

Trinidad and Tobago

1. General trends

The world financial and economic crisis severely impacted Trinidad and Tobago, mainly through the collapse of oil and gas prices after the highs observed during the first seven months of 2008. In this context, GDP growth shrank to 3.5%, two percentage points lower than in 2007. On the economic policy side, the central government recorded a fiscal surplus of 6.5% in fiscal year 2007-08¹ (compared with 3.8% in fiscal year 2006-2007) owing to higher-than-expected revenue from the energy sector. Monetary policy continued to be based on the absorption of excess liquidity generated by expansionary fiscal spending. The nominal exchange rate remained fairly stable in the context of a quasi-fixed exchange-rate regime, but the tendency towards a real currency appreciation continued. Meanwhile, headline inflation posted a rate of 14.5% at the end of 2008, driven by food inflation that reached a record high of 30.6%. The current account surplus increased from 24.6% of GDP in 2007 to 27.6% of GDP in 2008, mainly on account of the expansion of energy exports, whereas the capital and financial account deficit (including errors and omissions) remained at around 16.5% of GDP.

As the global economic crisis is expected to last throughout the year, economic conditions in the country are projected to deteriorate further in 2009, with GDP growth estimated at 0.8% as international energy prices remain low, despite recent increases. Nevertheless, Trinidad and Tobago is in a better situation than most Caribbean countries to cope with the crisis. At the end of 2008 it had a strong

gross international reserves position (US\$ 9.4 billion), approximately 12% of GDP accumulated in the Heritage and Stabilization Fund and low debt levels. Economic policy continued to be guided by the “Vision 2020” national development plan, and no major changes are expected in that regard. Looking ahead, the main challenge facing Trinidad and Tobago will continue to be the reduction of its dependency on the energy sector, which accounts for nearly half of output, over 55% of fiscal revenue and above 85% of merchandise exports.

¹ In Trinidad and Tobago the fiscal year runs from 1 October to 30 September.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	6.9	4.2	7.9	14.4	8.0	5.4	13.3	5.5	3.5
Per capita gross domestic product	6.5	3.8	7.6	14.0	7.6	5.0	12.9	5.1	3.1
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-2.4	8.7	8.7	-15.3	-34.2	-5.4	-10.1	2.6	8.6
Mining and quarrying ^c	12.5	5.6	13.5	31.4	8.2	8.3	21.8	1.7	0.4
Manufacturing	6.0	9.8	3.8	12.2	8.1	13.5	12.4	14.9	4.2
Electricity, gas and water	5.5	4.1	8.7	5.3	3.2	6.2	-0.4	6.5	1.4
Construction ^d	7.6	10.3	-5.1	23.4	8.1	16.1	6.2	6.6	3.8
Wholesale and retail commerce, restaurants and hotels	5.4	-2.5	1.4	1.8	0.4	4.5	15.1	3.3	2.3
Transport, storage and communications	8.9	7.7	9.6	5.4	-0.8	-2.4	9.5	11.1	8.2
Financial institutions, insurance, real estate and business services	12.4	0.8	11.5	7.3	21.7	-2.4	1.6	10.9	8.8
Community, social and personal services	-4.3	-0.4	4.3	2.8	5.9	1.0	1.2	1.2	0.9
Millions of dollars									
Balance of payments									
Current account balance	544	416	76	985	1 647	3 594	7 271	5 364	6 725
Goods balance	969	718	238	1 293	1 509	3 948	7 700	5 721	6 956
Exports, f.o.b.	4 290	4 304	3 920	5 205	6 403	9 672	14 217	13 391	16 929
Imports, f.o.b.	3 322	3 586	3 682	3 912	4 894	5 725	6 517	7 670	9 973
Services trade balance	166	204	264	314	480
Income balance	-629	-539	-480	-681	-397	-760	-936	-964	-897
Net current transfers	38	33	55	59	56	50	55	60	51
Capital and financial balance ^e	-103	86	39	-663	-912	-1 701	-6 152	-3 824	-4 019
Net foreign direct investment	654	685	684	583	973	599	513	830	1 638
Other capital movements	-757	-599	-645	-1 246	-1 885	-2 300	-6 665	-4 654	-5 657
Overall balance	441	502	116	321	735	1 893	1 119	1 541	2 706
Variation in reserve assets ^f	-441	-502	-116	-321	-734	-1 893	-1 119	-1 541	-2 706
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	100.0	94.5	91.1	91.9	93.6	91.0	89.1	87.6	83.0
Net resource transfer (millions of dollars)	-732	-453	-441	-1 344	-1 309	-2 461	-7 087	-4 787	-4 917
Gross external public debt (millions of dollars)	1 680	1 666	1 549	1 568	1 382	1 361	1 295	1 278	1 445
Average annual rates									
Employment									
Labour force participation rate ^h	61.2	60.7	60.9	61.6	63.0	63.7	63.9	63.5	...
Unemployment rate ⁱ	12.2	10.8	10.4	10.5	8.4	8.0	6.2	5.6	4.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.6	14.5
Variation in nominal exchange rate (annual average)	0.0	-1.1	0.2	0.7	0.0	-0.4	0.3	0.1	-0.6
Nominal deposit rate ^j	5.3	5.3	3.5	2.9	2.4	2.4	2.4	2.4	2.4
Nominal lending rate ^j	16.5	15.6	13.4	11.0	9.4	9.1	10.2	10.5	12.3
Percentages of GDP									
Money and credit^k									
Domestic credit	28.2	27.4	28.3	21.6	17.1	13.8	8.3	15.8	10.9
To the public sector	-1.0	-0.8	-1.7	-4.2	-9.5	-13.0	-17.5	-11.8	-17.5
To the private sector	29.2	28.3	30.0	25.9	26.6	26.9	25.7	27.5	28.3
Liquidity (M3)	37.4	40.3	40.9	32.2	33.3	35.2	35.5	35.8	38.3
Currency outside banks and local-currency deposits (M2)	27.2	31.3	31.1	26.1	24.9	27.9	26.9	27.1	27.7
Foreign-currency deposits	10.2	9.1	9.8	6.0	8.4	7.3	8.6	8.7	10.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
	Percentages of GDP								
Central government^l									
Total income	25.4	24.4	24.6	23.6	24.7	29.5	31.9	28.8	36.5
Current income	25.3	24.3	24.6	23.5	24.7	29.5	31.9	28.8	36.5
Tax income ^m	14.9	15.5	15.8	13.4	14.0	13.8	12.6	12.5	14.7
Capital income	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	23.8	24.5	25.3	22.2	22.9	24.5	25.5	25.1	30.1
Current expenditure	21.4	22.9	24.1	21.1	20.9	21.8	21.8	19.8	23.5
Interest	4.7	4.0	4.3	3.5	2.8	2.5	2.0	1.9	2.0
Capital expenditure ⁿ	2.4	1.6	1.2	1.1	1.9	2.8	3.8	5.2	6.6
Primary balance	6.3	4.0	3.7	4.9	4.6	7.5	8.3	5.7	8.4
Overall balance	1.6	-0.1	-0.6	1.3	1.8	5.0	6.3	3.7	6.5
Public-sector external debt	20.6	18.9	17.2	13.8	10.8	8.8	6.9	6.1	-5.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 2000 prices.

^c Refers only to the oil industry.

^d Includes quarrying.

^e Includes errors and omissions.

^f A minus sign (-) denotes an increase in reserves.

^g Annual average, weighted by the value of goods exports and imports.

^h Economically active population as a percentage of the working-age population; nationwide total.

ⁱ Percentage of the economically active population. Includes hidden unemployment; nationwide total.

^j Weighted average.

^k The monetary figures are end-of-year stocks.

^l Fiscal years.

^m Refers to tax revenues from the non-petroleum sector.

ⁿ Includes net lending.

2. Economic policy

(a) Fiscal policy

During the first seven months of 2008, high international energy prices helped to boost fiscal revenue. The budget for fiscal year 2007-2008 was initially based on the assumption of an average oil price of US\$ 50 per barrel. However, the average price observed over the period turned out to be US\$ 93.15. This price differential resulted in revenues exceeding budget projections by some TT\$ 8 billion, and energy sector revenue rose from 14.6% of GDP in fiscal year 2006-2007 to 19.8% in 2007-2008. There were no dramatic changes in public spending between fiscal year 2006-2007 and fiscal year 2007-2008: current spending rose from 19.8% to 23.5% of GDP, and capital expenditure from 5.2% to 6.6% of GDP. In this context, the central government surplus increased from 3.8% to 6.5% over the same period. Despite this solid overall fiscal surplus, the non-energy balance recorded a deficit of 14.7% of GDP in fiscal year 2007-2008.

The high volatility of energy prices and uncertainty regarding their evolution make the elaboration of the budget very difficult in Trinidad and Tobago. The initial

projections for fiscal year 2008-09 were made assuming an average oil price of US\$ 70 per barrel, which would have resulted in a small overall surplus. However, the decline in energy prices prompted by the world economic crisis forced the budget to be revised in November 2008. This first revision was based on the assumption of an average oil price of US\$ 55 per barrel and spending cuts, and resulted in a projected deficit of TT\$ 741.9 million (0.4% of GDP). In early 2009 an additional revision was made, based on an average oil price of US\$ 45 per barrel and further cuts in expenditure. This version of the budget now projects an overall fiscal deficit of TT\$ 1.864 billion (1.1% of GDP) in fiscal year 2008-2009 and a non-energy fiscal deficit equivalent to 10.2% of GDP.

But as the economic situation has continued to deteriorate, even this latest revision seems to have fallen short. Indeed, in October 2008-February 2009 the overall fiscal deficit amounted to TT\$ 2.957 billion or 1.8% of GDP, contrasting with the surplus of 0.4% of GDP recorded during the same period in fiscal year 2007-2008. Most interestingly, this 2.2 percentage point difference is wholly explained by the significant, 24.9% increase in

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2007				2008 ^a				2009 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	5.5	3.0	1.1	6.3	2.4	3.0	4.2	-1.1	-3.3	...
Gross international reserves (millions of dollars)	5 819	6 296	6 566	7 053	7 439	9 115	9 265	9 830	9 097	8 811 ^c
Real effective exchange rate (index: 2000=100) ^d	87.6	88.5	86.9	87.2	87.2	87.2	82.5	75.2	74.5	75.2 ^e
Consumer prices (12-month percentage variation)	8.0	7.3	8.2	7.6	9.8	11.3	14.8	14.5	11.3	10.3 ^e
Average nominal exchange rate (pesos per dollar)	6.30	6.29	6.29	6.29	6.31	6.25	6.22	6.26	6.26	6.28
Nominal interest rates (annualized percentages)										
Deposit rate ^f	2.4	2.4	2.4	2.5	2.4	2.4	2.4	2.4	2.4	1.8 ^c
Lending rate ^g	10.6	10.6	10.6	10.3	11.5	12.3	12.6	13.0	13.0	12.9 ^c
Interbank rate	10.0	10.0	10.0	10.0	10.2	10.3	10.6	10.8	10.7	10.5 ^c
Domestic credit (variation from same quarter of preceding year)	82.9	154.2	159.3	114.1	14.4	-27.9	-23.4	-23.8	-16.1 ^h	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 1991 prices.

^c Data to April.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Data to May.

^f 90-day certificates of deposit.

^g Average of the benchmark rate.

^h Data to February.

outlays (revenue marginally declined by 0.1%), which was led by an impressive 64.4% expansion of transfers and subsidies. The latter is evidence of the efforts being made by the government to ameliorate the social impact of the global turmoil. Considering that about 12% of GDP was accumulated in the Heritage and Stabilization Fund, if this trend continues over the remainder of the fiscal year, the overall fiscal deficit could end up being above 3% of GDP.

On the upside, unlike in most Caribbean countries, public debt burden is not a problem. Public debt stood at 26% of GDP in 2008, of which almost one fourth was external and the remainder domestic.

(b) Monetary and exchange-rate policy

During 2008, the principal challenge confronted by the central bank continued to be high inflationary pressures in the context of the high liquidity levels in the financial sector that were fostered by expanded fiscal expenditure. The main monetary policy instruments used were liquidity absorption measures and increases in the reference interest rate (the repo rate).

In October 2007 - March 2008, net fiscal injections amounted to TT\$ 7.856 billion. These were partially absorbed by a combination of open market operations (TT\$ 3.757 billion) and sales of foreign exchange by the central bank (TT\$ 3.435 million). The same policy mix was used in October 2008 - March 2009, when net fiscal injections totalled TT\$ 9.752 billion. In this case, open market operations absorbed TT\$ 500 million through a 91-day central bank bill issued in November 2008, whereas sales of foreign exchange reached TT\$ 4.355 billion. In addition, in order to absorb the liquidity arising from the sale of RBTT Financial Holding Ltd,² in July 2008 a special liquidity absorption bond of TT\$ 1.2 billion was issued with a maturity of nine years at a coupon rate of 8.25%. Furthermore, the cash requirement ratio applicable to commercial banks was raised by six percentage points to 17% between February and November 2008, helping to withdraw TT\$ 2.154 billion from the banking system. Finally, in 2008, the repo rate was raised three times by 25 basis points each in February, July and September to end up at 8.75%.

² RBTT is the second largest commercial bank in Trinidad and Tobago.

Reflecting the excess liquidity in the financial system, the monetary aggregates exhibited rapid growth during 2008. M1—which is referred to as M1A by the central bank—expanded by a monthly year-on-year average of 17.6%, a much higher rate than the 7.6% growth recorded in 2007. This is explained by the significant dynamism of demand deposits because the increase of currency in active circulation remained approximately at the same level recorded in 2007. On the other hand, M2 in 2008 posted an average monthly year-on-year growth rate of 17.2%, 3.9 percentage points higher than in 2007 (13.3%). Growth of domestic credit to the private sector meanwhile slowed from 20.3% in 2007 to 14.0% in 2008, revealing a more prudent stance on the part of domestic financial institutions owing to the increased uncertainty that had been brought about by the deterioration of conditions in the world economy.

In 2009, the central bank faces the challenge of reducing two-digit inflation while at the same time dealing with a moderate economic slowdown and rising unemployment. To this end, the repo rate was reduced to 8.5% in March, then to 8% in April and 7.5% in June, and the government issued a 15-year bond, which raised TT\$ 1.5 billion. As domestic consumer demand slows and eases inflationary pressures and as the cooling down of the economy becomes more acute, the central bank is expected to gradually focus on stimulating domestic demand rather than on combating inflation.

Lastly, the quasi-fixed exchange-rate regime remained unchanged, in a context of high foreign-exchange inflows generated by a combination of high energy prices in January-July 2008 and the injection of foreign exchange by the Royal Bank of Canada to facilitate the purchase of RBTT. However, the high inflation rate differential between Trinidad and Tobago and the United States implied a sustained appreciation of the bilateral real exchange rate of about 30% between 2000 and 2008. This presents another policy challenge to the country, as it is hard to believe that new activities, firms and sectors will emerge to reduce the dependency on the energy sector in such a context. Even the central bank acknowledges that there was speculation about a possible depreciation of the domestic currency vis-à-vis the United States dollar during the first quarter of 2009 because the global economic crisis and the collapse of energy international prices had diminished foreign currency inflows and conditions in the foreign-exchange market were consequently tight.³

(c) Other policies

In December 2008 a new Financial Institutions Act was passed. This legislation institutes consolidated supervision aimed at identifying and evaluating risks and contagion threats, including related-party lending, upgrading governance structures (such as requiring a more independent board of directors and an independent audit committee) and giving more authority to the central bank to take early corrective and preventive action to protect depositors.

Paradoxically, in late January 2009 the government and the central bank announced the bailout of CLICO⁴ Investment Bank (CIB)—owned by CL Financial Ltd., a major conglomerate with interests in many sectors and activities in a large number of countries, especially in the Caribbean—in order to maintain the stability of the financial sector, prevent contagion of other financial institutions and protect depositors' funds. According to the central bank, the collapse of CIB was prompted mainly by three factors: first, excessive related-party transactions, which carry significant contagion risk; second, the very high interest rate offered to attract resources to finance high-risk investments, much of them in illiquid assets (including real estate in Trinidad and Tobago and elsewhere); and third, high leveraging of CL Financial Ltd. assets, which constrained the potential amount of cash that could be raised from the assets sales.

In the aftermath of the bailout of CLICO, a series of new bills have been introduced in parliament aimed at improving regulation and supervision of the financial sector. These include a Securities Industry Act and money-laundering legislation. In the coming months legislation governing pension funds, insurance companies and credit unions is expected to be introduced.

In August 2008 the country signed a Memorandum of Understanding with Grenada, Saint Lucia and Saint Vincent and the Grenadines, agreeing in principle to an economic union by 2011 and a political union by 2013. In addition, in 2009, the Economic Partnership Agreement (EPA) between the Caribbean Forum of African Caribbean and Pacific States (CARIFORUM) and the European Union will enter its implementation phase. The EPA demands certain reciprocity in the preferential access of Caribbean countries to the European Union market.

³ Central Bank of Trinidad and Tobago, Monetary Policy Report, April 2009, p. 41.

⁴ Colonial Life Insurance Company.

3. The main variables

(a) Economic activity

Economic growth was 3.5%, two percentage points lower than in 2007, due to an almost stagnant energy sector that grew by a mere 0.4% (compared with 1.7% in 2007). The poor performance of this sector, which accounts for nearly half of the country's output, was explained by a combination of lower oil production and stagnant petrochemical output. The non-energy sector also recorded a marked slowdown from 7.7% in 2007 to 4.8% in 2008. The sharpest contraction within this sector was recorded by manufacturing, whose growth rate shrank to 4.2% in 2008 from an impressive 14.9% in 2007.

It is worth noting that economic activity lost momentum hand in hand with the emergence and the intensification of the global economic crisis. Indeed, overall output declined by 2% during the last quarter of 2008 (in year-on-year terms) after having expanded during the first three quarters at rates ranging from 2.4% to 3.8%. The drop in petrochemicals production during October-December 2008 was as high as 14.4%. Therefore, in the context of a worsening international economic situation, GDP growth is expected to be around 0.8% in 2009, with the non-energy sector continuing to exhibit a better performance than the energy one. The deterioration of external conditions suggests that Trinidad and Tobago will have to alter the policy mix implemented during the boom years of soaring high energy prices in 2003-2007 and that monetary policy will increasingly have to focus on boosting domestic demand because fiscal policy will no longer have the resources needed to implement substantial increases in public spending.

On the demand side, growth in 2008 was led by government consumption that expanded by 8.1% (compared with 7.4% in 2007), followed by private consumption that grew by 5.8% (compared with 6.3% in 2007). Export growth was slower due to a decline in oil production, falling from 6.2% in 2007 to 4.8% in 2008. The slowdown of investment was significant as it exhibited a growth rate of 3.5%, less than half of the 8.9% growth registered in 2007. This reflects the reduction in public and private investment that had been particularly dynamic in 2007 due to a number of major projects implemented that year. Finally, the dependence on imported food spearheaded the 8.7% rise in imports recorded in 2008, which was slightly lower than the increase in imports in 2007 (8.9%).

(b) Prices, wages and employment

Inflation gained momentum in 2008 posting a year-on-year headline rate of 14.5% in December, nearly twice as high as the one observed in December 2007 (7.6%). As usual, the main driver was food inflation which reached a record of 30.6% at the end of 2008, again almost doubling the level reached at the end of 2007 (16.8%). Undoubtedly, rising world food prices exerted a significant impact on domestic food inflation, particularly during the first half of the year. Higher prices of imported grain (particularly wheat, whose consumption is intense but which is not produced in Trinidad and Tobago) led National Flour Mills to raise the domestic price of flour in February, April and July 2008. As a consequence, inflation in the bread and cereals category of the food component of the Retail Price Index⁵ rose from 14.1% in January 2008 to 63.2% in September. This process was aggravated by the closure of a second mill. Moreover, the substantive decline in international food prices since the third quarter of 2008 has not been transferred to domestic prices. For instance, while year-on-year headline inflation posted a rate of 10.3% in May 2009, food inflation stood at 19.6%. This signals a grave problem: not only that have domestic prices not declined in tandem with international prices, they have kept increasing at high rates. The social implications of this phenomenon are strong. Perhaps part of the explanation lies in monopolistic or oligopolistic behaviour on the part of importers, distributors, and retailers. Nevertheless, weaker consumer demand should gradually drive the inflation rate downwards in 2009, and inflation is estimated to end the year in the one digit region.

In terms of employment, despite the slowdown in economic growth recorded in 2008 in relation to 2007, the unemployment rate in January-September 2008 averaged 4.9%, one percentage point lower than during the same period in 2007. This reflects the fact that although 5,000 people joined the labour force, some 11,300 persons found a job.⁶ This process was spurred by employment in the construction sector, which created 7,100 additional jobs during the first few months of 2008, followed by the services sector which created 3,100 jobs. It is worth noting that the energy sector lost 2,200 jobs, the heaviest loss recorded in that period. In recent months, however, the labour market has been showing signs of

⁵ This is the name of the consumer price index.

⁶ The total labour force was estimated at 630,700 in September 2008.

weakening, with the leaders in job losses being energy services (about 1,000 jobs in 2008-2009), the Trinidad and Tobago Contractors Association (2,000 jobs lost in January-March 2009), and Home Construction Limited (2,500 jobs in August 2008-January 2009). Employment is expected to be adversely affected by the pessimistic output performance forecast for 2009.

(c) The external sector

The steady climb in energy prices during most of the year more than offset the decline of energy production. This determined that in 2008 the current account surplus stood at 27.6% of GDP, three percentage points higher than in 2007. Meanwhile, the trade surplus stood at 28.6% of GDP (up from 26.2% in 2007), fuelled by the

hike in energy exports from US\$ 11.5 billion to US\$ 14.6 billion, an increase of 27%. Non-energy exports also expanded notably (22%) to US\$ 9.4 billion. Merchandise imports were 30% higher in 2008 than in 2007. The current account surplus was partly counterbalanced by a capital and financial account deficit (including errors and omissions) of 16.5% of GDP in 2008 (compared with 17.5% in 2007).⁷ Overall, the balance-of-payments surplus increased from 7.1% of GDP in 2007 to 11.1% in 2008. This resulted in an accumulation of gross international reserves that rose from US\$ 6.7 billion in 2007 to US\$ 9.4 billion in 2008 or 11.5 months of imports coverage. Evidently, given the evolution of international energy prices, the current account surplus is expected to decline during 2009, largely as a result of rapidly declining export receipts, although it should remain significant.

⁷ Foreign Direct Investment (FDI) represented 6.2% of GDP in 2008, up from the 4% posted in 2007.