

Republic Economic NEWSLETTER

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No Respite for Domestic Economy

Overview

The domestic economy continues to grapple with the effects of a weak energy sector, given slumping international fuel prices and falling domestic production. Production levels for both oil and gas trended downward during the fourth quarter of 2015, while unemployment in the sector increased. Unsurprisingly, the underperforming energy sector continues to impart severe knock-on effects on the non-energy sector, with several gauges of the sector's strength, such as new motor vehicle sales, pointing to the downside. Republic Bank estimates that economic activity contracted by 1.5 percent during the period, when compared to the third quarter of 2015. Against this backdrop, the rate of unemployment is estimated to have risen to 4 percent during the

period. In March 2016, international ratings agency, Moody's Investor Services revealed its decision to review Trinidad and Tobago's Baa2 rating. Moody's stated its intention to assess both the full impact of falling oil and gas prices on the economy and government's proposed initiatives to mitigate revenue shortfalls. On the positive side, the rate of inflation slowed further to 1.5 percent year-on-year in December. The stock market recorded marginal growth, with the Composite Price Index advancing by only 1.3 percent in December 2015, relative to September.

Energy

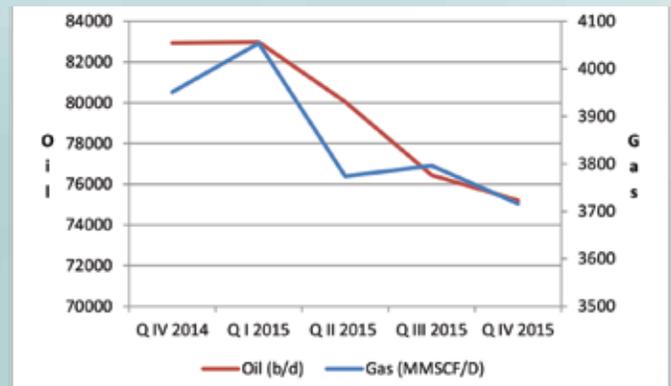
With no end in sight to the glut on the international oil market, prices fell again during the fourth quarter of 2015. The West Texas Intermediate (WTI) price of oil fell to an average of US\$41.94 per barrel from US\$46.55 in the third quarter. This trend has continued thus far in 2016, with the price of oil projected to fall to an average of US\$33 per barrel in the first quarter, owing in part to the removal of sanctions on Iranian oil exports. The Henry Hub gas price fell to US\$2.12 per million British thermal units (mmbtu) for the period October to December 2015 from US\$2.76. During the period, weaker oil and gas output also added to the misery of the energy sector. Oil production fell by 1.6 percent to average 75,206 barrels per day (b/d), while gas production decreased by 2.1 percent to 3,716 million standard cubic feet (mscf) per day (Figure 1). In fact, the average gas output for 2015 (3,835 mscf) represents a ten-year low for this country. Output in the downstream sector was a mixed bag in the fourth quarter, with production of ammonia and methanol expanding by 4 percent and 7 percent, respectively. On the other hand, urea and LNG production contracted by 4.7 percent and 3.9

Trinidad and Tobago Key Economic Indicators

Indicator	2014	2014.4	2015.4 p/e
Real GDP (% change)	-1.0	-0.3	-1.5
Retail Prices (% change)	5.7	3.5	0.6
Unemployment Rate (%)	3.3	3.3	4.0
Fiscal Surplus/ Deficit (\$M)	-4,442.2	328.4	Deficit
Bank Deposits (% change)	8.0	5.8	0.6
Private Sector Bank Credit (% change)	5.8	0.2	Flat
Net Foreign Reserves (US\$M)	13,592.7	13,592.7	12,485.4
Exchange Rate (TT\$/US\$)	6.36/6.41	6.32/6.37	6.36/6.41
Stock Market Comp. Price Index	1,150.9	1,150.9	1,162.3
Oil Price (WTI) (US\$ per barrel)	93.17	73.16	41.94
Gas Price (Henry Hub) (US\$ per mmbtu)	4.39	3.8	2.12

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

Figure 1: Oil & Gas Production



Source: Ministry of Energy and Energy Affairs

percent, respectively. At the same time, exploration activity cooled, as rig days fell by 7.1 percent to 616 and depth drilled decreased by 1.8 percent. Unfortunately, as firms in the sector seek to deal with the consequences of weaker revenues, streamlining exercises have led to job losses. The most recent event relates to Shell's decision to close its lubricants plant in Point Lisas, which will result in the retrenchment of 50 employees and 30 contractors.

Non-Energy

After months of minimal or suspended activity, on March 11th, Arcelor Mittal announced that it was ceasing operations in this country, immediately terminating the employment of over 640 workers. Central Trinidad Steel Limited (Centrin), dependent as it is on ArcelorMittal for raw material, had weeks before indicated that it had no other choice but to cease operations at its plant. As a consequence, 200 workers were dismissed. Job losses were also likely recorded in the construction sector during the fourth quarter of 2015. During the period, cement sales (Figure 2), which are a good gauge for activity in the sector, fell by 15.5 percent when compared to the previous quarter and by 8.3 percent year-on-year (y-o-y). Similarly, the performance of the distribution sector was also inhibited during the period, with car sales, increasing by 1 percent over the third quarter of 2015, but contracting by 3.8 percent y-o-y. The sluggish activity in distribution seemed to continue in early 2016, as many retailers and the providers of various Carnival-related services, complained of poor sales during the height of the season.

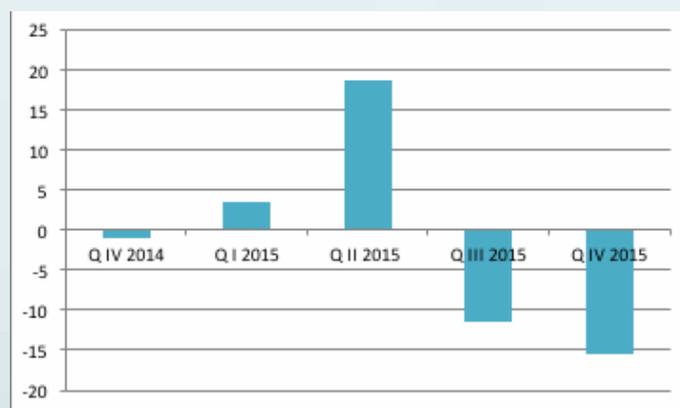
Fiscal Policy

While official data on government fiscal accounts are not yet available for the fourth quarter, we suspect that a deficit was recorded as a result of continued low energy prices. The government has stated its intention to review its 2015/2016 budget in April 2016, a full month from the time of writing this article. It is likely that the government would announce further initiatives to cut its expenditure and boost its revenue. In February, a reduced rate and broader base for Value Added Tax were implemented, while the reintroduction of the property tax is imminent. In early March 2015, the Minister of Public Utilities announced plans to increase water and electricity rates for commercial and industrial customers.

Monetary Policy

After eight consecutive increases, the Central Bank's Monetary Policy Committee (MPC) chose to maintain the 'Repo' rate at 4.75 percent in January. The decision was based on the prevailing economic climate and the short-term outlook. It was also influenced by the US Federal Reserve's decision to keep interest rates on hold in January, following its first increase in seven years in December 2015. As the Central Bank continues its efforts to absorb excess liquidity, domestic lending rates continue to trend upward. The commercial banks average basic prime lending rate rose to 8.92 percent in December from 8.48 percent in September. The rate increased further to 8.98 percent in January 2016. The mortgage market reference rate (MMRR) increased to 3 percent in March 2016 from 2.75 percent in December, owing to increases in both the 15-year Central Government Treasury yield and commercial banks' borrowing costs. Consequently, the interest on mortgage loans is likely to increase, as the MMRR plus a margin is expected to be applied to both existing and new mortgages. In the absence of data for the fourth quarter, private sector credit is estimated to have remained flat after expanding by 1.7 percent y-o-y in the third quarter of 2015. On the other hand, consumer credit is expected to have grown further after increasing by 8.3 percent during the previous period.

Figure 2: Cement Sales % change (Quarter on Quarter)



Source: Central Bank of Trinidad and Tobago (CBTT)

Price pressure moderated during the period, as headline inflation fell to 1.5 percent (y-o-y) in December from 4.9 percent in September 2015. The advance of the food price component eased significantly from 11 percent in September to 2.7 percent. On the other hand, core inflation increased from 1.7 percent to 2.3 percent.

Reserves

In an environment of low energy prices and the continued strong demand for US currency, the market for foreign exchange remains very tight. Such is the pressure faced by authorized dealers, that money transfer companies Western Union and Moneygram implemented restrictions on all outgoing transactions in March 2016. Moneygram took the decision to suspend all send options, while Western Union now limits outward transfers from Trinidad and Tobago to US\$800 at a time. In the fourth quarter, the net sales of foreign currency increased by 11 percent over the previous quarter and by 47 percent over the same period in 2014. The official selling rate for US currency increased slightly to average TT\$6.41 per US\$1 from TT\$6.36 per US\$1 in the third quarter. By February 2016, the cost of one dollar rose to TT\$6.52. The country's reserves of foreign currency, represented by the net foreign position, fell slightly to US\$12.5 billion in December 2015 from US\$12.8 billion in September.

Outlook

With no respite from low energy prices envisaged in the short term, the sector will find it difficult to register growth over the next six months, especially as production levels wane. With steel production halted in the wake of the closure of the ArcelorMittal and Centrin plants, the manufacturing sector's performance is expected to be constrained. Government's invitation to the private sector to invest in the public sector housing programme could provide some much needed impetus for the construction sector. Whether this will occur over the next six months remains to be seen. By the third quarter of 2016, government is expected to accelerate some areas of its public investment programme to gain momentum in major projects and thereby provide some stimulus for the domestic economy. Overall the economy is expected to contract during the first half of 2016 and as such, further job losses may be experienced.

Caribbean Update

GLIMMER OF HOPE

Since the financial crisis of 2008, the Caribbean has seen its fair share of trials, which were often interspersed with a few positive developments. In the midst of sluggish economic growth, such developments have offered glimmers of hope to the region. The stellar performance of the tourism sector in 2015 provides a very good example. According to the Caribbean Tourism Organization (CTO), the Caribbean managed to set new records for tourist arrivals and spend, which increased by 7 percent and 4.2 percent, respectively. This achievement was mainly fuelled by the improved performance of the US economy, persistent marketing and the increase in airlift capacity. However, trials continue to present themselves. The declining commodity prices, which had a negative impact on commodity exporters, such as Guyana and Suriname, is a major challenge for these nations. The El Niño phenomenon was another challenge, as it brought drought conditions to several Caribbean nations, which negatively impacted agriculture. In early 2016, there has been no increase in commodity prices and climate forecasts are indicating that 2016 is shaping up to be another hot year. If these trials were not enough, the Zika virus is threatening to put a damper on the tourism sector.

Barbados

In 2015, the Barbados economy expanded by 0.5 percent on the back of a record-breaking performance from the tourism industry. Tourist arrivals increased by 15 percent, surpassing the previous record of 570,000 visitors in 2007. The signing of an Air Services Agreement between Barbados and the UK earlier this year augurs well for the tourism sector, as the UK is one of its main source markets. Although delays in major projects led to a 0.3 percent decline in the construction sector, this year has gotten off to a promising start. Some hotel construction projects have already been initiated and others are scheduled to start later this year. Nonetheless, the Zika virus is proving to be a legitimate threat for the tourism sector. The Barbados Ministry of Health is not taking this threat lightly and steps have already been taken to limit the spread of the mosquito-borne virus via the implementation of vector control programmes.

Cuba

Cuba's tourism sector was a major contributor to growth with arrivals increasing by 17.4 percent in 2015. This positive trend continued in early 2016, as arrivals grew by 12.7 percent (year-on-year) in January. The resurgent tourism sector has seen the concomitant rise in construction activity with a number of projects being rushed in an attempt to increase hotel capacity within the capital city of Havana. In

December 2015, US-Cuba relations continued to improve with the restoration of regular commercial flights between the two countries. While this decision could further bolster the tourism industry, US arrivals will remain below its potential until the US Congress fully repeals the outright ban on travelling to Cuba for the purpose of tourism.

In the short-term, continued drought conditions represent a serious threat to its food security. Last year, the food import bill increased due to the loss of domestic food crops. This year, the government has already intervened to control the rise in food prices by forcing private vendors to shut down and ordering privately-owned trucks to deliver goods to wholesale markets (where prices are less likely to fluctuate). With Venezuela facing a deep recession, the oil-for-doctors agreement between the two countries could be threatened. However, with Venezuela's healthcare system already in a dire state, it is highly unlikely that the agreement would be cancelled. In light of this, there is a possibility that Venezuela would try to re-negotiate the terms of the agreement by either providing less oil or altering the price paid for Cuban medical staff.

Grenada

Agriculture, tourism and construction were the main drivers of growth for the Grenadian economy in 2015. Under the International Monetary Fund (IMF) Extended Credit Facility programme, Grenada has made positive strides in stimulating its economy, reducing its debt and building a stronger fiscal framework to ensure more stringent fiscal discipline in the future. Grenada's commitment to reducing its debt was made evident in 2015, as it successfully completed several debt restructuring agreements and subsequently lowered its public sector debt to 92.7 percent of GDP from 111 percent of GDP in 2014. The average deflation rate of 1.3 percent was a testament to weak global energy prices. Grenada's foreign reserves position improved to 6 months of import cover from 4.8 months in the previous year. However, there are signs that the economy is not up to full speed yet. Last year was the third consecutive year that private sector credit contracted, a trend accredited to tighter lending criteria by banks. The unemployment rate was still high at 30 percent and this was mainly due to the fact that a higher participation rate had negated the increase in new jobs.

Guyana

Guyana, one of the main commodity exporters in the region, is beginning to feel the effects of low commodity prices. In 2015, real GDP growth slowed to 3 percent from 3.8 percent

in the previous year. Despite the downturn in the bauxite industry, growth was driven by the rice, sugar, gold and construction industries in the second half of 2015. The termination of the oil-for-rice agreement with Venezuela left the rice industry in somewhat of a quandary, but the government was able to find new markets for rice farmers and millers. The premature end to this deal was not all bad news, as debt repayments under the oil-for-rice deal helped reduce the country's public sector debt to 48.6 percent of GDP by the end of the year. Like some net importers of oil, Guyana experienced deflation (1.8 percent) due to weak fuel prices and the removal of Value Added Tax (VAT) for certain consumer items. Tighter fiscal management led to the increased collection of tax revenues and the reduction in total expenditure, which both contributed to the lowering of the fiscal deficit to 1.4 percent of GDP. Guyana is slowly positioning itself to be a major exporter of hydrocarbons. Exploration activities have intensified, while the Ministry of Natural Resources is focused on capacity building and the development of a framework for a Petroleum Agency in 2016.

Suriname

In light of its declining economy, in February, Fitch Ratings downgraded Suriname's long-term foreign and local currency Issuer Default Ratings (IDRs) from BB- to B+ with a negative outlook. Earlier this year, President Desirè Bouterse sought financial assistance from the IMF. A team recently concluded a visit to discuss the various options for financial aid. Lower commodity prices for its main exports and lower production are putting a serious damper on its foreign exchange earnings. Reduced earnings from its mining sector are also leading to cutbacks and layoffs. Moreover, the decline in foreign reserves together with the increase in US policy rates have led to a real depreciation in the domestic currency. In the earlier part of 2016, the low availability of foreign exchange also led to the emergence of a parallel market. Based on global developments, commodity prices are not expected to rise significantly in the short-term. Suriname's export earnings would continue to decline and henceforth the exchange rate is likely to remain under pressure for the most part of this year. The government's plans to implement austerity measures for 2016, is expected to lead to weaker demand, lower credit growth and ultimately weaker growth.

Region

Jamaica has officially sworn in a new Prime Minister, Andrew Holness, who defeated Portia Simpson Miller in the recently concluded elections. The new administration already met

with the IMF and has opted to continue with the economic reform programme under the Extended Fund Facility (EFF). Jamaica successfully surpassed the IMF's Primary Surplus and Net International Reserve (NIR) targets for the fourth quarter of 2015. Last year, the manufacturing (2.4 percent) and hotels and restaurants (2 percent) sectors were the main stimulants for real GDP growth of 0.8 percent. Tourism also turned in a phenomenal performance with 3.7 million tourists. Anecdotal evidence suggests a positive growth performance for the first quarter of 2016, as the mining and quarrying sector expanded in January. In addition, the tourism sector has remained buoyant with positive growth in the hotels and restaurants sector (2.9 percent) and airport and cruise passenger arrivals (11.4 percent) for the month.

While the majority of the OECS states benefitted from the upsurge in tourism activity, both Dominica and Antigua and Barbuda registered declines in tourist arrivals. With the OECS being net importers of oil, these countries benefitted from lower import bills. Tourism-related construction is expected to pick up this year and provide some impetus for growth. Nevertheless, the OECS is preparing for imminent threats with a joint initiative to deal with the Zika virus as well as training workshops for drought management.

Outlook

Based on current global developments, the next six months are set to be laden with challenges. Due to the region's heavy reliance on external markets for growth, spurring economic activity would prove to be a strenuous assignment. Economic activity for commodity exporters is expected to decline further with weak commodity prices, low production and reduced export earnings. The outlook for the tourism dependent nations seems more optimistic for now but the momentous performance in tourism for the previous year would not be easy to duplicate in 2016. Natural disasters and the spread of mosquito-borne illnesses like Zika, Chikungunya and Dengue could put a damper on tourism. The strong El Niño effect is expected to persist until September which could potentially destroy domestic food crops and force Caribbean countries to increase their food import bills. However, the region is not responding to these threats in a nonchalant manner, as preemptive steps are being taken to mitigate the effects of these downside risks. Hopefully, the region's preparedness and commitment in dealing with these threats could probably offer a glimmer of hope.

Surviving Challenging Economic Times

In October, when the government delivered the 2015/2016 budget it indicated that with energy prices expected to remain low for some time and given tight public finances, there was need for urgent action to safeguard the country's future. This was followed by the Central Bank's December announcement that the domestic economy was now in recession. Since these two statements, there has been a growing level of anxiety among all stakeholders, which comes as no surprise. With the effects of the challenging economic environment already emerging, the widespread feeling of nervousness is expected to linger. Layoffs and other cost saving measures are already being adopted in the private sector. Retailers have complained about slow sales during the Christmas and Carnival seasons, while a number of Carnival events were cancelled because of poor patronage. The government has taken steps to reduce its expenditure and enhance tax revenue with such initiatives as the reduction of the fuel subsidy and the expansion of the base for Value Added Tax (VAT). As the effects of the challenging economic environment continue to surface, citizens are repeatedly being advised to "tighten their belts", which is indeed very useful advice. However, we must be careful not to generate an atmosphere of panic, which cause consumers and firms to cut expenditure to such an extent where the recession is made much deeper and more protracted. What is needed is the prudent management of resources not paranoia. There are several strategies available to help citizens cope with the challenges associated with an economic downturn. Families and businesses should seek the combination of initiatives that best suit their particular needs. In this regard, we highlight one possible combination of strategies that can be adopted by households.

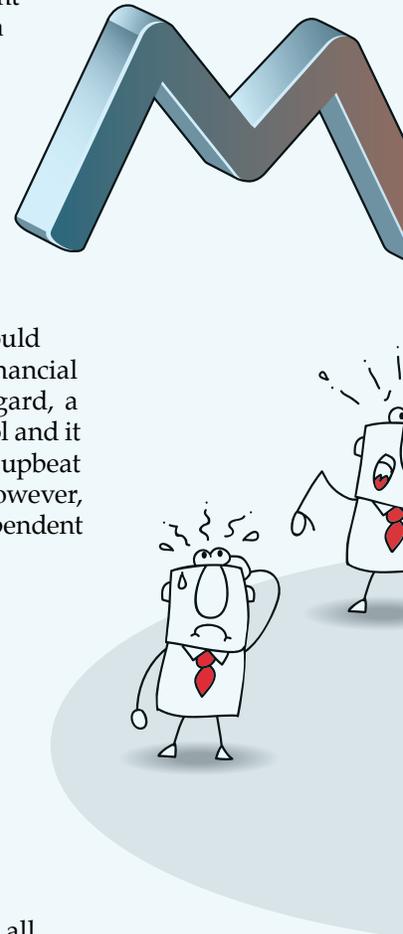
Tight finances can place undue strain on relations within the home and this is not necessarily limited to spouses. For this reason, it is important for families to face the difficulties associated with the slumping economy on a united front. To achieve this, the head of the household should first seek the commitment of the family before implementing changes to the way household resources are managed and consumed. An open discussion with the members of the family is a good place to start. This conversation can help to clarify the situation and give family members a greater appreciation of the need to take action to mitigate the negative fallouts. After all, wouldn't it be counterproductive for the head of the family to set objectives that fail to generate the requisite support from other family members? After the buy-in of the family has been acquired, then the goal-setting process can begin. Everyone who is able should be involved in the development of objectives; like the open discussion, this should also be a family affair. If all members of the family are actively involved in the process,

they would better understand the importance of their role and would be more likely to commit to the associated components. At the end of the process everyone should have a clear understanding of what the objectives are and the activities and attitudes necessary to attain them.

During the planning process it is important to conduct a thorough assessment of household costs. This analysis would reveal varying needs for different families. For instance, in a household where one or more breadwinners have been retrenched, the need to cut costs may be urgent, while for another household the requirement may be to control expenses.

The aim here is for families to maintain expenditure at sustainable levels, which would enable the attainment of key financial goals such as saving. In this regard, a budget can be a very effective tool and it is highly recommended in both upbeat and tight financial times. However, its usefulness is highly dependent on one's level of commitment. Unfortunately, a budget, like New Year's resolutions, is many times enthusiastically drafted, but quickly shelved because the requisite discipline to follow through is absent. A critical step in the budgeting process is the separation of needs and wants or put another way, necessities and luxuries. The budget should ideally cater for all necessities first, while luxuries should be added to the extent that key financial goals are not sacrificed. For instance, saving for your child's education or paying down debt should not be sidelined for the short-term pleasure provided by luxuries. Other ways household expenditure can be trimmed, include reducing meals out, seeking discounts and using cheaper brands.

While families are generally advised to maintain healthy saving habits and to keep debt at manageable levels, this need is drawn into sharper focus during an economic downturn.



Although the cost cutting initiative discussed above is generally expected to bring about an increase in savings, it is advised that saving be directed toward the attainment of specific goals. One such goal is the creation of an emergency fund, which would provide some cushion if one falls victim to retrenchment. It is generally recommended that households accumulate three to six months of living expenses to this end and seek to increase the fund further during economic downturns. The ideal approach is to establish the emergency saving early in one's work life and build it up over time. While this is by no means new advice, not many people adhere to this practice, similar to the failure of many to set aside sufficient resources for retirement and to acquire insurance coverage. Pairing saving with prudent debt management could go a long way in helping to achieve financial goals. In this regard, one should seek to control debt, paying close attention to one's ability to repay. Although the expansion of credit would help to boost economic activity, rising non-performing loans and bad debts would have the opposite effect. To some, accumulating the levels of savings discussed above may seem a daunting task and to others it may be nigh impossible. To these people we say it is important to save whatever you can on a consistent basis since, recession aside, at any time life can throw some major challenges at us all. Let your efforts to save be guided by goals which suit your particular circumstance.

During this period, it is also vital to protect or even augment household income. For entrepreneurs, this means protecting market share, seeking new markets etc. For



employees, it means being excellent at the workplace. This involves being punctual, doing more than is required of you, looking for ways to improve processes or reduce costs and volunteering for projects. In simple terms, you should strive to be the last person your employer would want to lay off. With regard to boosting income, leveraging personal skills such as baking and computer repair provides a good way to do this, as well as generating income for individuals who lost their jobs. Making yourself more marketable through education and training can also help to land that new job or simply retain employment. It can also help persons take advantage of the new opportunities that arise when the economy returns to growth.

Finally, it is important not to panic. A recession is definitely not something to take lightly, but reacting out of fear normally does more harm than good. History is full of examples of governments, companies and families, which took actions that were more motivated by fear than by reason in tough economic times, only to struggle with the consequences of their decisions. An example of this for a family would be the sale of important assets or valuable investments to boost liquidity or pay down debt, without a proper evaluation of the household's true financial standing. This can compromise long-term financial objectives. Further, some may think this is a time to cut all entertainment, thereby limiting avenues for the family to de-stress. Do not be controlled by fear. Instead, be prudent and make a conscious effort to enjoy life, making the most of what you have. Maybe you can no longer afford to take the family on that trip abroad; well why not spend the weekend at the beach; explore this great land of ours; go see a movie. Entertainment is important; it helps to keep us healthy. Although we may be forced to reduce our recreation budget, let's not eliminate it altogether.

While the underlying source of the weak economic activity currently affecting Trinidad and Tobago is beyond our control, we must recognize that we have various strategies at our disposal which can help to mitigate any hardships encountered. We should seek to generate a united response from our families, remembering the critical need to be guided by prudence rather than fear and paranoia. We should also work toward protecting our income, while setting aside sufficient resources for savings in the process. It is vital to take the long view because recessions, like economic booms are a part of the business cycle and as such, tend to recur from time to time. Accordingly, let's manage our resources in a manner that will allow us to take advantage of the upbeat times and survive the challenging economic times.

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