

TRINIDAD AND TOBAGO

1. General trends

The economy of Trinidad and Tobago remained in recession in 2017, with growth rate estimated at -2.3%. The primary cause of the subdued economic performance was reduced output in the energy sector, due to a lacklustre recovery of energy prices and the outage of a large gas producer. The commencement of new natural gas projects, however, revived energy output in late 2017, resulting in an improved growth rate compared to a large 6% contraction in 2016. In 2018, the economy is projected to post positive growth for the first time in three years, at 1.5%, largely supported by stronger upstream gas production and the continued recovery of energy prices.

The oil price recovery in 2017 was not strong enough to reduce the central government's fiscal deficit. Even though total expenditure was cut by 4.7%, the overall fiscal deficit increased from 5.4% of GDP in fiscal 2016 to 8.4% of GDP in fiscal 2017, pushing up the net public sector debt-to-GDP ratio to 60.3% at the end of the year. Two credit rating agencies, Moody's and Standard & Poor's, downgraded Trinidad and Tobago by one notch in April 2017, citing the deterioration in oil and gas prices and the high dependence of public finances on revenue from these sources. For fiscal 2018, the government projects a narrowing of the deficit to 2.5% of GDP, assuming a modest oil price increase and collection of the bailout funds lent to a private financial company in 2009.

The sluggish economic activity and restrained demand lessened inflationary pressures. Notwithstanding the reduction of the fuel subsidy effective October 2017, the inflation rate dropped from 3.1% in December 2016 to 1.3% in December 2017, then to 0.8% year-on-year in March 2018. The central bank, however, maintained its neutral monetary policy stance in light of foreign-exchange shortages. After the gradual depreciation during 2016, which did little to alleviate foreign-exchange shortages, the exchange rate fluctuated within a narrow range around 6.78 Trinidad and Tobago dollars (TT\$) to US\$ 1.

Although the current account remained in deficit to the tune of 3.8% of GDP over the first nine months of 2017, this was narrower than the deficit of 9.4% of GDP for 2016, mainly thanks to the recovery of energy prices. In the context of continued energy price recovery and improved gas production, the current account deficit is expected to keep decreasing in 2018.

The unemployment rate reached 5.3% in the second quarter of 2017, the worst level in five years, owing to a decline of the number of employed, mainly in the oil and gas and construction sectors. At the same time, the participation rate fell to 59.5% in the second quarter of 2017 from 60.0% in the same period of 2016, indicating some workforce dropout by workers discouraged by the difficulty in finding employment.

2. Economic policy

(a) Fiscal policy

The Government of Trinidad and Tobago is pursuing fiscal consolidation by aligning expenditures with available revenues within the lower energy price environment, while utilizing available financing options to maintain capital expenditures to stimulate economic activity. The government is

implementing several fiscal measures in 2018, including the establishment of the new Trinidad and Tobago Revenue Authority, the adoption of a property tax system, further reduction of the fuel subsidy, cutting of public servants' wages, finalization of new gambling legislation, a rate determination exercise for public utility subsidies and rationalization of the royalty regime applicable to natural gas production.

In the fiscal 2018 budget, total revenue is expected to increase by 20.9%, supported by a modest increase in energy revenue under an oil price assumption of US\$ 52 per barrel, and recovery of bailout funds which were disbursed to a private financial group after the global financial crisis. The government applied to the court to wind up the financial group in order to liquidate its assets for the repayments. With the legal issues now largely resolved, about TT\$ 10 billion (over 6% of GDP) should become available for future financing. In the short term, the government plans to monetize over TT\$ 4 billion by the end of July 2018.

Total expenditure in the fiscal 2018 budget remains almost the same as in the fiscal 2017 outturn. While expenditures on wages and subsidies will decrease, largely due to reductions in public servants' wages and in fuel subsidies, expenditure on goods and services and capital expenditure will increase as a result of efforts to diversify the economy and build human capital. These efforts include an upgrading programme for hotel and guest rooms, a business development incentive programme for small and medium-sized enterprises (SMEs), the modernization of public transportation and a housing construction incentive programme.

Based on the increased revenue and the restrained expenditure, the overall fiscal deficit is projected to narrow from 8.4% of GDP in fiscal 2017 to 2.7% in fiscal 2018. The combination of the smaller deficit and higher nominal growth is expected to stabilize the debt-to-GDP ratio in fiscal 2018. In fact, net public sector debt, which excludes Treasury securities issued for open market operations, decreased to 55.0% of GDP in March 2018 from 62.8% of GDP at the end of fiscal 2017. In the long term, however, further fiscal consolidation efforts will likely be necessary, because the improved fiscal situation in fiscal 2018 is mostly a result of the one-off revenue flow from the abovementioned recovery of bailout funds.

(b) Monetary policy

Despite the persistent weakness in the economy, the Central Bank of Trinidad and Tobago maintained its neutral monetary policy stance in view of foreign-exchange shortages. The central bank held its main monetary policy tool, the repo rate, unchanged at 4.75% from January 2016 to March 2018. In 2015, the central bank had increased the repo rate six times to guard against capital flight in response to rising interest rates in the United States. In the short term, the benchmark rate is likely to remain on hold, as the central bank supports the economic recovery while addressing foreign-exchange shortages. However, the bank will likely adopt a tighter stance should interest rate differentials with the United States widen further.

Liquidity levels in the domestic banking system, which are measured as commercial banks' holdings of excess reserves at the central bank, decreased in 2017 owing to the low net domestic fiscal injections, the main driver of liquidity. To avoid liquidity levels falling further, the central bank eased its liquidity stance by allowing net maturities of TT\$ 7.1 billion in open market instruments to return to the banking system. Further, the central bank's repurchase facility was more frequently accessed by commercial banks.

The weighted average lending rate in the commercial banking system decreased from 8.24% in December 2016 to 8.20% in December 2017. Amid sluggish economic activity, private sector credit increased by 4.6% in 2017, only slightly more than the 3.3% growth in 2016. Although growth in real estate lending accelerated from 4.4% in 2016 to 8.0% in 2017, growth in business lending rose only marginally, held down by weak lending to the construction and manufacturing sectors. Consumer credit slowed in 2017, especially lending for motor vehicles and home improvements and renovation. As credit growth and net domestic fiscal injections remained subdued, measures of the money supply continued to trend downwards. M2, the broad measure of money supply, declined by 2.1% in 2017, compared to a 3.2% increase in 2016.

(c) Exchange-rate policy

The central bank kept the selling rate steady at around TT\$ 6.78 to US\$ 1 between December 2016 and April 2018. The nearly constant exchange rate, along with persistent interest rate differentials between short term interest rates in Trinidad and Tobago and the United States, could encourage capital outflows and intensify pressures in the local foreign-exchange market.

The supply of foreign currencies in the foreign-exchange market remained tight in 2017. Purchases of foreign exchange from the public by authorized dealers declined to US\$ 3.607 billion in 2017, a decrease of 15.9% from 2016. This was largely due to the subdued revenues in the energy sector, which remains the main source of foreign-exchange supply to the market. Meanwhile, authorized dealers sold US\$ 5.190 billion to the public over 2017, a decline of 10.2% compared to 2016, widening the net sales gap to US\$ 1.583 billion. The central bank supported the market by selling US\$ 1.834 billion to authorized dealers. Further, in May 2018, the government established a Forex Facility within the Export-Import Bank of Trinidad and Tobago (EXIMBANK), which was capitalized with US\$ 100 million, to facilitate exports by supplying foreign exchange to exporters.

As the central bank continued to sell United States dollars, the level of net official reserves declined to TT\$ 7.988 billion at the end of March 2018, from TT\$ 9.466 billion at the end of December 2016. The pace of the depletion prompted an international credit rating agency, Standard and Poor's, to change its credit outlook on Trinidad and Tobago from stable to negative in April 2018, although net official reserves remained adequate by international benchmarks and were equivalent to 9.0 months of imports. Throughout 2018, the rate of decline in net official reserves is expected to slow, owing to improved output by the energy sector. Indeed, foreign reserves increased slightly between March and April 2018.

(d) Other policies

Given the persistently subdued energy prices, the government is seeking to transform the economy from energy sector dependence to a more diversified production structure, by means of several new strategies, including the development of the National Quality Policy and a Trade Policy and Strategy, following the guiding principles charted in the National Development Strategy for 2016-2030, Vision 2030.

The government is committed to expanding and deepening trade agreements, as one of the main tools for diversifying the economy. After signing partial scope trade agreements (PSTAs) with Guatemala and El Salvador in 2015, the government is negotiating a new PSTA with Chile. In addition, the Caribbean Community (CARICOM) and Cuba agreed on the expansion of preferential access in 2017 under their Trade and Economic Cooperation Agreement.

Significant progress was made in negotiations with the Bolivarian Republic of Venezuela on the supply of natural gas from the Dragon field, which is located within that country's maritime territory, just off the north-west coast of Trinidad and Tobago. Following the finalization of a heads of agreement in March 2017, a gas sales agreement is expected to be executed in 2018. With the first gas expected to be transported to Trinidad and Tobago in 2020, the project will provide a much-needed supply for the country's liquefied natural gas (LNG) and petrochemical sectors.

3. The main variables

(a) The external sector

Although Trinidad and Tobago incurred a current account deficit of US\$ 625.3 million, or 3.8% of GDP, in the first nine months of 2017, this was lower than the deficit of US\$ 1.579 billion, or 9.4% of GDP, in the year-earlier period, thanks to the improved performance of energy exports. Energy exports climbed from US\$ 4.647 billion to US\$ 5.595 billion over the same period, driven by the recovery of crude oil and natural gas prices. Meanwhile, total imports decreased slightly, by 0.4%, as capital imports continued to wane, influenced by a slowdown in government infrastructural projects.

The current account deficit was only partially offset by net inflows on the financial account. Net financial inflows decreased substantially to US\$ 69.0 million in the first nine months of 2017, from US\$ 1.580 billion in the same period of 2016, as foreign investors reduced their portfolio holdings of debt securities in Trinidad and Tobago. Net inflows of foreign direct investment (FDI) also declined, reflecting increased holdings of foreign equity instruments by domestic firms.

Over 2018, the current account deficit will continue to narrow in the light of energy price recovery and improved gas production. However, net inflows on the financial account will remain subdued as the widening of interest rate differentials, as a result of monetary policy tightening in the United States, will likely encourage financial outflows.

(b) Economic activity

Although the country's GDP shrank by 2.3% in 2017, the pace of contraction eased compared to the 6.0% decline in 2016, reflecting new natural gas projects which began production during 2017. Natural gas production increased for the first time in three years, boosted by BP Trinidad and Tobago's Juniper field and Trinidad Onshore Compression (TROC) projects. Further, the increased availability of natural gas improved activity in the midstream and downstream sectors, including LNG and methanol production. Consequently, the contraction of total energy output slowed to 3.1% compared with 11.1% in 2016.

Activity in the non-energy sector also contracted in 2017, by 1.5%, a narrow improvement on its 1.9% contraction in 2016. The rate of decline in construction activity slowed marginally as activity on public sector projects picked up in late 2017. Contraction in the electricity and gas industry also eased, partly because the effect of the closure of the ArcelorMittal iron and steel plant abated. On the other hand, the negative outturn of the trade and repairs industry worsened to 9.4% in 2017, following the 7.4% fall in 2016, largely due to the decrease in discretionary spending by the public. The financial and insurance industry posted positive growth for the fifth year in a row, but at a lower rate than in 2016, reflecting weak private sector credit growth in the challenging domestic economic environment.

In 2018, the economy is projected to produce its first positive growth rate in five years, by 1.5%, driven by the stronger gas production. In the first quarter of 2018, natural gas production was up by 13.4% on a year-on-year basis. The contraction of the non-energy sector is also likely to ease, owing to an upturn in public sector construction projects, durable goods consumption by Venezuelan migrants and financial activity boosted by recovering corporate capital expenditures.

(c) Prices, wages and employment

Inflationary pressures eased considerably in 2017, mainly because of still subdued domestic demand. Headline inflation stood at 1.3% in December 2017, well down on the rate of 3.1% in December 2016. Despite food supply disruptions caused by flooding in late October 2017, food inflation slowed to 3.6% in December 2017 from 6.7% a year earlier, as the baseline effect of VAT reintroduction on zero-rated items in early 2016 was cancelled out. Core inflation dropped from 2.3% to 0.9% over the same period. Over the first quarter of 2018, headline inflation slowed further to 0.8% in March. Inflation is expected to remain contained throughout 2018, given the sluggish recovery of domestic demand.

Labour market conditions worsened during the first half of 2017, as the unemployment rate increased to 5.3% year-on-year in the second quarter. Weakness in the domestic economy led to job losses, particularly in the construction and energy sectors. Further, of 9,500 total job losses, 3,900 left the labour force, discouraged by the difficulty in finding work. Under the severe labour market conditions, wage increases slowed in 2017 compared to the previous year. Based on collective agreements registered with the Industrial Court of Trinidad and Tobago, the median wage increase was 3.0% in 2017, down from 4.0% in 2016. Although retrenchment notices decreased during 2017, which could represent a sign of future improvement in labour market, the unemployment rate is expected to remain relatively high throughout 2018 compared to the average for the preceding five-year period.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Annual growth rates b/								
Gross domestic product	-4.4	3.3	-0.3	1.3	1.0	-0.3	1.5	-6.0	-2.3
Per capita gross domestic product	-4.8	2.8	-0.8	0.8	0.5	-0.7	1.1	-6.3	-2.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-32.4	32.1	0.3	-12.6	-2.1	-3.2	20.7	-15.1	-2.8
Mining and quarrying	-1.8	2.4	-3.9	-2.8	1.5	-2.6	-1.9	-5.5	-3.2
Manufacturing	1.9	1.5	-0.3	0.9	1.5	-2.6	-1.9	-5.5	-3.2
Electricity, gas and water	0.3	0.1	6.4	2.5	-0.2	-3.0	-2.8	-8.2	-2.6
Construction	-7.1	-28.4	-8.8	-2.0	7.5	2.0	-1.6	-5.2	-4.8
Wholesale and retail commerce, restaurants and hotels	-19.7	22.5	9.4	-1.1	-7.4	-0.5	1.9	-7.1	-9.0
Transport, storage and communications	-0.5	0.9	2.8	14.4	6.6	3.7	-1.7	-3.9	7.0
Financial institutions, insurance, real estate and business services	-4.5	8.1	5.3	3.0	9.1	7.3	8.5	6.0	3.2
Community, social and personal services	13.2	1.1	1.3	0.9	6.5	0.7	4.8	0.7	3.0
Balance of payments	Millions of dollars								
Current account balance	1 633	4 172	4 267	3 374	5 419	3 999	957	-2 598	...
Goods balance	2 241	4 738	7 880	6 440	7 597	6 406	2 512	-1 207	...
Exports, f.o.b.	9 204	11 219	17 041	16 325	17 593	14 965	11 114	8 214	...
Imports, f.o.b.	6 963	6 481	9 162	9 885	9 996	8 558	8 602	9 422	...
Services trade balance	382	485	-734	-853	-644	-653	-1 085	-1 185	...
Income balance	-1 017	-1 080	-2 899	-2 250	-1 559	-1 733	-429	-258	...
Net current transfers	27	29	20	37	26	-21	-42	53	...
Capital and financial balance c/	-2 307	-3 736	-3 466	-3 986	-4 614	-2 678	-2 521	2 130	...
Net foreign direct investment	709	549	-13	-2 080	-1 197	689	205	153	...
Other capital movements	-3 016	-4 286	-3 453	-1 905	-3 417	-3 367	-2 726	1 977	...
Overall balance	-674	436	802	-612	805	1 321	-1 564	-467	...
Variation in reserve assets d/	674	-436	-802	612	-805	-1 321	1 564	467	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	82.5	78.8	79.4	73.7	70.7	67.1	61.2	62.0	64
Net resource transfer (millions of dollars)	-3 324	-4 816	-6 364	-6 236	-6 173	-4 411	-2 950	1 872	...
Gross external public debt (millions of dollars)	1 849	2 032	2 191	1 934	2 473	2 472	2 487	3 452	3 788
Employment	Average annual rates								
Labour force participation rate f/	62.7	62.1	61.3	61.8	61.3	61.9	60.6	59.7	59.7
Unemployment rate g/	5.3	5.9	5.1	5.0	3.6	3.3	3.5	4.0	4.9
Prices	Annual percentages								
Variation in consumer prices (December-December)	1.3	13.4	5.3	7.2	5.6	8.5	1.5	3.1	1.3
Variation in nominal exchange rate (annual average)	0.7	0.6	0.6	0.0	-0.1	-0.3	0.0	4.4	1.7
Variation in minimum real wage	-6.7	-9.4	31.9	-8.5	-5.0	-5.3	14.6	-3.0	-1.9
Nominal deposit rate h/	1.1	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Nominal lending rate i/	11.9	9.3	8.0	7.7	7.5	7.5	8.2	9.0	9.0

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Central government j/	Percentajes of GDP								
Total revenue	32.3	31.1	29.2	29.9	30.8	33.5	36.8	30.2	25.3
Tax revenue k/	26.9	26.4	25.8	26.4	26.1	27.1	27.2	20.0	18.6
Total expenditure	37.8	31.0	29.9	31.2	33.7	36.0	38.5	35.6	33.7
Current expenditure	30.9	26.5	25.6	27.0	28.7	31.2	33.6	32.6	31.3
Interest	2.9	2.3	1.8	1.8	1.6	1.8	2.2	2.5	3.0
Capital expenditure	7.0	4.5	4.3	4.2	4.9	4.8	4.9	3.0	2.4
Primary balance	-2.6	2.5	1.1	0.4	-1.2	-0.8	0.5	-2.8	-5.4
Overall balance	-5.5	0.1	-0.7	-1.3	-2.9	-2.5	-1.7	-5.4	-8.4
Non-financial public sector debt	36.0	34.1	31.3	38.0	38.5	45.4	50.5	60.0	61.0
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	27.3	24.1	20.7	22.7	12.0	10.2	14.3	23.4	26.9
To the public sector	-6.8	-4.2	-5.1	-4.1	-14.8	-18.0	-19.4	-13.0	-11.1
To the private sector	34.1	28.3	25.8	26.8	26.8	28.2	33.7	36.4	38.0
Monetary base	15.2	14.5	15.9	16.7	18.8	19.3	19.1	17.9	16.8
Money (M1)	19.1	17.9	19.2	21.7	23.4	27.4	28.4	30.5	29.4
M2	44.3	39.9	39.4	43.0	45.0	50.0	55.2	59.6	58.0
Foreign-currency deposits	19.0	13.4	12.0	14.2	12.6	12.0	14.3	16.0	16.0

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

	2016				2017				2018	
	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/	-5.3	-8.1	-12.1	-7.0	-7.0	-3.3
Gross international reserves (millions of dollars)	9 700	9 555	9 907	9 678	9 166	8 915	8 653	8 412	8 122	7 965
Real effective exchange rate (index: 2005=100) c/	60.4	62.1	62.7	62.6	63.1	63.9	64.7	64.7	65.3	65.6
Consumer prices (12-month percentage variation)	3.2	3.4	3.0	3.1	2.7	1.5	1.2	1.3	0.8	0.8 d/
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.5	6.6	6.7	6.7	6.7	6.7	6.7	6.7	6.8	6.9
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	0.2 d/
Lending rate f/	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Monetary policy rates	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Stock price index (national index to end of period, 31 December 2005 = 100)	106	106	108	113	116	113	116	119	118	116
Domestic credit (variation from same quarter of preceding year)	42.4	36.0	28.2	41.9	32.0	14.6	2.2	9.6	13.2	6.2
Non-performing loans as a percentage of total credit	3.4	3.2	3.2	3.1	3.1	3.4	2.9	2.9	3.1	...

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

d/ Figures as of May.

e/ Special savings interest rate.

f/ Prime lending rate.