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Trinidad and Tobago: 2001 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Trinidad and Tobago

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 2, 2001,** with the officials of Trinidad and Tobago on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 21, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during its July 6, 2001 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the authorities of Trinidad and Tobago.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

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TRINIDAD AND TOBAGO

Staff Report for the 2001 Article IV Consultation

Prepared by the Staff Representatives for the 2001 Consultation with Trinidad and Tobago

Approved by Claudio M. Loser and Jesús Seade

June 21, 2001

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EXECUTIVE SUMMARY

The recovery in the Trinidad and Tobago economy continued in 2000–01. Output is expanding by about 4½ to 5 percent a year, based on significant new investment in the natural gas and petrochemicals sectors, and strong demand in the nonenergy sectors; average inflation stands at 3½–4 percent; and unemployment has been falling gradually. Exports rose sharply in 2000 owing to higher export volumes and prices of petroleum and natural gas, and at end-April 2001 gross international reserves reached US$1.6 billion, equivalent to about four months of imports of goods and services and 50 percent of broad money. The exchange rate has remained stable during 2000–01, and indicators point to no evidence of an erosion of competitiveness. The central government budget registered a small surplus in FY 1999/2000, but the turnaround stemmed largely from the high revenue from the energy sector, and masked a weakness in the VAT and a pickup in spending on infrastructure projects in the second half of the year. Spending by the public enterprises also increased, and the total public debt rose from 54 percent of GDP at end-1998 to about 60 percent in 2000. The budget is expected to register another small surplus in FY 2000/01. Progress in structural reforms quickened in 2001. The first tranche of shares in the state holding company that controls a number of government-owned entities was sold in February, agreement in principle has been reached for the sale of part of the operations of the sugar company, and private sector participation in the state telecommunications, water, and broadcasting companies has been approved by parliament. Recently, the government announced that it would begin to divest also its holdings in the state energy companies. In the financial sector, reserve requirements on banks' deposits were lowered from 21 percent to18 percent in May, and efforts continued to improve the effectiveness of open market operations, and develop the infrastructure for interbank trading in government paper and foreign exchange.

The main challenge facing the Trinidad and Tobago authorities is how to maintain the current, favorable prospects for growth, job creation, and poverty reduction. There is a broad consensus that these prospects could be enhanced by undertaking measures to place the public finances on a sustainable footing, and make the public sector more efficient and accountable. Staff welcomed the authorities' commitment to policies centered on achieving budget balance or small surpluses, setting aside windfall gains from energy-related taxes, gradually reducing the public sector debt, and generating adequate central government saving to permit increased spending on social priorities. These objectives will require continued efforts to strengthen tax administration, and reining in expenditure, particularly on the wage bill and transfers to state enterprises. It will also be important to tackle the weak financial management of the public enterprises through improved reporting and accountability. The authorities recognize that sound fiscal policies are essential for promoting liquidity conditions that would be conducive to the development of indirect monetary instruments, further reductions in reserve requirements and interest rates, and the promotion of efficient money and capital markets. They plan to complement these reforms, with others aimed at speeding up the pace of privatization, bringing supervision of the financial system more closely in line with international standards, and placing increased emphasis on improving social conditions.

I. Introduction

1. **The Article IV consultation discussions were held in Port of Spain during the period April 17–May 2, 2001.**[1] The previous Article IV consultation was completed on June 9, 1999.[2] At its conclusion, Executive Directors commended the authorities for pursuing policies that had led to sustained growth and low inflation in recent years. They supported the efforts to maintain a fiscal surplus, but stressed that fiscal sustainability would require improvements in tax administration, and steps to limit the financial burden of loss-making state enterprises. Directors noted that the growing number of nonbank institutions and the creation of new financial instruments had reduced the effectiveness of monetary policy. They recommended the reduction in reserve requirements, a stepping up of the efforts to develop indirect monetary instruments, and a strengthening of supervision over the financial system.

2. **The coverage, frequency, and timeliness of economic statistics are in general good** for surveillance purposes. The most timely and comprehensive data are those related to the financial sector and the central government budget. However, a number of weaknesses have been identified and are being addressed, including the need to update the weights for calculating price statistics, expedite the regular updating of national accounts and trade data, and broaden the coverage and timeliness of data on the finances of state enterprises and public utilities.

3. **Trinidad and Tobago has a total land area of 5,130 square kilometers, and at end-2000 its population was estimated at 1.35 million,** while the average GDP per capita stood at U.S$5,900. Economic activity is based on petroleum and gas production (which accounts for one quarter of GDP), petrochemicals, light manufacturing, and services—mainly communications, construction, and financial intermediation. The country is currently ranked 45 (of 174 countries) in the U.N's Human Development Index.

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[1] The mission comprised Messrs. DaCosta (Head), Njoroge, Rizavi, Santana, and Berezin (EP), and Ms. Kufa (all WHD). It met with the minister of finance, the governor of the central bank, senior officials of the government and the central bank, as well as representatives of the private sector, the labor unions, and the political opposition. Mr. Rambarran (OED) participated in the initial round of discussions.

[2] Consultation discussions during 2000 were impeded by the onset of the campaign for the November 2000 general election. Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2a, 3, and 4, and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

II. Background and Recent Developments

4. **Following a period of slow growth during the early-1990s, Trinidad and Tobago's economic performance strengthened in the second half of the decade.** Real GDP growth accelerated to 5 percent a year in 1998–99, reflecting restrained macroeconomic policies and new energy-related investments—particularly in liquefied natural gas (LNG) exploration and processing, and petrochemical production—that has led to a shift from the country's traditional reliance on petroleum exploration and refining. The nonenergy sector was also buoyant, reflecting a pickup in demand for manufactured goods exports, and strong growth in construction and services.

5. **The pickup of activity was associated with a reduction in unemployment from 18 percent in 1995 to 13 percent in 1999.**[3] Over the same period, inflation declined from 6 percent to 3½ percent, reflecting generally balanced budgets, a stable exchange rate, and low import prices. The external current account shifted from significant deficits in 1997–98 to a small surplus in 1999 on account of increased energy exports and a slowdown of imports following the completion of major petrochemical projects (Table 1 and Figure 1).

6. **In late-1999, in order to signal their commitment to sound policies, the authorities requested that the Fund staff monitor informally their economic program** covering the fiscal year beginning October. The key objectives of the program were to achieve adequate rates of economic growth and job creation, while maintaining macroeconomic stability. The program envisaged real GDP growth of 6 percent in 2000, inflation of 2–3 percent, and a buildup of international reserves to the equivalent of 3½ months of prospective imports of goods and services. These objectives were to be achieved through a strengthening of fiscal policy, credit restraint, and structural reforms, particularly privatization.

7. **Macroeconomic performance under the staff monitored program (SMP) was broadly in line with the authorities' objectives.** Output grew by just under 5 percent in calendar 2000 (with that of the nonenergy sectors expanding in excess of 5 percent); the twelve-month inflation rate remained at 3½ percent through November, but rose to 5½ percent in December owing to the effects of flood damage on food prices; and the balance of payments strengthened. Unemployment fell slightly (but remained high at 12½ percent at mid-2000).[4] Most of the employment created in 1999–2000 originated in the nonenergy sectors, particularly construction, manufacturing, distribution, and other services.

8. **As envisaged under the SMP, the central government balance in FY 1999/2000 shifted to a small surplus,** compared with a deficit of ½ percent of GDP in the previous year

[3] Most of the unemployed comprise unskilled youth and young women.

[4] Estimates done by the Inter-American Development Bank (IDB) indicate that, excluding discouraged workers, the unemployment rate in mid-2000 was 8 percent.

(Table 2). However, this turnaround stemmed largely from the higher than programmed revenue from the energy sector (equivalent to about 3 percent of GDP) that masked the continued weakness in VAT collections,[5] as well as an acceleration in spending on infrastructure projects in the second half of the year. The performance of the public enterprises and utilities also weakened, as tariffs remained unadjusted while wages and capital spending increased.[6] The pickup in spending led to an increase in the total public debt from 54 percent of GDP at end-1998 to about 60 percent at the end of 2000. Most of the projects were financed by commercial loans from domestic financial institutions, and over the same period, the public external debt fell from 24 percent of GDP to 22 percent. During FY 1999/2000, the authorities established an interim revenue stabilization fund (RSF) with the aim of setting aside a significant proportion of the windfall gains from energy-based revenue.[7] At the end of the year, TT$415 million, or about 1 percent of GDP had been set aside in an account at the central bank (Box 1).

9. **The authorities' monetary policy framework is centered on achieving low inflation through liquidity management by the central bank and exchange rate stability.** Following a tightening of liquidity and interest rates in the first half of 2000 related to the government's temporary financing requirements, conditions eased considerably in the second half of the year as the fiscal situation improved and proceeds from energy exports continued to rise. Reflecting these developments, interbank rates rose by 2 percentage points to about 12 percent at mid-year, but fell back by about the same magnitude toward December. Real interest rates on domestic currency loans for all but prime borrowers remained high (8–9 percent), while banks' average interest rate spreads stood at about 10 percentage points, owing in part to high reserve requirements (averaging 21 percent).

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[5] Non-oil revenues have lagged over the past 2–3 years, mainly as a result of higher than envisaged VAT refunds, and poor excise tax collections—related, in part to a fixed retail price for gasoline in the face of rising wholesale prices.

[6] During the fiscal year, the government decided to transfer responsibility for implementing some of the large infrastructure projects to certain state agencies, partly in order to speed up the pace of implementation.

[7] The formal establishment of the RSF requires parliamentary approval, which is expected shortly.

Box 1. Trinidad and Tobago: Key Features of the Government's Proposed Revenue Stabilization Fund

As part of its Budget of FY 1999–2000, government announced its intention to create a Revenue Stabilization Fund (RSF).

Objectives of the RSF:

(i) Promoting fiscal discipline in the event of windfall revenues from the petroleum sector;
(ii) Cushioning the effects of unexpected drops in oil prices; and
(iii) Strengthening the public sector savings effort.

Management aspects: The responsibility for the day-to-day management of the RSF will be vested in the Central Bank of Trinidad and Tobago, subject to the general direction and control of the minister of finance. The central bank will manage the RSF in accordance with the terms and conditions as set out in a Management Agreement, which would stipulate among other things, the management fee structure and the broad investment policies and strategies to be pursued. As manager, the central bank will determine the quality of financial assets to be held and the target levels of return for the investment of such assets. The manager will be empowered to appoint from time to time a reputable foreign investment banker to manage a portion or all of the assets of the RSF.

Operational aspects: The RSF will be financed by petroleum taxation revenues, including the supplemental petroleum tax, the petroleum profits tax and royalties, which are above the established budget benchmark. It will exclude the proceeds from the unemployment levy, signature bonuses and production sharing contracts. The resources of the RSF will be denominated in foreign currency and may be invested in approved foreign securities. These assets would not form part of the international reserves of Trinidad and Tobago.

Deposits: Deposits to the RSF will be made when the petroleum taxation revenues in a financial year exceed the budgeted petroleum taxation revenues by 10 percent or more. This deposit would be at least 67 percent of the excess petroleum taxation revenues received during the financial year, defined as "the aggregate amount of petroleum taxation revenues received from petroleum operations during the year, less the aggregate amount of petroleum taxation revenues anticipated from petroleum operations for the year in the annual budget, but shall not include gains or losses resulting from exchange rate movements." Interest earned from investments of revenues in the RSF will also be deposited in the RSF.

Withdrawals: Withdrawals from the RSF will be allowed when the petroleum taxation revenues received for the year are at least 10 percent less than the petroleum taxation revenues anticipated by the annual budget for that year. The withdrawal will be the lesser of: (a) the amount of the shortfall of petroleum taxation revenues, or (b) 25 percent of the balance in the RSF at the beginning of the financial year. These withdrawals are to be authorized by the minister of finance, and are to be transferred to the consolidated fund.

Asset management aspects: The assets of the RSF will be invested in foreign currency securities issued by sovereign country or states, which have investment grade status as specified by at least two internationally recognized rating agencies.

Governance, transparency and accountability aspects: The accounts of the RSF will be public accounts, and will be audited annually by the auditor general or by an auditor authorized by the auditor general. The manager of the RSF will submit an Annual Report on the operations of the RSF to the minister of finance.

10. **The external current account surplus rose to 5 percent of GDP in 2000,** reflecting increases in export volumes and prices of petroleum and LNG that more than offset a surge in imports related to the public sector projects noted above. This outturn, together with proceeds of eurobond issues totaling US$350 million, led to an increase in net international reserves by US$440 million. The stock of reserves at end-December 2000 reached US$1.4 billion, equivalent to 48 percent of broad money and 370 percent of annual debt service.

11. **Since end-1997, the nominal exchange rate has remained virtually unchanged at TT$6.3 per U.S. dollar.** Based on relative consumer prices, the real effective exchange rate (REER) index appreciated by almost 20 percent during 1997–2000. However, alternative indicators, such as those based on relative producer prices, show no evidence of an erosion of competitiveness. Indeed, a calculation of the REER index based on relative unit labor costs shows that the index depreciated by about 10 percentage points between 1997 and 2000 (Figures 2–4, and Box 2).

12. **Progress in structural reforms, which had stalled during 2000, picked up in 2001.** The first tranche of shares in the state holding company that controls a number of government-owned entities was offered for sale in February, and additional tranches are expected to be offered for sale by the end of FY 2000/01. Also, agreement in principle has been reached for the sale of part of the operations of the sugar company, and private sector participation in the state telecommunications, water, and broadcasting companies has been approved by parliament. In the financial sector, secondary market trading by primary dealers commenced, and efforts continued to develop the communications infrastructure for interbank trading in government paper and foreign exchange.

13. **Indicators through the first quarter suggest that economic performance continues to be favorable in 2001.** Real GDP growth is expected to dip to about 4½ percent in 2001 owing to the effects of a drought on agricultural output and a strike in the sugar industry. In addition, construction activity appears to have slowed following the rapid pace of implementation of public sector projects and the completion of a large natural gas processing terminal in 2000. Prices remained stable in the first quarter of 2001, and inflation is expected to fall to 2–3 percent for the year as a whole. Gross international reserves of the central bank reached US$1.6 billion (3½ months of imports of goods and services and 50 percent of broad money) at end-April 2001. The strong growth in export earnings led to a moderate appreciation of the nominal exchange rate in recent months, and the CPI-based REER index appreciated by about 9 percent in the year ended-March 2001. An easing of liquidity conditions in the financial sector in recent months permitted a reduction in banks' reserve requirements from 21 percent to 18 percent in late-May. As a result, banks' lending rates declined by about 1–1½ percent during the year to date.

Box 2. Trinidad and Tobago: External Competitiveness

While Trinidad and Tobago's real effective exchange rate, based on consumer prices, appreciated by 19 percent between the end of 1995 and the end of 2000, alternative indicators suggest that the country's external competitiveness may well have improved over that period.

One peculiarity of inflation—measured by consumer prices—in Trinidad and Tobago is that it is heavily influenced by food prices that have historically risen much faster than those of the other components of the CPI basket.[1] Indeed, a measure of core inflation, defined as the CPI, excluding food prices, would indicate that prices rose by only 6 percent during 1996–2000 (i.e., 1.2 percent a year, instead of 3.8 percent). Part of the rationale for using such a measure is that while retail food prices rose by a cumulative 44 percent during 1996–2000, the producer prices for food increased by only 13 percent. Thus, a calculation of the real exchange rate based on relative producer prices would show a real appreciation of the currency of only 6 percent.

The Balassa-Samuelson effect predicts that a country will experience a real appreciation of its exchange rate if its productivity-growth advantage (relative to its trading partners) in its tradable sector exceeds its productivity-growth advantage in its nontradable sector. In Trinidad and Tobago, the oil and gas sector as well as the manufacturing sector can usefully be classified as tradable while the services sector, which represents about two thirds of GDP, can be classified as nontradable. Between 1996 and 2000, productivity per man-hour increased by 156 percent in the oil and natural gas sector and by 90 percent in the manufacturing sector, well in excess of the 40 percent cumulative increase in productivity for the economy as a whole. These productivity improvements in Trinidad and Tobago's tradable sectors have resulted in large and sustained reductions in unit labor costs. A calculation of the real exchange rate based on unit labor costs in Trinidad and Tobago and its trading partners shows a real depreciation of 13 percent over the period.

Another indicator of a country's external competitiveness is the evolution of its current account position, which improved from a deficit of 10 percent of GDP in 1997 to an estimated surplus of 5 percent of GDP in 2000. The improvement in the current account was driven primarily by higher prices and strong growth in exports of petroleum and natural gas as well as exports of associated downstream commodities such as ammonia, urea, and methanol. Net of the windfall gains from the recent surge in energy prices, the surplus in 2000 would have been equivalent to 3 percent of GDP. This improvement was driven, in part, also by the steady growth in nonenergy merchandise exports. Medium-term projections point to current account surpluses of about 2½ percent of GDP over the 2001–2005 period.

In summary, it would seem that—based on indicators other than relative consumer prices—the Trinidad and Tobago economy has not experienced an erosion of competitiveness in recent years. As the country continues to enjoy productivity growth in the energy and nonenergy (mainly manufacturing and services) sectors, it is unlikely to experience difficulties in its external sustainability. Looking ahead, it is essential for growth and job creation that the nonenergy sectors maintain their competitiveness, and are not adversely affected by the effect on the real exchange rate of rising energy prices.

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[1]The annual average rate of increase of food prices during 1996–2000 was 10.8 percent, while that for other commodities comprising the CPI was 1.2 percent. The authorities are currently investigating why retail food prices have risen more quickly than other consumer prices.

III. Report on the Discussions

14. **The strengthening of the Trinidad and Tobago economy since the mid-1990s has led to an improvement in the country's credit rating to investment grade since 1999, and increased investor confidence. Against this background, the discussions centered on medium term prospects for growth, job creation, and poverty reduction.**[8] There was a broad consensus that the current environment presented an opportunity for enhancing these prospects by undertaking bold actions to place the public finances on a sustainable footing, and implementing reforms to make the public sector more efficient and accountable. Current conditions also favored pressing ahead with ongoing reforms aimed at developing the money, capital, and foreign exchange markets, reducing financial intermediation margins, and strengthening financial system supervision.

A. Medium Term Growth Prospects

15. **Medium term prospects for the Trinidad and Tobago economy appear favorable.** In the energy sector, construction of two additional gas processing terminals (known as "trains") is scheduled to be completed by 2003, and engineering studies have begun on another terminal that would raise the country's annual LNG production capacity to 14 million tons, and convert Trinidad and Tobago into one of the world's top five LNG producers. Increased LNG output would provide a stimulus to downstream activities, such as petrochemicals, and generate additional demand in some nonenergy sectors, including construction and manufacturing. Prospects for the services sectors—mainly financial intermediation, telecommunications, and distribution—are also favorable. In agriculture, immediate prospects for output and investment are not encouraging, as a significant part of the sector is dominated by the state sugar company, CARONI, whose sugar producing operations are unprofitable, and efforts to diversify into other activities are still largely in their initial phases. Based on the above-mentioned developments and prospects, the staff and authorities concurred that real GDP could be expected to expand by 4½–5 percent over the medium term, unemployment would likely decline to about 10 percent by 2005. The authorities expect that, as in the past, most of the new jobs created will originate in the nonenergy sectors, particularly construction, manufacturing, and services.

B. Fiscal Policy

16. **The recent favorable fiscal indicators have reflected largely exogenous factors, including increases in LNG production and energy prices, and prospects for the public finances over the medium term are subject to a number of risks.** One of the most important is how to maintain fiscal soundness—and the country's overall macroeconomic

[8] The last estimates by the World Bank indicated that about 20 percent of the population was poor.

performance—in the face of a possible downturn in energy prices.[9] There was broad agreement that resilience in the face of this risk would require prudent budgeting of energy prices and revenue; tackling the remaining weaknesses in revenue administration, especially in the nonenergy sectors; tighter control over spending—especially by the public enterprises and utilities; and pressing ahead with reforms aimed at reducing the size of the public sector.

17. **The authorities noted that their overall fiscal policy remained centered on achieving budget balance or small surpluses**, setting aside windfall gains from energy-related taxes, gradually reducing the public sector debt, and generating adequate central government saving to permit increased spending on the government's social priorities. They noted that the likely outturn for FY 2000/01 would be broadly consistent with these objectives. Revenue (net of privatization proceeds) is projected to increase by 2½ percentage points of GDP reflecting the continued (albeit slower) growth in energy-related revenues, and the effects of an improvement in the administration of the income tax and the VAT (see below). Expenditure would also rise by 2½ percent of GDP, reflecting mostly a sharp increase in current outlays associated with the cost of the recent wage agreement with civil servants;[10] capital spending would fall sharply following the completion of the recent infrastructure projects. These developments would result in a small overall surplus. The authorities expect that the financing would incorporate (i) privatization proceeds (of about 1 percent of GDP) from the sale of the government's shares in the holding company that controls certain state enterprises, and (ii) additional transfers to the revenue stabilization fund also equivalent to 1 percent of GDP.

18. **The staff welcomed the government's decision to set aside windfall energy-related revenues** in a revenue stabilization fund, and suggested that the fund's operations be guided by clear, transparent principles, including (i) that the fund should be integrated within the budget process to maintain a unified control of fiscal policy; (ii) it should have a clear asset management strategy that is coordinated with other government financing operations, and consideration should be given to maintaining the fund's assets abroad, since investment in domestic financial assets could result in undue volatility; and (iii) that the fund should not be permitted to borrow or to lend, and its capital should not be used as collateral for government borrowing. These principles have been incorporated into the draft proposals on the fund. The staff noted that it was also important that the criteria for establishing the reference price for budgeting purposes be clearly defined, and that the energy products (other than petroleum) covered in the definition of the windfall be clearly specified. Final approval of the operational aspects of the fund is expected shortly.

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[9] The authorities estimate that a decline/increase in energy prices by one U.S. dollar would lead to a fall/rise in government revenue by the equivalent of 0.2 percent of GDP.

[10] The long overdue agreement covered the period 1998—2001, and provided for wage increases averaging 3 percent a year.

19. **Revenue estimates for the first half of FY 2000/01 indicate that the difficulties encountered last year in the administration of the VAT and the income tax are being addressed.** The measures comprise the recruitment of 100 additional tax officers; creation of a specialized division with responsibility for large taxpayers and special industries, including the financial sector; and a tightening of compliance through the computerization of third-party information and the PAYE database. The authorities also propose establishing a criminal investigation unit to pursue defaulters. The staff recommended that these efforts be complemented by (i) raising excise tax revenues on petroleum products by phasing out subsidized prices for these products; (ii) phasing out remaining tax exemptions; and (iii) setting a timetable for implementing the recommendations on restructuring energy sector taxation proposed by technical assistance experts from the Fund.[11] This latter recommendation would be particularly important in view of the considerable expansion expected in this sector over the next 2–3 years.

20. **Staff expressed concern with the rapid growth in current spending in FY 2000/01,** and in particular with the increase in the wage bill, and its implications for expenditure over the medium term. The authorities shared these concerns, and recognized that this surge in expenditure was unsustainable and inconsistent with the government's fiscal policy goals. In this regard, containing the size of the wage bill in future would be essential, and there appears to be scope for this through attrition and buy outs. These options are likely to be explored in discussions between the government and the labor unions.

21. **Sustaining sound public finances would require addressing the weak financial management and accountability of the public enterprises.** An indication of the weaknesses in this area was the inability of the staff to reliably estimate the consolidated financial position of the public enterprises because of the poor quality and long lags that characterize most of the available information. The authorities indicated that they would take steps to implement the staff's recommendations, which included (i) requiring more frequent and timely financial reporting by the enterprises to the ministry of finance; (ii) initiating regular audits and publication of their financial condition; and (iii) introducing the requirement that procurement practices of the enterprises be in line with international standards. Since most of the increase in the public debt in 1999–2001 had been contracted by public enterprises and utilities, the authorities declared a moratorium on all public sector borrowing, except for those projects which are in an advanced state of completion. Also, all future public sector projects would require the prior approval of the ministry of finance.

[11] These recommendations included (i) simplifying and extending to natural gas production the supplemental petroleum tax; (ii) placing the royalty for gas on a uniform basis for all producers; and (iii) terminating tax holidays for petrochemical sector investments.

22. **For discussion purposes, the staff elaborated a medium term fiscal scenario** that contemplates changes in energy prices in line with the World Economic Outlook, some strengthening of the nonenergy revenue effort based on the ongoing initiatives, lower interest payments, and moderate success in containing the growth in the wage bill and in reducing transfers and subsidies to the rest of the public sector. Under such a scenario, central government saving could rise from 1½ percent of GDP in FY 2000/01 to 3½–4 percent by FY 2004/05, allowing a larger amount of resources (about 3½ percent of GDP) for improvements in social and other infrastructure (Table 7). Small surpluses, and further divestment proceeds would be applied to debt reduction. The authorities indicated that the scenario was broadly consistent with their own medium term strategy, but that they needed to do additional, more detailed work on refining it and translating the framework into budgetary guidelines. The forthcoming budget for FY 2001/02 would be the first step in this direction.

C. Monetary Policy and Bank Soundness

23. **Given the current conditions of macroeconomic stability, the absence of foreign exchange pressures, and ample liquidity in the financial system, the authorities have been focusing their efforts on reforms aimed at improving the conduct of monetary policy.** As a first step, the reserve requirement on banks' deposits was lowered from 21 percent to 18 percent at end-May this year,[12] and the authorities indicated that they would be prepared to reduce it further if liquidity conditions warrant. Also, to help sustain the effectiveness of open market operations (OMOs), the central bank expects to extend shortly participation in these operations to nonbanks, the national insurance scheme, and money brokers.[13] In addition, to remedy the current shortage of government paper available for OMOs, approval is expected shortly for an increase in the stock of such paper from TT$2 billion to TT$4 billion through a special issue to the central bank. A joint ministry of finance/central bank committee has also been established to explore ways of ensuring coordinated approaches by the two institutions to the money and capital markets.

24. **Financial indicators for the banking system suggest that the system is broadly sound** (Table 8). The share of nonperforming loans has fallen to about 5 percent, and profitability and efficiency ratios have improved. Based on the findings of a preliminary self-assessment exercise conducted in 2000, current efforts focus on raising the minimum risk-based capital adequacy ratio from 8 percent to 10 percent, undertaking consolidated supervision of financial groups, and strengthening the reporting of large exposures. Trinidad and Tobago has become the leading regional financial center, arranging financing totaling about US$200 million (about 3 percent of GDP) for governments and corporate clients in the Caribbean last year. The authorities monitor closely the cross-country exposure of banks, and were satisfied that the amounts involved were in line with prudential norms. However, they

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[12] The resources freed by this measure were sterilized through the issue of government bonds.

[13] Currently, only commercial banks participate in OMOs.

intend to strengthen cross-border supervision by seeking amendments to the legislation that would allow the sharing of information with other regulators.

25. **With respect to the supervision of nonbanks, the authorities, with the support of the IDB, have launched a project to implement a more integrated supervision of the financial system.** In the first phase, the supervision of insurance companies and pension funds would be brought under the control of the central bank. Legislation to regulate mutual funds would also be drafted, and mechanisms established for cooperation with the local Securities and Exchange Commission (SEC) in the area of stock exchange regulation. In the second phase, a decision would be made to bring the supervision of all other financial institutions (e.g. credit unions, building societies, and mortgage finance companies) under the supervision of either the central bank or an alternative body.

D. External Projections and Policies

26. **The staff projects that the balance of payments will strengthen in 2001**, allowing a sizeable accumulation of gross official reserves to about US$1.8 billion (four months of imports and 58 percent of broad money) by year end. The current account surplus is expected to narrow as continued high energy prices and output would be offset by a marked increase in factor services (mainly retained earnings of the energy sector). The capital account is expected to increase slightly as a result of a pickup in foreign investment flows.

27. **The current account surplus is projected to fall slightly in 2002, but strengthen again in 2003–04 reflecting the effects of the coming on stream of new gas processing facilities.** Thereafter, the surplus would decline owing to a leveling off of energy exports. These projections incorporate a slow downturn in energy prices in line with the WEO projections, virtually no expansion in crude oil production after an upturn in 2002 associated with the recent surge in prices. Nonenergy exports are projected to grow by about 5½ percent a year. On this basis, the overall balance of payments surplus is expected to narrow gradually over the medium term. Gross official reserves would reach the equivalent of 5 months of prospective imports of goods and services in 2003, and remain at just above that level through 2005. The staff calculated that a 10 percent a year deterioration in energy prices (relative to the baseline scenario) would result in a deterioration in the current account balance by an average of about 2 percent of GDP a year, as the decline in exports would be partly offset by lower oil import costs.

28. **The current exchange rate policy of maintaining stability in the absence of evidence of a loss of competitiveness appears to have served Trinidad and Tobago well.** The foreign exchange market has been functioning well in recent months, and all foreign exchange queues were eliminated at the end of 2000. As noted, work done at the central bank and the staff point to no evidence of a deterioration of competitiveness, including in the nonenergy sectors, where manufacturing and petrochemical exports and firms continue to perform well in CARICOM and other markets. In recent months, however, the nominal exchange rate has appreciated slightly, and care will have to be taken to ensure that the profitability of the nonenergy sector is maintained should the appreciation persist.

29. **The trade regime in Trinidad and Tobago is relatively open, with generally low tariffs and few nontariff barriers**, and a trade restrictiveness rating of 4, the second lowest (i.e., least restrictive) in the region.[14] In 1998 the authorities completed the implementation of the CARICOM agreement on external tariffs by lowering them to 20 percent. Most of the remaining tariffs and import surcharges above the level of the CET apply to agricultural products, foodstuff, and cars. The authorities indicated that these restrictions are WTO consistent, and that a schedule is being developed for their reduction over the next several years.

30. **During 2000 CARICOM signed a Free Trade Agreement with the Dominican Republic and a Trade and Economic Cooperation Agreement with Cuba.** Negotiations were also held with Canada to discuss the expansion of the CARICOM-Canada Trade Agreement, and a request from Venezuela for preferential tariffs similar to those granted to Colombia is under consideration. In respect of the recently approved Caribbean Basin Trade Partnership Agreement, Trinidad and Tobago was listed on the United States Federal Register as an eligible beneficiary country with effect from February 2000. The authorities support the decision to conclude negotiations on the Free Trade Area of the Americas no later than January 2005.

E. Structural and Social Policies

31. **The authorities have had a longstanding commitment to reducing the size and scope of the public sector** through divestment and privatization. After a pause during 1999–2000, progress in the government's privatization program began to speed up during 2001, with the sale of part of the shares in the government's holding company for state enterprises and utilities being an important first step. The authorities indicated that proposals are advanced for the sale of the rum production operations of the sugar company; and the cabinet has agreed to extend the privatization program to the telecommunications and energy sectors, and to divest First Citizens' Bank. The staff suggested that the net proceeds of divestment be applied to the repayment of the public sector debt. Looking ahead, staff stressed the need to establish clear criteria for the government's future participation in enterprises and utilities. Once these criteria have been set, it would be important to establish a timetable for the government's withdrawal from activities not compatible with them.

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[14] There has been no change in the trade regime, including quantitative restrictions, during 2000.

32. **The government's strategy for the social sector focuses on meeting the immediate needs of the poor through direct transfers and subsidies, while supporting training and community-based projects to help the poor emerge from poverty.** Direct transfers have increased steadily over the past five years, with emphasis on payments to the aged, the disabled, and poor single parents. Over the medium term, the authorities envisage that poor communities increasingly will identify their social and infrastructural needs, and work closely with local officials in developing solutions. These initiatives at the community level are being supported by the ongoing, country-wide efforts to broaden access to education and health facilities. In the former, the focus is on ensuring that primary and high school education is accessible to all students,[15] and that the quality of school facilities (such as buildings, libraries, and the availability of computers) is improved. In health, the government's efforts have centered on ensuring that the regional hospitals are modernized and adequately equipped, and that a minimum level of health care is available to most of the population at an affordable cost through community health centers.

F. Statistical Issues

33. **Trinidad and Tobago produces a wide variety of economic and financial statistics of good quality** that are largely based on sound methodological principles. The staff encouraged the authorities to implement the recommendations of a recent STA mission by improving the quality of, and expediting the production of national accounts, updating the weights for calculating price statistics, making adequate adjustments for missing prices and quality changes in the calculation of price indices and trade data, and widening the coverage and timeliness of data on the finances of the public enterprises and utilities. In addition, there is scope for closer collaboration between the various agencies that collect and disseminate data.

IV. Staff Appraisal

34. **Since the mid-1990s Trinidad and Tobago's economic performance has been among the strongest in Latin America and the Caribbean.** Growth has accelerated, inflation has declined, and the balance of payments strengthened. GDP per capita rose by about 4 percent a year, and there has been progress in most social indicators. Confidence in the economy is high, and the country has benefited from an investment grade rating for its foreign debt since 1999. Prospects for growth over the medium term are favorable, based on the substantial investment taking place in gas exploration and processing, and the continued robustness of the manufacturing and services sectors.

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[15] A project to construct 12 new secondary schools is currently underway, and is expected to be completed in 2002.

35. **Much of the above-mentioned achievements have been due to sound policies**—in particular, generally balanced budgets, exchange rate stability, and effective liquidity management. Nevertheless, the recent growth in activity, and the improvements in the fiscal and balance of payments performance have also been helped by the surge in energy prices, which may be reversed. In these circumstances, further sustained progress will depend on the extent to which the authorities are successful in preserving confidence through prudent economic management combined with reforms aimed at making the public sector more focused and efficient. It will also be essential that the rapidly expanding financial system be effectively regulated.

36. **The government has responded prudently to the latest round of energy price surges** by taking the decision to set aside a significant proportion of windfall energy-based revenue in a transparent, rules-based revenue stabilization fund. It is important that fund's guidelines incorporate clear, conservative assumptions and criteria for the setting of the base or reference price to be used for budgeting purposes, and that the nature of the energy products to be taken into account in the calculation of the windfall be clearly defined. Careful attention to these principles would go a long way in helping the fund achieve its objectives of promoting fiscal soundness and macroeconomic stability.

37. **A number of potential weaknesses in the fiscal area have begun to emerge, which, if left unaddressed, could affect the country's economic stability and investor confidence over the medium term.** One of the main sources of potential weaknesses has been the slow growth of nonenergy revenue. The staff welcomes the progress made in correcting some of these weaknesses in the first half of FY 2000/01 through tougher tax administration measures. It recommends also that emphasis be placed on complementary measures, such as (i) raising excise tax revenues on petroleum products by phasing out pricing subsidies on these products; (ii) phasing out remaining tax exemptions; and (iii) setting a timetable for implementing the recommendations on the restructuring of the energy sector taxation proposed by the December 1999 technical assistance mission from the Fund. The latter would be particularly important in view of the considerable expansion expected in this sector over the next 2–3 years.

38. **On expenditure, one of the main concerns is the recent rapid growth in the civil service wage bill**, and the risk that wage costs could continue to rise over the medium term. Other key concerns relate to the cost of government support to weak, unsustainable public enterprises, and the rapid increase in maintenance costs associated with the sharp growth in public sector projects. Failure to address these emerging slippages promptly could lead to renewed pressure on liquidity and interest rates, further increases in the public debt, and an erosion of confidence in the government's ability to stick to its announced target of balanced budgets. Inadequate attention to the growth in spending could also erode competitiveness, and ultimately damage the country's international creditworthiness.

39. **It is important that the weak financial management of some of the public enterprises be addressed promptly** in order to ensure a comprehensive assessment of the public finances and achievement of the government's fiscal goals. The staff suggests that this could be achieved by obliging these entities to submit more frequent and timely financial reports to the ministry of finance; seek the pre-approval of the ministry for all large projects; undertake regular audits and publish regularly information on their financial condition; and implement procurement practices similar to those of the central government, and in keeping with international standards.

40. **The current monetary policy framework—centered on liquidity management and exchange rate stability to maintain low inflation—has served Trinidad and Tobago well.** To ensure that this framework remains effective, it is essential that the central bank have adequate instruments to conduct open market operations, and the staff welcomes the decision to raise shortly the amount of government paper available for these operations. OMOs also will be more efficient with broader participation by a range of institutions, and the staff commends the initiatives in this area. Effective liquidity management requires that unevenness in the regulatory arrangements across financial institutions be reduced, and in this connection, the staff welcomes the authorities' launching of a phased reduction in banks' reserve requirements, and supports further reductions, if warranted by conditions in the financial system. Progress in these areas will facilitate the ongoing work on the development of adequately regulated money and capital markets.

41. **Available indicators point to a broadly sound banking system.** The staff welcomes the ongoing self-assessment being carried out by the Bank Supervision Department regarding Trinidad and Tobago's adherence to international supervision standards, and its intention to seek parliamentary approval for a strengthening of the legislative framework for cross-border activities and the supervision of financial groups. Given the growing importance of nonbanks, it is important to proceed quickly to extend central bank supervision to these institutions. After the new, expanded supervisory framework has been established, it would be useful to commission an external evaluation of its compliance with best international practices. Such an assessment could be conducted in the context of an FSAP.

42. **The exchange rate stability in recent years does not appear to have adversely affected Trinidad and Tobago's competitiveness.** The staff considers the current exchange rate policy of maintaining stability, while monitoring closely a range of competitiveness indicators, as appropriate. However, it will be important to ensure—through a continuation of sound macroeconomic policies; efforts to contain costs, particularly wages; and reforms, such as privatization, aimed at making the economy more efficient—that the recent appreciation of the nominal exchange rate, if sustained, does not adversely affect the competitiveness and profitability of the nonenergy sectors.

43. **The staff welcomes the work program for divestment** that aims at speeding up the rate at which enterprises are restructured and brought to the point of sale, so as to move ahead with the authorities' goal of reducing the government's direct involvement in the economy. Looking ahead, there is a need to establish clear criteria for the government's future participation in enterprises and utilities. Once these criteria have been set, it would then be important to establish a timetable for the government's withdrawal from activities not compatible with them.

44. **The quality of statistics in the areas of the government accounts and the financial sector is adequate.** However, there is a need to improve the statistics on prices, the national accounts, trade, and the public enterprises, based on the recommendations of the Fund's Statistics Department. Addressing some of these weaknesses will require additional financial and staffing resources for the CSO, and the staff recommends that a start be made with the FY 2001/02 budget.

45. It is recommended that the next Article IV consultation with Trinidad and Tobago be held on the standard 12-month cycle.

Table 1. Trinidad and Tobago: Selected Economic and Financial Indicators

	Actual				Est.
	1997	1998	1999	2000	2001
	(Annual percentage change)				
National accounts and prices					
Real GDP growth	3.5	5.6	5.1	4.8	4.5
Oil/gas sector	-0.9	4.4	8.1	3.3	3.7
Non-oil/gas sector	4.9	6.0	4.2	5.2	4.8
Inflation					
End of period	3.5	5.6	3.4	5.6	2.5
Average 1/	3.7	5.6	3.4	3.5	5.1
Unemployment rate (in percent)	15.0	13.5	13.1	12.5	12.1
Nominal effective exchange rate; (1990=100) end-of-period (depreciation-)	4.5	-1.2	4.1	5.6	...
Real effective exchange rate; (1990=100) end-of-period (depreciation-)	4.9	1.8	4.8	8.1	...
	(In percent of GDP)				
Central government finances 2/					
Revenue and grants 3/	27.3	25.2	24.9	25.9	28.3
Tax revenue	22.5	21.9	21.0	23.2	25.7
Oil	4.3	1.7	2.6	6.8	7.2
Non-oil	20.8	23.4	21.6	19.0	21.1
Nontax revenue	2.5	3.3	3.2	2.6	2.5
Expenditure 4/	27.2	27.0	25.5	25.7	28.2
Current	24.1	24.8	24.3	23.1	26.6
Capital	3.7	2.8	1.8	3.1	2.1
Net lending	-0.6	-0.6	-0.5	-0.5	-0.5
Current balance	1.0	0.3	0.0	2.7	1.7
Overall balance	0.1	-1.8	-0.6	0.2	0.2
	(Annual percentage changes in relation to previous year's liabilities to the private sector)				
Financial system					
Net domestic assets	17.5	-7.7	8.9	6.1	-1.1
Of which					
Credit to public sector	6.8	-4.7	-1.6	-9.4	-2.2
Credit to private sector	16.7	2.9	12.3	9.4	6.6
Liabilities to the private sector	23.3	-4.4	11.2	18.3	9.7
Broad money	14.7	-4.9	3.6	3.7	5.4
Money and quasi-money	7.3	5.6	4.0	4.1	5.1
	(In percent of GDP; unless otherwise specified)				
External sector					
Current account	-9.8	-10.6	0.5	4.9	3.7
Overall balance	3.0	1.3	2.4	5.7	5.5
Gross official reserves (millions of U.S. dollars)	706	783	945	1,386	1,845
(end of period, in months of imports) 5/	2.3	2.7	2.5	3.2	4.1
External debt service ratio 6/	15.0	9.7	8.1	7.8	4.4
External debt (end of period)	26.8	23.9	23.0	21.8	21.7
Memorandum items:					
Total public debt (in percent of GDP)	51.6	53.6	56.6	62.2	63.6

Sources: Trinidad and Tobago authorities; and Fund staff estimates and projections.

1/ Measured by consumer prices.
2/ The central government switched to an October 1-September 30 fiscal year in 1998. 2001 refers to fiscal year 2000/01.
3/ Excludes divestment proceeds in 1999/00 and 2000/01.
4/ Excludes transfers to the Revenue Stablization Fund in 1999/00 and 2000/01
5/ Imports of goods and factor services in the following year.
6/ In percent of exports of goods and services.

Table 2. Trinidad and Tobago: Summary of Central Government Operations

	1997	1998	1998/99	1999/2000	Proj. 2000/01
	(In millions of Trinidad and Tobago dollars)				
Total revenue and grants	**9,954**	**9,702**	**10,264**	**12,144**	**13,939**
Current	9,126	9,673	9,999	12,133	13,913
Oil	1,555	661	1,092	3,206	3,527
Non-oil	7,571	9,012	8,907	8,926	10,386
Taxes	6,649	7,753	7,579	7,706	9,141
Income	3,132	3,389	3,442	3,610	4,622
Goods and services	2,739	3,426	3,207	3,128	3,477
VAT	1,624	2,154	1,850	1,890	2,265
Other	1,115	1,272	1,357	1,238	1,211
International trade	607	781	776	782	843
Other	114	98	93	122	134
Nontaxes	922	1,259	1,327	1,221	1,245
Capital revenue and grants 1/	828	29	265	11	26
Total expenditure	9,913	10,400	10,526	12,068	13,861
Current	8,770	9,540	10,008	10,860	13,079
Wages and salaries	3,227	3,522	3,665	3,141	4,284
Other goods and services	930	960	1,095	1,236	1,768
Interest payments	1,690	1,916	1,986	2,520	2,330
Transfer payments 1/	2,923	3,143	3,262	3,962	4,697
Capital and net lending	1,142	860	518	1,208	782
Current balance	356	133	-10	1,273	834
Overall balance	41	-698	-263	76	78
Total financing	-41	698	263	-76	-78
Foreign financing	-1,596	-458	750	1,608	-1
Disbursements	253	370	1,858	2,548	1,252
Amortization	1,849	828	1,108	940	1,254
Domestic financing	1,555	1,364	-488	-1,684	-77
Financial system	702	-1,028	-354	-2,084	-313
Central bank	-580	766	-489	-2,139	-313
Other banks	1,282	-1,794	136	0	0
Other financial system and nonbank	853	2,392	-134	41	216
Divestment 1/	--	--	--	56	525
Transfers to Revenue Stabilization Fund	--	--	--	-415	-546
	(In percent of GDP)				
Total revenue	27.3	25.2	24.9	25.9	28.3
Oil	4.3	1.7	2.6	6.8	7.2
Nonoil	20.8	23.4	21.6	19.0	21.1
Total expenditure	27.2	27.0	25.5	25.7	28.2
Current	24.1	24.8	24.3	23.1	26.6
Wages and salaries	8.9	9.2	8.9	6.7	8.7
Capital and net lending	3.1	2.2	1.3	2.6	1.6
Current balance	1.0	0.3	0.0	2.7	1.7
Overall balance	0.1	-1.8	-0.6	0.2	0.2
Total financing	-0.1	1.8	0.6	-0.2	-0.2
External financing	-4.4	-1.2	1.8	3.4	0.0
Domestic financing	4.3	3.0	-1.2	-3.6	-0.2

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ From 1999/2000 divestment proceeds and transfers to the Revenue Stabilization Fund are treated as financing.

Table 3. Trinidad and Tobago: Summary Accounts of the Central Bank

(In millions of Trinidad and Tobago dollars)

	1997	1998	1999	2000	Proj. 2001
Net foreign assets	**4,786**	**5,225**	**6,192**	**9,022**	**11,918**
Net international reserves	4,286	4,779	5,796	8,595	11,473
Other foreign assets (net)	500	446	397	427	445
Net domestic assets	**-691**	**-731**	**-1,404**	**-3,855**	**-6,534**
Net credit to public sector	-1,389	-831	-1,524	-3,848	-6,402
Of which :					
Central government	-1,719	-694	-1,475	-4,046	-6,600
Net claims on financial institutions	378	377	380	380	380
Other items (net)	320	-277	-260	-387	-512
Reserve money	**4,095**	**4,494**	**4,788**	**5,167**	**5,384**
Currency issue	1,323	1,335	1,756	1,698	2,005
Deposits of commercial banks	2,512	2,770	2,558	2,943	2,831
Deposits of nonbank financial institutions	259	389	474	526	548
Memorandum item:					
Blocked account of government 1/	-588	-328	-618	-980	-2,395

Sources: Central Bank of Trinidad and Tobago; and Fund staff projections.

1/ This comprises the proceeds of treasury bills and notes used for open market operations.

Table 4. Trinidad and Tobago: Summary Accounts of the Financial System 1/

	1997	1998	1999	2000	Proj. 2001
	(In millions of Trinidad and Tobago dollars)				
Net foreign assets	**6,008**	**6,867**	**7,422**	**10,846**	**14,410**
Net international reserves	5,266	6,155	6,709	10,051	13,557
Monetary authorities	4,286	4,779	5,796	8,595	11,473
Commercial banks	980	1,376	913	1,455	2,083
Other foreign assets, net	742	712	713	796	854
Monetary authorities	500	446	397	427	445
Commercial banks	88	0	0	0	0
Finance houses and merchant banks	154	266	317	370	410
Net domestic assets	**20,350**	**18,324**	**20,578**	**22,276**	**21,914**
Credit to public sector	3,880	2,649	2,238	-393	-1,132
Central government	2,877	2,090	1,664	-1,246	-1,985
Rest of the public sector	1,003	559	575	853	853
Credit to private sector	14,594	15,365	18,476	21,108	23,284
Other items (net)	1,876	310	-136	1,561	-238
Liabilities to the private sector	**26,358**	**25,190**	**28,000**	**33,122**	**36,324**
Private capital and reserves	3,413	3,946	4,688	6,040	6,782
Currency outside banks	1,063	1,020	1,292	1,271	1,395
Deposit liabilities	15,225	17,111	18,283	19,792	21,640
Of which: Foreign currency deposits	3,925	4,606	5,867	6,837	6,690
Fund-raising instruments 2/	4,069	1,389	1,232	5,014	5,420
Other liabilities	2,587	1,725	2,504	1,006	1,087
Broad money	**17,641**	**16,341**	**17,253**	**18,276**	**20,049**
Money and quasi-money	13,705	15,186	16,191	17,343	19,040
Banks' fund-raising instruments 2/	3,936	1,155	1,062	933	1,009
	(Annual percentage change)				
Net domestic assets	**22.6**	**-10.0**	**12.3**	**8.3**	**-1.6**
Credit to public sector	60.2	-31.7	-15.5	-117.6	187.9
Of which: Central government	66.1	-27.4	-20.4	-174.9	59.3
Credit to private sector	32.3	5.3	20.2	14.2	10.3
Liabilities to private sector	**23.3**	**-4.4**	**11.2**	**18.3**	**9.7**
Private capital and reserves	22.0	15.6	18.8	28.8	12.3
Deposits	11.5	12.4	6.9	8.3	9.3
Broad money	21.6	-7.4	5.6	5.9	9.7
	(Contribution to liquidity growth; percentage change) 3/				
Net international reserves	**4.4**	**3.4**	**2.2**	**11.9**	**10.6**
Net domestic assets	**17.5**	**-7.7**	**8.9**	**6.1**	**-1.1**
Credit to public sector	6.8	-4.7	-1.6	-9.4	-2.2
Credit to private sector	16.7	2.9	12.3	9.4	6.6
Broad money	14.7	-4.9	3.6	3.7	5.4

Sources: Central Bank of Trinidad and Tobago; and Fund staff projections.

1/ Consolidates the central bank, commercial banks, trust and mortgage companies, and finance houses and merchant banks.

2/ Includes investment note certificates, secured commercial paper, and other asset-backed instruments.

3/ In relation to liabilities to the private sector at the beginning of the year.

Table 5. Trinidad and Tobago: Summary Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	1997	1998	1999	Prel. 2000	Proj. 2001
Current account balance	**-578**	**-646**	**31**	**378**	**313**
Trade balance	-493	-743	64	663	850
Exports, f.o.b.	2,544	2,264	2,816	4,220	4,799
Of which					
Fuels	1,171	1,008	1,524	2,736	2,933
Petrochemicals	609	496	529	735	1,118
Other	764	761	763	749	748
Imports, c.i.f.	-3,036	-3,008	-2,752	-3,557	-3,949
Consumer goods	-397	-460	-502	-548	-560
Raw materials and intermediate goods	-1,147	-1,198	-1,332	-1,982	-2,133
Capital goods	-1,402	-1,246	-885	-986	-1,215
Services (net)	-89	75	-71	-326	-578
Nonfactor services	293	418	329	286	205
Factor services	-381	-342	-400	-611	-782
Current transfers (net)	4	22	38	41	41
Capital account (net)	**842**	**696**	**218**	**95**	**148**
Investment assets and liabilities	744	611	393	324	501
Official, medium- and long-term	-229	-104	110	104	95
Disbursements	74	59	295	384	222
Amortization	-349	-174	-185	-271	-98
Other	46	10	0	-9	-30
Private sector (net)	951	765	209	307	506
Commercial banks (net)	22	-50	74	-86	-100
Short term (net)	98	84	-175	-230	-353
Net errors and omissions	**-89**	**30**	**-86**	**-32**	**0**
Overall balance	**175**	**80**	**162**	**441**	**461**
Financing	**-175**	**-81**	**-162**	**-441**	**-461**
Change in net official reserves (increase -)	-175	-81	-162	-441	-461
Memorandum items:					
Exports/GDP ratio	43.4	37.0	41.9	54.8	57.7
Imports/GDP ratio	51.8	49.2	40.9	46.2	47.4
Current account/GDP ratio	-9.9	-10.6	0.5	4.9	3.8
Capital account balance/GDP ratio	14.4	11.4	3.2	1.2	1.8
Overall balance/GDP ratio	3.0	1.3	2.4	5.7	5.5
Gross international reserves (millions US$, end of period)	706	783	945	1,386	1,849
(In months of imports of goods and services)	2.3	2.7	2.5	3.2	4.1

Sources: Central Bank of Trinidad and Tobago; Central Statistical Office; and Fund staff estimates and projections.

Table 6. Trinidad and Tobago: Summary of Public External Debt

(In millions of US dollars, unless otherwise indicated)

				Prel.	Projected				
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Drawings 1/	**74**	**59**	**295**	**384**	**222**	**201**	**211**	**63**	**38**
Amortization due	**349**	**174**	**185**	**271**	**98**	**103**	**103**	**268**	**112**
Central government	296	132	144	236	51	66	66	231	77
Public enterprises	31	36	41	34	44	34	35	35	35
Financial public sector	23	6	1	1	3	3	3	3	1
Of which									
IMF	18	4	0	0	0	0	0	0	0
Valuation adjustments	**-39**	**18**	**-33**	**22**	**0**	**0**	**0**	**0**	**0**
Central government	-35	18	-5	8	0	0	0	0	0
Public enterprises	-2	4	-28	13	0	0	0	0	0
Financial public sector	-3	-4	1	1	0	0	0	0	0
Outstanding debt (end of period)	**1,564**	**1,467**	**1,544**	**1,678**	**1,803**	**1,901**	**2,009**	**1,804**	**1,730**
Central government	1,095	1,040	1,186	1,341	1,512	1,648	1,793	1,625	1,587
Public enterprises	440	408	339	318	274	240	205	170	136
Financial public sector	29	19	19	19	16	14	11	8	8
Of which									
IMF	6	0	0	0	0	0	0	0	0
Interest payments (due)	**124**	**116**	**99**	**108**	**146**	**143**	**140**	**136**	**111**
Central government	109	98	96	95	132	131	130	129	107
Public enterprises	14	18	2	13	13	11	9	7	5
Financial public sector	1	1	0	0	1	1	0	0	0
Debt service (scheduled)	**473**	**290**	**284**	**379**	**243**	**246**	**243**	**404**	**223**
Central government	404	230	240	331	183	197	196	359	183
Public enterprises	45	54	43	47	57	45	44	41	39
Financial public sector	24	7	1	1	3	3	3	3	1
Memorandum items:									
Debt/GDP ratio	26.8	23.9	23.0	21.8	21.7	21.1	20.2	16.7	14.8
Debt service due 2/	15.0	9.7	8.1	7.8	4.4	4.4	4.1	6.6	3.5
Average interest rate 3/	6.9	7.6	6.7	6.8	8.5	7.8	7.2	6.9	6.2

Sources: Central Bank of Trinidad and Tobago; Ministry of Finance; and Fund staff estimates and projections.

1/ Based on existing commitments.

2/ In percent of exports of goods and services.

3/ Interest as a percent of average outstanding debt.

Table 7. Trinidad and Tobago: Summary Projections of Medium-Term Economic Indicators 1/

(In percent, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	Average 2001-05
National accounts and prices							
Real GDP growth	4.8	4.5	5.2	5.5	5.0	4.3	4.9
Oil/gas sector	3.3	3.7	6.4	6.2	4.8	3.6	4.9
Non-oil/gas sector	5.2	4.8	4.9	5.3	5.0	4.5	4.9
Inflation 2/	5.6	2.5	3.8	3.5	3.1	3.0	3.2
Unemployment rate	12.5	12.1	11.5	10.7	10.2	9.8	10.9
External terms of trade	23.3	15.2	-15.3	-9.7	-6.9	-2.5	-3.8
Investment (in percent of GDP)	20.2	21.6	22.2	21.7	22.0	21.8	21.9
Gross national savings (in percent of GDP)	25.1	25.4	24.3	25.4	25.0	23.0	24.6
Public finances							
Central government 3/							
Revenue (in percent of GDP)	25.9	28.3	27.5	26.5	26.3	26.4	27.0
Expenditure (in percent of GDP)	25.7	28.2	27.4	26.3	25.8	25.8	26.7
Of which							
Capital and net lending	2.6	1.6	2.0	2.3	3.0	3.3	2.4
Current balance (in percent of GDP)	2.7	1.7	2.0	2.4	3.4	3.8	2.7
Overall balance (in percent of GDP)	0.2	0.2	0.1	0.2	0.5	0.6	0.3
External sector							
External current account							
(In millions of US$)	378	313	192	367	339	132	268
(In percent of GDP)	4.9	3.8	2.1	3.7	3.1	1.1	2.8
Overall balance							
(In millions of US$)	441	461	307	294	295	193	310
(In percent of GDP)	5.7	5.5	3.4	3.0	2.7	1.7	3.3
Gross official reserves (end of period)							
(In millions of US$)	1,386	1,849	2,157	2,451	2,746	2,939	2,428
(In months of imports) 4/	3.2	4.1	4.6	5.0	5.3	5.3	4.9
External debt service ratio 5/	7.8	4.4	4.4	4.1	6.6	3.5	4.6
External debt (in percent of GDP)	21.8	21.7	21.1	20.2	16.7	14.8	18.9
Memorandum items:							
Oil price (in US$/barrel) 6/	30.3	27.1	22.6	20.0	19.8	19.5	21.8
Crude oil production (in millions of barrels)	85.1	64.8	71.9	72.8	72.8	72.8	71.0
LIBOR (6 months)	6.7	4.5	4.3	4.3	4.3	4.3	4.3

Sources: Trinidad and Tobago authorities; and Fund staff estimates and projections.

1/ The medium-term projections are based on WEO assumptions.
2/ Retail price index (end period).
3/ The central government switched to an October 1-September 30 fiscal year in 1998. 1999 refers to fiscal year 1998/99 and similarly for subsequent years.
4/ Imports of goods and nonfactor services in the following year.
5/ In percent of exports of goods and nonfactor services.
6/ Differs from WEO projections by premium received for Trinidad and Tobago's oil.

Table 8. Trinidad and Tobago: Indicators of External and Financial Vulnerability

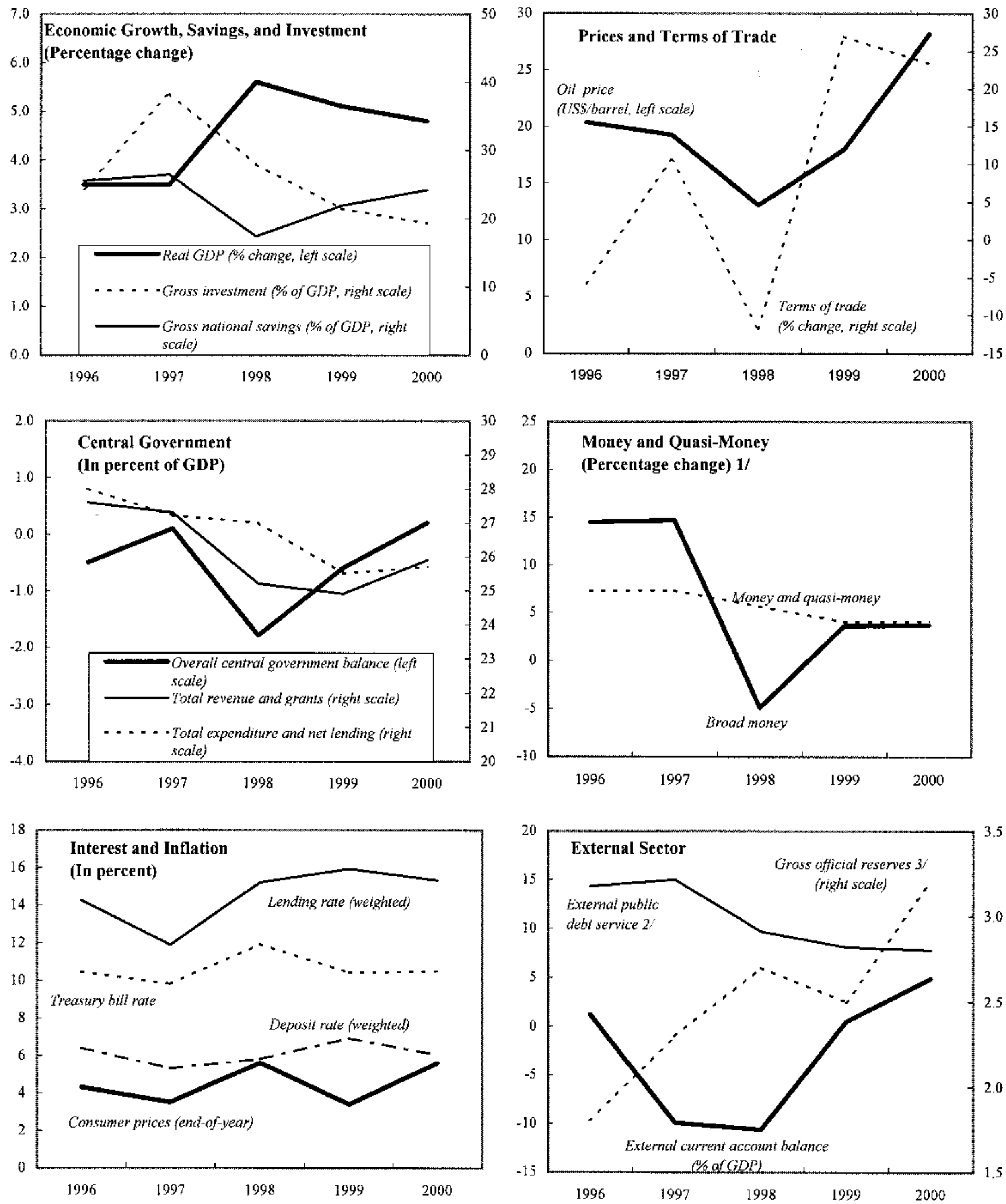
(In percent of GDP, unless otherwise indicated)

	1994-97	1998	1999	Prel. 2000	Proj. 2001
External indicators					
Exports (percent change, 12-month basis in US$)	11.7	-11.0	24.4	49.9	13.7
Imports (percent change, 12-month basis in US$)	38.1	-0.9	-8.5	29.2	11.0
Terms of trade (percent change, 12 month basis)	4.8	-11.8	26.9	23.3	15.2
Current account balance	0.2	-10.6	0.5	4.9	3.8
Capital and financial account balance	3.5	11.4	3.2	1.2	1.8
Gross official reserves (in US$)	490	783	945	1,386	1,849
Official reserves in months of imports of goods and services	1.8	2.7	2.5	3.2	4.1
Ratio of of reserves to broad money	...	30.2	34.5	47.8	58.1
Ratio of total public sector external debt to exports of goods and services	65.9	48.9	44.3	34.5	32.9
Ratio of public sector external interest payments to exports of goods and services	6.9	4.2	3.3	2.9	3.3
Public sector debt service ratio	17.8	9.6	8.1	7.8	4.5
REER appreciation CPI-based (percent change)	2.2	1.8	4.8	8.1	...
Financial indicators 1/					
Stock market index (end of period)		436.3	417.5	441.5	420.0
Foreign currency debt rating, (Standard & Poor's, end of period) 2/		BB+	BBB-	BBB-	BBB-
90-day Treasury bill, average discount rate (percent) 3/		11.9	10.4	10.5	10.4
90-day Treasury bill, real rate (percent) 4/		6.0	6.7	6.8	...
Share of non-performing loans in total loans of banks (percent)		6.2	5.0	4.7	...
Risk-based capital asset ratio of banks (percent)		18.2	17.5	20.0	...
Ratio of banks' after-tax profits to equity capital (percent)		14.9	17.7	16.6	...

Sources: Central Bank of Trinidad and Tobago; Standard and Poor's; Trinidad and Tobago Stock Exchange; and Fund staff estimates.

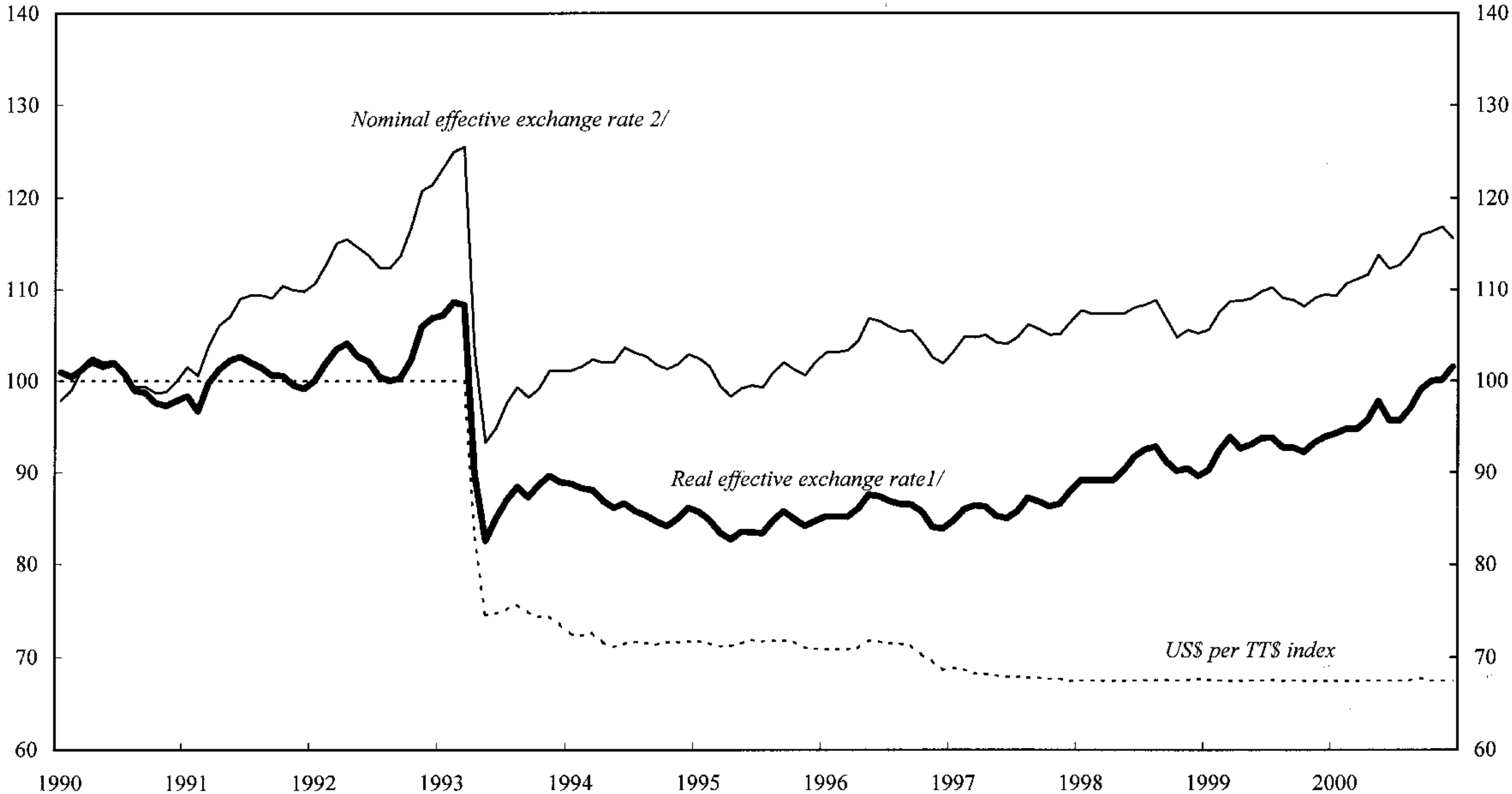
1/ Reflects data through end-April.
2/ Long-term foreign currency rating was upgraded on Sept 13, 1999 from BB+ to BBB-
3/ Weighted average of the monthly discount rates.
4/ Weighted average discount rate for 90-day bills adjusted by the annual average inflation rate.

Figure 1. Trinidad and Tobago: Selected Economic Indicators, 1996-2000



Sources: Trinidad and Tobago authorities; and Fund staff estimates.
1/ In relation to liabilities to the private sector at the beginning of the period.
2/ In percent of exports of goods and nonfactor services.
3/ In months of the following year's imports of goods and nonfactor services.

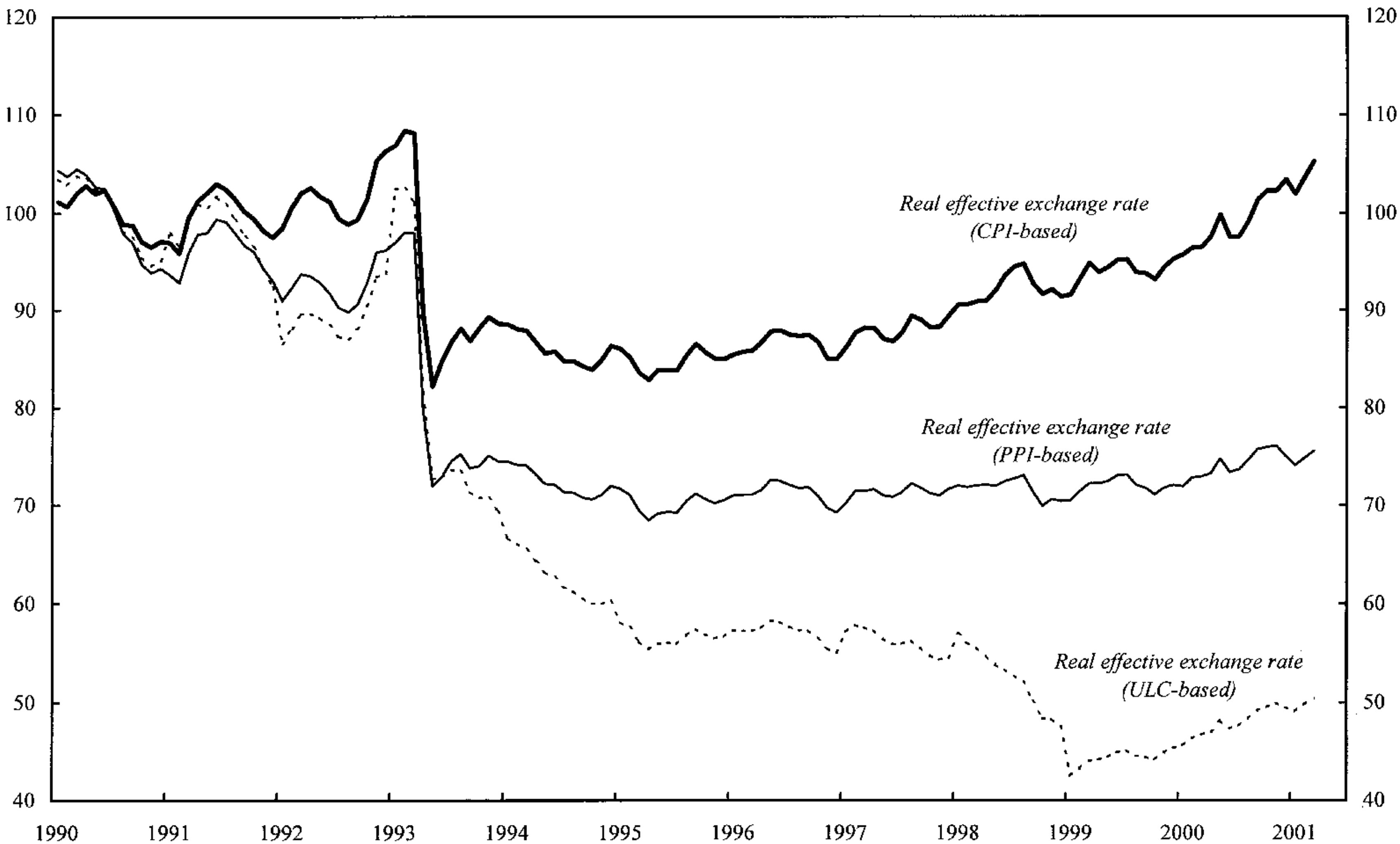
Figure 2. Trinidad and Tobago: Exchange Rate Developments
(1990=100)



Source: IMF Information Notice System.

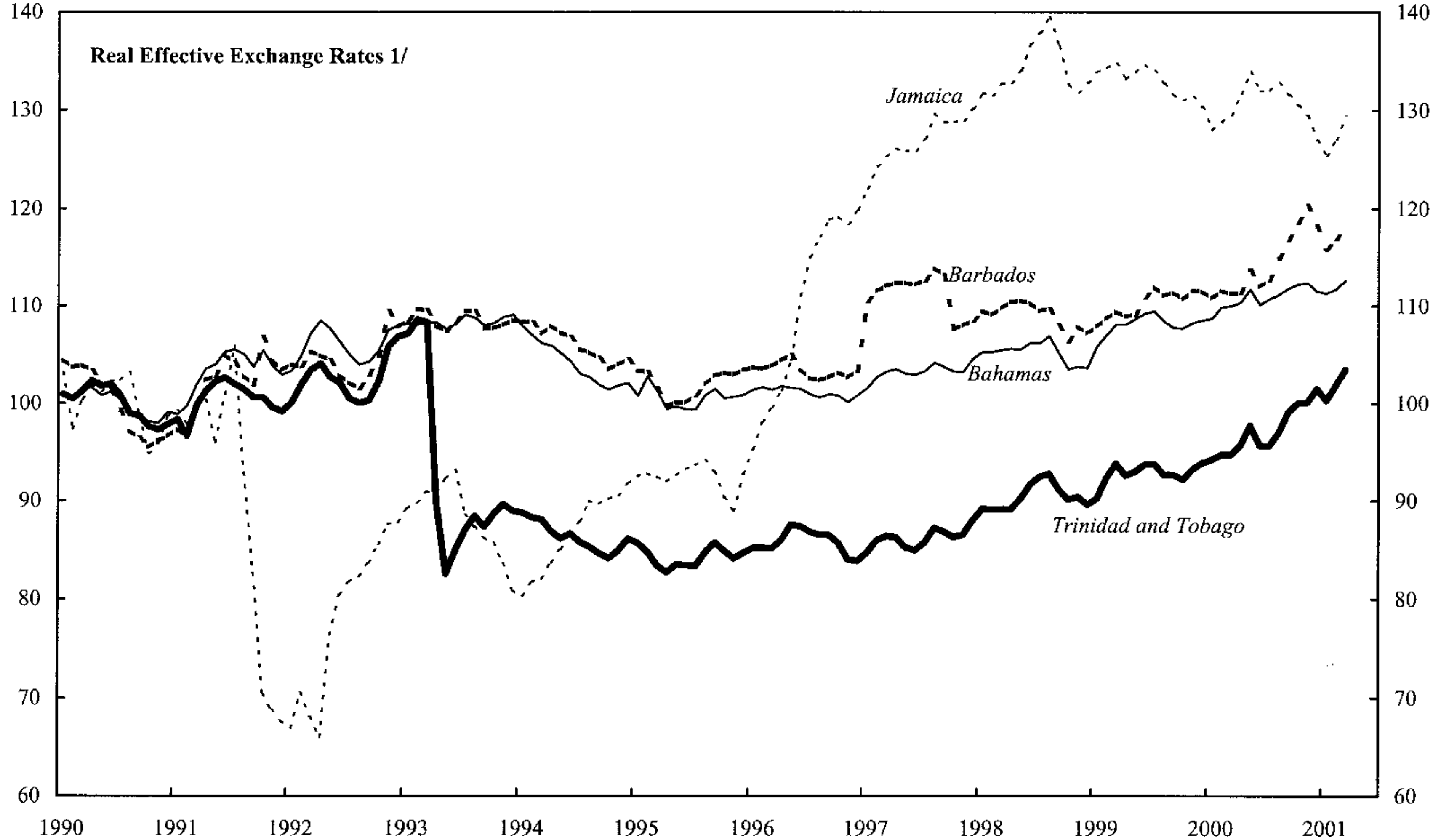
1/ Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.
2/ Trade weighted index of nominal exchange rates; increase means appreciation.

Figure 3. Trinidad and Tobago: Exchange Rate Developments - Alternative Calculations 1/
(Index 1990=100)



Sources: IMF Information Notice System; and staff estimates.
1/ The real effective exchange rate is estimated as a trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices, producer prices, or unit-labor costs. An increase means an appreciation.

Figure 4. Trinidad and Tobago: Exchange Rate Developments in Selected Caribbean Countries
(Index 1990=100)



Sources: IMF Information Notice System; and staff estimates.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase (decrease) indicates an appreciation (depreciation).

Figure 5. Trinidad and Tobago: Comparative External Vulnerability Indicators

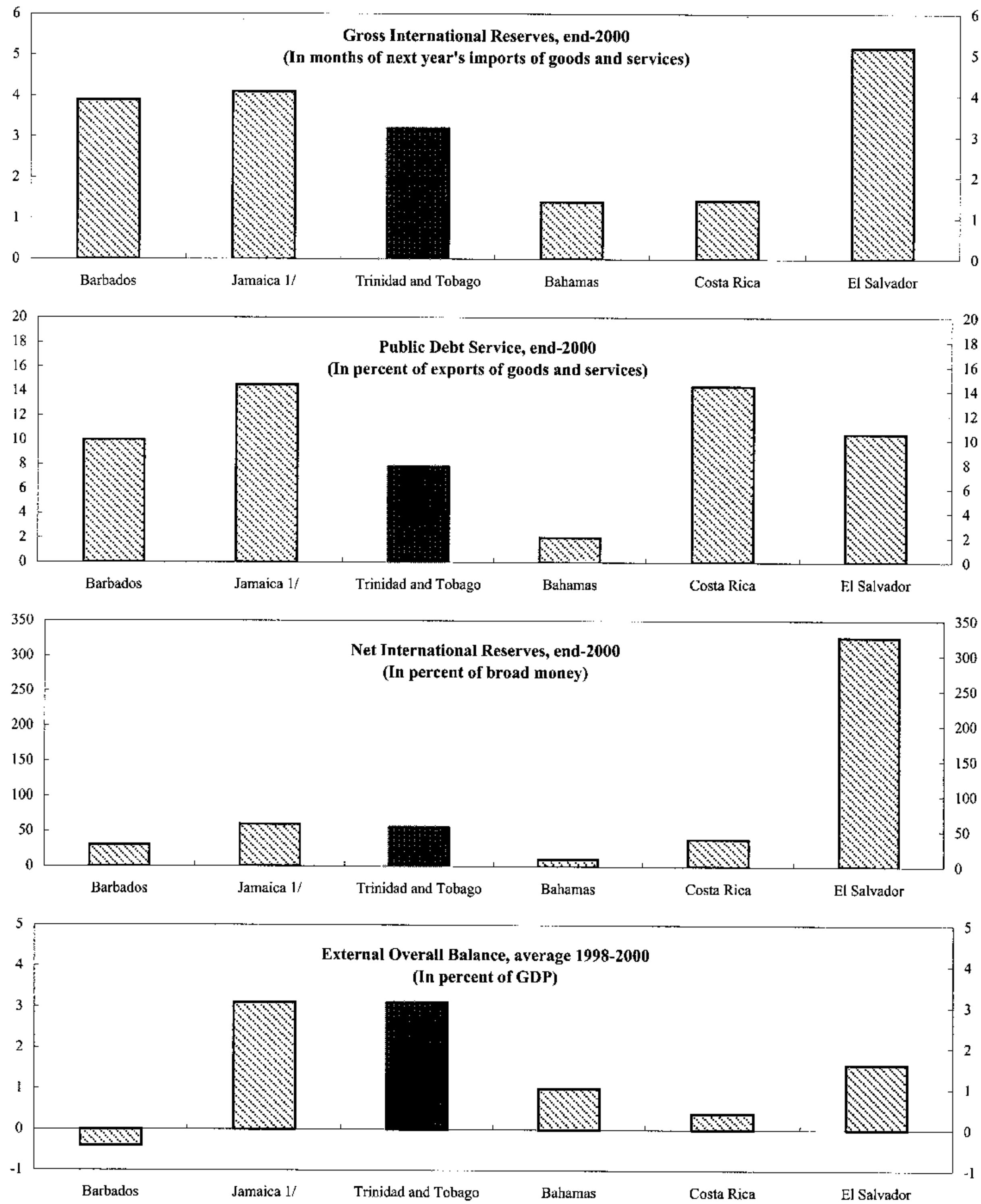
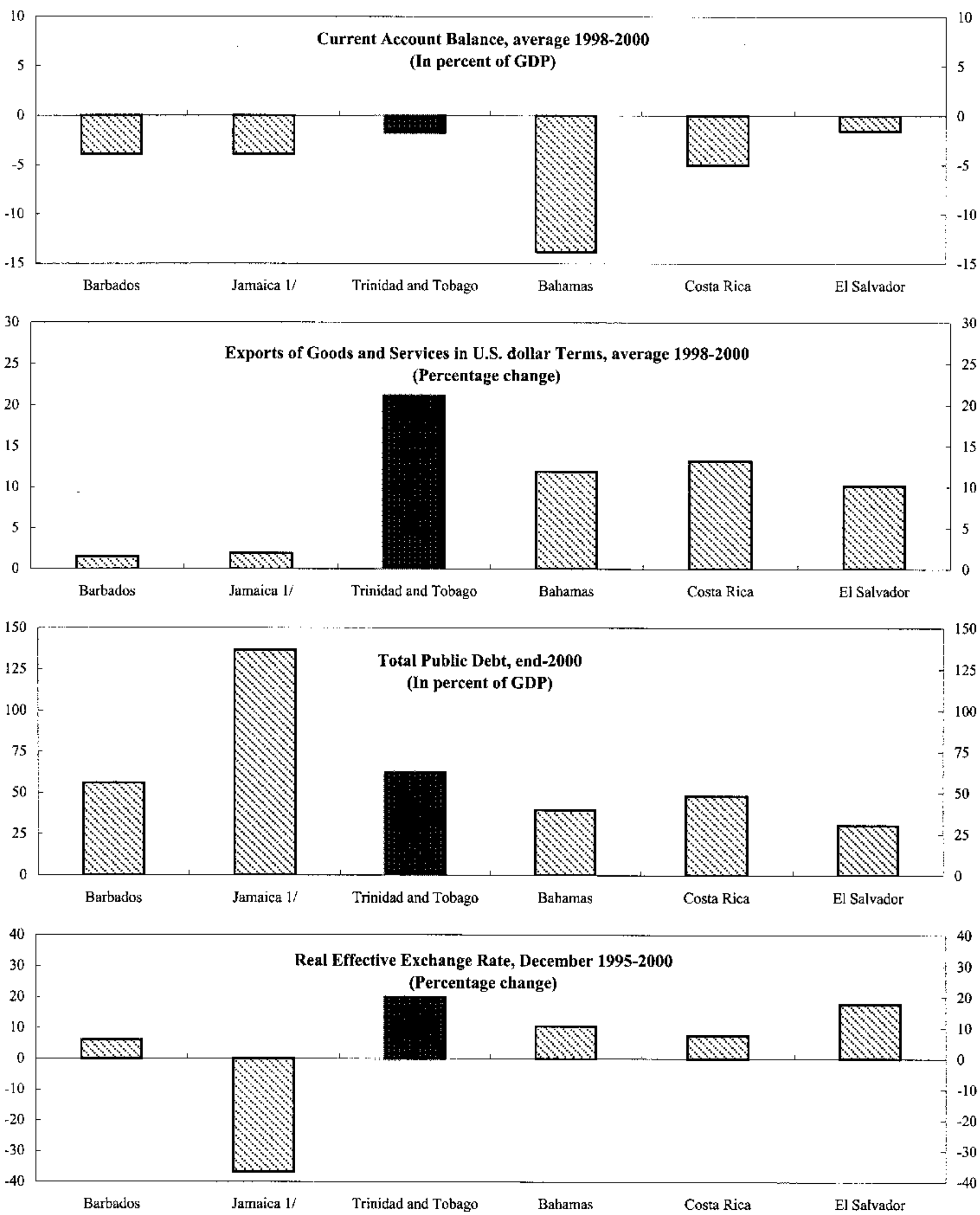


Figure 5. Trinidad and Tobago: Comparative External Vulnerability Indicators (Concluded)



Source: International Financial Statistics; and Fund staff estimates.
1/ Fiscal year, end-March 2001.

Trinidad and Tobago—Relations with the Fund

(As of April 30, 2001)

I. **Membership Status:** Joined 9/16/63; Article VIII

II. **General Resources Account:**	**SDR million**	**Percent Quota**
Quota	335.60	100.0
Fund holdings of currency	322.09	96.0
Reserve position in Fund	13.52	4.0
Financial transaction plan transfers (net)	18.00	

III. **SDR Department:**	**SDR million**	**Percent of Allocation**
Net cumulative allocation	46.23	100.0
Holdings	0.54	1.2
Designation plan	5.00	

IV. **Outstanding Purchases and Loans:**

None

V. **Latest Financial Arrangements:**

			(SDR Million)	
Type	**Approval Date**	**Expiration Date**	**Amount Approved**	**Amount Drawn**
Stand-by	4/20/90	3/31/91	85.0	85.0
Stand-by	1/13/89	2/28/90	99.0	99.0

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue			**Forthcoming**		
	04/30/01	**2001**	**2002**	**2003**	**2004**	**2005**
Charges/interest	—	1.3	1.7	1.7	1.7	1.7
Total		1.3	1.7	1.7	1.7	1.7

VII. **Exchange Arrangements**:

The Trinidad and Tobago dollar was pegged to the U.S. dollar at TT$4.25 = US$1.00 from August 17, 1988 to April 12, 1993. It was devalued to TT$5.72 per U.S. dollar (mid-point) and floated on April 13, 1993. Since then, the exchange rate has depreciated slightly and the mid-point between buying and selling rates was TT$6.24 per U.S. dollar on May 29, 2001. Trinidad and Tobago maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

VIII. **Last Article IV Consultation and Recent Contacts**:

The 1999 Article IV consultation was completed by the Executive Board on June 9, 1999; the staff documents were SM/99/114 and SM/99/124. Staff visits were conducted in August 1999 and November 1999 to complete discussions on a Staff Monitored Program for fiscal year 1999/2000 (EBS/00/57). A mission initiated the 2000 Article IV consultation discussions in June 2000, but the discussions were not completed due to the onset of the campaign for the November 2000 general election.

IX. **Technical Assistance**:

a. MAE: In November 1997, a technical assistance mission assisted the central bank in defining its technical assistance needs in the area of research.

b. MAE: In 1998 and 1999, there were three visits each by two experts providing assistance in the area of monetary policy and developing central bank research capacity.

c. MAE: From February 1, 1999 to July 31, 2001, a Caribbean regional central bank advisor was assigned with residence in Port of Spain.

d. FAD: In December 1999, a technical assistance mission advised the Ministry of Finance on restructuring energy taxation.

e. STA: In January 2000, a multi-topic technical assistance mission prepared a comprehensive program for the improvement of major statistical series.

f. MAE: In April 2001, a monetary policy advisor to the central bank took up assignment in Port-of-Spain.

Trinidad and Tobago—Relations with the World Bank

(As of June 4, 2001)

The World Bank's program includes projects in education, and privatization. Total commitments amount to US$62.7 million, of which approximately US$33 million is undisbursed. The World Bank prepared a Country Assistance Strategy for the period fiscal year 1999 to fiscal year 2001.

Ongoing projects:

Basic Education

The Basic Education loan (US$51 million) became effective in December 1996. It is intended to finance construction and rehabilitation of schools and will assist with a fundamental reform of the education system, especially at the primary and preschool levels. US$26 million is undisbursed.

Postal Service Reform

The Postal Service Reform loan (US$11.4 million) is assisting in the privatization of the Postal Service. Its objective is to help reduce public sector losses while improving the quality and efficiency of the postal service. US$7 million is undisbursed.

The Future Assistance Program

The Bank is not envisaging any lending for the next two years. It is assisting the central bank in improving its asset management.

Trinidad and Tobago: Financial Relations with the World Bank Group
I. Statement of World Bank Loans as of June 3, 2001

Active Projects

Project ID	Project Name	Borrower	Approval in Fiscal Year	IBRD	IDA	Cancel.	Undisb.
				Original Amount in US$ millions			
P035312	Basic Education	Govt of Trinidad and Tobago	1995	51	0	0	26
P040108	Postal Service Reform	Govt of Trinidad and Tobago	1999	11.4	0	0	7
			Total	62.4			33

Loans/Credits Summary in USD as of April 30, 2001	
Total disbursed (IBRD)	313,600,000
Of which has been repaid:	118,705,038
Total now held by IBRD	194,894,962
Total undisbursed	36,372,333

Trinidad and Tobago—Relations with the Inter-American Development Bank

(As of June 4, 2001)

As of June 2001, the IDB had a portfolio of active loans of US$477.60 million of which US$145.10 million had been disbursed. Of this total, major sectors of investment are in health (28 percent), transportation (25 percent), and education (22 percent). This trend is in accordance with the Bank's lending strategy for Trinidad and Tobago, which calls for undertaking necessary reforms to increase the efficiency of the public sector's delivery of services.

Urban Development and Housing

In 1989, the IDB approved the National Settlement Program loan of US$66.1 million to equip approximately 8,000 urban lots with basic infrastructure and upgrade the conditions for approximately 2,500 squatter families. A parallel nonreimbursable technical cooperation in the amount of US$3.34 million was also approved to assist the government in the reform of the housing and urban sectors.

In 1995, the IDB approved the Community Development Fund loan for US$28.0 million to enhance the government's capacity to deliver social services to the poor and vulnerable population during a period of economic adjustment and public sector reform.

Transportation

In 1996, the IDB approved a National Highway Program for US$120 million to improve and sustain road services provided by the main national road network, reduce road transportation costs, and provide incentives for the development of small contractors and microenterprises.

Education

In 1999, the IDB approved a Secondary Education Program for US$105 million. This program's objectives are aimed at providing five years of equitable, high quality secondary education; updating educational content and teaching methodologies; and developing a more efficient management of resources at the central and local levels.

Agriculture

In 1995, the IDB approved a US$9 million reimbursable technical cooperation to assist the Government of Trinidad and Tobago implement the Agriculture Sector Reform Program. This technical cooperation has as its objectives assisting agribusiness in the identification of opportunities and increasing its responsiveness to the new policy environment; and strengthening the long-term institutional capacity of the ministry of agriculture.

Pre-investment

In 1993, the IDB approved a Pre-investment Program II for US$10.5 million to enable the government to energize the public sector investment program with well-prepared studies, and to improve the allocation of public sector investment resources in Trinidad and Tobago.

Tourism

In 1995, the IDB approved a short-term support program for US$5.0 million to finance training, environmental studies, institutional support, and small rehabilitation works related to tourism.

Health

In 1996, the IDB approved a US$134 million Health Sector Reform Program to strengthen the policy-making, planning and management capacity of the ministry of health. The program will finance activities aimed at creating provisions to separate health services from financing and regulatory responsibilities, shifting public expenditures and redirecting private expenditures to priority areas and finding cost effective solutions; establishing new administrative and employment structures that encourage accountability, increased autonomy, improved productivity and efficiency; reducing preventable morbidity and mortality through lifestyle changes and social interventions; and financial sustainability of the health services delivery system.

Outstanding Statistical Issues

Trinidad and Tobago produces a wide range of economic and financial statistics that are largely based on sound methodological principles. However, the absence of institutional arrangements which facilitate collaboration among the central bank, the central statistical office, and the ministry of finance, planning, and development results in the duplication of data production efforts and some inconsistencies across sectoral databases.

Real sector

The central statistical office makes good use of available source data to produce annual national accounts. However, the quality of these annual estimates is deficient owing to source data that suffer from poor survey response rates and long delays in compiling survey results. The accuracy of constant price estimates is affected by the continuing use of 1985 base-year. The central statistical office does not currently produce quarterly GDP estimates. Although the central bank currently constructs quarterly indicators of real GDP, eventually the central statistical office should assume exclusive responsibility for compiling quarterly national accounts. Both the retail price index and the producer price index need to be rebased to a recent year. Both indices should be restructured to incorporate appropriate aggregation formulas.

Government finance

Data on central government operations and debt are compiled separately by the ministry of finance, planning, and development and the central bank, and data compiled by the two agencies differ significantly. The authorities should work to reconcile on a regular basis these two sets of data. Data on the nonbank financing is derived as a residual owing to the absence of data collection. The national classification system for government transactions and debt of the central government is sufficiently detailed for use in compiling data according to GFS methodology. The resumptions of reporting annual data on the consolidated central government for the GFS Yearbook and sub-annual data for the IFS are highly recommended. The most recently reported annual and sub-annual data were for 1995.

Monetary accounts

The major recommendations of the IMF money and banking statistics mission have been implemented by the authorities, leading to a substantial improvement in the analytical usefulness of the monetary statistics. There are, however, some areas for improvement. Monthly monetary accounts for other depository corporations (ODCs) currently cover only financial institutions that are licensed by the central bank under the 1993 Financial Institutions Act. Nonlicensed ODCs (development banks and thrift institutions) only report on a voluntary, quarterly basis. No data are reported by credit unions and the Post Office Savings Bank. The absence of these data have precluded the compilation of a more comprehensive Depository Corporation Survey. Currently only a few commercial banks are involved in limited transactions in options and swaps. If the use of these instruments becomes more significant, the central bank should initiate reporting of data on them in the monetary statistics. The authorities should also consider developing systems for reporting balance sheet accounts for the mutual funds, with a view to compiling a financial survey in the future.

Monthly data in the IFS are not current. Data on interest rates as well as monetary accounts are sent on an irregular basis, e.g., once in three months.

Balance of payments

Although quarterly balance of payments data are produced in a timely fashion by the central bank, annual data have been reported to the Fund's Statistics Department with a significant time-lag for publication in the International Financial Statistics and the Balance of Payments Statistics Yearbook (latest data for the year 1998 were reported to STA in mid-2000). The statistics conform to many of the standards of the BPM5. Weaknesses in coverage and classification reflect mainly inadequate data sources, primarily for the private sector, and affect direct and portfolio investment capital and external debt. There are sizable differences between some items of the external public debt compiled by the central bank and the ministry of finance, planning, and development. The central bank should expand its current debt reporting system to include comprehensive coverage of external loans and debt of the entire public sector, as well as publicly guaranteed debt.

Trinidad and Tobago: Core Statistical Indicators

As of June 12, 2001

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest Observation	6/01	5/01	5/01	5/01	5/01	4/01	5/01	12/00	12/00	3/01	2000	12/00
Date received	6/01	6/01	6/01	6/01	6/01	6/01	5/01	3/01	3/01	4/00	3/01	3/01
Frequency of data[1]	D	M	M	M	M	M	M	M	Q	M	A	M
Frequency of reporting[1]	D	B	B	B	B	B	B	M	Q	M	A	M
Source of update[2]	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting[3]	E	E	E	E	E	E	E	E	E	E	V/O,N Staff visit	E
Confidentiality[4]	C	D	D	D	D	D	C	D	D	D	D	D
Frequency of publication	M	M	M	M	M	M	M	M	Q	M	A	M

[1] D-daily, W-weekly, B-bi-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other.
[2] A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.
[3] E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.
[4] A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

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July 17, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Trinidad and Tobago

On July 6, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

Trinidad and Tobago's economic performance improved markedly toward the end of the 1990s owing to sound policies, and significant new energy-related investments. The nonenergy sector has also been buoyant, reflecting a pickup in exports of manufactured goods, and strong demand in construction and services. Real GDP growth accelerated from 3–4 percent in the middle of the decade to 5 percent a year in 1998–99, and inflation and unemployment declined.

In late-1999, to signal their commitment to sound policies, the authorities requested that the Fund staff monitor their economic program covering the fiscal year beginning October. The program aimed at achieving adequate rates of economic growth and job creation, and maintaining macroeconomic stability through a strengthening of fiscal policy, credit restraint, and structural reforms, particularly privatization. Performance under the program was in line with the authorities' objectives. Output grew by just under 5 percent in calendar 2000, inflation remained at about 3½ percent, and the balance of payments strengthened. Unemployment fell slightly, but remained high (12½ percent at mid-2000). Indicators through the first quarter of 2001 suggest that economic performance continues to be favorable. Real GDP growth for the year as a whole is expected to dip slightly owing to the effects of a drought on agricultural output and a

[1] 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. This PIN summarizes the views of the Executive Board as expressed during the July 6, 2001 Executive Board discussion based on the staff report.

moderation in construction activity. Consumer prices are expected to rise by an average of 4 percent.

The central government balance shifted to a small surplus in FY 1999/2000. However, this turnaround stemmed largely from high energy related revenues that masked some weakness in the VAT, and increased spending on infrastructure projects. The performance of the public enterprises also weakened owing to a marked pickup in spending on capital projects that led to an increase in the public debt from 54 percent of GDP at end-1998 to about 60 percent at the end of 2000. During the year, the authorities established an interim revenue stabilization fund (RSF) aimed at setting aside a significant proportion of the windfall revenue from the energy sector. At the end of the fiscal year, TT$415 million (about 1 percent of GDP) had been set aside in an account at the central bank. Continued favorable energy prices in FY 2000/01 are expected to contribute to another small budget surplus, and a further transfer to the RSF, also equivalent to 1 percent of GDP.

Monetary policy is centered on liquidity management and exchange rate stability. Following a tightening of liquidity and interest rates in the first half of 2000 related to the government's temporary financing requirements, conditions eased in the second half of the year. Consequently, interbank rates, which had risen by 2 percentage points to about 12 percent at mid-year, fell back by about the same magnitude toward December. Liquidity conditions during 2001 have permitted a reduction in banks' reserve requirements from 21 percent to 18 percent in late-May. As a result, banks' lending rates have fallen by about 1–1½ percentage points in the year to date.

The external current account surplus rose to 5 percent of GDP in 2000, owing to higher export volumes and prices of petroleum and LNG that more than offset a surge in imports related to the public sector projects noted above. This outturn, together with proceeds of a eurobond issue, led to an increase in gross international reserves at end-December 2000 to US$1.4 billion, equivalent to 3.2 months of imports of goods and services and 48 percent of broad money. By end-April 2001 gross international reserves reached US$1.6 billion (3½ months of imports of goods and services and 50 percent of broad money)

The government's privatization program has quickened in recent months. The first tranche of shares in the state holding company that controls a number of government-owned entities was sold in February 2001, and additional amounts are expected to be offered for sale by the end of FY 2000/01. In June this year, the parliament approved legislation that aims at liberalizing, and fostering competition in the telecommunications sector. Also, agreement in principle has been reached for the sale of part of the operations of the sugar company, and private sector participation in the state water and broadcasting companies is under consideration. Recently, the government announced that it would consider divesting its holdings in the energy sector. In the financial sector, reforms focus on improving the effectiveness of open market operations, developing money and capital markets, and strengthening further the regulatory framework of the financial system.

Executive Board Assessment

Directors commended the Trinidad and Tobago authorities for their strong track record of economic performance in recent years, as evidenced by robust output growth, low inflation, and a strengthening of the external position. Further, unemployment has declined and there has been progress in most social indicators.

Directors noted that these achievements are due largely to sound policies, in particular to broadly balanced budgets, and effective liquidity management. In addition, though, over the past two years, the fiscal and external positions have benefited from high energy prices. Directors commended the authorities for setting aside a portion of the windfall energy-related revenues in an interim revenue stabilization fund (RSF). They urged that the fund be formalized promptly, based on clear, comprehensive rules, and full accountability.

Directors emphasized the necessity of a prudent fiscal policy in the interests of all aspects of economic performance. They considered that, to ensure fiscal soundness in the context of fluctuating energy prices, weaknesses in revenue policy and spending growth need to be tackled. Regarding revenues, they noted the progress in addressing the recent slow growth in nonenergy revenues, but suggested that these efforts be complemented by raising excise tax revenues, restructuring energy sector taxation, reducing tax exemptions, and strengthening tax administration. Regarding budgetary expenditures, Directors emphasized the importance of containing the growth of the civil service wage bill, while ensuring that the salaries of skilled staff remain competitive.

Directors noted that the state enterprise sector is a drain on the budget, which needs to be addressed as a priority, both in the interests of fiscal consolidation and of promoting efficiency and growth. They suggested that more stringent financial reporting requirements for enterprises, and ensuring strict control over their contracting of new debt, would be useful first steps toward improving their performance and accountability.

Directors viewed the authorities' monetary policy framework, which centers on liquidity management and exchange rate stability, as appropriate. They took note of the initiatives being undertaken by the central bank to ensure an adequate supply of government paper for open market operations, and to promote a wider participation of institutions in these operations. They welcomed the recent reduction in banks' reserve requirements, as an initial step in reducing the unevenness of regulations across financial institutions.

Directors considered that the authorities' policies had contributed to exchange rate stability, without adversely affecting competitiveness. Maintaining this balance over the medium term would require the continuation of macroeconomic policies to contain inflation, and structural reforms to raise efficiency.

With respect to the direction of structural reforms, Directors commended the authorities' efforts to reduce—and set clear criteria for—the government's involvement in the economy. They considered that the privatization program should go forward as quickly as possible. They welcomed the proposals to include the state energy companies in the list of government assets that could be offered for sale, and noted the authorities' intention to move ahead with the restructuring of the sugar sector. Directors commented that the strength of recent performance primarily reflected developments in the energy sector. It was therefore appropriate that economic policy should facilitate the flow of additional resources to this sector. At the same time, Directors supported the authorities' desire not to become over-dependent on the energy sector, and to diversify the economy accordingly. In this regard, they were pleased to note the continuing robustness of the manufacturing and service sectors.

Directors mentioned Trinidad and Tobago's growing importance as a regional financial center, and welcomed the steps to keep supervision of the financial system in line with international standards, particularly in the areas of cross border activity, the consolidated supervision of financial groups, and the regulation of nonbanks.

Directors remarked on the generally good quality of statistics but recommended that the authorities implement promptly the recommendations of the Fund's Statistics Department, especially in the area of national accounts, prices, and the finances of the state enterprises.

Directors welcomed the authorities' intention to enter into a new staff-monitored program.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Trinidad and Tobago: Selected Economic Indicators

	1996	1997	1998	1999	2000
Real economy					
Real GDP (percentage change)	3.9	3.5	5.6	5.1	4.8
Non-oil GDP	4.6	4.9	6.0	4.2	5.2
Unemployment rate (in percent)	16.3	15.0	13.5	13.1	12.5
Consumer prices (percentage change, end of period)	4.3	3.5	5.6	3.4	5.6
Public finance (in percent of GDP) 1/					
Central government overall balance	-0.5	0.1	-1.8	-0.6	0.2
Central government current balance	1.2	1.0	0.3	0.0	2.7
Revenue and grants	27.6	27.3	25.2	24.9	25.9
Expenditure and net lending	28.0	27.2	27.0	25.5	25.7
Money and credit 2/					
Net foreign assets	9.2	5.8	3.3	2.2	12.2
Net domestic assets	10.2	17.5	-7.7	8.9	6.1
Public sector	-1.4	6.8	-4.7	-1.6	-9.4
Private sector	3.6	16.7	2.9	12.3	9.4
Liabilities to the private sector	19.4	23.3	-4.4	11.2	18.3
Average prime lending rate	15.5	15.0	17.5	17.3	16.5
Average deposit rate	6.4	5.3	5.8	6.9	6.0
External sector 3/					
Trade balance	6.0	-8.4	-12.2	0.9	8.6
Current account balance	1.2	-9.9	-10.6	0.5	4.9
Gross official reserves (US$ million)	546	706	783	945	1386
Reserve cover (months of imports of GNFS)	1.8	2.3	2.7	2.5	3.2
External public debt (end-of-period)	33.7	26.8	23.9	23.0	21.8
Real effective exchange rate index (1990 = 100) percentage change	-0.9	4.9	1.8	4.8	8.1

Sources: Data supplied by the authorities, and IMF staff estimates

1/ The central government switched to an October 1-September 30 fiscal year in 1998.

2/ Annual percentage change in relation to previous year's liabilities to private sector.

3/ In percent of GDP, unless indicated otherwise.

Statement by Murilo Portugal, Executive Director, and Anston Jwala Rambarran, Assistant to Executive Director, for Trinidad and Tobago
July 6, 2001

Trinidad and Tobago continues to experience strong economic growth placing it among the more rapidly developing countries in Latin America and the Caribbean. In 2000, the seventh consecutive year of expansion was registered, and the medium-term outlook appears favorable despite the recent further weakening of global economic prospects. Unlike the expansion in the oil boom period of the mid and late 1970s, this current cycle reflects more the resolute pursuit of sound macroeconomic policies and structural reforms, supported by new investments in the natural gas and petrochemicals sectors, than simply an improvement in the terms of trade. Nevertheless, our authorities are keenly aware of the many challenges that remain and, in this context, have welcomed and found useful the recent policy discussions with staff. They thank staff for a very comprehensive report and are in broad agreement with the comments and analysis. They look forward to its wider dissemination.

Recent Economic Developments

2. Economic growth in 2000, estimated at around 5 percent, was less than anticipated as declining crude oil production and delays in concluding negotiations for a new natural gas contract slowed the energy sector's momentum. Nonetheless, activity was boosted with the first full year of production at close to maximum capacity of the liquefied natural gas (LNG) plant and the coming on stream of a new methanol plant, elevating Trinidad and Tobago to the status of the world's largest methanol exporter. Favorable price trends for key export commodities – oil, methanol, ammonia and urea – also provided an impetus to growth. Robust performances across the non-energy sectors indicated some success with efforts to diversify the economy away from the traditionally dominant oil sector. Real output rose by around 1 percent in the first three months of 2001, higher than the rate of around ¼ percent recorded one year earlier.

3. Growth has been taking place in a low inflationary environment, although short-run supply shocks, particularly floods and drought, periodically induce food price spikes. Inflation was kept under 4 percent in 2000, broadly in line with that in the country's major trading partners. Over the first five months of 2001, core inflation remained subdued at about 2 percent.

4. Sustained economic growth continued to have a positive impact on the labor market. The unemployment rate, which peaked at about 25 percent of the labor force in the late 1980s, is now averaging around 12 ½ percent, the lowest rate in almost two decades. While this downward trend is encouraging, our authorities persist in seeking solutions for achieving a faster pace of employment generation, especially for the more vulnerable youth, women and unskilled workers.

5. Throughout FY 1999/2000 the central government's performance was favorably influenced by higher-than-budgeted prices for crude oil. Our authorities took advantage of

the opportunity to set aside two-thirds of oil windfall revenues, about 1 percent of GDP, in an interim revenue stabilization fund (RSF) and the remaining one-third to accelerate major infrastructure projects relating to long-deferred investment needs in the water, education and transport sectors. However, the financial performance of the parastatal sector weakened, while the public sector wage bill was higher than expected due to recent settlements. Consequently, the overall fiscal position improved only marginally, moving to near balance from a deficit of ½ percent of GDP in the previous year. In the first half of FY 2000/2001, the central government recorded an overall surplus of a little over 1 percent of GDP as actual oil prices averaged around US$30 per barrel, well above budget estimates. At the end of this fiscal year, the RSF should accumulate another 1 percent of GDP in assets.

6. Monetary policy remained focused on the management of liquidity conditions in the banking system to foster stable price and exchange rate conditions. On balance, recent open market interventions have been relatively successful in sterilizing the excess liquidity generated by government's traditional large fiscal injections and in mitigating credit growth. In May of this year, the statutory cash reserve requirement was lowered by 3 percentage points to 18 percent. The released resources were reabsorbed through a simultaneous issue of government securities to the commercial banks in order to neutralize the liquidity impact. As a result, prime lending rates have fallen by around 100-150 basis points to date. Against this backdrop, the authorities provided support to the foreign exchange market, and the exchange rate, as indicated by staff, remains broadly competitive, at an average selling rate of around US$1 to TT$6.30.

7. The banking system is generally well capitalized with an average ratio of capital to risk-adjusted assets of 20 percent, a low level of non-performing loans (below 5 percent of average total loans), and adequate provisioning for bad and doubtful debts. Over the last two years, Trinidad and Tobago has emerged as a regional financial center, in particular, raising substantial US dollar financing for governments and quasi-public sector entities in the Caribbean. Our authorities monitor closely the cross-country exposure of domestic banks, and plan to further strengthen cross-border supervision. With the support of the IDB, they are working towards the establishment of a more integrated supervision of the financial system. An ongoing self-assessment of the banking system is also being conducted to ensure adherence to international supervisory standards and best practices.

8. By the end of 2000 there was a distinct shift in the evolution of the balance of payments associated with the winding down of the investment boom in the energy sector. The external current account swung to a strong surplus of 5 percent of GDP from virtual balance in 1999 and very wide deficits in 1997-1998, while the succession of large capital account surpluses since 1996 gave way to a modest surplus of just over 1 percent of GDP. Nevertheless, at the close of the year, gross official reserves increased to around US$1.4 billion, equivalent to almost 3 ¼ months of prospective imports. At mid-June 2001, gross official reserves rose further to US$1.6 billion, sufficient to purchase 4 months of imports. With a greater reliance on non-debt creating flows, the country's external debt payments

have become increasingly manageable and sustainable. External debt service fell from 15 percent of exports of goods and non-factor services in 1997 to just under 8 percent in 2000 and is projected to remain under 6½ percent over the medium term. Standard and Poors (S&P) and Moody's Investor Services (Moody's) assigned investment grade status to the country's sovereign debt in September 1999 and June 2000, respectively.

9. Further progress was made in the area of structural reforms. The National Enterprises Limited (NEL) successfully launched its IPO this February to a wide spectrum of investors. NEL is an investment holding company into which the government has placed its 51 percent shareholding of three profitable state enterprises. The first phase of pension reform has been completed; the second phase will entail, among other things, the merger of the current national insurance scheme with other pension plans, and greater mobility and transferability of individual pension accounts. Work proceeded apace on strengthening of the institutional capacity of the Board of Inland Revenue (BIR), taking into account the recommendations of the FAD and the US Internal Revenue Service.

Medium-Term Prospects and Policies

10. Our authorities broadly share the staff's perspective on the country's medium-term prospects and the challenges facing Trinidad and Tobago. Real economic growth is expected to vary between 4 ½-5 ½ percent over the next five years underpinned by significant private sector energy-related investments and prudent macroeconomic policies. Unemployment rates would likely decline to single-digit levels. Inflation on a trend basis should remain at about the level of the major trading partners but supply shocks and the spillover effects of recent wage settlements could create some upward pressure to prices.

11. Externally, the current account of the balance of payments is expected to remain in surpluses averaging about 3 percent of GDP over 2001-2005. Higher export volumes due to additional capacity in the petrochemical sector could partly compensate for the pick-up in outflows of factor services, mainly retained earnings of the energy sector. Imports of capital goods diminish as energy-related investments taper off. This scenario should result in a gradual narrowing of the overall surplus on the balance of payments, providing a gross official reserve coverage equal to about five months of prospective imports from 2003 onwards.

12. Our authorities share staff's concern that the recent improved fiscal performance largely reflects the fortuitous influence of oil prices. They, therefore, have moved quickly to firmly reinforce the fiscal position, particularly the non-oil balance, and to limit the growing indebtedness of the parastatal sector. On the revenue side, they plan to strengthen tax administration, and are giving due consideration to the recommendations on restructuring the taxation regime in the energy sector as proposed by a 1999 Fund technical assistance mission. Our authorities agree with staff on the need to explore options to contain the future size of the wage bill as an important element of the appropriate fiscal strategy. They are also taking steps to address the weak financial management and accountability of the state

enterprises. A moratorium has been instituted on all borrowings by the non-financial public sector for the current fiscal year with the exception of selected projects at an advanced stage of completion. All projects in this sector now require prior approval of the Ministry of Finance.

13. Our authorities view fiscal consolidation as the cornerstone to engendering macroeconomic stability and, in this regard, would like to reiterate their commitment to maintaining budget balance or small surpluses over the medium-term. This should allow for a higher rate of public capital investment and lessen the reliance on an overly restrictive monetary policy to contain inflation, thereby releasing resources to meet growing demands in priority social areas of education and health. Moreover, they see the establishment of the RSF as promoting greater fiscal discipline and going some way in dealing with the issue of intergenerational equity in the distribution of the country's oil and gas wealth.

14. Our authorities concur with staff on the need to reduce the level of primary reserves to prudential levels, to broaden the base of instruments to which the reserves would apply, and to strengthen open market interventions in order to more equitably share the burden of adjustment between monetary and fiscal policies. In this regard, they intend to widen open market participation to include non-banks, the national insurance scheme and money market brokers and to raise the quantum of open market securities by TT$2 billion to TT$4 billion. Our authorities are aware of the high intermediation cost of the high cash reserve requirement and are committed to further reductions when conditions permit, especially as they continue to strengthen the institutional framework for trading in government securities.

15. Diversification efforts have focused on the tourism and agriculture sectors, given their potential for job creation. Our authorities are developing and refining the tourism product in niche markets and positioning Trinidad and Tobago as a destination for leisure, nature adventure, sports and cultural diversity. While the staff has captured the essence of the efforts in the privatization process, our authorities are of the view that the status of certain actions should be re-emphasised and clarified.

16. Regarding agriculture, our authorities intend to address the restructuring of the state sugar company, Caroni (1975) Limited (Caroni). Our authorities have set end-July 2001 as the target date for establishing a comprehensive and integrated work program, which would involve a change in the mandate of Caroni to become a facilitator of economic and business activity utilizing the substantial acreage under its control. In this framework of action, industrial and agricultural estates would be established so as to create jobs in heavy and light manufacturing and in agriculture. Our authorities have already commenced the process with the sale of Caroni's rum operations, which is almost completed, and arrangements will be put in place to secure a private sector investor to own and manage the sugar cultivation and processing units as well as to introduce the private sector into the operations of Caroni's other business units.

17. Our authorities attach great importance to streamlining the role of the public sector in commercial activities. A number of privatizations are being fast-tracked. Moreover, in June

2001, our authorities enacted telecommunications legislation which provides the legal framework for telecommunications and broadcasting services in the country. The policies, which will liberalize the sector and attract providers of efficient and technologically advanced services to the country, will foster broader business activity therefore facilitating competition in the sector. Our authorities would like the Board to note that parliamentary approval has not yet been obtained for private sector participation in the state telecommunications, water, and broadcasting companies. In addition, they have not officially announced their intentions to divest their holdings in the state energy companies.

18. Our authorities are also considering steps to introduce phased private sector participation in water production and distribution. Moreover, in order to enhance further the investment attractiveness of NEL, its portfolio is being expanded and strengthened as our authorities intend to transfer a portion of its indirect holding in two (2) viable state-owned entities in the energy sector.

19. In conclusion, our authorities intend to enter into a Staff Monitored Program (SMP) covering the 2001/2002 fiscal year to further signal their commitment to sound macroeconomic policies and to transparency in economic policy-making.