

## *The T&T Economy: Review and Prospects*

The year 2010 has been typified by anaemic domestic economic activity, in the context of high expectations and sweeping changes in the local political landscape. The domestic economy is projected to record a less than stellar performance in 2010, following a decline of 3.5 percent in 2009. The poor performance is linked to flagging output in the energy and non-energy sectors, with construction, manufacturing and distribution performing well below potential. In this environment, the rate of unemployment rose appreciably to 6.7 percent early in the year, from 5 percent at the end of 2009. The experience of most developed economies was no less daunting.

As is usually the case, the energy sector has been the main driver of what little growth there was during the year. According to the Central Bank's latest Monetary Policy Report, the domestic economy is expected to remain flat, or at best, expand by 1 percent in 2010. In spite of the consistent lowering of the repo rate by the Central Bank (to 3.75 percent as of November 2010) and the accompanying reduction of commercial banks' prime lending rate to 8.9 percent in October, credit demand remains weak. In the twelve months to September, total private sector credit extended by the financial system decreased by 2.7 percent and could decline by an overall 4 percent in the twelve months to December, even as the prime rate is expected to fall further to 8.5 percent by year's end.

Notwithstanding sluggish economic activity, the country faced rising consumer prices for most of the year, as weather conditions (drought followed by heavy rains) undermined domestic food production. The latest available data placed inflation at 12.5 percent year-on-year to October. Despite high inflationary pressures—largely emanating from rising food prices—the Central Bank has chosen to lower its benchmark rate over the past quarter, with the Repo Rate standing at 3.75 percent in early December.

Public sector debt, which was well within international norms, averaged 38.5 percent of GDP for the 2009/2010 fiscal year, up from 37.5 percent. As government seeks to fight off recessionary conditions, this figure is likely to climb to around 50.0 percent by the end of the 2010/11 fiscal year.

Despite the considerable slowing of imports, along with the country's still healthy reserve position (approximately US\$9 billion), the business community voiced its concern during the year, about difficulties accessing adequate amounts of foreign exchange. Net sale of foreign currency by commercial banks for the first 11 months of 2010 fell to US\$1.5 billion from US\$1.7 billion for the similar period in 2009, still strong by most standards.

On the political front, historical firsts and periods of significant disquiet characterized the year under review. On January 24th, Mrs. Kamla Persad-Bissessar became the first female to lead a major political party in this country. Under pressure of various corruption allegations and considerable public outcry with regard to the operations of the state's special purpose institution, the Urban Development Corporation of Trinidad and Tobago (UDECOTT), then Prime Minister Patrick Manning called early general elections in May. The amalgam of opposing political parties under the umbrella of the People's Partnership, won the elections, elevating its leader, Mrs. Persad-Bissessar, to the office of Prime Minister, the first female to hold the title. As part of the fallout of the elections, Mr. Manning stepped down as political leader of the People's National Movement and was replaced by Member of Parliament Dr. Keith Rowley.

On assuming office in May, the People's Partnership hit the ground running, having to deal immediately with severe flooding. Other challenges abound, however. The government is still to

*The domestic economy is projected to record a less than stellar performance in 2010,...*

reach an agreement with the Public Services Association (PSA) over wages for public officers. The Union's membership has threatened to take protest action to another level and has refused the usual early salary payments for December, in response to its leader's call to "boycott Christmas". Additionally, the government's proposal to pay CLICO depositors (in particular, its offer to pay balances in excess of \$75,000, over a 20-year period, at zero percent interest) has met with great resistance by the affected investors. Unhappy with the government's response to their demand for an improved offer, the depositors have threatened legal action.

On the external front, growth of the US and EU economies is falling short of earlier projections. The IMF revised US growth rates downwards in 2010, from an estimated 3.3 percent to 2.6 percent. Lethargic demand, as well as high rates of unemployment in major source markets means that Caribbean tourism—and thus GDP—is expected to recover, but slowly. This has implications for Trinidad and Tobago's exports, since CARICOM is the largest importer of this country's manufactured goods. Although the price of oil remains fairly strong—averaging over US\$70 per barrel during the year—declining production continues to limit the contribution of the sector. A virtual glut on the global gas market continues to keep prices below historically high levels.

Domestically, uncertainty and rising unemployment seem to be holding back private expenditures and the demand for consumer and business credit. Preliminary evidence suggests that total investment is well below pre-recession levels and this shrinkage has proven to be a further drag on the domestic economy. The 2011 budget sought to boost investment activity, with a long list of incentives and tax concessions. Among these are, a \$10 million innovation financing facility for businesses with avant-garde ideas; removal of customs duties on equipment and parts imported for use in approved manufacturing industries; and removal of customs duty for goods on consignment valued above \$1,000 but below \$20,000. While these measures are indeed positive, the business community remains cautious about the current economic environment. In an uncertain world, strategic marketing might be required if potential investors are to be encouraged to take advantage of fiscal incentives.

With many claims upon its limited financial resources, controlling the fiscal deficit and the country's debt would be major challenges for the government in 2011. Indeed, 2011 promises to be a testing year for Trinidad and Tobago. The economy is expected to grow marginally between 1 and 2 percent. Growth is likely to be driven by strong energy prices and public sector spending.

Major construction projects include the extension of the Solomon Hochoy Highway and building of the Mamoral Dam. The government has requested a US\$1.3 billion loan from the Inter-American Development Bank (IDB) to be used to help stimulate the economy. In the case of the energy sector, the award of contracts following the shallow/average water depth bid round is positive for the New Year. So too are the anticipated awards for the deep water in early 2011. Unfortunately, with world food prices on the uptick since the middle of 2010, domestic inflation could remain robust, averaging 8 to 9 percent for the year. Nevertheless, increased agricultural output arising from state-funded, large farms could control the rise of food prices (the major component of local inflation).

All in all, the economy should be able to avoid slipping into stagflation, defined as the existence of high prices alongside a stagnant economy. All together, a combination of lower interest rates, wide-ranging fiscal incentives and less uncertainty should see some improvement in the economy, as the New Year progresses.



*Season's Greetings*

**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)