

Oil and gas prices drive the economy into the red



General Information

GDP	USD24.434bn (World ranking 106, World Bank 2014)
Population	1.34mn (World ranking 152, World Bank 2014)
Form of state	Parliamentary Democracy
Head of government	Keith Rowley
Next elections	2018, presidential



Strengths

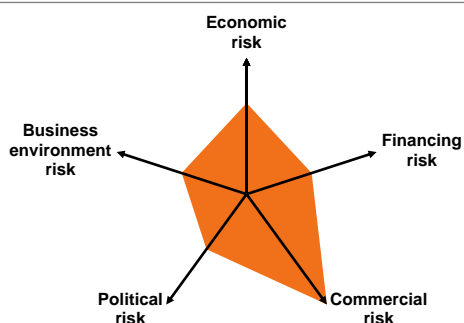
- Large oil and gas resources
- Structural current account surplus
- Strong external liquidity
- Comfortable public and external debt position

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 exchange shortages

Country Rating

B3



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 destination/origin (% of total)

Exports	Rank	Imports
Petroleum products	33% 1	27% Refined petroleum
Natural gas	31% 2	7% industrial machines & parts
Inorganic chemicals	16% 3	5% Road vehicles
Organic chemicals	6% 4	5% Iron and steel
Iron and steel	5% 5	4% Metalliferous ores scrap

Source: UNCTAD

Economic Overview

Entering recession

The economy has a deep dependence on the hydrocarbon sector. The industry accounts for 45% of GDP, 40% of fiscal revenues, and more than 65% of exports. The plunge in oil and gas prices altered Trinidad and Tobago's growth prospects and the country faces a deepening recession.

The all-important energy sector is dragged down by low prices and falling output due to depletion of gas and oil fields and delays in investment projects. The non-energy parts of the economy also contract. Strong fiscal consolidation, a deteriorating labor market, and tightened credit conditions are the main culprits. We expect the economy to shrink by -2.5% in 2016, completing 3 years of decline. Modest growth should resume in 2017 (+0.8%).

External vulnerability has increased

The fiscal deficit is expected to widen to -7.2% of GDP in 2017. The current account balance shifted into a deficit of -5.4% of GDP in 2015 for the first time in over 15 years. External deficit is expected to remain high in 2016 (-4.5%) and 2017 (-3.5%). It might not narrow in the medium term: gas and oil prices are set to recover at a modest pace.

The Central Bank's monetary policy attempts to anchor inflation expectations by following a managed floating exchange rate of the TTD against the USD. The fall in oil prices led the Central Bank to use its Foreign Exchange reserves to defend the currency. FX reserves are down since Dec-14. However, maintaining an adequate level of reserves is crucial as foreign currency shortages make it harder for local companies to pay foreign suppliers. Consequently, the authorities decided to let the TTD depreciate by more than 5% since the beginning of the year, after having maintained a quasi-fixed rate since 2010. FX risk has increased strongly.

And still, foreign exchange reserves remain at comfortable levels, with above 10 months of import cover. Moreover, the country succeeded in building a sovereign wealth fund over the past years. *The Heritage and Stabilization Fund* can act as a buffer.

Business environment is improving

The country has recently implemented several structural reforms to improve the business environment. Notably, the Bankruptcy and Insolvency Act adopted in 2014 sets legislation for resolving insolvency and restructuring proceedings for local companies. The government also launched a platform aimed at making life easier for entrepreneurs. The initiative's main goal is to shorten and speed up processes.

Trinidad and Tobago is now ranked 88th out of 189 countries in the World Bank's *Doing Business* survey. Main shortcomings are related to registering property, paying taxes and enforcing contracts. Moreover, the rule of law, control of corruption and, especially, crime and violence remain concerns.

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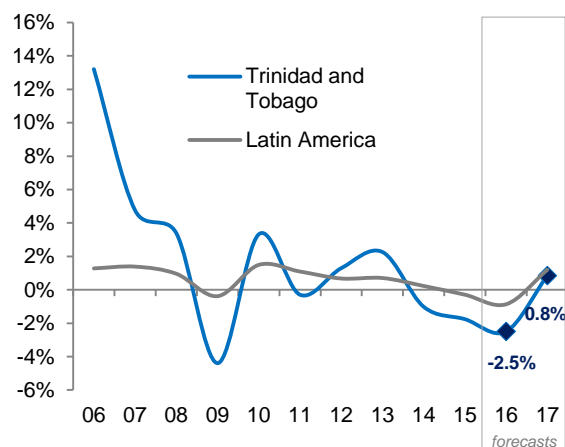
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Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	-1.0	-1.8	-2.5	0.8
Inflation (% end-year)	5.7	4.7	3.6	4.7
Fiscal balance (% of GDP)	-4.0	-9.5	-10.3	-7.2
Public debt (% of GDP)	40.9	51.1	55.1	60.7
Current account (% of GDP)	4.6	-5.4	-4.5	-3.5
External debt (% of GDP)	11.0	12.3	14.3	17.8

Sources: National sources, IHS, Euler Hermes

Real GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Exchange rate: TTD vs USD



Sources: National sources, IHS, Euler Hermes