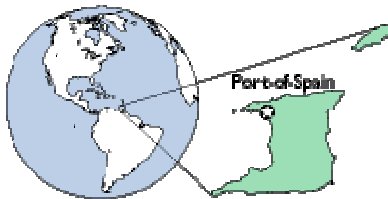


COUNTRY REVIEW

Trinidad & Tobago



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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
- Rising non-oil fiscal deficit
- Relatively high inflation and private credit expansion

Country Risk Assessment

Ratings	Trinidad & Tobago		Median Grade BB	Mexico	Peers	
	Latest	Previous			Qatar	Brazil
Systemic Political Risk:	P2+	P2+	P2+	P2+	P2-	P2+
Systemic Economic Risk:	E3	E3	E3	E3	E3	E3
ME rating:	ME2	ME2	ME3	ME2	ME3	ME3
<i>Structure</i>	4.0	4.7	3.3	2.3	5.7	2.8
<i>Policy</i>	3.3	3.8	3.3	3.8	3.3	5.6
<i>Solvency</i>	1.0	1.0	1.3	1.3	1.0	3.3
<i>External Liquidity</i>	2.3	1.0	2.2	1.7	2.3	1.3
SBE rating:	SBE3	SBE3	SBE3	SBE3	SBE3	SBE3
COUNTRY GRADE: BB						
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 (2006)
GDP:	USD 18135 mn (2006)
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, 2006)		Global Assumptions		2007	2008
Agriculture	0.6%	Real GDP grth (% yr/yr) *	2.4	1.4	
Petroleum	45.1%	Inflation (% , av) *	2.4	2.2	
Manufacturing	5.7%	US interest rates (%)	5.3	3.0	
Utilities & construction	9.2%	Dated Brent (USD/b)	72	90	
Services	39.4%	* Major economies			

Main Exports (% of total, 2006)		Main Imports (% of total, 2006)	
Mineral fuels, lubricants	77.9%	Consumer goods	17.1%
Chemicals	13.0%	Raw materials & intermediate goods	50.1%
Manufactured goods	4.8%	Capital goods	20.7%
Food & live animals	1.3%	Other	12.1%
Machinery & transport equipment	1.1%		
Lead Export Markets (% of total exports, 2006)		Lead Import Markets (% of total imports, 2006)	
US	59.8%	US	30.0%
Spain	5.3%	Brazil	12.0%
Jamaica	5.2%	Venezuela	6.8%
France	2.5%	Gabon	4.8%

Basic indicators

Selected economic indicators	2004	2005	2006	2007e	2008f
Nominal GDP (USD mn)	12,673	15,089	18,135	20,468	23,620
Population (mn)	1.30	1.31	1.31	1.32	1.32
GDP per capita (USD)	9,748	11,518	13,844	15,506	17,894
Real GDP growth (% yr/yr)	7.8	6.1	12.2	5.5	5.5
Inflation (% , eop)	5.6	7.2	9.1	7.6	9.8
Fiscal balance (% of GDP)	1.9	5.3	6.5	2.6	3.6
Current account balance (% of GDP)	11.4	23.8	26.2	24.9	25.3
External debt/GDP (%)	23	17	15	14	12
External debt/Exports of goods & services (%)	40	25	21	20	17
Interest payments/Exports of goods & services (%)	2	1	1	1	1
Foreign exchange reserves (USD mn)	3,168	4,856	6,569	7,038	8,500
Import cover (months)	7.2	9.3	10.6	10.5	11.0
Exchange rate assumption, TTD:USD (av)	6.30	6.30	6.31	6.33	6.32
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 are eroding 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. The formation of a third party (the Congress of the People, COP) under Winston Dookeran who had earlier broken away from the UNP had little influence, despite winning 23% of the popular vote. The COP failed to win any seats and Dookeran lost his own former seat, following a well-worn path of third parties in a first-past-the-post system that in this case also tends to divide along ethnic and racial lines.

The PNM's large majority should ensure effective implementation of the government's legislative programme, though the UNPC can still block constitutional change, which requires a two-thirds majority. Opposition UNPC leader Basdeo Panday faces criminal charges which could cause a leadership issue if he is found guilty. He is also currently suspended from parliamentary debates until the end of the year. However, in any event, there is a good deal of policy consensus between the two main parties.

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 and has not joined Venezuela's Petrocaribe initiative, though there is co-operation 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 Caribbean region's main oil and gas producer is currently experiencing a boom based on the doubling of production between 2002 and 2006 as large new oil and gas discoveries and related projects came on stream. The energy sector accounts for around 45% of GDP 90% (including petrochemicals) of goods exports and 60% of central government fiscal revenues. Gas has displaced oil as the major product in recent years and the energy boom 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. While these developments provide some diversification, the economy remains vulnerable to oil price changes. Development of the energy sector and related industries has contributed to a strong annual average growth of real GDP of 8.4% over the past ten years and an annual average growth of 8.1% in real per capita GDP in the same period.

In 2007 real GDP eased to an estimated 5.5% from 12.2% in 2006 as there were no large-scale additions to capacity in the energy sector and some disruption to energy output during the year. Continued high energy prices should maintain investment and consumption growth in 2008, though monetary policy is likely to be tightened further, and we expect growth to remain around 5-6% in both 2008 and 2009. 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.

High energy prices have ensured fiscal surpluses (central government) in recent years, which should continue in 2008 and 2009. In FY2006-07 (October-September) the surplus was 2.6% of GDP (excluding transfers to the oil stabilisation and savings fund), though this was lower than the 6.5% in FY2006-06 owing to increased expenditure, mainly capital spending on infrastructure projects. Fiscal surpluses have been associated with a declining trend of the public debt-GDP ratio, which dropped to 27% in 2006/07 from more than 50% in 2002/03.

The authorities have continued to build-up an oil stabilisation fund from surplus oil revenues to act as a buffer against declining prices in the future (an estimated 9% of GDP at end-2007). 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. However, the upsurge in public spending has led to a significant widening of the non-oil fiscal deficit to 14% of GDP in 2005/6 and an estimated 16% in 2006/07, giving some concern over potential over-heating and the longer-term sustainability of the deficit.

After dipping slightly in 2007 inflation in 2008 has resumed the uptrend evident since recent the boom began, driven by continued strong domestic demand pressure and high costs of basic foodstuffs, and was 9.8% yr/yr in March. Monetary policy was tightened through 2007, through increased reserve requirements and aggressive sterilisation of FX inflows, and is likely to be tightened further in 2008, as credit expansion remains strong and the inflation target of 5% will be overshoot by a wide margin. As monetary policy includes a more or less stable nominal exchange rate, the real exchange rate has appreciated over the past few years. While there is some evidence of overvaluation, it does not appear to be serious as yet.

Higher energy prices and increased output have contributed to a sizeable current account surplus—around 25% of GDP in 2007—that should continue through 2008-09, though the surplus may ease in 2009 as global oil prices stabilise or fall. Net FDI flows are positive and should remain around 2-3% of GDP in 2008-9. FX reserves provide around 11 months import cover and more than 400% of external debt falling due in 2008 (medium-term principal and ST) all of which adds up to a strong external liquidity position.

External debt is low at 14% of GDP and 20% of exports of goods and services. Debt service is easily manageable with interest payments due just over 1% of exports of goods and services.

Structural Business Environment

The Structural Business Environment is generally sound and above average, ranked 90 out of 210 on our assessment.

The World Bank's 2008 Ease of Doing Business survey ranked Trinidad & Tobago 67 out of 178 (74 in 2007). In three areas (of ten)—Starting a Business, Employing Workers and Protecting Investors—it was in the top quartile and in another four—Dealing with Licenses, Getting Credit, Paying Taxes and Trading Across Borders—it was in the top half. In the other three areas—Registering Property, Enforcing Contracts and Closing a Business—Trinidad & Tobago was in the bottom quartile. The World Bank Institute's Governance Research Indicator puts regulatory quality above, control of corruption below and the rule of law well below average for the Caribbean Region.

The Heritage Foundation 2008 Index of Economic Freedom categorises Trinidad & Tobago as 'Mostly Free' with a score of 70.2% and assigns it a ranking of 29 out of 157. Transparency International's Corruption Perception Index, 2007, assigns Trinidad & Tobago a score of 3.4—on a scale of 1 (bad) to 10 (good)—and a ranking of 79= out of 180 (the same as, Georgia, Grenada, Saudi Arabia and Serbia,).

Three banks, one foreign owned, account for 80% of total deposits. Banks capital adequacy, profitability and NPLS are satisfactory, though private sector credit growth remains strong.

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Charts

