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CENTRAL BANK OF
TRINIDAD & TOBAGO

Monetary Policy Report

November 2020

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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.

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Part I – Overview and Outlook

Overview

The global economy suffered an unprecedented fall in real output over the first half of 2020 mainly because of the COVID-19 pandemic. At the time of writing, the COVID-19 virus had already resulted in more than one million deaths. The highly contagious and deadly virus has led governments to introduce public health measures such as lockdowns, social distancing, and closures of non-essential businesses, which resulted in sharp and deep economic contractions during the first six months of the year. Global demand has been rising slowly as some economies relaxed lockdown measures in May and June prompting measured improvements in economic activity. Decisive fiscal and monetary policies have supported household and business spending. In light of the increasing global demand, energy commodity prices have strengthened in recent months, though on average they remain lower in the first ten months of 2020 when compared to 2019.

Domestically, some economic activities contracted in the first half of 2020 in both the energy and non-energy sectors. A decline in output was seen in natural gas, crude oil, liquefied natural gas (LNG) and petrochemicals, especially methanol and ammonia. As several businesses closed and others reduced their operations, declines were recorded for several non-energy sectors, such as Wholesale and Retail Trade (Excluding Energy), Construction, and Manufacturing (Excluding Energy and Petrochemicals). However, growth was recorded for Real Estate Activities and the Financial and Insurance Activities.

The domestic labour market was also impacted. Labour market adjustments included furloughed employment, layoffs, pay cuts, and reductions in working hours; a temporary national 'stay at home' measure was also implemented in mid-March. Despite the gradual reopening of the economy, labour demand softened, resulting in higher retrenchments. Job advertisements in the print media, a proxy for labour demand, declined during May to October 2020, while the number of retrenchments increased markedly during May to September.

The Government accounts came under increased strain in fiscal year (FY) 2019/20 as a result of the COVID-19 crisis. Data from the Ministry of Finance indicate that the budget deficit jumped to 11.2 per cent (as a per cent of Gross Domestic Product (GDP)) in FY2019/20 from 2.6 per cent in FY2018/19. Public revenue collections declined by 27.1 per cent in FY 2019/20 from FY2018/19 due to lower energy prices and a smaller corporation tax take as business operations were curtailed. Public expenditures, however, increased due to higher outlays on transfers and subsidies and the capital programme to shore up the health system and support those adversely affected by the pandemic.

Inflation levels over the first ten months of 2020 remained very low. Data from the Central Statistical Office showed that headline inflation moved from 0.4 per cent (year-on-year) in January to 0.7 per cent in October 2020. Core inflation, which omits the traditionally volatile food component, slowed from 0.3 per cent in January to 0.0 per cent in October 2020. Food inflation, which measured 0.4 per cent in January 2020, accelerated to 4.4 per cent by October 2020.

Monetary policy thus far in 2020 has been directed on managing the economic fallout of the COVID-19 pandemic. The Monetary Policy Committee of the Central Bank (MPC) decided to support domestic households and businesses by increasing liquidity in the financial system and lowering interest rates. Liquidity levels in the financial system increased substantially from May to October 2020 after the Bank reduced the repo rate and

commercial banks' reserve requirements in March. There has therefore been no interbank borrowing since April as liquidity remains ample for all banks. The accommodative stance taken by the Central Bank of Trinidad and Tobago led to lower interest rates on short-term facilities in the wider financial system during the six months ending October 2020.

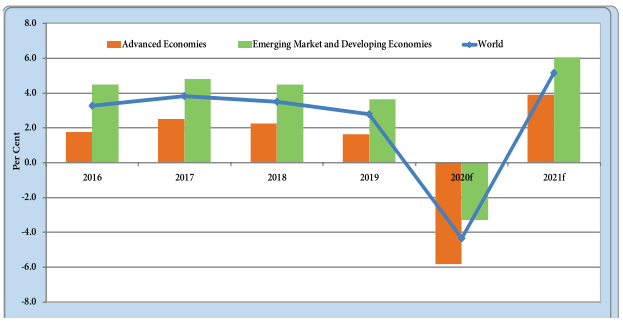
Nonetheless, consolidated system credit growth slowed over the first eight months of 2020. In early 2020, before the lockdown, private sector credit grew moderately at just under 5 per cent (year-on-year). However, the closure of all non-essential activity exerted downward demand pressure on borrowing. By the end of August, consolidated system credit had slowed sharply. Credit card debt, which had been growing during the year, contracted. Loans for motor vehicles, however, remained strong given the low-interest-rate environment. Lending to businesses worsened over recent months, while real estate mortgage lending continued to grow but at a much lower rhythm than in March.

Conditions in the foreign exchange market remained relatively tight during the first ten months of 2020. Purchases of foreign exchange by authorised dealers from the public declined over January to October 2020, relative to the same period a year prior. This decline in purchases was related to a reduction in conversions by energy companies, while the demand for foreign currency also slipped in the context of trade and travel restrictions as well as the state of aggregate demand. By the end of November 2020, official international reserves stood at US$7.1 billion or about 8½ months of import cover.

Outlook

Global economic conditions are forecasted to be adversely impacted by the COVID-19 virus for the remainder of 2020. The output loss associated with this emergency has created considerable uncertainty surrounding the prospects for global growth. Thus, the International Monetary Fund (IMF), in its World Economic Outlook (October 2020), anticipates the global economy to contract by 4.9 per cent in 2020 **(Chart Ia)**. Some recovery is likely for 2021, with global growth rebounding to 5.2 per cent: this outcome hinges primarily on the effectiveness of virus containment efforts as well as on the coordination of fiscal, monetary and financial stability countermeasures. However, the current surge of COVID-19 cases globally and the reintroduction of lockdown measures in many countries suggest that economic recovery may take longer than anticipated.

Chart Ia:
Global Growth -Real GDP
(Annual Per cent Change)



Source: International Monetary Fund, World Economic Outlook, October 2020

The domestic economic outlook for 2021 will be centred around the lingering effects of the pandemic, which are expected to persist well into the first three quarters of the new year. Closest to our shores, other Caribbean territories, particularly the tourism-dependent nations, are facing further large economic contractions unless international travel picks up quickly. In this regard, important efforts are underway to forge a common Caribbean position and mobilize external financing from the International Monetary Fund and other sources. Going into the pandemic, Trinidad and Tobago had a relatively good starting point, with significant buffers, including sizable international reserves and its sovereign wealth fund (Heritage and Stabilization Fund). Given the finite nature of these buffers however, it is imperative that the transition be managed very carefully.

As in most other countries, fiscal action will remain at the core of the combined macroeconomic policy response. A delicate balance will continue to be required in providing indispensable support to the poor and disadvantaged communities—who have been disproportionately impacted by the pandemic—while keeping an eye on the debt situation. The current high liquidity environment means that monetary policy may need to be in a holding pattern, but ready to adjust quickly as financial

conditions evolve. Meanwhile, structural reforms remain essential—geared at improving the speed, efficiency and sharpness in the delivery of public and private services in Trinidad and Tobago—in preparation for the inevitable heightened competition from other countries following the pandemic.

Globally, there is growing unease that the health crisis has not only already taken a severe toll on economies, but can eventually put enormous strains on financial systems. Due to the reduced capacity of individuals and businesses (as well as governments in some countries) to service their loans, the concern is that asset quality in many financial institutions could deteriorate simultaneously. While Trinidad and Tobago's financial system is sound and healthy, we are not immune to those underlying stresses. As a result, our financial regulators—including at the Central Bank, Trinidad and Tobago Securities and Exchange Commission and Financial Intelligence Unit— must be fully equipped and poised to bolster collaboration among themselves and other international supervisors, in confronting this latent threat.

Table Ia: Trinidad and Tobago: Summary Economic Indicators for 2018-2020

	2017	2018	2019	Jan - Oct 2019	Jan - Oct 2020	
Real Sector Activity						
Gross Domestic Product (GDP)[1]						
GDP at Current Market Prices (TT$ Billions)	151.8	160.3	156.8	na	na	
Real GDP Growth (%)	-3.0	0.1	-1.2	na	na	
Energy Sector						
Total Depth Drilled (metres)	121,396.4	110,181.5	91,882.6	65,486.0	35,136.4	*
Crude Oil Production (b/d)	71,839.4	63,533.3	58,862.8	58,807.2	56,605.0	*
Crude Oil Exports (000 bbls)	9,971.7	8,047.0	21,971.7	16,050.5	15,509.6	*
Refinery Throughput (b/d)[2]	130,788.8	118,617.2	0.0	0.0	0.0	*
Natural Gas Production (mmcf/d)	3,356.2	3,585.1	3,587.8	3,624.6	3,217.2	*
Natural Gas Utilisation (mmcf/d)	3,178.0	3,378.0	3,439.1	3,476.1	3,058.3	*
LNG Production (000 cubic metres)	25,072.8	28,449.5	28,882.2	21,718.6	19,680.8	*
Fertiliser Production (000 tonnes)	5,595.0	5,431.1	6,103.9	4,762.8	4,389.6	*
Fertiliser Exports (000 tonnes)	5,140.8	4,924.3	5,205.9	4,033.3	3,548.0	*
Methanol Production (000 tonnes)	4,974.9	5,081.3	5,671.8	4,248.2	3,254.4	*
Energy Commodity Price Index (ECPI) (Jan 2007 = 100)	83.5	99.0	83.1	83.9	59.6	
Non-Energy						
Local Sales of Cement (000 tonnes)	497.3	483.8	486.7	378.4	343.3	*
Vehicles Registered	25,671.0	24,073.0	25,091.0	20,353.0	15,262.0	
Average Daily Job Vacancy Advertisements	451.0	357.0	320.0	330.8	191.0	
Prices (Average)						
Year-on-Year Per Cent Change						
Producer Prices	1.9	-0.3	0.6	0.6	1.6	*
Headline Inflation	1.9	1.0	1.0	1.1	0.5	
Food Inflation	2.9	1.1	0.6	0.9	2.4	
Core Inflation	1.6	1.0	1.1	1.2	0.1	
Monetary (End of Period)						
Year-on-Year Per Cent Change						
Private Sector Credit	4.6	4.3	4.6	4.2	0.3	^
Consumer Lending	5.1	6.0	6.1	6.4	0.9	^
Business Lending	1.3	0.2	-5.2	-2.9	-7.7	^
Real Estate Mortgages	8.0	6.6	12.5	8.3	7.1	^
M-1A	-3.0	2.2	-4.3	-2.9	8.3	^
M-2	-2.1	3.1	0.1	1.6	7.9	^
Commercial Banks' Daily Average Excess Reserves (TT$ Millions)	3,060.6	3,254.3	3,993.8	3,702.0	8,656.9	
TT 91-day Treasury Bill Rate (End of Period; Per Cent)	1.21	1.30	1.08	1.08	0.32	
Fiscal (Fiscal Year)						
Overall Fiscal Balance (TT$ Millions)	-13,531.4	-5,696.8[r]	-4,028.9[P]	n.a.	-16,772.0[re]	
Overall Fiscal Balance to GDP	-9.0	-3.6	-2.6	n.a.	-11.2	
Financial Stability - Commercial Banks						
Non-Performing Loans to Gross Loans (Per Cent)	2.9	3.1	2.9	3.1	3.2	^
Capital Adequacy Ratio (Per Cent)	21.0	20.9	21.2	21.1	21.3	^ ^
Capital Market						
Composite Price Index (1983 = 100; end of period)	1,266.4	1,302.5	1,468.4	1,402.9	1,306.5	
Volume of Shares Traded (millions)	84.6	72.3	76.9	62.7	53.6	
Mutual Funds Under Management (TT$Billions)	43.2	44.2	47.1	46.3	48.5	^ ^ ^
Primary Bond Market Issues (TT$ Billions)3	12.8	14.4	11.3	8.5	11.5	
External						
US$ Millions						
Authorised Dealers Sales of Foreign Exchange to Public	5,195.3	5,677.4	5,939.8	5,016.6	3,757.6	
Authorised Dealers Purchases of Foreign Exchange from Public	3,606.9	4,101.4	4,285.6	3,608.7	2,805.0	
CBTT Sales to Authorised Dealers	1,816.0	1,501.0	1,504.0	1,270.1	1,069.5	
Net Official Reserves (End of Period)	8,369.8	7,575.0	6,929.0	6,898.9	7,167.5	

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

1 GDP at current market prices and real GDP growth are sourced from the Central Statistical Office (CSO).
2 Petrotrin's Refinery was closed in November 2018.
3 Provisional data including primary debt securities issued by the Government, state enterprises, and private sector companies. Public refers to bonds offered to the general public while private placements are non-public offerings to a small group of investors.
r Revised.
P Provisional.
na Not applicable.
re Revised Estimate.
* For the period January-September.
^ As at August.
^ ^ As at July.
^ ^ ^ As at June.

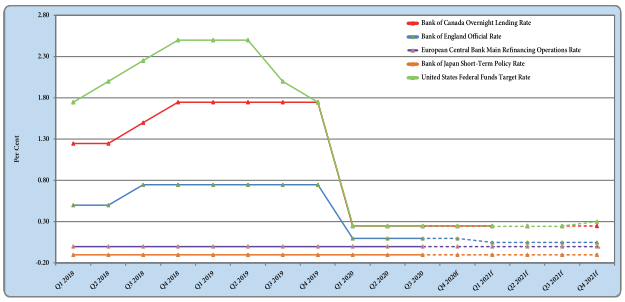
Part II – International and Regional Monetary Policy Developments

The spread of COVID-19 and measures implemented to limit its impact resulted in an unprecedented fall in world output during the first half of 2020. The sharp contraction in economic activity was felt across advanced and emerging market and developing economies. Global economic indicators point to a recovery in the second half of 2020, however, following the gradual easing of restrictions along with continued fiscal and monetary stimulus measures. The uptick in global demand, particularly in China, along with production cuts from the Organisation of the Petroleum Exporting Countries (OPEC) and partners, helped to strengthen commodity prices. Notwithstanding the increase in global energy prices, inflation remained subdued. The recent decision by OPEC and other oil-producing nations (led by Russia) to modestly ease oil-output cuts in early 2021 could restrain energy prices and global inflation going forward. Meanwhile, financial conditions have eased since June 2020, on the back of continued policy support.

Advanced Economies (AEs)

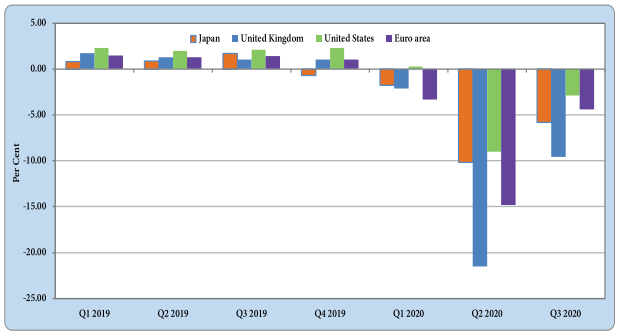
Several AEs central banks announced further policy easing and adjusted their policy frameworks to contain potential financial stress and support economic recovery. In that vein, the US Federal Reserve (the Fed) revised its Statement on Longer-Run Goals and Monetary Policy Strategy, which seeks to achieve maximum employment and inflation at the rate of 2.0 per cent over the longer run[1]. The Fed also maintained its target range for the federal funds rate at 0 to 0.25 per cent in November 2020 and signalled that the rate would remain unchanged at least to 2023 **(Chart IIa)**. Also, the Fed will increase its holdings of Treasury securities and agency mortgage-backed securities to support credit to households and businesses over the coming months. Meanwhile, the pace of economic activity picked up in the third quarter of 2020 led by a surge in personal spending and increases in private investment and exports. Real GDP recorded a smaller contraction of 2.9 per cent (year-on-year) in the third quarter of 2020 from 9.0 per cent in the previous quarter **(Chart IIb)**. The unemployment rate continued to trend downwards, falling to 6.9 per cent in October 2020. Over the first nine months of 2020, inflation, as measured by the Core Personal Consumption Expenditure (PCE) price index, continued to be recorded below the target rate of 2.0 per cent **(Chart IIc)**.

Chart IIa:
Selected Advanced Economies – Policy Rates
(Per cent)



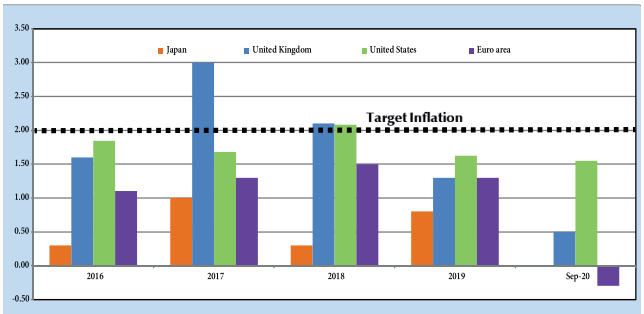
Source: Bloomberg

Chart IIb:
Selected Advanced Economies – Real GDP Growth
(Year-on-Year Per cent Change)



Source: Bloomberg

Chart IIc:
Selected Advanced Economies - Headline Inflation
(Year-on-Year Per cent Change)



Source: Bloomberg
* Core PCE price index.

[1] The Federal Open Market Committee (FOMC) seeks to achieve maximum employment and a 2.0 per cent inflation rate over the longer run. With inflation persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2.0 per cent for some time so that inflation averages 2 per cent over time and longer-term inflation expectations remain well anchored at 2.0 per cent.

The Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the Bank rate at 0.1 per cent and increase the stock of Government bond purchases by £150 billion to £875 billion in November 2020. The MPC indicated that further monetary policy easing was warranted given the economic and financial impact of the COVID-19 pandemic. The UK Government implemented a second nationwide lockdown on November 5, 2020, following the rapid rise in COVID-19 cases. The improvement in the United Kingdom's (UK) economy during the third quarter of 2020 was supported by activity in the services, production and construction sectors. Real GDP contracted by 9.6 per cent (year-on-year) in the third quarter of 2020 compared with a decline of 21.5 per cent in the previous quarter. The UK's inflation rose to 0.7 per cent (year-on-year) in October 2020, reflecting an uptick in prices for clothing; food; and furniture, furnishings and carpet.

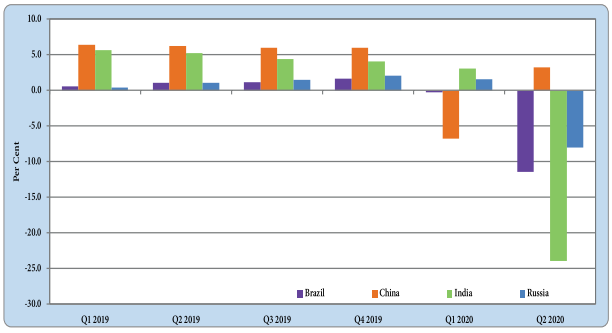
Against the backdrop of weak inflation amid subdued growth, the European Central Bank (ECB) reiterated that ample monetary stimulus remains necessary to support the economic recovery and to safeguard medium-term price stability. The ECB kept the interest rate on the main refinancing operations at 0.0 per cent in October 2020 and expects interest rates to remain at present levels until the inflation outlook converges closer to 2.0 per cent. Furthermore, the ECB will continue its Pandemic Emergency Purchase Programme of €1,350.0 billion, as well as its asset purchases programme and targeted longer-term refinancing operations (TLTRO III). Meanwhile, the Euro Area's consumer prices fell by 0.3 per cent (year-on-year) in October 2020, mainly reflecting declines in the prices of energy and non-energy industrial products. The Euro Area economy recorded a smaller contraction rate driven by improvements in industrial and services production and a slight recovery in consumption. Real GDP contracted by 4.4 per cent (year-on-year) in the third quarter of 2020 compared with a decline of 14.8 per cent in the second quarter of 2020.

The Bank of Japan (BoJ) left its key short-term interest rate unchanged at -0.1 per cent in October 2020 and pledged to continue support financing, mainly of firms, and maintain stability in financial markets. Following a 9.9 per cent (year-on-year) decline in real GDP in the second quarter of 2020, the Japanese economy contracted by 5.8 per cent in the third quarter owing to a pickup in private consumption and exports. Meanwhile, consumer prices declined by 0.4 per cent (year-on-year) in October 2020 as the pandemic continued to hamper consumption.

Emerging Market and Developing Economies

Economic conditions deteriorated across EMDEs despite a faster-than-expected recovery from China. For the seventh consecutive month, the People's Bank of China (PBoC) maintained its benchmark interest rates aimed at bolstering economic activity. The 1-year Loan Prime Rate (LPR) and the 5-year LPR were left unchanged at 3.85 per cent and 4.65 per cent, respectively in November 2020. Economic activity in the world's second-largest economy accelerated in the third quarter of 2020 to 4.9 per cent (year-on-year) from 3.2 per cent in the previous quarter owing to a lifting of lockdown measures and a strong pickup in external demand for medical equipment and work-from-home technology **(Chart IId)**. Following above-target inflation[2] in the first four months of 2020, China's inflation rate eased to 0.5 per cent in October 2020.

Chart IId:
BRICS Countries – Quarterly Real GDP Growth
(Year-on-Year Per cent Change)



Source: Bloomberg

[2] Central Bank inflation target rates and ranges for selected emerging market and developing economies: China (3.0 per cent) and India (4.0+/-2.0 per cent).

The Reserve Bank of India (RBI) pledged to continue its accommodative stance for as long as necessary to revive growth while ensuring that inflation remains within the target. The RBI kept its key policy rate at 4.0 per cent in October 2020. Inflation continued to trend above the RBI's target rate in October 2020 largely driven by food prices. Meanwhile, the Indian economy registered its largest contraction on record of 23.9 per cent (year-on-year) in the second quarter of 2020, reflective of sizeable declines in the construction, hotels and transportation, and manufacturing sectors.

Against the backdrop of a fragile economic recovery and subdued inflation, several central banks in Latin America decreased or maintained their key interest rates. In November 2020, the Central Banks of Mexico and Peru maintained their benchmark interest rates while the Central Banks of Colombia and Chile held their key policy interest rates in October 2020 **(Table IIa)**. Meanwhile, inflation generally remained contained within the target ranges[3].

The Caribbean

The Bank of Jamaica (BOJ) has maintained an accommodative monetary policy stance aimed at supporting a speedy economic recovery kept its key policy rate at 0.5 per cent in November 2020. The BOJ predicts that while inflation will be temporarily elevated over the next four to five months, it will remain within the target range of 4.0 per cent to 6.0 per cent over the next two years. Further, the revised outlook is influenced by the impact of the recent flood rains on domestic agricultural supplies over the near-term as well as the ongoing impact of the COVID-19 pandemic. In October 2020, Jamaica's inflation rate increased slightly to 5.0 per cent (year-on-year) from 4.9 per cent recorded in the previous month. Economic activity contracted by 18.4 per cent (year-on-year) during the second quarter of 2020 mainly due to the effects of COVID-19 and the measures adopted to limit its spread.

The monetary policy stance of the Central Bank of Barbados (CBB) remained unchanged following the reductions in the Bank's deposit rate and the securities ratio for banks to 2.0 per cent and 5.0 per cent, respectively in March 2020. Real GDP in Barbados contracted by 18.0 per cent (year-on-year) in the third quarter of 2020 compared with a decline of 27.5 per cent in the second quarter of 2020 as the Government reopened its national borders and ended the island-wide lockdown. Gross international reserves continued on an upward trend increasing to US$1,017.4 million (28.1 weeks of import cover) as at September 2020, from US$740.5 million (18.6 weeks of import cover) in December 2019.

The Bank of Guyana's monetary policy remained focused on price stability, ensuring an adequate level of liquidity in the banking system and creating an enabling environment for credit and economic growth. Against that backdrop, net redemptions of treasury bills issued for monetary purposes amounted to US$1.7 million. In comparison, the Bank transacted net-purchases in foreign currencies of US$178.0 million during the first half of 2020. The reserve requirement ratio and the discount rate remained unchanged at 12.0 per cent and 5.0 per cent, respectively. Meanwhile, real non-oil GDP contracted by 4.9 per cent (year-on-year) during the first half of 2020, reflecting the impact of the COVID-19 mitigation measures on economic activity, especially in the services sector. At the same time, real oil GDP increased by 45.9 per cent despite the sharp falloff in oil prices.

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

	Current Rate[1]	Last Change	Amount of Change
Chile	0.50	Mar-20	-0.50
Colombia	1.75	Sep-20	-0.25
Peru	0.25	Apr-20	-1.00
Mexico	4.25	Sep-20	-0.25
Brazil	2.00	Aug-20	-0.25

Sources: Banco Central de Chile, Banco Central de Colombia, Central Reserve Bank of Peru, Banco de Mexico and Banco Central do Brasil

1 As at November 18, 2020.

3 Central Bank inflation target ranges for selected economies in the Latin America region: Mexico (3.0+/-1.0per cent); Colombia (3.0 +/- 1.0per cent); Chile (3.0 per cent +/- 1.0 per cent); Peru (2.0 +/-1.0 per cent).

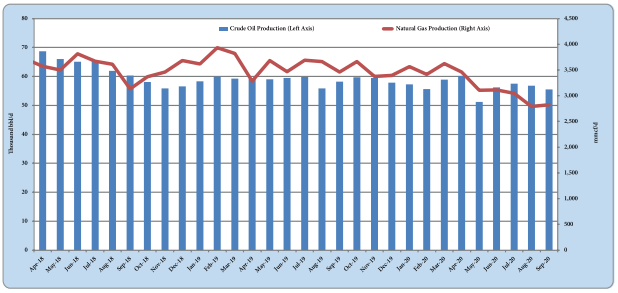
Part III – Domestic Economic Conditions

According to the Central Bank's Quarterly Index of Real Economic Activity[4] (2012=100)[5] domestic economic activity contracted by 7.5 per cent (year-on-year) in the first half of 2020, reflecting declines of 7.2 per cent and 7.7 per cent in the energy and non-energy sectors, respectively[6]. The falloff in activity, which occurred mainly in the second quarter, was brought on by the adverse effects of the COVID-19 pandemic on the domestic economy. Inflation remained low and stable over the first half of the year, but the number of persons retrenched rose sharply in the latter months. The Government, in its latest budget statement programmed a smaller budget deficit in FY 2020/21 than in FY 2019/20. The increase in the stock of foreign reserves reflected inflows from the HSF and external borrowing to mitigate the impact of the COVID-19 pandemic on the economy.

a) Real Economic Activity

Indicators of economic activity monitored by the Central Bank suggest energy sector[7] output fell by 5.0 per cent in the first quarter and by 9.4 per cent in the second quarter of 2020 (year-on-year). Natural gas production dropped by 6.4 per cent alongside a 3.9 per cent fall in crude oil production in the first half of 2020 **(Chart IIIa)**. This outturn was a consequence of the weaker global energy environment, stemming from the COVID-19 pandemic which constrained activity locally and internationally. Both midstream and downstream activities weakened with refining activity falling by 4.8 per cent when compared with the first half of 2019. LNG production decreased by 4.0 per cent, while NGL production fell by 7.3 per cent. Activity in the Petrochemical subsector contracted by 7.1 per cent in the first half of 2020 as several domestic petrochemical plants closed due to the dampening effects of the coronavirus on commodity markets and the world economy at large. Production of methanol fell by 9.2 per cent (year-on-year) in the first half of 2020. Notwithstanding a marginal 1.1 per cent increase in urea production, fertiliser production fell by 5.2 per cent, weighed down by a 6.0 per cent fall in ammonia production.

Chart IIIa:
Crude Oil and Natural Gas Production



Source: Ministry of Energy and Energy Industries

[4] The CSO is the official source of National Accounts (GDP) data in Trinidad and Tobago. The Bank compiles a Quarterly Index of Real Economic Activity (QIEA) to gauge short-term economic activity. The QIEA differs from the CSO's national accounts statistics in terms of methodologies and coverage. The QIEA is based on production indicators, excludes price effects and does not comprehensively cover all sub-industries measured by the CSO. For further details on the QIEA methodology and differences in the data see Box 2 of the January 2020 Economic Bulletin - https://www.central-bank.org.tt/sites/default/files/page-file-uploads/economic-bulletin-january-2020_5.pdf (pages 15-17); Box2 of the March 2017 Economic Bulletin- https://www.central-bank.org.tt/sites/default/files/ reports/ECONOMIC%20BULLETIN%20March%20 2017.pdf (pages 19-20); and Public Education Statement – November 2016 - https://www.central-bank. org.tt/sites/default/files/press_releases/ MPR-GDP%2014_11_16_0.pdf. See link to the CSO's quarterly National Accounts (GDP) data https://cso.gov.tt/subjects/national-accounts/.

[5] The Central Bank of Trinidad and Tobago has rebased its Quarterly Index of Real Economic Activity (QIEA) from the base year of 2010 to 2012 and has changed the classification system from the Trinidad and Tobago System of National Accounts (TTSNA) to the International Standard Industrial Classification of All Economic Activities, Revision 4 (ISIC Rev. 4).

[6] Due to COVID-19 related restrictions and work-from-home measures implemented by some companies, the response rate for the manufacturing sector has been below average for the first two quarters of 2020. Therefore, revisions are expected when more data are received.

[7] For comparison purposes, the sectoral breakdown of real economic activity into Energy and Non-energy, presented previously, is maintained. Energy sector activity comprises the production of crude oil and natural gas, LNG, NGLs and petrochemicals and the retail sale of automotive fuels. Under the ISIC Rev. 4 classification, the output of crude oil and natural gas are included in Mining and Quarrying, the production of LNG, NGLs and petrochemicals are included in Manufacturing, and the retail sale of automotive fuels is included in Wholesale and Retail Trade.

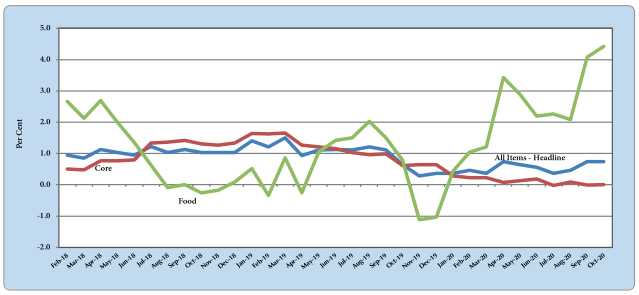
Available indicators suggest that energy sector activity remained further constrained in the third quarter of 2020, declining 20.1 per cent. The effects of the COVID-19 pandemic on economic activity saw significant year-on-year declines in the local production of natural gas (19.9 per cent). Refining activity dropped 20.1 per cent, evidenced by declines in LNG (19.9 per cent) and NGLs (20.8 per cent). Downstream activity was also adversely impacted, following the trend of upstream counterparts, as petrochemical output fell (31.1 per cent) over the three month period. The notable decline was driven by a 49.6 per cent falloff in methanol production, on the heels of closures to the CMC, TTMC II and Titan facilities during the period. Additionally, ammonia output fell 16.8 per cent (year-on-year) over the period.

Available indicators suggest that stay-at-home measures implemented by the Government to slow the spread of COVID-19 since March 2020, have resulted in low levels of economic activity in the non-energy sector in the first six months of 2020. Broad-based contractions in many sectors dampened overall performance despite growth in Financial and Insurance Activities and Real Estate Activities. Activity in both the Financial and Insurance sector and the Real Estate sector remained robust, increasing by 5.2 per cent and 4.0 per cent, respectively in the first half of 2020. On the other hand, the Transportation and Storage sector contracted by 22.3 per cent largely due to the effect of border closures on the passenger air transport subsector. Available indicators point to a contraction of activity in the Wholesale and Retail Trade (Excluding Energy) sector of 13.6 per cent. The Retail Sales Index (RSI), as measured by the CSO, fell by 7.1 per cent in the first six months of 2020, when compared to the same period in 2019. The closure of businesses, schools and entertainment centres led to contractions in all related RSI sub-indices except for the Supermarkets and Groceries sub-index and the Household Appliances, Furniture and Other Furnishings sub-index, which grew by 6.9 per cent and 14.0 per cent, respectively. Activity within the Construction sector decreased by 19.0 per cent as the construction of private and public sector projects were forced to cease due to COVID-19-related public health restrictions. Declining levels of activity were also reported in the Manufacturing (Excluding Refining and Petrochemicals) (1.0 per cent), the Electricity and Water (Excluding Gas) (0.4 per cent), and the Information and Communication (4.3 per cent) sectors.

B) Retail Prices

Inflation levels during the first ten months of 2020 continued to reflect an environment of constrained inflationary activity. The inflation rate from January to October 2020 displayed a low and stable trend, averaging 0.5 per cent (year-on-year) over the period. Data from the Central Statistical Office showed that headline inflation moved from 0.4 per cent in January to 0.7 per cent in October **(Chart IIIb)**. Core inflation, which omits the traditionally volatile food component, slowed from 0.3 per cent in January to 0.0 per cent in October 2020. Food inflation, which measured 0.4 per cent in January 2020 accelerated to 4.4 per cent by October 2020.

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



Source: Central Statistical Office

Core inflation averaged 0.1 per cent over the first ten months of 2020, slowing from 0.3 per cent (year-on-year) in January to 0.0 per cent in October 2020. The slowdown in core inflation coincided with the contraction in economic activity owing to measures adopted to limit the spread of the virus locally. The movement in core inflation was the result of weak price growth in all but one of the sub-indices of the retail price index. Notably weaker was the alcoholic beverages and tobacco sub-index which slowed to 1.7 per cent in October (compared to 3.0 per cent in January) as vodka prices declined and beer prices registered slower price increases **(Table IIIa)**. Slower price increases were also noted in the furnishings, household equipment and routine maintenance sub-index from 1.7 per cent in January 2020 to 0.0 per cent in October 2020 due a decline in prices on major household appliances. The health sub-index accelerated to 4.5 per cent in October 2020 from 1.9 per cent in January 2020. Growth in this sub-index reflected faster price increases for prescription medication.

Food inflation accelerated over the period, moving from 0.4 per cent (year-on-year) in January 2020 to 4.4 per cent in October 2020. The average growth over the ten months was 2.4 per cent. The acceleration in food prices was driven by strong price growth in all sub-indices, notably the meat; fish; butter margarine and edible oils; fruits; and food products N.E.C. sub-indices. Meat prices increased 5.7 per cent in October 2020 (compared to 1.2 per cent in January) reflecting faster price increases for lamb, and poultry chicken. Fish prices increased 13.1 per cent in September 2020 (compared to 1.4 per cent in January) as prices for fresh carite, cavalli, king fish, salmon red fish, canned sardines, and canned tuna accelerated during the period. The butter, margarine and edible oils sub-index increased 4.2 per cent in October 2020 (compared to 0.2 per cent in January) as margarine and edible oil prices accelerated over the period. Fruit prices registered a 6.3 per cent increase in October 2020, a marked turnaround from a price decline in January 2020 (-5.5 per cent). This was driven by faster price increases for oranges, mangoes, grapes, bananas,melon and coconuts. Accelerated price increases for hot peppers, curry, pimentos, celery and chive fuelled a 6.3 per cent price increase in the food products N.E.C. sub-index in October 2020 (compared to -1.2 per cent in January).

Table IIIa: Index of Retail Prices (Per Cent Change)

January 2015 = 100	Year-on-Year		
	Weights	Sep-2020	Oct-2020
Headline Inflation	***1000***	**0.7**	**0.7**
Food and Non-Alcoholic Beverages	*173*	4.1	4.4
Bread and Cereals	*33*	1.4	1.4
Meat	*31*	5.2	5.7
Fish	*11*	9.7	13.1
Vegetables	*24*	5.6	6.0
Fruits	*6*	6.3	6.3
Milk, Cheese and Eggs	*21*	2.2	2.1
Butter, Margarine, Edible Oils	*10*	4.3	4.2
Sugar, Jam, Confectionery, etc.	*6*	1.9	2.4
Food Products NEC	*13*	7.0	6.3
Non-Alcoholic Beverages	*18*	1.5	1.4
Core Inflation	*827*	**0.0**	**0.0**
Alcoholic Beverages and Tobacco	*8.7*	1.7	1.6
Clothing and Footwear	*56.7*	-5.3	-4.0
Furnishings, Household Equipment and Routine Maintenance	*67.2*	0.6	0.0
Health	*40.6*	2.4	4.6
Of which: *Medical Services*	*10.4*	3.4	3.4
Housing, Water, Electricity, Gas and Other Fuels	*274.6*	0.6	0.0
Of which: *Rent*	*21.5*	0.9	0.9
Home Ownership	*193.3*	0.5	-0.1
Education	*9.9*	0.0	0.0
Recreation and Culture	*65.5*	-0.2	-0.3
Hotels, Cafes and Restaurants	*24.9*	2.0	1.3
Transport	*147.4*	-1.0	-0.5
Communication	*45.1*	-0.1	-0.1
Miscellaneous Goods and Other Services	*85.9*	0.6	0.3

Source: Central Statistical Office

Producer Prices and Building Material Prices

Wholesale prices also reflected a generally subdued inflationary environment. Growth in producer prices, as measured by the CSO's Producer Price Index (PPI), was assessed at 1.4 per cent (year-on-year) during the third quarter of 2020, matching levels recorded during the previous quarter. The steady rate of increase was on account of a decline in the food processing sub-index, which occurred alongside a faster increase in the assembly type and related industries sub-index. The food processing sub-index declined -0.1 per cent (compared to a 0.1 per cent increase in the second quarter) as animal feed mill prices declined 3.9 per cent. The 0.3 per cent increase in the assembly type and related industries sub-index (compared to 0.2 per cent in the second quarter) was driven by a faster price increase in the assembly of appliances.

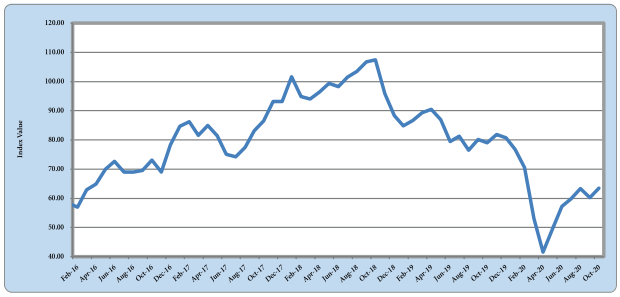
Meanwhile, the Index of Retail Prices of Building Materials increased 2.1 per cent (year-on-year) during the second quarter of 2020 compared to 2.0 per cent during the previous quarter, as growth in some indices were offset by declines in others. Growth was noted in the walls and roof (4.8 per cent); electrical (1.4 per cent); and plumbing and plumbing fixtures (1.8 per cent) sub-indices. Meanwhile, price declines were recorded in the site preparation (-0.7 per cent); windows, doors and balustrading (-1.5 per cent); and finishing, joinery units and painting and external works (-0.8 per cent) sub-indices.

Energy Commodity Prices

The Energy Commodity Prices Index (ECPI)[8] decreased by 28.6 per cent (year-on-year) to an average of 59.6 during the first ten months of 2020, with all of the commodities included in the index registering declines **(Chart IIIc)**.

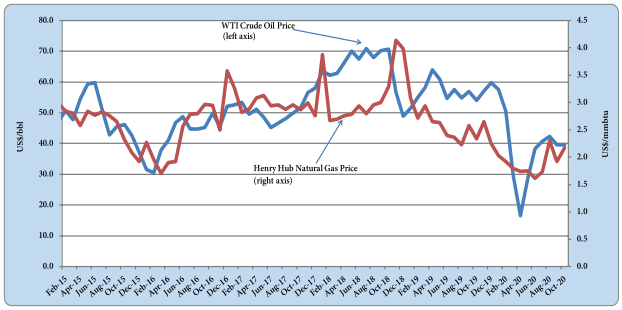
Crude oil prices were suppressed over the aforementioned period on account of geopolitical tensions and the crash in demand resulting from the COVID-19 pandemic. Over the period January to October 2020, West Texas Intermediate (WTI) prices fell 32.4 per cent (year-on-year) to an average of US$38.28 per barrel, while Brent crude prices fell 36.4 per cent to US$40.84 per barrel. The market, already challenged by low demand given slower global growth and ample supply at the close of 2019, saw these challenges further compounded by a price war between Saudi Arabia and Russia in the first quarter of 2020. Additionally, the sharp decline in global economic activity because of the pandemic exerted further downward pressure on crude oil prices. These factors contributed to negative oil prices on the futures market near the end of April 2020[9]. The decline in crude oil prices passed through to other related commodities in the ECPI, notably motor gasoline (-35.3 per cent), jet fuel (-42.8 per cent) and gas oil (-37.7 per cent) **(Chart IIId)**.

Chart IIIc:
Energy Commodities Prices Index



Source: Central Bank of Trinidad and Tobago

Chart IIId:
Crude Oil and Natural Gas Prices



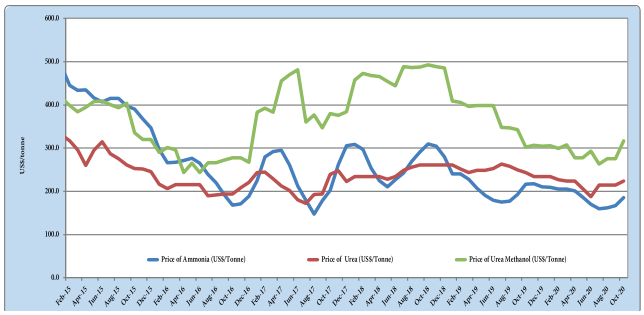
Source: Central Bank of Trinidad and Tobago

[8] The Central Bank uses the ECPI to gauge the overall movements in the prices of Trinidad and Tobago's main energy export products. For further details, see http://www.central-bank.org.tt/sites/default/files/page-file-uploads/Economic%20Bulletin%20July%202010%20Article%20IIb.pdf

[9] On April 20, 2020, West Texas Intermediate (WTI) futures prices for delivery in May 2020 turned negative as fears arose that oil storage space in the US was running out.

Natural gas prices averaged US$1.92 per million British Thermal Units (mmbtu) over the period January to October 2020, a decline of 26.9 per cent when compared to the corresponding period one year earlier. The fall is attributed to increased shale gas supply and a downturn in demand predominantly driven by the pandemic. Lower natural gas prices aided the decline in other downstream commodities such as propane (20.2 per cent), methanol (22.8 per cent), urea (13.9 per cent) and ammonia (9.5 per cent) **(Chart IIIe)**.

Chart IIIe:
Prices of Amonia, Urea and Methanol



Source: Central Bank of Trinidad and Tobago

c) Labour Market

The labour market was negatively affected by measures to curtail the spread of COVID-19, including 'Stay at Home'[10] restrictions that were part of the public health regulations. Labour market conditions remained soft even after the reopening of the economy, which began on a phased basis from May 10 **(Figure 1)**.

Official labour statistics are only available through to the fourth quarter of 2018. Data from the Ministry of Labour indicated a sharp rise in the number of persons retrenched in 2020[11]. Over the period May to September 2020, the number of retrenchments almost quadrupled to 1,820 persons compared with 469 persons in the same period of 2019. The finance, insurance, real estate and business services (807 persons); wholesale and retail trade, restaurants and hotels (365 persons); and manufacturing (140 persons) sectors accounted for the majority of all retrenchments during the period. Meanwhile, job advertisements in the print media[12], which is used as an indicator of labour demand, continued to fall. Job advertisements during the six months (May to October 2020) averaged 171 compared with 318 advertisements during a similar period of 2019 (a decline of 46.1 per cent).

[10] Formally referred to as the Public Health [2019 Novel Coronavirus (2019-nCoV)] (No. 7) Regulations, 2020.

[11] Retrenchment refers to the termination of employment of a worker at the initiative of an employer for the reason of redundancy according to the Retrenchment and Severance Benefits Act (No. 32 of 1985). The act states that, "where an employer proposes to terminate the services of five or more workers for the reason of redundancy, he shall give formal notice of termination in writing to each involved worker, to the recognised majority union and to the Minister of Labour". As such, if fewer than five employees are terminated, employers are not obligated to report to the Ministry. This indicator for job separation is therefore limited insofar as it only includes registered retrenchment notices, and does not capture other forms of job separation, especially the non-renewal of contracts of temporary or short-term workers. Furthermore, reports of job losses at establishments cannot be equated with an equal rise in the unemployment rate. Data on the labour market are not collected from firms and other establishments but from households via the conduct of the Continuous Sample Survey of Population (CSSP). Moreover, persons who have been retrenched or who have lost their jobs otherwise (expired contract, retired, etc.) and have not sought re-employment during the reference period are not classified as unemployed.

[12] This indicator is constructed by the Central Bank using the number of employment vacancies advertised in the Daily Express, Newsday, and Guardian newspapers.

Figure 1 **Phased Reopening (and Closure) of the Economy**

May

10th-20th - Phase 1

Restaurants, food establishments, and street vendors can open; no dining-in allowed.

Hardwares stores can open from 8:00 a.m to 4:00 p.m.

WITCO, TCL, and Nu Iron allowed to resume operations.

'Stay-at-Home' Order remains in effect.

Public transportation operations at 50 per cent capacity to continue.

21st-31st - Phase 2

Entire manufacturing and construction sectors to return to work.

Auto repair shops, parts shops, tyre shops, laundry and dry-cleaning services to reopen.

Borders to remain closed.

June

1st-7th - Phase 3

All retail businesses allowed to reopen but must close at 6 pm.

Complete reopening of the public service with staff reporting to work on a staggered schedule (i.e. every other day).

Normal transport operations to Tobago to resume.

8th-21st - Phase 4

Hairdressers, barbers, spas and domestic workers to resume operations.

Public transportation to operate at 75 per cent capacity.

22nd - Phase 5

Bars, gyms, casinos, sporting activities, cinemas, and theatres can resume - until 10 pm.

Restaurant in-house dining can resume (including in shopping malls).

Public service to resume full-time schedule.

Public transportation to operate at 100 per cent capacity.

Beaches, rivers, amusement parks, zoos, etc. to reopen.

Borders to remain closed.

August - October

August 2nd - August 16

Public service employee turnout reduced to 50 per cent at any time (rotations) for 14 days.

Public transportation operations to continue at 100 per cent capacity.

Borders to remain closed.

August 17 - September 13

COVID-19 case load moved from "cluster" to "community spread"

Restaurant in-house dining to cease (bars included).

Beaches, rivers, waterparks, casinos, gyms, places of worship, etc. to be closed.

Restricted travel to Tobago (air and sea) - essential travel only.

Public transportation operations reduced to 50 per cent capacity.

Citizens advised to stay at home.

Borders to remain closed.

September 14 - October 11

All existing public health regulations remain in effect.

Maxi taxis to operate at 65 per cent capacity.

Borders to remain closed.

October 12 - 24

Public servants to continue to operate on 50 per cent rotation.

Public gatherings increased to 10 persons and funerals to 20 persons.

Exemptions granted for the operation of tours at the Buccoo Reef and the Caroni Swamp.

October 26 -

Gyms allowed to reopen at 50 per cent capacity.

Public servants 'back to office' at full capacity.

Casinos, cinemas, and Members Clubs allowed to operate at 50 per cent capacity (no eating/drinking allowed).

Beaches and pools at guest houses and hotels allowed to reopen.

All other restrictions remain in effect.

Source: Information compiled from various press conferences hosted by the Ministry of Health and the Office of the Prime Minister

d) Fiscal Operations

The Central Government accounts registered an overall deficit in the fiscal year (FY) 2019/20 (October 2019 – September 2020). According to data provided by the Ministry of Finance, the fiscal accounts recorded an overall deficit of $16.8 billion (11.2 per cent of GDP) in FY2019/20 compared with a deficit of $4.0 billion (2.6 per cent of GDP) recorded in the corresponding period one year earlier **(Table IIIb)**. The higher deficit was primarily due to lower revenues which outpaced the increase in expenditure and was financed from a combination of external and domestic borrowings, as well as a withdrawal from the Heritage and Stabilisation Fund (HSF)[13]. Moreover, the non-energy fiscal deficit expanded over the period to $24.6 billion from $19.9 billion one year earlier.

Central Government total revenue collections declined by 27.1 per cent to roughly $34.1 billion over the twelve months to September 2020. The reduction in earnings was reflective of a decline in both energy and non-energy receipts. Energy revenue fell by 50.5 per cent to $7.9 billion owing to lower energy commodity prices[14]. Meanwhile, non-energy receipts fell to $25.5 billion from $29.9 billion due to lower non-tax revenue and collections from taxes on income and profits, and international trade. Capital revenue also declined by $266.4 million to reach $713.4 million over the period due to lower proceeds from the sale of assets when compared to the similar period one year ago.

Aggregate expenditure edged up marginally reaching $50.8 billion at the end of FY2019/20. Greater spending on transfers and subsidies and the capital programme precipitated the increase in overall expenditure. Notably, larger outlays on the Senior Citizens Grant, Disability Grant, Social Assistance, Food Price Support Programme and Salary Relief Grant[15] in response to the COVID-19 pandemic were responsible for the increase in transfers and subsidies. Meanwhile, capital expenditure reached $4.1 billion at the end of September 2020 **(Table IIIc)**.

Central Government debt and contingent liabilities increased in FY2019/20. At the end of September 2020, public sector debt outstanding (excluding debt issued for sterilisation purposes) reached $121.1 billion (80.7 per cent of GDP), compared with $103.2 billion in September 2019. Central Government domestic debt reached $56.5 billion (37.7 per cent of GDP), up from $47.0 billion (29.8 per cent of GDP) at end-September 2019. During FY2019/20, $8.8 billion was borrowed under the Development Loans Act, $3.0 billion in Value Added Tax (VAT) Bonds were issued, while an additional $2.8 billion in debt management bills were contracted under the Treasury Bills Act. The proceeds were used for budget support, and for refinancing purposes. External loans contracted by the Central Government amounted to approximately US$1,266.9 million for FY2019/20, of which US$500.0 million was raised on the international bond market in June 2020[16], while US$400.0 originated from the Corporación Andina de Fomento (CAF)[17]. Also, the Inter-American Development Bank (IDB) disbursed US$127.0 million, of which US$100.0 million was earmarked for financial support in light of the pandemic. Contingent liabilities increased to $33.1 billion at the end of September 2020, from $29.9 billion at the end of September 2019.

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[13] The Central Government amended the HSF Act to allow for withdrawals of funds not exceeding US$1.5 billion or TT$10.0 billion at any time during the fiscal year where: a disaster area is declared under the Disaster Measures Act; a dangerous infectious disease is declared under the Public Health Ordinance; or there is, or is likely to be, a precipitous decline in budgeted revenues which are based on the production or price of crude oil or natural gas.

[14] West Texas Intermediate (WTI) crude oil prices averaged US$42.91 per barrel FY2019/20 compared with US$57.48 per barrel in FY2018/19. Similarly, Henry Hub natural gas prices averaged US$2.91 per million British Thermal Units (mmbtu) in FY2019/20 compared with US$2.00 per mmbtu in FY2018/19.

[15] Implemented as a policy decision through the Cabinet in response to the Covid-l9 pandemic.

[16] Half of the proceeds from this bond was used to repay a US$250.0 million bond which matured in July 2020.

[17] A US$200.0 million loan for the Roads and Bridges Programme was contracted during the FY2018/19, of which US$100.0 million was disbursed in August 2019, and the remainder was disbursed during the FY2019/20, in December 2019. More recently, another US$200.0 million was contracted for the Development of Air and Sea Transport and Tourism Infrastructure. Meanwhile, US$100.0 million was disbursed in June 2020 for financial support related to the economic impact and fiscal pressures with regard to COVID-19.

Budget estimates for FY2020/21 show a smaller deficit of $8.2 billion or 5.6 per cent of GDP. This compares with a revised outturn of $16.8 billion or 11.2 per cent of GDP for FY2019/20[18]. Total revenue is expected to amount to $41.4 billion, an increase from the estimated revised outturn of $34.1 billion for FY2019/20. The Central Government anticipates a total of $13.4 billion in revenue to be collected from the energy sector and $27.1 billion from the non-energy sector. Meanwhile, capital revenue is estimated at $905.1 million. Aggregate expenditure is projected to reach $49.6 billion at the end of FY2020/21, reflecting lower spending when compared to FY2019/20 due to the COVID-19 pandemic.

[18] The FY2020/21 Budget was presented in Parliament on October 5, 2020 by the Minister of Finance. The Budget is predicated on an estimated oil price of US$45.00 a barrel and a gas price of US$3.00 per mmbtu.

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

	2015/2016	2016/2017	2017/2018[r]	2018/2019	2019/2020[re]	2020/2021[b]
Revenue[1]	**44,972.6**	**36,180.6**	**43,169.7**	**46,748.6**	**34,059.7**	**41,364.1**
Current	41,158.9	34,870.1	42,331.9	45,768.8	33,346.3	40,459.0
Energy*	6,644.4	7,759.5	11,031.3	15,874.3	7,852.5	13,393.6
Non-Energy*	34,514.5	27,110.6	31,300.6	29,894.5	25,493.8	27,065.4
Capital	3,813.7	1,310.5	837.8	979.8	713.4	905.1
Expenditure	**52,944.7**	**49,712.0**	**48,866.5**	**50,777.5**	**50,831.7**	**49,573.3**
Current	48,546.4	46,263.5	45,374.4	46,986.8	46,754.2	45,463.3
Wages and Salaries	9,601.9	9,937.8	9,094.4	9,137.2	8,983.8	8,881.5
Goods and Services	7,326.1	5,827.2	6,102.1	6,426.4	5,459.6	5,497.1
Interest Payments	3,762.4	4,468.4	4,786.8	5,045.5	4,988.9	4,615.1
Transfers and Subsidies[2]	27,856.1	26,030.1	25,391.1	26,377.7	27,321.9	26,469.6
Capital Expenditure and Net Lending	4,398.3	3,448.5	3,492.1	3,790.7	4,077.5	4,110.0
Overall Non-Energy Balance[3]	**-14,616.5**	**-21,290.9**	**-16,728.1**	**-19,903.2**	**-24,624.5**	**-21,602.8**
Overall Balance	**-7,972.1**	**-13,531.4**	**-5,696.8**	**-4,028.9**	**-16,772.0**	**-8,209.2**
Total Financing (net)	**7,972.1**	**13,531.4**	**5,696.8**	**4,028.9**	**16,772.0**	**8,209.2**
Net Foreign Financing	**8,954.0**	**3,266.7**	**1,239.4**	**1,094.0**	**10,834.3**	**-11.6**
Net Domestic Financing	-981.9	10,264.7	4,457.4	2,934.9	5,937.7	8,220.8
Per Cent of GDP						
Revenue	**29.7**	**23.9**	**27.2**	**29.7**	**22.7**	**28.0**
Current	27.2	23.0	26.6	29.0	22.2	27.4
Energy	4.4	5.1	6.9	10.1	5.2	9.1
Non-Energy	22.8	17.9	19.7	19.0	17.0	18.3
Capital	2.5	0.9	0.5	0.6	0.5	0.6
Expenditure	**35.0**	**32.8**	**30.7**	**32.2**	**33.9**	**33.6**
Current	32.1	30.6	28.5	29.8	31.2	30.8
Wages and Salaries	6.3	6.6	5.7	5.8	6.0	6.0
Goods and Services	4.8	3.8	3.8	4.1	3.6	3.7
Interest Payments	2.5	3.0	3.0	3.2	3.3	3.1
Transfers and Subsidies	18.4	17.2	16.0	16.7	18.2	17.9
Capital Expenditure and Net Lending	2.9	2.3	2.2	2.4	2.7	2.8
Overall Non-Energy Balance	**-9.7**	**-14.1**	**-10.5**	**-12.6**	**-16.4**	**-14.6**
Overall Balance	**-5.3**	**-9.0**	**-3.6**	**-2.6**	**-11.2**	**-5.6**
Total Financing (net)	**5.3**	**8.9**	**3.6**	**2.6**	**11.2**	**5.6**
Net Foreign Financing	5.9	2.2	0.8	0.7	7.2	0.0
Net Domestic Financing	-0.6	6.8	2.8	1.9	4.0	5.6
Memorandum items:						
HSF Transfers (+) / Withdrawals (-)	-2,498.4	-1,712.2	0.0	0.0	-6,635.0	0.0

Source: Ministry of Finance

1 Prior to FY2018, asset sales are recorded under capital revenue. In FY2018, proceeds from the sale of NIF bonds are recorded under current revenue within the sub-category non-tax revenue.
2 Adjusted for transfers to the Infrastructure Development Fund, Government Assisted Tertiary Education Fund and CARICOM Petroleum Fund.
3 Computed as the sum of non-energy revenue and capital revenue less total expenditure.
* The energy and non-energy breakdown is based on the Central Bank's computations. Energy revenues comprise oil revenues plus revenues from Petrochemical companies. Budgeted data for FY201 are estimates.
r Revised.
re Revised Estimates.
b Budgeted.

Table IIIc: Costing of Selected Capital Projects in the FY 2020 and 2021 Budget (TT$Millions)

Projects	2020	2021
	Revised Estimates	Budgeted
Total Capital Expenditure	**4,077.5**	**4,110.0**
of which:		
Roads and Bridge Construction and Rehabilitation	649.2	582.8
Construction of Hospitals and Health Centres	438.3	465.6
of which: Construction of the Arima Hospital	76.9	36.0
Construction of the Point Fortin Hospital	47.0	20.0
Construction of the Couva Children's Hospital	16.0	0.0
Construction of the Sangre Grande Hospital	22.1	55.0
Diego Martin Health Centre	20.0	4.0
Early Childhood, Primary and Secondary School	507.5	502.5
Construction and Upgrade of Community Centers, Sport facilities & Youth Training Facilities	161.1	229.1
Drainage and Irrigation and Upgrading of Water Resources	159.9	224.0
of which: Multi-Phase Wastewater Rehabilitation Programme	93.9	100.0
Local Government Services	185.2	188.8
Accelerated Housing Programme and Housing Settlement Development	405.9	164.4
Construction and Refurbishment of Police Stations	91.0	156.9
Purchase of Vessels for the Coast Guard and Naval Assets	148.7	179.3
Restoration of Public Buildings	173.2	144.6
Construction and Upgrade of Fire Stations & Prison Faciltiies	57.8	117.4
Upgrade of Port Facilities	0.0	137.5
UTT Main Campus - Tamana E-Teck Park Wallerfield	53.7	70.0
Single Electronic Window for Trade and Business Facilitation	27.9	42.3
Coastal Protection	78.0	36.3
ICT and Digital Transormation	0.0	30.0
Development of Industrial Sites and Technology Parks	2.9	24.6
Purchase of Two Inter-Island Ferries	0.0	20.5

Source: Ministry of Finance, Estimates of the Development Programme 2021

e) External Accounts

Balance of Payments

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

Trinidad and Tobago's external accounts recorded a deficit of $303.5 million (5.5 per cent of GDP) in the first three months of 2020, larger than the deficit of $224.5 million (3.9 per cent of GDP) over the same period one year earlier **(Table IIId)**. This brought the level of gross official reserves to $6,625.5 million, equivalent to 7.5 months of prospective imports of goods and services. Over the period, the current account recorded a smaller surplus, mainly reflecting a reduction in export earnings. Meanwhile, the financial account recorded a net outflow, primarily on account of the movement in the other investment category.

The current account surplus narrowed to $109.9 million (2.0 per cent of GDP) in the first quarter of 2020, down from $555.0 million (9.6 per cent of GDP) in the similar period for 2019. This outturn was largely attributed to a deterioration in the net goods trading position as the falloff in exports outstripped the reduction in imports. More specifically, the loss of export earnings reflected a decline of $742.4 million, or 35.7 per cent (year-on-year), in energy exports. Declines were experienced across most energy commodities - of which the highest were liquefied natural gas (49.2 per cent), crude oil (32.4 per cent) and petrochemicals (30.5 per cent). Moreover, the loss of energy exports corresponded to falling international energy prices and reduced energy export volumes. In contrast, non-energy exports rose by 6.9 per cent (year-on-year) to $417.2 million due to higher exports of machinery and transport equipment. Meanwhile, imports declined by $109.1 million to record $1,363.2 million over the first quarter of 2020. Lower energy imports primarily accounted for this outturn, as the domestic economy reduced its demand for fuel products. Further compounding this position was a decline in imports of capital goods, which can be attributed to dampened economic activity.

Although the US, the European Union (EU) and CARICOM accounted for approximately two-thirds of Trinidad and Tobago's total exports[19], declines in exports to these destinations were noted over the first quarter of 2020, mirroring subdued global economic activity. Trinidad and Tobago's main trading partner, the US, recorded a reduction in demand for both energy and non-energy exports. Notwithstanding the decline in energy exports to the EU, non-energy exports recorded an uptick in the following categories: food and machinery and transport equipment. Regionally, exports to CARICOM recorded a falloff in most product categories, including beverages and tobacco, energy, manufactured goods, and machinery and transport equipment. Counteracting this was higher energy and non-energy exports to the UK over the period. The US also represents this country's leading source of imports; however, its share of imports fell over the first quarter of 2020 when compared to the similar period of 2019. Similarly, energy and non-energy imports from the UK more than halved attributable to the slowdown in activity within the domestic economy. Notable is the increase in non-energy imports from the EU, due to a rise in consumer demand for food and capital goods from the trading bloc.

The deficit on the services account narrowed to $246.8 million (or 4.5 per cent of GDP) in the first quarter of 2020, $56.4 million lower than the deficit over the first quarter of 2019. The improvement in the services account is mainly attributed to lower imports of technical, trade-related and other business services over the period. However, it was noted that there were increased imports of financial services. On the primary income account, a smaller deficit was recorded due to lower repatriations of earnings to non-residents while a reduction in private outbound transfers was mostly responsible for the smaller deficit on the secondary income account.

The financial account registered a net outflow of $628.1 million in the first quarter of 2020, a smaller net outflow compared to the same period in 2019. The other investment[20] category was the primary contributor toward the overall net outflow on the financial account. The rise in other investment assets was a direct result of increases in currency and deposits and loan assets held abroad over the reference period. Outflows were further compounded by the decline in other investment liabilities, which were mainly attributable to reductions in loans and other accounts owed to non-residents.

[19] Data in this paragraph, which reference trade by country movements, are sourced from the Central Statistical Office (CSO).

[20] Other investment comprises currency and deposits, loans, insurance, pension, and standardized guarantee schemes, trade credit and advances, other accounts receivable/payable and special drawing rights (liabilities).

Partially offsetting the net outflow of funds in the financial account were the net inflows from portfolio and direct investment. Financial transactions in the portfolio investment account registered a net inflow of $74.8 million over the January to March period owing to a reduction in the holdings of foreign assets by domestic investors, specifically debt instruments. Meanwhile, direct investment registered a net inflow of $16.0 million. The increase in direct investment liabilities (direct investment in Trinidad and Tobago by foreign investors) of $17.2 million was indicative of reinvestment of earnings and equity transactions over the period. The energy sector largely accounted for these transactions. The modest rise in direct investment assets mainly reflected increased equity transactions abroad by domestic investors which were partly offset by concurrent declines in inter-company lending.

Trinidad and Tobago's gross official reserves amounted to $7,167.5 million at the end of October 2020, $238.5 million higher than the level recorded at the end of 2019. The improvement in the level of reserves primarily stemmed from inflows associated with drawdowns from the Heritage and Stabilisation Fund (HSF) and proceeds from Central Government external borrowings, both aimed at mitigating against negative impacts of the COVID-19 pandemic on the domestic economy. The stock of reserves at the end of October 2020 represents 8.6 months of prospective imports of goods and services.

Table IIId: Trinidad and Tobago: Summary Balance of Payments (US$ Millions)

	2018P	2019P	2019P				2020P
			I	II	III	IV	I
Current Account	**1,613.4**	**1,023.4**	**555.0**	**409.4**	**26.9**	**32.2**	**109.9**
Goods and Services	**2,412.1**	**1,610.5**	**696.2**	**508.5**	**168.1**	**237.8**	**146.0**
Goods, net*	4,125.0	2,715.9	999.3	758.0	432.7	526.0	392.8
Exports**	10,755.6	8,749.7	2,471.6	2,222.4	2,022.1	2,033.5	1,756.0
Energy	9,089.9	6,959.0	2,081.1	1,756.9	1,522.9	1,598.1	1,338.7
Non-Energy	1,665.7	1,790.7	390.4	465.5	499.2	435.5	417.2
Imports**	6,630.7	6,033.7	1,472.3	1,464.5	1,589.4	1,507.6	1,363.2
Fuels***	1,755.3	1,222.1	314.7	321.2	278.5	307.7	243.8
Other	4,875.3	4,811.7	1,157.6	1,143.3	1,310.9	1,199.9	1,119.4
Services, net	-1,712.9	-1,105.4	-303.1	-249.5	-264.6	-288.2	-246.8
Primary Income, net	**-700.5**	**-607.8**	**-118.4**	**-101.5**	**-189.4**	**-198.5**	**-25.3**
Secondary Income, net	**-98.2**	**20.6**	**-22.8**	**2.4**	**48.2**	**-7.1**	**-10.8**
Capital Account	**2.4**	**10.8**	**4.1**	**0.1**	**6.0**	**0.5**	**4.1**
Financial Account	**174.6**	**591.4**	**758.7**	**-381.2**	**459.5**	**-245.5**	**628.1**
Direct Investment	**765.2**	**-69.8**	**76.4**	**17.7**	**-143.5**	**-20.4**	**-16.0**
Net Acquisition of Financial Assets	65.0	114.2	47.4	23.8	21.6	21.4	1.3
Net Incurrence of Liabilities	-700.2	184.0	-29.0	6.1	165.0	41.8	17.2
Portfolio Investment	**418.1**	**1,453.9**	**438.7**	**175.0**	**767.4**	**72.8**	**-74.8**
Net Acquisition of Financial Assets	350.4	1,245.4	373.5	141.7	361.9	368.3	-73.4
Net Incurrence of Liabilities	-67.7	-208.5	-65.2	-33.2	-405.5	295.5	1.4
Financial Derivatives	**5.3**	**-0.2**	**0.3**	**2.0**	**-3.5**	**1.1**	**-8.6**
Net Acquisition of Financial Assets	5.2	-0.4	1.2	1.2	-2.9	0.0	-7.9
Net Incurrence of Liabilities	-0.2	-0.2	1.0	-0.8	0.7	-1.1	0.7
Other Investment****	**-1,014.0**	**-792.5**	**243.3**	**-575.8**	**-161.0**	**-299.0**	**727.4**
Net Acquisition of Financial Assets	-309.9	345.8	198.7	51.4	506.3	-410.6	464.2
Net Incurrence of Liabilities	704.1	1,138.3	-44.6	627.2	667.3	-111.6	-263.2
Net errors and Omissions	**-2,235.9**	**-1,088.9**	**-25.0**	**-1,147.7**	**332.0**	**-248.2**	**210.6**
Overall Balance	**-794.7**	**-646.1**	**-224.5**	**-356.9**	**-94.6**	**30.0**	**-303.5**
Per Cent of GDP							
Current Account	**6.8**	**4.4**	**9.6**	**7.1**	**0.5**	**0.6**	**2.0**
Goods, net	17.4	11.7	17.2	13.1	7.5	9.1	7.2
Exports	45.3	37.7	42.6	38.3	34.9	35.0	32.1
Imports	27.9	26.0	25.4	25.2	27.4	26.0	24.9
Services, net	-7.2	-4.8	-5.2	-4.3	-4.6	-5.0	-4.5
Primary income, net	-3.0	-2.6	-2.0	-1.7	-3.3	-3.4	-0.5
Overall balance	**-3.3**	**-2.8**	**-3.9**	**-6.2**	**-1.6**	**0.5**	**-5.5**
Memorandum Items							
Gross Official Reserves ^	7,575.0	6,929.0	7,350.5	6,993.6	6,898.9	6,929.0	6,625.5
Import Cover (months) ^	8.0	7.7	8.3	7.9	7.7	7.7	7.5

Source: Central Bank of Trinidad and Tobago

GDP prior to 2020 are sourced from the CSO and that for 2020 are Ministry of Finance estimates sourced from 2020/21 original budget.

Note: This table is an analytical presentation of the Balance of Payments and is presented in accordance with the IMF's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6). Refer to Box 3 of the Economic Bulletin, March 2017 for a Technical Note on the Transition to BPM6.

The following financial account movements are represented with a negative sign:

- A decrease in assets (inflow)
- A decrease in liabilities (outflow)
- A net inflow in net balances

The following financial account movements are represented with a positive sign:

- An increase in assets (outflow)
- An increase in liabilities (inflow)
- A net outflow in net balances

* Energy goods data for 2018-2020 comprise estimates by the Central Bank of Trinidad and Tobago.

** Exports and imports are reported on a FOB (Free on Board) basis. Energy exports include exports of petroleum, petroleum products and related materials and the exports of petrochemicals.

*** Includes petroleum, petroleum products and related materials.

**** Other investment comprise currency and deposits, loans, insurance, pension, and standardised guarantee schemes, trade credit and advances, other accounts receivable/payable and special drawing rights (liabilities).

^ End of Period.

P Provisional.

International Investment Position

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

The net international investment position (NIIP) was estimated at $3,563.1 million at the end of March 2020, down $714.0 million from the end of 2019. The deterioration in the NIIP represents a decrease in the net creditor position as the fall in assets outpaced the decline in the stock of liabilities **(Table IIIe)**.

Over the first quarter of 2020, the stock of assets fell owing to a decline in portfolio investment, both equity and debt securities. Partially offsetting this reduction was the increase in other investment assets (currency and deposits and loan assets) and direct investment abroad. Reserve assets also declined during the three months, partly reflecting lower oil and gas receipts, continued Central Bank interventions in the domestic foreign exchange market and higher Central Government payments.

The movement in the stock of liabilities over the reference period was mainly due to a reduction in other investment. The falloff in other investment liabilities stemmed from repayments on loans and other accounts owed to non-residents, which outpaced the modest increase in currency and deposits. Meanwhile, direct investment liabilities increased mostly because of a rise in the stock of equity.

Table IIIe: Trinidad and Tobago: International Investment Position (at the end of period) (US$ Millions)

	2018P	2019P	2019P				2020P
			I	II	III	IV	I
Net International Investment Position	**3,685.3**	**4,277.1**	**4,695.8**	**4,371.4**	**4,577.8**	**4,277.1**	**3,563.1**
Assets	**22,853.8**	**24,373.7**	**23,816.6**	**23,830.8**	**24,526.2**	**24,373.7**	**23,479.0**
Direct Investment	913.1	1,409.1	1,342.6	1,366.5	1,386.3	1,409.1	1,604.8
Portfolio Investment	9,692.0	11,075.1	10,304.4	10,595.6	10,857.3	11,075.1	9,810.1
Financial Derivatives	10.1	9.0	11.6	13.8	10.3	9.0	1.3
Other Investment*	4,663.5	4,951.6	4,807.5	4,861.3	5,373.4	4,951.6	5,437.3
Reserve Assets	7,575.0	6,929.0	7,350.5	6,993.6	6,898.9	6,929.0	6,625.5
Liabilities	**19,168.4**	**20,096.6**	**19,120.9**	**19,459.4**	**19,948.4**	**20,096.6**	**19,915.9**
Direct Investment	8,452.4	8,457.4	8,496.1	8,239.8	8,484.7	8,457.4	8,528.5
Portfolio Investment	4,064.1	3,861.0	4,006.5	3,975.6	3,572.2	3,861.0	3,862.9
Financial Derivatives	0.7	0.3	1.8	1.6	2.0	0.3	1.0
Other Investment*	6,651.1	7,777.9	6,616.5	7,242.4	7,889.5	7,777.9	7,523.6

Source: Central Bank of Trinidad and Tobago

* Other investment comprise currency and deposits, loans, insurance, pension, and standardised guarantee schemes, trade credit and advances, other accounts receivable/payable and special drawing rights (liabilities).

P Provisional.

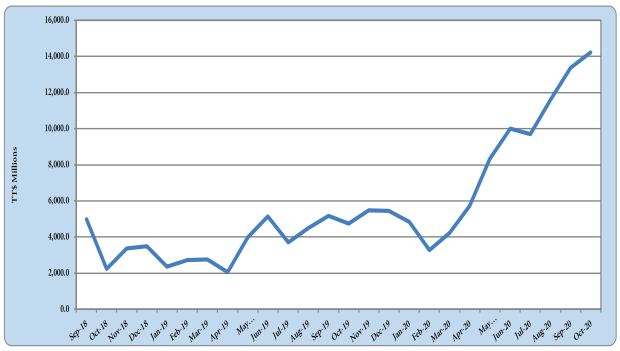
Part IV – Monetary and Financial Sector Developments

Monetary Developments

The evolution of monetary policy thus far in 2020 has been largely centred on managing the economic fallout of the COVID-19 pandemic. As the economic effects of the pandemic unfolded domestically, the Monetary Policy Committee (MPC) determined that the optimal set of actions would amplify systemic liquidity to facilitate lower commercial interest rates. In March, the MPC decided to reduce the repo rate by 150 basis points to 3.50 per cent and to lower the primary reserve requirement on commercial bank deposits by 3.0 per cent to 14.0 per cent. Additionally, there were no allotments of open market operation (OMO) bills between March 12 and September 30, 2020, allowing net redemptions to add to systemic liquidity **(See Box A)**. As a result, both the rate on the 91-day Treasury bill as well as the weighted average lending rate of the commercial banks declined in mid-2020, reflecting that the policy action largely achieved its immediate goals. Other administrative measures were put in place to support the financial system, including an ordinance to relax the regulatory treatment of loans restructured owing to skipped payments which supports the banking sector's effort to allow payment deferrals, rate reductions, waivers and reduced penalties on credit facilities.

Liquidity levels in the financial system increased substantially from May to October 2020. The lowering of the reserve requirement in March 2020 had the effect of immediately injecting $2,630.6 million into the financial system. Net domestic fiscal injections (NDFIs), usually the main driver of excess liquidity, increased to $8,446.8 million over May to October 2020 compared to $3,309.1 million in the same period one year earlier **(Table IVa)**. Open Market Operations (OMOs) injected $2,975.0 million over May to October 2020, compared to injections of $5,735.2 million for the same period one year earlier. At the same time, the Central Bank's sales of foreign exchange to authorised dealers indirectly removed $3,909.8 million from the system, compared to $5,316.5 million in the same period a year earlier. Daily average excess liquidity thus grew to $14,223.8 million by October 2020, compared with $8,336.5 million in May 2020 **(Chart IVa)**.

Chart IVa:
Commercial Banks – Excess Reserves



Source: Central Bank of Trinidad and Tobago

Table IVa: Fiscal Injections and Liquidity Absorption (TT$ Millions)

	May 2019 - Oct 2019	May 2020 - Oct 2020
Fiscal Injections	3,309.1	8,446.8
Liquidity Absorption Measures		
Open Market Operations (OMOs)	5,735.2	2,975.0
Central Government Treasury Bond Issues	0.0	0.0
Commercial Banks' Fixed Deposits	0.0	0.0
Memorandum Item:		
CBTT Sale of Foreign Exchange[1]	5,316.5	4,244.0

Source: Central Bank of Trinidad and Tobago

Note: A negative sign means that there was a net issue of OMOs and commercial banks' fixed deposits resulting in a withdrawal of liquidity and a positive sign means a net redemption of OMOs and maturity of commercial banks' fixed deposits which injects liquidity.

[1] CBTT Sale of Foreign Exchange includes transactions under the Foreign Exchange Liquidity Guarantee facility.

Box A

Open Market Operations amid the COVID-19 Crisis: Some Preliminary Observations

The COVID-19 crisis has caused many central banks to inject substantial liquidity in their financial markets, through both conventional and unconventional means. Advanced economies recently began to re-engage in quantitative easing. Many central banks in emerging markets have also been able to boost liquidity using varying forms of asset purchases strategies in response to the COVID-19 crisis. This box reviews the Central Bank's open market operations (OMOs), which was one of the main tools used to inject significant liquidity in recent months, in the context of the COVID-19 crisis.

The COVID-19 crisis has the potential to impact the Government bond market through higher yields[1]. Between December 2019 and February 2020 (in the pre-COVID-19 period[2]), yields on long-term government bonds were relatively stable. The COVID-19 crisis, however, introduced additional uncertainty in the market. The uncertainty stemmed mainly from the deterioration in energy prices and its impact on the Government's budget and debt, and the outlook for the economy. Thus the crisis could manifest in the form of rising long-term yields as investors demand higher risk premiums on government financing.

A rise in long-term bond yields could transmit to higher banking sector lending rates through the cost of funds and risk premium channels. In recent years, a new strand of literature within the realm of monetary transmission mechanism proposes the "cost of funds" channel that is not associated with the commercial banks' funding costs. Under this channel, commercial banks choose a corresponding market rate as the opportunity cost of the bank lending rate to the private sector. That is, a long-term bond rate is chosen for the pricing of long-term loans. In practice, the proposition is that commercial banks take long-term bond yields as a reference benchmark for long-term lending (such as for real estate mortgages and other long-term lending). This practice of banks would happen in both normal and also in crisis episodes where bond yields can rise significantly resulting in higher banking lending rates. During times of crisis, government bond yields could also impact bank lending rates from the risk premium perspective. For instance, an increase in sovereign risk and long-term government bond yields could impact commercial banks overall lending since the risk of deteriorating economic conditions increases sharply (or in an economic recession). Banks may choose to raise the risk premium on lending to private firms and households when sovereign risk becomes higher. However, the extent to which commercial banks change their lending rates may be determined by other factors such as the probability of loan defaults, the degree of bank sector competition, and the terms and conditions of loan contracts (e.g. the interest rate reset period).

An increase in long-term yields on government treasuries may not necessarily transmit to higher bank lending rates due to factors such as monetary policy or a delay in bank reaction. Monetary policy actions to add significant liquidity to the market could restrain increases in long-term bond yields or even push yields downwards, which ceteris paribus, could result in bank lending rates falling. Thus monetary policy, whether unconventional or not, plays a major role in determining bank lending rates through its impact on market liquidity or through sovereign bond yields (Eller et al., 2016).

In the domestic economy, households and private sector firms mainly access commercial bank credit. The Central Bank has noted that the level of household indebtedness is and was a cause for concern since 2017[3]. A rise in government bond yields could translate into increases in mortgage interest rates, mainly residential mortgage interest rates[4]. Higher mortgage rates during this pandemic-related downturn, could trigger mortgage defaults in financial institutions and result in financial instability.

Higher bond yields could also transmit to higher lending rates to businesses, causing a further contraction in business credit or increase the credit risk of banks' loan portfolios. Before the advent of COVID-19, the pace of business lending by the consolidated financial system was already declining due to the downturn in economic activity caused by low energy prices. Additionally, the Government's public health response to the COVID-19 crisis has severely impacted business operations. Social distancing and restrictions on mobility and commerce curtailed revenue streams for many firms. The developments meant that debt servicing was likely difficult for the private sector.

In response to the COVID-19 crisis, the Central Bank injected sizeable liquidity in the market to restrain longer-term yields and avert its potential impact on the banking sector. Over the period of March to September 2020, the Central Bank used OMOs to inject substantial liquidity in the local financial market. Before this period, the first two months of 2020 saw OMO management tightened somewhat, yet the financial system was still considered liquid. However, the Central Bank then took decisive action to increase market liquidity significantly. Operationally, the Central Bank did not auction any OMO securities over March 13 2020, to September 30 2020, but instead allowed outstanding OMO bills to mature and not roll-over. During March to September, the Central Bank injected $4,882 million into the financial system. This compared with the seven months ended February 2020, where OMOs withdrew liquidity from the financial sector of $351 million, and a net injection of liquidity of $1,099 million in the same period, one year ago.

The conduct of OMOs in recent months was sizeable and unprecedented at least compared to recent years and aimed to put significant downward pressure on yields on long-term treasuries. In general, the Central Bank uses OMOs to keep short-term market interest rates (the treasury-bill rate) in line with its monetary policy stance. OMOs comprises the buying (or selling) of short-term treasuries to increase (or decrease) market liquidity, to indirectly influence short-term market interest rates. In Trinidad and Tobago, liquidity condi-

Box A - Cont'd

Open Market Operations amid the COVID-19 Crisis: Some Preliminary Observations

tions are generally volatile and can be impacted by a variety of sources. However, the main source is the Government's fiscal injections which, in turn, are influenced by energy prices. Generally, the Central Bank conducts OMOs to facilitate market demand for liquidity. However, Government's borrowing in the domestic capital market could significantly impact liquidity conditions and move short-term interest rates contrary to the Central Bank's policy stance, thereby distorting the policy signal to the financial market and the economy. Government financing needs are, therefore, taken into account when managing liquidity in the financial system. Although OMOs typically targets short-term treasuries, the recent approach, however, was also done to put significant restraints on longer-term yields on treasuries.

Some initial observations on the impact of the recent Central Bank's OMO injection (March to September 2020) can be made. Firstly, OMO maturities boosted financial system excess reserves, which rose steadily since March 2020, to peak at roughly $14 billion in September 2020. The estimated yield on longer-term government bond yields increased over the six months ending September 2020. Notably, between March and April, despite a fall in the volume of bonds traded on the secondary government bond market, a general rise in bond yields was particularly evident as government bond prices displayed a general decline[5]. Also, the stock market observed a significant sell-off as investors reduced their equity exposure and opted instead for the safety of liquidity[6]. A possible reason for the increase in long-term yields during March to September is the higher risk premium demanded by investors. This strategy is, however, likely to put downward pressure on both short and longer-term yields in the market and bank lending rates in coming months[7].

Secondly, the significant liquidity injection in response to the crisis provides the Government with access to funding from the domestic capital market, which is not akin to monetary financing. The crisis has generated the topical issue of monetary financing of fiscal deficits by central banks. Monetary financing refers to the direct lending by the central bank to the government to finance fiscal expenditures (or finance fiscal deficits). The Central Bank's approach to liquidity management does not fall into the realm of monetary financing. The current approach to injecting liquidity is tied to its monetary policy and financial stability mandates. The recent strategy to inject sizeable liquidity, however, benefits the Government if it wishes to access funding and possibly at lower financing cost to stimulate economic activity, since budget deficit financing needs are increasing.

Finally, the accommodative action taken in response to the pandemic was timely, and operations to maintain the current liquidity position should be conducted for as long as necessary. Nevertheless, given the imbalances that can accrue owing to distorted incentives, the current accommodation should be considered temporary. This approach is generally necessary for profoundly adverse situations. The approach is not without costs and does not preclude any necessity to adjust policy in the future, mainly to avoid potential asset bubbles and other untended macroeconomic consequences, including financial instability.

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[1] Central banks pay close attention to developments in yield curves. Yield curves are vital for the transmission of monetary policy, as they have a significant influence on broad asset valuations and the pricing of bank loans and, ultimately, they affect the investment and saving decisions of households and firms, respectively. In Trinidad and Tobago, close attention is given to developments in the Central Government's Yield Curve .
[2] On March 11 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic.
[3] See Central Bank of Trinidad and Trinidad and Tobago, Financial Stability Report 2019.
[4] The residential Mortgage Market Reference Rate (MMRR), which is computed quarterly by the Central Bank, is determined by the cost of funds in the banking system and the yield on the 15-year Central Government yield curve. The MMRR is used to determine the initial mortgage rate on (for those banks that use the MMRR) residential mortgages and for repricing variable- and adjustable-rate mortgages. https://www.central-bank.org.tt/sites/default/files/latest-news/MMRR%20Guidleline%202017.pdf.
[5] Bond prices and bond yields have an inverse relationship, whereas bond prices decline, the yields on those bonds increase.
[6] The Composite Price Index (CPI) plummeted by 16.5 per cent, resulting in total stock market capitalisation falling by $24.4 billion to $123.8 billion between March and April. However, the stock market recovered in the five months ending September 2020.
[7] The commercial banks' weighted average lending interest rate declined further between March and September 2020. The OMO strategy will likely contribute to further downward pressure on treasuries yields and bank lending rates.

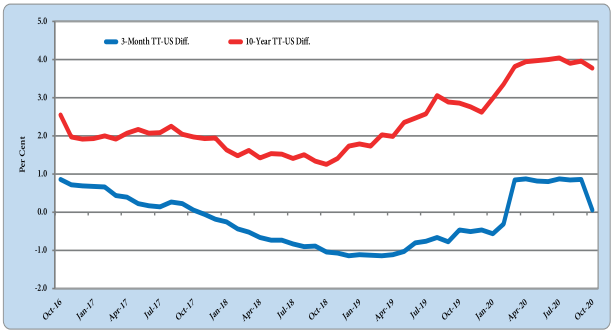
The latest interbank borrowing activity in 2020 took place in April; there was no interbank borrowing over May to October 2020 as a result of ample availability of liquidity. Commercial banks did not access the Repurchase Facility over the period.

Other short-term interest rates declined over May to October 2020. The TT 91-day OMO Treasury Bill rate declined over the period from 0.96 per cent in May to 0.15 per cent in October. This follows the Bank's large liquidity provisioning action in early 2020 after the advent of the COVID-19 pandemic. In the United States, a highly accommodative policy response by the US Federal Reserve, coupled with uncertainty in the global economy related to the ongoing economic fallout of COVID-19 resulted in declining yields on US short-term instruments. The yield on the US 91-day short-term benchmark reached 0.09 per cent by the end of October, down from 0.14 per cent in May. As a result, the TT-US 91-day differential declined from 82 basis points in May 2020, to 6 basis points in October **(Chart IVb)**. Similarly, the TT 1-year Treasury rate declined from 2.08 per cent in May 2020 to 0.42 per cent in October, while the US 1-year Treasury rate declined by 4 basis points to 0.13 per cent over the same period. This resulted in a TT-US 1-year differential of 29 basis point in October, down from 191 basis points in May 2020.

Despite fluctuations, the US 10-year Treasury rate trended slightly upward over May to October 2020, gaining 23 basis points over the period to reach 0.88 per cent. This mainly reflected uncertainty about future macroeconomic conditions despite the accommodative stance of the Federal Reserve over the period. The rate on the TT 10-year Treasury gained 3 basis points over the period to reach 4.66 per cent, resulting in a long term differential that declined by 20 basis points over May to October 2020 to reach 378 basis points.

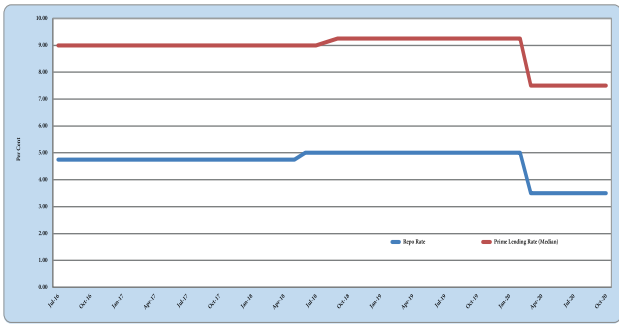
Commercial banks' interest rates declined, as did bank interest spreads, up to June 2020. The commercial banks' weighted average lending rate (WALR) reached 7.40 per cent in June 2020, 32 basis points lower than in December 2019. The decline in the WALR reflected competition among commercial banks for loan business, including for refinancing and debt consolidation purposes, but also the effect of the liquidity conditions in response to the fallout from COVID-19. The weighted average deposit rate declined three basis points to 0.64 per cent over the same period. As a result, the banking interest spread decreased by 29 basis points from December 2019 to June 2020 to reach 6.76 per cent **(Chart IVc)**. The median prime lending rate of commercial banks declined from 9.25 per cent in February to 7.50 per cent in March after the measures to address COVID-19 were implemented and stood at this rate since.

Chart IVb:
3-Month and 10-Year TT-US Differentials



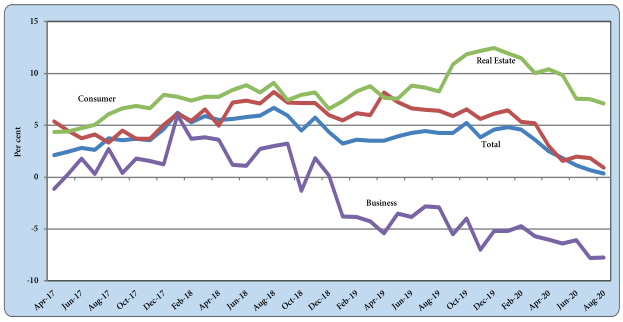
Source: Central Bank of Trinidad and Tobago

Chart IVc:
Repo Rate and Commercial Banks' Median Prime Lending Rate



Source: Central Bank of Trinidad and Tobago

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



Source: Central Bank of Trinidad and Tobago

Credit granted by the consolidated financial system to the private sector slowed in the first eight months in 2020. Consolidated system credit grew by 0.3 per cent in August 2020 compared with 4.8 per cent in January 2020. This trend can be attributed to a steeper decline in business lending, along with slower consumer credit and real estate mortgage lending **(Chart IVd)**. The fallout from the COVID-19 pandemic resulted in banks and non-banks granting moratoriums to clients. In March 2020, commercial banks deferred approximately 257,426 loans or $16.4 billion (or 21.6 per cent of the total value of banking sector loans portfolio) in client loans. In June, the number of deferred loans narrowed to 233,325 valued at approximately $20 billion. Non-banks deferred approximately 497 loans in March 2020 with a value of approximately $126 million, which reached to 14,586 in June 2020 valuing approximately $964 million. The moratorium included loans to consumers, businesses and real estate loans.

The impact of the COVID-19 pandemic continues to be felt throughout the business community. Various lockdown measures to minimise the spread of the virus have heightened the closure of businesses and contributed to the further decline in business lending. On a year-on-year basis, business lending declined by 7.7 per cent in August 2020 compared with a 5.2 per cent drop in January. The data suggest that in 2019 and early 2020 businesses were less inclined than in prior years to seek new financing for their operations; this was exacerbated by the COVID-19 pandemic. Data to June 2020 showed a decline in lending to the Construction and Distribution sector by 4.4 per cent and 3.0 per cent, respectively. On the other hand, increased lending was registered for the Manufacturing sector of 4.2 per cent.

Lending to consumers was strong in 2019 but weakened as the COVID-19 pandemic took hold in 2020. On a year-on-year basis, lending to consumers expanded by 0.9 per cent in August following an average growth rate of 6.4 per cent throughout 2019. Lending for debt consolidation and refinancing remains the strongest consumer lending categories, growing by 8.5 per cent and 5.8 per cent in June 2020, respectively. These categories are expected to grow even further, given the decline in interest rates resulting from the Central Bank's monetary policy action in March 2020. On a year-on-year basis lending for the purchase of vehicles expanded in June 2020 by 11.7 per cent with lending for new vehicles growing by 9.2 per cent and used vehicles by 14.8 per cent. Credit card loans also declined in June, falling by 1.3 per cent despite a falloff in the median credit card interest rate.

Mortgage lending for the purchase of real estate also decelerated in 2020 due to the weakened economic environment resulting from the pandemic. On a year-on-year basis, real estate lending grew by 7.1 per cent in August 2020 compared to 12.0 per cent at the start of the year. Real estate mortgages for existing homes grew by 12.9 per cent in June 2020, while lending for renovation expanded by 9.9 per cent and mortgages for the purchase of new homes grew by 5.8 per cent. Latest data to May 2020 suggests a slight decline of the median real estate mortgage rate from 6.6 per cent in January 2020 to 6.5 per cent by May 2020.

The demonetisation of the TT$100 note in December 2019 and the impact of the pandemic continues to influence the monetary aggregates. M-1A, which consists of currency in active circulation and demand deposits, expanded by 8.3 per cent in August 2020 (compared with 12.9 per cent year-on-year in August 2019 and 3.3 per cent in December 2019). An in-depth analysis indicates a falloff in currency in active circulation of 12.4 per cent (year-on-year)in August 2020 compared with a decline of 39.8 per cent in December 2019. The broader measure of the money supply, M2, which includes both time and saving deposits grew by 7.9 per cent in August compared with a growth of 0.1 per cent in December 2019 suggesting that persons opted to place deposits in the banking system. Time deposits expanded by 0.9 per cent in August while savings deposits grew by 9.5 per cent.

Foreign currency loans declined significantly in March 2020 and continued into August 2020 due to the ongoing pandemic. On a year-on-year basis, foreign currency loans fell off by 18.4 per cent in August 2020 compared to a growth of 2.6 per cent in December 2019. In particular, loans by banks declined 21.4 per cent while non-banks narrowed foreign currency lending by 5.7 per cent. Foreign currency loans to businesses declined sharply (23.5 per cent) and was primarily attributed to the 25.0 per cent falloff for commercial banks.

Financial Sector Developments

Developments in the Local Foreign Exchange Market

The COVID-19 crisis resulted in a general compression in the market for foreign currency, which remained tight thus far in 2020. Purchases of foreign exchange by authorised dealers from the public declined to US$2,805.0 million over January to October 2020, a decline of 22.3 per cent relative to the same period a year prior. This decline in purchases was related to a 29.1 per cent drop in conversions by energy companies relative to the same period in 2019. Despite this decline, purchases from the energy sector accounted for 62.1 per cent of all purchases of foreign currency by authorised dealers from the public over US$20,000 **(Table IVb)**.

Sales of foreign currency also fell thus far in 2020. Sales of foreign exchange by authorised dealers to the public declined to US$3,757.6 million over January to October 2020, a decline of 25.1 per cent relative to the same period a year prior. Credit cards (29.6 per cent), Retail and Distribution (26.2 per cent) Energy Companies (10.2 per cent) and Manufacturing (9.6 per cent) made up the bulk of foreign exchange sales by authorised dealers to the public over US$20,000. The net sales gap reached US$952.7 million over January to October 2020. To support the market, the Central Bank sold US$1,069.5 million to authorised dealers over the reference period.

Table IVb: Authorised Dealers: Foreign Exchange Market Activity (US$ Millions)

Date	Purchases from Public	Sales to Public	Net sales	Purchases from CBTT[1]
2015	4,930.8	7,382.2	2,451.4	2,640.9
2016	4,274.7	5,776.8	1,502.1	1,811.6
2017	3,606.9	5,195.3	1,588.4	1,816.0
2018	4,101.4	5,677.4	1,576.0	1,501.0
2019	4,285.6	5,939.8	1,654.2	1,504.0
Jan - Oct 2019	3,608.7	5,016.6	1,407.9	1,270.1
Jan - Oct 2020	2,805.0	3,757.6	952.7	1,069.5
Y-o-Y Per cent Change	**-22.3**	**-25.1**	**-32.3**	**-15.8**

Source: Central Bank of Trinidad and Tobago

[1] Purchases from the Central Bank of Trinidad & Tobago include transactions under the Foreign Exchange Liquidity Guarantee facility.

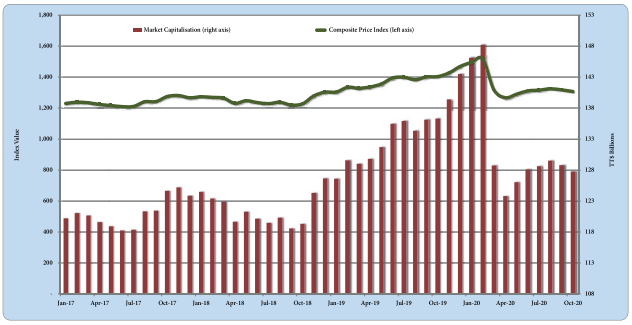
Stock Market Developments

The domestic stock market, which was adversely impacted by the COVID-19 shock, displayed signs of recovery over the six months ending October 2020 **(Chart IVe)**. Before the COVID-19 shock, the major stock market indices observed a stable growth trajectory. However, over March and April 2020, as the domestic economy began to experience the first wave of the virus and authorities enacted safety measures, market sentiment resulted in a significant sell-off as investors reduced their equity exposure. During this period, the Composite Price Index (CPI) declined by 16.5 per cent, driven by a 13.9 per cent drop in the All Trinidad and Tobago index (ATI) and a 21.2 per cent plummet in the Cross Listed Index (CLI). The market deterioration resulted in total stock market capitalisation falling by $24.4 billion to end April 2020 at $123.8 billion. Furthermore, over the two months, the sell-off resulted in the market turnover ratio[21] increasing to an average of 0.142 per cent from 0.054 per cent in the January and February 2020.

Over the six-months ending October 2020, the market exhibited some signs of recovery. Over the period, the CPI index grew by 3.1 per cent, supported primarily by a 5.0 per cent increase in the ATI index. Conversely, reflecting the deterioration in the regional stock exchanges, the CLI index marginally slipped by 0.5 per cent over the period. The recovery in the domestic market resulted in stock market capitalisation regaining 3.2 per cent to $127.8 billion **(Chart IVf)**. For reference, over the first ten months of 2020, the major Jamaica Stock Exchange (JSE) index and Barbados Stock Exchange (BSE) index declined by 26.4 per cent and 15.9 per cent, respectively.

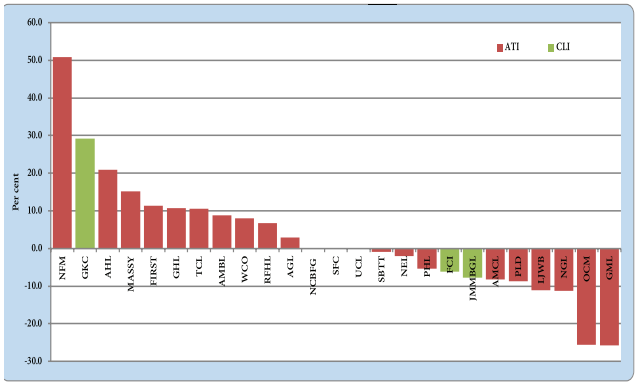
During the six-months ending October 2020, most of the market indices observed an improvement **(Chart IVg)**. The Manufacturing II index increased by 10.5 per cent, supported by the same increase in Trinidad Cement Limited (TCL), on account of an improvement in revenues stemming from regional markets and a reduction in financial expenses following successful cost reduction strategies. The Manufacturing I index increased by 9.5 per cent over the period, driven by a notable 50.8 per cent increase in National Flour Mills (NFM); and a 20.9 per cent increase in Angostura Holdings Limited (AHL). The jump in NFM was reported to be an unintended consequence of the virus increasing home cooking and baking, while the increase in AHL was mostly due to an increase in local rum sales and bitters sales in the North American market. Conversely, the Manufacturing I index

Chart IVe:
Composite Price Index and
Stock Market Capitalisation



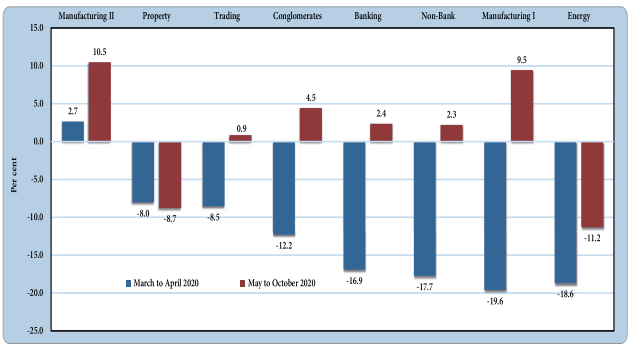
Source: Trinidad and Tobago Stock Exchange

Chart IVf:
Trinidad and Tobago Individual Stock Prices
(March 2020 to October 2020)



Source: Trinidad and Tobago Stock Exchange

Chart IVg
Trinidad and Tobago Stock Market Sub-Indices
(March 2020 to October 2020)



Source: Trinidad and Tobago Stock Exchange

[21] The stock market turnover ratio refers to the total value of shares traded divided by the total stock market capitalisation at the end of the period.

was negatively impacted by a 25.5 per cent fall in One Caribbean Media Limited (OCM) and a 25.8 per cent drop in Guardian Media Limited (GML). These declines were reported to be from lower advertising revenues, stemming from the COVID-19 impact and the measures to control and contain the spread of the virus. Other stock indices which showed growth were Conglomerates (4.5 per cent); Banking (2.4 per cent); Non-Bank Finance (2.3 per cent); and Trading (0.9 per cent). On the other hand, the Property (-8.7 per cent); and Energy (-11.2 per cent) sub-indices all continued to witness declines.

Trading activity over May to October 2020 was notably lower when compared with the same period in 2019. Over the period, the market traded 25.0 million shares for a total value of $396.2 million, resulting in a monthly average market turnover ratio of 0.052 per cent. In comparison, during the same period in 2019, 41.2 million shares were traded in the market at a total value of $598.9 million, resulting in a market turnover ratio of 0.074 per cent. During the 2020 period, the Non-Bank Finance sub-index witnessed the largest volume trade at 28.5 per cent or 7.1 million shares. In terms of value, the Banking sub-index commanded 48.4 per cent or $191.7 million, where Republic Financial Holdings Limited (RFHL) accounted for 57.9 per cent of the sub-index value.

Primary Debt Market Activity

Provisional data suggests that during the third quarter of 2020, the value of bonds issued via the primary debt market was substantially higher **(Table IVc)**. Over the period, the market observed two primary placements totalling $2,169.0 million. The Central Government financed $2 billion for the settlement of outstanding VAT refunds while one state enterprise raised US$25.0 million for general corporate purposes. Conversely, during the third quarter of 2019, the market observed five placements by the Central Government and State enterprises totalling $917.9 million.

Secondary Bond Market Activity

Following lacklustre activity during the first half of 2020, activity on the secondary government bond market picked up notably during the four months ending October 2020. During the first half of 2020, the market observed just three trades at a total face value of $2.85 million. However, during July to October 2020, the market registered 11 trades at a total face value of $416.8 million. The jump in activity is likely on account of liquidity requirements and the anticipation of additional government borrowing needs following the FY 2020/21 budget announcement. In contrast, the same period of 2019 witnessed 11 trades at a face value of $80.5 million. Furthermore, activity on the secondary corporate bond market[22] picked up during the four months ending October 2020, registering 47 trades at a face value of $5.8 million, compared with 44 trades at just $3.6 million in the same period in 2019.

Central Government Yield Curve[23] and Bond Index

Table IVc: Primary Debt Security Activity - July to September, 2020 (TT$Millions)

Period issued	Borrower	Face value (TT$ M)	Period to Maturity	Coupon rate Per annum (Per cent)	Placement Type
Jul-20	Central Government of Trinidad and Tobago (VAT bonds TR2)[1]	2,000.0	3.0 years	Fixed rate 3.30%	Private
Sep-20	First Citizens Investment Services Limited (FCIS)	169.0 (US$25.0 Mn)	1.0 year	Fixed rate 2.15%	Private

Source: Central Bank of Trinidad and Tobago

1 The first tranche (TR1) of Government VAT bank ($1.0 billion) was issued in May 2020.

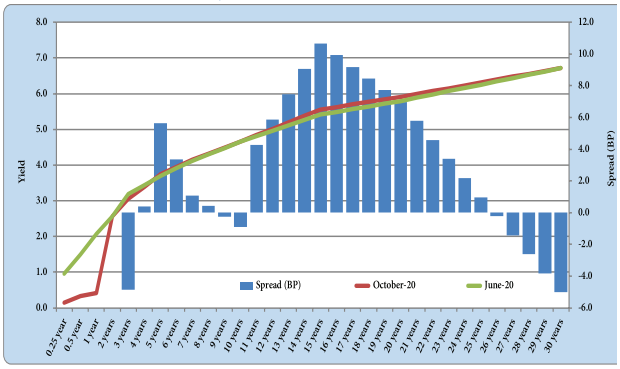
p Provisional.

[22] Activity on the TTSE corporate bond market records the price and yield movements of the three National Investment Fund Holding Company Limited (NIFHCL) bonds listed in September 2018.

During the four months ending October 2020, the Central Government yield curve observed a substantial decline in short-term rates while medium to long-term rates witnessed an upward trend **(Chart IVh)**. Over the period, the short-term 3-month rate fell by 81 basis points to 0.15 per cent; the 6-month rate dropped by 117 basis points to 0.33 per cent, and the 1-year rate plummeted by 166 basis points to 0.42 per cent. The declines in the short-term rates occurred during Domestic Market Operations auction activity in October 2020, as a result of the elevated excess liquidity conditions which resulted in substantial demand for short-term Treasury assets and a resulting fall in yields. On the other hand, most medium- to long-term tenors observed an increasing trend over the period, except for tenors such as the benchmark 10-year rate which remained unchanged at 4.66 per cent. Conversely, the 15-year rate observed a 14 basis point increase to 5.56 per cent while the 20-year rate increased by 11 basis points to 5.91 per cent. The general increase in medium- to long-term yields suggests that despite the high liquidity conditions and an accommodative monetary policy position, investors may be placing higher risk and term premiums on long-term government securities due to the government's increasing financing requirements.

This sentiment is reflected in the recent trend of the Central Government Bond Index. Notwithstanding a decline in secondary government bond trade volume, over the first ten months of 2020, the Central Government bond price index declined by 0.3 per cent. Similarly, over the same period in 2019, the price index fell by 1.0 per cent. Considering the inverse relationship between bond prices and yields, the decline in the bond price index indicates that Central Government bond yields are increasing.

Chart IVh
Trinidad and Tobago Central Government Treasury Yield Curve
(June 2020 to October 2020)



Source: Central Bank of Trinidad and Tobago

[23] The TT Treasury Yield Curve is constructed monthly by the Central Bank of Trinidad and Tobago and is based on information from Domestic Market Operations, the Trinidad and Tobago Stock Exchange (TTSE) Secondary Government Bond Market, and market reads from market participants.

Mutual Fund Industry

The local mutual funds' industry witnessed an improvement during the second quarter of 2020 **(Chart IVi)**. Aggregate funds under management[24] improved by 2.2 per cent to $47,572.6 million following a 1.3 per cent decline in the first quarter of 2020. The industry improvement continued to be supported by Money Market funds which increased by 3.7 per cent to $12,674.4 million, following a 3.9 per cent increase in the previous quarter. Additionally, during the second quarter of 2020, Income funds recovered by 2.4 per cent to $27,938.2 million, following a 2.4 per cent decline in the first quarter. Conversely, Equity funds and funds classified as "Other"[25] continued to weaken in the second quarter as a result of the COVID-19 impact. Over the period, Equity funds declined by 1.0 per cent to $6,578.9 million, following a 5.3 per cent decline in the first quarter, while "Other" funds fell by 1.4 per cent to $381.0 million, following a 1.3 per cent decline in the previous quarter. In terms of currency, TT dollar funds improved by 2.2 per cent to $38,774.5 million while foreign currency funds increased by 2.3 per cent to the TT equivalent of $8,798.1 million over the second quarter of 2020. In comparison, TT dollar and foreign currency funds declined by 0.8 per cent and 3.4 per cent respectively, in the previous quarter.

The growth of funds under management was supported by net sales of $491.4 million over the second quarter of 2020. This comprised total industry sales of $3,268.2 million and redemptions of $2,776.8 million. In comparison, the previous quarter observed just $90.1 million in net sales. The jump in sales position was supported largely by $414.5 million in net sales to Money Market funds, confirming that investors continue to pursue the relative safety of fixed NAV and low investment risk funds. Similarly, Income funds observed $151.9 million in net sales, principally from net sales to fixed NAV Income funds ($320.2 million), while floating NAV Income funds observed $168.2 million in net redemptions. On the other hand, higher risk Equity funds, which all possess a floating NAV structure, observed $78.6 million in net redemptions in the second quarter of 2020, maintaining its overall outflow position thus far over 2020. In terms of currency, TT dollar funds observed net sales of $519.7 million, while foreign currency funds observed the TT dollar equivalent of $28.3 million in net redemptions.

Collective Investment Scheme (CIS) data[26] from the Trinidad and Tobago Securities and Exchange Commission (TTSEC) suggests that the mutual fund industry displayed signs of recovery following the decline in March 2020. Data from the TTSEC indicates that in March 2020, the impact of COVID-19 on the domestic and international capital markets resulted in total industry Assets Under Management (AUM) falling by 4.1 per cent to $53,980.7 million. The decline amounted to a $2,306.5 million loss, of which net-redemptions accounted for $757.0 million.

Following this decline, CIS data over the six months ending September 2020 indicates that the industry recovered as investors transitioned towards the safety of fixed NAV funds for principal preservation. Over the period the industry recouped 7.2 per cent, ending September 2020 at $57,864.7 million. This was supported by net-sales amounting to $2,134.5 million.

Chart IVi
Mutual Funds under management: Disaggreated by type of Fund

Source: Central Bank of Trinidad and Tobago

[24] 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.

[225] Other funds represent high yield funds and special purpose funds.

[26] CIS data from the TTSEC represents 69 registered funds from 15 issuers.