Economic Alert iQ

First Citizens Research & Analytics

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Domestic

Prepared by: Yuri Seedial, Analyst I, First Citizens Research and Analytics
yuri.seedial@firstcitizenstt.com

The Central Bank of Trinidad and Tobago Monetary Policy Forum

Economic Recap

This has been the fourth consecutive quarter of decline in real GDP, thus Trinidad and Tobago is now officially in a recession.

- The CBTT projects that for 2015, economic activity in Trinidad and Tobago will contract by 1.50%, led by a 3.5% decline in the Energy Sector and a flat performance by the non-Energy Sector.

- Prolonged disruptions in the supply and production of Natural Gas affected the output of LNG and the petrochemical industries, further compounding the decline in the Energy Sector.

- As at October 2015 headline inflation stood at 3.5% (↓0.50%), while core inflation jumped 50 basis points to 2.50%, reflecting the 15% increase in diesel and super gasoline prices announced in the recently announced 2015/2016 Budget.

- The Central Bank of Trinidad and Tobago (CBTT) Monetary Policy Committee (MPC) agreed to increase the 'Repo' rate for an eighth consecutive time by 25 basis points to 4.75%. This represented a 150 bps increase in the Repo rate from the beginning of the year (3.25%) and a 200 bps increase from the rate (2.75%) at which the CBTT shifted its policy stance in Q3 2014. According to the Governor of the Central Bank, "We are still far from reaching the neutral policy rate, which is considered neither too restrictive, nor too accommodative." As such First Citizens Research & Analytics believe that further increases in the Repo Rate are to be expected.

- The most influential factor encouraging the rate increase, as cited by the CBTT, is the expected normalization of US interest rates which could reduce capital flows to Trinidad and Tobago. As such, the MPC believes that "higher domestic interest rates are necessary to mitigate potential capital outflows." Further to this, the CBTT believes that higher domestic rates are necessary to discourage heavy consumer borrowing on imported consumer durables (a major source of foreign exchange demand) as well as to offer a lifeline to pension funds and insurance companies whose investment portfolios have been under prolonged stress.

Outlook

- For 2016, the CBTT forecasts a further 1.50% decline in real GDP on the premise that the alleviation of the natural gas supply constraint and low energy prices are not expected to improve during the year. Production from the BP Juniper field is expected to come on stream in 2017.

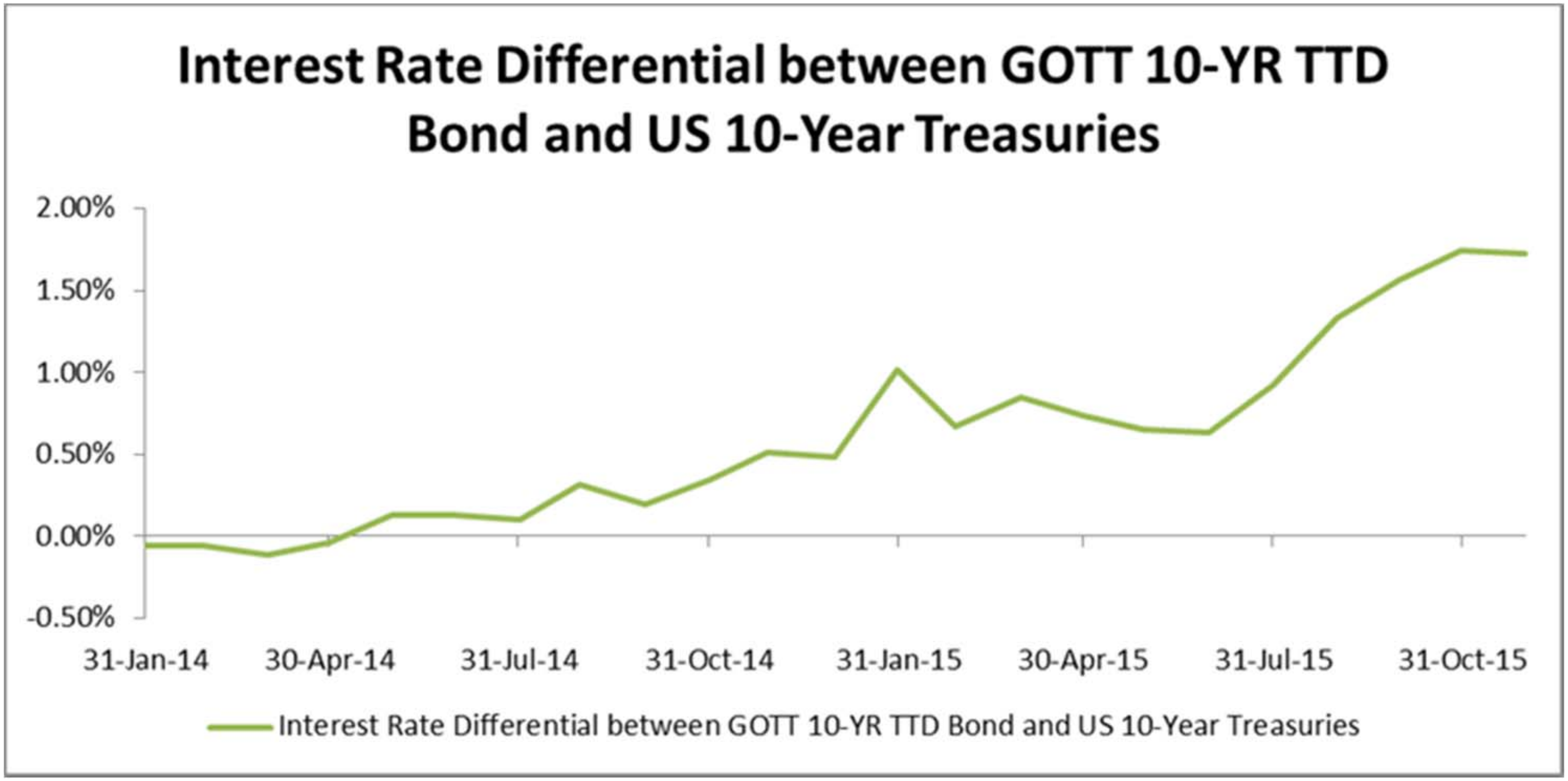
- Inflation expectations for 2016 come in at much higher than current figures. Even at the lowered VAT rate of 12.5%, if the base is increased the upward push on price would cause core inflation to go to 3.5% while food inflation would reach double digits. Headline inflation will also increase to approximately 5%.

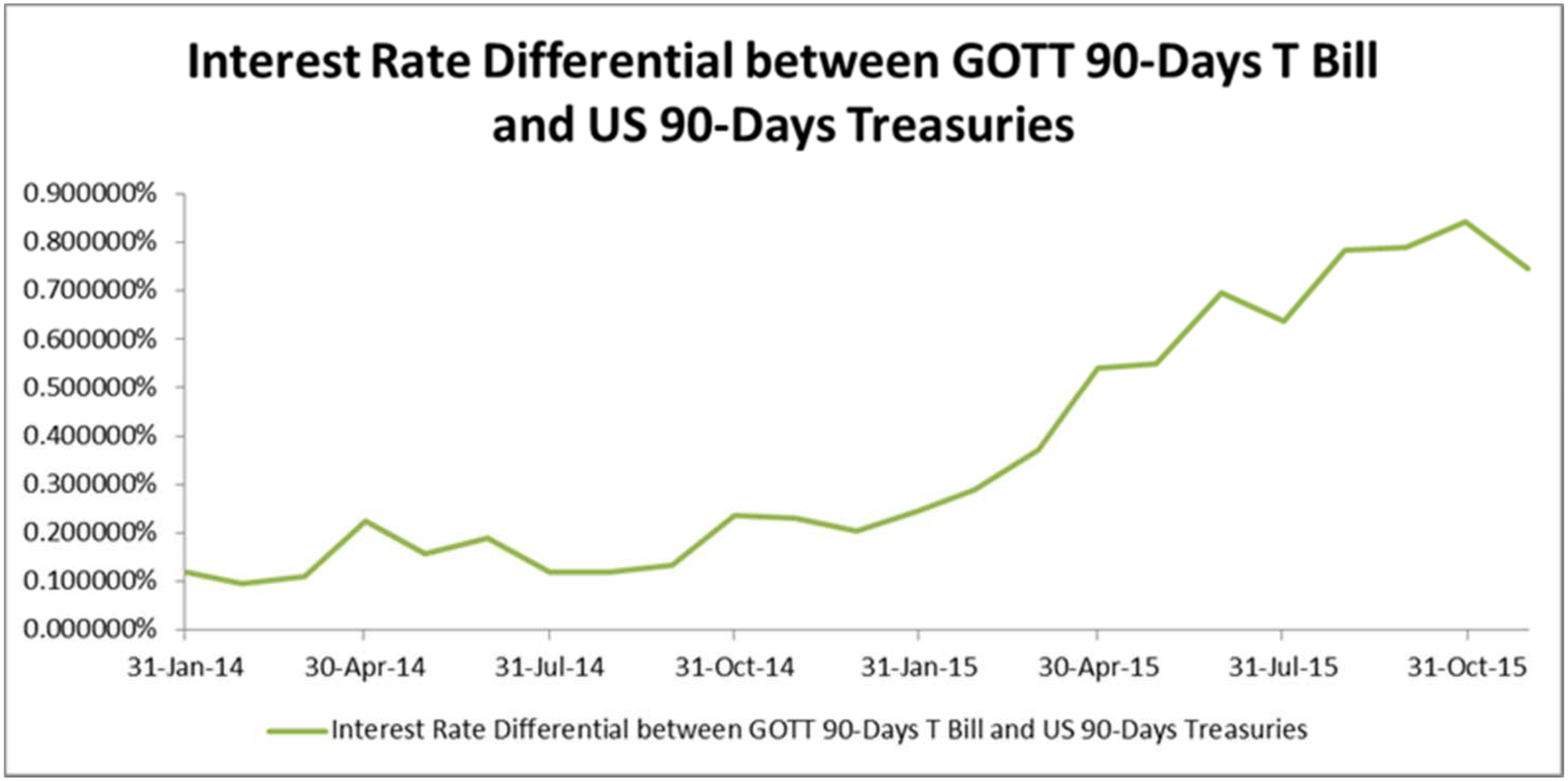
- Central Bank's short term 2016 outlook is for:
    - A continued contraction of the Trinidad and Tobago economy, on the back of a further decline in the energy sector, which will compound sluggishness of the non-energy sector;
    - For the country's external position to come under more pressure;
    - Central Government's fiscal deficit to increase from what was budgeted; and
    - Public debt to rise as a result of more government borrowing to finance projects (which has been recently indicated by the Government going to Parliament to seek approval for the increase in borrowing limits by TTD15 billion).

Foreign Exchange Policy

- Falling energy exports have slowed conversions of US dollars by energy companies, the main source of inflows to the domestic foreign exchange market. In the eleven months to November 2015, conversions from the energy sector stood at around US$3 billion, 25% lower than in 2013.

- In seeking to answer questions about the distribution of the recently injected USD500Mn of foreign exchange into the system, the Governor of the Central Bank highlighted the major sectorial consumers of FX for the period 2013 – 2015:
    - The Retail and Distribution Sector (33.3%)
    - The Manufacturing Sector (15%)
    - The Banking Sector (Credit Card payments) (13%)
    - Car Dealerships (10%)
    - The Telecommunication Sector (7%)





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