ILO NOTES

International Labour Organization

# FACING THE CRISIS IN EUROPE: REFLECTIONS ON THE CASE OF TRINIDAD AND TOBAGO

## I. CRISIS IN EUROPE AND ITS EFFECTS ON TRINIDAD AND TOBAGO

A major setback to the global economic recovery has been the destabilizing effect that the persistent fiscal and debt problems of Europe have posed, despite a series of policy measures which have been adopted. In the United States, after a few years of uncertainty, there has been some recovery as seen in the encouraging housing and labour indicators in 2012 and early 2013, but downside risks remain, primarily due to the uncertainties associated with fiscal adjustments. As a result of these developments, while some economies in the Latin America and Caribbean region have shown positive growth, the rates of growth has been uneven, uncertain and below pre-crisis levels. The Trinidad and Tobago economy has been indirectly affected by developments associated with the 2012 European crisis, and directly by developments in the United States.

In the case of the former, this has been occasioned by the spill over effects from the tourism dependent economies of the region, where a large amount of manufacturing products from Trinidad and Tobago are exported. Aggregate demand in these economies was severely hampered by low tourist arrivals. In the case of the United States since most of the oil and gas exports from Trinidad and Tobago go to that market, developments in terms of aggregate demand and commodity prices have affected the country.

We should note that the Trinidad and Tobago economy depends heavily on the energy sector which currently accounts for over 44% of GDP. The services sector is also important, especially distribution, hospitality and financial services. Trinidad and Tobago therefore has a dual economy, but the economic development of the country has been tied to the fortunes of gas and oil for years, and as such can be affected by international pressures from these commodities. Therefore, the economy has not been spared from the effects of the financial crisis.

**TABLE 1:** Latin America and Trinidad and Tobago: GDP trends and forecasts, 2009-2013
(annual GDP percentage variations)

| Institutions | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **-1.5** | **6.1** | **4.9** | | |
| - International Monetary Fund (IMF) | | | | 3.0 | 3.4 |
| - Economic Commission for Latin America and the Caribbean (ECLAC) | | | | 3.0 | 3.5 |
| **The Caribbean** | | | | | |
| - International Monetary Fund (IMF) | | | | 2.4 | 2.2 |
| - Economic Commission for Latin America and the Caribbean (ECLAC) | -3.1 | -0.1 | 0.4 | 0.9 | 2.0 |
| **Trinidad and Tobago** | | | | | |
| - Central Bank of Trinidad and Tobago | -4.4 | 0.2 | -2.6 | 1.2 | 2.5 |
| - International Monetary Fund (IMF) | -4.4 | 0.2 | -2.6 | 0.4 | 2.0 |
| - Economic Commission for Latin America and the Caribbean (ECLAC) | -3.0 | 0.0 | -1.4 | 0.4 | 2.5 |

Source: IMF (2013) ***World Economic Outlook. Hopes, realities, risks*** (Washington D. C., IMF)
ECLAC (2013) ***Balance económico actualizado de América Latina y el Caribe*** (Santiago, ECLAC)
Central Bank of Trinidad and Tobago (2012) ***Monetary Policy Repor***t (Trinidad and Tobago), October

As can be seen in table 1, for Trinidad and Tobago, economic activity continues to be sluggish. GDP in Trinidad and Tobago grew by a mere 0.4% in 2012 according to the IMF. There was decline in economic activity in the energy sector, but the non-energy sector recorded gains. Had it not been for a three month strike in the cement company, which led to a shortage of cement that impacted the construction and manufacturing industries, the economy would have fared much better. Growth in the non-energy sector was therefore driven by increased activity in the finance sector (2.4%) and the distribution sector (4%).

As a means of boosting economic activity, the monetary authorities maintained an accommodative monetary policy stance and a low interest rate environment prevailed. But this did not lead to a significant boost in private sector credit. Inflation remained a concern for the authorities in 2012 as a result of high food prices. Inflation reached 12.6% year-on-year in May, but decelerated to 7.2% in December when the government removed VAT on some food items.

For 2013 the Central Bank of Barbados expects a growth rate of 2.5%, predicated on whether major repairs in the energy sector are completed, industrial action is resolved and government investment projects are implemented. The expansion is expected to be broad-based, with both the energy and non-energy sector projected to post increases, supported by fiscal stimulus. The government ran a fiscal deficit of TT$ 6.7 billion or 4.4% of GDP in the fiscal year 2011/2012[1] and the budget announced for 2012/13 project another deficit, this time of TT$ 7.7 billion or 4.6% of GDP.

Labour market data provided by the Central Statistical Office point to a small increase in the unemployment rate in the first quarter of 2012 to 5.4% of the labour force. The rate had declined to 4.2% in the fourth quarter of 2011 when the government launched a fresh drive to employ unskilled labourers in several lower income communities. Increased numbers of unemployed persons within the construction sector, as well as the community, social and personal services sectors pushed the rate upwards at the start of 2012. Although there was a slight increase in the unemployment rate during the crisis, it still remained relatively low compared to other countries in the region. The impact of the crisis on unemployment has been moderate, as government remains the largest employer in the country. This is demonstrated by the number of short-term employment programmes as well as the large infrastructure programme of the government which helps to keep unemployment in check.

## II. DIFFERENCES BETWEEN THE CURRENT SITUATION AND 2008

After a period of sustained growth, the global economic recession of 2008 posed many challenges for Trinidad and Tobago. Before 2008, the government was experiencing sizeable fiscal surpluses and both the non-energy and energy sector were performing well. The unemployment rate averaged 6% on account of numerous public and private sector projects. However, most of the employment or jobs created were short-term jobs and there was always a problem of structural employment. Moreover, youth employment has always been twice the national average, which has been a concern to the government because of the high crime rate, most of which is committed by youths. Inflation, however, has always remained a concern to monetary authorities and is one of the target variables of the Central Bank.

The financial crisis led to reduced external demand and anaemic prices for the energy sector. Oil prices fell below US$ 100 per barrel and gas prices (Henry Hub) declined from over US$ 12 per mmbtu to an average of US$ 6 per mmbtu. Planned investments in the energy sector were postponed because of financing problems or market uncertainties. Furthermore, many of the oil companies undertook maintenance activities due to ageing oil fields, which affected production further. There was also a marked slowdown in housing activity and the manufacturing sector began to feel the impact of declining external and domestic demand.

In an attempt to maintain employment levels and minimise the impact on the poor and vulnerable, government introduced several monetary, fiscal and labour market policies. In terms of fiscal policy, government adopted a counter cyclical policy stance, and continued its infrastructure expenditure, accelerated its housing programme and introduced a number of social programmes, which were all oriented to the poor and vulnerable from the full effect of the crisis, to provide employment and protect incomes. Government also bailed out CLICO – a large conglomerate with shareholding in insurance, banking, manufacturing and service companies, that posed tremendous risks to the entire economy. Government established a Heritage and Stabilization Fund designed to contain government expenditure in good times and in so doing, put aside some of the energy resources for future generations. The long-term strategic development plan was not executed, not only due to reduced revenues, but also because there was a change in government in 2010 that changed the policy direction of the country.

In the field of monetary policy, government bailed out CLICO to prevent contagion to other financial institutions and introduced legislation to improve the regulation and supervision of the financial sector. In the area of labour policies, several measures were adopted, some indirectly, to improve income and create jobs, as well as protect the most vulnerable in the society. These included removal of VAT on some food items, increased credit for SMEs through the National Entrepreneurship Development Company (NEDCO) and other social protection policies.

Nevertheless, despite these measures, the economic slowdown which began with the global financial crisis has lasted longer than anticipated. This was due to structural and domestic factors which conspired to postpone the recovery. In the energy sector, although international energy prices rebounded in 2011, it was offset by supply setbacks due to maturation of oil fields (structural decline) and reduction in gas production as a result of repairs and upgrade (technical). In the non- energy sector, efforts at counter cyclical fiscal policy was stymied by problems of project implementation and in the private sector, recovery remained slow, awaiting a return to investor confidence.

The economy contracted by 2.6% in 2011, after recording no growth in 2010 and a decline of 3.3% in 2009. Apart from slow or no growth in most economic sectors, the economy was also seriously affected by the failure of CLICO. There were however

1 The fiscal year in Trinidad and Tobago runs from October to September.

some buffers such as the Heritage and Stabilization Fund, low public debt, and high international reserves, which cushioned the impact of the crisis.

There is now enough evidence to suggest that the economy is turning around the corner and that economic growth resumed in 2012. This growth is also expected to continue in 2013. Available information shows that there are signs of a revival in production levels of natural gas and petrochemicals and the growth in business sector credit in an environment of a still highly liquid financial system suggests that for the most part businesses should not be facing major credit constraints.

There was also the launch of the CLICO Investment Fund (CIF) in November 2012, which brought a closure to the issue of the funds due to CLICO policyholders. These developments will positively impact the confidence of consumers, investors and producers and ensure the upward growth trend in 2013. The government's fiscal programme for 2012/2013 will be executed against the backdrop of unsettled economic conditions globally and several years of negative or negligible domestic growth. In this context, the approach of maintaining a fiscal stimulus via temporary deficits over the next few years is broadly seen as appropriate. But it is important that the Government's plan to return to fiscal balance over the medium term be steadfastly respected, and indeed accelerated once conditions permit, in order to avoid a further build-up of national debt. Strict monitoring of expenditure should be maintained, as well as efforts to further streamline the administration and efficiency of revenue collection. An important key to the economic recovery in 2013 and beyond would be acceleration in the implementation of public sector investments.

The use of public-private partnerships could afford great synergies in carrying out infrastructural works, although such arrangements need to be carefully drawn up and implemented to assure that the public interest is well protected. Overall, real GDP growth for the Trinidad and Tobago economy is projected to be in the order of to 2.5% in 2013. These forecasts are based on some fundamental assumptions as follows: (i) firms in the energy sector have fully completed their major maintenance operations; (ii) the industrial relations climate remains settled; and (iii) public investment projects are implemented on time and efficiently. In the uncertain global setting, the risks of financial turbulence remain elevated. A worsening of economic conditions in CARICOM, Latin America, the United States, as well as several countries in Europe and Asia, could have a dampening effect on Trinidad and Tobago's trade and investment flows. Moreover a resurgence of international food price inflation, particularly of grain and cereal, would put upward pressure on food prices faced by local consumers.

Trinidad and Tobago would continue to benefit from an ample amount of resource endowment and a highly educated work force. However, the issue of equity and inter-generation standards of living must become part of the decision making process. There should also be diversification of the economy to create jobs and growth, and policies towards the most vulnerable segments of the population will have to continue.

## III. POSSIBLE AREAS OF INTERVENTION

Given the current economic uncertainties and risks, it is useful to review the role of labour market policies since these policies are necessary to offset any negative impacts which the current crisis may have. Below we consider a few policy options designed to treat with employment opportunities for women, youth and other vulnerable groups in the society. These include increased investment in public works, credit for small and medium enterprises (SMEs) to grow and develop and social protection.

### a) *Increased investment in public works to strengthen employment*

Given the fact that private sector investment remains low, the government has signalled its intention to invest heavily in public projects such as infrastructure and road works, including highways and an accelerated housing programme. These activities would boost construction and employment. A major challenge remains implementation of these large capital projects which is financed from the Public Sector Investment programme (PSIP). The time required to implement these large projects means that their impact is not fully observed in the short-run. However, as the projects are implemented, there is usually a corresponding boost in activity and a ripple effect in the private sector. A major risk when implementing these projects simultaneously is the danger of bottlenecks occurring, which may result in temporary shortages and escalation of costs for construction works and building materials. Proper project planning is therefore required.

### b) *Credit for SMEs*

In order to boost local industry and sustain investments there is need for programmes to stimulate SME development. Over 70% of the employment created in the country is in this sector. Access to credit, training and support for SMEs have been supplied mainly through a State-owned company known as NEDCO (National Entrepreneurship Development Company) with promotes the development of our Small and Micro Enterprises by providing advice on financial independence, sustainability and competitiveness, while offering cutting edge financial products and developmental support services in a customer focused environment.

At present, there are approximately 9,000 registered applicants. In 2009, government amended its credit system, allowing first time applicants to borrow up to $ 100.000 while returning applicants, who have repaid their previous loans, can access up to $ 250.000.

The Government also increased its support with the following three tier financing structure:

| Applicant status | Loan amount |
|---|---|
| • 1st time applicants | • Up to $ 250.000 |
| • 2nd time applicants | • $ 250.001 - $ 350.000 |
| • 3rd time applicants | • $ 350.001 - $ 500.000 |

This has existed since 2009 and has led to a boost in SME activity in some areas. The availability of products remains important in maintaining liquidity of SMEs, especially since large banks are often reluctant to lend to SMEs due to the risks involved in this type of lending.

### c) Expansion of Fair Share Programme and Approved Property Development Allowance

Government also introduced the Fair Share Programme to award contracts to small entrepreneurs to stimulate the small and micro enterprise sector. The Government expanded the value of public sector contracts accessible to the small and micro enterprise sector from $1 million to $ 5 million dollars. It also introduced a Property Development Allowance to encourage the expansion of activity in the construction sector, thereby assisting in the creation and retention of jobs. This allowance was re-introduced in the Finance Act 2007, but only in respect of projects. It allowed approved property development companies to claim as a deduction 15% of the capital expenditure incurred in the construction of commercial or industrial buildings which commenced after October 1st 2009, but are completed before December 31, 2014.

These measures were clearly designed to stimulate the construction sector and have as much validity today as in 2009, creating or maintain jobs and incomes.

### d) Social protection

Since 2009, Government has promoted the decentralization of social services, programmes for social justice and mediation in communities. The Government's investment in the social sector was targeted to reducing the incidence of poverty; strengthen families and promote sound values; a commitment to providing greater opportunities to persons with disabilities; to promoting the well-being of the elderly and children; to reducing the number of socially displaced persons and to the eradication of the scourge of substance abuse.

Since 2009, there has been an intensification of efforts to ensure that vulnerable citizens do not descend into indigence and other difficult socio-economic or psycho-social conditions. There has been decentralisation of the delivery of social services and the commissioning of a new social services delivery agency to eliminate duplication of services as well as the frustration experienced by some clients, by providing a 'one stop shop' approach, where the majority of client needs are dealt with at an office in their region and where important decisions, relating for example to social welfare grants and interventions, are made without lengthy delays. Centres were established in the twelve regions in Trinidad and Tobago.

Since 2009, more than 32.000 persons benefitted from the Conditional Cash Transfer Programme, which was set up to enhance the health and dignity of households facing poverty. This programme offers skills training to recipients of food aid, to empower them to lift themselves out of poverty through employment. The Government's Poverty Reduction Programme continues to work towards the goal of reducing the incidence of poverty and reducing the number of persons living below the poverty line. Fourteen Regional Social and Human Development Councils have been established to operate the Poverty Reduction Programme.

Social programmes remain critical to the poor and vulnerable, especially in times of crisis and it is hoped that these programmes are maintained.

### e) Protecting employment through social dialogue

Social dialogue remains an important mechanism for Trinidad and Tobago. In the past two years, there have been increased strikes, lockout and other industrial action. In 2012 for example, the closure of the cement plant for a few months seriously affected the construction industry and other business concerns. Industrial action affects income and productivity. While there are a number of institutionalized social dialogue mechanisms, covering topics such as wage (collective) bargaining, social security, training, equity and OSH, these mechanisms are not harmonized with monetary and fiscal policies, including some form of social contract. What is needed is more rigorous social dialogue mechanism which will go a long way in protecting employment. There has been a lot of discussion by the tripartite partners in Trinidad and Tobago around this issue in recent times, but there has been no commitment to form a social contract. The Government of Trinidad and Tobago has signalled its intension to ensure greater social dialogue to promote trust among the tripartite partners. A lot more need to be done in this area in the future

### f) Productivity improvements

A major challenge in Trinidad and Tobago is that of labour productivity which remains low. Policies can be used to improve productivity including the introduction of the ILO's tool SIMAPRO. This will also help when there are situations of heightened tensions in the industrial relations climate. Over the last two years, there has been heightened industrial action in the country. The use of new methods such as those of the ILO can engender greater trust and should be encouraged.