Trinidad and Tobago

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First Citizens
Research & Analytics

COUNTRY	
Real GDP growth (%) (Q116)	-5.10%
Next General Election	Sep-20
Exchange Rate (TTD/USD)	6.76

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**

The latest data from the Central Statistics Office point to a 5.2% contraction in GDP for 2015 while provisional estimates for the CBTT suggest a further decline in economic activity of 5.2% (year-on-year) for the first quarter of 2016. Following three quarters of decline in the energy sector, planned maintenance work and downtime at major oil and gas producers resulted in a 9.1% (year-on-year) decline in sector activity. As of March 2016, the Non-energy sector also registered a slowdown lead by a 15.7% and 6.3% contraction in Construction and Manufacturing activity. Work on major public sector construction projects has been impacted by the administrative review of the Public Sector Investment Programme as well as mobilization challenges. However, the 2017 Government budget points to several key projects aimed at boosting the construction sector as well as some incentives to increase activity in the agriculture as well as manufacturing sector. The presented 2017 Budget assumes further economic contraction of 2.3% in 2016, and growth of 1% in 2017, and 2% in 2018-20. The 2017 projected growth rebound is based primarily on a recovery of oil and gas prices and an uptick in domestic production. The 2016/2017 Budget as presented by the minister, incorporated a broad mix of austere and economic growth enhancing measures and in our view spreads the share of burden across all of the different classes in society. The energy sector is expected to generate a mere 4% of total revenue in fiscal year 2017, a far cry when compared to the 41% average over the past three years. Thus, it is vital that the various policies mentioned in the budget be effectively implemented in a timely manner in order to yield the desired results. The targeted diversification thrust in Tourism, Agriculture, Finance and the downstream Energy sector must be unrelenting. The Government, through its 2016/2017 Budget, continues to provide the necessary fiscal and infrastructural incentives for the Private Sector growth. The Government of Trinidad and Tobago continues to treat the “prevailing downturn” as a structural change in the country’s economic composition illustrated in the continued focus on the medium to long term prosperity and sustainability of the T&T economy. Undoubtedly the revenue shortfall and the self-imposed cap on public sector debt, at 65% of GDP, would limit the ability of the Government to implement some of its desired initiatives.

INFLATION/ LABOR MARKET — **Stable**

Latest Central Bank data show inflation at 3.1% in August 2016, despite inflationary forces such as the reduction in the fuel subsidy, the widening of the VAT base, and the depreciation of the currency. It is possible that the inflationary impact of these developments was outstripped by the deflationary impact of the current economic contraction. The TT dollar depreciated by roughly 4.0% during the first six months of 2016. However, the full pass-through of these increases may not yet have occurred given the lag in transmission, while some businesses may have chosen to absorb rising costs in the interim. Emphasizing the generally sedate inflationary environment, core inflation remained relatively flat and measured 2.2% as at August 2016, after starting the year at 2.0%. The contraction in the domestic economy is slowly impacting the labour market, as the unemployment rate trended upwards and the labour force participation rate declined. Nevertheless, unemployment remains low and stood at 3.8% as at the end of March 2016. Retrenchment data filed at the Ministry of Labour and Small Enterprise Development point to continued softening of the labour market, as some 690 persons were retrenched in the first seven months of 2016.

EXTERNAL ACCOUNTS — **Negative**

Lower energy prices as well as domestic production levels resulted in a sharp weakening of the balance of payments. In 2015, the trade balance fell to approximately 5.1% of GDP from 23% of GDP in 2013, largely due weaker export earnings. Capital inflows by way of direct foreign investment into the energy sector and external loan financing (in particular, the USD1 billion bond issue) served to bolster our foreign reserves, which currently stand at USD10 billion, a marginal decline from the USD10.3 billion in reserves at this time last year. The TT dollar has depreciated by around 4% YTD - June 2016. The TTD/ USD weighted average selling rate ended September 2016 at TTD6.71 to the USD.

FISCAL ACCOUNTS — **Negative**

The fiscal deficit is estimated at TTD6 billion or 3.9%of GDP in FY 2017 compared with a fiscal deficit of TTD7.3 billion or 5% of GDP in FY 2016.The fiscal deficit, excluding one-off capital transactions, is estimated at TTD11.23 billion or 7.7% of GDP in FY2015/16 (down from a budgeted figure of TTD15.4 billion), and is projected to rise to TTD15.7 billion or 10.2% of GDP in FY2016/17. If we include one-off capital transactions, the deficit (financed by debt and drawdowns from the HSF) was budgeted at TTD6.7 billion or 4.6% of (revised) GDP in FY2015/16, but came in at TTD7.3 billion or 5% of GDP, on lower revenues. For FY2016/17, the deficit (including one-off capital transactions) is projected to reach TTD6 billion or 3.9% of GDP, presumably to be financed by borrowing and further drawdowns from the HSF. Net debt/GDP was announced in the Budget at 60%. The Minister of Finance has capped Net Public Debt as a percentage of GDP at 65% with the expectations for this figure to reach 61% in 2016.

MONETARY CONDITIONS — **Stable**

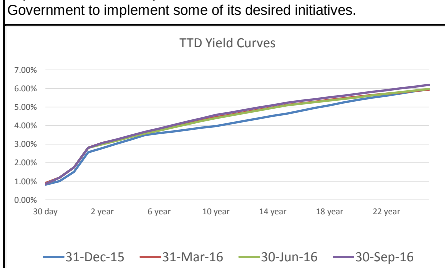
After raising its main monetary policy rate, the Repo rate, on six successive occasions throughout 2015, the Central Bank has paused from further policy rate increases thus far in 2016, prompted by domestic and international economic conditions. Lackluster economic performance and the trickle down effects on the labor market, business confidence as well as the presence of subdued inflation have weighed on the Bank's decision to maintain the policy rate at 4.75%. While bank rates have been rising, market interest rates have also increased year to date. The Government of Trinidad and Tobago TT dollar yield curve has displayed an upward trend. The average change throughout the curve between December 2015 and September 2016 was 36 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 private sector credit growing 6.3% in the 12 months to July 2016, compared to 6.9% in March. Business lending grew less rapidly, as at July 2016, at 3.5%, compared to 4.4% growth recorded in October 2015.

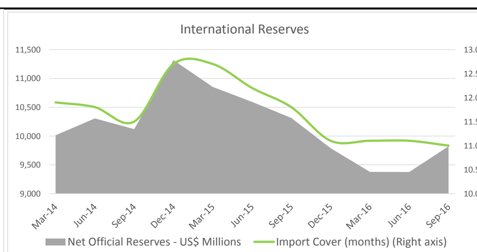
RATINGS ACTION — **Negative**

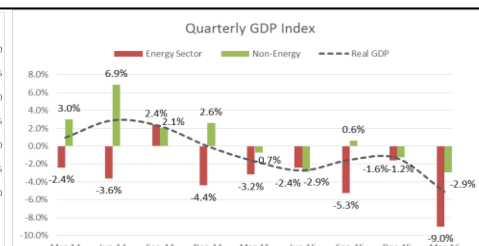
Two international credit rating agencies downgraded Trinidad and Tobago's credit rating so far for the year. On 15th April, Moody's lowered the credit rating by one notch to Baa3 with a negative outlook. The key drivers of the decision were low energy prices which is expected to undermine economic and 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. We believe that the measures announced in the 2017 budget would delay any rating action at least until the Mid-Year review.

OUTLOOK

The 2016/2017 Budget as presented by the minister, incorporated a broad mix of austere and economic growth enhancing measures and in our view spreads the share of burden across all of the different classes in society. The energy sector is expected to generate a mere 4% of total revenue in fiscal year 2017, a far cry when compared to the 41% average over the past three years. With oil and gas production expected to see some uptick by mid-2017 in addition to the upward movement in crude price, energy revenue should see a slight rebound in the 2017 fiscal year. It is vital that the various policies mentioned in the budget be effectively implemented in a timely manner in order to yield the desired results. The targeted diversification thrust in Tourism, Agriculture, Finance and the downstream Energy sector must be unrelenting. The Government, through its 2016/2017 Budget, continues to provide the necessary fiscal and infrastructural incentives for the Private Sector growth. Undoubtedly the revenue shortfall and the self-imposed cap on public sector debt, at 65% of GDP, would limit the ability of the Government to implement some of its desired initiatives.







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