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TRINIDAD & TOBAGO



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DECEMBER 22, 2015

PART I – OVERVIEW AND OUTLOOK

OVERVIEW

As 2015 draws to a close, evidence suggests the Trinidad and Tobago economy is in recession. Following a dismal first half of 2015, domestic economic activity was depressed in the third quarter of 2015. Real GDP contracted by 1.5 per cent and 2.2 per cent (on a year-on-year basis) in the first and second quarters of 2015, respectively. Real GDP subsequently declined by 2.0 per cent in the third quarter of 2015. Similar weak economic conditions have prevailed so far in the fourth quarter of 2015. Despite the contracting domestic economy, demand remains robust for foreign currency, which in the face of falling inflows from the energy sector, has placed tremendous pressures on the country's foreign currency reserves. To stymie potential foreign currency outflows, Central Bank continued to gradually increase its policy rate – the Repo rate - during 2015, especially given the imminent hike in US interest rates.

At its December 2015 meeting, Central Bank's Monetary Policy Committee (MPC) agreed to raise the 'Repo' rate by 25 basis points to 4.75 per cent. Although this was the eighth consecutive hike in the Repo rate, the MPC still views the monetary policy stance to be accommodative enough to help facilitate growth in the non-energy sector. In making its interest rate decision, the MPC was also concerned about rising inflationary pressures into early 2016 due to fiscal measures such as the increase in fuel prices and reform of the Value Added Tax (VAT) announced in the 2015/2016 Budget. Further, in order to strengthen the transmission of the Repo rate increases, Central Bank continue to aggressively absorb excess liquidity from the financial system.

Internationally, the global economy remained fragile and vulnerable to setbacks. With the exception of the United States, the economic recovery in advanced economies in the Euro area and Japan has not been as strong as anticipated. In addition, led by China, emerging market economies continued to cool in 2015. Tepid global economic conditions have led to a tapering off in energy demand, which combined with comfortable supply cushions, has contributed to energy prices stabilizing at relatively depressed levels. Meanwhile, one of the most significant events facing global financial markets is the impending lift-off in US interest rates.

However, the US Federal Reserve has delayed the long-awaited increase in the federal funds target rate, waiting until the US labour market shows continued strength and inflation rises towards its medium term target. While there is still the possibility for the Fed's first rate increase since 2006 to occur before the end of 2015, there remains significant speculation with respect to its exact timing. The Bank of England has also hinted that the time may be approaching for it to withdraw from its accommodative monetary policy stance – although this is expected sometime after the Fed makes its first move. In contrast, the European Central Bank is prepared to take further measures to stimulate the euro economy. In similar manner, the Bank of Japan committed to expanding the monetary base after the Japanese economy entered into a technical recession in the third quarter of 2015 ([Table 1](#)).

Central banks in the developing world have adopted varying monetary policy positions. China and India have embarked on accommodative monetary policy stances to support their economies. On the other hand, Brazil, Colombia, Peru and Chile have tightened monetary policy in order to address the possible threats stemming from the Fed's imminent move to increase interest rates.

As a small, open energy-producing economy, Trinidad and Tobago has not been immune to global economic developments. Lower energy prices, coupled with declining output levels due in part to prolonged infrastructural works at major energy companies, have negatively impacted the domestic energy sector. On a year-on-year basis, the energy sector declined by a steep 7.3 per cent in the third quarter of 2015, following a contraction of 3.3 per cent in the first half of the year. Softness also crept into the non-energy sector, with activity in some key sectors relatively anaemic in the first nine months of 2015. Following a decline of about 0.8 per cent in the first half of 2015, the non-energy sector recovered to 1.5 per cent in the third quarter of 2015 ([Table 2](#)). As a result, the domestic economy contracted by 1.9 per cent in the first nine months of 2015, as the energy sector fell by 4.7 per cent and activity in the non-energy sector was flat. Meanwhile, although the unemployment rate fell in the second quarter of 2015, the number of persons with jobs fell from one year ago – suggesting weakness may be setting into the labour market.

Core inflation – a measure of underlying price pressures – picked up in October 2015 due in part to the increases in the prices of gasoline and diesel fuels. On a year-on-year basis, core inflation accelerated to 2.4 per cent in October 2015 – the fastest pace since June 2014. Meanwhile, food inflation slowed

sharply to 6.1 per cent in October 2015, from 11.0 per cent in September 2015. As such, overall headline inflation slowed to 3.2 per cent in October 2015 compared with 4.9 per cent in the previous month.

Moreover, lower energy prices and production levels partly contributed to deterioration in the fiscal accounts in fiscal year 2014/15 (October 2014 – September 2015). Preliminary data from the Ministry of Finance indicated a higher-than-expected deficit of \$7.0 billion was realized in FY2014/15. This compares unfavourably with the originally budgeted deficit of \$4.3 billion, and the deficit of \$4.4 billion in FY2013/14. In the new fiscal year, energy revenues are expected to remain relatively depressed. With greater reliance on non-energy receipts, the FY2015/2016 Budget expects a decline in the non-energy fiscal deficit to \$12.9 billion and by extension net domestic fiscal injections. This has implications for banking sector liquidity and monetary management.

The decline in the energy sector led to a weakening in Trinidad and Tobago's external accounts position. Preliminary data indicate the country registered a balance of payments deficit of US\$724.6 million in the first half of 2015, compared with a surplus of US\$318.2 million in the corresponding period in 2014. Movements in the level of gross official reserves suggest the external position deteriorated further in the second half of 2015. For the ten month period January to October 2015, the overall balance of payments deficit widened to \$1.7 billion. The level of gross official reserves dipped to \$9.6 billion or 11.0 months of prospective imports of goods and non-factor services as at October 2015. Lower inflows from the energy sector, coupled with the sustained appetite for foreign currency, prompted the Central Bank to increase its support to the domestic foreign exchange market. In the eleven months to November 2015, the Bank's total sales (interventions) in the foreign exchange market amounted to almost US\$2.5 billion, the highest on record.

Over the course of 2015, the Central Bank kept banking system liquidity at appropriate levels. In the period May to October 2015, liquidity levels fell to a daily average of \$3.2 billion, compared with \$3.9 billion in the first four months of 2015, and \$6.7 billion in the corresponding period one year ago. Central Bank intensified its use of net open market operations during the first nine months of 2015. However, to alleviate some tightness in the market in October 2015, the Bank allowed open market Treasury securities as well as a commercial bank fixed deposit to mature without reissue. Some of the tightness in October 2015 was due to the record foreign exchange intervention by the Central Bank

which coincided with payment of proceeds from the TTNGL (Trinidad and Tobago NGL Limited) initial public offering (IPO) to the Government near the end of the month.

Falling liquidity levels as well as the increases to the Repo rate resulted in rising interest rates in 2015. As such, interest rate differentials between TT and US short- and long-term Treasury securities widened over the first eleven months of 2015. Commercial banks also increased their prime lending rates in response to increases in the Repo rate. The median prime lending rate increased to 8.75 per cent towards the end of November 2015, from 8.50 per cent at the end of September 2015.

The sluggish domestic economic environment and higher interest rates have resulted in relatively modest growth in private sector credit. For the first time since 2012, the pace of real estate mortgage lending dipped into single-digits in 2015, while the growth in business lending has been somewhat lethargic, reaching 4.4 per cent in September 2015. On the other hand, consumer lending has remained robust over the course of 2015. Loans to consumers increased by 8.6 per cent in September 2015.

OUTLOOK

Global growth has been weaker than initially expected. In its latest World Economic Outlook in October 2015, the International Monetary Fund (IMF) projects the global economy to expand by roughly 3.1 per cent in 2015, down from an earlier estimate of 3.5 per cent in April 2015. The downward revision was due to slower growth in both advanced and developing countries. In 2016, the IMF projects the global economy to grow by just over 3.5 per cent. However, there are several threats to global prospects. Firstly, with the commencement of US monetary policy normalization on the horizon, a disorderly adjustment to higher US interest rates can negatively impact emerging economies through capital flows and exchange rate channels. Secondly, a slower than expected slowdown in China could place further drag on global output. Finally, geopolitical events such as the mass migration away from war-torn Syria to Europe, acts of terrorism and ongoing tensions between the West and Russia, may also weigh on the world economy.

In other developments, recent discussions between the United States and Iran may bring an end to economic sanctions placed on the latter over the next few months, which will herald Tehran back into

the global energy market. In addition to the lower oil price impact created by increased crude oil supply, market analysts predict Iran may have to offer sharp discounts to recapture market share. The outlook for liquefied natural gas (LNG) prices is also somewhat bearish, as the US prepares to export its first cargoes in late 2015/early 2016 and thereby boost global supply. Further, the recommissioning of nuclear facilities in Japan, could signal lower demand from one of Asia's largest importers of LNG and soften LNG prices even more.

Domestically, economic activity in 2015 is much weaker than initially anticipated. Following a contraction in the first nine months of 2015, recent developments suggest the economy is unlikely to recover sufficiently in the final quarter of 2015 to erase the decline. Indeed in November 2015, ArcelorMittal Point Lisas Ltd. took the decision to idle its steel plant until it receives a request to produce. In addition to the direct impact on energy output, this move also hints at the weakness facing the broader economy. There is also the possibility consumers may delay the purchase of major durables to benefit from the reduction in VAT which will take effect at the beginning of 2016. The performance to date and expectations for the final quarter of 2015 allude to an overall contraction in domestic output for 2015.

Initial expectations suggest the Trinidad and Tobago economy may experience another year of contraction in 2016. Activity in the energy sector may be relatively subdued, as the industry continues to grapple with continued natural gas shortfalls. Production from BP's Juniper gas field is not expected to come on stream until 2017, while output from other ongoing exploration could likely take more than five years to realize a yield. Concurrently, oil and natural gas prices are not anticipated to rebound soon, a factor which may discourage future exploration activity. Reports of declining labour productivity by the business community, as well as lower Central Government budgetary allocation to capital expenditure may constrain the non-energy sector. While the settlement of public sector wage negotiations, the reduction in Value Added Tax (VAT) and the increase in personal income tax allowance may provide a fillip to personal consumption, this may be tempered as the recent decision by NGC to freeze salaries, setting the tone for continued consumer pessimism. Overall real GDP growth is projected to be relatively flat in 2016.

To date, headline inflation has been reasonably well-contained. Going forward, there may be some pick-up in inflation due in part to the direct and indirect impacts from the increases in gasoline and

diesel prices enacted in October 2015. However, there is some uncertainty surrounding the impact of the announced changes to the VAT regime, with the potential for it to be disinflationary due to the reduction in the rate of VAT, on one hand, and inflationary due to the widening of the vatable base on the other hand. However, these impulses may be transitory. As weak economic conditions prevail and past Repo rate adjustments transmit to the domestic economy, inflation should be relatively stable in 2016, barring any weather-related supply disruptions to domestic agricultural output.

One of the major challenges facing Trinidad and Tobago stems from the external accounts. With dimmed prospects for the energy sector in 2016, foreign currency inflows will also be constrained. If demand for foreign exchange remains unabated, Trinidad and Tobago may be poised to record another balance of payments deficit in 2016. As such, the country's official foreign currency reserves will decline and the Bank's ability to balance domestic foreign exchange supply and demand could be diminished.

In addition to the pressures created from lower energy sector inflows, the external accounts position may face further challenges when the US Federal Reserve begins to increase its policy rate. Central Bank of Trinidad and Tobago began to position its monetary policy to address these challenges in late 2014, and has continued along this stance in 2015 with successive increases in the Repo rate. The Bank will continue to closely monitor both domestic and international developments and take the necessary course of action to the benefit of Trinidad and Tobago. The Bank is also committed to maintain liquidity in the domestic banking system at an appropriate level.

Table 1
Key Central Bank Policy Rates

	Current Rate (%)	Last Change	Amount of Change (%)	Size of Monetary Stimulus Programmes
United States	0 to 0.25	Dec-08	-0.75	-
Euro Area	0.05	Sep-14	-0.10	€1 trillion
United Kingdom	0.50	Mar-09	-0.50	£375 billion
Japan	0 to 0.10	Oct-10	0 to -0.10	¥80 trillion
China	4.35	Oct-15	-0.25	1 trillion yuan ¹
India	6.75	Sep-15	-0.50	-
Brazil	14.25	Jul-15	+0.50	-

Source: Bloomberg, European Central Bank, Bank of England and People's Bank of China

1 Pledged Supplementary Lending

Table 2
Summary Economic Indicators for 2014-2015

	Jan - Sep 2014	Jan - Sep 2015
Real Sector Activity		
Energy Sector		
Total Depth Drilled (metres)	83,671.0	107,000.3
Crude Oil Production (b/d)	80,689.8	79,805.0
Crude Oil Exports (000 bbls)	8,781.6	8,695.7
Refinery Throughput (b/d)	103,554.3	127,362.7
Natural Gas Production (mmcf/d)	4,110.7	3,856.7
Natural Gas Utilization (mmcf/d)	3,814.8	3,629.1
LNG Production (000 cubic metres)	24,093.0	22,147.7
Fertilizer Production (000 tonnes)	4,051.8	4,008.0
Fertilizer Exports (000 tonnes)	3,710.1	3,665.4
Methanol Production (000 tonnes)	4,169.3	4,068.7
ECPI (Jan 2007 = 100)	143.1	87.3
Non Energy		
Local Sales of Cement (000 tonnes)	512	515
Motor Vehicle Sales	13,767	13,621
Daily Job Vacancy Advertisements	1,042	802
Prices		
	<i>Year-on-Year per cent change</i>	
Producer Prices	2.1	2.2
Headline Inflation*	9.0	3.2
Food Inflation*	18.2	6.1
Core Inflation*	1.4	2.4
Monetary		
	<i>Year-on-Year per cent change</i>	
Private Sector Credit**	6.7	5.9
Consumer Lending**	8.4	8.6
Business Lending**	3.8	4.4
Real Estate Mortgages**	11.5	7.3
M-1A**	10.8	-0.5
M-2**	7.4	4.1
Commercial Banks' Excess Reserves (TT\$ millions)***	6,688.4	3,502.9
TT 91 day Treasury Bill Rate (per cent)*	0.12	0.86
Capital Market		
Composite Price Index (1983 = 100)**	1,146.0	1,148.9
Volume of Shares Traded (millions)	78.7	65.6
Mutual Funds Under management (\$Billions)**	41.4	41.0
External		
	<i>US\$ millions</i>	
Sales of Foreign Exchange to Public***	5,863.2	6,241.5
Purchases of Foreign Exchange from Public***	4,751.8	4,102.0
CBTT Sales to Authorized Dealers***	1,440.0	2,494.9
Net Official Reserves*	11,111.0	9,644.0

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

* As at October

** As at September

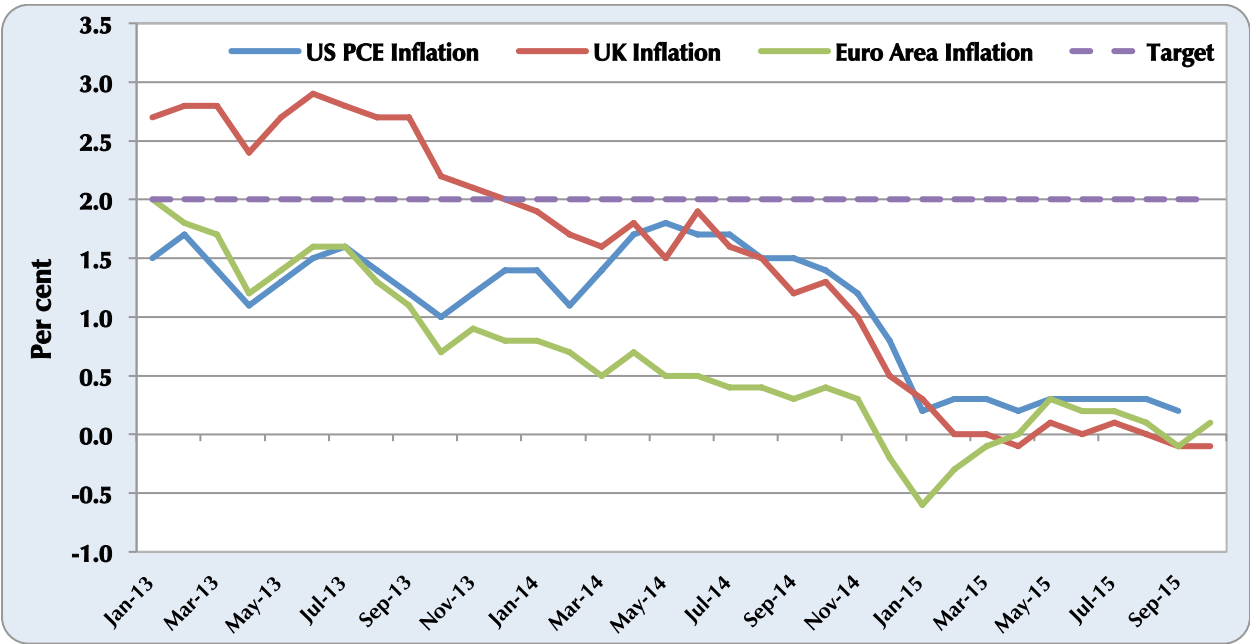
*** For the period January to October

PART II – INTERNATIONAL AND REGIONAL MONETARY POLICY DEVELOPMENTS

INTRODUCTION

Warnings by the IMF that the new “mediocre” may become the new “normal” are threatening to become a reality. By the third quarter of 2015, the global economy remains stuck in a low-growth cycle with prospects for 2015 now lower than in 2014. While leaving open the possibility for a rate increase to occur before the end of the year, weakness in the global economy and volatile financial markets were key considerations in the US Federal Reserve’s (Fed) decision to leave interest rates unchanged at its highly anticipated Federal Open Market Committee (FOMC) meeting in September 2015. Meanwhile, despite continued monetary policy support, other advanced economies such as the Euro Area, Japan and to a certain extent the United Kingdom (UK), have not recovered as strongly as may have been anticipated. Furthermore, inflation has been relatively stagnant in most advanced economies over the past few months (Chart 1).

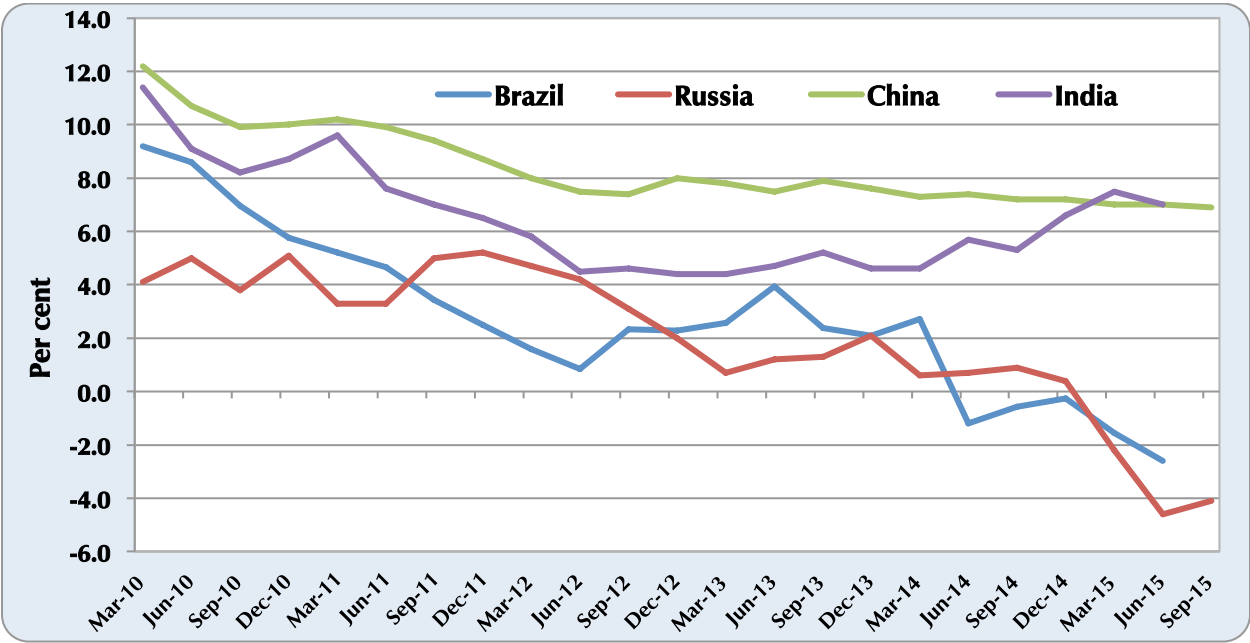
Chart 1
Headline Inflation in Selected Advanced Economies
/Year-on-Year Per Cent Change/



Source: Bloomberg

Emerging market economies, particularly the BRIC nations, also experienced slower economic activity and in some cases negative growth in the first half of 2015 (Chart 2). As such, with the exception of Brazil, all other BRIC central banks have lowered their policy interest rates in 2015. In contrast, the monetary authorities of some Latin American countries, namely Peru, Chile and Colombia have recently increased their policy rates as they anticipate monetary policy tightening in the US to begin in the near-term. Regionally, falling commodity prices and a revival in the key source markets for the tourism sector, have led to some improvement in Jamaica and Barbados. In Jamaica, the Central Bank has lowered its policy rate to support the economy in 2015.

Chart 2
BRIC Nations - Real GDP Growth
/Year-on-Year Per Cent Change/



Source: Bloomberg

INTERNATIONAL

Advanced Economies

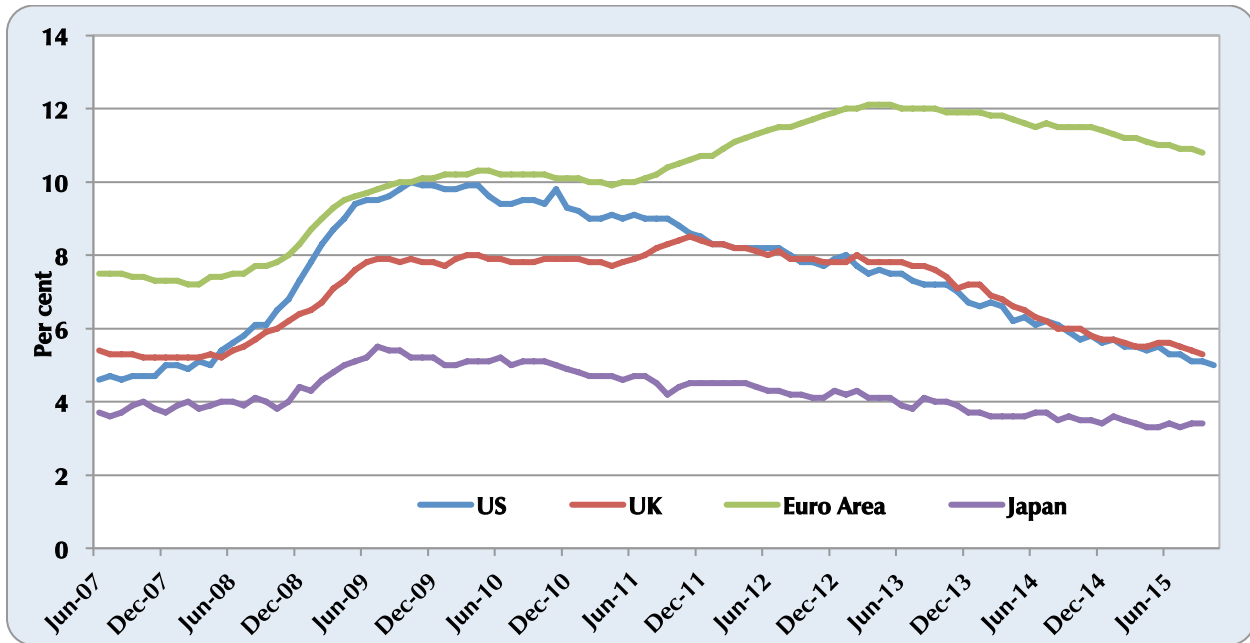
Following a slow start to the year, US economic growth rebounded in the second and third quarters of 2015 due to improvements in consumption amid a stronger labour market. Early estimates revealed US real GDP increased at an annualized rate of 2.1 per cent (quarter-on-quarter) in the third quarter of

2015, following growth of 3.9 per cent in the second quarter. The labour market continued to strengthen in 2015. In addition to the unemployment rate falling to a post-crisis low of 5.0 per cent in October 2015 ([Chart 3](#)), there were also signs that wage growth may be gaining momentum – a positive for the consumption-led US economy. However, inflation remained well below the Fed’s 2.0 per cent objective, with the PCE inflation rate at 0.2 per cent in September 2015.

The Fed has delayed increasing its main policy rate to date in 2015, citing reduced expectations for inflation to return to its 2.0 per cent target in the medium term, as well as the weakness in the global economy. However, at its October 2015 FOMC meeting, the Fed did not rule out the possibility of a policy rate increase before the end of 2015, as it lowered its concerns regarding the impact of slower global growth on the US economy. Minutes from the Fed’s previous FOMC meeting in September 2015 revealed most participants still believed that 2015 remained appropriate for a rise in US interest rates, although the number of participants who held this view fell from 15 in June 2015 to 13 in September 2015. While information from the federal funds futures market suggest investors’ views are still somewhat mixed, US Treasury yields have increased since September 2015.

The UK economy maintained its slow but steady performance in 2015 to date. On a quarter-on-quarter basis, the UK economy expanded by 0.5 per cent in the third quarter of 2015, after growing by 0.7 per cent in the previous quarter. The labour market has also improved gradually since the Global Financial Crisis, with the unemployment rate at 5.3 per cent in September 2015 – the lowest rate in seven years ([Chart 3](#)). However, deflation returned to the UK as consumer prices declined by 0.1 per cent (year-on-year) in October and September 2015. While the Bank of England (BoE) maintained its accommodative monetary policy stance amid weak inflationary pressures, the Bank’s Governor has sent mixed signals regarding future monetary policy actions. On one hand, he cautioned households to prepare for tighter monetary policy, but at the same time also suggested rates could be low for longer if economic conditions warrant.

Chart 3
Unemployment Rates in Selected Advanced Economies



Source: Bloomberg

The Euro area maintained its modest growth path in the first nine months of 2015, as lower oil prices, monetary easing and the depreciation of the euro currency helped sustain the economy. The Euro Area experienced sluggish growth of 0.3 per cent (quarter-on-quarter) in the third quarter of 2015, following expansions of 0.4 per cent and 0.5 per cent in the second and first quarters, respectively. In a similar manner to the US and the UK, inflation in the Euro area remains stubbornly low and below the European Central Bank’s (ECB) 2.0 per cent target, largely as a result of the persistent decline in fuel prices. Inflation was relatively flat at 0.1 per cent (year-on-year) in October 2015. The ECB maintained its highly accommodative monetary policy stance; continuing its quantitative easing programme (which commenced in March 2015) of combined monthly purchases of public and private sector securities of €60 billion and kept its main policy rate at a record low of 0.05 per cent.

After recording relatively robust growth in the first quarter of 2015, Japan’s economy entered into a technical recession. Following a 1.1 per cent (quarter-on-quarter) expansion in the first quarter, the Japanese economy contracted by 0.2 per cent in the second and third quarters of 2015. At its October 2015 Monetary Policy Committee meeting, the Bank of Japan maintained its commitment to enlarge the monetary base to ¥80 trillion (US\$724 billion). Japanese Prime Minister Shinzo Abe has vowed to boost nominal output by 22.0 per cent by moving his economic policies to its second stage. This stage would

see the implementation of three new goals namely; a strong economy, support for families and increased social security for the elderly.

Emerging Market Economies

Economic activity in China slowed to 6.9 per cent (year-on-year) in the third quarter of 2015 – the lowest rate in more than six years – following expansions of 7.0 per cent in the first and second quarters of the year. In an effort to bolster growth, the Chinese Government indicated that a “more forceful” fiscal policy will be implemented, with more funds allocated to support infrastructure projects and tax cuts for small businesses. Additionally, debt quotas will be established for local governments. In August 2015, the People’s Bank of China (PBoC) devalued the national currency against the US dollar by approximately 2.0 per cent to its lowest rate in almost three years. The Bank stated that this one-time devaluation was aimed at making the exchange rate more market-oriented by better reflecting economic conditions. Further, the PBoC continued to reduce its one-year benchmark lending rate, taking the rate down to 4.35 per cent in October – its fifth rate cut for 2015. The PBoC also lowered the reserve requirement ratio by 50 basis points on each occasion in August and October, to 17.5 per cent for most large banks by the end of October 2015.

The Reserve Bank of India (RBI) also took steps to bolster its economy in the face of slowing growth and record low inflation. At its September 2015 Monetary Policy Committee meeting, the RBI cut its key policy rate by 50 basis points to 6.75 per cent. This rate cut follows a series of rate reductions that the RBI has embarked on since the start of 2015 when the rate was recorded at 8.0 per cent. Although India remains one of the fastest growing countries in the world, the rate of expansion slowed to 7.0 per cent in the second quarter of 2015 from 7.5 per cent in the first quarter. Consumer prices rose by 4.4 per cent (year-on-year) in September 2015, compared with 5.6 per cent one year ago. The RBI has stated that it would focus on bringing inflation to approximately 5.0 per cent by the end of fiscal year 2016/17.

The Russian economy continues to face the effects of economic sanctions and lower oil prices. Economic activity declined by 4.1 per cent (year-on-year) in the third quarter of 2015 following a contraction of 4.6 per cent in the previous quarter. Since the start of 2015, the Russian Central Bank has lowered its key policy rate by six percentage points to 11.0 per cent in September 2015. Meanwhile, the strong depreciation of the ruble, as well as Russian-imposed trade bans on key European food imports, has resulted in double-digit inflation in 2015.

Unlike its BRIC counterparts, the Central Bank of Brazil has tightened its monetary policy stance in 2015, despite being in the midst of a technical recession. Operating under an inflation-targeting regime, the Bank of Brazil increased its policy rate on five occasions by a cumulative 250 basis points in the first nine months of 2015. By the end of September 2015, the Bank's main policy rate stood at 14.25 per cent. Thus far in 2015, inflation has been consistently higher than the upper end of its target band of 2.5 – 6.5 per cent. Headline inflation was recorded at 9.5 per cent (year-on-year) in September 2015. Meanwhile, facing lower prices for several of its key export commodities, economic activity contracted by 1.9 per cent (year-on-year) and 0.7 per cent in the first and second quarters of 2015, respectively. Further, weak economic conditions, a deteriorating credit profile and increased political uncertainty prompted Standard and Poor's and Fitch credit rating agencies to downgrade the country's sovereign credit rating to junk status.

REGIONAL

Global economic developments have had varying impacts on countries within the Latin America and Caribbean (LAC) region. The global decline in commodity prices has negatively impacted commodity producers such as Colombia, Chile, Trinidad and Tobago, Guyana and Suriname. At the same time, service-oriented and tourism-based economies have been boosted by lower oil prices and the resultant improvement in their terms of trade as well as the recovery in the US – a major source market for the regional tourism sector. However, the impending start to monetary policy tightening in the US as its economy strengthens, has created another challenge for the LAC region. The forward guidance provided by the Fed as it relates to higher interest rates, has already resulted in capital outflows and weakening currencies in several Latin American countries. One of the key deliberations among regional central bankers pertains to the length of time monetary policy in the region can be tied to domestic objectives given the expected actions by the Fed.

The Central Banks of Peru, Chile and Colombia have already increased their policy rates. The Peruvian Central Bank raised its policy rate by 25 basis points to 3.50 per cent in September, while the Bank of Chile also increased its policy rates by 25 basis points to 3.25 per cent in October 2015. Similarly, the Bank of Colombia hiked its key interest rate by 50 basis points to 5.25 per cent in October 2015. The monetary authorities indicated that the potential for higher inflation stemming from weakening

currencies in the face of monetary policy tightening in the US was one of the major factors behind their decisions.

Upon completion of the ninth review of Jamaica's economic performance under the Extended Fund Facility (EFF), the IMF disbursed US\$39.7 million as part of the programme. The IMF's Deputy Managing Director, Min Zhu, stated that the country's "macroeconomic fundamentals continue to strengthen and that inflation is at a historical low and the current account is improving, aided by declining oil prices." For the fiscal year 2015-2016, the Fund has projected economic growth at 1.4 per cent with the current account deficit expected to narrow to US\$518 million compared with a deficit of US\$738 million for the previous fiscal year. Furthermore, the Bank of Jamaica lowered one of its main policy rates by 25 basis points to 5.25 per cent in August 2015, citing the continued slowdown in the rate of inflation (Table 3). Jamaica's real GDP growth slowed to 0.6 per cent (year-on-year) in the second quarter of 2015 from 2.0 per cent in the corresponding period in 2014, primarily on account of decreased output in the Agriculture, Manufacturing and Construction sectors.

According to the Central Bank of Barbados, the Barbadian economy remained relatively stagnant in 2015. Over the first nine months of 2015, the economy recorded marginal growth of 0.3 per cent compared with a decline of 0.1 per cent in the same period in 2014. The tourism sector led the economy, expanding by 6.3 per cent in the first nine months of 2015. On the other hand, there were contractions in the Manufacturing, Distribution and Construction sectors. The decline in Construction was due to delays in the start-up of several investment projects.

Table 3
Key Central Bank Policy Rates in the Region
(Per Cent Per Annum)

	Current Rate	Last Change	Amount of Change
Trinidad and Tobago ¹	4.50	Sep. 15	0.25
Barbados ²	7.00	Jun. 09	-1.00
Jamaica ³	5.25	Aug. 15	-0.25
Guyana ⁴	5.00	Mar. 13	-0.25

Sources: Central Bank of Trinidad and Tobago, Guyana, Barbados and Bloomberg

1 Repo rate as at September 2015

2 Bank rate as at September 2015

3 30-Day CD rate as at August 2015

4 Bank rate as at June 2015

PART III – DOMESTIC ECONOMIC CONDITIONS

a) Gross Domestic Product

The latest growth estimates point to weak economic activity in the first nine months of 2015. According to preliminary estimates from the Central Bank's Quarterly Real Gross Domestic Product (QGDP) Index, output declined by 1.9 per cent (year-on-year) in the first three quarters of 2015 compared with growth of 1.1 per cent in the corresponding period of 2014. Infrastructure works at several key players in the energy industry continued to hamper production in the sector. Meanwhile, the non-energy sector, which buoyed the domestic economy over the past few years, also lost momentum thus far in 2015 (Chart 4).

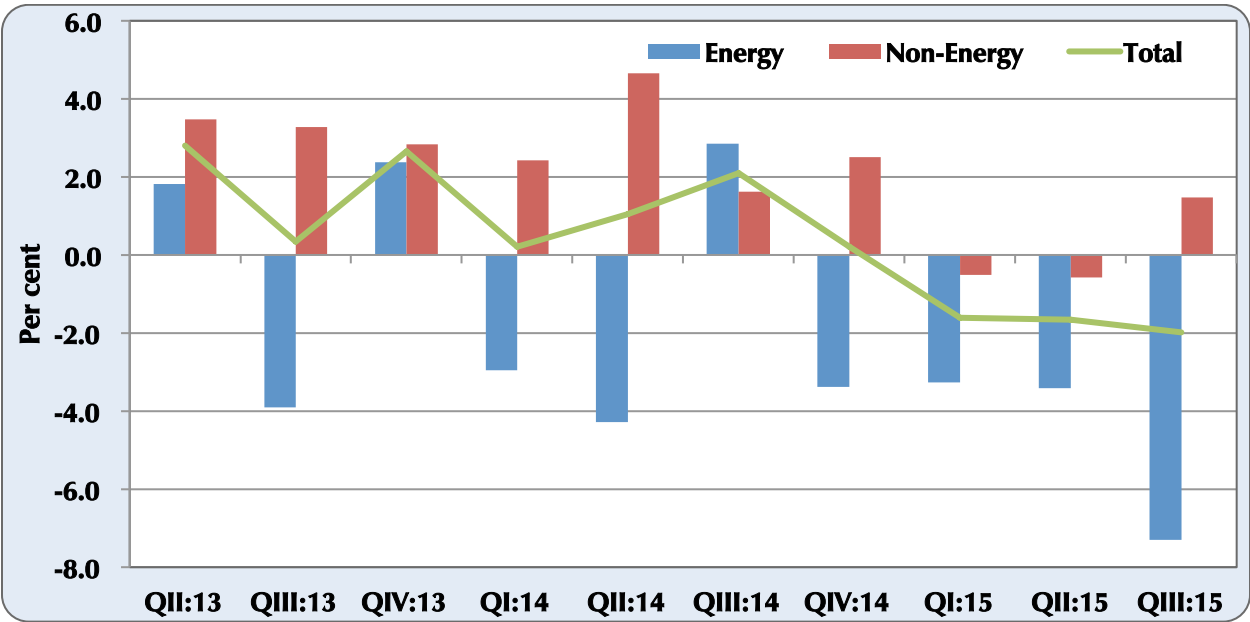
Over the first nine months of 2015, lower production in the upstream industry constrained output in the energy sector in general. Provisional information show the energy sector contracted by 4.7 per cent (year-on-year) in the first three quarters of 2015 compared with a decline of 1.5 per cent in the corresponding period in 2014. Production stoppages on several bpTT platforms, to facilitate upgrade and infrastructural work, as well as relatively lower output from BGTT led to a 6.2 per cent (year-on-year) drop in natural gas production. The fall in natural gas output combined with a drop in crude production (-1.1 per cent) resulted in the Exploration and Production sub-sector contracting by 5.7 per cent. Lower gas production spilled over to the Refining sub-sector which declined by 6.2 per cent, as liquefied natural gas (LNG) output contracted by 8.1 per cent. Gas supply curtailments also affected methanol and fertilizer producers and as a result output in the Petrochemicals sub-sector was 1.8 per cent lower in the first nine months of 2015.

After recording 15 consecutive quarters of growth, activity in the non-energy sector weakened in 2015. Non-energy sector real GDP was relatively flat (-0.1 per cent) in the first nine months of 2015, as opposed to relatively healthy growth of 2.9 per cent in the corresponding period in 2014. The Construction, Manufacturing and Distribution sub-sectors, which collectively account for close to 45.0 per cent of the non-energy economy, all recorded anaemic performances to date in 2015. With very limited new large-scale project start-ups during the period, the Construction sector grew by 1.0 per cent compared with an expansion of 3.1 per cent in the same period in 2014. In the Manufacturing sector, real output declined by 1.3 per cent as weak construction activity spilled over to producers of key inputs

into the construction process. Further, the Assembly-type and related industries sub-sector was affected by downtime at the iron and steel company. As a result, capacity utilization rates in the Assembly-type and related industries sub-sector plummeted from 50.5 per cent in June 2014, to 38.7 per cent in June 2015 (Table 4).

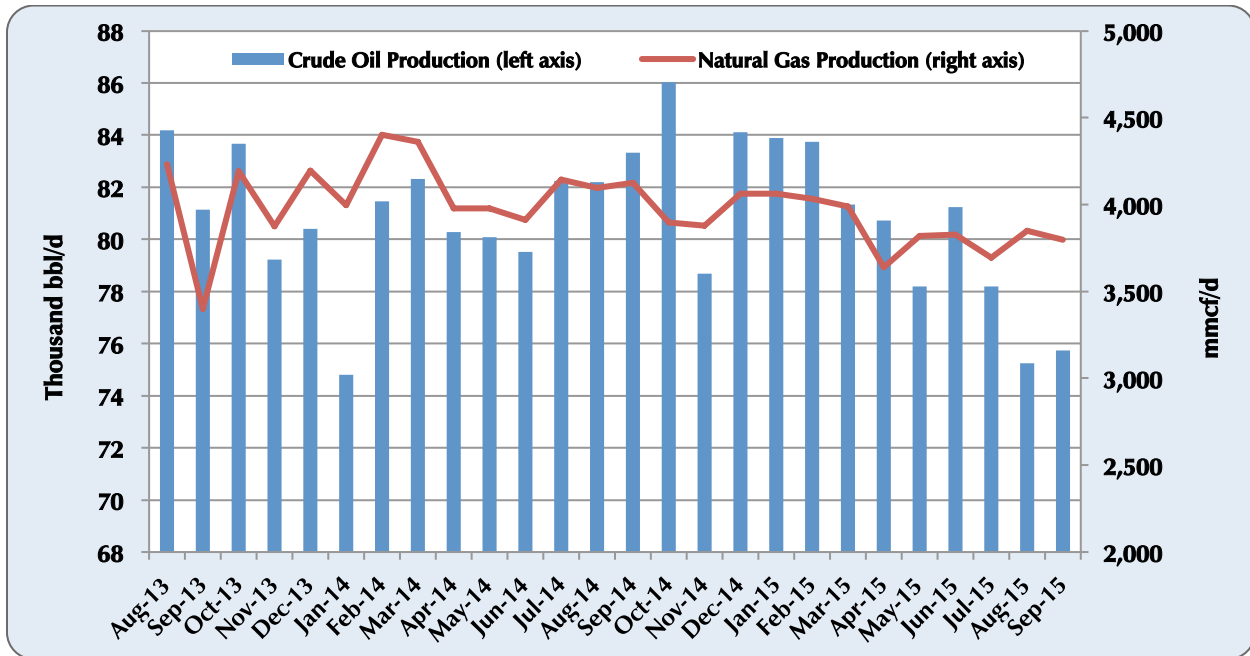
Initial estimates also suggest marginal growth of 0.6 per cent in the Distribution sector, while performance in the Finance, Insurance and Real Estate sector was more subdued (1.9 per cent) when compared with the same period one year ago (3.2 per cent).

Chart 4
Trinidad and Tobago - Real GDP Growth



Source: Central Bank of Trinidad and Tobago

Chart 5
Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Affairs

Table 4
Capacity Utilization Rate - Manufacturing Sector
(Per Cent)

	2013				2014				2015	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Manufacturing	62.7	67.6	65.6	68.8	69.7	69.7	70.9	73.0	67.0	71.9
Food, Drink and Tobacco	67.7	74.5	72.5	74.2	78.8	75.3	78.7	83.4	73.5	82.4
Chemicals and Non-Metallic Minerals	60.7	64.5	60.1	67.6	62.9	71.0	67.5	67.7	64.6	70.2
Assembly-Type and Related Industries	55.5	53.7	56.5	53.7	56.6	50.5	47.4	45.9	49.8	38.7

Source: Central Bank of Trinidad and Tobago

b) Confidence Surveys

Business Confidence

The latest Business Confidence Survey (BCS) suggests the level of optimism among the local business community waned in the third quarter of 2015. The BCS indicated the outlook for the economy reverted to neutral (BCI+17) in the third quarter from generally optimistic (BCI+43) in the second quarter of 2015. This tempered outlook was attributed to the uncertainties plaguing the global environment, the sharp decline in the price of oil and the September 2015 General Elections. As a result, confidence diminished

in all categories of the Survey (financial prospects, expected production levels, expected capital expenditure, expected hiring of workers, the local economic outlook and global economic outlook), with the business community being the most uncertain about prospects for the local and global economies.

Consumer Confidence

The Consumer Confidence Survey (CCS) revealed that although there was some improvement, consumers' expectations for the domestic economy remained generally pessimistic in the third quarter of 2015. The Consumer Confidence Index (CCI) measured -6.5 in the third quarter of 2015, compared with -12.6 in the previous three month period and -18.9 over the first quarter of 2015. Negative sentiments were expressed in the following categories: cost of living (-61.8), purchases of durable goods (-15.4) and the economy (-2.9). In reference to the purchase of consumer durables, only 30.0 per cent of respondents felt that it was an opportune time to make major purchases, suggesting that consumer demand may be relatively tempered in the short term. Conversely, the outlook was cautiously optimistic for the dimensions of financial circumstances (21.2) and household income (21.8), with 47.0 per cent of respondents expecting an improvement in their personal financial circumstances over the next six months. This finding may be reflective of the series of recent public sector wage settlements and its implications for wage negotiations in the wider labour market.

Labour Confidence

Based on the latest Labour Confidence Survey, the overall outlook for the domestic labour market remained moderately optimistic in the third quarter of 2015. The Labour Confidence Index (LCI) edged up to +32.9 in the third quarter of 2015 from +30.1 per cent in the previous quarter. There were improved labour market sentiments by the self-employed (+38 from +28), employees (+33.5 from +29.7) and trade unions (+15.4 from 0) while expectations by employers remained just above +32 in the third quarter of 2015. Positive labour sentiments were generally observed in the Education, Entertainment and Distribution sectors. On the other hand, labour sentiments were somewhat pessimistic in the Manufacturing and Agriculture sectors.

c) Prices

Retail Prices

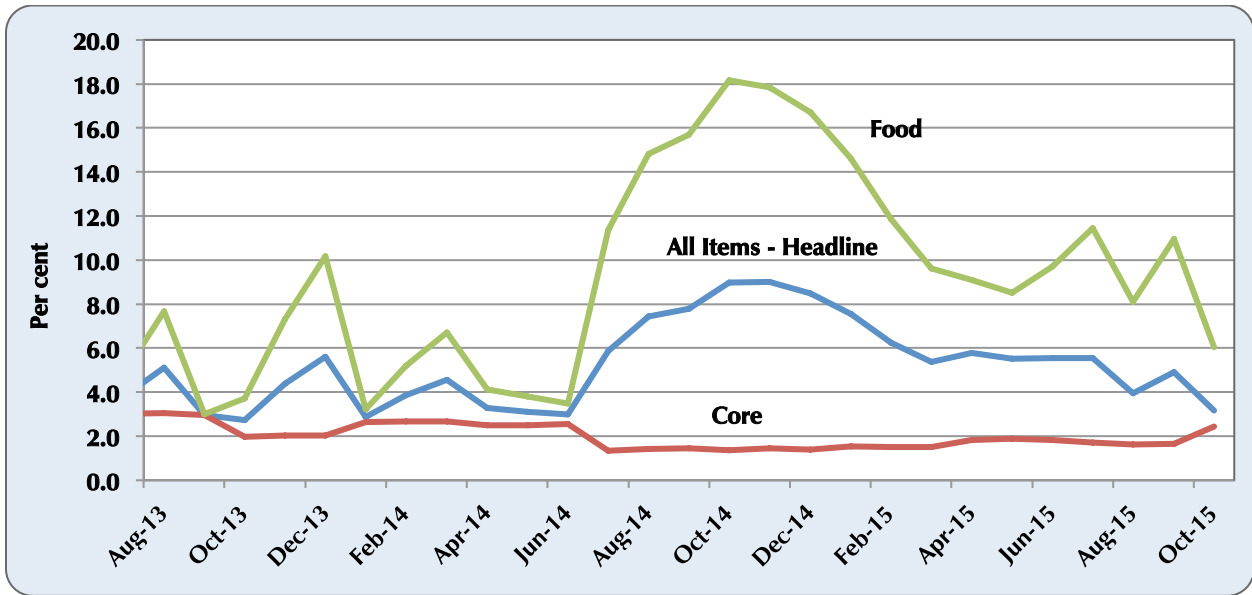
As economic activity waned, domestic price pressures have also been relatively moderate. Headline inflation, as measured by the year-on-year change in the Index of Retail Prices (January 2015 = 100), measured 3.2 per cent in October 2015 (**Chart 6**). This represented a slowdown from 5.8 per cent in April 2015 and 9.0 per cent in October 2014. Over the first ten months of 2015, headline inflation averaged 5.3 per cent.

Although there was some up-tick in October, core inflation, which excludes food prices, has been well contained in the first ten months of 2015, averaging 1.8 per cent. However, in October 2015, core inflation rose to 2.4 per cent due in part to the increase in fuel prices as outlined in the 2015/2016 Central Government Budget. As such, following year-on-year declines in the previous three months, the transportation sub-index rose by 1.0 per cent in October 2015 (**Chart 7**). Faster price increases were also observed within the recreation and culture, clothing and footwear and hotels, cafes and restaurants sub-indices in October 2015. Going forward, core inflation may face opposing pressures. On one hand, the reduction to VAT effective January 2016 should place downward pressures, while on the other hand, second round effects from the increase in fuel prices, may create upward pressures.

Food inflation was more pronounced and volatile in its movements when compared with core inflation over the ten month period. In October 2015, food inflation measured 6.1 per cent (year-on-year), compared with 9.1 per cent in April 2015 and 18.2 per cent in October 2014. Over the ten month period, food inflation averaged 10.0 per cent. Although there was significant volatility among the sub-indices, the meat and vegetable sub-indices both recorded strong increases for much of the period (**Chart 8**). The sharp increase in the meat sub-index was primarily due to poultry prices, as key producers within this industry reported rising operational costs.

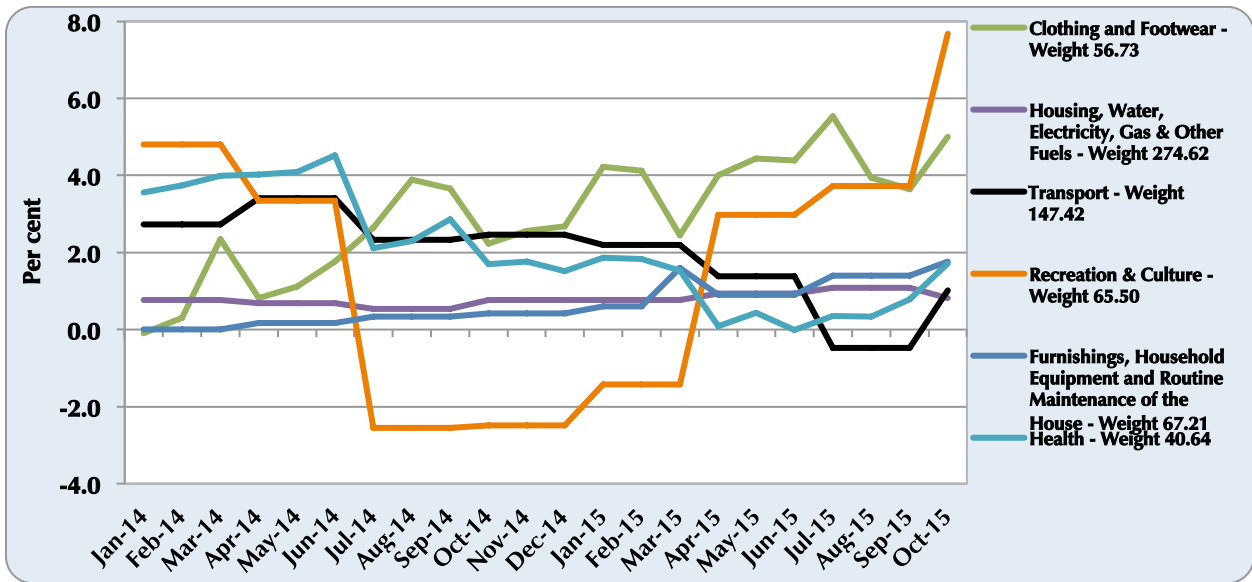
International food prices, measured by the Food and Agriculture Organisation's Food Price Index (FAO), declined significantly thus far in 2015 (**Chart 9**). In October 2015, the FAO contracted by 16.0 per cent (year-on-year), with all the categories within the FAO Food Index experiencing double-digit declines (meat, dairy, oils, sugar and cereals). Global supply improvements stemming in part from favourable weather conditions have resulted in softer commodity prices thus far in 2015.

Chart 6
Index of Retail Prices
 (Year-on-Year Per Cent Change)



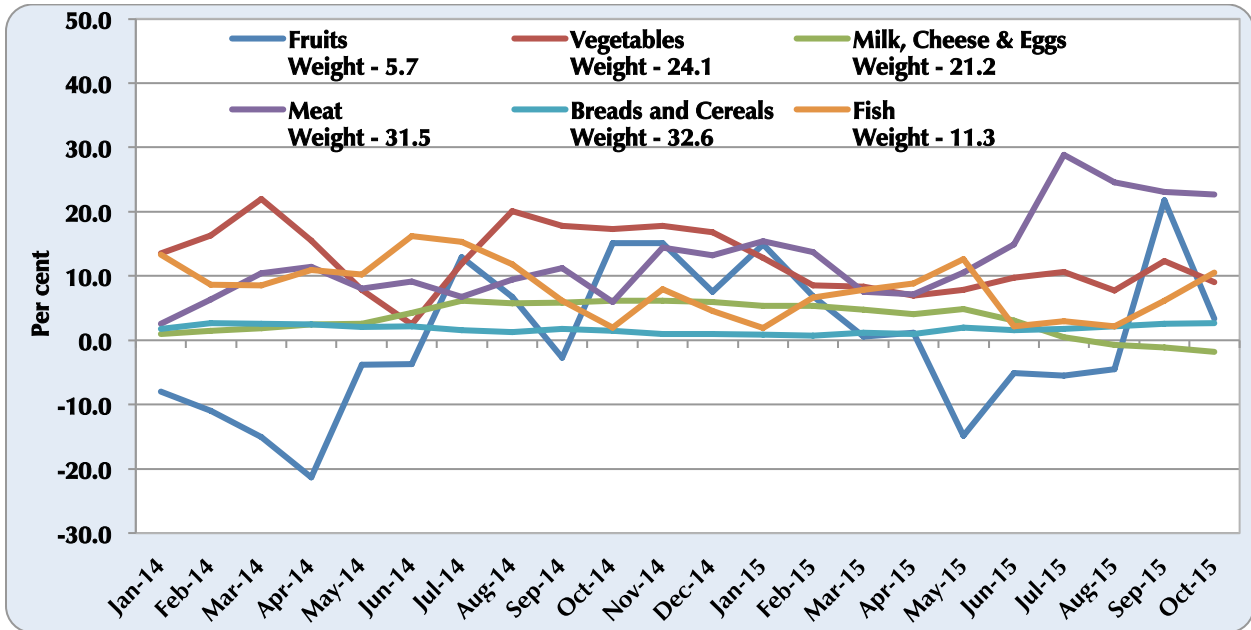
Source: Central Statistical Office of Trinidad and Tobago

Chart 7
Index of Retail Prices – Components of the Core Index



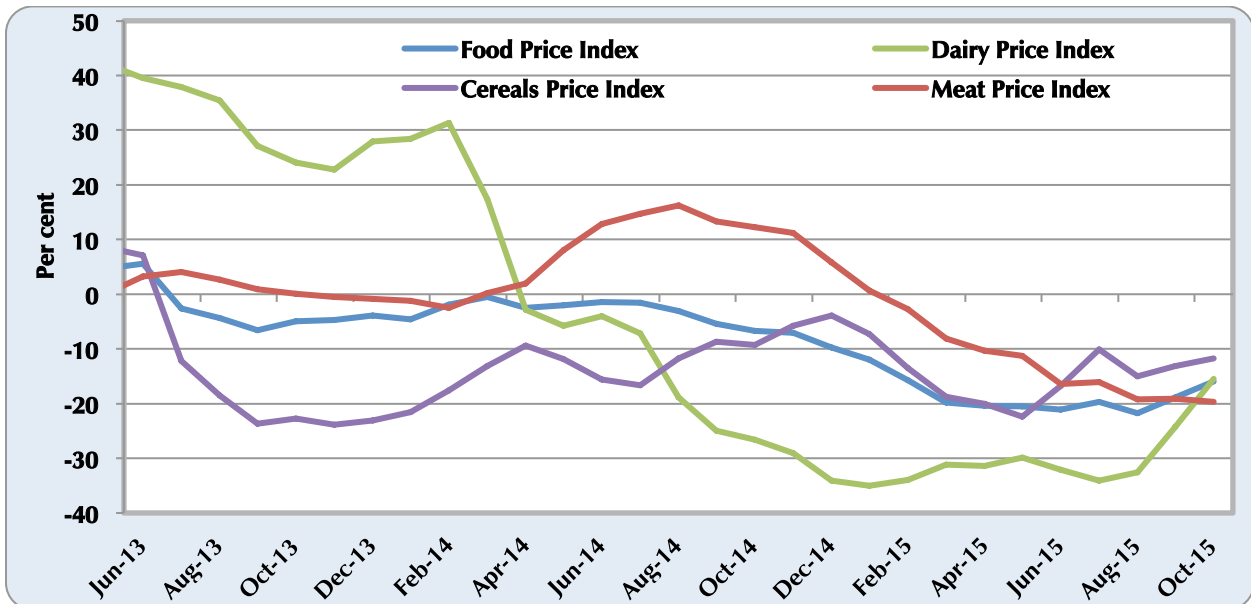
Source: Central Statistical Office of Trinidad and Tobago

Chart 8
Index of Retail Prices – Components of the Food Sub-Index



Source: Central Statistical Office of Trinidad and Tobago

Chart 9
FAO Food Price Index
(Year-on-Year Per Cent Change)



Source: Food and Agriculture Organization

Producer Prices

Producers' price movements, as measured by the Central Statistical Office's Producers' Prices Index (PPI), accelerated in the third quarter of 2015. On a year-on-year basis, the overall index increased by 2.4 per cent in the third quarter of 2015 following increases of 2.1 per cent and 2.2 per cent in the first two quarters of the year, respectively. The sub-components accounting for the movement in the latest period were drink and tobacco, which increased by 6.7 per cent while the chemicals and non-metallic minerals increased by 2.0 per cent.

Building Materials Prices

At the start of 2015, building material prices were also relatively contained. The Index of Retail Building Materials rose on a year-on-year basis by 2.3 per cent in the first quarter of 2015, following increases of just above 3.0 per cent in the final quarter of 2014 and 1.5 per cent in the first quarter of 2014. Some sub-categories exhibiting faster price increases when compared with a year ago included the site preparation, structure and concrete frame sub-index (4.4 per cent compared with 0.9 per cent in the first quarter of 2014), the finishing, joinery and external works sub-index (3.5 per cent compared with -0.9 per cent), and the electrical sub-index (1.3 per cent compared with 1.8 per cent). Conversely, slower price increases were recorded within the walls and roof sub-index (1.7 per cent) at the start of 2015 when compared to the corresponding period in 2014 (3.1 per cent).

d) Labour Market

According to the Central Statistical Office, the rate of unemployment declined to 3.2 per cent in the second quarter of 2015, from 3.5 per cent in the second quarter of 2014 and 3.6 per cent (revised from 3.7 per cent) in the first quarter of 2015. However, the fall in the unemployment rate betrayed the emerging weakness in the labour market. A closer analysis revealed the number of persons employed fell by 7,600 persons, while the number unemployed also declined by 2,500 persons. The disparity between the fall in the numbers employed and unemployed, suggested more workers left the labour force. In fact, the labour force fell by 9,900 persons and the rate of participation declined to 61.0 per cent from 62.0 per cent in the second quarter of 2014.

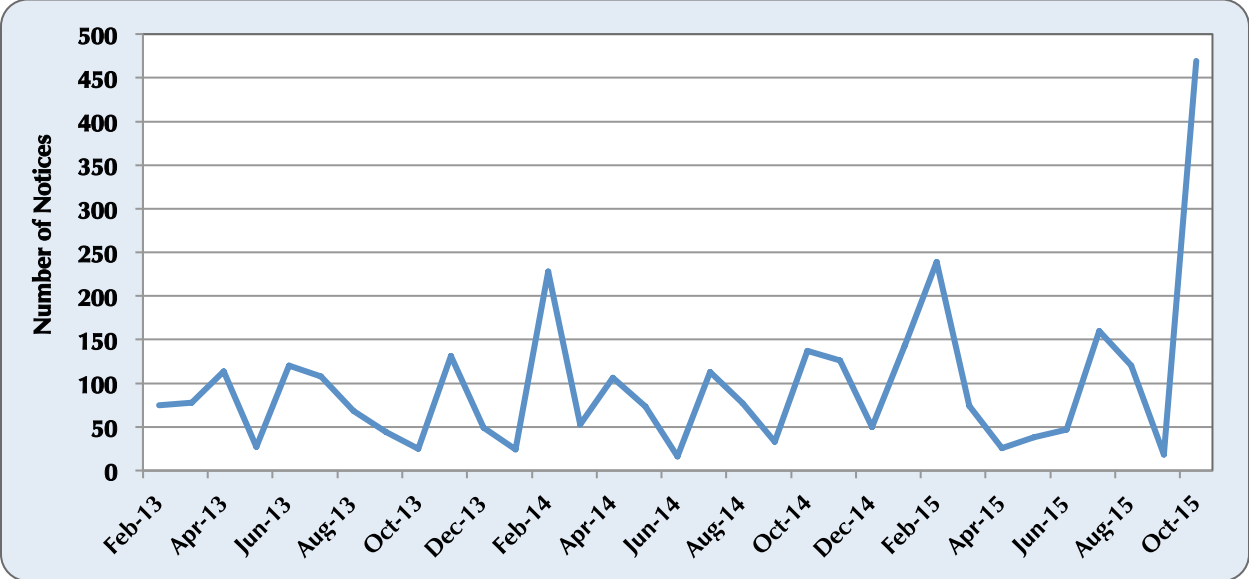
Job losses were recorded in the Community, Social and Personal Services (14,300 persons), Wholesale and Retail Trade, Restaurants and Hotels (3,300 persons), and Petroleum and Gas (2,800 persons)

sectors. On the other hand, notable increases in employment also occurred in the Manufacturing (10,200 persons) Construction (3,300 persons) and Electricity and Water (2,100 persons) sectors.

Labour productivity worsened during the first half of 2015. The Index of Productivity (measured as the Index of Domestic Production divided by the Index of Hours Worked) fell by 2.0 per cent and 0.9 per cent in the first and second quarters of 2015, respectively. The sub-sectors experiencing the largest declines were the textiles, garments and footwear, electricity and petrochemical sub-sectors.

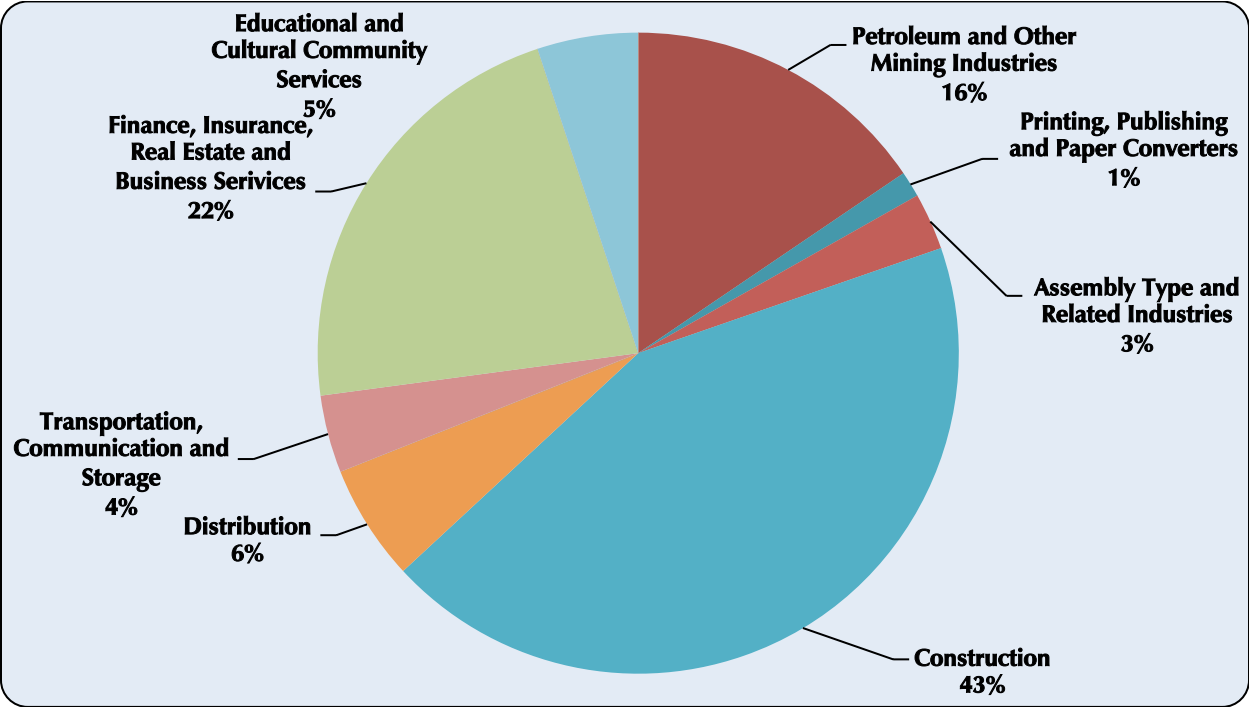
Early indicators suggest worsening labour market conditions in the second half of 2015. Retrenchment notices – a barometer of job separation – more than doubled to 767 notices over the period July to October 2015 from 360 notices in the corresponding period one year ago ([Chart 10](#)). The majority of notices originated in the Construction, Finance and Petroleum sectors which retrenched 333 persons, 169 persons and 119 persons, respectively ([Chart 11](#)). Within the Construction and Finance sectors, a large number of notices were filed in October 2015. Meanwhile, job openings declined by 12.3 per cent over the period July to October 2015.

Chart 10
Retrenchment Notices Registered



Source: Ministry of Labour and Small and Micro Enterprise Development

Chart 11
Retrenchment Notices Registered By Sector
July – October 2015
(As a Proportion of Total Notices Filed)



Source: Ministry of Labour and Small and Micro Enterprise Development

e) Fiscal Operations

Facing revenue constraints stemming from lower energy prices, preliminary data suggest the Central Government accounts deteriorated in fiscal year (FY) 2014/15. Revised estimates from the Ministry of Finance indicated a higher than expected deficit of \$7.0 billion (4.2 per cent of GDP) was realized in the FY2014/15. This compares unfavourably with the originally budgeted deficit of \$4.3 billion, and the deficit of \$4.4 billion in FY2013/14. However, an increase in non-energy revenues led to a fall in the non-energy fiscal deficit from 18.7 per cent of GDP in FY2013/14 to 15.1 per cent of GDP in FY2014/15.

The Central Government anticipates an overall deficit of \$2.8 billion for FY2015/16, with revenue and expenditure budgeted at \$60.3 billion and \$63.0 billion, respectively. Moreover, greater reliance will be placed on non-energy receipts, which is anticipated to amount to \$50.1 billion – \$13.7 billion more than what was received in FY2014/15 (Table 5). If realized, this will see the non-energy fiscal deficit shrinking further to 7.3 per cent of GDP in FY2015/16. The Government plans to finance the budgeted deficit through borrowing, of which 57.8 per cent will originate from domestic sources. Preliminary projections indicate total public sector debt will rise to 46.9 per cent of GDP in FY2015/16 from 45.3 per cent in FY2014/15 while the external debt is anticipated to increase to 10.1 per cent of GDP from 7.9 per cent of GDP one year earlier.

If executed as planned, the FY2015/16 budget package will have both direct and indirect implications for monetary policy. In the first instance, the recently implemented 15.0 per cent increase in the price of diesel and super gasoline, along with other measures which are scheduled to be implemented in January 2016 (such as the broadening of the VAT base and the reintroduction of property taxes) have the potential to be inflationary. Meanwhile, the smaller non-energy fiscal deficit may lead to lower net domestic fiscal injections, which traditionally have been a major source of banking system liquidity. Furthermore, while there are notable projects under the public sector investment programme (PSIP), the reduced allocation of \$7.0 billion for the capital expenditure programme, may lessen the extent of the fiscal stimulus.

Table 5
Summary of Central Government Fiscal Operations
(TT\$ Millions)

	2011/2012	2012/2013	2013/2014	2014/2015 ^{re}	2015/2016 ^b
Revenue	49,277.9	52,760.1	58,378.7	54,778.5	60,286.4
Energy	26,625.8	26,603.6	28,070.5	18,336.3	10,161.4
Non-energy	22,652.1	26,156.6	30,308.2	36,442.2	50,125.0
Expenditure	51,474.8	57,668.5	62,820.9	61,792.2	63,048.7
Current	44,487.1	49,228.7	54,386.3	53,431.9	56,048.7
Wages and salaries	7,282.3	9,171.5	8,590.8	10,366.4	13,210.6
Goods and services	7,061.6	7,180.1	8,008.8	8,671.3	8,411.0
Interest payments	2,937.1	2,808.7	3,122.6	2,954.7	3,129.2
Transfers and subsidies	27,206.1	30,068.4	34,664.1	31,439.5	31,297.9
Capital expenditure and net lending	6,987.7	8,439.8	8,434.6	8,360.3	7,000.0
Overall Non-Energy Balance	-28,866.1	-31,512.0	-32,512.7	-25,350.0	-12,923.7
Overall Balance	-2,196.9	-4,908.4	-4,442.2	-7,013.7	-2,762.3
Total Financing (Net)	2,196.9	4,908.4	4,442.2	7,013.7	2,762.3
Net Foreign Financing	1,054.1	-155.1	3,312.4	20.3	1,166.5
Net Domestic Financing	1,142.8	5,063.5	1,129.8	6,993.4	1,595.8
<i>Of which: Transfers to Heritage and Stabilization Fund</i>	<i>1,332.1</i>	<i>271.7</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
(In Per Cent of Fiscal Year GDP)					
Revenue	29.9	31.2	33.6	32.7	34.3
Energy	16.2	15.7	16.2	10.9	5.8
Non-energy	13.8	15.5	17.5	21.7	28.5
Expenditure	31.3	34.1	36.2	36.9	35.8
Current	27.0	29.1	31.3	31.9	31.8
Wages and salaries	4.4	5.4	4.9	6.2	7.5
Goods and services	4.3	4.2	4.6	5.2	4.8
Interest payments	1.8	1.7	1.8	1.8	1.8
Transfers and subsidies	16.5	17.8	20.0	18.8	17.8
Capital expenditure and net lending	4.2	5.0	4.9	5.0	4.0
Overall Non-Energy Balance	-17.5	-18.6	-18.7	-15.1	-7.3
Overall Balance	-1.3	-2.9	-2.6	-4.2	-1.6
Total Financing (Net)	1.3	2.9	2.6	4.2	1.6
Net Foreign Financing	0.6	-0.1	1.9	0.0	0.7
Net Domestic Financing	0.7	3.0	0.7	4.2	0.9
<i>Of which: Transfers to Heritage and Stabilization Fund</i>	<i>0.8</i>	<i>0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

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

Notes:

re Revised Estimates

b Budgeted data based on an oil price of US\$45.00 per barrel and Natural Gas price of US\$2.75

f) External Accounts

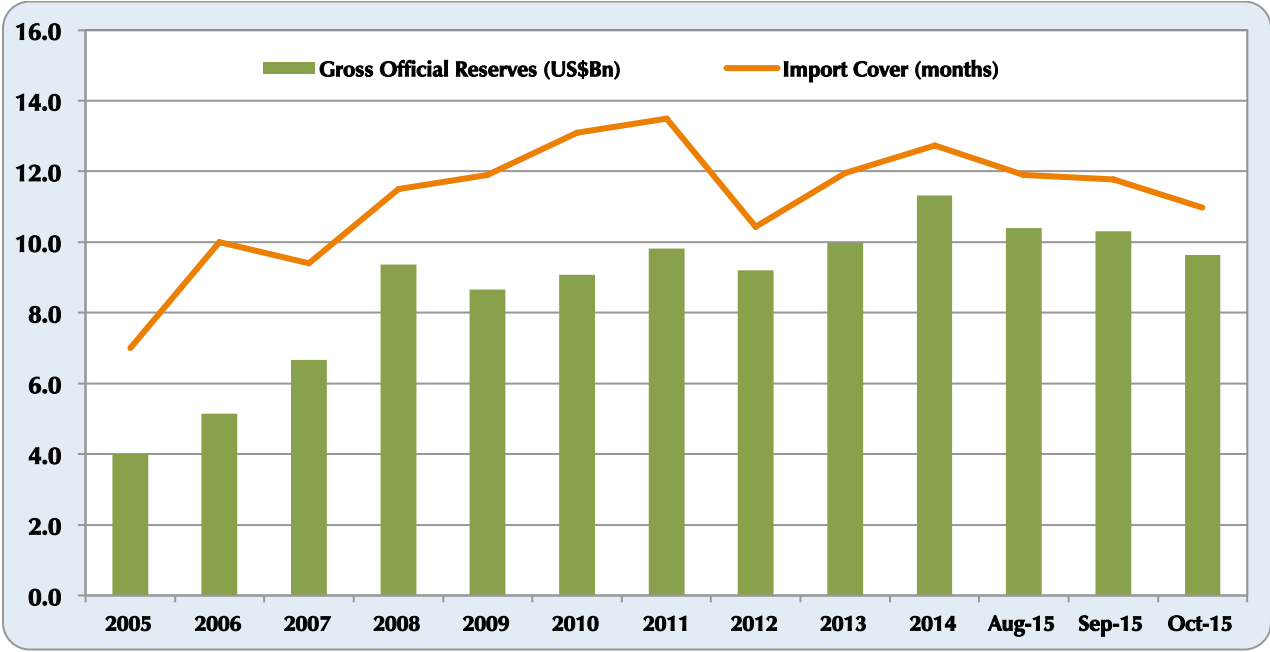
(Data in this section are in US dollars unless otherwise stated)

Preliminary data indicate the external accounts registered a deficit of \$724.6 million for the first half of 2015, compared with a surplus of \$318.2 million in the corresponding period in 2014 (**Table 6**). At the end of June 2015, the level of gross official reserves stood at \$10.6 billion or 12.2 months of import cover. The relatively small surplus on the current account of \$78.1 million was erased by a large deficit of \$802.8 million on the capital and financial account. The deficit recorded on the capital and financial account was in sharp contrast to the surplus of \$316.6 million recorded in the six month period to June 2014. While outflows relating to portfolio investment and the public sector were all lower to date in 2015 than the same period last year, there was a significant reversal in other private sector capital flows and foreign direct investment.

Given the low prices and production levels facing the energy sector, as well as the weakness in the Manufacturing sector in the first half of 2015, there was deterioration in the current account. As a result, the merchandise trade surplus fell to \$486.6 million in the first half of 2015 from \$1.2 billion in the corresponding period one year ago. The reduction in non-energy exports also coincided with a weakening in external competitiveness as the trade-weighted real effective exchange rate (TWREER) fell by 10.7 per cent in the first six months of 2015. Meanwhile non-energy imports increased to \$2.5 billion in the first six months of 2015 from \$2.3 billion in the similar period one year earlier.

Movements in the level of gross official reserves suggest the external position deteriorated further in the second half of 2015. For the ten month period January to October 2015, the overall balance of payments deficit rose to \$1.7 billion. The level of gross official reserves dipped to \$9.6 billion or 11.0 months of prospective imports of goods and non-factor services as at October 2015 (**Chart 12**).

Chart 12
Trinidad and Tobago Gross Official Reserves



Source: Central Bank of Trinidad and Tobago

Table 6
Trinidad and Tobago Summary Balance of Payments
(US\$ Million)

	2009	2010 ^r	2011 ^r	2012 ^{TP}	2013 ^{TP}	2014 ^P	Jan-Jun 2014 ^P	Jan-Jun 2015 ^P
Current Account	1,632.8	4,172.3	2,898.5	823.6	1,920.0	1,265.6	1.6	78.1
Trade Balance	2,241.2	4,735.4	5,433.0	3,918.4	3,898.8	3,420.1	1,238.9	486.6
Exports	9,221.4	11,238.9	14,943.9	12,983.4	12,769.6	11,805.8	5,373.2	4,067.0
Energy	7,939.8	9,435.2	12,709.7	10,569.3	10,854.2	10,034.9	4,567.2	3,456.9
Non-energy	1,281.6	1,803.7	2,234.2	2,414.1	1,915.4	1,770.9	806.0	610.0
Imports	6,980.2	6,503.5	9,510.9	9,065.0	8,870.8	8,385.7	4,134.4	3,580.3
Energy	2,845.6	2,664.4	4,308.5	3,942.0	4,891.9	3,906.1	1,765.2	1,021.6
Non-energy	4,134.6	3,839.1	5,202.4	5,123.0	3,978.9	4,479.5	2,369.2	2,558.7
Services (Net)	381.7	487.6	506.3	261.2	271.5	302.4	216.7	-24.1
Income (Net)	-1,017.1	-1,079.5	-3,073.9	-3,389.5	-2,275.4	-2,435.5	-1,454.2	-369.0
Transfers (Net)	27.0	28.8	33.1	33.6	25.1	-21.3	0.2	-15.4
Capital and Financial Account	-2,345.4	-3,753.9	-2,145.8	-1,445.6	-1,133.7	64.0	316.6	-802.8
Private Sector	-2,622.8	-3,213.0	-1,850.4	-819.6	-1,148.6	367.7	535.7	-652.1
Direct Investment*	709.1	549.4	770.6	772.1	-66.3	1,222.9	595.6	-72.8
Portfolio Investment	-62.9	-67.3	-84.7	-445.8	-100.1	-167.3	-93.3	-88.5
Commercial Banks	-701.7	493.9	-309.8	-668.7	94.4	66.0	-110.9	-73.5
Other Private Sector Capital*	-2,567.3	-4,189.0	-2,226.5	-477.2	-1,076.6	-753.9	144.3	-417.2
Public Sector**	277.4	-540.9	-295.4	-626.0	14.9	-303.7	-219.2	-150.7
Overall Balance	-712.6	418.4	752.7	-622.0	786.3	1,329.6	318.2	-724.6
Per Cent of GDP								
Current Account	8.5	18.7	11.4	3.2	7.2	4.6	0.0	0.6
Trade Balance	11.6	21.3	21.3	15.2	14.7	12.5	9.1	3.7
Services (Net)	2.0	2.2	2.0	1.0	1.0	1.1	1.6	-0.2
Income (Net)	-5.3	-4.9	-12.1	-13.1	-8.6	-8.9	-10.6	-2.8
Transfers (Net)	0.1	0.1	0.1	0.1	0.1	-0.1	0.0	-0.1
Capital and Financial Account	-12.2	-16.9	-8.4	-5.6	-4.3	0.2	2.3	-6.2
Private Sector	-13.6	-14.4	-7.3	-3.2	-4.3	1.3	3.9	-5.0
Direct Investment	3.7	2.5	3.0	3.0	-0.2	4.5	4.4	-0.6
Portfolio Investment	-0.3	-0.3	-0.3	-1.7	-0.4	-0.6	-0.7	-0.7
Commercial Banks	-3.6	2.2	-1.2	-2.6	0.4	0.2	-0.8	-0.6
Other Private Sector Capital*	-13.3	-18.8	-8.7	-1.8	-4.1	-2.8	1.1	-3.2
Public Sector**	1.4	-2.4	-1.2	-2.4	0.1	-1.1	-1.6	-1.2
Overall Balance	-3.7	1.9	3.0	-2.4	3.0	4.9	2.3	-5.6
Memorandum Items								
Gross Official Reserves***	8,651.6	9,070.0	9,822.7	9,200.7	9,987.0	11,316.6	10,305.2	10,592.0
Import Cover (months)	11.9	13.1	13.5	10.4	12.0	12.7	11.8	12.2

Source: Central Bank of Trinidad and Tobago

^r Revised

^P Provisional. Central Bank estimates for the period March 2012 to June 2015 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 and Capital Transfers

** 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

Since its May 2015 Monetary Policy Report, the Central Bank continued to position its monetary policy stance to address the potential challenges posed by rising US interest rates in the near-term, and the threat of inflationary pressures over the medium-term. Following steady rate increases over the first half of 2015, the Bank's Monetary Policy Committee (MPC) decided to raise the Repo rate by 25 basis points at successive meetings in July, September and December 2015. As at December 2015, the Repo rate stood at 4.75 per cent, 175 basis points higher than in the corresponding period one year earlier. Further, the Bank maintained its robust liquidity management strategy over the period May to November 2015 in a bid to strengthen the transmission of its policy rate signals.

The Bank's aggressive liquidity management in part resulted in commercial banks' excess reserves falling even lower in the six months to October 2015. In the period May to October 2015, liquidity levels fell to a daily average of \$3.2 billion, compared with \$3.9 billion in the first four months of 2015, and \$6.7 billion in the corresponding period one year ago ([Chart 13](#)). Over the period November 2-23, 2015, commercial banks' excess reserves averaged \$2.2 billion daily. Over the period May to September 2015, the Bank withdrew roughly \$2.9 billion via net open market operations compared with \$800 million in the same period one year ago, and also rolled over a commercial bank fixed deposit at a value of \$1.0 billion in May 2015. However, with a record US\$500 million foreign exchange intervention and the payment of the proceeds from the TTNGI IPO to the Government both occurring in the last week of October 2015, the Bank allowed net open market Treasury securities and a \$2.0 billion commercial bank fixed deposit to mature without reissue, so as to ensure liquidity levels did not become overly restrictive ([Table 7](#)).

Tighter liquidity levels spurred activity on the short-term funding markets, particularly during July – October 2015. Over this period, inter-bank activity averaged just over \$200 million daily compared with roughly \$58.5 million in the first half of 2015 and a completely inactive market in 2014. Commercial banks also accessed the Central Bank's repo facility in September and October, with daily activity averaging \$40.3 and \$32.9 million, respectively.

With liquidity levels tightening, treasury and inter-bank rates trended upwards. The discount rate on the three-month Treasury bill rose to 0.90 per cent by the end of October 2015 and held at that rate in November 2015 from 0.24 per cent one year ago. Higher inter-bank activity saw the inter-bank rate increasing to a daily average of 0.90 per cent in October 2015 from 0.25 per cent in April. Longer term treasury yields were also on the rise, with the 10-year treasury yield gaining 57 basis points from April 2015 to reach 3.53 per cent in November 2015. Given the trend in domestic treasuries, rate differentials between TT and US three-month and 10-year treasury securities moved upwards, reaching 76 basis points and 128 basis points, respectively in November 2015 (Chart 14).

Commercial banks’ prime lending rates have responded to the increases in the Repo rate (Chart 15). Towards the end of November 2015, the median commercial bank prime lending rate stood at 8.75 per cent – 75 basis points higher than at the start of May 2015 and 125 basis points higher than in September 2014. On the other hand, banks’ weighted average lending and deposit rates have been relatively sticky. The weighted average lending rate was relatively stable at around 7 ½ per cent in September 2015, while the weighted average deposit rate was unchanged at 0.55 per cent in September 2015 from March 2015. As such, there was minimal movement in the spread between the weighted average lending and deposit rates thus far in 2015.

Chart 13
Commercial Banks: Excess Reserves



Source: Central Bank of Trinidad and Tobago

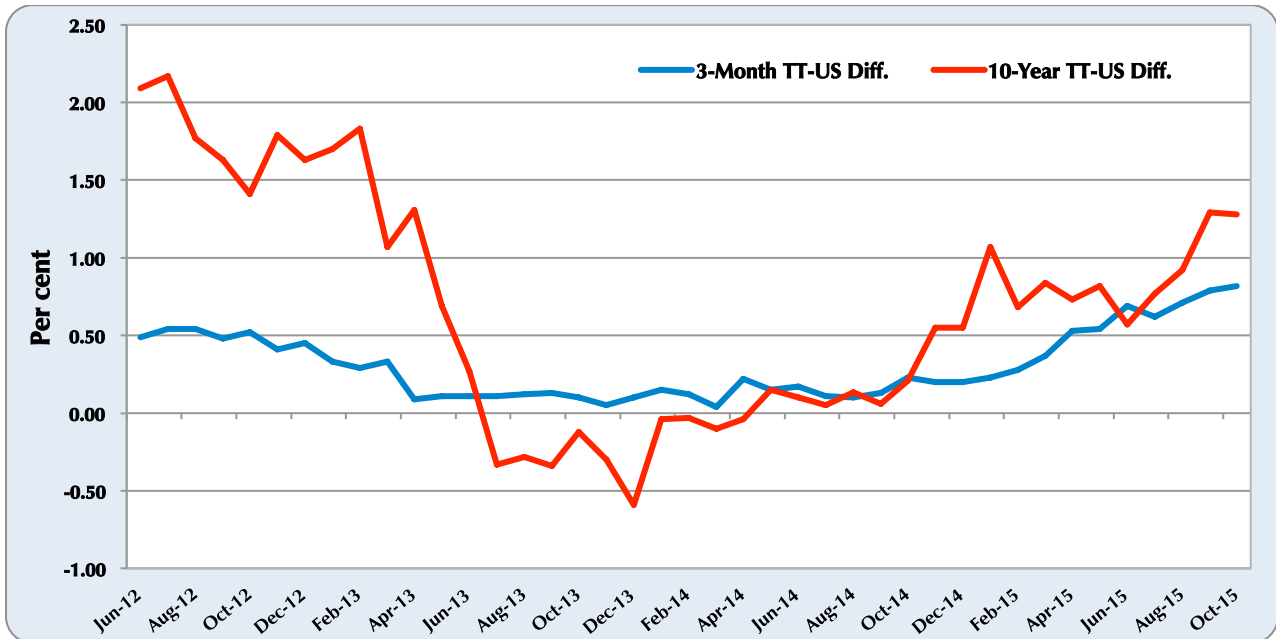
Table 7
Fiscal Injections and Liquidity Absorption*
(TT\$ Million)

	2010	2011	2012	2013	2014	May-Oct 14	May-Oct 15
Fiscal Injections	12,301.9	14,002.6	14,938.2	10,364.6	11,855.8	4,408.1	8,244.5
Liquidity Absorption Measures							
Open Market Operations (OMOs)	156.9	-656.8	260.1	-260.1	-11,434.6	-8,859.6	2,644.6
Central Gov't Treasury Bond Issues	0.0	0.0	0.0	-1,559.3	-1,000.0	-1,000.0	0.0
Commercial Banks' Fixed Deposits	-1,000.0	0.0	-1,500.0	0.0	0.0	0.0	2,000.0
Memo Item:							
CBTT Sale of Foreign Exchange	9,767.5	9,353.1	11,366.4	8,367.0	10,831.6	6,818.8	10,296.7

Source: Central Bank of Trinidad and Tobago

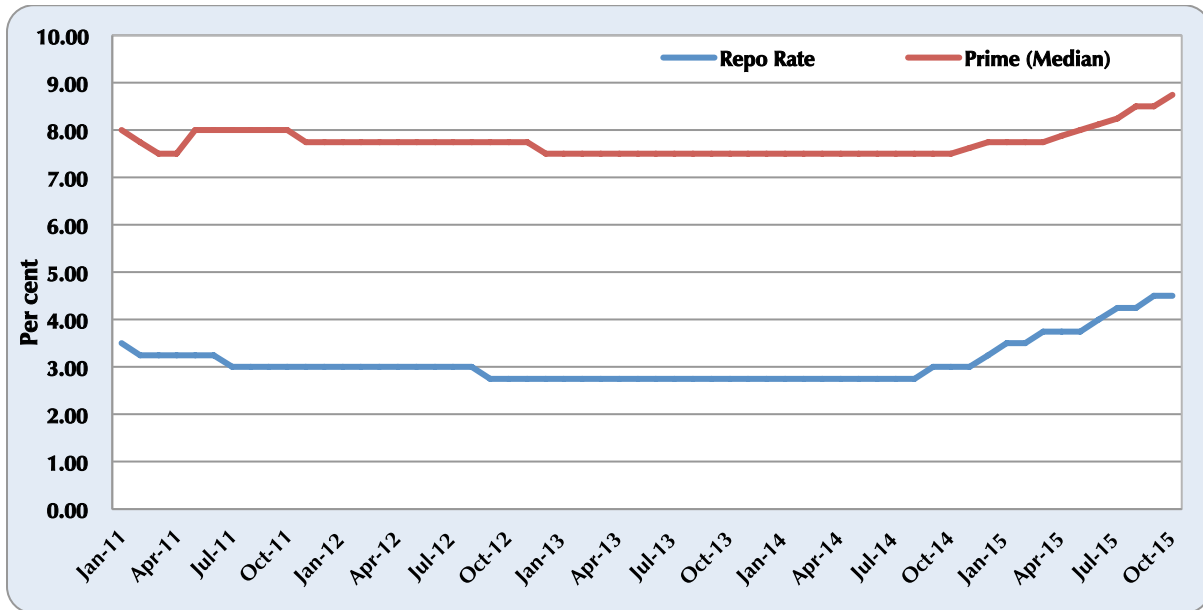
*A negative sign means that there was a net issue of OMOs, commercial banks' fixed deposits and Central Government Treasury bonds resulting in a withdrawal of liquidity. A positive sign means a net redemption of OMOs and Central Government Treasury bonds and a maturity of commercial banks' fixed deposits.

Chart 14
3-Month and 10-Year TT-US Differentials



Source: Central Bank of Trinidad and Tobago

Chart 15
Repo Rate and Commercial Banks' Median Prime Lending Rate



Source: Central Bank of Trinidad and Tobago

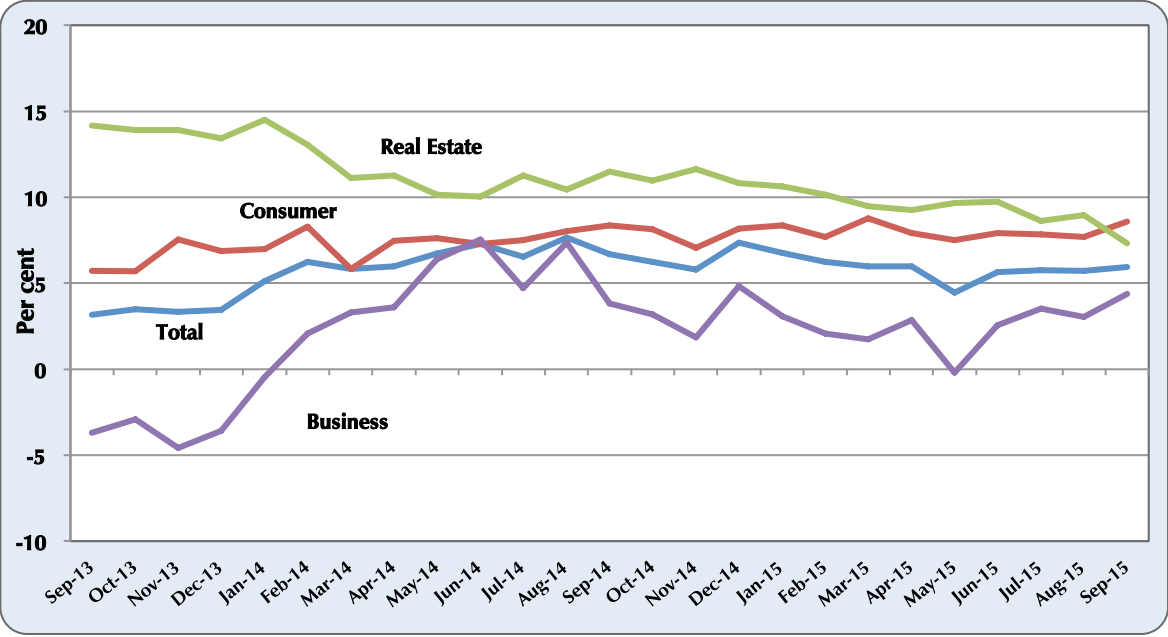
Consistent with the uncertain economic environment as well as the less accommodative monetary policy stance, lending to the private sector has expanded at a relatively moderate pace. On a year-on-year basis, lending by the consolidated financial system to the private sector rose by 5.9 per cent in September 2015 compared with growth of 6.0 per cent in March 2015 (Chart 16). During the period March – September 2015, there was some level of deceleration within the consumer and real estate mortgage loan categories. Meanwhile, despite waning business confidence in the third quarter of 2015, there was a pick-up in lending to businesses in September 2015.

Although there was some up-tick in business lending in September 2015, growth in this category remained lower than the other major categories of private sector lending. On a year-on-year basis, lending to businesses grew by 4.4 per cent in September 2015 compared with 1.7 per cent in March. A sectoral decomposition of business lending by commercial banks as at September 2015, showed rising loan balances to the Manufacturing, Energy and Distribution sectors. These increases were however countered by declines in lending to the Construction and Other Services sectors, while outstanding loan balances for the Finance, Insurance and Real Estate sector were unchanged from one year ago.

Growth in consumer lending remained largely unchanged over the period March to September 2015. On a year-on-year basis, lending to consumers increased by 8.6 per cent in September 2015, a marginal slowdown from 8.8 per cent in March 2015. An analysis of commercial bank consumer lending as at September 2015, showed that motor vehicle, home improvement / renovation and the accumulation of credit card balances continued to drive the increase in consumer loans.

The expansion in real estate mortgage loans decelerated over the review period. On a year-on-year basis, real estate mortgage loans rose by 7.3 per cent in September 2015 – the slowest rate of expansion since early 2011. The slowdown coincided with an increase in the weighted average interest rate on new mortgages to 4.58 per cent in September 2015 from 4.28 per cent in March. Additionally, a fall in the number of loan applications observed over the past few quarters, suggests there may be further slowing in residential real estate mortgage lending.

Chart 16
Private Sector Credit to the Consolidated Financial System
(Year-on-Year Per Cent Change)



Source: Central Bank of Trinidad and Tobago

FINANCIAL SECTOR DEVELOPMENTS

Developments in the Foreign Exchange Market

Lower energy prices as well as domestic production have restrained energy sector conversions of US dollars which have led to an unusual degree of tightness in the local foreign exchange market in the first ten months of 2015. Purchases of foreign exchange from the public (except from the Central Bank) by authorized dealers amounted to US\$4,102.0 million over the first ten months of 2015, representing a 13.7 per cent decline when compared with the corresponding period in 2014 (Table 8). In the ten months to October 2015, conversions from the energy sector accounted for US\$2.8 billion – 8.8 per cent lower than in the same period in 2014.

On the other hand, the domestic appetite for foreign exchange remained robust. During the first ten months of 2015, sales of foreign currency by authorized dealers to the public amounted to US\$6,241.5 million, 6.5 per cent higher relative to the amount sold over the same period in 2014. For sales in excess of US\$50,000, reports by dealers showed that sales of foreign exchange were driven mainly by the retail and distribution sector (31.5 per cent) over the first ten months of 2015. Borrowing via international credit cards increased its share to 14.4 per cent in the first ten months of 2015 from 12.6 per cent during the same period in 2014. The manufacturing sector also accounted for a significant share of foreign exchange sales (14.0 per cent over the reference period). Meanwhile, foreign exchange sales attributed to automobile dealers fell to 7.6 per cent (of the total) to date in 2015 from 10.9 per cent in same period in 2014.

The combination of lower purchases from the public and higher sales to the public by authorized dealers resulted in a widening of the net sales gap to date in 2015. Over the ten month review period, the net sales gap amounted to US\$2,139.5 million - an increase of 92.5 per cent over the corresponding period one year ago. To support the market, the Central Bank sold just under US\$2.5 billion to authorized dealers – already the highest level of foreign exchange intervention on record.

Despite the relative market tightness, the TTD/USD exchange rate was relatively stable over the first ten months of 2015. The TT/US dollar selling rate stood at TT\$6.3990 per US\$1.00 at the end of October 2015, a slight depreciation from TT\$6.3927 per US\$1.00 at the end of December 2014. However, the TT

dollar appreciated against other currencies such as the euro (8.4 per cent) and pound sterling (0.7 per cent), while remaining steady against the Japanese yen in the year to October 2015.

Table 8
Authorized Dealers: Foreign Exchange Market Activity
(US\$ Millions)

Date	Purchases from Public	Sales to Public	Net Sales	Purchases from CBTT
2009	3,808.2	5,637.2	1,829.0	1,899.1
2010	4,043.3	5,536.0	1,492.7	1,550.0
2011	4,755.5	6,186.8	1,431.3	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
2014	5,525.2	6,955.9	1,430.7	1,715.0
Jan-Oct 2014	4,751.8	5,863.2	1,111.4	1,440.0
Jan-Oct 2015	4,102.0	6,241.5	2,139.5	2,494.9
Y-o-Y Per cent Change	-13.7	6.5	92.5	73.3

Source: Central Bank of Trinidad and Tobago

Capital Markets

Stock Market

Performance on the domestic stock market was relatively lacklustre over the first nine months of 2015. On a year-to-date basis, the Composite Price Index (CPI), declined by 0.3 per cent in September 2015 compared with a 3.4 per cent fall in the same period one year earlier (**Chart 17**). With the domestic economy on the wane, the All Trinidad and Tobago Index (ATI) declined by 1.7 per cent over the first nine months of 2015. On the other hand, consistent with improving prospects for the Jamaican economy, the Cross Listed Index (CLI) rebounded in 2015. In the nine months to September 2015, the CLI was up 8.5 per cent compared with a 16.9 per cent drop in the first nine months of 2014. Trading activity remained relatively low, as approximately 51 million shares were exchanged at a market value of around \$658.4 million during the first three quarters of 2015 compared with around 68 million shares at a market value of \$827.3 million traded during the same period one year earlier.

The successful IPO of Phoenix Park Gas Processors Limited (PPGPL) under the Trinidad and Tobago NGL Limited (NGL), a subsidiary of National Gas Company Ltd (NGC), resulted in total oversubscription of

1.77 times the shares offered for sale. The stock began trading on the Trinidad and Tobago Stock Exchange (TTSE) on Monday 19th October 2015 to close 15 per cent higher at \$23.00 per share. The listing of NGL with 116.1 million in issued share capital added \$2.7 billion to market capitalization on the first trading day, resulting in total stock market capitalization of just under \$112.3 billion.

Bond Market

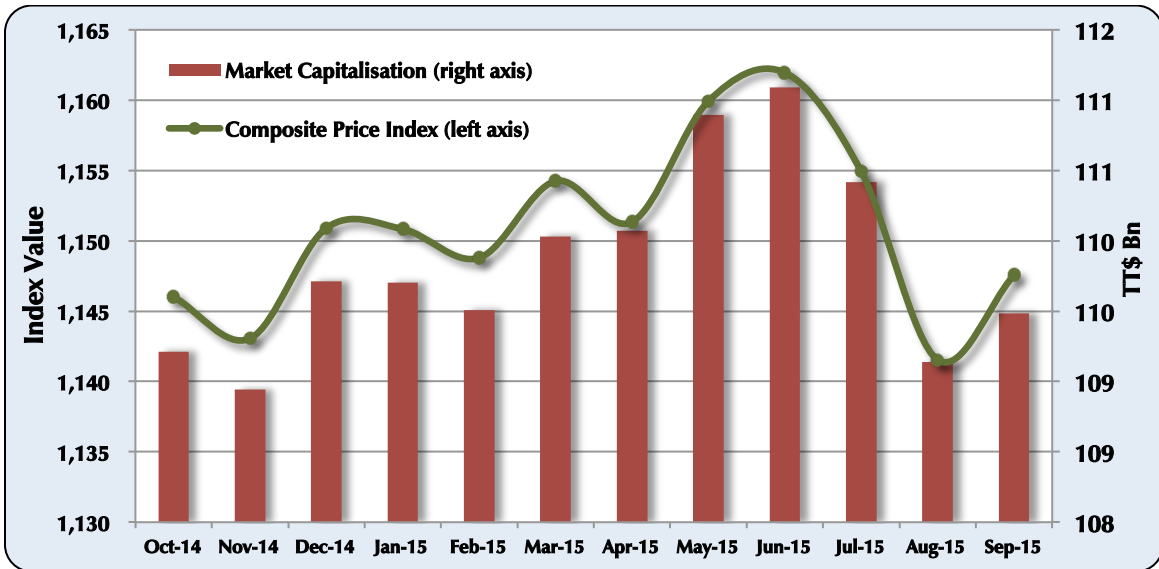
Over the first nine months of 2015, there was a mixture of private and public sector placements on the domestic primary bond market. The Central Government raised two TT-dollar denominated bonds, and also accessed a short-term US-dollar denominated facility. There were also private sector issues, with Endeavour Holding Limited raising \$400 million via three tranches and Ansa Merchant Bank Limited borrowing US\$30.0 million (**Table 9**). Tringen and Sagicor raised short-term US-dollar financing over the period.

There was an upward but uneven shift in the standardized TT Treasury Yield Curve over the first ten months of 2015 (**Chart 18**). Declining liquidity levels as well as increases in the Central Bank's Repo rate, exerted greater influence on shorter term rates. Over the period January to October 2015, the three-month yield rose by 66 basis points to 0.90 per cent while the one-year yield gained 172 basis points to 2.43 per cent. On the longer end of the curve, the benchmark 10-year tenor rose by 81 basis points to 3.53 per cent and the 15-year increased by 71 basis points to 4.27 per cent at the end of October 2015.

Mutual Funds

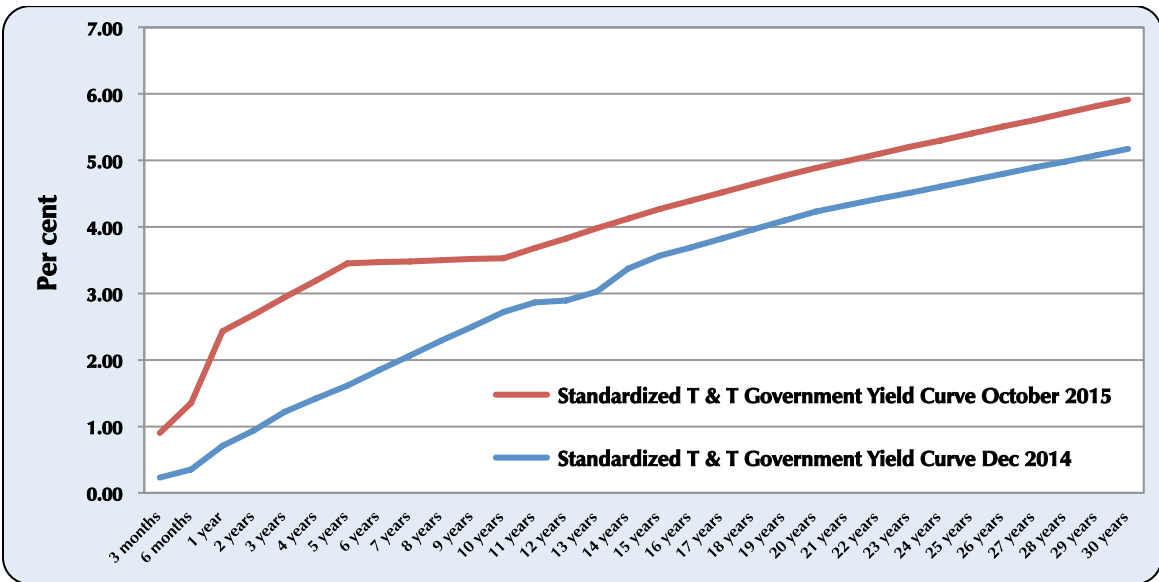
On a year-to-date basis, aggregate mutual funds under management declined by 1.9 per cent in September 2015 to just over \$41.0 billion (**Chart 19**). Large net repurchases associated with investors preparing to participate in the NGL IPO created a drag on mutual fund growth in the third quarter of 2015. However, the industry attracted sales of approximately \$10.6 billion in the first nine months of 2015, while repurchases amounted to just over \$9.9 billion, resulting in net sales of roughly \$665.2 million. Over the first nine months of 2015, income funds under management fell by 0.8 per cent to \$34.6 billion, while equity funds under management declined by 12.9 per cent.

Chart 17
Trinidad and Tobago Composite Price Index



Source: Trinidad and Tobago Stock Exchange

Chart 18
Standardized Trinidad and Tobago Government Yield Curve¹



Source: Central Bank of Trinidad and Tobago

¹ The TT Treasury Yield Curve is a standardized benchmark curve constructed using data from Central Bank of Trinidad and Tobago Open Market Operations, the Trinidad and Tobago Stock Exchange Secondary Government Bond Market and Market Reads from institutional players.

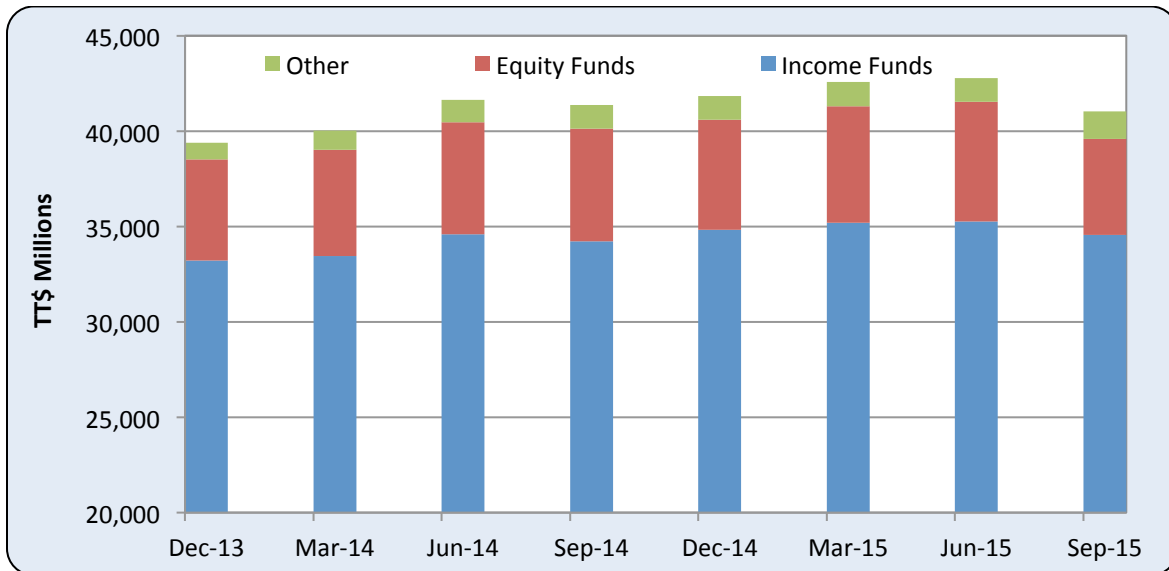
Table 9
Primary Debt Issues
January - September 2015^p

Period Issued	BORROWER	Face Value (TT \$M)	Period to Maturity	Coupon Rate per annum (Per Cent)	Placement Type
March	Central Government of Trinidad and Tobago	500.00	12 years	Fixed Rate 2.3%	Private
April	Trinidad Nitrogen Company Ltd (TRINGEN)	158.60 (US \$25.0 M)	1 year	Floating Rate 3-Month Libor + 1.55%	Private
June	Central Government of Trinidad and Tobago	475.28 (US \$75.0 M)	6-months	Fixed Rate 2.61%	Private
September	Sagicor Financial Corporation	272.80 (US \$43.0 M)	11-months	Fixed Rate 5.0%	Private
	ANSA Merchant Bank Limited	190.20 (US \$30.0 M)	6 years	Fixed Rate 4.0%	Private
	Central Government of Trinidad and Tobago	1,000.00	10 years	Floating Rate: FCB Prime less 495 bps	Private
	Endeavour Holding Limited Tranche A Tranche B Tranche C	240.00 120.00 40.00	7 years 15 years 20 years	5.50% 6.25% 6.90%	Private

Source: Central Bank of Trinidad and Tobago

p Provisional.

Chart 19
Mutual Funds under Management by Type



Source: Central Bank of Trinidad and Tobago

