BG VIEW

ANTHONY WILSON

# Is a fully floating exchange rate the answer to T&T's problems?

International energy analysts predict that global oil prices are likely to stay in a range of between US$40 and US$60 a barrel for the next two years for three reasons: China's slowing economic growth; the expectation that Iran could start pumping oil to its full capacity by early next year and the need by the oil cartel OPEC to continue pumping 10 per cent more than its 30 million barrels a day agreed quota to strangle non-OPEC production.

Given the linkage between the prices of oil and natural gas in some markets, there is also the probability that global prices of T&T's single largest export revenue earner could remain "lower for longer."

Allied to the possibility of low prices for T&T's oil and natural gas, this country also faces well-documented gas curtailment issues, the recent disclosure that our LNG supply has less liquids—which will impact the future of Phoenix Park Gas Processors—and Japan's decision to resume its nuclear production.

If the sharp downturn in the global prices of T&T's main export revenue earners—oil, LNG and petrochemicals—is going to continue for the next two to three years, that is likely to have a severe impact on the country's energy revenues and, therefore, the total amount of revenue the Government collects.

It seems obvious both of the major political parties that are seeking your vote at the September 7 general election would need to plan their management of the economy for the next five years on the basis of declining revenue—at least for the next three years.

That being the case, there is one question that the two parties need to address.

The question is this: What is the most appropriate combination of economic, monetary, fiscal, exchange rate and labour market policies that will help T&T get through this period relatively unscathed.

If it is accepted that getting the right mix of policies to treat with a situation of declining revenue is the main challenge facing the T&T economy, then the next question that policymakers in the new administration need to address is this: Will T&T get through this period of declining revenue unscathed if it continues the policies of the current administration?

As far as can be discerned, the overarching goal of the Kamla Persad-Bissessar administration is to minimize the impact of the sharp decline in T&T's revenue on the population in the short term, even if that means seriously jeopardizing the country's future.

As a result, the Government is seeking to raise revenue in some unconventional ways, including a scheme to fund its backpay commitments to public servants and teachers by getting the wholly state-owned electricity generator TGU to borrow US$600 million to "repay" the "loan" from the State to establish and equip the La Brea-based facility.

The funding of backpay will also entail the Government having to provide a guarantee to a $1.8 billion bond that Republic Bank is looking to raise for T&TEC, which the electricity distributor will use to pay back TGU for taking electricity and not paying for it. And because T&TEC has a take-or-pay contract with TGU, it could very well be that not all of its bill for electricity would have been used.

In my view, the policies of the current United National Congress administration are almost identical to the policies of the previous People's National Movement administrations:

• Both parties are committed to the collection of revenues produced by the foreign multi-national energy companies and the distribution of those revenues to the population in the form of transfers and subsidies, which reduce the cost of healthcare, education, housing, internal transportation, water and electricity and gasoline;

• Both parties are committed to an economic system in which the foreign multinational control the major energy revenue sources (the off-shore sector), while the State is in firm control of the on-shore sector. This has relegated the local private sector to the importation and distribution of goods and to some services;

• Both parties appear not to be committed to managing the economy along prudent fiscal lines—that is expenditure must not exceed revenue in any year unless as a result of an unexpected emergency—if they feel that they can get away with running a fiscal deficit;

• Both parties seem to be committed to maintaining the system of the flat tax rate at 25 per cent that has facilitated the rapid growth in income and wealth inequality in T&T;

• Both parties are committed to the maintenance of the so-called "dirty" float in which the Central Bank controls the disbursement of a significant percentage of the country's foreign exchange as well as sets the price at which the foreign exchange is sold to the public.

There are other ways in which the economic policies of the UNC and PNM are extremely similar, but one has limited space.

The point here is, while there may be some advantages to having a large measure of agreement on the main economic policies, there is very little doubt that while those policies may have worked in the last ten years, they will be a DISASTER if continued for the next five years because of the great likelihood of declining revenues.

What T&T needs now is the following:

• An administration that will orient the economy towards the earning of foreign exchange and away from the spending of foreign exchange;

• An administration that positions the economy away from its dependence on the generation of energy revenues from unprocessed exports (such as oil, LNG, ammonia, methanol, urea etc) and toward the generation of non-energy revenues and by increasing the value-added component of the local energy sector.

This is a country that produces ammonia, but imports fertilizers. This is a country that produces iron and steel, but has failed to develop a steel industry. And T&T is a country that outsources the marketing of its propane and butane exports to foreign companies, 25 years after Phoenix Park got into the the production of propane and butane;

• An administration that will remove the shackles that keep the local private sector enslaved to importation and distribution;

• An administration that is able to generate enough additional revenue so that the increase in taxes and the cuts in transfers and subsidies can be mitigated.

In the context of the need to pivot the economy away from the practise that Michael Manley referred to as money moving through this country like a dose of salts, the question needs to be asked whether the current foreign exchange system—an immobile exchange rate; crisis interventions by the Central Bank to sell foreign exchange to the market along with cable-induced, Amazon lifestyles—is appropriate to the future?

Won't an exchange rate that is more responsive to external and internal realities be better for T&T?

Chief editor-business: ANTHONY WILSON
Editing and design: NATASHA SAIDWAN
Digital Imaging: CHENIER BELGRAVE

OFFICES:
4–10 Rodney Road,
Endeavour, Chaguanas.
PO Box 122.

Telephone: 225-4465, ext 2035, 2025

Fax: (868) 225-3147 (Editorial)
Fax: (868) 623-2050 (Advertising)

E-mail address:
businesstoday@guardian.co.tt
Internet address:
http://www.guardian.co.tt