



TRINIDAD AND TOBAGO

SELECTED ISSUES

June 2026

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SELECTED ISSUES

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Approved By
**Western Hemisphere
Department**

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ANCHORING SUSTAINABLE PUBLIC FINANCES: FISCAL RULE OPTIONS FOR TRINIDAD AND TOBAGO^{1, 2}

Trinidad and Tobago's public finances remain highly dependent on volatile energy revenues, contributing to procyclical fiscal outcomes and a sustained increase in public debt since the late 2000s. These challenges underscore the need for a fiscal framework that reduces exposure to energy price volatility while supporting long-term fiscal sustainability and intergenerational equity.

A. Introduction

1. Trinidad and Tobago's economy and public finances are highly dependent on the energy sector. Oil and gas production has positioned the country as a leading petrochemical hub in the Caribbean, underpinning economic growth and facilitating convergence toward higher per capita income levels. In 2025, the energy sector accounted for nearly 20 percent of GDP, about 80 percent of exports of goods and roughly 35 percent of central government revenues. While this production structure has generated substantial benefits over the past decades, it has also increased the economy's and public finances' exposure to global energy price shocks.

2. Fiscal outcomes have closely mirrored developments in international oil and gas markets (Figure 1). Fiscal policy in Trinidad and Tobago has been persistently procyclical³ although the way this procyclicality has manifested has changed over time. Since 1990, two distinct phases can be identified. During the first phase (1990–2008), expenditure expanded broadly in line with rising revenues, supported by new hydrocarbon discoveries, the expansion of the liquefied natural gas subsector, and buoyant energy prices during the 2000s. This favorable environment enabled the realization of occasional fiscal surpluses, or relatively small deficits. By contrast, during 2009–25, procyclicality manifested itself through insufficient adjustment to declining revenues, as expenditure exhibited marked downward rigidity, increasing by nearly 4 percentage points of GDP relative to its 2008 level and persistently outpacing revenue performance. This sustained divergence contributed to larger and more entrenched fiscal deficits.

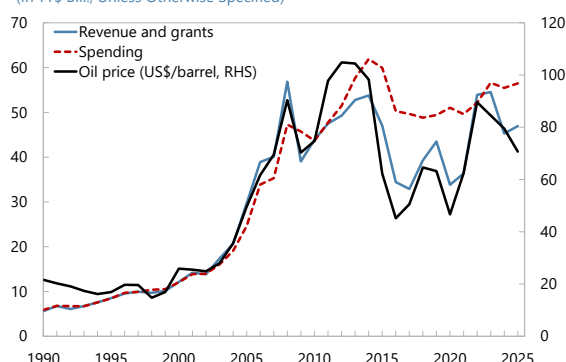
¹ Prepared By Carlos Chaverri Morales (WHD).

² The author gratefully acknowledges the comments provided by the Ministry of Finance and the Central Bank of Trinidad and Tobago.

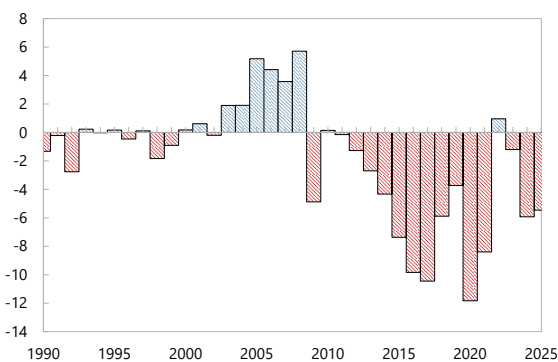
³ Procyclicality can be assessed using alternative approaches. One method examines the correlation between government spending and commodity prices: a positive correlation suggests procyclical fiscal policy, with spending increasing during price booms and declining during downturns. A second approach evaluates the relationship between fiscal saving indicators (e.g. primary balance) and the output gap. This note follows the first approach. The estimated correlation coefficient is 0.89 over 1990–2025, with a particularly strong relationship during 1990–2008 (0.98). Although the correlation declined in 2009–2025, it remained positive at 0.31, still indicating procyclical fiscal dynamics.

Figure 1. Trinidad and Tobago: Fiscal Developments (1990-2025)**Revenue, Spending and Oil Prices**

(In TT\$ Bill., Unless Otherwise Specified)

**Central Government Overall Balance**

(In Percent of GDP)

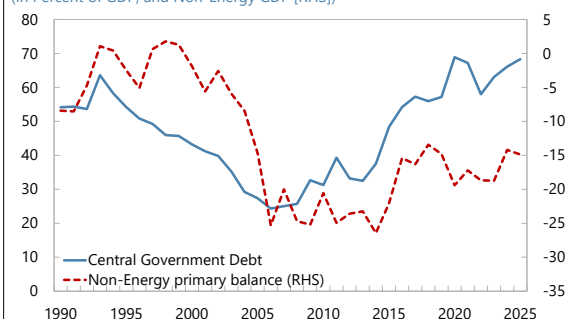


Source: Trinidad and Tobago authorities' and IMF staff calculations.

3. Central government debt has followed an upward trajectory since 2008. Large and persistent fiscal deficits since the late 2000s have placed debt on an upward trajectory from previously moderate levels (about 43 percent of GDP on average during 1990–2008). Debt continued to increase in subsequent years, reflecting persistent primary deficits, episodes of weak growth, and a higher interest rate environment, in addition to fiscal pressures associated with the COVID-19 pandemic. As a result, central government debt rose from 27 percent in 2005 to about 68 percent of GDP by end-2025.

Central Government Debt, 1990-2025

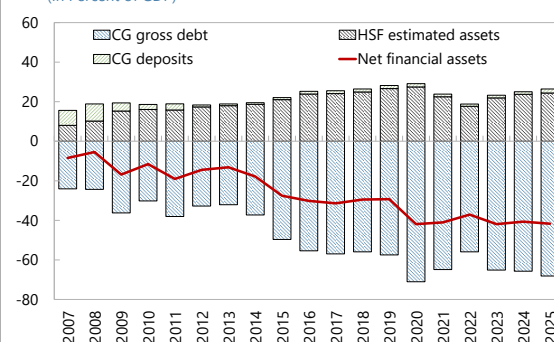
(In Percent of GDP, and Non-Energy GDP (RHS))

Source: Trinidad and Tobago's authorities and IMF staff calculations.
Note: Debt includes OMO's and t-notes.

4. The authorities recognized the challenges with managing an economy based on volatile and exhaustible natural resources by establishing the Heritage and Stabilisation Fund (HSF). The HSF was established in 2007, replacing the Revenue Stabilisation Fund (IRSF), and was conceived as a fiscal mechanism linking public savings to energy revenues. Under the framework, energy revenues above budgeted levels are transferred to the Fund, while withdrawals are permitted when revenues fall

Central Government: Net Financial Assets

(In Percent of GDP)



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

below budgeted levels, subject to predefined limits⁴. The HSF operates as a *fiscal rule* aimed at smoothing expenditure and transforming exhaustible resource revenues into financial assets for the benefit of future generations⁵. By converting exhaustible resource revenues into diversified financial assets that generate a more stable income stream, the Fund helps preserve national wealth beyond the depletion horizon and reduces exposure to commodity price volatility. HSF assets currently stand at approximately 24 percent of GDP (as of end fiscal year 2025). Strengthening regular contributions to the Fund, consistent with a well-defined fiscal anchor, would help ensure a sustained improvement in the central government's net financial assets (NFA)⁶ position over time and reinforce fiscal sustainability.

5. These challenges underscore the importance of enhancing the fiscal policy framework.

A comprehensive medium-term macro-fiscal framework (MTFF), supported by well-designed fiscal rules would help delink public expenditure from short-term fluctuations in energy prices, provide a clear anchor for fiscal policy, support the rebuilding of fiscal buffers, and safeguard long-term fiscal sustainability, while ensuring that the benefits from exhaustible energy resource wealth are shared with future generations.

6. In this context, fiscal rules can play a central role in strengthening the fiscal framework by reinforcing policy discipline and protecting the budget from short-term pressures.

Fiscal rules are durable constraints on fiscal policy designed to support fiscal discipline and ensure debt sustainability by placing limits on key fiscal aggregates. Their primary objective is to reduce procyclical biases and guide fiscal policy toward a more sustainable and well-calibrated stance. Well-designed fiscal rules also facilitate the accumulation of fiscal buffers during periods of strong revenues, thereby creating space to respond to adverse shocks. While typically tailored to country-specific circumstances, fiscal rules fall into four main categories:

⁴ The Heritage and Stabilisation Fund (HSF) is governed by the *Heritage and Stabilisation Fund Act, 2007*, which establishes rules-based deposit and withdrawal mechanisms linked to deviations of actual petroleum revenues from budgeted (estimated) revenues. Deposits are required when petroleum revenues collected in each quarter of any financial year exceed budgeted levels by more than 10 percent, with the excess revenues transferred to the Fund during the financial year. Withdrawals are permitted when petroleum revenues fall short of estimates for that financial year by at least 10 percent, subject to annual limits (the lesser of 60 percent of the shortfall or 25 percent of the Fund balance at the start of the fiscal year) and a minimum Fund balance floor. The HSF is overseen by a Board of Governors, while operational management is delegated to the Central Bank of Trinidad and Tobago. The Act also mandates regular reporting and audited financial statements to ensure transparency and accountability.

⁵ For more details about financial diversification see Nagle, P. (2026). *Boosting Non-energy Growth Through Diversification and Structural Reforms*. International Monetary Fund.

⁶ Defined as central government financial assets: including deposits and Heritage and Stabilization Fund assets minus gross public debt.

Table 1. Trinidad and Tobago: Fiscal Rules Main Categories

Rule Type	Operationalization	Selected Countries with the Rule in Place (as of end-2024)
Debt Rules	Set an explicit limit or target for public debt as a percentage of GDP. This type of rule has the objective of achieving convergence to a sustainable debt target.	Antigua and Barbuda, Angola, Aruba, Bahamas, Barbados, Benin, Chile, Colombia, Côte d'Ivoire, Dominica, Ecuador, El Salvador, Grenada, Jamaica, Kazakhstan, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname.
Budget Balance Rules	Are typically designed to apply to the overall balance budget and seek to limit discretion over annual fiscal policy settings.	Angola, Aruba, Bahamas, Benin, Chile, Colombia, Costa Rica, Côte d'Ivoire, Dominica, El Salvador, Grenada, Honduras, Jamaica, Kazakhstan, St. Vincent and the Grenadines.
Expenditure Rules	Set limits on total, primary, or current spending, and the limits apply to nominal or real expenditure. They are typically set in absolute terms (levels) or growth rates and occasionally in percent of GDP.	Antigua and Barbuda, Bahamas, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Kazakhstan, St. Vincent and the Grenadines.
Revenue-Based Rules (Price-Based)	Set ceilings or floors on revenues and are aimed at boosting revenue collection or preventing an excessive tax burden (or both).	Antigua and Barbuda, Bahamas, Benin, Côte d'Ivoire, El Salvador.

Source: IMF (2025) "Fiscal Rules Dataset: 1985-2024".

In practice, these rules are often used in combination within a broader fiscal framework to balance sustainability, stabilization objectives, and operational simplicity.

7. Well-designed fiscal rules can provide a wide range of economic and institutional benefits. Empirical evidence suggests that fiscal rules could foster budgetary discipline (Azzimonti, Battaglini, and Coate 2016), signal a government's commitment to sound fiscal management (Hatchondo and others 2022a, 2022b), mitigate procyclical spending (Reuter, Tkačevs, and Vilerts 2022; Eyraud, Gbohoui, and Medas 2023), and coalesce political debate (Cao, Dabla-Norris, and Di Gregorio 2024). In addition, recent evidence suggests that fiscal rules supported by robust correction mechanisms are associated with significantly lower sovereign spreads, reflecting stronger policy credibility (Acalin, Martinez, and Roch 2025).

8. This note discusses alternative fiscal rule options to strengthen Trinidad and Tobago's fiscal framework. Section B presents the estimation of a long-term fiscal anchor based on the Permanent Income Hypothesis (PIH). Section C examines alternative price-based rules for oil and gas to guide the medium-term fiscal policy framework and presents the results of a counterfactual analysis. Section D concludes with policy recommendations.

B. Long-Term Fiscal Anchor⁷

9. The Permanent Income Hypothesis (PIH) provides a framework for assessing the appropriate level of savings to ensure inter-generational equity.⁸ Under this approach, government spending is anchored to a country's total resource wealth, defined as the sum of existing financial assets and the present value of future resource revenues. The PIH implies that resource revenues should be used in a manner consistent with maintaining a stable level of spending over time, typically by limiting the non-resource primary deficit to the level that can be permanently financed by the return on total wealth. In this framework, revenues from exhaustible natural resources—such as oil and gas—are treated as the transformation of nonrenewable assets into financial wealth rather than regular income. By smoothing the use of resource revenues over time, the PIH helps preserve wealth for future generations, reduces fiscal procyclicality, and provides a long-term fiscal anchor consistent with intergenerational equity and macroeconomic stability. While the PIH provides a useful benchmark for long-term sustainability, some deviation from PIH-consistent paths may be appropriate in the presence of development and economic diversification needs.

10. PIH-based fiscal balance benchmarks are constructed under three alternative scenarios. The first is a perpetuity scenario (*PIH perpetuity*), in which the non-energy primary deficit (NEPD) is maintained constant as a share of non-energy GDP. The second is a real perpetuity scenario (*PIH real perpetuity*⁹), in which the NEPD follows a path consistent with preserving the real value of resource wealth over time. The third is a 10-year annuity scenario (*PIH annuity*), in which the NEPD is held constant as a share of non-energy GDP while oil and gas wealth is fully depleted by the end of the annuity period.

11. The results suggest that Trinidad and Tobago is not saving sufficient resource revenues to preserve wealth for future generations. Figure 4 compares the staff baseline projections with PIH benchmarks for the non-energy primary deficit and net financial assets. The results indicate that the current fiscal trajectory is weaker than would be required to ensure intergenerational equity and long-term fiscal sustainability.

- Under the **PIH perpetuity scenario**, the NEPD is limited to about 4 percent of non-energy GDP, implying that resource wealth is preserved indefinitely and only the implicit return on total wealth is used to finance fiscal deficits. This scenario represents the most conservative benchmark and would require a substantial fiscal adjustment relative to recent outcomes.

⁷ Four approaches are commonly used to derive long-term fiscal benchmarks in resource-rich countries: the Permanent Income Hypothesis (PIH), the Bird-in-Hand approach, the Modified Permanent Income Hypothesis (MPIH), and fiscal sustainability frameworks. This note focuses exclusively on the PIH approach.

⁸ The PIH framework assumes that the country can borrow and lend at the same interest rate, is not subject to credit constraints, and there's no uncertainty.

⁹ This approach allows current generations to spend a somewhat larger share of oil and gas revenues (i.e., to run higher non-energy primary deficits) on the premise that, as the diversification agenda bears fruit, non-energy GDP will expand, and future generations will be better off. Any prioritization of current spending would therefore need to be carefully calibrated, anchored in a credible medium-term consolidation strategy, and consistent with preserving net public wealth over time.

- The **PIH annuity** scenario implies a constant NEPD of about 9 percent of non-energy GDP, consistent with smoothing the use of resource wealth over a finite horizon. Under this approach, oil and gas wealth is gradually depleted and fully exhausted by the end of the annuity period, allowing for a higher level of spending in the medium term than under the perpetuity benchmark.
- The **PIH real perpetuity** scenario provides a transitional adjustment path, with the non-energy primary deficit improving gradually from about 11½ percent of non-energy GDP in 2025 to about 6 percent by the late 2040s, consistent with maintaining the real value of resource wealth over time. This scenario balances the objectives of fiscal sustainability and gradual adjustment.

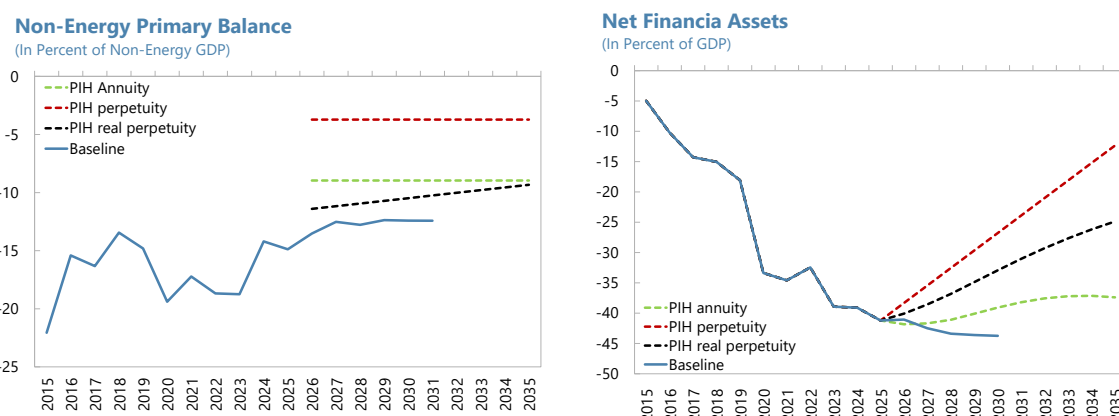
Relative to recent outcomes and staff projections, the PIH benchmarks imply a substantial fiscal adjustment over the medium-term (Table 2).

Table 2. Trinidad and Tobago: Non-Energy Primary Balance Medium-Term Fiscal Adjustment

	2026	2027	2028	2029	2030
NEPD (in percent of non-energy GDP)					
Baseline	-14.3	-13.3	-13.5	-13.1	-13.2
PIH perpetuity	-3.7	-3.7	-3.7	-3.7	-3.7
PIH annuity	-9.0	-9.0	-9.0	-9.0	-9.0
PIH real perpetuity	-11.4	-11.2	-10.9	-10.7	-10.5
Adjustment relative to the current baseline (in percentage points)					
PIH perpetuity	10.6	9.6	9.8	9.4	9.4
PIH annuity	5.3	4.3	4.6	4.2	4.2
PIH real perpetuity	2.9	2.1	2.6	2.4	2.7

Source: IMF staff calculations.

12. Under the PIH benchmarks, net financial assets (NFA) improve steadily over time, with the pace of improvement varying across scenarios. The *PIH perpetuity* delivers the strongest accumulation of financial assets, reflecting higher implied savings, while the *PIH real perpetuity* scenario produces a more gradual rebuilding of fiscal buffers. The *PIH annuity* scenario stabilizes net financial assets at lower levels, consistent with the planned depletion of resource wealth over time. Under the baseline, NFA are projected to remain broadly stable or decline over the medium term, in contrast with the steady improvement implied by the PIH benchmarks.

Figure 2. Trinidad and Tobago: PIH: Non-Energy Primary Balance and Net Financial Assets

Source: Trinidad and Tobago authorities' and IMF staff calculations.

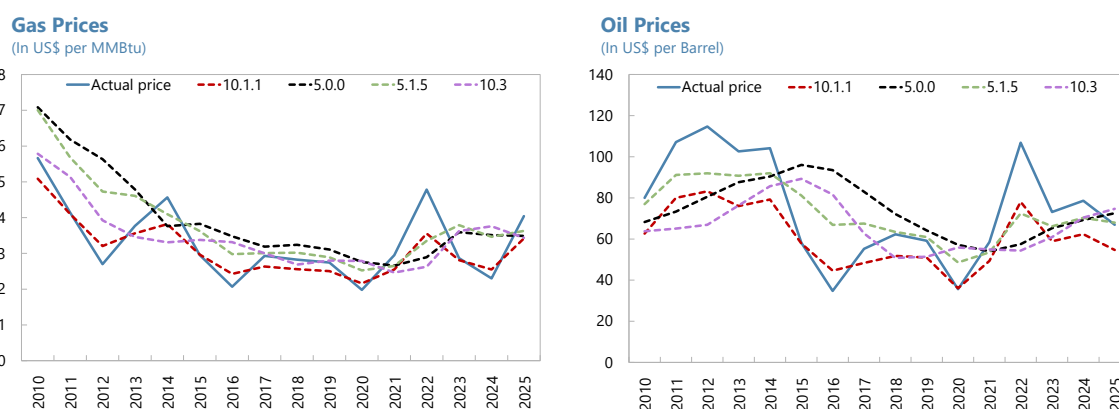
C. Near-Term Anchor Price-Based Rules

The PIH benchmarks provide a long-term fiscal anchor, while operational fiscal rules can support convergence toward these benchmarks over time and help smooth the adjustment path.

13. Near-term fiscal anchors based on price rules use a reference energy price to guide fiscal policy and delink public spending from short-term fluctuations. These rules extend the concept of cyclically adjusted balances by projecting fiscal revenues using a benchmark price for oil and gas—typically derived from long-term averages or smoothing formulas—rather than prevailing market prices. Revenues above the benchmark are saved, while shortfalls can be financed from accumulated buffers. By reducing the sensitivity of fiscal policy to energy price volatility, price-based rules help smooth expenditure over time, support countercyclical policy, and strengthen fiscal sustainability in resource-dependent economies such as Trinidad and Tobago.

14. To assess the potential effects, this section considers four alternative price-based fiscal rules¹⁰. Given the importance of oil and gas production in Trinidad and Tobago, both commodity prices are incorporated in the analysis. Each rule relies on a different reference price mechanism designed to smooth energy revenues and reduce the impact of commodity price volatility on fiscal outcomes. Under the first rule (**10.3**), the benchmark price for oil and gas is defined as the lower of the 10-year and 3-year historical averages. The second rule (**10.1.1**) follows a similar approach but incorporates the current price and one year of forward prices. Under the third rule (**5.1.5**), the benchmark price is defined as an 11-year average, including the previous five years, the current year, and five years of projected prices. The fourth rule (**5.0**) relies exclusively on the past five years of prices. Figure 3 illustrates the evolution of benchmark prices under each rule over time.

¹⁰Each scenario is constructed using prevailing prices and projections from successive World Economic Outlook (WEO) vintages between April 2010 and October 2025. The relatively long-time span enhances the robustness of the counterfactual exercise and ensures that the analysis captures the cyclical dynamics of oil and gas prices.

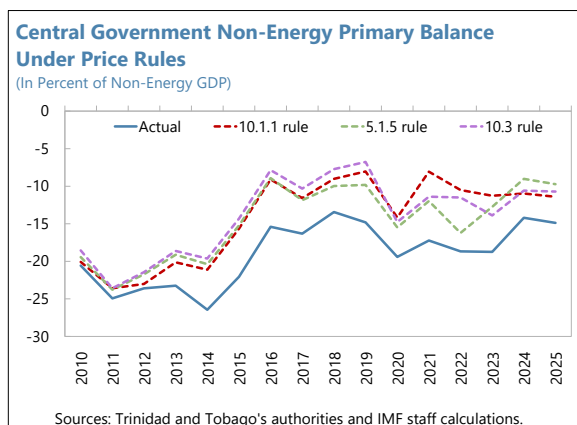
Figure 3. Trinidad and Tobago: Benchmark Prices

Source: Trinidad and Tobago authorities' and IMF staff calculations.

15. The appropriate choice of a price-rule should reflect the trade-off between revenue stabilization, expenditure smoothing, and the accumulation of fiscal buffers. A long moving average of historical prices provides the greatest degree of expenditure smoothing because it adjusts only gradually over time, insulating the budget from short-term price volatility. This stability supports fiscal planning and helps reduce procyclical policy responses. Longer averaging periods provide greater expenditure smoothing and typically generate stronger fiscal balances on average, but their slower adjustment to price shocks may reduce the speed at which windfall revenues are saved. Because the benchmark price adjusts slowly, it may remain above prevailing market prices for extended periods, encouraging higher spending based on revenues that may prove temporary.

16. By contrast, a short moving average responds more quickly to changes in market conditions but provides less expenditure smoothing. As the benchmark price adjusts more rapidly to fluctuations in oil and gas prices, fiscal revenues and expenditure envelopes tend to track current price developments more closely, increasing the risk of procyclical policy. At the same time, the greater responsiveness helps identify windfall revenues during periods of high prices, facilitating the accumulation of savings and reducing the risk of persistent fiscal imbalances following a price decline.

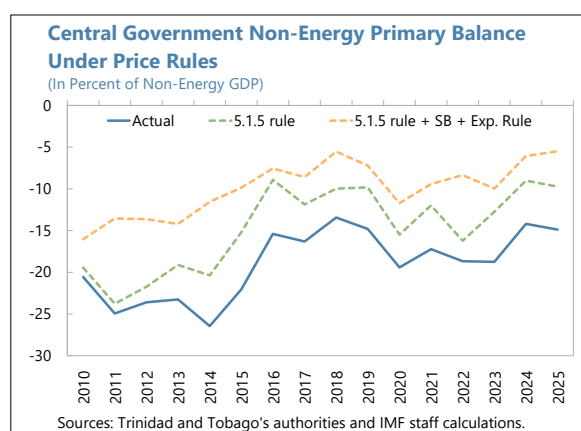
17. Under a price-based fiscal rule, Trinidad and Tobago would have recorded significantly smaller non-energy primary deficits. Figure below presents the results of a counterfactual exercise assuming a price rule had been adopted in 2010. All rules imply consistently stronger non-energy primary balances than observed, particularly during periods of high energy prices, and would have resulted in a less expansionary fiscal stance, especially in 2014–19. The **10.3 rule**, based on a longer averaging period, delivers the strongest and



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

most stable fiscal balances, reflecting a more conservative benchmark price and higher implied savings. The **10.1.1** rule also produces significantly stronger balances but is more responsive to current and forward prices. The **5.1.5** rule, based on a shorter averaging window, yields balances closer to actual outcomes and shows greater variation over time. During the COVID-19 pandemic shock, all rules imply a temporary deterioration in the non-energy primary balance, but with a smoother adjustment than observed, suggesting that price rules could have reduced procyclicality. In recent years (2022–25), the rules continue to point to stronger fiscal positions than under the baseline. Overall, the results highlight the trade-off between stability and responsiveness: longer averaging periods deliver stronger and more stable balances, while shorter windows allow greater flexibility but weaker expenditure restraint.

18. The counterfactual exercise also illustrates the benefits of combining price-based rules with expenditure rules. Compared with stand-alone price-based rules, complementing them with floors and ceilings on real expenditure growth would imply a more gradual path of fiscal consolidation over the medium term. Under a combined fiscal rule (consisting of the 5.1.5 price rule, a structural balance floor of –6 percent of non-energy GDP¹¹, and a real expenditure growth limit broadly aligned with potential GDP growth) Trinidad and Tobago would have recorded smaller non-energy primary deficits than those observed over the past 15 years. As with any counterfactual exercise, the results abstract from potential feedback effects of tighter fiscal policy on non-energy growth, interest rates, and energy investment, which could influence the pace of fiscal adjustment.

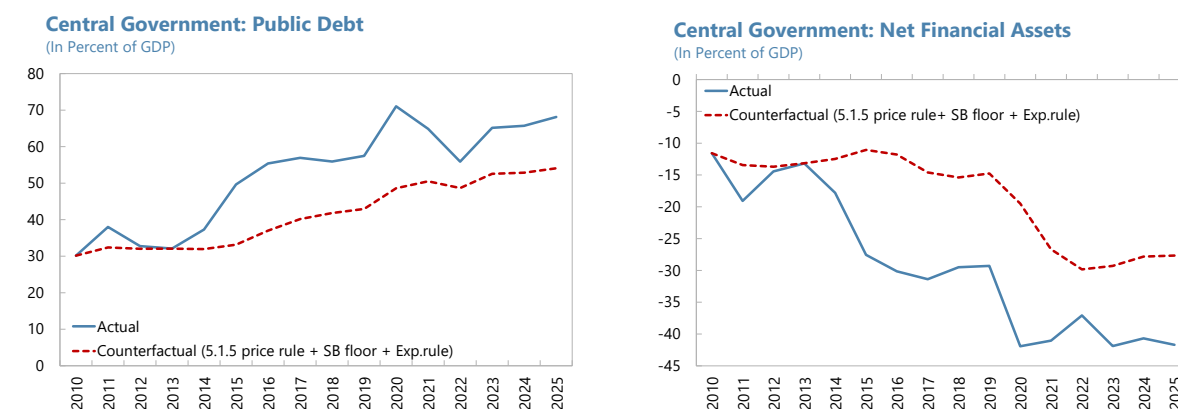


19. In addition, public debt would have followed a downward trend, improving the NFA position. Public debt would have followed a lower and more gradual path¹², with the gap relative to actual outcomes widening after the mid-2010s and stabilizing at about 55 percent of GDP by end 2025. At the same time, the NFA position would have remained significantly stronger (though still negative), reflecting both lower borrowing needs and greater asset accumulation (Figure 4).

¹¹ The structural balance floor of minus 6 percent of non-energy GDP is broadly consistent with the adjustment path implied by the PIH real perpetuity scenario.

¹² In practice, a medium-term debt anchor in the range of 50–60 percent of GDP could provide a useful benchmark for fiscal policy, consistent with maintaining adequate fiscal buffers and ensuring debt sustainability under plausible macroeconomic scenarios.

Figure 4. Trinidad and Tobago: Counterfactual Scenario: Central Government Debt and Net Financial Assets



Source: Trinidad and Tobago authorities' and IMF staff calculations.

20. While price-based rules would have improved fiscal outcomes relative to historical outcomes, they do not by themselves guarantee convergence to PIH-consistent benchmarks.

Achieving long-term sustainability may require additional fiscal adjustment measures, particularly in the context of declining energy revenues. Taken together, the results suggest that a well-designed fiscal rule framework could strengthen fiscal discipline, rebuild buffers, and enhance resilience to energy price volatility.

21. The effectiveness of any fiscal rule framework ultimately depends on credible enforcement and well-defined correction mechanisms. Clear escape clauses, limited to objectively verifiable shocks, are essential to preserve flexibility while preventing misuse. At the same time, predefined correction paths should require automatic adjustment when deviations from the rule occur, helping to anchor expectations and safeguard medium-term sustainability. Transparent monitoring, regular reporting, and independent oversight further strengthen credibility by enhancing accountability and reducing the risk of policy slippages.

D. Concluding Remarks

22. Strengthening Trinidad and Tobago's fiscal framework will require a more coherent and disciplined approach. The authorities should consider adopting a rules-based framework anchored by a medium-term debt or NFA target and supported by an operational rule—such as an expenditure ceiling or a NEPB rule—to reduce the procyclicality and provide a clearer anchor for fiscal policy. The policy objectives underpinning such a framework should rely on four key pillars. First, rebuilding fiscal buffers to strengthen the capacity to respond to future energy shocks. Second, prudently managing revenue windfalls and dampening the impact of commodity price volatility, so that government spending remains relatively stable despite fluctuations in energy revenues. Third, ensuring fiscal sustainability over the medium to long term, by strengthening the asset-liability

management strategy and ensures that NFA strengthen over time so that it generates a sustainable income stream to support the budget while preserving intergenerational equity. Fourth, promoting efficient revenue mobilization and effective prioritization of investment and public spending.

23. A stronger institutional framework will be essential to support these reforms. The authorities should continue strengthening macro-fiscal capacity, including through the establishment of a dedicated macro-fiscal unit, improved forecasting tools, and regular fiscal risk analysis to enhance fiscal planning and implementation. Clear escape clauses, correction mechanisms, and transparent monitoring arrangements would further strengthen the credibility of the framework. Finally, any new rules-based fiscal framework should ensure full alignment between its fiscal rules or targets and the HSF's policy framework. To this end, it will be necessary to review the HSF's legal foundations, as well as the operational aspects related to its inclusion as part of the central government balance sheet.

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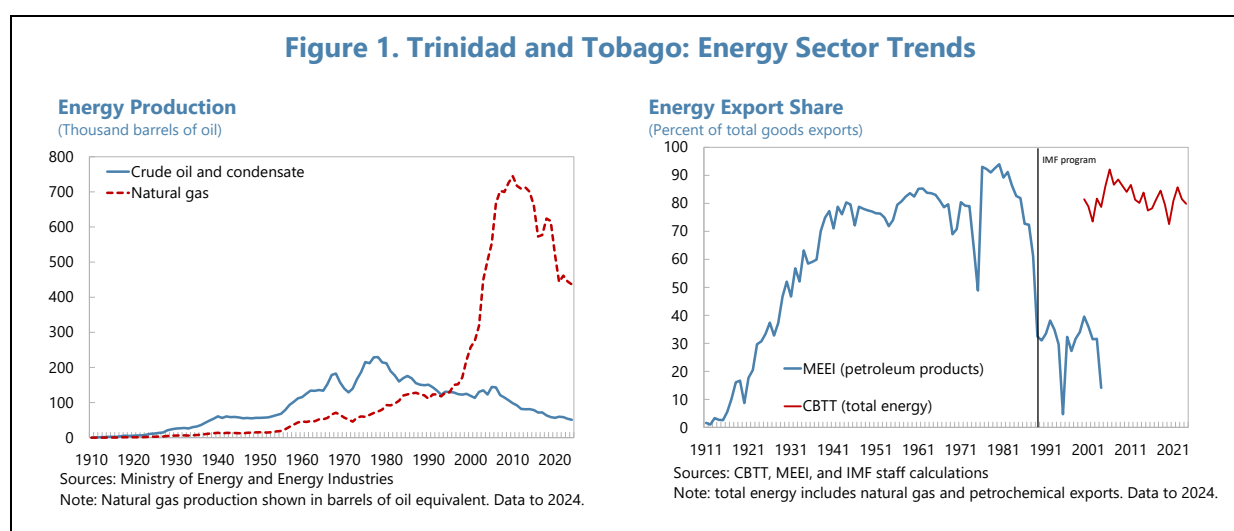
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BOOSTING NON-ENERGY GROWTH THROUGH DIVERSIFICATION AND STRUCTURAL REFORMS¹

Trinidad and Tobago's abundant hydrocarbon endowment has been instrumental in making it one of the Caribbean's most prosperous economies. However, the reliance on energy has contributed to structural challenges, and both oil and natural gas production have been declining for many years, weighing on growth. Recognizing the challenges of hydrocarbon dependence, successive governments proactively pursued diversification on multiple fronts—developing a world-leading petrochemical industry, attracting energy-intensive manufacturing, and building financial buffers through the Heritage and Stabilisation Fund. These efforts delivered meaningful benefits, yet the production decline has exposed a fundamental limitation: both vertical and horizontal diversification were built on the same foundation—access to cheap and abundant gas—concentrating rather than dispersing the economy's exposure to the energy sector. This paper explores TTO's diversification efforts and explores policy options to maximize existing energy resources, while pursuing more broad-based diversification coupled with structural reforms aimed at boosting potential growth.

A. Introduction

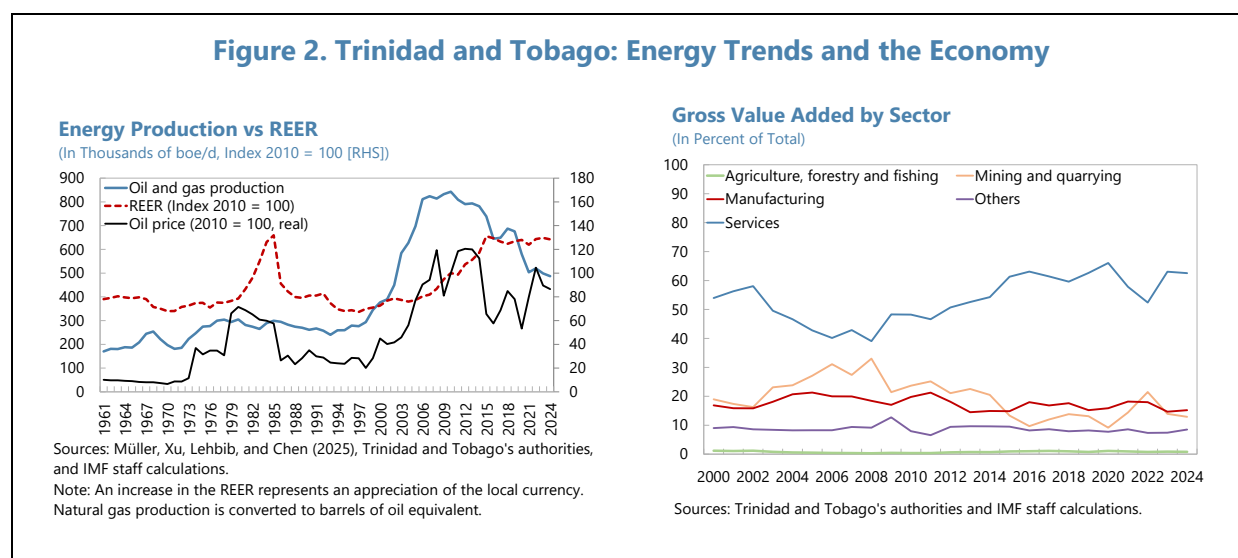
1. Trinidad and Tobago (TTO) has been an energy exporter for more than a century (Figure 1). The country's abundant hydrocarbon endowment has been instrumental in transforming it into one of the Caribbean's most prosperous economies and a high-income country by the World Bank's classification. Energy wealth has underpinned significant advances in human development through expanded access to healthcare, education, and infrastructure, while poverty rates have fallen markedly relative to regional peers.



¹ Prepared by Peter Nagle, with contributions from Alexander Amundsen (SPR), Olga Beshpalova and Diego Gutierrez (all WHD).

2. Recognizing the exhaustible nature of its endowment, the country proactively engaged in several types of diversification. Managing an energy-based economy presents formidable challenges. Energy price volatility transmits fiscal and macroeconomic instability, while the finite nature of hydrocarbon reserves creates both an imperative to nurture alternative industries that can compensate for the inevitable decline of the energy sector and an intertemporal policy challenge—how to ensure energy wealth is shared with future generations. These challenges have shaped TTO's diversification strategy, which has taken several forms: (i) vertical diversification into oil refining as early as 1917, and later downstream petrochemicals (and liquefied natural gas (LNG)); (ii) horizontal diversification, including iron and steel, cement, and other heavy manufacturing; and (iii) financial diversification through the establishment of the Heritage and Stabilisation Fund.

3. Diversification has allowed TTO to partly mitigate the effects of Dutch disease.² Periods of production booms and high energy prices were associated with REER appreciation in the 1970s and 2000s, eroding competitiveness in non-energy tradables. For example, the natural gas boom in the 2000s led to a substantial REER appreciation from 2000-15 and coincided with a decline in the share of agriculture and services in GDP and exports (Figure 2). However, the share of manufacturing (both including and excluding petrochemicals) stayed broadly constant during this period, in contrast to typical Dutch disease narratives. TTO developed one of the largest manufacturing bases within the Caribbean, and became an exporter of iron and steel, cement, food, glass, and paper products to its regional peers. This strategy created a diversified industrial base, with multiple sectors contributing to exports and employment.

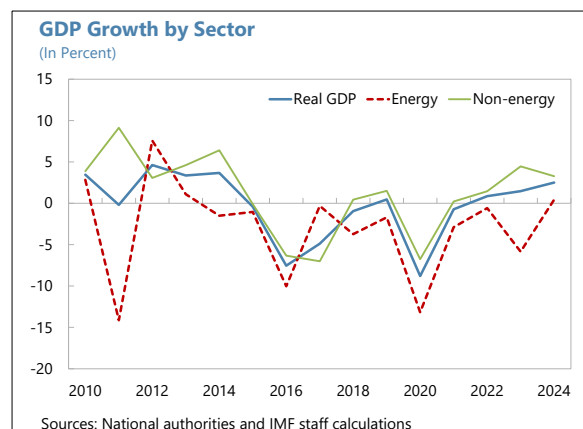


² Dutch disease can occur when an energy boom causes a surge in exports and large inflows of foreign currency, resulting in real effective exchange rate appreciation. This makes non-energy exports more expensive internationally, and imports cheaper domestically. The booming energy sector bids up wages and draws resources away from other sectors, raising economy-wide costs. Together, these effects cause a loss in competitiveness of non-energy industries and a decline in their share of GDP and exports, leading to a highly concentrated economy.

4. TTO's diversification efforts focused on energy-adjacent industries, rather than on unrelated industries (Khadan and Ruprah 2016). These industries, including most non-petrochemical manufacturing, shared a critical common dependency: access to cheap and abundant energy inputs. This type of diversification resulted in the clustering of economic activity around a single comparative advantage. While this diversification strategy helped boost value added and provided employment, it did not materially reduce export volatility, since petrochemical prices are closely correlated with those of natural gas. Further, it did not address the fundamental challenge of resource dependency, namely what to do when the resource runs out.

5. Given structural declines in mature basins in the energy sector, further diversification efforts should focus on boosting service industries and broader reforms to enhance underlying potential growth. TTO's oil

production peaked in 1978 and natural gas in 2010. The common dependence on energy means that the impacts are being felt across nominally diverse sectors of the economy. The energy sector has been a persistent drag on GDP growth, contracting in 12 of the last 14 years. The non-energy sector has not been able to fully offset the weakness, with average growth rates of 1 percent over 2011–24, such that average total GDP growth was -0.7 percent (-0.1 percent if excluding the COVID recession in 2020).



B. Diversification Efforts and Their Limitations

6. Diversification can be broadly grouped into three categories: vertical, horizontal, and financial (Baffes and Nagle, 2022). Vertical diversification involves moving along the energy value chain by developing downstream industries like petrochemicals or oil refining. This can add value and potentially reduce price volatility by diversifying energy sector exports. Horizontal diversification means expanding into other industries outside the energy sector—such as manufacturing or tourism. This can reduce the country's dependence on energy revenues and ensure industries exist when resources are exhausted (Cherif and Hasanov 2014). Financial or wealth diversification refers to investing energy revenues in assets outside the energy sector, such as through a sovereign wealth fund that holds international equities, bonds, or real estate (see Selected Issues Paper 1). This converts finite, depleting natural resource wealth into a diversified financial portfolio that can generate returns after the resources are exhausted. There is strong evidence that diversifying exports and fiscal revenues away from commodities strengthens an economy's long-term growth prospects and resilience to external shocks (Hesse 2008, and Papageorgiou and Spatafora 2012).

C. Vertical Diversification

Development of the Downstream Energy Sector

7. The first example of vertical diversification in TTO was oil refining. Oil refining began shortly after the start of commercial oil production in 1908, with the opening of the Pointe-à-Pierre refinery in 1917 to process domestic crude oil for export (Boopsingh and McGuire 2014). The initial structure comprised crude oil extraction and basic refining for export markets, primarily to the United States and United Kingdom. By mid-century, petroleum and petroleum products accounted for the majority of export revenues (the refinery closed in 2018).

8. Significant natural gas discoveries in the 1960s and 1970s fundamentally altered TTO's diversification strategy. Initially viewed primarily as an associated product of oil extraction, natural gas reserves proved to be very large—ultimately far exceeding the country's oil endowment. The government established the Point Lisas Industrial Estate as a dedicated zone for gas-based industries and pursued an aggressive strategy of downstream development. In particular, the government established gas pricing policies that effectively subsidized industrial users, providing natural gas to petrochemical plants and energy-intensive manufacturers at below-market rates. By 2010, TTO had 11 ammonia plants and 8 methanol plants, making it the world's largest ammonia exporter and second-largest methanol exporter (Motilal 2022). In addition, Atlantic LNG (which commenced operations in 1999) led to TTO becoming a major LNG exporter, initially to the United States, and more recently to Europe and Asia. Natural gas was also used to generate electricity and domestic electricity prices were kept artificially low, representing a significant implicit subsidy to all economic activity.

Diversification Benefits of Petrochemical Processing

9. The impact of the petrochemical sector on the value added and volatility of TTO's exports can be assessed through a counterfactual scenario. The counterfactual considers a scenario where the petrochemical industry did not exist, and all natural gas that was used as a feedstock for petrochemical production was instead exported as LNG (assuming no limitation from capacity constraints or price impacts from higher export volumes).³

10. The counterfactual reveals that downstream processing significantly increased the total value of exports relative to the alternative of only LNG exports (Figure 3). In the absence of the petrochemical industry, the current account would have been 8 percentage points of GDP lower, on average, over 2011–24. In part, this reflects the value-added from processing natural gas into petrochemicals. However, it also reflects the commercial and contractual structures of the LNG trains, with the price received by TTO often significantly lower than the global natural gas price (MEEA 2015). Following the renegotiation of the Atlantic LNG pricing structure in 2024, the gap between the counterfactual and the actual current account was significantly lower (IMF 2024).

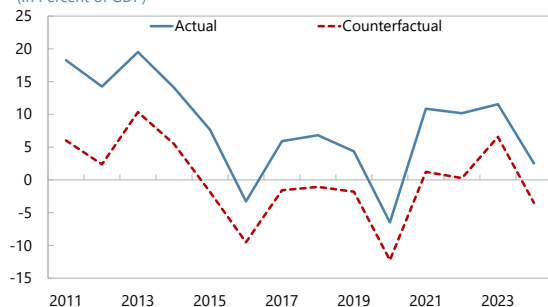
³ Data from the Ministry of Energy and Energy Industries show the exact usage of gas by different industries.

11. However, export volatility was not meaningfully reduced. Petrochemical prices are very closely correlated with natural gas prices, particularly for ammonia, as gas is the primary input for production (the volatility and correlation of methanol is significantly lower than ammonia, but was not sufficient to reduce the overall volatility of petrochemicals). When global gas prices rise, both LNG and petrochemical export revenues increase; when gas prices fall, both decline in tandem.

Figure 3. Trinidad and Tobago: Current Account Balance Scenarios and Key Export Prices

Current Account Balance Scenarios

(In Percent of GDP)



Sources: CBTT, MEEI, and IMF Staff Calculations

Note: "Counterfactual" shows a scenario where all natural gas used for petrochemical exports was instead exported as LNG.

Volatility and Correlation of Key Export Prices

	Volatility	Correlation with LNG price
Ammonia	63.4	0.96
Total petrochemicals	46.4	0.96
Urea	39.2	0.89
Methanol	29.9	0.77
Crude oil	29.2	0.87

Source: CBTT and IMF Staff calculations

Note: Volatility calculated as the standard deviation of annual percent change in prices, 2011-24

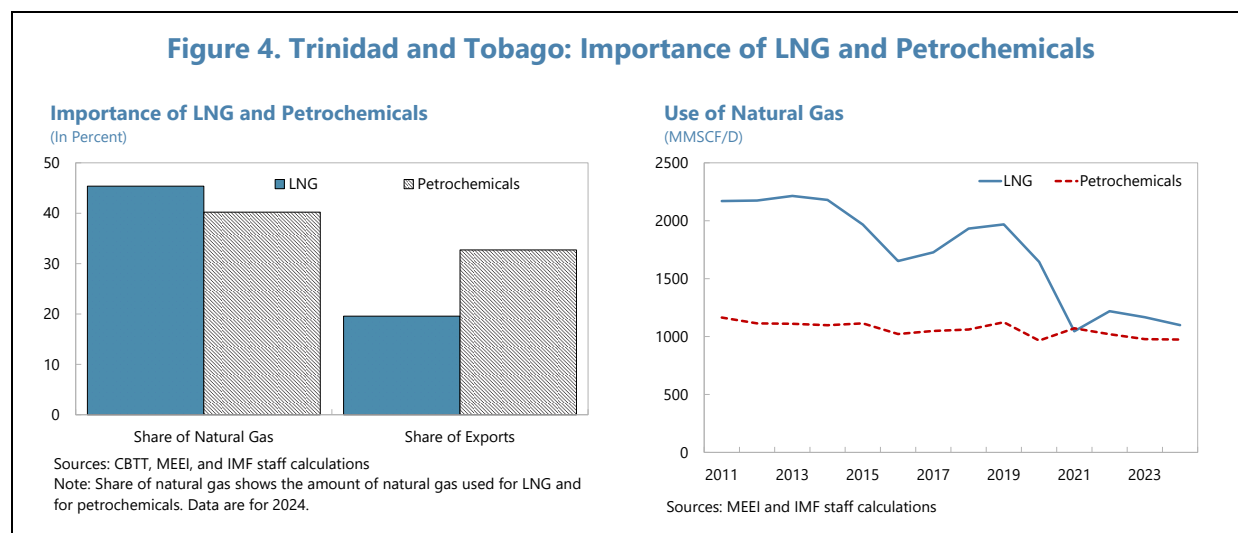
Impact of Energy Production Decline on the Downstream Sector

12. TTO's oil production peaked at 230 thousand barrels per day in 1978, and natural gas production peaked in 2010 at 4.3 billion cubic feet per day. Since then, production has declined persistently, with oil production in 2024 nearly 80 percent below peak, and natural gas production 40 percent below peak. This decline reflects the maturing of hydrocarbon basins, with existing fields depleting faster than new discoveries have replaced them.

13. This has had significant knock-on effects on the downstream sector, with a sharp reduction in LNG and petrochemical exports. As natural gas production fell, authorities faced difficult allocation choices within the confines of existing contractual obligations. The Trinidad and Tobago Gas Master Plan (2015) stated that: *"Under prevailing market conditions and the existing marketing structures the ammonia industry has been creating better value for T&T and in the event of gas shortfalls and potential curtailment, gas value would be maximised by preferentially directing supply to the ammonia industry, followed by supply to methanol plants."*

14. Consequently, LNG has seen one of the largest reductions in natural gas supply, reflecting its lower net value added to exports (Figure 4). While natural gas production has declined almost 40 percent since 2011, LNG production has dropped by nearly 50 percent. Atlantic LNG has operated significantly below capacity for many years, with Train 1 closing in 2020.

15. However, as natural gas production has continued to fall, it has increasingly affected petrochemical operations. Reduced gas availability has led to production curtailments, and a couple of petrochemical plants mothballed or closed. Total petrochemical production has declined approximately 14 percent since its 2019 peak.



D. Horizontal Diversification

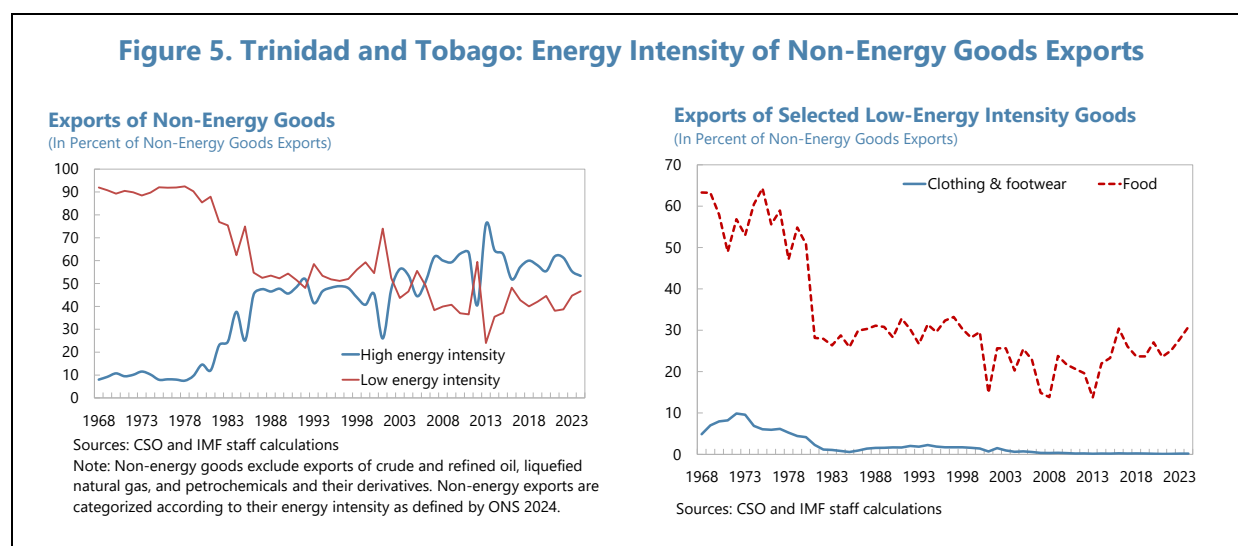
Development of Energy-Intensive Manufacturing

16. TTO also leveraged plentiful natural gas to promote horizontal diversification into manufacturing beyond petrochemicals. Natural gas was used directly by iron and steel and cement producers, and also enabled cheap electricity generation which boosted other energy-intensive industries such as glass and paper. This represented a significant implicit subsidy to all economic activity, but particularly benefited energy-intensive manufacturing industries. Manufacturing's share of GDP (excluding petrochemicals) saw a modest increase in 2015 relative to 2000, and TTO developed one of the largest manufacturing bases in the Caribbean region, becoming an exporter of industrial products to its regional peers. However, there was a significant opportunity cost to this strategy, with iron and steel and electricity generation providing the lowest netback price of any industrial use of gas (MEEA 2015).

17. The impact of this strategy can be assessed by analyzing the energy intensity of TTO's manufacturing sector. Energy intensity can be measured as energy consumption per unit of manufacturing output. While data is unavailable for TTO, a detailed dataset for energy intensity by manufacturing sector in the UK provides a useful proxy for classification.⁴ Exports of different manufacturing sectors (excluding energy-related sectors such as petrochemicals) are grouped by energy intensity into high and low-intensity based on whether they are above or below the median value of sectors.

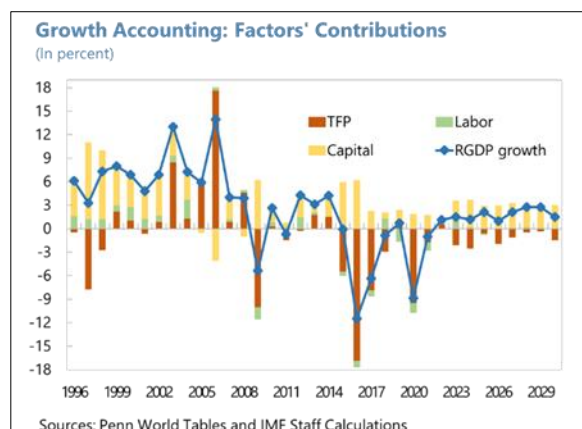
⁴ While the economies of TTO and the UK have significant differences, the UK had large natural gas production in the 1970s-80s, and the data are used to do sectoral comparison rather than cross-country analysis.

18. Figure 5 shows non-energy goods exports by energy intensity from 1968-2024. While volatile, the data show a clear trend of growth in the most energy-intensive categories, particularly in the late 1970s and 1980s. The share of high energy-intensity exports rose from an average of 10 percent in 1970-75, to 61 percent by 2010-15 with a peak of 76 percent in 2013. This was largely driven by expansion of the iron and steel industry, but also smaller energy-intensive industries such as glass and cement. Their share has since fallen to around 50 percent, primarily reflecting the closure of one iron and steel company.



19. The subsidized energy pricing structure likely crowded out labor-intensive industries.

Growth accounting reveals that capital accumulation was the dominant driver of TTO's economic growth from the mid-1990s-2010s, while labor's contribution was negligible. Moreover, total factor productivity (TFP) contributions were minimal or negative in many years, suggesting that much of the capital investment did not translate into efficiency gains. This pattern reflects the economy's tilt toward capital-intensive, energy-intensive production, while labor-intensive manufacturing declined.



20. Reflecting this, labor-intensive industries such as clothing and footwear, and food, saw a drop in their export share, with textiles almost completely disappearing. However, since 2010, the two industries have experienced different fortunes. While the textiles industry has remained very small, the food industry has seen a sharp recovery and has been one of the fastest growing export sectors since 2010. This helps show the importance of maintaining other industries during a resource boom—it is easier to expand an existing industry than start again.

The Electricity Pricing Subsidy and Future Vulnerability

21. Unlike the petrochemical sector, which has already experienced significant curtailments, the broader manufacturing sector has not yet faced binding energy constraints.

Gas has been preferentially allocated to electricity supply, reflecting prioritization in the face of declining production. However, as gas production continues to fall, the policy choices around electricity pricing and gas allocation will become increasingly important for the sector's future.

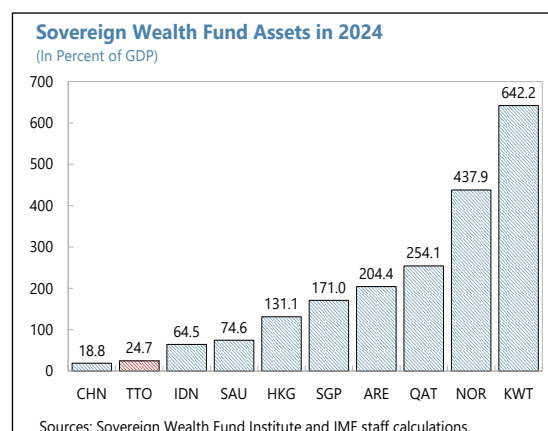
22. As gas production declines, this pricing structure creates a policy dilemma. The government faces growing pressure to raise electricity tariffs toward cost-recovery levels, particularly as gas becomes scarce and its opportunity cost rises. The authorities have recently taken steps to address this, announcing substantial increases in gas and electricity prices for industrial customers. While this is an important step toward rationalizing energy pricing, it will test the resilience of manufacturers that have long operated under subsidized energy costs—and underscores the need to diversify into industries whose competitiveness does not depend on cheap energy inputs.

E. Financial Diversification: The Heritage and Stabilization Fund

23. Recognizing the risks of hydrocarbon dependence, TTO established the Heritage and Stabilisation Fund (HSF) in 2007. This formalized the Interim Revenue Stabilization Fund set up in the late 1990s, with annual contributions from 2000. The fund was designed with dual purposes: stabilizing government revenues during periods of low energy prices, and saving for future generations when hydrocarbon resources are depleted. Revenue from petroleum exceeding a specified price threshold was to be deposited into the fund, with withdrawals governed by specific rules related to budget deficits and revenue shortfalls (and amended in 2020 to include rules pertaining to dangerous infectious diseases and natural disasters).

24. The HSF provides diversification by converting finite hydrocarbons into a diversified portfolio of financial investments. This offers key benefits: fiscal buffers during downturns, intergenerational wealth preservation, and returns uncorrelated with domestic energy production.

25. However, as natural gas and crude oil production has declined, there has been a shift from accumulation to withdrawals. Deposits largely ceased as energy revenues fell below threshold levels, while withdrawals have increased to cover regular budget deficits (two large withdrawals were also made during the COVID pandemic). Despite these withdrawals, the HSF's net asset value has since increased to more than US\$6bn due to strong market returns. The HSF provides a crucial buffer and can cushion fiscal impacts arising from reduced energy production in the short term.



However, the fund's scale is modest relative to other countries' sovereign wealth funds, and in the long term it can't substitute for diversification of the domestic economy.

F. Policy Options for Development and Diversification

26. The decline in natural gas production highlights the need for further economic diversification. This will require further developing industries without intrinsic dependence on hydrocarbon inputs. However, in the interim, TTO will need to optimize its remaining energy resources and significant energy-infrastructure investments.

27. The authorities are prioritizing economic diversification policies. Guided by the 2025 *Manifesto*, their diversification strategy focuses on revitalizing agriculture and agri-processing, expanding tourism and the creative economy, promoting a knowledge-based economy, and strengthening SMEs through better access to finance and improved business environment. These efforts are complemented by an active industrial policy and reforms to improve governance, regulation, infrastructure, and human capital, alongside promotion of the green economy.

28. This section outlines policies across two areas. First, optimizing current energy resources, and second, implementing structural reforms to enable diversification into non-energy sectors.

Optimize Remaining Energy Resources

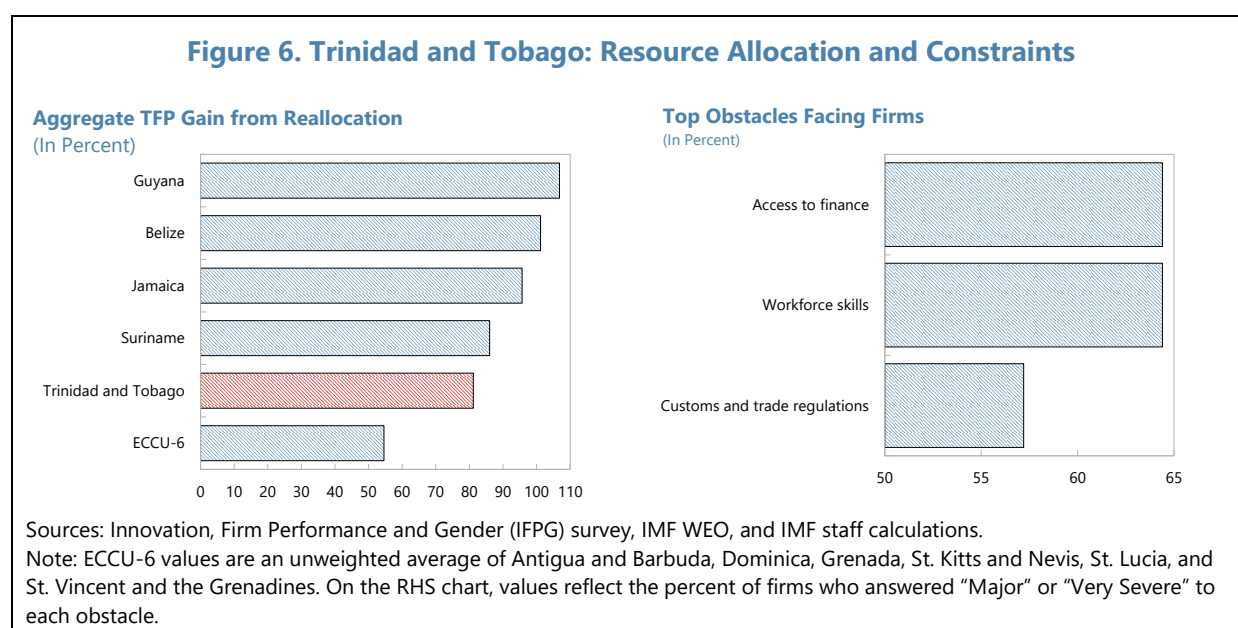
29. While the long-term strategy must focus on moving beyond fossil energy, near-term actions should maximize value from remaining energy resources during the transition period.

- **Reform domestic gas and electricity pricing.** Domestic electricity generation currently consumes natural gas at heavily subsidized prices, while some industrial customers also receive subsidized gas, representing an opportunity cost relative to LNG exports or petrochemical production. Rationalizing electricity and gas pricing would encourage more efficient use of electricity, improve fiscal revenues, and free gas for higher value uses. Recent steps taken by the authorities to raise prices on industrial consumers are a step in the right direction, although a gradual approach is preferred to avoid sudden cost shocks and give time to invest in energy efficiency. Electricity prices should be raised for wealthy households.
- **Boost domestic gas production and explore regional opportunities.** Several small and medium-size gas projects have come on-stream or are being developed, with the largest, Manatee, expected to start production by end-2027. These will help arrest the decline in production, but further increases will require deepwater projects. In addition, large discoveries in regional partners, such as Guyana and Suriname, and possible partnerships with Venezuela, offer opportunities for energy partnerships, although political and technical challenges are large.
- **Develop renewable energy capacity.** TTO's solar potential is substantial given the country's latitude, and offshore wind may be viable. In 2025 the Brechin Solar Farm became operational with a capacity of 92MW. Further increasing renewable energy would free natural gas for export or higher-value uses by displacing gas-fired electricity generation. The government also has a

green hydrogen strategy, where renewable energy would provide an alternative feedstock to gas for some petrochemical production. However, renewable development requires significant investment and regulatory frameworks for independent power production.

Enabling Reforms to Boost Potential Growth and Diversification

30. Fundamental economic transformation will require policies to boost potential growth and develop new sectors. Addressing resource misallocation will be key, with data from the Innovation, Firm Performance, and Gender (IFPG) survey showing that eliminating resource misallocation could boost aggregate TFP by 81 percent—equivalent to narrowing the GDP per capita gap with the United States by 36 percentage points (Figure 6).⁵ Removing obstacles related to cost of finance and tax administration could improve firm-level TFP by over 10 percentage points, while addressing business licensing and workforce skills could add over 5 percentage points. If all obstacles were removed, aggregate TFP could increase by about 11 percent.



- Eliminating red tape:** TTO scores below its LAC peers and the global average in the World Bank’s Business Ready 2025 assessment. Policies include streamlined business registration and licensing, simplified tax administration, improved customs and trade facilitation, and enhanced contract enforcement. The authorities have initiated measures to address these constraints, including the installation of non-intrusive

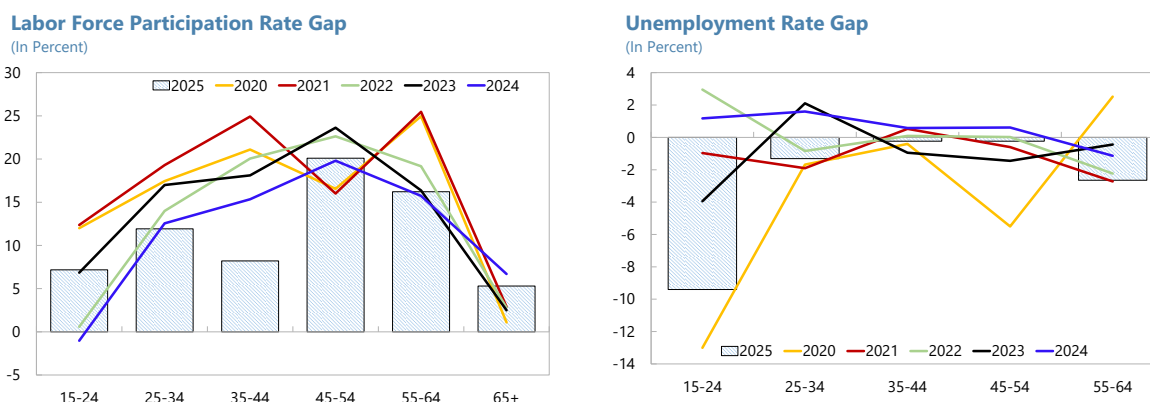


⁵ For more details, see Amundsen et al. 2025.

customs scanners, upgrades to TTBizLink trade facilitation systems, and broader digitalization initiatives including in taxation and border entry. The recent removal of TTO from the OECD blacklist will also significantly improve ease of doing business in the country.

- Revitalizing the labor market.** TTO must boost labor force participation, including addressing gender gaps that represent significant untapped economic potential (Figure 7). Eliminating the gender gap in female labor force participation could boost potential GDP by 13.3 percent, close to the median for emerging markets.⁶ Policy priorities include: government-managed maternity leave benefits and paid parental leave; protection against dismissal of pregnant workers; improved public transport and flexible work arrangements; increased access to affordable childcare; and addressing remaining legal barriers related to women's workplace rights. The authorities have launched labor market initiatives such as the National Youth Employment Policy (with ILO support), aiming to better align training with labor market needs, with emphasis on digital skills, Technical and Vocational Education and Training, and entrepreneurship.

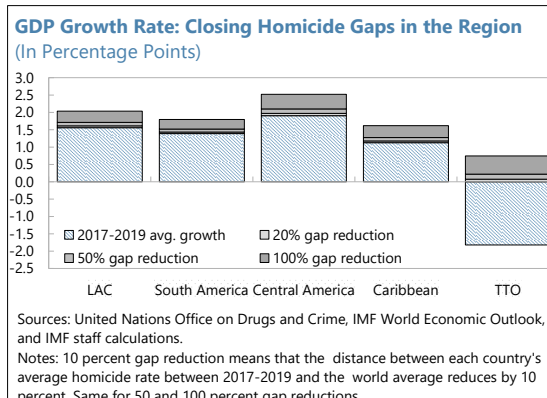
Figure 7. Trinidad and Tobago: Labor Force Participation



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

Note: Values as of the fourth quarter, except for 2025 (2025Q3). The gap is defined as men minus women.

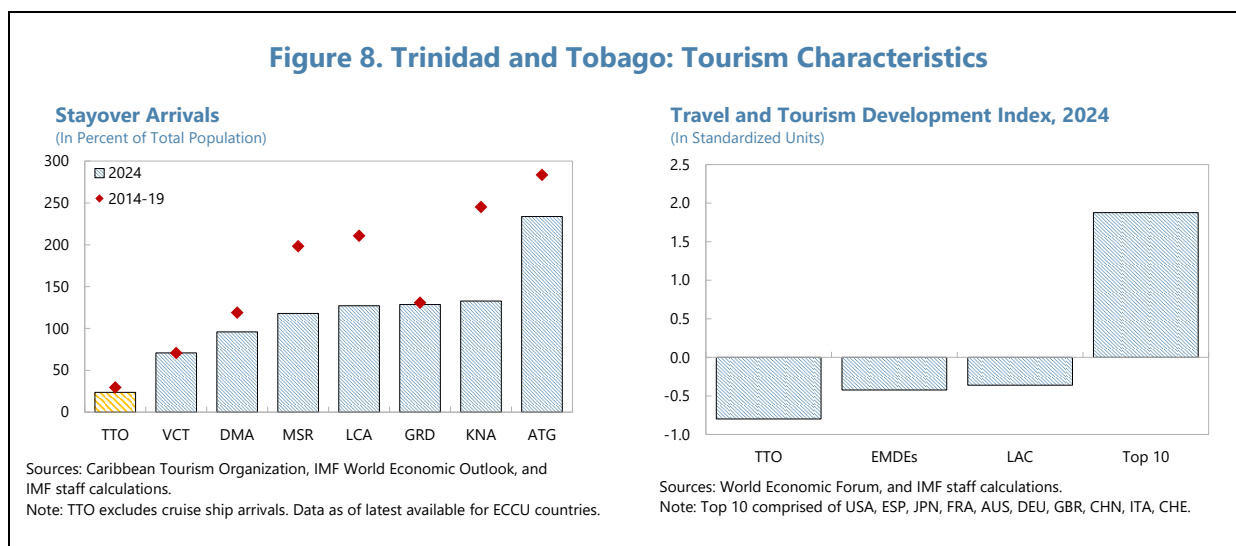
- Improving security.** High crime rates have a direct economic cost and are a significant deterrent to investment and tourism by reducing labor productivity, discouraging foreign investment, and undermining tourism competitiveness. Closing the homicide gap could have disproportionate benefits in TTO. The authorities declared a limited state of emergency in late 2024, focused on crime hotspots and illegal firearms, and this was extended by the new authorities in mid-2025. The results have been encouraging, with a 42 percent fall in murders and declines in other serious crimes in 2025



⁶ Analysis conducted using the [IMF's Output Gains Toolkit](#).

vs. 2024 reported by the Trinidad and Tobago Police Service. Ensuring these improvements persist will require strengthening law enforcement, improving criminal justice efficiency, addressing socio-economic causes through youth employment programs, and enhancing community policing.

- Targeted foreign direct investment and Special Economic Zones (SEZ).** Increasing FDI is vital for accelerating diversification efforts in the non-energy sector (Longmore, Jaupart, and Cazorla 2014). Priorities include competitive tax incentives structured around export performance and employment creation, expedited approvals for priority investments, and infrastructure provision supporting target sectors. The authorities' *Revitalization Blueprint* is an important step in this regard, and seeks to substantially increase foreign investment in major new projects. The newly operationalized Special Economic Zones regime also offers a framework for attracting investment with a 15 percent corporate tax rate and operational benefits. However, success requires ensuring the regime creates genuine economic activity rather than profit shifting, that employed labor includes local workers, and that businesses develop economic linkages to foster positive spillovers. Policy makers should integrate the SEZ regime with other policies and continuously assess costs and benefits.
- Developing tourism.** TTO possesses significant but underdeveloped potential in tourism (Figure 8). The sector's contribution to GDP and employment is below both the global average and regional peers such as the ECCU—while accounting for around 37 percent of service exports in 2024. TTO's economy has not historically depended on tourism, resulting in relatively underdeveloped hospitality infrastructure and weak destination marketing. TTO has distinctive assets, most notably carnival and eco-tourism opportunities, though challenges remain in price competitiveness, natural resource development, and safety perceptions. The National Tourism Policy 2021–30 provides an overarching framework aligned with Vision 2030, encompassing infrastructure development (including airport expansion in Tobago), enhanced connectivity through new air routes and cruise partnerships, hotel modernization, and facilitation measures including streamlined entry processes. Realizing this potential will require sustained investment, addressing security perceptions, and improving service quality standards.



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PUBLIC RETIREMENT BENEFITS SYSTEM: FEATURES AND REFORM OPTIONS¹

Trinidad and Tobago's public retirement systems are entering a period of intensifying fiscal and demographic strain, with population aging advancing faster than in most Caribbean peers and placing growing pressure on both contributory and non-contributory schemes. While the authorities' October 2025 reforms—raising contribution rates and gradually increasing the retirement age to receive a full National Insurance System (NIS) pension—represent important and courageous steps that materially improve the medium-term outlook for the NIS, they do not fully offset longer-term demographic headwinds. Generous non-contributory schemes—the Senior Citizens' Pension (SCP) and Public Servants' Pension (PSP)—now account for a rising share of public spending and pose the largest medium-term fiscal risks. The SCP's high minimum benefit levels relative to wages weaken incentives for formal employment and NIS participation, eroding the NIS' contributory base and reinforcing reliance on budget-financed pensions. Absent further parametric and institutional reforms, aging-related pension spending could require sizable and persistent fiscal adjustment over coming decades, crowding out priority public investment and social spending. This paper assesses the sustainability, adequacy, and incentive effects of Trinidad and Tobago's public retirement schemes and outlines reform options to strengthen long-term resilience while balancing fiscal discipline with social protection objectives. While private and occupational pension arrangements form part of the broader retirement income landscape, this paper focuses primarily on publicly funded schemes and does not undertake a detailed assessment of private sector savings vehicles.

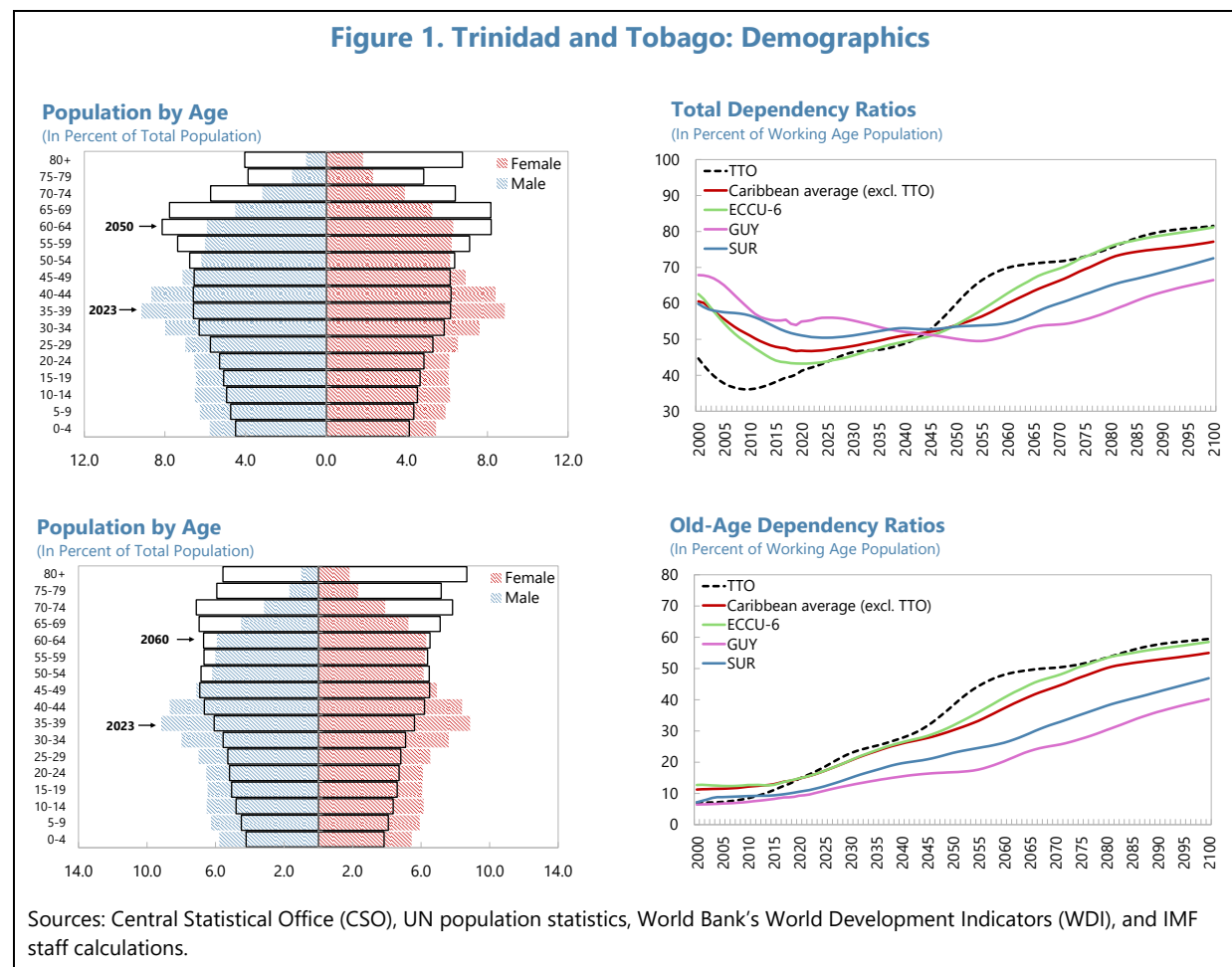
A. Demographics and Aging

- 1. Population aging is accelerating in Trinidad and Tobago and will exert sustained pressure on public finances and retirement systems over the coming decades.** Over the past two decades, the share of the population aged 60 and over has nearly doubled, reflecting persistently low fertility and rising life expectancy. By 2050, about one-quarter of the population is projected to be over age 65, while the working-age population will shrink markedly. As a result, fewer contributors will be supporting a rapidly growing number of retirees, increasing fiscal pressures across pensions, healthcare, and other age-related spending.
- 2. Although Trinidad and Tobago's overall dependency ratio remains lower than in many Caribbean peers, aging-related pressures are emerging earlier and are already more pronounced in old-age dependency (Figure 1).** The share of elderly dependents relative to the working-age population is higher than in comparator countries and is projected to rise faster. This implies that the fiscal and labor-market effects of aging will materialize sooner, leaving less time for gradual adjustment than in much of the region.

¹ Prepared by Justin Matz (WHD), Naveen Lalla and David St. Cyr (Central Bank of Trinidad and Tobago), and Karlene Noreiga, Aaliyah Muhammad, Michael L. Raymond, Julian Prescod and Garth Subero (National Insurance Board of Trinidad and Tobago).

3. These demographic dynamics pose clear risks to the sustainability and effectiveness of publicly funded retirement schemes. The NIS has already experienced declining contributor-to-beneficiary ratios, while demand for non-contributory pensions has risen steadily. Even after recent reforms, demographic trends will continue to place upward pressure on pension spending and weaken the contributory base unless incentives for longer participation and formal employment are strengthened. A high minimum pension relative to the minimum wage weakens incentives for formal participation, while reliance on non-contributory pensions, the SCP and Public Servants' Pension PSP, entails growing budgetary costs.

Figure 1. Trinidad and Tobago: Demographics



B. Overview of the Current Retirement System

4. Trinidad and Tobago's retirement income system is well developed, combining contributory and non-contributory public schemes with occupational and private savings arrangements. Publicly funded pensions—both contributory and budget-financed—play a dominant role in providing old-age income and account for the bulk of fiscal exposure. The system comprises a non-contributory social pension (the SCP), a mandatory contributory social insurance scheme (the NIS), and non-contributory defined-benefit pensions for public servants, complemented by occupational and voluntary private savings (Table 1).

Table 1. Trinidad and Tobago: Pension Pillars Based on the World Bank's Conceptual Framework

	Zero Pillar	First Pillar	Second Pillar: A	Second Pillar: B	Third Pillar
Program	Senior Citizens' Pension	National Insurance System	Public Service Pensions	Private Occupational Pension Plans 6/	Personal pensions, Annuities, and personal savings
Legislation	Senior Citizens' Pension Act	National Insurance Act	Various Acts, including Pensions Act and Teachers' Pensions Act	Insurance Act; Income Tax Act; 1969 Draft Regulation; Finance Act	Insurance Act; Income Tax Act; Finance Act
Managed by	Ministry of the People, Social Development and Family Services	National Insurance Board, a corporate body that reports to the Minister of Finance	Ministry of Finance or Relevant Ministry	Trustees, Financial Service Firms, with supervision by the Central Bank of Trinidad and Tobago	Financial Service Firms, with supervision/regulation by the Central Bank of Trinidad and Tobago and the Trinidad and Tobago Securities and Exchange Commission 7/
Financing	General Budget	Investment income and 16.2 percent of contributors' salaries (2:1 employer-employee ratio) 1/	Paid from the Consolidated Fund (general budget expenditure)	Employer and employee contributions	Individual contributions, however in certain plans employers may contribute
Retirement Age	65+	Flexible, between 60 and 65 2/	Varies from 45 to 60 years of age for an unreduced pension 5/	Based on plan (often 60 years of age)	Based on maturity date, typically chosen between 50 and 60 years of age
Benefits	Means tested, maximum benefits of TT\$3,500, decreasing scale based on monthly income	Minimum retirement pension of TT\$3,000 3/, once a minimum of 750 weekly contributions are met. 4/	Defined benefit	Defined benefit and defined contribution rules vary	Typically defined contribution, no guaranteed indexation, linked to investment returns
Coverage	All persons, 65+, subject to residency and income criteria	All persons in insurable employment (once contributing)	Membership in relevant profession and plan rules	Membership in relevant profession and plan rules	Based on annuity policies

Source: IMF Staff, National Insurance Board, Ministry of Finance, and CBTT. Presentation adapted from Reyes and Bronfman (2014).

1/ Contribution rates to increase to 19.2 percent in January 2027.

2/ The retirement age will be gradually raised from 60 to 65 between 2028-36.

3/ Current minimum pension of TT\$3,000 implemented in February 2012.

4/ A one-time, lump-sum retirement grant of three times total contributions is made if the 750 weekly contributions are not met. The minimum retirement grant is \$3,000.

5/ The retirement age for protective services employees are typically lower than for civilians, ranging from 45-60 years.

6/ Private occupational pension plans are pension plans established under trust by employers for their employees. These employers can either be private or public sector. For a full list of active private occupational pension plans, see [Active Pension Plans in Trinidad and Tobago](#).

7/ Insurance companies offer annuities and other financial institutions offer annuity savings products. The Trinidad and Tobago Securities and Exchange Commission regulates annuity products offered

5. The SCP serves as the primary old-age safety net for individuals with limited contributory history. Financed from the central government budget and means-tested on income, it provides benefits to a large share of the elderly population. While the SCP has been effective in reducing old-age poverty, its relatively high benefit level—close to the minimum wage—has important fiscal and incentive implications, particularly by reducing the returns to formal employment and participation in the contributory system.

Schedule of Senior Citizens' Pension

Other monthly income(s) - x	Senior Citizens' Pension (\$)
$x \leq 2,500$	3,500
$2,500 < x \leq 3,500$	2,500
$3,500 < x \leq 4,500$	1,500
$4,500 < x \leq 5,500$	500
$5,500 < x$	0

Source: National Insurance Board of Trinidad and Tobago.

6. The NIS is a mandatory contributory social insurance scheme administered by the National Insurance Board of Trinidad and Tobago (NIBTT). The NIS is the core contributory pillar of the retirement system and the main source of pension income for formal-sector workers. It is financed through payroll contributions shared between employers and employees (2:1 contribution ratio) and provides retirement pensions based on contribution history and earnings classes, with a guaranteed minimum benefit. Recent parametric reforms—raising contribution rates and gradually increasing the retirement age—have materially improved the system's medium-term financial outlook. Nevertheless, declining contributor-to-beneficiary ratios underscore the sensitivity of the NIS to labor-market formality and contribution density. The NIS provides a minimum retirement pension of TT\$3,000 to contributors with at least 750 weekly contributions. Its contributor-to-pensioner ratio has fallen sharply, from 4.7 in 2008–09 to 2.7 in 2019–20 and is projected to drop below 1 by 2070.

Changes to NIS Contribution Rates (In Percent)

March 1, 2004	8.7
January 3, 2005	9.3
January 2, 2006	9.9
January 7, 2008	10.5
January 4, 2010	10.8
January 2, 2012	11.4
March 4, 2013	11.7
March 3, 2014	12.0
September 5, 2016	13.2
January 5, 2026	16.2
January 4, 2027 1/	19.2

Sources: National Insurance Board of Trinidad and Tobago and Ministry of Finance
1/ Announced increase.

7. PSP represents a significant and growing fiscal commitment. These non-contributory, defined-benefit schemes are financed directly from the budget and provide pensions to government employees under profession-specific rules. PSP spending has risen steadily over time, reflecting demographic trends and workforce composition, and now represents an important source of medium-term fiscal pressure.

8. Occupational and voluntary private pension arrangements supplement public pensions but remain uneven in coverage and largely accessible to higher-income groups. While these schemes form part of the broader retirement income landscape, their role in mitigating public sector fiscal risks is limited.

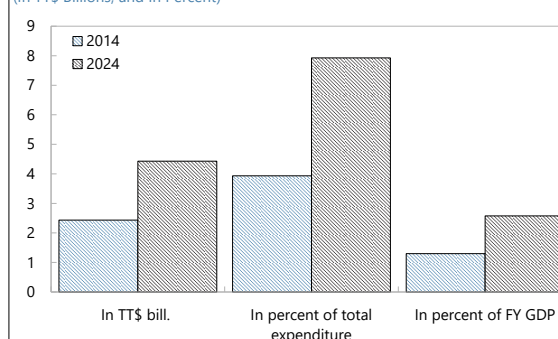
C. Fiscal Sustainability

9. Population aging is already translating into rising pension-related fiscal pressures, with non-contributory schemes emerging as the principal source of medium-term risk. The

SCP has imposed a steadily rising fiscal burden, with spending increasing from about 1.2 to 2.6 percent of fiscal year GDP over the past decade and consuming a rising share of total expenditure. Absent reform, SCP outlays will continue to rise as the elderly population expands, placing sustained pressure on the budget. By narrowing the gap between informal income and formal earnings, the relatively high benefit level reduces the net returns to formal employment and NIS participation, reinforcing informality and eroding the contributory base the NIS needs to contain future fiscal pressures.

Senior Citizens' Grant Transfers

(In TT\$ Billions, and In Percent)



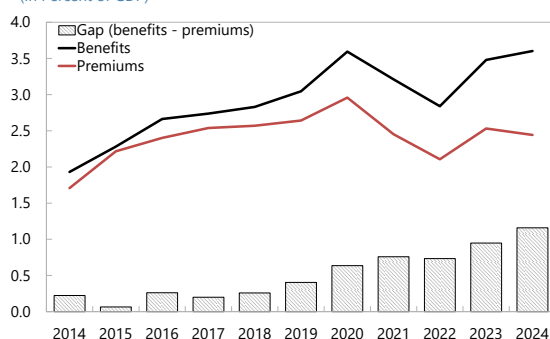
Sources: Trinidad and Tobago's authorities and IMF staff calculations.

10. The NIS had been in a period of cash deficits and had begun drawing down accumulated reserves (Figure 2). Prior to recent reforms, actuarial projections indicated that reserves would be exhausted in the mid-2030s, after which the system would require permanent budget transfers. Recent parametric reforms and announcements once implemented —raising contribution rates and gradually increasing the retirement age— are projected to improve the outlook, extending reserve adequacy into the mid-2040s and eliminating the need for near-term fiscal support.

Figure 2. Trinidad and Tobago: National Insurance System

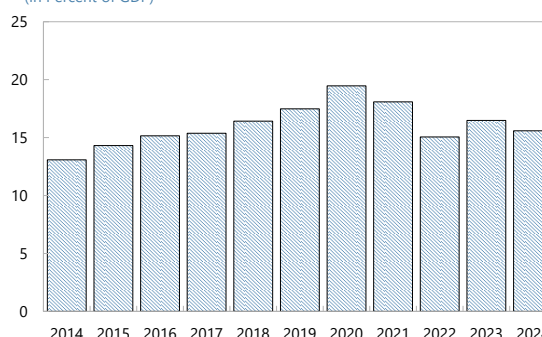
Total NIS Benefits and Premiums

(In Percent of GDP)



Total NIS reserves

(In Percent of GDP)



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

11. Even after recent reforms, the NIS remains structurally imbalanced over longer horizons (Figure 3). Maintaining current contribution and benefit parameters beyond the mid-2040s would require permanent fiscal adjustment, with larger upfront improvements in the primary balance needed to ensure sustainability over longer projection periods. Without further action, budget transfers to the NIS are projected to rise significantly over time, reinforcing long-term fiscal pressures. Absent further reforms, updated DSA estimates suggest budget transfers to the NIS would rise to about 3 percent of GDP in the 2040s, increasing to 5.4 percent of GDP by 2070.

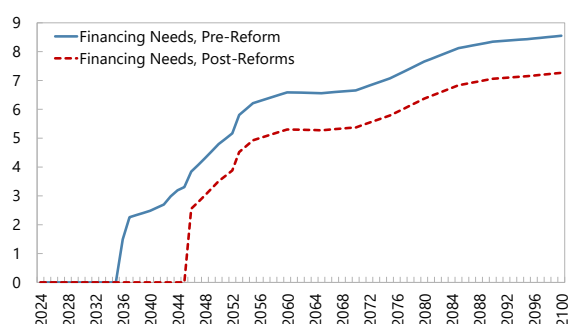
Permanent Increase in Primary Balance Needed
(In Percent)

	NIS	SCP
Next 10 years	0.00	0.58
Next 20 years	0.00	1.35
Next 30 years	0.40	2.27
Next 50 years	1.10	3.95
To 2100	1.42	5.07

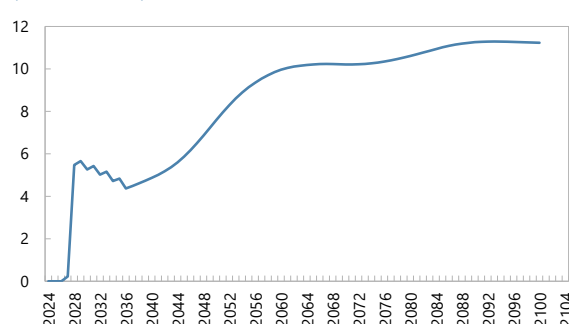
Sources: National Insurance Board of Trinidad and Tobago and IMF Staff Estimates

Figure 3. Trinidad and Tobago: Impact of Reforms on the National Insurance System and Future Adjustments Needed

NIS Financing Needs
(In Percent of GDP)



SCP Financing Needs
(In Percent of GDP)

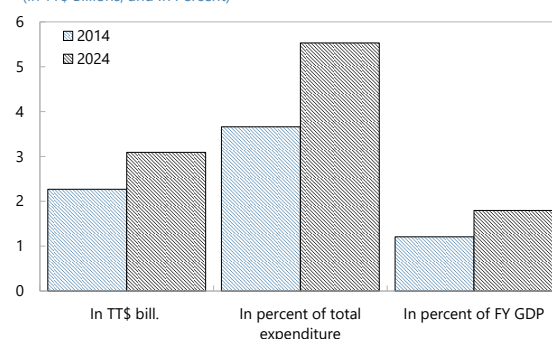


Sources: Trinidad and Tobago's authorities and IMF staff estimates from Debt Sustainability Analysis.

12. Fiscal risks are considerably larger for the SCP, reflecting its generous benefit levels and full reliance on budget financing. At current parameters, sustaining the SCP would require sizable and persistent improvements in the primary balance, with required adjustment rising sharply over longer horizons. While the SCP plays a critical role in preventing old-age poverty, its current design entails high and growing fiscal costs that risk crowding out priority public investment and social spending.

13. The PSP also adds to medium-term fiscal pressures. PSP spending has risen steadily over time, reflecting demographic trends and workforce composition, and now represents a significant and growing claim on budgetary resources. Absent parametric reforms to eligibility, accrual, or indexation, PSP outlays are projected to remain elevated and to continue constraining fiscal space.

Public Servants Pension
(In TT\$ Billions, and In Percent)

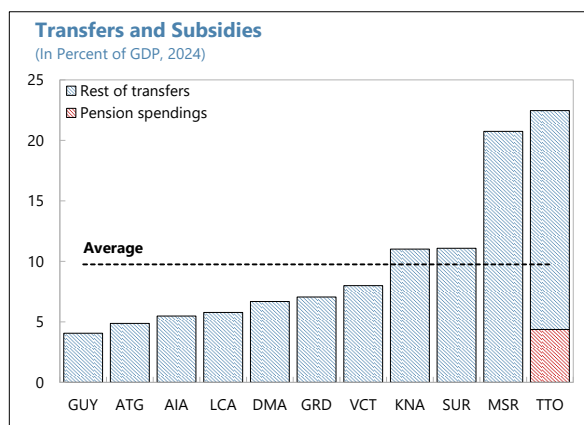


Sources: Trinidad and Tobago's authorities and IMF staff calculations.

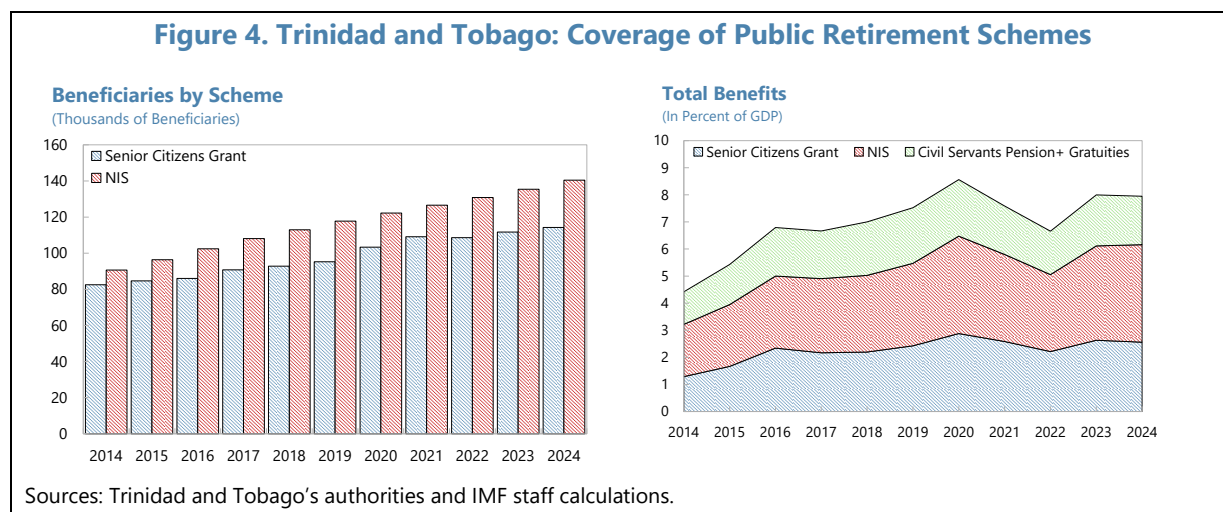
D. Adequacy of Social Retirement Benefits

14. Trinidad and Tobago's public retirement system provides relatively generous benefits by regional standards and has been effective in reducing old-age poverty.

Total public spending on retirement benefits is high compared with Caribbean peers, with SCP and PSP outlays (about 4.4 percent of GDP) comparable to—or exceeding—the total transfers and subsidies of several comparator countries. This reflects the broad coverage and relatively elevated benefit levels under both contributory and non-contributory schemes. The country's public pensions play a central role in ensuring income security for the elderly.



15. The SCP is the cornerstone of old-age poverty prevention. It covers a large share of the elderly population. In 2024, it covered over 114,000 beneficiaries—about 67 percent of those aged 65 and over—with an average monthly benefit of around TT\$3,400, close to the minimum wage and offering a meaningful income floor for individuals with limited or no contributory histories (Figure 7). Eligibility is based on individual income rather than assets², which enhances accessibility but weakens targeting and contributes to unequal wealth outcomes. While this design has been effective in limiting old-age poverty, the generosity of the SCP—combined with income-based eligibility—weakens targeting and contributes to relatively high fiscal costs.



² According to modeled estimates from the UBS Global Wealth Outlook Databook, the average net worth of a Trinidadian 20-year-old, 40-year-old, and 60-year-old is US\$1,048, US\$18,372, and US\$21,968, respectively. The figures are not derived from direct survey data and reflect typical net worth patterns that will vary based on individual circumstances. The data include both financial and non-financial assets. Data gaps in Trinidad and Tobago highlight the importance of finalizing and publishing the 2023 Household Budget Survey.

16. The NIS covers a broad share of the population, providing benefits to over 226,000 recipients in 2024, about 46 percent of its contributory base—and covering roughly 76 percent of the employed population. Contributions are assessed by income classes rather than actual earnings, with pensions calculated relative to the midpoint of the final earnings class. There are currently sixteen earnings classes, and replacement rates are calculated based on a ratio of the retirement pension to the mid-point or average earnings in the class that an individual belonged to before retirement. Since February 1, 2012, the minimum NIS monthly pension is \$3,000, implying a gender disaggregated replacement rate of 48 percent for females and 45 percent for males in 2024, broadly in line with ILO adequacy benchmarks³. The coverage rate for the employed population is 76 percent. Nevertheless, nearly one-quarter of workers remain outside the NIS and may instead rely on the SCP, PSP, or private arrangements.

17. The SCP and NIS both contribute significantly to reducing old-age poverty. Based on the 2005 Survey of Living Conditions—the most recent available poverty benchmark—the SCP and the minimum NIS pension were estimated at about 2.4 and 2.0 times the inflation-adjusted poverty line of TT\$7,980, respectively. While international organizations such as the ILO do not prescribe a specific benefit-to-poverty-line ratio, social protection standards emphasize that minimum pensions should ensure income security above basic needs without undermining work and contribution incentives. In this context, the generosity of Trinidad and Tobago’s minimum benefits is high by international comparison.

E. Policy Options

18. The 11th Actuarial Review concluded that the NIS is financially unsustainable over the long term without further reforms (Annex I). The authorities have taken important steps by increasing contribution rates to 19.2 percent and announcing a gradual rise in the retirement age. While these measures will delay reserve depletion by about a decade⁴, they are insufficient on their own to ensure long-term sustainability. Additional parametric adjustments will be needed to better align contributions and benefits with demographic realities.

19. Further gains could be achieved by broadening contribution income and strengthening compliance. Priorities include modernizing collection systems (already underway), improving enforcement, extending compulsory coverage to the self-employed, and eliminating overlapping employment injury benefits under the Workmen’s Compensation Act. Raising the Maximum Insurable Earnings ceiling and adding higher earnings classes would also help capture contributions from higher-income workers and improve equity within the system.

³ ILO recommends a minimum pension replacement rate of 40 percent of previous earnings after 30 years of contributions or 15 years of residence.

⁴ According to NIS internal actuarial calculations, which are similar to the initial projections in the 12th Actuarial Review, not yet published.

20. Reforms to retirement incentives could materially improve system viability. Reducing factors that encourage early retirement, applying actuarially fair benefit reductions for retirement before age 65 (including for minimum pensions), and freezing the minimum pension until it falls to no more than 80 percent of the minimum wage would strengthen incentives for longer participation and contributions. Better integration of the NIS with SCP is also critical, as the SCP minimum currently exceeds the NIS minimum, weakening the rewards to additional years of formal work.

21. Establishing automatic indexation of key parameters—including pensions, earnings classes, and the insurable earnings ceiling—based on transparent formulas linked to wage growth and inflation would enhance predictability and confidence in the system. Eliminating ad-hoc adjustments and adopting a formal funding policy to guide periodic changes in contribution rates and benefits would further strengthen governance and long-term planning. Timely completion and publication of the 12th Actuarial Review would also support evidence-based policymaking.

22. Although this paper does not assess private and occupational pensions in detail, several structural vulnerabilities warrant attention. Defined-contribution plans often have low contribution rates and uneven coverage, raising adequacy concerns, while defined-benefit schemes remain exposed to sponsor insolvency. Establishing a pension resolution framework and a Pension Resolution and Guarantee Fund—financed through modest levies on plan sponsors and subject to benefit caps—could help protect accrued benefits without creating an implicit state backstop. For new funds, gradually shifting toward hybrid designs can further reduce open-ended liabilities. The enactment of clear loss-sharing rules, such as conditional indexation and automatic benefit adjustments, activated when funding deteriorates could strengthen private pensions. Enhancing portability, harmonizing fiduciary standards, improving supervisory coordination, and strengthening financial literacy would also support a more coherent and resilient retirement income system.

F. Summary

23. Trinidad and Tobago’s public retirement systems face mounting pressures from rapid population aging, declining contributor-to-beneficiary ratios, and generous non-contributory benefits that are increasingly financed from the central budget. While recent reforms to the NIS have significantly improved its medium-term sustainability—extending reserve adequacy into the mid-2040s—the system remains structurally imbalanced over longer horizons and will require further adjustment to remain viable.

24. The largest and fastest-growing fiscal pressures stem from non-contributory schemes, particularly the SCP and the PSP. SCP spending has more than doubled as a share of GDP over the past decade and, at current benefit levels, would require sizable and sustained improvements in the primary balance to remain affordable. PSP outlays have also risen steadily and risk crowding out priority expenditures absent reform. High minimum pensions undermine incentives for formal employment and contribution density, weakening the financial base of the contributory system and reinforcing long-term fiscal risks. Addressing these incentive distortions is essential to strengthening system sustainability and equity.

25. Further reforms should therefore focus on better aligning benefits and contributions across schemes, strengthening retirement incentives, broadening the contribution base, and anchoring policy through automatic indexation and a clear funding framework. Completing and publishing the 12th Actuarial Review and adopting transparent, rules-based adjustment mechanisms would enhance predictability, improve governance, and support timely policy action as demographic pressures intensify.

Annex I. Summary of Recommendations from the 11th Actuarial Review and Other Reform Options

1. The 11th Actuarial Review of the NIS certified the system as financially unsustainable over the 50-year projection period covered in the report. Several recommendations were laid out in the report to improve the longevity of the fund:

- **Contribution rates should be increased as soon as possible.** Raising rates will delay Fund depletion but alone is not sufficient for long-term sustainability. The Government has taken strong steps to address this recommendation, raising contribution rates to 19.2 percent by January 2027.
- **Broaden contribution income:**
 - Strengthen compliance and improve NIS collection systems
 - Increase the Maximum Insurable Earning Ceiling and/or create additional salary classes created to capture further contributions from high income citizens.
- **Raise the effective retirement age by reducing factors that encourage early retirement.** The government has announced plans to gradually raise the retirement age for a full NIS pension to 65.
 - Apply a 6 percent reduction to the benefits for each year of retirement before the age of 65, including for minimum pension allowances.
- **Establish automatic parameter indexation in the National Insurance Act.**
 - Freeze the minimum pension until it provides at most 80 percent of the minimum wage.
 - Index the Maximum Insurable Earning, pension payments, and earnings classes using clear formulas derived from cost-of-living changes and wage growth.
 - Eliminate ad-hoc adjustments to improve predictability and confidence in the system.
 - Develop a formal funding policy that defines how and when contribution rates, benefits, and other system parameters will be adjusted.
- **Extend compulsory coverage to the self-employed.**
- **Eliminate dual coverage from Employment Injury Benefits offered under the Workmen's Compensation Act.**
- **Better integrate the NIS with the SCP.** The SCP minimum pension is currently set at a higher rate than the NIS minimum. Because the minimum pension is generous, additional years of working is not sufficiently rewarded by higher pensions.
- **Complete and table the 12th Actuarial Review, currently underway, with the Cabinet and publish the results as soon as possible.**

Annex I. Table 1. Trinidad and Tobago: Summary of Reform Options for Public Retirement Systems

	Fiscal Sustainability	Adequacy	Equity
Benefits			
Freeze minimum benefits until they reach 80 percent of minimum wage	✓		✓
Index benefits payments to wage growth and cost of living	✓	✓	✓
Eliminate dual coverage for accidents and occupational diseases arising in the course of employment	✓		✓
Contributions			
Increase contribution rates	✓		
Strengthen compliance and improve collection systems	✓		✓
Add additional salary classes or raise the maximum earnings ceiling	✓		✓
Index maximum earnings ceiling and earnings classes to wage growth and cost of living, eliminating ad hoc adjustments.	✓	✓	✓
Develop a formal funding policy that defines adjustments to contribution rates	✓		
Introducing civil servant contributions	✓		✓
Retirement Age and Eligibility Requirements			
Gradually raise the retirement age to 65	✓		✓
Apply a reduction in benefits of 6 percent per year for those who take early retirement	✓		✓
Extend compulsory coverage to the self-employed	✓	✓	✓
Better integrate the NIS with the SCP.	✓	✓	
Increase the retirement age for civil servants	✓		✓
Integrate the public sector scheme into the private sector scheme	✓		✓

Source: IMF staff

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