Trinidad and Tobago

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First Citizens
Research & Analytics

COUNTRY	
Real GDP growth (%) (Q415)	-2.30%
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 2.3% 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 Tringen 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 April 2016, inflation measured 3.5%, year on year, slightly higher than the 3.3% recorded in March 2016. There was an uptick in the cost of transportation, where this sub-index rose 4.2% compared to 1% in March due to the rise in the cost of fuel, as announced by the Minister of Finance in his mid-year budget presentation. Core inflation steadied at around 2%, while food inflation rose to close to 10%, on account of higher prices of fruits, vegetables and other food items. Labor market conditions deteriorated since the third quarter of 2015, with the unemployment rate increasing to 3.5% in Q415 and in the first quarter of 2016, data shows a further slip in employment. Data shows that 381 persons were retrenched over the period January to April 2016, mainly from manufacturing, transport and petroleum sectors. However, the numbers do not include terminations by ArcerlorMittal (644 persons), Centrin (200 persons), Construtora OAS (860 persons) and other companies which ceased operations in 2016. Moreover, according to Central Bank estimates, job vacancies posted in the major daily newspapers over the period January to April 2016 fell by 22%. In all, these indicators may point to higher rates of unemployment in the first quarter 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. This further resulted in a decline in the country's foreign exchange reserves, which fell to USD9.3 billion or 11 months of import cover at the end of April 2016, At the end of March 2016, net official reserves stood at USD9.4 billion (11.1 months of import cover), 5% lower when compared to the end of 2015. The TT dollar has depreciated by around 3% YTD - April 2016. The TTD/ USD weighted average selling rate ended April 2016 at TTD6.315 to the 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. For the first half of the FY, central government recorded a deficit of YYD3.1 billion, compared to a surplus of TTD3.1 billion in the previous year. Revenue declined almost 18%, as a result of a 75% decline in energy receipts from TTD 10 bn to TTD2.5 bn. Spending was curtailed by TTD1.2 bn during the period. 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**

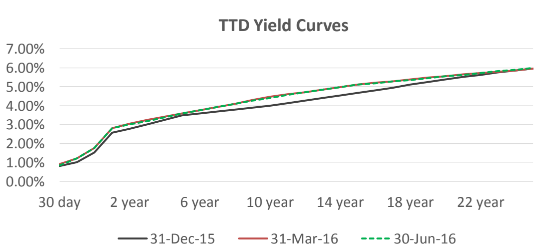
The CBTT has consecutively increased its benchmark interest rate at eight of the Monetary Policy Meetings, with the last increase implemented in December 2015. The rate has been left unchanged since at 4.75%. While bank rates have been rising, market interest rates have also increased significantly over 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 December 2015 and June 2016 was 23 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 6.2% in the 12 months to March 2016, compared to 5.8% in February. Business lending grew less rapidly at 3.6%, compared to 4.4% growth recorded in October 2015.

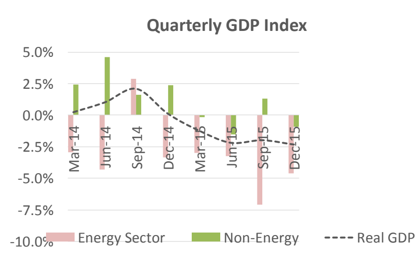
RATINGS ACTION — **Negative**

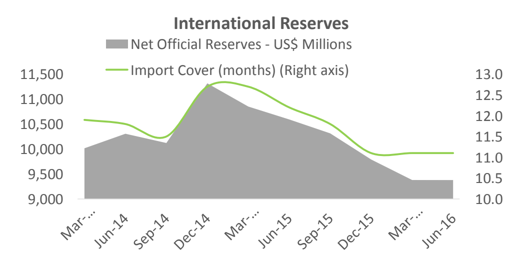
Two international credit rating agencies downgraded Trinidad and Tobago's credit rating so far for the year. On 15th April, Moody's lowered the credit rating by one notch to Baa3 with a negative outlook. The key drivers of the decision were low energy prices which is expected to undermine economic and 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.

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 TTD6.81 to the US dollar. The Minister of Finance will head a delegation on a roadshow for a new USD bond issuance in the amount of USD1 billion. We hold a stable outlook on T&T's economy, based on the weakening economic prospects, deteriorating government balance sheet and the erosion of fiscal buffers.







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