March 2009
IMF Country Report No. 09/78

Trinidad and Tobago: 2008 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for 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 2008 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 17, 2008, 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 December 23, 2008. 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.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 14, 2009, discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Trinidad and Tobago.

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

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INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Trinidad and Tobago

Approved by José Fajgenbaum and David Marston

December 23, 2008

- ***Economic and political setting***. Helped by a booming energy sector, Trinidad and Tobago has achieved an impressive improvement in economic indicators and has established itself as the Caribbean's main industrial and financial center. Falling energy prices require policy adjustments, following years of fiscal expansion and a more recent rise in inflation. Elections in November 2007 gave the incumbent People's National Movement party a solid majority.

- ***Financial crisis spillovers***. The direct impact from the global financial crisis has been limited, reflecting a liquid and well-capitalized banking sector that has relied little on foreign borrowing. Resilience also arises from large international reserves and low debt ratios.

- ***Focus of consultation***. The discussions focused on two key policy challenges: preparing for the risk of contagion and preserving macroeconomic stability, in the face of declining energy revenues and still high inflation. The mission made the following recommendations:

  - ***Contagion preparedness***. The authorities need to identify contingency measures to permit a quick and comprehensive response to potential problems of liquidity or solvency in the financial sector, and accelerate regulatory reforms and crisis-management planning, jointly with supervisors in the region.

  - ***Macroeconomic stability***. The government needs to constrain spending to limit the negative fiscal impact of lower energy prices, while letting automatic stabilizers operate in the case of an even sharper-than-envisaged slowdown. The central bank will have scope for monetary easing after concerns over second-round effects have abated. More exchange rate flexibility would be advisable, once global conditions have stabilized, while medium-term policies need to focus on reducing large non-energy fiscal deficits and improving the business climate.

- ***Authorities' views***. The authorities are in broad agreement with these recommendations—except on exchange rate policies—and have announced decisive spending cuts for 2008/09.

- ***Exchange system***. Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on current account transactions. The system, a *de jure* managed float, would be classified as a stabilized arrangement under the Fund's revised methodology.

- ***Mission***. The team, comprising Christina Daseking (head), Werner Keller, Padamja Khandelwal, and Masahiro Nozaki (all WHD), visited Port of Spain during November 4–17. Ms. Anne Joseph (OED) participated in several meetings.

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I. Background

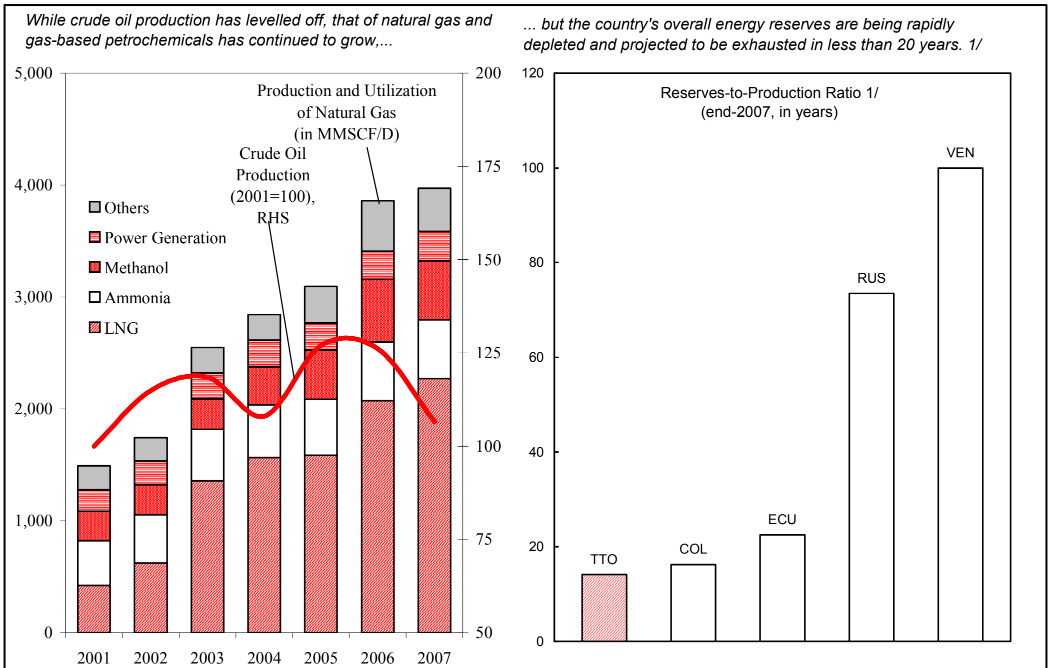
1. **Supported by a booming energy sector, Trinidad and Tobago's recent economic performance has been impressive (Table 1 and Figure 1)**. During 2002–07, real GDP growth averaged 9 percent; per capita income doubled in U.S. dollar terms; both the unemployment rate and the public debt ratio were halved; and the country has acquired one of the strongest credit ratings in the region. Improvements in social, political, and competitiveness indicators, however, have lagged the country's economic successes.

Selected Caribbean Countries—Key Economic, Social, and Political Indicators

	Trinidad & Tobago	Barbados	Jamaica
Economic indicators			
GDP per capita (USD 2007)	**15,905**	13,605	4,172
S&P sovereign rating (forex long-term debt)	**A**	BBB+	B
Moody's sovereign (forex long-term debt)	**Baa1**	Baa2	B1
Social indicators 1/			
Human Development Index (UNDP, rank)	**59**	31	101
Health and Primary Education Index (WEF, rank)	**72**	10	77
Business climate 1/			
Global Competitiveness Index (WEF, rank)	**92**	47	86
Business Competitive Index (WEF, rank)	**74**	41	61
Regulatory Quality (WB, percentile)	**71**	81	62
Political indicators 1/			
Corruption Perception Index (TI, rank)	**72**	22	96
Political Stability (WB, percentile)	**44**	92	43
Rule of Law (WB, percentile)	**49**	88	32

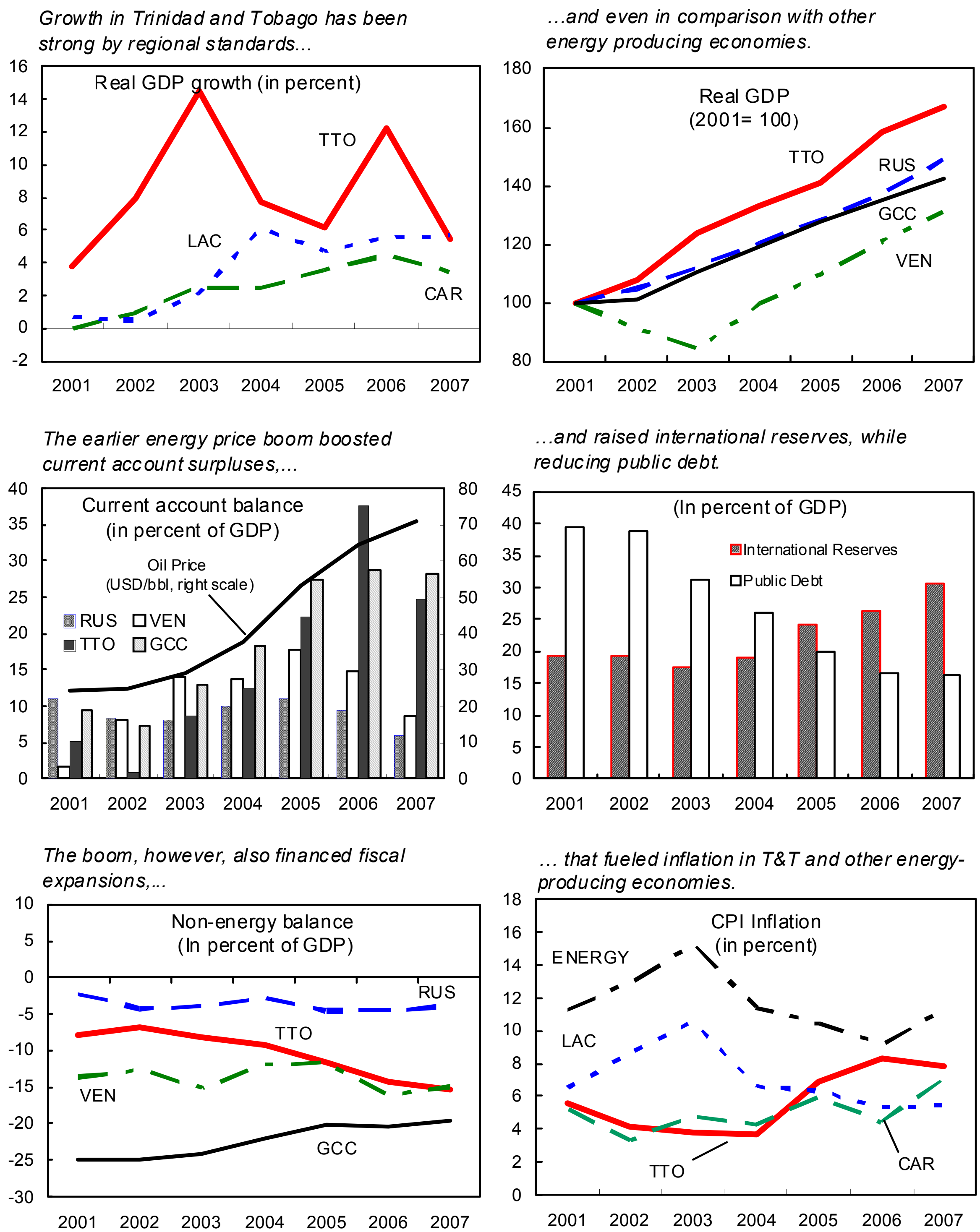
Sources: IMF World Economic Outlook, World Bank Governance Indicators, World Economic Forum Indices, Transparency International, and UNDP.
1/ A low rank or high percentile indicate relative strength.

2. **Faced with a prospective decline in energy resources, the government has embarked on an ambitious development and diversification strategy**. With the energy sector, including petrochemicals, accounting for nearly half of GDP, close to 90 percent of recent exports, and almost 60 percent of central government revenue, the prospective depletion of reserves over the next 20 years will require a major economic transformation. The government's *Vision 2020* lays out its strategy for managing this process, with the aim of



Source: Trinidad and Tobago authorities and 2008 Statistical Review, British Petroleum.
1/ Data include only proven reserves of oil and gas, and refer to the resource that would be depleted last under current production volumes. TTO - Trinidad & Tobago, COL - Colombia, ECU - Ecuador, RUS - Russia and VEN - Venezuela.

Figure 1. Trinidad and Tobago: Comparative Macroeconomic Performance



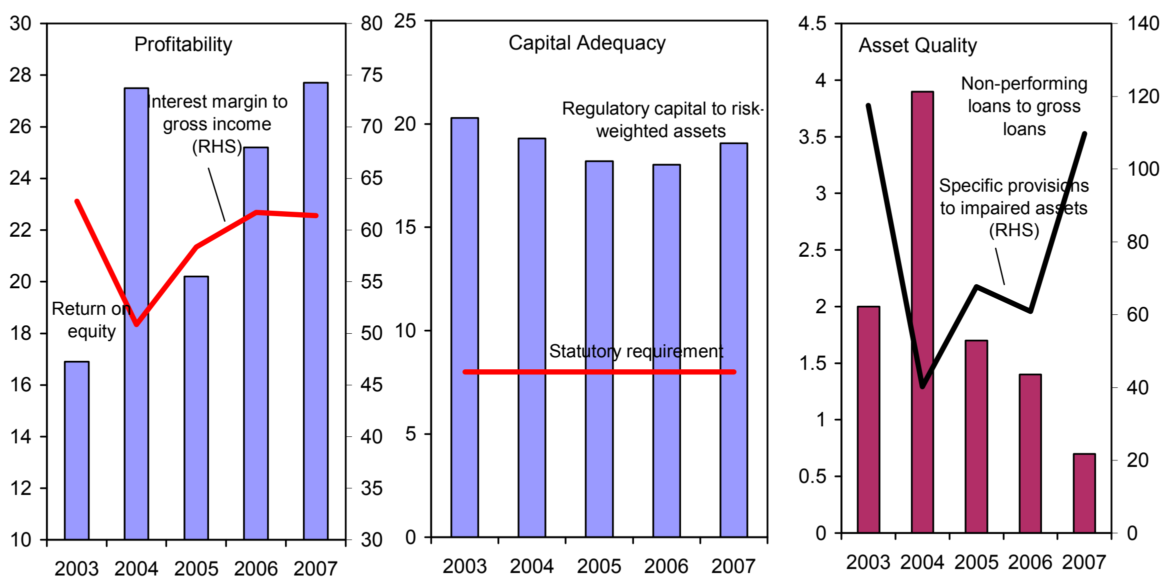
Sources: Trinidad & Tobago authorities; IMF/WEO; and Fund staff calculations.
Note: TTO stands for Trinidad & Tobago, VEN for Venezuela, RUS for Russia, GCC for Gulf Cooperation Council, LAC for Latin America and the Caribbean, CAR for members of CARICOM, excluding Haiti, and ENERGY for Russia, Venezuela, and the GCC (unweighted average).

attaining developed-country status by 2020. It relies on using the gradually declining energy revenues to support downstream activities and a diversified non-energy sector through subsidies and public investment in infrastructure, education, and social programs. However, the associated fiscal stimulus has fueled excess liquidity and inflation.

II. Recent Developments and Near-term Outlook

3. **Direct spillovers from the international financial crisis have been limited, but the country is not immune from contagion (Box 1)**. External vulnerability is low as a result of large international reserves and low debt ratios, and the banking sector has entered the period of global turmoil from a position of strength and with little reliance on external borrowing. This has limited direct spillovers and should contain the risk of liquidity shocks transmitted through foreign parent banks, should these come under stress. Nevertheless, risks could arise from exposures of large and complex financial conglomerates that operate across the region and deteriorating balance sheets in the event of a further sharp drop in energy and asset prices. In light of Trinidad and Tobago's position as a regional financial center, its institutions are exposed to potential economic difficulties in neighboring countries, and problems in Trinidad and Tobago could have important ripple effects throughout the Caribbean.

The banking system is profitable, well-capitalized, and non-performing loans are low and well-provisioned.



Source: Trinidad and Tobago authorities.

4. **While energy production has slowed, the expansion of the non-energy sector has led to capacity constraints and, together with rising food prices, to double-digit inflation**. After an impressive boom period, energy production is slowing, and overall growth is projected to decelerate to 3½ percent this year, down from 5½ percent in 2007 (Figure 3). However, growth in the non-energy sector has remained robust, and with record low unemployment and

Box 1. Potential Spillovers from Global Financial Crisis

Trinidad and Tobago is well placed to weather the crisis (Figure 2):

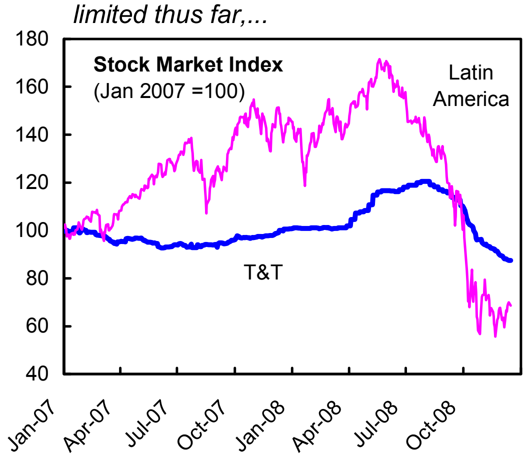
- **External vulnerability is low**, as demonstrated by a large current account surplus, official reserves that cover about 10 months of imports and more than 100 percent of broad money, favorable credit ratings, and comparatively low risk spreads on government bonds.
- **Disruptions in financial markets have been limited**, as both money and foreign exchange markets have continued to function normally. However, the possibility of contagion and an associated tightening of market conditions cannot be ruled out, if global tensions persist.
- **Banks have entered the global financial turmoil from a position of strength**, being well capitalized, liquid, and profitable. Although four institutions, comprising about half of all banking sector assets, are owned by Canadian and U.S. parents, banks are funded mainly through domestic deposits and equity, as opposed to external borrowing. This has helped contain direct spillovers.
- **Institutional arrangements have also alleviated vulnerabilities**. The requirement that insurance companies must hold at least 80 percent of their statutory funds in domestic assets has limited their exposure to foreign assets. Also, the upper threshold of the deposit insurance system, while not high, implies a large coverage.

However, Trinidad and Tobago's financial sector and economy are not immune from contagion, with the following channels warranting particular attention:

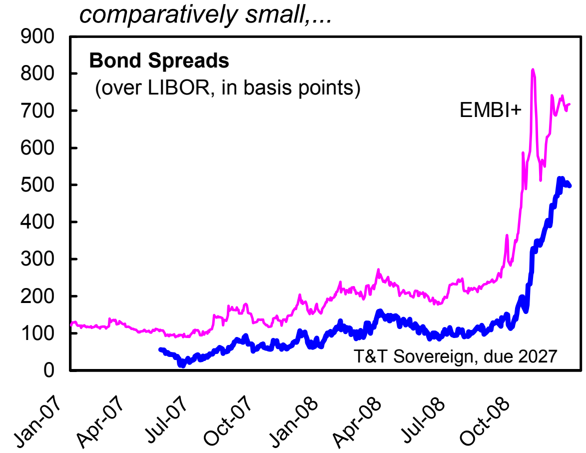
- **Large financial conglomerates**. The financial system is dominated by conglomerates, with engagements in commercial banking, investment banking, insurance businesses, as well as non-financial activities. The 2005 FSAP pointed to high levels of cross-shareholding and related lending across various subsidiaries, as well as considerable leverage at the group level. Moreover, a substantial portion of major conglomerates' revenue, in a range of 20–40 percent, is attributed to activities in the wider Caribbean. Thus, a shock originating in one country could be rapidly transmitted throughout the region.
- **Exposure to energy prices**. A further sharp deterioration in energy prices could have significant adverse implications, particularly if it forces a strong fiscal retrenchment with spillovers to domestic consumption, investment, and consequently, asset prices—notably real estate and equity. This would, in turn, affect bank collateral against the backdrop of recent buoyant growth in consumer loans, as well as asset positions of insurance companies and pension funds, that are heavily invested in the domestic stock market.
- **Size of financial sector**. A financial sector crisis would also have significant direct income and wealth effects, with financial services accounting for about one-quarter of non-energy GDP, 9 percent of total employment, and 70 percent of the country's stock market capitalization at end-2007 (corresponding to about 50 percent of GDP).

Figure 2. Trinidad and Tobago: Potential Spillovers from Global Financial Crisis

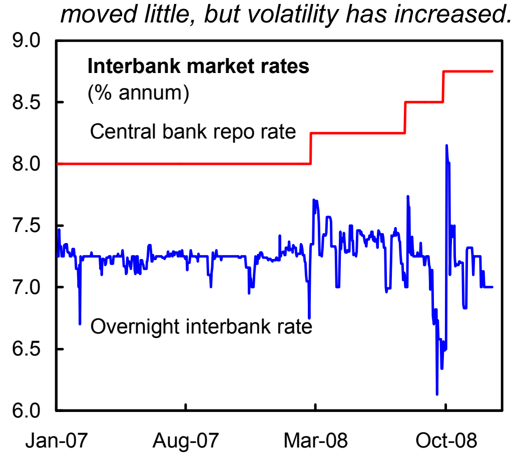
Stock market spillovers have been limited thus far,...



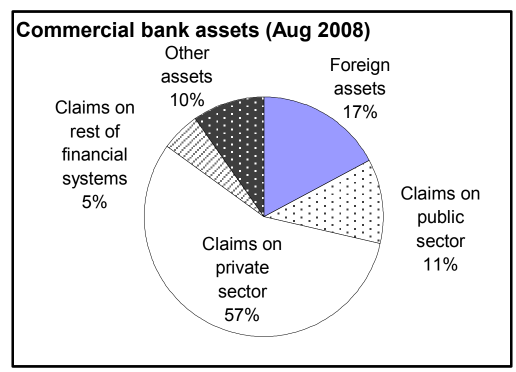
...increases in bond spreads have been comparatively small,...



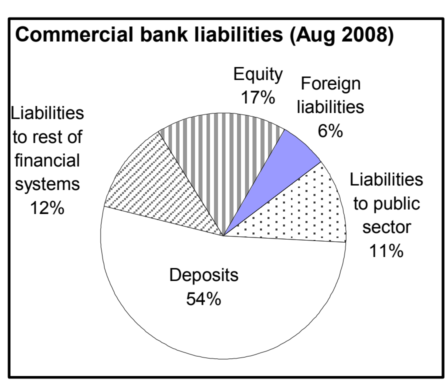
...and average interbank rates have moved little, but volatility has increased.



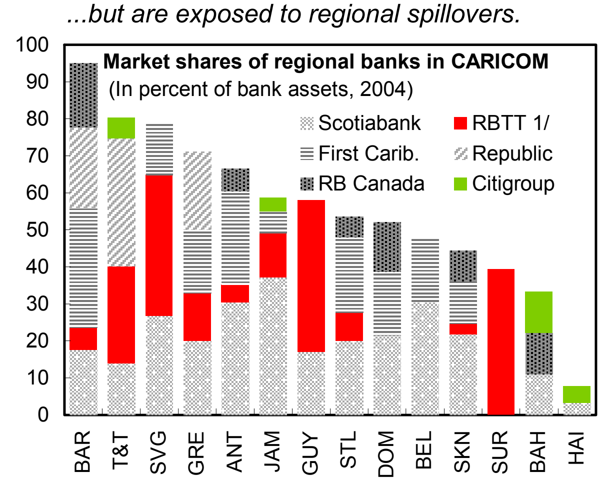
Banks have limited direct exposure abroad...



...and do not rely much on foreign borrowing,...



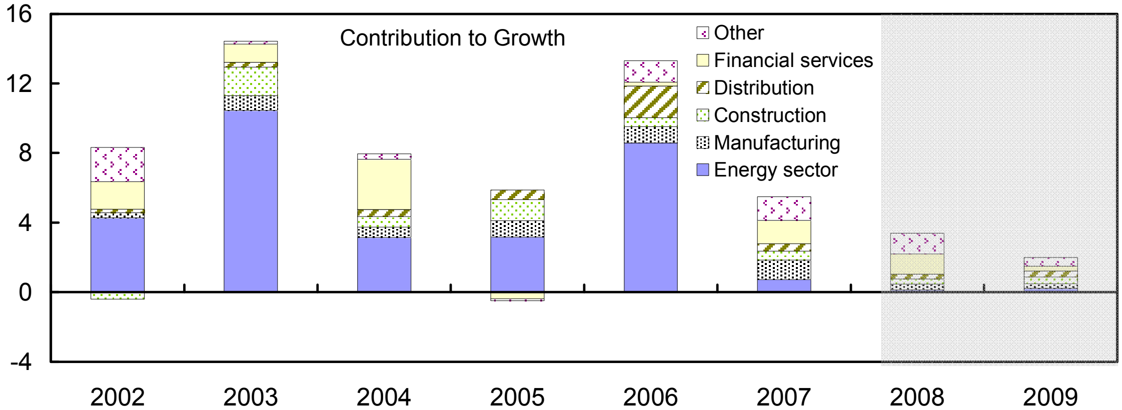
...but are exposed to regional spillovers.



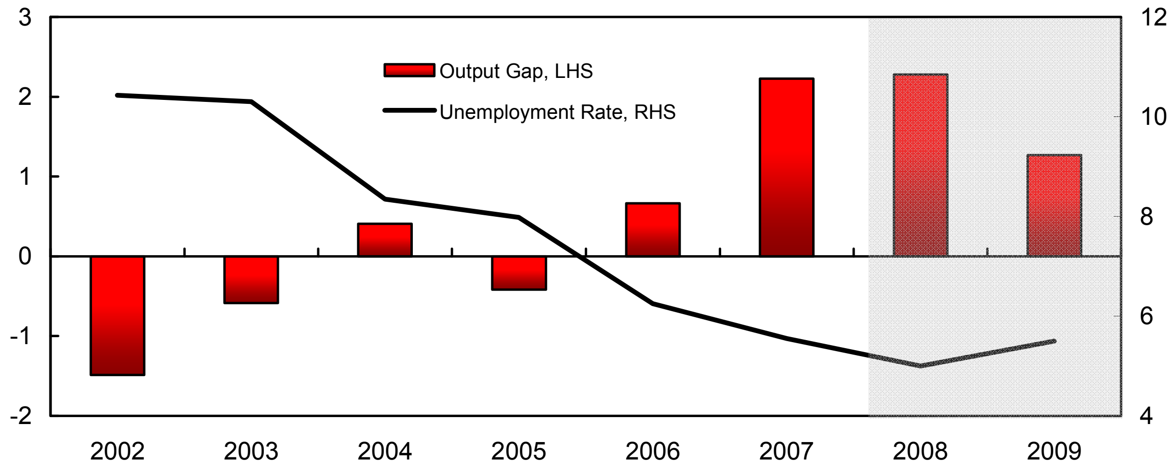
Sources: Bloomberg, JP Morgan, Datastream and Trinidad and Tobago Stock Exchange.
1/ RBTT was acquired by Royal Bank of Canada in June 2008.

Figure 3. Trinidad and Tobago: Real Sector Developments and Outlook
(In percent, unless otherwise indicated)

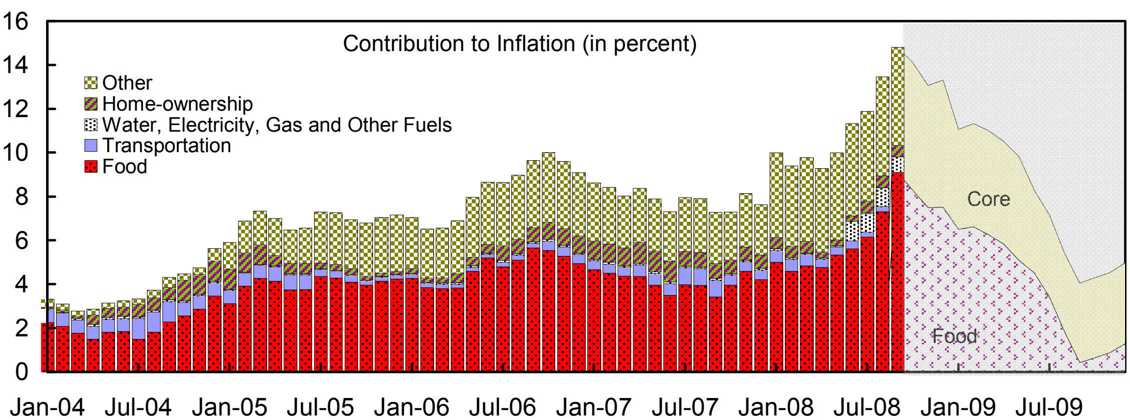
Growth is slowing but becoming more diversified, as the momentum shifts away from the energy sector.



Earlier signs of overheating, as indicated by positive output gaps and a record low unemployment rate, are expected to ease...



...and headline inflation rates should fall markedly, mainly as a result of lower food price inflation.



Sources: Trinidad & Tobago authorities; and IMF staff estimates.

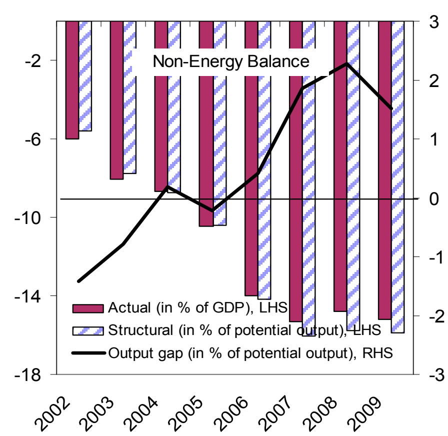
sharply rising food prices, inflation has accelerated to a projected average of 11¾ percent in 2008—despite a lack of pass-through of the earlier spike in global energy prices.

5. **Following years of expansionary policies, declining energy revenues will lead to a deterioration in the fiscal position**. While the government's balance sheet improved over the past five years, due to booming energy prices, the non-energy deficit doubled to about 15 percent of GDP (28 percent of non-energy GDP) in FY2007/08 (Table 3). This reflected high capital spending but also rapidly growing transfers and subsidies. The 2008/09 budget (October – September) was based on an oil price of $70 per barrel and would have implied broadly

Trinidad & Tobago: Selected Fiscal Indicators, 2004–08 1/

	2004	2005	2006	2007	Prel. 2008	Budget 2/ 2009
	(In percent of GDP)					
Revenues	25.8	30.7	33.3	30.1	36.9	27.3
Of which: Energy	10.6	16.2	20.6	17.0	21.3	11.8
Expenditures	23.9	25.0	26.7	28.4	30.4	30.7
Transfers & subsidies	9.9	10.7	12.7	12.6	13.7	14.0
Capital expenditures	2.0	2.9	3.9	5.8	6.6	5.8
Overall nonenergy balance	-8.7	-10.5	-14.0	-15.3	-14.8	-15.2
Overall balance	2.0	5.7	6.6	1.7	6.5	-3.4
Memorandum items:						
Public sector debt 3/	45.5	36.8	31.2	28.5	27.2	29.2

Sources: Country authorities; and Fund staff estimates.
1/ Central government operations are reported on a fiscal year basis, with 2004 corresponding to 2003/04 (Oct.-Sept.).
2/ Based on latest WEO energy price projections.
3/ Excluding debt issued for sterilization.

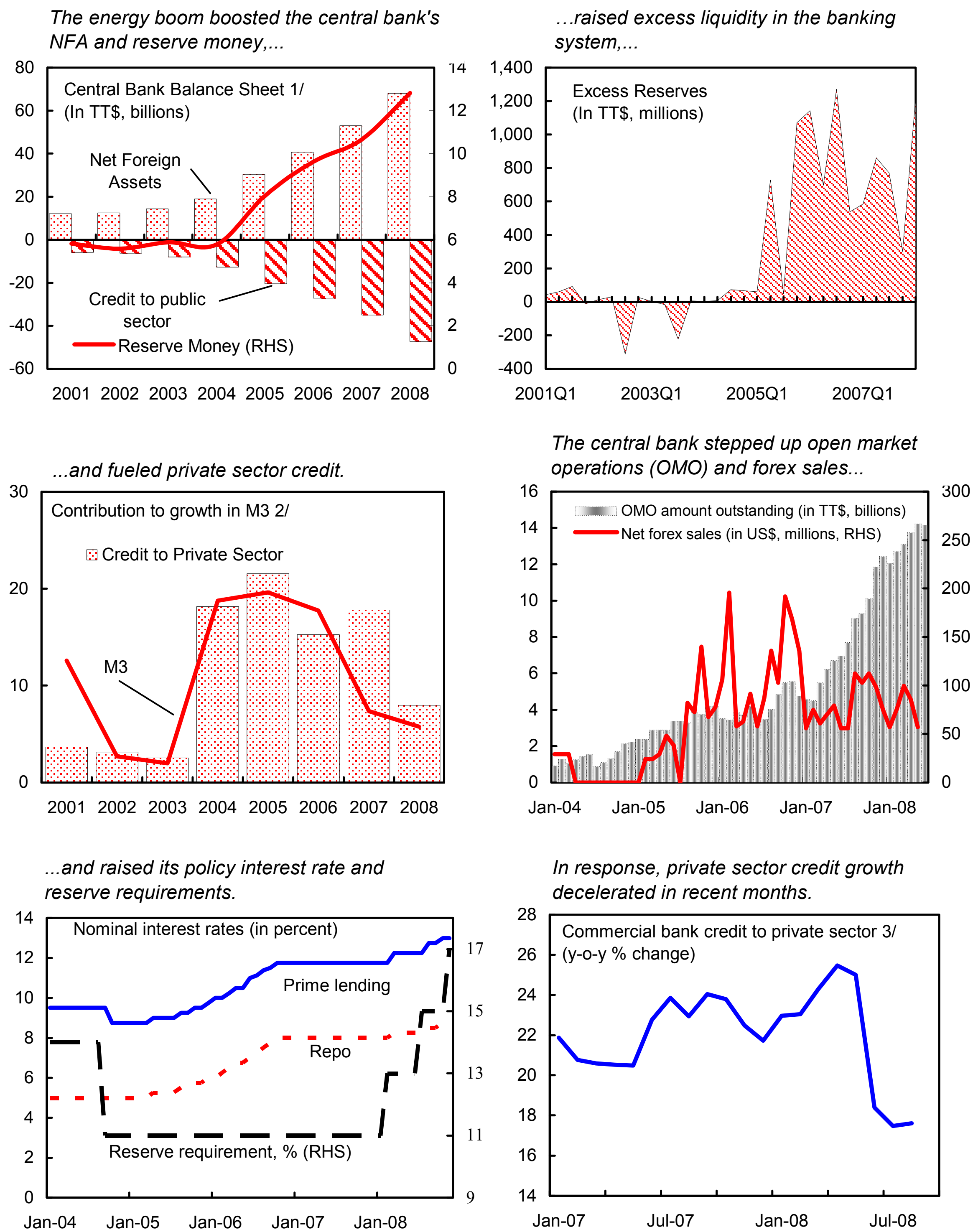


unchanged expenditures, as a share of GDP. However, with updated energy price projections, the same spending envelope would now translate into a deficit of about 3½ percent of GDP.

6. **The fiscal expansion has also complicated monetary policy, especially in the context of a *de facto* peg to the U.S. dollar**. The Central Bank of Trinidad and Tobago (CBTT) has responded to the rapid expansion in broad money, driven by the fiscal spending of large energy revenues, with successive increases of the repo rate; stepped-up open market sales of treasury bills and bonds; and increases in reserve requirements (Table 5 and Figure 4). While the resulting interest differential with the U.S. has not triggered large capital inflows—likely reflecting limits in the substitutability of financial assets—the *de facto* peg has circumscribed the CBTT's ability to mop up liquidity more aggressively through foreign exchange sales and to reduce inflation via an exchange rate appreciation. Nevertheless, the CBTT's tightening measures have eventually been effective in slowing private credit growth, which should decline further in response to a weaker economic outlook and a prospective tightening of lending standards, notwithstanding still ample liquidity in the banking system.

7. **Looking ahead, economic growth and inflation are projected to slow in the face of a deteriorating external environment**. Recessions in advanced economies, their spillovers to the tourism-dependent economies of the region, and sharply lower prices for energy products are projected to reduce growth to 2 percent in 2009. This, together with falling international food prices, should help dampen domestic price pressures. Nevertheless, the base effect of this year's food price shock, combined with still tight capacity constraints and labor market

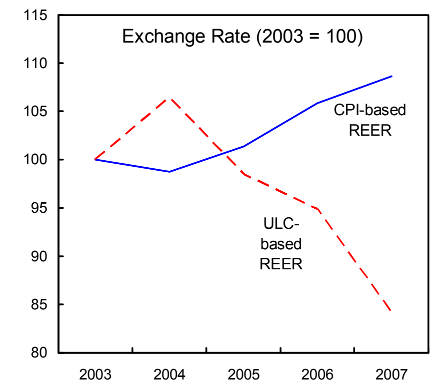
Figure 4. Trinidad & Tobago: Monetary Conditions



Sources: Trinidad & Tobago Authorities; and Fund staff estimates.
1/ Figures for 2008 are for August 2008.
2/ Figures for 2008 are percentage changes from end-2007 to August 2008.
3/ Data for commercial banks and trusts and mortgage companies.

conditions, is projected to limit the decline in headline inflation to 7½ percent in 2009. At the same time, the external current account surplus is projected to decline by 15 percentage points to about 12 percent of GDP, in response to falling energy export earnings, with an assumed oil price decline of about US$43 per barrel to US$54 in 2009. These projections, however, are subject to an unusually high degree of uncertainty, given the unsettled global outlook and volatile commodity prices.

8. **Although the real exchange rate is close to its estimated equilibrium, the deficit in the non-energy current account will need to shrink to preserve long-term sustainability**. As in many energy-exporting countries, an assessment of Trinidad and Tobago's exchange rate yields ambiguous results. A cursory examination of real exchange rate trends shows that while the CPI-based rate has appreciated in recent years, relative unit labor costs have fallen, helped by the impact of capital investments on manufacturing productivity. A more methodical assessment provides similarly mixed results (Box 2). Even though the real effective exchange rate appears to be broadly in line with current fundamentals, a forward-looking assessment, that takes explicit account of the prospective decline in energy reserves, suggests the need for a significant reduction in the non-energy current account deficit to preserve long-term sustainability. This analysis is subject to a number of caveats, however, including potentially higher export capacity in the non-energy sector as a result of current investments.



Sources: Central Statistical Office and IMF Information Notice System.

III. Policy Discussions

9. **The discussions focused on two challenges: preparing for the risk of contagion and preserving macroeconomic stability with falling energy revenues and still high inflation**. Although contagion has been limited, there was agreement about the importance of preparing for the possibility of more severe spillovers from the global financial crisis by strengthening the crisis-response framework and developing contingency measures. At the same time, the authorities need to safeguard fiscal and external sustainability in the face of falling energy revenues, while containing harmful second-round effects on inflation, just at a time when the external environment is deteriorating dramatically.

A. Preparing for the Risk of Contagion

10. **The authorities were keenly aware of the risks arising from the worldwide financial crisis and were determined to react swiftly, should the need arise**. Even though they considered the country's financial sector to be relatively secure, due to high liquidity and

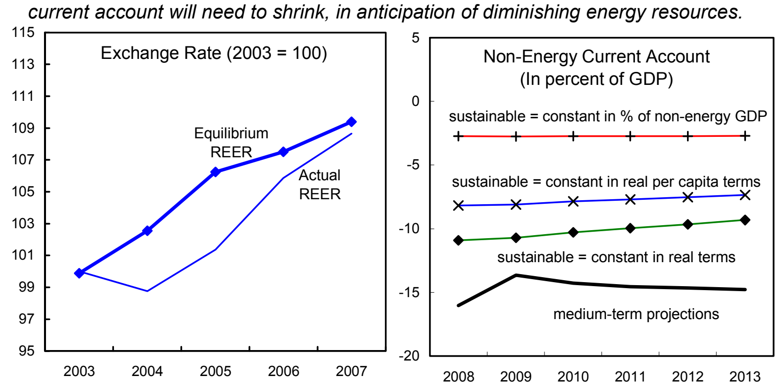
Box 2. Exchange Rate Assessment[1]

Exchange rate assessments for nonrenewable resource exporters are complex. During a commodity price boom, improved terms of trade lead to an increase in the equilibrium real exchange rate. In these circumstances, unless the actual real exchange rate moves in tandem, regression-based analyses typically suggest that the currency is undervalued—a conclusion that is also supported by an implicit large current account (CA) surplus. On the other hand, large CA surpluses tend to be temporary, reflecting the appropriate desire to save for the future, when the nonrenewable resources are depleted. Analyses that focus on external sustainability and take the prospective depletion of these resources explicitly into account can incorporate such intertemporal aspects. However, they are normative in nature and depend on a number of assumptions—the resource prices, the pace of extraction, and the effect of resource-financed spending on economic growth—as well as on the specific definition of sustainability.

In the case of Trinidad and Tobago, a regression-based analysis suggests that the real effective exchange rate (REER) is in line with fundamentals. As the terms of trade have improved through 2008, and both tradable sector productivity and government consumption have risen, the equilibrium real exchange rate has increased. However, so has the actual REER, with the result that the two rates are closely aligned on the basis of staff's estimated model.

In contrast, an analysis that focuses on long-term external sustainability suggests that the large deficit in the non-energy CA is unsustainable. In this analysis, the sustainable non-energy deficit is defined as the deficit that can be financed indefinitely from the wealth generated by the nonrenewable energy resources. It is obtained using three alternative definitions: a constant non-energy CA in real terms; in percent of non-energy GDP; or in real per capita terms. In each case, the sustainable deficit is lower than the current and projected deficits, but the magnitude of deviations differs considerably between 5½ and 12 percentage points of GDP over the medium term. An important caveat to this analysis is, however, that investments that raise the CA deficit in the medium term may durably boost export capacity in the non-energy sector. Thus, the long-term CA could be much stronger than what is projected over the medium term, without the need for a real depreciation of the currency.

The real exchange rate is in line with existing fundamentals, but the non-energy current account will need to shrink, in anticipation of diminishing energy resources.



Sources: Central Statistical Office, IMF Information Notice System, Fund staff estimates.

In sum, the exchange rate assessment yields different results, depending on the methodology and time frame underlying the analysis. This explains why recent appreciation pressures in the presence of a high overall CA surplus are compatible with the assessment that the non-energy CA will need to strengthen over time to preserve long-term sustainability. Fiscal adjustment will be key in this regard.

[1] See Appendix I for details.

strong capital positions, they realized that even ample liquidity in the system was no guarantee for banks' willingness to lend to each other or to domestic firms. Thus, the CBTT was monitoring the situation closely and was prepared to respond promptly to signs of problems, taking note of measures that have recently been taken by other central banks to ease and broaden access to liquidity and to preserve interbank lending. The CBTT has also requested financial institutions to conduct regular stress tests of their most important exposures. The mission welcomed this, while urging the CBTT to accelerate its development of in-house capacity for stress testing and its work on a crisis-management plan, in conjunction with regional supervisors.

11. **The authorities agreed that the global situation added urgency to the enactment of improved financial sector legislation and the strengthening of supervisory practices**. The mission welcomed the passage in the lower house of Parliament of a new Financial Institutions Act, which was subsequently also passed by the Senate. Its swift implementation will be crucial to enhance the central bank's ability to supervise the country's complex financial sector and lay the foundation for follow-up legislation in the areas of insurance, securities, pensions, and credit unions. The mission encouraged the authorities, in implementing the improved framework, to (i) press for changes in conglomerates' holding structures, with a clear separation of financial and non-financial activities; (ii) review risk-management practices and enforce prudential standards on a consolidated basis; and (iii) coordinate closely with regional and international supervisors on the basis of clear home/host country responsibilities. The authorities confirmed their commitment to act accordingly.

B. Preserving Macroeconomic Stability

12. **There was broad agreement on the need to adjust fiscal policy to already lower energy prices and the possibility of considerably slower growth in 2009**. Even though the government has cushions to weather shocks, spending adjustment will be needed to contain a rapidly deteriorating fiscal position and safeguard sustainability under more difficult circumstances. The mission welcomed the authorities' commitment not to tap into the savings accumulated in the Heritage and Stabilization Fund (HSF) and recommended maintaining nominal spending in FY 2008/09 at the level of the previous year. While the authorities were still debating the overall spending envelope at the time of the visit, they have since identified savings (beyond those on fuel subsidies) of nearly 2½ percent of GDP relative to the budget—about ½ percent of GDP more than suggested by the mission. These cuts will be achieved by spending restraint across all ministries and the postponement of a range of projects that were scheduled to commence this fiscal year. As a result, expenditures will be 2 percentage points of GDP lower than in the previous year, and the central government deficit would be contained at 1 percent of GDP under current energy price projections. In the event of an even larger decline in energy prices and economic activity in 2009, the mission advised the government to let automatic stabilizers operate to cushion the adverse impact on the domestic economy.

13. **Beyond the immediate challenges, the mission argued that further policy adjustments would be needed over the coming years to preserve long-term sustainability**. While public spending on infrastructure and education are important components of the government's development strategy, the magnitude of the recent fiscal expansion has been excessive. It has not only contributed to high inflation and risks of Dutch disease, but also implied large non-energy deficits that cannot be sustained in the longer term. To generate adequate savings in the HSF that would allow the country to benefit permanently from its existing energy wealth, the mission urged a further reduction in the non-energy deficit over the medium term, combined with a return to more conservative energy price assumptions. Informed by an analysis of long-term sustainability, it advised the government to reduce the non-energy deficit by another 4 percentage points of GDP beyond the 2 percentage points already identified for the current fiscal year (Box 3). This would reverse the increase in primary spending, as a share of GDP, that has occurred since 2002/03 when energy revenues were only about 2 percentage points of GDP lower than projected for 2008/09.

14. **The authorities acknowledged the need to preserve long-term sustainability, but stressed the importance of growth-enhancing investments and economic diversification.** While they recognized that fiscal policy had contributed to inflation, they pointed out that the key driver—the surge in food prices—was a global phenomenon whose inflationary impact should soon recede or even be reversed. At the same time, the government considered infrastructure and human capital investments critical for removing supply bottlenecks and enhancing productivity. Thus, while they were committed to accumulate additional savings in the HSF, they also believed that increased tax revenues from a growing non-energy sector would help reduce the non-energy deficit over the medium term. The planned Central Revenue Authority will be instrumental in further strengthening revenue administration, while the soon-to-be established macro-fiscal unit in the Ministry of Finance will provide the analytical underpinnings for sustainable medium-term expenditure planning.

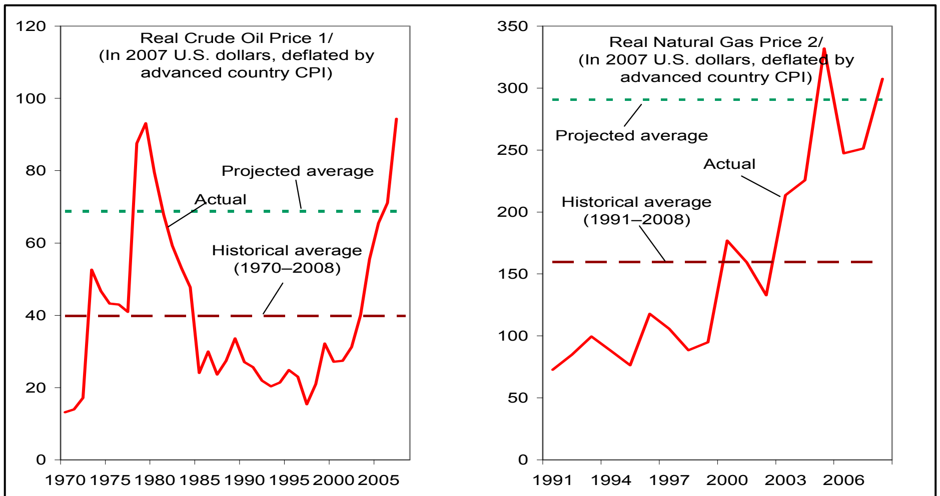
15. **The mission saw scope for further targeted expenditure restraint that would be conducive to long-term growth**. While acknowledging the benefits of many public investment projects, it argued for:

- a careful prioritization, phasing, and monitoring of projects, combined with an overall streamlining of public sector activities to avoid duplication and inefficiencies;
- a better-targeted approach to social programs, which would also permit more effective support to those in need; and
- more generally, a significant reduction in the amount of transfers and subsidies, that has increased sharply in recent years.

In this regard, the mission welcomed the recent increase in electricity tariffs and the price of premium gasoline, but argued for a comprehensive approach to phase out unproductive

Box 3. Fiscal Sustainability Analysis

The large non-energy deficits of recent years are not sustainable. Sustainability is defined here as maintaining a constant primary non-energy deficit, in real terms, that could be financed permanently from projected energy revenues. As the economy grows, this constant primary deficit—which is estimated at about 8 percent of GDP (15 percent of non-energy GDP) in FY 2007/08—would shrink in relation to GDP to 6½ percent (12 percent of non-energy GDP) by 2012/13 (Figure 5). With an actual primary non-energy deficit of just above 12½ percent of GDP in 2007/08, the needed adjustment would amount to some 6 percentage points of GDP over the medium term under a front-loaded adjustment path. In contrast, an unchanged primary deficit would cause a depletion of net assets by 2019, requiring a sharp fiscal adjustment of almost 25 percent of non-energy GDP thereafter.



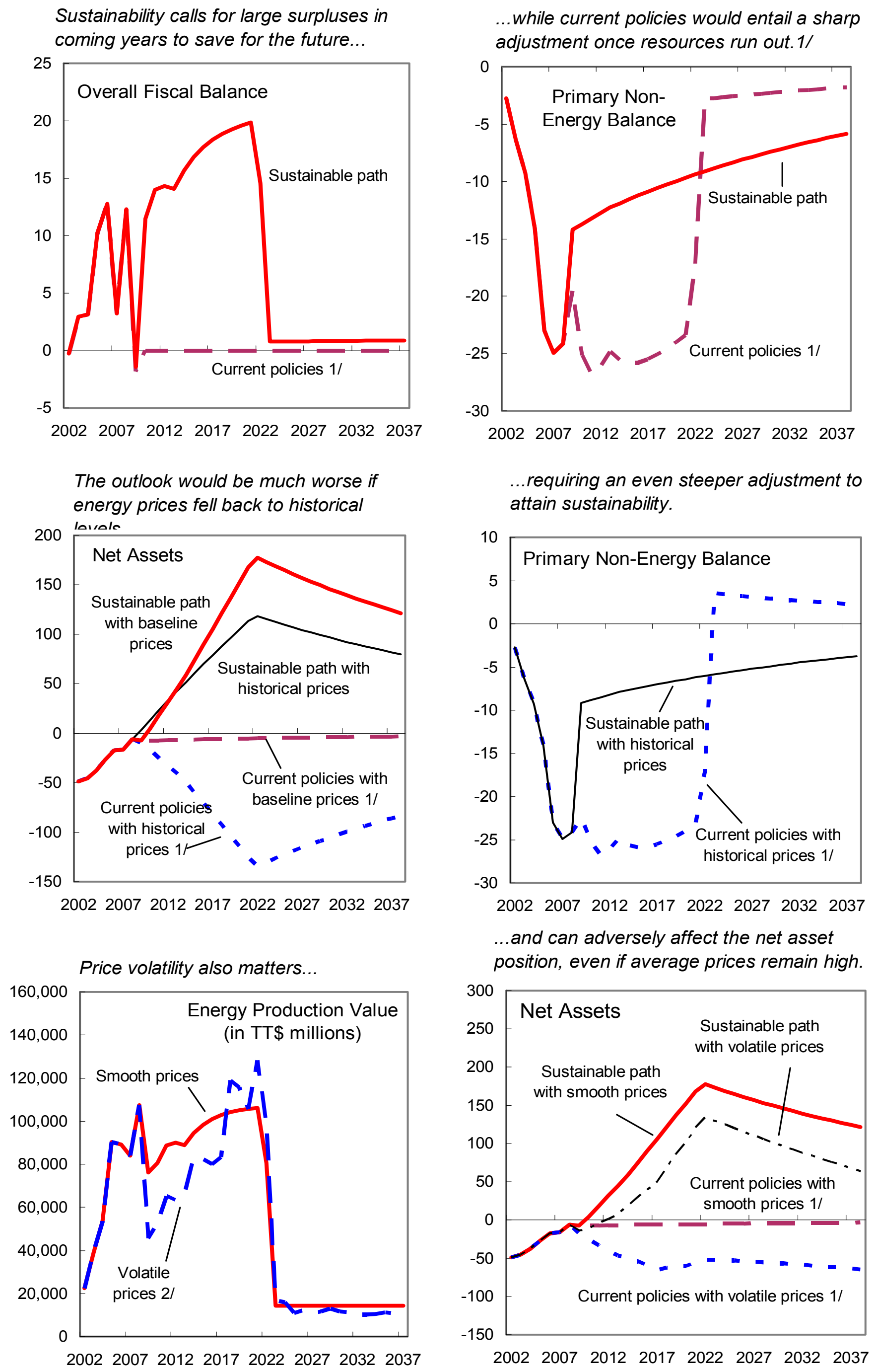
Sources: IMF's World Economic Outlook; and staff calculations.
1/ Simple average price per barrel of Dated Brent, West Texas Intermediate, and Dubai Fateh.
2/ Price per thousands of cubic meters at the Henry Hub terminal in Louisiana.

This assessment is predicated on energy prices that, despite the recent decline, remain significantly above their longer-term historical averages. The analysis implicitly assumes that a significant part of the increase in real energy prices since the mid-1990s is permanent, reflecting greater global demand. Alternatively, the sustainable non-energy primary deficit would be 5 percent of current GDP (and 4 percent of GDP in 2012/13), if real energy prices fell back to their historical averages. Other factors that would change the assessment include possible discoveries and exploration of new reserves or changes in the energy tax regime.[1]

Prospective energy price volatility can create additional challenges. Even if energy prices remain at higher levels, on average, the temporary decline from the global economic slowdown could become steeper. Indeed, energy prices have previously been below their long-run average for sustained periods. Should this be the case, assuming the same pattern of volatility observed in the past, it would also have an adverse impact on sustainability.

[1] Proven, possible, and probable reserves, as of end-2007, are assumed to have extraction probabilities of 100 percent, 75 percent, and 50 percent, respectively.

Figure 5. Trinidad and Tobago: Fiscal Sustainability Analysis
(In percent of non-energy GDP, unless otherwise indicated)



Sources:Trinidad and Tobago authorities; IMF's World Economic Outlook; and Fund staff calculations.
1/ Current policies beyond FY 2008/09 are defined as keeping Central Government spending in line with revenues under current energy price projections.
2/ The volatile path of energy prices is derived by calculating the historical absolute deviations from the average real prices of oil and gas, and applying the same pattern of deviations to projected prices.

subsidies that distort investment and consumption decisions, discourage conservation, and expose firms and households to an inevitably sharper adjustment, when windfall revenues from energy disappear. The authorities agreed that there was scope for prioritizing and coordinating expenditure more effectively, and were already reviewing different programs for that purpose.

Trinidad and Tobago. Transfers and Subsidies (In Percent of GDP)

	2002/03	2007/08
Education and health	1.4	2.6
Fuel and transportation	0.5	1.9
Public utilities, state enterprises and statutory boards	1.2	2.3
Civil service and old age pensions	2.5	2.0
Local governments and Tobago House of Assembly	1.7	1.7
Other transfers	1.4	3.1
Total	8.7	13.6

At the same time, they stressed that a further reduction in subsidies needed to be phased in carefully. In the case of water, for example, a move to a pricing system based on usage required major investments to improve service delivery and establish meters.

16. **There was agreement that the challenge for monetary policy was to combat inflation without intensifying the prospective slowdown in economic activity**. The mission agreed with the successive tightening of monetary policy in response to rising inflation rates and rapid credit growth, and shared the CBTT's concerns about second-round effects on inflation in still tight labor markets. While the CBTT believed that inflation would be more persistent than projected by staff, both parties concurred that pressures were likely to ease with falling international food prices and a weaker economic outlook. Thus, once concerns of second-round effects diminished, the CBTT would have scope to ease monetary policy by reversing the earlier increases in reserve requirements, while managing liquidity flexibly through open market operations. In this context, the mission welcomed the introduction of additional sterilization paper in the form of treasury bonds, which should facilitate domestic liquidity management and a more effective transmission of repo rates to domestic interest rates.

17. **The mission also encouraged the authorities to move, over time, to a more flexible exchange rate policy, consistent with its *de jure* regime of a managed float**. It was agreed that the current turbulent times were not right for a fundamental shift in exchange rate policies. However, the mission argued that once global conditions have stabilized, a gradual move to more exchange rate flexibility could bring important advantages. It would cushion the impact of large swings in the terms of trade; provide an additional tool for managing domestic liquidity and inflation in an environment of volatile energy revenues and capital flows; provide impetus to the development of foreign exchange markets; and more generally, discourage currency mismatches and associated vulnerabilities in private sector balance sheets. The authorities stressed that the lumpiness of foreign exchange transactions within a narrow market required

active management to prevent excessive volatility. Overall, they felt that exchange rate stability had served the country well and that the system provided sufficient flexibility, if needed.

C. Supporting Viable Diversification

18. **The mission commended the authorities for their readiness to confront the country's development challenges in a pro-active manner in their *Vision 2020***. It concurred with the rationale for investing in physical and human capital to support the development of a diversified, knowledge-based economy before energy resources are depleted. At the same time, it alerted the authorities to three important risks in the implementation of their strategy:

- macroeconomic instability and competitiveness problems, when spending becomes too large;
- waste and mismanagement, when projects are not carefully prioritized, phased, and monitored; and
- future competitiveness and viability problems, when firms become overly dependent on government support and artificially low energy prices.

The authorities acknowledged that the mission's suggested fiscal adjustment measures would help reduce these risks. At the same time, they stressed the need for the government to be an active promoter of diversification, pointing to successes in developing a profitable downstream energy industry—which would not have occurred in the absence of direct government involvement.

19. **The mission encouraged the government to focus efforts primarily on measures that would improve the overall business climate**. Global comparisons of competitiveness suggest that Trinidad and Tobago's ranking has slipped, with considerable room for improvement in areas such as contract enforcement, property registration, and public service delivery. In this context, the mission welcomed the envisaged enhancement of information-technology-based service provision, stressing that further improvements in the business climate would also buttress the authorities' plans for establishing an International Financial Center (IFC)—the prospects of which may have become more

Ease of Doing Business Indicators

	Trinidad and Tobago		Bahamas	Jamaica	Panama
	2008	2009	2009		
Overall Ranking 1/	**71**	**80**	**55**	**63**	**81**
Starting a Business	44	56	45	11	32
Dealing with Construction Permits	81	84	92	49	73
Employing Workers	36	36	44	32	172
Registering Property	161	164	143	109	75
Getting Credit	25	28	68	84	28
Enforcing Contracts	168	167	120	127	116
Closing a Business 2/	...	...	29	22	72

Source: World Bank Group, Doing Business, (www.doingbusiness.org)
1/ Ranking among 181 countries.
2/ "No practice" observed for Trinidad and Tobago.

challenging in light of global financial developments. The authorities acknowledged that the IFC's success will depend on finding the right niches that could also provide links and synergies with existing businesses and expertise. At the same time, they agreed with the mission that a modern regulatory framework and market infrastructure are important requisites, not just for the IFC but also to promote financial deepening and efficient resource allocation, more generally, pointing to their ongoing efforts to modernize the tax, legal, and regulatory frameworks.

IV. Staff Appraisal

20. **Following a period of strong growth and large energy earnings, the authorities are now facing the challenge of adjusting to a deteriorating external environment.** The main immediate tasks are to prepare for the risk of contagion from the global financial crisis, while preserving macroeconomic stability in the face of declining energy revenues and still high inflation.

21. **Trinidad and Tobago is better placed than many countries to weather the international financial crisis, but is not immune from contagion.** Direct spillovers from the global turmoil have been limited, reflecting low external vulnerability and a fundamentally sound banking system. However, falling energy prices and the possibility of a more severe global slowdown than is currently envisaged pose risks, including from exposures of regional conglomerates and the possibility of rising non-performing loans.

22. **The authorities are encouraged to accelerate the implementation of important financial sector legislation and to strengthen their crisis-response framework.** The recent adoption of a new Financial Institutions Act is a crucial step for enhancing the central bank's power to effectively supervise the country's complex financial sector, while also laying the groundwork for important follow-up legislation. At the same time, it will be important to identify contingency measures that would ease and broaden market access to liquidity in the event of emerging tensions, and to accelerate work on a robust framework for in-house stress-testing and a joint regional crisis-management plan.

23. **The government's recent decision to trim fiscal spending is an appropriately prudent response to lower energy prices.** The magnitude of the announced cuts, equivalent to some 2 percentage points of GDP relative to 2007/08, should be sufficient to contain the deficit at 1 percent of GDP under current energy price projections and is an important first step in a much needed effort to strengthen the public finances. The adjustment strikes a reasonable balance between containing a fiscal deterioration and limiting a procyclical withdrawal, and also provides room for the operation of automatic stabilizers in the event of an even sharper decline in energy prices or economic activity.

24. **Further policy adjustments will be needed over the coming years to preserve long-term sustainability.** Non-energy deficits at the level of recent years will not be sustainable in

the context of declining non-renewable energy resources. To allow future generations to benefit from the country's existing energy wealth, the authorities should reduce the non-energy deficit to about 8½ percent of GDP over the medium term—an adjustment of 4 percentage points of GDP beyond the tightening envisaged for the current fiscal year. Such adjustments are feasible without sacrificing development objectives, mainly through better prioritization and targeting of programs that have expanded rapidly in recent years. Importantly, restraint over the medium term would avoid a much larger, forced, adjustment in the future.

25. **Monetary policy faces the challenge of reducing inflation without intensifying the prospective slowdown in economic activity.** Following an appropriate cycle of policy tightening, the CBTT has scope to respond to an easing of price pressures with a gradual loosening of monetary policy, provided second-round effects on inflation are contained. In such circumstances, reversals of earlier increases in reserve requirements should be combined with a flexible management of liquidity through open market operations, which has been facilitated by the welcome introduction of additional sterilization paper.

26. **The authorities should also consider moving, over time, to a more flexible exchange rate.** Once global conditions have stabilized, a gradual move to more exchange rate flexibility could bring important advantages in stabilizing the domestic economy, managing liquidity, strengthening market development, and discouraging currency exposures.

27. **The authorities are commended for their readiness to confront the country's development challenges in a pro-active manner in their *Vision 2020***. Investments in physical and human capital are important to achieve this vision and develop a diversified, knowledge-based economy before energy resources are depleted. At the same time, excessive spending entails risks for macroeconomic stability and future competitiveness. Thus, the authorities are encouraged to shift the focus of policies away from subsidies and direct government involvement toward improvements in the business climate and the provision of high-quality public goods and services.

28. **It is recommended to hold the next consultation on the standard 12-months cycle.**

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

					Prel.	Proj.	
	2003	2004	2005	2006	2007	2008	2009
	(Annual percentage changes, unless otherwise indicated)						
Output and prices							
Real GDP	14.4	7.9	5.4	13.3	5.5	3.4	2.0
Energy	31.4	8.2	8.3	21.8	1.7	0.3	0.6
Nonenergy	6.7	7.0	3.8	7.0	7.7	4.7	2.9
GDP deflator	10.5	7.8	15.7	6.9	6.0	9.9	0.6
Consumer prices (headline)							
End-of-period	3.0	5.6	7.2	9.1	7.6	13.3	5.0
Average	3.8	3.7	6.9	8.3	7.9	11.7	7.6
Consumer prices (core)							
End-of-period	0.9	2.0	2.6	4.6	3.9	7.0	5.6
Average	1.7	1.5	2.7	3.6	4.3	6.1	5.6
Unemployment rate (period average)	10.3	8.3	8.0	6.2	5.6	5.0	5.5
Real effective exchange rate (2000=100) 1/	106.4	105.0	107.8	112.6	115.6	120.2	...
	(In percent of fiscal year GDP, unless otherwise indicated)						
Nonfinancial public sector finances (NFPS) 2/							
Central government overall balance	1.9	2.0	5.7	6.6	1.7	6.5	-1.0
Of which: non-energy budget balance 3/	-8.0	-8.7	-10.5	-14.0	-15.3	-14.8	-12.8
Budgetary revenue	25.7	25.8	30.7	33.3	30.1	36.9	27.3
Budgetary expenditure	23.8	23.9	25.0	26.7	28.4	30.4	28.3
Of which : interest expenditure	3.8	3.0	2.6	2.1	2.0	2.0	2.0
Of which : capital expenditure	1.5	2.0	2.9	3.9	5.8	6.6	4.9
Central government debt 4/	32.3	27.0	20.7	16.5	16.0	15.1	15.4
Public sector debt 4/	53.2	45.5	36.8	31.2	28.5	27.2	26.7
Heritage and Stabilization Fund	2.3	3.6	5.7	7.5	7.2	11.8	11.7
	(In percent of GDP, unless otherwise indicated)						
Savings and investment							
Gross domestic investment	25.2	16.8	14.6	21.0	23.9	24.1	21.1
Of which: public investment	4.3	6.3	8.1	10.5	11.7	11.9	11.1
Gross national saving	33.9	29.3	37.0	58.5	48.7	51.1	33.4
Of which: public saving	4.9	7.0	10.7	12.7	12.7	15.4	8.7
External sector							
Current account balance	8.7	12.5	22.4	37.5	24.8	27.1	12.3
Of which							
Exports of goods	46.0	48.7	60.3	73.4	62.0	69.1	44.8
Imports of goods	34.6	37.2	35.7	33.6	35.5	41.2	32.4
External public sector debt	13.7	11.1	8.1	6.5	6.0	5.5	5.1
Gross official reserves (in US$ million)	1,963	2,499	3,871	5,120	6,642	8,743	8,852
In months of goods and services imports	5.5	5.7	7.4	8.9	9.9	10.0	12.4
In percent of M3	57.4	61.5	79.8	89.7	108.8	124.3	116.8
	(Percentage changes in relation to beginning-of-period M3)						
Money and credit							
Net foreign assets	5.7	36.4	42.6	52.6	29.7	51.6	3.4
Net domestic assets	-3.7	-17.6	-23.0	-34.9	-22.3	-38.0	4.3
Of which: credit to the private sector	2.6	18.2	21.6	15.2	17.8	10.5	6.2
Broad money (M3)	2.0	18.8	19.6	17.7	7.4	13.6	7.8
M3 velocity	3.3	3.2	3.3	3.4	3.5	3.5	3.5
Memorandum items:							
Nominal GDP (in billions of TT$)	71.2	82.8	101.0	122.3	136.7	155.4	159.5
Exchange rate (TT$/US$, end of period) 5/	6.3	6.3	6.3	6.3	6.3	6.3	…
Crude oil price (US$/barrel) 6/	28.9	37.8	53.4	64.3	71.1	97.5	54.3

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

1/ 2008 column refers to data for January-October 2008.

2/ The data refers to fiscal years.

3/ Defined as non-energy revenue minus expenditure of the central government.

4/ Excluding debt issued for sterilization.

5/ 2008 column refers to data for December 15, 2008.

6/ Simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh.

Table 2. Trinidad and Tobago: Summary Balance of Payments

	2003	2004	2005	2006	2007	2008	2009	Proj. 2010	2011	2012	2013
	(In millions of U.S. dollars unless otherwise indicated)										
Current account balance	**985**	**1,648**	**3,593**	**7,271**	**5,364**	**6,652**	**3,106**	**4,042**	**4,311**	**4,132**	**3,895**
Trade balance	1,293	1,509	3,947	7,700	5,721	6,848	3,129	3,947	4,048	3,696	3,326
Exports	5,205	6,403	9,672	14,217	13,391	16,964	11,282	13,041	13,973	14,208	14,423
Petroleum crude and refined	2,386	1,643	4,418	5,961	3,891	6,279	3,247	3,643	3,769	3,730	3,599
Gas	951	1,978	2,371	4,870	4,987	6,306	4,259	5,385	5,991	6,119	6,331
Petrochemicals	907	1,522	1,807	2,124	2,772	2,666	2,149	2,306	2,427	2,494	2,552
Other	962	1,260	1,075	1,262	1,741	1,713	1,628	1,706	1,787	1,866	1,941
Imports	3,912	4,894	5,725	6,517	7,670	10,116	8,154	9,094	9,925	10,513	11,097
Fuel imports	1,064	1,181	1,992	2,282	2,569	3,522	1,959	2,339	2,573	2,709	2,799
Capital	1,257	1,796	1,125	1,741	1,919	2,495	2,095	2,295	2,495	2,495	2,495
Other	1,591	1,917	2,608	2,494	3,182	4,100	4,100	4,460	4,857	5,309	5,803
Services and transfers (net)	-308	139	-354	-429	-357	-196	-22	95	263	436	569
Nonfactor services (net)	314	480	356	451	546	516	509	530	565	599	631
Factor income (net)	-681	-397	-760	-936	-964	-774	-594	-499	-367	-229	-129
Current transfers (net)	59	56	50	56	61	62	62	63	65	66	67
Capital and financial account (net) 1/	**-737**	**-1,116**	**-2,117**	**-6,152**	**-3,823**	**-4,551**	**-2,997**	**-3,386**	**-3,378**	**-3,398**	**-3,409**
Official, medium- and long-term (net)	-90	-390	-438	-591	-215	-265	-39	-207	-298	-318	-330
Disbursements	87	40	71	182	239	179	170	162	154	146	139
Amortizations	-90	-226	-92	-247	-62	-185	-209	-183	-161	-142	-125
Heritage and Stabilization Fund	-87	-204	-417	-526	-392	-260	0	-185	-291	-322	-343
Direct Investment (net)	583	972	599	513	830	3,047	518	547	647	647	647
Commercial banks (net)	94	-524	98	-742	88	0	0	0	0	0	0
Regional bond issues	-509	-690	-258	-200	-252	-252	-252	-252	-252	-252	-252
Other private sector capital (net) 1/	-815	-484	-2,118	-5,132	-4,274	-7,082	-3,225	-3,475	-3,475	-3,475	-3,475
Overall balance	247	532	1,476	1,119	1,541	2,101	109	656	933	734	486
Change in gross official reserves (increase -)	-247	-532	-1,476	-1,119	-1,541	-2,101	-109	-656	-933	-734	-486
	(In percent of GDP, unless otherwise specified)										
Memorandum items:											
Current account balance	8.7	12.5	22.4	37.5	24.8	27.1	12.3	14.8	14.5	12.9	11.3
Energy	28.1	30.1	41.2	55.1	42.0	47.8	30.5	33.0	32.3	30.0	28.0
Non-energy	-19.4	-17.6	-18.8	-17.6	-17.2	-20.7	-18.2	-18.2	-17.8	-17.1	-16.7
Exports of goods	46.0	48.7	60.3	73.4	62.0	69.1	44.8	47.8	47.0	44.3	41.7
Imports of goods	34.6	37.2	35.7	33.6	35.5	41.2	32.4	33.4	33.4	32.8	32.1
Gross International Reserves 2/	1,963	2,499	3,871	5,120	6,642	8,743	8,852	9,508	10,441	11,175	11,661
in months of imports of goods and services	5.5	5.7	7.4	8.9	9.9	10.0	12.4	12.0	12.1	12.2	12.1
Heritage and Stabilization Fund 2/	299	556	1,000	1,397	1,788	2,839	2,968	3,165	3,570	4,044	4,550
Crude oil spot price (US$/barrel)	28.9	37.8	53.4	64.3	71.1	97.5	54.3	64.8	71.3	75.0	77.5
Central government external debt	1,546	1,461	1,297	1,258	1,287	1,353	1,289	1,240	1,205	1,180	1,162
GDP (US$ millions)	11,305	13,151	16,034	19,374	21,609	24,558	25,204	27,265	29,751	32,098	34,605
Real GDP growth (in percent)	14.4	7.9	5.4	13.3	5.5	3.4	2.0	4.2	3.2	3.2	3.5

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

1/ Includes net errors and omissions.

2/ In millions of US$, end of period.

Table 3. Trinidad and Tobago: Summary of Central Government Operations 1/

	2003/04	2004/05	2005/06	2006/07	Proj. 2007/08	Proj. 2008/09
(In millions of Trinidad and Tobago dollars)						
Revenue	**20,629**	**29,649**	**38,911**	**40,064**	**55,584**	**43,288**
Energy	8,484	15,614	24,069	22,693	32,113	18,685
Nonenergy	12,145	14,035	14,846	17,371	23,471	24,603
Expenditure	**19,068**	**24,141**	**31,198**	**37,766**	**45,767**	**44,884**
Current	17,466	21,342	26,602	30,004	35,755	37,126
Wages and salaries	4,849	5,309	5,456	6,221	7,084	7,186
Goods and services	2,375	3,172	3,811	4,284	5,016	6,086
Interest payments	2,364	2,542	2,453	2,698	3,016	3,247
Transfer and subsidies	7,878	10,320	14,882	16,801	20,639	20,607
Capital expenditure and net lending	1,601	2,799	4,596	7,762	10,012	7,759
Overall nonenergy balance	**-6,923**	**-10,106**	**-16,356**	**-20,395**	**-22,296**	**-20,282**
Overall balance	**1,561**	**5,508**	**7,713**	**2,299**	**9,817**	**-1,597**
Total financing	**-1,561**	**-5,508**	**-7,713**	**-2,299**	**-9,817**	**1,597**
Foreign financing	-354	-1,273	-306	690	702	-428
Domestic financing	-2,470	-4,235	-7,407	-2,989	-10,519	2,025
Of which : transfer to Heritage and Stabilization Fund	-1,263	-2,593	-3,160	-2,030	-6,588	0
(In percent of GDP)						
Revenue	**25.8**	**30.7**	**33.3**	**30.1**	**36.9**	**27.3**
Energy	10.6	16.2	20.6	17.0	21.3	11.8
Nonenergy	15.2	14.5	12.7	13.0	15.6	15.5
Expenditure	**23.9**	**25.0**	**26.7**	**28.4**	**30.4**	**28.3**
Current	21.9	22.1	22.7	22.5	23.7	23.4
Wages and salaries	6.1	5.5	4.7	4.7	4.7	4.5
Goods and services	3.0	3.3	3.3	3.2	3.3	3.8
Interest payments	3.0	2.6	2.1	2.0	2.0	2.0
Transfers and subsidies	9.9	10.7	12.7	12.6	13.7	13.0
Capital expenditure and net lending	2.0	2.9	3.9	5.8	6.6	4.9
Overall nonenergy balance	**-8.7**	**-10.5**	**-14.0**	**-15.3**	**-14.8**	**-12.8**
Overall balance	**2.0**	**5.7**	**6.6**	**1.7**	**6.5**	**-1.0**
Total financing	**-2.0**	**-5.7**	**-6.6**	**-1.7**	**-6.5**	**1.0**
Foreign financing	-0.4	-1.3	-0.3	0.5	0.5	-0.3
Domestic financing	-3.1	-4.4	-6.3	-2.2	-7.0	1.3
Of which : transfer to Heritage and Stabilization Fund	-1.6	-2.7	-2.7	-1.5	-4.4	0.0
Memorandum items:						
Central government debt 2/	27.0	20.7	16.5	16.0	15.1	15.4
Deposits in the Heritage and Stabilization Fund	3.6	5.7	7.5	7.2	11.8	11.7
Nonenergy revenue (in percent of nonenergy GDP)	24.7	26.2	24.7	24.7	29.7	28.5
Expenditure (in percent of nonenergy GDP)	38.8	45.0	51.9	53.7	57.9	52.1
Overall nonenergy balance (in percent of nonenergy GDP)	-14.1	-18.8	-27.2	-29.0	-28.2	-23.5
Oil price (U.S. dollar per barrel) 3/	34.4	49.9	63.7	64.0	104.9	53.9

Sources: Data provided by the Trinidad and Tobago authorities; and Fund staff estimates and projections.

1/ Fiscal year data from October to September.
2/ Excluding debt issued for sterilization.
3/ World Economic Outlook; fiscal year basis.

Table 4. Trinidad and Tobago: Consolidated Nonfinancial Public Sector
(In percent of GDP)

	2003/04	2004/05	2005/06	Prel. 2006/07	Proj. 2007/08	2008/09
			I. Nonfinancial Public Sector			
Current balance	4.8	8.4	12.4	9.0	16.9	7.6
Capital revenue and transfers	3.1	3.3	4.1	3.7	3.4	2.7
Capital expenditure and net lending	6.1	7.6	10.7	11.4	12.6	10.9
Non-energy balance	**-8.8**	**-12.2**	**-14.7**	**-15.7**	**-13.5**	**-12.4**
Overall balance	**1.8**	**4.0**	**5.9**	**1.4**	**7.8**	**-0.6**
Public sector debt 1/	**45.5**	**36.8**	**31.2**	**28.5**	**27.2**	**26.7**
			II. Central Government			
Current balance	4.0	8.6	10.5	7.5	13.1	3.9
Current revenue	25.8	30.7	33.3	30.1	36.9	27.3
Current expenditure	21.9	22.1	22.7	22.5	23.7	23.4
Capital revenue and grants	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	2.0	2.9	3.9	5.8	6.6	4.9
Non-energy balance	**-8.7**	**-10.5**	**-14.0**	**-15.3**	**-14.8**	**-12.8**
Overall balance	**2.0**	**5.7**	**6.6**	**1.7**	**6.5**	**-1.0**
Central government debt 1/	**27.0**	**20.7**	**16.5**	**16.0**	**15.1**	**15.4**
			III. Statutory Bodies 2/			
Current balance	-1.3	-1.2	-0.5	-0.7	-0.8	-0.7
Current revenue	3.0	2.6	2.2	2.3	2.2	2.2
Current expenditure	4.3	3.8	2.8	3.1	2.9	2.9
Capital revenue and transfers	0.6	1.0	1.8	1.6	1.4	1.4
Capital expenditure and net lending	0.3	0.5	0.4	0.5	0.8	0.8
Overall balance	**-1.0**	**-0.7**	**0.9**	**0.3**	**-0.2**	**-0.1**
Debt 3/	**8.2**	**8.0**	**7.2**	**6.8**	**7.0**	**6.5**
			IV. Public Enterprises 4/			
Current balance	2.1	0.9	2.4	2.2	4.6	4.4
Current revenue	30.7	35.7	37.0	33.1	40.8	30.6
Current expenditure	28.6	34.8	34.6	30.9	36.3	26.2
Capital revenue and transfers	2.6	2.3	2.3	2.1	2.0	1.3
Capital expenditure and net lending	3.9	4.3	6.4	5.0	5.1	5.1
Overall balance	**0.8**	**-1.0**	**-1.7**	**-0.7**	**1.5**	**0.6**
Debt 3/	**10.3**	**8.2**	**7.6**	**5.7**	**5.1**	**4.9**
Memorandum item:						
Nominal GDP (in TT$ million, FY)	79,921	96,463	116,972	133,130	150,736	158,471

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

1/ Refers to gross debt, including BOLT and leases.
2/ Includes Public Transport Company, Electricity Company, Water Authority, Airport Authority and Port Authority.
3/ Refers to gross debt, and it includes government guaranteed debt and letters of comfort.
4/ Includes CARONI, MTS, NFM, NHSL, NPMC, NQCL, NGC, PETROTRIN, PLIPDECO, SWMCOL, TTMF, TTST, and UDECOTT. Data for TIDCO, TRINGEN and National Housing Authority were not available.

Table 5. Trinidad and Tobago: Monetary Survey

	2003	2004	2005	2006	2007	Proj. 2008	Proj. 2009
	(In millions of Trinidad and Tobago dollars)						
Net foreign assets	**14,065**	**21,901**	**32,808**	**48,925**	**59,617**	**79,603**	**81,113**
Net domestic assets	**7,486**	**3,691**	**-2,190**	**-12,881**	**-20,917**	**-35,622**	**-33,716**
Net credit to public sector	-4,925	-10,243	-16,295	-26,545	-35,029	-53,810	-54,628
Central government	-5,041	-10,115	-16,939	-24,603	-32,257	-50,789	-51,607
Rest of the public sector	116	-129	644	-1,942	-2,771	-2,771	-2,771
Credit to private sector	15,234	19,147	24,662	29,330	35,753	39,829	42,553
Other items (net)	-2,823	-5,213	-10,558	-15,666	-21,641	-21,641	-21,641
Liabilities to private sector (M3)	**21,551**	**25,592**	**30,617**	**36,044**	**38,700**	**43,981**	**47,397**
Currency in circulation	1,709	1,957	2,425	2,654	3,183	3,617	3,898
Demand deposits	5,595	6,866	9,069	9,943	10,622	12,071	13,009
Time deposits	3,410	3,858	4,722	5,832	6,360	7,228	7,789
Savings deposits	9,701	11,111	12,727	15,220	16,856	19,156	20,644
Fund-raising instruments 1/	1,136	1,800	1,674	2,395	1,680	1,909	2,057
	(Changes in percent of beginning-of-period M3)						
Net foreign assets	**5.7**	**36.4**	**42.6**	**52.6**	**29.7**	**51.6**	**3.4**
Net domestic assets	**-3.7**	**-17.6**	**-23.0**	**-34.9**	**-22.3**	**-38.0**	**4.3**
Net credit to public sector	-9.9	-24.7	-23.6	-33.5	-23.5	-48.5	-1.9
Of which: central government	-5.9	-23.5	-26.7	-25.0	-21.2	-47.9	-1.9
Credit to private sector	2.6	18.2	21.6	15.2	17.8	10.5	6.2
Other items (net)	3.6	-11.1	-20.9	-16.7	-16.6	0.0	0.0
Liabilities to private sector (M3)	**2.0**	**18.8**	**19.6**	**17.7**	**7.4**	**13.6**	**7.8**
Memorandum items:							
Credit to private sector (12-month increase)	3.7	25.7	28.8	18.9	21.9	11.4	6.8
M3 Velocity	3.3	3.2	3.3	3.4	3.5	3.5	3.5

Source: Central Bank of Trinidad and Tobago.

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

Table 6. Trinidad and Tobago: Summary Accounts of the Monetary Authority

						Proj.	
	2003	2004	2005	2006	2007	2008	2009
(In millions of Trinidad and Tobago dollars)							
Net foreign assets	14,315	18,929	30,447	40,777	53,084	73,069	74,579
Net international reserves	12,267	15,641	24,328	32,214	42,024	55,347	56,038
Heritage and Stabilization Fund	1,567	2,846	5,485	8,792	11,287	17,949	18,768
Other foreign assets, net	481	442	634	-230	-227	-227	-227
Net domestic assets	-8,433	-13,144	-22,412	-31,144	-42,428	-60,959	-61,778
Net credit to public sector	-8,000	-12,718	-20,437	-27,192	-34,947	-53,479	-54,297
Central government	-8,156	-12,871	-20,586	-27,230	-35,092	-53,623	-54,442
Of which: Heritage and Stabilization Fund	-1,567	-2,846	-5,485	-8,792	-11,287	-17,949	-18,768
Rest of public sector	156	154	149	39	145	145	145
Net claims on financial institutions	380	380	380	380	0	0	0
Other items (net)	-813	-806	-2,355	-4,332	-7,481	-7,481	-7,481
Reserve money	5,882	5,785	8,035	9,632	10,656	12,110	12,801
Currency in circulation	2,295	2,554	2,991	3,560	4,205	4,779	4,905
Deposits of commercial banks	2,955	2,783	4,673	5,688	6,087	6,917	7,472
Deposits of nonbank financial institutions	632	449	371	384	364	413	424
(Changes in percent of beginning-of-period reserve money)							
Net international reserves	32.2	78.5	199.1	128.6	127.8	187.6	12.5
Net domestic assets	-26.9	-80.1	-160.2	-108.7	-117.1	-173.9	-6.8
Net credit to central government	-29.6	-80.2	-133.4	-82.7	-81.6	-173.9	-6.8
Reserve money	5.3	-1.6	38.9	19.9	10.6	13.6	5.7
Blocked account of government 1/	-3,100	-6,105	-7,407	-8,843	-15,533	-24,211	-24,211
NIR (in millions of U.S. dollars)	1,947	2,483	3,855	5,104	6,627	8,728	8,837

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

1/ Proceeds of treasury bills and treasury notes used for open market operations, in millions of TT dollars.

Table 7. Trinidad and Tobago: Indicators of External and Financial Vulnerability
(In percent, unless otherwise indicated)

						Proj.	
	2003	2004	2005	2006	2007	2008	2009
External indicators							
Exports (percent change, 12-month basis in US$)	32.8	23.0	51.0	47.0	-5.8	26.7	-33.5
Imports (percent change, 12-month basis in US$)	6.2	25.1	17.0	13.8	17.7	31.9	-19.4
Terms of trade (percent change)	1.0	6.4	12.3	3.8	0.1	8.6	-12.2
Current account balance (in percent of GDP)	8.7	12.5	22.4	37.5	24.8	27.1	12.3
Capital and financial account balance (in percent of GDP)	-6.5	-8.5	-13.2	-31.8	-17.7	-18.5	-11.9
Gross official reserves (in US$ millions)	1,963	2,499	3,871	5,120	6,642	8,743	8,852
Official reserves in months of imports of goods	5.5	5.7	7.4	8.9	9.9	10.0	12.4
Ratio of reserves to broad money	57.4	61.5	79.8	89.7	108.8	124.3	116.8
Ratio of total public sector external debt to exports of goods and services	26.2	20.1	12.3	8.4	9.0	7.6	10.6
Ratio of public sector external interest payments to exports of goods and services	2.0	1.5	0.9	0.6	0.7	0.7	1.1
Public sector debt service to exports of goods and services	3.5	4.6	1.8	2.3	1.1	1.7	2.8
REER appreciation CPI-based (percent change)	-1.7	-1.3	2.7	4.4	2.6	...	...
Foreign currency debt rating, (Moody's, end of period) 1/	Baa3	Baa3	Baa2	Baa1	Baa1	Baa1	...
Foreign currency debt rating, (Standard & Poor's, end of period) 1/	BBB	BBB+	A-	A-	A-	A	...
Financial indicators 2/							
90-day treasury bill, average discount rate 3/	4.7	4.8	4.9	6.1	6.9	7.0	...
90-day treasury bill, real rate 3/ 4/	0.9	1.1	-2.0	-2.2	-1.0	-4.1	...
Foreign currency loans-to-total loans	14.6	24.3	22.7	22.6	20.6	19.8	...
Net open positions in FX-to-capital	-36.8	-0.9	-13.9	-3.5	-12.1	-13.6	...
FX deposits (in percent of total deposits)	20.3	27.0	22.3	25.8	25.9	26.5	...
FX deposits (in percent of gross international reserves)	49.7	50.6	33.5	35.1	30.5	29.7	...
Capital adequacy							
Regulatory capital to risk-weighted assets	20.3	19.3	18.2	18.0	19.1	...	...
Regulatory Tier I capital to risk-weighted assets	18.2	17.4	16.4	16.2	17.0	...	...
Regulatory Tier II capital-to-risk-weighted assets	2.2	1.9	1.7	1.9	2.1	...	...
Banking sector asset quality							
Nonperforming loans-to-gross loans	2.0	3.9	1.7	1.4	0.7	0.8	...
Nonperforming loans (net of provisions)-to-capital	-1.1	7.9	2.3	2.3	-0.3	0.4	...
Specific provisions-to-impaired assets	117.5	40.3	67.7	60.9	109.7	88.8	...
Specific provisions-to-gross lending	2.3	1.6	1.1	0.8	0.8	0.7	...
Banking sector earnings and profitability							
Return on equity	16.9	27.5	32.5	25.2	27.7	...	...
Return on assets	2.1	3.7	3.2	3.4	3.4	...	...
Interest margin-to-gross income	62.8	50.9	58.4	61.7	61.4	63.2	...
Spread between average lending and deposit rates	8.7	7.4	7.1	7.4	7.9	8.0	...
Banking sector liquidity							
Liquid assets-to-total assets	15.9	14.8	15.0	20.1	17.0	19.8	...
Liquid assets-to-total short-term liabilities	22.3	20.5	21.9	26.9	22.6	26.6	...
Foreign currency liabilities-to-total liabilities	34.4	37.8	35.8	34.6	33.8	33.9	...

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

1/ 2008 data refer to end-November.
2/ 2008 data refer to end-March, unless otherwise indicated. Includes commercial banks only.
3/ 2008 data are from January through September.
4/ Adjusted for inflation.

Table 8. Trinidad and Tobago: Public Sector Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	53.2	45.5	36.8	31.2	28.5	**27.2**	**26.7**	**27.2**	**28.2**	**29.8**	**32.0**	**3.9**
o/w foreign-currency denominated	14.5	11.9	8.6	6.8	6.0	5.8	5.2	4.7	4.2	3.7	3.4	
Change in public sector debt	-5.9	-7.7	-8.7	-5.6	-2.7	-1.3	-0.5	0.5	1.0	1.6	2.2	
Identified debt-creating flows (4+7+12)	-11.7	-10.1	-11.8	-12.3	-5.1	-11.1	-0.8	-0.1	-1.0	-0.7	0.0	
Primary deficit	-7.2	-6.1	-7.9	-9.1	-4.5	-10.5	-2.2	-1.5	-2.0	-1.8	-1.3	
Revenue and grants	26.6	28.0	31.6	36.7	32.9	42.2	31.9	31.8	31.5	30.6	29.3	
Primary (noninterest) expenditure	19.4	21.9	23.7	27.6	28.4	31.7	29.6	30.3	29.5	28.8	28.1	
Automatic debt dynamics 2/	-4.5	-4.0	-3.9	-3.2	-0.7	-0.6	1.5	1.4	1.0	1.1	1.2	
Contribution from interest rate/growth differential 3/	-4.6	-4.0	-3.9	-3.2	-0.7	-0.6	1.5	1.4	1.0	1.1	1.2	
Of which contribution from real interest rate	1.7	0.2	-1.7	0.2	1.3	0.4	2.1	2.3	1.9	2.0	2.1	
Of which contribution from real GDP growth	-6.3	-4.2	-2.3	-3.5	-2.0	-1.0	-0.6	-0.9	-0.9	-0.8	-0.9	
Contribution from exchange rate depreciation 4/	0.1	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	5.8	2.4	3.1	6.7	2.4	9.8	0.3	0.6	2.0	2.3	2.2	
Public sector debt-to-revenue ratio 1/	200.2	162.6	116.7	85.2	86.8	64.4	83.9	85.5	89.6	97.5	109.0	
Gross financing need 6/	0.8	-0.6	-1.9	-4.9	0.7	-7.1	1.6	2.0	1.6	1.9	2.5	
in billions of U.S. dollars	0.1	-0.1	-0.3	-0.9	0.2	-1.7	0.4	0.5	0.5	0.6	0.9	
Scenario with key variables at their historical averages 7/						**27.2**	**21.5**	**16.2**	**12.2**	**8.4**	**4.5**	**-0.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	12.9	9.4	6.0	11.4	7.3	3.9	2.3	3.6	3.5	3.2	3.4	
Average nominal interest rate on public debt (in percent) 8/	11.1	9.6	10.3	10.7	11.3	10.9	10.8	12.5	12.9	13.3	13.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.3	1.3	-3.6	1.8	5.2	1.9	8.1	9.4	7.7	7.8	8.0	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.8	-0.1	0.0	0.1	-0.6	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.7	8.3	13.9	8.9	6.1	9.0	2.7	3.1	5.3	5.5	5.3	
Growth of real primary spending (deflated by GDP deflator, in percent)	4.1	23.6	14.5	29.8	10.6	16.0	-4.3	5.9	0.8	0.6	1.0	
Primary deficit	-7.2	-6.1	-7.9	-9.1	-4.5	-10.5	-2.2	-1.5	-2.0	-1.8	-1.3	

1/ Gross debt of the nonfinancial public sector, excluding debt issued for sterilization. Fiscal year data.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

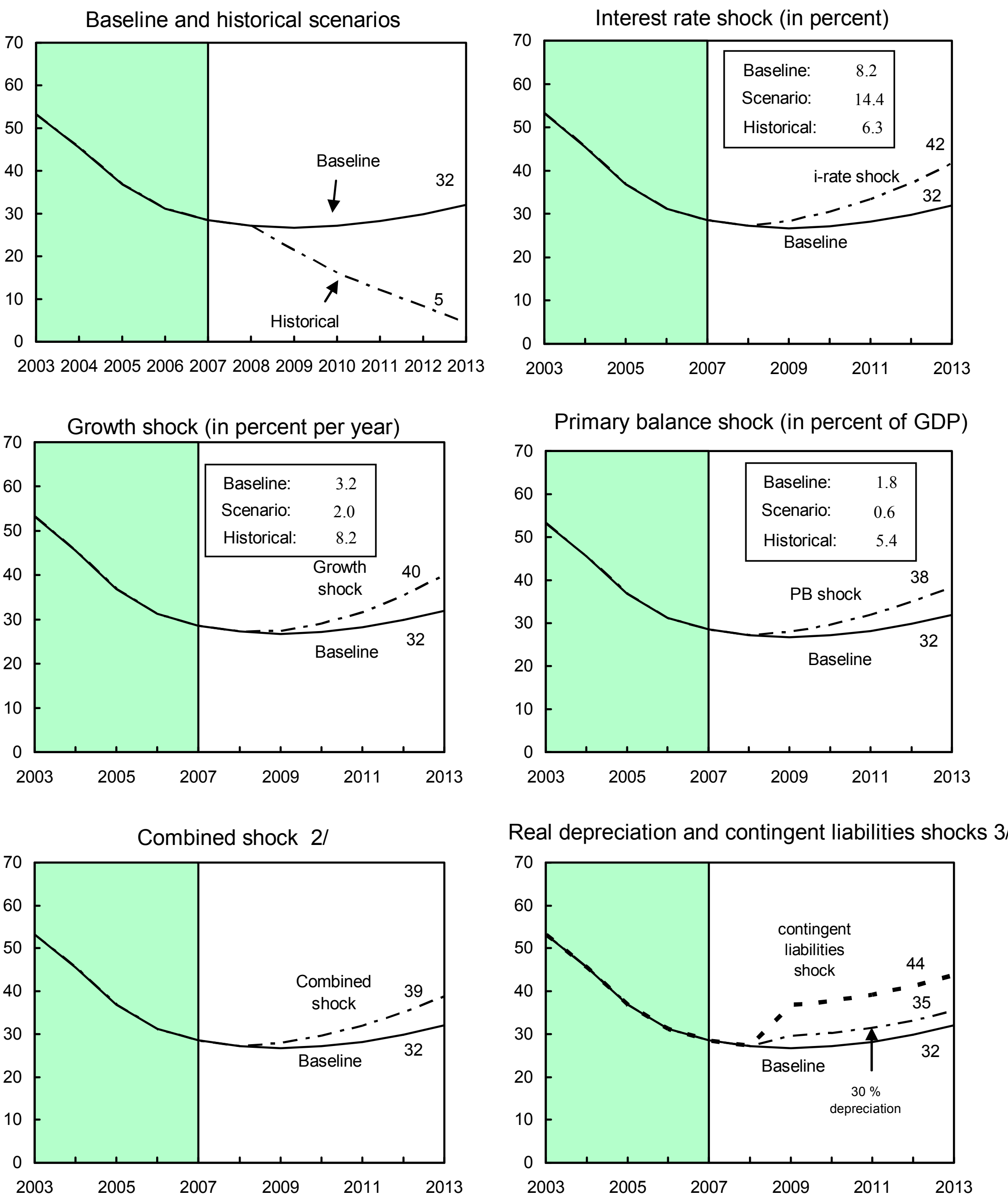
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 6. Trinidad and Tobago: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



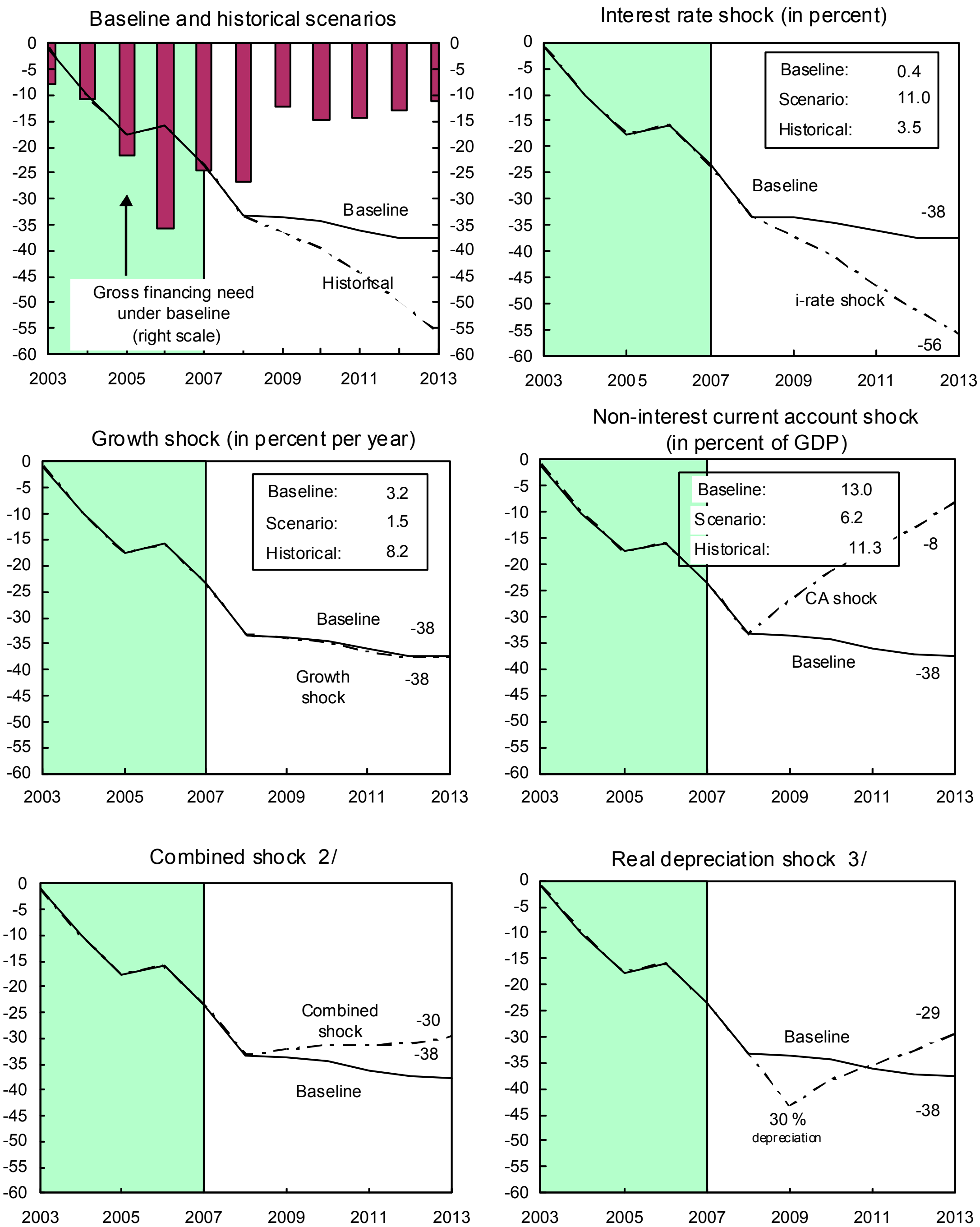
Sources: International Monetary Fund, country desk data, and Fund staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 9. Trinidad and Tobago: External Debt Sustainability Framework, 2003-2013 1/
(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	-0.9	-10.2	-17.6	-15.9	-23.5	**-33.3**	**-33.6**	**-34.4**	**-36.1**	**-37.3**	**-37.5**	**0.7**
2	Change in external debt	-1.8	-9.3	-7.4	1.7	-7.6	-9.7	-0.3	-0.8	-1.7	-1.2	-0.2	
3	Identified external debt-creating flows (4+8+9)	-14.1	-19.8	-24.3	-37.1	-27.0	-38.8	-13.7	-15.5	-15.6	-13.8	-11.9	
4	Current account deficit, excluding interest payments	-9.0	-12.9	-22.4	-37.5	-24.6	-26.9	-12.2	-14.7	-14.4	-12.7	-11.1	
5	Deficit in balance of goods and services	-14.2	-15.1	-26.8	-42.1	-29.0	-30.0	-14.4	-16.4	-15.5	-13.4	-11.4	
6	Exports	52.1	55.2	65.9	77.6	66.2	72.8	48.4	51.3	50.3	47.5	44.9	
7	Imports	37.9	40.0	39.1	35.5	37.2	42.8	34.0	34.9	34.8	34.2	33.4	
8	Net non-debt creating capital inflows (negative)	-5.2	-7.4	-3.7	-2.6	-3.8	-12.4	-2.1	-2.0	-2.2	-2.0	-1.9	
9	Automatic debt dynamics 2/	0.1	0.5	1.9	3.0	1.5	0.6	0.5	1.2	0.9	0.9	1.1	
10	Contribution from nominal interest rate	0.3	0.4	0.0	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	
11	Contribution from real GDP growth	-0.1	0.1	0.4	1.9	0.8	0.7	0.6	1.3	1.0	1.1	1.2	
12	Contribution from price and exchange rate changes 3/	-0.1	0.1	1.4	1.1	0.9	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 4/	12.2	10.5	16.9	38.8	19.4	29.1	13.4	14.8	13.9	12.6	11.7	
	External debt-to-exports ratio (in percent)	-1.7	-18.5	-26.7	-20.5	-35.5	-45.7	-69.5	-67.0	-71.8	-78.5	-83.7	
	Gross external financing need (in billions of US dollars) 5/	-0.9	-1.4	-3.5	-6.9	-5.3	-6.6	-3.1	-4.0	-4.3	-4.1	-3.8	
	in percent of GDP	-7.8	-10.6	-21.8	-35.7	-24.4	-26.8	-12.1	-14.7	-14.4	-12.8	-11.1	
	Scenario with key variables at their historical averages 6/						**-33.3**	**-36.5**	**-39.7**	**-44.3**	**-49.8**	**-55.9**	**-1.6**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	14.4	7.9	5.4	13.3	5.5	3.4	2.0	4.2	3.2	3.2	3.5	
	GDP deflator in US dollars (change in percent)	9.7	7.8	15.7	6.7	5.7	9.9	0.6	3.8	5.7	4.5	4.2	
	Nominal external interest rate (in percent)	38.0	-47.0	-0.4	0.4	1.2	0.7	0.5	0.3	0.4	0.5	0.4	
	Growth of exports (US dollar terms, in percent)	29.2	23.2	45.7	42.2	-4.8	24.9	-31.8	14.7	7.0	1.9	1.7	
	Growth of imports (US dollar terms, in percent)	5.6	22.9	19.0	9.8	17.0	30.6	-18.6	11.2	8.9	5.8	5.5	
	Current account balance, excluding interest payments	9.0	12.9	22.4	37.5	24.6	26.9	12.2	14.7	14.4	12.7	11.1	
	Net non-debt creating capital inflows	5.2	7.4	3.7	2.6	3.8	12.4	2.1	2.0	2.2	2.0	1.9	

1/ External debt is defined on a net basis, as the sum of private sector net external debt and central government debt minus the outstanding amount of HSF and international reserves.
2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
4/ For projection, line includes the impact of price and exchange rate changes.
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 7. Country: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ External debt is defined on a net basis, as the sum of private sector net external debt and central government debt minus the outstanding amount of HSF and international reserves. Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

Appendix I. Methodology of Exchange Rate Assessment

Exchange rate assessments for nonrenewable resource exporters are complex. During a commodity price boom, improved terms of trade lead to an appreciation of the equilibrium real exchange rate. This phenomenon can be captured by regression-based analyses. On the other hand, large CA surpluses tend to be temporary, reflecting the appropriate desire to save for the future, when the nonrenewable resources are depleted. Analyses that focus on external sustainability and take the prospective depletion of these resources explicitly into account can incorporate such intertemporal aspects.

Approach Based on Estimation of Equilibrium Exchange Rate

This approach is based on a single-country time-series regression of the real effective exchange rate (REER) on its fundamentals to estimate a cointegrating relationship among these variables. This determines the "equilibrium" REER, and its discrepancy from the actual REER. The analysis suggests that the estimated equilibrium REER is close to the actual REER in 2007, with an undervaluation of about 0.7 percent.

Dataset. The dataset is on an annual basis from 1975–2007 and consists of Trinidad and Tobago's CPI-based REER (in log, called "lreer"), government consumption in percent of non-energy GDP ("gcons"), manufacturing productivity relative to trading partners (in log, "lprod"), and the crude oil price in real terms (in log, "lrealoil").[1] Standard unit-root tests suggest that these variables contain unit roots. A dummy variable is added to the dataset to control for an abrupt adjustment of the REER in 1985 ("dummy_84_85", which equals one for 1984 and 1985 and zero for other years). The increase of the REER through 1984 partly reflects the appreciation of the U.S. dollar in nominal effective terms, and its abrupt downward adjustment is due to the large devaluation of the Trinidad and Tobago dollar in December 1985.

Estimation. The cointegrating relationship is estimated by ordinary least squares (OLS) of lreer on lrealoil, lprod, gcons, and dummy_84_85. OLS yields consistent estimates of the cointegrating vector under the assumption that there is only one cointegrating relationship.[2] The estimated result is (with t-value in parentheses):

[1] CPI-based REER is from the IMF INS database, the real crude oil price is based on the WEO oil price and deflated by the US CPI, and government consumption, manufacturing productivity, and non-oil GDP are from the Trinidad and Tobago authorities and staff estimates. Manufacturing productivity for Trinidad and Tobago is for the non-energy sector.

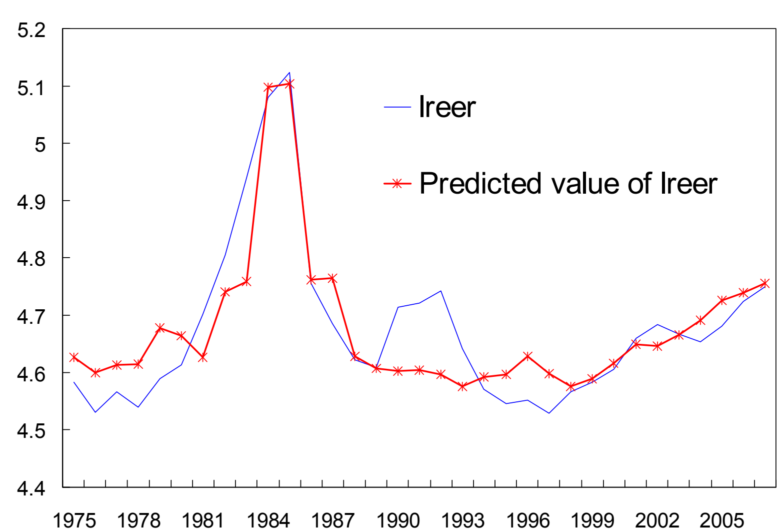
[2] However, if the residual of equation (1) and the first differences of independent variables are correlated, a cointegrating vector estimated by small-sample OLS is subject to a bias and OLS t-test is not valid.

lreer = 3.651 + 0.074*lrealoil + 0.093*lprod + 0.014*gcons + 0.305*dummy_84_85 (1)
(16.40) (2.40) (3.56) (3.58) (4.68)

This implies that the equilibrium REER appreciates by 0.07 percent in reaction to a one percent increase in the real oil price; by 0.09 percent in reaction to a one percent increase in relative productivity; and by 0.01 percent in reaction to an increase of government consumption by one percent of non-energy GDP.

The residual of equation (1) appears stationary since the regression of the residual on its lagged value generates the coefficient estimate of 0.57, substantially smaller than unity. This observation is corroborated by a residual-based cointegration test, which rejects the null hypothesis of no cointegration.

Result. The estimated equilibrium REER, i.e., the predicted value of leer from equation (1), is close to the actual REER in 2007, with an undervaluation of about 0.7 percent (see chart). The significant rise in the oil price in 2008 does not substantially affect this assessment: a comparison between the average REER for January–June 2008 and the equilibrium REER based on equation (1) with an average oil price of US$ 100 per barrel for 2008 and 2007 values for manufacturing productivity and government spending implies an estimated undervaluation of the exchange rate by only 2 percent.



Sensitivity to variable choice. Table A.1 shows the result of the OLS regression with various other variables. While net foreign assets (in percent of GDP or trade) are expected to influence the real effective exchange rate, the coefficient estimate for this variable is statistically insignificant. If lrealoil is replaced with terms of trade for goods and services, the coefficient becomes larger, reflecting smaller volatility of the terms of trade than oil prices. The effect of a dummy variable for trade restrictions is statistically insignificant. In any event, the degree of undervaluation or overvaluation for 2007 under any of these alternative specifications is less than 2 percent.

Sensitivity to estimation methodology. An alternative estimation, which was used in the 2007 Article IV consultation, is based on the Johansen maximum likelihood method. As presented in Table A.1, its results are highly sensitive to the vector error correction specification. The suggested number of cointegrating relationships ranges between 0 and 2, depending on the lag length. Under the assumption of one cointegration relationship, the estimated cointegrating vector is highly sensitive to the lag length, and yields an implausible negative coefficient for lrealoil.

Table A.1. Sensivity Analysis

Dependent variables	lreer	lreer	lreer	lreer	lreer	lreer	lreer	lreer	lreer
Independent variables									
lprod_nonoil	0.093	0.092	0.09	0.071	0.111	0.204	0.215	0.231	0.172
	(3.56)	(3.55)	(3.40)	(3.18)	(3.32)	(5.40)	(6.04)	(11.62)	(7.80)
lrealoil	0.074	0.125	0.104		0.067	-0.056	-0.092	-0.080	0.079
	(2.40)	(2.34)	(1.71)		(2.08)	(1.18)	(1.84)	(2.48)	(1.97)
gcons_noilgdp	0.014	0.016	0.016	0.014	0.013	0.038	0.041	0.040	0.024
	(3.58)	(3.79)	(3.35)	(3.90)	(2.82)	(7.85)	(8.78)	(13.74)	(6.20)
lagnfa_trade		-0.001							
		(1.17)							
lagnfa_gdp			-0.000						
			(0.57)						
ltotgs				0.364					
				(4.25)					
traderest					0.049				
					(0.89)				
dummy_84_85	0.305	0.281	0.29	0.273	0.314				
	(4.68)	(4.13)	(4.10)	(4.82)	(4.74)				
Constant	3.65	3.34	3.46	2.46	3.62	3.39	3.46	3.35	3.34
	(16.40)	(9.59)	(8.73)	(6.33)	(16.01)	...	...	...	...
Observations	33	33	33	33	33	32	31	30	29
R-squared	0.77	0.78	0.78	0.83	0.78	...	...	...	...
Estimation method	OLS	OLS	OLS	OLS	OLS	Johansen	Johansen	Johansen	Johansen
Number of lags in VEC	...	...	...	...	...	1	2	3	4
Suggested no. of coinegration	...	...	...	...	...	0	1	2	1
Overvaluation or undervaluation in 2007 (in percent) 1/	-0.7	1.2	1.0	-1.9	-0.8	1.8	4.2	1.1	-8.6

Note: Fund staff estimate. T-values in parenthesis. "lagnfa_trade" and "lagnfa_gdp" are lagged value of net foreign assets in percent of exports and imports and in percent of GDP, respectively. "ltotgs" is log of terms of trade for goods and services and traderest is a dummy variable for trade restriction. Suggested number of cointegration is from the rank test, although estimated coefficients are based on an assumption of one cointegrating vector.

1/ A positive value means overvaluation.

Approach Based on Long-term External Sustainability

Under this approach, sustainable paths of the non-energy current account (CA) deficit that can be financed by Trinidad and Tobago's energy wealth are calculated and compared with its projected path. The analysis suggests that the large deficit in the non-energy current account is not sustainable, because the sustainable non-energy CA deficit is lower than the projected path. However, this result is subject to significant caveats.

Methodology. The basic idea is the same as for the fiscal sustainability analysis. Specifically, the country accumulates external assets by transforming energy wealth into financial wealth, and uses proceeds from these assets to finance its non-energy CA deficit. Under a sustainable path for the non-energy CA deficit, net external assets will be maintained constant in perpetuity. These paths depend on the definition of sustainability—external assets can be maintained constant in real terms, in percent of GDP, or in real per capita terms.

More precisely, let A_0 be the initial external assets, which are the sum of the net present value of residents' take of energy wealth and other external financial assets at period 0. The dynamics of external assets in real terms, A_t, is expressed by $A_{t+1} = (1+r)A_t - B_{t+1}$, where B_t and r is the non-energy CA deficit in real terms and real rate of return, respectively. Let Y_t and L_t be the country's real non-energy GDP and the population at time t, respectively, and y and l be the growth rate of real non-energy GDP and the population growth rate, respectively. Under this terminology, the dynamics of external assets (i) in real terms, (ii) in percent of non-energy GDP, and (iii) in per capita terms, are characterized by a difference equation with a form of

$$a_{t+1} = (1+q)a_t - b_{t+1} = a_t + (q\, a_t - b_{t+1}).$$

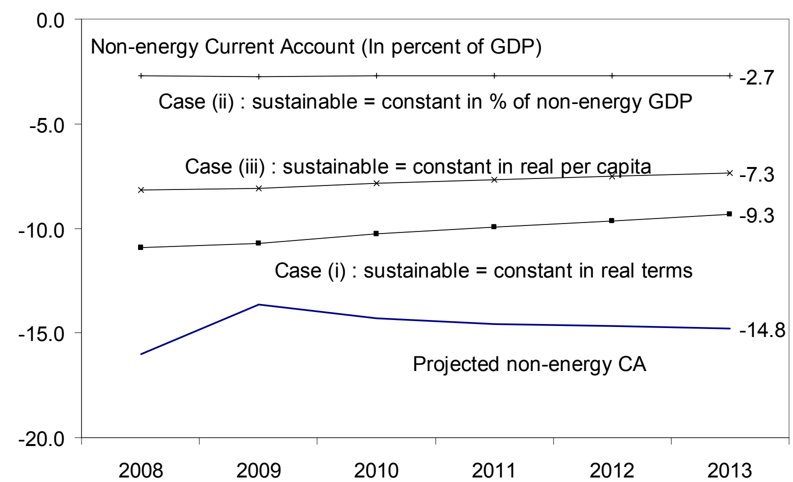
From this equation, $a_t = a_0$ for all t if and only if $b_t = q\, a_0$ for all t. This means that if external assets (either in real terms, in percent of non-energy GDP, or in real per capita terms) need to be maintained at a constant level in perpetuity, the non-energy CA deficit must be equal to the initial external assets a_0 times q, which can be interpreted as a rate of return, defined somewhat differently in the three specifications. More specifically, for the three definitions of sustainability described above, the difference equation and the sustainable level of non-energy CA deficit are described as follows.

	Dynamic equation	Sustainable level of non-energy CA deficit
(i) constant external assets in real terms	$A_{t+1} = (1+r)A_t - B_{t+1}$	$B_t = rA_0$
(ii) constant external assets in percent of non-energy GDP	$\frac{A_{t+1}}{Y_{t+1}} = \frac{1+r}{1+y}\frac{A_t}{Y_t} - \frac{B_{t+1}}{Y_{t+1}}$	$B_t = \left(\frac{1+r}{1+y} - 1\right)\frac{A_0}{Y_0} \cdot Y_t$ $= (r-y)\, A_0 (1+y)^{t-1}$
(iii) constant external assets in real per capita terms	$\frac{A_{t+1}}{L_{t+1}} = \frac{1+r}{1+l}\frac{A_t}{L_t} - \frac{B_{t+1}}{L_{t+1}}$	$B_t = \left(\frac{1+r}{1+l} - 1\right)\frac{A_0}{L_0} \cdot L_t$ $= (r-l) A_0 (1+l)^{t-1}$

The parameter values are set as follows. The initial value of external assets, A_0, is the sum of the net external assets as of end-2007 and the net present value of residents' take from the production value of crude oil and natural gas. The latter comprises the government's take as assumed in the fiscal sustainability analysis, and the private sector's take, which is assumed to be 5 percent of the production value of crude oil and natural gas (reflecting an estimate of the labor share in value added). The parameter values of r and y are set at 0.04 and 0.03, respectively (the same as for the fiscal sustainability analysis), and l is set at 0.01 (taking into account historical population growth).[3]

The computed sustainable levels of the non-energy CA deficit are then compared with the projected path of the non-energy CA balance. The non-energy CA balance is defined as the CA balance excluding the net export of the energy sector and net interest payments.[4] The sustainable and projected paths of non-energy GDP are expressed in percent of GDP (i.e., energy and non-energy GDP).

Result. The analysis suggests that the large deficit in the non-energy current account is not sustainable. As shown by the text chart below, for all definitions of sustainability, the sustainable non-energy CA deficit is lower than the projected path, with a considerable magnitude of deviations. If sustainability is defined as constant wealth in real terms, the discrepancy is 5½ percent of GDP in 2013. Similarly, if sustainability is defined as constant in percent of GDP and in real per capita terms, the discrepancies are 7½ percent and 12 percent of GDP, respectively.



Source: Fund Staff calculation.

Caveat. An important caveat to this analysis is that investments that raise the CA deficit in the medium term may durably boost export capacity in the non-energy sector. Thus, the long-term CA balance could be much stronger than what is projected over the medium term,

[3] For a detailed description of the fiscal sustainability analysis, see Selected Issues paper for the 2006 Article IV consultation.

[4] The net export of the energy sector is the export of oil, gas, and petrochemical products minus oil- and gas-related capital imports, which are assumed to be 50 percent of capital goods imports, and oil imports used for the exports of refined petroleum products.

without the need for a real exchange rate depreciation. Also, results are sensitive to the assumption on parameter values, especially for the resident's take from the production value of energy wealth and the long-run level of oil and gas prices.

APPENDIX II. BACKGROUND AND SUMMARY OF APPENDICES

Discussion. The 2008 Article IV consultation discussions were held in Port of Spain during November 4–17, 2008. The staff team comprised Christina Daseking (head), Werner Keller, Padamja Khandelwal, and Masahiro Nozaki (all WHD). Ms. Anne Joseph (OED) participated in policy discussion meetings. The mission met with Hon. Karen Nunez-Tesheira, Minister of Finance; Senator Hon. Mariano Browne, Minister in the Ministry of Finance; Mr. Ewart Williams, Governor of the CBTT; government and central bank officials; and representatives of the private sector, labor unions, and the opposition. A press conference was held after the concluding meeting with the authorities.

Exchange Rate Arrangement. Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on current account transactions. The system, a *de jure* managed float, is classified as a stabilized arrangement under the Fund's revised methodology.

Fund Relations. Trinidad and Tobago has no outstanding purchases and loans with the Fund. The last financial arrangement was a Stand-by Arrangement from April 1990 to March 1991, totaling SDR85 million. Recent technical assistance included standardization of monetary and financial statistics (STA, January 2008), setup of institutional arrangements for a medium-term fiscal framework (FAD, January 2008), and assignment of resident experts for insurance supervision (MCM, since October 2007).

Relations with the World Bank Group. The last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999. Its current operation includes an HIV/AIDS Prevention and Control Program, with total commitment of US$20.0 million.

Relations with the Inter-American Development Bank (IDB). The IDB is the main source of overseas development assistance for Trinidad and Tobago. The current loan portfolio consists of approved loan operations of US$454 million, and an undisbursed value of US$305 million. The IDB is preparing a new country strategy for Trinidad and Tobago, with a focus on improving quality of public expenditure and enhancing private sector development.

Statistical Issues. Trinidad and Tobago produces a wide range of economic and financial statistics that are largely based on sound methodological principles. Data provision has some shortcomings, but is broadly adequate for surveillance. The country has participated in the General Data Dissemination System since 2004.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

December 23, 2008

Contents Page

Appendices

APPENDIX I. TRINIDAD AND TOBAGO—FUND RELATIONS

(As of November 30, 2008)

I. Membership Status: Joined: September 16, 1963; Article VIII.

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	335.60	100.00
Fund holdings of currency	295.93	88.18
Reserve position in Fund	39.68	11.82

III. SDR Department:	**SDR Million**	**Allocation**
Net cumulative allocation	46.23	100.00
Holdings	0.71	1.54

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	04/20/90	03/31/91	85.00	85.00
Stand-by	01/13/89	02/28/90	99.00	99.00

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

	Forthcoming				
	2008	**2009**	**2010**	**2011**	**2012**
Principal					
Charges/Interest		0.49	0.48	0.48	0.48
Total		0.49	0.48	0.48	0.48

VII. Exchange Arrangements:

Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on current account transactions. The system, a *de jure* managed float, is classified as a stabilized arrangement under the Fund's revised methodology.

VIII. Last Article IV Consultation and Recent Contacts:

- The 2007 Article IV consultation was completed by the Executive Board on September 10, 2007, in a streamlined format (IMF Country Report No. 08/36).

- Staff visited Port of Spain on July 15–18, 2008, to advise on fiscal policies ahead of the FY 2008/09 budget.

IX. Technical Assistance (Fund headquarter-based)

- **STA**: Standardizing monetary and financial statistics, January 2008.

- **FAD**: Setting up institutional arrangements for a Medium-term Fiscal Framework, January 2008.

- **MCM**: Assignment of two resident experts for insurance supervision to the CBTT, starting October 2007 and February 2008.

- **STA**: Review of national accounts statistics methodology, July 2007.

- **STA**: Assistance to update export-import price indices, January 2007.

- **MFD/LEG**: Assistance with drafting a new Insurance Act, and amendments to the Financial Institutions Act, 2006.

- **MFD:** Financial sector supervision expert to advise the Inspector of Financial Institutions at the CBTT, 2006.

- **LEG:** Strengthening and modernizing the legal framework for banking regulation and supervision, July 2006.

- **MFD:** Assistance for a transition toward a more flexible exchange rate system, January 2006.

Appendix II. Trinidad and Tobago—Relations with the World Bank
(As of October 15, 2008)

The World Bank's last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999. The current World Bank program includes one project with total commitment of US$20.0 million, of which US$13.6 million is undisbursed.

I. Projects

HIV/AIDS Prevention and Control Program: The project was approved in June 2003 and is funded under the Multi-Country APL for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS; and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term. The Bank's support to Trinidad and Tobago under this project is for US$20.0 million.

III. Statement of World Bank Loans
(In millions of U.S. dollars)

Operation	Original Principal	Available	Disbursed
HIV/AIDS prevention and control	20.0	13.6	6.4

Disbursements and Debt Service
(Fiscal year ending June 30)

	Actual								
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009***
Total disbursements	12.2	9.6	12.7	3.8	2.0	4.7	5.7	4.1	0.9
Repayments	9.7	10.2	12.2	15.5	17.3	16.4	15.3	13.0	4.5
Net disbursements	2.5	-0.6	0.4	-11.7	-15.3	-11.7	-9.6	-8.9	-3.6
Interest and fees	3.6	6.7	5.9	5.1	3.8	3.1	2.5	2.1	0.3

* as of October 15, 2008

Loans Summary in U.S. dollars

Total disbursed (IBRD):	384,600,000
Of which has been repaid:	229,031,529
Total now held by IBRD:	29,219,377
Total undisbursed:	6,443,223

APPENDIX III. TRINIDAD AND TOBAGO—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of September 30, 2008)

Financing

Currently, the IDB is the main source of overseas development assistance for Trinidad and Tobago. Since 2002, annual disbursements and approvals have averaged US$37 million and US$32 million per year, resepectively. However, cash flow has been quite strongly negative as the portfolio has gradually diminished in size.

	2000	2001	2002	2003	2004	2005	2006	2007	2008[1]
Loan disbursements	24.7	28.7	24.5	30.7	40.7	52.7	23.8	47.2	37.6
Repayments	35.9	37	43	45.4	55.5	61	64.1	39.7	47.2
Net Loan Flow	**-11.2**	**-8.3**	**-18.5**	**-14.7**	**-14.8**	**-8.3**	**-40.3**	**7.5**	**-9.6**
Subscriptions and Contributions	2.2	0.5	0.4	0.3	0.2	2.4	0	0	0.0
Interest and Charges	30.2	28.5	23.9	22.4	20	19	18.3	18.4	21.7
Net Cash Flow	**-43.6**	**-37.3**	**-42.8**	**-37.4**	**-35**	**-29.7**	**-58.6**	**-10.9**	**-31.3**

[1] Projected.

Portfolio composition

The current loan portfolio consists of 8 operations with a total approved value of US$454 million, and an undisbursed value of US$305 million. The Bank expects to approve one additional operation—a US$49.5 million project in support of Seamless Education—before the end of 2008. The Bank also has a small portfolio of technical assistance grants, totalling US$4.6 million, of which US$2.5 million remain undisbursed.

Name	Signature Date	Approved (in US$ million)	Disbursed (in US$ million)
National Highway Program	May 20, 1997	120.0	115.9
Health Sector Reform Program	May 20, 1997	134.0	113.5
Secondary Education Program	July 06, 1999	105.0	52.8
National Settlements Program Phase II	June 21, 2002	32.0	16.7
Trade Sector Support Program	May 21, 2003	5.0	1.8
Public Sector Reform Initiation Program	March 17, 2004	5.0	2.4
Electronic Government & Knowledge Brokering	March 16, 2007	28.0	0.0
Citizen Security Program	April 5, 2008	24.5	1.9

Areas of future focus

The IDB is currently preparing a new Country Strategy for Trinidad and Tobago for the period of 2008-2012. Based on an analysis of the current economic conditions, the strategy for *sovereign financing* is expected to focus mainly on **quality of public expenditure** and (non-energy sector) **private sector development**. The Bank will also continue to provide support in the **health** and **housing** sectors, and bring to fruition long-standing preparations for an **environmental program** in Southwest Tobago.

- **Quality of public expenditure**: The Bank proposes to support: (i) the modernisation of procurement and financial management systems; (ii) the gradual introduction of a Medium-Term Expenditure Framework; and (iii) the strengthening of results-based management in key sector agencies.
- **Private sector development**: The Bank is already assisting in the establishment of new framework for Public-Private Partnerships, and plans to develop a support program for Small- and Medium-Sized Enterprises.

In addition, the Bank anticipates an expansion of its *non-sovereign guaranteed financing* to Trinidad and Tobago's **private sector**, possibly in the areas of energy, tourism, infrastructure, and financial services.

APPENDIX IV. TRINIDAD AND TOBAGO—STATISTICAL ISSUES

Data provision has some shortcomings, but is broadly adequate for surveillance. On September 30, 2004, Trinidad and Tobago started participating in the IMF's General Data Dissemination System. However, metadata and plans for improving the statistical system need to be updated in line with commitments under the GDDS. Institutional arrangements need to be strengthened to facilitate improved compilation and reporting as well as collaboration among the central bank, the central statistical office, and the ministry of finance, planning, and development, and to avoid duplication of data production efforts and some inconsistencies across sectoral databases.

Real sector statistics

The Central Statistical Office (CSO) revised the GDP base year from 1985 to 2000, improved the methodology for calculating value added at each sector level, and switched from valuation at factor cost to market prices. The upgrading of the national accounts has involved, in particular, the inclusion of the large gas sector production (which came on stream in 2000) in the GDP calculations; and a review of the value added estimation techniques for the telecommunications sector (using the number of call units instead of the number of callers) and the financial sector (by constructing individual extrapolators for each sub-industry and then aggregating them). The CSO does not produce quarterly GDP estimates, although the central bank compiles quarterly volume indicators. A STA technical assistance mission on national accounts in September 2005 encouraged the CSO to start the compilation process of quarterly macro indicators. The mission also found that while there was no serious staff shortages that could affect the production of statistics, a staff reallocation would improve efficiency.

The public has direct access to the retail price index which is published in the CSO's website. The retail price index was rebased from 1985 to January 2003 to incorporate information from the 1997/98 Household Budgetary Survey, and to correct the index's aggregation formula.

Government finance statistics

Data on central government operations and debt are compiled separately by the Ministry of Finance, Planning, and Development (MFPD) and the central bank, and show significant differences. The MFPD compiles fiscal data using a national classification system for government transactions and debt of the central government. These data are sufficiently detailed for use in compiling cash data according to *GFSM 1986* methodology. Reporting of these cash-based data in the *GFSM 2001* framework is also being undertaken by the MFPD.

Data for the period 2003-05 were published in the *2007 Government Finance Statistics Yearbook (GFSY)* and a submission of 2006 data has been received by STA for publication in the *2008 GFSY*.

Data on selected public enterprises and statutory bodies are compiled by the investment division, the domestic debt division, and the budget division of the MFPD. The data compiled by these divisions are subject to differences, particularly with respect to transfers. Expense data are sometimes misclassified, as the distinction between consumption of fixed capital and use of goods and services is not made.

Monetary and financial statistics

The monthly monetary account for other depository corporations (ODCs) currently covers only financial institutions that are licensed by the central bank under the 1993 Financial Institutions Act. No licensed ODCs only report voluntarily on a quarterly basis. No data are reported by credit unions and the Post Office Savings Bank. The lack of these data has prevented the compilation of a more comprehensive Depository Corporation Survey. The authorities should also consider developing systems for reporting balance sheet accounts for the mutual funds, with a view to compiling a more comprehensive financial survey in the future. Trinidad and Tobago has not yet migrated to the standardized report forms (SRFs) for the submission of monetary statistics. In January 2008, a mission assisted the authorities in producing the SRF for the central bank.

External sector statistics

Quarterly aggregate balance of payments estimates and annual balance of payments data are disseminated by the central bank in its national publications. Annual balance of payments data are also sent to STA, although with considerable delay. The presentation of the balance of payments data is in broad conformity with guidelines outlined in the fifth edition of the Balance of Payments Manual. The Private Sector Capital Flows and Investor Perception survey needs to be improved on the quantity and quality of responses, and by estimating the market value of shares. There are sizable differences between some items of the external public debt compiled by the Central Bank and the MFPD. 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: Table of Common Indicators Required for Surveillance
As of December 8, 2008

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	December 2008	December 2008	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	August 2008	October 2008	M	M	M
Reserve/Base Money	August 2008	October 2008	M	M	M
Broad Money	August 2008	October 2008	M	M	M
Central Bank Balance Sheet	August 2008	October 2008	M	M	M
Consolidated Balance Sheet of the Banking System	August 2008	October 2008	M	M	M
Interest Rates[2]	September 2008	November 2008	M	M	M
Consumer Price Index	October 2008	November 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	September 2008	November 2008	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	September 2008	November 2008	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2008	November 2008	A	A	A
External Current Account Balance	2007	November 2008	A	A	A
Exports and Imports of Goods and Services	2007	November 2008	A	A	A
GDP/GNP	2007	August 2008	A	A	A
Gross External Debt	December 2007	November 2008	A	A	A
International Investment Position[6]	2007	November 2008	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

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

IMF Executive Board Concludes 2008 Article IV Consultation with Trinidad and Tobago

On January 14, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

Supported by a booming energy sector, Trinidad and Tobago has achieved an impressive economic track record, with real GDP growth averaging 9 percent a year during 2002–07. Per capita income has doubled, and both the unemployment and public debt ratios were halved. Moreover, with official reserves covering close to 10 months of imports, the country has acquired one of the strongest credit ratings in the region. Low external vulnerability, together with a well-capitalized, liquid, and profitable banking system, have also limited direct spillovers from the international financial crisis, but falling energy prices and a more challenging external environment pose risks.

Faced with a prospective decline in energy resources, the government has embarked on an ambitious development and diversification strategy. Its *Vision 2020* aims at attaining developed-country status by that year, relying on gradually declining energy revenues to support a diversified non-energy economy through subsidies and public investment in infrastructure.

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[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.

The economy grew by 5½ percent in 2007 on the basis of sustained growth in the non-energy sector. Growth in the energy sector, which accounts for nearly half of GDP, fell below 2 percent. However, robust energy prices kept the current account surplus close to 25 percent of GDP.

Fiscal policy was expansionary. While the overall central government balance fluctuated considerably with volatile energy prices, the non-energy deficit remained at around 15 percent of GDP (28 percent of non-energy GDP) in recent years. This contributed to robust growth and record low unemployment, but also, together with sharply rising food prices, to rising inflation.

The fiscal expansion also complicated monetary policy, especially in the context of a *de facto* peg to the U.S. dollar. The large inflows and spending of energy revenues fueled money growth and excess liquidity in the banking system. The central bank responded with a successive tightening of policies, using its entire arsenal of instruments. While these measures have been effective recently in reducing private credit growth, they will take time to be reflected in lower inflation rates.

In the face of a deteriorating external environment, economic growth is projected to slow to 3½ percent in 2008 and 2 percent in 2009. This, together with falling international food prices, should also help dampen domestic price pressures, with inflation projected to decline to 7½ percent in 2009, down from 11¾ percent this year. At the same time, the current account surplus is projected to shrink to 12 percent of GDP in response to falling energy export earnings, while the central government balance would register a deficit of 1 percent of GDP under current energy price projections, despite recently announced expenditure cuts.

Executive Board Assessment

Executive Directors welcomed that Trinidad and Tobago has achieved an impressive improvement in economic performance in recent years, supported by a booming energy sector. But now the deteriorating external environment, marked by falling energy prices and a severe global slowdown, poses risks to the economy. Directors observed that Trinidad and Tobago seems better placed than many other countries to weather this adverse external environment, reflecting the high level of international reserves and the fundamentally sound banking system. Nonetheless, they advised the authorities to accelerate the preparation of contingency plans to preserve macroeconomic stability under more difficult circumstances.

Directors welcomed the recent passage of a new Financial Institutions Act, which will enhance the ability of the central bank to supervise the financial sector. Directors encouraged the authorities to adopt important follow-up legislation and to push ahead with identifying contingency measures in case of emerging liquidity pressures. They further stressed the importance of establishing a robust framework for the stress-testing of financial institutions and a crisis management plan on a regional basis.

Directors commended the authorities' decision to trim fiscal spending for 2008/09 in response to lower energy revenue. They were of the view that the envisaged cuts strike a reasonable balance between containing the fiscal deterioration and limiting a procyclical withdrawal, leaving room for automatic stabilizers to operate. Directors welcomed the authorities' intention not to tap the resources of the Heritage and Stabilization Fund.

Directors stressed that further fiscal adjustment will be needed over the coming years to reduce the non-energy deficit in the fiscal and current accounts to levels that are sustainable in the long run. Over the medium term, a further fiscal tightening would be advisable and feasible through better prioritizing and targeting of expenditure, without sacrificing development objectives.

Executive Directors concurred that the recent cycle of monetary policy tightening had been appropriate to stem inflationary pressures. At the same time, they underscored the need to remain vigilant in balancing the risks of inflation and slower economic activity. They considered that the central bank has scope to gradually loosen monetary policy, once concerns over second-round inflationary effects have abated.

Directors noted the staff's assessment that the real effective exchange rate of the Trinidad and Tobago dollar is broadly in line with current fundamentals. They agreed with the authorities that now is not the right time for a fundamental shift in exchange rate policies. Once global conditions have stabilized, however, some Directors encouraged the authorities to consider greater exchange rate flexibility under their managed float arrangement.

Directors commended the authorities for their *Vision 2020* strategy to achieve developed-country status, and for their pro-active approach to addressing the country's development challenges in anticipation of diminishing energy resources. Going forward, they encouraged the authorities to shift the focus of policies further away from subsidies and direct government involvement and toward improving the business climate and providing high-quality public goods and services.

Trinidad and Tobago: Selected Economic Indicators

	2004	2005	2006	2007	Proj. 2008
Output and prices					
Real GDP	7.9	5.4	13.3	5.5	3.4
Energy GDP	8.2	8.3	21.8	1.7	0.3
Unemployment rate (percent of labor force)	8.3	8.0	6.2	5.6	5.0
Consumer prices (end of period)	5.6	7.2	9.1	7.6	13.3
Money and credit 1/					
Net foreign assets	36.4	42.6	52.6	29.7	51.6
Net domestic assets	-17.6	-23.0	-34.9	-22.3	-38.0
Public sector credit (net)	-24.7	-23.6	-33.5	-23.5	-48.5
Private sector credit	18.2	21.6	15.2	17.8	10.5
Broad money (M3)	18.8	19.6	17.7	7.4	13.6
Public finances 2/					
Central government					
Budgetary revenue	25.8	30.7	33.3	30.1	36.9
Budgetary expenditure	23.9	25.0	26.7	28.4	30.4
Overall budget balance	2.0	5.7	6.6	1.7	6.5
Overall nonenergy budget balance 3/	-8.7	-10.5	-14.0	-15.3	-14.8
Overall nonfinancial public sector balance	1.8	4.0	5.9	1.4	7.8
Public sector debt 4/	45.5	36.8	31.2	28.5	27.2
External sector					
External public sector debt	11.1	8.1	6.5	6.0	5.5
Current account balance	12.5	22.4	37.5	24.8	27.1
Of which: exports	48.7	60.3	73.4	62.0	69.1
Of which: imports	37.2	35.7	33.6	35.5	41.2
Gross official reserves (in US$ million)	2,499	3,871	5,120	6,642	8,743
Terms of trade (percentage change)	6.4	12.3	3.8	0.1	8.6
Memorandum item:					
Nominal GDP (in billions of TT$)	82.8	101.0	122.3	136.7	155.4

Sources: Trinidad and Tobago authorities; and Fund staff estimates.
1/ Changes in percent beginning-of-period broad money.
2/ Fiscal year October–September. Data refer to fiscal years from 2003/2004 and 2007/2008.
3/ Defined as non-energy revenue minus expenditure of the central government.
4/ Excluding debt issued for sterilization.

Statement by Paulo Nogueira Batista, Executive Director for Trinidad and Tobago and Anne Joseph, Senior Advisor to Executive Director
January 14, 2009

1. The authorities wish to express their appreciation for the quality of dialogue with staff during the consultation, as well as for the recommendations and advice contained in the report.

Recent Economic Developments

2. The Trinidad and Tobago economy has enjoyed over 14 years of economic expansion, and during this time, the country has established a solid record of macroeconomic stability. The unemployment rate, currently around 5 percent, is the lowest on record. The external position is strong, with very high current account surpluses, reserves of about 11 months of import cover at the end of 2008, and a sovereign wealth fund of approximately 11.8 percent of GDP. The public sector accounts are also strong. There has been a build-up of fiscal surpluses over the last seven years and the public sector debt to GDP ratio has fallen to 27.2 percent of GDP. Consequently, the economy is well placed to weather the present global economic storm, although some adverse impact has occurred and is expected in 2009.

3. Over the past five years, GDP growth has averaged 7.1 percent, with both the energy and non-energy sectors recording buoyant activity with increases of 8.1 percent and 6.1 percent, respectively. Moreover, reflecting the government's efforts to diversify the economy, the non-energy sector was the main driver of economic activity in 2007 and 2008, with buoyant conditions in manufacturing, tourism and financial services. Moreover, activity in the agriculture sector rebounded sharply with growth accelerating to 8.6 percent in 2008 after years of contraction. Admittedly, GDP growth slowed somewhat in 2008 to 3.5 percent. Growth in energy sector output was only 0.4 because of lower production of crude oil and flat growth in the capacity-constrained petrochemicals industries. In contrast, the non-energy sector recorded stronger growth of 4.8 percent.

4. In 2008, inflation was the major challenge confronting the authorities, as domestic prices increased by 11.8 percent in the first eleven months of 2008, compared with 7.9 percent in January-November 2007. The economy suffered as did the global economy, from escalating international food prices. Core inflation, which filters out the food component, was more moderate at 6.1 percent. However, this was 1.7 percentage points above the rate for 2007, as second round effects had begun to pass through the economy. One of the other major influences on inflation has been the non-energy fiscal deficit, which is estimated at 14.7 percent of GDP in fiscal year 2007/2008. This, together with sharp increases in private sector credit, fueled demand pressures that ran up against supply bottlenecks. Rising inflationary expectations have begun to influence the level of wage demands, as well as decisions to spend rather than save and have also prompted businesses to increase margins as a hedge against rising prices.

5. The central bank has used every available tool at its disposal to tighten liquidity and hence contain demand pressures. The monetary authority raised its key policy rate three

times during 2008, supported by open market operations, which more than doubled in fiscal year 2007/08, as well as sales of foreign exchange to the market. Rising inflationary pressures also led the central bank to further tighten its monetary policy stance by raising the primary reserve requirement by 2 percentage points on three separate occasions. In addition, the authorities have periodically been issuing government bonds and Treasury Notes to aid in liquidity absorption. The proceeds from these securities have been sterilized. These measures have begun to have an impact as credit expansion, in particular, consumer lending has slowed considerably, reflecting higher interest rates. On the supply side, the government embarked on a number of initiatives to improve the efficiency of the distribution network for agricultural produce, as well as to increase the supply of these items with the establishment of a number of mega farms, the first of which began harvesting in the last quarter of 2008. It is expected that the increase in the supply of domestic agricultural produce would dampen price pressures. In addition, investment in the sector should improve the linkages with other sectors of the economy and provide an incentive for private sector participation in downstream agri-businesses. Moreover, the government eliminated or significantly reduced import duties and value added taxes on a wide range of food items, which cushioned the impact of higher food prices on vulnerable groups in the society.

6. The fiscal position has been strong over the past seven years, reflecting mainly increased revenues from the energy sector. The government recognizes that the widening of the non-energy fiscal deficit has helped to fuel inflationary pressures, and sees the reduction of the latter as an economic and social priority. To this end, in the 2008/2009 Budget, the government reduced the subsidy on premium gasoline and intends to reduce the fuel subsidy further, over the medium term, with the provision of a viable fuel alternative for the population - compressed natural gas. At the same time, the government sees the growth in the non-energy deficit as temporary and in keeping with its prioritization of investments in education, health, housing, social services and infrastructure. These investments are intended to enhance economic growth and provide impetus for the expansion of the non-energy sector and the diversification of the economy.

Outlook and Measures to Mitigate the Impact of the Global Economic Slowdown

7. The authorities concur with staff that the economy should grow by about 2 percent in 2009, on the back of the impact of the global recession on output of oil, gas and petrochemicals, while activity in the non-energy sector is projected to show a modest increase. The external current account surplus is expected to decline and the fiscal account to balance or record a small deficit. The major challenge remains the control of inflationary pressures, which should recede in 2009 and in the medium term, in response to the fall in international food prices, increased domestic food supply and lower government spending. This fall may be tempered in light of the heightened inflationary expectations in the economy, and the time lag in the response of domestic prices to the fall in international food prices.

8. The government, keenly aware of the impact of the external environment on the economy, and having benefited from similar previous experiences, moved quickly to adjust both recurrent and capital expenditure, in light of an expected reduced revenue stream. The

authorities also announced that social spending would not be reduced, in an effort to mitigate the impact on vulnerable groups. Moreover, in negotiating a soft landing for the economy, the government is also intent on maintaining momentum in economic activity. This will be helped by the fact that approximately 60 percent of government revenues are currently derived from natural gas, the price of which has been falling at a less precipitous rate than that of oil. In addition, the government has declared its intention not to tap into the resources of the Heritage and Stabilisation Fund, but to access accumulated savings, if necessary.

9. The central bank's priority remains the containment of inflationary pressures, the prospect of which appears attainable, especially in light of an expected reduction in government spending, lower international food prices and a projected increase in agricultural production. However, the bank intends to maintain a tight monetary stance in order to further reduce bank credit and rein in demand pressures. Staff has stated that a more flexible exchange rate would provide an additional tool for managing inflation. However, the authorities are of the view that exchange rate stability has served as a solid anchor for the economy's growth and development.

10. The financial sector is sound and contagion from the global financial turmoil has been minimal. The banking sector is profitable, liquid, well capitalized and does not depend much on foreign borrowing. In addition, a new Financial Institutions Act became law in November 2008, strengthening the regulatory framework. The Act upgrades and improves the oversight of financial conglomerates and makes provision for the sharing of information with other regulators in the Caribbean and addresses the issue of inter-institutional co-operation. The legislation also provides for reporting requirements for financial holding companies on a consolidated basis and with respect to connected parties of licensees. A new Securities Act should be laid in Parliament in 2009, which will establish the foundation for a modern securities market and make the country's capital market more attractive to both foreign and domestic investors. Plans are also progressing to improve regulatory oversight of credit unions. The authorities have taken note of staff's recommendation with respect to the identification of contingency measures in the event of tensions in the financial system and have begun work in this area. In this regard, given the fact that some of the country's banks have a presence in many Caribbean jurisdictions, the authorities are working on a contingency plan with other regulators in the region. Moreover, the limit on deposit insurance was already raised by 50 percent in 2007.

Structural Reforms and Other Issues

11. The authorities are intent on continuing to improve tax administration. To this end, plans to establish the Trinidad and Tobago Revenue Authority are well advanced and the enabling legislation should be passed in 2009. This would enhance efficiency in the areas of tax and customs administration and improve service delivery to the government as well as the population. Work on property tax reform is also ongoing. In addition, the authorities plan to implement a new system for delivery of social services that will involve decentralization and collaboration with civil society. This should enhance efficiency and facilitate the reporting and monitoring process. The authorities are appreciative of the technical assistance

provided by the Fund in 2008, to assist them in strengthening macro-fiscal capacity and in setting up a medium-term fiscal framework.

12. The authorities are also advancing their plans for the diversification of the economy. One major project in this area is the establishment of an International Financial Center, work on which is at an advanced stage. The government will work with the private sector to develop other sectors that have been identified. In addition, the government proposes to establish a Business and Investment Secretariat, which should improve administrative efficiency and allow investors to access information on the necessary steps to establish a business. Plans are also afoot to form a National Productivity Council, which would seek ways to improve competitiveness in light of the country's fall in the ranking of the Global Competitiveness Index. The authorities have also initiated dialogue with business and labor to discuss, in the first instance, the outlook for the domestic economy in 2009. This should lay the foundation for ongoing discussions on many issues including the improvement of the business climate.