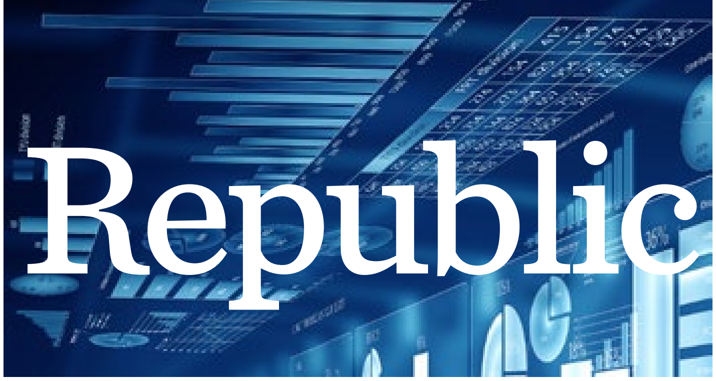


Republic Economic NEWSLETTER

June 2026 | Vol.34, No.3 | ISSN 1027-5215

Subdued Growth Amid Waves of Global Uncertainty

OVERVIEW

Available information suggests a muted performance across key non-energy subsectors in the first quarter of 2026, notwithstanding some seasonal stimulus provided by the Carnival season. On the positive side, the spike in global energy prices towards the end of the quarter provided some short-term respite for government's strained finances, due to increased revenue. In the labour market, the most recent data suggest a modest uptick in unemployment in the fourth quarter of 2025, reflecting a 0.9 percent expansion in the domestic labour force. Although employment grew by 1.4 percent over the period, this increase was not enough to offset the growth in the labour supply. Headline inflation remained contained at 0.7 percent in the first quarter, suggesting continued price stability. Meanwhile, the negative trend continued in the domestic stock market, with the composite price index contracting 11.2 percent year-on-year (y-o-y) and 1.2 percent from fourth quarter 2025.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2025	2025.1	2026.1 p/e
Real GDP (% change)	0.8	-7.5	N/A
Retail Prices (% change)	1.0	0.8	0.7
Unemployment Rate (%)	4.5	4.9	N/A
Fiscal Surplus/Deficit (TT$-Mn.)	-9,159.5	-4,007.0	-2,410.2
Bank Deposits (% change)	0.4	0.9	0.8
Private Sector Bank Credit (% change)	5.6	1.6	0.1
Net Foreign Position (US$M)	8,894.4	9,099.2	8,937.5
Exchange Rate (TT$/US$)	6.72/6.78	6.73/6.78	6.71/6.78
Stock Market Comp. Price Index	1,011.7	1,050	932.8
Oil Price (WTI) (US$ per barrel)	65.46	71.84	71.98
Gas Price (Henry Hub) (US$ per mmBtu)	3.53	4.15	4.79

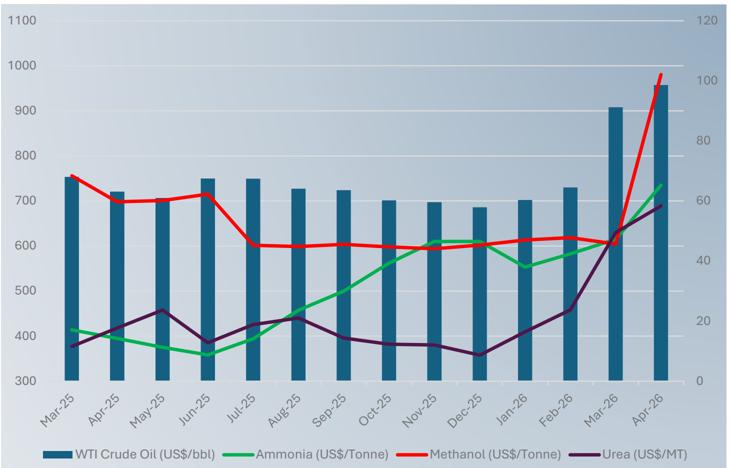
Source: - Central Bank of Trinidad and Tobago, TTSE, Energy Information Administration
p - Provisional data
e - Republic Bank Limited estimate
*** - Estimate based on CBTT's Index of Economic Activity**

ENERGY

Global energy markets remain deeply unsettled, with the Middle East conflict involving the United States (US), Israel and Iran having breached the 100-day mark. More importantly, energy flows through the Strait of Hormuz remain severely subdued. Despite the implementation of a fragile ceasefire agreement, tensions and the related economic uncertainty remain elevated. These events have impacted commodity prices, some of which posted record increases in the first quarter of 2026. At the end of January, the West Texas Intermediate (WTI) oil price stood at US$60.30 per barrel (pb), before increasing sharply by 63.5 percent to US$98.60 pb (Figure 1) by the end of April. Further, there was a notable divergence in natural gas benchmarks when comparing US prices to those in Europe and Japan. Over the period, the US benchmark (Henry Hub) declined by 63.5 percent, while the European and Japanese benchmarks rose sharply by 31 percent and 36.2 percent, respectively. Prices in the US fell to their lowest point since November 2024 (a 17-month low), driven by an over-supply and low demand due to a mild spring. However, the import dependent European and Asian markets faced a different reality given their vulnerability to global dynamics, including the ongoing Middle East supply disruption. The average price differential between the US and European markers before the conflict was

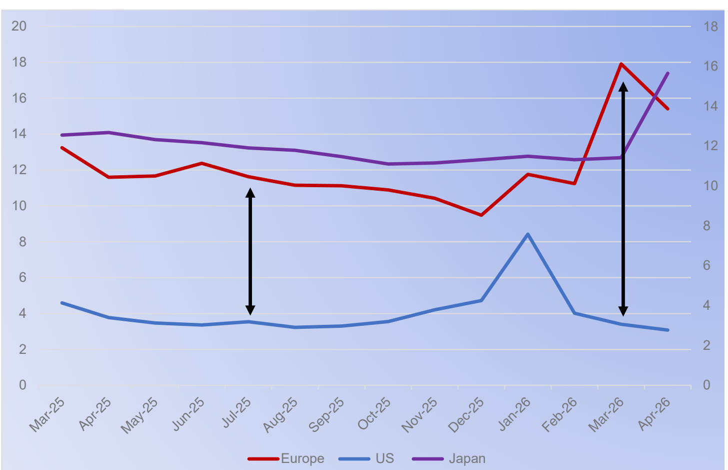
US$7.61 per million British thermal units (mmBtu), after the attacks the spread widened to US$14.85 per mmBtu (Figure 2). Naturally, downstream prices accelerated in tandem with upstream feedstock prices. Ammonia, methanol, and urea all registered price increases of 32.9 percent, 59.8 percent and 68.4 percent, respectively (Figure 1).

Figure 1: Commodity Prices



Source: Energy Information Administration, World Bank

Figure 2: Natural Gas Prices ($/mmbtu)



Source: Energy Information Administration, World Bank

While Trinidad and Tobago benefitted from the rise in oil prices, it also likely received a boost from the increased gas prices in the Asian markets as the pricing formula for Liquified Natural Gas (LNG) from Atlantic LNG's Train 2 and Train 3 has exposure to Asian LNG price markers. However, the ongoing domestic production constraints limited the extent to which the domestic economy benefitted from elevated prices.

The expected increase in gas production starting in 2027, will be primarily driven by Shell's Manatee project. However, the most significant long-term potential lies in cross-border developments, particularly the Loran gas field which is attached to the Manatee field and lies within Venezuela's maritime borders. The Loran field contains an estimated 7 trillion cubic feet (tcf) of recoverable gas. Recent developments have boosted optimism that the country could benefit in some way from this resource. On June 12, 2026, Shell signed five agreements with Venezuela, including one covering the Loran field. This is especially promising given Shell's ongoing development of the Manatee side, creating the potential for gas from Loran to be processed at the Atlantic LNG complex in Trinidad and Tobago. Additional opportunities exist in the Cocuina-Manakin project, a smaller cross-border field where Trinidad and Tobago holds a 66 percent stake, with total recoverable gas estimated at 0.65 tcf. BP recently signed a development contract with Venezuela for the inactive Deltana Platform, on the Cocuina side, which extends into Trinidad's maritime boundary, further supporting the potential for incremental gas supply from cross-border collaboration.

NON-ENERGY SECTOR

The tepid performance of the non-energy sector in 2025 appears to have continued in early 2026. Based on cement sales, often used as a proxy for construction sector activity, there are tentative signs of a modest recovery, with sales increasing by 3.1 percent quarter-on-quarter (q-o-q). However, the 13.6 percent y-o-y contraction underscores continued weakness in the sector, likely reflecting reduced public sector construction activity. Notwithstanding this, the performance of the sector is expected to improve over the medium term. A similar pattern was observed in new motor vehicle sales, a key gauge of activity within segments of the trade and repairs sector. Between January and March 2026, new vehicle sales declined sharply by 34 percent q-o-q and by 17.2 percent y-o-y. In the tourism sector, the usual seasonal boost provided by the Carnival period, resulted in a 13 percent y-o-y increase in visitor arrivals and peak occupancy rates of 83.2 percent. While this provided some support, it was likely insufficient to offset broader declines across the non-energy sector.

MONETARY POLICY

Major central banks globally have held policy rates steady for much of 2026, citing a volatile and uncertain external environment driven by unpredictable trade policies and the ongoing Middle East conflict. Against this backdrop, policymakers have adopted a cautious, wait-and-see approach, as they assess the full economic impact of the energy shock. Several central banks have also revised inflation forecasts upward while lowering growth projections.

US Treasury yields have risen, reflecting heightened inflation expectations and tighter anticipated monetary conditions. Consequently, after narrowing over the past eight months, the US-Trinidad and Tobago (TT) interest rate differential has begun to widen again. In March 2026, the negative US-TT differential on 91-day Treasury bills, which had stabilised at -66 basis points during the first two months of the year, widened further to -73 basis points as of March 23, 2026. By April 2026, the differential widened further to -91 basis points.

Domestically, inflation remained controlled in the first quarter. Headline inflation stood at 0.7 percent in March 2026, up marginally from 0.4 percent in December 2025. Food inflation declined to 0.3 percent in the first quarter of 2026, while core inflation rose to 0.8 percent. In this environment, and amid slower q-o-q credit growth in the first quarter, together with softening conditions in the non-energy sector, the Central Bank's Monetary Policy Committee (MPC) maintained the repo rate at 3.5 percent in its March 2026 announcement. This marked the 72nd consecutive month that the rate was held at that level.

Net Domestic Financial Injections (NDFI), typically a key driver of excess liquidity, declined by 14.8 percent q-o-q, but increased by 1.4 percent y-o-y. Notwithstanding this contraction, system liquidity increased in the first quarter, with commercial banks' excess reserves rising by 5.5 percent q-o-q to $5,625.6 million. The commercial banks' average prime lending rate remained unchanged at 7.57 percent. Against this backdrop, business loans, consumer loans, and real estate credit expanded by 4.7 percent, 5.2 percent, and 4.4 percent, respectively, in the first quarter of 2026. However, the q-o-q momentum was weak, business loans contracted by 0.5 percent, while consumer loans and real estate credit grew by a modest 0.3 percent and 0.8 percent, respectively. There was a marked y-o-y increase in non-performing loans by 10.6 percent, which likely reflects weaker conditions in the non-energy sector. Further, non-performing loans as a percentage of gross loans stood at 3.1 percent at the end of the quarter.

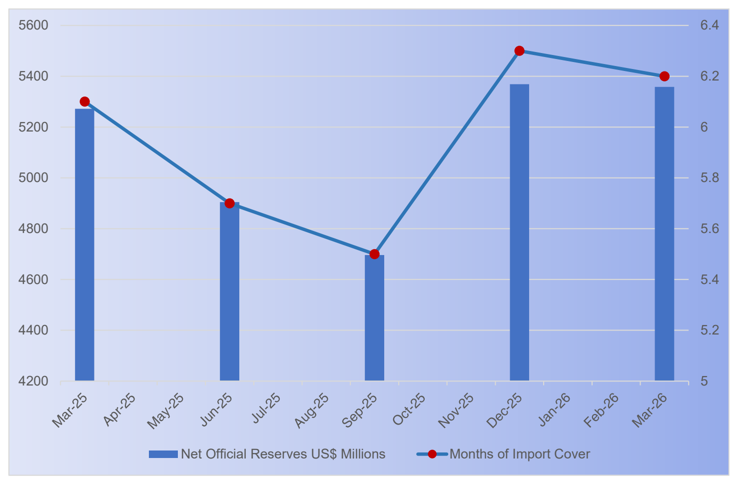
FISCAL

The Government's fiscal deficit widened to $2,410.2 million in the first quarter of 2026, compared with $520.8 million in the previous quarter. However, the deficit narrowed significantly on a y-o-y basis, declining by 39.9 percent relative to the corresponding period in 2025. Government revenue fell by 4.4 percent q-o-q, despite a 22.7 percent increase in energy revenue, reflecting the sharp rise in energy prices toward the end of the quarter. Total revenue was constrained by declines in non-energy and tax revenues, which fell by 13.1 percent and 3.1 percent, respectively. At the same time, government expenditure increased by 10.4 percent q-o-q to $14,251.9 million, although it remained 2 percent lower compared to the first quarter of 2025. In the 2026 mid-year budget review, a supplementation of $2.93 billion was requested, with 96.8 percent allocated to recurrent expenditure and the remaining 3.2 percent meant for capital expenditure. Revenues are expected to increase by $381.7 million owing to higher energy prices. The forecasted deficit for the fiscal year ending September 30, 2026, is $7.01 billion, which is approximately 4 percent of GDP and down 2 percentage points from the comparative period ending September 30, 2025.

RESERVES

Conditions in the foreign exchange market remained tight, reflecting ongoing constraints in the energy sector. In the first quarter of 2026, net sales of foreign currency by authorised dealers totalled US$424.5 million, representing increases of 5.3 percent q-o-q and 43 percent y-o-y. The Net Foreign Position stood at US$8,835.1 million at the end of March 2026, slightly below the US$9,029.2 million recorded in March 2025. Encouragingly, the Months of Import Cover (MIC) averaged 6.5 months during the quarter, logging a general increase since September 2025 (Figure 3). The TT-US exchange rate remained stable at TT$6.78 per US$1.

Figure 3: Net Official Reserves and Import Cover



Source: Central Bank of Trinidad and Tobago

OUTLOOK

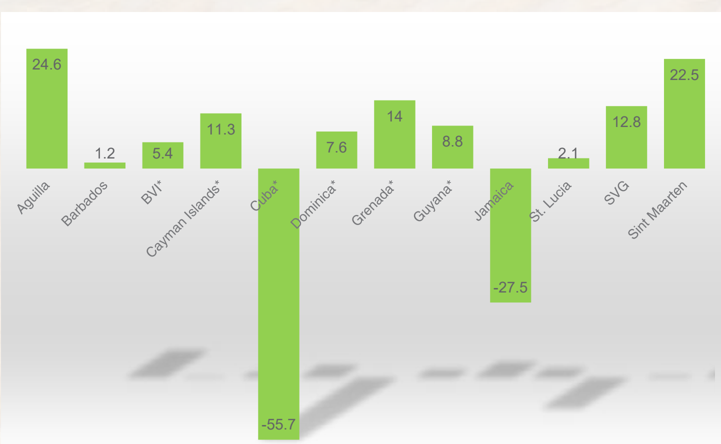
Energy sector constraints will continue to subdue overall economic growth in the near term, despite the recent gains in global energy prices. The economy is forecasted to grow by a modest 0.8 percent in 2026. However, there are expected near term improvements in the economy's external and fiscal balances owing to increased energy revenue. The economy is expected to face rising inflationary pressures in the second half of 2026 as developments in global commodity markets filter through supply chains into final prices of goods and services. The non-energy sector is expected continue to drive growth into the second half of 2026, despite its muted performance in the first quarter.

Iran Conflict Causes Mounting Price Pressures

Overview

In the first quarter of 2026, Caribbean economies continued to face strong headwinds generated by persistent global uncertainties and intensified geopolitical tensions. The outbreak of the war in Iran on February 28, was followed by a substantial increase in energy prices, which drove up airfare, shipping and transportation costs. In response to rising import and electricity costs, several governments in the region moved to provide relief to vulnerable citizens. Among the measures adopted were the removal of taxes and import duties on fuel, price containment initiatives and the formation of committees to alleviate the growing cost of living burden facing citizens. Notwithstanding these challenges, the performance of the region's economy was largely positive between January and March 2026, with most tourism destinations benefitting from solid increases in arrivals during the period (Figure 1). The rise in global energy prices supported the fiscal accounts and foreign exchange reserves of regional energy producers. However, the real net benefit to these economies of the higher oil prices relative to increased inflation, is not yet fully known.

Figure 1: Stay-over Tourist Arrivals (% Change)



Source: CTO, Tourism Analytics, CBB
***- Jan-Apr**

Anguilla

The domestic tourism sector registered a strong performance in the first quarter of 2026, as the momentum gained in 2025 seemed to have accelerated at the turn of the year. During the period, stay-over arrivals expanded by 24.6 percent compared to the same period a year earlier, with positive performances in all major source markets. Arrivals from North America were particularly upbeat, with total visitors from the US increasing by 22.9 percent and accounting for 72.8 percent of all visitors in this category. Meanwhile, the number of tourists from Canada shot up by 40 percent. There were also very solid performances in the European, and other source markets. The number of excursionists also expanded at a very impressive rate (37.5 percent) in the January-March 2026 period, totalling 43,326 (Tourism Analytics). While the government, undoubtedly welcomes the strong performance, its overall strategy for the tourism sector focuses on sustainable growth with an emphasis on high-quality visitor experiences, rather than simply going after large arrival figures. Through this approach the authorities hope to enhance the country's reputation as a refined tourism destination.

As the country continues its efforts to augment its sustainable power generation capacity, it was revealed in April 2026 that its electricity generation company, the Anguilla Electricity Company Ltd. (ANGLEC) and the Caribbean Development Bank (CDB) came to an agreement for the financing of a 12-megawatt solar farm on the island. The solar plant could potentially cut the nation's fuel bill by as much as 26 percent. The timeline for the project is yet to be revealed.

Barbados

Economic activity expanded by an estimated 1.7 percent in the first quarter of 2026, supported by growth in both the traded and non-traded sectors. In the traded sector, the tourism industry is estimated to have grown by 3.3 percent, given positive outturns in both the stay-over and cruise markets. Stay-over arrivals grew by 1.2 percent year-on-year (y-o-y), with increased arrivals from all major source markets. However, the 3.2 percent growth in visitors from CARICOM was the fastest recorded, while the 0.5 percent rise in US arrivals was the slowest. The number of tourists from Canada, the UK and Europe grew by 1.3 percent, 1 percent and 2 percent, respectively. Developments in the cruise ship segment were significantly more upbeat as arrivals increased by 30 percent and the number of calls rose 11 percent. In other areas in the traded sector, agriculture output increased by 4.1 percent, impelled by activity in the fishing and livestock sub-industries, while manufacturing output contracted by 2.3 percent. In the non-traded sector, construction, business services and wholesale and retail all recorded positive performances. As part of the business services industry, the financial sector benefited from moderate private sector credit growth (0.8 percent), while the non-performing loans ratio fell marginally to 3.4 percent in March from 3.9 percent in March 2025.

In the first three months of 2026, the country's gross international reserves fell slightly to US$1.5 billion (6.4 months of import cover) from US$1.7 billion in the previous year due to reduced foreign direct investment and multi-lateral borrowing. Turning to public finance, the government recorded a fiscal deficit equivalent to 0.1 percent of GDP, considerably down from the 2.3 percent incurred in the same period a year earlier. The ratio of public debt to GDP also fell to 94.6 percent from 97.4 percent.

British Virgin Islands (BVI)

After a mixed performance in 2025, activity in the tourism sector seems to have strengthened in the first four months of 2026. In 2025, stay-over arrivals fell by 0.9 percent, while the number of cruise visitors rose 13.9 percent. Between January and April 2026, stay-over arrivals expanded by 5.4 percent, with growth averaging 6.3 percent in the winter months (January-March). This was accompanied by a very strong 34 percent increase in the number of cruise ship passengers. In April 2026, it was announced that the BVI was named the best luxury destination in the Caribbean in Modern Luxury's 2026 Travel Awards. Modern Luxury is a leading luxury lifestyle media company in the US. The country's Director of Tourism, Mr. Clive McCoy attributed the accomplishment to the consistency and quality of the destination's tourism offering.

Like Turks and Caicos Islands, Anguilla and Bermuda, BVI is seeking to transition from an associate member of CARICOM to full membership. However, the country's Premier, Natalio Wheatley indicated that the nation will not agree to the free movement of CARICOM nationals if granted full membership. This is because as a British overseas territory its national security and certain aspects of foreign policy are controlled by the British government.

Cayman Islands

The tourism sector benefitted from record winter season arrivals in early 2026, which impelled the industry to its best start-of-year performance in recorded history. During the first four months of 2026, stay-over arrivals expanded by an average of 11.3 percent, led by a 49.2 percent increase in arrivals from Canada, which as the second largest source market accounted for 8 percent of the total. The number of arrivals from the US rose by a solid 7.9 percent and represented the overwhelming majority of tourist in this category (83.5 percent). In the January-April 2026 period, cruise passenger arrivals increased by an average of 9.7 percent, with the 11.2 percent contraction that occurred in January being neutralised by strong performances in the succeeding months. On May 15, 2026, the One / GT hotel, a property containing 97 suites and 82 private residences was launched, enhancing the sector's product offering in the process. The destination is set to receive a further boost in room stock with Sterling Global's US$650 million investment in the Grand Hyatt and the Hyatt Centric hotels. The 382-room Grand Hyatt is close to completion and will be established as a five-star property, while the four-star Hyatt Centric is still in the early stages of development.

The first quarter of 2026 was also a good period for government finances. Total revenue increased by 13 percent to $624.9 million y-o-y, driven by increased flows from financial services fees and the collection of stamp duty. The outturn was $40.4 million more than initially envisaged for the period. As is normally the case in the first three months of the year, total revenue dwarfed government expenditure, which measured $303.1 million. This is because financial sector fees are paid to the government during the period.

Cuba

The crisis gripping the Cuban economy continues to grow increasingly alarming. Although the US eased restrictions on oil exports to the island in late February 2026, the sale of fuel to the military, intelligence services, and individuals or entities connected to the Cuban government is still prohibited. Against the backdrop of the country's critical fuel shortages, this measure provided little relief. Cuba continues to endure extended electricity blackouts (some up to 20 hours long) with the operations of key institutions, including hospitals, schools and government services badly affected. To add to these struggles, in early May, an executive order from the US president, imposed even stricter economic sanctions on Cuba. Under the new limitations, the US targeted Cuban officials and entities in key sectors, including energy, defence, metals and mining, and financial services. As part of the restrictions, the US will freeze assets related to Cuba that are controlled by US citizens and entities. The aim is to significantly constrain the financial transactions of individuals connected to Cuba. The measures also include secondary sanctions which expose foreign individuals and entities, including banks that are involved in financial transactions with the Cuban government, sanctioned officials or entities to penalties. In addition to these concerns, Cuban authorities accused the US of creating a pretext to escalate tensions with the island after the US indicted former President Raul Castro in relation to an incident where two planes were shot down in 1996, killing four Cuban Americans.

The unfortunate collapse of the tourism sector continues unabated, aided by the growing absence of basic resources and conveniences. In the first four months of 2026, stay-over arrivals plunged by 55.7 percent compared to January-April 2025.

Dominica

The country's new geothermal plant reached a significant milestone in March 2026, when it started supplying power to the national grid. Dominica Electricity Services Limited (DOMLEC) confirmed that key components of the transmission system were tested, and geothermal energy would be transmitted through the system on a non-continuous basis as the assessments continued during the early commissioning phase. When fully operational, the 10-megawatt plant is expected to supply clean energy to 23,000 homes and significantly reduce the country's reliance on fossil fuel imports. With the war in Iran pushing international oil prices to as high as US$126 per barrel, the launch of the plant occurred at an opportune time. In the tourism sector, preliminary data suggest that stay-over arrivals registered a solid rise (7.6 percent) during the first four months of 2026. The number of visitors from all major source markets increased during the period, with the 17.2 percent growth in arrivals from the US, leading the way. Arrivals from Canada, Europe and other markets rose by 7.9 percent, 3.6 percent and 2.4 percent, respectively. The number of cruise ship visitors increased by 15.6 percent. In other developments, the IMF advised the government of the need for additional fiscal consolidation to reduce economic imbalances and risks, even as it acknowledged the continued positive performance of the economy. The multilateral agency cited the country's debt, which stood at 102.6 percent of GDP in 2025 as a major concern.

Grenada

After contracting in 2025, the domestic tourism sector got off to a fast start in 2026. In the January-April period, stay-over arrivals expanded by 14 percent, with solid growth in all major markets (US 13.3 percent, Canada 20 percent, Europe 4.1 percent and other markets 24.9 percent). The US and Europe continued to be the leading source markets accounting for 52 percent and 18.5 percent of arrivals, respectively. The growth in the number of yacht visitors was also very encouraging as the figure rose sharply by 79.2 percent to 7,539. On the other hand, the cruise passenger segment continued to struggle, as the number of tourists arriving by this mode shrank by 9.3 percent compared to the first four months in 2025. The construction sector is poised to receive a boost in the coming months following the launch of project Polaris, Grenada's proposed new 250-room hospital. The hospital is expected to be completed within 3 years and is anticipated to measurably enhance the nation's healthcare service delivery. On the socio-economic front, in May 2026, the Ministry of Finance revealed that the nations poverty rate fell from 30.3 percent in 2020 to 22 percent in 2025. The decline was related to the post-pandemic economic recovery and targeted social programmes.

Guyana

Guyana's ongoing thrust to develop its tourism sector received a further boost in April 2026, with the opening of the Four Points by Sheraton hotel in Georgetown. The hotel features 172 rooms, a swimming pool, sports facilities, an event hall, as well as restaurant and bar amenities, and is Excellence in Design for Greater Efficiencies (EDGE) certified. The EDGE certification is an international sustainable building standard developed by the International Finance Corporation (IFC) of the World Bank Group, which focuses on energy, water, and materials efficiency. As it relates to the recent performance of the sector, stay-over arrivals climbed by 8.8 percent in the first four months of 2026, with expansions in the Canadian (15 percent), European (2.1 percent) and other markets (16.4 percent) significantly outweighing the 0.1 percent decline in arrivals from the US. In external sector developments, it was reported in May that trade between Guyana and Brazil grew from just US$58 million in 2020 to US$1 billion in 2025, impelled by deepening economic ties. Turning to energy sector news, supply shortages forced several gas stations to temporarily close or ration fuel in early April as disruptions related to the war in Iran squeezed global oil supplies. Fortunately, supplies were stabilised not too long after. The domestic oil sector is estimated to have contributed US$9.73 billion to the nation's Natural Resources Fund (NRF) since production started in 2020. The NRF has become a critical source of government funding, with US$6.06 billion transferred to the consolidated fund during the period.

St. Kitts and Nevis

Nevis took another step in its journey to become the region's newest geothermal energy producer, as news broke at the end of April 2026, that Nevis Electricity Company Ltd (NEVLEC) had signed a contract with Iceland Drilling to begin drilling geothermal production wells. However, Minister of Energy and Premier of Nevis, Mark Brantley, indicated that there are still some issues to address before drilling can begin, including the necessary land acquisitions. The plan is to drill up to two geothermal production wells and one injection well. Once commissioned, the plant is projected to have a capacity of 30-megawatts. In response to the high cost of living, partly related to elevated energy prices, the government rolled out a few measures in April to provide some relief. These include a 50 percent cut in the excise tax and the customs duties on gas. In its concluding statements for its 2026 consultation with St. Kitts and Nevis, the IMF recommended further fiscal consolidation, supported by a strong fiscal resilience framework to stabilise debt, rebuild buffers, and reduce vulnerability to shocks. The IMF expressed concerns that the country could be saddled with elevated deficits over the medium-term, with revenue from the citizenship-by-investment (CBI) programme declining. The country incurred a deficit equivalent to 11.7 percent of GDP in 2025.

St. Lucia

On April 21, 2026, the government presented St. Lucia's largest ever National Budget. The 2026/2027 fiscal package caters for total expenditure of $2.18 billion and a fiscal deficit of $212.4 million (2.8 percent of GDP). The projected expenditure is 6.4 percent above the previous year's level, while revenue is expected to rise by 7.6 percent. In addition to funding the continuation of key infrastructure projects, the budget introduced measures to encourage tax compliance, enhance social support and improve the business environment. No new taxes were introduced in the package. After a negative performance in 2025, the tourism sector started 2026 on a positive note, with growth in both stay-over and cruise ship arrivals. In the first quarter of the year, stay-over arrivals rose by 2.1 percent, with the number of visitors from Europe declining by 16.6 percent. All other major source markets registered positive showings, led by Canada (15.9 percent) and the US (6.7 percent). The US market continued to dominate the sector accounting for 60.6 percent of the visitors in this category, followed by Europe (18.7 percent) and Canada (12 percent). The number of cruise ship visitors increased by 6.6 percent to 364,713. The sector is expected to receive a boost in late 2026 with British Airways scheduled to begin daily flights from London to St. Lucia on October 25. The service will result in an additional 51,000 airline seats during the winter season.

St. Vincent and the Grenadines (SVG)

The strong growth impetus that characterised the tourism sector in 2025 continued in the first quarter of 2026. Stay-over arrivals increased by 12.8 percent during the three-month period, underpinned by a 24.1 percent surge in the number of tourists from the US and a 15.3 percent expansion in the Canadian market. To the contrary, arrivals from Europe and the other markets segment shrank by 2.3 percent and 1.4 percent, respectively. Likewise, total cruise passenger arrivals declined by 2.7 percent. As the country moves to establish its own CBI programme, a senior IMF official advised that while the initiative could generate a modest increase in government revenue, it carries reputational, legal, fiscal and financial risks. He therefore advised the government to adopt a cautious approach, ensuring it adheres to best practice due diligence, integrity, and transparency, while satisfying regional standards. The multilateral agency also warned that SVG faces significant risks owing to wide fiscal deficits and high, rising public debt. The government incurred a fiscal deficit equivalent to 12.2 percent of GDP in 2025, while public debt measured 111.3 percent of GDP. The IMF indicated that decisive and urgent action is needed regarding the adoption of an ambitious fiscal consolidation programme, aimed at reducing the risk of debt distress. In response to rising international price pressures related to the events surrounding the war in Iran, the government formed the National Cost-of-Living Task Force (NCLTF) in March, to mitigate the inflationary shocks affecting energy, food, and logistics.

Sint Maarten

In response to rising international fuel prices and the knock-on effects on the overall cost of living, in April 2026, the government revealed that it was evaluating options for targeted relief for vulnerable groups. Tourism, economic affairs, transport and telecommunications minister, Grisha Heyliger-Marten, indicated that her administration was considering possible adjustments to excise taxes, phased price increases, and stronger price control measures to alleviate the financial pressures caused by the war in the Middle East. Turning to tourism sector activity, with both stay-over and cruise passenger arrivals expanding at very robust rates in the first quarter of 2026, the related impetus provided to ancillary sectors was likely similarly upbeat. Stay-over arrivals expanded by 22.5 percent during the period, with double-digit growth in all major markets. The number of tourists from the US, Canada, Europe and other markets grew by 23.3 percent, 26.7 percent, 19.2 percent and 20.6 percent, respectively. At the same time, the destination welcomed 748,603 cruise tourists, which represented a 17.7 percent increase from the levels recorded a year earlier.

Suriname

The fiscal slippages that occurred in the lead-up to the May 2025 general election caused prices to accelerate in the second half of the year. The rate of inflation averaged 7.5 percent between January and June 2025, before rising to an average of 10.9 percent in the second half of the year. Domestic price pressures remained elevated in the first four months of 2026, with inflation averaging 10.9 percent, partly due to the impact of the war in the Middle East. During the period, Suriname continued to benefit from elevated gold prices as geopolitical tensions and other global uncertainties pushed already record prices even higher. Between January and March, gold prices shot up by 17.8 percent over fourth quarter 2025 levels to US$4,872.89 per troy ounce and were 70.4 percent above the figure recorded in the first quarter of 2025. These high prices contributed to the growth in the country's foreign currency reserves, which were equal to 7.8 months of import cover (MIC) at the end of March 2026, compared to 6.9 MIC at the end of December 2025. It was reported in April 2026 that a team of geologists discovered a large, high-grade gold deposit in the south-eastern region of the country. This discovery has the potential to enhance the long-term prospects of the industry and attract more foreign direct investment to Suriname.

Region

In Jamaica, real GDP contracted by 5.9 percent in the first quarter of 2026. This was a direct consequence of the destruction wrought by Hurricane Melissa, which struck the island in November 2025. Activity in the goods-producing sector fell by 11.2 percent, while the services industry declined by 4.1 percent. Among the hardest-hit industries were the manufacturing, mining, agriculture and tourism sectors, which shrank by 7.7 percent, 26.6 percent, 20.3 percent and 20.4 percent, respectively. In the tourism sector, stay-over arrivals decreased by 27.5 percent, while cruise arrivals fell by 5.9 percent. Total visitor expenditure is estimated to have declined by 21.3 percent to US$976.4 million. On April 1, the Bank of Jamaica announced its decision to hold its benchmark rate at 5.5 percent, warning that the war in Iran could result in weaker economic growth in Jamaica than initially projected and push inflation higher than expected.

The crisis in Haiti shows little sign of letting up. A new bout of violence caused hundreds to flee their homes in the capital, Port-au-Prince, where gangs controlled as much as 90 percent of the city not long ago. They now control 70 percent of the city. With more than half the nation's population in need of urgent aid, due to growing violence, hunger, and displacement, the IMF released US$140.5 million in emergency funding in April to address the humanitarian crisis. The IMF aims to assist 1 million people with the initiative.

Outlook

Activity in the regional economy is expected to remain positive heading into the third quarter of 2026, supported by further growth in tourist arrivals, key construction projects, and work in energy producing economies to bring new projects onstream. With the US and Iran having secured an agreement to end the war, energy prices are expected to decline. However, with key producers in the Middle East having suffered damage to their productive capacity, it could take some time for global supply to return to the levels recorded before the war. Additionally, the pass through of general goods inventories that were subject to elevated prices is expected to continue in the coming months. In this regard, the region could face relatively high inflation rates through to the end of 2026. This could potentially constrain the level of real GDP growth in the Caribbean for the remainder of the year. Additionally, if the agreement to end the war fails to hold, for whatever reason, the resultant new bouts of uncertainty and rising international prices may impose significant pressure on the region.

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Tel: 868-625-3617.
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THE INTEREST RATE DIFFERENTIAL:

Balancing Growth and Foreign Exchange Pressures

A World of Volatile Interest Rates

Over the past two decades, the global economy has undergone significant shifts in monetary policy. From the Global Financial Crisis (GFC) to the COVID-19 pandemic and the Russian-Ukraine war, policymakers have faced repeated shocks that have triggered periods of exceptionally low interest rates, followed by one of the most aggressive interest rate hiking cycles in recent history.

In such an environment, where inflation and growth risks are constantly evolving, interest rates remain one of the primary tools used by central banks to manage economic activity. When growth is weak, central banks may lower rates to encourage borrowing, investment and spending. When inflation is high, they may raise rates to slow demand and help bring prices under control.

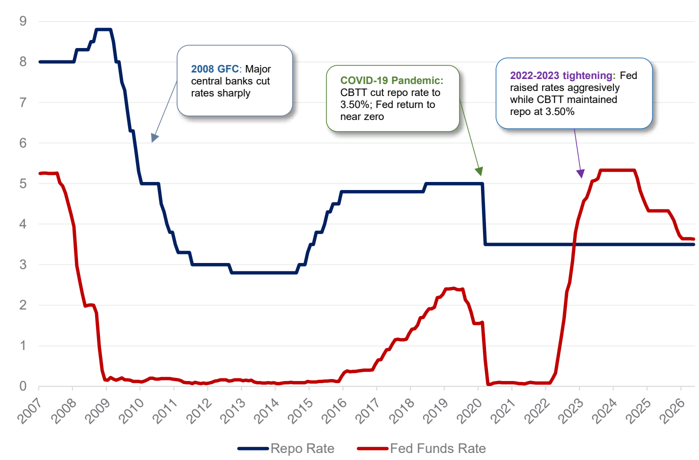
This was clearly seen during the COVID-19 pandemic. As lockdowns, business closures and uncertainty weighed heavily on global economic growth, central banks around the world reduced interest rates to historically low levels to support economic activity. In the United States, the Federal Reserve (Fed) kept the federal funds rate within a range of 0 percent to 0.25 percent between March 2020 and March 2022 (Figure 1). This was similar to the low-rate environment that followed the 2008 GFC, when interest rates were kept near zero for several years to support economic recovery.

However, as economies reopened, a combination of strong consumer demand, supply chain disruptions, labour shortages and higher commodity prices resulted in a sharp increase in inflation. Russia's invasion of Ukraine in 2022 further exacerbated inflationary pressures, particularly through higher food and energy prices. Faced with inflation rates well above their target, major central banks responded by raising interest rates at the fastest pace seen in decades. By July 2023, the federal funds rate had risen to a range of 5.25 percent to 5.50 percent, while the European Central Bank's main refinancing rate had increased to 4.25 percent.

While the global trend was one of increasing policy interest rates at that time, Trinidad and Tobago followed a somewhat different path. The Central Bank of Trinidad and Tobago (CBTT) has maintained its repo rate at 3.50 percent since reducing it to that level in March 2020. This is reflective of the need to support the domestic economy after years of tepid real GDP growth. This policy stance has also been supported by relatively contained domestic inflationary pressures.

One consequence of these contrasting policy paths was a widening gap between domestic short-term interest rates and those in the United States. This gap, known as the interest rate differential, has become an important feature of the domestic financial landscape, influencing investment decisions, capital flows, foreign exchange demand and broader monetary conditions within the economy.

Figure 1: CBTT Repo Rate and US Federal Funds Rate (%)



Source: FRED and CBTT

Understanding the Repo Rate and Interest Rate Differential

In Trinidad and Tobago, policymakers and investors often monitor the gap between domestic interest rates and those in the United States, given the importance of the US economy and the central role of the US dollar in trade, investment and financial markets. This matters because investors compare returns across markets. In simple terms, if a person has two savings options with similar levels of risk, they are generally more likely to choose the one offering the higher return. Investors behave in a similar manner, seeking the best return for a given level of risk. The interest rate differential therefore provides a useful point of comparison, helping investors assess whether TT dollar assets or US dollar assets offer the better return.

To understand how the differential has evolved, it is useful to first consider the role of the repo rate. The repo rate is the CBTT's main policy rate and refers to the rate charged to commercial banks when they borrow funds from the Central Bank on a short-term basis. As the Bank's main monetary policy instrument, it is used to influence domestic interest rates. When the repo rate changes, it signals the direction in which the Central Bank wants interest rates in the wider financial system to move. As a result, movements in the repo rate can influence Treasury bill rates, lending rates, deposit rates and, ultimately, borrowing costs across the economy.

Importantly, repo rate decisions are not based on any single variable or fixed formula. The CBTT monitors a range of domestic and international indicators, including inflation, credit conditions, liquidity, foreign exchange market pressures, reserves and capital-flow risks. As a result, the policy decision often involves balancing several objectives at the same time.

A key indicator is the differential between Trinidad and Tobago's 91-day Treasury bill rate and the equivalent US Treasury bill rate. Treasury bills, often referred to as T-bills, are short-term government securities and are generally considered low-risk investments. Since these rates tend to respond relatively quickly to changes in monetary policy or liquidity conditions, they are often used to compare short-term investment returns between countries.

However, it should be noted that T-bill rates are not determined by the repo rate alone. They are also influenced by other factors including domestic liquidity conditions, government borrowing needs and investor demand for short-term securities. Therefore, while the repo rate provides an important policy signal, short-term market rates can be influenced by wider market conditions and move independently of the repo rate.

Historical Shifts in the TT-US Interest Rate Differential

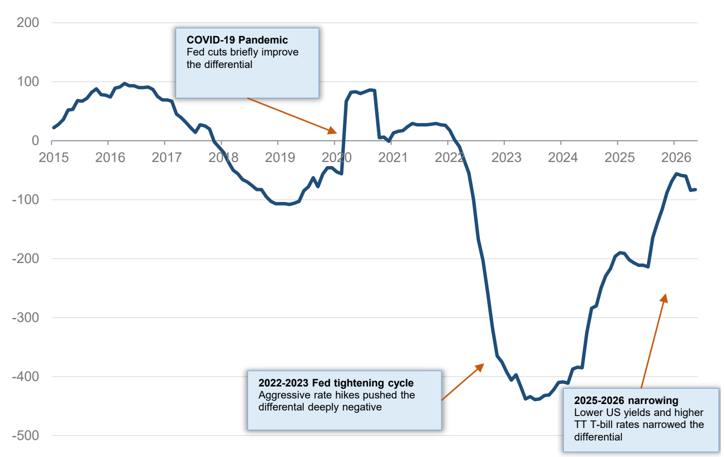
To understand why the current differential matters, it is useful to look at how the relationship has shifted over time. In April 2007, domestic short-term rates were higher than those in the US. The differential between TT and US three-month Treasury bills stood at 202 basis points (bps). As the 2008 Global Financial Crisis unfolded, the gap widened further as the Fed cut interest rates sharply, driving US T-bill yields to exceptionally low levels. By October 2008, the spread had increased to around 607 bps, one of the largest differentials observed over the past two decades. From a yield perspective, this meant that short-term TT dollar instruments were considerably more attractive than comparable US dollar instruments.

However, this wide positive differential did not persist. In the years that followed, high levels of domestic liquidity and a more accommodative monetary policy stance by the CBTT placed downward pressure on domestic short-term rates. By November 2013, the differential had narrowed to just 5 bps, reducing the return advantage on TT dollar assets. The differential remained a recurring policy concern in the years that followed. As US interest rates began to rise, the CBTT cited narrow or negative TT-US differentials among the factors influencing increases in the repo rate. By late 2017 and into 2020, the short-term differential had moved into negative territory, before improving temporarily in 2020 and 2021 after the Fed cut rates sharply during the pandemic (Figure 2). However, this improvement was short-lived.

From 2022, as the Fed raised rates aggressively to contain inflation, US T-bill rates rose sharply. Meanwhile, the CBTT kept the repo rate unchanged at 3.50 percent, reflecting more moderate domestic inflation and the need to support economic activity. As a result, the TT-US 91-day T-bill differential moved deeply into negative territory, reaching -387 bps in November 2022 and -440 bps one year later. In practical terms, investors could earn a much higher return on short-term US securities than on comparable TT dollar securities.

More recently, the differential narrowed to -91 bps by April 2026, reflecting lower US short-term yields and higher domestic T-bill rates amid tighter domestic liquidity conditions. Nonetheless, short-term US dollar instruments continue to offer a higher return than comparable TT dollar instruments. This is important for Trinidad and Tobago because shifts in the differential do not only affect investment returns. They can also influence the demand for foreign currency, borrowing costs, investment decisions and pressures within the foreign exchange market.

Figure 2: TT-US 91-Day T-Bill Differential (bps)



Source: CBTT, FRED and author's calculations
Note: 2026 reflects data up to April 2026.

Interest Rate Differentials and Foreign Exchange Pressures

In Trinidad and Tobago, where the foreign exchange market remains tight and demand for US dollars continues to outstrip supply, the differential plays an increasingly important role. When short-term US dollar assets offer higher returns than comparable TT dollar assets, investors may have a stronger incentive to hold foreign currency assets or seek access to foreign exchange to purchase assets abroad. This can contribute to increased capital outflows and add to existing foreign exchange pressures.

However, the differential is only one factor influencing capital outflows. Portfolio outflows can also be influenced by excess liquidity, limited domestic investment opportunities, risk perceptions and access to foreign currency. This means that while a negative TT-US differential may increase the incentive to hold US dollar assets, the actual movement of funds abroad also depends on wider market conditions. For example, net portfolio outflows in 2020 were US$85.4 million, with much of the outflow occurring during the first half of the year amid the onset of the COVID-19 pandemic. Net outflows of US$37.7 million and US$153.5 million were recorded in 2023 and 2025, respectively, when the TT-US 91-day differential remained in deep negative territory. In contrast, net portfolio inflows of US$587 million were recorded in 2024, despite the differential remaining negative.

Under a floating exchange rate regime, stronger demand for US dollars would place upward pressure on the exchange rate and contribute to a depreciation of the domestic currency. However, Trinidad and Tobago operates a managed float regime, where the Central Bank intervenes to support the value of the TT dollar. As a result, pressure from higher foreign exchange demand may not immediately appear as a depreciation in the exchange rate. Instead, it may be reflected in tighter foreign exchange availability, increased Central Bank foreign exchange net sales to authorised dealers and, in some cases, greater recourse to informal channels for US dollars. While CBTT's intervention helps to ease some pressure on the exchange rate in the short-term, sustained sales of foreign exchange can place further pressure on official foreign reserves, particularly at a time where energy revenue inflows, the main source of foreign exchange, remain subdued.

The Repo Trade-Off

Given these foreign exchange pressures, the persistent negative TT-US interest rate differential raises an important policy issue for Trinidad and Tobago: whether domestic interest rates should be increased to help narrow the gap, or whether policy should remain supportive of domestic economic activity.

Keeping the repo rate unchanged at 3.50 percent has helped contain borrowing costs for households and businesses, supporting credit activity and domestic demand in the process. This has been particularly important in an economy where growth remains subdued and has been driven mainly by the non-energy sector in recent years. With some non-energy sectors already experiencing severe challenges, higher rates would place additional pressure on businesses and consumers. Higher rates come with important trade-offs. A higher repo rate could improve the attractiveness of TT dollar assets relative to US dollar assets, while also making borrowing more expensive. In an import-dependent economy such as Trinidad and Tobago, higher borrowing costs could dampen demand from households and businesses, which in turn may reduce spending on imported goods and ease demand for foreign exchange.

It should be noted that domestic interest rates can rise even without a change in the repo rate. For instance, tighter/unstable domestic liquidity conditions have contributed to a higher interest rate environment, reflected in increased T-bill rates and rising funding costs for banks. Over time, this can place upward pressure on lending rates.

Given this complexed environment, the case for adjusting the repo rate is not straightforward, since there can be wide-ranging consequences.

The Balance Ahead

The balance remains particularly delicate. On the domestic side, economic growth remains fragile, while a meaningful improvement in energy output is expected from 2027. Domestic liquidity conditions also continue to fluctuate, with commercial banks' average excess reserves standing at $3,820.7 million in May 2026, down from $6,558.4 million one year earlier. This is important because tighter liquidity conditions have already contributed to higher domestic short-term interest rates and funding costs, suggesting that financial conditions may be tightening even without a change in the repo rate.

The external environment is also uncertain. Ongoing geopolitical tensions, trade policy risks and higher inflation have complicated the outlook for global interest rates. In the United States, the Personal Consumption Expenditures (PCE) Index, an inflation gauge, rose to 3.8 percent in April 2026, above the Fed's 2 percent target. As a result, analysts generally expect US interest rates to remain unchanged in the near term, with the possibility of an increase later in the year if inflationary pressures persist.

For Trinidad and Tobago, this creates a complicated policy challenge. On one hand, there is a need to keep rates supportive, given the importance of the non-energy sector to domestic growth. At the same time, fluctuating domestic liquidity has already pushed up some market rates. This makes the case for any additional policy tightening more difficult to make. However, if US rates remain elevated or rise further, the TT-US interest rate differential could widen again, keeping US dollar assets attractive and adding pressure to the already tight foreign exchange market. The IMF, in its June 2026, Article IV Consultation, highlighted the risks associated with wider TT-US differentials, noting that they can increase the incentive for capital outflows. Although these pressures have been contained thus far, the Fund has encouraged the CBTT to remain vigilant should these risks intensify.