

Republic Economic NEWSLETTER

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STEADY PERFORMANCE AS GENERAL ELECTIONS LOOM

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2006	2006.1	2007.1 p/e
Real GDP (% change)	12	1	1.6
Retail Prices (% change)	8.3	1.7	0.6
Unemployment Rate (%)	6.2	6.8	6
Fiscal Surplus/ Deficit (\$M)	Surplus	928.80	Surplus
Bank Deposits* (% change)	18	2	-4.8
Private Sector Bank Credit (% change)	16.6	0	3
Net Foreign Reserves (US\$M)	8,055,20	6,159,10	8,696,00
Exchange Rate (TT\$/US\$)	6.25/6.31	6.24/6.31	6.27/6.31
Stock Market Comp. Price Index	969.19	958.57	929.11
Oil Price (WTI)	66.02	63.20	58.08

* The data on External Debt Service is discontinued from 2005 Quarter 2

Overview

Capitalizing on a still benign international environment, Trinidad and Tobago's economy continues to perform solidly. GDP growth for the 1st quarter of this year is estimated at 1.6 percent, while the unemployment rate is estimated at 6 percent. The energy sector continues to benefit from high commodity prices, with crude oil (WTI) averaging US\$58.08 per barrel and natural gas (Henry Hub) US\$7.41 per mcf in the 1st quarter. Both have been trading at higher prices in recent weeks with the present turbulence in Nigeria's oil sector providing upward pressure on oil. Colder North American weather for the first 4 months, has added buoyancy to gas prices in the 1st half of this year.

The CBTT continued its more aggressive approach to liquidity management in quarter one with two bond issues, following the issue in the previous quarter. This course of action, along with an apparent curbing of government expenditure in the first half of the current fiscal year, has paid dividends with the year-on-year inflation rate declining steadily to 8.0 percent in March, and rising slightly to 8.4 percent in April. (Fig:1)

Fiscal Performance

For the first six months of the current fiscal year, revenues of \$16.06 billion were received; significantly less than the \$17.38 billion budgeted. This was balanced with reduced expenditure of \$16.44 billion, 11.9 percent less than the budgeted figure. Government's external debt declined to US\$1.24 billion (\$7.83 billion) in March 2007, down from US\$1.27 billion at the end of the 2006 fiscal year. The \$3.1 billion Supplementary Allocation Bill recently passed in the Senate represents a significant addition to expenditure, which (not for the first time) has come late in the fiscal year. Further, the \$1.4 billion of the allocation earmarked for the payment of public servants arrears and increases, would result in strong injections into national disposable income with its attendant challenges.

Figure 1: Inflation rate -y-o-y (% chge)

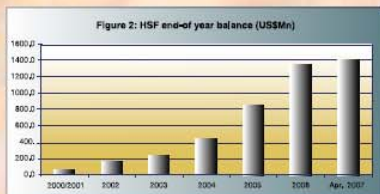


Monetary Policy

The 'Repo' rate has been left unchanged from its September 2006 position of 8 percent. Central Bank initiatives such as bond issues and foreign exchange sales have effected the withdrawal of a combined \$7.4 billion from the system from October 2006 to April 2007. This aggressive approach to curbing liquidity has met with some success in reducing inflation, over the first half of the 2006/2007 fiscal year. The subsequent increase in April, while not yet indicative of an upward trend, should serve to caution the authorities that any fiscal expansion could turn a blip in the inflation rate into a trend. Not only would such a trend not be in the nation's best interest, but would also seriously jeopardize government's stated objective to reduce inflation to 7 percent this year and 5 percent over the medium term.

Heritage and Stabilization Fund

Having been in existence in various forms since 2000, the Heritage and Stabilization Fund (HSF) was formalized with the passing of the HSF Act in March this year.



This publication welcomes this move and has long advocated the virtues of a properly managed 'rainy day fund' both as a buffer against price swings and as an investment for future generations. The fund has received regular contributions and as at April this year stood at US\$1.4 billion (Fig. 2). It will be managed by a five-member board appointed by the President for a three-year term. Deposits are to be made when oil and gas taxation revenues exceed the budgeted amount by

at least 10 percent, while withdrawals are permitted only if the revenues are at least 10 percent below the budgeted figure.

Consumer Confidence

Public sentiment, as gauged by the MFO/RBL Consumer Confidence Index underwent a significant improvement with a 13-point increase in consumer confidence following the yearlong decline of 2006 (Graph 1). Some have attributed the turnaround to a combination of declining inflation rates, new-year hopefulness and anticipation of the Cricket World Cup.



Outlook

The prospects look good for this country over the short term. T&T's economic fundamentals are generally quite sound and are expected to remain so, earning it the respect of the international credit agencies. Internationally, there is the prospect of European interest rates moving upwards in the second half of this year, increasing the cost of

goods and services from that region. In the US, rates are expected to hold steady with a possible reduction by early 2008. While this won't increase the cost of US imports, it would effectively curb significant interest rate increases throughout the region. With commodity prices expected to trade at or slightly below their present values for the rest of the year the government can look forward to a strong (albeit relatively reduced) revenue flow.

As the aridity of the just concluded dry season has given way to the rainy season with its attendant showers and potential for flooding, the second half of the year is likely to have some potentially important developments. It is increasingly likely that General Elections would be called within the next few months with a peaceful but intense campaign expected by all. Neither the electoral process nor the eventual outcome is likely to pose any threat to the country's macroeconomic fundamentals or policy direction. Also, a clearer picture of the state of the country's oil and gas reserves should emerge when the results of the Ryder Scott audit are determined and released.



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CARIBBEAN UPDATE

Cricket World Cup: - A Post Mortem

With the Cricket World Cup (CWC) at an end, Caribbean countries are currently counting the economic returns from the event. While some host countries experienced less than average returns, others are still pinning their hopes on the long-term benefits from hosting such an event. However, the realities of countries hosting one-off sporting events, such as the CWC have not been entirely positive. However, it might be some time before the economic returns to the region can be actually gauged. Meanwhile, the region has postponed the implementation of the Caricom Single Market and Economy (CSME) until 2015. This is expected to give participant countries sufficient time to harmonise the necessary legislation.

BARBADOS

Despite initial concerns that the CWC was not producing the type of return envisaged, visitor arrivals in April 2007 increased by 10.6 percent when compared for the same period last year. This, on the back of declining hotel bookings in March 2007, which fell from a seasonal average of 69 percent to 60 percent. Preparation for the CWC has worsened the country's current account situation, from a surplus of B\$71.3 million for the first quarter of 2006 to a deficit of B\$29.8 million for the same period in 2007. On the positive side, the unemployment rate continues to decline, reaching 8.7 percent at the end of 2006 down from 9.1 percent at the end of September 2006. Additionally, the Central Bank projects real GDP to expand between 4-5 percent in 2007.

JAMAICA

The country's foreign reserves have improved by US\$143 million from February to March 2007, largely as a result of the CWC. However, the country's fiscal situation is worsening with the fiscal deficit reaching US\$562.2m in the first 10 months of fiscal 2006/2007. This has contributed to a rising inflation rate, which climbed from a low of 5.4 percent in December 2006 to 6.6 percent year-on-year in March 2007. Taking up most of the headlines is the pending general election, which is constitutionally due by January 2008, but likely to be called sooner. As a result, the major election parties have beefed up their election rhetoric.

BELIZE

After successfully restructuring 98 percent of its public external commercial debt (US\$565m) the country has for the time being, avoided a severe fiscal crisis. The government estimates that the new debt service profile will give it a net cash flow relief equivalent to US\$481.5m in 2007. As a result, Standard & Poor's (S&P), which had reduced Belize's sovereign credit rating to selective default (SD) in December 2006, has recently upgraded the rating to B. Government is also anticipating a 15 percent drop in spending for fiscal 2008 but with elections due in June 2008, it will be under great pressure to increase expenditure.

GRENADA

Grenada, as with other members of the OECS, is currently analysing the effects of the CWC. The event allowed the islands to showcase what they have to offer, with the aim of generating return visitors and future business. However, attendance was not as projected and the authorities are banking on the long-term benefits from the event.

CUBA

Cuba is expressing optimism it could soon see a breakthrough in finding major oil reserves. The communist state has divided its exclusive zone into 59 blocs for exploration and production, 16 of which have already been contracted out. Eight more are under negotiation - four with Venezuela's state-owned Petróleos de Venezuela (PDVSA) and another four with Vietnam's Petrovietnam. The government is also moving towards unifying the two domestic currencies, however this is expected no sooner than 2008. Thus businesses will have to continue to put up with two domestic currencies and three exchange rates. Politically, uncertainty remains as to when or if Fidel Castro will be able to resume office, despite the apparent improvement in his health.

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GUYANA

Guyana's progress to find innovative ways of meeting the nation's energy demands and agricultural diversification, has received a boost with announcement of an ethanol plant to be constructed by Global Energy Ventures. The private venture would open up new opportunities for the country's beleaguered sugar cane industry, which is currently experiencing a 36 percent drop in preferential prices offered by the European Union. The introduction of the 16 percent VAT in January of this year, has also proven to be difficult, with inflation levels climbing to an estimated 9.3 percent year-on-year. However, the economy achieved a boost from the CWC, with a total of 16,000 additional visitors passing through the country for the CWC and 50,000 tickets sold, in spite of the high-ticket prices. The country should benefit from another debt write-off US\$467 million in 2007 from the Inter-American Development Bank (IDB). According to the Guyana Gazette, the write-off will greatly aid in reducing the country's external debt obligation, which stood at 101 percent at the end of 2006 (Table 1).

DOMINICAN REPUBLIC

GDP is projected to expand by 6 percent in 2007, on the back of a 10.7 percent growth in 2006. The slowdown in economic growth is being attributed to the country's continuing electricity problems and the poor performance of the US economy. The country's public debt also increased slightly from US\$8.38 billion at the end of 2006 to US\$8.41 billion in the first quarter of 2007. However, foreign direct investment is likely to increase on account of the Dominican Republic Central American Free Trade Agreement (DR-CAFTA) with the US in March this year.

Total Public Debt as a % of GDP

	2004	2005	2006
Jamaica	144	138	135
Barbados	84	84	82
Guyana*	142	142	101
Belize	100	99	93
Grenada	130	129	121
Trinidad & Tobago	46	38	33

Source: International Monetary Fund, www.imf.org
*External Public debt only

REGION

Regional tourism has benefited from the CWC but the economic returns from hosting the CWC have fallen below expectations. The high cost of tickets and accommodation have kept many visitors away from the region. Furthermore, the early departure of key teams in the first round of the tournament inadvertently discouraged potential arrivals. Consequently, the long-term prospects for growth will depend on the region's ability to successfully market the tourism product of the region. Therefore, it will be some time before one can determine whether the announced investment of US\$250 million was worth it. Looking ahead, the temporary slowdown in the US economy is going to have an impact on the region; however, the postponed implementation of the new passport rules is anticipated to aid tourist arrivals. Overall the economies of the region are projected to experience positive growth over the next few months with construction and tourism continuing to be the main drivers.



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Healthier GDP through Healthier People

When we think of the economy, we normally consider such things as the performance of Gross Domestic Product, rates of employment, trends in the business environment and in the case of Trinidad and Tobago, the performance of the energy sector. Indeed, when economic, financial and other commentators write, debate, bemoan policies or generate forecasts, they normally restrict their discourse to these phenomena with not enough mention of the human condition. It is sometimes surprising that the most important resource any country, company or informal group can possess, the principal impetus behind profits, growth and transformation, can capture so little attention. Undeniably, human resource is the most important asset. Consequently, the capacity of a country's people is of utmost importance to its current and future economic fortunes. On this basis, it is imperative to monitor the health of every nation, to caution and to take decisive action to mitigate threats to the current and future labour force. This article seeks to highlight some of the perils of health facing the people of the Caribbean, and their implications.

The type of lifestyles increasingly being adopted in the region accounts for a significant proportion of the maladies now plaguing its people. Poor diets, aided by the proliferation of fast food restaurants and little exercise ensure that the Caribbean keeps up with the global trend of an increasing proportion of overweight people. The region has three countries in the top 20 of the World Health Organization's (WHO) list of countries with the greatest percentage of overweight people. The WHO considers individuals 15 years and over when ranking countries. Dominica is the highest ranked Caribbean nation on the list at 11th with 71 percent of its population overweight.

Barbados is next, rated 12th with 69.7 percent, followed by Trinidad and Tobago at 20th with 67.9 percent. The survey is based on Body Mass Index (BMI) calculations. This method has its shortcomings, but is still a good gauge of the ideal weight for most individuals. The WHO expects the proportion of overweight individuals worldwide to increase by a further 40 percent in 10 years. This trend by itself has proven to be a significant catalyst for chronic diseases. When alcohol and tobacco consumption are added to expanding waistlines the incidence of these lifestyle diseases is only exacerbated.

According to the World Health Organization, heart disease and stroke account for a third or 17 million of all deaths worldwide annually. In the Caribbean, the trend is similar and death rates in this category are projected to rise. In Trinidad and Tobago they accounted for more than a third of all deaths between 1998 and 2003 (CSO). Disturbingly, the young are increasingly being struck down by heart disease and strokes. Although cardiovascular diseases can be hereditary, a significant proportion of cases can be traced to poor lifestyle choices. For instance, smoking increases the risk of dying from heart disease and stroke, two to three fold. Physical inactivity and unhealthy diets are other main risk factors which increase an individual's chances of developing cardiovascular diseases. In addition to taking more lives than any other ailments, heart disease and stroke require expensive treatments which impose significant economic hardship on families and burden the health system and ultimately the economy.

Diabetes is another chronic disease experiencing dramatic explosion throughout the world. There were approximately 35 million people in the Americas living with the disease in 2000 (WHO). This figure is expected to more than double by 2030. According to the WHO, 80 percent of all diabetes-related deaths occur in low- and middle-income countries. This disease increases the chance of death by cardiovascular disease and stroke by 50 percent and causes significant damage to the body's internal organs. Many countries struggle to satisfy the organ transplant needs of their diabetics, who normally find themselves on long waiting lists. Amputations and other costly procedures and treatments are normally necessary to allow diabetics to survive. In fact, a diabetic's medical bills can be easily three times that of someone without the disease. In a study titled "The Cost of Diabetes to Latin America and the Caribbean" published by the WHO in 2000, it was estimated that just over 1.2 million people in the region (including the Spanish Caribbean) had the disease in 2000. Deaths related to the disease were just under 30 thousand, with 59 thousand people rendered disabled by it. Total direct and indirect costs (including lost man hours) to the region





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arising out of treatment and deaths for the year was over US\$3 billion. If we take factors such as the rise in the price of medicines and treatments, and lost productivity, and amalgamate them with projections for diabetes, the cost of the disease to the region in 2030 would be astronomical.

The Caribbean has an HIV prevalence rate that is second only to Sub-Saharan Africa. The number of people living with the disease in the region was estimated at 250 thousand by the 2006 UNAIDS AIDS Epidemic Update. With the exception of Cuba, the prevalence rate is high throughout the region, led by Haiti (3.8 percent), The Bahamas (3.3 percent) and Trinidad and Tobago (2.6 percent). Of the infected, 75 percent reside in Haiti and the Dominican Republic. Approximately 27 thousand people were infected with the disease in 2006, while it claimed 19 thousand lives. A very disconcerting trend of HIV is that its greatest impact is felt on the most productive and economically active section of the population. In fact it has become one of the leading causes of death among adults of ages 15 to 44 years. In the region, the spread of the disease has been aided by several factors, chief among these being cavalier sexual habits, stigmatization, gender inequalities and the sex trade. Wider access to anti-retroviral treatment has the potential to extend the lives of many infected persons around the region. However, the disease continues to disrupt family life throughout the Caribbean and attacks economic progress on two fronts. It first erodes the labour force

by striking down productive members and future members. Additionally, it diverts valuable resources away from productive activity.

Even though we focused on a few diseases, there are several other lifestyle ailments that plague our region. For instance, cancer of all types is a leading cause of death in the Caribbean and worldwide. Hypertension is also a very common disease that affects thousands of people in many nations. Other ailments include mental disorders and chronic liver disease among a list of several.

All the diseases mentioned above are similar to the extent that they are all preventable, except for some versions of diseases like heart disease that are hereditary. Individuals can take specific steps and adopt lifestyles that can significantly reduce their vulnerability to these ailments. These steps (shown below) include, but are not limited to, proper diet, regular physical activity and responsible sexual practices. Individuals must recognize that they are principally responsible for their own health and must adopt preventative measures, not only for their sake, but for the sake of the wider society. However, there is also a critical role for the policy makers of the region which can be broken down into three components. The first area is related to government's expenditure, which is needed not only to provide treatment and medicines to the afflicted, but to fund the other two components (legislation and education). Government can use its legislative arm to support the reversal of the decline in national health. For instance, regional governments can espouse legislation such as one adopted by some states in the United States to place an outright ban on the use of Trans Fats to prepare food. Another example of this is the criminalization of the act of knowingly transmitting HIV. Such measures may involve establishing new organizations to monitor activities. The third component relates to promotion and education strategies designed to afford as much knowledge as possible to the public and to bring about change in undesirable behaviour. Some aspects of this are already in operation in Trinidad and Tobago as can be seen in the "What's your position" HIV awareness commercials and other commercials funded by the Ministry of Health vilifying alcohol and tobacco use, while endorsing regular exercise and balanced diets. What is obvious is that both the state and the people of the region must form a partnership in order to protect our vital human resource from avoidable peril. This will ultimately help to increase our productivity and GDP growth as a region as we strive to achieve developed nation status.

Remedies

Individual	Government
Proper diet & regular exercise	Provide treatment and medicines for the afflicted
Avoid alcohol & tobacco usage	Educate the public in order to alleviate the effects of the diseases
Responsible sexual practices	Promote healthy lifestyles
Preventative health care including medical check-ups	Adequately fund all these activities

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