INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/157

# TRINIDAD AND TOBAGO

May 2023

## 2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2023 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 March 14, 2023, 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 April 13, 2023.
- An **Informational Annex** prepared by the IMF staff.

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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**International Monetary Fund**
**Washington, D.C.**

# IMF Executive Board Concludes 2023 Article IV Consultation with Trinidad and Tobago

**FOR IMMEDIATE RELEASE**

**Washington, DC – May 5, 2023:** On end of lapse-of-time date, May 1, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation[1] with Trinidad and Tobago and considered and endorsed the staff appraisal without a meeting.[2]

Trinidad and Tobago's economic activity is recovering supported by higher global energy prices and the rebound of the non-energy sector. Real GDP is estimated to have expanded by 2.5 percent in 2022. Inflation has increased, reaching 8.7 percent by end-2022, driven by imported energy and food prices, partial liberalization of domestic fuel prices in 2022, and domestic weather-related shocks. The financial sector appears well-capitalized, liquid, and profitable. Higher energy prices contributed to further improving the external position in 2022 and turning the fiscal position into a surplus in FY2022—for the first time in over a decade. Public debt has declined.

The economic recovery is expected to gain broad-based momentum in 2023. Inflation is projected to slow to 4.5 percent by end-2023 and to continue declining with international prices. The current account surplus will narrow in line with the anticipated decline in global energy prices, reaching 6.6 percent of GDP in 2023. International reserve coverage is expected to remain adequate at around 7.2 months of prospective total imports and is complemented by large public external buffers in the Heritage and Stabilization Fund of about 18.4 percent of GDP. The overall fiscal balance is projected to turn into a deficit of 2.8 percent of GDP in FY2023, reflecting lower energy revenues due to declining energy prices and domestic production, and increased capital spending.

The balance of risks to the outlook is tilted to the downside. Downside risks stem from potential disruptions to domestic oil and gas production; a sharper-than-expected global slowdown affecting energy markets, and global financial instabilities. On the upside, there is the potential for higher-than-expected energy prices and production, including new or expanded projects, and new renewable energy projects.

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

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

**Executive Board Assessment**

Trinidad and Tobago's economy is recovering. In 2022, economic growth picked up led by the non-energy sector. Inflation has increased, driven by imported energy and food prices, the partial liberalization of fuel prices, and floods. In 2023, the recovery is expected to gain broad-based momentum. Inflation is projected to slow in 2023 in line with international prices. In 2022, the external position was stronger than the level implied by fundamentals and desirable policies. The balance of risks to growth is tilted to the downside.

The fiscal position is expected to swing from surplus in FY2022 to a deficit in FY2023, and then stabilize at moderate deficits over the medium term. It is recommended to continue prudently managing the energy revenue windfall, avoiding procyclical spending, and rebuilding fiscal buffers, while providing targeted support to the most vulnerable. The fiscal stance in the FY2023 budget is appropriate. Capital expenditure will support the economic recovery and address critical bottlenecks (e.g., infrastructure), but it needs to be efficient and high quality. A spending contingency plan would help stabilize fiscal accounts should downside risks materialize.

The authorities' commitment to balancing the budget over the medium term is prudent and welcome. To support this effort, it is recommended to enhance revenue mobilization, cut down non-priority current expenditure, and maintain debt well below the new soft debt target. Additional revenue could be generated by implementing tax reforms and strengthening the tax administration. It is advisable to continue gradually phasing out subsidies, streamlining transfers to state-owned enterprises (SOEs), and improving public spending efficiency, while preserving the spending for the most vulnerable, supporting growth-friendly expenditure, and protecting essential capital spending.

Long-term fiscal risks related to the pension system and the global energy transition need to be addressed. The National Insurance System's deficit is expected to widen, gradually depleting its reserve by mid-2030s. The authorities' proposal to increase the retirement age to 65 years would help partially contain the deficits. Increasing contribution rates could also help. An energy transition that avoids disruptive policy adjustments requires the design of a sustainable long-term fiscal strategy.

Enhancing the fiscal policy framework would help strengthen planning and reinforce fiscal sustainability. A rule-based medium-term fiscal framework would strengthen policy formulation, help avoid procyclical spending, and mitigate fiscal risks. This could include a formal fiscal anchor—with an escape clause for unexpected events—to support fiscal discipline and sustainability. A sound debt management strategy would mitigate macro-financial risks.

It is encouraged to maintain sound and consistent policies to support the exchange rate arrangement. The Central Bank of Trinidad and Tobago (CBTT) should seriously consider increasing its repo policy rate to contain inflationary pressures and narrow the negative interest rate differentials with the U.S. monetary policy rate. This would also mitigate potential risks of capital outflows and reduce excessive risk-taking incentives that could threaten financial stability.

Reforming the foreign exchange (FX) market infrastructure remains a priority to eliminate FX shortfalls. It would also create a more conducive business environment for the private sector to invest and diversify the economy. Over the medium to longer term, greater exchange rate flexibility would reduce the need for fiscal policy adjustments over the cycle and allow for countercyclical monetary policy. The authorities are encouraged to remove all restrictions on current international transactions while providing sufficient FX to meet demand for all current international transactions.

The authorities need to remain vigilant to vulnerabilities in the financial system. The system appears sound and resilient but vulnerabilities emanate from rising household and businesses' debt, high exposures to the sovereign, and interconnectedness. Closely monitoring financial risks is warranted. Staff welcomes the progress in enhancing the resilience of the banking and insurance sectors in line with the 2020 Financial Sector Assessment Program (FSAP) recommendations. However, progress is needed in transforming the investment fund sector from constant to variable net asset value (NAV), enhancing the consolidated supervision of conglomerate groups, providing the CBTT with explicit macroprudential authority and tools, and strengthening supervisory resource and independence in line with international best practices.

Staff welcomes and supports the authorities' efforts in embracing Fintech for financial inclusion and development, while working on mitigating its potential risks. Noteworthy are the efforts, in collaboration with IMF Technical Assistance, to develop the Fintech ecosystem (e.g., the Joint Regulatory Hub, launching a Regulatory Sandbox, developing the payment system, and strengthening the cybersecurity).

Staff welcomes the authorities' efforts to strengthen the financial integrity and international tax transparency frameworks. Following the removal from the Financial Action Task Force (FATF) monitoring list in February 2020, the authorities are encouraged to further strengthen the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework. Staff welcomes the authorities' commitment and efforts to addressing issues related to the European Union's Commission Tax Blacklist and the Organization for Economic Cooperation and Development's (OECD) Global Forum requirements on Exchange of Information on Request (EOIR) and Automatic Exchange of Information (AEOI) Standards.

Economic diversification requires supporting policies to address structural bottlenecks. The authorities need to step up their efforts towards improving the business environment by delivering on their Vision 2030 agenda. The country's digitalization agenda to deliver more efficient public services, improve the business environment, and enhance the social safety net is welcome.

The country's actions to reduce greenhouse gas emissions are commendable. It is important to continue advancing the work on renewable energy projects and the new green hydrogen strategy. The CBTT's integrated climate change considerations in financial sector supervision, focusing on risk management, stress testing, and data collection, is welcome.

The quality, timeliness, and coverage of statistics has improved but challenges remain. It is recommended to strengthen the institutional capacity with the operationalization of the independent National Statistical Institute, and to build on recent efforts to broaden fiscal data coverage of SOEs and other public bodies.

## Trinidad and Tobago: Selected Social and Economic Indicators, 2017-2023

| | | | |
|---|---|---|---|
| GDP per capita (U.S. dollars, 2021) | 17,458 | Adult literacy rate (2010) | 99 |
| Population (millions, 2021) | 1.40 | Unemployment (2022Q3) | 5.4 |
| Life expectancy at birth (years, 2021) | 73.0 | Human Development Index (2021) | 57 |
| Under 5 mortality rate (per thousand, 2020) | 16.0 | | |

| | 2017 | 2018 | 2019 | 2020 | 2021 | Est. 2022 | Proj. 2023 |
|---|---|---|---|---|---|---|---|
| (Annual percentage change, unless otherwise indicated) | | | | | | | |
| **National income and prices** | | | | | | | |
| Real GDP | -4.7 | -0.9 | 0.1 | -7.7 | -1.0 | 2.5 | 3.2 |
| Energy | -0.3 | -3.2 | -4.3 | -12.2 | -2.7 | -1.8 | 2.9 |
| Non-energy 1/ | -6.8 | 0.3 | 2.3 | -5.5 | -0.3 | 4.3 | 3.3 |
| GDP deflator | 8.0 | 3.0 | -2.3 | -4.4 | 17.5 | 11.2 | -1.9 |
| CPI inflation (end-of-period) | 1.3 | 1.0 | 0.4 | 0.8 | 3.5 | 8.7 | 4.5 |
| CPI inflation (period average) | 1.9 | 1.0 | 1.0 | 0.6 | 2.1 | 5.8 | 5.6 |
| Unemployment rate | 4.4 | 3.5 | 4.3 | 5.7 | 5.4 | … | ... |
| Real effective exchange rate | -4.2 | 2.4 | -1.1 | -1.8 | 1.0 | 6.5 | ... |
| (In percent of fiscal year GDP, unless otherwise indicated) 2/ | | | | | | | |
| **Central government finances** | | | | | | | |
| Central government primary balance | -7.7 | -2.9 | -0.5 | -8.3 | -5.2 | 2.9 | 0.0 |
| *Of which:* non-energy primary balance 3/ | -17.5 | -14.6 | -14.9 | -19.4 | -17.3 | -19.1 | -19.0 |
| Central government overall balance 4/ | -10.5 | -5.8 | -3.7 | -11.7 | -8.3 | 0.3 | -2.8 |
| Budgetary revenue | 20.5 | 24.0 | 26.8 | 23.0 | 22.8 | 29.3 | 26.9 |
| Energy | 6.0 | 8.2 | 10.9 | 7.7 | 7.8 | 16.3 | 13.7 |
| Non-energy | 14.5 | 15.8 | 15.9 | 15.4 | 15.0 | 13.0 | 13.2 |
| Budgetary expenditure | 31.0 | 29.8 | 30.5 | 34.7 | 31.1 | 29.0 | 29.7 |
| *Of which:* current expenditure | 28.9 | 27.7 | 29.0 | 32.0 | 29.1 | 27.2 | 27.1 |
| *Of which:* interest expenditure | 2.8 | 2.9 | 3.1 | 3.4 | 3.1 | 2.5 | 2.8 |
| *Of which:* capital expenditure | 2.2 | 2.1 | 2.3 | 2.7 | 2.0 | 1.8 | 2.7 |
| Central government debt 5/ | 40.2 | 40.9 | 45.3 | 60.0 | 59.9 | 53.8 | 53.9 |
| Public sector debt 6/ | 57.4 | 57.1 | 61.6 | 80.4 | 79.2 | 71.0 | 71.0 |
| Heritage and Stabilization Fund assets | 24.4 | 24.6 | 26.1 | 26.4 | 23.2 | 18.6 | 18.4 |
| (In percent of GDP, unless otherwise indicated) | | | | | | | |
| **External sector** | | | | | | | |
| Current account balance | 5.9 | 6.7 | 4.3 | -6.4 | 11.9 | 18.9 | 6.6 |
| Exports of goods (annual percentage change) | 13.4 | 11.5 | -18.5 | -31.5 | 84.6 | 49.8 | -22.9 |
| Imports of goods (annual percentage change) | -9.0 | 2.6 | -8.8 | -16.8 | 26.9 | 26.3 | -1.4 |
| Terms of trade (annual percentage change) | -0.2 | 2.3 | -1.9 | -3.6 | 3.7 | 5.2 | -2.8 |
| External public sector debt | 15.5 | 15.8 | 17.0 | 22.7 | 19.1 | 17.1 | 17.8 |
| Gross official reserves (in US$ million) | 8,370 | 7,575 | 6,929 | 6,954 | 6,880 | 6,823 | 6,553 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| In months of goods and NFS imports | 11.0 | 11.4 | 12.3 | 9.7 | 7.6 | 7.6 | 7.2 |
| (Annual percentage change) | | | | | | | |
| **Money and credit** | | | | | | | |
| Net foreign assets | -9.3 | -6.5 | -6.4 | 5.9 | 0.2 | 1.5 | -4.7 |
| Net domestic assets | 26.8 | 18.4 | 18.3 | 10.2 | 2.7 | 2.9 | 13.5 |
| *Of which:* private sector credit | 4.9 | 4.0 | 4.4 | -0.3 | 1.9 | 6.6 | 2.0 |
| Broad money (M3) | -0.4 | 1.2 | 2.9 | 7.1 | 1.7 | 1.9 | 3.4 |
| **Memorandum items:** | | | | | | | |
| Nominal GDP (in TT$ billion) | 161.3 | 164.7 | 161.1 | 142.2 | 165.3 | 188.4 | 190.7 |
| Non-energy sector (in percent of GDP) | 77.6 | 75.3 | 78.0 | 83.8 | 72.9 | 69.4 | 73.4 |
| Energy sector (in percent of GDP) | 22.4 | 24.7 | 22.0 | 16.2 | 27.1 | 30.6 | 26.6 |
| Public expenditure (in percent of non-energy GDP) | 39.5 | 39.3 | 39.4 | 42.3 | 41.3 | 41.3 | 41.1 |
| Exchange rate (TT$/US$, end of period) | 6.78 | 6.77 | 6.75 | 6.76 | 6.77 | 6.75 | … |
| Holdings of SDRs, in millions of U.S. dollars | 343 | 335 | 334 | 348 | 1079 | 1026 | 1036 |
| Crude oil price (US$ per barrel) 7/ | 53.0 | 68.5 | 61.4 | 41.8 | 69.2 | 96.4 | 81.3 |
| Henry Hub natural gas price (US$ per MMBtu) 8/ | 3.0 | 3.1 | 2.5 | 2.1 | 3.7 | 6.5 | 3.0 |

Sources: Trinidad and Tobago's authorities; World Bank; UN Human Development Report; WEO; and IMF staff estimates and projections.

1/ Includes value-added tax (VAT) and Financial Intermediation Services Indirectly Measured (FISIM).

2/ Data refer to fiscal year, for example 2022 covers FY2022 (October 2021-September 2022).

3/ Defined as non-energy revenue minus expenditure (net of interest payments) of the central government, as a share of non-energy GDP.

4/ The fiscal overall balance excludes sales of assets proceeds which are part of financing sources.

5/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the Central Bank of Trinidad and Tobago (CBTT).

6/ Includes central government debt and guaranteed debt of non-self-services state-owned enterprises (SOEs) and statutory authorities.

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

8/ WEO price reported as a reference. Trinidad and Tobago has a broader energy export market in the Americas, Europe, and East Asia each of which has different price benchmarks.

INTERNATIONAL MONETARY FUND

# TRINIDAD AND TOBAGO

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

April 13, 2023

## KEY ISSUES

**Context.** The economy is recovering supported by higher global energy prices and the rebound of the non-energy sector. Inflation has increased driven by imported energy and food prices, partial liberalization of fuel prices, and domestic weather-related shocks. The financial sector appears well-capitalized, liquid, and profitable. Higher global energy prices helped improve the external position, turn the FY2022 fiscal position into a surplus, and lower public debt.

**Outlook and risks.** The recovery is expected to gain broad-based momentum in 2023. Inflation is projected to slow down following international prices. The balance of risks to growth is tilted to the downside, stemming from potential disruptions to domestic oil and gas production, sharper than expected global slowdown and global financial instabilities. The upside is on higher-than-expected energy production and prices.

***Policy Recommendations***

**Fiscal.** Continue prudently managing the energy windfall, avoiding procyclical fiscal policy, and providing temporary and targeted fiscal support to the most vulnerable. Additional revenue mobilization and expenditure restraint are recommended to keep debt well below the new soft debt target. Strengthening the fiscal policy framework, including a formal fiscal anchor, would support fiscal sustainability. The pension system and energy transition risks need to be addressed.

**Monetary and exchange rate.** Maintain sound and consistent policies to support the current exchange rate arrangement. The central bank should seriously consider increasing its repo policy rate to contain inflationary pressures and narrow the negative interest rate differential with the U.S. monetary policy rate. A more efficient foreign exchange (FX) infrastructure and greater exchange rate flexibility over the medium term would help eliminate FX shortfalls and create a more conducive business environment.

**Financial.** Remain vigilant to vulnerabilities in the financial system. The strengthening of regulation and supervision has enhanced the resilience of the banking and insurance sectors in line with the 2020 Financial Sector Assessment Program (FSAP). However, it is encouraged to make progress on an orderly transformation of the investment fund sector to floating asset values; enhancing conglomerate supervision; providing the central bank with macroprudential authority and tools; and strengthening supervisory resources and independence in line with international best practices. Efforts to enhance the financial integrity and international tax transparency frameworks should continue.

**Structural.** Diversifying the economy is a priority. This requires implementing the Vision 2030 agenda to address structural bottlenecks in infrastructure, governance, trade policy, and education. It is encouraged to continue advancing on the digital agenda, renewable energy projects, and green hydrogen strategy. Enhancing institutional capacity will improve the quality and timeliness of macroeconomic statistics.

Approved By
**James Morsink (WHD) and Eugenio Cerruti (SPR)**

The team comprised Camilo E. Tovar (head), Ali Al-Sadiq, Olga Bespalova, Chao He, and Manuel Rosales Torres (all WHD). Discussions took place in Port of Spain in Trinidad and Tobago during March 1–14, 2023. The mission held discussions with Minister of Finance, Mr. Colm Imbert, Central Bank governor Dr. Alvin Hilaire, and their teams, and other public and private sector representatives. Reshma Mahabir (OEDBR) participated in the discussions. Archit Singhal and Diego Gutierrez provided research assistance, and Millena Machado Damasio (all WHD) assisted with the preparation of this report.

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## ANNEXES

# Glossary

| | |
|---|---|
| AEOI | Automatic Exchange of Information |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| ARA | Assessing Reserve Adequacy |
| CBDC | Central Bank Digital Currency |
| CBTT | Central Bank of Trinidad and Tobago |
| CSO | Central Statistical Office |
| COVID-19 | Coronavirus disease 2019 |
| CA | Current Account |
| DIC | Deposit Insurance Corporation |
| e-GDSS | Enhanced General Data Dissemination System |
| EOIR | Exchange of Information on Request |
| EximBank | Export-Import Bank of Trinidad and Tobago |
| EU | European Union |
| FATF | Financial Action Task Force |
| FOMC | Federal Open Market Committee |
| FX | Foreign Exchange |
| FSAP | Financial Sector Assessment Program |
| FSI | Financial Soundness Indicators |
| GaR | Growth-at-Risk |
| GDP | Gross Domestic Product |
| HSF | Heritage and Stabilization Fund |
| JFSC | Joint Fintech Steering Committee |
| LNG | Liquified Natural Gas |
| MoF | Ministry of Finance |
| NAV | Net Asset Value |
| NIB | National Insurance Board |
| NIIP | Net International Investment Position |
| NIS | National Insurance System |
| NSDP | National Summary Data Page |

| | |
|---|---|
| NGL | Natural Gas Liquids |
| NPL | Non-Performing Loan |
| MTFF | Medium-Term Fiscal Framework |
| OECD | Organization for Economic Cooperation and Development |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SOE | State-Owned Enterprise |
| SRDSA | Sovereign Risk and Debt Sustainability Assessment |
| SRDSF | Sovereign Risk and Debt Sustainability Framework |
| TA | Technical Assistance |
| VAT | Value Added Tax |

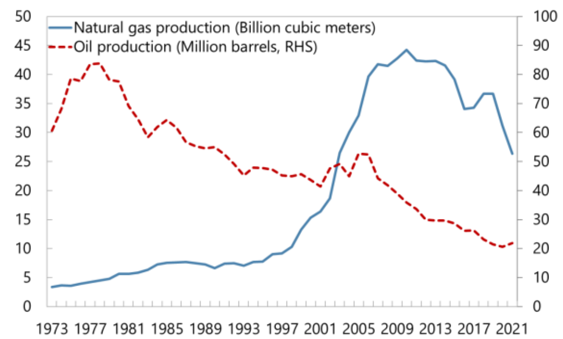
# A WINDOW OF OPPORTUNITY TO BUILD A MORE SUSTAINABLE AND DIVERSIFIED ECONOMY

1. **Trinidad and Tobago's economy was hit by multiple adverse shocks over the past decade.** These included the 2014 collapse in global energy prices, disruptions to domestic energy production (e.g., maintenance and logistics issues), and the 2020 COVID-19 pandemic. Real GDP declined in 2015–2018 and in 2020–21, incurring a cumulative GDP loss of 21.7 percent. Since 2015, the external position weakened, fiscal revenues fell, deficits widened, and public debt increased. International reserves declined and the authorities tapped into the external assets in the Heritage and Stabilization Fund (HSF).

2. **The economy is estimated to have recovered in early 2022, supported by higher energy prices and the lifting of the restrictions introduced during the pandemic.** Given weak trade and financial linkages with Russia and Ukraine, Russia's war in Ukraine had limited direct effects on Trinidad and Tobago. However, higher global energy prices resulted in a positive terms of trade windfall that improved the country's external and fiscal positions. Higher energy and food prices have fed into domestic inflation. Concurrently, economic activity started picking up with the lifting of restrictions introduced during the pandemic (Annex I). These factors helped improve economic conditions, but with increasing inflation.

3. **Trinidad and Tobago has a window of opportunity to build a resilient and diversified economy.** In the near term, the priority is to strengthen the recovery, maintain sound and prudent management of the energy windfall, and support the most vulnerable in the face of higher inflation. In the medium-term, the outlook for global energy prices remains volatile and highly uncertain, particularly as climate change accelerates the global energy transition away from fossil fuel. With the country's technical recoverable reserves of gas and oil on a declining trend, it is critical to take advantage of the current conditions to continue strengthening policy frameworks—including by operationalizing the planned reforms (e.g., the Revenue Authority, the Gambling tax, the Procurement Act, Special Economic Zones)[1,2]—rebuilding fiscal buffers, and stepping up efforts to secure an economic transformation to deliver a sustainable and inclusive economy.

**Natural Gas and Oil Production**
(In Billion Cubic Meters, Million Barrels)




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

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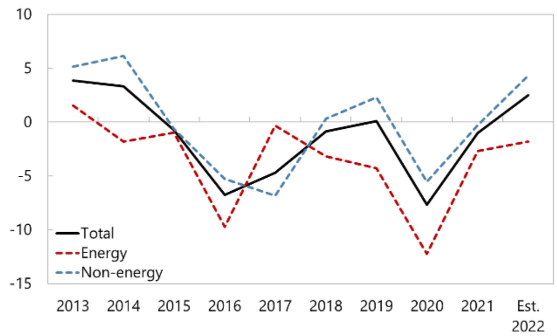
[1] See Annex II on the implementation the 2021 Article IV consultation's recommendations.

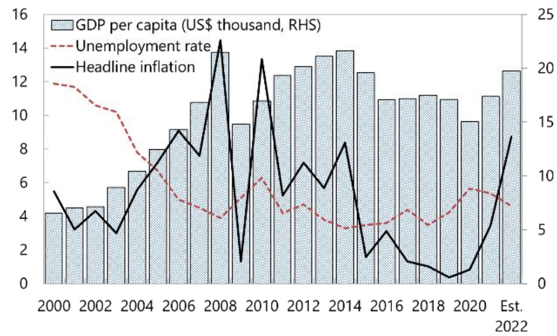
[2] In July 2022, the authorities appointed a Board of the Special Economic Zones Authority and are working on operationalizing the regime by end-2023Q2.

**Economic Growth**
(In Percent)



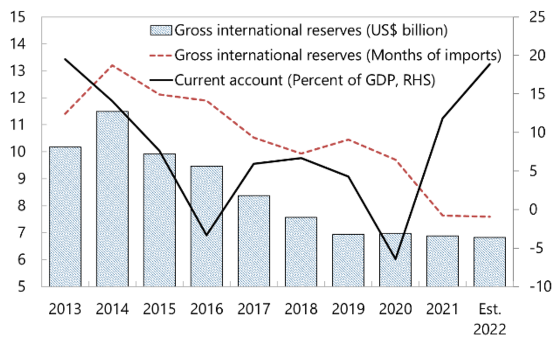

Sources: Trinidad and Tobago's authorities and IMF staff calculations.

**GDP per Capita, Inflation, and Unemployment**
(In Percent, and US$ Thousand)



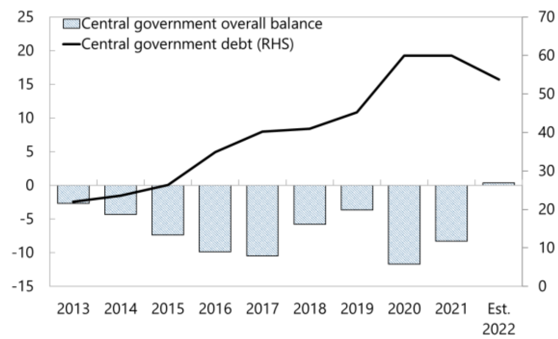

Sources: Trinidad and Tobago's authorities and IMF staff calculations.

**Current Account Balance and Gross International Reserves**
(In US$ Billion, Percent of GDP)




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

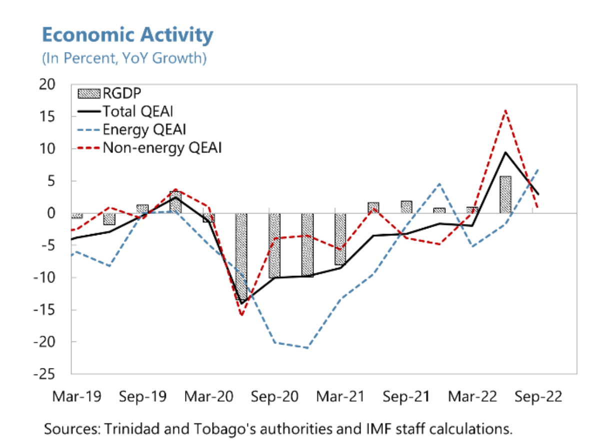
**Central Government Fiscal Balance and Debt**
(In Percent of GDP)

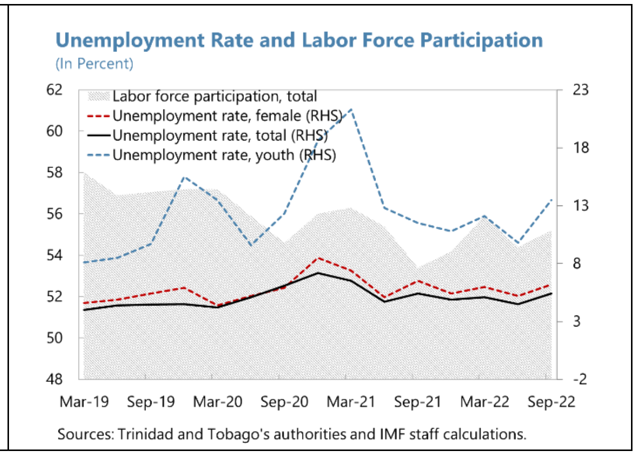



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

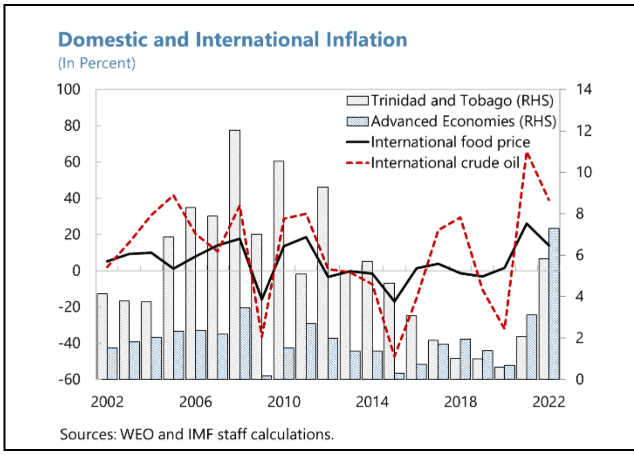
# RECENT DEVELOPMENTS

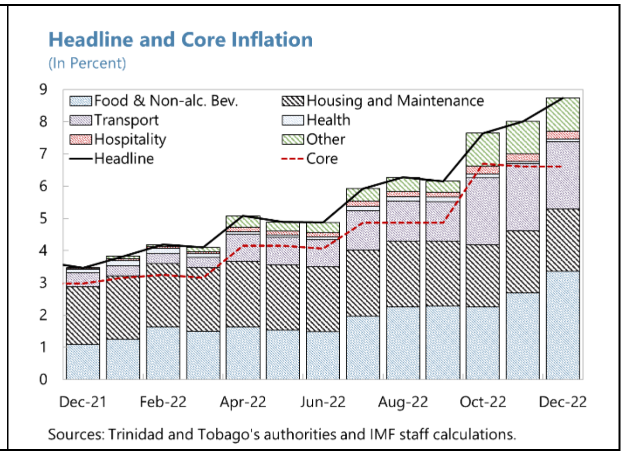
**4. Economic activity rebounded in 2022.** After contracting by 1.0 percent in 2021, real GDP is estimated to have expanded by 2.5 percent in 2022. Growth was driven by the non-energy sector and partially offset by an unexpected weak performance of the energy sector, which struggled with logistical and infrastructure problems. After peaking at 7.2 percent in 2020Q4, the unemployment rate declined to 5.4 percent at end-2022Q3. Women and youth unemployment remain above pre-pandemic levels—6.4 percent and 13.5 percent, respectively.




**5. Inflation has risen and become broad-based.** Headline inflation has risen from historically low levels, reaching 8.7 percent at end-2022, driven by imported food and energy prices (Annex III). Core inflation surpassed 6 percent, food inflation reached double digits, and energy prices have passed through into domestic transport prices—following the partial liberalization of domestic fuel prices in April and September 2022 (¶6). Floods in 2022Q4 also added to inflation.




**6. Higher global energy prices and prudent consolidation measures contributed to deliver a fiscal surplus and a decline in public debt.[3]** The overall fiscal position registered a surplus of 0.3 percent of GDP in FY2022[4]— the first in over a decade and after a record deficit of 11.7 percent of GDP in FY2020. The surplus reflects higher than anticipated energy revenues (6.1 percent of GDP), some spending cuts (0.5 percent of GDP) relative to the budget, and the prudent reduction of energy subsidies (Annex IV)—which the authorities estimate have lowered the fuel subsidy bill by 0.7 percent of GDP. The revenue windfall also contributed to rebuild fiscal buffers (¶7) and clear value-added tax (VAT) refund arrears (2.2 percent of GDP). The central government debt declined to 53.8

[3] The GDP series have been revised and are not comparable with previously published staff reports (Box 1).

[4] The fiscal year goes from October 1 to September 30.

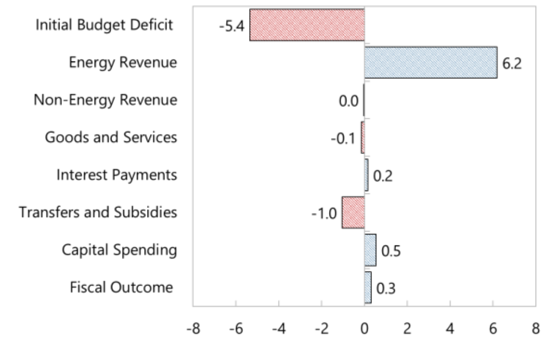
percent of GDP (from 60 percent of GDP in FY2021) and public debt declined to 71 percent of GDP (from 79.2 percent of GDP in FY2021).[5]

**FY2022 Fiscal Outcomes Relative to the Budget**
(In Percent of GDP)

| | Initial budget (1) | Mid-term Review (2) | Actual Outcomes (3) | Differences (3) - (1) |
|---|---|---|---|---|
| **Total Revenue and Grants** | **23.2** | **25.4** | **29.3** | **6.1** |
| Energy Sector | 10.1 | 13.3 | 16.3 | 6.2 |
| Nonenergy | 13.1 | 12.1 | 13.0 | 0.0 |
| Tax Revenue | 11.0 | 9.8 | 10.6 | -0.4 |
| Non-tax Revenue | 2.1 | 2.3 | 2.5 | 0.4 |
| **Total Expenditure** | **28.5** | **30.2** | **29.0** | **0.4** |
| Current | 26.2 | 27.9 | 27.2 | 1.0 |
| Wages and salaries | 5.1 | 5.1 | 5.0 | 0.0 |
| Goods and services | 3.1 | 3.5 | 3.2 | 0.1 |
| Interest payments | 2.7 | 3.0 | 2.5 | -0.2 |
| Transfers and subsidies | 15.4 | 16.3 | 16.4 | 1.0 |
| Capital expenditure and net lending | 2.3 | 2.3 | 1.8 | -0.5 |
| **Primary balance** | **-2.7** | **-1.8** | **2.9** | **5.5** |
| **Overall balance** | **-5.4** | **-4.8** | **0.3** | **5.7** |

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

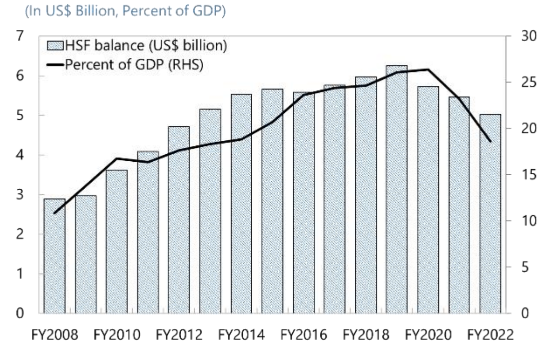
**Contribution to Fiscal Deficit Reduction in FY2022**
(In Percent of GDP)




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

**7. External fiscal buffers remain strong.** Total assets in the HSF stood at US$5.0 billion (18.6 percent of GDP) at end-FY2022, despite large valuation losses from heightened global financial market volatility. The authorities deposited about US$345 million (1.3 percent of GDP) in the HSF in 2022.[6] Sinking-fund assets stood at 2.5 percent of GDP at end-FY2022.[7]

**HSF Balance**
(In US$ Billion, Percent of GDP)



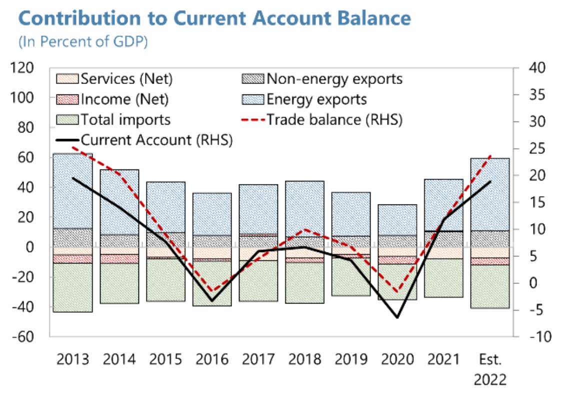

Sources: Trinidad and Tobago's authorities and IMF staff calculations.

**8. The external position is estimated to have improved in 2022.** The current account surplus is estimated at 18.9 percent of GDP in 2022 (up from 11.9 percent of GDP in 2021), driven by higher global energy and petrochemical prices. While the export volumes of liquified natural gas (LNG) increased, the export volumes of petrochemicals declined partly due to unexpected maintenance of some plants. International reserves declined to US$6.8 billion by end-2022 but its coverage remains adequate (7.6 months of prospective imports and 120.6 percent of the ARA metric). Higher foreign exchange (FX) inflows from higher energy prices have eased the shortfalls in the domestic FX market. Nonetheless, the central bank continues to sell dollars in the FX market.

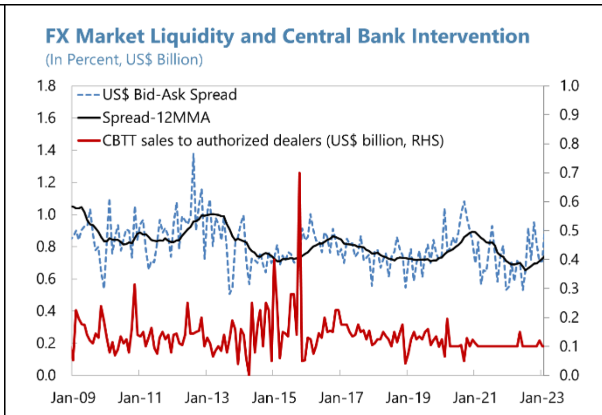
[5] Public debt includes central government and guaranteed debt of non-self-serviced state-owned enterprises (SOEs) and other statutory bodies.

[6] HSF's saving (withdrawal) rule is triggered when actual energy revenue exceeds (falls below) budgeted revenue by at least 10 percent.

[7] The *Sinking Fund* comprises liquid-asset holdings to cover future principal payments of central government debt.

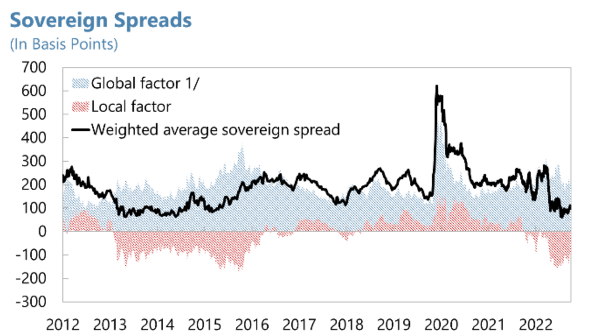


Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

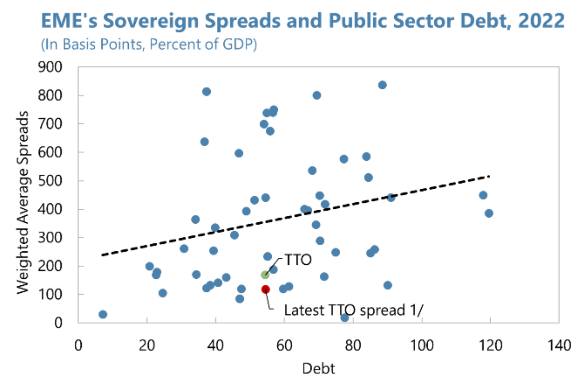


Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

**9. Sovereign creditworthiness has improved, and spreads are lower than most regional peers.** Stronger economic conditions and prospects have improved the country's international market access conditions. During 2022, sovereign spreads over U.S. Treasuries averaged 164.3 bps, well below most countries in Latin America and the Caribbean. Moreover, a major agency revised the country's investment credit rating outlook from negative to stable.



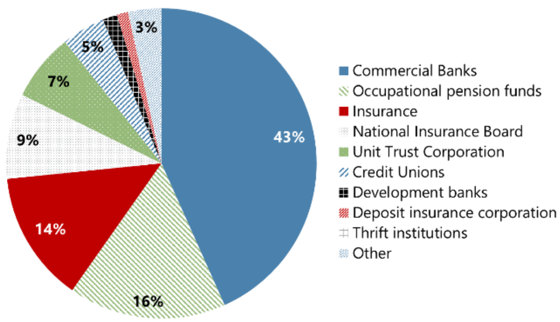
Sources: Bloomberg LP and IMF staff calculations.
1/ The global component is extracted using the method of principal component analysis on the sovereign spreads of selected LATAM countries with similar rating to Trinidad and Tobago, including Mexico, Panama, Peru and Paraguay.



Sources: Bloomberg LP and IMF staff calculations.
1/ As of end-March, 2023.

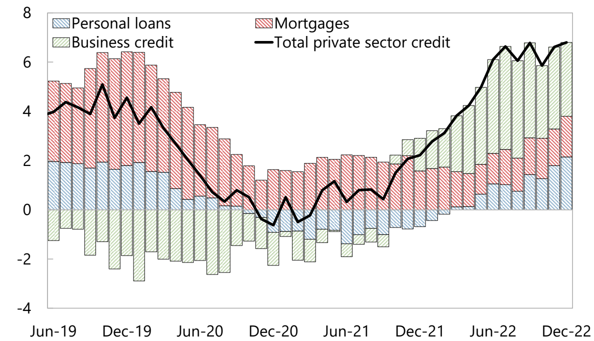
**10. Domestic financial conditions remain accommodative despite increasing foreign interest rates.** The financial sector, dominated by banks, continues to grow. Average excess reserves in banks stood at 3.6 percent of GDP at end-2022, helping keep lending rates low. Banks' credit to the private sector remains strong, at 6.6 percent (y/y) at end-2022, driven mainly by business loans (e.g., to financial institutions, construction, and manufacturing).

**Structure of Domestic Financial Sector Assets, 2021**
(In Percent of Total)




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

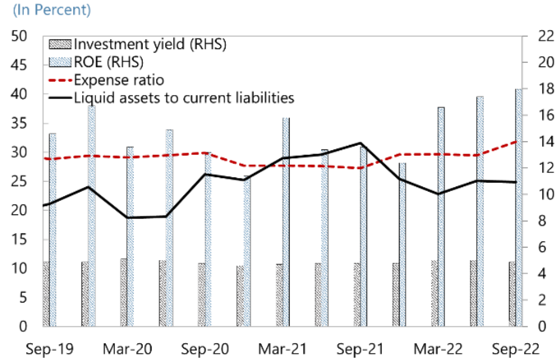
**Composition of Bank's Private Sector Credit**
(In Percent, Contributions to YoY Growth)




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

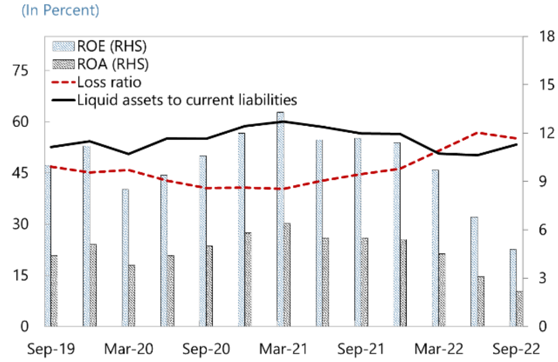
**11.** **The financial system appears to be sound.** Banks reported good levels of capital, liquidity, and profitability as of end-2022. Asset quality remains strong despite the phasing out of the measures introduced in response to the COVID-19 pandemic. Non-performing loans (NPLs) decreased to 3.1 percent as of end-2022, with specific provisioning exceeding 60 percent of impaired loans. Nonetheless, NPLs net of provisions increased, and the coverage ratio declined. The insurance sector appears to remain sound although the liquid assets to current liabilities ratio declined in 2022. Profitability and investment yield in life-insurance increased, while returns to assets and equity in non-life insurance have declined.

**FSI: Life Insurance Companies**
(In Percent)




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

**FSI: Non-Life Insurance Companies**
(In Percent)

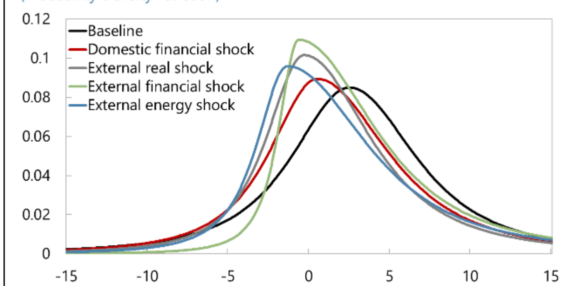



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

# OUTLOOK AND RISKS

**12. Economic growth is projected at 3.2 percent in 2023.** The non-energy sector will expand by 3.3 percent as the recovery consolidates. The energy sector is expected to gain momentum, expanding at 2.9 percent, supported by the start-up of new gas and oil projects. The *Fund's growth-at-risk methodology* suggests that economic activity in the near term is vulnerable to external and energy shocks (Annex V). Over the medium term, growth is projected to slow to about 1.5 percent as oil and gas fields mature. Inflation is projected to slow down to 4.5 percent by end-2023 and will continue declining with international prices and moderating economic activity.

**Real GDP Growth-at-Risk: Baseline and Shock Scenarios 1/**
(Probability Density Function)




Source: IMF staff calculations.
1/ Shows the full conditional probability function of real GDP four quarters ahead as a function of real and financial external conditions, and real and macro-financial domestic conditions.

**13. The external position is projected to remain strong over the medium term.** Staff assesses the country's external position in 2022 stronger than the level implied by fundamentals and desirable policies with a current account gap of 2.4 percent of GDP (Annex VI). The current account surplus is projected to decline to single digits and stabilize at above 6 percent of GDP over the medium term. This reflects waning gas and petrochemicals exports starting in 2024 and declining global energy prices. International reserve coverage would remain adequate (6.5 months of prospective imports and 106.9 percent of the ARA metric in 2028).[8]

**14. The balance of risks is tilted to the downside.** Downside risks include potential disruptions to domestic oil and gas production; external shocks, including a sharper-than-expected global slowdown (e.g., U.S. recession) affecting energy markets, and global financial instability. Upside risks include better-than-anticipated global energy prices; higher domestic oil and gas production from new or expanded projects; and new renewable energy projects (Annex VII).

[8] The authorities will continue to hold its allocated Special Drawing Rights (SDRs) as international reserves.

**Medium-Term Projections under the Baseline Scenario**

| | 2017 | 2018 | 2019 | 2020 | 2021 | Est. 2022 | Projections 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | | | | | | | |
| **Output and Inflation** | | | | | | | | | | | | |
| Real GDP growth (in percent) | -4.7 | -0.9 | 0.1 | -7.7 | -1.0 | 2.5 | 3.2 | 2.3 | 2.7 | 2.0 | 1.6 | 1.5 |
| Consumer Prices (eop) | 1.3 | 1.0 | 0.4 | 0.8 | 3.5 | 8.7 | 4.5 | 2.3 | 2.1 | 1.9 | 1.9 | 1.8 |
| | (In percent of fiscal year GDP, unless otherwise indicated) | | | | | | | | | | | |
| **Central Government Finances** | | | | | | | | | | | | |
| Overall fiscal balance | -10.5 | -5.8 | -3.7 | -11.7 | -8.3 | 0.3 | -2.8 | -2.2 | -1.8 | -1.8 | -1.8 | -1.8 |
| Overall fiscal non-energy balance | -16.5 | -14.0 | -14.6 | -19.4 | -16.1 | -15.9 | -16.6 | -15.5 | -15.2 | -14.9 | -14.8 | -14.7 |
| Primary balance | -7.7 | -2.9 | -0.5 | -8.3 | -5.2 | 2.9 | 0.0 | 0.3 | 0.7 | 0.7 | 0.7 | 0.8 |
| Of which: non-energy primary balance 1/ | -17.5 | -14.6 | -14.9 | -19.4 | -17.3 | -19.1 | -19.0 | -17.7 | -17.2 | -16.7 | -16.3 | -16.0 |
| Central government debt 2/ | 40.2 | 40.9 | 45.3 | 60.0 | 59.9 | 53.8 | 53.9 | 54.2 | 54.3 | 55.0 | 55.7 | 56.3 |
| Public sector debt 3/ | 57.4 | 57.1 | 61.6 | 80.4 | 79.2 | 71.0 | 71.0 | 71.3 | 71.4 | 72.4 | 73.3 | 74.2 |
| | (In percent of GDP, unless otherwise indicated) | | | | | | | | | | | |
| **External Sector** | | | | | | | | | | | | |
| Current account balance | 5.9 | 6.7 | 4.3 | -6.4 | 11.9 | 18.9 | 6.6 | 7.1 | 7.1 | 6.6 | 6.5 | 6.1 |
| Gross official reserves (US$ millions) | 8,370 | 7,575 | 6,929 | 6,954 | 6,880 | 6,823 | 6,552 | 6,581 | 6,578 | 6,463 | 6,366 | 6,278 |
| In months of imports | 11.0 | 11.4 | 12.3 | 9.7 | 7.6 | 7.6 | 7.2 | 7.2 | 7.1 | 6.9 | 6.7 | 6.5 |

Sources: Trinidad and Tobago authorities and IMF staff calculations.
1/ In percent of non-energy GDP.
2/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the CBTT.
3/ Includes central government debt and guaranteed debt of non-self serviced SOEs and statutory authorities.

### *Authorities' Views*

**15. The authorities broadly agreed with staff's assessment of the near-term economic outlook and risks but were more optimistic about the medium-term prospects.** While acknowledging downside risks (e.g., global energy price volatility), they were optimistic about the upside, particularly with upcoming new energy projects, including those in deep waters.

# POLICY DISCUSSIONS

## A. Preserving Fiscal Discipline and Sustainability

**16. The near-term fiscal stance is appropriate, particularly considering the capital expenditure needs.** The authorities plan to keep nominal current expenditure at last year's level while increasing capital expenditure by 1.5 percentage points of GDP to 3.2 percent of GDP. This will support the economic recovery and address critical bottlenecks, including in infrastructure. However, it is critical to ensure this capital spending is efficient, and high quality (¶21). On the revenue side, the authorities are projecting higher energy revenues from increased energy production and prices. A tax amnesty is expected to boost revenue collections this year by about 0.3 percent of GDP. However, staff projects a wider deficit of 2.8 percent of GDP in FY2023, as higher energy revenues may not fully materialize. Without consolidation measures, the fiscal position is expected to swing from surplus in FY2022 to a

**Central Government Accounts**
(In Percent of GDP)

| | Actual FY2022 | Approved budget FY2023 | IMF staff projections FY2023 |
|---|---|---|---|
| **Total Revenue and Grants** | **29.3** | **29.0** | **26.9** |
| Energy Sector | 16.3 | 16.3 | 13.7 |
| Corporation tax | 10.3 | 9.5 | 8.1 |
| Non-energy | 13.0 | 12.8 | 13.2 |
| Tax Revenue | 10.6 | 10.5 | 11.0 |
| Non-tax Revenue | 2.5 | 2.2 | 2.2 |
| **Total Expenditure** | **29.0** | **30.3** | **29.7** |
| Current | 27.2 | 27.1 | 27.1 |
| Wages and salaries | 5.0 | 5.0 | 5.0 |
| Goods and services | 3.2 | 3.4 | 3.4 |
| Interest payments | 2.5 | 2.8 | 2.8 |
| Transfers and subsidies | 16.4 | 15.9 | 15.9 |
| Capital expenditure | 1.8 | 3.2 | 2.7 |
| **Overall balance** | **0.3** | **-1.3** | **-2.8** |
| *Memorandum items:* | | | |
| Primary balance | 2.9 | -- | 0.0 |
| Non-energy primary balance 1/ | -15.9 | -- | -16.6 |
| Central government debt | 53.8 | -- | 53.9 |
| Public sector debt | 71.0 | -- | 71.0 |

Sources: Trinidad and Tobago's authorities and IMF staff estimates.
1/ In percent of non-energy sector GDP.

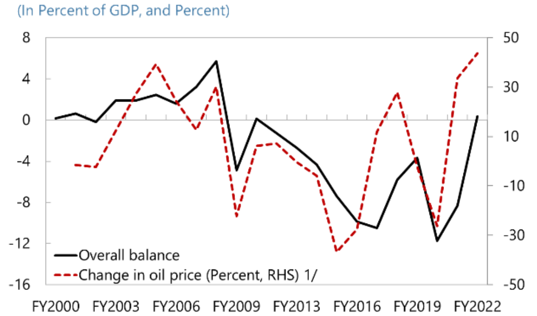
deficit in FY2023, and to stabilize at moderate deficits over the medium term (averaging 1.8 percent of GDP).

**17. Public debt is expected to stabilize over the medium term.** Central government debt is expected to remain at 53.9 percent of GDP in FY2023 and then slightly increase over the medium term. Gross public debt is projected to reach 74.2 percent of GDP in FY2028, slightly below the government's new soft debt target of 75 percent of GDP—introduced to accommodate the financing of the public investment program.[9] The new *Sovereign Risk and Debt Sustainability Framework* (SRDSF) shows that debt remains sustainable (Annex VIII) but is vulnerable to global energy price volatility, contingent liabilities from state-owned enterprises (SOEs) and other public bodies, and natural disasters.

**18. It is critical to continue prudently managing the energy windfall and rebuilding buffers.** The fiscal buffers were tapped in recent years to avert the fallout from shocks, including the pandemic. With the economic recovery, it is critical to continue prudently managing the energy revenue windfall, avoiding procyclical spending, and rebuilding fiscal buffers. An important fiscal risk is the outcome of the ongoing negotiations about public sector wages, which have not been adjusted since 2013.[10] If it materializes, staff recommends developing a spending reprioritization contingency plan (¶21).

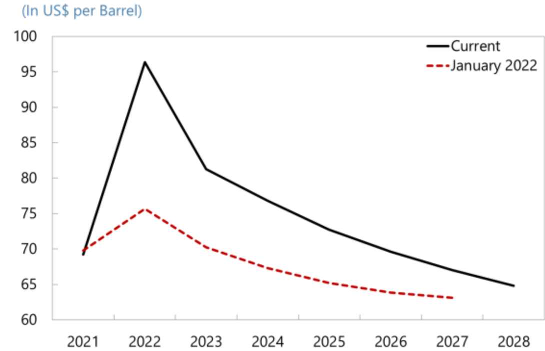
**19. Fiscal policy should remain flexible to respond to adverse shocks.** In the near term, the authorities should continue providing targeted and temporary support (e.g., cash transfers) to alleviate the rising living costs among the most vulnerable. The expeditious conduct and analysis of the ongoing 2023–24 *Household Budget Survey and Survey of Living Conditions* would improve the efficiency and coverage of targeted transfers. Should the large public investment stimulus add to inflationary pressures during the first half of 2023, staff recommends reprioritizing and gradually executing public investment projects.

**Overall Fiscal Balance and Oil Price**
(In Percent of GDP, and Percent)




Sources: Trinidad and Tobago's authorities and IMF staff calculations.
1/ Simple average of Dated Brent, West Texas Intermediate, and the Dubai Fateh prices.

**Oil Price Assumptions**
(In US$ per Barrel)




Source: IMF, World Economic Outlook Database.

[9] The authorities previously had a soft-debt target of 65 percent of GDP.

[10] These negotiations have been going for seven years. Due to the union's rejections of the government's offer the dispute is now with the Industrial Court's Special Tribunal. The government's current offer is a 4 percent increase for public servants covering 2014–2019. This would cost TT$2.43 billion (1.3 percent of GDP) in back pay and further TT$419 million (0.2 percent of GDP) in annual salaries. If the offer is extended to state-owned enterprises (SOEs) and statutory authorities, the cost reaches TT$4.66 billion (2.6 percent of GDP) in back pay, adding about TT$1.0 billion (0.5 percent of GDP) to the wage bill. These costs are not in staff's baseline given the uncertain settlement timeline.

**20. Staff welcomes the authorities' commitment to balancing the budget over the medium term, specifically:**

- The FY2023 budget measures will help mobilize revenues, rationalize spending, and incentivize private investment in the energy, manufacturing, and agricultural sectors (Annex IX). Revenue mobilization could be further enhanced by securing the operationalization of ongoing fiscal reforms, including the *Revenue Authority,* the *Gambling Bill,* and *the Property T*ax.

- The rationalization of spending through the partial liberalization of fuel prices will help the efficiency and the sustainability of the public accounts (Annex IV).

**21. Bringing down the medium-term fiscal deficit and managing potential downside risks require further measures.** Specifically, additional efforts should focus on revenue mobilization, cutting down on non-priority current expenditure, and maintaining debt levels well below the soft debt target. The pace and composition of this adjustment should preserve the spending for the most vulnerable, support growth-friendly expenditure, and protect essential capital spending. In line with past advice, staff recommends:

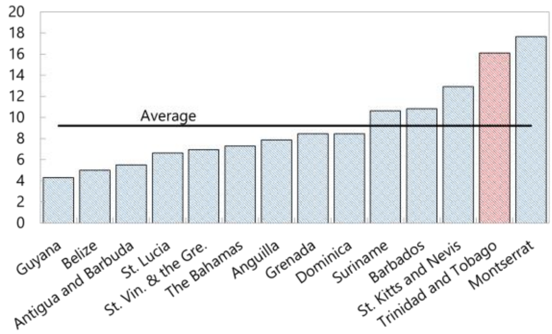
- *Phasing out remaining fuel, electricity, and water subsidies*. The authorities are encouraged to further liberalize energy and utility (e.g., electricity and water) tariffs while strengthening the social safety net to protect the most vulnerable groups. This would promote efficient energy and other utility usage and support the reduction of greenhouse emissions (Annex IV). Moreover, developing a comprehensive reform to adjust tariffs could help increase revenues.

- *Improving revenue mobilization*. Efforts to improve the recovery of tax arrears are welcome. There is scope to raise revenue by strengthening tax and customs administration (e.g., through modernization and digitalization). Eliminating inefficient VAT exemptions would support compliance and revenue mobilization. Addressing weaknesses in tax compliance and administration, in line with previous IMF technical assistance (TA) recommendations remain a priority—e.g., establishing a reliable taxpayer register; auditing the stock of VAT refunds (at about 4.3 percent of GDP as of end-February 2023); and improving filing, payments, and arrears management.

- *Speeding up the reforms of SOEs and other public bodies.*[11] Efforts are needed to improve the performance and reduce the subsidies to these and other public bodies (e.g., service pricing that allows for cost recovery can increase the efficiency and self-sufficiency of SOEs).

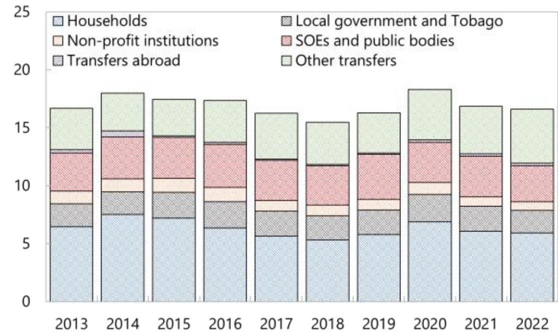
[11] The SOE sector comprises 55 companies: 43 are wholly owned, eight are majority owned, and four with minority government's shareholding.

**Transfers and Subsidies in 2022**
(In Percent of GDP)




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

**Total Budget Transfers**
(In Percent of GDP)




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

- *Improving the efficiency and quality of public investment*. This could be achieved by prioritizing and monitoring the execution of projects; conducting ex-ante and ex-post project evaluations; and improving technical capacity to appraise, select, and monitor projects. Staff encourages the authorities to enact without further delays the *Procurement Act*.

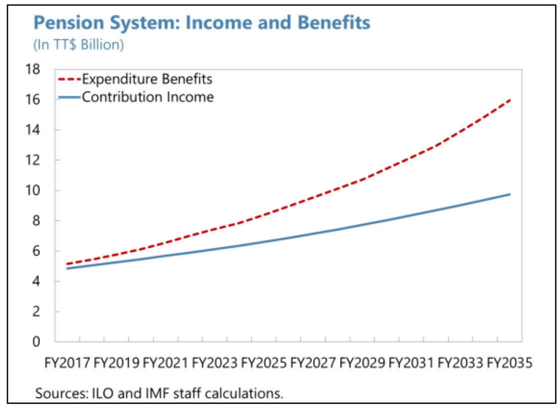
**22. Altogether, these additional measures would help balance the fiscal deficit and keep public debt at 70 percent of GDP to maintain policy space against adverse shocks.** The deficit would need to decline by 1.5 percent of GDP by 2028, relative to staff's baseline (Table). This could be attained by improving tax compliance in the non-energy sector (0.3 percent of GDP), reducing goods and services spending by 0.2 percent of GDP, rationalizing transfers to households by 0.5 percent of GDP—conditional on enhancing the social safety net—and reducing transfers to SOEs by 0.7 percent of GDP by 2028. This would also allow for an increase in capital spending of 0.2 percent of GDP.

**Central Government Operations 1/**
(Active vs Baseline Scenario)

| | Active Scenario | | | | | | Difference relative to the baseline (Active - baseline) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| | (In percent of fiscal-year GDP) | | | | | | (In percent of fiscal-year GDP) | | | | | |
| **Total revenue and grants** | **26.9** | **26.6** | **26.9** | **26.9** | **26.9** | **27.0** | **0.0** | **0.1** | **0.1** | **0.1** | **0.2** | **0.3** |
| Energy | 13.7 | 13.3 | 13.3 | 13.1 | 13.0 | 12.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-energy | 13.2 | 13.3 | 13.6 | 13.8 | 14.0 | 14.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 |
| **Expenditure** | **29.7** | **28.7** | **28.1** | **27.8** | **27.6** | **27.4** | **0.0** | **0.0** | **-0.5** | **-0.8** | **-1.0** | **-1.2** |
| Current | 27.1 | 26.2 | 25.7 | 25.5 | 25.2 | 25.0 | 0.0 | -0.4 | -0.7 | -1.0 | -1.2 | -1.4 |
| Wages and salaries | 5.0 | 5.0 | 5.0 | 5.0 | 4.9 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Goods and services | 3.4 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 | 0.0 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 |
| Interest payments | 2.8 | 2.5 | 2.5 | 2.5 | 2.6 | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfers and subsidies | 15.9 | 15.5 | 15.1 | 14.8 | 14.5 | 14.3 | 0.0 | -0.3 | -0.5 | -0.8 | -1.0 | -1.2 |
| to households | 5.5 | 5.4 | 5.3 | 5.2 | 5.1 | 5.0 | 0.0 | -0.1 | -0.2 | -0.3 | -0.4 | -0.5 |
| to SOEs and utilities | 2.8 | 2.7 | 2.5 | 2.4 | 2.2 | 2.1 | 0.0 | -0.2 | -0.3 | -0.5 | -0.6 | -0.7 |
| to local government and Tobago | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| to statutory authorities | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 5.3 | 5.1 | 5.0 | 5.0 | 5.0 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure and net lending | 2.7 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 0.0 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Overall balance** | **-2.8** | **-2.1** | **-1.2** | **-1.0** | **-0.6** | **-0.3** | **0.0** | **0.1** | **0.6** | **0.9** | **1.2** | **1.5** |
| **Primary balance** | **0.0** | **0.4** | **1.3** | **1.6** | **1.9** | **2.3** | **0.0** | **0.1** | **0.6** | **0.9** | **1.2** | **1.5** |
| *Memorandum items:* | | | | | | | | | | | | |
| Central government debt (percent of GDP) 2/ | 53.9 | 54.1 | 53.6 | 53.4 | 52.9 | 52.1 | 0.0 | -0.1 | -0.7 | -1.6 | -2.7 | -4.1 |
| Gross public debt (percent of GDP) 3/ | 71.0 | 71.2 | 70.7 | 70.8 | 70.6 | 70.0 | 0.0 | -0.1 | -0.7 | -1.6 | -2.7 | -4.1 |

Sources: Trinidad and Tobago's authorities and IMF staff projections.
1/ Fiscal years run from October 1 in the previous year to September 30 of the stated year.
2/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the CBTT.
3/ Includes central government debt and guaranteed debt of non-self serviced SOEs and statutory authorities.

**23. Reforming the pension system is crucial to ensure its adequacy and sustainability and reduce fiscal vulnerability.** The National Insurance System (NIS) has been running a deficit since FY2013. With an ageing population and generous benefits, the gap between benefits spending and contribution revenue, is expected to widen over the medium term, exhausting reserves assets by mid-2030s (Annex X). Staff welcomes the authorities' proposal to increase the retirement age by five years to 65 years. This will support the sustainability of the system and pension adequacy. Other measures such as gradually increasing the contribution rate could also be considered.




**24. The global energy transition may put public finances under strain.** While the authorities continue encouraging investment in the energy sector, energy revenues will decline as the global economy shifts to renewable energies. Ensuring a transition that delivers on the fiscal objectives and avoids disruptive policy adjustments requires the design of a sustainable-long term fiscal strategy.

**25. A formal medium-term fiscal framework (MTFF) will help strengthen planning and reinforce fiscal policy sustainability.** Staff welcomes the authorities' efforts to formulate medium-term projections. These could be strengthened by framing the annual fiscal plan within an explicit medium-term fiscal strategy. Staff recommends adopting a rule-based MTFF to strengthen policy formulation and facilitate the setting of medium-term fiscal measures to achieve the objectives; help avoid procyclical spending by shielding the budget from energy revenue fluctuations; improve the government's assessment of the short- and medium-term impact of new policies; and enhance the early warning signals about fiscal sustainability and looming fiscal risks, thereby enabling timely actions. It is encouraged to continue building on the recent efforts to broaden the fiscal data coverage of SOEs and other public bodies, which would also strengthen the assessment of the government's impact on the economy and any attendant risks.

**26. A fiscal anchor would help promote fiscal discipline and enhance credibility.** The lack of a robust policy anchor has resulted in fiscal policy that follows energy price swings. Consideration could be given to a well-calibrated medium-term debt anchor with operational multiyear fiscal targets based on the non-energy primary balance. This would support the accumulation of adequate financial buffers during periods of high energy prices and delink expenditure from energy revenue volatility, while ensuring the transfers of funds in and out of the HSF are integrated with the MTFF. To preserve flexibility, pre-determined escape clauses that suspend the fiscal rule for unexpected events (e.g., natural disasters and pandemics) could be incorporated, and an independent fiscal council established to monitor its implementation.

**27. A sound debt management strategy is key to mitigate market-related costs and risks.** Under staff's baseline, financing needs would remain moderate over the medium term. Diversifying the sources of financing would mitigate macroeconomic and financial stability risks arising from the sovereign-financial system nexus while creating space for private sector credit. Staff recommends embracing a sovereign asset-liability management strategy to guide financing decisions (e.g., composition of the debt portfolio and assess the implications of alternative financing options).

***Authorities' Views***

**28. The authorities reaffirmed their strong commitment to fiscal prudence and rebuilding buffers.** They acknowledged downside risks to the FY2023 budget revenue projections stemming from lower-than-budgeted energy prices. Also, they stressed their commitment to acting decisively to stay within the approved budget and preserve the planned capital spending should downside risks materialize. The authorities are confident that the operationalization of the Revenue Authority will improve the efficiency of the tax system, its administration, and revenue collections. Also, the authorities expect revenue collection to increase with the implementation of the gambling tax and the property tax. The authorities indicated that the electricity and water tariffs reform is advancing and the rationalization of transfers and subsidies to SOEs and other public bodies would yield significant savings. Finally, they expressed a firm commitment to prudently managing their buffers.

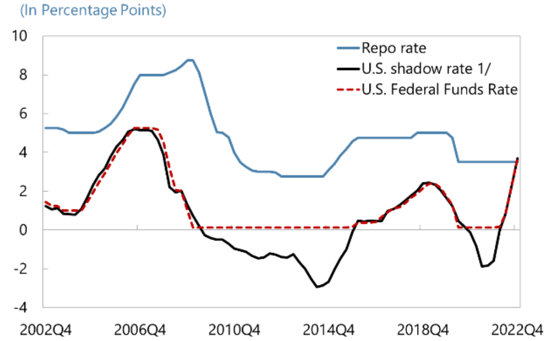
**29. The authorities acknowledged the benefits of enhancing the fiscal framework.** They agreed with staff that medium-term fiscal planning would strengthen fiscal prudence. The authorities highlighted that they currently use an informal debt target to maintain fiscal discipline and raised concerns about the potential inflexibility of more formal fiscal rules during negative shocks. They requested IMF TA to explore possible options for developing fiscal rules. The authorities will continue pursuing a prudent and consistent financing strategy.

## B. Maintaining Consistent Monetary and Exchange Rate Policies

**30. Maintaining sound and consistent policies is critical to support the current exchange rate arrangement.** Staff is cognizant of the authorities' determination to maintain the current exchange rate system and encourages the authorities to maintain sound and consistent policies to support the current *de facto* pegged exchange rate arrangement. [12]

**31. An increase in the policy rate should be seriously considered to contain inflationary pressures and narrow the negative interest rate differentials with the U.S. monetary policy rate.** The Central Bank of Trinidad and Tobago (CBTT) has maintained the policy repo rate at 3.5 percent since March 2020. Historically, this rate has closely followed changes to the U.S. monetary rate (Annex XI). While the recent decisions to keep the policy repo rate unchanged are aimed to support the recovery, the positive interest rate differential with

**CBTT's Repo Rate and The U.S. Policy Rate**
(In Percentage Points)




Sources: Federal Reserve Bank of St. Louis and Haver Analytics.
1/ Wu-Xia's U.S. shadow rate (Wu and Xia, 2016).

[12] Trinidad and Tobago's de jure exchange rate arrangement is floating but its *de facto* exchange rate arrangement is classified as stabilized arrangement.

the U.S. monetary rate has narrowed and now reversed, amid increasing inflation. With the recovery now under way, it could be more costly for the CBTT to allow a further widening of negative interest rate differentials and risk fueling inflation. Increasing the repo rate should be seriously considered to mitigate potential risk of capital outflows; reduce incentives for excessive risk taking that could threaten financial stability (¶36); and prevent second-round effects of higher food prices on non-food inflation and ensure inflation pressures subside.

**32. Reforming the FX market infrastructure remains a priority to eliminate FX shortfalls.** While FX shortfalls have eased, it is important to provide sufficient FX to meet the demand for all current international transactions. Staff reiterates its past recommendations to move towards a more efficient and market-clearing infrastructure that replaces the various windows at the Export-Import Bank of Trinidad and Tobago (EximBank). A more efficient FX market can help create a business environment more conducive for the private sector to invest and diversify the economy. Over the medium term, greater exchange rate flexibility would reduce the need for fiscal policy adjustments over the cycle and create room for more countercyclical monetary policy. Staff encourages the authorities to eliminate the exchange rate restriction(s) and multiple currency practices to modernize its FX market (Informational Annex).[13]

***Authorities' Views***

**33. The authorities are committed to maintaining the current exchange rate regime.** They stressed that the current exchange regime has shielded the economy from external volatility and helped contain inflation.

**34. The CBTT officials stressed the importance of balancing concerns about inflation with support for an incipient economic recovery.** They shared staff's concerns about the rise in inflation in recent months while highlighting that tightening the policy rate may have had limited effects since inflation was driven primarily by external factors, domestic weather-related shocks, and the fuel subsidy reduction. Furthermore, they indicated that to date the widening interest rate differential with the U.S. monetary policy rate has limited impact on capital outflows. They stated that policy decisions will continue to balance their various objectives of supporting growth, keeping inflation under control, and maintaining financial stability, and will remain data dependent. They expressed readiness to also employ other tools—including more active open market operations—to contain the inflationary pressures. The authorities added that the managed float regime has kept domestic inflation under control and stand out from among its peers as one of the economies that experienced the least financial pressures amidst current challenging economic conditions.

**35. The authorities acknowledged that FX imbalances persist despite improvements in FX market conditions.** They continue monitoring the FX market closely and will continue supporting it to meet the demand. They pointed out that EximBank facilities have been able to provide FX for the business sector while the CBTT continues intervening on a bi-monthly basis. The authorities also

[13] Notwithstanding FX restrictions, market participants did not provide evidence on the existence of parallel markets.

expressed their intention to take advantage of high energy sector revenue to replenish their international reserves.

## C. Reinforcing Financial Stability

**36. The financial system has weathered economic shocks well and appears resilient, but vulnerabilities remain.** The CBTT stress-testing results (June 2022) suggest that banks are resilient to credit, exchange rate, and liquidity shocks.[14] For the insurance and investment fund sectors, the 2020 Financial Sector Assessment Program (FSAP) stress tests identified that a series of severe natural catastrophes could potentially affect insurers, and adverse scenarios encompassing market and redemption risks could propagate calls on liquidity from investment funds to banks in the same group. Moreover, vulnerabilities emanate from rising household and businesses' debt, high exposures to the sovereign[15] and interconnectedness. The central bank is encouraged to remain vigilant and closely monitor financial sector risks and debt-servicing (¶12 and Annex V).

**37. The authorities are making good progress toward enhancing the resilience of the banking and insurance sectors in line with the 2020 FSAP recommendations (Annex XII).** The CBTT has analyzed and issued guidelines on key risk areas and advanced towards concluding its phase 2 of Basel II/III implementation.[16] This is evident in the progress made on the Internal Capital Adequacy Assessment Process (ICAAP) and plans to adopt the Domestic Systemically Important Banks (D-SIB) capital add-on, leverage ratios, and capital conservation buffers. The ongoing restructuring of insurance-led financial conglomerates under financial holding companies will facilitate consolidated risk-based supervision, as the 2018 Insurance Act and its 2020 amendment continue modernizing supervision and reshaping the sector.

**38. The authorities are encouraged to further enhance the financial system's resilience and mitigate systemic risk buildups.** Priorities should be given to critical areas delayed by the COVID-19 pandemic. The investment fund sector needs a carefully sequenced transformation from constant Net Asset Value (NAV) to variable NAV. To ensure systemic resilience, the supervisors also need to enhance consolidated supervision for financial conglomerates, which dominate the financial system. Moreover, providing the CBTT with explicit macroprudential authority and tools would help contain potential vulnerabilities (¶36), including by implementing prudential policies that encourage banks to limit sovereign exposures. In support of all reforms, the financial supervisors need to be adequately resourced and have powers to issue regulations independently, in line with the international best practices.

**39. The authorities have been proactive in digitalizing the financial system.** The CBTT, in collaboration with IMF Technical Assistance, continues to develop the Fintech ecosystem, including

[14] The CBTT's Financial Stability Report 2021 shows that banks are only vulnerable under extreme stress-test scenarios (e.g., a one-time 500 bps increase in interest rates).

[15] On the sovereign-financial sector nexus, see Annex XIII.

[16] The CBTT adopted a phased approach to implement Basel II/III. Phase 1 (capital requirements) has been concluded, Phase 2 is ongoing (see Annex XII), and Phase 3 remains to be scheduled.

by establishing the Joint Regulatory Hub, launching a Regulatory Sandbox, developing the payment system, and strengthening the cybersecurity in line with the IMF/World Bank's Bali Fintech agenda. The CBTT already received seven applications to issue E-money, and since September 2022, three companies have provisionally registered to do so within the Regulatory Sandbox. Efforts to build expertise on the central bank digital currencies (CBDCs), cybersecurity, and the regulation and supervision of the Fintech should continue.

**Digitalization Initiatives**

| | |
|---|---|
| April 2020 | Formation of the Joint Fintech Steering Committee (JFSC) |
| July 2020 | The Minister of Finance approved the E-Money Issuer Order |
| October 2020 | The JFSC launched the Joint Regulatory Innovation Hub (the Hub)<br>The JFSC has established a Regulatory Sandbox |
| May 2021 | Issuance of a draft policy proposal to regulate the payment system and virtual assets services used for payments and transfers |
| 2021-2022 | Completed feasibility study on the Central Bank Digital Currencies (CBDCs) |
| Ongoing | Development of comprehensive payments legislation<br>Strengthening of the cybersecurity in the regulators and supervised entities |

**40. Staff welcomes the authorities' commitment to enhancing the financial integrity and international tax transparency frameworks.** Following the removal of Trinidad and Tobago from the *Financial Action Task Force* (FATF) monitoring list in February 2020, the authorities are encouraged to further strengthen the AML/CFT framework by making beneficial ownership information available (including for government procurement) through the finalization of the amendments to the *Public Procurement Act* and adopting risk-based AML/CFT supervision. Staff welcomes the authorities' commitment and efforts to addressing issues related to the EU Commission Tax Blacklist and the OECD Global Forum requirements on Exchange of Information Request (EOIR) and the Automatic Exchange of Information (AEOI) standards. To further enhance tax transparency, the authorities should expedite arrangements to provide for the annual and automatic exchange of financial account information, including beneficial ownership information.

***Authorities' Views***

**41. The authorities were confident about the financial system's resilience and remain committed to enhancing the regulatory and supervisory framework.** They highlighted the strength of the banking sector—as evidenced by adequate capital and liquidity buffers, and low NPLs—and underscored their intention to continue monitoring developments closely. They are proposing amendments to the *Financial Institutions Act*, drafting the *Independent Co-operative Authority Act*, and completing the legislation of the *Collective Investment Schemes (CIS) By-Laws*. In addition, the authorities highlighted they are working on a framework to reap the benefits of Fintech while mitigating its risks. They appreciated IMF TA on strengthening the oversight of CIS, Fintech regulation and supervision, and strengthening cybersecurity of the financial sector, which has been helpful in enhancing their institutional capacity.

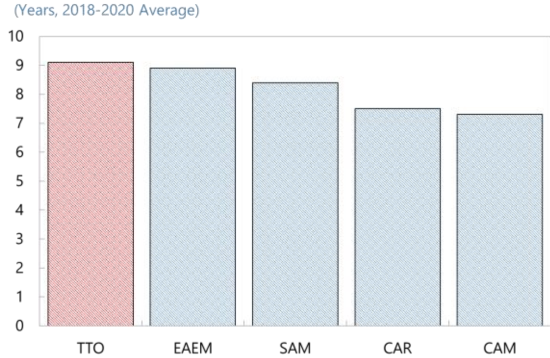
**42. The authorities reiterated their strong commitment to enhancing the financial integrity and international tax transparency frameworks.** The CBTT indicated that a risk-based AML supervision framework was rolled out in 2020 and they are currently working with the World Bank to conduct the second national AML/CFT risk assessment. A simplified due diligence guideline was issued to all banks and a regulatory framework for administrative monetary fines for AML breaches is under consideration in Parliament. The authorities remain committed to implementing the Global Forum standards on EOIR and AEOI. In this regard, an action plan has been developed in collaboration with the Global Forum and EU to remove Trinidad and Tobago as a non-cooperative jurisdiction for tax matters and comply with the EU's tax governance criteria.

## D. Promoting Economic Diversification and a Green Economy

**43. Conditions are set to intensify the efforts to diversify the economy.** The energy sector will remain Trinidad and Tobago's main growth engine in the near to medium term; however, it is important to reassess its role and take advantage of its existing petrochemical infrastructure and know-how to transition into clean energy (*vertical diversification*). Furthermore, there is scope to diversify its exports products and markets (*horizontal diversification*).

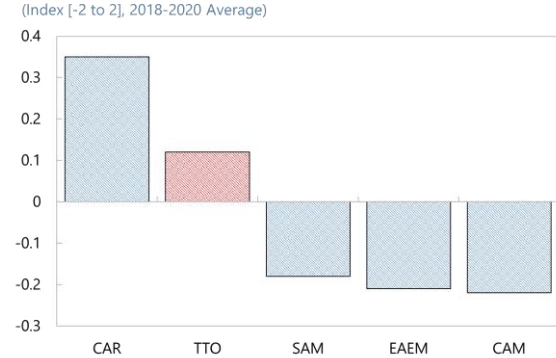
**44. The diversification process requires supporting policies to address structural bottlenecks.** Staff welcomes the authorities' agenda for a digital transformation to facilitate the delivery of public services and improve the business environment, to reduce red tape to pay taxes and facilitate trade across borders, and to improve education and training. Further efforts are needed to promote the diversification of the economy, including by tackling crime, improving infrastructure, and improving trade policies. This can be achieved by delivering on the authorities' *Vision 2030*. Furthermore, clearing remaining VAT refund arrears would improve the business environment. Finally, building resilience to natural disasters by investing in climate-resilient infrastructure is key for sustainable growth.

**Export Determinants: Years of Schooling**
(Years, 2018-2020 Average)



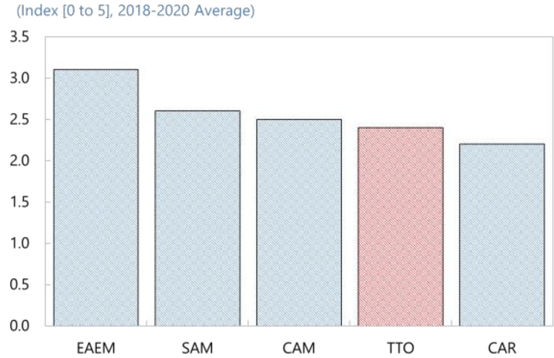

Source: World Bank's Human Capital Index.

**Export Determinants: Governance**
(Index [-2 to 2], 2018-2020 Average)



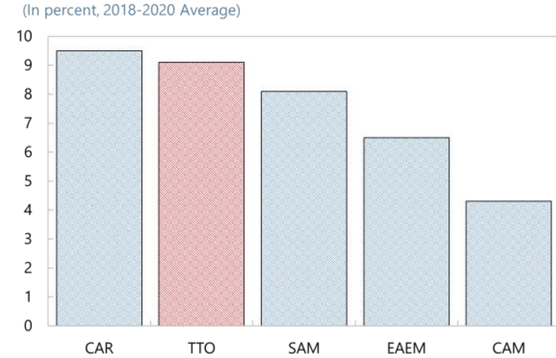

Source: Kauffman, Kraay, and Mastruzzi (2011) - (www.govindicators.org)

**Export Determinants: Infrastructure**
(Index [0 to 5], 2018-2020 Average)




Source: World Bank's Logistic Performance Index.

**Export Determinants: Average Tariff**
(In percent, 2018-2020 Average)




Source: World Bank's World Integrated Trade Solution (WITS).

Note: Country acronyms are ISO3. CAR= Caribbean; CAM=Central America and Mexico; EAEM=East Asia Emerging Markets; SAM= South American Market; and TTO: Trinidad and Tobago.

**45. Staff encourages the authorities to continue advancing on climate mitigation to meet their carbon reduction goals and welcomes the initiatives for the energy transition.** The authorities remain committed to reducing greenhouse gas emissions and achieving their target of 30 percent renewable energy sources by 2030. Several solar projects are ongoing to meet this target. Moreover, the authorities have set fiscal incentives for renewable energy adoption. They unveiled a strategic "*Roadmap for Green Hydrogen Economy in Trinidad and Tobago*" (Annex XIV). The CBTT began integrating climate change considerations in the financial sector supervision.

***Authorities' Views***

**46. The authorities stressed their firm commitment to pursuing structural reforms to promote diversification and boost non-energy sector growth and exports.** They highlighted their broad-ranging reform agenda for improving the business environment, addressing bottlenecks, and fostering innovation, including through the transformation of the current *Free Zone regime* into *Special Economic Zones*. The authorities reiterated their strong commitment to addressing climate risks, managing the transition to a green economy, and meeting the target to reducing greenhouse gas emissions. This includes fostering energy-efficiency, developing solar energy and decarbonization projects, and launching the green-hydrogen roadmap.

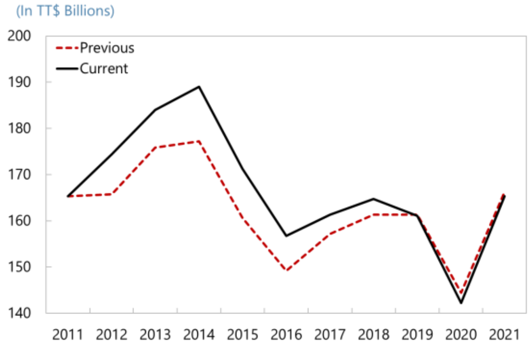
## E. Enhancing the Adequacy of Statistics

**47. Staff welcomes the progress to improve the quality, timeliness, and coverage of macroeconomic statistics, but some challenges remain.** Data coverage is broadly adequate for surveillance. However, timing, coverage, and granularity of data on government operations and debt statistics (in line with the *2014 Government Financial Statistics*) and the reporting of capital flows data could be improved (see Informational Annex). Transforming the Central Statistical Office into an independent National Statistical Institute would help strengthen the country's institutional capacity. Macro-financial data gaps also need to be addressed in line with the 2020 FSAP recommendations (e.g., real estate price index, and loan-to-value and debt-to-income ratios).

### Box 1. Revisions to GDP

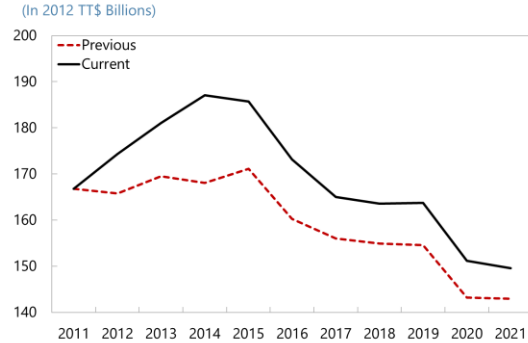
Trinidad and Tobago's Central Statistics Office (CSO) recently revised nominal and real GDP for 2012–2021. The changes are mainly driven by the upward revisions to trade and repairs, both in nominal and real terms. The revision in the historical data significantly affects macroeconomic ratios, constraining historical comparisons of this and previous IMF staff reports.

**Nominal GDP**
(In TT$ Billions)




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

**Real GDP**
(In 2012 TT$ Billions)




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

***Authorities' Views***

**48. The authorities stressed their commitment to producing high-quality macroeconomic data.** They highlighted the country's full implementation of the IMF's enhanced General Data Dissemination System (e-GDDS) framework in October 2021, which helps enhance data transparency by allowing easy and timely access to published data. They rolled out a joint *Household Budgetary and Survey of Living Conditions Survey* in February 2023. They remain committed to establishing the *National Statistics Institute*.

# STAFF APPRAISAL

**49. Trinidad and Tobago's economy is recovering.** In 2022, economic growth picked up led by the non-energy sector. Inflation has increased, driven by imported energy and food prices, the partial liberalization of fuel prices, and floods. In 2023, the recovery is expected to gain broad-based momentum. Inflation is projected to slow in 2023 in line with international prices. In 2022, the external position was stronger than the level implied by fundamentals and desirable policies. The balance of risks to growth is tilted to the downside.

**50. The fiscal position is expected to swing from surplus in FY2022 to a deficit in FY2023, and then stabilize at moderate deficits over the medium term.** It is recommended to continue prudently managing the energy revenue windfall, avoiding procyclical spending, and rebuilding fiscal buffers, while providing targeted support to the most vulnerable. The fiscal stance in the FY2023 budget is appropriate. Capital expenditure will support the economic recovery and address critical bottlenecks (e.g., infrastructure), but it needs to be efficient and high quality. A spending contingency plan would help stabilize fiscal accounts should downside risks materialize.

**51. The authorities' commitment to balancing the budget over the medium term is prudent and welcome.** To support this effort, it is recommended to enhance revenue mobilization, cut down non-priority current expenditure, and maintain debt well below the new soft debt target. Additional revenue could be generated by implementing tax reforms and strengthening the tax administration. It is advisable to continue gradually phasing out subsidies, streamlining transfers to SOEs, and improving public spending efficiency, while preserving the spending for the most vulnerable, supporting growth-friendly expenditure, and protecting essential capital spending.

**52. Long-term fiscal risks related to the pension system and the global energy transition need to be addressed.** The National Insurance System's deficit is expected to widen, gradually depleting its reserve by mid-2030s. The authorities' proposal to increase the retirement age to 65 years would help partially contain the deficits. Increasing contribution rates could also help. An energy transition that avoids disruptive policy adjustments requires the design of a sustainable long-term fiscal strategy.

**53. Enhancing the fiscal policy framework would help strengthen planning and reinforce fiscal sustainability.** A rule-based medium-term fiscal framework would strengthen policy formulation, help avoid procyclical spending, and mitigate fiscal risks. This could include a formal fiscal anchor—with an escape clause for unexpected events—to support fiscal discipline and sustainability. A sound debt management strategy would mitigate macro-financial risks.

**54. It is encouraged to maintain sound and consistent policies to support the exchange rate arrangement.** The CBTT should seriously consider increasing its repo policy rate to contain inflationary pressures and narrow the negative interest rate differentials with the U.S. monetary policy rate. This would also mitigate potential risks of capital outflows and reduce excessive risk-taking incentives that could threaten financial stability.

**55. Reforming the FX market infrastructure remains a priority to eliminate FX shortfalls.** It would also create a more conducive business environment for the private sector to invest and diversify the economy. Over the medium to longer term, greater exchange rate flexibility would reduce the need for fiscal policy adjustments over the cycle and allow for countercyclical monetary policy. The authorities are encouraged to remove all restrictions on current international transactions while providing sufficient FX to meet demand for all current international transactions.

**56. The authorities need to remain vigilant to vulnerabilities in the financial system.** The system appears sound and resilient but vulnerabilities emanate from rising household and businesses' debt, high exposures to the sovereign, and interconnectedness. Closely monitoring financial risks is warranted. Staff welcomes the progress in enhancing the resilience of the banking and insurance sectors in line with the 2020 FSAP recommendations. However, progress is needed in transforming the investment fund sector from constant to variable NAV, enhancing the consolidated supervision of conglomerate groups, providing the CBTT with explicit macroprudential authority and tools, and strengthening supervisory resource and independence in line with international best practices.

**57. Staff welcomes and supports the authorities' efforts in embracing Fintech for financial inclusion and development, while working on mitigating its potential risks.** Noteworthy are the efforts, in collaboration with IMF Technical Assistance, to develop the Fintech ecosystem (e.g., the Joint Regulatory Hub, launching a Regulatory Sandbox, developing the payment system, and strengthening the cybersecurity).

**58. Staff welcomes the authorities' efforts to strengthen the financial integrity and international tax transparency frameworks.** Following the removal from the FATF monitoring list in February 2020, the authorities are encouraged to further strengthen the AML/CFT framework. Staff welcomes the authorities' commitment and efforts to addressing issues related to the EU's Commission Tax Blacklist and the OECD's Global Forum requirements on EOIR and AEOI Standards.

**59. Economic diversification requires supporting policies to address structural bottlenecks.** The authorities need to step up their efforts towards improving the business environment by delivering on their Vision 2030 agenda. The country's digitalization agenda to deliver more efficient public services, improve the business environment, and enhance the social safety net is welcome.

**60. The country's actions to reduce greenhouse gas emissions are commendable.** It is important to continue advancing the work on renewable energy projects and the new green hydrogen strategy. The CBTT's integrated climate change considerations in financial sector supervision, focusing on risk management, stress testing, and data collection, is welcome.

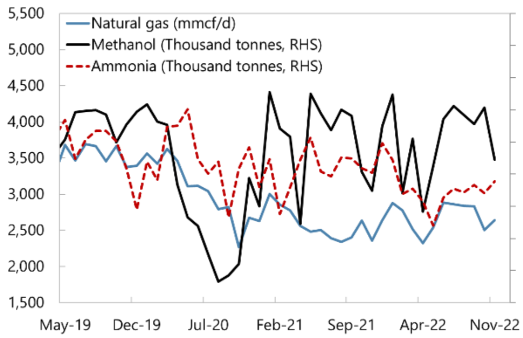
**61. The quality, timeliness, and coverage of statistics has improved but challenges remain.** It is recommended to strengthen the institutional capacity with the operationalization of the independent National Statistical Institute, and to build on recent efforts to broaden fiscal data coverage of SOEs and other public bodies.

**62. Staff proposes the next Article IV consultation remains on a 12-month cycle.**

## Figure 1. Trinidad and Tobago: Real Sector Developments

*High global energy prices have stimulated domestic energy production, despite domestic constraints.*

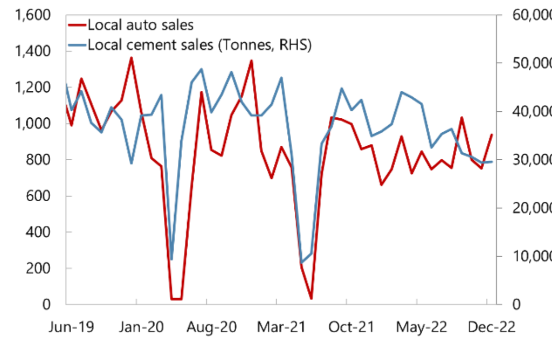
**Energy Indicators**
(In Mmcf/d, Thousand Tonnes)




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

*Non-energy sector grew supported by the reopening after the pandemic.*

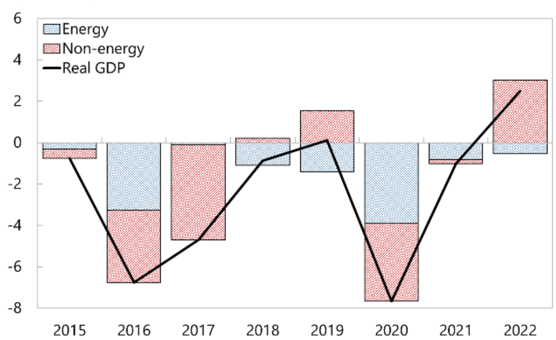
**Non-Energy Indicators**
(Unit, Tonnes)




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

*The economy recovered in 2022.*

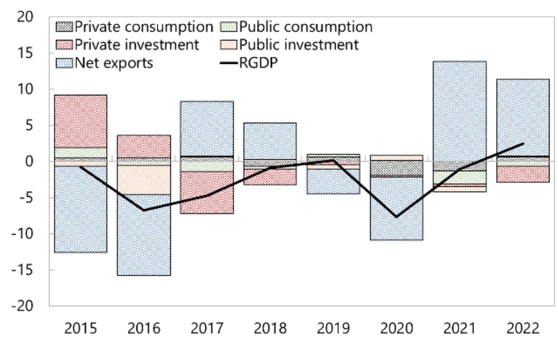
**Real Growth: Contribution of Energy and Non-Energy**
(In Percent)




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

*Net exports are the main drivers of growth in 2022, but investment has remained subdued.*

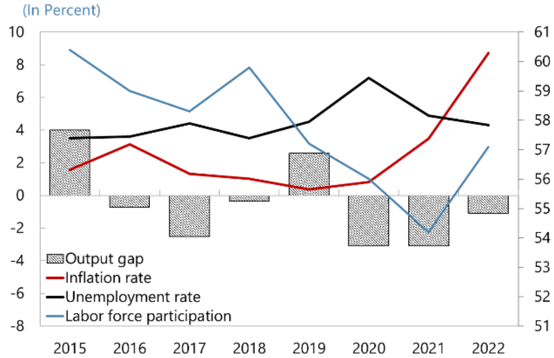
**GDP by Expenditure**
(Contributions to Growth, In Percent)




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

*The output gap is closing, the unemployment rate has declined, and labor force participation increased.*

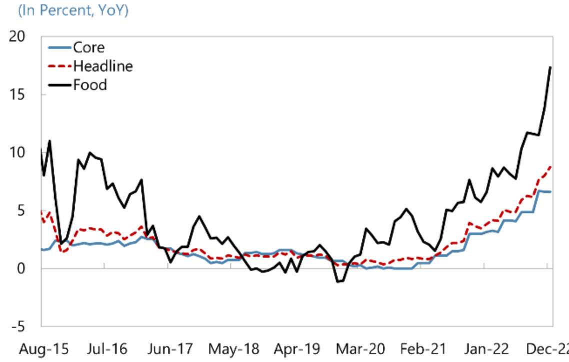
**Cyclical Position**
(In Percent)




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

*Inflation accelerated, due to global food and energy prices, and the liberalization of domestic fuel prices.*

**Inflation: Headline, Core, and Food Prices**
(In Percent, YoY)

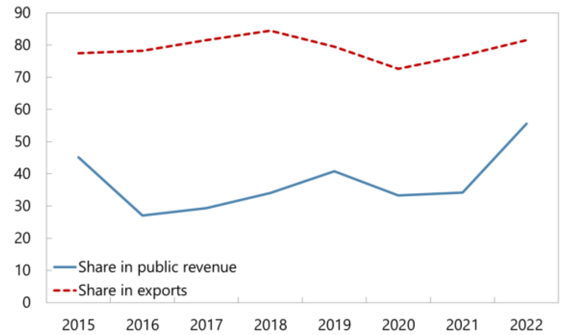



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

## Figure 2. Trinidad and Tobago: Energy Sector Developments

*The energy sector continues to play a critical role on the economy, but its recovery has been slow...*

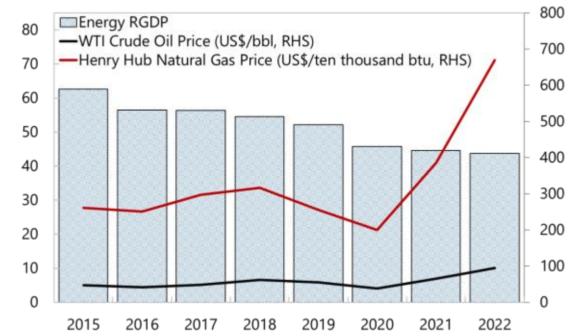
### Role of Energy in Fiscal Revenues and Exports
(In Percent)




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

*...despite the high global energy prices...*

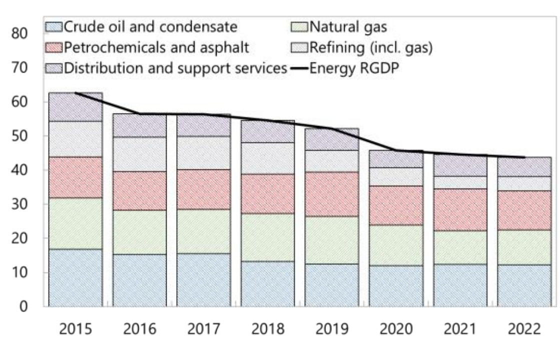
### Energy GDP and Prices
(In Constant TT$ Billion, US$ per Unit)




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

*...the incipient recovery in gas, has offset the decline in oil and petrochemical output.*

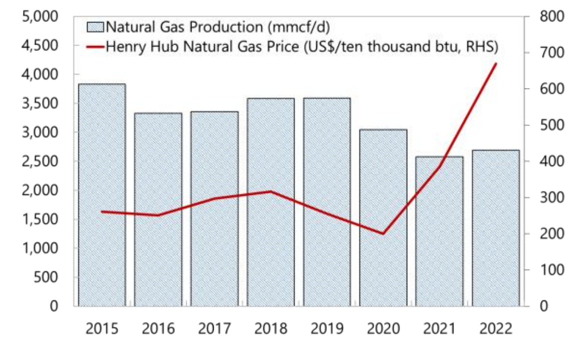
### Contributions of Energy Sector to Real GDP
(In TT$ Billions)




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

*Gas production constraints have prevented the economy from taking full advantage of higher prices.*

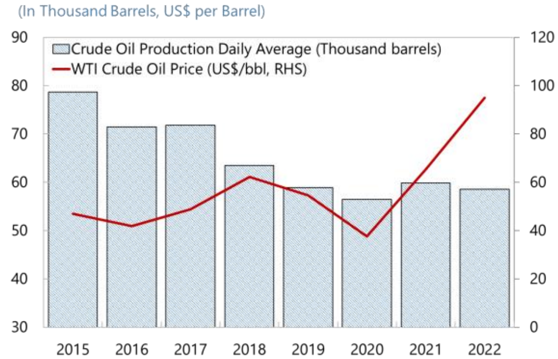
### Production and Prices of Natural Gas
(In Mmcf/d and US$/ten Thousand Btu)




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

*Oil production declined amid infrastructure problems but will pick up with the startup of new projects in late 2022.*

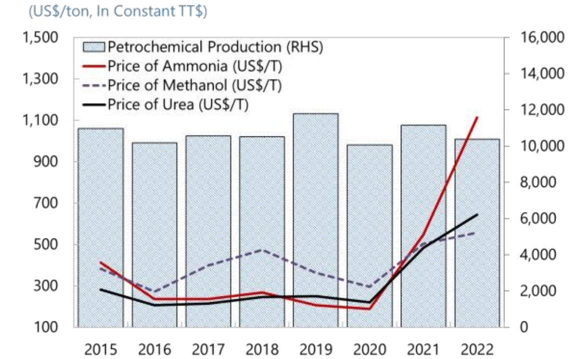
### Production and Prices of Crude Oil
(In Thousand Barrels, US$ per Barrel)




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

*Production of petrochemicals contracted in 2022 to accommodate higher exports of gas.*

### Production and Prices of Petrochemicals
(US$/ton, In Constant TT$)

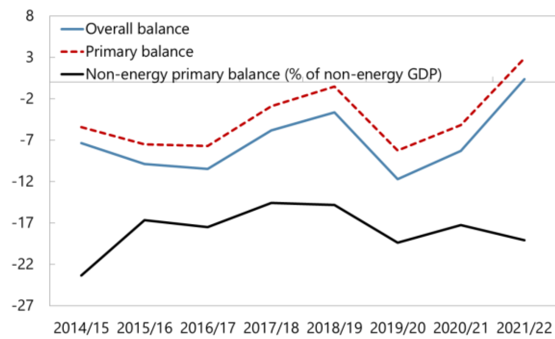



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

## Figure 3. Trinidad and Tobago: Fiscal Developments

*The fiscal position turned into a surplus due to higher energy prices…*

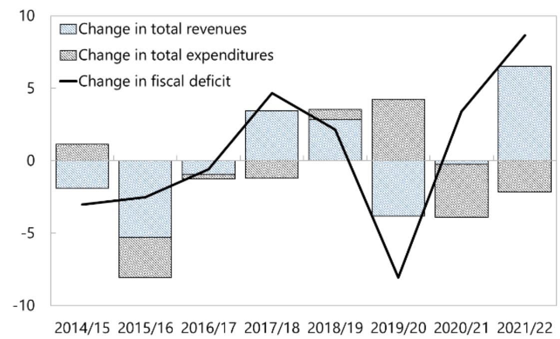
**Fiscal Stance**
(In Percent of GDP)




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

*…as revenues increased and spending declined.*

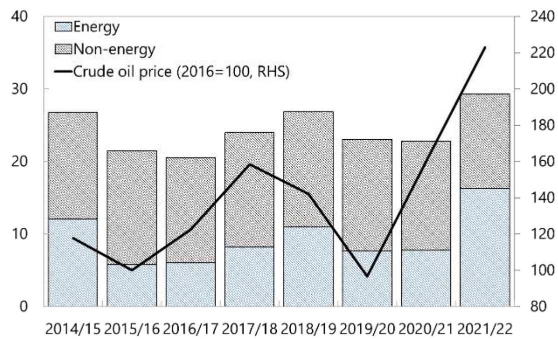
**Contribution to Fiscal Deficit**
(In Percent of GDP)




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

*The increase in energy prices have boosted fiscal revenues…*

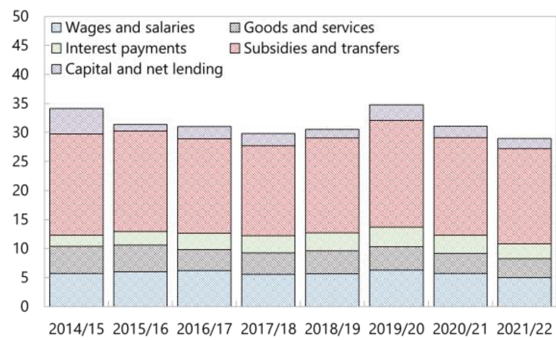
**Total Revenues**
(In Percent of GDP)




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

*…and there has been a decline in transfers and subsidies and capital expenditures.*

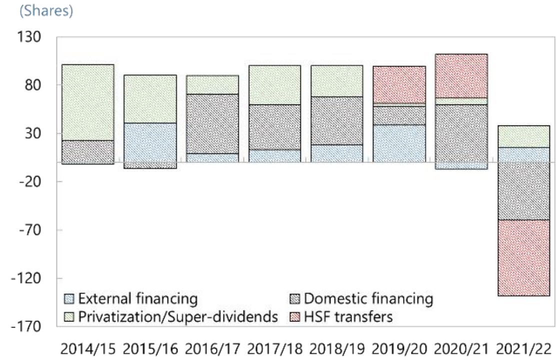
**Total Expenditures**
(In Percent of GDP)




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

*Gross financing needs have been largely financed from domestic sources…*

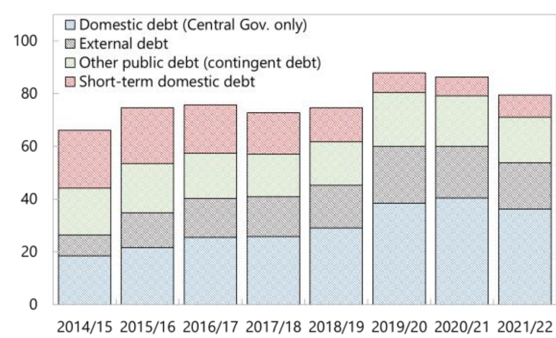
**Financing of Fiscal Deficit**
(Shares)




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

*…and public debt is declining.*

**Public Sector Debt**
(In Percent of GDP)

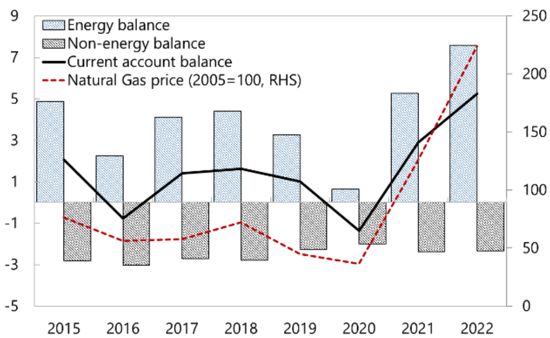



Sources: Trinidad and Tobago's authorities and IMF staff calculations.

## Figure 4. Trinidad and Tobago: External Sector Developments

*Increased global energy prices resulted in a windfall and an improvement in the current account surplus...*

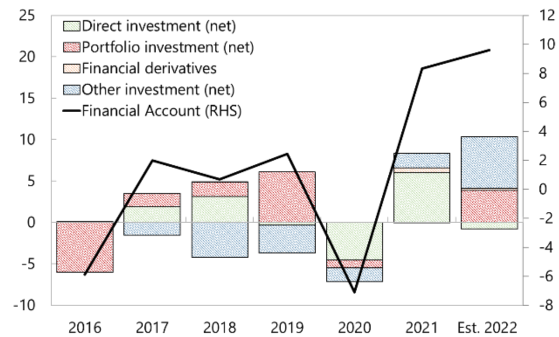
**Current Account**
(In US$ Billion, Index)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*... the financial account continues to see record outflows, driven by residents' outward investment.*

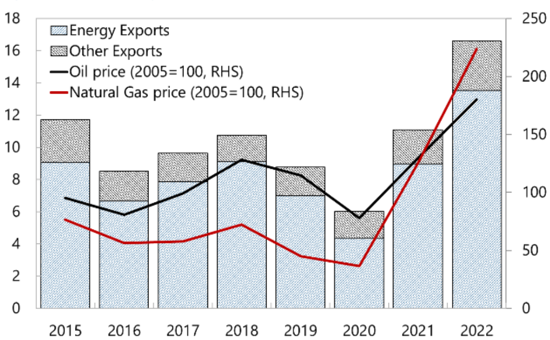
**Contribution to Financial Account**
(In Percent of GDP)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*Exports have also recovered, including for non-energy ...*

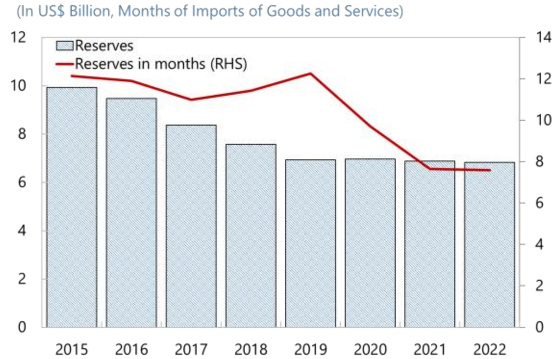
**Exports of Goods**
(In US$ Billion, Index)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*...but despite the surge in energy prices, reserves remained stable in 2022.*

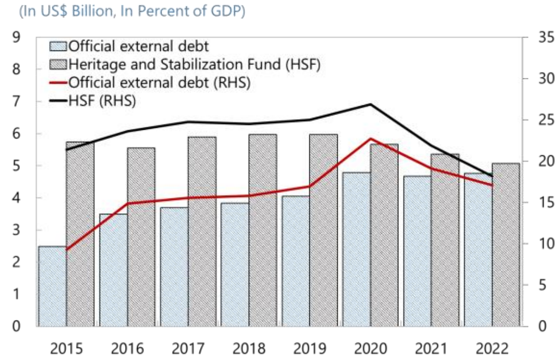
**Gross International Reserves**
(In US$ Billion, Months of Imports of Goods and Services)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*The Heritage and Stabilization Fund (HSF) is being capitalized following the withdrawals in 2020–21.*

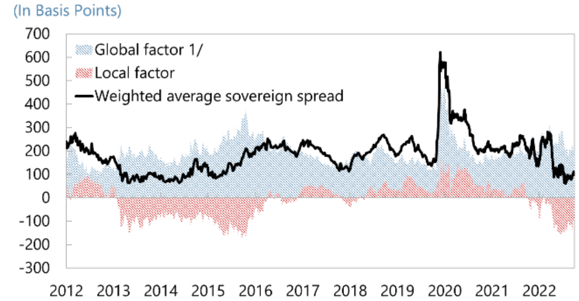
**Official External Debt**
(In US$ Billion, In Percent of GDP)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*Improvements in the external and fiscal positions has improved market access conditions.*

**Sovereign Spreads**
(In Basis Points)

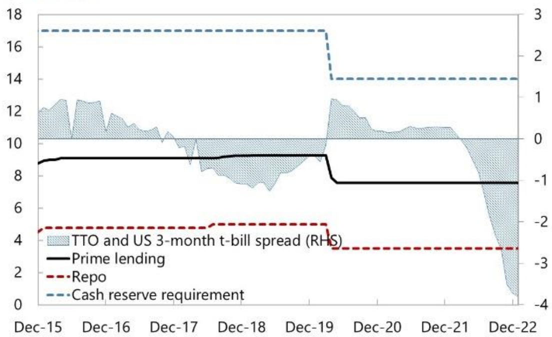



Sources: Bloomberg LP and IMF staff calculations.
1/ The global component is extracted using the method of principal component analysis on the sovereign spreads of selected LATAM countries with similar rating to Trinidad and Tobago, including Mexico, Panama, Peru and Paraguay.

## Figure 5. Trinidad and Tobago: Monetary and Banking Sector Developments

*The CBTT continues to support the recovery by maintaining easy financing conditions.*

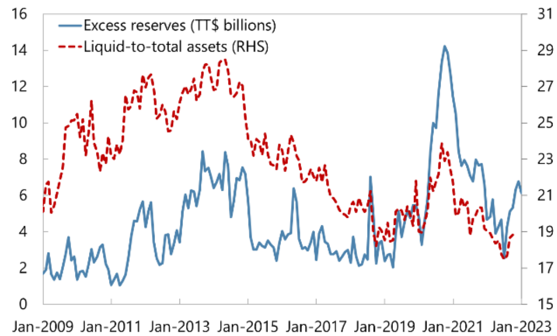
**Nominal Interest Rate, Spread, and Headline Inflation**
(In Percent)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*Excess reserves and liquidity ratios remain high, but have declined to the pre-pandemic levels...*

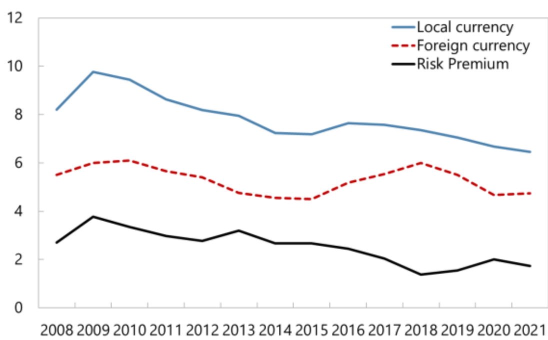
**Excess Reserves**
(In TT$ Billion, In Percent)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*...pushing interest rate spreads down...*

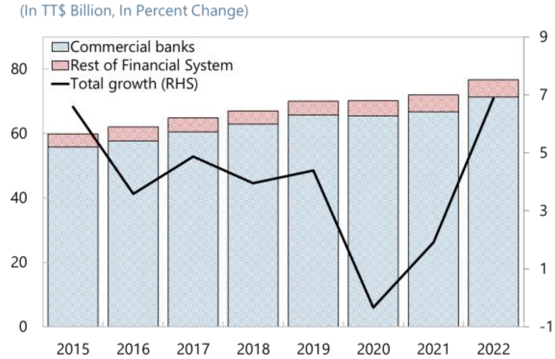
**Commercial Banks: Interest Rate Spreads**
(In Percent)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*... facilitating the recovery of credit to the private sector.*

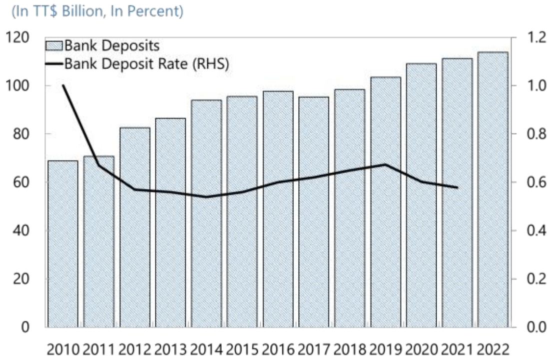
**Credit to Private Sector: Composition**
(In TT$ Billion, In Percent Change)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*Bank deposits rose despite the lower domestic interest rates.*

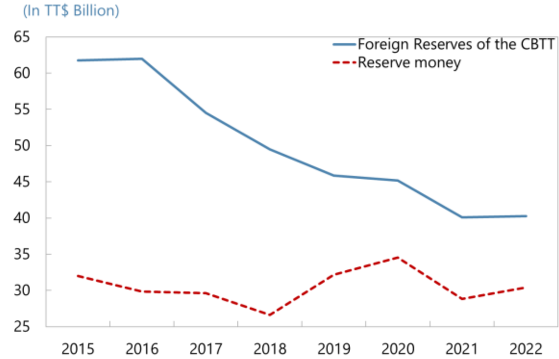
**Bank Deposits**
(In TT$ Billion, In Percent)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

*Monetary conditions remain stable.*

**Central Bank Balance Sheet**
(In TT$ Billion)

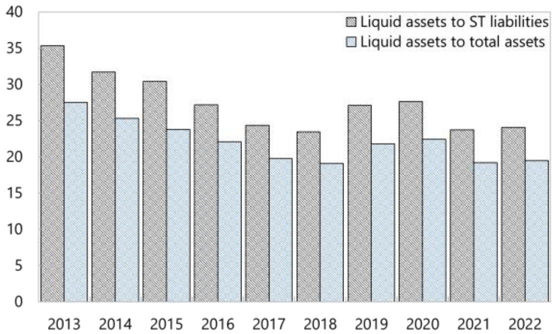



Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

## Figure 6. Trinidad and Tobago: Financial Soundness Indicators

*Banks remain highly liquid...*

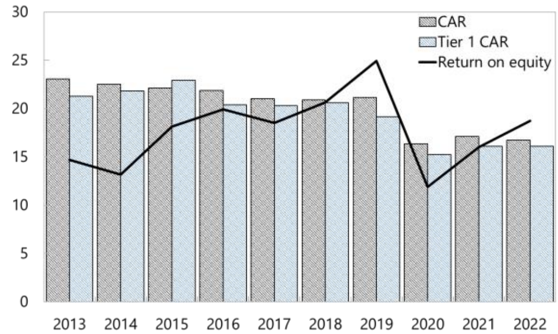
### Liquid Assets Indicators 1/
(In Percent)




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

*...and solvent, with capital buffers well above the regulatory requirements.*

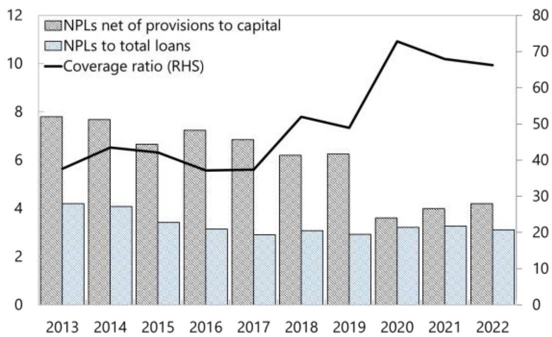
### Capital Adequacy Ratios 1/
(In Percent)




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

*Banks' asset quality is stable although the NPLs net of provisions increased, and the coverage ratio declined.*

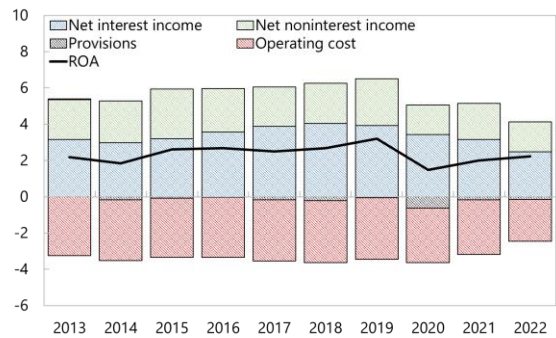
### Non-performing Loans (NPLs) 1/
(In Percent)




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

*Composition of income is stable, and assets' profitability is recovering.*

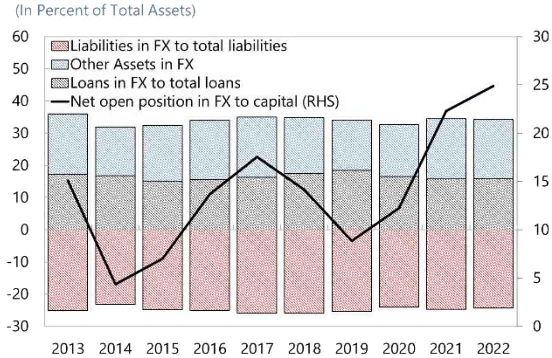
### Descomposition of Income 2/
(In Percent of Assets)




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

*Banks' net FX position continued to increase.*

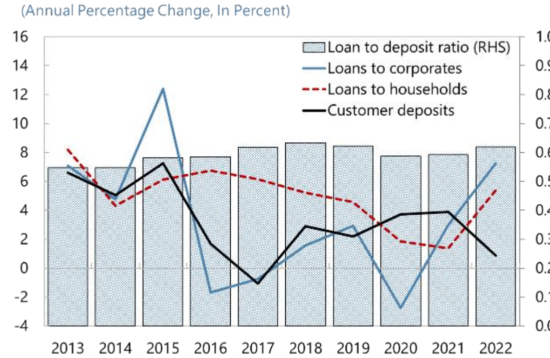
### Banks Exposure to FX 2/
(In Percent of Total Assets)




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

*Funding ratios declined amid a strong credit recovery.*

### Loans and Deposits Growth 1/
(Annual Percentage Change, In Percent)




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

1/ IMF's Financial Soundness Indicators, except for December 2022 which is based on CBTT's data.
2/ 2022 corresponds to 2022Q3 from IMF's Financial Soundness Indicators.

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

| | | | |
|---|---|---|---|
| GDP per capita (U.S. dollars, 2021) | 17,458 | Adult literacy rate (2010) | 99 |
| Population (millions, 2021) | 1.40 | Unemployment rate (2022Q3) | 5.4 |
| Life expectancy at birth (years, 2021) | 73.0 | Human Development Index (2021, of 189 economies) | 57 |
| Under 5 mortality rate (per thousand, 2020) | 16.0 | | |

| | | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | Est. 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| | (Annual percentage change, unless otherwise indicated) | | | | | | | | | | | |
| **National income and prices** | | | | | | | | | | | | |
| Real GDP | -4.7 | -0.9 | 0.1 | -7.7 | -1.0 | 2.5 | 3.2 | 2.3 | 2.7 | 2.0 | 1.6 | 1.5 |
| Energy | -0.3 | -3.2 | -4.3 | -12.2 | -2.7 | -1.8 | 2.9 | 2.7 | 4.7 | 2.8 | 1.2 | 1.0 |
| Non-energy 1/ | -6.8 | 0.3 | 2.3 | -5.5 | -0.3 | 4.3 | 3.3 | 2.2 | 1.9 | 1.7 | 1.7 | 1.7 |
| GDP deflator | 8.0 | 3.0 | -2.3 | -4.4 | 17.5 | 11.2 | -1.9 | 2.1 | 0.2 | 0.0 | 0.6 | 0.7 |
| CPI inflation (end-of-period) | 1.3 | 1.0 | 0.4 | 0.8 | 3.5 | 8.7 | 4.5 | 2.3 | 2.1 | 1.9 | 1.9 | 1.8 |
| CPI inflation (period average) | 1.9 | 1.0 | 1.0 | 0.6 | 2.1 | 5.8 | 5.6 | 3.4 | 2.2 | 2.0 | 1.9 | 1.8 |
| Unemployment rate | 4.4 | 3.5 | 4.3 | 5.7 | 5.4 | ... | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate | -4.2 | 2.4 | -1.1 | -1.8 | 1.0 | 6.5 | ... | ... | ... | ... | ... | ... |
| | (In percent of fiscal year GDP, unless otherwise indicated) 2/ | | | | | | | | | | | |
| **Central government finances** | | | | | | | | | | | | |
| Central government primary balance | -7.7 | -2.9 | -0.5 | -8.3 | -5.2 | 2.9 | 0.0 | 0.3 | 0.7 | 0.7 | 0.7 | 0.8 |
| *Of which:* non-energy primary balance 3/ | -17.5 | -14.6 | -14.9 | -19.4 | -17.3 | -19.1 | -19.0 | -17.7 | -17.2 | -16.7 | -16.3 | -16.0 |
| Central government overall balance 4/ | -10.5 | -5.8 | -3.7 | -11.7 | -8.3 | 0.3 | -2.8 | -2.2 | -1.8 | -1.8 | -1.8 | -1.8 |
| Budgetary revenue | 20.5 | 24.0 | 26.8 | 23.0 | 22.8 | 29.3 | 26.9 | 26.6 | 26.8 | 26.7 | 26.8 | 26.8 |
| Energy | 6.0 | 8.2 | 10.9 | 7.7 | 7.8 | 16.3 | 13.7 | 13.3 | 13.3 | 13.1 | 13.0 | 12.9 |
| Non-energy | 14.5 | 15.8 | 15.9 | 15.4 | 15.0 | 13.0 | 13.2 | 13.3 | 13.5 | 13.7 | 13.8 | 13.8 |
| Budgetary expenditure | 31.0 | 29.8 | 30.5 | 34.7 | 31.1 | 29.0 | 29.7 | 28.8 | 28.6 | 28.6 | 28.6 | 28.5 |
| *Of which:* current expenditure | 28.9 | 27.7 | 29.0 | 32.0 | 29.1 | 27.2 | 27.1 | 26.6 | 26.5 | 26.4 | 26.4 | 26.4 |
| *Of which:* interest expenditure | 2.8 | 2.9 | 3.1 | 3.4 | 3.1 | 2.5 | 2.8 | 2.5 | 2.5 | 2.5 | 2.6 | 2.6 |
| *Of which:* capital expenditure | 2.2 | 2.1 | 2.3 | 2.7 | 2.0 | 1.8 | 2.7 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Central government debt 5/ | 40.2 | 40.9 | 45.3 | 60.0 | 59.9 | 53.8 | 53.9 | 54.2 | 54.3 | 55.0 | 55.7 | 56.3 |
| Public sector debt 6/ | 57.4 | 57.1 | 61.6 | 80.4 | 79.2 | 71.0 | 71.0 | 71.3 | 71.4 | 72.4 | 73.3 | 74.2 |
| Heritage and Stabilization Fund assets | 24.4 | 24.6 | 26.1 | 26.4 | 23.2 | 18.6 | 18.4 | 18.3 | 18.2 | 18.4 | 18.5 | 18.7 |
| | (In percent of GDP, unless otherwise indicated) | | | | | | | | | | | |
| **External sector** | | | | | | | | | | | | |
| Current account balance | 5.9 | 6.7 | 4.3 | -6.4 | 11.9 | 18.9 | 6.6 | 7.1 | 7.1 | 6.6 | 6.5 | 6.1 |
| Exports of goods (annual percentage change) | 13.4 | 11.5 | -18.5 | -31.5 | 84.6 | 49.8 | -22.9 | 3.1 | 1.2 | -0.4 | 1.0 | 0.5 |
| Imports of goods (annual percentage change) | -9.0 | 2.6 | -8.8 | -16.8 | 26.9 | 26.3 | -1.4 | 0.7 | 0.7 | 0.7 | 1.2 | 1.5 |
| Terms of trade (annual percentage change) | -0.2 | 2.3 | -1.9 | -3.6 | 3.7 | 5.2 | -2.8 | 0.8 | 0.7 | 0.3 | 0.0 | 0.0 |
| External public sector debt | 15.5 | 15.8 | 17.0 | 22.7 | 19.1 | 17.1 | 17.8 | 17.8 | 17.9 | 18.2 | 18.4 | 18.6 |
| Gross official reserves (in US$ million) | 8,370 | 7,575 | 6,929 | 6,954 | 6,880 | 6,823 | 6,553 | 6,582 | 6,579 | 6,464 | 6,368 | 6,280 |
| In months of prospective imports of goods and services | 11.0 | 11.4 | 12.3 | 9.7 | 7.6 | 7.6 | 7.2 | 7.2 | 7.1 | 6.9 | 6.7 | 6.5 |
| | (Annual percentage change) | | | | | | | | | | | |
| **Money and credit** | | | | | | | | | | | | |
| Net foreign assets | -9.3 | -6.5 | -6.4 | 5.9 | 0.2 | 1.5 | -4.7 | 0.5 | -0.1 | -2.1 | -1.8 | -1.7 |
| Net domestic assets | 26.8 | 18.4 | 18.3 | 10.2 | 2.7 | 2.9 | 13.5 | 2.5 | 5.9 | 5.9 | 5.8 | 5.5 |
| *Of which:* private sector credit | 4.9 | 4.0 | 4.4 | -0.3 | 1.9 | 6.6 | 2.0 | 1.5 | 2.9 | 1.9 | 2.2 | 2.2 |
| Broad money (M3) | -0.4 | 1.2 | 2.9 | 7.1 | 1.7 | 1.9 | 3.4 | 1.5 | 2.8 | 1.9 | 2.1 | 2.2 |
| **Memorandum items:** | | | | | | | | | | | | |
| Nominal GDP (in TT$ billion) | 161.3 | 164.7 | 161.1 | 142.2 | 165.3 | 188.4 | 190.7 | 199.3 | 205.0 | 209.0 | 213.6 | 218.3 |
| Non-energy sector (in percent of GDP) | 77.6 | 75.3 | 78.0 | 83.8 | 72.9 | 69.4 | 73.4 | 73.4 | 73.8 | 74.6 | 75.2 | 75.7 |
| Energy sector (in percent of GDP) | 22.4 | 24.7 | 22.0 | 16.2 | 27.1 | 30.6 | 26.6 | 26.6 | 26.2 | 25.4 | 24.8 | 24.3 |
| Public expenditure (in percent of non-energy GDP) | 39.5 | 39.3 | 39.4 | 42.3 | 41.3 | 41.3 | 41.1 | 39.2 | 38.8 | 38.4 | 38.1 | 37.8 |
| Exchange rate (TT$/US$, end of period) | 6.78 | 6.77 | 6.75 | 6.76 | 6.77 | 6.75 | … | … | … | … | … | … |
| Holdings of SDRs, in millions of U.S. dollars | 343 | 335 | 334 | 348 | 1079 | 1026 | 1036 | 1038 | 1044 | 1047 | 1052 | 1054 |
| Crude oil price (US$ per barrel) 7/ | 53.0 | 68.5 | 61.4 | 41.8 | 69.2 | 96.4 | 81.3 | 76.8 | 72.7 | 69.6 | 67.0 | 64.8 |
| Henry Hub natural gas price (US$ per MMBtu) 8/ | 3.0 | 3.1 | 2.5 | 2.1 | 3.7 | 6.5 | 3.0 | 3.6 | 3.9 | 3.9 | 3.9 | 4.0 |

Sources: Trinidad and Tobago's authorities; World Bank; UN Human Development Report; WEO; and IMF staff estimates and projections.

1/ Includes value-added tax (VAT) and Financial Intermediation Services Indirectly Measured (FISIM).

2/ Data refer to fiscal year, for example 2022 covers FY2022 (October 2021-September 2022).

3/ Defined as non-energy revenue minus expenditure (net of interest payments) of the central government, as a share of non-energy GDP.

4/ The fiscal overall balance excludes sales of assets proceeds which are part of financing sources.

5/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the Central Bank of Trinidad and Tobago (CBTT).

6/ Includes central government debt and guaranteed debt of non-self serviced State-Owned Enterprises (SOEs) and statutory authorities.

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

8/ WEO price reported as a reference. Trinidad and Tobago has a broader energy export market in the Americas, Europe, and East Asia each of which has different price benchmarks.

## Table 2. Trinidad and Tobago: Central Government Operations 1/

| | | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| | | | | | | (In millions of Trinidad and Tobago dollars) | | | | | | |
| **Total revenue and grants** | **32,896** | **39,308** | **43,482** | **33,843** | **36,364** | **53,535** | **51,174** | **52,416** | **54,548** | **55,640** | **56,856** | **58,093** |
| Energy | 9,668 | 13,372 | 17,725 | 11,286 | 12,450 | 29,736 | 26,083 | 26,266 | 27,156 | 27,205 | 27,519 | 28,019 |
| Corporate | 5,613 | 7,851 | 9,406 | 5,429 | 7,193 | 18,869 | 15,432 | 15,410 | 15,838 | 15,867 | 16,006 | 16,298 |
| Royalties | 939 | 2,288 | 4,091 | 2,835 | 2,004 | 5,803 | 5,587 | 5,679 | 6,000 | 5,973 | 6,100 | 6,247 |
| Other | 3,116 | 3,233 | 4,228 | 3,022 | 3,252 | 5,064 | 5,064 | 5,178 | 5,318 | 5,364 | 5,413 | 5,474 |
| Non-energy 2/ | 23,228 | 25,936 | 25,757 | 22,558 | 23,914 | 23,800 | 25,090 | 26,149 | 27,392 | 28,435 | 29,337 | 30,074 |
| Tax revenue | 18,028 | 21,226 | 20,219 | 18,278 | 19,953 | 19,303 | 20,878 | 21,782 | 22,883 | 23,827 | 24,631 | 25,263 |
| Income tax | 8,448 | 9,353 | 9,792 | 7,642 | 7,651 | 10,064 | 8,550 | 8,978 | 9,554 | 10,093 | 10,589 | 10,897 |
| Goods and services tax | 6,511 | 8,726 | 7,307 | 8,017 | 9,671 | 6,189 | 9,296 | 9,660 | 10,082 | 10,416 | 10,653 | 10,903 |
| International trade tax | 2,685 | 2,733 | 2,672 | 2,301 | 2,287 | 2,650 | 2,631 | 2,728 | 2,817 | 2,878 | 2,939 | 3,004 |
| Property tax | 3 | 4 | 50 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| Other | 398 | 317 | 399 | 399 | 342 | 399 | 399 | 414 | 427 | 436 | 446 | 456 |
| Non-tax revenue | 5,160 | 4,692 | 5,467 | 4,267 | 3,933 | 4,492 | 4,192 | 4,346 | 4,488 | 4,586 | 4,684 | 4,787 |
| Other | 40 | 18 | 70 | 12 | 28 | 5 | 20 | 21 | 22 | 22 | 23 | 24 |
| **Expenditure** | **49,680** | **48,834** | **49,411** | **51,048** | **49,608** | **52,900** | **56,565** | **56,692** | **58,270** | **59,481** | **60,726** | **61,996** |
| Current | 46,264 | 45,374 | 46,987 | 47,081 | 46,482 | 49,704 | 51,520 | 52,462 | 53,902 | 55,018 | 56,168 | 57,336 |
| Wages and salaries | 9,938 | 9,094 | 9,137 | 9,248 | 9,094 | 9,157 | 9,457 | 9,777 | 10,107 | 10,309 | 10,505 | 10,699 |
| Goods and services | 5,827 | 6,102 | 6,426 | 5,862 | 5,571 | 5,892 | 6,412 | 6,648 | 6,865 | 7,014 | 7,164 | 7,323 |
| Interest payments | 4,468 | 4,787 | 5,046 | 5,062 | 4,938 | 4,645 | 5,373 | 4,944 | 5,116 | 5,279 | 5,445 | 5,612 |
| Transfers and subsidies | 26,030 | 25,391 | 26,378 | 26,910 | 26,880 | 30,010 | 30,277 | 31,092 | 31,813 | 32,416 | 33,054 | 33,702 |
| Fuel subsidies | 380 | 0 | 228 | 492 | 189 | 126 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers to households | 8,647 | 8,741 | 9,169 | 9,595 | 9,508 | 10,578 | 10,550 | 10,906 | 11,233 | 11,458 | 11,675 | 11,891 |
| Transfers to SOEs and utilities | 4,671 | 4,810 | 5,656 | 4,422 | 5,099 | 5,039 | 5,372 | 5,569 | 5,751 | 5,876 | 6,002 | 6,135 |
| Transfers to local government and Tobago | 3,482 | 3,424 | 3,425 | 3,527 | 3,418 | 3,475 | 3,702 | 3,838 | 3,963 | 4,050 | 4,136 | 4,228 |
| Transfers to statutory authorities | 881 | 727 | 658 | 343 | 442 | 520 | 630 | 652 | 666 | 679 | 692 | 705 |
| Other | 7,969 | 7,689 | 7,242 | 8,530 | 8,224 | 10,272 | 10,023 | 10,126 | 10,199 | 10,353 | 10,549 | 10,744 |
| Capital expenditure and net lending | 3,416 | 3,459 | 2,424 | 3,967 | 3,126 | 3,197 | 5,044 | 4,230 | 4,368 | 4,463 | 4,558 | 4,659 |
| Capital expenditure | 3,449 | 3,492 | 3,791 | 3,978 | 3,135 | 3,206 | 5,055 | 4,241 | 4,379 | 4,474 | 4,570 | 4,671 |
| Net lending | -32 | -33 | -1,367 | -11 | -10 | -10 | -10 | -11 | -11 | -11 | -12 | -12 |
| **Non-energy balance** | **-26,452** | **-22,898** | **-23,653** | **-28,490** | **-25,694** | **-29,101** | **-31,474** | **-30,542** | **-30,877** | **-31,046** | **-31,389** | **-31,922** |
| Overall balance 2/ | -16,783 | -9,526 | -5,928 | -17,205 | -13,244 | 635 | -5,391 | -4,276 | -3,721 | -3,841 | -3,870 | -3,903 |
| Primary balance | -12,315 | -4,739 | -883 | -12,143 | -8,306 | 5,281 | -17 | 669 | 1,395 | 1,438 | 1,575 | 1,709 |
| Non-energy primary balance | -21,983 | -18,111 | -18,608 | -23,428 | -20,755 | -24,455 | -26,101 | -25,598 | -25,761 | -25,767 | -25,944 | -26,309 |
| | | | | | | (In percent of fiscal-year GDP, unless otherwise indicated) | | | | | | |
| **Total revenue and grants** | **20.5** | **24.0** | **26.8** | **23.0** | **22.8** | **29.3** | **26.9** | **26.6** | **26.8** | **26.7** | **26.8** | **26.8** |
| Energy | 6.0 | 8.2 | 10.9 | 7.7 | 7.8 | 16.3 | 13.7 | 13.3 | 13.3 | 13.1 | 13.0 | 12.9 |
| Corporate | 3.5 | 4.8 | 5.8 | 3.7 | 4.5 | 10.3 | 8.1 | 7.8 | 7.8 | 7.6 | 7.5 | 7.5 |
| Royalties | 0.6 | 1.4 | 2.5 | 1.9 | 1.3 | 3.2 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Other | 1.9 | 2.0 | 2.6 | 2.1 | 2.0 | 2.8 | 2.7 | 2.6 | 2.6 | 2.6 | 2.5 | 2.5 |
| Non-energy | 14.5 | 15.8 | 15.9 | 15.4 | 15.0 | 13.0 | 13.2 | 13.3 | 13.5 | 13.7 | 13.8 | 13.8 |
| Tax revenue | 11.3 | 13.0 | 12.5 | 12.4 | 12.5 | 10.6 | 11.0 | 11.0 | 11.2 | 11.5 | 11.6 | 11.6 |
| Income tax | 5.3 | 5.7 | 6.0 | 5.2 | 4.8 | 5.5 | 4.5 | 4.6 | 4.7 | 4.9 | 5.0 | 5.0 |
| Goods and services tax | 4.1 | 5.3 | 4.5 | 5.5 | 6.1 | 3.4 | 4.9 | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| International trade tax | 1.7 | 1.7 | 1.6 | 1.6 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Property tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Non-tax revenue | 3.2 | 2.9 | 3.4 | 2.9 | 2.5 | 2.5 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Expenditure** | **31.0** | **29.8** | **30.5** | **34.7** | **31.1** | **29.0** | **29.7** | **28.8** | **28.6** | **28.6** | **28.6** | **28.5** |
| Current | 28.9 | 27.7 | 29.0 | 32.0 | 29.1 | 27.2 | 27.1 | 26.6 | 26.5 | 26.4 | 26.4 | 26.4 |
| Wages and salaries | 6.2 | 5.6 | 5.6 | 6.3 | 5.7 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 4.9 | 4.9 |
| Goods and services | 3.6 | 3.7 | 4.0 | 4.0 | 3.5 | 3.2 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Interest payments | 2.8 | 2.9 | 3.1 | 3.4 | 3.1 | 2.5 | 2.8 | 2.5 | 2.5 | 2.5 | 2.6 | 2.6 |
| Transfers and subsidies | 16.3 | 15.5 | 16.3 | 18.3 | 16.8 | 16.4 | 15.9 | 15.8 | 15.6 | 15.6 | 15.6 | 15.5 |
| Fuel subsidies | 0.2 | 0.0 | 0.1 | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfers to households | 5.4 | 5.3 | 5.7 | 6.5 | 6.0 | 5.8 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Transfers to SOEs and utilities | 2.9 | 2.9 | 3.5 | 3.0 | 3.2 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Transfers to local government and Tobago | 2.2 | 2.1 | 2.1 | 2.4 | 2.1 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Transfers to statutory authorities | 0.6 | 0.4 | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other | 5.0 | 4.7 | 4.5 | 5.8 | 5.2 | 5.6 | 5.3 | 5.1 | 5.0 | 5.0 | 5.0 | 4.9 |
| Capital expenditure and net lending | 2.1 | 2.1 | 1.5 | 2.7 | 2.0 | 1.8 | 2.7 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Capital expenditure | 2.2 | 2.1 | 2.3 | 2.7 | 2.0 | 1.8 | 2.7 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Net lending | 0.0 | 0.0 | -0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## Table 2. Trinidad and Tobago: Central Government Operations (Concluded) 1/

| | 2017 | 2018 | 2019 | 2020 | 2021 | Est. 2022 | Projections 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In percent of fiscal-year GDP, unless otherwise indicated) | | | | | | | | | | | |
| **Non-energy balance** | **-16.5** | **-14.0** | **-14.6** | **-19.4** | **-16.1** | **-15.9** | **-16.6** | **-15.5** | **-15.2** | **-14.9** | **-14.8** | **-14.7** |
| **Non-energy balance (percent of non-energy GDP)** | **-21.1** | **-18.4** | **-18.9** | **-23.6** | **-21.4** | **-22.7** | **-22.9** | **-21.1** | **-20.6** | **-20.1** | **-19.7** | **-19.5** |
| **Overall balance /2** | **-10.5** | **-5.8** | **-3.7** | **-11.7** | **-8.3** | **0.3** | **-2.8** | **-2.2** | **-1.8** | **-1.8** | **-1.8** | **-1.8** |
| **Primary balance** | **-7.7** | **-2.9** | **-0.5** | **-8.3** | **-5.2** | **2.9** | **0.0** | **0.3** | **0.7** | **0.7** | **0.7** | **0.8** |
| **Memorandum items:** | | | | | | | | | | | | |
| Non-energy primary balance (percent of non-energy GDP) | -17.5 | -14.6 | -14.9 | -19.4 | -17.3 | -19.1 | -19.0 | -17.7 | -17.2 | -16.7 | -16.3 | -16.0 |
| Central government debt (percent of GDP) 3/ | 40.2 | 40.9 | 45.3 | 60.0 | 59.9 | 53.8 | 53.9 | 54.2 | 54.3 | 55.0 | 55.7 | 56.3 |
| Gross public debt (percent of GDP) 4/ | 57.4 | 57.1 | 61.6 | 80.4 | 79.2 | 71.0 | 71.0 | 71.3 | 71.4 | 72.4 | 73.3 | 74.2 |
| Crude oil price (US$/barrel, FY) | 50.5 | 64.6 | 63.2 | 46.7 | 62.4 | 89.6 | 85.1 | 77.9 | 73.8 | 70.4 | 65.6 | 65.6 |
| Henry Hub natural gas price (US$ per MMBtu, FY) | 2.9 | 3.1 | 2.7 | 2.2 | 3.3 | 5.8 | 3.9 | 3.5 | 3.8 | 3.9 | 2.8 | 2.8 |
| Nominal GDP (in billions of TT$, FY) | 160.2 | 163.8 | 162.0 | 146.9 | 159.5 | 182.7 | 190.2 | 197.2 | 203.6 | 208.0 | 212.5 | 217.2 |

Sources: Trinidad and Tobago's authorities; and IMF staff projections.

1/ Data refer to fiscal year, for example 2022 covers FY2022 (October 2021-September 2022).

2/ The fiscal overall balance excludes sales of assets proceeds which are part of financing sources.

3/ Excluding debt issued for sterilization, public bodies' debt, and borrowing from the CBTT.

4/ Includes central government debt and guaranteed debt of non-self serviced SOEs and statutory authorities.

## Table 3. Trinidad and Tobago: Balance of Payments

| | 2017 | 2018 | 2019 | 2020 | 2021 | Est. 2022 | Projections 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In millions of U.S. dollars unless otherwise indicated) | | | | | | | |
| **Current account balance** | **1,409** | **1,626** | **1,020** | **-1,356** | **2,900** | **5,260** | **1,870** | **2,106** | **2,164** | **2,036** | **2,052** | **1,970** |
| Goods and services | 1,081 | 2,426 | 1,605 | -345 | 2,875 | 6,582 | 2,865 | 3,135 | 3,186 | 3,035 | 3,048 | 2,966 |
| Goods balance | 3,193 | 4,138 | 2,732 | 984 | 4,712 | 8,551 | 4,867 | 5,201 | 5,303 | 5,193 | 5,228 | 5,170 |
| Credit | 9,645 | 10,756 | 8,764 | 6,003 | 11,082 | 16,595 | 12,802 | 13,195 | 13,351 | 13,298 | 13,427 | 13,494 |
| Petroleum crude and refined | 2,693 | 2,934 | 2,016 | 1,288 | 2,239 | 2,964 | 2,427 | 2,217 | 2,190 | 2,118 | 2,055 | 2,001 |
| Gas | 2,249 | 2,899 | 2,350 | 1,243 | 2,322 | 4,995 | 2,568 | 3,044 | 3,145 | 3,092 | 3,112 | 3,160 |
| Petrochemicals | 2,925 | 3,257 | 2,607 | 1,827 | 4,402 | 5,581 | 4,786 | 4,838 | 4,809 | 4,819 | 4,877 | 4,925 |
| Other | 1,777 | 1,666 | 1,791 | 1,646 | 2,120 | 3,055 | 3,022 | 3,095 | 3,207 | 3,268 | 3,383 | 3,407 |
| Debit | 6,452 | 6,617 | 6,032 | 5,019 | 6,370 | 8,044 | 7,935 | 7,994 | 8,048 | 8,104 | 8,199 | 8,324 |
| Fuel imports | 1,618 | 1,755 | 1,222 | 723 | 1,161 | 1,685 | 1,468 | 1,418 | 1,368 | 1,331 | 1,304 | 1,283 |
| Capital | 1,369 | 1,408 | 1,233 | 1,192 | 1,584 | 2,047 | 1,872 | 1,897 | 1,913 | 1,933 | 1,965 | 2,003 |
| Other | 3,465 | 3,454 | 3,577 | 3,104 | 3,625 | 4,312 | 4,595 | 4,679 | 4,766 | 4,840 | 4,931 | 5,039 |
| Services (net) | -2,112 | -1,712 | -1,126 | -1,329 | -1,836 | -1,970 | -2,002 | -2,067 | -2,116 | -2,158 | -2,180 | -2,203 |
| Primary income (net) | 49 | -700 | -607 | -1,056 | -91 | -1,372 | -1,046 | -1,082 | -1,077 | -1,055 | -1,054 | -1,056 |
| Secondary income (net) | 279 | -100 | 22 | 44 | 115 | 50 | 52 | 53 | 55 | 56 | 58 | 60 |
| **Capital and financial account (net)** | **478** | **168** | **581** | **-1,494** | **2,038** | **2,677** | **2,142** | **2,078** | **2,169** | **2,152** | **2,150** | **2,059** |
| Capital account | 1 | 2 | 10 | 0 | 7 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Financial account | 476 | 165 | 571 | -1,495 | 2,032 | 2,677 | 2,141 | 2,077 | 2,168 | 2,151 | 2,149 | 2,059 |
| Direct investment (net) | 459 | 765 | -70 | -958 | 1,482 | -217 | -369 | -374 | -362 | -344 | -336 | -329 |
| Assets | -12 | 65 | 114 | 98 | 387 | 525 | 541 | 554 | 569 | 580 | 589 | 598 |
| Liabilities | -471 | -700 | 184 | 1,056 | -1,095 | 741 | 911 | 928 | 930 | 924 | 925 | 927 |
| Portfolio investment (net) | 373 | 418 | 1,454 | -185 | -4 | 1,083 | 391 | 404 | 406 | 401 | 402 | 403 |
| *Of which:* Official, medium- and long-term (net) | 229 | 183 | 162 | 982 | -134 | 69 | 266 | 211 | 184 | 189 | 191 | 193 |
| Disbursements | 310 | 286 | 289 | 1,134 | 46 | 240 | 435 | 948 | 381 | 1,400 | 560 | 437 |
| Amortization | 80 | 103 | 127 | 152 | 180 | 171 | 169 | 737 | 197 | 1,211 | 369 | 244 |
| Financial derivatives | 5 | 5 | 0 | -9 | 137 | 65 | 6 | 6 | 6 | 6 | 6 | 6 |
| Other investment (net) | -360 | -1,023 | -813 | -344 | 417 | 1,745 | 2,113 | 2,041 | 2,118 | 2,088 | 2,077 | 1,978 |
| **Change in reserve assets** | **-1,122** | **-784** | **-644** | **25** | **-74** | **-57** | **-270** | **30** | **-3** | **-114** | **-96** | **-88** |
| Net errors and omissions | -2,056 | -2,247 | -1,103 | -133 | -927 | -2,641 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross official reserves | 8,370 | 7,575 | 6,929 | 6,954 | 6,880 | 6,823 | 6,553 | 6,582 | 6,579 | 6,464 | 6,368 | 6,280 |
| | | | | | (In percent of GDP, unless otherwise indicated) | | | | | | | |
| **Memorandum items:** | | | | | | | | | | | | |
| Current account balance | 5.9 | 6.7 | 4.3 | -6.4 | 11.9 | 18.9 | 6.6 | 7.1 | 7.1 | 6.6 | 6.5 | 6.1 |
| Energy 1/ | 17.3 | 18.1 | 13.7 | 3.1 | 21.6 | 27.2 | 12.0 | 12.2 | 12.0 | 11.3 | 11.0 | 10.8 |
| Non-energy | -11.4 | -11.4 | -9.5 | -9.5 | -9.7 | -8.4 | -5.4 | -5.1 | -4.8 | -4.7 | -4.5 | -4.7 |
| Exports of goods | 40.5 | 44.2 | 36.7 | 28.5 | 45.3 | 59.5 | 45.4 | 44.7 | 44.0 | 43.0 | 42.5 | 41.8 |
| Energy exports | 33.1 | 37.4 | 29.2 | 20.7 | 36.6 | 48.6 | 34.7 | 34.2 | 33.4 | 32.4 | 31.8 | 31.2 |
| Non-energy exports | 7.5 | 6.8 | 7.5 | 7.8 | 8.7 | 11.0 | 10.7 | 10.5 | 10.6 | 10.6 | 10.7 | 10.5 |
| Imports of goods | 27.1 | 27.2 | 25.3 | 23.8 | 26.0 | 28.8 | 28.1 | 27.1 | 26.5 | 26.2 | 25.9 | 25.8 |
| Gross official reserves (in months of prospective imports of goods and services) | 11.0 | 11.4 | 12.3 | 9.7 | 7.6 | 7.6 | 7.2 | 7.2 | 7.1 | 6.9 | 6.7 | 6.5 |
| Crude oil price (US$/barrel) 2/ | 53.0 | 68.5 | 61.4 | 41.8 | 69.2 | 96.4 | 81.3 | 76.8 | 72.7 | 69.6 | 67.0 | 64.8 |
| Henry Hub natural gas price (US$ per MMBtu) 3/ | 3.0 | 3.1 | 2.5 | 2.1 | 3.7 | 6.5 | 3.0 | 3.6 | 3.9 | 3.9 | 3.9 | 4.0 |
| Net international investment position, million US dollars | 19.6 | 15.2 | 17.7 | 10.6 | 23.4 | … | … | … | … | … | … | … |
| Exchange rate (TT$/US$, end of period) | 6.78 | 6.77 | 6.75 | 6.76 | 6.77 | 6.75 | … | … | … | … | … | … |
| Exchange rate (TT$/US$, average) | 6.78 | 6.77 | 6.75 | 6.75 | 6.76 | 6.76 | … | … | … | … | … | … |

Sources: Central Bank of Trinidad and Tobago; Central Statistical Office; and IMF staff projections.
1/ Includes goods and services for the energy sector.
2/ WEO simple average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh.
3/ WEO price reported as a reference. Trinidad and Tobago has a broader energy export market in the Americas, Europe, and East Asia each of which has different price benchmarks.

## Table 4. Trinidad and Tobago: Monetary Survey

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Projections | | | | | |
| | (In millions of Trinidad and Tobago dollars) | | | | | | | | | | | |
| **Net foreign assets** | 74,454 | 69,613 | 65,182 | 69,016 | 69,177 | 70,244 | 66,930 | 67,283 | 67,238 | 65,848 | 64,677 | 63,605 |
| Official net foreign assets | 54,499 | 49,499 | 45,868 | 45,178 | 40,095 | 40,445 | 38,765 | 38,962 | 38,937 | 38,162 | 37,509 | 36,912 |
| Commercial bank's net foreign assets | 19,954 | 20,114 | 19,314 | 23,838 | 29,083 | 29,799 | 28,164 | 28,321 | 28,301 | 27,686 | 27,168 | 26,694 |
| **Net domestic assets** | 32,523 | 38,505 | 45,535 | 50,181 | 51,525 | 53,017 | 60,175 | 61,679 | 65,344 | 69,226 | 73,275 | 77,326 |
| Net credit to public sector | 8,760 | 11,408 | 17,291 | 23,664 | 24,464 | 20,715 | 26,626 | 27,049 | 28,599 | 31,007 | 33,358 | 35,654 |
| Central government | -965 | 1,183 | 5,821 | 13,052 | 14,647 | 11,082 | 18,470 | 18,932 | 20,057 | 21,249 | 22,492 | 23,735 |
| Rest of the public sector | 9,725 | 10,225 | 11,470 | 10,612 | 9,817 | 9,633 | 8,156 | 8,116 | 8,542 | 9,758 | 10,866 | 11,920 |
| Credit to private sector | 60,567 | 62,964 | 65,727 | 65,512 | 66,766 | 71,170 | 72,587 | 73,668 | 75,782 | 77,257 | 78,955 | 80,709 |
| Other items (net) | -36,803 | -35,866 | -37,484 | -38,995 | -39,706 | -38,868 | -39,038 | -39,038 | -39,038 | -39,038 | -39,038 | -39,038 |
| **Liabilities to private sector (M3)** | 106,097 | 107,342 | 110,437 | 118,305 | 120,290 | 122,536 | 126,734 | 128,591 | 132,211 | 134,703 | 137,581 | 140,559 |
| Currency in circulation | 8,037 | 7,889 | 4,779 | 6,729 | 7,503 | 7,551 | 7,905 | 8,021 | 8,247 | 8,403 | 8,582 | 8,768 |
| Demand deposits | 35,368 | 36,444 | 40,662 | 45,011 | 45,476 | 48,703 | 47,912 | 48,614 | 49,982 | 50,924 | 52,012 | 53,138 |
| Other deposits | 62,692 | 63,008 | 64,995 | 66,565 | 67,311 | 66,281 | 70,917 | 71,956 | 73,981 | 75,376 | 76,986 | 78,653 |
| **Nonliquid liabilities** | 881 | 777 | 280 | 892 | 413 | 725 | 372 | 372 | 372 | 372 | 372 | 372 |
| | (Annual percentage change) | | | | | | | | | | | |
| **Net foreign assets** | -9.3 | -6.5 | -6.4 | 5.9 | 0.2 | 1.5 | -4.7 | 0.5 | -0.1 | -2.1 | -1.8 | -1.7 |
| **Credit to private sector** | 4.9 | 4.0 | 4.4 | -0.3 | 1.9 | 6.6 | 2.0 | 1.5 | 2.9 | 1.9 | 2.2 | 2.2 |
| **Liabilities to private sector (M3)** | -0.4 | 1.2 | 2.9 | 7.1 | 1.7 | 1.9 | 3.4 | 1.5 | 2.8 | 1.9 | 2.1 | 2.2 |
| **Memorandum items:** | | | | | | | | | | | | |
| M3 velocity | 1.5 | 1.5 | 1.5 | 1.2 | 1.4 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 |

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

**Table 5. Trinidad and Tobago: Financial Soundness Indicators, 2015–22**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| | | | | (In percent) | | | | |
| **Core FSIs** | | | | | | | | |
| Regulatory capital to risk weighted assets | 22.1 | 21.9 | 21.0 | 20.9 | 21.2 | 16.4 | 17.1 | 16.7 |
| Regulatory Tier 1 capital to risk-weighted assets | 22.9 | 20.4 | 20.3 | 20.6 | 19.2 | 15.3 | 16.1 | 16.1 |
| Non-performing loans net of provisions to capital | 6.7 | 7.2 | 6.8 | 6.2 | 6.2 | 3.6 | 4.0 | 4.2 |
| Non-performing loans to total gross loans | 3.4 | 3.1 | 2.9 | 3.1 | 2.9 | 3.2 | 3.3 | 3.1 |
| Return on assets | 2.5 | 2.5 | 2.4 | 2.6 | 3.1 | 1.4 | 2.0 | 2.5 |
| Return on equity | 18.2 | 19.9 | 18.5 | 20.6 | 24.9 | 11.9 | 16.0 | 18.7 |
| Interest margin to gross income | 61.3 | 65.2 | 67.0 | 66.4 | 63.7 | 69.9 | 65.4 | 64.6 |
| Non-interest expenses to gross income | 65.0 | 63.3 | 61.6 | 59.9 | 56.2 | 74.6 | 65.8 | 62.1 |
| Liquid assets to total assets | 23.8 | 22.1 | 19.8 | 19.1 | 21.8 | 22.4 | 19.2 | 19.5 |
| Liquid assets to short-term liabilities | 30.4 | 27.2 | 24.4 | 23.5 | 27.1 | 27.7 | 23.7 | 24.0 |
| Net open position in FX to capital | 5.7 | 12.2 | 15.4 | 13.3 | 8.4 | 11.4 | 20.7 | 26.5 |
| **Sectoral distribution of loans** | | | | | | | | |
| Domestic residents | 97.8 | 97.4 | 96.6 | 94.9 | 93.1 | 93.1 | 92.9 | 91.7 |
| Households | 44.7 | 46.0 | 46.6 | 47.2 | 47.2 | 48.3 | 48.0 | 47.3 |
| Financial sector | 13.1 | 13.9 | 15.5 | 15.8 | 16.2 | 16.1 | 16.0 | 16.5 |
| Oil and gas sector | 2.8 | 3.7 | 3.2 | 5.2 | 5.0 | 4.3 | 4.5 | 4.2 |
| Construction | 8.9 | 6.6 | 4.7 | 4.1 | 2.5 | 3.6 | 3.6 | 4.2 |
| Transport and communication | 3.1 | 2.7 | 2.8 | 3.1 | 2.1 | 1.8 | 1.8 | 2.1 |
| Other | 25.3 | 24.3 | 23.9 | 19.5 | 19.9 | 19.1 | 19.1 | 17.4 |
| Nonresidents | 2.2 | 2.6 | 3.4 | 5.1 | 6.9 | 6.9 | 7.1 | 8.3 |
| **Additional FSIs** | | | | | | | | |
| Capital to assets (leverage ratio) | 11.0 | 11.2 | 11.3 | 11.1 | 11.3 | 10.6 | 11.6 | 11.7 |
| Trading income to total income | 11.7 | 10.5 | 9.1 | 10.5 | 9.5 | 9.3 | 10.9 | 11.4 |
| Personnel expenses to total income | 42.9 | 43.9 | 43.1 | 38.7 | 43.1 | 42.5 | 43.1 | 39.5 |
| Customer deposits to total non-interbank loans | 144.0 | 148.7 | 138.7 | 135.4 | 132.3 | 142.4 | 142.8 | 136.6 |
| FX loans to total loans | 15.1 | 15.6 | 16.3 | 17.5 | 18.4 | 16.5 | 15.7 | 15.9 |
| FX liabilities to total liabilities | 24.8 | 25.1 | 25.8 | 25.8 | 25.4 | 23.9 | 24.7 | 24.3 |

Source: Central Bank of Trinidad and Tobago.

## Table 6. Trinidad and Tobago: Indicators of External and Financial Vulnerability

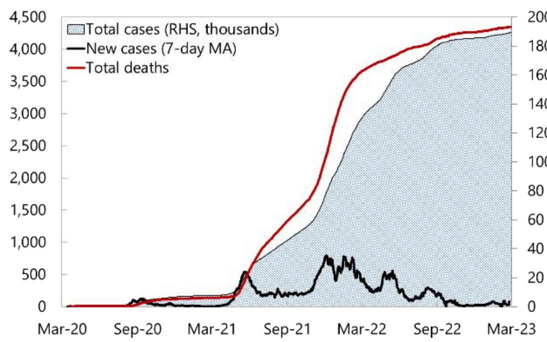
| | 2017 | 2018 | 2019 | 2020 | 2021 | Est. 2022 |
|---|---|---|---|---|---|---|
| | (In percent, unless otherwise indicated) | | | | | |
| **External indicators** | | | | | | |
| Exports (percent change, 12-month basis in US$) | 13.4 | 11.5 | -18.5 | -31.5 | 84.6 | 49.8 |
| Imports (percent change, 12-month basis in US$) | -9.0 | 2.6 | -8.8 | -16.8 | 26.9 | 26.3 |
| Terms of trade (annual percentage change) | -0.2 | 2.3 | -1.9 | -3.6 | 3.7 | 5.2 |
| Current account balance (in percent of GDP) | 5.9 | 6.7 | 4.3 | -6.4 | 11.9 | 18.9 |
| Capital and financial account balance (in percent of GDP) | -10.6 | -9.9 | -7.0 | 6.6 | -12.2 | -19.1 |
| Gross official reserves (in US$ millions) | 8,370 | 7,575 | 6,929 | 6,954 | 6,880 | 6,823 |
| Official reserves in months of prospective imports of goods and services | 11.0 | 11.4 | 12.3 | 9.7 | 7.6 | 7.6 |
| Ratio of reserves to broad money | 1.2 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| Ratio of total central government external debt to exports of goods and services | 34.8 | 33.2 | 42.3 | 74.4 | 40.8 | 27.4 |
| Ratio of central government external interest payments to exports of goods and services | 51.8 | 56.6 | 77.1 | 116.3 | 58.5 | 37.4 |
| Central government debt service to exports of goods and services | 52.6 | 57.4 | 78.5 | 118.7 | 60.1 | 38.3 |
| REER (CPI-based, appreciation (+)/depreciation (-), percent change) | -4.2 | 2.4 | -1.1 | -1.8 | 1.0 | 6.5 |
| Foreign currency debt rating, (Moody's, end of period) 1/ | Ba1 | Ba1 | Ba1 | Ba1 | Ba1 | Ba2 |
| Foreign currency debt rating, (Standard & Poor's, end of period) 2/ | BBB+ | BBB+ | BBB | BBB- | BBB- | BBB- |
| **Financial indicators 3/** | | | | | | |
| 90-day treasury bill, average discount rate | 1.3 | 1.5 | 1.9 | 1.3 | 0.4 | 0.4 |
| 90-day treasury bill, real rate | -0.6 | 0.5 | 0.9 | 0.7 | -1.6 | -1.6 |
| Capital adequacy | | | | | | |
| Regulatory capital to risk-weighted assets | 21.0 | 20.9 | 21.2 | 16.4 | 17.1 | 16.7 |
| Regulatory Tier I capital to risk-weighted assets | 20.3 | 20.6 | 19.2 | 15.3 | 16.1 | 16.1 |
| Regulatory Tier II capital-to-risk-weighted assets | 0.7 | 0.3 | 2.0 | 2.2 | 2.2 | 1.7 |
| Banking sector asset quality | | | | | | |
| Nonperforming loans-to-gross loans | 2.9 | 3.1 | 2.9 | 3.2 | 3.3 | 3.1 |
| Nonperforming loans (net of provisions)-to-capital | 6.8 | 6.2 | 6.2 | 3.6 | 4.0 | 4.2 |
| Specific provisions-to-impaired assets | 37.4 | 52.0 | 48.9 | 72.9 | 67.9 | 66.2 |
| Specific provisions-to-gross lending | 1.1 | 1.6 | 1.4 | 2.3 | 2.2 | 2.1 |
| Banking sector earnings and profitability | | | | | | |
| Return on equity | 18.5 | 20.6 | 24.9 | 11.9 | 16.0 | 18.7 |
| Return on assets | 2.4 | 2.6 | 3.1 | 1.4 | 2.0 | 2.5 |
| Interest margin-to-gross income | 67.0 | 66.4 | 63.7 | 69.9 | 65.4 | 64.6 |
| Spread between average lending and deposit rates | 7.6 | 7.4 | 7.1 | 6.7 | 6.5 | 6.4 |
| Banking sector liquidity | | | | | | |
| Liquid assets-to-total assets | 19.8 | 19.1 | 21.8 | 22.4 | 19.2 | 19.5 |
| Liquid assets-to-total short-term liabilities | 24.4 | 23.5 | 27.1 | 27.7 | 23.7 | 24.0 |
| Foreign currency liabilities-to-total liabilities | 25.8 | 25.8 | 25.4 | 23.9 | 24.7 | 24.3 |

Sources: Central Bank of Trinidad and Tobago; Moody's; Standard and Poor's; and IMF staff estimates.
1/ Bonds with ratings Baa3 and above are considered as investment grade.
2/ Bonds with BBB- and above are considered as investment grade.
3/ Includes aggregate data only for commercial banks.

# Annex I. COVID-19 Pandemic in Trinidad and Tobago

1. **The health emergency brought on by the COVID-19 pandemic has eased since 2021.** Hospital occupancy rates have fallen as new positive cases of COVID-19 have been on a declining trend since October 2022—from 492 cases in May 2021 to 75 cases on March 7, 2023. The deployment of vaccines has contributed to this outcome. While 51.3 percent of the total population is currently vaccinated, a large share of the population still is hesitant to take on the vaccine. This has triggered health and educational initiatives to improve the communication about the benefits of the vaccine and increase the uptake.

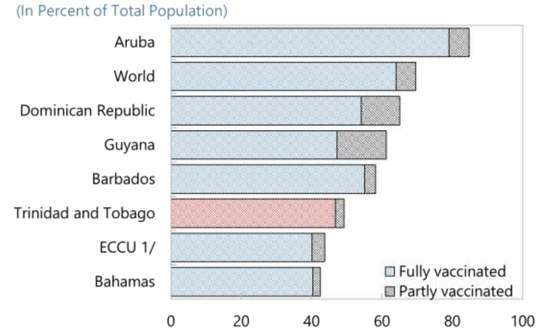
**COVID-19: Cases and Deaths**




Sources: Our World in Data and IMF staff calculations.

**COVID-19: People Vaccinated**

(In Percent of Total Population)



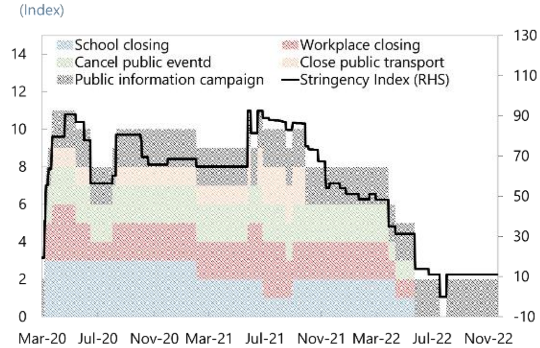

Sources: Our World in Data and IMF staff calcuations.

/1 Average vaccination rate of member countries excluding St. Kitts and Nevis. Data as of end- March 2023.

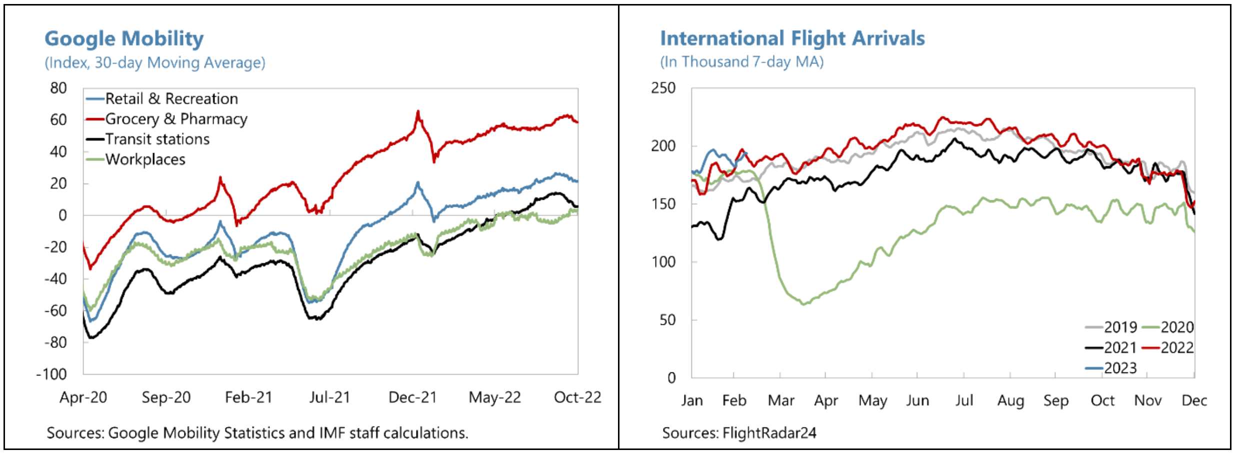
2. **With the health emergency easing, the authorities have gradually unwound the measures for containing the spread of the virus and mitigating its economic impact.** Lockdown and containment measures which restricted mobility and gatherings were mostly lifted throughout 2022. Mobility indicators have recovered, reaching, or surpassing pre-pandemic levels (see Google mobility index or the stringency index of COVID-19 containment measures). Public transportation normalized by mid-2022 and schools, university, and work closures have been lifted. Borders have also been reopened. This has allowed international arrivals to reach levels that resemble those of 2019, prior to the pandemic. Together, these measures have contributed to setting the stage for economic normalization and recovery.

**COVID-19: Containment Measures**

(Index)




Sources: Oxford COVID-19 Government Response Tracker.




3. **The economic and social impacts of the pandemic were mitigated by the authorities' swift actions.** The response aimed to contain the pandemic, protect lives and livelihoods, and support economic activity. For instance, the authorities put in place fiscal measures equivalent to 4 percent of GDP for 2020–21 along with monetary and financial measures to support the economy and the functioning of the financial system, including liquidity and credit support measures.[1]

4. **The human losses and economic costs of the pandemic were significant despite the policy measures to save lives and incomes.** Over four thousand people died in Trinidad and Tobago since the outbreak of the pandemic in March 2020. Moreover, in 2020–21, the real economy lost cumulatively 8.6 percent compared to pre-pandemic level. Unemployment also widened from 4.2 percent at the onset of the pandemic to a peak of 7.2 percent by 2020Q4. The pandemic particularly affected the most vulnerable groups in society. Female unemployment rates increased from 4.4 percent at the onset of the pandemic to a peak of 8.5 percent in 2020Q4, while youth unemployment rate increased from 13.5 to 21.3 percent in 2021Q1.

5. **Going forward it will be critical to mitigate the scarring effects of the pandemic.** Economic and financial crises are known to have permanent effects.[2] They disrupt labor markets, undermine productivity, and reduce long-term growth. In addition, the pandemic disrupted childcare and education, and is likely to have exacerbated poverty, income inequality, and widened inclusion and opportunity gaps.[3] Thus, assessing and monitoring the legacy effect of the pandemic is a priority. This would allow to put in place and without delays targeted policies to mitigate the after-effects of the pandemic, including on human capital. Moreover, it will be relevant for the authorities to prepare for future pandemics. The Ministry of Health is preparing to undertake a review and assessment of the government's public health response to the COVID-19 pandemic in context with the country's obligation to the international response. Similar assessments of economic and financial policies would be also desirable. These assessments will help inform policymakers about the country's readiness for future pandemics including disasters and emergencies.

[1] For further details on these measures, see IMF staff report for the 2021 Article IV Consultation with Trinidad and Tobago.

[2] For example see Barret, Das, Magistretti, Pugacheva, and Wingender, 2021, "After-Effects of the COVID-19 Pandemic: Prospects for Medium-Term Economic Damage", IMF Working Paper WP/21/203.

[3] For example, see What the Pandemic Taught Educators (imf.org).

# Annex II. Implementation of Recommendations from the 2021 Article IV Consultation

| Recommendations | Status |
|---|---|
| **Fiscal Policy** | |
| **Implement a medium-term fiscal consolidation plan via:** | |
| • Improve revenue mobilization (e.g., Revenue Authority (RA), compliance). | **Ongoing.** The authorities plan to operationalize the RA during the second half of 2023. The Board of Management has been appointed and a three-year strategic plan for the 2023–2025 period has been issued. The authorities are also advanced in implementing the gambling tax and the property tax. |
| • Rationalize existing subsidies on fuel, electricity, and water while strengthening social safety net. | **Ongoing.** Fuel prices have been partially adjusted twice in 2022. Water and electricity tariffs are under review. |
| • Address VAT refund arrears by clearing backlog and staying current going forward. | **Partially done.** The authorities cleared VAT refund arrears of TT$4 billion in FY2022, and plan to clear about TT$3 billion of VAT refund in FY2023. |
| • Streamline transfers to SOEs and other public bodies. | **Ongoing.** Transformation of Petrotrin—the state-owned oil company—was successfully completed in 2018. Transformation Plan for Water and Sewerage Authority (WASA) is in progress and the authorities are at advanced stages with respect to the increase in tariffs on electricity. |
| • Enhance public spending efficiency and enact the Public Procurement Act. | **Ongoing.** Parts of the Public Procurement Act are enacted and there is full commitment to taking the final steps to fully proclaim and bring this legislation into operation. |
| **Strengthen fiscal policy framework:** | |
| • Adopt formal medium-term fiscal framework with clear objectives. | **Ongoing.** The authorities started to introduce medium-term fiscal projections. Fund TA was provided in 2018 to assist with the medium-term fiscal framework. Additional TA from CARTAC is expected during the 2023 to 2024 period. |
| • Adopt a rules-based fiscal framework with clear and transparent targets. | **Ongoing.** Currently, the authorities follow an informal debt-target rule and have requested IMF TA to explore possible options for developing formal fiscal rules. |
| • Develop a sound debt management strategy and adopt asset-liability management framework. | **Ongoing.** The authorities are developing a debt management strategy with CARTAC's TA support. |
| • Broaden fiscal data coverage beyond central government. | **Ongoing.** The authorities publish the fiscal operations of the statutory board and other public bodies. |

| Monetary and Exchange Rate Policy | |
|---|---|
| • Modernize FX and money markets infrastructure to replace the special purpose windows at the EximBank. | **No progress.** The CBTT interventions are more predictable but insufficient to clear the FX market. EximBank has eased the eligibility and on-boarding criteria for some of its facilities, but inefficiencies remain in place. |
| • Eliminate exchange restrictions and multiple currency practices. | **No progress.** |
| **Financial Sector** | |
| • Conduct timely and forward-looking assessment of banks' assets quality. | **Ongoing.** The CBTT conducts biannual stress tests of interest rate, foreign exchange, and credit risks and liquidity risks. |
| • Conduct a comprehensive environmental risk assessment of the financial sector. | **Ongoing.** The CBTT's supervisory approach considers climate-related risks in the preparation of the *internal capital adequacy assessment process (ICAAP).* The TTSEC requested Fund TA to support a comprehensive environmental risk assessment of the financial sector and develop a green finance strategy. |
| • Strengthen financial supervision and regulatory framework. | **Ongoing.** CBTT finalized guidelines for the *Management of Outsourcing Risks* (Feb. 2022) and for the *Management of Market Risk* (Jul. 2022); began the implementation of the *ICAAP guideline*— with the first submission received from banks in January 2022; and began an independent review of its structure and resources for supervision with the support of CEMLA and peers in Uruguay and Brazil. |
| • Strengthen AML/CFT framework and resolve tax transparency and exchange of information deficiencies related to the EU and the Global Forum. | **Ongoing.** The authorities are actively working on resolving these issues. |
| **Structural Reforms** | |
| • Upgrade climate-resilient infrastructure. | **Ongoing.** Solar and wind infrastructure are being developed. |
| • Update regulatory framework for green financing and renewable energy. | **No progress.** |
| • Implement structural reforms to support non-energy sector growth. | **Ongoing.** The FY2023 Budget introduced several measures, including for closing skill gaps, increasing financial inclusion for SMEs, supporting the manufacturing sector, and promoting non-energy exports diversification. |

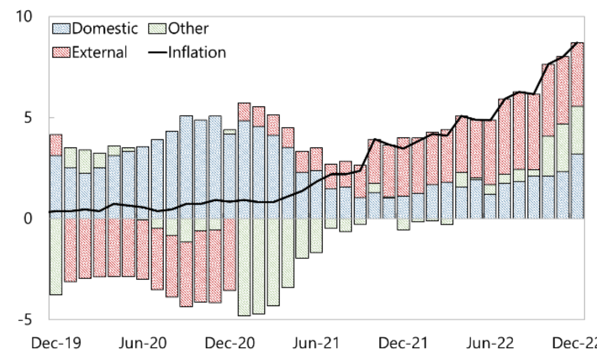
| Statistics | |
|---|---|
| • Further improve economic statistics. | **Ongoing.** The authorities launched a National Summary Data Page (NSDP) under the IMF's e-GDDS. TA is being provided for both national accounts and Balance of Payments statistics. Household and income survey is planned for 2023-Q1. However, delays arise due to funding and staffing issues. |

# Annex III. Drivers of Inflation in Trinidad and Tobago

*Inflation has risen across the world, and Trinidad and Tobago has been no exception. This annex examines the role of domestic and external factors in driving domestic prices in Trinidad and Tobago. It shows that global factors explain most of the pick-up in inflation in 2022, but its contribution has been declining in recent months. Domestic drivers have shown a moderate but upward trend underscoring the need to ensure policies remain in place to prevent inflation from escalating further.*

**1. Inflation has increased in Trinidad and Tobago but remains relatively low compared to its peers.** After several years of historically low levels, inflation picked up, reaching 8.7 percent in December 2022. By comparison, inflation in the Latin America and the Caribbean averaged 14.8 percent in 2022, including 16.9 percent in the Caribbean countries (excluding Trinidad and Tobago).[1]

**Drivers of headline Inflation and Its Determinants**
(In Percent)




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

**2. Higher commodity and import prices affected inflation in Trinidad and Tobago.** Imports from the U.S. constitute about a third of total imports. Higher energy prices also affected transportation costs, with the potential to spill over into other components in the consumer basket. Also, global food prices significantly affected domestic food prices.

**3. Regression analysis confirms the role of external factors in driving domestic inflation in recent months (Table 1).** Starting in January 2021, external factors—e.g., U.S. inflation, higher global food prices, and changes in the valuation of the U.S. dollar—explained most of the increase in Trinidad and Tobago's inflation. Domestic factors—e.g., growth of monetary base—started to gradually play an increasing role in recent months. Other factors—the regression's residual—have added between 0.1 and 0.5 percent to the headline inflation during May and September 2022, and about 1.5 percent in October and November 2022, coinciding with the adjustments in fuel prices in April and September. This component also might reflect increasing inflation expectations, which could not be included in the model directly due to the absence of their direct measure.

**Table 1. Trinidad and Tobago: Estimated Inflation Model /1**
(January 1994 - September 2022)

| Determinants | Coeff. (std. errors) |
|---|---|
| Growth of monetary base, yoy, in percent | 0.081*** (0.008) |
| Depreciation of TT dollar, yoy, in percent | 0.170*** (0.034) |
| Global food price increase, yoy, in percent (L4) | 0.019* (0.009) |
| Headline inflation in the USA, yoy, in percent (L6) | 0.511* (0.257) |
| Long-term average (constant) | 2.568*** (0.564) |

1/ Superscripts *, **, *** denote the 5, 10, and 1 percent significance levels.

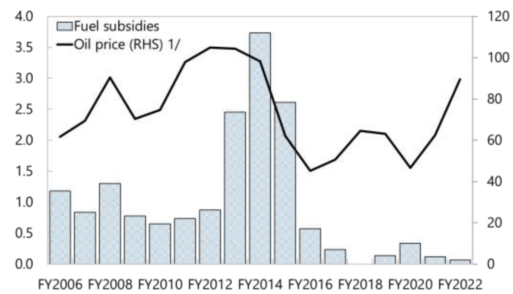
[1] The regional aggregates are weighted geometric averages using the PPP GDP. See Adler, Gustavo, Nigel Chalk, Anna Ivanova, 2023, "Latin America Faces Slowing Growth and High Inflation Amid Social Tensions," IMF Blog.

# Annex IV. Fuel Subsidies in Trinidad and Tobago

*Trinidad and Tobago partially liberalized fuel prices in 2022. This policy will help improve the resilience and sustainability of public accounts. Fuel subsidies have large fiscal costs and phasing them out helps the government maintain expenditure in more critical areas (e.g., healthcare, education, infrastructure). Moreover, reducing the fuel subsidies will contribute to improve the efficiency in the allocation of resources in the economy. Indeed, fuel subsidies are poorly targeted—mostly benefiting the better off.[1] Also, they distort the adequate social cost of fuel use involved in its production (e.g., capital, labor, and raw materials), on the environment (e.g., greenhouse gas emissions), and on its externalities (e.g., road congestion).*

1. **The 2022 liberalization of fuel prices prevented a new spike in the fiscal cost of fuel subsidies.** In the past, the fiscal cost of fuel subsidies in Trinidad and Tobago was closely tied to global energy prices. Due to its high cost, the authorities intended to fully liberalize energy prices in the first quarter of 2022. However, this was delayed due to the impact of the war in Ukraine on global energy prices. Instead, in April 2022, the authorities made a partial adjustment of fuel prices (Table). This allowed to keep the fuel subsidy cost at TT$127 million (0.1 percent of GDP) in FY2022, well below the cost observed in past episodes of high oil prices (Chart).

**Cost of Fuel Subsidies and Global Oil Price**
(In Percent of GDP, US$/barrel)




Sources: Trinidad and Tobago's authorities and IMF staff calculations.
1/ Simple average of Dated Brent, West Texas Intermediate, and the Dubai Fateh.

2. **The FY2023 budget has capped the fuel subsidy at TT$1 billion per year.** The budget estimates a fiscal saving of TT$1.3 billion (0.7 percent of GDP) from the subsidy cap. To this end, the authorities further increased fuel prices in September 2022 (Table). This adjustment, together with the one made in April 2022, will bring fuel prices in Trinidad and Tobago closer to the average price observed in the Caribbean region (Chart).[2] The FY2023 budget also introduced a one-time transport grant of TT$1,000 targeting 175,000 persons vulnerable to the fuel price increase. This policy will cost about 0.1 percent of GDP and will help mitigate the fuel price liberalization pass-through to inflation. The transportation subcomponent of the consumer price index reached an annual inflation rate of 14.6 percent in December, up from just 2.2 percent in March 2022. While welcome, the temporary transport grant could be better calibrated to ensure adequate coverage among the most vulnerable and, also, to avoid leakages that benefit higher income groups.

[1] Fuel subsidies are a costly approach to protect the poor from higher international fuel prices due to the substantial benefit leakage to higher income groups. Estimates for developing countries find that the top income quintile captures six times more in subsidies than the bottom quintile. See Arze del Granado, F., D. Coady, and R. Gillingham, 2012, "The unequal benefits of fuel subsidies: a review of the evidence for developing countries," World Development, Vol. 40, No. 11, pp. 2234–2248.

[2] The price for cooking gas (20lb cylinder) has remained unchanged. The government estimates that this subsidy still requires TT$300 million (0.2 percent of GDP).

**Retail Fuel Prices in 2022**

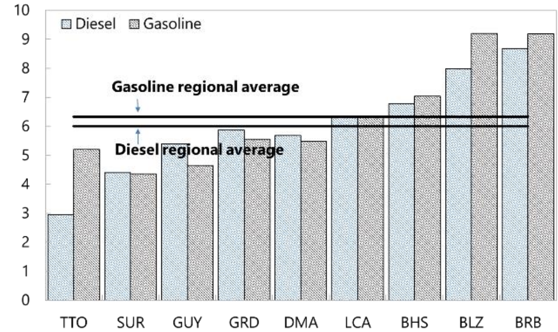
(In TT$ per liter)

| | Before price liberalization | After April increase | After September increase |
|---|---|---|---|
| Premium gasoline | 5.75 | 6.75 | 7.75 |
| Super gasoline | 4.97 | 5.97 | 6.97 |
| Kerosene | 1.5 | 3.5 | 4.5 |
| Diesel | 3.41 | 3.91 | 4.42 |

Source: Trinidad and Tobago's authorities.

**Fuel Prices**

(In US$ per Imperial Gallon, As of February 27, 2023)




Sources: GlobalPetroPrices.com and IMF staff calculations.

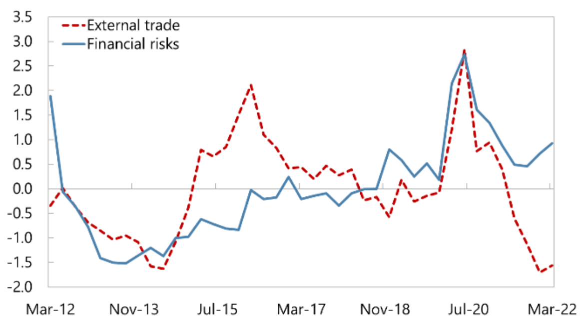
# Annex V. Growth-at-Risk

*Changes in macro-financial conditions can provide powerful signals about risks to future economic activity. This annex uses the Growth-at-Risk (GaR) methodology developed at the Fund to shed light about how financial and external variables affect the future distribution of growth in Trinidad and Tobago's economy. Applying the GaR methodology requires, first, identifying the relevant factors conditioning the growth forecasts, and then using them to estimate the probability distribution of the growth forecast. GaR results applied to the quarterly data for 2012Q1–2022Q1 show that Trinidad and Tobago's economy is sensitive to external and domestic shocks. Results also show how these shocks would affect the probability distribution of growth.*

## Global Economic Conditions

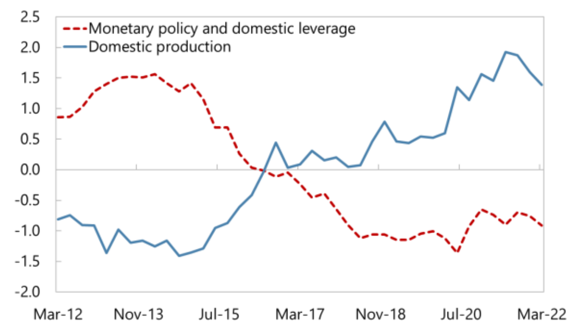
1. **Trinidad and Tobago is a commodity exporter, and its economy is sensitive to global growth (e.g., as proxied by the U.S. GDP), the demand for imports, and international energy prices.** The analysis indicates that external conditions were accommodative in 2012–14, tight in 2015–2017, and broadly neutral in 2019. This assessment reflects commodity super-cycles, global recovery from the secular stagnation post-2012, gradual removal of global pandemic restrictions since 2021, and impact of the war in Ukraine on energy prices.

**Dynamics in External and Financial Conditions 1/**
(Index)




Sources: IMF staff calculations.
1/ Positive (negative) values indicate tight (loose) conditions.

**Dynamics in Domestic Conditions 1/**
(Index)




Sources: IMF staff calculations.
1/ Positive (negative) values indicate tight (loose) conditions.

## Financial Conditions

2. **The country has a sizable financial center and is vulnerable to external and domestic financial risks.** Total assets of its banks, pension funds, insurers, mutual funds, and credit unions represent 212 percent of GDP (as of 2021). There are large financial conglomerates, which are systemically important regional players. Taking that into account, we construct a financial conditions index, which absorbs information from the movements in the U.S. financial markets (measured by the Chicago Board Options Volatility Index-VIX), sovereign spreads, inflation, and non-performing loans in the domestic banks. Results suggest that financial conditions were accommodative in 2012–2015, tight in 2020 and 2022 (due to the disturbances from the COVID-19 pandemic, the war in Ukraine, sanctions on Russia), and neutral in the remaining periods.

## Domestic Activity

3. **The production capacity in the domestic economy is also vulnerable to shocks.** The mature energy industry can suffer from maintenance and logistics issues. The non-energy economy can be sensitive to weather events (i.e., droughts) and experiences spillovers from the energy booms and busts. Dynamics in the domestic production show accommodative conditions in 2012–2015, neutral in 2016–2017, and tight since 2018.

## Domestic Macro-Financial Conditions

4. **Domestic growth is driven by domestic macro-financial condition.** The central bank's repo rate is the main policy instrument, affecting the domestic credit conditions, which we proxy with credit-to-GDP and loans-to-deposits ratios. Fiscal policy is driven by the central government expenditure. The monetary conditions index shows that those were broadly tight in 2012–2016, and accommodative in 2017–2022. Fiscal policy injections are very volatile and seasonal.

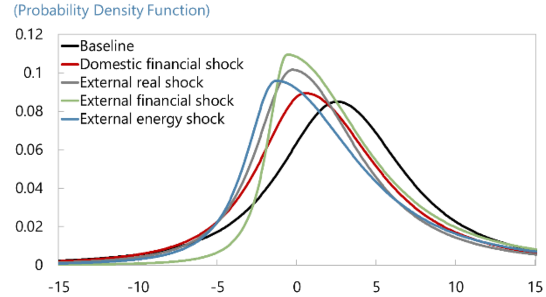
## Growth-at-Risk

5. **The conditioning factors are employed to derive the probability density function for the forecast of GDP growth four-quarters ahead.** In addition, the methodology allows to quantify the downside risks to future growth under individual shock scenarios.[1] Results are as follow:

- Higher volatility in the external conditions would be the most detrimental to domestic growth. A one-standard deviation drop in the U.S. GDP growth reduces the modal projection of Trinidad and Tobago's growth by 2.8 percentage points, increasing the probability of a recession by 12.1 percent.
- A one-standard deviation decline in the natural gas price would lower the modal growth by 3.8 percent, pushing the probability of a recession by 13.2 percent.
- Adverse changes in the financial conditions are also detrimental to domestic growth. A one-standard increase in financial markets' volatility index, as proxied by the VIX, is associated with a decline in Trinidad and Tobago's mean growth of 3.2 percent. This result is explained by a high correlation of the VIX with the external shocks, including during the GFC, commodity price shocks, and the COVID-19 pandemic. A deterioration in the banks' asset quality—measured by a one additional percent in the non-performing loans (NPL) rate—

**Real GDP Growth-at-Risk: Baseline and Shock Scenarios 1/**

(Probability Density Function)




Source: IMF staff calculations.
1/ Shows the full conditional probability function of real GDP four quarters ahead as a function of real and financial external conditions, and real and macro-financial domestic conditions.

[1] In the baseline scenario, the mode of the distribution is fixed in line with staff's projection in 2022. The size of each individual adverse shock is as follows: one percent for NPLs and one-standard deviation for the remaining variables (7.6 percent for the U.S. growth; 5.2 units for the VIX quarterly average, and 0.8 USD per MMBtu for gas).

could reduce the modal growth by 4.1 percent, pushing the probability of negative growth by 12.6 percent.

**6. To conclude, results indicate that the economy is most vulnerable to the volatility in financial markets, global economic activity, energy prices, and asset quality in the domestic banks.**

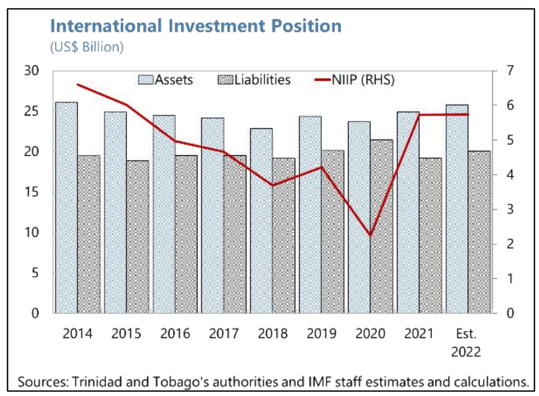
# Annex VI. External Sector Assessment

***Overall Assessment:*** *Trinidad and Tobago's external position is stronger than the level implied by fundamentals and desirable policies. The assessment, based on 2022 estimates, is more favorable than in 2020, reflecting stronger fundamentals. The reopening of the economy from the lockdown of pandemic and higher global energy prices supported the economic recovery and strengthened the external and fiscal positions. A fiscal surplus in FY2022 contributed to bringing debt levels down. Large current account balances have supported the improved net creditor position. International reserve coverage remains adequate under all metrics and is complemented with large external liquid assets in the Heritage Stabilization Fund (HSF). Data gaps in the primary income and capital account and large errors and omissions in the financial account constrain a more comprehensive external sector assessment.*

***Policy Responses:*** *External sustainability is not a concern in the near-term, particularly given the country's large current account (CA) surplus and net international investment position (NIIP). Nonetheless, it is critical to continue to rebuild external buffers given the uncertain outlook for global energy markets and the expected deceleration in domestic energy production. This requires fiscal prudence in managing the energy price windfall, and the steadfast implementation of structural reforms to diversify the export base and ensure a smooth transition to a greener and decarbonized economy.*

## Foreign Assets and Liabilities: Position and Trajectory

**Background.** The NIIP remains positive and strong. After bottoming at $2.2 billion (10.6 percent of GDP) in 2020 and recovering in 2021 to around $5.7 billion (23.4 percent of GDP), the NIIP is estimated to have remained stable at $5.7 billion (20.6 percent of GDP) in 2022. The improvement in 2021 was driven both by an increase in foreign assets and a decline in foreign liabilities. The former reflected increased holdings of direct investment (from $1.8 billion in 2020 to $2.3 billion in 2021) and other investments (from $4.7 billion in 2020 to $5.4 billion in 2021), while the latter was due to negative reinvestment of earnings and decreases in account payables and loan repayments (down by $1.4 billion and 0.7 billion, respectively). In 2022, the country's asset position was adversely affected by valuation effects. These particularly affected the HSF which suffered $593.3 million in estimated losses as of August 2022) due to the volatility in global equity markets. However, this was compensated for by a prudent management of the energy windfall as reflected by the $345 million in deposits made by the government into the HSF during 2022.



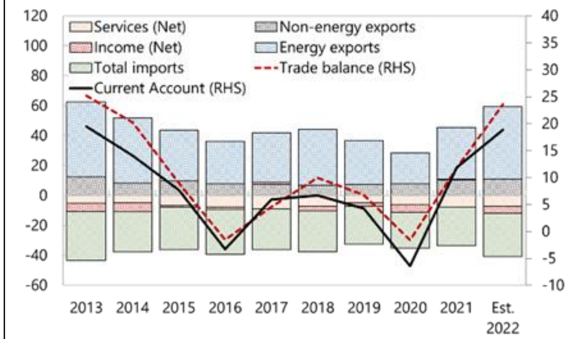

**Assessment.** The NIIP is and will remain strong over the medium term. This will help mitigate risks, including those associated with the volatility in global energy prices. An adequate sovereign asset and liability management framework is needed to mitigate the impact of valuation effects arising from the increased volatility in global financial markets.

| 2021 (% GDP) | NIIP: 23.4 | Gross Assets: 101.8 | Debt Assets: 53.5 | Gross Liabilities: 78.4 | Debt Liabilities: 73.2 |
|---|---|---|---|---|---|

## Current Account

**Background.** In 2022, the CA reported its largest surplus since 2013, reaching 18.9 percent of GDP—about 7 percentage points of GDP larger than in 2021. This mostly reflects the windfall exports due to the higher energy and petrochemical prices that followed Russia's invasion of Ukraine. A larger import bill driven by the higher commodity prices, the ongoing economic recovery, and the widening of the primary income account deficit—due to higher repatriation of profits by non-resident energy companies—prevented a larger CA surplus.

**Contribution to Current Account Balance**
(In Percent of GDP)




Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

**Assessment.** Trinidad and Tobago's cyclically adjusted CA is estimated at 10 percent of GDP after accounting for cyclical contributions (e.g., positive terms of trade shock resulting in an estimated exports earnings windfall of about 5.9 percentage points of GDP) and statistical factors—estimated at about 3 percent of GDP (i.e., data constraints in capturing outflows which partially contribute to large net errors and omissions. The 2022 EBA-lite estimates a CA norm of 7.6 percent of GDP, which when compared to the cyclically adjusted CA, results in an estimated CA gap of 2.4 percent of GDP. Thus, staff concludes that the current account is stronger than the level implied by fundamentals and desirable policies.

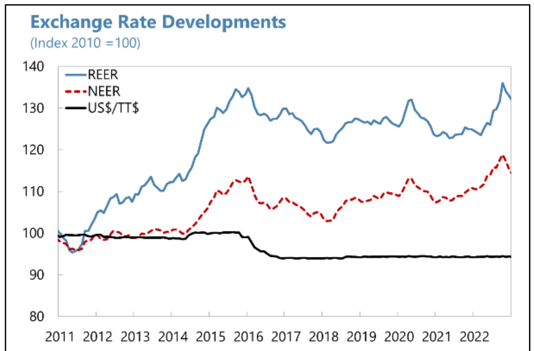
**EBA-lite Model Results, 2022**
(In percent of GDP)

| | **CA model** 1/ | **REER model** 1/ |
|---|---|---|
| | (in percent of GDP) | |
| **CA-Actual** | **18.9** | |
| Cyclical contributions (from model) (-) | 5.9 | |
| COVID-19 adjustors (-) 2/ | 0.0 | |
| Additional temporary/statistical factors (-) 3/ | 3.0 | |
| Natural disasters and conflicts (-) | 0.0 | |
| **Adjusted CA** | **10.0** | |
| **CA Norm** (from model) 4/ | **7.6** | |
| Adjustments to the norm (-) | 0.0 | |
| **Adjusted CA Norm** | **7.6** | |
| **CA Gap** | **2.4** | **-1.7** |
| o/w Relative policy gap | 1.3 | |
| Elasticity | -0.3 | |
| **REER Gap** (in percent) | **-7.7** | **5.6** |

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on trade balance.
3/ Additional adjustment to account for statistical factors due to large net errors omissions.
4/ Cyclically adjusted, including multilateral consistency adjustments.

## Real Exchange Rate

**Background.** The real effective exchange rate (REER) appreciated, through December 2022, by 6.5 percent since December 2020. This was driven by a 4.2 percent appreciation of the nominal effective exchange rate (NEER). The exchange rate vis-à-vis the U.S. dollar has been broadly stable (0.2 percent appreciation since end-2021) due, in part, to the regular intervention by the central bank in the FX market.

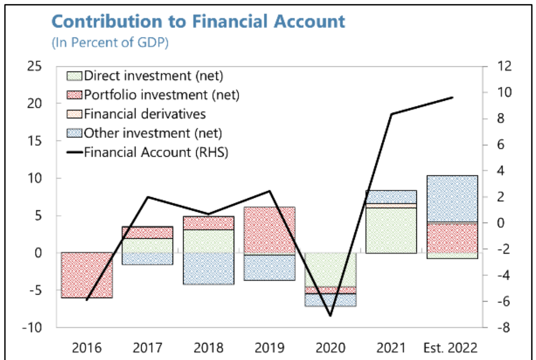


Sources: IMF Information Notice System and IMF staff calculations.
Note: A decline means depreciation.

**Assessment.** The EBA-Lite REER model estimates a REER gap of -1.7 percent in 2022. Based on a staff elasticity of -0.3 percent of the trade balance to the REER, the REER gap under the CA model is -7.7 percent.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The financial account is estimated to have recorded net outflows in 2022 driven by portfolio (e.g., investments in debt securities held abroad mainly by domestic financial institutions), and other investment (e.g., currency and deposits). The capitalization of the HSF also contributed to the outflows and the increase in external assets.

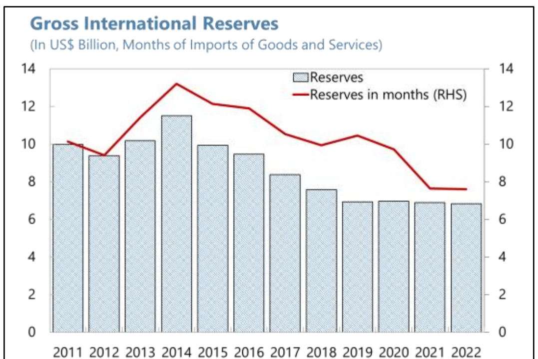


Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

**Assessment.** Net direct investment inflows associated with new investments by energy companies are expected to support the capital and financial account over the medium-term nearly offsetting the portfolio and other investments outflows.

## FX Intervention and Reserves Level

**Background.** Trinidad and Tobago's exchange rate is classified as a stabilized arrangement. Gross international reserves have remained stable since 2019 supported by external borrowing, the 2021 general allocation of special drawing rights (SDR), the 2022 positive terms of trade shock, and fiscal consolidation following the pandemic. Reserves in 2022 remained broadly stable at US$6.8 billion (24.5 percent of GDP or 7.6 months of prospective imports of goods and services). Liquidity in the domestic FX market is largely driven by FX inflows from energy companies. FX shortages seen in previous years eased during 2022 on the back of strong FX revenues resulting from improved global energy prices, increased non-energy exports, and a more predictable FX intervention by the central bank.



Sources: Central Bank of Trinidad and Tobago and IMF staff calculations.

**Assessment.** Gross international reserves are adequate under all metrics. They stand at 120.6 percent of the IMF's composite reserve adequacy (ARA) metric and exceeds the benchmark of 6-months of prospective imports of goods and services for commodity exporters, and 20 percent of broad money and short-term debt falling due within one year. Increased energy production and external borrowing will help to keep reserves steady over the medium-term, offsetting lower inflows due to expected lower energy prices. It is also important to highlight that reserve coverage is complemented with large external assets in the HSF. If counted together with reserves, the authorities' usable liquid FX assets would amount to US$11.9 billion or 199.1 percent of the ARA metric.

# Annex VII. Risk Assessment Matrix[1]

| Source of Risk | Likelihood/ Time Horizon | Expected Impact | Policy Response |
|---|---|---|---|
| **Commodity prices volatility.** A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability. | Medium<br><br>**Short to medium-term** | High<br>• Higher energy prices would further strengthen the external and fiscal positions and boost liquidity in the banking system.<br>• A sharp decline in energy prices would have negative spillovers on the non-energy sector, slowing growth. It could also affect liquidity within the financial system and, over time, have a negative impact on credit growth and asset quality.<br>• Higher commodity prices would add to inflationary pressures which could have second-round effects on non-food inflation. | • Accelerate fiscal reforms to boost non-energy revenue collections and offset the decline in energy revenue.<br>• Monitor closely the liquidity in the banking system and its impact on asset quality in line with the 2020 FSAP recommendations.<br>• A adopt a medium-term fiscal framework with a fiscal anchor to reduce the procyclicality of the fiscal policy.<br>• Implement structural reforms to support private sector development and the diversification of the economy to reduce the impact of energy price volatility.<br>• Ensure a smooth transition to a greener economy. |
| **Intensification of regional conflict(s).** Escalation of regional conflict(s) and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems. | High<br><br>**Short to medium-term** | High<br>• The spillover on Trinidad and Tobago's economy would depend on the nature of the event.<br>• If the shock translates into higher global energy prices, the impact would be positive for Trinidad and Tobago's economy.<br>• Confidence shock could trigger capital outflows, which would weigh on asset prices. | • See the recommended response to rising commodity prices above.<br>• Enhanced surveillance of the financial system would help identify systemic risks or liquidity pressures early on.<br>• Monetary and prudential measures can be deployed to address capital outflows if they occur. |

[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.

| Source of Risk | Likelihood/ Time Horizon | Expected Impact | Policy Response |
|---|---|---|---|
| **Abrupt global slowdown or recession.** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, spillovers through trade and financial channels, and market fragmentation. | **Medium**<br><br>**Short to medium-term** | **High**<br>• Sharp global growth downturn could reduce demand for energy and other commodities. This would reduce exports and fiscal revenues which would slow growth.<br>• Sharp tightening of global financial conditions could lead to higher risk premia, fiscal pressures, and capital outflows. | • Provide temporary and targeted spending to shield the most vulnerable.<br>• Build external and fiscal buffers to safeguard macroeconomic stability.<br>• Accelerate fiscal reforms to boost non-energy revenue collections.<br>• Press forward with structural reforms to diversify economy and markets and improve competitiveness of the non-energy sector. |
| • **U.S.:** Amid tight labor markets, supply disruptions and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in dollar strengthening, a more abrupt financial and housing market correction, and "hard landing". | **Medium** | | |
| • **Europe:** Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections. | **High** | | |
| • **China:** Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity. | **Medium** | | |
| • **EMDEs:** A new bout global of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops. | **Medium** | | |
| **Social discontent.** Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing. | **High**<br><br>**Short to medium-term** | **Low**<br>• Social unrest spreading globally is not likely to significantly impact Trinidad and Tobago but rising domestic inflation and declining incomes could stoke social tension domestically. | • Ensure that social welfare and transfer programs are well targeted and reach the most vulnerable.<br>• Develop a clear communication and engagement strategy with the affected communities, while considering their direct and indirect distributional effects in policy decisions. |

| Source of Risk | Likelihood/ Time Horizon | Expected Impact | Policy Response |
|---|---|---|---|
| **Monetary policy miscalibration.** Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. | **Medium**<br><br>**Short to medium-term** | **High**<br>• Wider interest rate differentials with the U.S. Federal Reserve could encourage capital outflows, putting further pressure on the exchange rate and foreign reserves.<br>• Appreciation of the U.S. dollar could decrease competitiveness vis-á-vis non-US trade partners.<br>• Tighter interest rates could cool domestic demand. | • Central bank needs to tighten policy rate to keep the differential from narrowing and support the exchange rate regime and keep inflationary pressures contained.<br>• Adhere to the medium-term fiscal plan would help reduce the risk of higher financing costs. |
| **Systemic financial instability.** Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers. | **Medium**<br><br>**Short to medium-term** | **High**<br>• Tighter financial conditions could cause stressed balance sheets and debt services for both private and government sectors.<br>• The interconnected financial system could suffer losses from regional exposures. | • Strengthen monitoring systemic risks and crisis preparedness framework in the financial sector in line with the 2020 FSAP. Develop macroprudential policy framework.<br>• Develop a Sovereign Asset-Liability Management Framework" to identify and manage the financial risk exposure of the public sector, to preserve sound balance sheets and fiscal and debt management objectives are achieved. |
| **Deepening geo-economic fragmentation.** Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth. | **High**<br><br>**Short to medium-term** | **Low**<br>• Deepening geo-economic fragmentation and geopolitical tensions could disrupt trade flows and hamper economic diversification attempts. Trinidad and Tobago could nevertheless benefit in the short-term if there is, an increase in energy prices. | • Accelerate diversification and economic resilience through well-timed and sequenced implementation of the reforms outlined in the *Vision* 2030, and measures to strengthen the fiscal and monetary policy frameworks. |

| Source of Risk | Likelihood/ Time Horizon | Expected Impact | Policy Response |
|---|---|---|---|
| **Cyberthreats.** Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability. | **Medium**<br><br>**Short to medium-term** | **Medium**<br>• Cyberattacks on critical physical or digital infrastructure could trigger financial instability and disrupt economic activities. This could weaken confidence, generating adverse effects on consumers and financial markets. | • Improve spending on cyber-security.<br>• Strengthen information security and data protection; business continuity procedures; routine off-site tests; and the payment system, including its regulation and supervision in line with the 2020 FSAP recommendations.<br>• Develop a methodology for mapping financial and technological networks to identify critical risk concentrations. |
| **Extreme climate events.** Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth. | **Medium**<br><br>**Short to medium-term** | **Medium**<br>• Although the country is outside of the hurricane belt, it can suffer from storm surges and earthquakes, affecting key infrastructure and disrupting trade. Severe events could disrupt economic activity, increase prices, and incur fiscal costs.<br>• The financial sector is exposed to the region through the banking and insurance sectors. Large scale disasters can impose costs directly or through higher reinsurance premiums. | • Continue efforts to build resilience and limit disruptions caused by natural disasters, focusing on three areas: structural, financial, and post-disaster resilience.<br>• Accelerate economic diversification, including advancing renewable energy projects.<br>• Undertake a comprehensive risk assessment and integrate material aspects of climate change and environmental risks into financial sector supervision in line with the 2020 FSAP recommendations. |

# Annex VIII. Sovereign Risk and Debt Sustainability Assessment (SRDSA)

*Trinidad and Tobago's public debt remains sustainable over the medium term.[1] Debt-to-GDP ratio declined to 53.8 percent of GDP in FY2022, after peaking at 60 percent of GDP in FY2020. This puts an end to the rising debt-to-GDP trend observed since FY2014. The decline of FY2022 was underpinned by the sharp increase in energy prices, a better-than-expected fiscal outturn, the phasing out of COVID-19 related fiscal measures, and the economic recovery. Gross financing needs are projected to remain stable—reflecting moderate but persistent fiscal deficits—and public debt is projected to stabilize at 56.3 percent of GDP by FY2028. The dynamics of debt remains vulnerable to the uncertain and volatile global energy prices and the realization of contingent liabilities from state-owned enterprises and statutory bodies. However, these vulnerabilities are mitigated by the country's large financial buffers and a strong debt profile—i.e., low share of foreign currency debt and medium- to long-term maturity. Maintaining fiscal discipline, rebuilding fiscal buffers, and advancing structural reforms to diversify the economy and prepare it for the global energy transition will be crucial to ensure fiscal sustainability and resilience from future shocks.*

**1. Trinidad and Tobago's public debt declined to 53.8 percent of GDP in FY2022, reversing the rising trend that started in FY2014 with the collapse of global energy prices.** Public debt almost doubled between FY2013 and FY2019, and it further increased with the pandemic response, peaking at 60 percent of GDP in FY2020. This trend reflected persistent fiscal deficits arising from lower energy revenues and higher current spending needs, coupled with declining levels of economic activity. The improved outcome in FY2022 was supported by the sharp increase in global energy prices and a better-than-expected fiscal outturn that brought public accounts to a surplus. The ongoing economic recovery and the unwinding of the COVID-19 related support measures further supported this outcome. Despite the improved outcome of 2022, the current level of public debt remains above its pre-COVID-19 level by about 8.5 percentage points of GDP.[2]

**2. Public debt displays a resilient structure.** Debt is mostly held domestically, with about a third of public debt (32.6percent) being held externally (representing only 17.5 percent of GDP). Also, public debt is mostly denominated in domestic currency, with just 34.3 percent being denominated in foreign currency. Finally, roll-over risks are mitigated by a maturity structure that is mostly medium- to long-term—with a share of 30 percent and 35 percent, respectively.

[1] The analysis is based on the new Sovereign Risk and Debt Sustainability Framework (SRDSF) for market access countries. For Trinidad and Tobago, the SRDSA's perimeter encompasses the central government sector due to lack of consolidated general government and public sector data. Also, the analysis excludes short-term debt issued for open market monetary policy operations. These instruments were equivalent to about 4.8 percent of GDP at end-FY2022 and were matched by corresponding "frozen" government deposits in the domestic banking system.

[2] All ratios involving GDP are calculated using the recently revised nominal GDP series published by Trinidad and Tobago's Central Statistics Office. Hence, these ratios are not comparable with those published in previous debt sustainability assessments (see Box 1 in the main text).

3. **The baseline scenario of this SRDSA reflects the medium-term macroeconomic assumption and policies under staff's projections.** Staff's baseline scenario is based on the approved FY2023 budget, and the macroeconomic outlook and assumes a continuation of current policies with modest progress on the reform agenda. It excludes revenue or spending targets that are not underpinned by concrete measures. The assessment is based on the following assumptions:

- *Macroeconomic assumptions.* The ongoing economic recovery will result in a GDP expansion of 2.5 percent in 2022 and 3.2 percent in 2023. Growth will then converge towards its potential of 1.5 percent over the medium-term. While inflation peaked at 8.7 percent in 2022 on the back of higher global food and energy prices, domestic weather-related shocks, and the fuel subsidy reduction, it is expected to gradually decline to 1.8 percent. The current account is projected to display large but declining surpluses, in line with the energy price assumptions.

- *Fiscal path*. After registering an overall fiscal surplus in FY2022, the fiscal balance is expected to turn into a moderate deficit in FY2023. The deficit is expected to remain moderate but to narrow gradually over the medium term. The primary balance is projected to remain in a surplus over the medium term, averaging 0.6 percent of GDP, but below the debt-stabilizing level.

- *Gross financing needs (GFNs)*. GFNs will gradually rise to 8.1 percent of GDP in FY2023, averaging about 6 percent of GDP over the medium term. About two-thirds of the GFNs will be covered with medium- and long-term domestic debt, with the remaining part being covered by external borrowing. The authorities made use of "one-off" financing measures and withdrawals from the Heritage Stabilization Fund (HSF) sovereign wealth assets in the last several years to limit the debt accumulation. However, 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." In 2022, the government replenished the HSF with deposits amounting to $345 million.

**One-Off Financing Measures**
(In percent of GDP)

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|---|---|---|---|
| Withdrawals from HSF | 0.0 | 0.0 | 1.6 | 1.1 | 0.0 | 0.0 | 4.5 | 3.8 |
| Sale of fixed assets | 0.0 | 2.7 | 2.2 | 0.8 | 0.5 | 0.6 | 0.4 | 0.6 |
| Super-dividends | 2.4 | 3.1 | 2.7 | 1.2 | 1.8 | 0.6 | 0.0 | 0.0 |

Sources: Ministry of Finance of Trinidad and Tobago and IMF staff calculations.

4. **Under the baseline scenario, public debt is projected to remain at moderate levels through the medium term.** Under staff's baseline scenario, debt-to-GDP is projected to remain stable in FY2023 as the primary surplus and the economic recovery would offset the adverse real interest rate dynamics. However, debt is projected to settle at about 56.3 percent of GDP by FY2028. Debt dynamics will be driven by the interest rate-growth differential despite the projected primary balances.

5. **Moderate uncertainty surrounds the baseline assumptions and projections.** Forecast errors point to some pessimism in staff's projections regarding the difference between real interest rate and economic growth and the primary balance over the medium term. Yet the projected fiscal adjustment and debt reduction are within the normal historical range observed in peer countries.

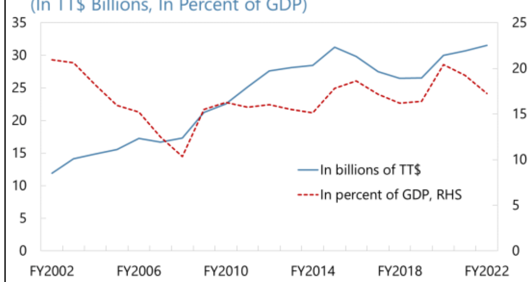
While the maximum adjustment over any three years is an outlier, this reflects the better-than-expected fiscal outturn for FY2022, on the back of higher energy prices.

**6. The fan charts illustrate uncertainty about the evolution of public debt over the medium term.** The debt fan chart—measuring medium-term solvency risks—points to a substantial risk surrounding the baseline projections. There is about a 50 percent probability that debt path will be above its current level as a share of GDP over the medium term.

**7. The debt trajectory is vulnerable to the volatility and uncertainty of energy prices.** Trinidad and Tobago's large dependence on the energy sector makes it highly vulnerable to energy shocks and this poses fiscal challenges. Such dependence leaves the country vulnerable to global shocks and complicates the authorities' efforts to maintain fiscal sustainability. This vulnerability has been evident during the past episodes of energy price collapses which led to large debt buildups. Public debt more than doubled in about seven years, increasing from 21.5 percent of GDP in FY2013 to 45.3 percent of GDP in FY2019, driven by large and persistent fiscal deficits due to the decline in energy revenues and the contraction of the economy. Moreover, the COVID-19 pandemic, when the collapse in energy prices, together with the fiscal measures taken to contain the impact of the pandemic, led to further increase of public debt to 60 percent at end-FY2021.

**8. Sizeable contingent liabilities from the public bodies also pose additional risks to the debt path if they materialize.** Contingent liabilities to the government stem from borrowing by public bodies (i.e., state-owned enterprises (SOEs) and statutory bodies), where central government guarantees are initially issued to them in the form of a letter of comfort and are eventually replaced by formal guarantees. As of end-FY2022, guaranteed debt, which is denominated primarily in domestic currency, reached 17.3 percent of GDP. The exposure of domestic banks to public bodies, their reliance on government support,[3] and the high sovereign-bank nexus sets a mechanism for a negative feedback loop that would amplify macroeconomic shocks and weaken debt sustainability and macroeconomic stability.

**Guaranteed Debt**
(In TT$ Billions, In Percent of GDP)




Source: Trinidad and Tobago's authorities and and IMF staff estimates.

**9. Long-term scenarios suggest moderate risks related to climate change and natural resource depletion, but pressures could surface from the pension system.**

- Climate-related expenditures are manageable and will have a limited impact on debt sustainability. In the long-term, the customized scenario assumes an increase of 0.1 percent of GDP per year of spending related to climate risks arising from adaptation and mitigation

[3] The central government pays the interest and principal of guaranteed debt of non-self-serviced SOEs and statutory bodies through budget transfers. As of end-FY2022, transfers to SOEs and statuary bodies amounted to about 3 percent of GDP.

investment needs. In this scenario, public debt and GFNs will increase relative to the baseline but will be on a downward trajectory over the 20-year horizon (Figure 7).

- The decline in natural resources is likely to erode the fiscal revenue base and widen the primary deficit. Nonetheless, the debt level and GFNs will remain at manageable level supported by a sustained growth in the non-energy sector (Figure 7).

- Pension expenditures under the current system would lead to larger GFNs and an upwards debt trajectory in the long run. This points to the need to undertake parametric reforms of the current public pension system (Figure 8).

**10. Fiscal risks are mitigated by the country's large fiscal buffers.** Although the country remains exposed to the uncertainty and volatility of global energy prices and the realization of contingent liabilities public bodies, these vulnerabilities are mitigated by the country's large fiscal buffers in the sovereign HSF amounting to about 18.6 percent of GDP at end-FY2022, the medium- and long-term maturity profile, and a moderate foreign currency share of outstanding debt. Thus, while the overall debt sustainability risks have decreased, maintaining fiscal discipline, and rebuilding fiscal buffers will be crucial to ensure fiscal sustainability and resilience from future shocks.

## Figure 1. Trinidad and Tobago: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | ... | Moderate | The overall risk of sovereign stress is moderate, reflecting a relatively moderate levels of vulnerability in the medium- and long-term horizons. |
| **Near term 1/** | | | |
| **Medium term** | Moderate | Moderate | Medium-term risks are assessed as moderate. This reflects manageable gross financing needs. The Fanchart suggests "high" risk, largely due to the volatility of key macroeconomic indicators in the past. Staff concurs with this assessment, also considering the mitigating role of the country's large fiscal buffers. |
| Fanchart | High | ... | |
| GFN | Moderate | ... | |
| Stress test | ... | ... | |
| **Long term** | ... | Moderate | Long-term risks are moderate reflecting climate change and natural resource depletion. The debt level will continue to slightly increase, but pressures could surface from the pension system. |
| **Sustainability assessment 2/** | Not required for surveillance countries | Not required for surveillance countries | Not applicable |
| **Debt stabilization in the baseline** | | | No |

### DSA Summary Assessment

Commentary: Public debt declined to 53.8 percent of GDP in FY2022, for the first time in over a decade supported by the sharp increase in global energy prices and a better-than-expected fiscal outturn. The debt level is projected to remain stable over the medium term as the primary surplus and the economic recovery would offset the adverse real interest rate dynamics.Trinidad and Tobago is at a moderate overall risk of sovereign stress and debt is sustainable. However, the dynamics of debt remains vulnerable to the uncertain and volatile global energy prices and the realization of contingent liabilities from state-owned enterprises and statutory bodies. However, these vulnerabilities are mitigated by the country's large financial buffers and a strong debt profile—i.e., low share of foreign currency debt and medium- to long-term

Source: IMF staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

## Figure 2. Trinidad and Tobago: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | No | |

**2. Subsectors included in the chosen coverage in (1) above:**

| CPS | NFPS | GG: expected | CG | | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|---|---|---|---|
| CPS | NFPS | GG: expected | CG | 1 | Budgetary central government | Yes | |
| CPS | NFPS | GG: expected | CG | 2 | Extra budgetary funds (EBFs) | No | Not applicable |
| CPS | NFPS | GG: expected | CG | 3 | Social security funds (SSFs) | No | |
| CPS | NFPS | GG: expected | | 4 | State governments | No | Not applicable |
| CPS | NFPS | GG: expected | | 5 | Local governments | No | |
| CPS | NFPS | | | 6 | Public nonfinancial corporations | No | |
| CPS | | | | 7 | Central bank | No | |
| CPS | | | | 8 | Other public financial corporations | No | |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |

| | | | | | |
|---|---|---|---|---|---|
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |

| | | |
|---|---|---|
| **5. Debt consolidation across sectors:** | Consolidated | Non-consolidated |

**Color code:** chosen coverage; Missing from recommended coverage; Not applicable

**Reporting on Intra-Government Debt Holdings**

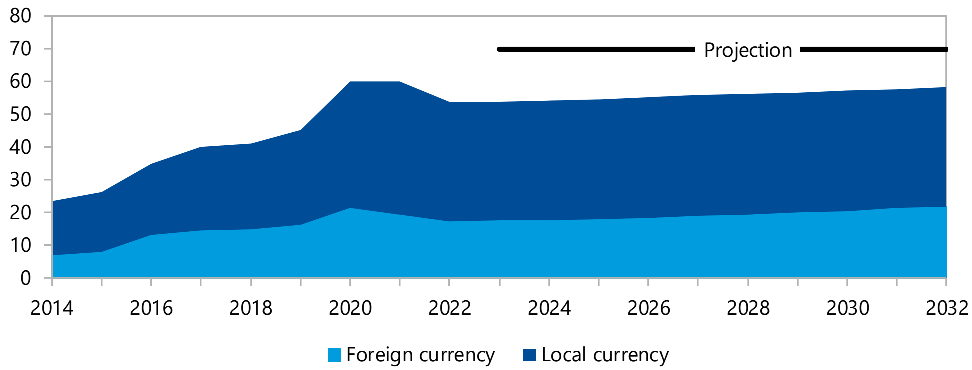
| | | | | | Holder / Issuer | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CPS | NFPS | GG: expected | CG | 1 | Budget. central govt | | | | | | | | | 0 |
| CPS | NFPS | GG: expected | CG | 2 | Extra-budget. funds | | | | | | | | | 0 |
| CPS | NFPS | GG: expected | CG | 3 | Social security funds | | | | | | | | | 0 |
| CPS | NFPS | GG: expected | | 4 | State govt. | | | | | | | | | 0 |
| CPS | NFPS | GG: expected | | 5 | Local govt. | | | | | | | | | 0 |
| CPS | NFPS | | | 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| CPS | | | | 7 | Central bank | | | | | | | | | 0 |
| CPS | | | | 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | | | | | Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt perimeter only covers the central government sector due to lack of consolidated general government and public sector data.

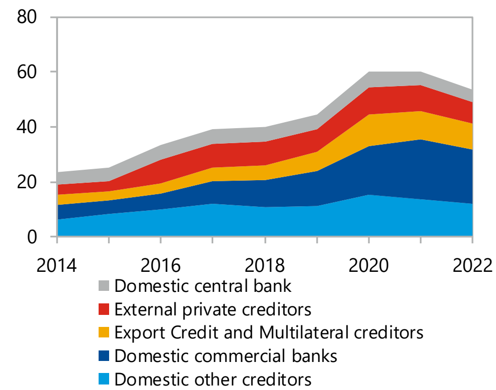
## Figure 3. Trinidad and Tobago: Public Debt Structure Indicators

**Debt by Currency (In Percent of GDP)**



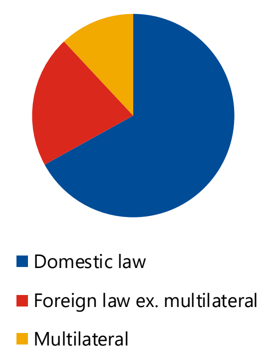

Note: The perimeter shown is central government.

**Public Debt by Holder (In Percent of GDP)**



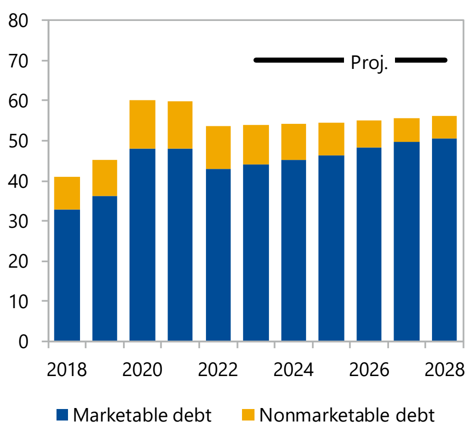

Note: The perimeter shown is central government.

**Public Debt by Governing Law, 2022 (In Percent)**



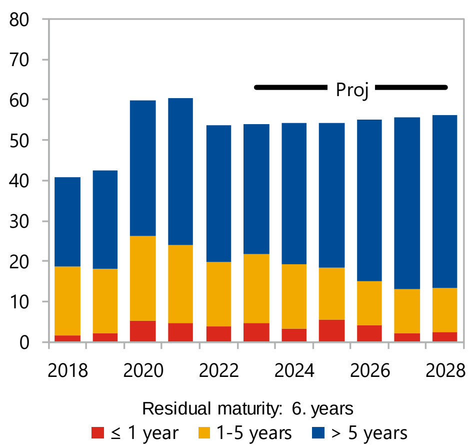

Note: The perimeter shown is central government.

**Debt by Instruments (In Percent of GDP)**




Note: The perimeter shown is central government.

**Public Debt by Maturity (In Percent of GDP)**




Note: The perimeter shown is central government.

Commentary: Domestic debt stood at 36.2 percent of GDP at end-FY2022 while external debt is relatively low at 17.5 percent of GDP. Somewhat mitigating factors, the debt profile of Trinidad and Tobago is dominated by medium- and long-term maturities, and a moderate foreign currency share of outstanding debt.

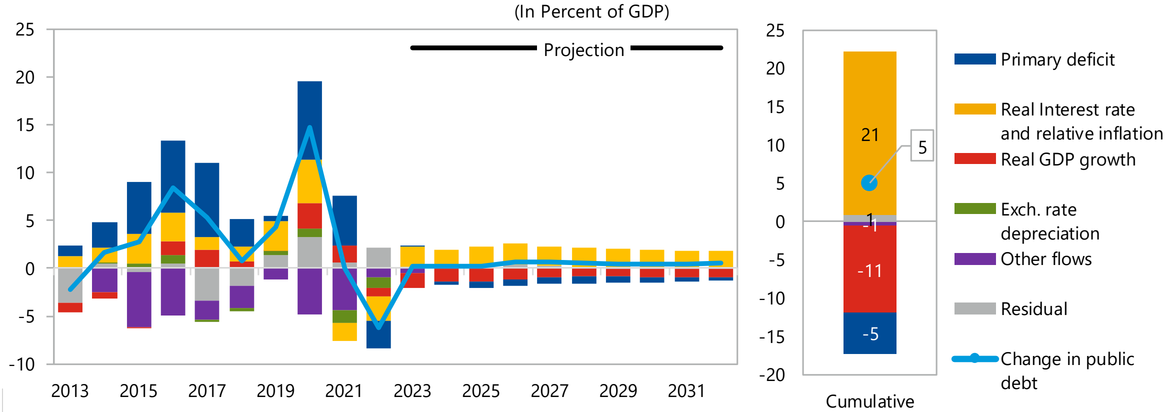
## Figure 4. Trinidad and Tobago: Baseline Scenario

(In Percent of GDP, unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Public debt | 53.8 | 53.9 | 54.2 | 54.4 | 55.1 | 55.7 | 56.3 | 56.7 | 57.2 | 57.7 | 58.2 | 58.7 |
| Change in public debt | -6.2 | 0.2 | 0.2 | 0.2 | 0.7 | 0.7 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| Contribution of identified flows | -8.3 | 0.0 | 0.0 | -0.1 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 |
| Primary deficit | -2.9 | 0.0 | -0.3 | -0.7 | -0.7 | -0.7 | -0.8 | -0.7 | -0.6 | -0.4 | -0.3 | -0.2 |
| Noninterest revenues | 29.3 | 26.9 | 26.6 | 26.8 | 26.7 | 26.8 | 26.7 | 26.6 | 26.5 | 26.3 | 26.2 | 26.1 |
| Noninterest expenditures | 26.4 | 26.9 | 26.2 | 26.1 | 26.1 | 26.0 | 26.0 | 25.9 | 25.9 | 25.9 | 25.9 | 25.9 |
| Automatic debt dynamics | -4.5 | 0.5 | 0.4 | 0.6 | 1.1 | 1.1 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 |
| Real interest rate and relative inflatior | -2.5 | 2.1 | 1.7 | 2.0 | 2.2 | 2.0 | 2.1 | 2.0 | 1.9 | 1.8 | 1.8 | 1.7 |
| Real interest rate | -4.1 | 2.3 | 1.9 | 2.2 | 2.5 | 2.3 | 2.1 | 1.9 | 1.9 | 1.8 | 1.7 | 1.6 |
| Relative inflation | 1.7 | -0.2 | -0.2 | -0.3 | -0.4 | -0.3 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Real growth rate | -0.9 | -1.6 | -1.3 | -1.4 | -1.1 | -0.9 | -0.8 | -0.8 | -0.8 | -0.8 | -0.9 | ... |
| Real exchange rate | -1.1 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Other identified flows | -1.0 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other transactions | -1.0 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution of residual | 2.1 | 0.2 | 0.2 | 0.3 | 0.4 | 0.3 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 |
| Gross financing needs | 3.0 | 8.1 | 6.7 | 5.4 | 7.6 | 6.1 | 4.0 | 4.5 | 5.3 | 5.4 | 5.6 | 6.3 |
| of which: debt service | 5.9 | 8.1 | 7.1 | 6.1 | 8.3 | 6.8 | 4.8 | 5.2 | 5.8 | 5.8 | 5.9 | 6.5 |
| Local currency | 4.7 | 6.9 | 3.7 | 4.4 | 3.5 | 4.8 | 3.2 | 3.7 | 2.7 | 4.0 | 4.0 | 4.6 |
| Foreign currency | 1.2 | 1.2 | 3.4 | 1.6 | 4.8 | 2.0 | 1.6 | 1.5 | 3.1 | 1.7 | 1.9 | 1.8 |
| Memo: 1/ | | | | | | | | | | | | |
| Real GDP growth (percent) | 1.6 | 3.0 | 2.6 | 2.6 | 2.2 | 1.7 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Inflation (GDP deflator; percent) | 12.7 | 1.1 | 1.1 | 0.6 | 0.0 | 0.5 | 0.7 | 0.9 | 1.1 | 1.1 | 1.1 | 1.2 |
| Nominal GDP growth (percent) | 14.5 | 4.1 | 3.7 | 3.3 | 2.2 | 2.1 | 2.2 | 2.5 | 2.6 | 2.6 | 2.7 | 2.7 |
| Effective interest rate (percent) | 4.9 | 5.5 | 4.8 | 4.9 | 4.8 | 4.8 | 4.6 | 4.5 | 4.4 | 4.3 | 4.1 | 3.9 |

### Contribution to Change in Public Debt

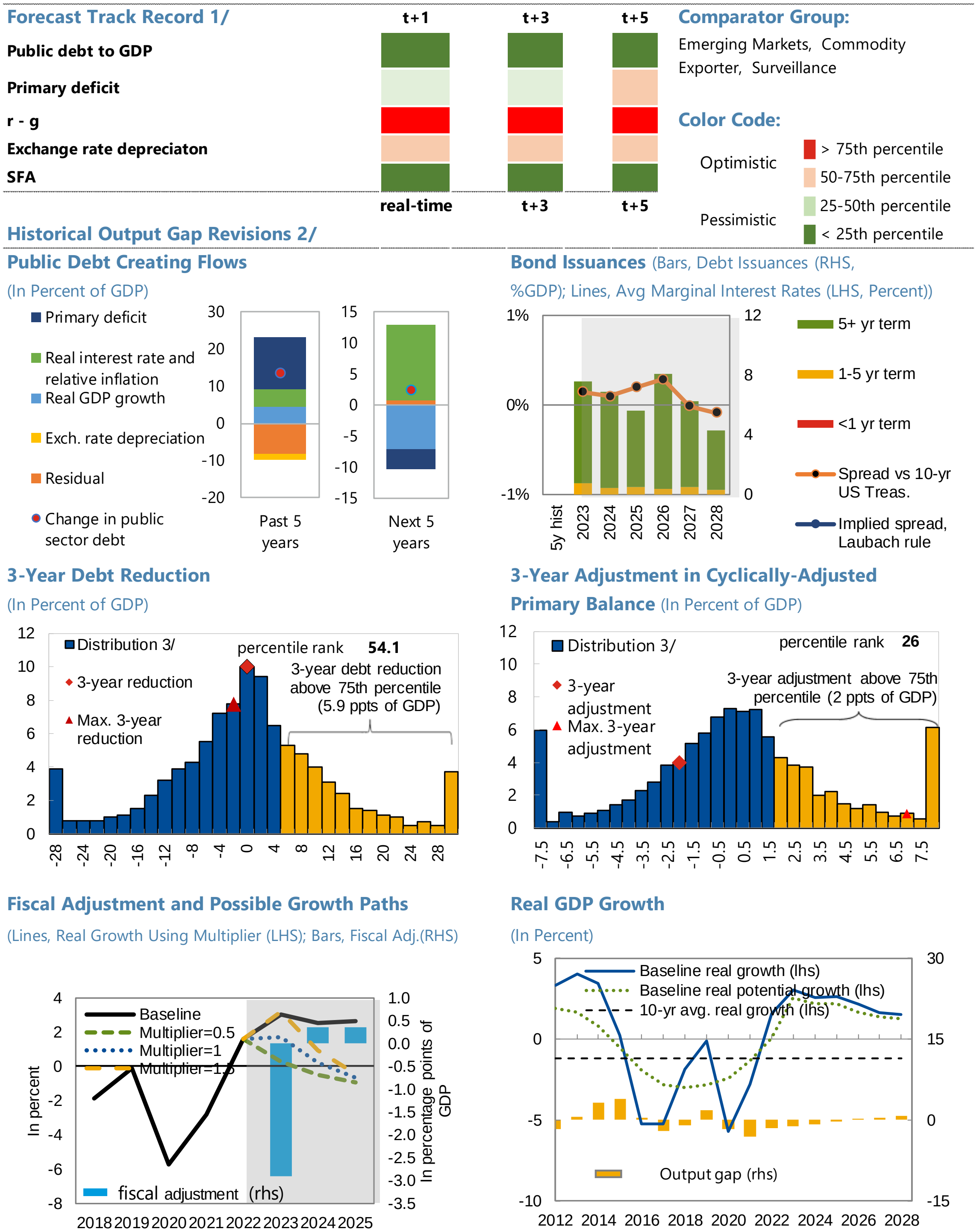
(In Percent of GDP)




Commentary: Public debt at stood at 53.8 percent of GDP in FY2022 and its projected trajectory is expected to largely follow developments of Trinidad and Tobago's energy sector. Then debt is expected to stay stable in FY2023 before it starts to increase again due to the decline of energy revenues. Gross financing needs remain relatively stable for the next 10 years.

1/ Real GDP growth as well as inflation are based on fiscal year representations.

## Figure 5. Trinidad and Tobago: Realism of Baseline Assumptions




Commentary: Development in energy prices and domestic energy production will impart complicated effects on the growth path. However, baseline assumptions of most debt drivers do not point to a systematic bias in the forecast track record, which is broadly in line with those observed in peer surveillance countries.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

## Figure 6. Trinidad and Tobago: Medium-Term Risk and Analysis

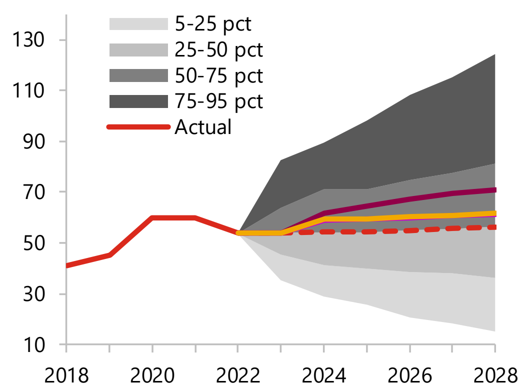
### Debt Fanchart and Gross Financing Needs (GFN) Financeability Indexes

(In Percent of GDP, unless otherwise indicated)

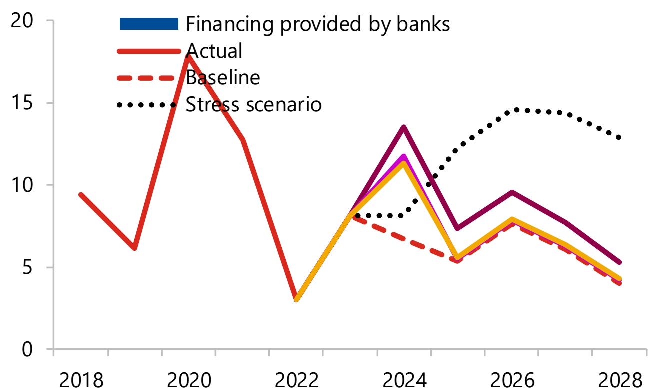
| Module | Indicator | Value | Risk index | Risk signal | Emerging Market, Com. Exp (0 – 25 – 50 – 75 – 100) |
|---|---|---|---|---|---|
| Debt fanchart module | Fanchart width | 109.1 | 1.6 | ... | |
| | Probability of debt not stabilizing (pct) | 52.7 | 0.4 | ... | |
| | Terminal debt level x institutions index | 33.2 | 0.7 | ... | |
| | **Debt fanchart index** | **...** | **2.7** | **High** | |
| GFN finance-ability module | Average GFN in baseline | 6.3 | 2.2 | ... | |
| | Bank claims on government (pct bank assets) | 12.5 | 4.1 | ... | |
| | Chg. in claims on govt. in stress (pct bank assets) | 7.8 | 2.6 | ... | |
| | **GFN financeability index** | **...** | **8.8** | **Moderate** | |

Legend: Interquartile range; Trinidad and Tobago

### Final Fanchart (pct of GDP)




### Gross Financing Needs (pct of GDP)

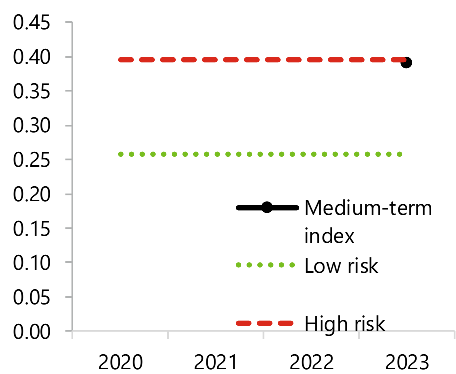



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

### Medium-Term Index

(index number)




### Medium-Term Risk Analysis

| | Low risk threshold | High risk threhsold | Weight in MTI | Normalized level |
|---|---|---|---|---|
| Debt fanchart index | 1.1 | 2.1 | 0.5 | 0.6 |
| GFN finaceability index | 7.6 | 17.9 | 0.5 | 0.2 |
| Medium-term index (MTI) | 0.3 | 0.4 | ... | 0.4, Moderate |

Prob. of missed crisis, 2023-2028 (if stress not predicted): 36.4 pct.

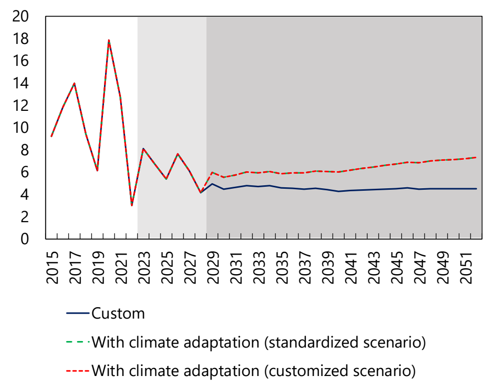
Prob. of false alarm, 2023-2028 (if stress predicted): 10.2 pct.

Commentary: The large increase in the level of debt in FY2020 and the volatility of the energy production and prices significantly contributed to the volatility in energy revenue in the past. These results in the Debt Fanchart Module point to a high level of risk, while the gross financing needs financeability module suggests lower, but still moderate, level of risk. However, the debt level path is vulnerable to global energy price volatility and contingent liabilities from state-owned entities (SOEs) and other public bodies.

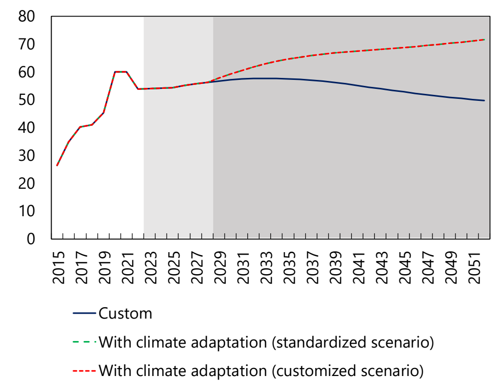
## Figure 7. Trinidad and Tobago: Long-Term Risk and Analysis

### Climate Change: Adaptation

Gross Financing Needs-to-GDP Ratio

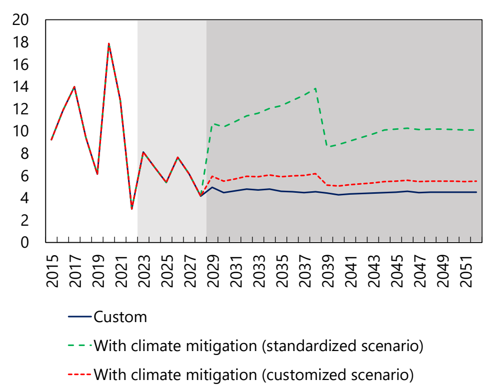



Total Public Debt-to-GDP Ratio

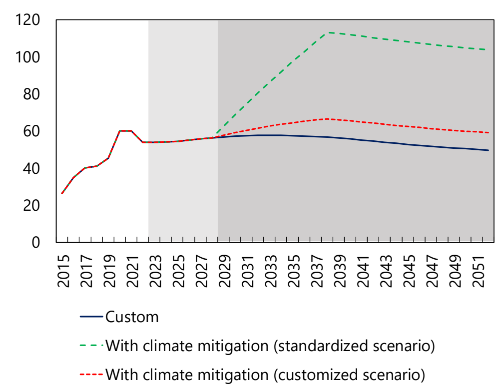



### Climate Change: Mitigation

Gross Financing Needs-to-GDP Ratio

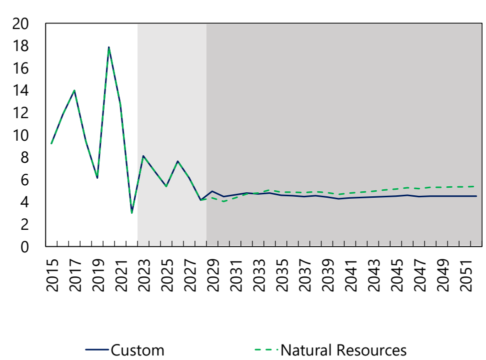



Total Public Debt-to-GDP Ratio

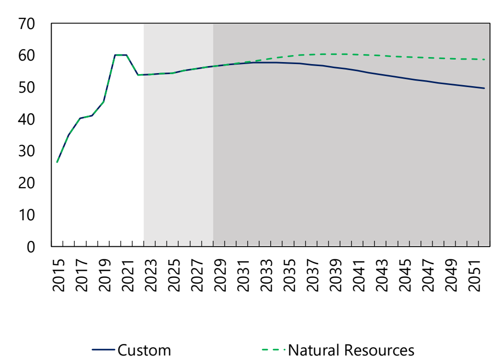



### Natural Resources

Gross Financing Needs-to-GDP Ratio




Total Public Debt-to-GDP Ratio



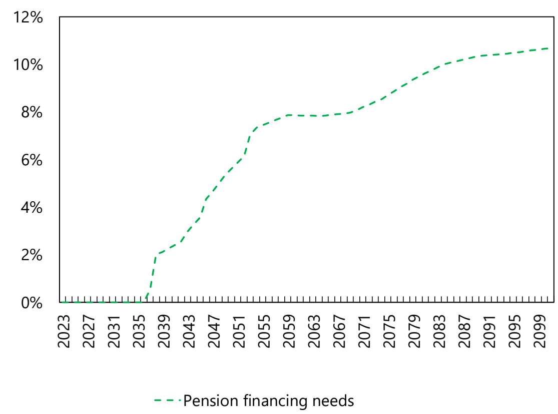

Commentary: In the long term, climate-related expenditures are manageable and will have a limited impact on debt sustainability. The decline in natural resources is likely to erode the fiscal revenue base and widen the primary deficit. Nonetheless, the debt level and gross financing needs in this scenario will remain at manageable levels supported by a sustained growth in the non-energy sector.

## Figure 8. Trinidad and Tobago: Long-Term Risk and Analysis

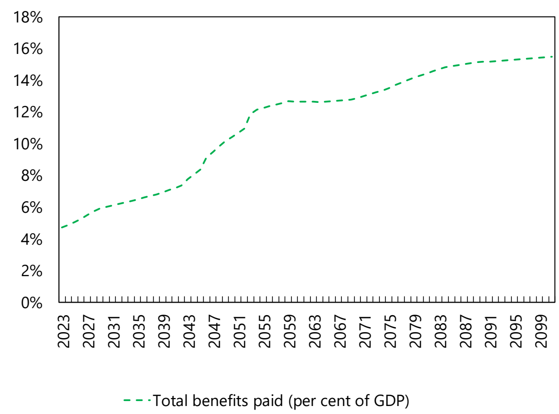
### Demographics: Pension

| Permanent adjustment needed in the pension system (pp of GDP per year) | To keep pension assets positive for: | | |
|---|---|---|---|
| | 30 years | 50 years | Until 2100 |
| | 1.74% | 3.71% | 5.30% |

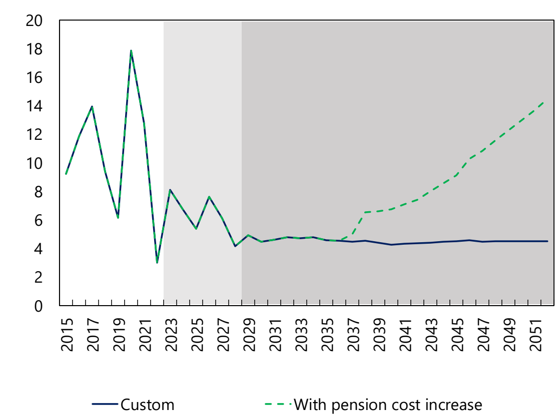
**Pension Financing Needs**



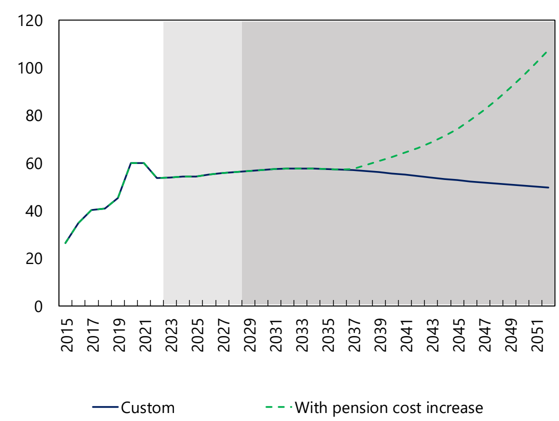

**Total Benefits Paid**




**GFN-to-GDP ratio**




**Total Public Debt-to-GDP Ratio**




Commentary: Pension expenditures under the current system would lead to larger gross financing needs and an upward debt trajectory in the long run. This underscored the importance to undertake parametric reforms of the current public pension system.

# Annex IX. The FY2023 Budget's Key Fiscal Reforms

*Trinidad and Tobago's authorities introduced several fiscal measures in the FY2023 budget. These measures aimed at supporting households—following the partial fuel price liberalization in April and September 2022—incentivizing private investment in the agricultural, manufacturing, and energy sectors, small and medium enterprises (SMEs), and facilitating the energy transition. All fiscal measures took effect on January 1st, 2023.*[1]

### Incentivizing the Private Investment

- The Petroleum Profits Tax (PPT) rate for companies engaged in deep-water exploration was lowered to 30 percent, from 35 percent.
- The Supplemental Petroleum Tax (SPT) rates for shallow water marine operators were lowered, replacing the fixed rates of 10, 25, and 33 percent that applies when the oil price crosses US$50 per barrel.
- The Value Added Tax (VAT) registration threshold increased from TT$500,000 to TT$600,000.
- A one-time tax credit up to TT$50,000 will be available to approved manufacturing companies where they invest in new machinery, production lines, and equipment.
- A tax holiday of approved small companies was extended from five to six years.
- A new long-term loan guarantee scheme for SMEs through funding of TT$500 million and in partnership with the commercial banks.

### Supporting Households

- The personal allowance threshold increased from TT$84,000 to TT$90,000 per person per year. All individuals earning TT$7,500 a month or less will now be exempt from income tax.
- A one-time transport grant of TT$1,000 targeting 175,000 persons vulnerable to the fuel price increase.[2]

### Facilitating the Energy Transition

- Waiving of VAT on new equipment for manufacturing companies utilizing alternate energy technologies or renewable energy options.
- Approved agriculture holdings will enjoy rebates up to TT$25,000 for implementation of renewable energy, such as wind and solar.
- An increase in the current Investment Tax Credit rate from 25 percent to 30 percent.

---

[1] Source: Ministry of Finance, FY2023 Budget Statement.

[2] This measure was implemented in January 2023.

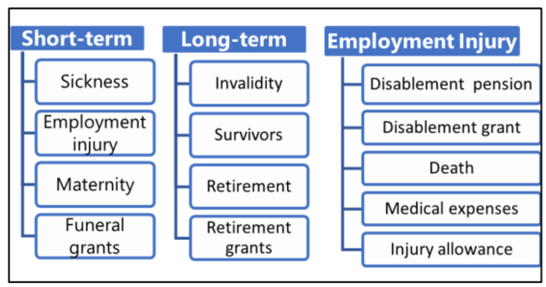
# Annex X. Sustainability of Trinidad and Tobago's Pension System

*Reforming Trinidad and Tobago's pension system is a key priority to ensure its sustainability and reduce fiscal vulnerabilities. In the absence of reforms, the system's deficit will widen, and its reserves will be depleted by 2036. This reflects an ageing population and the generosity of the system. Parametric reforms, including revisions to the retirement age—in line with the FY2023 budget proposal—and contribution rates are essential to ensure the system's sustainability. Administrative reforms to improve compliance and the use of digitization are also needed to improve its financial position and the provision of benefits.*

## A. Background

**1. The current pension system consists of two schemes.** A *contributory scheme*—National Insurance System (NIS)—managed by the National Insurance Board and financed by contributions, currently at 13.2 percent (two-thirds covered by employers and one-third by employees). The second, a *non-contributory scheme*—the Senior Citizens' Pension—managed by the Ministry of Social Development and Family Services and financed by the budget. The latter is a means-tested old-age benefit for those with inadequate income.

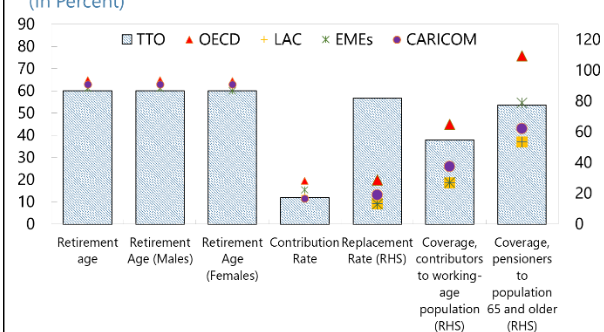
**Pension System Benefits**




Source: Trinidad and Tobago's authorities.

**2. The NIS has almost universal pension coverage and operates as a Pay-As-You-Go system.** Contributors to the NIS—employed persons who earn TT$200 or more per week must be registered and are required to contribute to the system—qualify for benefits under three branches (Figure). The retirement age is at 65 years. However, the retirement benefit is paid at age 60 to those who have been insured with a minimum of 750 weeks of contributions, while a one-time lump-sum grant is paid to those insured persons who have made less than 750 weekly contributions. There are no penalties for early retirement. Self-employees are covered on a voluntary basis, while unemployment is not covered by the system.

**Key Indicators of Pension System**
(In Percent)

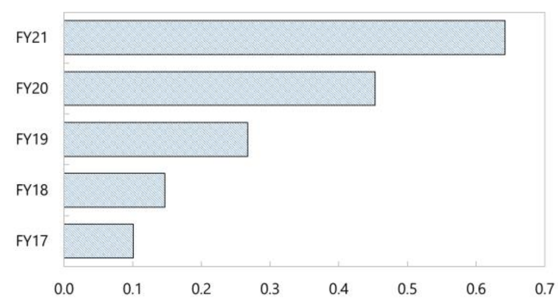



Sources: ABSSB, OECD and IMF staff calculations.

## B. Recent Performance and Outlook for the National Insurance Scheme

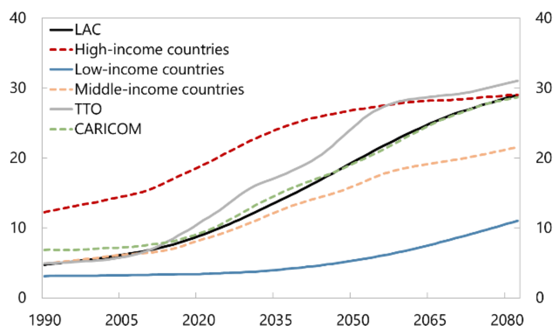
**3. The NIS's deficit is expected to continue widening over the medium term reflecting its generosity and structural factors.** Relative to other systems in the region, the NIS has the highest replacement rate, among the lowest contribution rate, and a retirement age below the average for CARICOM members (Figure). The NIS system began running deficits in FY2013 when benefits payments first exceeded contribution income. This trend is driven by the combination of an ageing population and a growing imbalance between low contribution rates and high replacement. In this context, the 10th Actuarial Review (2018) projected the system' expenditure to start exceeding contribution income and investment income (i.e., assets start to decline) beginning in 2023–2024 and reserves to be depleted by 2036 as the dependency ratio between contributors and pensioners continue to worsen. The NIS' financial position was weakened by the COVID-19 shock due to increased unemployment and lower contribution income. Thus, reserves could be depleted earlier.[1]

**Gap Between Contribution Income and Benefits**
(In Percent of GDP)



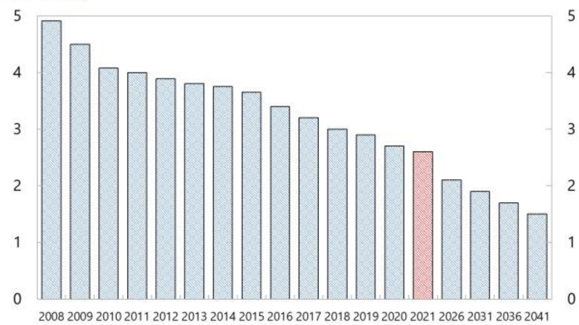

Sources: Trinidad and Tobago's authorities and IMF staff calculations.

**Population Aged 65 and Over**
(Share in Percent)




Source: University of Oxford, Our World in Data, and IMF staff calculations.

**Ratio of Contributors to Pensioners**
(In Percent)




Sources: Trinidad and Tobago's authorities, 10th Actuarial Report, and IMF staff calculations.

## C. Reform Options

**4. Gradual and transparent parametric reforms are needed to address NIS' growing imbalances, ensure its sustainability, and reduce fiscal vulnerabilities.** The authorities plan to effectively increase the retirement age from 60 to 65 to improve the NIS's financial position. This will be done by introducing penalty factors for early retirement. Discussions are ongoing about the transition period (e.g., 5 to 10 years). This measure alone, however, will be insufficient to ensure the NIS's long-term sustainability as the 10th Actuarial Review has estimated the PAYGO rate—the rate to cover all the expenses—at 17.4 percent and 22.2 percent by 2026 and 2036, respectively.

**5. Additional measures are thus needed to put the system on a sustainable path.** In addition to the authorities' intention to effectively increase the retirement age from 60 to 65, the

[1] ILO, 2018, Report to National Insurance Board, *Tenth Actuarial Valuation of the National Insurance System*, Technical Cooperation Trinidad and Tobago, Ilo/tf/Trinidad and Tobago /r.18.

reform package could include the increase in the contribution rate and reduction to the old-age pension benefit (e.g., to be reduced by 0.5 percent for each month for early retirement). It is recommended that the adjustments be gradual and transparent. The retirement age could be raised: 1 year each year beginning on January 1, 2024, until it reaches 65 on January 2028. Likewise, the contribution rate could be increased gradually (e.g., by 1 percent every two years to at least up to 16.2 percent for public and private sector employees). Going forward, to ensure the system remains sustainable and parametric reforms are removed from political cycles, automatic adjustments to the legal retirement age—in line with the increase in life expectancy, could be considered once the retirement age has reached 65 years.

**6. Administrative reforms will also help improve the system's financial position and the timely provision of benefits.** Improved compliance will help reduce the deficits while full digitization of employees' and employers' contribution records is essential to facilitate timely delivery of benefits and services to the population affiliated to the NIS.

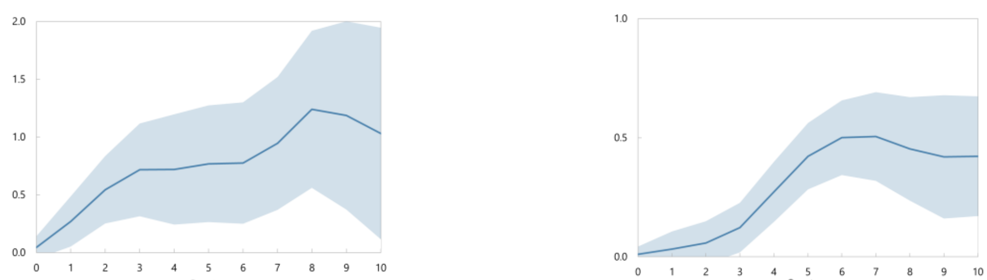
# Annex XI. U.S. Monetary Policy Tightening and the Central Bank of Trinidad and Tobago's Repo Rate

*Historically, the Central Bank of Trinidad and Tobago (CBTT)'s repo rate (the main monetary policy instrument) has closely followed the U.S. monetary policy rate.*[1] *However, this has not been the case in the latest U.S. tightening cycle. The terms of trade windfall—which has resulted in large external and fiscal revenues—has contributed to mitigate any potential capital outflow pressures arising from interest rate differentials. This annex builds on the historical experience to draw lessons for the current conduct of monetary policy.*

1. **Impulse response analysis indicates that since the turn of the century, the CBTT's repo rate has typically comoved with the U.S. policy rate with a delay.**[2] Before the pandemic, the CBTT's repo rate did not respond on impact to a Fed policy tightening but caught up gradually by about ¾ of the Fed tightening over the first few quarters (Figure 1, left panel). Full pass-through is only achieved after two years. It is possible that the co-movement might be attributed to a business cycle synchronization and common shocks between the U.S.' and Trinidad and Tobago's economies. To control for this possibility, the analysis is extended to examine Trinidad and Tobago's repo rate response to an unexpected monetary policy shock in the U.S. The corresponding impulse response confirms that there is a spillover from the U.S. monetary policy decisions to Trinidad and Tobago's repo rate (Figure 1, right panel). Specifically, 10 basis points (one standard deviation) unexpected shock to the U.S. monetary policy triggers about 25 basis points response by the CBTT in four quarters.

**Figure 1. Trinidad and Tobago: The CBTT's Repo Rate Response to U.S. Monetary Policy**

**Repo Rate and U.S. Tightening** *(Percentage Points)* — **Repo Rate and U.S. Monetary Shock** *(Percentage Points)*



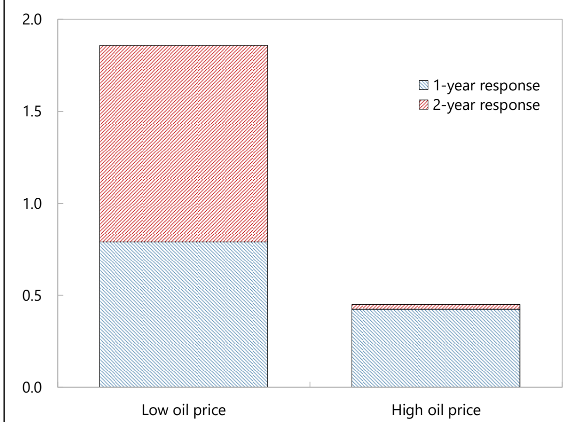

Sources: FRED; Haver; IFS; IMF staff calculations.
Note: *Left Panel*: Response of the CBTT's repo rate from 100 basis point increase in the Federal Funds shadow rate using local projection. Sample: 2000-Q1: 2019-Q4. Shaded area represents 90 percent confidence interval. Controls: Wu-Xia Shadow Rate (0-4 lags); the CBTT's repo rate (1-4 lags); Trinidad and Tobago's annual foreign reserve growth rate (0-4 lags). *Right panel*: same as the left panel except for (i) replacing the 0-4 lags of Wu-Xia Shadow Rate with monetary policy shock identified as the change of U.S. 2-year treasury yield around the FOMC meeting and (ii) show the repo rate response to one standard deviation (10 basis point) unexpected U.S. monetary policy shock.

[1] The analysis employs the Wu-Xia shadow rate that captures changes in the monetary policy stance arising from quantitative-easing (QE) and forward guidance when the Federal Funds Rate is at the zero lower-bound (Wu and Xia, 2016). The data is updated by the Atlanta Fed (https://www.atlantafed.org/cqer/research/wu-xia-shadow-federal-funds-rate).

[2] The methodology follows the local projection of Jordà (2005). See also the 2022 Regional Economic Outlook for The Western Hemisphere and its background paper (IMF, 2022a and IMF, 2022b) for an extended discussion.

**2. The external revenue windfall associated with high energy prices explains why the CBTT can decouple its repo rate from that of the U.S.** Building on the above analysis it is possible to capture the policy response during episodes of high or low energy (oil) prices. Specifically, the analysis finds that, when the WTI oil price is low (around 40$/bbl), the pass-through of U.S. policy rate to the CBTT's repo rate is almost complete after a year (chart). Moreover, the pass-through is doubled two years after the shock. By contrast, when the WTI oil price is high (around 80$/bbl), the pass-through of U.S. policy rates to the CBTT repo rate is only about 40 percent. What explains these results? As a gas and oil exporter, Trinidad and Tobago's U.S. dollar receipts rise in episodes of high global energy prices. This provides the CBTT with room to decouple from the U.S. monetary policy cycle. Nonetheless, the analysis also suggests that this decoupling is only temporary and not complete.

**Repo Rate Response and Commodity Prices**
(In Percentage Points)




Sources: FRED; Haver; and IMF staff calculations.
Note: Response of the CBTT's repo rate from 100 basis point shock to Wu-Xia Shadow Federal Funds Rate using local projection. Sample: 2000-Q1: 2019-Q4. Controls: Wu-Xia Shadow Rate (0-4 lags); WTI price (4Q moving average, 0-4 lags); Interaction Wu-Xia Shadow Rate x WTI price (4Q moving average); the CBTT's repo rate (1-4 lags). Low oil price: 25% percentile in the sample, about 41 $/bbl. High oil price: 75% percentile in the sample, about 83$/bbl.

**3. The analysis implies that the CBTT should seriously consider raising the repo rate.** The decoupling of the CBTT's repo rate vis-à-vis the U.S. monetary policy shadow policy rate cannot persist for a sustained period. The above analysis suggests that the central bank should seriously consider increasing the repo rate by 2½ percentage points over the next 12 months in response to the almost 6 percentage points of the current Fed tightening (as proxied by the shadow rate).

## References

International Monetary Fund (IMF), 2022a, "*Regional Economic Outlook. Western Hemisphere: Navigating tighter global financial conditions*," International Monetary Fund, Washington, DC.

International Monetary Fund (IMF), 2022b, "*Spillovers of US Monetary Tightening to Latin America*," Regional Economic Outlook: Western Hemisphere Background Paper 1 (October), International Monetary Fund, Washington, DC.

Jordà, Òscar, 2005, "*Estimation and Inference of Impulse Responses by Local Projections*," American Economic Review 95 (1): 161–82.

Wu, Jing Cynthia, and Fan Dora Xia, 2016, "*Measuring the macroeconomic impact of monetary policy at the zero lower bound*," Journal of Money, Credit and Banking, 48.2-3: 253–291.

# Annex XII. Main Recommendations of the 2020 FSAP

| Recommendations and Authority Responsible for Implementation | Time[1] | Status |
|---|---|---|
| ***Financial Sector Oversight*** | | |
| Undertake scenario solvency and cashflow-based liquidity stress tests for banks and conglomerate stress tests. (CBTT, TTSEC). | NT | **Ongoing.** The development of scenario-based stress test is suspended with resources reprioritized for climate risk stress test by 2024. Conglomerate stress tests are not yet conducted. |
| Strengthen the independence, governance, and resources of financial supervisors, including assigning powers to issue regulation. (MoF, CBTT, TTSEC). | NT | **Ongoing.** Proposals to amend the Financial Institution Act (FIA) 2008 are under development, including conferring the CBTT with the power to specify the operational details of regulations.<br><br>The CBTT will revisit its internal structure and processes to achieve efficiency gains before adding more resources.<br><br>The TTSEC aims to start a phased implementation of cost recovery in 2023. |
| **Banks.** Implement the new Basel II/III banking regulations; update supervisory guidance and conduct more in-depth analysis in key risk areas. (MoF, CBTT). | NT | **Ongoing.** The CBTT adopted a phased approach to implementing the Basel II/III, with current Phase 2 including (1) Pillar 2–the Supervisory Review Process; (2) Pillar 3–Market Discipline; (3) the Leverage Ratio (LR); (4) the Capital Conservation Buffer (CCB); (5) the Liquidity Coverage Ratio (LCR); and (6) Capital Add-On for Domestic Systemically Important Banks (D-SIB). For Pillar 2, banks submitted the first set of Internal Capital Adequacy Assessment Process (ICAAP) results and the CBTT's feedback is ongoing. The Pillar 3 Guidelines will be finalized by end 2023 for implementation in 2024. The *Liquidity Coverage Ratio Consultation Paper* was issued to the banking industry in November 2022. The CBTT intends to submit the final LCR policy and draft regulation to the MoF by September 2023. The CBTT is planning to activate the LR, the CCB, and the capital add-on for D-SIB in 2023.<br><br>The CBTT updated its *Corporate Governance Guideline (March 2021)* and also issued four new guidelines in key risk areas: (i) *Guideline for the Management of Liquidity Risk (January 2021); (ii) Credit Risk Management Guideline* (November 2021); (iii) *Guideline for Management of Outsourcing Risks* (February 2022); and (iv) *Guideline for the Management of Market Risk* (July 2022). |

| Recommendations and Authority Responsible for Implementation | Time[1] | Status |
|---|---|---|
| ***Financial Sector Oversight*** | | |
| **Insurers.** Implement modern insurance legislation and risk-based supervision. (MoF, CBTT). | I | **Addressed.** The Insurance Act (IA) 2018 and its amendments came into effect in January 2021. The reorganization of four foreign insurers to form locally incorporated entities per the IA has been completed. The restructuring of three insurance groups under a Financial Holding Company (FHC) is at its early stage. Other major on-going initiatives to operationalize the IA includes the assessment of capital adequacy and credit exposures; and preparation of implementing the International Financial Reporting Standards (IFRS) 17. |
| **Investment Funds.** Introduce regulation for investment funds, require industry-wide compliance; and implement carefully sequenced industry-wide transition to floating funds. (MoF, TTSEC, CBTT). | NT<br><br>MT | **Ongoing.** The proposed Collective Investment Schemes By-laws are in its final stages of becoming legislation. The CBTT and TTSEC have established a joint Steering Committee and Technical Working Group to review the FSAP recommendations on investment funds. IMF TA is ongoing. |
| **Credit Unions.** Adopt new legislation and regulation for supervision and assign to a fully independent supervisor with sufficient powers and resources. (MoF). | NT | **Ongoing.** The policy proposal for an Independent Co-operative Authority Act (ICAA) is being drafted by the Ministry of Youth Development and National Service (MYDNS) based on the work of an inter-ministerial team. |
| **Financial Markets Infrastructure.** Enact a comprehensive National Payments Law. (MoF, CBTT). | MT | **Ongoing.** The development of comprehensive Payments System Act is currently underway and due to be completed in 2023. |

| Recommendations and Authority Responsible for Implementation | Time[1] | Status |
|---|---|---|
| ***Financial Sector Oversight*** | | |
| **Financial Conglomerates.** Implement consolidated risk assessment methodology for financial conglomerates with cross-sector views of all material entities. (CBTT, TTSEC). | NT | **Ongoing.** The ongoing restructuring of insurance-led financial conglomerates under financial holding companies will facilitate consolidated supervision. A detailed consolidated supervision framework exists for bank-led financial groups but will need to be adapted for insurance led groups, including the development of consolidated capital adequacy requirements for insurers. The CBTT and TTSEC commenced sharing information on dually regulated entities, while sharing of information on other members of a financial group is also planned.<br><br>A technical working group (TWG), comprising representatives from the region's banking, securities, and insurance regulators is working to develop guidance for regional regulators on assessing *inter alia* capital adequacy, liquidity and intra-group exposures within a financial conglomerate. The TWG is seeking also to strengthen supervisory collaboration and cooperation by strengthening memorandums of understanding among the supervisory authorities.<br><br>The IMF is supporting capacity development. |
| **Systemically Important Financial Institutions (SIFIs).** Revise deemed SIFI list, using best practice methodology, assign commensurate supervisory powers, and implement buffers. (MoF, CBTT). | NT | **Ongoing.** The MOF approved the merger of two deemed SIFIs and the process is in its final stage. The CBTT has reviewed the deemed SIFIs to determine which of those institutions should remain classified as SIFIs and has developed draft proposals for the future treatment.<br><br>Additionally, based on the application of the criteria in the CBTT's *Framework for Identification of a Systemically Important Bank* (D-SIB Framework) issued in August 2021, two banks were determined to be D-SIBs and the CBTT has proposed to activate the D-SIB capital add-on in 2023.<br><br>The CBTT is considering amendments to the FIA and the Central Bank Act to provide it with explicit power to specify SIFI criteria, designate a SIFI, and stipulate their reporting framework or other regulatory requirements. |

| Recommendations and Authority Responsible for Implementation | Time[1] | Status |
|---|---|---|
| | ***Financial Sector Oversight*** | |
| **Market Integrity.** Continue to strengthen the AML/CFT framework and address remaining FATF recommendations. (Authorities). | I | **Ongoing.** In response to FATF recommendation 35 (deficiency in the administrative sanction regime), legislation establishing the regulatory framework for administrative monetary fines for AML breaches was enacted in December 2021. A simplified due diligence guideline was issued in September 2021 to all commercial banks. The *Supervisory Ladder of Interventions* was published in May 2022. The Office of the Attorney General and Legal Affairs is coordinating the 2nd National Risk Assessment exercise with TA from the World Bank. |
| **System wide oversight and macroprudential policy.** Strengthen financial sector data, assign macroprudential powers to CBTT and implement prudential policies that encourage banks to limit sovereign exposures. (Authorities). | NT | **No progress.** |
| **Financial Safety Net.**<br>II. Amend legislation to align resolution regime with best international practice, establish a resolution unit at CBTT, and initiate resolution planning.<br>III. Strengthen emergency lending assistance, deposit insurance, and resolution funding. (MoF, CBTT, DIC). | NT | **Ongoing.** The CBTT and DIC drafted plans to ensure operationalization of the *2021 Framework for the Recovery and Resolution of Financial Institutions*. The Crisis Management Committee of the CBTT conducted a gap analysis in accordance with international best practice.<br>A *Recommendatory Note* regarding the establishment of a resolution unit was prepared.<br><br>The Central Bank communicated its agreement, in principle, to provide short-term collateralized liquidity funding in accordance with the requirements of the Central Bank Act, should this become necessary. This was confirmed in a letter to the DIC.<br><br>A Policy Proposal Document for the establishment of a Deposit Insurance Scheme for Deposits and Shares Held in a Credit Union has been finalized by the inter-ministerial team. |

| Recommendations and Authority Responsible for Implementation | Time[1] | Status |
|---|---|---|
| ***Financial Development and Climate Risk*** | | |
| Develop a financial sector development policy strategy covering DFI mandates and state-owned commercial banks. (MoF). | MT | **No progress.** |
| Undertake a comprehensive environmental risk assessment of the financial sector and develop a green finance strategy. (MoF). | MT | **Ongoing.** The CBTT mandates banks to consider climate related risk in the preparation of their Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) submission. The CBTT's climate risk stress test is under development and set to be completed by 2024. |

[1] "I", "NT", and "MT" stand for "Immediate" (within one year), "near-term" (1–3 years), and "medium-term" (3–5 years). MoF: Ministry of Finance; CBTT: Central Bank of Trinidad and Tobago; TTSEC: Trinidad and Tobago Securities and Exchange Commission; DIC: Deposit Insurance Corporation; DFI: Development Finance Institution.

# Annex XIII. Sovereign-Financial Sector Nexus

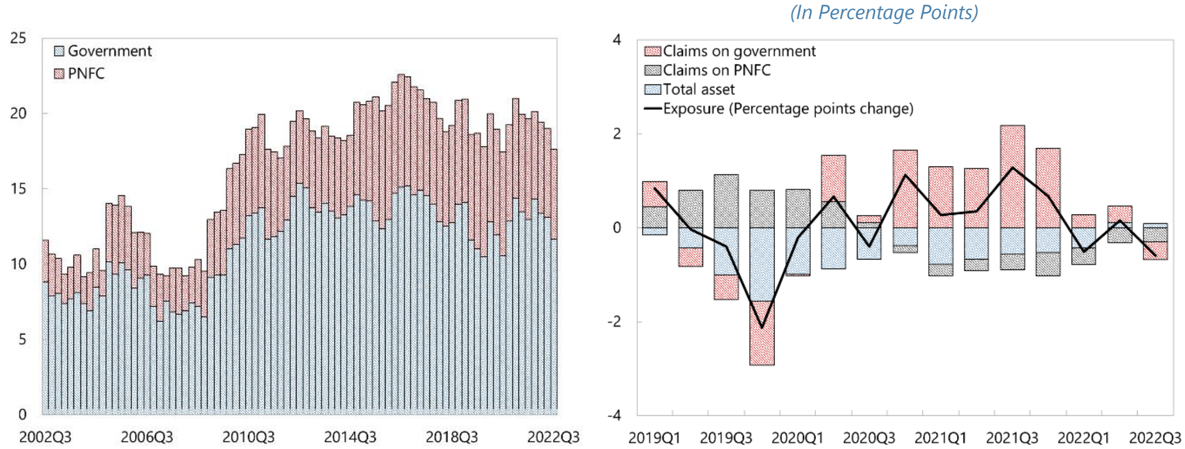
*Trinidad and Tobago's financial system is highly exposed to the sovereign. This creates a systemic risk for the economy. Mitigating this risk reinforces the need for healthy and prudent public finances, adequate regulation and oversight of the financial system, and policies that help reduce sovereign exposures and implicit guarantees of public bailouts. This annex takes stock of these sovereign-financial sector nexus and examines ways of mitigating its potential risks.*

1. **The financial sector is highly interconnected with the sovereign (e.g., Thomas and Duke, 2022).** Domestic sovereign holdings by the banking sector have been elevated, standing at around 20 percent since the 2008 global financial crisis (GFC)—up from around 10 percent in the preceding years (Figure 1, left panel). The overall exposure by the financial sector hovers around 25 percent, reflecting even more elevated exposures in insurance, pension, and investment funds sectors than banks. The sovereign exposures of the financial sector increased slightly during the COVID-19 pandemic, driven by the growth of claims on the government (Figure, right panel). The government, in turn, directly owns a sizable portion of the financial sector, including the two largest banking groups and the largest investment funds. It also implicitly guarantees the overall stability of the financial sector, with assets amounting to about 220 percent of GDP in 2021. This two-way exposure reinforces the strengths and weaknesses of the financial sector and the sovereign over each other, as well as the transmission of risks among them. This nexus can trigger an adverse feedback loop that could threaten domestic financial stability.

**Figure 1. Trinidad and Tobago: Sovereign Exposures**

**Domestic Sovereign Exposure in the Banking Sector**
*(In Percent of Total Assets)*

**Drivers of Recent Sovereign Exposure Changes in the Financial Sector**
*(In Percentage Points)*




Sources: IFS and IMF staff calculations.
Note: PNFC = Public Non-Financial Corporations. In the right panel, the percentage points change of sovereign exposures (comparing to same quarter one year back) is decomposed to contributions of claims on government, claims on PNFC and banking sector assets, according to identity $E_t - E_{t-4} = \frac{C^1_{t-4}}{A_{t-4}}\left(\frac{C^1_t}{C^1_{t-4}} - 1\right) + \frac{C^2_{t-4}}{A_{t-4}}\left(\frac{C^2_t}{C^2_{t-4}} - 1\right) - E_t\left(\frac{A_t}{A_{t-4}} - 1\right)$, where exposure: $E_t \equiv (C^1_t + C^2_t)/A_t$, claims on government: $C^1_t$, claims on PNFC: $C^2_t$ and financial sector asset: $A_t$.

**2. Mitigating the sovereign-financial sector nexus risk underscores the need to (e.g., Dell'Arricia et al, 2018):**

- **Maintain healthy public finances.** The rescue of policy holders of a systemically important insurance group failed in 2009 cost the government about 17 percent of GDP. But the healthy state of public finances at the time—with the central government debt to GDP ratio being merely 11 percent before the GFC—backstopped a further meltdown of the financial system.

- **Maintain a sound and resilient financial system.** Potential fiscal costs from a severe financial distress can easily deplete the country's accumulated fiscal buffers. While financial sector oversight has been significantly strengthened since the GFC, further reforms in line with the 2020 FSAP recommendations are required to consolidate and leverage these gains.

- **Consider options to weaken the nexus.** On the one hand, prudential regulations, such as a carefully calibrated systemic risk buffer based on a concentration of exposures, can offset the incentives to hold sovereign assets embedded in the risk-based regulatory frameworks. These can be complemented by structural policies, such promoting domestic capital market development, which provides financial institutions with meaningful alternatives to diversify their portfolio. On the other hand, an enhanced resolution framework and financial safety net can reduce the need for public bailout, should severe financial distress occur.

## References

Dell'Ariccia, Giovanni, Caio Ferreira, Nigel Jenkinson, Luc Laeven, Alberto Martin, Camelia Minoiu, and Alex Popov, 2018, "*Sovereign-Bank Nexus*," Departmental Paper, International Monetary Fund, Washington, DC.

Thomas, Natalie and Kateri Duke, 2022, "*Domestic Banking Industry Network Analysis: The Sovereign-Bank Nexus*," Working Paper, Central Bank of Trinidad and Tobago.

# Annex XIV. Roadmap to Green Hydrogen Economy in Trinidad and Tobago

*Current petrochemical, storage, exports facilities, know-how, and lasting trade relations and shipping routes provide Trinidad and Tobago with strong comparative advantages. This can allow it to become a major global player in green energy production, meet its commitments under the Paris Agreement to net zero carbon emissions, reduce its dependence on fossil fuels thus coping with the global energy transition, and boost its long-term growth potential by expanding its production and exports base. In late November 2022, the authorities unveiled a plan to leverage these comparative advantages as the building blocks to produce green hydrogen (GH2) and downstream green products*[1] *Actions to be implemented in three phases over a 35-year period have been defined to transform Trinidad and Tobago into a green-hydrocarbon driven economy.*

**1. The global climate crisis is forcing a transition towards renewable energy.** It is estimated that by 2050, 12 percent of the world energy demand will be met by hydrogen—a fuel of the future (direct use and e-fuels).[2] Hydrogen is a versatile source of energy that can be produced, stored, and moved in a variety of manners. Hydrogen can be produced using renewables, nuclear, natural gas, coal, and oil, each of which has a different carbon footprint (Figure). Currently, producing hydrogen from low-carbon energy (renewables) is costly. Thus, it is mostly supplied using coal and gas. Hydrogen can be transported by pipelines or in liquid forms by ships—like liquified natural gas (LNG). Currently no ships can transport pure hydrogen. Until shipping of liquid hydrogen across borders matures, hydrogen will need to be transformed into carriers (i.e., a hydrogen rich liquid or solid material from which hydrogen can be liberated on demand), such as ammonia and methanol.[3] This will increase the global demand for green ammonia and methanol.

**2. Trinidad and Tobago—as the second and third largest exporter in the world of ammonia and methanol, respectively—can leverage its hydrocarbon and petrochemical infrastructure and know-how to develop GH2 and green products to become a major global player worldwide and boost its long-term potential growth.** This requires, introducing carbon capture on existing downstream facilities, as a transitory step, to reduce emissions and position the country in the market for low-carbon ammonia and methanol. Then, once the upstream infrastructure is put in place, the country can transit to renewable energy and GH2. With GH2 replacing gas as the feedstock for domestic petrochemical industry, the freed-up gas will become available for exports.[4] Hence, the expansion of the renewable capacity and green products

[1] See Inter-American Development Bank (IADB) and National Energy Corporation of Trinidad and Tobago, 2022, *The roadmap for a green hydrogen economy in Trinidad and Tobago*, November.

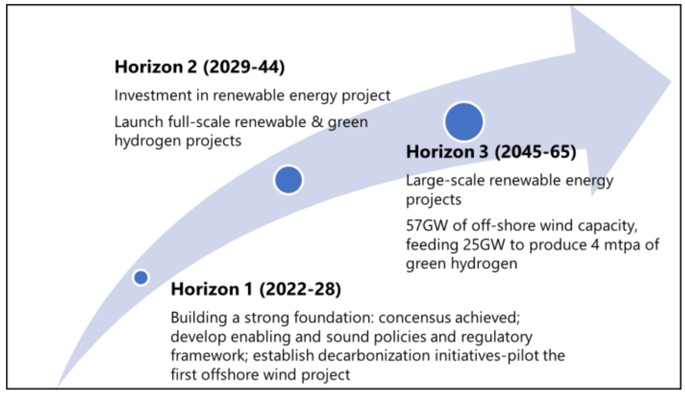
[2] See International Renewable Energy Agency (IRENA), 2022, *World Energy Transitions, Outlook 2022*.

[3] Among hydrogen carriers, ammonia has the most developed intercontinental transmission, which relies on chemical and refrigerated liquified petroleum gas (LPG) tankers. Trade routes include transport from the Arabian Gulf and Trinidad and Tobago to Europe and North America. See International Energy Agency, 2019, *The Future of Hydrogen*, Report Prepared by the IEA for the G20 Japan, June.

[4] Trinidad and Tobago depends on natural gas as the feedstock for its petrochemical industry.

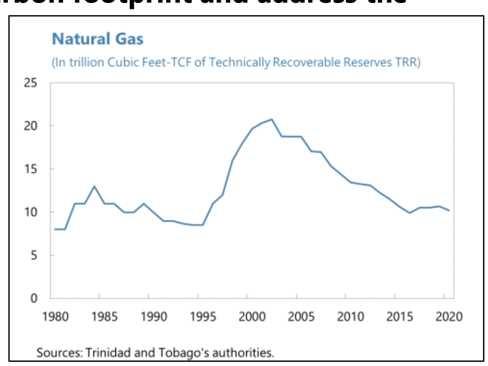
provides the foundation to boost potential growth and build a more resilient and sustainable economy over the long run. This gradual process together with some retraining or workers, can assist in the transfer of skills from the oil and gas sector. It can also help develop skills in the assembly, maintenance, and operation of wind turbines, electrolyser manufacturing facilities, and green infrastructure.

**3. The authorities have unveiled a 35-year roadmap plan for Trinidad and Tobago's transition to GH2.** The plan needs to secure funding and launch demonstration projects where the end use of green hydrogen is tested in the existing petrochemical industry. The plan involves three phases:




- **Phase 1:** the priority is to develop the GH2 National Plan and the policy and regulatory framework (including incentives policy), together with an active investment promotion strategy.
- **Phase 2:** aims to reach 25GW of offshore wind power—half to produce 1.5 million tons per annum (mtpa) of GH2 for the petrochemical industry. Currently, Trinidad and Tobago's installed infrastructure has a production capacity of 1.7 (mtpa) of hydrogen. There is 1.5 mtpa captive demand to produce green ammonia and green methanol. Demand for transportation and cement production is 0.2 mtpa.
- **Phase 3:** the goal is to produce 4 mtpa of GH2 to fully supply the petrochemical industry, the transport sector, and cement production, thus fully eliminating their current reliance on grey hydrogen.

**4. Green hydrogen can help reduce the country's carbon footprint and address the decline in oil and gas reserves (Chart).** Given their current reliance on grey hydrogen, projects in the ammonia, methanol, transportation, and cement sectors are being prioritized. This should help deliver on the country's commitment to reduce carbon emissions under the Paris Agreement. Moreover, reducing the reliance on grey hydrogen provides an opportunity to address potential risks from declining gas reserves (Chart). To support the transition to GH2, the country has also started the construction of a new 112 MWAC/148MWp solar power project.[5] This is the first commercial-scale renewable energy project in the country and is expected to start-up by the second half of 2024.




[5] MWAC stands for Megawatt of Alternating Current. Solar panels produce Direct Current while appliances and equipment at homes and businesses operate on alternating current. MWp refers to the rated power of a solar power system, which could be achieved under ideal weather (sunny) conditions.

INTERNATIONAL MONETARY FUND

# TRINIDAD AND TOBAGO

April 13, 2023

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


Prepared By

Western Hemisphere Department (in consultation with other departments)


CONTENTS

# FUND RELATIONS

(As of February 28, 2023)

| **Membership Status:** | | Joined September 16, 1963; Article VIII |
|---|---|---|
| **General Resources Account:** | **SDR Million** | **% Quota** |
| Quota | 469.80 | 100.00 |
| IMF's Holdings of Currency (Holdings Rate) | 336.08 | 71.54 |
| Reserve Tranche Position | 133.72 | 28.46 |

| **SDR Department:** | **SDR Million** | **% Allocation** |
|---|---|---|
| Net cumulative allocation | 771.42 | 100.00 |
| Holdings | 773.13 | 100.22 |

**Outstanding Purchases and Loans:** None

**Latest Financial Commitments:**

**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 |

**Overdue Obligations and Projected Payments to Fund**[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| Principal | | | | | |
| Charges/Interest | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Total** | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |

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 (MDRI):** 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. Trinidad and Tobago's *de jure* exchange rate arrangement is floating. Its *de facto* exchange rate arrangement is stabilized arrangement.

**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 Central Bank of Trinidad and Tobago's (CBTT) 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 and importers of necessities (foods and medicines) through special FX facilities within the Export-Import Bank of Trinidad and Tobago (EximBank). These actions result in undue delays in accessing 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 2021 Article IV Consultation was concluded by the Executive Board on February 9, 2022. Trinidad and Tobago is on the 12-month consultation cycle (IMF Country Report No. 22/73). A staff visit took place during November 16–22, 2022.

**Financial Sector Assessment Program (FSAP) Participation:** The 2020 joint IMF-World Bank FSAP missions were held during November 5–19, 2019 and January 21–February 4, 2020. The Financial System Stability Assessment (FSSA) was presented to the Executive Board for discussion, on a lapse-of-time basis, on August 31, 2020 (IMF Country Report No. 20/291).

| Trinidad and Tobago: Fund Technical Assistance, 2011–23 | | |
|---|---|---|
| **Department** | **Dates** | **Purpose** |
| CARTAC | April 17–21, 2023 | Intragroup transactions and exposures (ITES)—Risk-Based Supervision (RBS)—financial groups and conglomerates |
| MCM | March 27–31, 2023 | Transitioning Out of Constant NAV Funds |
| MCM | March 20–April 19, 2023 | Develop and Strengthen Fintech Regulation and Supervision |
| FAD | January 24–February 24, 2023 | Petroleum Fiscal Regime Reform |
| MCM | October 31–November 4, 2022 | Strengthening Cybersecurity of the Financial Sector |
| CARTAC* | September 14–November 22, 2022 | IFRS 17 Implementation & Reporting |
| CARTAC | August 22–31, 2022 | Public Financial Management (part two) |
| CARTAC | August 15–26, 2022 | Public Financial Management (part part) |
| CARTAC | August 1–12, 2022 | Developing a Debt Management Strategy |
| CARTAC | July 11–22, 2022 | Real Sector Statistics |
| CARTAC | February 21–April 1, 2022 | Strengthening Supervisory Oversight of Collective Investment Schemes |
| CARTAC | January 24–February 4, 2022 | External Sector Statistics |
| CARTAC | October 11–25, 2021 | Follow-up Capacity Development Mission on Basel II/III (Pillar 2) implementation |
| CARTAC | September 13–October 29, 2021 | Strengthening of Risk-Based Supervision (RBS) Framework for on-Site and off-Site Reviews |
| MCM/LEG/ITD | August 20–October 8, 2021 | Building Capacity on Central Bank Digital Currencies |
| CARTAC | July 19–30, 2021 | Provide Support to Treasury Function International Public Sector Accounting Standards (IPSAS) Compliance and Reporting |
| CARTAC | June 7–July 21, 2021 | Development and Implementation of a Risk-Based Capital Adequacy Framework for TTSEC Registrants |
| CARTAC | April 26–May 7, 2021 | Improving the Estimates of GDP |

| Trinidad and Tobago: Fund Technical Assistance, 2011–23 (Continued) | | |
|---|---|---|
| **Department** | **Dates** | **Purpose** |
| CARTAC | May 5–12, August 2–24, 2021 | Capital (Leverage Ratios) |
| LEG | 2021–2023 | Strengthening the National Payments System Legislative and Regulatory Framework |
| MCM | January 28–July 9, 2021 | Strengthening the Legal Framework for the National Payments System |
| FAD | October 7–18, 2019 | Building Effective Tax Administration Functions |
| FAD | July 2019 | Revenue Administration Gap Analysis Program-the Value-Added (VAT) GAP |
| CARTAC | November 14–27, 2018 | Developing a Medium-Term Fiscal Framework |
| 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 1, 2017 | National Accounts Statistics |
| STA | March 1, 2017 | Price Statistics |
| FAD | September 2016 and 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 |

| Trinidad and Tobago: Fund Technical Assistance, 2011–23 (Concluded) | | |
|---|---|---|
| **Department** | **Dates** | **Purpose** |
| 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 2016 | Macroprudential Policy Framework |
| STA | March 2015 | External Sector Statistics |
| FAD | March 2015 | Revenue Administration |
| STA | May 2015 | Financial Sector Statistics/Financial Soundness Indicators (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 |

* Group TA/training to all CARTAC member countries.

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

(As of February 28, 2023)

- **Development Bank of Latin America (CAF)**

  https://www.caf.com/en/countries/trinidad-and-tobago

- **Inter-American Development Bank (IADB)**

  https://www.iadb.org/en/countries/trinidad-and-tobago/overview

- **The World Bank Group (WB)**

  https://www.worldbank.org/en/country/trinidadandtobago

# STATISTICAL ISSUES

(As of March 31, 2023)

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General:** Data provision is broadly adequate for surveillance. However, some weaknesses remain in both coverage and timeliness, partly reflecting capacity constraints. 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). |
| **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 and released for 2012 to 2021. 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 developed and released quarterly production-side GDP estimates at current and constant (2012) prices. The latest quarterly labor force statistics is available for 2022Q3. |
| **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 received CARTAC TA in 2018 to develop the Price Index (PPI) and the Domestic Production Index (DPI). The TA also provided guidance to the authorities in planning for household budget survey to rebase the CPI. |
| **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 FY2014, 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). 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 |

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| 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 Standardized Report Forms (SRFs). | |
| **External Sector statistics:** The CBTT compiles and disseminates balance of payments (BoP) statistics. Quarterly and annual BoP data are disseminated in its national publications, although with somewhat large lags. Generally, compilation of BoP statistics is heavily based on administrative records and surveys data from entities with cross-border transactions. The CBTT has enhanced the quality of trade in goods data with contribution from direct reports from energy companies. Recent TA missions have recommended focusing on improving the quality of trade in customs' non-energy goods data; improve the recording of external asset and liability position for financial holding companies associated with deposit holding corporations; improve the measurement of the travel account; and include external assets and liabilities of private pension plans. Despite progress in the recording of repatriated profits under the income account, errors and omissions are still large. The CBTT prepares quarterly external debt statistics (QEDS) following the 2013 External Debt Statistics: Guide for Compilers and Users, which are published on the World Bank's website since July 2018. | |
| **II. Data Standards and Quality** | |
| In October 2021, Trinidad and Tobago fully implemented the IMF e-GDDS framework, an important data transparency initiative, by launching a National Summary Data Page (NSDP). The NSDP is a national "data portal" that serves as a one-stop publication vehicle for publishing essential macroeconomic data aligned with data category in the Table of Common Indicators Required for Surveillance, according to pre-announced release calendar. | The data Report on the Observance of Standards and Codes (ROSC) was published in February 2006. |

**Trinidad and Tobago: Table of Common Indicators Required for Surveillance**
(As of March 17, 2023)

| | Date of latest observation | Date received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of publication[7] |
|---|---|---|---|---|---|
| Exchange Rates | Feb. 2023 | Feb. 2023 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Dec. 2022 | Mar. 2023 | M | M | M |
| Reserve/Base Money | Dec. 2022 | Mar. 2023 | M | M | M |
| Broad Money | Dec. 2022 | Mar. 2023 | M | M | M |
| Central Bank Balance Sheet | Dec. 2022 | Mar. 2023 | M | M | M |
| Consolidated Balance Sheet of the Banking System | Dec. 2022 | Mar. 2023 | M | M | M |
| Interest Rates[2] | Dec. 2022 | Jan. 2023 | Q | Q | Q |
| Consumer Price Index | Dec. 2022 | Mar. 2023 | 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 | Sep. 2022 | Nov. 2022 | Q | I | A |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | Sep. 2022 | Nov. 2022 | Q | I | Q |
| External Current Account Balance | 2022Q2 | Dec. 2022 | Q | Q | Q |
| Exports and Imports of Goods and Services | 2022Q2 | Dec. 2022 | Q | Q | Q |
| GDP/GNP | 2022Q2 | Jan. 2023 | Q | Q | Q |
| Gross External Debt | Sep. 2022 | Nov. 2022 | M | M | M |
| International Investment Position[6] | 2022Q2 | Dec. 2022 | 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 bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Only from 2011 onwards.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).