Republic Economic NEWSLETTER

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Real Gains, Costly Losses

Overview

Trinidad and Tobago's economy is believed to have rebounded in the fourth quarter, following what recent data indicate was a modest contraction in the previous quarter. Republic Bank estimates that output increased by 2 percent in the fourth quarter relative to the third, due in part to a resurgence in energy sector production. In spite of a relatively buoyant distribution sector in recent months, price increases were generally moderate in the quarter. The most recent labour data available puts the unemployment rate at a record low 3.7 percent for the first quarter of 2013. However, with Ministry of Labour and Small and Micro Enterprises figures showing a 16.5 percent increase in retrenchment notices for the first 10 months of 2013, we believe the unemployment rate inched up to 4 percent for the final 3 months of 2013. Despite the prospect of increased economic activity in the short term, recent incidents of environmental degradation are likely to add to upward pressure on the unemployment rate as they negatively impact on some communities and businesses.

Trinidad and Tobago Key Economic Indicators

Indicator	2012	2012.4	2013.4 p/e
Real GDP (% change)	1.2	0	2.0
Retail Prices (% change)	9.3	0.6	1.8
Unemployment Rate (%)	4.9	4.7	4.0
Fiscal Surplus/ Deficit ($M)	-2,196.9	-6.10	4,150.4
Bank Deposits (% change)	10.3	4.6	0.4
Private Sector Bank Credit (% change)	1.9	-2.4	-1.7
Net Foreign Reserves (US$M)	11,637.3	11,637.3	12,334.4
Exchange Rate (TT$/US$)	6.37/6.43	6.37/6.44	6.40/6.45
Stock Market Comp. Price Index	1,064.98	1,064.98	1,185.05
Oil Price (WTI) (US$ per barrel)	94.12	87.96	97.34
Gas Price (Henry Hub) (US$ per mmbtu)	2.75	3.40	3.85

Source: Central Bank of Trinidad and Tobago, TTSE, EIA
p - Provisional data
e - Republic Bank Limited estimate

Energy Sector

In the wake of what has been deemed the largest maintenance activity in the history of the natural gas industry, the energy sector had a solid rebound in the fourth quarter, with growth of 2.2 percent. While average oil production declined from the previous quarter by 1.27 percent to 81,094 barrels per day, natural gas production jumped 3 percent to 4,089 million standard cubic feet per day (mmscf/d). Both commodities enjoyed healthy prices with the average oil price for the quarter slipping to US$97.34 per barrel and the gas price improving to US$3.97 per thousand cubic feet (mcf) or US$3.85 per million British thermal unit (mmbtu). With a stronger gas flow and downstream plants primed, having synchronized their maintenance with that of the gas producers, petrochemical output surged in the fourth quarter, with production of ammonia and methanol increasing by 9 percent and 14.5 percent respectively. Upstream activity slowed markedly however, with the number of rig days shrinking by 20.8 percent and depth drilled almost certainly contracting to an even greater extent.

In early December, Trinity Exploration and Production plc. announced its discovery of between 50–115 million barrels of oil off the coast of Galeota. While the discovery augurs well for both the country and energy sector, the celebratory mood quickly dissipated following a number of oil spills in the south-west peninsula. Overall, 2013 energy sector performance was a mixed bag with some declines (particularly in the upstream sector) along with encouraging gains (Table 1).

Table 1: 2013 energy sector indicators compared to 2012

Energy Sector 2013 Scorecard

Up	Down
Gas production – Up 0.5%	Oil & condensate prod. – Down 0.7%
Methanol production – Up 2.6%	Ammonia production – Down 5.1%
LNG Production – Up 1.3%	Rig days – Down 10.4%
	Depth drilled – Down 8% (est.)

Source: Ministry of Energy and Energy Affairs

Non-energy Sector
Following growth of 2 percent in the third quarter, driven by increased activity in finance, distribution and construction, indications are the non-energy sector continued in a similar vein in the October–December period. Anecdotal evidence suggests that the distribution sector continued to be active, according to reported strong fourth-quarter vehicle sales. The construction sector appears to have slowed somewhat, with cement sales in the quarter falling by 9.6 percent.

Fiscal Policy
Data from the Ministry of Finance and the Economy indicate that the central government registered a fiscal deficit of $4,175.2 million (2.6 percent of GDP) for the fiscal year 2012/2013. A strong surplus of $4,150.4 million was recorded for the October–December 2013 period, as a small increase in expenditure on salaries, goods and interest payments was more than offset by increased earnings from energy sector companies, dividends from state enterprises and divestment proceeds.

Debt
Preliminary data put this country's total public sector debt at $96.1 billion at the end of December 2013, equivalent to 55.3 per cent of GDP, with the figure falling to 40.6 percent of GDP, if open market operations such as treasury bills, notes and bonds are excluded. External debt stood at 7.5 percent of GDP. In December, Standard & Poor's affirmed this country's credit rating of A/A-1 (foreign and local currency).

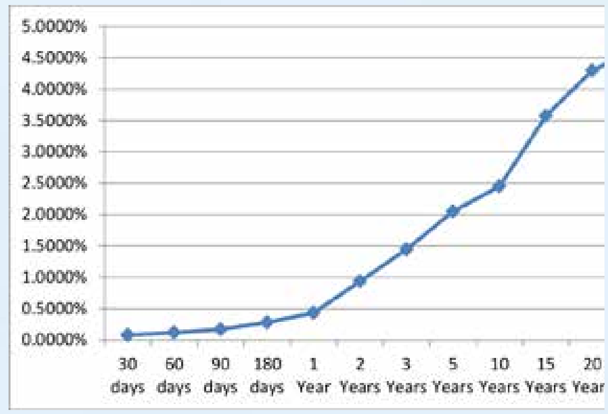
Monetary Policy
Relatively sedate price increases in the first half of 2013, moderated even more in the second half, despite a slight upward trend in the fourth quarter. After a year-on-year increase of 2.7 percent in October, prices increased by 4.4 percent in November and 5.6 percent in December. Overall, average prices in 2013 were 5.2 percent higher than they were in 2012. In this environment of relatively low inflationary pressure, the Central Bank, not surprisingly, maintained the 'Repo' rate at 2.75 percent.

While liquidity remained high, commercial bank deposit growth in the fourth quarter slowed to just 0.4 percent. Private sector borrowing contracted over the same period by 1.7 percent, with the December 2013 balance of $23,102.7 million, 0.5 percent less than the December 2012 figure. Consumer loans remained consistent, with growth of 4.2 percent in the fourth quarter and 9.0 percent for all of 2013.

Activity on the Trinidad and Tobago Stock Exchange continued to pick up, with the Composite Price Index reaching 1,185.05 at the end of December. This figure was an increase of 3.6 percent over the September mark, and represents growth of 11.3 percent over the year. Some 97.9 million shares were traded during the year, up from 50.6 million in 2012. Market capitalization increased by 17 percent to $114 billion at year's end. Net foreign reserves ended the year at US$12,334.4 million, up from US$11,782.7 million in September.

According to the Central Bank's *Economic Bulletin* of January 2014: *[With US treasury yields rising towards the end of 2013, the differential between TT and US rates continued to narrow. On the short end of the yield curve, the differential between the TT and US 91- day t-bill rates measured 3 basis points at the end of December 2013, while on the longer end, the difference between the TT and US 10-year treasury yields was in negative territory at -0.29 per cent.]* Republic Bank believes the narrowing differential between TT and US rates will continue, as an increase in US interest rates is on the horizon over the short to medium term. This will put upward pressure on domestic rates, possibly leading to an upward shift in the short end of the yield curve.

Figure 1: Market Yield to Maturity TTD – Dec. 2013



Significant Developments
During the last two weeks of 2013, a series of mishaps, equipment failure and alleged incidents of sabotage, resulted in 11 leaks that saw crude oil and fuel oil spilling into seas, beaches and on land in a number of communities in south-west Trinidad. While clean-up operations have ended and investigations continue, the effects of the damage are likely to last for years, impacting both lives and livelihoods. Four weeks later, a number of fires at the Beetham landfill blanketed parts of the capital city and its environs in smoke for a number of days. Concerns over health and well-being led to the closure of a number of schools, offices and businesses at various times during the period. Besides pointing to the need for greater proactive planning and disaster preparedness, these incidents underscored the cost of environmental degradation. While some of the costs like clean-up operations, lost business hours, lost productivity and health preservation measures, are clear and immediate, others are more insidious. Greater appreciation is needed of the longer term costs of clogged watercourses, polluted rivers and seas and poor waste management. Quantifying the cost of enjoying long-term health, or a continued livelihood on the seas or the opportunity cost of a poisoned beach is more than just an exercise in academic abstraction. Economic gains can only be put in proper perspective when informed by the losses being incurred, be they medical, social, cultural or environmental.

Outlook
With the energy sector seemingly past the most intensive phase of its maintenance activities, and energy prices likely to remain high in the short term, increased production and revenues can be expected over the next six months. The non-energy sector is likely to benefit from this, as well as from increased activity in construction, distribution and manufacturing, as government agencies strive to execute major infrastructure and construction projects. Thus the Trinidad and Tobago economy is likely to experience steady and more consistent growth over the next six months.

Caribbean Update

Bitter Medicine for Ailing Caribbean Economies

With several territories in the region burdened by heavy debt and large fiscal deficits and with tourism revenue subdued by tepid global growth, Caribbean governments are increasingly being called upon to restore public finance to sustainable levels. Unfortunately, the process has forced such governments to pursue policies that are widely unpopular, but necessary all the same. For instance, to reduce the burden on public finance, some jurisdictions have retrenched a number government employees, cut subsidies and introduced new taxes. Despite this, there are calls for some of these countries to make deeper expenditure cuts, given the mountainous fiscal challenges and sluggish growth prospects they face. On the upside, Caribbean GDP growth, though fragile, improved marginally in 2013 to 1.5 percent from 1.2 percent in 2012, according to the Caribbean Development Bank (CDB). What's more, the CDB expects the regional economy to expand further in 2014 by 2.3 percent. Low levels of inflation have allowed policy makers to remain focused on stimulating economic activity, albeit with little room for fiscal expansion. Preliminary data suggest that the 2013/2014 winter season has been good to several Caribbean destinations, which saw increased arrivals.

Barbados

Economic activity remained flat in the fourth quarter of 2013, with poor performances by both the tradable and non-tradable sectors. Tourism activity remained weak during the period, with an average contraction of 2 percent in stay-over arrivals between October and December. However, anecdotal evidence suggests that arrivals and occupancy rates rose as the winter season progressed, partly the result of unusually low temperatures in major source markets. In general, all other major sectors underperformed in the fourth quarter, though marginal growth is estimated for the finance, distribution and transport sectors. In this environment, unemployment reached 13.2 percent during the quarter. The country's fiscal deficit rose to 8 percent of GDP in 2013, while the IMF estimated public debt at 126.4 percent of GDP. In response, the government has adopted a tight fiscal stance, which includes the retrenchment of 3000 public employees by March 2014, a strict policy of attrition and a two-year wage freeze, among other initiatives. Efforts are also underway to enhance tax collection. Naturally, these measures have generated significant anxiety among investors, labour unions and other stakeholders. Whether they will be sufficient remains to be seen. What is known is that such measures are likely to constrain growth in the short to medium term. Three credit rating agencies (Standard and Poor's, Moody's and CariCRIS) downgraded Barbados' sovereign credit rating during the last quarter of 2013.

Grenada

The economy performed better in the fourth quarter of 2013, compared to the same period in 2012. During the period, economic activity was driven largely by construction, while tourism is estimated to have contracted on the basis of reduced stay-over arrivals. Agriculture output was also weak. With fuel prices fairly stable, inflation reached 1.6 percent in 2013, down from 2.4 percent in 2012. Latest estimates place public debt at 120 percent of GDP and the fiscal deficit at 6.9 percent of GDP in 2013. As government's fiscal accounts are in need of urgent repair, it continues to focus on fiscal adjustments and structural reforms under its "Home-grown Programme". This programme is intended to provide the fiscal adjustment that is required before government can secure an agreement with the International Monetary Fund (IMF) to provide technical assistance. The current administration has sought to gain buy-in for the reforms by highlighting that they are not forced by the IMF, but are self-imposed due to desperate need. However, with unemployment already at 33 percent, the government is finding the additional pain of austerity measures a hard sell. In February, government asked unions to agree to a three-year wage freeze but has yet to secure their agreement. The Grenada Conference of Churches has urged government to refuse any request by the IMF to increase taxes and cut social services expenditure. In March 2014, the government reached an agreement with the IMF for a US$21.9 million Extended Credit Facility, which is intended to support efforts to address the country's fiscal imbalances and generate sustainable growth.

Guyana

Guyana continues to be one of the better performing economies in the region, with GDP expanding in the fourth quarter, contributing to overall growth of 4.8 percent in 2013. Growth was driven by increased production of rice, forestry, diamond, gold and the services sector. Rice production is estimated to have expanded further during the period, after a 41 percent increase in the third quarter. Gold output remained upbeat, even as prices eased during the period. On the other hand,

the contractions that were experienced in sugar and bauxite during the third quarter, likely continued in the succeeding period. Adverse weather conditions, poor worker turnout and a poor supply of cane beleaguered the sugar industry. Inflation remained at manageable levels, averaging 3.4 percent for 2013. The buoyancy of the economy is reflected in the strong growth of private sector credit, which expanded by 7.8 percent in the third quarter. Despite the positive trajectory of the economy, government has been unable to pass anti-money laundering legislation already in place throughout the region, on account of its minority position in the Parliament and its antagonistic relationship with the opposition.

Cuba

In the fourth quarter of 2013, Cuba is estimated to have recorded moderate economic expansion. The impetus for growth was largely provided by the improved performance of the tourism sector, which picked up considerably late in the year, with arrivals rising by 7.6 percent in November and 8.8 percent in December. However, for all of 2013 tourism remained flat, with a marginal increase (0.4 percent) in stay-over arrivals. The social upheaval currently taking place in Venezuela (Cuba's largest trading partner) has generated significant political uncertainty and is likely to result in considerable unease in Havana. With much of the protests centered on Venezuela's unsustainable fiscal and external accounts, the long-term supply of subsidised fuel to Cuba may be called into question. Cuba's trade receipts from Venezuela are also expected to suffer. Nevertheless, Cuba has been strengthening ties with other foreign partners including in Latin America and China and may be able to boost trade elsewhere. Economic reforms continue to proceed at a slow pace.

Region

In 2013, economic activity improved moderately in the Organization of Eastern Caribbean States (OECS), as most members recorded GDP growth. This was largely on account of increased stay-over arrivals, with St. Lucia breaking its previous arrivals record. Nonetheless, high debt and deteriorating fiscal balances continue to plague the region, forcing policy makers to pursue tight policies. Unemployment remains high, averaging above 20 percent. Growth is expected to be driven by tourism and improved agriculture output in the first half of 2014.

Jamaica benefitted from a solid increase in tourism arrivals during the last three months of 2013. On this basis the economy is estimated to have recorded modest growth during that period. The latest available data reveal that unemployment fell to 14.9 percent in October 2013 from 15.4 percent three months earlier. The tourism sector is projected to benefit from increased demand from a gradually strengthening US economy, in the second quarter of 2014. Notwithstanding these developments, austerity measures associated with the island's continued adherence to an IMF programme are anticipated to restrict growth.

Outlook

The Caribbean economy is expected to perform better in the first half of this year compared to the same period in 2013. The prospects for the region are based largely on the continued rise of stay-over arrivals in the context of an improving global economy. However, the region will be confronted by considerable challenges. High debt and fiscal deficits are anticipated to blight most countries for quite some time. Whatever growth is realised is not expected to be strong enough to have any significant positive impact on unemployment, foreign exchange reserves and public finance in the short-term. Current civil rumblings in Venezuela are causing considerable nervousness among countries in the region that depend on that country's PetroCaribe agreement for fuel. If this agreement is dismantled, growth prospects for the region would likely diminish.

Republic Bank

REPUBLIC BANK POWER TO MAKE A DIFFERENCE PROGRAMME

Grounded by a strong belief that every human life has an invaluable contribution to make to our national development, Republic Bank introduced its flagship social investment programme, the "Power to Make a Difference" in 2003. The programme is the bank's vehicle for building successful and thriving communities in all of the markets that it serves and is divided into four pillars – the Power to Care, the Power to Help, the Power to Learn and the Power to Succeed.

Now in its 11th year, the programme aims to enhance the quality of life of disadvantaged persons in society; support the enhancement of health care programmes and disability awareness initiatives; provide opportunities for young people to realise their true potential through the areas of sport, education and the arts; build and encourage entrepreneurialism amongst members of society; build community spirit and togetherness and, in essence, help to right some of the ills of society.

To this end, Republic Bank contributed TT$100 million to various social programmes from 2009 up to 2014 and has pledged another TT$100 million for the period 2014-2018. This social investment is aimed at reaching those at risk groups in society, providing a means by which they can become more productive citizens and contribute to the development of the country. The following are some of the recent initiatives that were undertaken by the bank:

"I Grant You Three Wishes": Republic Bank's Group Marketing and Communications General-Manager (Designate), Michelle Palmer-Keizer, takes a step back as two young masqueraders get into the Carnival spirit at the Bank's Head Office. The Republic Bank Genii displayed their costumes for the Bank's 2014 Junior Parade of the Bands section, "I Grant You Three Wishes". The Bank has sponsored the Junior Parade of the Bands since 2009, as part of its commitment to youth empowerment and the preservation of cultures, through its social investment programme.

"Bringing hope and a home to those in need": Republic Bank's Social Investment Officer, Nadia Williams, proudly stands in front the commemorative plaque, which was placed on the multi-purpose hall of the newly constructed Olive's House facility, located in Sangre Grande, the first senior citizens community housing facility in the Caribbean. Standing with her is Subesh Ramjattan, founder and pioneer of Bridge of Hope, home for children. The hall is outfitted with a chapel, gym, hair salon, common room and other amenities. The event was held on the compound of Bridge of Hope, Sangre Chiquito on January 25th 2014.

"Taking charge of literacy": Republic Bank's Manager, Group Corporate Communications, Tisha Lee, shares a loving moment with the Mc. Eachnie family, at the first session of the Parenting for Literacy Programme, which was held at Grande Riviere Anglican Primary School. The programme, which is hosted by Republic Bank Limited in partnership with the Trinidad & Tobago National Commission for UNESCO and NALIS, aims to provide parents of children aged five to seven with the tools needed to create a better learning environment for their children. Over 400 parents representing 40 primary schools across the country are expected to be trained from February to September 2014.

"St. Joseph's Convent Retreat Centre officially opens": On December 10 2013, members of the religious, corporate and government communities gathered in Scarborough, Tobago, to officially open the St. Joseph's Convent Retreat and Holistic Development Centre. The Centre seeks to re-educate persons with literacy and IT competence deficits and provide life coaching to those in need of help in negotiating life transitions.

The Sisters of St Joseph's Convent have contributed to the field of education throughout the Eastern Caribbean for over 175 years. More recently, they have moved into re-education and remedial instruction and human development work for persons who have been unsuccessful in the formal education system, or who have found themselves in a personal crisis due to social change. Through Republic Bank's Power to Make a Difference programme, the Sisters received over TT$600,000 in sponsorship toward the construction of a Conference Hall.

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