



CENTRAL BANK OF TRINIDAD & TOBAGO

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OPENING REMARKS

at the

Forum on Commodity Funds

sponsored by

The World Bank and The Central Bank

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Introduction

We are very pleased to be sponsoring this forum on Commodity Funds in collaboration with the World Bank Treasury. This forum is part of the series of activities scheduled to commemorate our 40th Anniversary, which mercifully is coming to an end.

I would like to express my appreciation to the World Bank Treasury for volunteering to support us in this initiative. The collaboration on the seminar is part of our ongoing relationship with the

Treasury which started in 2000 when Trinidad and Tobago became one of a small group of countries in a pilot World Bank project designed to strengthen our foreign reserve management capabilities.

We are grateful for the tremendous assistance and support from Graeme Wheeler and Roberto de Beaufort who have also been instrumental in arranging this forum.

This Seminar is extremely relevant and timely for Trinidad and Tobago.

Several studies have shown and we have first-hand evidence that managing oil wealth presents daunting challenges for developing countries. These challenges are indeed compounded when these countries are striving to transform their economies and deal with poverty eradication.

That's the case of Trinidad and Tobago.

As you all know we are an economy which derives substantial export and fiscal revenue from oil and gas. This blessing raises two key issues, viz:

- (i) the revenue stream is uncertain and volatile – this creates challenges for expenditure planning (in particular, the temptation to raise spending to unsustainable levels in response to temporary revenue increases); and
- (ii) the supply of the resource is exhaustible – this suggests that some of the wealth should be saved to help achieve long-run fiscal sustainability and for inter-generational equity.

Several countries have attempted to address these issues through stabilization and/or heritage funds.

Trinidad and Tobago put in place an interim oil Revenue Stabilisation Fund in **FY 99-00**. Over the last three fiscal years, this fund has accumulated US\$450million or the equivalent of 3.7 percent of GDP.

In the last budget, the current administration indicated its intention to formalise this interim fund, but with a broader focus covering stabilisation savings and the financing of strategic investments.

While there is a broad consensus in the country on the desirability of a stabilisation cum heritage fund, much work still needs to be done on the design and the details.

The idea of this forum was to bring together representatives of countries who have operated commodity funds who can share their experiences, and inform the process that we are currently going through.

I should note that our economy benefited from two oil price spikes in 1973/74 and in 1979/80, and the governments of the day created funds for long-term development. Some of the resources accumulated in these funds contributed to the establishment of a number of petrochemical enterprises.

However, I think that it is fair to say that partly because of slippages in macro-economic management and in the absence of explicit rules of governance for these funds, the country did not fully reap the long-term benefits that were envisaged.

We would want to feel that we have learnt from these earlier experiences. For one thing, because of macro-economic and structural reforms implemented in the late 1990's our economic fundamentals are now much more robust.

In addition to more than a decade of **strong economic growth**, over the last few years:

- **inflation** has been brought down to a range of 4-5 percent;
- the **central government budget** has been in balance or has registered small surpluses, even after transfers to the interim revenue fund;
- external debt has declined steadily and now is about 12 percent of GDP: total public debt has also declined and is now a bit over 50% of GDP;
- gross reserves, including proceeds from the interim stabilisation fund are currently at around US\$2.8 billion, about 6 ½ months of import cover.

One of the main lessons we learnt from the earlier experiences is that resource "funds" (whatever the title) could be no substitute for good expenditure decisions, for good fiscal policy. We learnt that if you accumulated funds but financed expenditures from borrowing, the benefits were likely to be short-lived.

We are well aware that there is a body of opinion that does not see resource funds as being conducive to efficient resource management. In

fact, I am familiar with a paper by some former colleagues of mine at the IMF, which argue that instead of being part of a **solution to fiscal policy challenges, oil funds are often part of the problem.**

We don't hold this position. Rather, we subscribe to the view that the less than optimal performance of many funds, have to do with poor Fund rules and the difficulty in co-ordinating the Fund's operations with an appropriate counter-cyclical fiscal policy.

We feel that a well-designed oil fund can do a number of things. It can:

- (i) better insulate economy from resource price volatility and from macroeconomic instability generated by volatile government expenditure;
- (ii) generate substantial investment revenues for the future;
- (iii) let the public see how much petroleum revenue is being saved;
- (iv) crystalise public support for saving oil resources rather than spending them; and
- (v) help protect the competitiveness of the non-resource tradable sector, by preventing the real appreciation of the exchange rate, if the resources are invested abroad.

Clearly, **resource funds** cannot work and deliver benefits without government controls on expenditure and the implementation of a sound counter-cyclical fiscal policy.

It's interesting that even those critics who, in principle, downplay the value of resource funds have very good things to say about some of the funds that we will be discussing here today.

Norway is generally seen as perhaps the most successful experience with an oil fund. The State Petroleum Fund of Norway is particularly recognised for its demanding transparency, accounting and governance standards.

Botswana has integrated its diamond revenues with the budget and is seen as perhaps the best example of a developing country using its mineral wealth to achieve economic transformation and sustained growth.

The **Alaska Permanent Fund** has built up sizable assets to meet future needs, is widely recognised for its transparency and is well known for its successful asset management strategies.

With the focus on these and some other experiences, I anticipate a very interesting day of discussion and information sharing.

We in the Central Bank are very pleased to have played a part in bringing together such a high level group of experts. I would again like to thank the World Bank for supporting this initiative and thank all you participants for your attendance.

Before we formally begin the programme, I would ask Ms. Amoy Chang Fong, Deputy Governor of the Central Bank to make some house announcements.