



Trinidad and Tobago

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First Citizens

Research & Analytics

COUNTRY

Real GDP growth (%) (2015)	-2.10%
Next General Election	Sep-20
Exchange Rate (TTD/USD)	6.67

CREDIT RATING

S&P Foreign Currency	A-/Neg
S&P Local Currency	A-/Neg
Moody's Foreign Currency Debt	Baa3/Neg

Major Trade Partners	US, EU, Brazil, Colombia, Jamaica, Dominican Republic, Barbados
Major Exports (%)	Fuels and mining (62%); Manufactures (25%); Agriculture (2.3%)
GDP Composition	Energy(35%);Services(56%);Manufacturing(8.1%);Agriculture(0.5%)

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK

Negative

Real economic activity is estimated to have contracted 3% during the fourth quarter of 2015, following three consecutive declines. The decline was led by broad-based contractions in both energy and non-energy sectors. Due to the low energy prices, many upstream companies temporarily suspended production to undertake upgrades/ maintenance of the facilities, which led to a 5% decline in energy sector output during the fourth quarter, slightly lower than the 7.1% contraction recorded in the third quarter. The most significant declines were recorded for LNG production (-16.7%) and refining (-14%). Encouragingly, petrochemicals expanded output by 18.9%, largely as a result of the resumption of production from the Tringon I Ammonia plant. All sector sin the non-energy sector, excluding finance, insurance and real estate, either remained flat or declined during the fourth quarter of 2015. As a result of the streamlining of public sector projects, construction activity waned, while the closure of ArcelorMittal caused output in the manufacturing sector to decline. Finance, insurance and real estate expanded 1.8% on account of sustained economic activity in the commercial banking sub-sector.

INFLATION/ LABOR MARKET

Negative

In the 12 months to March 2016, inflation measured 3% slightly up from the 2.9% recorded in the prior month. The recent reduction of the fuel subsidy on diesel and super gasoline will likely push prices upwards in the coming months. Further, the depreciation of the TTD will exert some level of upward pressure on domestic prices. The unemployment rate rose to 3.4% in the third quarter of 2015 from 3.3% previously. Job losses were experienced in services construction and manufacturing, but this was partially offset by employment in finance, wholesale and retail trade, restaurants and hotels and electricity and water. Labor productivity declined towards the end of 2015 amid weakening economic activity and slowing employment creation. Early indicators point to a further worsening of the labor market in 2016. Retrenchment notices rose by 756 over the period October 2015 - February 2016 from 490 in the same period one year earlier.

EXTERNAL ACCOUNTS

Negative

Preliminary data shows that the balance of payments recorded an overall deficit of 5.1% of GDP. The current account swung into deficit, posting a shortfall of 0.2% of GDP. The weaker trade balance was reflective of lower energy and non-energy exports and an increase in non-energy imports. The capital and financial account recorded a deficit of USD965.5 million as net private sector outflows neared USD1 billion. As a result of lower prices and production, energy exports declined 32% to reach roughly USD6.4 billion, while non-energy exports fell 1.1% as demand from CARICOM waned. At the end of March 2016, net official reserves stood at USD9.4 billion (11.1 months of import cover), 14% lower when compared to March 2015. The TT dollar has depreciated by almost 7% since April 2015, as the ask price is currently around TTD6.665/ USD.

FISCAL ACCOUNTS

Negative

The mid-year review that was presented in April revealed a revised budget deficit equivalent to 4% of GDP from the initial budget of 1.7% of GDP. Oil and natural gas price assumptions were adjusted downwards, while total revenue as well as expenditure was all adjusted downward. A number of measures were announced in order to shore up the revenue side, with a reduction/ removal of the fuel subsidy, introduction of a 7% levy on online shopping, increase in motor vehicle taxes (luxury vehicles), and higher taxes on alcohol and tobacco products. Subject to legislative changes, approximately USD1.0 billion is to be withdrawn from the HSF for use in FY 2015/16 and possibly another USD0.5 billion in the following fiscal year. Total public sector debt stood at 61.1% of GDP at the end of December 2015, the decline largely as a result of the repayment of CLICO zero-coupon bonds in November 2015.

MONETARY CONDITIONS

Stable

The CBTT has consecutively increased its benchmark interest rate at eight of the Monetary Policy Meetings, with the last increase implemented in December 2015. The rate has been left unchanged since at 4.75%. While bank rates have been rising, market interest rates have also increased significantly over the past few months. The Government of Trinidad and Tobago TT dollar yield curve has displayed an upward trend. The average change throughout the curve between September 2015 and March 2016 was 60 bps with the belly of the curve showing the biggest increase. The rising yield curve suggests that investors are demanding a higher premium for local currency government debt. Credit demand remains fairly healthy, with lending to businesses increasing 4.2% in the 12 months to January 2016, while consumer credit rose 8.7%, with loans for motor vehicle expanding at a significant 14.3%.

RATINGS ACTION

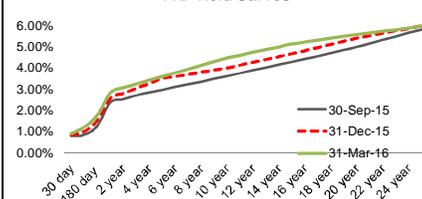
Negative

Two international credit rating agencies downgraded Trinidad and Tobago's credit rating so far for the year. On 15th April, Moody's lowered the credit rating by one notch to Baa3 with a negative outlook. The key drivers of the decision were low energy prices which is expected to undermine economic and government financial strength, the government's policy response to the commodity shock, which Moody's believes may not be as timely and effective due to lack of data and weak policy execution capacity, effectiveness of fiscal consolidation efforts and the government support to Petrotrin. S&P downgraded T&T's rating on 22 April by one notch to A-, with a negative outlook. S&P revised downwards projections for the country due to the sharp fall in energy sector revenue, which has contributed to lower fiscal revenue, economic recession and decreased foreign exchange reserves.

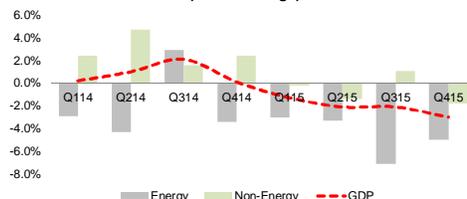
OUTLOOK

The negative outlook that S&P has assigned to the country's credit rating reflects an at least one-in-three chance that prolonged low energy prices and potentially low GDP growth prospects could result in a steadily rising debt burden, resulting in a downgrade in the next two years. Moody's has noted that its negative outlook captures lack of visibility on how effective fiscal consolidation efforts will ultimately be and the extent to which fiscal consolidation will have to rely on one-off measures in the coming 1 to 2 years. There is now a three-notch disparity in the credit rating between Moody's and S&P. The government now projects that the fiscal year will end with a deficit equivalent to 4% of GDP and is partially based on several one-off revenue items, which were announced since October 2015. The revised revenue numbers still seem to be optimistic given the current environment. We expect that the economic contraction will persist into 2016, and we anticipate that the labor market will continue to deteriorate. The decline in the foreign exchange reserves should be stemmed by the government's plan to cap the depreciation of the TTD dollar to a max of around TTD86.1 to the US dollar. We hold a negative outlook on T&T's economy, based on the weakening economic prospects, deteriorating government balance sheet and the erosion of fiscal buffers.

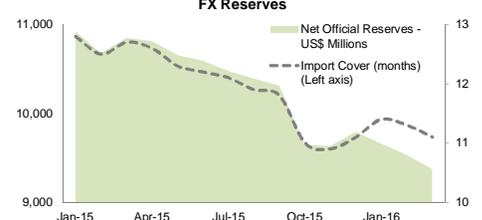
TTD Yield Curves



Quarterly GDP Index (YoY % Change)



FX Reserves



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