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Gauging the effects of Brexit on T&T

With the recent increase in discussions following "Brexit", it is evident that the global economy is already feeling some backlash from the unprecedented decision. According to the April 2016 World Economic Outlook produced by the International Monetary Fund (IMF), the estimated growth rate for 2016 was 3.2 percent but was later revised downwards to 3.1 percent. If the United Kingdom (UK) were to initiate plans to invoke Article 50 of the Lisbon Treaty, the UK will trigger a minimum two-year time limit for negotiations to fully exit the European Union (EU). This prospect of an exit from the EU has sparked great uncertainty worldwide. More specifically, in the Caribbean Region, the uncertainty regarding what will transpire come 2018/2019 seems troubling.

According to the IMF, the British pound (GBP) has already depreciated by 7 percent, driven earlier by the *prospect* of Brexit, and subsequently by the normalisation of monetary policy. In terms of the implications for the twin-island nation of Trinidad and Tobago (T&T), Brexit can have serious repercussions relating to lower levels of trade with the UK and an overall loss of income. Given that the Trinidad and Tobago dollar (TTD) is pegged to the United States dollar (USD), the appreciation of the USD with respect to the GBP caused a subsequent appreciation of the TTD to the GBP.

Although, domestically the TTD has been allowed to slide by 3.7 percent (*2016 Mid Year Budget Review*) against the USD, it is still now relatively more expensive for citizens of the UK to import from T&T. Thus, it is expected that TT exports to the UK may decline whilst T&T imports can possibly increase in relative terms. This can be translated into implications on the Balance of Trade (BoT) for T&T as export revenues can fall due to a more expensive T&T good entering into UK markets.

Additionally, the services sector, more specifically the tourism industry, will be impacted negatively as the UK[1] ranks amongst the top three stop over visitors to T&T. Although they are surpassed by the number of visitors from the U.S[2] and Canada, visitors from the UK spend seven times more than US visitors on average. The losses in income will have a rippling effect throughout the T&T economy, particularly tourism dependent Tobago, where tourism is a significant contributor to GDP.

The spillover effects from Brexit that will filter into the Caribbean and more importantly T&T are still hazy; the situation is best summed up by Inter-American Development

[1] Nine percent of stop over visitors to Trinidad and Tobago are from the UK according to 2014 figures published online by the Tourism Development Company (TDC).

[2] According to the TDC, 39% of visitors to T&T are from the U.S and 13% from Canada, as at 2014.

Bank Economist Inder Ruprah when he said, “The only thing we are certain about is uncertainty”. In terms of local business and consumer confidence, the Brexit vote has spewed more unsettling mist into the international arena which has clouded how domestic firms and individuals chart their way forward. The lack of clarity as to how the United Kingdom will manage this course has led the IMF to cut its growth forecast for both the Latin American and Caribbean regions.

For the period 2016 and 2017, the IMF predicted growth for the Latin American & Caribbean region to be approximately “0.4 and 1.6 percent respectively”. With the unfolding of Brexit, the IMF has been forced to revise growth downwards by 0.1 percent for both time aforementioned periods. Implicit in this revision is the prospect of further downward revisions for the T&T economy. The cautious and monitored observation of how Brexit pans out in the global economy places an additional demand on local policymakers and administrators to be proactive, prudent and indeed, visionary in their prescriptions for the T&T economy going into 2017 and beyond.

Gauging of the effects of Brexit on the international arena are still quite premature. Likewise, on the domestic front, we are yet to see what the long run reactions will be. Some posit that the results are mixed but to what extent the ratio leans to the negative side, one simply does not know. We will all have to sit back and watch as it unfolds before our eyes and adapt our policies to suit.