

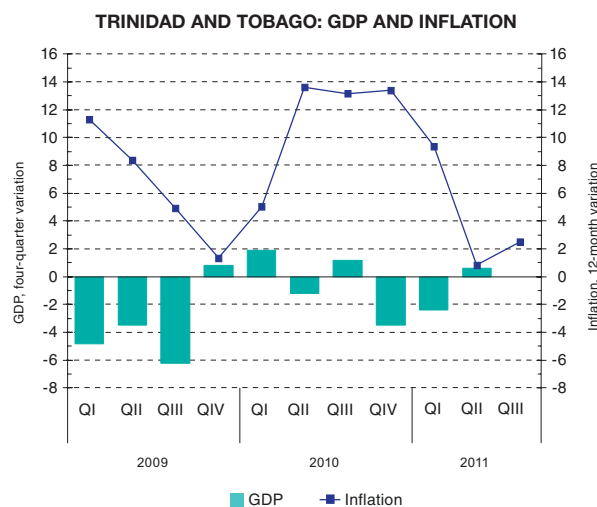
Trinidad and Tobago

Weak performance in both the energy and non-energy sectors, as well as the negative impact of the state of emergency declared by the government in August 2011, resulted in negative growth estimated at 1.4% for the year. Credit demand in the business sector remained sluggish, while commercial bank lending to consumers improved. The inflation rate declined rapidly in the first half of 2011, reflecting a decrease in food prices, which allowed the central bank to continue its accommodative monetary policy in the form of lower interest rates. The government's budget for fiscal year 2011/2012 emphasizes diversification away from the energy sector and the need to secure basic human needs. The fiscal deficit is projected to be 7.6 billion Trinidad and Tobago dollars (TT\$), or 4.9% of estimated GDP for the fiscal year.

The government ran a fiscal deficit for the third year running, estimated at TT\$ 7.9 billion, or 5.5% of GDP, for fiscal year 2010/2011.¹ Although burgeoning oil prices contributed to higher-than-expected revenue, rising expenditures, including public works spending, outweighed the revenue gains. In October 2011, the government announced the budget for 2011/2012 with a projected fiscal deficit of TT\$ 7.6 billion, or 4.9% of GDP. The economic stimulus measures envisaged in the budget include efforts to diversify the economy towards the non-energy sector, especially agriculture and tourism. Revenue is projected at TT\$ 47.0 billion, comprising TT\$ 18.1 billion from the energy sector and TT\$ 28.9 billion from the non-energy sector. Revenue-side risks include lower tax receipts from the non-energy sector and falling prices for oil and gas. Total expenditure is projected to be TT\$ 54.6 billion, reflecting the government's plan to increase expenditure on social services such as health care, education and housing. The public spending rise also reflects payments to policyholders of the Colonial Life Insurance Company (CLICO) as part of the government's bailout of the company. The country's consecutive budget deficits have pushed up the debt-to-GDP ratio and outstanding public debt is expected to be 35.2% of GDP in fiscal year 2011, which could rise in 2012 in light of the government's

decision, announced in September 2011, to raise its debt ceiling from TT\$ 38 billion to TT\$ 70 billion.

The central bank has maintained an accommodative monetary policy, keeping interest rates low in an effort to stimulate the slow-recovering economy. Accordingly, the repo rate reached a record low of 3.0% in 2011 after three 0.25% cuts in January, February and July. Commercial banks in turn reduced their prime lending rates, which



¹ The fiscal year runs from 1 October to 30 September in Trinidad and Tobago.

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

came down from an average of 8.4% to 8.0% in the first half of 2011. Although in 2010 mortgage lending was the only segment to see growth as a result of the lower interest rates, since mid-2011 consumer lending has picked up gradually, as well. Demand for business loans, on the other hand, has not responded to the interest-rate stimulus. With business credit demand unresponsive, commercial banks' excess reserve holdings with the central bank rose from TT\$ 3.3 billion at the end of 2010 to TT\$ 4.6 billion in September 2011. Despite the low domestic interest rates, the exchange rate remained stable thanks to the central bank's policy of foreign-exchange sales.

According to provisional estimates, Trinidad and Tobago's real GDP will shrink by 1.4% in 2011, in what will be the third consecutive year of decline (although 2010 GDP growth is reported as 0.0%, it was, in fact, slightly negative at 0.023%). A downturn in crude oil and natural gas production, due to technical reasons including a delay in upgrading facilities, offset the high price of these fuels. In the non-energy sector, while manufacturing has been recovering gradually—up 1% in 2011 thanks to stronger demand from the Caribbean Community (CARICOM) market—no major improvements have been observed in the agricultural and services sectors, which are expected to contract by 4.0% and 1.3%, respectively. Domestic economic activity was forecast to make a gradual comeback in the second half of the year as government spending edged up, particularly in infrastructure projects. However, the declaration of the limited state of emergency, including a daily curfew effective from August to November, in response to an alarming increase in violent crime, has taken a toll on the economy. Following the weak performance in 2011, real GDP in 2012 is expected to move into positive territory at around 1%. While oil output will remain static despite relatively high prices, manufacturing industries and tourism activity will improve in line with the recovery of Caribbean markets. The construction sector will also see an upturn as a result of higher government infrastructure spending, which will be a main driver of growth in 2012.

In year-on-year terms, inflation came down from 13.4% in December 2010 to an estimated 5.1% in December 2011, reflecting falling food prices in the first half of the year. Although higher international prices for key food staples in the second half of 2011 will have some impact on local prices, weak domestic demand will keep inflation at around 7% in 2012. With consumer prices relatively stable, the central bank has had room to run an expansionary monetary policy to boost the economic recovery and, while inflation pressure remains modest, it will continue to do so at least through the first half of 2012, given the economy's slow recovery and the

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-3.0	0.0	-1.4
Per capita gross domestic product	-3.4	-0.4	-1.7
Consumer prices	1.3	13.4	3.7 ^b
Money (M1)	39.0	9.2	13.8 ^c
Real effective exchange rate ^d	-9.0	-4.3	2.3 ^e
Annual average percentages			
Unemployment rate ^f	5.3	5.9	...
Central government overall balance / GDP ^g	-5.6	-2.2	-5.5
Nominal deposit rate ^h	1.7	0.4	0.3 ⁱ
Nominal lending rate ^j	11.9	9.2	8.0 ⁱ
Millions of dollars			
Exports of goods and services	9 940	12 080	12 148 ^k
Imports of goods and services	7 356	6 895	7 488 ^k
Current account balance	1 614	4 192	4 911
Capital and financial balance ^l	-2 327	-3 774	-4 594
Overall balance	-713	418	316

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 2011.

^c Twelve-month variation to September 2011.

^d A negative rate indicates an appreciation of the currency in real terms.

^e January to October average, year-on-year variation.

^f Includes hidden unemployment.

^g Fiscal year.

^h Special savings rate, average.

ⁱ January-September average.

^j Prime rate.

^k In 2011, refers to goods.

^l Includes errors and omissions.

lethargic response of business lending. Some job losses were observed in the energy and manufacturing sectors in 2011 and the unemployment rate overall has climbed from 4.3% in 2008 to an estimated 6.2% in 2011.

The current account surplus is expected to widen from US\$ 4.2 billion in 2010 to US\$ 4.9 billion, or 21.8% of estimated GDP, in 2011. Despite the decrease in oil production, higher oil prices have kept the country's exports robust. Merchandise exports also contributed to the current account surplus thanks to an upturn in demand from the CARICOM market. The performance of the capital and financial account remained unchanged from 2010. Inflows of foreign direct investment for the year were below pre-crisis levels but relatively stable at slightly above US\$ 500 million, supported by investment in the energy sector. However, the financial account balance was negative by US\$ 3.8 billion in 2010 and US\$ 4.6 billion in 2011, owing to large outflows of other private capital. International reserves, underpinned by foreign-exchange inflows generated by the energy sector, edged up from US\$ 9.1 billion at the end of 2010 to US\$ 9.3 billion at the end of the third quarter of 2011, which represents 12 months of import cover.