TRINIDAD and TOBAGO NEWSDAY

Thursday 27 June 2019
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Moody's rates TT stable


A view of the refinery in Pointe-a-Pierre once operated by the now defunct Petrotrin oil company. FILE PHOTO

International credit ratings agency, Moody's, has held the TT government's credit ratings stable. In a statement on Wednesday, the New York-based institutions upheld TT's Ba1 long-term issuer and senior unsecured debt ratings and maintained a stable outlook.

Regardless, the rating puts debt issued by the government in the top tier of the non-investment grade or “junk” bonds category. Ba ratings means these offerings have “speculative elements and are subject to substantial credit risks.”

Moody’s said its decision was supported by three main factors: sizeable fiscal buffers, including the US$6 billion Heritage and Stabilisation Fund – currently over 25 per cent of GDP – balanced against an elevated debt ratio relative to peers; economic recovery driven by the energy sector, although the limited prospects for economic diversification and institutional constraints limit the economy’s ability to absorb shocks; and low susceptibility to external financing risks given high reserve coverage of external debt payments. The stable outlook reflects Moody's expectations that risks to the rating are balanced.

“On the upside, prospects of a sustained increase in oil and gas production would materially improve medium-term growth prospects contributing to fiscal consolidation efforts, which would stabilize government debt ratios. Alternatively, institutional constraints continue to limit policy execution and the country's fiscal profile remains vulnerable to future commodity price shocks.”

Government debt ratios have stabilised over the past two years, the agency said, and it expected the debt burden to remain stable. Although government debt, at 63 per cent of GDP, is above the ratings category median of 50 per cent, associated credit risks are mitigated by the government’s limited exposure to foreign-currency-denominated debt (29 per cent of total government debt). Moody’s also noted that despite rising government debt, the ratio of interest payments to government revenues was around 10 per cent and there was a low weighted average interest rate on central government debt (3.68 per cent), which is relatively low for an emerging market economy that relies primarily on domestic financing and has only a small portion of concessional debt.

The report also noted that the economy was still driven by the energy sector but limited prospects for economic diversification and institutional constraints limit shock absorption capacity.

Moody's expects the economy to expand by around 1.5 per cent in 2019, and to expand between 1.5 per cent and 2.5 per cent over the next two to three years as gas exploration increases and production stabilises.

“Moody's sees limited prospects of economic diversification away from the energy sector. The business environment remains weak due to structural factors like high crime rates, skills mismatches in the labour force, limited access to finance, and climate-related risks, which pose challenges to the development of more robust non-energy economic sectors. Government bureaucracy also weighs on the investment climate.”

Continued shortages of foreign exchange in the domestic market, which affect small and medium-sized enterprises also weigh on non-energy growth prospects.

Moody’s did, however, welcome the closure of the Petrotrin refinery, even as it noted possible risks to successor company Trinidad Petroleum’s business model.

Reliable data was also a problem, leading the agency to assess TT as having low institutional strength. “Data quality remains weak, adversely affecting the timeliness of the government's policy response to economic shocks and medium-term planning. Continued reliance on asset sales and dividends from state-owned enterprises to generate revenue limits the reliability and predictability of revenue streams, and introduces an element of uncertainty to medium-term fiscal prospects."

So, what could change the rating up? A reduction in government debt ratios and improved fiscal performance, particularly if supported by an increase in non-energy-related government revenue and improved tax collection rather than asset sales or drawing down on fiscal buffers, as well as Material progress in institutional and economic reforms that increase competitiveness and the economy's shock-absorption capacity.

Conversely, the rating would be downgraded if government debt ratios were to materially deteriorate, including mounting government support for state-owned enterprises. A weakening of the balance-of-payments position would increase external vulnerability risks over time, and could also lead to a downgrade.

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