



CENTRAL BANK OF
TRINIDAD & TOBAGO

Update and Outlook for the Economy of Trinidad and Tobago

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**Launch of the Economic Bulletin – July 2011
Central Bank Conference Facilities
August 8, 2011**

International Developments

- **Heightened nervousness in the international economy.**

- Despite the agreement to raise the US debt ceiling, financial markets displayed significant volatility.

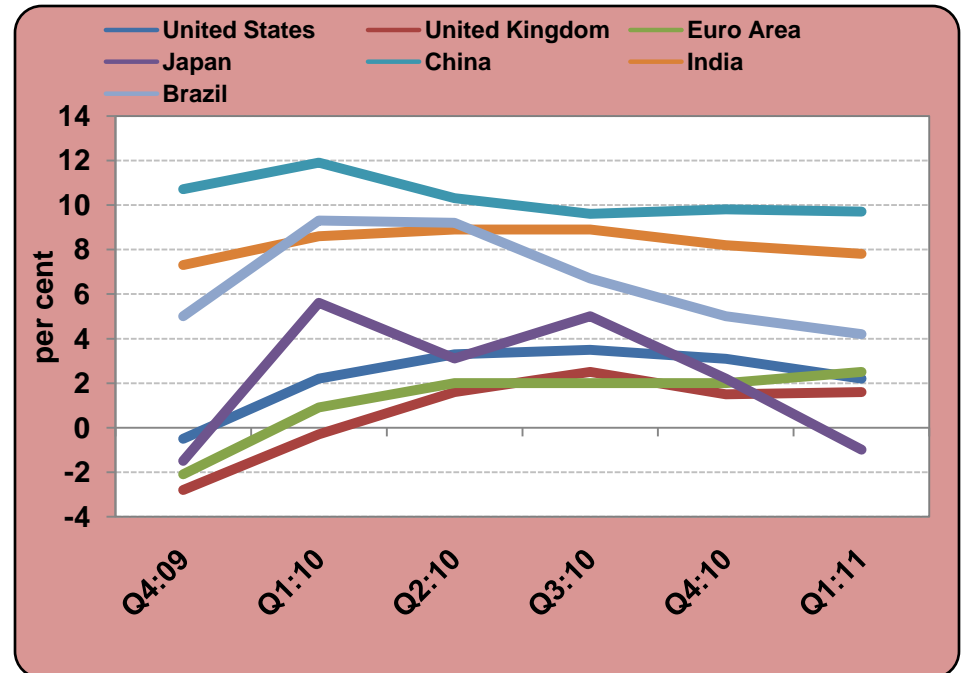
- Concerns remain about the possible spread of the sovereign debt crisis in Europe.

- **Global economic recovery appears to be losing momentum**

- Slower growth in the UK, Euro area and the US.

- Pace of global recovery is being largely sustained by robust growth in developing countries, especially China, India and Brazil.

Chart I. Advanced and Emerging Economies - GDP Growth
(Year-on-Year percentage Change)



Source: Bloomberg.

Regional Developments

Table I

**Selected Macroeconomic Indicators:
Selected Caribbean Economies**

• **Several Caribbean countries have begun to emerge from the economic slump.**

- A pick of tourism activity is helping growth prospects in Barbados and Jamaica.

• **Main downside risks for the region:**

- Rising international prices for energy and food could fuel inflation.

Country	Real GDP (%)			Inflation Rate (%)		
	2009	2010 ^e	Q1 2011 ^e	2009	2010 ^e	2011 ^e
Bahamas	-4.3	0.5	n.a	1.3	1.7	3.5 (June)
Barbados	-4.7	-0.5	2.8	4.3	5.1	8.0 (April)
Dominican Republic	3.5	7.8	n.a	5.8	6.2	9.3 (June)
ECCU	-6.8	-1.7	n.a	0.6	2.4	2.3
Guyana	3.3	3.6	n.a	3.7	4.5	6.1 (March)
Haiti	2.9	-5.1	n.a	-4.7	4.7	n.a
Jamaica	-3.0	-1.1	1.4	10.2	11.7	7.2 (June)
Trinidad and Tobago	-3.5	-0.6	-1.7	1.3	13.4	0.8 (June)
Suriname	3.1	4.4	n.a	1.3	10.3	22.7 (April)

Source: International Monetary Fund.

e – estimate.

Domestic Developments: Real GDP

Table II. Real GDP Growth
(Year-on-Year Per cent Change)

	2007	2008	2009	2010	2010				2011 ^p
					QI	QII	QIII	QIV	QI
Total	4.8	2.4	-3.5	-0.6	1.9	-1.2	1.1	-3.6	-1.7
Energy	1.7	-0.2	2.6	1.7	5.4	0.7	5.3	-4.1	-2.7
Non-Energy	7.6	4.2	-7.2	-2.3	-0.6	-2.6	-1.9	-3.3	-0.8
<i>Manufacturing</i>	16.3	2.5	-1.7	-0.5	-0.7	-1.0	1.6	3.8	3.4
<i>Construction</i>	7.1	4.5	-7.6	-5.8	0.4	-8.9	-9.0	-5.3	-6.8
<i>Distribution</i>	3.3	9.8	-21.2	-5.3	-1.2	-5.1	-6.5	-7.1	0.4

Source: Central Statistical Office; Central Bank of Trinidad and Tobago.

- **Preliminary data show a decline (1.7 per cent) in GDP** in the first quarter of 2011.
- Value added in the energy and non-energy sectors declined.
 - Energy sector declined by 2.7 per cent.
 - Non-energy sector declined by 0.8 per cent.

Table III. The Energy Sector

Production per period	2010				2011
	QI	QII	QIII	QIV	QI
Crude Oil ('000 barrels/day)	105.1	101.4	100.0	86.6	96.9
Natural Gas (mmcf/d)	4,401.0	4,304.7	4,370.7	4,200.7	4,307.0
Methanol ('000 tonnes)	1,599.4	1,337.9	1,579.9	1,415.0	1,525.0
Ammonia ('000 tonnes)	1,543.7	1,364.1	1,281.3	1,364.1	1,320.3
Prices					
Crude Oil (US\$/bbl)	78.6	77.8	76.1	85.1	94.0
Natural Gas (US\$/mmbtu)	5.1	4.3	4.3	3.8	4.2
Methanol (US\$/tonne)	327.7	316.7	330.0	378.9	433.7
Ammonia (US\$/tonne)	336.1	347.5	346.7	420.4	472.3
Memo:					
ECPI (Jan 2007 = 100)	115.7	110.3	109.6	124.1	140.9

Source: Ministry of Energy, Bloomberg, Central Bank of Trinidad and Tobago.

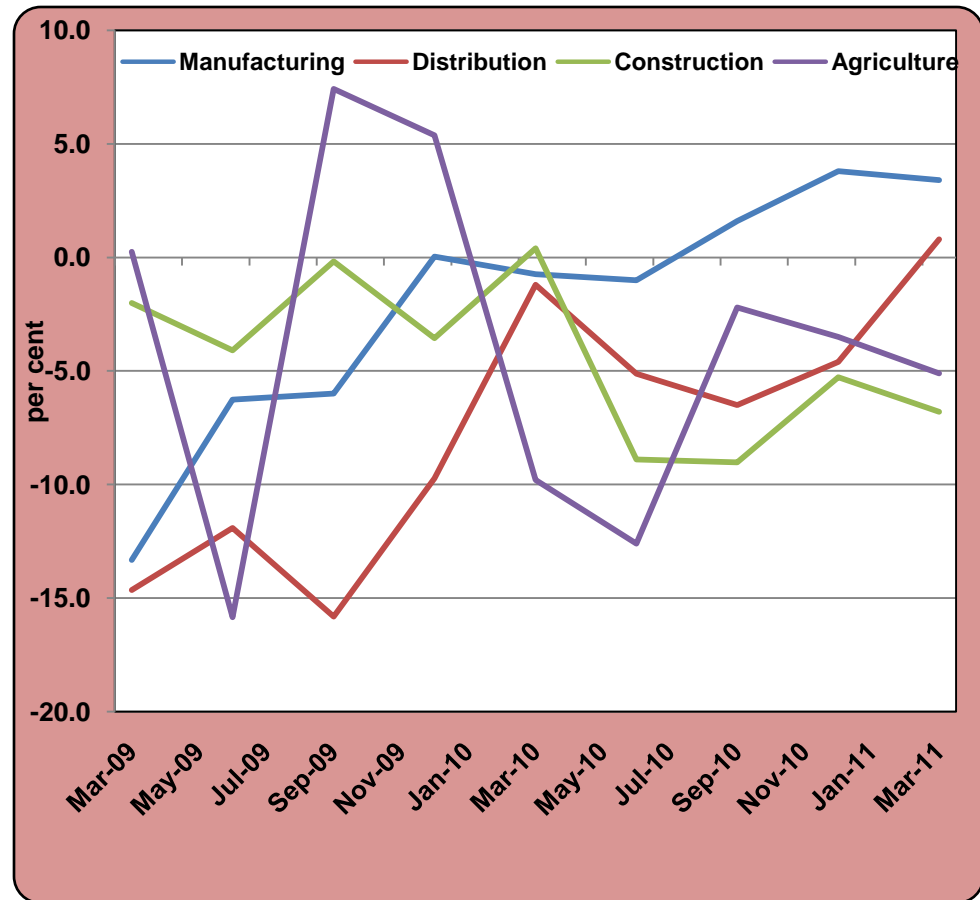
- Crude oil production fell and is now below 100,000 barrels per day.
- Decrease in energy production related to temporary shutdowns at BHP Billiton and BPTT for upgrade and maintenance work.
- Falling natural gas production also affected output of petrochemicals.
- Energy prices remained robust for the first half of 2011.

Non-Energy Sector

Chart II. Real GDP Growth – Selected Non-Energy Sectors
(Year-on-Year Per cent Change)

Performance of non-energy sector was mixed in the first quarter of 2011.

- Pick-up in retail sales after eight consecutive quarters of decline is contributing to improved activity in the distribution sector.
- Manufacturing output increased due to the introduction of melamine production from the MHTL AUM1 plant.
- However, capacity utilization in manufacturing remains below two-thirds.
- Construction activity remains subdued.
 - Retail sales of hardware and construction materials fell by 9.8 per cent (year-on-year) in March 2011.
 - Local sales of cement continues to decline (-18.2 per cent year-on-year to March).
 - Imports of construction materials are down.
 - Pace of government capital spending lower than budgeted.



Source: Central Bank of Trinidad and Tobago.

Table IV. The Labour Market

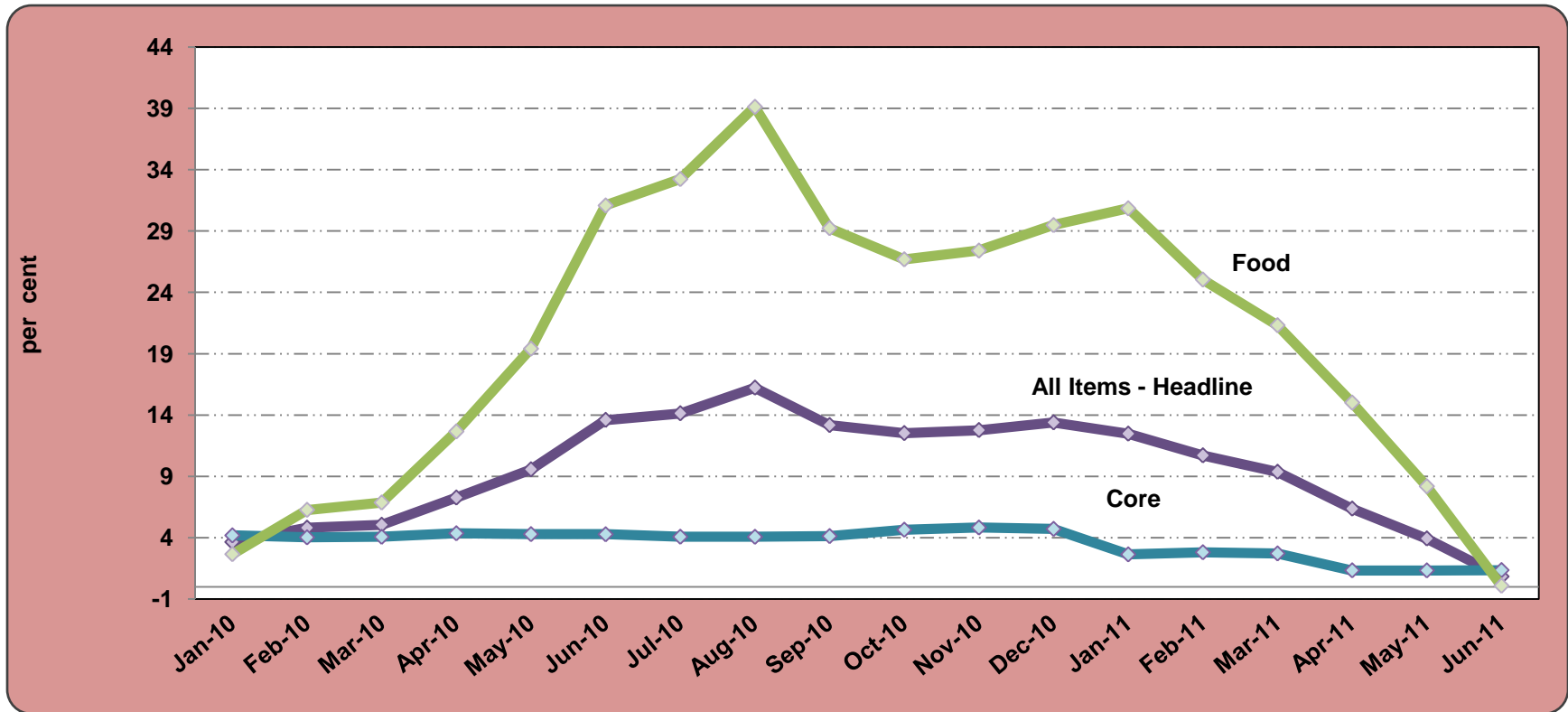
	QIV-08	QIV-09	2010				2011	
			QI	QII	QIII	QIV	QI	QII
Unemployment Rate (per cent)	3.9	5.1	6.7	4.8	6.0 ^e	n.a.	n.a.	n.a.
Workers Retrenched	n.a.	102	126	519	250	224	168	209
Index of Average Weekly Earnings (per cent)	0.5	9.0	10.0	9.6	17.6	5.3	3.5	n.a.

Source: Central Statistical Office; Ministry of Labour , Small and Micro Enterprise Development.

- Available statistics show that the unemployment rate measured 4.8 per cent in the second quarter of 2010.
- **377 workers were retrenched in the first half of 2011** compared to 645 workers in January-June 2010.

Inflation has decelerated markedly...

Chart III. Index of Retail Prices
(Year-on-Year Per cent Change)



Source: Central Statistical Office.

- Headline inflation dropped from 13.4 per cent (year-on-year) in December 2010 to **0.8 per cent in June 2011** - the lowest annual rate since October 1969.
- Food price inflation decelerated sharply to 0.1 per cent partly due to the 'base effect' and improved domestic supplies of fruits and vegetables.
- Core inflation decelerated from 4.7 per cent at the end of 2010 to 1.4 per cent in June 2011.

Fiscal Operations

- According to provisional estimates from the Ministry of Finance, **the central government accounts registered a surplus of \$1,227 million in the first nine months of the current fiscal year.**
- Revenue was 8.4 per cent higher than originally budgeted because of higher energy prices.
- Capital expenditure averaged \$350 million per month during the first six months of FY2011. Over the last two months, the pace of capital expenditure has accelerated to an average of \$1 billion per month.
- As at the end of March 2011, the debt-to-GDP ratio was 35.7 per cent which is quite comfortable.
- However, if an additional sum of \$8-\$10 billion is borrowed in 2011 to cover CLICO and other commitments, then the public debt-to-GDP ratio could rise to over 50 per cent.

Table V. Public Sector Debt

	September 2008	September 2009	September 2010	March 2011
	In TT\$ Millions			
Total Public Debt	60,413	65,980	70,473	71,338
Central Government Domestic Debt	33,800	35,010	39,183	38,205
Bonds/Notes	12,620	13,883	18,239	18,112
OMO'S	14,200	14,200	14,200	13,393
Treasury Notes	5,000	5,000	5,000	5,000
Debt Management Bills	800	800	800	800
Bolts & Leases	723	671	612	570
Other	457	456	332	330
External Debt	9,290	9,729	8,729	9,316
Contingent Debt	17,324	21,240	22,561	23,817
	In Per cent of GDP			
Total Public Debt	37.2	48.6	52.2	48.8
Total Public Debt (excluding OMOs)	24.9	33.9	37.4	35.7
Central Government Domestic Debt (excluding OMOs)	8.5	11.1	14.2	13.0
Central Government External Debt	5.7	7.2	6.5	6.4
Contingent Liabilities	10.7	15.6	16.7	16.3
Memo:				
Nominal GDP FY (TT\$Millions)	162,442	135,822	134,939	146,102

Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

Monetary policy has been accommodative...

Table VI: Selected Monetary Indicators

	2010				2011		
	Mar	Jun	Sep	Dec	Mar	Apr	Jun
Interest Rates	Per cent per annum						
Repo Rate	5.00	5.00	4.25	3.75	3.25	3.25	3.25
Prime Lending Rate	9.50	9.50	9.00	8.88	8.25	8.00	8.00
3-Month Treasury Bill Rate	1.28	1.00	0.34	0.38	0.40	0.47	1.00
Credit to the Private Sector	Year-on-Year Percentage Change						
Total Credit	-2.4	-5.7	-2.0	-2.2	-1.4	-0.8	n.a.
Consumer	-2.7	-0.5	-0.5	4.1	5.1	6.7	n.a.
Business	-4.9	-9.0	-5.1	-6.2	-5.3	-5.9	n.a.
Real Estate Mortgage	7.5	5.6	7.4	9.0	8.2	8.8	n.a.

Source: Central Bank of Trinidad and Tobago.

- The Bank lowered the repo rate to a historic low of 3 per cent in July 2011. Commercial banks also reduced their loan rates.
- There appears to be a nascent revival in consumer credit.
- Mortgages loan activity has been buoyant.
- However, business demand for credit is still quite weak.

The stock market has performed well...

Table VII: Stock Market Performance

	2010				2011	
	Q1	QII	QIII	QIV	QI	QII
Composite Price Index	817.7	827.2	821.7	835.6	872.7	950.1
<i>(Year-on-Year Percentage Change)</i>	-0.5	6.1	4.3	9.2	6.6	14.9
Market Capitalization (TT\$ Millions)	75,433.8	76,309.0	76,091.1	77,780.9	81,171.2	88,430.3

Source: Central Bank of Trinidad and Tobago.

- Boosted by reports of strong company earnings, prices indices on the stock market climbed in the first half of 2011.
- Stock prices of financial institutions in particular performed very well.
- Trading volumes, however, were lower than in the corresponding period of 2010.

Table VIII. Balance of Payments

/US\$ Millions/

	2006	2007	2008	2009	2010 ^p
Current Account Balance	7,271	5,364	8,518	1,614	3,842
Trade Balance	7,700	5,721	9,064	2,202	4,701
Exports	14,217	13,391	18,686	9,175	11,204
Energy	12,955	11,650	16,482	7,839	9,280
Non-energy	1,262	1,741	2,204	1,336	1,924
Imports	6,517	7,370	9,622	6,973	6,504
Energy	2,282	2,569	4,130	2,843	2,664
Non-energy	4,235	5,101	5,492	4,130	3,839
Services (Net)	451	546	609	382	436
Income (Net)	-936	-964	-1,202	-997	-1,349
Current Transfers (Net)	56	61	47	27	54
Capital and Financial Account	-6,152	-3,823	-5,813	-2,327	-3,424
Overall Balance	1,119	1,541	2,705	-713	418
Memorandum Items:					
Exports (<i>per cent change</i>)	47.0	-5.8	39.5	-50.1	22.1
Imports (<i>percent change</i>)	13.8	13.1	30.6	-27.5	-6.7
Current Account Balance/GDP (%)	37.4	24.6	32.6	8.2	18.8
Overall Balance/GDP (%)	6.1	7.3	10.4	-3.6	2.0

Source: Central Bank of Trinidad and Tobago.

p- provisional

- **The external current account balance strengthened in 2010** based on a decline in imports and an increase in the value of exports in line with higher prices for energy commodities.
- The overall balance on the external accounts returned to surplus (US\$418 million) in 2010.

Conditions in the foreign exchange market are stable...

Table IX: The Foreign Exchange Market

	2008	2009	2010	Jan-Jun-10	Jan-Jun-11
	US\$ Millions				
Purchases	5,785.2	3,808.2	4,043.3	2,032.6	2,411.5
Sales	6,466.3	5,637.2	5,536.0	2,725.7	3,154.3
Central Bank Sales to Authorized Dealers	822.8	1,899.1	1,550.0	640.0	795.0
Memo Item: Gross Official Reserves	9,380.3	8,651.6	9,070.0	9,110.9	9,737.7

Source: Central Bank of Trinidad and Tobago.

- The Central Bank stepped up its foreign exchange sales in the first half of 2011.
- The level of international reserves has remained strong, equivalent to over a year of imports.

Short-term Economic Outlook

Despite the weak economic performance in the first quarter, real GDP is expected to grow by around 1.2 per cent in 2011 on the basis of:

- A pick-up in energy sector output as natural gas production returns to normal levels with the completion of major upgrades to natural gas facilities. The Energy Sector Survey also points to a positive outlook for the remainder of 2011.
- Increased demand for manufacturing exports as tourism activity in the region improves.
- An increase in the pace of public sector construction activity in the second half of the calendar year (2011).
- The growth in retail sales and the steady rise in bank credit to consumers seem to confirm that consumer confidence may be returning.
- Increased agricultural production due to the positive impact of the farmers' incentive programme on acreage under cultivation.

Downside Risks

But there are downside risks to this growth projection....

- The fragile industrial relations climate could contribute to work stoppages and possible retrenchment, putting a halt to any resurgence in economic activity.
- Being able to sustain the implementation of the public sector investment programme.
- The current fragility of business confidence which would not be helped by the increased global uncertainty.

Medium-Term Prospects

- **Improving the growth momentum over the medium-term would depend on:**
 - Increasing crude oil production through enhanced oil recovery measures;
 - Introducing systems and measures to reduce bureaucracy, promote business facilitation and increase productivity;
 - Defining a clear diversification strategy that identifies new growth poles;
 - Measures to increase competitiveness of the local energy sector in light of the impending impact of shale gas and the expansion of natural gas supplies;
 - The formation of a tripartite committee to address weaknesses in the investment climate and other economic challenges.
- While seeking to accelerate and sustain capital spending to provide an economic stimulus against the backdrop of three years of fiscal deficits, the **Government should carefully prioritize spending as part of a wider fiscal consolidation strategy in order to contain public debt and provide fiscal space for sustained infrastructural investment.**

End of Presentation