

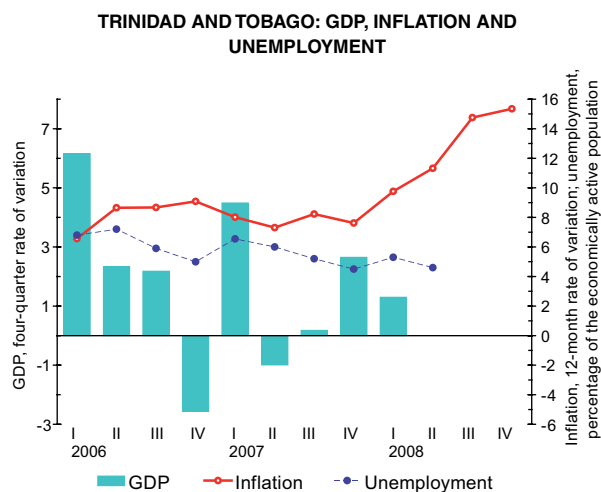
Trinidad and Tobago

The global financial crisis marks a turning point for Trinidad and Tobago's economy, after several years in which the surge in global hydrocarbons prices had helped to create a highly favourable external context. In 2008 growth is estimated to have slowed to 3.5%, compared with 5.5% in 2007. The turmoil also resulted in a reduction in the trade and current account surpluses and a significant rise in inflation (15.4% year-on-year in October). In 2008 the economic policy mix again consisted of an expansionary fiscal stance based on dynamic public investment, combined with a monetary focus on absorbing excess liquidity generated by public spending, within a quasi-fixed exchange rate regime. Economic policy will continue to be guided by the "Vision 2020" national development plan and 2009 will undoubtedly pose a number of economic challenges, especially in terms of reducing the country's dependence on the energy sector, which generates more than 45% of output, between 85% and 90% of merchandise exports and over 55% of fiscal revenue. Growth is projected at around 2% for 2009.

The central government surplus increased significantly in fiscal year 2007-2008,¹ reaching 6.5% of GDP. This reflects more rapid nominal increases in revenue than in spending, with both energy and non-energy tax receipts coming in above budget projections. The 2007-2008 budget assumed an average oil price of US\$ 50 per barrel, far below the actual average of US\$ 93.15. This price differential resulted in energy tax collections of some 8 billion Trinidad and Tobago dollars (TT\$) over budget projections and explains the apparent contradiction of deeming fiscal policy expansionary even with a large gain in the fiscal surplus. The excess of revenue over spending was mainly transferred to the Heritage and Stabilisation Fund and the Infrastructure Development Fund. Meanwhile, public debt stood at 28% of GDP at the end of fiscal year 2007-2008, while external debt was 6% of GDP. The budget for 2008-2009 proposes a fiscal balance virtually in equilibrium.

Monetary policy measures were insufficient to keep inflation in check in 2008, owing to a combination of external factors, associated mainly with still rising global

food prices, and domestic pressures generated by fiscal liquidity injections. In this context, in 2008 the central bank raised the benchmark "repo" interest rate three times, to reach 8.75% in September (8% in December 2007).



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

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

With a two-digit inflation rate, however, real interest rates remained highly negative, thus increasing domestic demand. Moreover, as fiscal injections expanded by 3.8% in fiscal year 2007-2008 relative to 2006-2007, the central bank raised the commercial bank reserve requirement from 11% to 15% and then, in October, to 17%. The central bank also stepped up its open market liquidity absorption operations by a huge 135%, from TT\$ 3.458 billion in 2006-2007 to TT\$ 8.16 billion in 2007-2008. In 2009 monetary policy will continue to focus on absorbing fiscal injections through open market operations, within the exchange-rate regime that seeks to maintain a fixed nominal exchange rate with the United States dollar. Given the inflation rate differential, this implies a permanent real appreciation of the local currency, with its pernicious effects on tradable sectors, especially non-energy exports. The maintenance of the dirty peg has been possible largely thanks to the central bank's strong reserve position, sustained by large foreign exchange inflows from the hydrocarbons industry.

Contagion from the global turmoil mainly took the form of a steep dip in oil prices, which were more than halved between July and November. The immediate impact on the local financial sector was negligible, given its small balance sheet holdings of United States assets. In addition, the sector's solid international reserve position and the level of resources in the Heritage and Stabilisation Fund (10.2% of GDP at the end of fiscal year 2007-2008) reduces the country's vulnerability. Nevertheless, the recession in the United States will continue to act as a brake on growth in 2009, since that country is the destination market for almost 60% of Trinidad and Tobago's exports and its main source of external financing. The central bank projects growth of around 2% in 2009. In the context of falling international oil prices, the non-energy sector will continue to grow faster than the energy sector. The construction sector is expected to lose momentum, as some public investment projects are likely to be postponed if revenue falls short of budget projections.

Rising food prices continued to be the main driver of domestic inflation in 2008. For the year up to October, headline inflation stood at 15.4% while food inflation was 33.4% year-on-year, showing that the drop in world food prices had yet to be passed through to domestic prices. Food price inflation should ease in 2009 as rises in imported food prices slow. Conversely, there are signs that wage demands may increase in the private and public sectors alike to compensate for the sharp increases in food prices, which will pose a challenge as regards efforts to reduce inflation. With respect to the labour market, in June the unemployment rate stood at 4.6%, below the 2007 average of 5.6%, and it is expected to remain at similar levels throughout 2009.

In recent years, the boom in energy prices has translated into massive trade and current account surpluses, which

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	12.0	5.5	3.5
Per capita gross domestic product	11.6	5.1	3.1
Consumer prices	9.1	7.6	15.4 ^b
Money (M1)	9.7	12.0	16.1 ^c
Real effective exchange rate ^d	-2.2	-1.9	-3.1 ^e
Annual average percentages			
Unemployment rate ^f	6.2	5.6	5.0 ^g
Central government			
overall balance / GDP	6.9	2.6	6.5 ^h
Nominal deposit rate ⁱ	2.4	2.4	2.3 ^j
Nominal lending rate ^k	10.2	10.5	12.1 ^j
Millions of dollars			
Exports of goods and services	12 100	13 391	16 731
Imports of goods and services	6 843	7 670	11 033
Current account	4 809	5 381	4 902
Capital and financial account	-3 690	-3 840	-3 102
Overall balance	1 119	1 541	1 800

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 2008.

^c Twelve-month variation to August 2008.

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

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

^f Includes hidden unemployment.

^g Average of the March and June figures.

^h Fiscal year 2007-2008.

ⁱ Average of savings rates.

^j Average from January to August, annualized.

^k Prime rate.

stood at 29% and 27% of GDP, respectively, in 2007. In 2008 the combination of slackening world demand and lower international prices reduced both surpluses by some five GDP percentage points. In addition, the deterioration in international conditions is likely to widen the financial account deficit, which stood at US\$ 3.5 billion in 2007. Conversely, the large current account surplus will translate into a significant build-up of international reserves, from US\$ 6.7 billion in 2007 to US\$ 8.5 billion (equivalent to 11 months of import cover) in 2008. With world economic perspectives gloomy for 2009, the current account surplus is likely to contract further while the financial account deficit widens again. This will not necessarily preclude another year of significant foreign exchange reserves accumulation, however.

As regards regional integration, in August Trinidad and Tobago signed a Memorandum of Understanding with Grenada, Saint Lucia and Saint Vincent and the Grenadines, agreeing in principle to economic union by 2011 and political union by 2013. In addition, the Economic Partnership Agreement (EPA) between the European Union and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM), which comprises the Caribbean Community (CARICOM) countries and the Dominican Republic, is due to enter the implementation phase in 2009. These agreements represent both challenges and opportunities for Trinidad and Tobago.