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Trinidad and Tobago: 2006 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

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 2006 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 21, 2006, 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 11, 2006. 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 11, 2006 updating information on recent developments; and
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 11, 2006 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper
Statistical Appendix

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.

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INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representatives for the 2006 Consultation with Trinidad and Tobago

Approved by Caroline Atkinson and G. Russell Kincaid

September 21, 2006

Discussions. A staff team comprising M. Alier (Head), R. Adrogué, I. de Carvalho Filho, C. Faircloth (all WHD), and Z. Arvai (MFD) visited Port-of-Spain during July 10–21, 2006. The staff team met with Prime Minister the Hon. Patrick Manning, Ministers Enill and Sahadeo in the Ministry of Finance; Central Bank Governor Williams; other senior government officials; representatives of the private sector and labor unions; and the leader of the opposition. Mr. Samuel (OED) participated in several meetings and C. Atkinson (WHD) joined the team for the final discussions.

2005 Article IV Consultation. Directors noted that favorable economic conditions provided a unique opportunity to secure sustainable high living standards for Trinidad and Tobago. Directors noted that maximizing the gains from the energy windfall required a prudent mix of macroeconomic and structural policies. They encouraged the authorities to take advantage of the favorable conditions to press ahead with structural reforms to support private sector led growth.

The authorities' policies. Earlier Article IV consultations have emphasized fiscal and financial sector issues reforms, which the authorities are partly addressing, in particular, the revised Heritage and Stabilization Fund draft bill includes a number of staff recommendations. As regards broader macroeconomic developments, the fiscal accounts and the government balance sheet have improved due to higher oil prices and the authorities' efforts to save revenues in excess of budgeted amounts. However, expenditure has recently risen, and is budgeted to expand further and drive up the nonenergy deficit beyond the medium term sustainable level recommended in the last Article IV. Foreign exchange sales have been stepped up to absorb excess liquidity in line with staff recommendations. However, monetary policy has not contained aggregate demand pressures and inflation has continued to rise. The exchange rate *de facto* peg has been maintained contrary the recommendation to introduce greater flexibility. The government has been active in promoting economic diversification to reduce reliance on energy production. In regards to the financial sector, progress has been made at the technical level to implement the recommendations in the 2005 FSAP but key legislation needs approval.

Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Trinidad and Tobago statistical database is adequate for surveillance. Trinidad and Tobago began participation in the General Data Dissemination Standards system in September 2004. Recent STA technical assistance has focused on the compilation of national account statistics.

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EXECUTIVE SUMMARY

Background

Trinidad and Tobago has one of the highest per capita incomes in Latin America and the Caribbean. Its wealth stems from vast oil and gas reserves. Trinidad and Tobago is also a regional financial center and a significant source of capital flows in the Caribbean.

The political balance is delicate with political divisions, largely along ethnic lines, complicating policy making. The next general elections could be called any time between now and January 2008. The political climate is charged in anticipation.

Economic developments continue to be underpinned by a favorable international environment. In 2005, real GDP grew about 8 percent and is set to accelerate to 12½ percent this year. The current account surplus is running at around 25 percent of GDP, the budget has posted sizable surpluses, and net public debt fallen sharply. However, the underlying fiscal situation has deteriorated and the nonenergy fiscal deficit has risen. Aggregate demand pressures have mounted and capacity constraints have become evident in some sectors. The labor market has tightened, real estate prices are rapidly rising, and inflation is accelerating.

Policy Discussions

The discussions centered on the need to develop macroeconomic and structural policies that use the energy windfall to promote sustainable long-term growth with low inflation. This involves a number of challenges, including: (i) managing aggregate demand to avoid overheating the economy in the short term; (ii) striking an appropriate balance in the use of energy resources over time; and (iii) accelerating structural reforms that will help to foster economic diversification.

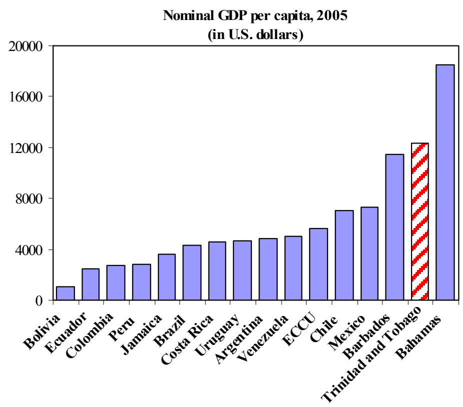
The short- and medium-term outlook for growth remains favorable due to the high energy prices. However, tighter macroeconomic policies are needed to curb inflation and bring public spending back to levels consistent with medium-term fiscal sustainability. In addition, fiscal reforms are needed to promote the best use of energy resources. Key areas that deserve attention are: the efficiency and equity of the tax system; the quality of public spending; and transparency and accountability.

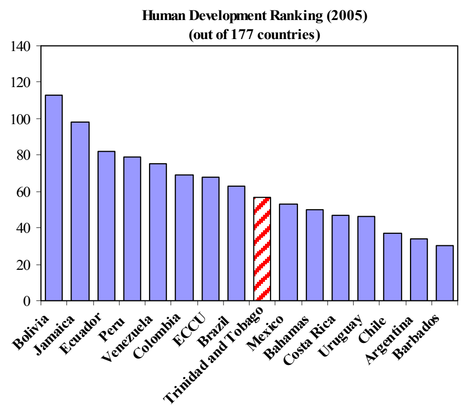
Rising energy revenues pose challenges to monetary policy. Regaining control over liquidity is a priority and monetary management needs to be strengthened to improve the central bank's ability to provide a credible nominal anchor for monetary policy. Greater exchange rate flexibility may be needed given the persistent positive terms of trade shock and absence of fiscal restraint. Looking ahead, the mission recommended allowing for a gradual nominal appreciation over time to facilitate the adjustment of the real exchange rate.

Progress has been made at the technical level to implement the recommendations in the 2005 FSAP but key legislation needs approval.

I. Introduction

1. **Trinidad and Tobago has one of the highest per capita incomes in Latin America and the Caribbean (Figure 1)**. Its wealth stems from vast oil and gas reserves which at current extraction rates would be exhausted in 20 years. There is nevertheless scope to strengthen social and development indicators. Life expectancy and literacy are among the highest in the Caribbean. However, in terms of broader social indicators, Trinidad and Tobago's Human Development Index ranking stands at 57 (out of 177 countries)—only slightly above the regional average.

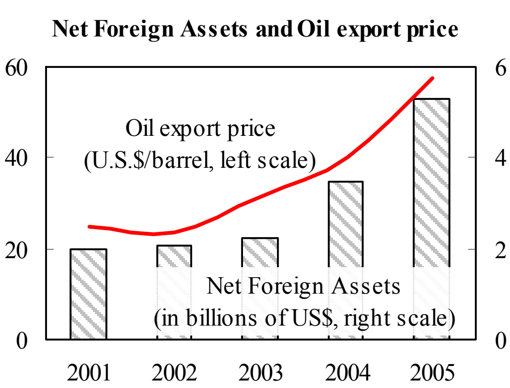




2. **The political balance is delicate with divisions, largely along ethnic lines, complicating policy making**. The next general election could be called any time between now and January 2008. The political climate is charged in anticipation.

II. Recent Economic Developments

3. **Economic activity has been very strong, with growing signs that the economy is operating near full capacity (Figure 2)**. In 2005, real GDP grew about 8 percent—above the annual average growth of 6½ percent since 1994. Surging energy prices, the exploitation of new gas fields, and an expansion of industrial capacity underpinned growth of 8¼ percent in the energy sector. The nonenergy sector also grew rapidly, by 7¾ percent, supported by public infrastructure spending and rapid credit growth that fueled private spending. Tobago has benefited from growth in international tourism and increased public spending (Box 1). Aggregate demand pressures have mounted and capacity constraints are evident in some sectors, notably construction. The unemployment rate has dropped to 6¾ percent—an all time low.



4. **The external accounts are strengthening and net foreign assets accumulating but portfolio outflows have accelerated (Figure 3)**. In 2005, the current account posted a surplus of about 25 percent of GDP reflecting a sharp

improvement in the trade balance led by rising energy exports. Portfolio outflows, prompted by the excess liquidity, surpassed FDI inflows. Gross international reserves reached US$4.8 billion (10 months of imports).

5. **The government's balance sheet has improved with rising energy receipts, but the underlying fiscal position has deteriorated due to the rapid increase in public spending (Figure 4)**. In FY 2004/05, strong growth in energy revenues boosted the central government's budget surplus to 5.6 percent of GDP, its debt-to-GDP ratio fell to 20 percent, and deposits in the Interim Revenue Stabilization Fund (IRSF) reached 5.6 percent of GDP. At the same time the non-energy deficit widened to 10½ percent of GDP due to growing transfers and subsidies (on utilities and fuels) and higher public investment. In the first nine months of FY 2005/06, buoyant revenues and a slower-than-planned execution of expenditure contributed to a stronger-than-anticipated central government fiscal position and a stable nonenergy deficit. However, based on the mid-year budget provisions, the nonenergy deficit is projected to expand very sharply in the final months of the fiscal year, and reach over 15 percent of GDP for the year as a whole. Nonenergy revenues are projected to slow down reflecting the full year impact of the income tax cuts, and the government plans to accelerate spending execution, in particular public investment. Moreover, the public enterprises deficit has increased rapidly, worsening the overall NFPS balance this year.

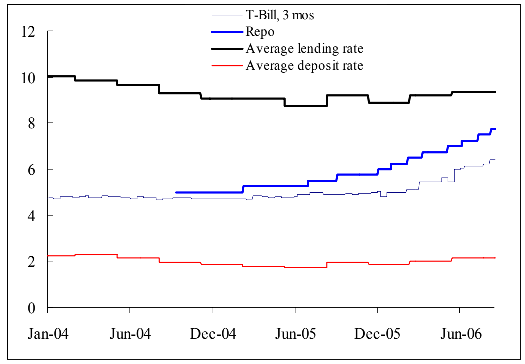
6. **Demand pressures have contributed to rising inflation, notwithstanding policies to hold fuel and utility prices constant (Figure 2)**. In July, inflation reached 8.6 percent compared to 7.2 percent and 5.6 percent at end-2005 and end-2004, respectively. Core inflation is also accelerating, reaching 4 percent compared to 2.7 percent in December. At the same time, fuel prices have been held constant since October 2003 and electricity tariffs frozen. The real effective exchange rate appreciated by 2.6 percent in 2005.

7. **Despite an overall build-up in central bank reserves, the foreign exchange market experienced recurrent shortages in 2005**. The balance of payments surplus led to a large build up in central bank reserves. At the same time, the monetization of foreign currency energy receipts to finance the nonenergy fiscal deficit created significant excess domestic liquidity, which pushed up the demand for foreign exchange (Figure 4). The central bank did not sell enough foreign exchange to satisfy this demand at the *de facto* pegged exchange rate. As a result, 2005 saw a substantial increase in unsatisfied customer demands ("queues") and banks' short trading positions. Nevertheless, a well-defined parallel foreign exchange market was not observed. In light of these developments in the exchange system, staff continues to assess the consistency of Trinidad and Tobago's exchange system with Article VIII, Sections 2, 3 & 4 of the Fund's Articles of Agreement.

8. **The central bank has gradually adopted measures to address the foreign exchange market imbalances (Figure 5)**. The policy rate, at which the central bank lends to banks, was hiked by a cumulative 275 bp since February 2005 to 7.75 percent and the rate on treasury-bills has been allowed to rise since February of this year. A scheduled reduction in reserve requirements was put on hold, and commercial banks were required to make special deposits at the central bank totaling TT$1.5 billion (1¼ percent of GDP). At the same time,

in recent months, the central bank has increased the supply of foreign exchange to the market to alleviate remaining shortages.

9. **A stock of excess liquidity nevertheless remains and the monetization of the nonenergy deficit remains a source of pressure**. Ample liquidity has muted the effects of policy rate increases by the Central Bank on market rates and commercial bank lending and deposit rates, and credit to the private sector has grown rapidly (29 percent). At the same time rising inflation has led to negative real interest rates and encouraged capital flight.



10. **Local financial markets have gone through an orderly correction since mid-2005 following a stricter enforcement of limits on institutional investors' equity investments**. The local stock market index has fallen by over 20 percent from its peak in May 2005. Mirroring developments in the stock market, mutual funds' growth rate slowed to 16 percent, compared to an average growth rate of 44 percent in the previous five years. In 2005, the primary bond market continued to be very active with 37 placements with a face value equivalent to 8 percent of GDP, about one-third in foreign currency. However, the secondary market remains inactive.

11. **The authorities' structural agenda emphasizes growth and diversification, and improved macroeconomic management**.

- **Diversification of the non-oil and oil sector**. In addition to promoting new growth industries in the nonenergy sector, the authorities have introduced a significant downstream component requirement (40 percent) to all new energy projects. The objective is to develop downstream petrochemical plants that use semi-processed inputs that could be imported once energy reserves are exhausted.

- **Human capital accumulation**. The authorities have begun implementing a multi-pronged human capital development strategy, which includes new training programs and free tertiary education. Enrollment has increased threefold following the introduction of universally free tertiary education. Education policies are also paying increased attention to early childhood development.

- **Financial sector**. The authorities have embarked on an ambitious effort to modernize the legal, regulatory and supervisory frameworks governing the financial sector, with a view to reducing vulnerabilities and promoting Port-of-Spain as a financial center. In 2005, a FSAP found that although the banking system was well capitalized and profitable, it remained vulnerable to sharp falls in energy prices. The absence of a legislative and regulatory framework for nonbanks was noted as an area of concern given that the contractual savings sector has replaced banking as the financial market's single largest segment. Another potential source of vulnerability was the financial system's exposure to countries in the region where fiscal sustainability is a concern.

- **Fiscal sector**. The main reform in this area is the plan to replace the IRSF with the Heritage and Stabilization Fund (HSF). Draft legislation has been approved by cabinet and is expected to be submitted soon to parliament (Box 2). Other reforms in the fiscal area include the creation of special purpose vehicles (SPVs), which are public enterprises intended to overcome institutional constraints that have hampered the implementation of the public investment program.

III. Outlook for 2006–07 and the Medium Term

12. **Trinidad and Tobago's short-term outlook remains favorable but tighter macroeconomic policies are needed to control inflation**. The energy sector is set to achieve an expansion in excess of 20 percent in 2006, reflecting the full-year impact of large investments on productive capacity. The nonenergy sector is projected to grow by about 7 percent, supported by tax cuts and government spending but limited by emerging capacity constraints. Overall growth is expected to accelerate to 12½ percent in 2006 before decelerating to around 7 percent in 2007. The current account surplus is projected to continue in excess of 20 percent of GDP in 2006 reflecting a sustained increase in exports that more than offsets import growth. On current policies, the central government budget surplus will shrink to about 3¾ percent of GDP in FY 2005/06 and FY 2006/07. However, the underlying fiscal situation is likely to deteriorate and the nonenergy deficit increase to over 16 percent of GDP. Inflation is projected to accelerate further, continuing to exceed that of trading partners.

13. **Staff's medium-term projections, based on strong energy revenues and current macroeconomic policies, envisage robust economic growth, albeit at declining rates**. The energy sector will continue to post strong rates of growth as new projects coming on stream more than offset the projected decline in energy prices (WEO projections). The nonenergy fiscal deficit is projected to remain at about 15 percent of GDP over the medium term and then assumed to move sharply into balance in 2020 consistent with the authorities' objective to balance the nonenergy deficit in the medium term. Public spending is projected to remain at about 50 percent of nonenergy GDP, crowding out private investment and undermining the dynamism of the nonenergy sector. On these assumptions the current account surplus will decline rapidly to near balance by 2010, portfolio outflows will remain significant and international reserves will eventually decline. Monetary policy will continue to face difficult challenges and inflation will further accelerate.

14. **Tightening fiscal policy in line with fiscal sustainability considerations would create a more favorable macroeconomic environment and reduce vulnerabilities (Figure 6)**. Although maintaining current macroeconomic policies would be financially sustainable over the next decade, it would eventually require a very large fiscal policy adjustment once energy resources are depleted. Medium- and long-term sustainability would

require a tighter fiscal stance to build enough financial assets to finance a non-energy primary deficit beyond the exhaustion of energy reserves (Box 3). Bringing the nonenergy deficit below 10 percent of GDP by 2008 would require significantly scaling down public spending plans that would, over time, create more space for private investment and contribute to relatively stronger growth. Under this scenario, the current account surpluses would fall but remain sizable, portfolio outflows would decline, and the rapid accumulation of international reserves would continue. Bringing inflation back to the low single-digits would be feasible and public sector net assets would accumulate rapidly.

IV. Report on the Discussions

15. **The discussions centered on how best to develop macroeconomic and structural policies that use the energy windfall to promote sustainable long-term growth, with low inflation**. Challenges in this context include: (i) managing aggregate demand to avoid overheating the economy in the short term; (ii) striking an appropriate balance in the use of energy resources over time; and (iii) accelerating structural reforms to foster economic diversification.

16. **The authorities are focused on advancing their flagship development plan *Vision 2020* aimed at achieving "developed nation status" by 2020**. The plan is based on heavy investments in infrastructure and human capital. While the mission agreed that policies to tackle structural impediments to diversification and growth are worthwhile, it highlighted the risk of overheating the economy by raising public spending very rapidly. The mission also noted that diversification and industrial development strategies should comprise private-sector led initiatives that do not rely on subsidized inputs. The authorities agreed that industries should be economically viable over the long term without government support. As regards the risks of overheating, they were of the view that emerging capacity constraints could be overcome by importing inputs and through immigration

A. Fiscal Policy

17. **The mission argued that a tighter fiscal policy stance is needed in the short term to reduce inflation and take pressure off the labor market**. In this context, the mission recommended locking in the fiscal overperformance of the first nine months of the fiscal year and recommended that the budget for FY 2006/07 target a decisive reduction in the nonenergy fiscal deficit from current levels. In addition, the mission underscored the importance of resisting pressures in the ongoing public sector negotiations to grant wage increases beyond overall productivity gains. The authorities stated their intention to limit somewhat the deterioration in the nonenergy deficit envisaged in the mid-year budget review, including by saving revenues in excess of projections, but were noncommittal about locking in the overperformance verified so far this year. They concurred that wage increases should be determined by productivity gains but commented on the challenge of measuring public sector productivity gains.

18. **Careful management of the energy revenue windfall is essential also to avert the need for drastic policy reversals when energy income declines**. The mission argued that

pacing the use of energy resources now would allow Trinidad and Tobago to sustain investment and social spending. The mission discussed alternative ways to calculate the sustainable nonenergy deficit, which staff estimated to be about 10 percent of current GDP or somewhat below 20 percent of nonenergy GDP. This is based on the latest data on energy reserves and assumes that energy prices remain high until 2011 (WEO projections) and fall towards their long-term average thereafter. The authorities agreed with the mission on the need to safeguard policy continuity and, in that context, noted that the government has saved a significant part of the recent increase in energy revenues, even beyond the IRSF requirements. Furthermore, the authorities remarked on their intention to balance the non-energy deficit by 2020. The mission noted that a more moderate pace of spending in the short-term would allow the accumulation of enough financial assets to support policy continuity once energy reserves are depleted, avoiding a wrenching budget adjustment to balance the nonenergy deficit in 2020. The authorities took the view that the recent increase in the nonenergy deficit reflected worthy investments in health, education, and infrastructure.

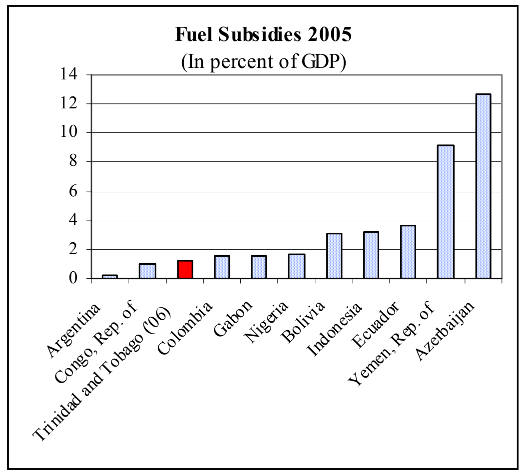
19. **An adequate asset and liability management framework to transform energy wealth efficiently into financial wealth is a key element of a medium-term sustainability strategy**. The mission supported the initiative to institutionalize a long-term savings framework within the HSF, but underscored the need for disciplined fiscal policies, adequate oversight, and transparency in HSF management in relation with the budget. The authorities reported that the draft legislation consistent with advancing these principles and the overall objective of stabilization and intergenerational savings received cabinet approval recently. Liability management is also an important element of the fiscal strategy. The authorities noted their intention eventually to tap international capital markets again to maintain a visible presence in the market.

20. **High quality fiscal policy is needed to ensure the best uses of energy resources**. In that context, the mission urged the authorities to pay attention to the following areas:

- **Tax policy and administration**. Structural tax reforms and measures to strengthen tax administration could improve the efficiency and equity of the tax system. The mission noted that recent income tax changes provided a welcome simplification of the tax system, although the tax relief component was inconsistent with the need for fiscal restraint. The authorities indicated that the simplification and reduction in personal income tax rates have brought relief and improved taxpayer incentives at a lower-than-initially-projected cost to the treasury due to increased enforcement and compliance. As regards improving equity, the mission recommended reforming the property tax and introducing a capital gains tax. The authorities agreed and indicated that the preparatory work on these tax reforms is ongoing (although their introduction is unlikely before FY 2007/08). They also reported that work is in progress to make operational the newly established tax policy unit. The mission welcomed the authorities' plan to unify the inland revenue service and customs administration under a single agency, highlighting a need for adequate checks and balances should the government give this agency autonomy.

- **Quality of public spending**. The mission noted that the traditional safeguards to ensure minimum quality standards of public spending are likely under stress given the rapid growth in public spending. The authorities reported their ongoing efforts to strengthen the capacity to evaluate, select, and implement spending programs. In particular, measurable indicators of performance are being developed to monitor spending programs. The mission recommended developing a medium-term fiscal and budgetary framework to allow a better anchor current policy decisions with sustainability considerations. The authorities welcomed the suggestion in the context of the FY 2007/08 budget.

- **Social spending**. The mission agreed with the authorities' view that a well-designed social safety net is essential to ensure that the population at large benefits from the energy windfall. The mission recommended reviewing existing social programs to assess their effectiveness and efficiency. In that context, the mission noted that although it is common for energy producers to subsidize fuel prices, generalized subsidies have a tendency disproportionately to benefit the wealthy. The mission argued that utility and fuel price subsidies could be replaced with a better-targeted income support program. The authorities noted that a new framework to set electricity tariffs had been designed and will be implemented as soon as it receives cabinet approval. They also reiterated their commitment to reduce fuel subsidies over time as an adequate social safety net is developed.



- **Fiscal transparency and accountability**. The mission enquired about the government's use of SPVs to perform functions traditionally carried out by ministries, noting the importance of safeguards to avoid weakening public sector governance and expenditure management. The authorities explained that SPVs will receive resources from the Infrastructure Development Fund, which is funded through the regular budgetary process, and that borrowing by SPVs will be within the limits approved by Parliament for the public sector. The mission recommended that, as the constraints that prompted the creation of the SPVs are resolved, a plan to reincorporate these functions back to the ministries be developed. The mission encouraged the authorities to work with the Fund to prepare a fiscal report on standards and codes (ROSC).

- **Fiscal decentralization**. Proposals have emerged recently to move toward fiscal decentralization. The mission noted that fiscal vulnerabilities introduced by fiscal decentralization usually outweigh its benefits in small economies. The authorities explained that the plans under consideration do not envisage the type of fiscal decentralization observed in large federal countries but rather intend to give local governments expenditure implementation responsibilities.

B. Monetary and Exchange Rate Policies

21. **Accelerating inflation poses a challenge for monetary policy**. The central bank has been active in trying to regain control over liquidity in the system but there remains a stock of excess liquidity and the monetization of the nonenergy deficit continues to be a source of pressure. The mission recommended a tighter monetary stance to curb inflation, and suggested that the central bank step up sales of foreign exchange and allow the treasury bill rate to continue to rise to mop up liquidity. The authorities explained that sales of foreign exchange had increased threefold in the last 18 months and that shortages have now largely been alleviated. They explained that decisions on how much foreign exchange to provide are also taken against the background of past concern over excessive or speculative capital outflows. Regarding the treasury bill rate, the authorities agreed that the rate should continue to increase but argued that a sharp rise could prove destabilizing. However, the authorities noted that the monetary tightening cycle in Trinidad and Tobago will need to continue beyond the tightening cycle in the United States until a sufficient yield premium on local assets is established to stem capital outflows.

22. **Strengthening monetary management would promote the central bank's ability to provide a credible nominal anchor for monetary policy**. Increasing the effectiveness of monetary policy will require adequate instruments. The mission recommended eliminating the ceiling on treasury bill sales or at a minimum raising it. The authorities were sympathetic but explained that increasing the ceiling could prove politically challenging. They clarified, however, that the central bank could, if need be, issue its own paper to mop up liquidity. The mission noted that the repo rate, the central bank policy instrument, is not binding in the current excess liquidity environment, and that treasury bill rates and commercial bank rates have diverged persistently from the interest rate path signaled by the central bank. The central bank authorities were of the view that they could adequately signal their policy intentions and make the interest rate transmission mechanism more effective over time by raising the repo rate and allowing the rates on treasury bills to increase.

23. **Rising oil wealth inevitably puts upward pressure on the real exchange rate**. A tighter fiscal policy stance would limit the appreciation of the real exchange rate and its adverse consequences on the competitiveness of the nonenergy economy. Monetary and exchange rate policies in turn can affect whether the real appreciation occurs through nominal appreciation, or through inflation, which tends to penalize the poorest segments of the population.

24. **A more appreciated nominal exchange rate, ideally occurring in the context of introducing greater flexibility in the exchange rate regime, could be tolerated over time**. The mission argued that the real exchange rate (as measured by unit labor costs) had depreciated substantially on account of sharp gains in labor productivity and subdued wage increases in recent years. This should enable the industrial sector to absorb a more appreciated nominal exchange rate (Box 4). Moreover, staff estimates that the real exchange rate undervaluation, estimated at 15-20 percent in last year's consultation, is likely to have been exacerbated by the sustained improvement in the terms of trade, while the appreciation

in the real effective exchange rate has been limited. The authorities noted that unit labor cost measures only partially capture developments in the labor market and miss the rapid increase in nonwage benefits and mounting pressures for large wage increases. Although the possibility of a nominal exchange rate revaluation over time was not ruled out, the authorities explained that recent large capital outflows and the segmentation of the market had limited the tendency for such appreciation. The authorities viewed less favorably the recommendation of allowing for greater flexibility in the exchange rate regime.

C. Structural Issues

25. **Continued reform of the regulatory and supervisory framework is needed to enhance the resilience of the financial system**. The authorities have made considerable progress in preparing for consolidated supervision of financial groups and in drafting amendments to financial institutions and insurance legislation along the lines of the 2005 FSAP recommendations. However, delays in the enactment of legislation still hinder the effective supervision of the financial sector, and the legislative process needs to be accelerated to strengthen the supervision of statutory corporations, credit unions, and mutual and pension funds. The authorities reiterated their commitment to pressing ahead with financial sector reforms, but explained that capacity constraints in drafting laws and an extensive competing legislative agenda have delayed parliamentary consideration of financial sector legislation. Stress-testing and the monitoring of real estate prices are two areas where a significant amount of work has been undertaken by the authorities to assess system-wide risks and vulnerabilities. Establishing a formal financial stability framework—including clarification of arrangements for crisis management, emergency lending, and safety net arrangements—still lies ahead. The mission considered that progress on these fronts is essential to increase Port-of-Spain’s role as a financial center.

26. **Short-term risks in the banking system seem limited, but capital adequacy ratios do not sufficiently reflect risks arising from regional sovereign exposure**. The banking sector remains profitable, nonperforming loans are low, and provisioning improved compared to last year (Table 10). The banking system’s short open foreign exchange position remains within prudent limits and is not an immediate source of risk given the *de facto* peg and the central bank sizable reserves. However, there is large variation among banks and the mission recommended introducing limits on open foreign exchange positions relative to bank capital. In addition, the zero risk-weight applied to lower investment grade and non-OECD sovereign exposure (about 20 percent of banks’ assets according to the FSAP) artificially inflates capital ratios, and the mission recommended raising the risk-weight in line with Basel standards. The authorities did not consider it necessary to introduce limits on open foreign exchange positions, noting that these were carried by foreign banks that responded to their headquarters regulations, but clarified that work is in progress to address shortcomings in capital adequacy requirement regulation.

27. **The authorities place importance on economic diversification and reducing dependency on the extraction of natural resources**. The mission noted the importance of initiatives to develop downstream energy-sector operations being economically viable over

the long term without government support and not being based on a subsidization of inputs. The authorities reported their intention to continue phasing out tax holiday incentives for new companies. More broadly, staff argued that reforms should generally be aimed at improving conditions for market-based development The mission welcomed efforts to promote human capital accumulation and broaden the economic opportunities of the population, but noted that education expenditure should be well targeted and its effectiveness in advancing social goals assessed vis-à-vis other social programs.

28. **Trinidad and Tobago has supported the process of regional integration**. The Organization of Eastern Caribbean States signed accords in early July, which operationalize their entry to the CARICOM Single Market Economy (CSME). The mission welcomed Trinidad and Tobago support to CSME and the creation of a Regional Development Fund to provide assistance to small states within the context of the CSME.

V. Staff Appraisal

29. **Record high energy prices present Trinidad and Tobago with a historic opportunity for development but also with challenges**. A delicate balance must be struck in the use of energy windfalls to support sustained growth and higher living standards for current and future generations. Investments to allow a gradual reduction in dependency on the energy sector and strengthen human capital must be adequately paced both to avoid overheating the economy and pushing up inflation, and to ensure sustainable levels of spending over time.

30. **With the current strong economic growth, fiscal policy must avoid adding to demand pressures**. There are now signs that the economy is overheating and rapid increases in public spending combined with tax cuts to the non-energy sector are imparting a sizable fiscal impulse. Capacity constraints are becoming evident, the labor market is tight, real estate prices are rising rapidly, and inflation has accelerated. A rising nonenergy deficit puts pressure on the real exchange rate, with potential risks for the development of the nonenergy sector. Importing inputs and allowing additional immigration may help in overcoming some capacity constraints. However, domestic asset price bubbles may still be generated, particularly in the real estate market.

31. **Steps to halt the deterioration in the underlying fiscal position would help avoid sharp policy reversals in the future**. The government's success in containing expenditure in the first nine months of the fiscal year is commendable. This effort should be maintained, to forestall the deterioration in the nonenergy deficit envisaged in the mid-year budget review. Exceptionally high energy prices are unlikely to be sustained over the medium term and energy reserves will gradually be exhausted. This suggests that the use of energy resources should be paced to maintain needed investment and social spending over the medium term. In light of the historical volatility in energy prices, medium-term spending plans should be based on conservative energy price assumptions. Staff estimates suggest that a non-energy deficit of somewhat less than 10 percent of current GDP would be sustainable over the medium term.

32. **Medium-term fiscal sustainability requires an adequate asset and liability framework to transform energy wealth into financial wealth**. While the mission welcomed the HSF initiative, its effectiveness in achieving the objectives of stabilization and intergenerational savings will depend on disciplined fiscal policies and an adequate oversight structure. In particular, the HSF should not become a vehicle for extra-budgetary spending. Good governance and transparency in the management of the HSF will be essential elements.

33. **The current favorable economic environment provides an opportunity to improve the quality of fiscal spending by strengthening institutions and improving policy design**. The efficiency and equity of the tax system could be bolstered through structural tax and revenue administration reforms. On the expenditure side, better targeting of social programs would be important, as would developing a medium-term fiscal and budgetary framework. Early work on the latter is key to have it in place on time for the FY 2007/08 budget. Transparency and accountability are key for effective budgetary management and it is reassuring that checks and balances are in place on the recently created SPVs. However, the problems that prompted the creation of these agencies must be tackled and a plan devised to reincorporate these functions back to the ministries. A fiscal ROSC could provide useful inputs in the design of expenditure policies. Fiscal decentralization plans must be carefully designed to ensure that their benefits are not outweighed by increased fiscal vulnerabilities.

34. **Continued monetary tightening and improvement in policy instruments are important for the central bank to fight inflation effectively**. In the current exchange rate regime, monetary conditions can be tightened by stepping up foreign exchange sales and letting treasury bill rates rise. Given the acceleration of core inflation in recent months, it will be important to use these instruments. Should the ceiling on central bank treasury bill sales become binding, central bank paper should be issued. Once a sufficient yield premium on local assets has been established, the focus should turn to enhancing monetary policy effectiveness by improving the central bank's capacity to communicate policy intentions to market participants.

35. **Looking ahead, greater exchange rate flexibility may be needed**. The persistent positive terms of trade shock and the absence of fiscal restraint puts upward pressure on the equilibrium and the actual real exchange. Staff estimates put the real exchange rate undervaluation at about 15–20 percent. Adjustment through inflation (already taking place to some extent) will place a burden on the poorest and most vulnerable segments of the population. The industrial sector should be in a position to withstand the effect of a nominal appreciation, particularly if steps are taken to boost competitiveness and improve the business environment. Greater exchange rate flexibility would allow the authorities to manage better aggregate demand pressures, in parallel with the central bank progress to provide a credible alternate nominal anchor for monetary policy. More immediately, the authorities should continue to reduce the uncertainty in the supply of foreign exchange and take the first steps towards the development of an interbank market, including for example by establishing an auction-based allocation of foreign exchange.

36. **The speedy enactment of amendments to key financial sector legislation is of the utmost importance to strengthen financial sector regulatory and supervisory frameworks**. The authorities should also work with the financial sector to raise general risk awareness and risk management standards from current levels. Regulation for proper risk weighting of non-OECD sovereign debt would be particularly relevant for containing risks from regional sovereign exposure.

37. **Structural reforms are needed to raise productivity in the nonenergy sector**. These reforms should aim at removing impediments to growth and diversification in the nonenergy sector, including deficiencies in economic infrastructure and a weak business environment, and at increasing regional integration. Creating conditions to foster the development of the private sector should underpin diversification efforts. In that respect, industrial development plans should concentrate on industries that are viable over the long term without the benefit of government subsidies.

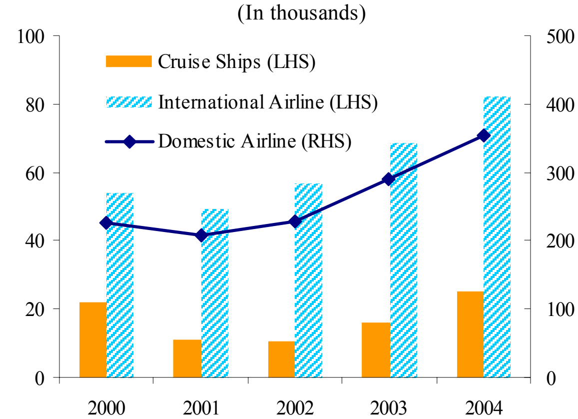
38. The staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. Developments in Tobago—Opportunities and Challenges

Tobago's economy differs significantly from Trinidad's and consequently confronts unique challenges for achieving strong and sustained growth. With limited potential to exploit gas and oil reserves, Tobago's development strategy has focused on strengthening the service sector, with an emphasis on tourism.

The expansion in international tourism has supported economic activity and development. As in many Caribbean economies, the recent upturn in the global economy and geographical shift of tourist destinations following the tragic events of 9/11 has contributed to a steady increase in tourist activity in Tobago. By 2004, domestic and international airline passenger arrivals had increased by about 70 percent relative to 2001 and cruise ship passenger arrivals reached a record high. Tourism-related jobs accounted for about 60 percent of employment.

Airline and Cruise Ship Passenger Arrivals
(In thousands)



Source: Budget 2006 - Social and Economic Digest (Tobago House of Assembly).

Despite recent economic gains, Tobago's economy remains heavily dependent on the government sector. The public sector which employed more than half of all paid employees in the economy in 2001 (as compared to a national average of about one-third). Fostering an environment conducive to greater private sector development—where productivity gains are usually larger—is a priority. Moreover, a well-educated labor force is critical to compete in an increasingly knowledge-based global economy. Recent findings on Tobago's education profile, however, suggest a deficit in terms of the overall skills set. A Government Task Force has outlined options to address these challenges.

Box 2: Heritage and Stabilization Fund Bill

The Heritage and Stabilization Fund (HSF) bill was submitted to Parliament on September 15. The draft legislation states that the objective of the HSF is to save and prudently invest surplus petroleum revenue with the goal of: (i) smoothing public expenditure capacity during periods of weak energy revenues reflecting declines in energy prices and/or production; and, (ii) supporting public expenditure capacity following the depletion of non-renewable petroleum resources.

The main features of the HSF are as follows:

- **Governance Structure:** The HSF is to be managed by a Board of Governors that includes a Chairman and four other members. Board members are to be appointed by the President on advice of the Minister of Finance for a three-year term.

- **Deposits:** Resources in the Interim Revenue Stabilization Fund (IRSF) will be transferred to the HSF once the legislation is passed. Thereafter, at least 60 percent of oil and gas revenues in excess of budgeted amounts will automatically be deposited into the HSF without requiring a separate budgetary appropriation.

- **Investment and Withdrawal Guidelines:** HSF resources are to be invested in a wide variety of high-quality foreign financial instruments. Withdrawals for stabilization purposes are triggered by shortfalls in petroleum revenues in excess of 10 percent of budgeted amounts. Withdrawals cannot exceed 25 percent of the HSF assets.

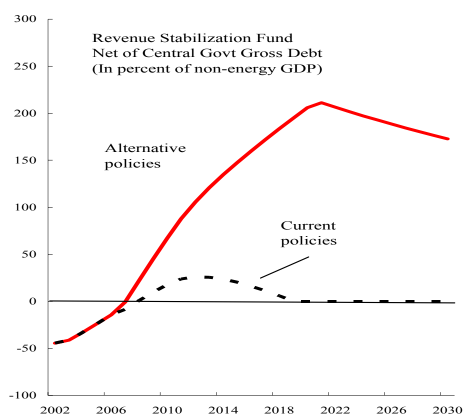
- **Energy Prices and Revenue Estimates in the Budget:** Budget energy revenues are to be determined using the long-term prices of crude oil and gas; defined as the 11-year moving average, comprising the current price, actual prices for the previous 5 years, and projected prices for the next 5 years.

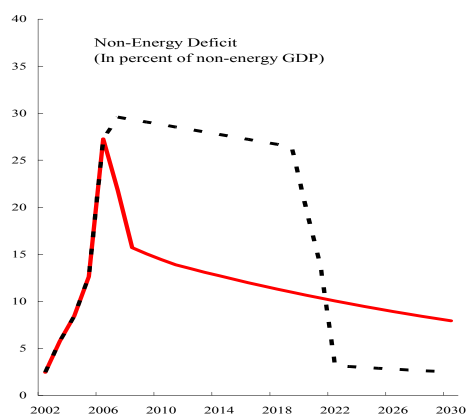
Box 3. Medium-Term Fiscal Sustainability and Policy Options[1/]

Trinidad and Tobago faces the challenge of managing its energy wealth so as to prevent the need for drastic fiscal policy reversals once reserves are depleted. Achieving this objective requires accumulating substantial net assets, while energy revenues last, to smooth out public expenditure over the medium term and beyond the exhaustion of energy reserves. Devising a strategy to achieve this objective is a priority given that energy reserves will be exhausted in about 20 years at current extraction rates.

Fiscal sustainability exercises indicate that the nonenergy deficit is already running above the level that could be sustained over the medium term. The exercise assumes: (i) an annual real return on net assets of 4 percent; (ii) that proven, probable and possible reserves will be extracted respectively at 100, 75 and 50 percent probabilities; (iii) that the government take from the energy sector is about 27 percent of total production of crude oil and gas; and, (iv) that oil and gas prices follow the projections from the IMF World Economic Outlook until 2011 after which they converge on a downward path to a long-term value of US$45/barrel (the oil price that has triggered funding of the IRSF). Under these assumptions and based on the sustainable annuity criterion—which estimates a nonenergy deficit in constant Trinidad and Tobago dollars that is sustainable forever—the sustainable nonenergy deficit is about 18 percent of current nonenergy GDP or 10 percent of current GDP.[2/] The nonenergy deficit has rapidly increased in recent years and is projected to reach over 15 percent of GDP by the end of this fiscal year.

Maintaining the nonenergy deficit at current levels would require a drastic fiscal adjustment by 2020 when energy revenues are near exhaustion and accumulated assets are not enough to finance any further deficits. On the other hand, aligning the nonenergy deficit with a level compatible with medium- term sustainability entails reducing it from 27 percent of nonenergy GDP in FY 2005/06 to about 16 percent of nonenergy GDP in FY 2007/08, and keeping it constant in real terms thereafter. In this scenario, the government would accumulate net assets of about 200 percent of nonenergy GDP by 2020, which will finance a nonenergy deficit averaging 9 percent of nonenergy GDP between 2021 and 2030.





[1] A companion Selected Issues Paper discusses alternative criteria to define medium term fiscal sustainability.

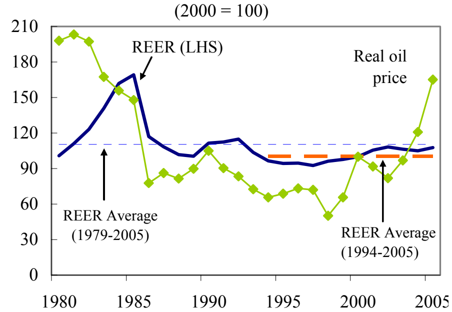
[2] This result is lower than that estimated during the 2005 Article IV Consultations which found the sustainable non-energy deficit to be 13½ percent of current GDP. This reflects several differences in the recent sustainability exercise, including: (i) the use of varying extraction probabilities; (ii) a lower government take on energy output over the projection period in line with recent history; (iii) upward revisions to GDP, and (iv) more conservative medium term energy prices. The impact of these changes was partially offset by higher energy prices until 2011 (as projected in the WEO).

Box 4. Real Exchange Rate Developments

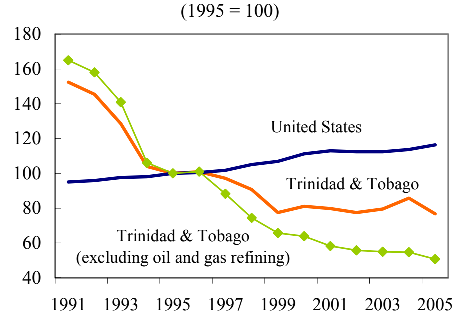
Data suggest that the economy remains highly competitive due to large labor productivity gains that have exceeded wage increases.

- **The CPI-based real effective exchange rate (REER) has remained at about its long run average**. As of June 2006 the real exchange rate was 12 percent above the 10-year average and in line with the 1979–2005 average. Even though nontradable price inflation (excluding utility prices) has been around 3–3½ percent for the past year and a half, it has been rising in recent months, posing appreciation risks going forward.
- **Large labor productivity gains and subdued wage increases have reduced unit labor costs but wage pressures might be mounting**. Unit labor costs are approximately 20 percent below the level of 10 years ago and have fallen sharply (34 percent) with respect to unit labor costs of the United States. ULCs in the nonenergy sector have declined even faster than for the economy as a whole. However, tight labor markets and an economy growing above potential suggest wages may start to rise soon. Moreover, there are reports of nonwage benefits being on the rise.
- **The stability of the CPI-based REER coupled with lower relative ULCs means that profitability in Trinidad and Tobago has improved substantially over the past 10 years, particularly in the nonenergy sector**.
- **The nonfuel export performance has been strong, suggesting it is highly competitive**. Nonfuel exports have grown at double-digits on average in recent years and Trinidad and Tobago has doubled its share of world exports since 1999, with nonfuel exports explaining close to one-quarter of that improvement. Moreover, nonenergy GDP grew on average over 6 percent per year in the last five years.

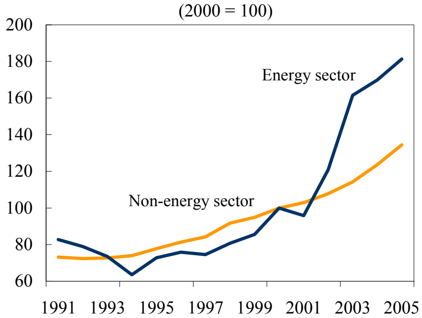
Real Oil Price and the Real Effective Exchange Rate
(2000 = 100)



Industrial Unit Labor Costs in US$
(1995 = 100)



Real GDP
(2000 = 100)



Exports

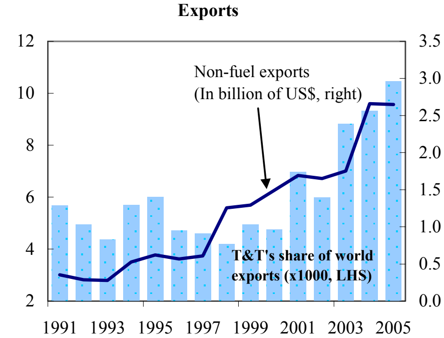
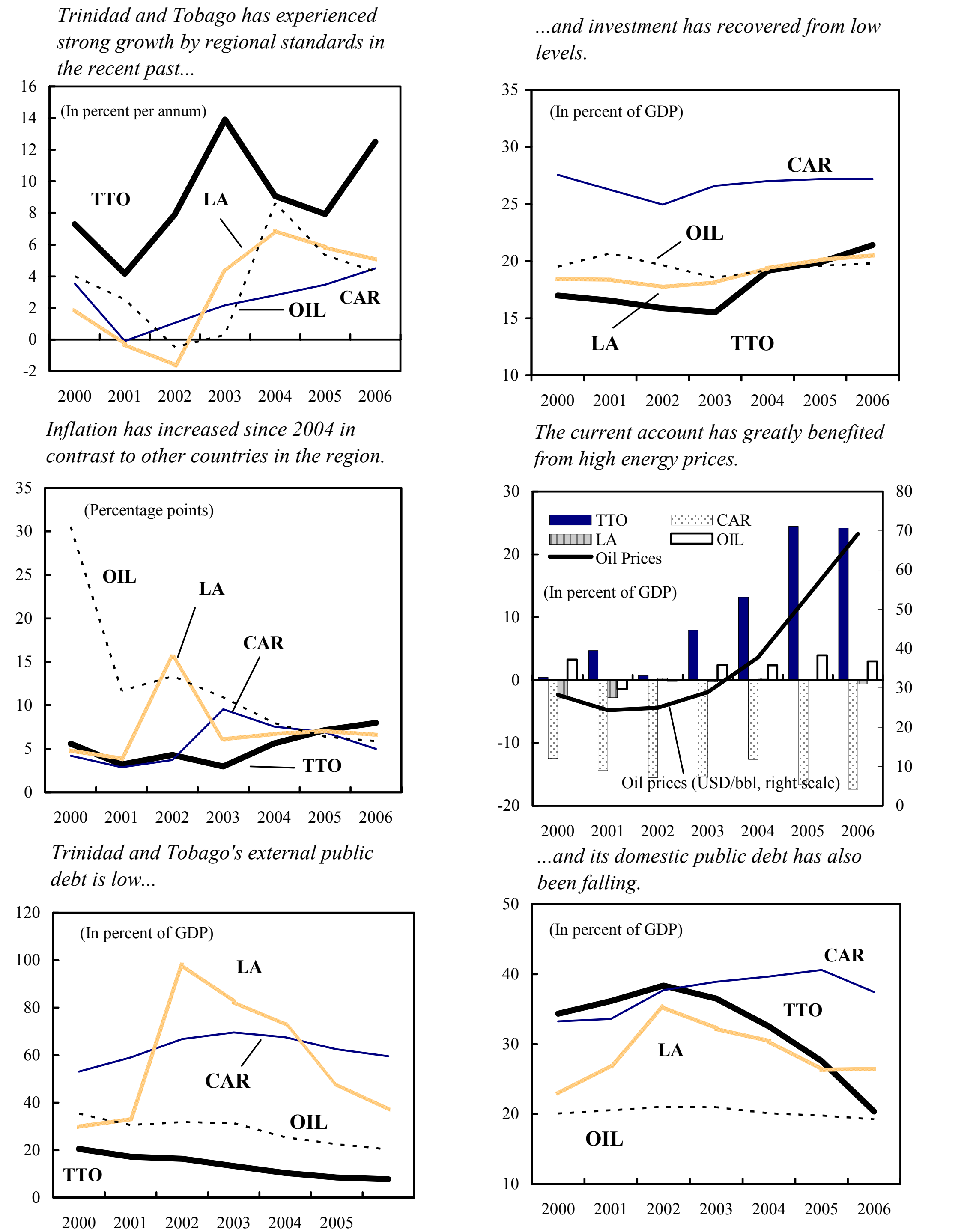


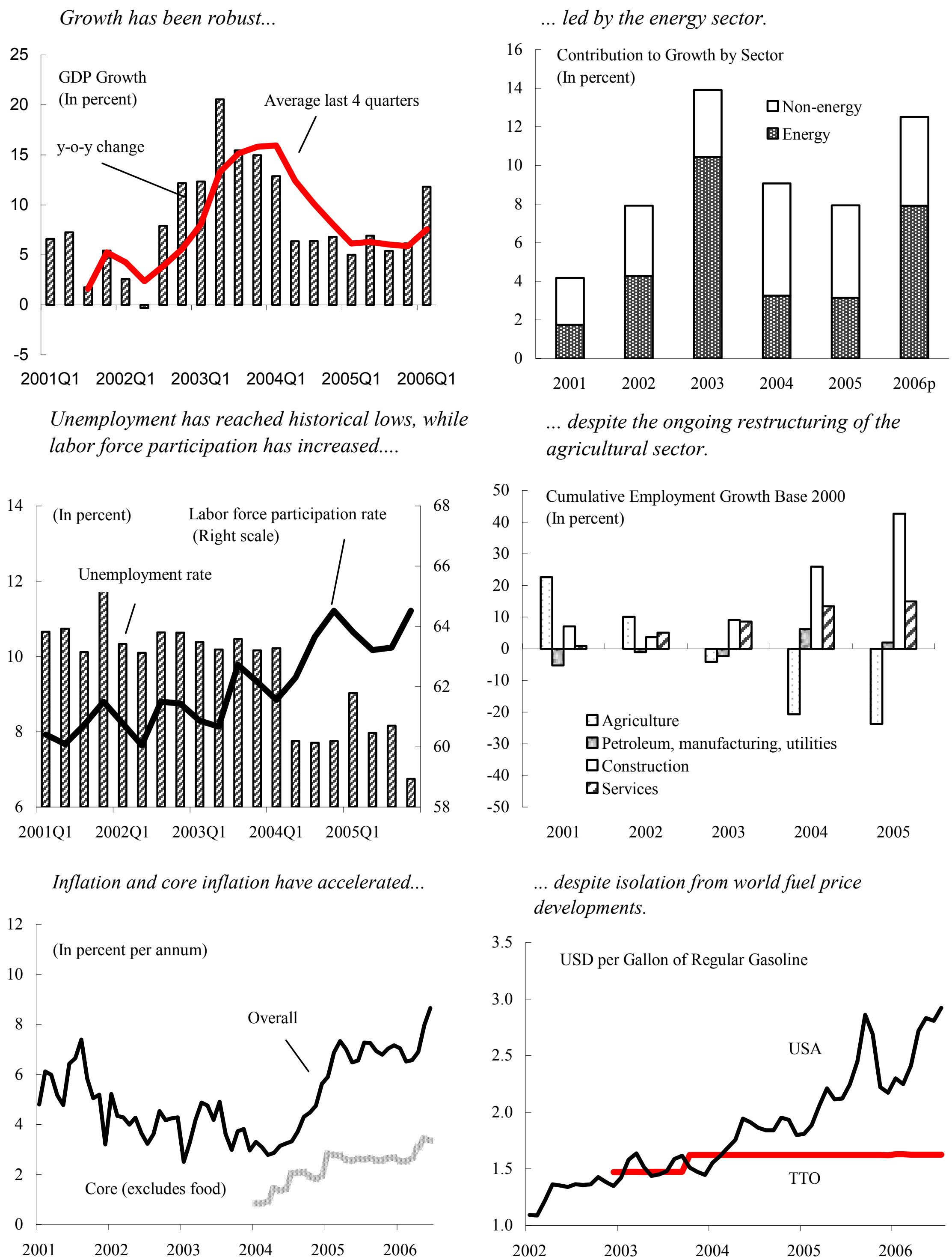
Figure 1. Trinidad and Tobago: Macroeconomic Performance in a Regional Context 1/



Source: Fund staff projections.

1/ The comparison includes Trinidad and Tobago (TTO) and the following regions or groups of countries: the Caribbean (CAR; including Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St.Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), oil-producing countries in Latin America (OIL; including Colombia, Ecuador, Mexico, and Venezuela), and other Latin American economies (LA; including Argentina, Brazil, Chile, Costa Rica, Peru, and Uruguay).

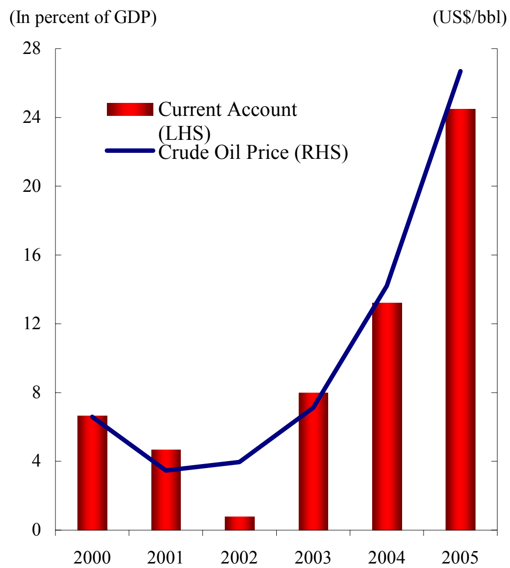
Figure 2. Trinidad and Tobago: Real Sector Developments, 2001–06



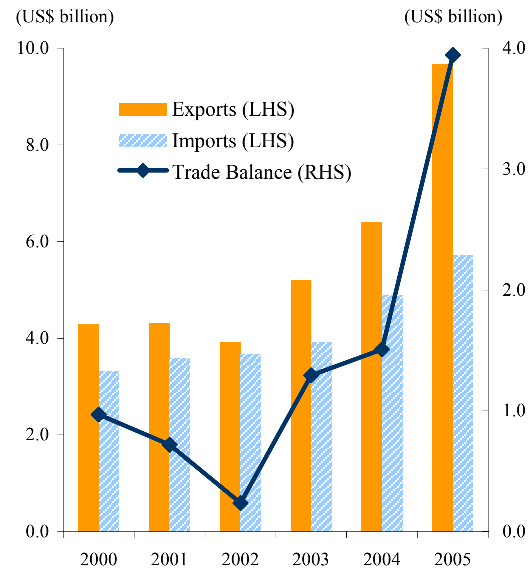
Sources: Trinidad and Tobago authorities; and Fund staff calculations.

Figure 3. Trinidad and Tobago: External Developments

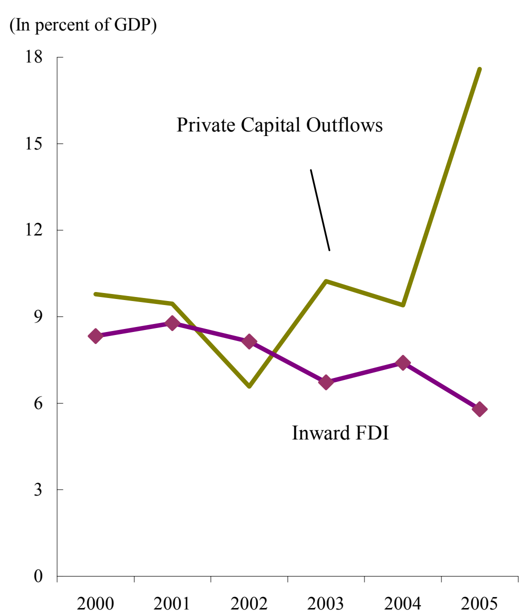
The current account surplus has increased sharply driven largely by rising energy prices...



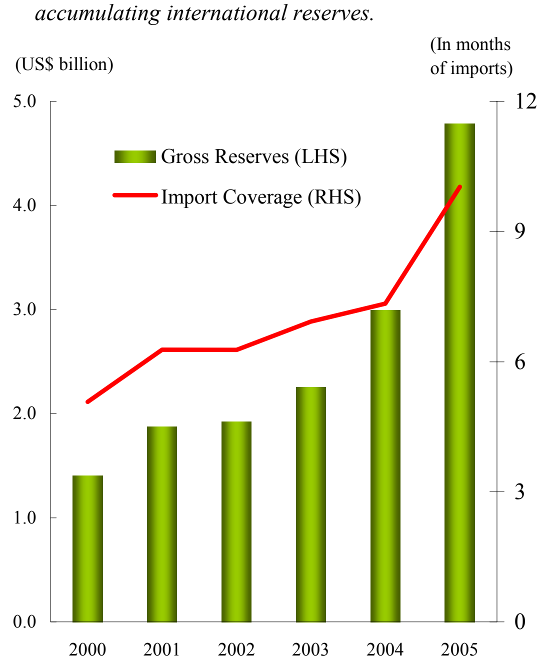
...as reflected by surging energy exports that have more than offset strong import growth.



Despite rapidly rising portfolio outflows that have outpaced healthy FDI inflows ...



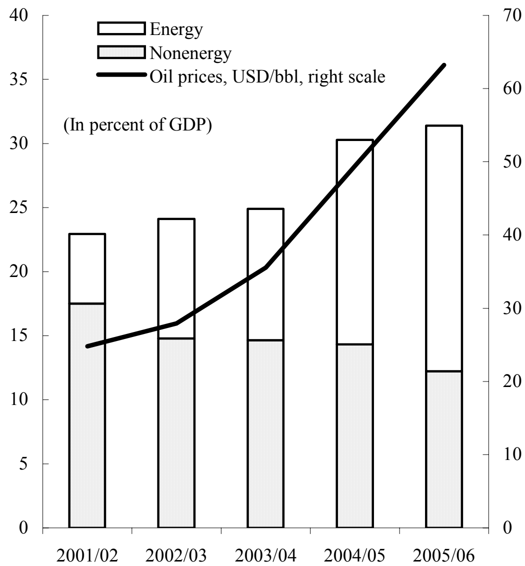
..the Central Bank has been rapidly accumulating international reserves.



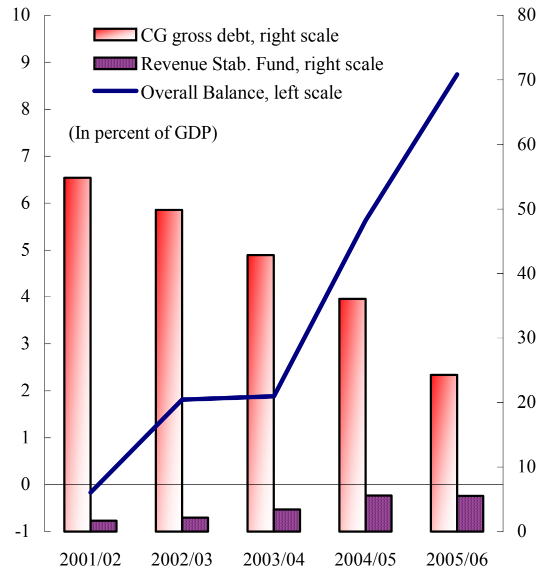
Sources: Trinidad and Tobago authorities; and Fund staff projections.

Figure 4. Trinidad and Tobago: Fiscal Developments-Central Government, 2001/02–2005/06 1/

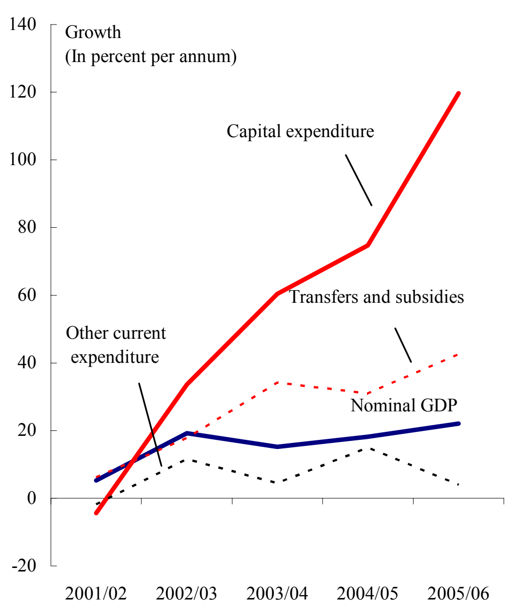
High energy prices have boosted government revenue, but tax cuts to the nonenergy sector have increased the reliance on energy revenues.



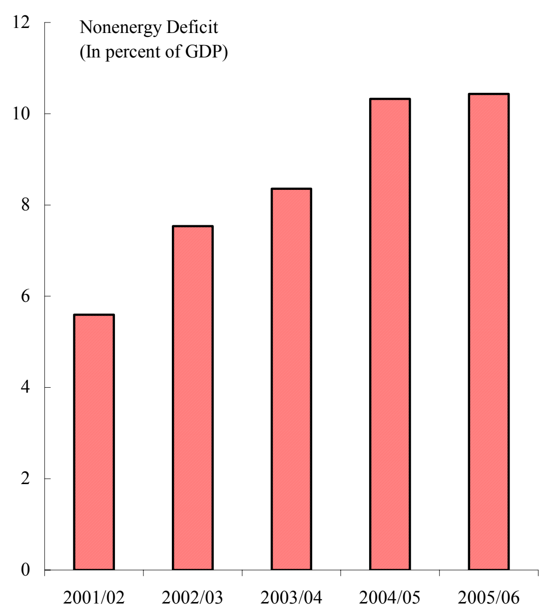
The fiscal accounts and the government balance sheet have improved...



... despite a rapid increase in expenditure, especially public investment and transfers and subsidies,...



... and a sharp deterioration in the nonenergy deficit.

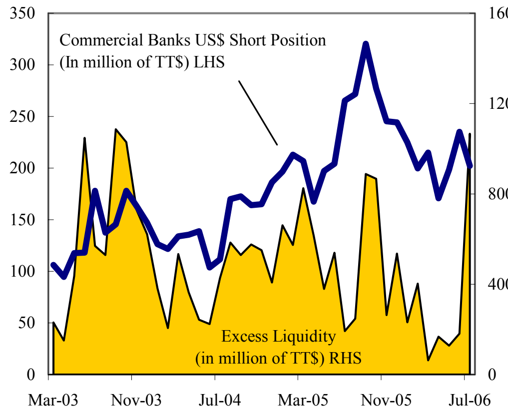


Sources: Trinidad and Tobago authorities; and Fund staff projections.

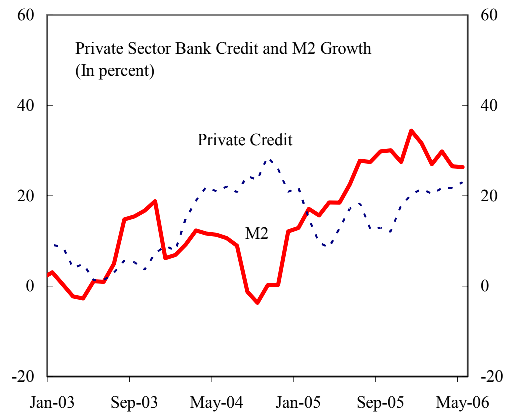
1/ For FY 2005/06, ratios to GDP refer to annualized figures for the period from October 2005 to June 2006; and expenditure growth rates refer to comparison between the first nine months of FY 2005/06 to same period in FY 2004/05.

Figure 5: Trinidad and Tobago: Monetary and Financial Developments

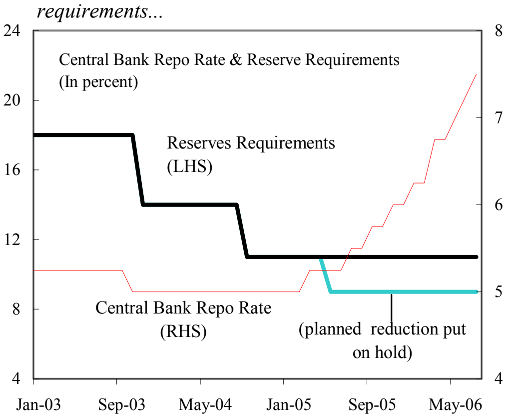
The monetization of the government's energy receipts has led to excess liquidity,...



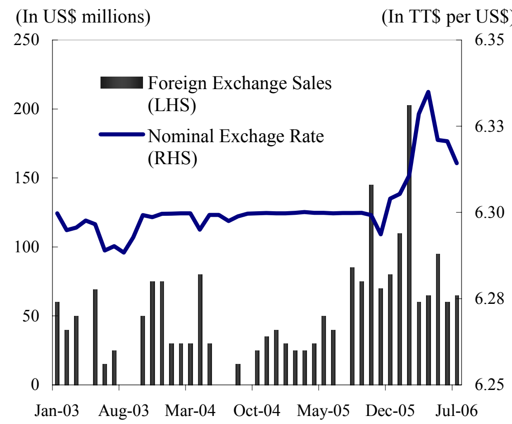
...pressures on the exchage rate, and a rapid expansion of money and credit.



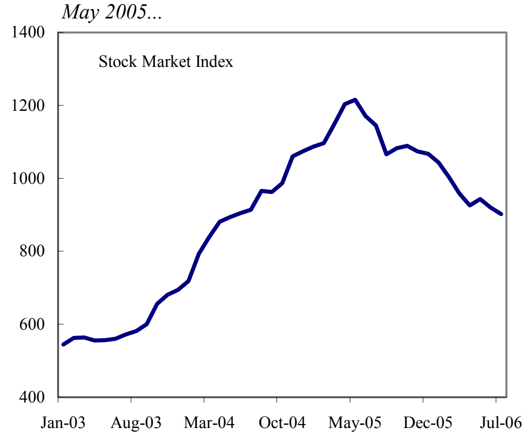
In response, the central bank increased the repo rate, put on hold a scheduled reduction of reserve requirements...



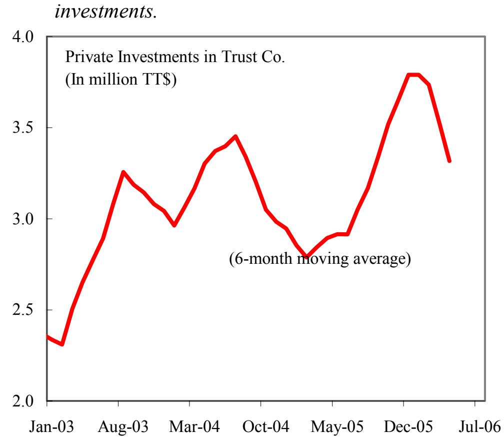
...and has intevened heavily in the foreign exchange market since October .



The stock market has been on a steady decline since May 2005...

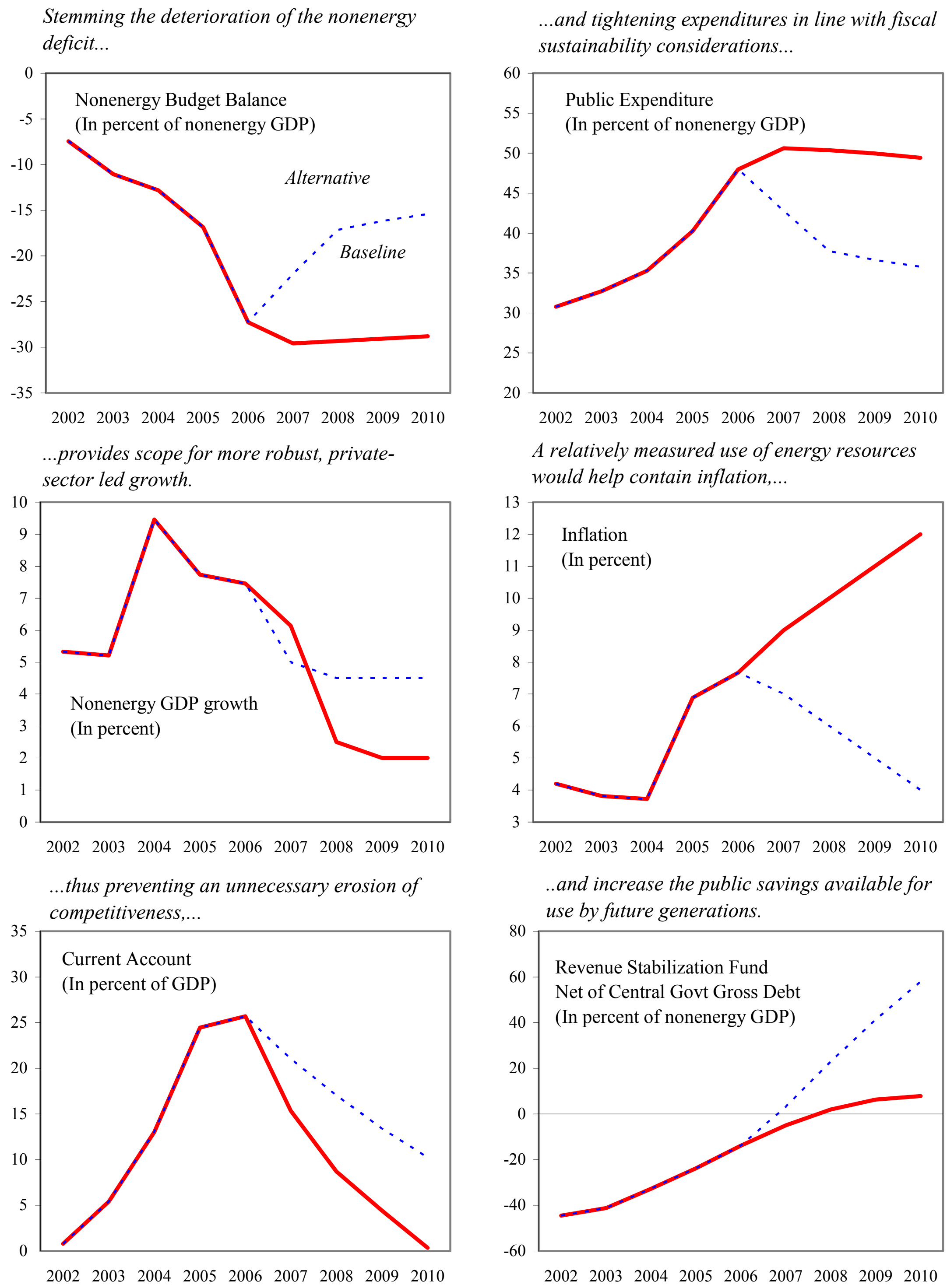


... slowing down the expansion of mutual fund investments.



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

Figure 6. Trinidad and Tobago: Alternative Medium-Term Macroeconomic Outlook



Source: Fund staff estimates.

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

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2005)	12,419	Income share of highest 10 percent (1992)	29.9
Population (millions, 2004)	1.3	Income share of lowest 20 percent (1992)	5.5
Life expectancy at birth (years, 2004)	70	Access to safe water (percent, 2002)	91.0
Under 5 mortality rate (per thousand, 2004)	20		

II. Economic Indicators

					Est.	Proj.	
	2001	2002	2003	2004	2005	2006	2007
	(Annual percentage changes, unless otherwise indicated)						
Output and prices							
Real GDP	4.2	7.9	13.9	9.1	7.9	12.5	6.9
Energy	5.6	13.5	31.3	8.4	8.2	20.7	8.1
Nonenergy	3.5	5.3	5.2	9.5	7.7	7.5	6.1
GDP deflator	10.7	-5.1	9.5	3.2	11.1	9.3	7.8
Consumer prices							
End-of-period	3.2	4.3	3.0	5.6	7.2	8.0	10.0
Average	5.5	4.2	3.8	3.7	6.9	7.7	9.0
Unemployment rate (period average)	10.8	10.4	10.3	8.4	8.0	...	...
Real effective exchange rate	105.6	108.2	106.4	105.1	107.8	...	...
	(In percent of fiscal year GDP, unless otherwise indicated)						
Nonfinancial public sector finances (NFPS) 1/							
Central government overall balance	0.6	-0.2	1.8	1.9	5.6	3.8	3.8
Budgetary revenue	24.8	23.0	24.1	24.9	30.3	31.2	31.7
Budgetary expenditure	24.2	23.1	22.3	23.0	24.7	27.3	28.0
Of which : interest expenditure	4.1	3.7	3.6	2.9	2.6	2.1	1.3
Of which : capital expenditure	1.4	1.2	1.4	1.9	2.9	3.4	3.8
Overall statutory bodies balance	-1.1	-0.8	-0.6	-1.0	-0.9	0.3	0.5
Overall public enterprises balance	-1.1	-2.3	0.5	1.0	-1.2	-3.3	-3.3
Overall NFPS balance	-1.6	-3.2	1.8	1.9	3.5	0.8	1.0
Central government debt 2/	37.1	35.1	30.3	24.8	20.2	14.6	10.5
Public sector debt 2/	53.4	54.8	49.9	42.8	36.1	28.1	24.1
	(In percent of GDP, unless otherwise indicated)						
Savings and investment							
Gross domestic investment	18.1	17.8	16.2	17.8	17.1	19.7	27.0
Of which: public investment	5.4	3.2	3.4	5.3	7.2	9.1	9.2
Gross national saving	22.8	18.6	24.1	31.2	41.6	45.4	42.3
Of which: Public saving	3.2	1.3	4.8	6.8	9.4	8.9	9.0
External sector							
Current account balance	4.7	0.8	8.0	13.3	24.5	25.7	15.4
Of which							
Exports	45.3	40.4	43.3	47.3	59.7	63.3	58.5
Imports	37.7	37.9	32.5	36.1	35.3	36.5	41.5
External public sector debt	17.2	16.4	13.4	10.3	8.5	7.8	6.6
Gross official reserves (in US$ million)	1,876	1,924	2,258	2,993	4,787	7,787	10,787
In months of imports of goods	6.3	6.3	6.9	7.4	10.0	12.9	13.6
In percent of M3	56.5	56.9	65.9	73.7	89.5	115.7	138.4
	(Percentage changes in relation to beginning-of-period M3)						
Banking system							
Net foreign assets	9.1	2.5	5.7	36.4	42.6	56.8	44.6
Net domestic assets	3.5	0.2	-3.7	-17.6	-11.0	-31.0	-28.8
Of which: credit to the private sector	3.7	3.1	2.6	18.2	21.6	12.4	8.0
Broad money (M3)	12.6	2.7	2.0	18.8	31.6	25.9	15.8
M3 velocity	2.9	2.9	3.5	3.3	3.0	3.0	3.0
Memorandum items:							
Nominal GDP (in billions of TT$)	59.2	60.7	75.7	85.2	102.1	125.6	144.9
Exchange rate (TT$/US$)	6.2	6.2	6.3	6.3	6.3	...	...
Oil export price (US$/barrel)	24.3	25.0	28.9	37.8	53.4	69.2	75.5
Nonenergy budget deficit (in percent of GDP) 3/	8.1	5.6	7.5	8.4	10.3	15.5	16.3
Public expenditure (in percent of nonenergy GDP)	33.3	30.8	32.7	35.3	40.3	46.8	45.5

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

1/ The data refers to fiscal years 2001/2002–2006/07.

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

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

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

	2000/01	2001/02	2002/03	2003/04	2004/05	Budget 2005/06	QI-III Est. 2/ 2005/06	Proj 3/ 2005/06	Proj 3/ 2006/07
	(In millions of Trinidad and Tobago dollars)								
Revenue	14,200	13,860	17,350	20,629	29,649	33,814	27,736	37,295	44,458
Energy	4,951	3,273	6,720	8,484	15,614	21,230	16,940	23,182	28,185
Nonenergy	9,249	10,588	10,629	12,145	14,035	12,584	10,796	14,112	16,273
Expenditure	13,860	13,961	16,048	19,068	24,141	31,941	20,015	32,701	39,157
Current	13,078	13,214	15,050	17,466	21,342	28,456	17,732	28,594	33,874
Wages and salaries	4,284	4,225	4,548	4,849	5,309	6,521	4,099	5,746	7,681
Goods and services	1,768	1,742	2,038	2,375	3,172	4,512	2,113	4,357	5,096
Interest payments	2,330	2,260	2,592	2,364	2,542	2,625	1,854	2,471	1,755
Transfer and subsidies	4,697	4,988	5,872	7,878	10,320	14,799	9,665	16,021	19,341
Capital expenditure and net lending	782	747	998	1,601	2,799	3,485	2,283	4,107	5,284
Overall non-energy balance	**-4,611**	**-3,373**	**-5,419**	**-6,923**	**-10,106**	**-19,357**	**-9,218**	**-18,588**	**-22,885**
Overall balance	**339**	**-101**	**1,301**	**1,561**	**5,508**	**1,873**	**7,721**	**4,594**	**5,300**
Total financing	**-339**	**101**	**-1,301**	**-1,561**	**-5,508**	**-1,873**	**-7,721**	**-4,594**	**-5,300**
Foreign financing	-2	-194	12	-357	-1,273	2,308	-123	-213	-1,413
Domestic financing	-338	295	-1,313	-1,204	-4,235	-4,180	-7,598	-4,382	-3,887
Of which : transfer to Revenue Stabilization Fund	-546	-600	-497	-1,263	-2,593	-1,863	-1,000	-2,463	-2,500
	(In percent of GDP)								
Revenue	**24.8**	**23.0**	**24.1**	**24.9**	**30.3**	**28.2**	**31.4**	**31.2**	**31.7**
Energy	8.6	5.4	9.3	10.2	15.9	17.7	19.2	19.4	20.1
Nonenergy	16.1	17.6	14.8	14.7	14.3	10.5	12.2	11.8	11.6
Expenditure	**24.2**	**23.1**	**22.3**	**23.0**	**24.7**	**26.7**	**22.7**	**27.3**	**28.0**
Current	22.8	21.9	20.9	21.1	21.8	23.8	20.1	23.9	24.2
Wages and salaries	7.5	7.0	6.3	5.9	5.4	5.4	4.6	4.8	5.5
Goods and services	3.1	2.9	2.8	2.9	3.2	3.8	2.4	3.6	3.6
Interest payments	4.1	3.7	3.6	2.9	2.6	2.2	2.1	2.1	1.3
Transfers and subsidies	8.2	8.3	8.2	9.5	10.5	12.4	10.9	13.4	13.8
Capital expenditure and net lending	1.4	1.2	1.4	1.9	2.9	2.9	2.6	3.4	3.8
Overall non-energy balance	**-8.1**	**-5.6**	**-7.5**	**-8.4**	**-10.3**	**-16.2**	**-10.4**	**-15.5**	**-16.3**
Overall balance	**0.6**	**-0.2**	**1.8**	**1.9**	**5.6**	**1.6**	**8.7**	**3.8**	**3.8**
Total financing	**-0.6**	**0.2**	**-1.8**	**-1.9**	**-5.6**	**-1.6**	**-8.7**	**-3.8**	**-3.8**
Foreign financing	0.0	-0.3	0.0	-0.4	-1.3	1.9	-0.1	-0.2	-1.0
Domestic financing	-0.6	0.5	-1.8	-1.5	-4.3	-3.5	-8.6	-3.7	-2.8
Of which : transfer to Revenue Stabilization Fund	-1.0	-1.0	-0.7	-1.5	-2.6	-1.6	-1.1	-2.1	-1.8
Memorandum items:									
Central government debt 4/	37.1	35.1	30.3	24.8	20.2	16.4	10.8	14.6	10.5
Deposits in the Interim Revenue Stabilization Fund	1.8	1.7	2.2	3.4	5.6	...	5.4	6.8	7.8
Non-energy revenue (in percent of non-energy GDP)	22.1	23.3	21.7	22.5	23.4	18.4	21.3	20.7	21.0
Expenditure (in percent of non-energy GDP)	33.2	30.7	32.7	35.3	40.2	46.8	39.6	47.9	50.5
Overall non-energy balance (in percent of non-energy GDP)	-11.0	-7.4	-11.0	-12.8	-16.8	-28.3	-18.2	-27.2	-29.5
Oil price (U.S. dollar per barrel) 6/	25.3	24.8	27.9	35.5	49.5	63.2	63.2	63.2	68.9

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

1/ Fiscal year from October to September.
2/ Based on GDP for QI-III
3/ Fund staff projection.
4/ Refers to gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, in the context of the Interim Revenue Stabilization Fund, and accordingly lower net debt.
5/ World Economic Outlook; fiscal year basis.

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

	2000/01	2001/02	2002/03	2003/04	2004/05	Proj. 2005/06	2006/07
I. Nonfinancial Public Sector							
Current balance	3.2	-0.9	3.6	4.6	8.4	7.7	7.7
Capital revenue and transfers	2.3	1.5	1.9	3.0	3.1	3.9	4.1
Capital expenditure and net lending	7.0	3.8	3.7	5.6	8.0	10.8	10.7
Overall balance	**-1.6**	**-3.2**	**1.8**	**1.9**	**3.5**	**0.8**	**1.0**
Public sector debt 1/ 2/	**53.4**	**54.8**	**49.9**	**42.8**	**36.1**	**29.9**	**24.1**
II. Central Government							
Current balance	1.9	1.0	3.2	3.8	8.5	7.2	7.5
Current revenue	24.7	22.9	24.1	24.9	30.3	31.1	31.7
Current expenditure	22.8	21.9	20.9	21.1	21.8	23.9	24.2
Capital revenue and grants	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	1.4	1.2	1.4	1.9	2.9	3.4	3.8
Overall balance	**0.6**	**-0.2**	**1.8**	**1.9**	**5.6**	**3.8**	**3.8**
Central government debt 1/ 2/	**37.1**	**35.1**	**30.3**	**24.8**	**20.2**	**14.6**	**10.5**
III. Statutory Bodies 4/							
Current balance	-0.4	-0.8	-0.9	-1.3	-1.2	-0.9	-0.5
Current revenue	3.6	3.3	3.2	2.9	2.6	2.3	2.5
Current expenditure	4.1	4.2	4.2	4.1	3.7	3.2	3.0
Capital revenue and transfers	0.7	0.5	0.6	0.5	1.0	1.6	1.9
Capital expenditure and net lending	1.3	0.5	0.3	0.2	0.6	0.4	0.9
Overall balance	**-1.1**	**-0.8**	**-0.6**	**-1.0**	**-0.9**	**0.3**	**0.5**
Debt 3/	**8.8**	**8.5**	**7.7**	**8.0**	**7.8**	**7.3**	**5.6**
IV. Public Enterprises 5/							
Current balance	1.8	-1.0	1.3	2.0	1.1	1.4	0.6
Current revenue	37.2	28.3	32.0	29.5	35.1	29.9	27.7
Current expenditure	35.5	29.3	30.6	27.5	34.0	28.6	27.0
Capital revenue and transfers	1.5	0.9	1.2	2.4	2.2	2.3	2.2
Capital expenditure and net lending	4.4	2.1	2.1	3.5	4.5	7.0	6.1
Overall balance	**-1.1**	**-2.3**	**0.5**	**1.0**	**-1.2**	**-3.3**	**-3.3**
Debt 3/	**7.5**	**11.2**	**11.9**	**10.0**	**8.1**	**6.2**	**8.1**
Memorandum item:							
Nominal GDP (in TT$ million, FY)	57,272	60,308	71,927	82,827	97,898	119,725	140,036

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, in the context of the Interim Revenue Stabilization Fund, and accordingly lower net debt.
2/ Includes BOLT and leases.
3/ Refers to gross debt, and it includes government guaranteed debt and letters of comfort.
4/ Includes Public Transport Company, Electricity Company, Water Authority, Airport Authority and Port Authority.
5/ 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 Balance of Payments

	2001	2002	2003	2004	Prel. 2005	Proj. 2006	Proj. 2007
	(In millions of U.S. dollars, unless otherwise indicated)						
Current account balance	**449**	**76**	**961**	**1,803**	**3,964**	**5,121**	**3,533**
Trade balance	722	238	1,293	1,524	3,939	5,346	3,900
Exports	4,304	3,920	5,205	6,403	9,664	12,613	13,446
Petroleum crude and refined	1,735	1,768	2,386	1,643	4,418	5,725	6,143
Gas	820	459	951	1,978	2,371	2,755	2,848
Petrochemicals	823	647	907	1,522	1,807	2,915	3,134
Other	926	1,046	962	1,260	1,068	1,219	1,321
Imports	3,583	3,683	3,912	4,879	5,725	7,267	9,546
Fuel imports	925	1,018	1,064	1,181	1,992	2,597	2,678
Capital	1,048	1,165	1,053	1,747	1,125	1,998	3,298
Other	1,609	1,499	1,794	1,951	2,608	2,673	3,571
Services and transfers (net)	-273	-161	-333	279	25	-225	-367
Nonfactor services (net)	233	264	314	671	527	585	551
Factor income (net)	-539	-480	-705	-446	-554	-883	-1,004
Current transfers (net)	33	55	59	54	53	73	87
Capital and financial account (net) 1/	**22**	**-27**	**-626**	**-1,068**	**-2,169**	**-2,121**	**-533**
Official, medium and long-term (net)	-49	-51	-74	-230	-45	169	-21
Disbursements	27	18	16	25	59	400	33
Amortizations	-76	-69	-90	-255	-104	-231	-54
Direct Investment (net)	777	684	583	973	599	584	2,151
Inward	835	791	808	1,001	940	999	2,638
Outward	-58	-106	-225	-29	-341	-415	-487
Commercial banks (net)	199	-22	94	-524	97	111	126
Other private sector capital (net) 1/	-905	-639	-1,230	-1,286	-2,820	-2,985	-2,788
Of which: net errors and omissions	-345	-424	-121	-229	-693	0	0
Overall balance	**470**	**49**	**334**	**735**	**1,795**	**3,000**	**3,000**
Change in gross official reserves (increase -)	-470	-49	-334	-735	-1,795	-3,000	-3,000
	(In percent of GDP unless otherwise specified)						
Memorandum items:							
Current balance	4.7	0.8	8.0	13.3	24.5	25.7	15.4
Exports of goods	45.3	40.4	43.3	47.3	59.6	63.3	58.5
Imports of goods	37.7	37.9	32.5	36.1	35.3	36.5	41.5
Gross international reserves (millions of US$, end of period)	1,876	1,924	2,258	2,993	4,787	7,787	10,787
Of which: Revenue Stabilization Fund	163	162	249	452	871	1,287	1,722
Oil prices (WEO, spot crude)	24.3	25.0	28.9	37.8	53.4	69.2	75.5
External public sector debt	17.2	16.4	13.4	10.3	8.5	7.8	6.6
GDP (US $)	9,505	9,709	12,022	13,527	16,212	19,926	22,982

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

1/ Includes net errors and omissions.

Table 5. Trinidad and Tobago: Monetary Survey

	2001	2002	2003	2004	2005	Proj. 2006	Proj. 2007
	(In millions of Trinidad and Tobago dollars)						
Net foreign assets	**12,341**	**12,856**	**14,065**	**21,901**	**32,808**	**51,957**	**70,866**
Net domestic assets	**8,237**	**8,279**	**7,486**	**3,691**	**882**	**-9,552**	**-21,780**
Net credit to public sector	-3,261	-2,825	-4,925	-10,243	-16,295	-31,434	-50,214
Central government	-3,427	-3,797	-5,041	-10,115	-16,939	-31,583	-50,363
Rest of the public sector	166	972	116	-129	644	149	149
Credit to private sector	14,045	14,691	15,234	19,147	24,662	28,855	32,230
Other items (net)	-2,547	-3,587	-2,823	-5,213	-7,486	-6,972	-3,797
Liabilities to private sector (M3)	**20,578**	**21,135**	**21,551**	**25,592**	**33,689**	**42,405**	**49,086**
Currency in circulation	1,373	1,502	1,709	1,957	2,425	3,053	3,534
Demand deposits	4,238	5,393	5,595	6,866	9,069	11,416	13,214
Time deposits	5,318	4,222	3,410	3,858	4,722	5,944	6,880
Savings deposits	8,309	8,685	9,701	11,111	12,727	16,019	18,543
Fund-raising instruments 1/	1,340	1,333	1,136	1,800	1,674	2,058	2,374
	(Changes in percent of beginning-of-period M3)						
Net foreign assets	**9.1**	**2.5**	**5.7**	**36.4**	**42.6**	**56.8**	**44.6**
Net domestic assets	**3.5**	**0.2**	**-3.7**	**-17.6**	**-11.0**	**-31.0**	**-28.8**
Net credit to public sector	-7.2	2.1	-9.9	-24.7	-23.6	-44.9	-44.3
Of which : central government	-7.4	-1.8	-5.9	-23.5	-26.7	-43.5	-44.3
Credit to private sector	3.7	3.1	2.6	18.2	21.6	12.4	8.0
Other items (net)	7.1	-5.1	3.6	-11.1	-8.9	1.5	7.5
Liabilities to private sector (M3)	**12.6**	**2.7**	**2.0**	**18.8**	**31.6**	**25.9**	**15.8**
Memorandum items:							
Credit to private sector (12-month increase)	5.0	4.6	3.7	25.7	28.8	17.0	11.7
M3 Velocity	2.9	2.9	3.5	3.3	3.0	3.0	3.0

Source: Central Bank of Trinidad and Tobago.

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

Table 6. Trinidad and Tobago: Summary Accounts of the Central Bank

	2001	2002	2003	2004	2005	Proj. 2006	2007
	(In millions of Trinidad and Tobago dollars)						
Net foreign assets	12,140	12,517	14,315	18,929	30,447	49,597	68,505
Net international reserves	11,631	11,978	13,834	18,487	29,813	48,963	67,871
Other foreign assets, net	509	539	481	442	634	634	634
Net domestic assets	-6,326	-6,932	-8,433	-13,144	-22,412	-39,716	-57,110
Net credit to public sector	-5,874	-6,336	-8,000	-12,718	-20,437	-37,639	-59,732
Of which: Revenue Stabilization Fund	-1,015	-1,015	-1,567	-2,846	-5,485	-8,113	-10,856
Central government	-6,113	-6,502	-8,156	-12,871	-20,586	-37,788	-59,881
Rest of public sector	239	167	156	154	149	149	149
Net claims on financial institutions	380	380	380	380	380	380	380
Other items (net)	-832	-976	-813	-806	-2,355	-2,457	2,243
Reserve money	5,814	5,585	5,882	5,785	8,035	9,880	11,396
Currency in circulation	1,843	2,005	2,295	2,554	2,991	3,679	4,243
Deposits of commercial banks	3,466	3,072	2,955	2,783	4,673	5,239	6,058
Deposits of nonbank financial institutions	505	509	632	449	371	456	526
	(Changes in percent of beginning-of-period reserve money)						
Net international reserves	56.3	6.0	33.2	79.1	195.8	238.3	191.4
Net domestic assets	-43.8	-10.4	-26.9	-80.1	-160.2	-215.4	-176.0
Net credit to central government	-40.0	-6.7	-29.6	-80.2	-133.4	-214.1	-223.6
Reserve money	12.5	-3.9	5.3	-1.6	38.9	23.0	15.3
Memorandum items:							
Blocked account of government 1/	-2,334	-2,677	-3,100	-6,105	-7,407	-24,459	-46,552
NIR (in millions of U.S. dollars)	1,858	1,907	2,242	2,977	4,730	7,768	10,768

Sources: Central Bank of Trinidad and Tobago; and Fund staff estimates.

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

Table 7. Trinidad and Tobago: Illustrative Medium-Term Scenarios

		Est.	Proj.				
	2004	2005	2006	2007	2008	2009	2010
Macroeconomic parameters							
Oil prices (U.S. dollars per barrel)	37.8	53.4	69.2	75.5	74.3	72.3	70.5
			I. Baseline Scenario				
			(Annual percentage changes)				
Real sector							
Real GDP	9.1	7.9	12.5	6.9	4.5	4.3	3.1
Energy	8.4	8.2	20.7	8.1	7.3	7.4	4.5
Nonenergy	9.5	7.7	7.5	6.1	2.5	2.0	2.0
Average CPI	3.7	6.9	7.7	9.0	10.0	11.0	12.0
GDP deflator	3.2	11.1	9.3	7.8	4.2	4.3	4.6
			(In percent of GDP, unless otherwise indicated)				
Gross domestic investment	17.8	17.1	19.7	27.0	27.2	25.9	23.9
Gross national saving	30.9	41.6	45.4	42.3	36.1	30.4	23.8
External sector							
Current account balance	13.2	24.5	25.7	15.4	8.9	4.5	0.0
Gross official reserves (in US$ million)	2,993	4,787	7,787	10,787	9,996	8,391	6,078
			(In percent of FY GDP, unless otherwise indicated)				
Central government 1/							
Government revenue	24.9	30.3	31.2	31.7	31.6	31.2	30.6
Energy revenue	10.2	15.9	19.4	20.1	19.8	19.2	18.3
Government expenditure	23.0	24.7	27.3	28.0	28.3	28.8	29.4
Government budgetary balance	1.9	5.6	3.8	3.8	3.4	2.5	1.1
Of which: nonenergy	-8.4	-10.3	-15.5	-16.3	-16.5	-16.8	-17.2
Nonfinancial public sector balance	1.9	3.5	0.8	1.0	0.4	-0.8	-2.5
Government and government-guaranteed debt 2/	42.8	36.1	28.1	24.1	23.0	22.8	23.9
Revenue Stabilization Fund	3.4	5.6	6.8	7.8	8.9	9.3	9.1
Memo Items							
Nominal GDP (billions of TT dollars)	85.2	102.1	125.6	144.9	157.7	171.6	185.1
Nonenergy deficit (in percent of non-energy GDP)	-12.8	-16.9	-27.3	-29.6	-29.5	-29.3	-28.9
Government expenditure (in percent of non-energy GDP)	35.3	40.3	48.0	50.6	50.6	50.2	49.6
			II. Sustainable Scenario				
			(Annual percentage changes)				
Real sector							
Real GDP	9.1	7.9	12.5	6.3	5.7	5.7	4.5
Energy	8.4	8.2	20.7	8.1	7.3	7.4	4.5
Nonenergy	9.5	7.7	7.5	5.0	4.5	4.5	4.5
Average CPI	3.7	6.9	7.7	7.0	6.0	5.0	4.0
GDP deflator	3.2	11.1	9.3	7.0	2.4	1.4	0.7
			(In percent of GDP, unless otherwise indicated)				
Gross domestic investment	17.8	17.1	19.4	25.7	25.5	24.2	23.8
Gross national saving	30.9	41.6	45.1	46.8	42.5	37.6	34.0
External sector							
Current account balance	13.2	24.5	25.7	21.0	17.0	13.4	10.2
Gross official reserves (in US$ million)	2,993	4,787	7,787	10,787	14,352	17,235	19,633
			(In percent of FY GDP, unless otherwise indicated)				
Central government 1/							
Government revenue	24.9	30.3	31.2	31.8	31.6	31.3	30.9
Energy revenue	10.2	15.9	19.4	20.3	20.2	19.8	19.3
Government expenditure	23.0	24.7	27.3	23.4	20.8	20.5	20.4
Government budgetary balance	1.9	5.6	3.8	8.3	10.8	10.8	10.5
Of which: nonenergy	-8.4	-10.3	-15.5	-12.0	-9.4	-9.0	-8.8
Nonfinancial public sector balance	1.9	3.5	0.8	5.6	8.1	8.2	8.1
Government and government-guaranteed debt 2/	42.8	36.1	28.1	19.8	19.5	20.4	21.5
Revenue Stabilization Fund	3.4	5.6	6.8	7.8	17.0	26.8	36.4
Memorandum items:							
Nominal GDP (billions of TT dollars)	85.2	102.1	125.6	142.9	154.5	165.7	174.3
Nonenergy deficit (in percent of nonenergy GDP)	-12.8	-16.9	-27.3	-22.0	-17.1	-16.2	-15.4
Government expenditure (in percent of nonenergy GDP)	35.3	40.3	48.0	42.8	37.7	36.6	35.8

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

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

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

Table 8. Trinidad and Tobago: External Debt Sustainability Framework, 2001–11

(In percent of GDP, unless otherwise indicated)

		Actual					Projections						Debt-stabilizing non-interest current account 6/
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
1	**Baseline: External debt 1/**	**27.9**	**27.5**	**22.9**	**20.5**	**17.0**	**14.6**	**12.6**	**11.4**	**9.5**	**8.7**	**8.0**	**1.3**
2	Change in external debt	-5.1	-0.4	-4.6	-2.4	-3.5	-2.3	-2.0	-1.3	-1.9	-0.8	-0.7	
3	Identified external debt-creating flows (4+8+9)	-14.1	-5.2	-7.2	-7.8	-17.4	-19.8	-17.8	-8.6	-3.1	0.8	5.3	
4	Current account deficit, excluding interest payments	-6.0	-2.1	-9.0	-14.3	-25.2	-26.2	-15.7	-9.0	-4.7	-0.6	3.8	
5	Deficit in balance of goods and services	-10.0	-5.2	-13.4	-16.2	-27.6	-29.8	-19.4	-14.0	-10.3	-6.3	-1.9	
6	Exports	51.6	46.9	48.5	54.2	65.8	68.8	63.4	59.4	55.8	52.6	48.4	
7	Imports	41.6	41.8	35.1	38.0	38.2	39.0	44.0	45.4	45.5	46.3	46.4	
8	Net non-debt creating capital inflows (negative)	-4.9	-3.8	6.2	8.1	10.5	7.7	-1.5	0.6	1.8	1.5	1.6	
9	Automatic debt dynamics 2/	-3.2	0.7	-4.5	-1.6	-2.7	-1.2	-0.5	-0.3	-0.2	0.0	0.0	
10	Contribution from nominal interest rate	1.3	1.3	1.0	1.0	0.7	0.5	0.4	0.3	0.3	0.3	0.3	
11	Contribution from real GDP growth	-1.2	-2.2	-3.1	-1.8	-1.4	-1.7	-0.9	-0.6	-0.5	-0.3	-0.3	
12	Contribution from price and exchange rate changes 3/	-3.3	1.6	-2.4	-0.7	-2.0	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 4/	9.0	4.8	2.6	5.3	13.9	17.4	15.7	7.4	1.2	-1.6	-6.0	
	External debt-to-exports ratio (in percent)	54.1	58.6	47.2	37.7	25.8	21.3	19.9	19.1	17.0	16.5	16.5	
	Gross external financing need (in billions of U.S. dollars) 5/	**-0.3**	**0.1**	**-0.7**	**-1.4**	**-3.8**	**-4.8**	**-3.4**	**-2.0**	**-0.8**	**0.0**	**1.4**	
	in percent of GDP	-2.8	1.2	-6.2	-10.6	-23.2	-24.0	-14.7	-8.1	-3.1	0.1	4.4	
	Scenario with key variables at their historical averages 6/						**14.6**	**22.4**	**20.1**	**11.9**	**1.7**	**-11.5**	**-1.9**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	4.2	7.9	13.9	9.1	7.9	12.5	6.9	5.4	4.8	3.6	3.6	
	GDP deflator in U.S. dollars (change in percent)	11.0	-5.3	9.5	3.2	11.0	9.3	7.8	4.0	3.8	3.8	3.6	
	Nominal external interest rate (in percent)	4.5	4.9	4.4	4.8	4.0	3.8	2.9	2.8	2.8	3.1	3.2	
	Growth of exports (U.S. dollar terms, in percent)	1.3	-7.1	27.9	25.9	45.5	28.5	6.3	2.7	2.3	1.3	-1.2	
	Growth of imports (U.S. dollar terms, in percent)	6.6	2.6	4.1	21.8	20.5	25.6	30.1	13.0	9.1	9.5	7.7	
	Current account balance, excluding interest payments	6.0	2.1	9.0	14.3	25.2	26.2	15.7	9.0	4.7	0.6	-3.8	
	Net nondebt creating capital inflows	4.9	3.8	-6.2	-8.1	-10.5	-7.7	1.5	-0.6	-1.8	-1.5	-1.6	

1/ Defined as total debt liabilities (portfolio debt + other investment), from the External Wealth of Nations Database.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US 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.

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

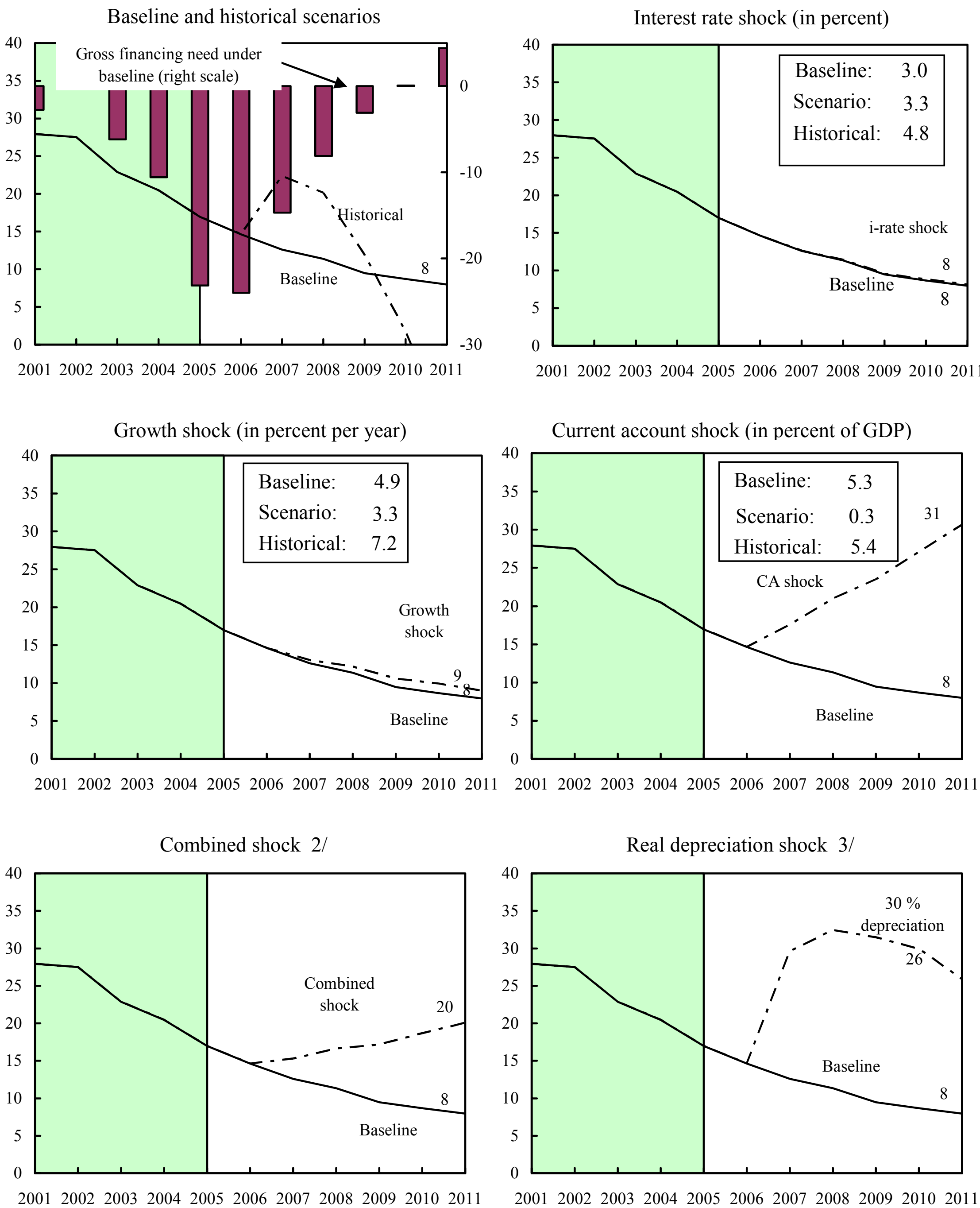
4/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 7. Trinidad and Tobago: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2006.

Table 9. Trinidad and Tobago: Public Sector Debt Sustainability Framework, 2001–11

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	balance 10/
1 **Baseline: central government debt 1/**	**37.1**	**35.1**	**30.3**	**24.8**	**20.2**	**14.6**	**10.5**	**7.7**	**5.5**	**4.2**	**4.0**	**0.0**
Of which : foreign-currency denominated	21.4	21.4	13.9	12.2	10.3	7.5	6.4	5.6	4.0	3.5	3.3	
2 Change in public sector debt	-5.8	-2.0	-4.8	-5.5	-4.6	-5.5	-4.2	-2.8	-2.2	-1.3	-0.2	
3 Identified debt-creating flows (4+7+12)	-6.6	-1.7	-7.4	-5.9	-9.4	-7.5	-5.9	-4.3	-3.1	-1.5	-0.2	
4 Primary deficit	-4.7	-3.6	-5.4	-4.7	-8.2	-5.9	-5.0	-4.1	-3.0	-1.5	-0.2	
5 Revenue and grants	24.8	23.0	24.1	24.9	30.3	31.2	31.7	31.6	31.2	30.6	30.1	
6 Primary (noninterest) expenditure	20.1	19.4	18.7	20.2	22.1	25.2	26.7	27.5	28.3	29.1	29.8	
7 Automatic debt dynamics 2/	-1.9	1.8	-2.0	-1.1	-1.2	-1.6	-0.9	-0.3	-0.1	-0.1	0.0	
8 Contribution from interest rate/growth differential 3/	-1.9	1.9	-2.1	-1.1	-1.2	-1.6	-0.9	-0.3	-0.1	-0.1	0.0	
9 *Of which:* contribution from real interest rate	-0.2	4.2	1.7	1.4	0.6	0.3	0.2	0.2	0.2	0.1	0.1	
10 *Of which:* contribution from real GDP growth	-1.7	-2.3	-3.8	-2.6	-1.8	-1.9	-1.0	-0.5	-0.3	-0.2	-0.1	
11 Contribution from exchange rate depreciation 4/	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/	0.8	-0.3	2.6	0.4	4.8	2.0	1.7	1.6	0.9	0.2	0.1	
Public sector debt-to-revenue ratio 1/	149.6	152.7	125.4	99.5	66.6	47.0	33.0	24.4	17.5	13.8	13.4	
Gross financing need 6/	**3.8**	**4.3**	**-0.1**	**1.7**	**-3.7**	**-0.9**	**-1.8**	**-1.6**	**-0.7**	**0.5**	**1.5**	
In billions of U.S. dollars	0.3	0.4	0.0	0.2	-0.6	-0.2	-0.4	-0.4	-0.2	0.1	0.5	
Scenario with key variables at their historical averages 7/						**14.6**	**11.4**	**8.1**	**4.0**	**-0.6**	**-5.3**	**0.0**
Scenario with no policy change (constant primary balance) in 2005–10						**14.6**	**9.6**	**5.1**	**-0.1**	**-5.7**	**-11.5**	**0.0**
Key macroeconomic and fiscal assumptions underlying baseline												
Real GDP growth (in percent) 8/	4.6	6.6	12.8	9.7	8.5	11.5	8.2	5.1	4.3	3.4	3.1	
Average nominal interest rate on public debt (in percent) 9/	11.0	10.6	12.2	10.9	12.4	12.5	10.0	7.7	7.3	7.0	7.0	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.1	11.9	6.5	5.9	3.4	2.9	1.9	2.7	3.0	2.4	2.8	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.1	-0.2	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	11.2	-1.2	5.7	5.0	8.9	9.7	8.1	5.0	4.3	4.5	4.1	
Growth of real primary spending (deflated by GDP deflator, in percent)	8.6	2.8	8.8	18.3	18.7	27.6	14.5	8.3	7.1	6.5	5.7	
Primary deficit	-4.7	-3.6	-5.4	-4.7	-8.2	-5.9	-5.0	-4.1	-3.0	-1.5	-0.2	

1/ Central government gross debt.

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

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

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

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

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

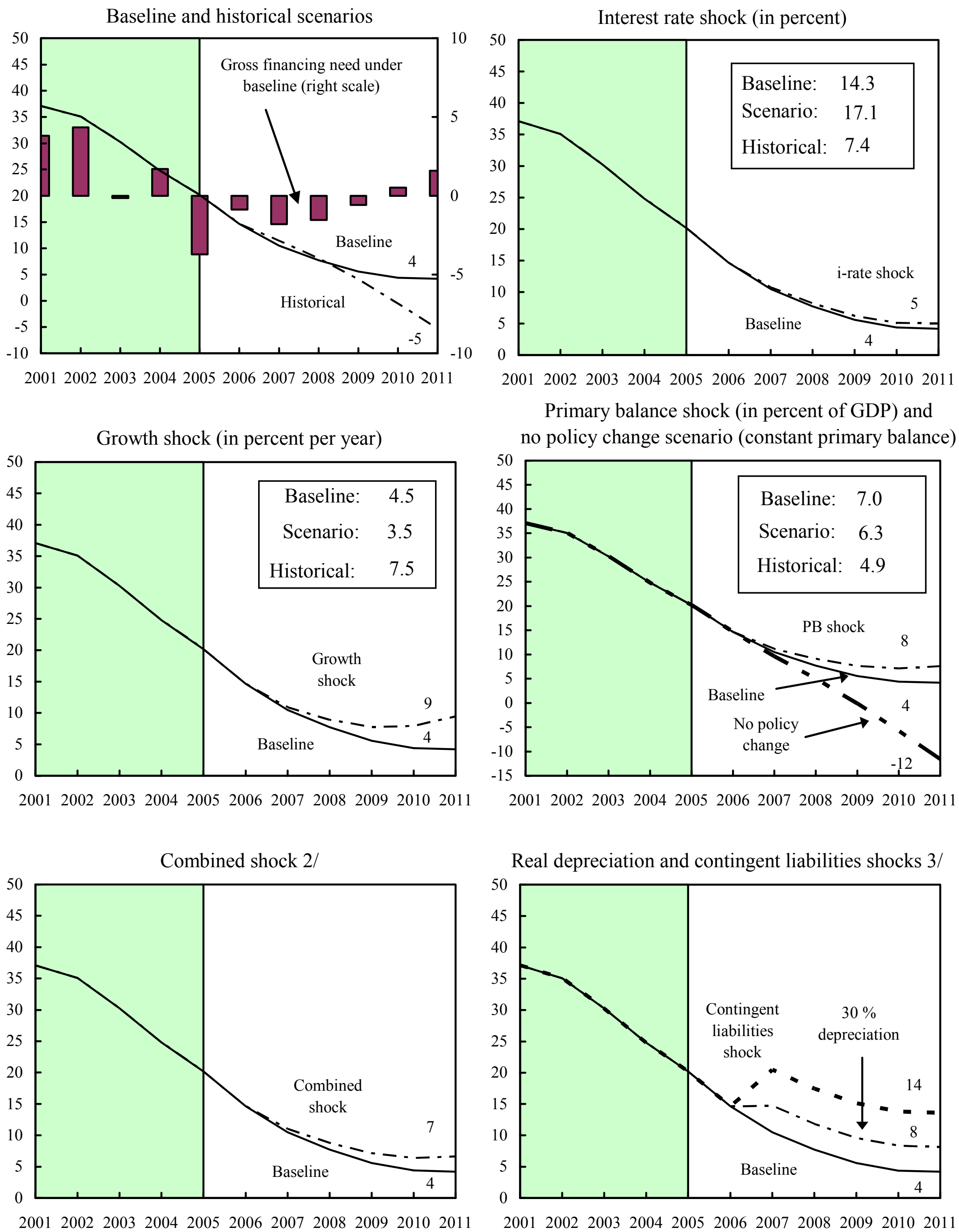
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ On a fiscal year basis (Table 8 is based on calendar years).

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

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

Figure 8. Trinidad and Tobago: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 10. Trinidad and Tobago: Indicators of External and Financial Vulnerability

(In percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	Est. 2005	Proj. 2006
External indicators						
Exports (percent change, 12-month basis in US$)	0.3	-8.9	32.8	23.0	50.9	30.5
Imports (percent change, 12-month basis in US$)	7.9	2.8	6.2	24.7	17.3	26.9
Terms of trade (percent change, 12-month basis)	-4.8	0.4	8.0	3.4	10.0	-1.1
Current account balance	4.7	0.8	8.0	13.3	24.5	25.7
Capital and financial account balance	0.3	-0.3	-5.2	-7.8	-13.4	-10.6
Gross official reserves (in US$ millions)	1,876	1,924	2,258	2,993	4,787	7,787
Official reserves in months of imports of goods	6.3	6.3	6.9	7.3	10.0	12.9
Ratio of reserves to broad money	56.5	56.9	65.9	73.7	89.5	115.7
Ratio of total public sector external debt to exports of goods and services	33.4	35.0	27.6	19.0	12.9	11.3
Ratio of public sector external interest payments to exports of goods and services	2.5	2.8	2.0	1.8	1.0	0.8
Public sector debt service to exports of goods and services	4.1	4.3	3.6	5.3	1.8	2.4
REER appreciation CPI-based (percent change)	5.6	2.5	-1.7	-1.2	2.6	…
Foreign currency debt rating, (Moody's, end of period) 1/	Baa3	Baa3	Baa3	Baa3	Baa2	Baa1
Foreign currency debt rating, (Standard & Poor's, end of period) 1/	BBB-	BBB-	BBB	BBB+	A+	A+
Financial indicators 2/						
90-day treasury bill, average discount rate 3/ 4/	8.3	4.8	4.8	5.0	5.5	…
90-day treasury bill, real rate 5/	2.7	0.6	1.0	1.3	-1.4	...
Foreign currency loans-to-total loans	30.1	31.2	17.2	25.6	23.9	...
Net open positions in FX-to-capital	-11.8	-18.2	-36.8	-0.9	-13.9	...
FX deposits (in percent of total deposits)	28.0	30.1	23.0	32.9	34.4	…
FX deposits (in percent of gross international reserves)	42.3	45.5	30.2	38.6	30.5	…
Capital Adequacy						
Regulatory capital to risk-weighted assets	19.5	20.6	20.3	19.3	18.2	…
Regulatory Tier I capital to risk-weighted assets	17.6	17.3	18.2	17.4	16.4	…
Regulatory Tier II capital-to-risk-weighted assets	1.9	3.3	2.2	1.9	1.7	…
Banking sector asset quality						
Nonperforming loans-to-gross loans	3.2	3.6	2.0	3.9	1.7	…
Nonperforming loans (net of provisions)-to-capital	0.6	-1.0	-3.0	6.0	0.3	…
Specific provisions-to-impaired assets	57.7	70.8	117.5	40.3	67.7	…
Specific provisions-to-gross lending	1.9	2.6	2.3	1.6	1.1	…
Banking sector earnings and profitability						
Return on equity	17.2	20.0	16.9	27.5	20.2	…
Return on assets	2.0	2.4	2.1	3.7	2.5	…
Interest margin-to-gross income	36.5	43.0	47.9	38.3	41.0	…
Spread between average lending and deposit rates	8.8	9.1	8.7	7.4	7.1	…
Banking sector liquidity						
Liquid assets-to-total assets	17.8	16.1	15.9	14.8	15.8	…
Liquid assets-to-total short-term liabilities	24.8	22.6	22.3	20.5	21.7	…
Foreign currency liabilities-to-total liabilities	32.6	34.3	34.4	37.8	35.8	…

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

1/ As of end-August 2006
2/ Includes commercial banks only.
3/ As of end-August.
4/ Weighted average discount rate.
5/ Adjusted for inflation.

APPENDIX I. TRINIDAD AND TOBAGO—FUND RELATIONS
(As of July 31, 2006)

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	297.20	88.86
Reserve position in Fund	38.41	11.44

III. SDR Department:	**SDR Million**	**Allocation**
Net cumulative allocation	46.23	100.00
Holdings	2.45	5.31

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				
	2006	**2007**	**2008**	**2009**	**2010**
Principal					
Charges/Interest	0.83	1.68	1.68	1.68	1.68
Total	0.83	1.68	1.68	1.68	1.68

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 2005 Article IV consultation was completed by the Executive Board on October 27, 2005; the documents were IMF Country Report Nos. 06/29 (Financial System Stability Assessment), 06/32 (Staff Report) and 06/33 (Statistical Appendix).

IX. Technical Assistance:

- **MFD/LEG**: Assistance with the drafting of a new Insurance Act, and amendments to the Financial Institutions Act (ongoing).
- **MFD:** Assignment of a financial sector supervision expert as advisor to the Inspector of Financial Institutions at the Central Bank of Trinidad and Tobago (ongoing).
- **LEG:** Mission to provide technical assistance to the Central Bank of Trinidad and Tobago to strengthen and modernize the legal framework for banking regulation and supervision, in July 2006.
- **MFD:** Assistance on the steps necessary to transition towards a more flexible exchange rate system, in January 2006.
- **STA**: National Accounts Assessment Mission in August-September 2005.
- **FAD**: A follow-up tax policy mission in April 2005, focusing on personal and corporate income taxes.
- **FAD**: A tax policy mission in November 2004 on the VAT and other main indirect taxes.
- **CARTAC**: Training in bank supervision techniques, in September 2004.
- **STA**: GDDS Metadata Development Mission in May–June 2004.
- **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.

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

(As of August 15, 2006)

The World Bank's last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999. The current World Bank program includes two projects with total commitment of US$31.5 million, of which US$16.7 million is undisbursed.

I. PROJECTS

Postal Service Reform: The Postal Service Reform project (US$9.7 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 million.

II. ECONOMIC AND SECTOR WORK

A Financial Sector Assessment Program by the World Bank and IMF was completed in February 2006.

III. STATEMENT OF WORLD BANK LOANS

(In millions of U.S. dollars)

Operation	Original Principal	Available	Disbursed
HIV/AIDS prevention and control	20.0	15.2	4.8
Postal service reform	11.5	1.5	9.9
	31.5	**16.7**	**14.7**

Disbursements and Debt Service
(Fiscal year ending June 30)

	Actual					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Total disbursements	12.2	9.6	12.7	3.8	2.0	4.7
Repayments	9.7	10.2	12.2	15.5	17.3	16.4
Net disbursements	2.5	-0.6	0.4	-11.7	-15.3	-11.7
Interest and fees	3.6	6.7	5.9	5.1	3.8	3.1

Loans Summary in U.S. dollars as of 31 July, 2006

Total disbursed (IBRD):	270,866,330
Of which has been repaid:	196,858,927
Total now held by IBRD:	50,280,601
Total undisbursed:	16,954,849

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

(As of August 28, 2006)

In November 2004 the IDB Board approved the new Country Strategy with Trinidad and Tobago. This document reflects the extensive process of dialogue with all major stakeholders in the country, and the agreements with Government on 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 effectiveness; and (iii) promoting social development through improved public services.

In each area, criteria have been established to guide conceptualization and design of operations, and also to guide program dialogue to define new operational priorities consistent with the strategy. The strategy recognizes the particular characteristics of Tobago, and pays attention to considering, as a crosscutting feature of IDB programs, gender issues. The strategy allows for flexibility to expand this program in line with possible Bank lending directly to the private sector and/or to support new operations in the out-years stemming from the public sector reform "road map" exercise that is now underway. An integral objective of the strategy is to focus on timely completion of projects and programs currently in execution, and achievement of their development objectives. The IDB is preparing a mid-term review of the implementation of the strategy. The review should be completed by the end of 2006 and will guide discussions with the authorities for future programming exercises.

As of August 29, 2006, the IDB has an active public sector lending portfolio of eight loans with a total value of US$403 million, of which 57 percent has been disbursed. In addition to loans for the public sector, the IDB lends directly to the private sector and provides grant resources through technical cooperations. MIF, an IDB institution providing grant resources for private sector development, has four operations in execution for an amount of US$2.8 million.

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 IDB Private Sector Development Strategy (PSDS) provides a set of guidelines to coordinate the actions of the Bank Group in their common goal of fostering the development of the private sector of Trinidad and Tobago. In this context, the PSDS prioritizes private sector projects of firms: (i) that target their products to CARICOM and global markets; (ii) that try to develop nonenergy tradable products; and (iii) that support investments in social capital formation. To develop the private sector, the PSDS also emphasizes the improvement of the business climate and the maintenance of a stable macroeconomic environment. According to the Bank's Country Strategy the IDB exposure to the private sector should reach 10 percent of the total Bank exposure in Trinidad and Tobago by 2007. To date, the following are loans in execution that promote private sector development.

In March 2003, the IDB approved a loan of US$5 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 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 May 2005, the IDB approved a US$1.5 million loan with the objective of supporting the preparation and initial implementation of the E-government and Knowledge Brokering Program—scheduled to be approved by 2006 for US$35 million. This program is designed to assist Trinidad and Tobago implement its National Information and Communication Plan or fastforward in the following areas: (a) Legal and Regulatory Framework; (b) E-government; (c) Human Capital Development; (d) Connectivity; and (e) Enterprise Development in ICT.

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 2006. 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.

Promoting social development through improved public services

In November 2005, the IDB approved a US$750 thousand loan for the preparation of the Citizen Security program. The project will finance professional services and other technical support to prepare the components of the Citizen Security Program, and to initiate the implementation of some smaller pilot activities. The Citizen Security program is scheduled to be approved by 2006 for US$14 million.

In 2002, the IDB approved funding in the amount of US$32 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 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 million loan for a Health Sector Reform Program in order to strengthen the policy-making, planning and management capacity of the Ministry of Health. The program is financing 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.

APPENDIX IV. 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, and data provision is adequate for surveillance purposes. On September 30, 2004 Trinidad and Tobago started participating in the IMF's General Data Dissemination System and hopes to subscribe to the Special Data Dissemination Standard in the near future. 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 (CSO) makes good use of available source data to produce annual national accounts. In line with the recommendations of STA technical assistance (TA) (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 upgrading of the national accounts involved, in particular, 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 in the financial sector (by constructing individual extrapolators for each sub-industry and then aggregating them). A supply and use table was also completed in 2005 with TA from CARTAC. The central statistical office does not currently produce quarterly GDP estimates. Although the central bank currently compiles quarterly indicators of real GDP, eventually the central statistical office should assume exclusive responsibility for compiling quarterly national accounts and a recent STA mission on national accounts in September 2005 encouraged the CSO to start the compilation process. The mission also found that institutional weaknesses at the CSO remain. Although there is no serious shortage of staff that could affect the production of the statistics, a reallocation would improve efficiency.

Recently the public can have access to the retail price index directly from the CSO's website rather than from the Central Bank who redisseminate the index. 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 show significant differences. The authorities should work to reconcile on a regular basis these two sets of data. Transfers to the revenue stabilization 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 a residual owing to the absence of reliable data. 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. No data have been published in recent *Government Finance Statistics Yearbooks (GFSY),* but a submission has been received by STA of cash data for the years 2001 to 2004 classified by the *Government Finance Statistics Manual 2001 (GFSM 2001)* classifications for publication in the 2006 GFSY.

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 letters of comfort. Government capital expenditure should be classified as such, and not as expenditure on other goods and services.

Monetary accounts

The 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 voluntarily on a quarterly basis. No data are reported by credit unions and the Post Office Savings Bank. The lack of these data has prevented the compilation of a more comprehensive Depository Corporation Survey. The authorities should also consider developing systems for reporting balance sheet accounts for the mutual funds, with a view to compiling a more comprehensive financial survey in the future. As of August 2006, the authorities have not submitted test data for the standardized report forms for the submission of monetary statistics.

Balance of payments

Quarterly aggregate balance of payments estimates and annual balance of payments data are disseminated by the central bank in its national publications. Annual balance of payments data are also sent to STA, although with some delay. The presentation of the balance of payments data is in broad conformity with guidelines outlined in the fifth edition of the *Balance of Payments Manual* (*BPM5*). The Private Sector Capital Flows and Investor Perception survey need to be improved on the quantity and quality of responses, and by estimating market value shares. There are sizable differences between some items of the external public debt compiled by the Central Bank and the MFPD. The Central Bank should expand its current debt reporting system to include comprehensive coverage of external loans and debt of the entire public sector, as well as publicly guaranteed debt.

Trinidad and Tobago: Table of Common Indicators Required for Surveillance
As of August 17, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	June 2006	July 2006	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar 2006	July 2006	M	M	M
Reserve/Base Money	May 2006	August 2006	M	M	M
Broad Money	May 2006	August 2006	M	M	M
Central Bank Balance Sheet	May 2006	August 2006	M	M	M
Consolidated Balance Sheet of the Banking System	May 2006	August 2006	M	M	M
Interest Rates[2]	May 2006	August 2006	M	M	M
Consumer Price Index	February 2006	April 2006	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	May 2005	July 2005	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	September 2005	October 2005	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2005	October 2005	A	A	A
External Current Account Balance	December 2004	September 2005	A	A	A
Exports and Imports of Goods and Services	December 2004	September 2005	A	A	A
GDP/GNP	2004	July 2005	A	A	A
Gross External Debt	December 2004	July 2005	M	M	M

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

Statement by the IMF Staff Representative
October 11, 2006

1. This statement provides additional information that has become available since the circulation of the staff report on September 21, 2006. This information does not alter the thrust of the staff appraisal.

2. **Recent data confirm that the economy is operating at full capacity**.

- In the second quarter the unemployment rate was 7.2 percent compared to 8 percent in the same quarter of last year. The 12-month average unemployment rate fell to 7.2 percent from 7.4 percent in the first quarter.

- In August, inflation reached 9.0 percent on a year earlier, compared to 8.6 percent in July. Core inflation fell to 3.9 percent from 4 percent.

3. **The central bank has continued to tighten monetary conditions**.

- Yields on treasury-bills have continued to increased faster than in the U.S. The spread between U.S. and Trinidad and Tobago short-term interest rates has widened to 193 basis points, compared to 61 bp in February when rates on treasury-bills were allowed to rise.

- The repo rate was increased on September 29 by 25 bp to 8 percent.

- A remunerated reserve requirement of 2 percent on prescribed liabilities was also introduced at that time. This additional reserve requirement is remunerated at repo rate minus 350 bp. In staff's view, it would have been preferable to set the remuneration in line with market interest rates.

4. **The FY 2006/07 budget was submitted to parliament**. The budget is predicated on conservative assumptions: real GDP growth of 6.2 percent, inflation of 7 percent, and oil prices of US$45 per barrel. The budget provides for an increase in pensions and broadens the eligibility criteria, reduces residential property transfers tax, and increases taxes on tobacco products and alcohol. Staff estimates indicate that the nonenergy deficit envisaged in the FY2006/07 budget is in line with projections presented in the staff report.

5. **Staff has obtained additional information on the exchange system-related issues identified in paragraph 7 of the staff report**. However, further information is required before staff is a position to assess the jurisdictional implications of the developments observed in the foreign exchange system.

INTERNATIONAL MONETARY FUND

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EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 06/125
FOR IMMEDIATE RELEASE
October 26, 2006

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

IMF Executive Board Concludes 2006 Article IV Consultation with Trinidad and Tobago

On October 11, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

Trinidad and Tobago has one of the highest per capita incomes in Latin America and the Caribbean. Its wealth partially stems from a rich enddowment of oil and gas reserves. The energy sector accounts for over 40 percent of GDP, about 90 percent of exports, and over half of government revenues. In terms of broader social and development indicators, Trinidad and Tobago's life expectancy and literacy rates are among the highest in the Caribbean, however, its Human Development Index ranking is slightly above the regional average. Within the Caribbean region, Trinidad and Tobago is also a regional financial center and a significant source of capital flows to sovereign and private entities in the Caribbean.

Economic developments continue to be underpinned by a favorable international environment. Surging energy prices, the exploitation of new gas fields, and an expansion of industrial capacity helped sustain robust economic activity, contributed to a strengthening of external accounts, and contributed to excess liquidity in the financial system. However, there are signs

[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.

that the economy is operating at, or near, potential. Capacity constraints have become evident in some sectors (notably construction), the labor market has tightened with the unemployment falling to 6¾ percent—an all time low—and inflation has accelerated.

In 2005, the economy expanded at about 8 percent underpinned by generally strong growth in the energy sector totaling 8¼ percent. The nonenergy sector also showed signs of strength, expanding, by 7¾ percent, supported by public infrastructure spending and rapid credit growth that fueled private spending. Against the backdrop of sustained high energy prices, the economy is on pace to expand by 12½ in real terms in 2006, driven by double digit growth in the energy sector in excess of 20 percent.

The balance of payments is in large surplus, reflecting a sharp improvement in the trade surplus to 24 percent of GDP in 2005. Imports grew by 17 percent but rising energy exports pushed total exports up by 51 percent. As in previous years, some of the gains on the current account were offset by private capital outflows but the overall balance of payments surplus strengthened sharply to 11 percent of GDP in 2005 as compared to about 5½ percent last year. Net foreign assets continued to rise in 2005 and gross international reserves reached US$4.8 billion (10 months of imports). Looking ahead, the external sector is set to exhibit a similar strong performance in 2006 with a projected trade and balance of payments surplus of about 27 percent of GDP and 15 percent of GDP respectively.

Although rising energy revenues has contributed to an improvement in the government's balance sheet, the underlying fiscal position has deteriorated. A rapid increase in public spending contributed to a widening in the non-energy deficit—the overall deficit excluding energy revenues—by about 2 percentage points to 10¼ percent of GDP in FY 2004/05. This outturn reflects rising transfers and subsidies on utilities and fuels and mounting public investment. Moreover, preliminary figures indicate that the nonenergy deficit rose to nearly 15 percent of GDP, partly reflecting an increase in spending execution of the ambitious public investment program.

The monetization of foreign currency energy receipts by the government has introduced a substantial degree of liquidity into the financial system. Although monetary policy was largely accommodative in 2005, the Central Bank of Trinidad and Tobago (CBTT) has actively been trying to regain control of liquidity in the system this year through stepped-up foreign exchange sales, sustained open market operations, and steady increases in the policy rate. Headline inflation for the 12-month period ending in August was 9 percent, up from 7¼ percent and 5½ percent at end 2005 and 2004 respectively. Furthermore, core inflation, which excludes food prices, has reached and remained at 4 percent since July. The CBTT has raised the benchmark repo rate by a cumulative 300 basis points since February 2005 to 8.0 percent as of September 2006.

Local financial markets have gone through an orderly correction since mid-2005. The local stock market index has fallen by over 20 percent from its peak in May 2005. Mirroring developments in the stock market, mutual funds' growth rate slowed to 16 percent, compared to an average growth rate of 44 percent in the previous five years. In 2005, the primary bond market continued to be very active with 37 placements with a face value equivalent to 8 percent of GDP, about one-third in foreign currency. The banking sector remains profitable, nonperforming loans are low, and provisioning increased compared to last year.

Executive Board Assessment

Executive Directors welcomed Trinidad and Tobago's strong economic performance in the context of a favorable external environment, and noted that economic activity remains robust. Directors were encouraged by the overall improvement in the external accounts and the government's balance sheet.

Directors stressed that the current favorable environment of high energy prices presents both opportunities for economic development and challenges for macroeconomic management. They stressed that raising living standards for current and future generations involves striking a delicate balance of investing energy windfalls efficiently to promote economic diversification and social objectives, while pacing the use of energy revenues to avoid overheating the economy and pushing up inflation.

Directors noted that, despite an overall improvement in fiscal balances due to rising energy receipts, the nonenergy fiscal deficit has widened in recent years with a rapid increase in public spending. They supported the objectives of the authorities' development initiatives through high-quality spending on human development and infrastructure. At the same time, Directors cautioned that the authorities should exercise greater overall budgetary restraint so as to avoid putting further upward pressure on inflation and the real exchange rate, which would have potential implications for the development of the nonenergy sector over the short and longer run.

While agreeing that fiscal policy has an important role in containing demand pressures in the near term, Directors underscored that sustainability considerations should ultimately underpin policy decisions so as to avoid disruptive policy reversals when energy resources are eventually depleted. In that context, they recommended that the authorities target a nonenergy deficit of about 10 percent of current GDP over the medium term. Directors welcomed the submission to Parliament of the Heritage and Stabilization Fund (HSF) bill with the aim of saving and prudently investing surplus petroleum revenues. They stressed that the legislation's effectiveness depends on disciplined fiscal policies, adequate oversight, and transparency in HSF management in relation with the budget.

Directors considered that the current favorable economic environment provides an opportunity to improve the quality of fiscal spending. While Directors noted that the authorities have put in place checks and balances with respect to the special purpose vehicles (SPVs), they pointed out the need to resolve institutional constraints that prompted the creation of these agencies. In addition, generalized subsidies should be replaced by well-targeted income supporting programs for the poor. Directors encouraged the authorities to participate in a fiscal ROSC.

As regards monetary policy, Directors agreed that containing mounting inflationary pressures was a top priority. They encouraged the central bank to continue to tighten monetary policy, making full use of its instruments to regain control over the stock of excess liquidity in the system. Given the de facto fixed exchange rate regime, Directors remarked that the central bank should increase foreign exchange sales, and continue to let treasury bill rates rise to further tighten the monetary stance. They also encouraged the authorities to address market characteristics that may have contributed to unsatisfied customer demands for foreign exchange.

Directors noted that, while the current exchange rate regime had served Trinidad and Tobago well, the de facto peg could complicate the conduct of macroeconomic policy, given increasing inflationary pressures from a potentially overheating economy, the monetization of the nonenergy deficit, and excess liquidity. In this context, they encouraged the authorities to remain vigilant to accumulating inflation pressures, and take further measures as needed, including consideration of greater exchange rate flexibility in the medium term in the event that the positive terms of trade shock persists.

Directors supported the authorities' structural agenda, which was appropriately focused on growth and diversification and improved macroeconomic management. They highlighted as key among the reform priorities to strengthen the financial sector regulatory and supervisory frameworks. Directors welcomed the progress that has been made in preparing for consolidated supervision of financial groups and in drafting amendments to financial institutions and insurance legislation along the lines of the 2005 FSAP recommendations. They urged the authorities to take this process forward in a timely manner by securing swift passage of these amendments and draft legislation.

Directors stressed the need to raise productivity in the nonenergy sector by removing impediments to growth and diversification of the sector. They clarified that diversification efforts should be firmly based on initiatives to foster the development of the private sector by improving the business environment. In that respect, Directors stressed that the authorities' industrial development plans should concentrate on industries that are viable over the long term without the benefit of government subsidies.

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

Trinidad and Tobago: Selected Economic Indicators

	2001	2002	2003	2004	2005
(Annual percentage changes)					
Output and prices					
Real GDP	4.2	7.9	13.9	9.1	7.9
Energy GDP	5.6	13.5	31.3	8.4	8.2
Unemployment rate (percent of labor force)	10.8	10.4	10.3	8.4	8.0
Consumer prices (end of period)	3.2	4.3	3.0	5.6	7.2
Money and credit 1/					
Net foreign assets	9.1	2.5	5.7	36.4	42.6
Net domestic assets	3.5	0.2	-3.7	-17.6	-11.0
Public sector credit (net)	-7.2	2.1	-9.9	-24.7	-23.6
Private sector credit	3.7	3.1	2.6	18.2	21.6
Broad money (M3)	12.6	2.7	2.0	18.8	31.6
(In percent of GDP, unless otherwise indicated)					
Public finances 2/					
Budgetary revenue	24.8	23.0	24.1	24.9	30.3
Budgetary expenditure	24.2	23.1	22.3	23.0	24.7
Overall budget balance	0.6	-0.2	1.8	1.9	5.6
Overall nonenergy budget balance	8.1	5.6	7.5	8.4	10.3
Overall nonfinancial public sector balance	-1.6	-3.2	1.8	1.9	3.5
Public sector debt	53.4	54.8	49.9	42.8	36.1
External sector					
External public debt	17.2	16.4	13.4	10.3	8.5
Current account balance	4.7	0.8	8.0	13.3	24.5
Of which: exports	45.3	40.4	43.3	47.3	59.7
Of which: imports	37.7	37.9	32.5	36.1	35.3
Gross official reserves (millions of US$)	1,876	1,924	2,258	2,993	4,787
Terms of trade (percentage change, end of period)	-4.8	0.4	8.0	3.4	10.0
Memorandum item:					
Nominal GDP (in billions of TT$)	59.2	60.7	75.7	85.2	102.1

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

1/ Changes in percent of beginning-of-period broad money.
2/ Fiscal year October–September. Data refer to fiscal years 2000/2001–2004/05.