TRINIDAD AND TOBAGO

1. General trends

Economic activity in Trinidad and Tobago is estimated to have contracted by 6.8% in 2020 due to declines in production in the energy sector and the impact of pandemic-related restrictions on the non-energy sector. Real GDP growth is expected to increase modestly to 2.5% in 2021, as global demand for energy products recovers and the local and international economies begin to re-open, amid containment of the coronavirus disease (COVID-19). There remains much downside risk to this forecast as the Government of Trinidad and Tobago engages in fiscal consolidation efforts, unfavourable developments in the energy sector persist and setbacks in combating the spread of COVID-19. Strengthening of domestic energy output will be critical to economic recovery.

The overall fiscal deficit burgeoned to 16.8 billion Trinidad and Tobago dollars (TT$) in fiscal 2020 (11.2% of GDP), up from TT$ 4 billion (2.6% of GDP) in fiscal 2019, owing to lower revenues and marginally higher overall expenditures as spending increased to address the COVID-19 pandemic. The larger fiscal deficit was financed by withdrawals from the Heritage and Stabilization Fund (HSF). Gross public debt increased by 12.1 percentage points to 88.9% of GDP (TT$ 133.4 billion). In July 2021, Standard & Poor's downgraded the outlook for Trinidad and Tobago from stable to negative, based on a weaker economy.

Since the onset of the pandemic, the Central Bank of Trinidad and Tobago (CBTT) has maintained an accommodative stance, implementing measures to increase liquidity in the system, resulting in lower interest rates. In 2020, despite heightened currency pressures because of an oil price shock, CBTT maintained the exchange rate close to the TT$ 6.8: US$ 1 implicit peg. However, foreign currency supply limitations persisted in 2020 and into early 2021 and declines in foreign currency flows were related to weaker energy sector performance.

Trinidad and Tobago’s current account surplus narrowed considerably to US$ 24.8 million or 0.1% of GDP, owing to a steep decline in energy and non-energy exports, as external demand for energy exports weakened and international commodity prices dropped. Gross official reserves fell to US$ 6.6 billion in 2021 relative to US$ 7.3 billion during the same period in 2020, representing 8.1 months of import cover, well above the global adequacy benchmark. In the latter half of 2021, Trinidad and Tobago’s reserves will be further boosted by an allocation of the special drawing rights (SDRs) the International Monetary Fund (IMF) will issue to improve global liquidity, particularly among poor and vulnerable economies.

As COVID-19 related restrictions limited business activity, headline inflation slowed to an annual average of 0.6% in 2020. Core inflation also slowed to 0.1% in 2020, despite a rise in food inflation because of supply challenges related to the pandemic. The COVID-19 related public health restrictions have negatively impacted Trinidad and Tobago’s labour market such that, across the first two quarters of 2020, the unemployment rate rose to 4.7%, relative to 4.2% during the same period in 2019. Labour market adjustments led to retrenchments, temporary layoffs, and reductions in working hours. As a result, the Government introduced several support measures to help businesses and individuals weather the downturn.
2. Economic policy

(a) Fiscal policy

In fiscal 2020, the Government of Trinidad and Tobago recorded an overall deficit of TT$ 16.8 billion (11.2% of GDP) relative to a deficit of TT$ 4 billion (2.6% of GDP) in fiscal 2019. The expansion in the deficit was a result of lower revenues and higher expenditure related to management of the COVID-19 pandemic, and was financed from a withdrawal from the Heritage and Stabilization Fund (HSF). During the period, a total of US$ 979.9 million was withdrawn from HSF. The non-energy fiscal deficit \(^1\) increased from TT$ 19.9 billion (12.6% of GDP) in fiscal 2019 to TT$ 24.6 billion (16.4% of GDP) in fiscal 2020. The Ministry of Finance has budgeted for a reduction in the fiscal deficit of TT$ 8.2 billion (5.6% of GDP) for fiscal 2021, which represents a 3-percentage point reduction from estimates for fiscal 2020.

Total revenue collections declined by 8.5 percentage points to 22.7% of GDP (TT$ 34.0 billion) during fiscal 2020. This included a 4.9-percentage point decline in energy revenue to TT$ 7.8 billion (5.2% of GDP) and a 2-percentage point decline in non-energy revenue to TT$ 25.5 billion (17% of GDP). Capital revenue also declined over the period owing to lower proceeds in the fiscal year.

Total expenditure increased marginally by 1.7-percentage points to 33.9% of GDP (TT$ 50.8 billion) with all categories of expenditure increasing slightly, apart from goods and services. Transfers and subsidies increased the most, by 1.5-percentage points, to 18.2% of GDP (TT$ 27.3 billion) as contributions to the Senior Citizens Grant, Disability Grant, Social Assistance, Food Price Support Programme and Salary Relief Grant increased, to support the vulnerable during the COVID-19 pandemic. Capital expenditure also increased by 0.3 percentage points to 2.7% of GDP (TT$ 4.1 billion). These increases were marginally offset by a 0.5 percentage point decline in expenditure on goods and services to 3.6% of GDP (TT$ 5.5 billion).

By the close of fiscal 2020, total gross public debt had risen to TT$ 133.4 billion (88.9% of GDP), up from TT$ 121 billion (76.8% of GDP) at the end of the 2019 fiscal year. During the period, the central government fiscal deficit was financed from the domestic financial market, as central government domestic debt reached TT$ 68.6 billion (37.7% of GDP). Central government external debt totalled US$ 4.7 billion (21.1% of GDP), with borrowing from external creditors amounting to US$ 1.3 billion and external debt service amounting to US$ 673.4 million.

In July 2021, Standard & Poor’s downgraded the outlook for Trinidad and Tobago from stable to negative, based on a weaker economy. They warned of the negative impact of the pandemic and the downturn in the energy sector on the economy and noted that the negative outlook reflected a one-in-three chance of the ratings being lowered over the next 12–24 months. They, however, affirmed the current BBB-/A-3 rating for long- and short-term foreign and local currency sovereign credit ratings along with the BBB transfer and convertibility assessment for the country. Standard & Poor’s also said they expected energy production to reverse over the next two years, and the economy to return to growth by 2022, which would in turn reduce the Government’s fiscal deficit and stabilize net debt-to-GDP levels. Of concern, was whether this improvement was sufficient to strengthen per capita income, following five years of negative real per capita growth GDP, on a sustained basis.

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\(^1\) For energy-based economies, the non-energy fiscal deficit-to-GDP ratio is a relatively more reliable indicator of the fiscal policy stance of the government than other measures such as the overall primary balance-to-GDP ratio which can be a potentially misleading.
(b) Monetary policy

For the period 2020 into early 2021, CBTT maintained an accommodative stance to provide economic support following the onset of the COVID-19 pandemic. In 2020, the repo rate was lowered by 150 basis points to 3.5% while the commercial bank primary reserve requirement was lowered by 300 basis points to 14%. CBTT further allowed maturing open market operations to add to the liquidity in the system from March to September 2020. These combined actions led to increased liquidity in the system, which in turn, facilitated lower interest rates.

Liquidity levels in the domestic banking system increased as commercial banks’ holdings of excess reserves at CBTT rose to a monthly average of TT$ 9.3 billion in 2020, up from TT$ 4 billion in 2019. The excess liquidity limited activities in the interbank market with activity averaging TT$ 13.7 million daily, down from TT$ 108 million in 2019. However, by July 2021, excess liquidity levels had declined to TT$ 7.1 billion on account of central government borrowings. Net fiscal operations, a measure of excess liquidity, led to fiscal withdrawals of TT$ 1.2 billion from January to July 2021, relative to injections of TT$ 7.2 billion during the same period in 2020.

The weighted average lending rate of commercial banks fell to 7.29% in December 2020, down from 7.72% during the same period in 2019. By June 2021, it had fallen an additional 23 basis points to 7.06%. These declines can be attributed to the competition among commercial banks for loans to businesses coupled with increasing liquidity in the system.

In December 2020, private sector credit extended by the consolidated financial system remained sluggish, declining by 0.9% year-on-year compared to the observed increase of 4.6% in the previous year. This was a result of a 5.2% year-on-year decline in business lending, particularly in the distribution sector, starting in March 2020 with the onset of the COVID-19 pandemic. Consumer lending also declined by 2.3% year-on-year, on account of a slowdown in lending for motor vehicles, particularly for used cars. Despite these falls, lending for debt consolidation and refinancing remained the major drivers of consumer credit, with year-on-year expansions of 2.9% and 6.7%, respectively. Additionally, real estate credit grew by 4.2% (particularly for new and existing homes), although this was considerably slower than the 12.5% growth observed in the previous year. Growth in M2—the broad measure of money supply—increased by 10.9% year-on-year, as savings deposits expanded. Currency in active circulation was boosted by the base effect of the demonetization of the TT$ 100 cotton note while demand deposits increased. This resulted in a 21.1% year-on-year increase in M1-A.

(c) Exchange-rate policy

In 2020, CBTT continued to maintain the exchange rate close to the TT$ 6.8: US$ 1 implicit peg, despite heightened currency pressures because of the oil price shock during the year. In turn, the market exchange rate appreciated slightly year-on-year from TT$ 6.7791: US$ 1 in December 2019 to TT$ 6.7819: US$ 1 in December 2020.

Foreign currency supply remained limited throughout 2020 and into the first half of 2021. Total purchases of foreign currency by authorized dealers declined by 23% to US$ 3.3 billion in 2020. Most purchases came from the energy sector, which remained the main source of supply to the market. As such, declines in foreign currency flows were related to weaker energy sector performance throughout 2020,

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2 The consolidated financial system comprises CBTT, commercial banks, trust and mortgage companies, finance houses and merchant banks.
resulting in a 30.1% decrease in inflows relative to 2019. Sales of foreign currency to the public by authorized dealers also declined, by 24.2% to US$ 4.5 billion in 2020, with credit card transactions accounting for the largest share of all sales (31%). Absorbing the bulk of the remaining foreign exchange sales were retail and distribution (26%), energy companies (9.7%), manufacturing (9.3%) and automobile companies (6.2%). CBTT support to the market amounted to US$ 1.3 billion in 2020. Declines in total purchases and sales of foreign currency by the public persisted into the first seven months of 2021, albeit with more marginal declines. Total purchases declined by 0.1% despite a 26.4% increase in conversions from the energy sector while foreign exchange sales to the public fell by 3.6% during that period. Credit cards (32%), retail and distribution (26.8%) and energy companies (11.3%) comprised the bulk of these foreign currency sales.

CBTT assesses Trinidad and Tobago’s international price competitiveness using the trade-weighted real effective exchange rate (TWREER). During 2020, TWREER weakened by 1.0% year-on-year, indicating that Trinidad and Tobago’s exports were more expensive in foreign markets. However, this outturn was reversed in the early half of 2021, as TWREER strengthened 3.7% year-on-year over the first five months of 2021. This suggests that exports became more price-competitive in some external markets because of lower domestic inflation and appreciation in the exchange rates with the currencies of Trinidad and Tobago’s major trading partners.

3. The main variables

(a) The external sector

Trinidad and Tobago’s current account surplus narrowed considerably to US$ 24.8 million or 0.1% of GDP in 2020, a sharp decline from US$ 1 billion or 4.4% of GDP in 2019. This reduction can be attributed to a steep decline in energy and non-energy exports. Amidst the global pandemic, external demand for energy exports weakened and international commodity prices were lower. Energy exports earnings fell by an estimated US$ 4.4 billion in 2020, down 37.5% relative to 2019. Non-energy exports also declined by an estimated US$ 183.1 million, owing to lower exports of manufactured goods and beverages and tobacco. Total imports also declined, by US$ 1.0 billion to US$ 5 billion, because of lower imports of refined products, capital goods, and raw materials. The deficit on the service account widened to US$ 1.2 billion (5.3% of GDP) in 2020 relative to US$ 1.1 billion (4.9% of GDP) in 2019, on account of lower travel services receipts. The primary income account surplus of US$ 136.5 million reversed to a deficit of US$ 607.1 million in 2019, as repatriation of earnings by the energy sector reduced in 2020.

For the financial accounts, there was a net inflow of US$ 151.4 million in 2020 following a net outflow of US$ 574.7 million in 2019. This outturn primarily reflected a decline in other investment assets owing to a fall in trade credits accompanied by an increase in other investment liabilities, related to loans incurred by the central government and higher currency and deposits and trade credit liabilities owed by residents. More specifically, the increase in central government external borrowings was partly associated with support measures to manage the impact of the COVID-19 pandemic on the economy.

International reserves improved by US$ 24.8 million to US$ 7 billion at the end of December 2020 relative to December 2019. Proceeds from central government external borrowings and inflows from drawdowns from the Heritage and Stabilization Fund (HSF), related to measures to contain the COVID-19 virus, contributed to the marginal improvement. However, international reserves slowly shrank over the first half of 2021: gross official reserves declined to US$ 6.6 billion relative to US$ 7.3 billion at the end of the first half of 2020. This position represents 8.1 months of import cover for goods and services, well above global adequacy benchmarks. Trinidad and Tobago will also benefit from improved earnings from
oil and gas along with an allocation of SDRs that will be issued by IMF in the latter half of 2021, aimed at improving global liquidity, particularly among poor and vulnerable economies.

In 2021, as the global economy gradually recovers and demand for oil and gas steadily rises, export revenue and the merchandise trade surplus will both progressively improve. Therefore, the current account surplus will likely become more positive in the short to medium term.

(b) Economic growth

The economic performance of the Trinidad and Tobago economy in 2020 was adversely impacted by adverse developments in the energy sector and pandemic-related restrictions that slowed activity in the non-energy sector. Real economic activity is estimated to have contracted by 6.8% in 2020. Preliminary estimates based on the CBTT Quarterly Index of Real Economic Activity (QIEA) indicate a substantial decline in output in the energy sector of 13.8%, combined with a 4.2% decline in output in the non-energy sector.

The steep contraction in the energy sector reflects lower output of domestic energy-related products, as demand weakened globally, coupled with temporary closures for maintenance purposes. Declines in production were reported for all commodities during 2020. Natural gas production fell by 15.2%, crude oil production 3.8%, liquefied natural gas (LNG) production 17.6%, petrochemical production 14.6% and methanol production declined by 24.9%. Contributing to the lower output in the sector in 2020 was the lack of available natural gas leading to the closure of the Atlantic Train I LNG facility and closure of several petrochemical plants because of the COVID-19 pandemic’s impact on commodity markets. The suspension of operations at the Proman TTMC II M3 facility and the Caribbean Methanol company coupled with the temporary closure of the Atlas methanol plant for planned maintenance were also major contributors to the weak performance of the sector.

For the non-energy sector, the observed contraction was directly related to the public health restrictions linked to the COVID-19 pandemic. Sectors less affected by these restrictions grew or reported modest declines. For instance, financial and insurance activities grew by 5.7% in 2020 and real estate activities grew by 2.7%. The manufacturing sector, which is heavily supported by food manufacturing (considered an essential service and not subject to public health restrictions), marginally declined by 0.8%. In contrast, the transport and storage sector, which was devastated by border restrictions, declined by 30.6% in 2020. The construction sector, affected by the halting of projects during lockdowns, declined by 2.9%. Electricity and gas was affected by the closure of petrochemical plants and declined by 10.6%. Output in the wholesale and retail sector fell by 7.2% following substantial contractions in the sale of textiles and apparel, motor vehicles and parts, and other items.

A modest recovery in real GDP growth to 2.5% is expected in 2021. This forecast hinges on a gradual recovery in global demand for energy products along with the re-opening of the domestic and international economies, supported by increased vaccination against COVID-19 by the latter half of 2021. Downside risks to this forecast include fiscal tightening by the Government, persistent natural gas supply issues, idling of the Point Lisas methanol plants, or uncertainties surrounding measures to combat the spread of COVID-19. Although inflation is expected to be largely unchanged, it may be affected by global price developments, particularly related to food. Despite the anticipated improvements in international energy prices, it will be critical to strengthen domestic energy output to support the forecast recovery.
(c) Prices, wages and employment

COVID-19-related restrictions limited business activity, resulting in subdued inflation in 2020 and the first half of 2021. As a result, headline inflation slowed to an annual average of 0.6% in 2020 relative to 1% in 2019. Core inflation also slowed to 0.1% in 2020 compared to 1.1% in 2019, despite food inflation picking up, primarily because of supply challenges related to COVID-19 restrictions. In the first half of 2021, headline inflation rose marginally to 1.8%, core inflation rose to 1.1% and food inflation was 5.1%. For the remainder of 2021, inflation is expected accelerate as consumer demand slowly recovers and supply-side inflationary pressures persist, particularly for food.

The measures to contain the spread of COVID-19 have negatively affected Trinidad and Tobago’s labour market. For the first two quarters of 2020, the estimated unemployment rate is 4.7%, relative to 4.2% during the same period of 2019. Adjustments in the labour market resulted in retrenchments, temporary layoffs, and reductions in working hours. The number of reported retrenchments jumped from 1,528 people in 2019 to 2,744 in 2020. For the first five months of 2021, 534 persons were retrenched, mostly in the energy, distribution, restaurant and hotel, and manufacturing industries. In the first quarter of 2021, the Index of Average Weekly Earnings (total employee earnings divided by the number of employees) declined by 1.4% year-on-year. The primary drivers of this decline were lower earnings in the natural gas and petrochemicals sectors and smaller wage bills in the beverage and tobacco and water generation sectors.

The Government introduced several support measures to businesses and individuals in 2020 and early 2021 in response to the negative impact on employment from widespread restrictions to contain the spread of the virus. In 2020, these included Salary Relief Grants; Income Support Grants; Food Card support; Fuel Support Grant for maxi-taxi owners; expedited payments of individual income-tax and value added tax (VAT) refunds. During the third wave of COVID-19 in 2021, when stricter measures were introduced to contain the virus, a Salary Relief Grant (SRG) of TT$ 1,500 was offered to persons who lost income during May and June 2021; over 35,000 people, particularly from the food and restaurant and retail sectors, registered for this support. For individuals outside the national insurance system, the Government provided an income support grant of up to TT$ 1,500 for May and June 2021.