



CENTRAL BANK OF
TRINIDAD & TOBAGO

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POWER POINT PRESENTATION

at the

Heritage and Stabilization Fund Forum

by
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May 2, 2007



Rationale for the Forum

- To create understanding and to ensure transparency of the process
- To foster compliance with new laws, procedures and policy
- To create social ownership
- To avoid misinformation and create realistic expectations



Objectives of the HSF

- **To insulate fiscal policy from swings in international oil and gas prices**
- **To accumulate savings for future generations from the country's exhaustible assets of oil and gas**



The Stabilization Rationale

Economic Contribution of the Energy Sector <i>/per cent/</i>		
	1986	2006
Oil and Gas GDP/Total GDP	22.7	45.1
Oil and Gas Revenue/Total Revenue	32.3	61.7
Oil and Gas Exports/Total Exports	86.1	91.0
Oil and Gas Employment /Total Employment	4.2	3.5



The Savings Rationale

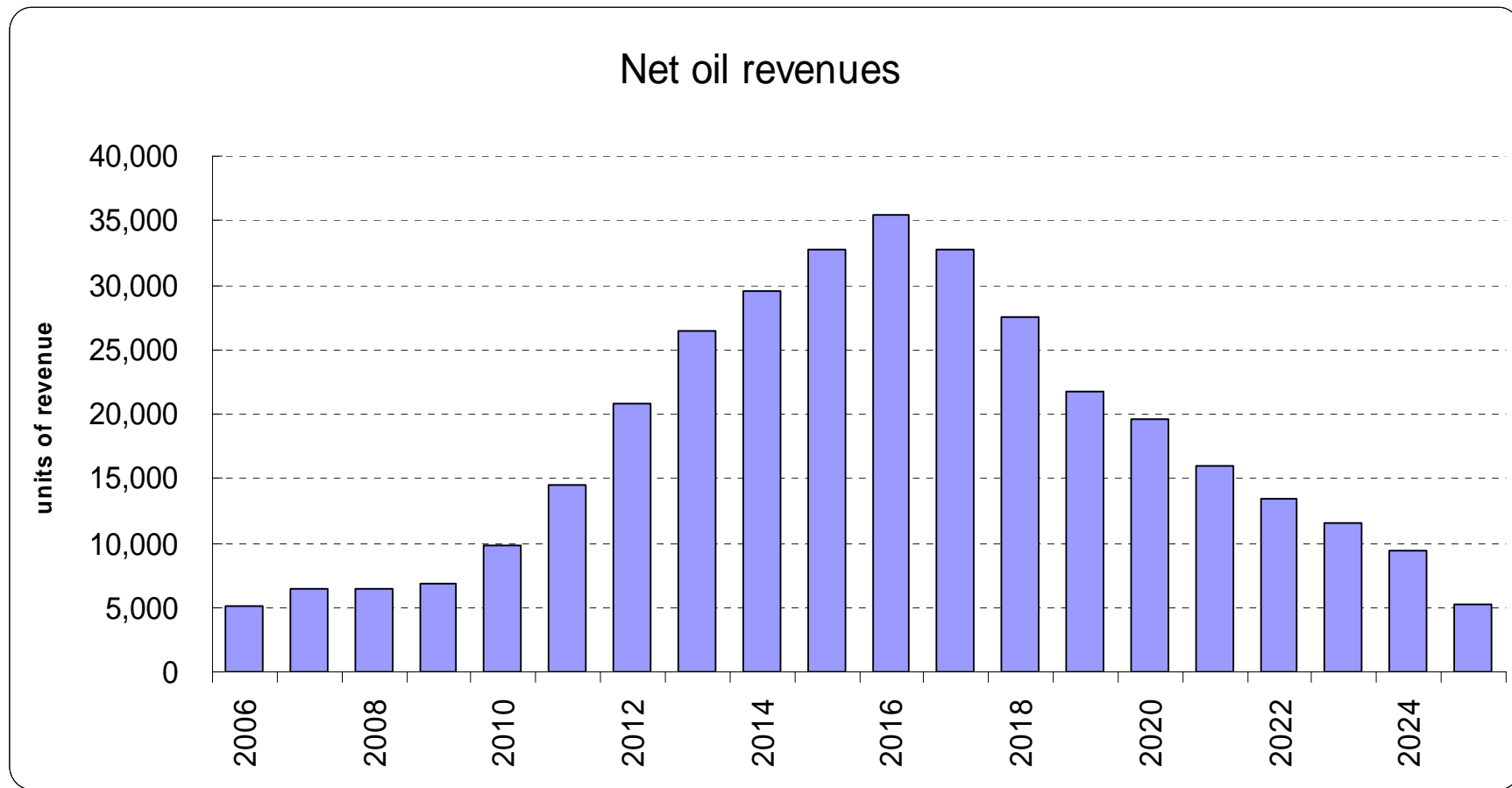
- the exploitation of non-renewable resources partly represents a depletion of wealth
- the HSF converts depleting resources into a permanent source of income



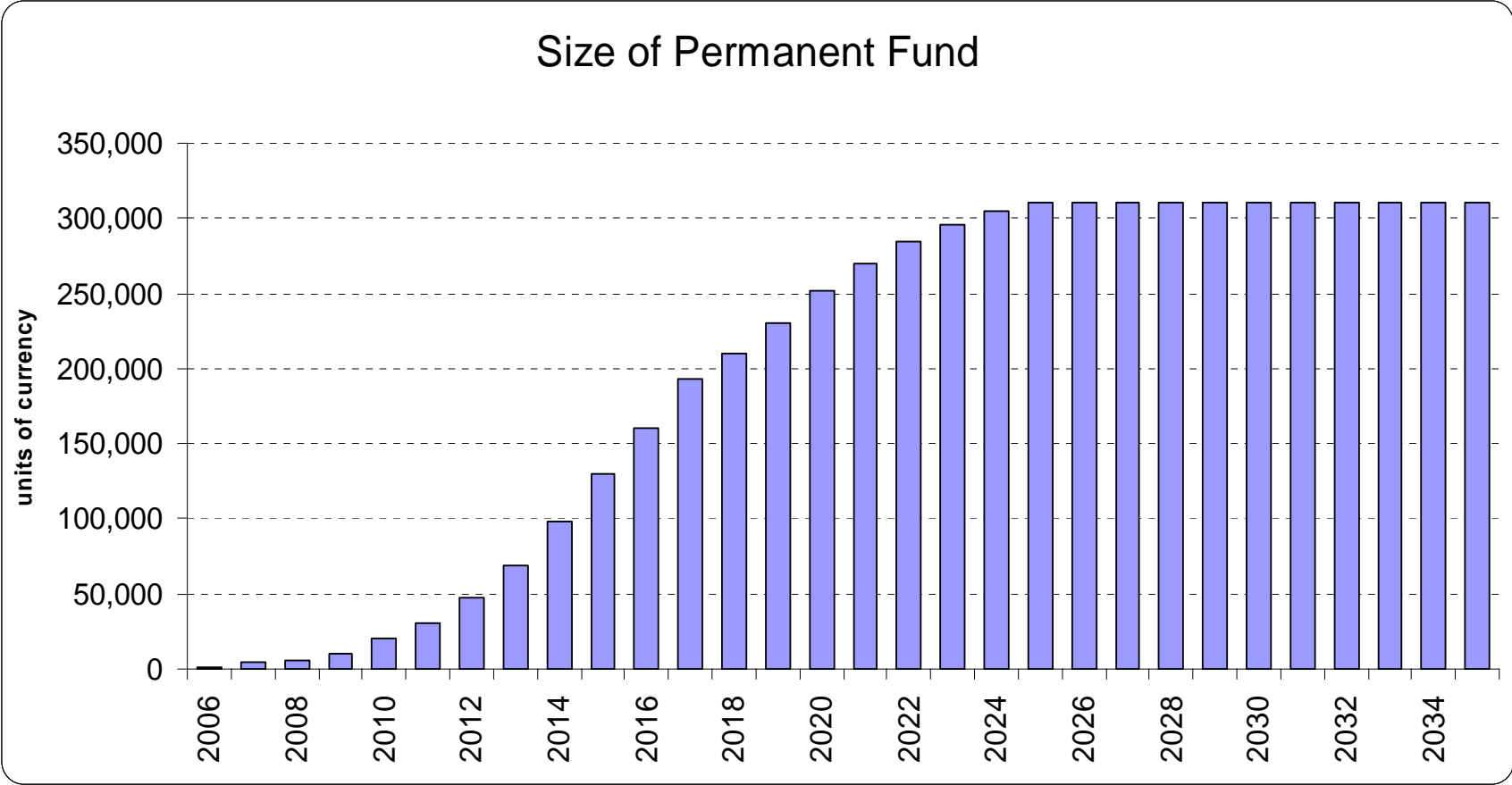
The Savings Rationale

- Investing the fund wisely will allow is to:
 - Preserve the capital (somewhat like having the oil and gas remains in the ground)
 - Live off the interest

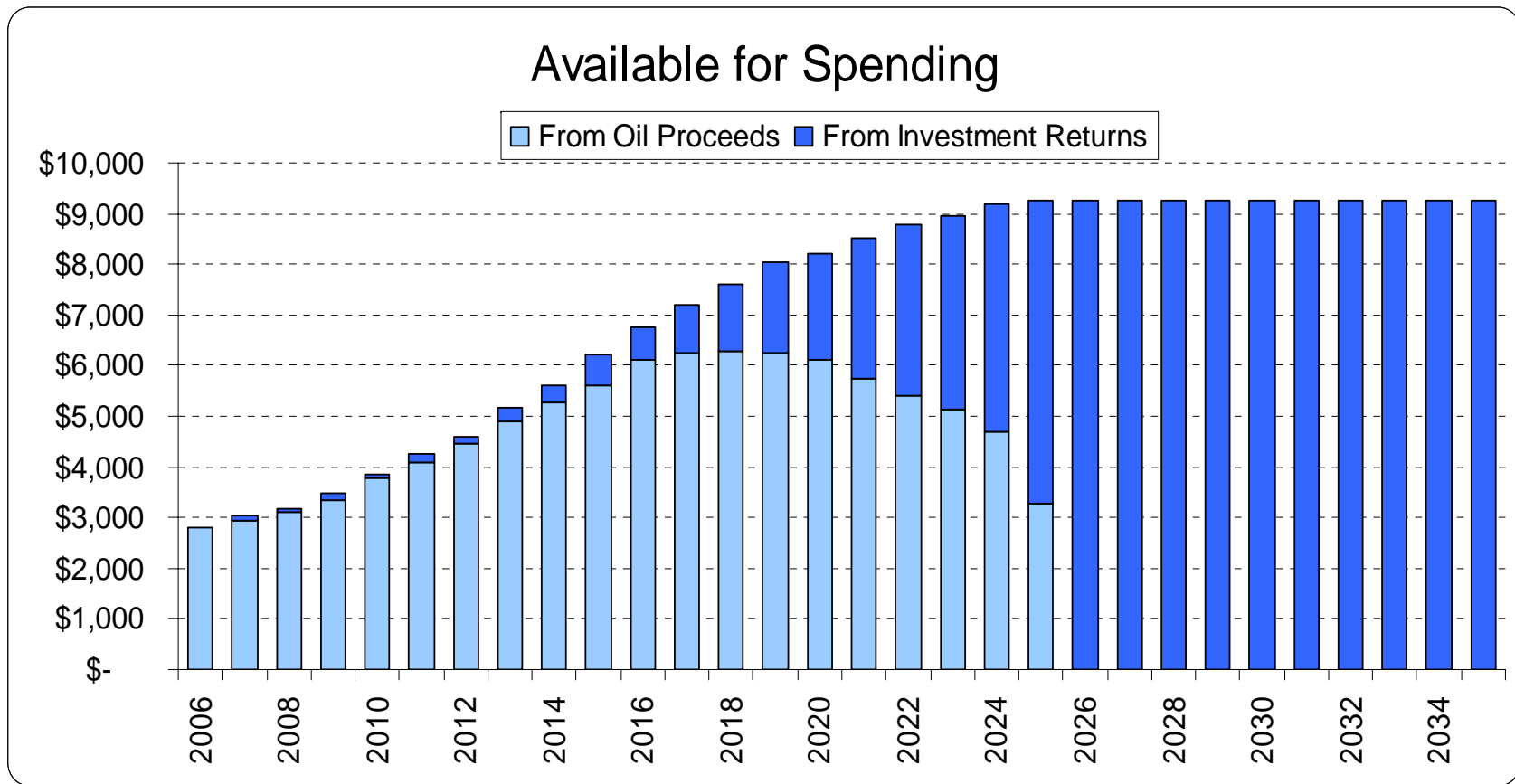
Oil and Gas Revenue Projections



Projection of Permanent Fund Size



Projections of Oil and Gas Revenue and Investment Returns





Operating Procedures of the HSF

■ Savings Rules:

- 60% of (actual revenue *less* budgeted revenue)
- Prices used for oil and gas estimates based on defined international benchmarks



Operating Procedures of the HSF

■ **Withdrawal Rules:**

- **Permitted if annual tax revenue from oil and gas are at least 10% below budget projection for the year as a whole**
- **Withdrawal could be up to 60% of shortfall but not exceeding 25% of the Fund**



The Four Main Actors

- **Parliament**
- **The Minister of Finance**
- **The Board of the HSF**
- **The Central Bank**



Roles and Responsibilities

■ Parliament

- Passed the enabling legislation
- Oversight of the Fund exercised through review of annual reports and audited financial statements



Roles and Responsibilities

■ Minister of Finance

- Advises the President on the appointment of the Board in accordance with the legislation
- Makes deposits to HSF according to formula prescribed in the legislation
- Makes withdrawals from the HSF
- Annual reporting to the Parliament



Roles and Responsibilities

■ The Board

- Decides Investment objectives
- Strategic Asset Allocation
- Reviews Performance of the HSF
- Reports quarterly and annually to the Minister of Finance

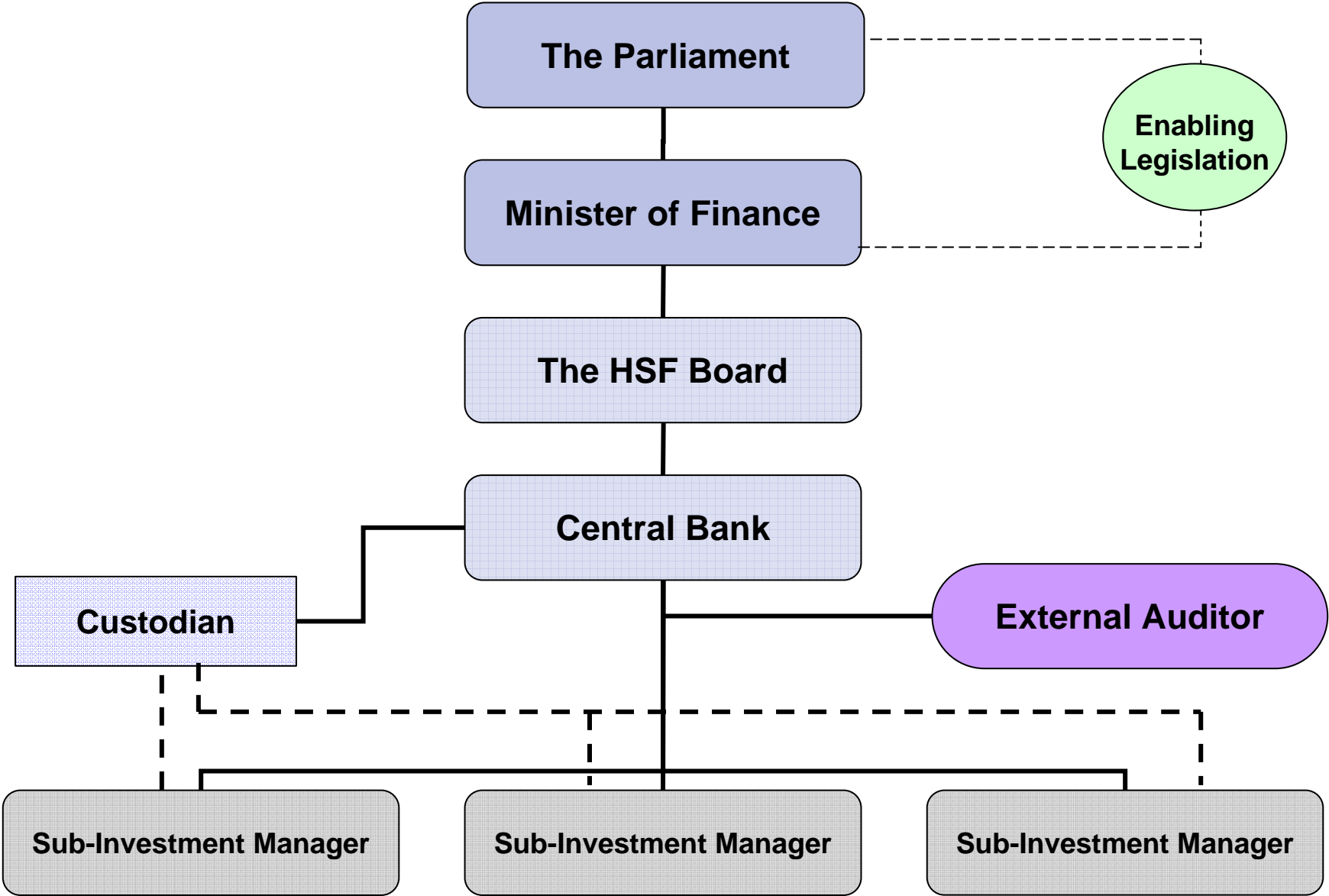


Roles and Responsibilities

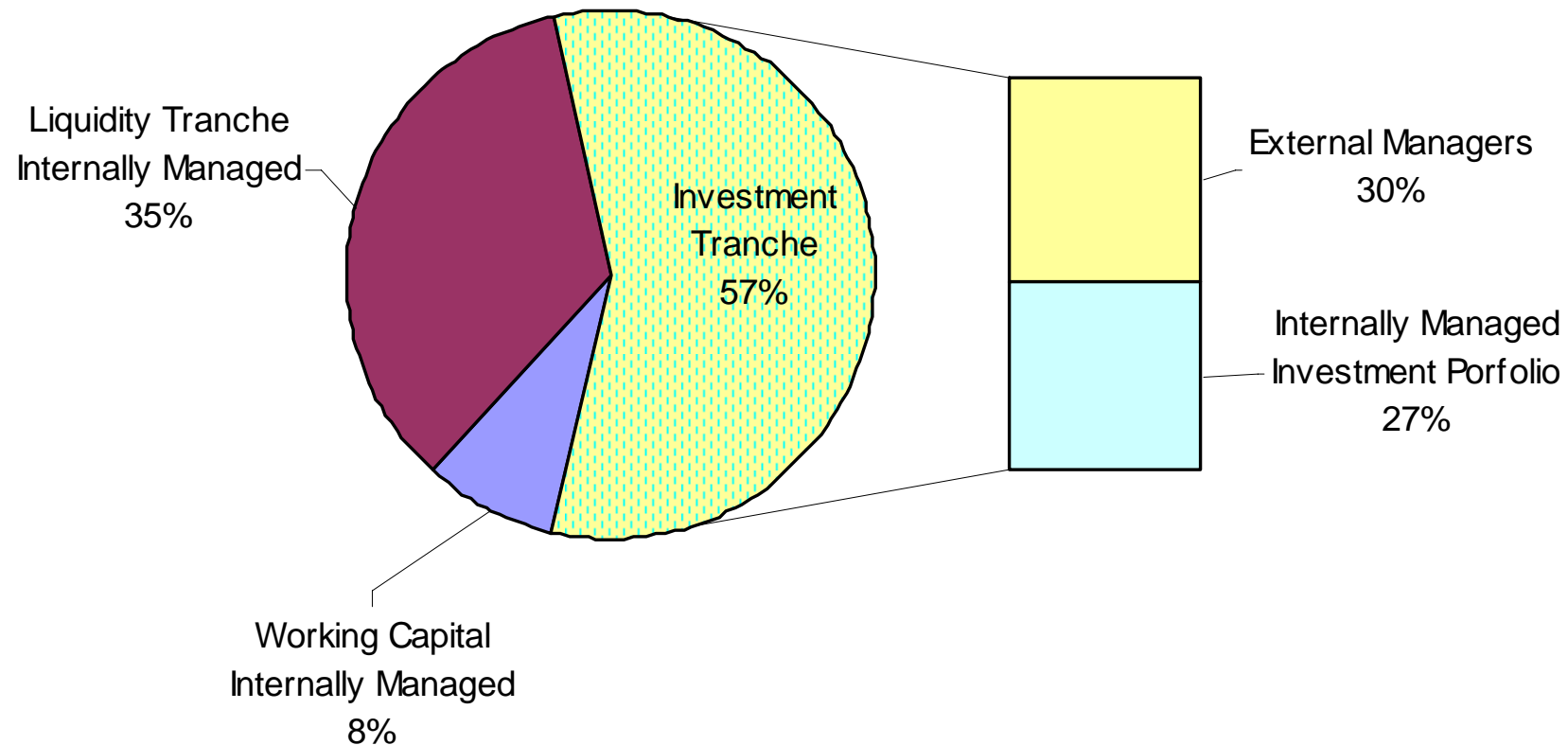
■ Central Bank

- Responsible for day-to-day management of the Fund (to meet investment objectives of the Board)
- Reports quarterly and annually to the Board

Governance Structure



Investment Management of Official reserves





Strategic Asset Allocation for Official Reserves

Tranche	Allocation to Bonds%/Money Market%	Currency Composition	Lowest Credit Quality
Working Capital	100% cash equivalent	Mainly USD less than 5% in non USD	Money Market P1/A1
Liquidity	70/30	87% -US\$ 3% - ¥ 3% - £ 7% - €	Fixed Income AA-/Aa3 Money market A1/P1
Investment	80/20	87% -US\$ 3% - ¥ 3% - £ 7% - €	Fixed Income AA-/Aa3 Money market A1/P1



The next steps

- **Appointment of the HSF Board which has the responsibility for defining the objectives of the Fund**
- **Preparation of the delegation agreement between the Board and the Central Bank**
- **With the technical assistance from the World Bank, work will begin soon on the Strategic Asset Allocation for the HSF**
- **Selection of External Managers and Custodian**
- **A public information and disclosure strategy will need to be developed**



The End