

CENTRAL BANK OF  
TRINIDAD & TOBAGO

# Business Cycle Dynamics in Trinidad and Tobago

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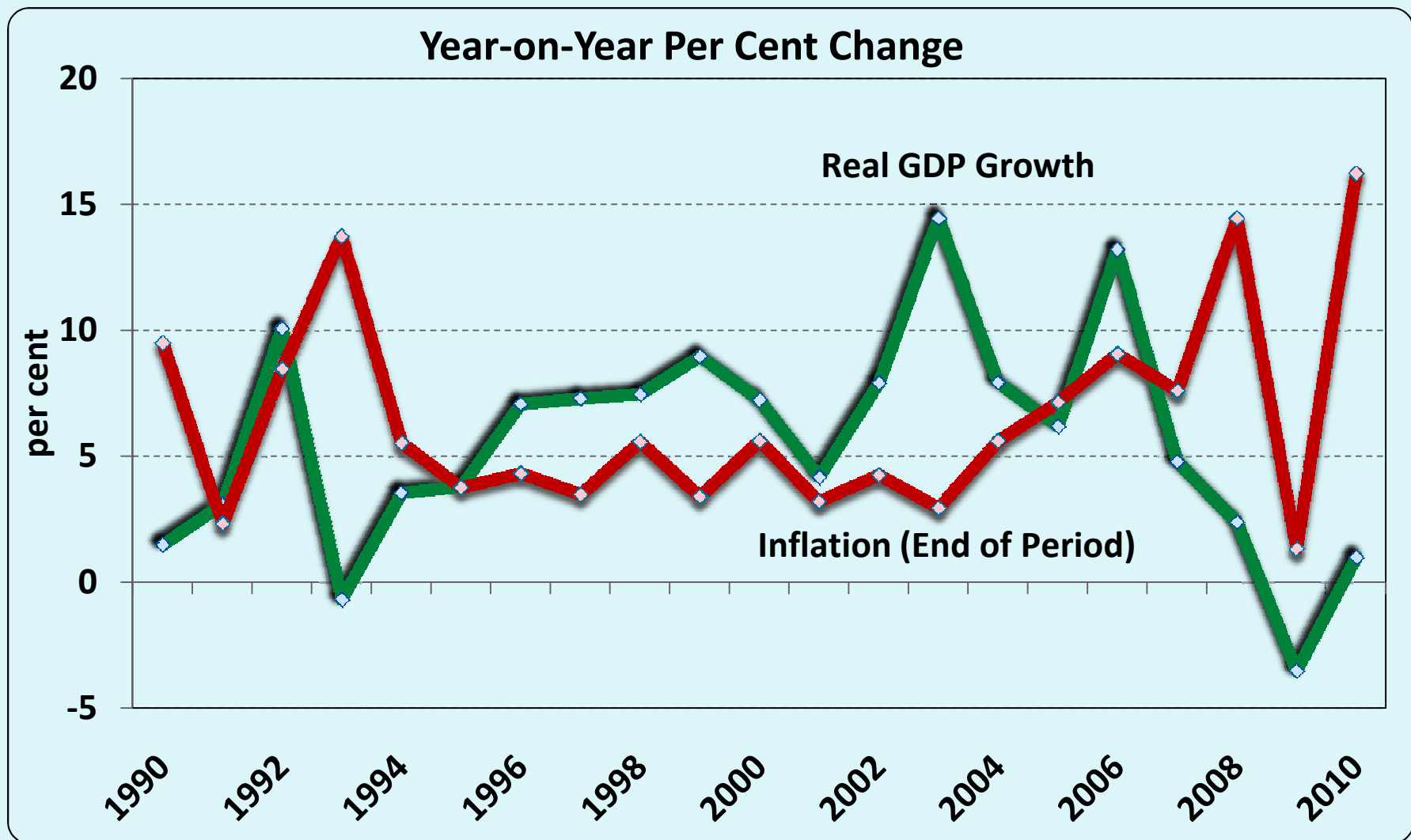
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Conference on the Economy 2010  
University of the West Indies (St. Augustine)  
October 7, 2010

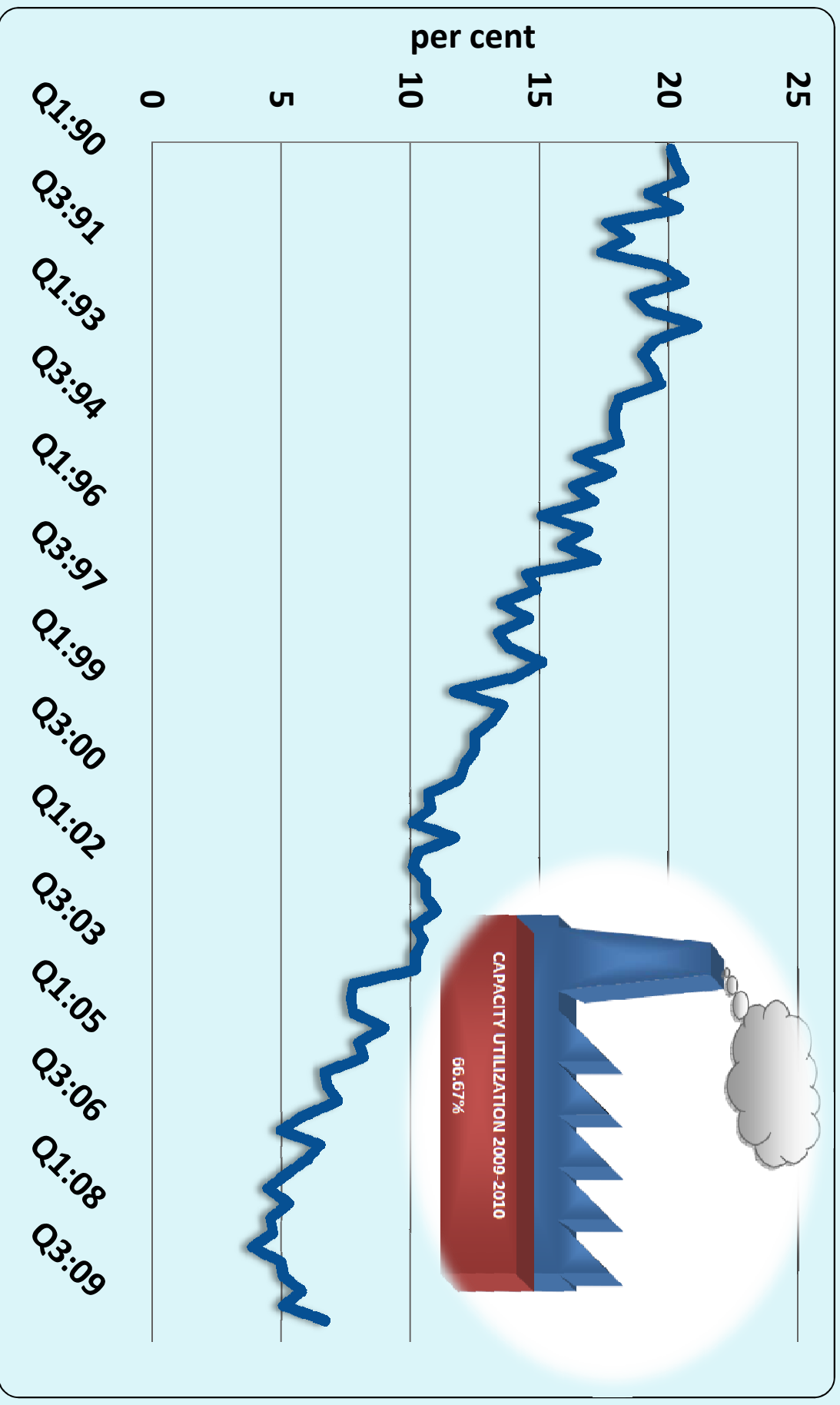
# Trinidad & Tobago economy in mid -2010: —an unlikely configuration

- Slow economic activity but rising prices
- Evidence of job losses and unused capacity
- Record low interest rates
- Continued fiscal deficits
- A delicate balance for monetary policy

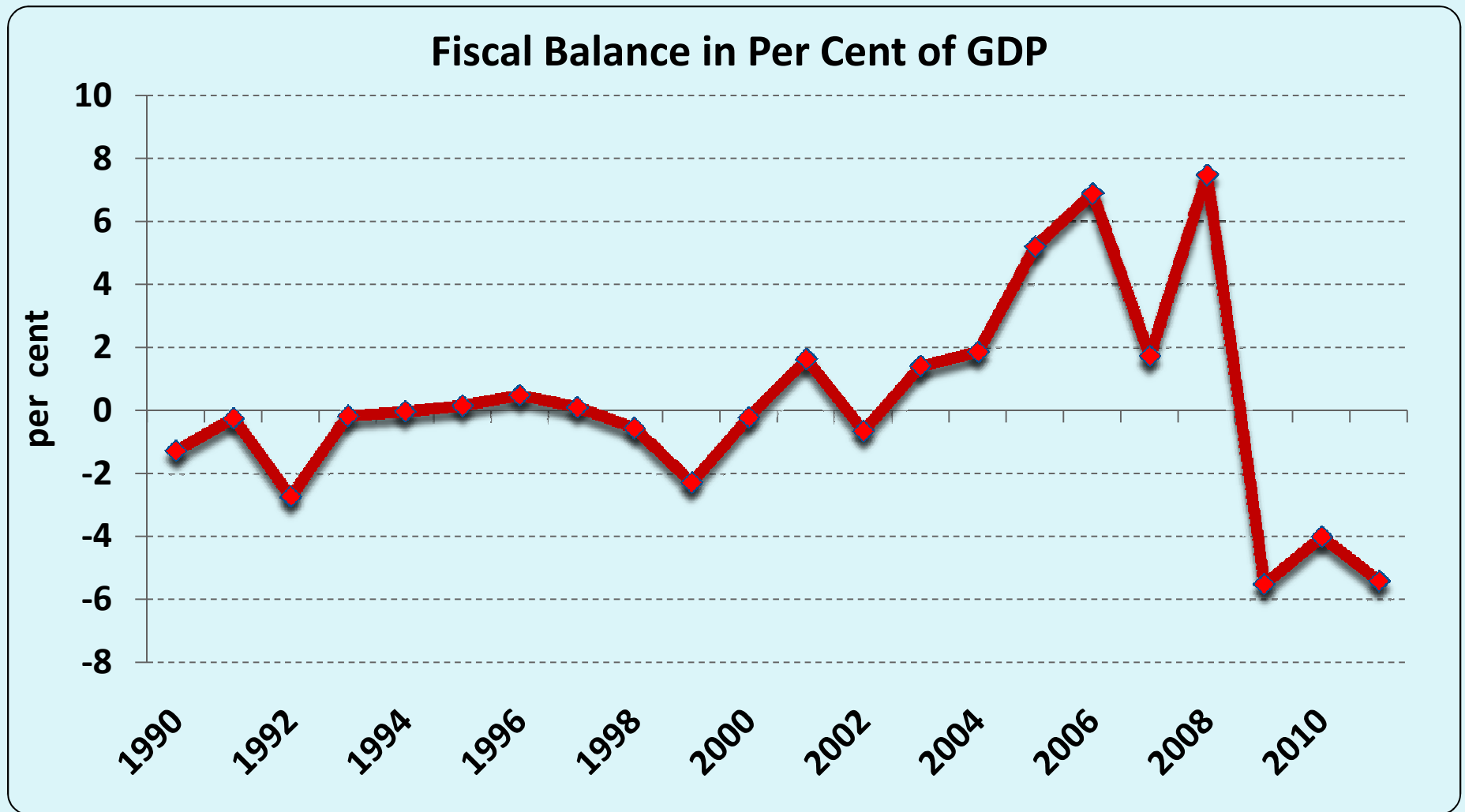
# A. Slow growth accompanied by inflation



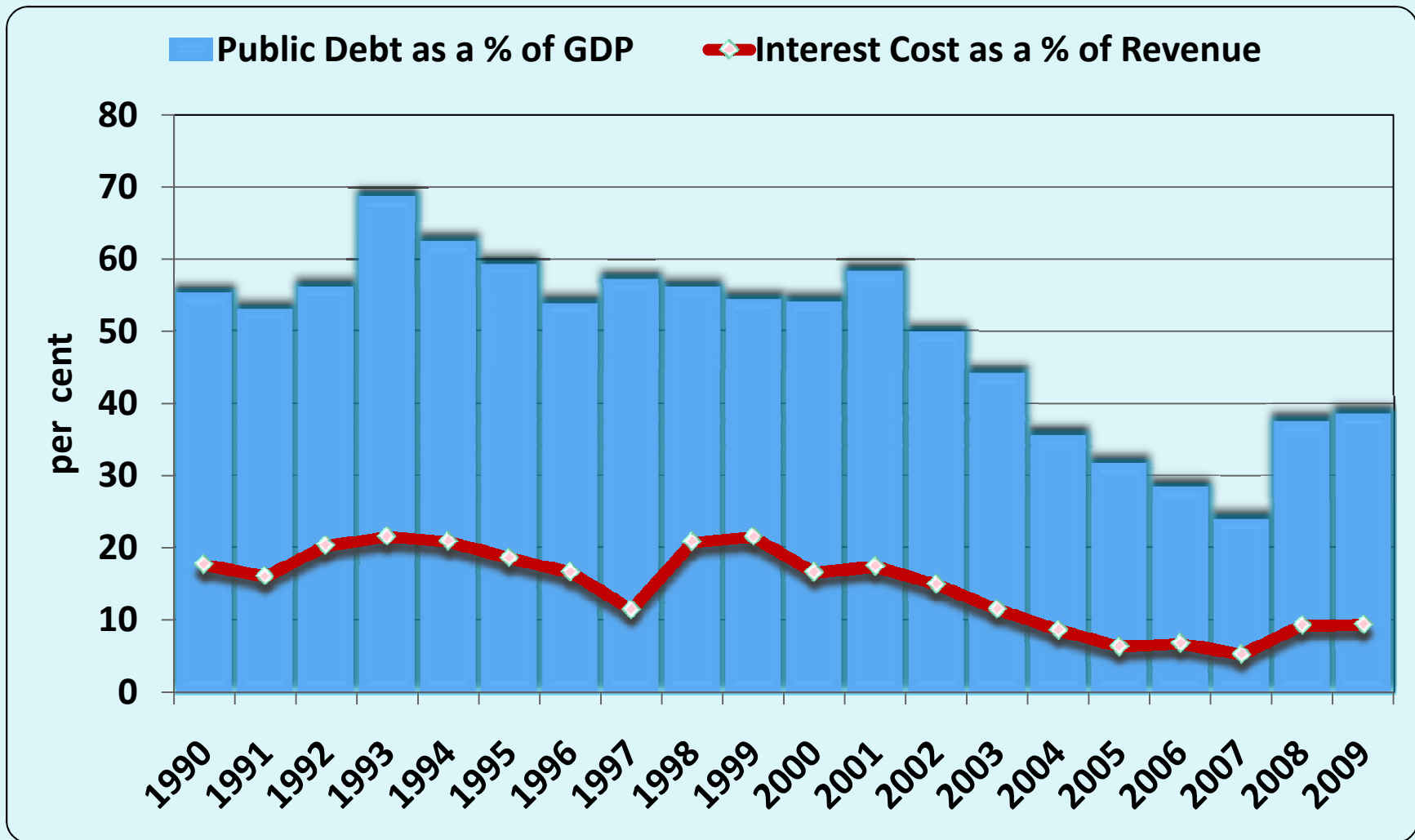
# B. Signs of job losses and economic slack



## C. Fiscal stimulus after surplus years



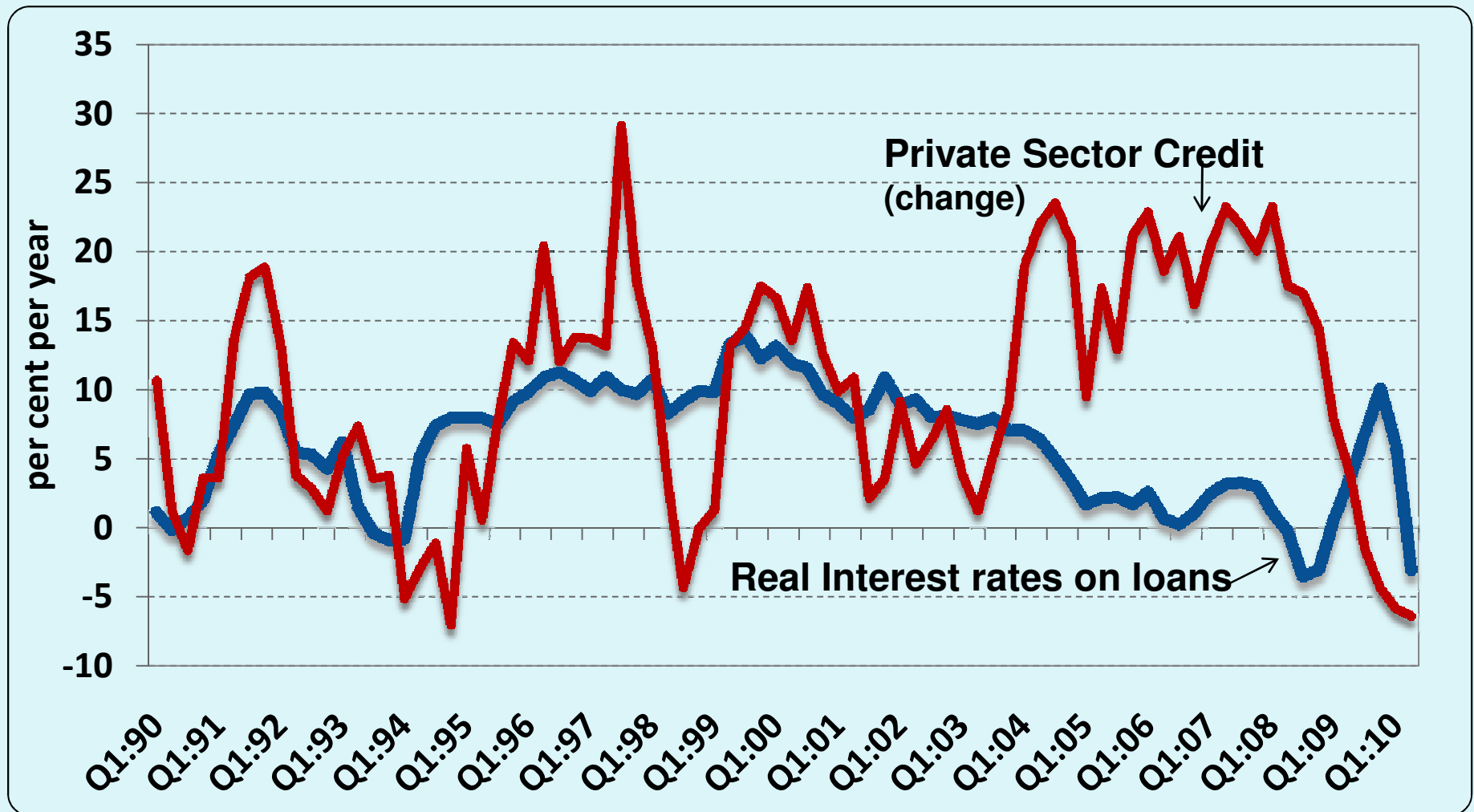
# D. Naturally this has implications for debt



# Interest rates- how low can you go?

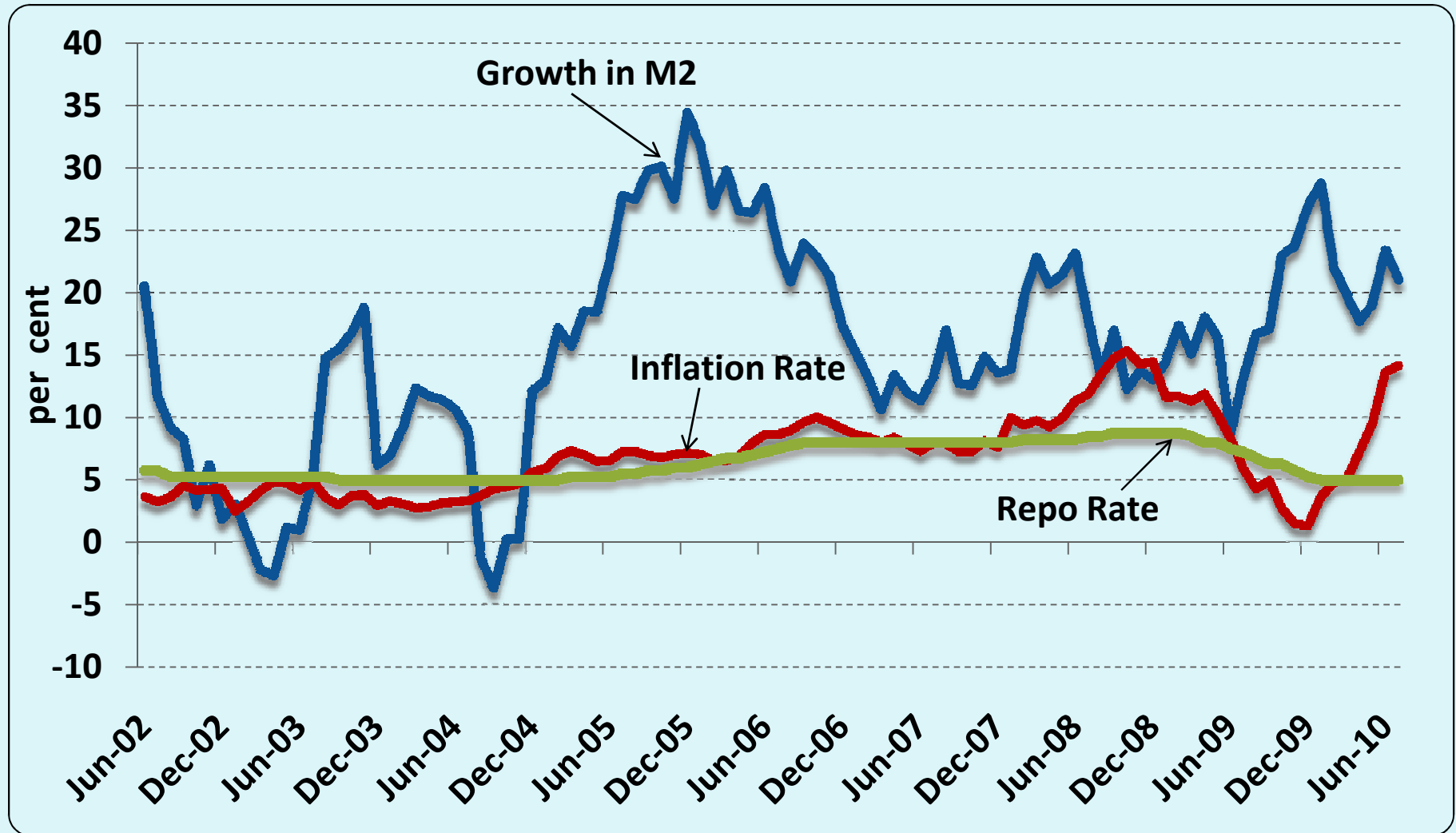


## E. Negative real rates but credit declining



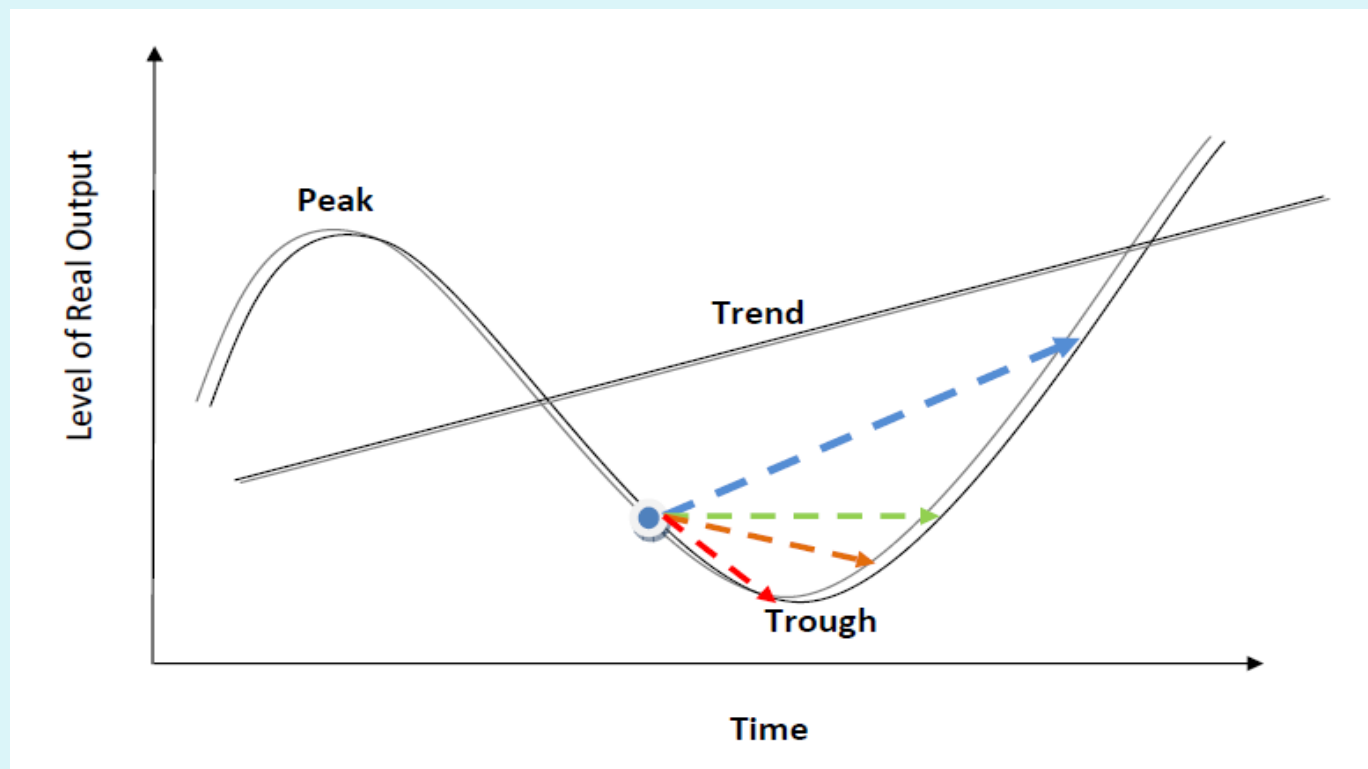


# F. Monetary policy pushing on a string



# Where are we on the business cycle?

- We appear to be close to or at the trough given current dynamics.
- Our future trajectory depends on several factors....



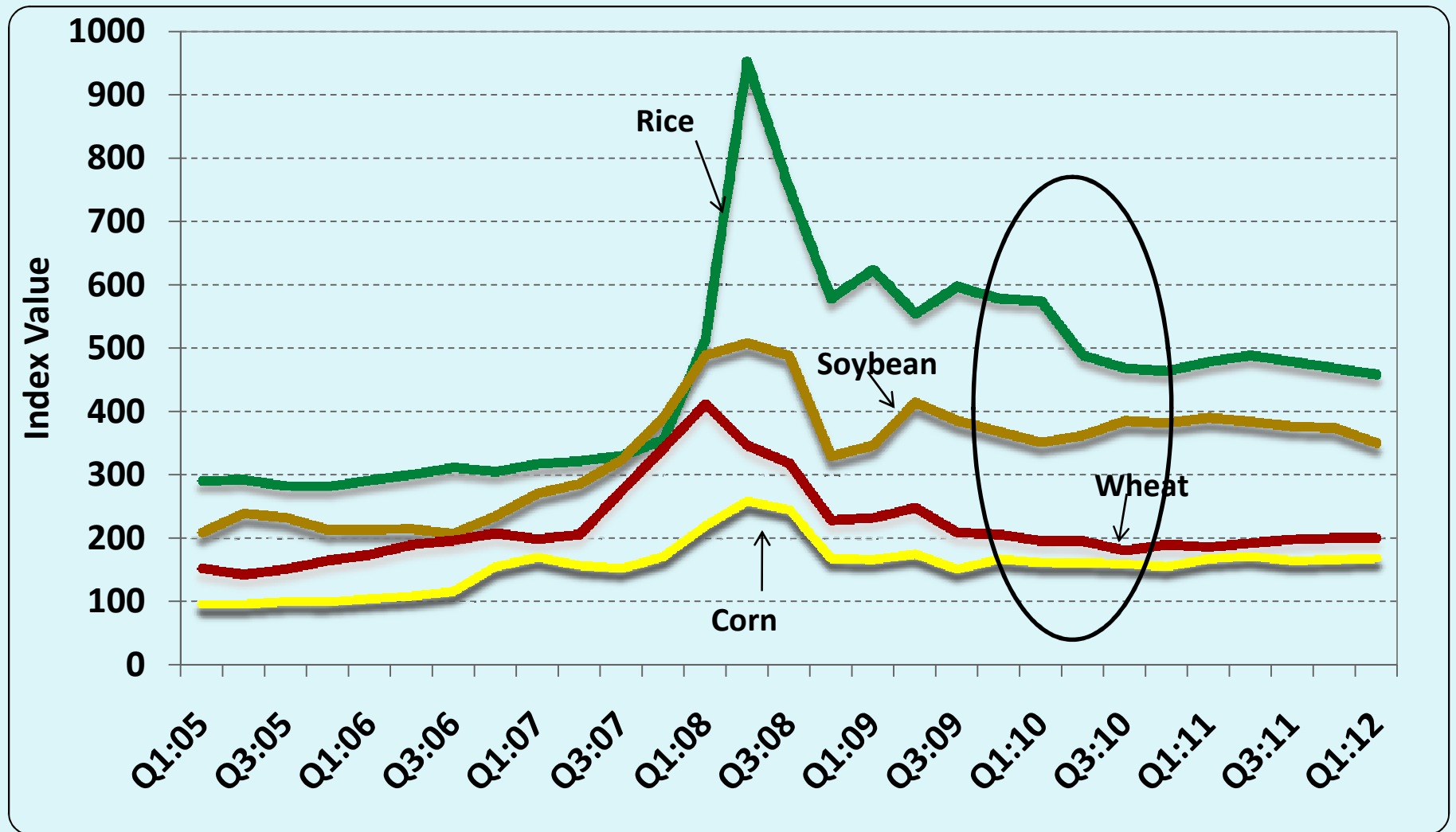
# The global environment is key

*(IMF: World Economic Outlook projections)*

|                       | Growth |      |      |      | Inflation |      |      |      |
|-----------------------|--------|------|------|------|-----------|------|------|------|
|                       | 2009   | 2010 | 2011 | 2015 | 2009      | 2010 | 2011 | 2015 |
| <b>United Kingdom</b> | -4.9   | 1.7  | 2.0  | 2.6  | 2.1       | 3.1  | 2.5  | 2.0  |
| <b>United States</b>  | -2.6   | 2.6  | 2.3  | 2.6  | -0.3      | 1.4  | 1.0  | 1.9  |
| <b>Japan</b>          | -5.2   | 2.8  | 1.5  | 1.7  | -1.4      | -1.0 | -0.3 | 1.0  |
| <b>China</b>          | 9.1    | 10.5 | 9.6  | 9.5  | -0.7      | 3.5  | 2.7  | 2.0  |
| <b>India</b>          | 5.7    | 9.7  | 8.4  | 8.1  | 10.9      | 13.2 | 6.7  | 4.0  |
| <b>Barbados</b>       | -5.5   | -0.5 | 3.0  | 2.5  | 3.7       | 5.0  | 3.6  | 2.1  |
| <b>Jamaica</b>        | -3.0   | -0.1 | 1.8  | 2.1  | 9.6       | 12.7 | 5.8  | 5.5  |
| <b>Guyana</b>         | 3.0    | 2.9  | 3.1  | 3.0  | 3.0       | 3.7  | 4.6  | 4.0  |

# Global food prices have started to turn up

(2000=100)



## **In the short run, public sector stimulus would need to continue**

- As in many other countries, it is still too early for the public sector to take a back seat.
- The public sector could concentrate on providing the infrastructure, enabling environment for the private sector and “public goods”.
- Monetary policy can play a supporting role by encouraging financial intermediation, while keeping an eye on inflation.

# Ultimately, a sustainable upswing depends on private sector activity

- Over time, the private sector needs to take the lead role in the economy; confidence is key.
- A strong durable recovery must be based on improved efficiency in all markets:
  - a. employment of best practices to world standards;
  - b. efficient financial markets;
  - c. rising labor productivity

# Conclusion

- The international financial and economic crises have contributed to the Trinidad and Tobago economy moving into the downward phase of the business cycle.
- The global environment remains a key influence on domestic prospects.
- Public sector action can help to boost the economy in the short run but ultimately must give way to a strong private sector.