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TRINIDAD AND TOBAGO

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

October 2013

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 2013 Article IV Consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV Consultation, prepared by a staff team of the IMF for Executive Board's consideration on June 14, 2013, following discussions that ended on March 28, 2013, 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 May 22, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its June 14, 2013 consideration of the staff report that concluded the Article IV Consultation with Trinidad and Tobago.
- A **Statement by the Executive Director** for Trinidad and Tobago.

The publication policy for 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 2013 ARTICLE IV CONSULTATION

May 22, 2013

KEY ISSUES

The economy is reviving. Output is poised for a modest recovery in 2013 after again registering disappointing growth in 2012. Maintenance-related outages will continue to hamper the energy sector, but the non-energy sector should grow around 2½ percent. Core inflation remains moderate and staff estimates considerable slack in the economy.

Policy should support the economy in the short run. The overall fiscal deficit is expected to grow to 2½ percent of GDP in fiscal year 2012/13, which provides broadly appropriate support for growth, along with still-accommodative monetary policy.

Sustainable growth requires reconsidering fiscal policy. Fiscal policy should be placed in the long-term context of the country's non-renewable resource endowment. A gradual path of fiscal adjustment that allows the economy to enjoy the fruits of its energy sector wealth well into the future is achievable by a combination of revenue reforms and current spending restraint. In particular, subsidies are on an unsustainable path, with fuel subsidies particularly difficult to justify. This strategy should create space to ramp up development spending over time.

Progress in protecting against financial vulnerabilities should be sustained. The passage of a new Securities Act should be followed by legislative reforms in the insurance, credit union, and pensions sectors. Key nonbank systemic financial institutions should be brought within the regulatory perimeter.

Structural reforms are needed to foster a diversified economic base. Achieving a more diversified base will require investment outside of the energy sector. This will, in turn, require structural reforms to increase the government's capacity to implement its development budget, along with initiatives to improve the country's competitiveness in attracting private sector investment.

Approved By
Charles Kramer (WHD) and Martin Mühleisen (SPR)

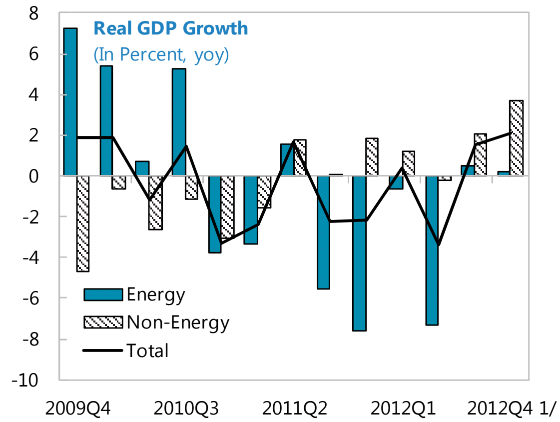
The mission comprised E. Canetti (Head), M. Mansilla, J. Okwuokei, and Q. Chen (all WHD) and visited Port of Spain during March 15–28, 2013. Mr. Finch (OED) also joined the mission. Mr. Stavis and Mmes. Kapijimpanga and Sirbu provided able assistance. Outreach activities included meetings with parliamentarians, trade, and labor unions.

CONTENTS

RECENT DEVELOPMENTS

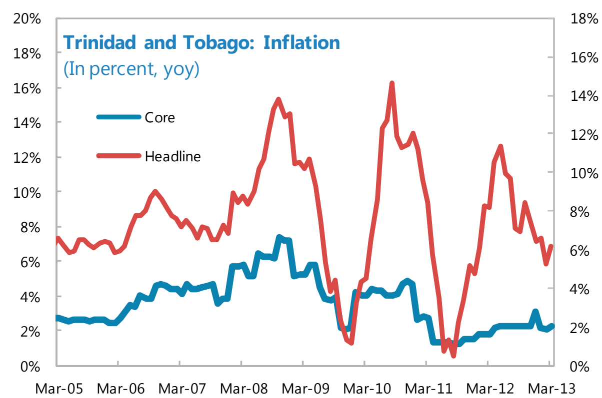
The economy is poised for a modest recovery in 2013 after disappointing growth in 2012, while core inflation should be moderate against a background of still considerable slack in the economy. Fiscal policy is expected to turn somewhat stimulative and monetary policy should remain accommodative. The external position is strong and financial institutions appear sound.

1. **The economy again registered disappointing growth in 2012, hampered by supply constraints**. Real GDP growth was estimated to be 0.2 percent (Table 1). Energy output continued to be held back by maintenance operations. Non-energy output was severely hampered in the first half of the year by an industrial dispute in the cement industry that had broad spillover effects. However, this sector picked up in the third quarter, registering year-on-year (yoy) growth of 2.2 percent, while retail sales rose at a relatively strong 9 percent pace in the same quarter.



Source: Fund staff estimates.

2. **Headline inflation rose but core inflation remained moderate**. Headline inflation rose to an average of 9.3 percent for 2012, due to a mid-year spike in food prices. The use of Carli indices on the food price component, which accounts for some 20 percent of the CPI, imparted a significant upward bias in food inflation.[1] The use of the Carli index was abandoned in May 2012, but inflation indicators will remain distorted until the impact falls out of the index. Core inflation, which excludes food prices, remained moderate at 3.1 percent yoy in December. It has since edged lower to 2.2 percent in March 2013. Recorded unemployment has remained moderate at about 5 percent. However, there appears to be substantial underemployment not captured by the data, as some of the labor force is employed via social programs that do not provide full-time employment (Box 1).

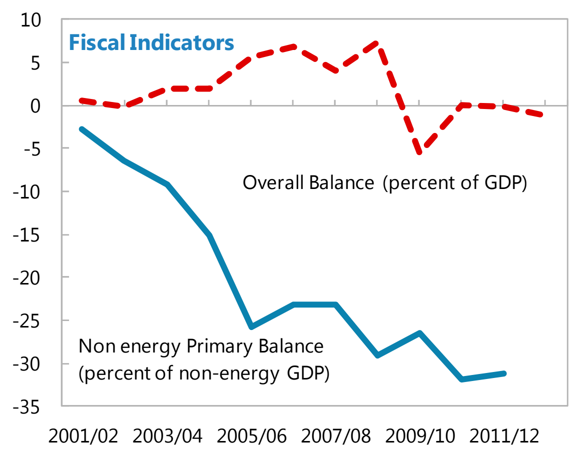


Source: Central Bank of Trinidad and Tobago.

[1] A Carli index uses arithmetic averages of price changes, a methodology which is not transitive. This means that an upward price movement in one period that is reversed in the next nonetheless increases measured inflation. The bias is greater when prices are volatile or exhibit seasonal variations (both of which are prominent features of food prices in Trinidad and Tobago).

3. The economy is poised for a modest recovery in 2013, with staff projecting real GDP to grow 1½ percent. While the energy sector is expected to register only marginal growth due to further significant maintenance-related outages in the fall, the non-energy sector should grow around 2½ percent. The main drivers are expected to be finance, distribution, and construction. Staff estimate that there was considerable slack in the economy in 2012, with non-energy output remaining some 4 percent below potential. While data limitations put a wide band of uncertainty around this estimate, negative growth in the non-energy economy in the three years prior to 2012, as well as relatively quiescent core inflation and slow credit growth, support the assessment that economic slack is likely to be significant.

4. The fiscal position realized a deficit of 1.1 percent of GDP in fiscal year 2011/12 (October–September) from near balance the previous fiscal year. The result was more than explained by a decline in energy revenues of 1.7 percentage points of GDP due to output shortfalls. This was partly offset by a modest decline in the non-energy fiscal deficit due to a recovery of non-energy revenues (mainly VAT). In addition, current expenditures dropped (as a percent of GDP), in part because wages were unchanged pending the outcome of the 2008–2010 wage round, which was not fully settled until December 2012. These figures do not include accumulated arrears with Petrotrin resulting from fuel subsidies, which are currently on the order of 2.9 percent of GDP, and which are only reflected in the budget to the extent they are cleared in any given year. In addition, there are ongoing delays in VAT refunds, due largely to cumbersome audit processes. The non-energy primary balance, a measure of the structural fiscal position, tightened by 0.8 percent of non-energy GDP, suggesting that fiscal policy was mildly contractionary in FY 2011/12.[2]



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

5. Gross nonfinancial public sector debt is manageable at 39 percent of GDP, of which external debt is only 7 percent of GDP. The debt increased by some 6 percentage points of GDP in 2012, but nearly all of that was due to the issuance of bonds to compensate former policyholders of CLICO, a failed insurance company. It is expected that half of the CLICO debt should be retired in 2013 as policyholders convert the bonds to equity holdings in former CLICO assets currently held by the government.

6. Staff projects a deficit of 2½ percent of GDP for FY 2012/13, due primarily to payments of wage negotiation settlements and a further increase in subsidies and transfers. In addition, exemptions and zero-ratings on the value added tax (VAT) introduced in the fourth quarter

[2] The non-energy primary balance is defined as the overall balance minus energy revenues and interest payments.

of 2012 are likely to reduce revenues by 0.2 percent of GDP. The estimate assumes development spending achieves the budgeted 4.5 percent of GDP, although such spending has lagged to date and the development budget is historically underspent. Subsidies were reduced on premium gasoline with the FY 2012/13 budget in October 2012, but this is thought not to have led to substantial savings in view of the reported widespread switching by consumers to more heavily subsidized super gasoline. The FY 2012/13 budget introduced the goal of achieving a balanced budget over the ensuing four years by reducing the deficit a minimum of 1 percentage point a year, albeit predicated on a deficit target for this year of 4.6 percent of GDP.

7. The external current account is estimated to have deteriorated slightly in 2012. The trade balance was little changed as a drop in energy exports was offset by a concomitant drop in energy imports, but the services balance deteriorated slightly due to increased dividend outflows. The capital and financial account moved substantially more into deficit, despite a pickup in foreign direct investment (FDI), as other private sector capital outflows are estimated to have picked up sharply. Although little detail is available, this is consistent with the anecdotal view that there were significant portfolio outflows due to limited domestic investment opportunities and low returns on local fixed income instruments, combined with rallies in global equity markets.

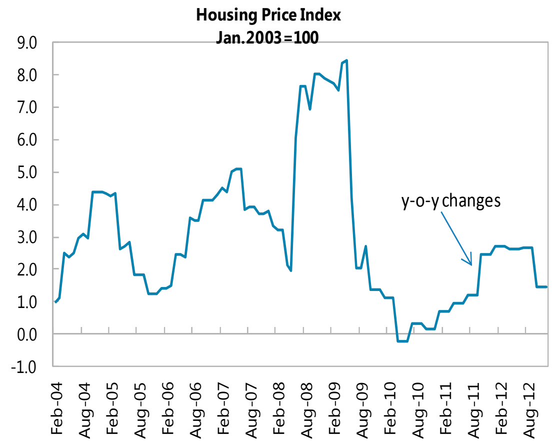
8. The Central Bank of Trinidad and Tobago (CBTT) has done better at adjusting the amounts auctioned at the *de facto* stabilized exchange rate, thus avoiding significant queuing. The CBTT is a key player in the market as it intermediates the foreign exchange paid by energy companies in royalties and taxes to the government. Previously, uncertainty regarding CBTT sales had sometimes led to temporary scarcity and queuing. The structure of the foreign exchange regime is broadly unchanged but the central bank introduced a new wholesale auction system in May 2012 in which part of their sales was auctioned to dealers using competitive bidding. However, dealers still must sell their foreign exchange within a spread of 1 percent of the noncompetitive rate, so that both the amounts auctioned and the exchange rate are ultimately administratively determined.[3] The real effective exchange rate appreciated by 4½ percent yoy at end-2012.

9. Gross official reserves remained strong at US$9.2 billion at end-2012 (equivalent to 12½ months of imports of goods and non-factor services). However, trend accumulation reversed during the year, with reserves falling by US$700 million from their peak in April 2012. Staff project a slight further erosion of the current account surplus in 2013 as the recovery in energy exports is more than offset by higher fuel and non-energy imports. As the economy revives, capital outflows should abate, helping to contain further losses in reserves. The Heritage and Stabilization Fund (HSF)

[3] Roughly half the amount of CBTT foreign exchange sales into the market has been sold through the new dealer auction mechanism. Judgments about how much to auction into the market are based on weekly data and discussions with banks.

assets increased by US$0.4 billion to US$4.5 billion at end-August 2012 (18 percent of the GDP, Table 1).[4]

10. Despite accommodative monetary policy, private sector credit growth was a modest 4 percent in 2012, although mortgage credit grew faster at 11.3 percent. Citing declining inflation and slow credit growth, the CBTT cut their key policy rate 25 basis points in September 2012 to 2¾ percent, following 75 basis points of previous cuts since end-2010. There is anecdotal evidence of an increase in speculative motives for investing in the housing sector, in part due to a paucity of investment opportunities in domestic financial assets. However, there is no evidence so far of overheating, with house prices increasing by only a little over 1 percent a year on average since 2010, and banks reporting that mortgage lending standards have not been eased, with still relatively conservative loan-to-value and loan service-to-income ratios. With credit demand still low, the central bank continues to mop up the considerable excess liquidity in the system through voluntary term deposits, having already reached its legal ceiling on open-market sales of short term treasury securities. The authorities are also issuing a TT$1 billion long-term government bond in the second quarter of 2013 to further assist in the domestic absorption of liquidity. The operation is being undertaken purely for monetary purposes, with the proceeds of the bond being held in a frozen account at the central bank on behalf of the government.



source: Central Bank of Trinidad and Tobago

11. The financial sector appears sound, but some nonbank Systemically Important Financial Institutions (SIFIs) remain largely outside the regulatory perimeter. Commercial banks are liquid, profitable, and well capitalized. Non-performing loan (NPL) rates fell from 6.3 percent in 2011 to 5.4 percent in December 2012, partly through loan restructuring and asset transfers to nonbank subsidiaries, and banks have increased special provisions on impaired assets from 28 to 40 percent over the 12 months to December 2012. Mortgage NPLs remain low at 0.5 percent as of September 2012. Non-banks remain well capitalized, but some are relatively lightly supervised.

12. There is continued progress on financial sector reforms, including those recommended as part of the Financial System Stability Assessment (FSSA) in 2011 (Box 2). Securities

[4] Established in 2007, the HSF saves and invests energy revenue. While formally it has dual heritage and stabilization objectives, in practice it has served more as a heritage fund with an emphasis on accumulating net savings. The rules trigger savings (withdrawals) when actual energy revenues exceed (fall below) budgeted energy revenues by at least 10 percent. Given conservative budget assumptions on energy prices, the fund has accumulated savings even during years when the fiscal position was in deficit.

legislation, passed at the end of 2012, has enhanced the powers of the Securities and Exchange Commission (SEC) to fulfill its multiple mandates of market regulation, promotion, and reducing systemic risk. Other legislative reforms are pending, notably new laws to modernize insurance regulation, including by introducing risk-based regulation and supervision, and on bringing credit unions into the central bank's regulatory perimeter, both expected for 2013. Laws on pension reform are expected for 2014. The National Insurance Scheme has adjusted the contribution rates starting in March 2013 and plans a further adjustment next year. Such adjustments are estimated to extend the viability of the fund until approximately 2046, according to the latest actuarial review. In addition, the government will be floating 20 percent of First Citizens Bank, currently 100 percent government-owned, in 2013. The authorities are also commencing work on a national financial crisis management plan. On Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) issues, the authorities are preparing to implement revised FATF standards and have established a cross-ministerial committee to strengthen AML/CFT cooperation. In addition, the authorities should emphasize effective implementation of their AML/CFT legal and institutional frameworks.

13. While challenges remain, a final resolution of the problems stemming from the failure of CLICO (a systemically important insurance company) in 2009 is in sight. The government has achieved final settlements with most former policyholders, apart from a small number that have successfully sued the government for full repayment in the high court (the government has appealed). If the case is not reversed on appeal, the additional cost to the government is expected to be around TT$300 million (0.2 percent of GDP). Complex negotiations are ongoing with shareholders to recover value from CLICO's assets, but it is hoped these will be resolved by mid-year, and there are still hopes that most of the costs of the bailout of CLICO can eventually be recouped.

14. Progress has been made with respect to a number of policy recommendations from the 2011 Article IV consultation. The 2012/13 budget statement introduced for the first time a medium-term target for fiscal consolidation and the authorities are undertaking a review of the non-energy tax policy regime, with some measures intended to be introduced in the 2013/14 budget. However, work remains to be done in developing a strategy to smooth consumption over the long term and spur investment. Significant progress has been made in addressing the challenges stemming from CLICO's failure and in implementing some of the 2011 FSSA recommendations, notably passage of a new securities law. The HSF framework is still under review but is expected to clarify the HSF's objectives. Much remains on the structural reform agenda, but the authorities are focused on taking measures to improve Trinidad and Tobago's global competitiveness rankings. Finally, progress on improving the statistical database has been mixed, due to still existing significant resource constraints on the Central Statistical Office (CSO).

RISKS AND MEDIUM-TERM OUTLOOK

15. In the near term, risks to the recovery appear slightly to the downside. Energy sector output, fairly inelastic to price declines in the short term, should be governed primarily by supply conditions. In this regard, the authorities are partnering with the industry to coordinate maintenance outages across the upstream and downstream energy sectors to limit the risk of further supply disruptions from maintenance operations (as has occurred in the past). Should maintenance-related outages prove more severe than expected, the appropriate policy response would be to buffer the budgetary and economic impact by following the rules that would dictate lower contributions to the HSF. There are downside risks to non-energy sector growth should development spending be under-executed. While domestic financial institutions appear sound, there have been some adverse financial developments in the Caribbean region that should be carefully monitored, along with potential channels of contagion to the domestic financial system, which could come through direct ownership links between regional and Trinidad and Tobago institutions, including in the insurance sector, or through portfolio losses for Trinidad and Tobago institutions from claims on regional institutions. Funding links with the region appear likely to be limited. Information on the extent and incidence of exposures, including for nonbank financial institutions, is scarce, however. Possible contagion from the trade channel would be small.

16. Although a sharp decline in international energy prices would likely have little short-term effect on output, the fiscal position and external reserves would suffer, although the budget is based on quite conservative assumptions about energy prices. Staff estimate that a gradual decline in energy prices of 30 percent from their 2012 level until 2015 would result in a fiscal deterioration of 3.8 percent of GDP during the period vis-à-vis the passive scenario, while net international reserves (NIR) would fall by more than US$0.6 billion by 2015 compared to the baseline.[5] A modified, more extended shock scenario that prolongs the lower 2015 prices until 2018 would further weaken the fiscal stance, leading to higher public debt by about 10 percentage points of GDP, while the current account surplus would be about half that of the baseline in 2018.

17. Over the medium term, potential growth will depend on investment and structural reforms. Energy sector output, which comprises some 45 percent of economic activity, should continue to recover as natural gas production returns back to near the previous peak levels of 2010, although oil production, barring significant new discoveries, should continue to face a gradual natural decline as reserves are exhausted. The country has so far successfully navigated the challenge of the shale gas revolution, which has depressed natural gas prices in the United States, by finding other, still lucrative markets for its liquefied natural gas. In addition, a number of developments presage increased future exploration and production activity in the energy sector.[6]

[5] Such a drop would be consistent with a 68 percent confidence interval of baseline WEO projections, as derived from futures prices on Mar 12, 2013.

[6] Following a prolonged period when no new blocks were allocated for exploration, a successful deepwater bid round was conducted in September 2012 and two more rounds are expected in 2013, one for land acreage and the other for deepwater exploration. New investment generated from the 2013 prospective rounds would materialize in the

(continued)

Potential output in the non-energy sector will depend on effectively implementing public investment plans, itself dependent on improving the public sector's implementation capacity, and improving the climate for private sector entrepreneurship and capital formation.

Trinidad & Tobago: Risk Assessment Matrix

Nature/Source of Risk	Up/downside	Likelihood of Realization	Expected Impact on Economy if Risk is Realized	Policy response
Near-Term Risks				
Potential regional financial turbulence	↓	M	L/M	Widen the perimeter of regulation and supervision and collect more detailed information on potential channels of contagion. Expedite development of a national financial crisis management plan.
A sharp drop in oil or gas prices, including due to increased foreign supplies or a protracted period of slow global growth	↓	L	H	In the short term, allow the rules that would curtail contributions to the HSF to buffer the impact. However, should it appear the shock may not be temporary, the authorities should be prepared to frontload fiscal adjustments. Over the medium term, there remains a need to diversify the economic base by structural reforms and investment outside the energy sector.
Longer than expected maintenance-related outages in the energy sector, despite efforts to coordinate maintenance outages across up- and downstream sectors	↓	M	L/M	Shortfalls in energy revenues would be temporary and hence best buffered by lower contributions to the HSF.
Longer-term Risk				
Sustained underimplementation of the capital spending needed to foster diversification of the country's economic base	↓	H	H	In order to improve the ability to implement the capital budget, modernize and rationalize the public service. Improve public procurement and pursue the use of public/private partnerships to help overcome capacity constraints, while adhering to international best practices.

Source: Staff estimates.

next 4–5 years and if all goes well, additional production can be expected for early in the next decade. Also, British Petroleum of Trinidad and Tobago announced a 1 trillion cubic foot discovery of gas off of Trinidad's southeast coast.

POLICY DISCUSSIONS

After several years of sub-par growth, the economy is expected to recover in 2013–14. Macroeconomic policy should remain supportive of this recovery in the near term. For the long run, it will be critical to take decisions now to ensure that the fruits of the country's non-renewable resource endowment can be shared across future generations, as well as more equitably across current generations. This will require putting fiscal policy in the appropriate long-term context, returning to fiscal surpluses while tilting spending towards investment and ensuring current spending is targeted more towards benefiting the most vulnerable segments of society. There is also ample scope to reform the government's non-energy revenue regime. The accommodative monetary policy stance remains appropriate to support the recovery of credit. Critically, even as growth revives, unlocking Trinidad and Tobago's full potential will require a wide variety of structural reforms to increase economic efficiency.

Fiscal policy should support activity amid a reengineering of the composition of spending

18. The mission suggested that the fiscal stance for this year should continue to aim to support economic activity in view of the slack in the economy. There is space for such a supportive stance given still relatively manageable levels of public sector debt and moderate core inflation. Staff estimates that current policies should result in an overall deficit of around 2½ percent of GDP for FY 2012/13 (which ends September 30, 2013), which appears broadly appropriate. That said, given the role of supply constraints and structural challenges in limiting economic potential, the authorities will need to be alert to the risk that demand stimulus could result in higher inflation or imports.

19. There is an urgent need to reengineer the composition of spending. Subsidies and transfers are on an unsustainable path, eating up a rapidly growing share of total spending, from 45 percent in FY 2007/08 to 53 percent in FY 2012/13 (Box 3). While some subsidies and transfers can be justified as improving equity or fostering positive externalities, others are poorly targeted at rich and poor alike and some may impose negative externalities. Of particular concern are costly fuel subsidies, which disproportionately benefit the wealthy and contribute to severe road congestion that is materially harming productivity.[7] In addition, the authorities and private sector participants noted they believe employment programs may be providing disincentives to seek more productive employment. Other subsidy and transfer programs should also be evaluated against the criteria of whether they help to provide "public goods" and/or improve income distribution.

20. The authorities agreed that subsidies and transfers needed to be reined in, but cautioned that this would be done over time to ease adjustment costs. The authorities expressed concern that overly rapid removal of fuel subsidies risked increasing inflation expectations, and it would be better to remove them over a medium-term horizon to minimize this

[7] The fuel subsidy is partially covered by a special levy of four percent on the value of crude oil produced by large producers. In FY 2011/12, less than one fifth of the total bill was paid for with proceeds from the special levy.

risk. In addition, they pointed to their development of a national strategy of encouraging conversion of motor vehicles to the use of compressed natural gas (CNG), which, if successful, would, over time, reduce the cost of fuel subsidies, which are granted only on petroleum-based fuels. Staff noted that removing fuel subsidies would withdraw demand and make sustaining excessive price increases difficult, and would be a particularly effective incentive to encourage the shift towards use of CNG.

21. There is scope to ramp up development spending over time. The main priorities are for the development of infrastructure including ports, roads, and telecommunications, as well as building human capital through improvements to health and education. However, this will need to be done in parallel with structural reforms aimed at increasing the government's capacity to implement projects. The authorities noted that they intend to pursue increased use of Public-Private Partnerships (PPP) to help overcome capacity constraints on development spending. Staff welcomed this, but cautioned that the government should adhere to international best practices, including by adopting a sound legal and institutional framework to contain fiscal risk (Box 4).

Medium-Term Macroeconomic Framework (passive scenario)
(In percent of GDP, unless specified otherwise)

				Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (in percent)	-4.4	0.2	-2.6	0.2	1.6	2.3	2.4	2.0	1.7	1.7
Energy	-1.8	3.2	-3.9	-4.7	0.3	1.2	1.1	1.0	1.0	1.1
Non-energy 1/	-6.1	-1.8	-1.6	3.6	2.5	3.0	3.2	2.7	2.0	2.1
Inflation (end of period)	1.3	13.4	5.3	7.2	4.0	4.0	4.0	4.0	4.0	4.0
Revenue 2/	28.6	34.1	32.3	30.9	31.2	30.7	30.4	30.1	29.8	29.6
Energy	14.5	18.4	19.0	17.3	16.8	16.1	15.5	14.9	14.3	13.9
Non-energy	14.2	15.7	13.2	13.6	14.4	14.6	14.9	15.2	15.5	15.7
Expenditure	34.2	33.9	32.4	32.0	33.6	33.3	33.4	33.6	33.7	34.1
Current	27.9	29.0	28.0	27.7	29.2	28.8	29.0	29.1	29.3	29.7
Capital expenditures and net lending	6.3	4.9	4.4	4.3	4.5	4.5	4.5	4.5	4.5	4.5
Overall fiscal balance	**-5.6**	**0.1**	**-0.1**	**-1.1**	**-2.5**	**-2.6**	**-3.0**	**-3.5**	**-3.9**	**-4.5**
Overall fiscal non-energy balance	**-20.1**	**-18.2**	**-19.1**	**-18.5**	**-19.3**	**-18.7**	**-18.5**	**-18.3**	**-18.3**	**-18.5**
External current account balance	8.5	20.3	12.3	10.1	8.8	8.4	7.5	7.0	6.8	6.6
Public sector debt 3/	30.6	35.5	33.4	39.3	33.9	35.2	37.2	39.4	42.0	45.1
Net of HSF deposits 4/	16.7	17.6	15.5	21.2	16.0	17.5	19.5	21.8	24.4	27.5
Gross official reserves (in US$ millions)	8652	9070	9823	9200	9054	9004	9034	9136	9293	9506
In months of imports	14.1	15.8	11.9	12.5	11.7	11.6	11.5	11.6	11.8	12.0

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

1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM)

2/ Fiscal data is central government unless otherwise specified and refers to the fiscal year ending in September.

3/ Excluding debt issued for sterilization.

4/ Starting in 2013, assumes no additional contributions to the HSF.

22. There is substantial scope to improve the efficiency and incidence of revenue collection in the non-energy sector. A range of options is available. Given current inefficiencies in the tax regime, it should be possible to take measures aimed at increasing total revenues through broadening tax bases and increasing targeted tax rates, while also increasing the efficiency and progressivity of the tax system. Capitalizing on recommendations provided by recent Fund technical assistance, the authorities noted they are preparing a package of tax reforms that they intend to introduce as part of the FY 2013/14 budget. Once policy reforms have been introduced, the authorities intend to focus on improving the efficiency of tax administration, including through the introduction of electronic filing mechanisms and enhanced compliance controls.

Over the longer term, fiscal policy should aim to save more resource wealth

23. The medium-term goal laid out in the budget statement of improving the fiscal balance by a minimum of one percent of GDP a year, starting in FY 2013/14, is appropriate. However, the authorities have not yet announced a specific set of policies to achieve this goal, and on current policies, the fiscal balance and debt ratios would continue to worsen over time, reinforcing the need for fiscal adjustment. Starting from the staff's estimated fiscal deficit for FY 2012/13 of 2½ percent of GDP, passive baseline policies would lead to an overall deficit of 4½ percent of GDP by 2018. An active scenario that pursues an adjustment of roughly 1 percent a year on average relative to the baseline would lead to fiscal balance by the end of the period. In addition, assuming that growth revives on the timetable envisaged, it would be cyclically appropriate to begin on this adjustment path in FY 2013/14 (although countercyclical stimulus would still be warranted should the recovery be delayed). Moreover, it is achievable, even while gradually ramping up spending on public investment, given the scope for increasing non-energy sector revenues and reducing subsidies and transfers. Should downside risks on energy prices materialize, in the first instance, the HSF would serve as a buffer as the rules would lead to contributions being curtailed or eliminated if energy prices are lower than projected. However, the authorities should also be prepared to frontload the fiscal adjustment (thereby delivering a larger total fiscal adjustment in net present value terms) should it appear that a downside energy price shock may not be temporary.

Illustrative Macroeconomic Framework (active scenario)

(In percent of GDP, unless specified otherwise)

				Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (in percent)	-4.4	0.2	-2.6	0.2	1.4	1.7	1.7	1.7	2.1	2.1
Energy	-1.8	3.2	-3.9	-4.7	0.3	1.2	1.1	1.0	1.0	1.1
Non-energy 1/	-6.1	-1.8	-1.6	3.6	2.0	2.1	2.1	2.2	2.7	2.7
Inflation (end of period)	1.3	13.4	5.3	7.2	4.0	4.0	4.0	4.0	4.0	4.0
Revenue 2/	28.6	34.1	32.3	30.9	31.2	31.2	31.4	31.7	31.8	32.1
Energy	14.5	18.4	19.0	17.3	16.8	16.2	15.7	15.1	14.6	14.1
non-energy	14.2	15.7	13.2	13.6	14.4	15.1	15.8	16.5	17.3	17.9
Expenditure	34.2	33.9	32.4	32.0	34.2	33.8	33.3	32.8	32.4	31.9
Current	27.9	29.0	28.0	27.7	29.2	28.3	27.9	27.4	26.9	26.4
Capital expenditures and net lending	6.3	4.9	4.4	4.3	5.0	5.5	5.5	5.5	5.5	5.5
Overall fiscal balance	**-5.6**	**0.1**	**-0.1**	**-1.1**	**-3.0**	**-2.6**	**-1.9**	**-1.1**	**-0.5**	**0.2**
Overall fiscal non-energy balance	**-20.1**	**-18.2**	**-19.1**	**-18.5**	**-19.9**	**-18.8**	**-17.6**	**-16.3**	**-15.1**	**-13.9**
External Current Account Balance (in % of GDP)	8.5	20.3	12.3	10.1	9.3	9.4	9.8	9.9	10.2	10.2
Public sector debt 3/	30.6	35.5	33.4	39.3	34.5	35.9	36.8	36.8	36.1	34.8
Net of HSF deposits 4/	16.7	17.6	15.5	21.2	16.6	18.0	18.9	18.9	18.2	16.8
Gross official reserves (in US$ millions)	8652	9070	9823	9200	9116	9243	9448	9863	10434	11260
In months of imports	14.1	15.8	11.9	12.5	12.0	12.2	12.8	13.6	14.7	16.0

Sources: Ministry of Finance; Central Statistics Office, and Fund staff estimates and projections.

1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM)

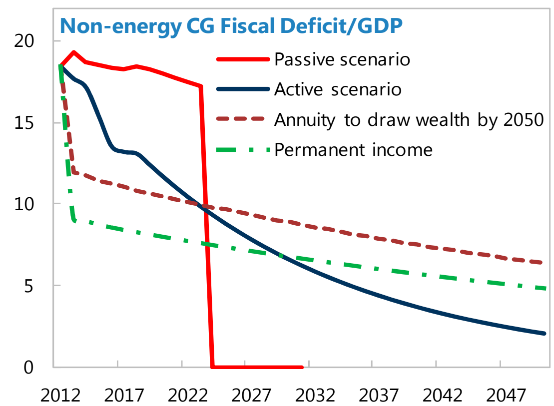
2/ Fiscal data is central government unless otherwise specified and refers to the fiscal year ending in September.

3/ Excluding debt issued for sterilization.

4/ Starting in 2013, assumes no additional contributions to the HSF.

24. However, fiscal policy needs to be placed in a longer-term context that takes into account the country's non-renewable resource endowment. The long-term fiscal path will be the most critical element in determining how that endowment is used to secure the long-run prosperity of the country. A strategy should be developed to optimize the use of that endowment over its expected lifetime. Fiscal rules (broader than those adopted for the HSF) should be adopted to safeguard the implementation of the strategy against political pressures and shield the country against temporary fluctuations in energy sector prices. They should also be flexible enough to take into account new energy reserves that may be discovered over time, which could serve to temper the pace of fiscal adjustment.

25. Staff developed an illustrative long-term active fiscal path, drawing on the Fund's recent work on macroeconomic frameworks for resource-rich developing countries.[8] The main policy elements in that path are a tax reform that raises non-energy revenues by 3.2 percent of GDP over five years, which would more than compensate for the gradual decline in energy revenues; a gradual reduction and better targeting of transfers and subsidies (e.g. on fuels) on the order of 3 percent of GDP by 2018; and a modest but sustained increase in capital spending that would bring total expenditure share down approximately to the level of 2012. The tax reform could include a simplification of the VAT that rationalizes exemptions without a rate increase, a phased in property tax reform, and a revision of the personal and corporate income taxes to make them more progressive and modern, while also simplifying the schemes by eliminating multiple exemptions and deductions accumulated over time.



Source: IMF staff estimates.

A preliminary analysis suggests that this policy path, which would cut the non-energy fiscal deficit from 18½ percent of GDP now to 11 percent by 2020 (an average adjustment of a little over 1 percent of GDP per year) would smooth fiscal consolidation over 40 years and put the debt/GDP ratio on a declining path. Adjustment paths that would allow energy sector wealth to be consumed through 2070, or even, in a more extreme case, through perpetuity, would require stronger fiscal efforts. While such fiscal effort will require careful planning and persistence, the sustainable levels of non-energy deficits are within reach, as they were the norm in Trinidad and Tobago a decade ago before the significant current spending expansion that took place in the mid-to-late 2000s (the average non-energy deficit during 2000–05 was 7½ percent of GDP). The authorities generally agreed with the staff's proposed long-term fiscal approach.

26. As recommended in previous Article IV consultations, staff advocated placing the rules for contributing to the HSF in the context of a broader strategy to manage the long-run

[8] See IMF, "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries," 8/4/2012.

sovereign balance sheet. The practice of placing all investments abroad remains appropriate for insulating the non-energy economy from a loss of competitiveness that would ensue if too much energy sector wealth was injected into the domestic economy. Similarly, the relatively conservative portfolio management practices of the HSF are important to protect the vessel of the country's savings. The HSF governance structure compares well to international best practices for Sovereign Wealth Funds (SWFs), set forth in the Santiago principles, especially on transparency and accountability.[9] However, staff suggested that, in the medium term, sustained transfers into the HSF should be conditioned on a return to fiscal surpluses within the same fiscal year. While the "habit of saving" embedded in the current HSF contribution rules has merit, such a policy reform would ensure net wealth is increasing, rather than leading the government to borrow to save. In addition, the risk of overly large withdrawals could be contained by reducing the maximum withdrawal rule and raising the minimum balance. The authorities believe that the current rules are appropriate, given their view that the purpose of the HSF should be to save a portion of the earnings from energy exports. They also noted that they were giving consideration to whether to emphasize more the savings (heritage) aspect of the HSF, as has been the practice to date, and possibly to carry out the already authorized stabilization aspect via a separate entity.[10]

Monetary policy should be accommodative for the present as financial reforms continue

27. Monetary policy should remain accommodative for the present in order to support the nascent recovery. However, low interest rates may be contributing to portfolio outflows (combined with a lack of confidence in the local economy) and spurring purchases of interest-rate sensitive goods (automobiles and housing). Thus, staff noted that the CBTT should closely monitor a range of indicators, including credit growth, excess liquidity, real estate prices and (to the extent possible) portfolio outflows in order to assess the timing of a future tightening of the policy rate. The impact of monetary policy on credit currently appears limited with the effectiveness of the monetary transmission mechanism curtailed by banks' ample excess liquidity. The CBTT will need to continue to absorb such liquidity, though consideration could be given to more market-based forms of absorption, such as auctioning off special deposits rather than providing them at a fixed rate. These would provide the CBTT with improved market signals and may also be less costly. The authorities agreed with the recommended stance, noted that substantial liquidity absorption would be needed for the time being and that they had reactivated a liquidity management committee to better forecast liquidity developments.

28. The authorities noted that progress towards passage of needed financial legislation was on track. In addition, the authorities noted that they are continuing to improve the conduct of bank stress testing, with the help of Fund technical assistance, and are also working to bring key SIFIs within the perimeter of regulation and supervision. In addition, to forestall potential risks

[9] See "Trinidad and Tobago: Selected Issues", IMF Country Report No. 12/128, June 2012.

[10] The stabilization element of the HSF, if used, would be aimed at better insulating the budget against fluctuations in international energy prices.

related to financial contagion, the authorities should work expeditiously to develop their national financial crisis management plan, as well as collect more detailed information on the potential channels of contagion, including via a better understanding of links between Trinidad and Tobago financial institutions and the region.

29. The adequacy and timing of central bank sales of foreign exchange appear to have improved and discussions with market participants suggest that the queuing experienced at the end of 2010 has abated. The introduction of a central bank auction system to allocate some of the central bank's foreign exchange to banks has introduced a modicum of flexibility into the wholesale allocation system. However, the central bank still determines the allocated amount administratively while determining the exchange rate paid by the dealers' end customers within narrow limits, so that foreign exchange is not allocated in a true market clearing fashion, suggesting queuing could arise again. The improved supply of foreign exchange to the market has entailed a modest decline in the level of reserves in the last 8 months, though the level remains strong. The system could be gradually made more market-based, via an increased private sector role, to deliver to dealers the total amount of foreign exchange demanded. This would obviate the need for strategic bidding for excess reserves, which may be obscuring demand signals. Staff reiterated the recommendation of the previous Article IV consultation that over the medium term, allowing the exchange rate to fluctuate within a wider band through higher bid-ask spreads could allow pricing to play a bigger role in equilibrating the market. Authorities indicated that they are not contemplating changes to this system at present.

30. While the exchange rate still appears to be broadly in line with fundamentals, **there are early indications that might suggest the non-energy sector of the economy has become less competitive** (Box 5). The real effective exchange rate appreciated through the year, although it remains within the 95 percent confidence interval of the estimated equilibrium level for 2012. The macroeconomic balance approach also suggests the rate is broadly in line with fundamentals. However, the external sustainability methodology does find some degree of overvaluation, reflecting a need for additional savings of energy income to improve intergenerational equity, that is, to ensure that the current generation does not receive a disproportional share of the net present value of the country's natural resource wealth. Moreover, the modest drop in reserves and a second year of deterioration in the non-energy current account may suggest a loss of competitiveness at the margins.

Structural reforms will be required to unlock the economy's potential

31. The potential for Trinidad and Tobago to diversify its economy and enhance growth prospects will depend critically on undertaking much-needed structural reforms. In particular, the ability to invest in productive capital and infrastructure is constrained by inefficiencies in the public service and by bureaucratic impediments to private investment in the non-energy sector. Alleviating these constraints will be critical to preparing the economy for a future in which it will be less able to rely on energy resources as its primary economic base. In particular, while investment in the energy sector is undertaken by the private sector, public investment should focus on building up the capacity of the non-energy economy in order to foster economic diversification.

32. The public service is beset by severe challenges in hiring and retaining qualified staff. Many senior public servants have not been confirmed in new positions in which they have served for years, and too many functions are carried out by staff on short-term contracts. This has caused low morale, excessive turnover, and a loss of institutional memory. Consequently, the public service is unable to carry out many critical functions accurately and expeditiously. Increasing public and private sector investment will thus require a thoroughgoing rethink of the public service. Among other things, staffing processes and institutions need to be modernized. In addition, streamlining is needed to help reverse a proliferation of overlapping sets of institutions and programs, and in many cases a lack of coordination and clear reporting lines. The authorities broadly concurred with the analysis and noted that they have established a working group to transform the public service, in particular, to improve staff recruitment practices.

33. There are also significant impediments to private sector entrepreneurship and investment, as recently highlighted by the World Bank's Doing Business Survey. Some of these impediments are themselves the result of the inefficiencies noted in the public service. In addition, it will be critical to address the high level of crime and perceptions of a lack of transparency to help encourage investment. Passage of a best-practice procurement law could thus help foster business formation and diversification. The authorities place high priority on improving their rankings, and noted that initiatives are underway to streamline administrative procedures for corporate registration and construction permits, and to improve information sharing among relevant agencies to speed up customs clearance.

34. Staff welcomed the recent passage of the new Securities Act and encouraged timely adoption of other critical financial sector legislation, including the new Insurance Act. The securities legislation provides authority to the SEC to fulfill its mandate to minimize systemic risk. A risk-based capital regime should be introduced for the securities sector expeditiously. Special focus should be placed on SIFIs, in line with new thinking on international best practice. The government should also give priority to introduction of appropriate insolvency frameworks, including corporate bankruptcy and bank resolution legislation. The authorities fully agreed and noted that they were on track for introducing key elements of financial sector legislation, including in the insurance sector, credit union supervision, and pension reform. They noted, however, that the pension system will be challenged by demographic developments, as the dependency ratio is projected to increase over time.

35. Although data are broadly adequate for surveillance, progress on improving the statistical database has been mixed. Shortcomings persist in the timely delivery and quality of macroeconomic data. For example, there have been repeated delays in the introduction of improved CPI and GDP methodologies, trade data are delayed over a year while the Automated System for Customs Data (ASYCUDA) system is introduced in customs, and labor market data are delayed and fail to capture underemployment. These shortcomings largely reflect resource and capacity constraints in the national statistical office, and staff encouraged a rapid resolution of these problems. In addition, there are major gaps in the understanding of portfolio flows. The central bank is, however, upgrading its compilation system for balance of payments and international investment position (IIP) data with a view to subscribing to the Special Data Dissemination Standard. The authorities agreed that improvements in statistics are urgently needed.

STAFF APPRAISAL

36. Trinidad and Tobago appears to be turning a corner as growth revives. There are already signs of a nascent recovery in the non-energy sector, while in the energy sector there is light at the end of the tunnel as significant maintenance operations should wind down in 2013. There appears to remain scope for accommodative macroeconomic policy for the short term, until a revival of growth is firmly entrenched. In this respect, the main downside risks to near-term prospects appear to be primarily external, including declines in commodity prices, or a global downturn that could slow demand for Trinidad and Tobago petrochemical products.

37. The authorities should expeditiously turn toward the challenges of managing an economy that has benefited from a rich, but non-renewable resource base. This will require putting fiscal policy in a long-term context, saving for future generations while improving equity by better targeting of current expenditures towards the most vulnerable segments of society. In addition, greater public investment as well as structural reforms will be needed to unlock the country's economic potential and foster diversification beyond the relatively narrow resource base on which the country's prosperity is currently based.

38. The broad fiscal stance appears appropriately supportive, but the authorities should be alert to the risk that stimulative policy could result in higher inflation or imports, and the composition of spending is excessively tilted towards current consumption. Subsidies and transfers continue to claim a high and rising share of expenditure, and remain very broadly targeted. Fuel subsidies, in particular, are difficult to justify in view of their budgetary cost, regressivity, and contribution to traffic congestion. The authorities should commit to a firm program of removing the fuel subsidies over time, drawing on the increasing store of global experience in this area.[11] They should also take stock of, and rationalize, the panoply of employment support programs, some of which overlap and may be undermining labor force competitiveness and contributing to underemployment. There is also ample scope to improve the efficiency and buoyancy of revenue collection, and the authorities should take advantage of the opportunity provided by the forthcoming budget to introduce revenue measures that will broaden the revenue base and improve the progressivity of the system. Finally, the authorities should work to reduce the outstanding stock of arrears, notably on energy subsidies, in order to increase transparency and improve the predictability of cash flows for businesses and households.

39. The authorities have taken a welcome step by introducing a medium-term target for fiscal consolidation in the 2012/13 budget. They should move now towards identifying measures to achieve those targets, and designing a fiscal framework that more systematically takes into

[11] See IMF, "Energy Subsidy Reform: Lessons and Implications," January 28, 2013.

account intergenerational equity. This will require setting clear and firm targets for long-term fiscal policy, on a time-scale that extends the benefits of current natural resource wealth to future generations. In addition, the HSF should be managed as part of an integrated national balance sheet, with rules that ensure contributions are made out of real savings, rather than from borrowings. The authorities should also begin now to put in place expenditure and revenue measures to, over the long term, encourage a more diversified economic base while better protecting the most vulnerable segments of society. Consideration should also be given to adopting fiscal rules, including possibly a fiscal responsibility law, to protect such a framework against future political pressures.

40. Accommodative monetary policy remains appropriate as the economy regains its footing and given quiescent core inflation, although it will be necessary for some time to absorb substantial amounts of liquidity. Nonetheless, the authorities will need to monitor potential signs of unwanted side effects of such policy, including portfolio outflows and excessive credit to the real estate sector, though to date, there appears to be relatively little cause for concern.

41. The de facto stabilized exchange rate regime has served the economy well and the improved calibration of foreign exchange sales by the central bank has avoided queuing. Nonetheless, the central bank still determines the quantities auctioned off administratively, and could consider a greater role for the market in clearing the foreign exchange market.

42. There has been welcome progress in modernizing financial regulation and the authorities should continue to push ahead with additional reforms in the pipeline. Particular priority should be placed on passing insurance legislation and bringing non-bank SIFIs into the regulatory perimeter.

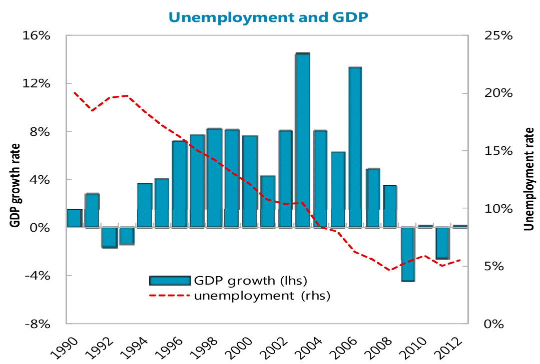
43. Structural reforms need to be at the core of actions to increase Trinidad and Tobago's competitiveness. Such reforms are needed to lay the groundwork for both the public and private sector investment that will be needed to develop the non-energy sector as a key partner in the economy. Given the need for a more effective public service to implement the public sector investment program, great priority should be accorded to modernizing and rationalizing hiring practices and streamlining overlapping institutions and programs. The mission welcomes the initiatives to improve the country's competitiveness rankings, and calls for consideration to be given to implementing best-practice legislation in public procurement, to enhance transparency and competition, and insolvency frameworks to provide structured and orderly market exits.

44. Particular urgency should be given to improving the quality and timeliness of statistics. In some areas, timeliness has regressed as resources of the CSO have been diverted towards conducting the 2011 census. A plan to improve the functioning of the CSO, developed with the assistance of the Swedish statistical authority, could form the basis of a reform.

45. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

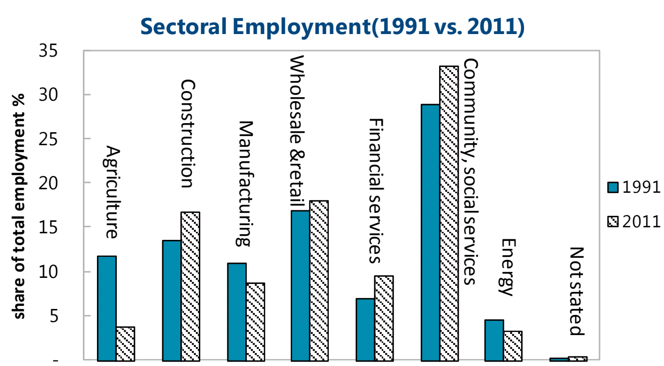
Box 1. Underemployment in Trinidad and Tobago

Despite low recorded unemployment rates, there is evidence of significant underemployment in Trinidad and Tobago. A delinking of the reported unemployment rate with GDP growth suggests official data may underestimate the degree of slack in the labor market. The official unemployment rate peaked at 20 percent in 1990, declining continuously afterwards until it stabilized at around 5 percent over the last 5 years. At the same time, real GDP growth was buoyant in the earlier period, averaging 6.2 percent, while average real GDP growth contracted to 0.7 percent during 2008 to 2012. A simple econometric analysis gives an estimated elasticity of employment to GDP of around 0.3.

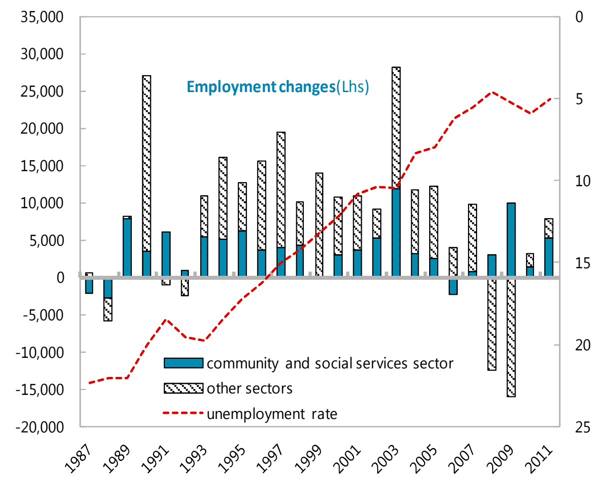


Temporary government employment programs have buffered the unemployment rate from the economic volatility of recent years. The government has introduced various employment support and training programs under the Social Sector Investment Program (SSIP) to reduce high unemployment. The two largest programs are the Unemployment Relief Program (URP) (introduced in 1992) and the Community Environment Protection and Enhancement Program (CEPEP) (introduced in 2002), which provide unskilled or semi-skilled people with temporary jobs at wages exceeding the minimum wage.[1] URP provides 3 consecutive two-week jobs and allows re-registration after a three month break. CEPEP jobs last for 1–3 years. In FY 2012, beneficiaries of these two programs alone exceeded the average number of unemployed between 2008 and 2012.

Trends in sectoral employment and output suggest the temporary programs reduce measured unemployment, but contribute little value added. Participants in employment programs are classified as employed under ILO standards, and are counted as part of the community, social, and personal services sector. The share of this sector in total employment increased from 31 percent to 34 percent from 1995 to 2012, at the same time as its share in total GDP declined from 18 percent to 9 percent. In addition, there is direct evidence of significant underemployment in this sector. During 2009 and 2011, it accounted for 45 percent of those employees who worked for below 33 hours/week for the specific reason of having "no more work to do".[2]



Box 1. Underemployment in Trinidad and Tobago (continued)



Reducing high dependence on government support is a key to reviving the labor market and enhancing labor competitiveness. Employees under CEPEP and URP mainly provide low-skilled labor, such as landscape maintenance, but their hourly wages are higher than minimum wage earners who do comparable work.[3] As a result, private sector employers reportedly have difficulty competing with the government in hiring unskilled labor. Trinidad and Tobago ranked 110th out of 144 countries in labor market efficiency according to the Global Competitiveness Index in 2011–2012. In particular, a poor work ethic is cited as one of the most problematic factors in the efficiency of the national labor force, suggesting that temporary government employment programs may be providing significant disincentives to work.

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[1] Twenty one percent of the workforce has not advanced beyond a primary level education, and only 16 percent have university degrees.

[2] The CSO conducts a survey on the reasons why those people with a job working less than 33 hours per week do not work more. See: "Continuous Sample Survey of the Population (CSSP) Labor Force Reports".

[3] CEPEP pays hourly rates ranging from TT$ 14.38 to TT$ 23.96 and URP's maximum hourly rates range from TT$ 12.50 to TT$24.00, depending on the type of job; the minimum wage is TT$12.50 per hour.

Box 2. Trinidad and Tobago: Implementation of Key FSSA Recommendations and Other Financial Reforms

The authorities have continued progress on the implementation of the 2011 FSSA's main recommendations, particularly with regards to the resolution of the CLICO crisis, where the vast majority of former policyholders have now been compensated. Supervisory reforms already in place include: semiannual stress testing for commercial banks, currently being enhanced with support from CARTAC; a new system of administrative fines for regulatory violations; and a program to enhance supervisors' technical skills through special advisors and technical assistance. Areas where new regulation and practices are in progress but not completed include: consolidated supervision; elaboration of a national financial crisis management plan; and a financial institutions' resolution framework. More attention may be required to improve liquidity risk standards and bank information disclosure, and implementation of legislative reforms, once they are passed.

With respect to structural reforms recommended in the FSSA:

- **Regulatory Perimeter of the CBTT**. The authorities expect to address this recommendation under a new SIFI framework to be prepared in line with international standards. It is expected that the CBTT will increase its scope of supervision to include systemically important nonbank financial institutions.

- **Insurance.** A revised version of the insurance bill proposed in 2011 is expected to be tabled before Parliament in 2013. The new law includes key features of Solvency II, including new rules for valuation of liabilities, risk-based capital, and the phasing out of statutory funds. The project has wide support and the CBTT has already implemented an actuarial unit to improve its supervision capacity. In addition, supervisors have started a pilot project of stress testing for insurers.

- **Credit Unions**. A draft bill bringing credit unions under the regulation and supervision of the central bank has been proposed but has not yet reached Parliament. The bill includes the creation of a deposit insurance-type scheme.

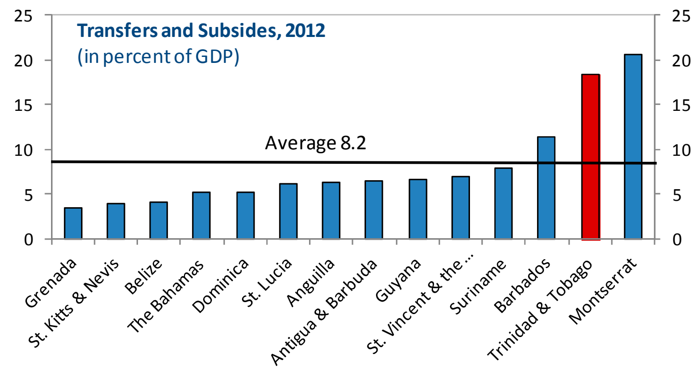
In addition to reforms stemming from FSSA recommendations, there has been progress in other areas:

- **Securities Act**. A new securities law enacted at end-2012 has enhanced the powers of the Exchange Commission (SEC) to fulfill its multiple mandates of market regulation, promotion, and reducing systemic risk. The act also focuses on the protection of individual investors from unfair, improper and fraudulent practices, and aims at increasing the efficiency of securities markets.

- **Pension Bill**. A bill to regulate private employers' pension plans is also under preparation.

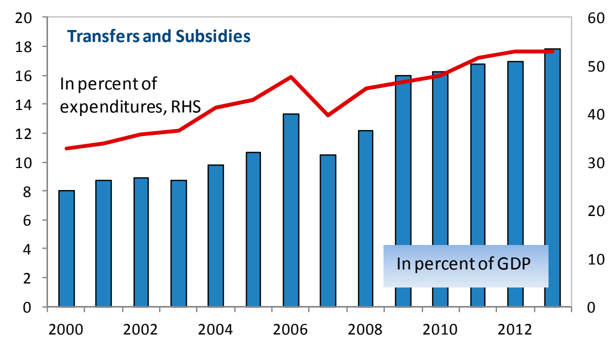
Box 3. Transfers and Subsidies

During the last decade government spending on transfers and subsidies has followed an unsustainable path. The burden of transfers and subsidies on Trinidad and Tobago's budget is the second highest in the Caribbean region. It has more than doubled in the past decade in percent of GDP and now represents more than half of total spending. In fiscal year 2012/13 total budgeted transfers and subsidies are above 17 percent of GDP. While fuel and pension transfers represent the largest components, the budget also contains allocations for numerous programs administered by line ministries, statutory bodies, non-profit institutions and local governments. In addition, public utilities and state enterprises receive significant transfers every year. This fiscal year, the budget contains more than one hundred allocations for specific projects, programs, or institutions.



Source: IMF staff estimates.

While some programs may be justifiable on grounds of fostering equity or creating positive externalities, there is no systematic impact assessment or means testing. In some cases (e.g. temporary work programs), programs overlap with others with similar purposes but managed by different entities, with limited coordination and no overall assessment of the benefit/cost. Limited audits and cross checks create opportunities for beneficiaries to stay indefinitely in programs that are designed to be temporary, and also to receive duplicate benefits from multiple sources.



Sources: Ministry of Finance; and IMF staff estimates.

Budget Transfers and Subsidies (FY 2012/13)

	TT$ mln.	Pct. of GDP
Total	29015	17.3
Subsidies	44	0.0
Transfers	28970	17.3
Households	11790	7.0
o/w		0.0
Pensions and gratuities	2269	1.4
Senior citizen grants	2435	1.5
Fuel subsidy	4457	2.7
Local Gov't & THA	3490	2.1
Non Profit Institutions	1994	1.2
Statutory Authorities	997	0.6
Public Utilities	2340	1.4
State Enterprises	2487	1.5
Other	5873	3.5

Source: Trinidad and Tobago authorities.

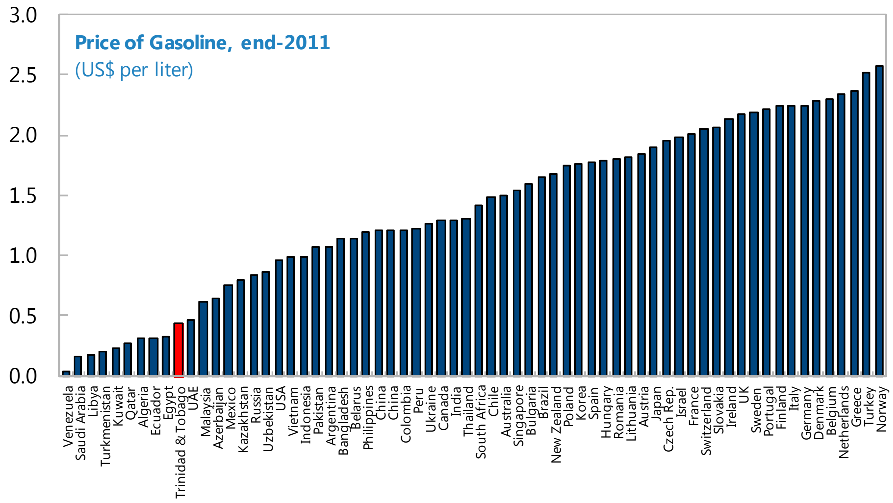
Fuel Subsidies

Fuel subsidies allow Trinidad and Tobago to keep gasoline prices fixed in nominal terms at one of the lowest prices in the world. The budget allocation for fuel subsidies for FY 2012/13 has tripled from the previous year to TT$4.5 billion (about 2¾ percent of GDP). In addition, the scheme for fuel subsidization has in recent times resulted in delayed payments to Petrotrin, the state oil company, which has necessitated additional transfers from the central government. The current stock of arrears amounts to

Box 3. Transfers and Subsidies (continued)

2.9 percent of GDP, which the government expects to have fully cleared over the next two budget cycles. The possibility of running such intra-public sector arrears makes the total cost of the fuel subsidy less transparent (compared to a fixed allocation in the budget) and, most importantly, to remain uncapped within the budget cycle.

The fuel subsidy is regressive. A blanket subsidy on fuel prices leads to higher income brackets of the population receiving a more than proportional share of the subsidy. A recent estimate is that almost 45 percent of direct and indirect benefits of the subsidy are enjoyed by the richest segment of the population, compared with 4 percent going to the poorest. By proportion of income, the subsidy is estimated to be equivalent to almost 8 percent of the income of the richest segment of the population, double the income share for the poorest.[1] Moreover, generalized subsidies to fuel lead to waste and cause productivity-dampening traffic congestion. It is estimated that Trinidad and Tobago has 0.7 million vehicles, or an average of about one per adult person, which is evident from the frequent traffic congestion in urban areas and long commuting hours. Finally, from an environmental point of view, fuel subsidies favor overconsumption and raise greenhouse gas emissions.



Source: IMF Fiscal Affairs Department database.

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[1] Proceedings from the Revenue Management in Hydrocarbon Economies Conference. June 2012. University of West Indies. Presentation by Justin Ram. http://sta.uwi.edu/conferences/12/revenue/Proceedings.asp

Box 4. Public-Private Partnerships: Best Practices and Lessons for Trinidad and Tobago

The 2012/13 budget announced government plans to promote Public-Private Partnerships (PPPs) to support infrastructure development and service delivery. As part of efforts to alleviate infrastructure bottlenecks, the government seeks to partner with the private sector, which is expected to design-build-finance-operate-and maintain capital assets according to the government's specifications. The budget outlined several projects in various sectors of the economy to which PPPs could apply, possibly commencing this year.

With technical assistance from the IDB, **the government is building capacity to design and implement PPP projects.** In 2011, the IDB approved a grant of US$0.9 million for an ongoing program, which aims to strengthen the government's capacity to select, structure, negotiate, and manage PPPs using two pilot projects. A cabinet-approved national PPP policy and governance framework in 2012 created a 9-member Ministerial Committee chaired by the Ministry of Finance (MOF), a PPP Unit, an execution team, and a contract management team. The PPP Unit is headed by a coordinator but has yet to be fully staffed. There is draft public procurement legislation, which is being proposed to replace the outdated Central Tenders Board (CTB) Act.

International best practice suggests the following elements are critical to success:[1]

- **PPP projects should be integrated into the budget cycle and the medium-term fiscal and debt sustainability frameworks**. This ensures that PPP projects compete with other projects for limited budgetary resources on a level playing field. In this way, only those projects that are fiscally affordable and do not jeopardize fiscal sustainability would go through, regardless of how they are procured (i.e., traditional public procurement or PPP).

- **A sound legal and regulatory framework is needed**. This would include a legal framework that covers all aspects of the PPP process. In practice, many countries have legislation on public procurement, PPPs, and fiscal responsibility. In the absence of such legislation, it is advisable to consolidate all applicable laws and principles relating to PPPs. The legal framework should be supported by effective dispute resolution mechanisms. The aim is to reduce the high transaction costs typically associated with PPP projects.

- **General principles for risk-sharing arrangements in the context of PPPs should be stated in the legal framework.** Based on such general principles, PPP contracts should detail specific risk-sharing arrangements between public and private partners. As a long-term and often complex agreement between the government and a private partner, PPPs are prone to uncertainties and entail a range of risks—political, construction, financial, demand, environmental, etc. Clarity about each party's exposure to the different risks would be critical in determining and managing firmed and contingent obligations.

- **Quality public institutions, including a dedicated PPP unit in the MOF with sufficient institutional capacity, are needed to facilitate solid investment analysis and management**. In particular, managing fiscal risks requires a sufficiently strong institutional framework to deliver public services efficiently and to avoid impediments to private investment. PPPs require a coherent approach with a clear allocation of responsibilities between the MOF and line ministries. A PPP Unit within the MOF with financial, legal, economic, and project management skills should coordinate and manage the process, including by putting in place a system to assess whether a project is affordable, represents best value for money (VfM), and does not jeopardize fiscal sustainability.

Box 4. Public-Private Partnerships: Best Practices and Lessons for Trinidad and Tobago (continued)

- **The ministry of finance should retain gate-keeping functions.** A system of gateways are measures put in place that empower the MOF to give approval at specific stages of the PPP process, and to stop any project that does not satisfy the VfM and affordability criteria. The PPP unit could be helpful in ensuring that gateways are followed.

- **Limiting fiscal risk is critical**. Country experiences suggest that a challenge for PPPs is not only failure to account for and report past transactions appropriately, but fully recording and disclosing future firmed or contingent financial obligations. In this regard, adopting the International Public Sector Accounting Standards (IPSAS) is highly recommended.[2] To contain fiscal risk, government could impose ceilings on its exposure to PPP operations, including contingent liabilities.

- **Political commitment and public support is essential**. All stakeholders should be aware of the relative costs, benefits, and risks associated with PPPs.

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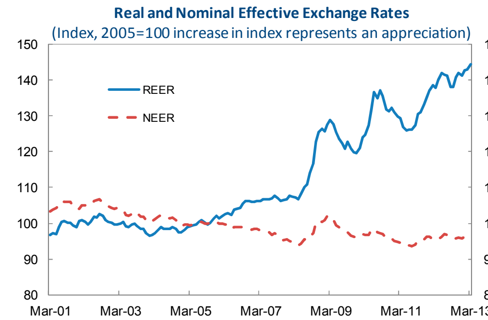
[1] See Schwartz, G., A. Corbacho, and K. Funke, 2008, *Public Investment and Public-Private Partnerships: Addressing Infrastructure Challenges and Managing Fiscal Risks*; IMF; Akitoby, B., R. Hemming, and G. Schwartz, 2007, "Public Investment and Public-Private Partnerships," Economic Issues No. 40, IMF; Hawkesworth, Ian, 2011, "Hand-out From Lessons to Principle for the use of Public-Private Partnerships" OECD Secretariat, available at *www.oecd.org/gov/budgeting/48144872.pdf*.

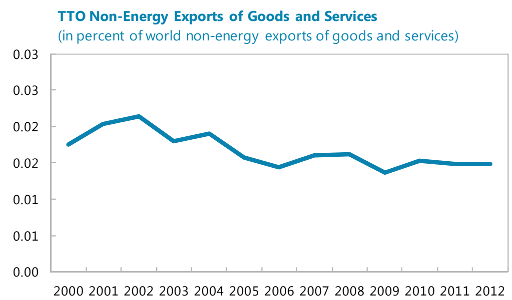
[2] IPSAS 32, "Service Concession Agreement, Grantor".

Box 5. External Stability Assessment

This box assesses the external sector competitiveness of Trinidad and Tobago using CGER methodologies tailored to energy exporting countries. Estimates from the equilibrium real exchange rate and the macroeconomic balance approaches indicate that the exchange rate is broadly in line with fundamentals. The external sustainability approach, which reflects the temporary nature of non-renewable energy income, suggests a need to further increase already relatively high current account surpluses in the medium term to offset the eventual decline in energy income.

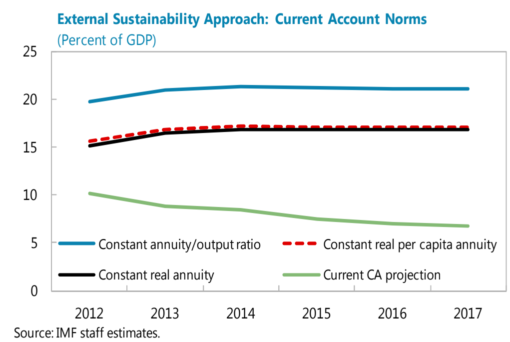


Trinidad and Tobago maintains a healthy external position. The current account (CA) surplus in 2012 is estimated at US$2.5 billion, equivalent to 10 percent of GDP, compared with US$2.9 billion in 2011 and Trinidad and Tobago has maintained its share of world non-energy exports since before the crisis. Gross official reserves stood at US$9.2 billion at end-2012 representing 12.5 months of imports of goods and services.



The real effective exchange rate (REER) appreciated by 4.5 percent (y/y) at end-2012. A mid-year spike was caused by a sharp and temporary rise in food price inflation, although that was exaggerated by a methodology that overestimates food price inflation.

The real exchange rate is within the 95 percent confidence interval of the estimated equilibrium level in 2012. The equilibrium real exchange rate is calculated based on estimates from Bems and de Carvalho Filho (2009).[1] However, relative to the estimate last year, the real exchange rate is closer to the upper bound in 2012.



Similarly, the macroeconomic balance approach suggests that the exchange rate is broadly in line with fundamentals. In this approach, the current account norm is computed based on the estimates from Beidas-Strom and Cashin (2011).[2] Using 2017 as the reference year, the projected CA is within the confidence interval of the estimated CA norm.

The external sustainability methodology suggests some degree of overvaluation. Reflecting intergenerational equity considerations, the evolution of the net foreign asset position (NFA) adjusted CA is assessed under three income allocation rules. As the figure shows, results from all three rules suggest a need for additional savings of energy income to maintain a stable level of domestic absorption across generations.

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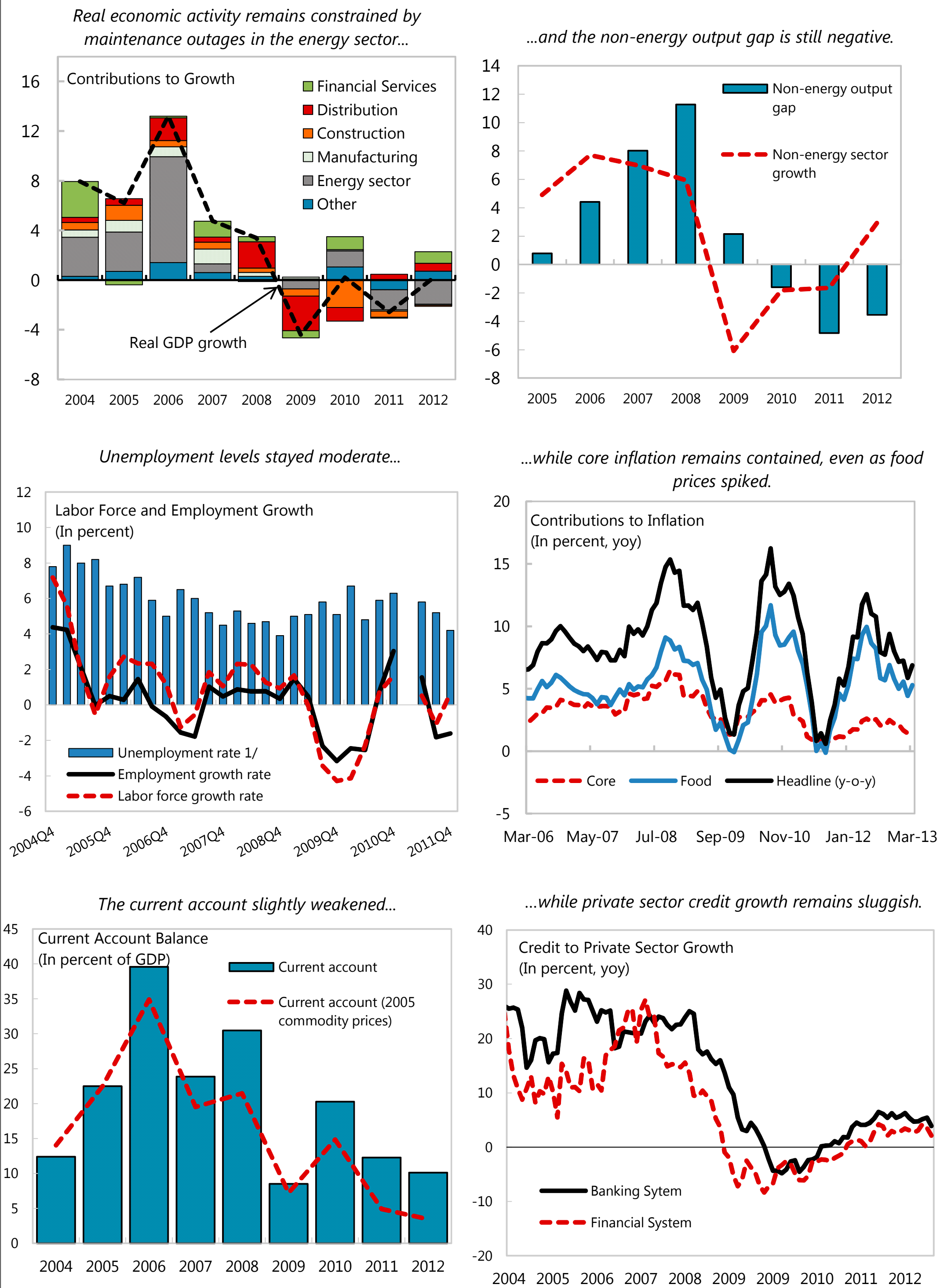
1. Bems and de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF WP/09/281.

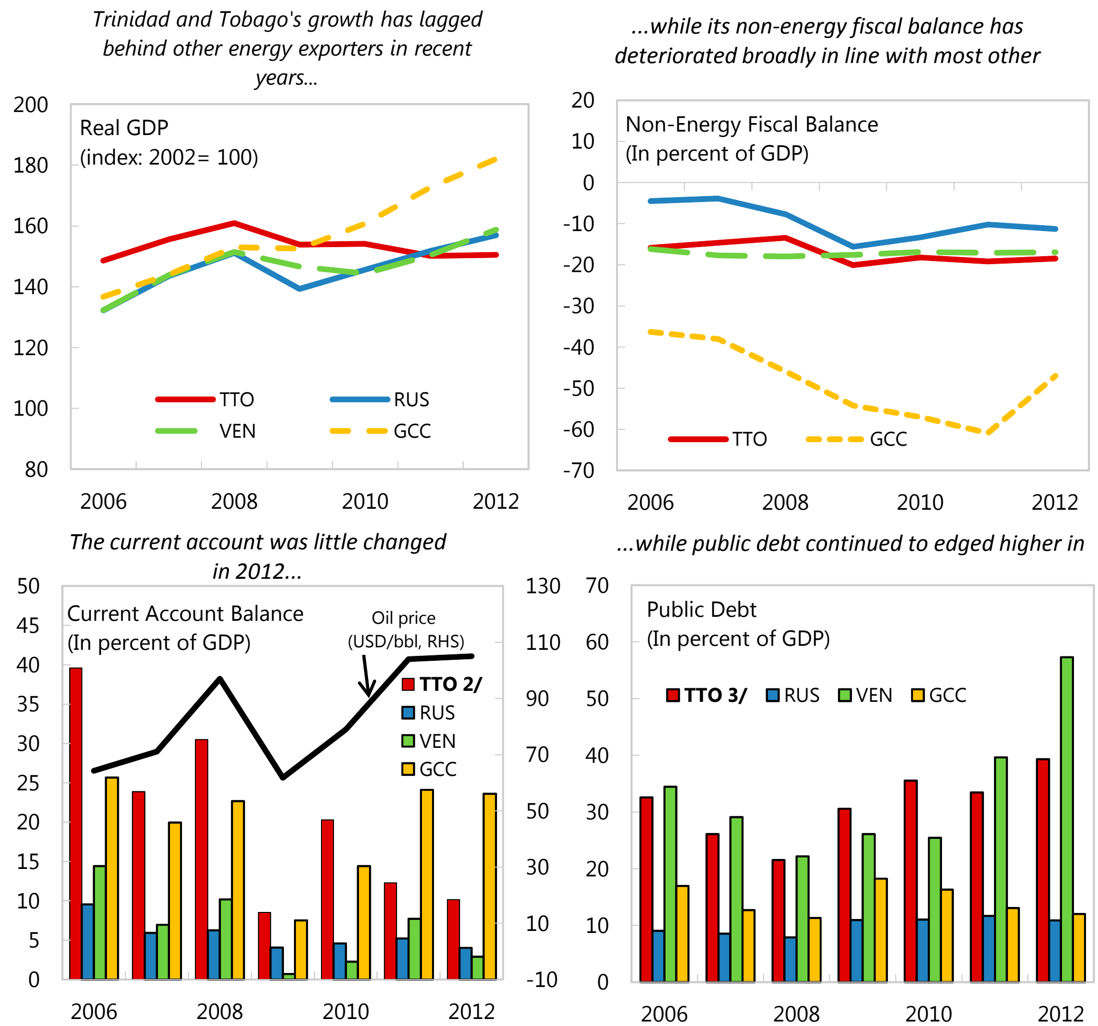
2. Beidas-Strom and Cashin, 2011, "Are Middle Eastern Current Account Imbalances Excessive?" IMF WP/11/195.

Figure 1. Trinidad and Tobago: Key Economic Developments
(In percent, unless otherwise indicated)



Sources: Trinidad & Tobago authorities; and Fund staff estimates.
1/ Percent of labor force.

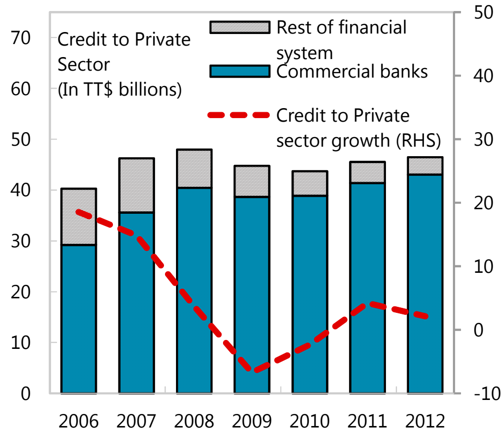
Figure 2. Trinidad and Tobago: Comparative Macroeconomic Performance 1/



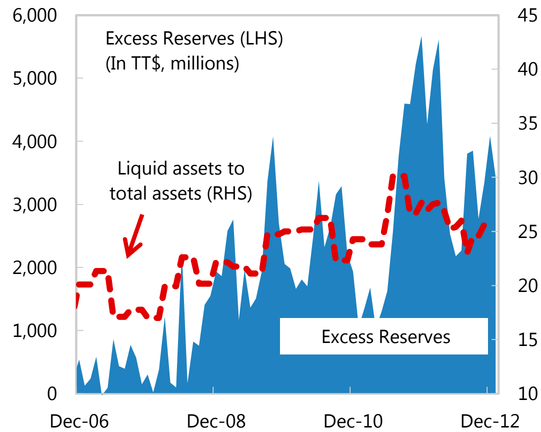
Sources: Trinidad & Tobago authorities; IMF/WEO; and Fund staff calculations.
1/ TTO stands for Trinidad & Tobago, VEN for Venezuela, RUS for Russia, and GCC for Gulf Cooperation Council.
2/ A correction in current account methodology led to the current account surplus being revised down sharply as of 2011. Thus, comparisons between 2011 and earlier periods should be made with caution.
3/ 7 percentage points of the rise in public debt in 2012 was due to the issuance of bonds to former CLICO policyholders. Much of this rise will be reversed once these policyholders complete debt for equity swaps.

Figure 3. Trinidad & Tobago: Monetary Sector Developments

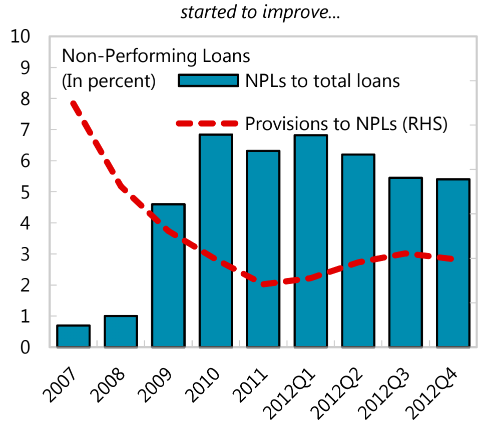
Private sector credit growth has been positive but sluggish...



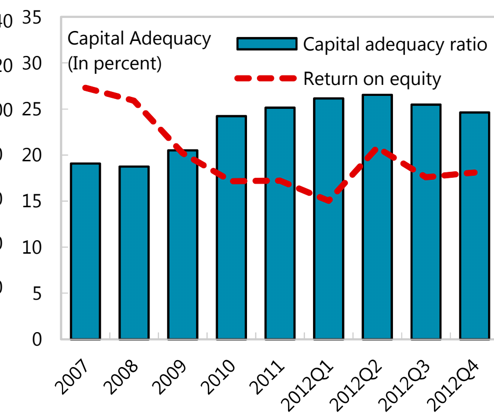
...while banks remain very liquid.



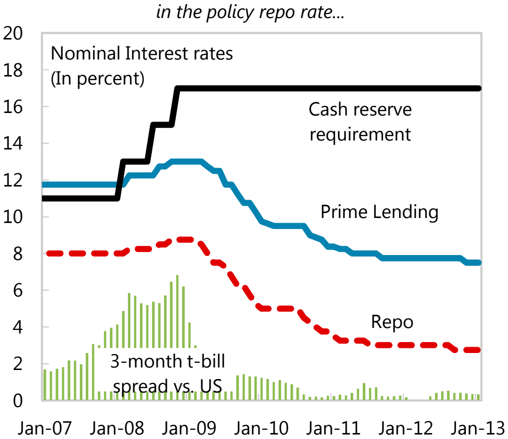
Bank asset quality and provisioning for NPLs have started to improve...



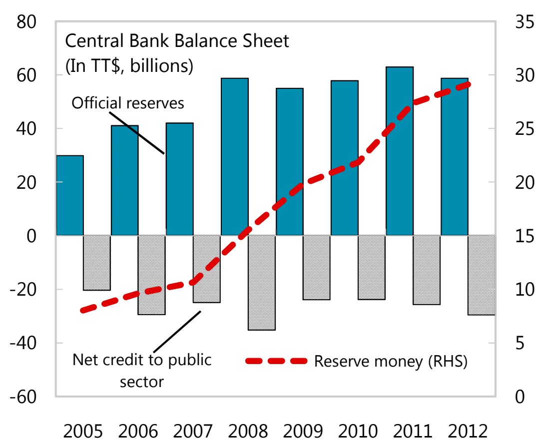
...and banks remain well capitalized and profitable.



The prime lending rate fell in line with the reduction in the policy repo rate...

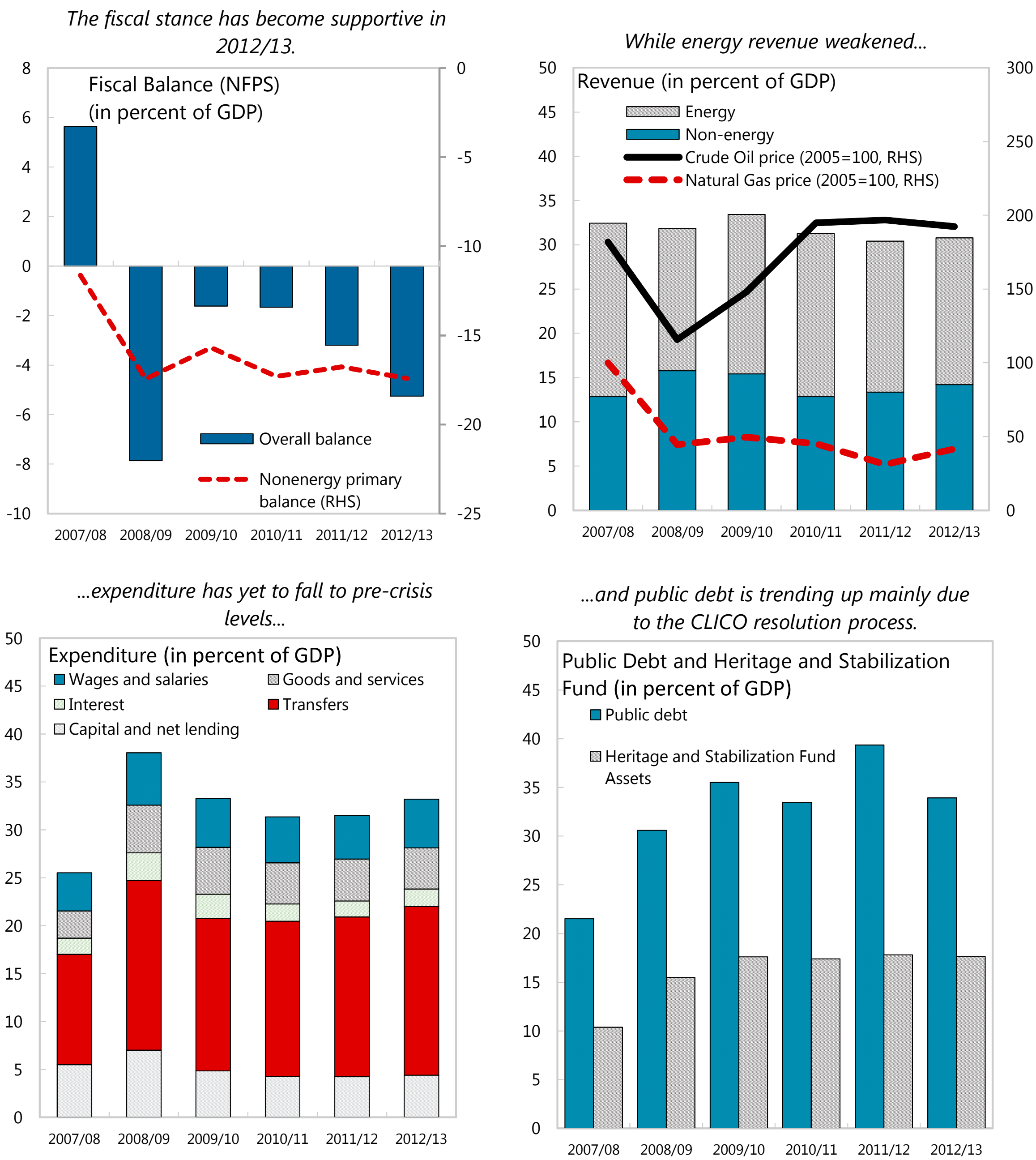


....while reserve money grew further in 2012.



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

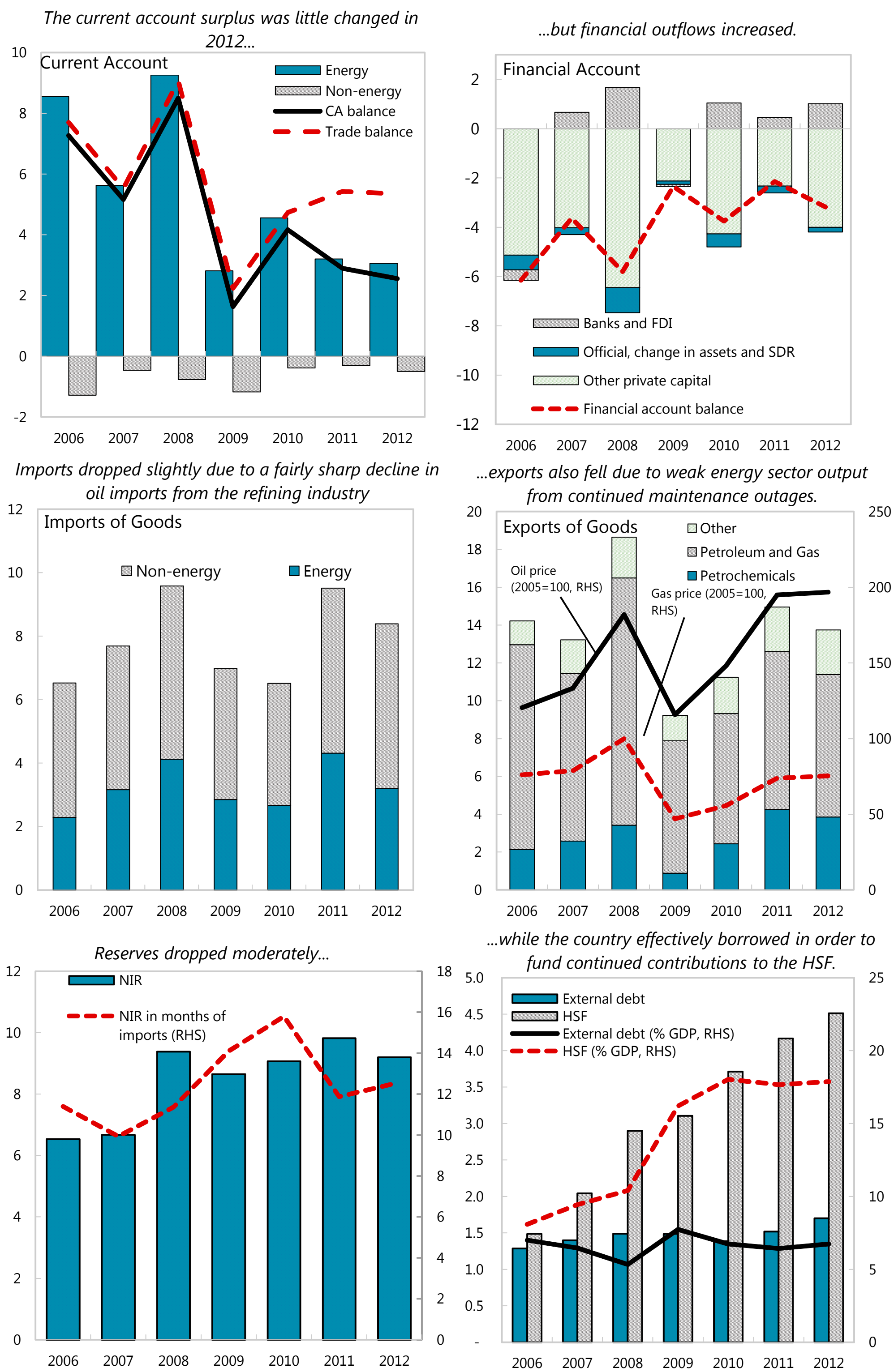
Figure 4. Trinidad & Tobago: Fiscal Sector Developments 1/



Sources: Trinidad & Tobago Authorities; and Fund staff calculations.
1/ Central government only unless otherwise specified. Panel 1 excludes PetroTrin and the National Gas Company.

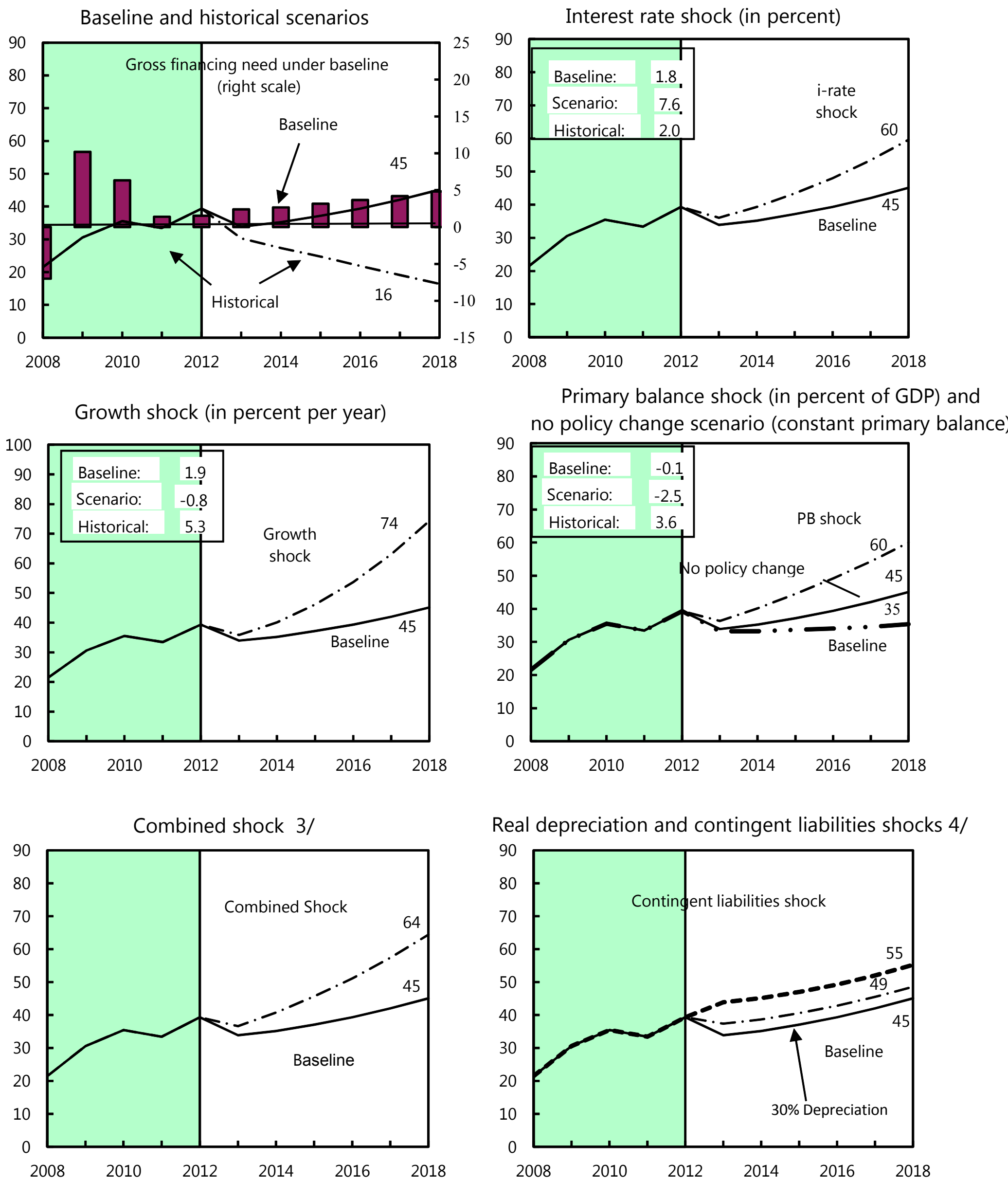
Figure 5. Trinidad & Tobago: External Sector Developments

(In US$ Billions, unless otherwise indicated)



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

Figure 6. Trinidad and Tobago: Public Debt Sustainability 1/ 2/
(Public debt in percent of GDP)



Sources: International Monetary Fund; and 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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, 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 1. Trinidad and Tobago: Selected Economic Indicators

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2011)	17,392	Adult literacy rate (2012)	98.8
Population (millions, 2011 est.)	1.3	Gini index (2010)	40.3
Life expectancy at birth (years, 2011)	70	Unemployment rate (2011)	4.9
Under 5 mortality rate (per thousand, 2009)	35	HDI Ranking (2012, of 187 countries)	67

II. Selected Economic and Financial Indicators

					2012		Proj.
	2008	2009	2010	2011	Art. IV	Est.	2013
(Annual percentage changes, unless otherwise indicated)							
Output and prices							
Real GDP	3.4	-4.4	0.2	-2.6	1.7	0.2	1.6
Energy	-0.3	-1.8	3.2	-3.9	1.0	-4.7	0.3
Non-energy 1/	5.9	-6.1	-1.8	-1.6	2.3	3.6	2.5
GDP deflator	23.8	-27.6	8.0	17.6	6.6	6.8	3.8
Consumer prices (headline)							
End-of-period	14.5	1.3	13.4	5.3	4.0	7.2	4.0
Average	12.0	7.0	10.5	5.1	5.4	9.3	5.6
Unemployment rate	4.6	5.3	5.9	4.9	...	...	...
Real effective exchange rate (2005=100)	113.6	123.7	130.7	129.4	...	138.9	...
(In percent of fiscal year GDP, unless otherwise indicated)							
Nonfinancial public sector (NFPS) 2/							
Central government overall balance, excluding CLICO support	7.3	-5.6	0.1	-0.1	-2.5	-1.1	-2.5
CLICO support	0.0	-1.4	-2.6	-0.6	-3.3	-6.6	0.0
Of which: non-energy balance 3/	-13.4	-20.1	-18.2	-19.1	-20.5	-18.5	-19.3
Budgetary revenue	34.3	28.6	34.1	32.3	32.6	30.9	31.2
Budgetary expenditure	27.0	34.2	33.9	32.4	35.1	32.0	33.6
Of which : interest expenditure	1.8	2.6	2.6	1.8	2.2	1.7	1.8
Of which : capital expenditure	5.8	6.3	4.9	4.4	5.0	4.3	4.5
Overall statutory bodies balance	-0.3	0.0	0.6	0.5	0.4	0.0	0.1
Overall public enterprises balance	1.0	-3.5	-4.6	-0.4	-0.8	0.8	1.2
Overall NFPS balance	8.0	-9.0	-3.9	0.0	-2.9	-0.3	-1.2
Overall NFPS balance including CLICO	8.0	-9.0	-6.5	-0.6	-6.2	-6.8	-1.2
Central government debt 4/	11.1	14.8	18.0	16.2	21.8	24.0	18.9
Gross NFPS debt 4/	21.5	30.6	35.5	33.4	37.3	39.3	33.9
Heritage and Stabilization Fund assets	11.0	13.9	17.9	18.0	17.6	18.1	17.9
(In percent of GDP, unless otherwise indicated)							
External sector							
Current account balance 5/	30.5	8.5	20.3	12.3	20.0	10.1	8.8
Exports of goods	66.9	48.1	54.6	63.4	57.2	54.4	53.2
Imports of goods	34.4	36.4	31.6	40.3	35.1	33.2	33.2
External public sector debt	5.3	7.7	6.7	6.4	7.4	6.7	7.2
Gross official reserves (in US$ million)	9,380	8,652	9,070	9,823	10,028	9,200	9,054
In months of goods and NFS imports	11.4	14.1	15.8	11.9	13.5	12.5	11.7
In percent of M3	133.4	97.2	102.9	102.6	104.4	85.4	80.8
(Percentage changes in relation to beginning-of-period M3)							
Money and credit							
Net foreign assets	50.0	-4.3	-0.3	14.2	4.3	-3.0	-1.4
Net domestic assets	-35.6	32.4	0.0	-5.6	-3.9	15.6	5.3
Of which: credit to the private sector	12.6	-4.0	0.3	4.4	4.6	2.6	4.0
Broad money (M3)	14.4	28.1	-0.2	8.6	0.4	12.6	3.9
M3 velocity	4.0	2.1	2.3	2.4	2.6	2.3	2.4
Memorandum items:							
Nominal GDP (in billions of TT$)	175.3	121.3	131.3	150.4	156.8	161.0	169.8
Non-energy sector in percent of GDP 1/	49.2	65.4	57.3	53.2	60.1	54.1	55.5
Energy sector in percent of GDP	50.8	34.6	42.7	46.8	39.9	45.9	44.5
Public expenditure (in percent of non-energy GDP)	54.7	54.2	57.3	59.8	63.4	59.4	60.7
Exchange rate (TT$/US$, end of period)	6.3	6.4	6.4	6.4	...	6.4	...
Crude oil price (US$/barrel)	97.0	61.8	79.0	104.0	105.7	105.0	102.7
Natural gas price (US$ per mmbtu) 6/	8.9	4.2	4.9	6.5	6.6	6.7	6.8

Sources: Trinidad and Tobago authorities; UN Human Development Report, WEO, and Fund staff estimates and projections.

1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).

2/ The data refer to fiscal year October-September.

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

4/ Excluding debt issued for sterilization. Does not include arrears on the fuel subsidy.

5/ The current account balance for 2011 and thereafter have been revised to re-classify dividend payments from the "other private sector capital" account to the "factor income" account.

6/ Before 2009, Henry Hub price in Louisiana. From 2009, the average of Henry Hub and Asian LNG prices.

Table 2. Trinidad and Tobago: Summary of the Central Government Operations 1/

					2011/12		2012/13	
	2007/08	2008/09	2009/10	2010/11	Art. IV	Est.	Budget	Proj.
				(In millions of Trinidad and Tobago dollars)				
Revenue	**56,848**	**38,611**	**43,863**	**46,972**	**50,057**	**48,918**	**50,700**	**52,233**
Energy	34,364	19,489	23,649	27,688	27,638	27,445	26,750	28,144
Non-energy	22,484	19,122	20,214	19,284	22,419	21,472	23,950	24,089
Expenditure	**44,715**	**46,153**	**43,705**	**47,164**	**53,919**	**50,699**	**58,369**	**56,367**
Current	35,106	37,646	37,347	40,729	46,305	43,871	50,906	48,903
Wages and salaries	6,947	6,657	6,711	7,205	8,482	7,333	8,636	8,636
Goods and services	5,002	6,001	6,441	6,496	9,092	7,021	9,444	7,284
Interest payments	2,967	3,521	3,290	2,685	3,413	2,676	3,812	3,099
Transfers and subsidies	20,190	21,466	20,904	24,342	25,318	26,842	29,015	29,885
Capital expenditure and net lending	9,609	8,507	6,358	6,435	7,614	6,828	7,464	7,464
Non-energy balance	**-22,231**	**-27,031**	**-23,491**	**-27,880**	**-31,500**	**-29,227**	**-34,419**	**-32,278**
Overall balance	**12,133**	**-7,542**	**158**	**-191**	**-3,862**	**-1,782**	**-7,669**	**-4,134**
CLICO financial support	...	1,900	3,400	848	5,100	10,400	...	...
Overall balance including CLICO	12,133	-9,442	-3,242	-1,039	-8,962	-12,182	-7,669	-4,134
Total financing including CLICO	-12,133	9,442	3,242	1,039	8,962	12,182	7,669	4,134
Foreign financing	702	858	-1,056	51	1,854	812	2,556	1,378
Domestic financing	-12,835	8,584	4,297	988	7,108	11,370	5,113	2,756
of which: Transfers to Heritage and Stabilization Fund	-6,588	0	-3,027	-2,890	...	-1,332	...	...
				(In percent of GDP)				
Revenue	**34.3**	**28.6**	**34.1**	**32.3**	**32.6**	**30.9**	**30.3**	**31.2**
Energy	20.7	14.5	18.4	19.0	18.0	17.3	16.0	16.8
Non-energy	13.6	14.2	15.7	13.2	14.6	13.6	14.3	14.4
Expenditure	**27.0**	**34.2**	**33.9**	**32.4**	**35.1**	**32.0**	**34.8**	**33.6**
Current	21.2	27.9	29.0	28.0	30.1	27.7	30.4	29.2
Wages and salaries	4.2	4.9	5.2	4.9	5.5	4.6	5.2	5.2
Goods and services	3.0	4.5	5.0	4.5	5.9	4.4	5.6	4.3
Interest payments	1.8	2.6	2.6	1.8	2.2	1.7	2.3	1.8
Transfers and subsidies	12.2	15.9	16.2	16.7	16.5	17.0	17.3	17.8
Capital expenditure and net lending	5.8	6.3	4.9	4.4	5.0	4.3	4.5	4.5
Non-energy balance	**-13.4**	**-20.1**	**-18.2**	**-19.1**	**-20.5**	**-18.5**	**-20.5**	**-19.3**
Non-energy balance in percent of non-energy GDP	-26.6	-33.4	-30.8	-35.4	-37.8	-34.3	-37.3	-34.9
CLICO financial support	...	1.4	2.6	0.6	3.3	6.6		
Overall balance	**7.3**	**-5.6**	**0.1**	**-0.1**	**-2.5**	**-1.1**	**-4.6**	**-2.5**
Overall balance including CLICO		-7.0	-2.5	-0.7	-5.8	-7.7	-4.6	-2.5
Memorandum items:								
Central government debt (in percent of GDP) 2/	11.1	14.8	18.0	16.2	21.8	24.0	...	18.9
Gross NFPS debt (in percent of GDP) 2/	21.5	30.6	35.5	33.4	37.3	39.3	...	33.9
Nonenergy primary balance (percent of nonenergy GDP)	-23.1	-29.0	-26.5	-31.9	...	-31.1	...	-31.6
Crude oil price (US$/barrel) 3/	104.9	56.9	76.5	99.6	105.1	105.3	...	103.2
Natural gas (US$ per mmbtu, Henry Hub) 3/	8.4	5.3	4.9	6.0	6.6	6.7	...	6.8
Budget oil price (US$/barrel)	50.0	55.0	55.0	65.0	...	75.0	80.0	...
Budget natural gas price (US$ per mmbtu, netback)	...	3.3	2.8	2.8	...	2.8	2.8	...
Nominal GDP (in billions of TT$, FY)	165.7	134.8	128.8	145.6	153.8	158.3	167.6	167.6

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

1/ Fiscal year data from October to September.

2/ Excluding debt issued for sterilization. Does not include arrears on the fuel subsidy.

3/ Before 2009, Henry Hub price in Louisiana. From 2009, the average of Henry Hub and Asian LNG prices.

Table 3. Trinidad and Tobago: Summary Balance of Payments

	2009	2010	2011	Est. 2012	Projections 2013	2014	2015	2016	2017	2018
	(In millions of U.S. dollars unless otherwise indicated)									
Current account balance 1/	**1,633**	**4,172**	**2,899**	**2,559**	**2,338**	**2,371**	**2,201**	**2,173**	**2,178**	**2,230**
Trade balance	2,241	4,735	5,433	5,344	5,330	5,432	5,225	5,166	5,138	5,200
Exports	9,221	11,239	14,944	13,732	14,173	14,290	14,180	14,132	14,094	14,203
Petroleum crude and refined	3,099	4,820	5,096	4,060	4,187	3,976	3,614	3,313	3,030	2,799
Natural gas	3,905	2,069	3,247	3,481	3,600	3,780	3,891	3,976	4,062	4,207
Petrochemicals	880	2,427	4,255	3,843	3,966	4,010	4,029	4,075	4,113	4,182
Other	1,337	1,924	2,346	2,349	2,420	2,524	2,646	2,768	2,890	3,014
Imports	6,980	6,504	9,511	8,388	8,842	8,858	8,956	8,967	8,956	9,002
Fuel imports	2,846	2,664	4,309	3,193	3,364	3,269	3,142	2,880	2,634	2,433
Capital	1,927	1,686	2,647	2,521	2,595	2,641	2,688	2,729	2,767	2,806
Other	2,208	2,153	2,555	2,674	2,883	2,949	3,126	3,357	3,556	3,763
Services and transfers (net)	-608	-563	-2,534	-2,785	-2,992	-3,062	-3,024	-2,992	-2,960	-2,971
Nonfactor services (net)	382	488	506	373	259	166	80	3	-64	-126
Factor income (net)	-1,017	-1,080	-3,074	-3,192	-3,286	-3,262	-3,140	-3,032	-2,933	-2,883
Current transfers (net)	27	29	33	34	34	35	36	37	37	38
Capital and financial account (net) 1/ 2/	-2,345	-3,754	-2,146	-3,182	-2,484	-2,420	-2,171	-2,071	-2,021	-2,016
Official, medium- and long-term (net) 3/	-50	179	205	213	254	302	361	423	504	526
Disbursements	290	250	311	335	404	497	600	711	847	883
Amortization	-340	-72	-106	-122	-150	-195	-239	-288	-343	-357
Change in assets, including HSF	-83	-709	-489	-406	-210	-220	-229	-240	-251	-262
Direct investment (net)	709	549	771	1,433	434	432	428	424	424	424
Inward	709	549	1,831	2,336	1,108	1,122	1,134	1,145	1,157	1,169
Outward	0	0	1,060	903	674	690	706	721	733	745
Commercial banks (net)	-675	493	-310	-420	-427	-437	-447	-456	-464	-472
Regional bond issues	-120	0	0	0	0	0	0	0	0	0
Other private sector capital (net) 1/ 2/	-2,126	-4,266	-2,322	-4,001	-2,535	-2,497	-2,283	-2,223	-2,234	-2,231
Overall balance	-713	418	753	-623	-146	-49	30	102	157	214
Change in gross official reserves (increase -)	713	-418	-753	623	146	49	-30	-102	-157	-214
	(In percent of GDP, unless otherwise specified)									
Memorandum items:										
Current account balance 1/	8.5	20.3	12.3	10.1	8.8	8.4	7.5	7.0	6.8	6.6
Energy 4/	14.6	22.1	13.6	12.1	12.2	11.4	10.8	10.9	10.9	10.9
Non-energy	-6.1	-1.9	-1.3	-2.0	-3.0	-3.1	-3.4	-4.0	-4.4	-4.8
Exports of goods	48.1	54.6	63.4	54.4	53.2	50.9	48.1	45.8	43.8	42.1
Imports of goods	36.4	31.6	40.3	33.2	33.2	31.6	30.4	29.1	27.8	26.7
Gross international reserves 5/	8,652	9,070	9,823	9,200	9,054	9,004	9,034	9,136	9,293	9,506
In months of goods and NFS imports	14.1	15.8	11.9	12.5	11.7	11.6	11.5	11.6	11.8	12.0
Crude oil price (US$/barrel) 6/	61.8	79.0	104.0	105.0	102.7	98.5	94.7	91.9	89.4	87.9
Natural gas price (US$ per mmbtu) 7/	4.2	4.9	6.5	6.7	6.8	7.1	7.2	7.3	7.3	7.5
Net external position	-30.0	-22.5	-18.9	-17.0	-15.6	-14.3	-13.2	-12.2	-11.3	-10.4
GDP (in millions of US$)	19,175	20,593	23,586	25,247	26,630	28,060	29,493	30,864	32,191	33,697
Real GDP growth (in percent)	-4.4	0.2	-2.6	0.2	1.6	2.3	2.4	2.0	1.7	1.7
Exchange rate (TT$/US$, end of period)	6.37	6.42	6.42	6.42	6.42	6.42	6.42	6.42	6.42	6.42
Exchange rate (TT$/US$, average)	6.32	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38
Energy exports	41.1	45.2	53.4	45.1	44.1	41.9	39.1	36.8	34.8	33.2
Non-energy exports	7.0	9.3	9.9	9.3	9.1	9.0	9.0	9.0	9.0	8.9

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

1/ Starting in 2011 dividend payments have been re-classified from the "other private sector capital" account to the " factor income" account.
2/ Includes net errors and omissions.
3/ Excludes the IMF SDR allocation.
4/ Consists of petroleum, natural gas and petrochemical exports less fuel imports.
5/ In millions of US$, end of period.
6/ WEO simple average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh.
7/ Before 2009, Henry Hub price in Louisiana. From 2009, the average of Henry Hub and Asian LNG prices.

Table 4. Trinidad and Tobago: Monetary Survey

	2008	2009	2010	2011	2012	Proj. 2013
	(In millions of Trinidad and Tobago dollars)					
Net foreign assets	67,678	65,782	65,637	73,654	71,788	70,850
Official net foreign assets	58,512	52,226	55,127	60,014	55,786	54,849
Commerical bank's net foreign assets	9,166	13,556	10,511	13,640	16,002	16,002
Net domestic assets	-23,390	-9,042	-9,024	-12,184	-2,578	1,091
Net credit to public sector	-36,184	-19,357	-14,308	-20,545	-18,748	-17,596
Central government	-31,890	-16,060	-14,173	-15,666	-14,270	-13,102
Rest of the public sector	-4,294	-3,297	-135	-4,880	-4,478	-4,494
Of which:						
Statutory bodies and public utilities	-518	-711	-815	-4,516	-3,455	-3,455
Public enterprises	-3,422	-2,286	1,160	956	235	235
Credit to private sector	40,452	38,689	38,887	41,402	43,010	45,758
Other items (net)	-27,659	-28,375	-33,603	-33,041	-26,840	-27,071
Liabilities to private sector (M3)	44,288	56,739	56,613	61,469	69,210	71,941
Currency in circulation	3,434	3,850	4,242	4,690	5,396	5,608
Demand deposits	12,722	15,339	15,297	16,371	20,421	21,227
Time deposits	7,901	10,695	9,760	9,811	10,045	10,442
Savings deposits	19,051	25,689	27,227	30,524	33,325	34,640
Fund-raising instruments 1/	1,180	1,167	87	73	24	24
	(Changes in percent of beginning-of-period M3)					
Net foreign assets	50.0	-4.3	-0.3	14.2	-3.0	-1.4
Net domestic assets	-35.6	32.4	0.0	-5.6	15.6	5.3
Net credit to public sector	-32.1	38.0	8.9	-11.0	2.9	1.7
Of which : central government	-28.2	35.7	3.3	-2.6	2.3	1.7
Credit to private sector	12.6	-4.0	0.3	4.4	2.6	4.0
Other items (net)	-16.0	-1.6	-9.2	1.0	10.1	-0.3
Liabilities to private sector (M3)	14.4	28.1	-0.2	8.6	12.6	3.9
Memorandum items:						
Credit to private sector (12-month increase)	13.7	-4.4	0.5	6.5	3.9	6.4
M3 Velocity	4.0	2.1	2.3	2.4	2.3	2.4

Source: Central Bank of Trinidad and Tobago.

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

Table 5. Trinidad and Tobago: Indicators of External and Financial Vulnerability

(In percent, unless otherwise indicated)

	2008	2009	2010	2011	Est. 2012
External indicators					
Exports (percent change, 12-month basis in US$)	41.1	-50.5	21.9	33.0	-8.1
Imports (percent change, 12-month basis in US$)	24.6	-27.1	-6.8	46.2	-11.8
Terms of trade (1985=100), percent change	-18.5	4.5	2.6	1.6	-0.1
Current account balance (in percent of GDP)	30.5	8.5	20.3	12.3	10.1
Capital and financial account balance (in percent of GDP)	-20.8	-12.2	-18.2	-9.1	-12.6
Gross official reserves (in US$ millions)	9,380	8,652	9,070	9,823	9,200
Official reserves in months of imports of goods and NFS	11.4	14.1	15.8	11.9	12.5
Ratio of reserves to broad money	133.4	97.2	102.1	101.8	84.7
Ratio of total public sector external debt to exports of goods and services	7.6	14.9	11.5	9.6	11.7
Ratio of public sector external interest payments to exports of goods and services	0.5	0.8	0.6	0.4	0.5
Public sector debt service to exports of goods and services	0.9	4.2	1.2	1.1	1.3
REER appreciation CPI-based (percent change)	6.6	8.9	5.6	-1.0	7.4
Foreign currency debt rating, (Moody's, end of period)	Baa1	Baa1	Baa1	Baa1	Baa1
Foreign currency debt rating, (Standard & Poor's, end of period)	A	A	A	A	A
Financial indicators					
90-day treasury bill, average discount rate	7.0	2.7	0.8	0.5	0.4
90-day treasury bill, real rate	-5.0	-4.5	-9.7	-4.8	-8.9
Foreign exchange deposits (in percent of total deposits)	29.4	31.6	26.7	26.0	26.0
Foreign exchange deposits (in percent of gross international reserves)	28.6	41.6	32.7	30.2	32.2
Capital adequacy					
Regulatory capital to risk-weighted assets	18.8	20.5	24.2	25.1	24.6
Regulatory Tier I capital to risk-weighted assets	15.5	18.5	21.7	22.7	21.8
Regulatory Tier II capital-to-risk-weighted assets	3.2	2.0	2.5	2.4	3.7
Banking sector asset quality					
Nonperforming loans-to-gross loans	1.0	4.6	5.2	6.3	5.4
Nonperforming loans (net of provisions)-to-capital	1.1	7.8	10.2	14.5	9.8
Specific provisions-to-impaired assets	72.4	52.3	30.0	28.3	39.7
Specific provisions-to-gross lending	0.7	2.4	2.1	1.8	2.1
Banking sector earnings and profitability					
Return on equity	25.9	20.2	17.2	17.2	18.1
Return on assets	3.5	2.7	2.3	2.4	2.6
Interest margin-to-gross income	65.2	66.6	67.0	64.8	65.4
Spread between average lending and deposit rates	8.3	10.1	9.1	8.6	8.2
Banking sector liquidity					
Liquid assets-to-total assets	22.1	25.0	24.3	27.7	25.2
Liquid assets-to-total short-term liabilities	30.0	32.5	31.9	36.6	32.6
Foreign currency liabilities-to-total liabilities	32.7	33.1	27.5	27.0	27.9

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

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 22, 2013

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of April 30, 2013)

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

General Resources Account:	SDR Million	%Quota
Quota	335.60	100.00
Fund holdings of currency (Exchange Rate)	224.97	67.04
Reserve Tranche Position	110.63	32.97

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	321.13	100.00
Holdings	275.68	85.85

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Apr 20, 1990	Mar 31, 1991	85.00	85.00
Stand-By	Jan 13, 1989	Feb 28, 1990	99.00	99.00

Projected Payments to Fund:[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal					
Principal Charges/Interest	0.03	0.03	0.03	0.03	0.03
Total	**0.03**	**0.03**	**0.03**	**0.03**	**0.03**

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Arrangements:
Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange system that is free of multiple currency practices and of restrictions on the making of payments and transfers for current international transactions. The system, a de jure float, is classified as a stabilized arrangement under the Fund's revised methodology.

Last Article IV Consultation and Recent Contacts:
The 2011 Article IV mission was concluded on March 28, 2012 and a staff visit took place on November 8–15, 2012.

Technical Assistance:
CARTAC has fielded a wide range of missions including on: enhanced stress testing for banks; Basel II implementation; rebasing of national accounts; and improvements to the CPI. In addition, Trinidad and Tobago was represented in CARTAC-sponsored technical seminars and workshops on: automated monitoring of state-owned enterprises; internal control and audit for public entities; risk assessment of pensions and health care liabilities; and on operational, credit, and market risks assessments for financial supervisors.

Department	**Dates**	**Purpose**
FAD	January 2013	Tax Policy
MCM	October 2012	Non-life insurance regulation
STA	June 2012	Monetary and financial statistics
STA	April 2012	Consumer and Price Statistics
STA	March 2012	Monetary and balance of payments statistics
STA	February 2012	Consumer and producer price statistics
MCM	June 2010, September 2010, March 2011, and June 2011	Insurance supervision
MCM	December 2010 and April 2011	Public debt management, funding and medium term debt management strategies
STA	February 2011	Assistance on the compilation of an IIP and the financial account in the balance of payments as part of the requirements for the prospective Special Data Dissemination Standard (SDDS)
STA	December 2009	Multi-topic mission and assistance on subscription to the Special Data Dissemination Standard (SDDS)
STA	January 2008	Standardizing monetary and financial statistics
FAD	January 2008	Setting up institutional arrangements for a Medium-Term Fiscal Framework
MCM	2007-2008	Two resident experts for insurance supervision in the CBTT

RELATIONS WITH THE WORLD BANK

(As of May 2013)

The World Bank's last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999 and covered the period 1999–2001. The current World Bank program includes a reimbursable advisory services program with five components and a program of non-lending technical assistance. The trust fund supporting the Nariva ecosystem restoration and carbon sequestration ended in December 2011.

Reimbursable Advisory Services

Reimbursable Advisory Services Program: The RAS agreement with the Government of Trinidad and Tobago covers five areas: (i) Pension Systems Harmonization; (ii) Public Debt and Cash Management; (iii) Doing Business Reform; (iv) Investment Promotion Special Economic Zones; and (v) Broadband Strategy. Discussions between the Bank and the Government were initiated during the Annual Meetings of 2009. Since then, the Government has also asked the International Finance Corporation (IFC) to look at improving the environment for public-private partnerships. This work to be carried out by the World Bank Group could serve as a model for other countries as the areas covered are necessary for improving government performance and sustainable and equitable growth.

Technical Assistance

Nariva Ecosystem Restoration and Carbon Sequestration: The program supported an ongoing project in Trinidad and Tobago which is funded under the World Bank's BioCarbon Fund (BioCF). The development objective was to contribute to efforts to restore and conserve the Nariva wetlands on the eastern shore of Trinidad, through the recognition of the services it provides as a carbon sink and a biodiverse ecosystem. This objective was achieved through actions designed to restore and conserve about 1160 hectares of its associated forest stands. The Bank's support to this project in Trinidad and Tobago under this Trust Fund was for US$50,000.

Report on the Observance of Standards and Codes - Accounting and Auditing (ROSC): In September 2010, the Bank encouraged Trinidad and Tobago to carry out a ROSC. The study would be highly beneficial for the development of accounting and auditing standards in the private sector, State-Owned Enterprises and also the financial sector. A coordinator was appointed in the ministry of finance to liaise with the World Bank's ROSC team.

Supporting Economic Management in the Caribbean (SEMCAR): A CIDA financed program coordinated by the Bank, focuses on identifying the key changes in institutional reforms, improvements in business processes and actual work practices that need to take place in tax, customs, and PFM areas. The first phase (April 2011–December 2013) covers 3 years at a budget of US$18.3 million. Trinidad and Tobago is one of the first countries in the region to benefit from this program.

Entrepreneurship Program for Innovation in the Caribbean (EPIC): InfoDev in partnership with CIDA in 2010 launched a regional program to create and grow MSMEs across the region amidst persistent market challenges. Trinidad and Tobago has been selected as one of the countries to benefit from this initiative, which will continue through 2018. A total of US$19 million is being set aside for this project, which will aid in start up, upgrading skills and providing seed funding to promising MSMEs.

Extractive Industries Transparency Initiative (EITI): At the International EITI conference in Paris on March 2, 2011, Trinidad and Tobago was officially granted candidate status for EITI. The Ministry of Energy & Energy Affairs (MEEA) publicly confirmed the Government's commitment to EITI and committed to making Trinidad and Tobago's energy sector one of the most transparent in the world, as well as to work closely with civil society.

Partnership for Private Sector Development (PPSD): This program is estimated to run from 2008 through 2013, with the objective being to increase access to financial services to undeserved MSMEs, promote regulatory simplification as an aid to private sector development and catalyzes PS participation and investment in transport, power, water, and communication infrastructure. This is being financed by CIDA with the IFC as the trustee.

Statement of World Bank Group Loans

Disbursements and Debt Service*

(In millions of U.S. dollars, fiscal year ending June 30)

	Actual									
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total disbursements	12.7	3.8	2.0	4.7	5.7	4.1	2.3	3.1	1.9	0.0
Repayments	12.2	15.5	17.3	16.4	15.3	13.0	11.3	6.9	3.6	3.3
Net disbursements	0.4	-11.7	-15.3	-11.7	-9.6	-8.9	-9.0	-3.9	-1.7	-3.3
Interest and fees	5.9	5.1	3.8	3.1	2.5	2.2	1.5	0.9	0.7	0.6

*As of May 2013

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of March 2013)

Financing

The IDB approved the new Country Strategy with Trinidad and Tobago in November 2011. This strategy is the reflection of the enhanced relationship with the county and envisages a financial envelope for 2011–2015 for around US$1.6 billion.[1] The 2010 approvals represented a substantial increase from the previous years, implying significant positive cash flow in 2010–2011. While there was an increase in disbursements of investment loans, there were no policy-based loans in 2012, thus resulting in a negative net cash flow.

Table 1: Net Flows 2006-2012

(In millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012
Loan disbursements	23.8	47.2	44.6	26.5	143.0	241.9	29.8
Repayments	64.1	39.7	45.6	45.9	46.9	50.5	49.6
Net Loan Flow	**-40.3**	**7.5**	**-1.0**	**-19.4**	**96.1**	**191.4**	**-19.8**
Subscriptions and Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and Charges	18.3	18.4	21.4	19.4	10.9	9.8	12.3
Net Cash Flow	**-58.6**	**-10.9**	**-22.4**	**-38.8**	**85.2**	**181.6**	**-32.1**

Portfolio composition

The current loan portfolio consists of 8 loans for a total of US$447 million, of which 90 percent is undisbursed. The main areas of Bank involvement are Wastewater Rehabilitation program, Public Sector Modernization, Education, Housing and Citizen Security. Moreover, the Emerging and Sustainable Cities Initiative was escalated in 2012, which has been a major priority of Trinidad's engagement with the IDB. The operations approved in 2012 included support for wastewater provision. The Bank also has a portfolio of technical assistance grants, totalling 17 operations valued at US$9.0 million, 71 percent of which is currently undisbursed.

[1] http://www.iadb.org/document.cfm?id=36567843

Table 2: Lending Operations in Execution

As of March 20, 2013 (US$ million)

Name	Approval Date	Approved Amount	Disbursed	% Disbursed
Public Sector Reform Program	12/17/2003	4.6	3.5	75.4
Electronic Government & Knowledge Brokering Program	11/29/2006	28.0	2.0	7.0
Citizen Security Program	3/11/2008	24.5	7.7	31.6
Seamless Education System	5/20/2009	48.8	8.2	16.8
Neighborhood Upgrade Program	12/1/2010	40.0	4.3	10.6
Social Safety Net Reform Program	10/19/2011	5.0	0.5	10.1
WASA Modernization and Wastewater Infrastructure Rehabilitation Program	10/26/2011	50.0	20.1	40.2
Multi-Phase Wastewater Rehabilitation Program - Phase I	12/12/12	246.5	0.0	0.0
		447.4	**46.2**	**10%**

STATISTICAL ISSUES

While data coverage is broadly adequate for surveillance, important shortcomings persist in terms of the timely delivery and quality of most macroeconomic data, including national accounts, prices, external sector, labor market, and non-banking financial institutions. This situation largely reflects resource and capacity constraints in the national statistical office. Technical Assistance from headquarters and CARTAC is helping address these issues. Trinidad and Tobago has indicated its intention to work towards subscription to the IMF's Special Data Dissemination Standard (SDDS). One of the key issues impeding subscription to the SDDS is the unavailability of current/constant price Gross Domestic Product estimates on a quarterly basis (QGDP). In addition, improvements need to be made in external sector statistics to meet SDDS requirements. The institutional framework also needs to be revised to facilitate the compilation, reporting, and collaboration among the Central Bank, the Central Statistical Office (CSO), and the Ministry of Finance (MoF).

Real sector statistics

In recent years, the CSO has improved the estimation of the national accounts by upgrading the coverage of production of the large gas sector and the estimation of the value added of the services sectors. The methodology to estimate inflation has been revised with technical assistance from CARTAC. The new method corrects flaws that created a significant upward bias, primarily in the food component. Implementation of the improved methodology commenced mid-2012. Further work is needed to revise the producer price index to meet international standards. There is also a need to review the calculation of the GDP deflator, which also may be subject to measurement issues. Compilation of the expenditure side of GDP as well as current/constant price GDP estimates on a quarterly basis (QGDP) should receive attention in coming years.

Government finance statistics

The MoF compiles fiscal data using a national classification system for government transactions and debt of the central government. The compilation follows the GFSM 2001 methodology on a cash basis. Data on public enterprises and statutory bodies are compiled and published once a year. These data are compiled by three different divisions of the MoF and are subject to differences among them, particularly with respect to transfers.

Monetary and financial statistics

The monthly monetary accounts for other depository corporations (ODCs) currently covers only financial institutions that are licensed by the central bank under the 1993 Financial Institutions Act. ODCs not licensed only report voluntarily on a quarterly basis. No data are reported by credit unions. 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 comprehensive financial survey. Trinidad and Tobago has made progress but has not yet migrated to the standardized report forms (SRFs) for the submission of monetary statistics.

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. In recent times, TA missions in balance of payments statistics have provided assistance on the compilation of the International Investment Position, the proper classification of dividend flows by energy sector companies, and on the other required improvements for the prospective subscription to the SDDS and implementation of the Balance of Payments Manual sixth edition. In collaboration with the Ministry of Finance, the Central Bank plans to expand its current debt reporting system to include comprehensive coverage of external loans and domestic debt of the entire public sector, as well as publicly guaranteed debt, through the migration to the CS-DRMS system.

Trinidad and Tobago: Table of Common Indicators Required for Surveillance

As of May 6, 2013

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	May 2013	May2013	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	January 2013	March 2013	M	M	M
Reserve/Base Money	January 2013	March 2013	M	M	M
Broad Money	January 2013	March 2013	M	M	M
Central Bank Balance Sheet	January 2013	March 2013	M	M	M
Consolidated Balance Sheet of the Banking System	December 2012	March 2013	M	M	M
Interest Rates[2]	April 2013	April 2013	M	M	M
Consumer Price Index	March 2013	April 2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	September 2012	March 2013	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	December 2012	March 2013	M	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2012	January 2013	A	A	A
External Current Account Balance	2012Q3	January 2013	A	A	A
Exports and Imports of Goods and Services	2012Q3	January 2013	Q	Q	Q
GDP/GNP	2011	October 2012	A	A	A
Gross External Debt	September 2012	January 2013	A	A	A
International Investment Position[6]	2011	May 2013	I	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[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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COMMUNICATIONS DEPARTMENT

Press Release No. 13/307
FOR IMMEDIATE RELEASE
August 12, 2013

International Monetary Fund
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation Discussions with Trinidad and Tobago

On June 14, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the 2013 Article IV consultation discussions with Trinidad and Tobago.[1]

The economy of Trinidad and Tobago is poised for a modest recovery in 2013, after disappointing growth in 2012 that was due largely to supply constraints, including maintenance operations in the energy sector and an industrial dispute in the non-energy sector. The staff projects real gross domestic product (GDP) growth of some 1.5 percent in 2013, with risks slightly to the downside, should development spending be under-executed. Headline inflation rose to 9.3 percent in 2012, but core inflation, which excludes food prices, remained moderate at 3.1 percent, and has since fallen further to 2.2 percent in March 2013. Unemployment is low at about 5 percent, but underemployment remains significant. The external current account surplus fell slightly on increased dividend outflows, but remained high at 10 percent of GDP. Gross official reserves remained strong at US$9.2 billion at end-2012 (some 12.5 months of imports).

The central government realized a deficit of 1.1 percent of GDP in fiscal year 2011/12 (October–September), after near balance the previous year, and was more than explained by a decline in energy revenues due to output shortfalls. Gross government debt increased by some 6 percentage points of GDP to a still-manageable 39 percent of GDP. Most of this increase relates to a one-off issuance of bonds relating to a failed insurance company (CLICO), about half of which is expected to be retired in 2013.

Despite accommodative monetary policy, private sector credit growth was modest. The Central Bank of Trinidad and Tobago (CBTT) cut its policy repo rate to 2.75 percent in September 2012.

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The CBTT continues to mop up considerable excess liquidity via voluntary term deposits by commercial banks and a recent TT$1 billion government bond. Commercial banks remain well capitalized, profitable and liquid, and the end-2012 non-performing loan (NPL) ratio fell to 5.4 percent.

Executive Board Assessment

Executive Directors welcomed the signs of economic recovery, fueled by growth of the non-energy sector. They agreed that the authorities' macroeconomic policies are appropriately supporting the recovery in the near term given downside risks. Over the longer term, the policy priority should be to recast fiscal policy in the context of the country's non-renewable resource endowment while pursuing structural reforms aimed at diversifying the economic base.

Directors commended the authorities' adoption of a medium-term fiscal consolidation target. Specific measures should be identified, which would also improve the composition of public spending. This should include the phasing-out over time of poorly-targeted and unsustainable subsidies (notably on fuels) and transfers, while protecting the most vulnerable segments of society and priority social spending. Looking ahead, Directors recommended adoption of a longer-term strategy embodied in a fiscal framework to extend the benefits of current natural resource wealth to future generations. Increasing non-energy revenues and containing current expenditure to raise development spending over time will be important.

Directors supported the accommodative monetary stance, given subdued underlying inflation and economic slack. Nonetheless, overall credit developments, especially in the real estate sector, and excess liquidity in the financial system should be closely monitored in determining the future direction of monetary policy.

Directors noted that the financial sector appears sound, and welcomed progress on financial sector reforms, including the 2011 Financial Sector Assessment Program recommendations. They encouraged the authorities to continue enacting legislation under preparation and expand the regulatory perimeter to include non-bank systemically important financial institutions.

Directors underscored the need for structural reforms to facilitate economic diversification and improve competitiveness, and, in this context, welcomed the authorities' commitment to improve the business climate. They also encouraged the authorities to press ahead with efforts to improve the effectiveness of the public service to support investment and facilitate diversification.

Directors noted that while economic statistics are broadly adequate for surveillance purposes, efforts to improve their timeliness and quality should be a priority.

Trinidad and Tobago: Selected Economic Indicators

	2008	2009	2010	2011	Est. 2012	Proj. 2013
(Annual percentage changes, unless otherwise indicated)						
Output and prices						
Real GDP	3.4	-4.4	0.2	-2.6	0.2	1.6
Energy GDP	-0.3	-1.8	3.2	-3.9	-4.7	0.3
Unemployment rate (percent of labor force)	4.6	5.3	5.9	4.9	…	...
Consumer prices (end of period)	14.5	1.3	13.4	5.3	7.2	4.0
Real effective exchange rate (2000=100)	113.6	123.7	130.7	129.4	138.9	...
Money and credit 1/						
Net foreign assets	50.0	-4.3	-0.3	14.2	-3.0	-1.4
Net domestic assets	-35.6	32.4	0.0	-5.6	15.6	5.3
Private sector credit	12.6	-4.0	0.3	4.4	2.6	4.0
Broad money (M3)	14.4	28.1	-0.2	8.6	12.6	3.9
(In percent of fiscal year GDP, unless otherwise indicated)						
Public finances 2/						
Central government balance (excluding CLICO support)	7.3	-5.6	0.1	-0.1	-1.1	-2.5
CLICO support		-1.4	-2.6	-0.6	-6.6	
Budgetary revenue	34.3	28.6	34.1	32.3	30.9	31.2
Budgetary expenditure	27.0	34.2	33.9	32.4	32.0	33.6
Overall budget balance	7.3	-5.6	0.1	-0.1	-1.1	-2.5
Overall non-energy budget balance 3/	-13.4	-20.1	-18.2	-19.1	-18.5	-19.3
Overall nonfinancial public sector balance	8.0	-9.0	-3.9	0.0	-0.3	-1.2
Public sector debt 4/	21.5	30.6	35.5	33.4	39.3	33.9
(In percent of GDP, unless otherwise indicated)						
External sector						
External public sector debt	5.3	7.7	6.7	6.4	6.7	7.2
Current account balance	30.5	8.5	20.3	12.3	10.1	8.8
Of which: exports	66.9	48.1	54.6	63.4	54.4	53.2
Of which: imports	34.4	36.4	31.6	40.3	33.2	33.2
Gross official reserves (in US$ million)	9,380	8,652	9,070	9,823	9,200	9,054
Memorandum items:						
Nominal GDP (in billions TT$)	175.3	121.3	131.3	150.4	161.0	169.8
Exchange rate (TT$/US$, end of period)	6.30	6.37	6.4	6.4	6.4	...

Source: Trinidad and Tobago authorities; and IMF staff estimates.
1/ Changes in percent beginning-of-period broad money.
2/ Fiscal year October-September. Data refer to fiscal years from 2007/2008 and 2012/2013.
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
and Kevin Finch, Advisor to the Executive Director
June 14, 2013

1. The authorities of Trinidad and Tobago wish to thank the staff mission, headed by Mr. Canetti, for their judicial diagnostic of the economy, its prospects and potential risks. Couching the discussions in a medium-long run framework was appropriate, given a broad measure of near-term macroeconomic stability.

Recent Economic Developments

2. After declining by 2.6 percent in 2011, real GDP was estimated to have expanded by 0.2 percent in 2012. The headline growth recorded was not truly reflective of the turnaround in economic activity, particularly in the job-creating non-energy sector, which grew by 3.6 percent. Economic growth was suppressed by the lackluster performance of the energy sector (-4.7 percent) which accounted for 46 percent of GDP. Supply curtailments in the upstream energy sector continued in 2012, as major producers conducted routine maintenance of offshore infrastructure. In the non-energy sector, the financial services sector performed well as banks continued to post healthy profits despite weaker credit demand. The construction sector also recovered following the legal resolution of an industrial dispute involving the country's main cement supplier, Trinidad Cement Limited.

3. Inflation trended downwards as pressures on food prices subsided. Headline inflation measured 5.5 percent on a year-on-year (y-o-y) basis to April 2013 after reaching as high as 12.6 percent in May 2012. Notwithstanding a brief uptick in October 2012 following the increase in the price of premium gasoline, core inflation remained well anchored at around 2 percent. Pursuant to technical assistance (TA) from STA/CARTAC, the Central Statistical Office (CSO) updated its methodology for the Index of Retail Prices, thereby correcting the upward bias particularly reflected in the food sub-index. The new index is expected to be published in the fourth quarter of 2013 following an initial testing period.

4. Fiscal policy continued to be geared towards supporting the economic recovery. For fiscal 2012, the outturn showed a deficit of 1.1 percent of GDP. The fiscal impulse was less than expected as both current and capital expenditure were lower than budgeted. The authorities noted staff's comments on the level of expenditure on transfer and subsides, particularly on the fuel subsidy. The issue of minimizing/eliminating fuel subsidies is engaging the authorities' full attention. A plan for the phased reduction in fuel subsidies along with a strategy to promote increased usage of compressed natural gas in the transport industry is underway. A cabinet-appointed committee is also examining the issue of fuel subsidies. A report will soon be submitted for cabinet's consideration.

5. The government remains committed to saving a portion of the proceeds from its non-renewable resources for future generations through the Heritage and Stabilization Fund (HSF). A statutory review of the HSF, due every five years, was recently completed. The proposed

changes were not radical but sought to streamline the operations of the fund and clarify deposit and withdrawal rules. Staff argues that making transfers to the HSF while the overall fiscal position is in deficit is tantamount to borrowing to save. However, the authorities stress that deposits are governed by the HSF law which dictates that transfers to the fund must be made as long as actual energy revenues surpass budgeted energy revenues by more than 10 percent. Thus, deposits to the HSF are independent of the overall fiscal balance. Furthermore, the authorities' conservative approach towards estimating energy prices for budget purposes has served the country well and has facilitated the building of this important buffer.

6. Public debt rose to 45.6 percent of GDP in 2012, but is already on decline as debt related to the CLICO settlement is exchanged for units in the CLICO Investment Fund[1]. Approximately TT$3 billion of government debt was exchanged during the first quarter of 2013. In addition, a debt management committee has been formed to provide oversight to debt strategy formulation and implementation, develop an annual borrowing plan and ensure coordinated operations among key institutions involved in debt management.

7. Monetary conditions remain accommodative. The repo rate, the main policy rate, was reduced to a historic low of 2.75 per cent in September 2012 after remaining unchanged for more than a year. Credit granted to the private sector was sluggish, rising by 2 percent in March 2013 (y-o-y). However, credit granted for real estate mortgages continued to be robust, increasing by 9.3 percent. At this juncture, there are no indications of a housing "bubble". The house price data collected by the Central Bank of Trinidad and Tobago (CBTT) showed negligible movements. Also, mortgages are fully collateralized and commercial banks utilize very conservative loan-to-value ratios of around 80-85 percent. The Financial Institutions Supervision Department of the CBTT continues to monitor mortgage lending of the various commercial banks.

8. Surplus liquidity in the financial system persists. Excess liquidity rose to a daily average of more than TT$6 billion in May 2013, more than double the level at the start of the fiscal year. Having reached the statutory ceiling for the issuance of short-term government securities, the authorities intend to issue TT$3 billion in longer-term treasury bonds in 2013 to absorb excess liquidity. Of this amount, a TT$1 billion government bond was issued in May 2013. The bond was heavily oversubscribed, attracting bids close to 300 percent of the face value. A Liquidity Management Committee, comprising representatives from the Ministry of Finance and the Economy (MOFE) and CBTT, was reactivated in October 2012 in order to improve the coordination of fiscal and monetary policies.

9. The authorities broadly agree with staff's assessment of the exchange rate and the foreign exchange market. The foreign exchange management system now includes a new

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[1] Clico Investment Fund is a publicly traded security comprising of shares from a profitable financial entity that is majority owned by the CL Financial group.

auction system which commenced in June 2012. This introduced a more market-based approach to foreign exchange sales by CBTT to authorized dealers. Despite heavier demand for foreign exchange in 2012, commercial banks reported balanced market conditions, with no instances of queuing.

Short-term Economic Outlook

10. The authorities have projected economic growth of 2.5 percent for 2013. However, Fund estimates are a bit more conservative at 1.5 percent on account of the anticipated effect of maintenance outages in the energy sector during the third quarter of 2013. To minimize the impact of the planned shut-in, the Ministry of Energy and Energy Affairs held discussions with several upstream and downstream companies to coordinate maintenance outages. These outages represent the only major risks to the country's energy sector earnings in the short-term. Medium-long term risks include lower gas prices as a result of possible LNG exports from the US from 2016. Despite this however, expectations are for natural gas demand to outstrip the growth in supply going forward, driven in the main by Asian countries and by the growing use of natural gas in the transportation industry.

11. In the non-energy sector, growth is expected to be propelled by the construction, distribution and financial services sectors. On the latter, negotiations between the government and two transnational banks resulted in an agreement to relocate their back-office processing functions for 20 countries to Trinidad and Tobago. Both initiatives are expected to generate at least 500 new full-time jobs. Two additional agreements of this nature with other financial institutions are expected by end-2013.

Financial Sector Developments

12. The Securities Industries Act was passed in December 2012. Key provisions of the Act include greater disclosure requirements, broader information sharing with other regulators and power for the Securities and Exchange Commission to conduct on-site compliance reviews of its registrants. Other pieces of financial sector legislation are on-track for passage. The Insurance Bill was revamped and should be approved by parliament in the latter part of 2013. Consultations on a draft Credit Union Bill are ongoing with a view to have legislation in place by end-2013. Towards the end of 2014, legislation for occupational pensions is expected to be laid in parliament.

13. Trinidad and Tobago was taken off the FATF watch-list in November 2012 after a more robust AML/CFT framework was put in place. The authorities are preparing for an assessment, using FATF's revised methodology, during the first quarter of 2014. The current focus is on building the enforcement capacity of the Financial Intelligence Unit. On financial crisis resolution, a national crisis management plan was drafted by the CBTT and updated in early 2013. The authorities are requesting TA from the Fund to ensure the plan aligns with international best practice. Plans are also on track for a July 2013 IPO of a 20 percent stake in the state bank.

Structural Reforms

14. *Tax system reform*. FAD TA on comprehensive tax reform in Trinidad and Tobago will inform government's plan to transform the tax structure and improve tax collections. The cabinet is reviewing the findings and recommendations of the report, with a view to including new measures in the fiscal package for 2013/14. The authorities estimate that the measures under consideration, once implemented, could close the fiscal gap. Once the tax policy issues are settled, the authorities intend to examine tax administration measures more intensively and look forward to the continued support of the Fund in this regard. Some measures to strengthen tax compliance are already taking shape. For example, mechanisms to facilitate the electronic filing of tax returns will move forward this year following the passage of the Electronic Transactions Act, 2011.

15. *Improving the business climate*. The authorities are in the midst of implementing the Enabling Business Competitive (EBC) Strategy for 2011-2014. The EBC, co-funded by the 10th European Development Fund, is a four-year sector development plan targeted at supporting sectors which the authorities have identified as key to creating a robust competitive business environment. The authorities have also requested TA from the World Bank to develop an insolvency law and to establish a commercial court.

16. *Sustainable growth, diversification and governance*. The authorities recognize that in order to engender sustainable and inclusive growth, structural transformation of the economy, undergirded by improvements in competitiveness and productivity of the non-energy sector, is imperative. With the private sector lacking the necessary firepower to drive the transition, government is leading the way with the adoption of the public-private partnership (PPP) model for investment. Government approved a framework to govern PPPs in May 2012. A PPP unit, partially funded by the IDB, was established in the MOFE with the responsibility for identifying and monitoring PPP projects. Accountability and transparency are also being improved. The government produced an "Annual Report on Performance" in early 2013. The report, which will be prepared on an annual basis, focuses on the performance and results of government ministries, agencies and departments in relation to the five priority areas of development within the authorities' Medium-Term Policy Framework.

Statistical Issues

17. The authorities are cognizant of the statistical challenges and are working towards improving the quality and timeliness of data. CBTT has developed a three-year plan to improve the balance of payments and monetary statistics, strengthen timeliness and dissemination, work with the CSO on rebasing and developing a quarterly GDP series and finalize the implementation of the Commonwealth-based debt monitoring system (CS-DRMS).