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Central Bank statement on Moody's downgrade of Trinidad and Tobago

Central Bank is assuring the international community Trinidad and Tobago remains an investment grade destination and is able to fully meet all its debt obligations. The sound credit worthiness of Trinidad and Tobago's natural gas-based economy is firmly supported by the country's strong net external asset position (including assets in the Heritage and Stabilization Fund), low external vulnerability and stable political system.

Central Bank expects Trinidad and Tobago to continue experiencing healthy current account surpluses and strong foreign direct investment (FDI) flows mainly to the energy sector, despite the sharp downturn in oil prices. The recent increase in oil and gas exploration activities especially in the deep water acreages should sustain energy production over the next few years, contributing to moderate economic growth prospects.

Central Bank, therefore, believes the decision by Moody's to downgrade Trinidad and Tobago's credit rating by one notch from Baa1 to Baa2 and change the outlook from stable to negative is unjustified. Moody's has taken the current cyclical decline in oil prices added it to long standing structural issues affecting our natural gas-based economy to recalibrate downwards Trinidad and Tobago's position among its Baa-rated peers. We maintain the global LNG trade and the long term view of the LNG industry must be central to any forward looking analysis of the Trinidad and Tobago economy, not developments solely in the global oil market.

Moody's cited three drivers for its decision to downgrade Trinidad and Tobago's credit rating. The first driver, "persistent fiscal deficits and challenging prospects for fiscal reforms", does not take into account the severe economic circumstances under which fiscal surpluses in the eight years prior to 2009 turned into budget deficits over 2010-2014.

Moody's analysis ignores the three simultaneous shocks Trinidad and Tobago's economy faced from 2009 - the global financial crisis, the end of the country's third energy boom and the eruption of the CLICO crisis. No country amongst Trinidad and Tobago's Baa-rated peers grappled with three simultaneous economic shocks from 2009. Even so, Trinidad and Tobago's fiscal and debt metrics are not alarming and have not deteriorated, especially in relation to its Baa-rated peers. While Trinidad and Tobago recorded consecutive fiscal deficits since 2009, these have been

moderate, ranging between 1-3% of GDP from 2010 to 2014, helping to keep net public sector debt well below a very comfortable 20 % of GDP.

In its ratings rationale, Moody's indicated the Government should have used the Heritage and Stabilization Fund (HSF) to cushion the impact of sharply falling oil prices on the economy. This rationale fails to consider the fact nearly 70% of energy revenues are derived from the natural gas sector and the remainder comes from oil. More importantly, fiscal adjustment must be the first response to a negative external shock. When oil prices started slipping, Central Bank advised Government to resist the temptation to dip into the HSF, but rather to cut public spending, which Government is implementing, and to use the HSF only as an absolute last resort measure. We still believe this is the most prudent course of action and a sentiment widely supported by the national community.

The second driver Moody's used was the “decline in oil prices and limited economic diversification to weigh negatively on economic growth prospects”. Moody’s analysis neglects the fundamental differences between the global LNG trade and the global oil market. Almost ¾ of Trinidad and Tobago’s LNG exports are sold at guaranteed, fixed long-term contract prices in various regions around the world. This diversification of our LNG export market buffers the negative impact of low energy prices on our fiscal accounts and economic growth. Furthermore, prices are falling with respect to spot LNG trades, not guaranteed LNG contract prices. Even so, on the U.S. East Coast we receive substantially higher spot LNG prices than the spot Henry Hub natural gas price which is typically used as a benchmark.

Moody’s opined a return to higher pre-crisis growth rates seems unlikely for Trinidad and Tobago. This may be so, but it may also be true for Trinidad and Tobago’s Baa-rated peers as well as many other countries around the world, as low growth is currently a global economic reality. The IMF Managing Director recently warned about the risk of a ‘new mediocre’- low growth for a long time- afflicting the world economy.

The third driver that influenced Moody's decision was Trinidad and Tobago’s “weak macroeconomic policy framework and inadequate provision of vital macroeconomic data.” This is a limited view of the progress made by the Central Statistical Office (CSO) in improving the quality, timeliness and production of critical economic statistics over the past year. Central Bank has provided nineteen (19) statistical officers to the CSO to support the production of national accounts, international trade and labour force statistics. In the past year, the CSO revised GDP data spanning 2010 to 2013 and completed GDP fieldwork for 2014. Trade statistics for 2012 and 2013 are ready for public release and trade statistics for 2014 are currently in progress. The labour force report has been released up to the third quarter of 2014, closing the lag by one quarter. Critically, as of April 2015, the Central Bank working with the CSO has resolved other severe data limitations. Firstly, the Quarterly Real GDP rebasing exercise has been almost completed, and secondly, the newly rebased Retail Prices Index (RPI) is due to be launched in May 2015.