

Republic Economic NEWSLETTER

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Waiting on the Global Recovery

Overview

Although there are signs of improvement in some of the world's leading economies, domestic conditions are still subdued. The economy of the United States of America (U.S.A.), Trinidad and Tobago's main trading partner, posted positive growth of 2.8 percent in the 3rd quarter of 2009, the first quarterly expansion since the 2nd quarter of 2008. The timing of a complete recovery in the U.S.A. remains uncertain however, as the unemployment rate remains high at 10 percent and consumer spending is still fragile. For Trinidad and Tobago, according to the Central Bank, 2nd quarter GDP declined by 3.6 percent. Republic Bank projects a further decline of 1 percent in the 3rd quarter. On the positive side, many commodity prices have risen, with WTI oil prices averaging US\$68.20 per barrel for the quarter, up from US\$59.50 in the 2nd quarter. Further, the

rate of inflation fell significantly to 2.7 percent, year-on-year to October, 2009. The unemployment rate is projected to increase marginally to 5.5 percent in the 3rd quarter (Figure1).

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATORS	2008	2008Q3	2009Q3p/e
Real GDP (% Change)	2.3	4.2	-1.0
Retail Prices (% Change)	12	5.76	0.84
Unemployment Rate (%)	4.6	4.7	5.5
Fiscal Surplus/Deficit (\$M)	12,132.70	4,145.30	Deficit
Bank Deposits (% Change)	12.15	-1.5	5.08
Private Sector Bank Credit (% Change)	14.13	3.5	-3.2
Net Foreign Reserves (US\$M)	11,271	9,249.40	8,323.70
Exchange Rate (TT\$/US\$)	6.22/6.29	6.18/6.25	6.28/6.34
Stock Market Comp. Price Index	842.93	1,065.6	787.58
Oil Price (WTI) (US\$ per barrel)	99.57	118.3	68.2

Source: - Central Bank of Trinidad and Tobago,
TTSE, Energy Information Administration
p - Provisional Data
e - Republic Bank Limited Estimate

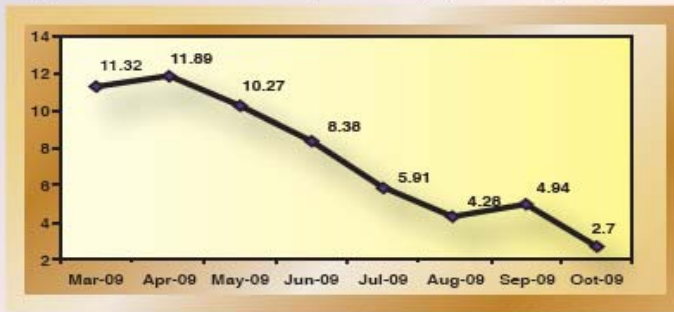
Figure 1: Unemployment Rate %



Inflation

The country's falling inflation rate (Figure 2) is the result of lower international and domestic food prices and a general contraction in demand partly due to a weaker fiscal impulse. The lower inflation rate has led to a more bullish stance on the part of the Central Bank, as it moved to cut the repo rate from 7.5 percent at the end of June to 6.25 percent in September 2009. The rate was cut by another 50 basis points in October to 5.75 percent. The fall in the "benchmark rate" has resulted in Republic Bank cutting its prime lending rate from 12.25 percent at the end of June, to 9.9 percent in October 2009 - the lowest prime rate in the market. This should lift the demand for private sector credit, which fell by 3.2 percent in the 3rd quarter.

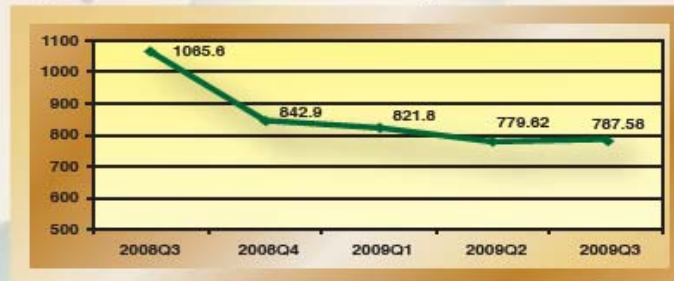
Figure 2: Inflation Rate (% Change year-on-year)



Foreign Exchange Market

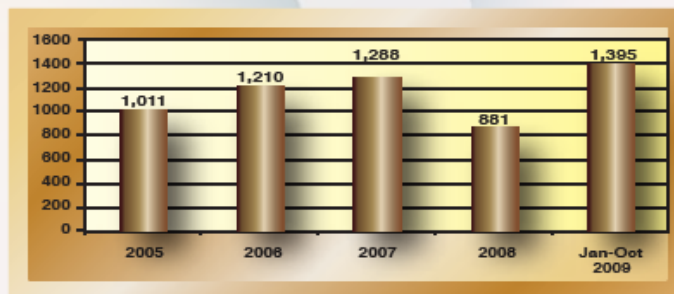
In the context of global uncertainties and a weaker domestic economy, individual and institutional investors have ramped up their demand for foreign currency, if only as a hedge in a diversified portfolio of assets. Indeed, the country may well be

Figure 3: T&T Stock Market Composite Index



witnessing a structural change in asset composition in which foreign asset holdings represent a permanent feature of most portfolios. Data from the Central Bank reveal that foreign currency deposits have increased to \$17.7 billion at the end of September 2009, up from \$13.4 billion at the beginning of the year. Relatedly, the Central Bank has increased its sale of foreign exchange to commercial banks from US\$881 million in 2008 to approximately US\$1.4 billion for the period January to October 2009. This figure is projected to increase marginally by the end of the year. Not surprisingly, net international reserves have fallen but remain strong at US\$8.3 billion at the end of the 3rd quarter.

Figure 4: Central Bank Sales of US\$



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Stock Market

The stock market continues to be sluggish, with the Composite Index growing by just 1.02 percent over the 3rd quarter of 2009. Lackluster performances by listed companies, mixed with uncertainty in the local economy have resulted in very little market activity in the past three quarters. However, the market is showing signs of levelling off and with global equity markets slowly improving, the local stock market may benefit from some spill-over of confidence.

Outlook

Despite the fallout from the global downturn which began in the U.S.A. in 2008, the Trinidad and Tobago economy is still holding its own, well into the second half of 2009. The feverish activity associated first with the summit of the Americas and then the Commonwealth Heads of Government Meeting (CHOGM) would certainly have helped to maintain employment and incomes in several domestic sectors. While continuing government expenditure would help to cushion the



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Caribbean Update

ECONOMIES REEL FROM GLOBAL CRISIS

Notwithstanding signs of economic recovery among developed economies in the third quarter of 2009, growth is yet to return to most economies of the Caribbean. The tourism sector, the main driver of regional growth, continues to suffer, with softer demand from major markets (Table 1). Several countries in the Caribbean are now faced with increasing unemployment, which is constraining consumption and undermining the growth of credit. This situation is exacerbated by the slide in remittances to the region that has accompanied the slow down of global economic activity. Given less favourable conditions on the global financial market, foreign direct investment has slowed significantly. Weaker revenue streams have caused regional governments' fiscal balances and debt profiles to deteriorate further. Most countries in the region are saddled by total debt of over 100 percent of GDP. High debt levels have left these countries with little wiggle room in terms of fiscal policy and have encouraged several to turn to the International Monetary Fund (IMF) for assistance.

Table 1: Tourist Arrivals (2009)

	% Change	
Antigua & Barbuda	-13.4	(Jan – Aug)
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St. Lucia	-9.3	(Jan – Aug)
St. Vincent & The Grenadines	-17.4	(Jan – Jun)

Source: Caribbean Tourism Organisation (CTO)

BARBADOS

The downturn in the tourism sector is manifested throughout the Barbados economy. Long-stay tourist arrivals declined by 11.4 percent for the first nine months of 2009 following a 0.2 percent fall for the same period last year. This has negatively affected most sectors in both the traded and non-traded sectors. However, agriculture experienced positive growth based on expansion of the sugar (1.2 percent) and non-sugar (1.7 percent) sub-sectors. Reduced tax income has caused government's fiscal deficit to expand to BB\$525.3m during the period from BB\$374.2m a year ago. On the positive side, softer international prices have significantly reduced the country's current account deficit and eased inflation to 1.4 percent year-on-year in July compared to 10.2 percent in 2008. However, in December, Standard and Poor's lowered its rating of the country from stable to negative and projected a 1.0 percent decline in GDP in 2010.

CUBA

The Cuban tourism sector experienced 5 percent year-on-year growth in arrivals during the third quarter of 2009 and 3.3 percent growth for the first nine months of the year. This is linked primarily to increased arrivals from Canada, which rose sharply by 55 percent in September. An increase in visits by Cuban-Americans in the wake of the lifting of restrictions by the US administration has also contributed. In spite of this growth, tourism earnings fell 12 percent for the first nine months of 2009 when compared to 2008. The agriculture sector also experienced some growth during the period, with the total tonnage of food sold in farmers markets increasing by 7 percent. Impelled by fiscal constraints and inefficiencies, government may move to eliminate specific subsidies and expand the role of the private sector in some industries. However, these changes, if implemented, are expected to be a gradual process, with the government still holding on to its central ideology. On the political front, Spain has signaled its intension to deepen ties with Cuba, while diplomatic relations with the US are expected to progress slowly.

GUYANA

Although Guyana's economy has been contracting in the wake of the global recession, it stands to benefit from a few positive occurrences. The opening of the Takatu River Bridge linking Brazil and Guyana is expected to enhance trade and cultural ties between the two nations. Already, signs of increased Brazilian investments in Guyana have started to appear including the possible construction of a hydropower plant on the Mazaruni River. The country's earnings from rice exports rose sharply for the first half of 2009 compared to 2008. During the period, 147,000 tonnes of rice were exported, up from 90,300 tonnes a year earlier. In September, the government announced that it was poised to provide US\$2 million to the sector in order to boost output. Guyana continues to lobby for donor funds under the Reducing Emissions from Deforestation and Degradation (REDD) programme. However, the country's low rate of deforestation is likely to result in funding significantly below the US\$580 million annual amount proposed by Guyana's government.

GRENADA

The contracting economy has severely tested Grenada's current administration. In addition to sliding tourism revenue, the economy is also forced to contend with flagging investment and remittances. These unfavourable conditions are severely undermining employment with the rate already over 20 percent. Nevertheless, the government is continuing with the much needed tax reform initiatives, with the aim of streamlining tax collection and widening the tax base. The government also aims to introduce a Value Added Tax early in 2010. Although the US\$25.4 million financial assistance package provided by the World Bank would provide some relief, it is unlikely to compensate fully for the shrinkage of the economy.

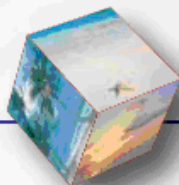
THE REGION

In Jamaica there is little sign of a turn-around as global conditions continue to exert considerable pressure on the economy. The country's GDP is reported to have contracted by 3.7 percent during the second quarter of 2009, after a decline of 3.1 percent in the first. Jamaica was forced to seek assistance from the IMF in the form of a US\$1.2 billion stand-by arrangement. Given that total public debt is currently in excess of 130 percent of GDP, the IMF is likely to require the government to exercise significant fiscal restraint. Standard and Poor's lowered Jamaica's long-term foreign and domestic currency rating to CCC from CCC+ and maintained its negative outlook. Similar action was also taken by Moody's and Fitch rating agencies.

Weak demand conditions in the US and UK markets have resulted in difficult times for the Organization of Eastern Caribbean States (OECS). Even the countries that are not heavily dependant on tourism are faced with little prospects for growth in the current environment. Unemployment is now a growing problem, with several members of the group carrying rates in the vicinity of 20 percent.

OUTLOOK

The region is expected to face severe challenges going into 2010. The signs of recovery shown in the North American and European economies are unlikely to have any immediate significant spill-over effects on the Caribbean. There is still considerable weakness in those economies and the high levels of unemployment, particularly in the US, would militate against rising consumer demand in those markets. In this regard, the Caribbean could expect slow improvement of the tourism industry, although seasonal demand could boost arrivals slightly, late in 2009 and early 2010. The export market is likely to remain weak into the first quarter of 2010. Timid international financial markets would continue to squeeze foreign direct investment, while remittances to the region are projected to trend downward. Accordingly, the region is anticipated to contend with rising unemployment rates for some time. On the positive side, sliding commodity prices have caused inflation to ease significantly in the region and inflation is expected to remain subdued over the next quarter.



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2009 Review: Lessons to Learn

The year 2009 started with much uncertainty. The 2009/2010 Budget was twice revised consequent on falling energy prices and the CLICO debacle broke, partly mirroring the financial and real sector crisis in the U.S.A. and elsewhere. The concern was that these global developments would adversely affect the Trinidad and Tobago economy and cause widespread anxiety. This article reflects on Trinidad and Tobago's performance in 2009 and likely prospects in 2010.

Seven consecutive years of fiscal surpluses came to an end in the 2008/2009 fiscal year as government sought to maintain expenditure levels in the midst of declining revenues. Preliminary estimates put the deficit at \$7.5 billion or 5.3 percent of GDP. Government has already indicated that it expects to run a deficit of 5.4 percent of GDP in 2010 as it seeks to maintain a certain level of economic activity through its expenditure. The economic activity that led to GDP growth of 2.3 percent last year fell away markedly in 2009 as commodity prices contracted, consumer demand declined and investment activity slowed. GDP growth is estimated to have contracted by 2 percent in 2009, with further contraction likely next year.

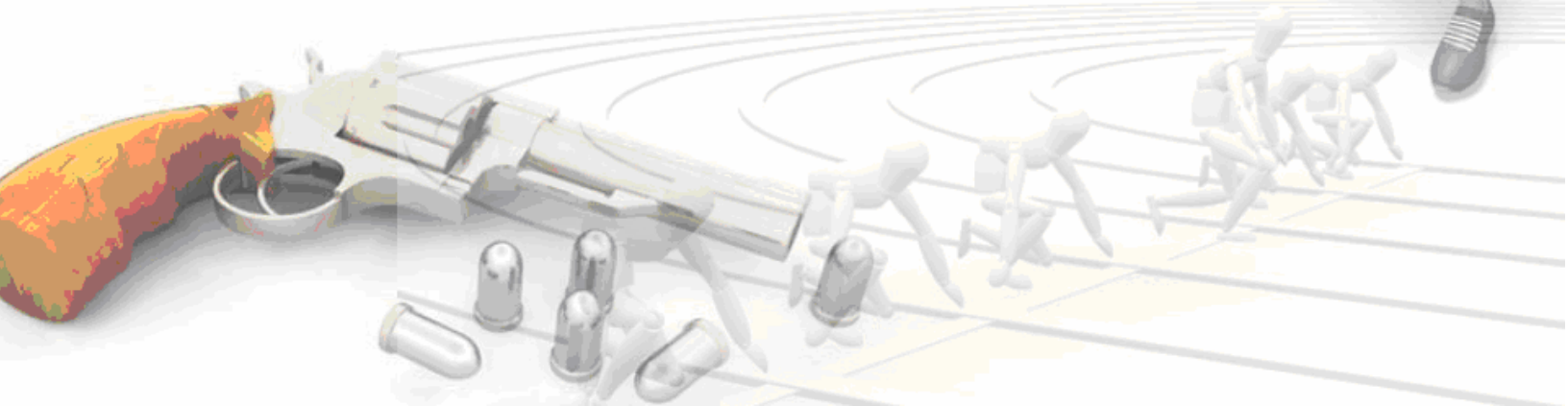
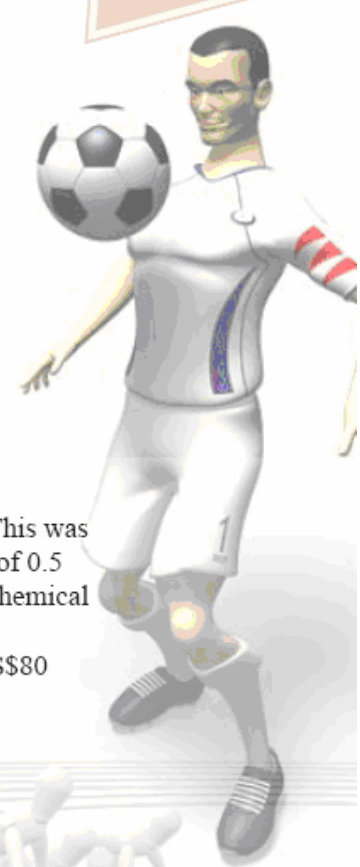
Although it lagged global trends, inflation declined steadily in 2009, (Table 1), with annual average inflation in the region of 7 percent down from 12 percent a year ago. Slow commodity demand growth, tentative increases in investment activity and a continued low-interest rate environment in leading economies are likely to keep global inflation in check, leading to domestic annual average inflation of around 6 percent in 2010. While both unemployment and public debt have increased, and are expected to continue this trend, they are well within prudent threshold levels.

Table 1: Key Indicators

	GDP (%change)			Inflation (%)			Unemployment (%)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
U.S.A.	0.4	-2.7	1.5	3.8	-0.4	1.7	5.8	9.3	10.1
Euro area	0.7	-4.2	0.3	3.3	0.3	0.8	7.6	9.9	11.7
Canada	0.4	-2.5	2.1	2.4	0.1	1.3	6.2	8.3	8.6
Russia	5.6	-7.5	1.5	14.1	12.3	9.9	6.4	8.4	9.4
China	9	8.5	9	5.9	-0.1	0.6	4	4.3	4.1
Brazil	5.1	-0.7	3.5	5.7	4.8	4.1	7.9	8.3	8
Venezuela	4.8	-2	-0.4	30.4	29.5	30	8.3	8.8	9.5
Caribbean	3	-0.5	1.6	11.9	3.5	5.2	9.4	11.5	12.5
Trinidad & Tobago	2.3	-2	-1	12	7	6	4.6	5.2	5.6

Source: IMF World Economic Outlook & RBL forecasts

Not surprisingly, the country's mainstay, the energy sector is estimated to have declined in 2009. This was consistent with a trend evident since 2007. Modest growth in 2007 was followed by a contraction of 0.5 percent in 2008 despite an average oil price of almost US\$100/bl that year. In 2009 gas and petrochemical production were significantly reduced in the 1st quarter due to shutdowns and plant maintenance triggered by low energy prices. While oil prices have rebounded to respectable levels (US\$60 - US\$80 per bl) and are expected to stay there over the short term, gas prices will remain low as significant quantities of new gas are set to come on stream from low-cost producers such as Qatar.



A significant contraction in the non-energy sector is expected in 2009, as according to the Central Bank's Monetary Policy Report of October, major sectors including Manufacturing, Construction & Quarrying as well as Finance, Insurance & Real Estate declined significantly through the first half of this year. Many companies faced with problems of high material, transport and labour costs in 2008 now have to contend with declining demand and investment opportunities. With a softer labour market in 2010, some companies could see a reversal of fortunes if demand picks up, as many have taken advantage of lower-cost financing to retool their operations.

The difficulties experienced by Clico and its parent company C.L. Financial saw the collapse of a number of subsidiaries across the region. As part of government's assistance, a new management team has been put in place and some C.L. financial assets will be divested in return for injections of cash. A tradition of conservative banking practices resulted in negligible contagion effects from the global financial crisis. While locally-based banks have seen reduced profits and higher loan loss provisions, they have generally posted solid results. As high-return investment schemes have faltered around the world, the reputation of domestic banks through this crisis has been maintained if not enhanced. While the local stock market continued its decline this year, from 842.93 to 770.69 at December 3rd (Composite Index), a low-interest rate environment and increased investment activity could see some improvement in 2010.

It is hard to imagine a year in which this country would enjoy a higher international profile than it did in 2009. The hosting of the Summit of the Americas and the Commonwealth Heads of Government Meeting brought this country unprecedented exposure as a conference and potential investment destination. Also, the linkages formed during the associated business fora could potentially yield business opportunities for years to come. Our athletes played their part as well. Despite a failed World Cup 2010 campaign by the senior team, the national under-20 football team performed creditably in Egypt. Our track athletes again made us proud at the World Championships in Berlin, and the national cricket team emblazoned Trinidad and Tobago's name across India and the rest of the cricketing world with their exciting run through the International Champions 20/20 Competition.

Still, basic challenges persist. The nation's health care system still struggles to provide a satisfactory level of care to the general population. This notwithstanding, the authorities and health care facilities have generally performed well in the face of the global Influenza A H1N1 virus. This country's statistics, last reported at 211 infections with 5 deaths, compare well with international results. With respect to violent crime, while the murder statistic this year is likely to be less than 2008's 550, the seeming increase in the audacity and callousness of the attacks leaves the public increasingly uneasy. The nation needs to feel assured that this decrease is a new trend and not an aberration.

As we make the transition from one year to the next, we begin with a year's worth of valuable lessons. While we have not done badly at all by international standards, our economy is not as immune as some of us might have imagined. It should also be clear to all, how fast a fiscal surplus can switch to a deficit if the buffer is not significant enough. One also needs to consider that greater diversification across a wider range of different sectors can be far more effective than what might effectively be diversification within a single sector. Having come out of the global crisis, thus far relatively unscathed, 2010 is expected to be another challenging year. But it is also a chance to either build a more resilient economy or continue down a path which draws no lessons from the past year.

Which shall it be?

Season's Greetings

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Canada	0.4	-2.5	2.1	2.4	0.1	1.3	6.2	8.3	8.6
Russia	5.6	-7.5	1.5	14.1	12.3	9.9	6.4	8.4	9.4
China	9	8.5	9	5.9	-0.1	0.6	4	4.3	4.1
Brazil	5.1	-0.7	3.5	5.7	4.8	4.1	7.9	8.3	8
Venezuela	4.8	-2	-0.4	30.4	29.5	30	8.3	8.8	9.5
Caribbean	3	-0.5	1.6	11.9	3.5	5.2	9.4	11.5	12.5
Trinidad & Tobago	2.3	-2	-1	12	7	6	4.6	5.2	5.6

Source: IMF World Economic Outlook & RBL forecasts

Not surprisingly, the country's mainstay, the energy sector is estimated to have declined in 2009. This was consistent with a trend evident since 2007. Modest growth in 2007 was followed by a contraction of 0.5 percent in 2008 despite an average oil price of almost US\$100/bl that year. In 2009 gas and petrochemical production were significantly reduced in the 1st quarter due to shutdowns and plant maintenance triggered by low energy prices. While oil prices have rebounded to respectable levels (US\$60 - US\$80 per bl) and are expected to stay there over the short term, gas prices will remain low as significant quantities of new gas are set to come on stream from low-cost producers such as Qatar.



A significant contraction in the non-energy sector is expected in 2009, as according to the Central Bank's Monetary Policy Report of October, major sectors including Manufacturing, Construction & Quarrying as well as Finance, Insurance & Real Estate declined significantly through the first half of this year. Many companies faced with problems of high material, transport and labour costs in 2008 now have to contend with declining demand and investment opportunities. With a softer labour market in 2010, some companies could see a reversal of fortunes if demand picks up, as many have taken advantage of lower-cost financing to retool their operations.

The difficulties experienced by Clico and its parent company C.L. Financial saw the collapse of a number of subsidiaries across the region. As part of government's assistance, a new management team has been put in place and some C.L. financial assets will be divested in return for injections of cash. A tradition of conservative banking practices resulted in negligible contagion effects from the global financial crisis. While locally-based banks have seen reduced profits and higher loan loss provisions, they have generally posted solid results. As high-return investment schemes have faltered around the world, the reputation of domestic banks through this crisis has been maintained if not enhanced. While the local stock market continued its decline this year, from 842.93 to 770.69 at December 3rd (Composite Index), a low-interest rate environment and increased investment activity could see some improvement in 2010.

It is hard to imagine a year in which this country would enjoy a higher international profile than it did in 2009. The hosting of the Summit of the Americas and the Commonwealth Heads of Government Meeting brought this country unprecedented exposure as a conference and potential investment destination. Also, the linkages formed during the associated business fora could potentially yield business opportunities for years to come. Our athletes played their part as well. Despite a failed World Cup 2010 campaign by the senior team, the national under-20 football team performed creditably in Egypt. Our track athletes again made us proud at the World Championships in Berlin, and the national cricket team emblazoned Trinidad and Tobago's name across India and the rest of the cricketing world with their exciting run through the International Champions 20/20 Competition.

Still, basic challenges persist. The nation's health care system still struggles to provide a satisfactory level of care to the general population. This notwithstanding, the authorities and health care facilities have generally performed well in the face of the global Influenza A H1N1 virus. This country's statistics, last reported at 211 infections with 5 deaths, compare well with international results. With respect to violent crime, while the murder statistic this year is likely to be less than 2008's 550, the seeming increase in the audacity and callousness of the attacks leaves the public increasingly uneasy. The nation needs to feel assured that this decrease is a new trend and not an aberration.

As we make the transition from one year to the next, we begin with a year's worth of valuable lessons. While we have not done badly at all by international standards, our economy is not as immune as some of us might have imagined. It should also be clear to all, how fast a fiscal surplus can switch to a deficit if the buffer is not significant enough. One also needs to consider that greater diversification across a wider range of different sectors can be far more effective than what might effectively be diversification within a single sector. Having come out of the global crisis, thus far relatively unscathed, 2010 is expected to be another challenging year. But it is also a chance to either build a more resilient economy or continue down a path which draws no lessons from the past year.

Which shall it be?

Season's Greetings

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