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Trinidad and Tobago: 2010 Article IV Consultation—Staff Report, Supplement, Staff Statement, Public Information Notice on the Executive Board Discussion, and Statement by the Executive Director for Trinidad and Tobago

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 8, 2010, with the officials of Trinidad and Tobago on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 22, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- Informational Annex to the Staff Report of December 22, 2010.

- A staff statement of January 21, 2011 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 21, 2011 discussion of the staff report that concluded the Article IV consultation.

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

The document listed below has been or will be separately released.

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Trinidad and Tobago

Approved by David J. Robinson and David Marston

December 22, 2010

Context: The decline in energy prices and the global crisis have led to a severe and prolonged economic downturn in this highly energy-dependent economy. The difficulties of a large financial conglomerate have also adversely impacted the economy. Despite ample buffers including large fiscal space and strong reserves, the policy response has been constrained by concerns about the magnitude of the fiscal deterioration, the sharp increase in the debt ratio, and inflation.

Political background: A new government took office in May 2010 following a landslide victory in early elections.

Focus of the consultation. The immediate challenge is providing a policy mix to support economic recovery, while completing the resolution of a large failed insurance company (CLICO). The medium-term challenges are sharply raising fiscal savings to reverse the recent increase in public debt and prepare for the projected decline in energy reserves, while securing adequate investment and social spending to promote diversification.

The staff's main recommendations are:

- **Fiscal policy.** Accelerate implementation of the 2010/11 budget, which is appropriately geared toward supporting the recovery, the implementation of the investment program and the resolution of several outstanding issues. Establish a credible medium-term framework aiming for an overall balance by 2012/13 and putting debt on a downward trajectory to rebuild buffers.
- **Monetary policy.** Consider further policy rate reduction to signal commitment to support an economic recovery if the economy continues to stagnate and inflation falls further.
- **Financial sector policy.** Resolve the further delay in the restructuring of the outstanding CLICO liabilities and contain any additional fiscal costs. Implement Financial Stability Module recommendations including implementing consolidated supervision and strengthening capital requirements for banks, and improving legislation on insurance companies and on dealing with failed financial institutions.

Exchange system. Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4.

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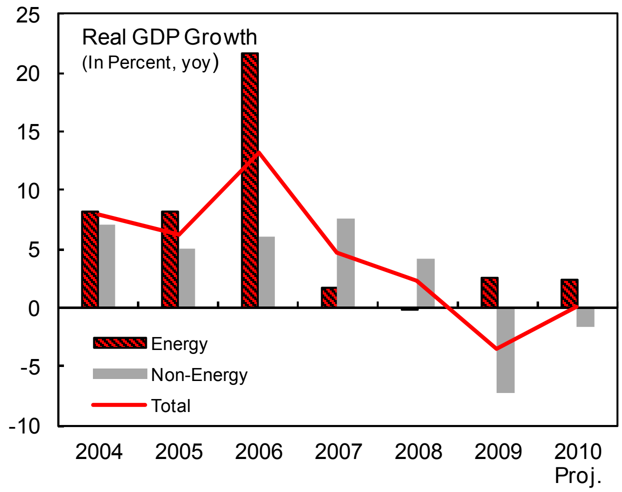
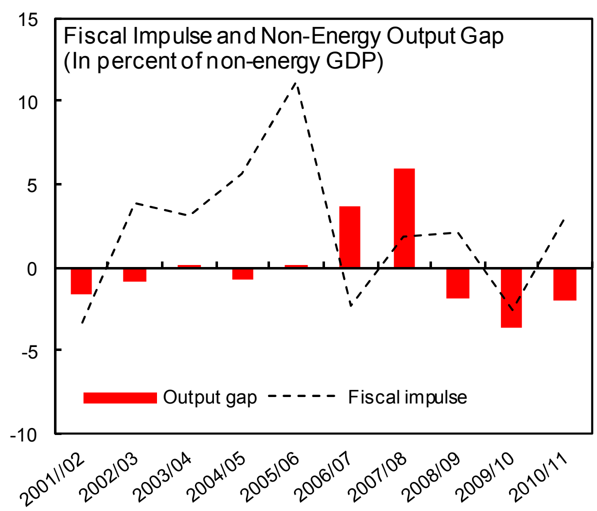
I. Recent Developments[1]

1. **The economic slowdown as a result of the global crisis has been severe, and the recovery has not yet taken hold.** High energy prices earlier in the decade led to several years of strong growth and high fiscal and external surpluses in this energy-dependent economy. At the same time, there were signs of overheating and looming financial vulnerabilities. With the fall in energy prices and the unfolding of the global crisis, real GDP fell by 3½ percent in 2009, with the non-energy sector contracting by 7¼ percent. The large deterioration in terms of trade led to a fall in nominal GDP by 27 percent. Notwithstanding a partial recovery in energy prices, economic activity is moribund reflecting the uncertainty related to mid-term elections and delays in key policy decisions by the new government. Real GDP continued to contract in the first half of 2010 while the unemployment rate increased to 6.7 percent in 2010Q1 from 5.1 percent at end-2009.



2. **Despite ample buffers including large fiscal space and strong international reserves, the policy response to the crisis has been constrained.** The overall fiscal balance turned sharply negative in 2008/09, despite a real decline in expenditure, as revenue fell by one third reflecting lower energy prices and weaker activity. Concerns about the magnitude of the fiscal deterioration and a rapid increase in the public debt ratio constrained a more supportive fiscal stance. The deficit (excluding CLICO costs) improved to 3 percent of GDP in 2009/10 as energy revenue recovered and expenditure



[1] The mission, comprising J. Gold (Head), H. Monroe, Y. Wu, and P. Liu (all WHD) visited Port of Spain during October 27–November 8, 2010. Ms. Des Vignes (OED) and Mr. Abuelafia (IDB) joined the mission in the second week. The mission conducted outreach meetings with parliamentarians, trade and labor unions, and representatives of the private sector. The mission overlapped with an MCM Financial Stability Module mission. Mr. Robinson (WHD) participated in the final discussions. Mr. Robinson and Mr. Monroe presented papers on the impact of the global crisis on the Caribbean and on Ponzi schemes in the Caribbean at the Caribbean Center for Money and Finance annual conference.

fell below that planned in part because of election-related delays in capital spending, and the fiscal impulse turned negative.[2] Accumulation of large payment arrears to contractors and increased delays in VAT refunds may have understated the deficit and public debt while hindering the economic recovery.

3. **Inflation has resurfaced as a concern after falling to a historical low in 2009, but the data are misleading.** Inflation peaked at 16.2 percent in August 2010 as adverse weather conditions drove up food prices, after falling to 1.3 percent at end-2009. However, the official data may be overstating food inflation by as much as 50 percent[3] and understating the GDP deflator because of measurement problems. Inflation fell to 12.5 percent in October, while core inflation remained broadly stable below 5 percent.

4. **The monetary policy stance has been generally supportive but ineffective in the context of large excess liquidity.** The CBTT lowered the repo rate beginning in late March 2009 by a combined 375 basis points to 5 percent in January 2010, and by a further 125 basis points from August to November 2010. Nevertheless, private sector credit consistently declined since October 2009. The excess liquidity in the banking system pushed the three-month T-bill rate to a historical low of 0.3 percent in November 2010. Recent reports indicate bank profitability is down and non-performing loans are up, but banks remain well capitalized with risk-adjusted capital at around 23 percent in September 2010. Financial Stability Module stress tests show that risks to banking sector stability are generally low, although credit concentration risk is of some concern.

5. **The collapse of the CL Financial Group in January 2009 accentuated the economic slowdown** (Box 1).[4] The intervention of CLICO, British American Insurance Trinidad (BAT), and an investment bank subsidiary helped contain contagion, but the two insurance companies continue to face financial difficulties and the size of the unfunded liabilities is greater than realized. The 2010/11 budget announced a restructuring plan that would pay all investors in full up to a threshold (TT$75,000 or US$12,000)[5] and restructure the remaining outstanding amounts over 20 years, with no interest—a discount in net present value (NPV) terms of about 40 percent. The plan has met strong opposition from policyholders, but after its review, the government is proceeding with the original plan with some modest revisions.

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[2] The fiscal impulse is calculated as the change in the cyclically-adjusted non-energy primary balance.

[3] The Central Statistical Office with Fund technical assistance is updating its methodology for calculating the CPI to remove an upward bias in food price inflation. The bias reflects the use of chain-linked index to aggregate food prices. This index is not "transitive"—a price increase that is subsequently reversed would nevertheless still increase the index creating a substantial upward bias when prices are volatile.

[4] For additional background see the Selected Issues paper "The Collapse of the CL Financial Group and Government Intervention."

[5] This is equivalent to deposit insurance provided by the Deposit Insurance Corporation for commercial banks.

6. **The recovery in energy prices is strengthening the external accounts after the sharp deterioration in 2009.** The current account surplus is projected to increase to about 17 percent of GDP in 2010 from 9 percent in 2009. Lower export receipts and increased uncertainty led to temporary pressures on the foreign exchange market in 2009, but pressures have eased and international reserves increased to US$9.2 billion (14 months of imports) at end-October 2010 from US$8.7 billion at end-2009.

Outlook and Risks

7. **Growth is expected to pick up in the second quarter of 2011 and is projected to be 2.0 percent for the year.** However, near-term risks are tilted to the downside reflecting the absence of concrete signs of a recovery, the weak regional outlook, and increased global uncertainty. Other factors undermining private sector confidence include delays in capital spending, uncertainty regarding the CLICO restructuring, substantial arrears to contractors, large pending VAT refunds, and difficult public sector wage negotiations for 2008–10. Inflation is projected to stabilize as food inflation returns to its norm. The current account surplus is expected to double from the 2009 level but will remain significantly below the pre-crisis levels.

8. **Medium-term growth prospects depend on the energy sector outlook**. Notwithstanding the firming of energy prices, growth is expected to remain below 3 percent reflecting the subdued expansion of energy output. There have not been any significant findings of oil and gas reserves in recent years, and at the current production level proven and probable reserves will run out in 22 and 15 years for oil and gas respectively (Box 2), which will place pressure on the fiscal and external accounts. However, industry representatives appeared relatively confident about potential new finds as exploration activity is now increasing.

II. Policy Discussions

Discussions focused on balancing further fiscal support for economic recovery against the need for adjustment to reverse the steep increase in public debt and to deal with declining energy revenue in the medium term; providing a monetary environment conducive to supporting a non-energy sector recovery; restructuring CLICO's liabilities while containing the fiscal costs and maintaining financial sector stability; and diversifying the economy and reducing reliance on energy.[6]

[6] The 2008 Article IV consultation recommended: further fiscal adjustment to reduce the non-energy deficit in the fiscal and current accounts to levels that are sustainable in the long run and further fiscal tightening in the medium term; gradually loosening monetary policy, once concerns over second-round inflationary effects have abated; considering greater exchange rate flexibility once global conditions have stabilized; and intensifying supervision of the financial sector including establishing a robust framework for the stress-testing of financial institutions and a crisis management plan on a regional basis. These recommendations were largely overtaken by events as the global crisis unfolded, economic activity slowed, and as CL Financial collapsed.

A. Fiscal policy

9. **The 2010/11 budget is appropriately geared toward supporting the recovery.** The budget envisages an overall fiscal deficit of 6.2 percent of GDP, excluding the cost of the CLICO intervention, based on a conservative oil price assumption. Staff projects a lower fiscal deficit of about 4½ percent of GDP reflecting the higher WEO forecast for oil prices.[7] The budget announced several fiscal measures, including a shift in the energy tax regime toward a production sharing arrangement for new exploration and a tax amnesty on interest and penalties through 2009. It also implements several campaign promises including a 50 percent increase in the Senior Citizens Pension (at a cost of 0.6 percent of GDP). The total financing requirement—including the additional cost of the CLICO intervention of about TT$11.9 billion[8] (8.6 percent of GDP) in 2010/11—will reach about 12.2 percent of GDP and gross public debt will increase to 50.9 percent of GDP.[9]

10. **The staff agreed that the immediate priority is to support an economic recovery.** In view of the very weak economic activity, the estimated fiscal impulse of 2 percent of GDP is broadly appropriate and is unlikely to jeopardize fiscal sustainability. Moreover, given the moribund activity, the staff recommended: (i) accelerating the implementation of the budget, particularly on capital spending; (ii) appointing critical public enterprise boards with the authority to approve new projects; (iii) rapidly resolving the 2008-10 public sector wage negotiations; and (iv) paying contractor arrears after their verification and shortening delays of pending VAT refunds. The authorities recognized that activity was weaker than expected when the 2010/11 budget was finalized in September and agreed with these recommendations, while noting that the size of contractor arrears is likely to be smaller than reported in the press and that a large share of the pending VAT refunds was due to state enterprises.[10]

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[7] The budget assumes an oil price of US$65 per barrel in contrast to the WEO forecast of US$77 per barrel.

[8] In addition, the budget will compensate the depositors in the Hindu Credit Union, which failed in 2008, up to TT$75,000 at a cost of TT$300 million (0.2 percent of GDP).

[9] This excludes arrears to contractors and pending VAT refunds. Public debt net of the assets held in the Heritage and Stabilization Fund of TT$23 billion is projected to be TT$47 billion or 34 percent of GDP at the end of 2010/11.

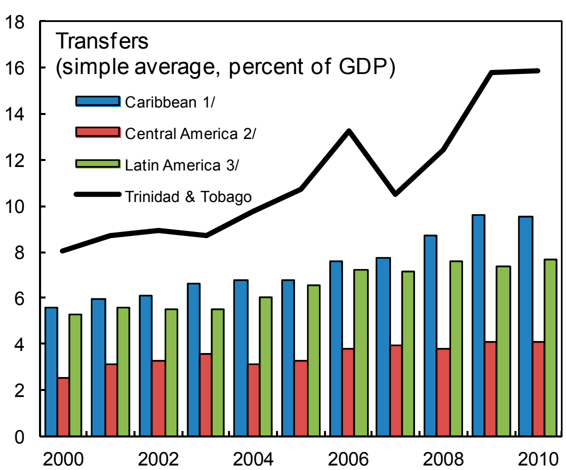
[10] Press reports suggest that the arrears could be as high as 7 percent of GDP, but the largest construction contractor says the figure is at most about 1 percent.

Medium-Term Macroeconomic Framework 1/
(In percent of GDP, unless specified otherwise)

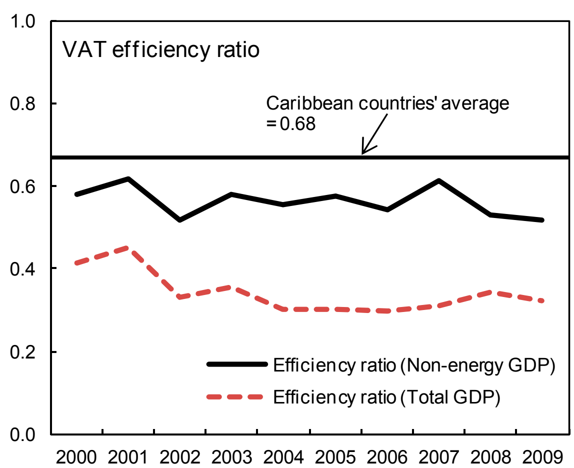
	2009	2010	2011	2012	2013	2014	2015
		Projections					
Real GDP (in percent)	-3.5	0.0	2.0	2.4	2.6	2.6	2.6
Energy	2.6	2.4	1.8	1.8	1.8	1.8	1.8
Non-energy	-7.2	-1.7	2.2	2.9	3.2	3.2	3.2
Revenue	28.4	32.5	31.8	32.2	31.9	31.6	31.3
of which Energy	14.2	17.0	16.9	17.1	16.8	16.5	16.2
Expenditure	34.0	35.4	36.2	36.3	36.3	36.4	36.5
Current	27.7	29.6	31.1	31.1	31.2	31.3	31.4
Capital expenditure and net lending	6.3	5.8	5.1	5.1	5.1	5.1	5.1
Overall fiscal balance	-5.6	-3.0	-4.4	-4.1	-4.5	-4.8	-5.2
Overall fiscal non-energy balance	-19.8	-20.0	-21.3	-21.2	-21.2	-21.3	-21.4
Public debt-to-GDP ratio (in percent) 2/	34.4	39.8	50.9	52.3	53.8	55.6	57.5
Net of HSF deposits	20.7	22.6	34.0	36.0	38.1	40.4	43.0

Sources: Trinidad and Tobago authorities; and Fund staff estimates and projections.
1/ Fiscal and debt data refer to the respective fiscal year ending in September.
2/ Excluding debt issued for sterilization.

11. **In the medium term, the staff called for a credible fiscal framework to increase public savings and rebuild buffers**. In the absence of policy measures, the deficit would continue to increase gradually from the already high level projected this year to 5.2 percent of GDP in 2014/15 and the gross debt-to-GDP-ratio would rise to 58 percent. The staff's active scenario involves stabilizing the debt-to-GDP ratio in 2011/12 through an initial adjustment of about 2 percentage points of GDP—to a deficit of 2.3 percent—and further measures in subsequent years to firmly place the debt-to-GDP ratio on a downward trajectory. The strategy is based on partially reversing the recent large increase in transfers without withdrawing support to the most vulnerable, and containing expenditures on goods and services, while maintaining a high level of investment to support diversification. It would also entail a moderate strengthening



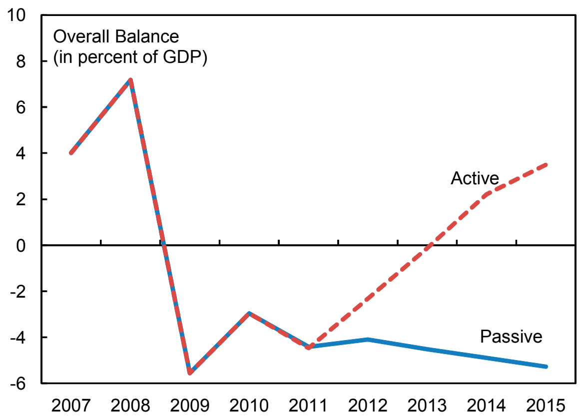
1/ Caribbean includes Bahamas, Barbados, Belize, Jamaica, and Trinidad & Tobago.
2/ Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.
3/ Latin America includes Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

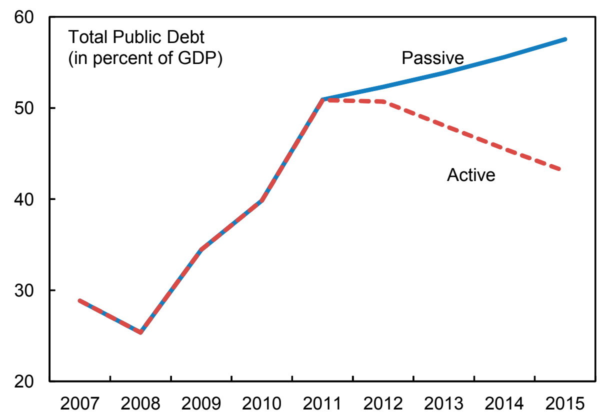


in non-energy revenues, by improving the efficiency of the VAT, which is below regional levels. The authorities agreed with the need to balance the budget by 2012/13 and further increase public savings over the medium term. However, they were skeptical about the magnitude of the proposed adjustment in the staff's active scenario and emphasized the difficulty of cutting back transfers.

12. **Moreover, the government should safeguard the sustainability of the National Insurance Board.** The increase in the monthly Senior Citizen's Pension and the minimum civil service pension to TT$3,000 has created pressure for a large increase in pension benefits, which should only be considered in the context of the next actuarial review scheduled for completion in 2012.

Trinidad and Tobago: Illustrative Active Scenario





Source: Fund staff estimates.

Illustrative (Active) Macroeconomic Framework 1/
(In percent of GDP, unless specified otherwise)

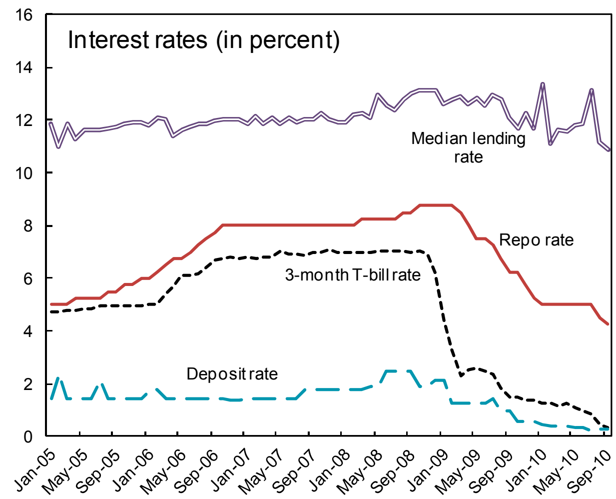
		Projections					
	2009	2010	2011	2012	2013	2014	2015
Real GDP growth	-3.5	0.0	2.0	2.0	2.2	2.3	2.3
Energy	2.6	2.4	1.8	1.8	1.8	1.8	1.8
Non-energy	-7.2	-1.7	2.2	2.2	2.5	2.7	2.7
Revenue	28.4	32.5	31.7	32.2	32.3	32.2	32.1
of which Energy	14.2	17.0	16.8	17.1	16.9	16.6	16.4
Expenditure	34.0	35.4	36.2	34.5	32.3	29.9	28.5
Current	27.7	29.6	31.1	29.4	27.2	24.8	23.4
Capital expenditure and net lending	6.3	5.8	5.1	5.1	5.1	5.1	5.1
Overall balance	-5.6	-3.0	-4.5	-2.3	-0.1	2.3	3.6
Overall nonenergy balance	-19.8	-20.0	-21.3	-19.4	-16.9	-14.3	-12.8
(as a share of nonenergy GDP)	-32.9	-31.7	-34.1	-31.3	-27.4	-23.3	-20.9
Public sector debt 2/	34.4	39.8	50.9	50.7	48.1	45.5	43.1
Net of HSF deposits	20.7	22.6	33.9	34.3	32.2	27.9	22.6

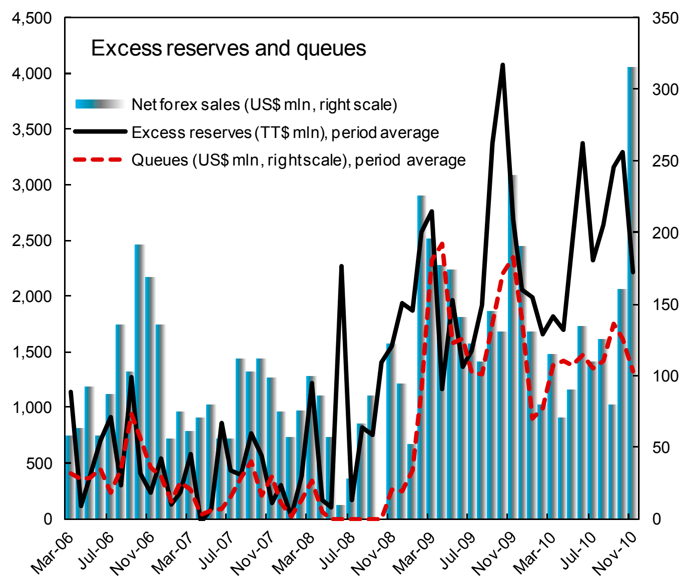
Sources: Trinidad and Tobago authorities; and Fund staff estimates and projections.
1/ Fiscal and debt data refer to the respective fiscal year ending in September.
2/ Excluding debt issued for sterilization.

13. **The government's large financing needs should be carefully managed.**[11] There is considerable domestic liquidity which could be tapped without crowding out private sector credit, and at a lower cost than external financing. The authorities requested the staff's technical assistance with debt management to help smooth new bond issuance and refinance existing debt contracts to take advantage of the current low interest rate environment.

B. Monetary, and Exchange Rate Policy, and Financial Sector

14. **Excess liquidity and the *de facto* exchange rate peg limit the scope of monetary policy.** The CBTT has some some flexibility in setting the policy rate, but the effectiveness of policy rate reductions has been constrained by the apparent weakness of the monetary transmission mechanism related to weak credit demand and large excess liquidity.[12] Nevertheless, the policy rate serves as a useful signaling mechanism. The CBTT has taken some steps to mop up liquidity, as it has reached the legal limit for treasury bills and notes for sterilization, by offering interest bearing deposits to banks. It has not issued its own paper since November 2008 because of the associated cost and has rejected the possibility of increasing reserve requirements which could widen the already high spread between banks' deposit and lending rates.





15. **The buildup of excess liquidity in the banking system over the past two years contributed to larger queues in the foreign exchange market.** Staff noted that the persistence of queues points to the need for more effective liquidity management, increased intervention, and/or some exchange rate flexibility. The authorities

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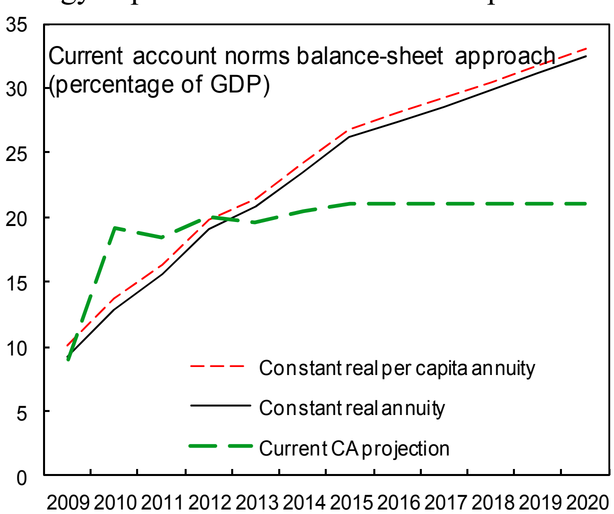
[11] The IDB approved a loan of US$140 million to finance public sector investment and expenditure management programs and discussions for up to a further US$1.3 billion over 2011–15 are ongoing.

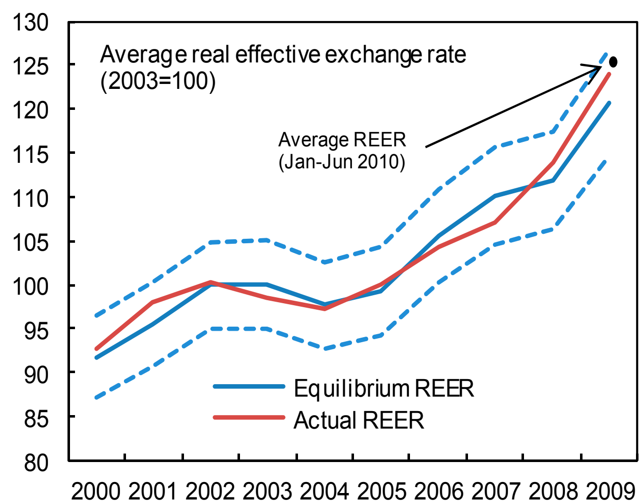
[12] Banks have reduced the lending rate moderately and after relatively long lags despite the large excess liquidity as they do not need to access the repo window. For additional discussion see the SIP "Monetary Policy in Trinidad and Tobago."

noted that the queues data are misleading because buyers make multiple requests across banks, and that the absence of a black market suggests the market is broadly in equilibrium. They were reluctant to allow for more exchange rate flexibility because of concern that even modest movements could be used as an excuse for hikes in prices of imported goods.

16. **The balance of risks suggests that the accommodative monetary policy stance appears broadly appropriate given moderating inflation risks and the weak economic activity.** Actual inflation is likely to be significantly lower than reported once the methodology for calculating the index is revised. Moreover, the inflation rate is declining in line with the fall in food prices and core inflation remains broadly stable. At the same time, the impact of the increase in the minimum wage is likely to be contained by the small segment of the labor force directly affected (3 percent) and the weak economic outlook. Although the accommodative stance is contributing to the queues, these could be managed as noted above. Thus, on balance, further policy rate reduction could be desirable to support economic recovery if the economy continues to stagnate, inflation falls further, and public sector wage increases are manageable. The authorities generally agreed, and have since the completion of the mission further reduced the policy rate, introduced an additional interest bearing deposit at the central bank, and significantly increased foreign exchange sales to reduce the queues as of end-November.

17. **The real effective exchange rate is broadly in line with fundamentals, but more flexibility may be needed.** The authorities are comfortable with current reserve levels and current policies do not target a specific reserve level. Based on staff's estimates, the 2009 average REER is within the estimated 95 percent confidence interval. The high current account norm (see text chart and Appendix I) reflects the large but temporary nature of non-renewable energy income. Unless there is significant scope to grow exports outside the exhaustible resource sector, future real income (or consumption) per capita will fall below current levels. This may require greater exchange rate flexibility over the medium-term to support the expansion of non-energy exports and rebalance consumption. The staff's illustrative medium-term fiscal strategy to





reduce the non-energy deficit would also help lower domestic absorption and increase external savings.[13]

18. **The banking system has weathered the crisis well.** An overlapping MCM Financial Stability Module (FSM) mission confirmed the general resilience of the banking sector, reflecting strong capitalization, conservative lending practices, and the high interest rate spreads. While credit concentration and rising NPLs in some banks are of some concern, banks and general and life insurance companies (aside from CLICO/BAICO) are well capitalized and remain profitable. Banks also have substantially increased provisions. However, some non-bank financial institutions—which account for almost half of financial system assets but have not been as closely regulated and supervised as commercial banks—have been under stress recently because of exposure to CL Financial. The authorities welcomed the strong assessment of the banking system and acknowledged some uncertainty regarding the non-bank financial institutions, but indicated the situation was now more settled. Moreover, they noted that credit concentration risks are difficult to avoid for a small economy like Trinidad and Tobago. The mission urged the government to accelerate the plans to extend supervision and expand the safety net to the non-bank sector. It also encouraged the authorities to quickly enact the proposed Securities Act to improve regulatory co-operation and to strengthen onsite inspections by the Securities and Exchange Commission.

Financial Soundness Indicators, 2007-10
(In percent)

	2007	2008	2009	Sep-10[p]
Capital to risk-adjusted assets	19.1	18.8	20.5	23.3
NPLs to total loans	0.7	1.0	3.4	3.9
Provision for loan loss to NPLs	109.7	72.4	69.8	61.0
Return on assets	3.4	3.5	2.7	2.5
Return on equity	27.7	25.9	20.2	18.6

Source: Central Bank of Trinidad & Tobago.

19. **The FSM recommendations focused on further improving banking supervision and crisis preparedness** (Box 3). The FSM assessment recommends fully implementing consolidated supervision and strengthening capital requirements for banks; complementing the draft insurance law with measures to bridge the tension between having both statutory funds and risk-based supervision; introducing a law dealing with failed financial institutions; and considering extending financial safety nets and the crisis resolution framework to certain non-bank financial institutions. The authorities welcomed the majority of the recommendations.

20. **The delay in resolving the CLICO liabilities has contributed to uncertainty.** The delay was in part related to concerns about implications of the government's proposal for credit unions, some of which were already facing financial challenges. The mission indicated that there is a strong case for providing more favorable terms to credit unions, given that a large number of small account holders could be affected, and potential spillovers in the current environment. In late November, the government announced a liquidity window for credit unions to deal with their

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[13] Private sector external debt data are not available, but the balance of payments suggests that the private sector has accumulated a sizable net foreign asset position over the past decade. The public sector net external asset position was US$2 billion at end 2009, taking account of the HSF, but excluding NIR.

CLICO liabilities although the mechanism has yet to be fully specified. It also opened a compassionate window for particularly vulnerable individuals. It is considering providing incentives to banks to reduce the discount on the government notes (for rescheduled CLICO liabilities) in the secondary market. The mission supported the government's intention to reach a new agreement with CL Financial's shareholders to provide for more scope to dispose of CL Financial's assets and recover some of the government's cost of the CLICO restructuring.

C. Diversification and Structural Reforms

21. **Attention has returned to diversification efforts as the authorities look beyond the crisis.** The government is continuing to promote diversification by investing in physical and human capital to support the development of a knowledge-based economy. It is also maintaining strong incentives for downstream manufacturing industries linked to energy-based projects. The government plans to secure bilateral investment agreements, double taxation treaties, and reciprocal regulatory agencies arrangements, to encourage domestic and foreign investments. It also intends to move rapidly to improve the business climate (including through a one-stop shop for investors), strengthen the public enterprise sector by inviting private sector participation, and accelerate privatization, with assistance from the International Finance Corporation. The 2010/11 budget also includes incentives aimed at promoting the use of alternative energy and revitalizing the agriculture sector. Staff broadly support the authorities' strategy and emphasized the importance of prioritizing government investments in support of diversification as part of their medium-term framework particularly in view of the increasingly constrained availability of resources.

Global Competitiveness Index 2010-2011: Selected Caribbean and Central American Countries

	Trinidad and Tobago	Barbados	Costa Rica	Dominican Republic	El Salvador	Jamaica	Panama
GDP per capita in current USD, 2009 1/	**18,108**	14,105	6,345	4,816	3,623	4,684	7,712
GCI Global Competitiveness Index	**84**	43	56	101	82	95	53
A.03 Macroeconomic environment	**70**	91	108	88	64	137	30
A.04 Health and primary education	**61**	14	22	107	81	102	76
B Efficiency enhancers	**77**	52	58	92	87	80	62
B.07 Labor market efficiency	**82**	49	45	89	88	83	106
B.08 Financial market development	**43**	38	85	99	78	46	21
C Innovation and sophistication factors	**78**	52	33	99	96	86	54

Source: World Economic Forum, WEO and WDI
1/ 2008 data for Trinidad and Tobago.

22. **The authorities are seeking to improve data quality.** Staff highlighted the need to strengthen macroeconomic statistics, in particular the calculation of the CPI and the GDP deflator, where methodological issues can complicate the conduct of monetary policy, and may lead to overstating fiscal balances and debt as a share of GDP. Staff welcomes the government's efforts to improve the timeliness of its data, to subscribe to the SDDS, and to develop a State Agencies Performance Monitoring Information System (SAPMIS) to improve the monitoring of public utilities and public enterprises.

III. Staff Appraisal

23. **Trinidad and Tobago has been hit hard by the global economic crisis.** The steep fall in energy prices, slowdown in the United States and the region, and the collapse of the CL Financial Group led to a prolonged slowdown. The fiscal savings of earlier years, together with falling debt levels and the accumulation of assets, including international reserves, provided the country with space to deal with the ensuing profound fiscal deterioration, the cost of the financial crisis, and the rapid increase of the debt ratio.

24. **The economic recovery is expected to begin only in 2011.** Uncertainty related to the early elections, followed by delays in the implementation of public sector investment programs delay in the resolution of CLICO, protracted wage negotiations, and arrears to the private sector have led to a slower than anticipated economic recovery in 2010, notwithstanding some recovery of energy prices.

25. **The immediate priority is to support economic activity**. In this context, the government's proposed 2010/11 fiscal deficit target appears broadly appropriate. The large increase in debt is manageable. Nevertheless, the implementation of the budget should be accelerated, in particular, the government's investment program. Furthermore, the government should move quickly to appoint public enterprise boards which are critical for new project approvals and remove other sources of uncertainty, including the public sector wage negotiations, contractors' arrears once verified, and extended delays of VAT refunds.

26. **Over the medium term, fiscal policy needs to reduce public debt and to rebuild buffers.** A strong and credible medium-term fiscal framework should place debt on a downward trajectory. A key element of this would be to reverse the large increases in expenditures on goods and services and transfers that took place during the boom years and to moderately strengthen non-energy revenues through improved tax administration. In addition, the current limited energy reserves call for a more ambitious fiscal plan over the longer term that would make significant headway in reducing the non-energy deficit to avoid sharp future adjustments when reserves are depleted.

27. **The current accommodative monetary policy stance is on balance broadly appropriate.** Given the weak non-energy sector activity, the risk of the continuation of the already prolonged recession outweighs the possible reversal in the recent decline in headline inflation. Inflation is likely to continue to decline in line with the fall in food prices, notwithstanding the increase in the minimum wage, reflecting the weak economic outlook. Moreover, actual inflation is likely to be significantly lower than reported once methodological issues are addressed. The staff agree that the policy rate serves as a useful signaling device and further reduction could be considered if inflation continues to fall.

28. **The real effective exchange rate is broadly in line with fundamentals.** Nevertheless, the persistence and increase in queues point to the need to manage the excess liquidity, increase the sale of foreign exchange, or allow for some flexibility in the exchange rate. The staff

welcome the recent steps to reduce excess liquidity and eliminate the queues, which also address additional pressures on the foreign exchange market from monetary easing. Over the longer term, in the absence of adjustment or significant new energy reserve discoveries, the projected decline in exports will lead to current account deficits. This may require greater exchange rate flexibility to support the expansion of non-energy exports and rebalance consumption.

29. **The banking system has shown resilience in the face of the economic slowdown and problems with CL Financial.** Stress tests indicate that risks to the stability of the banking sector are generally low in part reflecting the banking system's strong capitalization, conservative lending practices, and high interest rate spread. Nevertheless, the increase in NPLs and some banks' concentrated exposures to large clients are of some concern. Meanwhile, risks in the non-bank financial sector have also increased. Staff urge the authorities to act rapidly to bring some of these institutions under the central bank's supervision, expand financial safety nets, strengthen the resolution framework, and enact new insurance legislation while addressing its weaknesses, in line with the Financial Stability Module recommendations.

30. **The staff commend the authorities for moving forward with the restructuring of CLICO liabilities while containing fiscal costs.** The staff agree with the plan to provide liquidity window to credit unions to reduce financial vulnerabilities and protect the most vulnerable, and urges the government to move forward with completing the restructuring as quickly as possible. The staff support the government's intention to seek a new agreement with CL Financial to provide for more scope to dispose of CL Financial's assets and recover some of the government's cost of the CLICO restructuring.

31. **The medium- and long-term growth prospects are challenging as the country's energy resources are declining.** The staff welcomed the government's initiatives aimed at improving the business climate, facilitating private sector entrepreneurship, and promoting diversification. Going forward, the government would need to balance between saving energy revenues for future generations with investing today to lay the foundations for sustained non-energy growth. In this context, it will be important for the government to prioritize investment in support of diversification.

32. **The government needs to improve the statistical infrastructure.** Data weaknesses, in particular with the CPI and GDP deflator, pose an obstacle to informed policy making and fixing the related data problems is essential. The staff welcome the authorities' planned move to the SDDS.

33. **The next Article IV consultation is expected to be held on the standard 12-month cycle.**

Box 1. The Collapse of the CL Financial Group and Government Intervention

The January 2009 collapse of the Trinidad and Tobago-based CL Financial Group represented a major financial shock to the Caribbean region, which was already reeling from the global crisis. CL Financial's subsidiaries were active in a wide range of sectors including banking, insurance, energy, beverages, and real estate. The group's assets stood at US$16 billion at end-2007, about 30 percent of the Caribbean region's GDP. It has majority ownership of the largest commercial bank and owns the largest insurance company CLICO (Trinidad) in Trinidad and Tobago, with assets of US$2.9 billion at end-2008 (11 percent of Trinidad and Tobago's GDP). The collapse of the group and especially the insurance arms has had spillover effects in all 15 CARICOM states except for Jamaica and Haiti, with exposures as high as 17 percent of GDP (in the ECCU), leading to costly government interventions.

The group's assets rapidly expanded in recent years through costly sources of financing. The group's assets grew by 32 percent during 2005 to 2007, mainly financed by deposit-like annuity products through the group's insurance subsidiaries—CLICO and British American Insurance Company (BAICO). The returns offered on these were substantially higher than bank interest rates, while not being subject to stricter banking regulation and supervision. These resources were then channeled to finance real estate and other investments. With the deterioration of global economic conditions in 2008, many of CL Financial's subsidiaries faced liquidity and solvency pressures. Methanol Holdings, one of the largest methanol producers in the world and a big contributor of dividends to CL Financial, suffered losses following a collapse in methanol prices, and the group's real estate investments in Florida turned sour. As news of difficulties spread, investors rushed to withdraw funds, triggering the collapse of its three financial subsidiaries in Trinidad and Tobago.

The collapse highlighted weakness in the region's regulation and supervision of the insurance industry. The insurance law in Trinidad and Tobago dates from 1966. Although the law required that insurance companies pledge assets to the Statutory Fund to cover their liabilities, the requirement only needed to be met at the end of the year, and the annual statement only needed to be filed by mid-year, in the following year. A new insurance act was being developed at the time that CL Financial collapsed.

The Trinidad and Tobago authorities intervened in January 2009 to limit contagion to the rest of the financial system. In return for a capital injection of TT$5 billion to CLICO, the government received preferred shares as well as 49 percent of equity of CLICO, and appointed four of the seven members of CLF's Board of Directors including the Chairman. Moreover, the government provided TT$2.2 billion to facilitate the transfer of CLICO Investment Bank's third-party deposit liabilities to the state-owned First Citizens Bank and its purchase of Caribbean Money Market Brokers Limited. Despite government support, CLICO continued having difficulties with the sale of new insurance and rolling over existing investments.

The government announced a restructuring plan in the 2010/11 budget aimed at protecting small depositors while containing the fiscal cost. The announced plan would pay the claims of investors (including investors in CLICO mutual funds) up to TT$75,000 as they mature, and the remainder would be paid over twenty years with no interest. After review, the government is proceeding with the plan with some modification, including a TT$830 million liquidity window for credit/trade unions and educational institutions. Since the TT$75,000 cap applies to each policy contract, the vast majority of investments by credit/trade unions and educational institutions would have been rescheduled and credit/trade unions are not covered by the deposit insurance scheme. The government also opened a compassionate window for particularly vulnerable individuals. The authorities are now seeking a new agreement with CL Financial to provide for more scope to dispose of its assets to recover some of the government's costs.

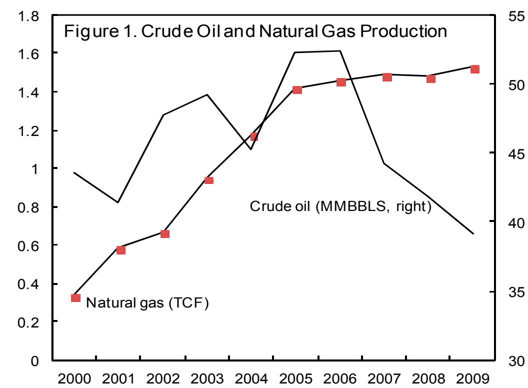
Box 2. Background Information on the Energy Sector

The energy sector is the pillar of Trinidad and Tobago's economy. In 2009, it accounted for 36 percent of nominal GDP (49 percent in 2008) and 85 percent of merchandise exports. The sector is composed of crude oil and natural gas production (57 percent), refining (18 percent), petrochemicals (13 percent), and services (13 percent). Despite its central role, the sector only employs about 3 percent of the labor force.

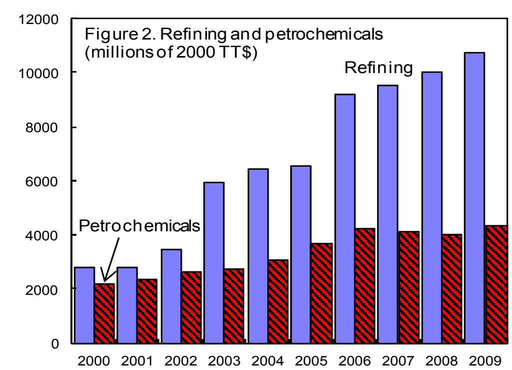
The energy industry has a mix of public and private sector participation with significant foreign involvement.

- **Petroleum.** Three foreign oil companies (BP, BHP Billiton, and REPSOL) accounted for almost half of the crude oil production in 2009, and the state oil and gas company Petrotrin (including its Trinmar operations) for a little more than one third. The smaller players include several domestic private companies who hold sub-leases and farmouts from Petrotrin. About half of crude oil produced is exported and the rest is refined locally. Petrotrin is the sole player in the petroleum refining business.

- **Natural gas.** Foreign companies dominate natural gas production with three companies (BP, British Gas, and EOG Resources) accounting for more than 90 percent of output. Liquefied natural gas (LNG) for export represents 60 percent of natural gas output, and the remainder is mainly used for ammonia and methanol production and power generation. Trinidad and Tobago is the largest exporter of LNG into the United States, and it is the world's leading exporter of ammonia and methanol. Private companies dominate the downstream industry.



In recent years, natural gas production has increased rapidly while crude oil production has declined (Figure 1). Oil production peaked in 1978 at 83.7 million barrels and has been on a declining trend since. Natural gas became the dominant sector beginning in the late 1990s, and as of end-2009, natural gas output (oil equivalent) was seven times the magnitude of crude oil output. Refinery and petrochemical output increased significantly in recent years (Figure 2), reflecting the government's emphasis on investment in higher value-added downstream products.



There have been no significant findings for several years and both oil and gas reserves face exhaustion in the medium term (Table 1). At the 2009 output level, proven and probable reserves will run out in 22 and 15 years for oil and gas respectively (13 and 10 years for proven reserves). The government has been encouraging more costly gas exploration in deep water. Sixteen exploration wells were drilled in fiscal year 2007/08 and total exploration cost amounted to US$879 million, about 3½ percent of GDP. Only one exploration well was drilled in fiscal year 2008/09 as a result of the global slowdown. The government received bids for all but one of the seven exploration blocks offered this year.

Table 1. Oil and Gas Reserves

	Proven	Probable	Possible
Oil (MMBBLS)-2007	606	335	1561
Gas (TCF) - 2009	14.42	7.84	5.89

Box 3. Financial Stability Module Assessment: Key Findings and Recommendations

An MCM mission to Trinidad and Tobago conducted the first ever Financial Stability Module (FSM) assessment under the Financial Sector Assessment Program (FSAP). The FSM mission focused on the banking and insurance sectors but noted that other financial institutions outside these sectors could also be systemically important.

The banking sector is resilient, despite the severe economic slowdown and problems associated with the collapse of CL Financial. This in part reflects the banking system's strong capitalization and conservative lending practices. Notwithstanding the increase in nonperforming loans, banks recorded strong profitability as the spread between the average lending and deposit rates has remained high. Stress tests suggest that the banking system has adequate buffers to withstand a further significant deterioration in the macroeconomic environment, owing to the high capital cushion and slower credit growth, but the high degree of credit concentration risk is a concern.

The authorities have taken major steps to strengthen regulation and supervision of the banking and insurance sectors. The 2008 Financial Institutions Act granted the central bank the power to issue compliance directions and introduced limits on large exposures and connected party lending among other changes. New insurance supervisory procedures have also been introduced including more frequent reporting and on-site inspections. However, some trust companies and finance houses could pose systemic risks, and warrant intensified supervision.

Specific policy recommendations:

Banking supervision: The framework for consolidated supervision should be fully implemented in supervisory practices. In addition, regulations need to be issued to strengthen capital requirements, by raising the risk weights on sovereigns, formalizing capital charges on market risk, and introducing capital requirements for operational risk.

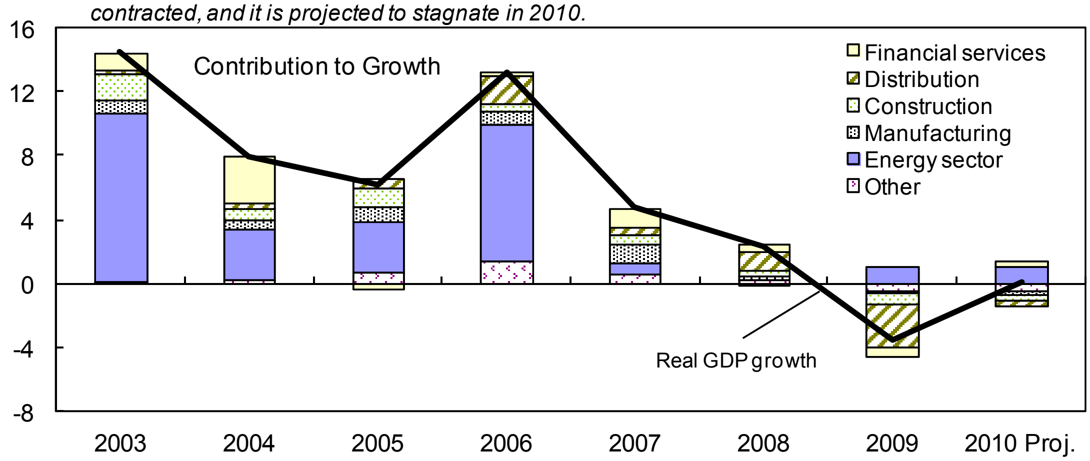
Insurance supervision: New legislation and the strengthening of personnel are required to deal with problematic insurance companies in an expeditious manner. The mission recommended complementing the draft insurance law with measures to bridge inefficiencies, duplication, and inconsistencies from having both statutory funds and risk-based supervision. The mission also noted that some small motor vehicle insurance companies are likely to be under-reserved for claims, and the industry needs improvement on consumer protection and market conduct.

Crisis preparedness: A modern efficient law is needed to accelerate the resolution of insolvent financial institutions and to maximize asset recovery. The mission strongly recommended improving the regulatory and supervisory framework for credit unions before extending emergency liquidity assistance and deposit insurance to these institutions. The authorities should also consider extending the safety net for certain insurance products to provide stability in times of stress.

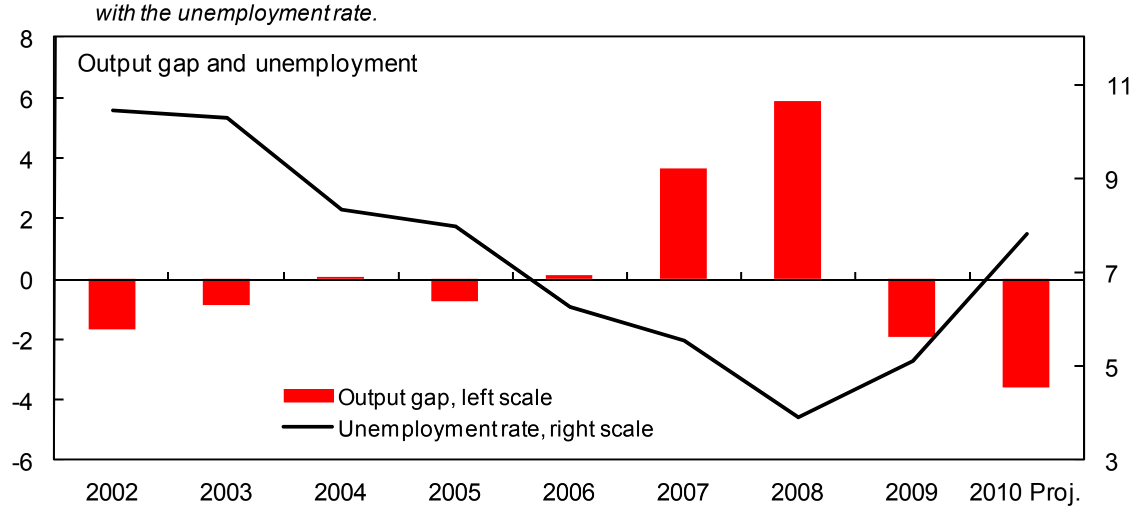
Additional Considerations. The CBTT should consider moving forward with the implementation of a supervisory framework to review banks' capital needs and improving the frequency and timeliness of bank-by-bank information to promote market discipline in line with Basel II, and eventually adopting Basel III.

Figure 1. Trinidad and Tobago: Real Sector Developments and Outlook
(In percent)

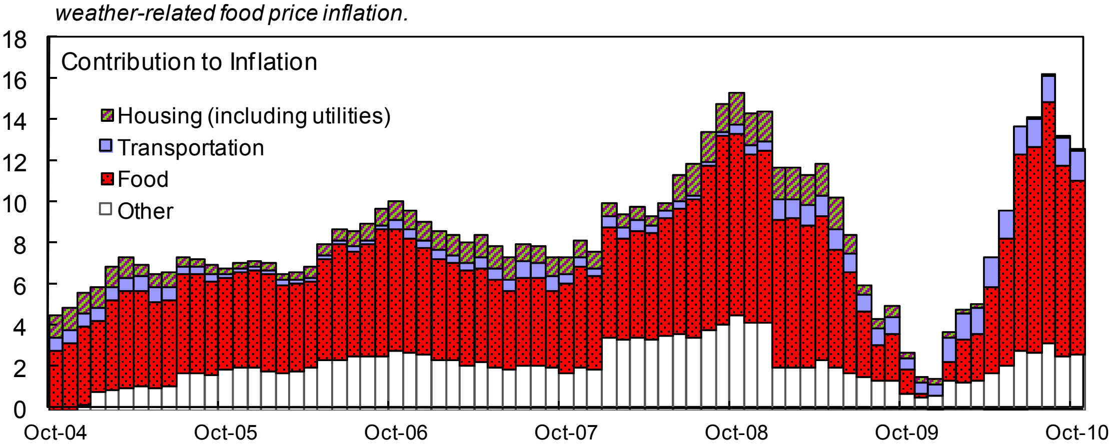
Growth slowed sharply in 2009 as the energy sector expanded moderately and other sectors contracted, and it is projected to stagnate in 2010.



The non-energy output gap, which turned negative in 2009, is rising rapidly in 2010 together with the unemployment rate.

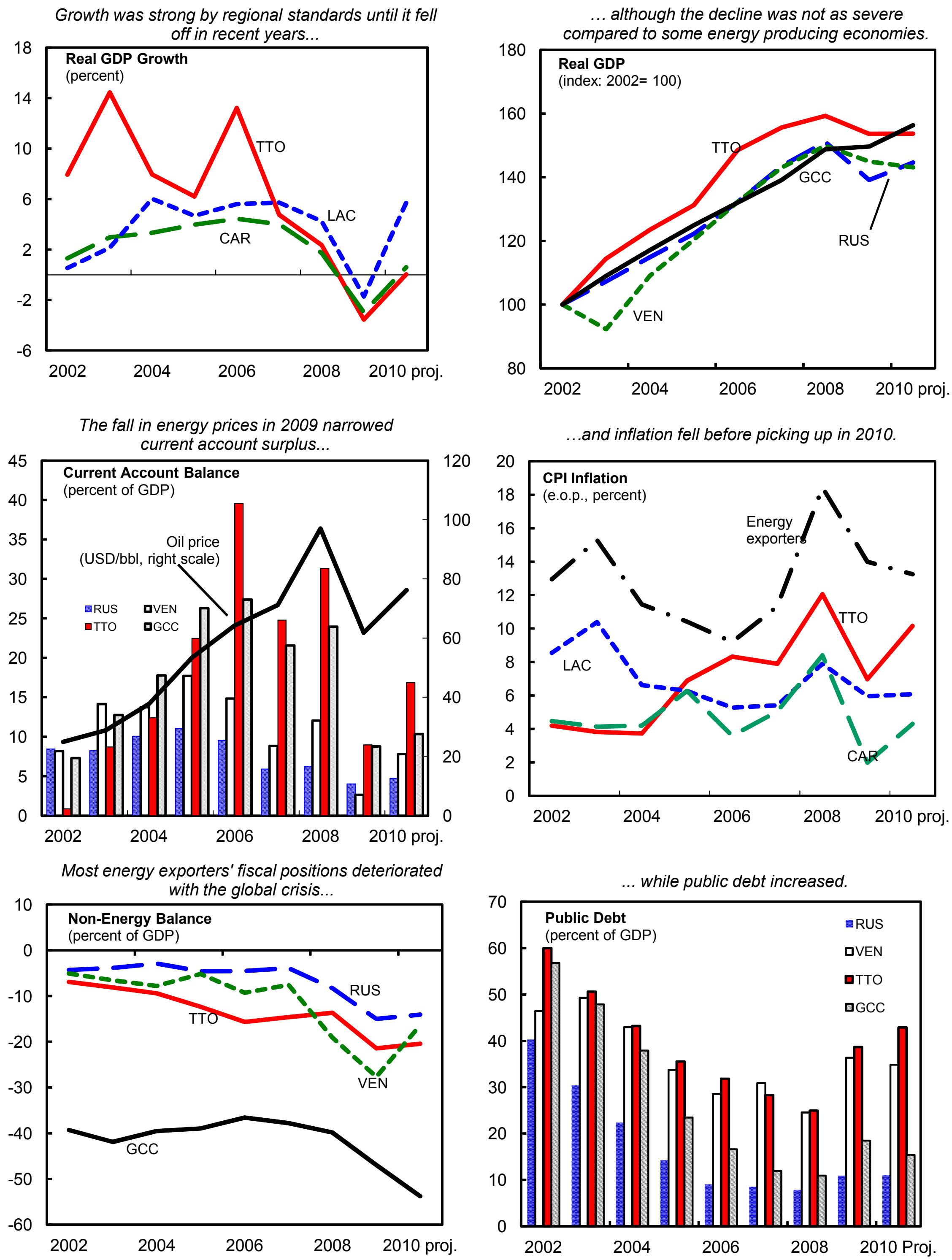


The inflation rate fell markedly towards the end of 2009, but picked up rapidly in 2010 due to rising weather-related food price inflation.



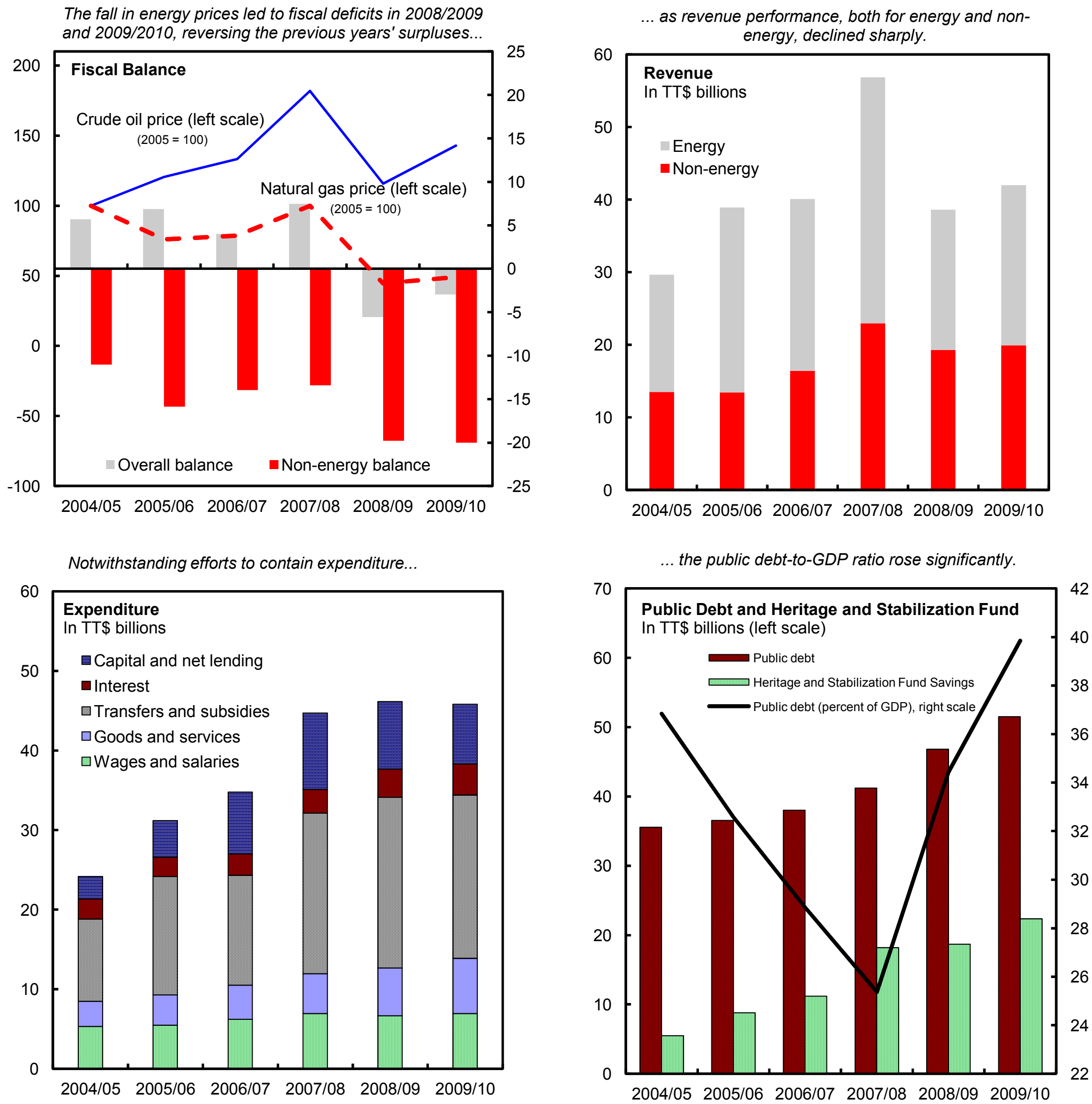
Sources: Trinidad & Tobago authorities; and IMF staff estimates.

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



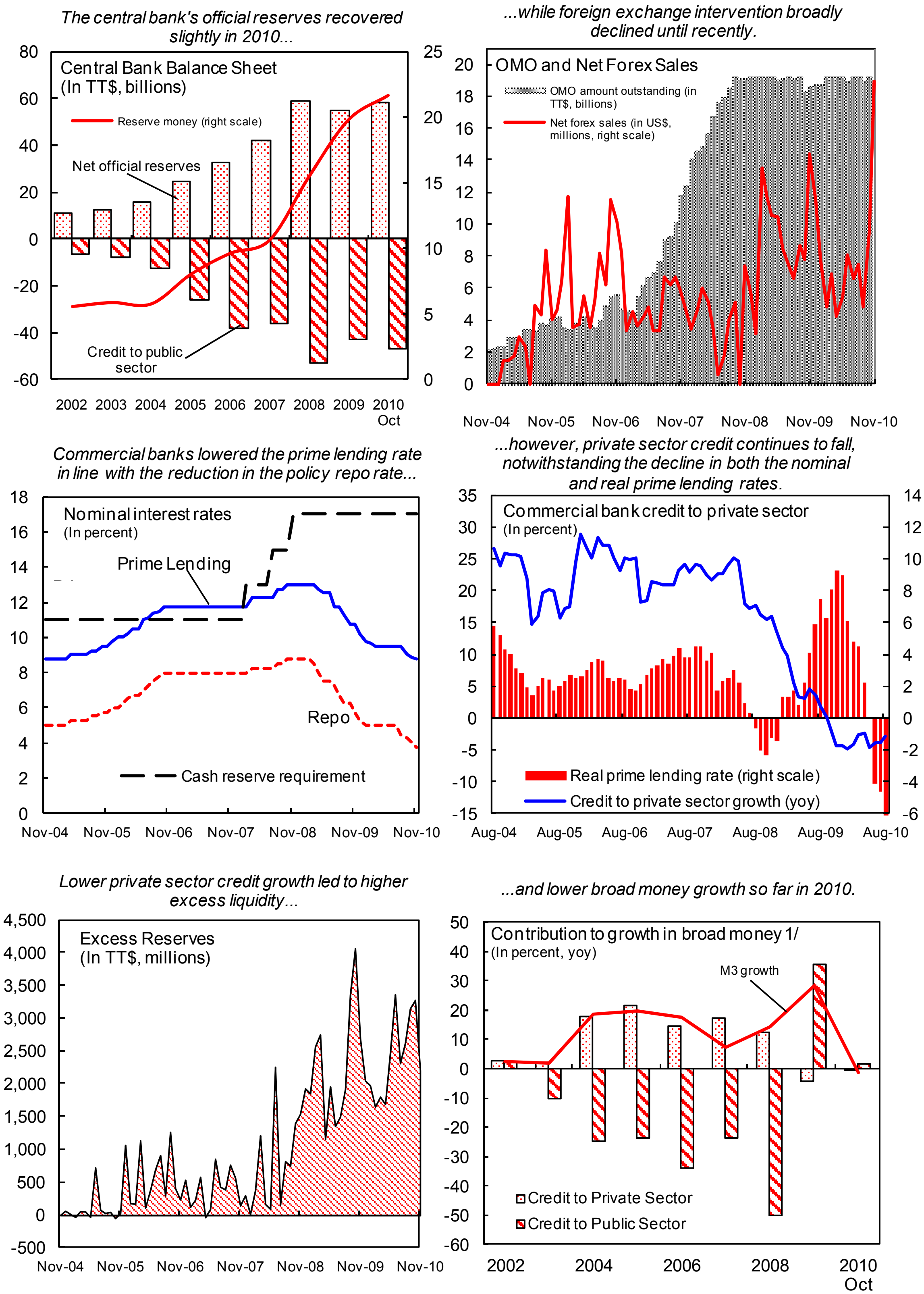
Sources: Trinidad & Tobago authorities; IMF/WEO; and Fund staff calculations.
1/ TTO stands for Trinidad & Tobago, VEN for Venezuela, RUS for Russia, GCC for Gulf Cooperation Council, LAC for Latin America and the Caribbean, CAR for members of CARICOM, excluding Haiti, and energy exporters are Russia,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

Figure 3. Trinidad & Tobago: Fiscal Sector Developments, 2004/05-2009/10



Source: Trinidad & Tobago authorities; and Fund staff calculations.

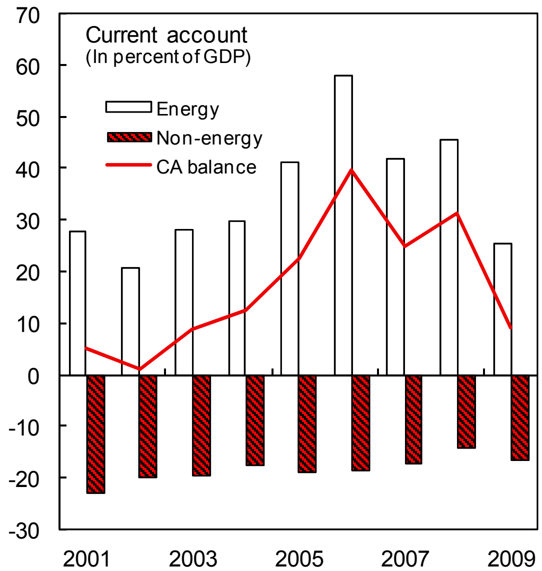
Figure 4. Trinidad & Tobago: Monetary Developments



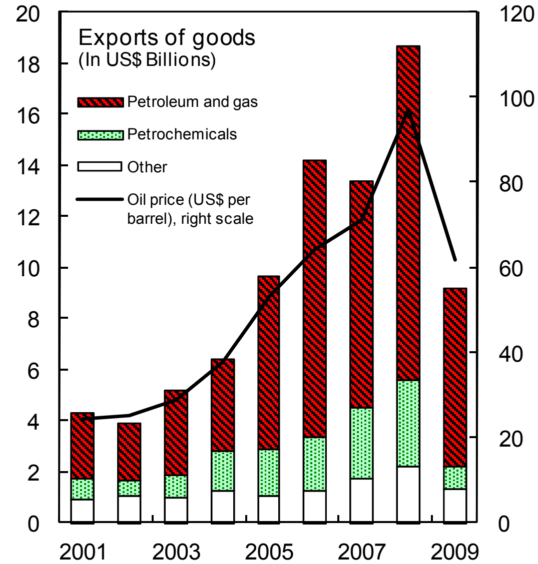
Sources: Trinidad & Tobago authorities; and Fund staff estimates.

Figure 5. Trinidad & Tobago: External Sector Developments, 2001-2009

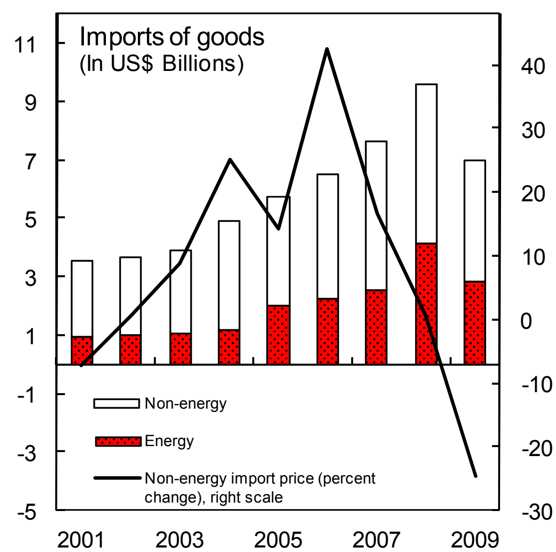
The current account surplus narrowed significantly in 2009...



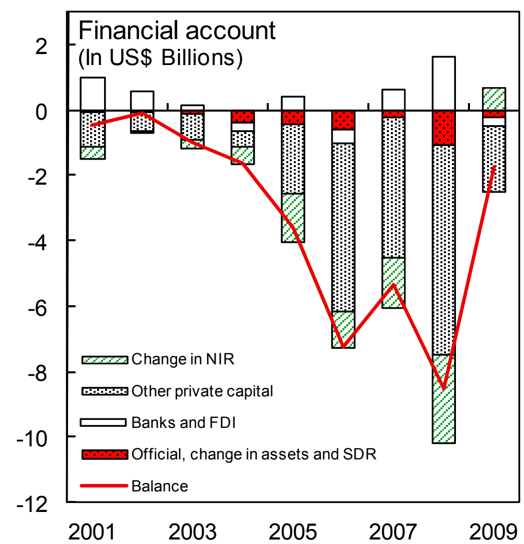
...as energy and other exports declined.



Lower import prices and weak domestic demand led to a lower value of imports...



...but financial outflows slowed.



Source: Trinidad & Tobago authorities, Fund staff estimates.

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

	2005	2006	2007	2008	2009	Proj. 2010	2011
	(Annual percentage changes, unless otherwise indicated)						
Output and prices							
Real GDP	6.2	13.2	4.8	2.4	-3.5	0.0	2.0
Energy	8.3	21.8	1.7	-0.2	2.6	2.4	1.8
Non-energy	5.0	6.1	7.6	4.2	-7.2	-1.7	2.2
GDP deflator	13.3	1.7	12.8	21.9	-24.7	5.5	5.0
Consumer prices (headline)							
End-of-period	7.2	9.1	7.6	14.5	1.3	10.4	6.0
Average	6.9	8.3	7.9	12.0	7.0	10.2	8.2
Consumer prices (core)							
End-of-period	2.6	4.6	3.9	7.2	2.2	4.0	4.0
Average	2.7	3.6	4.3	6.2	4.1	4.1	4.0
Unemployment rate	8.0	6.2	5.6	3.9	5.1	7.8	7.0
Real effective exchange rate (2000=100)	107.2	111.4	114.3	121.8	132.7	...	...
	(In percent of fiscal year GDP, unless otherwise indicated)						
Nonfinancial public sector (NFPS) 1/							
Central government overall balance, excluding CLICO support	5.7	6.9	4.0	7.5	-5.6	-3.0	-4.4
CLICO support					-1.4	-2.6	-8.6
Of which: non-energy balance 2/	-11.0	-15.9	-14.7	-13.7	-19.8	-20.0	-21.3
Budgetary revenue	30.7	34.7	30.4	35.0	28.4	32.5	31.8
Budgetary expenditure	25.0	27.8	26.4	27.5	34.0	35.4	36.2
Of which : interest expenditure	2.6	2.2	2.0	1.8	2.6	3.0	3.0
Of which : capital expenditure	2.9	4.1	5.9	5.9	6.3	5.8	5.1
Overall statutory bodies balance	-0.7	1.0	0.3	-0.3	0.0	0.0	0.1
Overall public enterprises balance	-1.0	-1.7	-0.7	1.0	-3.4	-5.9	-5.7
Overall NFPS balance	4.0	6.1	3.6	8.2	-9.0	-8.8	-10.0
Central government debt 3/	20.7	17.2	16.2	14.7	18.8	22.4	33.4
Public sector debt 3/	36.8	32.6	28.9	25.4	34.4	39.8	50.9
Heritage and Stabilization Fund	5.7	7.8	8.5	11.2	13.8	17.3	16.9
	(In percent of GDP, unless otherwise indicated)						
External sector							
Current account balance	22.5	39.6	24.8	31.3	9.0	16.9	19.4
Of which							
Exports of goods	60.5	77.4	61.9	68.8	46.7	54.6	56.7
Imports of goods	35.8	35.5	35.4	35.4	35.5	36.1	35.5
External public sector debt	8.1	6.8	6.0	4.8	5.2	5.1	8.5
Gross official reserves (in US$ million)	3,871	5,120	6,660	9,365	8,653	9,103	9,253
In months of goods and services imports	7.4	8.9	9.9	11.3	14.3	14.2	13.7
In percent of M3	79.8	89.7	109.1	133.2	97.2	98.8	90.4
	(Percentage changes in relation to beginning-of-period M3)						
Money and credit							
Net foreign assets	42.6	52.6	29.7	67.6	-2.2	2.1	11.1
Net domestic assets	-23.0	-34.9	-22.3	-53.1	30.3	1.4	-0.1
Of which: credit to the private sector	21.6	14.9	17.6	12.6	-4.0	-2.4	3.1
Broad money (M3)	19.6	17.7	7.4	14.4	28.1	3.5	11.0
M3 velocity	3.3	3.2	3.5	3.9	2.2	2.2	2.2
Memorandum items:							
Nominal GDP (in billions of TT$)	100.7	116.0	137.0	170.9	124.1	131.0	140.3
Exchange rate (TT$/US$, end of period) 4/	6.31	6.31	6.34	6.30	6.37	6.36	...
Crude oil price (US$/barrel) 5/	53.4	64.3	71.1	97.0	61.8	76.2	78.8
Public expenditure (in percent of non-energy GDP)	45.1	52.7	53.1	55.0	53.7	54.0	55.4
Natural gas price (US$ per mmbtu) 6/	8.9	6.7	7.0	8.9	3.9	4.4	4.6

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

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

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

3/ Excluding debt issued for sterilization.

4/ The 2010 figure is as of November 2010.

5/ WEO simple average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh.

6/ WEO natural gas spot price at the Henry Hub terminal in Louisiana.

Table 2. Trinidad and Tobago: Summary Balance of Payments

					Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of U.S. dollars unless otherwise indicated)									
Current account balance	**7,271**	**5,364**	**8,518**	**1,759**	**3,469**	**4,275**	**5,008**	**5,382**	**6,039**	**6,727**
Trade balance	7,700	5,721	9,064	2,202	3,817	4,676	5,477	5,855	6,548	7,286
Exports	14,217	13,391	18,686	9,175	11,235	12,495	13,808	14,704	15,903	17,191
Petroleum crude and refined	5,961	3,891	7,211	3,115	4,541	4,662	4,843	4,968	5,023	5,097
Natural gas	4,870	4,987	5,864	3,844	3,270	3,921	4,550	4,875	5,470	6,087
Petrochemicals	2,124	2,763	3,407	880	1,602	1,877	2,163	2,360	2,634	2,928
Other	1,262	1,751	2,204	1,336	1,822	2,034	2,253	2,501	2,776	3,080
Imports	6,517	7,670	9,622	6,973	7,418	7,819	8,331	8,849	9,354	9,905
Fuel imports	2,282	2,569	4,130	2,843	2,693	2,832	3,011	3,157	3,261	3,377
Capital	1,741	1,919	2,322	1,925	1,971	2,048	2,143	2,248	2,360	2,480
Other	2,494	3,182	3,170	2,205	2,754	2,938	3,177	3,444	3,734	4,048
Services and transfers (net)	-429	-357	-546	-443	-349	-401	-469	-473	-509	-559
Nonfactor services (net)	451	546	609	721	835	905	971	1,037	1,105	1,174
Receipts	814	924	936	1,024	1,133	1,210	1,284	1,360	1,439	1,518
Payments	363	378	327	303	298	305	313	323	333	344
Factor income (net)	-936	-964	-1,202	-1,220	-1,212	-1,335	-1,469	-1,539	-1,645	-1,763
Heritage and Stabilization Fund	23	267	310	133	153	165	172	180	188	191
Other	-959	-1,231	-1,512	-1,351	-1,365	-1,500	-1,641	-1,720	-1,833	-1,954
Current transfers (net)	56	61	47	56	28	29	29	30	30	31
Capital and financial account (net) 1/	**-6,152**	**-4,178**	**-5,813**	**-2,472**	**-3,019**	**-4,125**	**-4,820**	**-5,191**	**-5,883**	**-6,477**
Official, medium- and long-term (net)	-65	177	64	-197	216	820	915	1,057	1,199	1,234
Disbursements	182	239	130	143	434	972	1,129	1,342	1,567	1,697
Amortization	-247	-62	-66	-340	-217	-152	-213	-285	-368	-463
Change in assets, including HSF	-526	-392	-1,108	0	-440	0	0	0	0	0
Direct investment (net)	513	830	2,100	511	602	612	621	630	669	708
Inward	883	830	2,800	511	884	900	916	932	979	1,026
Outward	370	0	700	0	282	288	295	302	310	318
Commercial banks (net)	-742	88	-353	-675	778	-721	-738	-757	-776	-796
Regional bond issues	-200	-252	-82	-120	-164	-154	-130	-142	-147	-143
Other private sector capital (net) 1/	-5,132	-4,629	-6,434	-1,991	-4,012	-4,682	-5,489	-5,979	-6,826	-7,479
Of which: net errors and omissions	-603	-355	-492	-250	0	0	0	0	0	0
Overall balance	1,119	1,541	2,705	-713	450	150	188	191	157	251
Change in gross official reserves (increase -)	-1,119	-1,540	-2,706	713	-450	-150	-188	-191	-157	-251
	(In percent of GDP, unless otherwise specified)									
Memorandum items:										
Current account balance	39.6	24.8	31.3	9.0	16.9	19.4	20.9	20.7	21.4	21.9
Energy 2/	58.1	41.9	45.4	25.5	32.7	34.6	35.7	34.9	35.0	35.0
Exports of goods	77.4	61.9	68.8	46.7	54.6	56.7	57.6	56.7	56.4	56.1
Imports of goods	35.5	35.4	35.4	35.5	36.1	35.5	34.8	34.1	33.2	32.3
Gross international reserves 3/	5,120	6,660	9,365	8,653	9,103	9,253	9,441	9,632	9,788	10,039
In months of goods and services imports	8.9	9.9	11.3	14.3	14.2	13.7	13.1	12.6	12.1	11.8
Heritage and Stabilization Fund 3/	1,397	1,788	2,900	3,075	3,545	3,706	3,875	4,051	4,236	4,428
Crude oil price (US$/barrel) 4/	64.3	71.1	97.0	61.8	76.2	78.8	82.3	84.8	86.0	87.5
Natural gas price (US$ per mmbtu) 5/	6.7	7.0	8.9	3.9	4.4	4.6	5.3	5.6	6.1	6.7
Central government external debt (in millions of US$)	1,258	1,313	1,488	1,497	1,525	2,349	3,177	4,131	5,193	6,383
GDP (in billions of US$)	18.4	21.6	27.2	19.6	20.6	22.0	24.0	26.0	28.2	30.7
Real GDP growth (in percent)	13.2	4.8	2.4	-3.5	0.0	2.0	2.4	2.6	2.6	2.6

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

1/ Includes net errors and omissions.
2/ Consists of petroleum, natural gas and petrochemical exports less fuel imports.
3/ In millions of US$, end of period.
4/ WEO simple average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh.
5/ WEO natural gas spot price at the Henry Hub terminal in Louisiana.

Table 3. Trinidad and Tobago: Summary of the Central Government Operations 2004-11 1/

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 Budget	2010/11 Proj.
	(In millions of Trinidad and Tobago dollars)							
Revenue	**29,648**	**38,911**	**40,064**	**56,848**	**38,580**	**41,983**	**41,263**	**43,883**
Energy	16,146	25,503	23,665	33,892	19,312	22,037	19,391	23,320
Non-energy	13,502	13,408	16,399	22,956	19,268	19,946	21,872	20,563
Expenditure	**24,141**	**31,198**	**34,773**	**44,715**	**46,153**	**45,805**	**49,973**	**49,973**
Current	21,342	26,602	27,011	35,106	37,646	38,322	42,923	42,923
Wages and salaries	5,309	5,456	6,221	6,947	6,657	6,934	7,625	7,625
Goods and services	3,170	3,811	4,284	5,002	6,001	6,945	8,433	8,433
Interest payments	2,542	2,453	2,698	2,967	3,521	3,917	4,335	4,335
Transfers and subsidies	10,322	14,882	13,808	20,190	21,466	20,526	22,531	22,531
Capital expenditure and net lending	2,799	4,596	7,762	9,609	8,507	7,483	7,050	7,050
Non-energy balance	**-10,639**	**-17,790**	**-18,374**	**-21,759**	**-26,885**	**-25,859**	**-28,101**	**-29,410**
Overall balance	**5,507**	**7,713**	**5,291**	**12,133**	**-7,573**	**-3,822**	**-8,710**	**-6,090**
CLICO financial support					**1,900**	**3,400**	**2,100**	**11,900**
Overall balance including CLICO					**-9,473**	**-7,222**	**-10,810**	**-17,990**
Total financing including CLICO	**-5,507**	**-7,713**	**-5,291**	**-12,133**	**9,473**	**7,222**	**8,710**	**6,090**
Foreign financing	-1,273	-306	690	702	33	-1,540	5,140	3,393
Domestic financing	-4,235	-7,407	-5,982	-12,835	9,440	8,762	3,570	14,597
of which: transfers from Infrastructure Development Fund	-500	-2,727	1,653	-2,570	2,800	2,804	1,000	1,000
of which: transfers to Heritage and Stabilization Fund	-2,593	-3,160	-2,030	-6,588	0	-2,800	0	0
	(In percent of GDP)							
Revenue	**30.7**	**34.7**	**30.4**	**35.0**	**28.4**	**32.5**	**29.4**	**31.8**
Energy	16.7	22.7	18.0	20.9	14.2	17.0	13.8	16.9
Non-energy	14.0	12.0	12.5	14.1	14.2	15.4	15.6	14.9
Expenditure	**25.0**	**27.8**	**26.4**	**27.5**	**34.0**	**35.4**	**35.6**	**36.2**
Current	22.1	23.7	20.5	21.6	27.7	29.6	30.5	31.1
Wages and salaries	5.5	4.9	4.7	4.3	4.9	5.4	5.4	5.5
Goods and services	3.3	3.4	3.3	3.1	4.4	5.4	6.0	6.1
Interest payments	2.6	2.2	2.0	1.8	2.6	3.0	3.1	3.1
Transfers and subsidies	10.7	13.3	10.5	12.4	15.8	15.9	16.0	16.3
Capital expenditure and net lending	2.9	4.1	5.9	5.9	6.3	5.8	5.0	5.1
Non-energy balance	**-11.0**	**-15.9**	**-14.0**	**-13.4**	**-19.8**	**-20.0**	**-20.0**	**-21.3**
Non-energy balance in percent of non-energy GDP	**-19.9**	**-30.1**	**-25.8**	**-26.1**	**-32.9**	**-31.7**	**-32.6**	**-34.1**
Overall balance	**5.7**	**6.9**	**4.0**	**7.5**	**-5.6**	**-3.0**	**-6.2**	**-4.4**
Overall balance including CLICO					**-7.0**	**-5.6**	**-7.7**	**-13.0**
Memorandum items:								
Central government debt (in percent of GDP) 2/	20.7	17.2	16.2	14.7	18.8	22.4	26.6	33.4
Public sector debt (in percent of GDP) 2/	36.8	32.6	28.9	25.4	34.4	39.8	52.1	50.9
Crude oil price (US$/barrel) 3/	49.9	63.4	64.0	104.9	56.9	76.6	…	77.1
Natural gas (US$ per mmbtu, Henry Hub) 3/	7.4	8.2	6.9	9.0	4.5	4.4	4.4	4.4
Budget oil price (US$/barrel)	32.8	44.9	45.0	50.0	55.0	55.0	65.0	…
Budget natural gas price (US$ per mmbtu, netback)	…	…	…	…	3.3	2.8	2.8	2.8
Nominal GDP (in billions of TT$, FY)	96.4	112.1	131.7	162.4	135.8	129.3	140.5	138.0

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.
3/ World Economic Outlook: fiscal year basis.

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

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Proj. 2010/11
				I. Nonfinancial Public Sector			
Current balance	8.4	13.0	11.4	16.5	1.6	2.6	0.2
Capital revenue and transfers	3.3	4.3	3.7	3.1	3.2	2.9	2.9
Capital expenditure and net lending	7.6	11.1	11.5	11.4	13.8	14.3	13.1
Non-energy balance	**-12.7**	**-16.6**	**-15.1**	**-13.0**	**-23.2**	**-25.9**	**-26.9**
Overall balance	**4.0**	**6.1**	**3.6**	**8.2**	**-9.0**	**-8.8**	**-10.0**
Public sector debt 1/	**36.8**	**32.6**	**28.9**	**25.4**	**34.4**	**39.8**	**50.9**
				II. Central Government			
Current balance	8.6	11.0	9.9	13.4	0.7	2.8	0.7
Current revenue	30.7	34.7	30.4	35.0	28.4	32.5	31.8
Current expenditure	22.1	23.7	20.5	21.6	27.7	29.6	31.1
Capital revenue and grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	2.9	4.1	5.9	5.9	6.3	5.8	5.1
Non-energy balance	**-11.0**	**-15.9**	**-14.7**	**-13.7**	**-19.8**	**-20.0**	**-21.3**
Overall balance	**5.7**	**6.9**	**4.0**	**7.5**	**-5.6**	**-3.0**	**-4.4**
Central government debt 1/	**20.7**	**17.2**	**16.2**	**14.7**	**18.8**	**22.4**	**33.4**
				III. Statutory Bodies 2/			
Current balance	-1.2	-0.6	-0.8	-0.8	-0.8	-0.8	-0.7
Current revenue	2.6	2.3	2.3	2.1	2.6	2.9	2.9
Current expenditure	3.8	2.9	3.1	2.9	3.4	3.7	3.6
Capital revenue and transfers	1.0	1.9	1.6	1.3	1.7	1.7	1.7
Capital expenditure and net lending	0.5	0.4	0.5	0.8	0.9	0.9	1.0
Overall balance	**-0.7**	**1.0**	**0.3**	**-0.3**	**0.0**	**0.0**	**0.1**
Debt 3/	**8.0**	**7.5**	**6.9**	**6.2**	**7.7**	**7.7**	**7.6**
				IV. Public Enterprises 4/			
Current balance	0.9	2.6	2.3	4.0	1.7	0.6	0.2
Current revenue	35.7	38.6	33.5	39.5	30.2	33.4	32.1
Current expenditure	34.8	36.1	31.2	35.5	28.5	32.8	31.9
Capital revenue and transfers	2.3	2.4	2.1	1.8	1.5	1.2	1.1
Capital expenditure and net lending	4.3	6.7	5.1	4.7	6.6	7.6	7.1
Overall balance	**-1.0**	**-1.7**	**-0.7**	**1.0**	**-3.4**	**-5.9**	**-5.7**
Debt 3/	**8.2**	**7.9**	**5.8**	**4.5**	**7.9**	**9.7**	**9.4**
Memorandum item:							
Nominal GDP (in TT$ million, FY)	96,425	112,134	131,702	162,441	135,821	129,262	138,006

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

1/ Refers to gross debt, including BOLT and leases.
2/ Includes Public Transport Company, Electricity Company, Water Authority, Airport Authority and Port Authority.
3/ Refers to gross debt, and includes government guaranteed debt and letters of comfort.
4/ Includes CARONI, MTS, NFM, NHSL, NPMC, NQCL, NGC, PETROTRIN, PLIPDECO, SWMCOL, TTMF, TTST, and UDECOTT.

Table 5. Trinidad and Tobago: Monetary Survey

	2005	2006	2007	2008	2009	Projections 2010	2011
	(In millions of Trinidad and Tobago dollars)						
Net foreign assets	32,808	48,925	59,617	85,772	84,808	86,028	92,575
Official net foreign assets	30,447	40,777	53,084	76,606	71,252	77,428	79,400
Commercial banks net foreign assets	2,361	8,149	6,534	9,166	13,556	8,600	13,175
Net domestic assets	-2,190	-12,881	-20,917	-41,484	-28,069	-27,293	-27,356
Net credit to public sector	-16,295	-26,545	-35,029	-54,278	-38,383	-35,854	-35,106
Central government	-16,939	-24,603	-32,257	-49,984	-35,086	-35,336	-34,557
Rest of the public sector	644	-1,942	-2,771	-4,294	-3,297	-518	-548
Of which							
Statutory bodies and public utilities	368	-689	-443	-518	-711	-1,100	-1,164
Public enterprises	366	-907	-2,155	-3,422	-2,286	900	952
Credit to private sector	24,662	29,225	35,574	40,452	38,689	37,318	39,127
Other items (net)	-10,558	-15,561	-21,462	-27,659	-28,375	-28,758	-31,377
Liabilities to private sector (M3)	30,617	36,044	38,700	44,288	56,739	58,734	65,219
Currency in circulation	2,425	2,654	3,183	3,434	3,850	3,985	4,425
Demand deposits	9,069	9,943	10,622	12,722	15,339	15,878	17,631
Time deposits	4,722	5,832	6,360	7,901	10,695	11,071	12,293
Savings deposits	12,727	15,220	16,856	19,051	25,689	26,593	29,529
Fund-raising instruments 1/	1,674	2,395	1,680	1,180	1,167	1,208	1,341
	(Changes in percent of beginning-of-period M3)						
Net foreign assets	42.6	52.6	29.7	67.6	-2.2	2.1	11.1
Net domestic assets	-23.0	-34.9	-22.3	-53.1	30.3	1.4	-0.1
Net credit to public sector	-23.6	-33.5	-23.5	-49.7	35.9	4.5	1.3
Of which : central government	-26.7	-25.0	-21.2	-45.8	33.6	-0.4	1.3
Credit to private sector	21.6	14.9	17.6	12.6	-4.0	-2.4	3.1
Other items (net)	-20.9	-16.3	-16.4	-16.0	-1.6	-0.7	-4.5
Liabilities to private sector (M3)	19.6	17.7	7.4	14.4	28.1	3.5	11.0
Memorandum items:							
Credit to private sector (12-month increase)	28.8	18.5	21.7	13.7	-4.4	-3.5	4.8
M3 Velocity	3.3	3.2	3.5	3.9	2.2	2.2	2.2

Source: Central Bank of Trinidad and Tobago.

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

Table 6. Trinidad and Tobago: Indicators of External and Financial Vulnerability
(In percent, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
External indicators							
Exports (percent change, 12-month basis in US$)	23.0	51.0	47.0	-5.8	39.5	-50.9	22.5
Imports (percent change, 12-month basis in US$)	25.1	17.0	13.8	17.7	25.4	-27.5	6.4
Terms of trade (percent change)	0.2	1.8	-2.1	-0.8	2.1	-0.5	-0.1
Current account balance (in percent of GDP)	12.4	22.5	39.6	24.8	31.3	9.0	16.9
Capital and financial account balance (in percent of GDP)	-8.4	-13.2	-33.5	-17.7	-21.4	-12.6	-14.7
Gross official reserves (in US$ millions)	2,499	3,871	5,120	6,660	9,365	8,653	9,103
Official reserves in months of imports of goods	5.7	7.4	8.9	9.9	11.3	14.3	14.2
Ratio of reserves to broad money	61.5	79.8	89.7	109.1	133.2	97.2	98.8
Ratio of total public sector external debt to exports of						55147.983	58016.06
goods and services	20.1	12.3	8.4	9.2	7.6	14.7	12.3
Ratio of public sector external interest payments to exports of							
goods and services	1.5	0.9	0.6	0.7	0.5	1.1	0.8
Public sector debt service to exports of goods and services	4.6	1.8	2.3	1.1	0.9	4.4	2.6
REER appreciation CPI-based (percent change)	-1.3	2.1	3.9	2.6	6.6	8.9	…
Foreign currency debt rating, (Moody's, end of period) 1/	Baa3	Baa2	Baa1	Baa1	Baa1	Baa1	Baa1
Foreign currency debt rating, (Standard & Poor's, end of period) 1/	BBB+	A-	A-	A-	A	A	A
Financial indicators 2/							
90-day treasury bill, average discount rate	4.8	4.9	6.1	6.9	7.0	2.7	0.9
90-day treasury bill, real rate	1.1	-2.0	-2.2	-1.0	-5.0	-4.5	-8.7
Foreign currency loans-to-total loans	26.8	23.9	23.2	21.4	23.0	22.8	20.0
Net open position in foreign exchange-to-capital	-0.9	-13.9	-3.5	-12.1	0.5	5.3	2.2
Foreign exchange deposits (in percent of total deposits)	27.0	22.3	25.8	25.9	29.4	31.6	25.7
Foreign exchange deposits (in percent of gross international reserves)	50.6	33.5	35.1	30.4	28.6	41.6	30.9
Capital adequacy							
Regulatory capital to risk-weighted assets	19.3	18.2	18.0	19.1	18.8	20.5	23.3
Regulatory Tier I capital to risk-weighted assets	17.4	16.4	16.2	17.0	15.5	18.5	18.5
Regulatory Tier II capital-to-risk-weighted assets	1.9	1.7	1.9	2.1	4.4	4.6	4.8
Banking sector asset quality							
Nonperforming loans-to-gross loans	3.9	1.7	1.4	0.7	1.0	3.4	3.9
Nonperforming loans (net of provisions)-to-capital	7.9	2.3	2.3	-0.3	1.1	3.7	5.0
Specific provisions-to-impaired assets	40.3	67.7	60.9	109.7	72.4	69.8	61.0
Specific provisions-to-gross lending	1.6	1.1	0.8	0.8	0.7	2.4	2.4
Banking sector earnings and profitability							
Return on equity	27.5	32.5	25.2	27.7	25.9	20.2	18.6
Return on assets	3.7	3.2	3.4	3.4	3.5	2.7	2.5
Interest margin-to-gross income	50.9	58.4	61.7	61.4	65.2	66.6	67.5
Spread between average lending and deposit rates	7.4	7.1	7.4	7.9	8.3	10.1	9.3
Banking sector liquidity							
Liquid assets-to-total assets	14.8	15.0	20.1	17.0	22.1	25.0	22.3
Liquid assets-to-total short-term liabilities	20.5	21.9	26.9	22.6	30.0	32.5	29.7
Foreign currency liabilities-to-total liabilities	37.8	35.8	34.6	33.8	32.7	33.1	27.4

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

1/ For 2010, as of end October 2010.

2/ For commercial banks only. The 2010 data refer to September 2010.

Table 7. Trinidad and Tobago: Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual						Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	**36.8**	**32.6**	**28.9**	**25.4**	**34.4**	**39.8**	**50.9**	**52.3**	**53.8**	**55.6**	**57.5**	**-1.0**
o/w foreign-currency denominated	8.6	7.1	6.1	5.7	7.2	6.9	8.9	11.1	13.4	15.6	17.9	
Change in public sector debt	-8.3	-4.3	-3.7	-3.5	9.1	5.4	11.1	1.4	1.5	1.8	2.0	
Identified debt-creating flows (4+7+12)	-11.5	-11.3	-8.5	-13.7	14.0	10.6	7.5	3.4	3.4	3.3	2.5	
Primary deficit	-6.7	-8.3	-5.7	-10.0	6.4	5.8	7.0	4.1	4.2	4.2	3.5	
Revenue and grants	31.6	38.2	33.2	39.6	30.6	33.2	32.2	34.3	33.7	33.1	30.4	
Primary (noninterest) expenditure	24.9	29.9	27.5	29.6	37.0	39.0	39.2	38.4	37.9	37.3	33.9	
Automatic debt dynamics 2/	-4.8	-3.0	-2.8	-3.7	7.6	4.8	0.5	-0.7	-0.7	-0.8	-1.0	
Contribution from interest rate/growth differential 3/	-4.8	-3.0	-2.8	-3.6	7.6	4.8	0.5	-0.7	-0.7	-0.8	-1.0	
Of which contribution from real interest rate	-2.3	0.7	-0.9	-2.9	6.9	4.5	1.1	0.4	0.5	0.4	0.3	
Of which contribution from real GDP growth	-2.5	-3.7	-1.9	-0.7	0.6	0.3	-0.6	-1.1	-1.2	-1.3	-1.3	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	3.1	7.0	4.8	10.2	-4.9	-5.2	3.6	-2.0	-1.9	-1.6	-0.5	
Public sector debt-to-revenue ratio 1/	116.7	85.2	86.8	64.0	112.7	120.2	158.1	152.5	159.6	167.9	188.9	
Gross financing need 6/	0.8	-2.5	-0.9	-6.6	10.8	11.9	12.5	9.5	9.2	9.1	7.6	
in billions of U.S. dollars	0.1	-0.4	-0.2	-1.7	2.3	2.4	2.7	2.2	2.4	2.5	2.3	
Scenario with key variables at their historical averages 7/						**39.8**	**37.1**	**29.2**	**21.9**	**15.2**	**9.7**	**-0.4**
Scenario with no policy change (constant primary balance) in 2010-2015						**39.8**	**49.7**	**52.8**	**56.0**	**59.3**	**63.5**	**-1.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.6	11.5	6.7	2.9	-2.1	-0.9	1.5	2.3	2.5	2.6	2.6	
Average nominal interest rate on public debt (in percent) 8/	7.0	6.9	7.4	7.8	8.5	8.4	8.1	6.9	6.9	6.8	6.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-5.3	2.6	-2.7	-12.0	23.1	12.4	3.0	1.0	1.1	1.0	0.8	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	-0.2	-0.2	0.4	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	12.3	4.3	10.1	19.8	-14.6	-4.0	5.2	5.9	5.7	5.8	6.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	15.1	34.1	-1.9	10.7	22.2	4.5	2.1	0.4	1.0	0.9	-6.7	
Primary deficit	-6.7	-8.3	-5.7	-10.0	6.4	5.8	7.0	4.1	4.2	4.2	3.5	

1/ Includes nonfinancial public sector debt, excluding debt issued for sterilization. Data is on a fiscal year basis including GDP growth.

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

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

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

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

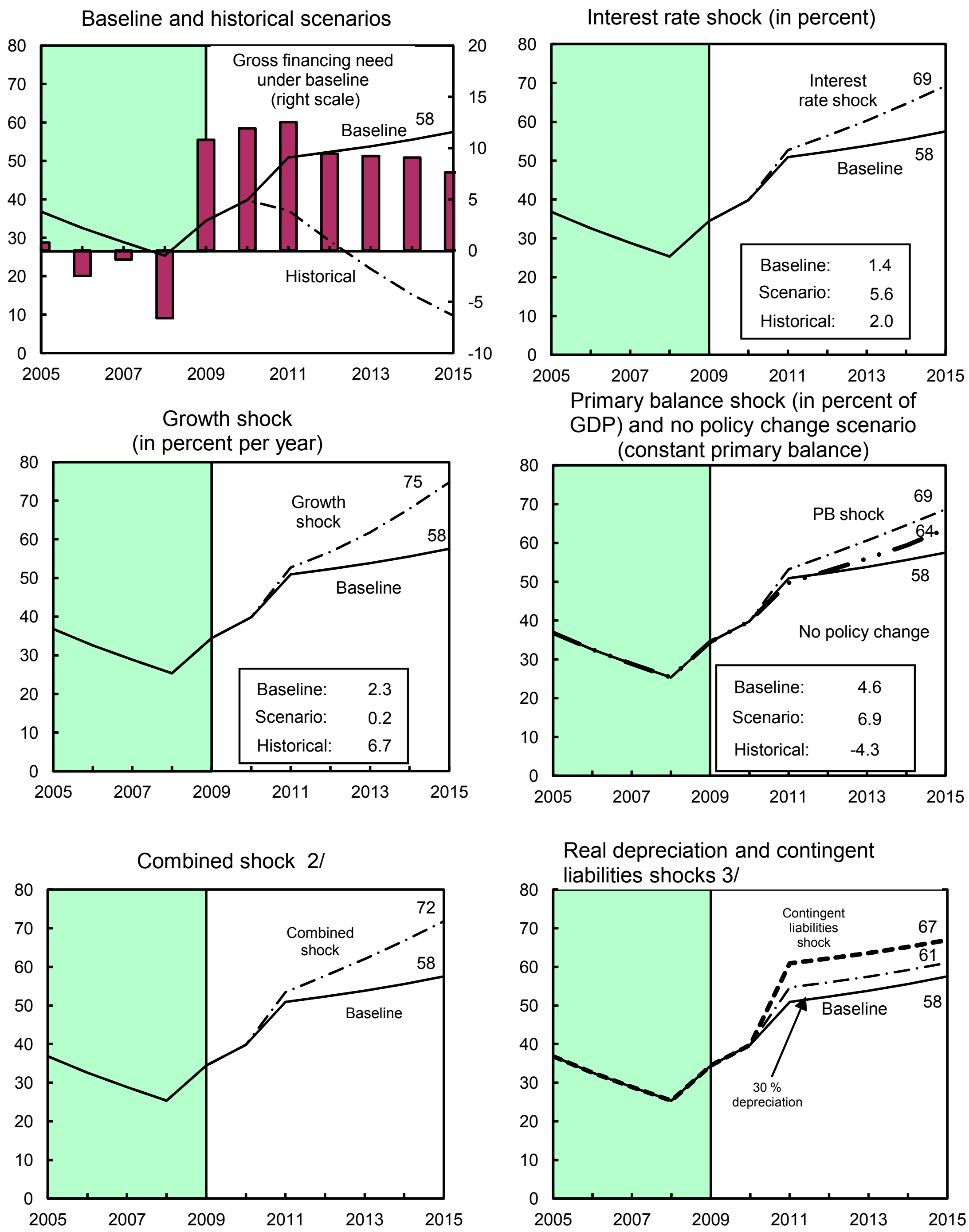
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

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

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



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 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).

APPENDIX I: EXCHANGE RATE ASSESSMENT AND EXTERNAL SUSTAINABILITY ANALYSIS

For non-renewable resource exporters, large improvements in the country's terms of trade can lead to large real appreciation of the equilibrium exchange rate accompanied by large current account surpluses. However, these large surpluses tend to be temporary, reflecting the desire to save for the future when resources are depleted. This appendix describes the assessment of the equilibrium exchange rate analysis and assumptions underlying the external sustainability analysis.

Estimation of the equilibrium exchange rate

The estimation is based on a single country time-series regression of the real effective exchange rate (REER) on its fundamentals. The fitted values from the regression can be used to provide a guide to determine the "equilibrium" value of the REER. The gap between the actual and fitted values is usually used to assess recent movements in the exchange rate relative to movements in its fundamentals or the size of misalignments.

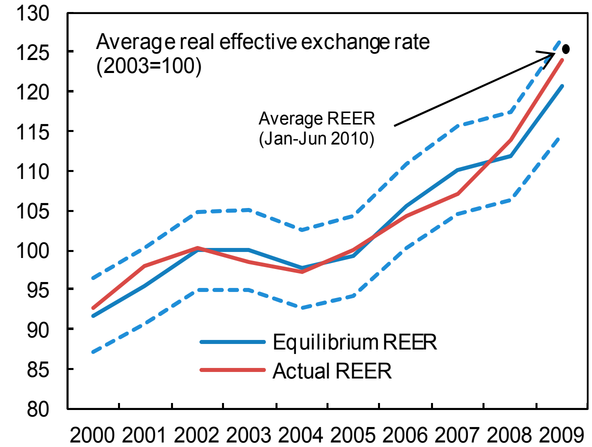
Dataset: The dataset for the analysis is on an annual basis during 1975–2009 and consists of the log of the CPI-based REER (*lreer*), government consumption as percent of non-energy GDP (*gcons*), log of manufacturing productivity relative to trading partners (*lprod*) and log of real crude oil price (*lrealoil*). Standard unit root tests suggest all the variables contain a unit root; therefore an error-correction model (ECM) is used for the analysis.

Estimation results: Cointegration tests suggest the set of variables are cointegrated, that means the set of variables share a long run relationship and movements in at least some of these variables will respond to any short-run disequilibrium. The ECM is estimated using ordinary least squares (OLS) and the estimated equation is (t-values in parentheses):

$$\underset{}{\Delta leer_t} = \underset{(-2.93)}{-0.57}(\underset{(-2.86)}{lreer_{t-1} - 0.17}\, \underset{(-1.72)}{lrealoil_{t-1} - 0.14}\, \underset{(-2.09)}{lprod_{t-1} - 0.02}\, gcons_{t-1} \underset{(-5.58)}{- 2.93}) + \underset{(2.33)}{0.47}\Delta leer_{t-1} \qquad (1)$$

The estimated equation implies that the long-run equilibrium REER appreciates by 0.17 percent in response to a one percent increase in the real oil price; 0.14 percent to a one percent increase in relative productivity; and by 0.02 percent to a one percent increase in ratio of government consumption to non-energy GDP. All the estimated coefficients are significant at the 5 percent level except the coefficient on relative productivity which is significant at the 10 percent level. There has been a sharp appreciation of the REER since 2005, around 20 percent between 2005 and 2009, coinciding with the boom in energy prices.

Policy implications and caveat: The estimated equilibrium REER, i.e., the fitted values of regression, is slightly below the actual REER in 2009. The analysis suggests that the average REER in 2009 is within the 95 percent estimated confidence interval. The 44 percent drop in average real oil prices between 2008 and 2009 explains a signficant part of the overvaluation. However, the continued recovery in energy prices in 2010 would offset the deviation from its equilibrium value. One of the important draw backs of the equilibrium exchange rate approach is that it does not take into account the temporary nature of the exhausible income shocks. Rather, the estimated equilibrium value is projected based on historical relationships.



External sustainability analysis using the balance-sheet based approach

Balance-sheet based methodologies for real exchange rate assessment seeks to determine the required real exchange rate change that would bring a country's current account and net foreign asset (NFA) position to a desired or benchmark level. Bems and de Carvalho Filho (2009) generalize this approach to countries where temporary income plays an important role, in particular for oil exporting countries. The exercise derives a path for future current account and NFA based on some rule for inter-temporal allocation of the temporary income. Once temporary income is exhausted, annuity income from the stock of foreign assets can help maintain a higher level of domestic absorption over and above *conventional* income.

Background: Consider the following inter-temporal budget constraint:

$$C_t + B_t = (1+i)B_{t-1} + Y_t + Z_t \qquad (2)$$

where C_t is domestic absorption, Y_t is conventional income, Z_t is temporary income exhausted from some period $T > t$ onwards and B_t is the stock of net foreign assets with nominal return of i. To derive the path of net foreign assets, Bems and de Carvalho Filho (WP/09/281) propose allocation rules for the *desired* level of domestic absorption in the following form:

$$C_t = Y_t + d * PV(i, B_{t-1}, \{Z_s\}_{s=t}^{T}) \qquad (3)$$

where $PV(i, B_{t-1}, \{Z_s\}_{s=t}^{T})$ is the present discounted value of *non-conventional* income and d is the different type of allocation rules:

- Constant real annuity ($d = i - \pi$): the annuity is equal to the net return on the present discounted value of non-conventional income. Under this rule, domestic absorption in all periods exceeds conventional output by the same constant real amount.

- Constant real per capita annuity ($d = i - \pi - n$): in this case, domestic per capita absorption exceeds conventional output by the same constant real amount. With a positive population growth (n), current account balances will need to be larger than 'constant real annuity' in order to support the same real per capita consumption in the future.

- Constant real annuity to conventional income ratio ($d = i - \pi - g$): in this case, the ratio of domestic absorption to conventional output is constant. To support the constant ratio in a growth economy at rate g, resources are reallocated from present to future consumption. Consequently, the NFA position would increase during periods of temporary income together with current account surpluses.

- Given the income allocation rules, one can derive the future path of the current account and NFA position that is consistent with the desired consumption level.

- Data and model parameterizations: In applying the extended external sustainability (ES) methodology to Trinidad and Tobago involves two steps. The first step expands the static exercise to a dynamic setting using the current projection for real output growth and WEO projection for US inflation over the 2009–2015 period. Beyond the projection horizon, constant output growth and US inflation is assumed.

Table 1: Input Data for the Dynamic ES Exercise

	Real GDP growth, percent	U.S. CPI inflation, percent	Income from oil, percent of GDP	Income from gas, percent of GDP	Population growth rate
2009	-3.5	0.3	9.4	18.0	0.3
2010	0.0	1.4	13.0	19.6	0.2
2011	2.0	1.6	12.9	20.3	0.2
2012	2.4	1.6	12.9	22.0	0.2
2013	2.6	1.7	12.8	22.5	0.3
2014	2.6	1.8	12.6	23.8	0.2
2015	2.6	1.9	12.4	24.9	0.2
2016+	1.6	1.9	gradually decreasing	gradually decreasing	0.1

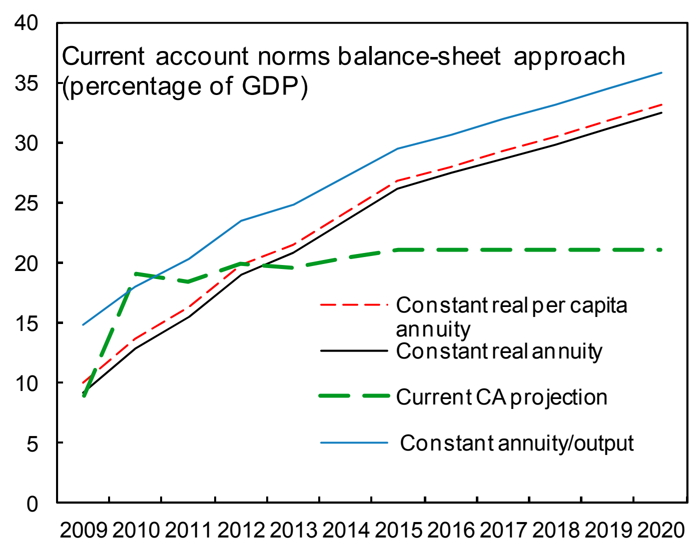
- The second step introduces temporary income from oil and gas extraction, and Table 1 summarizes the key data and parameter assumptions for the simulation exercise. We use the projections for oil (excluding imported refineries) and gas exports as a proxy for the share of temporary income in GDP. After 2015, both the real price and the extraction quantity of each resource are assumed to stay constant until exhaustion. The lifespan for resources is calculated using data on proven and probable reserves from the Ministry of Energy and Energy Industries. At current extraction level, proven and probable reserves will run out in 22 and 15 years for oil and gas respectively. WEO population projection is used to calculate near term population growth. Beyond 2015, we assume a modest population growth of around 0.1 percent. The long run real return on the stock of NFA is assumed to be 3 percent.

Results: Table 2 presents the results of the simulation exercise for various income allocation rules. The first row assumes there is no temporary oil or gas income, under this scenario, there is very little need for inter-temporal income reallocation. Therefore, the required CA surplus to maintain the same level of current income is very small. The next three rows of Tables 2 summarize the three scenarios with temporary oil and gas income. All three allocation rules suggest additional savings during periods with non-zero exhaustible income.

Table 2: NFA-stabilizing CA balances under various ES specifications

ES specification \ Year	2009	2010	2011	2012	2013	2014	2015	2020	2030
Constant annuity/output ratio (No temporary oil or gas income)	-0.1	0.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Constant annuity/output ratio	14.8	18.0	20.4	23.4	24.8	27.1	29.4	35.8	29.7
Constant real per capita annuity	10.1	13.6	16.3	19.8	21.4	24.1	26.8	33.1	25.8
Constant real annuity	9.2	12.9	15.6	19.1	20.8	23.5	26.2	32.4	24.9
Current CA projection	9.0	19.1	18.5	20.0	19.6	20.4	21.0	n.a.	n.a.

To maintain a constant annuity to output ratio in a growing economy requires the largest inter-temporal reallocation of current income to the future. In this scenario, the prescribe CA surplus in 2015 will need to exceed 29 percent of GDP. On the other hand, the constant annuity and constant annuity per capita scenarios suggest lower CA surpluses of about 26 percent of GDP in 2015. Given the modest population growth, there is little difference between the two rules. The relatively large CA surplus reflects the large but temporary nature of *non-conventional* income for Trinidad and Tobago.



Policy implications and caveat: The results from the external sustainability simulations incorporating temporary income shocks suggest Trinidad and Tobago will need to maintain a relative high CA surplus over the medium term in order to maintain the same aggregate income in the future. This is significantly above the CA surplus embedded in the current projection unless there is a scope to grow exports outside the exhaustible resources. The high dependency on temporary income and the short lifespan of exhaustible resources is the key driver of this result. If the lifespan of both oil and gas reserves were extended by 10 years, this would lower the required CA surplus to maintain a constant real annuity to about 20 percent of GDP in 2015.

One important caveat to this analysis is that investments that reduce the CA surplus account in the medium term can help boost the non-energy sector's export capacity in the future. Therefore, they would help lower the required inter-temporal reallocation of current income to the future.

APPENDIX II: SUMMARY OF APPENDICES

Fund Relations. Trinidad and Tobago has no outstanding purchases and loans from the Fund. The last financial arrangement was a Stand-by Arrangement totaling SDR 85 million which expired in 1991. Recent technical assistance includes a STA multi-topic mission (December 2009), institutional arrangements for a medium-term fiscal framework (FAD, January 2008), and assignment of resident experts for insurance supervision (MCM, October 2007). An MCM Financial Stability Module mission took place in October-November 2010.

Relations with the World Bank Group. The last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999. Its current operation includes the HIV/AIDS Prevention and Control Program, with a total commitment of US$20.0 million. The International Finance Corporation has invested US$75 million into Guardian Holdings Limited, a financial conglomerate, to support the company's expansion and to increase access to insurance services in under-served areas of the Caribbean.

Relations with the Inter-American Development Bank (IDB). The IDB is the main source of overseas development assistance for Trinidad and Tobago. The current loan portfolio consists of 6 approved loan operations of US$216 million, and an undisbursed value of US$111 million. The IDB is preparing a new country strategy for Trinidad and Tobago, with a focus on improving quality of public expenditure and enhancing private sector development. The IDB has approved two loans totaling US$140 million to finance public sector expenditure management programs, and up to a further US$1.3 billion over 2011-15 for public sector management improvements and for infrastructure investments.

Statistical Issues. Data provision is broadly adequate for surveillance. Trinidad and Tobago produces a wide range of economic and financial statistics generally based on sound methodological principles but there are some significant shortcomings that should be addressed promptly. The country has participated in the General Data Dissemination System since 2004 and is moving towards participating in the SDDS.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

December 22, 2010

Contents Page

Appendices

APPENDIX I. TRINIDAD AND TOBAGO—FUND RELATIONS

(As of November 30, 2010)

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

II. General Resources Account:

	SDR Million	Percent of Quota
Quota	335.60	100.00
Fund holdings of currency	263.38	78.48
Reserve position in Fund	72.23	21.52

III. SDR Department:

	SDR Million	Allocation
Net cumulative allocation	321.13	100.00
Holdings	275.52	85.80

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

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

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

	Forthcoming			
	2011	2012	2013	2014
Principal	--	--	--	--
Charges/Interest	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17

VII. Exchange Arrangements:

Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4. The system, a *de jure* managed float, is classified as a stabilized arrangement under the Fund's revised methodology.

VIII. Last Article IV Consultation and Recent Contacts:

- The 2008 Article IV consultation was completed by the Executive Board on January 14, 2009, in a streamlined format (SM/09/78).

- The 2010 Article IV mission took place October 27–November 8, 2010; staff also visited Port of Spain on July 12–16, 2010, to advise on fiscal policies ahead of the FY 2010/11 budget. In addition, a staff visit took place June 29–July 1, 2009 to discuss the impact of the crisis and to update the economic outlook.

IX. Technical Assistance (Fund headquarter-based)

- **STA:** Assistance on subscription to the Special Data Dissemination Standard (SDDS), December 2009.

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

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

- **MCM**: Assignment of two resident experts for insurance supervision to the CBTT, during 2007-08.

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

- **FAD:** Establishment of revenue authority and review domestic tax and customs systems and procedures, February 2007.

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

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

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

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

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

APPENDIX II. TRINIDAD AND TOBAGO—RELATIONS WITH THE WORLD BANK

(As of November 2010)

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 one project on the Nariva ecosystem restoration and carbon sequestration with a total commitment of US$50,000, of which US$ 8,254 has been disbursed. In September 2010, the World Bank concluded an HIV/AIDS prevention and control project with total commitment of US$20.0 million.

I. PROJECTS

Nariva Ecosystem Restoration and Carbon Sequestration: The program supports an ongoing project in Trinidad and Tobago which is funded under the World Bank's BioCarbon Fund (BioCF). The development objective is 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 will be 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 new Trust Fund is for US$50,000.

II. STATEMENT OF WORLD BANK 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***
Total disbursements	12.7	3.8	2.0	4.7	5.7	4.1	2.3	3.1	0.8
Repayments	12.2	15.5	17.3	16.4	15.3	13.0	11.3	6.9	1.2
Net disbursements	0.4	-11.7	-15.3	-11.7	-9.6	-8.9	-9.0	-3.9	-0.4
Interest and fees	5.9	5.1	3.8	3.1	2.5	2.2	1.5	0.9	0.4

* as of Nov. 2010

IBRD Loans Summary in U.S. dollars

(As of October 30, 2010)

Total committed:	333,600,000
Total disbursed:	286,328,184
Of which has been repaid:	243,232,258
Total now held by IBRD:	20,230,311
Total undisbursed:	1,492,996

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

(As of October 2010)

Financing

Since 2002, annual disbursements and approvals have averaged US$36 million and US$16 million. Accordingly, net cash flow has been quite strongly negative as the portfolio has gradually diminished in size. However, net cash flow is expected to increase in 2010 after a loan approval of US$140 million, of which US$100 million will be disbursed by the end of 2010.

Table 1: Net Flows 2002-2010

In millions of U.S. dollars

	2002	2003	2004	2005	2006	2007	2008	2009	2010[e]
Loan disbursements	24.5	30.7	40.7	52.7	23.8	47.2	44.6	26.5	133.0
Repayments	43.0	45.4	55.5	61.0	64.1	39.7	45.6	45.9	44.3
Net Loan Flow	**-18.5**	**-14.7**	**-14.8**	**-8.3**	**-40.3**	**7.5**	**-1.0**	**-19.4**	**88.7**
Subscriptions and Contributions	0.4	0.3	0.2	2.4	0.0	0.0	0.0	0.0	0.0
Interest and Charges	23.9	22.4	20.0	19.0	18.3	18.4	21.4	19.4	10.4
Net Cash Flow	**-42.8**	**-37.4**	**-35.0**	**-29.7**	**-58.6**	**-10.9**	**-22.4**	**-38.8**	**78.3**

[e]Projected.

Portfolio composition

The current loan portfolio consists of 6 loans for US$216 million, of which US$104.4 million has been disbursed. The main areas of Bank involvement are Trade, Public Sector Modernization, Education and Citizen Security. Two new operations in 2010—a US$40 million Neighbourhood Upgrading Program and a US$100 million Public Expenditure Management Program—were approved. The IDB is in the process of elaborating a new country strategy with Trinidad and Tobago and it is expected that the finanical support will reach unprecedented levels, with a total envelope for 2011–2015 of up to US$1.3 billion. The Bank also has a small portfolio of technical assistance grants, totalling US$2.6 million, of which US$2.3 million remains undisbursed.

Table 2: Current Loan Portfolio

Name	Signature Date	Approved (in US$ million)	Disbursed (in US$ million)
Secondary Education Program	July 6, 1999	105.0	92.6
Trade Sector Support Program	May 21, 2003	5.0	2.6
Public Sector Reform Initiation Program	March 17, 2004	5.0	3.1
Electronic Government & Knowledge Brokering	March 16, 2007	28.0	1.1
Citizen Security Program	April 5, 2008	24.5	3.7
Support for a Seamless Education System	August 17, 2009	48.8	1.3

Areas of future focus

The IDB is currently preparing a new Country Strategy for Trinidad and Tobago for the period of 2011–2015. The Bank expects to provide support to an ambitious reform program announced by the new administration—whose importance to the Country has been supported by technical analyses and the on-going dialogue—focusing on interventions to improve efficiency, effectiveness and sustainability of public investment, upgrade basic infrastructure, promote dynamism in the private sector, and improve the country's resilience to natural disasters and the effects of climate change.

In addition, the Bank anticipates an expansion of its non-sovereign guaranteed (NSG) financing to Trinidad and Tobago's private sector, in the areas of improving regional competitiveness and private sector capacity, general manufacturing, and infrastructure. At present there is one NSG loan under preparation for US$30 million.

APPENDIX IV. TRINIDAD AND TOBAGO—STATISTICAL ISSUES

Trinidad and Tobago has indicated its intention to work towards subscription to the IMF's Special Data Dissemination Standard (SDDS) by 2011. 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). Institutional arrangements need to be strengthened to facilitate improved compilation and reporting as well as collaboration among the central bank, the Central Statistical Office (CSO), and the Ministry of Finance (MoF), and to avoid duplication of data production efforts and some inconsistencies across sectoral databases.

Real sector statistics

The CSO has revised the GDP base year from 1985 to 2000, improved the methodology for calculating value added at each sector level, and switched from valuation at factor cost to market prices. The upgrading of the national accounts has involved, in particular, the inclusion of the large gas sector production (which came on stream in 2000) in the GDP calculations; and a review of the value added estimation techniques for the telecommunications sector (using the number of call units instead of the number of callers) and the financial sector (by constructing individual extrapolators for each sub-industry and then aggregating them). The central bank produces quarterly GDP volume indicators. Following the recommendation of a STA multi-topic technical assistance mission in December 2009, the CSO has recently started compiling quarterly GDP data. The CSO has also started recalculating the CPI index after a CARTAC mission in August 2010 identified methodology deficiencies that led to an upward bias in the inflation data and is currently reviewing the calculation of the GDP deflator. The public has direct access to inflation data which are published in the central bank's website.

Government finance statistics

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

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

Monetary and financial statistics

The monthly monetary 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 more comprehensive financial survey in the future. Trinidad and Tobago has not yet migrated to the standardized report forms (SRFs) for the submission of monetary statistics. In January 2008, a mission assisted the authorities in producing the SRF for the central bank.

External sector statistics

Quarterly aggregate balance of payments estimates and annual balance of payments data are disseminated by the central bank in its national publications. Annual balance of payments data are also sent to STA, although with considerable delay. The presentation of the balance of payments data is in broad conformity with guidelines outlined in the fifth edition of the Balance of Payments Manual. The Private Sector Capital Flows and Investor Perception survey needs to be improved on the quantity and quality of responses, and by estimating the market value of shares. The Central Bank should expand its current debt reporting system to include comprehensive coverage of external loans and debt of the entire public sector, as well as publicly guaranteed debt.

Trinidad and Tobago: Table of Common Indicators Required for Surveillance
As of December 20, 2010

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	December 2010	December 2010	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	November 2010	December 2010	M	M	M
Reserve/Base Money	November 2010	December 2010	M	M	M
Broad Money	November 2010	December 2010	M	M	M
Central Bank Balance Sheet	November 2010	December 2010	M	M	M
Consolidated Balance Sheet of the Banking System	November 2010	December 2010	M	M	M
Interest Rates[2]	November 2010	December 2010	M	M	M
Consumer Price Index	October 2010	November 2010	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	September 2010	November 2010	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	September 2010	November 2010	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2010	November 2010	A	A	A
External Current Account Balance	Q2 2010	November 2010	A	A	A
Exports and Imports of Goods and Services	Q2 2010	November 2010	A	A	A
GDP/GNP	2009	August 2010	A	A	A
Gross External Debt	September 2010	November 2010	A	A	A
International Investment Position[6]	NA	NA	A	A	A

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

Statement by the Staff Representative on Trinidad and Tobago
Executive Board Meeting
January 21, 2011

1. **This note reports on information that has become available since the staff report (SM/10/325) was issued and does not alter the thrust of the staff appraisal**.

2. **The fiscal outturn for the 2009/10 fiscal year (October-September) was TT$3.5 billion (2.7 percent of GDP) better than projected** (see Table 1)**.** This stems from several factors:

- Revenue was TT$1.2 billion higher than projected, primarily reflecting the finalized end-year tax returns of energy companies.

- Capital spending was TT$1.5 billion lower than projected, reflecting the new government's shift in priorities and its greater scrutiny of capital projects.

- Current spending was TT$0.7 billion lower than expected, primarily reflecting interest savings and lower spending on goods and services, notwithstanding higher transfers as a result of an advance to the state power generation company which was not repaid as expected.

3. **The outturn underscores the importance of accelerating implementation of the government's investment program, as highlighted in the staff report.**

4. The central bank has delayed the policy rate announcement scheduled for December 23, as November 2010 inflation data has not been released due to industrial relations problems.

Table 1. Trinidad and Tobago: Summary of the Central Government Operations 2004-10 1/

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 SM/10/325	2009/10 Outturn
	(In millions of Trinidad and Tobago dollars)						
Revenue	**29,648**	**38,911**	**40,064**	**56,848**	**38,580**	**41,983**	**43,212**
Energy	16,146	25,503	23,665	33,892	19,312	22,037	23,041
Non-energy	13,502	13,408	16,399	22,956	19,268	19,946	20,171
Expenditure	**24,141**	**31,198**	**34,773**	**44,715**	**46,153**	**45,805**	**43,545**
Current	21,342	26,602	27,011	35,106	37,646	38,322	37,596
Wages and salaries	5,309	5,456	6,221	6,947	6,657	6,934	6,735
Goods and services	3,170	3,811	4,284	5,002	6,001	6,945	6,485
Interest payments	2,542	2,453	2,698	2,967	3,521	3,917	3,172
Transfers and subsidies	10,322	14,882	13,808	20,190	21,466	20,526	21,205
Capital expenditure and net lending	2,799	4,596	7,762	9,609	8,507	7,483	5,949
Non-energy balance	**-10,639**	**-17,790**	**-18,374**	**-21,759**	**-26,885**	**-25,859**	**-23,374**
Overall balance	**5,507**	**7,713**	**5,291**	**12,133**	**-7,573**	**-3,822**	**-333**
CLICO financial support					**1,900**	**3,400**	**3,400**
Overall balance including CLICO					**-9,473**	**-7,222**	**-3,733**
Total financing including CLICO	**-5,507**	**-7,713**	**-5,291**	**-12,133**	**9,473**	**7,222**	**3,733**
Foreign financing	-1,273	-306	690	702	33	-1,540	-1,654
Implied domestic financing	-4,235	-7,407	-5,982	-12,835	9,440	8,762	5,387
of which: transfers from Infrastructure Development Fund	-500	-2,727	1,653	-2,570	2,800	2,804	2,804
of which: transfers to Heritage and Stabilization Fund	-2,593	-3,160	-2,030	-6,588	0	-2,800	-3,027
	(In percent of GDP)						
Revenue	**30.7**	**34.7**	**30.4**	**35.0**	**28.4**	**32.5**	**33.4**
Energy	16.7	22.7	18.0	20.9	14.2	17.0	17.8
Non-energy	14.0	12.0	12.5	14.1	14.2	15.4	15.6
Expenditure	**25.0**	**27.8**	**26.4**	**27.5**	**34.0**	**35.4**	**33.7**
Current	22.1	23.7	20.5	21.6	27.7	29.6	29.1
Wages and salaries	5.5	4.9	4.7	4.3	4.9	5.4	5.2
Goods and services	3.3	3.4	3.3	3.1	4.4	5.4	5.0
Interest payments	2.6	2.2	2.0	1.8	2.6	3.0	2.5
Transfers and subsidies	10.7	13.3	10.5	12.4	15.8	15.9	16.4
Capital expenditure and net lending	2.9	4.1	5.9	5.9	6.3	5.8	4.6
Non-energy balance	**-11.0**	**-15.9**	**-14.0**	**-13.4**	**-19.8**	**-20.0**	**-18.1**
Non-energy balance in percent of non-energy GDP	**-19.9**	**-30.1**	**-25.8**	**-26.1**	**-32.9**	**-31.7**	**-28.6**
Overall balance	**5.7**	**6.9**	**4.0**	**7.5**	**-5.6**	**-3.0**	**-0.3**
Overall balance including CLICO					**-7.0**	**-5.6**	**-2.9**
Memorandum item:							
Central government debt (in percent of GDP) 2/	20.7	17.2	16.2	14.7	18.8	21.6	22.4
Public sector debt (in percent of GDP) 2/	36.8	32.6	28.9	25.4	34.4	37.9	39.8
Crude oil price (US$/barrel) 3/	49.9	63.4	64.0	104.9	56.9	76.6	76.6
Natural gas (US$ per mmbtu, Henry Hub) 3/	7.4	8.2	6.9	9.0	4.5	4.4	4.4
Budget oil price (US$/barrel)	32.8	44.9	45.0	50.0	55.0	55.0	55.0
Budget natural gas price (US$ per mmbtu, netback)	…	…	…	…	3.3	2.8	2.8
Nominal GDP (in billions of TT$, FY)	96.4	112.1	131.7	162.4	135.8	129.3	129.3

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.
3/ World Economic Outlook: fiscal year basis.

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

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

IMF Executive Board Concludes 2010 Article IV Consultation with Trinidad and Tobago

On January 21, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the 2010 Article IV consultation with Trinidad and Tobago.[14]

Background

After 15 years of positive growth, Trinidad and Tobago was hit hard in 2009 by the global financial crisis, the fall in energy prices, and the collapse of a large financial conglomerate. The country entered this period of crisis with large fiscal surpluses and low debt, which provided important buffers to help deal with both the external and domestic shocks. The fiscal balance has turned negative, despite a real decline in expenditure in 2009. In addition, the debt-to-Gross Domestic Product (GDP) ratio has increased significantly, in part reflecting the impact of lower energy prices on nominal GDP. Inflation has surged despite weak economic activity, reflecting weather-related increases in food prices, but has begun to fall back, and unemployment has increased sharply, to 6.7 percent in the first quarter of 2010. The external current account balance sharply deteriorated in 2009 as energy prices fell, but is projected to recover in 2010. The net international reserves position remains strong at over US$9 billion (14 months of imports).

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[14] 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.

After substantive monetary easing in 2009, the resurgence of inflation in 2010 stalled further policy rate reduction until more recently, when unease about the prolonged nature of the slowdown overtook concerns about inflation. The Central Bank of Trinidad and Tobago (CBTT) has lowered the repo rate over time since March 2009, most recently to 3.75 percent during August-November 2010. Despite the easing, credit market activity remains weak and private sector credit continues to fall. Recent reports indicate bank profitability is down and non-performing loans up, but financial soundness indicators remain robust, and banks remain well capitalized with risk-adjusted capital at around 23 percent in September 2010.

The collapse of the CL Financial Group in January 2009 accentuated the economic slowdown. A government intervention of three financial subsidiaries helped contain contagion, but has been costly.

Growth is expected to pick up in 2011, with the near-term risks tilted to the downside reflecting fragile confidence, the weak regional outlook, and global uncertainty. Even with the expected firming of energy prices, economic prospects over the medium term are projected to be weaker compared to the strong growth period preceding the economic crisis.

Executive Board Assessment

The Executive Directors noted that Trinidad and Tobago has been hit hard by the global financial crisis, and commended the authorities for the continued prudent macroeconomic policies that helped mitigate the impact of external shocks. Directors observed that, notwithstanding the improving global conditions and the rebound in commodity prices, economic activity remains weak and the near-term outlook is affected by uncertainty. They recognized that the immediate challenge is to restore confidence by providing a supportive policy mix and addressing remaining weaknesses in the financial system.

Directors supported the 2010/11 budget, which is appropriately geared toward reinvigorating the economy, and encouraged the authorities to accelerate its implementation. They agreed that once the economic recovery is well established, fiscal policy should aim towards reducing public debt and rebuilding buffers in the medium term. This objective could be achieved by reversing the large increases in current expenditures that occurred during the boom years, while ensuring adequate social spending and investment to promote economic diversification. They also called for strengthening tax administration.

Directors agreed that the current accommodative stance of monetary policy is broadly appropriate. They suggested that, in case of further delays in economic recovery and weaker inflationary pressures, the authorities consider additional interest rate reductions to signal their commitment to a supportive policy. Directors welcomed the central bank's recent efforts to alleviate the pressures on the foreign exchange market and encouraged the authorities to improve liquidity management. Over the medium term, greater exchange rate flexibility could be considered to support the expansion of non-energy exports and to rebalance consumption. Directors commended the authorities for moving forward with the restructuring of the failed insurance company CLICO while containing the ensuing fiscal costs. They supported the decision to provide a liquidity window for credit unions dealing with their claims on the company and open a compassionate window for particularly vulnerable individuals.

Directors welcomed the resilience of the banking system and insurance sectors in the face of the global slowdown and the collapse of a large financial conglomerate. They highlighted the importance of remaining vigilant to possible spillovers of the financial distress into the non-bank financial sector and encouraged the authorities to implement promptly the recommendations of the first ever Financial Stability Module. They noted that major steps are needed to strengthen the regulation and supervision of the financial sector, including implementing consolidated supervision, broadening the perimeter of regulation, addressing the remaining problems in the insurance sector, and improving legislation dealing with failed financial institutions.

Directors highlighted that the medium- and long-term growth prospects are challenging as the country's energy resources are declining. They observed that the authorities need to strike a balance between saving energy revenues for future generations with investing today to lay the foundations for sustained non-energy growth. They welcomed the government's initiatives aimed at improving the business climate, facilitating private sector entrepreneurship, and promoting diversification.

Directors encouraged the authorities to continue efforts to improve the statistical infrastructure. They underscored the importance of reliable key macroeconomic data to provide a basis for informed policy making. They welcomed the authorities' planned move to the Special Data Dissemination Standard.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Trinidad and Tobago: Selected Economic Indicators

	2006	2007	2008	2009	Est. 2010
(Annual percentage changes, unless otherwise indicated)					
Output and prices					
Real GDP	13.2	4.8	2.4	-3.5	0.0
Energy GDP	21.8	1.7	-0.2	2.6	2.4
Unemployment rate (percent of labor force)	6.2	5.6	3.9	5.1	7.8
Consumer prices (end of period)	9.1	7.6	14.5	1.3	10.4
Real effective exchange rate (2000=100)	111.4	114.3	121.8	132.7	...
Money and credit 1/					
Net foreign assets	52.6	29.7	67.6	-2.2	2.1
Net domestic assets	-34.9	-22.3	-53.1	30.3	1.4
Private sector credit	14.9	17.6	12.6	-4.0	-2.4
Broad money (M3)	17.7	7.4	14.4	28.1	3.5
(In percent of fiscal year GDP, unless otherwise indicated)					
Public finances 2/					
Central government balance (excluding CLICO support)	6.9	4.0	7.5	-5.6	-0.3
CLICO support				-1.4	-2.6
Budgetary revenue	34.7	30.4	35.0	28.4	33.4
Budgetary expenditure	27.8	26.4	27.5	34.0	33.7
Overall budget balance	6.9	4.0	7.5	-5.6	-0.3
Overall non-energy budget balance 3/	-15.9	-14.0	-13.4	-19.8	-18.1
Overall nonfinancial public sector balance	6.1	3.6	8.2	-9.0	-6.2
Public sector debt 4/	32.6	28.9	25.4	34.4	39.8
(In percent of GDP, unless otherwise indicated)					
External sector					
External public sector debt	6.8	6.1	5.5	7.6	7.4
Current account balance	39.6	24.8	31.3	9.0	16.9
Of which: exports	77.4	61.9	68.8	46.7	54.6
Of which: imports	35.5	35.4	35.4	35.5	36.1
Gross official reserves (in US$ million)	5,120	6,660	9,365	8,653	9,103
Memorandum items:					
Nominal GDP (in billions TT$)	116.0	137.0	170.9	124.1	131.0
Exchange rate (TT$/US$, end of period)	6.31	6.34	6.30	6.37	6.36

Sources: 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 2005/2006 and 2009/2010.

3/ Defined as nonenergy revenue minus expenditure of the central government.

4/ Excluding debt issued for sterilization.

Statement by Paulo Nogueira Batista, Executive Director for Trinidad and Tobago and Nicole Des Vignes, Senior Advisor to Executive Director
January 21, 2011

1. The authorities of Trinidad and Tobago thank Mrs. Gold and her team for the high-quality dialogue during the Article IV Consultation mission and for their candid and useful policy advice. They also thank the MCM mission team for the in-depth analysis and recommendations on the financial system.

2. Since the last Article IV Consultation in January 2009, the economic circumstances in Trinidad and Tobago have changed. Trinidad and Tobago was well positioned to face the crisis, having strong international reserves, significant accumulated savings in the Heritage and Stabilization Fund, and ample fiscal space. Moreover, the unemployment rate had fallen to only 3.9 percent at the end of 2008. As a consequence of the global financial and economic crisis, real GDP declined for the first time in fifteen years and both the fiscal and external balances turned negative. The collapse of CL Financial in early 2009 added further to the challenges. Following a year of subdued economic activity in 2010, the immediate focus of the authorities is on restoring growth while maintaining fiscal and debt sustainability.

Recent Economic Developments

3. Against the backdrop of a fragile global recovery, regional economic challenges and uncertainty in the domestic economy, growth in 2010 remained flat. The energy sector is estimated to have increased in 2010, while the rate of decline in the non-energy sector has slowed. The unemployment rate doubled since end-2008 (staff estimates a rate of 7.8 percent at end - 2010). Despite weak domestic demand, inflation remained a challenge in 2010, mainly due to higher food prices caused by weather-related supply shocks in the agricultural sector. Staff has raised the issue of a possible upward bias in the calculation of the Retail Price Index, which could lead to consistent overestimation of headline inflation. Our authorities appreciated the advice and are taking steps to revise the methodology and the index in 2011.

4. The balance of payments returned to a surplus position in 2010 in light of the more favorable energy prices. At the end of 2010, the level of gross international reserves in months of imports stood at around 14. With a more buoyant external position, Central Bank's support to the foreign exchange market to ease periodic demand pressures in 2010 was lower than in 2009. Moreover, the exchange rate remained relatively stable throughout the year, with the weighted average selling rate depreciating to US$1 = TT$6.4234 at the end of December 2010 from US$1 = TT$6.3794 at the beginning of the year.

5. The authorities continue to monitor the developments in the foreign exchange market with a view to identifying emerging imbalances as a basis for policy adjustment. The data indicate that requests for foreign exchange are met relatively quickly and that clients do not have to wait an inordinate length of time to obtain foreign exchange.

6. On the monetary front, the authorities faced the dual challenge of containing inflationary pressures while supporting the economic recovery. In light of the weak economic recovery and the stabilization of core inflation around 4 percent, the monetary policy stance for 2010 was accommodative. Accordingly, the repo rate was lowered from 5 percent in January 2010 to 3.75 percent currently. Further, there has been an involuntary build-up of excess liquidity in the banking system which has served to depress short-term interest rates.

7. Recently revised data show that the outturn for the fiscal year 2010 (October 2009 – September 2010) was much better than anticipated, with the central government deficit (excluding CLICO support) narrowing to 0.3 percent of GDP. Revenue collection was much higher than projected due to more favorable energy receipts while spending was lower. The public sector debt, which had been on a declining trend, began rising in 2009. While the current debt levels are manageable and well below those of many countries in the Caribbean, the authorities are concerned about debt sustainability. Accordingly, they have requested technical assistance from MCM in public debt management and a mission visited Trinidad and Tobago in December to conduct a preliminary assessment.

Outlook for 2011 and Addressing the Macroeconomic Challenges

8. The authorities largely agree with staff's outlook for 2011. The economy is expected to recover, although risks remain on the downside. The budget highlights several fiscal and other measures aimed at stimulating activity, diversifying the economy, revitalizing the energy sector, encouraging new investment, improving competitiveness, and nurturing small business development and innovation.

9. The fiscal deficit is expected to widen in 2011 as the authorities' policy stance remains expansionary. Over the medium term, the authorities are committed to fiscal prudence and will seek to bring the fiscal position back into balance. They prefer a gradual approach to fiscal consolidation as they must also balance this with the growth objective while safeguarding the social safety net.

10. The authorities are working towards resolving a number of outstanding issues such as the CL Financial/CLICO issue, settlement of public sector wage negotiations, payment of outstanding arrears to contractors and VAT refunds to businesses to support private sector confidence and the overall business environment. A loan from the IDB has been

secured to support the execution of the public sector investment program, which is geared to improving the socio-economic infrastructure of the country and should boost economic activity.

11. The authorities are taking steps to support the vitality of the energy sector given its importance to economic growth, foreign exchange earnings, and government revenues. Accordingly, the government has revised the Petroleum Taxes Act to help stimulate activity in Deep Water Blocks and in the crude oil sector. The government also believes that the country is well positioned to benefit from the export of energy advisory services. The government's energy policy also promotes the development of alternative sources to supplement the exhaustible crude oil and natural gas resources. These measures, which include lower taxes, investment tax credit, and other incentives, became effective January 1, 2011.

12. Further, plans are afoot to improve the business environment and enhance private sector development. To make it easier to do business, the authorities are in the process of establishing the International Business Centre (IBC), which in conjunction with the Economic Development Board and the Competitiveness and Innovation Council will be responsible for designing an innovation and investment strategy for the country. Also, a number of initiatives are being undertaken to help encourage small business development and innovation.

13. Monetary policy will focus on supporting the economic recovery while carefully monitoring inflation. The rate of inflation is expected to decline in 2011 as the authorities implement measures in the agriculture sector to boost domestic food production.

Financial Sector Developments

14. The first ever Financial Stability Module was conducted on Trinidad and Tobago's financial system and the findings of this mission are well documented in the Financial System Stability Assessment. According to the findings, the banking and insurance sectors remained resilient in spite of the global financial crisis, the CL Financial shock and the slowdown in economic activity. Of note, stress tests show that with the present capital and liquidity buffers the banks are well positioned to withstand severe shocks. However, rising non-performing loans and concentration risk presents vulnerabilities. In the insurance sector (excluding CLICO), the larger life and general insurance companies are profitable and well capitalized. While areas of weaknesses remain to be addressed, staff recognized that the authorities have taken major steps to strengthen the regulatory and supervisory framework of the banking and insurance sectors since the 2005 FSAP.

15. The authorities are working quickly to resolving the issue of CL Financial and CLICO. As highlighted in the budget, the authorities have separated CLICO's insurance business from its short-term investments and mutual funds business, with the intentions of merging the insurance businesses of CLICO and British American Trinidad (BAT) into a single entity for divestment. Further, they have decided on a payment strategy for the CLICO and BAT policy holders, which has been amended since the passage of the budget to accommodate the affected credit and trade unions, given their importance and wide coverage. Payments in 2011 will be made to individuals holding short-term deposits and mutual funds up to a maximum of TT$75,000. Those individuals with policies valued in excess of TT$75,000 will be paid the remainder in the form of a twenty-year bond at zero interest rate, which could be traded in the secondary market. With respect to the affected credit and trade unions, they will be paid 50 percent of their exposures in 2011 and the remainder in 2012. In addition, a compassionate window has been established to assist individuals in emergency situations. The authorities are in the process of reviewing the CL Financial and its subsidiaries to divest assets and recover public funds.

Data Development

16. In late 2009, an IMF statistical mission visited Trinidad and Tobago to identify gaps in Trinidad and Tobago's macroeconomic data sets and to help the country prepare for subscription to the SDDS. A national co-ordinating committee has been set up and key data sets for the monetary, financial and balance of payments domains have been prepared. The authorities are working to provide data sets on nominal GDP and the fiscal statistics on a more timely and consistent basis. The Central Statistical Office will also be rebasing the CPI and the Index of Domestic Production.