



CENTRAL BANK OF
TRINIDAD & TOBAGO

CCMF/CARICOM/CARTAC Workshop on Regional Financial Stability

**Developing A Financial Stability Report:
The Experience of Trinidad and Tobago**

Shelton Nicholls
Deputy Governor
Central Bank of Trinidad and Tobago



Outline of Presentation

1. Understanding **Financial Stability**
2. The Twin Mandates: **Financial Stability** and **Monetary Stability**.
3. **Causes** and **Consequences** of Financial Stability.
4. **Lessons** from the Current Global Crisis.
5. **Financial Stability Reporting: An Ideal Prototype?**
6. Financial Stability Reporting at the Central Bank
7. **Recommendations from the Trinidad and Tobago Experience.**

1: Financial Stability

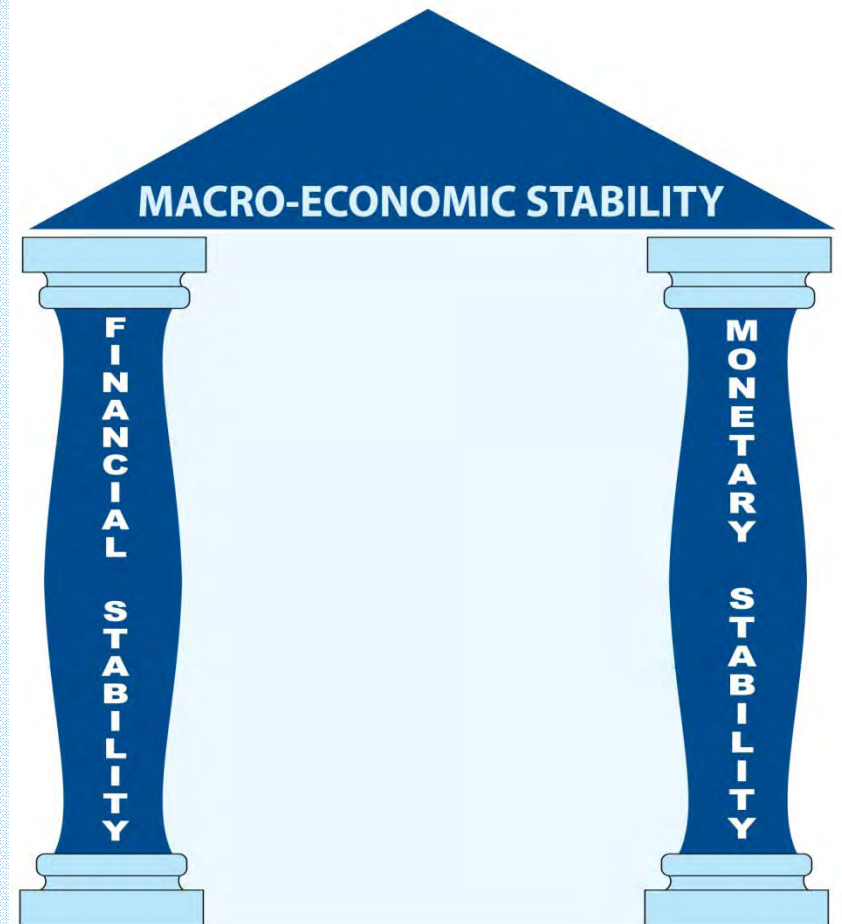
Financial stability requires that:

- i. **Financial Institutions** are **stable** (Institutions are able to meet their contractual obligations).

- ii. **Financial markets** are **stable** (Participants can confidently conduct transactions at prices that reflect fundamental forces).

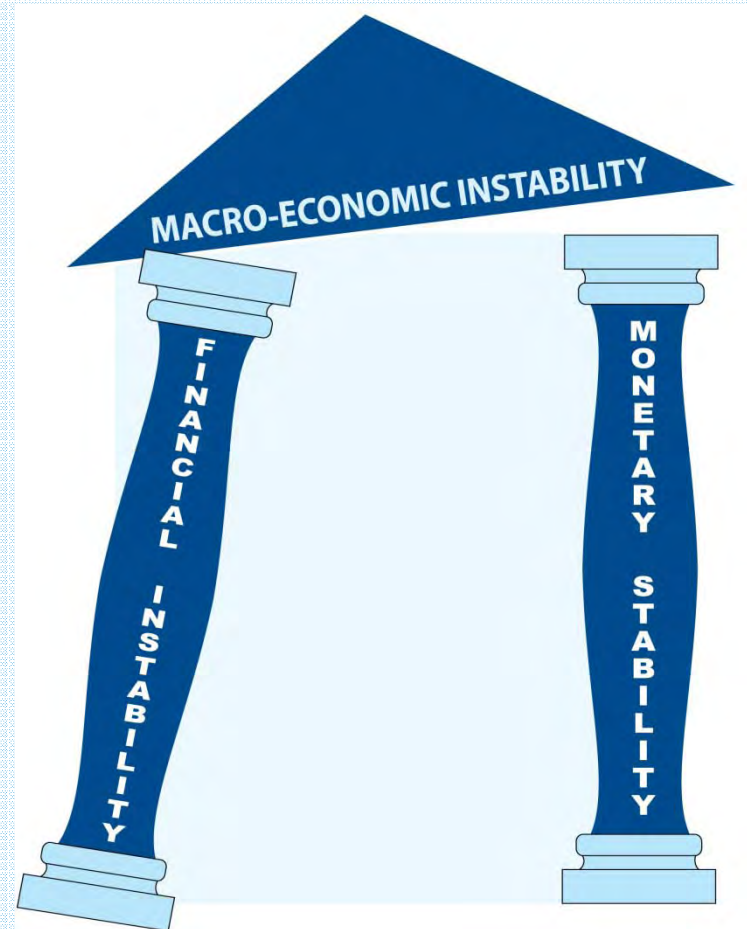
2: Twin Mandates: Financial Stability and Monetary Stability

- **Financial Stability and Monetary Stability share an interdependent relationship:**
 - A **stable financial system** is necessary for **sustainable GDP growth and low inflation**.
 - **Sustainable growth in the economy with stable prices** will also make the economy less prone to **financial instability**.



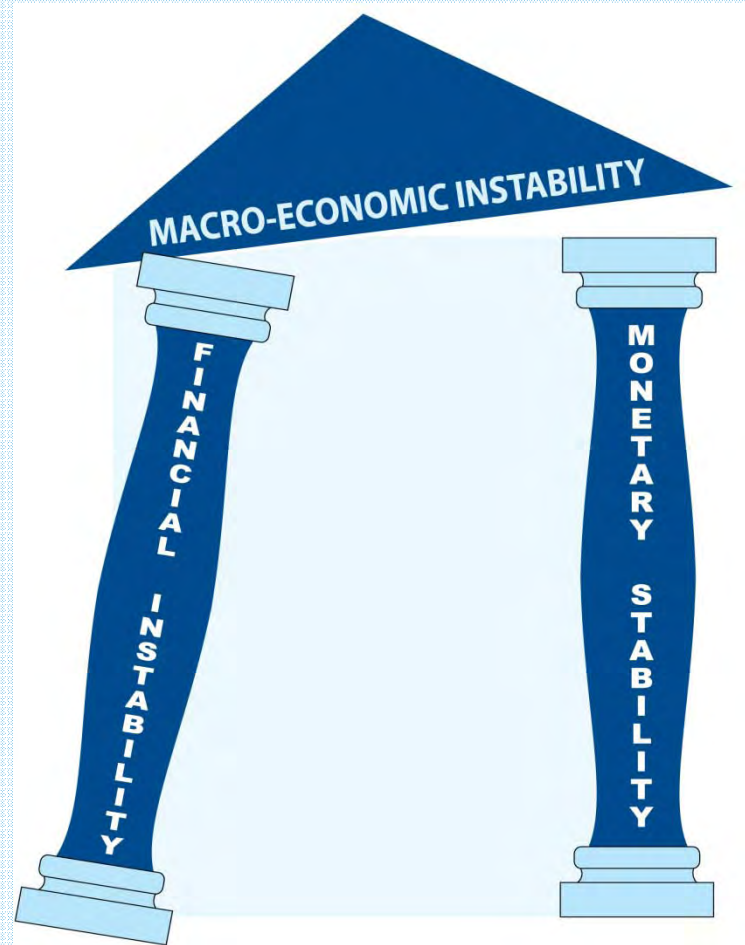
3: Causes of Financial Instability

- **Macroeconomic shocks**
 - asset price bubbles
 - changes in the terms of trade.
- **Weak balance sheets**
- **Poor asset quality**
- **Overexposure to loans in a particular sector**
- **Weakness in the capital markets and payments systems**



3.1: Consequences of Financial Instability

- Decline in National Output and Incomes
- Increased Fiscal Expenditures
- Balance of Payments Deficits
- Exchange Rate Instability



4. Lessons from the Current Global Crisis

- Effective balance between the pace of financial innovation and the reach of financial regulation.
- Re-establishing the link between financial activity and real economic development and transformation.
- **Closing the Information Gap: Improving Transparency and Disclosure.**
- **Upgrading our systems for monitoring and surveillance.**
- There is a dire need to build financial systems that are **more resilient to future financial crises**.

5: Financial Stability Report: An Ideal Prototype?

- **Structure of Domestic Financial System**
 - Sectoral Composition (Banking, Insurance, Pensions, Capital Markets, Money markets, etc.)
 - Financial Depth and how the structure is changing
 - Linkages within the Financial Sector
 - Linkages between the Financial Sector and the Real Economy.
- **Assessment of Changes in the Global Macroeconomic and Financial Environment**
- **Evaluation of Risks and Vulnerabilities arising from:**
 - Activities of Domestic Financial Institutions
 - Macroeconomic Shocks
 - Other Exogenous Shocks (catastrophic events, etc.)

5: Financial Stability Report: An Ideal Prototype (cont'd)?

- **Monitoring and Measurement of Risks and Evaluation of Performance**
 - Liquidity, Profitability, Activity, Efficiency, Costs
 - Financial Soundness and Resilience Indicators (FSIs, EWIs)
 - Comparison with Industry and Global benchmarks
- **Assessment of Financial System Architecture**
 - Payments System Infrastructure
 - Legislative Amendments and Changes
 - Business Continuity

5.1: Financial Stability Reports of Selected Central Banks: Caribbean and Latin American Region

Country	Year of Commencement	Frequency of Publication
Jamaica	2005	Annual
Trinidad and Tobago	2009	Bi-Annual
Brazil	2002	Bi Annual
Mexico	2007	Annual
Chile	2004	Bi-Annual
Argentina	2004	Bi-Annual
Colombia	2002	Bi-Annual

6: Financial Stability Reporting at the Central Trinidad and Tobago

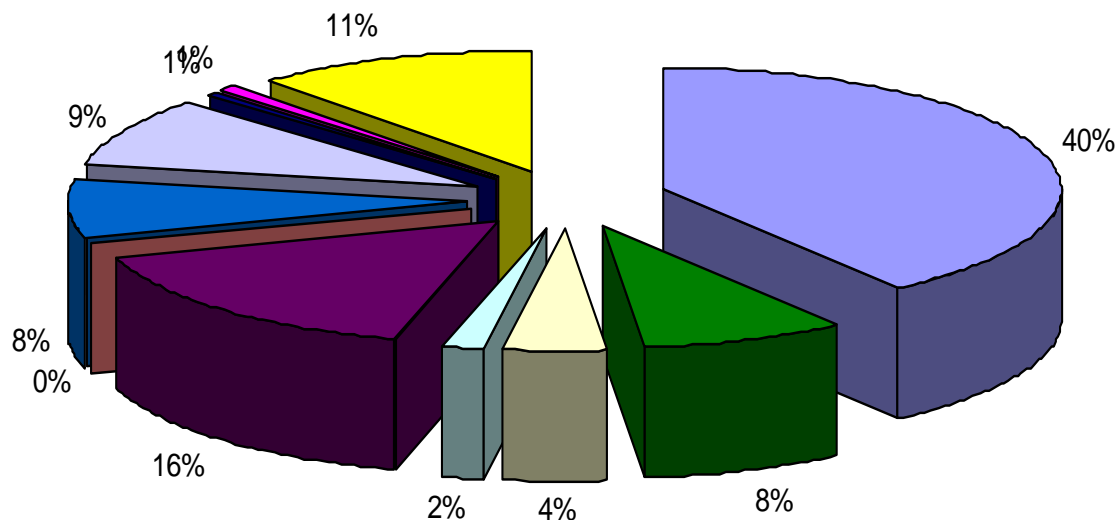
- Structure of Trinidad and Tobago Financial System
- Embedding Financial Stability in the Bank's Organisational Arrangements
- Financial Surveillance and Reporting Regimes.
- Monitoring and measuring of risks.
- Strategies for addressing the risks in this System.

6.1: Structure of the Domestic Financial System

Financial System Total Assets (TT\$bn)	Sept 2009 ^p
Central Bank	69.0
Commercial Banks	95.5
Finance Companies and Merchant Banks	5.2
Trust and Mortgage Finance Companies	8.5
Development Banks	3.4
Credit Unions	7.2
Insurance Companies	28.2
Thrift Institutions	0.09
National Insurance Board	17.4
Unit Trust Corporation	22.0
Deposit Insurance Corporation	1.4
Home Mortgage Bank	2.0
Private Registered Pension Plans	31.7

6.1a: Structure of the Domestic Financial System

Financial System Assets by Institution, Sept 2009 (Provisional)



- Commercial Banks
- Finance Companies and Merchant Banks
- Trust and Mortgage Finance Companies
- Development Banks
- Insurance Companies
- Thrift Institutions
- National Insurance Board
- Unit Trust Corporation
- Deposit Insurance Corporation
- Home Mortgage Bank
- Private Registered Pension Plans

6.2: Embedding Financial Stability in the Bank's Organisational Arrangements

- **Financial Stability Committee (FSC)**
 - Devising Policy and Making Decisions to Support Financial Stability.
- **Financial Stability Support Committee (FSSC)**
 - Conducts system-wide assessment of performance and risks
 - Prepares Quarterly Board and Financial Stability Reports
 - Provides advice to the FSC.



6.3: Financial Surveillance and Reporting Regime

Form Code	Name of Form	Submitted By	Frequency
CB10	Weekly Statement of Condition	Commercial Banks	Weekly
CB10/LAR	Weekly Foreign Position	All Foreign Currency Dealers	Weekly
CB20	Monthly Statement of Condition	All Deposit-Taking Institutions	Monthly
CB20/2	Monthly Interest Rate Reporting Form	All Deposit-Taking Institutions	Monthly
CB30	Quarterly Return	All Deposit-Taking Institutions	Quarterly
CB30/11	Size Distribution of Deposits	All Deposit-Taking Institutions	Quarterly
CB30/12	Size Distribution of Foreign Currency Deposits	All Deposit-Taking Institutions	Quarterly
CB40	Quarterly Statement of Income & Expenses	All Deposit-Taking Institutions	Quarterly
CB90	Special Report on Loans and Deposits	Only the non-banks	Monthly
CB100/101/102	Capital Adequacy Returns	All Deposit-Taking Institutions	Monthly

6.3a: Financial Surveillance and Reporting Regime

Form Code	Name of Form	Submitted By	Frequency
CB110	Investment Return	All Deposit-Taking Institutions	Monthly
CB115	Monthly Statement of Country Exposure	All Deposit-Taking Institutions	Monthly
ECF	Report on Excess Credit Facilities	All Deposit-Taking Institutions	Monthly
N/A	New Financial Instruments	All Deposit-Taking Institutions	Monthly
N/A	Quarterly Statement of Large Exposures	All Deposit-Taking Institutions	Quarterly
N/A	Quarterly Shareholding Report	All Deposit-Taking Institutions	Quarterly
N/A	Audited Fiscal Package	All Deposit-Taking Institutions	Annual
N/A	Key Personnel Return	All Insurance Companies	Annual
N/A	Bankers' Acceptance Return	All Deposit-Taking Institutions	Quarterly
CB01	Sales of Foreign Currency by Transaction Type	All Commercial Banks	Monthly

6.3b: Financial Surveillance and Reporting Regime

Form Code	Name of Form	Submitted By	Frequency
CB02	Purchases of Foreign Currency by Transaction Type	All Commercial Banks	Monthly
CB70	Payments System Participant Reporting Form	Commercial Banks	Monthly
CB71	Payments System Operator Reporting Form	LINX & ACH	Quarterly
CB20	Quarterly Statement of Condition	All Insurance Companies	Quarterly
CB40	Quarterly Statement of Income & Expenses	All Insurance Companies	Quarterly
N/A	Act Accounts	All Insurance Companies	Annual
N/A	Statement of Assets & Liabilities	Development Banks	Quarterly
N/A	Statement of Assets & Liabilities	Thrift Institutions	Quarterly
PQD	Personal Questionnaire Declaration Form/Fit and Proper Schedule	All Deposit-Taking Institutions	Annual
CB20	Quarterly Statement of Condition	Pension Funds	Semi-Annual
CB40	Quarterly Statement of Income & Expenses	Pension Funds	Semi-Annual

6.4: Monitoring and Measurement of Risks in the Financial System

- Macroeconomic indicators – Inflation, Unemployment, GDP.
- Financial Soundness Indicators – Capital Adequacy, Asset Quality, Liquidity, and Profitability.

6.4a: Macroeconomic Indicators

	2005	2006	2007	2008	2009 ^e
Real GDP Growth (%)	5.8	13.5	4.6	2.3	(3.0)
Energy	8.3	21.8	1.7	(0.5)	0.9
Non-Energy	4.4	6.5	7.3	3.5	(4.4)
Inflation Rate (end-of-period; %)	7.2	9.1	7.6	14.5	1.3
Unemployment Rate (%)	8.0	6.2	5.5	4.6	5.5
Fiscal Balance/GDP (%)	5.2	6.9	1.8	7.8	(5.3)
External Current Account/GDP (%)	22.4	37.4	24.6	34.1	25.4
Net Official Reserves (US\$Bn)	4.0	6.5	6.7	9.4	8.7
Import Cover (Months)	9.0	9.9	9.4	11.5	12.3
Heritage & Stabilization Fund (US\$Bn)	0.9	1.4	1.8	2.9	3.0
Energy Prices:					
Crude Oil – WTI (US\$/bbl)	56.6	66.0	72.3	99.6	60.0
Natural Gas – Henry Hub (US\$/mmbtu)	8.88	6.76	6.97	8.86	3.95

6.4b: Core Financial Soundness Indicators

Deposit-Takers (Commercial Banks, etc)

Capital Adequacy	Regulatory capital to risk weighted assets Regulatory tier 1 capital to risk weighted assets
Asset quality	Nonperforming loans to total gross loans Nonperforming loans net of provision to capital Sectoral distribution of loans to total loans
Earnings and Profitability	Return on Assets Return on Equity Net interest margin to gross income Noninterest expenses to gross income
Liquidity	Liquid assets to total assets Liquid assets to short-term liabilities
Sensitivity to market risk	Net open position in foreign exchange to capital

6.4c: Core Financial Soundness Indicators 2006-2009

(per cent)	2005	2006	2007	2008	2009 ^p
Non Performing Loans to Total Loans	1.7	1.4	0.7	1.0	2.8
Regulatory Capital to Risk Weighted Assets	18.2	18.0	19.1	18.8	20.5
Return on Equity	25.2	27.2	27.3	25.9	20.5
Customer Deposits to Total Loans	119.3	125.8	118.0	124.7	165.2
Offshore Loans to Total Loans	6.2	6.1	6.7	6.4	5.4*

6.4d: Encouraged Financial Soundness Indicators

Deposit-Takers	<ul style="list-style-type: none"> Capital to assets Large Exposures to capital Geographical distributions of loans to total loans Gross asset position in financial derivatives to capital Gross liability position in financial derivatives to capital Trading income to total income Personnel expenses to noninterest expenses Spread between reference lending and deposit rates Spread between highest and lowest interbank rate Customer deposits to total loans Foreign currency-denominated loans to total loans Foreign currency-denominated liabilities to total liabilities Net open position in equities to capital
Other Financial Corporations	<ul style="list-style-type: none"> Assets to total financial system assets Assets to GDP
Nonfinancial Corporations	<ul style="list-style-type: none"> Total debt to equity Return on equity Earnings to interest and principal expenses Corporate net foreign exchange exposure to equity Number of applications for protection from creditors
Households	<ul style="list-style-type: none"> Household debt to GDP Household debt service and principal payments to income
Market Liquidity	<ul style="list-style-type: none"> Average bid-ask spread in the securities market Average daily turnover ratio in the securities market
Real Estate Markets	<ul style="list-style-type: none"> Real estate prices Residential real estate loans to total loans Commercial real estate loans to total loans

6.4e: Encouraged Indicators

Trinidad & Tobago Selected Encouraged Financial Soundness Indicators			
/per cent/	2007	2008	2009 ^p
<u>Deposit Taking Institutions</u>			
Capital: Assets	12.4	10.7	10.7
Spread between reference Lending & Deposit rates	7.9	8.3	10.1
Foreign Currency Loans to Total Loans	21.4	23.0	22.8
<u>Households</u>			
Consumer Debt: GDP (%)	20.8 ^e	20.7 ^e	n.a.
<u>Real Estate Markets</u>			
Median House Price (TT\$'000s)	1,077.0	950.0	850.0*

6.5: Strategies for Addressing the Risks in the System

- **Improving Legislative Framework** (e.g. FIA 2008, IA Draft Legislation)
- **Upgrading Financial Infrastructure** (e.g. Payments System)
- **Stress Testing** (Sensitivity, Scenario Analysis and Top-down and Bottom-up approaches)
- **Communication and Transparency** (FSRs, Media briefings, frequent web-based dissemination of soundness indicators)

7: Lessons from the Trinidad and Tobago Experience

- Ensure that financial stability is embedded in the organizational structure (**Assign Responsibility**)
- Ensure that stakeholders are **meaningfully engaged** about the merits and benefits of financial stability
- **Develop and implement structured reporting regimes for all sectors** in the financial system (Develop indicators, databases and risk metrics)
- **Conduct continuous assessment and surveillance of financial institutions and markets.**
- Enhance disclosure arrangements and communicate more frequently with stakeholders and the wider public.

Thank You.

