

Operational Realities of the Monetary System of Trinidad and Tobago



RESERVE ACCOUNTING

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Introductory Facts



- T&T operates a managed-float regime.
- Treasury Bills Act limits issues to TTD 15 Billion.
- Treasury Notes Act limits issues to TTD 5 Billion.
- Bank loans create deposits.
- Banks are ‘capital-constrained’ NOT ‘reserve-constrained’.

The Evolution of Monetary Policy in T&T



- 1994: End of loan and interest rate ceilings.
- Late 90s – early 00s: Reduced reliance of reserve requirements.
- Late 90s – early 00s: Adoption of open market operations.
- 2002: Introduction of the repurchase (‘Repo’) rate.

The Central Bank's Monetary Objectives



- A low and stable rate of inflation.
- An orderly foreign exchange market, and
- An adequate level of foreign exchange reserves.

Monetary Policy Instruments



- Direct instruments: Reserve requirements, Special deposits.
- Indirect instruments: Open market operations, Repo rate.

National Payment System and Link to Monetary Policy



- Real-Time Gross Settlement System (RTGS).
- Intra-day Liquidity Facility (ILF).

Operating Framework for Implementation of Monetary Policy



- Last Friday every month.
- Monetary Policy Committee.
- Monetary Policy Support Committee.
- Incremental changes in repo rate.
- No associated liquidity-operations.

Assessment of Effectiveness of CBTT Framework



- No associated liquidity-operations.
- Repo rate does not target overnight interbank rate.
- Self-imposed political/legal limits to bills & notes.
- Excess reserve build-up.

Alternative Thoughts and Concluding Remarks

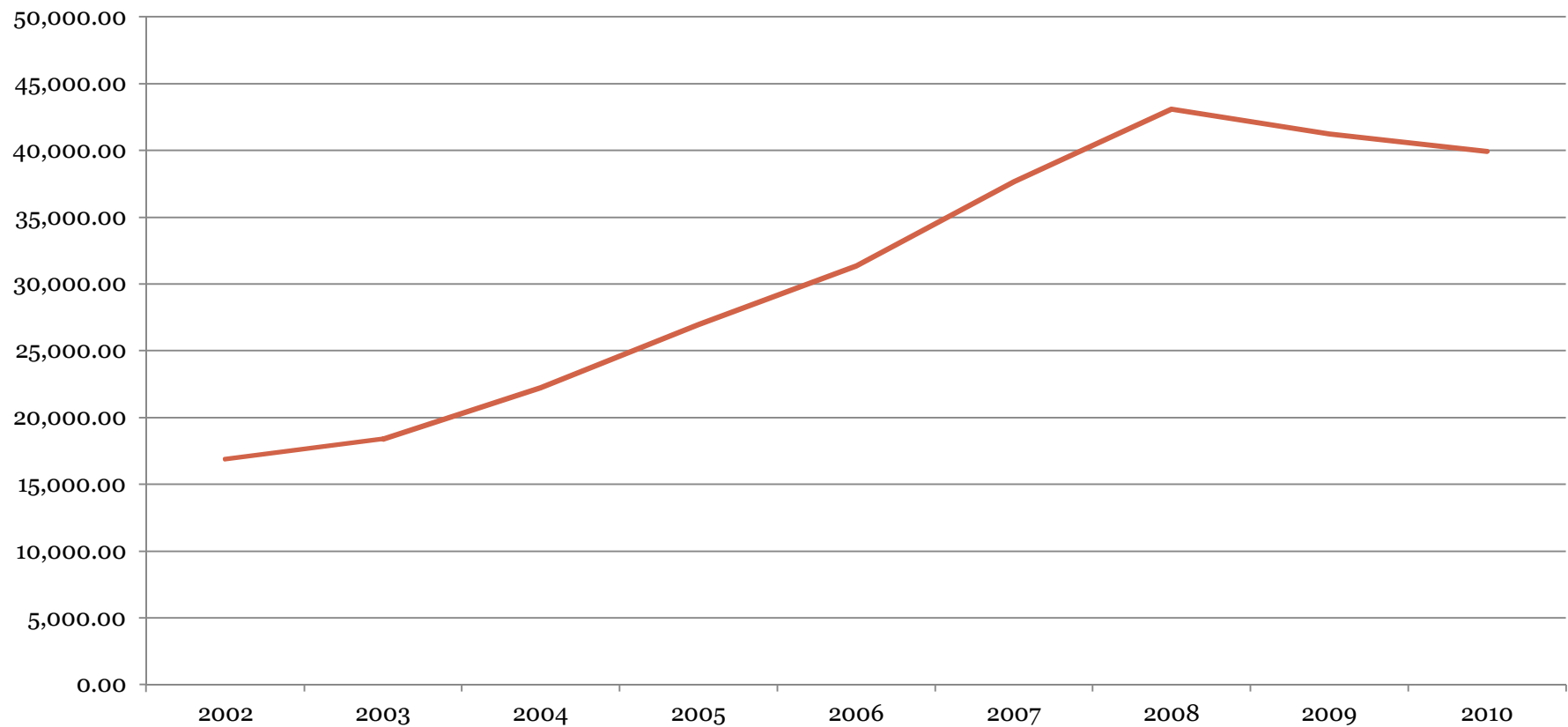


- Banks do not lend reserves.
- Reserves are to meet requirements and settle payments.
- Banks are capital-constrained NOT reserve-constrained.
- Loans create deposits.
- CBTT does not control money supply.
- Government spending adds reserves, taxes drains reserves.

Private Sector Credit (TT\$Mn)



Commercial Banks: Private Sector Credit (TT\$Mn)

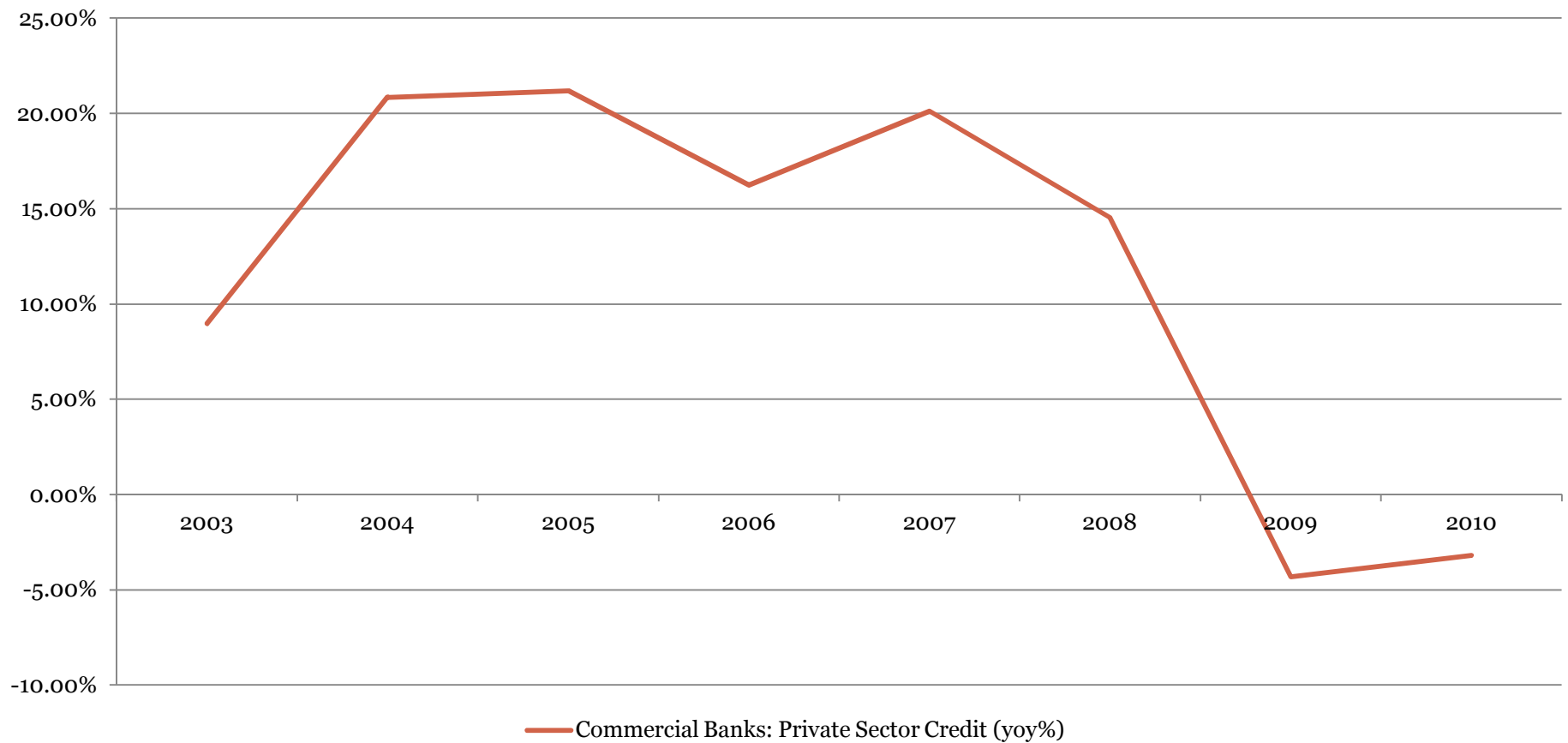


Source: Central Bank of Trinidad and Tobago

Private Sector Credit (yoy%)



Commercial Banks: Private Sector Credit (yoy%)

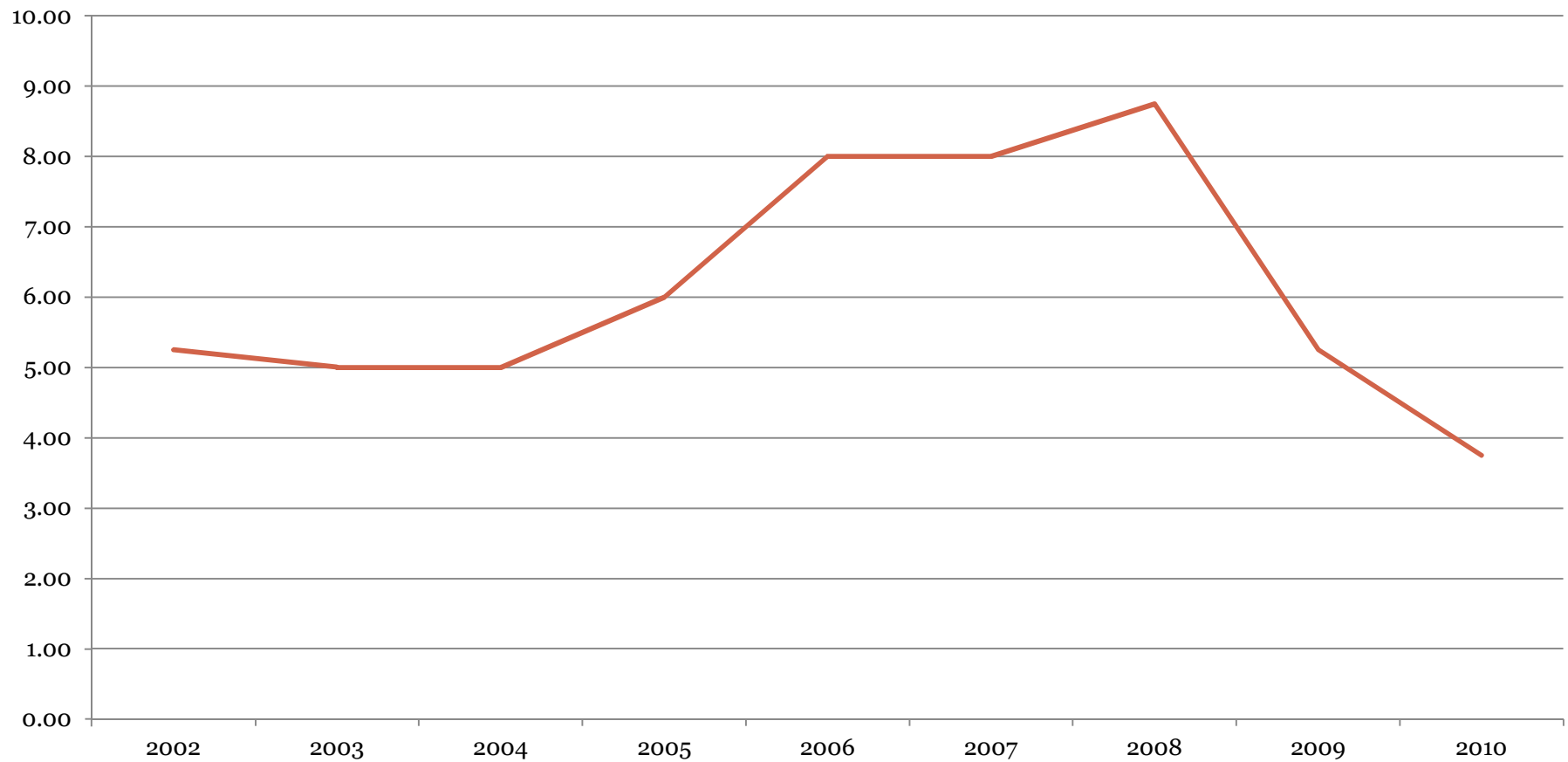


Source: Central Bank of Trinidad and Tobago

Central Bank Repo Rate



Central Bank Repo Rate

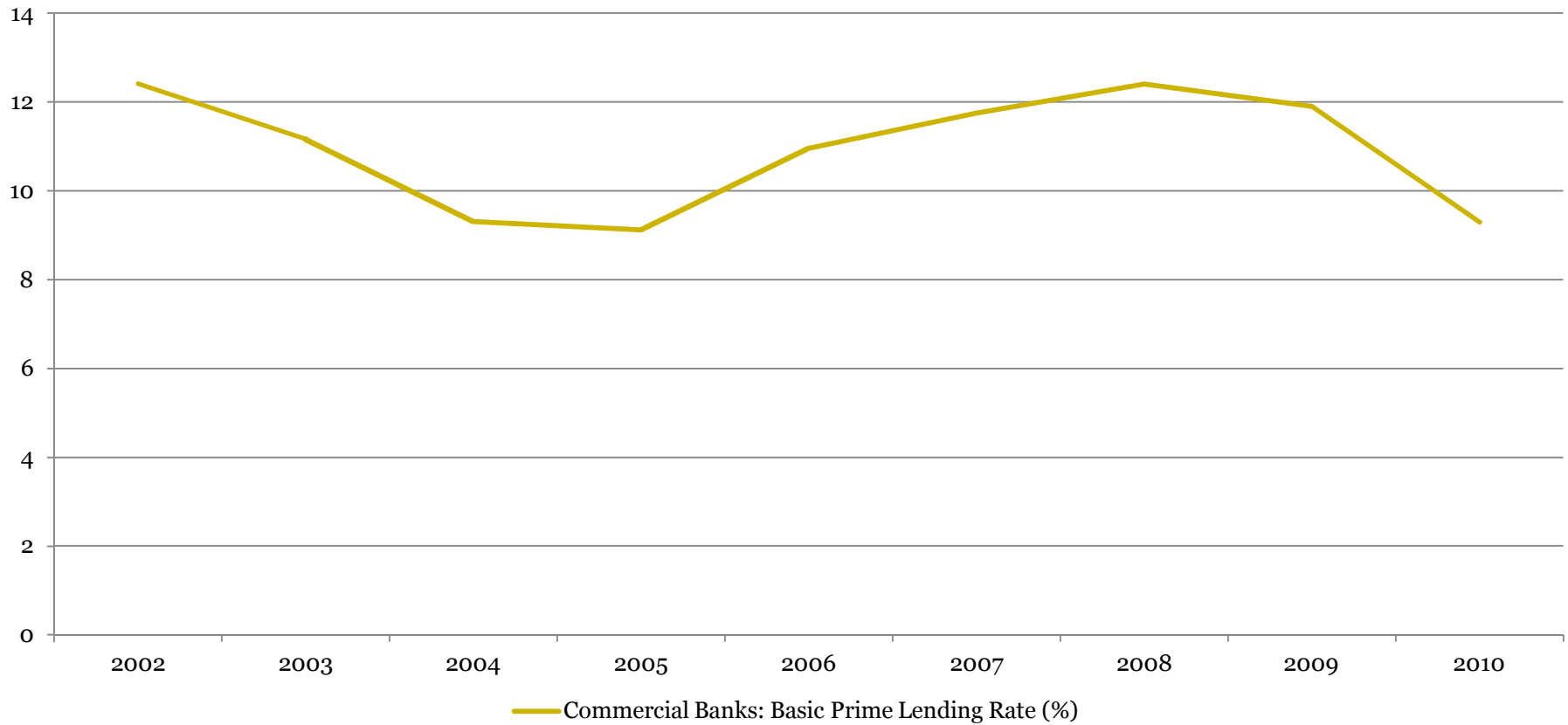


Source: Central Bank of Trinidad and Tobago

Prime Lending Rate

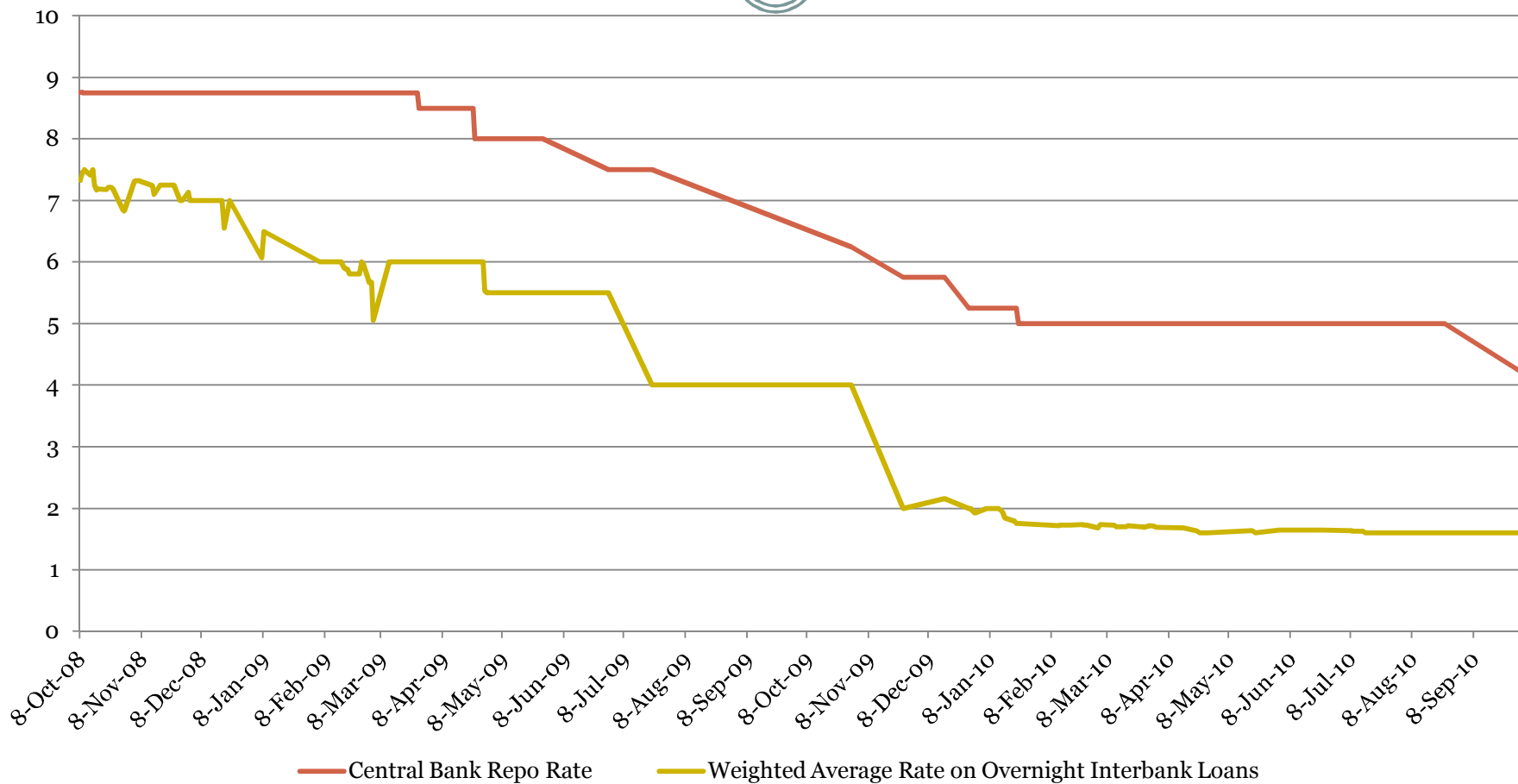


Commercial Banks: Basic Prime Lending Rate (%)



Source: Central Bank of Trinidad and Tobago

Repo Rate and Overnight Interbank Rate



Source: Central Bank of Trinidad and Tobago

Prime, Repo and Overnight Rates



Source: Central Bank of Trinidad and Tobago

Thank you for Listening. Any Questions?

