ISSN 1817-9959

Central Bank of Trinidad & Tobago

# 2024


# MONETARY POLICY REPORT

NOVEMBER 2024 | VOLUME XXVI No. 2

Central Bank of Trinidad and Tobago
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# Monetary Policy Report

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

# Preface

The Central Bank of Trinidad and Tobago's monetary policy framework is guided by the objectives of maintaining low and stable inflation in an environment conducive to economic growth and financial system development. The Central Bank employs a range of instruments (direct and indirect) to effect monetary policy. Prior to the 1990s, the Central Bank utilised direct policy tools such as reserve requirements and direct credit controls. However, the onset of trade and financial liberalisation in the 1990s brought about a greater emphasis on market-based instruments such as Open Market Operations. Since mid-2002, the Central Bank's monetary policy framework was revised to include the use of a Repurchase ('Repo') rate as a key policy tool. The Central Bank utilises the Repo rate to signal to the banking system the direction in which it wishes short-term interest rates, and ultimately, the structure of market interest rates, to move. Open Market Operations involve the purchase and sale of Government securities by the Central Bank to impact the level of liquidity in the domestic financial system.

The Monetary Policy Committee (MPC) develops and communicates the Central Bank's overall monetary policy stance. The MPC currently comprises members of the Central Bank's Senior Management and is chaired by the Governor. The Committee issues quarterly Monetary Policy Announcements (MPA), which provide insights into the MPC's deliberations, and oversees the preparation of the semi-annual Monetary Policy Report (MPR). The MPC is assisted by the Monetary Policy Secretariat (MPS), made up of staff from various Departments, which undertakes ongoing analytical analysis of the financial and economic environments. The Central Bank utilises the MPR to communicate to the public its views on economic and financial developments and the main factors that influence the Central Bank's monetary policy decisions.

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# LIST OF ABBREVIATIONS

| ABBREVIATION | NAME |
|---|---|
| AEs | Advanced Economies |
| ATI | All Trinidad and Tobago Index |
| AUM | Assets Under Management |
| BMI | Index of Retail Prices of Building Materials |
| BoE | Bank of England |
| BoJ | Bank of Japan |
| BOJ | Bank of Jamaica |
| BP | Basis Points |
| Central Bank | Central Bank of Trinidad and Tobago |
| CIS | Collective Investment Scheme |
| CLI | Cross Listed Index |
| COF | Commercial Banks' Cost of Funds |
| COVID-19 | Coronavirus Disease 2019 |
| CSO | Central Statistical Office |
| ECB | European Central Bank |
| ECCB | Eastern Caribbean Central Bank |
| ECPI | Energy Commodity Prices Index |
| EMDEs | Emerging Market and Developing Economies |
| FAO | Food and Agriculture Organisation |
| FEVD | Forecast Error Variance Decomposition |
| FOMC | Federal Open Market Committee |
| FSI | Financial Soundness Indicator |
| GDP | Gross Domestic Product |
| GORTT | Government of the Republic of Trinidad and Tobago |
| GOVB | Government Borrowing |
| IMF | International Monetary Fund |
| LA | Latin American |
| LNG | Liquefied Natural Gas |
| LPR | Loan Prime Rate |
| mmbtu | Million British Thermal Unit |
| MPA | Monetary Policy Announcement |
| MPC | Monetary Policy Committee |

# LIST OF ABBREVIATIONS CONT'D

| ABBREVIATION | NAME |
|---|---|
| MPR | Monetary Policy Report |
| MPS | Monetary Policy Secretariat |
| MFM | Mundell-Fleming Model |
| NAV | Net Asset Value |
| NIF | National Investment Fund |
| NGFS | Network For Greening the Financial System |
| OMOs | Open Market Operations |
| PBoC | People's Bank of China |
| PPI | Producer Price Index |
| REPO | Repurchase Rate |
| the Fed | Federal Reserve |
| TTSE | Trinidad and Tobago Stock Exchange |
| TTSEC | Trinidad and Tobago Securities and Exchange Commission |
| US | United States |
| VIX | Volatility Index |
| WALR | Weighted Average Lending Rate |
| WEO | World Economic Outlook |
| WTI | West Texas Intermediate |

# KEY MESSAGES

- Effective July 24, 2024, the primary reserve requirement of commercial banks was lowered from 14 per cent to 10 per cent to bolster commercial bank liquidity.

- Daily average excess liquidity increased following the reduction in the reserve requirement, supporting continued robust growth in banking credit.

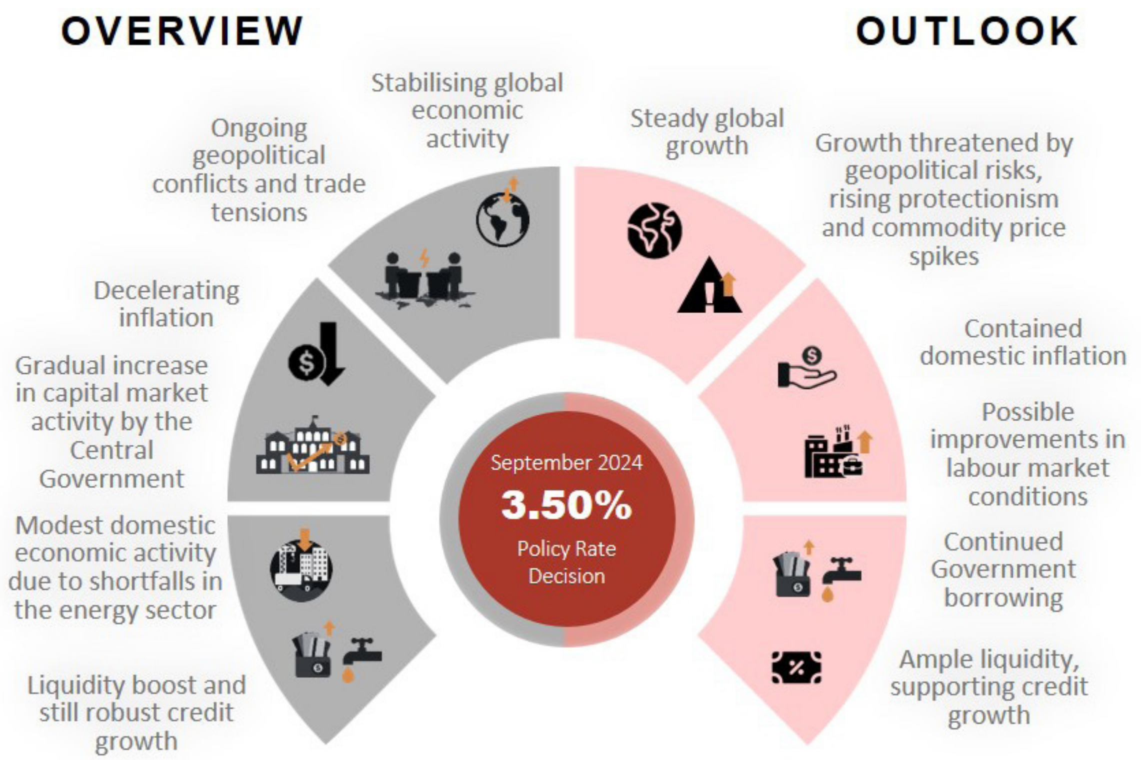
- The Bank's monetary policy stance remained broadly unchanged. At its September 2024 meeting, the Monetary Policy Committee (MPC) maintained the Repo rate at 3.50 per cent – unchanged since March 2020.

- Domestically, the Central Statistical Office (CSO) data evidenced an expansion in real GDP in the first quarter of 2024. Indicators monitored by the Central Bank point to lower output in some sectors in the second quarter of 2024. Meanwhile, headline inflation remained very low, slowing further in October 2024.

- The International Monetary Fund (IMF) estimates global growth in 2024 will remain relatively unchanged from 2023 at 3.2 per cent.

- In the third quarter of 2024, the United States (US) Federal Reserve (the Fed), Bank of England (BoE) and the European Central Bank (ECB) lowered their benchmark interest rates.

## MONETARY POLICY OVERVIEW AND OUTLOOK




### Overview

**Global economic activity is stabilising despite the lingering effects of past shocks and the emergence of new challenges.** Ongoing geopolitical conflicts (Russia and Ukraine, and Israel and Hamas/Hezbollah), coupled with trade and competition tensions, threaten to deepen geo-economic fragmentation among key economies. Further, in the context of the possibility of a shift towards restrictive trade policies by the United States, the BRICS+ trading bloc continued to discuss de-dollarisation efforts and the development of a payments platform among its member countries. The objective is to facilitate trade and lending in national currencies, thereby reducing reliance on the US dollar.

**Globally, inflation continues to decelerate, but at a slower pace than initially anticipated.** Inflation continued to remain sticky around monetary targets in Advanced Economies (AEs) forcing their central banks to remain cautious about initiating monetary policy easing. In the third quarter of 2024, however, the Fed, the BoE and the ECB lowered their benchmark interest rates citing softer inflation and economic data.

**On the other hand, central banks in Emerging Market and Developing Economies (EMDEs), including in the Latin American and Caribbean (LAC) region, are further ahead in their easing cycles.** With the reduction of benchmark interest rates in several major AEs, capital inflows into the

EMDEs rebounded and are likely to pickup as global monetary conditions soften.

**In the domestic context, the CSO indicates that real GDP improved in the first quarter of 2024.** The continued growth in non-energy sector activity along with a marginal expansion in the energy sector contributed to the uptick in real GDP.

**In the second quarter of 2024, indicators monitored by the Central Bank pointed to contraction in production in the energy sector.** Output from the energy sector declined, as planned maintenance activity resulted in reductions in the production of crude oil and natural gas. However, activity in the non-energy sector remained resilient over the period. On the inflation front, domestic prices decelerated to 0.2 per cent in October 2024, from 0.7 per cent in June 2024. A decline in core inflation underpinned the slowdown. Meanwhile, latest available data published by the CSO suggests labour market conditions softened in the second quarter of 2024 as the unemployment rate inched up compared to the same period one year ealier.

**Tighter financial system liquidity conditions motivated a reduction in the reserve requirement.** Heightened Government borrowing and robust credit growth contributed to a decline in financial system liquidity in mid-2024, with excess reserves reaching a daily average of $3.4 billion in July 2024 from $4.2 billion in May 2024. Effective July 24, 2024, the primary reserve requirement of commercial banks was reduced by 400 basis points, resulting in an immediate injection of $4,021.8 million into the financial system. This was the first reduction since a 300 basis point cut in March 2020 following the onset of the COVID-19 pandemic. Due to these developments, daily average excess liquidity increased to $6.2 billion by October 2024. At its meeting in September 2024, the MPC maintained the Repo rate at 3.50 per cent - the level adopted since March 2020.

## Outlook

**Global monetary policy conditions are liklely to continue easing in the near term as inflation cools.** According to the IMF's October 2024 WEO, global inflation is forecasted to decelerate to 4.3 per cent in 2025 from an estimated 5.8 per cent in 2024, with inflation in AEs converging to central bank targets quicker than in EMDEs. As inflation recedes due to the recent monetary policy tightening cycle, central banks have pivoted to a less restrictive stance. Policy rates by some of the major AE central banks are projected to be further reduced by the end of 2024 and into 2025.

**The shift in global monetary conditions is expected to auger well for EMDEs as currencies strengthen against the US dollar, imported inflation eases, and financial conditions improve.** EMDEs are anticipated to be the engine of global growth, expanding by 4.2 per cent in 2025, but the recovery path by AEs remains sluggish (1.8 per cent). Overall, the IMF forecasts world growth to remain unchanged at 3.2 per cent in 2025.

**Several risks threaten to stymie global growth.** These risks include the possibilities of intensification of geopolitical conflicts, increased protectionism among some of the world's largest economies, a renewed bout of financial market volatility, a stronger-than-expected downturn of China's property sector, and potential disruption to the disinflation path owing to spikes in commodity prices.

**Domestically, constraints in natural gas availability will continue to affect energy sector output.** Despite the anticipated start-up of several projects, upstream activity will remain challenged by constrained natural gas supplies. Meanwhile, the outlook for the non-energy sector remains positive. Strong business activity, coupled with an uptick in consumer demand, will bolster activity in the short to medium-term. While inflation is expected to remain contained, several domestic and international factors can place upward pressure on prices. In particular, the ongoing conflict in the Middle East, supply bottlenecks from earlier strikes at United States ports, industrial action at the local port, and weather-related events. In this dynamic context, the Central Bank will continue to closely examine developments and adjust monetary policy actions as appropriate in addressing its objectives of internal and external balance.

## 1. THE INTERNATIONAL ECONOMIC CONTEXT

*Following an extended period of monetary policy tightening to curb inflation, global central banks are cautiously shifting to less restrictive policies amid gradual declines in inflation and more settled economic growth outturns. While this adjustment supports economic activity, downside risks persist due to political instability, elevated public debt, and geopolitical conflicts.*

### Recent Economic Developments and Outlook

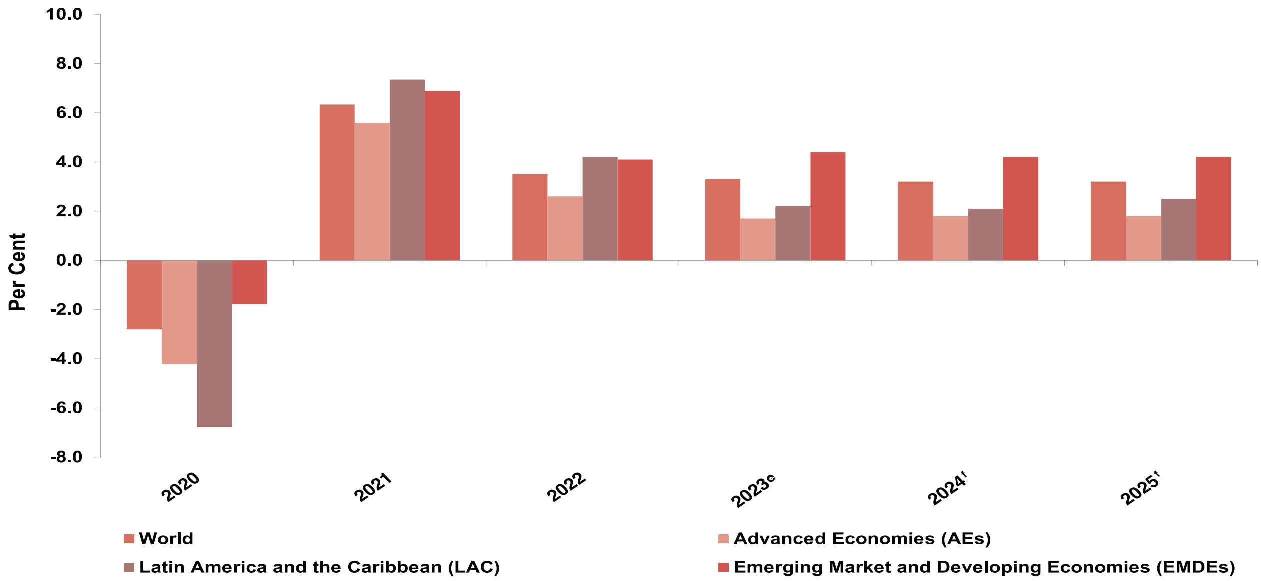
**The global economic landscape shows signs of stabilising amid easing inflation and a gradual shift in monetary policy, but vulnerabilities remain.** Central banks worldwide are increasingly adopting a less restrictive stance as inflation decelerates towards target ranges. This cautious easing reflects a nuanced optimism as central banks respond to gradual reductions in inflationary pressures. Furthermore, resilient global commerce, evidenced by the projected rise in world trade volumes (goods and services) by 3.1 per cent in 2024 from 0.8 per cent in 2023[2], offers additional ground for optimism. Despite these positive trends, the global economic outlook remains tempered by subdued growth, heightened political risks, ongoing geopolitical conflicts and trade tensions, and elevated public debt levels in both advanced and developing economies. These downsides will continue to underscore the fragility of the global economic recovery in the near term.

**Amid this backdrop, the IMF, in its October 2024 World Economic Outlook (WEO), projects global growth to remain steady at 3.2 per cent in 2024, following 3.3 per cent in 2023 (Chart 1.1).** This relatively stable performance is primarily driven by projected expansion of 4.2 per cent in EMDEs in 2024, down from 4.4 per cent in 2023. This growth reflects stronger consumption and export activity in Asia, with China and India leading the momentum. In contrast, AEs are projected to expand by 1.8 per cent in 2024, slightly higher than 1.7 per cent estimated for 2023. Among AEs, modest growth improvements are expected in the UK, Euro area and Canada, while slowdowns are anticipated for the US and Japan.

1 International Monetary Fund, World Economic Outlook, October 2024.

**CHART 1.1**

Global Growth: Annual Real GDP Growth




Source: International Monetary Fund, World Economic Outlook, October 2024
e estimated
f forecasted

*Global inflation decelerated, yet differences across regions highlight persistent pressures in some sectors*

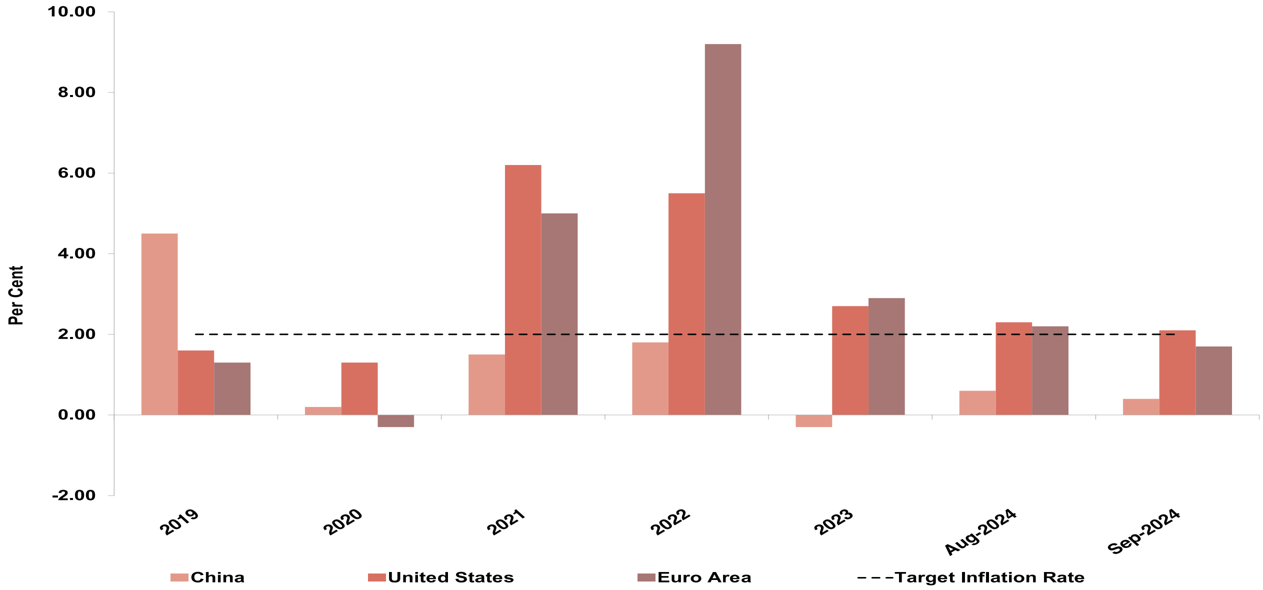
**Global inflation continues on a downward trajectory, though the pace of deceleration has moderated.** While energy and food prices have softened, services prices remain elevated due to sustained demand - a legacy of the pandemic. According to the IMF October 2024 WEO, global inflation is expected to settle at 5.8 per cent in 2024, a reduction of 0.9 per cent from the previous year. In the US, inflation, measured by the Personal Consumption Expenditure price index, edged up to 2.3 per cent (year-on-year) in October 2024, from 2.1 per cent one month earlier (Chart 1.2). Contributing to this upward movement is higher prices for services. Meanwhile, inflation in the UK accelerated to 2.3 per cent (year-on-year) in October 2024 following 1.7 per cent (year-on-year) one month earlier, surpassing the BoE's 2.0 per cent target. The rise in inflation mainly reflected increased prices in the categories of housing and household services, restaurant and hotels, and services. The UK's inflation is expected to rise to 2.5 per cent towards the end of the year.

**Consumer prices accelerated in the Euro area but decelerated in Japan in October 2024.** In the Euro area, consumer price inflation edged up to 2.0 per cent (year-on-year) in October 2024, from 1.7 per cent in the previous month, and was in line with the ECB's 2.0 per cent target. This uptick was largely attributed to higher prices for services. On the other hand, Japan experienced a moderate decrease in consumer prices, with inflation recording 2.3 per cent (year-on-year) in October, compared to 2.5 per cent in September. The deceleration in Japan's inflation was driven primarily by slower price increases for electricity and gas.

**CHART 1.2**

Selected Economies: Headline Inflation

(Year-on-Year Per Cent Change)




Source: Bloomberg
Data for the US uses the Personal Consumption Expenditure Index.

**Inflation trends varied across EMDEs, where inflation is expected to remain higher and decline more slowly than in the AEs.** In India, consumer prices accelerated to 6.2 per cent (year-on-year) in October 2024, from 5.5 per cent in the previous month, diverging from the Reserve Bank of India's (RBI) 4.0 per cent inflation target. This represents India's highest inflation rate thus far for 2024. The rise in inflation reflects higher food prices. On the other hand, in China inflation has remained subdued for an extended period, reaching 0.3 per cent (year-on-year) in October 2024, down from 0.4 per cent one month prior. This movement was attributed to price declines for non-food products, coupled with a slower price increase for healthcare.

**Inflation in most Latin American economies remained above target ranges[3] in October 2024.** In Mexico, inflation accelerated slightly to 4.8 per cent (year-on-year) in October 2024 mainly due to higher prices for restaurants and hotels, and food and non-alcoholic beverages, surpassing the target range. Chile saw inflation increase to 4.7 per cent (year-on-year) in October 2024, from 4.1 per cent one month prior. This was supported by upward price pressures in the housing and utilities, food and non-alcoholic beverages, and alcoholic beverages and tobacco categories. In the same month, Peru's inflation inched up slightly to 2.0 per cent (year-on-year), from 1.8 per cent one month prior, staying within its inflation target range

2 Target ranges for selected central banks in the Latin America region; Mexico (2.0-4.0 per cent), Colombia (2.0-4.0 per cent), Chile (2.0 -4.0 per cent), Peru (1.0-3.0 per cent) and Brazil (1.5-4.5 per cent).

for the seventh consecutive month. Similarly, Brazil's inflation rose in October 2024, moving to 4.8 per cent (year-on-year) from 4.4 per cent in September. Although Brazil's inflation remained within target, the pickup was driven by rising prices for food and beverages, and housing and utilities.

On the other hand, Colombia's inflation eased to 5.4 per cent (year-on-year) in October 2024, from 5.8 per cent in September, yet still above its target range.

*Inflation moderated in some Caribbean countries*

**Lower food and energy prices contributed to the moderation in inflation rates for some Caribbean economies.** Jamaica's inflation decelerated to 4.9 per cent (year-on-year) in October 2024, down from 5.7 per cent one month earlier, and remaining within its target range (4.0 to 6.0 per cent). This outturn was reflective of movements in Food and Non-Alcoholic Beverages, Transport, and Housing, Water, Electricity, Gas and Other Fuels. In Barbados, inflation moderated to 0.7 per cent (year-on-year) in August 2024, from 1.2 per cent one month earlier, owing to lower global energy prices.

*Lower energy prices helped to keep inflation subdued*

**The Energy Commodity Prices Index (ECPI) marginally declined over the four months ending October 2024.** The ECPI slipped by 2.6 per cent (year-on-year) to average 109.34 over June to October 2024.

**Crude oil prices moderated between June and October 2024, as global demand continued to decelerate and supply remained strong.** West Texas Intermediate (WTI) prices fell by 6.6 per cent (year-on-year), to average US$75.21 per barrel over the five-month period. Brent crude prices averaged US$79.48 per barrel, also representing a 6.6 per cent decrease when compared to the price levels in the corresponding period of 2023 (Chart 1.3).

**The decline in crude oil prices was mainly due to low global consumption growth, led by China, which kept oil demand subdued.** Despite an uptick in prices in June and July due to tensions in the Middle East, prices continued to trend downward over the four-month period ending September 2024. Prices of all crude oil derivatives such as gas oil (-21.0 per cent), motor gasoline (-16.6 per cent) and jet fuel (-19.6 per cent) suffered similar year-on-year declines.

**The US Henry Hub natural gas price contracted over June to October 2024.** Over the period the US Henry Hub natural gas price averaged US$2.22 per million British Thermal Units (mmbtu), representing a 14.3 per cent decrease (year-on-year). Gas prices remained below 2023 levels, as the industry struggled to recover from the historically low prices recorded earlier in 2024. After achieving an average price of US$2.52 per mmbtu in June 2024, prices fell again to US$1.99 per mmbtu in August 2024, before rebounding to US$2.31 per mmbtu in September 2024.

**Lower natural gas prices contributed to declines in other gas-based commodities, though global challenges led to price increases in other commodity markets.** The drop in natural gas prices affected commodities within the ECPI, such as urea (-12.8 per cent) and natural gasoline (-1.3 per cent). However, robust price increases were observed in other commodity markets due to challenges along major shipping channels, supply chain risks due to geopolitical tensions, and strong demand. These factors drove double-digit price increases for downstream gas commodities such as methanol (33.8 per cent), ammonia (32.7 per cent) and propane (13.9 per cent).

**CHART 1.3**

Natural Gas and Crude Oil Prices


Source: Bloomberg

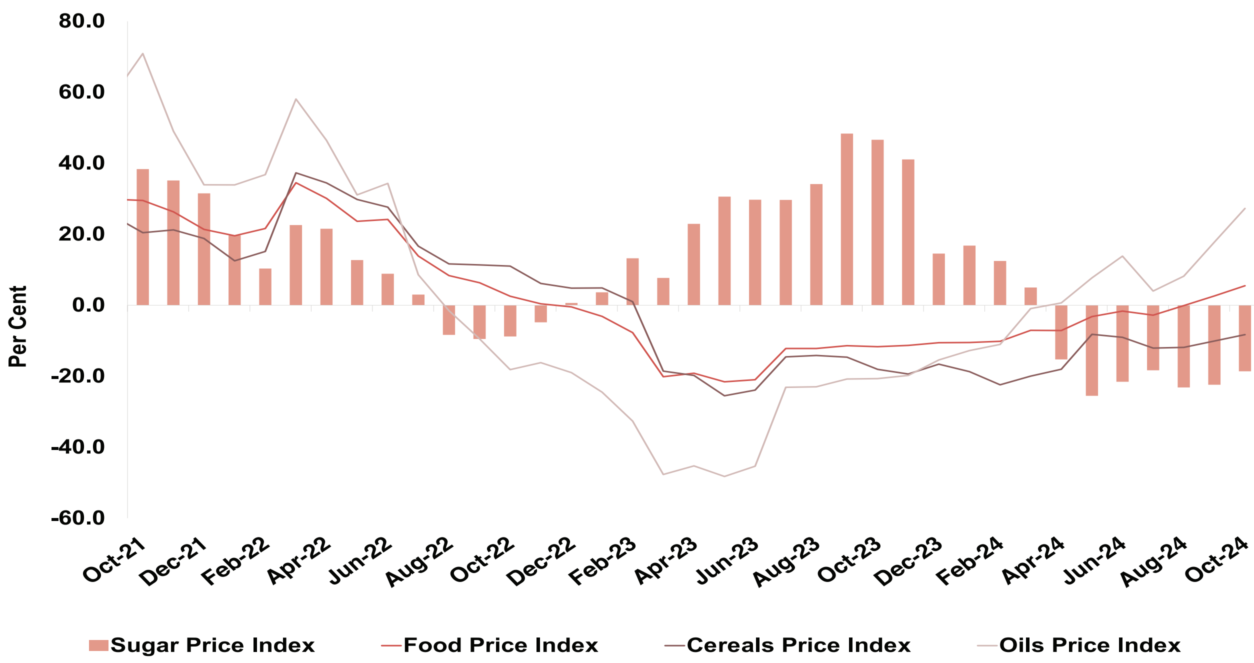
*International food prices continue to climb*

**In October 2024, the United Nation's Food and Agricultural Organisation (FAO) Real Food Price index, continued to increase at the end of October 2024.** The FAO Food Price Index rose by 5.5 per cent (year-on-year) in October 2024 from a decline of 1.6 per cent in June 2024 (Chart 1.4). The increase was attributed to higher prices across several of the categories (year-on-year) that is, Meat (7.5 per cent in October 2024 compared to -0.5 per cent in June 2024), Dairy (21.4 per cent in October 2024 compared to 6.7 per cent in June 2024) and Oil (27.3 per cent in October 2024 compared to 13.8 per cent in June 2024). Meat, oil and dairy prices increased due to a combination of lower supplies and higher import demand. Meanwhile, the Cereal (-8.3 per cent in October 2024 compared to -9.0 per cent in June 2024) and Sugar (-18.6 per cent in October 2024 compared to -21.6 per cent in June 2024) sub-indices recorded a decline in prices on a year-on-year basis. Ample supplies may have supported the declining prices of these two sub-indices over the year.

CHART 1.4

FAO Real Monthly Food Price Index

(Year-on-Year Per Cent Change)




Source: Food and Agriculture Organisation

*Global economic activity is stabilising despite the lingering effects of past shocks and the emergence of new challenges*

**Improvements in consumption support global economic prospects, but ongoing challenges continue to pose threats.** Ongoing conflicts involving Russia and Ukraine, and Israel and Hamas/Hezbollah, coupled with trade and competition tensions, threaten to deepen geo-economic fragmentation among key economies. Nevertheless, factors such as a reconfiguration of supply-chain imbalances and stronger-than-expected private consumption have buffered the world economy.

**Growth in the AEs is expected to converge as output gaps are closing; however some divergences are visible.** Within the US, economic activity grew by 2.8 per cent (year-on-year) in the third quarter of 2024, down from 3.0 per cent one quarter earlier, amid easing inflation and still relatively low unemployment. This outturn reflected increases in consumer spending, exports, and federal government spending. In other developments, President-elect Donald Trump won the US 60th presidential elections on November 5, 2024. This change in administration may have potential implications for trade policy, investment and global economic activity.

**Economic activity in the UK and the Euro area improved modestly, but contracted in Japan.** The UK economy grew by 1.0 per cent in the third quarter of 2024, up from 0.73 per cent in the second quarter. This was driven by higher household spnding and an expansion in gorss fixed capital formation. Meanwhile, growth in the Euro area increased by 0.9 per cent (year-on-year) in the third quarter of 2024 from 0.6 per cent in the prior quarter. This was underpinned by strong government and household consumption. On the other hand, falling domestic demand was responsible for a contraction in Japan's real GDP of 1.1 per cent (year-on-year) in the second quarter of 2024, following a contraction of 0.8 per cent in the previous quarter. However, the trend reversed to a modest expansion of 0.3 per cent (year-on-year) in the third quarter of 2024.

**Despite some headwinds, economic activity in the EMDEs appeared resilient.** In the three months to September 2024, China's real GDP grew by 4.6 per cent (year-on-year), down from 4.7 per cent in the previous quarter. Continued property market downturn, subdued domestic demand, a weaker currency and trade frictions with some countries weighed on China's growth. Meanwhile, India's economic activity continued to be resilient as real GDP expanded by 6.7 per cent (year-on-year) in the three months to June 2024. However, this represented a slowdown from the previous quarter's expansion of 7.8 per cent on account of a sharp decrease in Government spending.

**In further developments, the 16th BRICS Summit was held over the period October 22 to 24, 2024 in Kazan, Russia– the first summit since the expansion of the BRICS group to include new members: Egypt, Ethopia, Iran and the United Arab Emirates.** Discussions included, inter alia, a BRICS-led international payments system and addressing the ongoing conflict in the Middle East. Although leaders reaffirmed their commitment to strengthening financial cooperation and expanding the use of local currencies to promote economic growth and development among its members, and to mitigate the impact of external economic shocks, little progress was made on advancing the alternative payments system.

*Notwithstanding a projected slowdown in economic conditions, most LA region economies displayed improvements*

**Economic performances improved in the LA region during the second quarter of 2024.** In its October 2024 WEO, the IMF estimated growth in the Latin American and Caribbean region slowed to 2.2 per cent in 2023, following an expansion of 4.2 per cent one year earlier. However, growth is anticipated to ease further in 2024 (2.1 per cent) due, in part, to moderate economic activity in some economies on account of capacity constraints and weak external demand.

**Strong domestic demand led to positive performances in Peru and Chile in the third quarter of 2024.** Economic activity in Peru expanded by 3.8 per cent (year-on-year) in the third quarter of 2024, while Chile's real GDP grew by 2.3 per cent in the three months to September 2024. Strong private investment and household demand boosted economic activity in Brazil, with real GDP expanding by 3.3 per cent (year-on-year) in the second quarter of 2024 from 2.5 per cent in the previous quarter.

**Conversely, Mexico's economic activity decelerated in the third quarter of 2024, registering growth of 1.6 per cent (year-on-year), compared to 2.1 per cent in the second quarter of 2024.** In Colombia, real GDP declined slightly to 2.0 per cent (year-on-year) in the third quarter of 2024, down from 2.1 per cent (year-on-year) in the previous quarter, largely attributable to a contraction in government spending.

*Energy exporters continue to lead growth in the Caribbean region*

**The Guyanese economy continues to be the main contributor to Caribbean economic growth in 2024.** Following an estimated real GDP expansion of 33.0 per cent in 2023, Guyana's economic growth continued to be led by its oil and gas sub-sectors in the first six months of 2024 (49.7 per cent). Non-oil real GDP also expanded during the period, owing to increased output in the agriculture, manufacturing, construction and services sectors.

**Tourism and construction activity supported growth in other countries.** Strong tourism and construction activity were responsible for economic growth in the Eastern Caribbean Currency Union (ECCU) in the first quarter of 2024. The Eastern Caribbean Central Bank (ECCB) indicated that almost all of the member countries of the ECCU recorded double-digit increases in tourist arrivals for the first three months of 2024. Similarly, a pickup in tourism, business services and construction activity drove the expansion of Barbados' real GDP over the first nine months of 2024 (3.9 per cent year-on-year). Elsewhere, Jamaica recorded a decline in the Services Industries over the second quarter of 2024. This resulted in a marginal expansion of real GDP by 0.2 per cent (year-on-year) over the three months to June 2024, following growth of 1.4 per cent in the first quarter of 2024.

*The progress towards achieving inflation targets and generally positive economic outturns in major economies are tipping monetary policy in a more accommodative direction*

**Monetary policy in the US transitioned to an accommodative position in September 2024 amidst slowing inflation and favourable labour market conditions.** In September 2024, the US Federal Reserve lowered the fed funds rate by 50 basis points to a range of 4.75 to 5.0 per cent, its first rate cut since March 2020. The Fed further reduced its target range, by 25 basis points, to a range of 4.5 to 4.75 per cent in November 2024. The rate cut is intended to support the labour market while inflation continues to converge towards the Fed's 2.0 per cent target. Notwithstanding the reduction in its policy rate, the Federal Reserve Open Market Committee (FOMC) forecasts that inflation, though somewhat elevated, would remain contained, returning sustainably to 2.0 per cent in the medium-term. Factors contributing to the continued downward pressure on inflation include: modest economic activity; the waning pricing power of firms; increases in productivity; and softer global commodity prices.

**The BoE and the ECB conducted their monetary policy actions in the context of a disinflationary environment.** Amid decelerating inflation rates, the BoE reduced its benchmark rate by 25 basis points to 4.75 per cent during its monetary policy meeting in November 2024. The first rate cut, which occurred in August, was of a similar magnitude. The BoE indicated that progress toward the inflation target created a favourable economic environment for the rate cut. Meanwhile, the ECB reduced the interest rate on its main refinancing operations by 25 basis points to 3.4 per cent in October 2024 as inflationary pressures continued to dissipate. This followed previous rate cuts of the same magnitude in June and September 2024. Notably, the June 2024 change represented the first rate cut since the ECB started its monetary policy tightening cycle in mid-2022.

**After increasing its monetary policy rate in March 2024 for the first time in eight years, the Bank of Japan (BoJ) further increased its rate in July and kept it unchanged in September and October 2024.** In July 2024, the BoJ increased its short-term interest rate by 25 basis points to 0.25 per cent from range of around 0.0 to 0.1 per cent set in March. Following this, the BoJ maintained its short-term interest rate at around 0.25 per cent in September and October 2024. This is its highest level since 2008.

*Monetary policy remains cautious in EMDEs, reflecting varying inflation and growth outcomes*

**In China, economic growth concerns led to an easing of monetary policy, while inflation targeting kept India's policy rate unchanged.** During the second half of 2024, the People's Bank of China (PBoC) eased its monetary policy stance amid a slowdown in economic activity. At its July 2024 meeting, the PBoC cut the 1-year and 5-year Loan Prime Rates (LPRs) by 10 basis points, bringing the rates to 3.35 per cent and 3.85 per cent, respectively; but left both rates unchanged in August and September 2024. In October 2024, to support the weakened economy, the PBoC lowered its 1-year and 5-year LPRs by 25 basis points to 3.1 per cent and 3.6 per cent, respectively, before maintaining interest rates in November The Reserve Bank of India (RBI) left its policy rate unchanged at 6.5 per cent in October 2024 for the tenth consecutive monetary policy meeting. The decision was consistent with aligning inflation to the target and anchoring inflation expectations while supporting economic growth.

*Many LA economies reduced their policy interest rates to stimulate economic activity*

**Several central banks in the LA region lowered their interest rates during the fourth quarter of 2024 to stimulate domestic economic activity.** In November 2024, the Central Banks of Peru and Mexico reduced their benchmark interest rates by 25 basis points to 5.0 per cent and 10.25 per cent, respectively. Conversely, in the same month, the Central Bank of Brazil raised its key policy rate by 50 basis points to 11.25 per cent. The move aims to bring back inflation to within the Bank's target range and support economic activity. In October 2024, the Central Banks of Chile and Colombia decreased their benchmark interest rates by 25 basis points and 50 basis points to 5.25 per cent and 9.75 per cent, respectively.

*Caribbean economies either kept policy rates unchanged or commenced easing*

**Monetary policy by the ECCB remained unchanged in the latter half of 2024 thus far, but the Bank of Jamaica (BOJ) commenced easing.** In July and October 2024, the ECCB maintained its minimum savings rate at 2.0 per cent and the discount rates for short-term and long-term credit at 3.0 per cent and 4.5 per cent, respectively. As inflation became more anchored in August 2024, the BOJ decided to reduce its key policy interest rate by 25 basis points to 6.75 per cent. In its monetary policy meetings in September and November 2024, the BOJ continued its easing cycle, reducing the benchmark interest rate by a cumulative 50 basis points to 6.25 per cent.

*Despite a monetary policy induced market shock in July 2024, global equities mostly overcame the heightened volatility, registering improvements over June to October 2024*

**Thus far in 2024, robust corporate earnings have supported global equity markets.** However, a monetary policy induced shock in July 2024 triggered widespread selloffs and a sharp spike in volatility. Concerns over delayed US Federal Reserve rate cuts drove investors to the safety of US government debt, while the Bank of Japan's hawkish stance led to a significant Yen appreciation. These dynamics resulted in major losses for carry trade investors and pushed the Chicago Board Options Exchange Volatility Index (VIX)[4] to elevated levels[5] of volatility and uncertainty in early August 2024. Market selloff and volality were short-lived and most developed equity markets regained positive momentum as monetary authorities reassured investors that rate cuts were eminent (Chart 1.5).

**Resilient economic data and a steady disinflation trend in the US renewed optimism for a soft landing, aiding some global markets in rebounding from bouts of volatility.** Over June to October 2024, interest-rate cuts by the US Federal Reserve and European Central Bank further bolstered equities, with the US S&P500 and European Euronext indices gaining 10.2 per cent and 13.4 per cent, respectively. However, despite easing market volatility, investor sentiments remained cautious due to major geopolitical tensions, the US presidential election, and headwinds in Europe, particularly from weak economic indicators and subdued sentiment in key economies like Germany.

**In contrast, other AEs showed little market recovery over June to October 2024.** In September, the Bank of Japan held its overnight rate steady, which markets viewed as a dovish signal, diverging from its previous hawkish stance taken at the prior meeting. Additionally, in the recent parliamentary elections, the ruling

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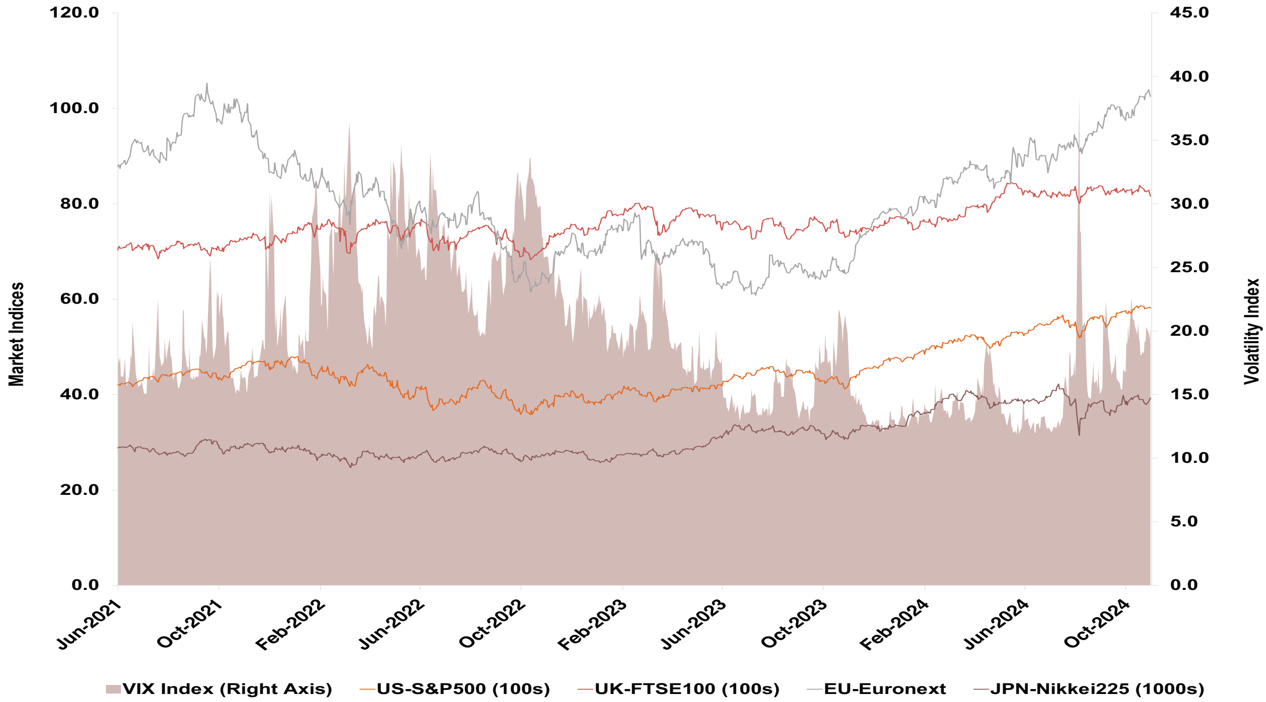
3 The VIX is a benchmark index used to measure market expectation of future volatility. The index is based on option trading of the S&P 500 and is considered a main gauge of US equity market volatility. A level above 20 is considered to be high volatility.

4 On August 5th 2024, Bloomberg data suggests that the VIX index peaked at 49.80 and closed at 38.57.

Liberal Democratic Party and its coalition partner lost their majority in the lower house, further intensifying political uncertainty in Japan. Nonetheless, the Nikkei 225 index secured a 2.1 per cent improvement over the period. In the United Kingdom, while the rate-cut-cycle and real wage growth initially strengthened UK equities, heightened volatility and sentiment-driven selloffs resulted in the Financial Times Stock Exchange (FTSE) 100 declining by 1.4 per cent.

**CHART 1.5**

Advanced Economies Equity Market Indices




Source: Bloomberg

## 2. DOMESTIC ECONOMIC ACTIVITY AND PRICES

*Indicators monitored by the Central Bank suggest a contraction in energy production in the second quarter of 2024, alongside buoyant non-energy output. Energy sector output incurred major declines, on account of shortfalls in upstream production. Meanwhile, activity in the non-energy sector remained resilient and inflation was contained.*

### Economic Developments and Outlook

*While economic activity improved in the first quarter of 2024, there were ongoing production challenges in the energy sector*

**Data from the CSO indicates GDP at constant prices (real GDP) improved (1.5 per cent) in the first quarter of 2024.** Growth was premised on the continued strength of the non-energy sector (1.8 per cent) and further supported by a marginal expansion in the energy sector (0.9 per cent). Non-energy sector output was propelled by upticks in the Manufacturing (excluding Refining and Petrochemicals), Financial and Insurance Activities and Transport and Storage sectors. Growth in the energy sector emanated from improvements in the Manufacture of Petrochemicals, Condensate Extraction and Petroleum and natural gas distribution sectors. These were partially offset by declines in the Crude Oil Exploration and Extraction, Natural Gas Exploration and Extraction, Asphalt and Refining sectors.

**Central Bank estimates suggest that there was a contraction in the energy sector in the second quarter of 2024.** However, non-energy sector- activity remained strong over the period (1.7 per cent), though insufficient to counter the declines in the energy sector (-7.9 per cent).

**Waning energy sector output was premised on shortfalls in upstream production.** Data from the Ministry of Energy and Energy Industries (MEEI) pointed to reduced output of crude oil (-11.4 per cent) and natural gas (-9.8 per cent) in the second quarter of 2024. This largely reflected the planned maintenance programmes conducted by bpTT at several production facilities. This prompted a falloff in Mining and Quarrying sector activity (-8.2 per cent). These upstream declines filtered through to the Refining and Petrochemicals sectors. In the case of the former, reduced production of liquefied natural gas (LNG) (-16.7 per cent) outweighed a sizable uptick in natural gas liquids (NGL) production (41.6 per cent). The large increase in NGL production was due to a base effect, as Pheonix Park Gas Processors Limited took its processing units offline in April 2023 for routine maintenance works. Meanwhile, production of petrochemicals was marred by declines in ammonia (-9.8 per cent) and methanol (-6.8 per cent) output. Over the period, urea production improved marginally (1.0 per cent).

**Preliminary data for energy sector output over the period July to August 2024 sugests a partial improvement from the second quarter's performance.** According to data from MEEI, crude oil production declined by 3.1 per cent, while natural gas output increased by 2.8 per cent over the period. The production of liquefied natural gas (LNG) fell by 2.5 per cent, while natural gas liquids (NGL) grew by 12.8 per cent. In the downstream sector, improved output was observed for ammonia (18.7 per cent) and methonal (3.0 per cent), while the production of urea declined by 72.9 per cent.

**Indicators suggest that the non-energy sector remained resilient in the second quarter of 2024.** This sentiment was supported by an increase of 10.1 per cent (year-on-year) in the Cashless Payments Index in June 2024, a supplementary indicator of activity in the non-energy sector[6]. On a sectoral basis, increased activity was estimated in the Wholesale and Retail Trade (excluding Energy) sector (2.7 per cent), reflecting an improvement in the Index of Retail Sales. This reflected improvements in most sub-indices, specifically Dry Good Stores (3.6 per cent) and Supermarkets and Groceries (1.3 per cent). Improvements in the Index were offset by decreased sales in the Household Appliances, Furniture and other Furnishings (-1.1 per cent) and Textiles and Weaing Apparel (-0.3 per cent) sub-indices. The buoyancy of this sector was further supported by upticks in supplementary indicators, depicted by an increase in the volume of point of sale (18.0 per cent) and internet merchant (14.8 per cent) transactions.

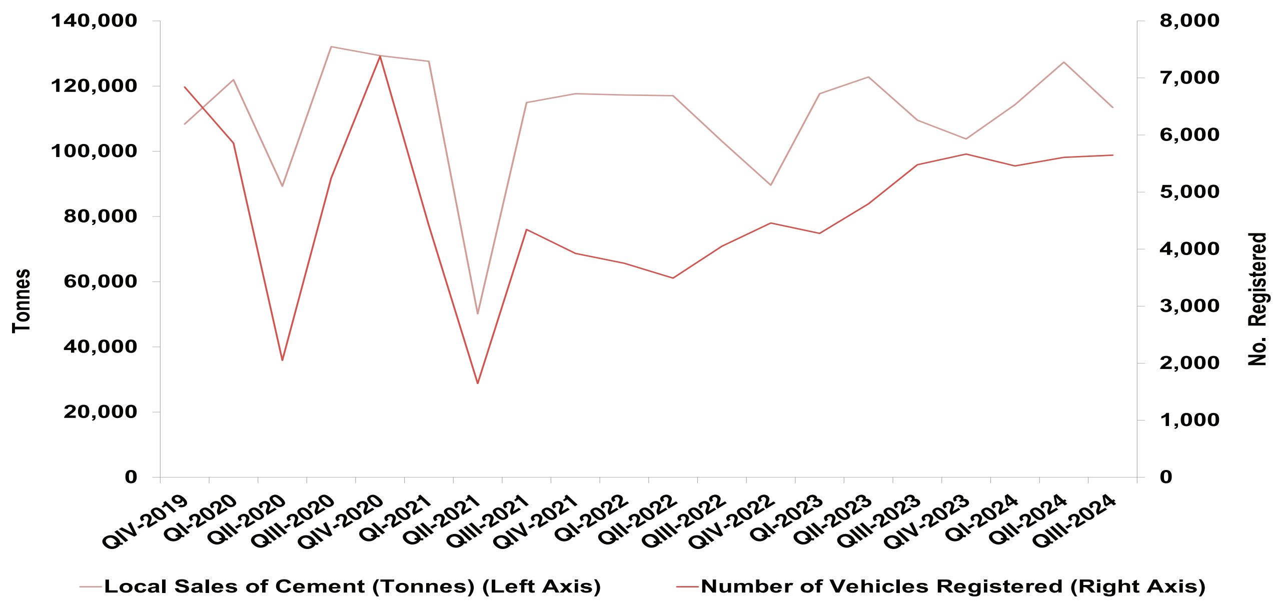
**Increased activity was also estimated for the Transportation and Storage sector (6.5 per cent), on account of greater land and air travel.** An uptick in the local sales of cement suggests improved activity in the Construction sector (3.7 per cent) (Chart 2.1). Over the period, improvements were also noted in the number of building permits issued and refused (26.2 per cent), hinting heightened construction-related activity in the near term. Improvements were also estimated in the Manufacturing (excluding Refining and Petrochemicals) sector (0.2 per cent).

**Conversely, declines were estimated in several sectors in the second quarter of 2024.** Notable among these was the Electricity and Water (excluding Gas) (-0.7 per cent) sector, wherein improved power generation was offset by reduced water supply. Further, indicators point to curtailed activity in the Financial and Insurance Activities sector (-1.3 per cent). This reflected a falloff in gross premiums in the insurance industry, a reduction in the volume of shares traded on the stock exchange and a decline in deposits and investments of trust institutions.

5 See Feature Article "Expanding the Central Bank's Suite of Indicators to support Economic Surveillance", in the July 2024 Economic Bulletin (pg. 114).

**CHART 2.1**

Non-Energy Indicators (Cement Sales, Vehicle Registrations)




Source: Central Bank of Trinidad and Tobago

*Labour market conditions worsened in the second quarter of 2024*

**Labour market conditions tightened somewhat in the second quarter of 2024, resulting in an unemployment rate of 4.8 per cent compared to 3.7 per cent recorded in the same quarter of 2023.** The higher unemployment rate reflected a year-on-year decline in the number of persons employed (26.7 thousand) and an increase in the number of unemployed persons (5.9 thousand). Simultaneously, the labour force contracted by 20.8 thousand persons, resulting in a labour force participation rate of 54.5 per cent, down from 56.2 per cent in the corresponding quarter one year earlier. National insurance scheme (NIS) payments also declined by 5.6 per cent (year-on-year) in the second quarter of 2024, suggesting generally weaker employment during the period.

Meanwhile, preliminary data on the number of job advertisements published in the print media (608) increased by 16.3 per cent (year-on-year) during the third quarter of 2024. Further, the cohort of public sector workers expected to receive an increase in minimum wage to $22.50 per hour, only accounts for 10.5 per cent of the total minimum wage earning group. Consequently, this wage increase is likely to have a minimal impact on overall labour market conditions in the short-to-medium term (Box 1-Implications of the FY2024/25 Budget Measures for Monetary Policy).

*Headline inflation eased during the five months ending October 2024*

**Headline inflation, measured by the CSO's Consumer Price Index (CPI), decelerated over the five-month period (June to October 2024).** Domestic inflation dipped to

0.2 per cent (year-on-year) in October 2024 from 0.7 per cent in June 2024 (Chart 2.2). Over the period, relatively flat core inflation (averaged 0.0 per cent) tempered the increase in headline inflation (averaged 1.8 per cent). These movements underpinned the deceleration in headline inflation in October 2024.

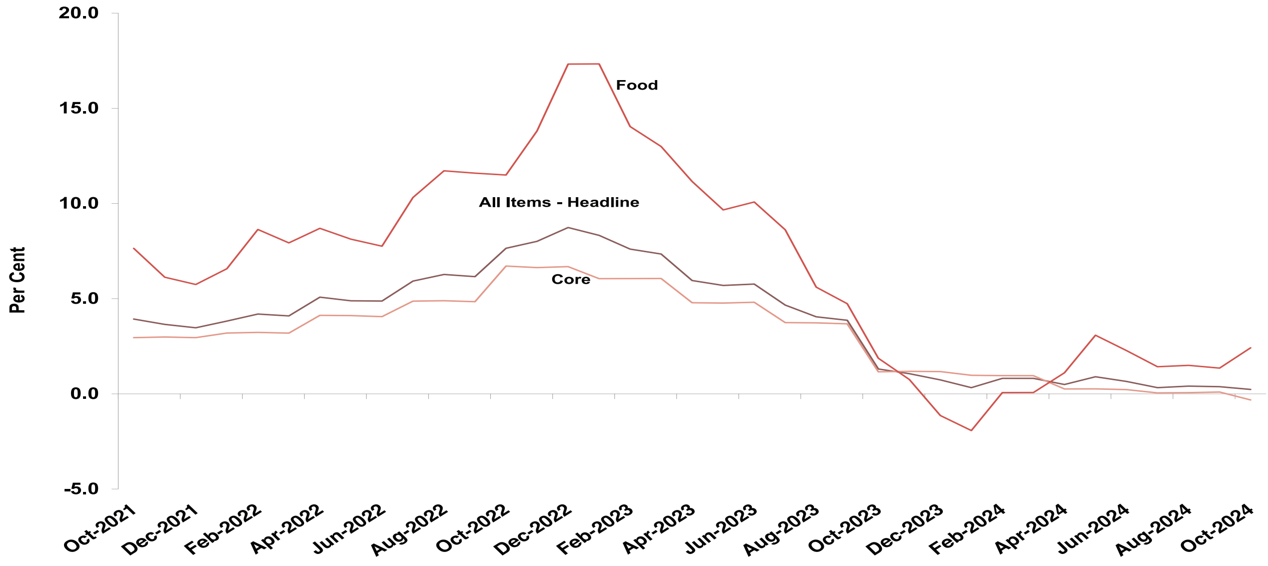
**Food inflation marginally increased to 2.4 per cent in October 2024 from 2.3 per cent in June 2024, fashioned by faster price increases in several sub-indices.** The Meat sub-index increased to 6.8 per cent in October 2024 from 2.6 per cent in June 2024 due to stronger price increases in fresh, chilled frozen or seasoned poultry – chicken. The Sugar, Jam and Confectionary sub-index saw faster price increases (9.3 per cent in October 2024 from 8.6 per cent in June 2024) because of higher prices for sugar and ice, ice cream and dessert preparations. Price increases were also observed for a number of commodities. The Bread and Cereal sub-index increased for the first time since September 2023 in August 2024 (0.6 per cent) and climbed further to 2.1 per cent in October 2024, compared to -2.1 per cent in June 2024. This was accounted for price increases in parboiled rice and white-bread hops. The Fish sub-index rose from -4.3 per in June 2024 to 2.9 per cent in October 2024 because of higher prices for fresh, chilled frozen or seasoned fish. Milk, Cheese and Eggs and Fruit sub-indices also increased from –0.5 per cent in June 2024 to 0.6 per cent in October 2024 and -0.3 per cent (June 2024) to 4.0 per cent (October 2024), respectively. The former was due to higher prices for soya, dairy products and eggs while, price increases for apples, ripe bananas and dried fruits accounted for the latter.

**Although food inflation edged up negligibly, softer price increases and price declines were observed for a few commodities.** Slower price increases were recorded for Vegetables and Non-Alcoholic Beverages. The Vegetables sub-index recorded softer prices (1.9 per cent in October 2024 compared to 9.5 per cent in June 2024. This was due to lower prices for carrots, pumpkin, green(sweet) pepper, cucumber and cabbage. Slower prices for Non-Alcoholic Beverages was also recorded at 2.8 per cent in October 2024 compared to 5.5 per cent in June 2024.

**CHART 2.2**

Consumer Price Index

(Year-on-Year Per Cent Change)




Source: Central Statistical Office

**Core inflation, a measure of underlying inflation, declined from 0.2 per cent in June 2024 to -0.3 per cent in October 2024.** A combination of faster price declines and slower price increases in several sub-indices was responsible for the decline in core inflation. Faster price declines in the Furnishings, Household equipment and routine maintenance (-2.4 per cent in October 2024 compared to -2.0 per cent in June 2024) and Transport (-0.9 per cent in October 2024 compared to -0.4 per cent in June 2024) sub-indices were observed. Lower prices for dining room furniture, porch and garden furniture for the former sub-index and weaker prices for the purchase of foreign used motor vehicles for the latter sub-index were reported over the period. A stronger price decline was also registered for the Recreation sub-index (-2.0 per cent in October 2024 from -1.9 per cent in June 2024) due to lower prices for television sets, photographic equipment and computer equipment. Additionally, slower price increases in Health (2.5 per cent in October 2024 from 7.7 per cent in June 2024), Communication (5.1 per cent in October 2024 from 8.5 per cent in June 2024) and Restaurant and Hotels (1.9 per cent in October 2024 from 2.7 per cent in June 2024) also accounted for the dip in core inflation.

*Retail pricesof building material and wholesale prices increased minimally*

**The CSO's Index of Retail Prices of Building Materials (BMI) marginally increased in the third quarter of 2024.** The BMI stood at 0.6 per cent (year-on-year) in the third quarter of 2024 compared to 0.5 per cent (year-on-year) in the second quarter of 2024.

This was attributed to a price increase in the Site Preparation, Structure, & Concrete Frame category (5.6 per cent in the third quarter of 2024 compared to 4.4 per cent in the second quarter of 2024), and a slower price increase for Electrical Installation and Fixtures (0.9 per cent in the third quarter of 2024 compared to 1.7 per cent in the second quarter of 2024). Notably, lower prices were recorded for Plumbing and Plumbing Fixtures, Windows, Doors and Balustrading and Finishing, Joinery and Painting and External Works.

**Producer prices, as measured by the CSO's Producer Price Index (PPI), increased negligibly by 0.2 per cent in the third quarter of 2024 (year-on-year) compared to the previous quarter.** Price increases were noted in the Drink and Tobacco (0.9 per cent in the third quarter of 2024 compared to 0.7 per cent in the second quarter of 2024) industry. A softer price increase was recorded for Chemicals and Non-Metallic Products (0.2 per cent in the third quarter of 2024 compared to 1.8 per cent in the second quarter of 2024). A slower price decline in Food Processing (-0.5 per cent in the third quarter of 2024 compared to -1.5 per cent in the second quarter of 2024) was also observed. Meanwhile, producer prices in a few industries, namely; Assembly-type and Related Industries, Textiles, Garment and Footwear and Printing, Publishing and Paper Converters and Wood Products, were steady.

*Exports continue to fall while imports rose*

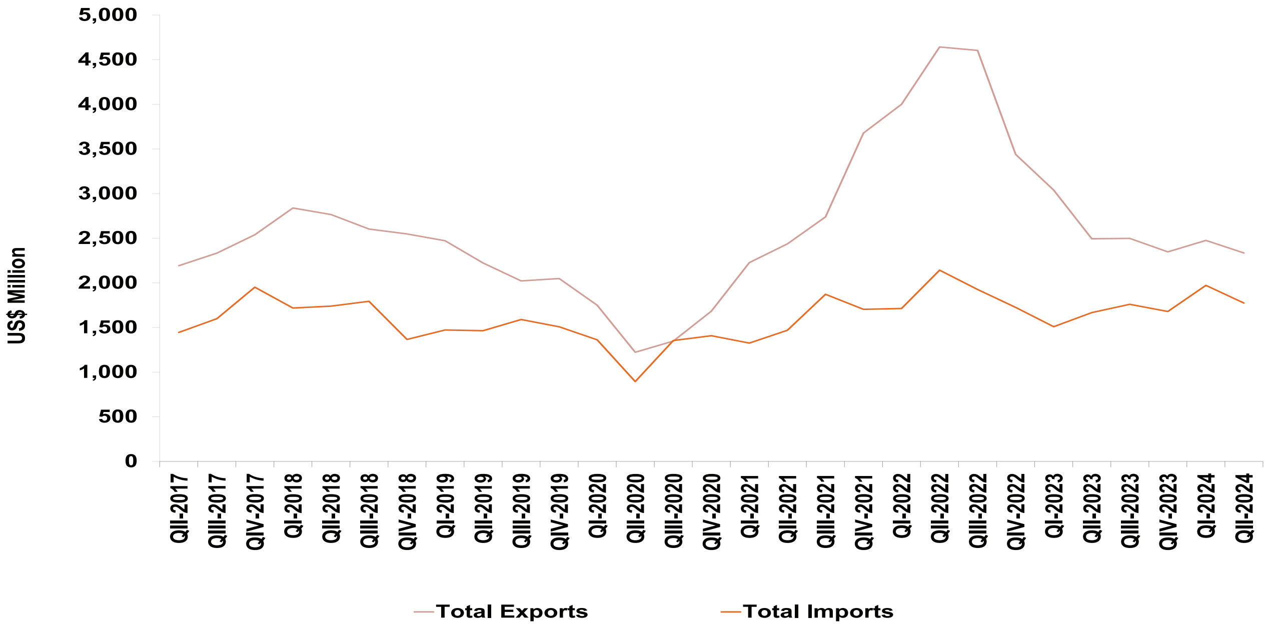
Total exports posted a marginal decline in the second quarter of 2024. Exports registered US$2,334.6 million in the second quarter of 2024 compared to US$2,494.2 million in the same period of 2023. The lower outturn in total exports was driven mainly by a reduction in energy exports. More specifically, energy exports fell by 7.4 per cent (year-on-year) to US$ 1,867.7 million in the second quarter of 2024. Declines were noted for most sub-categories of energy exports including; gas (-34.9 per cent) and petrochemicals (-2.2 per cent). Softer international commodity prices coupled with lower export volumes for some products during the period were responsible for the weaker performance.

Notwithstanding, the export value of petroleum crude and refined products increased (16.6 per cent) over the review period, which can be associated with the pickup in export volumes of refined products such as, motor gasoline, kerosene, jet fuel, diesel, and gas oils. Meanwhile, non-energy exports fell by 2.0 per cent (year-on-year) to US$466.9 million.

**Total imports rose by US$107.7 million to US$1,774.3 million in the second quarter of 2024 (Chart 2.3).** Over the three months to June 2024, fuel imports increased by 36.5 per cent (year-on-year), or US$111.0 million, to reach US$414.9 million. This movement was primarily driven by an increase in import volumes of refined products for export to regional markets, which more than doubled (152.4 per cent) over the reference period. Concurrently, non-fuel imports recorded a marginal decline, falling by 0.2 per cent or US$ 3.3 million to US$1,359.4 million.

**CHART 2.3**

Trends in Exports and Imports*




Source: Central Bank of Trinidad and Tobago
* Energy goods data comprise estimates by the Central Bank of Trinidad and Tobago.

*The portfolio investment account registered a net inflow in the second quarter of 2024*

**Increased liabilities were mainly responsible for the net inflow of $641.2 million in the portfolio investment account over the period April to June 2024.** The rise in portfolio liabilities of US$750.4 million reflected the Central Government's issuance of a US$750.0 million bond on the international capital market in June. Tempering this outturn was an increase in domestic holdings of foreign portfolio investment assets, which recorded an outflow of US$109.2 million. This movement was underpinned by an uptick in holdings of equity securities by Pension Funds, the Heritage and Stabilisation Fund (HSF) and, to a smaller extent, increased equity securities held by insurance companies.

## 3. DOMESTIC FINANCIAL CONDITIONS

*Over May to September 2024, monetary policy remained relatively unchanged. A pickup in Government borrowing and credit to the private sector led to tightened liquidity conditions, and a draw-down in the stock of indirect OMO instruments. In response, the Central Bank reduced the reserve requirement of commercial banks to 10 per cent from 14 per cent to ensure ample levels of liquidity. This was the latest step by the Central Bank to progressively move from using 'direct' to 'indirect' instruments of monetary policy. At the September 2024 MPC meeting, the Committee held the Repo rate at 3.5 per cent.*

### Liquidity Conditions and Interest Rates

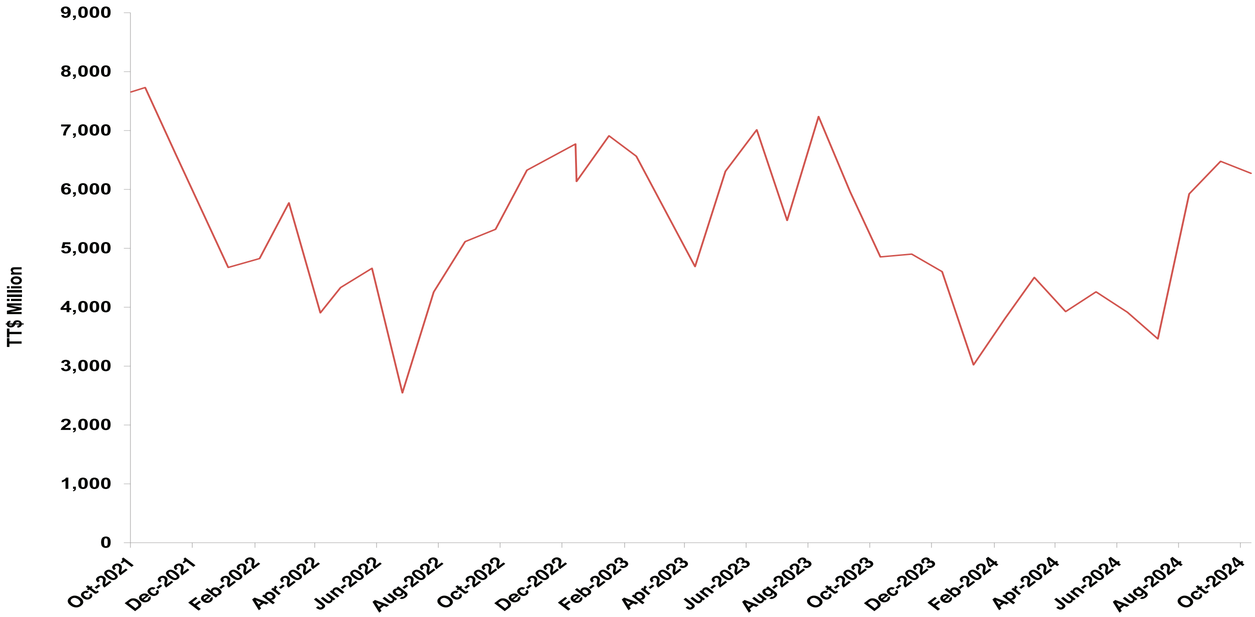
*Financial system liquidity fluctuated, but was ample to support continued credit growth*

**Liquidity levels tightened by mid-2024 causing the Bank to utilise its direct instruments to bolster liquidity.** Over the period May to July 2024, fiscal operations resulted in net withdrawals of $3,326.4 million, while OMOs remained neutral and sales of foreign currency by the Central Bank to authorised dealers indirectly removed $2,344.7 million from the financial system. Daily average excess liquidity reached $3,820.4 million over May to July (Chart 3.1). As a result of relatively tighter liquidity conditions, the domestic 91-day Treasury rate increased by 96 basis points between May and July to reach 2.36 per cent.

**In assessing the potential implications of prevailing liquidity conditions, the MPC decided to reduce the reserve requirement by 400 basis points, effective July 24, 2024 — the first reduction since a 300 basis point cut in March 2020, following the onset of the COVID-19 pandemic.** As a result, there was an immediate injection of $4,021.8 million into the banking system. Excess liquidity levels were boosted following the reduction in the reserve requirement. Over August to October 2024, fiscal operations resulted in net injections of $2,294.9 million, OMOs again remained neutral and sales of foreign currency to authorised dealers by the Central Bank indirectly removed $2,174.7 million from the financial system. Excess liquidity reached a daily average of $6,221.5 million over the period. As liquidity increased, the rate on the domestic 91-day Treasury bill declined by 14 basis points from the end of July to reach 2.22 per cent by the end of October 2024.

CHART 3.1

Commercial Banks' Excess Reserves




Source: Central Bank of Trinidad and Tobago

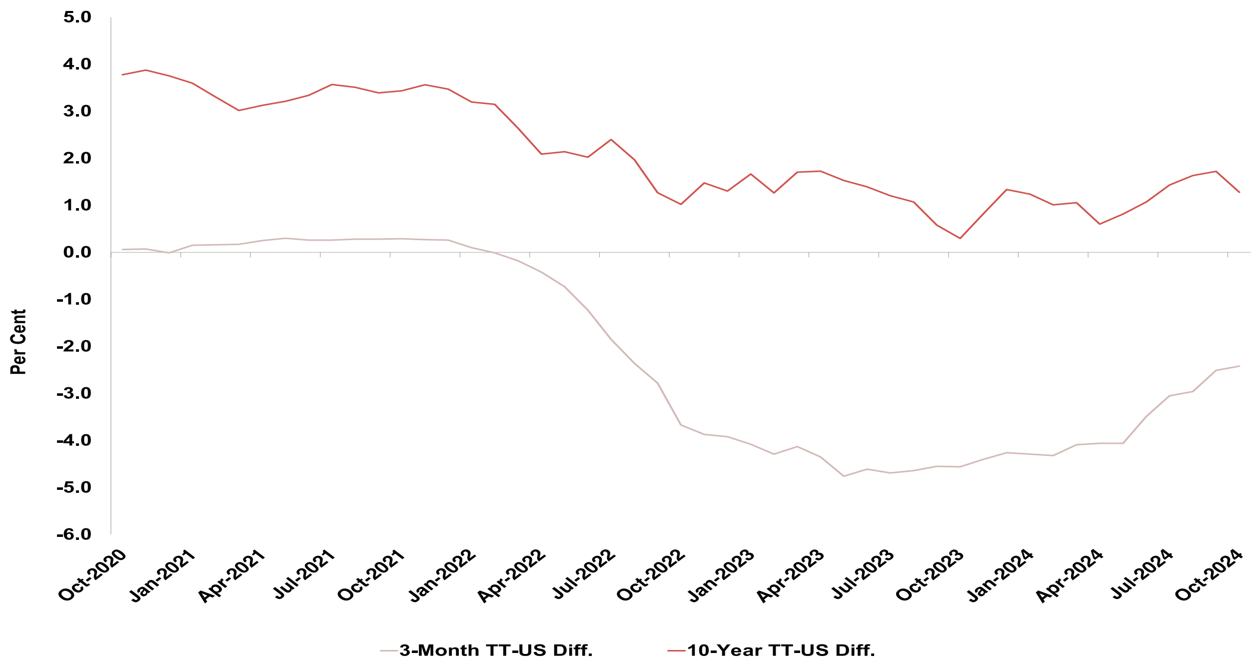
**Daily interbank borrowing averaged $115.5 million over May to October 2024, compared to $77.4 million over the same period a year prior.** The notable increase in activity in the interbank market was directly related to the large fiscal withdrawals associated with borrowing by the Central Government. Activity on the Repurchase Facility extended to banks for overnight liquidity reached a daily average of $28.9 million over May to October 2024, mainly due to activity in June and July 2024. There was no Repo activity in the same period a year prior.

**Owing to liquidity conditions mainly dominated by fiscal withdrawals, short-term interest rates increased heading into the second half of 2024.** The TT 91-day OMO Treasury Bill rate increased by 82 basis points over May to October 2024 to reach 2.22 per cent. Yields on US short-term instruments declined following a 50 basis point cut in the Federal Funds Rate in the US in September 2024. The US 91-day short-term benchmark yield reached 4.64 per cent by the end of October 2024, from 5.46 per cent in May. As a result, the TT-US 91-day differential improved to -242 basis points in October 2024 compared with -406 basis points in May 2024 (Chart 3.2). The TT 1-year Treasury rate increased by 63 basis points over the reference period, settling at 3.68 per cent in September 2024. However, the US 1-year Treasury rate decreased by 91 basis points over May to October 2024 to reach 4.27 per cent. These movements resulted in a TT-US 1-year differential of -59 basis points in October 2024, from -213 basis points in May.

**The US 10-year Treasury rate declined over May to Ocotber 2024, losing 23 basis points over the period to reach 4.28 per cent.** The decline was broadly reflective of the policy rate reduction by the US Fed. The TT 10-year Treasury rate increased by 24 basis points over the period to reach 5.56 per cent, resulting in an improvement of the 10-year yield differential from 81 basis points in May to 128 basis points in October 2024.

**CHART 3.2**

3-Month and 10-Year TT-US Differentials

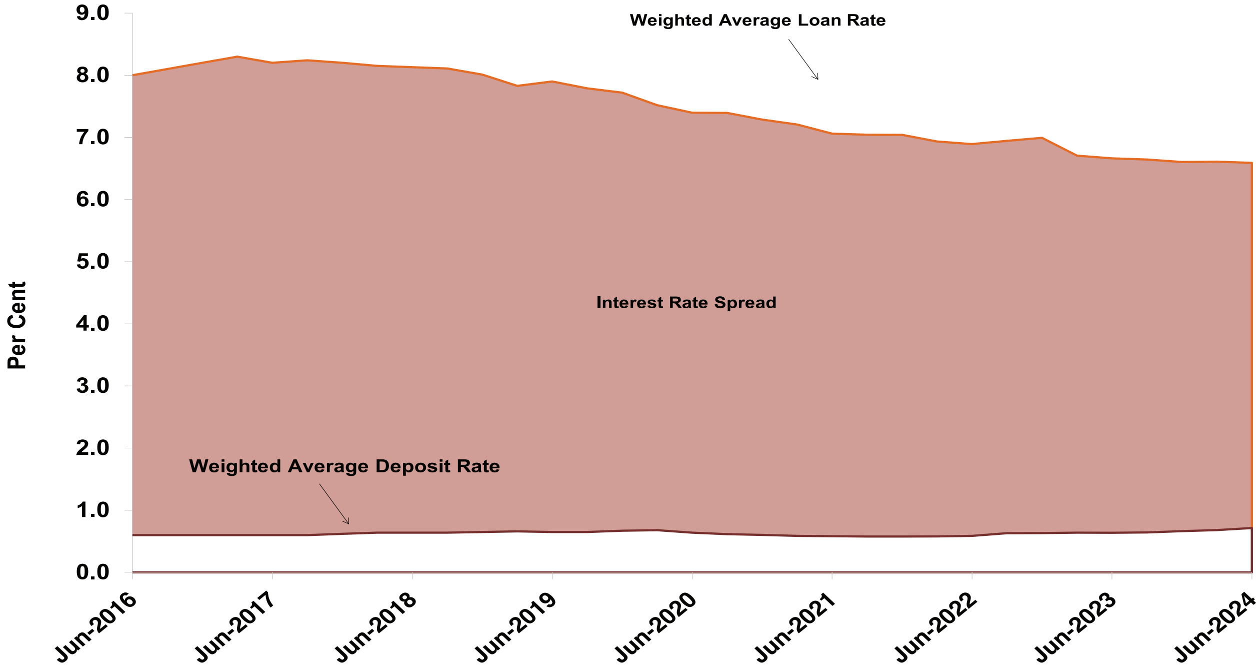



Sources: Central Bank of Trinidad and Tobago and the US Department of Treasury

**Commercial banking rates increased in September 2024.** The commercial banks' weighted average lending rate (WALR) declined to 6.63 per cent in September 2024, 2 basis points higher than in March. Additionally, the weighted average deposit rate increased by 8 basis points to reach 0.76 per cent over the same period. As a result, the rounded banking spread decreased by 6 basis points to 5.87 per cent over the period March to September 2024. The increased lending rate likely reflects the persisting effect of liquidity conditions prior to the reduction of the reserve requirement. Commercial banks' return on assets remained at 2.4 per cent over March to June 2024, while return on equity increased from 12.4 per cent to 12.6 per cent. The interest margin-to-gross income of commercial banks decreased from 69.5 per cent to 68.9 per cent over the period. Meanwhile, commercial banks' median prime lending rate remained at 7.50 per cent (Chart 3.3). Owing to heightened interbank activity during 2024, the interbank borrowing rate increased to an average of 0.58 per cent over May to October 2024, an increase of 8 basis points over the same period a year prior, representing the first major movement in the average rate since 2016.

**CHART 3.3**

Commercial Banks' Interest Rates




Source: Central Bank of Trinidad and Tobago

## Private Sector Credit

*Credit demand remained strong, supported by ample system liquidity and favourable financial conditions*

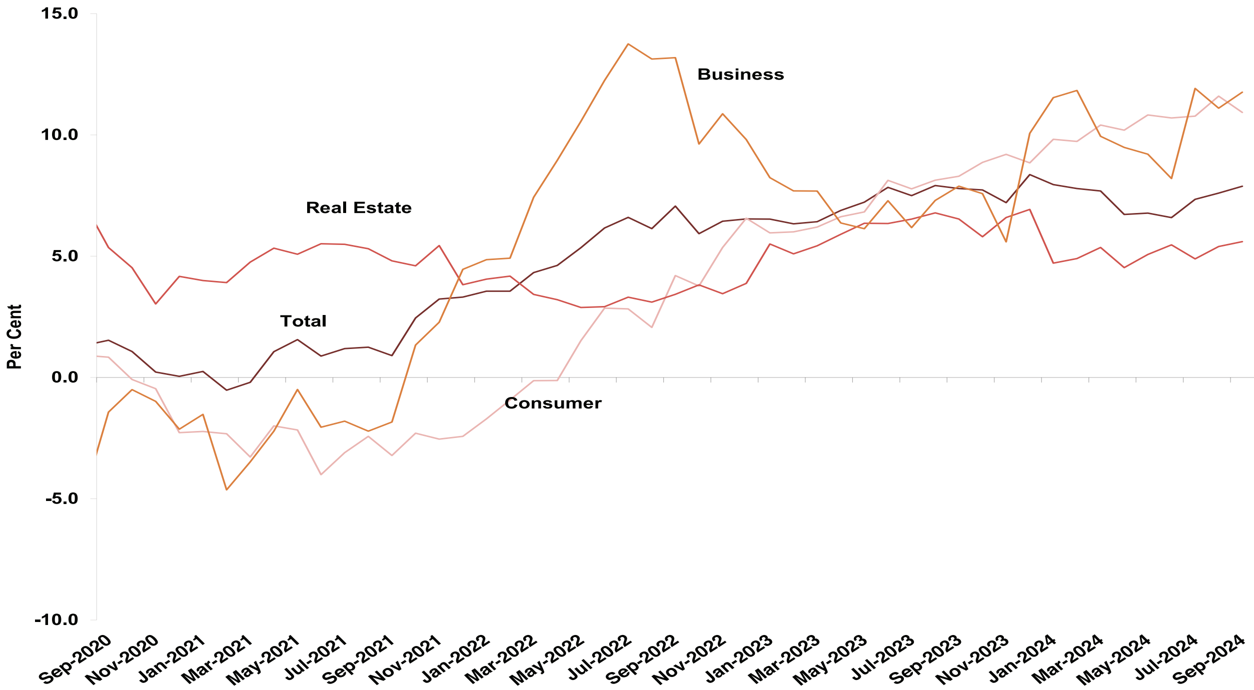
**Consolidated system credit continued to grow robustly.** In September 2024, credit to the private sector recorded an increase of 7.9 per cent (year-on-year), up from a rise of 6.7 per cent in April 2024. Over the period, double-digit growth rates were observed for consumer and business lending, outpacing the expansion in real estate mortgage lending (Chart 3.4).

**A pickup in activity and favourable financing conditions fuelled business borrowing over the period.** In September 2024, business lending grew by 11.8 per cent (year-on-year), up from 9.5 per cent five months earlier. Commercial bank lending to businesses recorded an increase of 11.9 per cent, while non-bank recorded an increase of 10.6 per cent over the period. According to sectoral business credit data, in the third quarter of 2024 all categories expanded. Of note, lending to the Other Services sector was the only sector that decelerated in the second quarter of 2024 (7.3 per cent). Of the remaining categories, growth picked up pace — Finance, Insurance and Real Estate (5.9 per cent), Distribution (17.3 per cent) and Manufacturing (2.3 per cent), Petroleum (59.6 per cent)[7], Agriculture (53.1 per cent) and Construction (7.8 per cent) — somewhat reflecting the economic sectors' performance.

6 As of the third quarter of 2024, the share of Petroleum loans to total business loans is 6.5 per cent. Lending for upgrades and invest in environmental, social, and corporate governance were cited by top banks.

**CHART 3.4**

Private Sector Credit




Source: Central Bank of Trinidad and Tobago

**For consumers, access to finance remained favourable, stimulating borrowing.** In September 2024, consumer lending observed a year-on-year increase of 10.9 per cent, up from 10.2 per cent five months prior. Commercial bank consumer lending accelerated (12.0 per cent) while the growth in non-bank lending slowed (0.0 per cent). According to sectoral data, in the third quarter of 2024, the main categories that accounted for the rise in consumer borrowing were Motor Vehicles (14.8 per cent), Other Purposes (11.7 per cent), Home Improvement/Renovation (7.8 per cent), Consolidation of Debt (10.2 per cent) and Refinancing (7.5 per cent). Of the list, the growth in financing for motor vehicles was the most pronounced (22.3 per cent of total consumer loans in the third quarter of 2024), reflecting current attractive financing offers — such as longer repayment terms, one-day car sales events, 100 per cent financing for new and used vehicles, no payment deals for up to three months and cash back on new and used vehicles. Nonetheless, the quality of commercial banks' consumer lending portfolio (roughly 90 per cent of banking system loans) remained relatively sound.[8]

**Real estate mortgage lending also picked up pace over the period.** Real estate mortgage loans grew by 5.6 per cent in September 2024, up from 4.5 per cent in April 2024. Over the period, the growth in residential real estate mortgage lending continued to outpace lending for commercial real estate mortgages (6.5 per cent and 4.0

7 In the second quarter of 2024, the non-performing loan ratio for consumer loans inched up to 2.53 per cent from 2.48 per cent one quarter earlier.

per cent, respectively in September 2024). Commercial banks' real estate mortgage lending strengthened (5.6 per cent) and the declines in non-banks' real estate mortgage lending lessened (-0.5 per cent). Admist the acceleration in mortgage loans, the overall interest rate on new real estate mortgage loans crept up to 5.06 per cent in the third quarter of 2024, compared to 4.94 per cent in the first quarter of 2024 — the rate on new residential mortgage loans fell while the rate on new commercial mortgage loans rose. Additionally, in the third quarter of 2024, the number of real estate mortgage loans disbursed increased, mainly on account of an increase in loans to purchase existing houses and land.

**Over the period, the expansion in foreign currency borrowing slowed, while the growth in foreign currency deposits picked up.** Tight foreign exchange market conditions continued to influence the outturn for foreign currency credit and deposits. The growth rate of foreign currency credit[9], though still robust, decelerated slightly, recording a year-on-year increase of 23.8 per cent in September 2024 (down from 25.4 per cent in April). Commercial bank foreign currency lending picked up pace (24.9 per cent), but the growth in non-bank foreign currency lending slowed considerably (10.3 per cent). Regarding foreign currency credit to businesses, in September 2024 an increase of 30.7 per cent was observed, down from 33.4 per cent in April 2024. Based on prudential indicators monitored by the Central Bank, the growth observed in foreign currency lending, currently, does not suggest a buildup in financial risks.

**For foreign currency deposits, growth in foreign currency deposits accelerated over the period, after recovering in April (1.5 per cent).** In September 2024, foreign currency deposits expanded by 7.5 per cent (year-on-year). The growth in business foreign currency deposits gradually accelerated over the period, reaching 5.6 per cent in September 2024 (up from 3.5 per cent in April). Consumer foreign currency deposits continued to decline but at a slower pace – compared to a 2.5 per cent contraction in April 2024, consumer foreign currency deposits fell by 1.8 per cent in September 2024. While the growth in foreign currency deposits held by entities[10] such as public sector entities and other financial institutions picked up pace, reaching 19.6 per cent in September 2024 (up from 2.7 per cent in April).

**Monetary aggregates narrowed over April to September 2024.** The divergence between liquid aggregates and less-liquid aggregates also persisted, likely reflecting liquidity conditions at the time.[11] M1-A, which comprises currency in active circulation plus demand deposits, contracted — a drop of 4.9 per cent was observed in September 2024, down from an increase of 1.2 per cent in April. Both currency in active circulation and demand deposits slipped into negative territory

8 Includes loans and investments to resident individuals and businesses.
9 Accounting for just over a quarter of total foreign currency deposits as of September 2024.
10 M1-A are considered the most liquid measure of the money supply, while M-2 relates to a broader measure that includes less liquid components of the money supply.

(-1.0 per cent and -5.5 per cent, respectively). For demand deposits, which observed the more pronounced contraction business and consumer deposits were the main contributors to the fall. Regarding M-2, the pace of growth decelerated over the period — 0.4 per cent in September 2024, down from 3.5 per cent in April. Time deposits continued to grow robustly (26.4 per cent) and a modest increase was observed for saving deposits (0.9 per cent).

## Foreign Exchange Market Developments

*The local market for foreign currency has remained tight thus far in 2024*

**Foreign exchange market conditions remained tight thus far in 2024 (Table 1).** Purchases of foreign exchange by authorised dealers from the public amounted to US$3,725.5 million over January to October 2024, a decrease of 0.7 per cent relative to the same period a year earlier. The marginal decrease in purchases followed a 0.3per cent rise in conversions by energy companies relative to the same period in 2023. For the period January to October 2024, purchases from the energy sector accounted for 72.7 per cent of total foreign currency purchases over US$20,000 in value.

**Sales of foreign exchange by authorised dealers to the public reached US$4,927.4 million over January to October 2024, a decrease of 5.7 per cent relative to the same period a year prior[1].** Based on reported data for transactions over US$20,000, credit cards (43.7 per cent), energy companies (17.1 per cent), retail and distribution (15.8 per cent), and automobile companies (5.3 per cent) made up the bulk of foreign exchange sales by authorised dealers to the public (Chart 3.5). The net sales gap reached US$1,201.8 million during the period. To support the market, the Central Bank sold US$1,075.0 million to authorised dealers.

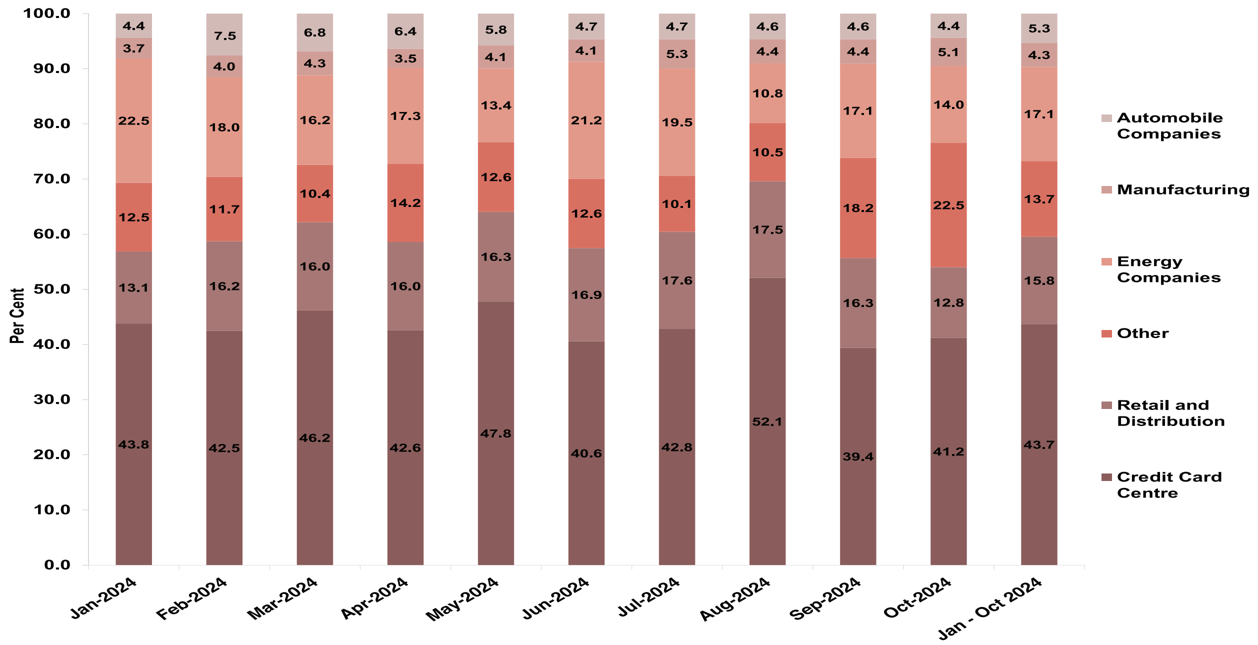
11 Note, sales of foreign currency to authorised dealers by the Central Bank are consistently smaller than sales of foreign exchange by authorised dealers to the public and tends to approximate the net sales gap. Over January to October 2024, interventions by the Central Bank were only 21.8 per cent the size of total sales of foreign exchange by authorised dealers to the public, up from 21.2 per cent a year prior.

## TABLE 1
Authorised Dealers' Foreign Exchange Market Activity[1]
(US$ Million)

| Date | Authorised Dealers Purchases from Public | Authorised Dealers Sales to Public | Authorised Dealers Net sales | Authorised Dealers Purchases from CBTT[1] |
|---|---|---|---|---|
| 2019 | 4,285.6 | 5,939.8 | 1,654.2 | 1,504.0 |
| 2020 | 3,298.2 | 4,504.1 | 1,206.0 | 1,292.2 |
| 2021 | 4,148.9 | 4,969.4 | 820.5 | 1,212.1 |
| 2022 | 5,528.8 | 6,551.2 | 1,022.4 | 1,270.6 |
| 2023 | 4,614.6 | 6,228.4 | 1,613.7 | 1,341.9 |
| | | | | |
| Jan - Oct 2023 | 3,753.3 | 5,225.3 | 1,472.0 | 1,112.5 |
| Jan - Oct 2024 | 3,725.5 | 4,927.4 | 1,201.8 | 1,075.0 |
| **Y-o-Y Per cent Change** | **-0.7** | **-5.7** | **-18.4** | **-3.4** |

Source: Central Bank of Trinidad and Tobago
1 Purchases from the Central Bank of Trinidad and Tobago include transactions under the Foreign Exchange Liquidity Guarantee facility, and excludes sales under the EXIM Bank and Other Public Sector provisional facilities.

## CHART 3.5
Sales of Foreign Currency by Authorised Dealers to the Public*




Source: Central Bank of Trinidad and Tobago
* Represent sales in excess of US$20,000.

## Capital Markets

*Despite a decline in activity over January to October 2024, borrowing by the Government remained robust over the first half of the year*

**Provisional data suggests that during the period January to October 2024, the primary debt market recorded 15 bond issues raising $8,975.6 million (Table 2).** During the period, three state enterprises financed $1.9 billion, while the Central Government raised roughly $7,075.6 million via 12 private bonds. Excluded from this total is the US$750.0 million Government bond raised on the international financial market. The Government bonds were primarily issued for budget support and partly for debt refinancing. In comparison, during the same period in 2023, the market recorded 11 bond issues raising approximately $12,288.6 million. On the domestic market, the Government accounted for eight private placements at $11,736.1 million, while two state enterprises raised $552.5 million. Additionally, the Government raised US$560.0 million on the international financial market during the comparable period.

**TABLE 2**
Primary Debt Security Activity
(January 2024 to October 2024)[p]

| Period Issued | Borrower | Face Value (TT$ M) | Period to Maturity | Coupon Rate Per Annum | Placement Type |
|---|---|---|---|---|---|
| Jan-24 | Government of Trinidad and Tobago | US$100.0 Mn (TT$675.6 Mn) | 3.0 Years | Fixed Rate 6.65% | Private |
| Feb-24 | National Investment Fund Holding Company Limited (NIFHCL) | 400.0 | 5.0 Years | Fixed Rate 4.50% | Public |
| | Government of Trinidad and Tobago | 200.0 | 3.0 Years | Fixed Rate 4.25% | Private |
| | Government of Trinidad and Tobago | 300.0 | 5.0 Years | Fixed Rate 5.20% | Private |
| | Government of Trinidad and Tobago | | | | |
| | (Tranche 1 of 2) | 150.0 | 15.0 Years | Fixed Rate 6.25% | Private |
| | (Tranche 2 of 2) | 100.0 | 15.0 Years | Fixed Rate 5.90% | Private |
| | Government of Trinidad and Tobago | 150.0 | 5.0 Years | Fixed Rate 4.50% | Private |
| | Housing Development Corporation (HDC) | 500.0 | 3.0 Years | Fixed Rate 5.90% | Private |
| Apr-24 | Government of Trinidad and Tobago | | | | |
| | (Tranche 1 of 2) | 400.0 | 5.0 Years | Fixed Rate 5.00% | Private |
| | (Tranche 2 of 2) | 1,100.0 | 20.0 Years | Fixed Rate 6.80% | Private |
| | Government of Trinidad and Tobago | 300.0 | 3.0 Years | Fixed Rate 4.30% | Private |
| | First Citizens Bank | 1,000.0 | 6.0 Years | Fixed Rate 4.90% | Private |
| May-24 | Government of Trinidad and Tobago | | | | |
| | (Tranche 1 of 2) | 600.0 | 5.0 Years | Fixed Rate 5.00% | Private |
| | (Tranche 2 of 2) | 400.0 | 20.0 Years | Fixed Rate 6.80% | Private |
| | Government of Trinidad and Tobago | 200.0 | 20.0 Years | Fixed Rate 6.80% | Private |
| | Government of Trinidad and Tobago | | | | |
| | (Tranche 1 of 3) | 458.6 | 6.0 Years | Fixed Rate 5.30% | Private |
| | (Tranche 2 of 3) | 192.8 | 15.0 Years | Fixed Rate 6.15% | Private |
| | (Tranche 3 of 3) | 348.6 | 20.0 Years | Fixed Rate 6.80% | Private |
| Jun-24 | Government of Trinidad and Tobago* | US$750.0 Mn (TT$5,059.2 Mn) | 10.0 Years | Fixed Rate 6.40% | Public |
| Oct-24 | Government of Trinidad and Tobago | | | | |
| | (Tranche 1 of 2) | 600.0 | 7.0 Years | Fixed Rate 5.50% | Private |
| | (Tranche 2 of 2) | 400.0 | 20.0 Years | Fixed Rate 6.90% | Private |
| | Government of Trinidad and Tobago | 500.0 | 4.0 Years | Fixed Rate 4.55% | Private |

Sources: Ministry of Finance and Market Participants
[p] Provisional
* International Bond

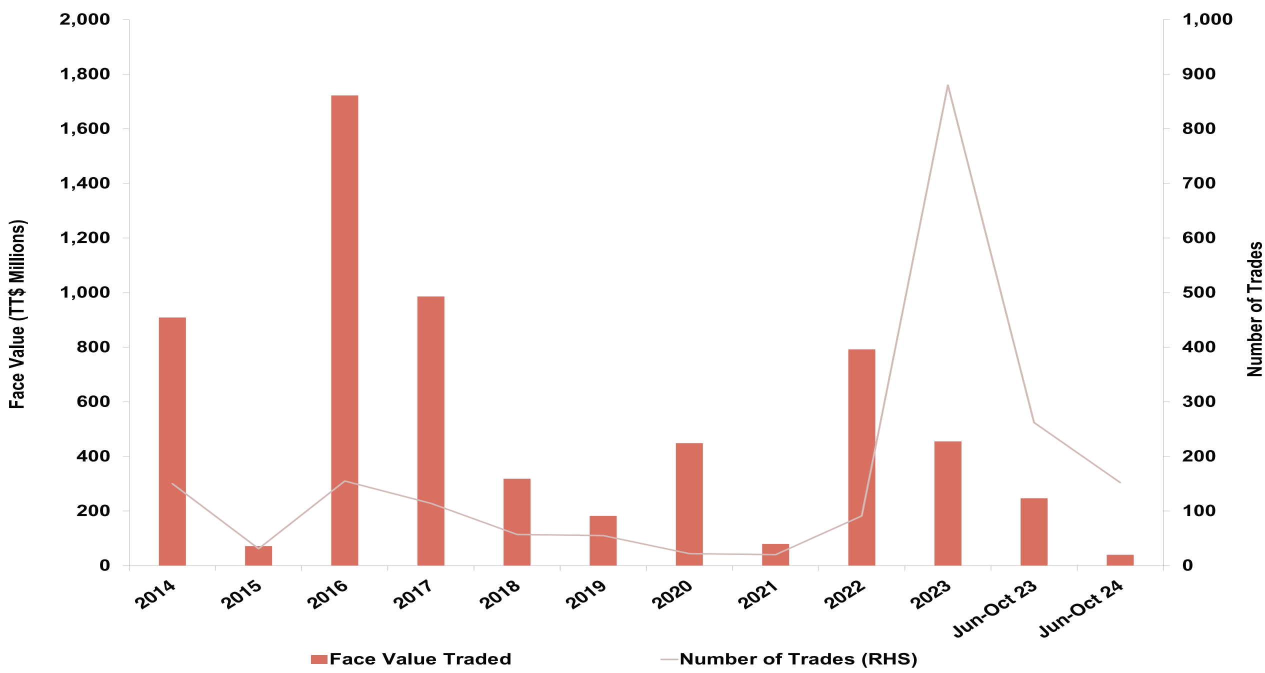
*Over the five months ending October 2024, the secondary Government bond market recorded a decline in trade volume and value*

Over the period June to October 2024, the Trinidad and Tobago Stock Exchange (TTSE) secondary Government bond market recorded 152 trades at a face value of $39.6 million, while 262 trades at a face value of $246.7 million were recorded over the comparative period one year earlier (Chart 3.6). Lower trading of the $702.9 million GORTT2037 bond[13] by shareholders was responsible for the decline in trading activity.

On the other hand, activity on the TTSE secondary corporate bond market[14] increased over the five months ending October 2024, recording 54 trades at a face value of $5.9 million, compared to 38 trades at a face value of just under $0.5 million one year prior.

**CHART 3.6**

Secondary Government Bond Market Activity




Source: Trinidad and Tobago Stock Exchange

12 In January 2023, a $702.9 million series II 2037 Government bond was listed on the TTSE secondary Government Bond Market. This bond was previously issued in 2012 and formed part of the CLICO Investment Fund distribution of assets. During 2023, the secondary Government Bond Market recorded 857 trades at a face value of $52.9 million of this Series II 2037 bond.

13 Activity on the TTSE corporate bond market records the price and yield movements of the three National Investment Fund Holding Company Limited bonds listed in September 2018.

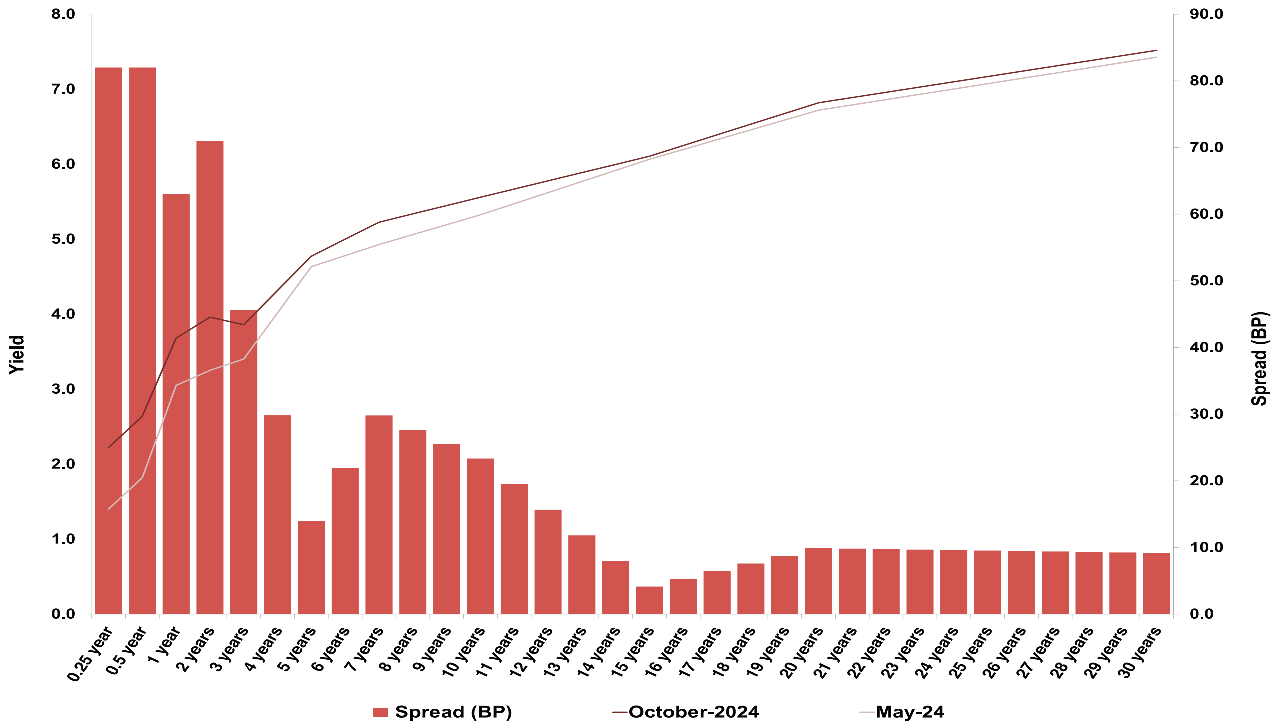
*The Government yield curve mostly displayed an upward trend over June 2024 to September 2024, primarily at the short-term end*

**The relatively tight levels of commercial bank excess reserves which impacted the banking system over January to July 2024, drove the upward trend in the curve during June to September 2024.** Over the period, the 3-month rate increased by 82 basis points to 2.22 per cent, while the 1-year rate jumped 63 basis points to 3.68 per cent (Chart 3.7). Additionally, the 2-year rate gained 71 basis points to 3.96 per cent. On the longer-end, the rate increases were less pronounced. The 10-year rate increased by 21 basis points to 5.53 per cent, while the 15-year rate increased by just 1 basis point to 6.07 per cent. The lower rate increases along the long-term tenors likely reflected the tempering of inflation expectations.

**CHART 3.7**

Trinidad and Tobago Central Government Treasury Yield Curve

May 2024 and September 2024




Source: Central Bank of Trinidad and Tobago

Note: The spread represents the difference in yield for a specific maturity along the Central Government yield curve.

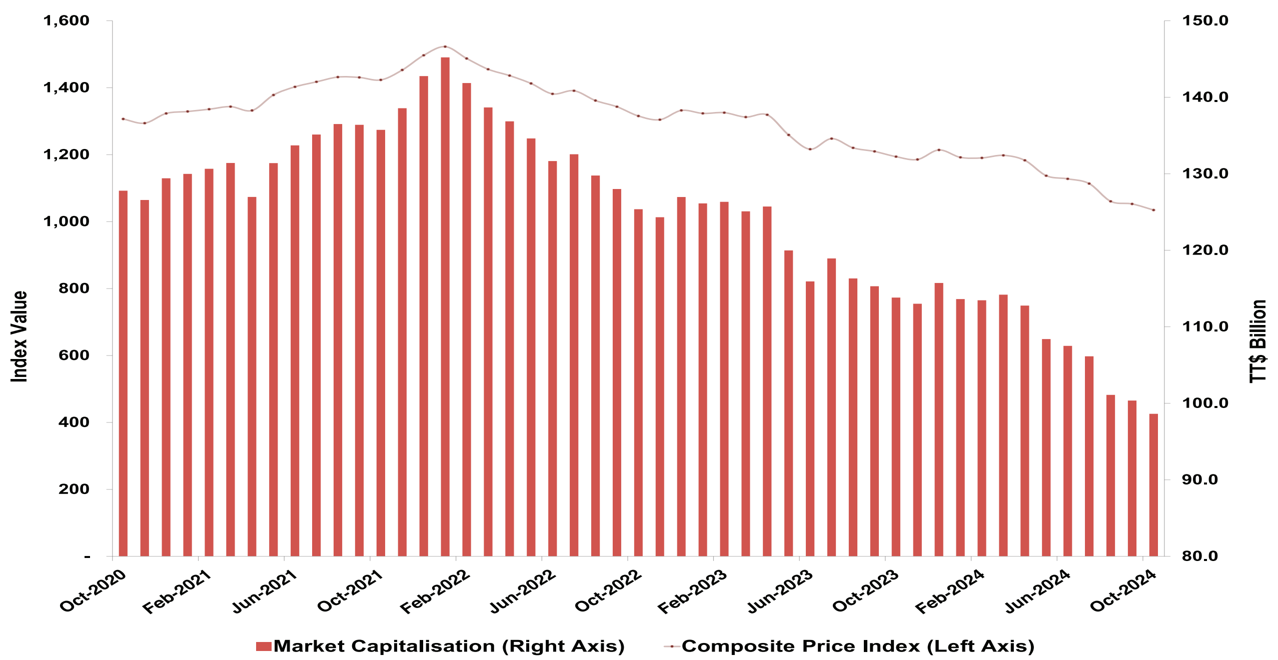
*The domestic stock market continued to decline over June 2024 to October 2024*

**Over the period, the Composite Price Index fell by 9.0 per cent, resulting in total stock market capitalisation decreasing by $9.8 billion, to end the period at $98.6 billion (Chart 3.8).** The market decline was driven primarily by a 9.5 per cent decrease in the All Trinidad and Tobago Index (ATI), while the Cross Listed Index (CLI) fell by 7.4 per cent. Performance of the first tier sub-indices was largely skewed to the downside as the only index to record a positive outturn was Manufacturing II (9.0 per cent). All other indices recorded declines. The Energy index registered the largest deterioration (-41.3 per cent) reflecting the challenges in the domestic energy sector. Additionally, significant declines were recorded in Manufacturing I (-20.5 per cent), Non-Banking Finance (-14.2 per cent), and Trading (-11.3 per cent).

**Regional indices recorded mixed performances over the same period.** The Caribbean Exchange Index[15] declined by 2.9 per cent over the period, driven primarily by the fall in the CLI, a 2.3 per cent fall in the Jamaica Stock Exchange index, and a marginal 0.2 per cent slip in the Barbados Stock Exchange index. On the other hand, stock market capitalisation in Guyana increased by 4.9 per cent over the period.

**CHART 3.8**

Movements in the Composite Price Index and Stock Market Capitalisation




Source: Trinidad and Tobago Stock Exchange

14 The Caribbean Exchange Index was launched in October 2022, as a collaborative effort by five regional stock exchanges: Jamaica, Barbados, The Eastern Caribbean, Guyana, and Trinidad and Tobago. The index consolidates the activity of the main market stocks across the different exchanges into a single performance measure and is intended to be an indicator of the performance of the Caribbean region.

**Aggregate funds under management[16] grew by 0.3 per cent to $52,929.7 million over March to September 2024[17], compared to a decline of 0.6 per cent in the same period one year prior (Chart 3.9).** The marginal growth in the industry was driven by the income and money market fund types. Income funds, the largest category, rose by 1.2 per cent to $28,805.5million. Money market funds also increased by 0.6 per cent to $15,708.7 million. Meanwhile, Equity funds declined by 3.2 per cent to $7,970.5 million. The smallest category, funds classified as 'Other'[18], declined by 1.1 per cent to $445.0 million. Over the period, movements in the industry reflected challenging conditions in the domestic equity markets, a surge in short-term domestic Treasury rates, and heightened volatility in advanced capital markets.

**Data suggest fixed net asset value (NAV) funds supported the industry.** Over the period, fixed NAV funds grew at by 1.2 per cent to $40,217.6 million, while floating NAV funds declined by 2.6 per cent to $12,712.1 million. In terms of currency profile, foreign currency funds expanded by 1.9 per cent to $10,270.4 million, driven largely by foreign currency fixed NAV funds which gained 2.4 per cent over the period. On the other hand, TT dollar funds slipped by 0.1 per cent to $42,659.3 million, largely due to a 3.2 per cent fall in TT dollar floating NAV funds, and despite a 1.0 per cent improvement in TT dollar fixed NAV funds.

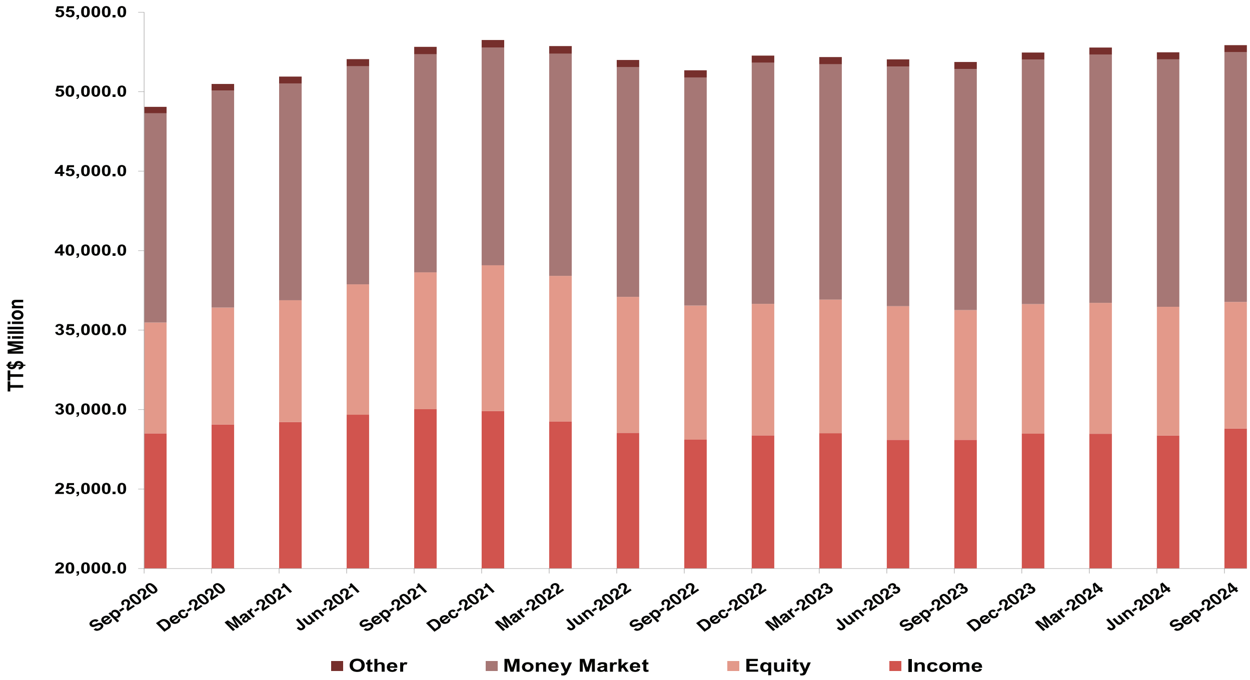
**During the six months ending September 2024, the industry was characterised by a movement towards safety.** Overall, mutual funds recorded a negligible $6.5 million in net sales, comprising $8,137.0 million in sales and $8,130.5 million in redemptions. During the same period in 2023, the industry observed net redemptions of $271.6 million. Over the recent period, fixed NAV funds recorded $353.3 million in net sales. This was driven by $192.2 million and $161.1 million in sales to fixed NAV Income and Money Market funds, respectively. In comparison, riskier floating NAV funds recorded $346.8 million in net redemptions. This was induced by $184.2 million and $166.0 million in withdrawals from floating NAV Income and Equity funds, respectively. Overall, TT dollar funds registered $70.2 million in net sales, while foreign currency funds recorded $63.7 million in net redemptions.

Collective Investment Scheme (CIS)[19] data published by the Trinidad and Tobago Securities and Exchange Commission (TTSEC) suggests that over April to September 2024, the total Assets Under Management (AUM) for all registered funds recorded a negligible 0.1 per cent decline to $63,107.3 million. Additionally, the industry recorded net withdrawals amounting to $195.3 million.

15 Aggregate funds under management refer to mutual fund information collected by the Central Bank of Trinidad and Tobago, including funds managed by the Trinidad and Tobago Unit Trust Corporation, Royal Bank of Trinidad and Tobago, Republic Bank Limited and First Citizens Bank Limited.
16 As at the end of September 2024, this value accounted for 83.9 per cent of total industry assets under management as given by the Trinidad and Tobago Securities and Exchange Commission (TTSEC) Collective Investment Scheme (CIS) data.
17 Other funds represent high yield funds and special purpose funds.
18 At the end of September 2024, CIS data from the TTSEC represents 81 registered funds from 16 issuers.

**CHART 3.9**

Trinidad and Tobago Mutual Funds Under Management by Fund Type




Source: Central Bank of Trinidad and Tobago

**BOX 1**
**Implications of the FY2024/25 Budget Measures for Monetary Policy**

**On September 30, 2024, the Minister of Finance delivered the FY2024/25 budget for Trinidad and Tobago.** Themed "Steadfast and Resolute: Forging Pathways to Prosperity", the budget was based on an estimated crude oil price of US$77.80 per barrel and a natural gas price of US$3.59 per million British Thermal Units (mmbtu)[1]. This Box discusses some of the economic policy priorities announced in the budget and their implications for monetary policy.

### Inflation

**Several policy measures announced in the budget can have either a direct or an indirect impact on inflation.** The magnitude of such impacts will depend on how individuals and companies respond to these measures. In FY2024/25, the resumption of property tax[2] at a rate of 2.0 per cent on residential properties is projected to have a minimal impact on headline inflation.[3] Similarly, increased electricity rates, currently under consideration by the Government, can impact the Housing, Water and Electricity sub-index [which accounts for 27.5 per cent of the Consumer Price Index (CPI)] and overall prices. Additionally, measures such as the increase in the minimum wage from $20.50 to $22.50 per hour for select public sector employees and the proposed 5.0 per cent increase in wages and salaries for public sector workers could potentially add some impetus to prices.[4] Meanwhile, the removal of all duties and taxes on sporting equipment could have a marginal disinflationary effect on prices given its relatively small weight in the CPI.

### Liquidity

**In FY2024/25, despite higher Government spending, sustained borrowing on the domestic financial market to finance the deficit could impact market liquidity.** Increased Central Government spending can potentially lead to higher net domestic fiscal injections (NDFIs). Compared to an injection of $7.4 billion recorded in FY2022/23, NDFIs (typically the main driver of liquidity) flipped to a net withdrawal position of roughly $2.0 billion in FY2023/24 - the first time in seven years. With higher Government spending envisaged for FY2024/25, and given the current pace of borrowing, liquidity may be stymied requiring the Central Bank to attune its liquidity management strategy to ensure liquidity remains ample.

**In a tight liquidity environonment, elevated Government borrowing can result in a steepening of the central government yield curve and an increase in interbank market interest rates.** Higher interest rates, alongside the decline in external interest rates, can result in a narrowing of the (negative) TT/US short-term interest rate differentials. In September 2024, the federal funds rate was reduced to a range of 4.75 -5.00 per cent, marking the first rate cut since the tightening cycle began in early 2022. US interest rates are projected to fall further in the coming months. All other things being equal, improvements in short-term TT/US differentials could serve as a disincentive for capital outflows and help abate pressures on the exchange rate. On the interbank market, the

**BOX 1**
**Implications of the FY2024/25 Budget Measures for Monetary Policy (cont'd)**

prevailing skewness in liquidity holdings across individual financial instiutions could elicit a rise in interbank rates if there is a generalised decline in system liquidity.

### Employment and Output

**Several measures announced in the budget can have positive spillovers for economic activity and the labour market.** Initiatives such as the construction of the new international hotel on the Government-owned Buccoo Estate, the development of a yachting marina in Lowlands Tobago and the sale or lease of the Point-a-Pierre Petrotrin Refinery are likely to directly boost construction activity and have an indirect impact on ancillary services. These planned projects may also create temporary employment in their initial phases and, thefereafter, generate more sustainable employment.

**Other measures, such as the increase in the minimum wage earned by select public sector workers[5], will raise incomes for a small portion of the labour force.** Approximately 20,000 public sector workers are expected to benefit from this new increase[6]. According to the latest labour market statistics from the CSO, these beneficiaries account for approximately 3.6 per cent of the country's total employed population and approximately 10.5 per cent of the country's minimum wage earning cohort.

**The increase in the minimum wage for public sector workers can place upward pressure on wages in the private sector.** The disparity in earnings between public and private sector minimum wage earners (now $2.00 an hour) could influence wage negotiations in the private sector moving forward. This may ignite demands on private sector entities to match the Government's increase, potentially adding to operating costs, particulalrly for micro and small enterprises following so soon after the January 2024 increase in the minimum wage.

### Conclusion

**In the short-term, the Central Bank will have to be adaptive in its conduct of monetary policy.** The Central Bank's monetary policy stance in FY2024/25 may need to be adjusted to appropariately weight risk factors related to receding global inflationary pressures, a low domestic inflation rate, ongoing economic improvement in a few non-energy sectors, robust private sector credit and the prospects for improvements in short-term TT/US interest rate differentials. Though some measures announced in the budget can spur inflation, the first round impulses are not likely to be very strong given the small weights of the affected items in the CPI.

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1 See FY2024/25 Budget for further details at https://www.finance.gov.tt/wp-content/uploads/2024/09/Budget-Statement-2025.pdf
2 In January 2024, the Property Tax was implemented at a rate of 3.0 per cent on residential properties.
3 See Box 1 titled "The Potential Impact of the Residential Property Tax on Inflation in Trinidad and Tobago" in the Central Bank of Trinidad and Tobago January 2024 Economic Bulletin at https://www.central-bank.org.tt/sites/default/files/reports/economic-bulletin-january2024-20240416.pdf
4 Following the increase in the national minimum wage from $17.50 to $20.50 in January 2024, there was an uptick in inflation in February and March 2024. Additionally, a few business establishments began increasing their prices, for example some fast food restaurants, in response to the minimum wage increase.
5 Effective November 1, 2024 the minimum wage for public sector workers will be increased by 9.8 per cent (increase from $20.50 to $22.50 per hour).
6 Minister of Social Development and Family Services, Donna Cox, in her contributions to the 2024-2025 Financial Appropriation Bill, revealed a total of 5,100 persons from the National Maintenance, Training and Security Company (MTS); 10,000 persons from the Community-Based Environmental Protection and Enhancement Programme (CEPEP); and 6,200 persons from the Unemployment Relief Programme (URP), among others. (Parliment of the Republic of Trinidad and Tobago, 2024).

## 4. MONETARY POLICY ASSESSMENT (MAY – NOVEMBER 2024)

*In September 2024, the MPC considered a number of domestic (contained inflation and bouyant credit) and external factors (geopolitically-generated economic uncertainty) which informed the monetary policy stance. Additionally, heightened Government borrowing along with robust credit growth compressed liquidity in mid-2024. By July 2024, the MPC lowered the reserve requirement for the first time since the onset of the pandemic in order to keep liquidty at ample levels in the banking system.*

**While the main monetary policy tool of the Central Bank, the Repo rate, remained unchanged thus far in 2024, the Central Bank reduced the reserve requirement by 300 basis points which became effective on July 24, 2024 (Chart 4.1).**

**The pickup in Government borrowing coupled with the uptick in overall credit, led to a tightening of banking sytem liquidity.** The Government's fiscal accounts realised an overall deficit of $7.1 billion in FY2023/24. To finance the deficit, funding from the domestic and international capital markets were utilised along with withdrawals from the HSF leading to an increase in adjusted General Government debt. As Government borrowing edged up, excess liquidity levels slipped in mid-2024, reaching a daily average of $3,462.4 billion in July 2024 from $4,261.3 billion in May 2024.

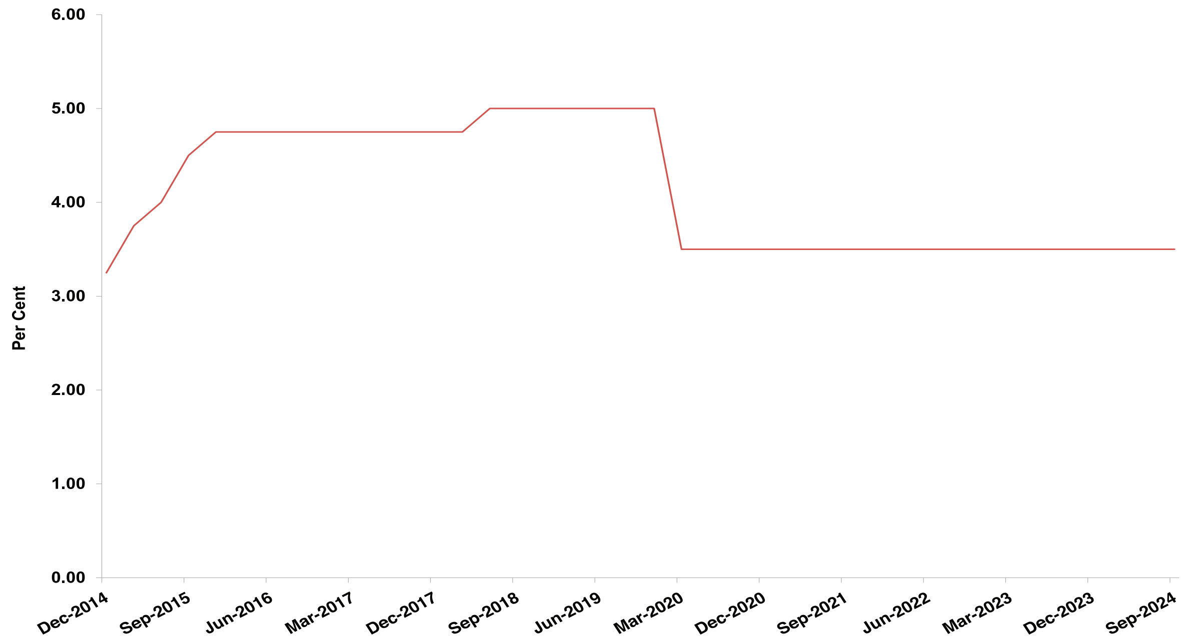
**The drawdown on the stock of OMO instruments used to manage the broad money channel motivated a reduction in the reserve requirement to keep liquidity at ample levels.** The reserve requirement targets the creation of narrow money through the money multiplier effect. The reduction in the reserve requirement resulted in an immediate injection of $4,021.8 million into the banking system. As a result, required reserves declined from $13,707.9 million in May 2024 to $9,762.7 million in October 2024.

**Over May to October 2024, the Central Bank's OMO activity, which tends to affect broader measures of the money supply, remained neutral.** This neutrality was related to the effects of fiscal withdrawals observed over FY2023/24 on the availability of maturing Treasury instruments. Net fiscal withdrawals over the period were related to a combination of increased borrowing by the Central Government and a reduction in the pace at which revenue was turned into expenditure. Notably, at the end of October 2024, the combined total of outstanding short-term Treasury bills and notes available to the Central Bank to leverage for liquidity management amounted to $2,730.0 million. Prior to the pandemic in January 2020, this figure stood at $12,646.0 million. This meant that the Central Bank allowed net maturitites of OMOs, facilitating injections of liquidity since the pandemic.

**Changes in the money supply originating from movements in the reserve requirement and OMOs manifest as changes to excess liquidity.** Following the reduction in the reserve requirement at the end of July 2024, daily average excess liquidity increased to $6,273.3 million in October from $3,462.4 million in July. Since the pandemic, the Central Bank has prioritised amplifying liquidity via the management of both narrow and broad money channels to support the economy. Current levels of excess liquidity reflect the need to balance the objectives of economic recovery and the potential impacts of external shocks (Chart 4.2).

**CHART 4.1**

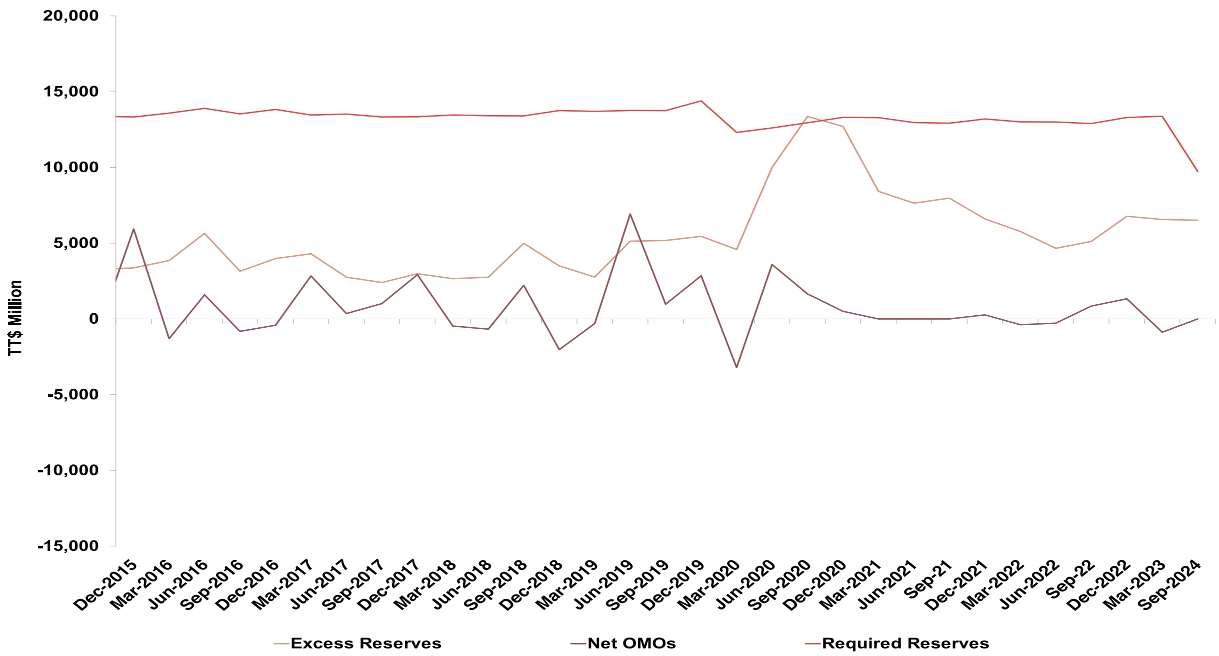
Repo Rate




Source: Central Bank of Trinidad and Tobago

**CHART 4.2**

Liquidity Management



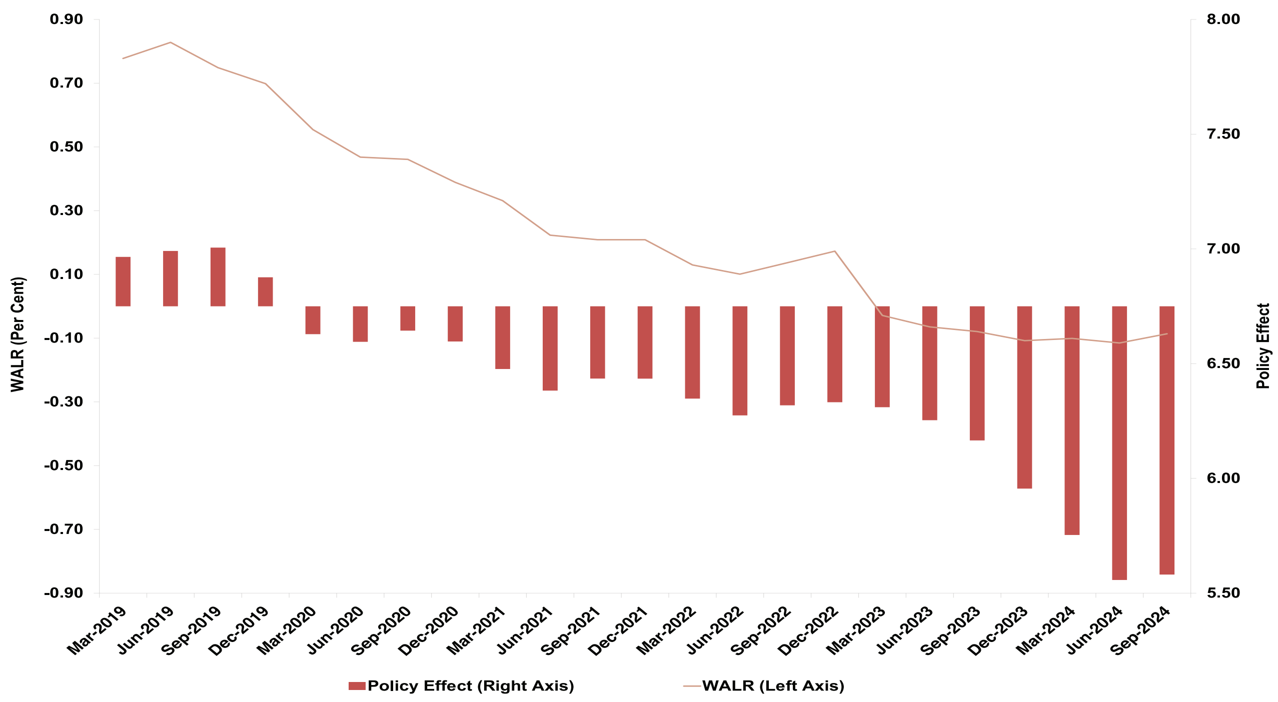

Source: Central Bank of Trinidad and Tobago

*Bank lending rates continued trending downward amidst still ample liquidity*

**Declining liquidity levels in mid-2024 had the effect of increasing the WALR.** The WALR fell to 6.63 per cent by September 2024 from 7.52 per cent in March 2020. Liquidity conditions thus dominated the effect of increased competition to supply credit on lending rates. Contingent upon the interest rate and money supply channels of transmission, the size and direction of the combined effect of the Central Bank's monetary policy tools on commercial banking rates can be explained. Chart 4.3 shows the historical evolution of the forecast error variance decomposition (FEVD) derived from a model[20] estimating the effect of the Repo rate and excess liquidity on the WALR, against the WALR itself. When the values of the FEVD are positive, policy exerts pressure on the WALR to increase and vice versa. After March 2020, the combined effect of the instruments of monetary policy on the WALR begins declining; thus exerting pressure on the WALR to decline. While the WALR increases over the latter half of 2022, the persistent accommodative effect of policy quickly restores the WALR to a declining path. This indicates that monetary policy has credibly anchored commercial banking rates after the pandemic, and can effectively control short term deviations.

**CHART 4.3**

Forecast Error Variance Decomposition




Source: Central Bank of Trinidad and Tobago

19 A vector autoregression using quarterly data from 2006 to 2024, exogenously accounting for the effects of changes to the reserve requirement.

# FEATURE ARTICLE

# BANKING STABILITY AND ECONOMIC OUTPUT: IS THERE A RELATIONSHIP?

Timothy Woolford and Nikkita Persad[21]


## *Summary*

*Banking crises can negatively weigh on economic activity. The Global Financial Crisis accelerated interest in the relationship between banking crises and economic activity. Using vector auto-regression analysis, this study aims to explore the inter-relationship between the Banking Stability Index (a gauge of financial soundness for commercial banks and non-banks) and real economic variables, namely real GDP, employment and inflation for Trinidad and Tobago. The results suggest that banking stability can elicit favourable outcomes in the real sector.*


## *Introduction*

**The 2008 Global Financial Crisis (GFC) exposed weaknesses in the financial system.** The GFC also highlighted that periods of economic boom can generate and even deepen financial vulnerabilities. This can cause adverse feedback effects on real economic conditions. Moreover, the 2023 bank failures in the United States (US)[22] and Europe (Credit Suisse) have reignited interest on the impact of banking tumult on economic activity. A review of the literature generally indicates a positive relationship between banking sector stability and output, or that banking crises led to an economic slowdown.

**As part of the Central Bank of Trinidad and Tobago's role in safeguarding financial system stability, several early warning indicators (EWIs) were developed.** EWIs are used for surveillance purposes to monitor risk in the financial system. In particular, a Banking Stability Index (BSI) was developed to assess the resilience of the banking sector. At the end of December 2023, the BSI recorded moderate risk to the financial sector. In light of the aforementioned, this article seeks to gauge whether banking instability can have substantial negative implications for economic growth. We employ a vector auto-regression (VAR) model, to explore the inter-relationship between the BSI and real economic variables, namely real GDP, employment and inflation.

20 The authors are economists in the Research Department of the Central Bank of Trinidad and Tobago. The views expressed are those of the authors and not necessarily that of the Central Bank of Trinidad and Tobago.
21 Failure of Silicon Valley Bank, Silvergate Bank, and First Republic Bank in 2023.

### *Literature Review*

**Monnin and Jokipii (2010) examined causal relationships between banking sector instability and decreased output growth, across eighteen Organisation for Economic Co-operation and Development (OECD) countries.** A distance to default index (DTD) was created as a measure of banking stability. The authors postulated that the DTD measures the number of standard deviations the banking sector is from default.[23] Utilising a panel VAR model results revealed a positive relationship between banking sector stability and output growth.

**Kupiec and Ramirez (2009) examined the impact of banking failures on economic growth in the US from 1900 to 1930.** The aforementioned period was employed since it reflected the occurrence of three banking crises[24]. The study employed a VAR model to examine the link between instability in the banking system and growth. Banking instability was proxied by the share of liabilities in failed banks. The authors found that banking instability had negative and durable effects on economic growth, which lasted for roughly 3 quarters. Further, difference-in-difference estimations suggested that instability in the banking system triggered an increase in non-bank failures, which provided strong evidence of the network or spillover effect in banking systems.

**Osmani (2020) estimated the impact of banks on economic output for the Republic of North Macedonia.** GDP was used as the dependent variable whilst the independent variables were: the Capital Adequacy Ratio (CAR); the Rate of Return on Average Assets; the Rate of Return on Average Equity; private loans, and impairment of loans. Utilising multiple regression analyses, the author found that a positive link existed between GDP, CAR, the equity-earning indicator, and private loans. On the contrary, there was a negative relationship with GDP, impairment of loans, and the asset-earning indicator.

**In the Caribbean, research was done to capture whether financial development results in growth.** Iyare, Lorde and Francis (2005) which postulated that government intervention in the financial sector drives financial development and ultimately growth prospects[25]. VAR and Vector Error Correction models revealed mixed results for the countries under study. In particular, a long-run, bi-directional relationship between financial development and growth was identified for Trinidad and Tobago. Except for Barbados, all other countries had short-run relationships.

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22 The data for this computation are: i) asset market value, ii) the volatility rate of the asset market value and iii) debt. Lower DTD values denote a greater probability of failing to meet debt obligations.

23 Additionally, over the period, there was a notable absence of government intervention to mitigate banking distress.

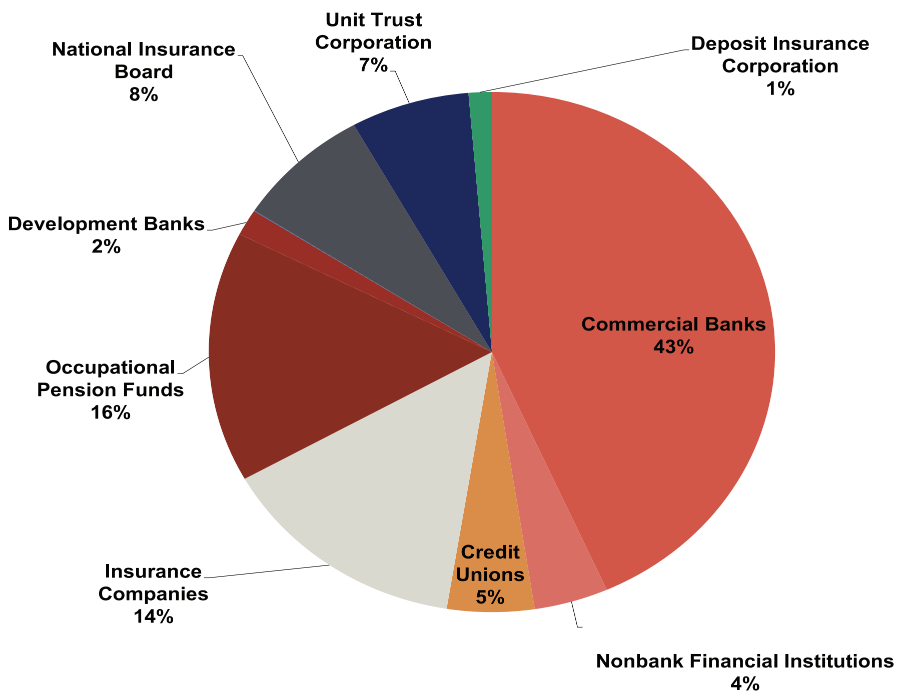
24 The study covered Barbados, Grenada, Jamaica, St Lucia, St Vincent and the Grenadines, and Trinidad and Tobago. The variables used were: proxies for financial development (ratio of broad money to GDP and credit to GDP); GDP; size of the financial sector; interest rate; inflation; and ratio of investment on GDP.

### *Stylised Facts*

**The banking sector in Trinidad and Tobago currently comprises eight commercial banks and sixteen non-bank financial institutions (non-banks).** Collectively, commercial banks and non-banks (banking sector) account for approximately half of the total financial system assets, premised by a dominant commercial banking sector (Figure 1). The banking sector has been resilient as key financial soundness indicators (FSIs) highlight adequate capital and profitability (Table 1). Credit risk continues to be low, and though declining, liquidity levels remain satisfactory.

**FIGURE 1**

Total Financial System Assets, Dec 2023




Source: Central Bank of Trinidad and Tobago

**TABLE 1**

Selected FSIs, Dec 2021 - Dec 2023

| | Dec 2020 | Dec 2021 | Dec 2022 | Dec 2023 |
|---|---|---|---|---|
| CAPITAL ADEQUACY | | | | |
| Capital Adequacy Ratio | 18.8 | 19.3 | 18.7 | 18 |
| ASSET QUALITY | | | | |
| Non-performing Loans to Total Loans | 3.4 | 3.3 | 3.1 | 2.8 |
| LIQUIDITY | | | | |
| Liquid Assets to Total Assets | 23.2 | 20 | 19.8 | 16.3 |
| Liquid Assets to Short-Term Liabilities | 28.9 | 25.2 | 25.1 | 21.0 |
| EARNINGS | | | | |
| Return on Assets | 1.8 | 2.2 | 2.6 | 2.8 |
| Return on Equity | 8.9 | 10.9 | 12.4 | 13.8 |

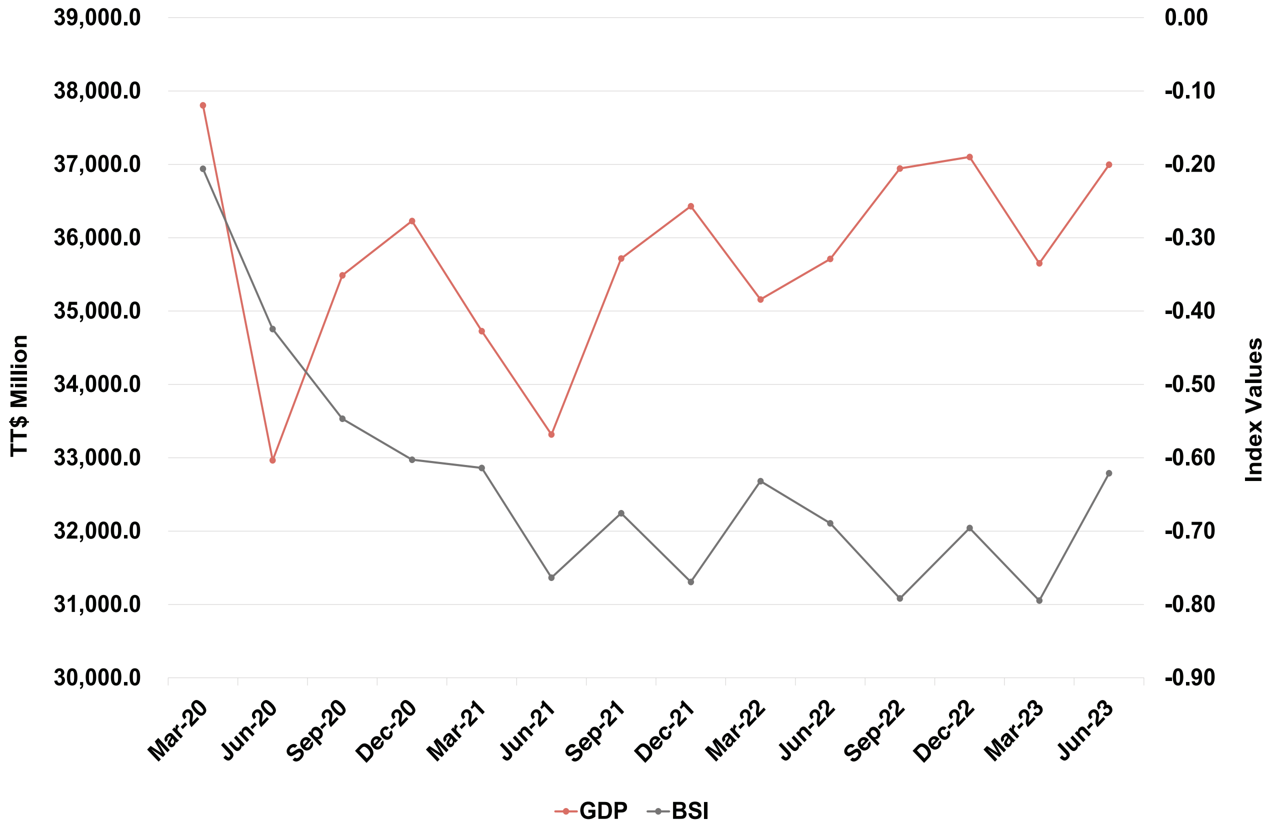
Source: Central Bank of Trinidad and Tobago

**Domestically, the banking collapse and consolidation that occurred in the late 1980's and early 1990's was on account of poor quality loans and mismanagement that was disguised by the economic boom from higher oil prices (Ng Wai 2009).** The resultant economic 'bust', led to the collapse of Trinidad Cooperative Bank in 1986, Workers' Bank in 1989, and the National Commercial Bank in 1992. Interventions by the Central Bank of Trinidad and Tobago aimed to manage distress via the extraction of poor quality assets into a Special Purpose Vehicle called Taurus Services Limited (Khan 2001). The remaining operations were merged into a new banking entity, First Citizens Bank Limited. In 2009, the CL Financial collapse resulted in several macro-financial challenges, which prompted changes in financial regulation and oversight. Since then there was a strengthening of capital buffers, liquidity, and asset quality.

**Domestically, the Central Bank of Trinidad and Tobago developed a BSI in 2017.** This index gauges the financial soundness of both commercial banks and non-banks. The index adheres to the methodology outlined in the Handbook on Constructing Composite Indicators (Nardo, et al. 2008). The index was constructed with variables commonly identified in international practice. Indicators of capital adequacy, asset quality, management soundness, earnings, liquidity, and sensitivity to market risk (specifically foreign exchange risk) were used. Figure 2 highlights that during the period immediately following the COVID-19 pandemic there was a marked slowdown in GDP and the BSI.

**FIGURE 2**

BSI and GDP




Source: Central Statistical Office and Central Bank of Trinidad and Tobago
Notes: Interpretion of the BSI

| Low (+ and -) | Moderate (+ and -) | Elevated (+ and -) | High (+ and -) | Very High (+ and -) |
|---|---|---|---|---|
| 0 – 0.3 | 0.3 -0.5 | 0.5 – 0.8 | 0.8 – 1.0 | > 1.0 |

The level of risk is colour-coded in the illustrated diagram with its corresponding rating.

### *Data and Methodology*

**Preliminary investigations reveal a strong positive correlation between the BSI and output (0.84).** The BSI also holds a strong positive correlation with employment (0.81) and a moderate inverse correlation with prices (-0.71). Granger causality tests, however, suggest that real sector variables have more causality among themselves, while banking stability appears driven by employment conditions. Vector auto-regressive (VAR) estimation, allows for information on the observed inter-relationships across individual time series to be captured in a systemic manner. Through the derivation of impulse response functions, we can trace the effects of initial shocks on an independent variable to future values of dependent variables. To examine potential relationships between banking stability and the real sector, banking stability is proxied by the BSI. Pass-through to the real sector is modelled by impacts to output, the labour market and prices. Output is captured using real GDP data (OUTPUT), while labour market conditions are assessed via the number of persons employed (EMP). Prices are measured using the consumer price index (CPI). All data is examined on a quarterly frequency from 2012 to the third quarter of 2023, and is sourced from the Central Statistical Office. Further we utilise the accumulated generalised impulse response functions in order to avoid any sensitivities to variable ordering. The estimated VAR model is as follows:

$$\theta Y_t = \delta + \mu(L)\, Y_{t-1} + \varepsilon_t \quad (1)$$

where $Y_t$ is vector of endogenous variables (proxied for stability, OUTPUT, EMP CPI), which were previously discussed above and $\theta$ is vector of values associated with $Y_t$, all at time $t$. $\delta$ is a vector of constants, while $\mu(L)$ represents an n x n matrix of lag operator polynomials of $Y_t$. Our vector of error terms is denoted by $\varepsilon_t$.

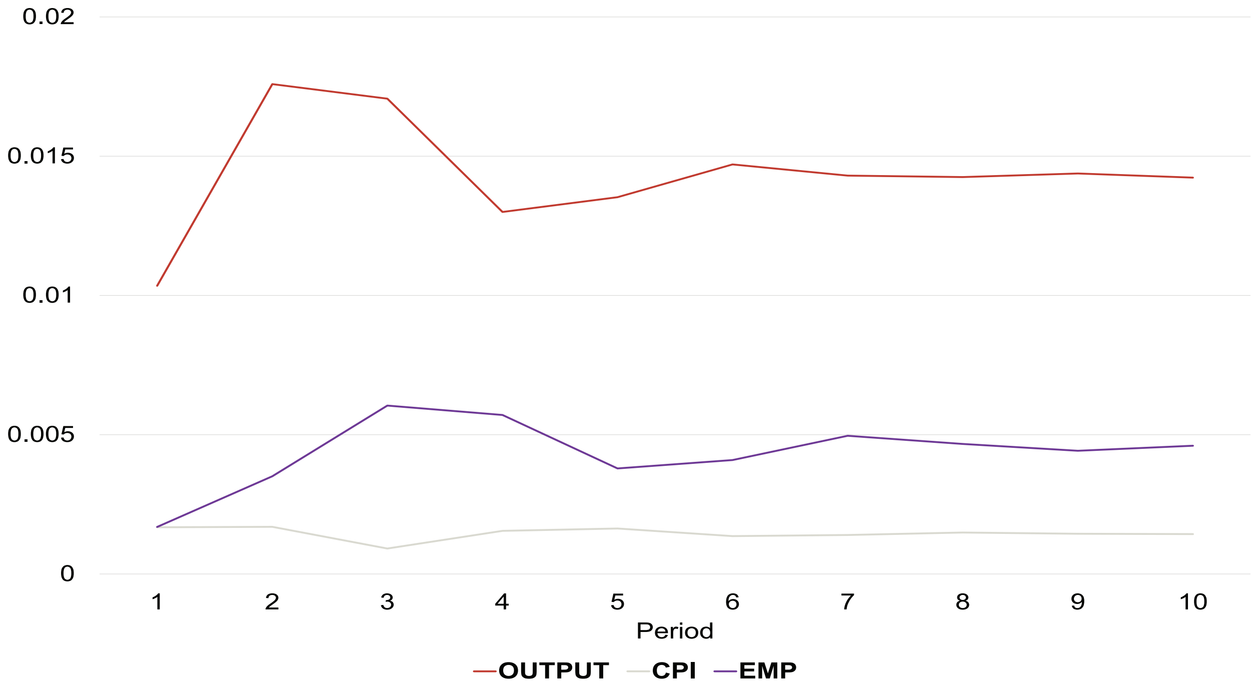
**We proxied banking system stability by BSI and its six sub-components.** As a results, we estimate seven different models of Equation [1] as we were also interested in understanding how the various sub-components of BSI influence real sector acvitity and not just the overall index. As mentioned prior, these include capital adequacy (CAPAD), asset quality (ASSET), management soundness (MGMT), earnings (EARN), liquidity (LIQU), and sensitivity to market risk (SENSMR). All variables incorporated into the model are stationary, in order to avoid challenges of spurious regression.

### *Discussion and Results*

**Findings revealed that improved banking stability appears to stimulate sustained growth over a 10-quarter forecast period (Figure 3).** Positive responses were also observed for inflationary and employment conditions. Inherently, this suggests a positive relationship between banking soundness and real sector activity. Effective oversight aimed at ensuring the soundness of the banking sector can thus facilitate favourable outturns in the real economy.

**FIGURE 3**

Response to BSI Shocks




Source: Eviews12

**A further investigation was undertaken to determine the underlying contributors (sub-indices of BSI) that enhanced economic conditions (Figure 4).** Economic activity was mainly driven by the earnings and liquidity sub-indices. The management soundness sub-index also appears to generate favourable conditions, albeit in a subdued manner. Meanwhile, undesirable real sector outcomes are prompted by innovations to asset quality and sensitivity to market risk. Real sector variables appear largely non-responsive to capital adequacy conditions.

**The earnings sub-index reflects the profitability of the banking sector and is measured by returns on assets and return on equity.** Several bodies of literature have noted that sound financial performance aids in the generation of favourable real economic conditions (Hassan et al. 2011; Ferreira 2013; Greenwood et al. 2013). Ferreira (2013) asserts that financial institutions are generally able to accomplish this through the identification of profitable investment opportunities, mobilising savings, facilitating trade and the diversification of risk. Liquidity indicators, meanwhile assess the resilience of banks to short-term cash flow shocks. Results align with Umar et al. (2021) which note that liquidity creation can boost GDP via the higher consumption, investment and government expenditure. While improved liquidity conditions appear to induce growth, results reflect that inflationary and employment conditions were largely unaffected. This therefore suggests that heightened levels of consumption do not necessarily translate, in this instance, to higher prices and employment generation.

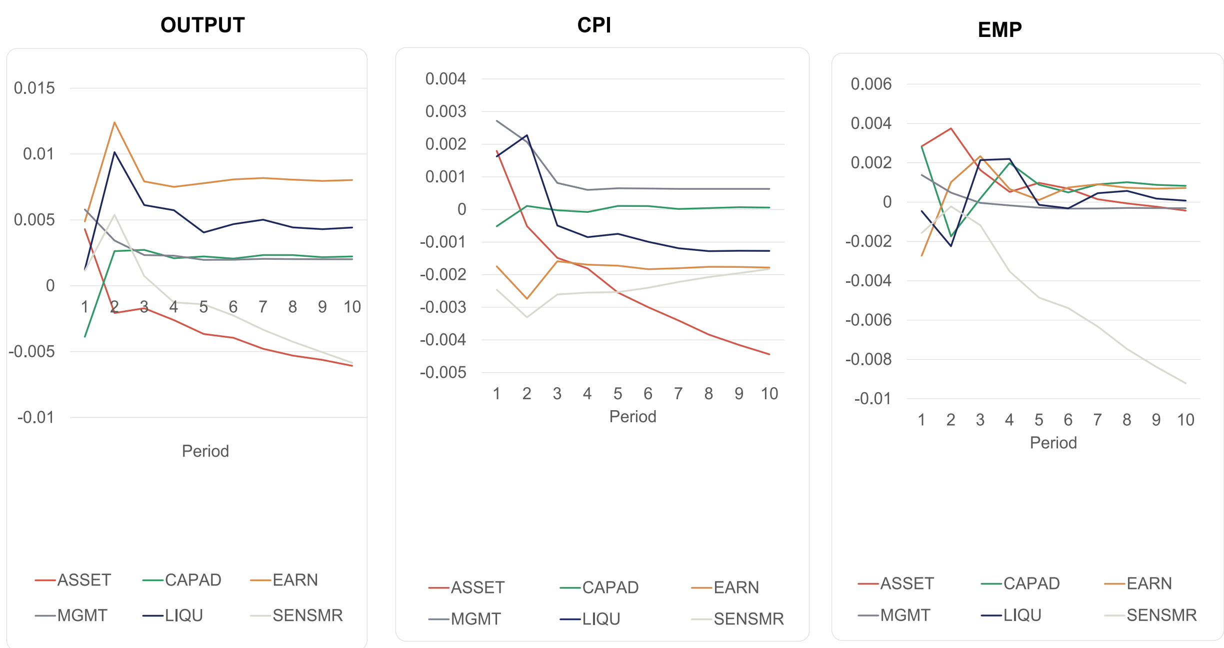
**Management soundness indicators refer to good management practices, proxied by loan portfolio growth.** Results indicate a positive, yet subdued relationship with growth. Inflation and employment conditions elicit a positive short-term response, which is quickly eroded. Notably, Ramlogan et al. (2009) highlighted that overall credit and growth tend to demonstrate a demand-following relationship, meaning that elevated levels of credit were achieved because of increased economic activity. This result was however, generated using annual data from 1970 to 2008, while the analysis of this policy note uses quarterly data from 2012 to 2023. Further investigation into this relationship is therefore warranted.

**Asset quality indicators reflect heightened credit risk, measured by non-performing loans.** Greater loan impairment adversely affected growth and inflation. Interestingly employment conditions improve in the short run but are eroded by the fourth period. This response of employment levels may reflect actions undertaken by the State through its social safety net interventions.

**Similar responses as asset quality were noted for the sensitivity to market risk whilst, capital adequacy had no impact on economic conditions.** Indicators for this sub-index capture the extent to which changes in market prices adversely affect the earnings or capital of financial institutions. Increased sensitivity triggers a long-run decline in growth, despite a temporary improvement in the second period. Persistent negative responses are noted for inflation and employment over the entirety of the forecast period. Typically, if economic agents view high sensitivity to market risk, they may become more risk averse which can potentially slow economic activity. Finally, the impact on capital may not have had an observed effect on economic activity.

**FIGURE 4**

Response to Real Sector Variables to BSI Sub-Indices




Source: Eviews12

### *Conclusion*

**Given the role served by banks and non-banks, this article aimed to explore the relationship between banking stability and real economic outcomes**. Impulse response functions revealed that banking stability, as measured by the BSI, was associated with favourable conditions, depicted by higher growth and employment levels. Further, higher price levels were also observed, which may not necessarily be deemed 'favourable', depending on the prevailing inflation dynamics.

**Further investigation suggested that this relationship is driven by banking sector profitability and liquidity.** Sound management, evidenced by loan portfolio growth, also revealed positive implications for growth, although the impact to employment and inflation could be deemed insignificant. Whilst previous studies have questioned the validity of this relationship, recent structural changes in the economy warrant further investigation of this relationship. Meanwhile, growth conditions deteriorated on account of poor asset quality and heightened sensitivity to market risk. Shocks to the latter also yielded persistently negative responses from employment and price conditions. Notably, there was no observed impact to economic activity on account of capital adequacy.

**Overall, the findings appear to highlight that a stable banking sector is a harbinger for favourable economic conditions.** The Central Bank of Trinidad and Tobago, through its role as regulator and supervisor of the local banking system, has been actively seeking to promote banking stability by issuing numerous corporate governance and risk-based guidelines, including the transposing of the Basel supervisory frameworks into domestic banking laws. The findings underscore that both micro and macro prudential oversight are necessary to support and sustain positive real economic growth.

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