

CONFERENCE ON THE ECONOMY 2018 | UWI STA

# A Case for Countercyclical Monetary Policy in the Caribbean

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# The Big Picture: Last 10 Years in the Caribbean

**GDP Growth  
Slowdown and  
GDP Contraction**



**Increased Fiscal  
Pressures**



**Weakening External  
Position**



**Worsening  
Credit Ratings**



**Declining Relative  
Competitiveness**



**Rising Protectionism**



**Increased Financial  
Regulatory  
Requirements**

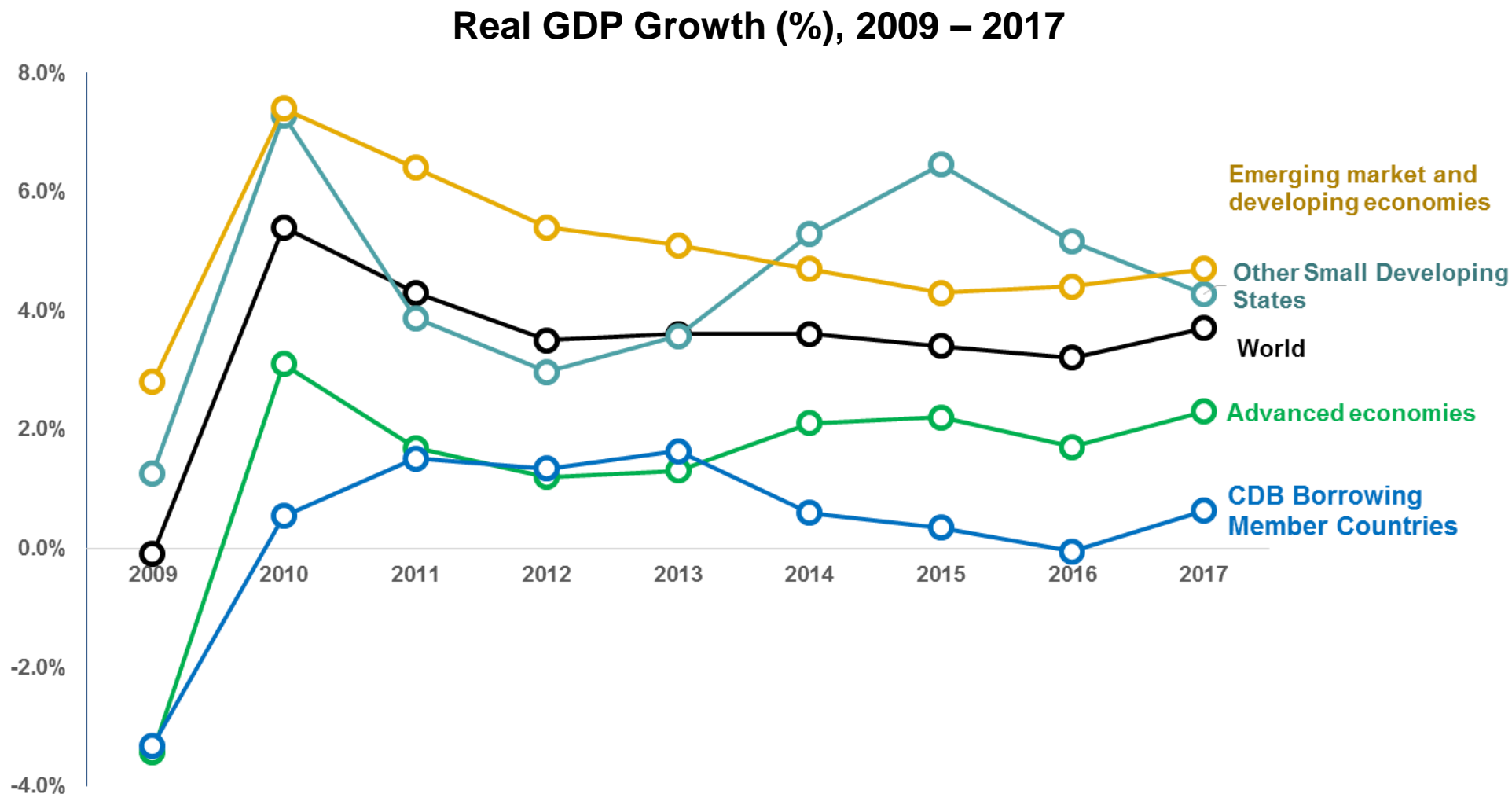


**Geo-political  
Uncertainty**





# Average BMC growth is consistently lower than other small and developing states

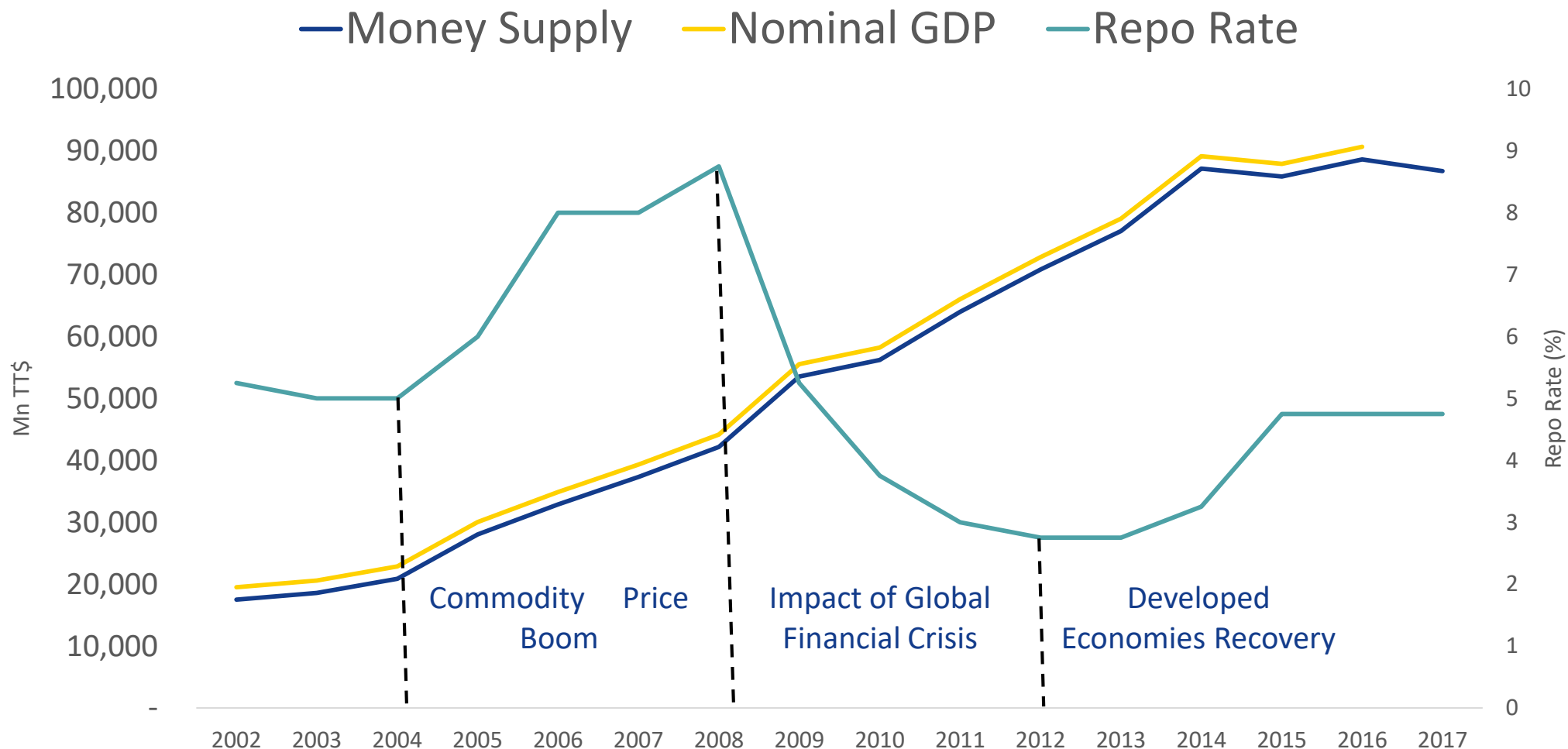


Source: IMF WEO, CDB



# Use of Repo Rate has been inconsistent in recent years

Money Supply and Nominal GDP versus Repo Rate (2002 – 2017)

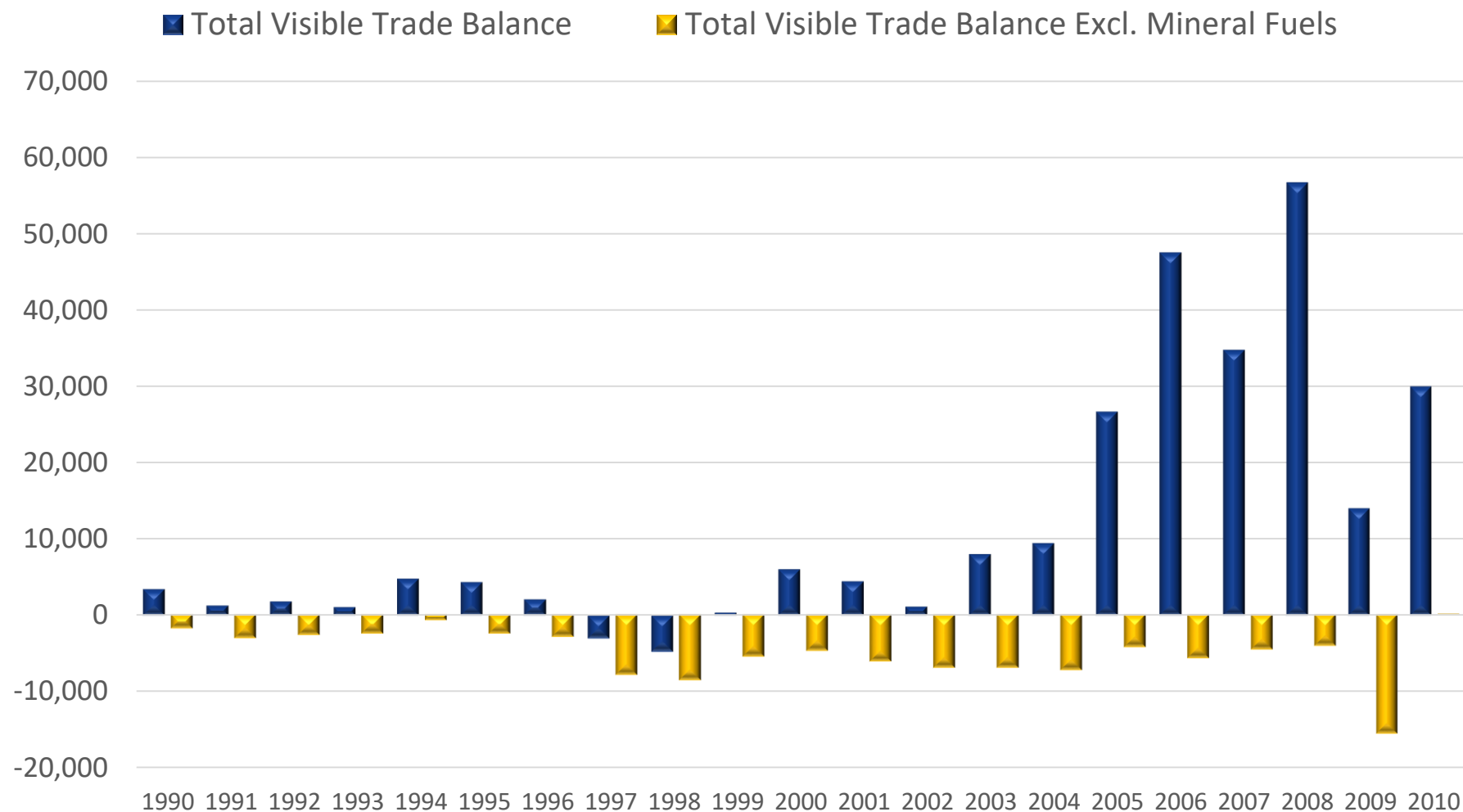


Source: Central Bank of Trinidad and Tobago



# Merchandise Trade is dominated by Mineral Fuel Exports

Visible Trade Balance (1990-2010)



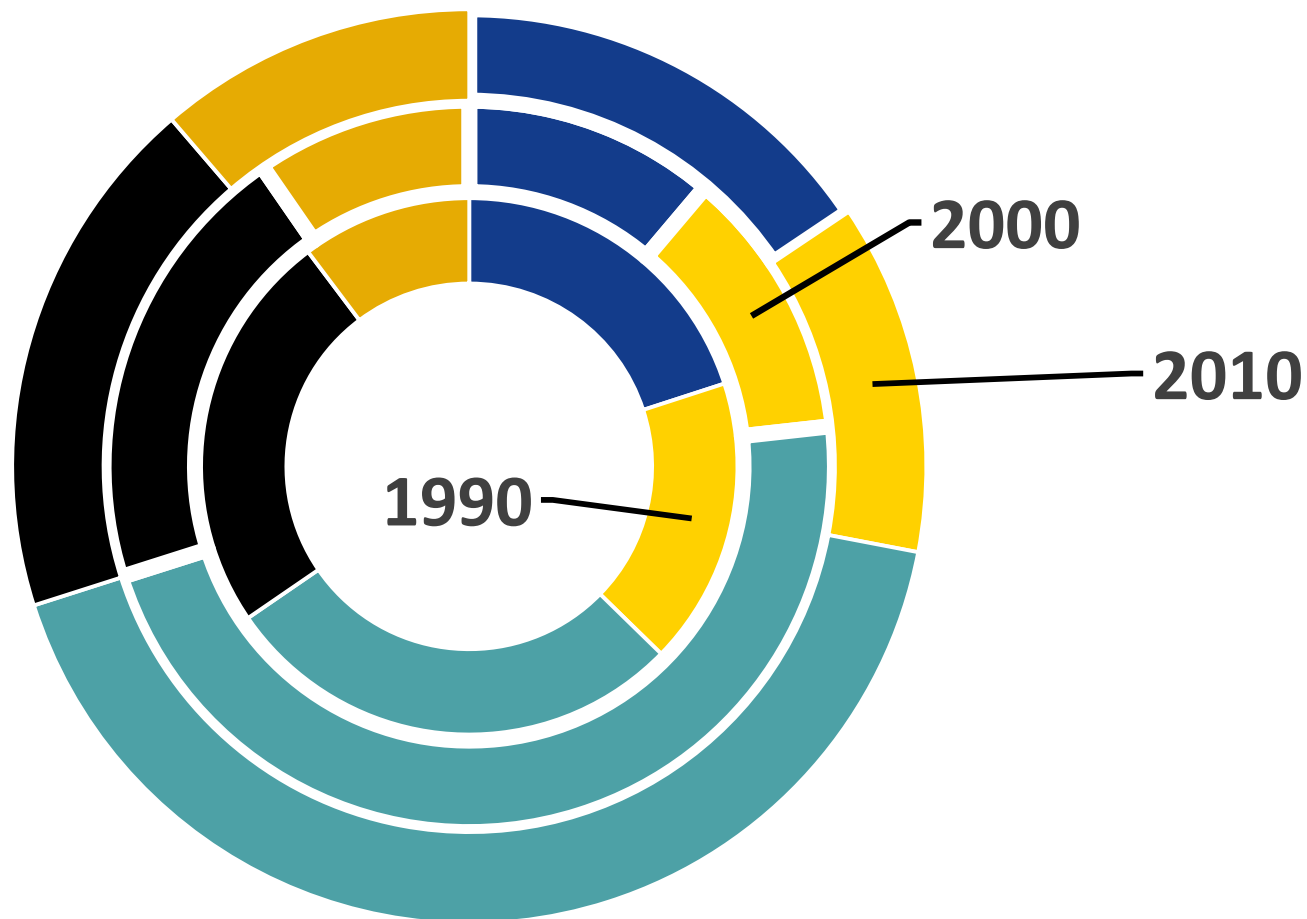
Source: Central Bank of Trinidad and Tobago



# Food and Machinery shares of imports have expanded

Composition of Imports  
(exc. Crude, Fuel & Lubricants) (1990-2010)

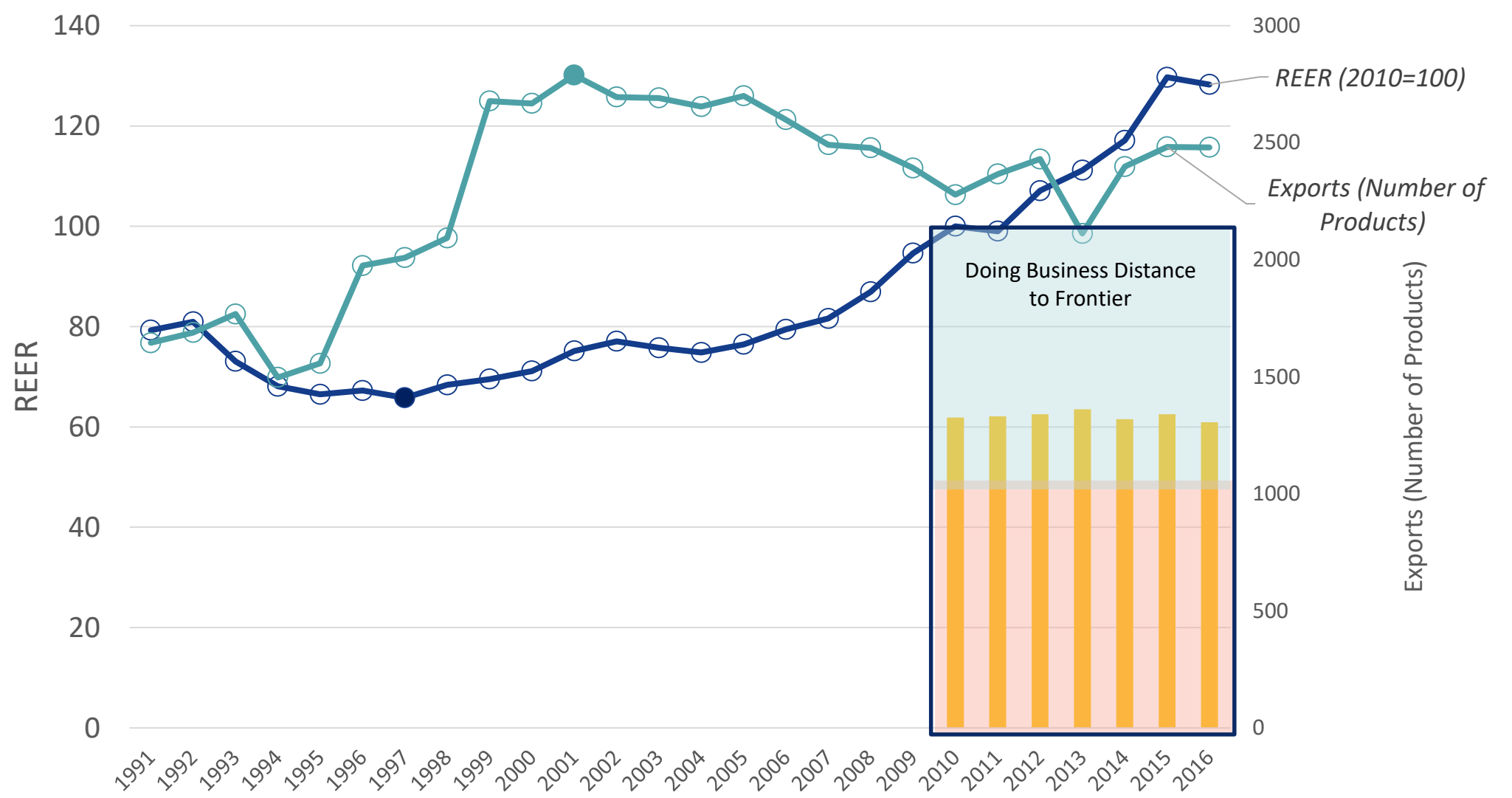
■ Food ■ Chemicals ■ Machinery ■ Manufactured Goods ■ Other



Source: Central Bank of Trinidad and Tobago



# Trade Competitiveness has been in decline since 1997



Source: UWI STA



# Doing Business rankings deteriorated across the Region; Little evidence of reforms in TT 2016-2018

## Regional Average

2008  
75  
out of 178 countries

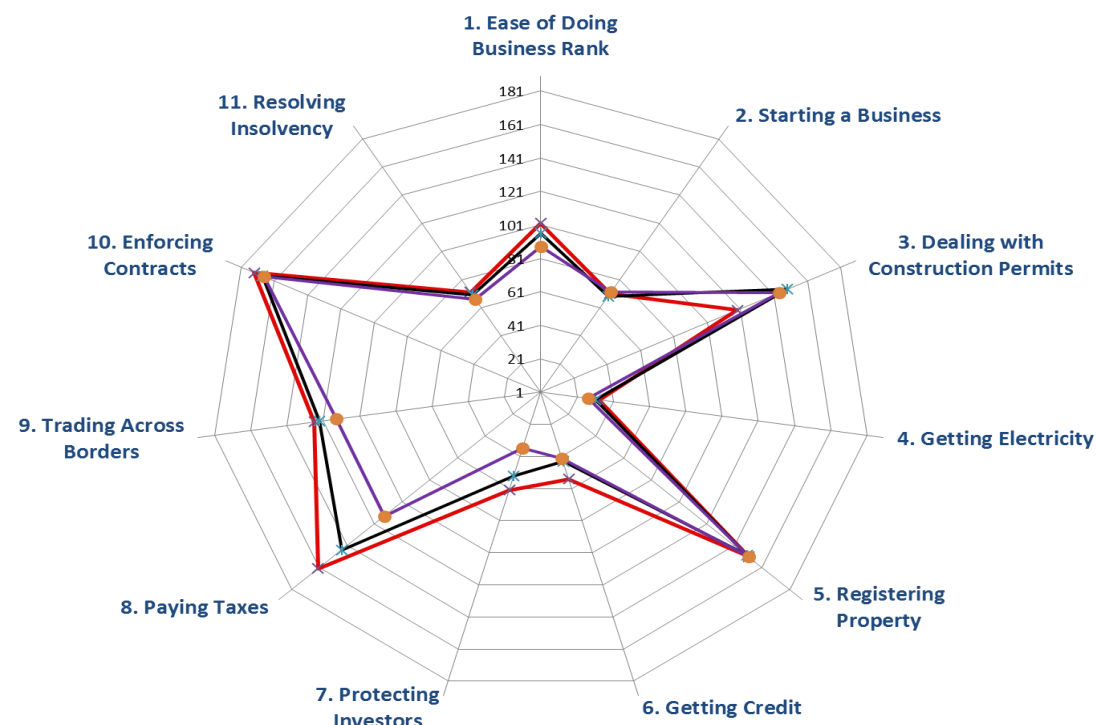
2018  
123  
out of 190 countries

## World Bank Doing Business Rankings

### Region

Country	2008		2018
NZ	2	↑ 1	1
SIN	1	↓ 1	2
JAM	63	↓ 7	70
SLU	34	↓ 57	91
DOM	77	↓ 21	98
TT	67	↓ 35	102
ANT	41	66	107
BAR	NR		117
BAH	51	↓ 68	119
BZE	59	↓ 62	121
GUY	104	↓ 22	126
SVG	54	↓ 75	129
SKN	64	↓ 70	134
GRE	70	↓ 72	142
SUR	142	↓ 23	165
HAI	148	↓ 33	181

### Trinidad and Tobago



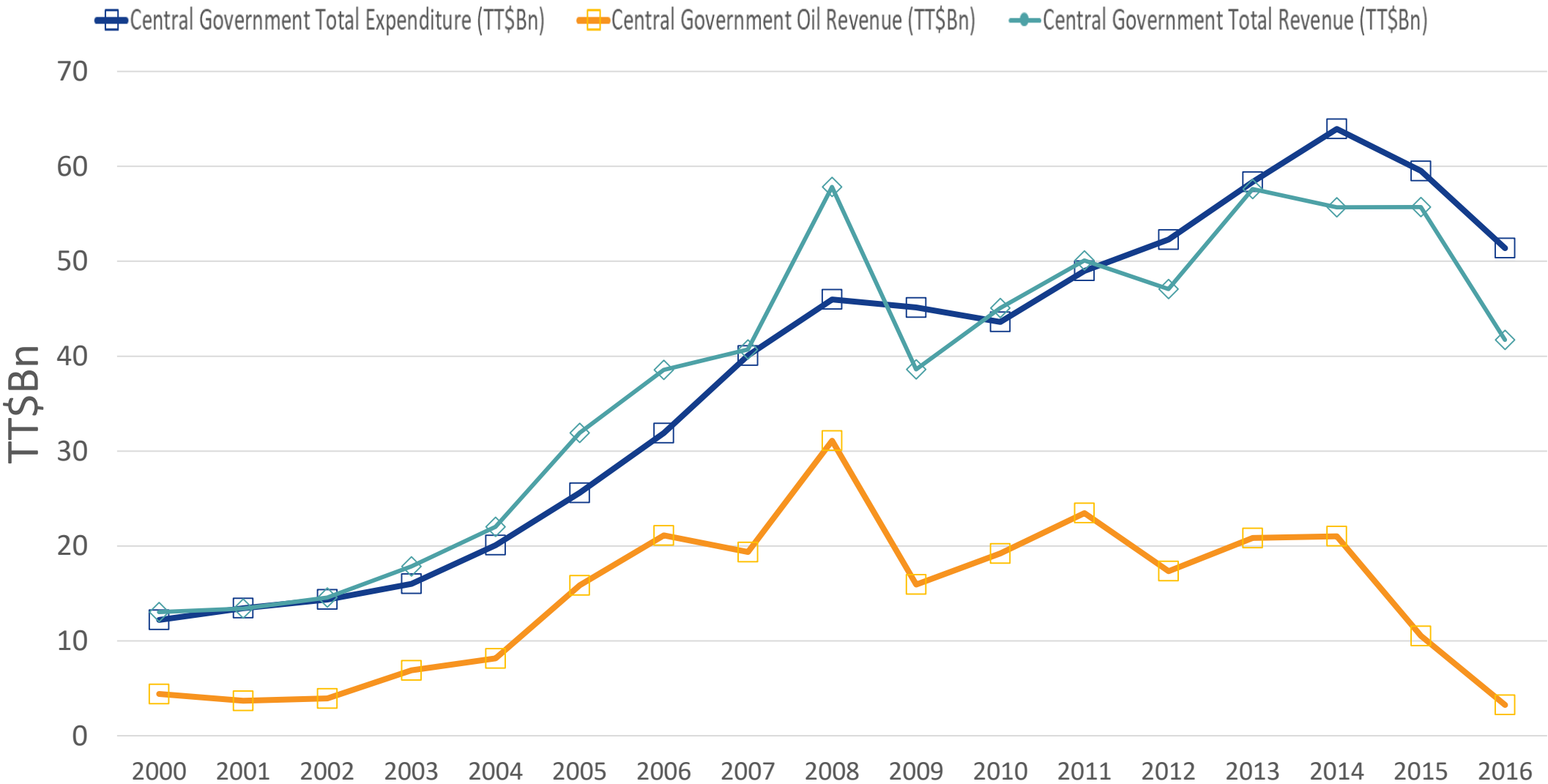
— 2017/2018 — 2016/2017 — 2015/2016





# Government Operations are heavily dependent on Oil Revenue

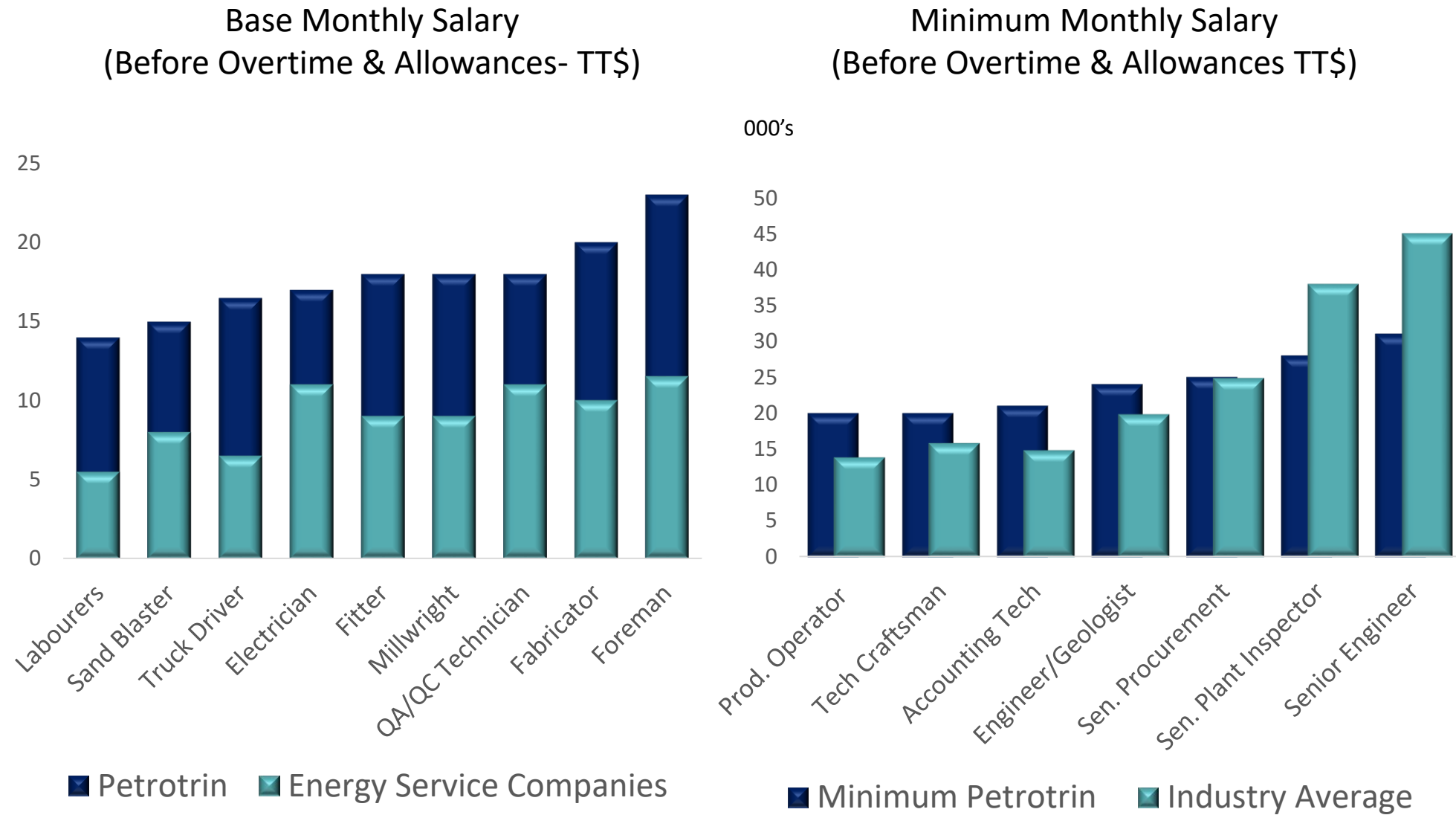
Central Government Finances (2000-2016)



Source: Central Bank of Trinidad and Tobago



# TT Oil and Gas Wages are significantly higher than Other Energy Services and Industry Rates



Source: The Energy Chamber of Trinidad and Tobago



# Operating in an open petroleum economy

## Characteristics of an Open Petroleum Economy

- 1 Exports dominated by petroleum
- 2 Exports are highly profitable
- 3 Government expenditure mostly financed by petroleum revenues
- 4 Petroleum companies are mainly foreign-owned



## Impact on the Wider Economy



**Off-shore sector has high wages**



**High domestic demand drives prices upwards**



**Inflation encourages unions in other sectors to demand higher wages**

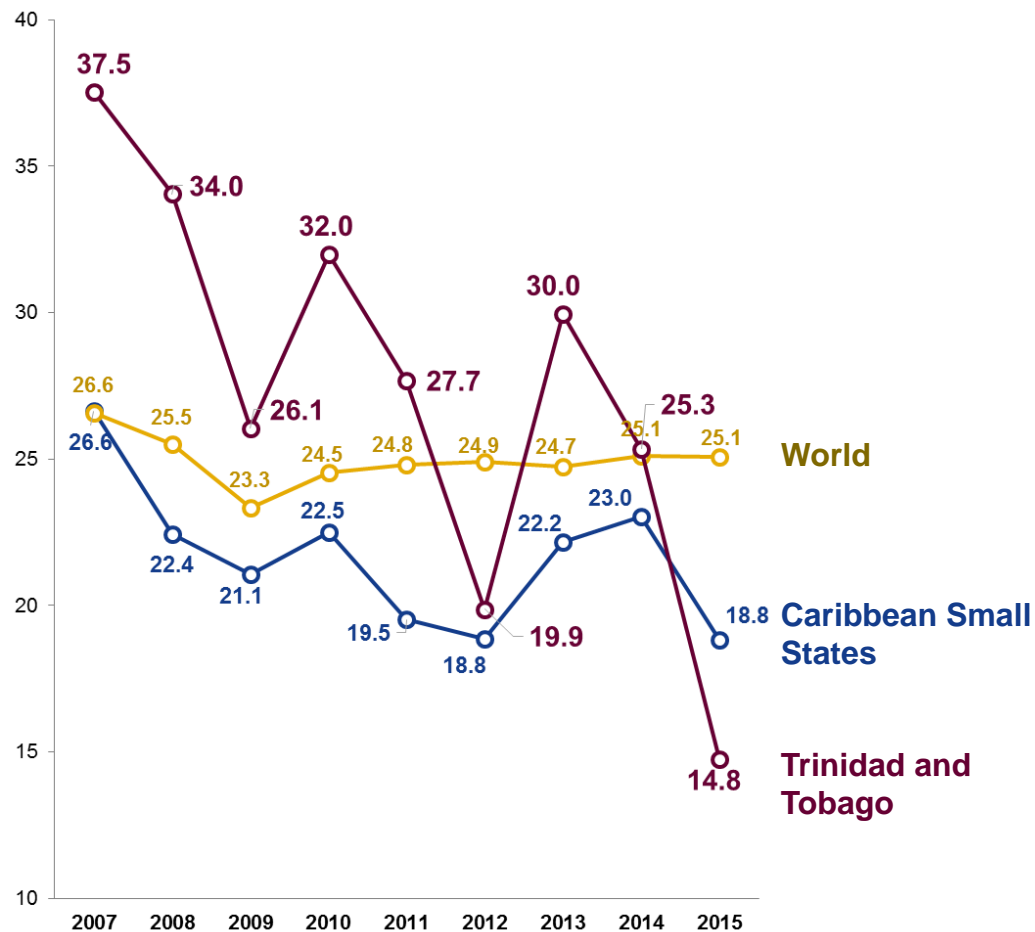


**Higher costs reduces the global competitiveness of other export sectors**

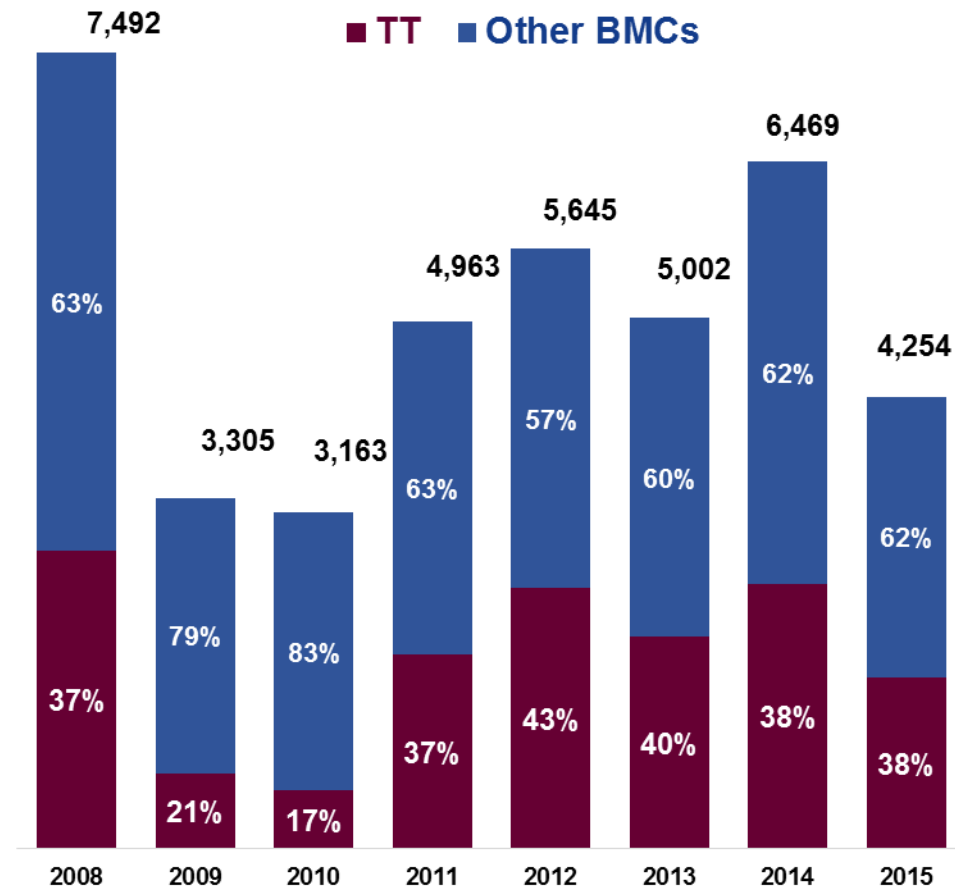


# National savings and foreign direct investment levels are below pre-crisis levels

**Gross National Savings, % of GDP  
2007 – 2015**






















**BMC FDI Inflows, US\$ million  
2008 – 2015**





# In recent years, TT fiscal balance deteriorated and debt level generally increased

## Government Debt/GDP (%)

	2016	2017	Change in %		2016	2017	Change in %
 BAR	161.5	157.1	-4.4	 SUR	68.8	63.2	-5.6
 JAM	119.4	113.4	-6.0	 <b>TT</b>	58.8	60.1	+1.3
 BZE	92.3	93.9	+1.6	 ANG	60.6	56.8	-3.8
 ANT	81.9	78.3	-3.6	 GUY	45.7	45.2	-0.5
 SVG	82.1	76.8	-5.3	 HAI	33.7	32.6	-1.1
 DOM	72.7	69.4	-3.3	 BVI	18.8	18.7	-0.1
 BAH	68.0	72.7	+4.7	 CAY	16.3	14.7	-1.6
 SLU	69.5	68.5	-1.0	 TCI	7.6	7.4	-0.2
 GRE	76.3	66.3	-10.0	 MON	5.1	6.1	+1.0
 SKN	64.8	64.6	-0.2				



# Monetary policy should be counter-cyclical and complementary to fiscal policy

## ECONOMIC BOOM



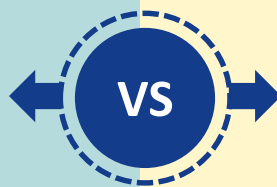
### Fiscal Policy

Save excess (e.g. in a Sovereign Wealth Fund)



### Monetary Policy

Decrease money supply and increase interest to curb inflation



## ECONOMIC BUST



### Fiscal Policy

Tap into excess savings to finance social security interventions



### Monetary Policy

Allow for higher inflation



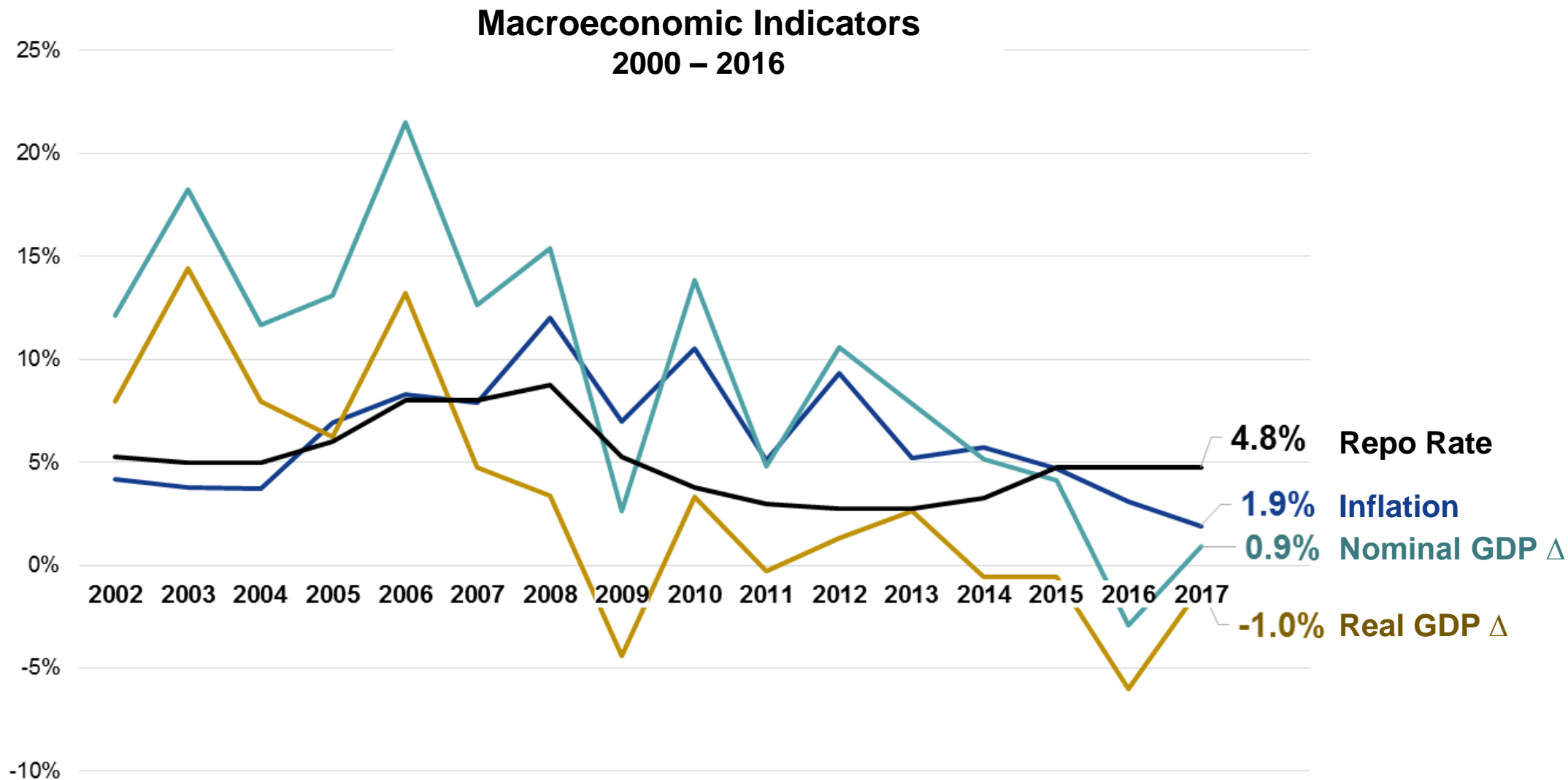
# Strategic policies can protect Caribbean economies with a floating exchange from frequent and debilitating external shocks

## Nominal GDP Targeting

- **Proposal:** Central Banks should target a nominal GDP growth rate (instead of a specific inflation rate)
- **Benefit:** When adverse shocks affect either output (e.g., natural disaster) or inflation (e.g., global oil prices), the national response can be more flexible. There is less pressure to vary output to meet inflation targets



# CBTT increased interest rates in June – a contractionary policy response to economic growth and low inflation



Source: CDB, CBTT





# Main Takeaways

- 1 Monetary policy needs to be counter-cyclical and supportive of fiscal interventions.**
- 2 For monetary policy to be most effective, Caribbean economies with a floating exchange rate should adopt/ensure:**

**Nominal GDP  
Targeting**

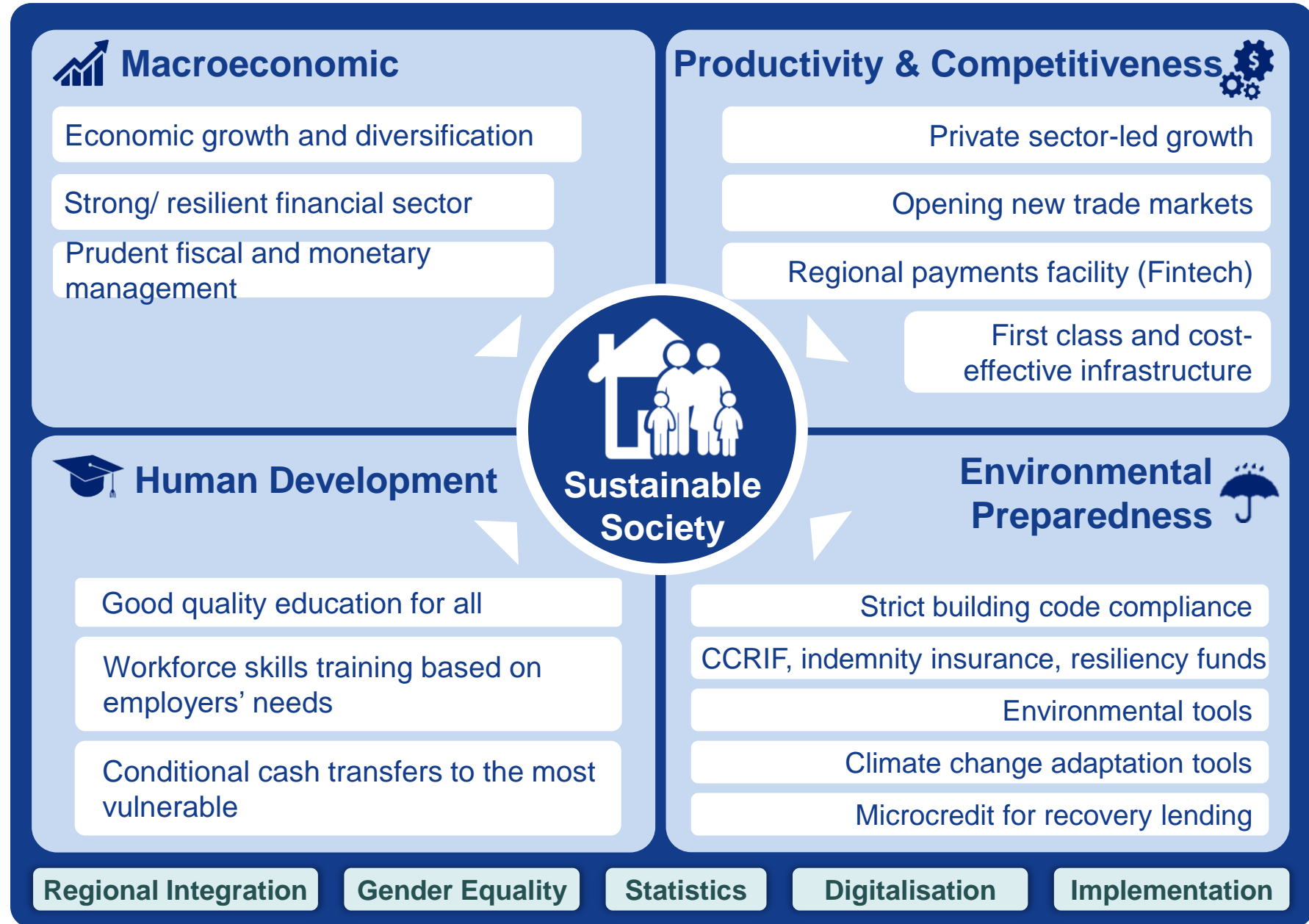


**Autonomous  
Monetary Authorities**





# Stepping back in order to jump better



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The future is ours,  
to decide!

