Government of the Republic of Trinidad and Tobago

Ministry of Finance and the Economy

Communications Unit

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Howai moves to empower Central Bank's excess liquidity control

FINANCE and the Economy Minister, Larry Howai, yesterday (Friday) moved to adjust borrowing limits to empower the Central Bank's efforts in mopping up approximately TT$6 Billion in excess liquidity in the nation's financial system.

Minister Howai went before the House of Representatives seeking approval for the adjustment to borrowing limits under the Treasury Bills Act No. 14 of 1995 and the Treasury Notes Act No. 14 of 1995.

In his brief presentation, Minister Howai was clear that the adjustments "do not count as part of the country's debt obligations."

"This increase is to facilitate open market operations by the Central Bank of Trinidad & Tobago as the build-up of excess liquidity in the financial system is not expected to be fully absorbed in the short term despite a return to private sector borrowing."

The Finance and the Economy Minister said the monies borrowed will "simply be sterilized or held in a deposit at the Central Bank". Underscoring that the move was part of the Government's long term sustainable growth and development vision, the Minister stressed the need to manage excess liquidity, saying that while it may act as an incentive to increase investments, prolonged excess liquidity can have a negative impact on the financial system.

"A prolonged low interest rate environment can negatively impact individuals on a fixed income, create asset bubbles and increase the possibility of asset price inflation."

The Minister added: “The current build-up of liquidity in the system has arisen as a result of the combined effect of the fiscal deficits, the economic decline which occurred in 2009, the funds injected as a result of the CL Financial bailout and the initial period of slow economic growth.” Minister Howai noted.

Minister Howai reminded the House that open market operations were a normal policy measure to manage high liquidity levels adding that the increased borrowing was an appropriate measure, “given the economy’s return to growth following a prolonged period of decline since 2009.”

The Minister also stated: “The Central Bank estimates approximately $6Bn in excess liquidity in the system. The urgency of addressing this build-up of excess liquidity in the system has increased as the expansionary effect of the cash injections associated with the CL rescue operation (although some was sterilised) coupled with the return to positive economic growth has the potential of increasing the rate of inflation.”

Citing historical uses of the policy measure, Minister Howai said increasing the borrowing limits under the Treasury Bills Act 1995 is not a new phenomenon as it has been done since 1961, with the last change being an increase of $10Bn in 2006 from $5 Bn to $15Bn.

Treasury Bills and Treasury Notes are financial instruments utilized by the Central Bank to manage the money supply.

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