

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

Varuna L. Ramlal
PhD. Candidate
SALISES, UWI, St. Augustine

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

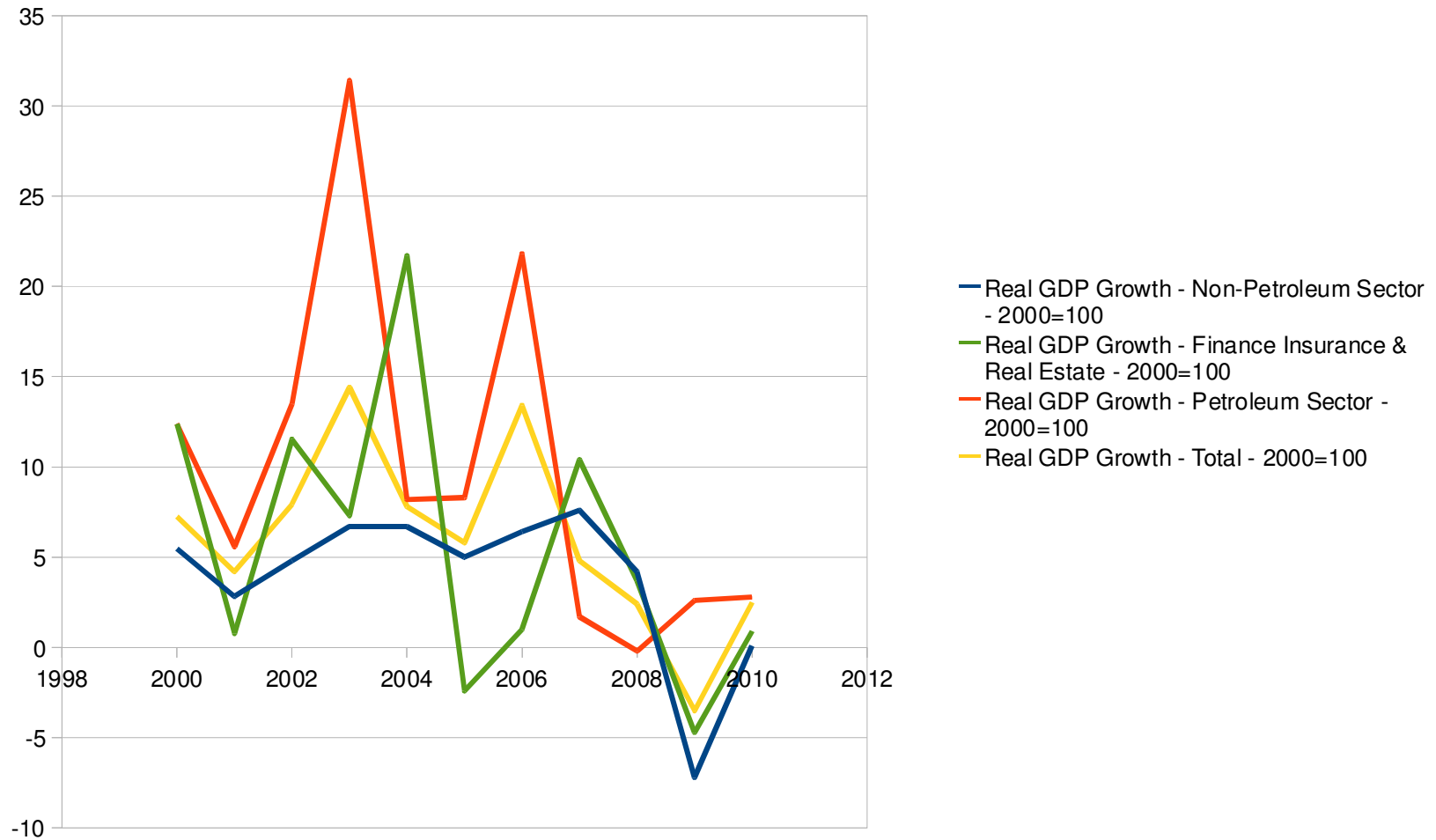
Regulation in TT

- Insurance Act (1980) and Insurance Amendments (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

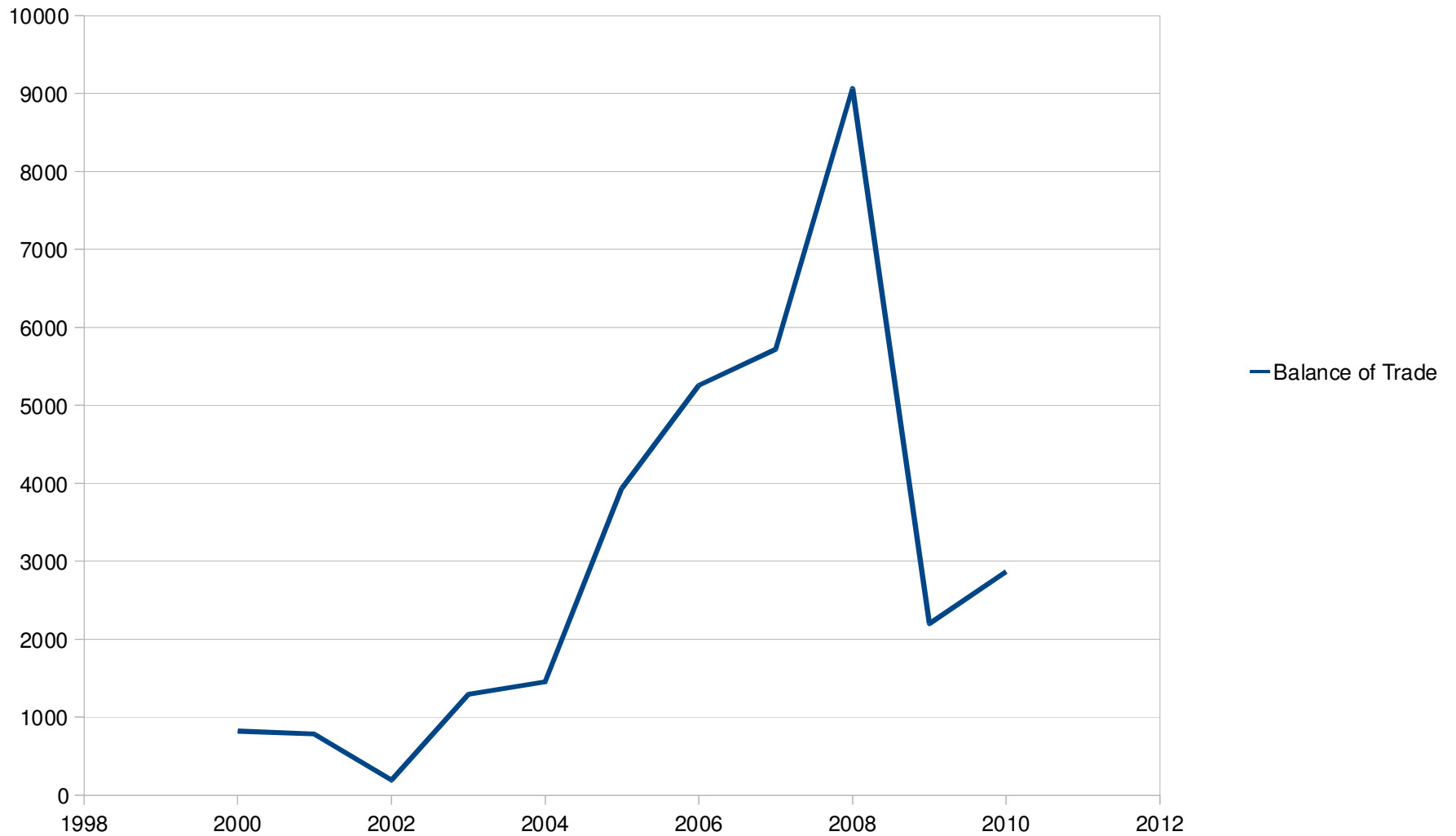
Graph showing growth in TT

Growth Rates - TT 2000 to 2010 - Selected Sectors



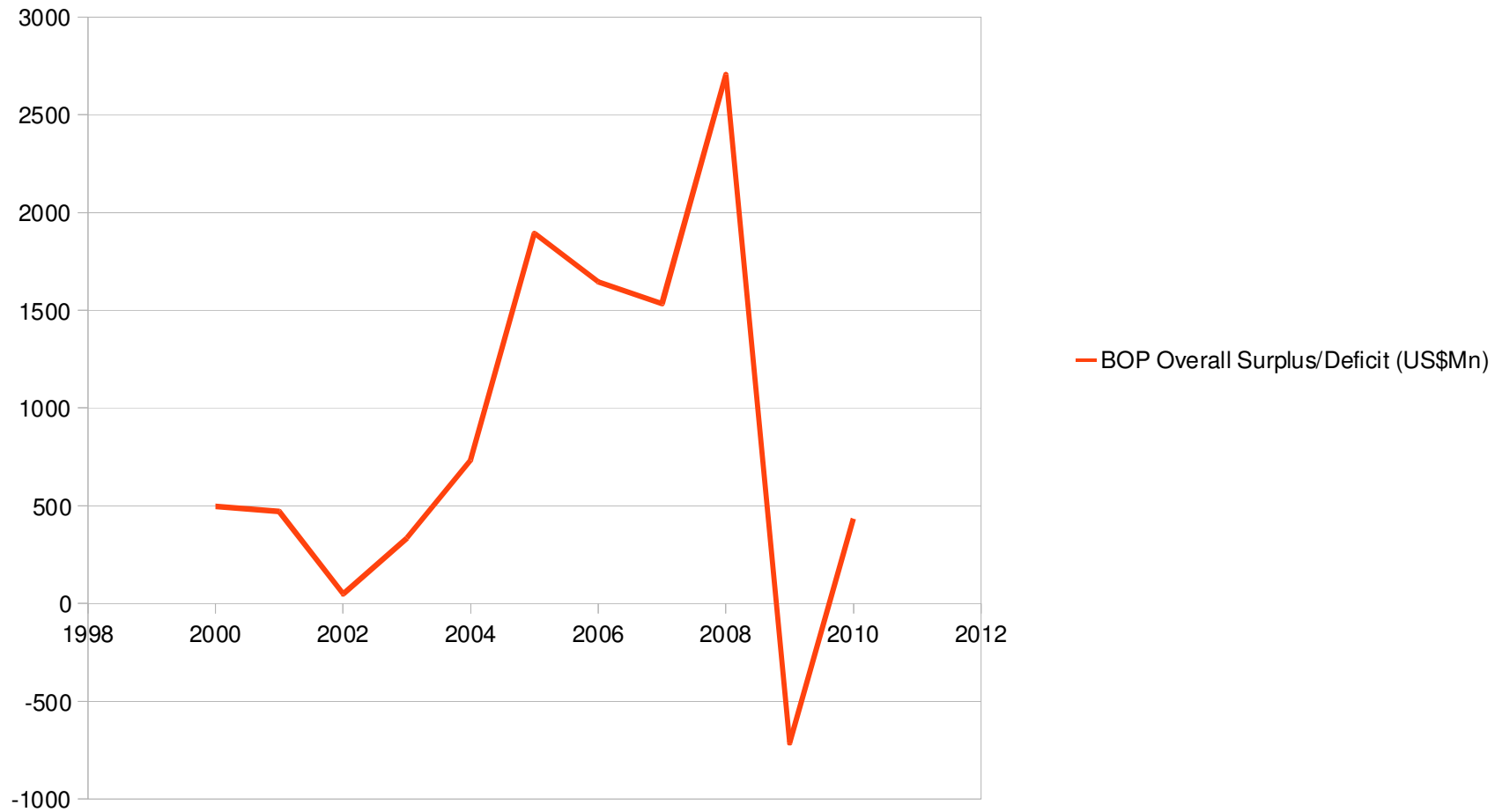
Trade summary TT

Net Exports 2000-2010



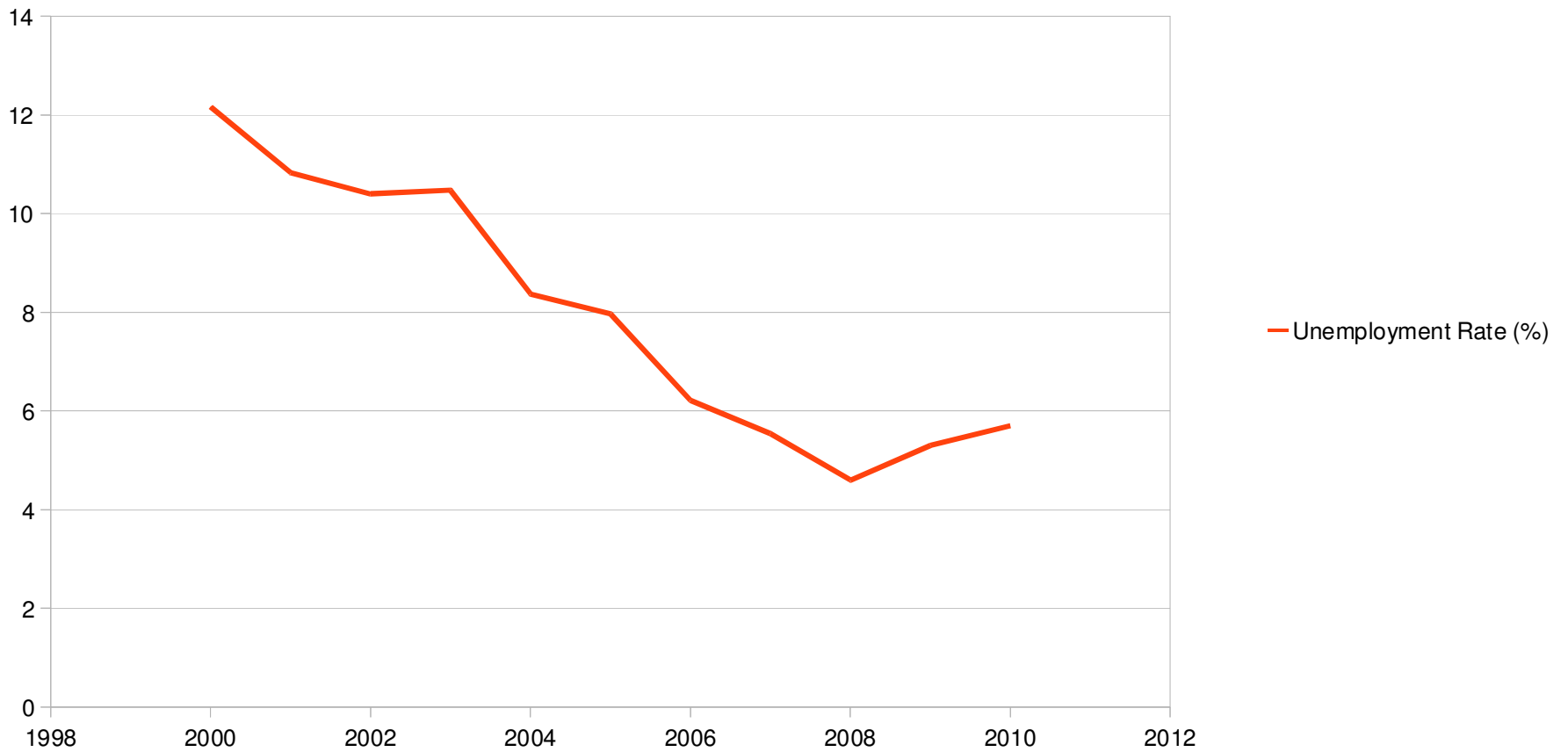
BOP

BOP Balance 2000-2010



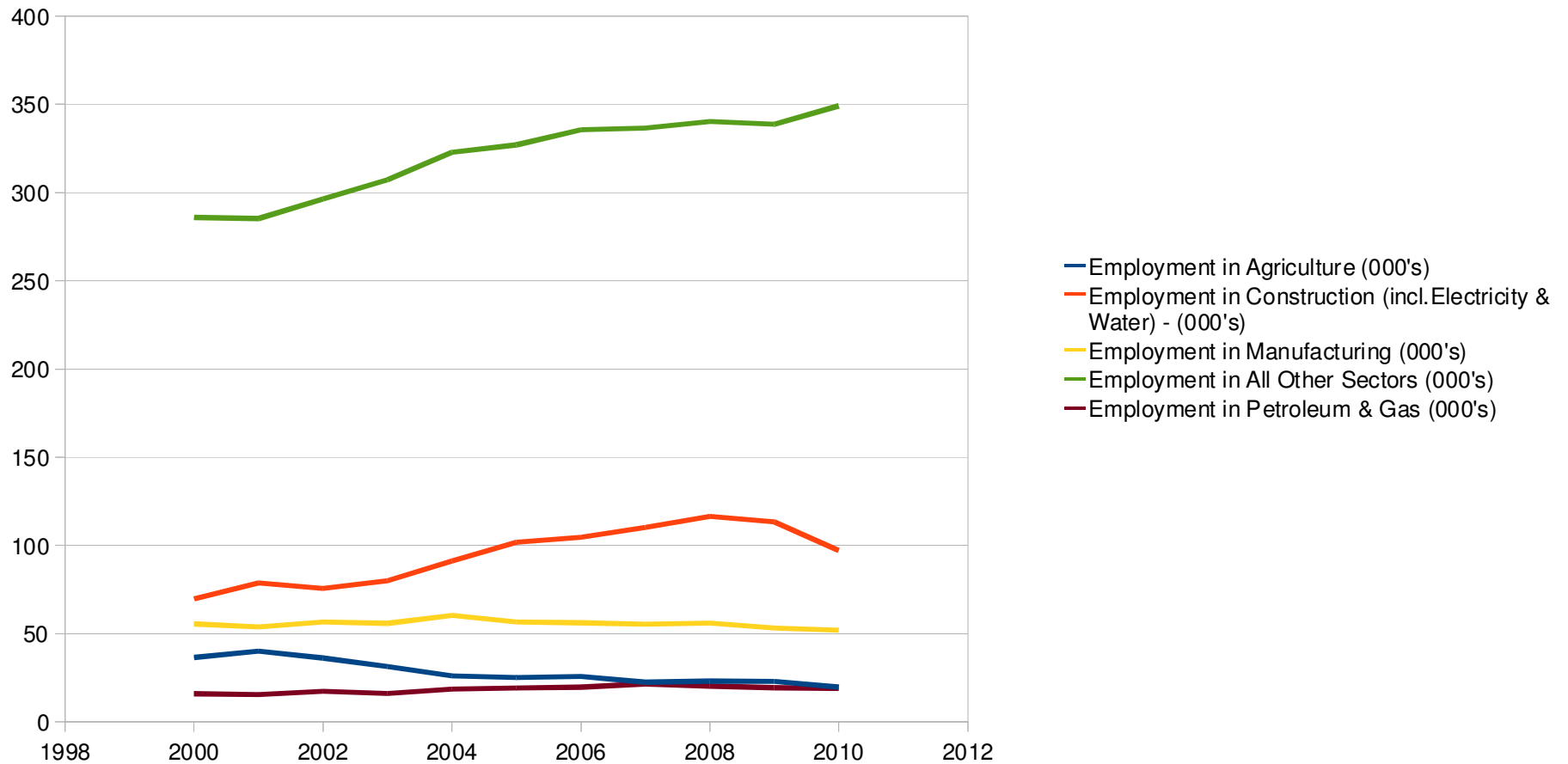
Unemployment Rate TT

Unemployment Rate 2000-2010



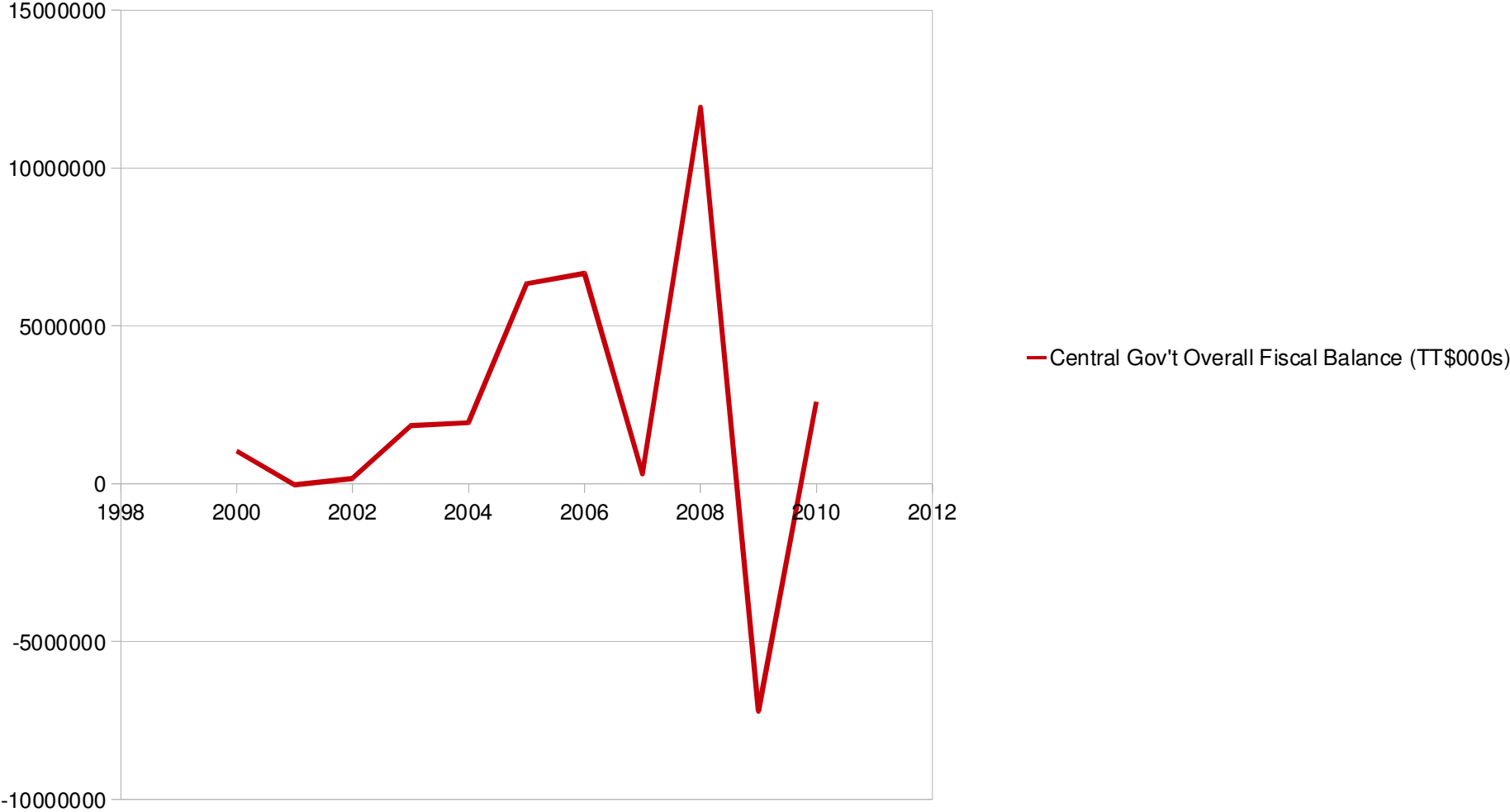
Employment - Sector

Employment in TT 2000 to 2010 - Selected Sectors



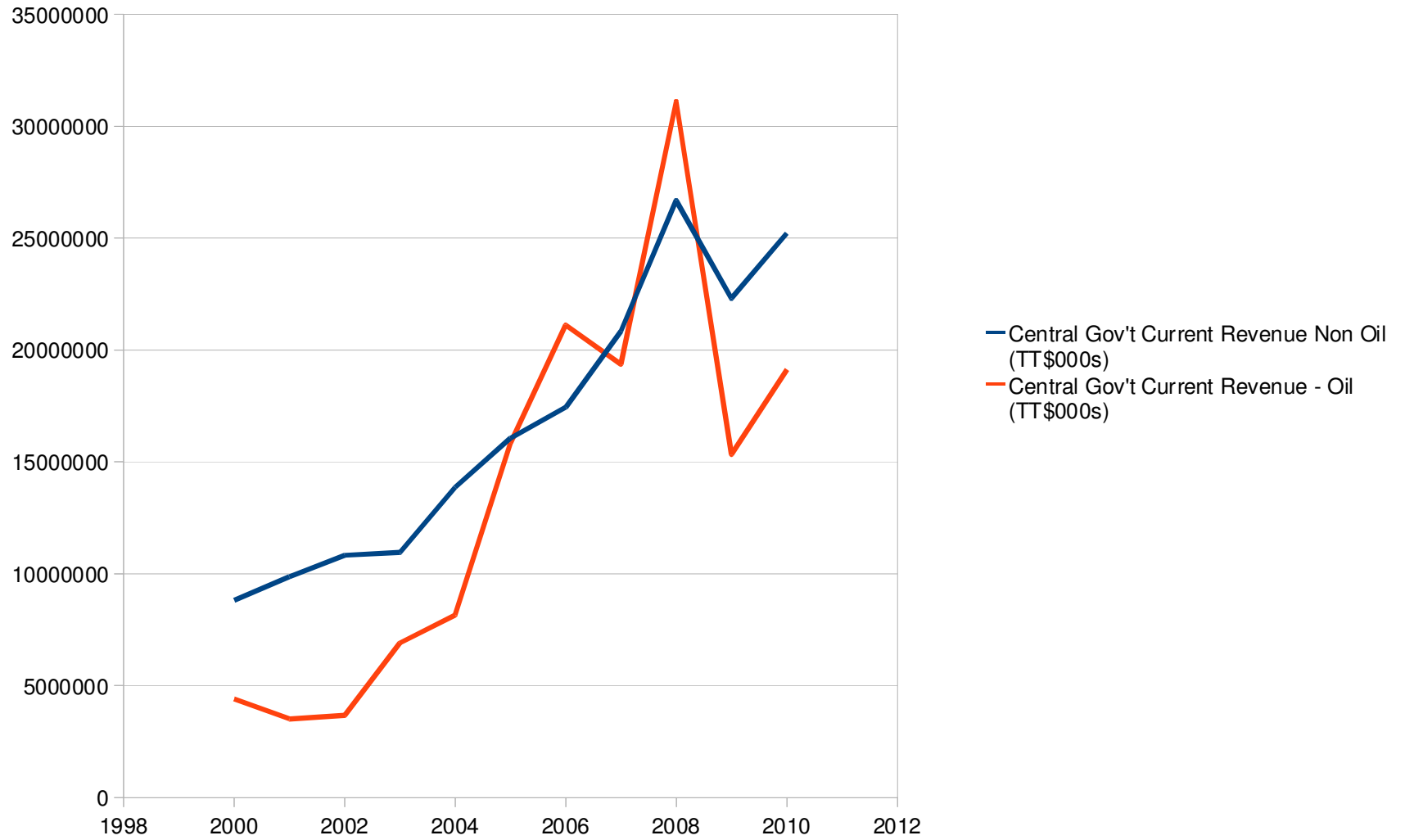
Government

Central Government Fiscal Balance



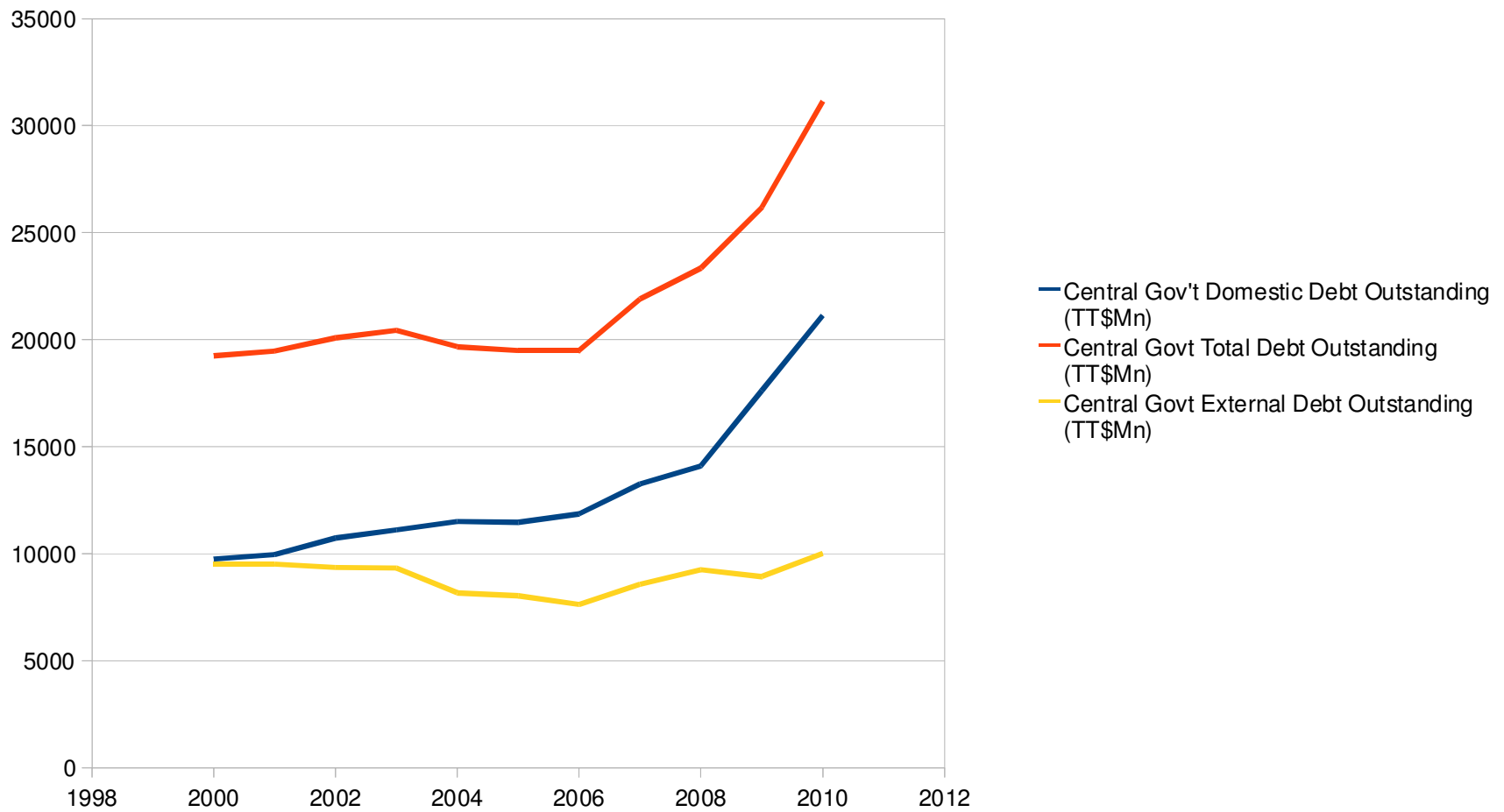
Gov't

Central Government Revenue - Oil and Non-Oil



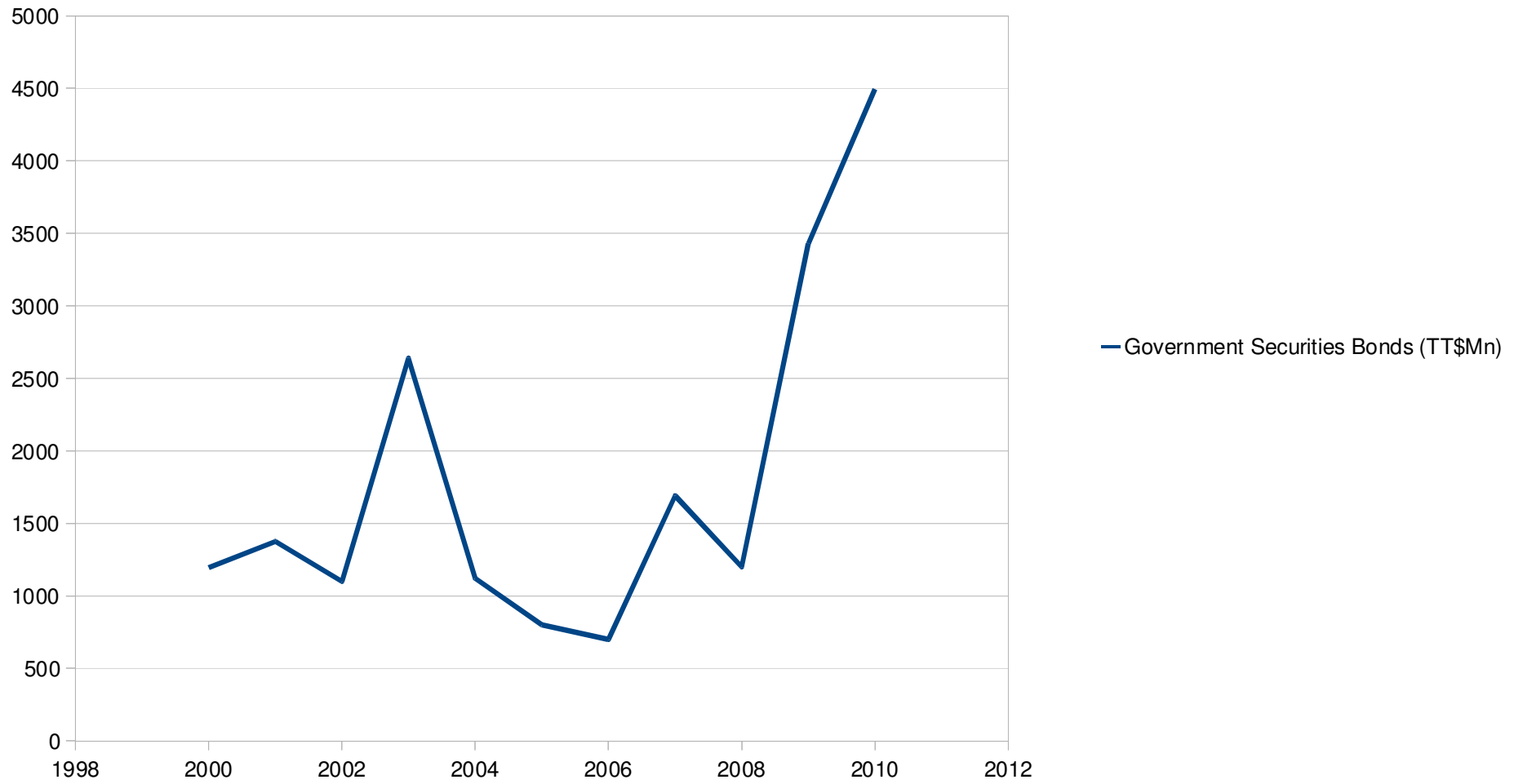
Gov't

Central Government Debt



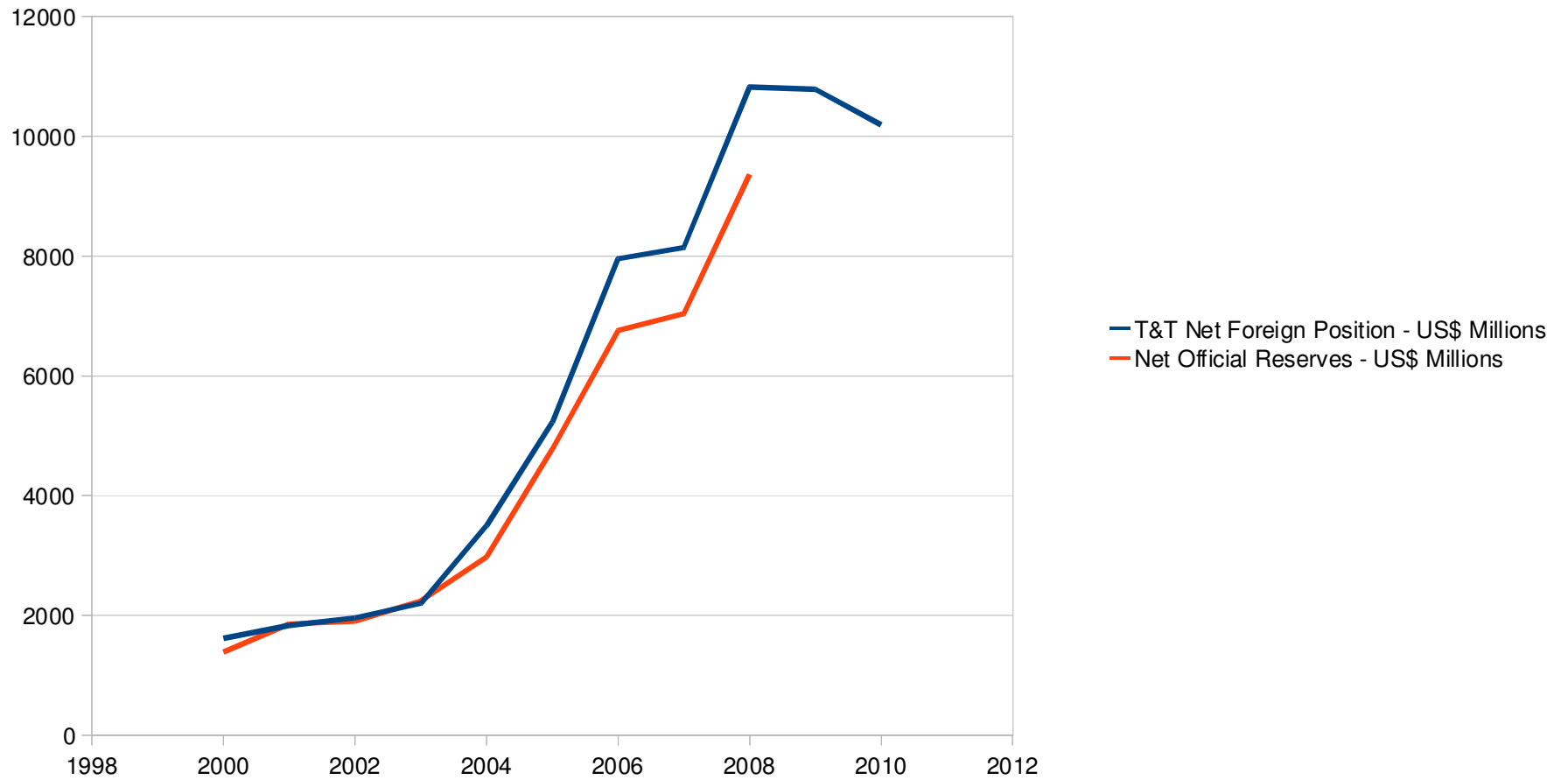
Gov't

Government Bonds



Reserves

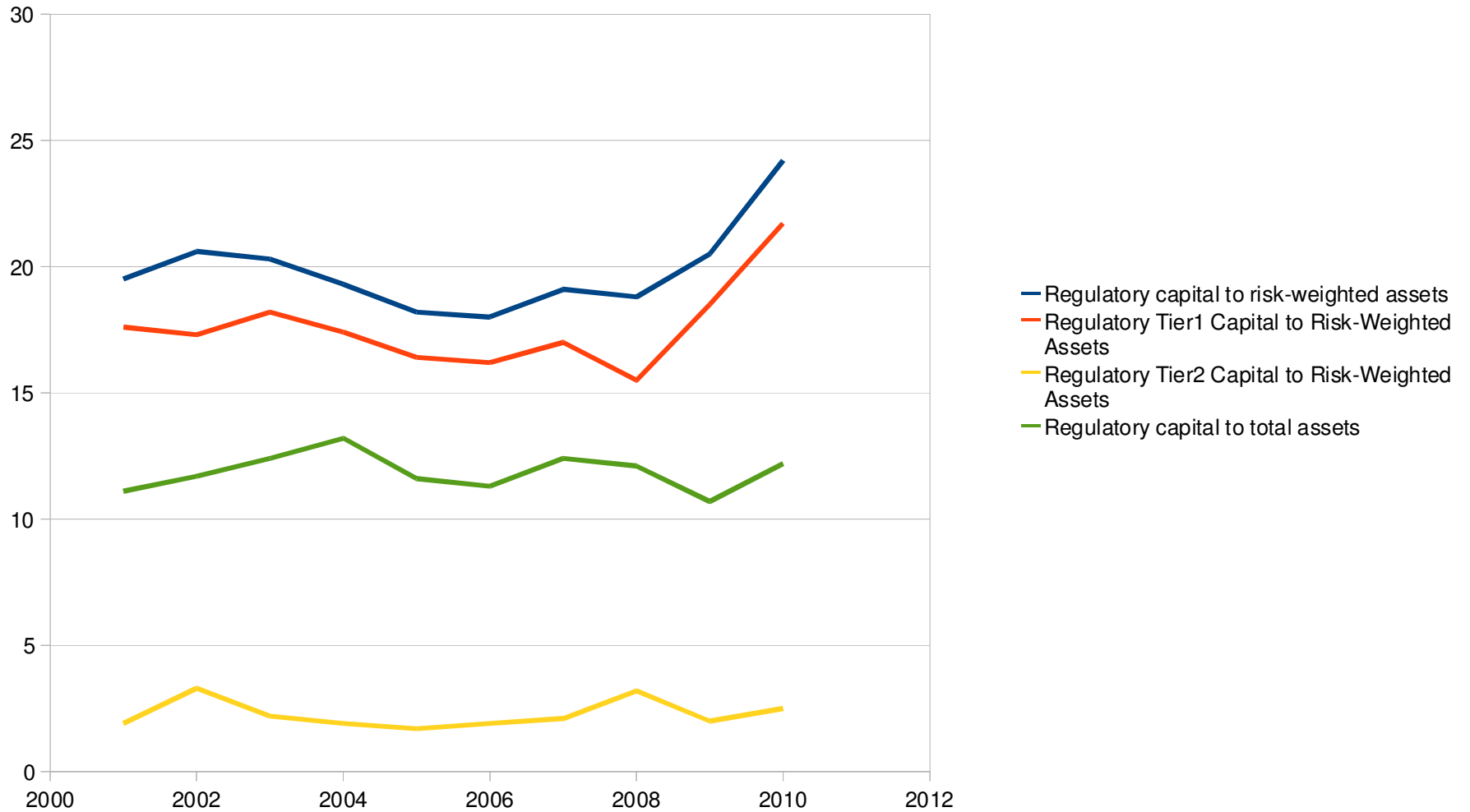
Foreign Reserves TT



AGGREGATED
MICROPRUDENTIAL
INDICATORS

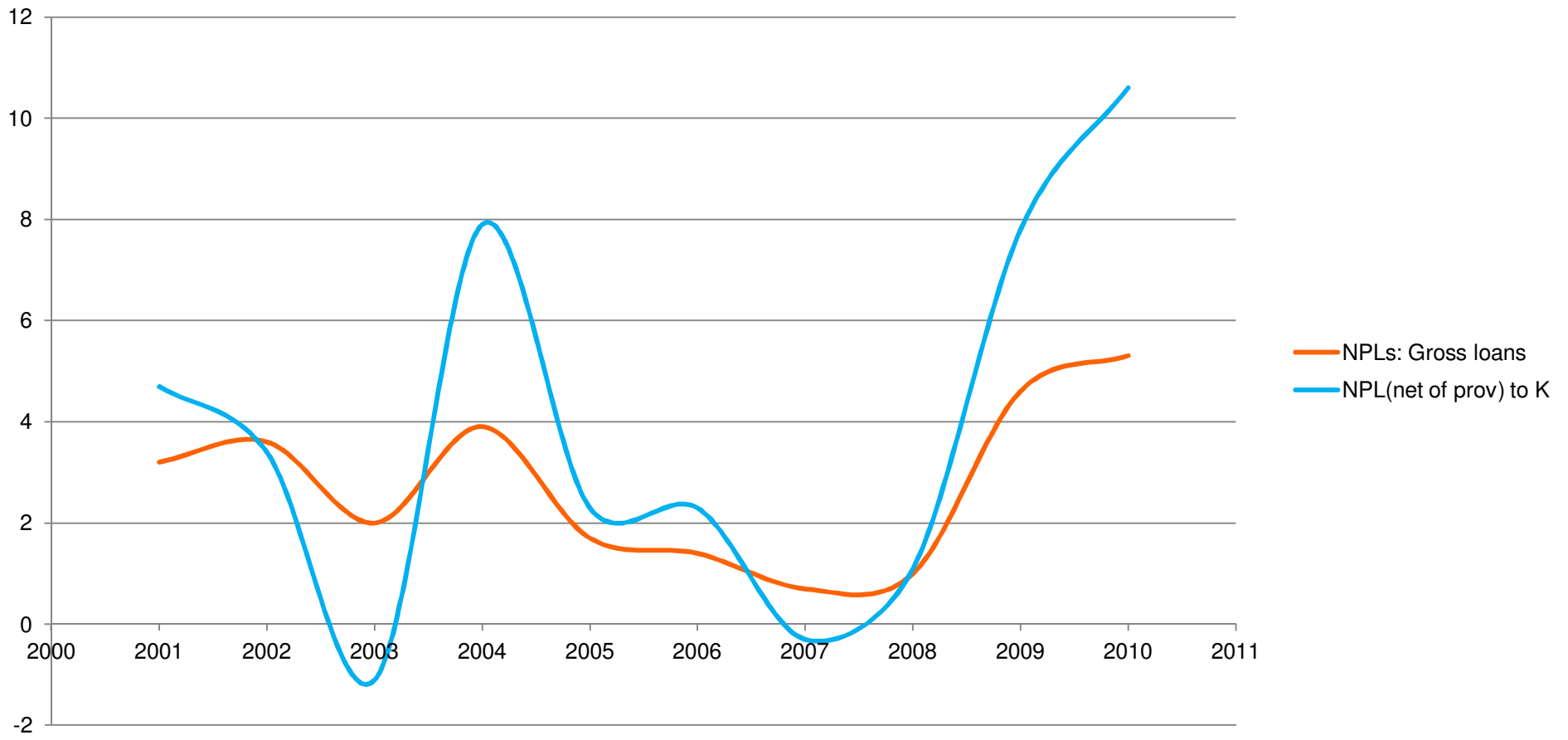
C – Capital Adequacy

Capital Adequacy



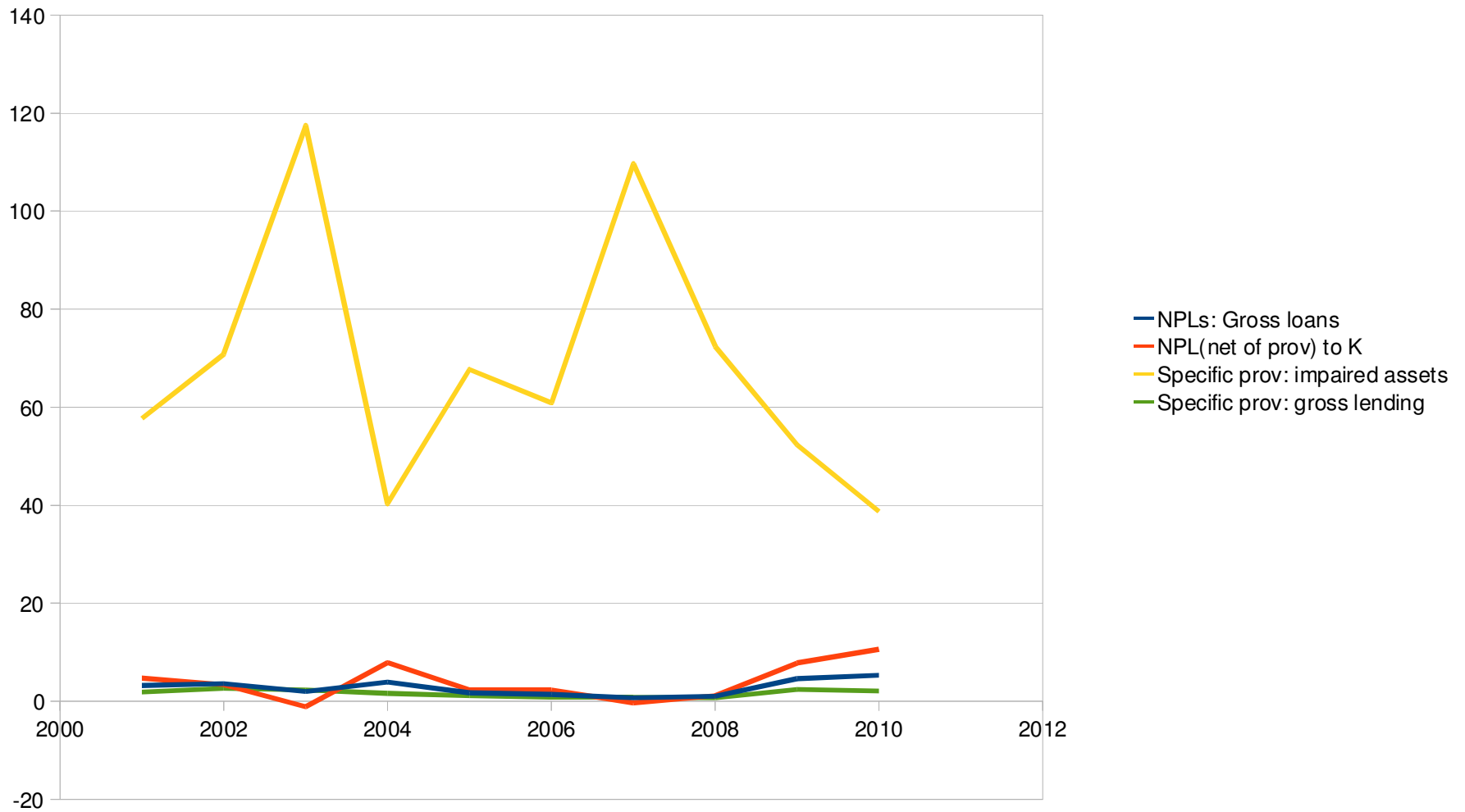
A - Assets

Non - Performing Loans



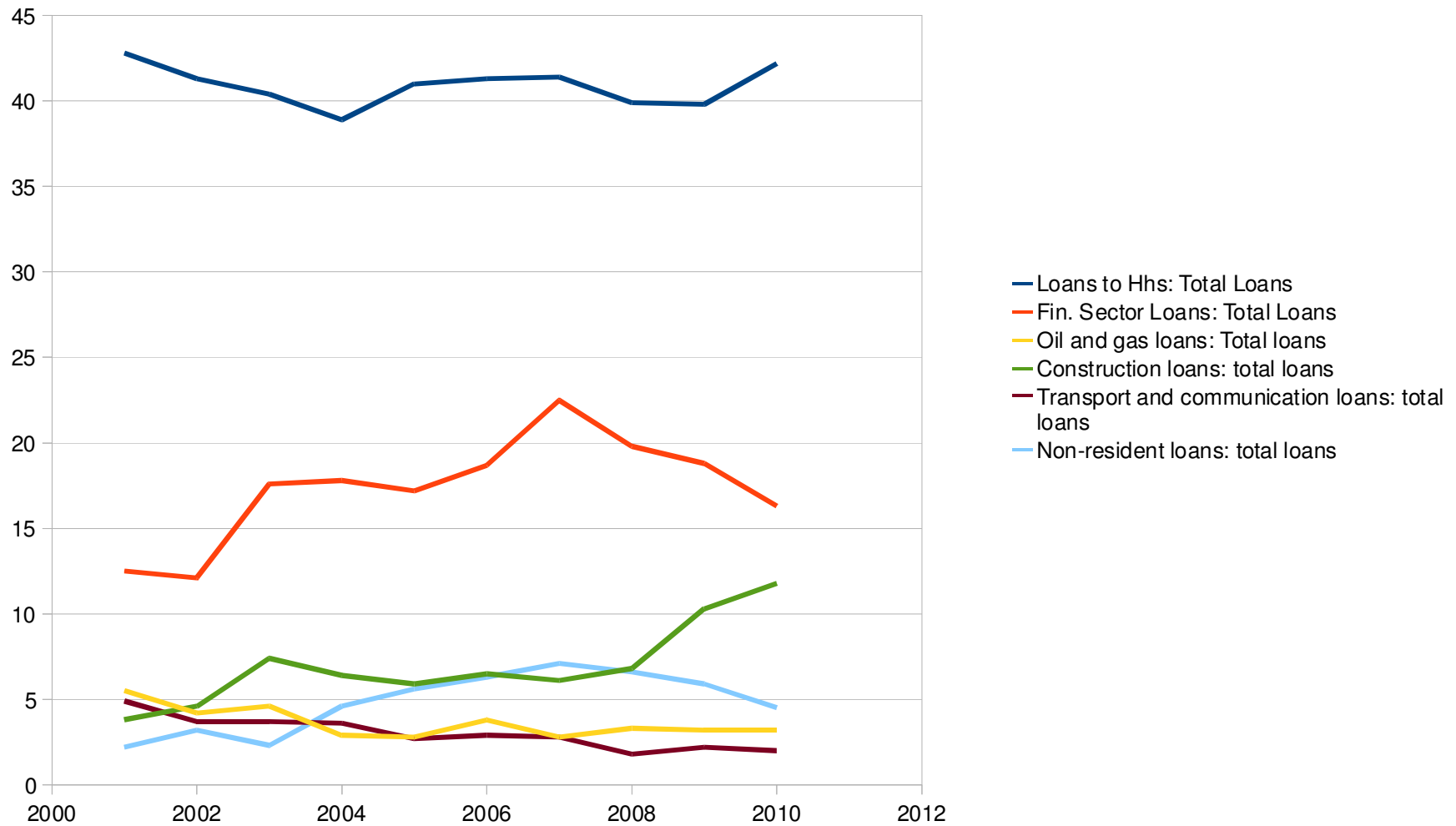
A – Assets

Asset Quality



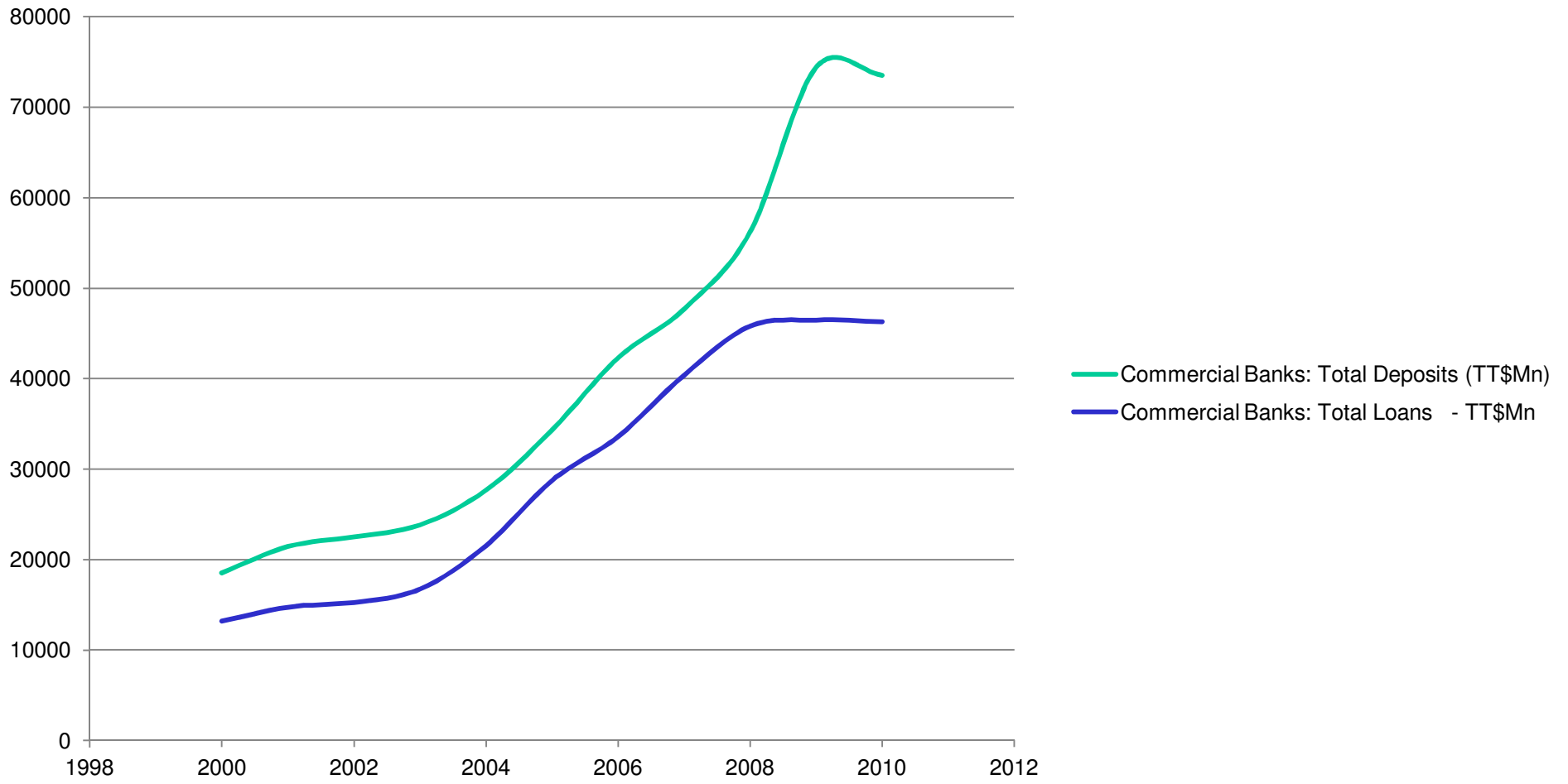
A - Assets

Asset Structure - Banking Sector



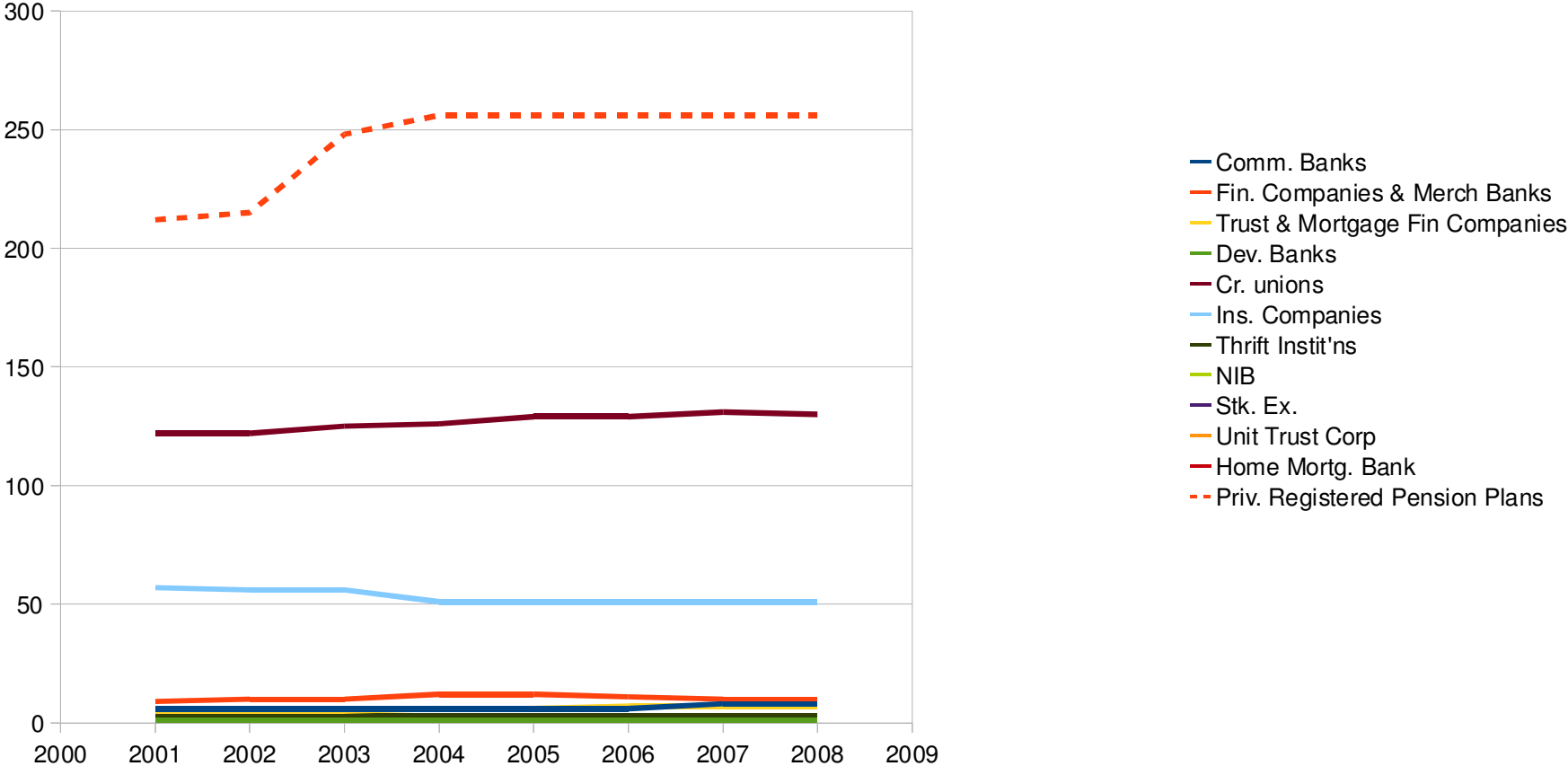
A - Assets

Commercial Banks



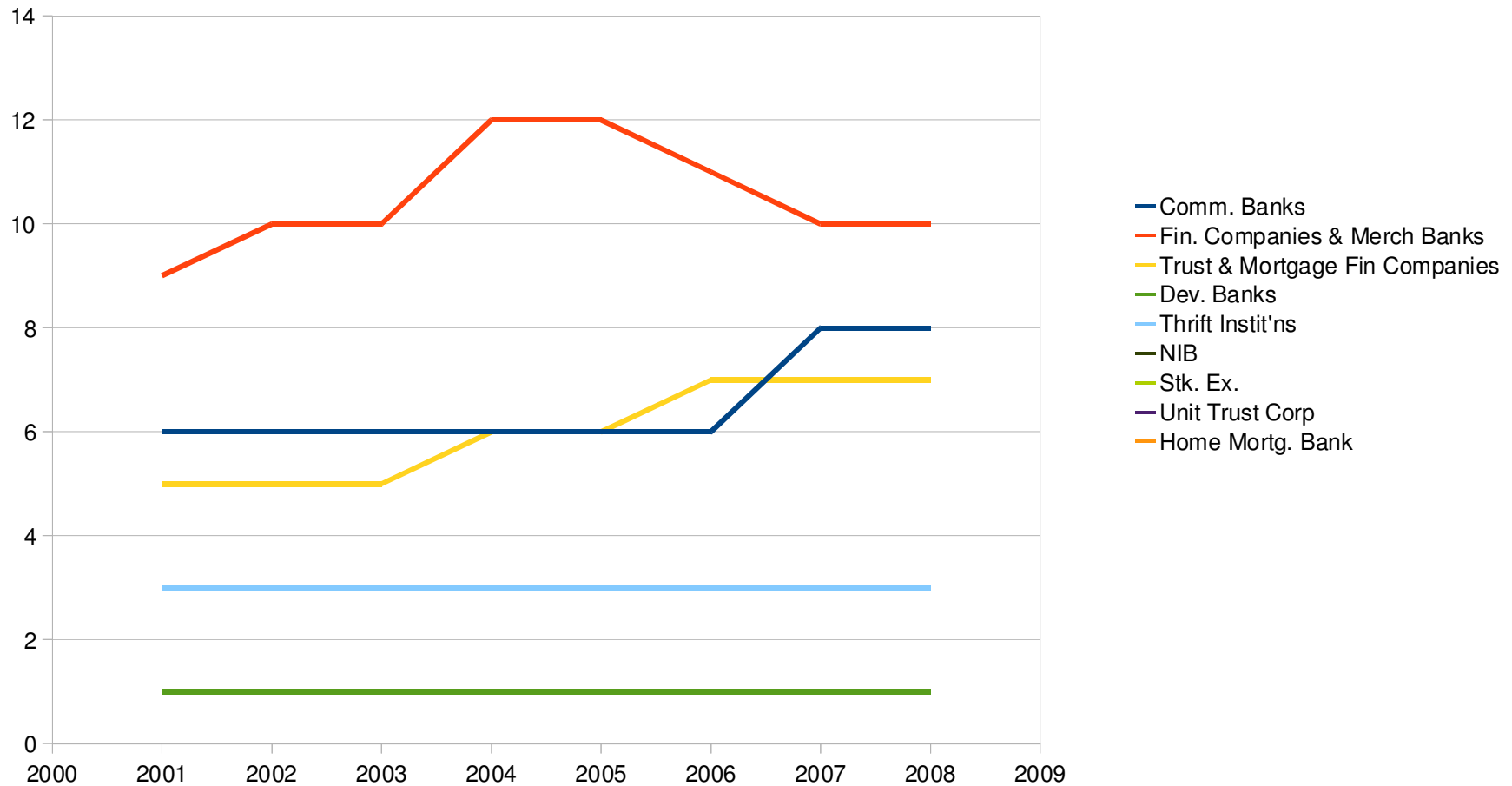
M – Management Soundness

No. of Financial Institutions



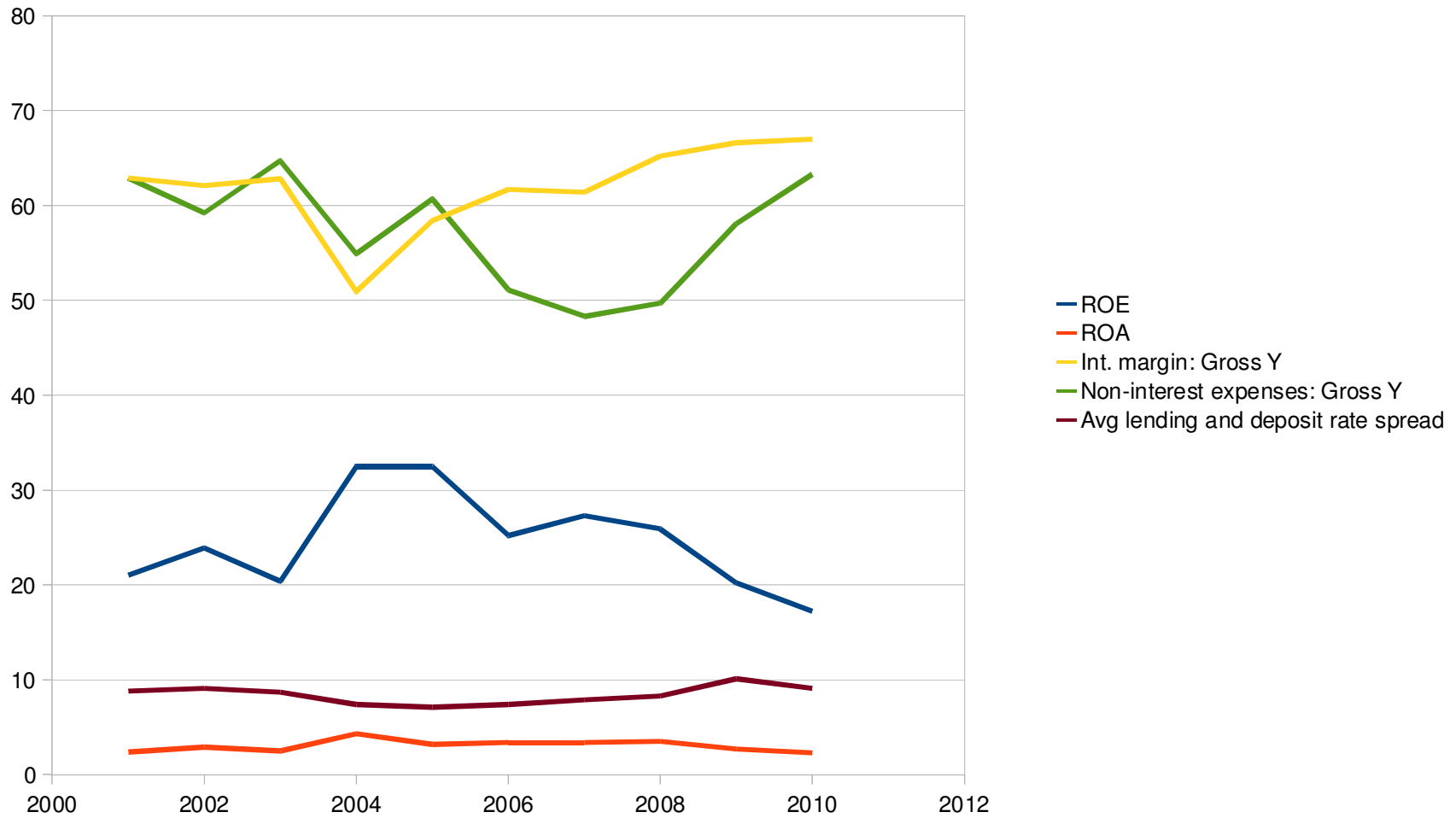
M – Mgt. Soundness

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



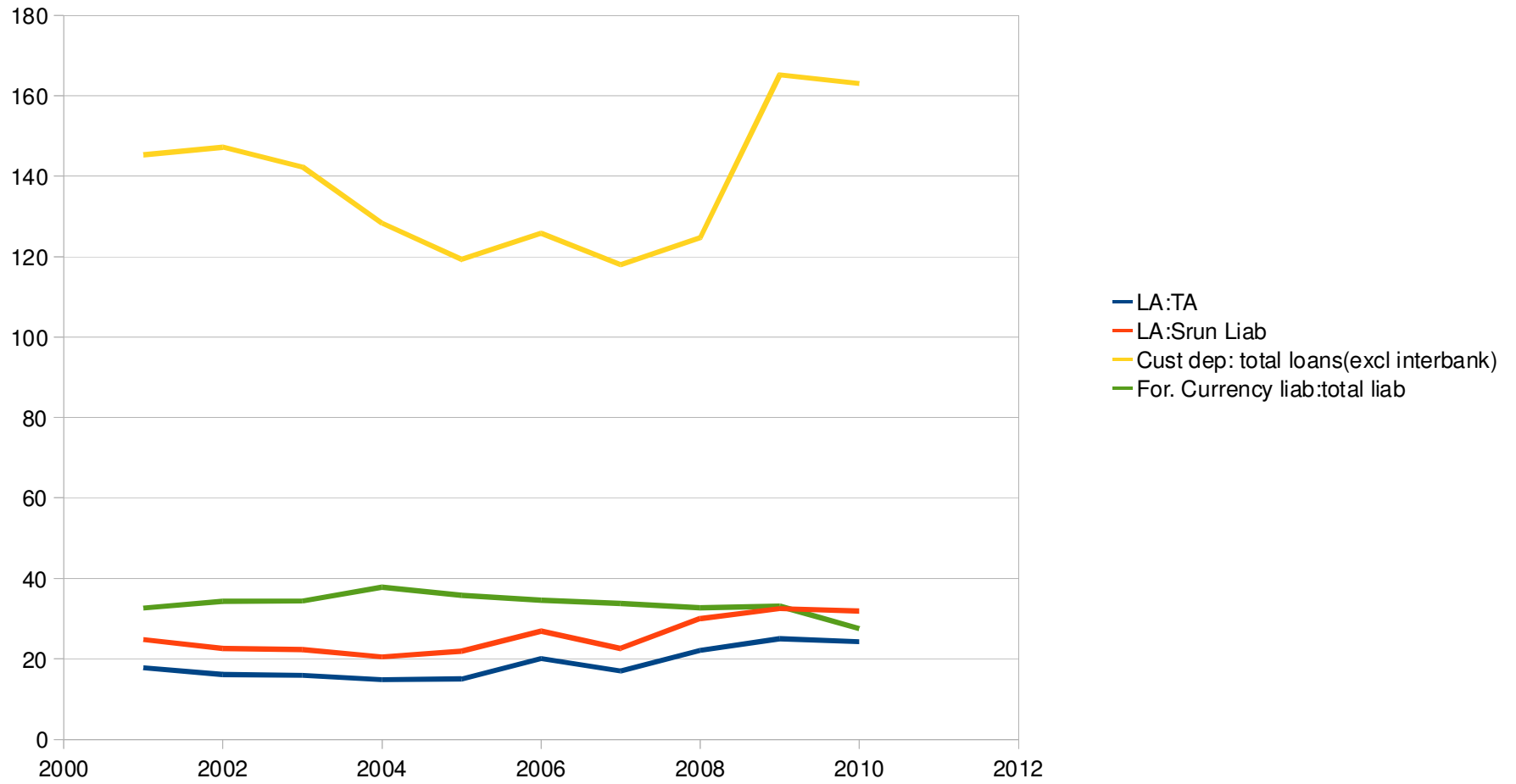
E – Earnings and Profitability

Earnings & Profitability - Banking Sector



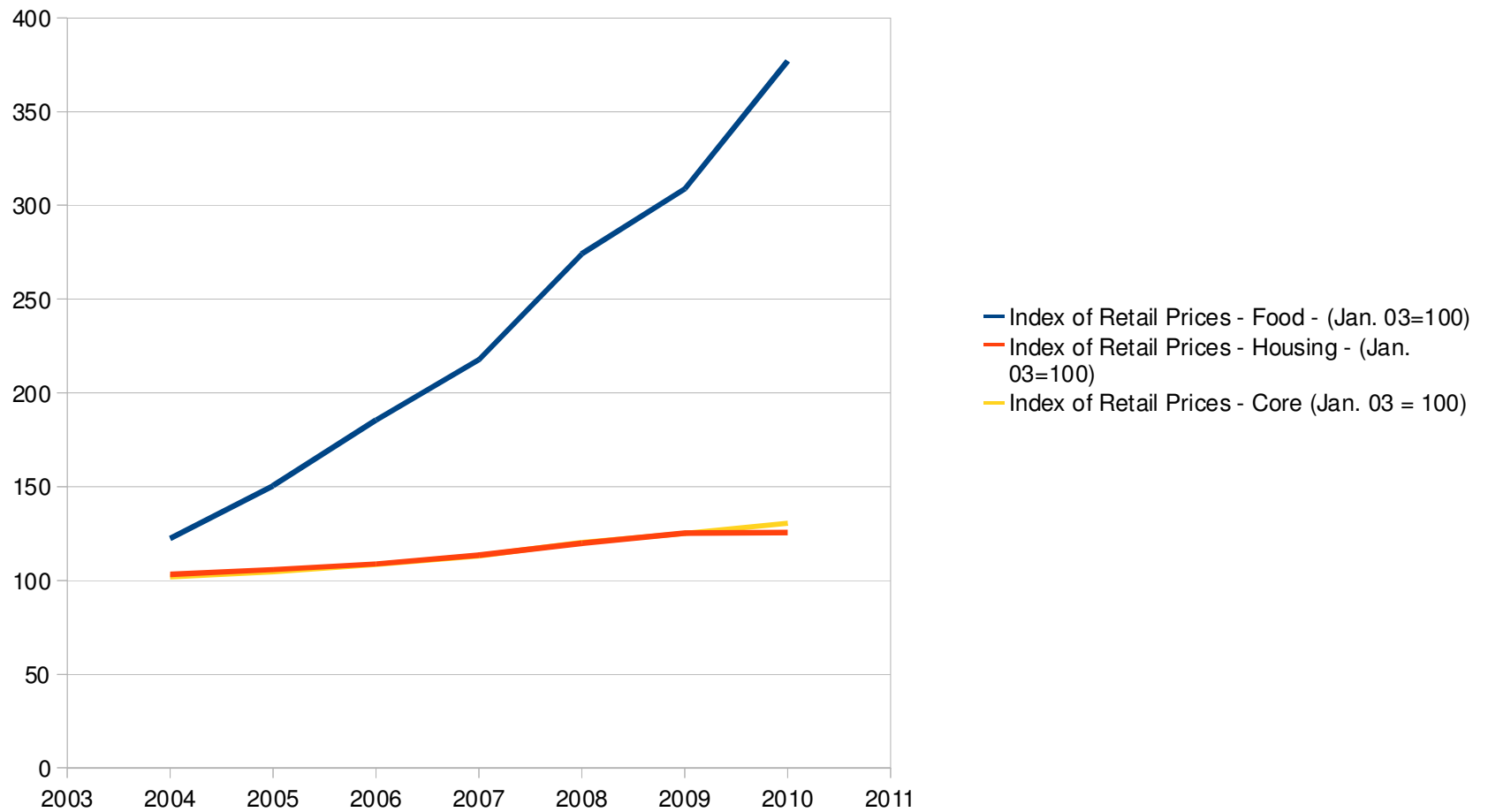
L - Liquidity

Liquidity



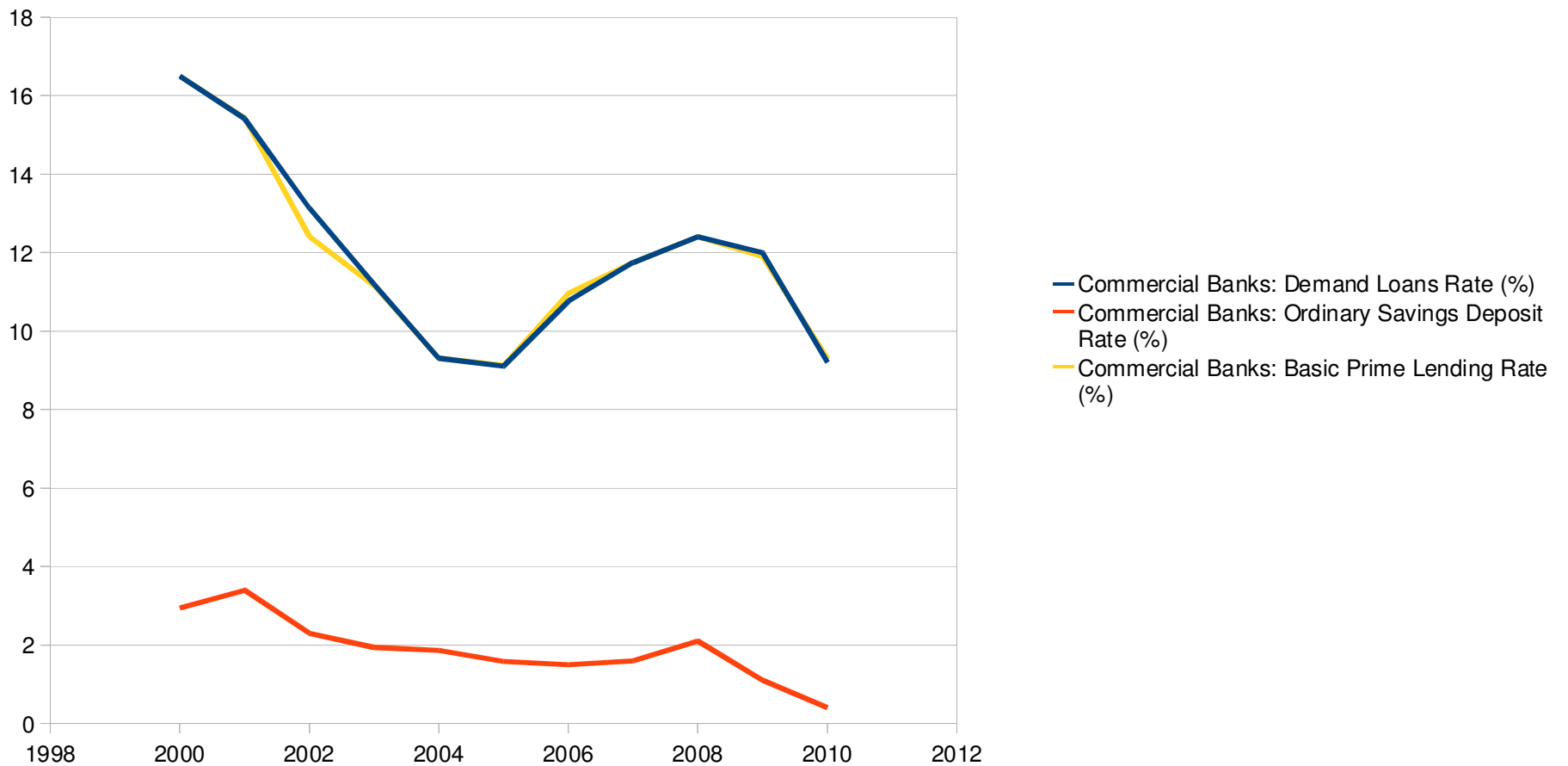
S – Sensitivity to Risk

RPI 2000 to 2010



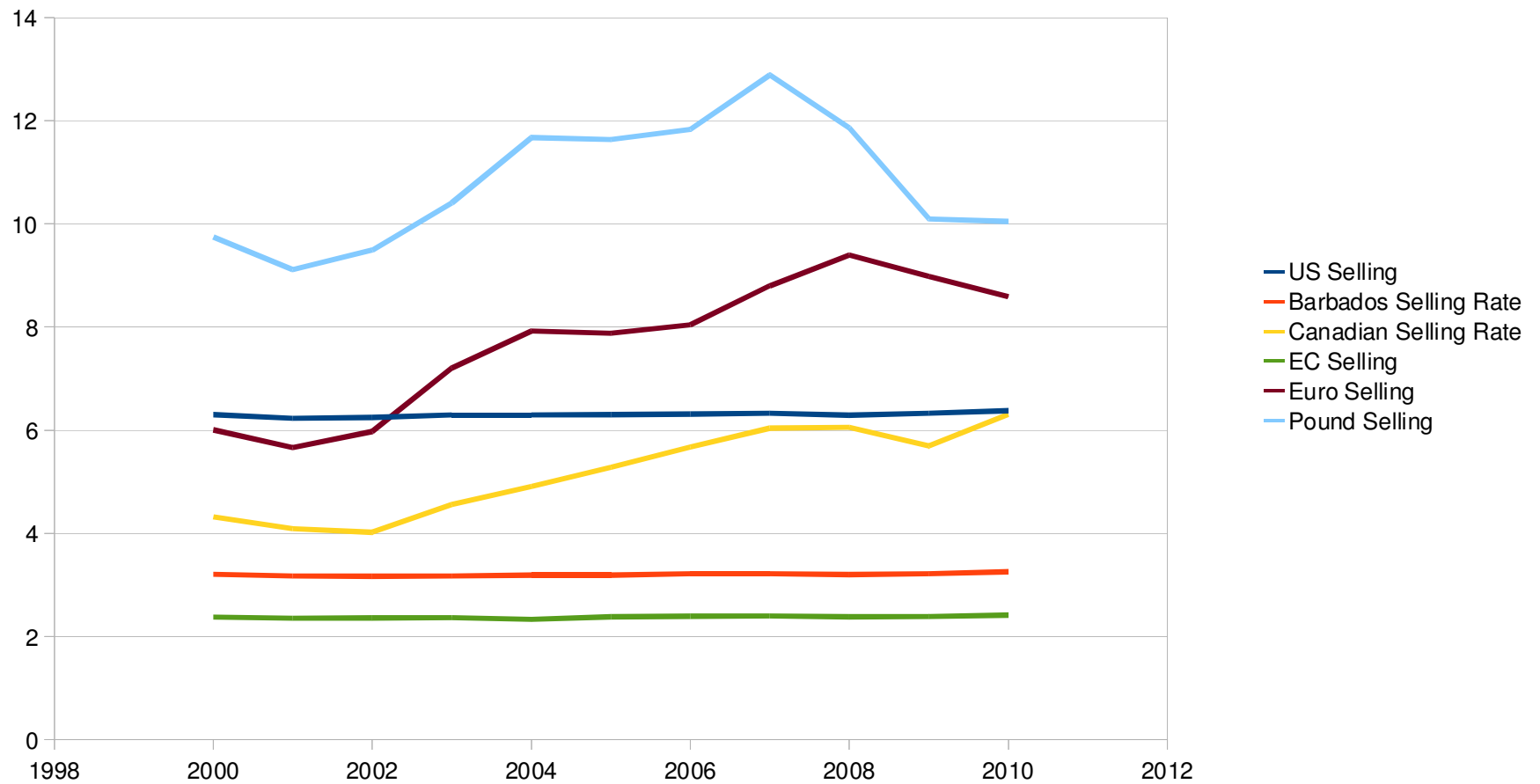
Interest rates TT

Commercial Banks Interest Rates



Exchange Rates TT

Exchange Rates



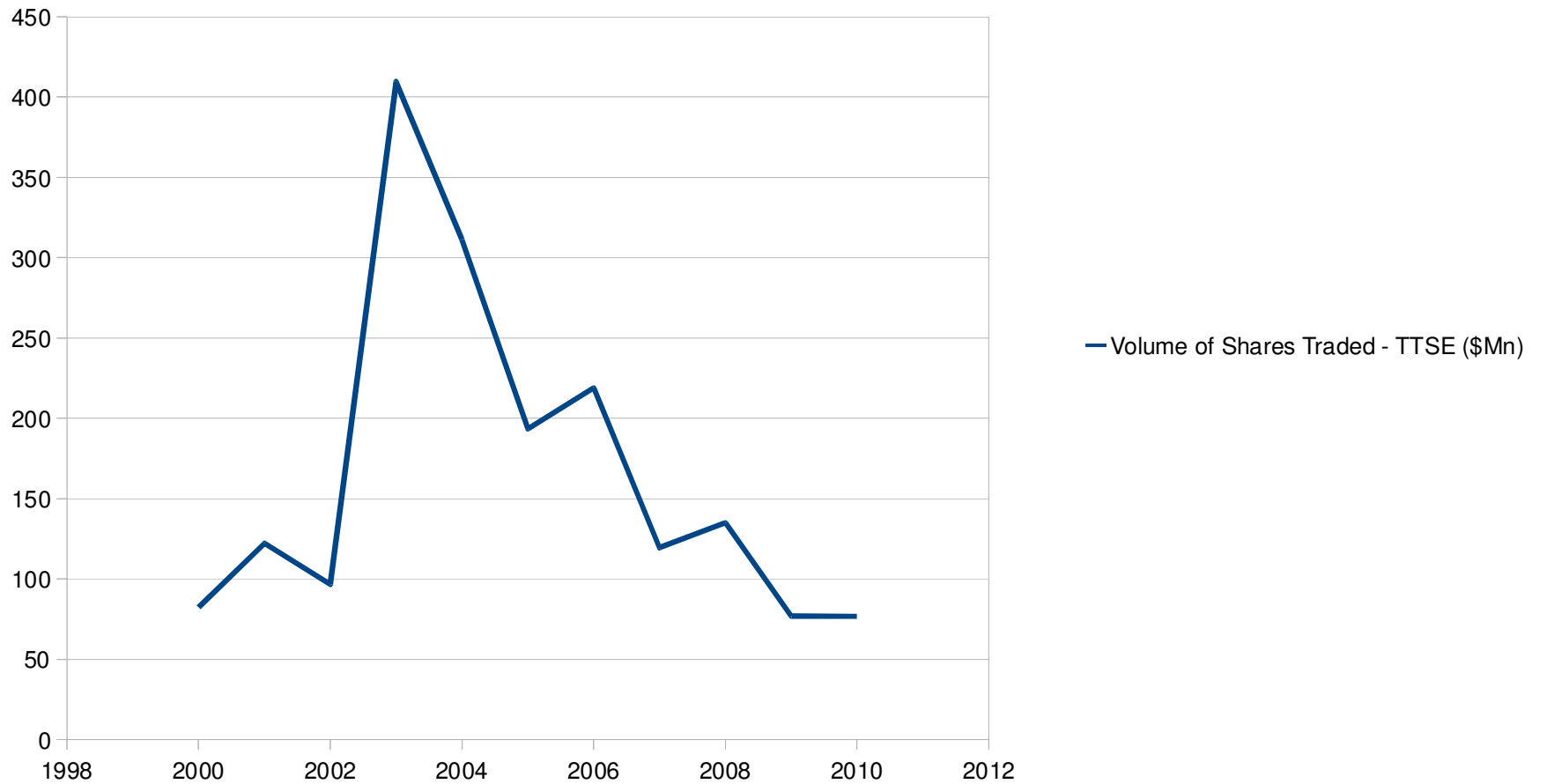
Stock market index TT

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