TRINIDAD AND TOBAGO

1. General trends

The economy of Trinidad and Tobago returned to positive growth (1.9%) in 2018 for the first time in three years, largely driven by a recovery in the energy sector. The commencement of new natural gas projects —specifically the launch of the Juniper platform in August 2017 and production from the Starfish and Dolphin fields in May and August 2018, respectively— revived energy output. In 2019, the growth rate is projected to decrease slightly to 1.6% following the shutdown of the refinery of the State-owned Petroleum Company of Trinidad and Tobago (Petrotrin) at the end of November 2018 and a decrease in the number of new natural gas projects. However, the economic recovery is expected to become more broad-based as the driver of growth gradually shifts from the energy sector to the non-energy sector.

Thanks to the government's fiscal consolidation efforts and an increase in energy revenue, the overall fiscal deficit narrowed to 3.4% of GDP in fiscal 2018, from 9.0% in fiscal 2017. Total revenue increased by 16.8% on the back of higher commodity prices as well as fiscal consolidation measures, including a sale of bonds by the National Investment Fund (NIF). Total expenditure decreased by 4.2%, owing mainly to lower outlays on wages and salaries and on transfers and subsidies. Net public debt, which excludes open market operation instruments, fell from 62.7% of GDP at the end of fiscal 2017 to 61.0% of GDP at the end of fiscal 2018 as a result of the shrinking of the budget deficit and an uptick in nominal GDP growth. In the 2019 Mid-Year Budget Review, the government forecast an overall fiscal deficit of 4.57 billion Trinidad and Tobago dollars (TT$) for fiscal 2019 (2.8% of GDP), mainly because of lower-than-projected oil revenue. At the end of the first quarter of fiscal 2019, however, the debt-to-GDP ratio increased to 62.2%, as the central government issued two bonds, primarily to finance the closure of the Petrotrin refinery, and guaranteed several loans contracted by State-owned enterprises.

The inflation rate has been low owing to the lacklustre economic recovery and a decline in food inflation. Headline inflation decreased slightly from 1.3% in 2017 to 1.0% in 2018. The central bank tightened its monetary policy stance slightly in view of foreign exchange shortages. For the first time in 30 months, the bank raised the repo rate, its main monetary policy tool, by 25 basis points to 5.00% in June 2018. However, it kept the United States dollar selling rate steady at around TT$ 6.78 to US$ 1 to avoid price volatility. The monetary authority is expected to maintain the policy rate at 5.00% in 2019, in the light of low inflation and the United States Federal Reserve's pause in monetary policy tightening.

Despite an increase in energy exports, the external current account surplus narrowed to 4.7% of GDP in the first three quarters of 2018, from 5.9% of GDP in the same period of 2017. This was due to a decline in non-energy exports, an increase in fuel imports and a deterioration in the primary income account. Against a backdrop of a rebound in gas production, the current account is expected to maintain a surplus in 2019.

The unemployment rate climbed to 4.8% in 2017 —the worst level in five years. The rise in unemployment is explained by a decrease in the number of employed persons, mainly in the oil and gas and construction sectors. At the same time, the participation rate slipped from 59.7% in 2016 to 59.2% in 2017, which could be an indication of workers leaving the labour force, discouraged by the difficulty of finding work.

2. Economic policy

(a) Fiscal policy

The Government of Trinidad and Tobago is continuing its fiscal consolidation efforts to bring deficits down to sustainable levels. In fiscal 2019, the government will establish the Revenue Authority with a view to stemming the revenue collection leakages inherent in the Inland Revenue Division and the Customs and Excise Division. On the expenditure side, the government is identifying cost savings in education, health and social services and will redirect them to the most vulnerable segments of society and to growth-enhancing investment programmes.

According to the Mid-Year Budget Review, total revenue is expected to increase by 12.4% in fiscal 2019, down slightly on the 16.8% upturn seen in 2018, which was driven by higher tax revenues and royalties collected from energy companies. Royalties on oil and gas, in particular, are projected to double for two consecutive years following the introduction in fiscal 2018 of a standardized, statutory 12.5% royalty rate on the extraction of crude oil and natural gas. The fluctuation in oil prices since November 2018, however, has raised uncertainty about the government revenue outlook. The budget was predicated on an oil price of US$ 60 per barrel and a gas price of US$ 3.00 per MMBtu.

Total expenditure in fiscal 2019 is projected to increase (9.4%) for the first time since fiscal 2015, when plummeting oil prices forced the government to take austerity measures. The increase in total expenditure has been driven by spending on goods and services, transfers and subsidies, and capital expenditures stemming from efforts to diversify the economy, build human capital and foster public security through, inter alia, the modernization of infrastructure such as highways, hospitals and ports and the increased use of technology in police operations.

As a result of increased revenue, the overall fiscal deficit is projected to narrow for the second consecutive year to 2.8% of GDP in fiscal 2019, down from 3.4% of GDP in fiscal 2018 and 9.0% of GDP in fiscal 2017. The smaller deficit should stabilize the debt-to-GDP ratio in fiscal 2019 despite the 1.2-percentage-point increase in the first three months of fiscal 2019, which was largely attributable to the issuances of new bond to finance the closure of the Petrotrin refinery. In the long term, however, further fiscal consolidation efforts —including the full operationalization of the Revenue Authority— will be necessary because the improvement of fiscal situation in 2019 will still depend on the recovery of international energy prices.

(b) Monetary policy

Despite the weak economic recovery in the non-energy sector, the Central Bank of Trinidad and Tobago tightened its monetary policy stance slightly in view of foreign-exchange shortages and raised the repo rate by 25 basis points to 5.00% in June 2018, the first rise in 30 months. In 2019, the benchmark rate is likely to remain on hold, as the central bank continues to support the economic recovery while addressing foreign-exchange shortages.

Liquidity levels in the domestic banking system, which are measured as commercial banks' holdings of excess reserves at the central bank, edged up from TT$ 3.063 billion in 2017 to TT$ 3.282 billion in 2018, as net domestic fiscal injections, the main driver of liquidity, increased for the first time in three years owing to higher energy revenues. Further, in a shift towards indirect policy instruments, the central bank removed the 2% secondary reserve requirement on banks' deposit liabilities in August 2018, boosting liquidity in the financial system. Compared to 2017, when there was a net injection of TT$ 7.125

billion, the central bank absorbed TT$ 951 million in liquidity from the financial system via open market operations.

The weighted average lending rate in the commercial banking system decreased from 8.20% in December 2017 to 8.01% in December 2018, reflecting competition among commercial banks for credit business. Amid sluggish economic recovery, private sector credit increased by 4.3% in 2018, slightly lower than the 4.6% growth in 2017. Growth in business lending slowed to 0.2% in 2018 from 1.3% in 2017, dragged down by weak lending to the construction and manufacturing sectors, while real estate lending grew by 6.6%, a slower pace than the previous year (8.0%). Growth in consumer credit accelerated from 5.1% to 6.0%, but was largely driven by an increase in debt consolidation and consumer loan refinancing. Despite slowing credit growth, greater liquidity in the financial system led to an uptick in money supply. The broad measure of money supply, M2, rose by 3.1% in 2018, compared to a 2.1% decrease in 2017.

(c) Exchange-rate policy

The central bank kept the selling rate steady at around TT$ 6.78 to US$ 1 between December 2017 and May 2019. The nearly constant exchange rate, along with persistent interest rate differentials between short-term rates in Trinidad and Tobago and the United States, could encourage capital outflows and intensify pressures in the local foreign-exchange market.

Notwithstanding the higher foreign-exchange inflow from the energy sector, the supply of foreign currencies in the foreign-exchange market remained tight in 2018. Purchases of foreign exchange from the public by authorized dealers increased to US$ 4.101 billion in 2018, a 13.7% jump from 2017. This was primarily the result of improved revenues in the energy sector, which is the main source of foreign-exchange supply to the market. Meanwhile, authorized dealers sold foreign currency worth US$ 5.677 billion to the public over the course of 2018, an increase of 9.3% compared to 2017, with a net sales gap of US$ 1.576 billion, which is slightly narrower than in it was in 2017. The retail and distribution sector and the settlement of credit card transactions absorbed more than half of foreign-exchange sales. The central bank supported the market by selling US$ 1.501 billion to authorized dealers.

As the central bank continued to sell United States dollars, the level of net official reserves declined to US$ 7.318 billion at the end of April 2019, from US$ 8.370 billion at the end of December 2017. The level of reserves at the end of April 2019 was equivalent to 8.3 months of imports, which is above the international benchmarks of 3 months. Throughout 2019, the rate of decline in net official reserves is expected to slow as energy exports, the main supplier of foreign exchange, pick up.

(d) Other policies

The government has set out several new strategies to transform the economy from energy sector dependence to a more diversified production structure, including a draft trade policy for 2019–2023, which follows the guiding principles charted in the National Development Strategy 2016–2030, Vision 2030. The recently completed draft trade policy document covers broad areas, including market access, diversification of export products and markets, trade facilitation, e-commerce and physical infrastructure. Coordination among government agencies and the private sector will play a key role in implementing the policy measures and achieving its goal of export diversification and growth.

As part of ongoing trade negotiations, the government signed the CARIFORUM-UK Economic Partnership Agreement (EPA) on 1 April 2019, which will ensure continued access to the United Kingdom market following that country’s withdrawal from the European Union. Furthermore, negotiations for a partial scope trade agreement (PSTA) with Chile are expected to continue in 2019 and PSTAs with Guatemala and El Salvador will be implemented upon enactment of the required legislation.

Negotiations are ongoing with the Bolivarian Republic of Venezuela to supply natural gas from its Dragon field, which will provide a much-needed supply to the liquified natural gas (LNG) and petrochemical sectors in Trinidad and Tobago. Following the finalization of heads of agreement in March 2017, a term sheet was signed in August 2018 between Petróleos de Venezuela (PDVSA), the National Gas Company (NGC) of Trinidad and Tobago and Shell. While the government is working to finalize a gas sales agreement, recent political developments in the Bolivarian Republic of Venezuela could affect the pace of the discussions and delay the first delivery of gas, originally planned for sometime in the second half of 2021.

3. The main variables

(a) The external sector

The current account surplus narrowed to US$ 817.8 million, or 4.7% of GDP, in the first three quarters of 2018, compared with the previous year’s surplus of US$ 977.5 million (5.9% of GDP). This was due to a decline in non-energy exports (29.4%), an increase in fuel imports (41.2%), and a deterioration in the primary income account. From a surplus of US$ 100.2 million in the first three quarters of 2017, the primary income account slipped into a deficit of US$ 635.9 million for the same period of 2018, largely as a result of higher reinvested earnings and dividend payments by foreign-owned energy companies. Meanwhile, energy exports increased by 23.2% over the same period, driven by the recovery in gas production and international energy prices.

The current account surplus was offset by net outflows on the financial account. The net outflow of US$ 588.9 million (3.4% of GDP) registered in the first three quarters of 2018 was a reversal of the net inflow of US$ 14.7 million (0.1% of GDP) recorded in the same period of 2017. Foreign direct investment outflows from Trinidad and Tobago totalled US$ 327.1 million (1.9% of GDP), which is explained by repayments on inter-company loans by resident enterprises, despite an increase in reinvestment of earnings in the energy sector. Portfolio investment also registered a net outflow of US$ 562.6 million (3.2% of GDP). This net outflow was driven by domestic investors and, more specifically, by portfolio investments abroad by the Heritage and Stabilisation Fund (HSF), mutual funds and commercial banks. However, a net inflow of US$ 422 million (2.4% of GDP) was recorded in the other investment liabilities category, due in part to higher loans, trade credits, and other accounts owed to non-residents by domestic entities. Furthermore, the persistently large outflow under the net errors and omissions item, in the amount of US$ 1.134 billion (6.5% of GDP), resulted in an overall balance deficit of US$ 904.5 million (5.2% of GDP). Overall, the current account is expected to maintain a surplus in 2019 thanks to increased gas production.

(b) Economic growth

For the first time in three years, Trinidad and Tobago returned to positive, albeit sluggish, growth (1.9%) in 2018, following two consecutive years of contraction: 1.9% in 2017 and 6.5% in 2016. Energy sector growth rose to 2.2% in 2018, from 0.0% in 2017, driven by an increase in natural gas production from the newly-launched Juniper platform, the Starfish platform and the Dolphin field, and despite a drop in oil extraction and refining activity. The increased availability of natural gas also improved activity in the midstream and downstream sectors, including LNG and methanol production.

The growth of the non-energy sector was almost flat, at 0.1% in 2018, although this was still an improvement over the 2.9% contraction in 2017. The manufacturing of food, beverages and tobacco products expanded by 5.6% in 2018, a marked turnaround from a heavy contraction of 12.0% in 2017. While growth in the trade and repairs sector remained negative for the third consecutive year, the contraction narrowed to 1.2% in 2018, down from 11.3% in 2017 and 7.2% in 2016. The largest contribution to growth in 2018, however, came from taxes less subsidies on products, which increased by 30.7%, reflecting a reduction of the fuel subsidy as well as an increase in value-added tax (VAT) collection.

In 2019, growth is projected to edge down to 1.6% as a result of the shutdown of the State-owned Petrotrin refinery at the end of November 2018 and fewer new natural gas projects. However, the current economic upturn is expected to persist and become more broad-based thanks to a new natural gas project Angelin, which produced first gas in the first quarter of 2019, and to increased implementation of public sector investment programmes.

(c) Prices, wages and employment

Inflation remained subdued in 2018 due to the lacklustre economic recovery as well as a decline in food inflation. Headline inflation decreased slightly, from 1.3% in 2017 to 1.0% in 2018. While core inflation increased from 0.8% to 1.3%, food inflation decreased from 3.6% to 0.0% over the same period owing to greater supply of some food items amid favourable weather conditions and increased issuance of land leases for agricultural purposes. However, an increase in housing costs and a hike in the price of super gasoline following the budget presentation in September 2018 contributed to the uptick in core inflation. Throughout 2019, inflation is expected to edge up gradually because of the sluggish recovery in domestic demand, although a severe drought in the first half of the year will exert some upward pressure on food prices.

Labour market conditions worsened during 2017, as the unemployment rate increased to 4.8%, up from 4.0% in 2016. Weakness in the domestic economy led to job losses, particularly in the construction and energy sectors. Of 9,900 net job losses, 4,600 corresponded to persons who left the labour force discouraged by the difficulty of 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 a 4.0% increase in 2016. In 2018, the unemployment rate is expected to have remained relatively high because the number of retrenched workers rose by over 40%, partly as a result of the closure of the Petrotrin refinery.

Table 1

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	3.3	-0.3	1.3	2.0	-1.0	1.8	-6.5	-1.9	1.9
Per capita gross domestic product	2.8	-0.8	0.8	1.5	-1.4	1.4	-6.8	-2.2	1.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	32.1	0.3	-12.6	-2.0	-9.9	25.1	-15.3	21.5	-15.6
Mining and quarrying	2.4	-3.9	-2.8	2.0	-0.9	-3.2	-13.2	0.9	-1.8
Manufacturing	1.5	-0.3	0.9	0.9	-3.3	0.9	-3.4	-2.6	7.3
Electricity, gas and water	0.1	6.4	2.5	0.6	-4.1	1.7	-4.4	4.4	1.8
Construction	-28.4	-8.8	-2.0	7.7	1.3	-2.7	-4.2	-4.1	-3.3
Wholesale and retail commerce, restaurants and hotels	22.7	9.8	-0.9	0.6	0.3	3.3	-6.9	-10.6	-1.2
Transport, storage and communications	0.9	2.8	14.4	7.2	3.1	-1.8	-11.0	2.9	1.1
Financial institutions, insurance, real estate and business services	8.1	5.3	3.0	1.7	0.2	2.7	1.9	0.8	0.9
Community, social and personal services	1.1	1.3	0.9	4.1	2.7	1.2	1.8	0.8	0.0
Balance of payments	**Millions of dollars**								
Current account balance	4 172	4 267	3 374	5 419	3 999	957	-2 598	...	...
Goods balance	4 738	7 880	6 440	7 597	6 406	2 512	-1 207	...	...
Exports, f.o.b.	11 219	17 041	16 325	17 593	14 965	11 114	8 214	...	...
Imports, f.o.b.	6 481	9 162	9 885	9 996	8 558	8 602	9 422	...	...
Services trade balance	485	-734	-853	-644	-653	-1 085	-1 185	...	...
Income balance	-1 080	-2 899	-2 250	-1 559	-1 733	-429	-258	...	...
Net current transfers	29	20	37	26	-21	-42	53	...	...
Capital and financial balance c/	-3 736	-3 466	-3 986	-4 614	-2 678	-2 521	2 130	...	...
Net foreign direct investment	549	-13	-2 080	-1 197	689	205	153	...	...
Other capital movements	-4 286	-3 453	-1 905	-3 417	-3 367	-2 726	1 977	...	...
Overall balance	436	802	-612	805	1 321	-1 564	-467	...	...
Variation in reserve assets d/	-436	-802	612	-805	-1 321	1 564	467	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	78.8	79.4	73.7	70.7	67.1	61.2	62.0	64.0	64.1
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)	2 032	2 191	1 934	2 474	2 473	2 489	3 454	3 831	3 978
Employment f/	**Average annual rates**								
Labour force participation rate	62.7	62.1	61.8	61.3	61.9	60.6	59.7	59.2	...
Unemployment rate	5.9	5.1	5.0	3.6	3.3	3.5	4.0	4.8	...
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	13.4	5.3	7.2	5.6	8.5	1.5	3.1	1.3	1.0
Variation in nominal exchange rate (annual average)	0.6	0.6	0.0	-0.1	-0.3	0.0	4.4	1.7	0.6
Variation in minimum real wage	-9.4	31.9	-8.5	-5.0	-5.3	14.6	-3.0	-1.9	-1.0
Nominal deposit rate g/	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nominal lending rate h/	9.3	8.0	7.7	7.5	7.5	8.2	9.0	9.0	9.1

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Central government i/	**Percentajes of GDP**								
Total revenue	31.0	29.1	29.7	30.2	33.1	35.7	31.0	24.0	26.7
Tax revenue	26.2	25.7	26.3	25.6	26.9	26.4	20.5	17.0	20.0
Total expenditure	30.8	29.7	31.1	33.0	35.7	37.4	36.5	33.0	30.0
Current expenditure	26.3	25.5	26.9	28.2	30.9	32.7	33.5	30.7	27.9
Interest	2.3	1.8	1.8	1.6	1.8	2.1	2.6	3.0	2.4
Capital expenditure	4.5	4.3	4.2	4.8	4.8	4.8	3.0	2.3	2.1
Primary balance	2.5	1.1	0.4	-1.2	-0.7	0.5	-2.9	-6.0	-1.0
Overall balance	0.1	-0.7	-1.3	-2.8	-2.5	-1.7	-5.5	-9.0	-3.4
Non-financial public sector debt	38.3	35.8	36.4	37.5	48.2	52.8	59.8	58.3	59.7
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	24.0	20.6	22.6	11.8	10.1	13.9	24.0	26.7	28.3
To the public sector	-4.2	-5.1	-4.1	-14.5	-17.8	-18.8	-13.3	-11.0	-9.5
To the private sector	28.2	25.7	26.7	26.3	27.9	32.8	37.4	37.8	37.8
Monetary base	14.4	15.8	16.6	18.4	19.2	18.5	18.4	16.7	15.2
Money (M1)	17.8	19.1	21.5	23.0	27.1	27.6	31.3	29.2	28.4
M2	39.7	39.2	42.7	44.1	49.5	53.6	61.1	57.5	56.4
Foreign-currency deposits	13.4	11.9	14.2	12.4	11.9	13.9	16.5	15.9	15.4

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 2012 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/ Special savings interest rate.
h/ Prime lending rate.
i/ Fiscal years, from October 1 to September 30.

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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/	-5.9	-3.5	2.7	-1.4	3.0	2.9	-1.9	...	...	...
Gross international reserves (millions of dollars)	9 166	8 915	8 653	8 412	8 122	7 965	7 612	7 484	7 487	7 154 c/
Real effective exchange rate (index: 2005=100) d/	63.1	63.8	64.6	64.6	65.0	65.3	63.5	62.6	62.9	63.5 c/
Consumer prices (12-month percentage variation)	2.7	1.5	1.2	1.3	0.8	0.9	1.1	1.0	1.5	1.1 c/
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.7	6.7	6.7	6.7	6.8	6.9	6.8	6.7	6.8	6.8 c/
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 f/
Lending rate g/	9.0	9.0	9.0	9.0	9.0	9.0	9.1	9.3	9.3	9.3 f/
Monetary policy rates	4.8	4.8	4.8	4.8	4.8	4.8	5.0	5.0	5.0	5.0 c/
Stock price index (national index to end of period, 31 December 2005 = 100)	116	113	116	119	118	116	114	122	124	131
Domestic credit (variation from same quarter of preceding year)	32.0	14.6	2.2	9.6	13.2	9.3	18.0	10.4	5.7	17.4 f/

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 2012 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 April.
g/ Prime lending rate.

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