Trinidad and Tobago

The Trinidad and Tobago economy will register 12% growth in 2006. This is the twelfth consecutive year of economic expansion and the second year of double digit growth in the past five years. The main driving force continues to be the energy sector, which recorded 16.9% growth in exploration and production of oil and natural gas and a 37.4% increase in refining of these products.

The economic policy combines fiscal expansion and a tight monetary policy, with the latter aimed primarily at counteracting the effects of the former. In fiscal year 2005/2006, total expenditure plus net lending was 39% higher than in the preceding year.[1] Tax rates were reduced for individuals and corporations and tax receipts from individuals contracted by 1 billion Trinidad and Tobago dollars (TT$). However, receipts from non-energy companies increased by 27%, while receipts from the energy sector expanded by 64%.

The sharp increase in outlays was due to transfers to State enterprises, higher petroleum subsidies and loans to CARICOM neighbours. Transfers increased from TT$ 13.3 billion in fiscal year 2004/2005 to TT$ 20.7 billion in fiscal year 2005/2006. Financing for higher education doubled with the introduction of a policy for free tertiary education. Capital expenditure soared by approximately 73%, from TT$ 3 billion to TT$ 5.25 billion. This figure includes expenditure of TT$ 3.2 billion from the Infrastructure Development Fund.

Despite the large increases in spending, windfall intakes of revenues still made it possible for the central government to register an overall surplus equivalent to 3.3% of GDP. The stock of public-sector debt also fell to 32.6% of GDP. External public-sector debt declined from TT$ 1.2 billion to TT$ 1.1 billion.

The overall positive fiscal picture led to an upgrade in the country's foreign currency bond rating from Baa2 to Baa1 by Moody's Investor Services in July. During fiscal year 2006/2007, the central government is expected to increase its domestic borrowing partly in an attempt to stimulate the local capital market.

In its continued effort to sterilize the excessive liquidity in the system, the central bank adopted a tighter monetary policy stance. Initially, the focus was on the repo rate, which moved from 6.25% to 8% in the first nine months of the year with steady increases every month except April. At the same time, commercial banks raised their lending rates without effecting corresponding increases in deposit rates, thus creating a wider interest rate spread. Interest rates on mortgages and consumer loans held steady. This was perhaps reflective of greater competition in these segments of the market.

The failure of the increases in the repo rate to moderate the credit expansion was recognized by mid-year. Hence, various other measures were introduced to soak up the excess liquidity. These included: (i) a requirement that commercial banks deposit TT$ 500 million into an interest-bearing account at the central bank for one year; (ii) the introduction of a secondary reserve requirement of 2% of prescribed liabilities; and (iii) an increase in the open market limit of government borrowing from TT$ 8 billion to TT$ 15 billion.

The exchange rate remained fairly stable, as it had for the past eight years. This was due, in no small part, to interventions by the central bank. For the period January to October 2006, the bank injected over US$ 1.1 billion into the market.

The economy grew by 8.0% in 2005 and is expected to record 12.0% growth in 2006. Given the continued buoyancy in oil prices and increased production and refining, growth of about 8% is predicted for 2007.

Manufacturing grew by 11.6% in 2005 and is expected to end 2006 with a growth rate of 11.8%. The sector is

1 The fiscal year runs from October to September.

expected to receive a boost from the Cricket World Cup in 2007 as other CARICOM States increase their demand for products from Trinidad and Tobago. Agricultural production showed mixed results in 2006. Output of rice, tomatoes and citrus increased significantly over the previous year. On the other hand, there were sharp declines in other categories, which resulted in very high retail price increases for vegetables (69%). Growth in the construction sector is estimated at 14.5%, driven by the government's involvement in several large projects including the Waterfront Project and the Brian Lara multi-purpose complex.

Towards the end of the year, annualized inflation was 10%, significantly overshooting the announced target of 5%. The annualized increase in retail food prices up to September was 27%. The government plans to introduce a number of initiatives to bring inflation down from 7% in 2007 to 5% in 2008.

Given the buoyancy of the economy, wage increases in the non-energy sector have thus far been fairly moderate, averaging between 3% and 5% per year for contracts negotiated in 2005. Available data for the booming construction sector, however, show that wages for both skilled and unskilled labour have risen by from 50% to 100%.

Unemployment rates fell to their lowest ever levels during 2006. This has resulted in fairly tight labour market conditions. The main areas of job growth were in the services sector, followed by distribution and finance. For the first six months of the year, 14,500 new jobs were created. The unemployment rate dipped to 6.8% in the first four months but had risen to 7.2% by the last quarter.

The external accounts strengthened significantly during 2006 compared with the previous year. There were increases in both energy and non-energy exports. For the first six months of the year, energy exports almost doubled. Total exports increased by 46% (to US$ 6.5 billion), while imports increased by 22%. This contributed to a current account surplus of US$ 3.3 billion in the first half of the year.

On the other hand, there was a major increase in outflows from the capital account from US$ 1.2 billion to US$ 2.1 billion. This continues the trend that emerged in the past two to three years as domestic agents increased their foreign assets.

Net international reserves increased to US$ 5.2 billion, representing over nine months of import cover. The outlook for 2007 is for a continued strong positive showing on the country's external accounts.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	6.4	8.9	12.0
Consumer prices	5.6	7.2	9.6 [b]
Money (M1)	8.1	23.5	27.2 [c]
Real effective exchange rate [d]	1.5	-1.5	-3.3 [e]
	Annual average percentages		
Unemployment rate [f]	8.4	8.0	6.8 [g]
Central government overall balance/GDP [h]	2.5	5.5	...
Nominal deposit rate	2.4	1.7	2.4 [i]
	9.4	9.1	9.7 [j]
	Millions of dollars		
Exports of goods and services	7 335	10 573	6 500 [k]
Imports of goods and services	5 155	6 099	2 960 [k]
Current account	1 782	3 972	3 318 [k]
Capital and financial account	-1 054	-2 079	-2 069 [k]
Overall balance	728	1 893	1 249 [k]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2006.
[c] Year-on-year average variation, January to September.
[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] Estimate based on data from January to June.
[h] Includes interest.
[i] Average from January to August, annualized.
[j] Average from January to September, annualized.
[k] Data refer to first semester.