



CENTRAL BANK OF
TRINIDAD & TOBAGO

“Analyzing the Impact of the Global Financial Crisis on the Government of Trinidad and Tobago Fiscal Accounts”

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Outline

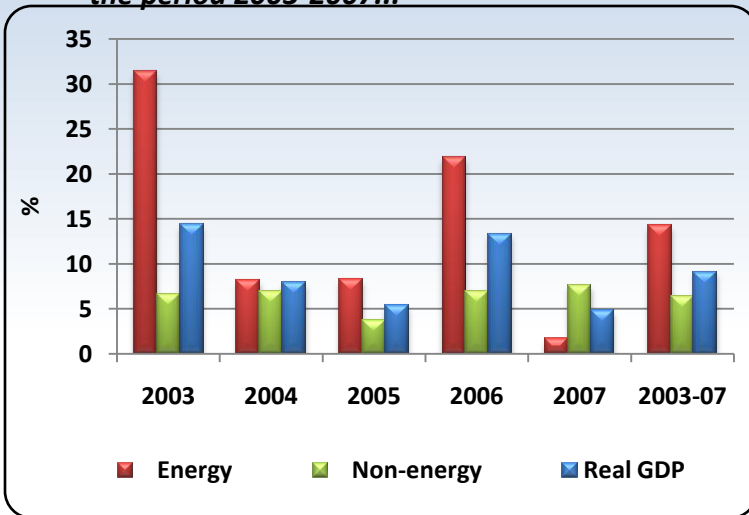
- Objective
- Background – Pre-Crisis Performance
- Impact of the Global Financial Crisis
- Trinidad and Tobago Fiscal Accounts
- The CLICO Bailout
- Comparison with rest of CARICOM
- Conclusions

Objective

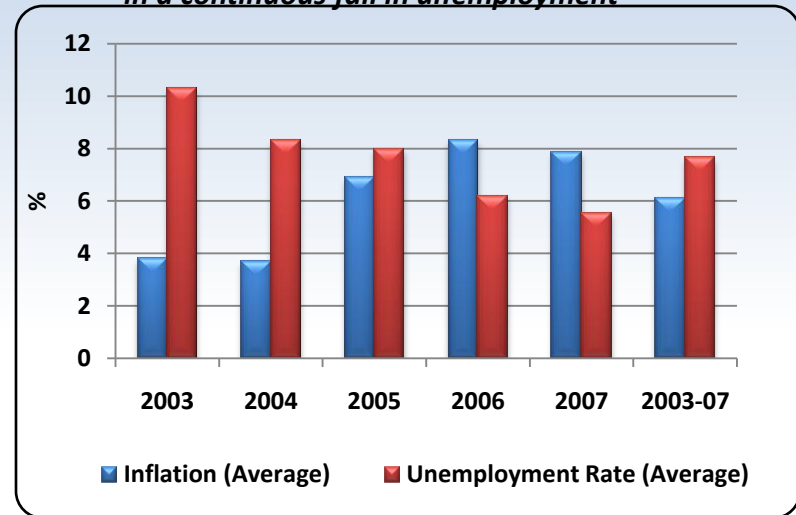
- To assess the impact of the global crisis on the Trinidad and Tobago Fiscal Operations.
- To compare the effects with other countries in the region.

Pre-Crisis – Macroeconomic Performance

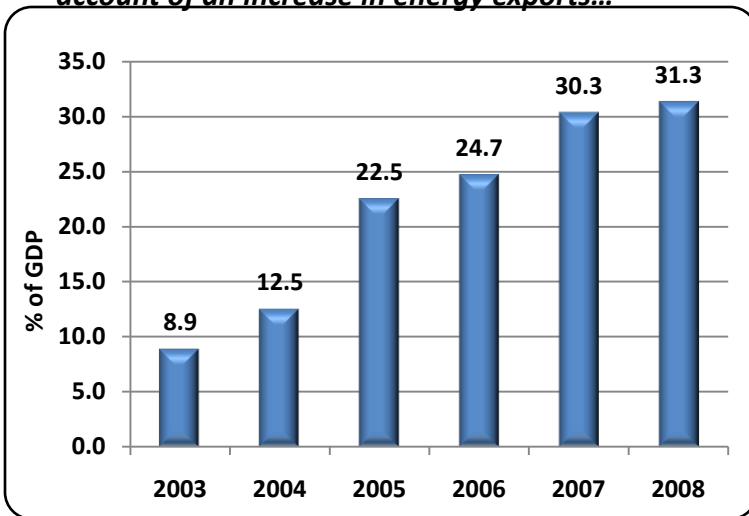
Large positive growth was recorded over the period 2003-2007...



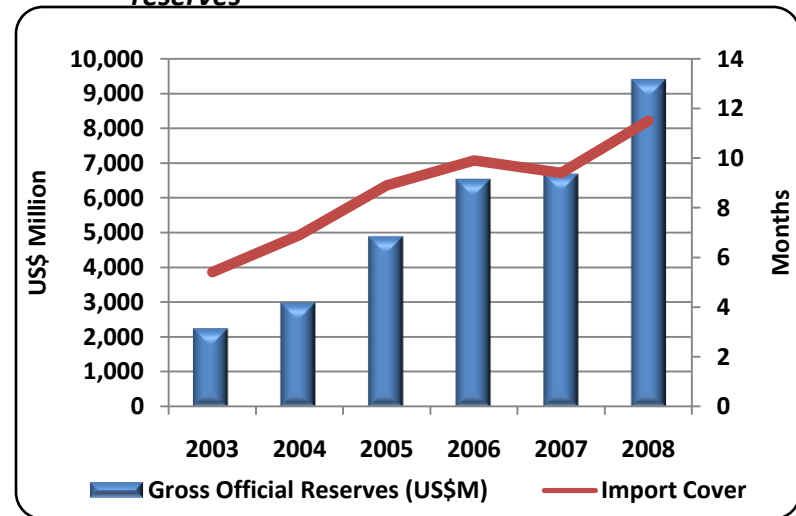
Growth in the non-energy sector resulted in a continuous fall in unemployment



The Current Account Balance strengthened account of an increase in energy exports...

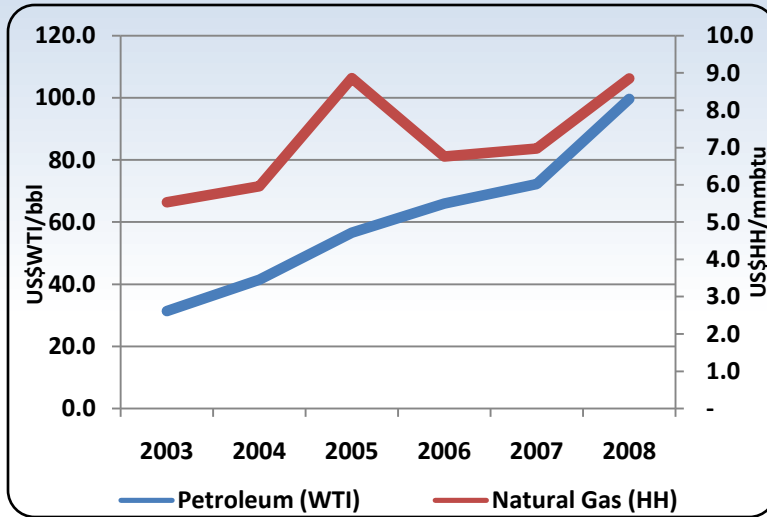


Resulting in an accumulation in Gross Official reserves

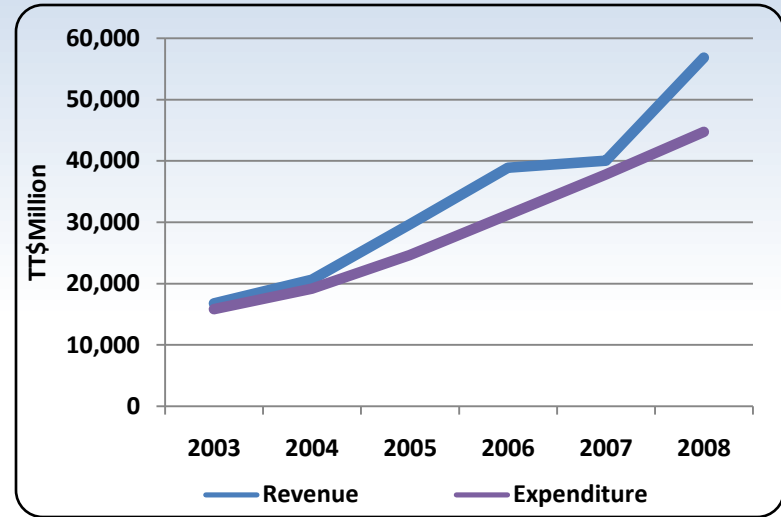


Pre-Crisis Fiscal Performance

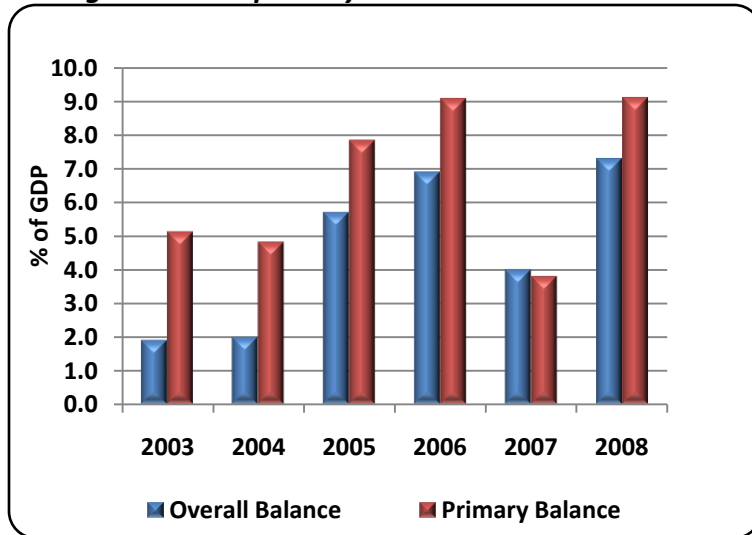
Energy commodity prices moved favorably over the period 2003-2008 ...



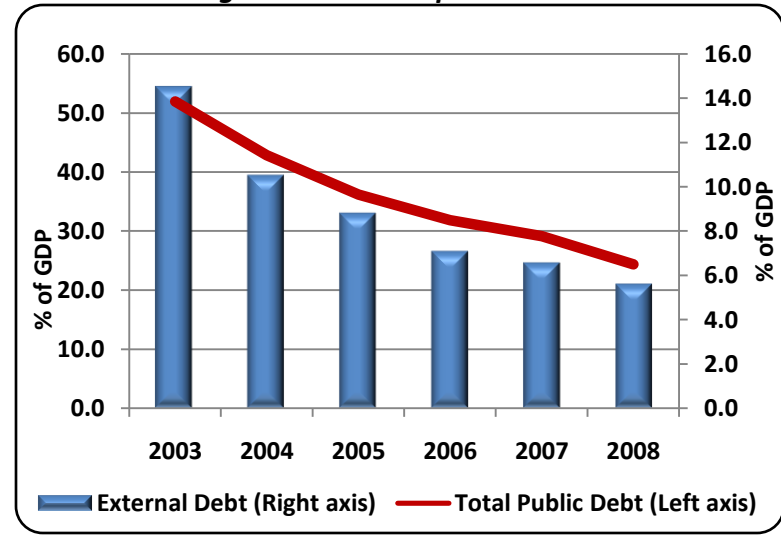
Resulting in increased revenues for Government to pursue expansionary fiscal policy



Large overall & primary balances were recorded ...



Leading to a decline in public debt

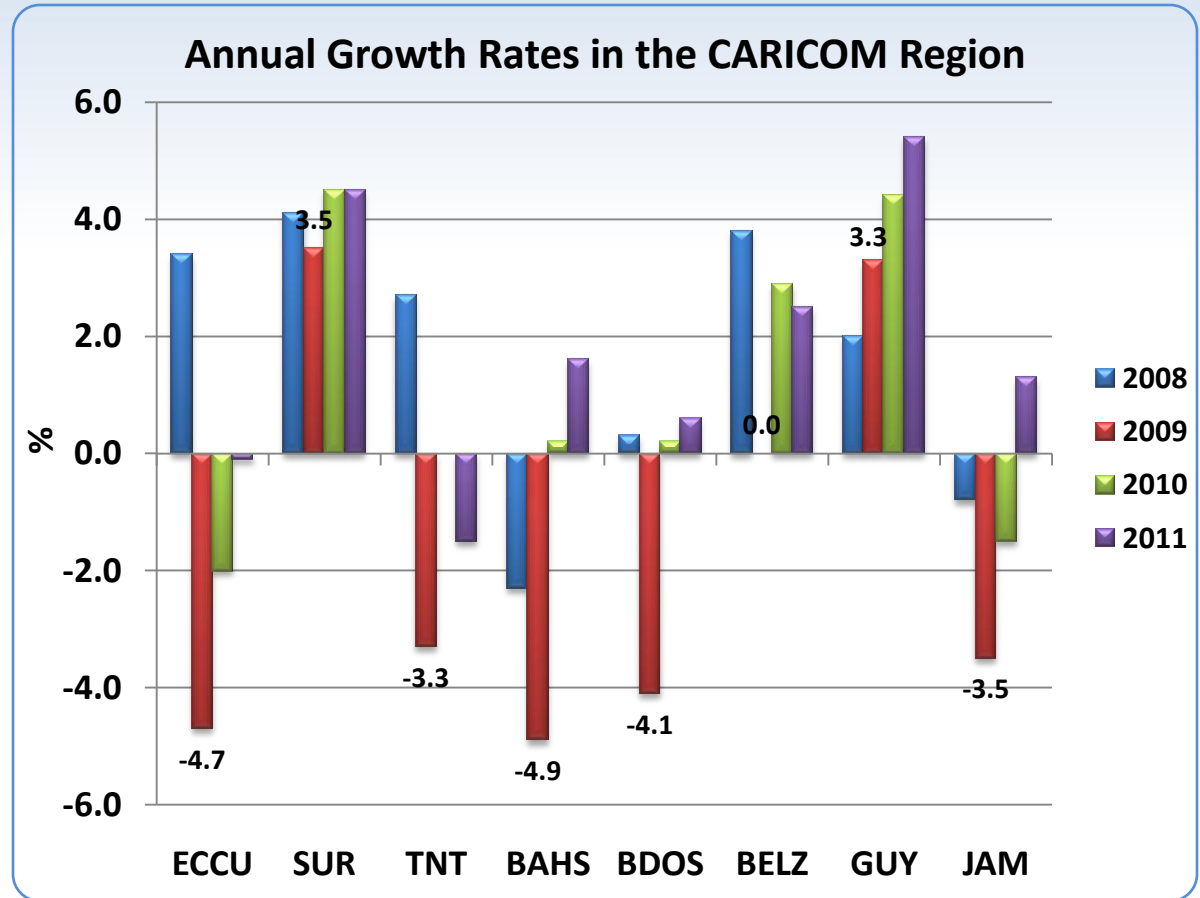


Effects of the Global Financial Crisis

- Various studies have discussed the economic impact of the global financial crisis on the Caribbean region.
- Generally, the region was impacted through four (4) main channels.
 - International trade and prices
 - Tourism
 - Remittances
 - Foreign Direct Investments
- The main impact was felt through the trade channel given the openness of CARICOM countries.
- Natural resource countries suffered from a sharp fall in commodity prices
- Tourism dependant economies were severely impacted from the fall out in the tourism industry and decline in remittances.

Impact of the Global Financial Crisis on Growth in the CARICOM Region

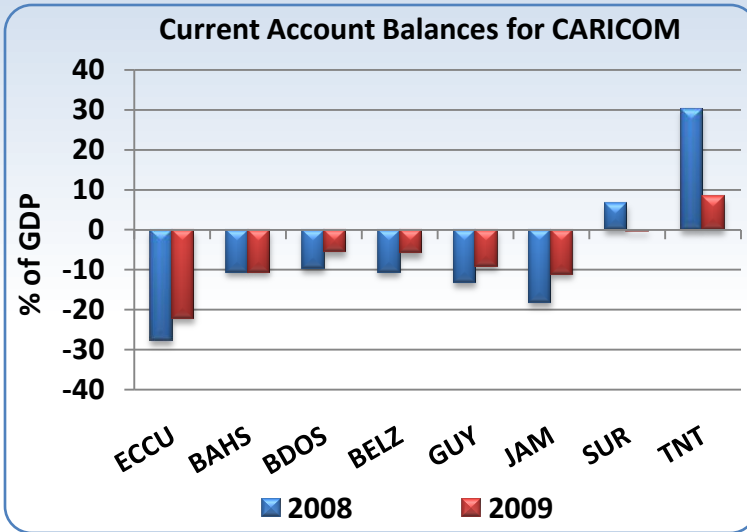
- All countries except Guyana and Suriname experienced negative growth in 2009.
- The Bahamas and ECCU countries were hit the hardest on account of the decline in tourism.
- Among the natural resource countries, Trinidad and Tobago experienced the largest decline owing to the fall in exports.



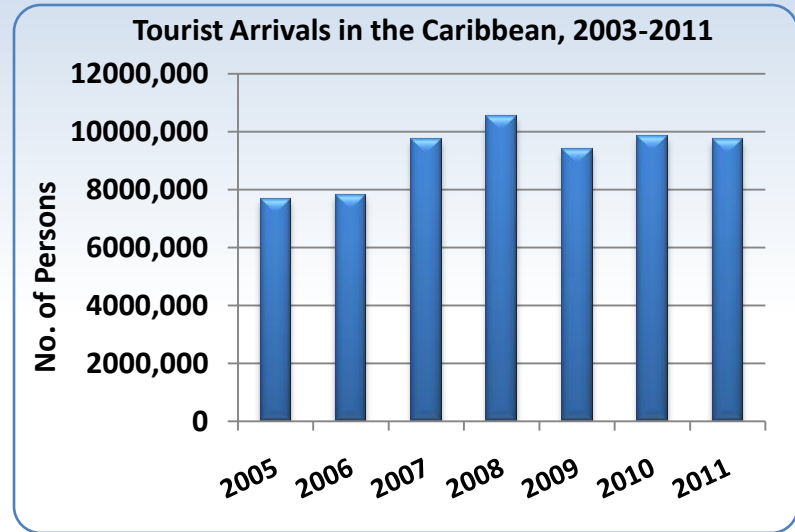
Source: Economic Commission for Latin America & the Caribbean

Transmission Channels of the Crisis

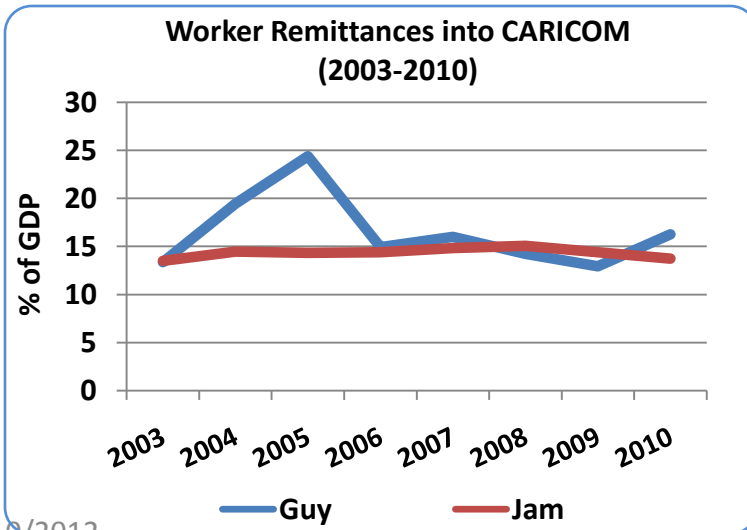
The fall in export demand & commodity prices led to a decline in the current account



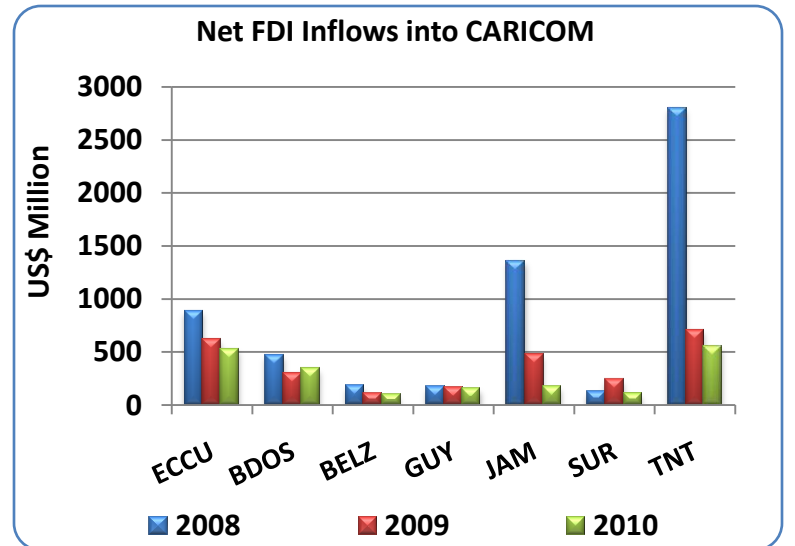
The tourism industry was negatively affected with the ECCU region hit the hardest



Remittances into the region were also impacted on account of increased migrant unemployment...

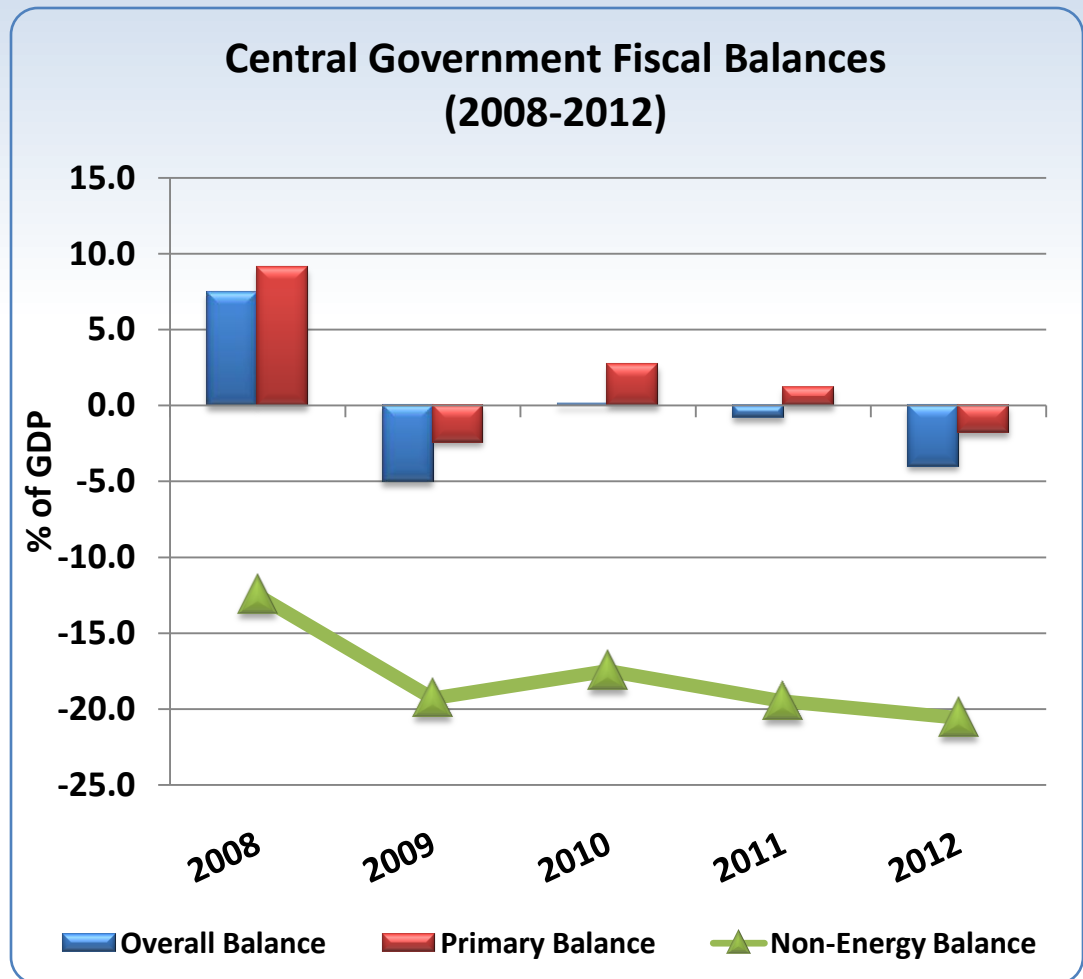


The economic recession created a gloomy investment climate resulting in a decline in FDI



The Fiscal Balances Deteriorated...

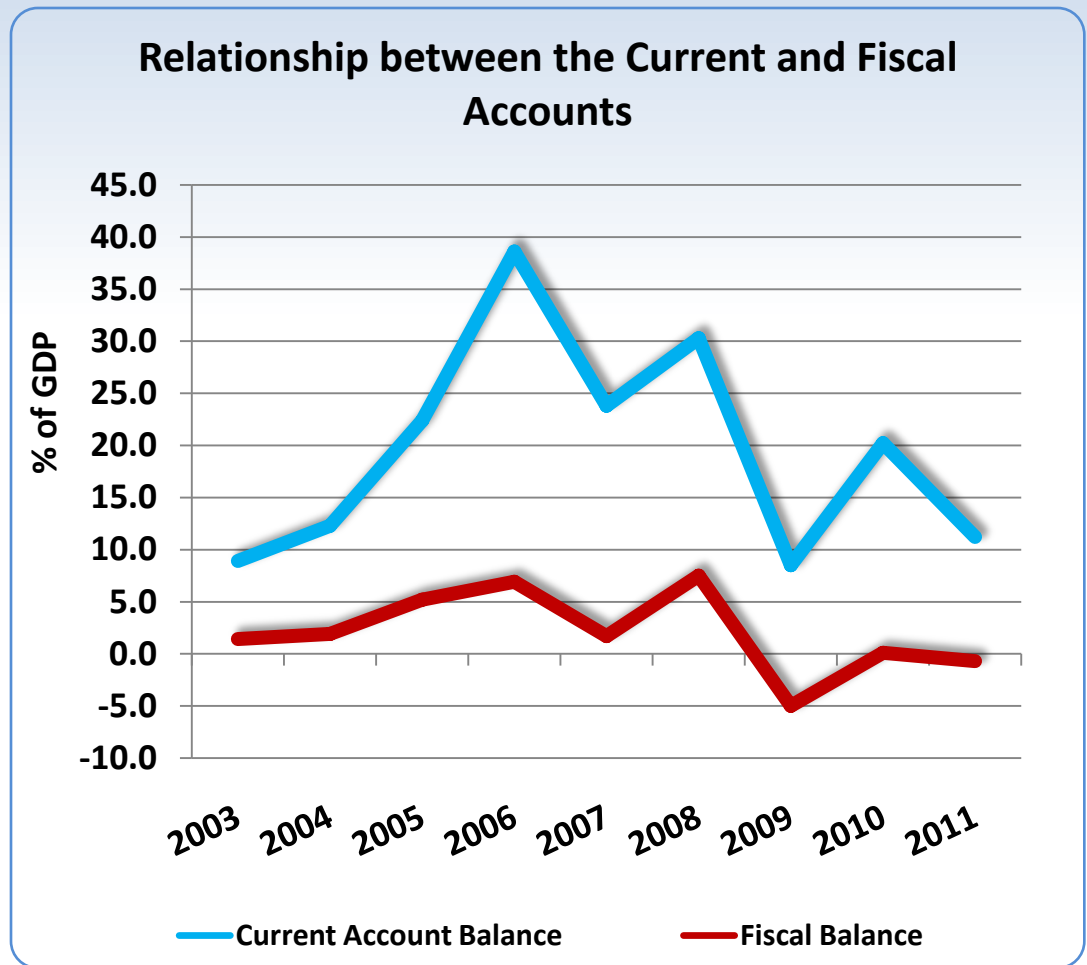
- The fiscal balances deteriorated shown by the decline in the main indicators of fiscal performance.
- The overall balance went from a record surplus of \$12.1 billion (7.5% of GDP) in 2008 to a deficit of \$6.9 billion (-5.0% of GDP) in 2009.
- The primary balance moved from a surplus of 9.1% of GDP to a deficit of 2.4%, while the non-energy deficit increased from -12.5% to -19.3% of GDP.
- During the period 2010-2012 the recovery in revenues led to an improvement in the fiscal accounts.
- Deficits were recorded for most of the period due to increased spending to stimulate economic activity.



Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

Following the deterioration in the Current Account

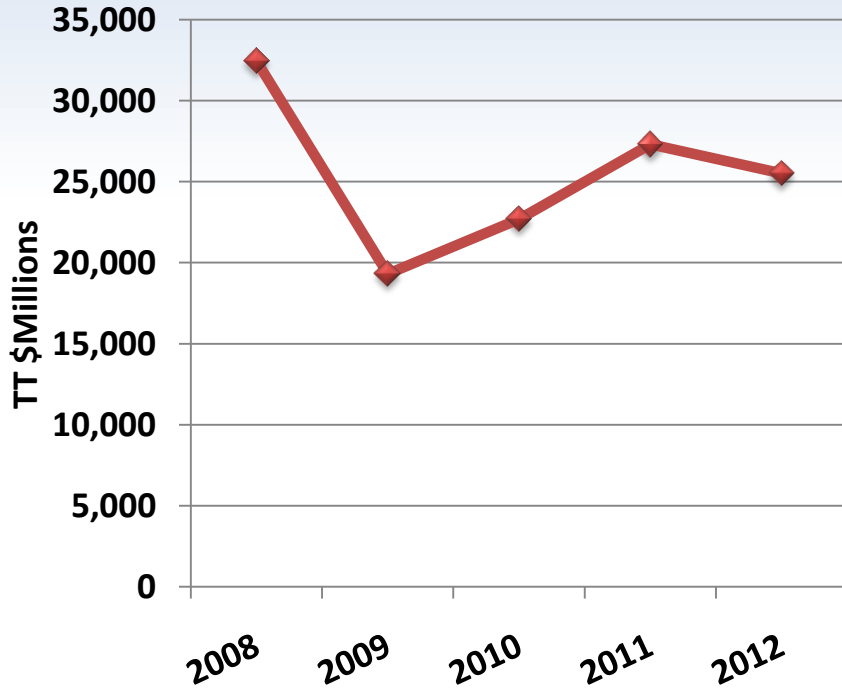
- A positive relationship exist between the current account balance and fiscal revenues.
- The decline in energy production and energy prices led to a reduction in exports in 2009.
- Lower exports impacted Government revenues leading to a large deficit in 2009.
- The improvement in the current account balance in 2010 resulted in a recovery in the fiscal accounts.



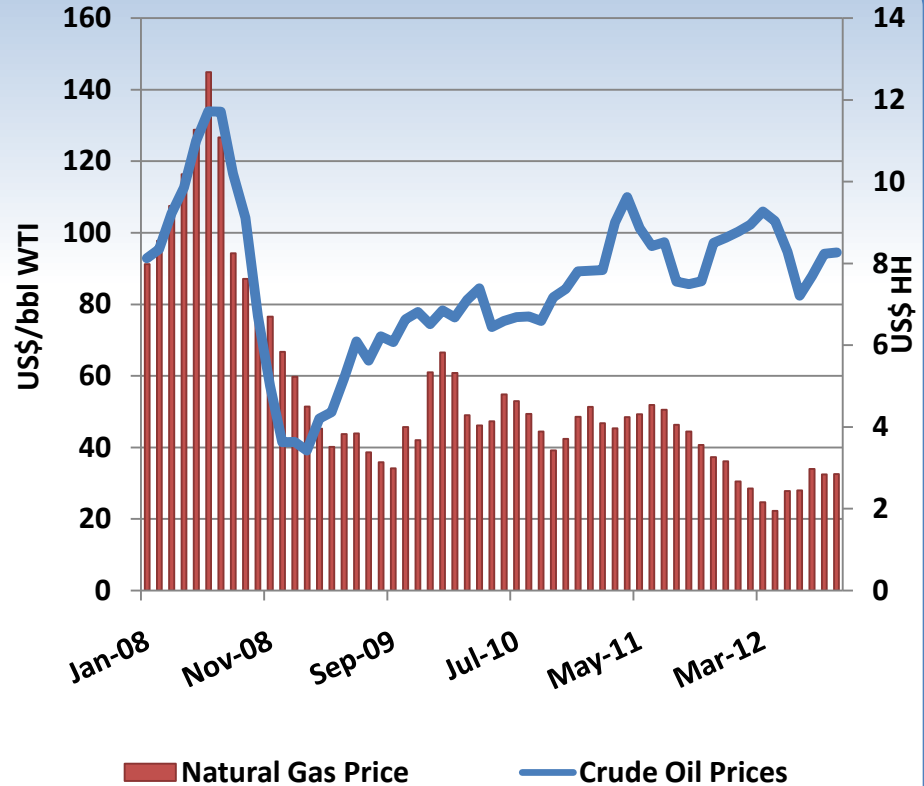
Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

Energy Revenue Mirrored Commodity Prices...

Energy Revenues 2008-2012



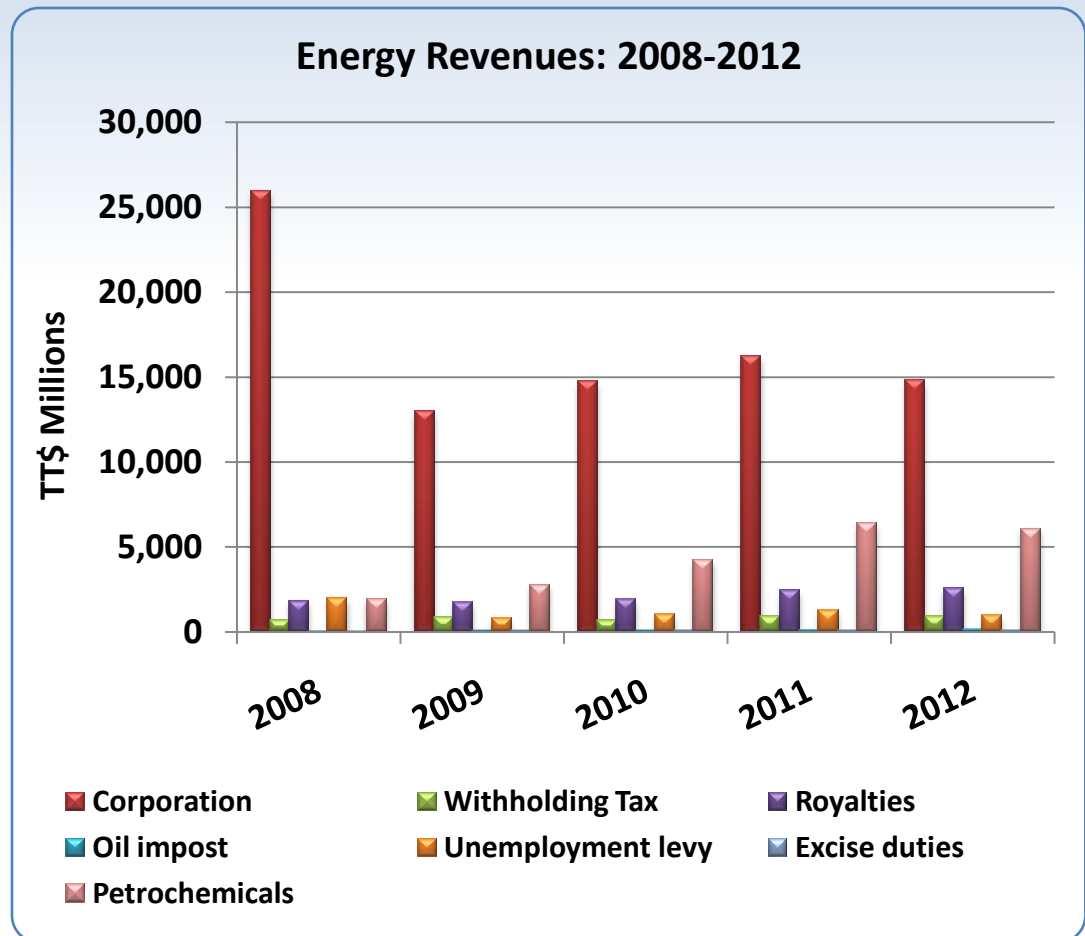
Source: Ministry of Finance and Central Bank of Trinidad and Tobago.



Source: Central Bank of Trinidad and Tobago.

Energy Revenues fell in 2009 but quickly recovered...

- Receipts from corporations reflected the changes in energy prices.
- In 2009, receipts from oil companies were cut in half.
- As energy prices recovered in 2010, collections from oil corporations increased.
- Revenue from the Petrochemicals sector increased post-crisis.
- The Government administered a tax amnesty in 2011 which boosted energy collections.

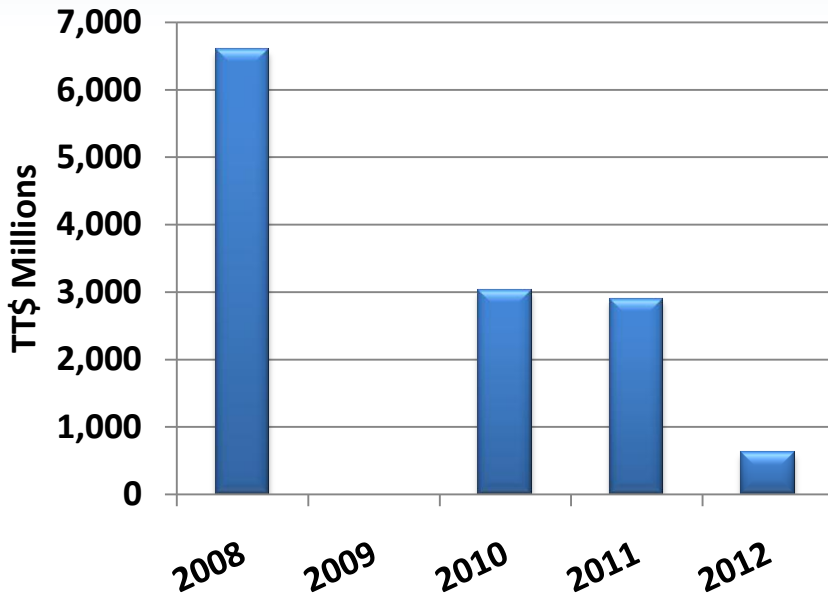


Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

The Heritage and Stabilization Fund remained strong with regular Government deposits...

Government made transfers to the HSF except in 2009

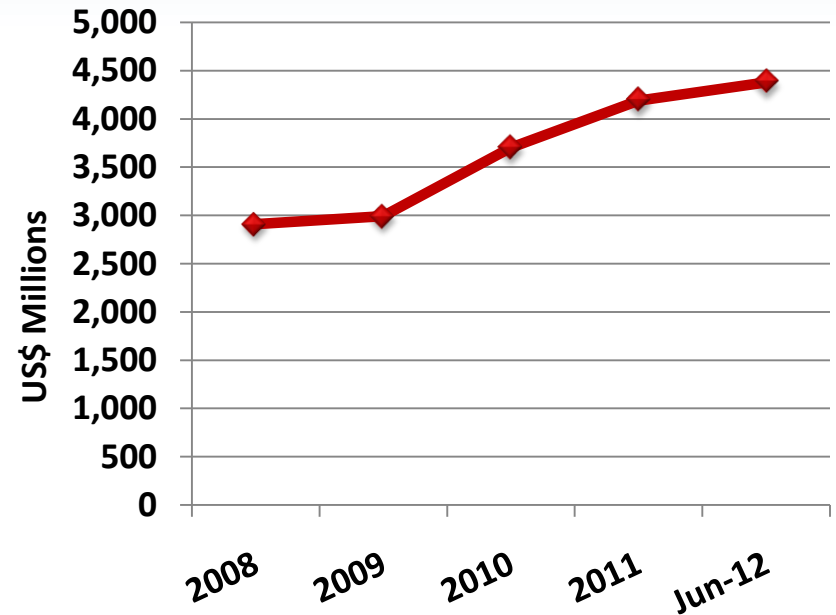
Transfers to the Heritage and Stabilization Fund from 2008-2012



Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

The Net Asset Value of the HSF increased throughout the period

Net Asset Value of the Heritage and Stabilization Fund

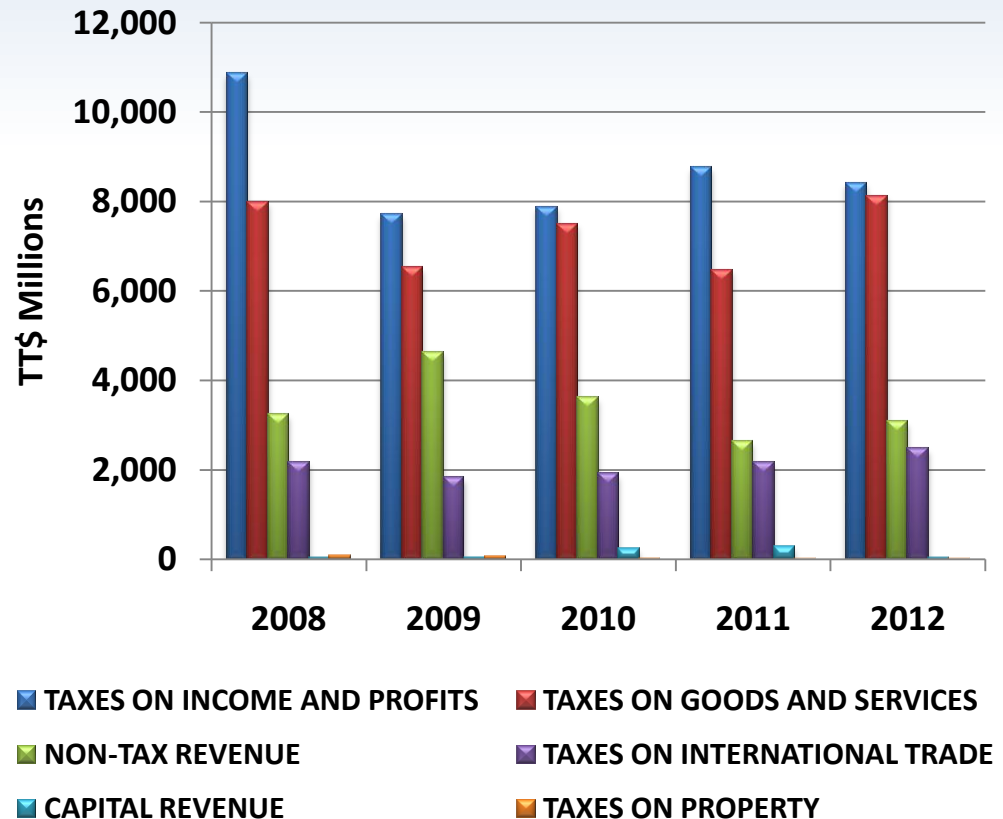


Source: Central Bank of Trinidad and Tobago.

Slower recovery in Non-Energy Revenue...

- Taxes on income and profits fell by 42% in 2009.
- Collections from Goods and Service fell in 2009 due to an 18.5 % decline in VAT receipts but recovered thereafter.
- Non-energy collections improved during 2010-2012
- The tax amnesty administered in 2011 increased receipts from both businesses and individuals.

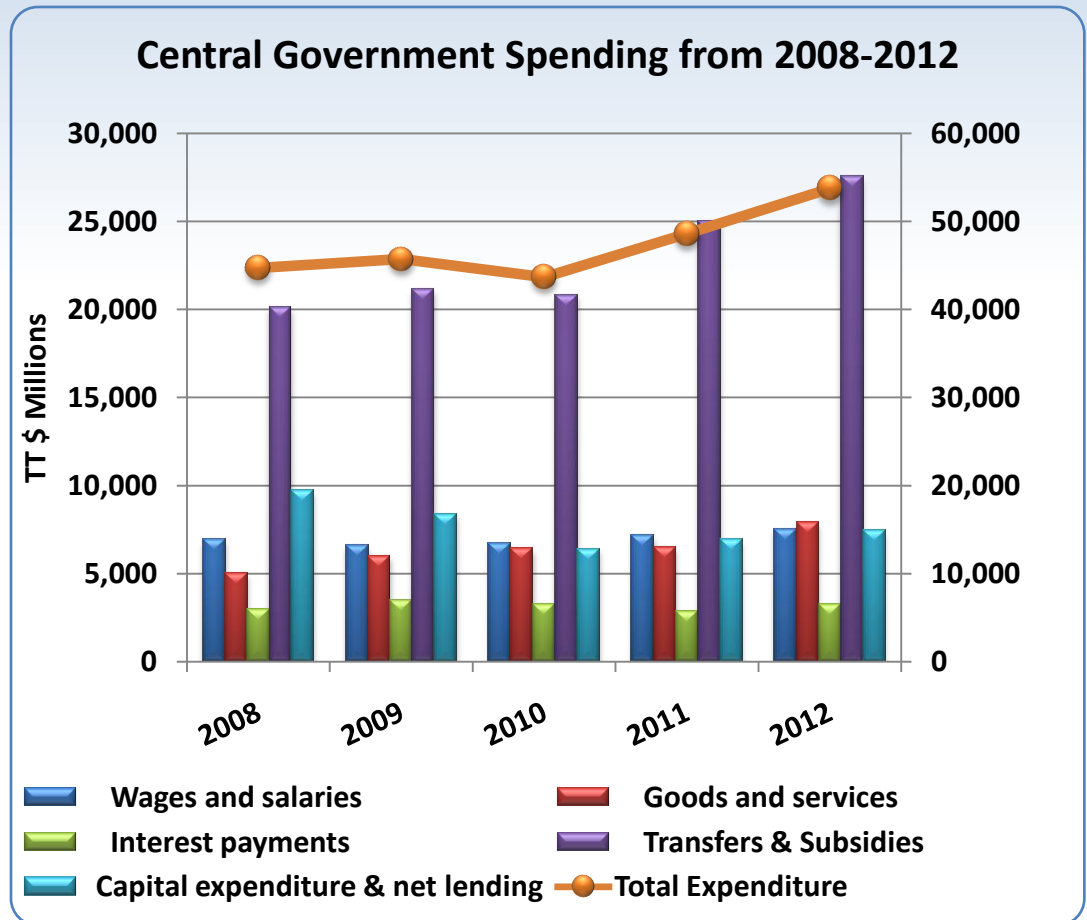
Non-Energy Revenue from 2008-2012



Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

Expenditure trended upwards...

- Despite the significant fall in revenue in 2009, expenditure increased by about \$2 billion.
- The largest increase in recurrent expenditure was seen in transfers and subsidies.
- The fall in expenditure in 2010 was related to the change in Government.
- The steady increase in spending after 2010 reflected the Government's attempt to stimulate economic activity.



Source: Ministry of Finance, Trinidad and Tobago.

The main driver was Transfers & Subsidies...

- Transfers and subsidies accounted for 49 % of expenditure on average during 2008-2012.

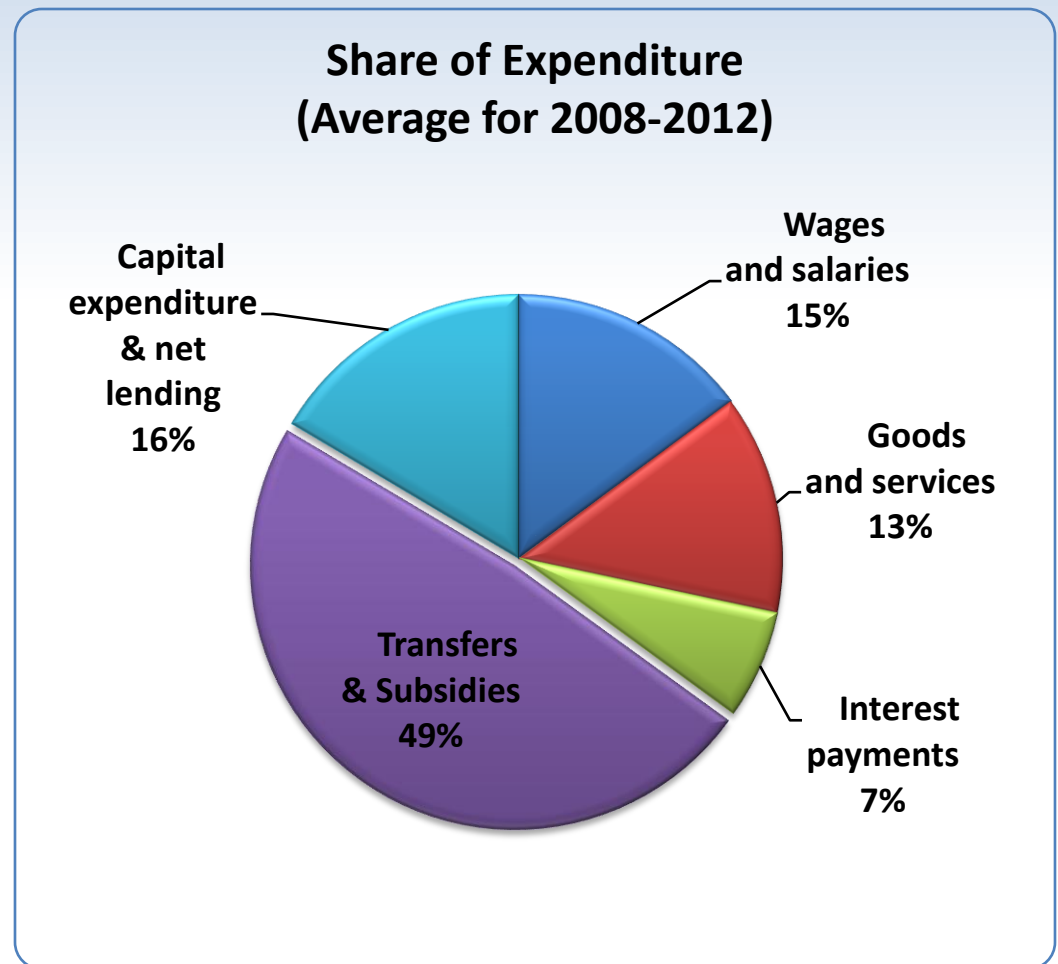
- The increase has been driven by the increases in:

- Petroleum subsidy,
- Higher Senior Citizens Grants
- Transfers to State Enterprises.

- Wages & salaries accounted for 15% over 2008-2012 due to the settlement of several wage negotiations.

- Goods and Services increased owing to higher payments in rents and leases and contract employment.

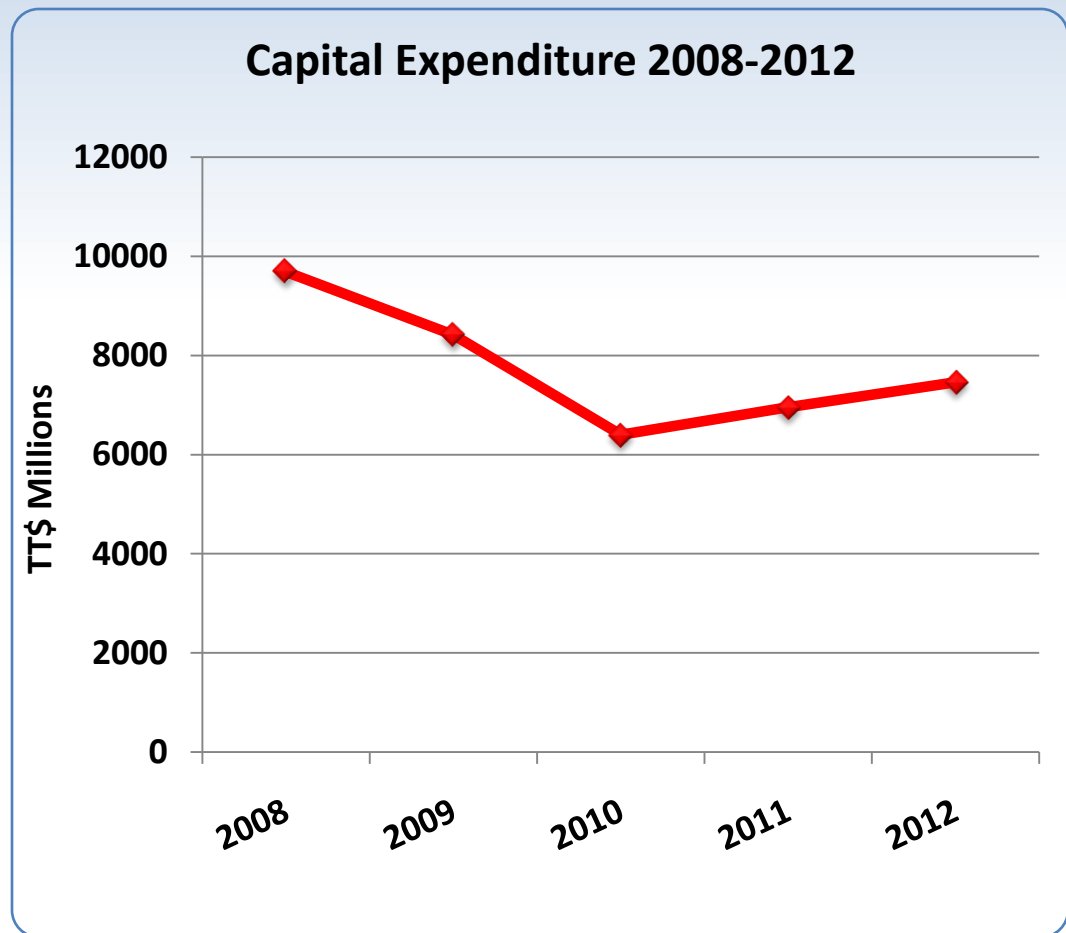
- Interest payments only accounted for 7 per cent of expenditure.



Source: Ministry of Finance, Trinidad and Tobago.

Capital Expenditure increased in the latter years...

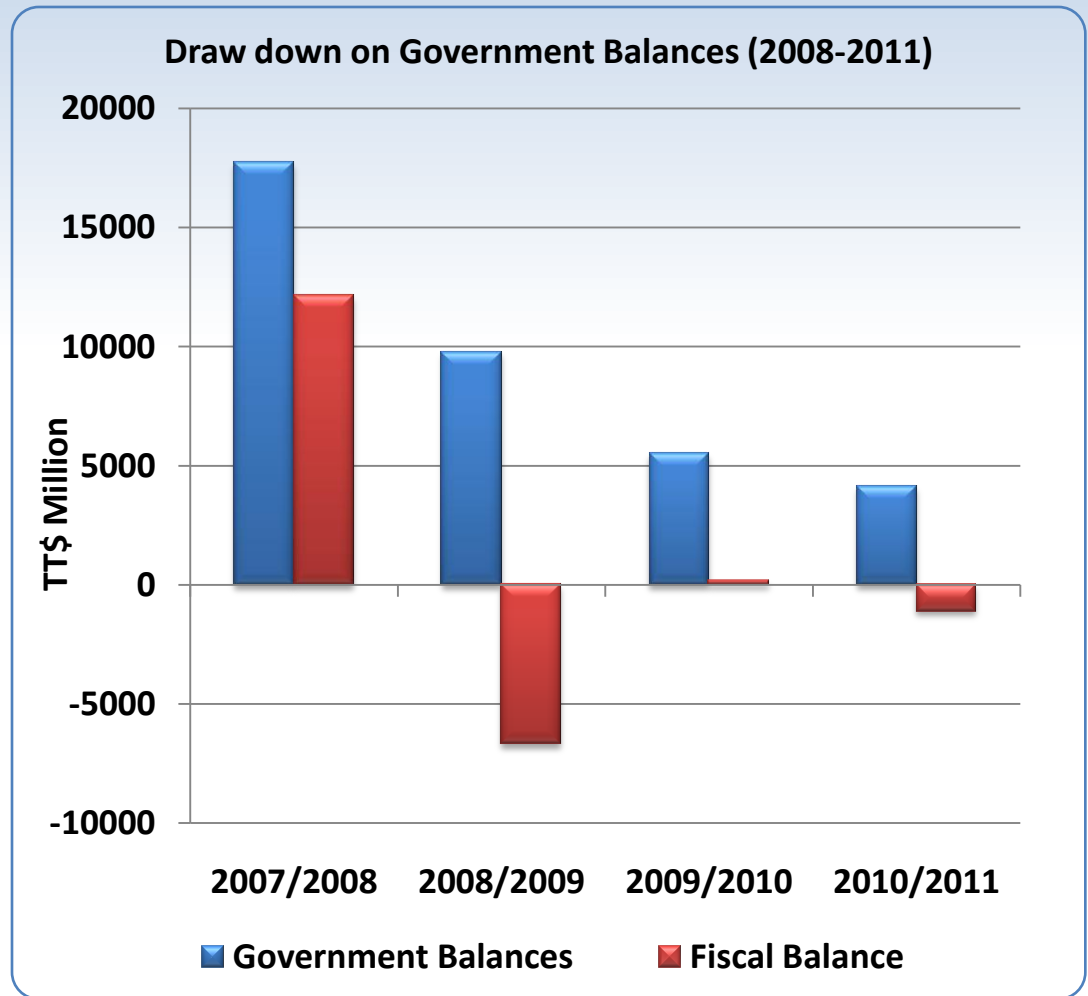
- The fall in capital spending in 2009 and 2010 was due to:
 - The winding up of several large scale projects
 - A slowdown in project execution
- Capital expenditure gained momentum in 2011 and 2012.
 - Accelerated Housing Programme
 - Education Modernization Programme
 - Road Infrastructure
 - Multi - Fuel Pipeline



Source: Ministry of Finance, Trinidad and Tobago.

Deficit Financing

- Large fiscal surpluses enjoyed prior to the crisis resulted in an accumulation in Government balances .
- Borrowing for deficit financing was minimal.
- The \$6.7 billion deficit recorded in FY 2009 was mainly financed through draw downs on Government balances.



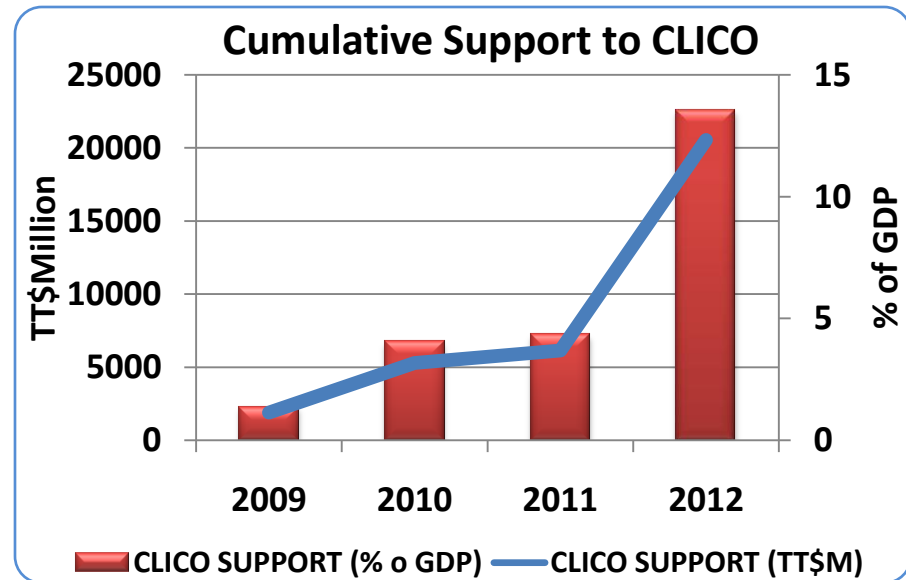
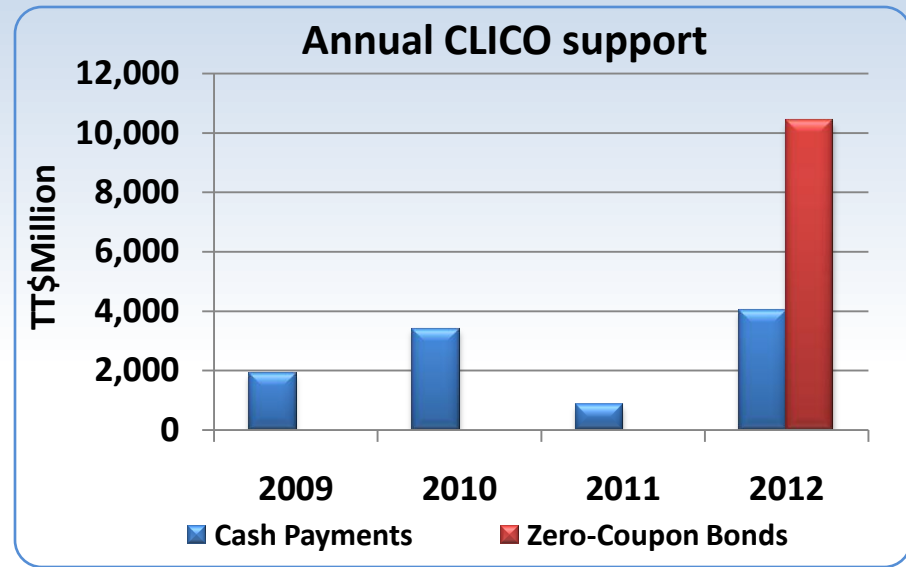
Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

Collapse of CL Financial

- The collapse of Trinidad and Tobago-based CL Financial Limited (CLF) and related companies represented a major financial shock to T&T and had spill-over effects to the rest of the region.
- Main reasons for the collapse:
 - Excessive related-party transactions.
 - Offering of high interest rate investment products to finance investments in methanol and real estate developments.
- The global financial crisis resulted in a collapse in real estate and methanol prices. This caused a significant reduction in the inflow of funds to CLF and its subsidiaries.
- The Government of Trinidad and Tobago announced a financial package to support three (3) of CLF's subsidiaries: CLICO (Trinidad), BAT and CIB.

Cost of the CLICO Bailout

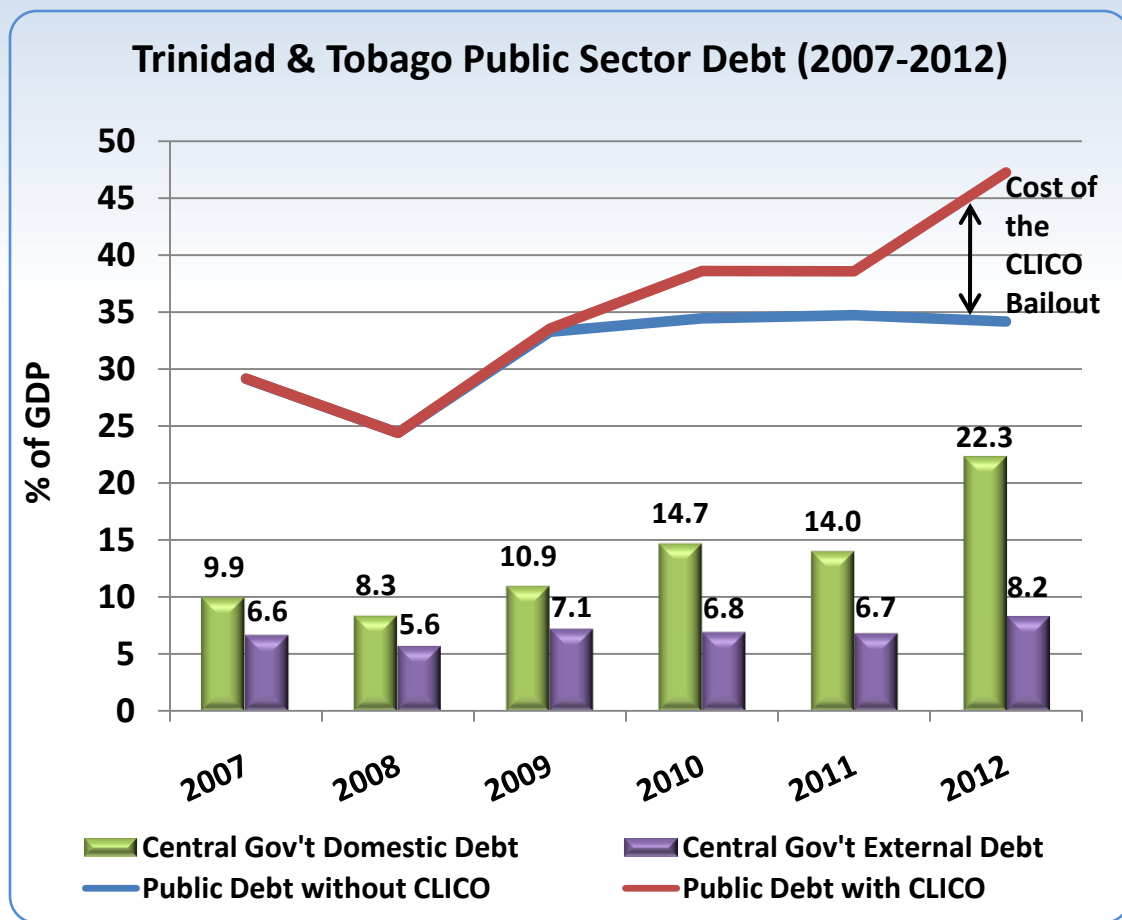
- The bailout comprised the following:
 - Cash payments up to a maximum of \$75,000
 - Remaining amounts settled through zero-coupon bonds with maturities of 1-20 years.
- As at end-September 2012, the cost of the bailout amounted to \$20.5 billion (13.5 per cent of GDP).



Source: Ministry of Finance & Central Bank of Trinidad & Tobago

Impact of the Global Crisis on Public Debt

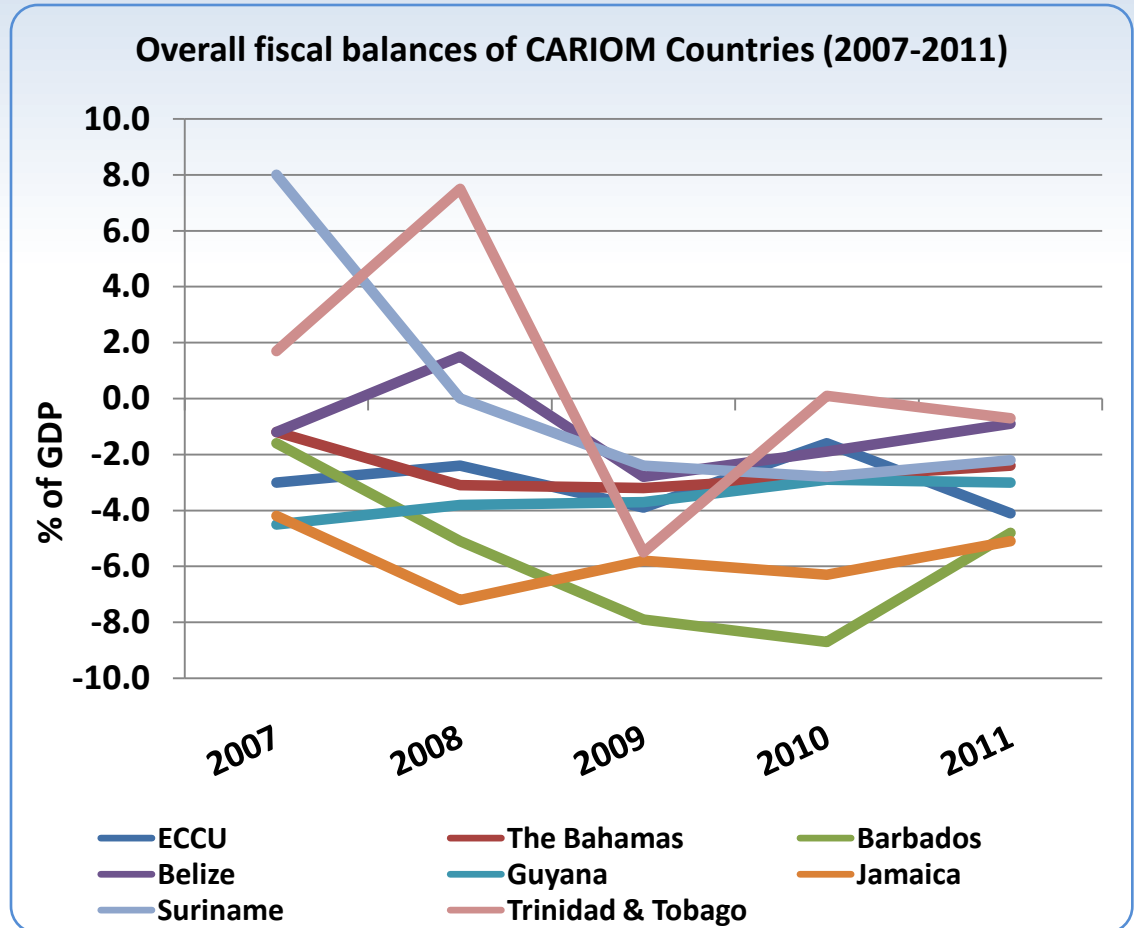
- The large fiscal deficit in FY 2009 did not significantly impact the public debt since it was financed through draw downs on Government balances.
- The CLICO bailout resulted in a sharp increase in debt since it was financed through Central Government domestic borrowing.
- Central Government domestic debt almost tripled during the period 2008-2012.
- The external debt remained below 9 % of GDP. The small increase in 2012 reflected new IDB project-oriented loans.



Source: Ministry of Finance, Trinidad and Tobago.

Comparing T&T fiscal performance with the rest of the CARICOM Region

- Revenues in service- based economies were affected by the sharp downturn in Tourism.
- Revenues of primary producers of agriculture (Guyana) and Minerals (T&T and Suriname) suffered from price declines.
- Faster recovery in T&T's fiscal accounts due to the quick turn around in energy prices.

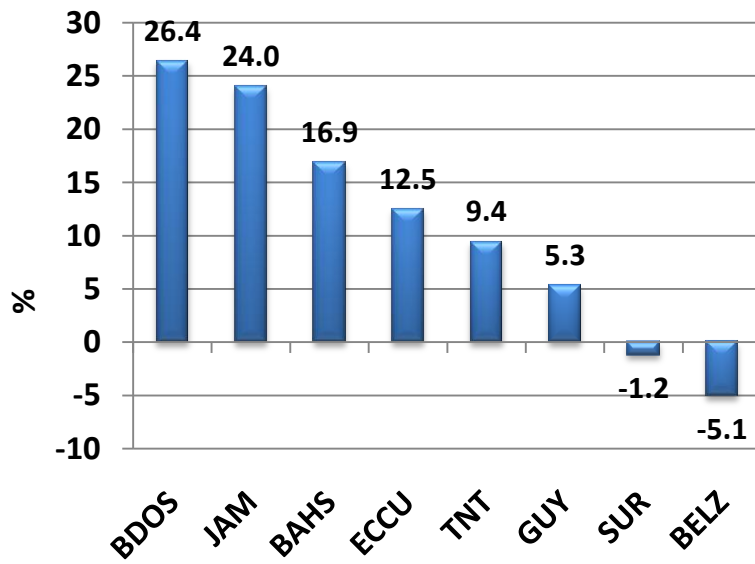


Source: Economic Commission for Latin America & the Caribbean

Comparison of Public Debt

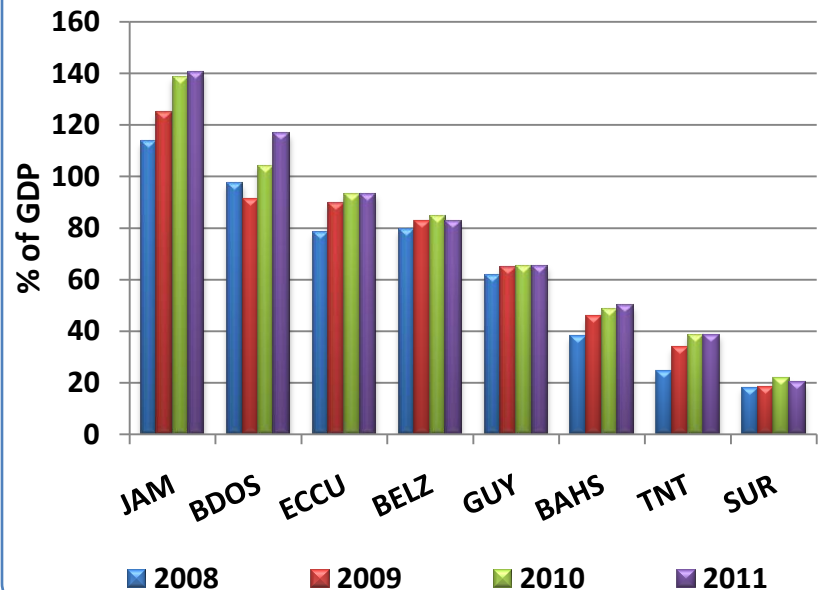
- Tourism-intensive countries experienced significant growth in public debt
- Amongst the commodity-dependant countries, T&T recorded the largest increase in public debt driven by the CLICO bailout.
- The debt to GDP ratios for Suriname and T&T were relatively lower than the rest of the CARICOM region.

Growth Rates in Public Debt for CARICOM (2008-2011)



Source: International Monetary Fund and Central Banks

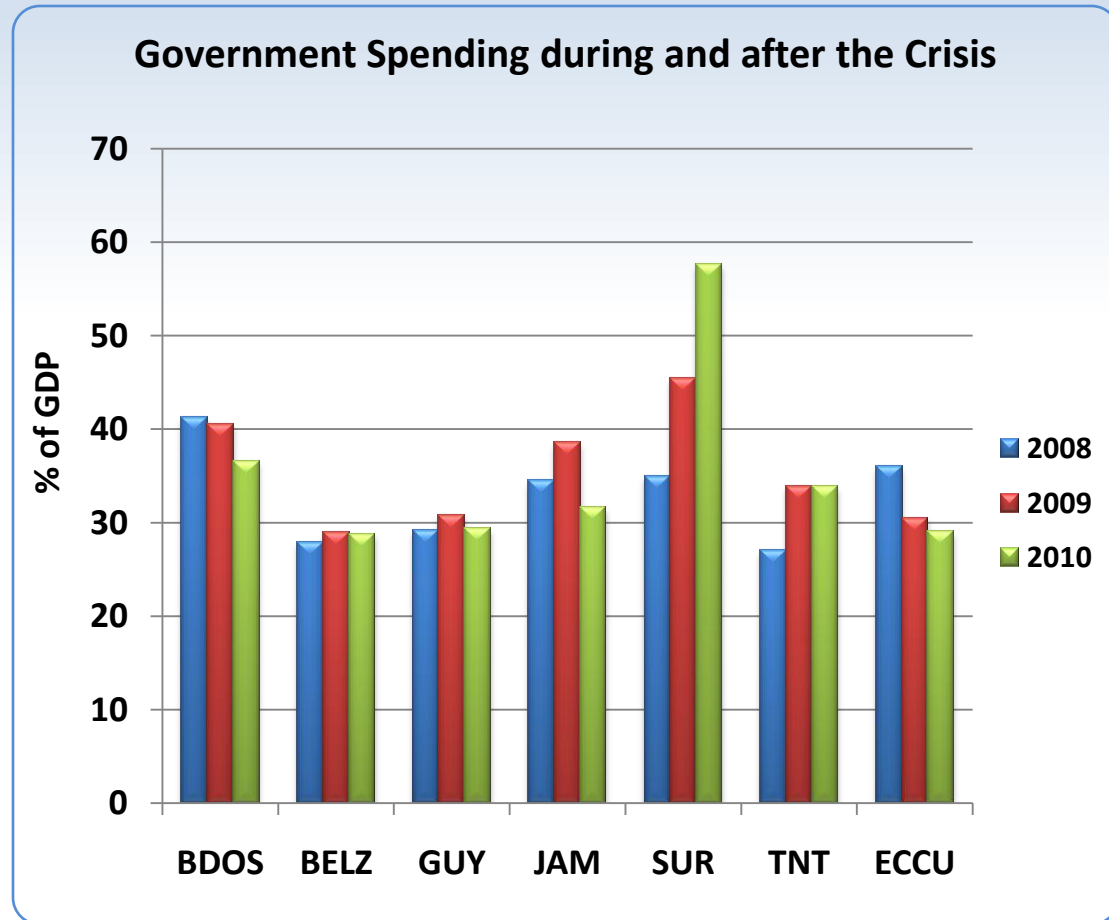
Public Debt in Per cent of GDP (2008-2011)



Source: International Monetary Fund and Central Banks

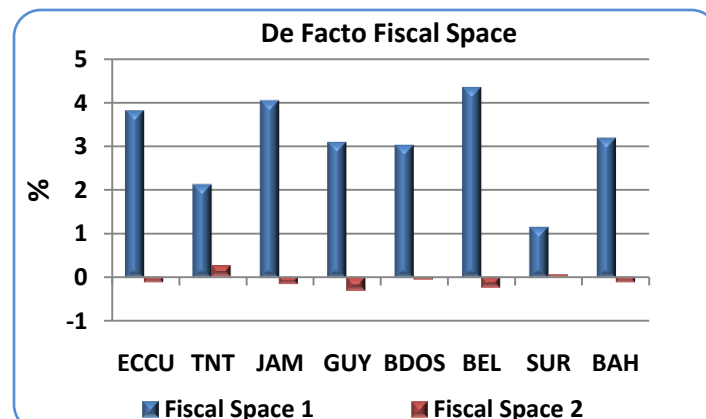
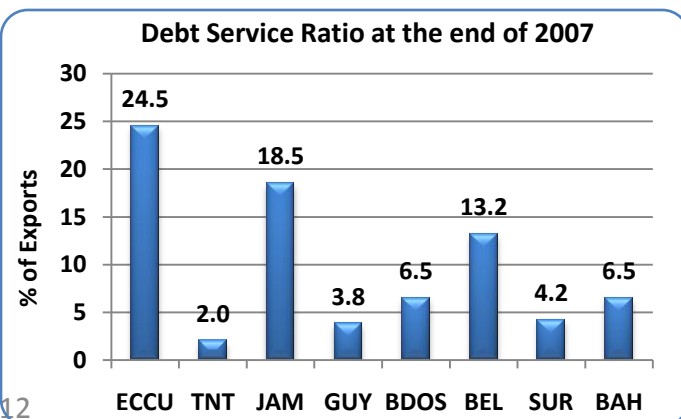
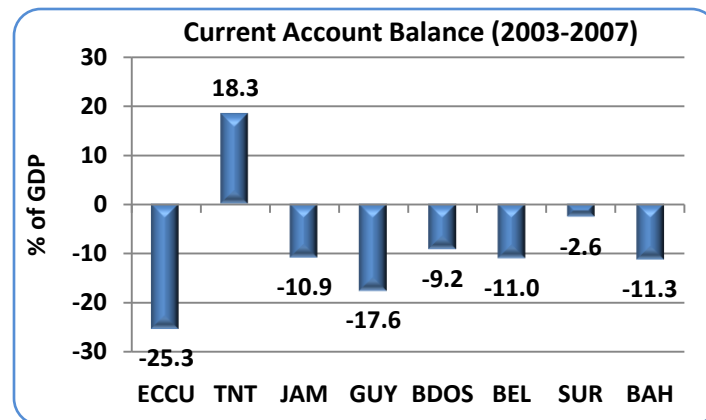
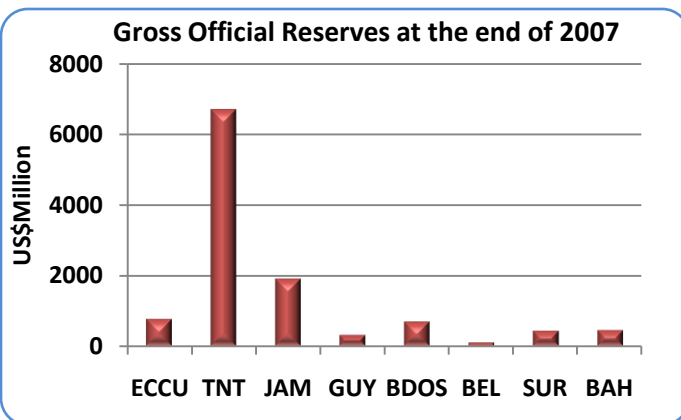
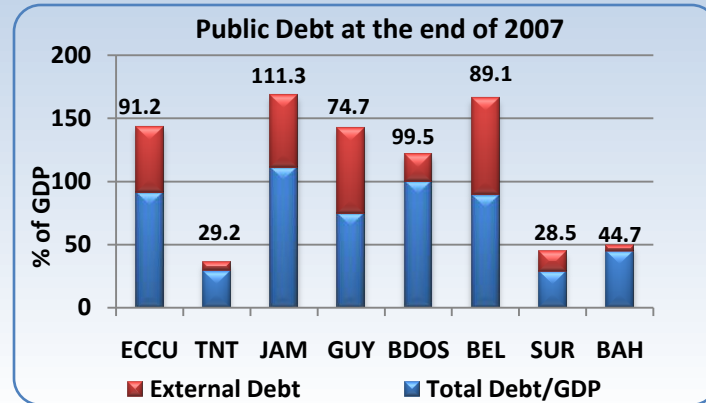
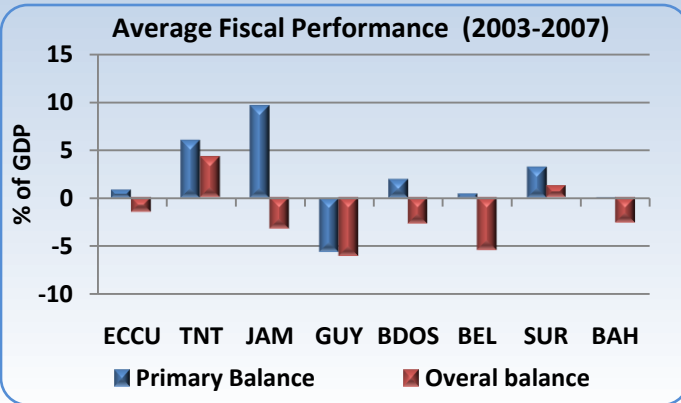
Fiscal Responses by CARICOM Countries

- Governments attempted to provide fiscal stimulus in 2009 to cushion the fall out in economic activity.
- In 2009, Government spending increased in most countries.
- Suriname and Trinidad and Tobago had the largest increase in spending due to greater fiscal space.
- There was fiscal consolidation in 2010 except in Suriname and T&T.



Source: Economic Commission for Latin America & the Caribbean

Fiscal Space in the CARICOM Region: Key Indicators



Fiscal Responses by CARICOM Countries

- Accumulated savings from pre-crisis surpluses and the quick recovery in revenues enabled T&T and Suriname to maintain expenditure.
- Other countries had limited fiscal space and borrowed to make up revenue shortfalls.
- As credit ratings in the region fell, private external financing became difficult.
- Governments relied on borrowing from international institutions such as the IMF to provide a level of fiscal stimulus (Table 1).
- Jamaica and ECCU countries were constrained due to high pre-crisis debt levels and entered into Standby- Arrangements with the IMF.

Table 1
CARICOM NEW LOAN ARRANGEMENTS WITH THE IMF
2009-2010

COUNTRY	IMF LENDING PROGRAMME	LOAN SIZE
Jamaica	Macroeconomic & Debt Restructuring	\$1.27 billion
Grenada	Extended Credit Facility	\$13.3 million
Antigua & Barbuda	Standby-Arrangement (SBA)	\$125 million
Haiti	Extended Credit Facility	\$100 million
Belize	Emergency Assistance	\$6.9 million
Dominica	Exogenous Shocks Facility	\$5.1 million
Saint Vincent & Grenadines	Exogenous Shocks Facility	\$5.7 million
Saint Lucia	Exogenous Shocks Facility	\$10.7 million
Saint Kitts & Nevis	Emergency Assistance	\$3.5 million

Source: Caribbean Center for Money and Finance

Conclusions

- Trinidad and Tobago's fiscal accounts were hardest hit in fiscal year 2008/2009. The overall balance moved from a \$12.1 billion surplus to a \$6.9 billion deficit.
- The main channel of impact came through international trade. The current account balance fell from 30.3 % of GDP in 2008 to 8.5 % of GDP in 2009.
- For commodity exporting countries like T&T, the current account has a direct impact on fiscal performance. The crisis severely impacted Government revenues.
- The improvement in T&T's fiscal accounts was the fastest in the CARICOM region due to the recovery in energy prices.

Conclusions

- The Government of T&T continued to run fiscal deficits in the post-crisis period on account of increased spending financed by fiscal savings with limited borrowing.
- Within the CARICOM region, growth in expenditure during 2009 was the largest in Suriname and T&T on account of greater fiscal space.
- The CLICO bailout in T&T was costly and increased the public debt significantly. Notwithstanding, the debt remained manageable and below international benchmarks.

Thank You!