



Central Bank of Trinidad and Tobago

# Understanding the Heritage and Stabilization Fund

South Trinidad Chamber of  
Industry and Commerce

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Ewart S. Williams  
Governor

# 1. Sovereign Investment Funds

Country	Fund Name	Fund Value (US\$ Billions)	Main Source of Funds
Kuwait	Kuwait Investment Authority	250	Oil
Singapore	Temasek Holdings	330	External Surplus
Wyoming (US)	Mineral Trust Fund	3.2	Minerals
Alaska (US)	Permanent Reserve Fund	39	Oil
Alberta (Canada)	Alberta Heritage Fund	16	Oil
UAE	Abu Dhabi Investment Authority	350	Oil
Oman	State General Stabilization Fund	2.0	Oil and Gas
Venezuela	National Development Fund	0.75	Oil and Gas
Brunei	Brunei Investment Authority	30	Oil
Norway	Government Pension Fund - Global	310	Oil
Malaysia	Khazanah Nasional BHD	18.3	External Surplus
Botswana	Pula Fund	4.7	Diamonds

Source: Rietveld and Pringle, 2007

## 2. Sovereign Investment Funds

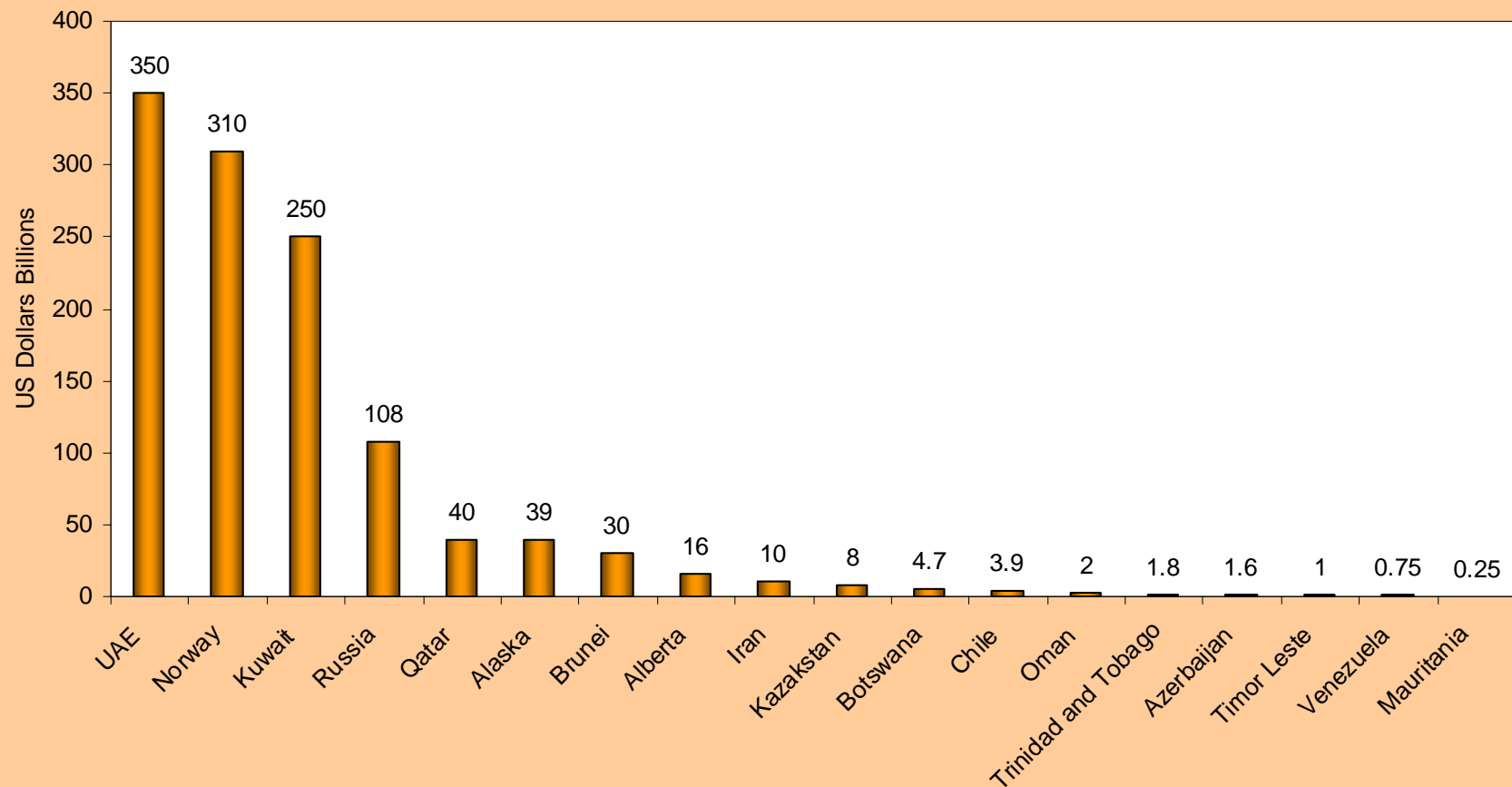
Country	Fund Name	Fund Value (US\$ Billions)	Main Source of Funds
Iran	Oil Reserve Fund	10	Oil
Azerbaijan	State Oil Fund	1.6	Oil
Kazakhstan	National Fund	8.0	Oil, Gas and Metals
China	Central Hujin Investment	200	External Surplus
Russia	Stabilization Fund	108	Oil
Korea	Korean Investment Corporation	20	External Surplus
Trinidad and Tobago	Heritage and Stabilization Fund	1.8	Oil and Gas
East Timor	Timor-Leste Petroleum Fund	1.0	Oil and Gas
Chile	Pension/Stabilization Fund	3.9	Budget Surplus (Copper)
Mauritania	National Fund for Hydrocarbon Revenues	0.25	Oil and Gas
Qatar	Qatar Investment Authority	40	Oil and Gas

Source: Rietveld and Pringle, 2007

# 3. Sovereign Wealth Funds

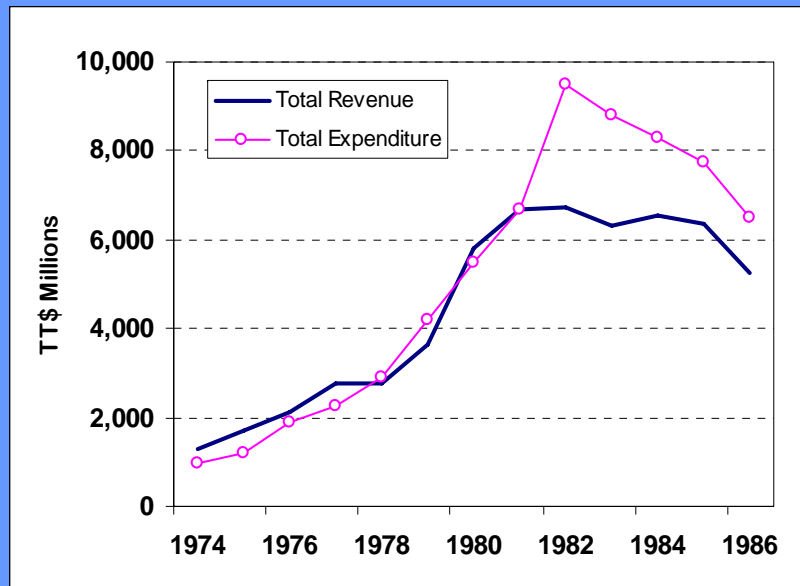
Total over US\$ 2 trillion worldwide

(not part of official currency reserves)

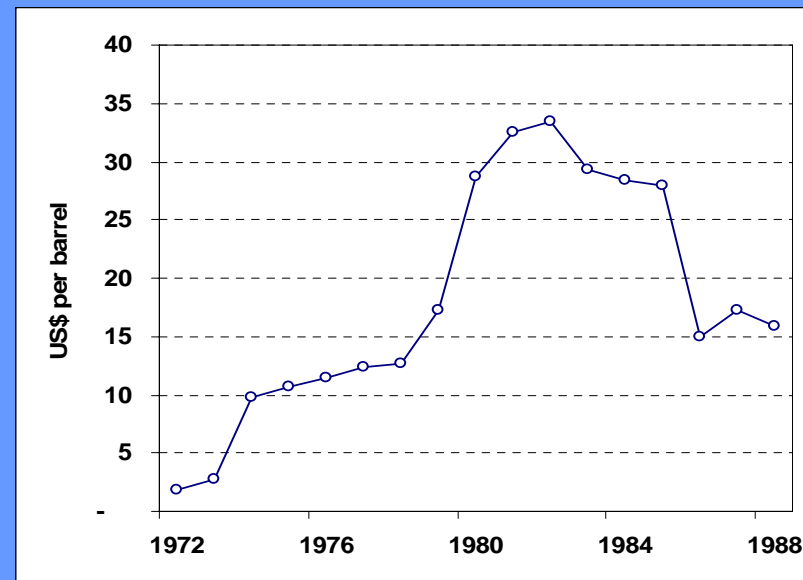


# 4. The First Oil Shock

## Government Revenue and Expenditure

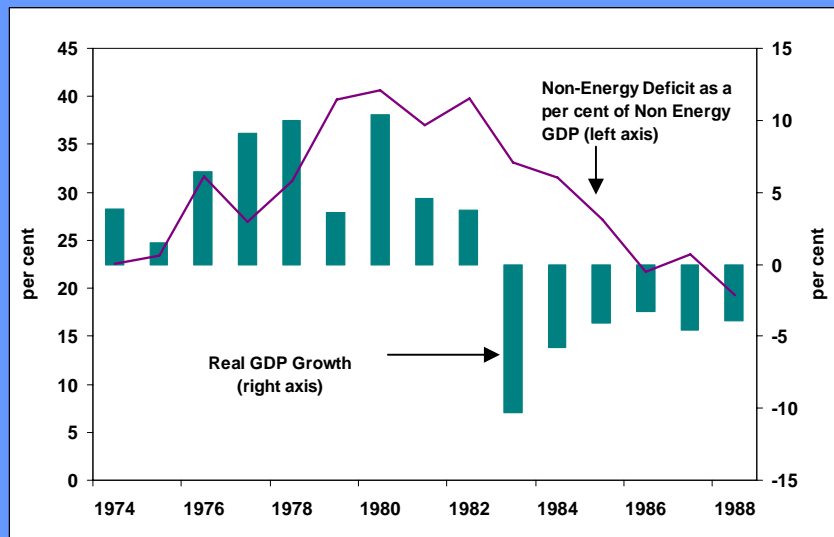


## Benchmark Oil Price (WTI)

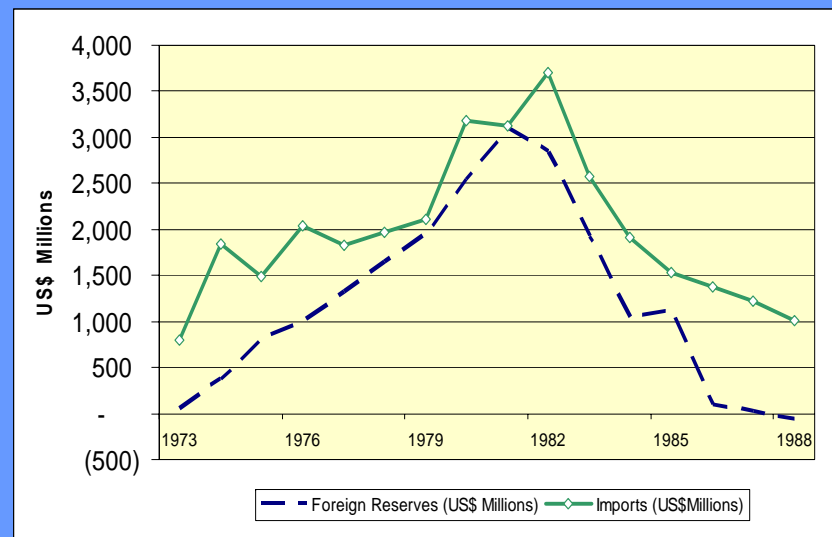


# 4. The First Oil Shock (cont'd)

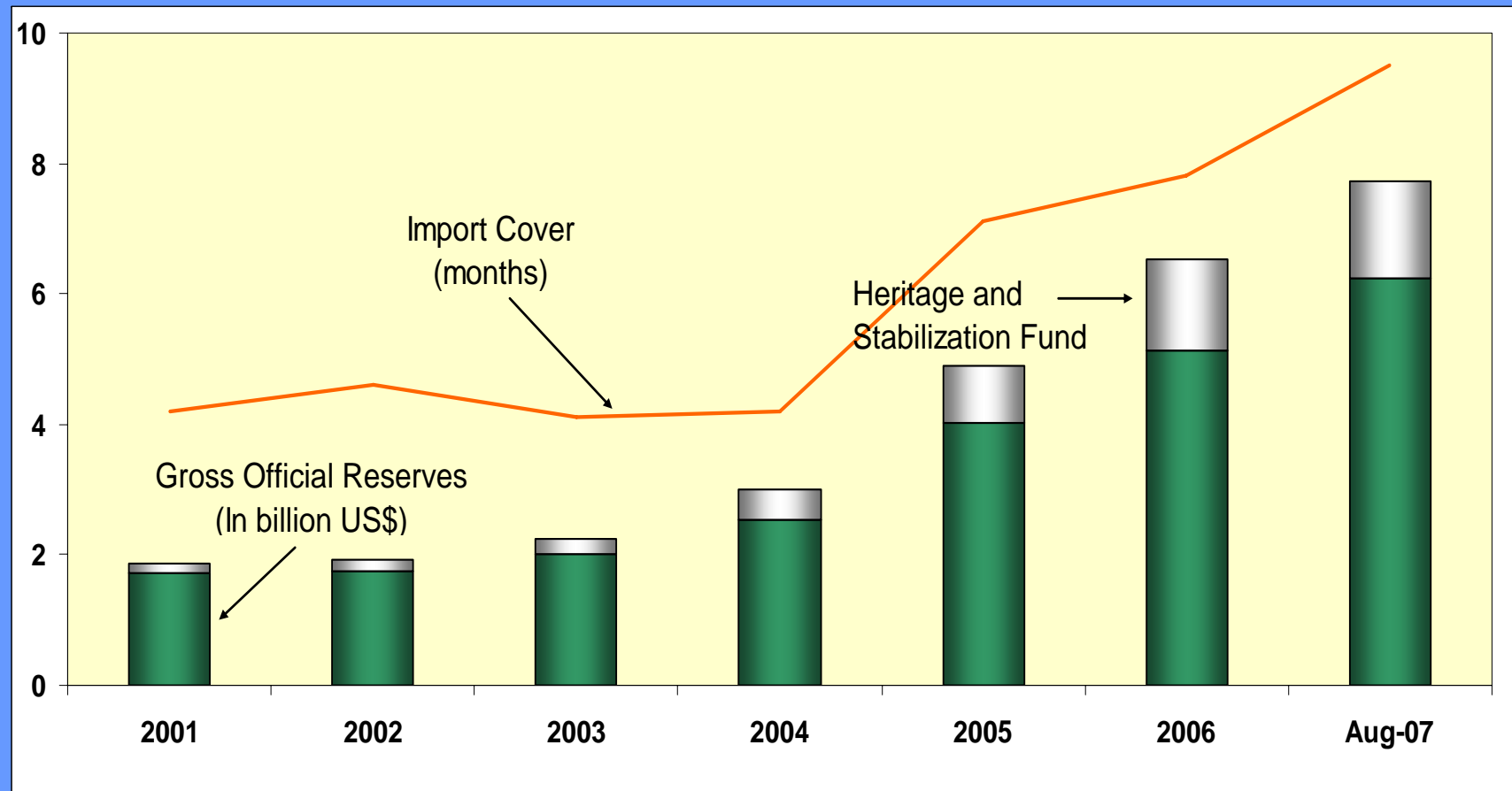
## Non-Energy Deficit and Real GDP Growth



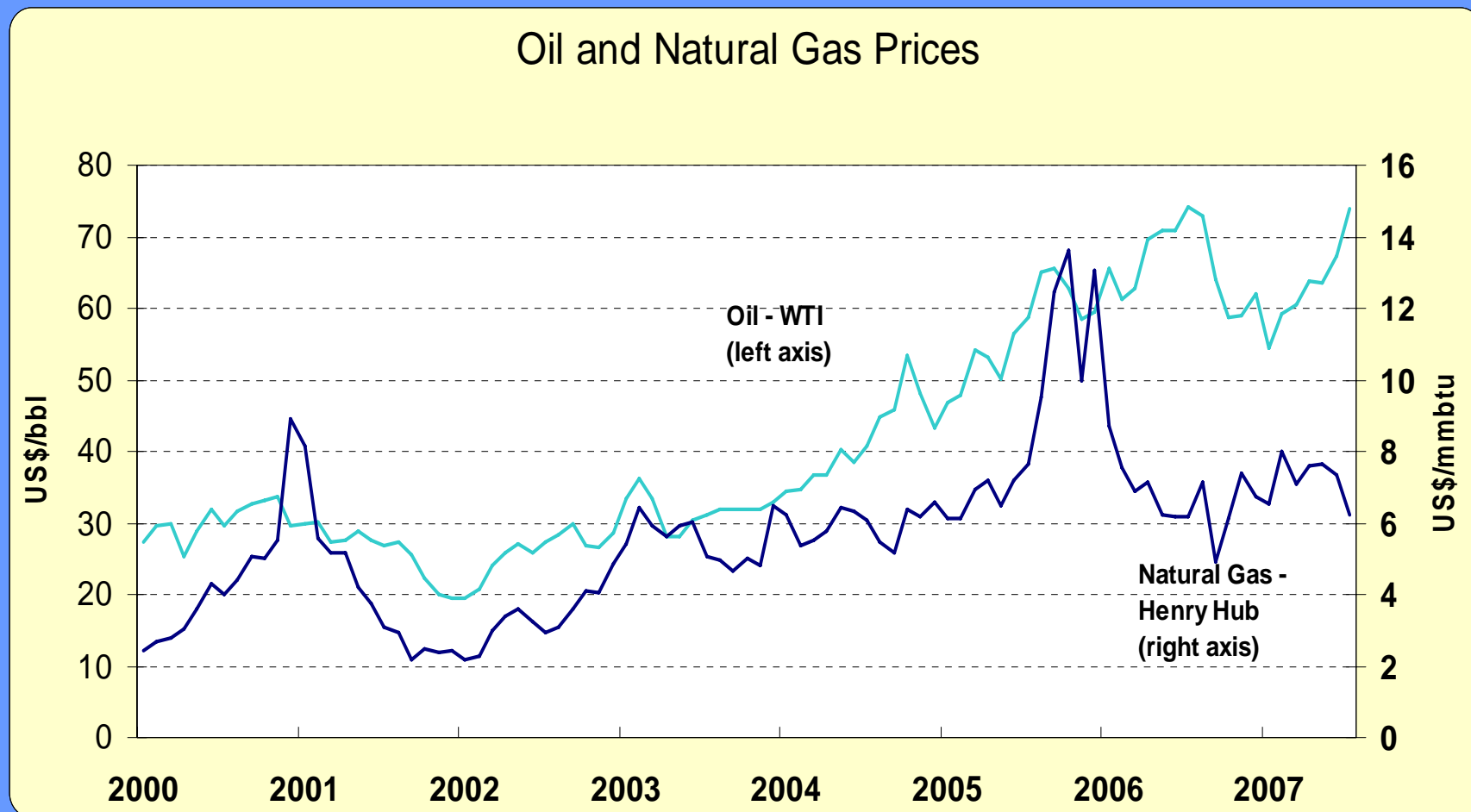
## Foreign Reserves and Imports



# 5. Official Reserves and the HSF



# 6. Energy Prices





# 7. Elements of HSF Act, 2007

- Comprises **stabilization** and **savings** components.
- Designed to:
  - Insulate fiscal policy from fluctuations in revenue from the energy sector
  - Provide savings for future generations

## 8. HSF Deposit and Withdrawal Rules

- **Deposit Rule:**

- 60% of difference between actual and budgeted revenue.
- For budgeted revenues, prices used for oil and gas estimates are based on defined international sources.

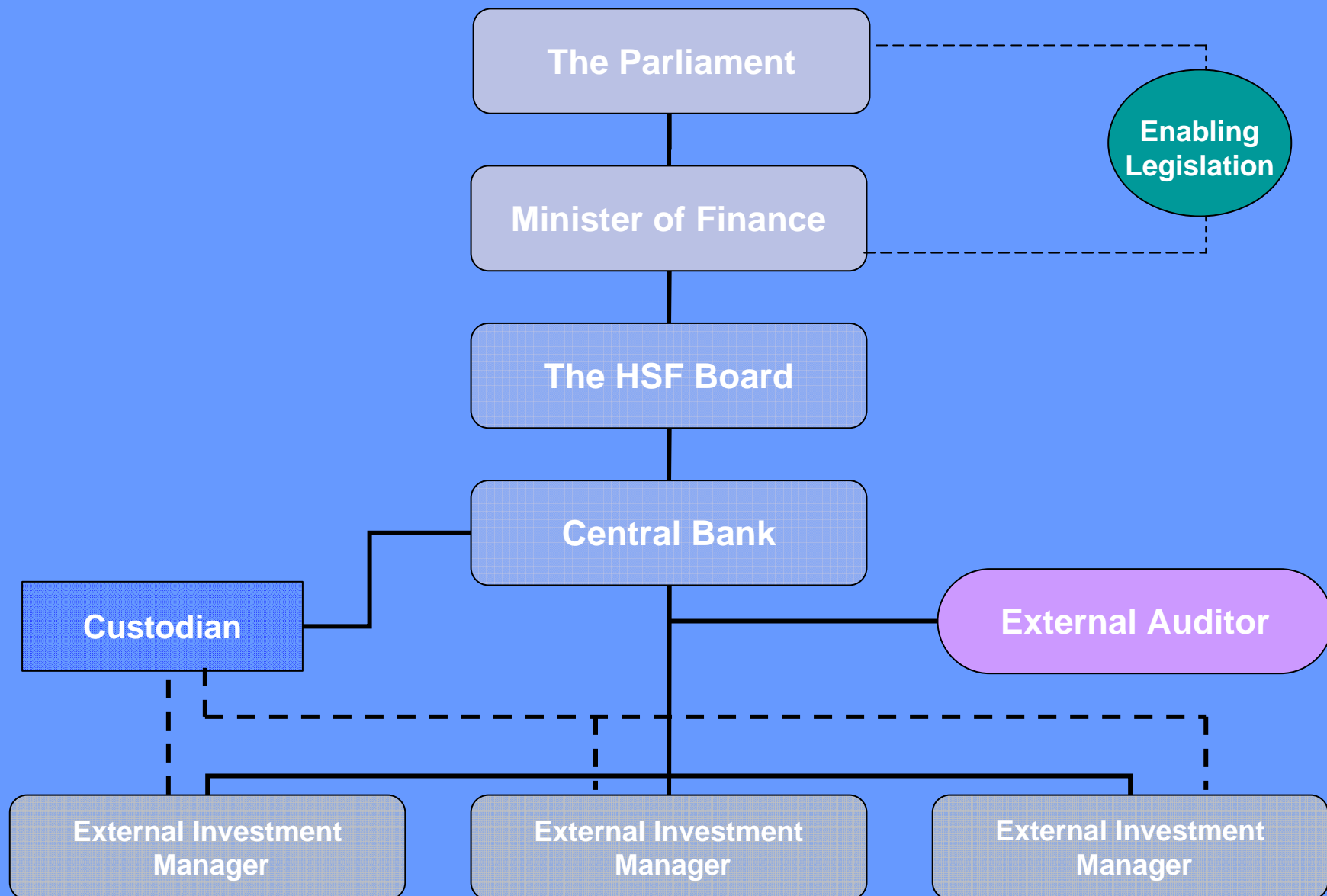
- **Withdrawal Rule:**

- Withdrawal permitted if annual tax revenue from oil and gas is at least 10% below budget projection.
- Withdrawal could be up to 60% of shortfall but not exceeding 25% of the fund.

## 9. Other HSF Rules

- HSF deposits to be invested in foreign assets with a medium to long term focus.
- Fund cannot be used to directly finance capital expenditure or as collateral for government borrowing.

# 10. The Governance Structure



# 11. Roles and Responsibilities

- **Minister of Finance**
  - ❑ Advises the President on the appointment of the Board in accordance with the legislation
  - ❑ Approves deposits to HSF according to formula prescribed in the legislation
  - ❑ Approves withdrawals from the HSF

# 12. Roles and Responsibilities

- The HSF Board
  - ❑ Decides Investment Objectives
  - ❑ Strategic Asset Allocation
  - ❑ Reviews Performance of the HSF

# 13. Roles and Responsibilities

- **Central Bank**
  - Responsible for day-to-day management of the Fund (to meet investment objectives of the Board)

# 14. Roles and Responsibilities

- Parliament

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



# 15. Transparency and Accountability

- Quarterly Reporting by the Central Bank to the Board
- Quarterly and Annual Reporting by the Board to the Minister of Finance
- Annual Reporting by the Minister of Finance to the Parliament
- Annual auditing by the Auditor General

# 16. The next steps

- The HSF Board which has the responsibility for defining the objectives of the Fund has been appointed.
- 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