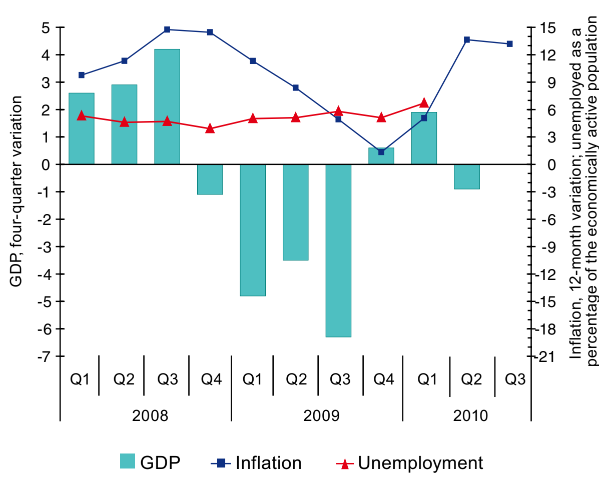
Trinidad and Tobago

According to preliminary estimates, the Trinidad and Tobago economy is expected to grow by 1% in 2010. This performance is linked to the energy sector as the non-energy sector's performance continued to decline. Credit demand remained unresponsive to persistent reductions in lending rates during the year. Annual average inflation soared to 16.8% in August after falling to 1.3% in 2009, and the unemployment rate is expected to climb to 7%. On the external front, the current account surplus increased to US$ 1.8 billion or 15.6% of GDP in January-June 2010.

The central government ran a lower-than-budgeted fiscal deficit for the 2009/2010 fiscal year. The overall deficit (excluding the cost of the government's intervention to bail out CLICO) is recorded at 3.807 billion Trinidad and Tobago dollars (TT$) or 3% of GDP. This outturn reflects the recovery in energy sector revenues and lower-than-planned expenditures (due to election-related delays in capital spending). However, the government still owes large amounts to contractors and other suppliers and this may increase the size of the final fiscal deficit. Of particular concern is the non-energy fiscal deficit, estimated at 18% of GDP. Receipts from the non-energy sector were lower than projected, since the lacklustre economic performance resulted in a shortfall in revenues from customs duties and other taxes. The central government's budget for 2010/2011 is based on a growth rate of 2.5%, an average oil price of US$ 65 per barrel (West Texas Intermediate (WTI)) and a gas price (netback value) of US$ 2.75 per mmbtu. The objective of this public budget was to encourage growth and job creation through fiscal incentives that would result in a deficit of 5.1% of GDP, to be financed by local and foreign borrowing. The 2010/2011 budget seeks to ensure that capital expenditure will stimulate economic recovery and pay attention to fiscal consolidation and the social sectors. Nevertheless, capital expenditures are projected at TT$ 7.209 billion, which represents a decline of 4.9% from the previous year due to severe revenue constraints. However, the fiscal deficit could be larger than budgeted because of the impact of slower growth rates, wage settlements and a 39% increase in the minimum wage to TT$ 12.50 per hour. The budget deficit of 2010/2011 is projected to push public debt up further to 43% of GDP (from its current level of 37% of GDP).

Against the background of a weak economy and inflationary pressures that were largely supply-induced, the central bank's policy stance sought to reduce market interest rates and stimulate credit growth. Between April and October 2010, the monetary authorities lowered the policy repo rate by 100 basis points from 5% to 4%. In response, commercial banks also reduced their average prime lending rate from 9.5% to 8.9% during the year. Nevertheless, the policy action did not yield the expected results and credit demand remained weak. Consumer credit recorded a year-on-year decline of 2.8%, while business

TRINIDAD AND TOBAGO: GDP, INFLATION AND UNEMPLOYMENT



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

credit declined by 10.1%. In contrast, mortgage loans outstanding grew by 7.1% in August, compared with the corresponding period a year earlier.

The further deterioration in credit demand and reductions in the repo rate may be attributed to uncertainty about growth in the economy and employment prospects. Many would-be borrowers have preferred to avoid new or increased indebtedness. Furthermore, interest-rate reductions appear to have benefited mortgage loans rather than consumer and business loans and the increase in non-performing loans has led some banks to tighten prudential lending standards. As a result of large increases in bank deposits and flagging credit demand, excess liquidity in the banking system swelled to unprecedented levels, amounting to TT$ 3.3 billion in October 2010 compared with TT$ 2.5 billion in 2009. This in turn drove treasury bill rates down to record lows. The three-month treasury-bill discount rate stood at a historic low of 0.34% in September 2010, down from 1.85% a year earlier. This development, combined with the narrowing of the spread between domestic and foreign interest rates, has fuelled an increase in demand for foreign exchange for financing asset purchases abroad.

On a year-on-year basis, the real effective exchange rate appreciated by 14.9% to August 2010. The main contributing factor to this appreciation of the exchange rate was the increase in inflation, which greatly exceeded the 3.3% weighted average inflation rate of Trinidad and Tobago's major trading partners. Additionally, an appreciation of the United States dollar against the Euro and pound also caused an indirect appreciation of the Trinidad and Tobago dollar against these currencies.

The new government proposed a new bail-out plan for CLICO. The new plan proposed that depositors with short-term investments and mutual funds will receive an initial partial payment of a maximum of TT$ 75,000 from the government. Investors and mutual fund depositors whose principal balances exceed TT$ 75,000 will be paid through government bonds amortized over 20 years at zero interest. This plan was rejected by investors but the government insists that it will be implemented by the end of 2010.

There is still no evidence of a resurgence in economic activity. Real GDP is expected to grow by 1% in 2010, with a potential increase to 2.5% in 2011 if the global economic recovery continues and if consumer and business confidence is restored and helps to boost investment and job creation. Economic activity in the non-energy sector is expected to decline by 1.7% in 2010. Available data to the end of the second quarter show that value added continued to decline in the following sectors: distribution (5.1%), construction (8.9%), manufacturing (0.6%) and agriculture (15%).

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	2.3	-0.9	1.0
Per capita gross domestic product	1.9	-1.3	0.6
Consumer prices	14.5	1.3	12.5 [b]
Money (M1)	10.1	38.9	20.7 [c]
Real effective exchange rate [d]	-5.1	-7.6	-5.3 [e]
	Annual average percentages		
Rate of urban unemployment [f]	4.6	5.3	6.7 [g]
Central government overall balance / GDP [h]	7.4	-5.6	…
Nominal deposit rate [i]	2.4	1.9	0.4 [j]
Nominal lending rate [k]	12.3	11.9	9.4 [j]
	Millions of dollars		
Exports of goods	18 686	9 175	8 823
Imports of goods	9 622	6 973	6 729
Current account	8 519	1 759	1 228
Capital and financial account [l]	-5 813	-2 472	-778
Overall balance	2 706	-713	450

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

[a] Preliminary estimates.
[b] Twelve-month variation to October 2010.
[c] Twelve-month variation to September 2010.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year variation, January to October average.
[f] Includes hidden unemployment.
[g] Figure for March.
[h] Fiscal year.
[i] Average of savings rates.
[j] Average from January to October.
[k] Prime rate, annualized.
[l] Includes errors and omissions.

The inflation rate is expected to rise to 10% in 2010 and to average 8% in 2011, while the unemployment rate may reach 7.8% in 2010 and fall back to 7% in 2011. Headline inflation, which measured 1.3% at the end of 2009, spiralled to 16.2% at the end of August 2010, before falling back to 13.2% at the end of September 2010. This outcome was largely due to food prices, which recorded an average increase of 12% over the 12 months to August 2010. However, core inflation remained sticky at 4%. The unemployment rate increased to 6.7% in the first quarter of 2010, up from 5.1% in the previous quarter, although the participation rate declined from 63.6% to 61.9%.

The current account surplus of the balance of payments showed some improvements, increasing from 8.3% of GDP in 2009 to 15.6% of GDP in the first half of 2010. This improvement in the current account was linked to the recovery in energy and petroleum prices. The capital and financial account continued to be in deficit as private-sector outflows reached US$ 1.8 billion and foreign direct investment remained minuscule. At the end of September 2010, gross official reserves amounted to US$ 9.085 billion or 13.1 months of prospective imports. Developments in the current account in the last two years once more underscore the point that in economies like Trinidad and Tobago, medium-term growth depends on a strategy which seeks to improve competitiveness and productivity in the non-energy sector.