

Trinidad and Tobago

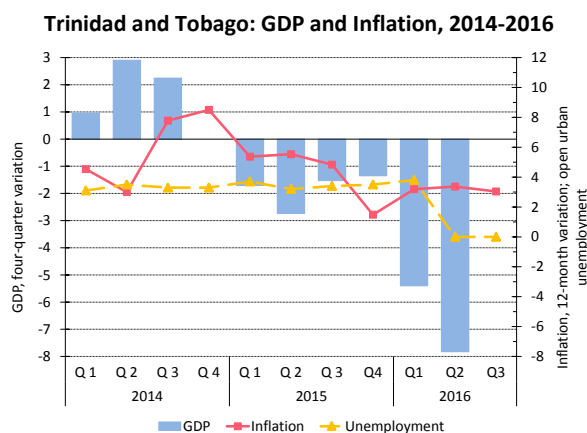
Trinidad and Tobago's economy is projected to have shrunk by 4.5% in 2016, following contractions of 0.6% and 0.5% in 2014 and 2015, respectively. Continued natural gas supply shortages, maintenance shutdowns and weak energy prices contributed to the energy sector's deterioration, while linkages with that sector pulled down the non-energy sector. The current account deficit widened as a result of reduced goods exports, while foreign direct investment saw a modest recovery. The government's fiscal deficit expanded to 4.2% of GDP. In response, the government made several adjustments to compensate for lost energy revenues, including several new tax initiatives. In monetary policy, the central bank repo rate was left unchanged in 2016 and the exchange rate against the United States dollar was allowed to weaken. Unemployment rose to 4.4% in the second quarter of the year as the slowdown took hold.

In fiscal year 2015/2016, the Government of Trinidad and Tobago ran an estimated deficit of 4.2% of GDP, an increase on the 1.5% deficit of fiscal 2014/2015. The deficit was originally estimated at 1.8% of GDP but worsened because of lower energy revenue. While the government managed to increase non-tax revenue by 18% (largely as a result of repayment of past lending), tax revenue fell by 31% because of a 90.3% drop in the contribution from oil companies.

The budget for fiscal 2016/2017, which is based on an estimated oil price of US\$ 48 per barrel and a gas price of US\$2.25 per MMBtu, predicts a deficit of 3.9% of GDP. Since energy revenues are expected to remain flat, the government has implemented several measures to increase revenue from other sources. Among other things, a previously proposed property tax is being reinstated, a new income tax bracket and a 7% tax on online shopping have been established, and the diesel fuel subsidy has been abolished. The budgeted deficit will be financed through borrowing, about three quarters of which will come from domestic sources.

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As a result of the contracting economy, in 2016 the Central Bank of Trinidad and Tobago kept the repo rate at 4.75%, where it had been since December 2015. Although the Bank raised this rate several times over 2015, commercial banks' average lending rates declined over the year before increasing by 0.29 percentage points from December 2015 to June 2016. This lag in monetary policy transmission may be due to the banks being supplied with enough resources from excess liquidity in the banking system without having to access central bank repo facilities. Credit to the private sector grew by just 1.2% from December



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

2015 to August 2016, down from 7.3% and 6.1% at the end of 2014 and 2015, respectively.

The central bank allowed the exchange rate to slowly depreciate after maintaining a quasi-peg for about 20 years. The official United States dollar selling rate weakened by 6.1% between October 2015 and October 2016, from TT\$ 6.3627 to TT\$ 6.7507 per US\$ 1. As a result of the slowdown in the economy, the central bank sold 44% less foreign exchange to authorized dealers between January and October 2016 than in the same period the previous year. However, foreign exchange remains scarce, and many banks have resorted to rationing United States dollars to customers.

The current account deficit over the first six months of 2016 was 280.8% up on the same period in 2015, while the annualized deficit deteriorated to an estimated -10.2% of GDP from -0.9% in 2015. The main reason for this increase was a goods trade deficit of an annualized -3.8% of GDP, the first negative goods trade balance since 1998. The financial account balance is estimated to have moved up from 10.6% of GDP in 2015 to 15.7% in 2016, as foreign direct investment inflows (mostly into the energy sector, as several energy firms have continued to invest in new wells) rose from 2.0% to 6.1% of GDP and commercial banks reduced their holdings of foreign assets.

ECLAC projects a contraction of 4.5% in the economy of Trinidad and Tobago in 2016, the third consecutive year of negative growth. The main contributor to this contraction will have been the energy sector, shrinking by a projected 9.6%. Despite a moderate increase in oil prices over the first half of 2016, Trinidad and Tobago's energy sector was constrained by reduced supply. In addition to the long-term trend of decreasing production from mature reservoirs, output was also restricted when two major producers halted operations to prepare two new oil fields for production.

The non-energy sector is projected to shrink by 1.8%, the first fall in over five years. The impaired performance of the energy sector has spilt over into the non-energy sector, while reduced government spending has limited the demand for non-energy services. The manufacturing sector is projected to contract by 5.7%, the agriculture sector by 6% and the service sector by 1.2%. There are a few bright spots in the service sector, with the transport, storage and communication subsector and the finance, insurance and real estate subsector projected to grow by 2.1% and 3.7%, respectively. In 2017, natural gas output from two new fields should increase the supply for downstream production and the government should raise capital expenditure, leading to estimated growth of 0.5%.

Inflation in Trinidad and Tobago fluctuated slightly over the first nine months of 2016, but remained below 4%, with a rate of 2.4% in January 2016 rising to 3.0% by September. The largest price increases were seen in the food subcategory, where inflation peaked at 9.9% in April before gradually

Trinidad and Tobago: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	-1.0	0.2	-4.5
Per capita gross domestic product	-1.5	-0.2	-4.8
Consumer prices	8.5	1.5	3.0 ^b
Money (M1)	19.8	0.0	0.8 ^c
Real effective exchange rate ^d	-5.0	-8.2	0.2 ^b
	Annual average percentage		
Open urban unemployment rate	3.3	3.5	3.8 ^e
Central government			
Overall balance / GDP	-2.5	-1.5	-4.2
Nominal deposit rate ^f	0.2	0.2	0.2 ^b
Nominal lending rate ^h	7.7	8.3	9.1 ^g
	Millions of dollars		
Exports of goods and services	15,974	12,143	...
Imports of goods and services	13,154	11,547	...
Current account balance	378	-101	...
Capital and financial balance ⁱ	952	-1,427	...
Overall balance	1,330	-1,529	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Estimates.

b/ Figures as of September.

c/ Figures as of July.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ Figures as of March.

f/ Ordinary savings rate.

g/ Figures as of October.

h/ Prime lending rate.

i/ Includes errors and omissions.

falling to 6.1% by September. Food price increases were countered by deflation in the housing market, as the housing index recorded negative growth from April (-0.4%) to September (-0.6%).

The effect of the economic slowdown has been manifested in the economy's labour force statistics. The unemployment rate rose from 3.5% in the fourth quarter of 2015 to 3.8% in the first quarter of 2016 and then to 4.4% in the second quarter. Labour market statistics varied by industry. Unemployment in the oil and gas sector, which had increased to 8.3% by the fourth quarter of 2015, fell to 3.1% in the second quarter of 2016, largely because of workers leaving the sector. In the most recent estimate, unemployment was highest in the construction sector (8.6%) and lowest in the agriculture sector (1.0%).