



# TRINIDAD AND TOBAGO

## 2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TRINIDAD AND TOBAGO

November 2017

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 2017 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package in reverse chronological order to reflect the significant policy developments and the resulting update in staff appraisal after the Staff Report was originally issued to the Board.

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 23, 2017 consideration of the staff report that concluded the Article IV consultation with Trinidad and Tobago.
- A **Staff Supplement** of October 19, 2017.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 23, 2017, following discussions that ended on August 2, 2017, with the officials of Trinidad and Tobago on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 4, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Trinidad and Tobago.

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

### Selected Issues

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

On October 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Trinidad and Tobago.

Trinidad and Tobago has faced several years of weak or negative growth on the back of low global energy prices and energy supply shocks, which have led to sharp deteriorations in the country's internal and external balances. Combined with an 11 percent fall in energy sector output, a 2 percent decline in non-energy sector activity saw real GDP shrink by 6 percent in 2016, with a further decline of 3¼ percent projected by IMF staff in 2017. The combined impact of weak growth and low energy sector revenues increased the overall fiscal deficit to 12.1 percent of GDP in fiscal year 2016, though it is expected to drop to 11.0 percent of GDP in fiscal year 2017. Meanwhile, the current account deteriorated by 14 ½ percentage points to a deficit of 10.7 percent of GDP in 2016, with an 8 ½ percent of GDP deficit expected in 2017, on the back of low energy export prices and volumes. Gross reserves fell slightly, from US\$9.9 billion (10¼ months of imports) in 2015 to US\$9.5 billion (9½ months of imports) in 2016, and are projected to fall by another US\$1 billion (1 month of imports) this year, albeit amid continued foreign exchange shortages. Headline and core inflation remained low at 3 percent and 2 percent (y/y), respectively, at end-2016, while unemployment ticked up to 4 percent.

The government has taken steps to adjust fiscal imbalances, through efforts to reform the energy tax regime, reduce fuel subsidies, and boost non-energy revenues. The authorities have engaged the World Bank to conduct a Public Expenditure Review, which will aim to identify cost-savings in health, education, and social services. On the monetary front, the Central Bank stopped its tightening cycle at end-2015, given the severity of the economic downturn, and has since held interest rates constant. As pressures in the foreign exchange market became more aggravated, the nominal exchange rate against the US dollar was allowed to depreciate by about 7 percent in the second half of 2016, but has been held steady since, and external balance models suggest a

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<sup>1</sup> 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.

substantial real exchange rate overvaluation persists. The banking sector remains resilient and profitable.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors agreed with the thrust of the staff appraisal. They noted that continued low energy prices and production and weakness in the non-energy sector have taken a significant toll on the fiscal and external positions. The risks to the outlook are tilted to the downside. With this backdrop, Directors considered that Trinidad and Tobago could use its buffers to smooth out the pace of adjustment. The draft FY2017/18 budget constitutes a significant step along the needed fiscal adjustment path. However, restoring macroeconomic stability, managing external imbalances, and supporting broad based and inclusive growth would require additional fiscal consolidation, measures to restore balance in the foreign exchange market and structural reforms.

Directors commended steps taken in FY2016/17 and in the FY2017/18 budget proposal towards fiscal adjustment. These steps included the introduction of property, excise and gaming taxes, royalties on natural gas production and elimination of fuel subsidies. However, more adjustment is needed. In this vein, the proposed budget introduces processes to improve revenue collection, streamline expenditure and achieve full cost recovery pricing to significantly reduce transfers to public utilities, which, if they lead to further budgetary savings, would constitute another significant step in the right direction. In addition, Directors noted the need to further broaden the VAT base and consider raising the overall VAT rate to the regional average; finalize reforms of the fiscal regime for oil and gas; and significantly reduce the cost of transfers and subsidies through better targeting, while protecting vulnerable segments of the population.

Directors noted that the external position has deteriorated due to the large terms of trade shock. The external position in 2016 was weaker than suggested by fundamentals, although the international reserves cover is still relatively strong. Going forward, policy measures are needed to deal with foreign exchange shortages, which undermine investor confidence and country risk perceptions. Directors encouraged the authorities to swiftly reduce and eventually eliminate these imbalances and distortions, including through an exchange rate adjustment as part of a broader package of fiscal adjustment and structural reforms. Directors supported the pause in monetary tightening to strike a balance between supporting growth and managing capital flows.

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors observed that the financial system remains resilient and profitable despite the prolonged economic weakness. They commended the central bank for its efforts towards the adoption of Basel II standards by June 2018. Directors also encouraged the authorities to pass long awaited insurance legislation, address deficiencies in the AML/CFT framework, and comply with the Global Forum's standards on tax transparency.

Directors underscored the importance of steadfast implementation of structural reforms to boost potential growth. In this regard, key areas include removing distortions to the labor market and pervasive rigidities in the public sector, improving the business climate for the non-energy sector, raising the efficiency of state owned enterprises, and improving procurement practices. Directors welcomed progress toward the creation of the National Statistical Institute to address remaining data shortcomings to strengthen policy making and surveillance.

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

**Table 1. Trinidad and Tobago: Selected Economic Indicators (\*)**

GDP per capita (U.S. dollars, 2015)	\$17,879				Adult literacy rate (2015)	99	
Population (millions, 2015)	1.35				Gini index (2010)	40.3	
Life expectancy at birth (years, 2015)	70.6				Unemployment rate (Q3 2016)	4.0	
Under 5 mortality rate (per thousand, 2012)	22.2				Human Development Index (2015)	65	
<b>Selected Economic and Financial Indicators</b>							
					Estimates	Projections	
	2012	2013	2014	2015	2016	2017	2018
(Annual percentage changes, unless otherwise indicated)							
<b>National income and prices</b>							
Real GDP	1.3	1.0	-0.3	1.5	-6.0	-3.2	1.9
Energy	-2.8	1.7	-1.7	-2.5	-11.1	-3.3	7.7
Non-energy 1/	4.1	1.5	1.1	2.6	-1.9	-3.1	-1.2
GDP deflator	0.1	2.9	2.1	-12.1	1.6	2.2	0.6
Consumer prices (headline)							
End-of-period	7.2	5.7	8.4	1.6	3.1	3.2	3.2
Period average	9.3	5.2	5.7	4.7	3.1	3.2	3.2
Consumer prices (core)							
End-of-period	2.5	2.4	2.0	1.8	2.2	2.2	2.1
Unemployment rate	5.0	3.7	3.3	3.4	4.1	...	...
Real effective exchange rate (2005=100)	107.0	111.1	117.0	129.5	128.1	...	...
(In percent of fiscal year GDP)							
<b>Nonfinancial public sector (NFPS) 2/</b>							
Central government overall balance	-1.3	-2.9	-5.4	-8.3	-12.1	-11.0	-9.6
<i>Of which: non-energy balance 3/</i>	-18.1	-18.8	-22.5	-21.5	-18.5	-17.8	-18.7
Budgetary revenue	30.0	31.1	30.2	29.1	23.1	23.2	25.1
Budgetary expenditure	31.3	34.0	35.7	37.4	35.2	34.2	34.7
<i>Of which: interest expenditure</i>	1.8	1.7	1.8	2.1	2.5	3.1	3.2
<i>Of which: capital expenditure</i>	4.3	5.0	4.9	4.8	2.9	2.4	2.9
Central government debt 4/	24.8	25.3	25.4	27.9	37.5	41.1	41.4
Gross NFPS debt 4/	41.6	41.8	42.0	47.7	58.3	61.2	62.5
Heritage and Stabilization Fund assets	18.5	19.6	20.4	22.8	25.1	25.6	26.3
(In percent of GDP, unless otherwise indicated)							
<b>External sector</b>							
Current account balance	13.2	20.4	14.5	3.8	-10.7	-8.5	-7.9
Exports of goods	63.7	66.2	55.0	45.5	36.8	42.4	42.2
Imports of goods	38.6	37.6	31.5	35.2	42.3	45.8	45.4
External public sector debt	8.2	7.0	8.6	10.2	15.7	17.2	19.2
Gross official reserves (in US\$ million)	9,371	10,177	11,493	9,927	9,466	8,419	7,766
In months of goods and NFS imports	9.4	11.4	12.7	10.3	9.5	8.4	7.4
(Annual percentage changes)							

**Money and credit**

Net foreign assets	-1.1	6.4	7.6	-7.7	2.3	-8.5	-5.6
Net domestic assets	1554.6	-12.3	4.0	46.2	6.5	18.9	8.2
<i>Of which:</i> credit to the private sector	2.7	4.1	6.7	6.6	3.6	-6.4	0.7
Broad money (M3)	20.8	3.2	7.2	1.1	2.8	-2.0	-1.7
M3 velocity	1.8	1.8	1.7	1.5	1.4	1.4	1.5

**Memorandum items:**

Nominal GDP (in billions of TT\$)	164.7	171.2	174.3	155.6	148.7	147.2	150.9
Non-energy sector in percent of GDP	62.3	64.8	65.5	78.2	81.5	81.7	81.2
Energy sector in percent of GDP	37.7	35.2	34.5	21.8	18.5	18.3	18.8
Fiscal year GDP deflator (percentage change)	3.6	2.2	2.3	-8.6	-2.1	2.1	1.0
Public expenditure (in percent of non-energy GDP)	50.9	52.9	54.6	50.0	43.6	41.9	42.7
Exchange rate (TT\$/US\$, end of period)	6.4	6.47	6.39	6.45	6.76	...	...
Crude oil price (US\$/barrel)	105.0	104.1	96.2	50.8	42.8	50.3	50.2
Natural gas price (US\$ per mmbtu) 5/	10.4	10.5	10.7	6.8	5.0	4.5	4.3

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

**(\*) Reflects updated data released in the Supplementary Information.**

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

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

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

4/ Excluding debt issued for sterilization.

5/ The average of Henry Hub and Asian LNG prices.



# TRINIDAD AND TOBAGO

## STAFF SUPPLEMENT FOR THE 2017 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

October 18, 2017

Approved By  
**Jorge Roldos**

Western Hemisphere Department

1. This statement reports on information that has become available since the staff report was finalized. It does not alter the thrust of the staff appraisal.
2. **On October 2, the authorities released their draft budget for fiscal year 2017/18 (commencing October 1, 2017).** The draft budget was also accompanied by revised estimates for the FY 2016/17 fiscal outturn and a rebased historical GDP series. The budget must be passed by simple Parliamentary majority by end-October 2017.
3. **Staff estimates the draft budget would result in an overall deficit of 9.6 percent of GDP in FY 2017/18, an improvement of some 3 ½ percent of GDP relative to staff's baseline.**<sup>1</sup> The improvements are due to (i) recurrent expenditure savings of 1½ percent of GDP, carried over from revised FY 2016/17 data showing recurrent expenditures 1½ percent of GDP lower than staff estimates; (ii) policy measures that yield 1½ percent of GDP; and (iii) an improvement of ½ percent of GDP due to a rebasing of GDP.<sup>2</sup>
4. **Staff have only incorporated in the revised baseline those near-term policy measures that are being introduced and can be enumerated for FY 2017/18.** In other cases, the budget proposes initiating processes that would lead to budgetary savings in the future, but for which the exact timing and magnitude are uncertain. Accordingly, that

<sup>1</sup> The figures cited here accord with Government Finance Statistics Manual (GFSM) accounting standards. The authorities' accounting treatment differs from GFSM by counting asset sales as revenues. In addition, they are more optimistic than staff for some measures, resulting in their overall deficit of 3.2 percent of GDP in FY 2017/18.

<sup>2</sup> Nominal GDP was revised some 5.5 percent higher for FY 2017. Revenue estimates are based on assumptions of a world oil price (WTI) of US\$52 per barrel and an average gas price of US\$2.75 per MMBtu.



second set of measures has not been incorporated in staff's estimates. Measures are broadly in line with staff recommendations:

***Key Near-term Measures (incorporated in staff's revised baseline)***

- **Oil and gas taxation:** A 12.5 percent royalty rate would now be applicable on the extraction of all gas, condensate, and oil. Given increases in production, royalties are expected in FY 2017/18 to be 1 percent of GDP higher than in the staff report.
- **Corporate taxation:** The corporate tax rate will be unified at 30 percent, except for banks, for which a 35 percent rate will be introduced, effective January 1, 2018 (0.2 percent of GDP).
- **Fuel subsidies:** Fuel price adjustments that eliminate fuel subsidies will generate 0.3 percent of GDP in savings.

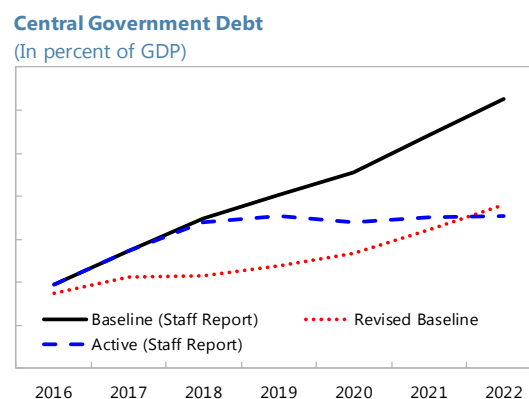
***Key Future Measures (not incorporated in staff's baseline)***

- **Fiscal Regime for the Energy Sector:** A broader proposal for a new fiscal regime for the energy sector will be presented to Parliament by December 2017.
- **Public Expenditure Review:** The World Bank is commencing the Public Expenditure Review, which will aim to identify cost-savings in health, education, and social services.
- **Tax administration:** The authorities intend to present legislation establishing the Revenue Authority (RA) to Parliament by December 2017 and operationalize the RA by March 2018. The authorities also intend to publish a recent tax administration assessment based on the IMF's Tax Administration Diagnostic Assessment Tool (TADAT).
- **Public Bodies (PBs):** The Regulated Industries Commission will conduct a rate determination exercise for water and electricity to be completed in 2018, which staff understand will eventually lead to adoption of cost-recovery pricing in utilities. Also, the authorities intend to conduct special audits of state enterprises in 2018.
- **Gaming Taxation:** A range of taxes is to be raised or introduced on the gaming industry, but will first require passing new legislation that requires a 3/5ths majority.

**5. The fiscal adjustments proposed in the budget constitute a significant and welcome step.** When combined with the GDP rebasing, the medium-term overall deficit falls to an average of 8.7 percent of GDP, compared to 12 percent of GDP in the staff report baseline.

Comparison of Key Indicators: Revised Versus Staff Report											
(In percent, unless indicated otherwise)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth, SR	1.3	2.7	-0.6	-0.6	-5.4	-3.2	1.9	2.2	1.6	1.4	1.4
Real GDP growth, revised	1.3	1.0	-0.3	1.5	-6.0	-3.2	1.9	2.2	1.6	1.4	1.4
Difference	0.0	-1.7	0.3	2.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP, SR (in billion TT\$)	165.2	170.3	167.8	150.2	140.9	139.5	142.9	148.2	154.7	161.4	168.5
Nominal GDP, revised (in billion TT\$)	164.7	171.2	174.3	155.6	148.7	147.2	150.9	156.4	163.2	170.4	177.9
Difference	-0.5	0.9	6.6	5.4	7.8	7.7	7.9	8.3	8.5	9.0	9.4
Nominal GDP growth, SR	1.3	3.1	-1.5	-10.4	-6.2	-1.0	2.5	3.7	4.4	4.4	4.4
Nominal GDP growth, revised	1.3	3.9	1.8	-10.7	-4.4	-1.1	2.5	3.7	4.3	4.4	4.4
Difference	0.0	0.8	3.3	-0.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Overall Balance/GDP, SR	-1.3	-2.9	-5.6	-8.6	-12.7	-13.0	-13.0	-11.7	-11.8	-12.0	-12.3
Fiscal Overall Balance/GDP, revised	-1.3	-2.9	-5.4	-8.3	-12.1	-11.0	-9.6	-8.3	-8.3	-8.4	-8.7
Difference	0.0	0.0	0.2	0.3	0.6	2.0	3.4	3.4	3.5	3.6	3.7
Central Government Debt/GDP, SR	24.7	25.3	26.2	28.9	39.4	47.2	54.7	60.4	65.6	74.1	82.5
Central Government Debt/GDP, revised	24.8	25.3	25.4	27.9	37.5	41.1	41.4	43.9	46.6	52.3	58.1
Difference	0.1	-0.1	-0.8	-1.0	-1.9	-6.1	-13.3	-16.5	-19.0	-21.8	-24.5
Current Account Balance/GDP, SR	13.1	20.5	15.1	3.9	-11.3	-9.0	-8.4	-7.8	-6.8	-7.3	-7.0
Current Account Balance/GDP, Revised	13.2	20.4	14.5	3.8	-10.7	-8.5	-7.9	-7.3	-6.3	-6.8	-6.5
Difference	0.0	-0.1	-0.6	-0.1	0.6	0.6	0.5	0.5	0.4	0.5	0.5

**6. The rebasing of GDP and the fiscal measures would reduce debt ratio levels, but additional adjustment is needed to put the debt on a sustainable trajectory.** For FY 2016/17, the higher nominal GDP and revised fiscal data reduce central government debt to 41.1 percent of GDP compared to 47.2 percent in the staff report. These, combined with the fiscal adjustments taken in this budget, reduce staff's projected central government debt-to-GDP ratio to 58.1 percent of GDP at the end of the projection period, compared to 82.5 percent of GDP in the staff report.



<b>Medium-Term Macroeconomic Framework (Baseline Scenario)</b>									
	2014	2015	2016	Projections					
				2017	2018	2019	2020	2021	2022
<b>National income and prices</b>									
Real GDP growth (in percent)	-0.3	1.5	-6.0	-3.2	1.9	2.2	1.6	1.4	1.4
Energy	-1.7	-2.5	-11.1	-3.3	7.7	6.7	1.9	0.8	0.8
Non-energy 1/	1.1	2.6	-1.9	-3.1	-1.2	-0.3	1.5	1.7	1.7
Inflation (in percent)									
Period average	5.7	4.7	3.1	3.2	3.2	3.7	3.3	3.3	3.2
End of period	8.4	1.6	3.1	3.2	3.2	3.7	3.3	3.3	3.2
(In percent of GDP, unless otherwise indicated)									
<b>Central government finances 2/</b>									
Revenue	30.2	29.1	23.1	23.2	25.1	26.3	26.3	26.1	26.0
Energy	17.1	13.2	6.4	6.8	9.1	9.9	9.8	9.7	9.5
Non-energy	13.1	15.9	16.7	16.4	16.0	16.4	16.4	16.5	16.5
Expenditure	35.7	37.4	35.2	34.2	34.7	34.6	34.6	34.6	34.7
Current	30.8	32.6	32.3	31.8	31.8	31.7	31.7	31.7	31.8
Capital expenditures and net lending	4.8	4.8	2.9	2.4	2.9	2.9	2.9	2.9	2.9
Overall fiscal balance	-5.4	-8.3	-12.1	-11.0	-9.6	-8.3	-8.3	-8.4	-8.7
Overall fiscal non-energy balance	-22.5	-21.5	-18.5	-17.8	-18.7	-18.2	-18.2	-18.1	-18.2
Primary balance	-5.6	-6.2	-9.6	-7.9	-6.4	-5.2	-5.2	-5.2	-5.2
Central government debt 3/	25.4	27.9	37.5	41.1	41.4	43.9	46.6	52.3	58.0
Public sector debt 3/	42.0	47.7	58.3	61.2	62.5	65.4	68.5	74.8	80.0
Net of HSF deposits	21.0	24.2	31.5	34.1	35.1	38.1	41.3	47.8	53.2
<b>External sector</b>									
External current account balance	14.5	3.8	-10.7	-8.5	-7.9	-7.3	-6.3	-6.8	-6.5
Gross official reserves (US\$ millions)	11,493	9,927	9,466	8,419	7,766	7,190	6,733	6,313	5,854
In months of imports	12.7	10.3	9.5	8.4	7.4	6.9	6.3	5.9	5.4
<b>Memo items:</b>									
Credit to private sector (12-month increase)	6.7	6.6	3.6	-6.4	0.7	4.2	3.4	2.8	3.5
One-off fiscal financing 4/	3.4	6.6	5.2	2.4	4.9	4.3	3.7	0.6	0.6
Sources: Ministry of Finance; Central Statistics Office; and IMF staff projections.									
1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).									
2/ Fiscal year ending in September.									
3/ Excluding debt issued for sterilization.									
4/ Includes asset sales and super-dividends. These are counted as financing based on IMF's Government Finance Statistics Manual.									



# TRINIDAD AND TOBAGO

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

October 4, 2017

### KEY ISSUES

**Context:** Continued low energy prices and three years of recession have significantly widened fiscal deficits. Absent consolidation, fiscal balances and public debt are projected to be on an unsustainable medium-term trajectory. The external balance assessment indicates the currency remains overvalued. Together with low prices and weak output in the energy sector, this has considerably widened the current account deficit. These large current account deficits have been financed by official borrowing, private capital inflows, and some reserve losses, thus starting to rapidly erode a large positive foreign asset position. That said, reserve losses have been limited by the rationing of foreign exchange, which, however, has led to persistent and highly distortionary shortages in the foreign exchange (f/x) market. Monetary policy has been on hold on concerns that lower interest rates would exacerbate pressures in the foreign exchange (f/x) market, where shortages are already widespread.

#### Policy recommendations:

- **Restoring macroeconomic stability.** Projected large fiscal deficits, based on current policies, would sharply increase the debt-to-GDP ratio over the medium term. Despite some policy actions already undertaken, sustainable fiscal adjustment requires additional measures. Given the urgency of consolidation, staff advocated high impact measures to achieve the required adjustment, with an eye towards increasing revenues and reducing current expenditures. Increasing public investment remains critical for a return to sustainable growth.
- **Managing external imbalances.** A significant exchange rate adjustment would help restore competitiveness, external and f/x market balance, help counteract the adverse impact of fiscal consolidation on growth, and allow for higher consumption and national welfare in the long run.
- **Supporting broad-based and inclusive growth.** Adopting structural reforms is critical for enhancing growth and diversification. These include improving the business climate, the efficiency and effectiveness of government employment programs, public sector administration, and data timeliness and quality.

Approved By  
**Jorge Roldos (WHD)**  
**and Zuzana**  
**Murgasova (SPR)**

Elie Canetti (Head), Abdullah AlHassan, Thomas Dowling, Oscar Hendrick, and Diva Singh (all WHD) visited Port of Spain and Tobago during July 20 to August 2. Alexandre Tombini (Executive Director, OED) participated in the concluding meetings, and Daryl Cheong (senior advisor, OED) accompanied the mission. The team met with Finance Minister Imbert, Central Bank Governor Hilaire, other senior government officials, representatives of the labor community, of the private sector, and members of the political opposition. Research support was provided by Lulu Shui; editorial support was provided by Malika El Kawkabi and Adriana Veras (all WHD).

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## RECENT DEVELOPMENTS

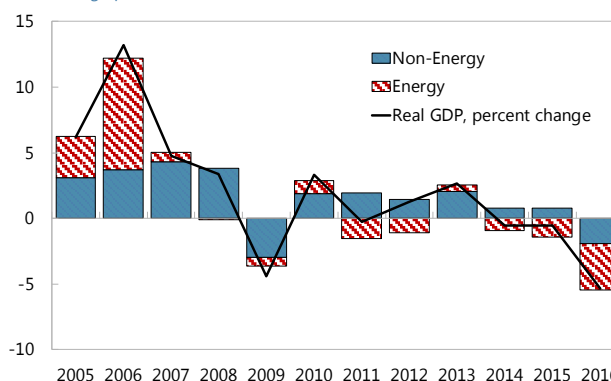
Given heavy dependence on energy for its export proceeds and fiscal revenues, the Trinidad and Tobago economy continues to suffer from low global oil and gas prices that fell in 2014 and have not recovered. Years of energy revenue windfalls in earlier years led to sustained rises in public expenditures which no longer appear affordable.

### 1. The recession deepened in 2016 with GDP contracting by an estimated 5.4 percent following two years of ½ percent declines. The energy sector contracted 10.1 percent amid

maintenance shutdowns, continued oil field depletion, and gas shortages. The toll on confidence and negative spillovers from the energy sector drove a contraction in non-energy output of around 3.0 percent. A fall in public investment led to a sharp drop in construction, while manufacturing was affected by the closure of a steel manufacturer. Inflation (period average) remained low at 3.1 percent y/y (headline) and 2.2 percent (core).<sup>1</sup> The unemployment rate ticked up to 4.1 percent.

**Real GDP Growth**

(Percentage points)



Source: Central Statistical Office.

### 2. The FY 2016 fiscal deficit rose sharply to almost 13 percent of GDP.<sup>2</sup> Energy-related revenues declined by 7 percentage points of GDP from FY 2015 due to falling energy prices and volumes and energy sector fiscal incentives.<sup>3</sup> Government spending fell 2 percentage points of GDP, largely from decreased capital spending and fuel subsidies. The authorities implemented fiscal measures aimed at containing the deficit including increasing the price of some fuels by 15 percent, reducing the number of zero-rated items for the VAT, and cutting the recurrent allocations of all ministries. On financing, the authorities benefitted from “one-off” sources totaling 7.2 percent of GDP including “super dividends” from the National Gas Company, drawdowns from the Heritage and Stabilization Fund (HSF), and asset sales.<sup>4</sup> In addition, the government issued a US\$1 billion Eurobond.

<sup>1</sup> Overall inflation reported here differs from the official numbers for 2016 due to a change in methodology.

<sup>2</sup> Fiscal years run from October 1st in the previous year to September 30th of the stated year, e.g. FY 2016 ran from October 1, 2015 through September 30, 2016.

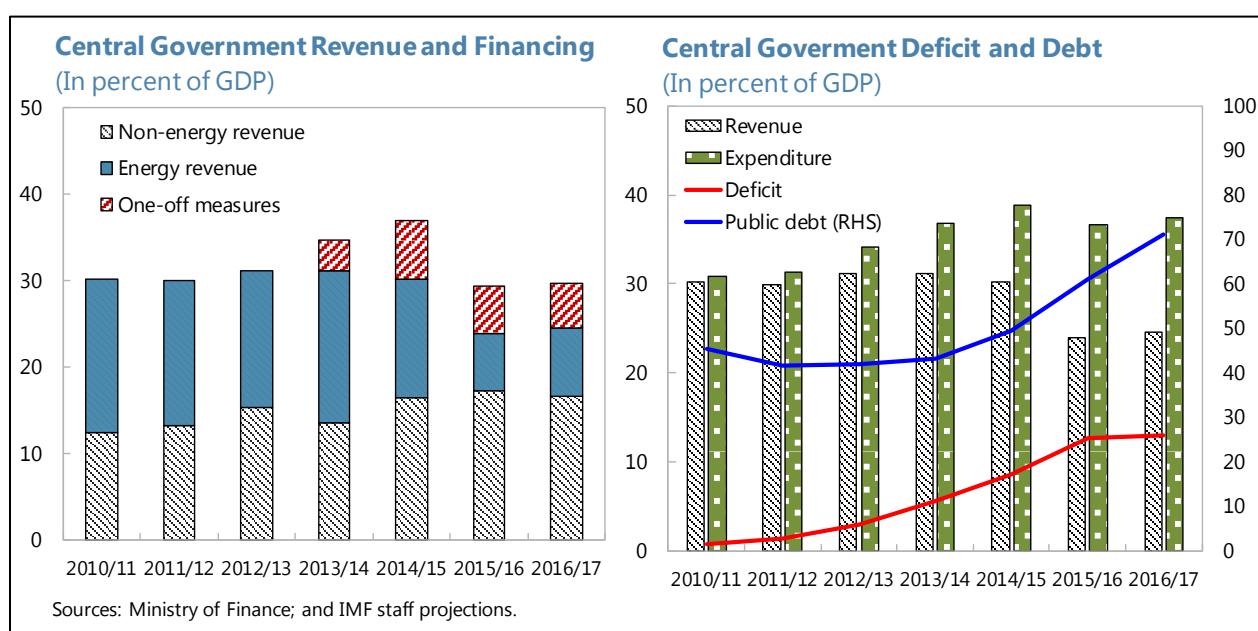
<sup>3</sup> These include, among others, exploration allowances (100 percent write-off on exploration in the first year) to stimulate investment in the sector that will wind down by end-2017, a tax loss carryforward by using realized losses to offset future capital gains, and capital allowances (plant, machinery, etc.) that allow for an accelerated write-off over 3 years (with the write-off in the first year at 50 percent) instead of 5 years.

<sup>4</sup> The drawdown from the HSF in March 2017 amounted to TT\$ 1.7 billion to help finance the public sector investment program, following an initial drawdown in May 2016 for TT\$ 2.5 billion (the two withdrawals totaled some 3 percent of GDP). “Super dividends” are withdrawals of funds in excess of the distributable income of the accounting year. “One-off” sources are accounted as financing based on IMF’s Government Finance Statistics (GFS) Manual. For

(continued)

**3. Despite the non-debt-creating financing, public debt has risen considerably since 2014.**<sup>5</sup> Central government debt rose from 26 percent at end-FY 2014 to about 40 percent of GDP at end-FY 2016, with public debt increasing to 61 percent of GDP and external debt to 15 percent of GDP over the same period.<sup>6</sup> Nevertheless, buffers remain substantial, with the HSF amounting to 27 percent of GDP and sinking fund assets of 5 percent of GDP.<sup>7</sup>

**4. Moody's and Standards & Poor's (S&P) each downgraded Trinidad and Tobago one notch in April 2017.** Moody's downgrade was to a sub-investment grade rating of Ba1 while S&P's rating is still an investment grade of BBB+. The downgrades were triggered by: (i) a policy response seen as insufficient to offset the impact of low energy prices on government revenues; (ii) a steady increase in public debt; and (iii) declining energy production, coupled with limited energy investment prospects. Both ratings carry stable outlooks.



FY 2015/16, the sale of assets amounted to TT\$ 3.6 billion, comprised of Methanol Holdings Trinidad Limited (TT\$ 1 billion) and other Colonial Life Insurance Company (Trinidad) Limited assets (TT\$ 2.6 billion).

<sup>5</sup> Part of the reason for the increase in the debt ratio was a 10.0 percent fall in nominal GDP in 2015.

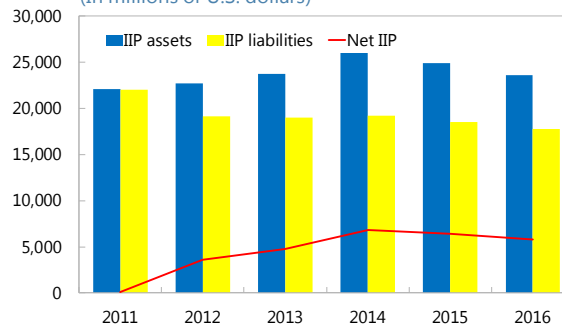
<sup>6</sup> Public debt includes central government debt and the government's contingent liabilities arising from guaranteed debt of statutory authorities and state-owned enterprises. An overdraft from the CBTT is not included in public debt figures. Such borrowing is permitted up to 15 percent of projected revenues in any FY, but such advances will be limited to the amount by which the total amount authorized in the year of the earliest outstanding advance exceeds the unpaid balance thereof. As a short-term facility, it is not included in the public debt data.

<sup>7</sup> The authorities maintain holdings of liquid assets in sinking funds to cover future principal payments.



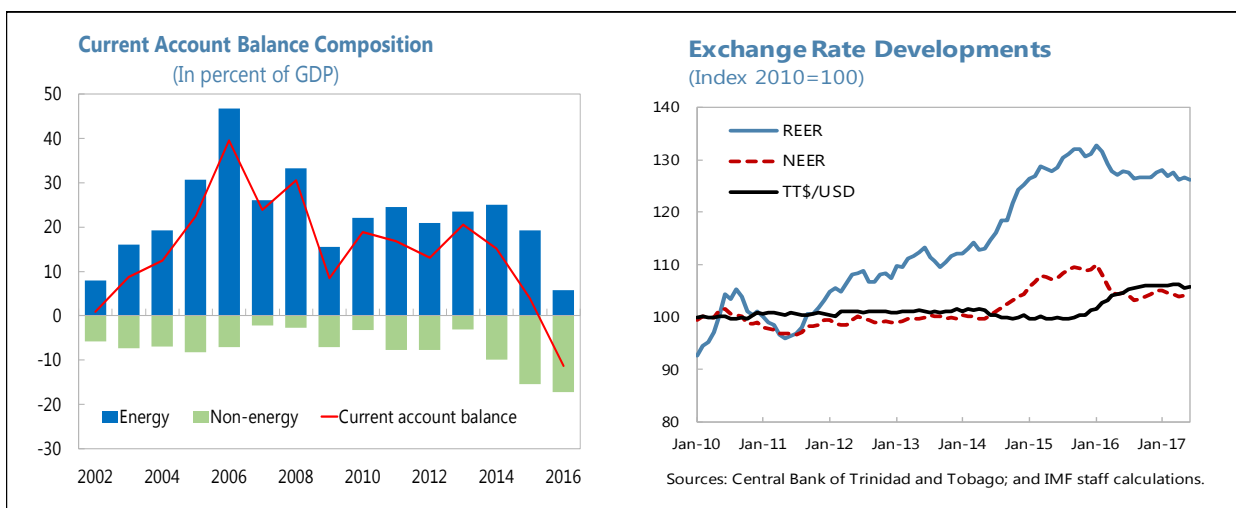
**5. Trinidad and Tobago is a net creditor.** The Net International Investment Position (NIIP) is estimated at a positive US\$ 5.8 billion at end-2016 (27.5 percent of GDP). The accumulation of international reserves and net portfolio investment abroad were the most important factors building up the NIIP through 2014. However, the NIIP declined over the last two years.

**International Investment Position**  
(In millions of U.S. dollars)



Source: Central Bank of Trinidad and Tobago.

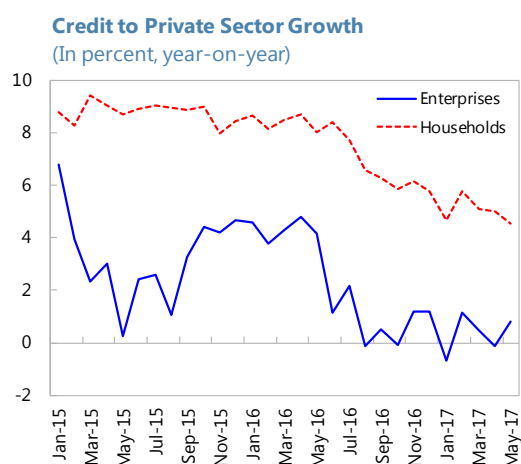
**6. The country’s external position is deteriorating.** The real effective exchange rate (REER) calculated by the CPI-based approach shows overvaluation of 28.5 percent at end-2016 (see chart).<sup>8</sup> Additionally, IMF External Balance Assessment models (EBA) suggest the external position is substantially weaker than the level suggested by fundamentals and desirable policy settings. The EBA models point to an overvalued currency, with estimates ranging between 23.6 and 48.5 percent (Annex II). The uncertainty of these estimates is compounded by a structural break in BOP data since 2011 and a structural drop in energy prices. The substantial overvaluation reflects, among other factors, the significant terms-of-trade shock and, given that the CBTT mostly keeps the nominal exchange rate stable against the US dollar, U.S. dollar appreciation from 2012-2016.



**7. That said, the CBTT depreciated the TT dollar 7 percent against the US dollar in the second half of 2016, which, however, appeared to do little to alleviate f/x shortages.** Market participants universally report that shortages remain severe and that black-market f/x transactions are becoming common, though reports vary on the rate. Also, businesses’ relations with foreign suppliers are reportedly still being damaged by difficulties in sourcing f/x for servicing debts.

<sup>8</sup> This result should be interpreted with caution due to the change in CPI methodology mentioned above.

**8. Interest rates have remained on hold since 2015.** Since tightening a final 25 basis points in December 2015, the CBTT has held the repo rate constant at 4.75 percent. While the recession and low inflation were arguably grounds for lowering rates, the CBTT deemed such a move would exacerbate f/x market pressures by making capital outflows more attractive. Private sector credit growth slowed in 2016 and into 2017, with business credit grinding to a virtual halt and household credit slowing. The slowdown appears to be entirely demand-driven given still high bank liquidity.



Source: Central Bank of Trinidad and Tobago.

**9. Banks remains strong.** As of April 2017, the NPL ratio remains low at 3 percent despite the economic slowdown, while capital buffers remain very high (22 percent of risk-weighted assets) and liquidity is ample. In February 2017, Parliament passed the Tax Information Exchange Agreement Bill, an important step to comply with the United States' Foreign Account Tax Compliance Act (FATCA), although further implementation steps remain. The authorities reported that they are amending income tax legislation to comply with Global Forum requirements on tax transparency, a matter of high priority given the recent singling out of Trinidad and Tobago as the only non-compliant jurisdiction. The long-pending Insurance Bill to strengthen insurance regulation is again under deliberation in Parliament.

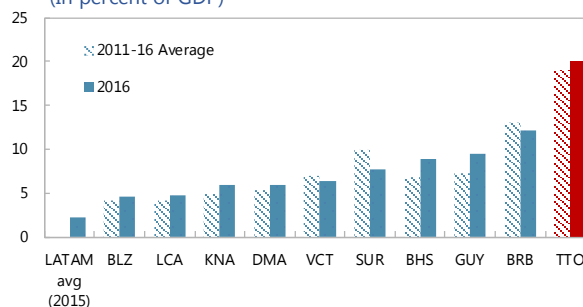
## OUTLOOK AND RISKS

**10. Growth is projected to fall in 2017 and then rebound but will remain constrained given structural impediments.**<sup>9</sup> New energy projects coming on stream in the second-half of 2017 and the winding down of maintenance-related downtime should partially offset weak first-half energy production and continued contraction of the non-energy sector. Nonetheless, staff project GDP will contract by 3.2 percent in 2017 before turning positive in 2018 and then settling around 1.4 percent by 2022. The 2018 recovery is predicated on a strong turnaround in the oil sector, due in part to expansion of refining capacity, and the expectation that several gas projects will come online, combined with a full year of production from gas projects coming on stream in 2017. Inflation (period average) is projected to remain between 3.0-3.7 percent through 2022. Staff expect the current account deficit to persist through the medium term, averaging 8 percent of GDP absent measures to address the fiscal imbalance and structural reforms. The financial account is projected to maintain a significant surplus on foreign direct investment linked to energy sector projects that more than compensate for other net outflows. International reserves, though still sufficient on standard metrics, are projected to fall to about 5 months of imports by the end of the projection period, absent a rebound in energy prices and/or a further expansion of energy production.

<sup>9</sup> Recent discoveries of around 2 trillion cubic feet of gas are scheduled to come into production starting in 2021/22.

**11. Staff estimates the fiscal deficit to increase to a peak of 13 percent of GDP in FY 2017 and stay high over the medium term, assuming no fiscal reforms.**<sup>10</sup> Energy revenues stay at about 8 percent of GDP for FY 2017, after being as high as 17½ percent of GDP in FY 2014. While the government has introduced several revenue measures, yields have generally been less than anticipated and/or implementation has been delayed. At the same time, total expenditure levels remain elevated due to still extraordinarily high levels of subsidies and transfers, and despite the slow execution so far of the Public-Sector Investment Program (PSIP).

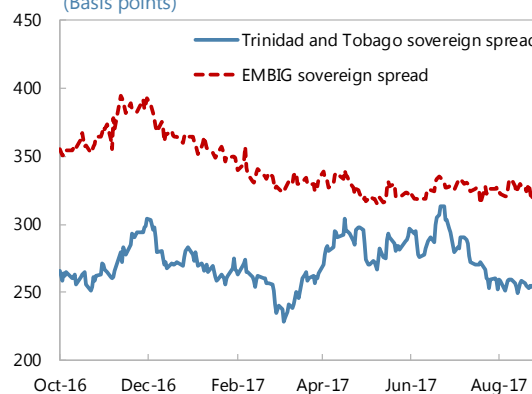
**Central Government Subsidies and Transfers**  
(In percent of GDP)



Sources: Ministry of Finance; and Fund staff estimates.

**12. Current policies put public debt on an unsustainable trajectory.** As non-debt creating financing options diminish over time, staff projects central government debt to rise to about 84 percent of GDP and public debt to 109 percent of GDP by 2022. Although high domestic bank liquidity and external bond spreads under 300 bps suggest considerable capacity for further market absorption of debt, there are elevated risks from the level of debt and gross financing needs.

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



Source: Bloomberg.

**13. Risks to the outlook are tilted to the downside (Annex III).** Further disruptions to energy production and/or a failure to adopt a comprehensive medium-term economic strategy, especially a convincing fiscal adjustment, would weaken confidence and depress the private sector's willingness to undertake growth- and employment-enhancing investments. Failing to address gas shortages could conceivably lead downstream companies to close or relocate. Appreciation of the US dollar, absent greater exchange rate flexibility, could worsen competitiveness and increase capital outflows. A failure to address f/x shortages would limit business capacity to make imports or pay suppliers, hampering economic activity. On the upside, significant new energy discoveries or an unexpectedly large rise in energy prices could help restore confidence and improve balance of payments and fiscal prospects.

### Authorities' Views

**14. The authorities are aware that the energy price shock along with lower domestic energy production have negatively impacted growth over the past few years.** However, given the expected rebound in natural gas production in the second half of 2017, they anticipate a better outturn for the year as a whole than what is being projected by staff. Going forward, the authorities

<sup>10</sup> The authorities' mid-year FY 2017 budget has an overall deficit of 4.2 percent of GDP. However, this includes asset sales and super-dividends of about 8.8 percent of GDP that the authorities consider revenues, but which are accounted as financing on a GFS basis.

anticipate a return to stable growth in the medium-term given the series of anticipated projects in the energy sector, measures being undertaken to enhance the ease of doing business, and diversification efforts such as a planned large luxury hotel resort in Tobago.

<b>Medium-Term Macroeconomic Framework (Baseline Scenario)</b>									
	Estimates			Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>National income and prices</b>									
Real GDP growth (in percent)	-0.6	-0.6	-5.4	-3.2	1.9	2.2	1.6	1.4	1.4
Energy	-2.5	-4.0	-10.1	-3.3	7.7	6.7	1.9	0.8	0.8
Non-energy 1/	1.2	1.2	-3.0	-3.1	-1.1	-0.3	1.5	1.7	1.7
Inflation (in percent)									
Period average	5.7	4.7	3.1	3.2	3.2	3.7	3.3	3.3	3.2
End of period	8.4	1.6	3.1	3.2	3.2	3.7	3.3	3.3	3.2
(In percent of GDP, unless otherwise indicated)									
<b>Central government finances 2/</b>									
Revenue	31.2	30.2	23.9	24.5	25.0	26.7	26.7	26.6	26.4
Energy	17.6	13.7	6.6	7.8	8.0	9.4	9.4	9.2	9.1
Non-energy	13.5	16.5	17.3	16.7	17.0	17.3	17.3	17.3	17.3
Expenditure	36.8	38.8	36.6	37.5	38.0	38.4	38.5	38.6	38.8
Current	31.8	33.8	33.5	35.0	35.0	35.4	35.5	35.6	35.8
Capital expenditures and net lending	5.0	4.9	3.1	2.5	3.0	3.0	3.0	3.0	3.0
Overall fiscal balance	-5.6	-8.6	-12.7	-13.0	-13.0	-11.7	-11.8	-12.0	-12.3
Overall fiscal non-energy balance	-23.2	-22.3	-19.3	-20.8	-21.0	-21.1	-21.2	-21.3	-21.4
Primary balance	-5.8	-6.4	-10.6	-10.2	-9.7	-8.1	-8.0	-8.0	-8.0
Central government debt 3/	26.2	28.9	39.4	47.2	54.7	60.4	65.6	74.1	82.5
Public sector debt 3/	43.2	49.5	61.2	71.2	79.6	85.6	91.1	100.1	107.9
Net of HSF deposits	22.2	25.9	34.4	44.1	52.2	58.3	64.0	73.1	81.1
<b>External sector</b>									
External current account balance	15.1	3.9	-11.3	-9.0	-8.4	-7.8	-6.8	-7.3	-7.0
Gross official reserves (US\$ millions)	11,493	9,927	9,466	8,433	7,814	7,236	6,803	6,334	5,888
In months of imports	12.7	10.3	9.5	8.4	7.5	6.9	6.4	6.0	5.4
<b>Memo items:</b>									
Credit to private sector (12-month increase)	6.7	6.6	3.6	-7.0	3.2	3.0	2.2	2.2	2.1
One-off fiscal financing 4/	3.5	6.8	5.5	5.2	4.6	4.1	3.9	0.6	0.6

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

1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).  
2/ Fiscal year ending in September.  
3/ Excluding debt issued for sterilization.  
4/ Includes asset sales and super-dividends. These are counted as financing based on IMF's Government Finance Statistics Manual.

## POLICY DISCUSSIONS

*Sharp and durable adverse shifts in fiscal and current account balances, stemming from persistently lower prices and output declines in the energy sector necessitate policies to promote sizeable adjustment on both fronts. The country's financial buffers can smooth the adjustment, but the size of the imbalances means that a failure to commence a program of significant measures now would curtail the country's future prospects and eventually destabilize the economy. The policy response would require stabilizing the trajectory of government debt, and supporting broad-based and inclusive growth through structural reforms. Adopting a more competitive exchange rate could also help. Monetary policy could eventually be eased to support a recovery, contingent on the fiscal and exchange rate reforms.*

## A. Fiscal Policy

**15. Staff emphasized the need to adopt a comprehensive, multi-year consolidation package to achieve fiscal sustainability and also help restore external balance.** Despite large buffers, the size of imbalances suggests that such consolidation is urgent. While fiscal consolidation, by itself, initially has a direct impact subtracting overall demand from the economy, it is essential to ensuring debt-sustainability and hence growth in the long run, while also reducing pressure on the current account. A well-communicated and comprehensive reform package, especially if accompanied by appropriate structural reforms, would also help restore confidence and likely incentivize the private sector to at least partially compensate for the adverse growth impulse with offsetting investments. Staff urged the authorities to make the medium-term fiscal goals and strategy public, including through clearly enumerated revenue and expenditure measures.

**16. Staff estimated that fiscal measures of about 6 ½ percent of GDP would be needed over the medium-term (through 2022) to put debt on a sustainable path.**<sup>11</sup> This would contain central government debt to around 55 percent of GDP, and public sector debt to around 80 percent of GDP, over the medium term. Staff advocated that the adjustment should be balanced between revenue raising and current expenditure containment. Those expenditures increased by 10 percentage points of GDP over the last decade and can no longer be financed by sustainable “core” revenues (defined as revenue from taxation, royalties, and customs duties). At the same time, efforts to enhance revenues (and reduce reliance on an unsustainable level of asset sales and “super-dividends”), both through policy measures and improved tax compliance will remain critical. Staff’s policy scenario allowed for continued reliance on asset sales of 0.6 percent of GDP per year beyond 2020 to ease the adjustment and help contain the increase in public debt ratios as part of an overall adjustment strategy.<sup>12</sup> Staff also stressed the importance of developing additional contingent policy measures that could be deployed if necessary to achieve the needed adjustment.

### Revenue Measures

**17. The authorities have taken several revenue initiatives which staff welcomed, but more are required given the minimal yields from these measures.** Property taxes are unlikely to be collected in FY 2017 due to being introduced late in the year and legal challenges on the procedural aspects of property valuation. Excise taxes on online purchases will only be half the amount budgeted. Improving tax administration is estimated to generate only around TT\$ 100 million (less than 0.1 percent of GDP) in FY 2017. The gaming tax is contingent on passing the Gaming and Betting Control Act by Parliament, requiring a 3/5<sup>th</sup> majority, and even so is expected to yield only a small amount compared to the size of the gaming industry.

<sup>11</sup> The multipliers used are based on the IMF 2014 Technical Note “Fiscal Multipliers: Size, Determinants, and Use in Macroeconomic Projections”. Staff used the “bucket approach” to estimate the range of the multipliers (0.2-0.6) and applied them to non-energy growth over a 5-year horizon. It is likely that fiscal adjustment would need to continue beyond the five-year projection period considered. Changes to monetary and exchange rate policies were not modeled in the adjustment scenario, but a devaluation could help reduce the size of needed fiscal adjustment.

<sup>12</sup> The outturn of a recent High Court case will allow the government to liquidate the assets of CL Financial, a financial conglomerate bailed out by the government in 2009, in order to realize some TT\$15 billion (11 percent of GDP) of additional financing over the coming years.

### Medium-Term Macroeconomic Framework (Active Scenario)

	Estimates			Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>National income and prices</b>									
Real GDP growth (in percent)	-0.6	-0.6	-5.4	-3.2	1.6	1.5	0.7	0.4	0.5
Energy	-2.5	-4.0	-10.1	-3.3	7.7	6.7	1.9	0.8	0.8
Non-energy 1/	1.2	1.2	-3.0	-3.1	-1.4	-1.3	0.0	0.2	0.3
Inflation (in percent)									
Period average	5.7	4.7	3.1	3.2	3.6	2.9	2.5	2.4	2.4
End of period	8.4	1.6	3.1	3.2	3.6	2.9	2.5	2.4	2.4
(In percent of GDP, unless otherwise indicated)									
<b>Central government finances 2/</b>									
Revenue	31.2	30.2	23.9	24.5	25.4	28.8	30.2	30.0	29.8
Energy	17.6	13.7	6.6	7.8	8.0	9.5	9.5	9.3	9.2
Non-energy	13.5	16.5	17.3	16.7	17.5	19.4	20.8	20.7	20.6
Expenditure	36.8	38.8	36.6	37.5	37.9	36.0	35.0	33.8	32.6
Current	31.8	33.8	33.5	35.0	34.1	33.1	32.0	30.8	29.7
Capital expenditures and net lending	5.0	4.9	3.1	2.5	3.7	3.0	3.0	3.0	3.0
Overall fiscal balance	-5.6	-8.6	-12.7	-13.0	-12.4	-7.2	-4.7	-3.8	-2.8
Overall fiscal non-energy balance	-23.2	-22.3	-19.3	-20.8	-20.4	-16.7	-14.2	-13.1	-12.0
Primary balance	-5.8	-6.4	-10.6	-10.2	-9.1	-3.7	-1.2	-0.3	0.6
Central government debt 3/	26.2	28.9	39.4	47.2	54.0	55.4	54.1	55.2	55.3
Public sector debt 3/	43.2	49.5	61.2	71.2	78.9	80.6	79.6	81.1	80.9
Net of HSF deposits	22.2	25.9	34.4	44.1	51.5	53.3	52.4	54.1	54.1
<b>External sector</b>									
External current account balance	15.1	3.9	-11.3	-9.0	-8.4	-7.6	-6.3	-6.6	-6.0
Gross official reserves (US\$ millions)	11,493	9,927	9,466	8,677	8,222	7,708	7,363	7,081	7,035
In months of imports	12.7	10.3	9.5	8.6	7.9	7.5	7.0	6.7	6.6
<b>Memo items:</b>									
Credit to private sector (12-month increase)	6.7	6.6	3.6	-6.7	7.1	7.4	4.1	3.7	3.4
One-off fiscal financing 4/	3.5	6.8	5.5	5.2	4.6	4.1	4.0	0.6	0.6

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

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

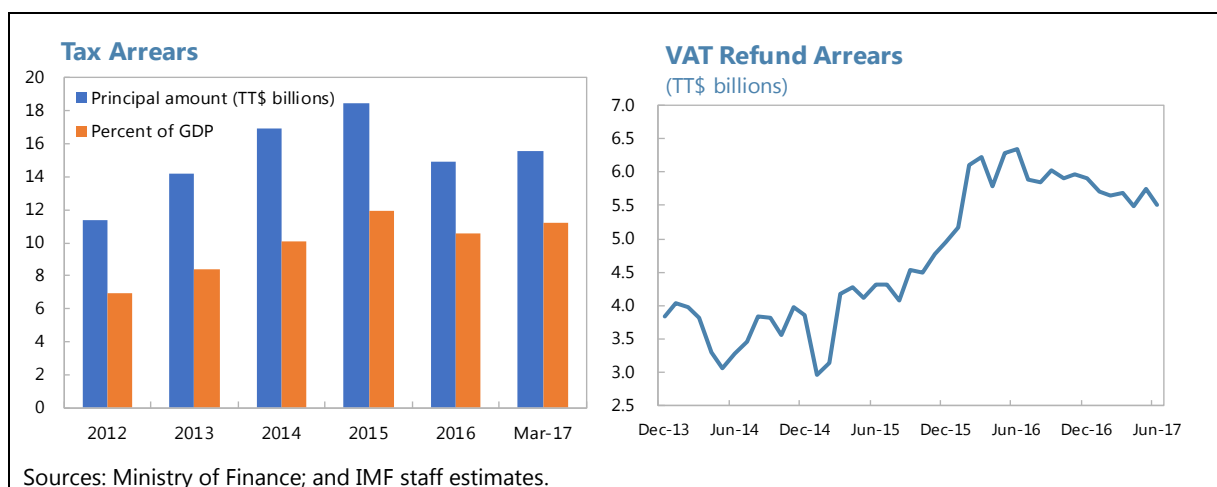
2/ Fiscal year ending in September.

3/ Excluding debt issued for sterilization.

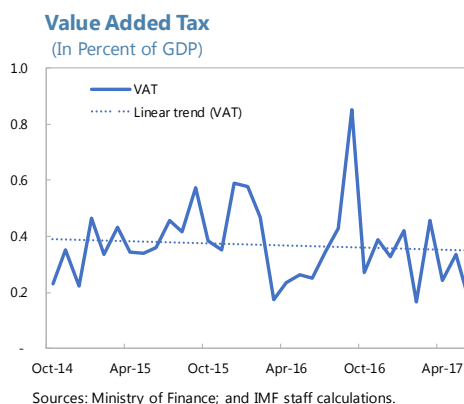
4/ Includes asset sales and super-dividends. These are counted as financing based on IMF's Government Finance Statistics Manual.

**18. Tax reforms should be continued to promote efficient allocation of resources and support long-term growth.** Staff advocated accelerating reforms relating to:

- **Tax administration:** enhancing tax administration is vital. The outstanding principal amount of tax arrears is at 11 percent of GDP as of end-March 2017 while the Doing Business survey ranks Trinidad and Tobago 145th in its “paying taxes” index.<sup>13</sup> Delays in the payment of VAT refunds not only impact businesses’ cash flow, but may also affect compliance.<sup>14</sup> Further, staff supported, including via technical assistance, the establishment of a unified Revenue Authority (RA) to enhance revenue collection. Staff also welcomed the authorities’ intention to use the Tax Administration Diagnostic Assessment Tool (TADAT) to identify strengths and weaknesses in systems, processes, and institutions and help set reform priorities.



- **Oil and gas taxation:** energy revenue accounted for only 27 percent of total government **revenue** in FY 2015, compared to around 55 percent during the preceding decade. Low oil prices, combined with fiscal incentives for the energy sector have depressed energy revenue for the past few years.<sup>15</sup> Over time, the fiscal regime has become unduly complex and a source of uncertainty for tax authorities and taxpayers. The authorities intend to promote investment in the sector by reducing the fiscal burden on low-profitability projects. At the same time, the extraction of natural resources needs to result in some minimum payments to the government. The IMF has provided the authorities advice on how to reform the legal and fiscal framework for the oil and gas sector (Box 1).



<sup>13</sup> The total tax arrears with penalty and interest amounted to about 39 percent of GDP.

<sup>14</sup> Rather than remitting the net VAT, the government collects gross VAT and then requires a budgetary allocation to remit the refunds. This also suggests that total tax revenues may be overstated to the extent that refund arrears, which should properly be counted as a financing item, are growing.

<sup>15</sup> The supplemental petroleum tax applies only if the West Texas Intermediate oil price is above US\$ 50 per barrel.

- **VAT reforms:** decreasing the number of zero-rated items while lowering the VAT rate in 2016 resulted in a net decrease in VAT collections, exacerbated by the downturn in the economy and tax evasion. Staff recommended further widening the VAT base. In addition, the authorities could consider raising the overall VAT rate to the regional average of 15-16 percent. Over time, the authorities should replace the system of budgeting for VAT refunds with a system that only remits net VAT proceeds to the budget.
- **Transfer pricing regime:** staff welcomed the authorities' engagement with the Inter-American Centre of Tax Administrations on preparing transfer pricing legislation to reduce tax leakages from shifting profits to other jurisdictions.

### Box 1. Reforming the Fiscal Regimes for Oil and Gas

**Trinidad and Tobago has become a major gas producer but is now experiencing declining production and low energy prices.** Average daily oil production by 2016 had fallen to some 71,500 barrels per day from around 143,500 in 2006. Gas production, on the other hand, increased over 25 years to a peak of 4.3 billion standard cubic feet (scf) of gas per day in 2010, but then leveled out and has since declined to 3.3 billion scf per day in 2016. Nonetheless, significant untapped resources remain. Revisions to commercial and fiscal regimes are now needed to help bring them to development.

**Two fiscal systems operate for upstream petroleum production.** Under the Exploration & Production (E&P) system, the major fiscal imposts upon the petroleum sector are royalties, a petroleum profits tax (PPT) and a supplementary petroleum tax (SPT). Production sharing contracts (PSCs), by contrast, raise revenues via profit-sharing arrangements.

**The government plans to reform the oil and gas fiscal regime, aiming to provide attractive terms for investment while securing a substantial share of the value of the country's resources for the government.** The government also seeks to promote investment by reducing fiscal obstacles to low-profit activities that nonetheless increase marginal supply. It will also seek to adopt a regime that assures that extraction of the country's natural resources always results in some appropriate payment to the government.

**The proposed reforms simplify and modernize both PSC and E&P systems.** The reforms respect existing contracts and ensure fair and non-discriminatory treatment of current license holders in the transition:

- **E&P:** The current form of SPT has proved an inefficient way of securing additional rents from the sector. Its replacement by a cash-flow tax is under consideration. The PPT would become more like a normal business income tax, with lower rates and allowances, and thus offer a more stable source of revenue.
- **PSC:** transition to an R-factor (or payback ratio) petroleum sharing scheme is proposed for new bidding rounds. Current reliance upon predictions of production and prices will change, where the base for sharing or tax will take account of all factors that contribute to producing value from the resource in the ground.<sup>1</sup>

Source: IMF technical assistance (2016-2017).

<sup>1</sup> The R-Factor is the ratio of cumulative revenue net of operating costs to cumulative exploration and development costs outlaid. The tax rate is zero when the R-Factor is less than one and increases according to a progressive scale.



## Expenditure Measures

**19. Further expenditure reforms of at least 3½ percent of GDP are needed.** Staff encouraged the authorities to implement the already-announced full elimination of fuel subsidies, and cost-saving reforms to temporary employment and higher education programs. Staff argued that the priorities for expenditure reforms should be:

- **Transfers and subsidies:** though fuel subsidies have fallen from 4.2 percent of GDP in FY 2014 to 0.6 percent in FY 2016, non-fuel transfers increased by 3 percentage points of GDP during the same period. In all, total transfers amounted to about 19 percent of GDP (and over 50 percent of total expenditure) in FY 2016. Transfers to households and the public sector could be made more cost-efficient based on the outcome of the World Bank Public Expenditure Review (PER), which is expected to commence in late 2017.
- **Public investment:** though cuts to expenditure should be deficit reducing on net, staff advocated for an increase in growth-enhancing public investment, since such spending has fallen in half (in percent of GDP) since FY 2015. Staff welcomed the authorities' plan for public investment management assessment (PIMA) technical assistance to find cost-savings, limit delays, and improve the execution of public investments.
- **Public bodies (PBs).** PBs operate across many sectors of the economy and have doubled in size over the last decade. While some contribute substantial dividends to the central government, others impose a significant fiscal drain. Transfers to PBs amounted to 3.5 percent of GDP in FY 2016, and some PBs, notably public utilities, provide services on a highly-subsidized basis. The government has pledged to undertake PB reforms to reduce their scope and improve resource allocation. However, a more far-reaching plan is needed to address inefficient PBs to reduce the drag on public finances. Critically, staff recommended liberalizing pricing policies to allow for cost-recovery and avoid the wasteful consumption that results from excessive subsidization. Some proportion of the savings could be redirected towards the most vulnerable segments of society.<sup>16</sup>

## Other fiscal issues

**20. Staff welcomed fiscal structural reforms:**

- **Tax policy:** tax policy is currently formulated through the annual appointment of an *ad hoc* committee constituted from MoF divisions for which tax policy design is not a core function. To provide a more structured and coordinated process, the authorities intend to set up a Tax Policy Unit within the MoF before end-2017 (supported by IMF technical assistance), tasked with: taking the lead on tax-policy reforms; analyzing revenue collection; and advising on international tax treaty negotiations. Combined with the Finance Ministry's already strengthened macro-financial unit, this should facilitate medium-term fiscal planning and policy development.

<sup>16</sup> See Trinidad and Tobago—Selected Issues, "Reforming Public Bodies: Challenges and Reforms." September 2017.

- **Public procurement:** the authorities will abolish the Central Tenders Board and establish procurement units within line ministries to enhance efficiency, transparency, and accountability and achieve significant cost savings. Staff urged the authorities to expeditiously appoint the Procurement Regulator and the Board of Procurement Regulation, and expedite the establishment of procurement units within the line ministries, including through the assistance of the UNDP.

**21. The finances of the National Insurance System (NIS) have worsened and require further parametric reforms.** Based on a 2013 actuarial review, NIS assets would be depleted by 2030 if no changes were made, and net withdrawals could start as early as 2019. The worker-to-beneficiary ratio declined to 3.7 in 2016 and is projected to be 1.0 by 2060. In 2016, the authorities increased the contribution rate from 12 percent to 13.2 percent and froze the minimum pension. Further reforms needed to keep the system sustainable include raising the contribution rate to at least a breakeven point and enforcing the effective retirement age.<sup>17</sup>

**22. A sovereign asset and liability management framework (SALM) should be developed, given contingent liabilities and the national pension system's unfunded liabilities.** The HSF is managed by the CBTT and debt management operations are undertaken by the MoF (with the CBTT acting as fiscal agent). Currently, rules on HSF inflows and outflows are neither linked to fiscal indicators nor based on any assessment of longer-term fiscal sustainability. Staff recommended such rules should be more closely linked to a fiscal target. The authorities have initiated a review of the HSF Act. Further, a medium-term debt strategy with quantitative cost-risk benchmarks should be published.

### **Authorities' views**

**23. The authorities agreed with the need to reduce deficits to arrest adverse debt dynamics and restore confidence, but argued staff's recommendations were somewhat ambitious.** The authorities intend to reform energy taxation to continue to incentivize new investment while safeguarding public revenue; improve tax policy and administration; rein in current expenditure, in part based on the World Bank PER; begin reviewing utility tariffs with the aim of an eventual return to full cost-recovery pricing; and continue to remove fuel subsidies. The authorities are also committed to ramping up development expenditure to lay the foundation for future sustainable growth. However, the authorities felt that only about half of the recommended 6 ½ percent fiscal adjustment was feasible without undermining the already subdued economic growth outlook. At the same time, they anticipate that the recovery in natural gas production will result in a rebound in energy revenues over the medium-term. The authorities also acknowledged that FY 2017 financing is behind schedule as asset sales have been delayed, but noted these will be completed by early FY 2018.

<sup>17</sup> Though the retirement age is 65, there is no penalty for retiring at 60.

## B. The Balance of Payments and Foreign Exchange

**24. Staff urged the authorities to take steps to eliminate the imbalance in the f/x market and improve competitiveness.** Given the authorities' policy of directly controlling the bilateral exchange rate while failing to sell enough f/x to clear the market, the f/x market is now in a state of perpetual excess demand. There is widespread, if largely anecdotal evidence that this is undermining business confidence and impairing trade and growth.

**25. A currency devaluation which, if sufficiently large and introduced as part of a broader reform package, would help restore balance in the external position and in the f/x market.** This would stem both from expenditure switching incentives to reorient consumption and production towards conserving and earning f/x, and through a reduction in f/x hoarding that has resulted from f/x shortages and expectations of depreciation. The appropriate size of a potential devaluation is difficult to gauge given insufficient data and the wide range of estimates of overvaluation stemming from the External Stability Assessment (Annex II), but it would have to be sufficiently large to put two-way risk back into the market. Staff clarified that the advice was not a call for a floating exchange rate, given the need for a nominal anchor around which to stabilize price and wage expectations.

**26. Any adjustment to the exchange rate should be introduced as part of a broader fiscal and structural reform package.** Fiscal consolidation would play an important role in containing aggregate demand and inflation while devaluation would raise revenues in local currency terms. Structural reforms would work with a more competitive exchange rate to increase productivity and promote new export activities to diversify the sources of f/x earnings. Clear communications would be critical to restoring market confidence. Equally important would be staving off demands for wage increases that would erode the real value of the depreciation. Otherwise, there would be the risk of further nominal depreciations and a wage-price spiral.<sup>18</sup> Staff noted the impact on inflation of a devaluation could be subdued since the premium on black market transactions is already reportedly being passed through into prices.<sup>19</sup>

### *Authorities' views*

**27. The authorities recognized the imbalance in the domestic f/x market and are of the view that a combination of exchange rate, fiscal and monetary policies along with structural reforms will be needed to address the current disequilibrium.** While several fiscal and structural reforms are underway, until they become better entrenched and operationalized, the authorities

<sup>18</sup> Data is limited on the potential balance-sheet impacts of a devaluation. Banks are net long f/x and have relatively limited exposures to f/x-denominated loans (under 5 percent of total assets) and thus appear unlikely to suffer severe adverse effects from a devaluation. However, stress tests confirm that the external central government debt-to-GDP ratio would be particularly sensitive to a substantial devaluation over the medium-term, absent a significant fiscal consolidation (see Annex IV, Section B).

<sup>19</sup> An analytical evaluation of the potential inflation pass-through of a devaluation is difficult in the absence of much recent experience of currency depreciation and a lack of consistent inflation data. The recent modest depreciation of the TT dollar is unlikely to provide much guidance on the inflation impact of a more substantial devaluation accompanied by a significant fiscal adjustment, structural measures, and clear communications about the future regime, as proposed here.

were concerned about the adverse short-term impact of a sharp devaluation, namely through higher costs of basic imports (food and medicine), offsetting wage increases and resulting second-round inflationary impacts. They expressed preference for a more gradual approach to avoid what they view as undesirable volatility in the bilateral exchange rate.

### C. Monetary Policy

**28. Staff acknowledged that monetary policy considerations are finely balanced.** On the one hand, low inflation and falling demand may suggest that the CBTT could lower interest rates modestly, although limited transmission to the wider set of interest rates weakens the argument for doing so. On the other hand, falling interest rate differentials vis-à-vis the United States may have made it even more attractive to purchase U.S. assets, thus further exacerbating pressures on the f/x market, and would warrant policy rate hikes.

**29. On balance, staff supported the CBTT's policy of holding policy interest rates constant and avoiding signaling a bias in either direction.** Contingent on the adoption of the fiscal and exchange rate policies recommended by staff, and continued weak aggregate demand and low inflation, the CBTT could eventually support growth with some modest interest rate easing, which would probably work primarily through a signaling effect given the weak transmission of monetary policy.

### D. Financial Sector

**30. The banking sector remains resilient and profitable despite the prolonged recession.** Financial soundness indicators are sound and banks' net interest margins and fee-based incomes have remained high enough to assure solid profits and double-digit ROEs. The central bank continues to push forward on adopting Basel II with a target date of June 2018 for going live on Pillar I.

**31. Staff urged the authorities to enact legislation to strengthen supervision of the non-bank financial sector and enhance tax transparency in line with international standards.** Staff pressed the authorities to pass the long-delayed bill on modernizing insurance supervision and to restore momentum to efforts to bring credit union supervision under the remit of the CBTT. Staff also emphasized the importance of reviewing and modernizing legislation for the monitoring and supervision of non-bank financial institutions identified by the CBTT as systemic. Finally, staff urged the authorities to prioritize and expedite the actions (including the passing of amended income tax legislation) necessary to comply with the Global Forum's standards on tax transparency and cooperation.

**32. Staff encouraged the authorities to continue progress in addressing key deficiencies outlined by the 2016 CFATF Mutual Evaluation Report (MER) on AML/CFT.** The authorities have taken steps in the areas of terrorism financing, the monitoring of money remitters, and verification processes for beneficial ownership. They have also completed the National Risk Assessment, with World Bank support. Nonetheless, staff urged the authorities to move forward on remaining work, particularly to ensure the effectiveness of the AML/CFT regime.

**Authorities' views**

**33. The authorities recognized the importance of meeting international standards on tax transparency and AML/CFT, and underscored their commitment to continuing progress in these areas.** The authorities agreed to give high priority to complying with the Global Forum's standards on tax transparency, and have already laid the Mutual Administrative Assistance in Tax Matters Bill, 2017 in Parliament in April. They also acknowledged that while substantial progress has been made to improve the AML/CFT framework, work must continue, particularly on strengthening judicial processes. Overall, the authorities noted that the financial sector has been resilient to the energy price and economic shocks, with the banking sector maintaining healthy balance sheets, while also remaining well capitalized and profitable.

**E. Structural Reforms**

**34. Staff encouraged the authorities to pursue structural reforms to raise potential growth.** Staff urged continued improvements in the domestic business climate and reiterated its call for reforms to government "make-work" programs that distort the labor market and foster dependency. Staff welcomed the government's initiative to revamp procurement practices aimed at improving governance and achieving greater efficiency and cost savings.

**35. Though increasing economic diversification has repeatedly eluded governments, there have been some modest successes in this area.** In this vein, the government is revamping efforts to promote tourism (Box 2).

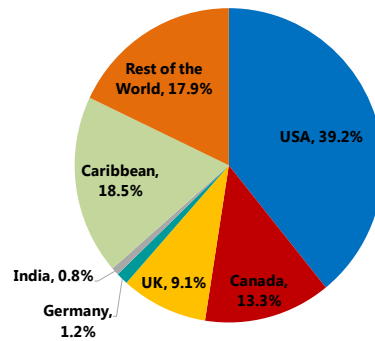
**36. Staff reiterated the need for reforms to increase public sector efficiency.** Labor rigidities in the public sector are pervasive and universally regarded as a serious impediment to the efficient functioning of the government. The Public Services Commission Department and the Chief Personnel Officer are overwhelmed, leading to extraordinarily lengthy delays in personnel decision-making, in turn increasing ministries' and public bodies' reliance on contract labor. Staff urged the government to streamline bureaucratic requirements for hiring, promoting and firing personnel. In this regard, the removal of the Ouster Clause has subjected the Public Service Commissions to excessive litigation that greatly ties up their resources. In addition, the Commissions need institutional strengthening, including regarding electronic record-keeping.

**37. Data shortcomings continue to hinder policy-making and surveillance.** Problems persist with the quality and timeliness of key macro-economic indicators, in part, due to poor coordination among information-producing agencies and pervasive staffing issues. Staff supported sustained efforts to build the country's statistical capacity. Transforming the Central Statistical Office (CSO) into an independent National Statistical Institute (NSI) is underway, but has faced delays. Pending the NSI's creation, providing adequate staffing and resources for the CSO must remain a priority. Staff urged the authorities to finalize and publish the 2014 Survey of Living Conditions on demographic and socio-economic trends.

**Box 2. Challenges and Recent Developments in Tourism**

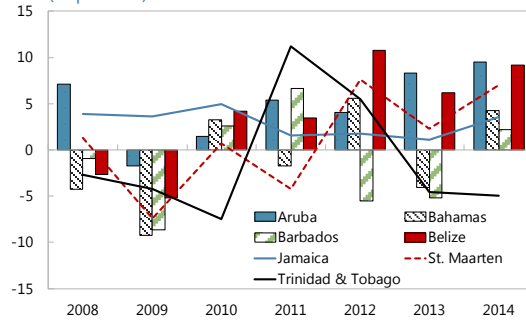
**Tobago has a rich natural and cultural heritage and great potential as a tourist destination.** There is a need for more direct flights, a steady air and maritime bridge between Trinidad and Tobago, and an improved mechanism for dialogue between the Tobago House of Assembly (THA) and the central government. International luxury hotelier Sandals is exploring opening a major all-inclusive resort in Tobago, which many view as a potential “game changer” for the tourism industry. It would also provide an opportunity for the government to improve infrastructure and public services.

**Tourism by Source Country: 2014**



**Tourism in Trinidad and Tobago has declined in recent years after a peak in 2011.** Arrivals declined by some 5 percent in 2013 and 2014. The relatively small share of Trinidad and Tobago in the Caribbean tourism market is explained by several factors including: (i) travel to Trinidad and Tobago measured in dollar per mile from its major markets (USA, UK, and Canada) is more expensive than to neighboring islands, (ii) inadequate human capital, (iii) limited quality of hotel rooms, and (iv) inadequate airport facilities. These are compounded by a negative perception of the importance of tourism, low public expenditure per visitor on marketing, and, in Tobago specifically, competition for skilled labor on the island by the THA, which employs about 60 percent of the labor force. Regulation and monitoring of the sector is weak, which is reflected in inconsistent service delivery, while problems in Tobago with proving land title are an obstacle to developing the sector.

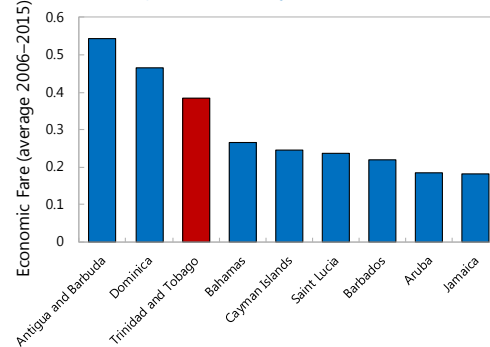
**Tourist Arrival Growth Rates (In percent)**



Sources: The Caribbean Tourism Organisation; the Authorities; and Fund Staff calculations.

**The new administration is making renewed efforts to support tourism as part of its diversification strategy.** In March 2017, the government closed the Trinidad and Tobago Tourism Development Company and is creating three new entities: (i) the Tobago Tourism Agency, (ii) the Tourism Trinidad Destination Management Co. Limited, and (iii) the Trinidad and Tobago Tourism Regulatory and Licensing Agency. The government expects that these will catalyze sustained development of the tourism sector. It will be critical to engage the private sector in this endeavor, and have a comprehensive and candid discussion of the needs to improve the regulatory framework, and the burden-sharing of this initiative between the government and the local and foreign private sectors.

**Economy Seat Fare by Destination (US dollars per mile, from major source markets)**



Source: The International Air Transport Association

**Authorities' views**

**38. The authorities broadly agreed with the structural reforms advised by staff.** A program to address business impediments identified in the World Bank's Doing Business reports was underway in conjunction with the Inter-American Development Bank. The authorities recognized the increased urgency of diversification efforts and that increased labor flexibility and efficiency in the public sector could facilitate adjustment given the shock to energy prices. The authorities also agreed that timely and high frequency statistics are needed. In this regard, they were of the view that work is well advanced on operationalizing the NSI which will replace the Central Statistical Office. In addition to improved physical infrastructure and staffing, the NSI will also be armed with enhanced authority to better collect data.

**STAFF APPRAISAL**

**39. Although the energy sector is starting to recover, the Trinidad and Tobago authorities continue to grapple with the impact of sharp declines in energy prices and volumes.** Recovery of the non-energy sector is expected to lag the energy sector, and there are downside risks should there be insufficient adjustment to restore fiscal sustainability or should access to f/x continue to be restricted. Most importantly, while substantial financial buffers can smooth the pace of adjustment, fiscal adjustment is necessary given the size and likely persistence of imbalances.

**40. Medium-term fiscal adjustments of 6 ½ percent of GDP are needed to stabilize the trajectory of government debt.** A less ambitious fiscal adjustment would not be able to contain debt sustainability risks. The authorities should undertake further VAT reforms and press ahead with plans to reform the energy sector fiscal framework and strengthen tax administration. Given the increase in current expenditure of 10 percentage points of GDP over the last decade, reining in such expenditure, guided by the findings of the World Bank's PER, is also critical. The authorities should tackle losses in state-owned utilities by engaging in cost-recovery pricing. Some expenditure savings can be used to increase capital investment to set the stage for a lasting recovery in growth.

**41. Staff assess the 2016 external position as substantially weaker than suggested by fundamentals and desirable policy settings.** After 17 years of current account surpluses, the balance is estimated to have turned into a deficit of 11 percent of GDP in 2016. Much of the deterioration is due to the large terms of trade shock, but falling energy production also has been important.

**42. External cushions are still relatively strong but policy measures are needed to deal with the newly emerged external imbalances and reverse the rapidly deteriorating trend.** The NIIP has declined over the last two years and will continue to deteriorate sharply under the baseline. In addition, shortages of f/x have impaired trade and investment and damaged businesses' relationships with suppliers while undermining confidence. Reducing and eventually eliminating the imbalances and the consequent distortions in the f/x market is critically important. Hence, staff encouraged the authorities to undertake strong policy actions while there is still room for maneuver. This requires a comprehensive package including fiscal adjustment to reduce domestic demand and structural reforms to encourage investment in export goods and services, and most likely, an

exchange rate adjustment to encourage both locals and foreigners to switch expenditures from foreign to domestic goods.

**43. The current monetary policy is appropriate, and in any case, room for maneuver is limited.** Modest interest rate easing could eventually support a recovery, but would be contingent on reestablishing policy credibility with a strong fiscal package, wide-ranging structural reforms, and restoring balance in the f/x market.

**44. There has been measurable progress on structural reforms, but more reforms are needed.** These include reforms to procurement, forming a tax policy unit, modernizing insurance regulation, and easing the costs of doing business. In addition, staff urges the authorities to remove pervasive labor rigidities in the public sector. Staff also emphasizes the importance of moving forward with AML/CFT and tax transparency reforms to comply with international standards.

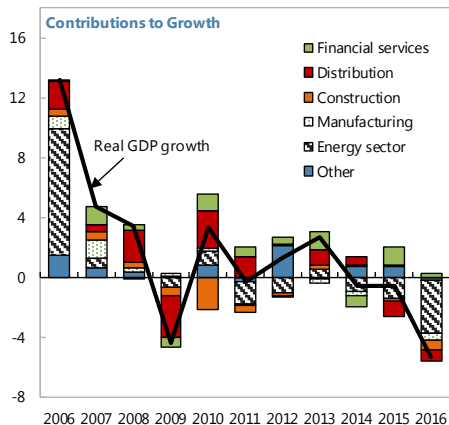
**45. The poor quality of statistics is an obstacle to informed policy making and improvement will require sustained attention.** The authorities' commitment to improving and reforming the statistical infrastructure, especially through putting the statistical authority on an independent and adequately funded footing, is welcome.

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

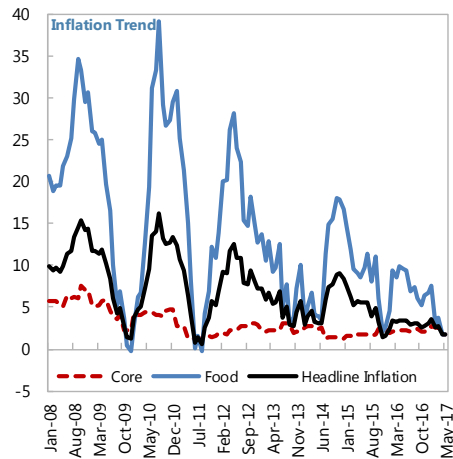


**Figure 1. Key Economic Developments**  
(in percent, unless otherwise indicated)

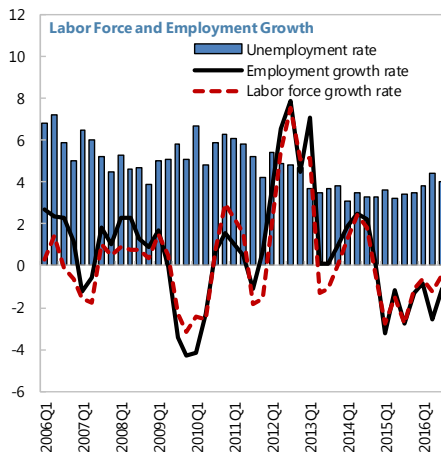
*A weakening non-energy sector and declining energy production have held back growth.*



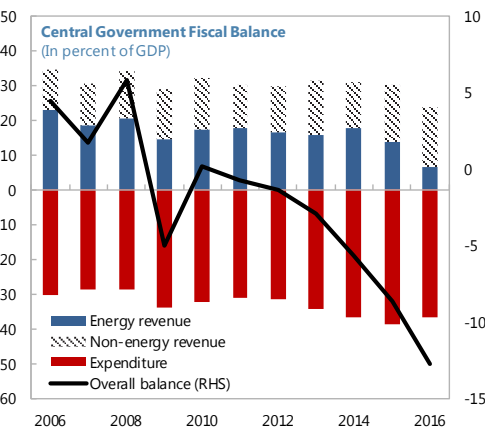
*Core inflation is well contained; the volatile food price index has been subject to methodological errors*



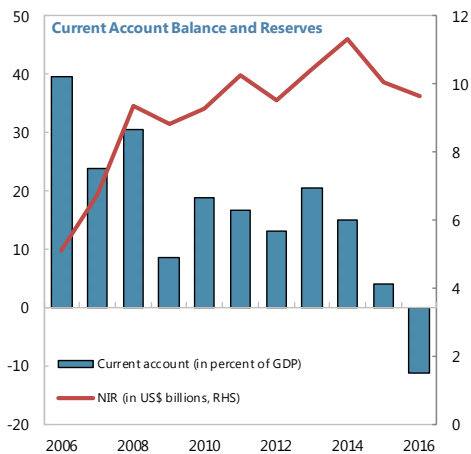
*Unemployment recently began to climb, while labor force growth has continued to slide.*



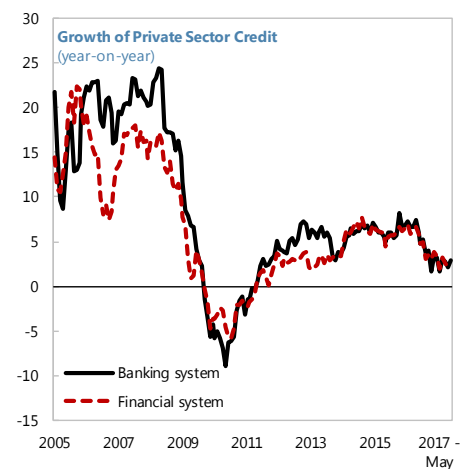
*Central government fiscal balance deteriorated as energy revenue declined.*



*The sharp decline in energy prices has negatively impacted the current account and net international reserves...*



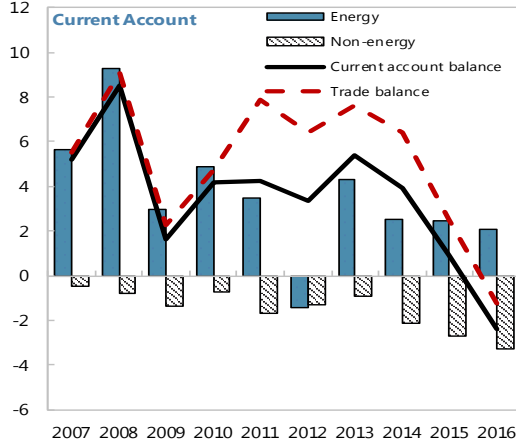
*...and private sector credit growth has recently trended down.*



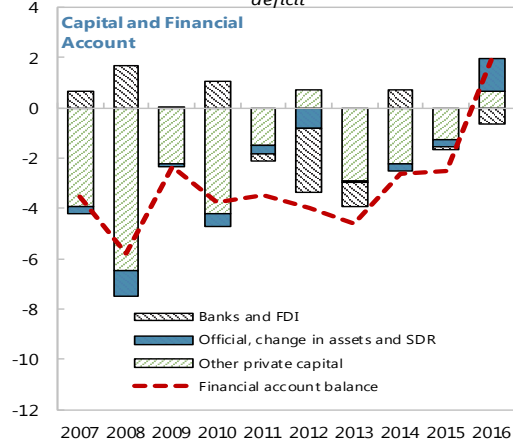
Sources: Trinidad and Tobago authorities; and IMF staff estimates.

**Figure 2. External Sector Developments**  
(In billions of U.S. dollars, unless otherwise indicated)

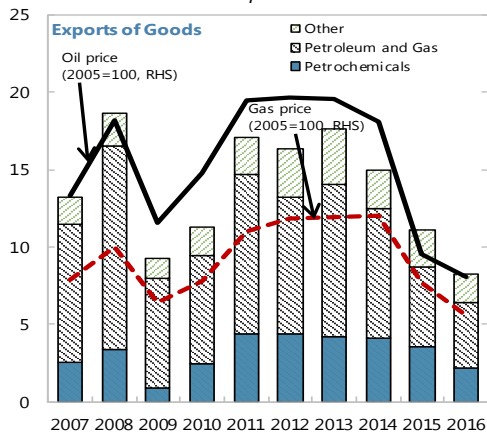
*The current account balance was in deficit in 2016, for first time in 15 years...*



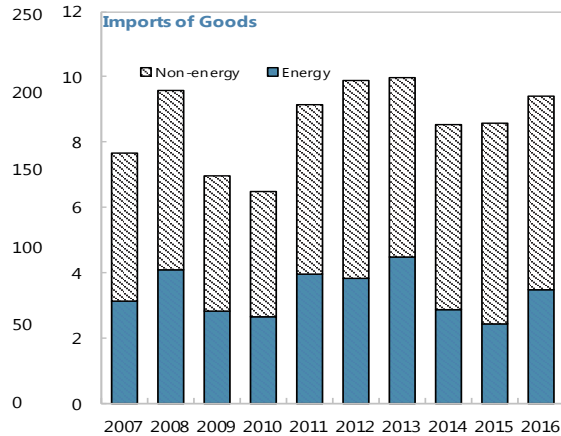
*... and the financial account became positive, but not enough to compensate the current account deficit*



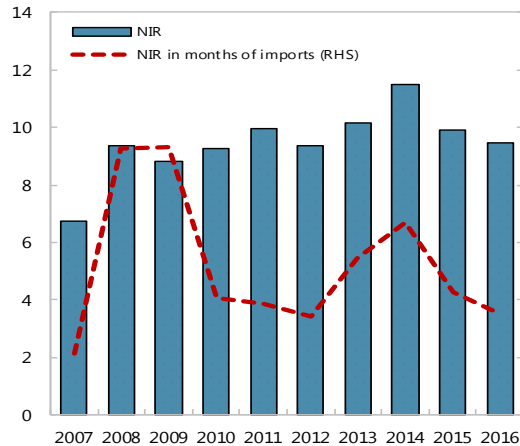
*Exports are estimated to have dropped on the fall in energy prices, as well as sluggish energy sector production*



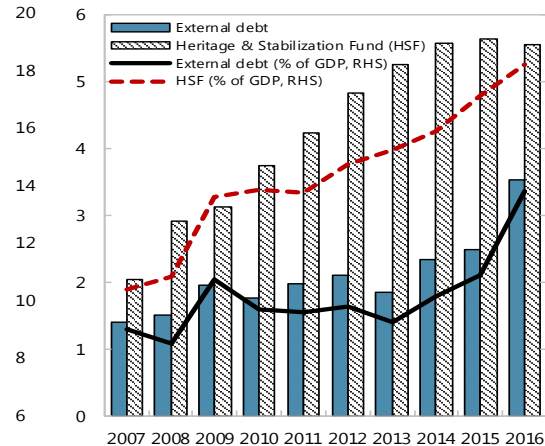
*Imports are estimated to have increased across the board for the energy and non-energy sectors*



*Official reserves continue to decline in 2016, albeit from a high level...*



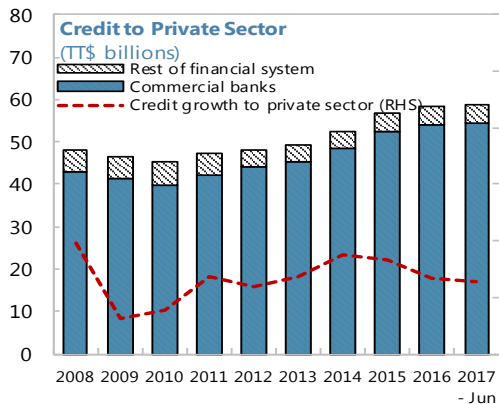
*... and external debt increased.*



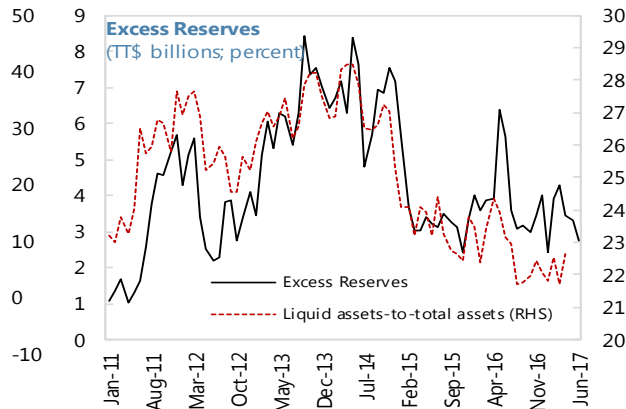
Sources: Trinidad and Tobago authorities; and IMF staff estimates.

**Figure 3. Monetary Sector Developments**

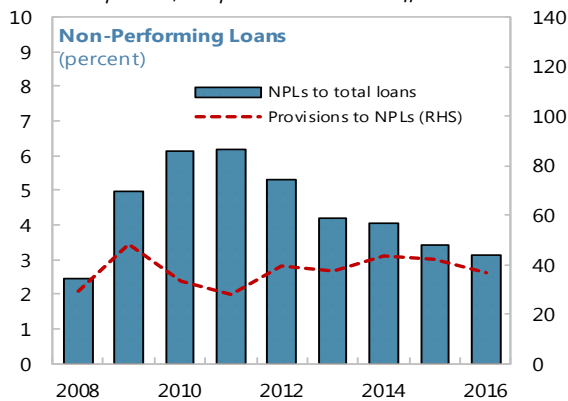
Private sector credit growth slowed in 2016, for businesses and households.



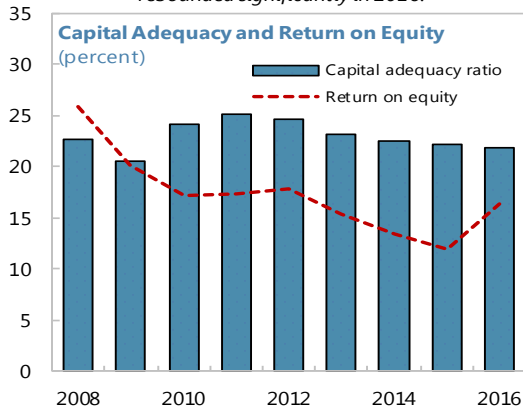
Excess reserves have remained fairly stable since H2 2016, averaging T\$3.5 bn, and banks remain comfortably liquid.



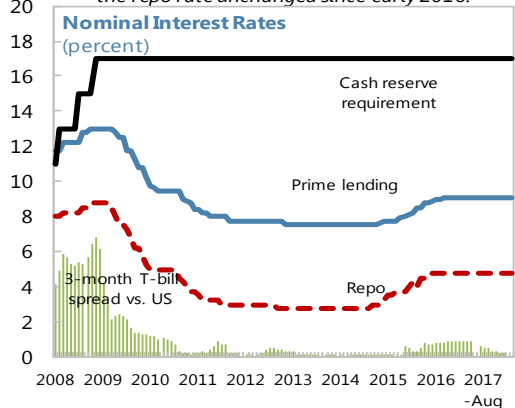
Despite three years of recession, NPLs remain low at 3 percent, and provisions remain sufficient.



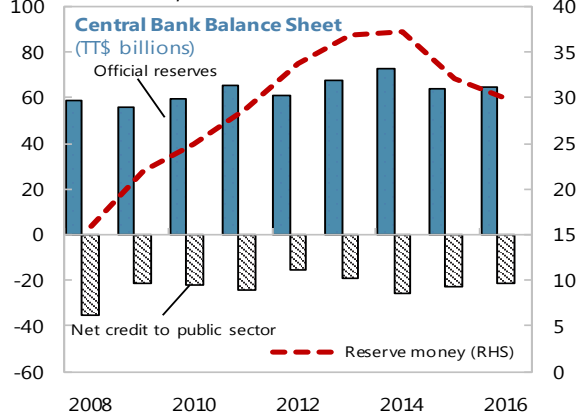
Banks are well capitalized, and profitability rebounded significantly in 2016.



After tightening in 2015, the central bank has kept the repo rate unchanged since early 2016.



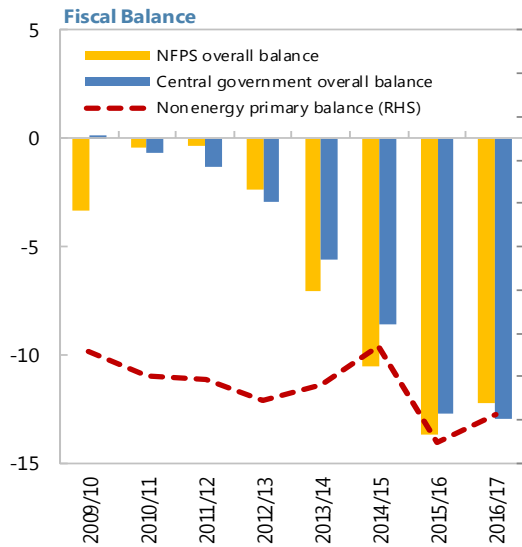
Gross reserves held steady in 2016, despite increasing pressures in the FX market.



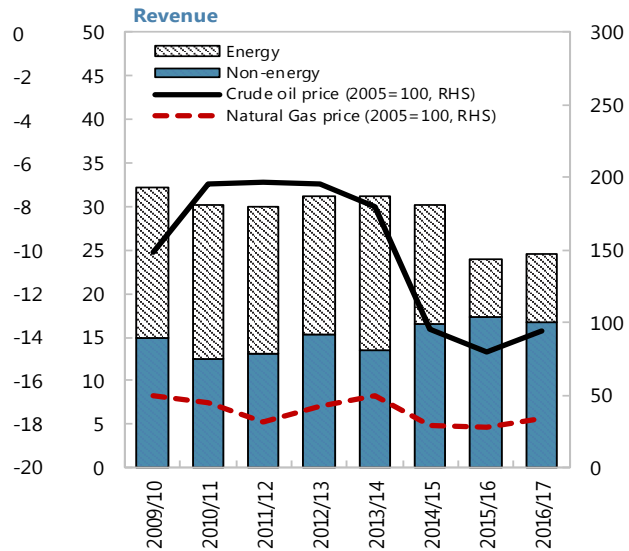
Sources: Trinidad and Tobago authorities; and IMF staff estimates.

**Figure 4. Fiscal Sector Developments 1/**

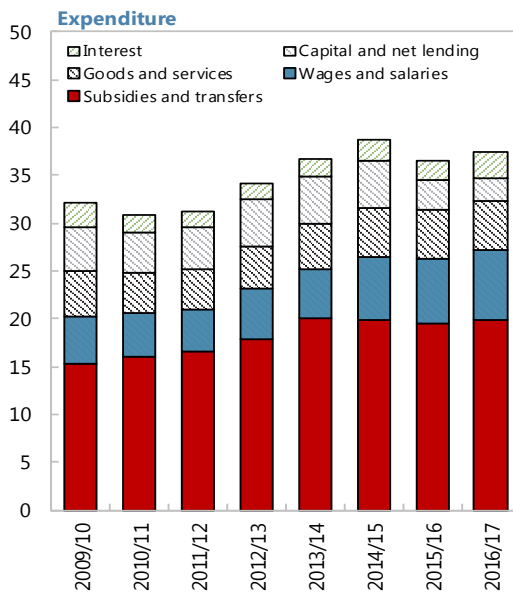
*The public sector's fiscal position has worsened in recent years...*



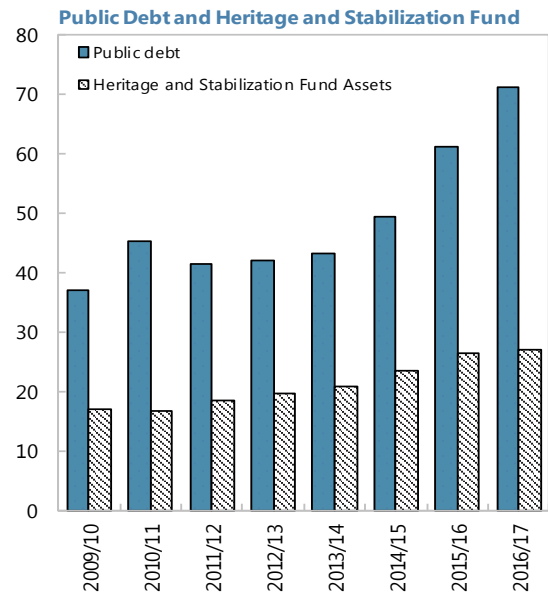
*...both as energy revenue weakened...*



*... and as expenditures are dominated by subsidies and transfers.*



*As a result, public debt is trending up.*



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

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

GDP per capita (U.S. dollars, 2015)	\$17,261	Adult literacy rate (2015)	99
Population (millions, 2015)	1.35	Gini index (2010)	40.3
Life expectancy at birth (years, 2015)	70.6	Unemployment rate (Q3 2016)	4.0
Under 5 mortality rate (per thousand, 2012)	22.2	Human Development Index (2015)	65

**Selected Economic and Financial Indicators**

	2012	2013	2014	2015	Estimates		Projections	
					2016	2017	2018	
(Annual percentage changes, unless otherwise indicated)								
<b>National income and prices</b>								
Real GDP	1.3	2.7	-0.6	-0.6	-5.4	-3.2	1.9	
Energy	-2.8	1.3	-2.5	-4.0	-10.1	-3.3	7.7	
Non-energy 1/	2.3	3.2	1.2	1.2	-3.0	-3.1	-1.1	
GDP deflator	0.1	0.4	-0.9	-9.9	-0.9	2.2	0.6	
Consumer prices (headline)								
End-of-period	7.2	5.7	8.4	1.6	3.1	3.2	3.2	
Period average	9.3	5.2	5.7	4.7	3.1	3.2	3.2	
Consumer prices (core)								
End-of-period	2.5	2.4	2.0	1.8	2.2	2.2	2.1	
Unemployment rate	5.0	3.7	3.3	3.4	4.1	...	...	
Real effective exchange rate (2005=100)	107.0	111.1	117.0	129.5	128.1	...	...	
(In percent of fiscal year GDP)								
<b>Nonfinancial public sector (NFPS) 2/</b>								
Central government overall balance	-1.3	-2.9	-5.6	-8.6	-12.7	-13.0	-13.0	
Of which: non-energy balance 3/	-18.1	-18.8	-23.2	-22.3	-19.3	-20.8	-21.0	
Budgetary revenue	29.9	31.2	31.2	30.2	23.9	24.5	25.0	
Budgetary expenditure	31.3	34.1	36.8	38.8	36.6	37.5	38.0	
Of which: interest expenditure	1.8	1.7	1.9	2.2	2.1	2.7	3.4	
Of which: capital expenditure	4.3	5.0	5.0	4.9	3.1	2.5	3.0	
Central government debt 4/	24.7	25.3	26.2	28.9	39.4	47.2	54.7	
Gross NFPS debt 4/	41.5	42.0	43.2	49.5	61.2	71.2	79.6	
Heritage and Stabilization Fund assets	18.4	19.7	21.0	23.6	26.3	27.0	27.8	
(In percent of GDP, unless otherwise indicated)								
<b>External sector</b>								
Current account balance	13.1	20.5	15.1	3.9	-11.3	-9.0	-8.4	
Exports of goods	63.5	66.5	57.2	47.2	38.9	44.7	44.5	
Imports of goods	38.5	37.8	32.7	36.5	44.6	48.4	48.0	
External public sector debt	8.2	7.0	9.0	10.6	16.7	20.0	23.8	
Gross official reserves (in US\$ million)	9,371	10,177	11,493	9,927	9,466	8,433	7,814	
In months of goods and NFS imports	9.4	11.4	12.7	10.3	9.5	8.4	7.5	
(Annual percentage changes)								
<b>Money and credit</b>								
Net foreign assets	-1.1	6.4	7.6	-7.7	2.3	-8.4	-5.3	
Net domestic assets	1554.6	-12.3	4.0	46.2	6.5	-2.7	9.3	
Of which: credit to the private sector	2.7	4.1	6.7	6.6	3.6	-7.0	3.2	
Broad money (M3)	20.8	3.2	7.2	1.1	2.8	-7.1	-1.7	
M3 velocity	1.8	1.8	1.6	1.5	1.3	1.4	1.5	
<b>Memorandum items:</b>								
Nominal GDP (in billions of TT\$)	165.2	170.3	167.8	150.2	140.9	139.5	142.9	
Non-energy sector in percent of GDP	58.6	62.8	65.8	75.2	79.9	80.1	79.5	
Energy sector in percent of GDP	41.4	37.2	34.2	24.8	20.1	19.9	20.5	
Fiscal year GDP deflator (percentage change)	3.6	0.3	-0.6	-7.6	-3.3	1.4	1.0	
Public expenditure (in percent of non-energy GDP)	54.2	55.3	56.5	53.3	46.5	46.8	47.8	
Exchange rate (TT\$/US\$, end of period)	6.4	6.47	6.39	6.45	6.76	...	...	
Crude oil price (US\$/barrel)	105.0	104.1	96.2	50.8	42.8	50.3	50.2	
Natural gas price (US\$ per mmbtu) 5/	10.4	10.5	10.7	6.8	5.0	4.5	4.3	

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

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

2/ Data refer to FY year; for example 2017 covers FY17 (October 2016–September 2017).

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

4/ Excluding debt issued for sterilization.

5/ The average of Henry Hub and Asian LNG prices.

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

	2012/13	2013/14	2014/15	2015/16	Projections					
					2016/17	2017/18	2018/19	2019/20	2020/21	2021/2022
	(In millions of Trinidad and Tobago dollars)									
<b>Revenue</b>	<b>52,760</b>	<b>52,483</b>	<b>46,646</b>	<b>34,206</b>	<b>34,276</b>	<b>35,494</b>	<b>39,238</b>	<b>40,830</b>	<b>42,406</b>	<b>44,068</b>
Energy	26,937	29,690	21,110	9,454	10,945	11,341	13,860	14,390	14,771	15,168
Non-energy	25,823	22,793	25,536	24,752	23,331	24,153	25,377	26,440	27,635	28,899
<b>Expenditure</b>	<b>57,669</b>	<b>61,920</b>	<b>59,944</b>	<b>52,390</b>	<b>52,391</b>	<b>54,008</b>	<b>56,397</b>	<b>58,908</b>	<b>61,576</b>	<b>64,641</b>
Current	49,229	53,503	52,323	48,011	48,922	49,772	52,019	54,346	56,815	59,670
Wages and salaries	9,172	8,591	10,077	9,626	10,200	9,100	9,481	9,838	10,207	10,589
Goods and services	7,180	8,009	8,105	7,323	7,044	7,156	7,397	7,708	8,044	8,399
Interest payments	2,809	3,123	3,438	3,038	3,845	4,782	5,297	5,798	6,343	7,186
Transfers and subsidies	30,068	33,781	30,702	28,024	27,833	28,734	29,844	31,002	32,221	33,495
of which: Fuel subsidies	4,457	7,003	4,586	915						
Transfers to households	7,250	7,092	8,083	9,555						
Transfers to SOEs and utilities	4,992	5,853	5,124	5,003						
Other	13,370	13,834	12,909	12,551						
Capital expenditure and net lending	8,440	8,417	7,621	4,379	3,469	4,235	4,378	4,562	4,761	4,971
<b>Non-energy balance</b>	<b>(31,846)</b>	<b>(39,127)</b>	<b>(34,408)</b>	<b>(27,638)</b>	<b>(29,061)</b>	<b>(29,855)</b>	<b>(31,020)</b>	<b>(32,468)</b>	<b>(33,941)</b>	<b>(35,742)</b>
<b>Overall balance</b>	<b>(4,908)</b>	<b>(9,437)</b>	<b>(13,298)</b>	<b>(18,184)</b>	<b>(18,115)</b>	<b>(18,514)</b>	<b>(17,160)</b>	<b>(18,079)</b>	<b>(19,171)</b>	<b>(20,574)</b>
Foreign financing	(155)	3,312	(199)	6,307	3,493	6,171	5,720	6,026	6,390	6,858
Domestic financing	5,064	6,125	13,497	11,877	14,622	12,342	11,440	12,052	12,780	13,716
of which: Transfers to Heritage and Stabilization Fund	(272)	...	...	2,498	1,712	...	...	...	...	...
	(In percent of GDP)									
<b>Revenue</b>	<b>31.2</b>	<b>31.2</b>	<b>30.2</b>	<b>23.9</b>	<b>24.5</b>	<b>25.0</b>	<b>26.7</b>	<b>26.7</b>	<b>26.6</b>	<b>26.4</b>
Energy	15.9	17.6	13.7	6.6	7.8	8.0	9.4	9.4	9.2	9.1
Non-energy	15.3	13.5	16.5	17.3	16.7	17.0	17.3	17.3	17.3	17.3
<b>Expenditure</b>	<b>34.1</b>	<b>36.8</b>	<b>38.8</b>	<b>36.6</b>	<b>37.5</b>	<b>38.0</b>	<b>38.4</b>	<b>38.5</b>	<b>38.6</b>	<b>38.8</b>
Current	29.1	31.8	33.8	33.5	35.0	35.0	35.4	35.5	35.6	35.8
Wages and salaries	5.4	5.1	6.5	6.7	7.3	6.4	6.5	6.4	6.4	6.4
Goods and services	4.2	4.8	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Interest payments	1.7	1.9	2.2	2.1	2.7	3.4	3.6	3.8	4.0	4.3
Transfers and subsidies	17.8	20.1	19.9	19.6	19.9	20.2	20.3	20.3	20.2	20.1
of which: Fuel subsidies	2.6	4.2	3.0	0.6						
Transfers to households	4.3	4.2	5.2	6.7						
Transfers to SOEs and utilities	3.0	3.5	3.3	3.5						
Other	7.9	8.2	8.3	8.8						
Capital expenditure and net lending	5.0	5.0	4.9	3.1	2.5	3.0	3.0	3.0	3.0	3.0
<b>Non-energy balance</b>	<b>-18.8</b>	<b>-23.2</b>	<b>-22.3</b>	<b>-19.3</b>	<b>-20.8</b>	<b>-21.0</b>	<b>-21.1</b>	<b>-21.2</b>	<b>-21.3</b>	<b>-21.4</b>
Non-energy balance in percent of non-energy GDP	-30.5	-35.7	-30.6	-24.5	-26.0	-26.4	-26.7	-26.8	-26.7	-26.8
<b>Overall balance</b>	<b>-2.9</b>	<b>-5.6</b>	<b>-8.6</b>	<b>-12.7</b>	<b>-13.0</b>	<b>-13.0</b>	<b>-11.7</b>	<b>-11.8</b>	<b>-12.0</b>	<b>-12.3</b>
Primary balance	-1.2	-5.8	-6.4	-10.6	-10.2	-9.7	-8.1	-8.0	-8.0	-8.0
<b>Memorandum items:</b>										
Expenditure (in percent of non-energy GDP)	55.3	56.5	53.3	46.5	46.8	47.8	48.6	48.6	48.5	48.5
Central government debt (in percent of GDP) 2/	25.3	26.2	28.9	39.4	47.2	54.7	60.4	65.6	74.1	82.5
Gross NFPS debt (in percent of GDP) 2/	42.0	43.2	49.5	61.2	71.2	79.6	85.6	91.1	100.1	107.9
Nonenergy primary balance (percent of nonenergy GDP)	-18.8	-23.2	-22.3	-19.3	-20.8	-21.0	-21.1	-21.2	-21.3	-21.4
Crude oil price (US\$/barrel)	105.0	98.2	62.2	44.8	48.4	50.2	50.4	50.9	51.7	52.7
Natural gas (US\$ per mmbtu) 3/	10.5	10.6	7.8	5.4	4.6	4.4	4.3	4.2	4.2	4.2
Nominal GDP (in billions of TT\$, FY)	169.0	168.4	154.6	143.3	139.9	142.1	146.9	153.0	159.7	166.8

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

1/ Fiscal year data from October to September.

2/ Excluding debt issued for sterilization. Does not include arrears on the fuel subsidy.

3/ The average of Henry Hub and Asian LNG prices.

Table 3. Trinidad and Tobago: Summary Balance of Payments

	2012	2013	2014	2015	2016	Projections					
						2017	2018	2019	2020	2021	2022
(In millions of U.S. dollars unless otherwise indicated)											
<b>Current account balance 1/</b>	<b>3,373</b>	<b>5,419</b>	<b>3,947</b>	<b>923</b>	<b>-2,395</b>	<b>-1,835</b>	<b>-1,747</b>	<b>-1,677</b>	<b>-1,526</b>	<b>-1,717</b>	<b>-1,719</b>
Trade balance	6,440	7,597	6,406	2,512	-1,207	-755	-730	-707	-580	-785	-799
Exports	16,325	17,593	14,965	11,114	8,214	9,067	9,249	9,816	9,838	9,891	10,167
Petroleum crude and refined	4,858	5,152	3,849	2,521	2,537	2,918	3,077	3,517	3,448	3,504	3,580
Natural gas	3,947	4,674	4,533	2,692	1,709	1,500	1,541	1,603	1,624	1,625	1,632
Petrochemicals	4,385	4,210	4,110	3,537	2,161	2,801	2,718	2,716	2,718	2,654	2,770
Other	3,135	3,557	2,473	2,363	1,807	1,849	1,913	1,980	2,047	2,107	2,185
Imports	9,885	9,996	8,558	8,602	9,422	9,822	9,980	10,523	10,418	10,676	10,966
Fuel imports	3,830	4,509	2,868	2,428	3,508	4,035	4,042	4,389	4,088	4,154	4,244
Capital	2,669	2,699	2,311	2,322	2,544	2,443	2,537	2,630	2,660	2,672	2,684
Other	3,386	2,789	3,380	3,851	3,370	3,344	3,401	3,505	3,670	3,849	4,037
Services and transfers (net)	-3,067	-2,178	-2,459	-1,589	-1,187	-1,080	-1,016	-970	-946	-932	-920
Nonfactor services (net)	-853	-644	-704	-1,119	-1,164	-1,055	-990	-938	-916	-902	-890
Factor income (net)	-2,250	-1,559	-1,734	-428	-53	-55	-58	-64	-63	-64	-65
Current transfers (net)	37	26	-21	-42	29	30	31	32	33	34	35
<b>Capital and financial account (net) 1/ 2/</b>	<b>-3,985</b>	<b>-4,615</b>	<b>-2,626</b>	<b>-2,488</b>	<b>1,928</b>	<b>803</b>	<b>1,127</b>	<b>1,100</b>	<b>1,093</b>	<b>1,247</b>	<b>1,274</b>
Official, medium- and long-term (net)	-51	542	40	57	998	1,420	1,486	1,528	1,623	1,669	1,997
Disbursements	64	664	122	142	1,075	1,591	1,719	2,036	2,052	2,017	2,082
Amortization	-115	-122	-82	-86	-77	-171	-233	-508	-429	-348	-85
Change in assets, including HSF	-588	-575	-299	-301	268	246	0	0	0	0	0
Direct investment (net)	-2,080	-1,197	689	202	-31	400	800	800	800	800	800
Inward	-1,891	-1,134	672	355	-251	600	1,000	1,000	1,000	1,000	1,000
Outward	189	63	-18	153	-221	200	200	200	200	200	200
Commercial banks (net)	-437	222	55	-318	-580	-155	-250	-326	-328	-264	-292
Other private sector capital (net) 1/ 2/	706	-2,918	-2,229	-1,267	676	-725	-694	-687	-787	-742	-1,017
Of which: net errors and omissions	1	-4,652	-2,522	-2,094	134	0	0	0	0	0	0
<b>Overall balance</b>	<b>-612</b>	<b>805</b>	<b>1,321</b>	<b>-1,564</b>	<b>-467</b>	<b>-1,033</b>	<b>-619</b>	<b>-577</b>	<b>-433</b>	<b>-470</b>	<b>-446</b>
Change in gross official reserves (increase)	612	-805	-1,321	1,564	467	1,033	619	577	433	470	446
(In percent of GDP, unless otherwise specified)											
<b>Memorandum items:</b>											
Current account balance 1/	13.1	20.5	15.1	3.9	-11.3	-9.0	-8.4	-7.8	-6.8	-7.3	-7.0
Energy 3/	20.9	23.5	25.0	19.3	5.8	7.7	7.5	7.4	8.0	7.3	7.4
Non-energy	-7.7	-3.0	-9.9	-15.4	-17.2	-16.8	-15.9	-15.1	-14.8	-14.6	-14.4
Exports of goods	63.5	66.5	57.2	47.2	38.9	44.7	44.5	45.5	43.7	42.1	41.4
Imports of goods	38.5	37.8	32.7	36.5	44.6	48.4	48.0	48.8	46.3	45.5	44.7
Gross international reserves 4/	9,371	10,177	11,493	9,927	9,466	8,433	7,814	7,236	6,803	6,334	5,888
In months of goods and NFS imports	9.4	11.4	12.7	10.3	9.5	8.4	7.5	6.9	6.4	6.0	5.4
Crude oil price (US\$/barrel) 5/	105.0	104.1	96.2	50.8	42.8	50.3	50.2	50.5	51.1	51.9	53.0
Natural gas price (US\$ per mmbtu)	10.4	10.5	10.7	6.8	5.0	4.5	4.3	4.2	4.2	4.2	4.2
Net external position	-16.2	-14.5	-13.8	-15.1	-17.5	-18.7	-18.8	-18.6	-18.2	-17.9	-17.6
GDP (in millions of US\$)	25,694	26,436	26,176	23,559	21,125	20,300	20,800	21,562	22,506	23,488	24,528
Exchange rate (TT\$/US\$, end of period)	6.43	6.47	6.39	6.45	6.76	...	...	...	...	...	...
Exchange rate (TT\$/US\$, average)	6.43	6.44	6.41	6.38	6.67	...	...	...	...	...	...
Energy exports	51.3	53.1	47.7	37.1	30.3	35.6	35.3	36.3	34.6	33.1	32.5
Non-energy exports	12.2	13.5	9.4	10.0	8.6	9.1	9.2	9.2	9.1	9.0	8.9

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

1/ Starting in 2011 dividend payments have been re-classified from the "other private sector capital" account to the "factor income" account.

2/ Includes net errors and omissions.

3/ Includes goods and services for the energy sector.

4/ In millions of US\$, end of period.

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

Table 4. Trinidad and Tobago: Monetary Survey

	2012	2013	2014	2015	2016	Projections					
						2017	2018	2019	2020	2021	2022
(In millions of Trinidad and Tobago dollars)											
<b>Net foreign assets</b>	75,897	80,783	86,902	80,210	82,043	75,192	71,183	67,467	64,742	61,770	58,963
Official net foreign assets	58,469	64,514	71,148	61,727	61,974	54,877	50,621	46,655	43,678	40,450	37,386
Commerical bank's net foreign assets	17,429	16,269	15,754	18,484	20,070	20,315	20,562	20,812	21,065	21,319	21,577
<b>Net domestic assets</b>	18,072	15,841	16,478	24,084	25,651	24,954	27,263	29,340	31,062	33,556	36,675
Net credit to public sector	4,507	-47	-2,080	1,410	6,179	10,194	11,460	12,549	13,741	15,659	18,246
Central government	-1,412	-6,716	-10,788	-9,678	-4,436	57	2,017	3,609	5,196	7,779	10,590
Rest of the public sector	5,919	6,670	8,708	11,087	10,615	10,137	9,444	8,940	8,545	7,880	7,656
Credit to private sector	47,082	49,005	52,302	55,751	57,751	53,700	55,417	57,093	58,325	59,617	60,879
Other items (net)	-33,517	-33,117	-33,745	-33,077	-38,279	-38,940	-39,615	-40,303	-41,004	-41,720	-42,450
<b>Liabilities to private sector (M3)</b>	92,586	95,555	102,430	103,591	106,481	98,931	97,232	95,593	94,590	94,111	94,424
Currency in circulation	5,315	5,979	6,791	7,634	7,751	6,559	6,447	6,338	6,271	6,240	6,260
Demand deposits	32,749	34,323	39,391	36,929	35,676	38,045	37,392	36,762	36,376	36,192	36,312
Other deposits	54,521	55,253	56,248	59,028	63,054	54,326	53,393	52,493	51,943	51,680	51,851
<b>Nonliquid liabilities</b>	1,384	1,069	949	703	1,214	1,214	1,214	1,214	1,214	1,214	1,214
(Annual percentage change)											
<b>Net foreign assets</b>	-1.1	6.4	7.6	-7.7	2.3	-8.4	-5.3	-5.2	-4.0	-4.6	-4.5
<b>Credit to private sector</b>	2.7	4.1	6.7	6.6	3.6	-7.0	3.2	3.0	2.2	2.2	2.1
<b>Liabilities to private sector (M3)</b>	20.8	3.2	7.2	1.1	2.8	-7.1	-1.7	-1.7	-1.0	-0.5	0.3
<b>Memorandum items:</b>											
M3 Velocity	1.8	1.8	1.6	1.5	1.3	1.4	1.5	1.6	1.6	1.7	1.8

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

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



**Table 5. Trinidad and Tobago: Indicators of External and Financial Vulnerability**  
(in percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	Latest 2017
<b>External indicators</b>						
Exports (percent change, 12-month basis in US\$)	-4.2	7.8	-14.9	-25.7	-26.1	10.4
Imports (percent change, 12-month basis in US\$)	7.9	1.1	-14.4	0.5	9.5	4.3
Terms of trade (1985=100), percent change	0.2	-0.2	0.7	5.4	1.1	-1.4
Current account balance (in percent of GDP)	13.1	20.5	15.1	3.9	-11.3	-9.0
Capital and financial account balance (in percent of GDP)	-15.5	-17.5	-10.0	-10.6	9.1	4.0
Gross official reserves (in US\$ millions)	9,371	10,177	11,493	9,927	9,466	8,433
Official reserves in months of imports of goods and NFS	9.4	11.4	12.7	10.3	9.5	8.4
Ratio of reserves to broad money	65.1	68.9	71.7	61.8	60.1	59.4
Ratio of total public sector external debt to exports of goods and services	11.9	9.8	14.3	20.3	38.4	40.1
Ratio of public sector external interest payments to exports of goods and services	0.3	0.3	0.4	0.6	0.9	1.2
Public sector debt service to exports of goods and services	1.0	1.0	0.9	1.3	1.7	2.9
REER appreciation CPI-based (percent change)	8.1	3.8	5.3	10.7	-1.1	...
Foreign currency debt rating, (Moody's, end of period)	Baa1	Baa1	Baa1	Baa2	Baa3	Ba1
Foreign currency debt rating, (Standard & Poor's, end of period)	A	A	A	A	A-	BBB+
<b>Financial indicators</b>						
90-day treasury bill, average discount rate	0.38	0.16	0.10	0.47	1.16	1.07
90-day treasury bill, real rate	-8.9	-5.1	-4.8	-4.2	-1.9	-2.1
Capital adequacy						
Regulatory capital to risk-weighted assets	24.6	23.1	22.5	22.1	21.9	21.4
Regulatory Tier I capital to risk-weighted assets	22.4	21.3	21.8	22.9	20.4	19.4
Regulatory Tier II capital-to-risk-weighted assets	2.2	1.8	0.7	-0.8	1.5	2.0
Banking sector asset quality						
Nonperforming loans-to-gross loans	5.3	4.2	4.1	3.4	3.1	3.4
Nonperforming loans (net of provisions)-to-capital	9.6	7.8	7.7	6.7	7.2	7.7
Specific provisions-to-impaired assets	39.7	37.6	43.5	42.1	37.1	36.3
Specific provisions-to-gross lending	2.1	1.6	1.8	1.4	1.2	1.2
Banking sector earnings and profitability						
Return on equity	17.9	15.4	13.4	11.9	16.3	18.6
Return on assets	2.6	2.2	1.8	2.6	2.7	2.4
Interest margin-to-gross income	56.9	58.9	56.4	57.9	59.2	67.7
Spread between average lending and deposit rates	8.2	8.0	7.2	7.2	7.6	7.6
Banking sector liquidity						
Liquid assets-to-total assets	25.9	28.2	25.9	24.4	22.6	20.9
Liquid assets-to-total short-term liabilities	32.6	35.3	31.7	30.4	27.2	25.9
Foreign currency liabilities-to-total liabilities	24.0	21.9	19.4	20.5	22.0	25.6

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

## Annex I. Implementation of Key Recommendations from 2016 Article IV Consultation

Staff Recommendations	Status
<b>Fiscal</b>	
Formulate and announce a comprehensive multi-year adjustment package.	<i>Limited progress.</i> Fiscal policy formulation continues to be done in an ad-hoc fashion, one year at a time. Formation of a tax policy unit (see below) would facilitate progress.
Undertake a review of expenditure programs	<i>Limited progress.</i> A request for the World Bank assistance for a Public Expenditure Review sent in April 2016, and now expected by end-2017.
Raise excise taxes on alcohol and tobacco	<i>Completed.</i>
Reintroduce property tax	<i>Mostly done.</i> Implementation is in the final stages.
Review the VAT with a view to base-broadening	<i>No progress.</i> Staff advocated base-broadening. Technical assistance may be required,
Review "make-work" programs and assistance for tertiary education	<i>Ongoing.</i> The government announced their intention to begin such a review.
Phase out fuel subsidies	<i>Mostly done.</i> Fuel prices were hiked further, but not yet enough to eliminate fuel subsidies.
Reduce transfers to SOEs and Statutory Authorities	<i>Ongoing.</i> Some small public bodies have been eliminated, but the large ones that contribute the bulk of losses have not undergone reforms. The government recently commissioned a study of the state-owned oil company, Petrotrin, with a view towards reforms.
Pursue fiscal structural reforms	<i>Partially done.</i> The authorities have received technical assistance on macro-fiscal and tax policy units. The former is in operation but not the latter. The authorities intend to establish a unified Revenue Authority.
<b>Monetary and Exchange Rate</b>	
Continue the pause in monetary policy tightening	<i>Completed.</i>
Pursue a substantial depreciation and allow the exchange rate to fluctuate within a band.	<i>No progress.</i> The authorities do not agree that a significant exchange rate adjustment is appropriate.
<b>Structural</b>	
Establish an independent National Statistical Institute	<i>Partially done.</i> Progress has been made but legislative processes and implementation are still required. Expected late-2018 to early-2019.
Pass insurance legislation	<i>No progress.</i> Passage continues to face repeated delays.
Pass legislation to comply with FATCA	<i>Completed.</i> Passed in early 2017
Take steps to reform the public service	<i>No progress.</i>

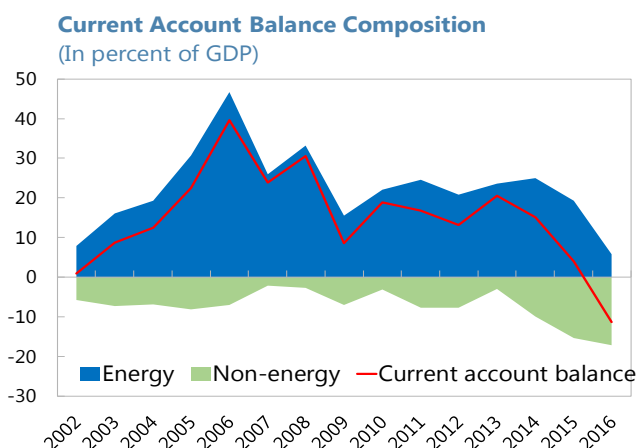
## Annex II. External Stability Assessment<sup>1</sup>

Staff assess the 2016 external position as substantially weaker than suggested by fundamentals and desirable policy settings. Increasing fiscal deficits, large terms of trade shocks, and some supply constraints in the energy sector led to an estimated current account deficit of 11.3 percent of GDP in 2016, the first deficit after 17 years of sustained current account surpluses. Policy responses have been insufficient to address the scale of the shock. Yet, reserve levels remain adequate under all metrics, and they are sufficient to absorb most shocks in the short-term. The Net International Investment Position (NIPP) remains positive, equivalent to 27 percent of GDP, albeit with a declining trend. Given Trinidad and Tobago's strong commitment to a relatively stable bilateral exchange rate vis-a-vis the US dollar, fiscal consolidation alongside structural reforms to improve competitiveness and diversification of the production base would be the primary tools to avoid further deterioration of the external position and to protect the current level of international reserves.

### A. Context and Recent Developments

#### 1. Trinidad and Tobago's external position is highly dependent on the energy sector.

Exports of oil, gas, and petrochemicals account for more than 70 percent of exports of goods and services. As a small open economy, it also relies heavily on imports to meet its consumption, infrastructure, and development needs. The energy sector surplus (annual average of 23 percent of GDP) has been contributing to the current account surpluses up to 2015. The non-energy sector has been in permanent deficit of around 7 percent of GDP in the same period. Problems with the supply of gas and oil to the downstream industry led to a substantial reduction in exports of petrochemicals and gas. This was accompanied by higher imports both for consumption and for refining fuel.

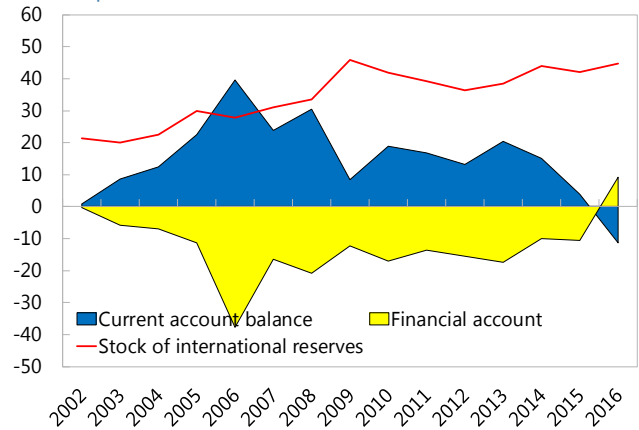


<sup>1</sup> The BOP data for 2011-2016 was extensively revised in early 2017 by the Central Bank of Trinidad and Tobago (CBTT), under technical assistance provided by IMF-CARTAC. These large revisions are causing a structural break in data since data prior to 2011 was not revised. The authorities have also provided IIP data for 2011-2016 and they have transitioned to the BPM6.

**2. The financial account has been historically negative, reflecting net outward investments of residents, mostly in portfolio instruments.**

Current account surpluses were enough not only to cover the chronic deficit in the financial account, but also to steadily increase the level of international reserves. During 2001-2015, capital outflows were equivalent to 13 percent of GDP on an annual basis. The buildup of the Heritage and Stabilization Fund accounted for only 1.7 percent of GDP of outflows in the same period. Most of the difference is in portfolio net outflows that accounted for more than 4.3 percent of GDP. In 2016, the financial account became positive.

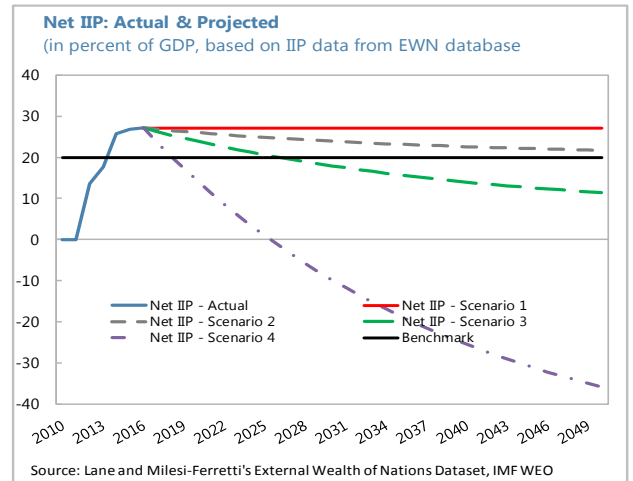
**Current Account Balance and Capital Flows**  
(In percent of GDP)



**B. External Assessment**

**3. Trinidad and Tobago is a net creditor country with a Net International Investment Position (NIIP) equivalent to 27.1 percent of GDP.**

Maintaining the net IIP at the same level would require a current account norm of 1.1 percent of GDP. Under the Staff baseline scenario, it is expected that the CA deficits would be 7.7 percent of GDP on average during the projection period. Thus, the strong external position could change very rapidly under the no policy scenario. On a conservative approach, if we assume a lower NIIP of 20 percent of GDP as a benchmark (scenario 2), and if we allow for this target to be reached in 10 years (scenario 3), the current account norm would have to be a positive balance between 0.3 and 1.1 percent of GDP. Finally, under the current account norm of -2.3 percent of GDP (scenario 4), the NIIP would go to zero by 2028.



Source: Lane and Milesi-Ferretti's External Wealth of Nations Dataset, IMF WEO

**4. Model-based estimates point to an external position that is substantially weaker than suggested by fundamentals and desirable policy settings.**

Results from separate EBA-lite regression approaches point to an overvalued currency, although models differ on the magnitude of overvaluation, with estimates ranging between 23.6 and 48.5 percent. The structural break in BOP data since 2011 and the structural change in oil and gas prices may explain the poor fit of the panel CA and I-REER model estimations and high residual. Yet, the level of overvaluation is consistent with the REER calculated by the CPI-based approach, and all three methods point to some degree of overvaluation.

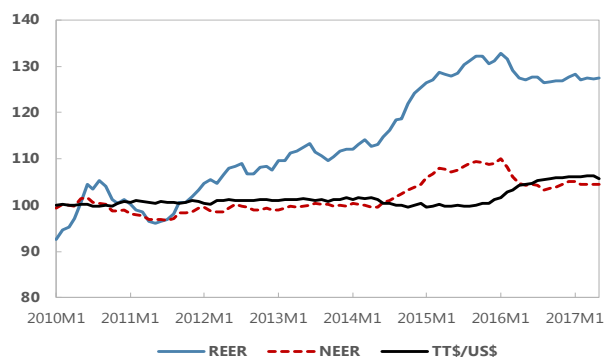
**Current Account and Real Exchange Rate Assessment**  
(In percent of GDP)

	CA Approach	REER Approach
Actual Current Account (CA)	-11.3%	
Cyclically adjusted CA	-12.7%	
CA-Norm	-3.1%	
Cyclically adjusted CA Norm	-4.4%	
CA-Gap	-8.3%	
o/w Policy gap	2.2%	
Residual	-10.5%	
Elasticity	-0.35	
<b>REER Gap</b>	<b>23.6%</b>	<b>48.5%</b>

**5. By end-2016, the Nominal Effective Exchange Rate (NEER) had depreciated by about 2.9 percent from the end of 2015, while the REER depreciated by 3.44 percent in the same period.**

This CPI-based approach suggests that the exchange rate was overvalued by 28 percent by end-2016. The substantial overvaluation implied by different methodologies may reflect, among other factors, a market appreciation in the U.S. dollar, given the tightly managed bilateral \$TT/\$US exchange rate. Overall, taking all factors into consideration, staff assess the REER to be overvalued by around 25 to 30 percent in 2016. These results should be interpreted with caution given the recent change in the CPI methodology.

**Exchange Rate Developments**  
(Index 2010=100)

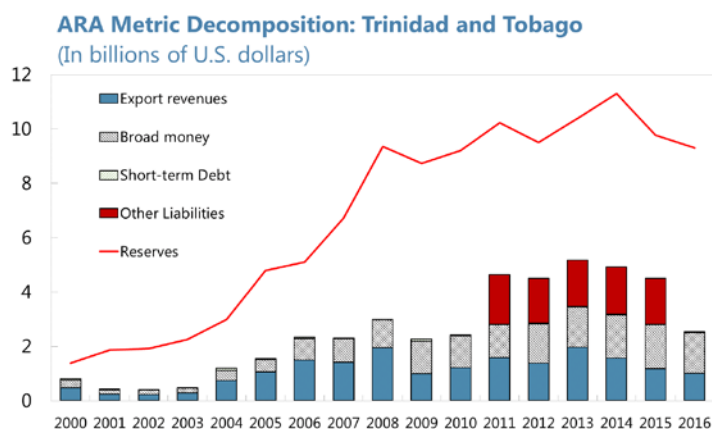


**6. The current account is significantly affected by energy market volatility and therefore, the assessment of Trinidad and Tobago’s external position is subject to uncertainty.** However, given the forecast for continued low energy prices in the medium term and the sustained REER appreciation, a no-policy change scenario would lead to further deterioration of the current account, which could undermine business confidence and potentially contribute to capital outflows. Trinidad and Tobago has a high level of f/x reserves, but under the no-policy scenario, staff estimates that the external position would weaken substantially over the medium term, and growth would remain sub-optimal. Fiscal consolidation and structural reforms would help close the current account gap, boost productivity, and improve prospects for export diversification and stabilization of international reserves.

## C. Assessment of Reserve Adequacy

**7. International reserves stood at US\$ 8.7 billion (8.7 months of import cover) by end-June 2017, more than 200 percent of the IMF's composite reserve adequacy (ARA) EM metric, which is well above the 100-150 percent adequacy range.** Trinidad and Tobago's official gross

foreign reserves exceed by a wide margin typical benchmarks of reserve adequacy, including 3 months of imports of goods and services, 20 percent of broad money, and short-term debt falling due within one year. Under a baseline scenario of lower oil and gas prices combined with no-policy changes, staff projects a continuation of current account deficits and a sustained decline in reserves down to 5.6 months of import cover by 2022, about half the current level. The rate of decline in reserves could be faster should speculative demand for foreign currency exacerbate outflows.



## Annex III. Risk Assessment Matrix<sup>1</sup>

Source of Risk	Likelihood/ Time Horizon	Expected Impact	Policy Response
<p><b>Lower energy prices</b> driven by stronger-than-expected U.S. shale and/or recovery of oil production in the African continent.;</p>	<p><i>LOW/ Short to Medium Term</i></p>	<p style="text-align: center;"><i>HIGH</i></p> <ul style="list-style-type: none"> <li>Given the dependency on the energy sector for the foreseeable future, continued low energy prices would have a serious impact on fiscal and external prospects. Employment impacts are likely to be relatively limited given the capital-intensity of energy production.</li> <li>In the short term, the country has substantial financial cushions (official foreign reserves and assets under the Heritage and Stabilization Fund, HSF).</li> </ul>	<ul style="list-style-type: none"> <li>Diversify non-energy economic base by public investment and structural reforms.</li> <li>Implement tax reforms to reduce dependence on energy revenues.</li> <li>Conduct expenditure reforms to contain public consumption to make public finances more resilient to persistently lower energy prices.</li> <li>Tap the HSF only cautiously as a bridge solution to more durable fiscal adjustments.</li> </ul>
<p><b>Tighter global financial conditions. Fed normalization and tapering by ECB increase global rates and term premia, strengthen the U.S. dollar and the euro vis-à-vis the other currencies, and correct market valuations.</b></p>	<p><i>HIGH/ Short Term</i></p>	<p style="text-align: center;"><i>MEDIUM</i></p> <ul style="list-style-type: none"> <li>Should the authorities keep the currency tightly tied to the U.S. dollar, there would be additional losses of competitiveness vis a vis non-U.S. dollar peggers.</li> <li>Rises in U.S. interest rates could increase the flow of capital abroad. Combined with a diminution of a search for yield, this could raise the cost of external financing, although the country's dependence on external financing is currently limited.</li> </ul>	<ul style="list-style-type: none"> <li>Consider a devaluation to address the loss of competitiveness from effectively linking to the U.S. dollar.</li> <li>Monetary policy may need to be tightened to keep interest rate differentials from narrowing vis-à-vis the U.S.</li> <li>Fiscal consolidation would reduce the risks of higher external financing costs.</li> </ul>

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

<p><b>Failure to address foreign exchange shortages.</b></p>	<p><i>HIGH/ Short Term</i></p>	<p><i>HIGH</i></p> <ul style="list-style-type: none"> <li>• Difficult to measure the extent of the problem since shortages consist of FX sales that are not made. Nonetheless, businesses are damaging relations with suppliers which will harm trade and growth. In addition, the rationing of foreign exchange, mostly by non-price means, suggests significant distortions leading to sub-optimal resource allocation.</li> <li>• The existence of the shortages engenders precautionary FX demand that is exacerbating capital outflows.</li> </ul>	<ul style="list-style-type: none"> <li>• Operate the FX market more liberally, either via further currency devaluation, greater sales to the market, or some combination of both.</li> </ul>
<p><b>Reduced financial services by correspondent banks</b></p>	<p><i>HIGH/ Short to Medium Term</i></p>	<p><i>Medium</i></p> <ul style="list-style-type: none"> <li>• The impact on commercial banks has been limited thus far, both in terms of volume and value of transactions.</li> <li>• Concerns raised by correspondent banks have led to a reduction in commercial banks' exposure to casinos and money remitters.</li> </ul>	<ul style="list-style-type: none"> <li>• Press forward with the actions needed to address the concerns raised by the OECD and the CFATF.</li> <li>• Implement already approved legislation to this effect.</li> </ul>



## Annex IV. Debt Sustainability Analysis

*Public debt (central government) sustainability risks are significant in the context of a growing debt burden and large gross financing needs. Contingent liabilities in the form of government guarantees are substantial at 20 percent of GDP at end-2016. Under the baseline scenario, public debt is projected to rise to about 83 percent of GDP while gross financing needs are forecast to be about 15 percent of GDP in 2022. Despite sizable financial buffers, the long-term maturity profile and relatively low external financing requirement, the projected path of public debt remains vulnerable to risks, particularly from slower growth, a worsened primary balance, and a real interest rate shock. External debt is at low levels, but is projected to increase over the medium term and remains very sensitive to exchange rate shocks.*

### A. Public Debt Sustainability Analysis

#### Definitions and debt profile

**1. The DSA applies to central government debt, which excludes short-term debt issued for open market monetary policy purposes.** These instruments were equivalent to about 20 percent of GDP at the end of the 2016 fiscal year and were matched by corresponding “frozen” government deposits in the domestic banking system. The debt concept considered in this analysis is also narrower than public debt which, in addition to central government debt, includes the government’s contingent liabilities arising from guaranteed debt of statutory authorities and state-owned enterprises. Thus, CG debt is at a level lower than the total NFPS debt as shown in Table 2. Although the framework reports figures on NFPS debt, given limited data on its components or financing, the debt concept in the DSA is limited to CG debt.

#### Developments and Baseline Scenario

**2. Debt profile.** Central government debt increased substantially in 2016 due to only modest fiscal tightening and worsening energy revenues. The increase in debt is also due to the issuance of a US\$ 1 billion bond on the Eurobond market in July 2016, raising external debt from 8.9 percent of GDP in at end FY 2015 to 15.2 percent at end of FY 2015/16. Somewhat ameliorating concerns, the profile of Trinidad & Tobago’s debt is dominated by medium and long-term maturities, and a moderate foreign currency share of outstanding debt.

**3. Macroeconomic assumptions.** Following the large drop in energy revenues (due to lower energy prices and volumes, as well as fiscal incentives for the energy sector) and only limited prospects under the baseline for their rebound over the projection period, the central government’s debt ratio is projected to rise to 84 percent of GDP by end-FY 2022. The debt accumulation path

assumes the use of “one-off” financing measures in the current and next fiscal years.<sup>1</sup> Though there is some uncertainty regarding the realization of “one-off” financing given legal complexities in unwinding some assets and questions about the sustainability of “super dividends”, the authorities have sizable asset buffers that they can employ over the short term (including HSF assets of 27 percent of GDP), but these would be reduced by fiscal deficits over the next few years—projected to remain on average about 12 percent of GDP during 2017-2022.

**4. Heat map.** The heat map flags a high risk to debt sustainability on the debt level and gross financing needs, where Trinidad and Tobago breaches high-risk DSA benchmarks. The debt profile aspect of the assessment is not breached under the baseline assessment, despite assuming that foreign debt accounts for one-third of financing going forward. However, the downgrade of Trinidad and Tobago (April 2017) to sub-investment grade by Moody’s and a parallel move by Standard & Poor’s (which, however, still has the country comfortably at investment grade) starkly highlights the need for comprehensive consolidation to restore fiscal sustainability.

**5. Realism of projections.** Trinidad and Tobago’s projected fiscal adjustment, a 3-year adjustment in the cyclically-adjusted primary balance (CAPB), is within average at the 23rd percentile among all surveillance countries. However, the 3-year average level of CAPB is at the top percentile of primary deficits, deteriorating by more than 4 percent. Such a large fiscal adjustment is necessary given the significant deterioration in the fiscal position, with the primary balance having been positive throughout 1988-2012 (except 2009) and then turning sharply negative since 2013.

### Risk Assessment: Shocks and Stress test

**6. Growth shock.** The impact on the debt-to-GDP ratio of the 1 standard deviation shock (for 2 consecutive years) to real GDP growth would increase central government debt over the medium term. In this scenario, central government debt to GDP would increase from 40.1 percent in 2016 to 92 percent by 2022.

**7. Primary balance and real interest rate shocks.** The primary balance shock led the debt-to-GDP ratio to peak at nearly 90 percent.<sup>2</sup> Further, the debt projections are quite sensitive to real interest rate shocks—the result of the sensitivity of the GDP deflator, and hence the real interest rate, to volatile energy prices.<sup>3</sup>

**8. Combined macro-fiscal shock.** The macro-fiscal shock combines the growth and interest rates shock and a primary balance shock as in the standard examples above, together with the

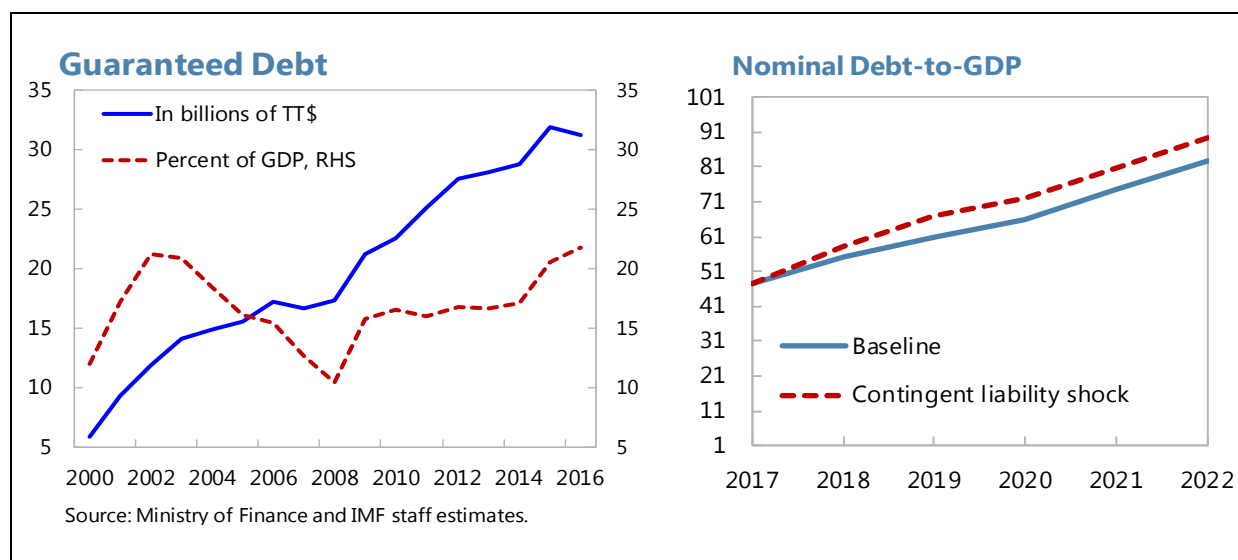
<sup>1</sup> In FY 2016/17, “one-off” sources included TT\$ 1.7 billion in drawdowns from the HSF, TT\$ 3.6 billion from super-dividends, and around TT\$ 8.7 billion in asset sales.

<sup>2</sup> The primary shock is equal to half of the 10-year historical standard deviation.

<sup>3</sup> The large share of Trinidad and Tobago’s energy sector and recent large swings in energy prices have resulted in a very volatile path for the GDP deflator, with the latter increasing by 21.3 percent in 2008, followed by a 16.6 percent decline in the deflator in 2009 (contributing to a 38 percent real effective interest rate in that year).

exchange rate shock. The effect of these shocks on central government debt and gross financing needs is large, reaching about 165 percent and 50 percent of GDP, respectively.

**9. Contingent liabilities shock.** Trinidad and Tobago's debt is substantially exposed to contingent liabilities arising from government guarantees. Contingent liabilities to the government stem from borrowing by public bodies (PBs, i.e., state-owned enterprises and statutory bodies), where the Government guarantees are initially issued to PBs in the form of a letter of comfort and are eventually replaced by formal guarantees. During 2006-2016, guaranteed debt accounted for around 40 percent of public debt. As of end-December 2016, guaranteed debt, which is denominated primarily in domestic currency, reached about 22 percent of GDP (TT\$ 31 billion). Although these contingent government liabilities have not been called in the last few years, current pressures resulting from lower energy prices and recent credit rating downgrades to state-owned enterprises may eventually lead to a need for government support.<sup>4</sup> Given that TTO's guaranteed debt is larger than average in a cross-country sample and assuming a shock that is double the average cost in the cross-country sample (i.e., 6 percent of GDP) that is distributed over two years (through higher transfers to PBs), this will result in central government debt reaching 88 percent of GDP by 2022.<sup>5</sup> In addition, the government has potentially large contingent liabilities arising from guaranteed pensions from the national pension scheme, which, however, would fall outside the projection period and so are not included in the analysis.



<sup>4</sup> In FY 2016, debt service of public utilities comprised about 40 percent of total capital transfers from the central government.

<sup>5</sup> Based on Bova *et al.* 2016, the average and maximum fiscal costs were 3 percent and 15 percent of GDP, respectively.

## B. External Debt Sustainability Analysis

**10. Trinidad and Tobago's external debt-to-GDP ratio has increased in recent years but remains at a low level.** As a share of GDP, external debt was 15.5 percent at end-March 2017, albeit up from 8.9 percent at end 2015. The main reason for the increase has been a rise in general government borrowing through internationally issued bonds.

**11. External debt is projected to increase in the medium term.** Under the baseline, external debt would continue to rise steadily to about 34 percent of GDP. It may increase above the current baseline if the government increases reliance on external financing (including multilateral loans) to help fund infrastructure projects.

**12. Stress tests confirm that external debt sustainability is particularly sensitive to current account and exchange rate shocks.** An increase in the current account excluding interest payments by half a standard deviation in each year from 2017 onwards would make external debt peak at about 63 percent of GDP in 2022. A one-time real exchange rate depreciation of 30 percent in 2017 would make external debt peak at 49 percent of GDP in 2022.

**Figure A4.1. Trinidad and Tobago: Public Sector Debt Sustainability Analysis (DSA)**

**Baseline**

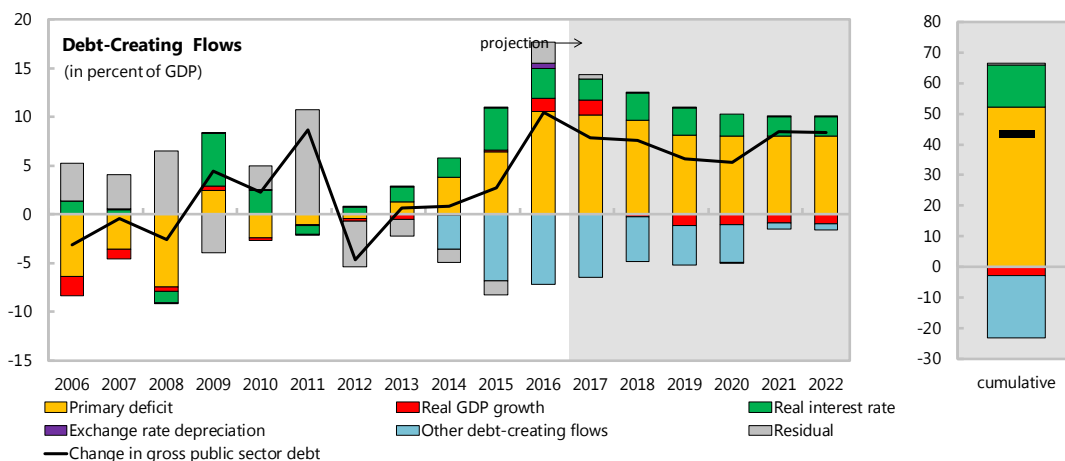
(in percent of GDP unless or otherwise indicated)

**Debt, Economic and Market Indicators**<sup>1/</sup>

	Actual			Projections						As of October 27, 2017			
	2006-2014 <sup>2/</sup>	2015	2016	2017	2018	2019	2020	2021	2022	Sovereign Spreads			
Nominal gross public debt	21.3	28.9	39.4	47.3	54.9	60.6	65.9	74.4	82.8	EMBIG (bp) 3/			240
Public gross financing needs	1.8	10.7	14.9	16.4	16.6	14.4	15.7	14.7	15.3	5Y CDS (bp)			n.a.
Real GDP growth (in percent)	2.8	-0.6	-4.2	-3.7	0.6	2.1	1.8	1.4	1.4	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	4.1	-7.6	-3.3	1.4	1.0	1.2	2.4	2.9	3.0	Moody's	Ba1	Ba1	
Nominal GDP growth (in percent)	7.2	-8.2	-7.3	-2.4	1.6	3.4	4.2	4.4	4.4	S&Ps	BBB+	BBB+	
Effective interest rate (in percent) <sup>4/</sup>	11.1	7.8	6.8	6.7	6.9	6.5	6.3	6.0	5.8	Fitch	n.a.	n.a.	

**Contribution to Changes in Public Debt**

	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022		
Change in gross public sector debt	0.7	2.8	10.5	7.9	7.6	5.7	5.3	8.5	8.4	43.4	
Identified debt-creating flows	-1.0	4.2	8.2	7.4	7.6	5.7	5.3	8.5	8.4	42.9	
Primary deficit	-1.5	6.4	10.6	10.2	9.7	8.1	8.0	8.1	8.0	52.1	0.4
Primary (noninterest) revenue and grants	31.3	30.1	23.9	24.5	25.0	26.7	26.7	26.5	26.4	155.8	
Primary (noninterest) expenditure	29.8	36.5	34.4	34.7	34.6	34.8	34.7	34.6	34.5	207.9	
Automatic debt dynamics <sup>5/</sup>	0.9	4.6	4.9	3.7	2.5	1.7	1.2	1.0	1.0	11.0	
Interest rate/growth differential <sup>6/</sup>	0.9	4.6	4.4	3.7	2.5	1.7	1.2	1.0	1.0	11.0	
Of which: real interest rate	1.3	4.4	3.1	2.1	2.8	2.8	2.2	1.9	2.0	13.8	
Of which: real GDP growth	-0.5	0.2	1.3	1.5	-0.3	-1.1	-1.0	-0.9	-1.0	-2.8	
Exchange rate depreciation <sup>7/</sup>	0.0	0.1	0.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.4	-6.8	-7.2	-6.4	-4.6	-4.1	-3.9	-0.6	-0.6	-20.3	
One-off measures (negative)	-0.4	-6.8	-7.2	-6.4	-4.6	-4.1	-3.9	-0.6	-0.6	-20.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes <sup>8/</sup>	1.7	-1.4	2.2	0.5	0.0	0.0	0.0	0.0	0.0	0.5	



Source: IMF staff.

1/ Public sector is defined as central government. Data are in fiscal year.

2/ Based on available data.

3/ EMBIG.

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

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

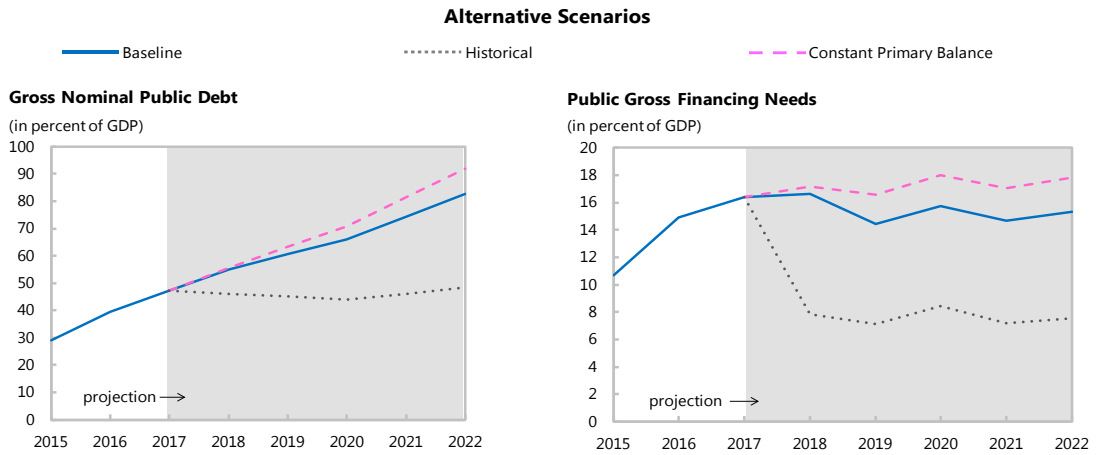
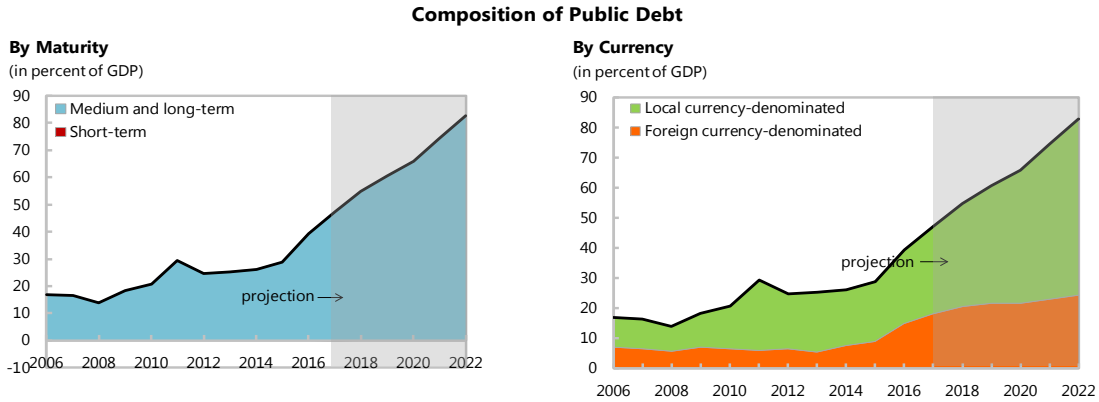
6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

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

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

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

**Figure A4.2. Trinidad and Tobago: Composition of Public Debts and Alternative Scenarios**



### Underlying Assumptions (in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	-3.7	0.6	2.1	1.8	1.4	1.4
Inflation	1.4	1.0	1.2	2.4	2.9	3.0
Primary Balance	-10.2	-9.7	-8.1	-8.0	-8.1	-8.0
Effective interest rate	6.7	6.9	6.5	6.3	6.0	5.8

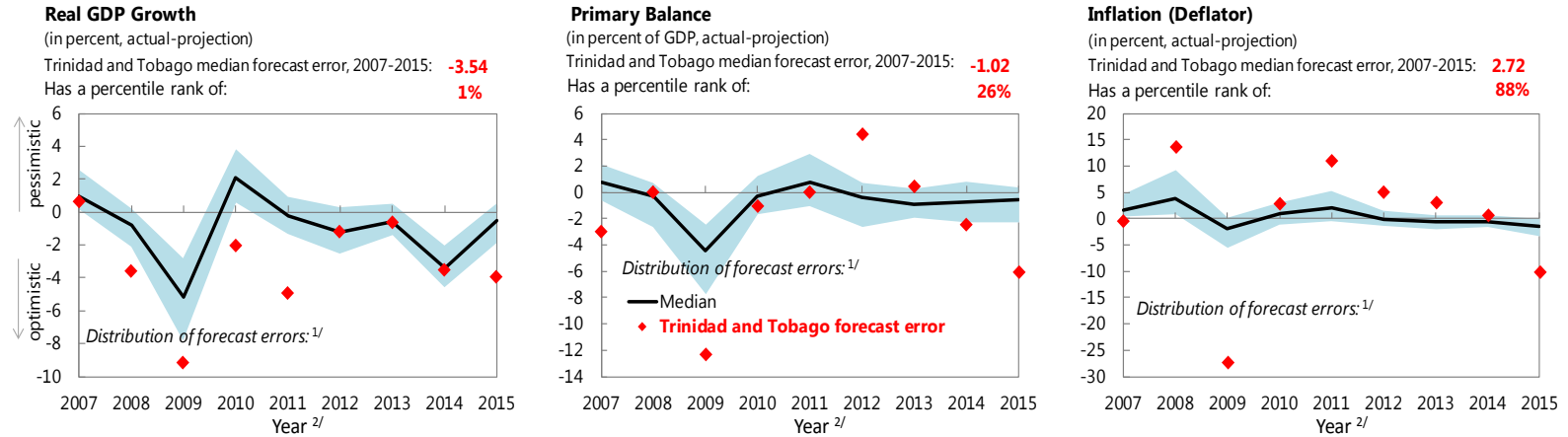
Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	-3.7	0.9	0.9	0.9	0.9	0.9
Inflation	1.4	1.0	1.2	2.4	2.9	3.0
Primary Balance	-10.2	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	6.7	6.9	7.3	7.7	8.0	8.5

Constant Primary Balance Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	-3.7	0.6	2.1	1.8	1.4	1.4
Inflation	1.4	1.0	1.2	2.4	2.9	3.0
Primary Balance	-10.2	-10.2	-10.2	-10.2	-10.2	-10.2
Effective interest rate	6.7	6.9	6.5	6.2	5.9	5.6

Source: IMF staff.

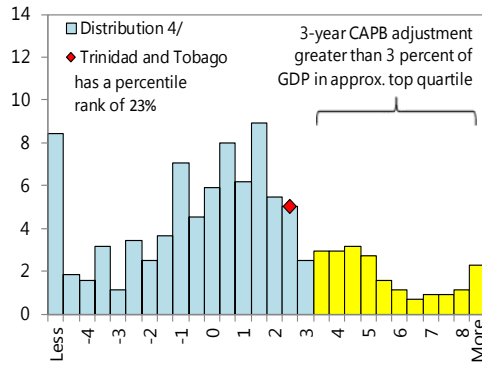
**Figure A4.3. Trinidad and Tobago Public DSA – Realism of Baseline Assumption**

**Forecast Track Record, versus surveillance countries**

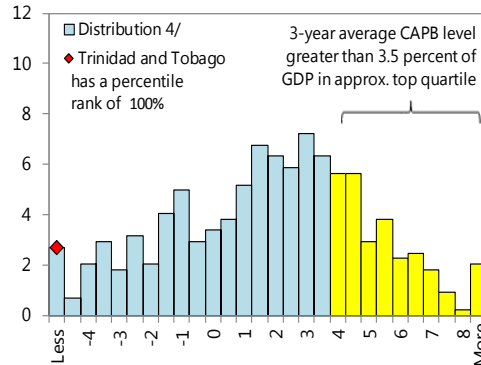


**Assessing the Realism of Projected Fiscal Adjustment**

**3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)

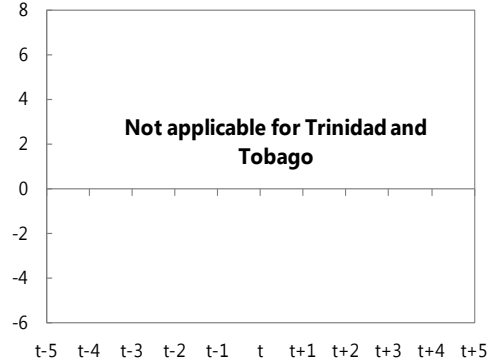


**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)



**Boom-Bust Analysis <sup>3/</sup>**

**Real GDP growth**  
(in percent)  
— Trinidad and Tobago



Source : IMF Staff.

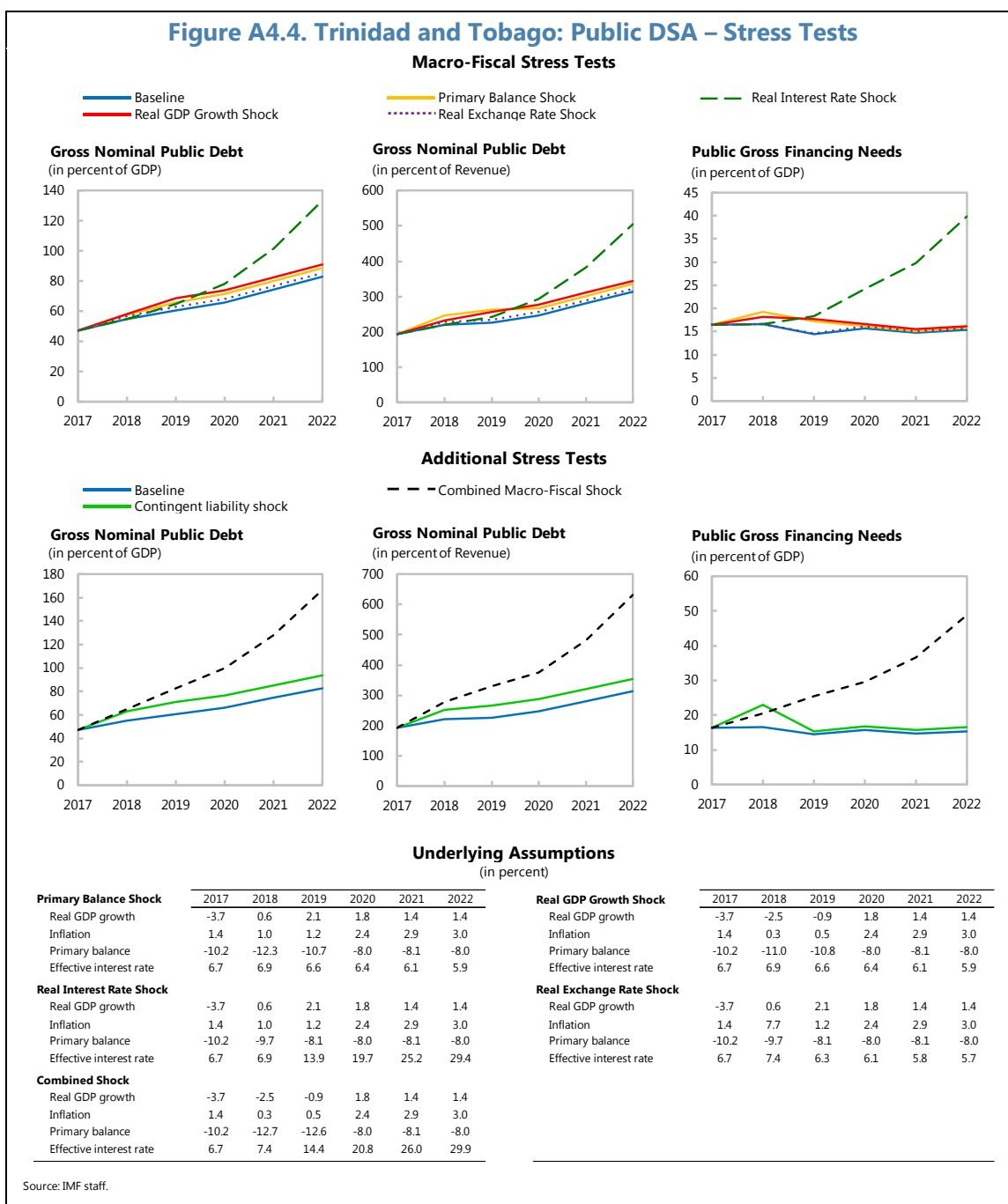
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

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

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

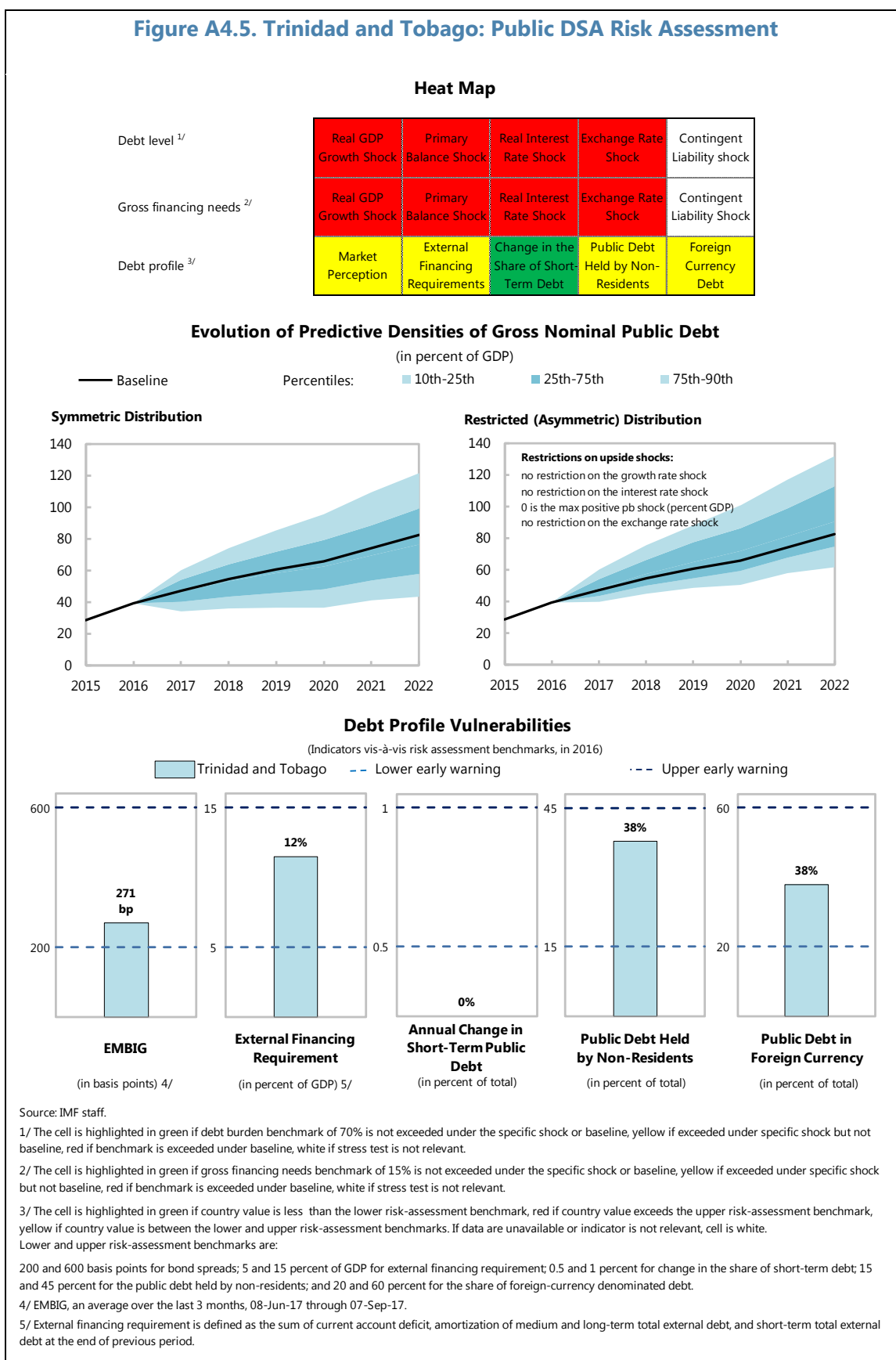
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis. □

**Figure A4.4. Trinidad and Tobago: Public DSA – Stress Tests**

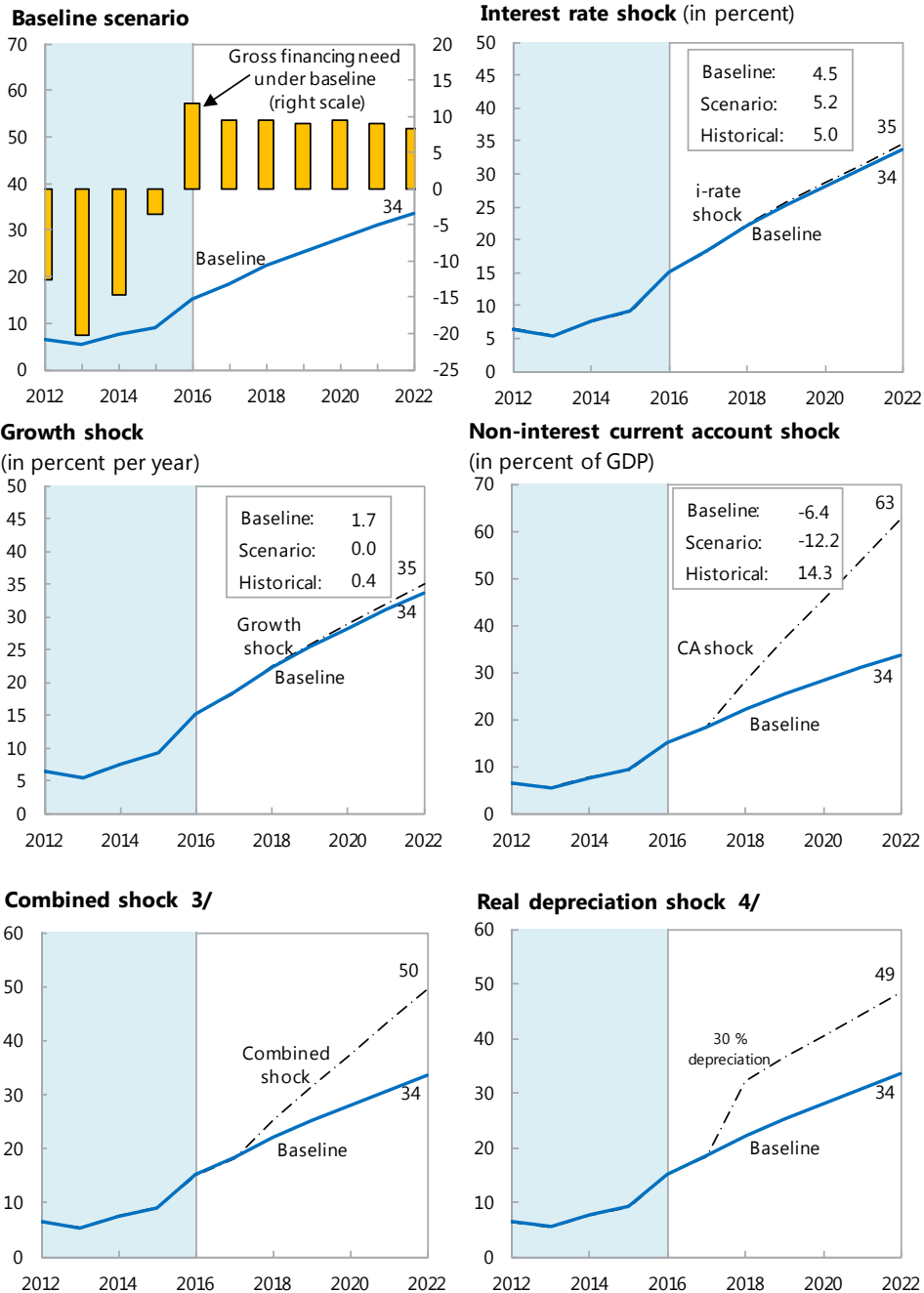




**Figure A4.5. Trinidad and Tobago: Public DSA Risk Assessment**



**Figure A4.6. Trinidad and Tobago: External Debt Sustainability: Bound Test 1/ 2/**  
(External debt in percent of GDP)



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

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

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

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

4/ One-time real depreciation of 30 percent occurs in 2017.



# TRINIDAD AND TOBAGO

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 4, 2017

Prepared By

The Western Hemisphere Department

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## FUND RELATIONS

(As of July 31, 2017)

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

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	469.80	100.00
Fund holdings of currency (Exchange Rate)	386.58	82.29
Reserve Tranche Position	83.22	17.71

<b>SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	321.13	100.00
Holdings	242.23	75.43

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:**

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

**Projected Payments to Fund:<sup>1/</sup>**

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

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.23	0.48	0.48	0.48	0.47
<b>Total</b>	<b>0.23</b>	<b>0.48</b>	<b>0.48</b>	<b>0.48</b>	<b>0.47</b>

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

## Exchange Arrangements

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

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

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

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

## Last Article IV Consultation and Recent Contacts

The 2016 Article IV mission was concluded on March 3-15, 2016 and a staff visit took place on March 22-29, 2017.

## Technical Assistance

Trinidad & Tobago has received a significant volume of TA across the various CARTAC fiscal, financial, and statistical areas. On fiscal issues, CARTAC has supported the authorities in strengthening tax administration and governance, improving data quality and decision making processes within IRD, and enhancing customs administration. FAD provided advice on the oil and gas fiscal regime reform, including holding consultations with government and industry stakeholders. On financial issues, CARTAC continues to assist the authorities with Pillar 1

implementation of Basel II, consolidated supervision, and regulatory and supervisory frameworks for credit unions. Statistical reform priorities have advanced with CARTAC helping to improve the quality of the retail, producer and trade price indices; advising on the household budget survey and rebasing of the Retail Price Index; and improving and rebasing the GDP estimates. CARTAC has also assisted the Central Bank of Trinidad and Tobago in finalizing the external sector statistics for dissemination in the framework of the IMF's Balance of Payments and International Investment Position Manual, sixth edition (BPM6) and reinstitute timely reporting to the IMF's Statistics Department. Despite the many improvements, the errors and omissions item in the balance of payments is still very large for some years, indicating that further work to improve survey coverage, especially in the energy sector, may be needed. Additional TA missions are scheduled for early 2018. Beyond the provision of direct in-country TA, officials from Trinidadian institutions participated in training events and regional workshops across all areas of CARTAC expertise.

<b>Department</b>	<b>Dates</b>	<b>Purpose</b>
FAD	September 2017	Tax Administration Diagnostic Assessment Tool
STA	May 2017	National Accounts Statistics
STA	March 2017	Price Statistics
FAD	September 2016, June 2017	New Directions in Fiscal Regimes for Oil and Gas
FAD	November 2016	Strengthening Institutional Arrangements and Core Operations
FAD	June 2016	Establishing a Tax Policy Unit
STA	October 2016	External Sector Statistics
STA	May 2016	National Accounts Statistics
STA	March 2016	External Sector Statistics
STA	January 2016	National Accounts Statistics, Price Statistics
MCM	August 2015	Monetary Policy Framework
MCM	April 2015	Macroprudential Policy Framework
STA	March 2015	External Sector Statistics
FAD	March 2015	Revenue Administration
STA	May 2014	Financial Sector Statistics/FSI compilation
MCM-LEG	March 2014	National Financial Crisis Contingency Plan
FAD	July 2013	Tax Administration
FAD	January 2013	Tax Policy
MCM	October 2012	Non-life insurance regulation
STA	June 2012	Monetary and financial statistics
STA	April 2012	Consumer and Price Statistics
STA	March 2012	Monetary and balance of payments statistics
STA	February 2012	Consumer and producer price statistics
MCM	June 2010, September 2010, March 2011, and June 2011	Insurance supervision
MCM	December 2010 and April 2011	Public debt management, funding and medium term debt management strategies
STA	February 2011	Compilation of an IIP and the financial account in the balance of payments as part of the requirements for the prospective Special Data Dissemination Standard (SDDS)
STA	December 2009	Subscription to the Special Data Dissemination Standard (SDDS)

## RELATIONS WITH THE WORLD BANK

(As of August 15, 2017)

Since graduation in 2003, Trinidad and Tobago has had no lending program with the World Bank Group (WBG). However, technical and advisory services have been provided on a reimbursable advisory basis in recent years, with a focus on promoting a better investment climate, economic diversification and increased competitiveness, AML/CFT, strengthening institutional capacity; and, building a modern and efficient public sector, with a view to promote the achievement of the country's long-term development objectives.

### Reimbursable Advisory Services

**Reimbursable Advisory Services (RAS) Program:** The RAS program with the Government of Trinidad and Tobago does not include any active project as of August 15, 2017. The Government publicly announced its interest in a Public Expenditure Review (PER) led by the World Bank. The PER should take place in the form of an RAS, focusing on social spending. As at present, preparatory discussions are ongoing between Government officials and World Bank staff.

### Technical Assistance

**National Risk Assessment (NRA):** The World Bank supported Trinidad and Tobago's National Risk Assessment (NRA) on Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) under a reimbursable advisory service agreement. Using standard methodology, the World Bank helped the government conduct a self-assessment of AML/CTF systems with broad participation from various stakeholders. In addition to better understanding of the ML/TF threats and vulnerabilities in the country, the project aims to improve the skills and knowledge of the government agencies in assessing ML/TF risks and applying a risk-based approach in this area. A workshop to begin the NRA was held on March 17-19, 2014 in Port of Spain, organized through the AML/CFT Compliance Unit of the Ministry of National Security and the Financial Intelligence Unit (FIU). The World Bank team continued to provide technical assistance to the Ministry of National Security and the FIU, including through the review and provision of comments on the draft NRA report and Action Plan prepared by Trinidad and Tobago.

### Statement of World Bank Group Loans

<b>Disbursements and Debt Service</b>											
(In millions of U.S. dollars, calendar year)											
<b>Actual</b>											
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Total disbursements	6.7	1.07	2.12	4.32	0	0	0	0	0	0	0
Repayments	14.26	12.19	9.79	4.09	3.52	3.28	3.28	2.66	2.13	2.13	1.06
Net disbursements	-7.56	-11.12	-7.67	0.24	-3.52	-3.28	-3.28	-2.66	-2.13	-2.13	-1.06
Interest and fees	2.37	1.81	1.15	0.76	0.68	0.6	0.49	0.39	0.3	0.2	0.07

\*As of May, 2017



## RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT

### BANK (IDB)

(As of August 16, 2017)

#### Financing

The 2016-2020 Country Strategy (CS) was approved in March 2017. The Country Strategy will assist the Government in removing constraints that hinder economic diversification and macroeconomic policy adjustment to the new reality of lower commodity prices. It will focus on three strategic areas: (i) strengthening public sector institutions and governance (ii) promoting private sector development; and (iii) fostering human development.

The Country Strategy will accompany the Government's development agenda focused on restoring growth through diversification while recognizing the importance of securing stability; strengthening investor confidence and credit ratings; enhancing public sector efficiency and service-delivery capacity; and promoting private sector competitiveness and productivity. The Country Strategy will also support the Government's initiatives to build consensus around public and private actions necessary to preserve stability and to share sacrifices proportionately during the period of macroeconomic adjustment. The Country Strategy envisages Sovereign Guaranteed (SG) approvals of US\$200 million for the remainder of the strategy (2017-2020).

**Table 1. Net Flow of IDB Convertible Currencies 2012–2017**  
(In millions of U.S. dollars)

	2012	2013	2014	2015	2016	2017 <sup>P</sup>
a. Loan disbursements	29.8	48.9	21.4	50.6	68.0	81.9
b. Repayments (principal)	49.6	47.6	40.3	39.3	42.7	51.5
<b>c. Net Loan Flow (a-b)</b>	<b>-19.8</b>	<b>1.3</b>	<b>-18.9</b>	<b>11.3</b>	<b>25.3</b>	<b>26.5</b>
d. Subscriptions and Contributions	0.0	0.0	1.5	0.0	1.7	1.7
e. Interest and Charges	12.3	11.2	10.6	10.5	16.0	16.7
<b>f. Net Cash Flow (c-d-e)</b>	<b>-32.1</b>	<b>-9.9</b>	<b>-31.1</b>	<b>0.8</b>	<b>7.6</b>	<b>12.0</b>

#### Portfolio composition

The active portfolio consists of 10 loans for a total of US\$504M, 64 percent of which is undisbursed. The main sectors represented include: Water and Sanitation (3 loans, 62 percent of total portfolio); Social Protection and Health (2 loans inclusive of a Preparation Facility); Housing (1 loan), Integration and Trade (2 loans) and Public-Sector Modernization (2 loans). The Bank has continued to proactively offer the services of a Special Work Assignment Team on a targeted basis to improve portfolio execution.

**Table 2. Projects in Execution**  
as of August 16, 2017 (US\$ million)

<b>Name</b>	<b>Approval date</b>	<b>Approved amount</b>	<b>Disbursed amount</b>	<b>Percent disbursed</b>	<b>Available amount</b>
Neighborhood Upgrading Program	12/1/2010	40	31.6	79.0	8.4
WASA Modernization and Wastewater Infrastructure Rehabilitation Program	10/26/2011	50	25.2	50.4	24.8
Multi-Phase Wastewater Rehabilitation Program- Phase I	12/12/2012	246.5	117.7	47.7	128.8
Health Services Support Program (Preparation Facility)	6/25/2013	1.4	1.4	100.0	0
Strengthened Information Management at the Registrar General's Department	10/23/2013	20	1.5	7.5	18.5
Flood Alleviation and Drainage Program	12/4/2013	15	0	0.0	15
Global Services Offshoring Promotion Program	12/4/2013	18	1.8	10.0	16.3
Health Services Support Program	12/17/2014	48.4	0	0.0	48.4
Support to Strengthen Trinidad and Tobago's Public Financial Management System	5/20/2015	40	2.1	5.3	37.9
Strengthening of the Single Electronic Window for Trade and Business Facilitation	11/10/2015	25	0.7	2.8	24.3
		<b>504.3</b>	<b>182.0</b>	<b>36.1</b>	<b>322.4</b>

## STATISTICAL ISSUES

(As of September 2017)

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has serious shortcomings that significantly hamper surveillance. The authorities are committed to improving data provision, through the establishment of an independent National Statistics Institute (NSI), which will replace the Central Statistical Office (CSO). In the meantime, the CSO has obtained new offices, taken on additional provisional staff to reduce the backlog of uncompleted surveys, increased staffing with assistance from the CBTT, and secured TA from a number of international partners.

**National Accounts Statistics:** The CSO has made noticeable improvements in the timeliness of data provision since 2015. The GDP estimates have been improved and rebased from 2000 to 2012. Revised real and nominal production-side GDP estimates have been compiled from 2012 to 2015, with preliminary estimates produced for 2016. The last expenditure-side GDP data is for 2008. The CSO expects to compile updated expenditure-side GDP estimates during 2018, as well as releasing quarterly production-side GDP estimates that are currently being developed, subject to availability of source data (especially monthly unit-record VAT turnover data from the Board of Inland Revenue) and resources to ensure appropriate staffing. Since the end of 2014, the CSO has reduced lags in publication of its quarterly labor force bulletin to about two quarters (from one year).

**Price Statistics:** The compilation methodology to estimate the Retail Price Index (RPI), implemented in mid-2016, corrects a significant upward bias, primarily in the food component. In addition, the RPI basket has been rebased to January 2015, with new weights drawn from the 2008/09 household budgetary survey. The CSO has recompiled and published the RPI for January 2015 to July 2017. The CSO is planning to release the revised RPI to key data users such as the Ministry of Planning and Development, Ministry of Finance, CBTT and the Fund. The current Production Price Index (PPI) uses weights that are 40 years old. However, the CSO is in the process of rebasing and improving the coverage of the index. The rebased index, with 2012 weights covering manufacturing and utilities, is expected to be released by October 2017. In addition, the CSO is receiving TA from Statistics Canada on developing the Export and Import Price Indices, with new indices expected to be released in late 2018.

**Government Finance Statistics:** The Ministry of Finance (MoF) compiles fiscal data using a national classification system for government transactions and debt of the central government. The compilation follows the Government Finance Statistics Manual (GFSM) 1986. However, the government accounts for one-off sources (such as asset sales and super-dividends) as revenues, whereas these should be accounted for as financing sources according to GFSM 2014. Data on public enterprises and statutory bodies are compiled and published once a year. There are limited data on debt outside of the central government.

**Monetary and Financial Statistics:** The monthly monetary accounts currently cover the CBTT and other depository corporations (ODCs), that is, commercial banks and nonbank financial institutions (finance houses, merchant banks, trusts, and mortgage companies), which report to the CBTT on a monthly basis. No data are reported by income funds, which act like money market funds and should be included as part of the ODCs sector. Since mutual funds are not regulated by the CBTT, an agreement with the Securities and Exchange Commission of Trinidad and Tobago is needed to obtain their data on a regular basis. Following two monetary and financial statistics (MFS) missions that visited the country in 2012, Trinidad and Tobago migrated to the standardized report forms (SRFs) for the submission of CBTT and ODCs data to STA; these broader data are now used in the monetary sector accounts in this staff report.

In May 2014, an MFS mission supported the CBTT in developing SRFs for the other financial corporations (OFCs) sector, covering insurance corporations, pension funds, the Heritage and Stabilization Fund (HSF), the Agricultural Development Bank (ADB), and the Mortgage Finance Company (TTMF). The CBTT needs to expand the coverage to, at

least, the National Insurance Board (NIB), the Unit Trust Corporation (UTC), the Home Mortgage Bank (HMB), and the credit unions.

**Financial Sector Surveillance:** The CBTT reports Financial Soundness Indicators (FSIs) covering commercial banks on a regular quarterly basis.

**External sector statistics:** The CBTT is responsible for the compilation and dissemination of balance of payments statistics. Quarterly and annual balance of payments data are disseminated by the CBTT in its national publications, although with some lag. Generally, compilation of balance of payments statistics is heavily based on administrative records and survey data from entities with cross-border transactions. Trade data is normally taken from the CSO, however due to some consistency issues in the energy sector, trade data from 2011 onwards are CBTT estimates, using trade partner data. The CBTT's estimates for trade data should be replaced by official CSO data, once a conciliation and consistency process is concluded. The CSO is in the process of reviewing and auditing recently compiled trade data covering 2012 to December 2016. The authorities, following the recommendations from recent TA missions, revised the data in the goods and services account to address under-coverage and misclassifications, particularly in the valuation of imports at c.i.f., missing insurance services provided to nonresidents, and in services provided by nonresident companies to local oil and gas corporations. Recent TA missions have also assisted the authorities in the compilation of data on external assets and liabilities of mutual funds, the compilation of the International Investment Position (IIP), the proper classification of dividend flows by energy sector companies, other required improvements for subscription to the SDDS, and implementation of the *Balance of Payments and International Investment Position Manual*, sixth edition. The authorities made an official release of the revised BOP data from 2011 to 2016, as well as IIP data for the same period in June 2017. Despite this substantial progress, errors and omissions are still relatively large. Additional technical assistance is scheduled for 2018 to address the remaining issues.

Data with comprehensive coverage of external loans and domestic debt of the entire public sector, as well as publicly guaranteed debt has been migrated to the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) utilized by the Ministry of Finance and the CBTT.

## II. Data Standards and Quality

Participant in the enhanced General Data Dissemination System (e-GDDS).

No data ROSC is available.

## III. Reporting to STA

Although the authorities have reported annual GFS data in the past, data was last reported in 2015, covering data for fiscal year 2011-12. They have not reported any GFS data since then. Since mid-2013, the CBTT reports monetary data to STA using the SRFs. Trinidad and Tobago reports to STA all core and some encouraged financial soundness indicators. External sector statistics are also sent to STA, although with considerable delay.

### Table of Common Indicators Required for Surveillance

(As of September 13, 2017)

	Date of latest observation	Date received	Frequency of Data <sup>8</sup>	Frequency of Reporting <sup>8</sup>	Frequency of publication <sup>8</sup>
Exchange Rates	Aug 2017	Aug 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	June 2017	June 2017	M	M	M
Reserve/Base Money	June 2017	Aug 2017	M	M	M
Broad Money	June 2017	Aug 2017	M	M	M
Central Bank Balance Sheet	June 2017	Aug 2017	M	M	M
Consolidated Balance Sheet of the Banking System	June 2017	Aug 2017	M	M	M
Interest Rates <sup>2</sup>	August 2017	August 2017	M	M	M
Consumer Price Index	May 2017	August 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	June 2017	July 2017	Q	I	A
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	March 2017	April 2017	Q	I	Q
External Current Account Balance	2016Q 4	July 2017	Q	Q	Q
Exports and Imports of Goods and Services <sup>6</sup>	2015Q3	March 2016	Q	Q	Q
GDP/GNP	2015	August 2016	A	A	A
Gross External Debt	September 2015	March 2016	A	A	A
International Investment Position <sup>7</sup>	2016 Q4	July 2017	A	A	A

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

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Central Bank data estimates pending finalization of conciliation of trade data with CSO.

<sup>7</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents. Only from 2011 onwards.

<sup>8</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

BUFF/ED/17/122  
October 18, 2017

**Statement by Mr. Tombini and Mr. Cheong on Trinidad and Tobago  
Executive Board Meeting  
October 23, 2017**

On behalf of our authorities, we would like to thank staff for the report and the candid discussions held in Trinidad and Tobago during this year's Article IV consultation.

**Over the last few years, Trinidad and Tobago has faced a challenging macroeconomic environment due to the fall in both international energy prices and domestic production.**

Although the country was able to draw on some of its buffers including the Heritage and Stabilization Fund (HSF, Trinidad and Tobago's sovereign wealth fund) and domestic assets, the authorities have also undertaken major adjustment measures, including in the recently announced budget for FY2018.<sup>1</sup> In this regard, while they agree with staff that further adjustments are needed, they are of the view that the fiscal consolidation efforts already underway and reforms in the pipeline were somewhat downplayed in the report and thus would like to emphasize some of the measures being taken to ensure fiscal and macroeconomic sustainability.

**Economic Environment and Outlook**

**Soft energy prices coupled with lower domestic energy production have adversely impacted Trinidad and Tobago's economy over the last few years.** After a weak start to 2017, some improvement is expected in the second half of the year, due in part to the coming on stream of production from the Juniper gas field in August and yields from the bpTT's Trinidad Onshore Compression Project initiated in mid-2017. The rebound in upstream activity will have direct positive spill-overs for the petrochemical sector as well as indirect pass through to the wider economy. Therefore, the authorities are somewhat more optimistic than staff for the economic outturn in 2017.

**Other economic indicators point to some degree of stability thus far in 2017.** Preliminary estimates show that the current account recorded a small surplus of about 1.4 percent of GDP in the first quarter of 2017 and despite some further loss from end-2016, net official reserves stood at 9.8 months of import cover (or US\$8.5 billion) at the end of September.<sup>2</sup> Inflationary pressures remained

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<sup>1</sup> The fiscal year starts in October of the previous year.

<sup>2</sup> International reserves do not include assets held in the HSF.

well contained over the first eight months of the year, measuring 1.3 percent (year-on-year) in August. Meanwhile, the unemployment rate stood at 4.5 percent at end-March.

**Medium-term prospects are positive.** In addition to Juniper, several other energy sector projects are in train, which should first increase and then stabilize natural gas supply closer to domestic utilization requirements. Further, the construction of a methanol and dimethyl ether<sup>3</sup> plant in the southern part of the country will add to productive capacity in the downstream sector in 2018 or early 2019. Positive spill-overs are also expected in the non-energy sector in 2018 and beyond, with government's capital program set to get back on track. Overall, the economy is expected to rebound in 2018 and register modest but steady growth over the medium-term. Given the rebound in domestic energy sector output, the potential recovery in energy prices compared to 2016 as well as the fiscal and structural reforms underway, the authorities expect an improvement in the external position.

### **Fiscal Developments and Policy**

**The fiscal position has been severely affected by the developments in the hydrocarbon industry.** In response, the authorities *inter alia* sought to reduce expenditures through the reduction of transfers and subsidies, streamlining spending on goods and services and rationalization of infrastructure investment. As such, expenditure was cut by roughly 20 percent between FY2014 and FY2017, that is, from around 55 percent (TT\$62.8 billion, revised) of non-energy GDP to an estimated 43 percent (TT\$50.5 billion) of non-energy GDP.<sup>4</sup> The authorities felt that reflecting expenditure as a percent of total GDP in the report, which showed a mere 2 percentage point reduction, gave a misleading impression of their consolidation effort already undertaken due to the significant decline in total nominal GDP as noted in footnote 5 of the report.

**On October 2<sup>nd</sup> 2017 the government presented the FY2018 national budget, which saw a continuation of the adjustment efforts in prior years.** Some measures include a further reduction in fuel subsidies, an increase in corporation taxes, the introduction of a 12.5 percent royalty rate for companies involved in the extraction of oil, condensate and natural gas, higher taxes for the gambling industry and an ongoing review of social programs with greater reliance on means testing. With revenues (including from the energy sector) expected to recover and expenditures remaining contained near FY2017 levels as the authorities redirect savings from lower transfers and subsidies to their investment program, the overall fiscal deficit is budgeted at 3.1 percent of GDP in FY2018 (on a non-IMF GFS basis).

**The authorities are also embarking on several structural fiscal reforms to ensure fiscal sustainability over the medium-term, as highlighted by staff.** To enhance revenue collection and reduce leakages, the authorities are well advanced in establishing a new Revenue Authority (RA) which will bring together the Board of Inland Revenue (Trinidad and Tobago's tax administration

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<sup>3</sup> An alternative clean fuel for transportation, power generation and household use.

<sup>4</sup> The Central Statistical Office released revised GDP data after the completion of the 2017 staff report, and therefore figures quoted in percent of GDP may differ from those in the report.

office) and the Customs and Excise Division. The RA is expected to come on stream in 2018 and will result in greater administrative and operational efficiency, facilitated by better information sharing and staffing arrangements. At the same time, with the support from the Fund, the government is working on a new tax regime for the energy sector, which seeks to strike an optimal balance between revenue intake and ensuring that exploration activity remains incentivized. Meanwhile, the government has also engaged the World Bank to conduct a Public Expenditure Review, which will encompass key areas such as health, education and social services.

**The authorities acknowledge that further consolidation efforts are needed over the medium-term and are committed to continue the adjustment process as the FY2018 budget and the on-going fiscal reforms show.** Therefore, they were somewhat surprised by staff’s assessment that under “current policies” expenditure levels will balloon sharply over the medium-term, thereby reversing the hard-won gains achieved over the last few years. The authorities intend to balance the fiscal position by the end of the forecast horizon, through continued prudent expenditure management, as well as non-energy and energy revenue mobilization efforts. Fiscal consolidation as well as the utilization of a number of financing options including asset sales and recoverable investments<sup>5</sup> should help achieve the authorities’ public sector debt guide of 60 percent of GDP over the medium-term. Thus, they considered the increase in debt projected in the Debt Sustainability Analysis (DSA) as extreme.

### **Monetary Policy and the Foreign Exchange Market**

**The Central Bank of Trinidad and Tobago (CBTT) continued to adopt a neutral monetary policy stance in the first nine months of 2017.** CBTT’s policy deliberations considered the weak economy on one hand and the domestic implications of monetary policy normalization by major central banks on the other, and evaluated the risks posed by both as finely balanced. The CBTT has maintained its main policy rate at 4.75 percent for the year thus far – unchanged since end-2015.

**With significantly lower inflows from the energy sector, the domestic foreign exchange market has experienced a fair degree of tightness over the past few years.** While this has placed additional pressures on the CBTT to provide foreign exchange to the domestic market, its intervention strategy continued to be geared towards maintaining an orderly and stable market. In this regard, the Bank has sought to increase the predictability and transparency of its interventions to avoid unnecessary speculation, while also taking into account market conditions and the level of international reserves. In the first nine months of 2017, the CBTT sold US\$1.4 billion to the market compared with US\$1.2 billion in the same period last year. The authorities are of the view that a careful coordination of fiscal, monetary and structural policies is essential to restore equilibrium in the foreign exchange market and have signaled this stance to the public.

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<sup>5</sup> The government has recoverable investments of about 10 percent of GDP from CL Financial.



## **Financial Sector Policies and Regulatory Developments**

**The domestic financial system remains stable and sound.** The banking system, which accounts for the lion's share of financial sector assets, is well capitalized and profitable, while the ratio of non-performing loans (NPLs) to gross loans stood at 3.4 percent in June 2017. Further, CBTT stress tests show that in aggregate, the banking system is resilient to various macroeconomic shocks, including natural disasters and sharp commodity price declines. Available Financial Soundness Indicators (FSIs) for the insurance industry also show healthy capital positions and a fair degree of profitability.

**Since the 2016 Article IV Consultation, the authorities continued to make steady progress towards strengthening the financial system's supervisory and regulatory framework.** The CBTT has progressed its agenda to introduce Basel II/III standards. Additionally, following the finalization of a National Risk Assessment and the findings from the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report, the authorities are taking measures to further strengthen the anti-money laundering/combating the financing of terrorism (AML/CFT) framework, including by enhancing investigative and prosecutorial processes, implementing targeted sanctions and making legislative amendments to better identify beneficial ownership. Meanwhile, the CBTT is also revising its AML/CFT guideline with a focus on risk-based supervision and sector specific guidance.

**Over the last couple years, the authorities have devoted significant attention to complying with international tax transparency requirements.** As such, a new Tax Information Exchange Agreements Act (TIEAA) with the United States was enacted in March 2017, thus ensuring that Trinidad and Tobago remains compliant with the US Foreign Account Tax Compliance Act (FATCA). On the other hand, Trinidad and Tobago was found to be non-compliant with the Global Forum's Common Reporting Standards. To address this, the authorities laid the Mutual Administrative Assistance in Tax Matters Bill, 2017 in Parliament in April and are confident that the country will meet the Global Forum's tax compliance requirements in the next review cycle.

## **Structural Reforms and Diversification Efforts**

**The government's transformational and structural reform agenda is driven by its Vision 2030 national development plan.** Initiatives to encourage private sector participation are on-going. Cognizant of the hindrances to doing business, plans are being developed to address the issues both at the agency and ministerial levels. Meanwhile, with the help of the Inter-American Development Bank (IDB), the Ministry of Trade and Industry has begun to modernize trade legislation, while at the same time seeking to expand trade arrangements with a number of Central American countries.

**Economic diversification, particularly expanding the country's export base, remains a priority for the authorities.** In addition to efforts to increase the ease of doing business and expand trade arrangements, the authorities aim to attract investment through the development of ICT hubs, special economic zones and industrial parks, some of which are already well advanced. Given Trinidad and Tobago's geographical position and naturally protected coves, the authorities are renewing their focus

on the maritime industry. They are also promoting the country as an International Financial Center, while prospects in the Business Process Outsourcing (BPO) realm are also positive. The tourism industry is also expected to get a boost with plans to construct two major luxury resorts in Tobago in the next few years.

**The authorities are also reviewing the operations of state-owned enterprises (SOE) and public utilities, and welcomed staff's analysis in the selected issues paper.** In the FY2018 national budget, the Minister of Finance signaled plans to review the pricing structure of the national electricity and water providers, with an aim to better align prices to costs, and thereby reduce the level of state transfers to these companies. In 2017, the government appointed a high-level team to review the operations of Petrotrin (the state oil company) which has been challenged by the downturn in prices and lower yields due in part to maturing oil fields. With the review completed, the authorities plan to establish an implementation team to execute the recommendations.

### **Conclusion**

After a challenging past few years, brighter prospects are on the horizon for Trinidad and Tobago. The authorities nevertheless remain committed to sound macroeconomic policies and continuing the adjustment effort. Strategies have been developed to address the decline in domestic energy production, while reforms are also in train to reignite the diversification agenda. The authorities reiterate their appreciation for the fruitful discussions and policy recommendations put forth by staff in this year's Article IV consultation, and look forward to continued engagement with the Fund.