

TRINIDAD AND TOBAGO

1. General trends

Economic growth was estimated at 0.9% in 2014, down 1 percentage point from early estimates, owing to maintenance shutdowns in the energy sector in the first half of the year, which counterbalanced continued growth in the non-energy sector. Growth is projected at 1.0% for 2015 as an increase in domestic production is expected to be offset by lower prices and potential maintenance shutdowns in the energy sector and continued, albeit more moderate, growth in the non-energy sector.

Inflation remained low over the first half of 2014, but rose in the second, driven by soaring food prices. Year-on-year headline inflation stood at 8.5% in December 2014, but eased to 5.8% by April 2015, even with a rebased retail price index (RPI), as food price increases tapered off.

In fiscal year 2013/2014, the government deficit contracted to an estimated 1.5% of GDP as higher revenue outweighed increased expenditure. With the slump in oil prices, the government faces a challenge in managing the expected reduced revenues and in maintaining expenditure on capital and social programmes. Total public debt remained relatively low at 40.2% of GDP at year-end 2014.

The current account balance in 2014 fell to 5.8% of GDP from 7.0% in the previous year, as both energy and non-energy exports contracted. Trinidad and Tobago posted positive net foreign direct investment (FDI) inflows of 1.2% of GDP in 2014, compared with negative inflows of 0.2% in 2013.

2. Economic policy

(a) Fiscal policy

Fiscal policy remained expansionary in fiscal year 2013/2014.¹ For the period, the government recorded an overall fiscal deficit of 1.5% of GDP, narrowing from 2.9% in fiscal year 2012/2013. The deficit was also about 57% lower than the figure originally budgeted for, thanks to higher-than-expected revenue from the non-energy sector, which grew by 10.2%. In late fiscal year 2013/2014, current and capital expenditure increased by 6.2% from the government's initial allocations following the passing of the Finance (Supplementary Appropriation) Bill, 2014. Some 42% of this increase was allocated to the payment of adjusted salaries, cost of living allowances and arrears, while another 42% went towards capital projects. Provisional data indicate that the government made no transfers to the Heritage and Stabilization Fund in 2014. Total public-sector debt (excluding all debt sterilized at the Central Bank) stood at 40.2% of GDP at the end of 2014; external debt was equivalent to 7.1% of GDP.

For fiscal year 2014/2015, the government initially projected a fiscal deficit of 2.3% of GDP, based on an average oil price of US\$ 80 per barrel and a gas price of US\$ 2.75 per MMBtu. However, in response to the drop in oil prices, the government revised its budget, basing it on a crude oil price of US\$ 45 per barrel and a natural gas price of US\$ 2.25 per MMBtu. The government also announced plans to

¹ Note that the Trinidad and Tobago fiscal year runs from October to September.

review its investment programme with the aim of reducing expenditure, indicating that the cuts would come from infrastructure projects (none were specified) and from expenditure on non-critical goods and services. Among the major infrastructure projects planned for fiscal year 2014/2015 are a port in south-east Trinidad, a children's hospital and a national oncology centre.

Over the first three months of fiscal year 2014/2015 (October to December 2014), the central government recorded a surplus of TT\$ 328.4 million, down by 92% from the year-earlier period as non-tax revenue slumped. However, the large drop was in fact attributable to the fact that the central government had received a large one-off dividend payment of TT\$ 3.2 billion from the National Gas Company of Trinidad and Tobago in the same period in 2013. Capital revenue also decreased, while tax collection increased.

The fiscal situation in Trinidad and Tobago has affected the country's standing in international markets. In early 2015, the international credit rating agency Moody's downgraded the government bond rating and issuer rating to Baa2 from Baa1. The reasons given for the downgrade were: persistent fiscal deficits since 2009; the fall in oil prices and lack of diversification in the economy to offset its impact; a deficiency in the quality of economic statistics; and weak macroeconomic institutional capacity, reflected in the absence of a medium-term fiscal framework or debt-management strategy.

(b) Monetary policy

The Central Bank of Trinidad and Tobago shifted to a contractionary monetary policy stance in late 2014. The Bank has raised its repo rate five times from 2.75% to 4.00% between September 2014 and June 2015. The rate had been held at 2.75% since September 2012. There were three main factors that prompted the increase in the repo rate. First, the Central Bank wishes to maintain a positive differential between Trinidad and Tobago Treasury bonds and United States Treasury bonds in order to curb portfolio capital flows out of Trinidad and Tobago following the United States Federal Reserve's withdrawal of quantitative easing in October 2014 and the expectation that it will gradually increase its policy interest rates from the second half of 2015. Second, prices soared during the second half of 2014, with inflation peaking at 9% in November, driven by steeper prices for domestic fruits and vegetables, which were in short supply. This prompted the Central Bank of Trinidad and Tobago to note that the economy was approaching full capacity in January 2015. Although inflation dropped to 6.1% in February, the Central Bank expects it to rise over the rest of the year. Third, the energy sector posted growth in the second half of 2014 and the non-energy sector showed steady growth throughout the year. Both sectors are expected to expand in 2015.

As the repo rate was raised, the median commercial bank prime lending rate increased by 0.24 percentage points to 7.75% at the end of 2014, but the commercial bank weighted average loan rate decreased to 8.03% in September, down from 8.28% in March 2014. The spread between Trinidad and Tobago and United States 10-year Treasury rates widened from 0.38 percentage points in October 2014 to 0.64 percentage points in mid-March 2015.

The Central Bank's open market operations managed to rein in some of the excess liquidity in the system in the second half of 2014, much of which came from central government operations.

(c) Exchange-rate policy

The business sector in Trinidad and Tobago was constrained by tightness in the foreign-exchange market in 2014. In the first half of the year, some commercial banks rationed their sales of United States

dollars to customers. Over the year, authorized dealers of foreign exchange purchased US\$ 5.5 billion from the public and sold US\$ 7.0 billion to the public. The Central Bank intervened and sold US\$ 1.7 billion to authorized dealers: US\$ 0.69 billion in the first half of the year and US\$ 1.0 billion in the second. These actions resulted in a slight currency appreciation against the United States dollar, from TT\$ 6.4597 to the United States dollar in June 2014 to TT\$ 6.3839 to the United States dollar in December 2014.

3. The main variables

(a) The external sector

Preliminary reports indicate that in 2014, Trinidad and Tobago's balance of payments recorded an overall surplus of US\$ 1.3 billion (4.7% of GDP) —almost double the overall balance of US\$ 786 million (2.9% of GDP) in 2013. The current account balance for 2014 was estimated at US\$ 1.6 billion (5.8% of GDP), down slightly from US\$ 1.9 billion (7.0% of GDP) the previous year. This reduction reflected primarily the weaker goods balance, which, in turn, was attributable to the decline in energy exports in the first half of the year following stoppages for maintenance works in the sector and to a contraction in non-energy exports due to sluggish consumption in the main Caribbean Community (CARICOM) markets. Imports fell slightly, in line with a decrease in energy imports.

Net FDI inflows turned from negative in 2013 (US\$ 66.2 million, equivalent to 0.2% of GDP) to positive in 2014, rising to US\$ 339 million (1.2% of GDP), reflecting US\$ 1.05 billion in direct investments abroad, and US\$ 1.39 billion into the economy —mostly from reinvestments by energy companies and intercompany debt transactions. There was also a net outflow from commercial banks as they increased their foreign exchange holdings. Gross official reserves grew from US\$ 10.0 billion or 12 months of import cover in December 2013 to US\$ 11.3 billion or 12.7 months of import cover at the end of 2014.

While no data are available as yet for 2015, non-energy sector exports to the service-producing economies of CARICOM should improve in 2015, as a result of more robust growth in those markets and lower oil prices. The size of energy exports will depend on whether new maintenance activities are scheduled for the new year and on international oil prices, which have remained depressed into 2015.

(b) Economic activity

Trinidad and Tobago continued along a positive growth path in 2014, albeit at a slower pace than before, attaining GDP growth of 0.9%, according to calculations by the Economic Commission for Latin America and the Caribbean (ECLAC). The non-energy sector continues to be the main driver with four quarters of positive growth (year-on-year), ranging from 1.6%² to 4.6%. This sector's expansion of 1.6% in the third quarter of 2014 was, however, the lowest in any quarter since the second quarter of 2012. Growth in the first half of the year was supported by expansion in the construction, distribution and finance subsectors. In the second half, agriculture and construction posted the sharpest growth. Higher production of cement and other construction-related products led expansion in the manufacturing sector in 2014.

² Quarterly growth rates in this section are taken from the Central Bank of Trinidad and Tobago's Quarterly Real Gross Domestic Product Index.

Growth in the energy sector, on the other hand, was negative over most of the year. Hampered by maintenance shutdowns in the first half of the year, the sector contracted by 2.9% and 4.9% (year-on-year) in the first and second quarters, respectively, but recovered somewhat in the second half, posting growth of 2.8% in the third quarter, only to contract again in the fourth quarter by 3.4%, no doubt as a result of the fall in oil prices in the second half of the year. The rise of American shale oil producers boosted international supply and depressed prices. Prices slumped further when, in late 2014, contrary to usual practice, the Organization of Petroleum Exporting Companies (OPEC) refused to cut its output to keep prices up. Oil companies therefore continued to expand their operations in late 2014. BP Trinidad and Tobago had begun construction on its Juniper plant in the fourth quarter of 2013, and British Gas of Trinidad and Tobago (BGTT) (soon to be acquired by Royal Dutch Shell) began receiving gas from its Starfish field on the east coast of Trinidad. These new investments are designed to ensure that the companies secure enough supply to negotiate with Atlantic LNG when the next round of contract bidding takes place in 2017-2019.

Petrochemical production was also down in late 2014. Nitrogenous fertilizer production declined marginally in the second half of 2014, owing to maintenance shutdowns in several plants in September 2014. The effect of the decrease in production was offset by higher ammonia and urea prices in the second half of the year as fertilizer demand increased after the harsh winter across North America in early 2014. Methanol production was hampered by reduced natural gas supplies, resulting from maintenance of offshore gas platforms, and falling international prices over the second half of the year.

ECLAC projects growth of 1.0% for 2015. This outlook is based on expectations of steady growth in the non-energy sector and persistent low-to-zero growth in the energy sector due to reduced oil prices and the likelihood of further maintenance shutdowns.

(c) Prices, wages and employment

Unemployment in Trinidad and Tobago, which has been below 5% since 2012, fell to a historic low of 3.1% in the first quarter of 2014, before increasing slightly to 3.5% in the second quarter. The sectors with the highest unemployment rates were construction and other mining and quarrying. The lowest unemployment rates were observed in sectors such as agriculture, forestry and fishing; transport, storage and communications; and finance, insurance, real estate and business services. Between the second quarter of 2013 and the second quarter of 2014, 15,800 persons entered the labour force and 15,500 jobs were created.

The improvement in the unemployment statistics reflects the changes in gender balance taking place in the local job market. Unemployment in Trinidad and Tobago has been falling since the early 1990s. Concomitant with this fall, the gap between male and female unemployment has narrowed steadily, from 7.7 percentage points in 1991 to 0.7 percentage points in the first quarter of 2014.

Headline inflation remained fairly low over the first half of 2014 (between 2.9% and 4.5%), reflecting continued subdued food inflation. Typically the driver of price increases, food inflation had remained below 11% since June 2013, but spiked in the second half of 2014, moving from 3.5% in June 2014 to 18.2% in October. The rise in food prices pushed headline inflation up to 9.0% by October 2014. Prices cooled during the last two months of 2014, and headline and food inflation fell slightly to 8.5% and 16.7%, respectively, in December 2014.

In May 2015, the Central Bank of Trinidad and Tobago rebased the retail price index (RPI) to reflect more current consumption patterns, adopting January 2015 as its base period. Under this new RPI,

inflation continued to subside: headline inflation declined from 7.5% in January 2015 to 5.8% in April 2015 and food inflation fell from 14.6% to 9.1% over the same period. Core inflation remained low, rising slightly from 1.5% between January and March 2015 to 1.8% in April 2015.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	14.4	4.5	3.4	-4.4	-0.1	0.0	1.4	1.7	0.9
Per capita gross domestic product	13.8	3.9	2.9	-4.8	-0.5	-0.4	1.0	1.5	1.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-10.1	21.8	7.6	-32.4	76.8	-0.1	-19.1	5.1	0.8
Mining and quarrying	24.2	1.7	-0.3	-1.8	2.8	-3.6	-1.8	1.6	1.0
Manufacturing	13.1	13.9	4.1	1.9	7.2	4.0	-5.8	-1.8	-0.7
Electricity, gas and water	-0.4	6.5	3.0	0.3	0.1	6.4	4.5	3.5	3.1
Construction	6.2	7.1	4.5	-7.1	-28.4	-8.8	-2.0	4.1	7.1
Wholesale and retail commerce, restaurants and hotels	15.1	5.8	16.8	-19.7	-12.8	12.0	-1.4	-0.1	2.8
Transport, storage and communications	5.8	4.8	8.5	-0.5	0.9	1.1	14.4	1.0	-1.6
Financial institutions, insurance, real estate and business services	1.0	10.4	3.1	-4.5	8.1	5.3	4.6	3.3	5.5
Community, social and personal services	1.3	-0.6	-0.6	13.2	-0.4	2.0	1.9	3.2	1.4
Balance of payments	Millions of dollars								
Current account balance	7,125	5,166	8,499	1,633	4,172	2,899	824	1,920	1,637
Goods balance	7,575	5,529	9,070	2,241	4,735	5,433	3,918	3,899	3,420
Exports, f.o.b.	14,086	13,215	18,647	9,221	11,239	14,944	12,983	12,770	11,806
Imports, f.o.b.	6,511	7,687	9,577	6,980	6,504	9,511	9,065	8,871	8,386
Services trade balance	451	546	610	382	488	506	261	271	313
Income balance	-956	-969	-1,228	-1,017	-1,080	-3,074	-3,390	-2,276	-2,088
Net current transfers	55	60	47	27	29	33	34	25	-8
Capital and financial balance c/	-6,006	-3,626	-5,794	-2,345	-3,754	-2,146	-1,446	-1,133	-307
Net foreign direct investment	513	830	2,101	709	549	771	772	-66	339
Other capital movements	-6,519	-4,456	-7,894	-3,054	-4,303	-2,917	-2,218	-1,067	-646
Overall balance	1,119	1,541	2,706	-713	418	753	-622	786	1,330
Variation in reserve assets d/	-1,119	-1,541	-2,706	713	-418	-753	622	-786	-1,330
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	96.6	94.8	90.7	82.7	79.0	79.6	73.9	70.9	67.3
Net resource transfer (millions of dollars)	-6,962	-4,594	-7,022	-3,362	-4,833	-5,220	-4,835	-3,409	-2,395
Gross external public debt (millions of dollars)	1,322	1,443	1,557	1,507	1,686	1,891	1,627	2,276	2,284
Employment	Average annual rates								
Labour force participation rate f/	63.9	63.5	63.5	62.7	62.1	61.3	61.8	61.3	61.9
Unemployment rate g/	6.2	5.6	4.6	5.3	5.9	5.1	5.0	3.6	3.3
Prices	Annual percentages								
Variation in consumer prices (December-December)	9.1	7.6	14.5	1.3	13.4	5.3	7.2	5.6	8.5
Variation in nominal exchange rate (annual average)	0.3	0.1	-0.6	0.7	0.6	0.7	0.0	-0.1	-0.3
Variation in minimum real wage	-4.1	-7.4	-10.6	-6.7	-9.4	31.9	-8.5	-5.0	-5.3
Nominal deposit rate h/	2.4	2.4	2.4	1.7	0.4	0.3	0.2	0.2	0.2
Nominal lending rate i/	10.2	10.5	12.3	11.9	9.2	8.0	7.7	7.5	7.5

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Central government j/	Percentajes of GDP								
Total revenue	33.6	29.3	32.4	32.2	33.4	31.5	33.0	33.5	35.6
Tax revenue k/	30.3	26.0	29.5	26.8	28.3	27.8	29.2	28.4	28.4
Total expenditure	32.0	29.1	30.7	37.7	36.1	34.1	35.4	36.8	38.5
Current expenditure	27.8	22.7	24.7	30.2	30.7	29.1	30.2	31.0	32.7
Interest	2.1	2.0	1.7	2.9	2.5	1.9	2.0	1.8	1.8
Capital expenditure	4.4	6.4	6.1	7.6	5.4	5.0	5.2	5.8	5.8
Primary balance	3.7	2.2	3.4	-2.6	-0.1	-0.7	-0.4	-1.5	-1.1
Overall balance	1.6	0.2	1.7	-5.5	-2.6	-2.6	-2.4	-3.3	-2.9
Non-financial public sector debt	32.1	28.8	34.5	54.4	53.8	50.1	52.4	52.9	58.6
Money and credit	Percentajes of GDP, end-of-year stocks								
Domestic credit	6.7	14.7	9.3	27.2	25.3	21.5	23.7	11.7	9.9
To the public sector	-20.8	-12.8	-15.3	-6.8	-4.5	-5.3	-4.3	-14.4	-17.5
To the private sector	27.0	27.5	24.6	34.0	29.8	26.8	28.0	26.1	27.3
Monetary base	7.2	6.8	8.0	15.2	15.2	16.5	17.4	18.3	18.8
Money (M1)	11.6	11.0	9.5	19.1	18.9	19.9	22.6	22.8	26.5
M2	28.3	27.2	24.1	44.1	41.9	40.9	44.8	43.9	48.4
Foreign-currency deposits	9.1	8.7	9.2	18.9	14.1	12.5	14.8	12.3	11.9 l/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Nationwide total.

g/ Nationwide total. Includes hidden unemployment.

h/ Special savings interest rate.

i/ Prime lending rate.

j/ Fiscal years, from October 1 to September 30.

k/ Corresponds to non-petroleum sector.

l/ Figures as of July.

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	2.7	2.8	0.3	2.6	0.2	1.0	2.1	0.1
Gross international reserves (millions of dollars)	9,129	9,324	9,331	9,551	9,927	10,290	10,129	11,185	10,770	10,735 c/
Real effective exchange rate (index: 2005=100) c/	71.7	70.0	71.4	70.3	69.0	69.2	67.3	63.7	62.2	62.3 c/
Consumer prices (12-month percentage variation)	6.7	6.0	4.0	4.2	3.8	3.1	7.0	8.8	6.4	5.6
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.4	6.4	6.4	6.4	6.4	6.4	6.3	6.3	6.3	6.3
Nominal interest rates (average annualized percentages)										
Deposit rate e/	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3 f/	...
Lending rate g/	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.6	7.8	8.1
Interbank rate	0.3	0.3	0.3	0.3	0.3	0.3
Monetary policy rates	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.1	3.4	3.8 h/
International bond issues (millions of dollars)	-	-	-	550	-	-	-	-	-	-
Stock price index (national index to end of period, 31 December 2005 = 100)	103	106	107	111	110	109	107	108	108	109
Domestic credit (variation from same quarter of preceding year)	1.9	-17.1	-31.2	-34.0	-23.4	-30.5	-13.1	-27.1	-32.4	-31.0 h/
Non-performing loans as a percentage of total credit	4.7	4.4	4.6	4.2	4.2	4.0	4.3	4.1	4.1	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Special savings interest rate.

f/ Figures as of February.

g/ Prime lending rate.

h/ Figures as of April.