

Executive Briefing

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TRINIDAD AND TOBAGO

Capital Market Dynamics

Foreign Exchange ► The Trinidad and Tobago dollar (TTD) outlook remains stable due to a quasi-fixed exchange rate averaging roughly 6.35 per US dollar over the past 12 months. The country holds over US\$11 billion in international reserves and we assess that expectations of US monetary policy normalization in 2015 coupled with recent energy market downturns prompted the monetary authorities to sell US\$200 million on January 16th, signaling a continued commitment to the programme of foreign exchange interventions into 2015.

Sovereign Debt & Credit Ratings ► The sovereign debt profile of Trinidad and Tobago remains solid. Both Moody's and Standard & Poor's maintain a "stable" outlook on the country's long-term sovereign credit ratings of "Baa1" and "A", respectively. The Heritage and Stabilization Fund (HSF), the country's energy income-fueled sovereign wealth fund, reported a net asset value of US\$5.6 billion in June 2014, equivalent to 20% of GDP.

Capital Market Dynamics

Growth ► Trinidad and Tobago will face headwinds through 2016 as the country attempts to increase energy sector output and attract further hydrocarbon investment in an environment of low energy prices. The government has prioritized economic diversification and the non-energy economy has expanded faster than the energy economy for the past four years on the back of strong service sector growth. Despite this, the energy sector still accounts for more than 40% of GDP and 85% of merchandise exports, and continues to exert drag on the economy. Oil production has steadily fallen over the past decade and 2014 crude output stood at just over half of the volume realized in 2006. Natural gas production has stepped in as the growth industry, but 2014 production suffered due to maintenance and technological upgrade-related downtime. While production is expected to rise this year, weaker oil and liquefied natural gas (LNG) prices will put downward pressure on earnings and growth. Project completions — particularly the prolific 590 million cubic feet per day Juniper gas project — will serve to increase production from 2017 onward and the government is aiming to spur further exploration through accommodative shifts in its regulatory and tax structures. The proliferation of hydraulic fracturing and horizontal drilling in the United States (the country's traditional LNG market) has depressed prices, forcing Trinidad and Tobago to search for new customers. The expansion of the Panama Canal will facilitate this transition by enabling much larger LNG tankers to secure higher LNG prices in gas-thirsty Asian markets. Following an estimated 1% y/y expansion in 2014, we expect real GDP growth to remain at around 1% in 2015 due to a weak energy price outlook before accelerating to 2% in 2016.

Inflation & Monetary Context ► Inflation remains stubbornly high with price levels increasing by 9% y/y in November (a two-year high) driven largely by rising food prices on the back of lower domestic agricultural output. Accordingly, monetary authorities have increased the benchmark repo rate by 50 basis points since September taking the key rate to 3.25%; we expect rate hikes to continue into early 2015. The hike also reflects the central bank's attempt to increase the attractiveness of TTD-denominated assets ahead of expected monetary policy normalization in the US. We expect inflationary pressures to persist in the first half of 2015 due to flood-induced food price increases before decelerating on the back of base effects, likely closing the year at around 5.2%.

Fiscal & Current Account Balance ► The government has indicated that collapsing oil prices will result in a US\$1.2 billion revenue shortfall; however, expansionary fiscal policy ahead of the May elections will likely take priority over deficit consolidation. Much of this shortfall will be offset by either delaying planned infrastructure projects or shifting the cost to debt instead of current revenue. A decreased fuel subsidy burden will soften the budgetary impact of lower oil prices; we expect a deficit of 3% of GDP for FY2014/15 (Oct-Sept). Exports will also be adversely affected and we expect that the current account surplus in 2015 will fall to 1.4% of GDP, down from 2.6% in 2014 and 7.7% in 2013.

Institutional Framework & Political Environment

Governance ► The governing People's Partnership coalition currently holds 27 of 41 seats in parliament. Both ruling and opposition parties share similar, pro-business governance stances; as such, it is unlikely that there will be significant policy divergence in the event that the May 2015 election brings about a change in government.

Financial Sector ► Trinidad and Tobago's banking system is well-capitalized; the Tier 1 Capital ratio was 22.2% in September 2014. Likewise, asset quality has been improving taking the non-performing loans ratio down to 4.3 from roughly 5% in 2013. High liquidity in the financial system continues to be a source of concern. Nevertheless, the central bank will likely work to contain the level of excess liquidity through various policy intervention measures.



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