

chairman's review



Ronald F. deC. Harford

I am pleased to report another satisfactory year of operation for the Republic Group. Our results reflect the economic conditions prevailing in our major markets during 2006.

Global growth continues to be strong with the International Monetary Fund's (IMF's) World Economic Outlook projecting a 4.9 percent increase for 2006. This strong growth, particularly in the emerging economies of China and India, has not only added to the upward pressure on commodity prices, but has also altered the world of international trade.

Regionally, the Caricom Single Market (CSM) came into existence with six countries initially representing a tangible step towards regional integration. Significant construction activity across the Caribbean has provided a fillip to economies as the region prepares to host its biggest ever sporting event, the Cricket World Cup 2007. There is cautious optimism that this event can provide immediate as well as longer-term gains in tourism

and investment. On the other hand high commodity prices are presenting a challenge. Rising interest rates, influenced by increases in the US Federal Funds rate have serious implications for vulnerable economies carrying high levels of external debt. The Economic Commission for Latin America and the Caribbean (ECLAC) has forecast regional growth at 5.9 percent in 2006, an improvement on the 2005 figure of 4.2 percent.

Considering the economies within which Republic Bank participates, Barbados should match its 2005 performance with economic growth of 4 percent in 2006 driven largely by strong construction activity and a resurgence in tourism growth. A combination of government policy and increased economic activity has seen an improvement in many of the island's key indicators, including a slight reduction in the fiscal deficit. Inflation and unemployment are expected to remain relatively unchanged from the previous year, at 6 and 9 percent respectively. Standard & Poor's (S&P) recently

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revised Barbados' international credit rating outlook from negative to stable (BBB+/Stable/A-2).

The Dominican Republic has performed well under the leadership of President Leonel Fernandez. After growing by 9 percent in 2005, the economy is expected to also grow by 9 percent in 2006 and 4 percent in 2007. Inflation is forecasted at just under 8 percent for 2006, a major improvement over the double digit inflation of prior years. Notwithstanding the clear economic recovery, the country faces numerous challenges, not least of which are its ongoing electricity problems and the present high global oil prices. S&P recently affirmed its B/Positive/B foreign currency rating for the Dominican Republic, up from its Selective Default rating (SD) issued in October 2005.

Following contraction in the previous year, Grenada's economy grew by an estimated 1.5 percent in 2005, as declines in tourism and agriculture were offset by very strong growth in the construction industry. This sector has remained buoyant as reconstruction persists after Hurricanes Ivan and Emily, and preparations for the Cricket World Cup continue apace. With almost all of the hotel room stock back on-stream, the resurgence of tourism already evident this year promises to provide a steadying influence on the economy. Economic growth is projected at 5.1 percent for 2006, slowing to 4 percent in 2007. Challenges persist though, and in April 2006, the rating agency, Standard & Poor's held Grenada's credit rating at B-minus for long-term debt and C for short-term borrowing and characterized its recovery as uneven.

With the flooding of 2005 and early 2006, Guyana's economy contracted by 3 percent in 2005. Prospects appear more favourable in 2006 with early reports of growth in mining and agriculture, and a continued strong performance in construction. Commercial bank credit to the private sector is trending upwards with personal credit accounting for most of the increase. Guyana is

expected to record economic growth in the region of 3 percent in 2006 and their successful event-free elections should help them reach this target.

The growth prospects for Trinidad and Tobago remain very good over the short to medium term. In 2005 the economy grew by 7 percent following a solid performance by the energy sector, which benefited from high global commodity prices. This, combined with significant capacity increases in most commodities such as crude oil, LNG and methanol over the last 12 months, should see an even better performance in 2006. The non-energy sector's performance was lacklustre and despite government's intention, it continues to lag behind the energy sector, growing at approximately half its pace. A number of new petrochemical and aluminium plants representing over US\$7 billion in foreign direct investment over a 3-year period, are expected to begin construction by 2007. This promises to add to the dynamism of the energy sector, further increasing the pace of its development for years to come while also boosting the already buoyant construction industry.

Strong revenue inflows have facilitated an expansive government thrust in infrastructure and housing development. This in turn has resulted in a high-liquidity environment, a strong demand for US dollars as well as competition between the public and private sectors for scarce resources. This has led to significant inflationary pressures. Monetary policy aimed at curbing inflation led to a 300 basis point rise in the Prime lending rate to 11.75 percent at September 2006. Thus far these measures have had little impact, as credit demand remains healthy and inflationary pressures remain strong in areas such as food, property and real estate, causing much anxiety among the population.

The country's debt indicators are steadily improving and foreign reserves stood at over US\$6 billion as at

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June 2006. Currently the region's highest rated sovereign (Bahamas has a similar S&P rating), Trinidad and Tobago's S&P foreign currency rating stands at A-/Stable/A-2, while Moody's Investors Services recently increased both the country's government bonds and bank deposit ratings from Baa2 to Baa1.

Overall the Caribbean economies are showing strength and resilience and this should augur well for the future performance of the Republic Group.

In closing I would like to acknowledge Mr. John Martin, who retired from the Board earlier this year. John made an indelible contribution towards the success of the organization during his nine years on the Board. I also wish to welcome Mr. Thomas Evans, an experienced chartered accountant, who joined our Board upon John's retirement.

I thank our employees, our customers, our shareholders and the Directors of our Bank and our subsidiaries for their continued support and contribution to the organization.