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CREDIT OPINION
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Update

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Government of Trinidad & Tobago - Ba1 stable

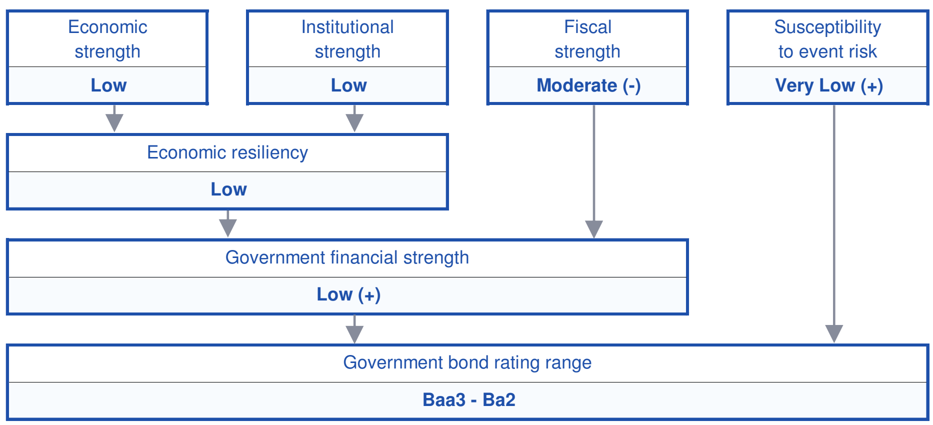
Regular update

Summary

Trinidad and Tobago's credit profile is supported by large financial buffers, relatively high wealth levels, and significant international reserves, which limit external vulnerabilities. Those credit features mitigate credit challenges related to a policy response that has been unable to offset the impact of low energy prices on government revenue. A steady rise in government debt ratios has contributed to an erosion of sovereign creditworthiness.

Exhibit 1

Trinidad and Tobago's credit profile is determined by four factors



Source: Moody's Investors Service

Credit strengths

» High income level relative to peers

» Financial buffers in the Heritage and Stabilization Fund

» Robust international reserves position

Credit challenges

» Large fiscal deficits and rising debt ratios amid limited fiscal consolidation

» Poor quality of macroeconomic data

» Relatively weak policy execution capacity

Rating outlook

The stable outlook incorporates our expectation that capital revenue associated to asset sales would help reduce government borrowing requirements and lead to relatively stable government debt ratios around 64% of GDP. The stable outlook captures the presence of sizeable fiscal buffers that limit downside credit risks, as well as the government's ample access to a relatively deep domestic financial market.

Factors that could lead to an upgrade

An economic policy response that proves effective in reversing the rise in government debt levels would be supportive of a rating upgrade. A sustained increase in oil and gas production, which materially improves medium-term economic growth prospects would potentially lead to an upgrade.

Factors that could lead to a downgrade

The rating would likely be downgraded if limited fiscal consolidation leads to deficits significantly higher than those we currently envision. A material reduction of fiscal buffers -- i.e., assets held in the Heritage Stabilization Fund -- would undermine creditworthiness lead to a downgrade.

Key indicators

Exhibit 2

Trinidad & Tobago[1]	2012	2013	2014	2015	2016	2017E	2018F	2019F
Real GDP (% change)	1.3	1.0	-0.3	1.5	-6.0	-1.5	2.1	2.2
Inflation (CPI, % change, Dec/Dec)	9.3	5.2	5.7	4.7	3.1	1.9	2.5	3.0
Gen. gov. financial balance/GDP (%)[2]	-2.1	-3.1	-2.6	-1.7	-5.3	-8.5	-3.4	-3.6
Gen. gov. primary balance/GDP (%)[2]	-0.4	-1.4	-0.8	0.5	-2.8	-5.4	0.0	-0.2
Gen. gov. debt/GDP (%)[2]	39.1	38.5	40.5	47.7	58.5	62.7	63.1	63.6
Gen. gov. debt/revenues (%)[2]	130.1	123.7	120.4	133.7	195.8	247.5	232.5	234.7
Gen. gov. interest payment/revenues (%)[2]	6.0	5.3	5.3	6.0	8.4	12.0	12.5	12.5
Current account balance/GDP (%)	13.2	20.4	14.5	3.8	-11.8	-3.5	-3.0	-2.9
External debt/CA receipts (%)[3][4]	68.5	62.5	80.1	116.6	177.2	137.4	120.6	121.8
External vulnerability indicator (EVI) [5][6]	14.8	16.4	17.9	14.8	14.5	16.5	19.1	20.9

[1] Economic forecasts based on an estimated average price for the benchmark Brent crude oil of $65/b in 2018 and $63/b in 2019. Our broad expectations are that prices will remain volatile within a range of $45-$65 per barrel

[2] Central government; Fiscal years ending September 30, e.g. 2010 refers to fiscal year 2009/10
[3] Current Account Receipts
[4] Fiscal years ending September 30, e.g. 2010 refers to fiscal year 2009/10
[5] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[6] Excludes short-term external debt and total nonresident deposits over one year; External debt amorization data is public sector only

Sources: National Statistical Authorities, Moody's Investors Service

Detailed credit considerations

We assess Trinidad and Tobago's **economic strength** as "Low" to reflect the slow pace of economic growth in recent years and the economy's relatively small size – factors that are partly offset by high income levels. Real GDP growth contracted by 0.1% between 2010 and 2017 as a result of the decline in oil prices, maturing oil and gas fields, and because of repeated disruptions to gas production. Growth prospects remain subdued given the sluggish recovery in the non-energy sector, while an increase in gas production and higher prices support activity in the energy sector. We have set the score of economic strength at "Low," which is below the indicative score of "Low (+)," to account for the limited prospects of further economic diversification away from oil.

The score for **institutional strength** is set at “Low,” which is below the indicative score of “Moderate (+).” In addition to quantitative governance indicators, the final assessment incorporates the lack of timely macroeconomic data to inform policy as well as weak fiscal policy execution capacity. Although it remains a constraint on effective policy execution, some progress has been made with respect to macroeconomic data reporting which, if sustained, could support institutional strength over time.

The **fiscal strength** score is set at “Moderate (-),” below the indicative score of “Moderate” because debt burden and debt affordability indicators do not fully capture the heavy reliance of government revenue on the energy sector and on capital revenue such as asset sales, which cannot be sustained over an extended period. On balance, the country's rising debt burden is offset by low foreign-currency debt and moderate debt affordability indicators. The government has accumulated savings in the Heritage and Stabilization Fund (HSF) of around 27% of GDP, which it has used to help finance the government deficit, limit the increase in debt and keep interest costs down.

We assess Trinidad and Tobago's **susceptibility to event risk** as “Very Low (+),” driven by government liquidity risk, reflecting limited risks due to ample access to a relatively deep domestic financial market. Indications of foreign exchange shortages as well as the emergence of a parallel market for US dollars suggest downward pressure on the exchange rate. External pressures, however, are contained given a robust international reserves position at 9 months of imports and an External Vulnerability Indicator (EVI) of 19%. The final score for external vulnerability risk is set at “Very Low (-),” which is below the indicative score of “Very Low (+),” to account for improved current account prospects based on a recovery of the oil price as well increased gas production. We assess Trinidad and Tobago's banking sector risk as “Very Low (-)” to reflect little risk of contingent liabilities stemming from the banking system, which remains well capitalized, profitable, and liquid. Political risk is “Very Low,” reflecting limited risks of political instability and popular support for maintaining the Heritage and Stabilization Fund.

Recent developments

Energy sector drives economic recovery; performance of non-energy sector remains weak

The Central Bank of Trinidad and Tobago’s quarterly index of real economic activity shows an expansion in the energy sector beginning in Q3 2017, while output in the non-energy sector continues to contract. The recovery in energy-sector activity reflects higher prices and increase production of natural gas. New production at the Juniper platform drove an increase in natural gas production, while crude oil production has faced production challenges. Limited data for Q4 2017 point to a continuation of this trend. Natural gas production increased 6.5% year-over-year in the last quarter of 2017, crude petroleum production contracted 2% year-over-year. Measures of activity in the non-energy sector, such as new motor vehicle sales and cement production, contracted 15% and 7% year-over-year, respectively.

Fiscal deficit narrows on higher energy prices and expenditure restraint

The central government’s fiscal balance improved in the first quarter of FY 2017-18, according to the Central Bank of Trinidad and Tobago’s March Economic Bulletin. Based on data through the first three months of the fiscal year, from October 2017 to December 2017, the fiscal deficit narrowed to TT$ 228 million, compared with a TT$ 2,468 million deficit in the same period a year ago. With oil prices above $50 per barrel, the government will collect the Supplemental Petroleum Tax (SPT), while we also expect the 12.5% royalty rate announced in the FY 2017-18 budget to boost energy-related revenue. The improvement in the government’s fiscal balance through the first quarter, driven by higher global energy prices, if continue, will result in a smaller fiscal deficit in the current fiscal year.

The narrowing of the fiscal deficit reflects the boost from higher energy prices, increased natural gas production, and expenditure restraint. Energy-related revenue were up by 92% year-over-year in the first quarter of FY 2017-18, reaching 22% of the full-year budget target. In FY 2016-17, energy-related revenue were just 17.6% of the full-year budget target. Higher energy-related revenue are driven by a combination of increased natural gas production, which rose 7% year-over-year in the first quarter, and higher oil prices – WTI crude averaged $55.5 per barrel between October and December 2017, a 13% year-over-year increase. Non-energy revenue increased 9% year-over-year during the first three months of the fiscal year driven by increased tax collection. Government expenditures declined 11% year-over-year, with lower spending across most categories, including spending on goods and services as well as transfers and subsidies.

Current account deficit narrows, but international reserves declined

The central bank reported the current account deficit narrowed to 3.8% of GDP through the first nine months of 2017, a significant reduction from the 9.4% of GDP deficit during the same period in 2016. Energy exports, which make up an estimated 78% of total exports drove the 20% year-over-year increase in total exports. Meanwhile, imports of goods were nearly stagnant in the first nine months of 2017 over the same period a year earlier, as capital imports contracted 41% year-over-year. The financial account recorded net inflows of just $69 million, compared with $1,580 million in the same period a year ago. The decline in net inflows mostly reflected in a reversal of net portfolio investment, which recorded $164 million outflow in the first nine months of 2017, compared with net inflows of $1,108 million a year earlier. The overall balance of payments recorded a deficit of $959.2 million, or 5.8% of GDP. As a result, reserves declined to $7,987.9 million at the end of December 2017, representing 9 months of imports.

Rating methodology and scorecard factors

Rating factors grid - Trinidad & Tobago

Rating factors	Sub-factor weighting	Indicator	Indicative factor score	Final factor score
Factor 1: Economic strength			L+	L
Growth Dynamics	**50%**			
Average real GDP growth (2012-2021F)		0.5		
Volatility in real GDP growth (standard deviation, 2007-2016)		3.4		
WEF Global Competitiveness index (2017)		4.1		
Scale of the economy	**25%**			
Nominal GDP (US$ billion, 2016)		22.3		
National income	**25%**			
GDP per capita (PPP, US$, 2016)		31,770		
Automatic adjustments	**[-3; 0]**	Scores applied		
Credit boom		0		
Factor 2: Institutional strength			M+	L
Institutional framework and effectiveness	**75%**			
Worldwide Government Effectiveness index (2016)		0.2		
Worldwide Rule of Law index (2016)		-0.2		
Worldwide Control of Corruption index (2016)		-0.3		
Policy credibility and effectiveness	**25%**			
Inflation level (%, 2012-2021F)		2.7		
Inflation volatility (standard deviation, 2007-2016)		2.9		
Automatic adjustments	**[-3; 0]**	Scores applied		
Track record of default		0		
Economic Resiliency (F1xF2)			**M**	**L**
Factor 3: Fiscal strength			M	M-
Debt burden	**50%**			
General government debt/GDP (2016)		58.5		
General government debt/revenue (2016)		195.8		
Debt affordability	**50%**			
General government interest payments/revenue (2016)		8.4		
General government interest payments/GDP (2016)		2.5		
Automatic adjustments	**[-6; +4]**	Scores applied		
Debt trend (2013-2018F)		-2		
Foreign currency debt/general government debt (2016)		-2		
Other non-financial public sector debt/GDP (2016)		0		
Public sector assets/general government debt (2016)		1		
Government financial strength (F1xF2xF3)			**M**	**L+**
Factor 4: Susceptibility to event risk	**Max. function**		VL+	VL+
Political risk			*VL*	*VL*
Worldwide voice & accountability index (2016)		0.6		
Government liquidity risk			*VL+*	*VL+*
Gross borrowing requirements/GDP		9.3		
Non-resident share of general government debt (%)		26.4		
Market-Implied Ratings		Baa3		
Banking sector risk			*VL-*	*VL-*
Average baseline credit assessment (BCA)		--		
Total domestic bank assets/GDP		93		
Banking system loan-to-deposit ratio		49		
External vulnerability risk			*VL+*	*VL-*
(Current account balance + FDI Inflows)/GDP		-12.9		
External vulnerability indicator (EVI)		19.1		
Net international investment position/GDP		--		
Government bond rating range (F1xF2xF3xF4)			**Baa1 - Baa3**	**Baa3 - Ba2**
Assigned foreign currency government bond rating		**Ba1**		

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Sovereign Bond Rating Methodology.

Footnotes: (1) Indicative factor score: rating sub-factors combine with the automatic adjustments to produce an Indicative factor score for every rating factor, as detailed in Moody's Sovereign Bond Methodology. **(2) Final factor score:** where additional analytical considerations exist, Indicative factor scores are augmented to produce a Final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Bond Methodology; details on country-specific considerations are provided in Moody's research. **(3) Rating range:** Factors 1: Economic strength, and Factor 2: Institutional strength, combine with equal weight into a construct we designate as Economic Resiliency or ER. An aggregation function then combines ER and Factor 3: Fiscal strength (FS), following a non-linear pattern where FS has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's susceptibility to event risk, is a constraint which can only lower the preliminary government financial strength rating range as given by combining the first three factors. **(4) 15 Ranking categories:** VH+, VH, VH-, H+, H, H-, M+, M, M-, L+, L, L-, VL+, VL, VL- **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

Moody's related publications

- » **Sector In-Depth:** Small island credit profiles resilient to near-term climate shocks, but climate trends pose longer-term risks, December 2017
- » **Issuer Comment:** 2018 budget primarily relies on fiscal consolidation through windfall revenues and increased tax collection, October 2017
- » **Issuer Comment**: Mid-year budget review signals benefits from higher oil prices, but fiscal challenges remain sizeable, June 2017
- » **Credit Analysis**: Government of Trinidad and Tobago, May 2017
- » **Country Statistics**: Government of Trinidad and Tobago, November 2017
- » **Outlook**: Latin America & Caribbean: 2018 outlook stable as growth momentum offsets rising debt and policy uncertainty, January 2018
- » **Rating Methodology**: Sovereign Bond Ratings, December 2016

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