

# COUNTRY REVIEW

## Trinidad & Tobago



20 January 2011

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**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.
- Residual problems of CL financial conglomerate collapse
- Slow recovery of economic growth, especially in non-energy sector

## Country Risk Assessment

Ratings	Trinidad and 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	ME3	ME3	ME3	ME3	ME3
<i>Structure</i>	5.0	5.0	4.0	2.8	5.0	1.6
<i>Policy</i>	6.0	5.8	4.2	4.2	2.8	4.0
<i>Solvency</i>	1.0	1.0	1.9	2.0	2.8	3.3
<i>External Liquidity</i>	1.0	1.0	2.8	1.3	3.2	2.8
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

## ECONOMIC STRUCTURE

<b>Country Profile</b>	
Capital city:	Port of Spain
Population:	1.34 mn (2009)
GDP:	USD 19639 mn (2009)
Currency:	Trinidad & Tobago dollar (TTD)
Form of state:	Parliamentary democracy
Head of government:	PM Kamla Persad-Bissessar
Next elections:	Presidential 2012

<b>Major Industries (% of GDP at market prices, 2009)</b>	<b>Global Assumptions</b>	2010	2011	
Agriculture & fishing	6.2%	Real GDP grth (% yr/yr) *	3.3	2.9
Mining	0.1%	Inflation (% av) *	1.2	1.4
Manufacturing	24.4%	Dated Brent (USD/b)	80	110
Construction & Utilities	7.8%	* World		
Services	61.3%			

<b>Main Exports (% of total, 2008)</b>	<b>Main Imports (% of total, 2008)</b>		
Mineral fuels, lubricants	70.0%	Consumer goods	19.2%
Chemicals	18.2%	Raw materials & intermediate goods	42.9%
Manufactured goods	4.5%	Capital goods	18.5%
Crude materials except fuels	3.0%	Other	13.2%
Machinery & transport equipment	1.9%		

## Basic indicators

<b>Selected economic indicators</b>	2007	2008	2009	2010e	2011f
Nominal GDP (USD mn)	21,651	27,176	19,639	21,261	22,960
Population (mn)	1.33	1.33	1.34	1.35	1.35
GDP per capita (USD)	16,279	20,433	14,656	15,749	17,007
Real GDP growth (% yr/yr)	4.6	2.3	-3.5	1.0	2.0
Inflation (% eop)	7.6	14.5	1.3	13.0	6.0
Fiscal balance (% of GDP)	0.4	1.7	-5.4	-2.9	-5.5
Current account balance (% of GDP)	24.8	32.3	9.0	13.8	13.3
External debt/GDP (%)	16	22	34	28	29
External debt/Exports of goods & services (%)	23	31	64	49	52
Interest payments/Exports of goods & services (%)	2	2	4	4	3
Foreign exchange reserves (USD mn)	6,694	9,443	9,178	9,800	10,500
Import cover (months)	9.8	8.0	15.5	14.0	13.8
Exchange rate assumption, NTD:USD (av)	6.33	6.29	6.32	6.35	6.38
f: CRU central forecast					

Sources: National, IMF, World Bank, Euler Hermes

## 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. Combating the rise in violent crime is also a high political priority. Nonetheless the risk of systemic political breakdown in the short term is relatively low.

Polarisation of the political system, though still evident, may be weakening as a five-party People's Partnership (PP) coalition easily won snap elections in May 2010 after then PM Patrick Manning called elections two years ahead of schedule. His tactic backfired spectacularly, however, as the PP coalition, led by the UNC won 29 of the 41 seats in the legislature. As a result incumbent PM Kamla Persad-Bissessar (leader of the UNC) has a strong position from which to implement the government's legislative agenda. There is not a strong history of coalition government, but ministerial positions have been carefully allocated to reflect ethnic and regional interests and the UNC alone would have a slim majority in the legislature.

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 more than 40-45% of GDP, 70-75% (mineral fuels) of goods exports (almost 90% if petrochemicals are included) and 50% 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 energy price changes and the global recession with accompanying lower energy prices took its toll on growth. In 2009 the economy contracted by 3.5% and real GDP is expected to have grown by only around 1% in 2010, as consumer spending and private investment have remained subdued and on the output side the non-energy sector contracted again. We expect growth of around 2% in 2011 reflecting expansionary fiscal and monetary policy and sustained higher energy prices. 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 several years of surpluses (central government) the fiscal balance swung into deficit in 2008/09 of 5.4% 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 narrowed in FY 2009/10 as higher oil prices prevented further declines in revenues and capital expenditure was cut back. The budget deficit is targeted to increase to 5.5% in 2010/11, though it is based on fairly conservative assumptions about oil prices. Prior fiscal surpluses were associated up to FY 2007/08 with a decline in the public debt-GDP ratio, which fell to 25.1% in the same year. Since then the debt-GDP ratio has risen to 39% and could edge up to 42% in 2010/11, though these ratios remain manageable.

The authorities have built-up a stabilisation fund from surplus oil revenues, as a buffer against declining prices (an estimated at around 14% of GDP in July 2010) 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.

Policy interest rates were cut 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 1.3% yr/yr at end-2009. Core inflation also fell from 7.4% yr/yr to 2.2% in the same period. Inflation picked up quickly sharply through 2010, however, under pressure from higher commodity prices, particularly food, reaching 16.2% yr/yr in August before easing to 12.5% in October. Core inflation has also accelerated, though at a much slower pace. As temporary food price pressures abate headline inflation should ease through 2011 to 6% at year-end. Interest rates were lowered in 2010 (policy rate down from 5% to 3.75%) to counter falling private sector credit growth. At the same time, however, financial system liquidity remains excessive as a result of fiscal injections and reserve requirements have been raised. 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. The potential gross loss for the government could have been around 6-7% of 2009 GDP given the HSF and relatively low public debt ratios the strain on public finances is limited, though there are likely to have been adverse consequences for overall economic growth through the impact on confidence.

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 fell to around 9% of GDP as energy revenues drop sharply, by more than the compression of imports brought about by the contraction of domestic demand, and in 2010 the surplus is estimated to have risen to just under 14%, as both exports and imports recovered. In 2011 the surplus should remain at around 13% of GDP. Net FDI flows are positive and should remain so in 2011. FX reserves have been fairly steady in 2010 and cover around 14 months of imports and more than 350% of external debt falling due (medium-term principal and ST) in 2011. All of this adds up to a strong external liquidity position.

External debt is low at 28% of GDP and 49% of exports of goods and services. Debt service is easily manageable with interest payments due around 4% 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. However, economic growth remains sluggish.

## Structural Business Environment

The Structural Business Environment is generally sound, ranking above average in our assessment, but falling short of the strongest ratings overall (88 out of 212 countries assessed).

Based on data and definitions from the World Bank's 2011 Doing Business Survey, of nine areas surveyed two—Starting a Business and Registering Property—were weaker areas, ranking below average but and one—Closing a Business—was very weak. The World Bank Institute's Governance Research Indicator puts Regulatory Quality, Rule of Law and Control of Corruption below average for the Caribbean region, with Regulatory Quality above average and Rule of Law and Control of Corruption below average for the lower middle income group of countries. Transparency International's Corruption Perception Index, 2010, assigns Trinidad & Tobago a score of 3.6—on a scale of 1 (bad) to 10 (good)—and a ranking of 73= out of 179 (the same as El Salvador, Panama and Bulgaria among others). As a broad measure of the pro-business environment The Heritage Foundation's 2011 Index of Economic Freedom ranks Trinidad & Tobago 52 out of 179.

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## Charts

