

Republic Economic NEWSLETTER

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EASE IN INFLATION AS INTEREST RATES RISE

Overview

Internationally, the US economy is still slowing in spite of some positive signs. Growth in the first quarter was 0.9 percent compared to 0.6 percent in the previous quarter. In the midst of this, the Trinidad and Tobago economy is estimated to have grown by 2.9 percent during the first quarter of 2008 compared to 2.8 percent in the previous quarter. This growth was largely linked to the robust energy and construction sectors. Stock prices advanced marginally during the beginning of the year as bank interest rates also rose. The unemployment rate remained at 5 percent. The inflation menace seemed to have responded to rising rates as the year on year rate declined further in April, 2008 to 9.3 percent. The unrelenting scourge of crime remains a vexing issue, with in excess of 200 murders committed already for the year compared to 123 at this time last year. On the political front, and following the firing of the Minister of Trade and Industry, the government acquiesced to the establishment of a Commission of Enquiry into the Urban Development

Company of Trinidad and Tobago (UDECOTT) in the face of mounting criticism. The main issues in contention centre on regulatory oversight of government construction projects in the context of rising government expenditure and the use of special purpose state enterprises to execute these projects.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATORS	2007	2007.1	2008.1 p/e
Real GDP (% Change)	5.5	2.4	2.9
Retail Prices (% Change)	7.9	0.6	0.43
Unemployment Rate (%)	5.6	6.5	5
Fiscal Surplus/ Deficit (\$M)	5100	90.9	Surplus
Bank Deposits (% Change)	13	-4.8	1.98
Private Sector Bank Credit (% Change)	20.3	3	5.85
Net Foreign Reserves (US\$M)	8143	7290.1	8453.4
Exchange Rate (TT\$/US\$)	6.27/6.3	6.27/6.31	6.27/6.32
Stock Market Comp. Price Index	982.03	929.11	992.85
Oil Price (WTI) (US\$ per barrel)	73.32	58.08	97.94

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

Energy Sector

During the first quarter of 2008 energy prices strengthened further, with crude oil in particular experiencing significant upswings and establishing new records. The crude oil price averaged US\$97.94 (WTI) during the period, up from US\$90.75 the previous quarter, while the more steady gas price rose to US\$8.93 per thousand cubic feet (Henry Hub) from US\$7.19. The buoyancy of prices in the sector is attributed to strong global demand, the weak US dollar and speculation by global traders. Future prices have increased further such that in June, oil and gas for delivery in July 2008 have soared to US\$140 and US\$13 respectively. The rise in the price of crude oil does not mean as much as it might, partly because this country now produces about six times more gas than oil, measured in barrels of oil equivalent (figure 1). However, as crude oil prices continue to rise, so too does the financial burden on government, amplified by the gas subsidy to consumers, which has risen to about \$6 billion. The rising subsidy now places the government in a difficult situation, as a reduction in the subsidy will propel the inflation rate even higher. Some unease has attended the layoff by BPTT of 103 of its local employees, after a similar activity in the second half of 2007. The

multinational has attributed this restructuring to the Company's global efforts at streamlining activities, a position faced by other energy multinationals.

Fiscal Conditions

Strong energy receipts continue to boost government revenues as crude oil prices remain consistently above the budgeted US\$50 mark. Soaring energy prices have gifted the government \$6 billion more in revenue than was estimated in its budget. However, the significant growth in government expenditure continues to restrict the size of the budget surplus. Government revenues through March 2008 were estimated at \$22 billion, while expenditure reached \$18 billion, resulting in a surplus of \$4 billion. The recent request to Parliament for a Supplementary Allocation of some \$3.5 billion raises total planned expenditure to \$46 billion for the fiscal year, a 16.5 percent increase from the last fiscal year. This injection will test the Central Bank's ability to fight inflation even further and flies in the face of repeated appeals by the Governor of the Central Bank, Ewart Williams, for fiscal restraint.

Monetary Conditions

The Central Bank remains locked in a battle to restrain galloping of inflation. It has been severely tested by the high level of liquidity in the system, which, to a large extent, is the result of government's fiscal injections. The high liquidity is reflected in the strong growth of commercial bank credit, which, according to the Central Bank expanded 23 percent year on year in February. Led by a 19.7 percent rise in food prices, inflation increased to 9.8 percent year on year in March from 7.6 percent in December 2007. The rate declined to 9.3 percent in April 2008. It would appear that the February 2008 increase of the Repo rate to 8.25 percent led to an increase in most interest rates and apparently to some ease in the inflation rate as well, if only temporarily. The nominal exchange rate adjusted for inflation (the real rate) has been appreciating for sometime now but even the nominal rate appreciated in May to TT\$6.27 to US\$1.00. This reflects strong foreign exchange inflows coupled with rising domestic prices.

The Stock Market

The market received a much-needed fillip in the first quarter of 2008 with an upswing in investor confidence. The Composite Index rose 1.10 percent from the previous quarter to 992.85, while the All Trinidad and Tobago Index rose 4.66 percent to 1,256.61 (figure 2). This advance was welcomed as the increase in the value of several stocks re-energized the market. The increased activity carried forward to April as the Composite Index advanced 7.32 percent and the All T&T Index advanced 8.91 percent. The improvement, which has continued into the second quarter of the calendar year, is due to increased demand as investors seek to rebalance their portfolios in the wake of the acquisitions of RBTT Financial Holdings by Royal Bank Canada and Barbados Shipping and Transport by Neal and Massy. The return of some confidence to the market might suggest continuing improvement over the next few months.

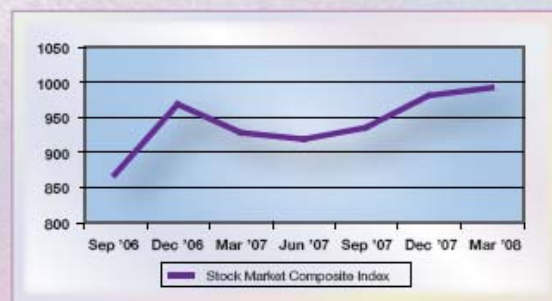
Outlook

Given the vigor of energy prices, the country is still expected to withstand the slowdown of the global economy. Positive growth is expected over the next few months as high prices compensate to some extent for lower output of crude oil. While Central Bank action at the beginning of the year has brought some success as far as inflation is concerned, this is unlikely to be the case in ensuing months as government spending is likely to rise towards the close of the financial year.

Figure 1: Oil & Gas (BOE) Production



Figure 2: Stock Market Composite Index



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