

TRINIDAD AND TOBAGO

1. General trends

In 2016 Trinidad and Tobago experienced its third consecutive year of negative growth, with a contraction of 2.3% in real terms, coming after rates of -0.6% in 2014 and -0.6% in 2015. This contraction was largely due to the shock that has weighed on the energy sector since 2014: weak energy prices combined with dwindling oil and natural gas production.

By June 2016, Trinidad and Tobago's total exports had fallen to US\$ 4 billion, from US\$ 10.8 billion in 2015. The reduced earnings, as well as energy taxation concessions introduced in 2014, pushed the government's energy taxation revenue down to 6.6 billion Trinidad and Tobago dollars (TT\$) from TT\$ 18.7 billion the previous year. Although the Government of Trinidad and Tobago decreased its total expenditure from TT\$ 59.9 billion to TT\$ 52.2 billion, it still incurred a fiscal deficit of TT\$ 7.3 billion, or 5% of GDP. This was a worsening of the fiscal position, as the initially budgeted deficit was US\$ 2.8 billion, while the deficit for the previous fiscal year was US\$ 2.7 billion (1.8% of GDP).

The government has signalled its intention to achieve a balanced budget by 2020 and limit total public debt to 65% of GDP and, in this regard, has adopted fiscal consolidation measures, including the widening of the VAT base and the reduction of subsidies (for example on gasoline and tertiary education).

Headline inflation stood at 3% in September 2016, compared with 4.7% in September 2015, and 5.7% in September 2014. Core inflation, which excludes food price inflation, measured 2.3% in September 2016, compared with 1.8% in the same month in 2015, and 2% in 2014. The low inflation in the economy reflected slower price rises in general owing to the effects of the recession.

The unemployment rate stood at 4% in September 2016, up from the average rate of 3.5% in 2015. Although jobs have been lost in the energy sector, it employs only an estimated 5% of the labour force. Retrenched workers are likely to seek some form of employment in the informal sector to mitigate their income loss.

2. Economic policy

(a) Fiscal policy

The effects of the mid-2014 oil price crash lingered into fiscal year 2015/16. The 2014/15 budget was predicated on an average oil price of US\$ 80 per barrel. This turned out to be an overestimation as West Texas Intermediate (WTI), a benchmark for oil prices in the Western hemisphere, collapsed to US\$ 59.29 per barrel by December 2014. The 2015/16 budget was based on a price of oil of US\$ 45 per barrel. In 2015, WTI averaged US\$ 48 per barrel, while in 2016, it averaged US\$ 43 per barrel.

The lower-than-expected oil prices, declining rates of both crude oil and natural gas production, as well as the concessions offered since 2014 to operators in the oil sector—which allow for the write-off of up to 100% of the cost of capital expenditure on exploration against taxation liability—, caused a significant decline in the government's energy taxation revenue. In fact, revenue from that source declined from TT\$ 28.1 billion in 2014, to TT\$ 18.7 billion in 2015 and TT\$ 6.6 billion in 2016.

Total government revenue fell from TT\$ 58.4 billion in 2014, to TT\$ 57.2 billion in 2015, then TT\$ 44.9 billion in 2016. The government reduced its total expenditure from TT\$ 62.8 billion in 2014 to TT\$ 59.9 billion in 2015, then to TT\$ 52.2 billion in 2016. When viewed against the declining revenue streams, these expenditure cuts were insufficient to balance the budget, resulting in fiscal deficits of -2.6%, -1.8% and -5.0% of GDP in 2014, 2015, and 2016, respectively. The 2016 deficit far exceeded the projection of -1.8% of GDP made by the government in its 2015/2016 budget.

To make up for weaker revenues, the government withdrew TT\$ 2.5 billion from its Heritage and Stabilization Fund (HSF) during the first half of 2016, using those monies for budgetary support.

The government managed to marginally decrease its public debt. Repayments on contingent debt reduced overall public debt (excluding sterilized debt) from TT\$ 88.3 billion (60% of GDP) at the end of September 2016 to TT\$ 87.4 billion (56.6% of GDP) at year-end. The total debt (including sterilized debt) decreased from 81.4% of GDP (TT \$119.653 billion) to 77.2% of GDP (TT \$119.233 billion).

In 2016, reforms were made to the value added tax (VAT) system, which included a cut in the number of zero-rated products to only a few basic food items, and a reduction in the VAT rate from 15% to 12.5%. The government also decreased its subsidization of gasoline, resulting in an increase in prices at the pump.

In the second half of the 2015/2016 fiscal year, the government moved to increase taxation compliance and collect arrears from companies. It also sought to raise revenue from: (i) the sale of Trinidad Generation Unlimited (TGU), a State-owned electricity operator, and of some Colonial Life Insurance Company Trinidad Ltd (CLICO) ¹ assets; (ii) increased taxes on the gaming, alcohol and tobacco industries; (iii) the introduction of a new 7% tax on online purchases; (iv) a 50% increase in the customs duties and motor vehicle tax (MVT) on luxury vehicles (engines exceeding 1999 cc); and (v) further reduction in the gasoline subsidy, resulting in a 15% increase in its price at the pump.

(b) Monetary policy

Despite the persistence of weakness in the economy, the Central Bank of Trinidad and Tobago held its main monetary policy tool, the repo rate, unchanged at 4.75% from January to December 2016. The rate had been raised six times in 2015 to guard against capital flight in response to the anticipated increase in interest rates in the United States.

The weighted average lending rate for commercial banks increased from 8.03% in June 2016 to 8.24% in December 2016. The weighted average deposit rate for commercial banks increased from 0.59% to 0.60% over the same period. Thus, the interest rate spread widened over the second half of 2016, which precipitated a deceleration of private sector lending, with loans by the consolidated financial system increasing by only 3.3% in December 2016, compared with 4.9% a few months earlier in July. Mortgage lending slowed from 7.2% growth in July 2016 to 4.4% in December. Loans to businesses saw weak growth in the first half of 2016, but none at all the second half.

The central bank tightened its liquidity management in the latter half of 2016. It had allowed liquidity to build up in the first half of the year to facilitate domestic government borrowing but, in the second half, it removed TT\$ 1.2 billion from the financial system through open market operations. This

¹ CLICO, an insurance company, was bailed out by the government in 2009. The government thus has a 14% equity share in the company at this time.

allowed the excess liquidity to decline to a daily average of TT\$ 3.4 billion over the second half of 2016 from TT\$ 4.6 billion during the first half.

(c) Exchange-rate policy

The foreign-exchange market continued to be tight in 2016. Consequently, commercial banks resorted to the rationing of United States currency sales to consumers. Over the first half of 2016, US\$ 2.745 billion was sold to the public by authorized dealers, while US\$ 2.225 billion was purchased. Over the second half of the year, US\$ 3.031 billion was sold, and US\$ 2.063 billion was purchased by authorized dealers. The central bank issued US\$ 1.811 billion to the market over 2016 overall.

The central bank has also allowed the United States dollar exchange rate to depreciate by 5%, from TT\$ 6.45 to US\$ 1 in January 2016 to TT\$ 6.78 to US\$ 1 in December 2016.

(d) Other policies

In December 2016, the government signed an agreement with the Government of the Bolivarian Republic of Venezuela for the development of the Dragon Natural Gas Field. Unlike in the case of the cross-border Loran-Manatee field, on which the two governments signed a unitization agreement in 2015, the Dragon Field lies solely in Venezuelan territorial waters. Each country has agreed to bear its own costs for commercialization. Thus, Trinidad and Tobago will have to finance the construction of the pipeline from the Dragon gas field in Venezuela's Mariscal Sucre region to the Hibiscus platform in Trinidadian waters. Both governments are eager for the project to be implemented and have planned for development works to commence in 2017.

3. The main variables

(a) The external sector

In the first six months of 2016, Trinidad and Tobago incurred a deficit of US\$ 367.3 million, or 3.3% of GDP, on its external account. The worsening of the external balance was due the decline in energy exports. The current account posted a deficit of US\$ 582.7 million in the first half of 2016, compared with a surplus of US\$ 823.4 million in 2015. Energy exports stood at US\$ 4.702 billion in the first half of 2015, but dwindled to US\$ 3.361 billion in the first half of 2016, owing to the combined effect of weak energy prices and lower energy production in the country.

Net foreign direct investment (FDI) tumbled by 52% in nominal terms, to 2.2% of GDP. FDI inflows fell by 33% as those to the main destination sector, energy, fell by 24%. The financial account registered a net inflow of US\$ 573.0 million in the first six months of 2016, a reversal of the net outflow of US\$ 429.0 million recorded in the first half of 2015.

Despite the weak performance of the energy sector, international reserves remained relatively unchanged. By the end of 2015, they stood at US\$ 9.933 billion, or 11.2 months of import cover. Six months into 2016, international reserves decreased marginally to US\$ 9.565 billion, but still represented 11.3 months of import cover.

(b) Economic activity

The economy contracted by 2.3% in 2016. In the last quarter of the year, there was downturn in the energy sector due to the 4.2% decline in crude oil production and the 10.8% drop in natural gas production which were attributable, in turn, to upstream delays by producers in order to facilitate planning and preparation for work to be undertaken in 2017. In the downstream segment of the country's energy value chain, petrochemical producers were hurt by the supply squeeze, directly resulting in reduced petrochemical output for the sector.

There were mixed results in the non-energy sector in 2016. Activity in the construction sector was subdued. There was also a decline in retail sales in the third quarter of 2016. Output was down by 4.3% in the manufacturing and assembly sector, reflecting the closure of operations by ArcelorMittal in December 2015. However, the finance, insurance and real estate sector expanded 10%, thanks to the increase in commercial banking activity. The agriculture sector recorded a 0.4% growth in output in 2016.

(c) Prices, wages and employment

Inflationary pressures were contained during the second half of 2016. Headline inflation stood at 3.1% in December 2016, relatively unchanged from 2.9% in July 2016. Together, the marginal depreciation of the domestic currency, the broadening of the VAT base from February 2016, and the reduction in the petroleum subsidy in April 2016 have contributed to the marginal increase in prices from July to December 2016. Core inflation was relatively unchanged at 2.3% in December 2016, from 2% in both January and July. Food inflation was contained at 6.7% in December 2016, a 0.1% decline from its July 2016 rate.

Unemployment rose from 3.5% in December 2015 to 4% in September 2016, reflecting, among other things, retrenchment in the wholesale and retail trade, restaurants and hotels, construction, agriculture and manufacturing sectors. The number of employed decreased from 621,600 to 613,600 over that period. However, the labour force contracted from 643,900 to 639,200, with a fall in the participation rate from 60.4% in December 2015 to 59.8% in September 2016, which averted a larger rise in the unemployment rate.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Annual growth rates b/									
Gross domestic product	3.4	-4.4	3.3	-0.3	1.3	2.7	-0.6	-0.6	-2.3
Per capita gross domestic product	2.9	-4.8	2.8	-0.8	0.8	2.1	-1.0	-1.0	-2.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.6	-32.4	32.1	0.3	-12.6	-5.8	1.7	1.2	-6.0
Mining and quarrying	-0.3	-1.8	2.4	-3.9	-2.8	1.3	-2.5	-4.0	-9.6
Manufacturing	4.1	1.9	1.5	-0.3	0.9	-2.4	-3.4	1.6	-5.7
Electricity, gas and water	3.0	0.3	0.1	6.4	2.5	3.1	-1.0	0.2	-0.3
Construction	4.5	-7.1	-28.4	-8.8	-2.0	6.4	2.9	-3.7	-7.6
Wholesale and retail commerce, restaurants and hotels	16.8	-19.7	22.5	9.4	-1.1	6.9	3.5	-6.3	-6.0
Transport, storage and communications	8.5	-0.5	0.9	2.8	14.4	-1.5	6.3	1.8	2.1
Financial institutions, insurance, real estate and business services	3.1	-4.5	8.1	5.3	3.0	8.3	-4.9	8.4	3.7
Community, social and personal services	-0.6	13.2	1.1	1.3	0.9	-2.2	6.8	5.2	-1.6
Balance of payments									
Millions of dollars									
Current account balance	8 499	1 633	4 172	2 899	-2 739	3 420	378	-101	...
Goods balance	9 070	2 241	4 738	5 435	1 272	6 116	3 290	1 330	...
Exports, f.o.b.	18 621	9 204	11 219	14 913	12 916	18 745	14 566	10 804	...
Imports, f.o.b.	9 551	6 963	6 481	9 478	11 644	12 629	11 276	9 474	...
Services trade balance	611	382	485	505	-655	-445	-470	-735	...
Income balance	-1 228	-1 017	-1 080	-3 074	-3 390	-2 275	-2 421	-650	...
Net current transfers	47	27	29	33	34	25	-21	-47	...
Capital and financial balance c/	-5 767	-2 307	-3 736	-2 096	2 117	-2 634	952	-1 427	...
Net foreign direct investment	2 101	709	549	156	772	-66	1 214	583	...
Other capital movements	-7 868	-3 016	-4 286	-2 251	1 345	-2 567	-262	-2 010	...
Overall balance	2 732	-674	436	803	-622	786	1 330	-1 529	...
Variation in reserve assets d/	-2 732	674	-436	-803	622	-786	-1 330	1 529	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	90.7	82.7	79.0	79.6	73.8	70.8	67.2	61.3	62.1
Net resource transfer (millions of dollars)	-6 995	-3 324	-4 816	-5 170	-1 273	-4 909	-1 469	-2 077	...
Gross external public debt (millions of dollars)	1 515	1 351	1 522	1 706	1 478	2 068	2 109	2 164	3 164
Employment									
Average annual rates									
Labour force participation rate f/	63.5	62.7	62.1	61.3	61.8	61.3	61.9	60.6	60.0
Unemployment rate g/	4.6	5.3	5.9	5.1	5.0	3.6	3.3	3.5	4.1
Prices									
Annual percentages									
Variation in consumer prices (December-December)	14.5	1.3	13.4	5.3	7.2	5.6	8.5	1.5	3.1
Variation in nominal exchange rate (annual average)	-0.6	0.7	0.6	0.6	0.0	-0.1	-0.3	0.0	4.4
Variation in minimum real wage	-10.6	-6.7	-9.4	31.9	-8.5	-5.0	-5.3	14.6	-3.0
Nominal deposit rate h/	2.4	1.7	0.4	0.3	0.2	0.2	0.2	0.2	0.2
Nominal lending rate i/	12.4	12.0	9.5	8.2	8.0	7.8	7.7	8.3	9.1

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Central government j/	Percentajes of GDP								
Total revenue	32.4	32.2	31.0	29.1	29.8	31.0	34.8	38.1	30.8
Tax revenue k/	29.5	26.8	26.3	25.8	26.4	26.2	28.2	28.2	20.0
Total expenditure	25.5	37.7	30.9	29.8	31.2	33.9	37.4	39.9	35.8
Current expenditure	20.0	30.8	26.4	25.6	26.9	28.9	32.4	34.8	32.6
Interest	1.7	2.9	2.3	1.8	1.8	1.6	1.9	2.3	2.1
Capital expenditure	5.5	6.9	4.5	4.3	4.2	5.0	5.0	5.1	3.2
Primary balance	8.6	-2.6	2.5	1.1	0.4	-1.2	-0.8	0.5	-2.9
Overall balance	6.9	-5.5	0.1	-0.7	-1.3	-2.9	-2.6	-1.8	-5.0
Non-financial public sector debt	23.8	35.9	36.1	30.9	37.1	39.1	51.2	53.5	57.9
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	9.3	27.2	24.0	20.6	22.7	12.0	10.6	14.8	23.9
To the public sector	-15.3	-6.8	-4.2	-5.1	-4.1	-14.9	-18.7	-20.1	-13.3
To the private sector	24.6	34.0	28.3	25.8	26.8	26.9	29.3	34.9	37.1
Monetary base	8.0	15.2	14.5	15.8	16.7	18.9	20.1	19.7	18.2
Money (M1)	9.5	19.1	17.9	19.1	21.6	23.6	28.4	29.5	31.1
M2	24.1	44.1	39.8	39.3	42.9	45.2	51.9	57.2	60.7
Foreign-currency deposits	9.2	18.9	13.4	12.0	14.2	12.7	12.5	14.8	16.4

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

	2015				2016				2017	
	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/	-1.7	-2.7	-1.6	-1.4	-5.2	-8.1	-10.8
Gross international reserves (millions of dollars)	10 982	10 834	10 542	9 834	9 700	9 555	9 907	9 678	9 166	9 004 c/
Real effective exchange rate (index: 2005=100) d/	62.2	62.3	60.7	60.2	60.5	62.2	62.8	62.7	62.9	63.4 c/
Consumer prices (12-month percentage variation)	5.4	5.5	4.8	1.5	3.2	3.4	3.0	3.1	2.7	...
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.3	6.3	6.3	6.4	6.5	6.6	6.7	6.7	6.7	6.7
Nominal interest rates (average annualized percentages)										
Deposit rate e/	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Lending rate f/	7.8	8.1	8.4	8.8	9.0	9.1	9.1	9.1	9.1	9.1 c/
Monetary policy rates	3.6	3.8	4.3	4.6	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)	108	109	108	109	106	106	108	113	116	113
Domestic credit (variation from same quarter of preceding year)	-32.4	1.9	20.6	37.6	42.4	36.0	28.2	41.9	37.5 g/	...
Non-performing loans as a percentage of total credit	4.4	4.3	3.8	3.7	3.8	3.3	3.2	3.2

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 February.