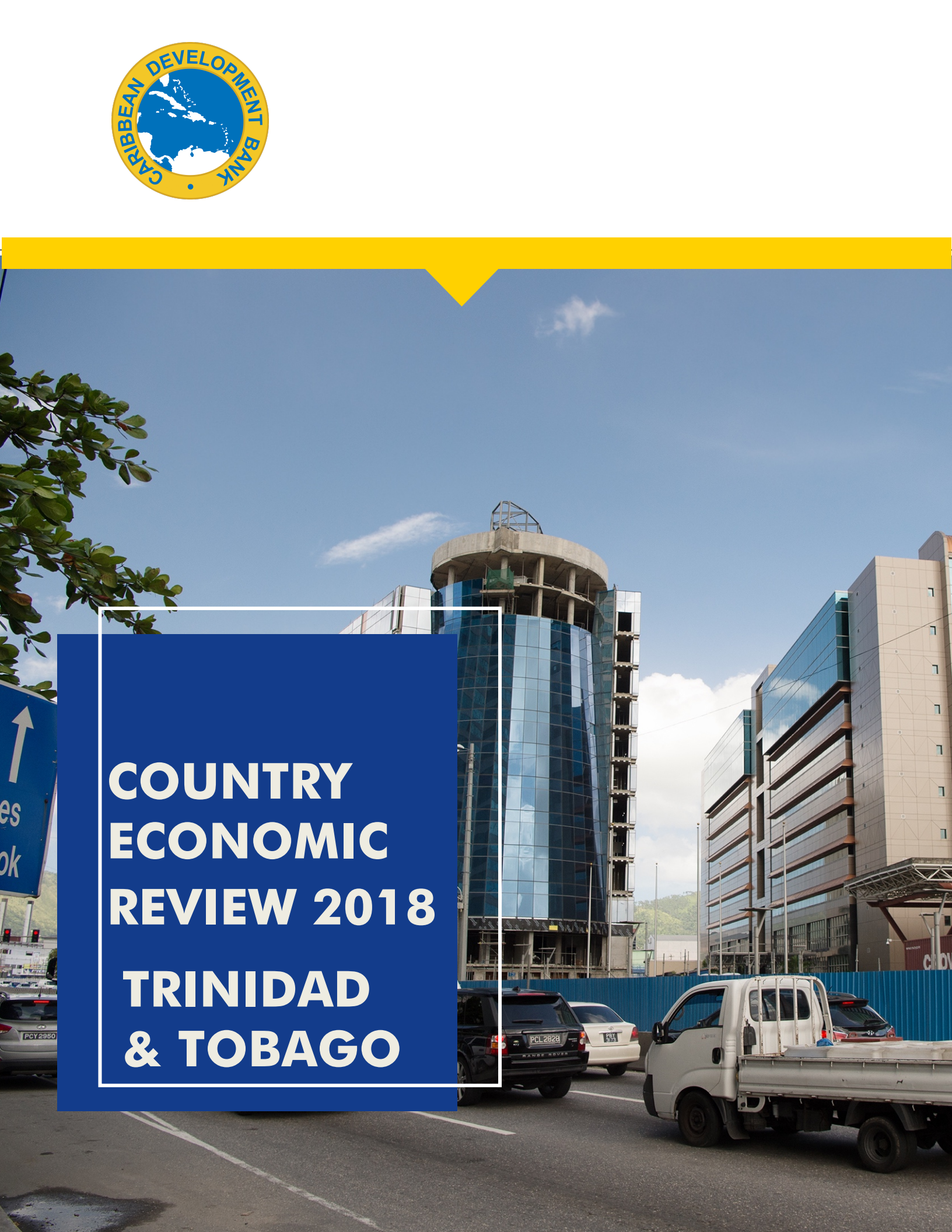




**COUNTRY
ECONOMIC
REVIEW 2018
TRINIDAD
& TOBAGO**



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TRINIDAD AND TOBAGO ECONOMIC BRIEF 2018

OVERVIEW

Provisional estimates of economic activity in Trinidad and Tobago (T&T) point to a turnaround, with growth estimated at 1.9% in 2018. The reinvigoration was largely underpinned by recovery in the manufacturing sector (mainly energy and energy-related). Headline inflation slowed. Sustained fiscal consolidation efforts resulted in a smaller fiscal deficit. Net public debt contracted as a percentage of gross domestic product (GDP). Commercial bank credit to the private sector continued to grow. The Central Bank of Trinidad and Tobago (CBTT) raised the repo rate by 25 basis points to 5.0% in June. Transactions with the rest of the world resulted in an external current account surplus; but the gross reserves recorded further contraction.

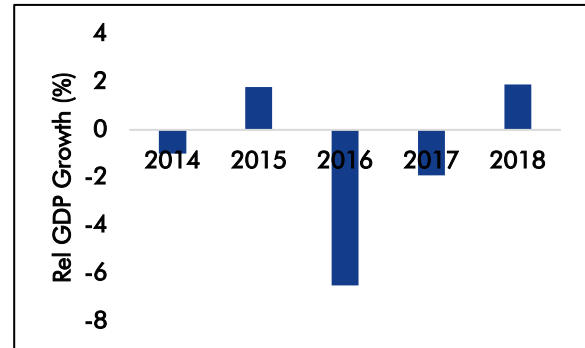
Economic outlook is cautiously upbeat. Output growth is projected to tick up to 2.0% in 2019; and the improvement in fiscal conditions is expected to be sustained. However, risks to the outlook are mainly tilted to the downside.

KEY DEVELOPMENTS IN 2018

According to the Central Statistical Office (CSO), GDP is estimated to have expanded by 1.9% in 2018 (see Chart 1). Preliminary data show that manufacturing was the lead growth sector. Following two consecutive years of contraction, manufacturing expanded by 7.3%. Production of petroleum and chemical products recorded the strongest growth (9.0%) in the sector. The other notable increase came from the manufacturing of

food, beverages and tobacco, which expanded by 5.6%. The reversal was a consequence of increased production and slightly higher average global prices for petroleum products in 2018. The non-energy sector recorded a marginal uptick of 0.1%.

Chart 1: Real GDP Growth



Source: CSO, CDB estimates.

Data to September 2018 indicate that headline inflation¹ (period average) was contained at 1.0% year-on-year. In September, food inflation was zero, after declining for the first time in seven years in August (-0.1%). Core inflation rose by 1.4% in September, from 0.8% in April, reflecting increased costs of home ownership and higher prices for fast food meals. Over the same review period, the Producer Prices Index fell by 0.9%, following a slightly steeper fall in June, lending further support to the low inflationary environment at the retail level.

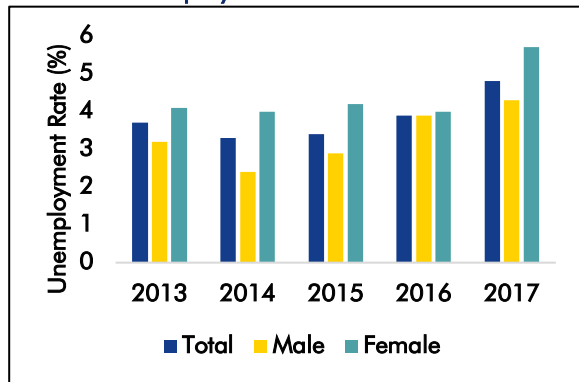
Weak economic conditions compromised employment performance prior to 2018. No data is yet available for 2018². Data for 2017 point to an increase in the unemployment rate to 4.4% in the fourth quarter, from 3.6% in the corresponding period of 2016 (see Chart 2). On an

¹ As measured by the All Items Retail Price Index.

² CSO unemployment data is available only up to the last quarter of 2017.

annualised basis, the unemployment rate was 4.8% in 2017, up from 4.0% in 2016.

Chart 2: Unemployment

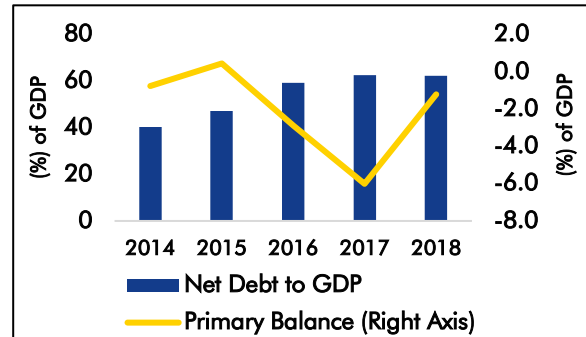


Source: CSO.

Ongoing fiscal consolidation efforts led to improved fiscal balances.

Preliminary estimates indicate that the overall deficit reached 4.0% of GDP in fiscal year (FY) 2018, compared with 9.1% in FY 2017³, while the primary deficit narrowed to 1.2% of GDP from 6.0% over the same period (see Chart 3). The Government achieved an overall reduction in expenditure of 1.7%, with cuts across most categories – most notably, an 8.2% decrease in wages and salaries, and a 5.9% reduction in transfers and subsidies. Meanwhile, total revenues increased by 17.8%, mainly based on the introduction of a 35.0% tax bracket for commercial banks; increased receipts from oil companies; and goods and services taxes. Most of the deficit was financed domestically.

Chart 3: Fiscal and Debt Performance



Source: CBTT and Caribbean Development Bank (CDB) Staff Calculations.

Net public sector debt⁴ was estimated at 62.2% of GDP at the end of FY 2018, down from 62.7% a year earlier. The improvement in the debt position is consistent with better fiscal outturns, and the resulting reduction in borrowing requirements for FY 2018.

Monetary conditions tightened somewhat during the course of 2018. Citing a positive economic outturn during the first half of the year, as well as credit growth, low inflation and higher external interest rates, CBTT raised the repo rate by 25 basis points to 5.0% in June. The median prime lending rate also increased by 25 basis points to 9.3%.

Outcomes in the financial sector were mixed in 2018. Provisional data as at October indicate that net credit from the banking system continued its upward trend, although nonperforming loans (NPLs) also increased. Lending to the private sector grew by 3.4% on account of an expansion in credit extended to businesses, and relatively buoyant consumer lending throughout the year. The ratio of gross NPLs to total loans, still one of the lowest in the Region, rose to 3.3% from 2.9%

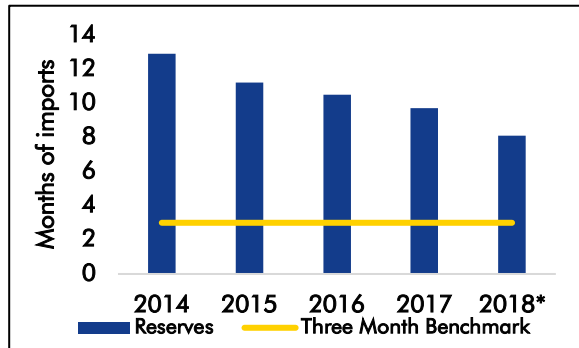
³ FY runs from October to September.

⁴ Excludes all sterilised debt (Treasury Bills, Treasury Notes, Treasury Bonds and Liquidity Bonds).

at the end of 2017. The reported capital adequacy ratio remained relatively stable at 24.3%.

Net official international reserves, although still well above the standard three-month threshold, continued to decline in 2018 (see Chart 4). Compared with the end of 2017, reserves fell by 9.5% to US\$7.6 billion at the end of 2018, the equivalent of eight months of imports. Data to June show that there was a marked improvement in the external current account surplus, which climbed to 17.2% of GDP from 7.4% of GDP in 2017. This outturn was aided by a combination of higher exports and slightly lower imports.

Chart 4: Net Official Reserves



Source: CBTT.

OUTLOOK

The economic outlook for T&T is one of cautious optimism. Real GDP is projected to grow by 2.0% in 2019. Despite the restructuring at Petrotrin, the energy sector is expected to drive growth, particularly in light of increased natural gas output as the Angelin project comes on stream. The performance of the energy sector will likely result in positive spill-over effects into the non-energy sector.

In the near-term, fiscal and debt conditions will continue to improve as energy-related revenues strengthen, and efforts to contain expenditures are maintained. Credit growth is likely to rise, creating positive feedback loops to economic activity. Increased output

from the energy sector is expected to also lead to improvements in the external current account and foreign reserve positions. However, with the energy industry still dominant, the country is vulnerable to a downturn in energy prices. This could negatively impact production, and is therefore a downside risk.

DATA

The table below summarises the key economic (and social) indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision.

Selected Indicators

	2014	2015	2016	2017 ^e	2018 ^e
Real GDP Growth (%)	-1	1.8	-6.5	-1.9	1.9
Average Inflation (%)	5.7	4.7	3.1	1.9	1.0
Unemployment (%)	3.3	3.4	4.0	4.8	5.0
Primary Balance (% of GDP)	-0.7	0.5	-2.9	-6.0	-1.2
Public Sector Debt (% of GDP)	40.4	47.1	59.3	62.7	62.2

Sources: CSO, CBTT, CDB.

e: estimate.