

Turbulent Conditions Hamper Growth

Overview

The third quarter saw significant headwinds locally and internationally that dampened already slowing economic growth. The United States saw investor confidence shaken as its credit rating was lowered, while the debt crisis in Europe intensified. Domestically, Trinidad and Tobago's economy contracted by an estimated 2 percent (RBL estimate) as reduced energy production and subdued non-energy sector activity, combined with a sluggish government investment programme. During the third quarter, unemployment is

estimated to have risen to 7 percent (RBL estimate) while an average inflation rate of 2.6 percent was recorded and credit demand picked up. Economic resurgence was further set back by the declaration of a State of Emergency (SoE) on August 22nd which, while implemented to deal with an urgent threat to national security, had the unintended consequence of curbing economic activity and lowering business and consumer confidence.

Energy Sector

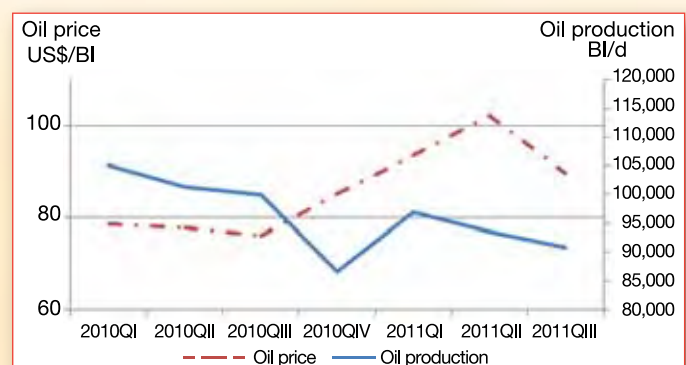
The sector saw increased activity this quarter, auguring well for service providers going forward. Several companies including BHP Billiton, Parex Resources, Bayfield Energy and Niko Resources either started or continued exploration activity such as drilling and seismic surveys. Also, BPTT in September announced a hydrocarbon discovery at its Canteen North exploration well drilled in August. Oil production fell by almost 3,000 b/d (barrels per day) to average 90,799 b/d in the third quarter a particularly distressing trend as it represented revenue foregone, when oil prices averaged a still healthy US\$89.72 per barrel over the period (Figure 1). Crude oil wasn't alone however, as other commodities also played a part in the energy sector falling further behind its medium-term goals. Natural gas production fell to 3.9 billion cubic feet per day (Bcf/d), continuing a pattern of inconsistent and generally declining production over several quarters. While at US\$4.25 per thousand cubic feet (mcf), a lower level of revenue was forgone, the trend has had a negative effect in other areas. As the key feedstock in the manufacture

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2010	2010.3	2011.3 p/e
Real GDP (% Change)	-0.02	1.1	-2.0
Retail Prices (% Change)	10.6	4.8	2.6
Unemployment Rate (%)	5.9	5.9	7.0
Fiscal Surplus/ Deficit (\$M)	-2,838.5	-3,161.60	-9,174.70
Bank Deposits (% Change)	4.6	1.9	3.1
Private Sector Bank Credit (% Change)	-7.0	0.6	4.7
Net Foreign Reserves (US\$M)	10,709	10,424	11,305
Exchange Rate (TT\$/US\$)	6.32/6.38	6.32/6.37	6.37/6.43
Stock Market Comp. Price Index	835.6	821.7	989.3
Oil Price (WTI) (US\$ per barrel)	79.4	76.05	89.72
Gas Price (Henry-Hub) (US\$ per mmbtu)	4.52	4.41	4.25

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

Figure 1. Oil price and production





of ammonia, anecdotal evidence suggests that lower levels of gas production have played a part in the generally downward trend in ammonia exports over several quarters as shown in Figure 2, a decline that is occurred during a period of buoyant prices.

Fiscal Policy

Government spending increased significantly in the July–September quarter. Estimates showed the overall fiscal position moved from a surplus of \$1,226.7 million for the first three quarters of the financial year (Oct. 2010–June 2011) to a deficit of \$7,948 million for the year ending September 30th 2011. In the 2011/2012 National Budget presented on October 10th, a deficit of \$7.6 billion is also anticipated from the \$54.6 billion fiscal package. While the Minister of Finance in his presentation forecast economic growth next year, he conceded that a contraction of 1.4 percent was expected for the 2011 calendar year. In September, the T&T parliament passed a bill paving the way for the government’s enhanced payment plan for the outstanding CLICO depositors. The policy-holders’ representative group has yet to fully endorse the plan, suggesting that a further delay in the resolution of this matter cannot be ruled out.

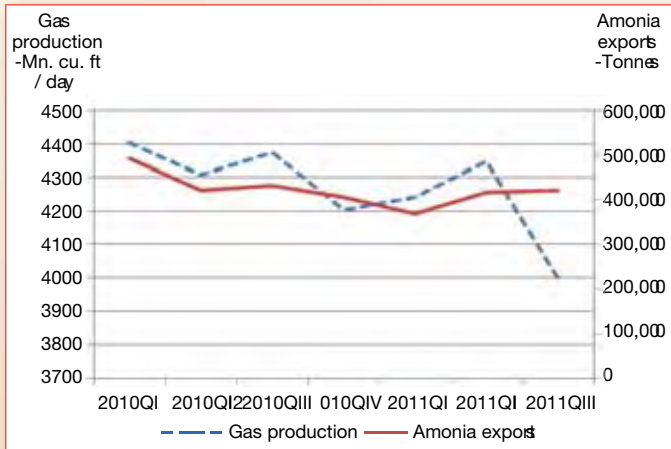
Monetary Policy

Tolerable inflation rates have allowed the Central Bank to maintain its accommodative monetary policy, with the ‘Repo rate’ set to end the year at 3 percent after holding at this rate since July. Inflation was benign in the quarter, with the year-on-year rate falling to a low of 0.6 percent in August before increasing to 2.5 percent in September. Although the rate increased further to 3.7 percent in October, due largely to rising food prices, the increases thus far remain relatively sedate. In this environment, credit demand was encouraging. Private sector credit for September grew by 4.7 percent compared to June but was only 3.5 percent higher than the September 2010 figure. While consumer credit grew marginally (0.7 percent) during the third quarter, the 2011 balance was 6.4 percent higher than the year-ago figure. The domestic stock market continued to show solid growth, with the September 30th Composite Index of 989.30 up 4.1 percent from the previous quarter. This country’s net foreign reserves declined during the quarter from US\$11,613.7 million in June to US\$11,305.1 million in September.

Outlook

Despite the regression that seemed to characterize much of the third quarter, there is reason for some optimism going forward. While near-term output increases in the energy sector are not anticipated, commodity prices should remain buoyant and the increase in exploration activity will support service providers. Construction activity should pick up as government ramps up its capital expenditure on projects in the new year, and segments of the distribution sector are set for a major boost when tenders go out for outfitting and furnishing the several buildings that comprise the Government Campus. The entertainment and restaurant sub-sectors are poised for a strong resurgence as citizens seek to compensate for their restricted access during the SoE, which expired on December 5th. Wary of a resurgence in criminal activity, government rolled out its \$300 million Colour Me Orange programme aimed at providing short-term casual employment for some 20,000 people from areas with high criminal activity. This increase in disposable income by a significant number of people is likely to benefit retail businesses and small entrepreneurs. The revelation in mid-November, of an alleged plot to assassinate Prime Minister Kamla Persad-Bissessar and other key government figures is an unwelcome reminder that while economic activity is set to pick up in the coming months, security at all levels will remain a pressing issue.

Figure 2. Gas production & Ammonia exports



Non-energy Sector

The period under review would have been one of disappointment for large segments of the non-energy sector. As world income faltered and austerity measures intensified in the United Kingdom and parts of Europe, the long hoped-for recovery of regional states, on which much of this country’s manufacturing sector depends, was pushed further into the future. Undoubtedly, the SoE (with its attendant curfew), led to depressed activity in entertainment, tourism and the hotels and restaurants sub-sectors from late August and also negatively impacted the manufacturing and distribution (wholesale and retail) sectors. However, judging by cement sales, the construction sector seemed to have fared relatively well. While still not at the levels of earlier years, second and third quarter sales suggest increasing signs of life in the construction sector in recent months (Figure 3). Generally speaking though, the non-energy sector has been set back by developments since July and is likely to be in worse shape now than in the first half of 2011.

Figure 3. Cement Sales (tonnes)



Caribbean Update

Regional Economy Pining for Stable Global Conditions

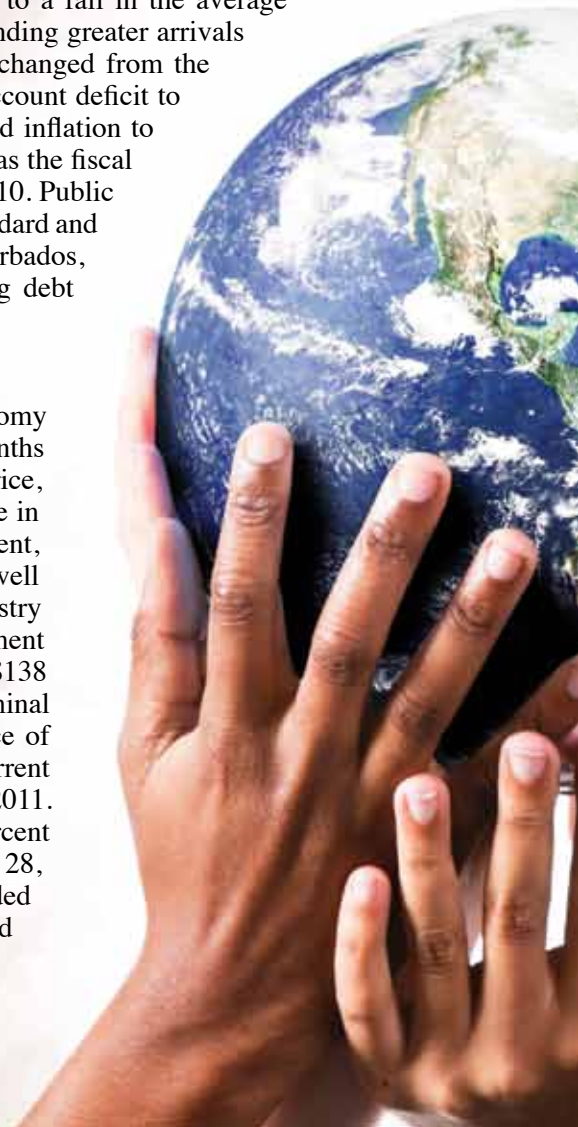
The Caribbean economy faced severe challenges in the third quarter of 2011, caused partly by heightened global economic uncertainty. The all-important tourism sector continued to be restrained by high unemployment in major source markets. Although several regional destinations have seen increased stay-over arrivals, this has been largely at significant discounts. Preliminary data suggest that the revenue derived from the average visitor remains well below pre-recession levels. In this environment, the rate of unemployment remained high in many of the region's tourism-dependant territories. Many countries in the region continue to be burdened by high debt, which constrains fiscal policy and can undermine growth. On the positive side, inflation pressures have eased in the third quarter with the fall of commodity prices. A few regional economies have managed to record moderate growth during the quarter, including Guyana, which maintained its solid performance. However, the region is still to find solutions for spiraling criminal activity.

Barbados

The Barbados economy registered marginal growth of 1 percent during the first nine months of 2011. This compares favourably with the 0.2 percent recorded for the same period in 2010. Growth was driven by the 1.9 percent expansion of the non-tradable sector, with increased activity in construction (1.9 percent) and distribution (1.7 percent). The tradable sector contracted by 2.4 percent, largely on the basis of a decline in tourism (1 percent), sugar production (8 percent) and non-sugar agriculture (4 percent). The fall in tourism was due to a fall in the average stay of visitors from 5.5 days to 5 days and reduced visitor spending, notwithstanding greater arrivals during the period. Against this backdrop, unemployment remained virtually unchanged from the same period in 2010 at 11 percent. High commodity prices caused the current account deficit to increase from 8.7 percent to 9 percent of GDP during the period, while it caused inflation to strengthen at 7 percent. There was some improvement in government's finances, as the fiscal deficit fell to 5.3 percent of GDP in September, from 9.6 percent in September 2010. Public debt remained unchanged at 96 percent during the period. In November 2011, Standard and Poor's rating agency maintained its BBB- local and foreign currency rating for Barbados, but downgraded its outlook from stable to negative, citing the country's rising debt burden and weak economy.

Guyana

Although official data is not yet available for the third quarter, the Guyana economy is estimated to have performed solidly after 6 percent growth in the first six months of the year. The impetus for the expansion was provided by increased output of rice, sugar, bauxite and gold, as the sectors continued to improve on their performance in 2010. However, the country's sugar industry continues to be plagued by management, financial, labour and other issues, with the Skeldon Sugar factory still producing well below capacity. With high prices on the international market for gold, the industry received a further boost when the government signed a US\$1 billion private investment deal with Canadian-based, Guyana Goldfields Inc. Government also signed a US\$138 million contract with the China Harbour Engineering Co. to build a new airport terminal and lengthen the runway at the country's principal airport. The ease in the price of oil and other commodities in the third quarter reduced the pressure on the current account deficit, which reached over 8 percent of GDP during the first half of 2011. This is also expected to cause inflation to slow somewhat, after reaching 5.5 percent in June 2010. Strong government expenditure in the lead-up to the November 28, 2011 general elections may significantly reduce the fiscal surplus that was recorded at 1 percent of GDP in the first half of 2011. Public debt continues to trend upward as the government seeks to improve Guyana's infrastructure and it continues to receive trade credit from Venezuela under the PetroCaribe agreement.



Cuba

Economic activity in Cuba during the third quarter was sustained largely by increased production and prices of nickel and sugar. While there is some evidence of slowing, tourist arrivals grew by 9 percent during the first eight months of the year compared to the similar period in 2010. During the first six months of 2011, arrivals expanded by 10.6 percent. Economic reforms introduced by the government have been slow to materialize, given the need for significant revision and evaluation of regulations and restrictions on private enterprise. Weak consumer demand and the lack of credit have constrained the growth of the private sector, while government's desire to not generate a rapid escalation of unemployment has delayed its plans to trim its workforce. In September, the government signalled its intention to re-organize the sugar industry by closing the Ministry of Sugar and passing management responsibility to a new state entity, the Sugar Agro-industry Enterprise Group. Diplomatic relations with the US remain tense and were further undermined by, among other things, the recent announcement by the US that Cuba remains on its list of state sponsors of terrorism.

Grenada

In Grenada, economic activity remained sluggish during the penultimate three-month period of 2011, despite increased tourist arrivals and evidence of improved agriculture output. Fragile conditions in the US and Europe, the country's major markets for tourism, limited the sector's revenue streams and thereby undermined its performance. In this environment, unemployment is estimated to have remained well over 20 percent. The third quarter CARICOM Consumer Sentiment Index (CCSI), produced by the Department of Management Studies, of the University of the West Indies, revealed a drastic reduction in consumer sentiment in Grenada. In fact, the country's consumer sentiment was the lowest in CARICOM. Weak exports earnings did little to reduce the current account deficit that was estimated to be at 30 percent in mid-year 2011. These conditions are expected to carry over into 2012.

Region

After languishing for some time, the Jamaican economy experienced two consecutive quarters of growth in the first half 2011. Although the recovery was expected to continue in the third quarter, the rate of expansion is estimated to be weaker, at less than 1 percent. The mining and tourism sectors provided the main impetus for growth. The Bank of Jamaica, in an effort to protect the tenuous economic growth, reduced its policy rate by 25 basis points to 6.25 percent. Standard and Poor's revised the country's outlook to negative from stable, but maintained Jamaica's overall B- rating. This was in response to the delay imposed on the IMF's Stand-by Arrangement programme caused by ongoing talks with the government. In October, Andrew Holness replaced Bruce Golding as Prime Minister after the latter resigned.

Challenging conditions persist in the OECS, given the restraints placed on the tourism sector by the weak global economic climate. Most OECS members continue to struggle with high debt levels and expanding fiscal deficits. In August, the government of Antigua and Barbuda implemented a stimulus package that included measures to stoke activity in manufacturing, tourism and the small and micro-enterprises sector. The IMF, through its latest Article IV consultation with Dominica, recommended further fiscal tightening, in an attempt to prevent the escalation of debt and further deterioration of government finances.

Outlook

A testing economic environment is expected to confront the region heading into early 2012. As uncertainty surrounds developed economies and the EU debt crisis seems set to linger for some time, meaningful recovery of the tourism industry and the export market could be long in coming. Accordingly, no major improvement is expected with regard to GDP, unemployment, debt and fiscal balances during the first quarter of 2012. Additionally, any increase of fuel prices during the December to March winter months could begin to stoke inflation pressures. Nonetheless, the winter months are expected to boost visitor arrivals and thereby generate some level of economic activity in the short term.

Is Trinidad & Tobago a Developed Country?



In October this year, Trinidad and Tobago (T&T) was removed from a list of countries eligible for development assistance from the Organization for Economic Co-operation and Development. This event was touted as an achievement in some quarters and served to rekindle the debate on whether or not T&T should be considered a developed nation. Even though our 2010 GDP per capita of US\$15,626 exceeds that of Barbados (US\$14,326) or China (US\$4,382), some questions still arise. Is T&T truly developed and what do we mean by “developed” anyway? If being developed means a high standard of living rather than simply a high income per capita, how does T&T rank? Our view is that we should be just as concerned about the standard of living of a country’s citizens as their income levels. Let us look at some indicators, which show how this country stacks up in a number of diverse areas that contribute to the well-being of its citizens and impact on their quality of life.

The *Human Development Report*, produced by the United Nations Development Programme (UNDP) is one such document that measures nations’ performance in a number of different areas, ultimately compiling the results into a Human Development Index (HDI). In the 2011 report T&T is ranked 62 out of 187 countries in the HDI. This is not too bad, considering we were ranked higher than two of the fastest-growing economies in the world, China (101) and India (134). Norway, Australia and the Netherlands are the top three developed nations, beating countries such as the UK (28), Japan (12) and even the US (4).

An important measure of the quality of someone’s life is the length of the life that that person and his friends and family can expect to enjoy based on circumstances in their country. Life Expectancy at birth – which shows the number of years an infant is expected to live – is the lowest in Sub-Saharan African nations while Japan has the highest life expectancy with a score of 83 years. T&T (70 years) is ranked 112th out of 187 countries, which is 77 places behind the USA (78.5 years). The child Mortality Rate, which represents the probability of dying between birth and age 5, shows that T&T ranks poorly in comparison to other Caribbean countries. The latest statistics reveal that with 35 deaths per 1,000 births we are worse than Caribbean counterparts such as Grenada (15 deaths), Dominica (10 deaths) and Cuba (6 deaths). Surprisingly, the only Caribbean country that was ranked lower than us was Haiti (87 deaths).

Chronic diseases have also affected the standard of living in T&T as our health care system is burdened with a high prevalence of diseases such as HIV/AIDS and diabetes. So how has HIV/AIDS impacted our society? According to data from the *Joint United Nations Programme on HIV/AIDS (UNAIDS)*, T&T is ranked 35 out of 146 nations with an adult HIV/AIDS prevalence rate (aged 15-49) of 1.5%. Swaziland has the highest prevalence rate of 25.9% while countries like Egypt, Hungary and Sri Lanka all have rates below 0.1%. Although we are lower than Jamaica (1.7%), Haiti (1.9%) and the Bahamas (3.1%), our rate is still higher than that of Barbados (1.4%), Guyana (1.2%) and Cuba (0.1%). Diabetes has also become a grave problem in T&T as various reports claim that we have one of the highest prevalence rates in the Caribbean and that more than half of our population is overweight. The latest information from the International Diabetes Federation reveals that T&T is ranked 23 out of 216 countries with a comparative prevalence rate of 13.1%. Kiribati (25.7%) from the Oceania region has the highest percentage of persons living with the disease while Mali, Gambia and Benin all share the lowest prevalence rate of 2%. Shockingly, the US – which has been labeled as the fattest nation – still managed to do better than us with a comparative rate of 9.6%.





Seasons Greetings

The level of crime is yet another indicator that affects the standard of living in any country. With the recent State of Emergency (SoE) taking centre stage in T&T, it is all too obvious to see the impact crime has had on our society. The 2011 *Global Study on Homicide* published by the United Nations Office on Drugs and Crime indicates that T&T has a homicide rate of 35.2 per 100,000 persons (35.2). Although, we are not as bad as Honduras (82.1) or El Salvador (66) we are surprisingly worse off than Colombia (33.4) and Mexico (18.1), which are both known for their drug cartels and turf wars.

Education is considered to be a deterrent to a life of crime and is another indicator that affects our quality of life. The World Economic Forum *Global Competitiveness Report 2010-2011* has revealed that the quality of T&T's educational system on a scale of 1 to 7 (1 = not well at all; 7 = very well) is ranked 37 in the world with a score of (4.4). Our rating in this field is actually good considering that we are on the same level as both Japan (4.4) and India (4.4). Nonetheless, we have some catching up to do if we are to be on par with Canada (5.4), UK (4.8), US (4.7) or even Barbados (5.1), which is currently ranked 15th in the world. Another benchmark, the Education Index, is based on the mean years of schooling (for adults) and expected years of schooling (for children). Despite having a fairly good rating in the quality of our education system, the Education Index tells a different story as we are ranked 78 out of 187 nations, with Jamaica (54), Grenada (50) and Cuba (22) all outdoing us in this field. However, the jury is still out as to whether the use of information technology such as, internet access, computer labs and laptops for school students will improve our education ratings in the future.

The level of technological advancement also plays a role in a country's level of development. So are we technologically advanced? With respect to the Availability of Latest Technologies Index, T&T is ranked 60th in the world while Sweden and Switzerland take the top spots. In this field we are ranked better than countries such as China (100), Guyana (85) and Italy (71) but still lag behind Japan (15), Singapore (17) and Barbados (27). Technology is a key factor in human development as nations that are more technologically advanced have a higher HDI and vice versa. Technology is capable of increasing productivity as well as the overall efficiency of a country.

It would appear that the more developed a country, the more competitive it is and the easier it is to do business within that country. So how does T&T match up? According to the Global Competitiveness Index, T&T ranks 81 out of 142 but Singapore ranks 2nd. On the other hand, the World Bank's Ease of Doing Business rankings as at June 2011, puts T&T 68 out of 183 countries with Singapore holding the number one position. In this area, we are better off than Brazil (126), China (91), and the Bahamas (85). However, the UK (7), South Africa (35), Bahrain (38) and St. Lucia (52) were able to outperform us in the standings.

In deciding whether T&T is developed or not, this article briefly assessed some key indicators. While the country has not done badly in the HDI, technology and education, it needs to reduce crime rates and the prevalence of chronic diseases.

The overall conclusion is that while T&T is not yet a developed country, it is not at the bottom of the ladder either. Urgent challenges lie in crime reduction and improving competitiveness and life expectancy. Going forward, we should continue striving to achieve developed country status but in so doing, we must set meaningful goals aimed at achieving a high standard of living instead of focusing solely on attaining high incomes. Whatever the arguments however, it should not be lost on us that as far as OECD assistance is concerned, we are now in a disadvantageous position and are even more responsible for our actions or inaction.



Read this newsletter on our website at <http://www.republictt.com/1asp/res.asp>

Material herein may be reprinted provided that acknowledgement of source is made. This release is issued as a matter of information and interest only and should not be construed as specific counsel. Subscriptions, enquiries and other correspondence should be addressed to:
The Senior Economist, Republic Bank Limited, P.O. Box 1153, Head Office, 9-17 Park Street, Port of Spain, Trinidad and Tobago.
Tel: 868 623 1056. Fax: 868 624 1323. E-mail: email@republictt.com