

Thursday 15<sup>th</sup> January 2015 – 1:50pm

Domestic

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## Highlights of S&P's supplementary analysis of Trinidad & Tobago

- Following the affirmation of the credit ratings of Trinidad & Tobago on 22 December 2014, Standard & Poor's released its supplementary analysis of the country on 15 January 2015.

### Economic Activity

- GDP is likely to have grown only 1% in 2014 because of the impact of lingering shortfalls in natural gas output as producers, most notably BP, undertake maintenance operations.
- For 2015, low energy prices are likely to keep GDP growth below 1%. The non-energy sector is likely to drive growth in 2015.
- Beyond 2015, growth is likely to average 2% or higher. While the non-energy sector is expected to grow between 2% and 2.5%, the energy sector's performance is less certain.
- "The expansion of the Panama Canal (in 2016) will facilitate more sales to Asia (where prices are higher than in Europe and the Western Hemisphere). The volume of natural gas exports is likely to increase moderately in 2015-2016, especially as the Starfish field comes into production, but should rise substantially in 2017, largely because of BP's Juniper field. The cost of production in T&T's LNG train is cheaper than in recent facilities built in the U.S. and Australia, giving it greater capacity to withstand a prolonged period of low prices."

### Trade

- The current account surplus is likely to decline toward 3% of GDP in 2014 from 8% in the previous year, largely reflecting a smaller trade surplus. Low energy prices will continue to affect the surplus in 2015 and beyond.
- According to S&P, changes in statistical methodology have led to major revisions in the balance of payments. The previous method overestimated exports and underestimated service payments, resulting in inaccurately large current account surpluses.

### Fiscal Profile

- T&T's fiscal accounts went into deficit starting in 2009 as a result of the global downturn and the government's decision to maintain spending to support economic activity. S&P expects that the government will make fiscal adjustments, likely focusing more on spending than new revenues, to contain slippage as energy revenues decline in 2015.
- It is expected that the general government fiscal deficit will remain around 3% of GDP on average in the next two years. Net general

government debt will remain around 20% of GDP and gross general government debt 50%-60% of GDP in the coming three years.

## **Inflation**

- Inflation is likely to be about 5% in 2015, similar to its level in 2014.

## **Policy**

- Continuity in key economic policies is expected after the next general elections in 2015 as the two main parties share a similar approach to economic policies.
- Although the law allows the government to draw upon money in the Heritage & Stabilization Fund during a downturn in the energy sector, it would be very difficult politically for any party to tap those savings. Hence, the next government, which will face fiscal pressure from lower energy revenues, is likely to control spending to contain potential fiscal slippage, focusing on gasoline and diesel subsidies, as well as on other current transfers.
- General government debt had increased by 19% of GDP because of the cost of bailing out CLICO in 2009. The government has recovered some of its cost through various asset sales and plans to sell CLICO's insurance portfolio in the first quarter of 2015. Eventually, it is likely to fully, or at least largely, recover the cost of the bailout.

## **Banking System**

- The banking system is well capitalized, with reported capital above 20% of risk-weighted assets. Liquid assets exceed 25% of gross assets. Nonperforming loans (NPLs) are about 4% of total loans, down from a peak of 7.6% in August 2011. Loan loss provisions cover just less than half of NPLs. Bank lending may grow about 7% in 2014. Most of the growth has been for consumer and housing loans (30-year mortgages are available for a fixed rate of 6.5% that is reset after five or 10 years), but business lending has recently picked up. The loan to value for mortgages is 80%-85%.



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