S&P Global Market Intelligence RatingsXpress® Credit Research

Trinidad and Tobago

26-Jul-2023

This report does not constitute a rating action.

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
The hydrocarbon sector will continue to support Trinidad and Tobago's economy despite some softening in prices this year from high levels in 2022.	Energy-related revenues support government fiscal balances; while still-limited monetary policy tools are offset by sizable government financial assets.
--We believe Trinidad and Tobago's economy will expand by 2.5% in 2023 and 1.7% in 2024, reflecting still supportive global energy prices, oil and gas production in line with prior-year levels, and continued growth in the non-energy sector.	--Government revenues improved significantly last year, and we expect they will remain relatively high over the next few years. --Higher revenues will help limit debt issuance needs, while a growing economy should keep the government net debt-to-GDP ratio below 30%.
--We forecast GDP per capita will reach $22,500 by year end.	--Exports increased about 50% year over year in 2022, and we expect they will decline slightly while remaining above historical levels. Continued current account surpluses will also help slow the decline in central bank reserves, while significant government liquid assets limit fiscal and external financing risks.
--Institutional stability will continue to underpin the country's creditworthiness, but the government will likely make only gradual progress on reforms that could strengthen revenues and governance.	--A heavily managed exchange rate and a small open economy will continue to limit the effectiveness of monetary policy.

Our BBB-/Stable/A-3 rating reflects Trinidad and Tobago's favorable external profile and stable democracy. It also reflects still-solid government financial assets that mitigate the effect of economic cycles on fiscal and external performance. Although the positive effects of one such cycle led the country to have an exceptional year in 2022, marked by surging exports and a fiscal surplus, we do not expect exports and fiscal balances will be as strong in 2023. The government used the surplus to accelerate value added tax (VAT) refund payments and contribute to the Heritage and Stabilization Fund (HSF).

In 2023, we expect gas production will decline slightly from the previous year and oil production will rise slightly. Lower commodity prices will lead to falling export values year over year. We expect Trinidad and Tobago's economic growth to be 2.5% in 2023, and 1.7% in 2024.

We expect the government will return to fiscal deficits in the current fiscal year of about 2.3% of GDP. We do not expect net debt will rise materially, and it will remain below 30% of GDP, supported by assets held in the country's HSF. We expect the government will refinance an upcoming bond of $550 million that matures in early 2024.

Outlook

The stable outlook indicates S&P Global Ratings' view that Trinidad and Tobago's economy will continue expanding over the next two years, and this will support government revenue collection and help stem the rise in government debt, while energy exports will support the country's external balances.

Downside scenario

We could lower the rating over the next two years if GDP per capita fails to recover to the degree that we anticipate, and the pace of fiscal consolidation is materially slower than expected. Similarly, economic policies that contribute to a weakening of the long-term sustainability of public finances, limit the prospects for balanced GDP growth, or materially worsen the country's external position beyond our base-case scenario could also result in a lower rating.

Upside scenario

We could raise the rating over the next 24 months if stronger economic performance and favorable long-term GDP growth prospects lead to a sustained decline in the government's debt burden and ease external pressures.

Rationale

Institutional and economic profile: The hydrocarbon sector will continue to support Trinidad and Tobago's economy despite some softening in prices this year.

- We believe GDP will expand by 2.5% in 2023 and 1.7% in 2024, reflecting still reasonably supportive global energy prices, oil and gas production in line with prior-year levels, and continued growth in the non-energy sector.
- We forecast GDP per capita will reach $22,500 by year end.
- Institutional stability will continue to underpin creditworthiness, but the government will likely make only gradual progress on reforms that could strengthen revenues and improve the quality of governance.

With an economy that is heavily dependent on oil, gas, and petrochemicals, Trinidad and Tobago will benefit from fairly strong oil prices through the end of 2023 and into 2024; however, we expect that lower gas prices year over year will temper GDP contribution from that sector. We have lowered our natural gas price forecasts, and now forecast Henry Hub natural gas will average $2.50 per million Btu (/mmBtu) for the rest of 2023, compared with the forecast of $5.50/mmBtu one year ago. Our 2023 price forecast for West Texas Intermediate (WTI) remains an average of $80 per barrel (/bbl) and for Brent an average $85/bbl for the remainder of 2023 (see "**S&P Global Ratings Lowers Hydrocarbon Price Assumptions On Moderate Demand**," published June 22, 2023, on RatingsDirect).

Oil production peaked in Trinidad and Tobago in 1978, while natural gas production took off in the 1990s. The country's oil and gas reserves are declining, highlighting the importance of sanctioning new gas projects to maintain output. New projects will likely occur in deeper waters, which can be more difficult and costly. The government expects oil output to increase over the next few years, and gas production to fall. Overall, we project economic growth of 2.5% this year and 1.7% next year, reflecting our expectations for both the energy and non-energy sectors. Over the medium term, we expect global energy prices will continue to spur fluctuations in Trinidad and Tobago's economy. Declining hydrocarbon reserves and the global energy transition away from oil will weigh on the country's economy, emphasizing the importance of diversification.

Problems with energy production, exacerbated by mature energy fields and pandemic-related supply chain disruptions affecting maintenance and production capacity, dampened the economy in recent years and affected production to a lesser degree in 2022. We expect that 10-year, weighted-average real GDP per capita trend growth will reach 0.68% in 2023, which is below that of other countries with similar income levels. We expect GDP per capita will reach $22,500 in 2023.

Trinidad and Tobago's carbon dioxide emissions are high on a per capita basis and its dependence on hydrocarbons exposes the country to environmental transition risks in the long term. However, the risks could be partially offset in the near term by the country's integrated energy model as a producer of natural gas and downstream products like ammonia, which can be a vector for hydrogen. The government is working to facilitate the production of alternatives, including hydrogen and steam utilization, as well as greater use of renewable electricity from solar energy.

Energy production, policy reforms, and rising government debt stock will test the People's National Movement (PNM) administration, which was re-elected in August 2020. Since the start of its previous term in 2015, the government has faced a difficult economy affected first by a fall in commodity prices and later by the pandemic. It has gradually adjusted its policies but there have been persistent delays in making reforms. The government now expects that the long-anticipated Revenue Authority, for which a board of directors has been appointed, will be fully operational this year. The authority will combine the functions of inland revenue and customs and excise revenue collection. The government also made progress in lowering fuel subsidies in the last fiscal year. However, it has not yet implemented the National Statistical Institute.

Despite these issues, we expect that Trinidad and Tobago's parliamentary democracy and social cohesion will anchor its political stability and predictability. The PNM holds 22 of 41 seats in the Lower House of Parliament. Although the governing party lacks the three-fifths majority required to pass certain legislation, we believe that the PNM and the main opposition party, the United National Congress, share a similar approach to economic policies, including support for private and foreign enterprise, while maintaining a large public sector. The next election is due by 2025.

Flexibility and performance profile: Energy-related revenues are supporting government fiscal balances; still-limited monetary policy tools are offset by sizable financial assets.

- Government revenues improved significantly last year, as expected, and we forecast revenues will remain relatively high over the next few years.
- Higher revenues will help limit the need to issue additional government debt, while a growing economy should keep the sovereign net debt-to-GDP ratio below 30%.
- Trinidad and Tobago’s exports increased about 50% year over year in 2022, and we expect they will decline slightly while remaining stronger than historical levels. Continued current account surpluses will also help slow the decline in central bank reserves, while significant government liquid assets limit fiscal and external financing risks.
- A heavily managed exchange rate and a small open economy will continue to limit the effectiveness of monetary policy.

Developments in the energy sector, both on pricing and production, will continue to have a significant effect on government revenues in fiscal 2023. High commodity prices propelled a stronger than expected fiscal outcome in 2022. Last fiscal year, the government posted a surplus of 0.5% of GDP and contributed $164 million to the HSF. The government also made use of its strong revenues to accelerate VAT refund payments. For the first seven months of fiscal 2023, total government revenues are performing largely in line with the budget, while expenses have been revised up 4.5%. Energy sector revenues represented more than one-quarter of total government revenues in the past five years. We expect the general government deficit will rise to 2.3% of GDP in fiscal 2023 from a surplus of 0.5% in fiscal 2022. Thereafter, we expect the deficit will average 2.2% for fiscal years 2024-2026. We forecast that the change in net general government debt will average 2.2% of GDP from 2023-2026.

The government's large liquid financial assets mitigate the effect of economic cycles on the country's fiscal performance. These assets include a sovereign wealth fund (the HSF) and other liquid funds such as treasury deposits and other deposits held at the central bank. We estimate these assets will represent about 37% of GDP during the outlook horizon. Although drawdowns during the pandemic and a difficult investment environment last year led to a decrease in the size of the HSF, we do not anticipate further drawdowns in the near term. Unlike many commodity exporters, during boom years Trinidad and Tobago saves excess fiscal revenues in the HSF. (The fund was created in 2007 to generate public sector savings to reduce volatility from fluctuating energy prices.)

We expect HSF liquid assets will average more than 14% of GDP during 2023-2024. These assets, together with those mentioned above, will result in a net general government debt position (net of liquid assets) averaging 25.6% of GDP in the next four years. Our calculation of net debt does not include some debt instruments managed by the central bank that reflect open-market operations. These instruments are issued for liquidity management and monetary policy purposes. This category of debt has decreased significantly in recent years. At the same time, the increase in government revenues will help to mitigate the impact of rising interest rates on the ratio of general government interest payments to revenues, which we expect will average 10% over the next four years.

Our view of the government's debt profile is affected by contingent liabilities from the nonfinancial public sector (NFPS) enterprises, which we deem to be moderate. We estimate that total NFPS debt, not already included in our calculations of general government debt, is about 10% of GDP. One of the larger contributors to this debt is Trinidad Petroleum Holdings Ltd. (TPHL), a fully state-owned company following the reorganization of Petrotrin. The Ministry of Finance is the sole shareholder of TPHL and, given its policy importance, we ascribe a very high likelihood of the company receiving extraordinary support from the government, if required. The company's financial profile, with a stand-alone credit profile of 'b-', is weak. In addition, several other state-owned energy companies have weak financial profiles, and the ratings on them benefit from the likelihood of extraordinary government support. In contrast, we deem contingent liabilities from the financial sector as limited. This reflects system assets of about 90% of GDP and our Banking Industry Country Risk Assessment of "6" (with '1' being the lowest risk category and '10' the highest.)

The HSF, plus central bank reserves, and other liquid external assets, will sustain a favorable net external asset profile during the outlook horizon. We forecast a current account surplus, as energy exports remain healthy, averaging about 8% of GDP from 2023-2026. However, financial account outflows will somewhat offset the impact of these surpluses on central bank reserves. Historically, large errors and omissions in the current account complicate the analysis of the balance of payments. Errors and omissions outflows have been about 7% of GDP annually, on average, over the past 10 years. Although the central bank has worked to lower these unaccounted outflows, preliminary estimates for 2022 report them as almost $2.4 billion, or about 7% of GDP.

We believe central bank intervention in the foreign exchange market will also weigh on reserves. We estimate gross external financing needs will average 62% of current account receipts and usable reserves from 2023-2026. Trinidad and Tobago's external accounts depend significantly on the energy sector, which accounts for more than 80% of total exports, exposing the country to volatility in terms of trade.

A heavily managed exchange rate and a small open economy effectively limit the role of monetary policy. The central bank has sustained a quasi-fixed exchange rate since 2016. Since then, U.S. dollar shortages have constrained economic activity, weakening local businesses' ability to pay suppliers and obtain key imports. The central bank lowered its repurchase rate to 3.5% from 5.0% at the start of the pandemic in a more accommodative monetary policy stance, and has kept the rate at that level since. As U.S. Treasury rates rise, the interest rate differential between local securities and U.S. Treasuries has once again become negative, which could have implications for capital outflows. Inflation has historically been low, averaging 2.1% over the past five years. However, Trinidad and Tobago, like many other countries, faced higher-than-usual inflation in 2022 (5.8%), and we expect price level growth will remain high at about 5.1% this year before falling to 2% in the next three years.

Trinidad and Tobago--Selected Indicators

	2017	2018	2019	2020	2021	2022	2023bc	2024bc	2025bc	2026bc
Economic indicators (%)										
Nominal GDP (bil. TT$)	161.3	164.7	161.1	142.2	165.3	198.9	207.9	219.6	229.5	238.0
Nominal GDP (bil. $)	23.8	24.3	23.9	21.1	24.5	29.4	30.9	32.6	34.1	35.3
GDP per capita (000s $)	17.2	17.5	17.1	15.1	17.9	21.6	22.5	23.7	24.7	25.6
Real GDP growth	(4.7)	(0.9)	0.1	(7.7)	(1.0)	2.1	2.5	1.7	1.7	1.7
Real GDP per capita growth	(5.2)	(1.3)	(0.3)	(8.0)	1.3	2.2	2.2	1.4	1.4	1.4
Real investment growth	(4.7)	(0.9)	0.1	(7.7)	(1.0)	2.1	2.5	1.7	1.7	1.7
Investment/GDP	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
Savings/GDP	17.7	18.4	16.0	5.3	22.8	30.0	25.7	20.9	17.2	17.3
Exports/GDP	36.7	43.3	30.2	26.2	35.2	44.1	35.9	31.2	27.5	27.1
Real exports growth	8.1	16.9	(30.3)	(19.8)	33.1	27.8	(16.7)	(11.4)	(10.5)	0.0
Unemployment rate	4.8	3.9	4.3	5.6	5.4	4.9	6.5	6.5	6.5	6.5
External indicators (%)										
Current account balance/GDP	5.9	6.7	4.3	(6.4)	11.0	18.3	14.0	9.1	5.5	5.5
Current account balance/CARs	12.1	13.1	9.7	(18.7)	21.7	28.8	27.0	20.2	13.8	14.0

CARs/GDP	49.0	51.2	44.1	34.5	50.8	63.5	51.8	45.2	39.7	39.2
Trade balance/GDP	13.4	17.0	11.5	4.7	19.3	31.2	22.8	18.5	14.7	14.4
Net FDI/GDP	(1.9)	(3.2)	0.3	4.6	(7.0)	(7.1)	(3.7)	(3.8)	(3.6)	(3.5)
Net portfolio equity inflow/GDP	(0.8)	(0.1)	0.5	0.2	(2.0)	1.1	0.0	0.0	(0.1)	(0.1)
Gross external financing needs/CARs plus usable reserves	57.3	60.2	67.9	83.1	59.4	60.8	61.4	60.3	62.1	64.4
Narrow net external debt/CARs	(66.0)	(55.6)	(56.9)	(89.7)	(51.6)	(29.0)	(38.7)	(42.3)	(40.3)	(34.3)
Narrow net external debt/CAPs	(75.1)	(64.0)	(63.0)	(75.5)	(65.8)	(40.7)	(53.0)	(52.9)	(46.7)	(39.9)
Net external liabilities/CARs	(39.9)	(28.6)	(40.1)	(30.8)	(43.1)	(40.0)	(58.6)	(72.3)	(82.3)	(84.6)
Net external liabilities/CAPs	(45.4)	(32.8)	(44.4)	(26.0)	(55.0)	(56.1)	(80.3)	(90.5)	(95.5)	(98.4)
Short-term external debt by remaining maturity/CARs	15.9	13.8	26.6	43.6	14.2	12.0	14.6	15.9	17.3	16.9
Usable reserves/CAPs (months)	11.1	9.3	9.6	9.7	8.6	6.2	7.0	8.8	9.3	8.3
Usable reserves (Mil. $)	8,370.2	7,575.1	6,928.6	6,954.2	6,880.2	6,833.1	8,655.5	9,027.1	8,262.9	7,578.0
Fiscal indicators (general government %)										
Balance/GDP	(8.4)	(3.5)	(2.5)	(11.7)	(7.5)	0.5	(2.3)	(2.0)	(2.2)	(2.5)
Change in net debt/GDP	2.1	(1.2)	2.9	14.4	3.5	2.6	2.2	2.0	2.2	2.5
Primary balance/GDP	(5.6)	(0.6)	0.6	(8.2)	(4.5)	3.0	0.3	0.5	0.2	(0.1)
Revenue/GDP	22.4	26.2	29.0	24.2	22.5	27.3	26.7	23.3	21.8	21.1
Expenditures/GDP	30.8	29.7	31.5	35.9	30.0	26.7	29.0	25.3	24.1	23.6
Interest/revenues	12.4	11.1	10.8	14.7	13.3	9.0	9.7	10.6	11.1	11.4
Debt/GDP	53.8	53.6	61.1	82.0	75.6	64.5	64.0	62.6	62.1	62.4
Debt/revenues	239.7	204.5	210.5	339.4	335.1	236.6	239.2	268.9	284.2	296.2
Net debt/GDP	7.9	6.5	9.6	25.2	25.2	23.6	24.8	25.4	26.5	28.0
Liquid assets/GDP	45.9	47.1	51.5	56.8	50.3	40.9	39.2	37.2	35.6	34.4
Monetary indicators (%)										
CPI growth	1.9	1.0	1.0	0.6	2.1	5.8	5.1	3.9	2.8	2.0
GDP deflator growth	8.1	3.0	(2.3)	(4.4)	17.5	17.8	2.0	3.8	2.8	2.0
Exchange rate, year-end (TT$/$)	6.8	6.8	6.8	6.7	6.8	6.7	6.7	6.7	6.7	6.7
Banks' claims on resident non-gov't sector growth	3.2	4.7	6.2	(1.6)	0.7	5.9	3.9	4.8	3.9	3.2
Banks' claims on resident non-gov't sector/GDP	44.7	45.8	49.7	55.4	48.0	42.2	42.0	41.6	41.4	41.2
Foreign currency share of claims by banks on residents	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	26.4	26.0	24.8	24.7	25.5	24.6	23.27	21.80	20.64	19.70

Real effective exchange rate growth	(2.2)	(1.4)	1.7	1.0	(3.1)	3.8	N/A	N/A	N/A	N/A

Sources: International Monetary Fund, Trinidad and Tobago Ministry of Finance, Central Bank of Trinidad and Tobago (Economic Indicators), Central Bank of Trinidad and Tobago and International Monetary Fund (External Indicators), Trinidad and Tobago Ministry of Finance, International Monetary Fund, The National Insurance Board of Trinidad and Tobago (Fiscal Indicators), International Monetary Fund, Central Bank of Trinidad and Tobago (Monetary Indicators).

Adjustments: Debt/GDP includes guaranteed debt and debt holding letters of comfort, central bank debt issued for sterilization and open market operation purposes, and deducts government debt held by the National Insurance Board. Net debt/GDP and Liquid assets to GDP inclue assets from the Heritage and Stabilization Fund, liquid assets of the National Insurance Board net of holdings of overnment debt, government deposits at commerical banks and government sinking funds.

Definitions: 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 claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. TT$--Trinidad and Tobago dollar. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. 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.

Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policymaking in recent years, but policy shifts are possible because of significant long-term fiscal challenges. Evolving checks and balances between institutions and statistical information that may be less timely or subject to large revisions.
Economic assessment	4	Based on GDP per capita (US$) as per Selected Indicators in Table 1. Weighted-average real GDP per capita trend growth over a 10-year period is 0.68%, which is below sovereigns in the same rating category.
External assessment	3	Based on narrow net external debt and gross external financing needs/(CAR + usable reserves) as per Selected Indicators in Table 1. The country is exposed to significant volatility in terms of trade, due to its dependence on hydrocarbons. The sovereign’s external data have a historical track record of lacking consistency.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1. Based on liquid assets/GDP as per Selected Indicators in Table 1. Those assets primarily consist of Trinidad and Tobago’s Heritage and Stabilization Fund, treasury assets held at the Central Bank of Trinidad and Tobago and liquid assets of the National Insurance Board of Trinidad and Tobago. The sovereign also has a volatile revenue base, because over a quarter of general government revenue is based on hydrocarbon production, on average.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1. There is some contingent liability risk from non-financial public entities, given the level of ratings uplift from these entities and their level of outstanding debt, which, if included in general government debt, would have a negative impact on the debt assessment.
Monetary assessment	4	The Central Bank intervenes heavily in the foreign exchange market. The operational independence of the central bank is less secure than at better assessments. Annual inflation has averaged below 10% over the past decade.
Indicative rating	bbb-	As per table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BBB-	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	BBB-	

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). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score 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 scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- **General Criteria: Environmental, Social, And Governance Principles In Credit Ratings**, Oct. 10, 2021
- **Criteria | Governments | Sovereigns: Sovereign Rating Methodology**, Dec. 18, 2017
- **General Criteria: Methodology For Linking Long-Term And Short-Term Ratings**, April 7, 2017
- **General Criteria: Principles Of Credit Ratings**, Feb. 16, 2011
- **General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments**, May 18, 2009

Ratings Detail (as of July 26, 2023)*

Trinidad and Tobago	
Sovereign Credit Rating	BBB-/Stable/A-3
Transfer & Convertibility Assessment	BBB
Senior Unsecured	BBB-
Sovereign Credit Ratings History	
21-Jul-2022	BBB-/Stable/A-3
27-Jul-2021	BBB-/Negative/A-3
26-Mar-2020	BBB-/Stable/A-3
09-Jul-2019	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Primary Contact: Jennifer Love, CFA, Toronto 1-416-507-3285; **jennifer.love@spglobal.com**

Secondary Contact: Julia L Smith, Toronto 416-507-3236; **Julia.Smith@spglobal.com**

[redacted]