Spotlight on the Economy 2022

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"The Domestic Economy (2019-2022) and Short term Outlook"

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Good morning and on behalf of the Central Bank of Trinidad and Tobago, we would like wish to you a happy 60th Independence.

I would like to take this opportunity to note that the Central Bank of Trinidad and Tobago was created merely two years after our independence, in December 1964. Since then, we have worked assiduously to maintain the country's monetary and financial stability. We have done quite a good job and will continue to do so with the same vigour and diligence since our creation.

My presentation will be short and focus mainly on providing an appropriate economic context for our discussion this morning. I will start with the pre-COVID-19 economic conditions and conclude with a short-term economic outlook.

Pre-COVID 19 Pandemic

In 2019, the economy was on a path to recovery following the adverse 2014 oil price shock.

- Real GDP declined by a mere 0.2 per cent. The energy sector was still operating below capacity but the recovery of the non-energy sector solidified, growing by 2.7 per cent.

- Labour market conditions were favourable, unemployment rate was 4.3 per cent, and headline inflation remained low and stable at 1.0 per cent.

- **On the fiscal front**, fiscal consolidation efforts narrowed the deficit to a low 2.5 per cent of GDP. Adjusted general government debt at 62 per cent of GDP.

- Monetary policy and financial conditions were broadly supportive, with the Repo rate at 5.0 per cent.

- On the external front, Trinidad and Tobago continued to record healthy current account surpluses (4.4 per cent of GDP in 2019) and net official reserves was roughly US$7 billion (7.7 months of import cover).

The COVID-19 Pandemic Period

In 2020, the COVID-19 pandemic disrupted the country's recovery process. **Were it not for the sizeable financial buffers (international reserves and the Heritage and Stabilisation Fund) of approximately US$13 billion, the domestic economy risked being permanently shipwrecked**.

Similar to other countries, extraordinary fiscal and monetary measures were taken to contain the economic fall-outs from the pandemic.

- Government provided support to households and firms, expanding the social safety net at a significant cost. Understandably, the fiscal deficit ballooned to 11.2 per cent of GDP, while adjusted general government debt rose to around 80 per cent of GDP.

- **Central Bank acted promptly to stabilise monetary and financial conditions, as early as March 2020**. The Repo rate was cut by 150 basis points to 3.5 per cent. The commercial banks' primary reserve requirement was reduced by 3 percentage points to 14 per cent, adding liquidity to markets. On the regulatory front, the Bank collaborated with lending institutions on the implementation of loan moratoriums. Finally, regulatory forbearance was applied in the treatment of past due loans.

The measures taken to contain the spread of the virus weighed heavily on the domestic economy. And this is true for most countries.

- Real GDP plummeted by 7.4 per cent, driven by a 12.2 per cent decline in the energy sector, which faced a collapse in global demand.

- With the closure of several businesses, unemployment rose to 5.7 per cent with those employed in the services sector the most affected.

- On the positive side, headline inflation slipped below 1 per cent due to the collapse in aggregate demand.

Current Economic Developments

In 2022, the pandemic effects are fading but the virus remains a risk to the domestic economy.

- The energy sector continued to be plagued by production challenges. However, high international energy prices are supporting a revival.

- With respect to the non-energy sector, the Bank's preliminary estimates reveal that activity expanded by 1 per cent Q1 (2022).

- Unemployment rate at 5.1 per cent in Q1 (2022), down from a high of 7.2 per cent in Q4 of 2020.

Domestic Prices

- Inflation has picked up but has remained broadly contained compared to our major trading partners. Headline inflation measured 4.9 per cent (year-on-year) in June 2022. Driven in the main by high food prices (at 7.8 per cent).

On the fiscal front

- The additional inflows have bolstered the Government's fiscal accounts, which recorded a surplus of roughly $3 billion during the first nine months of FY2022.

Monetary and Financial developments

- With the re-opening of the economy, private sector credit has expanded. Since Q4 2021, business lending has sustained a positive momentum to June 2022. In June 2022, business lending recorded a 12.2 per cent y-o-y growth.

- However, consumer lending has been slower to respond, only turning positive in May 2022 (1.5 per cent y-o-y growth).

- Excess reserves have come down significantly, falling to a daily average of $2.5 billion in July 2022, but climbed to just over $4 billion in the month of August.

- Meanwhile, international reserves (though declining) remained adequate at US$6.7 billion in August 2022 (roughly 8.2 months of import cover).

- The financial system has maintained stability on the whole and based on the current assessed risk levels, and assuming no adverse movements, is likely to remain stable mainly because financial institutions have sufficient capital levels.

- The Bank's monetary stance has remained largely supportive. Repo rate has remained at 3.5 per cent since March 2020 and the Bank continues to ensure that the domestic financial market remains adequately liquid to support credit expansion.

Looking out to the horizon

- **Globally**, the world economy is transitioning from an economic regime which last for roughly 10 years and featured low interest rates; low and stable price levels; and fairly predictable and stable trade and foreign relations.

- The new economic reality is still to be properly defined because high uncertainties with respect to the path of monetary actions, geopolitical tensions and climate change transition risks. Inevitable macrosurprises relating to cyber-attacks and biological viruses add to the uncertainty.

- On the balance of risks previously mentioned, over the next 12 months, global market and economic conditions will likely remain volatile, punctuated by periods of drawdowns and upturns. Major central banks' monetary policy rates will have to move higher to contain inflation at acceptable levels.

- **Locally**, key export prices are likely, in the near months, to remain high and gradually adjust downward as geopolitical tension and supply chain effects fade and slowing global growth impacts demand. With regard to the risk balance, risks are skewed to the downside for the time being. Hence, we have to be adequately prepared for the possibility of a much earlier and rapid downward reversal in prices.

- In such circumstances, it is extremely important that we immediately focus on re-building and enhancing our economic buffers, which have been weakened by the COVID-19 pandemic and further challenged by the current global economic environment and the acceleration of climate change transition risks. Having adequate economic buffers ensure that the country has the internal capacity to absorb future macro-shocks.

- In addition, we have to be extremely prudent, and perhaps err on the side of caution, in weighing policy considerations over short-to-medium term. Poor or misaligned policy choices may delay the return to sustainable growth or require corrective adjustments at a later date.

- Domestic prices will push higher in the short run as firms continue to adjust prices upward to reflect market conditions.

- The overall economy will benefit from a full year of the removal of COVID-19 restrictions and largely favourable export prices. But note that sizeable downward risks remain.

- In closing, the Bank will continue to prudently weigh external and internal factors in determining its monetary stance, ensuring that monetary tools and instruments are appropriate for stable and sustainable growth.

Thank you for your attention.