Republic
Economic
NEWSLETTER

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Stimulating Non-Energy Growth

Overview

Based on anecdotal evidence the domestic economy is expected to have expanded by 0.6 percent in the second quarter of 2013. This was due to higher levels of growth in the non-energy sector. Growth in the construction sector contributed to this upbeat performance, as evidenced by the increased production and sales of cement and cement-related products over the period. Output and prices in the energy sector declined during the quarter. Unemployment is estimated to have remained unchanged at 5.3 percent, while inflation remained contained in the second quarter of 2013. Activity on the domestic stock market increased with the Composite Price Index rising by 2.9 percent to 1,127.21.

Trinidad and Tobago Key Economic Indicators

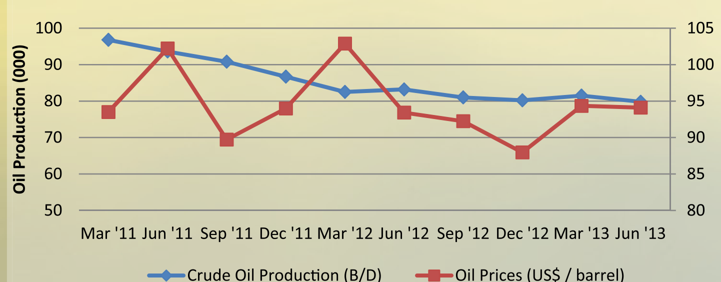
Indicator	2012	2012.2	2013.2 p/e
Real GDP (% change)	0.2	-1.6	0.6
Retail Prices (% change)	9.3	2.3	2.2
Unemployment Rate (%)	5.3	4.9	5.3
Fiscal Surplus/ Deficit ($M)	-2,274	1,303.9	2,133.5
Bank Deposits (% change)	6.5	0.9	1.4
Private Sector Bank Credit (% change)	1.9	1.2	0.7
Net Foreign Reserves (US$M)	11,638	11,581.1	11,819.3
Exchange Rate (TT$/US$)	6.37/6.43	6.37/6.43	6.38/6.44
Stock Market Comp. Price Index	1,064.98	1,022.48	1,127.21
Oil Price (WTI) (US$ per barrel)	94.12	93.42	94.10
Gas Price (Henry Hub) (US$ per mmbtu)	2.75	2.28	4.01

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

Energy sector

Energy sector output declined in the second quarter of 2013. This was partly due to a 7-day shutdown at PETROTRIN (including TRINMAR) in March 2013, which had negative spillover effects in the following period. Oil production decreased slightly to 79,754.7 barrels per day from 81,638 in the first quarter of 2013, while prices declined by 0.25 percent to average US$94.10 per barrel (figure 1). Natural gas production reached 4.1 billion cubic feet per day (Bcf/d), down from 4.3 (Bcf/d) between January and March 2013, while prices increased by 52cents to average US$4.01 per million BTU. In the downstream sector, ammonia and methanol output declined by 6.4 percent and 4.9 percent respectively, resulting in lower exports of both commodities. Exploration activity remained upbeat during the period, as rig days increased by 29.5 percent to 764 days although depth drilled fell by 18 percent.

Figure 1: Oil Production and Prices

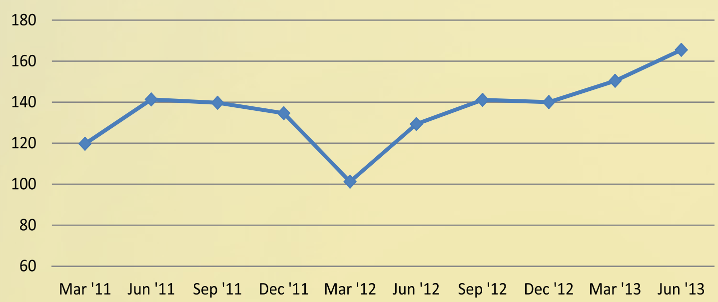


Source: EIA, CBTT

Non-Energy

After showing a 2.5 percent year-on-year growth in the first quarter of 2013, the non-energy sector is believed to have remained buoyant in the period April-June 2013. Cement sales increased in the second quarter by 10.1 percent from the previous quarter and by 28 percent from the second quarter in 2012 (figure 2). Increased activity in the construction sector is likely to be sustained during the lead-up to the October 21st local government elections. This should have positive spillover effects in other subsectors. The San Fernando to Point Fortin highway continued to face setbacks as over 300 workers protested working conditions in May 2013. Despite this, work continued with the four kilometer Golconda to Debe stretch of the highway, which opened at the end of August. In the second quarter a $400 million clay block plant was set to begin commercial production and would positively impact the manufacturing sector in the coming months.

Figure 2: Cement Sales (1000 tonnes)



Source: CBTT

Fiscal Policy

Government benefited from an 8.2 percent increase in revenues during the period April to June 2013. Revenues collected from the non-oil sector increased by 26.3 percent from the previous quarter, while those collected from the oil sector declined by some 14.5 percent. Current and capital expenditure for the second quarter was however lower than the previous period and likely stems from the authorities' continuing challenges in executing planned projects. An overall surplus of $2,133.5 million was recorded for the second quarter, compared to a deficit of $1,752.7 million the previous quarter.

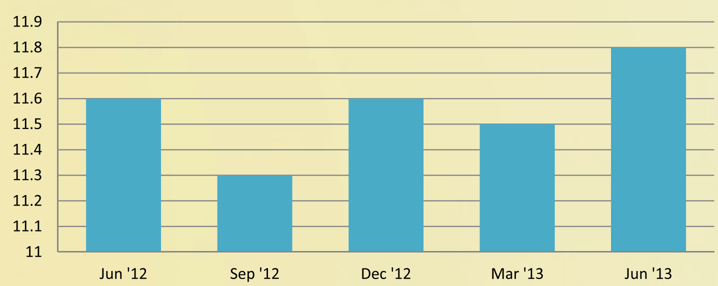
Monetary Policy

For the year thus far, inflation reached a high of 7.3 percent in January and moderated in the second quarter. After a year-on-year increase of 5.5 percent in April, prices increased by 5.6 percent in May and 6.8 percent in June. Food prices increased by 12.6 percent in June 2013, a slower increase than the 12.9 percent recorded in March. Lower global food prices and favourable weather conditions contributed to the slight slowing in food inflation in the first half of 2013. With overall inflation at manageable levels, the Central Bank held the "Repo" rate at 2.75 percent in its July 26th media release. In this environment, commercial banks' basic prime lending rate remained at 7.5 percent. In spite of low interest rates, private sector credit grew by only 0.7 percent, after declining by 1.3 percent in the first quarter of 2013. Available data indicates that commercial bank lending to businesses in the manufacturing, distribution, construction, petroleum and agriculture sectors fell in the period April/June 2013. Credit to consumers and the public sector, on the other hand, increased by 1.5 percent and 0.1 percent, respectively.

Reserves

The country maintained a strong foreign currency reserves position in the three months to June 2013, based on higher-than-budgeted energy prices. Reserves are estimated to have reached US$11.8 billion during the period, an increase from US$11.5 billion in the previous quarter (figure 3). During the period, net sales of foreign currency fell to US$233 million from US$299 million in the previous quarter and US$505 million in the second quarter of 2012.

Figure 3: Foreign Reserves US$B



Source: CBTT

Outlook

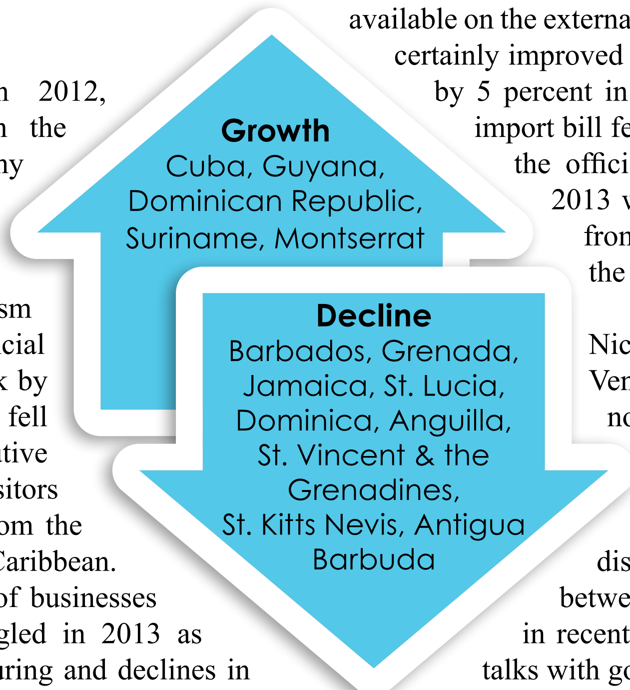
Going forward, growth in the economy depends on developments in both the energy and non- energy sectors. The energy sector is expected to face a difficult three to six months as the country's two largest natural gas producers are planning significant maintenance activity in the third and fourth quarters of 2013. Oil prices, however, are expected to remain fairly stable through the fourth quarter of 2013. Non-energy output is likely to increase. Distribution is expected to increase in the fourth quarter of 2013, due to seasonal factors, while construction activity is also expected to gain momentum. Although global food prices are likely to decline in coming months, heightened risks associated with flooding can put strong upward pressures on domestic prices.

Caribbean Update

HOLDING PATTERN:

First half assessment presages 2013 performance

Most observers would agree that within the Caribbean a trend of divergent growth has been in effect in recent years. Still, there is always the prospect of positive or negative changes in individual country circumstances. With most of 2013 now history, it is a good time to assess what was accomplished thus far and gauge what lies ahead. Because economic conditions generally change course slowly (barring some major event), evaluating the performance of regional states for the first half of the year, often provides a precise, and in some cases painfully realistic, near-term outlook as well. Like a circling plane, half-way through its arc, to an objective observer, the path of progression the rest of the way is predictable.



Barbados

After recording no growth in 2012, Barbados' struggles increased in the first half of 2013. The economy contracted by 0.6 percent in the January-June period, led by declines in the primary foreign exchange-earning sectors, tourism and international business and financial services. The tourism sector shrank by 1.4 percent as stay-over arrivals fell by 6.8 percent, the second consecutive decline, as increased European visitors were offset by reduced arrivals from the United States, Canada and the Caribbean. In financial services, the number of businesses declined, and other sectors struggled in 2013 as well, with no growth in manufacturing and declines in agriculture and construction.

Not surprisingly, the inflation rate slowed significantly, registering 2.7 percent in June compared to 8.4 percent a year ago. The unemployment rate declined marginally from 11.6 percent in December to 11.5 percent in March. Worryingly, the budget deficit came in at 9.4 percent of GDP for the second quarter, significantly higher than the year-ago figure of 6.2 percent, as expenditure rose slightly and revenue collections fell. In an attempt to revive the economy, the government launched a 'Tourism and Hospitality' plan centered on the creation of new hotels and the re-opening of closed ones. While there may be hope for a quick turnaround in Barbados' economic fortunes, this is unlikely. Although tourism figures for the latter half of 2013 should show a smaller contraction than the first six months, this will do little to mitigate the many challenges the island faces. Over the next six months many of Barbados' key indicators are likely to get worse before they get better.

Cuba

Cuba's economy grew by an estimated 2.3 percent for the first half of this year, an improvement over the 0.3 percent figure for the 2012 period. While most sectors improved, sugar production came in below target due to power outages and poor efficiency levels. Construction sector investment grew by a healthy 16.6 percent. While limited data is available on the external sector, Cuba's trade balance almost certainly improved as it was reported that exports grew by 5 percent in the January-June period while the import bill fell due to easing food prices. In July, the official growth projection for Cuba for 2013 was given as 2.5–3.0 percent, down from the 3.6 percent target at the start of the year.

Nicolas Maduro's narrow victory in Venezuela's presidential elections no doubt caused some concern and spurred Cuban officials to intensify efforts to reduce the island's vulnerability to any disruption of the trading relationship between the two countries. To this end, in recent months, Cuban officials have held talks with government representatives of several countries, such as Brazil, Angola, Iran, Russia and Saudi Arabia, that could potentially help to fill the gap in the event of any interruption in energy supplies from Venezuela.

Grenada

While no recent economic data on Grenada is available, we believe the trend of recent quarters held sway and the economy contracted in the first half of this year. In seeking to slow the deterioration of Grenada's already difficult debt situation, the Keith Mitchell administration included a number of expenditure-saving measures in its 2013 budget such as a hiring freeze, reduced spending on overseas travel and a 20 percent reduction in non-personnel spending by ministries. While the new government has signaled its intention to own up to its financial commitments both locally and internationally, it will struggle to meet most of them in the near future as the economy will face ongoing growth challenges, with only the agriculture sector likely to provide any meaningful impetus in the short term.

Guyana

Finance Minister Dr. Ashni Singh reported that Guyana's economy grew by a strong 3.9 percent in the first half of 2013. The impetus came from a number of sectors, with gold declarations increasing by 26.8 percent leading to a 12.2 percent growth in earnings and rice production jumping by some 25 percent. Also, the financial services sector grew by 9.1 percent while construction activity increased by 6.6 percent, through strong public sector works along with private sector undertakings. The sugar sector declined, however, shrinking by a huge 32.5 percent as the Guyana Sugar Corporation Inc (Guysuco) recorded its lowest ever first crop production of 48,000 tonnes. Because of the weak first crop performance, Guysuco will be extremely hard-pressed to meet its EU quota and may have to import sugar to fulfill its obligation.

In July a new national minimum wage for private sector employees was introduced. The new wage is fixed at G$35,000 (US$175) per month and should benefit approximately 31,000 workers. One of Guyana's largest projects ever, the Amaila Falls Hydropower project, stalled in August as opposition parliamentarians voted against the extra funding needed to get the project off the ground. While the economic boost anticipated from the construction of the hydroelectric facility has been put on hold indefinitely, Guyana's economy is still expected to continue its growth trajectory over the next two quarters. The authorities project an overall expansion of 4.8 percent in Guyana's economy for 2013.

Region

For January to June 2013, GDP is estimated to have contracted by 0.8 per cent in Jamaica due to declines in both the goods producing (-3.2 percent) and service (-0.2 percent) sectors. While the hotels and restaurants sector contracted marginally, the largest declines during the period were agriculture, forestry and fishing (- 9.8 percent), and mining and quarrying (-2.4 percent). The only relatively significant area of growth was in construction, which expanded by 1.1 percent. Not surprisingly, Jamaica recorded a high unemployment rate. However, the 16.3 percent figure in April, surprised some, as it was a significant increase on the year-ago rate of 14.3 percent and even more so, the 14.1 percent of January 2013.

The Dominican Republic enjoyed growth of 1.6 percent in the first half of the year, spurred largely by a government stimulus package rolled out in May. With the exception of the mining sector, whose output rose by a massive 222.6 percent (start of a new gold mining operation), most sectors registered negative or slower growth than in first-half 2012. Local manufacturing declined by 1.2 percent, however, banking and financial services grew by 8.8 percent and the services and tourism sectors grew modestly at 1.7 percent and 1.8 percent respectively. The country's Central Bank projects overall growth for 2013 of 2.8 percent.

While Suriname's GDP figure for H1 2013 (the first half of 2013) was unavailable, anecdotal evidence suggests its economy expanded, driven by investments in oil, mining and manufacturing. Continuing the trend of recent years, Suriname's fiscal deficit also undoubtedly grew, driven by increasing government spending on salaries and social programmes and services. In recent months, Suriname has taken steps to establish a sovereign wealth fund and its law makers have been mulling the terms of a value added tax (VAT) system to be implemented in 2014. We believe the country is likely to achieve overall growth of 3-4 percent for 2013.

Chairman of the Eastern Caribbean Currency Union (ECCU) and Prime Minister of St. Lucia, Dr Kenny Anthony has projected growth of 1.5 percent for ECCU member countries in 2013. We believe, however, that these countries' experience thus far in 2013 is likely to be similar to others, where the expected resurgence in tourism didn't materialize to the extent expected, with supporting sectors unable to fill the void. As such, we feel some countries will achieve modest growth, others a small contraction, resulting in an average growth figure for the eight-member sub-region of less than 1 percent.

Outlook

The split-level performance of the Caribbean will continue into 2014. While the fall-off of gold prices in recent months has somewhat dampened the revenue prospects of producers, the countries that have strong mining, industrial and agriculture sectors should continue to enjoy solid, sure-footed growth over the next two quarters. For those whose forté has traditionally been financial services and tourism, economic expansion will be weak, tenuous or downright elusive.

Trinidad and Tobago
– an Innovation-Driven Economy?

by Ronald Ramkissoon Ph.D. Senior Economist, Republic Bank

"Dreamers are mocked as impractical. The truth is they are the most practical, as their innovations lead to progress and a better way of life for all of us."

– Robin S. Sharma

According to the World Economic Forum's, Global Competitiveness Report 2013, Trinidad and Tobago is now in the category of "innovation-driven" economies – the most developed group of countries in the world. The Report explains that countries that are innovation-driven, have firms that are designing and developing cutting-edge products and processes in order to maintain a globally competitive edge; and have sufficient investment in research and development with collaboration in research between universities and industry. The category includes countries such as the United States, Australia, Qatar, Singapore and, surprisingly, even Greece.

This new status comes on the heels of the country's graduation to developed country status by the Organisation for Economic Cooperation and Development (OECD); and the UN's classification of Trinidad and Tobago as a country of High Human Development. The other two categories identified in the Report are factor-driven economies and efficiency-driven economies. According to the Report, countries can also be in either of two "transition stages" (see Chart 1). This, at our 51st anniversary of Independence, might be reason to celebrate – and perhaps rightly so.

Unfortunately, the news is not all good, for in the same *Global Competitiveness Report* for 2013, this country dropped in the rankings from 84th to 92nd out of 148 countries. This fall is partly explained by the weights used in classifying the countries. Largely due to the size of Trinidad and Tobago's GDP per capita, viz. US$19,018, this country was "weighted" differently, from the last Report and from the other categories, in a predetermined weighting scheme. For example, "innovation and sophistication factors" carry a weight of 30% for innovation-driven economies, but 5% for countries that are "factor–driven" or are at Stage 1. The result is that while Trinidad and Tobago "benefitted" from its relatively high income level overall, it scored poorly in the new class of "innovation-driven" economies in which it is now placed. The big question, of course, is should GDP per capita play such a significant role in determining in which category a country is placed?

The Report also reveals the constraints to doing business in Trinidad and Tobago. The four most "problematic factors" identified are crime and theft, an inefficient bureaucracy, corruption and poor work ethic. When compared to its peers, several of whom are mentioned above, Trinidad and Tobago does well in the area of macroeconomic environment, financial market development and in health and primary education. With just 1.3 million people and a combined land area of 5,128 square kilometres, it does poorly in terms of size. It also does poorly in higher education and training and is weak in innovation, which

Chart 1

STAGES OF DEVELOPMENT

	Stage 1: Factor-driven	Transition from stage 1 to stage 2	Stage 2: Efficiency-driven	Transition from stage 2 to stage 3	Stage 3: Innovation-driven
GDP per capita (US$) thresholds*	<2,000	2,000 – 2,999	3,000–8,999	9,000 – 17,000	>17,000
Weight for basic requirements sub index	60%	40 – 60%	40%	20 – 40%	20%
Weight for efficiency enhancers sub index	35%	35 – 50%	50%	50%	50%
Weight for innovation and sophistication factors	5%	5 – 10%	10%	10 – 30%	30%

Note: See individual country economy profiles for the exact applied weights.

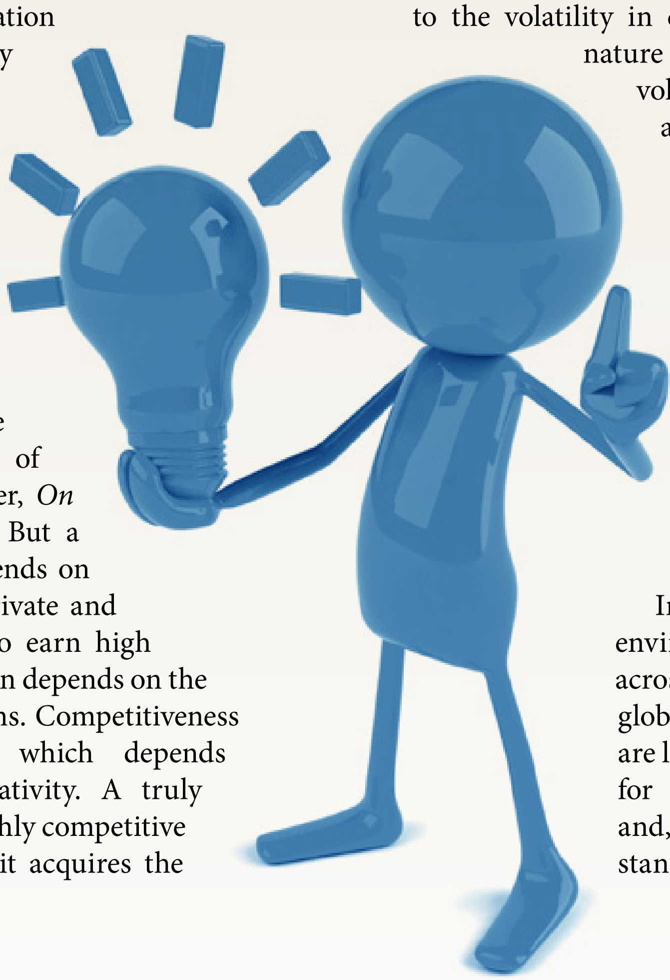
** For economies with a high dependency on mineral resources, GDP per capita is not the sole criterion for the determination of the stage of development. See text for details.*

is why it is located at the bottom rung of the ladder in the category of innovation-driven economies.

This country's classification as an innovation-driven economy will surprise more than a few, not only because of the size, contribution and well-known dominance of the hydrocarbon sector but also because of our familiarity with the gaps in higher education and research and development. No methodology is perfect and there will always be special circumstances that defy any model.

One way to put these findings to good use is to focus on innovation. What is it? Why is innovation important to the development of any country? How do we motivate people to be innovative at all levels of the society?

Innovation is about creativity at the individual, corporate and national levels. Innovation lies at the core of any truly successful nation. It is continuing innovation which will ensure that a country earns the income necessary to sustain a high standard of living. No one can dispute Michael Porter's assertion that "The principal goal of a nation is to produce a high and rising standard of living for its citizens" (Porter, *On Competition*, 2008, p. 176). But a high standard of living depends on the ability of firms (both private and public) in a given nation, to earn high levels of income, which in turn depends on the competitiveness of those firms. Competitiveness depends on productivity which depends on innovativeness and creativity. A truly successful nation is also a highly competitive nation because this is how it acquires the resources to meet the needs of its citizens. A competitive nation maintains its competitiveness by encouraging and growing its private and public companies and with high rates of productivity. Continuous productivity improvements in turn depend on innovation or as Porter puts it, "companies achieve competitive advantage through acts of innovation" (2008, p. 179).



Not many innovation-driven countries are natural resource-endowed countries. In fact, in the category of innovation-driven economies, less than a quarter are natural resource-based economies. This is not surprising, as natural resource-endowed economies such as Trinidad and Tobago, tend to be complacent and over-reliant on a single commodity or sector for their livelihood. But countries such as Trinidad and Tobago need to be alert to their susceptibility to capricious income fluctuations due to the volatility in commodity prices and the depletive nature of their natural resource assets. Such volatility in income does not make for a sustainable economy nor does it guarantee high standards of living. On this point, Porter rightly cautions "National prosperity is created, not inherited. It does not grow out of a country's natural endowments, its labour pool, its interest rates, or its currency's value …" (2008, p. 171).

Therefore, as a country, we should not get carried away by our new classification as an "innovation-driven" economy. Instead, we should seek to cultivate an environment of creativity and innovation across all sectors, with a view to developing globally competitive firms. In this way, we are likely to build a good, basic foundation for productivity and competitiveness and, ultimately, for a high and sustained standard of living.