



## S&P Affirms Trinidad and Tobago's Credit Rating

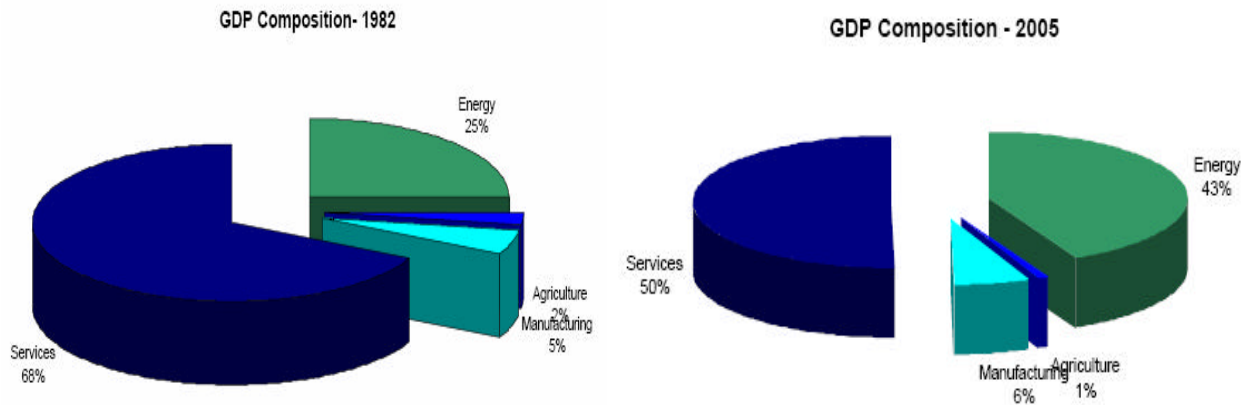
The Trinidad and Tobago economy received another positive review by international rating agency, Standard and Poor's recently. On 6 October 2006, S&P affirmed the country's foreign currency rating at A- with a stable outlook. According to S&P, the ratings were supported by continued buoyancy of the fiscal and external accounts, underpinned by the booming energy sector. However, the ratings were also reflective of an increasing non-energy fiscal deficit, mainly because of the slow development of the non-energy sector, which is primarily the source of labor-intensive employment. Another notable weakness outlined by S&P is the large contingent liability posted by off-budget non-financial government-owned entities, which suffer persistent losses and weigh heavily on government indebtedness.

Economic expansion in Trinidad and Tobago outpaces that of its peers and continues to be driven by the thriving energy sector. Real GDP growth averaged close to 10% in 2002-2005 and per capita GDP is estimated at around US\$13,000 in 2006, essentially on par with that of the 'A' median of US\$12,950. The outlook for economic growth is well in excess of 7% in the medium term, which is above the 'A' median of 5.7%. Social indicators in Trinidad and Tobago also compare favorably with Latin America and Caribbean counterparts as well as other similarly rated peers. The country ranks 59<sup>th</sup> in Transparency International's 2005 Corruption Perceptions Index and 57<sup>th</sup> in the UNDP's Human Development Index, placing it ahead of oil-producers such as Kazakhstan and Oman, but behind regional peers like Barbados and The Bahamas.

An inherent problem associated with any resource-based economy is the heavy dependence on one sector. In T&T, the energy sector contributed 43% of total GDP in 2005, up from 37% in 2004 and 26% in 2003. This reliance masks the country's vulnerability to external shocks. Any downturn in oil prices on the international markets will severely undermine the T&T economy. The Heritage and Stabilization Fund (HSF) has the potential to smooth the country's income patterns inter-temporally, if it is designed properly. However, the current proposal is not without its flaws and many issues need to be resolved regarding the establishment of the HSF. So far, the Interim Revenue and Stabilization Fund (RSF) contains about TT\$8.7 billion, which represents about 7% of estimated 2006 GDP. Other oil-dependent countries such as Oman have established

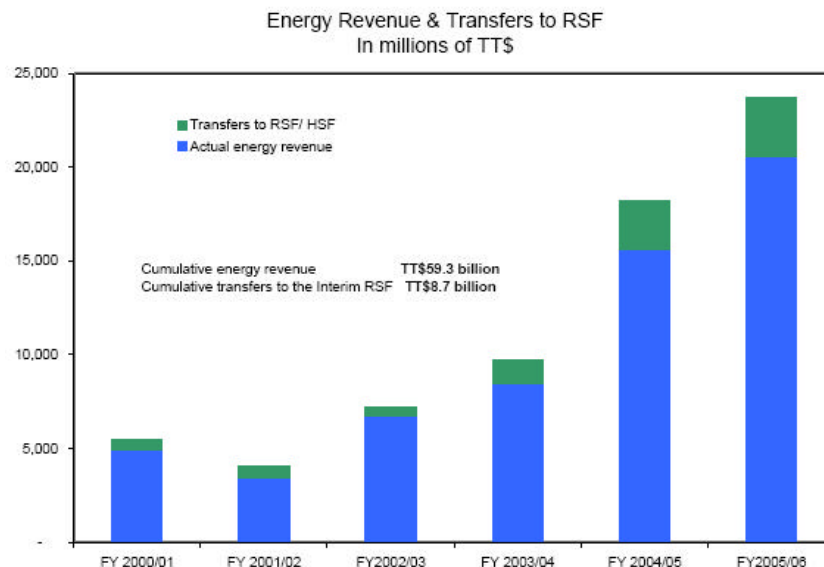
similar large asset funds- about 30% of GDP - to hedge against oil price volatility and have seen their overall fiscal positions improve over the medium term.

**Figure 1: Composition of GDP**



According to the recently presented fiscal package, energy revenue came in at TT\$17.2 billion, substantially up from TT\$12.2 billion in the previous fiscal year, and represented close to 15% of GDP in the fiscal year ended September 2006, slightly increasing from 12% of GDP a year earlier. Government operations should result in an overall budget deficit of almost 3% of GDP, however, this takes into account \$1.7 billion transfer to the RSF in the FY2006/07. The non-energy deficit is projected to moderate to 22% of non-energy GDP, compared to 24% in the previous FY. According to S&P, some of the factors that can adversely affect public finances are the rise in off-budget spending, the lack of transparency in government-owned entities, and persistent restructuring of these entities, which can lead to a rapid build-up of debt, undermining fiscal accounts.

**Figure 2: Energy Revenue and Transfers to RSF**



The Trinidad and Tobago economy is operating very close to its absorptive capacity, which makes inflation control and exchange rate stability problematic. For the 12 months to August 2006, the inflation rate was at 9%, and the outlook suggests that inflation could hit double digits by December 2006. To counter the inflationary build-up, the Central Bank has tried tightening monetary policy, increasing the repo rate steadily throughout the year, ending September at a benchmark rate of 8%, signaling increases in interest rates across the curve. However, the disconnect between policies in the real sector and the monetary sector, with pro-cyclical fiscal policies by the government increasing aggregate demand and tight monetary policies have resulted in still high inflation levels with simultaneously high interest rates.

S&P suggested the need for economic diversification as well as a significant reduction in the non-energy deficit. Additionally, improvements in transparency, governance and the passage of the legislation regarding the HSF could all strengthen Trinidad and Tobago's creditworthiness. Alternatively, slippages in the public sector restructuring could lead to pressure on the fiscal accounts and could reverse the recent ratings trend.

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## FINANCIAL & ECONOMIC INDICATORS

As at 12<sup>th</sup> October 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	119.38	117.71
Euro	1.26	1.27
Jamaica	66.14	65.96
Guyana	200.70	200.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	57.86	60.03
Natural Gas (US\$/mmbtu)	5.17	4.69
Gold (US\$/Troy Ounce)	579.30	574.30

### Eurobond Indices (Returns, % YTD as of 12- Oct- 06)

Lehman Brothers Global Aggregate Index	2.37
JP Morgan EMBI+	-20.09
CMMB Eurobond Index	1.25

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.25	5.25
Euro Zone	3.25	3.00
Japan	0.25	0.25
Brazil	14.25	14.25
Trinidad	8.00	8.00
Jamaica	11.95	11.95
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.92	4.81
US 10-Yr Treasury	4.75	4.61
3-month UK Libor	5.11	5.11
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	13.55	13.65
TT 90-day T-Bill	6.71	6.60
Jamaica 90-day T-Bill	12.06	12.06
Barbados 90-day T-Bill	6.03	6.03

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

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