



### Summary

For the third year in a row, Trinidad and Tobago's hydrocarbon-dependent economy remained in recession. While technical disruptions negatively affected the important oil and natural gas sector, growth in the non-hydrocarbon sector struggles, as the sector lost competitiveness in recent years. Striving to pull the economy out of recession, the government continues to provide considerable fiscal stimulus, mainly directed at the non-hydrocarbon sector, while the central bank loosened monetary policy further amid falling inflation. Still, reflecting Dutch disease effects and sluggish demand in export markets, the non-hydrocarbon sector remains relatively unresponsive to these measures, so far. Meanwhile, the government resorted to the imposition of a temporary state-of-emergency to better tackle drug gangs, as violent crime remains a problem. Yet, it remains to be seen whether recent security improvements can be maintained. Despite the domestic economic and social problems, Trinidad and Tobago's external position remains very strong, thanks to double-digit hydrocarbon-based current account surpluses, large foreign exchange reserves and the considerable size of its sovereign wealth fund.

### Things to watch:

- Oil and gas price fluctuations
- Diversification of export markets
- Violent crime and drug trafficking

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Trinidad-Tobago				
<b>National facts</b>			<b>Social and governance indicators</b>	
Type of government	Parliamentary democracy		Human Development Index (rank)	62 / 187
Capital	Port-of-Spain		Ease of doing business (rank)	68 / 183
Surface area (thousand sq km)	5		Economic freedom index (rank)	63 / 179
Population (millions)	1.3		Corruption perceptions index (rank)	91 / 183
Main languages	English		Press freedom index (rank)	50 / 178
Main religions	Caribbean Hindustani		Gini index (income distribution)	n.a.
	Roman Catholic (26%)		Population below \$1.25 per day (PPP)	4%
	Protestant (26%)			
	Hindu (23%)			
Head of State (president)	George Maxwell Richards		<b>Foreign trade</b>	
Head of Government (prime-minister)	Kamla Persad-Bissessar		<b>2010</b>	
Monetary unit	T&T dollar (TTD)		<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
			US	56
			US	28
			Colombia	4
			Gabon	13
			Spain	3
			Colombia	10
			United Kingdom	3
			Brazil	7
<b>Economy</b>			<b>2011</b>	
<i>Economic size</i>			<i>Main export products (%)</i>	
	<i>bn USD</i>	<i>% world total</i>	Fuels	65
Nominal GDP	29	0.04	Chemicals	28
Nominal GDP at PPP	18	0.02	Manufactures	4
Export value of goods and services	15	0.07	Foods	1
IMF quotum (in mln SDR)	336	0.15		
<i>Economic structure</i>			<i>Main import products (%)</i>	
	<i>2011</i>	<i>5-year av.</i>	Capital goods	16
Real GDP growth	-1.4	3.5	Intermediate goods (excl fuels)	14
Agriculture (% of GDP)	0.3	0.5	Consumer goods	13
Industry (% of GDP)	58	58	Other commodities	12
Services (% of GDP)	41	41		
<i>Standards of living</i>			<i>Openness of the economy</i>	
	<i>USD</i>	<i>% world av.</i>	Export value of G&S (% of GDP)	54
Nominal GDP per head	21260	197	Import value of G&S (% of GDP)	33
Nominal GDP per head at PPP	13528	110	Inward FDI (% of GDP)	2.6
Real GDP per head	13820	170		

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

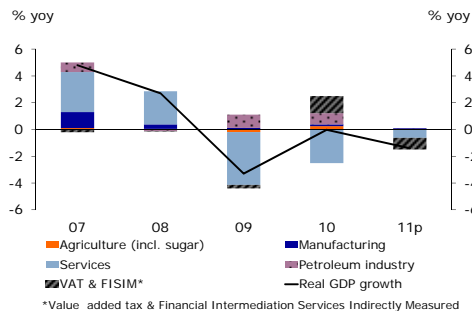
### Economic structure and growth

Trinidad and Tobago, located off the Venezuelan coast, is a small Caribbean twin island state with a nominal GDP of USD 29bn. It ranks among the richest Caribbean economies, with GDP per capita amounting to USD 21,260, as vast oil and gas deposits have turned the country into a major regional energy supplier. While the production of oil has been a major driver of the local economy since the 1950's, Trinidad and Tobago's economy entered a new era when the exploitation of sizeable off-shore natural gas reserves started in the 1990's and liquefied natural gas became the country's major export. Today, the country's economy is dominated by the hydrocarbon sector, which generates about 40% of national income and accounts for more than 90% of exports, when petrochemical products are included. About 50% of Trinidad and Tobago's exports are destined for the United States. Still, the sector only employs about 5% of the local workforce. Other manufacturing industries' contributions to national income are quite limited. Dutch disease effects seem to undermine the non-oil sector's competitiveness, and government efforts ranging from increased investments to a fixed exchange rate regime and the creation of a sovereign wealth fund have proved insufficient to protect the sector. While a broadening of Trinidad and Tobago's economic base would render the country less susceptible to oil and gas price fluctuations, there is no urgent need to prepare for a post-oil and gas era, as probable and proven hydrocarbon reserves are expected to last for at least another 50 years.

Reflecting Trinidad and Tobago's net creditor status derived from its oil and natural gas wealth, the country has emerged as a regional financial hub. Notwithstanding, the local banking sector remains

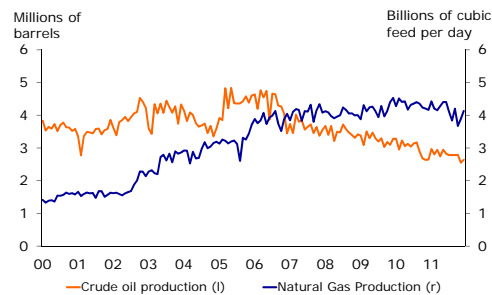
highly concentrated with the three largest banks holding about 80% of total bank assets. While the sector, with the notable exception of CL Financial Group, weathered the global economic crisis relatively well, Trinidad and Tobago's sluggish economic performance started to negatively impact asset quality in 2011. The system-wide non-performing loan ratio increased from 1% in 2010 to 6.5% last year, which has been primarily due to problems with tourism-related loans of a small number of banks. Apart from these particular loans, the non-performing loan ratio still remained below 2% in 2011. Recently conducted stress tests by the central bank showed that banks' high capitalization levels, standing at 25% in 2011, should shield the sector against possible future loan losses amid a sluggish economic performance. Still, increased risks arising from asset concentrations at particular banks remain. Reflecting lessons learned from the 2009 bail-out of CL Financial Group, a new Insurance Act that introduces a risk-based supervision and intervention model to insurance supervision, will be debated in parliament. Additionally, parliament is about to debate a Credit Union Act to bring the credit union sector under central bank supervision. However, it remains to be seen when these acts will be approved and implemented. Meanwhile, the 2009 bail-out of the CL Financial Group continues, as the government strives to reach a compromise with its investors. Following the rejection of the 2010 compensation proposal by large depositors, the government adjusted the proposal such that large depositors, who receive cash payments and 20-year zero coupon bonds, get the option to cash the first 10 years of the latter against a 20% discount with financial institutions and exchange the last 10 years at par for units in a closed-end trust.

**Chart 1: Growth performance**



Source: Central Bank of Trinidad and Tobago, Rabobank

**Chart 2: Oil and natural gas production**



Source: Central Bank of Trinidad and Tobago

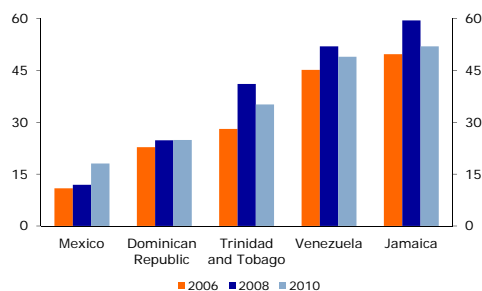
Since having entered into recession in 2009, Trinidad and Tobago's economic growth has remained in negative territory. Following the stagnation of growth in 2010, the economy contracted by 1.4% last year. While non-hydrocarbon-related manufacturing expanded by about 1%, mainly on the back of rising demand from Caribbean peers, growth of the hydrocarbon sector suffered from a series of technical disruptions. Even worse, amid ongoing weak performance of the tourism sector and the negative impact of a curfew imposed under a temporary state of emergency (see political and social section for more details), the services sector entered its third year of contraction. Government efforts to stimulate the economy by means of increased infrastructure investments have so far failed to bring about a major improvement. Economic growth this year is expected to come in at about 1% as economic conditions in the Caribbean region improve, but government stimulus spending will likely remain the most important growth driver. Given Trinidad and Tobago's considerable exposure to developments in global oil and gas markets, risks to the growth outlook are somewhat tilted to the upside. Driven by rising tensions in the Middle East and increasing political uncertainty ahead of the Venezuelan presidential elections, demand shifts towards Trinidad and Tobago's relatively reliable oil and gas deliveries might occur. Furthermore, sufficient fiscal

space should enable the local government to continue stimulating domestic demand in the short-term, while rising investments into the exploitation of recently discovered oil fields should boost the hydrocarbon sector.

**Political and social situation**

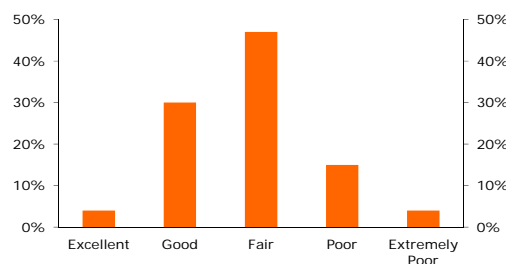
Following its landslide victory in the 2010 snap elections, Trinidad and Tobago is currently governed by the center-left five-party People’s Partnership (PP) coalition under the leadership of prime minister Kamla Persad-Bissessar. Her own party, the United National Congress (UNC) enjoys an absolute majority in Congress, which should ensure stability even if recent tensions within the coalition were to lead to a break-up. Still, we expect that Ms Persad-Bissessar will stick to her words and keep the coalition intact, since its multi-ethnic base, with members from the Indo-Trinidadian and Afro-Trinidadian communities, should facilitate the implementation of government policies. According to recent opinion polls, the PP coalition and the prime minister are still preferred by voters. Despite the government’s relative stability and broad support among the electorate, the administration announced in late 2011 that it had averted an assassination attempt aimed at the prime-minister and three cabinet members; a claim that could not be substantiated later-on. In 1990, a failed coup attempt by the Islamist Jamaat-al-Muslimeen had thrown Trinidad and Tobago into chaos.

**Chart 3: Public safety**  
Number of murders per 100,000 inhabitants



Source: UNODC

**Chart 4: Popularity of the government**  
Evaluation of the government’s performance



Source: Trinidad Guardian poll, University of the West Indies

Given the sluggish performance of the non-hydrocarbon sector and the need to broaden the economic base of the twin island state, the current PP government intends to increase social spending on education, healthcare and sanitation. The government considers these spending increases essential for the development of the sector. Another key topic, which helped the government win the 2010 elections, is the fight against violent crime. Owing to its location on a main drug trafficking route to the US and Europe, drug-related crime has been spiking in recent years. While the country’s homicide rate declined somewhat from 41 murders per 100,000 inhabitants in 2008 to 35 in 2010, it remains at an elevated level compared to most Caribbean peers. As most crime is drug-related and regionally concentrated, it hardly affects the economically essential hydrocarbon sector or the tourism sector. Notwithstanding, the government resorted to the imposition of a temporary state-of-emergency and a night-time curfew in late August last year. The measures that curtailed civil liberties and provided the police and the armed forces with increased powers, led to several arrests and the seizure of arms and drugs, and most importantly a marked decline in crime. While bringing about a short-term improvement, drug trafficking appeared to be hardly affected, which raises doubts about the government’s ability to sustain the improvement through 2012. As weak law enforcement and low conviction rates remain a problem and youth unemployment exceeded 55% in 2010, the government has promised to address the

problem with a multi-dimensional approach that not only strengthens the judicial system, but also improves the educational system.

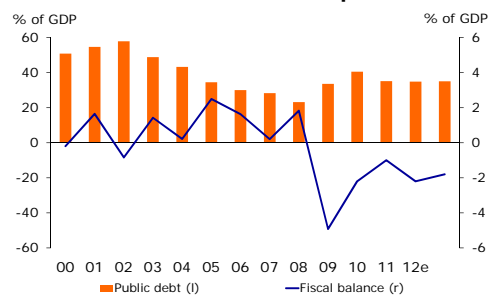
Bearing witness to the importance of the hydrocarbon sector, Trinidad and Tobago’s foreign policy focuses on maintaining close economic ties with gas-importing countries, notably the US. Notwithstanding, it also strives to maintain good relations with neighboring Venezuela, as both countries co-operate in the exploitation of oil and gas fields along their shared sea border. Trinidad and Tobago plays a leading role in the Caribbean Community (CARICOM), which reflects its status as the largest member.

**Economic policy**

Given the dominance of the hydrocarbon sector, and natural gas production in particular, Trinidad and Tobago’s economic policies aim at a broadening of the country’s economic base to reduce the country’s susceptibility to oil and gas price fluctuations and generate additional employment. Probable and proven oil and gas reserves, though, are expected to last for at least another 50 years. After having managed the transition from an oil-based to a gas-based economy in the 1990’s, in its 2012 budget, the government presented its plans for a further diversification away from the hydrocarbon sector. Shipbuilding and repair, information and communication technology, as well as sports and medical tourism have been identified as “missing sectors”. Given the potential to create employment and reduce Trinidad and Tobago’s exposure to imported food price inflation, increased attention is also paid to the agricultural sector. In order to achieve these goals, the government intends to improve the regulatory environment for private investment and invests in physical infrastructure, education and healthcare. Despite increased diversification efforts, attracting investments into the hydrocarbon sector remains a policy priority, as crude oil output has declined by about 30% since 2006 and natural gas production has plateaued in spite of Trinidad and Tobago having ample oil and gas reserves.

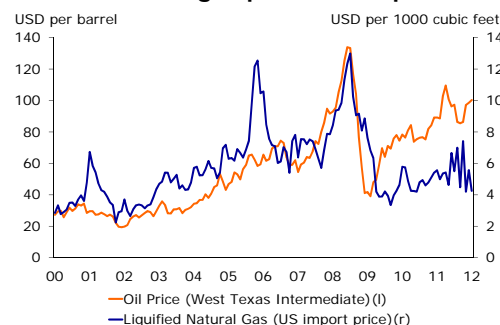
The plans outlined in the 2012 budget are certainly laudable, but it remains to be seen whether the anticipated policies will prove sufficient to overcome the non-hydrocarbon sector’s competitiveness problems. Earlier attempts to support the non-hydrocarbon sector’s competitiveness by means of a fixed exchange rate and the accumulation of windfall budget surpluses in a sovereign wealth fund could not avoid a considerable real exchange rate appreciation in recent years. As imported food price inflation had been one of the driving forces behind the real appreciation, increased reliance on domestically produced food should help contain domestic inflation. However, given the currently very small size of the agricultural sector, it will take some time before this effect will materialize.

**Chart 5: Fiscal balance and public debt**



Source: ECLAC, EIU, Rabobank

**Chart 6: Oil and gas price development**



Source: EIA

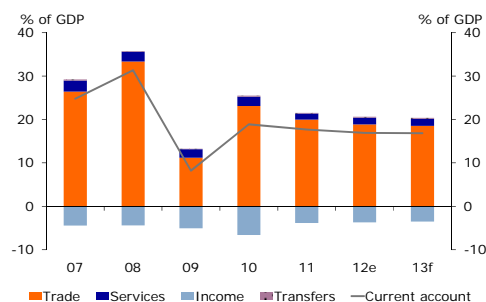
After various years of budget surpluses on the back of rising hydrocarbon prices prior to the onset of the global economic crisis, Trinidad and Tobago ran recurrent fiscal deficits since then. After having reached a level of 4.9% of GDP in 2009, recovering hydrocarbon prices contributed to an improvement of the budget deficit to 2.2% and 1.0% in 2010 and 2011, respectively. For 2012, we expect a deficit of 2.2% of GDP, reflecting additional public social spending, as well as payments related to the bail-out of Colonial Life Insurance Company (CLICO), which started in 2009. Given the dependence on the oil and gas sector, lower-than-expected hydrocarbon prices pose a risk to the fiscal outlook, as do weaker tax revenues from the non-hydrocarbon sector. Still, given Trinidad and Tobago’s relatively low public debt level, the government should be able to provide some fiscal stimulus in the short-run. The recent increase of the public debt ceiling from TT\$ 38bn to TT\$70bn indicates that the government seems to prepare for this. Due to recent recurrent deficits, public debt has increased from 23% of GDP in 2008 to about 35% of GDP in 2011. Given the weak economic performance and the increased likelihood of recurrent deficits driven by ongoing stimulus spending, the public debt ratio is expected to gradually increase in the coming years.

As falling food prices brought inflation down from 13.4% in December 2010 to 5.1% at the end of last year, the Central Bank of Trinidad and Tobago cut the policy rate from 3.75% to 3% in 2011. Yet, business loans remained unresponsive, which might reflect the non-hydrocarbon sector’s deteriorated competitiveness, as well as sluggish demand from the Caribbean export markets amid a lackluster regional economic recovery. Since the Trinidad and Tobago dollar is pegged to the USD (at 6.4 Trinidad and Tobago dollars per USD), the central bank sold foreign-exchange to compensate for the effect of the interest rate cuts.

**Balance of Payments**

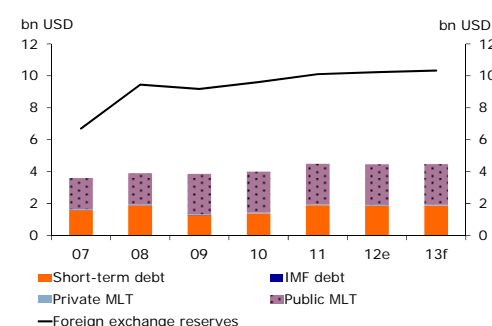
Reflecting the paramount importance of oil and natural gas exports, the surge of hydrocarbon prices on the back of the global economic recovery brought about an improvement of Trinidad and Tobago’s current account surplus from 8.2% of GDP in 2009 to 18.9% of GDP in 2010. As higher oil prices compensated for decreasing oil production, and merchandise exports improved, the current account surplus amounted to about 20% of GDP last year. Driven by investments into the hydrocarbon sector, FDI inflows remained relatively stable at about USD 500mln. Going forward, we expect Trinidad and Tobago’s current account surpluses to remain very large, at around one-fifth of GDP.

**Chart 7: Current account balance**



Source: EIU

**Chart 8: External debt and FX reserves**



Source: EIU

Notwithstanding, downward pressure on natural gas prices on the back of continuous investments into shale gas exploration, particularly in the US, and slower global economic growth represent

downside risks for Trinidad and Tobago's exports. Still, given the expected moderate increase in oil and gas prices in 2012, considerable uncertainty surrounding the Venezuelan presidential elections, and continuous tensions in the Middle-East, Trinidad and Tobago's hydrocarbon-based current account surpluses should remain at current levels over the short- to medium-term.

### **External position**

In contrast to many of its regional peers, Trinidad and Tobago's external position is strong. Total foreign debt amounted to 16% of GDP in 2011 and is expected to gradually decline to 14% of GDP in 2013. It is covered twice by foreign exchange reserves, which have reached a level of about one-third of GDP last year on the back of recurrent double-digit current account surpluses. This level corresponds to an import cover of about 13 months and a liquidity ratio of about 230% in both 2012 and 2013. Meanwhile, the net asset value of the Heritage and Stabilization Fund, Trinidad and Tobago's sovereign wealth fund, amounted to USD3.8bn (14% of GDP), which provides an additional source of foreign exchange.

Trinidad-Tobago							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	5.5	3.5	-3.5	0.0	-1.4	0.9	2.2
Consumer prices (average % change pa)	7.9	12.0	7.0	10.5	5.1	5.0	5.1
Current account balance (% of GDP)	24.8	31.3	8.2	18.9	17.7	16.9	16.8
Total foreign exchange reserves (mln USD)	6694	9443	9178	9606	10101	10230	10330
<i>Economic growth</i>							
GDP (% real change pa)	5.5	3.5	-3.5	0.0	-1.4	0.9	2.2
Gross fixed investment (% real change pa)	8.9	3.5	-10.5	2.8	2.2	4.7	5.6
Private consumption (real % change pa)	6.3	5.8	-3.7	1.0	0.8	2.2	3.2
Government consumption (% real change pa)	7.4	8.1	6.5	4.8	3.0	4.9	5.0
Exports of G&S (% real change pa)	6.2	4.8	-4.1	1.8	1.3	3.0	4.0
Imports of G&S (% real change pa)	8.9	8.7	-5.2	5.0	6.1	6.4	6.6
<i>Economic policy</i>							
Budget balance (% of GDP)	0.2	1.8	-4.9	-2.2	-1.0	-2.2	-1.8
Public debt (% of GDP)	28	23	34	41	35	35	35
M2 growth (% change pa)	11	17	31	10	11	12	12
Consumer prices (average % change pa)	7.9	12.0	7.0	10.5	5.1	5.0	5.1
Exchange rate LCU to USD (average)	6.3	6.3	6.3	6.4	6.4	6.4	6.5
Recorded unemployment (%)	5.6	4.6	5.3	5.8	6.4	6.3	6.0
<i>Balance of payments (mln USD)</i>							
Current account balance	5364	8519	1615	3845	5058	5120	5460
Trade balance	5721	9064	2202	4702	5718	5720	6010
Export value of goods	13391	18686	9175	11205	14629	14460	14830
Import value of goods	7670	9622	6973	6503	8911	8740	8820
Services balance	547	610	382	436	387	460	530
Income balance	-964	-1202	-996	-1348	-1102	-1120	-1150
Transfer balance	60	47	27	55	55	60	60
Net direct investment flows	830	2101	709	529	650	720	750
Net portfolio investment flows	-1002	-82	-970	-250	-260	-300	-350
Net debt flows	999	321	-60	137	499	-20	-90
Other capital flows	-6071	-8108	-1544	-3815	-5434	-5360	-5650
Change in international reserves	120	2751	-250	446	513	150	130
<i>External position (mln USD)</i>							
Total foreign debt	3587	3897	3857	3994	4483	4450	4470
Short-term debt	1580	1882	1264	1379	1890	1850	1870
Total debt service due, incl. short-term debt	1804	1903	2516	1608	1700	2190	2260
Total foreign exchange reserves	6694	9443	9178	9606	10101	10230	10330
Net Asset Value Sovereign Wealth Fund	1788	2910	2993	3702	3800	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	26.4	33.3	11.2	23.1	20.0	18.9	18.5
Current account balance (% of GDP)	24.8	31.3	8.2	18.9	17.7	16.9	16.8
Inward FDI (% of GDP)	3.8	10.3	3.6	2.7	2.6	2.8	2.7
Foreign debt (% of GDP)	17	14	20	20	16	15	14
Foreign debt (% of XGSIT)	24	19	37	32	28	28	27
Debt service ratio (% of XGSIT)	12	9	24	13	11	14	14
Interest service ratio incl. arrears (% of XGSIT)	2	1	2	2	1	1	1
FX-reserves import cover (months)	10.0	11.4	15.0	16.8	12.9	13.3	13.3
FX-reserves debt service cover (%)	371	496	365	597	594	467	456
Liquidity ratio	211	236	199	247	233	227	228

Source: Central Bank of Trinidad and Tobago, ECLAC, EIU, Rabobank

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