

Economic Alert iQ



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Trinidad & Tobago

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Economic Alert: IMF Projects Recovery for the Trinidad and Tobago Economy, Predicts Positive Growth

Economic Recap:

- The Trinidad and Tobago economy has shown signs of improvement since the second half of 2017, with a return to positive growth expected in 2018 following two years of recession.
- Real GDP contracted at a slower pace of 2.6% in 2017, following the 6.1% drop in 2016 which was driven by energy sector shocks.
- The strong recovery in gas production in 2017H2 had knock-on effects on downstream industries, while oil production remained largely flat, at a historically low level.
- The weak non-energy sector dampened overall growth, reflecting subdued activity in construction, financial services, and trade; continued shortage of foreign exchange (FX) and slow implementation of public investment projects.
- Headline inflation fell to historic lows of 1.9% in 2017 on weak aggregate demand, and further to 1.1% y-o-y in April 2018.
- The unemployment rate rose to 5.3% in 2017Q2 from 4.4% in 2016Q2 (up from 3.3% in 2014Q2)

Fiscal performance:

- Fiscal performance improved, while financial buffers provided a cushion.
- The fiscal deficit reversed its rising trend of the past 7 years, registering a slightly lower overall deficit in FY2017.
- The significant reduction in spending by 2.2% of GDP implemented through cuts in spending on transfers and subsidies, goods and services, and capital investment was partly offset by the fall in non-energy revenues from weak economic activity.
- Borrowing and one-off sources (from the Heritage and Stabilization Fund (HSF), and asset sales) helped finance the deficit.
- Central government debt rose to 42% of GDP and public debt, including contingent liabilities, reached 61% of GDP, approaching the government's soft target of 65%.
- Financial buffers remained substantial, with HSF and sinking-fund assets at 30% of GDP and gross FX reserves at 9.4 months of imports at end-2017.

Economic forecasts:

- Economic prospects are expected to improve broadly over the medium-term.
- Gradual recovery in non-energy growth would help stabilize growth at 1.5% over the medium term.
- The fiscal deficit is expected to narrow to an average 4% of GDP as energy revenues rise, non-energy revenues recover, and spending declines due to improved efficiency of transfers and subsidies.
- Central government debt is expected to reach 43% of GDP, while public debt is expected to reach 64% of GDP by 2023.
- Gross international reserves is expected to fall at a slower rate in the medium term.

Addressing the imbalances and Strengthening the Fiscal Framework

- Higher energy prices provide both an opportunity and a risk to the reforms.
- IMF Staff welcomes and supports the fiscal consolidation measures underway, and stresses that the adjustment needs to remain on track.
- Efforts should focus on delivering the targeted fiscal adjustment over the medium-term.
- On the revenue side, completing the energy taxation and tax administration reforms are a priority.
- On the expenditure side, containing current spending should remain a priority.
- Staff welcomes the authorities' intention to establish a medium-term fiscal policy framework (MTFF).
- Other structural reforms to strengthen public sector management need urgent attention.

Restoring External Balance

- The tightness in the FX market is believed to have eased compared to last year, but the market continues to be in a state of disequilibrium with strong excess demand.
- The impact of the shortages on the non-energy sector remains a concern.
- The FX market should be cleared on a sustained basis.
- The exchange rate could play a more active role as an automatic stabilizer and help manage the transition to a more balanced/flexible FX market.

Addressing Monetary Policy Challenges

- Regardless of the FX policy, the CBTT should continue to set its monetary policy stance consistent with fiscal, monetary, and exchange rate policies.

- On 29 June, the central bank raised its benchmark repo rate to 5% in response to higher US interest rates. The IMF welcomed the move given the potential impact on capital flows against a backdrop of the narrowing of the TT/ US short term interest rate differential.

Safeguarding Financial Sector Stability

- The financial system has remained remarkably stable notwithstanding the deep recession in the past two years, but there are pockets of vulnerabilities.
- The AML/CFT framework must be strengthened to avoid remaining on the FATF list of jurisdictions with strategic deficiencies, and limit potential fallout for financial institutions.

Structural Reforms to Support Sustainable Growth

- Reforms to improve the business environment are crucial to support fiscal adjustment and boost economic growth.
- Important progress has been made to address data quality and coverage, but further efforts are needed, particularly in national accounts and balance of payments.

Economic Projections (IMF)

	Projections									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(Annual percentage changes, unless otherwise indicated)									
National income and prices										
Real GDP	-1.2	1.7	-6.1	-2.6	1.0	0.9	1.6	2.1	1.2	2.2
Energy	-2.0	-1.4	-10.0	-0.3	6.0	2.4	2.2	2.9	-0.1	1.6
Non-energy	-0.7	3.6	-3.8	-3.8	-1.8	0.0	1.2	1.6	2.1	2.5
GDP deflator	1.8	-12.6	4.0	5.0	1.2	2.9	2.9	3.6	3.9	3.8
Consumer prices (headline)										
End-of-period	8.4	1.6	3.1	1.3	2.3	3.1	3.0	3.7	3.7	3.7
Period average	5.7	4.7	3.1	1.9	2.3	3.1	3.0	3.7	3.7	3.7
Consumer prices (core)										
Period average	2.0	1.8	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Unemployment rate	3.3	3.4	4.0	4.9	...	...	...	...	...	...
Real effective exchange rate (2010=100)	117.1	129.7	128.3	125.3	...	...	...	...	...	...
	(In percent of fiscal year GDP)									
Nonfinancial public sector (NFPS)										
Central government overall balance	-4.5	-8.0	-11.7	-11.0	-6.0	-4.6	-3.8	-3.3	-3.2	-3.0
Of which: non-energy balance	-21.8	-21.4	-18.0	-17.2	-15.1	-15.2	-14.7	-14.3	-13.9	-13.5
Budgetary revenue	31.1	29.6	22.7	21.3	25.7	27.4	27.9	28.0	27.8	27.7
Budgetary expenditure	35.6	37.6	34.5	32.2	31.7	32.0	31.7	31.3	31.1	30.7
Of which : interest expenditure	1.8	2.2	2.0	2.9	2.9	2.8	2.8	2.7	2.7	2.6
Of which : capital expenditure	4.9	4.8	2.9	2.2	2.4	3.0	3.0	3.0	3.0	3.0
Central government debt	23.9	28.0	37.0	41.8	42.7	42.9	43.1	42.9	43.3	43.3
Gross NFPS debt	40.4	48.0	57.6	60.9	62.5	63.5	64.1	64.1	64.5	64.3
Heritage and Stabilization Fund assets	20.3	22.8	24.9	25.4	26.0	26.3	26.4	26.1	25.9	25.6
	(In percent of GDP, unless otherwise indicated)									

External sector										
Current account balance	14.7	7.6	-2.9	10.2	10.6	7.1	6.0	5.7	5.3	5.4
Exports of goods	55.1	47.1	36.3	43.6	52.6	50.8	47.8	45.8	43.4	41.7
Imports of goods	29.2	31.0	30.3	26.8	33.1	35.5	34.0	32.6	31.0	29.6
External public sector debt	8.6	10.3	15.4	16.4	16.0	16.9	17.4	17.5	17.7	17.7
Gross official reserves (in US\$ million)	11493.0	9927.0	9466.0	8370.0	7542.0	6937.0	6398.0	5954.0	5716.0	5574.0
In months of goods and NFS imports	13.2	12.3	12.6	9.4	7.8	7.2	6.5	6.0	5.8	5.6
	(Annual percentage changes)									
Money and credit										
Net foreign assets	7.6	-7.7	2.3	-9.3	-7.2	-5.6	-5.2	-4.4	-2.3	-1.2
Net domestic assets	4.0	46.2	6.5	26.8	20.6	8.7	10.1	9.8	10.4	11.0
Of which: credit to the private sector	6.7	6.6	3.6	4.9	6.0	5.9	6.7	6.9	6.4	6.5
Broad money (M3)	7.2	1.1	2.8	-0.4	1.3	-0.4	0.9	1.7	3.6	4.9
M3 velocity	1.7	1.5	1.4	1.5	1.5	1.5	1.6	1.7	1.7	1.7
Memorandum items:										
Nominal GDP (in billions of TT\$)	174.1	154.7	151.0	154.4	157.8	163.9	171.3	181.2	190.6	202.1
Non-energy sector in percent of GDP	65.1	77.8	79.2	74.9	68.9	69.2	70.3	71.0	71.8	72.0
Energy sector in percent of GDP	34.9	22.2	20.8	25.1	31.1	30.8	29.7	29.0	28.2	28.0
Public expenditure (in percent of non-energy GDP)	55.0	50.5	43.7	42.4	45.0	46.2	45.3	44.3	43.4	42.6
Exchange rate (TT\$/US\$, end of period)	6.4	6.4	6.8	6.8	...	...	...	...	...	...
Crude oil price (US\$/barrel)	96.2	50.8	42.8	52.8	70.2	69.0	65.0	62.1	60.1	58.8
Henry Hub natural gas price (US\$ per MMBtu)	4.4	2.6	2.5	3.0	2.9	2.8	2.7	2.7	2.7	2.7

Source: IMF

Trinidad & Tobago Credit Rating Report

3239646Z TP TTD Unlisted		9) Company Tree Ratings		9) Alert		Page 1/1 Credit Rating Profile	
Republic of Trinidad & Tobago							
Moody's				Thomson BankWatch			
1) Outlook	STABLE	17) FC Sovereign Risk		WR			
2) CC LT Foreign Bank Depst	Ba2						
3) CC LT Foreign Curr Debt	Baa3						
4) CC ST Foreign Bank Depst	NP						
5) CC ST Foreign Curr Debt	P-3						
6) Long Term Rating	Ba1						
7) LC Curr Issuer Rating	Ba1						
8) FC Curr Issuer Rating	Ba1						
9) Foreign Currency LT Debt	Ba1						
10) Local Currency LT Debt	Ba1						
Standard & Poor's							
11) Outlook	NEG						
13) Foreign Currency LT Debt	BBB+						
14) Local Currency LT Debt	BBB+						
15) Foreign Currency ST Debt	A-2						
16) Local Currency ST Debt	A-2						

Source: Bloomberg



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