



CENTRAL BANK OF
TRINIDAD & TOBAGO

Legacies of the Global Recession

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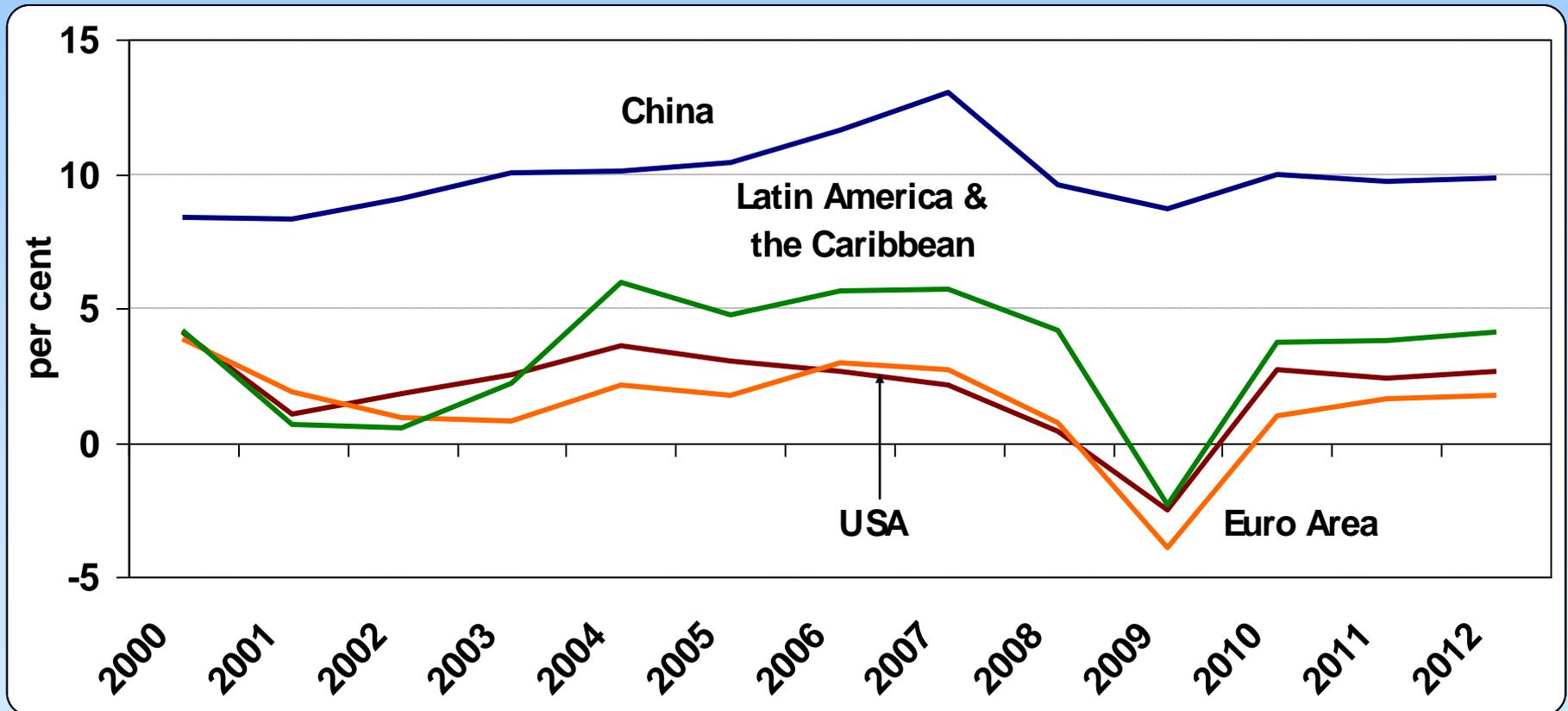
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Background:

Following the international financial crisis and a deep recession, signs are emerging that the worst may have passed...

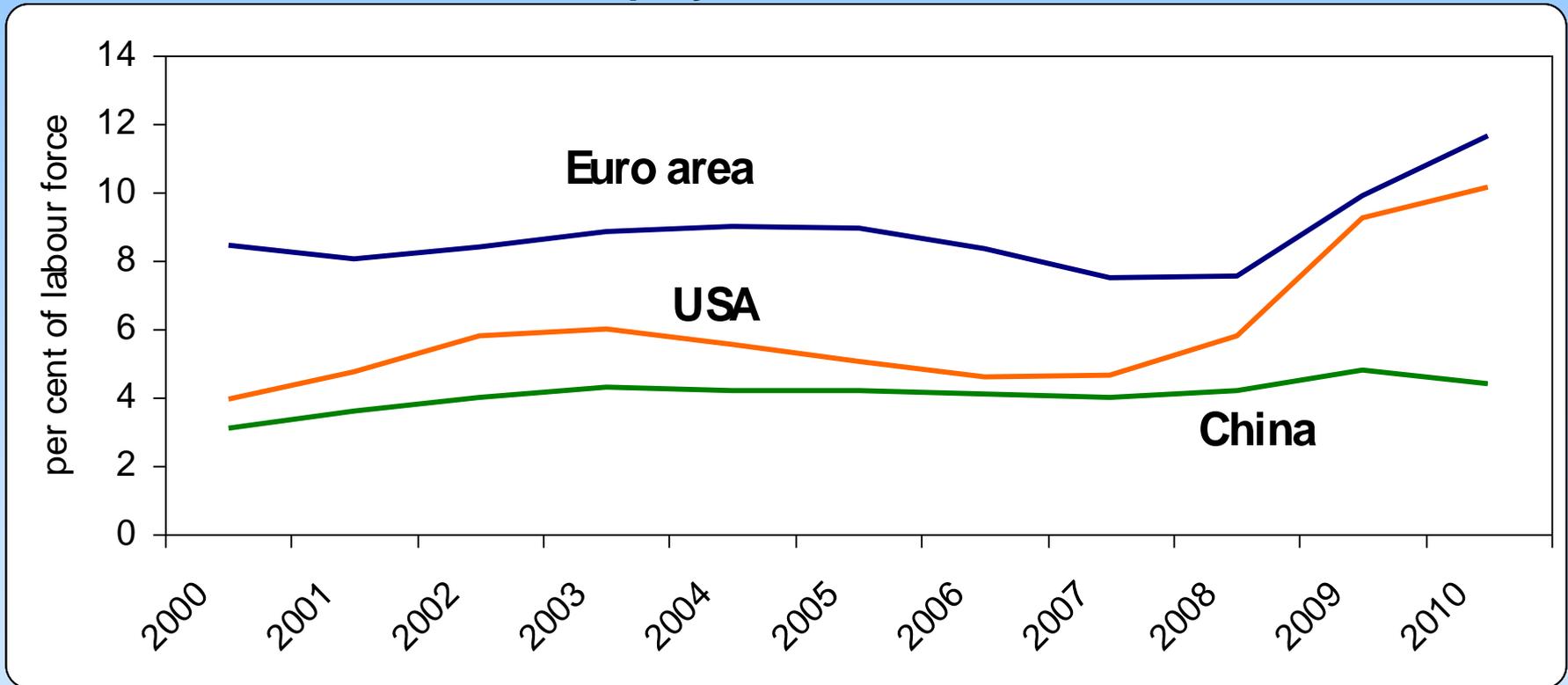
Annual Real GDP Growth



...but are we there yet?

- Unemployment remains high with 6.3 million jobless for over 6 months in the US.

Unemployment Rates



Source: IMF

- High unemployment slows the recovery, increases risk of loan defaults, burdens social services.

..while the real estate market is not yet settled

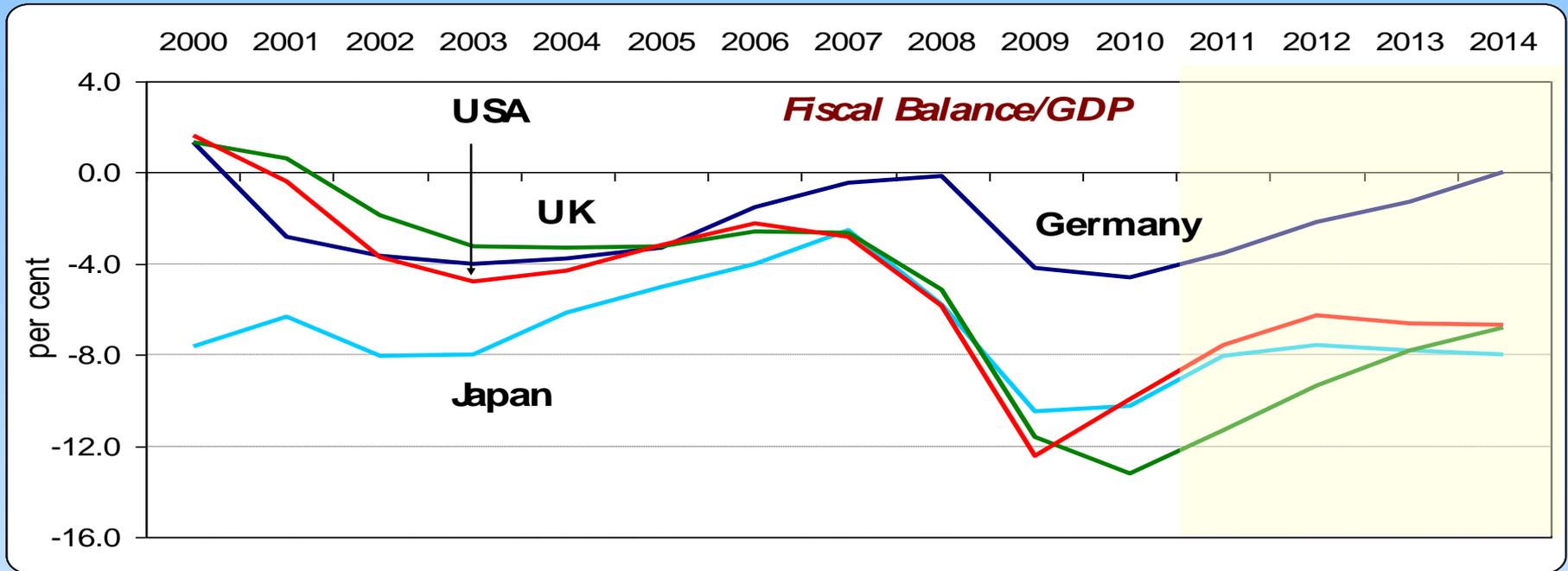
- with lower house prices, sales are picking up and delinquency rates in US declined in December.
- but declining loan-to-value ratios affects lenders, and foreclosures continue to increase.
- *“More pain likely lies ahead for the [commercial property] industry and for those banks with heavy commercial real estate exposures.”*
NY Fed President William Dudley
- Canada and Sweden are among those countries introducing stricter mortgage rules.

Some important legacies of the crises...

- 1. Public debt takes center stage.**
- 2. Monetary policies strike a delicate balance.**
- 3. A more muscular China emerges.**
- 4. The IMF ramps up its role in the Caribbean.**
- 5. Trinidad and Tobago dips into 'rainy day' savings.**

1. Public debt issues take center stage

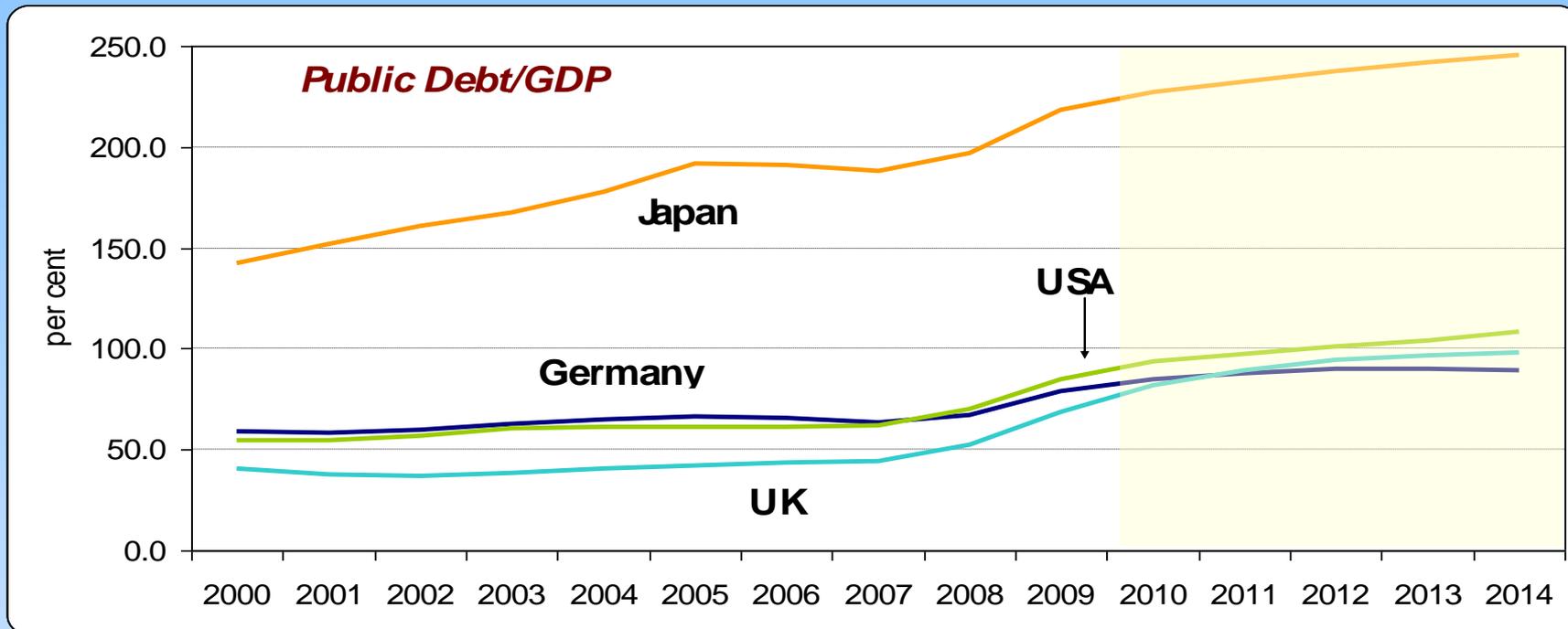
- Large fiscal stimuli assisted the recovery...



/ per cent /	2000	2003	2006	2009 ^e	2012 ^f	2014 ^f
Germany	1.3	-4.0	-1.5	-4.2	-2.2	0.0
Japan	-7.6	-8.0	-4.0	-10.5	-7.6	-8.0
UK	1.3	-3.3	-2.6	-11.6	-9.4	-6.8
USA	1.6	-4.8	-2.2	-12.5	-6.2	-6.7

Source: IMF, World Economic Outlook.

...while adding to public debt burdens...



/ per cent /	2000	2003	2006	2009 ^e	2012 ^f	2014 ^f
Germany	58.7	62.8	65.9	78.7	89.7	89.3
Japan	142.1	167.2	191.3	218.6	237.2	245.6
UK	40.9	38.5	43.2	68.7	94.1	98.3
USA	54.7	60.2	60.9	84.8	100.9	108.2

Source: IMF, World Economic Outlook.

... EU sovereign debt create problems for banks

- **Aided by opaque deals, Greece borrowed beyond its means.**
- **€39 billion of Greek sovereign debt held by Greek banks; 30% of Greek government bonds held by other European banks.**
- **Barclays Capital estimates total exposure of 10 largest US banks to PIGS (Portugal, Italy, Greece, Spain) at around US\$176 billion.**
- **Sovereign debt problems affect banks' provisioning, capital, profits as well as their access and terms of financing.**
- **Debt problems in EU affecting value of euro.**
- **In US bipartisan commission established to examine debt.**

2. Monetary policies strike a delicate balance

- **In 'normal' times, monetary policy often acts as a counterweight to expansive fiscal policy.**
- **The crises ushered in a period of monetary easing alongside fiscal stimulus to spur economies.**
- **With negative inflation and rock-bottom interest rates, Central Bank turned to nontraditional tools.**
- **...these included quantitative easing and some countries employed capital controls.**

Supervision and regulation have been beefed up...

- **Failure of large banks and insurance companies prompted countries to tighten up on financial oversight.**
- **Global coordination also improved—to deal with multinational financial companies and contagion effects.**
- **A major development was the strengthening of the Financial Stability Forum and moves to set international standards to prevent regulatory arbitrage.**
- **...but there remains disquiet about whether financial institutions have changed their behavior—huge executive compensation packages have not helped.**

...Central Banks are now cautiously trying to exit from easing

Country	Latest Policy Actions
	↑
	No Change
	No Change
	No Change
	↑
	↑
	↓

3. A more muscular China emerges

- **Already a large economy, the global crises pushed up China's relative status as other economies contracted...**
- **China is also leaping forward in other areas—e.g. alternative energy and transportation—that would give it a competitive advantage.**
- **China's sovereign wealth fund (Chinese Investment Corporation) can move markets...**
 - **China's December sale of US\$34 billion in US treasuries, reducing its holdings to less than Japan's, raised eyebrows.**
 - **the currency composition of its reserves affects the value of major currencies.**

Why China matters...economic size

Population: China (World) **1.34 billion** (6.79 billion)
(20% of world population)

GDP (current prices)
(third largest economy)

1. USA – US\$14,266 bn
2. Japan – US\$5,049 bn
3. **China – US\$4,758 bn**
4. Germany – US\$3,236 bn
5. France – US\$2,635 bn

Quarterly GDP Growth

	Q1	Q2	Q3	Q4
<i>(consistently high and positive in 2008 and 2009)</i>				
2008	10.6	10.1	9.0	6.8
2009	6.2	7.9	9.1	10.7

Exports – 2009 *(overtook Germany as largest exporter)* **US\$1,202.0 bn**

...China is expressing a new self-confidence

- **There is a fresh edge to traditional disputes with the US—on Taiwan, Tibet etc.**
- **Despite much international prodding, there has been little movement on the Chinese currency.**
- **For the Caribbean, China matters more due to:**
 - **its investments, mainly FDI;**
 - **product competition; and**
 - **effect of its demand on world prices of energy, food and other commodities—natural gas, methanol, grain etc.**

4. The IMF ramps up its role in Caribbean

- **In early 2008, the IMF was soul searching—**
 - Its income stream was weak as most countries repaid loans;
 - New loan activity was minimal;
 - It launched a major resizing program, involving staff cuts, charging for services, streamlining activities.
- **By late 2008, things had changed dramatically—**
 - Resurgence of lending throughout the world;
 - Provider of expanded global liquidity—US\$250 billion SDRs;
 - Larger role in surveillance, including of financial systems.
- **Overall, the IMF is demonstrating greater flexibility—
to the extent that it plans on managing a **Green Fund!****
- **IMF involvement in the Caribbean has also expanded...**

...but the IMF prognosis is for a very shallow recovery in the Caribbean ...

	2007	2008	2009 ^e	2010 ^f	2011 ^f	2012 ^f
Barbados	3.4	0.2	-3.0	0.0	3.0	2.5
Grenada	4.9	2.2	-4.0	0.0	1.1	2.0
Guyana	5.4	3.0	2.0	4.0	5.0	4.9
Jamaica	1.5	-1.0	-3.6	-0.2	1.7	1.8
St. Lucia	1.7	0.7	-2.5	-0.4	1.8	3.7

Source: IMF World Economic Outlook.

IMF recent financial assistance in the Caribbean

Country	Date of Arrangement	Amount (US\$ m)	Purpose
Belize	February 20,2009	\$6.9	• Natural Disaster Assistance.
Dominica	February 06,2009	\$8.4	• Natural Disaster Assistance.
Dominican Republic	November 09, 2009	\$1,700	• Stand-By Arrangement.
Grenada	June 04,2009	\$6.8	• ECF ¹ increased to combat the financial crisis.
Haiti	January 14, 2010	\$100	• Emergency Financing.
Jamaica	January 14,2010	\$1,270	• 27-month loan Stand-By Arrangement to combat the global financial crisis.
St. Kitts & Nevis	May 19,2009	\$3.4	• Natural Disaster Assistance.
St. Lucia	July 27, 2009	\$10.7	• ESF ² support to mitigate the effects of the global economic slowdown.
St. Vincent & the Grenadines	May 31,2009	\$5.7	• To mitigate the effects of the global economic slow down

Source: *International Monetary Fund*.

¹ The Exogenous Shock Facility (ESF) provides policy support and financial assistance to low-income countries facing exogenous shocks.

² The Extended Credit Facility (ECF) is a 3-year arrangement for lower income countries. It succeeded the Poverty Reduction & Growth Facility (PRGF).

The Jamaica program was a key breakthrough...

Main features of the arrangement

Objective

Approach

Put public finances on a sustainable footing

- Tax package to generate 2% of GDP in revenue
- Extend public sector wage freeze for 2 years
- Divest loss making public enterprises

Remove debt overhang and reduce interest costs

- Debt exchange to generate savings of 3% of GDP and 65% reduction in maturing debt over next 3 years

Reduce systemic financial sector risks

- Establish Financial Stability Support Fund
- Legislative and regulatory reform (Omnibus Banking Law, Amendment to Bank of Jamaica Act, reform of deposit-taking institutions and securities dealer sector)

Protect vulnerable groups

- Increase in targeted social spending—health, education, social safety net

Increase external financing

- IMF Stand by arrangement of US\$1.27 billion
- Program expected to generate additional US\$1.1 billion from other multilateral financial institutions

5. Trinidad & Tobago dips into 'rainy day' savings

- **The global crises hit Trinidad and Tobago, but with a lag, partly due to:**
 - lack of sub-prime exposure; and
 - little direct reliance on short term international financing.
- **The impact mainly came through depressed foreign demand affecting:**
 - international commodity prices (gas, oil, petrochemicals etc.);
 - export volumes, particularly to Caricom countries; while there was
 - some slowdown in investment projects and remittances.
- **The result was that:**
 - the public finances weakened;
 - the economy contracted, the first time in over a decade;
 - unemployment rose while inflation plummeted; and
 - international reserves declined by around US\$700 million in 2009.
- **High reserves, relatively low public debt, and earlier fiscal surpluses created the fiscal space and buffers to temper the impact on the economy.**

Trinidad and Tobago–Selected Economic Indicators

	Actual			Estimate	Forecast
	2006	2007	2008	2009	2010
Real Sector Activity	(annual percentage changes, unless otherwise stated)				
Real GDP	13.5	4.6	2.3	(3.0)	2.0
Consumer Prices (End-of-period)	9.1	7.6	14.5	1.3	5.0
Unemployment Rate (average)	6.2	5.6	4.6	5.5	6.0
Fiscal Operations ^{1,2}	(in percent of GDP, unless otherwise stated)				
Central Government Fiscal Balance	6.9	1.8	7.8	-5.3	-5.4
Public Sector Debt	31.7	29.4	25.1	31.1	35.7
Public Sector External Debt	7.1	6.7	5.8	7.8	8.4
Money and Finance	(annual percentage changes, unless otherwise stated)				
Credit to Private Sector	11.7	16.1	10.4	-3.7	10.0
Broad Money Supply	17.3	13.5	13.0	20.0	15.7
External Sector	(in percent of GDP, unless otherwise stated)				
Current Account Balance	37.4	24.6	34.1	25.4	25.4
Net Official Reserves (US\$ Mn)	6,514.7	6,558.7	9,364.3	8,651.7	9,000.0
(in months of imports)	9.9	9.4	11.5	12.3	12.8

Source: Ministry of Finance, Central Statistical Office and Central Bank of Trinidad and Tobago.

1. On a fiscal year basis (October - September).

2. Debt data excludes treasury notes and treasury bills used for open market operations.

... short-term outlook for Trinidad and Tobago?

- The Central Bank forecasts **growth of around 2 percent** in 2010, but this may not immediately reverse the recent rise in unemployment.
- An **uptick in inflation** is expected as international food prices are already rising.
- Given the sombre outlook for the rest of the Caribbean, Trinidad and Tobago's **manufactured exports** may not revive quickly.
- The **outlook relies on the global recovery** taking place, with no new major shocks.
- Monetary policy will continue to face the challenge of **balancing inflation control with stimulating economic activity**.
- A key priority that Trinidad and Tobago shares with the rest of the world is to assure that the **public debt does not get out of control**.

Conclusion—is the world ready for another crisis?

- **The greatest risk is complacency.**
- **More global coordination is here to stay, despite politics.**
- **The ongoing global power shift—including to accommodate China—is healthy.**
- **In the short run, a focus on jobs will trump other considerations including rising debt.**
- **Banks may not be adapting quickly enough—bailouts create ‘moral hazard’.**
- **Trinidad and Tobago still has high buffers but must use the time to build wider resilience.**

Thank You