STATEMENT BY THE
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TO

THE HOUSE OF REPRESENTATIVES

ON

THE IMF ARTICLE IV CONSULTATION
AND
THE STANDARD AND POOR'S RATINGS REVIEW

FRIDAY JANUARY 28 2011

Mr. Speaker, I wish to share with this Honourable House the conclusions on reviews of the Trinidad and Tobago economy which were recently drawn by the International Monetary Fund (IMF) and Standard and Poor's Research.

Mr. Speaker, just **two (2)** months ago – during the period **October 27 – November 8 2010** an International Monetary Fund (IMF) Mission simultaneously conducted both the annual Article IV Consultation with Trinidad and Tobago as well as a Financial Sector Assessment. Subsequently, on **January 26 2011** the IMF issued a Public Information Notice on the conclusions of the Executive Board relating to its consideration on **January 21 2011** of the Article IV Consultation with Trinidad and Tobago.

Mr. Speaker, I wish to take this opportunity to quote the Public Information Notice the information of this Honourable House and I quote:

*On **January 21, 2011**, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago. Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic* *and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.*

BACKGROUND

After 15 years of positive growth, Trinidad and Tobago was hit hard in 2009 by the global financial crisis, the fall in energy prices, and the collapse of a large financial conglomerate. The country entered this period of crisis with large fiscal surpluses and low debt, which provided important buffers to help deal with both the external and domestic shocks. The fiscal balance has turned negative, despite a real decline in expenditure in 2009. In addition, the debt-to-Gross Domestic Product (GDP) ratio has increased significantly, in part reflecting the impact of lower energy prices on nominal GDP. Inflation has surged despite weak economic activity, reflecting weather-related increases in food prices, but has begun to fall back, and unemployment has increased sharply, to 6.7 percent in the first quarter of 2010. The external current account balance sharply deteriorated in 2009 as energy prices fell, but is projected to recover in 2010. The net international reserves position remains strong at over US$9 billion (14 months of imports).

After substantive monetary easing in 2009, the resurgence of inflation in 2010 stalled further policy rate reduction until more recently, when unease about the prolonged nature of the slowdown overtook concerns about inflation. The Central Bank of Trinidad and Tobago (CBTT) has lowered the repo rate over time since March 2009, most recently to 3.75 percent during August-November 2010. Despite the easing, credit market activity remains weak and private sector credit continues to fall. Recent reports indicate bank profitability is down and non-performing loans up, but financial soundness indicators remain robust, and banks remain well capitalized with risk-adjusted capital at around 23 percent in September 2010.

The collapse of the CL Financial Group in January 2009 accentuated the economic slowdown. A government intervention of three financial subsidiaries helped contain contagion, but has been costly.

Growth is expected to pick up in 2011, with the near-term risks tilted to the downside reflecting fragile confidence, the weak regional outlook, and global uncertainty. Even with the expected firming of energy prices, economic prospects over the medium term are projected to be weaker compared to the strong growth period preceding the economic crisis.

Executive Board Assessment

The Executive Directors noted that Trinidad and Tobago has been hit hard by the global financial crisis, and commended the authorities for the continued prudent macroeconomic policies that helped mitigate the impact of external shocks. Directors observed that, notwithstanding the improving global conditions and the rebound in commodity prices, economic activity remains weak and the near-term outlook is affected by uncertainty. They recognized that the immediate challenge is to restore confidence by providing a supportive policy mix and addressing remaining weaknesses in the financial system.

Directors supported the 2010/11 budget, which is appropriately geared toward reinvigorating the economy, and encouraged the authorities to accelerate its implementation. They agreed that once the economic recovery is well established, fiscal policy should aim towards reducing public debt and rebuilding buffers in the medium term. This objective could be achieved by reversing the large increases in current expenditures that occurred during the boom years, while ensuring adequate social spending and investment to promote economic diversification. They also called for strengthening tax administration.

Directors agreed that the current accommodative stance of monetary policy is broadly appropriate. They suggested that, in case of further delays in economic recovery and weaker inflationary pressures, the authorities consider additional interest rate reductions to signal their commitment to a supportive policy. Directors welcomed the central *bank's recent efforts to alleviate the pressures on the foreign exchange market and encouraged the authorities to improve liquidity management. Over the medium term, greater exchange rate flexibility could be considered to support the expansion of non-energy exports and to rebalance consumption.*

Directors commended the authorities for moving forward with the restructuring of the failed insurance company CLICO while containing the ensuing fiscal costs. They supported the decision to provide a liquidity window for credit unions dealing with their claims on the company and open a compassionate window for particularly vulnerable individuals.

Directors welcomed the resilience of the banking system and insurance sectors in the face of the global slowdown and the collapse of a large financial conglomerate. They highlighted the importance of remaining vigilant to possible spillovers of the financial distress into the non-bank financial sector and encouraged the authorities to implement promptly the recommendations of the first ever Financial Stability Module. They noted that major steps are needed to strengthen the regulation and supervision of the financial sector, including implementing consolidated supervision, broadening the perimeter of regulation, addressing the remaining problems in the insurance sector, and improving legislation dealing with failed financial institutions.

Directors highlighted that the medium- and long-term growth prospects are challenging as the country's energy resources are depleted. They observed that the authorities need to strike a balance between saving energy revenues for future generations with investing today to lay the foundations for sustained non-energy growth. They welcomed the government's initiatives aimed at improving the business climate, facilitating private sector entrepreneurship, and promoting diversification.

Directors encouraged the authorities to continue efforts to improve the statistical infrastructure. They underscored the importance of reliable key macroeconomic data to provide a basis for informed policy making. They welcomed the authorities' planned move to the Special Data Dissemination Standard.

End of quotation of the IMF Public Information Notice.

Mr. Speaker, Standard and Poor's Research has just completed a rating review of the country and on **January 14 2011** issued a Release affirming Trinidad and Tobago's long-term foreign currency rating at 'A' which reflects the prime signal to investors.

Mr. Speaker, I wish also to share with this Honourable House the conclusions drawn by Standard and Poor's

Research on its review of the economy of Trinidad and Tobago as outlined in the January 14 2011 Press Release and I quote:

Overview

- *solid external and fiscal positions continue to support Trinidad and Tobago's policy flexibility, and we expect the general government deficit will be 2.6% of GDP in fiscal 2011 (year-end Sept. 30).*

- *the government's plan to bail out depositors at CLFG's life insurance company, Colonial Life Insurance Co. (CLICO), will contribute to an increase in the net general government debt burden to 28% of GDP, though the debt burden remains below the median for 'A' rated sovereigns;*

- *we are affirming our 'A/A-1' foreign currency and 'A+/A-1' local currency sovereign credit ratings on Trinidad and Tobago; and*

- *the outlook remains stable.*

Rating Action

On Jan. 14, 2011, Standard & Poor's Ratings Services affirmed its 'A' foreign currency and 'A+' local currency long-term sovereign credit *ratings on the Republic of Trinidad and Tobago. At the same time, Standard & Poor's affirmed its 'A-1' short-term ratings. The long-term rating outlook remains stable, and the 'AA' transfer and convertibility assessment is unchanged.*

Rationale

The ratings on the Republic of Trinidad and Tobago reflect a solid external and fiscal profile resulting from several years of high energy prices, as well as significant off-budget and contingent liabilities. The government's external and fiscal flexibility give it room to deal with the global economic crisis and the bankruptcy of one of the country's largest financial conglomerates, CL Financial Group (CLFG).

Based on these factors, as well as improved economic growth prospects (expectations for GDP to grow 2.5% in 2011), we expect that the general government deficit will edge down to 2.6% of GDP in fiscal 2011 (year-end Sept. 30) from 2.8% in fiscal 2010. The 2010 figure includes transfers to the Heritage and Stabilization Fund (HSF) of about 2% of GDP, and it is down sharply from 5.8% in fiscal 2009, when the economy contracted by 3.5%.

Including the government's latest plan to bail out investors at CLFG's life insurance company, Colonial Life Insurance Co. (CLICO), Standard & Poor's expects net general government debt will rise to

28% of GDP in fiscal 2011 from 15% in fiscal 2010, though it will remain below the 36% median for 'A' rated sovereigns.

The country's external indicators also support the ratings. The current account surplus increased to about 13% of GDP in 2010 from 9% in 2009, and we expect it to remain at 13% in 2011. Although this is a marked reduction from the 31% of GDP surplus in 2008, it's still a solid performance that enhances the government's external liquidity position. Gross external financial requirements were about 50% of current account receipts plus usable reserves in 2010, and we expect them to remain at this level in 2011, which compares well with the expected 94% median for 'A' rated peers.

Finally, the contingent liability from continued losses in public-sector enterprises--such as the Water and Sewage Authority, which is expected to report an operating loss of about 0.8% of GDP in 2010--remains a constraint on the ratings.

Outlook

The stable outlook reflects Standard & Poor's expectation that the government will be able to muddle through its intervention in the CLFG bankruptcy without further eroding its balance sheet. Improvements in transparency, governance, and regulation in the financial industry and among public-sector enterprises, in particular, could lead Standard & Poor's to raise its ratings on Trinidad and Tobago over the medium term. On the other hand, fiscal *deterioration, as well as further slippages in the pace of restructuring government-owned entities, could lead us to lower the ratings.*

End of quotation of the Press Release of Standard and Poor's.

Mr. Speaker, this Government is therefore certain that the economic recovery as envisaged by the IMF and the Rating Agency will gain even more momentum over the medium-term. As such the expansion would become sufficiently strong to gradually bring down the unemployment rate. As confidence returns to the economy consequent on those outstanding reviews, the joint efforts of Government, business and labour are crucial to that outcome. Consumer spending and business investment must be strengthened and this Government is providing adequately the required support, including favourable credit conditions. As the recovery continues, business should become more confident about expanding – by both upgrading facilities and hiring workers.

Mr. Speaker, I am encouraged by signs that the economic recovery is gaining traction and the Government firmly believes that the expected sustained gains in consumer spending and business investment would become entrenched in the context of the high level of resource slack which currently exist in the national economy.

Thank You Mr. Speaker.