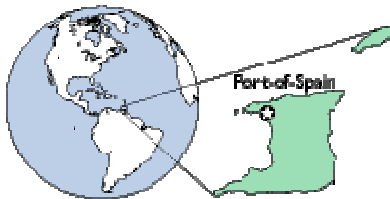


# COUNTRY REVIEW

## Trinidad & Tobago



7 October 2009

**ANALYST: David Atkinson**

**EULER HERMES COUNTRY RISK GRADE: BB**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## Strengths

- Functioning democracy with peaceful transfers of power, notwithstanding underlying ethnic tensions that surface from time to time
- Energy rich economy
- Strong external liquidity position
- Comfortable public and external debt position

## Weaknesses

- Government needs to tackle rising violent crime and both main parties are dogged by corruption allegations.
- High dependence on energy sector and consequently on oil prices.

## Key Risks

- **Recession**

## Country Risk Assessment

Ratings	Trinidad & Tobago		Median Grade BB	Mexico	Peers Qatar	Brazil
	Latest	Previous				
<b>Systemic Political Risk:</b>	<b>P2+</b>	<b>P2+</b>	<b>P2+</b>	<b>P2+</b>	<b>P2-</b>	<b>P2+</b>
<b>Systemic Economic Risk:</b>	<b>E3</b>	<b>E3</b>	<b>E3</b>	<b>E3</b>	<b>E3</b>	<b>E3</b>
ME rating:	ME3	ME2	ME3	ME3	ME3	ME3
<i>Structure</i>	4.0	4.0	3.3	2.3	5.7	2.8
<i>Policy</i>	4.6	3.3	4.2	4.0	4.2	4.8
<i>Solvency</i>	1.0	1.0	1.6	1.9	1.9	3.3
<i>External Liquidity</i>	2.3	2.3	3.3	3.6	2.3	3.3
SBE rating:	SBE3	SBE3	SBE2	SBE3	SBE2	SBE3
<b>COUNTRY GRADE:</b>	<b>BB</b>	<b>BB</b>	<b>BB</b>	<b>BB</b>	<b>BB</b>	<b>BB</b>

**Nomenclature:**

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

## ECONOMIC STRUCTURE

### Country Profile

Capital city:	Port of Spain
Population:	1.31 mn (2008)
GDP:	USD 25966 mn (2008)
Currency:	Trinidad & Tobago Dollar (TTD)
Form of state:	Parliamentary democracy
Head of government:	Prime Minister Patrick Manning
Next elections:	2012

### Major Industries (% of GDP at market prices, 2008)

Agriculture	0.3%
Petroleum	48.1%
Manufacturing	5.4%
Utilities & construction	10.7%
Services	35.4%

### Global Assumptions

	2009	2010
Real GDP grth (% yr/yr) *	-3.9	0.9
Inflation (% , av) *	-0.1	1.3
Dated Brent (USD/b)	61	72
* Major economies		

### Main Exports (% of total, 2008)

Mineral fuels, lubricants	70.0%
Chemicals	18.2%
Manufactured goods	4.5%
Crude materials except fuels	3.0%
Machinery & transport equipment	1.9%

### Main Imports (% of total, 2008)

Consumer goods	19.2%
Raw materials & intermediate goods	42.9%
Capital goods	18.5%
Other	13.2%

### Lead Export Markets (% of total exports, 2007)

US	57.5%
Jamaica	6.5%
Spain	3.9%
Mexico	3.6%

### Lead Import Markets (% of total imports, 2007)

US	28.2%
Brazil	11.0%
Venezuela	8.2%
Colombia	5.4%

## Basic indicators

Selected economic indicators	2006	2007	2008	2009f	2010f
Nominal GDP (USD mn)	18,369	20,912	25,966	21,196	23,951
Population (mn)	1.30	1.30	1.31	1.31	1.32
GDP per capita (USD)	14,130	16,086	19,821	16,180	18,145
Real GDP growth (% yr/yr)	13.5	4.6	2.3	-2.0	2.0
Inflation (% , eop)	9.1	7.6	14.5	3.0	6.0
Fiscal balance (% of GDP)	6.7	1.4	6.4	-4.2	-2.7
Current account balance (% of GDP)	39.6	25.7	33.9	14.6	17.4
External debt/GDP (%)	16	15	15	16	16
External debt/Exports of goods & services (%)	20	22	20	25	25
Interest payments/Exports of goods & services (%)	1	1	1	2	1
Foreign exchange reserves (USD mn)	6,586	6,694	9,443	8,443	8,243
Import cover (months)	8.7	9.8	8.0	12.5	10.3
Exchange rate assumption, TTD:USD (av)	6.31	6.33	6.29	6.30	6.30
f: CRU central forecast					

Sources: National, IMF, World Bank, Euler Hermes Country Risk Unit

## Political Stability

Trinidad & Tobago is a functioning parliamentary democracy with a well-established and generally accepted means of transferring powers through general elections. The islands are ethnically divided between Afro-Trinidadian and Indo-Trinidadian groups (each make up about 40% of the total population). Racial tensions have from time to time become violent and the two main political parties—the People's National Movement (PNM) and the United National Congress (UNC)—are polarised along these ethnic lines. The risk of systemic political breakdown in the short term is low, however, although corruption and the rise in violent crime (the murder rate overtook that of Jamaica in H1 2009) undermine government authority.

In November 2007 incumbent PM Patrick Manning won another term in office as the PNM won 26 of the 41 parliamentary seats in the general elections. This gives the Manning government a clear legislative working majority, though the UNPC can block constitutional change, which requires a two-thirds majority. The PM's popularity ratings are relatively low, but the next elections are not due until late 2012 when economic growth should have begun to recover. In any event the opposition is divided and does not have a radically different policy agenda. Current leader Basdeo Panday is set to retire and also still faces the possibility of criminal charges.

Trinidad & Tobago is a member of Caricom (Caribbean Community) and entered the Caribbean Single Market Economy (CSME) at the beginning January 2006. It has good relations with the US, though it also co-operates closely with Venezuela on the joint development of an offshore oil field located between the two countries. IMF support is unnecessary but the authorities maintain constructive relations with the IFIs

## Economic Stability

The energy sector accounts for 45-50% of GDP, 90% (including petrochemicals) of goods exports and 60% of central government fiscal revenues. Gas has displaced oil as the major product and the energy boom of recent years has been accompanied by the development of the petrochemicals sector. Trinidad & Tobago has also emerged as a financial centre and a source of capital for the Caribbean region, though the collapse of the insurance arm of the CL financial group in early 2009 may limit development for a while.

As large new oil and gas discoveries and related projects came on stream—doubling production between 2002 and 2006—accompanied by high prices, the economy boomed, with annual average growth of real GDP of 7.7% in 1999-2008 and real per capita GDP growth of 7.6%. However, although there has been some diversification, the economy is highly vulnerable to oil price changes and the global recession with accompanying lower oil prices has taken its toll on growth. In Q4 2008 real GDP contracted by 1.1% yr/yr, which intensified to -3.3% yr/yr in Q1 2009. Nonetheless, the recovery in oil prices from the lows of early 2009 and stable prices in 2010, lower interest rates and a fiscal stimulus should facilitate a return to growth. We expect real GDP to contract by 2% in the whole of 2009 and to increase by 2% in 2010. Longer-term, the challenge is declining proven gas reserves, which has prompted the government to give tax concessions and consolidate production sharing arrangements to encourage exploration.

After six years of surpluses (central government) the fiscal balance swung into deficit in 2008/09 (October-September) estimated at 4.2% of GDP. Energy revenues plunged as energy prices collapsed, while expenditure rose, partly owing to automatic stabilizers but also to continued, if lower than planned, infrastructure spending as part of the policy stimulus. The deficit should narrow in 2010, on the assumption of an average oil price of around 70 usd per barrel (Brent), though public infrastructure spending programme is expected to be maintained. Prior fiscal surpluses have been associated up to FY 2007/08 with a decline in the public debt-GDP ratio, which fell to 25.1% from more than 50% in 2002/03. The ratio rose to 33.1% in 2008/09, but should fall back to around 30% in 2010.

The authorities have built-up a stabilisation fund from surplus oil revenues, as a buffer against declining prices (an estimated 14% of GDP in August 2009) which makes an expansionary cyclical fiscal policy sustainable. The Heritage and Stabilisation Fund (HSF) was formalised by act of parliament in May 2007, replacing its predecessor the Interim Revenue and Stabilisation Fund which had been in operation since 2000. The law stipulates that when petroleum revenue collected in a quarter exceeds the estimated budget revenue by more than 10% the excess must be deposited in the HSF. When there is an excess, but by less than 10% the Finance Minister may exercise discretion.

Conversely, withdrawals from the HSF can occur when revenues fall by 10% from estimates.

Monetary policy was tightened through 2007 and much of 2008 to curb potential overheating. However, this stance has been reversed in 2009. Policy interest rates were cut from 8.75% in February to 6.25% in September, as domestic demand fell sharply, mirrored in a sharp slowdown of private sector credit growth and FX inflows, and headline inflation dropped from a 15.3% yr/yr peak in October 2008 to 4.3% yr/yr in August 2009. Core inflation also fell from 7.4% to 3.8% in the same period. Inflation is likely to end 2009 at around 3% before picking up through 2010 to 6% (higher commodity prices). As monetary policy includes a more or less stable nominal exchange rate, which is unlikely to change in 2009-10, the real exchange rate has appreciated over the past few years and there is some evidence of overvaluation.

In January 2009 the central bank was forced to intervene in the insurance and investment banking arms of the financial conglomerate CL financial Group. Although there was an initial wobble, the intervention managed to arrest any further contagion and the financial system has since stabilised. In May this year Standard & Poor's estimated the potential gross loss for the government of the restructuring, assuming no recoveries from any asset sale, would be TTD9bn. This would be 6-7% of 2009 GDP and would be unlikely to strain government finances unduly given the HSF and low public debt ratios and actual losses may turn out to be less. As of September 2009, only TTD1.5bn of government approved funding of TTD5bn had been drawn.

The external current account has been in surplus since 1999. In 2008, as energy prices peaked, the surplus was a massive 33% of GDP, but in 2009 the surplus is likely to fall to just under 15% of GDP as energy revenues drop sharply, by more than the compression of imports brought about by the contraction of domestic demand. Net FDI flows are positive and should remain so in 2009-10, though much reduced on 2008 when net inflows were the equivalent of more than 7% of GDP. FX reserves are likely to fall modestly in 2009-10, but will still provide 10-12 months import cover and more than 350% of external debt falling due (medium-term principal and ST) in 2009, rising to 500% in 2010. All of this adds up to a strong external liquidity position.

External debt is low at 16% of GDP and 25% of exports of goods and services. Debt service is easily manageable with interest payments due just over 1% of exports of goods and services.

Despite the financial sector problems in the early part of 2009, the economy remains relatively robust, as the government has accumulated funds in earlier years from high energy prices to cushion the downturn. External liquidity indicators are strong and debt ratios relatively low.

## Structural Business Environment

The Structural Business Environment is generally sound, ranking above average in our assessment, but falling short of the strongest ratings overall (83 out of 210 countries assessed).

Based on data and definitions from the World Bank's 2010 Registering Property, Enforcing Contracts and Closing a Business were particularly weak, but all other areas were above average. The World Bank Institute's Governance Research Indicator puts regulatory quality above average, control of corruption below and rule of law well below average for the Latin American Region. Transparency International's Corruption Perception Index, 2008, assigns Trinidad & Tobago a score of 3.6—on a scale of 1 (bad) to 10 (good)—and a ranking of 72= out of 180 (the same as Bulgaria, China, Peru and Mexico). As a broad measure of the pro-business environment The Heritage Foundation 2009 Index of Economic Freedom ranks Trinidad & Tobago 41 out of 179.

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## Charts

