Trinidad and Tobago

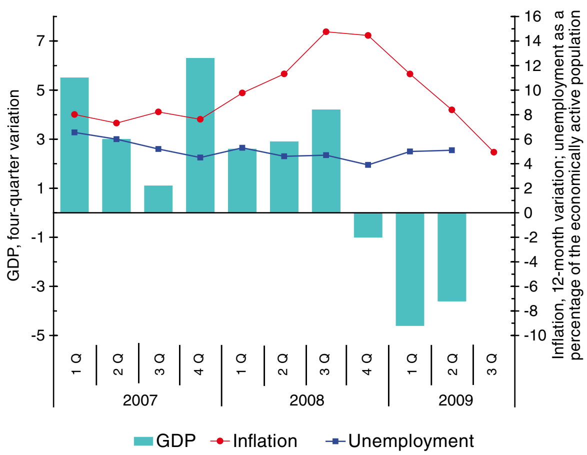
The global economic crisis has had a profound effect on the economy of Trinidad and Tobago, bringing 15 years of uninterrupted growth to a halt. According to projections, the economy contracted by about 0.5% in 2009. Inflation fell to one-digit levels starting in June, owing to a sharp slowdown in food inflation. The central government posted a deficit equivalent to 5.3% of GDP in fiscal year 2008-2009.[1] This deficit —the first since 2002— is due to lower international energy prices and a slowdown in economic activity. The sizeable current account surplus shrank by more than 40% between 2008 and 2009 —to almost 25% of GDP— owing to a significant reduction in the trade deficit, which, in turn, was due to falling international energy prices. Economic policy will continue to be guided by the Vision 2020 national development plan and, moving forward, the key economic challenge will continue to be to reduce reliance on the energy sector, which accounts for more than 45% of GDP, more than 85% of goods exports and more than half of tax receipts. Growth of 2% is projected for 2010.

Until mid-2009 monetary policy was focused mainly on curbing inflation. Since then, however, the aim of both fiscal and monetary policy has been to boost economic activity. The new policy mix, as well as the quasi-fixed exchange rate regime, is expected to remain in place in 2010 with a view to maintain the stability of the nominal exchange rate with the United States dollar.

The central government posted a deficit equivalent to 5.3% of GDP in fiscal year 2008-2009, compared with a 7.8% surplus in the previous fiscal year. The worsening fiscal position stemmed from a 26% decline in tax receipts, only partially offset by an 18% reduction in capital expenditures from 2007-2008. Nevertheless, total spending was slightly up. Consequently, the non-energy deficit rose by more than 5 percentage points, to 18.3% of GDP, in fiscal year 2008-2009. The fiscal gap was financed largely with public savings, in particular from the Infrastructure Development Fund. Still, the country's fiscal position remains sound, with the equivalent of nearly 14% of GDP held in the Heritage Stabilization Fund and a relatively low public debt (31% of GDP). The public budget for fiscal year 2009-2010 assumes 2% GDP growth, an average price of US$ 55 per barrel of oil and US$ 2.75 per million cubic feet of natural gas. The price of natural gas is crucial, since Trinidad

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

TRINIDAD AND TOBAGO: GDP, INFLATION AND UNEMPLOYMENT



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

and Tobago's economy is now heavily geared towards gas production, which accounts for more than 80% of total energy production. The new budget projects a fiscal deficit of 5.4% of GDP, and is oriented towards supporting economic recovery. The new property tax regime, which enters into force in January 2010, will introduce the rental value method for property valuations and lower, uniform tax rates throughout the country.

The decline in inflation, brought about by lower global food prices and sluggish domestic demand, allowed the central bank to cut its benchmark interest rate to stimulate economic activity. The repurchase rate was cut seven times in 2009 —from 8.75% in March to 5.75% in November. In a context of high liquidity and surplus reserves in commercial banks, the repo rate cuts are mainly a signalling mechanism, since most banks rarely resort to borrowing at this rate. The rate on three-month treasury bills dropped to 1.49% in October (1.85% in September), narrowing the spread with the equivalent rate in the United States to 141 basis points (175 basis points in September and 607 basis points at the start of the year). Lending continued to grow slowly, against a backdrop of weak domestic demand: year-on-year credit growth fell from 5.3% in June 2009 to 2.1% in August —well below the 13.7% rate recorded in June 2008. Consumer lending contracted by 1.4% in the 12 months to August 2009, after having expanded by an average of 3% during the first three months of the year and 11.3% in the first quarter of 2008. Given the inflation differential, the real exchange rate continued to appreciate until the beginning of the year, given that the central bank was able to maintain the quasi-fixed nominal exchange rate nearly unchanged —thanks to the country's sound international reserve position.

The intervention by the government in CLICO Investment Bank (CIB) —which belonged to CL Financial Ltd., a major conglomerate with assets estimated to be worth 37% of the country's GDP— in January 2009 in order to prevent contagion from spreading to other financial institutions continued, for the entire year, to be a key issue for both the central bank and the Ministry of Finance. In mid-2009, the fundamentals of the country's banks remained strong, as the cash ratio reached 18% (compared with a legal minimum of 8%) and loan delinquency rates stood at about 2%.

The slight growth in the energy sector —stemming from refining activities— was insufficient to counter the impact of the economic slowdown in 2009. The non-energy sector is estimated to have contracted by nearly 5%, owing to a significant downturn in the services sector and in construction, in which both public and private projects were cancelled or put on hold.

After climbing to a 12-month rate of 11.3% in April, overall inflation began to subside, falling to 2.7% in October (compared with 14.5% in December 2008), the lowest rate since January 2003. The easing of inflation stemmed mainly from sharply lower food inflation —the main catalyst of domestic price hikes— which fell to 6.8% in September from 10.1% in June. In the last quarter of 2008, Trinidad and Tobago recorded its lowest unemployment rate ever (3.9%). However, this decline in unemployment was reversed in the first half of 2009, reaching 5.1% in June (compared with 4.6% a year earlier). The participation rate fell from 64.1% in the first quarter of 2009 to 63.6% in the second half of the year, reflecting a contraction of the labour force.

The sharp decline in world energy prices signalled the end of Trinidad and Tobago's export boom. The country's import bill fell, as well, because of lower domestic demand along with lower international food prices. The trade surplus is expected to slide from 37% of GDP in 2008 to close to 30% in 2009. Hence, the current account surplus should decline from 34% to 24% of GDP in the same period. Together with the recurring shortfall in the capital and financial account, the smaller trade surplus is expected to reduce international reserves to some US$ 8.08 billion at the close of 2009 (down from US$ 9.83 billion one year earlier) —the equivalent of between 14 and 15 months' imports.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	4.6	2.3	-0.5
Per capita gross domestic product	4.2	1.9	-0.9
Consumer prices	7.6	14.5	2.7 [b]
Money (M1)	12.0	10.1	24.5 [c]
Real effective exchange rate [d]	-1.8	-5.1	-9.8 [e]
	Annual average percentages		
Unemployment rate [f]	5.6	4.6	5.1 [g]
Central government overall balance / GDP [h]	1.8	7.8	-5.3
Nominal deposit rate [i]	2.4	2.4	2.1 [j]
Nominal lending rate [k]	10.5	12.3	12.6 [j]
	Millions of dollars		
Exports of goods	13 391	18 686	12 740
Imports of goods	7 670	9 622	6 628
Current account balance	5 364	8 792	5 247
Capital and financial account balance [l]	-3 824	-6 086	-7 000
Overall balance	1 541	2 706	-1 753

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 2009.
[c] Twelve-month variation to August 2009.
[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 figures for March and June.
[h] Fiscal year.
[i] Average of savings rates.
[j] Average from January to July, annualized.
[k] Prime lending rate.
[l] Includes errors and omissions.