Daily Express
50 Years of Fearless Journalism
Trinidad Express Newspapers

■ S&P warning for T&T...

Possible downgrade next year

■ Stories by Joel Julien
joel.julien@trinidadexpress.com

INTERNATIONAL ratings agency S&P Global Ratings has revised Trinidad and Tobago's outlook to negative from stable, warning that the country's credit rating could be downgraded as early as next year.

S&P has cited weakening Government finances, declining oil and gas output, and sluggish economic growth as key risks.

A negative outlook signals that the Government's finances are under pressure, which could eventually affect jobs, public services, and the cost of living.

The warning comes as the United National Congress Government prepares to present its first national budget since winning the April 28 general election.

According to S&P yesterday, Trinidad and Tobago's 'fiscal and external buffers have eroded gradually over many years', reflecting limited progress in boosting economic growth and strengthening fiscal management. As a result, the agency said the country's outlook had to be revised.

'On September 25, S&P Global Ratings revised the outlook on the Republic of Trinidad and Tobago to negative from stable. At the same time, we affirmed our ratings on the country, including our 'BBB/A-3' long- and short-term foreign and local currency sovereign credit ratings. The transfer and convertibility assessment remains 'BBB',' the rating action stated.

S&P said the negative outlook reflects the risk of a downgrade unless meaningful and timely steps are taken to strengthen public finances, ensure balanced economic growth, and maintain the country's strong external position.

'The negative outlook reflects our view that there is at least a one-in-three chance we could lower the ratings over the next six to 24 months. The country's fiscal and external buffers have been gradually weakening over time and its long-term economic growth has been low. Despite many efforts, there has been only limited progress by previous administrations in diversifying the economy, leaving it vulnerable to volatile energy prices while output from the oil and gas sector has recently declined,' S&P stated.

US$ shortages constraining economic activity S&P stated that the country faces US dollar shortages, which have weakened local businesses' ability to pay suppliers and import key goods. A heavily managed exchange rate and the small, open nature of the economy also limit the effectiveness of monetary policy.

'The newly elected government, together with the Central Bank, has signalled its intent to address US dollar shortages. We believe chronic US dollar shortages could complicate the country's efforts at economic diversification,' it stated.

'The Central Bank has sustained a quasi-fixed exchange rate since 2016. Since then, US dollar shortages have constrained economic activity, weakening local businesses' ability to pay suppliers and obtain key imports. At the start of the pandemic, the Central Bank lowered its repurchase rate to 3.5% from 5.0% in a more accommodative monetary policy stance, and has kept the rate unchanged since then. The interest rate differential between local securities and US treasuries has narrowed but remains negative. Inflation has historically been low, averaging 2.7% over the past five years, and we expect price-level growth will average 2% in the next three years,' it stated.

Smooth transition of power

S&P said the ratings reflect Trinidad and Tobago's long-established democracy, with smooth government transitions and continuity in key economic policies.

'However, over many years, the country's fiscal consolidation efforts have failed to reverse a rising government debt burden. Similarly, there has been only limited progress by past administrations in strengthening public institutions to boost fiscal revenues, bring greater spending discipline, diversify the economy, and restore fiscal and external buffers that allow the small, open economy to absorb external shocks,' it stated.

It said the Kamla Persad-Bissessar administration has signalled early efforts to focus on economic diversification. 'The Government announced that it would cancel the proposed Revenue Authority planned by the previous government, opting instead to boost resources at the Board of Inland Revenue. It also cancelled a recently introduced property tax, eliminated State funding for some security services and property rentals, and increased health care and education spending,' S&P stated.

'The Government plans to strengthen public finances, but it could be difficult to meet these objectives if low economic growth continues to limit Government revenues and erode fiscal buffers,' it said.

Cancelled energy deals

S&P stated that T&T's economy remains heavily dependent on oil, gas, and petrochemicals.

'Projects last year that would have allowed Trinidad and Tobago access to Venezuelan gas reserves have been cancelled. We expect production to increase in 2027 but a part of the new supply will backfill decreases in existing fields. Furthermore, we believe new projects will largely occur in deeper waters, which can be more difficult and costly to access,' it stated.

S&P forecasts that Henry Hub natural gas will average US$3.50 per million Btu (mmBtu) for the remainder of 2025.

It also projects that West Texas Intermediate (WTI) crude will average US$55 per barrel (bbl), while Brent crude will average US$60 per barrel for the remainder of the year.

Economic growth is projected at 1% in 2025 and 2026, with real GDP per capita expected to reach US$19,173 in 2025.

S&P stated that Trinidad and Tobago's large liquid financial assets, including the Heritage and Stabilisation Fund (HSF), help mitigate economic cycles.

The HSF, created in 2007 to save excess fiscal revenues from the energy sector, had US$370 million withdrawn in fiscal 2024 to meet budgetary needs. S&P expects HSF and other liquid assets to represent about 51% of GDP during the outlook period, helping keep net Government debt at roughly 34% of GDP and interest payments around 12% of revenues.

S&P also highlighted elevated financing needs in 2026, as the Government faces a US$1 billion external bond due in the summer. The deficit is expected to be financed through domestic and external borrowing, multilateral lending, and possible HSF withdrawals.