



Confronting a New Economic Paradigm

The US and European markets are major recipients of Trinidad and Tobago exports. In the future, however, these developed markets will have to confront the devastating realities of their severe debt burden. The policy initiatives required to curb the debt burden will inevitably impact Trinidad and Tobago's economy; to guard against slowing growth in developed market our Government and Citizens ought to instill precautionary measures and imbibe a psychology of self-reliance, entrepreneurship and stability. The policies of these "free market societies" should be questioned and defects understood so our growing paradise does not face the same predicament.

Presently, the US debt to GDP ratio stands at 94% and in the next three years the US will demand an additional USD 7 million to fund their deficit and repay maturing debt. The UK's borrowings will surmount to 94% of its GDP by 2011. Servicing and repaying debt are not without their challenges, and include low interest rates, weak US and UK internal demand and heightened cautiousness by international lenders aware of the sovereign debt problem. These developed economies will be forced to cut spending and to increase interest rates to attract borrowers, resulting in slower growth rates.

The major option for the US in resolving these debt burdens would be to reduce fiscal spending. Over the last few decades, inordinate consumerism as well as extensive military commitments has near crippled the US economy. Though the solutions to these economic problems would appear simple, in the form of cutbacks or savings, other countries are skeptical of the ability of the US to accomplish this. Considered developed markets, Greece, Portugal, Spain and the UK are facing similar problems. In fact, so piercing are these problems, that countries such as Greece has been downgraded to what is often referred to as 'junk status', meaning that their credit quality is now lower than that of established or developed markets.

Trinidad and Tobago now exports 60% of its goods to the US and European Union.

With the problems facing the US and European Countries, Trinidad and Tobago's projected deficit for the next fiscal year (CMMB forecasts a deficit of 5.3% of GDP) will be an unfortunate reality to be sustained, if not magnified in the medium term (2-5 years).

Our economic response, as responsible citizens with a responsible Government, would be to understand these challenges and take or impose precautionary measures to alleviate the impact on us, our future and our children. A situation which would require individuals to:

1. Support the Government on policies to promote local development, self sufficiency, income equality and cutbacks on spending on non-necessities.

2. Imposing a savings psychology upon ourselves and our children, developing our entrepreneurial skills and sharing.

Though these measures may be unacceptable to many, in particular spending cutbacks, it must be reiterated or in fact reinforced that stability is the guiding objective. Trinbagonians must imbibe a long-talked about Singapore psychology of frugality, local skills development and ownership, savings and planning. For our Government, fiscal and economic discipline and people development should and would have to be the new order of the day.

Many may remember the days of the National Alliance of Reconstruction's (NAR) policies and the ubiquitous absence of apples on the market streets. These were in fact manifestations of policies imposed by the then Government to curb spending, particularly imports, for the sake of maintaining long-term stability and sound growth for Trinidad and Tobago. Could one less apple save the day? In fact, it was an entire crate of frozen social program spending, suspension of wage increases and a determined initiative to stimulate self sufficient and autonomous local industries whilst judiciously monitoring foreign direct investment.

Was this plan successful? Partially; the Government at the time was unable to generate sufficient momentum from citizens for these policies; however they were successful at rebuilding our Treasury; the NAR entered into Government in 1986 faced with a fiscal deficit of 8.00% of GDP and exited Government in 1991 with a miniscule deficit of -0.2%.

Learnings from the past

All our previous Governments have in various and unique ways adopted growth and stability initiatives; some more successful/sustainable than others. Another point of interest, regarding an alternative approach was to secure short-term growth and re-election. In retrospect, their intentions can be perceived as being thwarted and even selfish; for problems with the US and other countries were compounding themselves while our idle and non-reactive economic response was doing silent and insidious damage.

To summarize, with a psychology of Government and individual responsibility, the challenges that lie ahead, some internal (localized), others imposed (from the economic contraction of larger economies), we, the citizens have to inculcate more strenuous and durable expansion patterns. Beautiful words, that could only have meaning if:

1. Growth is sustained at 5-6%
2. Debt is maintained below 40%
3. Human Development Index ranking of "very high" or above .90 (2007: 0.837 considered "highly developing").

Eating one less apple a day and having to see the doctor ever so often! Reducing the wage of the wholesaler of one less apple a day whilst increasing your incremental pocket savings of an equivalent of one apple a day! The benefits and disadvantages of economic growth policy (to all parties involved) in Trinidad and Tobago are deeply intertwined; inseparable and will require compromise and sacrifice from the apple importer, the apple retailer and the apple consumer. (Of course, this is all metaphorical, so this writer encourages you to eat your fruits daily, if not apples, then guavas, anars or portugals from your backyard). No absurdity exists, but an economic simplicity that is presently forging the force of emerging markets such as Brazil and already forged in developed markets such as Switzerland and Singapore

(established).

These countries, models for developments (in certain respects), are presently demonstrating a socioeconomic paradigm of reduction in excesses, localized development, investment and confidence, being more autonomous and establishing immunity to external shocks and finally encouraging a deeper emphasis by an individual to analyze and project the consequences of his/her action/inaction on the economy of our country. A collective sacrifice (at this juncture) is the only viable, functional and propitious option for STABLE development.

FINANCIAL & ECONOMIC INDICATORS

As at 8 July, 2010

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	88.36	87.60
Euro	1.27	1.25
Jamaica	85.55	86.20
Guyana	204.20	204.40

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	75.44	72.95
Natural Gas (US\$/mmbtu)	4.61	4.54
Gold (US\$/Troy Ounce)	1,198.10	1,198.95

Eurobond Indices (As at 02-July-10)

JP Morgan EMBI+ (Basis points)	<u>321</u>
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	N/A

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.25	0.25
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	10.16	10.16
Trinidad	5.00	5.00
Jamaica	9.00	9.00
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.15	0.17
US 10-Yr Treasury	3.03	2.95
3-month UK Libor	0.73	0.73
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	10.90	10.80
TT 90-day T-Bill	1.00	1.00
Jamaica 90-day T-Bill	8.52	8.52
Barbados 90-day T-Bill	3.26	3.23

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

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