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TRINIDAD & TOBAGO

Impact of External Developments on Trinidad and Tobago

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Impact of External Developments on Trinidad and Tobago*

Key Points

1. Trinidad and Tobago is a small energy exporter, well-integrated globally.
2. By 2019 inflation was lower than 2 per cent, with a healthy financial system.
3. Fairly substantial buffers offered cushion to deal with possible shocks...
4. ...alongside a creative, well-educated work force, but bureaucratic rigidities.
5. The COVID-19 pandemic spread rapidly since 2020, with devastating impacts on all aspects of life.
6. The invasion of Ukraine by Russia in 2022 created turbulence in energy and other markets.
7. Inflation soared globally on the back of supply shocks.
8. In response, many central banks initially lowered and then sharply increased interest.
9. While domestic output plummeted due to lockdowns, the public finances and exports benefited from higher energy prices.
10. Central Bank actions focused on supporting an economic recovery and maintaining financial stability.
11. The buffers helped to cushion the domestic impacts.
12. Labour productivity rose, while intensified private sector competition led to additional improvements.
13. Overall there is good room for optimism for Trinidad and Tobago in the wake of recent and ongoing external shocks.
14. New opportunities arise but potentially deep scars need to be addressed.
15. A focused, no-nonsense approach is needed to move domestic service delivery to international standards.



1. Trinidad and Tobago is a small energy exporter, well-integrated globally.

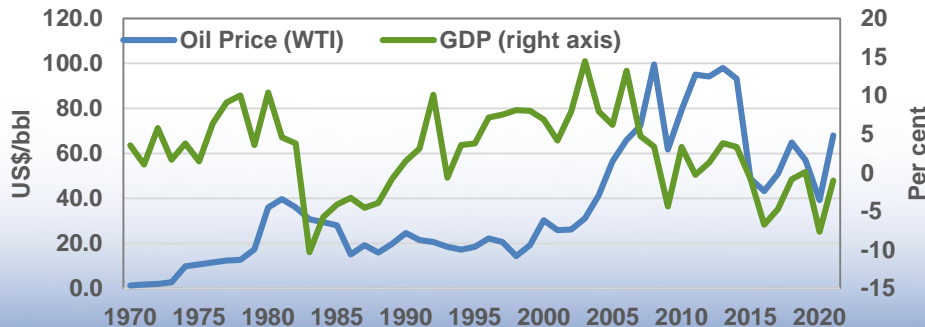


Trinidad and Tobago is a small **open, twin island** Caribbean state.

The economy is based heavily on oil and gas production and **energy exports** are the main source of the country's foreign currency earnings and Government revenue.

As such, the country's economic performance is directly linked to fluctuations in **international energy prices**.

Chart 1: GDP Growth and Oil Price



Sources: Central Statistical Office and Bloomberg

Table 1: Trinidad and Tobago – Selected Indicators

	2021
Size	5,128 sq. km
Population	1.37 million
Adult Literacy Rate	99%
GDP	US\$24.5 billion
Energy Sector/Total GDP	27%
Per Capita GDP	US\$17,889.59
Government Energy Revenue/Total Revenue	54.3%
Trade to GDP	71.3%

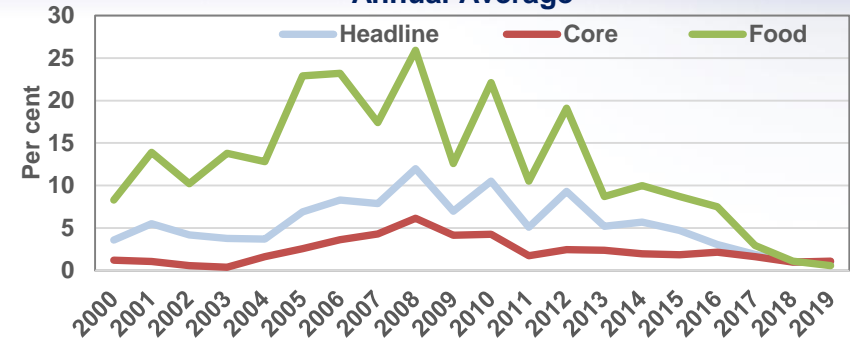
Sources: Central Statistical Office, Ministry of Finance and Central Bank of Trinidad and Tobago



2. By 2019 inflation was lower than 2 per cent, with a healthy financial system.

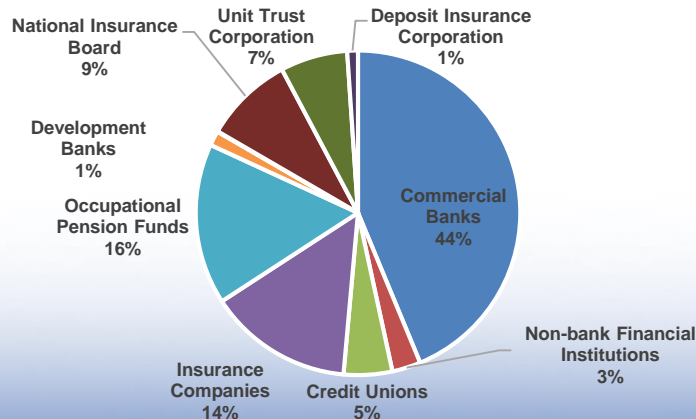
- **Headline, food and core inflation** had dropped to the low single digits between 2017 and 2019.
- **Monetary policy** instruments were centered on the **repo rate** and **open market operations**.
- The financial system in 2019 was fairly well diversified. **Banks and insurance** companies in particular were generally **well capitalised** and **profitable** with **good asset quality** and high **liquidity**.

Chart 2: Index of Retail Prices – Per cent Change Annual Average



Source: Central Statistical Office

Chart 3: Financial System Total Assets - 2019



Source: Central Bank of Trinidad and Tobago

Table 2: Financial Soundness Indicators - 2019

	Capital Adequacy	Asset Quality	Liquidity	Profitability
Commercial Banks	Regulatory Capital to Risk Weighted Assets	Nonperforming Loans to Total Loans	Liquid Assets to Total Assets	Return on Equity
	19.2	2.9	21.8	24.9
Long Term Insurance	Capital to Assets	(Real estate + unquoted equities + debtors)-to-total assets	Liquid Assets to Current Liabilities	Return on Equity
	23.2	8.4	24.0	16.7



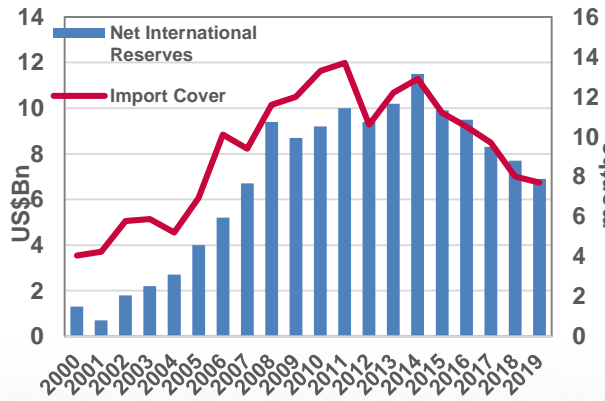
3. Fairly substantial buffers offered cushion to deal with possible shocks...

International reserves represented 7.7 months of import cover at the end of 2019.

The **sovereign wealth fund** (Heritage and Stabilisation Fund (HSF)) had grown to over US\$6 billion – about the same size as international reserves.

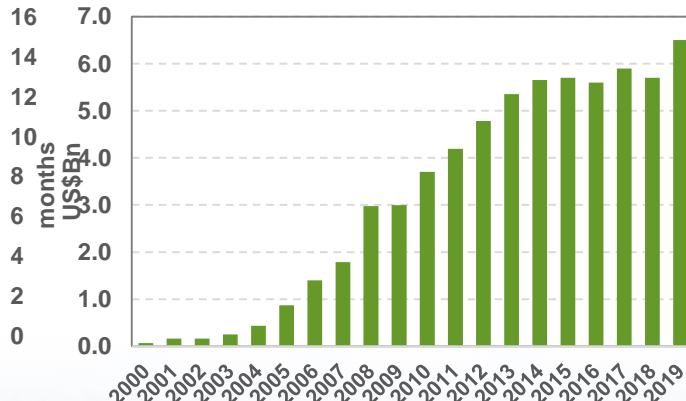
There was still reasonable **fiscal space**, although total General Government debt had started to pick up, mainly on the domestic side, as external debt remained low.

Chart 4: Net International Reserves



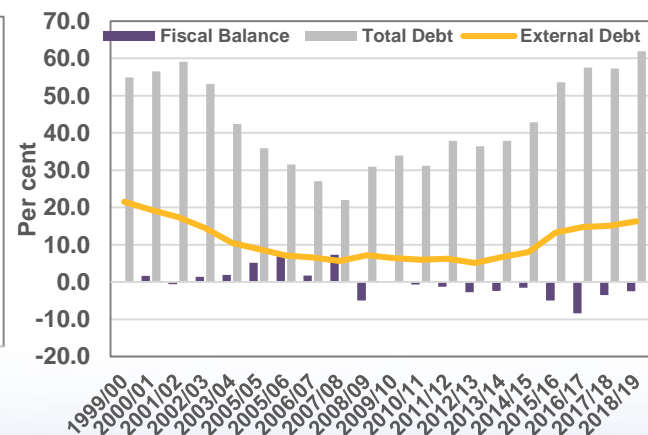
Source: Central Bank of Trinidad and Tobago

Chart 5: Heritage and Stabilisation Fund



Source: Central Bank of Trinidad and Tobago

Chart 6: Debt and Fiscal Balance to GDP



Source: Ministry of Finance

Note: Data from FY 2015 refers to Adjusted General Government Debt; data prior, to Public Sector Debt.



4. ...alongside a creative, well-educated work force, but bureaucratic rigidities.

The labour force is **well educated** and exposed to high-level international training.

Strong global connections contribute to the dynamism of the local private sector.

Pervasive **bureaucratic rigidities** add to the time and complexity of doing business locally.

Chart 7 : Persons with Jobs by Educational Attainment (2019)

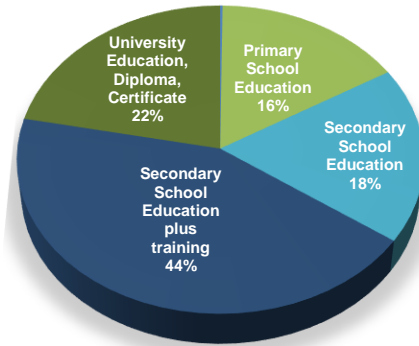


Chart 8: Persons with Jobs by Occupation

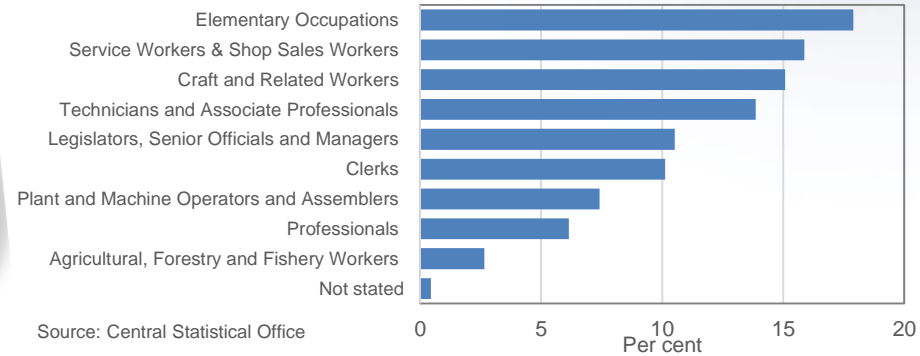
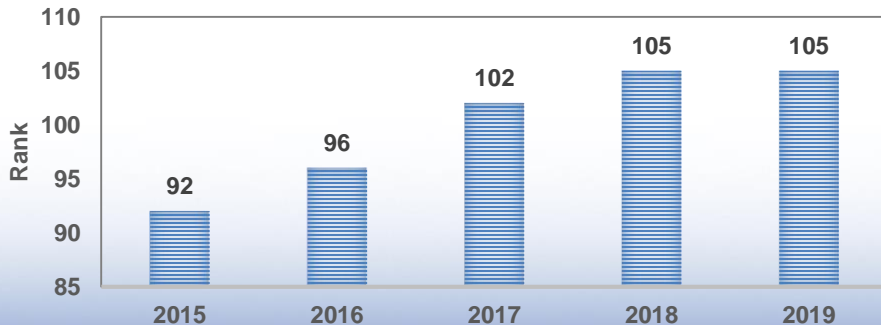


Chart 9: Ease of Doing Business in Trinidad and Tobago – Ranking Out of 190 Countries*



Source: World Bank

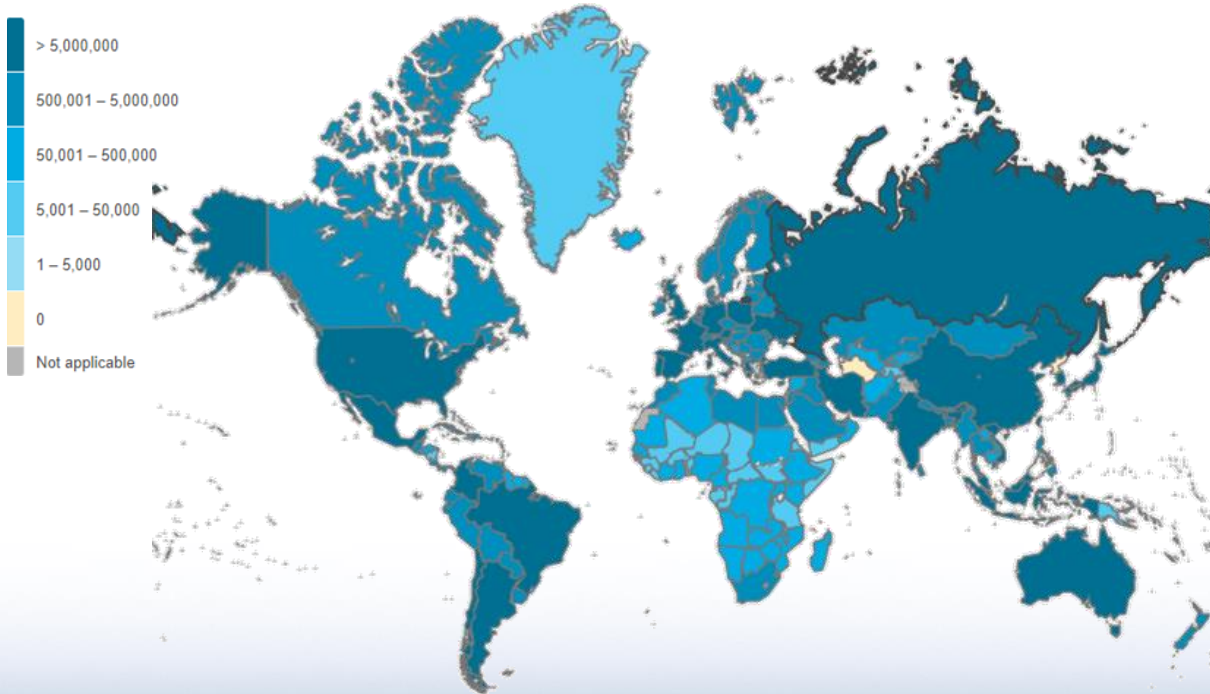


*World Bank *Doing Business Report* – 190 countries were covered in 2019.

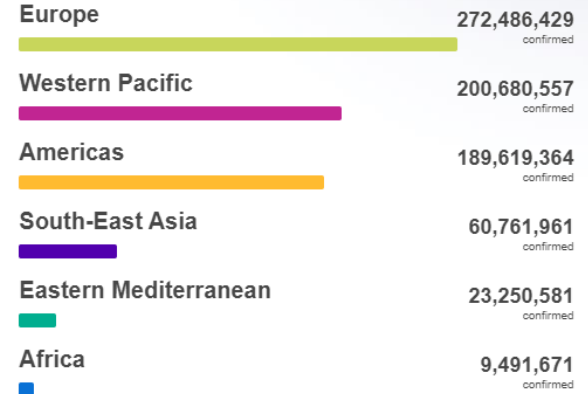


5. The COVID-19 pandemic spread rapidly since 2020, with devastating impacts on all aspects of life.

The Global Distribution of Confirmed Cases
As at February 2023



Confirmed Cases: Regional Totals
As at February 2023



Confirmed cases: 756,291,327



Deaths: 6,841,640

Vaccine doses: 13,195,777,466





6. The invasion of Ukraine by Russia in 2022 created turbulence in energy and other markets.

PRE-WAR

2014: Russia's annexation of Crimea from the Ukraine

Early 2022: Ukraine reaffirmed its desire to formally join the European Union (EU) and to become a member of the North Atlantic Treaty Organization (NATO)

FEBRUARY 2022

Russian military forces invaded Ukraine

SANCTIONS

US: shut-down of access to key technology required by Russian military and industrial sectors & cessation of crude imports from Russia

Europe: restrictions on the use of global financial services and prohibitions on the use of foreign held reserve assets by the Central Bank of the Russian Federation (CBR)

UK: bans on Russian ships entering domestic ports and bans on UK individual and entities from providing financial services to the CBR, Ministry of Finance and the National Wealth Fund

ENERGY MARKETS

Russia is the world's third largest oil producer behind the United States and Saudi Arabia

Sanctions restricting exports by Russia led to higher energy prices (and ultimately higher prices of good and services)

Russia cut supply of natural gas to Europe

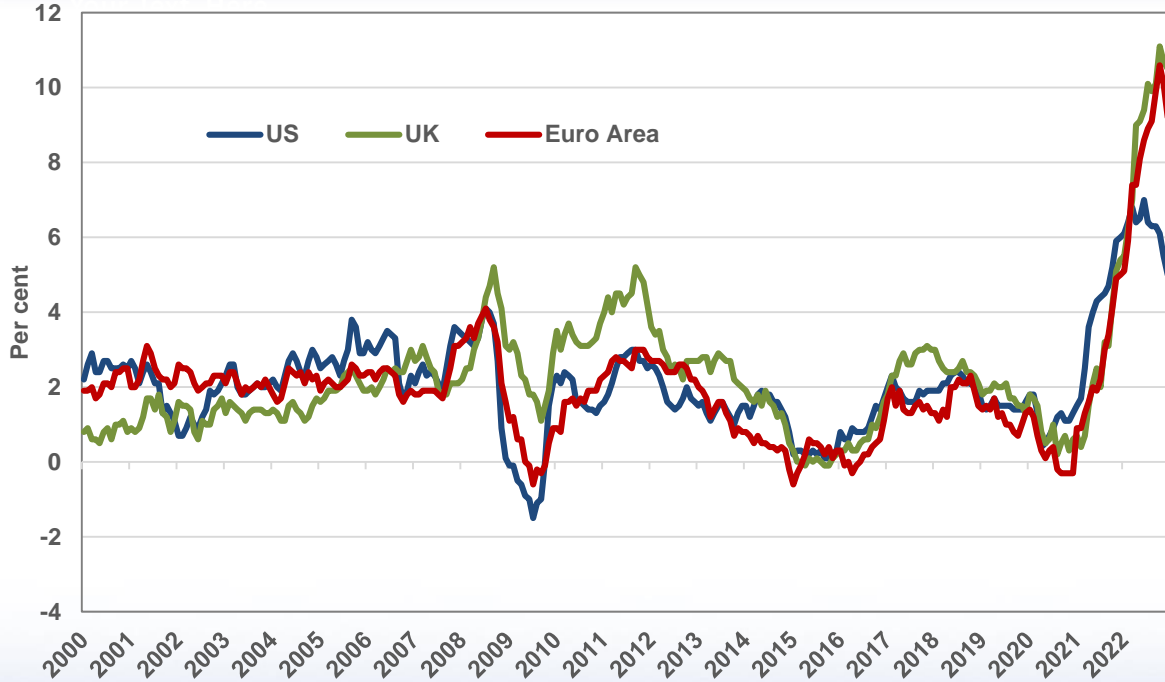
Countries have been changing energy policy due to change in typical energy trade routes

Broken relationships between Russia and its energy customers have led to a rapid focus on maintaining energy security and a push towards renewables



7. Inflation soared globally on the back of supply shocks.

Chart 10: US, UK and Euro Area Inflation Rates



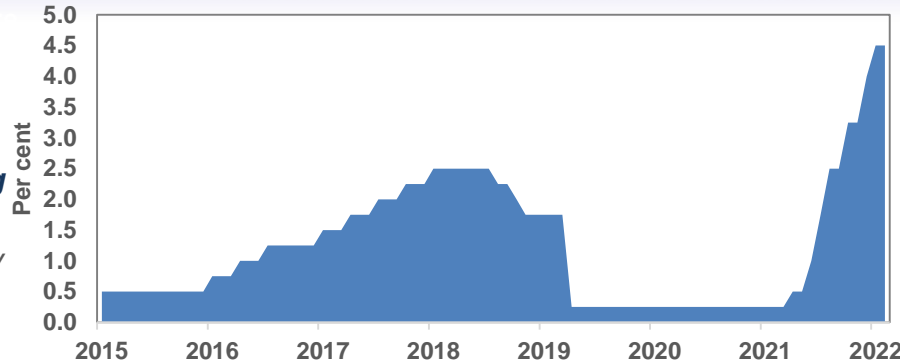
Source: Bloomberg

- The pandemic led to worldwide **slumps in production** of goods and services.
- As **demand picked up** in the context of successful vaccination programs, **supply lagged**, leading to shortages.
- **Delays in reviving shipping** and other transport modes further elevated costs.
- By mid-2022, inflation in the United States hit a **40-year high**, a situation replicated in many other countries.



8. In response, many central banks initially lowered and then sharply increased interest.

Chart 11: US Federal Funds Rate



Widespread *fiscal support* was accompanied by *monetary loosening* to boost incomes adversely affected by the pandemic.

As the pandemic eased and inflation surged, many central banks swiftly **tightened monetary policies**.

Table 3: Central Bank Actions in 2022













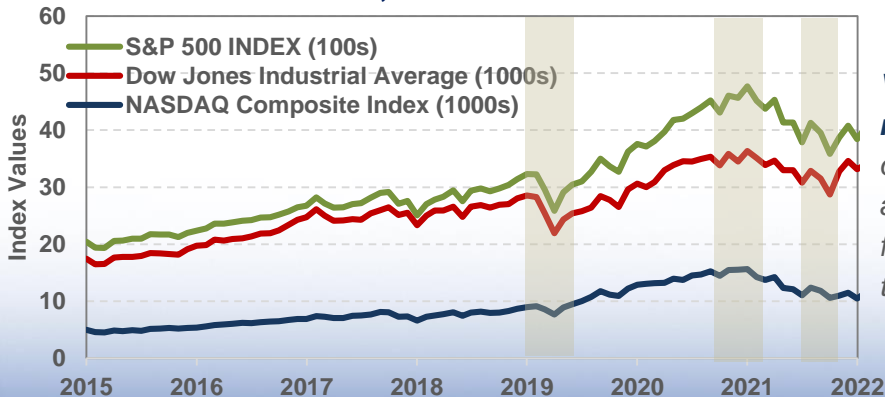
Country	Monetary Policy Target Rate
USA 	4.50-4.75% 
UK 	4.00% 
Euro Area 	3.00% 
Japan 	-0.10% 
Colombia 	12.75% 
Brazil 	13.75% 

Chart 12: S&P500, Dow Jones and NASDAQ



Volatility in stock markets heightened during the pandemic and continued in the face of monetary tightening.



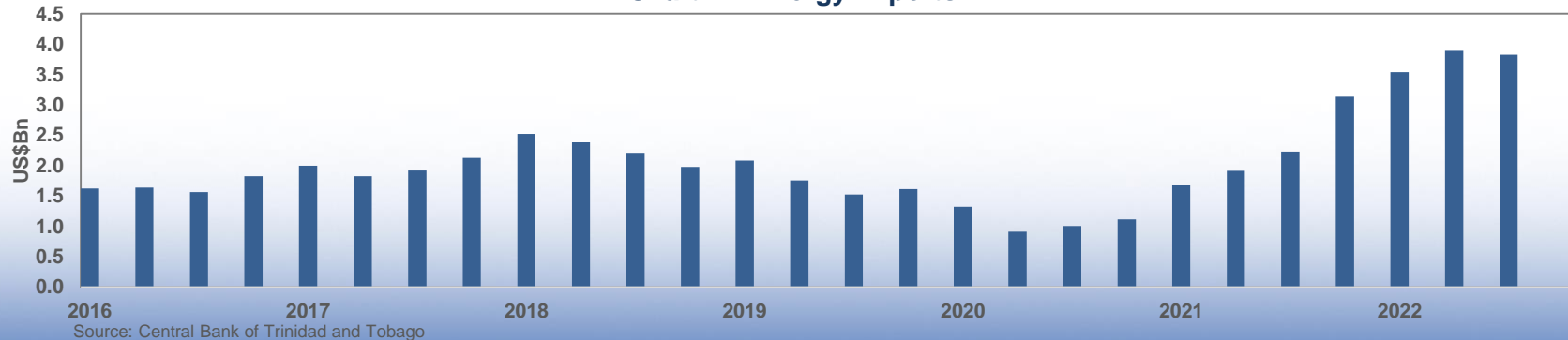
9. While domestic output plummeted due to lockdowns, the public finances and exports benefited from higher energy prices.

Chart 13: WTI Oil Price and Quarterly GDP Growth



Trinidad & Tobago Covid-19 Statistics (Feb 2023):  Confirmed cases: 188,511 Deaths: 4,336  Vaccine doses: 1,588,567

Chart 14: Energy Exports





10. Central Bank actions focused on supporting an economic recovery and maintaining financial stability.

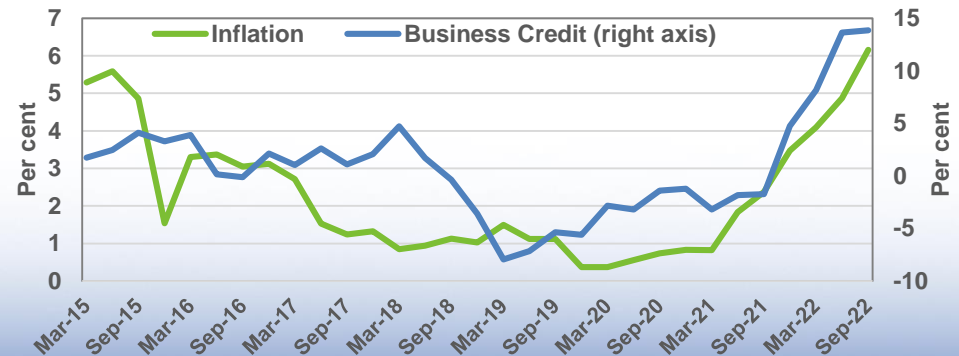
Monetary Policy Responses:

- In response to the COVID-19 pandemic the Central Bank of Trinidad and Tobago **reduced the Repo rate 150 bps in March 2020**, from 5.00 to 3.50 per cent and lowered the **Reserve Requirement from 17 to 14 per cent**.
- As a result, **financial system liquidity increased** substantially eventually leading to a recovery in credit to businesses.
- **Inflation**, primarily externally generated, rose to over 8 per cent at the end of 2022.
- The Central Bank to date **has not raised the Repo rate** from 3.50 per cent, noting that so far, domestic demand pressures are not significant.
- The Bank however, is monitoring the evolving situation closely and will utilise **more active open market operations** as necessary.

Financial System Forbearance Measures:

- Banks and other financial institutions instituted **payment deferrals, rate reductions** and **waivers of penalty charges** and **late payment fees, on credit facilities**.
- The **Central Bank** granted additional flexibility to licensed financial institutions between 2020 and 2022.
- Overall, there was only a **small deterioration in asset quality** (banks' non performing loans as a per cent of total increased to 3.2 per cent from 2.9 per cent), while **profitability, capital adequacy and liquidity remained reasonable**.

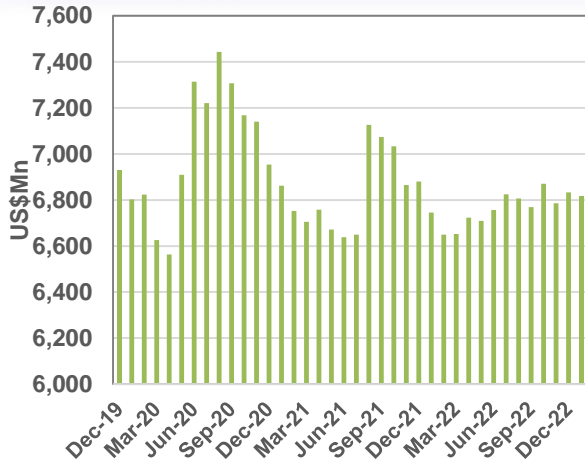
Chart 15: Inflation Rate and Growth in Business Credit





11. The buffers helped to cushion the domestic impacts.

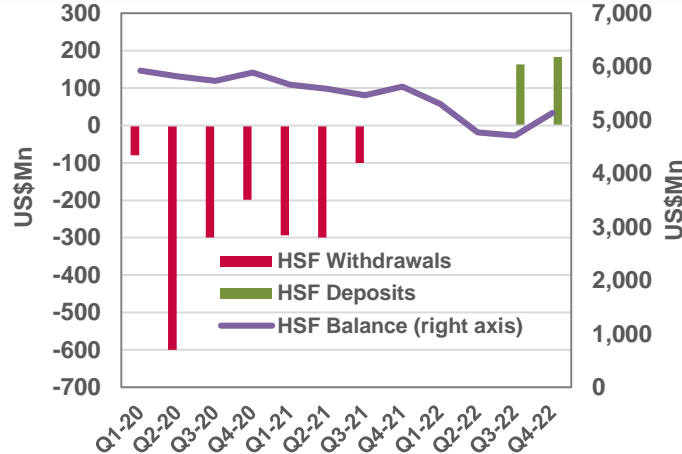
Chart 16: Net International Reserves



Source: Central Bank of Trinidad and Tobago

- Between December 2019 and January 2023 **international reserves declined** by US\$103 million.
- Reserves **remain relatively high** at 8.5 months of import cover.

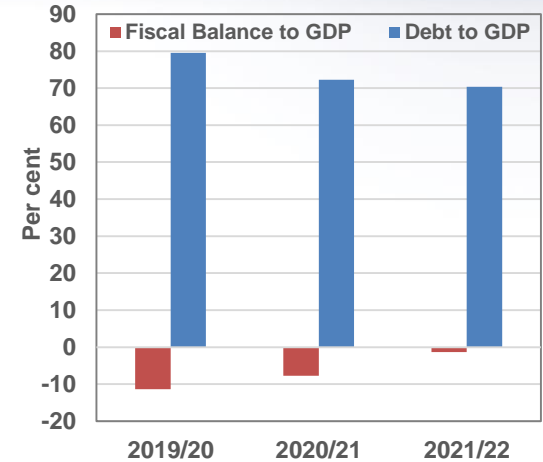
Chart 17: Heritage and Stabilisation Fund



Source: Central Bank of Trinidad and Tobago

- A total of **US\$1,872.6 million was withdrawn** from the HSF since 2020 to finance the health and other requirements of the pandemic.
- In 2022, two **deposits** were made, **totaling US\$345.8 million**.
- **Volatility** in international equity markets also affected the valuation of the Fund.

Chart 18: Debt and Fiscal Balance to GDP



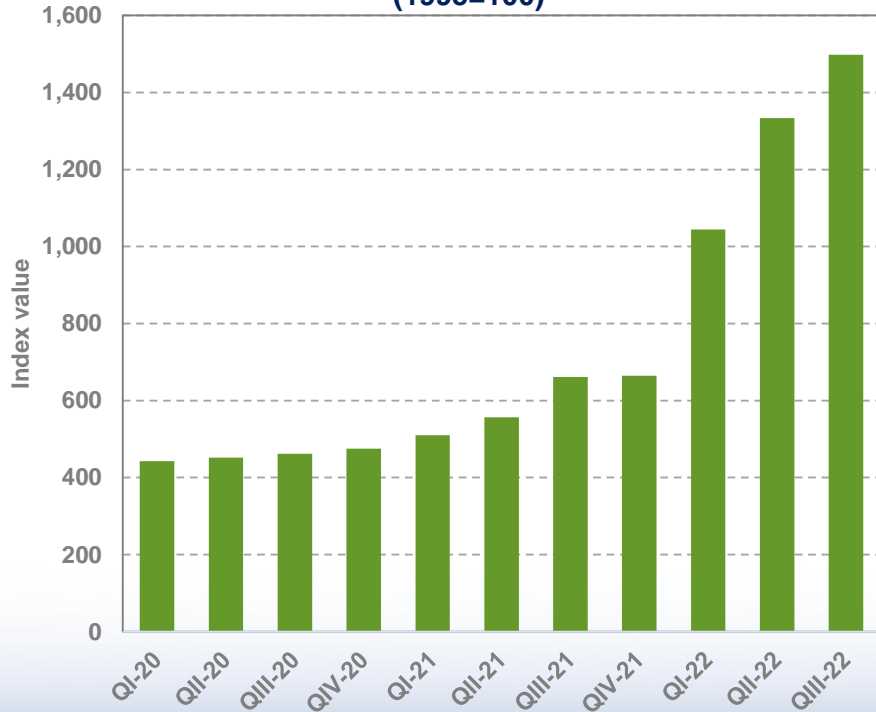
Source: Ministry of Finance

- **Government revenue** was negatively impacted by the drop in business activity and personal incomes.
- **Expenditure rose** in the context of financing support to the disadvantaged, health facilities and personnel, and vaccination programmes.
- **Higher energy revenues** muted the effect of these factors on the fiscal balance and General Government debt.



12. Labour productivity rose, while intensified private sector competition led to additional improvements.

Chart 19: Index of Productivity
(1995=100)



Source: Central Statistical Office

- The **increase in productivity** involved a combination of **more efficiency** and **less hours worked** (less overtime or workers).
- The slackening of demand during the pandemic led many businesses to adopt innovations to get and retain customers:
 - **New product offerings**
 - **Faster delivery times**
 - **More deals**
 - **Digital payment methods**
- However, potential domestic and foreign investors still report meaningful hindrances in doing business in Trinidad and Tobago. These include:
 - **Opening a business**
 - **Getting a location**
 - **Accessing finance**
 - **Dealing with day-to-day operations**
 - **Operating in a secure business environment**





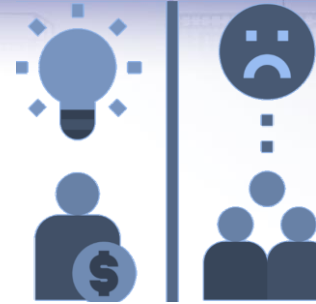
13. Overall there is good room for optimism for Trinidad and Tobago in the wake of recent and ongoing external shocks.

- There is growing sentiment that **global inflation is tapering** off.
- International demand and output are recovering but some countries will face **pandemic-induced debt distress**.
- **Domestic inflation** is expected to rise in the first half of 2023, and **decelerate** in the latter months.
- Trinidad and Tobago's **buffers** helped to provide much needed financing, without a build-up of debt.
- But required adjustments, particularly on **structural reforms**, should not be postponed.





14. New opportunities arise but potentially deep scars need to be addressed.



- “Necessity is the mother of invention” and pandemic-induced constraints forced **new efficiencies** that will continue.
- **Digitization and fintech** solutions are advancing.
- Four companies are in the process of issuing **e-money**.
- The restrictions on movement adversely affected **schooling**.
- **Online teaching** only partially compensated for less in-person classes.
- Unless addressed effectively, the blow to education can have **long-lasting repercussions** on Trinidad and Tobago.
- **Inequality** likely increased.
- As in other countries, **lower income persons** tended to be disproportionately affected by health, education and employment repercussions of the pandemic.
- The upcoming **Survey of Living Conditions** by the CSO should give some guide on the magnitude to policymakers.



15. A focused, no-nonsense approach is needed to move domestic service delivery to international standards.

- The foregoing analyses of Trinidad and Tobago are applicable to most other countries given the **commonality of the external shocks**.
- Hardened by the experience, the world is becoming a rougher place as **economies fight to gain more market share** in tourism, energy, other commodities and financial services.
- At the same time, consumers themselves are more **footloose, demanding** and **impatient**.
- In such a world Trinidad and Tobago will have to move **quickly and purposefully** so as not to be left behind.





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