

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)

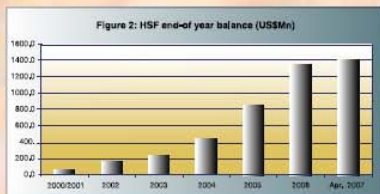


Monetary Policy

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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