
Trinidad and Tobago

1. General trends

The economy of Trinidad and Tobago expanded by 4.1% in 2003, thus reversing the growth slowdown it had experienced starting in 2000. The upturn was led by the energy sector, particularly the natural gas subsector, which was boosted by an increase in production capacity and the rise in international oil prices. The growth of non-energy sectors as a whole, however, lagged behind this expansion and did little to boost job creation.

The vigour of the energy sector—and, more specifically, the effect of higher international fuel prices—had a clear impact on the government's accounts, which exhibited a fiscal surplus. This out-turn made it possible to build up the reserves in the oil stabilization fund. The balance-of-payments position was positive, as the deficit on the capital account was outweighed by an increase in the current account surplus (from 0.5% of GDP in 2002 to 8.4% in 2003). This resulted in the expansion of net international reserves, which, together with the government's surplus and public debt restructuring operations, raised liquidity levels in the financial system.

The monetary authorities proceeded to sterilize this liquidity in the first half of the year, and lowered interest rates in the second half in view of the absence of inflationary pressures, as the rate of price increases slipped from 4.3% in 2002 to 3% in 2003. This spurred the demand for credit and shifted the composition of economic agents' portfolios towards higher-yield assets.

In 2004 the economy's growth, driven by the energy sector, is expected to fall within the 6%-to-7% range. Inflation is likely to increase slightly as a result of cost pressures. The central government has budgeted a deficit of 1% of GDP, and projects that the current account surplus will swell from 8.4% to 13% of GDP.

2. Economic policy

(a) Fiscal policy

The central government posted a surplus equivalent to 1.4% of GDP in fiscal year 2003, which compares

favourably to the deficit recorded in the preceding period (0.6% of GDP).¹ The surplus enabled the government to meet its scheduled debt payment obligations and, at the same time, to increase its deposits at the central bank.

¹ Trinidad and Tobago's fiscal year runs from 1 October to 30 September.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 ^a
Annual growth rates^b									
Gross domestic product	3.2	2.9	3.0	4.6	5.8	5.7	4.1	2.7	4.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	...	...	2.7	-10.7	12.0	9.5	-3.7	5.5	-15.1
Energy	...	...	-2.0	5.4	8.1	1.1	0.7	10.7	11.4
Manufacturing	...	...	3.5	4.1	3.4	6.7	3.1	-0.9	2.0
Construction	...	...	15.0	13.9	7.9	8.0	4.9	5.0	4.8
Distribution	...	...	17.7	13.6	9.8	21.5	6.8	9.8	5.9
Other services ^c	...	...	2.0	3.3	1.8	3.4	9.1	-1.7	0.9
Millions of dollars									
Balance of payments									
Current account balance	294	105	-614	-644	31	544	416	50	917
Merchandise trade balance	588	382	-529	-741	64	969	718	238	1 077
Exports, f.o.b.	2 456	2 354	2 448	2 258	2 816	4 290	4 304	3 875	...
Imports, f.o.b.	1 868	1 972	2 977	2 999	2 752	3 322	3 586	3 682	...
Services trade balance	101	244	292	416	329	166	204	237	219
Income balance	-390	-514	-381	-341	-400	-629	-539	-480	-444
Net current transfers	-4	-7	4	22	38	38	33	55	66
Capital and financial balance ^d	-210	133	807	724	131	-103	86	-1	-583
Net foreign direct investment	299	355	999	730	379	654	685	684	425
Financial capital ^e	-509	-222	-192	-6	-248	-757	-599	...	...
Overall balance	84	238	194	80	162	441	502	49	334
Variation in reserve assets ^f	-40	-213	-175	-76	-162	-441	-502	-49	-334
Other financing ^g	-44	-25	-18	-4	0	0	0	0	0
Other external-sector indicators									
Total gross external debt (millions of dollars)	1 905	1 876	1 565	1 471	1 585	1 680	1 638	1 596	1 526
Total gross external debt (% of GDP)	35.8	33.1	27.1	25.4	25.0	24.4	18.6	16.7	13.9
Employment									
Labour force participation rate ^h	...	...	...	...	60.8	61.2	60.7	60.9	61.6
Unemployment rate ⁱ	17.2	16.2	15.0	14.2	13.2	12.2	10.8	10.4	10.6
Prices									
Variation in consumer prices (December-December)	3.8	4.3	3.5	5.6	3.4	5.6	3.2	4.3	3.0
Variation in nominal exchange rate (December-December)	1.1	3.3	1.7	-0.2	0.2	0.0	-0.3	-0.2	-2.1
Real lending rate ^j	...	13.5	13.4	14.4	15.4	14.5	14.0	12.3	11.4
Real deposit rate ^j	...	5.7	5.4	5.9	6.0	5.7	5.5	3.5	2.5
Millions of Trinidad and Tobago dollars									
Central government									
Current income	...	...	...	...	9 613	13 007	13 380	14 424	17 853
Current expenditure	...	...	...	...	10 542	10 994	12 595	13 366	15 179
Net capital expenditure	...	...	...	...	-427	-1 194	-826	-698	-838
Primary balance	...	...	...	...	989	3 249	2 181	2 679	4 294
Overall balance	...	...	...	...	-1 355	819	-41	360	1 835

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 ^a
Percentages of GDP									
Money and credit									
Domestic credit	31.4	33.3	37.2	41.5	39.7	35.4	36.0	34.5	31.7
To the public sector	5.9	6.3	8.3	8.9	7.4	5.9	5.3	6.4	6.5
To the private sector	25.6	27.0	28.9	32.7	32.3	29.5	30.7	28.1	25.1
Liquidity (M3)	...	...	71.0	81.4	82.6	91.9	103.2	106.0	113.7
Money stock and local-currency deposits (M2)	...	...	40.9	46.3	47.2	52.6	60.8	63.1	68.6
Foreign-currency deposits	...	...	30.2	35.1	35.4	39.3	42.5	43.0	45.1

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 1985 prices. ^c Includes retail commerce, restaurants and hotels; financial institutions, insurance and real estate; and social and personal services. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Economically active population as a percentage of the working-age population. ⁱ Unemployed population as a percentage of the economically active population. Includes hidden unemployment. ^j Weighted average.

This fiscal performance was essentially attributable to an increase in revenues from taxes on the energy sector (from 5.8% of GDP in fiscal year 2002 to 9.2% in fiscal year 2003). This sector saw the value of its sales rise along with oil prices, which averaged US\$ 29.60 per barrel in fiscal year 2003, as against US\$ 24.01 in fiscal year 2002. Some of these additional revenues were earmarked for the oil stabilization fund, whose resources currently amount to US\$ 249 million.

Revenues from non-oil activities remained stagnant in fiscal year 2003, but their relative share of GDP fell from 17.8% in fiscal year 2002 to 15.6% in fiscal year 2003.

Revenues from indirect taxes on goods and services suffered a downturn, as did non-tax revenues. Indirect tax receipts reflected a decline in the intake of value added tax, owing primarily to the payment of refunds to taxpayers (207 million Trinidad and Tobago dollars (TT\$)). Income tax receipts grew on a par with GDP in nominal terms, and accordingly represented the same proportion of GDP as in fiscal year 2002 (8%), even though the authorities reduced the rate on corporations (from 35% to 30%), the rate on individuals with income of less than TT\$ 50,000 (from 28% to 25%) and the rate on individuals with income in excess of that amount (from 35% to 30%).

Current expenditure rose by 11% in nominal terms but dipped slightly as a percentage of GDP (from 22.8% in fiscal year 2002 to 22.2% in fiscal year 2003).

Capital expenditure climbed by 17%, representing just over 1% of GDP. Spending on wages and salaries, which accounts for the bulk of current expenditure (30% of the total in fiscal years 2002 and 2003), rose by 8% but fell as a share of GDP (from 7.4% in fiscal year 2002 to 6.7% in fiscal year 2003). Outlays for the purchase of goods and services and for interest payments showed a similar pattern.²

Transfers and subsidies were up by 18% because of an increase in loans and grants to statutory boards and public enterprises (40% of the total). There were also expenditures related to the newly established Caribbean Court of Justice. This court is one of the pillars of the regional integration structure envisaged in the revised version of the Treaty of Chaguaramas (1973), the legal instrument that established the Caribbean Community (CARICOM) in its current form.

The total public debt stock fell from 32% of GDP in 2002 to 28% in 2003, with a corresponding decline in debt-servicing obligations. The authorities continued the process of restructuring the domestic debt, which they had begun in 1999. The composition of external public debt remained unchanged.

(b) Monetary policy

In fiscal years 2003 and 2004 the Central Bank of Trinidad and Tobago maintained a neutral monetary

2 This discrepancy between the figures in nominal terms and their shares of GDP is due to the sharp upturn in GDP at current prices, which mainly reflected the considerable rise in export prices for petroleum.

stance, adapting its behaviour to that of the central government and intervening only when necessary.

The positive balance-of-payments position, which reflected strong growth in the energy sector, and the increase in central bank deposits as a result of the government's surplus triggered an expansion of the monetary base. The multiplier effect of this increase was amplified by the government's debt restructuring operations, which injected TT\$ 3.5 billion into the economy in 2003 (TT\$ 2.8 billion in 2002). This, in turn, was attributable to the fact that the amount of government securities falling due exceeded the amount represented by new issues.

The consequent increase in liquidity was reflected in an abundance of excess reserves, which stood at about 10% in the first half of 2003 and topped 15% in the second half, with a peak of 25% in July. The authorities intervened through open-market operations, especially in the first six months, to forestall unwanted growth in the monetary aggregates and to keep prices and the exchange rate stable. As a result, interest rates on both central bank instruments and commercial bank loans edged upward.

In the second half of the year the authorities decided to take advantage of the low rate of inflation and the financial system's abundant liquidity to relax monetary conditions as a means of reviving economic activity, which was clearly slowing down, especially in non-energy sectors. The central bank lowered its benchmark interest rate (the repo rate) from 5.25% to 5% in September 2003. The repo rate, introduced in May 2002, is the interest rate charged by the central bank on its overnight loans to commercial banks. Under this financial option, the central bank can repurchase the funds at a discount of 25 hundredths of a percentage point below the repo rate (i.e., at 5% instead of 5.25%). This rate also serves as a benchmark for the rediscount

rate (which applies to loans extended by the central bank to cover temporary liquidity shortfalls) and the special deposit rate (which applies to excess reserves deposited at the central bank). The discount rate declined as well (from 7.25% to 7%). Consequently, the prime lending rate fell from 11.5% in September to 9.5% in November 2003. These measures helped to stimulate the private sector's demand for credit (2.8% and 8.9% in 2002 and 2003, respectively) and encouraged a preference for higher-yield assets. This, in turn, boosted activity on the local stock exchange, increasing the value of securities traded from TT\$ 97 million in 2002 to TT\$ 410 million in 2003.

In the second half of 2003, specifically in October, the central bank also lowered the legal reserve requirement for sight deposits from 18% to 9% with a view to establishing the same reserve requirements for banks and non-bank institutions, while also reducing the cost of money. This measure had no monetary impact, as its effect on liquidity, valued at TT\$ 640 million, was absorbed by the issuance of an equivalent amount of government debt.

(c) Exchange-rate policy

The foreign-exchange market came under sporadic pressure as local companies' acquisition of assets traded in the region pushed up the demand for foreign exchange. In fact, net demand for foreign exchange doubled between 2002 and 2003. The central bank was accordingly forced to intervene at times to redress imbalances between supply and demand in this market. In any event, the monetary authority's actions and the positive balance-of-payments out-turn, which resulted in an increase in total international reserves, kept the local currency's exchange rate stable. Overall, the real effective exchange rate held steady throughout the year.

3. The main variables

(a) Economic activity

The 2003 growth rate of 4.1% was significantly higher than the preceding year's rate (2.7%). As in the last few fiscal years, economic activity was propelled by the energy sector, which expanded by 11.4%. Activity in non-energy sectors as a whole picked up

somewhat—from 0.5% in 2002 to 1.8% in 2003—owing to increases in transport, storage and communications and in manufacturing. Agriculture, on the other hand, contracted sharply (-15.1%).

In the energy sector, petroleum, including crude oil and natural gas, registered the biggest upturn (12.9%). This was more than double the growth seen

in the petrochemical industry (5.2%). The government's policy for this sector includes initiatives to foster diversification through the development of industries for the manufacture of derivatives based on the country's natural resources. To this end, the government signed a memorandum of understanding with the aluminium firm Alcoa for the construction of a smelter in Trinidad and Tobago to process regionally sourced bauxite and alumina.

Agriculture suffered its worst setback in five years. The slump was due in part to the suspension of the Caroni sugar company's operations in August 2003. The government's current efforts with regard to the agricultural sector focus on increasing output and productivity with a view to meeting domestic demand and developing products with higher export value. Emphasis will be placed on strategies for upgrading physical infrastructure (the transport system and irrigation and drainage works), the system of tax incentives and the extension of credit to agriculture and fishing.

The manufacturing sector turned in a stronger performance, expanding by 2% (as against -0.9% in 2002), but has yet to match the growth rates it posted in the second half of the 1990s. Most manufacturing subsectors, including textiles, clothing and footwear and assembly industries, experienced downturns. The government plans to establish industrial parks in various parts of the country to develop manufacturing and service industries. In fiscal year 2004 an eco-industrial park will be developed in Wallerfield to attract investment in different branches of light industry, including the processing of agricultural products and the service subsector.

(b) Prices, wages and employment

Inflation decreased from 4.3% in 2002 to 3% in 2003. This behaviour primarily reflected a drop in underlying inflation (from 3% in 2002 to 1.7% in 2003), which excludes food prices.

The steepest increases were seen in food prices, which rose by 10% in 2002 and by 14% in 2003, as the prices of items in the basic food basket began to climb in March 2003 because of agricultural supply problems. Price increases in nearly all the other subcategories were more modest than they had been the year before, and prices even displayed negative growth in some segments: beverages and tobacco (-0.5%), footwear and clothing (-1.2%) and property ownership and maintenance (-0.2%). Rentals diverged from this pattern, rising by 3.3% in 2003, whereas in 2002 they had increased by just 1.4%.

Inflation is expected to be higher in 2004 (4%), owing to the rise in international petroleum prices (which will affect transport costs), higher wages for workers in the sugar sector and increases in the prices of a number of commodities, including flour, chicken and edible oils, in the initial months of 2004.

The unemployment rate stayed at the same level as in 2002 (10%), as better economic conditions generated more employment opportunities and encouraged more people to look for work. The number of jobs created (9,000) was almost the same as the number of people who joined the labour force (10,000). Gender-disaggregated figures show that unemployment among men rose from 7.8% in 2002 to 8.3% in 2003, while unemployment among women subsided from 14.5% in 2002 to 13.8% in 2003. In terms of sectors, the main source of job creation was the personal, social and community services sector, which accounted for the biggest share of the labour force (31% of the total), followed by the distribution sector (19%), construction (15%) and manufacturing (10%).

In 2003 wages rose in the sugar industry (owing to the restructuring of the leading national sugar company, Caroni), the health-care sector (as the authorities provided for equal pay levels between the two islands of Trinidad and Tobago) and telecommunications. The wage increases ranged from about 5% to about 17%, with an average of 11%.

(c) The external sector

As in previous years, Trinidad and Tobago was in a net creditor position vis-à-vis the rest of the world. This was reflected in the significant expansion of the current account surplus (from 0.5% of GDP in 2002 to 8.4% in 2003), which was more than enough to finance the capital account deficit (5.3% of GDP in 2003). The country thus built up additional reserves equivalent to 3% of GDP, bringing its net international reserves to 26% of GDP, or more than 6.4 months' worth of imports.

The current account surplus resulted from a rise in export value (from 41% of GDP in 2002 to 45% in 2003) and a fall in import value (from 38% of GDP in 2002 to 35% in 2003). Export performance was buoyed by a volume increase in petroleum sales, made possible by the upturn recorded in the production of condensed crude after the Train 3 liquefied natural gas plant went into operation. Exports of liquefied natural gas doubled in volume over their 2002 level (from 4.1 million tons in 2002 to 8.9 million in 2003), and their value was further boosted by the rise in international hydrocarbon prices, which were 20% higher, on average, than they had been in 2002.

External sales of petrochemicals expanded moderately. Methanol exports were up by 1.8%. Nitrogenated fertilizer sales were strongly boosted by the start of production at the Caribbean Nitrogen Company ammonia plant, which brought about an 8.3% increase in ammonia exports.

Trinidad and Tobago's export outlook for 2004 is promising, in view of the expansion of its capacity in the areas of petroleum exploration and production, the manufacture of nitrogenated fertilizer and, especially, the production and sale of ammonia, which is likely to consolidate the country's position as a world leader in this market.

The slide in imports was the upshot of a 10% decline in external purchases of machinery and equipment and lower expenditure on mineral fuel imports.

The surplus on the services account fell from US\$ 237 million in 2002 to US\$ 219 million in 2003. Insurance and transport were the segments that contributed most to the growth of this sector's net exports.

The deficit on the capital and financial account resulted from a number of factors, including the completion of investment projects, which led to a decline in foreign direct investment; the channelling of the Trinidad and Tobago financial sector's investment towards other States members of CARICOM (US\$ 480 million); and the country's payment of its external obligations. This last item led to a US\$ 52-million net outflow of official capital. Outflows under all these items more than offset the foreign-exchange inflows derived from bond issues on the Caribbean market (US\$ 462 million).