Economic Alert iQ

First Citizens
Research & Analytics

Thursday 27th September 2018 – 10:00am
Domestic
Prepared by: Mikael Herrera, Economic Analyst (Research & Analytics)
mikael.herrera@firstcitizenstt.com

IMF Executive Board Concludes 2018 Article IV Consultation with Trinidad & Tobago

- On August 31, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad & Tobago.
- Trinidad & Tobago is slowly recovering from a deep recession.
- The economy continued to contract but at a slower pace, underpinned by the strong recovery in gas production, while weak activity in construction, financial services, and trade, continued foreign exchange (FX) shortages, and slow pace of public investment dampened non-energy sector growth.
- Positive growth is expected to return from 2018 as the recovery takes hold in both sectors.
- Good progress has been made in fiscal consolidation through spending cuts, but public debt continued to rise, approaching the government's soft target of 65 percent of GDP.
- The external position is weaker than the level consistent with medium-term fundamentals and desirable policies, but gross international reserves provide significant financial buffers, along with the Heritage and Stabilization Fund (HSF), although reserves are projected to fall gradually given the current FX regime.
- The financial sector remains stable, with profitable, well-capitalized banks, while the recent decline in asset quality, rising household debt, large domestic and regional sovereign exposures, and an interconnected financial system create pockets of vulnerability.
- Economic prospects are expected to improve over the medium term, but remain heavily dependent on the energy sector.
- The medium-term growth, fiscal and external outlook is vulnerable to negative surprises in energy prices and output, a sizeable primary deficit, and elevated levels of public debt.

Recommendations:

- A multi-pronged strategy is needed to ensure a sustained recovery and to safeguard fiscal and external sustainability.
- The authorities should take advantage of the impact that higher energy prices has had on the fiscal position and complete the ongoing adjustment, given the inherent volatility in energy prices.
- Efforts should focus on speedy implementation of the delayed revenue reforms, finalizing the energy taxation reform and reducing reliance on noncore revenues, including through increased tax compliance. Improved efficiency and containment of public spending should continue. Further cost savings from increased utility tariffs and reduced transfers and subsidies should be redirected to the most vulnerable segments of society and public investment targeted at closing skills and infrastructure gaps to reduce adverse impacts of adjustment.
- Paced over the medium term, an adjustment equivalent to 4.4 percent of GDP should create fiscal space to confront future shocks, alleviate market concerns about the adequacy of adjustment, and put the public debt on a downward trajectory to safeguard sustainability.
- An appropriate Medium-Term Fiscal Framework (MTFF) could provide a systematic tool for countercyclical fiscal policy and help insulate the economy from energy price swings.
- The continued state of FX market imbalance must be addressed on an urgent and sustained basis.
- Going forward, the exchange rate could play a more active role in an economy exposed to frequent terms-of-trade shocks and help manage the transition to a more balanced FX market.
- Preserving financial stability calls for careful monitoring of the sources of systemic risk and swift implementation of the ongoing reforms.
- A structural reform agenda should create an enabling environment for the non-energy sector, and boost its potential to support sustainable growth and resilience.

										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

Follow us on Twitter @FCISResearch

Disclaimers