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Non-Energy Sector Drives the Domestic Economy

Overview

Economic activity expanded during the second quarter of 2014, based mainly on continued advances in the non-energy sector. The energy sector was a mixed bag, as the benefits of increased production and higher prices for oil, were offset by a decline in both price and output of gas. Against this backdrop the domestic economy is estimated to have expanded by 1 percent during the period, with growth projected at 1.9 percent for all of 2014. The performance of the economy between April and June was reflected in the growth of private sector credit, which rose by 1.5 percent over the previous quarter and 4 percent year-on-year. Despite the pick-up in economic activity, headline inflation slowed to 3 percent, with the food component easing for the third consecutive month. The unemployment rate is

estimated to have reached 4.7 percent by the end of June 2014. Stock market activity fell marginally, by 0.4 percent at the end of June, when compared to end of March 2014.

Energy Sector

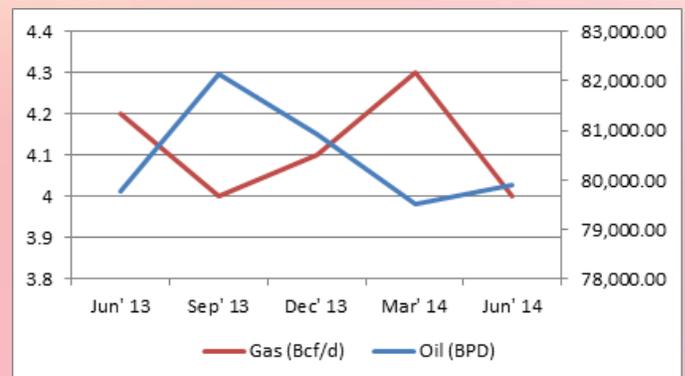
The energy sector's performance was mixed between April and June 2014. Oil production increased marginally to 79,902 barrels per day (bpd) from 79,528 bpd in the first quarter, while gas output fell to an average of 4 billion cubic feet per day (Bcf/d) from 4.3 Bcf/d (Figure 1). Likewise, oil prices increased to average US\$103.35 per barrel from US\$ 98.75, while gas prices slid to US\$4.61 per million British thermal units (MMBTU) from US\$5.21 in the first three months of the year. Production in the downstream sector weakened during the period, with ammonia and methanol output falling by 4.9 percent and 2.4 percent, respectively. Production declines were also recorded for liquid natural gas and ammonia based products such as urea. With the exception of a 6.2 percent increase in the case of methanol, downstream exports contracted during the period. Exploration activity picked up, with rig days rising to 753 from 588 and depth drilled increasing by 8.8 percent to 93,646 ft. In July, state-owned oil company, Petrotrin engaged in significant cleanup activities after an oil spill from one of its wells in Penal. The latest spill came seven months after a series of leaks in December 2013. To add to the company's woes, its bitumen plant broke down in August, causing a delay in government's road work programmes, as the product had to be imported from other countries. The 2013 Ryder Scott Report revealed that proven and probable natural gas reserves had fallen by 7 percent and 1 percent, respectively since 2012. Nevertheless, the sector received a much needed boost in July 2014, when Spanish energy giant, Repsol announced an oil find estimated at 40 million barrels, off Trinidad's south-east coast.

Trinidad and Tobago Key Economic Indicators

Indicator	2013	2013.2	2014.2 p/e
Real GDP (% change)	1.6	-1.7	1
Retail Prices (% change)	5.2	2.2	0.7
Unemployment Rate (%)	N.A.	3.5	4.7
Fiscal Surplus/ Deficit (\$M)	-4,175.2	2,133.5	1,967
Bank Deposits (% change)	12.4	2.9	0.5
Private Sector Bank Credit (% change)	3.7	1	1.5
Net Foreign Reserves (US\$M)	12,329.2	11,820.1	12,600
Exchange Rate (TT\$/US\$)	6.39/6.44	6.38/6.44	6.40/6.45
Stock Market Comp. Price Index	1,185	1,127.21	1,166.59
Oil Price (WTI) (US\$ per barrel)	97.91	94.1	103.35
Gas Price (Henry Hub) (US\$ per mmbtu)	3.73	4.01	4.61

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

Figure 1: Energy Production



Non-energy Sector

Activity in the non-energy sector remains upbeat, with second quarter growth estimated for the construction and distribution sub-sectors. Public projects continue to provide most of the impetus for the construction sector and with general elections due in 2015, this is expected to intensify. Between April and June 2014 significant work was undertaken to upgrade and build roads, bridges and several water courses, while work was carried out on other projects such as the National Aquatic Centre in Couva. Preliminary evidence suggests that private sector construction activity also grew during the period. At the end of June, Trinidad Cement Limited increased the price of cement by \$5 per bag. However, given government's robust construction thrust, this is not expected to significantly constrain construction sector activity in the short-term.

Fiscal Policy

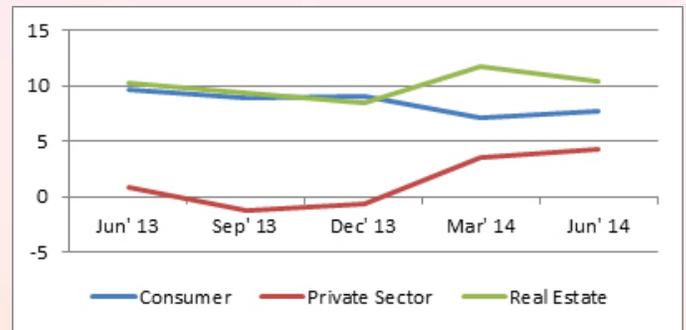
With energy prices consistently above budgeted levels in the second quarter, government's finances benefitted from increased revenues. This was accompanied by a high level of public spending, as the ruling party intensified its drive to complete several key projects. Nevertheless, government recorded a surplus of \$1,967 million at the end of June, while a deficit of \$4,876.6 million is estimated for the entire fiscal year.

Monetary Policy

In the second quarter, headline inflation fell to 3 percent from 3.77 percent at the end of March 2014. This was based largely on the further easing of the food component to 3.5 percent, compared to 5 percent. Core inflation also fell marginally to 2.5 percent. Given the low inflationary environment, the Central Bank maintained its focus on stimulating the domestic economy and left the "Repo" rate unchanged at 2.75 percent. In this setting, commercial banks' basic prime lending rate remained at 7.5 percent. Efforts to stimulate growth seem to be bearing fruit, as private sector credit expanded by 4 percent, year-on-year in the second quarter (Figure 2). Real estate mortgages expanded by 2 percent, when compared to the first quarter of 2014 and by 10.4 percent

year-on-year. Consumer credit grew by 2 percent over the first quarter and by 7.7 percent year-on-year.

Figure 2: Credit Growth (% Change)



The impediments to the flow of foreign currency, which were the unintended consequence of the changes made to the distribution system in April, have been addressed by the Central Bank. As a result, the disquiet amongst stakeholders that occurred immediately after the review has significantly eased, returning confidence and stability to the market. In its continued efforts to support the foreign exchange market, the Central Bank sold a total of US\$1,040 million during the first eight months of 2014.

Foreign Reserves

The country maintained a strong foreign currency reserves position in the three months to June 2014, based on higher than budgeted energy prices, which boosted government revenues. Reserves are estimated to reach US\$12.6 billion during the period, up slightly from US\$12.4 billion in the previous quarter (Figure 3). During the period, net sales of foreign currency increased to US\$345 million

Figure 3: Foreign Currency Reserves (US\$m)



from US\$187 million in the previous quarter and US\$233 million in the second quarter of 2013.

Outlook

Economic activity is anticipated to accelerate in the fourth quarter, based largely on seasonal factors and public sector spending. The approaching Christmas season is expected to boost domestic demand for goods and services and as such, drive the distribution sector. At the same time, government is expected to remain focused on completing ongoing infrastructure and other construction projects, in the lead up to general elections in 2015. Consequently, the construction sector will likely remain upbeat for the remainder of 2014. In this environment, unemployment is expected to stay at low levels.

Caribbean Update

Modest Recovery; Continuing Challenges

Despite signs of improvement, Caribbean economies continue to be challenged by high debt burdens, fiscal and balance of payments deficits and high unemployment rates. Tourist arrivals are nevertheless, beginning to show signs of marginal recovery. Latest data coming out from the Caribbean Tourism Organization show increases in stay over arrival in most of the Caribbean islands (Table 1) which should help provide some measure of relief for the tourist dependent countries in the region. However, the debt service obligation for these countries and less than optimal growth in foreign exchange inflows, continue to restrict regional economic performance. The Economic Commission of Latin America & the Caribbean (ECLAC) has had to revise its estimated growth rate for the region in 2014 downwards from 2.7 percent to 2.2 percent, lower than the 2.5 percent recorded in 2013.

Table1: Stay Over Arrivals Jan - June 2014 (% Change)

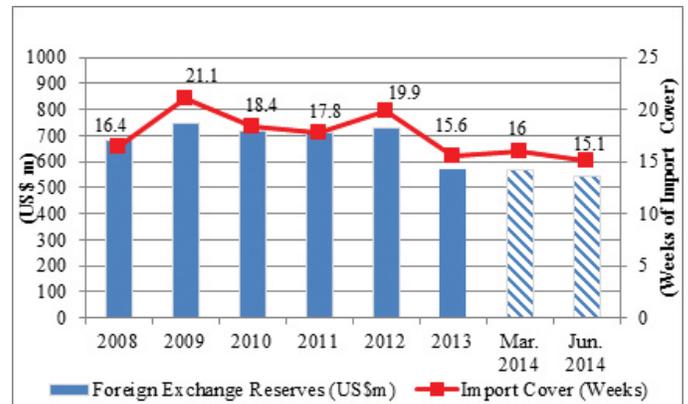
Barbados	-0.2
Cayman Islands	9.4
Grenada	18.6
Jamaica*	1.6
Saint Lucia	6.0
St. Kitts & Nevis	-4.2
St. Vincent & The Grenadines*	-0.8

Source: Caribbean Tourism Organization July 2014 Report & Central Bank of Barbados July 2014 Press Release. *Tourist arrivals for the period January-May 2014.

Barbados

Barbados' economy continues to struggle with the constraints it presently faces. Painful structural reforms have seen the unemployment rate reach an estimated 11.7 percent for the first six months of 2014 and the estimate for the fiscal deficit for 2014 has worsened from 11.3 percent, earlier this year to 12.4 percent. International reserves have also deteriorated, reaching 15.1 weeks of import cover at the end of June 2014, compared to 16 weeks in the first quarter (Chart 1). Reserves should improve with the US\$53 million sale of the Almond Beach Resort in July of this year, as well as ongoing projects to help improve the island's tourism product. Some of these include: the first phase of the Port Ferdinand Marina, the Bushy Park Motor Racing Circuit, the Apes Hill Clubhouse, the Central Bank museum, and other upgrades. Despite projected growth of 0.3 percent for 2014, significant downside risks remain.

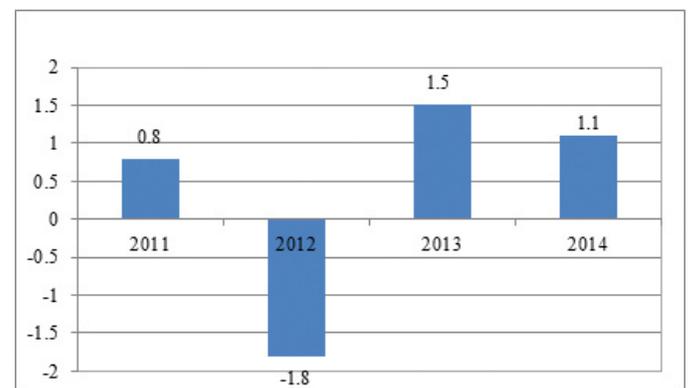
Chart 1: International Reserves



Grenada

Continuing with its "fiscal adjustment programmes" Grenada is projecting a growth rate of 1.1 percent for 2014, down from 1.5 percent recorded last year (Chart 2). Ongoing negotiations over its debt restructuring plans are likely to result in further debt relief and ease the pressures placed on the country's finances. In the meantime, additional sources of financing are being secured; with a US\$21.7 million IMF extended credit facility being acquired in June and the Caribbean Development Bank approving a US\$10 million loan facility in July. These funds will support government's ongoing reform programmes aimed at setting the island's fiscal accounts on a more sustainable path.

Chart 2: Real GDP Growth Rate (%)



Guyana

Guyana's economy continues to perform well, growing by 3.2 percent in the first half of the year, on the back of construction

related activities as well as agriculture. Sugar production rebounded with a 66.5 percent increase for the first six months of the year when compared to the same period in 2013. The mining sector declined, with gold production falling by 17.2 percent for the first six months of the year. This is being attributed largely to smuggling activities rather than lower international prices. Consequently, government has proposed implementing several measures regarding undeclared gold transactions, including: sensitizing miners of their legal obligations, greater monitoring and enforcement to deter negative practices.

In the political arena, an early election seems highly probable before the constitutional deadline of 2016. The main opposition party, Partnership for National Unity, has tabled a motion of no confidence in the current administration and with the combined opposition parties holding a one seat majority the motion is likely to succeed. The next sitting of parliament is scheduled for October 2014, once the motion is passed, elections become due in 90 days.

Cuba

The Cuban government has lowered its GDP forecast for 2014 from 1.7 percent to 1.4 percent, on account of weaker economic activity in the first half of the year. Growth in the tourism sector, as well as sugar production was less than anticipated, resulting in lower export proceeds, as both sectors account for 56 percent of the country's export earnings. Coupled with these developments, economic reforms introduced by the Cuban authorities to encourage foreign direct investments are being stymied by ongoing US sanctions. International investors are being deterred, as Cuba is still on USA's list of countries that sponsor terrorism. Recently, BNP Paribas, a French bank, was fined US\$8.9 billion for its complicity in facilitating transactions from 2004 to 2012 involving Sudan, Iran and Cuba. These fines only serve to discourage potential investors from the opportunities available on the communist island.

On a positive note, additional steps were taken in March 2014 for the gradual unification of the county's two currencies, the Cuban peso (CUP) and the convertible peso (CUC). While no definitive date has been given, referred to as "día cero", speculators expect that this will happen in late 2014 to early 2015. The

move is likely to create some distortions, but over the long term it will help increase efficiencies by reducing the bureaucracy in maintaining such a system.

Region

The start of the rainy season has brought much needed rain for Jamaica, as it experienced one of its driest years on record, significantly impacting the island's water resources, with reservoirs running low and emergency water restrictions being adopted. The impact on the agriculture sector has been severe, with the Ministry of Agriculture noting that the drought has destroyed crops worth almost J\$1bn (US\$8.9m) and has caused losses to more than 16,000 small farmers. Notwithstanding these pressures, price levels are forecasted to fall on account of depressed demand and greater stability in the exchange rate. On the fiscal side, government is seeking to enhance its revenue collection abilities, with stiffer penalties for tax evasion. According to government officials, some 27 percent of all companies with sales of J\$1bn or more, fail to file any tax returns and 21 percent of them fail to pay any taxes. Deterring this practice should help alleviate some of the revenue shortfalls that affect the country's finances.

Most of the countries in the Eastern Caribbean should experience mild economic recovery in 2014, on account of the strengthening US and European economies, particularly the US economy on which most of the islands are dependent. Recovery in tourism, remittances and some foreign direct investment should help to stabilise economic activity. However, growth will continue to be hindered by the tight fiscal conditions and austerity-like measures, made necessary by weak revenues and high debt levels.

Outlook

Fiscal adjustment policies, guided by IMF structural adjustment programmes, will continue for most of the region. While necessary, this will unfortunately keep unemployment rates elevated and domestic economic activity relatively subdued. Additionally with other sources of foreign exchange hard to come by, some countries are following St. Kitts and Nevis, by introducing Citizenship Investment Programmes of their own to raise additional revenues.



Statistics

The case for data collection, analysis, dissemination and action

Measurement is an integral part of virtually every undertaking. It assuredly forms a key part of what you do, whether you're a CEO, teacher, landscaper, accountant or mason. When we think of data, what often comes to mind is a computer printer churning out pages upon pages of figures. Data in fact, is simply described as 'facts or statistics used for reference or analysis'. Whether your stock in trade is inches, metres, GDP, tonnes, acres or pounds per square inch, data is used to prepare for your job, to perform your job and to review the job that was done.

National budgets represent a treasure trove of data. Beyond the few highlights or contentious issues that invariably grab the headlines, the annual presentation is supposed give an account of what was and wasn't achieved, inform on the present state of affairs, and indicate future plans and targets. While various groups will highlight points that support their cause, the body of data presented in the supporting documents is essentially standardized and unbiased, and lends itself to rigorous analysis. This analysis is critical to pinpointing successes and strengths, as well as areas of concern. A look at regional budgets and demographic data (Table 1) yields some interesting comparisons. Trinidad and

Tobago's 2014/2015 budget is more than twice that of Jamaica's despite having half the population and land size. Now, while there are undoubtedly a myriad of factors that contribute to these anomalies, inevitably questions arise about the level of efficiency in spending and execution of this country relative to other regional states.

The facts and figures presented along with the national budget, represent an accumulation of data for the period being reported on. Beyond this, there are hundreds of other statistics that also need to be captured and collated on an annual, quarterly, monthly, weekly, and daily basis. This country's data collection efforts, have struggled to reach first-world standards, and have been regressing in recent years. The seriousness of the current situation is clearly presented in the following excerpts from the **IMF Article IV report on Trinidad and Tobago of September 2014**.

"Data shortcomings have reached critical mass and now severely constrain staff's ability to conduct economic surveillance. The government data collection agency, the Central Statistical Office (CSO), temporarily ceased operations in mid-2013 and now operates under extreme resource constraints, leading to very long lags for GDP, trade and labor data. Official trade data are available up to February 2012, labor market data up to March 2013, while the GDP data for 2012 is still only provisional. There are also significant gaps in tourism statistics,

Table 1:

Regional budgets and demographic data			
	Budget (US\$)	Population (est.)	Land size (Km ²)
Antigua Barbuda	\$324,009,200.74	91,102	440
Barbados	\$1,968,836,921.50	274,000	431
Dominica	\$181,472,400.00	72,000	754
Grenada	\$345,900,937.04	110,000	340
Guyana	\$1,061,724,820.23	741,908	214,969
Jamaica	\$4,799,553,546.44	2,710,000	10,991
St. Kitts Nevis	\$174,074,074.07	51,300	261
St. Lucia	\$463,711,666.67	182,000	617
St. Vincent and the Grenadines	\$368,518,518.52	111,000	389
Trinidad and Tobago	\$10,175,935,542.76	1,345,343	5,128
Tobago	\$410,568,721.87	54,500	300

Note: All budgets were presented in 2014 and cover either the 2014/2015 fiscal year or the 2014 calendar year. The timing of fiscal years may differ from one country to the next.

while expenditure-side and quarterly GDP estimates are not compiled. The central bank's efforts to fill data gaps, although laudable, have resulted in estimates that are flawed due to methodological weaknesses."

The implications of these data shortcomings are massive, as in essence we do not know where we currently stand in several key areas of the economy, as the data simply doesn't exist. This worrying state of affairs didn't happen overnight, and doesn't exist in a vacuum. There appears to be a long-standing culture that more often than not doesn't see the value and potential of data collection and analysis.

One area where useful information has been and is being provided is this country's road traffic deaths. The Arrive Alive organization, in partnership with the Trinidad and Tobago Police Service (TTPS) provides fact and figures on fatal road traffic accidents and the number of deaths, along with TTPS Roadway Safety Review 2013 on its website. Trinidad and Tobago's road traffic deaths declined sharply, from 193 in 2012 to 152 in 2013, with 2014's figure (as at August 25th) set to mirror that of 2013. While the improvement is obvious, further analysis and comparison yield more information, and in this case highlights the value of relative data against (or in addition to) absolute data. The T&T figure is significantly higher than Guyana's 112, half that of Jamaica's 305 and a virtual drop in the bucket compared to the estimated 35,200 lives lost on the roads of the United States in 2013. However, when the figure is placed relative to population, specifically deaths per 100,000 people, a different and ultimately more useful picture emerges. Guyana is shown to be the worst performer of the group with 15.09 deaths per 100,000 followed by T&T at 11.29. Jamaica is marginally better at 11.25 deaths per 100,000, with the United States actually having the lowest rate of 11.1 deaths per 100,000.

Notwithstanding, T&T is clearly heading in the right direction in this area, in no small part due to the efforts of state agencies and the two groups mentioned above. However, more can be done. Encouragingly, the data and analysis already provided by the TTPS, suggests that they can go further. Imagine if information such as the top 10 roads or intersections for fatal accidents could be distilled and disseminated. An informed public can take extra caution when traversing these areas, engineering or infrastructure solutions can be explored and

the TTPS itself will be able to deploy its resources in a more targeted and systematic manner.

While most would have some idea about this country's oft repeated energy accomplishments, far fewer would be aware of the negative consequences. Data, from a 2010 study by the University of Trinidad and Tobago indicates that this country produces 53 million tonnes of greenhouse (CO₂) emissions annually, with 80 percent coming from petrochemical and power generation plants and only six percent from the transport sector. This amount, miniscule as it is compared to the top polluters China and the United States, (9.9 billion tonnes and 5.8 billion tonnes respectively in 2012) takes on a whole new dimension when it is judged on a per capita basis (relative to the country's population). T&T's 2010 figure calculated at 40.2 tonnes per capita is more than US's (16.4 tonnes per capita) and Australia's (18.8 tonnes per capita) 2012 output combined, and places this country as one of the top, if not the top per capita producer of CO₂ emissions in the world. In the same 2010 study, T&T was also ranked the second highest producer of greenhouse gasses per unit of GDP. What this essentially means is that this country is far and away one of the world's worst polluters based on our small size, and for our high level of pollution we get one of the lowest levels of return, in the form of GDP, relative to other countries. Beyond the ethical dimension, for all the benefits that it has brought to this country, it is reasonable to suggest that the full costs of energy and petrochemical production, in terms of environmental and social costs are not included in contractual arrangements. Industry insiders may well be aware of all this, but unless the data is rigorously examined and widely disseminated, the vast majority of other stakeholders i.e. John Q. Public, would not.

Most should be familiar with cautionary statement 'There are lies, damn lies and statistics'. The thing is, the more information that is collected, analysed and publicized, the closer we get to the truth. Sometimes this truth is praise-worthy, sometimes it is embarrassing, but ultimately it is unbiased. Information is a tool, an asset even, which is critical to enhancing this country's strengths and improving on its weaknesses. This can only happen however, if we are prepared to look at what we do, relative to others. Trinidad and Tobago has achieved much, but it also has a lot of work to do in several areas... relatively speaking.

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