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Off to a Slow Start

Overview

Following growth of 0.3 percent in the fourth quarter of 2014, Republic Bank estimates that the domestic economy contracted by 0.5 percent in the first quarter of 2015. While the energy sector experienced a much needed boost in oil and natural gas production, weak global energy prices placed a damper on revenues generated from this vital sector. Unfortunately, the non-energy sector was unable to provide the necessary buffer for low energy prices, as evidence suggests that the sector recorded

weaker growth in the first quarter of 2015. Private sector credit contracted while, growth in consumer loans slowed during the period. In this environment the unemployment rate is estimated to have reached 3.5 percent.

Energy sector

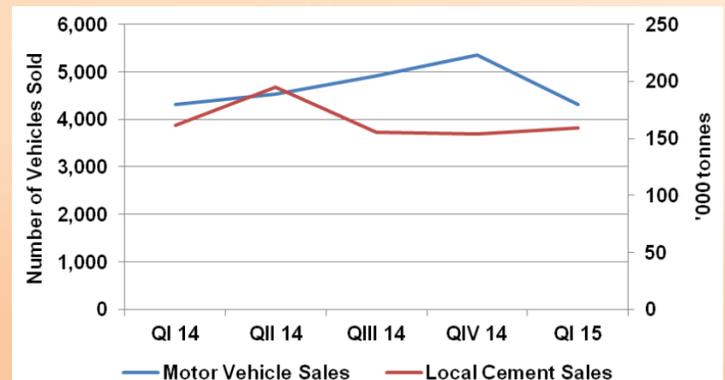
The increases in crude oil and natural gas production were offset by low global energy prices, which continued to weigh heavily on the performance of the sector. Crude oil production increased to 83,040 barrels per day (b/d) in the first quarter of 2015, from 82,935 b/d in the preceding quarter. Natural gas output grew by 2.6 percent, improving from 3.9 billion cubic feet (Bcf/d) in the fourth quarter of 2014 to 4.0 Bcf/d in the first quarter of 2015. Oil prices continued to decline, as the West Texas Intermediate (WTI) average plunged by 34 percent, to US\$48.48 per barrel from US\$73.21 per barrel. Average Henry Hub gas prices declined for the fourth consecutive quarter, from US\$3.80 per million British thermal units (mmbtu) to US\$2.90 mmbtu. The downstream sector rebounded somewhat in the first quarter of

Trinidad and Tobago Key Economic Indicators

Indicator	2014	2014.1	2015.1 p/e
Real GDP (% change)	1.9	-1.0	-0.5
Retail Prices (% change)	5.7	1.8	-0.1
Unemployment Rate (%)	3.3	3.1	3.5
Fiscal Surplus/ Deficit (\$M)	328.4	-3,903.4	-281.0
Bank Deposits (% change)	11.5	5.6	-3.0
Private Sector Bank Credit (% change)	7.2	2.7	-0.3
Net Foreign Reserves (US\$M)	13,592.7	12,351.5	13,238.9
Exchange Rate (TT\$/US\$)	6.36 / 6.41	6.40 / 6.45	6.32 / 6.37
Stock Market Comp. Price Index	1,150.9	1,171.3	1,154.3
Oil Price (WTI) (US\$ per barrel)	93.17	98.68	48.48
Gas Price (Henry Hub) (US\$ per mmbtu)	4.39	5.21	2.90

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

Figure 1: Motor Vehicle Sales and Local Cement Sales



Source: CBTT

2015, after a dismal performance in the previous quarter. The production of ammonia and methanol increased by 11 percent and 2.9 percent, respectively, while Liquefied Natural Gas (LNG) production contracted by 0.8 percent.

Exploration activity picked up, as rig days increased from 536 to 596 in the first quarter, while depth drilled increased marginally by 0.7 percent to 89,363 feet. Exploration activity is expected to remain upbeat for the remainder of 2015 and should provide a fillip for the energy sector. BHP Billiton is scheduled to start drilling for the Angostura Phase III development later this year with the use of the Rowan Joe Douglas rig, while BPTT has already welcomed the arrival of the Ocean Victory Rig to continue drilling for its Juniper project. EOG Resources Trinidad Ltd. is also in the process of doing developmental drilling in the Oilbird field.

Non-Energy Sector

The non-energy sector recorded year-on-year (y-o-y) growth of 2.5 percent in the fourth quarter of 2014, due to good performances in the construction, agriculture, finance, insurance and real estate sub-sectors. However, preliminary data indicates that non-energy sector growth slowed during the first quarter of 2015. Motor vehicle sales, traditionally a good indicator of the performance of the distribution sector, declined by 19.2 percent on a quarterly basis, but saw 0.2 percent (y-o-y) growth. Local cement sales, which are used as a proxy for construction activity, recorded quarterly growth of 3.4 percent (Figure 1).

Fiscal Policy

Between January and March 2015, the domestic economy recorded an overall deficit of \$281.1 million. Government revenue declined by 3.6 percent to \$12,299.1 million, while expenditure increased by 1.2 percent to \$12,580.2 million. Expenditure is expected to rise during the latter half of the fiscal year, with the settlement of outstanding wage negotiations and

Figure 2: Net Sales of Foreign Currency to the Public (US\$M)



Source: CBTT

ongoing government construction projects. In this regard, the deficit may expand further, with low energy prices expected to curtail government revenue.

Monetary Policy

In June 2015, the Central Bank's Monetary Policy Committee (MPC) increased the 'Repo' rate for the fifth consecutive time by 25 basis points to 4 percent. The increase was again related to the anticipated rise in US Policy rates, the potential rise of domestic inflation and the positive outlook for the non-energy economy. Nonetheless, the US economy contracted by 0.7 percent during

the first quarter of 2015. Recent data also show that retail sales eased during the first four months of 2015. The IMF has urged the US Federal Reserve to delay the increase in short-term interest rates. The fund alluded that it would be better to wait for greater signs of wage or price inflation before increasing rates. If the Federal Reserve heeds the IMF's advice, the decision taken is likely to influence the course of domestic monetary policy over the next few months.

Headline inflation increased by 5.4 percent (y-o-y) in March 2015, down from 8.5 percent (y-o-y) in December 2014. Average prices were 0.1 percent lower in the first quarter of 2015 when compared to the previous quarter. The Central Statistical Office launched its rebased retail price index in May, 2015 and this was done to reflect current consumption patterns within the domestic economy. As a result, the weights assigned to food and non-alcoholic beverages were reduced, while the weight of the core sub-index was increased. In March 2015, private sector credit contracted by 0.3 percent on a quarterly basis but registered 2.7 percent (y-o-y) growth. Consumer loans posted weak growth of 0.4 percent, after recording healthy growth of 4.1 percent in December 2014.

Reserves

The net foreign position fell slightly by 2.6 percent, to US\$13,238.9 million from US\$13,592.7 million in December 2014. Low energy prices were the major reason for this decline. The demand for foreign currency remained strong, as the net sales of foreign currency to the public by the Central Bank reached US\$608.1 million compared to US\$475.5 million in the previous quarter (Figure 2).

Outlook

In light of the general elections, set for September 7, 2015, the domestic economy would most likely experience some growth in the second half of fiscal 2015. Construction activity is expected to intensify in the months prior to the elections, as the government would seek to complete a number of ongoing projects. The domestic economy should benefit from a boost in marketing and advertising activities during the long, three-month election campaign period. On the downside, consumer spending could be tempered if citizens decide to adopt a wait-and-see approach. In addition, some businesses may approach the latter half of 2015 with cautious optimism, as they may wait for the 2015/2016 budget to be read before making any serious business decisions. An increase in exploration activity should also provide some impetus for growth in the energy sector. However, weak energy prices could lower government revenue and erode business confidence, as oil prices are expected to average between US\$55 and US\$60 per barrel for the rest of 2015. Growth prospects in the downstream sector would most likely be hampered by disruptions in natural gas supply, which are expected to continue throughout the rest of the year. High interest rates and reduced liquidity levels both contributed to a slight decline in lending to the private sector during the first quarter of 2015. Nevertheless, the recent payments to some of the Clico policy holders and creditors should increase liquidity in the domestic banking system.

Caribbean Update

LINGERING CHALLENGES DESPITE IMPROVED OUTLOOK

On the positive side, the region, particularly non-commodity based economies, seem poised to record stronger economic performances in 2015. Firstly, improving conditions in major tourism source markets are anticipated to result in solid growth in the sector. Secondly, low commodity prices have eased inflation pressures and are likely to produce lower import bills for most Caribbean nations. Additionally, low fuel prices are expected to significantly support the travel industry during the year. On the other hand, these low prices will undermine the prospects of the few commodity producers in the region. Further, with several nations in the region burdened by high debt, large fiscal deficits, high rates of unemployment and a narrow economic base, one can be easily forgiven for looking beyond the positive developments to potential oncoming difficulties. Indeed, the challenges identified are intractable and require structural and economic reforms to be reversed and thus, create an environment for sustained growth. But, akin to the proverbial chicken and egg, the revenue that is generated in times of growth is what is needed to bring to pass some of these reforms.

Barbados

The improved performance of the tourism sector was the principal reason behind the 0.6 percent growth of the economy in the first quarter of 2015. Stay-over arrivals increased by 12 percent, driven by strong growth in key markets including the UK (8.5 percent), US (24 percent) and Canada (28 percent). Reduced arrivals were recorded only in the Other Europe and Trinidad and Tobago markets, which contracted by 28.7 percent and 5 percent, respectively. Overall, the tradable sector expanded by 2.2 percent, with only tourism recording meaningful growth (4.4 percent). The non-tradable sector remained flat with marginal growth of 0.1 percent. Set against this backdrop, the rate of inflation remained low at 1.9 percent, while unemployment remained unchanged from 2014 levels at 12.7 percent. On the negative side, the country continues to face rising debt pressures, as gross public debt expanded to 110.9

percent of GDP from 108.7 percent at the end of 2014. In April 2015, the Central Bank took a significant step to deregulate the financial sector by removing minimum interest rates for savings accounts. Barbados is expected to register modest growth in the third quarter of 2015, based largely on tourism, which will benefit from a 3.8 percent increase in seating capacity from the US market during the summer period. Consistent with its search for oil and gas within its borders, the country recently announced the signing of two offshore exploration licenses with BHP Billiton.

Cuba

The moves by the US and Cuban governments to normalise their diplomatic relations and Cuba's ongoing efforts to reform its economy, have certainly captured the attention of international investors. However, it is expected to take some time before the US sanctions are completely removed; Cuba's nascent free market principles and policies begin to drive the economy; and the country is integrated into the global economy. For instance, the Republican-controlled US House of Representatives recently voted to maintain the restrictions on Americans seeking to travel to Cuba. The White House has indicated its intension to veto the bill. Until this is done, US travellers will have to obtain a license from the Treasury Department before visiting the island. On the positive side, the country was removed from the State Department's list of state sponsors of terrorism. Strong growth in tourism has caused economic activity to accelerate during the first quarter of 2015. Stop-over arrivals were up 14.1 percent during the period, with the country welcoming a larger number of visitors from its main markets. The number of visitors increased from Canada, Europe and other markets by 12.4 percent, 15.2 percent and 16 percent, respectively. The U.S. Treasury granted licenses to four American companies to operate ferry services between Florida and Cuba. Once approved by the Cuban government, this service may bring significant economic and diplomatic benefits to country.

Grenada

Economic activity remained positive in the first three months of 2015, after an expansion of 2.6 percent in 2014. The strong performance of the agriculture sector continued in 2015. This performance was based on increased production of nutmeg, ground provisions, fruits and vegetables. Tourism activity remained buoyant with a 4.7 percent rise in stay-over arrivals during the period. Grenada benefitted from increased arrivals from the US (11.9 percent), Europe (5 percent) and Other markets (8.5 percent), while the Canadian market recorded a 16.8 percent plunge. Cruise passenger arrivals grew by 6.1 percent during the first quarter of 2015. The tourism sector is anticipated to receive a further boost in June 2015 when JetBlue begins to service the New York/Grenada air bridge.

The country's efforts to restructure its debt have achieved some success, with private bondholders agreeing to take a 50 percent haircut (equal to US\$131 million) on debt totalling US\$262 million. This is equivalent to 15 percent of total outstanding debt as at 2014. However, with the bulk of Grenada's debt held by multilateral organizations such as the IMF and Caribbean Development Bank, the country is expected to contend with high debt rates for some time. Thus far, the country has not secured any debt cancelling agreement with its multilateral creditors. According to the Eastern Caribbean Central Bank, the country's debt stood at EC\$2,359.8 million at the end of 2014, equal to US\$874 million and 99.1 percent of GDP.

Guyana

With the new coalition government, the Partnership for National Unity and Alliance for Change securing a one seat advantage in the May general elections, political uncertainty is likely to ease notably. Unlike the previous government, which held a minority position in parliament, the new administration will be able to pass legislation and approve the national budget. Falling commodity prices and to a lesser extent, political uncertainty, caused economic activity to expand at a slower rate during the first quarter of 2015. After declining by 11.5 percent in 2014, there are signs that the mining sector's slump continued during the first three months of 2015. Gold prices, which ended 2014 at US\$1,185.50, remained at that level at the end of March, before falling slightly to US\$1,172.80 in early June. Following a 7.4 percent expansion in 2014, the growth momentum in the agriculture sector seems to have continued in the first three months of 2015. Nonetheless, with the country facing lower prices for rice and sugar, the expansion is estimated to be less

intense. ExxonMobil's recent announcement of a major oil find off Guyana's coast significantly enhances the long term prospects of the country's energy sector. However, the ongoing dispute with Venezuela over ownership of the territory could make commercialization tricky. If this leads to a breakdown of the Petro Caribe agreement between both countries, Guyana may be forced to find a new energy provider as well as new markets for its rice.

Region

The Jamaican economy expanded marginally by 0.3 percent in the first three months of 2015, driven by the 0.6 percent expansion in the services industry. Though modest, this represents an improvement compared to the 0.3 percent shrinkage, which occurred in the previous quarter. In January, the unemployment rate was 14.2 percent, unchanged from October 2014. In June 2015, Standard and Poor's Ratings Services (S&P) raised Jamaica's long-term foreign and local currency sovereign credit ratings from B- to B. S&P cited the country's ability to meet its fiscal targets over the past two years as the main reason for the upgrade. A few days earlier Moody's also upgraded Jamaica's credit rating.

Notwithstanding the upbeat outlook for the Caribbean tourism sector in 2015, the latest available data suggest mixed performances among Organization of the Eastern Caribbean States (OECS) members in the first quarter of 2015. Total stay-over tourist arrivals fell in Antigua and Barbuda, Dominica and Montserrat, while all other member states recorded increased arrivals. In May Hilton Worldwide announced an agreement with Sterling Developments to build an Embassy Suites by Hilton hotel in St. Kitts & Nevis. The 226-suite hotel is scheduled to begin operations in early 2017.

Outlook

Strong tourism demand and low commodity prices are expected to persist well beyond the third quarter of 2015. For this reason, the third quarter growth prospects for non-commodity based Caribbean economies are much better than their counterparts. Overall, the region is expected to post a positive performance during the period, even if little progress is envisioned with regard to lingering problems such as unemployment, high debt and fiscal deficits. The region's performance could be disrupted by its vulnerability to natural disasters as the Hurricane season progresses.

THE DEVELOPMENT CODE

The passing of Lee Kuan Yew, Singapore's first Prime Minister, on March 23rd this year, triggered a wave of reflection throughout the Caribbean and across the world. In 1959 at the age of 35, Mr. Kuan Yew assumed office as leader of the first elected government of an independent Singapore. With Britain's economic influence and activity receding, and seeing little hope for the survival of a small country with no natural resources, Singapore joined Malaya in September 1963 to form Malaysia. Tensions between the largely Malay population and Singapore's largely Chinese population boiled over into race riots in 1964 that ultimately led to his country's forced separation from Malaysia in 1965. Singapore's rapid growth and development thereafter, is the stuff of legend. Mr. Kuan Yew's account of his and his ministers' actions and decisions in building the modern Singapore, chronicled in his book *From Third World to First – The Singapore Story: 1965-2000*, is an enthralling narrative that should be required reading not just for those in public service, but anyone in a leadership position.

Through tact and by establishing his own credibility, he was able to assuage the fears of the different ethnic groups that their language and culture would be suppressed, while ensuring that English became the common language of business. Through dialogue backed by firmness and unflinching resolve, he was able to win over the trade unions; engendering on their part a more collaborative approach as opposed to what he saw as selfish and exploitative practices learned from their British counterparts. Vision and boldness, combined with innovation and meticulous planning, resulted in the establishment of Singapore as a financial centre, the integrity of which was steadfastly maintained through the prudent policies of the Monetary Authority of Singapore. Each initiative, every decision, was an important building block in his country's development.

But what is development? What results in a country being deemed 'developed'? The term, as broad as it is deep, defies definition by a single sentence or even a paragraph. The label is generally applied however, when a country performs well in a number of areas and against varied benchmarks. One important gauge, 'human development', as presented in the United Nations Development Programme's Human Development Report, is evaluated based on a number of criteria such as the amount of a country's resources (national income) for each citizen (per capita), life expectancy, health, education, gender equality, poverty, security, the environment and people's perception of well-being. Other useful and complementary gauges include 'competitiveness', defined as the set of institutions, policies, and factors that determine the level of productivity of a country, as well as 'ease of doing business', a scoring system based on the regulations that enhance

business activity and those that constrain it.

As can be seen from the table below, Singapore is close to or at the top of all three evaluation systems. The other high-performing countries, selected for comparative analysis, include small energy-producing states and the highest ranked Caribbean country.

Table 1: Some development evaluators

Human Development Report 2014	Doing Business 2015	Global Competitiveness Report 2014-2015
(1) Norway (2) Australia (3) Switzerland (9) Singapore (31) Qatar (44) Bahrain (44) Cuba (64) Trinidad & Tobago	(1) Singapore (6) Norway (10) Australia (20) Switzerland (50) Qatar (53) Bahrain (79) Trinidad & Tobago	(1) Switzerland (2) Singapore (11) Norway (16) Qatar (22) Australia (44) Bahrain (89) Trinidad & Tobago
187 countries ranked	189 countries ranked	144 countries ranked

A review of the histories of these highly ranked countries reveals some common themes from which important conclusions can be drawn.

The unifying and catalyzing effect of an external threat can be a major force

In Mr. Kuan Yew's own words

"The Japanese occupation (1942-1945) filled me with hatred for the cruelties they inflicted on their fellow Asians, aroused my nationalism and self respect, and my resentment at being lorded over. My four years as a student in Britain after the war strengthened my determination to get rid of British colonial rule."

Singaporeans of his generation would also undoubtedly have been impacted by the tension and violence that preceded their expulsion from Malaysia. In the Caribbean, Cuba's nationalist spirit, initially forged during its battle for independence from Spain in the late 19th century, was fired up for another generation after the 1959 revolution led by Fidel Castro and the hostility and aggression of the United States that has been directed at the island since then. The threat of an external force can greatly increase nationalist spirit and unite normally disparate groups. If harnessed properly by a skilled leader, great things can be accomplished in a shorter period of time.

The political system matters

While Lee Kuan Yew would have contested elections routinely, opposition parties seemed to be of little consequence. In addition to his over 3 decades as the head of the government, he exercised significant control over virtually all aspects of Singapore's development either directly or through a number of state and quasi-state agencies. This also occurred in Cuba, where activities were even more centrally directed, as under Fidel Castro's rule, the country was converted to a one-party socialist state controlled by the Communist Party of Cuba. In the Middle East, after being controlled by various sheiks and prominent families since the 18th century, both Qatar and Bahrain gained independence in 1971 and are monarchies in which control of the country rests largely with one family. For all its benefits, democratic systems of government are generally slower at facilitating rapid or transformational changes when compared to the untrammelled leadership of one person.

Maturity matters

Having just proffered that major change takes place more slowly under democratic governance systems, how is it that Norway, Australia and Switzerland are among the most developed countries in the world? Simple, when it comes to development, as distinct from just rapid economic growth, the maturity of a country's institutions and governance structure matters. Following a period that saw the conquests of its Vikings and its rule over countries including Iceland and Greenland, from 1380 Norway formed unions first with Denmark then Sweden until its independence in 1905. Long before this, Switzerland had reached a high degree of civilization under Roman rule, which began in the 1st century BC. Switzerland's later history is filled with conquests and periods when it was conquered by others. In 1848, Switzerland opted to become a Federal State, modeled in part on the U.S. Constitution. In another place and time, different regions of a land mass known as Terra Australis Incognita (unknown southern land), evolved into six colonies, to some of which British convicts were routinely exiled beginning in 1788. Over time the six colonies became states and in 1901 the states federated into the Commonwealth of Australia with a constitution that incorporated British parliamentary and U.S. federal traditions. The importance of maturity can hardly be expressed better than Dr. Henry A. Kissinger did in his Foreword to Mr. Kuan Yew's *From Third World To First - The Singapore Story: 1965-2000*.

"It is often overlooked that the institutions of the West did not spring full-blown from the brow of contemporaries but evolved over centuries which shaped frontiers and defined legitimacy, constitutional provisions, and basic values. ... The institutions of the West developed gradually while those in most new states were put into place in elaborated form immediately."

What then are the prospects for Trinidad and Tobago, or regional states for that matter? A collection of young democracies, with histories devoid of external aggression or threats. Where does that leave us? ... It leaves us with a code. Not a blueprint to be slavishly followed to the letter, but an ethos that transcends time. The Singapore 'miracle' cannot be replicated. It occurred in a unique period, under specific circumstances and was forged by a special collection of people. No parent can recreate their experiences to forge similar character traits in their children. The values however, can be inculcated and applied to their children's circumstances. The code can be passed on. If we recognize the importance of a strong nationalistic spirit, can we not demand this of our leaders? Can't we develop it in ourselves? The pragmatism shown by Lee Kuan Yew in reigning in the trade unions was due to the need for fair practices and to ensure that Singapore's industries remained productive and competitive. Can this philosophy be applied to our circumstances? Can we maintain our personal integrity and vigorously protect the integrity of the institutions of which we are a part? If we accept that a democracy often isn't best suited for facilitating timely transformative changes, what do we do? (No, we do not become one-party states or monarchies). We can seek to elevate some decisions above the contention of partisan politics. This could be achieved by establishing a referendum system through which citizens can vote on major infrastructure or policy initiatives. Taking these things outside the realm of election promises and party manifestoes could result in more cohesive planning, integrated development and ultimately more rapid progress, as work on the initiative will be mandated by the laws of the land and not the government or opposition.

As young countries, regional states have long admired the achievements of others, yearning to replicate them at home. Often, this admiration occurred in a context where people were either not fully appreciative of what it took to achieve success, or not willing to make the necessary sacrifices. Times change, technologies change, but the fundamentals remain. The development code is still there, it's up to us to apply it.

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