

# Trinidad and Tobago Business Forecast Report Q2 2014

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## Abstracts

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### Core Views

Real GDP growth in Trinidad & Tobago will rise to 2.6% in 2014, up from the central bank's estimate of 1.6% in 2013, as the country's energy sector recovers from maintenance delays that weighed on economic activity in Q313. Moreover, low interest rates will continue to bolster household consumption, while public investment in infrastructure will see stronger growth in the construction sector. A recent spike in violent crime in Trinidad & Tobago indicates that security problems will continue to negatively affect the country's generally robust business environment. Indeed, we believe that crime could continue to rise in the coming months, with the potential to dampen foreign investment and tourist arrivals, weighing on economic growth and further challenging the ruling coalition's popularity ahead of parliamentary elections scheduled for May 2015.

We forecast a widening of T&T's current account surplus in 2014, due to stronger goods exports on the back of a return to full capacity in the energy sector following maintenance projects at key downstream energy plants in 2012 and 2013.

Notwithstanding risks stemming from a recent spike in crime, we also believe that foreign investment is likely to increase, narrowing the financial and capital account deficit. We believe that a moderate acceleration in real GDP growth in Trinidad & Tobago will see the central bank hike its benchmark policy rate by 50 basis points to 3.25% during the second half of 2014 in order to address strengthening demand-side inflationary pressures. Moreover, we believe that the central bank will raise interest rates in order to help shield T&T from an increase in foreign capital outflows as US

treasury yields rise.

## **Major Forecast Changes**

We have adjusted our 2013 and 2014 current account forecasts to factor in weaker energy-sector output in H213, owing to temporary maintenance projects at two key downstream plants, although we expect production of liquefied natural gas to return to full capacity by the second quarter of 2014. As such, we forecast a current account surplus of 9.8% of GDP in 2014 (from 10.9%, previously), up from an estimated 8.9% of GDP (from 10.8%, previously) in 2013.

## **Key Risks To Outlook**

The risks to our interest rate forecast lie primarily to the downside, given that commercial bank loans to incorporated businesses have continued to contract in recent months, which could give the central bank reason to keep interest rates at their current level through 2014. Indeed, while we believe that commercial lending will tick up in 2014 amidst an increase in business confidence as the economy strengthens, there are a number of factors – for instance, the occurrence of a disruptive weather event – that could hinder economic growth and see business lending continue to contract. As such, should inflation remain more moderate than we currently anticipate, we believe that the CBTT may hold the policy rate at 2.75% until business lending returns to positive growth.

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A recent spike in violent crime in Trinidad & Tobago indicates that security problems will continue to negatively affect the country's generally robust business environment. Indeed, we believe that crime could continue to rise in the coming months, with the potential to dampen foreign investment and tourist arrivals, weighing on economic growth and further challenging the ruling coalition's popularity ahead of parliamentary elections scheduled for May 2015.

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We believe that a moderate acceleration in real GDP growth in Trinidad & Tobago will see the central bank hike its benchmark policy rate by 50 basis points to 3.25% during the second half of 2014 in order to address strengthening demand-side inflationary pressures.

Moreover, we believe that the central bank will raise interest rates in order to help shield T&T from an increase in foreign capital outflows as US treasury yields rise.

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Notwithstanding risks stemming from a recent spike in crime, we also believe that foreign investment is likely to increase, narrowing the financial and capital account deficit.

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