Address to the Nation
by the Honourable Karen Nunez-Tesheira
Minister of Finance
on
The Implications of the International Financial Crisis for Trinidad and Tobago

Good Evening Fellow Citizens,

This evening, I wish to address you briefly on the ongoing International Financial Crisis and its implications for Trinidad and Tobago.

Since the Budget was presented to the Parliament on September 22nd 2008, concerns have been voiced about the developments on the international front and its potential impact on our economy.

The situation on the international front is still a very fluid and dynamic one and in this circumstance, we can ill afford to be complacent, but at the same time, we must guard against making hasty responses which can prove not only to be very costly but can also preempt more considered and judicious courses of action.

Accordingly, we in the Ministry of Finance are closely monitoring all developments as they occur and assessing their implications.

One of the issues which has been raised is the budget price.

The 2009 budget was predicated on an oil price of US$70 per barrel and a gas price of US$4 per Million Cubic Feet. The price of US$70 per barrel was generally in line with the price set by those countries which had completed their budget cycles prior to the period of accelerated decline in petroleum prices.

Fellow citizens, we are satisfied that the reference oil price utilized in the 2009 Budget was both reasonable and appropriate.

In arriving at the oil and gas prices for the budget, the Ministry of Finance set as its ceiling the eleven-year moving average for oil and gas prices based on International Monetary Fund data taken from its World Economic Outlook publication. We also took into consideration information from the medium-term projection for oil and gas prices of the Organization of Petroleum Exporting Countries (OPEC), and the planning prices being utilized by major energy companies operating in the Trinidad and Tobago jurisdiction.

I wish to emphasize that the reference oil price used for the national budget has traditionally been set at a relatively conservative level. This is evident when we consider that over the last five years realized oil prices were on average 60.74 percent above the budgeted oil prices for the period.

Fellow citizens, the decline in oil prices since the presentation of the 2009 budget has exceeded the forecast of the industry analysts, including that of the Energy and Commodities and Surveillance Unit of the International Monetary Fund, who as recently as this month, had forecasted an oil price of US 107 dollars and 25 cents for the remainder of 2008 and US 105 dollars and 50 cents for 2009.
However, only yesterday the International Monetary Fund revised the oil price baseline to US 101 dollars and 25 cents for 2008 and US 75 dollars and 25 cents for 2009.

These movements in oil prices are linked directly to the developments in the international financial markets, which began last August.

The crisis originated in a relatively small segment of the U.S. mortgage market, as a result of mortgage loans being granted under relatively relaxed criteria and under terms and conditions, which eventually led to escalating foreclosures, as persons became increasingly unable to meet their mortgage obligations.

By this time, these mortgages had been repackaged and sold in the form of asset backed securities to financial institutions all across the world. As the quality of these securities was compromised, due to the precipitous decline in value of the underlying asset i.e. the home mortgages, the value of these asset-backed securities was written down and the balance sheets of the various institutions which had purchased them and which subsequently leveraged them, became significantly weakened, resulting in these institutions becoming insolvent.

The inter-linkages that had developed throughout the financial system which had developed these asset back securities now represented an unprecedented source of systemic risk. Urgent injections of capital were required in order to prevent the financial system from collapsing in the United States and across the major economies of Europe and, to a lesser extent, Asia.

The response to date to this unfolding crisis has involved the provision of extensive Government cash injections into institutions considered systemically significant and also enhanced deposit guarantee schemes. More recently, a coordinated effort of monetary and fiscal stimulation involving the central banks and governments of those countries directly impacted by the financial crisis and facing the prospect of recession is being pursued.

Fellow Citizens, even as this situation is unfolding the government has already examined the implications of these developments for the Trinidad and Tobago financial system.

The domestic financial sector comprises a number of institutions involved in the various segments of delivery of financial services and with differing risk profiles, including the Central Bank as a regulatory agent and as the custodian of the country's international reserve.

Regarding the impact of the financial crisis on the country's external reserves, I am assured that we have not suffered any capital losses on our reserve holdings as a result of the financial turmoil on Wall Street. This is because the Central Bank is required to adhere to conservative reserve management principles, and as reserves represent the country's savings the primary consideration is therefore liquidity and safety.

The risk management practices of the Central Bank of Trinidad and Tobago are impeccable and conform to international best practices. In addition, the composition of the investment portfolio for international reserves has provided significant protection from any loss.

The exposure of the commercial banking system to the international financial crisis is limited. Most bank investments are in the regional and domestic market. Indeed foreign assets represent only 18 percent of bank's total assets.

The impact of the credit crunch is also muted by the limited reliance of the Commercial Banking system on foreign borrowing. This is reflected in the fact that foreign liabilities amounted to a mere 8 percent of total commercial bank liabilities as at end of May 2008.

The normal flow of dividends from subsidiaries to parent bank does not create any undue risks for the domestic banking system. In the unlikely event that the stability of a domestic subsidiary is threatened by excessive demands from the parent bank for uploading of payment, the Central Bank has the authority to intervene to protect the domestic banking system.

With respect to insurance companies, these companies operate within stringent investment guidelines, which requires that asset portfolios are domestic and as a consequence, these assets are not overly susceptible to contagion risks from international sources. Likewise the Trinidad and Tobago Stock Exchange is dominated by domestic listings and is therefore similarly insulated from direct shocks.

But fellow citizens, if there is any lesson to be learnt from the Wall Street crisis it is that we cannot be complacent and must exert every effort to ensure that we have robust and effective regulatory systems.

To this end Trinidad and Tobago's immediate regulatory agenda includes the repeal and replacement to the Financial Institutions Act, 1993 and a completely revamped Securities Act. Both of these pieces of legislation will be brought before Parliament within the next month and will be followed in due course by other regulatory strengthening initiatives including a new regulatory framework for Insurance Companies and Credit Unions.

There is no doubt ladies and gentlemen, that compared to the 1980s we are in a far, far better position, now to withstand a global down - turn.

The current crisis comes at a time when the economy of Trinidad and Tobago is performing remarkably well and growing from strength to strength. This is a far different situation that what obtained in other periods of financial challenge. Highlights of the macroeconomic indicators validate this; that Trinidad and Tobago is well positioned to withstand the effects of the current global financial instability.

Trinidad and Tobago has enjoyed more than ten successive years of overall balance of payments surpluses. Today, the external current account surplus stands at approximately 26 per cent of GDP. The country's stock of foreign reserves amount to US$8.5 billion which provides the country with more than eleven full months of import cover of goods and services. This is a marked improvement from 3.5 months of import cover in 1995 when foreign reserves were US$0.7 billion. This level of the country's foreign reserves will help to bolster the banking sector, should liquidity become strained, and help to service international debt.

External debt has decreased as a proportion of Gross Domestic Product, reflecting the country's improving capacity to meet external debt obligations. This figure has declined from 41 percent in 1994 to approximately 6.0 percent at the end of 2007. Trinidad and Tobago also enjoys investment grade ratings from international credit rating agencies, which, while not assuring immunity in a deteriorating international economic climate still speaks to the country's credit worthiness. Accordingly, Trinidad and Tobago will continue to be an attractive destination for foreign investment.

Trinidad and Tobago's present fiscal position is far different to what obtained in the 1990s where deficits were the order of the day. In 1996, the fiscal balance was -0.2 per cent of GDP compared to 7.6 percent at the end of 2007.

Another significant difference in the economic circumstances between the 1990s and the current period, is the existence of the Heritage and Stabilisation Fund (HSF). By statute the Fund is denominated in the currency of the United States of America. Its initial balance was US$1,402,178,155.01. The Fund has grown to US$ 2, 888,421, 556 dollars. This balance represents a significant component of government savings. Indeed the deposit into the HSF for fiscal 2008 was the most ever deposited in the history of the fund, a record $6.58 billion TTD or over $1billion USD.

Fellow citizens, I want to reassure the national community that while the legislation does indeed provide for withdrawals from the HSF in the event of oil prices falling below the budgeted target, the intention at this time is NOT to resort to the Heritage and Stabilisation Fund.

Trinidad and Tobago's strong external position, its high level of international reserves, low external debt, impressive savings profile, robust fiscal position and its investment grade ratings all point to the government's prudent and responsible stewardship of this nation's economy over the past six years. The result is a resilient economy that is now better poised than at any other time to confront any shocks to the economy.

The slowing of growth in the countries of our major trading partners including North America and the CARICOM Region does of course have implications for the continued vibrancy of our local Manufacturing Sector. In particular a slowing of growth in the North American and European economies may negatively impact receipts from tourism and from remittances in many of the countries of the region.

However, the situation at present remains unchanged.

With regard to the establishment of the Trinidad and Tobago International Financial Centre, a major pillar in the government's diversification thrust, the Government is moving ahead to take advantage of the growing dynamism and strength of our domestic Financial Sector, by providing the requisite infrastructure and deliberate policy direction.

In so doing we anticipate that as we move beyond the current crisis these initiatives will position Trinidad and Tobago to maximize the opportunities that are certain to be part of the new financial landscape which will emerge in the aftermath of this crisis as well as to exploit the current potential for linking our strong international position in the energy and petrochemical sectors, as the basis for a commodities hub.

In going forward, there is nothing complacent about Government's approach to the international crisis and to the impending conditions that are expected to feature in the global economy over the next two years or so.

The Ministry of Finance is currently undertaking the research and analysis that will form the basis of informed judgments regarding the policy responses that will best serve the interest of the people of Trinidad and Tobago.

While the consensus on oil price trends remains uncertain, there is general agreement that high volatility will continue to be a feature of oil prices which will persist into the medium term. For oil exporting countries such as Trinidad and Tobago, an immediate challenge is to minimize the impact of this current volatility on Government's planned and continuing investments in education, health, social protection and National Security, at this point in time investments in infrastructure development, all of which are critical to achieving sustainable economic growth.

Fellow citizens, the resilience and strength of the Trinidad and Tobago economy, of which we are justifiably proud, has come about as a result of prudent, responsible policy-making that has characterized this government. We are confident that we will realize our collective goal of achieving developed nation status by or before the year 2020.

Thank you and may God continue to bless our nation.

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