

## Suffering from decline in oil prices



### General Information

<b>GDP</b>	USD23.986bn (World ranking 98, World Bank 2012)
<b>Population</b>	1.34 million (World ranking 153, World Bank 2012)
<b>Form of state</b>	Parliamentary Democracy
<b>Head of government</b>	Kamla PERSAD-BISSESSAR
<b>Next elections</b>	2015, legislative



### Strengths

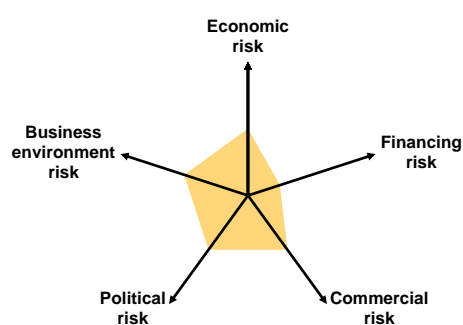
- Large oil and gas resources
- Structural current account surplus
- Strong external liquidity
- Comfortable public and external debt position
- Overall good business environment

### Weaknesses

- High crime rate driven by drug and arms trafficking
- Significant risks coming from the high dependence on energy revenues
- Maintenance-related outages in the energy sector
- Recurring foreign currency shortages

### Country Rating

**BB2**



Source: Euler Hermes

### Trade Structure

By destination / origin (% of total)

Exports	Rank	Imports
United States	46% 1	33% United States
Spain	6% 2	8% Brazil
Jamaica	5% 3	8% Colombia
United Kingdom	3% 4	6% Gabon
Barbados	3% 5	4% Canada

By product (% of total)

Exports	Rank	Imports
Petroleum products	33% 1	27% Petroleum products
Gas natural/manufactured	31% 2	7% Industrial machinery/parts
Inorganic chemicals	16% 3	5% Road vehicles
Organic chemicals	6% 4	5% Iron and steel
Iron and steel	5% 5	4% Ores and metal scrap

Source: UNCTAD (2012)

### Fall in oil prices will weigh on growth

Growth continues to gradually recover after the recession recorded between 2009 and 2011. Real GDP expanded by +1.6% in 2013, after +1.2% in 2012. The non-energy sector (+2.5%) was the main engine of growth, driven especially by services. The energy sector grew by a meagre +0.5%, after 5 consecutive years of contraction. The closing of two major oil supplier plants in the third quarter of 2013 weighed on the recovery of petroleum output. The crude oil production of the country slightly decreased to 81.1 barrels/day on average in 2013, against 81.7 barrels/day in 2012, and has averaged 80 barrels/day since the beginning of 2014.

Despite steps to encourage a larger diversification of the economy over past years (with stronger industrial and financial sectors), the country remains highly dependent on the energy sector, which accounts for 45% of GDP, 40% of the central government revenue and more than 80% of the value of exports of goods. Thus, the activity will suffer from still weak oil production, the fall in oil prices and increased competition from American shale gas (United States is the first commercial partner).

Euler Hermes estimates that the economy will slightly accelerate to +2.1% in 2014, mainly driven by construction, distribution and finance sectors. However, real GDP is expected to edge lower in 2015 to +1.9% on the back of the gloomy outlook for the oil sector.

### Tightening monetary policy

Inflation is very volatile mainly as a consequence of large changes in edible prices (18% of Retail price index -RPI). Headline inflation diminished strongly over 2013, averaging +5.2% (after +9.3% in 2012), mainly on the back of moderation in food prices (+8.7% in 2013 against +20% in 2012). This was the consequence of larger national agri-food products supply thanks to more favourable weather conditions for harvest and, especially, the implementation in of the Caroni GREEN initiative as of June 2013. This initiative aims to increase national food production by allowing private farmers to cultivate currently unused lands.

However, owing to recent flooding, food crop prices have picked up again, bringing the headline inflation to +9% y/y in October 2014. The inflation rate should remain close to +8-9% in coming months, but is expected to ease gradually as of Q2-2015 on the back of the tightening of the monetary policy. Indeed, the Central bank raised its repo key rate by 25bps in September and in December to 3.25%, in an attempt to ease inflation but also to limit portfolio outflow in anticipation of upcoming Fed policy changes. Euler Hermes expects consumer prices to increase by +5.7% on average in 2014, before easing to +5.5% in 2015.

### Still supportive fiscal policy

Fiscal policy remained expansive in 2013, with current spending growing by +10%, mainly driven by salaries and wage increases (+32%). Current

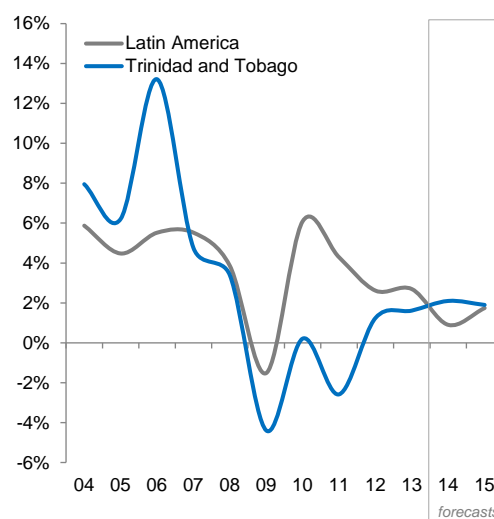
### Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	1.2	1.6	2.1	1.9
Inflation (% ,yearly average)	9.3	5.2	5.7	5.5
Fiscal balance* (% of GDP)	-0.3	-2.3	0.2	-2.2
Public debt* (% of GDP)	37.2	30.7	32.4	36.6
Current account (% of GDP)	5.0	11.8	12.1	10.0
External debt (% of GDP)	11.2	10.7	10.8	10.0

\*Includes Central Government; Nonfinancial Public Corporation; Social Security Funds

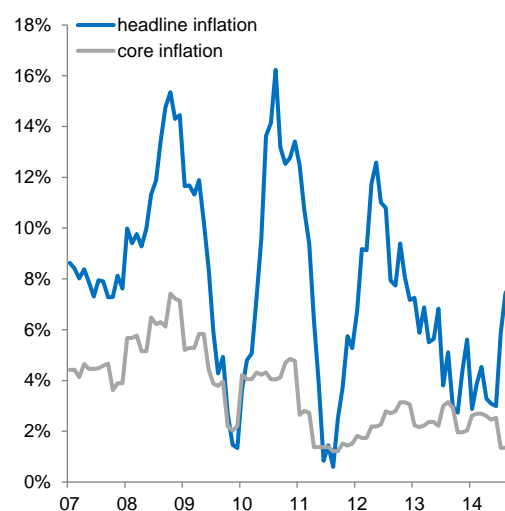
Sources: National sources, IHS, IMF, Euler Hermes

### GDP growth (%)



Sources: IHS, Euler Hermes

### Headline and core inflation rates (y/y, %)



Sources: IHS, Euler Hermes

revenues expanded by +19%, after a -5.6% decline in 2012. This good performance of fiscal revenues is due in part to improvements in tax collection (especially of the tax on societies) and administration. Overall, according to IMF data, Trinidad and Tobago's public account recorded a deficit of -2.3% of GDP in 2013, after -0.3% in 2012. Available data for 2014 suggest that the fiscal balance will temporarily switch into a surplus estimated by Euler Hermes at +0.2% of GDP. This will be the result of one-off revenues generated by larger than expected dividend from state-owned enterprises (and notably from that National Gas Company). The fiscal balance is expected to record again a deficit of -2.2% of GDP in 2015, with public spending driven up by the electoral calendar.

### Strong external position, but risks stem from declining oil prices in 2015

Trinidad and Tobago enjoys a strong external position thanks to large oil revenues. Recurring current account surplus (+11.8% of GDP in 2013) has enabled the country to cumulate significant amounts FX reserves (above 12 months of import cover) and to build up a sovereign wealth fund (Heritage and Stabilization Fund) that could act as a buffer against declining oil prices or international tightening financing conditions.

Main risks for 2015 stem from steady declining oil prices. Thus, Euler Hermes expects the current surplus to narrow to +10% of GDP in 2015, after an estimated +12.1% in 2014.

### The Bankruptcy and Insolvency Act proclaimed

The Bankruptcy and Insolvency Act, which was passed in 2007 but never proclaimed, came finally into force in May 2014. The text sets legislation for resolving insolvency and restructuring proceedings for local companies. Also, the Office of the Supervisor of Insolvency (OSI) was created. However, lack of legislation remains for international insolvencies, since the Part 11 of the original Act (intended for international bankruptcies) was not proclaimed on the advice of the World Bank which pointed out that it had to be revised with the updated International Trade Law of the United Nations Commission. Alongside, the government also launched a platform to increase ease of starting a business by reducing time delay.

This triggered a major improvement of Trinidad and Tobago's in the 2015 *Doing Business Survey* conducted by the World Bank. The Caribbean country ranks now 79<sup>th</sup> (against 91<sup>th</sup> in 2014 Survey) out of 189 economies worldwide. Thanks to structural reforms conducted in 1990's, the country benefits from better than regional average business environment. However, rule of law, control of corruption and, especially, crime and violence, remains important shortcomings.

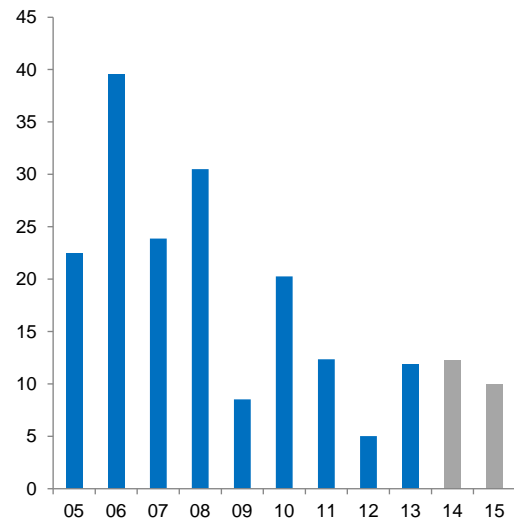
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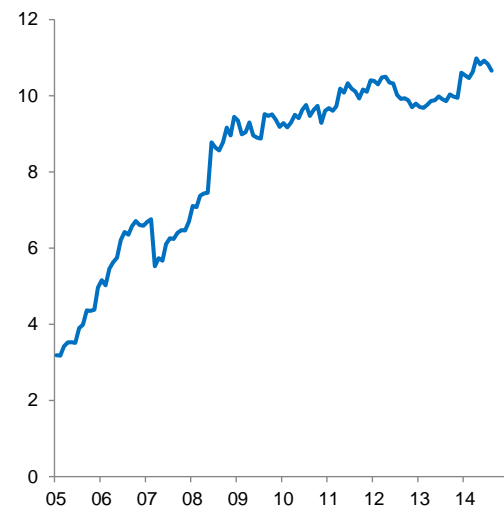
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Current account balance (% of GDP)



Sources: IMF-WEO, Euler Hermes

Foreign exchange reserves minus gold (USD billion)



Sources: IMF-IFS, Euler Hermes