Republic Economic NEWSLETTER

Dec 2013 Vol. 22 - No. 1. ISSN 1027-5215

Energy Sector Shutdowns Constrain Growth

Overview

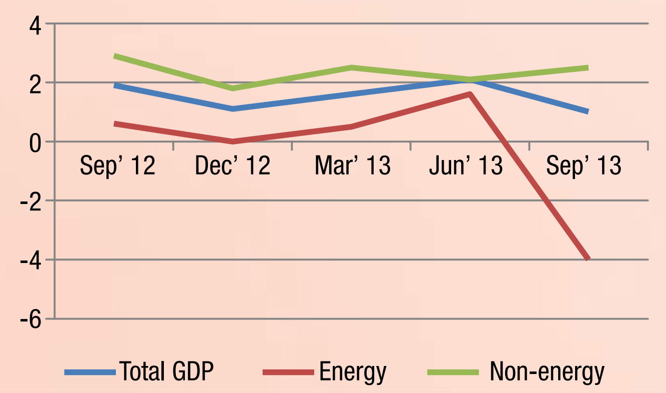
The domestic economy is estimated to have expanded by 1 percent during the third quarter of 2013 (figure 1). This represents the fourth successive quarter of growth and was based on increased activity in the non-energy sector, as energy sector activity contracted by 4 percent during the quarter. Expenditure, relating to the lead-up to local government elections in October, helped to boost economic activity. Set against this backdrop, the unemployment rate likely averaged 5.0 percent during the period. Headline inflation advanced at a slower rate during the quarter, as the food component eased further. The stock market experienced a 1.5 percent increase in activity, which was notably slower than the 2.9 percent expansion experienced in the previous quarter.

Trinidad and Tobago
Key Economic Indicators

Indicator	2012	2012.3	2013.3 p/e
Real GDP (% change)	0.2	3.1	1
Retail Prices (% change)	9.3	-0.06	-2
Unemployment Rate (%)	5.3	4.8	5.0
Fiscal Surplus/ Deficit ($M)	-2,274	-5,897.1	deficit
Bank Deposits (% change)	6.5	4	4.6
Private Sector Bank Credit (% change)	1.9	3.5	1.3
Net Foreign Reserves (US$M)	11,638	11,317	11,782
Exchange Rate (TT$/US$)	6.37/6.43	6.37/6.44	6.39/6.44
Stock Market Comp. Price Index	1,064.98	1,066.44	1,143.62
Oil Price (WTI) (US$ per barrel)	94.12	92.24	105.84
Gas Price (Henry Hub) (US$ per mmbtu)	2.75	2.88	3.55

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

Figure 1: GDP Growth (%chge)



Energy sector

After expanding by 1.6 percent in the second quarter of 2013, the energy sector experienced a 4 percent contraction in the subsequent quarter. Oil production increased from 79,755 barrels per day (Bpd) in the second quarter to 82,135 Bpd. This rise in production was accompanied by an increase in prices, which averaged US$105.84 in the quarter ending September 2013, up from US$94.10. Unfortunately, the improved performance of oil production and prices were not sufficient to offset the declines experienced in other parts of the sector. Planned plant upgrades and maintenance work conducted by BPTT and BG caused natural gas output to fall to 4 billion cubic feet per day (Bcf/d) from 4.2 Bcf/d in the previous quarter. Gas prices dipped to US$3.55 per mmbtu from US$4.01 per mmbtu. Within the downstream sector, shutdowns were coordinated with those that occurred upstream. Production of ammonia and methanol fell by 6.5 percent and 1.2 percent, respectively, while urea output expanded by 35 percent after weak performance between April and June 2013. The export of ammonia and urea decreased during the period by 11.8 percent and 3.6 percent, respectively. On the other hand, methanol exports grew by 14.6 percent. Exploration activity eased between July and September, as rig days fell by 19.4 percent to 629 days and depth drilled slid

13.8 percent. On the positive side, eleven bids were received for the 2013 onshore bid round, which closed in October. The December oil find by Trinity Exploration and Production plc is encouraging to say the least.

Non-Energy

Based on preliminary evidence, the non-energy sector recorded another period of growth in the third quarter, after expanding by 2.1 percent between April and June 2013. Construction and manufacturing continued to grow, expanding for the fifth successive quarter and were the main source of activity in the non-energy sector. Construction activity has been driven primarily by public projects, including the Churchill Roosevelt/Uriah Butler Highway Interchange and the San Fernando to Point Fortin Highway. Additionally, several road repair and augmentation initiatives were undertaken during the period. Nonetheless, there are some indications that private construction activity also increased. Other industries in the non-energy sector, such as manufacturing, were able to feed off the momentum provided by stronger construction activity. Distribution and agriculture also registered increased output during the period.

Fiscal Policy

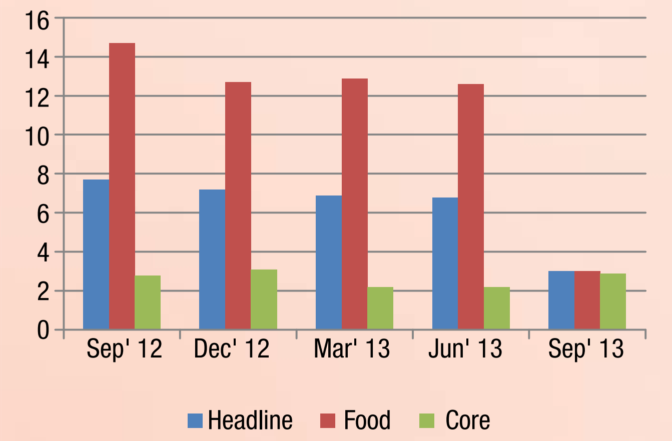
Government maintained a high level of expenditure during the period, as it was better able to implement planned projects. Additionally, with local government elections in October, councillors sought to complete various initiatives in the areas under their remit, thereby, boosting public expenditure. Given the challenges faced by the energy sector in the third quarter, there was no significant increase in government revenue. Consequently, government incurred a fiscal deficit during the period after a surplus of $2.1 billion in the previous quarter (figure 2).

Figure 2: Fiscal Balance TT$mn

Monetary Policy

Headline inflation slowed to 3 percent year-on-year in September, down from 6.8 percent in June 2013 (figure 3). This occurred in an environment where food inflation eased significantly to 3 percent in September, compared to 12.6 percent in the previous quarter. On the other hand, core inflation accelerated slightly to 2.9 percent from 2.2 percent in June. Latest available data indicate that headline inflation fell further, to 2.7 percent in October, as core inflation fell to 1.9 percent and the food component rose to 3.7 percent. The low rate of inflation has provided a supportive environment for the Central Bank to retain its accommodative policy stance. In this regard, the Bank has left the “Repo” rate unchanged at 2.75 percent. Nevertheless, with high liquidity in the banking system, the Bank plans use its recently approved increased borrowing limits to help lower inflationary pressures. The commercial banks’ basic prime lending rate averaged 7.5 percent during the quarter ended September 2013. Private sector credit contracted by 1.3 percent on a year-on-year basis, but rose 1.3 percent over second quarter 2013. Real estate mortgages rose by 9.3 percent and consumer credit expanded by 8.9 percent over the same period in 2012.

Figure 3: Inflation Rate (%)



Reserves

Despite some anxiety surrounding the supply of foreign exchange, and a decision taken by local banks to impose quotas on the sale of foreign currency to customers, the country’s foreign reserve position remains strong. Reserves remained stable at US$11,781 million in September, when compared to US$11,819 million recorded in June 2013. In the third quarter of 2013, net sale of foreign currency rose to US$309 million from US$233 million in the previous quarter, but was lower than the US$384 million recorded for the corresponding period in 2012.

Outlook

With the fourth quarter virtually over, the usual seasonal surge in demand combined with local government elections spending, provided further impetus for the non-energy sector. The completion of maintenance work is expected to boost the energy sector heading into 2014. GDP is projected to expand, based on the thrust of both the non-energy and energy sectors. Construction, manufacturing and activities associated with Carnival are expected to drive non-energy activity, while a more stable supply of gas should boost the energy sector. Domestic inflation is likely to remain well below the double digit threshold during the period, although international food prices rose in October. All the same, adverse weather conditions either on the international or domestic level could belie this forecast.

Caribbean Update

2013 Ends:

Well… at Least the Weather Wasn't Bad

The US-based National Oceanic and Atmospheric Administration (NOAA) categorized the just-concluded 2013 Atlantic hurricane season as the least active in three decades, having produced the fewest hurricanes since 1982. There were 13 named storms, six fewer than last year, resulting in just two hurricanes, neither of which qualified as major – a first since 1994. Scientists attribute this year's relative calm to less fertile atmospheric conditions over the Gulf of Mexico, Caribbean Sea and tropical Atlantic. Economists on the other hand, will probably attribute the prevailing economic climate to less fertile conditions in the United States, Canada, Europe and the Caribbean itself. While weather conditions generally occur within fixed seasonal parameters, the prevailing economic conditions have held for a number of years, affecting all regional states during that time. Some, because of their economic structure, have been able to recover somewhat, while others, with fewer options at their disposal, have sacrificed long-term sustainability for short-term survival. For this latter group, as 2013 winds down, even though conditions in most leading economies are improving, relief cannot come fast enough, literally.

Table1: Debt Indicators (%)

Country	Debt / GDP (2013)	Fiscal balance / GDP (2012/2013)
Antigua Barbuda	89 %	-1 %
Barbados	105.8 %	-8 %
Cuba	35.7 %	-0.5 %
Dominica	71 %	-3.9 %
Grenada	107 %	4.9 %
Guyana	60.3 %	-6.1 %
Jamaica	142.7 %	-4.1 %
St. Kitts Nevis	103 %	11.8 %
St. Lucia	84.8 %	-5.4 %
St. Vincent & the Grenadines	73.2 %	N.A.

Source: International Monetary Fund (IMF), Economist Intelligence Unit 9EIU-UK), Central Bank of Barbados, Government of Grenada, Government of St. Kitts Nevis.

Barbados

As expected, conditions in Barbados continue to be difficult. The economy contracted by 0.7 percent for the first nine months of 2013, with declines in most key sectors. The tourism sector shrank by 2.1 percent, due to a 6.2 percent decline in stay-over arrivals. The manufacturing sector was the lone bright spot with modest growth of 1.2 percent, with agriculture and construction shrinking by 2.5 percent and 13.3 percent, respectively. The unemployment rate, which was 11.6 percent in December, averaged 11.1 percent for the first half of 2013, while the inflation rate slowed significantly, registering 2.1 percent in July compared to 7.8 percent a year ago.

Barbados' fiscal position continues to deteriorate and its foreign reserves fell from BD$1,457 million in December 2012 to BD$1,010.5 million at the end of September 2013, representing 13 weeks of import cover. Having revised the outlook on the country's BB+/B credit rating from 'stable' to 'negative' in July this year, in November Standard and Poor's subsequently lowered Barbados' rating to BB-/B with a negative outlook. With conditions in the leading economies on which it depends unlikely to improve fast enough, a near-term economic recovery for Barbados is not on the cards. The next six months will be extremely testing for the island and its citizens, with the government needing to make decisive reductions in its expenditure.

Cuba

Cuba's economy is expected to grow by 2-3 percent this year, as some key sectors are expected to register decent, but not as good as expected performances. Tourism is down slightly, with the 2.31 million visitors through October, 1.2 percent lower than the figure for the 2012 period. Despite its overall slow pace of growth, there was encouraging progress in some key agriculture sub-sectors. Raw sugar production weighed in at 1.51 million tonnes (1 tonne = 1,000 kg or 2,240 pounds) this season (2012 – 2013), 8 percent above the previous harvest but short of the 1.68 million tonnes forecast. The shortfall was attributed, in part, to poor management, obsolete machinery and the effects of Hurricane Sandy. With ample rainfall and increased investment in plant and machinery, a 20 percent production increase is expected for the upcoming season. Similarly, Cuba's rice production is expected to surge by around 23 percent from 320,792 tons (1 ton = 2,000 pounds) in 2012 to approximately 394,000 tons in 2013 due to favourable weather conditions and government support.

The government expects to achieve a smaller than expected fiscal deficit of 0.5 percent of GDP this year. Cuba's reform agenda continues, with the authorities announcing in October, plans to unify Cuba's two currencies, which will eventually bring an end to the two-decade old dual currency system and facilitate greater economic efficiency and development.

Grenada

Following a challenging year, Grenada is set to end 2013 on a positive note. In presenting the island's EC$934 million budget for 2014, Prime Minister and Minister of Finance, Dr. Keith Mitchell, indicated that Grenada's economy is projected to grow by 2.7 percent in 2013. Growth was led by an estimated 20 percent increase in the construction sector and 22 percent growth in output from the fishing subsector. Despite production increases in banana and nutmeg of 18 and 30 percent respectively, the agriculture sector is expected to decline marginally (-0.4 percent). The tourism sector is expected to shrink by 4 percent, with a 0.8 percent drop in air arrivals in the January–September period. Grenada's unemployment rate at the end of September stood at 33.5 percent.

The fiscal deficit for 2013 is projected to be EC$108.8 million (4.9 percent of GDP) while Grenada's total public sector debt as at December 31st 2013 is expected to be EC$2.41 billion or 107 percent of GDP. With the country's finances in a parlous state, government representatives have been holding discussions with the International Monetary Fund (IMF) and other lending agencies, with a view to receiving support and assistance in restructuring Grenada's debt and meeting its commitments to its creditors. As part of the process, the Mitchell administration has created a 'home-grown' structural adjustment programme to run from 2014 to 2016. Key revenue-generating measures announced in the budget include a wider tax net, more aggressive tax collection and increased property taxes. In terms of expenditure reduction, while no public officers are to be retrenched, a 70 percent attrition policy will be implemented throughout the public service that will see only 70 replacements hired for every 100 workers that resign or retire. The Prime Minister explained that these and other measures outlined were necessary in order to secure US$100 million in grants and soft loans, along with significant debt relief.

Guyana

In the absence of recent data, indicators point to continued growth for the rest of 2013, following half-year GDP growth of 3.9 percent. In agriculture, weak performances in fisheries and livestock production will most likely be countered by growth in the forestry sub-sector and the significant increase in rice production. While the decline in gold prices this year undoubtedly impacted export values, revenues were shored up somewhat, by increased gold production efforts. Guyana seems on course to achieve growth of 4.8 percent for 2013 and while this is quite healthy by current regional and even international standards, it is a let-down from government's initial target of 5.3 percent, as economic performance continues to be hamstrung by the ongoing underperformance of the sugar sector.

Following Guyana's failure to approve legislation to combat money laundering and counter the financing of terrorism (AML/CFT), the Caribbean Financial Action Task Force (CFATF) issued a release in November advising its members to consider implementing countermeasures to protect their financial systems from the ongoing money laundering and terrorist financing risks emanating from Guyana. While Caricom, citing the economic and financial consequences that could result, has urged that a speedy resolution of the matter be sought, the issue is symptomatic of the tenuous legislative process that now exists in Guyana, due to the current parliamentary configuration.

Region

Jamaica's economy grew by 0.6 percent in the third quarter after six consecutive quarters of contraction. The Planning Institute of Jamaica (PIOJ) anticipates growth in the fourth quarter as well, of 0.5 to 1.5 percent.

Despite the likelihood of improved agriculture sector output, Organisation of Eastern Caribbean States (OECS) member countries continue to face challenging economic conditions due to significant fiscal and debt-related constraints and generally weak performances in their key tourism sectors. Caribbean Tourism Organisation (CTO) arrival data for 2013 (periods ranging from the first six months to the first nine months) show that of the eight-member bloc, Anguilla, Montserrat, St. Lucia and St. Kitts Nevis saw increased year-on-year arrivals, while Antigua Barbuda, Dominica, Grenada and St. Vincent and the Grenadines all had declines.

Outlook

With the exception of the turnaround in Grenada, the outlook for the region remains the same, as the trends identified in our September 2013 issue, *Holding Pattern: First half assessment presages 2013 performance*, continue to hold sway. Countries with notable interests in agriculture, mining and energy continue to fare much better than those whose economies are driven by tourism, finance and related services. While the overall impact of the agriculture sector tends to be relatively small in a number of regional states, it is worth mentioning that this year's sedate hurricane season would have allowed crop and livestock production across the region to consolidate and grow. This provides a solid platform for increased output in the new year and for some states, represents one of the few bright spots on the horizon. As economic fundamentals deteriorate, the need for external assistance and remedial action is becoming more pressing for a number of countries. The first half of 2014 is likely to be characterized by continued high commodity prices, moderate gains in agriculture and tourism, tough decisions by government officials and the possibility of some socio-political unrest.

Review and Prospects:

Trinidad and Tobago 2013

The performance of the Trinidad and Tobago economy in the thirteenth year of the current millennium was not as flawless as one would have hoped, managed by a three-year-old administration still struggling to find its feet, and against the backdrop of a limp global economy still trying to shake off the debilitating effects of the 2008 financial crisis. Unlike several energy-based economies (such as Bahrain, Saudi Arabia and Nigeria), this economy has not shown significant growth since 2008, when the economy grew by 3.4 percent. Nevertheless, while most key indicators held steady in 2013, overall growth was minimal, at an estimated 1.6 percent instead of the 2.5 percent projected by the Central Bank towards the end of 2012.

Low interest rates and government spending accommodated the incipient growth, which stemmed mainly from the non-energy sector. The global economy provided only marginal support in the form of high energy prices and some ease in food prices.

Not only did crude oil production decline marginally during the year but the petrochemical sector continued to suffer from a shortage of natural gas, due to maintenance work conducted by the country's two major gas producers, BPtt and BG. The result was a reduction in output of the energy sector during the year. While output of oil contracted by 1.3 percent to average 81,172 barrels of oil per day during the first nine months of 2013, output of natural gas was only marginally higher than in 2012. Prices, however, remained strong, with the oil price averaging US$97.74 per bbl. and that of natural gas, US$3.68.

This lukewarm performance by the hydrocarbon sector in 2013 belies the significant upstream activity evident in the sector for several years now. During the year, contracts were awarded for deepwater and land exploration while investments in the sector were some US$2.5 billion. Seismic exploration and feasibility work being conducted are expected to gradually impact measured national output.

Non-energy output provided the major impetus for recorded growth in 2013, as the construction, finance and selected retail sectors benefitted from low interest rates and higher government spending – capital and recurrent expenditure.

In the context of still weak growth and moderate price pressures, monetary policy continued to be appropriately accommodative with the Central Bank holding the "Repo" rate steady at 2.75 percent, a level it has maintained since 2012. The Mortgage Market Reference Rate, which reached 2.5 percent at the end of 2012, fell to 2.25 percent in June 2013 and remained at that level in December. Liquidity remained high during the year and in November, the Minister of Finance and the Economy won approval from the House of Representatives to allow the Central Bank to extract more liquidity from the financial system, by raising the total borrowing limit of treasury bills and notes to $45.0 billion.

Reflecting a sluggish real sector, credit growth – especially in the business sector – was slow, perhaps reflective of own-funds investment by the business sector, given relatively low deposit rates. Mortgage lending, however, remained high at 9.3 percent and consumer lending expanded by an estimated 8.9 percent or $1,842.9 million year-on-year to September 2013 compared to 7 percent over the corresponding twelve-month period of 2012.

Strong revenues but even stronger government expenditures saw the fiscal deficit climb in 2013 to an estimated 4.6 percent of GDP- the third deficit since 2010. However, mirroring some improvement in food prices compared with 2012, together with a modification in the way the Retail Prices Index is now computed, the rate of inflation contracted to an estimated 5.0 percent in 2013. The official unemployment rate remained at approximately 5.0 percent but the International Monetary Fund (IMF) in its latest Article IV Report has pointed to "significant" underemployment in the economy.

The external accounts appear to have experienced only marginal declines while the country's foreign reserves remained comfortable at some 11½ months of import cover.

Looking forward, the economy is expected to strengthen in 2014 as the public and private sectors are expected to ramp-up spending. Without the anomaly of four elections and a cabinet reshuffle in a single year, there should be less distraction to project implementation in 2014. Natural gas shortages to the downstream sector should be behind us. However, criminal activity represents a major drag on initiatives in the non-energy retail economy and there is little confidence that the situation is improving. It can only be hoped that a new Minister of National Security, along with recent initiatives will bear fruit.

In the financial sector, interest rates could begin to inch up late in 2014, if US rates begin to rise on account of the expected "tapering" off of financial injections by the US Federal Reserve; and providing domestic prices continue to decelerate. The world economy is also expected to strengthen in 2014. Indeed the UK-based Economist Intelligence Unit predicts that "the largest rich economies, the US, the euro zone and Japan will all grow together for the first time in four years." This growth, however, is to remain subdued for some time.

The Caribbean will continue to remain a major challenge for more than one reason. Recent quarrels over immigration are perhaps a natural consequence of the economic crisis visiting the region and the poor prospects for growth in the short- to medium-run. For one thing, there is little hope of recovery in 2014, notwithstanding expected improvements in tourist source markets. This will especially impact Trinidad and Tobago's manufacturing sector but the retail distribution sector as well.

In 2013 the Trinidad and Tobago economy demonstrated some positive signs of growth and 2014 may likely see further strengthening. Nevertheless, there are many binding constraints to growth on the external and internal front. Creditable leadership at all levels can go a long way in addressing these constraints, encouraging investments and in ensuring much stronger economic growth.

Chart 1

KEY EVENTS OF 2013

MONTH	EVENT
January	• Moody's Investors Service affirms Trinidad and Tobago's Baa1 government bond rating; the rating outlook remains stable. • The People's National Movement (PNM) wins all 12 seats in the Tobago House of Assembly election.
March	• Anthony Thomas Aquinas Carmona is sworn in as the country's fifth Head of State. • The IMF's 2013 Article IV Consultation mission to Trinidad and Tobago projects overall real gross domestic product (GDP) growth of about 1 ½ percent for 2013; the mission's Staff Report is published in October.
April	• The Minister of Energy and Energy Affairs signs the Project Development Agreement for the establishment of petrochemical plants for the production of Methanol and Dimethyl Ether (DME) at Union Industrial Estate, La Brea.
June	• The government and BHP Billiton sign production-sharing contracts (PSCs) for four deepwater blocks. • Cabinet approves the investment of $500 million by the National Gas Company (NGC) to develop phase one of a two-phased, five-year plan for the conversion of all motor vehicles to CNG.
July	• Jack Warner of the newly-formed Independent Liberal Party (ILP), is re-elected Member of Parliament for Chaguanas West. • Ryder Scott's 2012 audit of non-associated natural gas reserves for Trinidad and Tobago quantifies proven, probable and possible (3P) reserves at 26.24 trillion cubic feet (Tcf) and exploration resources at 31.62 Tcf.
August	• The auction of the Government of Trinidad and Tobago $1.0 billion, 10-year, 2.50% bond (issued to assist in domestic liquidity management through the sterilisation of the bond proceeds at the Central Bank) attracts total bids of $895.271 million, and $559.271 million is allotted at par with a clearing price of $100.00 per $100.00 face value, offering investors a yield to maturity of 2.50%.
September	• Prime Minister Kamla Persad-Bissessar announces the third Cabinet reshuffle of the People's Partnership Government, appointing three new ministers and re-assigning nine. • Parliament approves the $61.4 billion 2014 Budget, which is based on oil and gas price assumptions of US$80 per barrel and US$2.75 per mmbtu respectively.
October	• Local Government Elections result in 85 seats for the PNM, 44 seats for the UNC, three seats for the ILP and four seats for the COP. • The TT$4.7 billion (US$740 million) Trinidad Generation Unlimited power plant at La Brea Union Estate is opened. • The first dedicated Onshore Bid Round in 15 years generates 11 bids from five companies for three land-based blocks (successful bidders should be announced by mid-December 2013).
November	• Terrence Deyalsingh of the People's National Movement (PNM) wins the St Joseph by-election, increasing the PNM's seats in the House of Representatives from 12 to 13 and reducing the People's Partnership administration's seats from 28 to 27. • The House of Representatives approves a motion to allow the Government to increase its capacity to borrow under the Treasury Bills Act No. 14 of 1995 and the Treasury Notes Act No. 14 of 1995 (so as to empower the Central Bank's efforts in mopping up excess liquidity in the financial system).