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Research Update:

Republic of Trinidad and Tobago Long-Term Ratings Lowered To 'BBB+' On Higher Debt Burden; Outlook Is Stable

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Overview

- Trinidad and Tobago's debt burden has increased sharply since 2014 amid economic recession.
- Although the government has introduced austerity measures to reduce fiscal imbalances, we expect budget consolidation to be slower than we initially anticipated and interest costs to be higher.
- As a result, we are lowering our long-term sovereign credit ratings on Trinidad and Tobago to 'BBB+' from 'A-'.
- The stable outlook reflects our expectation that Trinidad and Tobago's economy will modestly recover in 2017-2020 on higher natural gas prices and production, supporting deficit reduction and the stabilization of the debt burden.

Rating Action

On April 21, 2017, S&P Global Ratings lowered its long-term sovereign credit ratings on the Republic of Trinidad and Tobago (T&T) to 'BBB+' from 'A-'. The outlook is stable. At the same time, we affirmed our 'A-2' short-term sovereign credit ratings. We also lowered our transfer and convertibility assessment for T&T to 'A' from 'AA-'.

Rationale

The downgrade reflects further deterioration in T&T's debt burden, including a higher-than-expected rise in net general government debt to GDP and the interest burden over 2017-2020.

T&T's economic recession stems from low oil and gas prices in global markets, disruptions in domestic production (due to plant shutdowns for maintenance and infrastructure upgrades), and ongoing U.S. dollar shortages from the banking system. Preliminary estimates indicate output declined by 2.3% in 2016, after falling 0.6% in 2015, as output in the energy sector dropped by 9.6%. This, in turn, affected the non-energy sector, which declined by 1.8%. Our measure of economic wealth--GDP per capita--has continuously dropped since 2013, and we expect it to be $16,346 in 2017. Trend growth in real per capita GDP, of 0.7% (average 2011-2020), remains below other countries with similar GDP per capita.

We expect domestic natural gas production to rise in 2017-2018 amid fewer planned plant shutdowns and as new gas fields come on stream, particularly from the start-up of the Juniper field facility in third-quarter 2017. We expect global oil and gas prices to slightly increase following the agreement between OPEC members to restrain oil supply (see "S&P Global Ratings Raises Its Oil And Natural Gas Prices Assumptions For 2017," Dec. 14 2016). Oil price assumptions were raised to $50 per barrel for 2017 (from $45) and Henry Hub natural gas price assumptions to $3.00 per mmmBtu (from $2.75). We expect the economic recovery to be tepid in 2017 and to gradually accelerate in 2018-2020 (to 2% on average). However, obstacles to sustained long-term growth will persist without further structural reforms to increase productivity in the labor market and reduce bureaucracy in the public service.

Economic contraction and lower fiscal revenues from the energy sector resulted in a general government deficit of 5% of GDP in fiscal 2015/2016. The energy sector contributed only 15% of total government revenues in fiscal 2015/2016, compared with 58% in fiscal 2010/2011, though we expect this contribution to pick up in the coming years. In this context, the government formulated new consolidation measures for the fiscal 2016/2017 budget, which includes additional revenue enhancement, such as improving the efficiency of tax collection and minor increased taxation (the introduction of property tax and insurance and gaming legislation and the establishment of a Revenue Authority).

However, we expect that the government will again rely predominately on one-off revenues (around 15% of total revenue) to lower the deficit. Current expenditure containment includes a lower diesel subsidy, adjustments to social programs, and some reduction in transfers to various ministries. The settlement of outstanding wage negotiations and arrears to contractors will continue to weigh on the budget. We project a general government deficit of 4.5% of GDP in fiscal 2016/2017 that will be financed domestically, by issuing local currency debt and using the overdraft facility with the central bank, and through further drawdowns from the Heritage Stabilization Fund (HSF). We expect that general government debt will rise, on average, by 3.7% of GDP annually in the next three years, slightly exceeding the general government deficit due to the impact of currency depreciation.

Net general government debt rose to 35% of GDP in 2016, from 32% of GDP in 2015, and is likely to rise again this year, to 37% of GDP, before gradually declining in 2018-2020. The net general government debt ratio has risen rapidly from 17.5% in 2014. This reflects, to a large extent, a significant downward revision of both nominal and real GDP in 2014 and 2015, increased open-market operations, and a weaker fiscal stance. The interest burden has also risen, further constraining the government's fiscal flexibility to adjust to adverse shocks. We now project the government's interest payments will account for more than 5% of revenue in 2017-2020 as a result of the increased debt stock and tightening in global monetary conditions. Although the government has less fiscal room to maneuver than before, T&T's debt burden remains moderate and is narrowly exposed to exchange-rate and rollover risk as foreign currency-denominated external debt was only around 18% of total debt at year-end 2016.

In addition, T&T's credit quality benefits from substantial financial buffers, with adequate international reserves and around $5.5 billion in the HSF (25% of GDP). We assess contingent liabilities from the financial sector and nonfinancial public enterprises (NFPEs)--including Trinidad Generation Unlimited, National Gas Co. of Trinidad and Tobago, and Petrotrin (Petroleum Co. of Trinidad and Tobago)--as limited. Although nonguaranteed debt carried by NFPEs was 17% of GDP at year-end 2016, at this point it does not affect our assessment of T&T's debt risk.

The People's National Movement (PNM) government has progressively adjusted fiscal, monetary, and exchange rate policies to the less favorable economic conditions. T&T's political scene will remain stable over the medium term, despite difficult economic conditions, as efforts by political opposition to tap into discontent will have limited success. In the coming years, its focus will be to continue attracting foreign investment to the energy sector. Energy companies have been pressing for reduced tax rates to compensate for lower returns and increased risks while the government is working to enhance its fiscal revenues. A revision of the fiscal regime is ongoing. T&T continues to suffer from shortcomings in economic data, which hamper surveillance and policy formulation. The government has been working on the establishment of a new independent statistical agency to improve economic data collection.

T&T's net external asset position underpins its low external vulnerability and is a key credit strength. We project T&T will maintain a net external asset position that averages 105% of current account receipts during 2017-2020. In 2016, energy exports dropped significantly, and we estimate the current account deficit to have reached 10% of GDP, from a deficit of 1% of GDP in 2015 and after years of large surpluses. Positive prospects for domestic gas production underpin our projected decline in the current account deficit over the next few years, along with a moderate recovery in energy prices. Further depreciation of the exchange rate should also help boost net exports over time. Public external debt remains low, despite global bond issuance of a US$1 billion in July 2016. We estimate T&T's gross external financing needs at 68% of current account receipts plus usable reserves on average for 2017-2020. We project that T&T's foreign exchange reserves will decline moderately in 2017 before stabilizing in 2018-2020.

The combination of a heavily managed exchange rate and a small open economy effectively limits the role of monetary policy. After sustaining a quasi-fixed exchange rate since 2010, the central bank allowed the currency to depreciate by 6% in 2016. Nevertheless, U.S. dollar shortages have continued to constrain economic activity, weakening local businesses' ability to pay suppliers and obtain key imports. We expect that the central bank will maintain a pragmatic strategy of gradual currency depreciation, slowly reducing the gap between the official and the parallel exchange rates. Inflation declined to around 3% at year-end 2016 as the inflationary impact of depreciation was likely offset by the economic contraction. The central bank paused its monetary tightening in early 2016--holding its repurchase rate at 4.75%--and is expected to remain on hold for the remainder of 2017. We expect the banking sector to remain profitable, well-capitalized, and highly liquid despite economic challenges.

Outlook

The stable outlook reflects our expectation that T&T's economy will recover modestly in 2017-2020, on higher natural gas prices and increased gas production. We expect continuity in economic policies in the coming two years, including the government's commitment to fiscal consolidation. We expect the rise in the debt burden to stabilize.

We could lower the rating in the next two years absent a gradual recovery in economic growth or amid weaker-than-expected fiscal results. More persistent lower-than-expected growth could weigh on our economic assessment or the pace of improvement in the government's general government deficit. Either could result in downward pressure on the rating.

Conversely, we could raise the ratings over the next two years should the government effectively implement structural reform that enhances economic diversification and investor confidence, strengthening T&T's growth and fiscal profile while containing external vulnerabilities. Steps to accelerate fiscal consolidation that reduces the fiscal deficit beyond our estimates could lead us to raise the ratings, as could sustained improvement in the quality of T&T's economic and external data.

Key Statistics

Table 1

Trinidad and Tobago--Selected Indicators

	2010	2011	2012	2013	2014	2015	2016	2017f	2018f	2019f	2020f
ECONOMIC INDICATORS (%)											
Nominal GDP (bil. LC)	141.27	163.01	165.20	170.32	167.76	150.25	145.91	153.26	164.15	176.98	191.01
Nominal GDP (bil. $)	22.16	25.43	25.69	26.44	26.18	23.56	21.60	22.14	22.58	23.19	24.43
GDP per capita ($000s)	16.8	19.2	19.2	19.7	19.5	17.5	16.0	16.3	16.7	17.1	18.0
Real GDP growth	3.3	(0.3)	1.3	2.7	(0.6)	(0.6)	(2.3)	1.0	2.0	2.2	2.3
Real GDP per capita growth	2.7	(1.1)	0.7	2.2	(0.9)	(0.9)	(2.6)	1.0	2.0	2.2	2.3
Real investment growth	3.3	(0.3)	1.3	2.7	(0.6)	(0.6)	(2.3)	1.0	2.0	2.2	2.3
Investment/GDP	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.9	13.4
Savings/GDP	31.2	19.4	1.7	25.2	13.8	11.4	2.0	3.9	5.0	6.9	9.7
Exports/GDP	50.5	58.7	50.1	70.6	55.5	29.1	29.1	29.1	29.1	29.1	29.1
Real exports growth	(6.0)	30.1	(13.5)	44.7	(21.9)	(47.8)	(2.3)	1.0	2.0	2.2	2.3
Unemployment rate	5.9	5.1	4.9	3.7	3.3	3.4	4.1	4.3	4.3	4.3	5.3
EXTERNAL INDICATORS (%)											
Current account balance/GDP	18.8	7.0	(10.7)	12.8	1.4	(1.0)	(10.3)	(8.5)	(7.4)	(6.1)	(3.7)

Table 1

Trinidad and Tobago--Selected Indicators (cont.)											
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017f**	**2018f**	**2019f**	**2020f**
Current account balance/CARs	33.3	11.0	(19.5)	17.0	2.4	(1.8)	(23.8)	(18.9)	(15.4)	(11.9)	(7.1)
CARs/GDP	56.5	63.8	54.6	75.4	60.8	52.0	43.4	44.8	48.1	51.0	52.4
Trade balance/GDP	21.4	21.5	5.0	23.0	12.6	5.6	(3.5)	0.7	3.8	6.3	8.1
Net FDI/GDP	2.5	3.0	3.0	(0.3)	4.6	2.0	4.6	4.5	4.9	4.7	4.5
Net portfolio equity inflow/GDP	(0.3)	(0.3)	(1.7)	(0.4)	(0.6)	(0.5)	0.0	(0.5)	(0.9)	(1.3)	(1.2)
Gross external financing needs/CARs plus usable reserves	45.5	60.7	73.6	59.7	62.8	56.5	64.8	65.5	68.8	69.2	69.3
Narrow net external debt/CARs	(85.4)	(75.2)	(93.2)	(73.5)	(98.9)	(121.2)	(132.0)	(117.4)	(108.0)	(100.2)	(93.2)
Net external liabilities/CARs	(39.3)	(33.7)	(45.9)	(43.3)	(60.8)	(68.1)	(48.7)	(29.7)	(19.7)	(12.4)	(5.6)
Short-term external debt by remaining maturity/CARs	12.4	7.9	9.1	6.4	7.3	9.9	12.9	11.8	11.2	10.7	11.6
Usable reserves/CAPs (months)	13.3	8.1	7.5	7.2	8.2	11.5	10.7	10.0	8.7	8.3	8.0
Usable reserves (mil. $)	9,693	10,504	9,897	10,673	11,969	10,389	9,854	9,136	9,136	9,136	9,136
FISCAL INDICATORS (%, General government)											
Balance/GDP	(2.0)	(1.4)	(2.7)	(5.9)	(2.6)	(1.7)	(5.0)	(4.5)	(3.4)	(2.9)	(2.1)
Change in debt/GDP	(0.2)	2.2	9.0	1.8	3.7	12.5	2.8	5.2	4.0	3.5	2.1
Primary balance/GDP	0.3	0.3	(1.0)	(4.3)	(0.7)	0.5	(3.0)	(1.1)	(0.2)	(1.0)	(0.2)
Revenue/GDP	31.1	29.2	29.8	31.0	34.9	38.2	30.9	29.8	29.8	28.4	29.5
Expenditures/GDP	33.1	30.6	32.6	36.9	37.5	39.9	35.9	34.3	33.2	31.4	31.6
Interest /revenues	7.5	6.0	6.0	5.3	5.3	6.0	6.7	11.4	10.6	6.8	6.6
Debt/GDP	48.6	44.4	52.8	52.9	57.4	76.7	81.8	83.1	81.6	79.2	75.5
Debt/Revenue	156.5	152.1	176.7	170.8	164.7	200.8	264.7	278.5	273.4	278.5	255.8
Net debt/GDP	16.7	11.6	18.1	15.3	17.5	31.7	34.6	36.8	35.5	32.9	30.3
Liquid assets/GDP	32.0	32.8	34.7	37.6	39.9	45.0	47.1	46.3	46.0	46.2	45.2
MONETARY INDICATORS (%)											
CPI growth	10.5	5.1	9.3	5.2	5.7	4.7	3.1	4.0	5.0	5.5	5.5
GDP deflator growth	12.7	15.7	0.1	0.4	(0.9)	(9.9)	(0.6)	4.0	5.0	5.5	5.5
Exchange rate, year-end (LC/$)	6.42	6.42	6.43	6.47	6.39	6.45	6.75	7.09	7.45	7.82	7.82
Banks' claims on resident non-gov't sector growth	(0.2)	3.2	10.3	4.0	8.4	7.3	0.4	5.0	7.1	7.8	7.9
Banks' claims on resident non-gov't sector/GDP	35.6	31.8	34.6	34.9	38.4	46.0	47.6	47.6	47.6	47.6	47.6
Foreign currency share of residents' bank deposits	26.6	27.0	28.4	25.0	22.3	23.3	0.0	0.0	0.0	0.0	0.0

Table 1

Trinidad and Tobago--Selected Indicators (cont.)											
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017f**	**2018f**	**2019f**	**2020f**
Real effective exchange rate growth	5.6	(1.0)	8.1	3.8	5.3	10.6	(1.6)	N/A	N/A	N/A	N/A

Note: Fiscal numbers correspond to the fiscal year (October-September). Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. f--Forecast.

Ratings Score Snapshot

Table 2

Trinidad and Tobago--Ratings Score Snapshot	
Key rating factors	**Assessments**
Institutional assessment	Neutral
Economic assessment	Neutral
External assessment	Strength
Fiscal assessment: flexibility and performance	Neutral
Fiscal assessment: debt burden	Neutral
Monetary assessment	Neutral

Note: S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Section V.B of S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 23, 2014, summarizes how the various factors are combined to derive the sovereign foreign currency rating, while section V.C details how the scores are derived. The ratings score snapshot summarizes whether we consider that the individual rating factors listed in our methodology constitute a strength or a weakness to the sovereign credit profile, or whether we consider them to be neutral. The concepts of "strength", "neutral", or "weakness" are absolute, rather than in relation to sovereigns in a given rating category. Therefore, highly rated sovereigns will typically display more strengths, and lower rated sovereigns more weaknesses. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in assessment of the aforementioned factors does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the assessments.

Related Criteria

- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Sovereign Rating Methodology, Dec. 23, 2014
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- 2016 Sovereign Ratings Update: Outlook And CreditWatch Resolutions, April 18, 2017

- Sovereign Ratings History, April 11, 2017
- Sovereign Risk Indicators, April 10, 2017
- Global Sovereign Rating Trends: First-Quarter 2017, April 10, 2017
- 2016 Annual Sovereign Default Study And Rating Transitions, April 3, 2017
- Sovereign Debt 2017: Global Borrowing To Drop By 4% To US$6.8 Trillion, Feb. 23, 2017
- S&P Global Ratings Raises Its Oil And Natural Gas Prices Assumptions For 2017, Dec. 14, 2016
- Banking Industry Country Risk Assessment: Trinidad and Tobago, May 19, 2016
- Republic of Trinidad and Tobago, May 18, 2016

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed that debt risk had deteriorated. All other key rating factors were unchanged.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Downgraded; Ratings Affirmed

	To	From
Trinidad and Tobago (Republic of)		
Sovereign Credit Rating	BBB+/Stable/A-2	A-/Negative/A-2

Downgraded

	To	From
Trinidad and Tobago (Republic of)		

Transfer & Convertibility Assessment	A	AA-
Senior Unsecured	BBB+	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.