent Change		
Private Sector Credit **	3.2	3.2
Consumer Lending**	2.8	5.7
Business Lending**	1.0	-3.7
Real Estate Mortgages**	10.9	14.2
M-1A**	11.5	29.8
M-2**	12.3	13.2
Commercial Banks' Excess Reserves ($ millions)	3,850.3	8,417.5
TT 91 day Treasury Bill Rate (per cent)	0.52	0.14
Financial Stability**		
Non-performing Loans (per cent)	5.4	4.6
Capital Adequacy Ratio (per cent)	25.5	24.1
Capital Market		
Composite Price Index (1983 = 100)**	1,066.4	1,143.6
Volume of Shares Traded (millions)	39.6	73.7
Mutual Funds Under management ($Billions)**	39.3	40.1
External		
US$ Millions		
Sales of Foreign Exchange to Public	5,049.3	4,960.2
Purchases of Foreign Exchange from Public	3,664.4	4,119.7
CBTT Sales to Authorized Dealers	1,330.0	925.0
Net Official Reserves**	9,335.7	9,479.5

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

* As at October.

** As at September.

PART II – International and Regional Monetary Policy and Financial Developments

Over the last nine months advanced and some emerging market economies have adopted an accommodative monetary policy stance, placing greater emphasis on growth with the inflationary threat being well contained. However, Brazil and India during 2013 have had to address the threat of inflation. In the Caribbean the central banks have also adopted an accommodative monetary policy stance, in a number of countries the central banks have introduced instruments to absorb liquidity in the financial systems.

International

Advanced Economies

The global economy recovered from financial turmoil in 2012 through the use of unconventional monetary policy. Several policy actions, such as the Federal Reserve quantitative easing programme, European Central Bank's (ECB) Outright Monetary Transactions (OMT), Japan's "Abenomics" and the EU's restructuring of Greek debt were effective in improving economic conditions and had positive international influences. However, while the International Monetary Fund (IMF) has warned that the policy mixes currently in place are unbalanced and carries significant risks of serious adverse spillovers, it should be noted that discarding these policies at this stage of the economic recovery poses a threat to global economic growth.

In the case of the United States Federal Reserve (Fed) and the Bank of England (BOE) they both have set unemployment markers, at 6.5 per cent and 7.0 per cent, respectively, before any increase in policy rates can be considered. The stimulus programmes of both countries have continued to be maintained at existing levels. Positive economic data coming out of the US in the third quarter of 2013 has once again brought the timing of the intended tapering into active debate.

Since the onset of the financial market turmoil, the Governing Council of the European Central Bank (ECB) has utilized non-standard monetary policy measures to implement monetary policy. This has led to all monetary policy refinancing operations at the current point in time to be conducted as fixed rate tenders with full allotment, additional longer-term refinancing operations with maturities of up to three years were offered, minimum reserve requirements were lowered and the collateral framework was expanded. The Governing Council of the ECB has also decided to temporarily carry out outright purchases and offer foreign currency liquidity as a complement to the existing monetary policy framework. In addition, the ECB has described inflation, which was recorded at 0.7 per cent (year-on-year) in October 2013, as “dangerously low”. This prompted the ECB to drop its main policy rate to 0.25 per cent in November 2013.

Emerging Markets

The US Federal Reserve Chairman’s testimony to Congress in May 2013, in which he hinted that the Fed may begin rolling back its quantitative easing programme when economic conditions improve, created significant challenges for several emerging markets. With the expectations of improving economic conditions in developed markets such as the US and Europe, investors began re-balancing their portfolios away from emerging markets. According to data from Emerging Portfolio Fund Research (EPFR), by the end of August 2013, net year-to-date inflows into emerging markets had turned negative with outflows totalling US$11 billion.

The Fed’s lack of clarity on tapering exacerbated the decline of the Indian and Indonesian currencies and stock markets. Since April 2013 Indonesia has lost about 14 per cent of its foreign exchange reserves and India, nearly 5.5 per cent. The partially convertible rupee slipped to an all time low of Rupee 68.87/USD on August 28, 2013 while India’s foreign exchange reserves dipped to a 39-month low of US$275.5 billion, approximately 6.6 months of import cover.

Most emerging market governments reacted decisively, rolling out a series of mini-reforms. China in July and August quietly injected a new round of stimulus cash into its slowing economy; Brazil and Indonesia moved to support their currencies; South Africa took steps to stave off further social unrest in the mining sector; the incoming Reserve Bank of India governor Raghuram Rajan announced a number of new measures, including a swap window to draw in foreign currency dollar funds held by non-residents. In October 2013, the Reserve Bank of India as a response to inflationary pressures, like Brazil, also raised its policy rates by 25 basis points to 7.75 per cent.

The Bank of Indonesia raised its key interest rate to the highest level in four years to 7.25 per cent, helping the rupiah maintain a small recovery. However the Rupiah has fallen by over 17.0 per cent since the beginning of 2013, fuelling concerns over the record current account deficit precipitated by the weakening of the rupiah beyond IDR11,000/USD for the first time since April 2009.

Brazil's Central Bank began the roll-over of more than US$5 billion in currency swap contracts, after the country's "real" fell to record lows. The decline in Brazil's currency pressured inflation even as the Central Bank raised the key rate more than any other country in the world. In November 2013, the Brazilian Central Bank raised its interest rate for the sixth consecutive time by 50 basis points to 10.0 per cent. In August 2013 Brazil's central bank announced a currency-intervention program to provide US$60 billion worth of cash and insurance to the foreign-exchange market by year-end 2013, a move aimed at bolstering the "real", as it slipped to near five-year lows against the US dollar.

Corporate and Sovereign Debt

US bond issuance set a record high of US$1,600 billion, while deal count remained relatively flat at 7,983 issues. Following the Fed Chairman's speech in May 2013, US treasury yields have risen, with the benchmark 10-year US treasury yield closing November

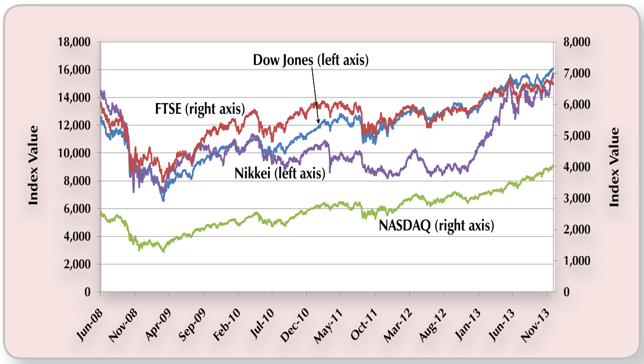
2013 at 2.75 per cent from 1.67 per cent in April 2013. However, given the improvement in the US economy corporate debt and mortgage backed securities' spreads over treasuries have narrowed. Euro Bond issuance and deal count were US$907 billion and 3,669, the lowest levels since the first three quarters of 2008.

Possibly reflecting market confidence about an orderly resolution to Europe's debt issues, sovereign spreads of some debt stricken European economies have narrowed thus far in 2013. For example, sovereign spreads (vis-à-vis German bunds) in Greece, Spain and Portugal narrowed by 338 basis points, 149 basis points and 143 basis points respectively, over the first eleven months of the year. Asia-Pacific bond issuance was US$775.8 billion and 4,587 issues, representing the second highest volume after the same period 2012. The Latin American and Caribbean region accounted for 5 per cent of the total international bond volumes.

Corporate bond issuance volume totaled $2,883 billion for the first three quarters of 2013, down 3 per cent compared to the same period in 2012. US corporate issuance increased 3 per cent year-on-year to US$1,248 billion, the largest volume recorded since the first three quarters of 1999. However, euromarket corporate and Asia-Pacific bond issuance decreased 19 per cent and 13 per cent respectively. Global Mortgage-Backed Securities (MBS) totaled US$368.97 billion for the first three quarters of 2013. However, just over 81 per cent of these volumes were US issued MBS.

Asian G3 currency (US$, Euro, Yen) debt in the first nine months of 2013 registered a record-high volume of US$114.6 billion, a 7.8 per cent increase compared to the corresponding period in 2012 when a volume of US$106.3 billion was registered. However, issuance in the third quarter dropped to US$23.7 billion from US$44.4 billion in the second quarter of 2013. Asian currency bond volume over the period surpassed last year's first nine months all-time record high, closing at a total of US$367 billion from 2,693 deals, with the Chinese Yuan denominated debt capturing 62.5 per cent totalling US$229.5 billion from 1,319 deals.

Chart IIa
Selected International Stock Indices



Source: Bloomberg.

Stock Markets

Financial markets in the developed world generally reflected the improvement in economic conditions. Equity markets in the US, UK and Japan have neared or surpassed their pre-crisis levels by the third quarter of 2013 **(Chart IIa)**. The positive performance extended into the fourth quarter of 2013 with the Dow Jones Industrial Average and NASDAQ up 22.8 per cent and 34.5 per cent respectively in the eleven months of 2013. The UK's FTSE and Japan's NIKKEI 225 were also up 12.8 per cent and 50.7 per cent respectively over the same period. Further, the VIX index which is a measure of volatility in the US, fell to 12.19 in mid-November 2013 from 18.02 at the end of December 2012, generally an index reading below 20 suggests less stressful market conditions.

Regional

The central banks within the Caribbean region have in general maintained an accommodative monetary policy stance to facilitate expansionary activities within the system **(Table IIa)**. In some instances, while central banks may not have effected frequent adjustments to their main policy instrument other measures may have been utilised to augment liquidity management. For instance, in Jamaica, a number of special instruments including variable rate (VR) CDs and repurchase agreements were initiated in addition to its regular open market instruments. In the quarter July to September 2013, seventeen (17) VR CDs of varying tenors were offered to Primary Dealers and Commercial banks. These instruments facilitated increased absorption of liquidity from the system. Additionally, the Bank of Guyana's Open Market Operations Committee (OMOC) adopted a consultative approach during the first half of 2013 and liaised closely with agencies which impacted directly on liquidity in the financial sector. Additionally, other information such as the state of the foreign exchange market, the interbank market, the structure of interest rates and the liquidity position of the non-bank financial institutions facilitated more informed decisions by the OMOC.

Within Latin America, central banks have focused monetary policy actions to facilitate expansionary activities within the system. The Central Bank of Colombia utilised foreign exchange interventions to help weaken the peso and assist in it objectives. Purchases of at least US$2.5 billion from June to September through interventions in the foreign exchange markets formed part of the Bank's market activities. Further, in October 2013, the Bank indicated that it will limit its intervention to US$1 billion for the rest of the year.

In a continued effort to revive its economy, the Bank of Mexico made steady downward adjustments to its policy rate, which stood at 3.5 per cent as at October 2013. Lower terms of trade, maturing investments in mining and slower world growth were factors in Chile's Central Bank also reducing its benchmark interest rate (4.75 per cent as at October 2013). The Central Bank of Peru reduced reserve requirements as its first approach to increase domestic liquidity.

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

	Current Rate	Last Change	Amount of Change
Trinidad and Tobago[1]	2.75	Sept. 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, Guyana, Barbados and Bloomberg.

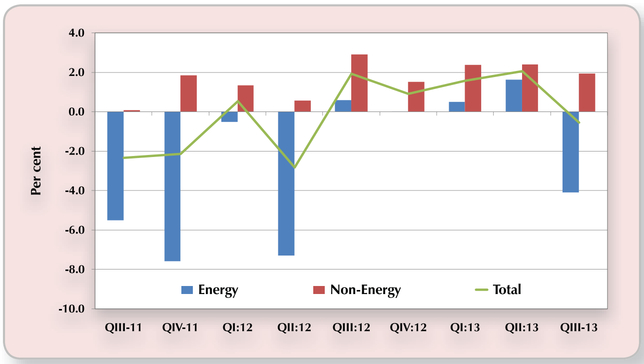
1 Repo rate as at November 2013.
2 Bank rate as at Sept. 2013.
3 30-day CD rate as at November 2013.
4 Bank rate as at May 2013.

Part III – Domestic Economic Conditions

a) Real Gross Domestic Product[1]

After positive economic performance in the first half of 2013, real economic activity was severely impacted by the maintenance work in the energy sector in the third quarter. According to initial estimates from the Central Bank's Quarterly Index of Real Gross Domestic Product (QGDP), the domestic economy declined by 0.5 per cent (year-on-year) in the third quarter of 2013, following growth of 2.3 per cent in the first and second quarters of the year **(Chart IIIa)**.

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

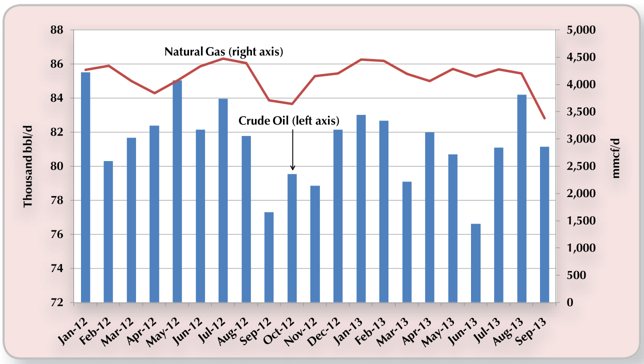


Source: Central Bank of Trinidad and Tobago.

Energy Sector

As was expected, following large scale maintenance activity by the two major natural gas producers and the coordinated shutdowns (also for maintenance) in the downstream industry, energy sector output contracted in the third quarter of 2013. Initial estimates suggest that on a year-on-year basis the energy sector contracted by 4.1 per cent in the third quarter of 2013 following growth of 1.8 per cent in the second quarter. Natural gas production fell by 5.7 per cent, offsetting an increase in crude oil outturn (1.4 per cent) and resulting in an overall decline in the exploration and production sector of 5.0 per cent **(Chart IIIb)**. The refining sub-industry also experienced a contraction (2.3 per cent) reflecting a dip in LNG production (3.4 per cent) due to one of Atlantic's largest turnarounds (Train 3) in its fourteen year history. In addition, several companies aligned their plant turnarounds with the natural gas production shortfall, this led to the petrochemicals sub-industry declining by 8.0 per cent in the third quarter of 2013.

Chart IIIb
Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Affairs.

1 Estimates for the non-energy sector are based on partial data.

Non-Energy Sector

The non-energy sector continued to expand in the third quarter of 2013, albeit at a slower pace than the previous two quarters. Initial data indicate that the non-energy sector rose by 1.9 per cent (year-on-year) in the third quarter compared with 2.6 per cent in the second quarter and 3.6 per cent in the first quarter. Growth in the third quarter was largely associated with Finance (4.4 per cent), Construction (3.0 per cent) and Distribution (1.1 per cent) sectors.

Heightened activity within Finance was partly attributable to strong performance within the commercial bank sub-industry, as banks recorded growth in both loans and deposits during the second quarter. Meanwhile, the increase in construction activity was likely related to several public sector projects including highway construction and housing, and perhaps to a lesser extent some private sector developments. Local sales of cement – a key indicator of construction sector activity – was up on a year-on-year basis by 12.5 per cent in the third quarter. There were also positive indications of growth in the distribution sector. For example, sales of new motor vehicles increased by 13.1 per cent (year-on-year) in the third quarter of 2013.

Additionally, in the absence of official data from the Central Statistical Office, estimates based on data from the National Agriculture and Development Corporation (NAMDEVCO) indicate that the agriculture sector grew by 1.9 per cent in the third quarter of 2013. Supplementary information for the third quarter of 2013, sourced from the Norris Deonarine Northern Wholesale Market (NDNWM), showed increased local volumes of selected commodities at the market. Comparatively better weather conditions throughout the majority of 2013 and the continuation of targeted policies aided strong growth for the period. On the other hand, after posting strong growth of 4.6 per cent in the second quarter, activity in the manufacturing sector was flat in the third quarter of 2013.

Capacity Utilization

Capacity utilization provides a measure of productivity in the manufacturing sector, and can be used as a guide of current and future production within the industry. The capacity utilization index is calculated as current production as a percentage of total capacity. Since inception in 2009 to present (quarter III 2013), capacity utilization has averaged 66.5 per cent, quarterly. This suggests that the manufacturing industry is running at about two-thirds of its potential capacity and thus there is some slack within the sector. Recently, capacity utilization measured 65.9 per cent in the third quarter of 2013, which was lower than its historical average but up from 64.8 per cent at the end of December 2012 **(Table IIIa)**.

Table IIIa
Capacity Utilization Rate
Manufacturing Sector
(Per Cent)

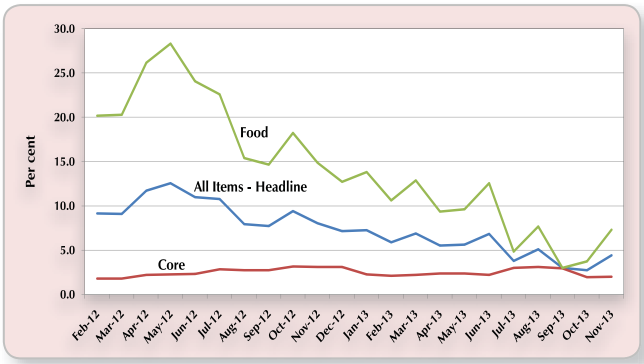
	2011	2012	2012			2013		
			Mar	Jun	Sep	Mar	Jun	Sep
Manufacturing	67.9	64.8	63.9	65.4	65.3	63.1	67.8	65.9
Food, Drink & Tobacco	72.2	71.1	70.7	72.7	69.6	68.8	75.5	74.2
Chemicals and Non-Metalic Minerals	64.0	57.1	50.6	51.1	63.0	62.0	65.9	58.4
Assembly Type and Related Industries	60.3	55.9	57.0	61.1	54.9	55.8	54.0	56.3

Source: Central Bank of Trinidad and Tobago.

b) Prices

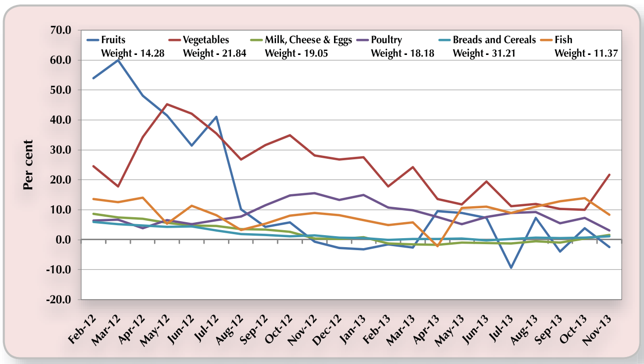
Headline inflation has eased significantly thus far in 2013 **(Chart IIIc)**. By November 2013, headline inflation slowed on a year-on-year basis to 4.4 per cent from 8.1 per cent in November 2012. The main reason for the slowdown in headline inflation has been food prices. There was a deceleration in food inflation to 7.3 per cent in November 2013 from 12.7 per cent in December 2012 and 14.9 per cent in November 2012. Increased domestic production of selected agricultural products due in part to comparatively better weather conditions throughout 2013, coupled with improved supply of imported fruits, as well as slowdowns in global

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



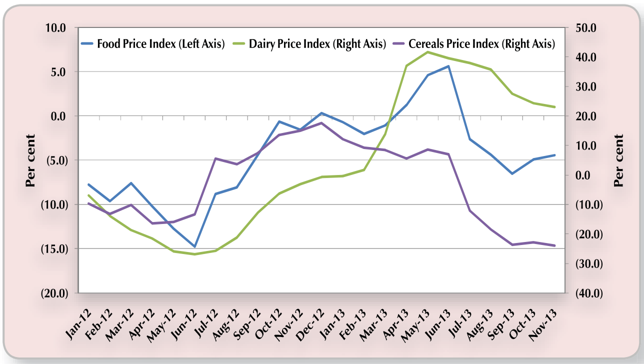
Source: Central Statistical Office of Trinidad and Tobago.

Chart IIId
Index of Retail Prices –
Components of the Food Sub-Index
(Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago.

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



Source: Food and Agricultural Organization.

food prices in previous months all accounted for the deceleration in food inflation **(Chart IIId)**. The FAO Food Price Index, which is a measure of international agricultural commodity prices **(Chart IIIe)**, declined on a year-on-year basis by 4.4 per cent in November 2013. Meanwhile, though there was some up-tick in the third quarter of 2013, core inflation remained well contained during the first eleven months of 2013. On a year-on-year basis, core inflation measured 2.0 per cent in November, down from 2.2 per cent in January 2013 and 3.1 per cent in November 2012.

International Commodity Prices

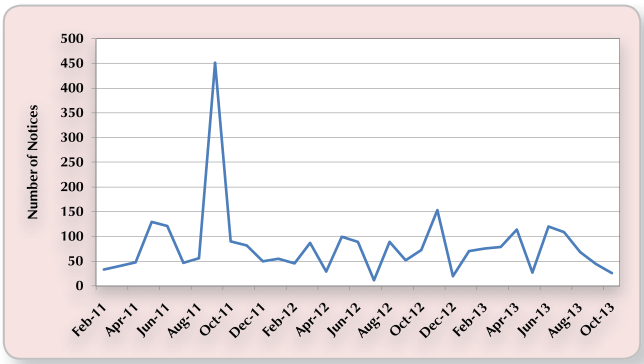
Energy Commodity Prices Index (ECPI)

The ECPI has been relatively steady in 2013 as the average for the first eleven months of the year (137.97) was just 0.6 per cent below that of the corresponding period in 2012. Relatively higher natural gas prices at the Henry Hub and strong growth in crude oil prices during the second half of the year were countered by a weakening fertilizer market. Stronger gas prices stemmed from a strong first quarter, driven by colder-than-average weather, which pushed the Henry Hub prices above US$4/mmbtu by late March 2013. International crude oil prices were buoyed by upheaval in the Middle East and North Africa (MENA) region. The political crisis in Egypt over the ousting of President Mohamed Morsy, coupled with the global concern over Syria's alleged use of chemical weapons has kept WTI prices over US$100 per barrel since mid-2013. Higher crude oil prices also drove the prices of crude derivatives included in the index such as gas oil, motor gasoline and jet fuel. News of production curtailments in Trinidad and Tobago in September kept methanol markets strong through the second and third quarters of 2013 as Trinidad and Tobago is the largest exporter of the commodity. Meanwhile, prices for both ammonia and urea continued along a downward trend in the second and third quarters of 2013, as falling crop prices in addition to increased inventories placed downward pressure on demand.

c) Labour Market

Labour market data from the CSO remain lagged with the most recent data being for the third quarter of 2012. In the third quarter of 2012, the unemployment rate fell to 4.8 per cent from 4.9 per cent in the second quarter and 5.2 per cent in September 2011. There was also an increase in the labour force over the twelve months to September 2012. At the end of September 2012, the labour force amounted to 631,500 persons, 3.6 per cent higher than in the corresponding period in 2011. The number of persons with jobs rose by 4.0 per cent over the same period to 600,900 persons in the third quarter of 2012. There were increases in the number of persons employed across several sectors including services, hotel, transport, storage and communication, agriculture and petroleum sectors.

Chart IIIf
Retrenchment Notices Registered

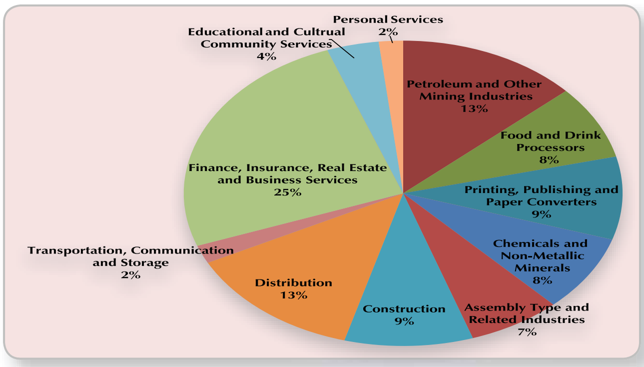


Source: Ministry of Labour and Small and Micro Enterprise Development.

Retrenchment Notices

Supplementary and provisional data from the Ministry of Labour and Small and Micro Enterprise Development (MLSMED) on retrenchment notices show an increase over the first ten months of 2013 when compared with the corresponding period one year ago. During the period January – October 2013, retrenchment notices increased to 729 notices from 626 notices filed in the same period a year earlier **(Chart IIIf)**. These notices mostly originated in the finance, insurance and real estate (25.0 per cent), distribution (13.0 per cent) and petroleum (13.0 per cent) sectors **(Chart IIIg)**.

Chart Ig
Retrenchment Notices Registered By Sector
January - October 2013
As a Proportion of Total Notices Filed



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

d) Fiscal Policy

Preliminary data from the Ministry of Finance and the Economy suggest a lower than expected deficit of $6.2 billion for fiscal year 2012/2013, compared to a budgeted deficit of over $7 billion **(Table IIIb)**. Government expenditure has resulted in a rise in the non-energy fiscal deficit from 17.5 per cent of GDP in fiscal year 2009/2010 to 21.2 per cent of GDP in fiscal year 2012/2013. A similar pattern is expected in fiscal year

2013/2014 as the anticipated budget deficit is projected to reach $6.4 billion. The Government plans to finance the budget deficit through borrowing, of which 55.1 per cent will come from domestic sources. Budgeted revenue for fiscal year 2013/2014 is expected to amount to $55,040.8 million while budgeted expenditure is expected to increase to $61,397.9 million, including capital expenditure budgeted at $8 billion. The budget measures aimed at stimulating economic growth will have several direct and indirect implications for monetary policy, these include the impact of certain policy changes on prices; the execution of planned capital spending on growth prospects and the effect of financing the deficit whether domestically or on the international market.

Once the budget is executed as planned, it will further stimulate economic growth mainly through construction projects implemented under the Public Sector Investment Programme (PSIP). However, in order for these programmes to boost economic growth the Government must effectively deal with administrative and other delays that have negatively affected the capital programmes in earlier years. The size of the Government's fiscal deficit also has the potential to be inflationary.

The 2013/2014 budget projects that approximately $3.0 billion of the overall deficit will be financed through external borrowing. The external debt is projected to increase to about 9.6 per cent of GDP from 8.1 per cent on account of newly contracted commercial loans which are expected to commence disbursements during the fiscal year, as well as new IADB financing. Also, given the country's strong credit rating, a US$550.0 million bond was issued on the international market in mid-December 2013 for budgetary support.

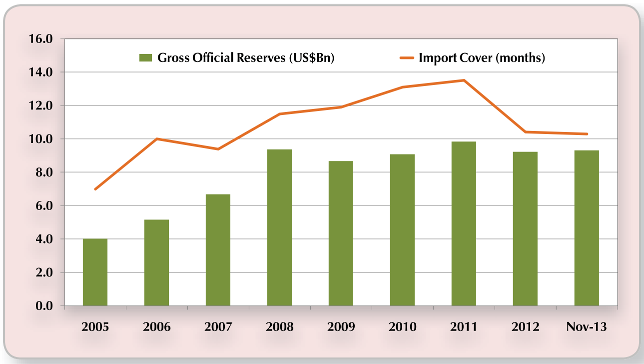
e) External Accounts

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

Preliminary data suggests that for the first half of 2013, the external accounts registered an overall surplus of $195 million, compared with a deficit of $87.9 million for the corresponding six month period in 2012 **(Table IIIc)**. The surplus was mainly due to an improved current account balance ($600.1 million) particularly in the categories of merchandise trade and services. The energy sector was the major driver of this improved merchandise trade balance ($1,721.8 million) as natural gas prices and production levels trended upward during the six month period in 2013. The Henry Hub[2] (HH) price of natural gas increased by 51 per cent to US$3.75 per mmbtu during the period January to June 2013 compared to the same six month period in 2012. Additionally, production levels for liquefied natural gas (LNG) also increased by 6.1 per cent compared with the previous period. These increases however, were partly offset by a 50 per cent reduction in petrochemical exports (Ammonia, Urea and Methanol).

The capital and financial account recorded a deficit of $405.1 million during the first six months of 2013. Net foreign direct investment grew by 16 per cent to $1,034.3 million largely due to greater reinvestments[3] by foreign-owned multinational energy companies. Portfolio investment recorded a net outflow of $34.7 million, significantly lower than the net outflow of $277.9 million in the first half of 2012. This arose in large measure from lower transactions by energy and insurance companies, while commercial banks reduced their net foreign balances abroad leading to net inflows. At the end of June 2013, the level of gross official reserves amounted to $9,395.7 million (10.5 months of prospective imports of goods and non-factor services). More recent data show that gross official reserves were slightly lower at $9,306.5 million (10.3 months of import cover) at the end of November 2013 **(Chart IIIh)**.

Chart IIIh
Trinidad and Tobago Gross Official Reserves



Source: Central Bank of Trinidad and Tobago.

2 The Henry Hub natural gas price is the traditional benchmark price of natural gas used in Trinidad and Tobago. In recent years however, increased liquefied natural gas cargoes (LNG) are being exported to non-traditional markets (for example, Europe, Asia and South America) rather than the United States.

3 For a greater discussion on reinvested earnings see Taylor, T., R. Mahabir, V. Jagessar and J. Cotton. "Examining Reinvestment in Trinidad and Tobago". Central Bank of Trinidad and Tobago Working Papers (WP 10/2013 January 2013).

Table IIIb
Summary of Central Government Fiscal Operations
(TT$ Million)

	2009/2010	2010/2011	2011/2012	2012/2013[re]	2013/2014[b]
Revenue	**43,862.9**	**47,500.6**	**49,277.9**	**52,984.8**	**55,040.8**
Energy	22,700.6	27,340.9	26,625.8	26,748.0	29,096.9
Non-energy	21,162.3	20,159.7	22,652.1	26,236.8	25,944.0
Expenditure	**43,674.9**	**48,602.5**	**51,474.8**	**59,198.5**	**61,397.9**
Current	37,275.7	41,649.9	44,487.1	50,953.3	53,397.9
Wages and salaries	6,711.0	7,179.7	7,282.3	9,618.8	8,942.3
Goods and services	6,441.2	6,504.3	7,061.6	7,969.3	8,887.7
Interest payments	3,290.3	2,866.4	2,937.1	3,063.7	2,968.3
Transfers & Subsidies	20,833.2	25,099.5	27,206.1	30,301.5	32,599.6
Capital expenditure & net lending	6,399.2	6,952.6	6,987.7	8,245.2	8,000.0
Overall Non-Energy Balance	**-22,512.6**	**-28,442.8**	**-28,822.7**	**-32,961.7**	**-35,454.0**
Overall Balance	**188.0**	**-1,101.9**	**-2,196.9**	**-6,213.7**	**-6,357.1**
Total financing (net)	-188.0	1,101.9	2,196.9	6,213.7	6,357.1
Net Foreign financing	393.5	545.2	1,054.1	2,537.8	2,856.7
Net Domestic financing	-581.5	556.6	1,142.8	3,675.9	3,500.4
Of which: Transfers to Heritage & Stabilization Fund	-3,026.5	-2,890.0	1,332.1	271.7	0.0
(In Per Cent of Fiscal Year GDP)					
Revenue	**34.1**	**32.5**	**32.9**	**34.1**	**31.2**
Energy	17.6	18.7	17.8	17.2	16.5
Non-energy	16.4	13.8	15.1	16.9	14.7
Expenditure	**33.9**	**33.3**	**34.4**	**38.1**	**34.8**
Current	29.0	28.5	29.7	32.8	30.2
Wages and salaries	5.2	4.9	4.9	6.2	5.1
Goods and services	5.0	4.5	4.7	5.1	5.0
Interest payments	2.6	2.0	2.0	2.0	1.7
Transfers & subsidies	16.2	17.2	18.2	19.5	18.5
Capital expenditure & net lending	5.0	4.8	4.7	5.3	4.5
Overall Non-Energy Balance	**-17.5**	**-19.5**	**-19.3**	**-21.2**	**-20.1**
Overall Balance	**0.1**	**-0.8**	**-1.5**	**-4.0**	**-3.6**
Total Financing	**-0.1**	**0.8**	**1.5**	**4.0**	**3.6**
Foreign Financing	**0.3**	**0.4**	**0.7**	**1.6**	**1.6**
Domestic Financing	**-0.5**	**0.4**	**0.8**	**2.4**	**2.0**
Of which: Transfers to Heritage & Stabilization Fund	-2.4	-2.0	0.9	0.2	0.0
Memo:					
Nominal GDP (in TT$ million, FY)	128,718.8	145,964.4	149,716.6	155,395.0	176,586.8

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

re Revised Estimate.
b Budgeted data based on an oil price of US$80 per barrel and Natural Gas price of US$2.75.

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

	2009	2010	2011r	2012p	Jan-Jun 2012p	Jan-Jun 2013p
Current Account	**1,632.8**	**4,172.3**	**2,898.5**	**982.2**	**-464.0**	**600.1**
Trade Balance	2,241.2	4,735.4	5,433.0	3,918.4	948.9	1,721.8
Exports	9,221.4	11,238.9	14,943.9	12,983.4	5,915.8	5,924.6
Energy	7,939.8	9,435.2	12,709.7	10,569.3	4,561.8	5,035.9
Non-energy	1,281.6	1,803.7	2,234.2	2,414.1	1,354.0	888.7
Imports	6,980.2	6,503.5	9,510.9	9,065.0	4,966.9	4,202.8
Energy	2,845.6	2,664.4	4,308.5	3,942.0	2,322.7	2,318.6
Non-energy	4,134.6	3,839.1	5,202.4	5,123.0	2,644.2	1,884.2
Services (Net)	381.7	487.6	506.3	411.9	150.8	370.2
Income (Net)	-1,017.1	-1,079.5	-3,073.9	-3,387.2	-1,585.0	-1,507.4
Transfers (Net)	27.0	28.8	33.1	39.1	21.2	15.5
Capital and Financial Account	**-2,345.4**	**-3,753.9**	**-2,145.9**	**-1,604.2**	**376.1**	**-405.1**
Private Sector	-2,622.8	-3,213.0	-1,850.5	-977.7	566.3	-247.6
Direct Investment	709.1	549.4	770.6	772.0	891.2	1,034.3
Portfolio Investment	-62.9	-67.3	-84.7	-445.8	-277.9	-34.7
Commercial Banks	-701.7	493.9	-309.8	-668.7	-71.2	12.9
Other Private Sector Capital*	-2,567.3	-4,189.0	-2,226.6	-635.2	24.2	-1,260.1
Public Sector**	277.4	-540.9	-295.4	-626.5	-190.2	-157.5
Overall Balance	**-712.6**	**418.4**	**752.6**	**-622.0**	**-87.9**	**195.0**
Per Cent of GDP						
Current Account	**8.5**	**20.2**	**12.3**	**4.2**	**-4.0**	**4.9**
Trade Balance	11.6	22.9	23.0	16.8	8.1	14.0
Services (Net)	2.0	2.4	2.1	1.8	1.3	3.0
Income (Net)	-5.3	-5.2	-13.0	-14.5	-13.6	-12.3
Transfers (Net)	0.1	0.1	0.1	0.2	0.2	0.1
Capital and Financial Account	-12.2	-18.2	-9.1	-6.9	3.2	-3.3
Private Sector	-13.6	-15.5	-7.8	-4.2	4.9	-2.0
Direct Investment	3.7	2.7	3.3	3.3	7.6	8.4
Portfolio Investment	-0.3	-0.3	-0.4	-1.9	-2.4	-0.3
Commercial Banks	-3.6	2.4	-1.3	-2.9	-0.6	0.1
Other Private Sector Capital*	-13.3	-20.3	-9.4	-2.7	0.2	-10.3
Public Sector**	1.4	-2.6	-1.3	-2.7	-1.6	-1.3
Overall Balance	**-3.7**	**2.0**	**3.2**	**-2.7**	**-0.8**	**1.6**
Memorandum Items						
Gross Official Reserves***	8,651.6	9,070.0	9,822.7	9,200.7	9,734.8	9,395.7
Import Cover (months)	11.9	13.1	13.5	10.4	11.3	10.5

Source: Central Bank of Trinidad and Tobago.

r Revised.
p Provisional. Central Bank estimates for the period March 2012 to June 2013 are based on comparative mirror trade data with the rest of the world, and supplemental data on activity in the energy sector.
* Includes Errors and Omissions.
** Includes Official Borrowing, State Enterprises, Heritage and Stabilization Fund, Other Assets and Other Liabilities.
*** End of Period.

Part IV – Monetary and Financial Sector Developments

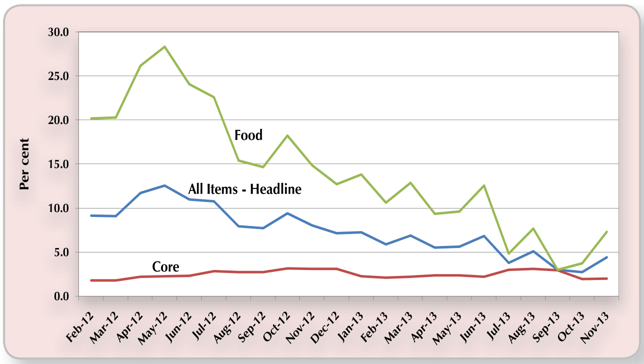
Monetary Developments

Over the course of 2013, inflationary pressures have eased. At the start of 2013, headline inflation measured 7.3 per cent (year-on-year), and slowed to 4.4 per cent by November 2013 **(Chart IVa)**. There has been some variability in core inflation thus far in 2013. Core inflation, which excludes food prices, began at 2.2 per cent in January 2013, reached a high of 3.1 per cent in August before slowing to 2.0 per cent in November.

The Central Bank of Trinidad and Tobago's monetary policy remained supportive of the domestic economic recovery. The Bank kept its main policy rate, the repo rate, unchanged at 2.75 per cent into November 2013. However, with liquidity levels in the banking system high, the Central Bank took actions to help curb the rapid accumulation of commercial banks' excess reserves **(Chart IVb)**. Over the first eleven months of 2013, commercial banks' excess reserves averaged $6.1 billion monthly, compared with $3.6 billion in the corresponding period one year ago. Net domestic fiscal injections, which are the leading source of the banking system's liquidity, amounted to $9.6 billion over the eleven-month period ending November 2013.

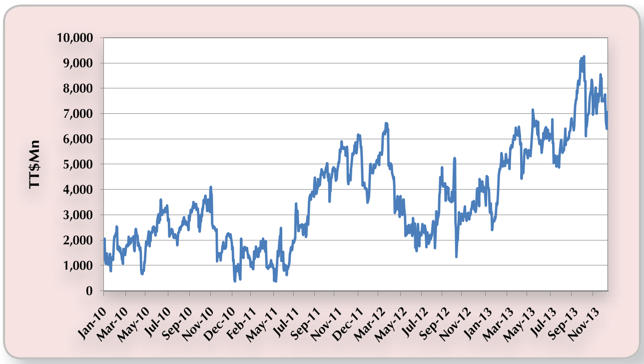
The Central Bank facilitated the issue of two Central Government of Trinidad and Tobago Treasury bonds, whose proceeds were sterilized; the first in May 2013 was a 7-year, 2.60 per cent fixed rate coupon bond with a face value of $1 billion; and the second in August 2013 was a 10-year, 2.50 per cent fixed rate coupon bond with a face value of $559.3 million taken from a $1 billion offering **(Table IVa)**. The Bank also rolled over for one year, the commercial banks' fixed deposits held at the Central Bank which had matured to date in 2013. In addition, the Bank indirectly removed just about $8.1 billion from the system via the sales of US$1.3 billion to authorized dealers in the first eleven months of the year.

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



Source: Central Statistical Office of Trinidad and Tobago.

Chart IVb
Commercial Banks: Excess Reserves



Source: Central Bank of Trinidad and Tobago.

At the end of November 2013, gross official reserves stood at US$9.3 billion, up from US$9.2 billion at the end of 2012. Nevertheless, despite more comfortable foreign exchange conditions, the TT dollar depreciated slightly against the US dollar to TT$6.4465/USD at the end of November 2013 from TT$6.4362/USD at the start of January 2013.

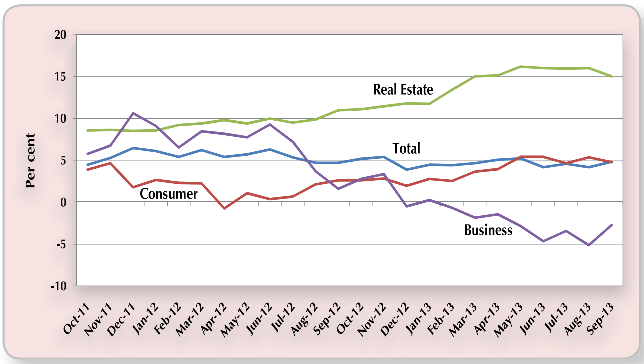
Table IVa
Fiscal Injections and Liquidity Absorption
(TT$ Million)

	Jan-Nov-09	Jan-Nov-10	Jan-Nov-11	Jan-Nov-12	Jan-Nov-13
Fiscal Injections	14,342.7	11,728.9	11,692.8	13,430.3	9,625.5
Liquidity Absorption Measures					
Open Market Operations (OMOs)	1,078.0	-492.1	-631.8	0.0	-260.1
CBTT Sale of Foreign Exchange	11,002.0	8,878.6	8,845.7	10,729.1	8,112.9
Central Gov't Treasury Bond Issues	0.0	0.0	0.0	0.0	1,559.3
Commercial Banks Fixed Deposits	2,000.0	1,000.0	0.0	1,490.0	0.0

Source: Central Bank of Trinidad and Tobago.

High liquidity has kept interest rates near historic lows and has resulted in narrowing interest rate differentials between TT and US treasury securities. However, there has been no evidence of disruptive portfolio outflows to date. The 91-day TT treasury bill rate ended November 2013 at 0.11 per cent from 0.35 per cent in January, while the 10-year treasury yield fell to 2.45 per cent from 3.72 per cent over the same period. With US treasury yields rising in recent months, the differential between TT and US rates narrowed on the short end of the yield curve. The differential between the TT and US 91-day t-bill rates measured 5 basis points at the end of November, while on the longer end, the difference between the TT and US 10-year treasury yields was in negative territory at -0.30 per cent. Against the backdrop of an existing negative spread on the long end of the curve any further narrowing on the short end of the yield curve could prompt capital movements abroad.

Chart IVc
Commercial Banks: Private Sector Credit
(Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago.

Despite the accommodative monetary policy stance and the lower loan rates, growth in commercial bank lending to the private sector in September 2013 remained roughly in line with a year prior. On a year-on-year basis, private sector credit granted by commercial banks rose by 4.8 per cent in September 2013, compared with 4.7 per cent in September 2012 **(Chart IVc)**. Of the major categories of commercial bank credit, growth in consumer lending has gained some momentum thus far in 2013. Consumer loans granted by banks expanded on a year-on-year basis by 4.8 per cent in September 2013, up from 2.0 per cent at the end of 2012 and 2.6 per cent one year earlier. A disaggregation of consumer loans revealed relatively strong growth in borrowing for purchases of motor vehicles (10.5 per cent), home improvement/renovation loans (7.1 per cent) and debt consolidation (17.3 per cent) in September 2013.

Business loans granted by the banking system contracted for the eight consecutive month in September 2013. With capacity utilization in the manufacturing sector below 70 per cent in the first nine months of 2013 and businesses in general holding large cash balances (evidenced by high excess liquidity in the banking system), there is the view that firms do not have the need to borrow as heavily as in previous periods. On a year-on-year basis, business loans fell by 2.7 per cent in September compared with growth of 1.6 per cent a year earlier. A sectoral breakdown of commercial banks' loans to businesses indicated contractions in lending to the finance, insurance, real estate sector and all other business services (17.9 per cent), manufacturing (4.3 per cent) and petroleum (13.2 per cent) sectors. On the other hand, there was strong growth in lending to the distribution (19.6 per cent) and other services (17.2 per cent) sectors, while loans to the construction sector rose by a mere 1.1 per cent.

Aggressive marketing campaigns and lower mortgage rates continue to contribute to demand for real estate mortgage loans. Real estate mortgage loans granted by banks have recorded double digit growth for thirteen consecutive months, expanding by 15.0 per cent in the twelve months to September 2013.

Financial Sector Developments

Developments in the Foreign Exchange Market

Activity in the local foreign exchange market reflected a greater degree of convergence between sales and purchases of foreign currency thus far in 2013. While the demand for foreign currency remained roughly in-line with previous periods, greater conversions from the energy sector over January – November 2013 resulted in a narrowing of the net sales gap. Over the period January – November 2013, the net sales gap fell by nearly 40 per cent to US$1,122.1 million. As a result, the required level of support to the domestic foreign exchange market was much lower when compared with the corresponding period one year ago. In the first eleven months of 2013, the Central Bank sold US$1,275 million to authorized dealers compared with US$1,685 million one year ago **(Table IVb)**.

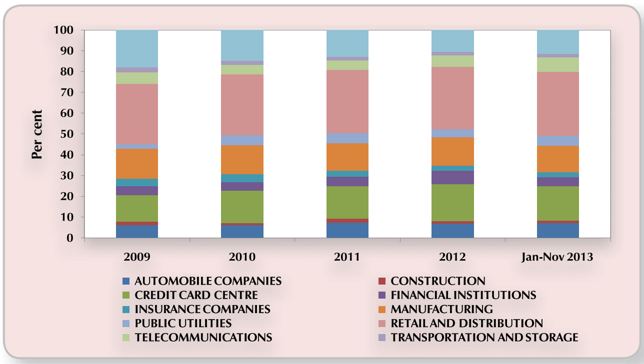
Table IVb
Foreign Exchange Market Activity
(US$ Million)

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
Jan-Nov 2012	4,291.4	6,157.0	1,865.6	1,685.0
Jan-Nov 2013	5,325.0	6,447.1	1,122.1	1,275.0
Y-o-Y Per cent Change	**24.1**	**4.7**	**-39.9**	**-24.3**

Source: Central Bank of Trinidad and Tobago.

Sales of foreign currency by authorized dealers to the public during the first eleven months of 2013 amounted to US$6,447.1 million, which was 4.7 per cent higher relative to the same period in 2012. For sales in excess of US$50,000, reports by dealers show that the demand for foreign exchange was driven mainly by the retail and distribution sector (30.7 per cent of total recorded sales over US$50,000) between January – November of 2013 **(Chart IVd)**. Other sectors that were responsible for a significant proportion of foreign exchange demand over the same time period included borrowing via international credit cards (16.5 percent), manufacturing (12.7 per cent), automobile companies (7.1 per cent) and telecommunications (7.0 per cent).

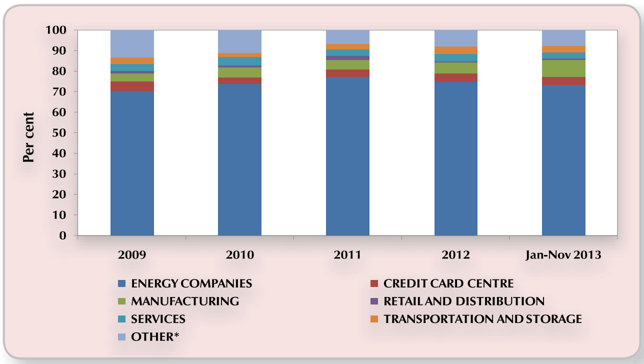
Chart IVd
Authorized Dealers: Sales of Foreign Exchange to the Public by Sector
As a Proportion of Total Sales



Source: Central Bank of Trinidad and Tobago.

In the first eleven months of 2013, purchases of foreign currency by authorized dealers amounted to US$5,325.0 million, a 24.1 per cent increase from the same period in 2012. For the first eleven months of 2013, the energy sector, which has traditionally been a key source of currency for authorized dealers, accounted for 73.2 per cent of total purchases **(Chart IVe)**. The second largest source of purchases was the manufacturing sector, which contributed 8.3 per cent of total purchases. Prevailing conditions had only a slight impact on the TT/US dollar exchange rate. At the end of November 2013, the selling rate stood at TT$6.4465/USD, a slight depreciation from TT$6.4362/USD at the start of January 2013.

Chart IVe
Authorized Dealers: Purchases of Foreign Exchange to the Public by Sector
As a Proportion of Total Purchases

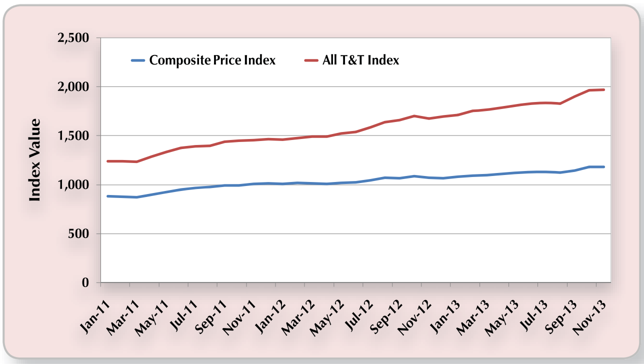


Source: Central Bank of Trinidad and Tobago.

Capital Markets

Despite the weak pace of recovery in the domestic economy, the local stock market performed fairly well during the first eleven months of 2013 **(Chart IVf)**. The Composite Price Index (CPI) was up 10.5 per cent (year-to-date) in November 2013, following an increase of 5.8 per cent in the same period one year ago. Given the overall performance of the market, stock market capitalization rose to approximately $113.2 billion at the end of November 2013 from $97.4 billion at end-2012. The Manufacturing I and Manufacturing II sub-indices, which increased by 35.2 per cent (year-to-date) and 25.3 per cent, respectively, far outpaced all the other sub-indices. Trading activity in the domestic stock market saw a pickup in the first eleven months of 2013. A total of 90.9 million shares exchanged hands during the period

Chart IVf
Composite and All T&T Stock Price Indices

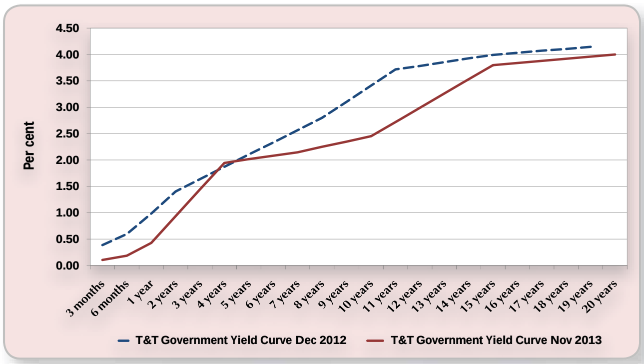


Source: Central Bank of Trinidad and Tobago.

which had a combined market value of $1,021.5 million compared with 46.9 million shares ($710.3 million - market value) changing hands in the comparative period in 2012.

Over the period January - September 2013, activity on the domestic primary bond market was roughly in line with the same period a year earlier. In the first nine months of 2013, there were six bond issues raising a total of $4.0 billion, compared with six primary issues which raised a combined $3.1 billion in the corresponding period in 2012. Once again, the Central Government and state enterprises (i.e. the public sector) were the main borrowers on the market, accounting for five of the six issues over the first nine months of 2013 **(Table IVc)**. There was also heightened trading activity on the Trinidad and Tobago Stock Exchange's (TTSE) secondary Central Government bond market. In the first nine months of 2013, bonds with a combined face value of $1,377.7 million were traded, compared with a combined face value of $788 million in the same period in 2012. With the exception of some medium-term tenors, yields on treasury securities generally trended downwards in the eleven months of 2013 **(Chart IVg)**.

Chart IVg
Central Government of Trinidad and Tobago Yield Curve



Source: Central Bank of Trinidad and Tobago.

The mutual fund industry[4,5] expanded modestly over the first nine months of 2013 following a strong performance in 2012. Aggregate mutual funds under management stood at $40.1 billion in September 2013, representing an increase of 1.0 per cent from the end of 2012, following growth of 6.7 per cent in the corresponding period one year ago. Over the period January – September 2013, the industry attracted net sales totalling $452.9 million compared with $1,704.9 million in the same period one year ago. Contributing to the weaker growth of the mutual fund industry was the decline in income funds under management. These funds (which account for the majority of funds managed within the industry), fell by 1.1 per cent in the first nine months of 2013 (compared with growth of 6.1 per cent in the same period of 2012). Meanwhile equity funds expanded strongly by 14.1 per cent (compared with growth of 10.4 per cent one year ago).

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4 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, Roytrin, Republic Bank Limited and First Citizens Bank Limited.

5 Mutual Fund information for 2011 was revised to reflect the addition of two new mutual funds in the Central Bank of Trinidad and Tobago's database.

Table IVc
Primary Bond Market
January – October 2013[P]

	Borrower	Face Value ($Mn)	Period To Maturity	Coupon Rate Per Annum	Placement Type
January	Home Mortgage Bank	200	10 yrs	Floating Rate, Initially Set at 2.05%	Private
February	Trinidad and Tobago Mortgage Finance Company Limited (Issued in 20 Series ranging from 6 mths – 10 years)	600	6 mths - 10 yrs	Coupons ranging between 1.58% and 5.47%	Private
May	Central Government of Trinidad and Tobago	1,000	7 yrs	2.6%	Public
June	Prestige Holdings Limited	140	10 yrs	6.25 %	Private
August	Central Government of Trinidad and Tobago	559	10 yrs	2.50%	Public
September	Central Government of Trinidad and Tobago	1,500	15 yrs	4.00 %	Private
October	National Insurance Property Development Company Limited (NIPDEC)	1,000	14 yrs	4.00%	Public

Sources: Central Bank of Trinidad and Tobago and the Securities and Exchange Commission.

P Preliminary.

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