

# Republic Economic NEWSLETTER

March 2008 Vol.16 No. 2 ISSN 1027-5215

## Domestic Growth in an Uncertain External Economy

### Overview

Against the backdrop of a likely recession in the USA, Trinidad and Tobago's largest export market, this economy grew at an estimated 2.8 percent in the 4th quarter of 2007. However, overall growth for the year came in at 5.5 percent from 12.0 percent in 2006. This decline was due largely to a sub par performance in the energy sector. The end of year seasonality was very much in effect with the spike in the Retail Sales Index mirroring a general trend of proportionately increasing consumption. The

unemployment rate is estimated to have dipped to a low 5.0 percent in the 4th quarter, giving a yearly average of 5.7 percent. While the Central Bank achieved a limited measure of success in restricting inflation to 7.9 percent for 2007, any comfort would have disappeared by January 2008. Homicides accelerated during the quarter, giving 2007 an unenviable record in this regard. Notwithstanding this, according to the Arthur Lok Jack Graduate School of Business, Corporate Confidence Index published in January, the business community anticipated favourable financial and investment conditions locally over the short term.

### TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATORS	2007	2006.4	2007.4 P/E
Real GDP (% Change)	5.5	-2.6	2.8
Retail Prices (% Change)	7.9	2.2	2.1
Unemployment Rate (%)	5.7	5	5
Fiscal Surplus/Deficit (\$M)	Surplus	1,530.70	Surplus
Bank Deposits (% Change)	13	7.8	8.6
Private Sector Bank Credit (% Change)	20.3	7.5	5.7
Net Foreign Reserves (US\$M)	6,789.60	6,760.60	6,789.60
Exchange Rate (TT\$/US\$)	6.27/6.30	6.26/6.31	6.27/6.30
Stock Market Comp. Price Index	982.03	969.17	982.03
Oil Price (WTI) (US\$ per barrel)	72.32	62	90.75

Source: - Central Bank of Trinidad and Tobago  
P - Provisional Data  
E - Republic Bank Limited Estimates

### Energy Sector

In the 4th quarter, gas prices remained consistent with earlier periods, averaging US\$7.19 per mmscf (Henry Hub) while oil prices shot up to average US\$90.75 per barrel for the quarter, leading to 2007 averages of US\$7.17 and US\$72.32, respectively. In this environment the precipitous fall-off in energy sector growth from 21.4 percent in 2006 to the estimated 4.4 percent last year, merits closer scrutiny. Clearly in the absence of new production from the start-up of any new mega plants, repeating the stellar sector increase of 2006 was not on. But there are other factors at play. Undoubtedly, one is the continued decline in this country's oil production, as some of the benefits of high oil prices would have been foregone with a drop in production from 144,000 barrels per day in 2006 to the estimated 123,000 barrels last year. Additionally, a number of plants experienced various technical and supply problems resulting in shutdowns for various periods of time. The year 2007 therefore, experienced declines in not just crude oil production, but ammonia and methanol as well. On the positive side natural gas output increased modestly and was boosted with new production from BPTT's Mango and Cashima platforms. Also, a reported gas discovery in January by Petro Canada off Tobago's waters offers hope for future additions to reserves.

**Fiscal Conditions**

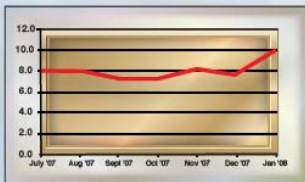
For the fiscal year ending 2007, government's total revenue was \$39.6 billion with expenditure of \$34.4 billion, resulting in a strong fiscal surplus of \$5.2 billion. However, the positives represented by a surplus estimated at 3.5 percent of GDP for fiscal 2007 are offset by an increase in the non-energy fiscal deficit to 15.4 percent of GDP, indicating a growing reliance on non-renewable energy revenues with a continually lagging non-energy sector. Reduction of expenditure including that on subsidies ought to be part of the solution. For the current fiscal year, with oil prices presently twice that of the budgeted oil price of US\$50 per barrel, a positive fiscal position is anticipated over the short term with sizeable additions to the Heritage and Stabilisation Fund expected.

**The Stock Market**

The continued weak performance of the domestic stock market would have done little to absorb the excess liquidity generated by strong revenue inflows. The Composite Price Index closed the year 2007 at 982.03, a meagre 1.3 percent increase over the 2006 end of year value. Stocks in the United States did not do much better with the S&P 500 rising by 3.5 percent. With investors taking a cautious approach to the stock market at this time, attractive investment instruments are in short supply.

**Monetary Policy**

The Central Bank achieved moderate success in 2007, as a fourth quarter inflation rate of 2.1 percent was recorded, with the yearly average coming in at 7.9 percent compared to 8.3 percent in 2006.



Source: Central Bank of Trinidad and Tobago (CBTT)

A key factor was the reduction in food price inflation from 23.2 percent to 17.4 percent over the period. This decline was halted however, with the January 2008 Price Index showing a 10 percent increase over that of January 2007 (Figure 1). The Central Bank reacted quickly and aggressively. Wary that this spike may be the beginning of a trend, in February, the Bank increased its benchmark 'repo' rate for the first time in 7 months to 8.25 percent and increased the commercial

bank cash reserve requirement from 11 to 13 percent. The clear intention here being to put the brakes on commercial bank credit, which, according to the CBTT, increased by an estimated 22 percent in 2007. The downside to higher interest rates is that growth in the non-oil sector can slow.

**Retail Sales**

Many feel that some of these un-invested liquid assets are showing up as increased consumption. Indeed, the Retail Sales Index, notwithstanding its seasonal peaks, shows a clear upward trend (Figure 2). Further, even though consumer goods as a percentage of total imports have been fairly stable, in absolute terms it has risen by 81 percent from US\$636m in 2002 to an estimated US\$1,153m in 2007. This lends credence to the concern expressed in some quarters that not unlike the state, individuals are placing disproportionate weight on consumption, vis a vis investment and savings.

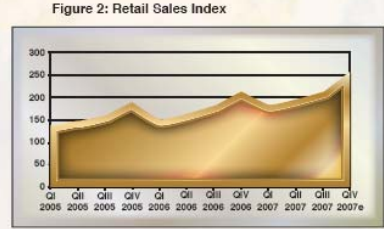


Figure 2: Retail Sales Index

Source: Central Statistical Office (CSO)

**Outlook**

While there is still debate as to whether the US economy will go into a recession, it is clear that its economic thrust has slowed and will continue to face major challenges over the short term. Due to the significant trade between CARICOM and the USA, this region would undoubtedly be affected by economic conditions 'up north'. Nevertheless, the outlook for Trinidad and Tobago over the next few months is good. Energy revenues should remain buoyant, as commodity prices on the back of strong demand, have held strong thus far and are likely to do so for some time. However, production levels in the energy and petrochemical sub-sectors need to be sustained in order to fully reap the benefits of currently high market prices. Overall, the economic climate will continue to be buoyant in the face of rising credit costs and inflationary pressures. However, there are downside risks associated with the external economy in particular. Businesses must increase their intelligence gathering and remain alert to mitigate any negative fallout.



“MY CARD IS ME AND REPUBLIC BANK'S CHOICES MAKE IT EASY!”

Website: [republictt.com](http://republictt.com) Email: [email@republictt.com](mailto:email@republictt.com)






# CARIBBEAN UPDATE

## GROWTH CONTINUES BUT CHALLENGES MOUNT

The region continued to experience positive economic growth in 2007, with the IMF projecting growth at 4.7 percent for the year, slightly lower than the 5.2 percent recorded in 2006. This is attributed to the slowdown in economic activity in countries such as Trinidad and Tobago and the Dominican Republic, which experienced growth rates of 5.5 percent and 8 percent respectively, when compared to growth of over 10 percent for both countries in 2006. Rising energy prices and the slowdown in the US economy are just some of the major contributory factors. On a bright note, according to the Barbados Nation News, the region registered profits of US\$63 million from the Cricket World Cup (CWC), exceeding the expectations of many. Gate receipts alone, from the event amounted to US\$31.4 million. Barbados emerged as the clear winner, receiving US\$12.4 million followed by Jamaica and Trinidad and Tobago (Table 1). However, it remains to be seen, whether the massive investments made for the event would eventually pay off.



**Table 1: Cricket World Cup Gate Receipts US\$M**

Barbados	12,400,000
Jamaica	4,700,000
Trinidad & Tobago	3,600,000
Antigua & Barbuda	2,900,000
Guyana	2,600,000
Grenada	2,500,000
St Kitts Nevis	1,700,000
St Lucia	900,000

*Source: Barbados Nation News (27 January 2008)*

### BARBADOS

The January 2008 general elections saw the Owen Arthur-led administration lose to David Thompson's Democratic Labour Party (DLP), ending Mr. Arthur's three-term administration. While the landslide victory by the DLP perhaps ushers in a new age of politics for the country, Republic Bank believes that major policy shifts are unlikely. Conservative management of the country's economy is likely to continue but significant challenges lie ahead. While the economy remains one of the strongest in the Caribbean, the high cost of living and the country's high energy bill remain prime areas of concern for the new Government.

### GUYANA

The crime situation in Guyana has worsened with two massacres in January and February of this year resulting in 23 deaths. These developments have raised concern not only from the local business community but also from potential foreign investors. Its implications for tourism are far-reaching, as international publicity over the events would surely have some impact. This will no doubt put pressure on the Bharrat Jagdeo-led administration. Economically, the country stands on the verge of a major economic revival with the favourable settlement of the maritime border dispute with Suriname. According to a United States Geological Survey, the waters of the Guyana-Suriname basin may hold more undiscovered oil than the proven reserves of the North Sea. Spanish oil giant Repsol already plans to drill for oil in the undisputed waters in 2009.

## CUBA

In February 2008, the ailing Fidel Castro announced his resignation as president of Cuba, ending 49 years of rule and paving the way for his brother Raúl Castro to take the reigns of power. This is unlikely to bring about any major political reform in the short term, as the economy continues to do well, growing by an estimated 7.5 percent in 2007, slightly down from the 12.5 percent recorded in 2006. Furthermore, growth is projected at 8 percent in 2008 and strengthening ties with Venezuela, China and other developing countries should provide some measure of economic support in the short term. While political reform may be some time away, economic reform seems more forthcoming, with promises being made by the new President to revitalise the economy by removing bureaucratic red tape and gradually changing the dual currency system.

## GRENADA

Grenada's fragile economy grew by an estimated 3 percent in 2007 up from almost negligible growth in 2006. This is primarily attributed to growth in the tourism and agricultural sectors, which were both devastated by hurricane Ivan in 2004. The fiscal deficit is projected to fall to 3.2 percent of GDP in 2007, down from 7 percent in 2006. The country's debt burden continues to be of prime concern notwithstanding that the public debt to GDP ratio is projected to have fallen from 125 percent in 2006 to 115 percent in 2007.

## REGION

The completion of the Economic Partnership Agreement (EPA) with the EU in December 2007 has left the region with more or less what they asked for. The Agreement grants duty free and quota free access for all CARIFORUM goods, except rice and sugar. In terms of sugar, the exporting countries should benefit from an increase in the sugar quota by 60,000 tonnes, while duty free access will be given to rice for 187,000 tonnes in 2008 and 250,000 tonnes in 2009. On the other hand, CARIFORUM countries will allow 80 percent of all EU exports to the region to be exempt from tariffs, which is to be gradually implemented over a 15-year period. This will provide the region with some breathing room to implement the necessary reforms. This agreement is expected to have little effect on the region in the short run. Medium to long run effects however, depend on the size and pace of foreign and domestic investments and, as always, the extent to which opportunities are exploited.

## OUTLOOK

The outlook for the region is mixed. The slowing US economy and the threat of an outright recession in 2008 would surely affect remittances and tourist arrivals to the region. This would only be partly offset by the continued weakening of the US dollar against the major currencies of the world, which will make Caribbean holidays more affordable, not only to UK and European residents but Canadians as well. Additionally, with the postponement of the new passport rules for US citizens to June 2009, tourist arrivals are expected to grow slowly. In terms of the mineral-producing countries, this slowdown is likely to have a limited impact as such burgeoning economies as China and India are anticipated to keep commodity prices high for the time being.

---

To: • *Request an E-mail version* • *Unsubscribe* • *Change recipient*  
E-mail to: [kdepeza@republictt.com](mailto:kdepeza@republictt.com) include E-mail address, name and institution.  
*Acrobat Reader required for E-mail version*



# Ageing – CHALLENGES AND OPPORTUNITIES

Continual advancement in medicine, together with enhanced knowledge of sanitation and nutrition has extended the life spans of humans globally. Accompanying this enhancement of life expectancy is the rise of a smaller family structure. The modern family is generally smaller than traditional units as women increasingly forego childbearing and assume professional roles in society. These two trends are transforming youthful nations into rapidly ageing societies with increasingly contracting labour pools. Although this phenomenon is more pronounced in the developed world, developing countries like those of the Caribbean will be increasingly faced with significant rates of population ageing (Table 1). With the youthful populations of the past unlikely to re-occur, this demographic transition is expected to endure and holds considerable implications for all aspects of human existence. Notwithstanding the various initiatives designed to highlight the challenges an ageing population presents to the Caribbean, its society still seems ill-prepared to deal with this development. This note seeks to underscore the implications associated with poor preparation and suggests some possible remedies.

Table 1: Percentage of Population Age 60 and Over



	2000	2025(f)	2050 (f)
<b>Caribbean</b>	<b>9.6</b>	<b>16.1</b>	<b>23.8</b>
Bahamas	8	15.7	23.5
Barbados	13.4	25.2	35.4
Belize	6	10.2	21.7
Cuba	13.7	25.1	34
Dominican Republic	6.6	12.7	20.7
Guyana	6.9	15.1	31
Haiti	5.6	7.5	15.6
Jamaica	9.6	14.5	24
St. Lucia	7.8	12.1	22
Trinidad & Tobago	9.6	20.1	33.3

Source: UN-ECLAC (f) – Forecasted

It is the personal responsibility of every capable individual to prepare for his/her retirement so as to avoid any significant decline in the quality of life during the twilight years. In the region, many people fail to effectively assume this responsibility and suffer the consequences. The increased mobility of labour has, to some extent, exacerbated the effects of this, as the support base of the elderly has been eroded by the migration of their children and grandchildren in pursuit of better employment opportunities. One consequence of this is that quite a number of retirees are forced to re-enter the labour market, often in low-paying jobs. Others are left heavily reliant on the income of family members and/or government grants, while those without family support may be left to live out the rest of their days in the harshness of poverty. When chronic diseases such as diabetes and hypertension, which normally affects this age group and are expensive to treat, are added, the hardship is multiplied. This can significantly strain public finance and divert an increasing amount of government resources to social programmes such as the Chronic Disease Assistance Plan (CDAP) and pension grants in the case of Trinidad and Tobago.

In the region there is a mix of contributory and non-contributory public pension schemes. Contributory schemes are generally funded by taxes levied on the working population, while non-contributory schemes are totally funded by the state in most cases. Both these schemes will be severely challenged to provide adequate coverage to the rapidly increasing senior population. In the case of contributory pension plans, a contracting taxable population will be required to support a pension system that is servicing a rapidly growing population segment. For non-contributory pensions, the government will have to allocate ever-increasing proportions of the budget to service this segment. This has grave implications on governments' ability to provide financial support to those who are not able to look after themselves. Because of this, calls have been made worldwide for the overhauling of public pension schemes to ensure that pension benefits keep up with demographic trends.

*Educating  
the population  
on the necessity and  
the various means  
of achieving  
financial security  
in old age...*

The private sector currently plays some part in alleviating the plight of the elderly. There are numerous privately-owned, retirement homes and other facilities providing geriatric care in the Caribbean. However, most of these are small-scale operations with limited capacity. Additionally, the standard of care in several of these organizations leaves much to be desired, as unskilled personnel and poor regulation combine to severely disadvantage elderly residents. Moreover, with the speed of the demographic transition and shrinkage of the family support base, the current number of facilities would find it difficult to satisfy the increasing demand.

The solutions to the problems associated with an ageing population are by no means simple to develop and implement, but are nonetheless necessary in the global fight against poverty.

Preparation at the individual level is key. It is essential that people save during their youth in order to shift a portion of their financial resources across time and thereby reduce the burden on the state. Economically active people must be encouraged to employ the various financial vehicles such as annuities, pension schemes and insurance policies, offered by a variety of financial institutions. Another important preparation at the individual level that is too often overlooked is the maintenance of a healthy lifestyle. Each person should pay lifelong attention to his/her diet, avoid the abuse of drugs (medicinal and otherwise) and exercise regularly so as to minimize the effects of ageing.

Regional governments ought to re-evaluate existing public pension plans to ensure that in the future their ability to pay is not outstripped by the number of people in need. The mandatory retirement age may be increased, since many seniors are quite able-bodied well beyond their sixtieth year. This will also contribute to the initiative undertaken by numerous governments worldwide to promote active aging. Educating the population on the necessity and the various means of achieving financial security in old age would contribute immensely to reducing the burden on the state. Such programmes should be done in conjunction with the financial sector. Further, initiatives to sensitize younger generations to the plight of the elderly such as the Geriatric Adolescent Partnership Programme in Trinidad and Tobago should be developed and enhanced. Governments need to regulate private care providers to ensure high standards and protection of the rights of seniors. Governments should also provide incentives to private caregivers where necessary.

Our elderly population is a valuable resource that has to be protected so that current and future generations can benefit fully from their knowledge, experience and wisdom. Given the fact that most of us will one day fall into this category, it is crucial for us to monitor the transition and amend policy as needed. By so doing we will ensure that the older ones among us are allowed to age with dignity.



**Read this Newsletter on our website at: <http://www.republictt.com/1asp/ren.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](mailto:email@republictt.com)

