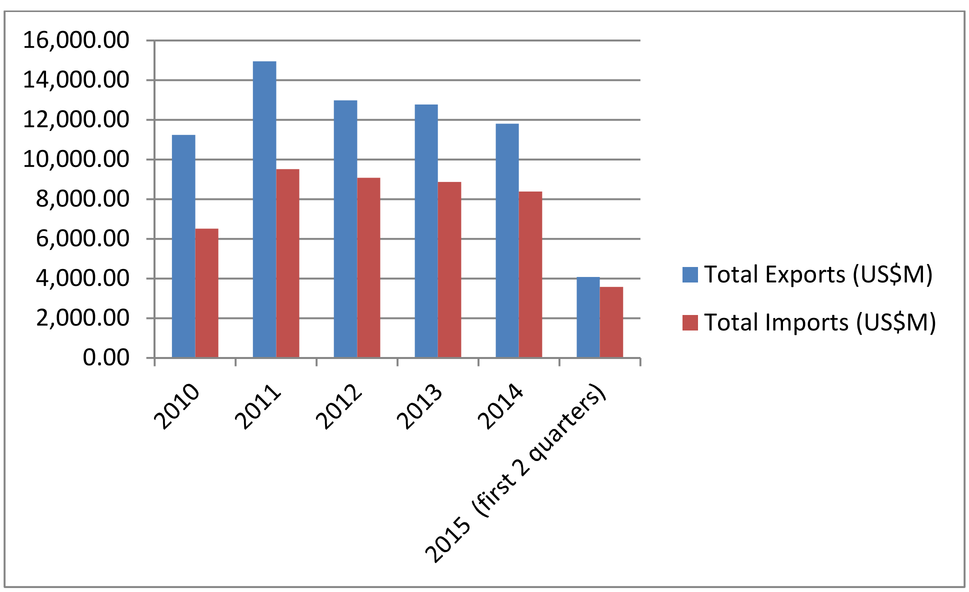
An Overview of the Current Crisis

In Trinidad and Tobago, we do not produce many of the things we consume. One notable example is our food which is mostly imported and costs us TT $5.8 billion in imports in 2014. Many other items are also imported including manufactured goods like cell phones, cars etc., capital equipment, medicines etc. In 2014, T&T spent TT $72 billion in imports. We can afford these imports since we usually earn significant amounts of US dollars mainly by exporting petroleum products. As Figure 1 shows, T&T inflow of foreign exchange (exports) is usually larger than our outflows (imports). However, these conditions have changed. A collapse in the prices of petroleum products has significantly reduced our inflow of foreign exchange. As

Table 1 shows, this collapse began in the last quarter of 2014 and has continued since. This collapse has led to decreases in exports, reserves, government revenue and real GDP. Petroleum prices are forecasted to remain relatively low in the foreseeable future thereby extending our woes.

Figure 1: T&T Exports and Imports



Source: The Central Bank of T&T

Table 1: Select Economic Data

Date	WTI Crude Oil Price (US$/bbl)	Henry Hub Natural Gas Price (US$/mmbtu)	Total Exports (US$Mn)	Net Official Reserves - US$ Millions	Central Government Total Revenue (TT$Mn)	Real GDP Growth (year-on-year)
Sep 2014	97.6	3.9	3,709.00	10,119.30	16,813.50	2.1%
Dec 2014	73.1	3.8	2,723.60	11,316.60	12,752.80	0.2%
Mar 2015	48.5	2.9	2,172.50	10,851.20	12,299.10	-1.5%
Jun 2015	57.9	2.7	1,894.40	10,592.00	14,056.30	-2.2%
Sep 2015	46.4	2.7	n/a	10,312.30	n/a	-2%
Dec 2015	45.7	2.4	n/a	9,788.00	n/a	n/a

Source: The Central Bank of T&T

Finding a Solution

Given the current state of global petroleum markets TTCSI understands the need for some adjustments to be made in the living patterns of the citizens of T&T. We simply cannot afford the level of importation that obtained in the past without significantly increasing our level of debt or drawing down our savings in the short term both of which would inevitably quickly lead us to the doorsteps of the IMF which the government is rightly trying to avoid. Consequently, we understand the rationale behind the measures in the mid-term budget of the government. The measures are either aimed at reducing the demand for scarce foreign exchange, increasing government revenue or increasing the inflow of foreign exchange all of which would also seek to prevent a collapse in the exchange rate. Some of those measures are summarized below:

1. 7% levy on online shopping from foreign companies above a certain threshold to be implemented in September 2016
2. 15% increase in super gasoline and diesel fuel
3. New fuel pricing regime in 2016 to allow prices to fluctuate based on international oil and gas prices
4. Changes in GATE Programme by September (alignment to development needs and implementation of means testing)
5. Reduced expenditure on CEPEP from 2017
6. Commitment to maintain the exchange rate below TT $6.83 to US $1 in the short to medium term
7. Improve tax administration to improve collections
8. Implementation of major road repair and upgrade/construction projects
9. Clico creditors and policyholders to be paid in full this year
10. 50% of back-pay to be paid to public officers by end of June. The remaining 50% to be paid in bonds in 2016 or in two cash instalments in 2017.
11. A diversification strategy around international financial services, tourism and related maritime activities

While these measures should reduce the outflows of foreign exchange, they also have the potential to reduce aggregate demand in the economy thereby restricting the growth of local businesses. Given the already depressed state of the energy sector, stagnation in the non-energy sector could result in reduced profits thereby further reducing government revenue. The unintended curtailing of business activity in the non-energy sector could also result in decreases in exports thereby limiting if not reversing the gains made by measures aimed at reducing demand for foreign exchange. If inflows of foreign exchange fall faster than the demand for foreign exchange, the country may still eventually end up at the doorsteps of the IMF.

We are sure that the government has recognized these risks and have sought to prevent this scenario by measures 8 to 11 above. However, little detail was provided in the minister's presentation. We look forward to the rest of the debate where we hope more details will be provided. Particularly useful in this regard are the announcements of major road repair/upgrade works and the long overdue pursuit of diversification. However, these initiatives must be aggressively pursued and corruption must be eliminated if they are to bear fruit. Additionally, these measures may not be sufficient to increase business confidence and exports by the non-energy sector. While the diversification initiative highlights key non-energy service sectors, TTCSI believes that more can be done to increase exports from the many subsectors that constitute the non-energy services sector. It should be noted that the non-energy services sector already contributes substantially to employment (83% in 2015) and Gross Domestic Product (GDP) (52% in 2014). However, the sector lags behind in terms of export earnings (4% in 2011). Consequently, we believe the services sector is best positioned for rapid export growth if the right environment is created. Some of the measures we believe can create the environment for the expansion of service exports include:

- Amending the current regulatory environment to efficiently facilitate e-commerce. This is a relatively easy and cheap initiative that can have a profound impact on foreign exchange inflows
- Developing a minimum framework for local content to ensure local construction firms gain experience and knowledge on various types of construction projects
- Developing an immigration policy that facilitates genuine visiting students
- Permit the free movement of yachts between bays in Trinidad and Tobago which is permitted in other Caribbean countries with thriving yachting sectors
- Support the development of international standards for private hospitals

We believe these measures along with others can result in significant foreign exchange generation by the non-energy services sector in the short to medium term without major hassle and unintended consequences.