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Research Update:

Trinidad and Tobago 'A/A-1' Ratings Affirmed; Outlook Remains Stable

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Trinidad and Tobago 'A/A-1' Ratings Affirmed; Outlook Remains Stable

Overview

- Trinidad and Tobago's economy is picking up after major maintenance and upgrades in the energy sector that had created bottlenecks in energy output.
- We are affirming our 'A/A-1' long- and short-term foreign and local currency sovereign credit ratings on Trinidad and Tobago.
- The stable outlook reflects our expectation that Trinidad and Tobago will maintain a sound external profile thanks to persistent current account surpluses and largely local financing of the public-sector deficit.

Rating Action

On Dec. 24, 2013, Standard & Poor's Ratings Services affirmed its 'A/A-1' long- and short-term foreign and local currency sovereign credit ratings on Trinidad and Tobago. The outlook remains stable. Our 'AA' transfer and convertibility (T&C) assessment for Trinidad and Tobago is unchanged.

Rationale

The ratings on Trinidad and Tobago (T&T) are supported by the country's net external asset position, low external vulnerability, and stable political system. The country's long-established parliamentary democracy and social stability should sustain political consensus on economic policies. Rapid growth led by the energy sector more than doubled T&T's per capita GDP over the last decade to a projected $19,000 in 2013. Its large energy sector sustains long-term growth prospects and provides fiscal revenues that should allow the government to maintain moderate debt levels. At the same time, the sector exposes the economy to terms-of-trade shocks. It accounted for 44% of GDP and 81% of merchandise exports last year. Other sectors of the economy--whose expansion could help attenuate this vulnerability--are developing slowly.

We expect per capita GDP to rise by 2.6% in 2014 thanks to both recovering energy output and continued growth in the nonenergy sector. Our projections assume that the country's trend economic growth rate is likely 2.5%-3%, with the caveat that projecting energy output and prices is inherently uncertain. We estimate T&T's gross external financing needs at 60% of current account receipts plus usable foreign exchange reserves on average for 2013-2015. The country is projected to remain in a net external asset position in the coming years, thanks to persistent current account surpluses. That said, net external investment payments could reach one-fifth of current account receipts in 2013, and we expect them to remain around this level because of high profit and dividend repatriation.

A large program of maintenance and upgrades in the energy sector in recent years disrupted both downstream and upstream production, cutting GDP growth. Energy output is likely to expand in 2014 because of fewer bottlenecks. Moreover, changes in tax and other policies in recent years have encouraged more activity in the energy sector, as we've seen in growing private-sector participation in recent onshore and offshore bidding rounds. As a result, official reserves of gas and oil--which had declined in recent years--may stabilize in the coming years.

The government's Heritage and Stabilization Fund, which holds fiscal assets of about 20% of GDP, and its investor-friendly policy in the energy sector should sustain long-term external and fiscal flexibility. We expect the general government to post fiscal deficits of about 2.5% of GDP through 2014-2015, keeping net general government debt (including central bank debt) below 20% of GDP.

The local currency rating is 'A', the same as the foreign currency rating, reflecting the country's heavily managed (de facto pegged) exchange rate.

Outlook

The stable outlook reflects our expectation that T&T will continue to enjoy a sound external profile thanks to persistent current account surpluses and largely local financing of the public-sector deficit. The increase in exploration activities in the oil and gas sector in recent years should sustain energy production over the coming decade, contributing to economic growth. We expect that a moderate pace of GDP growth--between 2% and 3% annually--over the coming three years and limited fiscal deficits will lead to a stable burden of government debt.

A sustained fall in global energy prices would hurt fiscal revenues, dampen GDP growth, and weaken T&T's external liquidity. Poor GDP growth could result in a rising general government debt burden, potentially exacerbated by unexpected contingent liabilities from public-sector enterprises. Failure to take timely and sufficient steps to address the deterioration of the country's fiscal and external profile could result in a downgrade.

Success in boosting energy exploration and production levels, as well as in enlarging downstream activities, could improve long-term GDP growth prospects. That, along with steps to strengthen nonenergy fiscal revenues, would gradually improve government finances and reduce the sovereign's debt burden. Stronger public finances and better external liquidity would improve the government's capacity to withstand the negative impact of a potentially sharp fall in energy prices. Under such a scenario, we could raise our ratings on T&T.

Key Statistics

Trinidad and Tobago--Selected Indicators								
	2009	**2010**	**2011**	**2012**	**2013e**	**2014f**	**2015f**	**2016f**
Nominal GDP (bil. US$)	19.0	20.6	23.5	23.9	25.6	27.7	29.9	32.1
GDP per capita (US$)	14,141.91	15,482.05	17,667.76	17,873.35	19,086.60	20,671.78	22,260.80	23,948.61
Real GDP growth (%)	(4.4)	0.2	(2.6)	1.2	1.6	2.7	2.6	2.5
Real GDP per capita growth (%)	(5.1)	1.0	(2.4)	0.7	1.2	2.7	2.6	2.5
Change in general government debt/GDP (%)	1.4	2.4	0.2	9.5	1.2	2.6	2.6	2.5
General government balance/GDP (%)	(5.5)	0.1	(0.7)	(1.2)	(2.7)	(2.6)	(2.6)	(2.5)
General government debt/GDP (%)	36.9	36.5	32.1	40.9	39.3	38.9	38.7	38.5
Net general government debt/GDP (%)	19.5	16.2	7.5	17.9	17.2	18.5	19.7	20.9
General government interest expenditure/revenues (%)	9.0	7.5	6.0	5.5	5.2	8.9	8.1	7.6
Other dc claims on resident nongovernment sector/GDP (%)	45.1	41.3	36.0	40.2	41.0	41.8	42.6	43.5
CPI growth (%)	7.0	10.5	5.1	9.3	5.5	5.5	5.0	5.0
Gross external financing needs/CARs plus usable reserves (%)	54.2	44.7	63.4	59.3	61.1	60.0	59.2	58.1
Current account balance/GDP (%)	8.7	20.3	12.4	4.0	4.8	6.0	6.8	7.4
Current account balance/CARs (%)	15.9	33.3	13.6	6.7	8.1	10.3	11.6	12.5
Narrow net external debt/CARs (%)	(95.5)	(84.7)	(58.8)	(88.9)	(94.4)	(96.6)	(98.0)	(100.8)
Net external liabilities/CARs (%)	(44.9)	(39.1)	(27.5)	(42.3)	(51.3)	(58.2)	(65.1)	(73.0)

Note: Other depository corporations (dc) are financial 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 assets held by nonresidents minus financial sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. The data and ratios above result from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. CARs--Current account receipts. e--Estimate. f--Forecast.

Related Criteria And Research

Related Criteria

- Sovereign Government Rating Methodology And Assumptions, June 24, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013

- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Republic of Trinidad and Tobago, Jan. 28, 2013

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts. The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook.

Ratings List

Ratings Affirmed

Trinidad and Tobago (Republic of)	
Sovereign Credit Rating	A/Stable/A-1
Transfer & Convertibility Assessment	AA
Senior Unsecured	A

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