



CENTRAL BANK OF
TRINIDAD & TOBAGO

Trends in the Global Economy

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Trinidad & Tobago's size and global links has its pluses and minuses

- **At 1.3 million, the population size is tiny**
- **T&T is a very open economy—exports/GDP averages 64% over the last five years**
- **Concentration on energy—88% of export values and 45% of government revenue—creates vulnerability**
- **An open capital account means that external financial turbulence can be quickly transmitted locally**

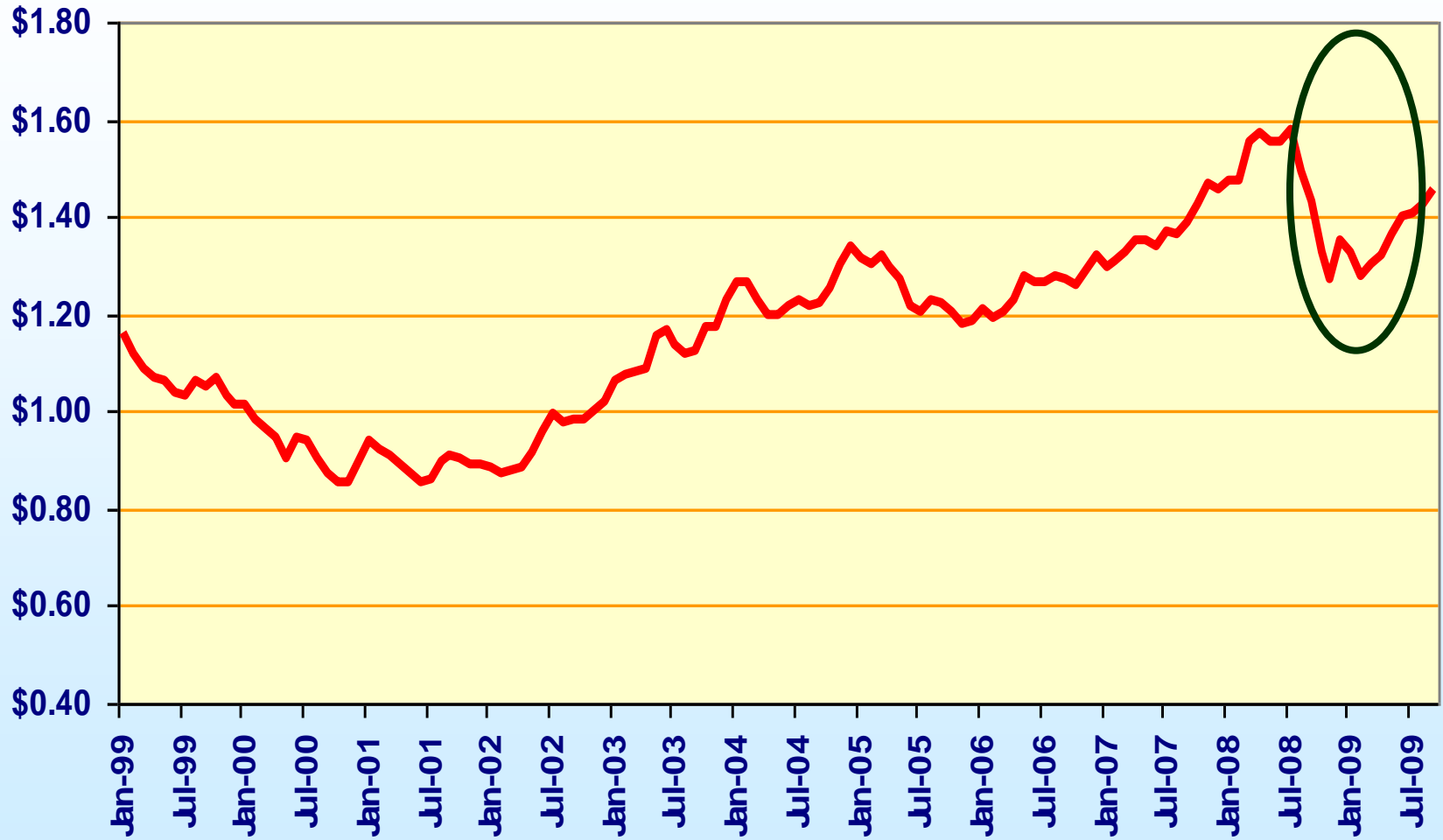
Is enough attention being paid locally to global economic developments?

- **There is ongoing scrutiny of international oil, natural gas and petrochemical markets**
- **But other developments are not as well integrated into discussions on the domestic economy**
- **Let's focus on 5 propositions highlighted by the current global economic downturn and their meaning for T&T....**

Proposition 1: The central role of the United States' dollar in the world may be slipping...

- **Fluctuations in the value of the greenback have weakened confidence in its long term prospects**
- **However, many still consider the dollar a “safe haven” due to the historical resilience of the US economy**
- **China and other countries with huge reserves in US dollars are considering greater diversification**
- **The financial crisis has reinforced concerns about the trajectory of US public debt**
- **We may see larger role for the euro, renminbi and SDR**

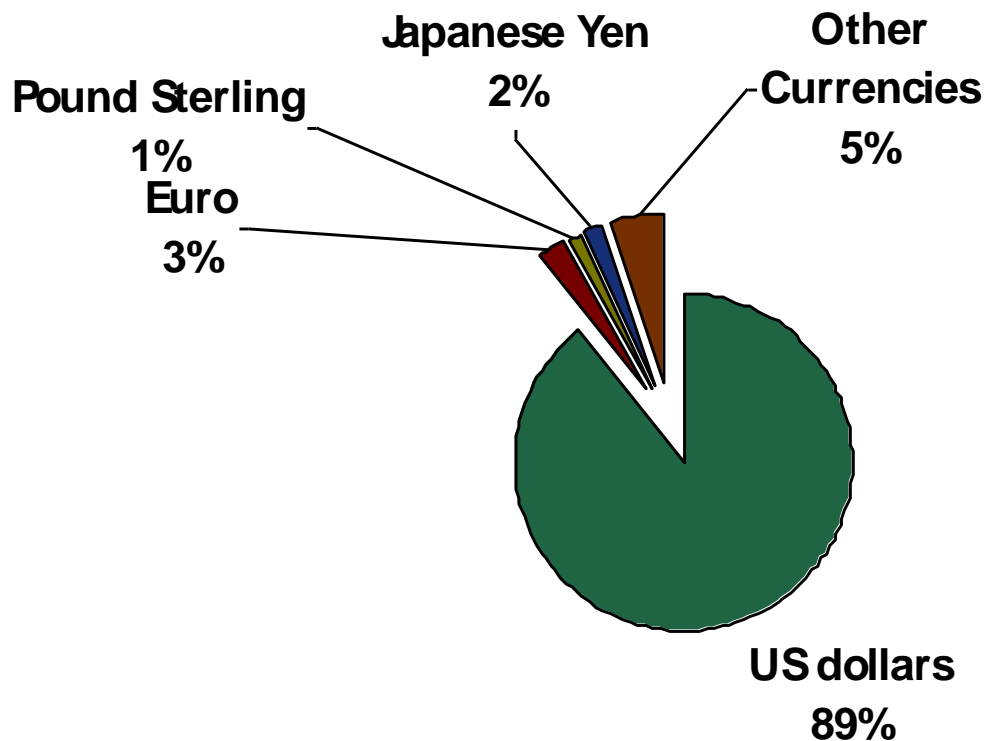
Exchange rates: United States dollars per euro



1a. ...relevance for Trinidad and Tobago

- **More than 88% of TT's commodity exports—oil, natural gas, petrochemicals—are denominated in \$US**
- **89 percent of TT's international reserves is currently invested in US\$ assets**
- **On the subject of reserves, TT received SDR 275 million (equivalent to US\$434 million) in Aug/Sept 2009 as part of the IMF arrangement to boost global liquidity**

Trinidad and Tobago: Currency composition of international reserves (September 2009)



Proposition 2: Global coordination will assure financial stability

- **International financial problems moved swiftly from one jurisdiction to another**
- **Some banks and insurance companies choose locations where taxes are lower but also financial supervision weaker (regulatory arbitrage)**
- **The G-20 adopted a coordinated approach to financial oversight and regulation (Financial Stability Board)**
- **Plans underway to upgrade legislation, accounting standards, conduct peer reviews and stress tests**

2a....relevance for Trinidad and Tobago

- **Conservative practices helped to insulate TT's banks from the brunt of the international financial crisis**
- **Problems in a large financial conglomerate necessitated Central Bank intervention, government support**
- **Legislation, supervision being strengthened for banks, insurance companies, credit unions, pension plans; more transparency (Financial Stability Report)**
- **Greater attention to conformity to international standards and coordination with other jurisdictions**

Proposition 3: The global economic recovery will be a shallow “U” shape

- **Global activity could contract by as much as 1.4% in 2009 and perhaps expand by 2.5% in 2010**
- **But with credit markets still weak, the possibility of a double-dip recession cannot be ruled out**
- **Much will depend on the timing of scaling down of the significant stimulus packages that have kept economic activity afloat**

3a....relevance for Trinidad and Tobago

- **Our export markets will remain subdued for some time**
- **Particularly hard hit is the Caricom market which absorbs about 1/5 of TT's exports**
- **Several Caribbean countries have launched into stabilization programs supported by the IMF**
- **TT may be called upon to provide some sort of support to help fill balance of payments gaps**

IMF and the Caribbean: Ongoing IMF Arrangements and new assistance in 2008 & 2009
(US\$Million)

Country	Date of Arrangement	Amount	Purpose
Belize	February 20,2009	\$6.9	Natural Disaster Assistance for storm damage and flooding
Dominica	February 06,2009	\$8.4	Natural Disaster Assistance for damage caused by Hurricane Dean. ESF ¹ increased by \$5.1 million in July 2009.
Grenada	April 17,2006	\$25.4	PRGF ² increased by \$6.8 million in June 2009 to cope with global economic slowdown
Haiti	November 20,2006	\$177.4	PRGF ² increased by \$24.4 million and \$36.6 million in June 2008 and February 2009 respectively to cope with hurricane damage and global economic slowdown
St. Kitts & Nevis	May 19,2009	\$3.4	Natural Disaster Assistance for damage caused by Hurricane Omar
St. Lucia	July 27,2009	\$10.7	To mitigate the effects of the global economic slowdown
St. Vincent & the Grenadines	May 31,2009	\$5.7	To mitigate the effects of the global economic slowdown

¹ The Exogenous Shock Facility provides financial assistance to low-income countries facing exogenous shocks.

² The Poverty Reduction and Growth Facility (PRGF) is a 3-year arrangement for lower income countries.

Proposition 4: Protectionist pressures could further delay global trade reform

- **Global trade volumes will be about 10% lower in 2009 than in 2008 due to declines in demand and drying up of trade finance**
- **The Doha Round, started since 2001 and the first-best option for liberalizing international trade, has stalled**
- **Protectionist lobbies have intensified and governments could turn to trade-distorting policies as their margin for maneuver in fiscal and monetary policy narrows**

- Proliferation of bilateral trade deals, including a fuller “noodle bowl” in Asia



4a....relevance for Trinidad & Tobago

- Apart from lower demand, we could be facing more and higher entry barriers—in various guises—for our exports**
- We need to resist the temptation to erect our own trade barriers and instead work on improving competitiveness**
- As we complete bilateral trade deals already in train, we should focus on reducing trade diversion and streamlining use of our limited negotiating resources**
- We should use our leadership position in Caricom to actively push for a conclusion of global trade talks**

Proposition 5: “Jobless growth” is likely to accompany the global recovery

- **US unemployment at 9.7 %; Europe closing in on post-war high of over 10%; increase in unemployment in developing countries so far not as rapid**
- **Firms cutting back on hours, wages and benefits to trim labor costs**
- **Migrant labor hard hit: remittances expected to fall by 5-7% in 2009 and new curbs on hiring immigrants**
- **Because of substantial slack in many economies (inventories, unused capacity etc.) a pickup in growth will not immediately lead to new job creation**

5a....relevance for Trinidad & Tobago

- **The measured unemployment rate in TT has risen from -3.9% (Dec '08) to 5% (March '09)**
- **Prospects for labor absorption depend on how external and domestic demand pick up—including the fiscal stimulus underway**
- **With the economy still doing relatively better than others there could be greater immigrant workers attracted—from the Caribbean, Latin America, and even Asia**
- **The time is opportune for a closer social compact involving labor, business and the government.**

Conclusion: Responding to global trends

- **TT has some breathing room in the current global downturn due to strong buffers—high reserves, relatively low external debt and some fiscal space**
- **But small size and dependence on a few export products means that there is no room for complacency**
- **Aside from commodities, many important evolving global issues including on exchange rates, financial regulation, and the prospects for growth, trade and jobs**
- **It is the challenge of the economic analysts to highlight and interpret these and related international issues to inform national debate and policy.**