



CENTRAL BANK OF
TRINIDAD & TOBAGO

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FEATURE ADDRESS

on

“Macro-Economic Management in a Hydrocarbon Economy”

at the

Trinidad and Tobago Petroleum Conference, 2008

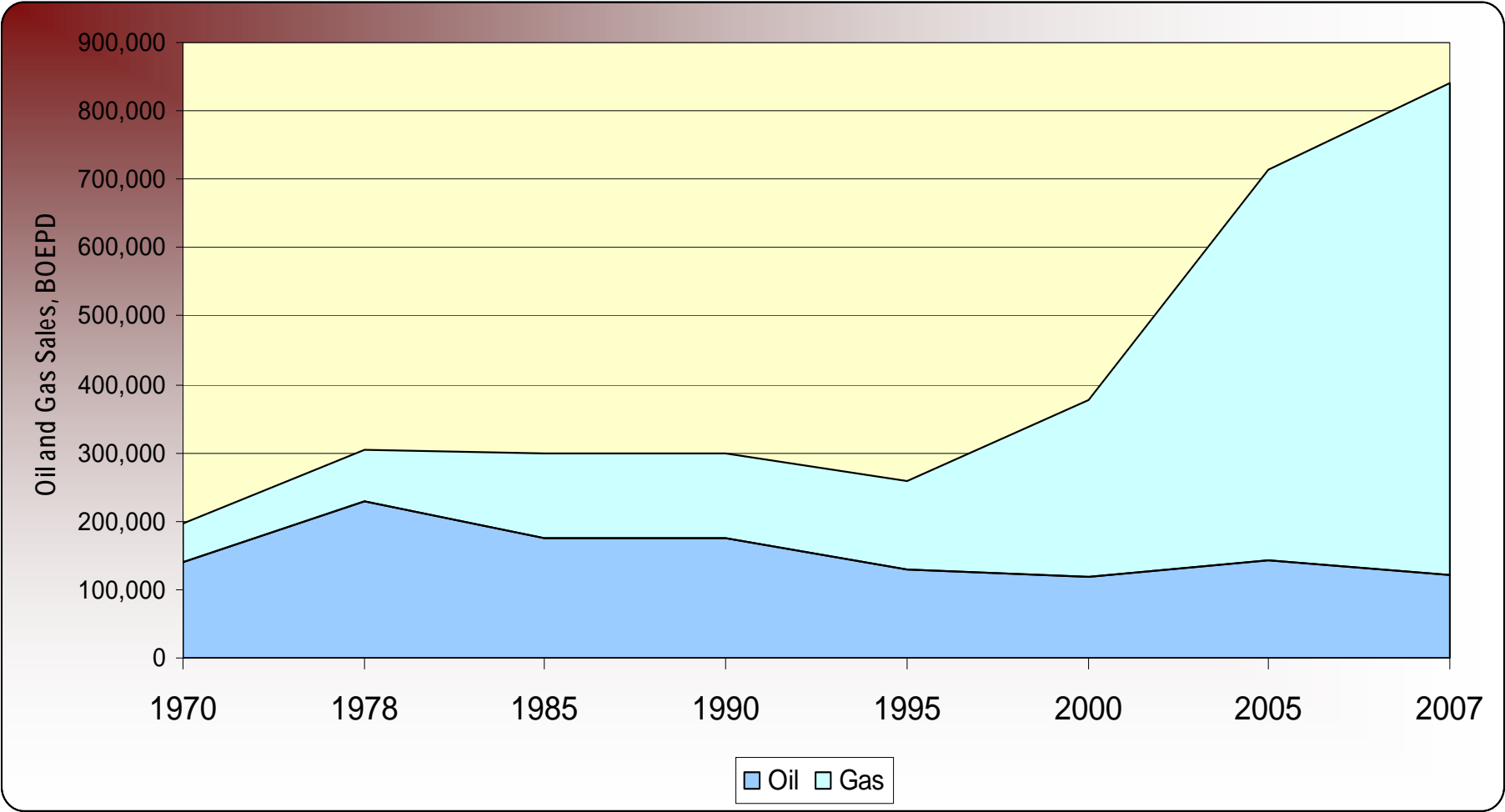
by

Ewart S. Williams
Governor, Central Bank of Trinidad and Tobago
February 25, 2008

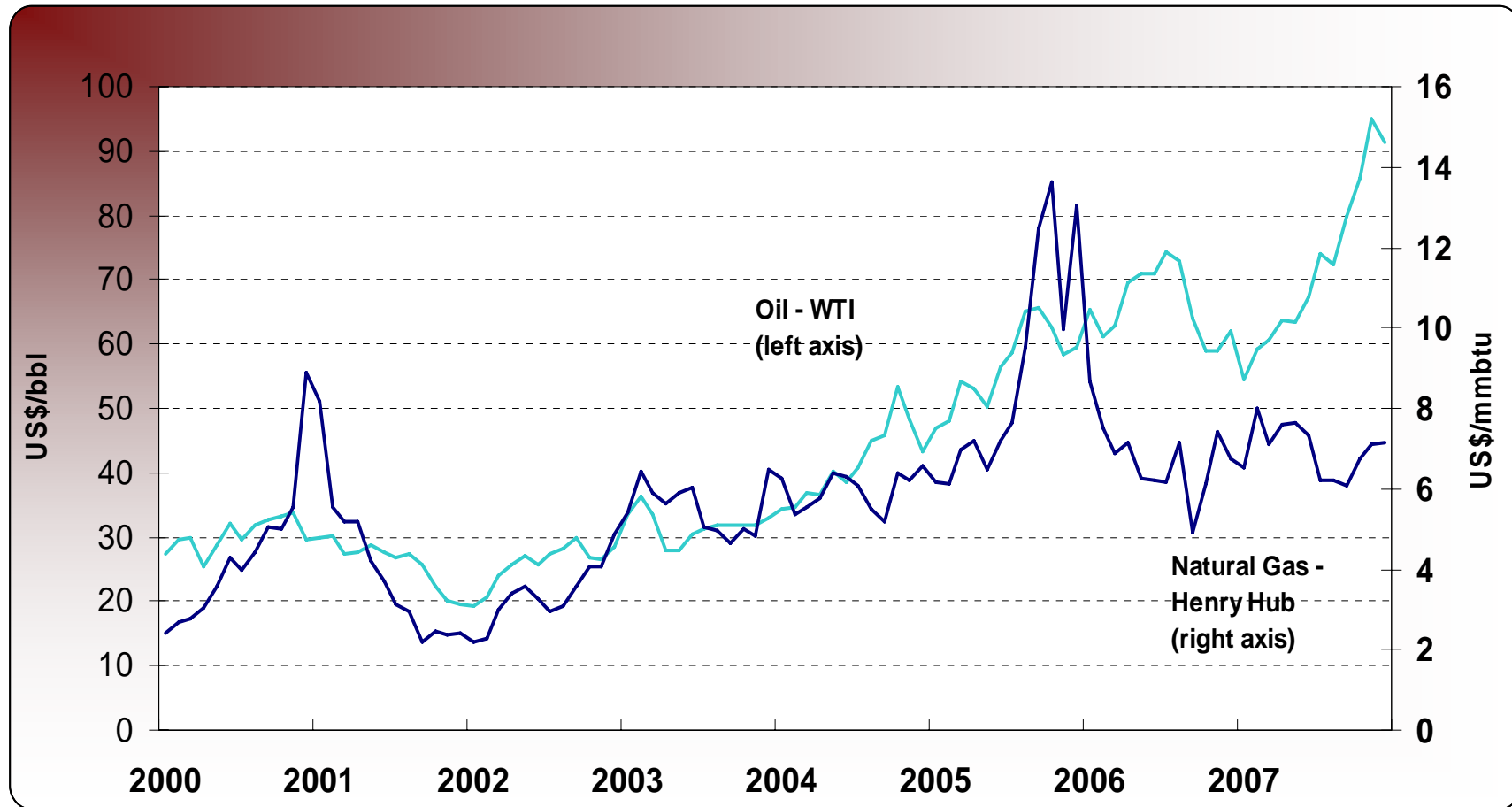
1. A Case of Energy Dependence /Per cent/

	2002	2003	2004	2005	2006	2007 ^p
Energy GDP/Total GDP	26.2	36.2	37.4	41.9	45.1	43.0
Energy Revenue/Total Revenue	27.9	42.7	42.9	53.3	60.3	56.0
Energy Exports/Total Exports	73.3	81.5	80.3	88.9	91.0	89.4
Energy Employment/ Total Employment	3.4	3.2	3.6	3.4	3.5	4.0

2. Oil and Gas Production



3. Crude Oil and Natural Gas Prices



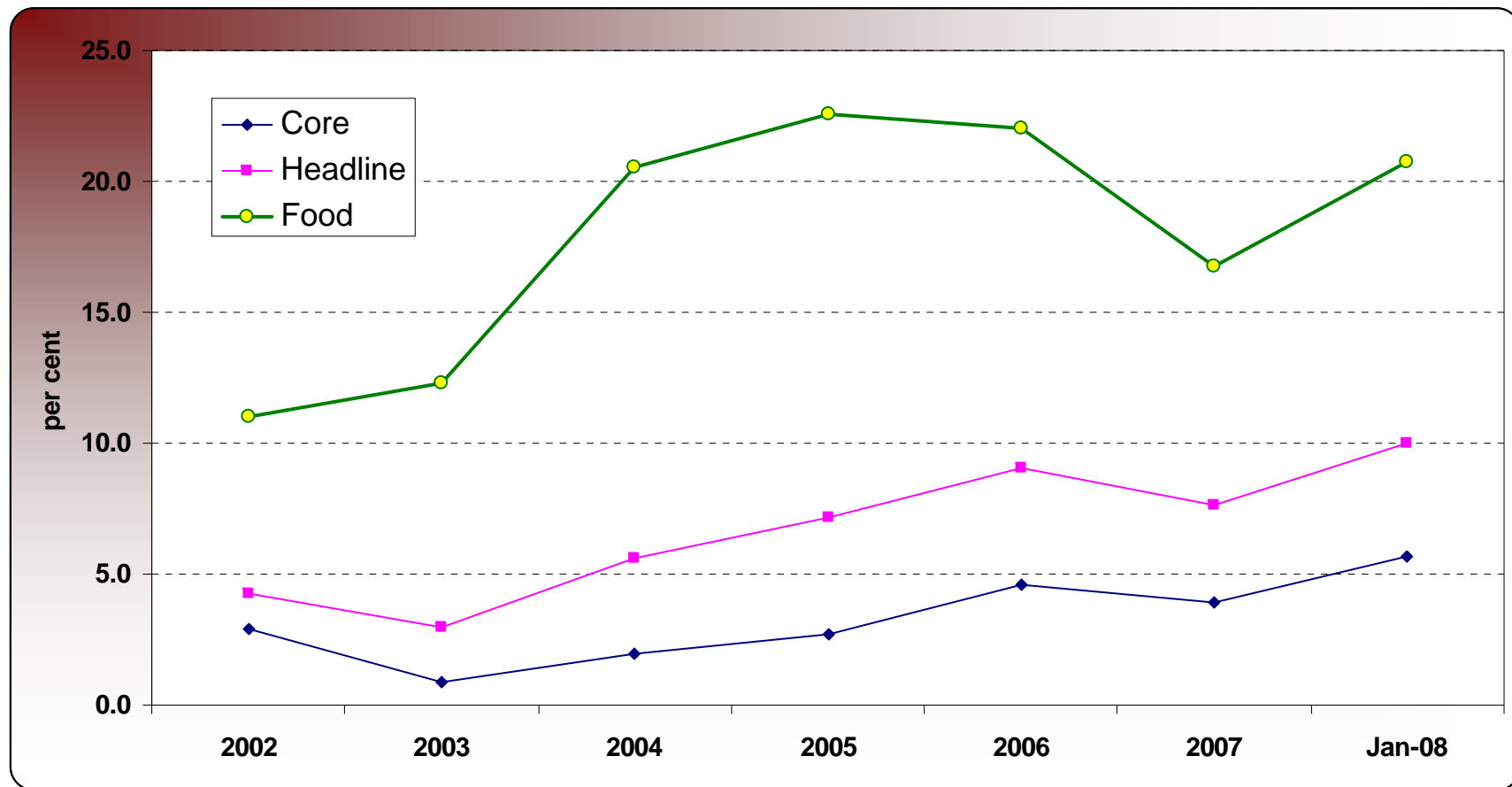
4. Economic Performance

2002 - 2007

	2002	2003	2004	2005	2006	2007p
Real GDP	7.9	14.4	7.8	6.1	12.2	5.5
Energy	13.5	31.4	8.2	8.4	21.4	4.4
Non-Energy	4.8	6.7	6.7	5.0	6.6	6.7
GDP per capita (US\$)	7,104	8,860	10,234	11,762	14,788	16,090
Unemployment Rate	10.4	10.5	8.4	8.0	6.2	5.9
Public Sector Debt/GDP	58.3	49.9	44.6	37.6	30.5	28.3
External Debt/GDP	16.5	13.2	9.9	8.4	6.3	5.6
Current Account Surplus/GDP	0.8	8.9	13.4	23.7	25.5	16.2
Gross Official Reserves (US\$ Mn)	1,760.1	2,007.5	2,539.1	4,014.9	5,134.1	6,673.5

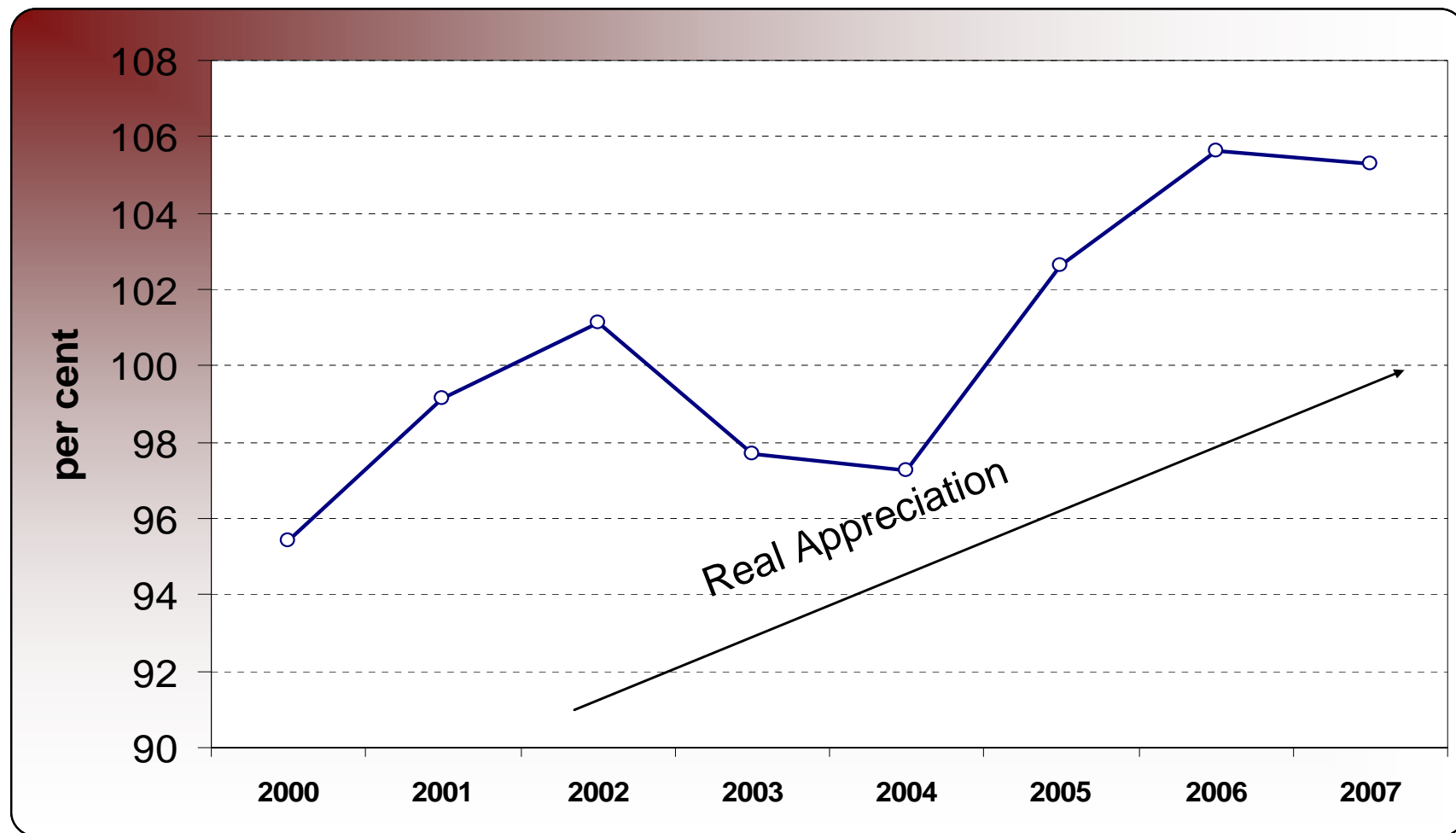
5. Inflation Rates

/Year-on-Year Percentage Change/



6. Real Effective Exchange Rates

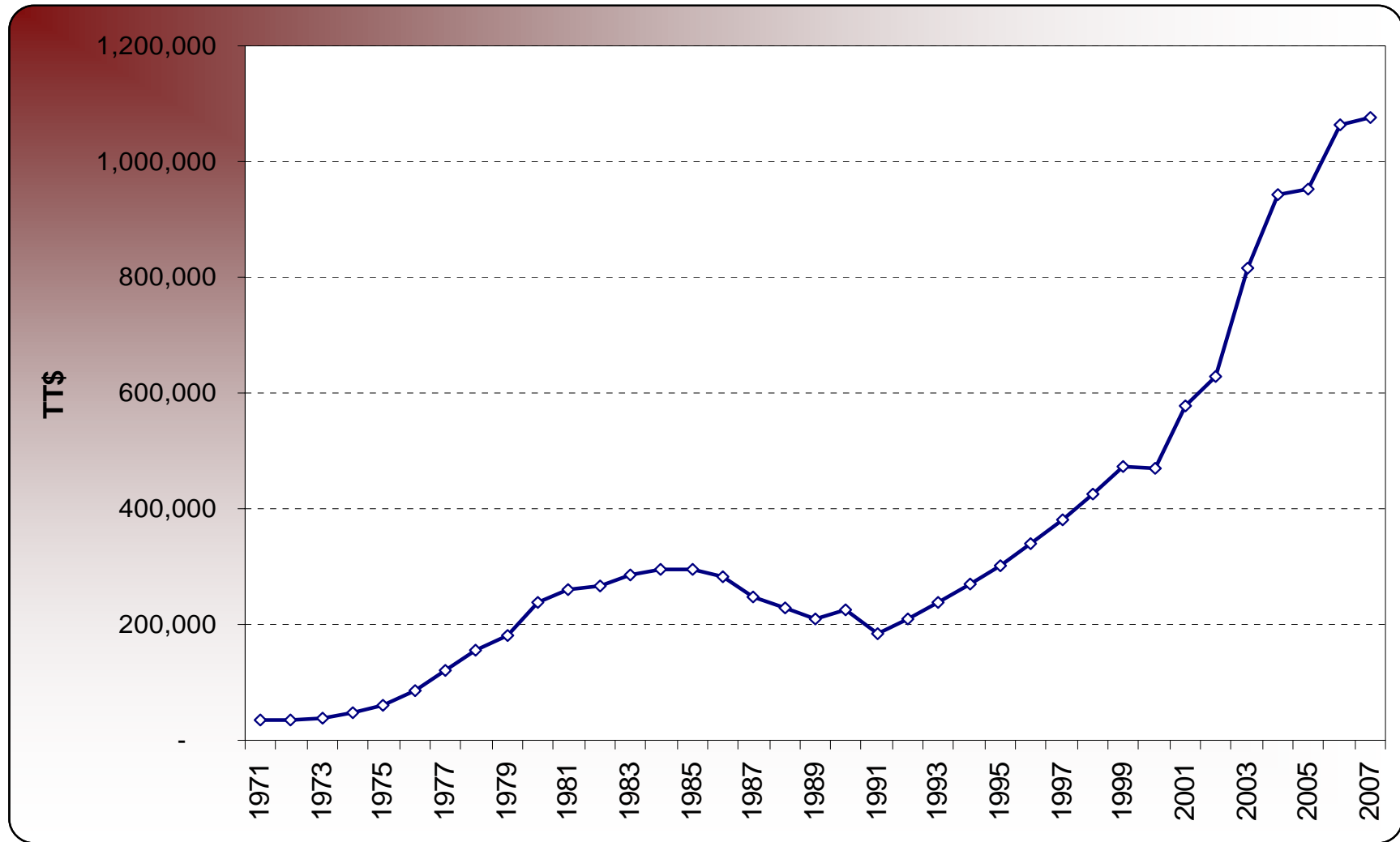
2002 - 2007



7. Tradeable Non-tradeable Sectors in Non Energy GDP /per cent/

	2002	2003	2004	2005	2006	2007
Non Energy GDP	100	100	100	100	100	100
Tradeable Sector	12.7	12.3	12.0	11.7	10.7	10.3
Agriculture	1.9	1.5	1.3	0.9	0.7	0.6
Manufacturing	10.8	10.9	10.8	10.8	10.0	9.7
Non Tradeable sector	87.3	87.7	88.0	88.3	89.3	89.7
Construction	9.9	11.4	11.8	13.3	12.8	14.2
Distribution	22.4	21.7	21.0	21.9	24.8	25.4
Finance, Insurance and Real Estate	21.4	20.2	23.2	20.0	21.2	20.2
Government	10.4	12.2	11.8	12.2	11.6	11.7
Other	23.2	22.2	20.2	20.9	18.9	18.2

8. Movement in Median House Prices



9. Balance of Payments

	2002	2003	2004	2005	2006	2007p
	per cent change					
Current Account	(83.0)	1,196.1	67.2	300.4	(29.4)	(27.1)
Exports	(8.9)	32.8	23.0	51.1	25.1	(5.2)
Energy	(15.1)	47.6	21.2	67.1	28.1	(6.9)
Non-energy	13.9	(8.0)	31.0	(14.6)	0.8	11.6
Imports	2.7	6.3	25.1	17.0	19.5	9.0
Consumer Goods	(2.4)	18.1	10.9	26.9	(23.4)	42.3
Raw Materials	8.7	4.7	16.8	49.1	(15.1)	52.0
Capital Goods	11.4	(8.8)	66.1	(35.7)	(12.2)	27.6
Memo items:	US\$ Millions					
Exports	3,920	5,205	6,403	9,672	12,100	11,468
Energy	2,874	4,243	5,143	8,596	11,015	10,257
Non-energy	1,046	962	1,260	1,076	1,085	1,211
Imports	3,682	3,912	4,894	5,725	6,843	7,456
of Which: Consumer Goods	636	751	834	1,058	810	1,153

Source: Central Bank of Trinidad and Tobago

10. Fiscal Operations

/In Per cent of GDP/

	2002/2003	2003/2004	2004/2005	2005/2006 ^r	2006/2007 ^p
Total Revenue	24.4	24.9	31.1	34.1	31.3
<i>Of which:</i>					
Energy Sector	9.4	10.7	16.6	22.0	19.0
Non-Energy Sector	14.9	14.2	14.5	12.0	12.3
Total Expenditure	23.4	23.9	26.2	27.3	27.8
Recurrent	22.2	21.9	23.1	23.3	21.8
Capital	1.2	2.0	3.1	4.0	6.0
Overall Balance	1.8	1.8	5.2	6.8	3.5
Non-energy Balance	-7.6	-8.9	-11.3	-15.3	-15.4

Source: Ministry of Finance

11. The Heritage and Stabilization Fund (Main Elements)

Comprises two main components.

- **Stabilization**
 - To insulate fiscal policy from fluctuations in revenue from the energy sector.
- **Savings/Heritage**
 - To provide savings for future generations.

12. HSF Deposit and Withdrawal Rules

- **Deposit Rule:**
 - 60% of actual minus –budgeted revenue).
- **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.

13. 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.

14. Other HSF Provisions

- HSF deposits to be invested in foreign assets with a medium to long-term focus.
- Assets to include high grade fixed income instruments and US and non-US equities
- Fund Management assigned to an independent Board which delegates operational management to the Central Bank.
- The Bank will make use of external fund managers to manage part of the portfolio.
- The flow of investment income from the HSF can go on for a very long time after the oil resources are exhausted, if you have built up sufficient assets and if the fiscal position is sustainable over the long term.
- A recent study by the IMF suggests that, given the expected trend in oil prices over the next decades, the HSF could build up assets of between US\$25 billion by 2020, if we could move to a non-energy fiscal deficit of ten percent of GDP. This is a fairly conservative scenario since it assumes a rate of return on the HSF portfolio of 4 percent in real terms – which is considered average for sovereign funds.

15. Oil Curse or Blessing?

- Several small countries e.g. Chile, Botswana and Norway have shown that a natural resource endowment is not necessarily a resource curse.
- These countries have shown that sound macro-economic policy assumes even more importance in resource rich countries
- Fiscal policy need to ensure that the right balance is struck between savings and immediate developmental needs.

The End