

# Republic Economic NEWSLETTER

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## Short-term Growth Hangs in the Balance

### Overview

The fourth quarter of 2011 presented severe challenges for the domestic economy, with both the energy and non-energy sectors performing well below potential. The decline in oil production during the period meant that the sector was unable to fully capitalize on the rise in price that occurred in the last three months of the year. The state of emergency and accompanying curfew, together with the unsettled industrial relations climate contained activity in the non-energy sector. By the time the curfew was lifted in early November, some businesses and employees had already experienced significant

loss of earnings. In this context, the economy is estimated to have contracted by 1.8 percent during the period (Figure 1). Unemployment likely averaged 6 percent. On the positive side, high energy prices boosted the country's reserves of foreign currency resulting in a fiscal surplus. On a quarter-on-quarter basis, inflation eased slightly, to 2.1 percent in the final quarter of 2011 from 2.9 percent in the previous three-month period. Nevertheless, prices were 5.3 percent higher in December 2011 than a year earlier.

### Energy Sector

Despite high oil prices, reduced production of both oil and gas undermined the performance of the energy sector. Nevertheless, exploration activity increased, as depth drilled rose to 100,687 feet from 89,964 feet in the third quarter. The number of rig days also increased to 729 from 542. Oil production averaged 86,673 bpd in the last three months of 2011, down from 90,799, while gas output fell to 3.9bcf/d from 4.1bcf/d. The price of oil increased to average US\$93.99 per barrel from US\$89.72, but the Henry Hub gas prices decreased to US\$3.32 per MMBTU from US\$4.12. The United States Energy Information Administration has forecast oil prices to rise further to average US\$102.82 in the first quarter of 2012. However, gas prices are expected to fall to an average of US\$2.62 per MMBTU. The downstream sector also experienced reduced output. This was the upshot of an inconsistent gas supply, which in turn was related to the need for some suppliers to undertake maintenance work, among other factors. In the three-month period to December 2011, production of ammonia, urea and methanol fell by 10.6 percent, 50.2 percent and 4.2 percent, respectively.

### TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2010	2010.4	2011.4 p/e
Real GDP (% Change)	-0.2	0	-1.8
Retail Prices (% Change)	10.6	-1.2	2.1
Unemployment Rate (%)	5.9	6.3	6.1
Fiscal Surplus/ Deficit (\$M)	-2,838.5	826.5	2855
Bank Deposits (% Change)	4.6	0.7	6.6
Private Sector Bank Credit (% Change)	-7.0	-1.8	1
Net Foreign Reserves (US\$M)	10,709.5	10,709.5	11,832.3
Exchange Rate (TT\$/US\$)	6.32/6.38	6.33/6.38	6.37/6.43
Stock Market Comp. Price Index	835.64	835.6	1,012.87
Oil Price (WTI) (US\$ per barrel)	79.4	85.10	93.99
Gas Price (Henry-Hub) (US\$ per mmbtu)	4.52	3.80	3.32

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

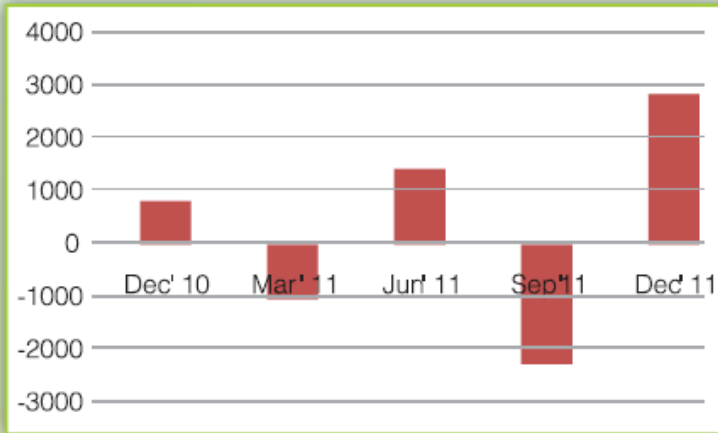
Figure 1 GDP Growth (%)



## Fiscal Policy

With oil prices consistently above the budgeted figure in the last three months of 2011, government revenue was significantly enhanced. This resulted in a fiscal surplus, estimated at \$2,855 million compared to the \$2,265.9 million deficit that was recorded in the July to September period (Figure 2). However, if government implements its plans to stimulate the non-energy sector through the funding of several public projects, the emergence of a deficit by the second quarter of 2012 would be no surprise.

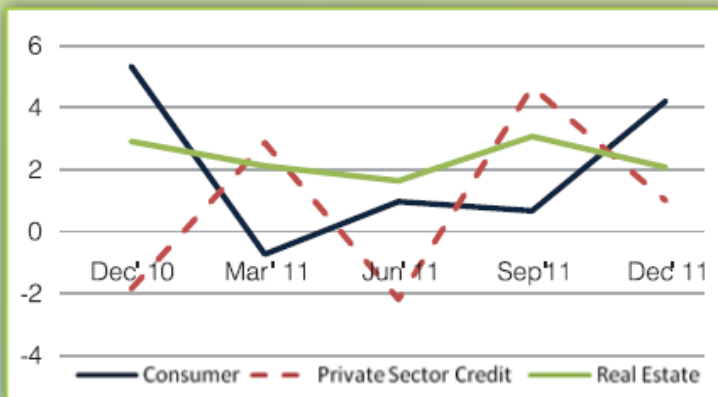
Figure 2 Fiscal Balance (TT\$mn)



## Monetary policy

The Central Bank maintained its focus on stimulating the flagging domestic economy during the period and left the "Repo" rate unchanged at 3 percent. Nevertheless, the data suggest that inflation has begun to accelerate once more. Headline inflation rose by 5.3 percent year-on-year in December, up from 2.5 percent in September, as food prices advanced 11 percent and core inflation rose marginally. Commercial banks' basic prime lending rate fell to an average of 7.75 percent in the fourth quarter of 2011 and remained at that level for the first quarter of 2012. After encouraging growth of 4.7 percent in the third quarter, private sector credit grew by only 1 percent in the final quarter of 2011. Likewise, consumer credit and real estate mortgages grew by 4.25 and 2.1 percent, respectively between October and December, 2011 (Figure 3). Headline inflation reached 6.8 percent in January 2012.

Figure 3 Loans (% Change)



## Reserves

The country maintained a healthy reserve of foreign currency with the net foreign position rising to an estimated US\$11.8 billion by December 2011, representing 13 months of import cover. Net sale of foreign currency slid to US\$328 million, down from US\$501 million recorded in the last quarter of 2010. Despite this ease in the demand for foreign currency, the TT dollar depreciated marginally against the US dollar, but appreciated slightly against the Canadian dollar.

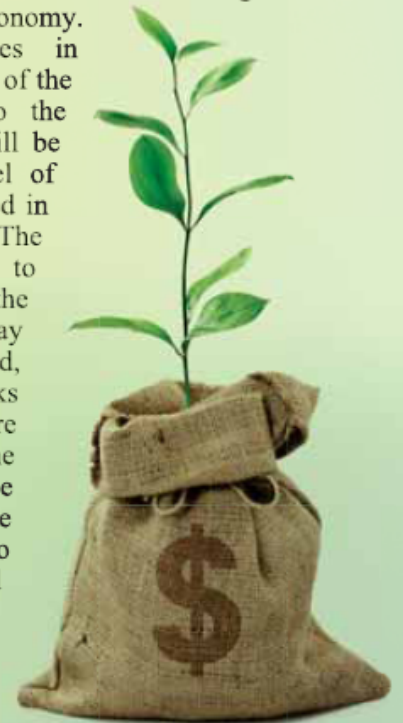
## Stock Market

The local stock market continued to show increased activity with the Composite Price Index growing by 2.4 percent to 1,012.87 by the end of December, compared to September 2011. However, by mid-March 2012 the index declined marginally to 1,007.56. While the recent trend of the market suggests a moderate level of investor confidence, the high degree of uncertainty pervading the domestic and global economies is likely to dominate the market in the coming months.

## Outlook

The government's plan to stimulate the non-energy sector is expected to create some momentum for the economy in 2012. Nevertheless, with the ongoing strike by Trinidad Cement Limited workers, construction activity is likely to be significantly impeded. Additionally, the resistance of some affected residents to state plans to relocate them in order to facilitate the construction of the San Fernando/Point Fortin Highway could delay the start of the project. Consequently, government's construction projects may provide a much smaller spur to the domestic economy than initially envisaged. The persistence of a discordant industrial relations climate will not help. Energy sector activity is expected to remain high during the first half of 2012 and is projected to be the main source of short-term growth for the Trinidad and Tobago economy.

However, further declines in output will limit the benefit of the high-price environment to the country. Some stimulus will be afforded by the high level of exploration activity expected in the first half of 2012. The economy is anticipated to remain flat, at best, during the first quarter of 2012, but may expand slightly in the second, if construction activity picks up. Inflation pressures are expected to persist during the outlook period, but may be offset partially by the government's initiatives to augment domestic food production. The high occurrence of serious criminal activity remains a major cause for concern, with 78 murders committed by the middle of March 2012.



# *Caribbean Update*

## Signs of Improvement in The Midst of Global Uncertainty

The region's performance was mixed in 2011, as some economies expanded while others declined. In the Caribbean, growth dipped in the fourth quarter as global economic conditions became more unstable. This instability worsened in the final months of 2011, as debt issues resurfaced in the eurozone. In addition, the United States' economy remained volatile in spite of mild improvements in employment and consumer confidence. In the final quarter of 2011, high public sector debt and unemployment continued to be major concerns for the region. Last year, tourism dependent countries saw minor improvements while Suriname and Guyana prospered due to favorable global market prices for gold. Crime levels escalated in 2011 and this forced some countries to step up crime fighting efforts. Nonetheless, there is hope for the region, as some countries managed to register growth in 2011 for the first time since 2008.

### **Barbados**

In 2011, the Barbados economy recorded marginal growth of 0.5 percent. The tourism sector grew by only 0.3 percent, as the average length of stay for tourists declined. Other sectors recording growth were construction (4.4 percent) and transport and communications (0.6 percent), while manufacturing and agriculture declined by 6.9 percent and 3.8 percent, respectively. Inflation was higher due to the escalation in international fuel prices (up by 36 percent) and high food prices. Unemployment increased from 10.8 percent in 2010 to 11.9 percent in 2011, with job losses reported in the manufacturing and financial services sectors. Public sector debt remained high at 116.5 percent of GDP, despite some improvements in tax collections. The current account deficit was estimated to be higher at 21.7 percent of GDP, compared with 17.1 percent of GDP for 2010, due to the higher import bill. In its latest Article IV Report, the IMF suggested a permanent VAT hike to eliminate the central government deficit of 8.5 percent of GDP by 2014/2015. Although Standard and Poor's downgraded Barbados' outlook in November 2011 to negative, the Caribbean Information and Credit Rating Services Limited (CariCRIS) reaffirmed Barbados' ratings of CarAA- (Foreign Currency) and CariAA (Local Currency) earlier this year. Barbados is currently reviewing its Tourism Development Act with a view to encouraging more investment in the sector. The country is also partnering with the United Kingdom to further develop renewable energy.

### **Guyana**

The general election of 28th November dominated the final quarter of 2011. The People's Progressive Party/Civic (PPP/C) retained power for the fifth consecutive term. However, the party lost its parliamentary majority for the first time in 19 years, which could make things difficult for the government, should opposition parties opt to work together. The Guyana economy continued its upward trend in 2011, with growth increasing to 4.5 percent. The rice sub-sector recorded production of 401,904 tonnes. The Guyana Sugar Company (GuySuCo) continued to put expansionary pressure on the fiscal deficit as it required government funding to stay afloat. However, the European Union came to the industry's aid in 2012 with a US\$16.3 million grant aimed at increasing production and cost effectiveness. Favourable global prices resulted in a resurgence in bauxite production. Gold continued to perform well, with production surpassing its target by 30,000 ounces. The long-term prospects for the mining sector are favourable, with the US\$250 million manganese project by Reunion Manganese Limited set to begin early in 2012 and exportation to start by 2014. The commencement in February 2012, of offshore exploratory drilling for oil by Repsol and CGX, augurs well for investment in Guyana's energy sector.

### **Cuba**

The Cuban economy is estimated to have grown 2.7 percent in 2011 due to consistent growth in most sectors. Although tourist arrivals began to slow down in the second half of 2011, the sector was able to avoid a significant decline because of its diversified source markets. The agriculture sector grew by 2 percent in 2011, while the manufacturing sector recorded growth of 2.7 percent, mainly due to sugar processing, which was up by 5.2 percent in 2011. Inflation was estimated to be higher at 4.7 percent in 2011, as a result of high food and fuel prices, and the removal of government subsidies on specific food items. Cuba's current account ended 2011 in surplus due to continued growth in tourist arrivals and remittances. It was also reported in December 2011, that the fiscal deficit was kept at a minimal 3.8 percent of GDP through reduced spending. Recent reforms, such as the lifting of the ban on automobile and home ownership could boost private sector activity. The start of oil exploration 30 miles off the northern coast, could potentially improve Cuba's long-term prospects for growth and lower its dependence on Venezuela for oil.

## **Grenada**

After two consecutive years of contraction, the Grenada economy finally registered growth of 1 percent in 2011. This modest growth was mainly attributed to the tourism and agriculture sectors, which recorded growth of 4 and 8 percent, respectively. Provisional data from the Eastern Caribbean Central Bank (ECCB) revealed that tourist arrivals increased from 104,732 in 2010 to 112,131 in 2011. Data also showed a slight improvement in cruise ship arrivals, increasing from 333,765 in 2010 to 338,009 in 2011. The strong performance of the agriculture sector was due to increases in banana, cocoa and nutmeg production. In 2011, the construction sector saw its third consecutive year of decline, contracting by 8 percent. Finance Minister, Nazim Burke, presented the country's US\$378.9 million national budget on 9th March 2012. In addition to no new taxes, the budget includes an allocation of US\$55.5 million for debt repayment, including monies owed to the EXIM Bank of Taiwan.

## **Region**

The People's National Party (PNP) led by Ms. Portia Simpson Miller, won by a landslide, winning 42 of the 63 seats in Jamaica's general election held on December 29th. The economy expanded by 1.7 percent in the fourth quarter of 2011, with growth attributed to agriculture (28.9 percent) and mining and quarrying (8.2 percent). The construction sector also saw some growth with increased activity in residential construction. Debt continues to be worrisome as Jamaica was the eighth most indebted country in the world in 2011, with a debt burden of 126 percent of GDP. In January 2012, the tourism sector saw mixed results with cruise passengers increasing by 74.1 percent year-on-year (y-o-y) and airport arrivals declining by 3 percent y-o-y. Currently, the government is negotiating a new loan agreement with the IMF. In October 2011, Standard and Poor's revised the outlook on Jamaica from stable to negative and affirmed its 'B-' long-term and 'C' short-term sovereign credit ratings. In Belize, the United Democratic Party (UDP) remained in government after winning the general election held on March 7th, 2012. The government intends to focus on stimulating growth, as weak performances in tourism and oil production, stifled the economy for most of last year. Although the economies in the Eastern Caribbean Currency Union (ECCU) contracted by 0.6 percent in 2011, this was an improvement from the 2.2 percent decline in 2010. This improvement was mainly attributed to growth in tourism of 4.6 percent which while strong was still lower than pre-crisis levels.

## **Outlook**

Looking ahead, the global environment remains uncertain as the eurozone is expected to go into a mild recession in 2012. As a result, tourism in the Caribbean is likely to show minimal growth in the coming quarters, unless economic conditions significantly improve in the US and eurozone. The IMF's recent €28 billion loan for Greece's rescue effort, could provide some temporary relief to the troubled eurozone. Debt will continue to be a burden for most countries in this region, as they continue to increase their borrowings in order to fund projects aimed at stimulating growth. This month's CARICOM Heads of Government meeting focussed on reforming the Secretariat, sustaining development and curbing high levels of crime in the region. However, the Community continues to suffer from slow implementation of policies, weak operations and financial problems since the economic downturn of 2008.



# Golden Reflections

Trinraj Tobias sat in his porch as the afternoon sun descended.

“Aye TT, no music? How by you so quiet?” shouted his neighbour from his yard.

“I just chillin’ boy Guya” Trinraj replied. His neighbour, Guyadeen, was referring to the big two-day bash Trinraj held every year. He’d had a ball as usual, but with the festivities over, thoughts and memories bounced around Trinraj’s head. He would be 50 years old in August and as the milestone approached he found himself reflecting more and more on his life thus far.

He knew others who were also born in 1962, like Sammy Samoa, Borris Burundi, Rawle Rwanda, Issa Algeria, Jay Mayka and Zander Uganda. He had lost touch with many of them, but not Jay who lived in the same development with him.

While their street was long, the houses were scattered along the street and varied in size. Among the bigger properties were those belonging to Guyadeen, Jay, Barry dos Santos (who everyone called B-Dos for short), Hai Tee and himself.

The oldest in the development, Hai Tee seemed to be suffering from crisis after crisis. Trinraj wished he could do more to help, but knew the task called for the collective effort of the whole neighbourhood – like the ‘gayap’ of years gone by.

While everyone generally got along, it had always been difficult to get them to work together. It didn’t help that there was this longstanding rivalry among himself, Jay and B-Dos that surfaced from time to time.

Most of the neighbours in the development were experiencing some financial hardship at this time. Guyadeen’s businesses were doing well however, and Trinraj wondered if Guyadeen’s children, who sometimes did odd jobs for the neighbours, would have to cut down on this to focus on their father’s businesses. He, Trinraj, had gone into energy and manufacturing and while his businesses were struggling of late, he had done well over the years. Years ago, he took the bold step to use gas to make other products and set up new businesses. Back then, he was the ‘new kid on the block’ and others with bigger commercial interests admired his ability to do so much with the resources he had. He did so well that he was able to supply goods and services to some of those living in his development.

Things were different now. Young upstarts in the energy game, like Akbar Qatar, had caught up with him and had even surpassed him. Even his smaller businesses were facing difficulties as his neighbours could not buy as much from him as before.

Despite these challenges, he knew he had accomplished much in his fifty-year life span and was still pretty well off compared to others. Back in 1970 his businesses

earned about US\$730 for each one of his children. Last year, Trinraj made US\$16,692 per family member. This was better than many other households and certainly better than the rest of those his age. The closest of this lot were Jay Mayka who made US\$5,376 and Issa Algeria who made US\$5,000. It was also better than Chin and Indar, who both had massive business interests but because they had so many family members, only earned US\$5,184 and US\$1,527, respectively.

Trinraj took great pride in his children’s educational achievements. He invested heavily in their primary, secondary and tertiary education, with the result that several of his children landed higher-paying jobs and enjoyed a better quality of life. As well as he did, he was aware of others, some even younger than him, who had done even better. So that while a recent survey ranked his family 62nd in the country in terms of its standard of living, B-Dos, was ranked 47th and Slinger Poor was 29th. He wondered if it was because B-Dos and Slinger were both well organized fellas that they were able to do more with what they earned.

Nevertheless, not all of his children were academic successes. Some had fallen through the cracks and had run afoul of the law with many carrying out violent acts. This caused Trinraj no end of worries and accounted for more than a few of the grey hairs on his head. Over the years the homicide rate increased from 8 victims per 100,000 in 1983 to 27 per 100,000 in 2011. This was a much higher rate than that of other long-established families such as U. Hessay who had 5 per 100,000 and Brighton who had just 1.3. In fact, both U. Hessay and Brighton had started warning their relatives against visiting the Tobias household.

Like many of his neighbours, Trinraj blamed rising crime on the drug dealers that had infiltrated the development, corrupting many of the youth. But he also



knew that this could not be the only reason and it troubled him. His family was wellknown for their easy-going nature and he couldn't understand how some of his children were given to such bad behaviour.

He smiled to himself when he mused about his children's other accomplishments. Two of his sons – one was adopted – had received the top prize for literature and three of his daughters bested all comers to win the country's top beauty pageants. Despite his relatively small family, his children also won many sports medals, with one son winning the premier race at the country's top sports meet in 1976. While Jay's children normally did well at the races his were no slouches either. With the top sports meet due one month before his birthday, he was looking forward to great performances from his sons and daughters who would be competing. Beyond the races, through the years his children had also done well in swimming, netball, cricket and football, even reaching the finals of the premier football competition in 2006. Recently two of his younger boys made him proud through their cycling successes as was done in the past.

Rising to his feet, he walked into the yard, which, while not in too bad a shape, was not in the pristine condition as that of some of his neighbours. He spent so much time working at his energy and other businesses that he sometimes neglected to clean the yard. It certainly didn't help that some of his children didn't like to pick up after themselves. His backyard garden had also suffered: without his lead, his children did not see the need to keep a kitchen garden. He was trying to revive their interest in this activity but this was proving to be more difficult than he thought.

Trinraj wondered what would become of his children. Based on his observations of those more advanced in age, he realized that the time would come when his younger children would not be able to support their older relatives, who were living longer with fewer resources to go around. He vowed to encourage the younger ones to start saving for retirement as soon as they started working and advise the older ones that they would probably have to work for a while beyond the retirement age in order to sustain the standard of living to which they were accustomed.

Was he any wiser now that he was older? Yes, he thought. He tried to make less hasty decisions, to learn from his mistakes and from the experiences of others. When he was younger and making a lot of money, he was more 'gung ho'. He'd tried to follow the same path taken by others who were very successful, but he failed to take heed of some of the important details. Now he was learning the value of taking care of what he had and having proper rules and structures. With so much competition from others, he had to think carefully about his investments and measure himself against competitors, both near and far.

He knew that he had to plan better in order to provide adequately for his children's future. But he also knew they had a role to play, themselves. They had to be more productive, be willing to innovate and take risks, all the while striving for excellence. As night fell, the lights in the houses along his street that curved through the neighbourhood, gave the appearance of a bejewelled necklace glowing in the dark. Trinraj boy, he thought, is time to go inside. Work tomorrow.

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