

Republic Economic NEWSLETTER

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Negotiating the Strains of a Turbulent Environment

Overview

In the context of a global financial crisis and slowing economy, the Trinidad and Tobago economy experienced mixed fortunes during the fourth quarter of 2008. The local economy grew at an estimated 1.4 percent, which was slower than the corresponding quarter last year and quite consistent with slower growth for the whole of 2008 of 3.5 percent from 5.5 percent in 2007 (Figure 1). The energy sector experienced considerably weaker conditions

as prices fell during the quarter. In fact, the poor performance of the sector continued in early 2009 with oil prices hovering around US\$40 for the year thus far. The unemployment rate fell further to approximately 4.2 percent during the quarter from 4.7 percent three months earlier (Figure 2). Headline inflation ended the quarter at 14.5 percent, down from the quarter high of 15.4 percent. This trend continued in 2009 when the corresponding year-on-year rate in January measured 11.7 percent. The financial crisis in the USA was mirrored locally when, in January 2009, the Central Bank and the Ministry of Finance moved to rescue several troubled companies in the CL Financial Group including Clico Investment Bank, Colonial Life Insurance Company Limited (CLICO), British-American Insurance Company and Caribbean Money Market Brokers. Contagion has spread throughout the Caribbean as CLICO operates regionally.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATORS	2007	2007.4	2008.4 p/e
Real GDP (%) (% Change)	5.5	2.7	1.4
Retail Prices (% Change)	7.9	2.1	1.8
Unemployment Rate (%)	5.6	4.5	4.2
Fiscal Surplus/ Deficit (\$M)	5100	- 313	- 600
Bank Deposits (% Change)	13	8.6	8.1
Private Sector Bank Credit (% Change)	20.3	5.7	3.2
Net Foreign Reserves (US\$M)	8,143	8,143	11,000
Exchange Rate (TT\$/US\$)	6.27/6.30	6.27/6.30	6.22/6.28
Stock Market Comp. Price Index	982	982.03	842.93
Oil Price (WTI) (US\$ per barrel)	72.3	90.75	58.4

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

Figure 1

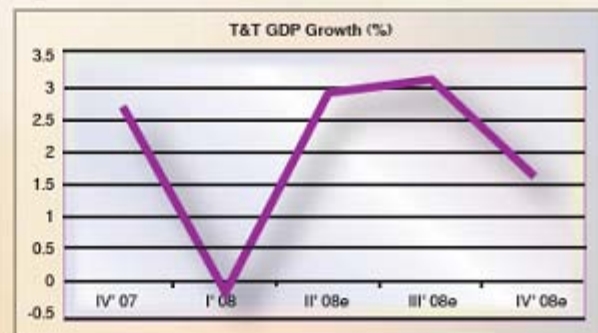
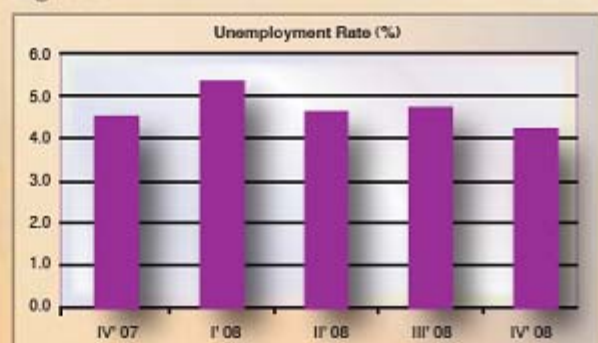


Figure 2



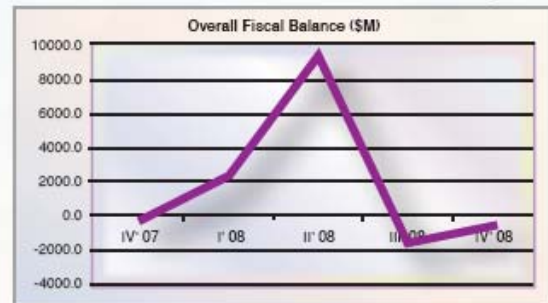
Energy Sector

In the fourth quarter of 2008, the price of crude oil fell by more than 50 percent to US\$58.35 (WTI) per barrel from US\$118.05 in the third quarter. The price of gas also fell significantly during the period, although not as drastically. The Henry Hub gas price slid from US\$9.29 per thousand cubic feet in the third quarter to US\$6.60. The slump in prices is a direct consequence of reduced global demand for energy products caused by a contracting global economy. The effects have already begun to manifest themselves locally in the restructuring of some energy companies and in a loss in the state-owned company Petrotrin that was in excess of \$200 million after a profit of \$2 billion a year earlier. Oil production contracted during the three-month period to approximately 110,000 barrels per day from 117,000 in the third quarter. Further, local petrochemical producers sought to manage costs by reducing output of ammonia, methanol, steel, fertilizers and other downstream products the prices for which have taken a considerable beating in the international market. The delay by the Ministry of Energy in issuing a new fiscal regime for gas exploration has also contributed to the hiatus in the sector.

Fiscal Conditions

The burst of the energy bubble has twice caused government to adjust its 2008/2009 Budget. At the last revision in January 2009, projected revenue and expenditure were based on an oil price of US\$45 per barrel (WTI) and a gas price of US\$3.25 per mmbtu (Henry Hub) down from the original US\$70 and US\$4.50, respectively. The government recorded a fiscal deficit of approximately \$600 million during the quarter ended December 2008, but a surplus of \$7.9 billion (5.2 percent of GDP) for the previous fiscal year ended September 2008 (Figure 3). With the latest adjustment to revenues, the government expects a deficit of \$1.7 billion for fiscal 2009. However, this could be a notable underestimate if continued weak energy prices undermine government revenue.

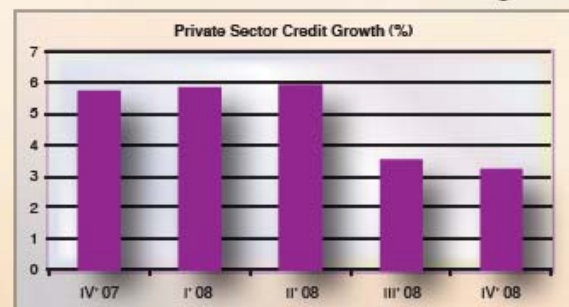
Figure 3



Monetary Policy

After falling back to 14.5 percent in December 2008, inflation eased to 11.7 percent in January. This was made possible by lower prices for both imported and domestically produced food. The rate of growth of private sector credit (Figure 4) slowed to 10.4 percent in December compared to 11.1 percent in October. For the same period the rate of growth of consumer credit slowed to 5.7 percent from 10.5 percent. While slowing inflation is attributable to falling import prices and lower fiscal expenditures, higher interest rates seem to have had a contractionary effect on credit growth. In its adoption of a precautionary stance, the Central Bank has not changed the Repo rate since September 2008 when the rate stood at 8.75 percent. No change seems likely in the short term as the Central Bank would want to be more certain that the inflation rate is now on a downward path.

Figure 4



Stock Market

The global financial crisis as well as weaker local economic conditions seems to have induced significant nervousness among local investors. The Stock Market Composite Price Index fell 21 percent in the fourth quarter when compared to the previous three months and 14.2 percent from the same period in 2007. Little change is expected in the short term and market activity is expected to remain weak during the first half of 2009.

Outlook

Global conditions will continue to squeeze the local economy with energy prices expected to remain at around the budgeted prices in early 2009. As the government continues to reduce spending, economic activity, especially in construction is expected to contract and employment is anticipated to fall from record highs. Inflation pressure is expected to subside as well, in line with international trends. So far the Central Bank and the Ministry of Finance have done well in their management of the fallout stemming from the CL Financial crisis. The country faces major challenges and only actions which promote confidence will see it overcome them. This must be a commitment of all sections of the national community.



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CARIBBEAN UPDATE

ONE REGION, MANY POSSIBILITIES

Forty-two million people: this represents the total combined population of this “region”, popularly and varyingly known as the Caribbean. To focus on this number however, would be to see the forest and miss the trees, or to put it more aptly to see the necklace and miss the individual jewels. From the Bahamas and Cuba in the north to the most southerly isles of Trinidad and Tobago and Guyana on the South-American mainland, the “region” boasts unbelievable variety and possibilities.

The Caribbean Sea that kisses some of the world’s most spectacular beaches and resorts also laps against the ports of a world leader in methanol, ammonia and LNG exports. In this “region” export processing zones, sugar production, manufacturing, entertainment, offshore finance, nickel and bauxite mining, yachting services, hospitality industries, oil and gas production, all share a space. From countries with world-beating human development indicators, to those with world-beating athletes, excellence is spread far and wide.

Not without challenges, the Caribbean is prone to hurricanes and possesses some of the most vulnerable economies. Some states face additional challenges following the recent collapse of the insurance giant CLICO and the unraveling of Allen Stanford’s companies following his US fraud charges. Some states have seen a rise in drug trafficking and are struggling to contain rising crime levels. The Caribbean boasts a generally stable political environment. As Caribbean nations routinely rise and recover from nature’s onslaught, so too their people aspire to rise above the present challenges. From tourism to energy, from small niche markets to a gateway to millions of customers, this “region” offers many possibilities, if one is willing to look beyond the necklace and see the individual jewels.

Republic Bank operates in several countries throughout the Caribbean. A review of the performance of these economies is presented below.

Barbados

Central Bank Governor, Dr. Marion Williams indicated that following meagre growth of 0.7 percent in 2008, the economy could decline by as much as 2 percent this year. In addition to tourism, construction is projected to decline following a 3.1 percent contraction in 2008. Not surprisingly, the unemployment figure is projected to climb into double digits with inflation trending down. Despite the grim outlook, the island’s appeal as an investment destination remains, having been ranked 1st in Latin America and the Caribbean (29th in the world) in the 2008 World Economic Forum’s Travel and Tourism Competitiveness Report.

Table 1: Key Indicators 2008

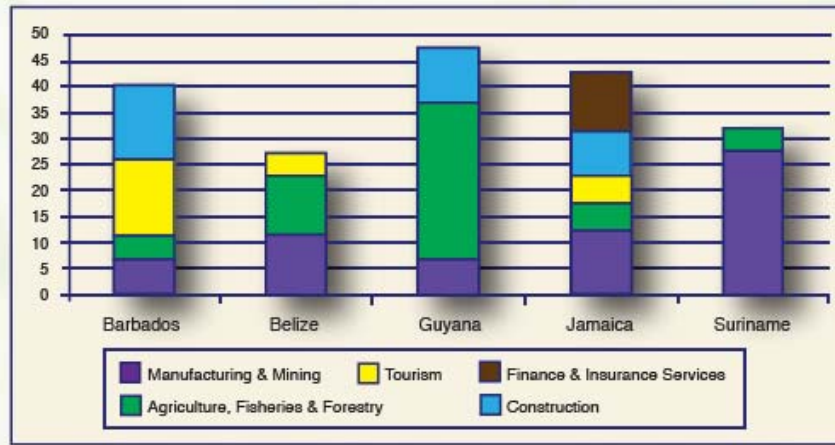
	GDP (US\$ Mn)	Debt to GDP (%)	HDI rank (2005)
Barbados	3,785.5	77	31
Belize	1,000	95	80
Cuba	55,424	NA	51
Dominican Republic	45,857.2	33	79
Grenada	542	107	82
Guyana	1,250	91	97
Jamaica	12,519	131	101
OECS	4,807	89	72
Suriname	2,846	NA	85
Trinidad and Tobago	24,145.3	28	59

Source: Economist Intelligence Unit – London, UNDP Human Development Report 2007/2008

Cuba

Economic growth slowed to 4.3 percent in 2008, as constraints to external financing brought on by high food import prices and falling nickel prices were made worse with hurricane losses. Despite the damage however, agricultural output is expected to rise this year due to increased distribution of idle lands. The easing of travel restrictions on Cuban/Americans visiting Cuba will result in an increase in foreign currency inflows to the island. Although its impact on visitor numbers will be minor, the real value of the policy change at this point is its tangible representation of a less combative approach to the island from Washington. For its part, Cuban authorities have also expressed guarded optimism about better relations with the US.

Figure 1: Major Sectoral Components of GDP (%)



Source: Economist Intelligence Unit – London, Central Bank of Jamaica

Grenada

Following economic growth of over 3 percent in 2008, the island's authorities are bracing for a significant reversal, with negative growth expected this year. The tourism sector is expected to be hardest hit and has already experienced some layoffs as tourism demand in its main source markets USA, Europe and the UK falls off. Unemployment is expected to rise as some tourism development projects have also been halted.

Guyana

The economy registered growth in the region of 4 percent in 2008 largely due to solid levels of agricultural production and high international food and metal prices, particularly in the first half of the year. Sugar production levels, which were less than expected at the start of this year, have received a boost with the commissioning of the Skeldon Sugar Factory. Significant investment by Rusal of Russia saw an increase in bauxite production in early 2008. Since then, growth prospects for the sector have deteriorated significantly. With the global drop in metals prices, both Rusal and China's Bosai have shelved plans for major alumina projects. On a positive note, a government technical committee, has recommended staged reduction of the corporate tax rate to a uniform 30% over five years.

The Region

The Organisation of Eastern Caribbean States (OECS), a sub-group comprising some of the smaller islands of the Eastern Caribbean, have all experienced a decline in tourist arrivals this year. None, however, has had to deal with the level of anxiety currently pervading Antigua-Barbuda

following the fall from grace of major financier Allen Stanford. Beside the prospect of loss of savings for many investors, as the second largest employer after the state, the collapse of the Stanford empire exacerbates an already difficult situation. Nonetheless, citizens have shown a willingness to soldier on and returned the incumbent, Prime Minister Baldwin Spencer to office in the recently held general elections. Difficulties also persist in Jamaica, where the authorities have been forced in recent months to seek funding from international lenders to meet the country's debt obligations and support its declining currency. While, inflows from exports, tourism and remittances are likely to suffer, thus far for 2009, tourism figures have held up better than those of most neighbouring states, with January arrivals reportedly higher than a year ago.

Outlook

With globally reduced demand for everything from oil and petrochemicals, to sun, sea and sand, minimal or negative growth is likely to be the order of the day for Caribbean states. Following the collapse of many giant institutions and talk of a fundamental shift in the global economic and financial order, small states would do well to be mindful of new opportunities that may present themselves. Besides trying to ride out the present turbulence ensuring that long-term economic damage is kept to a minimum, priority number two for regional leaders should be positioning their economies to take maximum advantage of new realities. When a giant tree falls in the forest, after the dust settles and the ground stops shaking, often, smaller trees have a chance to grow with the increased sunlight.

Making Use of the Summit of the Americas

The 5th Summit of the Americas will see the gathering of 34 heads of state of the Western Hemisphere, to grapple with some of the most pressing problems facing the region. Being held in a Caribbean country for the first time, the Summit promises to be quite an event for a small country, especially with the new president of the USA, Mr. Barack Obama in attendance. This event comes at a time when the region and the world are in the grip of a global economic downturn (Table 1). Waning demand pressures and a severely weakened international financial system are creating immense challenges, not only for more developed countries but for the less developed ones that depend on the former for trade and finance. But what can the Summit hope to accomplish? Are there tangible benefits that Trinidad and Tobago, the region and indeed other participants can hope to achieve?

	2007	2008	2009e
Latin America & the Caribbean	5.6	4.6	1.1
World	5.2	3.4	0.5
USA	2.7	1.0	-2
Canada	2.7	0.6	-1.2
Brazil	5.7	5.8	1.8
Mexico	3.2	1.8	-0.3

Source: IMF, World Economic Outlook Update January 2009



As the Summit nears, hemispheric leaders and their technocrats are understandably struggling to find answers to the current economic crisis for their own countries. With businesses closing and unemployment rising, various stimulus packages are being implemented to help jump-start some of these economies. The Summit provides an ideal forum through which, dialogue can result in consensus solutions to address the global challenges facing the region. In the context of recent gains which many countries have made through trade, any tendency to isolation and protectionism seems ill advised. It stands to reason that a collective approach to the challenges may have a wider and more lasting impact.

The call for investment in infrastructure is especially appealing to developing countries. It has been suggested by the World Bank, that part of the stimulus spending should be directed towards infrastructure development in less developed countries, which will remove supply bottlenecks and help restore demand in the region. While the importance of consumption expenditure for generating growth especially in developed countries is well accepted, infrastructure expenditure in developing countries can have a larger positive impact.

At the same time, developing countries cannot adopt a 'wait and see approach', or depend solely on handouts from the more developed world. Countries have to take proactive steps that not only maintain growth in their local economies but simultaneously complement the actions being taken by other countries. One possible option is interest rate policy. Interest rates remain relatively high in the Caribbean but have the potential to generate some greater level of economic activity. However, such an approach has to be measured if it is to have the desired effect, as it can also be foreign exchange depleting as well as inflationary. In this regard, the Summit must allow for dialogue and the rationalisation of policies to help leaders determine what more can be done to alleviate the pressures of the downturn on the general population.

For Trinidad and Tobago, the Summit represents a great opportunity to gain additional exposure and to attract foreign direct investment (FDI), especially with the local economy slowing. FDI has come to form an important source of growth for Trinidad and Tobago, with the country receiving on average, over US\$850 million dollars in the past four years (Table 2). Despite this, the current economic environment has slowed the flow of FDI around the world and with shrinking finances a number of development projects are being threatened.



	2005	2006	2007	2008e
Jamaica	682.5	882.2	751.5	805.8
Barbados	62.0	51.5	54.0	50.7
Belize	126.1	100.2	92.0	78.8
Trinidad and Tobago	939.7	882.7	830.0	780.1
Brazil	15,067.0	18,782.0	34,584.9	35,000.0
Mexico	20,960.2	19,211.0	23,230.2	24,690.9

Source: Economic Commission for Latin America and the Caribbean, 2008

Under these circumstances, the event could not have been better timed, as it will bring together some of the region's leading businesses in one location. The 'Private Sector Forum', an integral part of the Summit, will provide an important avenue whereby local and foreign business leaders can forge alliances to take advantage of the various opportunities that countries have to offer. This country can benefit from this, as the event provides a platform for displaying the country's investment possibilities. Therefore a concerted effort should be placed on highlighting the country's natural resources, prime geographical location, creative talent and infrastructure. This exposure can go a long way in encouraging investments.

Tourism is the lifeblood of several countries in this region and the truth is that the prospects for the Caribbean as a whole look bleak at this time. Preliminary figures for 2008 reveal that the downturn in the main markets (USA and Europe) has seen arrivals to the Caribbean decline (Table 3). This is anticipated to worsen in 2009. Initiatives taken at the Summit might prove beneficial to the region's tourism sector. The Summit represents a vehicle upon which the local hospitality industry should take advantage, especially with the publicity this country will receive from the international media. Consequently, the various stakeholders of the tourism industry need to be at the top of their game and showcase this country's advantages to the rest of the region. Delegates, as well as the international media would hopefully be impressed by the service they receive. This could go a long way in influencing repeat visitors, even if it does not lead to an immediate reversal in the number of visitors.

	2004	2005	2006	2007	2008p
Antigua and Barbuda	-1	11	3	3	2
Bahamas	1	4	-2	2	-25
Barbados	4	-1	3	2	-19
Belize	5	2	5	2	-19
Dominican Republic	5	7	7	0	0
St Lucia	8	7	-5	-5	3
St Vincent & the Grenadines	10	10	2	-8	-41
Jamaica	5	5	14	1	-7
Trinidad & Tobago	8	5	0	-3	-41

Source: Caribbean Tourism Organisation www.onecaribbean.org



With the world heading towards a recession in 2009, the 5th Summit of the Americas represents an opportunity for a better understanding of the challenges of the global crisis and likely solutions. Commitment to shared responsibilities and collective action would be major accomplishments. Focused dialogue on FDI, infrastructure, tourism and interest rate adjustments may reveal opportunities for Trinidad and Tobago, the region and the participants in general. A comprehensive follow up to the Summit is required to ensure that proposals translate into tangible benefits. Accordingly, a core group should be created to actively pursue those contacts and offers made during the talks. Gains may not be immediate. Over the long term however they can prove to be substantial.

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