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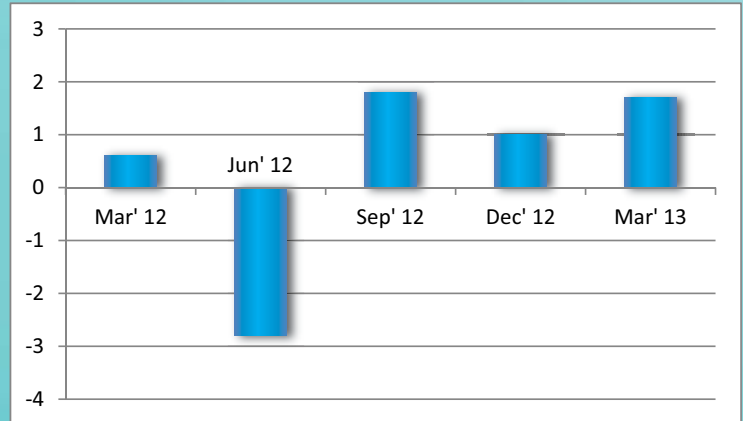
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Fledgling Growth Spurs Optimism

Overview

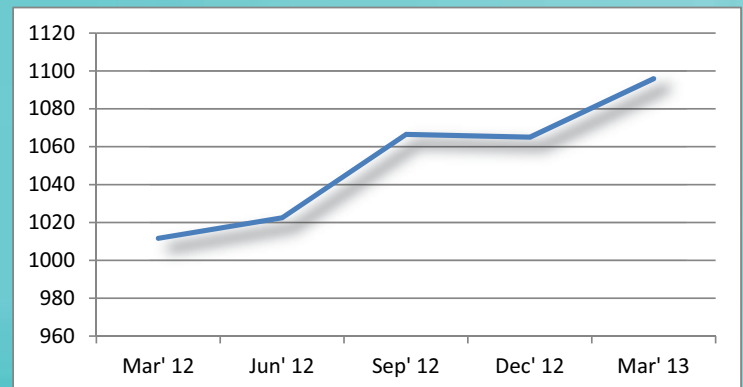
Estimates by the Ministry of Finance and our own projections indicate that the domestic economy expanded by over 1 percent in the first quarter of 2013 (Figure 1). Growth was driven by activity in both the energy and non-energy sectors. The non-energy sector seems to have benefitted from stronger public and private sector construction activity. In this environment, unemployment remained low at 5.3 percent, while inflation stayed well below the double digit threshold. Overall, there was marginal growth in total loans extended over the period. Activity on the domestic stock market grew after a marginal decline in the fourth quarter of 2012, with the Composite Price Index rising by 2.9 percent to 1,095.89 (Figure 2).

Figure 1: GDP Growth (%)



Source: CBTT

Figure 2: Composite Price Index



Source: T&T Stock Exchange

Trinidad and Tobago Key Economic Indicators

Indicator	2012	2012.1	2013.1 p/e
Real GDP (% change)	0.2	0.0	1.0
Retail Prices (% change)	9.3	3.8	1.03
Unemployment Rate (%)	5.3	5.4	5.3
Fiscal Surplus/Deficit (\$M)	-2,274	-207	731
Bank Deposits (% change)	6.5	1.0	0.4
Private Sector Bank Credit (% change)	1.9	-0.4	-1.3
Net Foreign Reserves (US\$M)	11,638	11,895.6	11,500
Exchange Rate (TT\$/US\$)	6.37/6.43	6.37/6.43	6.37/6.44
Stock Market Comp. Price Index	1,064.98	1,011.6	1,095.89
Oil Price (WTI) (US\$ per barrel)	94.12	102.88	94.34
Gas Price (Henry Hub) (US\$ per mmbtu)	2.75	2.45	3.49

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

Energy sector

Available data suggest that activity in the energy sector strengthened in the first quarter of 2013 after posting no growth in the previous three-month period. Growth was propelled by increased oil and gas output at higher prices. Higher output and export of petrochemicals were also recorded. Oil production increased slightly to 81,575.3 barrels per day from 80,173 in the fourth quarter of 2012, while prices rose 7 percent to average US\$94.34 per barrel. Natural gas production reached 4.4 billion cubic feet per day (Bcf/d), up from 4 Bcf/d between October and December 2012, as prices increased by nine cents to average US\$3.49 per million

BTU. Within the downstream sector, significant increases were recorded in output of ammonia (16.6 percent), urea (15 percent) and methanol (11.4 percent). During the period, gas utilization by the sector increased, likely reflecting a greater supply, relative to the previous three-month period. Export volumes were also boosted with ammonia, urea and methanol exports growing by 11 percent, 36.8 percent and 14.4 percent, respectively. However, exploration activity cooled during the period, as rig days slid 20 percent to 590 days and depth drilled fell by 18 percent. The announcement by BPTT president Norman Christie that the company's production was up ten percent between January and March was welcome news for the sector in the context of ongoing maintenance work by several major suppliers. However, the company plans to shut down two of its platforms in the last quarter of 2013 for maintenance purposes, which is expected to curtail output. In June, BHP Billiton signed production sharing contracts with the Trinidad and Tobago government for oil and gas exploration in five deepwater blocks off Trinidad's east/northeast coast.

Non-Energy

During the first three months of 2013, the momentum for growth was provided primarily by a 2.6 percent expansion of non-energy sector activity. The encouraging performance follows an expansion of 1.7 percent in the previous quarter and was supported by growth in manufacturing, construction and distribution. The construction sub-sector experienced 3 percent growth, with greater public and private sector activity. This was reflected in a 52 percent year-on-year rise in the sale of cement and the rise in the price of construction inputs such as cement (10.2 percent), plastering sand (10.5 percent) and half inch steel (8.3 percent). Although the San Fernando to Point Fortin highway was plagued by interruptions, other large public projects such as the flyover at the Mt. Hope interchange and the Penal/Debe UWI Campus were well underway. In addition, several small public projects, including road repair and augmentation, were undertaken during the period. This work is likely to continue as the country heads into a constituency by election on July 29, followed by local government elections, due before the end of the year.

Fiscal Policy

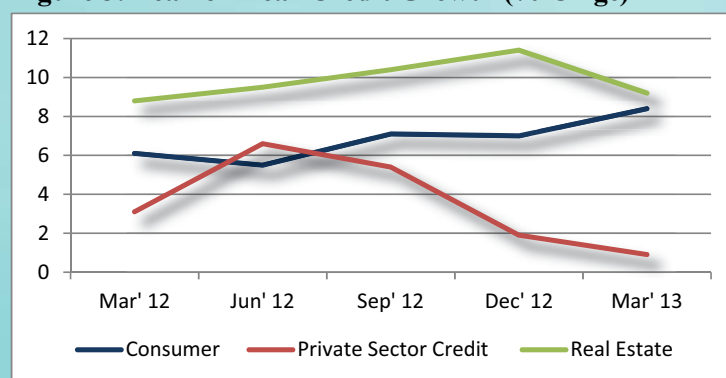
With expenditure below and revenue above budget projections, central government recorded a \$731 million surplus instead of the \$2.9 billion deficit expected for the first half of the fiscal year ended March 2013. The expenditure shortfall was largely caused by government's inability to implement planned projects. Revenue exceeded budgetary projections as tax revenues, from both the energy and non-energy sectors were greater than expected. Nevertheless, the government has moved to augment expenditure for the 2013 fiscal year by \$2.8 billion, but has indicated that total expenditure and the fiscal deficit for the year is likely to fall short of the revised projection of \$62 billion and \$9.2 billion, respectively.

Monetary Policy

Price pressures eased during the period under review, with headline inflation falling slightly to 6.9 percent year-on-year in March from 7.2 percent in December 2012. The fall was

largely attributable to a reduction in the rate of core inflation to 2.2 percent in March from 3.1 percent. Food prices, on the other hand, rose marginally by 12.9 percent, compared to 12.7 percent in December 2012. With overall inflation at manageable levels, the Central Bank remained focused on stimulating the domestic economy and held the "Repo" rate low at 2.75 percent. Against still soft loan demand, commercial banks lowered their basic prime lending rate to average 7.5 percent. Nonetheless, private sector credit contracted by 1.3 percent when compared to the final quarter of 2012, but grew 0.9 percent on a year-on-year basis. Similarly, real estate mortgages, which remained fairly strong in the face of weak economic conditions over the last few years, experienced their first quarter-on-quarter fall (0.25 percent) for quite some time. However, they grew by 9.2 percent over the similar period in 2012. On the other hand, consumer credit grew by 1.4 percent over the fourth quarter of 2012 and by 8.4 percent year-on-year (Figure 3).

Figure 3: Year-on-Year Credit Growth (% Ch'ge)



Source: CBTT

The Foreign Reserves

The country maintained a strong foreign currency reserves position in the three months to March 2013, based on higher than budgeted energy prices, which have boosted government revenues. Reserves are estimated to have reached US\$11.5 billion during the period, down slightly from US\$11.8 billion in the previous quarter. During the period, net sales of foreign currency fell to US\$299 million from US\$470 million in the previous quarter and US\$496 million in the first quarter of 2012.

Outlook

Although it is too early to ascertain whether the improved performance of the domestic economy is the start of a prolonged period of growth, there is some room for optimism. With construction activity expected to gain momentum as the year progresses, other industries in the non-energy sector should benefit from the positive knock-on effects. A sustained thrust in public project implementation will go a long way in this regard. Improved output of the energy sector, assisted by fairly stable oil prices, is expected to persist through to the third quarter of 2013. Exploration activity is also expected to remain upbeat. The short term growth prospects are good notwithstanding the planned shut-down of some gas platforms by major producers in September/October. Nevertheless, it will be a mistake of major proportions to take this for granted.



Caribbean Update

Silver Lining in Storm Clouds?

The Caribbean region registered mixed performance in the first quarter of 2013, as commodity exporters continued to do well due to the relatively high price of metals, crude oil, sugar and bauxite. Tourism-dependent countries may have been hopeful that the improvement in arrivals in 2012 augured well for the sector's recovery. However, with tourist arrivals slowing in the first three months of 2013, such hopes may have been premature. The recent visits of United States of America Vice President Joe Biden and China's President Xi Jinping were symbolic and sought to strengthen bilateral ties between the region and the two countries. China's offer of US\$3 billion in concessionary loans to nine Caribbean countries can be likened to a silver lining among storm clouds.

Barbados

After recording virtually no growth for 2012, the Barbados economy contracted by 0.4 percent in the first quarter of 2013, according to the Central Bank of Barbados (CBB). This performance reflected a slowdown in the manufacturing, construction, agriculture and tourism sectors. The tourism sector declined by an estimated 6.5 percent for the first three months of 2013, as tourist arrivals from the UK, US and Canadian markets declined in January / February by 4, 13 and 15 percent, respectively. On a positive note, cruise passengers increased by some 6 percent for the same period. The average unemployment rate of 11.6 percent for 2012 is expected to have increased moderately in the first three months of 2013, with the continued lethargic performance of the economy. On the other hand, the inflation rate slowed to 3.3 percent for the period

January to March 2013 down from the 9.4 percent recorded for the same period in 2012. Barbados' foreign exchange reserves declined from BDS\$1,467 million at the end of December 2012 to BDS\$1,429.7 million during the first quarter of 2013. The decline, however, represents an increase in import cover from 18-19 weeks, due to lower import spending. According to the CBB, the government's gross debt-to- GDP ratio increased to 83.4 percent for the first 3 months of 2013 from 80.2 percent the same period a year earlier. In light of Barbados' recent poor economic performance, weak supporting sectors and high debt levels, growth is expected to remain depressed over the next few months.

Guyana

Guyana's economy continues to outperform most of its Caribbean counterparts, registering solid growth of 4.8 percent for 2012 – the seventh consecutive year of positive growth – propelled by increased output in the mining and quarrying sector. Gold and bauxite production experienced a year-on-year increase of 20.8 percent and 12.5 percent, respectively in 2012, as commodity prices remained high. Manufacturing output also grew by some 2.4 percent, reflecting mixed performances, with some products such as beverages, recording increased output. Rice production increased by 5 percent to 422,057 tonnes in 2012. Last month Guyana and Venezuela signed a one-year extension to an export agreement that should result in 210,000 tonnes of rice being shipped to Venezuela, at a value of US\$130 million. Sugar output, on the other hand, continued to place a drag on economic activity as year-on-year output declined by 7.8 percent in 2012. According to June 2013 ViewsWire of the Economic Intelligence Unit, UK, this lacklustre performance continued into the beginning of 2013 with the first-crop production of 48,000 tonnes by Guyana Sugar Corporation Inc. (Guysuco) being significantly lower than the 67,299 tonnes produced last year. Government's spending remained relatively high, as the overall fiscal deficit increased marginally to 4.5 percent of GDP in 2012, from 4.4 percent the year before. Assuming global commodity prices remain high and major producing sectors are not affected by weather-related hazards, Guyana's economy should continue to deliver a healthy performance over the next three to six months.

Grenada

According to Grenada's Prime Minister and Minister of Finance Dr. Keith Mitchell, following 1 percent growth in 2011, GDP declined by 0.8 percent in 2012. This was due to contractions in tourism arrivals (5 percent), construction activity (16 percent) and the wholesale and retail sector (1 percent). This underperformance most likely persisted throughout the first quarter of 2013, as tourist arrivals declined by some 1 percent for the period January-February 2013. On the positive side, the average inflation rate of 0.14 percent for the first three months of 2013 has been relatively lower than the 0.92 percent recorded for the corresponding period in 2012. According to anecdotal information, the unemployment rate remained relatively high at 40 percent in May 2013. Already faced with a high public sector debt of EC\$2.33 billion (108 percent of GDP), the government projected a fiscal deficit of EC\$154.4 million for the 2013/2014 fiscal year, to be financed by domestic and international sources. After failing to make payments towards its US\$193 million debt in March 2013, the government has asked creditors for leeway to restructure such debt. In the recently presented 2013/2014 national budget, approximately EC\$262.4 million is allocated towards capital expenditure for the fiscal year. Although higher than the EC\$235.2 million in 2012, it will do little for growth in the coming months, as the economy continues to face fiscal constraints and liquidity problems.

Cuba

While GDP grew by 3 percent in 2012, economic activity declined in the period January to March 2013. According to anecdotal information, the first quarter realized a difficult start to the year, with sugar production behind schedule and tourist arrivals down by 0.5 percent, from 952,777 in the first quarter of 2012 to 946,706 in the same period of 2013. The price of nickel – Cuba's main export commodity – also fell by some 13 percent in the first three months of the year, due to oversupply and competition from substitute materials. In May, government officials announced a marina mega-project, as part of a billion-dollar drive to diversify Cuba's tourism offering. When completed, Marina Gaviota Varadero will be the largest in the Caribbean, with a capacity for close to 1,300 boats as well as berths for six mega yachts, and would help boost the sector immensely. Also in May, Cuba's hope for energy dependence received another blow as Russian state-owned oil company Zarubezhneft, ended the island's only active project in its search for offshore oil fields. Following the election of the late Hugo Chávez's successor Nicholas Maduro in April 2013, Cuba and Venezuela are expected to maintain their mutually beneficial relationship in the coming months. However, this relationship could be uncertain in the long term, as Venezuela's challenges increase.

The Region

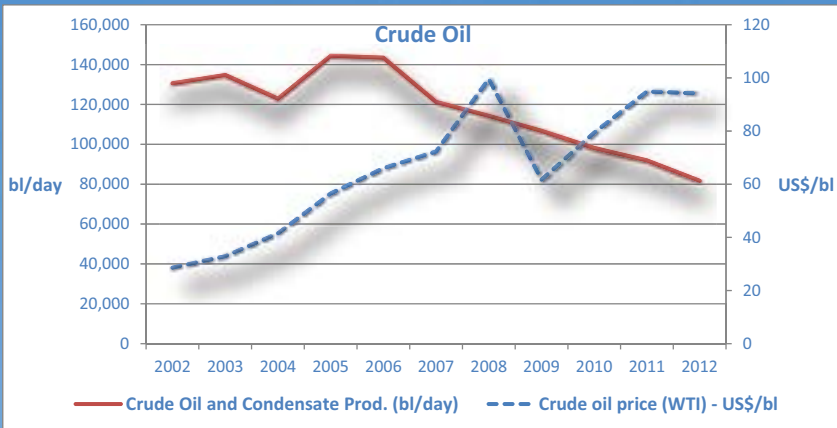
Slowdown in the agriculture, mining and quarrying, and hotels and restaurants sectors contributed to a decline in Jamaica's economy for the first quarter of 2013. During this period, total stop-over visitor arrivals declined by 3.2 percent while visitor expenditure declined by 3.8 percent. The inflation rate increased to 2.7 percent, from 2.6 percent in the fourth quarter of 2012. This was mainly driven by higher imported inflation, which primarily reflected the accelerated pace of exchange rate depreciation. According to Jamaica's central bank governor Brian Wynter, the Jamaican dollar depreciated by more than 6.5 per cent in the first quarter of this year, closing at J\$98.73 to US\$1 during the month of May. On Friday, June 7 2013, the dollar reached the J\$100 mark against the US and continues to depreciate. Based on current economic trends, growth is expected to remain dormant over the next three to six months.

With the help of the International Monetary Fund (IMF), Antigua and Barbuda has made significant progress in bringing its debt down from 102.5 percent of GDP in 2009 to 89 percent in 2012. It has also reduced its fiscal deficit from 18 percent of GDP in 2009 to approximately 1 percent in 2012. Unfortunately, tourist arrivals declined by some 1.3 percent in the first quarter of 2013. St Kitts and Nevis continues to face economic hardship, with output estimated to have declined by 1.3 percent in 2012, due to sluggish performance in the construction and tourism sectors. The story of weak performance is repeated in the rest of OECS sub-region, as countries continue to tackle the immense task of stimulating growth. Agricultural output in some countries has been negatively affected by extreme weather conditions and widespread outbreaks of disease in banana crops. This, coupled with already high debt levels and an ailing tourism sector, could dampen any signs of growth in the OECS region for the coming months.

Outlook

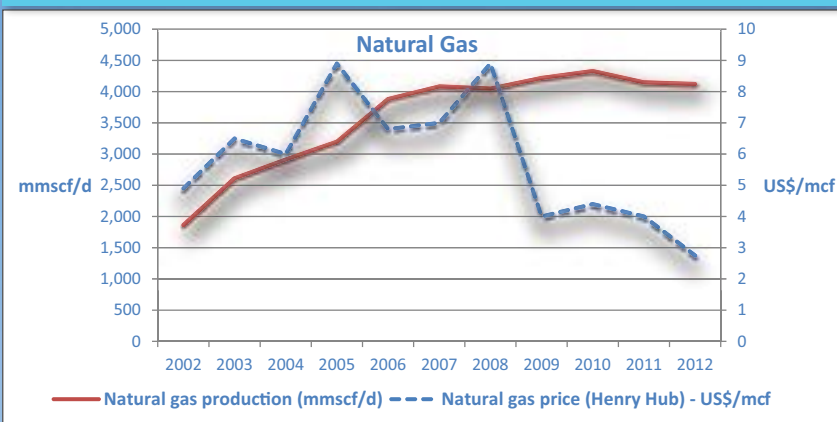
Already faced with mountainous debt and weak competitiveness, growth in tourist-dependent countries is expected to remain stagnant, as tourist arrivals and spending are expected to decline over the next three months. These harsh conditions could be further compounded by the reduction or elimination of subsidized oil imports, in light of the uncertain future of the Petrocaribe programme. Commodity-exporting economies such as Cuba, Guyana and Suriname are expected to do well, assuming the prices of food, fuels and metals remain high. With an active hurricane season predicted by the U.S. National Oceanic and Atmospheric Administration (NOAA) in 2013, the perennial risk to the region of damage and loss from natural disasters is heightened over the next six months.

A Decade of Energy



Crude oil production declines as the price moves upwards....

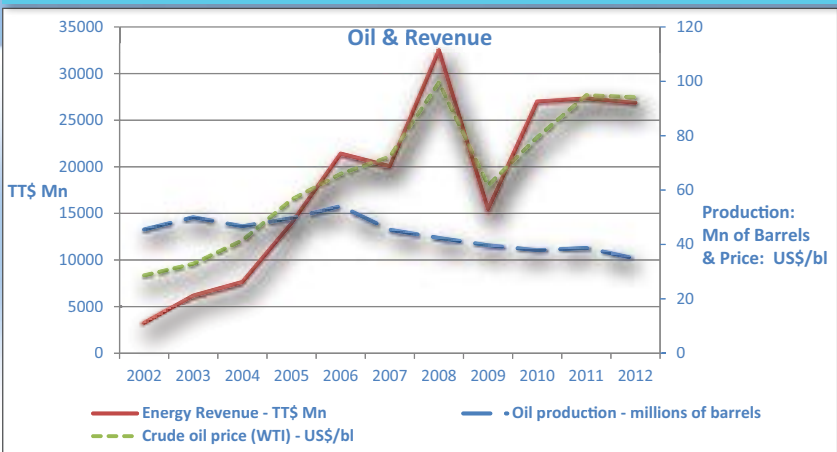
Sources: Ministry of Energy & Energy Affairs website, Central Bank of T&T publications



Natural gas production remains healthy even as the price declines....

Key: mcf - thousand cubic feet, mmscf/d - million standard cubic feet per day.

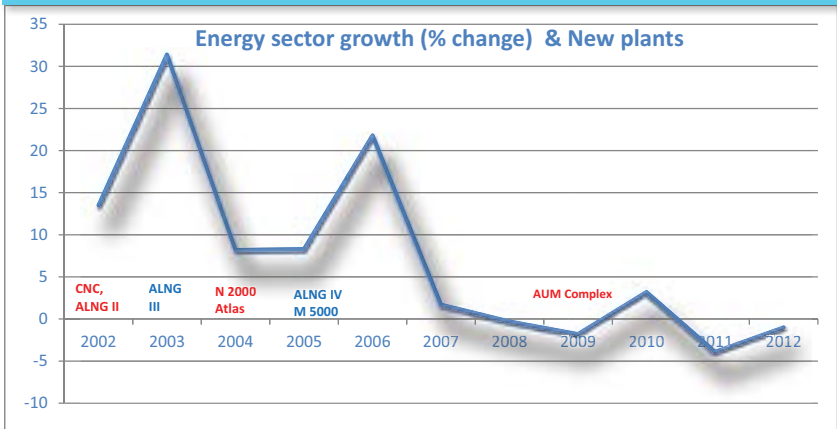
Sources: Ministry of Energy & Energy Affairs website, Central Bank of T&T publications



Despite the decline in oil production, energy revenues remain solid and appear to be strongly supported by oil prices....

Note: Data for crude oil price are for the calendar year, while data for energy revenue and oil production are for the fiscal year.

Sources: Ministry of Finance - Review of the Economy, Central Bank of T&T publications



Energy sector GDP trends down as fewer new plants come on stream....

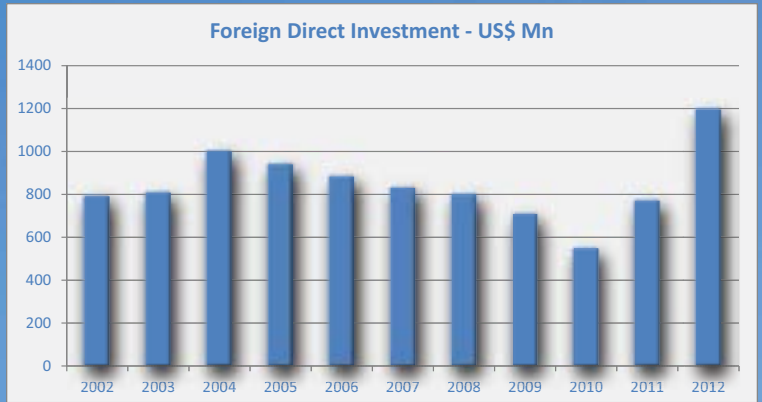
Key: CNC - Caribbean Nitrogen Corporation, ALNG - Atlantic LNG, N 2000-Nitrogen 2000.

Sources: Central Bank of T&T publications

Activity in Charts

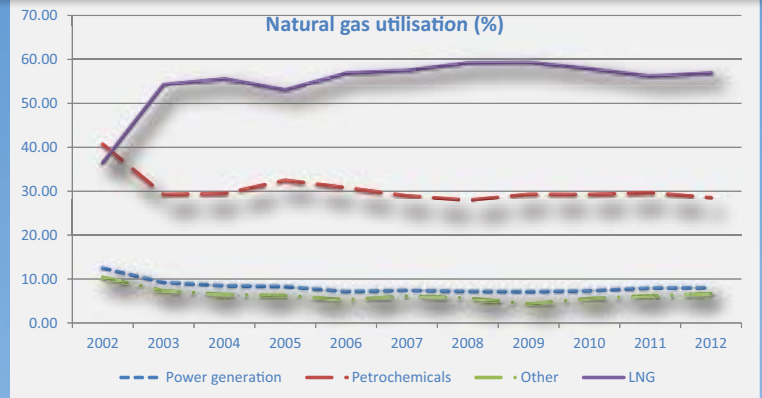
Fall in foreign direct investment from 2005 to 2010 is reflected in declining oil production, few new plants and ultimately a decline in energy sector GDP....

Sources: Central Bank of T&T publications



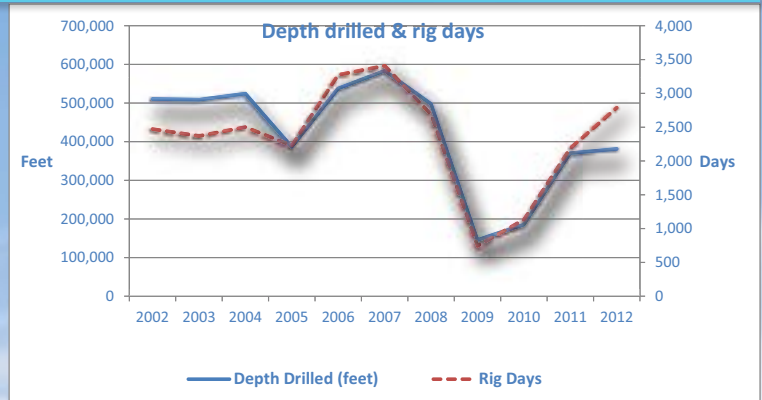
Natural gas usage is dominated by LNG with petrochemical production a distant but consistent second....

Sources: Ministry of Energy & Energy Affairs website



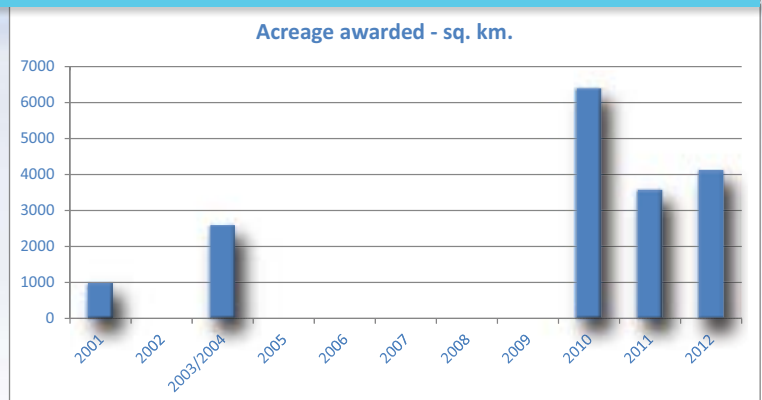
Following a sharp decline, exploration activity is on the way back up....

Sources: Ministry of Energy & Energy Affairs website



The award of new acreage for exploration holds promise for the future wellbeing of the energy sector....

Sources: Ministry of Energy & Energy Affairs website



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