Trinidad and Tobago

Prepared by: Vangie Bhagoo-Ramrattan
vangie.bhagoo-ramrattan@firstcitizenstt.com
Last Updated: January 2016

First Citizens
Research & Analytics

COUNTRY

Real GDP growth (%) (2015)	0.20%
Next General Election	Sep-20
Exchange Rate (TTD/USD)	6.4547

CREDIT RATING

S&P Foreign Currency	A/Neg
S&P Local Currency	A/Neg
Moody's Foreign Currency Debt	Baa2/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**

The Trinidad and Tobago economy is estimated to have contracted 2% in the first half of 2015 and forecasted to register marginal growth of 0.2% for the full year. The petroleum sector is expected to post a decline of 3.4%, the second straight year of contraction, while the non-petroleum sector is expected to continue growing, with a rate of 2.3% estimated. The non-petroleum sector is expected to account for almost 65% of GDP in 2015, up from 63.4% in 2014. The strength of the non-petroleum sector is underpinned by the services sector, which now contributes about 56% of GDP. The strongest performing sector was finance, real estate and insurance, which is estimated to grow by 8.6% in 2015, significantly up from the decline of 1.1% recorded in 2014. The manufacturing sector is estimated to have expand by 1.3% in 2015, following two consecutive years of decline in 2013 and 2014. The petroleum sector is expected to be negatively affected by lower output in exploration and production, refining and petrochemicals.

INFLATION — **Stable**

Headline inflation in the 12 months to December 2015 came in at 1.5%, compared to 1.4% in November (the year on year rates for inflation are lower than core and food inflation due to the rebasing of the index from 2003 to 2015). Core inflation rose to 2.3%, above the levels seen in the early part of 2015 due to higher fuel prices announced in the budget. Food inflation decelerated to 2.7% compared to 6.1% in October. The CBTT expects that though aggregate demand will remain contained, the outlook for inflation in 2016 will be impacted by the net impact of a reduction in VAT together with the increase in the VAT -eligible items.

EXTERNAL ACCOUNTS — **Negative**

We are in a protracted period of low energy prices coupled with declining energy production. Energy exports stood at USD11 billion in 2013, falling to USD10 billion in 2014. In 2015, it is estimated that energy exports fell further to USD7 billion. About 85% of our total exports come from the energy sector.
Total inflows of FX have consequently declined over the past three years or so. In 2013, the total supply of FX stood at USD5.8 billion, falling to USD5.5 billion in 2014 and in the eleven months to November 2015, total inflows further declined by a significant 20% to USD4.4 billion. Demand in 2013 stood at USD7 billion, and in the 11 months to November 2015, demand was little changed at USD6.8 billion. T&T's Net Official Reserves has fallen by 13.4% in 2015 to end the year at USD9.8 billion (from 12.7 months of import cover to just about 10.9 months in November).

FISCAL ACCOUNTS — **Negative**

For the FY 2014/ 2015, preliminary data shows that the fiscal accounts ended the year at a deficit equivalent to 4.2% of GDP , compared to the budgeted 2.3% of GDP for the year. Total revenue fell by 6.2%, as energy revenue declined by a significant 30%, on account of the significantly lower commodity prices on the global market. Due to the sale of Methanol Holdings Trinidad Ltd. (MHTL), capital receipts rose sharply to TTD4.9 billion. On the expenditure side, while most categories declined, wages and salaries and goods and services rose largely due to the payment of increased salaries and arrears to public sector employees upon the conclusion of the new collective agreements. Net public sector debt rose from 40.2% of GDP in the previous fiscal year to 46.3% in FY 2015, as all categories of debt increased for the period./ External public sector debt rose to 9.2% of GDP from 8.6%, central government debt rose to 27.4% of GDP from 23.7% and contingent liabilities rose to 18.9% of GDP from 16.5% previously.

MONETARY CONDITIONS — **Negative**

After raising interest rates since September 2014, the CBTT held the rate constant at 4.75% given the prevailing economic climate and the short term outlook. Liquidity accumulated in January 2016 to reach as high as $4 billion in banks' excess reserves.

RATINGS ACTION — **Negative**

On 24 December 2015, Standard & Poor's revised its rating outlook on T&T from stable to negative. While T&T's long term credit rating from S&P of "A" remains unchanged, the negative rating outlook reflects a one-in-three chance of a rating downgrade in the next two years. The change reflects the ratings agency's expectations of prolonged low energy prices and potentially poor GDP growth prospects that could result in a steadily rising debt burden.
While the energy sector typically contributes about 50% of government revenues, lower energy prices may mean that the sector contribute less than 20% of total government revenues in fiscal year 2015-2016. Falling energy prices have also sharply reduced T&T's typically large trade and current account surpluses. According to S&P, GDP likely contracted up to 2% in 2015, mainly because of the spillover of lower energy prices, and could fall by up to 1% in 2016. Net general government debt (including central bank debt) is likely to remain below 25% of GDP.

OUTLOOK

The Budget 2016 is predicated on a cautiously optimistic USD45 per barrel oil price and a basket of natural gas prices, and forecasts another year of deficit of 1.7% of GDP. The energy sector is expected to bring in a mere 10% of total revenue in fiscal year 2016, a far cry compared to the 50% average over the past three years. Clearly, the non-energy sector is positioned to take on a much more prominent role in 2016. The new fiscal year budgets that the non-energy sector will yield 55% more revenue than the previous fiscal year. For 2016, the CBTT forecasts a further 1.50% decline in real GDP on the premise that the alleviation of the natural gas supply constraint and low energy prices are not expected to improve during the year. Production from the BP Juniper field is expected to come on stream in 2017. The deterioration in the external accounts will result in a depreciation of the exchange rate against the USD (which is now around TTD6.48/ USD) within the next 12 months as the CBTT's ability to support the peg will be severely challenged. In 2015 alone, the country's FX reserves declined 13.5%. With poor export earnings expected in the next year or so coupled with lower invetsment inflows, it is expected that the level of reserves will be further eroded. Despite this, given the size of the external buffers in place (40% of GDP), the risk of an external account crisis is minimal at this point.