# An assessment of Financial Stability in Trinidad & Tobago using micro and macroprudential indicators

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# Financial Stability (FS)

Schinasi (2004) identified 4 key elements:

- 1. The **broadness** of FS must be considered and this includes its effects on the various aspects such as the types of institutions, market structures.
- 2. The **efficiency of the payment system** is imperative to FS in an economy.
- 3. Financial stability ensures not only an **absence of financial crisis**, but an **ability of the system to repair crises** as they begin to occur.
- 4. Financial stability affects the workings of the economy in general and has far-reaching consequences that extend beyond the activity of the firm.

# **FS** defined in TT

Andrew Crockett (2005) "Financial stability requires that (i) the key institutions in the financial system are stable, in that there is a high degree of confidence that they can continue to meet their contractual obligations without interruption or outside assistance, and (ii) the **key markets are stable**, in that participants can confidently transact in them at prices that reflect fundamental forces and that do not vary substantially over short periods when there have been no changes in fundamentals."

# **Financial Stability**

- Financial stability: ability of the market to withstand shocks that stem from the financial system without experiencing major upheaval
- Indicators of financial stability usually calculated at the micro level and macro level
- Microprudential indicators: individual financial institutions' health
- Macroprudential indicators: health of the system as a whole

# Importance of FS

- The recent global financial crisis has encouraged interest in the area of financial stability and central banks now conduct stress tests regularly to determine how well the system can withstand financial upheaval
- In Trinidad & Tobago the CBTT produces a FS report every six months

# **Assessment of FS**

- Microprudential indicators, usually aggregated;
   CAMELS (Evans et al 2000)
- C Capital adequacy
- A Asset quality
- M Management soundness
- E Earnings
- L Liquidity
- S Sensitivity to market risk

## Assessment of FS cont'd

- Macroprudential and macroeconomic indicators
- Economic growth
- BOP
- Inflation
- Interest and exchange rates
- Lending and asset price booms
- Contagion effects
- Other factors

# Indicators used in TT

- TT follows the CAMELS structure indicators included for each section
- TT also reports major macroeconomic indicators
- According to Evans et al (2000) this is the best approach to properly determine FS in an economy

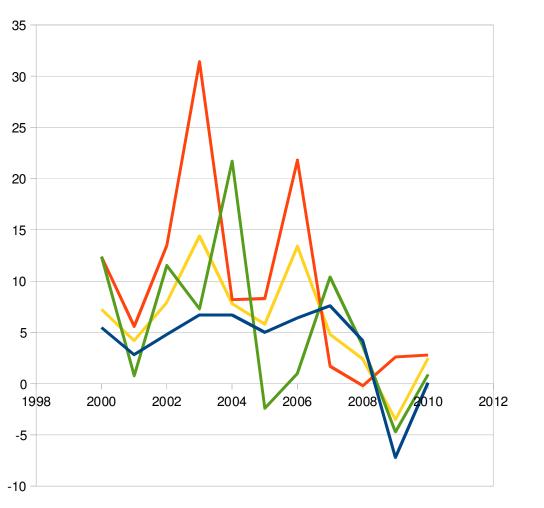
# Regulation in TT

- Insurance Act (1980) and Insurance Amendements (2004, 2007, 2009)
- Companies Act (1995), amended in 1999, 2003
- Central Bank Act (and amendments)
- Securities Industry Act
- Finance Act and amendments
- Financial Institutions Act
- Also various other CB guidelines which are not mandatory but strongly suggested

# GENERAL MACROECONOMIC ENVIRONMENT IN TRINIDAD & TOBAGO

# Graph showing growth in TT

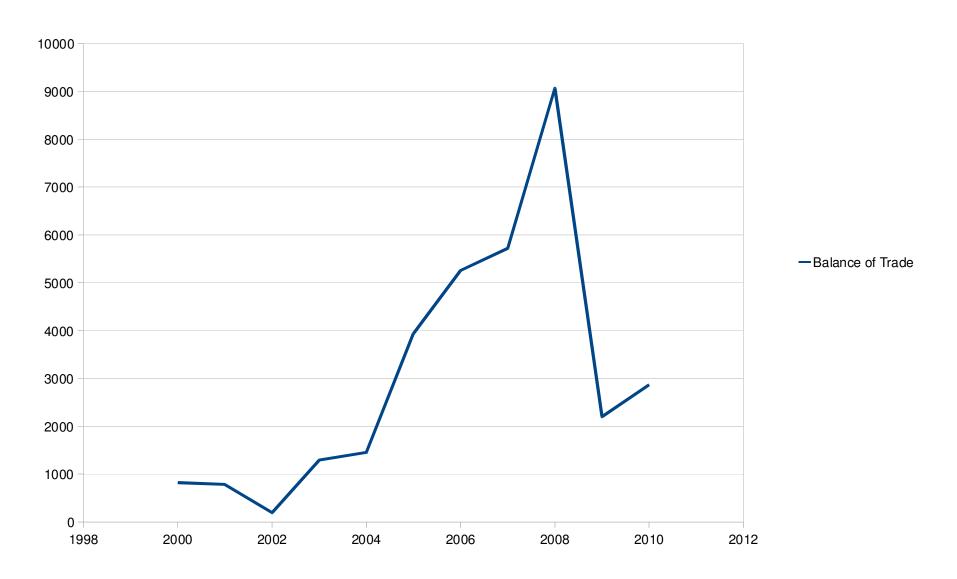
Growth Rates - TT 2000 to 2010 - Selected Sectors



- Real GDP Growth Non-Petroleum Sector - 2000=100
- Real GDP Growth Finance Insurance & Real Estate 2000=100
- —Real GDP Growth Petroleum Sector -2000=100
- Real GDP Growth Total 2000=100

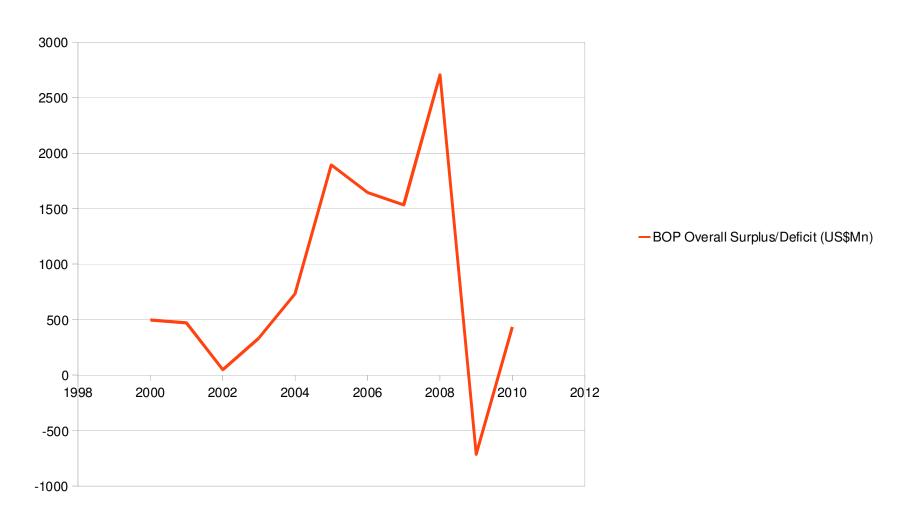
# **Trade summary TT**

Net Exports 2000-2010



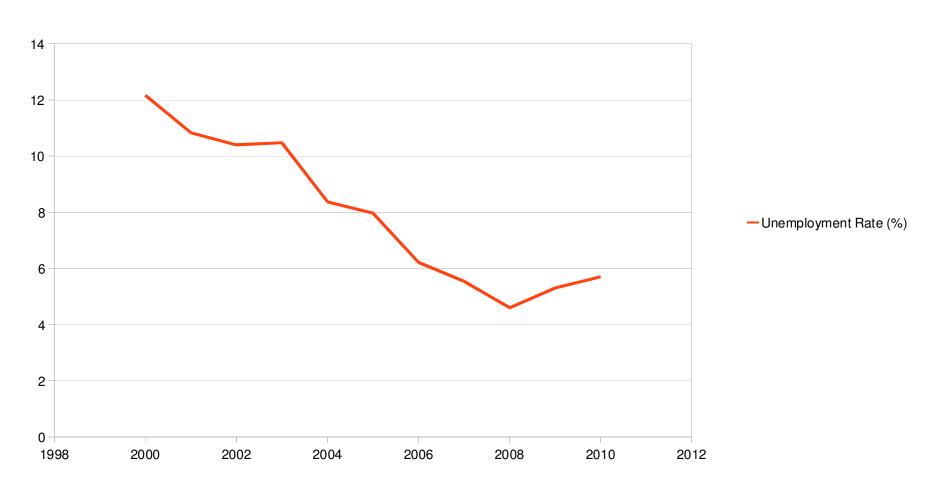
# **BOP**

BOP Balance 2000-2010



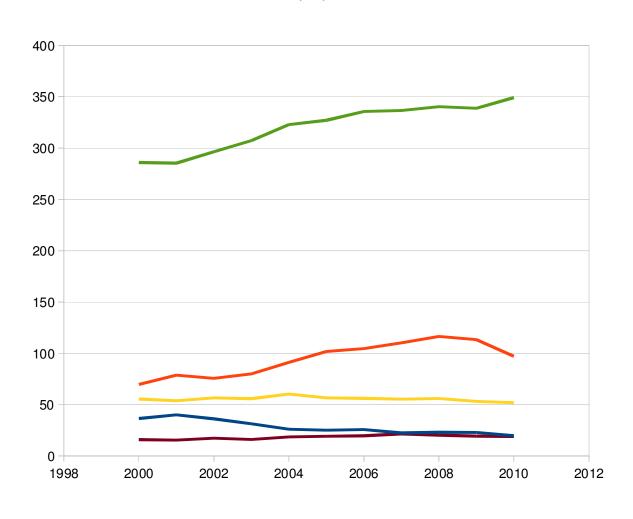
# **Unemployment Rate TT**

Unemployment Rate 2000-2010



# **Employment - Sector**

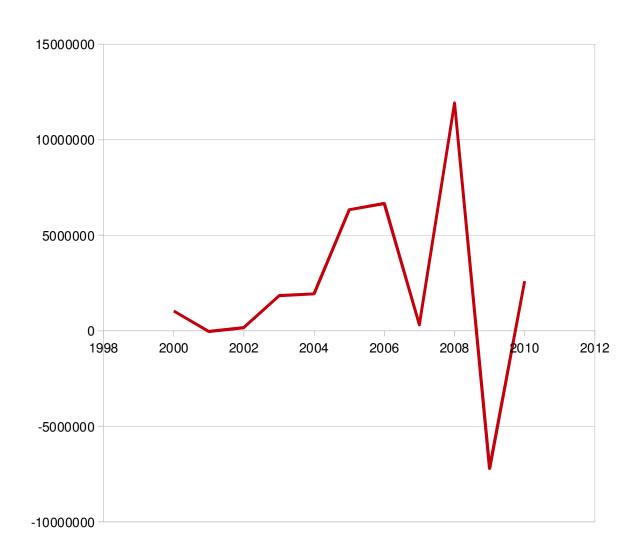
Employment in TT 2000 to 2010 - Selected Sectors



- Employment in Agriculture (000's)
- Employment in Construction (incl. Electricity & Water) (000's)
- -Employment in Manufacturing (000's)
- -Employment in All Other Sectors (000's)
- -Employment in Petroleum & Gas (000's)

# Government

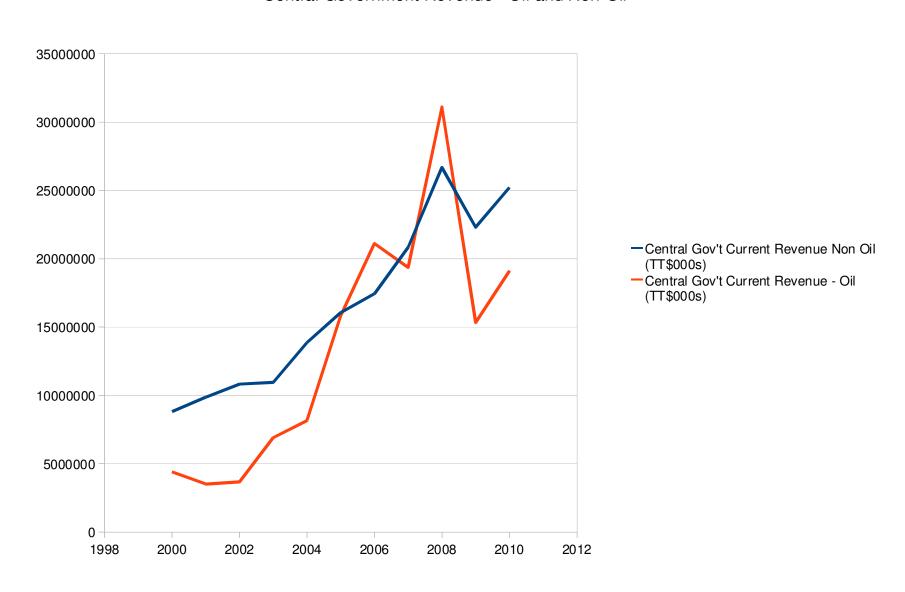
Central Government Fiscal Balance



-Central Gov't Overall Fiscal Balance (TT\$000s)

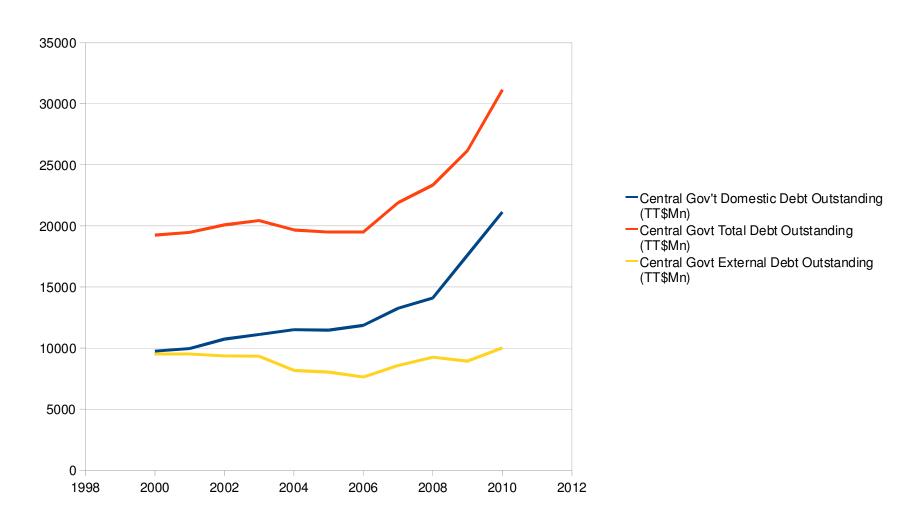
# Gov't

### Central Government Revenue - Oil and Non-Oil



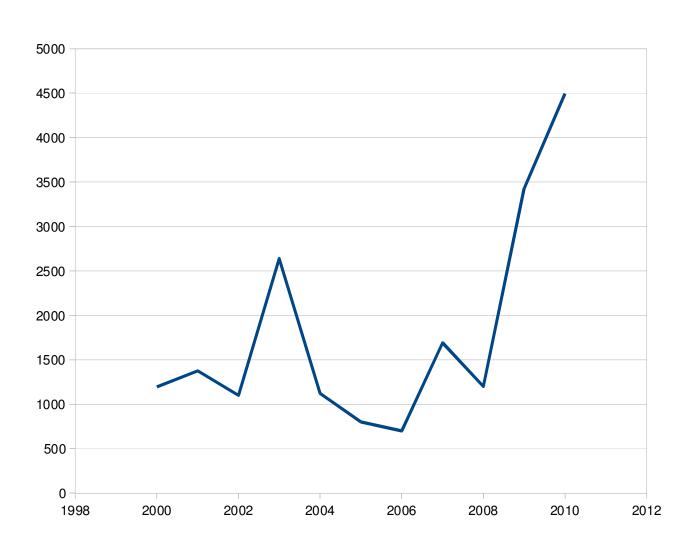
# Gov't

### Central Government Debt



# Gov't

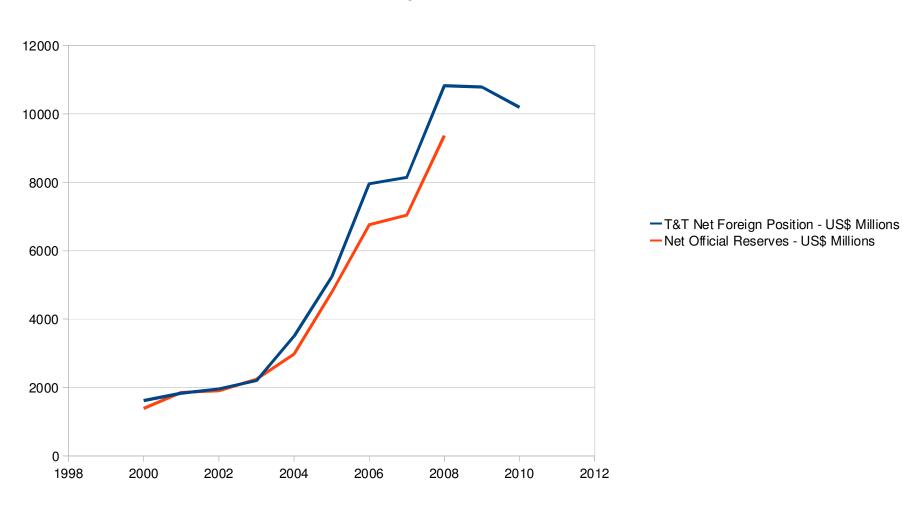
### **Government Bonds**



-Government Securities Bonds (TT\$Mn)

# Reserves

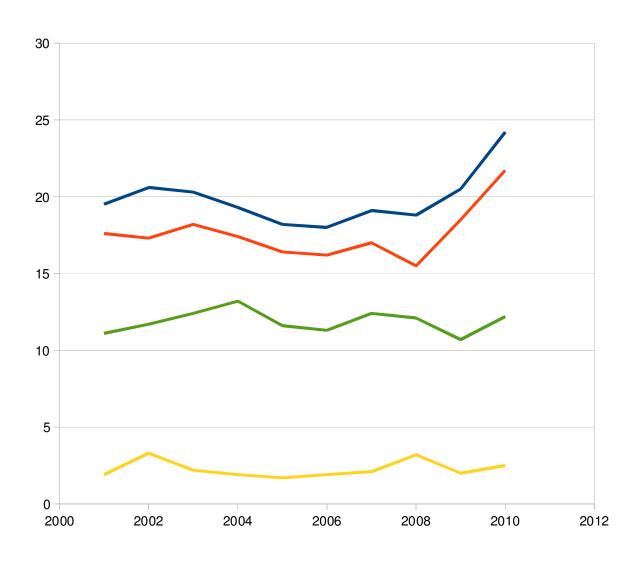
### Foreign Reserves TT



# AGGREGATED MICROPRUDENTIAL INDICATORS

# C – Capital Adequacy

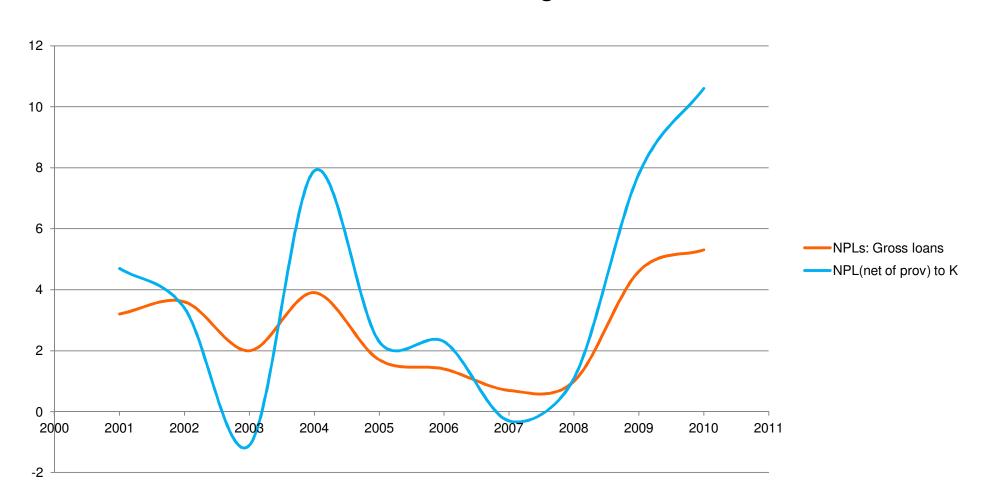
### Capital Adequacy



- Regulatory capital to risk-weighted assets
- Regulatory Tier1 Capital to Risk-Weighted Assets
- Regulatory Tier2 Capital to Risk-Weighted Assets
- Regulatory capital to total assets

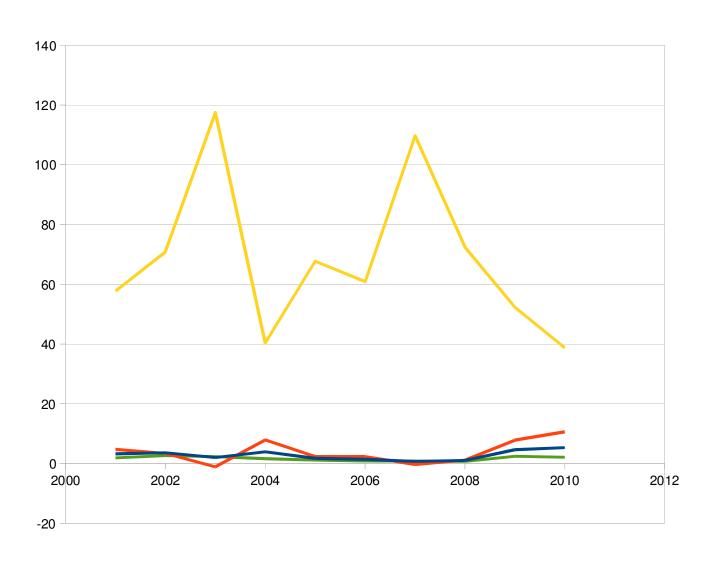
# A - Assets

### **Non - Performing Loans**



# A – Assets

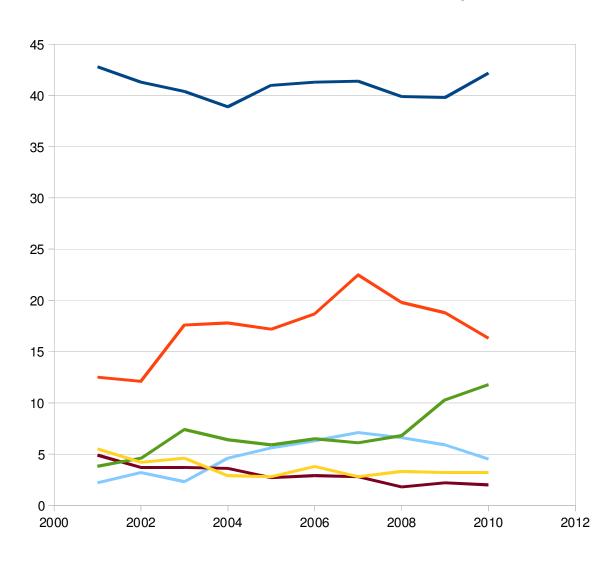
### **Asset Quality**



- -NPLs: Gross loans
- -NPL(net of prov) to K
- -Specific prov: impaired assets
- —Specific prov: gross lending

# A - Assets

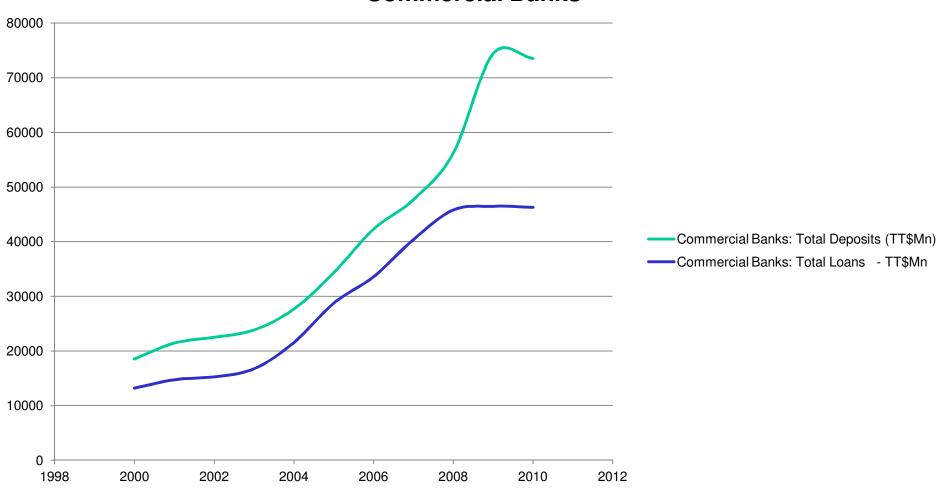
### Asset Structure - Banking Sector



- -Loans to Hhs: Total Loans
- Fin. Sector Loans: Total Loans
- -Oil and gas loans: Total loans
- Construction loans: total loans
- Transport and communication loans: total loans
- -Non-resident loans: total loans

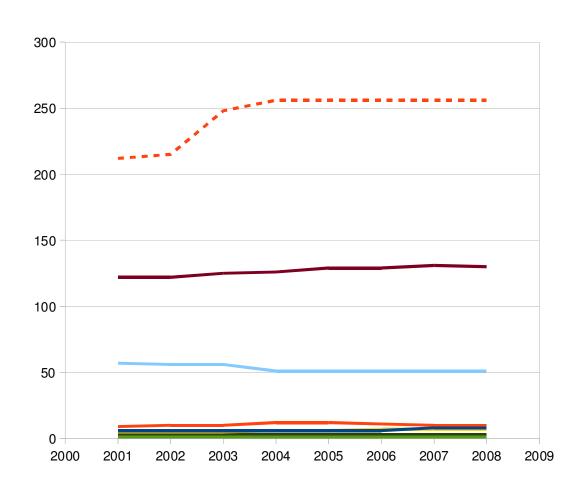
# A - Assets

### **Commercial Banks**



# M – Management Soundness

No. of Financial Institutions

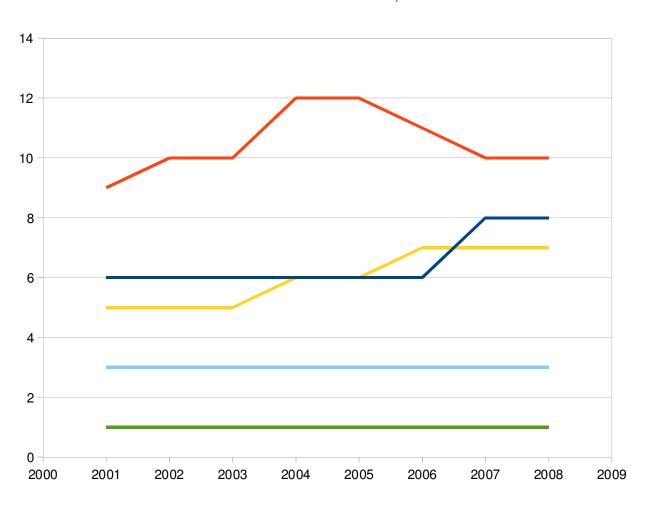


- -Comm. Banks
- Fin. Companies & Merch Banks
- Trust & Mortgage Fin Companies
- Dev. Banks
- -Cr. unions
- Ins. Companies
- -Thrift Instit'ns
- -NIB
- -Stk. Ex.
- Unit Trust Corp
- -Home Mortg. Bank
- -- Priv. Registered Pension Plans

# M – Mgt. Soundness

### Financial Institutions

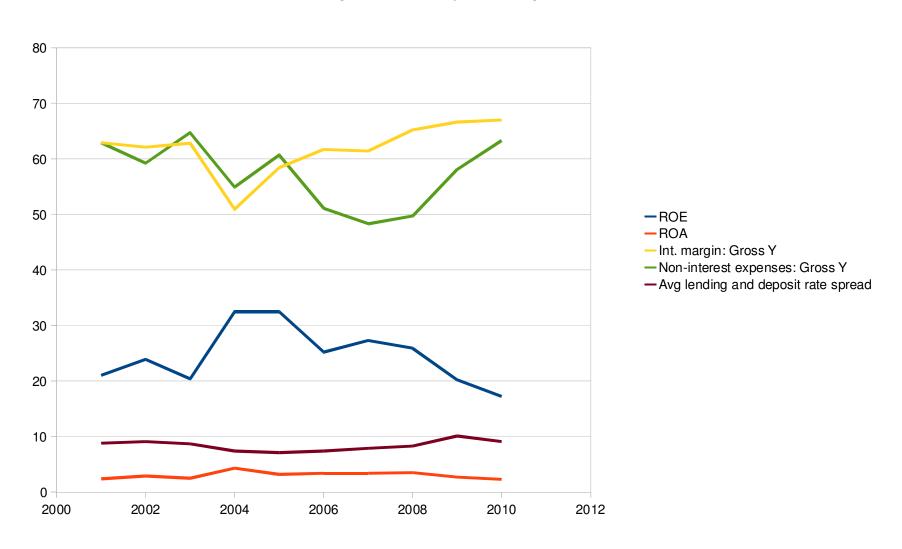
Excl. Cr. Unions, Ins. Cos and Pension Plans



- -Comm. Banks
- -Fin. Companies & Merch Banks
- -Trust & Mortgage Fin Companies
- Dev. Banks
- -Thrift Instit'ns
- -NIB
- -Stk. Ex.
- —Unit Trust Corp
- -Home Mortg. Bank

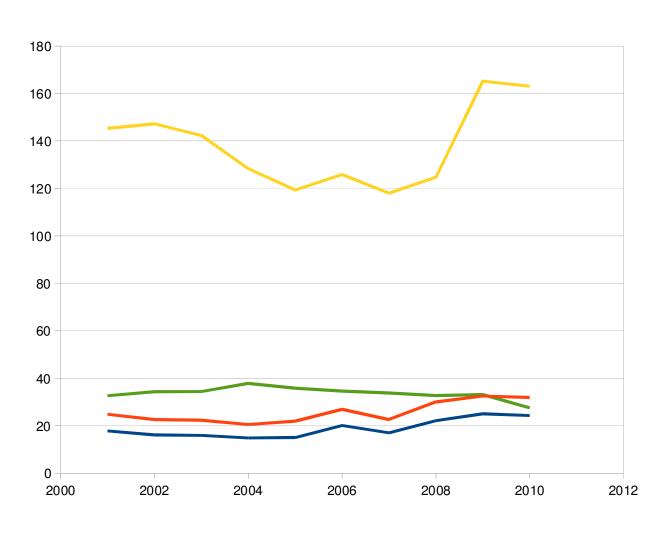
# **E – Earnings and Profitability**

Earnings & Profitability - Banking Sector



# **L** - Liquidity

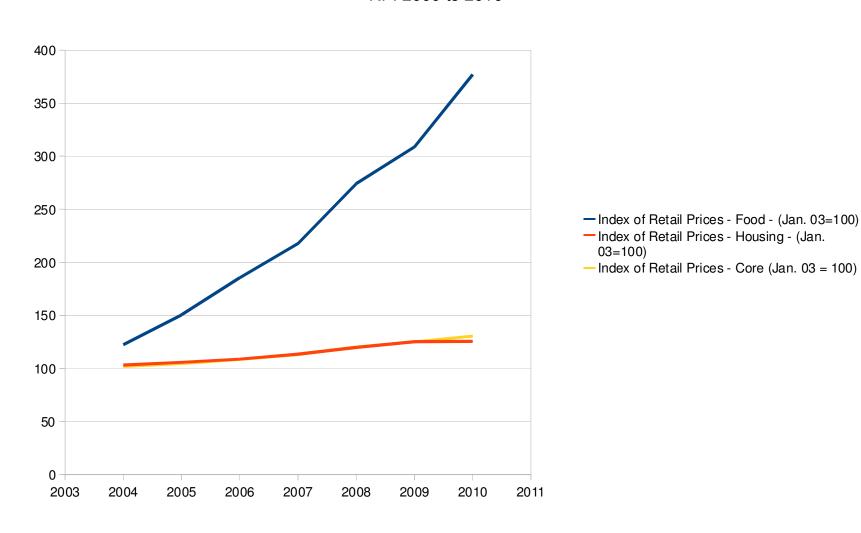
### Liquidity



- -LA:TA
- -LA:Srun Liab
- Cust dep: total loans(excl interbank)
- -For. Currency liab:total liab

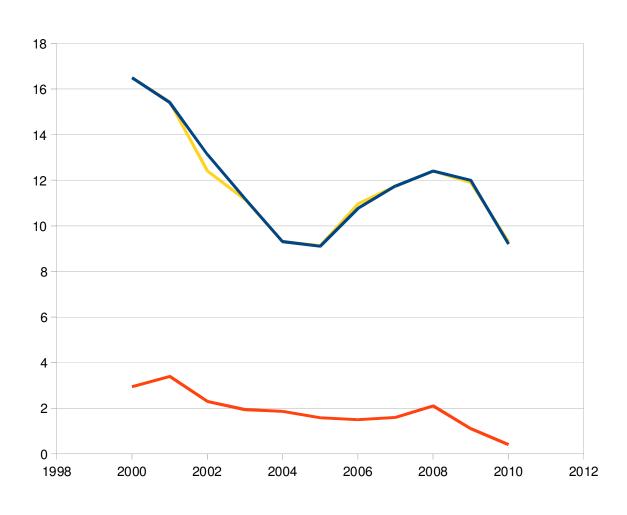
# S – Sensitivity to Risk

RPI 2000 to 2010



# **Interest rates TT**

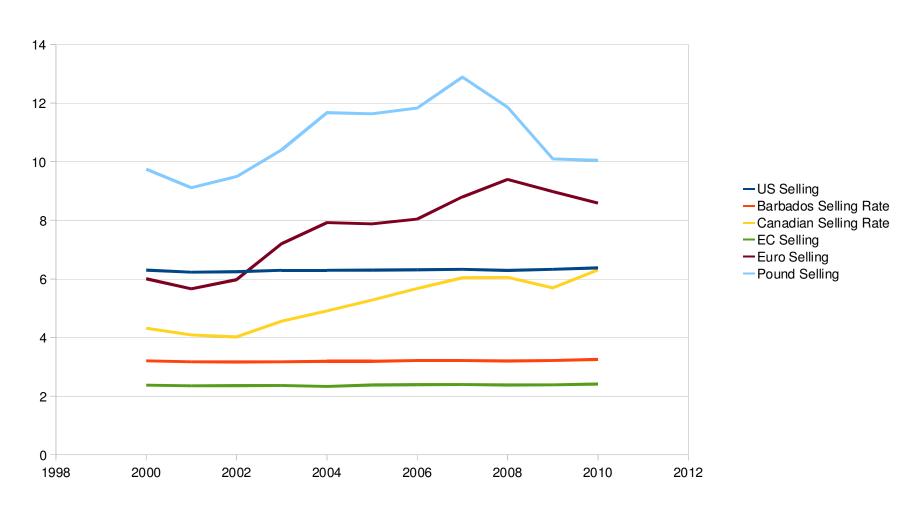
### Commercial Banks Interest Rates



- -Commercial Banks: Demand Loans Rate (%)
- —Commercial Banks: Ordinary Savings Deposit Rate (%)
- Commercial Banks: Basic Prime Lending Rate (%)

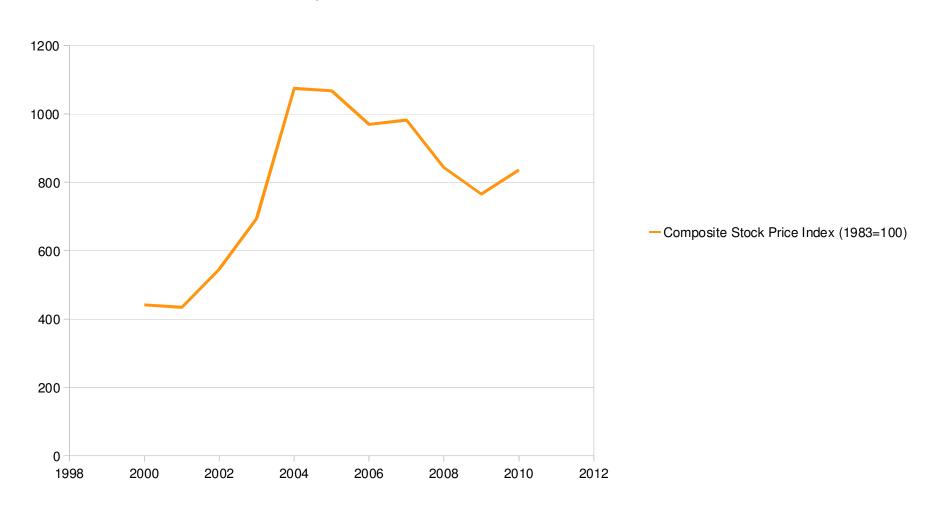
# **Exchange Rates TT**

### **Exchange Rates**



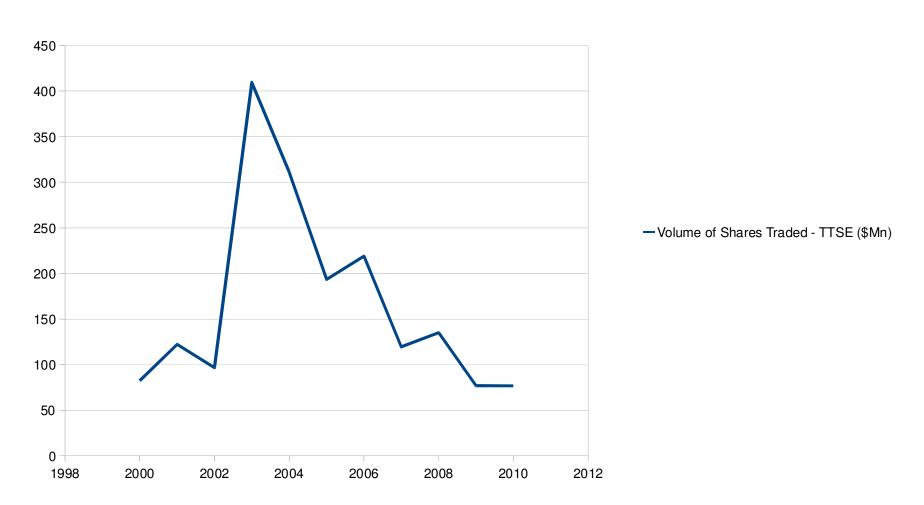
# Stock market index TT

TT Composite Stock Price Index - Annual: 2000-2010



# **Stock Market - TT**

Volume of Shares Traded



# Financial stability

- Financial stability indicates an ability to recover from financial turmoil and a resilience to resist major negative effects of a financial crisis
- The economy of Trinidad & Tobago was not immune to the recent financial crisis of 2008
- Reaction was delayed but significant
- Recovery process still proceeding
- Financial system remained mostly stable

# FS - TT

- 2009 was the difficult year here CLICO crisis
- Some negatives seen in macroeconomy: BOP deficit, growth rates fell, unemployment rising, fiscal balance negative
- Our exchange rate remained fairly stable good, indicates strong reserve position
- Some recovery in 2010

# **Policy Suggestions**

- Improve regulation
- Boost investor & firm awareness
- Educate the general public

# The End