

Trinidad and Tobago

1. General trends

The international economic crisis closed a cycle of robust growth and massive twin surpluses in Trinidad and Tobago, a country which had benefited greatly from the escalation in international oil prices in recent years. Sharp contractions in the construction and commerce sectors led to a 0.9 percentage point decline in GDP compared with 2008, the first dip since 1993. From the fourth quarter, however, there were tepid signs of a recovery, which continued throughout the first quarter of 2010, in tandem with a rally in the energy sector spurred by more buoyant international prices. The central bank forecasts 2% growth for 2010.

In fiscal year 2008/2009,¹ the fiscal deficit stood at 5.3% of GDP, in sharp contrast with the surplus of 7.8% recorded in the preceding fiscal year. This outcome is attributable to a substantial reduction in tax receipts, coming mainly from the energy sector. The budget for fiscal year 2009/2010 foresees a deficit equivalent to 5.4% of GDP.

The current account surplus contracted dramatically from US\$ 8.519 billion in 2008 (32.6% of GDP) to US\$ 1.759 billion in 2009 (8.3%). The performance of the current account in 2010 will be closely linked to movements in energy prices in the international market.

In 2009, the economic policy mix consisted of expansionary fiscal and monetary measures against the backdrop of a quasi-fixed exchange-rate regime and was designed to boost economic activity. Since the

recovery observed from the fourth quarter of 2009 to mid-2010 has been slow, this combination of policies has remained in place and should continue to the end of the year, unless a resurgence in inflation, which had spiked in the early months of 2010, forces the central bank to adopt a contractionary monetary policy.

The general elections were moved up to May 2010 and the former opposition coalition, the People's Partnership, triumphed following three consecutive administrations by the People's National Movement. The principal challenge for the new administration will be to pursue efforts to diversify the production base in order to reduce the country's reliance on the energy sector. Indeed, in 2009, this sector accounted for more than 40% of GDP, over 42% of tax receipts and 80% of goods exports.

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

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Total expenditure	24.5	25.3	22.2	22.9	24.5	26.9	26.0	27.4	34.1
Current expenditure	22.9	24.1	21.1	20.9	21.7	22.9	20.6	21.4	28.2
Interest	4.0	4.3	3.5	2.8	2.5	2.1	2.0	1.8	2.6
Capital expenditure ⁿ	1.6	1.2	1.1	1.9	2.8	4.0	5.4	5.9	6.0
Primary balance	4.0	3.7	4.9	4.6	7.5	8.8	7.1	9.2	-3.0
Overall balance	-0.1	-0.6	1.3	1.8	5.0	6.7	5.1	7.4	-5.6
Public-sector external debt	20.6	18.9	17.2	13.8	10.8	8.8	6.9	6.1	-5.8
Money and credit^o									
Domestic credit	27.4	28.3	21.6	17.1	13.8	8.7	16.4	10.1	18.1
To the public sector	-0.8	-1.7	-4.2	-9.5	-13.0	-18.4	-12.2	-16.3	-12.7
To the private sector	28.3	30.0	25.9	26.6	26.8	27.1	28.6	26.4	30.8
Liquidity (M3)	40.3	40.9	32.2	33.3	35.1	37.4	37.2	35.7	...
Currency outside banks and local-currency deposits (M2)	31.3	31.1	26.1	24.9	27.8	28.3	28.2	25.8	39.8
Foreign-currency deposits	9.1	9.8	6.0	8.4	7.3	9.1	9.0	9.9	...

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 2000 prices.

^c Refers only to the oil industry.

^d Includes quarrying.

^e Includes errors and omissions.

^f A minus sign (-) denotes an increase in reserves.

^g Annual average, weighted by the value of goods exports and imports.

^h Economically active population as a percentage of the working-age population; nationwide total.

ⁱ Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^j Savings rate average.

^k Prime lending rate.

^l Fiscal year, from October to September.

^m Refers to tax revenues from the non-petroleum sector.

ⁿ Includes net lending.

^o The monetary figures are end-of-year stocks.

2. Economic policy

(a) Fiscal policy

In fiscal year 2008/2009, the central government recorded a deficit equivalent to 5.3% of GDP, its first since 2002. The sudden reversal in the fiscal situation from the surplus of 7.8% of GDP in the preceding fiscal year was due more to a fall in revenues than to an increase in expenditure. Indeed, while total expenditure expanded by less than 2% in relation to fiscal year 2007/2008, total fiscal revenues contracted by 33% (from 36.5% to 27.2% of GDP),² owing especially to a 47.6% reduction in revenues from the oil sector.

International oil and gas prices exceeded the forecasts used in the adjusted budget estimates for fiscal year 2008/2009. Nevertheless, revenues from the energy sector were down by 44% from the preceding year's level (from 20.9% of GDP to 13% of GDP). This was because tax collections in fiscal year 2007/2008 were exceptionally high owing to soaring prices for hydrocarbons in international

markets. Non-energy revenues were also down (by 18%), halting the growing trend observed during the nine preceding years. More than a quarter of this reduction was due to decreased value added tax (VAT) receipts due to the more sluggish economic activity and faltering domestic demand.

The deficit was financed mainly with resources from the Infrastructure Development Fund, complemented by domestic loans. The fiscal position continued to be sound with close to 14% of GDP accumulated in the Heritage and Stabilisation Fund. The public debt reached 18.8% of GDP. Indeed, unlike the situation elsewhere in the Caribbean, public indebtedness is not a major problem for the economy of Trinidad and Tobago. The external public debt accounts for approximately one third of the total.

The central government budget for the fiscal year 2009-2010 is based on international prices of US\$ 55 per barrel of oil and an average price for natural gas of US\$ 2.75 per million cubic feet. It also provides for an increase in current expenditure, designed to support the economic recovery and job creation through a fiscal stimulus package which would result in a deficit equivalent to 5.4% of GDP. Given their behaviour during the last quarter of

² Revenues from the profits tax collected from the energy sector fell by more than 50% in comparison with 2008. In 2009, this tax represented 78% of receipts from the energy sector and 32.7% of total receipts.

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2008				2009 ^a				2010 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	2.7	2.9	4.2	-1.1	-4.7	-3.1	-5.8	0.8	...	...
Gross international reserves (millions of dollars)	7 337	8 734	8 737	9 380	8 958	8 802	8 935	8 652	...	...
Real effective exchange rate (index: 2000=100) ^c	88.2	88.3	83.6	76.2	75.4	76.8	78.5	80.0	77.8	75.0 ^d
Consumer prices (12-month percentage variation)	9.8	11.3	14.8	14.5	11.3	8.4	4.9	1.3	5.1	7.3 ^e
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.31	6.25	6.22	6.26	6.26	6.28	6.31	6.34	6.34	6.35
Nominal interest rates (annualized percentages)										
Deposit rate ^f	2.4	2.4	2.4	2.4	2.4	1.9	1.5	...	...	...
Lending rate ^g	11.5	12.3	12.6	13.0	13.0	12.6	11.6	...	...	...
Interbank rate	10.2	10.3	10.6	10.8	10.7	10.0	8.8	...	...	...
Domestic credit (variation from same quarter of preceding year)	14.4	-27.9	-23.4	-23.8	-3.9	41.4	155.2	46.0	57.8	...

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 2000 prices.

^c Quarterly average, weighted by the value of goods exports and imports.

^d Data to May.

^e Data to April.

^f Special saving rates.

^g Prime lending rate.

2009 and the first two quarters of 2010, international energy prices are now expected to exceed expectations and the deficit should therefore be lower than projected. With revenues 4.1% higher and total expenditure 16.5% lower than projected, the deficit for the period October 2009-February 2010 stood at 2.153 billion Trinidad and Tobago dollars (TT\$), more than 60% lower than the budgetary projection (TT\$ 5.878 billion).

(b) Monetary policy

The economic downturn in 2009, coupled with the steady decline in inflation, led the central bank to adopt an expansionary monetary policy during the year. The principal instrument of monetary policy was the repo rate, which was cut back eight times since March 2009 and stood at 5.25% in December, down from 8.75% in February of the same year. By January 2010, it had fallen to 5%, a historic low. This level was maintained through May. Providing inflation remains within the target range set by the authorities (5%-6%), authorities will probably continue to gear monetary policy towards boosting the tepid recovery observed up to mid-2010.

Excess liquidity, measured as the commercial banks' reserves above the required levels stored with the central

bank, increased substantially. It was fuelled by fiscal injections totalling TT\$ 16.447 billion between October 2008 and September 2009 and by the fall in domestic demand for credit. The central bank sought to absorb liquidity basically by selling off foreign exchange, which amounted to over TT\$ 10 billion during this period. Despite the new fiscal injections, which amounted to TT\$ 8.64 billion between October 2009 and March 2010, excess liquidity on the financial market diminished significantly to stand at TT\$ 1.830 billion last March, thanks to the fact that liquidity absorption measures exceeded fiscal injections by over 13%. In addition, in November 2009, the central bank requested the commercial banks to deposit a total of TT\$ 2 billion in its vaults in interest-bearing accounts. In December the issuing agency extended the maturity date for similar deposits for TT\$ 1.5 billion, which were scheduled to fall due in that month.

In general, in cases such as the current situation in Trinidad and Tobago, where there is excess liquidity in the financial system, movements in the repo rate act mainly as a mechanism for sending signals to the market, since the banks do not need to obtain credit from the central bank. Thus, reductions in the reference rate do not automatically translate into reductions in market interest rates. The base prime rate declined from 13% per year in the first quarter

of 2009 to 10.8% in the fourth quarter of the year. Although credit was cheaper, domestic credit to the private sector was down by 4.6% in 2009 from the 2008 level owing to weak demand. This trend held into the first few months of 2010. Households and corporations alike have continued to reduce their liabilities amid uncertainty as to how intense and how rapid the economic recovery will be.

Given the climate of uncertainty and the weakness of domestic demand, domestic credit to the private sector diminished by 2.6% in March 2010, compared with the same month of the preceding year, following earlier contractions (4.1% and 3.6% respectively) in January and February. Credit to consumers and businesses declined over 12 months by 2.5% and 2.9%, respectively. The persistent excess liquidity depressed short-term interest rates, so that the interest rate on three-month treasury bonds dropped from 1.36% in January to 1.11% on 25 May.

In 2009, the monetary aggregates M1, M2 and M3 expanded by 16.4%, 10.1% and 13.7%, respectively, over the 2008 levels. The expansion in M1 was due to the buoyancy of demand deposits, while M2 was fuelled by the increase in M1 and the expansion in savings deposits. The higher demand for foreign currency deposits contributed to the expansion in M3.

(c) Exchange-rate policy

Despite speculative attacks in the first quarter of 2009, associated with the global economic crisis and the collapse of the financial group Caribbean Life Insurance Company (CLICO),³ the quasi-fixed exchange-rate regime that prevailed in Trinidad and Tobago remained

unchanged. This stability may be attributed to the central bank's sound reserve position, which at the end of 2008 stood at US\$ 9.8 billion or the equivalent of 12.3 months of goods imports, a level more than sufficient to shore up the exchange-rate regime. The latter was maintained throughout the first half of 2010 and is expected to be maintained in the future, and thus the exchange-rate policy will remain basically unchanged. At the close of the first quarter of 2010, the country's international reserves reached US\$ 8.878 billion.

With the fall in energy prices on international markets, foreign-exchange inflows into the country slackened and both purchases and sales to the public by authorized intermediaries diminished with respect to 2008. Total purchases in 2009 amounted to US\$ 3.8 billion, 34% less than in the previous year. Similarly, with demand for imports flagging, total sales stood at US\$ 5.63 billion, 12.8% less than in 2008. In this context, the central bank substantially increased its interventions in the foreign-exchange market, selling US\$ 1.9 billion to authorized agents in 2009, more than double the 2008 level.

The rally in international energy prices in the first quarter of 2010 boosted export earnings in foreign currency, relieving some of the pressure on foreign-exchange markets. Accordingly, the central bank intervened less, selling US\$ 325 million to authorized agents, compared with US\$ 473 million in the first quarter of 2009.

The nominal exchange rate remained stable at around TT\$ 6.3 to the United States dollar, although with a slight tendency to trend upwards. In 2009, the average nominal exchange rate reflected a 0.7% depreciation compared with the 2008 average. Exchange rate stability was maintained in the first half of 2010.

3. The main variables

(a) Economic activity

The international economic crisis marked the end of 15 years of continuous growth in the economy of Trinidad and Tobago. Indeed, its effects had already been felt since 2008, when the economic activity slowed significantly and growth slowed from 4.6% in 2007 to 2.2% in 2008. In 2009, GDP contracted by 0.9%. While it was expected that the energy sector would bear the brunt of the crisis, owing to the slump in international prices, it was the non-

energy sector which sustained the sharpest impact. In fact, the energy sector grew by 1.6% in 2009 compared with 2008, while the non-energy sector contracted by 2.5% in the same period.

Construction (6.9% of GDP) and commerce (11.4% of GDP) were the hardest hit. The former declined by 14.9% owing to the completion or winding down of major projects and the latter contracted by 12.7% as sluggish domestic demand, reflected in weaker demand for imports, led to a drop in both wholesale and retail sales.

Despite the fall in international prices, crude oil production rose slightly in 2009 compared with 2008. Average production rose 2.4% over 2008 to reach just over 117,012 barrels per day, more than 19% short of the

³ On 30 January 2009, the monetary authorities bailed out CLICO investment bank, owned by CL Financial Ltd., a conglomerate with operations in several Caribbean countries, in a bid to safeguard the stability of the financial system.

peak attained in 2005. The increase in crude oil output was associated with a rise of 2.3% in export volumes. This performance was accompanied by increases in natural gas production (11.9%), natural gas liquids (23.4%), fertilizers (8.4%) and methanol (6.6%). The robust expansion in the production of natural gas liquids is attributable to the sole local producer, Phoenix Park Gas Processors Limited (PPGPL), which continued to dominate Caribbean as well as Central American and North American markets. Indeed, in 2009, the volume of these exports grew by more than 15% compared with 2008.

On the demand side, although official national accounts do not give a breakdown per category of expenditure for 2009, public consumption appears to be the only component of aggregate demand that expanded in 2009. This may be inferred from the fact that all other components declined: goods exports and imports fell sharply in value terms compared with 2008 (51% and 28%, respectively, according to balance-of-payment figures); the value of imports of consumer goods were down (17.3%) as were capital goods (2.6%); the same applies to the construction sector, domestic credit to the private sector (4.6%), and revenues from value added tax (down 19.4% in fiscal 2008/2009 with respect to the preceding fiscal year); central government current expenditure expanded (7.4%), while capital expenditure decreased (17.7%). Assuming an increase in the GDP deflator of between 2.5% and 3.5% in 2009 and given an average domestic inflation—excluding food (most of which is imported)—of 4.2%, public consumption would have probably expanded by between 4% and 5% in real terms.

The recovery observed since the last quarter of 2009 is expected to gain momentum during the remainder of 2010, driven by the upturn in international energy prices and the fiscal and monetary stimulus measures. Against this backdrop, the economy of Trinidad and Tobago should grow by 2% in 2010.

(b) Prices, wages and employment

The fall in international food prices, combined with weak domestic demand, resulted in a historic low in the twelve-month inflation rate: 1.3% (down from 14.5% in December 2008). Food prices were the crucial factor in this result, having fallen by 0.2% in contrast with a 30.6% rise in December 2008. The prices of the other components of the consumer basket increased by 2.2%.

Nevertheless, in the early months of 2010, 12-month inflation surged to 7.2% in April, as food prices were pushed up by supply constraints due to severe drought, which slashed local crop production. The 12-month food price inflation stood at 12.7% in April, led by fruit prices

which skyrocketed (60.1%) in relation to April 2009. Twelve-month inflation, excluding food items, stood at 4.4%. This, together with an increase in international food prices, is the main inflationary risk with respect to the rest of 2010.

Nominal wages tended to keep pace with price levels. Thus real wages declined by 0.4% in the 12 months ending in September 2009. However, if energy sector workers, who benefited from a substantial wage increase in the first nine months of 2009, are excluded, real wages for workers in all other sectors actually fell by 7.7% during this period.

The contraction in economic activity led to an increase in the unemployment rate. The historic low of 3.9% reached in December 2008 was reversed during 2009, and by September the rate had reached 5.8%. Despite an increase in the jobless figure by 3,700 persons, the number of persons classified as unemployed increased by only 2,900 due to a contraction in the labour force. The participation rate fell slightly from 63.3% in the first nine months of 2008 to 62.9% in the same period of 2009. Job losses were concentrated in the manufacturing sectors (3,800 jobs) and construction (2,400 jobs).

(c) The external sector

Goods exports shrank by over 50% in value terms, from US\$ 18.686 billion in 2008 to US\$ 9.175 billion in 2009, reflecting lower international energy prices. The weakness in domestic demand also generated a marked reduction in the demand for imported goods in the same period, from US\$ 9.622 billion to US\$ 6.973 billion. As a result, the commercial surplus plummeted from US\$ 9.064 billion in 2008 (34.7% of GDP) to US\$ 2.202 billion in 2009 (10.4% of GDP). The insignificant variation in absolute terms in the services, income and current transfers balance, coupled with the decline in the merchandise trade balance surplus, caused the current account surplus to contract from US\$ 8.518 billion in 2008 (32.6% of GDP) to US\$ 1.759 billion in 2009 (8.3% of GDP).

For the first time since 1992, the deficit on the capital and financial account (including errors and omission) exceeded the surplus on the capital account, leaving a negative balance-of-payments deficit of US\$ 713 million in 2009. Thus, at the close of 2009, gross official reserves stood at US\$ 8.652 billion, equivalent to 14.9 months of goods imports. Given the variation in reserves, the balance of payments recorded a surplus of US\$ 137 million during the first quarter of 2010. In all likelihood, this positive figure was linked to the upturn in international energy prices in the fourth quarter of 2009. The external accounts balance for the year as a whole will depend entirely on the evolution of these prices during the remainder of 2010.