TRINIDAD AND TOBAGO

1. General trends

In 2016 Trinidad and Tobago is expected to post negative growth for the third year in a row, with the economy set to shrink by 2.5%, following contractions of 1% in 2014 and 2.1% in 2015. The primary cause is reduced output in the energy sector owing to falling oil prices, coupled with natural gas production shortfalls. The non-energy sector's output also suffered due to its linkages with the energy sector.

Reduced energy sector earnings resulted in a steep fall in government revenue. In the 2014/15 financial year, the fiscal deficit is estimated to be 5.5% of GDP. The government implemented some fiscal consolidation measures and expects the deficit for 2015/16 to shrink to 1.7% of GDP.

The contraction in the energy sector also affected the external sector. After surpluses of 12.9% and 1.4% in 2013 and 2014, respectively, the current account posted a deficit of 0.4% of GDP in 2015. Foreign direct investment (FDI) inflows, which comprised mostly reinvested earnings, fell by 33%.

Inflation fell from 7.5% year-on-year in January 2015 to 1.5% in December 2015 as food prices moderated. Prices rose slightly in the first few months of 2016 owing to a revised value added tax (VAT) scheme. Rising unemployment in the energy and construction sectors nudged the unemployment rate up to 3.5% in the fourth quarter of 2015.

2. Economic policy

(a) Fiscal policy

Between October 2014 and September 2015, the government was challenged by steeply falling energy revenues. In October 2014 the oil price averaged US$ 84 per barrel (West Texas Intermediate, Cushing, Oklahoma). The 2014/15 government budget was predicated on an average oil price of US$ 80 per barrel, but by September 2015 the oil price averaged US$ 45 per barrel. As a result the fiscal deficit for the period reached 5.5% of GDP, almost twice the 2.3% budgeted at the start of the fiscal year. Total revenue and grants were down by 7.7%, owing mainly to a significant drop in energy sector revenue. Total expenditure rose by 0.3%, as higher recurrent expenditure offset a significant decline in capital expenditure (-12.1%).

The government announced its 2015/16 budget in October 2015, which was based on a new assumed average oil price of US$ 45 per barrel and a mix of similarly downward-adjusted gas prices. The government implemented new revenue-generating measures, including an overhaul of the VAT system: the rate was lowered from 15% to 12.5% —effective February 2016— but the number of exempt items was reduced. The national fuel subsidy was reformed and the prices of super gasoline and diesel were raised by 15% in October 2015. With these and other consolidation initiatives, the government estimated a fiscal deficit of 1.7% of GDP for 2015/16.

Over the first six months of fiscal year 2015/16 government revenue fell by 17.6% compared with the year-earlier period. This drop in revenue combined with a 4.8% fall in expenditure to result in a fiscal deficit of 3.1 billion Trinidad and Tobago dollars (TT$), or about 1.9% of GDP over the first six months of 2015/16. At its mid-year budget review in April 2016, the government announced measures including higher taxes on the gaming industry, alcohol and tobacco; a 50% hike in the customs duties and motor vehicle tax on luxury vehicles (engines exceeding 1,999 ccs); and a further 15% increase in the price of super gasoline and diesel. The revised assumed oil price was US$ 35 per barrel and the revised budgeted fiscal deficit was 4% of GDP.

Total non-financial public sector debt was measured at 59.9% of GDP in December 2015.

(b) Monetary policy

In 2015 the Central Bank of Trinidad and Tobago raised the repo rate, its main policy tool, by 0.25 percentage points six times during the year, in January, March, June, July, September and December. Thus, over the course of 2015, it rose from 3.25% to 4.75% with a view to maintaining a sufficient differential between Trinidad and Tobago and United States interest rates to discourage capital outflows once the United States Federal Reserve began raising its rates. The repo rate has remained at 4.75% since December 2015 owing to low business confidence and anaemic growth.

As the policy rate rose, so too did the median prime lending rate of commercial banks, from 8.13% in June 2015 to 9.0% in March 2016. The Mortgage Market Reference Rate also increased, from 2.5% in September 2015 to 3.0% in March 2016. Yet, despite the higher rates, credit to the private sector remained fairly strong over the second half of 2015 and the first few months of 2016. Private sector loans grew by 6.2% year-on-year in March 2016, driven largely by growth in credit to the consumer and real estate categories. Loans to businesses increased by 3.9% year-on-year in March 2016, with strong growth in the manufacturing and distribution sectors offsetting declines in the construction and other services sectors.

Liquidity levels fell over 2015 —average commercial banks’ holdings of excess reserves fell from TT$ 7.2 billion in December 2014 to TT$ 2.4 billion in November 2015— but recovered somewhat in the first four months of 2016.

(c) Exchange-rate policy

As a result of reduced foreign-exchange inflows owing to shrunken energy revenues, the foreign-exchange market was tight over 2015 and the first quarter of 2016. Many commercial banks resorted to rationing United States dollars to consumers. In 2015 authorized foreign-exchange dealers purchased US$ 4.9 billion from the public and sold US$ 7.3 billion to the public. The central bank sold just under US$ 2.6 billion to authorized dealers to make up the shortfall. From January to April 2016, authorized dealers purchased US$ 1.5 billion from the public and sold US$ 1.8 billion to the public, and the central bank provided US$ 430 million to the market.

The central bank has allowed the exchange rate to slip somewhat over the last six months. In April 2016, the weighted average exchange rate was TT$ 6.632 to the dollar, reflecting a depreciation of 3.1% since December 2015 and of 4.2% since September 2015.

(d) Other policies

The Government of Trinidad and Tobago signed an agreement with the Government of the Bolivarian Republic of Venezuela to facilitate cooperation in gas exploration and trade. The agreement will entail joint exploration efforts with respect to border gas reserves and the sale of manufactured goods to the Bolivarian Republic of Venezuela. Through the joint venture, Trinidad and Tobago hopes to increase its natural gas supply with a view to boosting its production of liquefied natural gas (LNG) and other downstream gas products. Under the arrangement, which involved the creation of a US$ 50 million revolving fund, the first shipments of manufactured goods were sent to the Bolivarian Republic of Venezuela in June 2016.

3. The main variables

(a) The external sector

In 2015, Trinidad and Tobago's balance of payments recorded an overall deficit of US$ 1.529 billion (5.9% of GDP), compared with a surplus of US$ 1.330 billion (4.9% of GDP) in 2014. The current account balance was also negative (-0.4% of GDP) for the first time since 2012, owing to a decreasing trade surplus. Export value shrank in 2015 as a result of lower oil and gas prices and reduced output. The trade balance narrowed to just 5.1% of GDP, continuing the downward trend seen in recent years: 23% of GDP in 2013 and 12% in 2014. Energy exports fell by 30.4% in nominal terms from 2014 to 2015. The contraction in the trade surplus was tempered by a 16% decrease in imports.

Net foreign direct investment dropped by 52% in nominal terms, to 2.2% of GDP. Total FDI inflows were down by 33% as inflows to the energy sector (the primary destination) fell by 24%. The capital and financial account, including net errors and omissions, posted a deficit of 5.5% of GDP in 2015, compared with a surplus of 3.5% in 2014.

Despite lower oil prices and reduced foreign-exchange earnings, Trinidad and Tobago's international reserves remained robust. At the end of 2015 they had fallen to US$ 9.8 billion or 11.1 months of import cover from US$ 11.3 billion or 12.7 months of import cover at the end of 2014.

(b) Economic activity

The economy is estimated to have contracted by 2.1% in 2015, owing primarily to two main factors: depressed energy prices and reduced natural gas production. Oil prices continued to decline following an initial sharp drop in the second half of 2014. By December 2015 the average oil price had fallen by 21% since January 2015 and by 64% since June 2014. Natural gas prices slid down with oil prices, and therefore the value of Trinidad and Tobago's output diminished. Lower prices were compounded by a decline in production. Crude oil production has fallen steadily every year since 2006 as the energy sector has shifted its focus to natural gas. However, the natural decline in the rate of extraction from gas fields, along with frequent stoppages for repair work and other infrastructural issues, limited production in natural gas and related downstream sectors. Natural gas production was down by 6% in 2015 and LNG production by 10%, as the LNG company Atlantic had to shut down one of its trains for maintenance in the fourth quarter. However, the gas meant for Atlantic was diverted to the petrochemical sector, leading to increases in the production of fertilizers (5%) and methanol (1%) in 2015.

From June 2013 to December 2014, while the energy sector contracted year-on-year in four out of six quarters, the non-energy sector drove the economy with consistent positive growth. However, the streak ended in 2015, when the non-energy sector contracted in the first, second and fourth quarters. Manufacturing declined in all four quarters, while finance expanded in the same period. Construction contracted in the first half of the year, only to rebound with 7.3% growth in the third quarter. The expansion was then reversed in the fourth quarter as the sector contracted by 2.3% year-on-year.

The economy is expected to contract by 2.5% in 2016 against a backdrop of depressed energy prices, subdued output from the energy sector and a sluggish non-energy sector.

(c) Prices, wages and employment

Inflation in Trinidad and Tobago increased over the last half of 2014 to 9% year-on-year in November, driven up by high food prices, but fell back to 8.5% in December 2014 and then continued to fall over the course of 2015. Food inflation plunged from 14.6% in January 2015 to 2.7% in December 2015. Core inflation remained below 2% for most of 2015, then rose to 2.4% in October 2015, but had edged down to 2.2% by March 2016.

In the first few months of 2016 prices began climbing again. Inflation rose to 3.5% in April 2016 owing to a number of factors. Food inflation jumped to 9.9% in April 2016 on account of the re-introduction of VAT on several food items in February. The depreciation of the Trinidad and Tobago dollar against the United States dollar also pushed up inflation, and the increase in fuel prices in April is expected to have the same effect.

Despite the economic downturn, employment remained high in Trinidad and Tobago in 2015. The unemployment rate held below 5%, as it has done since 2013. However, there was some labour shedding in the energy sector and the unemployment rate rose slightly to 3.5% in the fourth quarter of 2015 from 3.4% in the third quarter and 3.2% in the second quarter. The rise in the unemployment rate does not reflect the number of job losses fully, as the labour force also contracted over the same period; the labour force participation rate fell to 60.4%, compared with 61.1% a year earlier. In the fourth quarter of 2015, the highest unemployment rates were in the petroleum and gas sector (8.3%) and construction (6.9%). Unemployment among job-seekers who did not state their industry was higher still, at 13.3%.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	4.5	3.4	-4.4	3.3	-0.3	1.3	2.3	-1.0	-2.1
Per capita gross domestic product	4.0	2.9	-4.8	2.8	-0.8	0.8	1.8	-1.5	-2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	21.8	7.6	-32.4	32.1	0.3	-12.6	-0.1	2.9	…
Mining and quarrying	1.7	-0.3	-1.8	2.4	-3.9	-2.8	1.3	-2.4	…
Manufacturing	13.9	4.1	1.9	1.5	-0.3	0.9	-1.0	-4.0	…
Electricity, gas and water	6.5	3.0	0.3	0.1	6.4	2.5	3.1	0.9	…
Construction	7.1	4.5	-7.1	-28.4	-8.8	-2.0	6.4	2.9	…
Wholesale and retail commerce, restaurants and hotels	5.8	16.8	-19.7	22.5	9.4	-1.1	2.6	-1.1	…
Transport, storage and communications	4.8	8.5	-0.5	0.9	2.8	14.4	1.2	1.2	…
Financial institutions, insurance, real estate and business services	10.4	3.1	-4.5	8.1	5.3	3.0	8.9	-1.2	…
Community, social and personal services	-0.6	-0.6	13.2	1.1	1.3	0.9	-4.4	5.8	…
Balance of payments	**Millions of dollars**								
Current account balance	5,166	8,499	1,633	4,172	2,899	-2,739	3,420	378	-101
Goods balance	5,529	9,070	2,241	4,738	5,435	1,272	6,116	3,290	1,330
Exports, f.o.b.	13,215	18,621	9,204	11,219	14,913	12,916	18,745	14,566	10,804
Imports, f.o.b.	7,687	9,551	6,963	6,481	9,478	11,644	12,629	11,276	9,474
Services trade balance	546	611	382	485	505	-655	-445	-470	-735
Income balance	-969	-1,228	-1,017	-1,080	-3,074	-3,390	-2,275	-2,421	-650
Net current transfers	60	47	27	29	33	34	25	-21	-47
Capital and financial balance c/	-3,626	-5,767	-2,307	-3,736	-2,096	2,117	-2,634	952	-1,427
Net foreign direct investment	830	2,101	709	549	156	772	-66	1,214	583
Other capital movements	-4,456	-7,868	-3,016	-4,286	-2,251	1,345	-2,567	-262	-2,010
Overall balance	1,541	2,732	-674	436	803	-622	786	1,330	-1,529
Variation in reserve assets d/	-1,541	-2,732	674	-436	-803	622	-786	-1,330	1,529
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	94.8	90.7	82.7	79.0	79.6	73.9	70.9	67.3	61.4
Net resource transfer (millions of dollars)	-4,594	-6,995	-3,324	-4,816	-5,170	-1,273	-4,909	-1,469	-2,077
Gross external public debt (millions of dollars)	1,443	1,557	1,507	1,686	1,891	1,627	2,160	2,181	2,139
Employment	**Average annual rates**								
Labour force participation rate f/	63.5	63.5	62.7	62.1	61.3	61.8	61.3	61.9	60.6
Unemployment rate g/	5.6	4.6	5.3	5.9	5.1	5.0	3.6	3.3	3.5
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	7.6	14.5	1.3	13.4	5.3	7.2	5.6	8.5	1.5
Variation in nominal exchange rate (annual average)	0.1	-0.6	0.7	0.6	0.6	0.0	-0.1	-0.3	0.0
Variation in minimum real wage	-7.4	-10.6	-6.7	-9.4	31.9	-8.5	-5.0	-5.3	14.6
Nominal deposit rate h/	2.4	2.4	1.7	0.4	0.3	0.2	0.2	0.2	0.2
Nominal lending rate i/	11.8	12.4	12.0	9.5	8.2	8.0	7.8	7.7	8.3

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Central government j/	**Percentajes of GDP**								
Total revenue	29.3	32.4	32.2	31.0	29.1	29.8	31.0	33.4	32.6
Tax revenue k/	26.0	29.5	26.8	26.2	25.8	26.4	26.2	27.1	24.2
Total expenditure	29.1	30.7	37.7	33.5	31.6	32.0	34.0	36.0	38.1
Current expenditure	22.7	24.7	30.2	28.5	26.9	27.3	28.6	31.1	33.7
Interest	2.0	1.7	2.9	2.3	1.8	1.8	1.6	1.8	2.1
Capital expenditure	6.4	6.1	7.6	5.0	4.7	4.7	5.4	4.8	4.5
Primary balance	2.2	3.4	-2.6	-0.1	-0.7	-0.4	-1.4	-0.8	-3.5
Overall balance	0.2	1.7	-5.5	-2.5	-2.4	-2.1	-3.0	-2.5	-5.5
Non-financial public sector debt	28.8	34.5	54.4	53.8	50.1	53.0	54.5	65.1	59.9
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	14.7	9.3	27.2	24.0	20.6	22.7	12.0	10.1	12.5
To the public sector	-12.8	-15.3	-6.8	-4.2	-5.1	-4.1	-14.9	-18.0	-16.8
To the private sector	27.5	24.6	34.0	28.3	25.8	26.8	26.9	28.1	29.3
Monetary base	6.8	8.0	15.2	14.5	15.8	16.7	18.9	19.3	16.6
Money (M1)	11.0	9.5	19.1	17.9	19.1	21.6	23.6	27.3	24.7
M2	27.2	24.1	44.1	39.8	39.3	42.9	45.2	49.9	48.0
Foreign-currency deposits	8.7	9.2	18.9	13.4	12.0	14.2	12.7	12.0	12.4

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.

Table 2

TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	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/	0.2	1.0	2.1	0.1	-1.2	-2.2	-2.0	-2.3	...	...
Gross international reserves (millions of dollars)	9,927	10,291	10,129	11,185	10,817	10,688	10,395	9,689	9,523	9,355 c/
Real effective exchange rate (index: 2005=100) d/	69.0	69.2	67.3	63.7	62.2	62.3	60.8	60.3	60.6	62.2 c/
Consumer prices (12-month percentage variation)	4.5	3.0	7.8	8.5	5.3	5.5	4.8	1.5	3.3	...
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.4	6.4	6.3	6.3	6.3	6.3	6.3	6.4	6.5	6.6
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	0.2	...
Lending rate f/	7.7	7.7	7.7	7.7	7.8	8.1	8.4	8.8	9.0	9.1 c/
Interbank rate	0.3	0.3	...	...	...	...	...	...	...	...
Monetary policy rates	2.8	2.8	2.8	3.1	3.6	3.8	4.3	4.6	4.8	4.8 c/
Stock price index (national index to end of period, 31 December 2005 = 100)	110	109	107	108	108	109	108	109	106	106
Domestic credit (variation from same quarter of preceding year)	-23.4	-30.5	-13.1	-27.1	-32.4	1.9	20.6	37.6	42.4	108.7 g/
Non-performing loans as a percentage of total credit	4.2	4.0	4.3	4.1	4.1	4.0	3.5	3.4	3.4	...

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/ Prime lending rate.
g/ Figures as of April.

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