



GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO

REVIEW OF THE ECONOMY
2014

CONTENTS

The International Economy	6	Overview	26
Global Overview	6	Domestic Agriculture	26
United States	7	Export Agriculture	28
Canada	7	Manufacturing	28
The United Kingdom	7	Overview	28
The Euro Area	8	Iron and Steel	29
Japan	8	Cement	30
Emerging and Developing Asia	9	Services	31
Latin America and The Caribbean	10	Overview	31
Commonwealth of Independent States (CIS)	10	Construction	31
Middle East and North Africa (MENA)	11	Tourism	31
Sub-Saharan Africa	11	Prices	32
		Productivity	33
		Population	34
Economic Performance of CARICOM States	14	Labour Force and Employment	34
Introduction	14	Unemployment	34
Barbados	15	Labour Force / Job Creation	35
Jamaica	15		
Guyana	16	Central Government Operations	36
ECCU	17	Overview	36
		Revenue	37
Summary of Macroeconomic Performance of The Trinidad and Tobago Economy	19	Expenditure	39
		Financing	41
		Public Debt and Debt Service	41
The Real Economy	21		
Gross Domestic Product (GDP)	21	Rest of The Non-Financial Public Sector Operations	46
Petroleum	22	Overview	46
Drilling	22	Cash Operations	46
Crude Oil and Condensate	22	Current Transfers To State Enterprises & Public Utilities	47
Natural Gas	23	Capital Expenditure	47
Petrochemicals		Capital Transfers From Central Government	48
(Ammonia, Urea and Methanol)	25		
Agriculture	26		

Trinidad and Tobago Credit Ratings	49	Trade and Payments	61
Moody's Investors Service	49	Balance of Payments	61
Standard & Poor's Ratings Services	50	Current Account	61
Caribbean Information and Credit Rating Services Limited (Caricris)	51	Capital Account	61
Monetary Conditions	52	Foreign Reserves	61
Central Bank Operations	52	Heritage and Stabilisation Fund (Hsf)	62
Foreign Exchange Market	52	Balance of Visible Trade	63
		Caricom Trade	63
		Caricom-Canada Trade and Development Agreement	63
The Monetary Sector	52	Trinidad and Tobago / El Salvador Agreement	63
Monetary Conditions	52	Trinidad and Tobago / Guatemala Partial Scope Agreement	64
Central Bank Operations	52	Trinidad and Tobago / Panama Partial Scope Agreement	64
Foreign Exchange Market	52	World Trade Organization (WTO) – Agreement On Trade Facilitation	64
Money Supply and Commercial Banks'			
Deposits and Credits	53		
Interest Rates	54		
Liquidity Management	55		
Financial Sector Performance	55		
Capital Market Activity	55		
Regulatory Developments	59		
Legislative Developments	59		

LIST OF FIGURES

Figure 1: Development and Exploratory Drilling	22
Figure 2: Natural Gas Production and Utilisation	24
Figure 3: Exports of LNG by Destination	25
Figure 4: Petrochemical Prices (Ammonia, Urea and Methanol)	25
Figure 5: Production, Exports and Local Sales of Iron and Steel	29
Figure 6: Cement Production, Export and Local Sales	31
Figure 7: Prices – Percentage Change (Year-on-Year)	32
Figure 8: Distribution of Unemployed Persons by Age Group (2013)	35
Figure 9: Central Government Fiscal Operations	37
Figure 10: Central Government Revenue	39
Figure 11: Central Government Expenditure	40
Figure 12: Recurrent Expenditure Major Components	41
Figure 13: Public Sector Debt and Debt Servicing	42
Figure 14: Exchange Rates – Buying Rate (TT\$ per US\$)	53
Figure 15: Repo Rate and Prime Interest Rates	54
Figure 16: Commercial Banks' weighted average deposit and loan spread	54
Figure 17: Liquidity Indicators	55
Figure 18: Comparative Analysis – Market Share	58

LIST OF TABLES

Table 1: Macroeconomic Indicators for Selected Economies	13
Table 2: Macroeconomic Indicators for Selected CARICOM Economies	18
Table 3: Oil and Gas Prices	23
Table 4: Cash Statement of Operations of the Rest of the Non-Financial Public Sector	48
Table 5: Trinidad and Tobago Credit Rating History: 2006-2014 By Moody's Investors Service	50
Table 6: Trinidad and Tobago Credit Rating History: 2006 -2014 By Standard and Poor's Ratings Services	51
Table 7: Trinidad and Tobago Credit Rating History: 2008 – 2014 By CariCRIS	51
Table 8: Commercial Banks and Non-Bank Financial Institutions' Foreign Currency Sales and Purchases (US\$ Mn.)	53
Table 9: Total Registrants	56
Table 10: Summary Balance of Payments (US\$ million)	62

LIST OF APPENDICES

Appendix 1	Gross Domestic Product of Trinidad and Tobago at Constant (2000) Prices /TT\$ Millions/	65
Appendix 2	Gross Domestic Product of Trinidad and Tobago at Constant (2000) Prices /Percentage Change/	66
Appendix 3	Gross Domestic Product of Trinidad and Tobago at Constant (2000) Prices /Percentage Contribution/	67
Appendix 4	Gross Domestic Product of Trinidad and Tobago at Market Prices (Current Prices) /TT\$ Millions/	68
Appendix 5	Gross Domestic Product of Trinidad and Tobago at Market Prices (Current Prices) /Percentage Change/	69
Appendix 6	Gross Domestic Product of Trinidad and Tobago at Market Prices (Current Prices) /Percentage Contribution/	70
Appendix 7	Development and Exploratory Drilling and Domestic Crude Production	71
Appendix 8	Natural Gas and Liquefied Natural Gas Production and Utilisation	72
Appendix 9	Petrochemicals Production and Exports /Tonnes '000/	73
Appendix 10	Iron and Steel Production /Tonnes '000/	74
Appendix 11	Change in Prices, Productivity and Average Weekly Earnings /Percentage Change/	75
Appendix 12	Population, Labour Force and Employment (Mid-year)	76
Appendix 13	Mid-year Estimates of Population by Age	77
Appendix 14	Labour Force by Industry and Employment Status (CSSP Estimates) /Hundreds ('00)/	78
Appendix 15	Exchange Rate for Selected Currencies	79
Appendix 16	Money Supply /TT\$ Millions/	80
Appendix 17	Commercial Banks' Liquid Assets /TT\$ Millions/	81
Appendix 18	Commercial Banks' Domestic Credit /TT\$ Millions/	82
Appendix 19	Commercial Banks' Interest Rates	83
Appendix 20	Secondary Market Activities	84
Appendix 21	Central Government Fiscal Operations /TT\$ Millions/	85
Appendix 22	Central Government Revenue /TT\$ Millions/	86
Appendix 23	Central Government Expenditure and Net Lending /TT\$ Millions/	87
Appendix 24	Central Government Financing Transaction /TT\$ Millions/	88
Appendix 25	Total Public Debt and Debt Service	89
Appendix 26	Trinidad and Tobago - Net Foreign Reserves /US\$ Millions/	90
Appendix 27	Trade with CARICOM Countries /TT\$ Millions/	91
Appendix 28	Balance of Visible Trade /TT\$ Millions/	92

THE INTERNATIONAL ECONOMY¹

United States	Japan	CIS Economies
Canada	Emerging Asia	MENA
United Kingdom	Latin America	Sub-Saharan Africa
Euro Area		

GLOBAL OVERVIEW

World Output is expected to increase by 3.4 percent in 2014. This follows a 3.0 percent expansion in 2013. Growth is anticipated from the United States, Canada and the United Kingdom. While Asian and Emerging and Developing Economies continue to register relatively robust economic growth; the rate of this growth has been falling over the past years. Growth in the Euro Area is anticipated to be positive; finally moving out of negative territory, with Germany, Ireland and Portugal leading the way.

Growth is expected to accelerate to 2.8 percent in the United States in 2014; up from 1.9 percent in 2013. In Canada, growth is projected at 2.3 percent in 2014 and follows a 2.0 percent expansion in 2013. In the United Kingdom, real GDP is expected to increase by 2.9 percent in 2014 following an expansion of 1.8 percent in 2013.

Emerging and Developing Asia which registered 6.5 percent growth in 2013, will see further expansion of 6.7 percent in 2014. Within this grouping, real GDP in China is projected to remain above 7.0 percent. However, the 2014 growth rate of 7.5 percent will be marginally lower than the 7.7 percent recorded in 2013. India's real GDP is anticipated to increase to 5.4 percent in 2014, from 4.4 percent in 2013.

Following a 0.5 percent contraction in 2013, growth of 1.2 percent is forecasted for the Euro Area in 2014; with, Spain, Greece, Portugal and Ireland are all projected to register positive growth by the end of the year.

Inflation in the Global Economy is expected to hover around 3.5 percent in 2014; down from 3.6 percent in 2013. Advanced Economies will see inflation remain steady at 1.5 percent in 2014; marginally higher than the 1.4 percent which prevailed in 2013. Inflation in Emerging and Developing Asia is anticipated to remain constant at 4.5 percent. In the Middle East and North African (MENA) region, inflation is projected to fall from 10.5 percent in 2013 to 8.4 percent in 2014, while in the Commonwealth of Independent States² inflation will increase marginally from 6.4 percent in 2013 to 6.6 percent in 2014.

Globally, the **fiscal balance** will continue to improve from -3.8 percent of GDP in 2013 to -3.5 percent of GDP in 2014. Fiscal balances, as a percentage of GDP, in Advanced Economies, the Euro Area, and the MENA region will improve from -4.9 percent, -3.0 percent and -9.9 percent in 2013 to -4.3 percent, -2.6 percent and -7.6 percent in 2014 respectively.

¹ Source: International Monetary Fund, World Economic Outlook April and July 2014; Fiscal Monitor April and July 2014; Regional Economic Outlook 2014; Various Publications from Central Banks and Statistical Offices.

² Comprises Russia, Ukraine, Kazakhstan, Belarus, Azerbaijan, Turkmenistan, Mongolia, Uzbekistan, Georgia, Armenia, Tajikistan, Kyrgyz Republic and Moldova

UNITED STATES

As experienced in 2013, in 2014, growth in the United States (US) remains low but positive. **Real GDP**, projected at 2.8 percent in 2014, will be higher than the 1.9 percent recorded in 2013. Much of this relatively stronger economic performance can be attributed to a somewhat subdued resurgence in residential investment, personal consumption and business confidence.

The global financial crisis in 2008 and the ensuing recession saw **unemployment** in the US remain well above its normal rate of 7.0 percent. In 2014, the unemployment rate is projected at 6.4 percent, as compared to 7.4 percent in 2013; mainly on account of a drop in the labour force participation rate which stood at 63 percent in February 2014. This rate hovered around 66.0 percent prior to the financial crisis and global recession in 2008.

Inflation in the US is expected to decrease marginally to 1.4 percent in 2014 from 1.5 percent in 2013; remaining below the inflation target of 2.0 percent, due to continued slack in the economy.

The **current account balance** for the US is expected to marginally improve to -2.2 percent of GDP in 2014 from -2.3 percent of GDP in 2013. The favourable current account balance; the lowest in 15 years, can be attributed to increased domestic energy production and a fall in oil imports. Concomitantly, the **fiscal balance** will improve from -7.3 percent of GDP in 2013 to -6.4 percent of GDP in 2014.

In December 2013, the Federal Reserve advised that it would reduce its purchases of agency mortgage-backed-securities (MBS) from US\$40 billion to \$35 billion per month and of longer-term Treasury Securities from US\$45 billion to US\$40 billion per month. Accordingly, consequent on improvements in the US economy, in January 2014 the Federal Reserve further reduced its purchases of MBS to US\$30 billion per month and of longer-term Treasury Securities to US\$35 billion per month. The Federal Reserve has further indicated that policy rates in the future would be dependent not only on the unemployment threshold, but also on a wider range of economic indicators.

CANADA

Growth in Canada is expected to continue in 2014 with real GDP of 2.3 percent as compared to 2.0 percent in 2013. This can be attributed to the projected growth in the US economy enhancing demand for Canadian exports.

In Canada, **Inflation** is expected to increase to 1.5 percent in 2014 from 1.0 percent in 2013. **Unemployment** is projected to marginally decline from 7.1 percent in 2013 to 7.0 percent in 2014, on account of expected increased economic activity. Canada's **current account balance** is anticipated to improve to -2.6 percent of GDP in 2014 from -3.2 percent of GDP in 2013 as merchandise exports increase. Canada's **fiscal balance** is expected to narrow from -3.0 percent of GDP in 2013 to -2.5 percent of GDP in 2014.

THE UNITED KINGDOM

Real GDP in the United Kingdom (UK) is expected to increase by 2.9 percent in 2014, following a 1.8 percent expansion, one year earlier. The resurgent economic growth is attributed to improved consumer confidence as well as improvements in household credit and residential housing prices. **Consumer price inflation** is expected to fall marginally; under the target rate of 2.0 percent set by the Bank of England; to 1.9 percent in 2014 from 2.6 percent in 2013. According to the Bank of England, the projected fall in inflation is due to lower petrol price inflation as well as lower household energy price inflation.

Unemployment in the UK is expected to fall to 6.9 percent in 2014 from 7.6 percent in 2013. This could be attributed to a rise in self-employment among the ageing UK population and among persons unable to find traditional employment due to the recession.

Consequent on continued fiscal consolidation, the UK economy is expected to register improvement in its **current account balance**, from -3.3 percent of GDP in 2013 to -2.7 percent of GDP in 2014.

In addition, the **fiscal balance** is expected to marginally improve from -5.8 percent of GDP in 2013 to -5.3 percent of GDP in 2014.

THE EURO AREA³

Following a 0.5 percent contraction in 2013, growth in **real GDP** is projected at 1.2 percent in the Euro Area for 2014. Germany, Portugal and Ireland are all expected to contribute to the resurgence, with real GDP growth projected at 1.7 percent, 1.2 percent and 1.7 percent respectively. Growth in Germany is attributable to high consumer confidence, improved financial situation of households and favourable funding conditions. Consequent to reforms in the labour market and more gradual fiscal consolidation; Spain is also expected to post positive real GDP of 0.9 percent, up from -1.2 percent in 2013. Although growth in the Greek economy may appear small, with real GDP of 0.6 percent in 2014, this performance nevertheless represents a significant turn-around when compared to the -3.9 percent contraction posted in 2013. The Greek turnaround is attributable to increased exports and investment.

Due to weak demand, **inflation** in the Euro Area is expected to fall to 0.9 percent in 2014; down from 1.3 percent in 2013. Inflation in Germany is projected to fall marginally from 1.6 percent in 2013 to 1.4 percent in 2014 due to decreasing prices for goods and services and the impact of a mild winter on energy prices. Spain will also

Due to improvements in the economies of member countries, **unemployment** in the Euro Area is expected to fall to 11.9 percent in 2014 from 12.1 percent in 2013. Unemployment in Spain, Greece and Portugal is anticipated to fall from 26.4 percent, 27.3 percent and 16.3 percent in 2013 respectively, to 25.5 percent, 26.3 percent and 15.7 percent in 2014. Unemployment in Germany will continue to hover around 5.2 percent.

The **fiscal balance** in the Euro Area is anticipated to improve from -3.0 percent of GDP in 2013 to -2.6 percent of GDP in 2014. The German economy will run a zero percent **fiscal balance**, while most other economies will see improvements in their fiscal balances. However, the fiscal balance in Greece is expected to deteriorate marginally from -2.6 percent of GDP in 2013 to -2.7 percent of GDP in 2014.

JAPAN

Real GDP in Japan is anticipated to decline marginally from 1.5 percent in 2013 to 1.4 percent in 2014, as the economy experiences a slow recovery in exports and rising import demands. Even with the constrained growth, inflation is projected to increase from 0.4 percent in 2013 to 2.8 percent, due to robust private consumption and public spending. **Unemployment** in Japan is expected to fall slightly from 4.0 percent in 2013 to 3.9 percent in 2014.

Japan's **current account surplus** is projected to expand to 1.2 percent of GDP from 0.7 percent of

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