

Trinidad and Tobago

Despite still high energy prices and historically record highs in oil prices, in 2007 Trinidad and Tobago's economy is expected to record a marked slowdown with growth of 5.5%, well below the impressive 12.0% recorded in 2006. Rapid growth in capital spending associated with public infrastructure projects made fiscal policy rather expansionary, resulting in a reduction of the fiscal surplus. Monetary policy was conducted conservatively and resulted in a lower inflation rate (7.3% year on year, as at the end of September 2007). The nominal exchange rate remained stable. The current account surplus declined, but remained over 20% of GDP. The economy is expected to grow by 7% in 2008.

The fiscal balance for fiscal year 2006-07,¹ not including transfers to the Heritage and Stabilization Fund (HSF)—an oil stabilization and savings fund—posted a surplus of 2.5% of GDP, well below the 6.9% recorded in fiscal year 2005-06. Revenue grew by 4% in nominal terms, led by tax collection in a context of rising incomes and dynamic economic activity. Nonetheless, spending growth outpaced revenue expansion and rose by 5.8%, driven by capital spending associated with ongoing infrastructure projects.

The combination of high imported food prices, expansionary fiscal policy and excess liquidity put upward pressures on domestic prices. To keep inflation under control, the Central Bank took a conservative position that helped to reduce the inflation rate to 7.3% year on year, as at the end of September 2007 (9.1% in 2006). While maintaining the benchmark “repo” interest rate constant at 8%—which meant a zero real interest rate—monetary authorities took measures to absorb excess liquidity. These included open market operations, foreign exchange operations, and a secondary reserve requirement of 2% on commercial bank liabilities. In the year to September, these instruments absorbed 28%, 64% and 5% of fiscal injections (TT\$ 12.18 billion), respectively. This helped

to moderate the expansion of monetary aggregates to 8.6% in the case of M1 (23.6% in 2006) and 12.5% in the case of M2 (17.3% in 2006). Notwithstanding, domestic credit to the private sector increased by 17.6% in the year to September (24.8% in 2006). Growth in consumer credit continued to outpace business credit (28% and 13.9%, respectively).

As a result of the strong foreign exchange position fed by a booming energy sector, international reserves increased by US\$ 1 billion, despite the sale of foreign exchange, and totalled some US\$ 7.6 billion at the end of 2007. The nominal exchange rate remained at around TTS\$ 6.3 to one United States dollar. Given the inflation rate differential, this meant a real appreciation of around 5% against the dollar.

The main reason for the cooling of the economy observed in 2007 (from 12% to 5.5%) was the absence of the new large-scale energy projects that fuelled the economy in 2006, such as the gas processing plant. While the GDP of the energy sector grew by an impressive 21.4% in 2006, it expanded by only 4.4% in 2007. Exploration and production were stagnant, after having increased by 16.4% in 2006. Meanwhile, refining and petrochemicals output growth dipped from 41% to 14.4% and from 13.9% to 3.2%, respectively.

¹ The fiscal year runs from 1 October to 30 September.

More importantly, a report prepared by the US consultancy Ryder Scott and released in August highlighted a reduction in proven gas reserves, estimating that these would be exhausted within 11 years and probable reserves in a further nine years. This is explained by the fact that no major gas reserves have been discovered in the country since 2004. The government reacted by providing fiscal incentives for new oil and gas exploration, and in September it approved revisions to oil and natural-gas production-sharing contracts (PSCs), allowing for consolidation of profits and losses from different areas of operation, reducing the overall tax burden in the energy sector. Furthermore, the authorities aim to create conditions conducive to developing a strong and sustainable non-energy sector.

On the demand side, growth was led by a 9% increase in gross fixed investment (12% in 2006); this was due to several construction projects both public and private. However, there are indications that the sector is overheating, including high increases in input prices as well as labour costs. For instance, the prices of concrete and structural steel have multiplied by a factor of three since 2003, and that of aggregate has increased by 280%.

As regards the external sector, high energy prices coupled with increased volumes resulted in exports growing by almost 13% in nominal terms as compared to 2006, reaching US\$ 13.65 billion. However, the value of imports increased more rapidly, posting an expansion of 21% to some US\$ 8.3 billion. This caused the trade surplus to fall from 29% of GDP in 2006 to 25% in 2007. The income balance deficit widened to around US\$ 1.3 billion (US\$ 936 million in 2006) owing to higher repatriation of profits by multinational corporations in the energy sector. Overall, the current account surplus declined to a still-impressive US\$ 4,288 million or 20.1% of GDP (25.5% in 2006).

On the private sector side, in October it was announced that the Royal Bank of Canada (RBC) will buy RBTT Financial Holdings Limited for US\$ 2.2 billion. The resulting entity will serve some 1.6 million clients in the Caribbean. International investors ratified or improved their optimistic view of the country's economic prospects. In September, Moody's confirmed its Baa1 rating and stable outlook, citing low and

**TRINIDAD AND TOBAGO:
MAIN ECONOMIC INDICATORS**

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	8.0	12.0	5.5
Per capita gross domestic product	7.6	11.6	5.1
Consumer prices	7.2	9.1	7.3 ^b
Money (M1)	23.5	23.6	8.6 ^b
Real effective exchange rate ^c	-1.6	-3.5	-2.3 ^d
Annual average percentages			
Unemployment rate ^e	8.0	6.2	5.9 ^f
National administration overall balance / GDP ^g	5.4	6.9	2.5
Nominal deposit rate	2.4	2.4	2.4 ^h
Nominal lending rate	9.1	10.2	10.6 ⁱ
Millions of dollars			
Exports of goods and services	10 573
Imports of goods and services	6 099
Current account	3 594	4 655	4 288
Capital and financial account	-1 701	-3 009	...
Overall balance	1 893	1 645	...

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

^a Preliminary estimates.

^b Twelve-month variation to September 2007.

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

^d Year-on-year average variation, January to October 2007.

^e Includes hidden unemployment.

^f Estimate based on data from January to June.

^g Fiscal year.

^h Average from January to June, annualized.

ⁱ Average from January to September, annualized.

declining public debt ratios, a diversified energy sector and rapid economic growth as supporting factors for the rating. By the same token, Standard and Poor's revised its long-term foreign currency rating outlook to positive from stable, placing the rating at A-.

General elections held in November re-elected the government of the People's National Movement (PNM). The economic policy challenge in the coming years is how to use the current energy windfall to support long-term economic growth while at the same time expanding proven gas reserves. The "Vision 2020" development plan will be further implemented, which implies continued expansion of public investment financed by energy revenue to fund infrastructure projects and social spending.