January 2005
IMF Country Report No. 05/4

Trinidad and Tobago: 2004 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Trinidad and Tobago

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 30, 2004, 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 October 4, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of October 22, 2004 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 22, 2004 discussion of the staff report that concluded the Article IV consultation.

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

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

Selected Issues Paper

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation
with Trinidad and Tobago

Approved by Caroline Atkinson and G. Russell Kincaid

October 4, 2004

Discussions. A staff team comprising A. Furtado (Head), C. Francis, P. Kufa, S. Rizavi, S. Eble, and M. Williams (all WHD) held discussions in Port-of-Spain during July 19–30, 2004. The mission met with Governor Ewart Williams, Mr. Conrad Enill (Minister in the Ministry of Finance), other ministers and senior officials, representatives of the private sector and labor unions, and the opposition party. Mr. Charles de Silva (OED) attended the policy discussions.

Key developments and policy issues. Led by the energy sector, real growth in 2003 picked up sharply. Higher energy-based receipts have contributed to a sizable budget surplus, a marked improvement in the finances of the energy-based public enterprises, and a strong external current account position. Nonetheless, the unemployment rate remains at about 10 percent. Monetary policy has been conducted in the context of a tightly managed exchange rate. Staff emphasized the need to ensure continued fiscal surplus positions during the energy boom, contain the growth of the wage bill, increase the efficiency of government capital expenditure, reform the public enterprise sector, and prudently manage the monetary impact associated with large energy-related external inflows. In view of the exchange rate policy stance, structural reforms take on added importance in fostering competitiveness in the non-energy sectors.

Last Article IV consultation. At its conclusion on June 23, 2003, Directors viewed the effective use of prospective higher energy revenues as key to Trinidad and Tobago's future development. They recommended targeting overall budget surpluses, urging the authorities to improve the tax system and strengthen public expenditure and fiscal management. They emphasized reinvigorating structural reforms, particularly in the areas of pensions, privatization, and financial sector supervision.

Exchange system. Trinidad and Tobago has accepted the obligations of Article VIII. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions (see Appendix I on Fund relations; relations with other international financial institutions are summarized in Appendices II and III).

Contents Page

Appendices

EXECUTIVE SUMMARY

- **Trinidad and Tobago's economy is experiencing a strong energy sector-based expansion due to increased output and high international prices**. The fiscal and external current accounts have recorded large surpluses, in the context of low inflation and a stable exchange rate. Intermediation of energy-related resources has strengthened Trinidad and Tobago's position as an important source of funds in the Caribbean region. Despite a decade of rapid growth, unemployment remains high.

- **The discussions focused on policies for enhancing the prospects for sustainable growth and employment creation in the non-energy sector**. A key policy requirement is prudent fiscal management, which should be supported by a monetary/exchange rate policy mix that contains the underlying pressures toward real appreciation of the currency. Macroeconomic policy should be underpinned by accelerated structural reforms aimed directly at enhancing competitiveness of the non-energy sector.

- **The budget surplus is estimated at 3 percent of GDP in FY 2003/04 and—given the outlook for continued strong energy-based revenues—this should be followed by further sizable surpluses over the medium term**. Net public sector debt is projected to decline substantially to below 15 percent of GDP by 2009. The mission emphasized that maintaining budget surpluses was also required for long-term sustainability of the use of energy resources. The authorities agreed to pursue a prudent fiscal policy stance in the context of a broad fiscal reform agenda, including tax reforms.

- **High unemployment and slow growth in non-energy exports raise concerns about competitiveness and the appropriateness of the level of the exchange rate**. However, greater exchange rate flexibility at this time would lead to an appreciation, so that competitiveness issues needs to be addressed through well-targeted structural reforms as well as prudent fiscal policy. Reforms could include measures to address supply-side constraints, in transportation and telecommunications, as well as public sector and financial sector reforms. The staff, on balance, supports the authorities' decision to maintain the exchange rate at its current level, in view of the underlying pressures toward currency appreciation, and agrees with their emphasis on structural reforms.

- **The country's large energy resources and the expanding regional role of its financial sector reinforce the need for institutional strengthening**. In the context of ongoing related reforms to enhance fiscal transparency and the regulatory and supervisory framework of the financial system, the authorities have indicated their willingness to participate in a fiscal ROSC, and have requested an FSAP for 2005.

I. Background

1. **Trinidad and Tobago's economy, which is endowed with large energy reserves, is experiencing a strong energy sector-based expansion due to increased output and high international prices**. The energy sector already accounts for about 40 percent of GDP, 83 percent of domestic goods exports, and slightly more than 40 percent of government revenue. Large increases in oil and gas output expected over the next decade will reinforce its central role. As in other energy-rich countries, while energy exports greatly reduce domestic and external resource constraints, they pose their own macroeconomic and governance-related challenges—in particular, for employment creation, poverty reduction, and fiscal transparency.

2. **Over the past decade, rapid growth rates have been achieved in the context of low inflation**. Real growth averaged about 6 percent per year, inflation was contained in the low single digits, and the nominal exchange rate remained stable. While fiscal balance has been broadly maintained, substantial monetary injections have taken place, associated with external current account surpluses. However, the central bank—a key participant in the foreign exchange market given the high share of budgetary revenue based on energy exports—has sterilized much of the fiscal impact through sales of foreign exchange, including for substantial investments in the region by Trinidadian financial institutions. This intermediation of energy-related resources has strengthened Trinidad and Tobago's position as an important source of funds in the Caribbean region.

3. **Despite Trinidad and Tobago's considerable energy wealth, social and ethnic problems remain, and the political balance continues to be delicate**. The People's National Movement government was elected in October 2002 for a five-year term, and political tensions associated with ethnic factors continue to complicate policymaking. While per capita income is relatively high by regional standards (almost US$8,400), serious poverty and unemployment remain (21 percent and 10½ percent, respectively). The government's strategy is to use increases in energy revenue to address these issues and bring the country to developed status by 2020.[1]

4. **The Fund's policy advice in recent years has focused on reducing the dependency of the budget on energy-related revenues, strengthening the financial system, and enhancing the competitiveness of the non-energy sector**. However, progress in these areas has been slow, reflecting political factors and the renewed energy boom, that has eased pressures to take upfront reform measures.

---

[1] The United Nations Human Development Index ranked Trinidad and Tobago 54th among 174 countries in 2003, below Barbados and St. Kitts and Nevis, but above all other Caribbean countries.

II. Recent Economic Developments

5. **Real GDP growth picked up sharply in 2003, driven mainly by an expansion in the energy sector, in the context of persistent high unemployment and continued low inflation**. Real GDP grew by 13 percent, led by a 30 percent expansion in the energy sector (Table 1 and Figure 1). This was due to a surge in liquid natural gas (LNG) production as the third LNG plant started operations in April 2003, as well as to increases in the output of crude oil and petrochemicals. The performance of non-energy sectors was mixed: while there was a strong expansion in manufacturing, construction, and financial services, the agricultural sector declined by some 14 percent. Despite strong growth, the unemployment rate remained unchanged at about 10 ½ percent.2 To some extent, this reflected an increase in the labor participation rate; job growth continued at a reasonable pace. However, unemployment has also been kept high by a number of structural factors, which have led to a low labor intensity of growth. These factors include the high capital intensity of the energy sector, skills mismatches, labor market rigidities which reduce wage flexibility, and the impact of energy-related inflows on the real exchange rate. While average consumer price inflation has been close to 4 percent, core inflation (which excludes food price increases) has been about 2 percent.

6. **The central government accounts shifted to surplus in FY 2002/03, on the strength of energy-based revenue growth**. The budget recorded an overall surplus of 2 percent of GDP, compared with a deficit of about ½ percent of GDP in the preceding fiscal year (Table 2). While energy-based revenue increased sharply, the growth in non-energy taxes was modest, partly reflecting payment of outstanding VAT refunds. Government spending increased only marginally, mostly on account of higher transfers and subsidies, and capital expenditure and net lending. Wage increases were kept broadly in line with inflation. The budget surplus contributed to a decline in central government debt (to 33 percent of GDP as of September 2003) and a buildup of balances at the Central Bank of Trinidad and Tobago (CBTT).

7. **The overall balance of the consolidated nonfinancial public sector (NFPS) improved sharply in FY 2002/03, although deficits remain in some entities**. The NFPS shifted from a deficit of about 4 percent of GDP in FY 2001/02 to a surplus of 2 percent of GDP in FY 2002/03 (Table 3). The turnaround reflected the marked improvement in the finances of the state-owned energy companies due to strong product prices and, in the case of gas, increased output. While most of the energy-related companies, and the telecommunication company, had operating surpluses, a number of enterprises continued to record deficits—in particular, the fuel distribution company and the water utility, whose

[2] The unemployment rate used in this report corresponds to an extended definition based on a relaxed "seeking work" criterion deemed to be the appropriate one for Trinidad and Tobago's labor market. Under the standard ILO definition, the unemployment rate would stand at 7½ percent. Labor market developments are discussed in Chapter II of the accompanying Selected Issues Paper.

tariffs have not kept pace with costs, and the sugar company, which incurred large severance payments related to its restructuring (Box 1). Public sector debt declined by about 4 percentage points of GDP, to 56 percent of GDP as of end-September 2003.

8. **The central bank continued to maintain a stable exchange rate against the U.S. dollar, which—given the large energy-related inflows—was consistent with a reduction in the policy interest rate and some further build up in international reserves**. The exchange rate has remained within a narrow band around TT$6.3 per U.S. dollar—a virtually unchanged level since late 1997—and international reserves have accumulated moderately over the last two years (Table 4). The CBTT lowered the benchmark repo rate by 25 basis points in September 2003, to 5 percent, which was intended to stimulate growth in the non-energy sector. To improve financial intermediation and level the playing field between banks and non-banks, the CBTT lowered the reserve requirement, from 18 percent to 14 percent, in October 2003.[3] These measures have contributed to a significant reduction in commercial bank lending rates,[4] and an increase in credit to the private sector (Table 5).

9. **The balance of payments recorded an increased surplus in 2003, despite large capital outflows, reflecting the strong performance of the energy sector**. The external current account recorded an unprecedented surplus of 13 per cent of GDP, compared to approximate balance in 2002 (Table 6). The sharp increase in gas output, combined with an upswing in international oil and gas prices, resulted in a boom in total export earnings, which rose by 13 percentage points of GDP, despite a decline in manufacturing exports. The capital account recorded a deficit equivalent to 10 percent of GDP in the context of sizable bond issues by regional governments and corporations, and outward foreign direct investments. Direct investment inflows rose in the context of major energy-related investment projects. At the end of the year, gross official reserves stood at US$2.3 billion, equivalent to 5 months of imports. Public sector external debt declined by 3 percentage points of GDP, to about 15 percent of GDP at end 2003, most of which long-term and from commercial creditors.

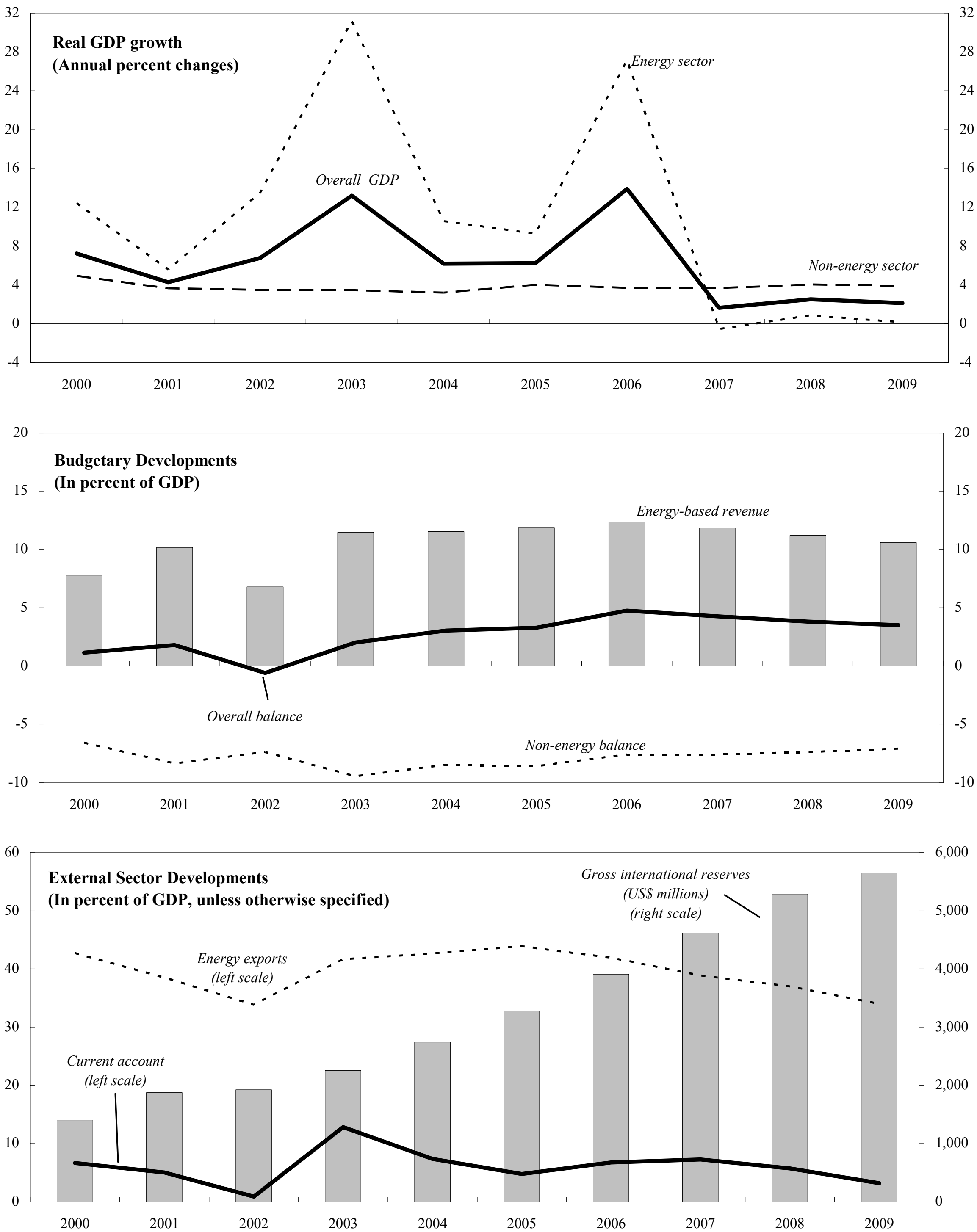
10. **Since August 2002, the Trinidad and Tobago dollar has depreciated by 9 percent in real effective terms (Figure 2)**. This movement reflected mainly the fall in the value the U.S. dollar, to which the currency has been effectively pegged, against the currencies of Trinidad and Tobago's major trading partners, and in particular the euro. Nonetheless, the REER remains some 15 percent above its 1997 level.

---

[3] This measure was part of a phased reduction of reserve requirements aimed at reducing them to 9 percent by mid-2005. The central bank further reduced the reserve requirement to 11 percent, effective September 15, 2004. The monetary impact of these measures has been sterilized by special issues of government securities.

[4] The prime lending rate declined by 200 basis points to 9.5 percent, with a further decline to 8.75 percent following the recent reduction in reserve requirements.

Figure 1. Trinidad and Tobago: Selected Economic Indicators, 2000–09



Source: Trinidad and Tobago authorities.

Box 1: Trinidad and Tobago: Restructuring of the State-Owned Sugar Company

In 2003, the government profoundly restructured and downsized the state-owned sugar company CARONI to eliminate the huge drain on fiscal resources. The company was incurring a loss of some 1 percent of GDP on an annual basis (exceeding its employment costs of 0.8 percent of GDP), and had accumulated debt of 6 percent of GDP at end-2003, which will continue to be serviced by the government following the restructuring.

The main elements of the restructuring plan were:

- Closure of all of CARONI's sugar cane production activity, including separation of all its 9,000 employees, and creation of a new company, the Sugar Manufacturing Company Limited (SMCL), which is now responsible for sugar manufacturing.
- Return of all CARONI lands to the state for the establishment of heavy and light manufacturing estates, agricultural estates, housing projects and commercial complexes designed to stimulate new economic activity.

The government's role in the sugar sector is now reduced to sugar manufacturing only. The government now operates only one sugar manufacturing factory (compared to two before restructuring). SMCL has cut sugar processing from 160,000 tons to 75,000 tons, reduced its production costs, including through reduction in the labor force from 2,000 to 1,300, and is purchasing all its cane from private farmers at market prices. Continued government involvement in this specific area was considered important from a socio-economic viewpoint, since sugar production continues to be a major source of private employment, particularly in rural areas, and the main user of agricultural land. Also, the new operation should be financially viable, since the lower sugar output would be mainly sold within the quota system to the high priced EU market.

To mitigate the social impact of the restructuring, a comprehensive separation package, VSEP, was put in place. This included severance payments of 1–2 years of annual salary (total cost TT$724 illion in 2003), retraining programs, and the leasing of land to former CARONI employees for housing and agricultural purposes.

The restructuring is expected to generate the following benefits:

- Removal of the drain on the budget over the next years.
- Improved capacity of the sugar industry to compete in the global market.
- Better position to further restructure the sector in light of the anticipated phasing out of the EU preferential treatment in 2006.

III. Policy Discussions

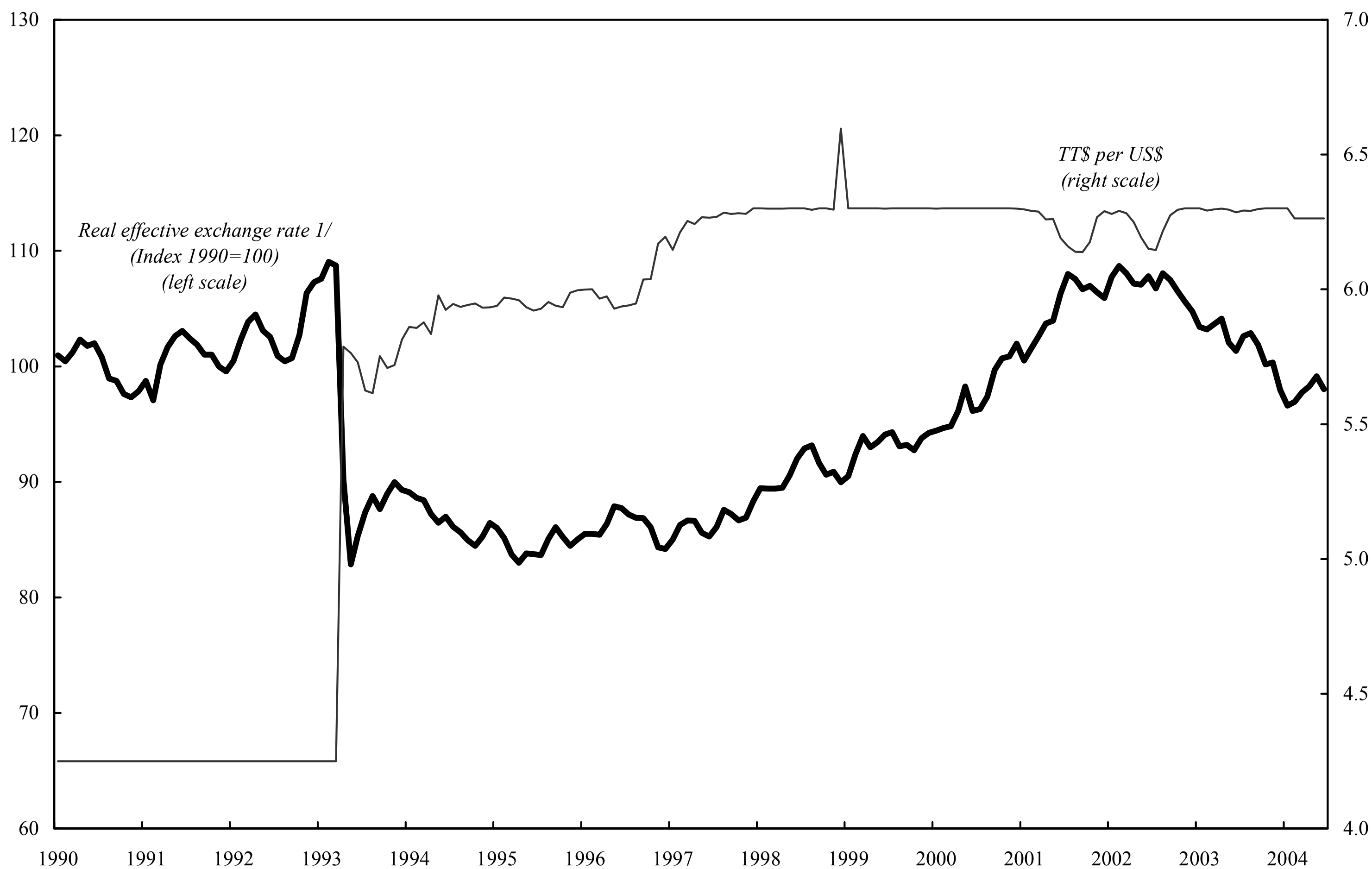
11. **The discussions focused on policies to assure the prudent use of Trinidad and Tobago's energy resources and enhance the prospects for sustainable growth and employment creation in the non-energy sector**. While projected rises in energy output in coming years are expected to sustain growth at high levels, and support strong fiscal and external positions, employment creation may remain limited in view of the capital intensity of the energy sector. Accordingly, an improvement in the social indicators will require a policy framework that promotes economic diversification and growth in the non-energy sector. A key element of such a framework is prudent fiscal management, which also provides for long-term sustainability of the use of energy resources. This should be supported by a monetary/exchange rate policy mix that contains the underlying pressures toward real appreciation of the currency. Given these pressures, appropriate macroeconomic policies should be accompanied by structural reforms aimed directly at enhancing competitiveness of the non-energy sector.

A. Fiscal Policy

12. **The discussions covered the fiscal situation in FY 2003/04, the outlook for the coming budget and the medium term, and the long-term sustainability of the use of energy resources**. The budget is expected to record a surplus of 3 percent of GDP in FY 2003/04 and—given the strength of projected energy-based revenues—this should be followed by continued substantial surpluses over the medium term, provided that expenditure growth remains somewhat below GDP growth. While the authorities were still at an early stage in the preparation of the FY 2004/05 budget (to be submitted to parliament in early October), they indicated that the expenditure envelope assumed by the mission was broadly realistic and agreed that it was consistent with sizable budget surpluses over the medium term given the energy sector outlook. For 2004/05, as in previous years, the budget will be based on a conservative oil price assumption, implying lower revenues estimates and, correspondingly, a lower surplus than projected by the mission on the basis of WEO prices. The mission emphasized that maintaining budget surpluses was required for long-term sustainability of the use of energy resources, and that the assumed expenditure envelope would also contribute to limiting pressures toward real appreciation of the currency. In this context, it noted the potential benefits from institutionalizing fiscal procedures that would help ensure a continued budget surplus position. The authorities stated that they plan to pursue a prudent fiscal policy stance in the context of a broad reform agenda for the public sector.[5]

[5] The context for this reform agenda is the government's Vision 2020 framework, aimed at achieving developed country status by year 2020.

Figure 2. Trinidad and Tobago: Exchange Rate Developments



Source: IMF Information Notice System.

1/ Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation. The full set of Trinidad and Tobago's trading partners is used.

13. **Estimates based on the three-quarter outturn to June point to an increase in the overall budget surplus to 3 percent of GDP in FY 2003/04**. While expenditure is estimated to increase by about 9 percent, mainly on account of higher transfers and subsidies, this is expected to be more than compensated for by strong receipts from the energy sector. Nonetheless, total expenditure is expected to be lower than budgeted mainly due to slower pace of implementation of capital projects.[6] Meanwhile, the overall deficit of the public enterprises is expected to increase somewhat, reflecting higher capital expenditure by the energy-related companies. As a result, the overall NFPS surplus is estimated at 2.6 percent of GDP in FY 2003/04.

14. **Over the medium-term, the budget is projected to record surpluses averaging 4 percent of GDP**.[7] The budget surplus would peak at 4½ percent of GDP in FY 2005/06. Beginning in FY 2006/07, oil and gas revenue would decline in relation to GDP in line with weakening prices, unless production volumes continued to rise. Total expenditure would decline slightly in relation to GDP despite some increase in the public sector investment program (PSIP). The budgetary projections are consistent with NFPS surpluses, averaging 2½ percent of GDP over the medium term. The underlying trends reflect the elimination of the losses from the sugar company; an increase in capital expenditure of the statutory bodies (mainly the water utility); and a weakening in the operating balance of the public enterprises, as oil and gas prices gradually soften over the medium term.[8] Overall public sector gross debt and net debt would decline, respectively, to below 40 percent and 15 percent of GDP by 2009.

15. **Achievement of the projected budget surpluses hinges on a degree of expenditure restraint**. Specifically, the mission noted that the baseline projections assumed growth of the wage bill and transfers to households be kept in line with inflation (about 3 percent on average), while the growth in other expenditure would be in line with that of nominal GDP. These policies, the mission pointed out, would allow capital expenditure to grow more rapidly than in recent years, permitting the government to address the country's infrastructure and social sector needs. The mission emphasized, moreover, the need to ensure that public investment be of high quality and to improve the effectiveness of government spending in general. To this end, the mission encouraged the authorities to undertake a Public Expenditure Review with the World Bank, and recommended adoption of a medium-term

---

[6] Wages and salaries also turned out below the budgeted amount, which included provisions for unfilled positions.

[7] The average projected during the mission was 2½ percent of GDP. Subsequently, WEO oil prices for the projection period were raised from an average of US$30.7 per barrel to an average of US$35.2 per barrel during the period 2005–09.

[8] Possible improvements in the operating balances of public entities that could result from planned reforms are not incorporated in the medium-term projections.

expenditure framework. The authorities indicated that their expenditure plans, while not yet fully fleshed out, were likely to turn out well within the envelope assumed by the mission.

16. **Notwithstanding the strong energy revenue outlook, it is important to move ahead with long-standing plans for tax reform**. The mission noted that, over time, the non-energy tax base (in particular the VAT) had been eroded, increasing the vulnerability of the budget to drops in energy prices. In the energy tax regime, the royalty rate for natural gas remains very low (about 0.3 percent per million cubic feet). To address these issues, the mission recommended a reform of the energy-tax regime, citing related FAD advice,[9] and a strengthening of non-energy tax revenue through a reduction in tax exemptions, particularly in the VAT area. The authorities are at an advanced stage of formulating a new energy tax regime, to be implemented in the context of the FY 2004/05 budget, aimed at better capturing the rents from natural gas, while still providing necessary incentives for investment and exploration. The authorities recognized the need to stem and reverse the erosion of the non-energy tax base that has taken place over time, due in part to tax exemptions. To help remedy the situation, they had recently submitted a request for FAD technical assistance.[10]

17. **The mission discussed updated staff estimates of the use of oil and gas revenues that would be sustainable over the long term**. Based, inter alia, on data on oil and gas reserves, projected extraction rates, and price trends, the estimates suggested that spending on average TT$7 billion over the next five years would be consistent with long-term sustainability (70–100 years) in the spending based on energy-related revenues.[11] This implies that the budget surplus should be, on average, at least 3½ percent of GDP during FY 2004/05–FY 2008/09.[12] While the baseline fiscal scenario more than meets this sustainability criterion, the mission noted that the estimate of the minimum target balance was highly sensitive to the assumptions and evolving information, and should be kept under

---

[9] FAD has recommended simplifying the supplemental petroleum tax, and extending it to natural gas production; adopting a uniform gas royalty for all producers; and terminating tax holidays for investments in the petrochemical sector.

[10] The medium-term fiscal projections do not include the effect of the revenue measures discussed here, as these measures have not yet been fully specified.

[11] For a description of the framework used by the staff to estimate sustainable use of energy-based revenue in Trinidad and Tobago, see www.imf.org Country Report No. 03/232.

[12] The authorities are in the process of formalizing the interim Revenue Stabilization Fund (RSF). As the title indicates, this fund has been designed mainly for the narrower purpose of smoothing out the use of energy revenue by the budget, rather than to buildup long-term balances for inter-generational transfer of energy wealth. The authorities indicated that the fund would be made more comprehensive in its formal version, through the inclusion of gas-related revenues (in addition to oil-based revenues).

frequent review. The authorities concurred that long-term sustainability was an important objective to be pursued in using the country's energy resource endowment, in particular for inter-generational equity reasons. However, they underscored that this objective would continue to be balanced against the possibility of allocating additional energy-based revenues to high priority social and infrastructure spending.

B. Monetary, Exchange Rate, and Financial Sector Policies

18. **The CBTT reaffirmed that its primary objective remains a low and stable rate of inflation, which has been facilitated by a de facto exchange rate peg against the U.S. dollar**. Over the past year, in the context of continued low inflation and high unemployment, as well as low international interest rates, the CBTT lowered domestic interest rates, which it viewed as conducive to growth in the non-energy sector. The authorities explained that sales of foreign exchange, which had increased substantially, had been calibrated to maintain stable conditions in the foreign exchange market while moderating the strengthening of the international reserve position and the consequent impact on liquidity. Open market operations were enhanced in July 2004 with the introduction of a new auction system that includes all government securities (rather than only treasury bills), concurrently with an expansion of the primary dealer network to include nonbank financial institutions in the open market auctions.

19. **The mission raised concerns about competitiveness and the appropriateness of the level of the exchange rate**.[13] It noted that, while the currency had been depreciating since 2002, the REER was still 15 percent above the level in 1997, the unemployment rate was 10 percent, non-energy exports had declined by some 8 percent in 2003, and foreign direct investment to the non-energy sector was low. The authorities indicated that, while they were ready to allow the currency to depreciate, if necessary, to protect international reserves, greater exchange rate flexibility at this time would in fact lead to an appreciation—noting that they would not accelerate the pace of reserve accumulation to engineer a depreciation. They expressed serious concern over the cost of such a policy in terms of inflation and disruption in industrial relations, and the consequent likelihood of only minimal gains in terms of real wage adjustments and competitiveness. Accordingly, the authorities argued that competitiveness issues needed to be addressed through prudent fiscal policy and targeted structural reforms. While the mission welcomed the indication that flexibility would be exercised in exchange rate policy if needed to safeguard the reserve position, it emphasized that, in the absence of exchange rate adjustment, structural reforms assumed even greater importance.

---

[13] Competitiveness issues are discussed in Chapter III of the accompanying Selected Issues paper.

20. **The banking system remains broadly sound, and action is being taken to strengthen further the regulatory and supervisory framework of the financial system**. The banking sector is well-capitalized, with the ratio of nonperforming loans quite low by international standards (Table 7). In view of the substantial exposure to the region,[14] work will be needed to assess the associated vulnerabilities. In this connection, the mission welcomed the authorities' request for participation in the joint Fund/World Bank FSAP, on which work is expected to start in early 2005.

C. Structural Reforms

21. **The authorities agreed on the need to improve competitiveness in the non-energy sector, and indicated that this is being addressed through structural reforms**. They recognized, however, that the benefits of these reforms in terms of employment and poverty reduction would require some time to materialize fully . The authorities noted that tax reforms, upgrading of infrastructure, and supply-side enhancements would have a direct beneficial impact on the competitiveness of the non-energy sector, although public sector and financial sector reforms would also contribute importantly to competitiveness over the medium term. They noted their plans to improve infrastructure, introduce supply side enhancements, and accelerate fiscal, public enterprise, and financial sector reforms. The mission underscored that full specification and steady implementation of a comprehensive reform agenda was essential for economic diversification, employment creation, and poverty reduction.

Budget

22. **The authorities emphasized that strengthening revenue administration was key to improving the performance of non-energy taxation**. The government approved, in late 2002, the establishment of an independent revenue authority which, when fully functional, would integrate the operations of the current Inland Revenue Division and Customs and Excise Department. This proposed administrative strengthening will be supported by a strengthening of tax policy covering both the energy and non-energy sectors.

23. **To improve efficiency in the delivery of government services, the government plans to phase in output budgeting in the context of the FY 2005/06 budget**. The authorities, as well as private sector representatives, emphasized that reducing the cost of doing business with the government and accessing public services would enhance competitiveness. In addition, the government issued a green paper on reform of the procurement regime, for public discussion, in June 2004. The current regime is to be replaced by a decentralized system incorporating the best international practices. More generally, in

---

[14] Equivalent to about 20 percent of the investment portfolio of the licensed financial institutions.

order to enhance transparency and accountability, the authorities indicated their willingness to participate in a fiscal ROSC.

Public enterprise sector

24. **Improvements in efficiency and governance are being promoted in the public enterprise sector**. The Regulated Industries Commission (RIC) is implementing a strategic plan whereby the public utilities will be given incentives to rationalize their operations in line with international employment and cost standards. In this context, it is envisaged that the Water and Sewerage Authority (WASA) will move fully to a meter system over the medium term. To improve transparency and accountability, the state enterprises have been mandated to publish a summary of their audited financial statement within four months of the end of their financial year. Meanwhile, the government is also taking steps to review the legislative framework governing the public enterprises.

Financial sector

25. **In view of the growth and complexity of Trinidad and Tobago's financial system and its increasing role in the region, the authorities are seeking to upgrade the related supervisory and regulatory framework**. In this context, the central bank's supervisory role was expanded in May 2004, to cover insurance companies, insurance intermediaries, and registered pension plans.[15] Also, steps are being taken to further strengthen the CBTT's supervisory and enforcement powers, including over financial conglomerates. In June 2004, the authorities adopted a white paper outlining a broad legislative agenda for financial sector reforms, including amendments to the Financial Institutions Act, the Insurance Bill, and the Securities Industry Act, which are expected to be completed by mid-2005. Regulations governing credit unions are also expected to be strengthened next year.

26. **The government is in the process of designing a reform of the pension system**. Such a reform will include a move to a fully funded contributory pension scheme for government employees; integration of the Old Age Pension scheme with the National Insurance Scheme (NIS), in the context of a broader reform of the NIS; and an improvement in the legal and regulatory framework for private pension schemes.

Trade reform

27. **The authorities reaffirmed their commitment to further regional integration and trade liberalization in the context of the CARICOM, the WTO, and the envisaged FTAA**. Trinidad and Tobago fully implemented the fourth phase of CARICOM common external tariff in 1998 and currently most tariff rates on non-CARICOM imports are in the 5–

---

[15] These reforms have been undertaken with technical assistance from the Fund and CARTAC.

20 percent range.[16] As preferential access to European markets is expected to be phased out over the medium term, the authorities' key trade policy objective is to broaden external market access. The mission supported further trade liberalization, in coordination with other CARICOM members.[17]

Supply-side enhancements

28. **The authorities view the PSIP as an important tool in their strategy to enhance the supply-side of the economy**. In this context, the composition of the PSIP is shifting away from direct government involvement in productive activities toward economic infrastructure (e.g., roads) and social spending (e.g., education and health).[18] As part of the PSIP, the government is developing a new industrial estate dedicated to the promotion of high-technology industrial development, in collaboration with the new University of Trinidad and Tobago, which will be located in the same area.

29. **Telecommunication costs are considered important for external competitiveness**. Accordingly, the Telecommunications Act was amended in July 2004, to pave the way for full liberalization of the sector over the next year. The amendments remove the monopoly privilege of the Telecommunication Services of Trinidad and Tobago. A new regulatory body for the telecommunications sector, the Telecommunication Services Authority, has been established.

30. **To improve the efficiency of the port operations, the government is at an advanced stage in its plans to restructure the Port Authority of Trinidad and Tobago**. This restructuring would transfer cargo handling to a new company, with majority private sector participation. Legislation to support the proposed restructuring plan has already been drafted.

D. Medium-Term Outlook

31. **The outlook for the next three years is for continued rapid growth and budget surpluses in the context of low inflation**. The mission projected real growth of about 9 percent in 2004–06, led by a 15 percent expansion in the energy sector associated with completion of large projects currently underway. A major event impacting the projections is

---

[16] The tariff rate on imports of agricultural goods from outside CARICOM is 40 percent. In January 2004, the Harmonized Commodity Descriptions and Coding System (HS2002) structure was implemented.

[17] Based on the IMF's trade restrictiveness index, Trinidad and Tobago ranks 4 on scale of 1 (most open) to 10 (least open).

[18] The share of the social sectors in PSIP allocations increased from 48 percent in 2001 to 56 percent in 2004.

the coming on stream of additional and substantial liquid natural gas production facility in 2006. Thereafter, oil and gas revenue would decline in relation to GDP with softening of oil prices in line WEO projections. Nonetheless, under current trends and policies, the budget would continue to record surpluses around 4 percent of GDP through FY 2008/09, while the NFPS would record annual surpluses of about 3 percent of GDP. Gross public sector debt would decline substantially, to less than 40 percent of GDP by 2009. The balance of payments surplus is projected to average about US$600 million, or almost twice that recorded in 2003, which would raise the CBTT's gross international reserves to about US$6 billion by 2009.

32. **Debt sustainability analysis anchored on the baseline scenario indicates that the public debt would rise under a variety of shocks (Table 8)**. However, the baseline scenario incorporates a significant build-up in assets, of some 18 percent of GDP over the projection period, which could be used to cushion adverse shocks. In addition to the standard stress tests, the earlier scenario prepared by the mission in the field may be used as a sensitivity test, as it was based on a lower crude oil price. The results of that scenario indicate that, for a reduction of US$4–5 in the average crude oil price during the five-year projection period, in 2009 the public sector debt would be some 6 percentage points of GDP higher, while the CBTT's international reserves would rise less rapidly, to about US$4.3 billion, compared with US$5.6 billion in the baseline scenario (Table 10).

E. Statistical Issues

33. **Trinidad and Tobago provides core statistics to the Fund that are broadly adequate for surveillance**. The mission was provided with rebased GDP data incorporating methodological improvements to better capture growth in the energy sector and financial services (Appendix IV). The authorities concurred with the mission that further strengthening of the statistical system remains a key priority, particularly in the areas of public enterprises accounts and the capital account of the balance of payments. The authorities indicated their willingness to participate in the GDDS in the near future.

IV. Staff Appraisal

34. **The economy of Trinidad and Tobago continues to experience a strong expansion driven by the energy sector**. Expansion in energy output and high international prices have boosted exports and fiscal revenues, giving rise to substantial fiscal and external current account surpluses. These favorable developments have greatly reduced domestic and external resource constraints. However, they also pose significant macroeconomic challenges, notably because employment creation and poverty reduction require higher growth in the more labor intensive non-energy sectors, where growth has remained sluggish. Persistent double-digit unemployment, and the increasing dependence of the budget on energy-based revenues underscore the need for a policy framework that promotes external competitiveness and economic diversification.

35. **A key element of a growth-oriented policy framework is prudent fiscal management, which also provides for sustainable consumption of energy resources**. The budget has remained in surplus in FY 2003/04 and—given the strength of projected energy-based revenues—the government is in a position to maintain substantial surpluses over the medium term. To this end, expenditure should continue to be managed prudently. The authorities are advised to continue to contain the growth of the wage bill and transfers to households. This would allow capital expenditure to grow more rapidly than in recent years in order to better address the country's infrastructure and social sector needs. However, it will be important to ensure that public investment projects are of high quality and, more generally, to improve the effectiveness of government spending. Over the long term, the envisaged move to a fully funded pension scheme for government employees will help maintain fiscal discipline.

36. **Notwithstanding the strong energy revenue outlook, it is important to move ahead with long-standing plans for tax reform**. The staff is therefore encouraged that the authorities are at an advanced stage of preparation of a new energy tax regime, aimed at better capturing the rents from natural gas, and have requested Fund technical assistance for a reform of non-energy taxes, which have been eroded by exemptions and weak compliance. While plans to strengthen the revenue stabilization fund to cover the natural gas sector are welcome, the staff believes that a more comprehensive approach is needed, not only to smooth out the budgetary use of energy resources but also ensure that such use is sustainable over an appropriately long period. This would address inter-generational equity considerations and allow time for economic diversification efforts to take hold. In this context, the authorities should consider the scope for institutionalizing fiscal procedures that would help ensure a continued budget surplus position over the medium term.

37. **Exchange rate stability has facilitated low inflation and helped shield the non-energy sector from pressures towards exchange rate appreciation**. Accordingly, the staff supports the current de-facto pegging of the rate to the U.S. dollar, while also welcoming the indication by the authorities that they would not resist downward pressures on the exchange rate, and would allow flexibility if needed to protect the international reserves position. The staff considers that the central bank, which is structurally a key recipient of foreign exchange, has generally struck an appropriate mix in its liquidity management between sales of foreign exchange and open market operations. In particular, over the past year, it was appropriate to take advantage of the strength of the external inflows to allow some reduction in domestic interest rates, which has provided some economic stimulus, while still maintaining low inflation and permitting a moderate increase in international reserves. The recent expansion in the auction system for government securities should enhance the role of open market operations in managing liquidity, as well as promote development of the capital market.

38. **Persistent high unemployment, the decline in non-energy exports in 2003, and the underlying pressures toward real appreciation reinforce the importance of targeted structural reforms to enhance external competitiveness on the non-energy sector**. The staff, therefore, welcomes the authorities' broad reform agenda, and encourages its full specification and steadfast implementation. In the fiscal area, strengthening of revenue

administration through an independent revenue authority will be key for the success of forthcoming tax reforms while the effectiveness and efficiency of government expenditure would be improved by the planned adoption of output budgeting and reform of the procurement system. The envisaged transition to an integrated financial management system should strengthen the budgeting process and fiscal monitoring, and enhance debt management. Regarding public sector reform, the government should be commended for having undertaken a major restructuring of the state-owned sugar company, while providing a significant safety net for the large work force affected by this measure. Looking ahead, the staff attaches importance to the planned restructuring of the port operations, efforts toward greater efficiency in the public utilities, and initiatives to improve transparency and accountability in the public entities. It will also be important to address the unemployment problem, including by redirecting government outlays to education and training to upgrade labor skills, and developing a reform agenda aimed at tackling labor market rigidities. The staff welcomes other ongoing supply-side reforms, notably liberalization of the telecommunications sector.

39. **The ongoing program to modernize and upgrade the supervisory and regulatory framework of Trinidad and Tobago's financial system is critical, particularly in view of the country's increasing exposure to the region**. In this context, the staff welcomes the recent expansion of the central bank's supervisory role to the insurance and pension sector, and encourages the authorities to vigorously pursue their broad legislative agenda for the financial system. The government is also encouraged to move ahead with its plans for reforming the National Insurance Scheme and the regulatory environment for private pension schemes. The staff welcomes the authorities' request for participation in the joint Fund/World Bank Financial Sector Assessment Program in 2005.

40. **While Trinidad and Tobago provides core statistics to the Fund that are broadly adequate for surveillance, further strengthening of the statistical system remains a key priority**. Special attention is needed in the areas of public enterprises' accounts, and the capital account of the balance of payments. The staff welcomes the authorities' decision to participate in the GDDS.

41. It is expected that the next Article IV consultation with Trinidad and Tobago will be conducted on the standard 12-month cycle.

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

	2000	2001	2002	2003	Est. 2004	Projections 2005	2006	2007	2008	2009
	(Annual percentage changes, unless otherwise indicated)									
Output and prices										
Real GDP	7.3	4.3	6.8	13.2	6.2	6.3	13.9	1.6	2.5	2.1
Energy	12.4	5.6	13.5	31.2	10.6	9.3	27.1	-0.5	0.9	0.1
Non-energy	4.9	3.7	3.5	3.5	3.2	4.0	3.7	3.7	4.0	3.9
GDP deflator	11.7	2.7	-5.7	5.6	12.5	1.7	-1.8	0.9	1.0	1.3
Consumer prices										
End-of-period	5.6	3.2	4.3	3.0	4.0	3.0	3.0	3.0	3.0	3.0
Average	3.5	5.5	4.2	3.8	3.9	3.1	3.0	3.0	3.0	3.0
Unemployment rate (in percent)	12.2	10.8	10.2	10.2	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
Nonfinancial public finances 1/										
Budgetary revenue	25.6	27.4	24.6	27.4	26.1	26.2	26.5	26.1	25.7	25.5
Budgetary expenditure	24.5	25.6	25.2	25.4	23.1	22.9	21.8	21.9	21.9	21.9
Of which : capital expenditure	2.5	1.4	1.3	1.6	1.2	2.2	2.2	2.5	2.6	2.5
Overall budget balance	1.1	1.8	-0.6	2.0	3.0	3.3	4.7	4.2	3.8	3.5
Overall statutory bodies balance	-1.7	-1.7	-0.8	-0.6	-0.9	-1.6	-1.5	-1.3	-1.1	-1.0
Overall public enterprises balance	0.8	-1.1	-2.4	0.6	0.4	0.1	-0.3	0.0	0.5	0.3
Overall NFPS balance	0.3	-1.1	-3.8	2.0	2.6	1.8	2.9	2.9	3.3	2.8
Central government debt 2/	40.2	37.4	37.2	33.0	28.0	25.5	22.0	20.9	20.0	17.4
Public sector debt 2/	55.1	56.3	60.1	56.2	47.9	45.0	41.5	40.8	39.9	37.3
External sector										
Current account balance	6.6	5.0	0.9	12.8	7.3	4.8	6.7	7.3	5.7	3.2
Of which										
Exports	52.4	48.5	44.0	49.8	52.0	52.6	49.6	46.5	44.6	41.6
Imports	40.6	40.4	41.3	37.2	41.9	44.8	39.9	36.7	36.6	36.5
External public sector debt	20.5	18.5	17.9	15.2	12.9	11.8	9.4	9.1	8.6	6.4
Gross official reserves (in US$ million)	1,406	1,876	1,924	2,258	2,741	3,274	3,909	4,623	5,285	5,649
In months of imports of goods	4.7	6.1	5.9	5.2	5.4	6.5	8.2	9.4	10.4	11.4
In percent of M3	48.3	57.4	57.4	66.0	74.5	83.1	92.9	103.0	110.0	110.1
Real effective exchange rate (1990 = 100)	8.7	3.9	-1.1	-6.5	...	...	...	...	...	...
	(Percentage changes in relation to beginning-of-period M3)									
Banking system										
Net foreign assets	19.5	9.1	2.5	4.8	14.1	14.5	16.1	17.0	14.8	7.6
Net domestic assets	-13.6	3.5	0.2	-2.9	-6.6	-7.4	-9.3	-10.3	-7.7	-0.8
Broad money (M3)	5.9	12.6	2.7	2.0	7.5	7.1	6.8	6.7	7.1	6.8
M3 velocity	2.8	2.7	2.6	3.1	3.4	3.4	3.6	3.5	3.4	3.3
Memorandum items:										
Nominal GDP (in billions of TT$)	51.4	55.0	55.4	66.2	79.0	85.4	95.6	98.0	101.5	105.1
Exchange rate (TT$/US$)	6.3	6.3	6.3	6.3	...	...	...	...	...	...
Oil export price (US$/barrel)	28.2	24.3	25.0	28.9	37.3	37.3	35.3	34.5	33.8	33.3
Public sector net debt 3/	46.8	47.0	51.5	47.1	36.8	31.6	25.6	21.5	17.5	14.1

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

1/ The data refers to fiscal years 1999/2000–2008/09.

2/ Refers to gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, and accordingly lower net debt.

3/ Defined as gross debt minus central government deposits at the CBTT.

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

	1999/00	2000/01	2001/02	2002/03	Budget 2003/04	Prel. Est 2003/04	Proj 2004/05
	(In millions of Trinidad and Tobago dollars)						
Revenue	12,615	14,800	13,589	17,346	18,171	19,774	21,988
Energy	3,783	5,489	3,710	7,280	6,889	8,748	9,969
Non-energy	8,832	9,310	9,879	10,066	11,282	11,026	12,019
Expenditure	12,068	13,861	13,957	16,094	18,856	17,480	19,225
Current	10,860	13,079	13,214	15,096	17,403	16,545	17,417
Wages and salaries	3,141	4,284	4,225	4,548	5,123	4,609	4,793
Goods and services	1,236	1,768	1,742	2,038	2,789	2,445	2,703
Interest payments	2,520	2,330	2,260	2,592	2,580	2,580	2,512
Transfer and subsidies	3,962	4,697	4,988	5,918	6,911	6,911	7,408
Capital expenditure and net lending	1,207	782	743	998	1,453	935	1,808
Overall balance	**547**	**939**	**-368**	**1252**	**-685**	**2294**	**2764**
Total financing	**-547**	**-939**	**368**	**-1252**	**685**	**-2294**	**-2764**
Foreign financing	1,608	-2	-194	12	1305	275	110
Domestic financing	-2155	-938	561	-1264	-620	-2569	-2874
	(In percent of GDP)						
Revenue	25.6	27.4	24.6	27.4	24.0	26.1	26.2
Energy	7.7	10.1	6.7	11.5	9.1	11.5	11.9
Non-energy	17.9	17.2	17.9	15.9	14.9	14.5	14.3
Expenditure	24.5	25.6	25.2	25.4	24.9	23.1	22.9
Current	22.1	24.2	23.9	23.8	23.0	21.8	20.8
Wages and salaries	6.4	7.9	7.6	7.2	6.8	6.1	5.7
Goods and services	2.5	3.3	3.2	3.2	3.7	3.2	3.2
Interest payments	5.1	4.3	4.1	4.1	3.4	3.4	3.0
Transfers and subsidies	8.0	8.7	9.0	9.3	9.1	9.1	8.8
Capital expenditure and net lending	2.5	1.9	1.3	1.9	1.9	1.2	2.2
Overall balance	**1.1**	**1.8**	**-0.6**	**2.0**	**-0.9**	**3.0**	**3.3**
Total financing	**-1.1**	**-1.8**	**0.6**	**-2.0**	**0.9**	**-3.0**	**-3.3**
Memorandum items:							
Primary balance	6.3	6.1	3.5	6.1	2.5	6.4	6.3
Overall non-energy balance	-6.5	-8.4	-7.3	-9.5	-10.0	-8.5	-8.6
Cenrtal government debt	40.2	37.4	37.2	33.0	...	28.0	25.5
Oil price (U.S. dollar per barrel)	25.7	25.3	24.8	27.9	25.0	35.2	37.3

Sources: Data provided by the Trinidad and Tobago authorities; and Fund staff estimates and projections.

Table 3. Trinidad and Tobago: Consolidated Nonfinancial Public Sector
(In percent of GDP)

	1999/2000	2000/01	2001/02	2002/03	Est. 2003/04	Proj. 2004/05
I. Nonfinancial Public Sector						
Current balance	5.9	4.0	-1.2	4.1	6.2	7.1
Capital revenue and transfers	2.0	2.3	1.6	2.1	1.9	1.7
Capital expenditure and net lending	7.6	7.4	4.2	4.2	5.5	7.0
Overall balance	**0.3**	**-1.1**	**-3.8**	**2.0**	**2.6**	**1.8**
Public sector debt 1/ 2/	**55.1**	**56.3**	**60.1**	**56.2**	**47.9**	**45.0**
II. Central Government						
Current balance	3.6	3.2	0.7	3.6	4.3	5.4
Current revenue	25.6	27.4	24.6	27.4	26.1	26.2
Current expenditure	22.1	24.2	23.9	23.8	21.8	20.8
Capital expenditure and net lending	2.5	1.4	1.3	1.6	1.2	2.2
Overall balance	**1.1**	**1.8**	**-0.6**	**2.0**	**3.0**	**3.3**
Central government debt 1/ 2/	**40.2**	**37.4**	**37.2**	**33.0**	**28.0**	**25.5**
III. Statutory Bodies 3/						
Current balance	-0.5	-1.1	-0.9	-1.0	-1.1	-1.1
Current revenue	3.9	3.9	3.6	3.7	3.1	3.0
Current expenditure	4.4	4.9	4.5	4.7	4.2	4.1
Capital revenue and transfers	1.1	0.7	0.6	0.7	0.6	0.5
Capital expenditure and net lending	2.3	1.3	0.5	0.3	0.3	1.0
Overall balance	**-1.7**	**-1.7**	**-0.8**	**-0.6**	**-0.9**	**-1.6**
Debt 1/	**5.6**	**8.8**	**9.8**	**9.2**	**8.6**	**9.4**
IV. Public Enterprises 4/						
Current balance	2.8	1.9	-1.1	1.5	3.1	2.8
Current revenue	38.3	39.4	30.8	36.2	31.5	30.4
Current expenditure	35.6	37.5	31.9	34.7	28.5	27.6
Capital revenue and transfers	0.9	1.6	1.0	1.4	1.4	1.2
Capital expenditure and net lending	2.9	4.6	2.3	2.3	4.0	3.9
Overall balance	**0.8**	**-1.1**	**-2.4**	**0.6**	**0.4**	**0.1**
Debt 1/	**9.3**	**10.1**	**13.1**	**14.0**	**11.3**	**10.1**
Memorandum item:						
Nominal GDP (in TT$ million, FY)	49,250	54,098	55,276	63,468	75,805	83,816

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

1/ Refers to gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, and accordingly lower net debt.

2/ Includes BOLT and leases.

3/ Includes Public Transport Company, Electricity Company, Water Authority, Airport Authority and Port Authority.

4/ Includes CARONI, MTS, NFM, NFM, NHSL, NPMC, NQCL, NGC, PETROTRIN, PLIPDECO, SWMCOL, TIDCO, TANTEAK, TRINGEN, TTST, and UDECOTT. Data for National Housing Authority was not available.

Table 4. Trinidad and Tobago: Summary Accounts of the Central Bank

	2000	2001	2002	2003	May-04	Jul-04
	(In millions of Trinidad and Tobago dollars)					
Net foreign assets	9,022	11,947	12,322	13,936	14,799	16,694
Net international reserves	8,595	11,494	11,870	13,484	14,346	16,242
Other foreign assets, net	427	453	453	453	453	453
Net domestic assets	-3,855	-6,133	-6,738	-8,055	-9,534	-10,996
Net credit to public sector	-3,848	-5,874	-6,336	-8,000	-9,222	-10,630
Central government	-4,046	-6,113	-6,502	-8,156	-9,388	-10,795
Rest of public sector	198	239	167	156	166	165
Of which : public enterprises	0	0	0	0	0	0
Net claims on financial insitutions	380	380	380	380	380	380
Other items (net)	-387	-639	-781	-434	-692	-745
Reserve money	5,167	5,814	5,585	5,882	5,265	5,698
Currency in circulation	1,698	1,843	2,005	2,295	2,106	2,155
Deposits of commercial banks	2,943	3,466	3,072	2,955	2,615	3,010
Deposits of nonbank financial institutions	526	505	509	632	543	533
	(Changes in percent of beginning-of-period reserve money)					
Net international reserves	58.5	56.1	6.5	28.9	14.7	46.9
Net domestic assets	-51.2	-44.1	-10.4	-23.6	-25.2	-50.0
Of which						
Net credit to central government	-53.7	-40.0	-6.7	-29.6	-21.0	-44.9
Reserve money	7.9	12.5	-3.9	5.3	-10.5	-3.1
Memorandum items:						
Blocked account of government 1/	-980	-2,334	-2,677	-3,100	-4,064	-3,414

Source: Central Bank of Trinidad and Tobago.

1/ Proceeds of treasury bills and treasury notes used for open market operations.

Table 5. Trinidad and Tobago: Monetary Survey

	2000	2001	2002	2003	May-04
	(In millions of Trinidad and Tobago dollars)				
Net foreign assets	10,477	12,148	12,662	13,686	18,078
Net domestic assets	7,799	8,430	8,473	7,865	5,936
Net credit to public sector	-1,945	-3,261	-2,825	-4,925	-7,044
Central government	-2,069	-3,427	-3,797	-5,041	-7,368
Rest of the public sector	124	165	972	116	323
Of which					
Statutory bodies and public utilities	-4	-551	163	370	439
Public enterprises	68	560	786	-354	-164
Credit to private sector	13,375	14,045	14,691	15,234	16,834
Other items (net)	-3,631	-2,353	-3,392	-2,444	-3,853
Liabilities to private sector (M3)	18,276	20,578	21,135	21,551	24,014
Currency in circulation	1,271	1,373	1,502	1,709	1,767
Demand deposits	3,768	4,238	5,393	5,595	6,163
Time deposits	4,876	5,318	4,222	3,410	3,958
Savings deposits	7,428	8,309	8,685	9,701	10,847
Fund-raising instruments 1/	933	1,340	1,333	1,136	1,279
	(Changes in percent of beginning-of-period M3)				
Net foreign assets	19.5	9.1	2.5	4.8	20.4
Net domestic assets	-13.6	3.5	0.2	-2.9	-8.9
Net credit to public sector	-17.6	-7.2	2.1	-9.9	-9.8
Of which : central government	-15.7	-7.4	-1.8	-5.9	-10.8
Credit to private sector	7.8	3.7	3.1	2.6	7.4
Other items (net)	-3.8	7.0	-5.0	4.5	-6.5
Liabilities to private sector (M3)	5.9	12.6	2.7	2.0	11.4
Memorandum items:					
Credit to private sector (12-month increase)	11.2	5.0	4.6	3.7	16.4
M3 Velocity	2.8	2.7	2.6	3.1	3.3

Source: Central Bank of Trinidad and Tobago.

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

Table 6. Trinidad and Tobago: Summary Balance of Payments

	2000	2001	2002	2003	Est. 2004	Proj. 2005
	(In millions of U.S. dollars)					
Current account balance	**544**	**445**	**76**	**1,351**	**919**	**644**
Trade balance	969	718	238	1,334	1,272	1,062
Exports	4,290	4,304	3,920	5,256	6,523	7,135
Petroleum crude and refined	2,002	1,613	1,459	1,963	2,305	2,626
Gas	737	937	869	1,507	1,794	1,925
Petrochemicals	744	815	647	907	1,253	1,399
Other	808	939	944	879	1,171	1,185
Imports	3,322	3,586	3,682	3,922	5,251	6,074
Fuel imports	1,072	907	1,019	1,064	1,521	1,521
Capital	1,016	1,251	1,276	1,257	1,826	2,401
Other	1,234	1,428	1,388	1,601	1,904	2,152
Services and transfers (net)	-425	-273	-161	17	-352	-418
Nonfactor services (net)	166	233	264	313	353	370
Factor income (net)	-629	-539	-480	-362	-773	-869
Current transfers (net)	38	33	55	66	68	81
Capital and financial account (net) 1/	**-106**	**25**	**-28**	**-1,017**	**-436**	**-111**
Official, medium and long-term (net)	113	-50	-61	-29	10	-17
Disbursements	384	26	18	101	251	69
Amortizations	-270	-76	-79	-130	-241	-86
Direct Investment (net)	654	777	684	1,009	1,626	2,201
Inward	680	835	791	1,234	1,826	2,401
Outward	-25	-58	-106	-225	-200	-200
Commercial banks (net)	-86	257	-79	92	0	0
Other private sector capital (net) 1/	-788	-959	-572	-2,089	-2,072	-2,295
Of which: net errors and omissions	-400	-402	-356	-599	0	0
Overall balance	**438**	**470**	**49**	**334**	**483**	**533**
Change in gross official reserves (increase -)	-438	-470	-49	-334	-483	-533
	(In percent of GDP, unless otherwise specified)					
Memorandum items:						
Current account	6.6	5.0	0.9	12.8	7.3	4.8
Exports	52.4	48.5	44.0	49.8	52.0	52.6
Imports	40.6	40.4	41.3	37.2	41.9	44.8
Gross international reserves (millions of US$, end of period)	1,406	1,876	1,924	2,258	2,741	3,274
Oil prices (WEO, spot crude)	28.2	24.3	25.0	28.9	37.3	37.3

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

1/ Includes net errors and omissions.

Table 7. Trinidad and Tobago: Indicators of External and Financial Vulnerability

(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003	Est. 2004	Proj. 2005
External indicators						
Exports (percent change, 12-month basis in US$)	52.4	0.3	-8.9	34.1	24.1	9.4
Imports (percent change, 12-month basis in US$)	20.7	8.0	2.7	6.5	33.9	15.7
Terms of trade (percent change, 12 month basis)	20.7	-5.7	0.6	7.5	4.4	3.2
Current account balance	6.6	5.0	0.9	12.8	7.3	4.8
Capital and financial account balance	-1.3	0.3	-0.3	-9.6	-3.5	-0.8
Gross official reserves (in US$ millions)	1,406	1,876	1,924	2,258	2,741	3,274
Official reserves in months of imports of goods	4.7	6.1	5.9	5.2	5.4	6.5
Ratio of reserves to broad money	48.3	57.4	57.4	66.0	74.5	83.1
Ratio of total public sector external debt to exports of goods and services	34.7	33.4	35.0	27.3	22.7	20.9
Ratio of public sector external interest payments to exports of goods and services	2.2	2.5	2.8	2.0	1.9	1.4
Public sector debt service to exports of goods and services	7.8	4.0	4.6	4.2	5.2	2.6
REER appreciation CPI-based (percent change)	8.7	3.9	-1.1	-6.5	...	...
Foreign currency debt rating, (Standard & Poor's, end of period) 1/	BBB-	BBB-	BBB-	BBB	BBB+	...
Financial indicators 2/						
90-day treasury bill, average discount rate 3/ 4/	10.5	8.3	4.8	4.8	4.7	...
90-day treasury bill, real rate 5/	6.8	2.7	0.6	1.0	...	...
Nonperforming loans (in percent of total loans)	4.1	3.4	3.8	2.0	...	...
Risk-based capital asset ratio	20.2	19.8	21.3	21.9	...	...
Ratio of after-tax profits to equity capital	17.9	17.2	20.0	...	...	...
Provisions (in percent of total loans)	3.2	3.1	4.1	3.0	...	...
Return on average assets	2.5	2.5	3.0	...	...	...
FX deposits (in percent of total deposits)	32.7	28.0	30.1	23.0	33.8	31.3
FX deposits (in percent of gross international reserves)	59.3	42.3	45.5	30.2	43.8	36.6

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

1/ Long-term foreign currency rating upgraded in June 2004.
2/ Include commercial banks only.
3/ As at end-August.
4/ Weighted average discount rate.
5/ Adjusted for inflation.

Table 8. Trinidad and Tobago: Public Sector Debt Sustainability Framework, 1999–2009

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						Debt-stabilizing Primary Balance 10/
1 **Gross public sector debt 1/ 2/**	65.1	54.5	56.6	61.1	54.2			**46.4**	**44.4**	**40.7**	**40.7**	**39.2**	**37.8**	**1.8**
Of which : foreign-currency denominated	23.2	20.6	18.6	18.0	15.3			12.9	11.8	9.4	9.1	8.6	6.4	
2 Change in public sector debt	1.5	-10.7	2.2	4.5	-7.0			-7.8	-2.0	-3.7	0.0	-1.4	-1.4	
3 Identified debt-creating flows (4+7+12)	1.5	-10.6	-2.1	1.9	-12.0			-11.1	-5.5	-7.5	-4.0	-4.6	-4.7	
4 Primary deficit	1.7	-6.3	-4.8	-3.6	-7.6			-6.7	-6.1	-6.4	-6.5	-6.5	-6.5	
5 Revenue and grants	26.6	24.3	23.5	23.9	27.0			25.0	24.9	24.4	25.0	25.1	25.2	
6 Primary (noninterest) expenditure	28.3	18.0	18.7	20.3	19.4			18.3	18.8	18.0	18.5	18.6	18.7	
7 Automatic debt dynamics 3/	-0.2	-4.3	2.8	5.6	-4.4			-4.4	0.5	-1.1	2.4	1.9	1.9	
8 Contribution from interest rate/growth differential 4/	-0.1	-4.4	3.0	5.5	-4.5			-4.4	0.5	-1.1	2.4	1.9	1.9	
9 *Of which* : contribution from real interest rate	2.3	-0.5	5.2	9.3	2.2			-1.6	3.2	4.4	3.1	2.9	2.8	
10 *Of which* : contribution from real GDP growth	-2.5	-3.9	-2.2	-3.8	-6.7			-2.8	-2.7	-5.5	-0.6	-1.0	-1.0	
11 Contribution from exchange rate depreciation 5/	0.0	0.1	-0.2	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.0	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2–3) 5/ 6/	0.0	-0.1	4.2	2.6	5.1			3.3	3.6	3.8	4.0	3.1	3.3	
Public sector debt-to-revenue ratio 1/	245.2	224.1	240.9	255.6	200.4			185.6	178.3	167.0	162.7	156.3	150.0	
Gross financing need 7/	8.7	0.1	1.7	2.3	-2.2			-2.3	-2.1	-2.8	-3.0	-3.2	-3.3	
In billions of U.S. dollars	0.6	0.0	0.2	0.2	-0.2			-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	
Key macroeconomic and fiscal assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	4.4	7.3	4.3	6.8	13.2	5.8	3.1	6.2	6.3	13.9	1.6	2.5	2.5	5.5
Average nominal interest rate on public debt (in percent) 8/	12.4	11.7	13.0	10.5	10.6	10.2	1.7	9.7	9.3	9.0	8.7	8.5	8.5	9.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.5	0.0	10.3	16.2	5.0	5.6	6.4	-2.7	7.6	10.8	7.8	7.5	7.5	6.4
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.2	-0.5	1.0	-0.2	-0.8	-0.8	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	7.9	11.7	2.7	-5.7	5.6	4.6	6.2	12.5	1.7	-1.8	0.9	1.0	1.0	2.6
Growth of real primary spending (deflated by GDP deflator, in percent)	18.9	-31.6	7.9	16.1	8.3	5.7	14.6	0.0	9.5	8.7	4.8	3.0	2.9	4.8
Primary deficit	1.7	-6.3	-4.8	-3.6	-7.6	-5.1	3.2	-6.7	-6.1	-6.4	-6.5	-6.5	-6.5	-6.5
								II. Stress Tests for Public Debt Ratio						Debt-stabilizing Primary Balance 11/
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2005–09 9/								**46.4**	**44.7**	**43.7**	**42.7**	**40.6**	**38.7**	**-0.1**
B. Bound tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								**46.4**	**49.0**	**48.6**	**49.0**	**48.0**	**47.0**	**2.2**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**46.4**	**49.1**	**56.9**	**62.8**	**67.3**	**72.0**	**3.4**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**46.4**	**51.8**	**55.7**	**56.6**	**55.9**	**55.3**	**2.6**
B4. Combination of 2–4 using one standard deviation shocks								**46.4**	**52.3**	**59.7**	**61.4**	**61.4**	**61.6**	**2.9**
B5. One time 30 percent real depreciation in 2005 10/								**46.4**	**50.5**	**46.6**	**46.9**	**45.8**	**44.7**	**2.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2005								**46.4**	**54.4**	**50.4**	**51.0**	**50.0**	**49.2**	**2.3**

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

1/ The nonfinancial public sector debt covers general government and nonfinancial public enterprises.

2/ The baseline projections assume a significant increase in government deposits at the CBTT, and accordingly lower net debt.

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

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

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

6/ Includes government deposit buildup at the CBTT.

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

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

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

10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

11/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Table 9. Trinidad and Tobago: External Debt Sustainability Framework, 1999–2009

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						Debt-stabilizing Non-interest Current Account 6/
1 **External debt**	23.2	20.6	18.6	18.0	15.3			**12.9**	**11.8**	**9.4**	**9.1**	**8.6**	**6.4**	**-7.3**
2 Change in external debt	-2.6	-2.6	-2.0	-0.6	-2.7			-2.4	-1.1	-2.4	-0.4	-0.5	-2.2	
3 Identified external debt-creating flows (4+8+9)	-8.9	-18.4	-15.4	-8.7	-25.3			-22.8	-21.9	-20.5	-16.5	-14.6	-10.9	
4 Current account deficit, excluding interest payments	-1.9	-8.0	-6.4	-2.3	-14.0			-8.4	-5.6	-7.4	-7.8	-6.2	-3.7	
5 Deficit in balance of goods and services	-5.7	-13.9	-10.8	-5.7	-15.7			-13.0	-10.6	-12.4	-12.3	-10.4	-7.3	
6 Exports	50.0	59.4	55.7	51.4	56.0			57.8	58.4	55.1	51.8	49.9	46.7	
7 Imports	44.2	45.5	44.9	45.8	40.3			44.8	47.8	42.7	39.5	39.4	39.4	
8 Net nondebt creating capital inflows (negative)	-5.5	-8.0	-8.8	-7.7	-9.6			-13.0	-16.2	-12.5	-9.0	-8.6	-7.5	
9 Automatic debt dynamics 1/	-1.5	-2.4	-0.2	1.4	-1.7			-1.4	-0.2	-0.6	0.3	0.2	0.2	
10 Contribution from nominal interest rate	1.4	1.3	1.4	1.5	1.1			1.1	0.8	0.7	0.6	0.5	0.5	
11 Contribution from real GDP growth	-1.0	-1.4	-0.8	-1.3	-2.0			-0.8	-0.7	-1.5	-0.2	-0.2	-0.2	
12 Contribution from price and exchange rate changes 2/	-1.9	-2.3	-0.7	1.2	-0.8			-1.7	-0.2	0.2	-0.1	-0.1	-0.1	
13 Residual, including change in gross foreign assets (2–3)	6.3	15.9	13.4	8.1	22.6			20.4	20.9	18.1	16.2	14.1	8.7	
External debt-to-exports ratio (in percent)	46.4	34.7	33.4	35.0	27.3			22.3	20.2	17.1	17.5	17.1	13.6	
Gross external financing need (in billions of U.S. dollars) 3/	0.1	-0.2	-0.3	0.1	-1.1			-0.6	-0.4	-0.7	-1.0	-0.8	-0.1	
In percent of GDP	2.1	-2.2	-3.0	1.4	-10.4	10-Year Historical Average	10-Year Standard Deviation	-4.5	-3.1	-4.5	-6.3	-4.9	-0.7	Projected Average
Key macroeconomic assumptions														
Real GDP growth (in percent)	4.4	7.3	4.3	6.8	13.2	5.8	3.1	6.2	6.3	13.9	1.6	2.5	2.5	5.5
GDP deflator in U.S. dollars (change in percent)	8.1	11.1	3.7	-5.9	4.8	3.7	5.9	12.5	1.7	-1.8	0.9	1.0	1.0	2.6
Nominal external interest rate (in percent)	6.3	6.8	7.2	7.9	7.4	7.8	1.4	8.2	6.8	6.5	6.0	5.8	5.8	6.5
Growth of exports (U.S. dollar terms, in percent)	16.4	41.7	1.3	-7.1	29.0	10.5	16.5	23.3	9.3	5.6	-3.6	-0.3	-3.0	5.2
Growth of imports (U.S. dollar terms, in percent)	-7.2	22.6	6.7	2.5	4.3	10.8	14.3	32.9	15.4	0.0	-5.2	3.3	3.4	8.3
Current account balance, excluding interest payments	1.9	8.0	6.4	2.3	14.0	3.7	7.3	8.4	5.6	7.4	7.8	6.2	3.7	6.5
Net nondebt creating capital inflows	5.5	8.0	8.8	7.7	9.6	9.2	3.6	13.0	16.2	12.5	9.0	8.6	7.5	11.1
								II. Stress Tests for External Debt Ratio						Debt-stabilizing Non-interest Current Account 6/
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2005–09 4/								**12.9**	**20.3**	**25.2**	**27.0**	**26.1**	**20.0**	**-9.5**
B. Bound tests														
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								**12.9**	**12.2**	**10.3**	**10.0**	**9.5**	**7.3**	**-7.3**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**12.9**	**13.0**	**13.6**	**14.9**	**15.7**	**14.0**	**-8.8**
B3. Change in U.S. dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								**12.9**	**13.7**	**13.1**	**14.2**	**14.8**	**12.9**	**-8.5**
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006								**12.9**	**28.2**	**43.3**	**44.1**	**44.3**	**42.9**	**-6.5**
B5. Combination of 2–5 using one standard deviation shocks								**12.9**	**22.5**	**34.8**	**35.2**	**35.0**	**32.9**	**-8.2**
B6. One time 30 percent nominal depreciation in 2005								**12.9**	**19.2**	**18.9**	**22.0**	**24.1**	**22.7**	**-10.2**

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

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ The implied change in other key variables under this scenario is discussed in the text.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Trinidad and Tobago: Medium-Term Macroeconomic Scenarios

	Prel. 2003	Est. 2004	Projections 2005	2006	2007	2008	2009
	(Annual percentage changes)						
Macroeconomic parameters							
Real GDP	13.2	6.2	6.3	13.9	1.6	2.5	2.1
Energy	31.2	10.6	9.3	27.1	-0.5	0.9	0.1
Non-energy	3.5	3.2	4.0	3.7	3.7	4.0	3.9
Average CPI	3.8	3.9	3.1	3.0	3.0	3.0	3.0
	(In percent of GDP, unless otherwise indicated)						
	I. Baseline Scenario						
Real Sector							
GDP deflator	5.6	12.5	1.7	-1.8	0.9	1.0	1.3
Nominal GDP (billions of TT dollars)	66.2	79.0	85.4	95.6	98.0	101.5	105.1
Oil prices (U.S. dollars per barrel)	28.9	37.3	37.3	35.3	34.5	33.8	33.3
Public Sector 1/							
Government revenue	27.4	26.1	26.2	26.6	26.2	25.8	25.5
Energy revenue	11.5	11.5	11.9	12.3	11.8	11.2	10.7
Government expenditure	25.4	23.1	22.9	21.6	21.9	21.9	21.9
Capital expenditure	1.6	1.2	2.2	2.2	2.5	2.6	2.5
Government balance							
Of which: budgetary balance	2.0	2.7	2.1	4.7	4.2	3.8	3.5
non-energy	-9.5	-8.5	-8.6	-7.4	-7.6	-7.3	-7.1
Nonfinancial public sector balance	2.0	2.6	1.8	2.9	2.9	3.3	2.8
Government and government-guaranteed debt 2/	56.2	47.9	45.0	41.5	40.8	39.9	37.3
Of which : government debt 2/	33.0	28.0	25.5	22.0	20.9	20.0	17.4
External sector							
Current account balance	12.8	7.3	4.8	6.7	7.3	5.7	3.2
Energy exports	32.9	32.7	33.6	32.6	29.9	28.4	25.8
Energy imports	10.1	12.1	11.2	9.5	9.1	8.6	8.1
NIR of the central bank (in US$ million)	2,258	2,741	3,274	3,909	4,623	5,285	5,649
	II. Low-Energy Price Scenario						
Real Sector							
GDP deflator	5.6	9.0	-0.3	-2.8	0.8	1.5	0.9
Nominal GDP (billions of TT dollars)	66.2	76.6	81.1	89.8	92.0	95.8	98.7
Oil prices (U.S. dollars per barrel)	28.9	34.5	32.8	30.5	29.5	29.0	28.0
Public Sector 1/							
Government revenue	27.4	25.8	25.0	24.8	24.5	24.2	23.9
Energy revenue	11.5	10.1	10.0	10.2	9.7	9.1	8.6
Government expenditure	25.4	23.1	22.9	21.6	21.9	21.9	21.9
Capital expenditure	1.6	1.6	2.5	2.5	2.6	2.6	2.6
Government balance							
Of which: budgetary balance	2.0	2.7	2.1	3.2	2.6	2.3	2.0
non-energy	-9.5	-7.4	-7.9	-7.0	-7.1	-6.9	-6.7
Nonfinancial public sector balance	2.0	1.2	-0.9	-0.3	-0.4	0.0	-0.6
Government and government-guaranteed debt 2/	56.2	49.1	47.5	45.0	45.1	44.6	42.8
Of which : government debt 2/	33.0	28.7	26.7	23.4	22.3	21.2	18.5
External sector							
Current account balance	12.8	6.3	2.8	4.4	5.0	3.6	1.1
Energy exports	32.9	30.3	29.6	28.3	25.6	24.4	21.6
Energy imports	10.1	11.2	9.9	8.2	7.7	7.3	6.9
NIR of the central bank (in US$ million)	2,258	2,661	2,999	3,364	3,811	4,225	4,311

Sources: Trinidadian authorities; and Fund staff estimates and projections.

1/ Fiscal data refers to fiscal years ending September 30.

2/ Refers to gross debt. Projections assume a significant increase in government deposits at the CBTT, and accordingly lower net debt.

Table 11. Trinidad and Tobago: Millennium Development Goals

	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	2015 target=halve 1990 $1 a day poverty and malnutrition rates			
Population below $1 a day (percent)	12.4	...	...	...
Poverty gap at $1 a day (percent)	3.5	...	...	...
Percentage share of income or consumption held by poorest 20 percent	5.5	...	...	...
Prevalence of child malnutrition (percent of children under 5)	...	...	...	...
Population below below minimum level of dietary energy consumption (percent)	13	...	12	
2. Achieve universal primary education	2015 target=net enrollment to 100			
Net primary enrollment ratio (percent of relevant age group)	90.9	89.5	92.4	...
Percentage of cohort reaching grade 5 (percent)	96.1	97.4	99.7	...
Youth literacy rate (percent ages 15–24)	99.6	99.8	99.8	99.8
3. Promote gender equality	2015 target=education ratio to 100			
Ratio of girls to boys in primary and secondary education (percent)	98	...	101.7	...
Ratio of young literate females to males (percent ages 15–24)	100	100	100	100
Share of women employed in the nonagriculutral sector (percent)	35.6	39.2	39.9	...
Proportion of seats held by women in national parliament (percent)	17	11	11	17
4. Reduce child mortality	2015 target=reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	24	18	20	18.5
Infant mortality rate (per 1,000 live births)	21	16	17	15.3
Immunization, measles (percent of children under 12 months)	99	97	91	...
5. Improve maternal health	2015 target=reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100, 000 live births)	...	65	...	...
Births attended by skilled health staff (percent of total)	...	99	...	...
6. Combat HIV/AIDS, malaria, and other diseases	2015 target=halt, and begin to reverse, AIDS, etc.			
Prevalence of HIV, female (percent ages 15–24)	...	...	3.2	...
Contraceptive prevalence rate (percent of women ages 15–49)	...	...	...	...
Number of children orphaned by HIV/AIDS	...	...	3,600.00	...
Incidence of tuberculosis (per 100,000 people)	...	...	12.8	...
Tuberculosis cases detected under DOTS (percent)	...	...	...	...
7. Ensure environment sustainability	2015 target=various			
Forest area (percent of total land area)	54.8	...	50.5	...
Nationally protected areas (percent of total land area)	...	3.9	6	6
GDP per unit of energy use (PPP $ per kg oil equivalent)	1.2	1.5	1.3	...
CO_2 emissions (metric tons per capita)	13.9	16.5	19.4	...
Access to an improved water source (percent of population)	91	...	90	...
Access to improved sanitation (percent of population)	99	...	99	...
Access to secure tenure (percent of population)	...	...	...	...
8. Develop a Global Partnership for Development	2015 target=various			
Youth unemployment rate (percent of total labor force ages 15–24)	36.4	31	25.4	...
Fixed line and mobile telephones (per 1,000 people)	147.2	172.8	436.9	...
Personal computers (per 1,000 people)	4.2	20	69.2	...

Source: World Development Indicators Database, April 2002.

TRINIDAD AND TOBAGO—FUND RELATIONS
(As of September 30, 2004)

I. **Membership Status**: Joined: September 9, 1963; Article VIII.

II. **General Resources Account**:	SDR Million	Percent of Quota
Quota	335.60	100.00
Fund holdings of currency	216.28	64.45
Reserve position in Fund	119.32	35.55

III. **SDR Department**:	SDR Million	Allocation
Net cumulative allocation	46.23	100.00
Holdings	1.22	2.64

IV. **Outstanding Purchases and Loans**: None

V. **Latest Financial Arrangements**:

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

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

	Forthcoming				
	2004	2005	2006	2007	2008
Charges/Interest	0 .41	0.85	0.85	0.85	0.86
Total	0 .41	0.85	0.85	0.85	0.86

VII. **Exchange Arrangements**:

Trinidad and Tobago dollar has been within ±1 percent band around TT$6.3 against the U.S. dollar in the past year. Accordingly, it is classified as a conventional peg.

VIII. Last Article IV Consultation and Recent Contacts:

The 2003 Article IV consultation was completed by the Executive Board on June 23, 2003; see www.imf.org Country Reports No. 03/232 and 03/233.

IX. Technical Assistance:

- **MFD**: Follow up missions on strengthening financial system supervision: insurance and pensions in 2004.
- **MFD**: A series of missions on strengthening financial system supervision: insurance and pensions in 2003.
- **FAD**: A pension reform technical assistance mission visited Port-of-Spain in April 2002.
- **MAE**: A monetary policy advisor to the central bank was in place from April 2001 to March 2003.
- **STA**: In January 2000, a multi-topic technical assistance mission prepared a comprehensive program for the improvement of major statistical series.
- **FAD**: In December 1999, a technical assistance mission advised the Ministry of Finance on restructuring energy taxation.
- **MAE**: From February 1, 1999 to July 31, 2001, a Caribbean regional central bank advisor was assigned with residence in Port-of-Spain.
- **MAE**: In 1998 and 1999, there were three visits each by two experts providing assistance in the area of monetary policy and developing central bank research capacity.
- **MAE**: In November 1997, a technical assistance mission assisted the central bank in defining its technical assistance needs in the area of research.

TRINIDAD AND TOBAGO—RELATIONS WITH THE WORLD BANK
(As of August 31, 2004)

The World Bank's last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999. A new Country Assistance Strategy is being prepared and expected to be finalized by the end of 2004. The current World Bank program includes two projects with total commitment of US$31.5 million, of which US$23.4 million is undisbursed.

I. PROJECTS

Postal Service Reform: The Postal Service Reform project (US$11.5 million) assists the Government in the privatization of the Postal Service, with the objective of reducing public sector losses while improving the quality and efficiency of the postal service.

HIV/AIDS Prevention and Control Program: The project was approved in June 2003 and is funded under the Multi-Country APL for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS; and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term. The Bank's support to Trinidad and Tobago under this project is for US$20.0 million.

II. ECONOMIC AND SECTOR WORK

A Caribbean-wide Growth and Competitiveness study is underway and expected to be completed by the end-2004. A Financial Sector Assessment Program is expected to be carried out by the World Bank and IMF in fiscal year 2005 (July 1–June 30).

III. STATEMENT OF WORLD BANK LOANS

(In millions of U.S. dollars)

Operation	Original Principal	Available	Disbursed
HIV/AIDS prevention and control	20.0	19.2	0.8
Postal service reform	11.5	4.2	7.3
	31.5	**23.4**	**8.1**

Disbursements and Debt Service
(Fiscal year ending June 30)

	Actual							Projections	
	1999	2000	2001	2002	2003	2004		2005	2006
Total disbursements	9.8	14.8	12.3	9.6	12.7	3.8		7.2	5.0
Repayments	7.7	8.8	9.7	10.2	12.2	15.5		16.1	16.4
Net disbursements	2.1	5.9	2.5	-0.6	0.4	-11.7		-8.9	-11.4
Interest and fees	5.5	6.9	7.1	6.7	5.9	5.1		3.5	3.1

Loans Summary in U.S. dollars as of July 31, 2004

Total disbursed (IBRD):	264,082,713
Of which has been repaid:	162,056,944
Total now held by IBRD:	79,160,154
Total undisbursed:	23,738,469

TRINIDAD AND TOBAGO—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of August 31, 2004)

As of August 27, 2004, the IDB has an active public sector lending portfolio with a total value of US$437 million, of which US$177 million (41 percent) has been disbursed. These loans reflect the implementation of the Bank's strategy, approved in 1997, with emphasis on economic diversification, public sector modernization, and social development. The Bank is in the process of preparing a new strategy for the period 2004–07 concentrating on the same three principal and inter-dependent areas of strategic focus. These three areas are: (i) promoting private sector development to achieve economic diversification; (ii) promoting public sector modernization to improve efficiency; and (iii) promoting social development through improved public services.

In addition to loans for the public sector, the Bank lends directly to the private sector. The IIC, one of the Bank's private sector institutions that lends directly to the private sector, has two small operations in execution. The first is a line of credit of US$10.0 million issued to Republic Bank for on-lending to small and medium sized enterprises in Trinidad and Tobago, Guyana and Suriname. In addition, the IIC has an 8.5 percent shareholder interest in Development Finance Limited, an entity dedicated to serving the small business sector.

Finally, the Bank provides grant resources through technical cooperations. MIF, a Bank institution providing grant resources for private sector development, has eight operations in execution for an amount of US$5.7 million, of which US$2.9 million (51 percent) has been disbursed. Two of these operations were approved in 1995 and came to a close in December 2003. More recently approved operations include Alternative Dispute Resolution, Secured Transactions, Modernization of Telecommunications, Airport Security, and Improving Accounting and Auditing Standards.

Following is a brief description of the Bank's public sector loans in execution by strategic area.

Promoting private sector development to achieve economic diversification

The Bank and the Government of Trinidad and Tobago signed a Business Climate Initiative Aide Mémoire in November 2003. The Initiative calls for: (i) a Diagnostic Assessment to identify a prioritized list of issues to improve the business climate; (ii) agreement on a Business Climate Action Plan, the implementation of which the Bank would support with an array of operational instruments; and (iii) agreement on a system to monitor and evaluate the effectiveness of the action plan's implementation.

In March 2003, the IDB approved a loan of US$5.0 million for a Trade Sector Support Program. The operation was developed under a new sector facility and its main objective is to improve the international trade performance of Trinidad and Tobago. That goal will be met by strengthening the country's technical and institutional capacity to formulate and implement trade policy, to participate effectively in trade negotiations, to implement trade agreements, and to increase and diversify exports.

In 1996, the IDB approved US$120.0 million in lending for the National Highway Program. The program aims to improve and sustain road services provided by the main national road network, reduce road transportation costs, and provide incentives for the development of small contractors and microenterprises.

Promoting public sector modernization to improve efficiency

In December 2003, the IDB approved a loan of US$5 million for a Public Sector Reform Initiation Facility. This facility is aimed at the development and initial implementation of a long-term strategy to modernize the public sector. The plan or “road map,” which will result from the project through a consensus-building approach, should be ready by December 2005. It will include actions to improve the composition of public spending by optimizing the size, management, structure, organization, functioning, human resources, legal framework, accountability, and service delivery mechanisms of the government.

In 1995, the IDB approved a US$8.0 million reimbursable technical cooperation project to assist the Government of Trinidad and Tobago in implementing the Agriculture Sector Reform Program. This technical cooperation project is expected to assist agribusiness in the identification of opportunities, and to strengthen the long-term institutional capacity of the Ministry of Agriculture.

In 1993, the IDB approved a pre-investment program for US$2.3 million to enable the government to energize the public sector investment program with well-prepared studies, and to improve the allocation of public sector investment resources in Trinidad and Tobago.

Promoting social development public services

In 2002, the IDB approved funding in the amount of US$32.0 million to support the National Settlements Program-Stage Two. The general objective is to establish a more equitable, transparent and sustainable system of affordable housing, and more specifically to improve housing conditions for low-income groups. The program includes support for squatter upgrading, family subsidies and institutional capacity building.

In 1999, the IDB approved financing in the amount of US$l05.0 million for a secondary education program. This program’s objectives are aimed at providing equitable, high quality secondary education; updating educational content and teaching methodologies; and developing a more efficient management of resources at the central and local levels.

In 1996, the IDB approved a US$134.0 million loan for a health sector reform program in order to strengthen the policymaking, planning and management capacity of the Ministry of Health. The program will finance activities aimed at separating health services from financing and regulatory responsibilities, shifting public expenditures, redirecting private expenditures to priority areas and finding cost effective solutions; establishing new administrative and employment structures that encourage accountability, increased autonomy, improved productivity and efficiency; reducing preventable morbidity and mortality through lifestyle changes and social interventions; and financial sustainability of the service delivery system.

In 1995, the IDB approved the community development fund loan for US$28.0 million to enhance the government’s capacity to deliver social services to the poor and vulnerable population during a period of economic adjustment and public sector reform.

TRINIDAD AND TOBAGO—STATISTICAL ISSUES

Trinidad and Tobago produces a wide range of economic and financial statistics that are largely based on sound methodological principles. However, institutional arrangements need to be strengthened to facilitate improved compilation and reporting as well as collaboration among the central bank, the central statistical office, and the ministry of finance, planning, and development, and to avoid duplication of data production efforts and some inconsistencies across sectoral databases.

Real sector

The central statistical office makes good use of available source data to produce annual national accounts. In applying the recommendations by STA (2000), the CSO has revised the real GDP series by rebasing it from 1985 to 2000, improved the methodology for calculating production at each sector level, and switched from valuation at factor cost to market prices. This particularly involved the inclusion of the large gas sector which came on stream in 2000; and changing the estimation techniques in the telecommunications sector (by using the number of call units as opposed to the number of callers) and the financial sector (by constructing individual extrapolators for each sub-industry and then aggregating them up). The central statistical office does not currently produce quarterly GDP estimates. Although the central bank currently constructs quarterly indicators of real GDP, eventually the central statistical office should assume exclusive responsibility for compiling quarterly national accounts. The retail price index has been rebased from 1985 to January 2003 reflecting the 1997/98 Household Budgetary Survey, and correcting the aggregation formula. The CSO should ensure that a similar methodology is used to revamp the producer price index.

Fiscal accounts

Data on central government operations and debt are compiled separately by the ministry of finance, planning, and development (MFPD) and the central bank, and data compiled by the two agencies differ significantly. The authorities should work to reconcile on a regular basis these two sets of data. Transfers to the revenue stablization fund are recorded as an expenditure item, but should be recorded as a financial flow below the line. Data on the nonbank financing are derived as residual owing to the absence of data collection. The national classification system for government transactions and debt of the central government seems to be sufficiently detailed for use in compiling data according to *GFSM 1986* methodology, although no data have been submitted for use in the *GFSY*. Also, there is no evidence of significant migration to the use of *GFSM 2001*, which should be initiated.

Data on selected public enterprises and statutory bodies are being compiled by the investment division, the domestic debt division and the budget division of the MFPD. The data from these divisions have to be reconciled particularly on the transfers for debt servicing, transfers for government capital projects, guaranteed debt, and letter of comforts. The capital expenditure on behalf of government should be classified as capital expenditure instead of other goods and services.

Monetary accounts

The major recommendations of the IMF money and banking statistics mission have been implemented by the authorities, leading to a substantial improvement in the analytical usefulness of the monetary statistics. There are, however, some areas for improvement. Monthly monetary account for other depository corporations (ODCs) currently covers only financial institutions that are licensed by the central bank under the 1993 Financial Institutions Act. Nonlicensed ODCs only report on a voluntary, quarterly basis. No data are reported by credit unions and the Post Office Savings Bank. The lack of these data have prevented the compilation of a more comprehensive Depository Corporation Survey. Currently only a few commercial banks are involved in limited transactions in options and swaps. If the use of these instruments becomes more significant, the central bank should initiate reporting of data on them in the monetary statistics. The authorities should also consider developing systems for reporting balance sheet accounts for the mutual funds, with a view to compiling a more comprehensive financial survey in the future.

Balance of payments

The balance of payments data conform to many of the standards of the BPM5. The Private Sector Capital Flows and Investor Perception survey needs to be improved on the quantity and quality of responses, and estimating market value shares. There are sizable differences between some items of the external public debt compiled by the central bank and the ministry of finance, planning, and development. The central bank should expand its current debt reporting system to include comprehensive coverage of external loans and debt of the entire public sector, as well as publicly nonguaranteed debt. Timely reporting of the balance of payments data to STA is encouraged (the latest data reported to STA were for the year 2001).

Trinidad and Tobago: Core Statistical Indicators

(As of August 31, 2004)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest Observation	08/04	07/04	06/04	06/04	05/04	06/04	03/04	12/03	12/03	02/03	2003	12/03
Date received	09/03	08/04	08/04	08/03	09/04	08/04	07/04	06/04	06/04	04/04	07/04	07/03
Frequency of data[1]	D	M	M	M	M	M	M	M	Q	M	A	M
Frequency of reporting[1]	D	B	B	B	B	B	B	M	Q	M	A	M
Source of update[2]	A	A	A	A	A	A	0A	A	A	A	A	A
Mode of reporting[3]	E	E	E	E	E	E	C	E	E	E	V/O,N Staff visit	E
Confidentiality[4]	C	D	D	D	D	D	C	D	D	D	D	D
Frequency of publication	M	M	M	M	M	M	M	M	Q	M	A	M

[1] D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other. A "V" added to a "Q" or an "A" indicates that the latest observation has been received upon request.

[2] A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.

[3] E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.

[4] A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

Statement by the IMF Staff Representative
October 22, 2004

1. This statement provides an update on fiscal developments since the issuance of the staff report for the 2004 Article IV consultation with Trinidad and Tobago. This additional information does not affect the thrust of the staff appraisal.

Fiscal outturn in FY 2003/04

2. The overall budget surplus amounted to 2.2 percent of GDP, 0.8 percentage points of GDP lower than estimated by the mission. While the current fiscal balance was in line with the estimate, implementation of the public sector investment program in the last quarter of the fiscal year exceeded the projected rate.

Budget proposal for FY 2004/05

3. The budget proposal for FY 2004/05[1] was submitted to parliament on Friday, October 8. As anticipated in the staff report, the budget proposal has been drafted using a conservative oil price assumption. The budget is based on a crude oil price of US$32 per barrel, substantially below current levels and lower than the price of US$37 per barrel used in the staff report projections for FY 2004/05. Under this conservative assumption, the government targets an overall budget surplus of 1.6 percent of GDP, compared with a projected surplus of 3.3 percent of GDP in the staff report. If the budget proposal is adjusted to use the same oil price assumption as in the staff report, it would imply a budget surplus of 2.6 percent of GDP—about ½ percent of GDP lower than projected in the staff report. The shortfall would arise in the current fiscal balance, and is attributable partly to a higher wage bill, on account of allocations for vacant positions. However, the budget surplus would rise to 4.0 percent of GDP if adjusted to the current oil price outlook.

Table 1. Trinidad and Tobago: Central Government Operations
(In percent of GDP, unless indicated otherwise)

	FY 2003/04		FY 2004/05			
	Est. 1/	Prel.	SM/04/347	Budget	Adj. Budget 1/	Adj. Budget 2/
Current balance	4.3	4.2	5.5	3.8	4.8	6.2
Capital expenditure and net lending	1.2	2.0	2.2	2.2	2.2	2.2
Overall balance	3.0	2.2	3.3	1.6	2.6	4.0
Memorandum item:						
WEO oil price assumption (US$/bbl)	--	--	37.3	32.8	37.3	44.1

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Based on the same oil price assumption as in the staff report.
2/ Based on the current WEO crude oil price projection.

[1] October-September fiscal year.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/136
FOR IMMEDIATE RELEASE
December 8, 2004

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

IMF Concludes 2004 Article IV Consultation with Trinidad and Tobago

On October 22, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

Trinidad and Tobago's economy, which is endowed with large energy reserves, is experiencing a strong energy sector-based expansion due to increased output and high international prices. The energy sector already accounts for about 40 percent of GDP, 83 percent of domestic goods exports, and slightly more than 40 percent of government revenue. Large increases in oil and gas output expected over the next decade will reinforce its central role. As in other energy-rich countries, while energy exports greatly reduce domestic and external resource constraints, they pose their own macroeconomic and governance-related challenges—in particular, for employment creation, poverty reduction, and fiscal transparency.

Real GDP growth picked up sharply in 2003, driven mainly by an expansion in the energy sector, in the context of persistent high unemployment and continued low inflation. Real GDP grew by 13 percent, led by a 30 percent expansion in the energy sector. This was due to a surge in liquid natural gas production as the third LNG plant started operations in April 2003,

[1]Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

as well as to increases in the output of crude oil and petrochemicals. The performance of non-energy sectors was mixed: while there was a strong expansion in manufacturing, construction, and financial services, the agricultural sector declined by some 14 percent. The unemployment rate continued to decline and stands at about 10½ percent. However, unemployment has been kept high by a number of structural factors, which have led to a low labor intensity of growth. These factors include the high capital intensity of the energy sector, skill mismatches, labor market rigidities which reduce wage flexibility, and the impact of energy-related inflows on the real exchange rate. It should be noted, however, that using the standard International Labor Organization definition, the unemployment rate would stand at 7½ percent.[2] While average consumer price inflation has been close to 4 percent, core inflation (which excludes food price increases) has been about 2 percent.

The overall balance of the consolidated nonfinancial public sector (NFPS) improved sharply in FY 2002/03, although deficits remain in some entities. The NFPS shifted from a deficit of about 4 percent of GDP in FY 2001/02 to a surplus of 2 percent of GDP in FY 2002/03.
The turnaround reflected the marked improvement in the finances of the state-owned energy companies due to strong product prices and, in the case of gas, increased output. While most of the energy-related companies, and the telecommunication company, had operating surpluses, a number of enterprises continued to record deficits—in particular, the fuel distribution company and the water utility, whose tariffs have not kept pace with costs, and the sugar company, which incurred large severance payments related to its restructuring. Public sector debt declined by about 4 percentage points of GDP, to 56 percent of GDP as of end-September 2003.

The Central Bank of Trinidad and Tobago (CBTT) continued to maintain a stable exchange rate against the U.S. dollar, which—given the large energy-related inflows—was consistent with a reduction in the policy interest rate and some further build up in international reserves. The exchange rate has remained within a narrow band around TT$6.3 per U.S. dollar—a virtually unchanged level since late 1997—and international reserves have accumulated moderately over the last two years. The CBTT lowered the benchmark repo rate by 25 basis points in September 2003, to 5 percent, which was intended to stimulate growth in the non-energy sector. To improve financial intermediation and level the playing field between banks and non-banks, the CBTT lowered the reserve requirement, from 18 percent to 14 percent, in October 2003. These measures have contributed to a significant reduction in commercial bank lending rates, and an increase in credit to the private sector.

The balance of payments recorded an increased surplus in 2003, despite large capital outflows, reflecting the strong performance of the energy sector. The external current account recorded an unprecedented surplus of 13 per cent of GDP, compared to approximate balance in 2002. The sharp increase in gas output, combined with an upswing in international oil and

[2] The unemployment rate used by the authorities corresponds to an extended definition based on a relaxed "seeking work" criterion.

gas prices, resulted in a boom in total export earnings, which rose by 13 percentage points of GDP, despite a decline in manufacturing exports. The capital account recorded a deficit equivalent to 10 percent of GDP in the context of sizable bond issues by regional governments and corporations, and outward foreign direct investments. Direct investment inflows rose in the context of major energy-related investment projects. At the end of the year, gross official reserves stood at US$2.3 billion, equivalent to 5 months of imports. Public sector external debt declined by 3 percentage points of GDP, to about 15 percent of GDP at end 2003, most of which long-term and from commercial creditors.

Since August 2002, the Trinidad and Tobago dollar has depreciated by 9 percent in real effective terms. This movement reflected mainly the fall in the value of the U.S. dollar, to which the currency has been effectively pegged, against the currencies of Trinidad and Tobago's major trading partners, and in particular the euro. Nonetheless, the Real Effective Exchange Rate remains some 15 percent above its 1997 level.

Executive Board Assessment

Executive Directors noted that strong expansion in energy output and high international prices have boosted Trinidad and Tobago's growth, exports, and fiscal revenues, giving rise to substantial fiscal and external current account surpluses, while inflation has remained low. These favorable developments have greatly reduced domestic and external resource constraints. However, Directors observed that significant macroeconomic challenges remain, notably to boost non-energy investment and growth in order to reduce the persistent high unemployment rate and the dependence of the budget on energy-based revenues. This will require determined implementation of a sound policy framework that promotes external competitiveness and economic diversification.

Directors emphasized that a key element of such a growth-oriented policy framework would be prudent fiscal management, which should also provide for sustainable consumption of energy resources. They welcomed the budget surplus achieved in FY 2003/04 and anticipated that —given the strength of projected energy-based revenues—the government is in a position to maintain substantial surpluses over the medium term. To this end, expenditure should continue to be managed prudently, based on a comprehensive public expenditure review. Directors advised the authorities to continue to contain the growth of the wage bill and transfers to households. This would allow capital expenditure to grow more rapidly than in recent years in order to better address the country's infrastructure and social sector needs. However, it will be important to ensure that public investment projects are of high quality and, more generally, to improve the effectiveness of government spending. Over the long term, the envisaged move to output budgeting and a fully-funded pension scheme for government employees will help maintain fiscal discipline.

Directors observed that, notwithstanding the strong energy revenue outlook, it is important to move ahead with long-standing plans for tax reform and strengthening tax administration. They were encouraged that the authorities are at an advanced stage of preparation of a new energy tax regime, aimed at better capturing the rents from natural gas, and supported the authorities' request for Fund technical assistance for a reform of non-energy taxes, revenue from which has been eroded by exemptions and weak compliance. While plans to strengthen the revenue stabilization fund to cover the natural gas sector are welcome, Directors noted that a more comprehensive approach is needed, not only to smooth out the budgetary use of energy resources, but also to ensure that such use is sustainable over an appropriately long period. This would address inter-generational equity considerations and allow time for economic diversification efforts to take hold. In this context, the authorities should consider the scope for institutionalizing fiscal procedures that would help ensure a continued budget surplus position over the medium term.

Directors considered that the defacto peg of the exchange rate has facilitated low inflation and helped shield the non-energy sector from pressures towards exchange rate appreciation from energy-related inflows. They concurred that competitiveness issues are best addressed through prudent macroeconomic policies and structural reforms. However, they welcomed the commitment by the authorities not to resist depreciation pressures, and to allow greater exchange rate flexibility if needed to protect the international reserve position and increase the economy's ability to cope with external shocks. Directors felt that the central bank has generally struck an appropriate mix in its liquidity management between sales of foreign exchange and open market operations. They noted that the recent expansion in the auction system for government securities should enhance the role of open market operations in managing liquidity, as well as promote development of the capital market. They also supported the reduction of reserve requirements to lower bank intermediation costs.

Directors stressed that persistent high unemployment, the decline in non-energy exports in 2003, and the underlying pressures toward real appreciation reinforced the importance of targeted structural reforms to enhance external competitiveness in the non-energy sector and support medium-term growth. They, therefore, welcomed the authorities' broad reform agenda, and encouraged its full specification and steadfast implementation. Regarding public sector reform, Directors commended the restructuring of the state-owned sugar company in conjunction with a significant safety net for the large work force affected. Looking ahead, Directors attached importance to the planned restructuring of the port operations, efforts toward greater efficiency in the public utilities, and initiatives to improve transparency and accountability in the public entities. It will also be critically important to address the unemployment problem in a determined manner, including by tackling labor market rigidities, and fostering the right mix of labor skills through appropriate education and training. Directors welcomed other ongoing supply-side reforms, notably liberalization of the telecommunications sector.

Directors stressed the importance of the ongoing program to modernize and upgrade financial regulation and supervision, noting Trinidad and Tobago's increasing exposure in the regional financial market. In this context, Directors welcomed the recent expansion of the central bank's supervisory responsibilities to cover the insurance and pension sectors, and encouraged the authorities to vigorously pursue their broad legislative agenda for the financial system. They also encouraged the government to move ahead with its plans for reforming the National Insurance Scheme and the regulatory environment for private pension schemes. Directors welcomed the authorities' request to participate in the Financial Sector Assessment Program in 2005.

Directors noted that Trinidad and Tobago provides core statistics to the Fund that are broadly adequate for surveillance. Nevertheless, they encouraged further strengthening of the statistical system, especially in the areas of public enterprise account, and the capital account of the balance of payments. Directors welcomed the authorities' decision to participate in the General Data Dissemination System.

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

Trinidad and Tobago: Selected Economic Indicators

	1999	2000	2001	2002	2003
(Annual percentage changes)					
Output and prices					
Real GDP	4.4	7.3	4.3	6.8	13.2
Energy GDP	11.6	12.4	5.6	13.5	31.2
Unemployment rate (percent of labor force)	13.1	12.2	10.8	10.2	10.2
Consumer prices (end of period)	3.4	5.6	3.2	4.3	3.0
Money and credit 1/					
Net foreign assets	3.1	19.5	9.1	2.5	4.8
Net domestic assets	2.5	-13.6	3.5	0.2	-2.9
Public sector credit (net)	-3.1	-17.6	-7.2	2.1	-9.9
Private sector credit	8.5	7.8	3.7	3.1	2.6
Broad money (M3)	5.6	5.9	12.6	2.7	2.0
(In percent of GDP, unless otherwise indicated)					
Public finances 2/					
Budgetary revenue	26.1	25.6	27.4	24.6	27.4
Budgetary expenditure	25.0	24.5	25.6	25.2	25.4
Overall budget balance	1.1	1.1	1.8	-0.6	2.0
Overall non-energy budget balance	-3.2	-6.6	-8.3	-7.3	-9.5
Overall nonfinancial public sector balance	...	0.3	-1.1	-3.8	2.0
Public sector debt	59.2	55.1	56.3	60.1	56.2
External sector					
External public debt	23.2	20.5	18.5	17.9	15.2
Current account balance	0.4	6.6	5.0	0.9	12.8
Of which: exports	41.2	52.4	48.5	44.0	49.5
Of which: imports	40.3	40.6	40.4	41.3	37.2
Gross official reserves (millions of US$)	968	1,406	1,876	1,924	2,258
Terms of trade (percentage change, end of period)	27.4	20.7	-5.7	0.6	7.5
Memorandum item:					
Nominal GDP (in billions of TT$)	42.9	51.4	55.0	55.4	66.2

Sources: Authorities of Trinidad and Tobago; and IMF staff estimates.

1/ Changes in percent of beginning-of-period broad money.
2/ Fiscal year October–September. Data refer to fiscal years 1998/99–2002/03.

Statement by Murilo Portugal, Executive Director for Trinidad and Tobago and Charles de Silva, Senior Advisor to Executive Director
October 22, 2004

The Trinidad and Tobago economy has continued to display considerable strength driven in part by favorable international energy prices but, equally, the economy's solid performance has also been built on a platform of judicious macroeconomic management and the dynamism of a sound, prudently managed and well-supervised financial sector. With almost all the macroeconomic indicators pointing to an economy in exceptionally good health the authorities have accepted the challenge of utilizing the present historic opportunity to create the conditions for sustainable long-term growth and to deliver lasting improvements in the social conditions that affect the population. Trinidad and Tobago adopted a program of widespread and thoroughgoing economic reforms in the 1990s after emerging from a prolonged downturn triggered by the end of the previous energy boom. The efficiency gains generated by those reforms boosted the competitiveness and resilience of the economy but the authorities recognize that strengthening and sustaining economic growth will require a renewed emphasis on reforms in order to accelerate diversification of the economy alongside continuing efforts to further develop the energy sector.

Recent Economic Developments

The Trinidad and Tobago economy grew at a robust pace in 2003, extending the expansion that began in 1994 to its tenth consecutive year. The updated GDP calculation, rebased to the year 2000 from its previous 1985 base, put real GDP growth in 2003 at 13.2 percent, almost double the rate of the previous year. The statistical revision was undertaken in order to better reflect the changed structure of the economy, in particular the substantially enlarged production share of natural gas. Growth was led by the energy sector, whose expansion largely reflected the rapidly increasing levels of activity in the petrochemicals sub-sector and the commissioning of a third LNG plant, but crude oil production also increased. The accelerating recovery of the global economy also helped to create favorable demand conditions for Trinidad and Tobago's energy exports which enjoyed significantly higher prices compared with the previous year. Although growth in the non-energy sector was generally more modest, energy sector investment projects gave a strong boost to the construction sector, an important source of job creation, while manufacturing staged a moderate recovery following the post-September 11 decline of the previous year.

The fiscal accounts recorded a surplus of the order of 2 percent of GDP in FY 2002-2003 and preliminary data point to a surplus of 0.6 percent of GDP in the just concluded fiscal year, after taking account of transfers to the Revenue Stabilization Fund. As expected, fiscal performance has strengthened substantially in the last two years based on the sharp increase in energy-sector revenue while there were also clear signs of expenditure restraint.

Headline inflation remained well under control in 2003. Although the overall increase in prices was held to an average of 3.8 percent, lower than in the previous year, food prices were substantially more volatile, recording an increase of 13.8 percent in 2003 and maintaining this trend into the current year. The twelve month increase in these prices to August 2004 measured 10.5 percent.

Despite the fact that there was some net job creation, the unemployment rate remained sticky throughout the year as new entrants joined the labor force. The unemployment rate averaged 10.5 percent, marginally higher than the previous year, but more recent data from the Central Statistical Office has pointed to an encouraging pick-up in employment, with a substantial number of new jobs being added in the construction sector, manufacturing and in business and financial services. The CSO has put the end-June unemployment rate at 7.8 per cent, the lowest rate in over four decades.

The economy's external performance strengthened appreciably in 2003 as reflected in enlarged surpluses on the current account and on the overall balance of payments. Buoyant prices for the country's key energy exports combined with volume increases to push the current account surplus to 12.8 percent of GDP and the overall balance to 3.2 percent of GDP. The capital account remained in deficit as domestic investors continued to participate heavily in regional bond issues and investment outflows accelerated in the expected aftermath of the heavy influx of FDI that occurred over the last few years. The country's strong resource position has largely obviated the need for official external borrowing, such that official capital transactions resulted in net outflows and a further paying down of official external debt to reduce it to 15.3 percent of GDP and to a projected 12.9 percent of GDP by end-2004. In keeping with Trinidad and Tobago's steadily improving fundamentals and the authorities' commitment to disciplined and sensible macroeconomic policies, Standard and Poor's raised the country's long-term foreign currency sovereign rating to BBB+ in 2004, citing the strength of the fiscal and external balance sheets and the country's strong growth prospects. This was the second successive upgrade for Trinidad and Tobago in just over one year.

Against the backdrop of a pick-up in the global economy, the central bank remained firmly focused on its anti-inflationary policy objective in its conduct of monetary policy, but also sought to respond to continuing slow growth in the non-energy sector. With private sector credit demand responding only sluggishly to earlier interest rate reductions, the bank considered that there was room for further monetary easing and lowered its benchmark repo rate by 5 percentage points in September, capitalizing on the space provided by the low-inflation environment and the strong external position. In furtherance of its commitment to the use of more market-based systems of monetary control and to fostering greater efficiency in the financial intermediation process, the bank also continued the phased reduction of the reserve requirement which had stood as high as 21 percent two years earlier. This second reduction from 18 to 14 percent supported the transition to lower interest rates, marked by a fall in banks' prime lending rate from 11.50 percent to 9.50 percent. This process has since been taken further with another reduction to 11 percent in September 2004 which triggered a further decline in the prime rate to 8.75 percent. A stable US/TT dollar exchange rate continued to provide a firm anchor for domestic inflationary expectations in 2003, with the central bank maintaining a strong supportive role in the foreign exchange market. Nevertheless, the bank remained open to allowing greater flexibility of the exchange rate in the event of fundamental shifts in external sector conditions.

Against the backdrop of a buoyant economy the banking system remained sound and profitable with no sign of a deterioration in asset quality despite a marked heightening in loan marketing induced by high liquidity. Capital ratios averaged well above the minimum requirement of 8 percent and licensed financial institutions easily met the additional capital charge for foreign exchange risk introduced in 2000. Trinidad and Tobago consolidated its status as the financial center of the region with local financial institutions arranging over US$500 million in bond issues for regional clients and undertaking own investments of about US$250 million in regional issues. Following the recent passage of legislation to tighten insurance supervision, further regulatory strengthening for the financial sector has been put on the agenda for 2005. The authorities have also requested and have reached agreement with the Fund and Bank on the commencement of an FSAP in February 2005.

Prospects and Policies

The outlook indicates that over the next three years Trinidad and Tobago will enter a period of even more dynamic growth, though the authorities expect that the trajectory will be somewhat smoother than indicated in the staff report, which they believe understates the growth of the economy beyond 2006 and will need to be revised. The planned start-up of a new LNG plant in 2006 has now been delayed, as a result of which the initial impact on growth will partly be felt in the following year. This will build on output increases from several additional energy sector projects including a new methanol plant and a DRI plant that should be operational by end-2005. The authorities project real GDP growth of 6.7 percent in 2005, rising sharply to about 8-9 percent in 2006 and stabilizing around 5 to 6 percent thereafter with the coming to fruition of a number of technology-based growth industries, to be established in an already fully subscribed high-tech industrial park. Further down the road the construction of an aluminum smelter, for which an MOU has already been signed, and attendant co-generation facilities are planned. In the medium term non-energy growth will derive considerable stimulus from an acceleration in construction activity, infrastructure development and private sector projects.

The authorities are acutely aware that the prevailing economic and financial circumstances of the country pose significant challenges to macroeconomic management, chief among which are strengthening and preserving the competitiveness of the non-oil sector, ensuring the long-term sustainability of the use of its non-renewable energy resources and, in the short run, defusing the potential for an inflationary take-off. The authorities are similarly mindful that the present conjuncture offers a unique opportunity to establish the foundations for sustainable long-term growth and to propel the country towards its goal of achieving developed country status within the next two decades. For this reason the authorities are placing special emphasis on poverty alleviation and on improvements in health, housing and education in the medium term, while continuing to respect the absorptive constraints of the economy and the principles of sound macroeconomic management.

Maintaining price stability will remain the main focus of the Central Bank in the months ahead. In the absence of strong signs of a pick-up in domestic demand, monetary policy is likely to remain accommodative for the time being, but changes in the external interest rate environment could also influence the policy stance. The Bank also intends to press ahead with its schedule for lowering the cash reserve requirement applicable to banks to the 9 percent level that currently applies to non-banks. This should lead to a further tightening of intermediation spreads and, other things being equal, a further reduction in domestic interest rates.

The authorities remain committed to the establishment of a Revenue Stabilization Fund as a key tool of fiscal management and for preserving a share of the country's natural resource wealth for future generations. Notwithstanding that legislative bottlenecks have delayed formal establishment of the Fund, the authorities in 2004 made deposits totaling TT$1263.2 million to the Interim Revenue Stabilization Fund in keeping with pre-established guidelines. The cumulative balance in the Fund now stands at TT$2775.6 million. Legislation will be enacted early in 2005 for the establishment of the Fund which will be based on the following design principles:

i. The annual estimate of oil and gas revenues will be determined by the long-term prices of crude oil and gas;
ii. the larger part of the excess reserves (up to 60 percent) will be earmarked for stabilization or inter-generational transfers;
iii. the remainder of the excess (up to 40 percent) will be available to be allocated to strategic investments.

The authorities concur fully with staff on the need to improve competitiveness in the non-energy sector and are focusing on wide-ranging structural reforms as the most effective way of addressing this objective. In the area of tax reform, the authorities are currently drawing on technical assistance from the Fund to undertake an assessment of the VAT system, which was introduced in 1990, but whose productivity has declined over time. In the area of enterprise reform, the difficult and politically sensitive restructuring of the state-owned sugar company has been decisively addressed and further divestment and restructuring of the state's role are being aggressively pursued in areas such as port operations, forestry and broadcasting among others.

In keeping with the thrust to strengthen the basis for policy making and to promote greater transparency in economic reporting, Trinidad and Tobago has recently begun participating in the GDDS and has published comprehensive information on its statistical production and dissemination practices on the IMF's Dissemination Standards Bulletin Board. The authorities intend to build on this foundation with a view to eventually subscribing to the SDDS.

In conclusion, our authorities wish to record their appreciation of the candid exchange of views and helpful advice provided by the Fund during the course of the Article IV discussions and of the Fund's continuing support for Trinidad and Tobago through the provision of technical assistance.