



Bump en Route to Vision 2020?

Trinidad and Tobago has experienced immense economic development in recent years by being an attractive investment location for international businesses, especially given the country's natural resource endowment, helped by soaring gas and oil prices. The Government of Trinidad and Tobago has outlined a plan called Vision 2020 which envisages the country reaching developed country status by the year 2020. There are five development pillars in the plan, which are: developing innovative people; nurturing a caring society, governing efficiently; enabling competitive businesses and investing in sound infrastructure and the environment. To achieve this developed country status goal, there are many requirements which have to be met, among which are a strong social system, diversity of export products, better infrastructure and a strong financial sector. The financial system is expected to play a pivotal role in achieving the goal of developed country status; as such great emphasis must be placed on this sector.

In general, Trinidad and Tobago enjoys a solid business environment supported by a well-educated labour force, good transport and communications links, an overall solid financial system and a natural resource that is highly demanded globally. Also, with the close proximity to the United States, Trinidad's largest commercial and financial partner, there is an advantage for local exporters. The direct impact from the current global financial crisis has been limited thus far, reflecting a liquid and well-capitalized banking sector with little reliance on foreign borrowing. Resilience also arises from large international reserves and a good debt profile. Notwithstanding these strengths, Trinidad and Tobago still has its fair share of weaknesses. Corruption is an endemic problem across the country and region, crime (notably kidnappings and murders) threatens to undermine investor confidence as well as the stability of the business environment. The availability of investment information and opportunities for investors through the different products offered from domestic institutions and the excessive overspending across the board reducing the savings of the government, individuals and corporations.

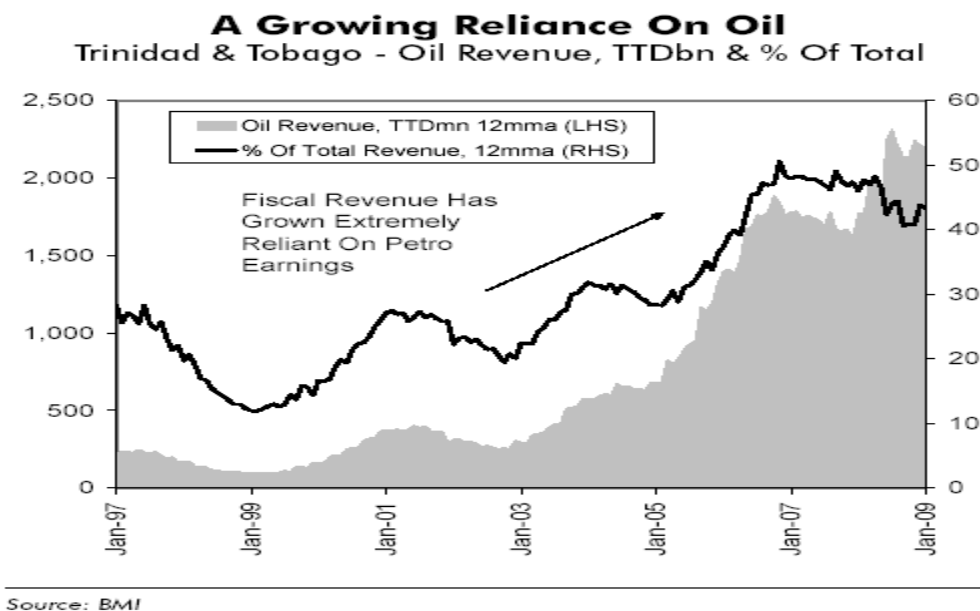
An additional problem is the social development system (or lack thereof) dealing with the homeless, child services and the disparity between the Upper Class and Upper Middle Classes and the Middle and Lower Classes. Lack of confidence in the security forces and leaders of the country to deal with the problem has been a constant problem especially amid allegations of pervasive mismanagement of public funds.

Trinidad and Tobago has become a consumer driven society, spending at a phenomenal rate, (evidenced by the exceptional increases in domestic demand indicators), as opposed to exploring saving and investment opportunities. Many people live paycheck to paycheck; heavily dependent on credit cards to get them through emergencies, and hoping to maintain their lifestyle until another influx of cash. The average Trinidadian is not well versed in investments prospects and normally the approach to investing is extremely conservative. An investment package for many investors is a conventional

savings account but the possibility of investing in other products which may carry more risk, but may offer better returns are simply disregarded, in most cases, because of a lack of knowledge.

Trinidad and Tobago is in need of a stronger and more active stock market where there is consistent and constant trading and information on all companies on the exchange for investors to make more informed investment decisions. The stock market is arguably a fundamental part of a strong and vibrant financial system where the information about investments, the companies on the exchange, strategies and opportunities available for growth are integral for a country's financial development. In Trinidad and Tobago, many companies on the stock exchange provide excellent returns and have strong business practices but their stocks are not actively traded on the market which hampers the growth of the exchange. Without a strong and viable stock exchange the financial sector would not grow as fast, foreign investment in local companies would not be as extensive and Trinidad and Tobago would not be as dominant a force.

Trinidad and Tobago has established itself as the Caribbean's main industrial and financial center. However, falling energy prices require further policy adjustments to contain the slowing in the economy that has followed years of expansion. Attaining developed-country status by 2020 relies on using the gradually declining energy revenues to support downstream activities and a diversified non-energy sector through subsidies and public investment in infrastructure, education, and social programs. Moving away from dependence on oil and becoming a more diversified economy will accelerate the movement towards the government's vision.



The expansion that has been associated with the fiscal stimulus has fueled excess liquidity and inflation in Trinidad and Tobago. With inflation, which erodes real disposable incomes, remaining relatively high and slowing credit growth in 2009, private consumption is forecasted to slow sharply. Falling investment and sharply weakening consumption will prompt real imports to contract. With both public and private investment spending forecasted to fall in 2009, slower economic growth and credit expansion should help to contain domestic demand pressures, leading to a further easing of consumer prices. As international food prices decline, theoretically domestic food price pressures should decline as well. However, food prices are still extremely high but expectations are for inflation to ease slightly throughout 2009. After peaking at 15.3% in

October 2008, consumer price inflation fell to 10.3% in May 2009.

Government spending is an integral part of achieving developed country status by providing sound infrastructure, facilitating financial centers, expanding the public sector, upgrading schools and providing a superior health care system. The Government of Trinidad and Tobago equipped with massive earnings from the energy sector was able to considerably expand fiscal spending, with expenditure growth averaging 21.5% per annum over the past five years. Projects which include construction, infrastructure and transportation, have helped with the development in society but there are many non performing ventures that have to be monitored so that the unproductive projects could be phased out and some even curtailed in these economic times. Though during the fourth quarter of 2008 and first quarter of 2009 there has been some reduction in spending, further fiscal restraint must be shown because predictions for energy prices in 2009 suggests the energy boom which Trinidad and Tobago has enjoyed in recent years will not continue.

Vision 2020 might be a realistic and attainable aspiration; however this bump in the road which we have hit has allowed us to visualize the problems that may prohibit the dream from becoming a reality. To reach this goal the financial investment in the society has to be substantial to develop a diversified, knowledge-based economy before energy resources are depleted. We are currently seeing the effects of over dependence on the energy sector, which can stifle the country's full potential. At the same time, excessive spending on unproductive projects results in risks to macroeconomic stability and future competitiveness in the global markets and has to be tempered. The proactive changes and steps needed for us to get back on course have to be shown not only by the government but also by institutions and individuals as well. The actions that are taken now will determine whether what we are currently experiencing turns out to be just a bump or whether it becomes a roadblock.

FINANCIAL & ECONOMIC INDICATORS

As at 23 July, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	94.92	93.93
Euro	1.41	1.41
Jamaica	88.79	89.13
Guyana	204.70	204.90

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	67.16	62.02
Natural Gas (US\$/mmbtu)	3.66	3.21
Gold (US\$/Troy Ounce)	949.15	937.34

Eurobond Indices (As at 23-July-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	2.94
JP Morgan EMBI+ (Basis points)	387
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	21.77

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.15	0.15
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	8.75	9.25
Trinidad	7.50	7.50
Jamaica	17.00	17.00
Barbados	3.00	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.18	0.17
US 10-Yr Treasury	3.66	3.57
3-month UK Libor	0.93	0.97
Japan 90-day T-Bill	0.33	0.33
Brazil 90-day T-Bill	8.60	9.07
TT 90-day T-Bill	2.51	2.55
Jamaica 90-day T-Bill	19.58	19.58
Barbados 90-day T-Bill	3.83	3.83

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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