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JMMB flags TT dollar risk amid reserve drop

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ALTHOUGH a near-term devaluation of the Trinidad and Tobago dollar appears unlikely due to the negative political signal it would send, the risk is expected to increase over time as the country's foreign exchange reserves decline, the JMMB Group warned in its latest annual report.

JMMB noted that Trinidad and Tobago's foreign reserves have declined by 54.1%, or US$5.57 billion, between March 2015 and March of this year.

'The exchange rate was relatively stable throughout FY 2024, with no change in foreign reserves, contrary to recent trends. At the end of March, the Trinidad and Tobago dollar (TTD) traded at an exchange rate of TT$6.77 to US$1. Despite strong demand from end-users, the Central Bank remains steadfast in preserving the value of the domestic currency, which is one of its key mandates,' it stated.

'Foreign reserves increased marginally from a year ago by 1% to US$5.27 billion (7.5 months of imports). However, compared to ten years ago, foreign reserves are down 54.1% or US$5.57 billion. At the end of March 2015, reserves stood at US$10.85 billion (12.7 months of imports),' JMMB stated.

JMMB said it believes that the structural decline in investment in Trinidad and Tobago's energy infrastructure, along with falling output, will materially impact net inflows of petro-currency.

'With continued growth in demand for foreign reserves to meet external demand for goods and financial products, depreciatory pressure will rise. Should foreign reserves continue to fall, the sovereign risks a credit rating downgrade, which would strip away its remaining investment grade ratings by Standard's and Poor (S& P). Moody's assigns a noninvestment grade to the sovereign's credit,' it stated.

The Central Bank of Trinidad and Tobago (CBTT) policy rate remained at 3.50% throughout 2024.

'Leading up to September 2024, there were concerns about the large negative spread between three-month TT Treasury bills and threemonth US Treasuries, which could adversely affect financial flows. However, this concern has lessened since the gap has narrowed to just over -200 basis points, compared to -432 basis points a year ago following a cumulative 100 basis cut in the Federal Reserve's policy rate,' it stated. JMMB stated that it expects that the Central Bank will maintain its current policy stance into fiscal 2025. **Interest rate hikes possible if reserves continue to decline** However, JMMB cautioned that despite the CBTT's ongoing focus on supporting real growth in the non-energy sector, mounting pressure in the foreign exchange market and a continued decline in foreign reserves could eventually force a shift in policy, including potential interest rate hikes to preserve reserve levels.

'With the decline in US interest rates and the anticipation of further reductions, the pressure from the interest rate differential between TT-dollar and US-dollar instruments is likely to ease. Nonetheless, the Central Bank needs to address the pressures that have built up in the foreign exchange market,' JMMB stated.

'Given its level of control over the market, there is no immediate need to raise the policy rate as the CBTT continues to prioritise real growth in the non-energy sector. However, the risk to our outlook is tilted to the upside, primarily due to the deterioration in the sovereign's foreign reserves and the need to raise interest rates to help preserve it,' it stated.

JMMB said it anticipates that economic growth will expand by 1.6% in 2025, driven entirely by growth in the non-energy sector.

'This sector has been supported by increased dynamism in the local economy, characterised by decelerating inflation and ample liquidity in TT-dollars. Three key areas-Accommodation and Food Services (Tourism), Trade and Repairs, and Transportation and Storage-are expected to contribute significantly to this growth. However, there are concerns about headwinds emerging in the international economy and falling energy prices below initial forecasts in the first quarter of the calendar year,' it stated.

'The outlook for growth is skewed to the downside, primarily due to the likelihood of the energy sector's performance falling short of expectations,' JMMB stated.

Falling energy prices threaten fiscal stability JMMB warned that weakerthan- expected energy prices pose a threat to Trinidad and Tobago's fiscal position, potentially widening the budget deficit if spending adjustments are not made.

'The decline in energy prices relative to expectations poses a threat to the fiscal account, which could lead to an increase in the projected deficit if no adjustments are made to expenditures. From a budget perspective, both the risks associated with energy prices and energy supplies are skewed to the downside,' it stated.

'Economic uncertainty stemming from US trade policy and its potential impact on global growth will likely continue to affect energy prices in the upcoming fiscal year. Additionally, the US administration's economic sanctions on Venezuela will hinder the joint development of energy projects between Trinidad and Tobago and Venezuela, while structural weaknesses in the energy sector are expected to impact energy supplies throughout the fiscal year,' JMMB stated.

JMMB said despite the change in government following the April 28 general election, it does not anticipate any major developments that would fundamentally alter the country's macroeconomic outlook.

'General elections were conducted in Trinidad and Tobago in April 2025 to elect all 41 members of the House of Representatives. The United National Congress (UNC), under the leadership of Kamla Persad-Bissessar, secured 26 seats, upstaging the governing People's National Movement (PNM) led by Stuart Young,' JMMB stated.

'We do not anticipate that there will be any significant alterations in the policies of the new government that would fundamentally change the macroeconomic framework of Trinidad and Tobago in the near term. However, in the medium term, it is possible that legislative changes could foster increased economic growth, thereby changing the overall economic outlook of the sovereign,' it stated.

JMMB said it is estimated that Trinidad and Tobago's economy expanded by 1.4% in 2024, supported by the non-energy sector, as output is estimated to have contracted in the energy sector.

'Structural decline in energy infrastructure and economic sanctions imposed on Venezuela by the US, which inhibits the joint development of energy projects, will weigh on growth over the medium term. Unemployment increased marginally to 4.1%, up from 4.0% in the previous year. The overall external positions remain strong, with the Heritage Stabilisation Fund and international reserves topping US$10.7 billion or just over 42% of GDP. Although the current account remains positive, the drawdowns on capital by oil majors has led to a marked reduction in international reserves. Government activities generated a fiscal deficit of 2.7% in FY 2023/24 compared to 1.8% in the previous year. The deficit reflects a combination of lower energy revenues and increased spending on capital projects and wages and salaries,' it stated.

JMMB cautioned that economic risks over the medium term are tilted to the downside, as weaker energy prices and lower output could significantly affect both growth and government revenue.

'Additionally, we do not envisage a shift in the relationship between the US and Venezuela during the Trump presidency, which means that the sanctions will remain enforced over the next three years at least. Accordingly, the challenges with natural gas output that have limited real value added in upstream and downstream productive capacities are likely to persist,' JMMB stated.

JMMB noted that after a surge in energy prices through 2022 and into the second quarter of 2023, prices declined and remained subdued throughout the 2024 fiscal year.

'At the end of March 2025, the 12-month inflation rate was 1%, 0.2% lower than it was in March 2024. A stable exchange rate and local food production coupled with relatively subdued external prices are the main factors that have helped to keep Trinidad and Tobago's inflation rate well below the ten-year average inflation rate since Q2 2024,' JMMB stated.

'In the coming months, we expect inflation to remain low but move up slightly due to the base effect. We envisage that the exchange rate will remain stable in the next fiscal year and external prices will continue to moderate, which bodes well for stable and low prices in Trinidad and Tobago. However, we believe that the risk to our forecast is skewed towards the upside and chiefly reflects trade policy uncertainties and geopolitical risk factors. A spiralling trade war or disruption to global supply chains from heightened political instability or conflicts could result in higher external prices, which would push up domestic prices,' it stated.