INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/285

TRINIDAD AND TOBAGO

2018 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2018

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 2018 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on July 2, 2018, 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 August 6, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A Statement by the Executive Director for Trinidad and Tobago.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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September 25, 2018

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IMF Executive Board Concludes 2018 Article IV Consultation with Trinidad and Tobago

On August 31, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Trinidad and Tobago and considered and endorsed the staff appraisal without a meeting.[2]

Executive Board Assessment

Trinidad and Tobago is slowly recovering from a deep recession. The economy continued to contract but at a slower pace, underpinned by the strong recovery in gas production, while weak activity in construction, financial services, and trade, continued foreign exchange (FX) shortages, and slow pace of public investment dampened non-energy sector growth. Positive growth should return from 2018 as the recovery takes hold in both sectors. Good progress has been made in fiscal consolidation through spending cuts, but public debt continued to rise, approaching the government's soft target of 65 percent of GDP. The external position is weaker than the level consistent with medium-term fundamentals and desirable policies, but gross international reserves provide significant financial buffers, along with the Heritage and Stabilization Fund (HSF), although reserves are projected to fall gradually given the current FX regime. The financial sector remains stable, with profitable, well-capitalized banks, while the recent decline in asset quality, rising household debt, large domestic and regional sovereign exposures, and an interconnected financial system create pockets of vulnerability.

Economic prospects are expected to improve over the medium term, but remain heavily dependent on the energy sector. The medium-term growth, fiscal and external outlook is vulnerable to negative surprises in energy prices and output, a sizeable primary deficit, and elevated levels of public debt. Possible delays in completing the ongoing fiscal adjustment and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

reforms, persistence of FX shortages, tightening of financial conditions, and ongoing regional financial sector challenges also tilt the risks to the downside.

A multi-pronged strategy is needed to ensure a sustained recovery, and safeguard fiscal and external sustainability. Such a strategy should aim at improving the economy’s resilience to future shocks, focusing on: (i) completing the fiscal adjustment to put the public debt on a downward trajectory to safeguard sustainability, while reducing the economy’s over-reliance on the energy sector; (ii) safeguarding financial stability; and (iii) creating an enabling environment for the non-energy sector as an engine of growth, by removing the obstacles to its development, while increasing transparency of the operating environment for the energy sector.

The authorities should take advantage of the impact higher energy prices had on the fiscal position and complete the ongoing adjustment, given the inherent volatility in energy prices. Efforts should focus on speedy implementation of the delayed revenue reforms, finalizing the energy taxation reform, and reducing reliance on noncore revenues, including through increased tax compliance. Improved efficiency and containment of public spending should continue. Further cost savings from increased utility tariffs and reduced transfers and subsidies should be redirected to the most vulnerable segments of society and public investment targeted at closing skills and infrastructure gaps to reduce adverse impacts of adjustment. Paced over the medium term, an adjustment equivalent to 4.4 percent of GDP should create fiscal space to confront future shocks, alleviate market concerns about the adequacy of adjustment, and put the public debt on a downward trajectory to safeguard sustainability.

An appropriate Medium-Term Fiscal Framework (MTFF) could provide a systematic tool for countercyclical fiscal policy and help insulate the economy from energy price swings. Adopting an appropriate formal fiscal target within a clearly-communicated MTFF to guide fiscal policy could provide a tool to anchor fiscal adjustments. The HSF should be fully integrated with the MTFF, by linking transfers to/from it to the fiscal target. Such a mechanism can shield the government from pressure to deviate from the adjustment path, and allow the HSF to build reserves during revenue booms to use during downturns. Managing public debt and the HSF in an integrated framework may limit situations where the government must borrow to save into the HSF. Establishing a medium-term debt strategy may clarify the desired debt composition and limit adverse implications of borrowing strategies. The government should settle the overdraft balance with the Central Bank of Trinidad and Tobago (CBTT), and rely on market-based financing.

The continued state of FX market imbalance must be addressed on an urgent and sustained basis. Notwithstanding the reduced tightness in the market, owing to increased FX inflows from energy companies, continued FX shortages affect market confidence, raise the cost of doing business, hampers non-energy sector activity, and could result in responses that further feed shortages. The authorities could take advantage of the current relatively stable period with low inflation and progress in fiscal consolidation to address the shortages, while minimizing distortions.

Going forward, the exchange rate could play a more active role in an economy exposed to frequent terms-of-trade shocks and help manage the transition to a more balanced FX market. Allowing gradually some market forces in determining the exchange rate (e.g., within a widening band) could facilitate adjustment to external shocks, help restore competitiveness, and safeguard foreign reserves. Permitting two-way exchange-rate variation could help reduce incentives for FX-hoarding and one-way currency bets, while allowing the exchange rate to anchor inflation expectations with some scope for flexible monetary policy. Such a move requires careful design and implementation to avoid adverse balance-sheet problems or second-round effects and needs to be supported by a prudent fiscal, monetary, financial, and structural policy mix, adequate safety nets, and well-designed intervention and communication strategies.

Preserving financial stability calls for careful monitoring of the sources of systemic risk and swift implementation of the ongoing reforms. Staff welcomes the authorities' cautious and proactive approach, given a highly-indebted household sector, bank-sovereign linkages domestically and regionally, and rising interest rates in a complex, interconnected financial system. Efforts must focus on risk-based, consolidated, cross-border supervision with appropriate prudential regulations, and completing the ongoing regulatory reforms, including Basel II, the Insurance Law, and nonbank supervisory frameworks. Trends in Correspondent Banking Relationships (CBRs) should be systematically monitored, given the ongoing weaknesses in AML/CFT and tax transparency regimes. Ensuring compliance with international standards, risk-based supervision, and complete legislative processes should accompany banks' ongoing due-diligence, relationship-maintenance, and risk-management efforts.

A structural reform agenda should create an enabling environment for the non-energy sector, and boost its potential to support sustainable growth and resilience. Institutional reforms should focus on improved tax collection and contract enforcement and strengthening existing legal frameworks that hinder legislative-passage of ongoing reforms. Reduced cost of doing business, addressing crime (with prevention and response efforts), reducing skills gaps (with ongoing training programs), and sustained government support in removing obstacles to diversification within and outside the energy sector should help reduce heavy reliance on the energy sector, enhance FX-earning potential, and attract foreign investment.

The quality and timeliness of data continue to present a significant challenge to surveillance and policymaking. Staff welcomes the progress made, and calls for further efforts to complete data improvements needed for surveillance, prioritize operationalization of the independent statistical authority, and enhance interagency cooperation.

It is recommended to hold the next Article IV consultation on the standard 12-month cycle.

Table 1. Trinidad and Tobago: Selected Economic Indicators

GDP per capita (U.S. dollars, 2017)	$16,819	Adult literacy rate (2015)	99
Population (millions, 2016)	1.35	Gini index (2010)	40.3
Life expectancy at birth (years, 2015)	70.6	Unemployment rate (Q2 2017)	5.3
Under 5 mortality rate (per thousand, 2016)	18.5	Human Development Index (2015)	65

Selected Economic and Financial Indicators

					Projections	
	2014	2015	2016	2017	2018	2019
National income and prices						
Real GDP	-1.2	1.7	-6.1	-2.6	1.0	0.9
Energy	-2.0	-1.4	-10.0	-0.3	6.0	2.4
Non-energy 1/	-0.7	3.6	-3.8	-3.8	-1.8	0.0
GDP deflator	1.8	-12.6	4.0	5.0	1.2	2.9
Consumer prices (headline)						
End-of-period	8.4	1.6	3.1	1.3	2.3	3.1
Period average	5.7	4.7	3.1	1.9	2.3	3.1
Consumer prices (core)						
Period average	2.0	1.8	2.2	2.2	2.1	2.1
Unemployment rate 2/	3.3	3.4	4.0	4.9	...	...
Real effective exchange rate (2010=100)	117.1	129.7	128.3	125.3	...	...
	(In percent of fiscal year GDP)					
Nonfinancial public sector (NFPS) 3/						
Central government overall balance	-4.7	-8.1	-12.0	-11.0	-6.0	-4.6
Of which: non-energy balance 4/	-21.8	-21.4	-18.0	-17.2	-15.1	-15.2
Budgetary revenue	30.9	29.5	22.5	21.3	25.7	27.4
Budgetary expenditure	35.6	37.6	34.5	32.2	31.7	32.0
Of which: interest expenditure	1.8	2.2	2.0	2.9	2.9	2.8
Of which: capital expenditure	4.9	4.8	2.9	2.2	2.4	3.0
Central government debt 5/	23.9	28.0	37.0	41.8	42.7	42.9
Gross NFPS debt 5/	40.4	48.0	57.6	60.9	62.5	63.5
Heritage and Stabilization Fund assets	20.3	22.8	24.9	25.4	26.0	26.3
	(In percent of GDP, unless otherwise indicated)					
External sector						
Current account balance	14.7	7.6	-2.9	10.2	10.7	7.3
Exports of goods	55.1	47.1	36.3	43.6	52.7	51.2
Imports of goods	29.2	31.0	30.3	26.8	33.1	35.6
External public sector debt	8.6	10.3	15.4	16.4	16.0	16.9
Gross official reserves (in US$ million)	11,493	9,927	9,466	8,370	7,546	6,976
In months of goods and NFS imports	13.2	12.3	12.6	9.4	7.8	7.2

	(Annual percentage changes)					
Money and credit						
Net foreign assets	7.6	-7.7	2.3	-9.3	-7.1	-5.2
Net domestic assets	4.0	46.2	6.5	26.8	20.5	8.7
Of which: credit to the private sector	6.7	6.6	3.6	4.9	6.0	5.9
Broad money (M3)	7.2	1.1	2.8	-0.4	1.3	-0.2
M3 velocity	1.7	1.5	1.4	1.5	1.5	1.5
Memorandum items:						
Nominal GDP (in billions of TT$)	174.1	154.7	151.0	154.4	157.9	163.8
Non-energy sector in percent of GDP	65.1	77.8	79.2	74.9	69.0	69.1
Energy sector in percent of GDP	34.9	22.2	20.8	25.1	31.0	30.9
Public expenditure (in percent of non-energy GDP)	55.0	50.5	43.7	42.4	45.0	46.3
Exchange rate (TT$/US$, end of period)	6.38	6.43	6.78	6.78	…	…
Crude oil price (US$/barrel)	96.2	50.8	42.8	52.8	70.3	69.6
Henry Hub natural gas price (US$ per MMBtu)	4.4	2.6	2.5	3.0	2.9	2.8

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

2/ 2017 reflects Staff projection.

3/ Data refer to FY year; for example, 2017 covers FY17 (October 2016-September 2017).

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

5/ Excluding debt issued for sterilization.

TRINIDAD AND TOBAGO

August 6, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

KEY ISSUES

Context. The economy is slowly recovering from a prolonged recession driven by energy supply shocks and low energy prices. With signs of improvement in the energy sector growth from the second half of 2017, the economy is expected to return to positive growth in 2018 as the recovery takes hold in both the energy and non-energy sectors. Good progress has been made in implementing fiscal consolidation. The financial system remained stable notwithstanding the deep recession in the past two years, with well-capitalized and profitable banks, and low levels of non-performing loans. As the recovery gathers pace, policies need to focus on completing the fiscal adjustment while insulating the economy from future commodity price swings, and creating an enabling environment for the non-energy sector.

Policy Recommendations:

- ***Sustaining fiscal adjustment and strengthening the fiscal framework.*** Progress on fiscal consolidation should remain on track, with revenue enhancing measures and expenditure savings to create fiscal space for future shocks, while improving the quality and efficiency of public spending. Establishing a medium-term fiscal policy framework will support fiscal sustainability and implementation of countercyclical fiscal policy to insulate the economy from commodity price swings.
- ***Restoring external balance.*** The authorities could take advantage of the current relatively stable period, with low inflation and positive steps taken for fiscal consolidation, to address the foreign exchange (FX) shortages by supplying sufficient FX at a given exchange rate and introducing gradually greater flexibility, thereby reducing incentives for FX-hoarding. The exchange rate could play a more active automatic stabilizer role and help manage the transition to a more balanced FX market.
- ***Boosting the non-energy sector as an engine of growth for sustained recovery.*** Reduced cost of doing business, addressing crime, and sustained government support for diversification within and outside the energy sector should help reduce heavy reliance on the energy sector, enhance the economy's FX-earning potential, and reduce commodity-induced volatility.

Approved By
Jorge Roldos (WHD) and Martin Sommer (SPR)

The staff team comprising Inci Otker (Head), Abdullah AlHassan (from HQ), Thomas Dowling, Oscar Hendrick, and Lulu Shui (all WHD) visited Trinidad and Tobago during June 18 to July 2. The team met with Finance Minister Imbert, Central Bank Governor Hilaire, other senior government officials, representatives of the labor community, the private sector, and the financial sector, and members of the political opposition. Daryl Cheong (senior advisor, OED) accompanied the mission. Editorial support was provided by Heidi Canelas (WHD).

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BACKGROUND

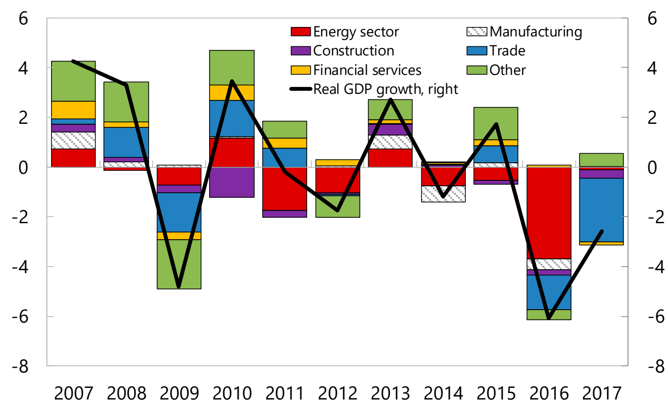
1. **The 2018 Article IV Consultation took place in a difficult, but promising economic environment.** After a prolonged recession, the economy is projected to return to positive growth from 2018 as the recovery takes hold in the energy and non-energy sectors. The relatively favorable circumstances in 2018, with stronger energy prices and low inflation, provide a window of opportunity to implement a comprehensive medium-term strategy that signals determination to resolve the challenges to sustained strong growth and complete the needed reforms, many of which are ongoing (Annex I).

RECENT ECONOMIC DEVELOPMENTS

2. **The economy shows signs of improvement from the second half of 2017 following two years of recession.** Real GDP contracted at a slower pace of 2.6 percent in 2017, following the 6.1 percent drop in 2016 driven by energy sector shocks. The strong recovery in gas production in 2017H2 had knock-on effects on down-stream industries, while oil production remained largely flat, at a historically-low level. The weak non-energy sector dampened the overall growth, reflecting weak activity in construction, financial services, and trade; continued shortage of foreign exchange (FX) and slow implementation of public investment projects weighed on the sector. Headline inflation fell to historic lows of 1.9 percent in 2017 on weak aggregate demand. While at relatively low levels, the unemployment rate rose to 5.3 percent in 2017Q2, from 3.3 percent in 2014Q2, with youth unemployment at an estimated 12 percent in 2017, compared with 7.9 percent in 2014.

Contributions to Real GDP Growth

(Percentage points, left; Percent, right)

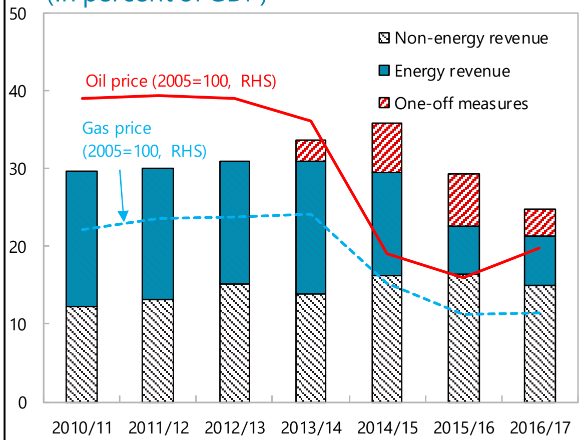


Sources: Country authorities and IMF staff calculations.

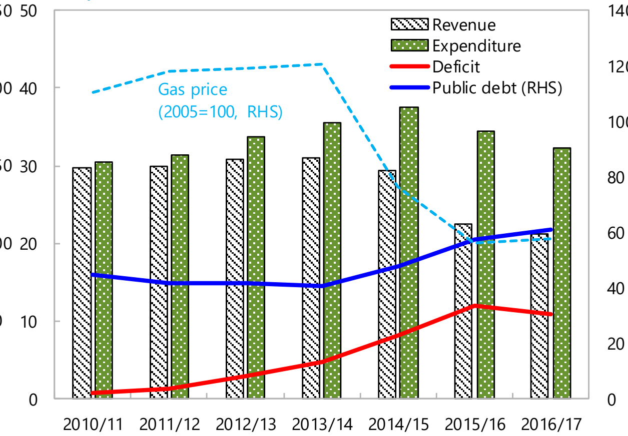
3. **Fiscal performance improved.** The fiscal deficit reversed its rising trend of the past 7 years, registering a slightly lower overall deficit in FY2017. Despite higher energy prices, energy-related revenues remained flat, due in part to fiscal incentives.[1] The significant reduction in expenditures by 2.2 percent of GDP implemented through cuts in spending on transfers and subsidies (1.6 percent of GDP), goods and services (1 percent of GDP), and capital investment (0.7 percent of GDP) was partly offset by the fall in non-energy revenues from weak economic activity and increased interest payments. Borrowing and one-off sources (from the Heritage and Stabilization Fund (HSF) and asset sales) amounting to 3.5 percent of GDP helped finance the deficit.

[1] These include exploration allowances (100-percent write-off on exploration in the first year) that expired in end-2017, a tax-loss carryforward using realized losses to offset future gains, and development allowances that allow for an accelerated write-off over 3 years instead of 5 years.

Central Government Revenue and Financing
(In percent of GDP)



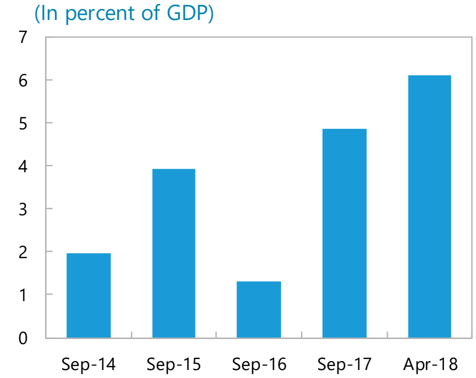
Central Government Deficit and Public Debt
(In percent of GDP)



Sources: Ministry of Finance; and IMF staff projections.

4. **Government debt continued to rise, while financial buffers remained large.** Central government debt (excluding borrowing from an overdraft facility with the Central Bank of Trinidad and Tobago (CBTT)) rose to 42 percent of GDP at end-FY2017, from 37 percent in end-FY2016, reflecting borrowing from domestic and external markets.[2] Public debt, including contingent liabilities from guaranteed debt of state-owned enterprises and statutory authorities, reached 61 percent of GDP, approaching the government's soft target of 65 percent, while external public debt increased slightly to 16.4 percent of GDP. Financial buffers remained substantial, with the HSF assets at 25.4 percent of GDP and sinking-fund assets (liquid-asset holdings to cover future principal payments) at 4.5 percent of GDP.

Central Government Overdraft with CBTT
(In percent of GDP)



Sources: CBTT; and IMF staff estimates.

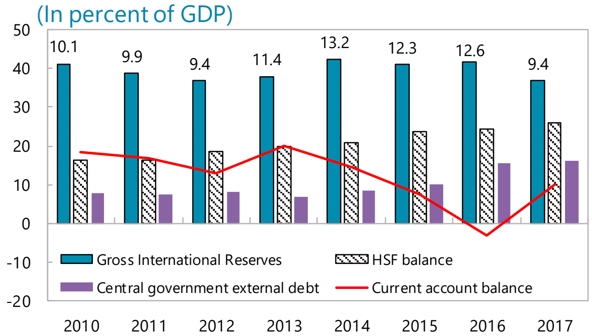
5. **The external position improved, with a strong current account surplus of 10.2 percent of GDP in 2017.**[3] The goods-and-services balance improved by almost 11 percent of GDP, driven by

[2] An overdraft from the CBTT is not included in central government or public debt figures. Such borrowing is permitted up to 20 percent of projected revenues in any fiscal year (increased from 15 percent in December 2017) and intended to be short-term financing to meet cash flow constraints and repaid by end-year. Recently, the government has tended to roll it over.

[3] Historical data was revised under recent CARTAC technical assistance (TA), resulting in a revision of trade data since 2011, a higher current account surplus for 2015, a sizeable reduction in the recorded current account deficit for 2016 from 11.7 percent to 2.9 percent of GDP, and a revision of the current account balance from an estimated deficit to a surplus for 2017. Revisions reflect largely the substantial revision of fuel imports data, compared to the previously reported estimates of import data, and the authorities' ongoing efforts, supported with Fund TA, to improve data quality by addressing the coverage, classification, timeliness, quality, and reporting problems in capturing energy-sector and other external data.

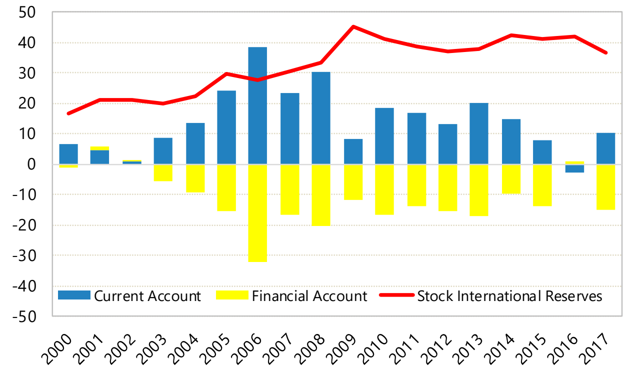
higher energy-related exports and a modest recovery of energy prices. Lower imports due to weak domestic demand also played a role. However, the financial account registered strong outflows (driven largely by net acquisitions of portfolio and other investment instruments by domestic residents), resulting in a US$1.1 billion fall in gross international reserves (GIR), which still provide 9.4 months of import cover as of end-2017. The country remains a net creditor, although both gross reserves and net international investment position (NIIP) have been declining steadily since 2014.[4]

Current Account, Foreign Assets and External Debt
(In percent of GDP)



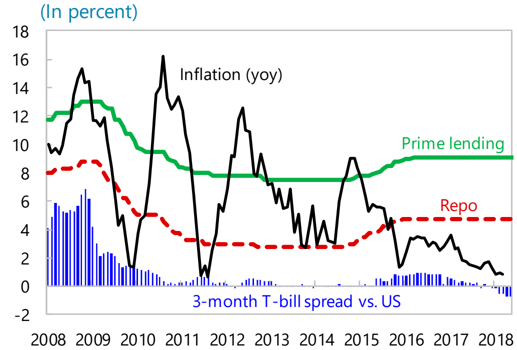
Sources: Ministry of Finance; CBTT; and IMF staff calculations.
Note: Numbers on top of Gross International Reserves indicate in months of imports.

Current Account Balance and Capital Flows
(In percent of GDP)



6. **The tightness in the FX market seems to have eased compared to last year, but the market continues to be in a disequilibrium with strong excess demand**. FX shortages remain despite the 7-percent nominal depreciation in 2016, the strong current account surplus in 2017, and increased FX inflows from energy companies, and notwithstanding the CBTT's bi-monthly intervention to maintain a stable exchange rate vis-à-vis the US$. Anecdotal evidence continues to suggest the existence of an informal parallel market. Notwithstanding the historically low inflation, the CBTT raised its policy rate on June 29 to 5 percent, considering the signs of a pickup in economic activity and the likely impact of rising US-TT interest-rate differentials on capital flows and the exchange rate.

Inflation and Nominal Interest Rates
(In percent)



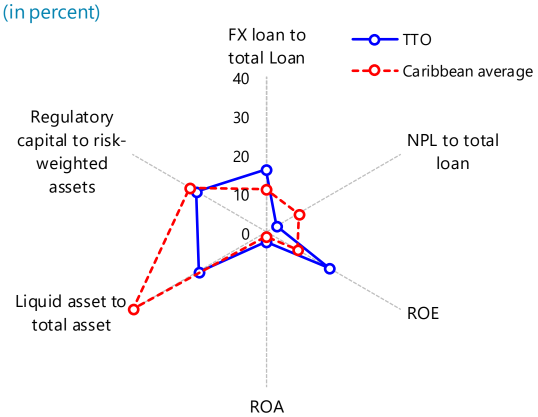
Sources: CBTT; Haver; and IMF staff calculations.

7. **The financial system remained stable, notwithstanding the deep recession in the past two years.** Banks are well-capitalized and profitable and credit quality remains relatively high, with nonperforming loan (NPL) ratios one of the lowest in the region (3 percent) and loan-loss provisioning at 66 percent of impaired loans. The NPL ratio has been declining since 2011, with banks actively resolving large NPLs and the recession not fully reflected in unemployment until recently. However, late 2017 and early-2018 data indicate some weakening in asset quality, with the NPL ratio rising for real estate and credit cards, and some discernible increase in the overall level of

[4] The fall in NIIP is mainly driven by a reduction in financial assets, specifically the significant decline in FX reserves, partially compensated by an increase in portfolio investment abroad (Annex V).

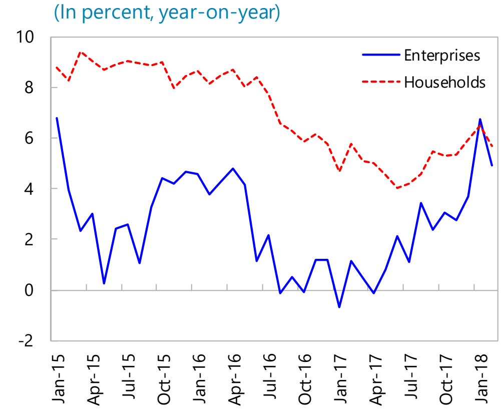
past-due loans for 30-89 days. The insurance sector remained resilient despite large claims from the 2017 hurricanes in the region and the impact of the low-interest-rate environment on earnings. Private-sector credit grew at a robust pace (including from non-bank financial institutions), with business credit recovering after a virtual halt in 2016, while household credit expanded more slowly—the fall in the growth of credit-card and vehicle loans was offset by a pickup in refinancing and debt consolidation.

Commercial Banks Financial Soundness Indicators, 2017
(in percent)



Sources: Central Banks of Caribbean countries; and IMF staff calculations.
Note: Caribbean average does not include Suriname due to lack of data. Caribbean average of FX loan to total loan only include ECCU countries, JAM and TTO. Barbados data is 2017Q2.

Credit to Private Sector Growth
(In percent, year-on-year)



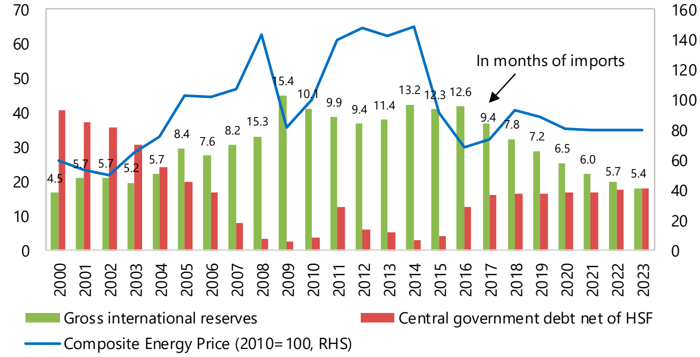
Source: Central Bank of Trinidad and Tobago.

OUTLOOK AND RISKS

8. **Economic prospects are expected to improve broadly over the medium term.** The economy is projected to recover as energy projects come onstream and the recovery takes hold in the non-energy sector. Near-term growth will likely be led by natural-gas production, with continued challenges in the oil sector and subdued execution of the Public-Sector Investment Program (PSIP). Gradual recovery in the non-energy sector should help stabilize growth at 1.5 percent over 2018-23, with inflation projected to rise along with non-energy sector recovery to 3.8 percent. The fiscal deficit is projected to narrow to an average 4 percent of GDP over the medium term as energy revenues rise, non-energy revenues recover, and the efficiency of transfers and subsidies improve. With one-off financing options diminishing over time, central government debt (excluding overdrafts) is expected to reach 43 percent of GDP by 2023, and public debt 64 percent.

9. The external sector outlook is subject to price volatility, energy-supply shocks, and persistent fiscal deficits. Despite projected current account surpluses averaging 6.6 percent of GDP over the projection period, GIR are projected to fall to about 5.4 months of imports by 2023 with continued FX intervention under the current FX regime, absent a sharp rebound in energy prices and a tighter fiscal stance. The steady decline in reserves, in turn, suggests declining financial buffers over the medium term vis-à-vis the projected levels of central government debt-to-GDP net of HSF buffers.

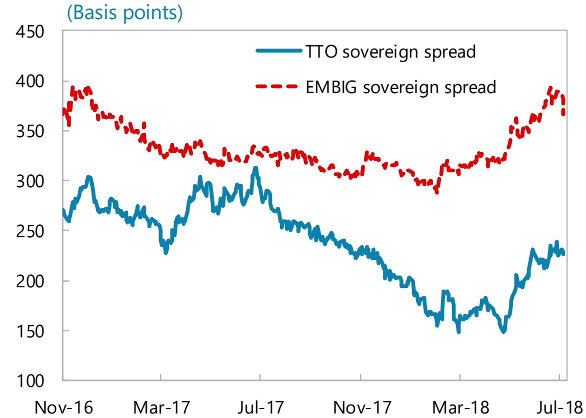
Central Government Net Debt, Reserves and Energy Price
(In percent of GDP, unless otherwise indicated)



Sources: CBTT; Ministry of Finance; and IMF staff estimates.

10. The outlook is subject to risks tilted to the downside in the near term. Key risks include lower energy prices, delays in delivering energy-related projects on time, and further disruptions to output, pending completion of the oil and gas tax regime reform (Annex II). Implementation delays in the ongoing fiscal adjustment and persistence of FX shortages may weaken market confidence, and adversely affect funding costs.[5] Although high bank liquidity and external bond spreads suggest capacity for further market absorption of debt, there are risks from high debt and gross-financing needs. Tighter financial conditions and regional financial risks (e.g., cyber-attacks or adverse regional developments) could affect financial stability and undermine the non-energy sector's capacity to produce. Rising US rates and US-dollar appreciation could worsen competitiveness under the stable exchange rate policy, further increasing currency pressures. A sharp rise in energy prices or implementation of a comprehensive medium-term macroeconomic strategy and structural reforms provide upside risks.

Emerging Market Bond Index Global (EMBIG)
(Basis points)



Source: Bloomberg.

Authorities' Views

11. The authorities share staff's concerns about an uncertain energy price and external outlook, but are more optimistic about the medium-term prospects. They project a more robust growth outlook around 2 percent for 2018-19, based on the current and upcoming energy sector

[5] Existing macroeconomic imbalances continue to weigh on the country's sovereign credit ratings. Standards & Poor's affirmed its sovereign credit rating at BBB+ on April 27, 2018, but revised the outlook from stable to negative, and Moody's maintained the country's stable outlook, but reaffirmed its Ba1 rating on May 10, citing macroeconomic imbalances, risk of failure to reduce the fiscal deficit, contain public debt, and implement key institutional reforms.

projects, higher execution of the PSIP, and stronger pick up in non-energy sector activity. The authorities expect a more favorable fiscal position, based on higher revenues from improving tax administration and ongoing fiscal reforms.

Medium-Term Macroeconomic Framework (Baseline Scenario)

	2014	2015	2016	2017	Projections 2018	2019	2020	2021	2022	2023
National income and prices										
Real GDP growth (in percent)	-1.2	1.7	-6.1	-2.6	1.0	0.9	1.6	2.1	1.2	2.2
Energy 1/	-2.0	-1.4	-10.0	-0.3	6.0	2.4	2.2	2.9	-0.1	1.6
Non-energy 2/	-0.7	3.6	-3.8	-3.8	-1.8	0.0	1.2	1.6	2.1	2.5
Inflation (in percent)										
Period average	5.7	4.7	3.1	1.9	2.3	3.1	3.0	3.8	3.8	3.8
End of period	8.4	1.6	3.1	1.3	2.3	3.1	3.0	3.8	3.8	3.8
	(In percent of GDP, unless otherwise indicated)									
Central government finances 3/										
Revenue	30.9	29.5	22.5	21.3	25.7	27.4	27.9	28.0	27.8	27.6
Energy	17.1	13.3	6.1	6.2	9.1	10.6	10.9	10.9	10.6	10.5
Non-energy	13.8	16.2	16.4	15.1	16.6	16.8	17.0	17.1	17.2	17.2
Expenditure	35.6	37.6	34.5	32.2	31.7	32.0	31.7	31.3	31.0	30.7
Current	30.8	32.8	31.6	30.1	29.3	29.0	28.7	28.4	28.1	27.7
Capital expenditures and net lending	4.8	4.8	2.9	2.2	2.4	3.0	3.0	3.0	3.0	3.0
Overall fiscal balance	-4.7	-8.1	-12.0	-11.0	-6.0	-4.6	-3.8	-3.3	-3.3	-3.0
Overall fiscal non-energy balance	-21.8	-21.4	-18.0	-17.2	-15.1	-15.2	-14.7	-14.3	-13.9	-13.5
Primary balance	-2.9	-6.0	-10.0	-8.1	-3.1	-1.7	-1.0	-0.6	-0.6	-0.4
Central government debt 4/	23.9	28.0	37.0	41.8	42.7	42.9	43.1	42.9	43.3	43.4
Public sector debt 4/	40.4	48.0	57.6	60.9	62.5	63.5	64.2	64.1	64.5	64.4
Net of HSF deposits	20.1	25.2	32.7	35.4	36.5	37.2	37.8	38.0	38.6	38.8
External sector										
External current account balance	14.7	7.6	-2.9	10.2	10.7	7.3	6.0	5.5	5.0	5.1
Gross official reserves (US$ millions)	11,493	9,927	9,466	8,370	7,546	6,976	6,428	5,933	5,620	5,410
In months of imports	13.2	12.3	12.6	9.4	7.8	7.2	6.5	6.0	5.7	5.4
Memorandum items:										
Credit to private sector (12-month increase)	6.7	6.6	3.6	4.9	6.0	5.9	6.7	6.9	6.4	6.5
One-off fiscal financing 5/	2.6	6.4	6.8	3.5	2.5	2.8	1.6	1.1	0.5	0.5

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

1/ The fall in growth in 2022 is due to a fall in projected output due to depletion of exisiting fields and the timing of new projects coming onstream.
2/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).
3/ Fiscal year ending in September.
4/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the CBTT.
5/ Includes asset sales and super-dividends. These are counted as financing based on IMF's Government Finance Statistics Manual.

POLICY DISCUSSIONS

12. **The risks to the outlook call for a comprehensive medium-term adjustment and growth strategy to support the recovery and safeguard fiscal and external sustainability**. The strategy should focus on reducing over-reliance of macroeconomic performance on the energy sector and increasing resilience to future shocks by: (i) completing the fiscal and external adjustment, while insulating the economy from future commodity-price swings, and (ii) creating an

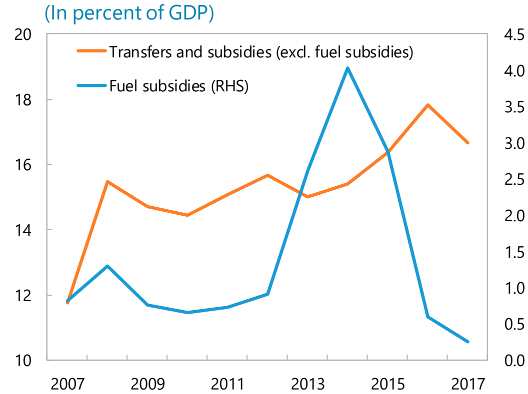
enabling environment for the non-energy sector as an engine of growth, including through improved FX access, reduced cost-of-doing-business, efforts to diversify the economy, reduced crime, and growth-friendly, efficiency-enhancing public-investments. Chapter 1 of the Selected Issues Paper (SIP) explores insights from the external-adjustment experiences of commodity-exporting countries, where financial buffers, appropriate institutions, and a supportive macro-structural policy mix helped reduce the adjustment costs.

A. Addressing Fiscal Imbalances and Strengthening the Fiscal Framework

13. **Higher energy prices provide both an opportunity and a risk to the reforms.** The rise in energy prices since 2017 supported improvements in fiscal and external balances and the ongoing fiscal consolidation efforts. However, the difficulty in predicting energy prices underscores the need to keep the momentum of fiscal adjustment, establish mechanisms for systematic implementation of countercyclical fiscal policy and continue with diversification efforts.

14. **Staff supported the authorities' fiscal consolidation measures underway, and stressed that the adjustment needs to remain on track.** The measures taken (including royalty and corporate taxes and reduced fuel subsidies) are welcome steps, but some revenue reforms have been delayed due to legislative and institutional constraints (e.g., the gaming tax and the Revenue Authority (RA), which require 3/5th parliamentary majority for approval, the Tax Policy Unit (TPU), and reintroduction of the property tax; Annex III). Further cost savings from reduced transfers and subsidies (still high by regional standards) await completion of the World Bank Public Expenditure Review (PER), to identify the duplications and inefficiencies in public spending. Recent appointment of the public procurement regulator should create cost savings over the medium term. The authorities should continue efforts to address the obstacles to speedy implementation of the measures, and focus on reducing reliance on non-core revenues.

Transfers and Subsidies
(In percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

15. **Efforts should focus on delivering the targeted fiscal adjustment over the medium-term.** Notwithstanding the improvement in FY2017/18, the high primary deficit and public debt call for further adjustment to create fiscal space for future shocks, alleviate market concerns about the adequacy of fiscal and external adjustment, and put the public debt on a downward trajectory to safeguard sustainability. While the debt profile seems favorable with long-term maturity

Potential Fiscal Measures
(FY, Cumulative percent of GDP)

	2018/19	2019/20	2020/21	2021/22	2022/23
Total Measures	**0.9**	**1.8**	**2.5**	**3.5**	**4.4**
Revenue Measures	0.5	0.9	1.4	2.0	2.4
Energy taxation	0.3	0.5	0.6	0.9	0.9
Revenue Administration	0.2	0.5	0.7	1.1	1.5
Expenditure Measures	0.4	0.9	1.1	1.5	2.0
Current expenditure	0.9	1.5	1.9	2.4	2.9
Raising electricity/water tariffs	...	0.2	0.4	0.6	0.8
Current expenditure reductions (PER)	0.9	1.3	1.5	1.8	2.1
Expand infrastructure investment	-0.5	-0.6	-0.8	-0.9	-0.9

Source: IMF staff estimates.

and low external financing, the projected debt path remains vulnerable to risks, particularly from real interest rate shocks, weak growth, and worsened primary balance (Annex IV). Following the significant adjustment of 2.2 percent of GDP in FY2017, staff suggest additional revenue-raising and current-spending measures that yield about 4.4 percent of GDP paced over 5 years and would contain central government debt to around 30 percent of GDP and public debt below 55 percent (the active scenario), and result in some improvement in external accounts.[6] Many of these measures are already in train, but require steadfast implementation over the medium term.

Medium-Term Macroeconomic Framework (Active Scenario)

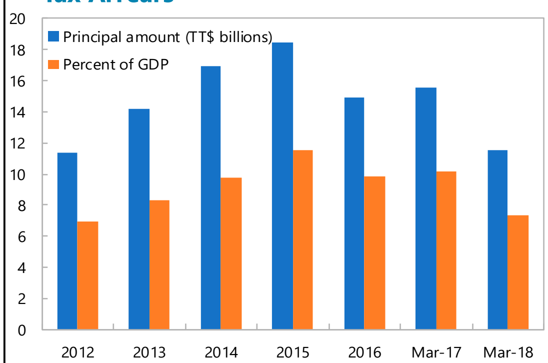
					Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
National income and prices										
Real GDP growth (in percent)	-1.2	1.7	-6.1	-2.6	1.0	0.8	1.3	1.7	0.7	1.5
Energy 1/	-2.0	-1.4	-10.0	-0.3	6.0	2.4	2.2	2.9	-0.1	1.6
Non-energy 2/	-0.7	3.6	-3.8	-3.8	-1.8	-0.1	0.8	1.0	1.2	1.5
Inflation (in percent)										
Period average	5.7	4.7	3.1	1.9	2.0	2.3	2.7	3.0	2.6	2.8
End of period	8.4	1.6	3.1	1.3	2.0	2.3	2.7	3.0	2.6	2.8
					(In percent of GDP, unless otherwise indicated)					
Central government finances 3/										
Revenue	31.1	29.6	22.7	21.3	25.8	28.0	29.0	29.6	30.1	30.4
Energy	17.3	13.4	6.3	6.2	9.2	10.7	11.1	11.2	11.1	11.2
Non-energy	13.8	16.2	16.4	15.1	16.6	17.3	17.9	18.3	19.0	19.3
Expenditure	35.6	37.6	34.5	32.2	31.8	31.6	30.9	30.3	29.6	28.8
Current	30.8	32.8	31.6	30.1	29.4	28.1	27.3	26.6	25.8	25.0
Capital expenditures and net lending	4.8	4.8	2.9	2.2	2.4	3.5	3.6	3.7	3.8	3.8
Overall fiscal balance	-4.5	-8.0	-11.7	-11.0	-6.0	-3.6	-1.9	-0.7	0.5	1.6
Overall fiscal non-energy balance	-21.8	-21.4	-18.0	-17.2	-15.1	-14.4	-12.9	-12.0	-10.6	-9.5
Primary balance	-2.8	-5.8	-9.7	-8.1	-3.1	-0.8	0.9	1.8	2.9	3.9
Central government debt 4/	23.9	28.0	37.0	41.8	42.8	42.3	40.9	38.6	36.0	32.3
Public sector debt 4/	40.4	48.0	57.6	60.9	62.7	63.1	62.3	60.4	58.2	54.7
Net of HSF deposits	20.1	25.2	32.7	35.4	36.6	36.5	35.5	33.5	31.2	27.6
External sector										
External current account balance	14.7	7.6	-2.9	10.2	11.3	8.1	6.9	6.7	6.8	6.7
Gross official reserves (US$ millions)	11,493	9,927	9,466	8,370	7,703	7,307	6,980	6,741	6,636	6,364
In months of imports	13.2	12.3	12.6	9.6	8.1	7.7	7.3	7.1	6.9	6.5
Memorandum items:										
Credit to private sector (12-month increase)	6.7	6.6	3.6	4.9	6.0	5.9	6.1	6.2	5.8	6.2
One-off fiscal financing 5/	2.6	6.4	6.8	3.5	2.6	2.8	1.6	1.1	0.6	0.5

Sources: Ministry of Finance; Central Statistics Office; and IMF staff projections.
1/ The fall in growth in 2022 is due to a fall in projected output due to depletion of exisiting fields and the timing of new projects coming onstream.
2/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).
3/ Fiscal year ending in September.
4/ Starting in 2013, assumes no additional contributions to the HSF.
5/ Includes asset sales and super-dividends. These are counted as financing based on IMF's Government Finance Statistics Manual.

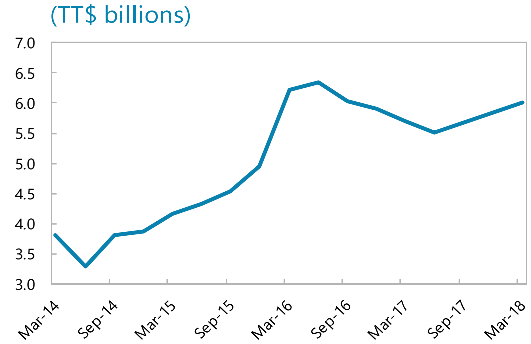
[6] The total fiscal adjustment needed to stabilize the debt (8 percent of GDP, Annex IV) will need to continue beyond the five-year projection period. In addition to the measures described above, higher taxes on tobacco or sugary drinks may be considered, as well as a gradual rise in the VAT rate to the regional average (15 percent).

16. On the revenue side, accelerating implementation of tax reforms is a priority, including completing the energy taxation and tax administration reforms. Swift completion of the ongoing reforms to enhance the oil-and-gas tax regime and reduce tax leakages would provide clarity on the operating environment for the energy sector, offering attractive terms for investment while securing appropriate payment to the government. Enhancing fiscal transparency in the petroleum sector would strengthen the credibility of the authorities' fiscal plans and market confidence, while providing a comprehensive picture of potential fiscal risks (Annex III). Speedy establishment of RA legislation would enhance revenue collection and cost-saving across agencies and address weaknesses in tax administration and compliance, given the substantial amount of outstanding tax arrears to the government (7 percent of GDP as of end-March 2018).[7] Accelerating the payment of VAT refunds the government owes to taxpayers is also important, since such delays may impact liquidity positions of businesses and their tax compliance.

Tax Arrears



VAT Refund Arrears
(TT$ billions)



Sources: Ministry of Finance; and IMF staff calculations.

17. On the expenditure side, containing current spending and improving the efficiency of public spending remain priorities. Transfers to public utilities continue to represent a significant fiscal drain (1.5 percent of GDP). Staff concurred with the authorities that raising utility tariffs should be guided by a rate-determination exercise (tariffs were last raised in 1996 for water and 2006 for electricity), and implemented with urgency. The PER should suggest further efficiency gains in public expenditures, including in spending on education, health, and social services. Redirecting savings from current spending to the most vulnerable segments of society and efficient, growth-enhancing public investment could deliver better returns (given higher fiscal-multiplier effects of such spending), reducing the measures' negative social/growth impacts.[8]

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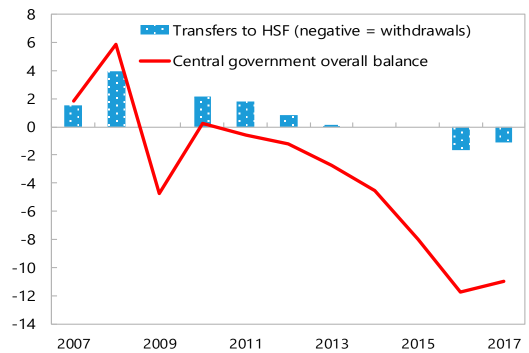
[7] A recent assessment using the Tax Administration Diagnostic Assessment Tool observed strengths in using third party data, a well-structured tax dispute resolution process, and a relatively sound tax administration IT system, but also identified weaknesses: the integrity of the taxpayer registration database, shortage of technical staff, delays in processing transactions that result in inaccurate taxpayer accounts, and limited use of electronic filing and payment.

[8] Staff estimates an average -0.5 percentage-point (non-energy) growth impact in the first two years of the proposed adjustment measures, using a fiscal multiplier of 0.2, calculated by the "bucket approach." Also see Western Hemisphere Department Regional Economic Outlook, April 2018, on fiscal multipliers.

18. Staff welcomed the authorities' intention to establish a medium-term fiscal policy framework (MTFF). Staff noted that the framework should consider potential uncertainties associated with commodity cycles and provide a systematic tool for countercyclical policy implementation to insulate the economy from commodity-driven volatility going forward. The HSF, which accumulates financial buffers from windfall savings, could in principle perform such a role, accumulating reserves during revenue booms to use during revenue downturns, but the rules governing its inflows and outflows are neither linked to fiscal indicators nor based on longer-term fiscal sustainability assessments.[9] Staff recommended formal fiscal targets and a clearly-communicated MTFF to guide fiscal policy. The HSF should be fully integrated with the MTFF, and transfers to/from it should be linked to an appropriate fiscal target that provides the government with a commitment device to anchor its adjustments and shield it from pressure to deviate from the adjustment path (Chapter 2, SIP). Tailored-TA could help determine an appropriate anchor to support fiscal sustainability and implement countercyclical fiscal policy.

Central Government Balance and Transfers to HSF
(In percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

19. The authorities should also consider adopting an asset-liability management framework. Public debt and the HSF should be managed in an integrated framework, to limit situations where the authorities may have to borrow to save into the HSF (e.g., when running a fiscal deficit). Publishing a medium-term debt strategy should also clarify the desired composition of the government-debt portfolio, capturing the government's preferences regarding cost-risk tradeoff between alternative financing options, provide more clarity and predictability to the financial system, and reduce adverse implications of various borrowing strategies on the economy. Settling the overdraft balance at the CBTT, implementing stricter limits to monetary financing, and hence reducing reliance on central-bank financing are also important.

20. Other structural reforms to strengthen public sector management need urgent attention. Staff noted initiatives to reform the National Insurance System, with contribution income no longer sufficient to meet benefits payments since 2014. Proposals to further increase the contribution rate and gradually raise the effective retirement age from 60 to 65 should help keep the system sustainable and reduce contingent liabilities to the government. Urgent action is also needed to increase efficiency and reduce labor rigidities in the public sector. Comprehensive public service reforms should increase the ability of the Public Services Commission Department and the Chief Personnel Officer to address the institutional constraints to government's efficient functioning.

[9] Inflows (outflows) are triggered when actual energy revenue exceeds (falls short of) budgeted revenue by 10 percent.

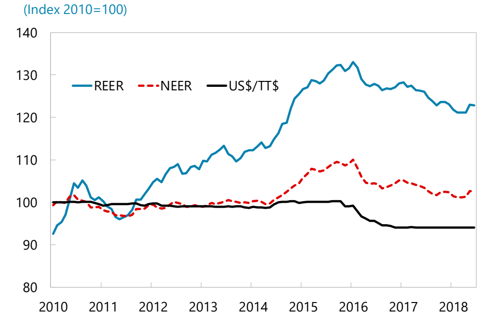
Authorities' Views

21. **The authorities agreed on the need for gradual fiscal adjustment and reiterated their commitment to fiscal discipline.** They emphasized the significant consolidation since FY2015 through spending cuts (in the main) and noted that most of staff's proposed revenue and expenditure reforms were already underway. The authorities are committed to complete the ongoing reforms, including, the RA, the TPU, property and gaming taxes, and the transfer-price regime. They expect implementation of measures proposed by the PER to further improve the efficiency of subsides and transfers, and higher revenue gains from the RA (3 percent of GDP), compared to staff's more conservative assumptions. Overall, the authorities are confident that they can balance the budget by 2020, and note the progress in recovering CLICO assets after the company was placed in compulsory liquidation. With the ongoing review of the HSF, the authorities take keen note of staff's suggestions on the MTFF and inflow-outflow rules for the HSF.

B. Restoring External Balance

22. **Staff assesses the external position in 2017 as weaker than the level consistent with medium-term fundamentals and desirable policies.** Estimates based on a model specifically designed for oil exporting countries (Bems and Carvalho (2009), which, in staff's view, better suits commodity-exporting countries) suggest that the current account norm should be a surplus of 13.5 percent. The estimated current account gap is -4.0 percent, which suggests an overvaluation of 12.1 percent. The EBA-Lite REER regression approach also points towards a degree of overvaluation, with an REER gap of 42.1 percent (Annex V). The REER estimated by the Fund Information Notice System (INS) shows a 21 percent appreciation between 2010 and end-March 2018. In staff's view, the outcome of these different tools conforms with shortages in the FX market and anecdotal evidence of an informal parallel market. Nonetheless, the country is a net creditor, with an NIIP of 20.9 percent of GDP. Reserve adequacy remains satisfactory under all metrics, and is sufficient to absorb most shocks in the short-term.

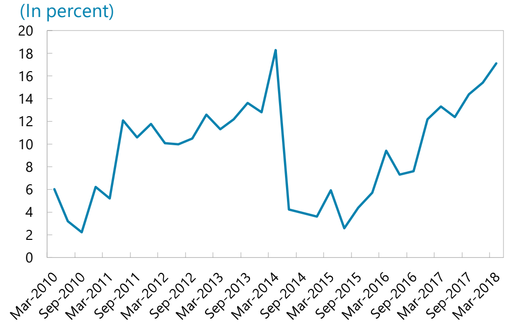
Exchange Rate Developments
(Index 2010=100)



Sources: IMF Information Notice System; and IMF staff estimates.

23. **Notwithstanding the reduced tightness in the FX market, the impact of continued FX shortages on the non-energy sector remains a concern.** Some companies with large import needs reportedly closed their business, with delays in settling bills and getting inputs for production, while others moved to import substitution. FX queuing continues; while requests are eventually fulfilled, waiting time can range from 2 to 4 weeks, depending on the amount, purpose, and timing of the request, and liquidity position of the authorized dealer. Uncertainty about

Commercial Banks' Net Open Position of FX to Capital
(In percent)



Source: Central Bank of Trinidad and Tobago.

FX availability or expectations of a further depreciation feed FX hoarding (which may be evident also in banks' growing net-long-FX positions), which in turn contribute to tightness in the market. With continued disequilibrium in the market, the government launched, in May 2018, a US$100-million EximBank FX Facility, through which eligible small and medium exporters would be able to obtain FX to finance inputs for export operations.[10]

24. The FX market should be cleared on a sustained basis. Considering further potential volatility in energy prices, the authorities could take advantage of the current relatively stable period (with low inflation and positive steps taken for fiscal consolidation) to address the FX-shortages, and supply more FX at the given exchange rate. While the EximBank facility may help alleviate somewhat the FX shortage for eligible manufacturers, it could add to market distortions and create incentives for misuse. The Facility needs to be carefully implemented to ensure transparency and consistency with international standards, while the authorities should provide sufficient FX to meet demand for all current international transactions. Since the Facility serves as a form of prioritization in an environment of FX shortages, it is inconsistent with the country's Article VIII obligations.[11]

25. The exchange rate could play a more active role as an automatic stabilizer and help manage the transition to a more balanced FX market. The currency remained broadly stable since the depreciation in 2016, while vulnerability to terms-of-trade shocks continues. Greater flexibility, implemented through a mechanism that allows some market forces in determining the exchange rate (e.g., within a gradually-widening horizontal or crawling band accompanied with an appropriate FX intervention strategy), would facilitate adjustment to external shocks, help restore competitiveness, and safeguard foreign reserves. Implementing exchange rate adjustments through this mechanism could signal to the market that the rate can move in either direction, and in so doing reduce incentives for FX-hoarding and one-way currency bets, while maintaining the exchange rate as an anchor for inflation expectations.

26. In staff's view, a move to a more flexible exchange rate regime would require careful design and implementation. Assessing balance-sheet exposures of the public and private sectors and exchange-rate passthrough to inflation would be important to make sure the arrangement does not result in adverse balance sheet problems or offsetting second-round

Trinidad and Tobago: Balance Sheet Analysis Matrix, 2017 Net positions
(In percent of GDP)

	Government	Central Bank	Banks	NBFIs	NFCs	HHs	ROW	**Total**
Government		17.4	-9.4	-19.9			-17.3	**-29.2**
Central Bank	-17.4		-12.9	-1.9	0.0	-5.3	37.4	**-0.1**
Banks	9.4	12.9		-11.3	1.3	-22.4	13.7	**3.5**
NBFIs	19.9	1.9	11.3		14.8	-83.4	36.2	**0.7**
NFCs		0.0	-1.3	-14.8			-21.1	**-37.2**
HHs		5.3	22.4	83.4			0.0	**111.2**
ROW	17.3	-37.4	-13.7	-36.2	21.1	0.0		**-48.9**

Sources: Country authorities; and IMF staff calculations.
NBFIs: non-bank financial institutions; NFCs: non-financial corporations; HHs: households; and ROW: rest of the world.

[10] To qualify, manufacturers must agree to repatriate a suitable amount of their FX earnings and at least 30 percent of their production must be for export. Staff is assessing whether the measure constitutes a Capital Flow Management measure, but further information is needed to conclude the assessment.

[11] This modifies the existing exchange restriction currently maintained by the authorities (see Informational Annex). The authorities have not requested approval for this measure.

effects.[12] Accompanying the new regime with (i) supportive fiscal, monetary, financial, and structural policies, and safety nets, (ii) clarity of the roles and responsibilities of policymakers in determining the exchange rate regime and its implementation, and (iii) an appropriately-designed intervention and communication strategy (on when and how to intervene and what and when to announce) could help limit large currency movements and prevent the rate from being pushed quickly to band limits. Communication with key stakeholders, such as trade/labor unions, could focus on the benefits of addressing FX shortages for non-energy sector growth and employment. Maintaining the current policy puts the burden of adjustment on fiscal, monetary, and structural policies, and requires ample reserve/fiscal buffers and adjustments with larger growth effects. Country experiences suggest that preserving a peg regime can provide a helpful anchor for undiversified economies, but only if large financial buffers exists and/or credible fiscal adjustments are possible under persistent shocks.

Authorities' Views

27. The authorities recognize that there may be some degree of imbalance in the FX market, but continue to favor an appropriate combination of fiscal, monetary, and structural policies to address the disequilibrium. They expect the improved fiscal position and increased FX inflows from a more favorable energy outlook to help address some of the imbalances over time, and the EximBank facility to enhance FX access for eligible manufacturers in the interim. At this current juncture, with the fiscal and structural reform agenda not yet fully complete, the authorities prefer to maintain the status quo on the exchange rate regime. In the context of Trinidad and Tobago being a small open economy, they expressed their uncertainty of the benefits of adjusting the regime without these supportive measures in place, reiterating their concerns about the exchange rate pass-through to inflation and the potential negative feedback loops from higher wage demand.[13]

C. Addressing Monetary Policy Challenges

28. Staff support the recent increase in the policy rate, given domestic and external circumstances. In setting the policy rate, the CBTT has been balancing the need to support the recovery, while guarding against the risks from a further narrowing of the TT-US short-term interest rate differential. With the differential falling below parity during 2018 with rising US interest rates and relatively stable domestic rates, staff supports the CBTT's decision to increase the repo rate to 5.0 percent on June 29, taking into consideration the likely impact on capital outflows and the currency and the signs of a pickup in economic activity. In staff's view, further rises in the US interest

[12] Preliminary staff estimates suggest that the cumulative response of headline inflation to a one-percent nominal effective exchange rate depreciation after 12 months and 24 months are 0.17 percent and 0.18 percent, respectively. Recent CBTT research (Bobb and Sonnylal, 2018) finds that a one-percent depreciation leads to an immediate rise of 0.46 percent and 0.52 percent in the headline and food inflation, respectively, but the passthrough is short-lived. Banks' net long positions in FX and a small share (16 percent) of FX loans to total loans may suggest limited direct and indirect exposure to FX depreciation, but central government external debt is highly sensitive to exchange rate movements (Annex IV). Preliminary staff analysis also suggests that non-financial corporations, which rely on external financing, may be exposed to FX and funding risks that should be carefully managed.

[13] See "Staff Guidance Note on the Fund's Engagement with Small Developing States," IMF, 2017.

rate differential would complicate monetary policy, making it difficult to maintain the rate to support economic recovery. Allowing a gradual exchange-rate adjustment within the constraints of a band could provide some scope for more flexible monetary policy.

D. Safeguarding Financial Sector Stability

29. While the financial system remained stable through the deep recession in the past two years, there are pockets of vulnerabilities. With some signs of weakening in asset quality and robust growth in private-sector credit in 2018 from banks and non-banks, staff welcomes the authorities' vigilance in identifying and monitoring credit quality—particularly important, given high gross indebtedness of the household sector (35.5 percent of GDP), high sovereign exposures (more than 20 percent of banking sector assets, with exposures to the domestic sovereign accounting for more than 70 percent), equity exposures in subsidiaries and affiliates (42 percent in the region), and further tightening of US interest rates (Financial Stability Report 2017). An increasingly complex and interconnected financial system within and across borders, cross-border presence of banks and insurance companies, and gaps in the oversight framework for credit unions and mutual funds call for careful monitoring of systemic risks.

30. Efforts must focus on risk-based, consolidated, cross-border supervision and completing the regulatory reforms. Systematic monitoring of bank profitability, asset quality, loan-loss-provisioning, and classification are key to identifying promptly the sources of systemic risk. Banks' FX and domestic and regional sovereign exposures seem well managed, but direct and indirect exposures must be ascertained regularly and managed carefully with appropriate prudential tools and adequate capital and liquidity buffers, considering the stable exchange rate environment and potential fallout from adverse regional developments. Implementation of Basel II (by January 2019), strengthened oversight of mutual funds and credit unions, and proclamation of the Insurance Bill to become law would go a long way in strengthening the overall supervision framework.

31. The AML/CFT framework must be strengthened to avoid remaining on the FATF list of jurisdictions with strategic deficiencies and limit potential fallout for financial institutions. While FATF International Cooperation Review Group (ICRG) noted the significant progress in addressing the existing deficiencies, further improvements are needed, with the removal from the ICRG list pending the passage of legislation and other measures in the deficient areas. The legislation for Global Forum compliance is with the Joint Select Committee, but the jurisdiction must still resolve some issues of discriminatory tax treatment. While no Correspondent Banking Relationships (CBR) losses have been observed recently, banks experience higher fees in drafts and de-marketed some customers and business lines seen as high risk (gaming, money transfer operators, and drafts). Efforts to ensure compliance with international standards, implement risk-based supervision, and complete legislative requirements should go hand-in-hand with banks' ongoing efforts for due diligence, relationship maintenance, and prudent risk-management.

Authorities' Views

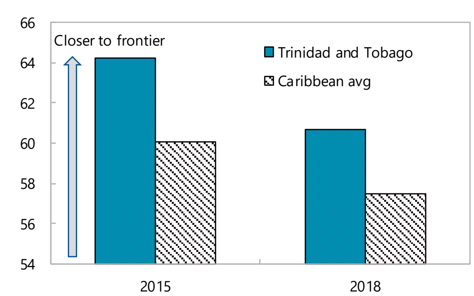
32. The authorities are focusing on risk-based, consolidated, cross-border supervision, with proactive monitoring of key risks and vulnerabilities facing the financial system. They highlight the overall strength and soundness of the financial system, but are aware that there is no room for complacency. The authorities are keen on strengthening regulatory and supervisory capacities to move to risk-based supervision once the Insurance Bill is proclaimed, and are reaching out to regional regulators to effectively implement cross-border regulation, participating in supervisory colleges for regional financial groups, and taking part in regional financial interconnectedness analyses. The authorities agree on the need to systematically monitor FX and sovereign exposures, as well as potential risks associated with real-estate lending, and look forward to the upcoming FSAP in FY2020 for the overall assessment of financial stability. The authorities are making progress in expanding capacity in fintech and cyber-related issues and acknowledge the need to make progress on the legislative front to address tax black-listing and Global Forum decisions.

E. Structural Reforms to Support Sustainable Growth

33. Structural reforms are key to enhancing competitiveness and creating an enabling environment for the non-energy sector. Reforms should focus on addressing the key obstacles to its development:

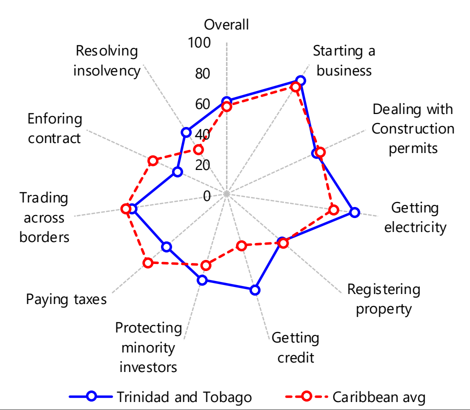
- **Improving business environment.** Reforms to improve the business environment are crucial to support fiscal adjustment, boost economic growth, and promote the nonenergy sector. The World Bank 2018 Doing Business Report shows some deterioration in paying taxes and enforcing contracts over the past few years, but the country scores well in several areas, and its corruption score improved in 2017.[14] Institutional reforms should focus on addressing the remaining areas of weakness, and strengthening the legal framework to facilitate legislative-passage of ongoing reforms.

Doing Business Distance to Frontier, 2015 vs 2018



Source: World Bank Doing Business Report.
Note: An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier, which is the best performance observed on each of the indicators across all economies in the DB sample since 2005.

Doing Business Distance to Frontier, 2018



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[14] Corruption perceptions have fallen according to opinion surveys and expert assessment, with the Corruption Perception Index (a composite index produced by Transparency International based on 13 data sources compiled by 12 institutions) rose from 39 (out of 100) in 2015 to 41 in 2017; a zero-score indicates the highest level of corruption. There is a degree of uncertainty around these estimates with a standard deviation of almost 5.5 for 2017.

- **Addressing crime:** Homicide rates are one of the highest in the Caribbean and victims predominantly young (Chapter 3, SIP). Reported crimes rose 4 percent between 2016 and 2017, with transitional organized crime, illegal importation of arms and drugs, and the geographical location contributing to the rise. Crime has negative social and economic costs, with direct costs from public, private, and social spending estimated at 3.5 percent of GDP—around the Latin American and Caribbean average, but excluding indirect costs, such as loss of productivity and perception of safety that affect investment and business.[15] Staff welcomes ongoing efforts for crime reduction (e.g., hotspot policing, partnering with different stakeholders, collaboration among national security agencies, training and media campaigns) and supports a balanced approach between crime-control and prevention programs (e.g., focusing on education, parenting, mentoring, and community-based initiatives involving civil society and the private sector).

- **Improving diversification:** With the economy heavily-dependent on the energy sector and vulnerable to commodity boom-bust cycles, obstacles to non-energy sector growth must be addressed and diversification efforts intensified. These efforts are underway, but lacking coordination, implementation, and sustained support may undermine progress. Efforts to support tourism should continue, given its backward linkages to agriculture, services, and light-manufacturing and its FX-earning potential, and obstacles to its growth (e.g., air and sea-connectivity, cost of doing business, access to finance, infrastructure gaps, and coastal erosion) should be addressed. Exploring options for diversification within the energy sector (e.g., renewable energy) could also help reduce vulnerability to climate mitigation policies.

34. Addressing data gaps is an urgent priority. Data quality and timeliness continue to limit the ability to assess vulnerabilities, and effectiveness of surveillance and policymaking. Notwithstanding important progress, further efforts are needed to complete data improvements, particularly in national accounts and balance of payments, where frequent changes make the task of surveillance very difficult. Attention is also needed to improve the timeliness of social statistics (including on poverty and inequality)—key to assessing macroeconomic and social vulnerabilities and potential impacts of policy reforms on the poor and vulnerable segments of the society. Building on the authorities ongoing initiatives to strengthen data quality and timeliness, sustained efforts are needed to build capacity in the independent National Statistical Institute by prioritizing operationalization and ensuring inter-agency collaboration. The household budget survey and the survey of living conditions need full funding to improve data quality and timeliness. The Economic Management Division of the Ministry of Finance needs to attract and retain staff.

Authorities' Views

35. The authorities agreed on the need for further structural reforms. They created an Inter-Ministerial Committee, chaired by the Minister of Trade and Industry, to enhance the efforts for diversification and address bottlenecks at the highest level. They noted progress in tourism, light manufacturing, business processes, and legal outsourcing. Work is also progressing in land-licensing

[15] Jaitman (2017). "The Costs of Crime and Violence: New Evidence and Insights in Latin America and the Caribbean." IDB.

and reduction of red-tape to facilitate private investment, particularly in the non-energy sector. Reforms in the state-owned enterprise (SOE) sector are also underway, most notably in the state-owned oil company (Petrotrin), while price reviews are being actively pursued in the public utilities. The authorities agreed to fully fund the surveys by the Central Statistical Office for improved data quality.

STAFF APPRAISAL

36. **Trinidad and Tobago is slowly recovering from a deep recession.** The economy continued to contract but at a slower pace, underpinned by the strong recovery in gas production, while weak activity in construction, financial services, and trade, continued FX shortages, and slow pace of public investment dampened non-energy sector growth. Positive growth should return from 2018 as the recovery takes hold in both sectors. Good progress has been made in fiscal consolidation through spending cuts, but public debt continued to rise, approaching the government's soft target of 65 percent of GDP. The external position is weaker than the level consistent with medium-term fundamentals and desirable policies, but gross international reserves provide significant financial buffers, along with the HSF, although reserves are projected to fall gradually given the current FX regime. The financial sector remains stable, with profitable, well-capitalized banks, while the recent decline in asset quality, rising household debt, large domestic and regional sovereign exposures, and an interconnected financial system create pockets of vulnerability.

37. **Economic prospects are expected to improve over the medium term, but remain heavily dependent on the energy sector.** The medium-term growth, fiscal and external outlook is vulnerable to negative surprises in energy prices and output, a sizeable primary deficit, and elevated levels of public debt. Possible delays in completing the ongoing fiscal adjustment and reforms, persistence of FX shortages, tightening of financial conditions, and ongoing regional financial sector challenges also tilt the risks to the downside.

38. **A multi-pronged strategy is needed to ensure a sustained recovery, and safeguard fiscal and external sustainability.** Such a strategy should aim at improving the economy's resilience to future shocks, focusing on: (i) completing the fiscal adjustment to put the public debt on a downward trajectory to safeguard sustainability, while reducing the economy's over-reliance on the energy sector; (ii) safeguarding financial stability; and (iii) creating an enabling environment for the non-energy sector as an engine of growth, by removing the obstacles to its development, while increasing transparency of the operating environment for the energy sector.

39. **The authorities should take advantage of the impact higher energy prices had on the fiscal position and complete the ongoing adjustment, given the inherent volatility in energy prices**. Efforts should focus on speedy implementation of the delayed revenue reforms, finalizing the energy taxation reform, and reducing reliance on noncore revenues, including through increased tax compliance. Improved efficiency and containment of public spending should continue. Further cost savings from increased utility tariffs and reduced transfers and subsidies should be redirected to the most vulnerable segments of society and public investment targeted at closing skills and infrastructure gaps to reduce adverse impacts of adjustment. Paced over the medium term, an adjustment equivalent to 4.4 percent of GDP should create fiscal space to confront future shocks,

alleviate market concerns about the adequacy of adjustment, and put the public debt on a downward trajectory to safeguard sustainability.

40. An appropriate MTFF could provide a systematic tool for countercyclical fiscal policy and help insulate the economy from energy price swings. Adopting an appropriate formal fiscal target within a clearly-communicated MTFF to guide fiscal policy could provide a tool to anchor fiscal adjustments. The HSF should be fully integrated with the MTFF, by linking transfers to/from it to the fiscal target. Such a mechanism can shield the government from pressure to deviate from the adjustment path, and allow the HSF to build reserves during revenue booms to use during downturns. Managing public debt and the HSF in an integrated framework may limit situations where the government must borrow to save into the HSF. Establishing a medium-term debt strategy may clarify the desired debt composition and limit adverse implications of borrowing strategies. The government should settle the overdraft balance with the CBTT, and rely on market-based financing.

41. The continued state of FX market imbalance must be addressed on an urgent and sustained basis. Notwithstanding the reduced tightness in the market, owing to increased FX inflows from energy companies, continued FX shortages affect market confidence, raise the cost of doing business, hampers non-energy sector activity, and could result in responses that further feed shortages. The authorities could take advantage of the current relatively stable period with low inflation and progress in fiscal consolidation to address the shortages, while minimizing distortions.

42. Going forward, the exchange rate could play a more active role in an economy exposed to frequent terms-of-trade shocks and help manage the transition to a more balanced FX market. Allowing gradually some market forces in determining the exchange rate (e.g., within a widening band) could facilitate adjustment to external shocks, help restore competitiveness, and safeguard foreign reserves. Permitting two-way exchange-rate variation could help reduce incentives for FX-hoarding and one-way currency bets, while allowing the exchange rate to anchor inflation expectations with some scope for flexible monetary policy. Such a move requires careful design and implementation to avoid adverse balance-sheet problems or second-round effects and needs to be supported by a prudent fiscal, monetary, financial, and structural policy mix, adequate safety nets, and well-designed intervention and communication strategies.

43. Preserving financial stability calls for careful monitoring of the sources of systemic risk and swift implementation of the ongoing reforms. Staff welcomes the authorities' cautious and proactive approach, given a highly-indebted household sector, bank-sovereign linkages domestically and regionally, and rising interest rates in a complex, interconnected financial system. Efforts must focus on risk-based, consolidated, cross-border supervision with appropriate prudential regulations, and completing the ongoing regulatory reforms, including Basel II, the Insurance Law, and nonbank supervisory frameworks. Trends in CBRs should be systematically monitored, given the ongoing weaknesses in AML/CFT and tax transparency regimes. Ensuring compliance with international standards, risk-based supervision, and complete legislative processes should accompany banks' ongoing due-diligence, relationship-maintenance, and risk-management efforts.

44. A structural reform agenda should create an enabling environment for the non-energy sector, and boost its potential to support sustainable growth and resilience. Institutional reforms should focus on improved tax collection and contract enforcement and strengthening existing legal frameworks that hinder legislative-passage of ongoing reforms. Reduced cost of doing business, addressing crime (with prevention and response efforts), reducing skills gaps (with ongoing training programs), and sustained government support in removing obstacles to diversification within and outside the energy sector should help reduce heavy reliance on the energy sector, enhance FX-earning potential, and attract foreign investment.

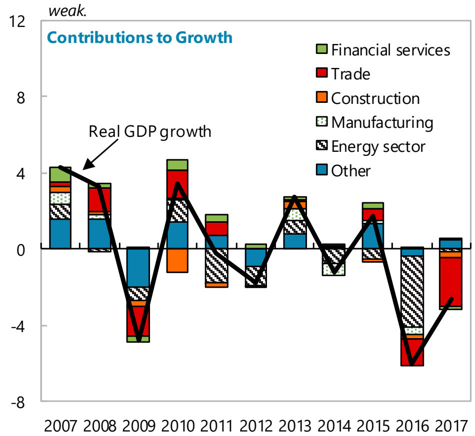
45. The quality and timeliness of data continue to present a significant challenge to surveillance and policymaking. Staff welcomes the progress made, and calls for further efforts to complete data improvements needed for surveillance, prioritize operationalization of the independent statistical authority, and enhance interagency cooperation.

46. Staff recommends that the next Article IV consultation with Trinidad and Tobago be held on the standard 12-month cycle.

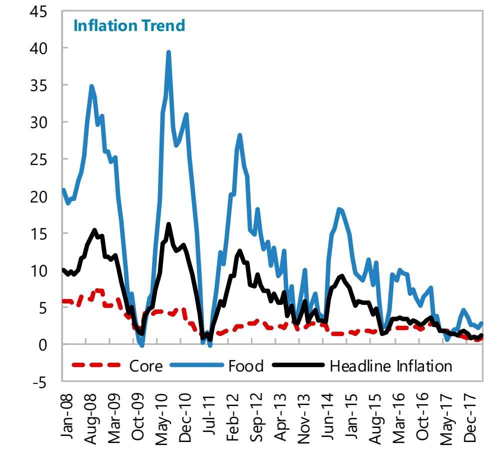
Figure 1. Trinidad and Tobago: Key Economic Developments

(In percent, unless otherwise indicated)

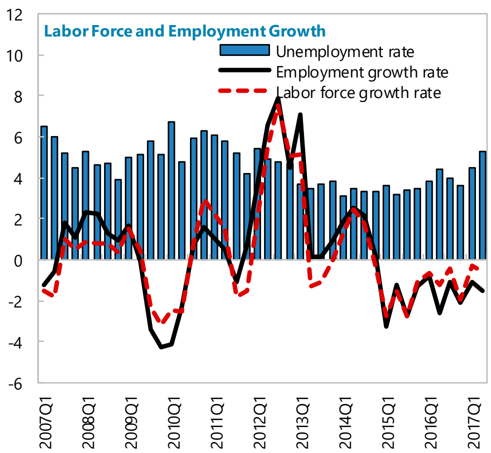
Growth improved from the second half of 2017 due to strong recovery in gas production but non-energy sector remained weak.



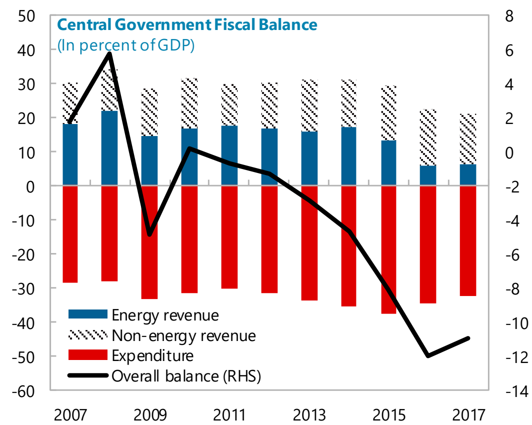
Core inflation is well contained; the volatile food price index has been subject to methodological errors.



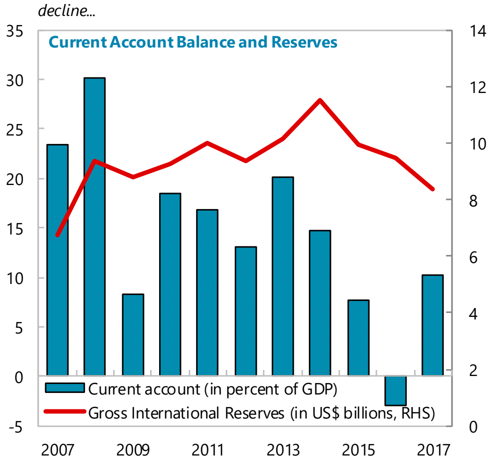
Unemployment recently began to climb, while labor force growth has continued to slide.



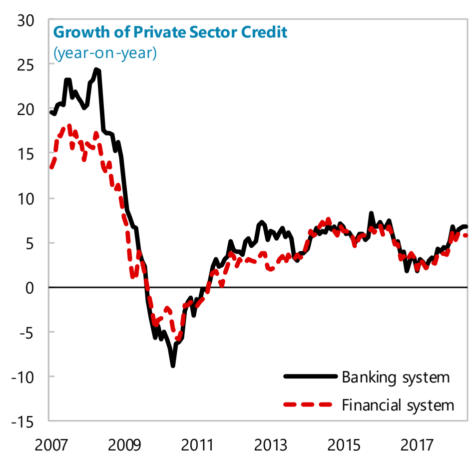
Central government fiscal balance slightly improved due to reduction in spending.



Despite the return of the current account to a large surplus after a temporary deficit in 2016, international reserves continued to decline...



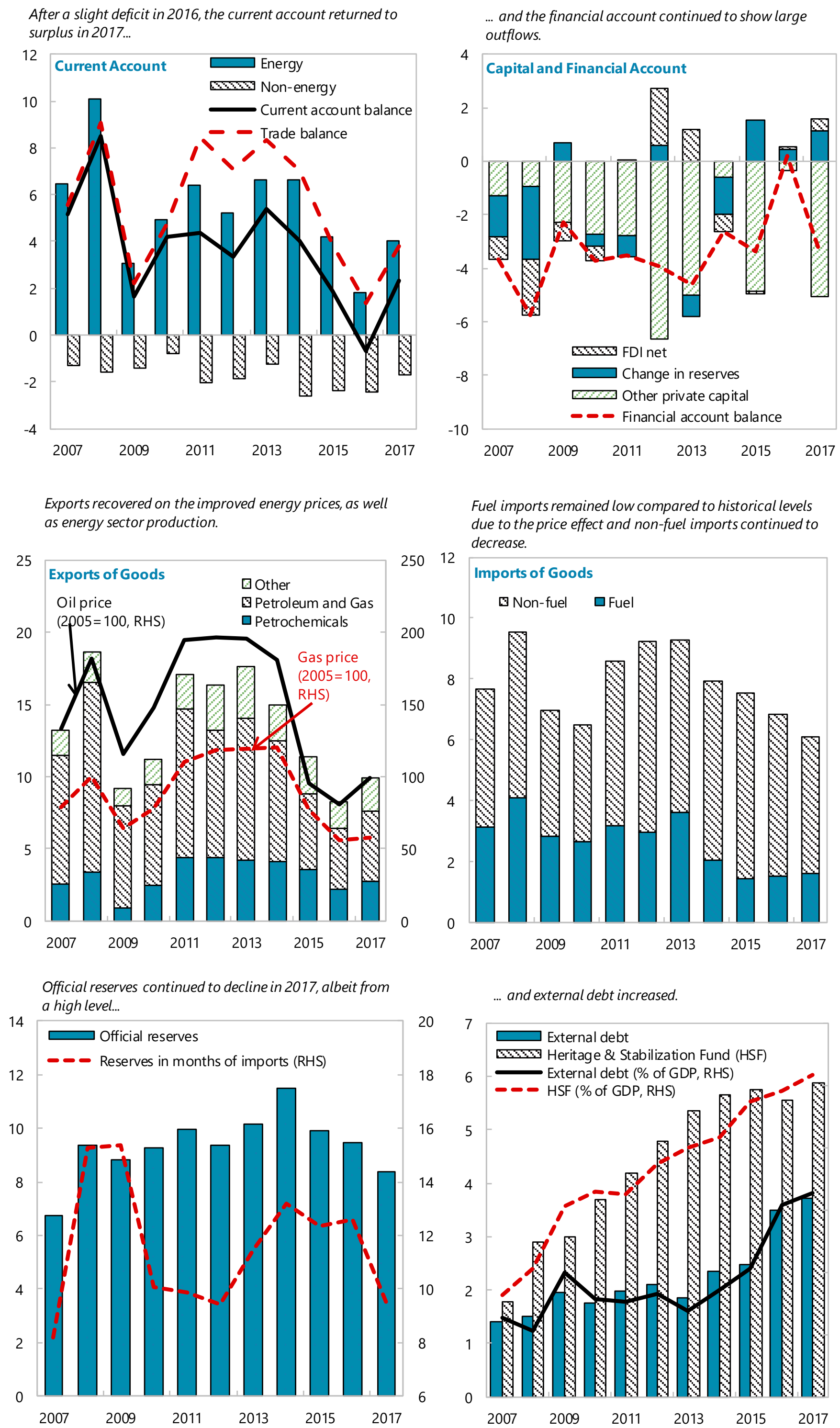
...and private sector credit growth has recently trended up.



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

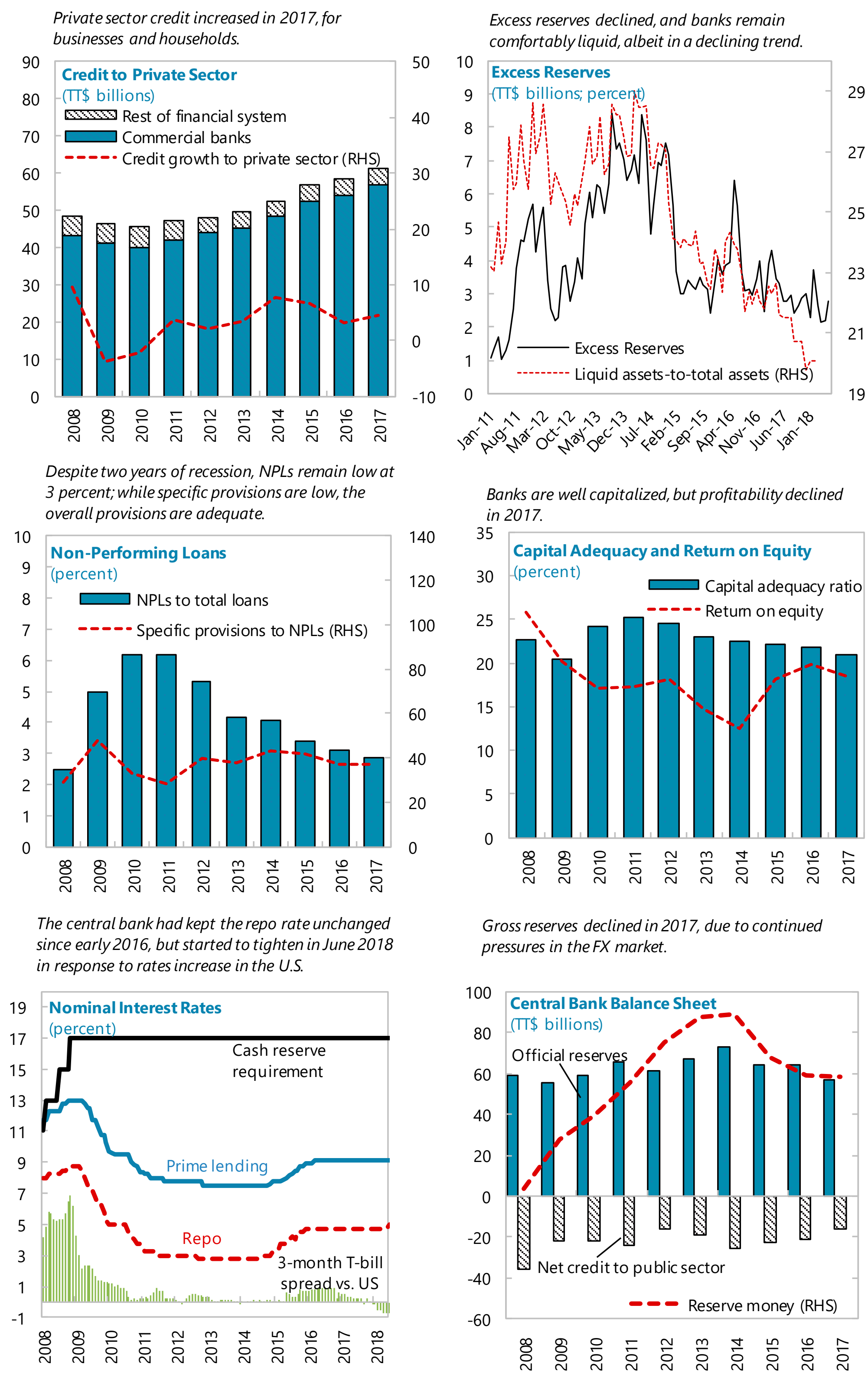
Figure 2. Trinidad and Tobago: External Sector Developments

(In billions of U.S. dollars, unless otherwise indicated)



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

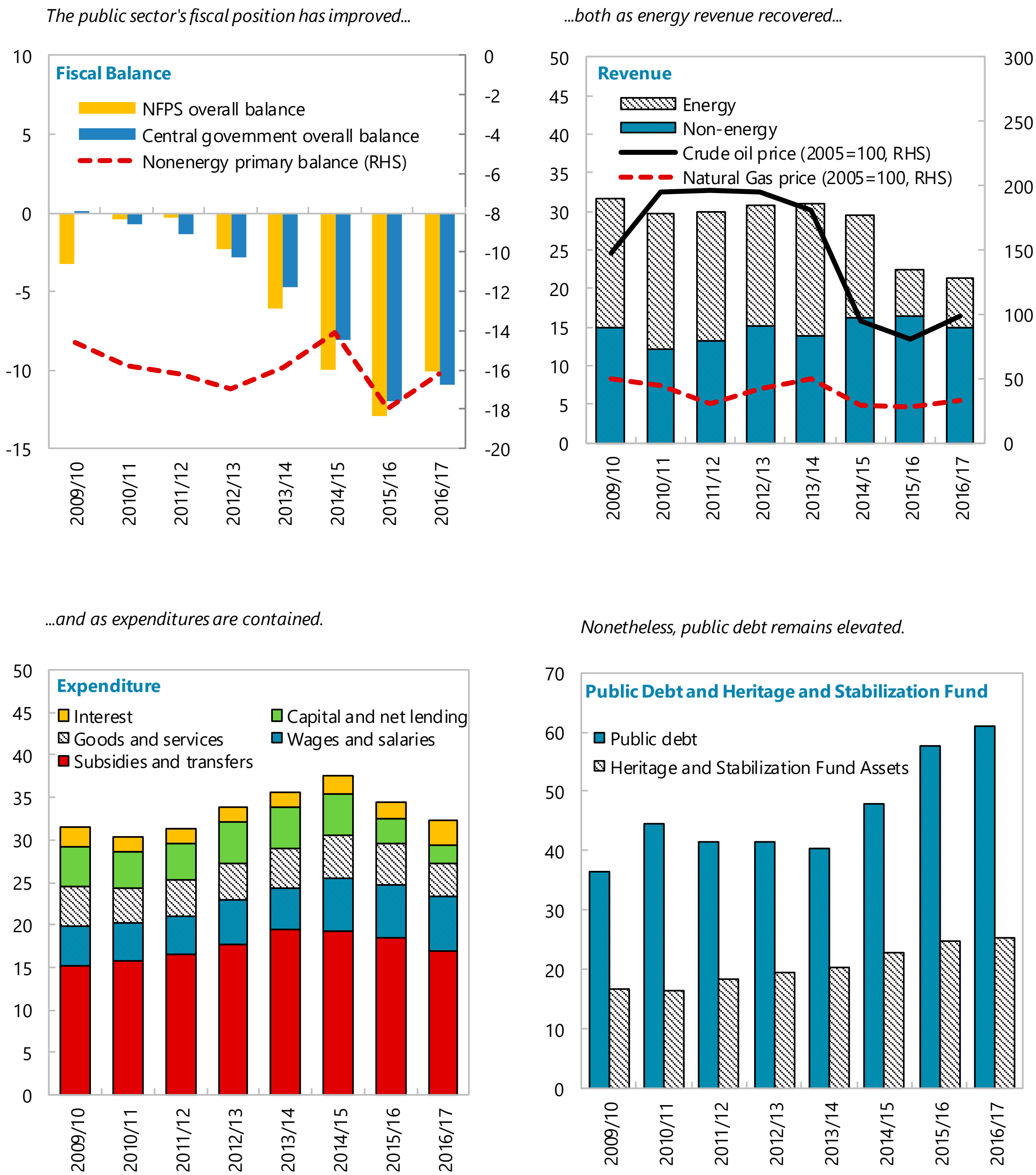
Figure 3. Trinidad and Tobago: Monetary Sector Developments



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

Figure 4. Trinidad and Tobago: Fiscal Sector Developments [1/]

(In percent of GDP, unless otherwise indicated)

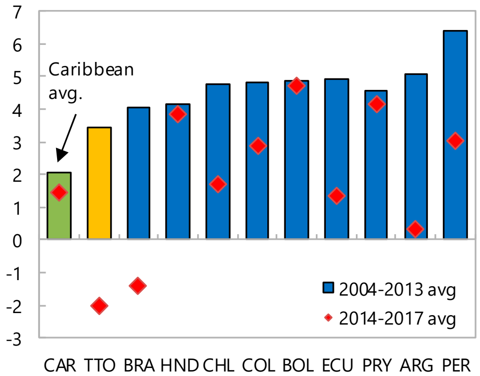


Sources: Trinidad and Tobago authorities; and IMF staff projections.
1/ Central government only unless otherwise specified.

Figure 5. Trinidad and Tobago: Comparative Regional Developments

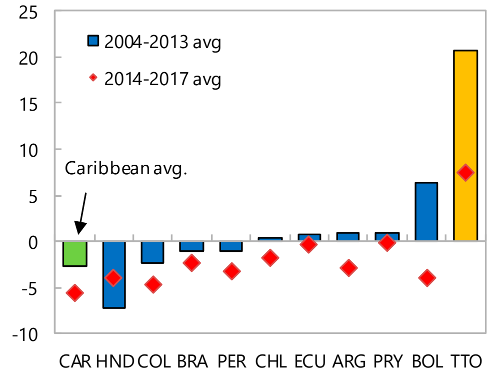
Growth turned negative in recent years while most of other LAC economies maintained positive growth.

Real GDP Growth
(y/y percent change)



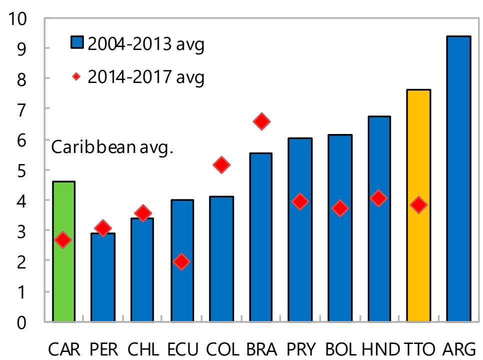
Large current account surpluses shrunk due to global energy price shock.

Current Account Balance
(In percent of GDP)



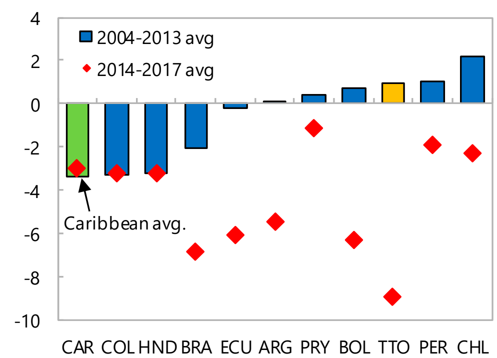
Inflation fell to historically low due to weak demand.

Inflation 1/
(In percent)



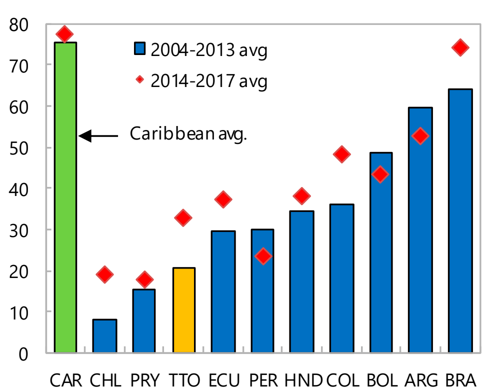
Fiscal balance has deteriorated significantly...

Central Government Fiscal Balance
(In percent of GDP)



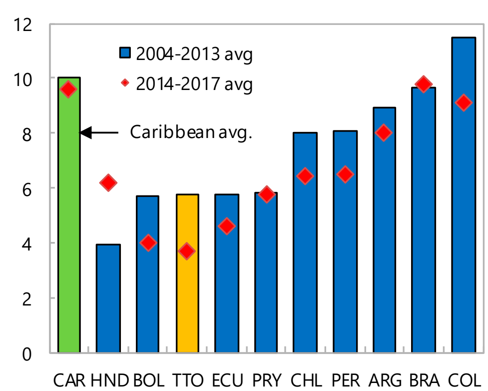
...leading to an increase in debt.

Government Gross Debt
(In percent of GDP)



Unemployment rate declined and is well below regional level.

Unemployment Rate
(In percent)



Sources: WEO; and IMF staff calculations.
Note: Caribbean average of unemployment figure does not include ECCU countries due to lack of data.
1/ Argentina's inflation data are not available in 2015-16.

Table 1. Trinidad and Tobago: Selected Economic Indicators

GDP per capita (U.S. dollars, 2017)	$16,819	Adult literacy rate (2015)	99
Population (millions, 2016)	1.35	Gini index (2010)	40.3
Life expectancy at birth (years, 2015)	70.6	Unemployment rate (Q2 2017)	5.3
Under 5 mortality rate (per thousand, 2016)	18.5	Human Development Index (2015)	65

Selected Economic and Financial Indicators

					Projections	
	2014	2015	2016	2017	2018	2019
	(Annual percentage changes, unless otherwise indicated)					
National income and prices						
Real GDP	-1.2	1.7	-6.1	-2.6	1.0	0.9
Energy	-2.0	-1.4	-10.0	-0.3	6.0	2.4
Non-energy 1/	-0.7	3.6	-3.8	-3.8	-1.8	0.0
GDP deflator	1.8	-12.6	4.0	5.0	1.2	2.9
Consumer prices (headline)						
End-of-period	8.4	1.6	3.1	1.3	2.3	3.1
Period average	5.7	4.7	3.1	1.9	2.3	3.1
Consumer prices (core)						
Period average	2.0	1.8	2.2	2.2	2.1	2.1
Unemployment rate 2/	3.3	3.4	4.0	4.9	…	…
Real effective exchange rate (2010=100)	117.1	129.7	128.3	125.3	…	…
	(In percent of fiscal year GDP)					
Nonfinancial public sector (NFPS) 3/						
Central government overall balance	-4.7	-8.1	-12.0	-11.0	-6.0	-4.6
Of which: non-energy balance 4/	-21.8	-21.4	-18.0	-17.2	-15.1	-15.2
Budgetary revenue	30.9	29.5	22.5	21.3	25.7	27.4
Budgetary expenditure	35.6	37.6	34.5	32.2	31.7	32.0
Of which: interest expenditure	1.8	2.2	2.0	2.9	2.9	2.8
Of which: capital expenditure	4.9	4.8	2.9	2.2	2.4	3.0
Central government debt 5/	23.9	28.0	37.0	41.8	42.7	42.9
Gross NFPS debt 5/	40.4	48.0	57.6	60.9	62.5	63.5
Heritage and Stabilization Fund assets	20.3	22.8	24.9	25.4	26.0	26.3
	(In percent of GDP, unless otherwise indicated)					
External sector						
Current account balance	14.7	7.6	-2.9	10.2	10.7	7.3
Exports of goods	55.1	47.1	36.3	43.6	52.7	51.2
Imports of goods	29.2	31.0	30.3	26.8	33.1	35.6
External public sector debt	8.6	10.3	15.4	16.4	16.0	16.9
Gross official reserves (in US$ million)	11,493	9,927	9,466	8,370	7,546	6,976
In months of goods and NFS imports	13.2	12.3	12.6	9.4	7.8	7.2
	(Annual percentage changes)					
Money and credit						
Net foreign assets	7.6	-7.7	2.3	-9.3	-7.1	-5.2
Net domestic assets	4.0	46.2	6.5	26.8	20.5	8.7
Of which: credit to the private sector	6.7	6.6	3.6	4.9	6.0	5.9
Broad money (M3)	7.2	1.1	2.8	-0.4	1.3	-0.2
M3 velocity	1.7	1.5	1.4	1.5	1.5	1.5
Memorandum items:						
Nominal GDP (in billions of TT$)	174.1	154.7	151.0	154.4	157.9	163.8
Non-energy sector in percent of GDP	65.1	77.8	79.2	74.9	69.0	69.1
Energy sector in percent of GDP	34.9	22.2	20.8	25.1	31.0	30.9
Public expenditure (in percent of non-energy GDP)	55.0	50.5	43.7	42.4	45.0	46.3
Exchange rate (TT$/US$, end of period)	6.38	6.43	6.78	6.78	…	…
Crude oil price (US$/barrel)	96.2	50.8	42.8	52.8	70.3	69.6
Henry Hub natural gas price (US$ per MMBtu)	4.4	2.6	2.5	3.0	2.9	2.8

Sources: Trinidad and Tobago authorities; UN Human Development Report; WEO; and IMF staff estimates and projections.
1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).
2/ 2017 reflects Staff projection.
3/ Data refer to FY year; for example 2017 covers FY17 (October 2016-September 2017).
4/ Defined as non-energy revenue minus expenditure of the central government.
5/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the CBTT.

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(In millions of Trinidad and Tobago dollars)									
Revenue	**53,783**	**46,996**	**34,206**	**32,682**	**40,412**	**44,475**	**47,277**	**50,071**	**52,321**	**55,127**
Energy	29,780	21,203	9,210	9,558	14,353	17,263	18,473	19,547	20,002	20,845
Non-energy	24,003	25,793	24,996	23,124	26,059	27,212	28,804	30,524	32,318	34,282
Expenditure	**61,920**	**59,944**	**52,390**	**49,511**	**49,772**	**51,897**	**53,686**	**56,033**	**58,482**	**61,200**
Current	53,503	52,323	48,011	46,206	46,006	47,058	48,636	50,705	52,868	55,256
Wages and salaries	8,591	10,077	9,626	9,941	9,171	9,457	9,745	10,113	10,494	10,890
Goods and services	8,009	8,105	7,323	5,833	6,063	6,268	6,543	6,903	7,274	7,700
Interest payments	3,123	3,438	3,038	4,452	4,545	4,619	4,706	4,848	5,018	5,240
Transfers and subsidies	33,781	30,702	28,024	25,980	26,227	26,714	27,642	28,842	30,082	31,427
of which: Fuel subsidies	7,003	4,586	915	380						
Transfers to households	7,092	8,083	9,555	8,653						
Transfers to SOEs and utilities	5,853	5,124	5,003	4,642						
Transfers to local government and Tobago	3,684	3,899	3,549	3,443						
Transfers to statutory authorities	977	1,111	1,020	882						
Other 2/	9,172	7,899	7,982	7,980						
Capital expenditure and net lending	8,417	7,621	4,379	3,305	3,765	4,838	5,050	5,328	5,615	5,943
Non-energy balance	**(37,917)**	**(34,151)**	**(27,394)**	**(26,387)**	**(23,712)**	**(24,685)**	**(24,882)**	**(25,510)**	**(26,164)**	**(26,918)**
Overall balance	**(8,137)**	**(12,948)**	**(18,184)**	**(16,829)**	**(9,359)**	**(7,422)**	**(6,409)**	**(5,962)**	**(6,162)**	**(6,073)**
Foreign financing	3,312	(199)	6,307	1,555	(69)	2,474	2,136	1,987	2,054	2,024
Domestic financing	4,825	13,147	11,877	15,275	9,429	4,948	4,273	3,975	4,108	4,048
of which: Transfers from Heritage and Stabilization Fund	…	…	2,498	1,712	…	…	…	…	…	…
	(In percent of GDP)									
Revenue	**30.9**	**29.5**	**22.5**	**21.3**	**25.7**	**27.4**	**27.9**	**28.0**	**27.8**	**27.6**
Energy	17.1	13.3	6.1	6.2	9.1	10.6	10.9	10.9	10.6	10.5
Non-energy	13.8	16.2	16.4	15.1	16.6	16.8	17.0	17.1	17.2	17.2
Expenditure	**35.6**	**37.6**	**34.5**	**32.2**	**31.7**	**32.0**	**31.7**	**31.3**	**31.0**	**30.7**
Current	30.8	32.8	31.6	30.1	29.3	29.0	28.7	28.4	28.1	27.7
Wages and salaries	4.9	6.3	6.3	6.5	5.8	5.8	5.8	5.7	5.6	5.5
Goods and services	4.6	5.1	4.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9
Interest payments	1.8	2.2	2.0	2.9	2.9	2.8	2.8	2.7	2.7	2.6
Transfers and subsidies	19.4	19.2	18.4	16.9	16.7	16.5	16.3	16.1	16.0	15.8
of which: Fuel subsidies	4.0	2.9	0.6	0.2						
Transfers to households	4.1	5.1	6.3	5.6						
Transfers to SOEs and utilities	3.4	3.2	3.3	3.0						
Transfers to local government and Tobago	2.1	2.4	2.3	2.2						
Transfers to statutory authorities	0.6	0.7	0.7	0.6						
Other 2/	5.3	5.0	5.3	5.2						
Capital expenditure and net lending	4.8	4.8	2.9	2.2	2.4	3.0	3.0	3.0	3.0	3.0
Non-energy balance	**-21.8**	**-21.4**	**-18.0**	**-17.2**	**-15.1**	**-15.2**	**-14.7**	**-14.3**	**-13.9**	**-13.5**
Non-energy balance in percent of non-energy GDP	-33.7	-28.8	-22.9	-22.6	-21.4	-22.0	-21.0	-20.2	-19.4	-18.7
Overall balance	**-4.7**	**-8.1**	**-12.0**	**-11.0**	**-6.0**	**-4.6**	**-3.8**	**-3.3**	**-3.3**	**-3.0**
Primary balance	-2.9	-6.0	-10.0	-8.1	-3.1	-1.7	-1.0	-0.6	-0.6	-0.4
Memorandum items:										
Expenditure (in percent of non-energy GDP)	55.0	50.5	43.7	42.4	45.0	46.3	45.4	44.3	43.3	42.6
Central government debt (in percent of GDP) 3/	23.9	28.0	37.0	41.8	42.7	42.9	43.1	42.9	43.3	43.4
Gross NFPS debt (in percent of GDP) 3/	40.4	48.0	57.6	60.9	62.5	63.5	64.2	64.1	64.5	64.4
Nonenergy primary balance (percent of nonenergy GDP)	-21.8	-21.4	-18.0	-17.2	-15.1	-15.2	-14.7	-14.3	-13.9	-13.5
Crude oil price (US$/barrel)	98.2	62.2	44.8	50.3	65.9	69.7	66.7	63.5	61.1	59.5
Henry Hub natural gas price (US$ per MMBtu)	4.2	3.1	2.5	2.8	2.9	2.8	2.7	2.6	2.6	2.7
Nominal GDP (in billions of TT$, FY)	173.8	159.5	152.0	153.6	157.0	162.3	169.4	178.7	188.4	199.4

Sources: Trinidad and Tobago authorities; and IMF staff projections.
1/ Fiscal years run from October 1st in the previous year to September 30th of the stated year.
2/ This largely includes transfers to health regional authorities.
3/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the CBTT.

Table 3. Trinidad and Tobago: Summary Balance of Payments

					Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(In millions of U.S. dollars unless otherwise indicated)									
Current account balance	**4,003**	**1,853**	**-653**	**2,325**	**2,481**	**1,775**	**1,512**	**1,478**	**1,410**	**1,531**
Trade balance	7,045	3,884	1,368	3,821	4,563	3,777	3,503	3,490	3,415	3,561
Exports	14,965	11,414	8,226	9,927	12,264	12,371	12,118	12,230	12,158	12,392
Petroleum crude and refined	3,849	2,538	2,560	2,693	3,501	3,595	3,478	3,463	3,346	3,265
Natural gas	4,533	2,692	1,709	2,220	2,418	2,366	2,319	2,310	2,299	2,413
Petrochemicals	4,110	3,537	2,161	2,720	3,926	3,849	3,621	3,646	3,587	3,672
Other	2,473	2,647	1,795	2,293	2,419	2,561	2,701	2,812	2,927	3,042
Imports	7,919	7,529	6,858	6,105	7,702	8,595	8,615	8,740	8,744	8,832
Fuel imports	2,068	1,456	1,514	1,602	2,290	2,352	2,275	2,265	2,189	2,136
Capital	2,322	2,638	2,500	1,708	2,588	3,394	3,447	3,521	3,564	3,641
Other	3,529	3,435	2,844	2,795	2,823	2,848	2,893	2,954	2,991	3,055
Services and transfers (net)	-3,042	-2,031	-2,021	-1,496	-2,081	-2,001	-1,991	-2,012	-2,004	-2,029
Nonfactor services (net)	-1,300	-1,751	-1,776	-1,804	-1,772	-1,729	-1,707	-1,718	-1,700	-1,711
Factor income (net)	-1,725	-242	-301	262	-357	-321	-334	-347	-358	-373
Current transfers (net)	-17	-38	55	46	47	49	50	52	53	55
Capital and financial account (net) 1/	**-2,650**	**-3,393**	**206**	**-3,448**	**-3,305**	**-2,345**	**-2,060**	**-1,973**	**-1,723**	**-1,741**
Official, medium- and long-term (net)	517	-31	946	229	-10	365	315	293	303	299
Disbursements	598	54	1,025	310	112	514	729	489	464	458
Amortization	82	85	79	80	122	150	414	196	162	160
Direct investment (net)	679	66	-107	-480	2,100	2,600	2,000	1,250	1,250	1,250
Outward (Assets)	-18	128	83	106	500	500	500	500	500	500
Inward (Liabilities)	661	194	-24	-374	2,600	3,100	2,500	1,750	1,750	1,750
Portfolio investment (net)	-1,164	-773	551	-627	-2,390	-2,465	-2,315	-2,293	-2,303	-2,299
Other investment (net)	-2,683	-2,654	-1,185	-2,571	-3,005	-2,845	-2,060	-1,223	-973	-991
Of which: net errors and omissions	-2,761	-2,936	-1,246	-2,558	0	0	0	0	0	0
Overall balance	**1,353**	**-1,540**	**-447**	**-1,122**	**-823**	**-570**	**-548**	**-495**	**-312**	**-210**
Change in gross official reserves (increase -)	-1,353	1,540	447	1,122	823	570	548	495	312	210
	(In percent of GDP, unless otherwise indicated)									
Memorandum items:										
Current account balance	14.7	7.6	-2.9	10.2	10.7	7.3	6.0	5.5	5.0	5.1
Energy 2/	24.3	17.3	7.9	17.7	13.6	11.1	9.4	8.7	7.8	7.6
Non-energy	-9.6	-9.7	-10.8	-7.5	-3.0	-3.8	-3.4	-3.2	-2.8	-2.5
Exports of goods	55.1	47.1	36.3	43.6	52.7	51.2	48.0	45.8	43.2	41.5
Energy exports	46.0	36.1	28.4	33.5	42.3	40.6	37.3	35.2	32.8	31.3
Non-energy exports	9.1	10.9	7.9	10.1	10.4	10.6	10.7	10.5	10.4	10.2
Imports of goods	29.2	31.0	30.3	26.8	33.1	35.6	34.1	32.7	31.1	29.6
Crude oil price (US$/barrel) 3/	96.2	50.8	42.8	52.8	70.3	69.6	65.7	62.7	60.6	59.1
Henry Hub natural gas price (US$ per MMBtu)	4.4	2.6	2.5	3.0	2.9	2.8	2.7	2.6	2.6	2.7
Net international investment position	24.4	24.9	19.7	20.9	…	…	…	…	…	…
Exchange rate (TT$/US$, end of period)	6.38	6.43	6.78	6.78	…	…	…	…	…	…
Exchange rate (TT$/US$, average)	6.41	6.38	6.67	6.78	…	…	…	…	…	…

Sources: Central Bank of Trinidad and Tobago, Central Statistical Office and IMF staff projections.
1/ Includes net errors and omissions.
2/ Includes goods and services for the energy sector.
3/ WEO simple average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh.

Table 4. Trinidad and Tobago: Monetary Survey

	2014	2015	2016	2017	Projections 2018	2019	2020	2021	2022	2023
					(In millions of Trinidad and Tobago dollars)					
Net foreign assets	86,902	80,210	82,043	74,454	69,136	65,531	62,074	58,977	57,118	55,953
Official net foreign assets	71,148	61,727	61,974	54,499	48,942	45,094	41,392	38,048	35,939	34,521
Commercial bank's net foreign assets	15,754	18,484	20,070	19,954	20,195	20,437	20,682	20,929	21,179	21,431
Net domestic assets	16,478	24,084	25,651	32,523	39,203	42,625	46,881	51,476	56,826	63,148
Net credit to public sector	-2,080	1,410	6,179	8,760	12,427	12,696	13,079	13,341	14,388	16,015
Central government	-10,788	-9,678	-4,436	-965	3,066	3,827	4,596	5,461	6,732	7,904
Rest of the public sector	8,708	11,087	10,615	9,725	9,361	8,869	8,483	7,880	7,656	8,111
Credit to private sector	52,302	55,751	57,751	60,567	64,208	68,003	72,530	77,529	82,514	87,903
Other items (net)	-33,745	-33,077	-38,279	-36,803	-37,432	-38,074	-38,728	-39,395	-40,076	-40,770
Liabilities to private sector (M3)	102,430	103,591	106,481	106,097	107,459	107,276	108,075	109,573	113,064	118,220
Currency in circulation	6,791	7,634	7,751	8,037	7,125	7,112	7,165	7,265	7,496	7,838
Demand deposits	39,391	36,929	35,676	35,368	41,325	41,255	41,562	42,138	43,480	45,463
Other deposits	56,248	59,028	63,054	62,692	59,009	58,909	59,348	60,170	62,087	64,919
Nonliquid liabilities	949	703	1,214	881	881	881	881	881	881	881
					(Annual percentage change)					
Net foreign assets	7.6	-7.7	2.3	-9.3	-7.1	-5.2	-5.3	-5.0	-3.2	-2.0
Credit to private sector	6.7	6.6	3.6	4.9	6.0	5.9	6.7	6.9	6.4	6.5
Liabilities to private sector (M3)	7.2	1.1	2.8	-0.4	1.3	-0.2	0.7	1.4	3.2	4.6
Memorandum items:										
M3 Velocity	1.7	1.5	1.4	1.5	1.5	1.5	1.6	1.7	1.7	1.7

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

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

(In percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017
External indicators						
Exports (percent change, 12-month basis in US$)	-4.2	7.8	-14.9	-23.7	-27.9	20.7
Imports (percent change, 12-month basis in US$)	7.6	0.5	-14.6	-4.9	-8.9	-11.0
Terms of trade (1985=100), percent change	0.3	-0.2	0.6	4.8	0.5	-1.0
Current account balance (in percent of GDP)	13.0	20.1	14.7	7.6	-2.9	10.2
Capital and financial account balance (in percent of GDP)	-15.4	-17.1	-9.8	-14.0	0.9	-15.1
Gross official reserves (in US$ millions)	9,371	10,177	11,493	9,927	9,466	8,370
Official reserves in months of imports of goods and NFS	9.4	11.4	13.2	12.3	12.6	9.4
Ratio of reserves to broad money	65.2	68.8	71.6	61.7	60.3	53.5
Ratio of total central government external debt to exports of goods and services	11.9	9.8	14.3	19.7	37.8	33.7
Ratio of central government external interest payments to exports of goods and services	0.3	0.3	0.4	0.6	0.9	1.1
Central government debt service to exports of goods and services	1.0	0.8	0.9	1.3	1.7	1.8
REER appreciation CPI-based (percent change)	8.1	3.8	5.3	10.7	-1.1	-2.3
Foreign currency debt rating, (Moody's, end of period)	Baa1	Baa1	Baa1	Baa2	Baa3	Ba1
Foreign currency debt rating, (Standard & Poor's, end of period)	A	A	A	A	A-	BBB+
Financial indicators 1/						
90-day treasury bill, average discount rate	0.38	0.16	0.10	0.47	1.16	1.33
90-day treasury bill, real rate	-8.9	-5.1	-4.8	-4.2	-1.9	-0.6
Capital adequacy						
Regulatory capital to risk-weighted assets	24.6	23.1	22.5	22.1	21.9	21.0
Regulatory Tier I capital to risk-weighted assets	22.4	21.3	21.8	22.9	20.4	20.3
Regulatory Tier II capital-to-risk-weighted assets	2.2	1.8	0.7	-0.8	1.5	0.7
Banking sector asset quality						
Nonperforming loans-to-gross loans	5.3	4.2	4.1	3.4	3.1	2.9
Nonperforming loans (net of provisions)-to-capital	9.6	7.8	7.7	6.7	7.2	6.8
Specific provisions-to-impaired assets	39.7	37.6	43.5	42.1	37.1	37.4
Specific provisions-to-gross lending	2.1	1.6	1.8	1.4	1.2	1.1
Banking sector earnings and profitability						
Return on equity	18.1	14.7	12.4	18.2	19.9	18.5
Return on assets	2.6	2.0	1.7	2.5	2.5	2.4
Interest margin-to-gross income	65.4	65.0	59.4	61.2	65.2	67.1
Spread between average lending and deposit rates	8.2	8.0	7.2	7.2	7.6	7.6
Banking sector liquidity						
Liquid assets-to-total assets	25.2	27.5	25.3	23.8	22.1	19.8
Liquid assets-to-total short-term liabilities	32.6	35.3	31.7	30.4	27.2	24.4
Foreign currency liabilities-to-total liabilities	28.0	25.2	23.5	25.1	25.7	26.4

Sources: Central Bank of Trinidad and Tobago; Moody's; Standard and Poor's; and IMF staff estimates.

1/ Includes aggregate data only for commercial banks

Annex I. Implementation of Key Recommendations from the 2017 Article IV Consultation

Staff Recommendations	Status
Fiscal	
Formulate and announce a comprehensive multi-year adjustment package.	*Partially done*. Though fiscal policy formulation continues to be done in one year at a time, a medium-term fiscal framework has been developed.
Establish a Revenue Authority (RA)	*Ongoing.* The government took a decision to establish the RA and its legislation needs to be passed by Parliament.
Reform the oil and gas fiscal regime	*Ongoing.* The royalty rate is standardized, and a new legislation is being prepared.
Review the VAT with a view to base-broadening and raising the overall VAT rate.	*No progress*. Technical assistance may be required.
Reintroduce property tax	*Ongoing*. Amendments to Property Tax Bill, and Valuation and Land Bill were approved by Parliament. Property tax will be effective before end of FY2018.
Revisit taxation on the gaming industry.	*Partially done*. Interim taxes were introduced. A Gaming and Betting Control Act was submitted to Parliament.
Undertake a review of expenditure programs	*Ongoing*. The government is working with the World Bank to conduct a Public Expenditure Review (PER), expected to be finalized by August 2018.
Phase out fuel subsidies	*Mostly done*. Fuel prices were hiked further.
Reduce transfers to public bodies	*Ongoing*. Some small public bodies have been eliminated. The government has started implementing the recommendations of a commission that proposed measures to restructure Petrotrin. A rate determination review for public utilities has commenced.
Pursue fiscal structural reforms	*Partially done*. The Procurement Regulator and the Board of Procurement Regulation were appointed in Jan-2018. There is limited progress in establishing Tax Policy Unit. A CARTAC TA was provided to assist with enhancing medium-term macro-fiscal framework.
Monetary and Exchange Rate	
Continue the pause in monetary policy tightening	*Completed*. (The CBTT raised its policy rate on June 29, 2018.)
Pursue a substantial depreciation and allow the exchange rate to fluctuate within a band.	*No progress*. The authorities do not agree that a significant exchange rate adjustment is beneficial.
Structural	
Establish an independent National Statistical Institute	*Ongoing.* The move to the NSI is ongoing. Expected late-2018 to early-2019.
Pass insurance legislation	*Completed.* The Bill passed; needs to be proclaimed to become law.
Pass legislation to comply with FATCA	*Partially done.* Legislation passed in 2017. Implementation pending.
Take steps to reform the public service	*No progress*

Annex II. Risk Assessment Matrix[1]

Source of Risk	Likelihood/ Time Horizon	Expected Impact	Policy Response
Global			
Energy price volatility. Risks to oil prices are broadly balanced. Prices could drop significantly if downside global growth risk materializes or supply exceeds expectations. Prices could rise sharply due to steeper-than-anticipated export declines in some producers, promoted by political disruptions.	***Medium/*** *Short to Medium Term*	***HIGH*** • Given the dependency on the energy sector for the foreseeable future, return to low energy prices would have a serious impact on fiscal and external prospects. Employment impacts are likely to be relatively limited given the capital-intensity of energy production. • In the short term, the country has substantial financial cushions (official foreign reserves and assets under the Heritage and Stabilization Fund, HSF), which could mitigate the impact of the shock in the short-term.	• Diversify non-energy economic base by public investment and structural reforms. • Implement tax reforms to reduce dependence on energy revenues. • Implement expenditure reforms to contain public spending to make public finances more resilient to persistently lower energy prices. • Tap the HSF only cautiously as a bridge solution to more durable fiscal adjustments; complete an HSF review, considering adjustments to the inflow and outflow rules to allow its use as a countercyclical tool, while linking the rules in a transparent way to a prudent medium-term fiscal framework.
Tighter global financial conditions. Acceleration by the US Fed and the ECB of their monetary policy normalization in 2018 could strengthen the U.S. dollar and the euro vis-à-vis the other currencies, and correct market valuations.	***HIGH/*** *Short Term*	***MEDIUM*** • Under the policy of stable exchange rate vis-à-vis the US dollar, further dollar appreciation could result in a further loss of competitiveness vis-á-vis other non-US trade partners. • Higher US interest rates could encourage capital outflows, put further pressure on the exchange rate and FX reserves, and complicate monetary policy implementation in a weak economic environment and an open capital account. The cost of external debt could increase.	• Address the problem of overvaluation of the domestic currency to limit the loss of competitiveness from effectively linking the domestic currency to the U.S. dollar. • Monetary policy may need further adjustment to keep interest rate differentials from narrowing further (and becoming more negative) vis-à-vis the U.S. • Sustained fiscal consolidation would help reduce the risk of higher external financing costs.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Cyber-attacks on critical global financial, transport, or communication infrastructure, and broader private and public institutions.	***Medium/*** *Short to Medium Term*	**Medium** • Given the inherent interconnectedness between financial sector participants, disruption to the payment, clearing, or settlement systems or theft of confidential information can result in widespread spillovers and threaten financial stability.	• Continue with measures to increase cybersecurity through: the strengthening of information security and data protection; business continuity procedures; and routine off-site tests. • Develop a methodology for mapping financial and technological network to identify critical risk concentrations.
		Domestic	
Failure to address foreign exchange shortages would continue to reinforce existing macroeconomic imbalances	***HIGH/*** *Short Term*	***HIGH*** • Difficult to measure the extent of the problem since shortages consist of FX sales that are not made. Nonetheless, there are concerns that local businesses' failure to deliver on payments to suppliers undermine non-energy sector activity and harm trade and growth. Constrained access to foreign exchange, mostly by nonprice means, distorts resource allocation and undermines market confidence and the country's sovereign credit ratings. • FX shortages engenders precautionary FX demand, exacerbating capital outflows.	• Increase the liberalization of FX market operations to eliminate FX shortages, through a combination of increased FX sales to the market and price adjustment. • Implement needed macroeconomic adjustment and structural policies to reduce expectations of further currency depreciation and limit precautionary demand for FX
Reduced financial services by correspondent banks could significantly curtail cross-border payments, trade, finance, and remittances in Trinidad and Tobago	***MEDIUM/*** *Short to Medium Term*	***MEDIUM*** • The impact of reduced CBRs in the region on Trinidad and Tobago has been limited thus far, both in terms of a loss of CBRs and volume and value of transactions. • Concerns raised by correspondent banks have led to a reduction in commercial banks' exposure to casinos and money transfer businesses and drafts.	• Press forward with the legislation needed to address the concerns raised by the EU and OECD to ensure full compliance with international standards on tax information transparency and treatment • Continue to address the shortfalls identified by CFATF to implement a comprehensive AML/CFT framework. . • Banks to continue efforts for relationship maintenance, due diligence and prudent risk management, while authorities focus on risk based supervision, finalization of legislative processes.

Annex III. Fiscal Reforms[1]

1. A wide range of fiscal adjustment measures were proposed in the FY2018 budget, which constitute a significant first step toward addressing the fiscal and external imbalances, but some of the measures have been delayed in implementation due to legislative constraints (including due to the existing majority rules for Parliamentary approval) and institutional capacity:

Revenue Measures

- **Tax administration:** The authorities submitted a legislation establishing a Revenue Authority (RA) that is expected to be in place before end-FY 2018, and proposed to have the RA operational in 2018Q4, with a view to increase revenue collection, enhance cost-saving across collection agencies, and address weakness in tax administration.

- **Transfer pricing regime:** The authorities aim to build capacity, by engaging stakeholders, and preparation of transfer pricing legislation to be submitted to Parliament in 2018 to reduce tax leakages from shifting profits to other jurisdictions.

- **Energy taxation:** In 2017, a royalty rate on the extraction of all gas, condensate, and oil was unified to 12.5 percent. Negotiations between the energy companies and the government are ongoing for a new oil and gas fiscal regime, which would provide attractive terms for investment in the sector while securing some appropriate payment to the government (see Box 1 on assessment of fiscal transparency in the petroleum sector).

- **Non-Energy taxation:** The corporate rate has been unified at 30 percent, except for commercial banks (35 percent). A range of taxes is introduced in the interim on the gaming industry, as a Gambling Control Bill requires a 3/5th majority to be passed. In March 2018, the authorities tabled amendments to the Property Tax Bill and Valuation of Land Bill, which would strengthen property taxation.[2]

- **Tax policy:** The authorities plan to set up a Tax Policy Unit with the MoF tax policy that would take the lead on the implementation of tax-policy reforms, analyzing tax compliance, and advising on international tax treaty negotiations.

Expenditure Measures

- **Transfers and subsidies:** While fuel subsidies have been largely phased out, overall transfers and subsidies remain high, amounting to 52.5 percent of total expenditure at end-FY2017. The government has engaged the World Bank for Public Expenditure Review (PER),

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[1] Prepared by Abdullah AlHassan.

[2] Property tax was waived for the period 2010-2015. The implementation of property tax and gaming tax faced legal and legislative challenges in FY2017.

focusing on improving the efficiency of, and identify cost saving measures in, spending on education, health, and social services. Implementation of measures proposed by the PER could yield significant savings, while protecting the most vulnerable segments of society.

Box 1. Enhancing Fiscal Transparency in the Petroleum Sector

Fiscal transparency is a critical element of fiscal management and accountability. It provides a comprehensive picture of the government's fiscal position and the potential fiscal risks. For natural resources, a clear legal and fiscal framework, and sound rights allocation and revenue collection procedures are essential to provide safeguards for investors, and to ensure efficient collection of revenues. In particular:

- **Legal and Fiscal Regime for Petroleum:** The petroleum sector legal framework is comprehensive. However, model contracts and licenses are not consistently published, and signed agreements are not disclosed. The fiscal regime is complex, creating uncertainty in implementation of terms and forecasting of revenues. A lack of consistency between concepts in the tax and sector legislation results in an unclear definition of the tax base.
- **Allocation of Petroleum Rights:** In allocating resource rights, the conduct of competitive bidding has many elements of good practice, including clear prequalification/evaluation criteria. However, there is no disclosure of the content of bids received or the results of bid evaluation to assure investors of proper conduct of bidding.
- **Collection of Petroleum Revenues:** In administering the fiscal regime, all dialogue and settlement with taxpayers in Trinidad and Tobago is conducted through assessment and audit process and then, if necessary, through dispute resolution and court procedures. Neither of the petroleum revenue-collecting agencies, the Ministry of Energy and Energy Industries or the Inland Revenue Division publish reports on collection or audit activities, or on disputes and their resolution.
- **Reporting on Petroleum Stocks and Flows:** Reporting on petroleum production, reserves and revenues is not comprehensive or consistent, hindering a clear understanding of the government revenues accruing from the sector. Petroleum sales, and their pricing at each stage of the transfer chain, are not sufficiently transparent.
- **Reporting by Petroleum Companies:** Trinidad and Tobago has been a compliant member of the Extractive Industries Transparency Initiative since 2015, meeting an important international standard in revenue transparency. Most petroleum companies report on payments under this initiative. However, the government does not systematically publish information provided by companies on petroleum operations, nor the environmental impact and risks posed by petroleum activity.
- **Petroleum Revenue Management:** There is no systematic disclosure of key macro assumptions underpinning budget estimates, particularly for petroleum revenues. While most government revenue from the petroleum sector flows into the budget, some revenues flow directly into three extrabudgetary funds. Moreover, fiscal policy is not guided by formal medium-term objectives with supportive institutional mechanisms. No fiscal risk analysis is published by the government, despite the major fiscal risks arising from volatility and exhaustibility of petroleum revenues, and the participation of large state-owned enterprises in the sector.
- **Natural Resource Funds:** The Heritage and Stabilization Fund, established for investing surplus petroleum revenues, features many sound governance and transparency practices. There are, however, a few important gaps, including unclear rules for making deposits from the budget, and no publication of data and calculations underpinning the deposits and withdrawals.

Source: IMF Fiscal Transparency Evaluation (May 2018).

- **Public bodies (PBs):** Transfers to public utilities and state enterprises continues to represent a significant fiscal drain (Box 1). As some PBs, notably public utilities, provide services on a highly-subsidized basis, the Regulated Industry Commission has commenced a rate determination exercise for water and electricity to be completed in 2018.[3] The authorities intend to conduct special audit of state enterprises in 2018, as well as ongoing corporate restructuring of the loss-making state enterprise Petrotrin, to resolve its significant operational and structural problems to restore its profitability and productivity.[4]

- **Public procurement:** The appointment of Procurement Regulator and the Board of Procurement Regulation in January 2018 will operationalize the amended *Public Procurement and Disposal of Property Act*, to enhance efficiency, transparency, and accountability and achieve significant cost savings. The establishment of procurement units within the line ministries needs to be expedited.

Table 1. Trinidad and Tobago: Fiscal Reforms

Measures	Status of Implementation
Revenue	
Present legislation establishing a Revenue Authority	Submitted to Parliament and expected to be approved by end-FY 2018.
Operationalize a Revenue Authority	Mar-2018 (not implemented). New timing is 2018Q4.
Undertake TADAT	Undertaken on Oct-2017. A Follow up assessment will be conducted during 2018Q4.
Royalties	Unified at 12.5 percent in October 2017.
Present legislation for a new oil and gas fiscal regime	Ongoing.
Increase the base corporate tax rate to 30 percent	Effective Jan-2018.
Introduce a tax bracket of 35 percent for commercial banks	Effective Jan-2018.
A range of taxes on the gaming industry	Effective Jan-2018.
Re-introduce property tax	Property Tax Bill, and Valuation and Land Bill approved. Property tax will be effective before end of FY2018.
Submit a transfer pricing legislation	Before end-2018.
Expenditure	
Evaluate spending on transfers and subsidies	A public expenditure review by the World Bank (ongoing).
Enhance spending on public investment	PIMA technical assistance was requested.
Reduce transfers to loss-making public bodies	The Regulated Industry Commission has commenced a rate determination exercise.
Fiscal structural reforms	
Establish a Tax Policy Unit with MoF	End-2017 (not implemented). New timing is end-2018.
Operationalize the amended *Public Procurement and Disposal of Property Act*	The Procurement Regulator and the Board of Procurement Regulation were appointed in January 2018. Full proclamation is expected in December 2018.

[3] The last rate increase for WASA and T&TEC were in 1996 and 2006, respectively.

[4] Petrotrin also has a bullet payment of US$850 million in 2019 and US$750 million in 2022, which may require government financing given Petrotrin' s cash flow situation.

Box 2. Reforming Public Bodies

Public bodies (PBs) play a significant role in the economy, operating across many sectors, including several strategic areas. PBs are comprised of two types: state-owned enterprises (SOEs) and statuary bodies (SBs). SOEs are established under the Companies Act with the express objective of supporting the Government's policy for the sector, while SBs are formed by statutes that are approved by Parliament. PBs operate in the gas and oil industry, infrastructure development, banking and financial services, manufacturing, transport and communication, training, tourism, agriculture, information technology and the provision of social services.

Total SOE assets doubled during 2007-2016, reaching around TT$170 billion (112 percent of GDP). SOEs' profitability dropped sharply since 2015, especially for the energy sector, due to unfavorable commodity prices and inefficiency in some SOEs. v

Financial performance varies across PBs. In aggregate, the PB sector has contributed positively to government revenues. Public utilities have frequently run deficits since 1999, except for Telecommunication Services of Trinidad and Tobago (TSTT). Among these public utilities, the Water and Sewerage Authority of Trinidad and Tobago (WASA) accounted for 55 percent of the total net operating deficit incurred by SBs in FY2017, with the Trinidad and Tobago Electricity Commission (T&TEC) accounting for 25 percent. Among energy PBs, the National Petroleum Marketing Company (NPMC) ran deficits in 11 out of 18 years. Financial performance is mixed among non-energy companies. These issues result in part from weak governance structures and poor financial management practices.

Only a few SOEs have been regularly providing dividends to the Budget. Dividends payments to the central government increased sharply during FY2014-2016. Up to FY2012, only 2 companies paid large dividends: The National Gas Company (NGC) and Trinidad Nitrogen Company (TRINGEN). Since then, NGC's dividends have constituted the bulk of PBs' dividends to the government. However, in FY2014-2017, dividends have been considerably larger than operating profits. Such so-called "super-dividends" are thus funded out of retained profits (i.e., equity withdrawals).

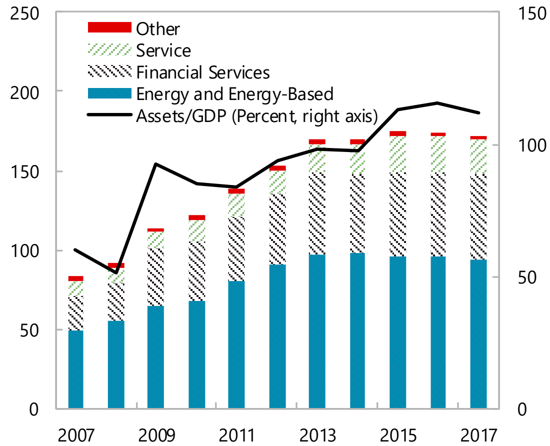
Government current transfers to SBs are increasing rapidly, imposing fiscal pressures. Current transfers are used to remit subsidies to enterprises and to service debt on behalf of some SOEs. For FY2017, current transfers from central government to PBs amounted to around TT$2.6 billion (1.7 percent of GDP), with public utilities having accounted for about 75 percent of the transfers. Transfers to SBs increased sharply from less than TT$250 million in FY 2003 to around TT$2 billion in FY2017 (1.3 percent of GDP).

The government has pledged to undertake PB reforms. The government approach to reducing the scope of PBs in the economy and improving resource allocation includes: enhancing the performance monitoring framework; liquidating unviable SOEs; restructuring viable SOEs; privatization; and engaging with strategic partners.

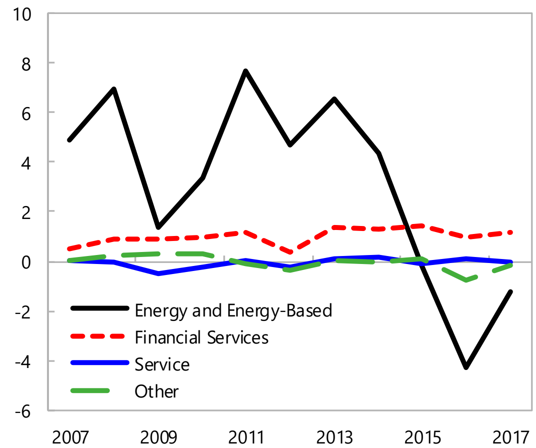
That said, there is a need for a more far-reaching plan to comprehensively address inefficient or poorly managed PBs to reduce the drag on public finances. In doing so, the authorities should review PBs to evaluate the best mode for delivering their mandate. Such a review should focus on: (i) greater cost-recovery of public services; (ii) increasing the effectiveness of monitoring SOEs financial and nonfinancial performance; (iii) improving corporate governance; (iv) preparing a report on the performance of SOEs on an annual basis and submit to Parliament; (v) addressing analytical and policy gaps in government reports covering PBs; (vi) improving engagement with key stakeholders; and (vi) developing a capacity building and training program for staff to effectively analyze financial performance and carry out PB reforms.

Box 2. Public Bodies Developments (concluded)

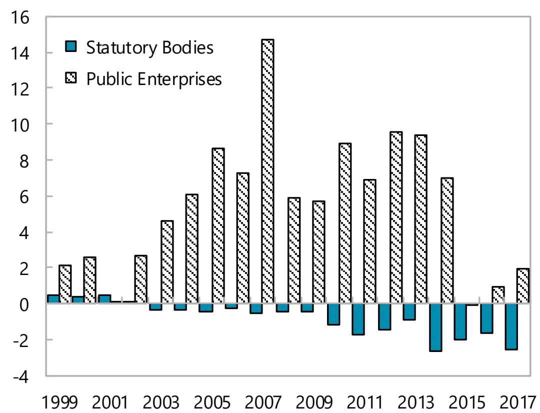
Total SOE Assets
(In millions of TT$)



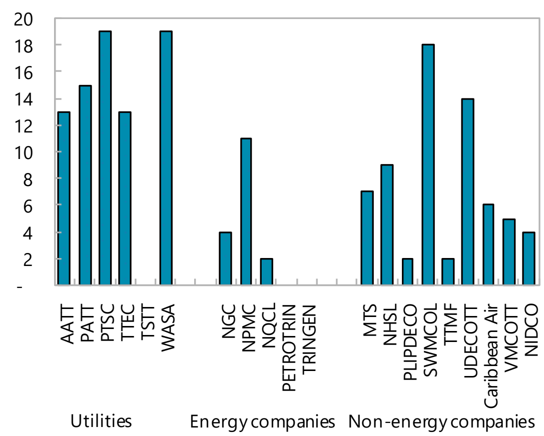
Profit/Loss after Tax
(In millions of TT$)



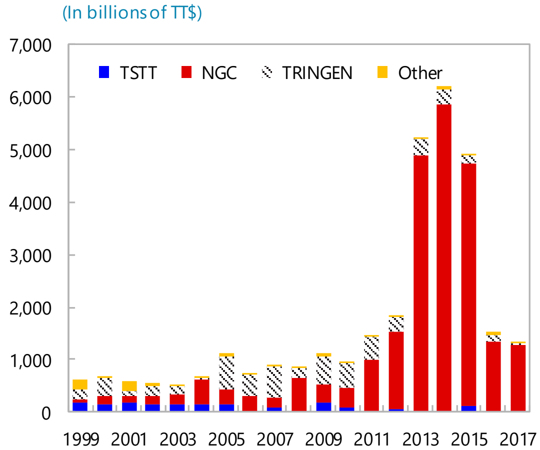
Operating Net Surplus/Deficit
(In billions of TT$)



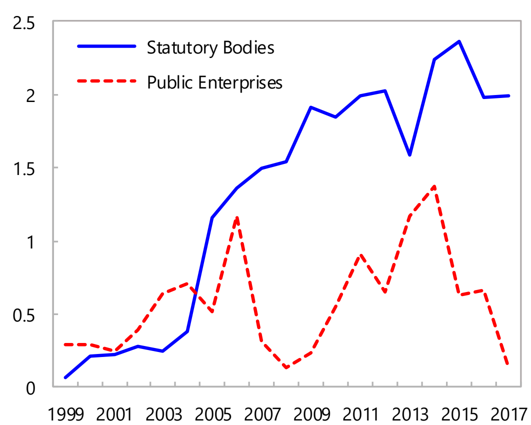
Number of Years in Deficit
(1999-2017)



Dividends by Utilities and Public Enterprises
(In billions of TT$)



Current Transfers from Central Government
(In billions of TT$)



Source: Trinidad and Tobago—Selected Issues, "Reforming Public Bodies: Challenges and Reforms." September 2017.

Annex IV. Debt Sustainability Analysis (DSA)

Public debt (central government) sustainability risks are increasing in the short term in the context of a growing debt burden and large gross financing needs. Contingent liabilities in the form of government guarantees are substantial at 20 percent of GDP at end-2017. Under the baseline scenario, public debt is projected to rise to about 43 percent of GDP while gross financing needs are forecast to be about 8 percent of GDP in 2023. Despite sizable financial buffers, the long-term maturity profile, and relatively low external financing requirement, the projected debt path remains vulnerable to risks, particularly from a real interest rate shock, weak growth, and a worsened primary balance. External debt is at low levels, but is projected to increase over the medium term and remains very sensitive to exchange rate shocks.

A. Public Debt Sustainability Analysis

Definitions and Debt Profile

1. The DSA applies to central government (CG) debt, which excludes short-term debt issued for open market monetary policy purposes. These instruments were equivalent to about 18 percent of GDP at the end- FY2017 and were matched by corresponding "frozen" government deposits in the domestic banking system. The debt concept considered in this analysis is also narrower than public debt which, in addition to central government debt, includes the government's contingent liabilities arising from guaranteed debt of statutory authorities and state-owned enterprises. Thus, CG debt is at a level lower than the total NFPS debt. Although the framework reports figures on NFPS debt, given limited data on its components or financing, the debt concept in the DSA is limited to CG debt.

Developments and Baseline Scenario

2. Debt profile. Central government debt continues to increase in 2017 driven by high primary deficits. The domestic debt increased from 23 to 25 percent of GDP between 2016-2017, while external debt increased from 14.1 to 15.3 percent of GDP for the similar period. Somewhat ameliorating concerns, the profile of Trinidad and Tobago's debt is dominated by medium and long-term maturities, and a moderate foreign currency share of outstanding debt.

3. Macroeconomic assumptions. Following the large drop in energy revenues (due to lower energy prices and volumes, as well as fiscal incentives for the energy sector) and only limited prospects under the baseline for their rebound over the projection period, the central government's debt ratio is projected to rise to about 43 percent of GDP by end-FY2023. The debt accumulation path assumes the use of "one-off" financing measures in the current and next fiscal years.[1] Though there is some uncertainty regarding the realization of "one-off" financing given legal complexities in unwinding some assets and questions about the sustainability of "super dividends," the authorities

[1] In FY2018, "one-off" sources estimated to amount to 2.5 percent of GDP from asset sales.

have sizable asset buffers that they can employ over the short term (including HSF assets of 26 percent of GDP), but these financial buffers could be reduced by fiscal deficits over the next few years—projected to remain on average about 4 percent of GDP over the medium term.

4. Heat map. The heat map indicators are below high-risk DSA benchmarks. The debt profile aspect of the assessment is not breached under the baseline assessment, despite assuming that foreign debt accounts for one-third of financing going forward. However, the downgrade of Trinidad and Tobago (April 2017) to sub-investment grade by Moody's and a parallel move by Standard & Poor's (which, however, still has the country comfortably at investment grade) and the revision by Standard and Poor's of its outlook to negative from stable in April 2018 starkly highlights the need for comprehensive consolidation to restore fiscal sustainability.

5. Realism of projections. Trinidad and Tobago's projected fiscal adjustment, a 3-year adjustment in the cyclically-adjusted primary balance (CAPB), is at the 3rd percentile among all surveillance countries. However, the 3-year average level of CAPB is at the top percentile of primary deficits. Such a large fiscal adjustment is necessary given the fiscal position, as the primary balance has been positive throughout 1988-2012 (except 2009) and then turned sharply negative since 2013 before stabilizing in FY2017.

Risk Assessment: Shocks and Stress Test

6. Growth shock. The impact on the debt-to-GDP ratio of the 1 standard deviation shock (for 2 consecutive years) to real GDP growth would increase central government debt over the medium term. In this scenario, central government debt to GDP would increase from 45 percent in 2018 to 50 percent by 2023.

7. Primary balance and real interest rate shocks. The primary balance shock led the debt-to-GDP ratio to peak at nearly 63 percent.[2] Further, the debt projections are quite sensitive to real interest rate shocks—the result of the sensitivity of the GDP deflator, and hence the real interest rate, to volatile energy prices.[3]

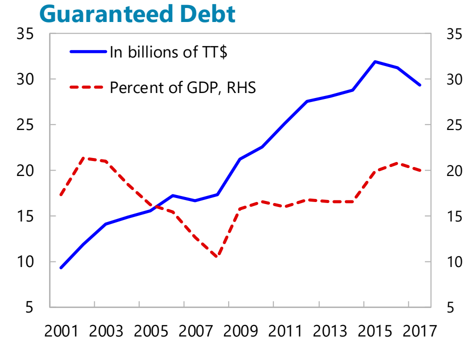
8. Combined macro-fiscal shock. The macro-fiscal shock combines the growth and interest rates shock and a primary balance shock as in the standard examples above, together with the exchange rate shock. The effect of these shocks on central government debt and gross financing needs is large, reaching about 100 percent and 27.6 percent of GDP in 2023, respectively.

[2] The primary shock is equal to half of the 10-year historical standard deviation.

[3] The large share of Trinidad and Tobago's energy sector and recent large swings in energy prices have resulted in a very volatile path for the GDP deflator, with the latter increasing by 21 percent in 2008, followed by a 16 percent decline in the deflator in 2009 (contributing to a 37 percent real effective interest rate in that year).

9. Contingent liabilities shock. Trinidad and Tobago's debt is substantially exposed to contingent liabilities arising from government guarantees. Contingent liabilities to the government stem from borrowing by public bodies (PBs, i.e., state-owned enterprises and statutory bodies), where the Government guarantees are initially issued to PBs in the form of a letter of comfort and are eventually replaced by formal guarantees. During FY 2007-2017, guaranteed debt accounted for around 40 percent of public debt. As of end-March 2018, guaranteed debt, which is denominated primarily in domestic currency, reached about 20 percent of GDP.

Guaranteed Debt



Source: Ministry of Finance and IMF staff estimates.

B. External Debt Sustainability Analysis

10. Trinidad and Tobago's external debt-to-GDP ratio has increased in recent years but remains at a low level compared to other countries in the region. As a share of GDP, external debt was 15 percent at end-FY2017, albeit up from 8.5 percent at end-FY2015. The main reason for the increase has been a rise in central government borrowing through international development banks equivalent to about 4.5 percent of GDP.

11. External debt is projected to increase in the medium term. Under the baseline, external debt would continue to rise to about 17 percent of GDP. It may increase above the current baseline if the government increases reliance on external financing (including multilateral loans) to help fund infrastructure projects.

12. Stress tests confirm that external debt sustainability is particularly sensitive to current account and exchange rate shocks. An increase in the current account excluding interest payments by half a standard deviation in each year from 2018 onwards would make external debt peak at about 40 percent of GDP in 2023. A one-time real exchange rate depreciation of 30 percent in 2018 would make external debt peak at 25 percent of GDP in 2023.

Figure 1. Trinidad and Tobago: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

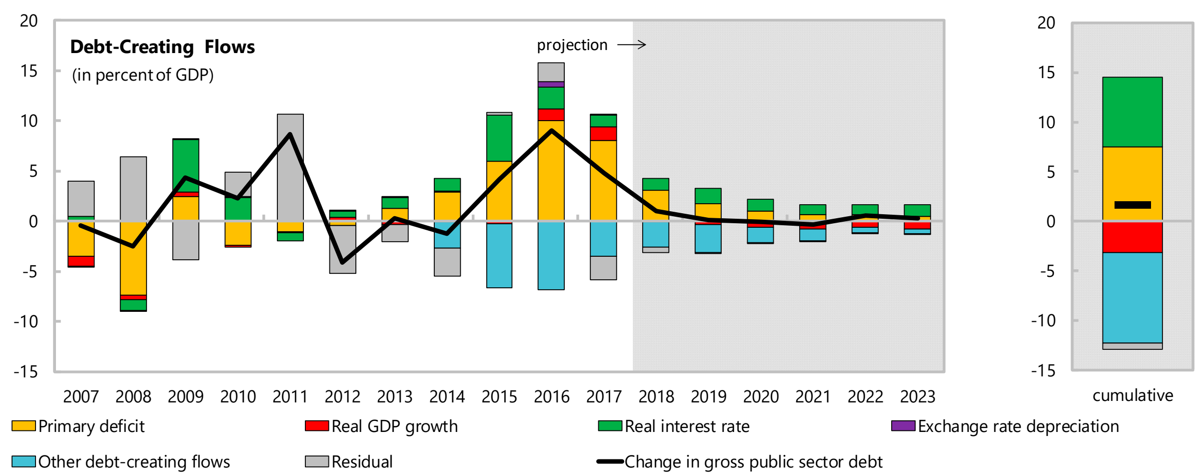
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	22.1	37.0	41.8	42.8	43.0	42.9	42.6	43.1	43.4
Public gross financing needs	3.1	14.0	14.6	9.2	7.0	6.3	5.9	6.1	8.0
Real GDP growth (in percent)	1.1	-4.2	-3.5	0.1	0.9	1.4	2.0	1.5	1.9
Inflation (GDP deflator, in percent)	3.3	-0.6	4.7	2.1	2.5	2.9	3.4	3.9	3.9
Nominal GDP growth (in percent)	4.6	-4.8	1.1	2.2	3.4	4.4	5.5	5.4	5.9
Effective interest rate (in percent) [4/]	10.6	6.8	7.9	4.9	6.3	5.7	5.9	6.5	6.8

As of July 10, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		226
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB+	BBB+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.3	9.0	4.8	1.0	0.1	0.0	-0.3	0.5	0.3	1.6	
Identified debt-creating flows	0.1	7.1	7.1	1.6	0.2	0.0	-0.3	0.5	0.3	2.3	
Primary deficit	-0.2	10.0	8.1	3.1	1.7	1.0	0.6	0.6	0.4	7.5	-0.1
Primary (noninterest) revenue and grants	30.5	22.5	21.3	25.7	27.4	27.9	28.0	27.8	27.6	164.4	
Primary (noninterest) expenditure	30.2	32.5	29.3	28.8	29.1	28.9	28.6	28.4	28.1	171.9	
Automatic debt dynamics [5/]	1.4	3.9	2.5	1.1	1.2	0.5	0.2	0.4	0.4	3.8	
Interest rate/growth differential [6/]	1.4	3.4	2.5	1.1	1.2	0.5	0.2	0.4	0.4	3.8	
Of which: real interest rate	1.5	2.2	1.2	1.1	1.6	1.1	1.0	1.0	1.2	7.0	
Of which: real GDP growth	-0.2	1.2	1.3	0.0	-0.4	-0.6	-0.8	-0.6	-0.8	-3.2	
Exchange rate depreciation [7/]	0.0	0.5	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.0	-6.8	-3.5	-2.5	-2.8	-1.6	-1.1	-0.5	-0.5	-9.1	
Net privatization proceeds (negative)	-1.0	-6.8	-3.5	-2.5	-2.8	-1.6	-1.1	-0.5	-0.5	-9.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.1	1.9	-2.3	-0.6	0.0	0.0	0.0	0.0	0.0	-0.7	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

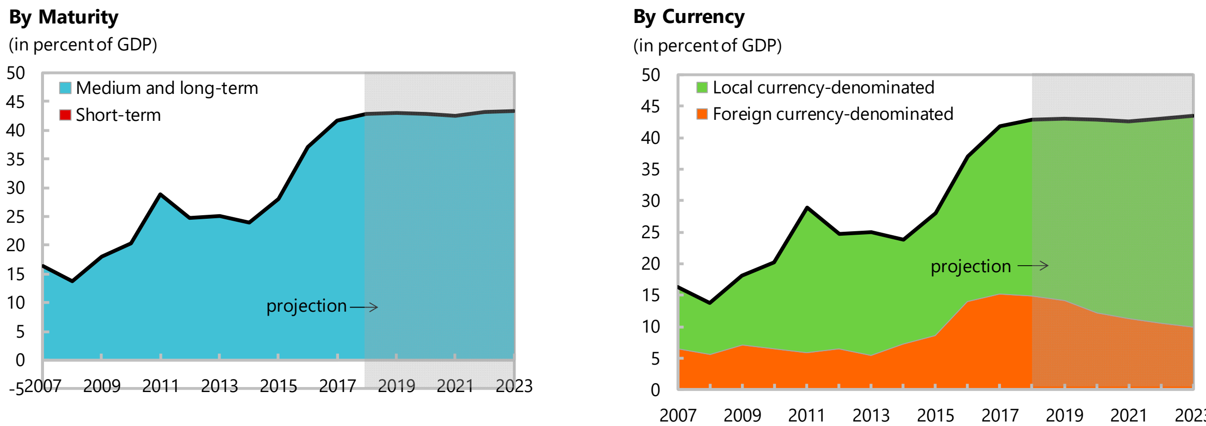
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

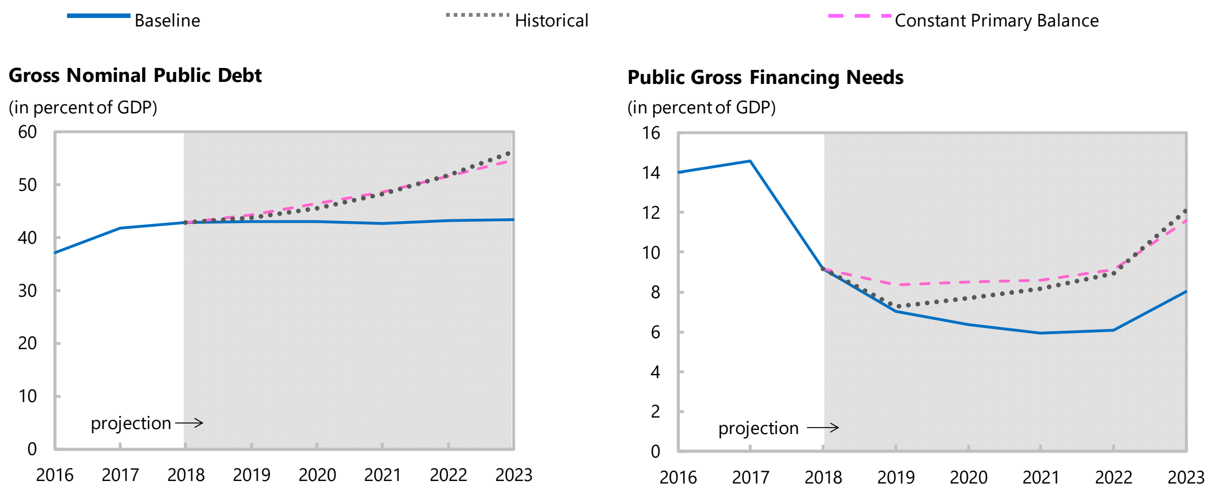
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Trinidad and Tobago: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



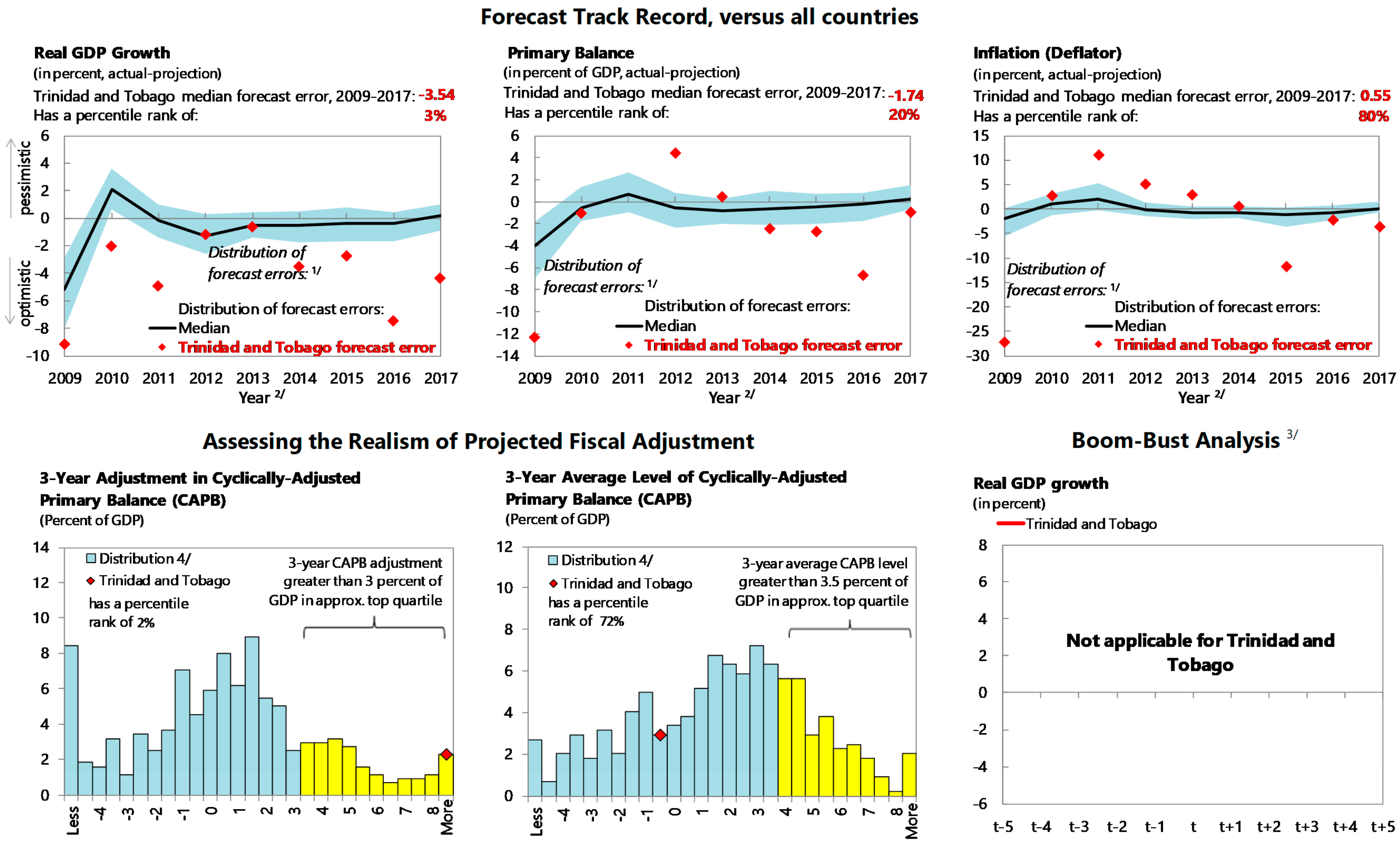
Underlying Assumptions
(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	0.1	0.9	1.4	2.0	1.5	1.9
Inflation	2.1	2.5	2.9	3.4	3.9	3.9
Primary Balance	-3.1	-1.7	-1.0	-0.6	-0.6	-0.4
Effective interest rate	4.9	6.3	5.7	5.9	6.5	6.8
Constant Primary Balance Scenario						
Real GDP growth	0.1	0.9	1.4	2.0	1.5	1.9
Inflation	2.1	2.5	2.9	3.4	3.9	3.9
Primary Balance	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Effective interest rate	4.9	6.3	5.7	6.0	6.6	6.9

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	0.1	-0.4	-0.4	-0.4	-0.4	-0.4
Inflation	2.1	2.5	2.9	3.4	3.9	3.9
Primary Balance	-3.1	-1.9	-1.9	-1.9	-1.9	-1.9
Effective interest rate	4.9	6.3	6.2	7.2	8.4	9.4

Source: IMF staff.

Figure 3. Trinidad and Tobago: Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

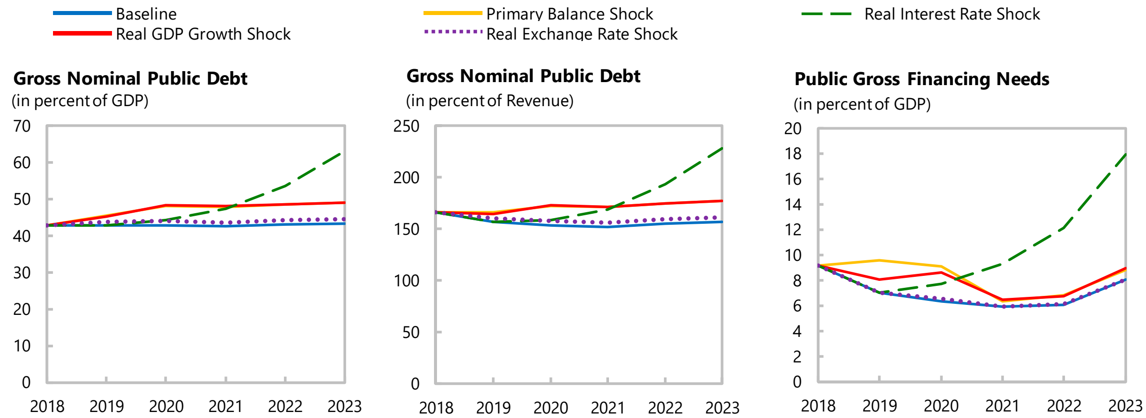
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Trinidad and Tobago, as it meets neither the positive output gap criterion nor the private credit growth criterion.

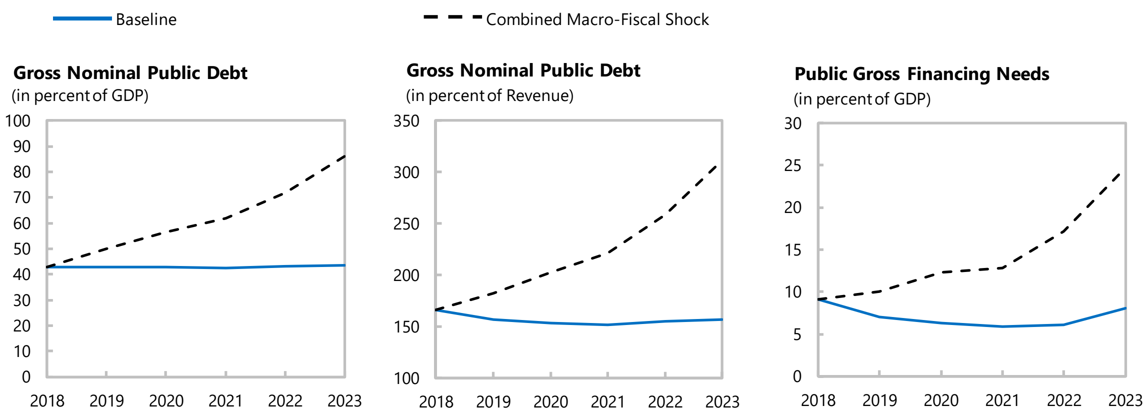
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Trinidad and Tobago: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	0.1	0.9	1.4	2.0	1.5	1.9
Inflation	2.1	2.5	2.9	3.4	3.9	3.9
Primary balance	-3.1	-4.3	-3.6	-0.6	-0.6	-0.4
Effective interest rate	4.9	6.3	5.8	6.2	6.7	7.0
Real Interest Rate Shock						
Real GDP growth	0.1	0.9	1.4	2.0	1.5	1.9
Inflation	2.1	2.5	2.9	3.4	3.9	3.9
Primary balance	-3.1	-1.7	-1.0	-0.6	-0.6	-0.4
Effective interest rate	4.9	6.3	9.1	13.9	19.3	24.6
Combined Shock						
Real GDP growth	0.1	-1.6	-1.1	2.0	1.5	1.9
Inflation	2.1	1.8	2.3	3.4	3.9	3.9
Primary balance	-3.1	-4.3	-3.6	-0.6	-0.6	-0.4
Effective interest rate	4.9	6.6	10.6	16.8	22.0	27.0

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	0.1	-1.6	-1.1	2.0	1.5	1.9
Inflation	2.1	1.8	2.3	3.4	3.9	3.9
Primary balance	-3.1	-2.7	-2.9	-0.6	-0.6	-0.4
Effective interest rate	4.9	6.3	5.7	6.1	6.6	6.9
Real Exchange Rate Shock						
Real GDP growth	0.1	0.9	1.4	2.0	1.5	1.9
Inflation	2.1	7.5	2.9	3.4	3.9	3.9
Primary balance	-3.1	-1.7	-1.0	-0.6	-0.6	-0.4
Effective interest rate	4.9	6.6	5.7	5.9	6.4	6.8

Source: IMF staff.

Figure 5. Trinidad and Tobago: Public DSA Risk Assessment

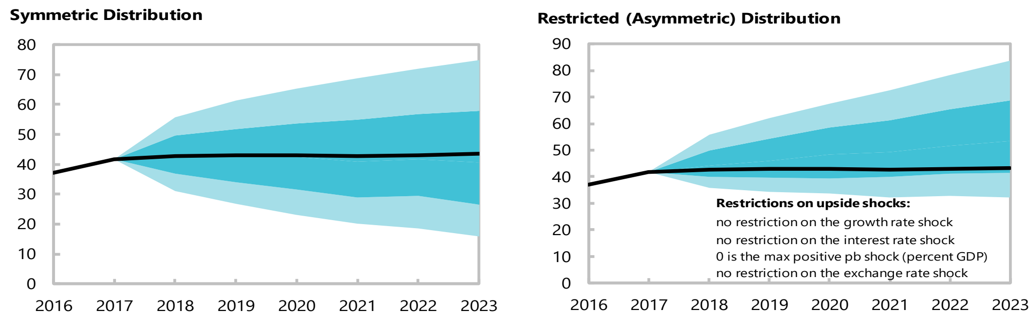
Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

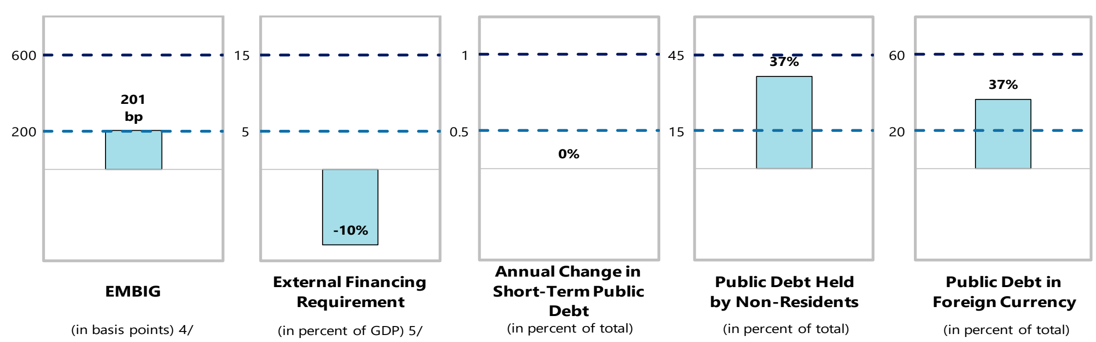
Baseline Percentiles: 10th-25th 25th-75th 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)

Trinidad and Tobago Lower early warning Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

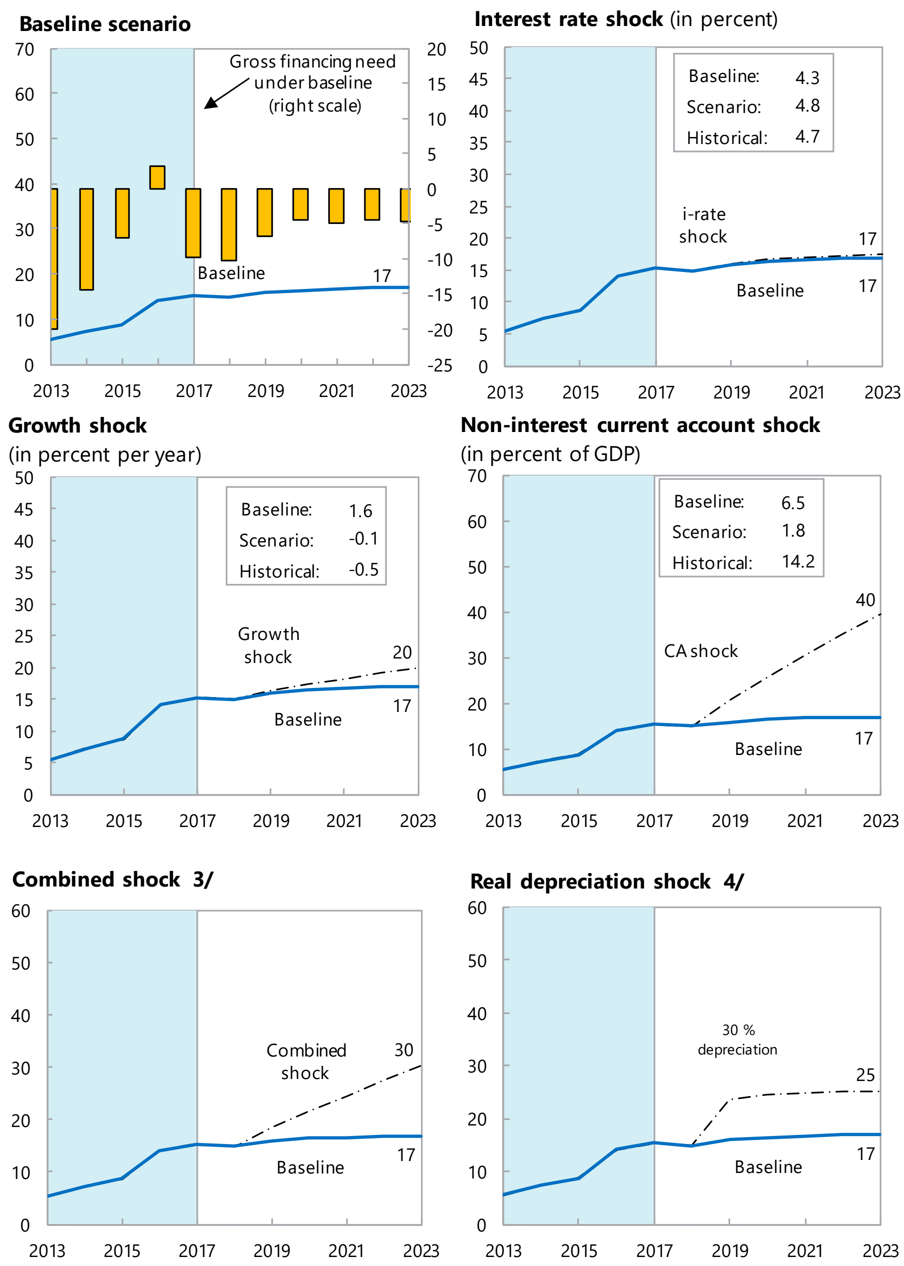
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 11-Apr-18 through 10-Jul-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 6. Trinidad and Tobago: External Debt Sustainability: Bound Tests[1/ 2/]

(External 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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

4/ One-time real depreciation of 30 percent occurs in 2018.

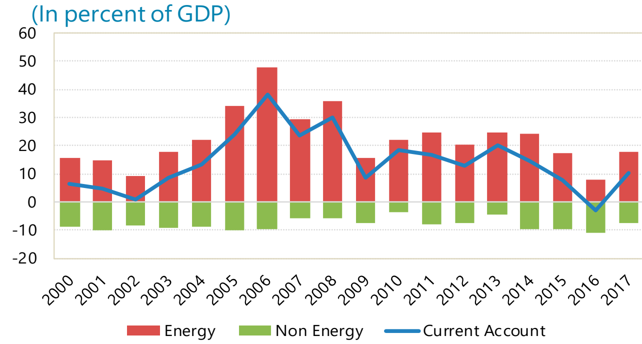
Annex V. External Stability Assessment[1]

Trinidad and Tobago's external position in 2017 is weaker than the level consistent with medium-term fundamentals and desirable policies. The non-regression-based approach for exporter of exhaustible resources, suggests that current account surpluses should have been higher than recorded in the past. Also, current account norms are higher than the EBA-Lite CA regressions. Policy response to the large terms of trade shocks and fiscal deficits in the last few years have been positive but further adjustment is needed. Nonetheless, the Net International Investment Position (NIPP) remains positive, equivalent to 20.9 percent of GDP. Reserve adequacy remains satisfactory under all metrics, and are sufficient to absorb most shocks in the short-term, but international reserves are expected to decline in the medium-term. Given the authorities' commitment to a stable exchange rate, structural reforms to improve competitiveness, diversification of the production base, and further fiscal consolidation are the primary tools to avoid a weakening of the external position and to protect the current level of reserve buffers.

A. Context and Recent Developments

1. The current account balance returned to surplus in 2017 as the energy sector started recovering from supply shocks, and imports declined on weak domestic demand. The current account moved from a deficit of 2.9 percent of GDP in 2016 to 10.2 percent of GDP surplus in 2017, driven by a significant improvement in the balance of goods and services. The expansion of the goods trade balance mainly reflected increasing production and exports from the new gas projects, and lower imports due to the weak economy also contributed to this outcome. Exports of oil, gas, and petrochemicals account for more than 70 percent of exports of goods and services. With the new plants already in production and new projects to enter the pipeline in the following years, staff envisage that the current account surplus would continue in the medium-term, albeit at a declining trend. Given the production structure in Trinidad and Tobago, the energy sector has been contributing to the current account surpluses, while the non-energy sector has been in permanent deficit.

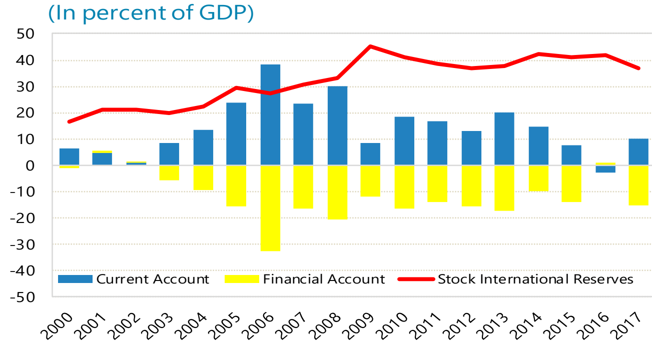
Current Account Balance Composition
(In percent of GDP)



[1] The BOP data for 2011-2016 was extensively revised in early 2017 by the Central Bank of Trinidad and Tobago (CBTT), under technical assistance provided by IMF-CARTAC. While these large (and frequent) revisions cause structural breaks in data and make assessment of the external position very challenging, further changes are expected as historical trade data will likely be revised as the authorities, with continued CARTAC support, address coverage, classification, and reporting problems to improve data quality and timeliness. In addition to the trade data, the authorities have provided IIP data for 2011-2016 and transitioned to BPM6.

2. The financial account has been historically negative reflecting the net investment of residents in the rest of the world, mostly in portfolio instruments. Current account surpluses were sufficient not only to compensate for the chronic deficit in the financial account, but also to steadily increase the level of international reserves in the last two decades. This dynamics changed in 2015, when official reserves began a steady decline, a process that continues up to mid-2018. This is mainly explained by a sizable increase in portfolio and other investment outflows, reflecting residents (households, corporates, and financial system) investing abroad.

Current Account Balance and Capital Flows
(In percent of GDP)



B. External Assessment

3. Staff assess the external position in 2017 as weaker than the level consistent with medium-term fundamentals and desirable policies. Estimates based on the EBA-Lite current account model suggests a CA surplus norm of 2.9 percent of GDP.[2] The actual CA in 2017 was 10.2 percent of GDP, which implied a REER gap of -22 percent. In staff's view, this outcome does not conform with what is suggested by shortages in the FX market, long queuing, and anecdotal evidence of a parallel market. An alternative approach especially designed for oil exporting countries (Bems and Carvalho, 2009) suggests that the real exchange rate is overvalued by approximately 12.1 percent,[3] with a CA norm of 13.5 percent, and a current account gap of 4.0 percent. The fiscal policy gap of -4.6 percent explains most of this gap. Under staff's active scenario, the 2017 fiscal deficit of 11.0 percent of GDP should converge to a surplus of 1.6 percent of GDP over the medium-term. The EBA-Lite REER regression approach, also points towards some degree of overvaluation, with a REER gap of 42.1 percent.

[2] This approach has several limitations to assess external balances in large exporters of exhaustible resources, which can generate potentially very large income streams which are temporary, and countries may benefit from smoothing domestic absorption.

[3] Bems and Carvalho (2009) requires two things: i) sustainability of the CA trajectory, i.e., the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports; ii) the CA needs to support intergenerational equity -and some precautionary savings in view of volatile oil prices – through an appropriate pace of accumulation of net foreign assets. Import trajectories ("annuities") are calculated in this case under a constant real per capita annuity.

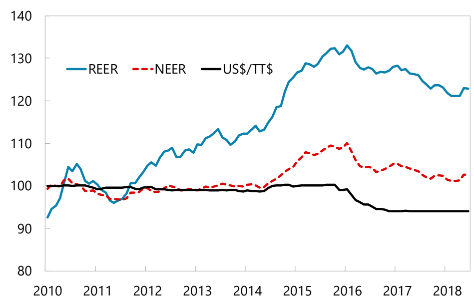
Trinidad and Tobago: Real Exchange Rate Assessments for 2017					
	CA Norm (% GDP)	CA actual (% GDP)	Gap (% GDP)	Elasticity	Misalignment (in percent)
EBA Current Account	3.0	10.2	7.2	-33%	-22.0
EBA Real Exchange Rate	…	…	…	…	42.1
Bems and Carvalho 1/	13.5	10.2	-4.0	-33%	12.1

Source: IMF staff calculations.

1/ See Bems, R., and I. Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries,", IMF Working Paper 09/281.

4. **The real effective exchange rate estimated by the Fund Information Notice System (INS) shows a 21 percent appreciation between 2010 and end-March 2018.** The Nominal Effective Exchange Rate (NEER) depreciated by about 2.8 percent compared to March 2017, while the REER depreciated by 4.9 percent in the same period. Despite the depreciation, the REER has appreciated by 21 percent since 2010. The large overvaluation implied by this methodology may reflect, among other factors, a marked appreciation of the U.S. dollar, given the tightly managed bilateral $TT/$US exchange rate. This outcome reinforces staff's assessment about some degree of overvaluation of the exchange rate.

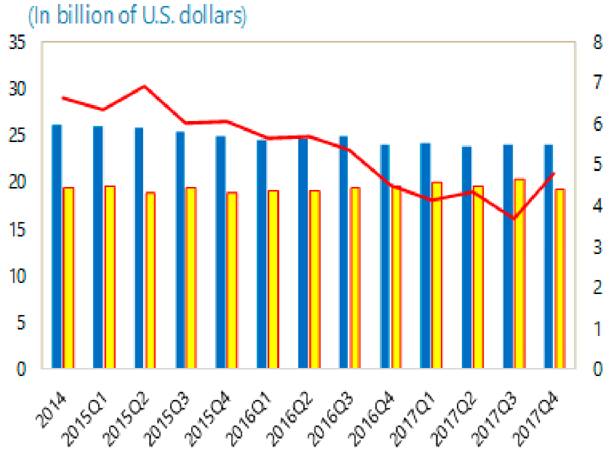
Exchange Rate Developments
(Index 2010=100)



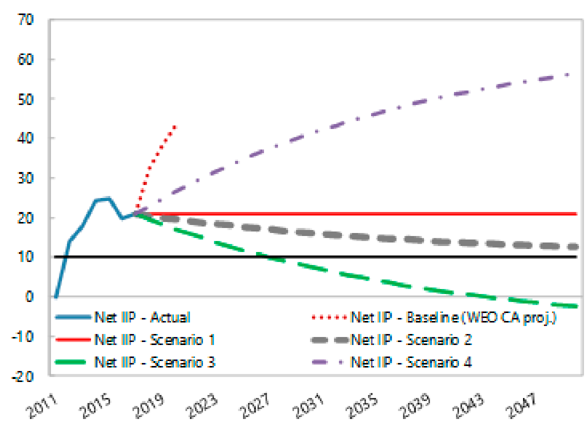
Sources: IMF Information Notice System; and IMF staff estimates.

5. **Trinidad and Tobago is a net creditor, with a Net International Investment Position (NIIP) equivalent to 20.9 percent of GDP in 2017.** The NIIP is estimated at a positive US$4.8 billion at end-December 2017, slightly higher than the previous year. However, there is a

International Investment Position
(In billion of U.S. dollars)



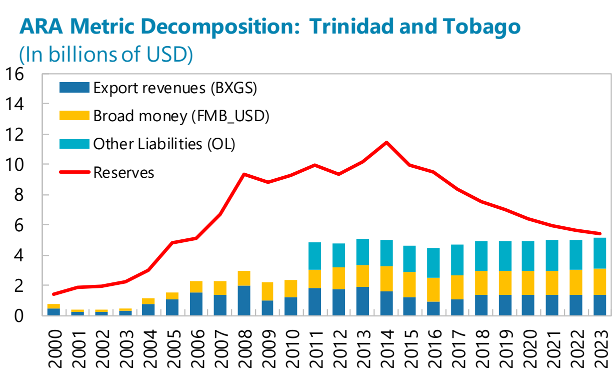
Net IIP: Actual & Projected
(in percent of GDP, based on IIP data from EWN database



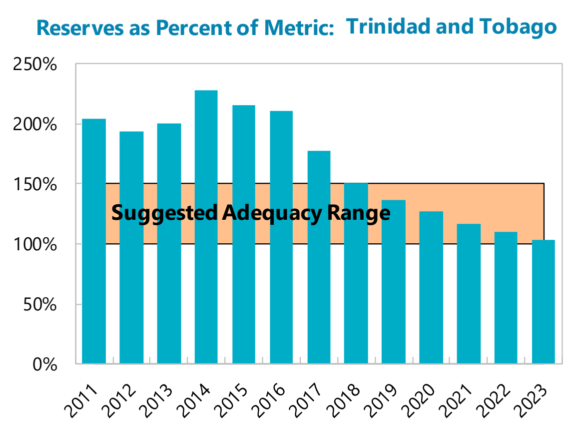
Source: Lane and Milesi-Ferretti's External Wealth of Nations Dataset, IMF WEO declining trend respect to the peak reached in 2014. The reduction in international reserves on the assets side, despite substantial increase in portfolio investment abroad, is the main driver of this decline in the NIIP, supporting the view of an overvaluation of the currency. The external sustainability approach suggests that the IIP would be stabilized with a current account norm of 0.9 percent of GDP, which is lower than the medium-term projected CA surplus. Under this scenario, the implied REER gap is -14.3 percent, given that a lower level of current account would be needed vis a vis the baseline scenario. If we were to set the target of NIIP at the lower level of 10 percent of GDP (scenario 2), the NIIP would remain positive for a long period of time, and it implies a REER gap of -15.7 percent.

C. Assessment of Reserve Adequacy

6. Gross international reserve coverage exceeds adequacy metrics. GIR stood at US$7.9 billion (or 9.0 months of imports) by end-April 2018, over 150 percent of the IMF's composite reserve adequacy (ARA) EM metric, but on current policies, the reserve adequacy is projected to decline over time.[4] Official gross foreign reserves exceed typical benchmarks of reserve adequacy, including 3 months of imports of goods and services, 20 percent of broad money, and short-term debt falling due within one year. Under a baseline scenario of lower oil and gas prices combined with no policy changes, staff projects a continuation of current account deficits and a sustained decline in reserves down to 5 month of import cover by 2023, about half the current level. The rate of decline in reserves could be faster should speculative demand for foreign currency exacerbates outflows.



Source: IMF staff calculations.
1/ Additional buffer for commodity exporters is calculated by multiplying trade value with one standard deviation of future oil price projections.



[4] Although TTO's exchange rate is classified as a stabilized arrangement, there are only two ARA metrics, one for floating and one for fixed. The latter is applied to all exchange rate arrangements other than floating and freely floating, including those classified as a stabilized arrangement. The metric is: .30*short-term debt + .20*other liabilities + .10*broad money + .10*exports of goods.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 6, 2018

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of June 30, 2018)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	469.80	100.00
Fund holdings of currency (Exchange Rate)	401.58	85.48
Reserve Tranche Position	68.22	14.52

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	321.13	100.00
Holdings	242.09	75.39

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

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

	Forthcoming				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest	0.39	0.78	0.78	0.78	0.78
Total	**0.39**	**0.78**	**0.78**	**0.78**	**0.78**

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

Implementation of HIPC Initiative

Not applicable

Implementation of Multilateral Debt Relief Initiative

Not applicable

Implementation of Catastrophe Containment and Relief (CCR)

Not applicable

Exchange Arrangements

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

Trinidad and Tobago maintains an exchange restriction and two multiple currency practices subject to the Fund's approval under Article VIII, Section 2(a) and Section 3. The exchange restriction arises from the authorities' restriction of the exchange rate (i.e., by restricting the maximum market buy and sell rates, and prohibiting foreign exchange (FX) transactions beyond the maximum rates), while not providing enough FX (i.e., through the CBTT 's FX interventions) to meet all demand for current transactions at that rate. The CBTT also limits sales of its FX intervention funds to meeting only "trade-related" demand, which do not include non-trade transactions that are, however, current international transactions as defined under Article XXX(d) of the IMF's Articles of Agreement, and encourages authorized dealers to similarly prioritize sales of FX obtained from other sources. Further, the authorities prioritize provision of FX to certain manufacturers through a special FX facility using the EximBank. These actions result in undue delays in access to FX to make payments or transfers for current international transactions and external payment arrears.

The two multiple currency practices arise from the absence of a mechanism to prevent the potential deviation of more than two percent at any given time among several effective exchange rates regulated by the authorities, for spot exchange transactions; namely:

- The potential two percent deviation between: (i) on the one hand, the CBTT's intervention rate and the authorized dealers' sell rates (the maximum of which is anchored on the intervention rate plus fixed margins), and (ii) on the other hand, the authorized dealers' buy rates (the maximum of which is limited at the previous day's mid-rate).

- The potential two percent deviation between: (i) on the one hand, the buy and sell rates for FX transactions between the CBTT and the government, and (ii) on the other hand, the authorized dealers' sell rates.

Last Article IV Consultation

The 2017 Article IV mission was concluded on Aug 2, 2017. Trinidad and Tobago is on the 12-month consultation cycle.

Technical Assistance

Trinidad & Tobago has received a significant volume of technical assistance across the various CARTAC fiscal, financial, and statistical areas. On fiscal issues, CARTAC has supported the authorities in developing a medium-term fiscal framework (MTFF) and strengthening oversight of public bodies. FAD conducted a tax administration diagnostic assessment and a fiscal transparency evaluation.

On financial issues, CARTAC continues to assist the authorities with review of the Central Bank Act, consolidated supervision, the mutual fund industry, and regulatory and supervisory frameworks for credit unions. Statistical reform priorities have advanced with CARTAC helping to improve the quality of the retail, producer and trade price indices; advising on the household budget survey and rebasing of the Retail Price Index; and improving and rebasing the GDP estimates. CARTAC has also assisted the Central Bank of Trinidad and Tobago in finalizing the external sector statistics for dissemination in the framework of the IMF's Balance of Payments and International Investment Position Manual, sixth edition (BPM6) and reinstitute timely reporting to the IMF's Statistics Department.

Despite the many improvements, the errors and omissions item in the balance of payments is still very large for some years, indicating that further work to improve survey coverage, especially in the energy sector, may be needed. Additional TA missions are scheduled for early 2019. Beyond the provision of direct in-country TA, officials from Trinidadian institutions participated in training events and regional workshops across all areas of CARTAC expertise, including most recently on digital currencies.

Department	Dates	Purpose
CARTAC	July 19-20, 2018	Digital Currencies and Central Banks' Regulatory Response
STA	May – June 2018	National Accounts
FAD	April-May 2018	Fiscal Transparency Evaluation
STA	May 2018	Price Statistics
CARTAC	April 2018	Macro Fiscal Framework
STA	March 2018	External Sector Statistics
MCM	February 2018	Transitioning Mutual Funds
MCM	October 2017	Credit Unions Regulation
CARTAC	October 2017	Central fiscal oversight and analysis of public corporation risks
FAD	September 2017	Tax Administration Diagnostic Assessment Tool
STA	May 2017	National Accounts Statistics
STA	March 2017	Price Statistics
FAD	September 2016, June 2017	New Directions in Fiscal Regimes for Oil and Gas
FAD	November 2016	Strengthening Institutional Arrangements and Core Operations
FAD	June 2016	Establishing a Tax Policy Unit
STA	October 2016	External Sector Statistics
STA	May 2016	National Accounts Statistics
STA	March 2016	External Sector Statistics
STA	January 2016	National Accounts Statistics, Price Statistics
MCM	August 2015	Monetary Policy Framework
MCM	April 2015	Macroprudential Policy Framework
STA	March 2015	External Sector Statistics
FAD	March 2015	Revenue Administration
STA	May 2014	Financial Sector Statistics/FSI compilation
MCM-LEG	March 2014	National Financial Crisis Contingency Plan
FAD	July 2013	Tax Administration
FAD	January 2013	Tax Policy
MCM	October 2012	Non-life insurance regulation
STA	June 2012	Monetary and financial statistics
STA	April 2012	Consumer and Price Statistics
STA	March 2012	Monetary and balance of payments statistics
STA	February 2012	Consumer and producer price statistics
MCM	June 2010, September 2010, March 2011, and June 2011	Insurance supervision
MCM	December 2010 and April 2011	Public debt management, funding and medium-term debt management strategies

STATISTICAL ISSUES

(As of July 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. The authorities are committed to improving data provision, through the establishment of an independent National Statistics Institute (NSI), which will replace the Central Statistical Office (CSO). In the meantime, the CSO has obtained new offices, taken on additional provisional staff to reduce the backlog of uncompleted surveys, increased staffing with assistance from the CBTT, and secured TA from a number of international partners.
National Accounts Statistics: The CSO has made noticeable improvements in the timeliness of data provision since 2015. The GDP estimates have been improved and rebased from 2000 to 2012. Revised real and nominal production-side GDP estimates have been compiled from 2012 to 2017. The CSO is also working on updating the estimates for 2000 to 2011 at broad industry level. The last current price expenditure-side GDP data is for 2017 but constant prices remain for 2008. The CSO expects to release quarterly production-side GDP estimates that are currently being developed. The CSO has increased lags in publication of its quarterly labor force bulletin to about four quarters (from two quarters).
Price Statistics: The compilation methodology to estimate the Retail Price Index (RPI), implemented in mid-2016, corrects a significant upward bias, primarily in the food component. In addition, the RPI basket has been rebased to January 2015, with new weights drawn from the 2008/09 household budgetary survey. The CSO has recompiled and published the RPI for January 2015 to April 2018. The CSO expects to develop an experimental Producer Price Index (PPI) and Domestic Production Index (DPI) covering all domestic manufacturing industry, electricity, and water supply in late 2018 with 2012 weights covering manufacturing and utilities. In addition, the CSO is receiving TA from Statistics Canada on developing the Export and Import Price Indices, with new indices expected to be released in late 2018.
Government Finance Statistics: The Ministry of Finance (MoF) compiles fiscal data using a national classification system for government transactions and debt of the central government. The compilation follows the Government Finance Statistics Manual (GFSM) 1986. However, the government accounts for one-off sources (such as asset sales and super-dividends) as revenues, whereas these should be accounted for as financing sources according to GFSM 2014. Data on public enterprises and statutory bodies are compiled and published once a year. There are limited data on debt outside of the central government. The authorities report annual GFS data to STA, though with a lag. The last annual data reported was for fiscal year 2013-2014, which was reported in November 2017. Data is limited to central government revenues, expenditures, financing and COFOG data, no debt or other balance sheet data is reported.
Monetary and Financial Statistics: The monthly monetary accounts currently cover the CBTT and other depository corporations (ODCs), that is, commercial banks and nonbank financial institutions (finance houses, merchant banks, trusts, and mortgage companies), which report to the CBTT monthly. No data are reported by income funds, which act like money market funds and should be included as part of the ODCs sector. Since mutual funds are not regulated by the CBTT, an agreement with the Securities and Exchange Commission of Trinidad and Tobago is needed to obtain their data on a regular basis. Following a TA mission in May 2014, the CBTT has become a quarterly reporter of balance sheet data for the other financial corporations (OFCs) sector, covering insurance corporations, pension funds, the Heritage and Stabilization Fund (HSF), the Agricultural Development Bank (ADB), and the Mortgage Finance Company (TTMF). The CBTT needs to expand the coverage of the OFC sector to include the National Insurance Board (NIB), the Unit Trust Corporation (UTC), the Home Mortgage Bank (HMB), and the credit unions. Since mid-2013, the CBTT reports monetary data to STA using the SRFs.

Financial Sector Surveillance: The CBTT reports Financial Soundness Indicators (FSIs) covering commercial banks on a regular quarterly basis. Trinidad and Tobago reports to STA all core and some encouraged financial soundness indicators.
External sector statistics: The CBTT is responsible for the compilation and dissemination of balance of payments statistics. Quarterly and annual balance of payments data are disseminated by the CBTT in its national publications, although with some lag. Generally, compilation of balance of payments statistics is heavily based on administrative records and survey data from entities with cross-border transactions. Trade data is normally taken from the CSO, however due to some consistency issues in the energy sector, trade data from 2011 onwards are CBTT estimates. Energy trade data are obtained from direct data sources, while non-energy exports and non-fuel imports are sourced from the CSO. The CBTT's estimates for trade data should be replaced by official CSO data, once a conciliation and consistency process is concluded. The CSO is in the process of reviewing and auditing recently compiled trade data covering 2012 to 2017. The authorities, following the recommendations from recent TA missions, revised the data in the goods and services account to address under-coverage and misclassifications, particularly in the valuation of imports at c.i.f., missing insurance services provided to nonresidents, and in services provided by nonresident companies to local oil and gas corporations. Recent TA missions have also assisted the authorities in the compilation of data on external assets and liabilities of mutual funds, the compilation of the International Investment Position (IIP), the proper classification of dividend flows by energy sector companies, other required improvements for subscription to the SDDS, and implementation of the *Balance of Payments and International Investment Position Manual*, sixth edition. The authorities made an official release of the revised BOP data from 2011 to 2017, as well as IIP data for the same period. Despite this substantial progress, errors and omissions are still relatively large. Additional technical assistance is scheduled for 2019 to address the remaining issues. Data with comprehensive coverage of external loans and domestic debt of the entire public sector, as well as publicly guaranteed debt has been migrated to the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) utilized by the Ministry of Finance and the CBTT.

II. Data Standards and Quality	
Trinidad and Tobago is a participant in the Fund's enhanced General Data Dissemination System (e-GDDS) but has not yet implemented the National Summary Data Page.	No data ROSC is available.

Table of Common Indicators Required for Surveillance

(As of July 22, 2018)

	Date of latest observation	Date received	Frequency of Data	Frequency of Reporting[8]	Frequency of publication
Exchange Rates	July 2018	July 2018	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2018	June 2018	M	M	M
Reserve/Base Money	Apr 2018	June 2018	M	M	M
Broad Money	Apr 2018	June 2018	M	M	M
Central Bank Balance Sheet	Apr 2018	June 2018	M	M	M
Consolidated Balance Sheet of the Banking System	Feb 2018	June 2018	M	M	M
Interest Rates[2]	June 2018	July 2018	M	M	M
Consumer Price Index	Apr 2018	June 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Mar 2018	June 2018	Q	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar 2018	June 2018	Q	I	Q
External Current Account Balance	2017 Q4	June 2018	Q	Q	Q
Exports and Imports of Goods and Services[6]	2017 Q4	June 2018	Q	Q	Q
GDP/GNP	2017	July 2018	A	A	A
Gross External Debt	Mar 2018	June 2018	Q	Q	Q
International Investment Position[7]	2017 Q4	June 2018	Q	Q	Q

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

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic banks, 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] Central Bank data estimates pending finalization of conciliation of trade data with CSO.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Only from 2011 onwards.

[8] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

Statement by Alexandre Tombini, Executive Director for Trinidad and Tobago, and Daryl Cheong, Senior Advisor to Executive Director
August 31, 2018

On behalf of our authorities, we would like to thank IMF staff for the reports and the candid discussions held in Trinidad and Tobago during the 2018 Article IV consultation.

Trinidad and Tobago has undertaken a major adjustment effort over the past few years. In the aftermath of the 2014-16 energy price shock, the authorities' first task was to stabilize the economy. At the present juncture, economic activity is gaining momentum, the fiscal position is improving, and external buffers remain adequate. The authorities have also taken the opportunity to introduce several policies and reforms aimed at insulating the economy from future commodity price and other macroeconomic shocks. This has involved, *inter alia*, strengthening the fiscal framework, enhancing financial sector supervision, and reinvigorating the diversification agenda.

Economy and Outlook

Following a period of lackluster performance, evidence suggest that a nascent recovery is beginning to take hold. The pick-up in natural gas production which began during the second half of last year, continued into the first half of 2018 with positive spill-overs to the petrochemical industry. Meanwhile, following declines in 2016 and 2017, the authorities believe that the non-energy sector has bottomed-out. They expect that the non-energy sector will be helped in part by government's capital spending, as key construction projects take shape. As such, the authorities anticipate growth of around 2.0 percent in 2018.

By most if not all metrics, Trinidad and Tobago's external position remains strong. After recording a deficit in 2016, the current account swung to an estimated surplus of 10.2 percent of GDP in 2017 due largely to a positive trade balance. The authorities highlight that external buffers including gross official reserves and assets in the sovereign wealth fund are robust, while public sector external debt is relatively low. However, while they appreciate staff's attempt to better tailor the analysis to Trinidad and Tobago's circumstances, they take note of the divergences between the various external sector assessment methodologies, and are uncertain whether a current account norm of 13.5 percent of GDP is appropriate, sustainable or even realistic, in the new global energy price environment.

Trinidad and Tobago's medium-term prospects are positive. Additional gas production is expected to come on stream over 2019 and 2020, and there are several other projects in the development stage with very positive prospects. Spill-overs from the energy sector, including through government capital spending and stronger confidence, are expected to spur domestic demand to the benefit of key sectors such as distribution, manufacturing, finance and construction. Meanwhile, although there may be some continued weakness in the short run, the authorities anticipate that the external position will strengthen over the medium term. At the same time, the authorities recognize that several factors including technical delays in bringing new energy production on stream, under execution of government's capital spending, sluggish domestic demand as well as external factors such as a sharp drop in energy prices, can tilt risks to the downside.

Fiscal Policy

The authorities' fiscal adjustment effort remains on track. Having trimmed expenditures by roughly 20 percent between FY2014 and FY2017, the authorities continued to exercise prudent control over spending during the first half of FY2018.[1] At the same time, although revenues are expected to benefit from the rebound in the energy sector, early evidence also suggest that non-energy revenue mobilization efforts are beginning to bear fruit. Given the performance in the first half of FY2018, the overall fiscal deficit (authorities' definition) is now anticipated at around 2.5 percent of GDP for FY2018 compared with 8.6 percent of GDP in the previous fiscal year.[2] Additionally, public-sector debt and gross financing needs have remained at sustainable levels throughout the challenging economic episode, and are expected to be stable or improve over the medium term – a position also supported by staff's Debt Sustainability Analysis.

As welcomed by staff, progress has been made on developing a medium-term fiscal framework (MTFF). The MTFF is underpinned by the authorities' goals to balance the budget by 2020 and keep the public-sector debt-to-GDP ratio below 65 percent. Further, technical assistance scheduled for later in 2018 by the IMF's Fiscal Affairs Department is expected to help improve the MTFF.

Reforms to ensure long-run fiscal sustainability, which involves reducing the reliance on energy revenues, are also progressing. The Revenue Authority, which is intended to improve tax administration, is expected to be operationalized in the near term, a comprehensive gaming industry tax policy is being prepared and after some delay, property taxes are being re-introduced in FY2019. Additionally, work towards establishing a Tax Policy Unit and a dedicated committee to review transfer pricing is advancing. On the expenditure side, the authorities remain committed to introducing an automatic fuel price mechanism, and based on initial findings from the World Bank Public Expenditure Review (PER) mission earlier in 2018, they are exploring measures to increase spending efficiency in key areas. The authorities will also use the outcome from the recent IMF Fiscal Transparency Evaluation (FTE) mission to enhance fiscal management.

[1] Fiscal year starts in October of the previous year.
[2] On a non-IMF GFSM 2014 basis.

Monetary Policy and Foreign Exchange Market

At its June 2018 Monetary Policy Committee meeting, the Central Bank of Trinidad and Tobago (CBTT) took the decision to increase its main policy rate for the first time since end-2015. In the recent past, against the backdrop of low inflation, the CBTT's deliberations have focused on balancing the need to support the economy on one hand, against the domestic implications of higher international interest rates, on the other. With signs that domestic economic activity is picking-up, and the likelihood that domestic interest rate differentials vis-à-vis relevant international benchmarks could move deeper into negative territory given the expected trajectory for global rates, the CBTT considered the latter as the most pressing challenge.

There are signs that conditions in the domestic foreign exchange market may be beginning to ease. After declining steadily over the last few years, market led foreign exchange supply (excluding CBTT interventions) was nearly 20 percent higher in the first seven months of 2018 when compared with the same period last year. This is consistent with the recovery in domestic energy production and prices, and the turnaround in the current account more generally. The authorities reiterate their intention to carefully coordinate fiscal, monetary and structural policies to address imbalances in the foreign exchange market. Additionally, while the authorities concur that exchange rate flexibility has worked well for some countries, in Trinidad and Tobago's case, they are more cautious than staff regarding the pass through to inflation, particularly as the fiscal and structural reform agenda is not yet completed.

Financial Sector

The financial system has remained on a strong footing despite the recent economic downturn. Commercial banks are well capitalized, profitable and have robust asset quality, while CBTT stress tests show that the system can withstand severe shocks. Banks are well prepared to meet any new capital and provisioning requirements, following the adoption of IFRS 9 and Basel II. The CBTT also undertook a thematic review of banks' credit risk in 2017, which helped identify potential risks to asset quality. The insurance sector is also well capitalized and profitable, with the general insurance sector displaying a fair degree of resilience following last year's active hurricane season in the Caribbean region.

Although the system is stable, the authorities recognize the multi-faceted nature of financial risks and are committed to maintaining a well-regulated and sound financial system. The authorities are keeping a close eye on systemically important financial institutions (SIFIs), examining the risk posed by large cross-border conglomerates and monitoring developments in the fintech space. The CBTT recently issued revised AML/CFT guidelines, which emphasize a risked-based approach to compliance. Meanwhile, the new Insurance Bill will facilitate risk-based supervision in the sector, helping to align this aspect of the CBTT's oversight framework to international best-practice. To assist with this, and to thoroughly assess the strengths and weaknesses in the financial system, Trinidad and Tobago will participate in a joint IMF/WB Financial Sector Assessment Program (FSAP) in 2019/2020.

Structural Reforms

The authorities intend to use the opportunities provided by the positive medium-term prospects to implement key structural reforms. Among them, state-owned enterprise (SOE) reform remains a priority. The operational restructuring of the state-oil company Petrotrin is on-going, with the aim to transform it into a competitive, sustainable and profitable entity. Meanwhile, as signaled by the Minister of Finance in his FY2018 budget presentation, the Regulated Industries Commission will commence a rate determination exercise for the domestic electricity and water providers in the near term.

Export base diversification with a vibrant private sector at its core is an integral part of Trinidad and Tobago's economic strategy. The government recognizes its role as a facilitator, and is upgrading public infrastructure, pursuing trade arrangements, and has attracted foreign investors to occupy new industrial parks and expand Trinidad and Tobago's dry-docking capacity. The authorities also sought to improve the ease of doing business through the establishment of a new foreign exchange facility administered by the Export-Import Bank of Trinidad and Tobago. The authorities see such initiatives to facilitate trade and manufacturing, as well as on-going plans to expand the tourism, business processing, financial and other services sectors as key to diversifying Trinidad and Tobago's economic base.

The authorities appreciate the importance of high quality and timely statistics, and point to the progress being made in this regard. Although the transition from the Central Statistical Office (CSO) to the National Statistical Institute (NSI) has not progressed as quickly as the authorities envisaged, important improvements are nevertheless being made. The CSO has fully relocated to a new office space with the requisite IT infrastructure, and is near its full complement of staff. Having successfully migrated to SNA 2008, the CSO is working towards producing a quarterly GDP series, getting the labor force statistics back on track, and finalizing the revamped indices of producer and building material prices. Meanwhile, the CBTT has made significant improvements in the external account statistics over the last few years, including adopting BPM6 and producing quarterly international investment positions (IIP). In this regard, staff's assessment that data provision has 'serious shortcomings that significantly hamper surveillance' seems somewhat harsh.

Conclusion

Our Trinidad and Tobago authorities continue to regard the Fund as a trusted advisor. They underscore the importance of, and their appreciation for the technical assistance support provided through IMF headquarters and the regional technical assistance center – CARTAC. They welcome the Fund’s close engagement with the Caribbean region in general, appreciate initiatives such as the High Level Caribbean Forum and the dialogue on correspondent banking relationships, and look forward to the joint IMF/WB/IDB Conference on climate change scheduled for later this year.