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June 1999

IMF Staff Country Report No. 99/48

Trinidad and Tobago : Staff Report for the Article IV Consultation

This report was prepared by a staff team of the International Monetary Fund following discussions with the officials of Trinidad and Tobago on economic developments and policies. The report was then considered by the IMF's Executive Board in the context of the IMF's periodic consultation with Trinidad and Tobago, as required under Article IV of the IMF Articles of Agreement. The views expressed in the staff report itself are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF or of the authorities of Trinidad and Tobago; a supplementary statement by IMF staff may also be included. The views of the Executive Board as expressed in the discussion of the Article IV consultation report and as summarized in a Press Information Notice (PIN) are also included. In addition, a statement by the member country authorities may be appended. Further background documentation prepared by IMF staff for the consultation may be published separately at a later date.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 1999 Article IV Consultation

Prepared by the Staff Representatives for the
1999 Consultation with Trinidad and Tobago

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May 19, 1999

Contents | Page

Figures

Appendices

EXECUTIVE SUMMARY

Background

After emerging from a prolonged period of decline in the 1980s, the Trinidad and Tobago economy has performed well in recent years, with steady economic growth and low inflation. Although a sizeable investment boom in the energy sector should contribute to faster growth in the coming years, a serious terms of trade shock in 1998 limited output growth.

The decline in oil prices in 1998 led to deterioration in the overall balance of the public sector, though expenditure restraint in the current fiscal year may lead to an improvement in the public finances. Weakening oil prices also led in 1998 to deterioration in the balance of payments. Although the external current account deficit remained stable, the trade account worsened largely as a result of increased imports of capital goods and construction materials related to projects in the petrochemical sector, and weak oil and petrochemical export earnings. The continued strong inflow of foreign direct investment was, however, sufficient to allow a buildup of foreign exchange reserves. In 1999, the external current account deficit is projected to improve, even without a recovery in export prices as export volumes expand. The exchange rate has remained stable at about TT$6.30. To address the problem of large and uneven reserve requirements, in April 1998, the authorities extended the coverage of reserve requirements to new fundraising instruments, and reduced the required reserve ratio on the deposit liabilities of commercial banks from 24 percent to 21 percent.

Policy issues

The overall policy objectives are to maintain domestic and external balance accompanied by high growth rates, with a priority on reducing the still high unemployment rate and on diversifying the economy to reduce its vulnerability to oil price shocks. In the fiscal area, the most pressing issues are to maintain a tight fiscal position, which would lessen the pressures on monetary policy and the current account; to strengthen revenues through continued improvements in tax administration and expansion of tax bases; and to raise and increase the flexibility of the central government's debt limits to ensure that the budget is financed in a noninflationary way. Monetary policy should continue to aim at ensuring price stability and increasing the efficiency of financial intermediation. A primary monetary policy objective is to continue lowering unremunerated reserve requirements from their present high level eventually to prudential levels and then to equalize the rates on domestic and foreign currency deposits. Exchange rate stability remains one of the government's principal policy aims. Stability in the exchange rate is best achieved by the appropriate use of market mechanisms—including interest rates and, if necessary, central bank intervention—to smooth supply and demand. Structural reforms should continue to emphasize improvements in the performance of the public enterprises and privatization.

I. INTRODUCTION

1. The 1999 Article IV consultation discussions with Trinidad and Tobago were held in Port-of-Spain during March 15–29, 1999 and at headquarters during April 26–27, 1999.[1] The mission met with the Minister of Finance, the Governor of the Central Bank, and senior officials of the government, and major public enterprises and utilities. The mission also met with representatives of the manufacturing, energy, and banking sectors.[2] [3]

2. The last Article IV consultation was concluded by the Executive Board on June 15, 1998 (EBM/98/64). Executive Directors commended the authorities for attaining sustained growth with low inflation in recent years. They noted the impact on the public finances of the drop in oil prices and supported the authorities' efforts to maintain a prudent fiscal stance. They underlined the challenges posed to the effectiveness of monetary policy by the rapid pace of innovation in domestic financial markets and urged the authorities to take prompt steps to address the problem of high and uneven unremunerated reserve requirements. Since the expiration of a Stand-By Arrangement in April 1991, the Fund staff has collaborated with the authorities in formulating and monitoring their economic policies under annual staff monitored programs (SMP).

3. Economic data supplied by the Trinidad and Tobago authorities are, in general, timely and are broadly adequate for monitoring macroeconomic developments. There are, however, areas of weakness, particularly in the coverage of financing and off-budget liabilities of the central government and financing of other state entities in both the fiscal and monetary accounts, which hinder a proper assessment of the fiscal and monetary position. In addition, coverage of external debt of the public sector in the balance of payments is incomplete.

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[1]The mission was headed by Mr. DeMilner and included Mr. Chan-Lau, Ms. Dabla-Norris, Ms. Stotsky, and Mr. Tadesse (all WHD). Mr. Pujol, the MAE regional advisor to the central banks of the Caribbean, assisted the mission.

[2]Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

[3]Relations with the World Bank and the IDB are summarized in Appendices II and III, respectively.

II. Background

A. Overview

4. After emerging from a prolonged period of decline in the 1980s, the Trinidad and Tobago economy has performed well in recent years, with steady economic growth, low inflation, and declining—though still high—unemployment. Strong foreign direct investment in the petrochemical sector was expected to lead to an increase in the rate of economic growth. Over a year ago, however, the onset of disarray in global financial markets and weakness in oil and petrochemical prices began to temper near-term expectations for growth, though the medium-term potential remains strong.

5. The **fiscal position** has weakened from 1996 to 1998, mainly reflecting a combination of diminishing revenues from oil as a result of falling oil prices, large tax deductions associated with new investments, and expenditures on clearing past wage arrears and off-budget capital projects. The sale of several profitable state enterprises has supported the budget in recent years.

6. The **balance of payments** has run a consistent, albeit diminishing, surplus in recent years. The current account balance has shifted from surplus into a substantial deficit—about 10 percent of GDP in the last two years—mainly as a result of a large increase in raw material and capital goods imports related to energy sector investments. Additional factors include increasing consumer goods imports and disappointing export earnings, as a result of lower prices for oil and petrochemicals. In the past two years, the large increase in foreign direct investment inflows to the energy and petrochemical sectors has offset this deteriorating current account imbalance.

7. **Exchange rate policy** has been conducted under a managed floating rate regime. Since 1997, the authorities have maintained an informal ceiling on the exchange rate of TT$6.30 per U.S. dollar. The central bank has provided limited foreign exchange to the interbank market on an ad hoc basis; also at times, commercial bank customers have had to queue for access to foreign exchange, usually for short periods.

8. **Monetary policy** has been tight, with high real interest rates, and in the past two years the Trinidad and Tobago dollar has appreciated slightly in real effective terms (Figure 1). The central bank introduced open market operations in 1996 to improve its ability to manage liquidity in domestic financial markets. This shift to reliance on indirect monetary instruments has aided in maintaining relatively low inflation, but high and uneven reserve requirements continue to complicate monetary management.

B. Developments in 1998

9. In 1998, **real GDP** growth slowed slightly to 3¼ percent, as increased activity in the nonenergy sectors, such as manufacturing, construction, and tourism, did not make up fully for lower growth in the energy sector (Table 1 and Figure 2). The overall performance of the energy sector was dominated by the decline in crude oil production, even though there was a strong expansion in petrochemical production and refinery output following completion of an upgrading of the refinery. Agricultural production was down sharply because of pests and bad weather. **Unemployment** declined in 1998 to just over 14 percent from 15 percent a year earlier and nearly 20 percent in 1993.[4] **Inflation**, as measured by the retail price index, rose to 5½ percent on an end-year basis, up from 3½ percent during 1997, mainly as a result of higher food prices. In contrast, the GDP deflator declined by 2 percent, reflecting the large decline in the terms of trade.

10. The **overall nonfinancial public sector** deficit widened to 2½ percent of GDP in 1998, reflecting deterioration in the fiscal position of the central government and a small improvement in the rest of the nonfinancial public sector (Tables 2 and 3).[5] The **central government** incurred a deficit of a little over 1½ percent of GDP in 1998, after running surpluses in the previous few years.[6] Total revenues declined in relation to GDP as oil revenues dropped by the equivalent of 2½ percentage points of GDP, compared with 1997, reflecting the significant drop in oil prices and continuing tax deductions associated with large investments in the energy sector.[7] In contrast, non-oil tax revenues exceeded budget targets. Some of this gain reflected signature bonuses of 1.3 percent of GDP for the sale of rights to oil and gas exploration. Value-added tax (VAT) collections also improved, reflecting improvements in tax administration as well as payments on imported capital goods and raw materials, much of which would likely be refunded in 1999 to the extent that these imports are used to produce exports. Revenues from sales of capital assets dropped in 1998. Expenditures increased, reflecting payments of wage arrears bonds and the absorption of

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[4]High unemployment is endemic to the Caribbean region and the capital-intensive nature of investment in Trinidad and Tobago has limited the beneficial effect of economic growth on unemployment.

[5]The central government switched to a October 1 to September 30 fiscal year in 1998. This discussion refers to calendar year 1998.

[6]On a cash basis, the budget ran a small surplus, though with asset sales treated as financing, the budget ran a deficit of 2 percent of GDP, compared to 2.2 percent in 1997.

[7]The oil price assumption underlying the 1998 benchmarks under the SMP was US$15.50 per barrel, while the oil price turned out to average US$14.50 per barrel. Trinidad and Tobago oil commands a premium of about US$1 per barrel over the average price used in the WEO projections.

off-budget capitalized interest and principal obligations for the construction of new police facilities,[8] although capital expenditures, apart from the absorption of these outlays, slipped relative to 1997.

11. Unlike in recent years, when the central government reduced its debt to the central bank, in 1998 it relied on direct borrowing from the central bank. The accompanying expansion of base money was absorbed mainly through open market operations and limited foreign exchange intervention. As of end-1998, the government had reached its ceilings on the issuance of treasury bills and bonds, which became particularly problematic in view of the unusually weak budgetary position early in the fiscal year.[9] The authorities intend in 1999 to gain approval for consolidation of the debt limits into one overall ceiling, which would be raised to give them sufficient room to fund the deficit. Until Parliament approves this legislative change, which the authorities expect will come in May, the central government is unable to issue new domestic securities, and must rely on central bank loans and foreign borrowing.

12. The deficit of the **rest of the nonfinancial public sector**, which includes major state enterprises and public utilities, declined in 1998, and central government transfers to the sector continued to fall to 1 percent of GDP. The deficit of the **state enterprises** reflected several offsetting factors. Petrotrin, the state-owned oil producer and refiner, and the National Petroleum Marketing Company, which operates gasoline service stations, were able to operate profitably as intermediaries, despite the fall in oil prices. In contrast, the National Gas Company, the state-owned intermediary in the sale of natural gas, ran a large deficit because of large investment outlays. Caroni, the sugar producer, continued to accumulate large debts. It faces several intractable problems, including the need to retrain or reduce a largely unmechanized workforce, whose wages are roughly double those of Brazilian sugar cane workers; external trade restrictions that regulate and limit sugar exports; and pests and bad

[8]Wage and salary arrears were incurred for suspended cost of living increases to central government workers in the late 1980s and early 1990s. The wage arrears bonds are being paid in annual installments from 1995 to 1999 in the form of two-year discount bonds, payable on maturity. They are recorded as wage spending when issued and matched by an increase in nonbank financing. Capitalized interest and principal obligations for the police facilities reflect expenditures incurred by private contractors over the 1990–95 period, which were brought onto the budget in full in 1998.

[9]The central government is subject to various legal limitations on debt instruments, which have complicated financial management. These include ceilings on the issuance of treasury bills to finance the deficit (as distinct from those used for open market operations), on the overdraft account at the central bank, on the issuance of bonds for financing the deficit, and on the issuance of external debt.

weather that have damaged sugar crops. A Cabinet committee is considering options to stem Caroni's losses.

13. The deficit of the **public utilities** mainly reflected losses of the water and sewerage company. The intention is to privatize the operating portion of the utility, which would then be responsible for new investments. The electricity company failed to gain the Public Utilities Commission's approval of a proposal for a significant rate increase, which would have enabled it to repay its debts to the National Gas Company and restore its profitability. The small rate increase approved by the Commission in 1998 leaves electricity rates in Trinidad and Tobago the lowest in the region.

14. **Monetary policy** continued to be tight in 1998, although there were periods when liquidity conditions were relatively loose, as the authorities struggled with conditions created by the maintenance of very high reserve requirements. In 1997, rapid growth in the use of new fund raising instruments, which avoided high reserve requirements, led to very rapid credit growth. In March 1998, the central bank extended reserve requirement coverage to the new instruments while reducing the rate from 24 percent to 21 percent.[10] Interest rates rose 50 to 200 basis points in 1998, with the prime rate rising on average to 17½ percent.

15. In response to the imposition of the reserve requirement on the fund raising instruments (FRI), the bulk of these resources flowed out of the banking system and into money market mutual funds and nonlicensed financial institutions.[11] As a result, in 1998, **M3** (which includes the FRIs) contracted by 7 percent, although **M2** (exclusive of the FRIs) rose by nearly 9 percent, close to its trend growth. Credit to the private sector expanded by 4½ percent (Tables 4 and 5), well below the increase of 1997. Although the level of lending for the purchase of automobiles continued to be high, its growth also subsided in 1998.

16. **Foreign currency deposits**, which in recent years have been rising strongly, surged in early 1998, but fell back in the latter part of the year to 24 percent of total deposits, close to their value at the beginning of the year, reflecting reduced balances of major public energy corporations, who hold the lion's share of such deposits. Of the foreign currency deposit

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[10]Reserve requirements on nonbank institutions were left at 9 percent. Bank and nonbank deposits are also subject to a secondary remunerated reserve requirement of 5 percent. Foreign currency deposits continue to be subject only to a liquidity requirement of 25 percent.

[11]The FRIs have been in existence for at least three years but had grown in volume mainly in 1996 and 1997 because they were not subject to the high unremunerated reserve requirement on regular deposits. They take the form of securitized assets backed by the banks' portfolios of government securities and other assets.

base, about half was directed toward foreign currency loans, almost exclusively to corporate borrowers with foreign exchange earning capacity.

17. The **overall balance of payments** was in surplus for the fifth straight year in 1998, although the surplus was much reduced from the two previous years, reflecting a decline in capital account inflows (Table 6). The **current account** deficit remained at 10 percent of GDP. The deficit on trade widened to 11½ percent of GDP, reflecting a more than 10 percent deterioration in the terms of trade. The value of exports weakened, mainly as a result of the decline in prices for petrochemical products. Imports of capital goods continued to expand, albeit at a much slower rate than in 1997, reflecting the continued investment boom in the energy and petrochemical sectors. Consumer goods imports, by contrast, grew much more rapidly than in 1997, reflecting a continued growth in automobile imports. The services account improved, mainly owing to the receipt of oil exploration contract signature bonuses. The surplus on the capital account narrowed sharply to 8 percent of GDP in 1998, reflecting a drop in foreign direct investment. Gross international reserves increased moderately to the equivalent of 3.2 months of imports by end-1998. With relatively little new foreign borrowing, the external debt to GDP ratio declined to 24½ percent (Table 7).

18. The nominal **exchange rate** has remained just below TT$6.30 per U.S. dollar since mid-1997. In real effective terms the rate appreciated by 2½ percent during 1998, following a 4 percent appreciation during 1997 (Figure 1).[12] Despite this appreciation in the face of a serious terms of trade shock, the continued strong inflows of foreign direct investment and growth of non-oil manufactured exports, and balance of payments surpluses all point to a reasonably valued exchange rate. Although periodic foreign exchange queues have occurred, they are reported to be short, with all but the largest purchasers of foreign exchange satisfying their demand without a wait and large purchasers having to wait only a few days.

19. The authorities made progress in some areas of **structural change** in 1998. After having significantly reformed the structure of the income tax in 1997, the structure of the major taxes was left largely unchanged in 1998. There were, however, several changes to the administration of the income tax, designed to improve compliance. Low-income taxpayers were relieved of their responsibility to file tax returns (while the Inland Revenue Department stepped up enforcement of withholding of taxes by their employers), leading to a useful reallocation of tax administrators to more productive tasks. The threshold on the VAT was raised to remove small businesses from the tax. In addition, the Inland Revenue established a large taxpayer unit to monitor the activities of the 800 largest taxpayers on a regular in-depth basis. The Customs and Excises Department continues to automate and to improve customs procedures and coordination of its work with the Inland Revenue Department. Progress on

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[12]The real appreciation resulted from some appreciation of the U.S. dollar in 1997 and unusually large food price increases in 1998.

land reform and land distribution has been slow, resulting in delays in Inter-American Development Bank (IDB) loan disbursements.

20. The quarterly quantitative benchmarks under the informal **staff monitored program** were met only for broad money growth and for credit to the nonfinancial public sector (Table 8). Other benchmarks, including the deficit of the government, the net domestic assets of the central bank, and the net international reserves target, were not achieved. The larger budget deficit reflected the impact of the sharp decline in oil prices on budgetary revenues. Despite cutbacks in the public sector investment program, the revenue shortfall and limitations on the issuance of domestic debt to the bank and nonbank public induced the central government to rely more heavily on borrowing from the central bank, which led the net domestic assets of the central bank to exceed its target. Similarly, the missed target on net international reserves reflected the effect of lower oil prices on export revenues as well as a failure to meet conditionality requirements for an IDB loan disbursement.

III. Report on the Discussions

21. Overall, the staff expects economic performance to continue to be relatively good. Significant growth in export volume will continue to compensate for much of the terms of trade shock. The staff projects growth to accelerate to about 4½ percent in 1999 as several major energy sector investments come on stream (Table 9 and Figure 3). The startup of the liquefied natural gas (LNG) plant and the Titan IV methanol plant will underpin growth of nearly 15 percent in the energy industry. Growth in the nonenergy sector, on the other hand, may slow to only about 1½ percent, as construction activity contracts following the completion of two major projects in the private sector and the adoption of a smaller public sector investment program. Inflation is expected to decelerate to 4¼ percent during 1999, as food supplies improve and monetary policy continues to limit the growth of monetary aggregates.

22. The main concern in 1999 is that continuing weakness in oil and petrochemical prices could threaten the achievement of budgetary objectives. A moderate fiscal deficit is likely in fiscal year 1998/99 because of the continued weak oil prices. The intended restraint of discretionary expenditures would seem adequate in order to ride out the period of depressed oil prices and weaker non-oil domestic growth this year. The principal threat to this scenario is continued reliance on overdraft financing from the central bank, which would result from an inability to tap foreign debt markets and to raise domestic debt limits. Continued reliance on overdraft financing would also increase the difficulty of absorbing liquidity that would result from a reduction in high unremunerated reserve requirements.

A. Fiscal Policies

23. The 1998/99 budget, which took effect in October 1998, was based on an oil price assumption of US$14.10 per barrel and envisioned a small central government surplus of 0.2 percent of GDP. Although oil prices have recently shown signs of strengthening, they averaged a little less than US$12 per barrel in the first half of the fiscal year. The authorities expressed the desire to keep the budget in balance, if possible, through expenditure restraint. The staff projects a 1998/99 budget deficit of close to ½ percent of GDP, based on the latest WEO price forecasts.[13] The staff views this moderate weakening in the fiscal position, in the face of a serious terms of trade shock, as an appropriate countercyclical policy that should help to maintain aggregate demand and limit overly contractionary impulses on the economy.

24. Revenues would fall 1½ percent of GDP short of the budget in the staff's view, owing mainly to shortfalls in collections on oil and nontax revenues. Thus far, corporate income tax collections from oil producers have been poor, VAT receipts have been weak owing to refunding of earlier collections on imports, and there have been delays and shortfalls in nontax revenues. Capital revenues, mainly asset sales expected in the third and fourth quarters, are budgeted at 2 percent of GDP.[14] [15] Expenditures were tightly constrained in the first half of the fiscal year. Expenditures on goods and services, such as contracting and consulting, and on capital projects have been held substantially below budgeted amounts. The authorities are, however, committed to avoiding the incurrence of expenditure arrears.

25. The staff recommended that the authorities move as quickly as possible to raise the ceiling on domestic debt so as to reduce central bank financing for the fiscal year, and to prepare some revenue raising options that could be implemented on short notice in the event that revenues do not soon improve. The main options for raising revenues in the current fiscal year would be increases in excises and administrative measures.

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[13]Based on the WEO oil price projection of US$12 per barrel in 1999, the price is forecast at US$12.77 because Trinidad and Tobago's oil commands a premium over the WEO price. A US$1 per barrel increase in oil prices would raise central government revenues by approximately ¼ percent of GDP. Since the rate of the supplemental petroleum tax rises with the price of oil, further increases in price would yield greater marginal benefits to the budget.

[14] The enterprises to be divested include shares in Trinidad Cement Limited (TT$110 million), National Flour Mills (TT$168.6 million), and Trinidad Nitrogen Company (TT$300 million).

[15]Several alternative measures of the deficit are presented in Table 2, including the deficit on a cash basis (which removes the effect of wage arrears bonds), the deficit treating capital revenue (mainly privatization) as financing, and the deficit with both adjustments. By any of these measures, the projected outcome in 1998/99 is weaker than in 1998.

26. For the medium term, the staff projections show a return to small budget surpluses, though these projections depend on a gradual strengthening of non-oil revenues stemming from improvements in compliance. The outlook for continued low oil prices means that the budget cannot expect to rely heavily on oil revenues. The increase in production capacity in natural gas and other petrochemicals should strengthen the tax base, especially as tax holidays expire over the next ten years. The corporate income tax does, however, contain a generous loss carryforward provision that allows taxpayers to carry forward losses from business operations indefinitely. The staff advised the authorities to tighten this provision in the law to ensure that ongoing companies pay taxes and that companies currently enjoying holidays pay taxes on these new investments after the holiday period expires. Rationalization of the budget process would be facilitated by a projection of the revenue effects of the expiration of these tax holidays as well as by the publication in each year's budget of the tax expenditures owing to tax holidays and other special preferences in the tax code. The authorities are working on preparing these estimates.

27. The staff also noted other possible ways to improve tax collections, including broadening the VAT base by removing zero rates and exemptions, widening the use of excise taxes to cover imports (combined with the continuing reduction of import tariffs on these imports), raising the tax on gasoline, and improving auditing and enforcement of the income tax for the self-employed and unincorporated businesses (who currently only contribute 1.3 percent of personal income tax receipts). Indirectly, the central government budget balance would benefit if higher utility rates allowed certain utilities to extinguish their arrears and debts to other public sector entities.

28. The staff also recommended developing an appropriate wage policy that would compensate adequately senior civil servants, and exercising call options on high interest government securities as a way to lower government interest costs. A looming budget concern is the potential liabilities related to public capital investments financed by the private sector, similar to the cost of construction of new police facilities brought onto the budget in 1998. A prison complex and the new National Library are being constructed by the private sector under an arrangement whereby the government agrees to pick up the cost in full upon completion of the project. It is believed that these liabilities could amount to TT$1 billion (about 2½ percent of GDP) or more in capitalized interest and principal. The staff stressed that fiscal operations conducted off-budget raise the danger that, by circumventing the normal budgetary process, they will not be carried out as efficiently as more transparent operations, with less eventual accountability. The authorities said the present government had no intention to finance additional projects in this manner and that they intend to bring all activities of the central government under the control of the annual budget process.

29. The public utilities have continued to restructure their operations. However, the limited increase in electricity rates may hinder progress in reducing the indebtedness of the electric company. The outlook for the state enterprises is improving. Although the

profitability of Petrotrin and the National Gas Company continues to be hampered by low petroleum prices, Petrotrin still expects to run its refining operations in a profitable manner and the National Gas Company intends to return to profitability this year. Several of the other major state enterprises are expected to soon be sold off.

30. The staff considers it essential that the ministry of finance and the central bank keep an up-to-date and comprehensive understanding of the government's financing needs and activities, including those of the public enterprises, public utilities, and statutory bodies. In recent years, information on the scope of these activities has not been readily accessible.

B. Monetary Policy and Bank Soundness

31. Monetary policy in 1998 was guided by the objective of limiting growth of the monetary aggregates through indirect means of control. The authorities' have established a good track record of limiting growth in money and credit to achieve relatively low inflation. In 1998, they were successful in re-establishing control over credit expansion funded by the FRIs, despite a shift of these FRIs from the banking sector to the nonbanking sector. In 1999, however, the authorities have faced the difficult task of mopping up liquidity spilling into financial markets from the weaker budgetary position. The authorities feel that the debt instruments available for open market operations along with the new repurchase facility should enable them to meet their targets for monetary aggregates. The staff estimates that an expansion in broad money of about 10 percent and in M2 of 9 percent in 1999 would be consistent with the authorities' target of achieving an inflation rate below 5 percent.

32. The staff endorsed a medium-term effort to reduce required reserves to prudential levels (i.e., below 10 percent) and to include foreign currency deposits in this requirement once levels are reduced. The staff recommended reducing these reserve requirements in a gradual manner that ensures absorption of the liquidity released and supported the authorities' plans to lower reserve requirements by 5 percentage points (from 21 percent to 16 percent) as soon as conditions permit. To sterilize the resulting injection of liquidity, the central bank has received authority to issue five-year treasury notes to commercial banks. The authorities said that in view of their current focus on developing primary dealership arrangements and viable secondary markets for government securities, as well as uncertainty with respect to the decline in interest rates to result from the reduction in the reserve requirements, they could not now commit themselves to a strict timetable for reserve requirement reduction in 1999.

33. The central bank and commercial banks agreed in 1998 on rules for the establishment of a **primary dealer** system, which in its first phase is to include only commercial banks, but will eventually include nonbanks and independent dealers. The banks agreed to take up at least 70 percent of a given offering, in proportion to their reserves. The staff supported the authorities' plans to establish this system and to diversify the instruments available for use in these operations, as recommended by MAE technical assistance.

34. In light of recent global concerns about **bank soundness**, a Financial Stability Committee was established in 1998 to address issues relating to the health and soundness of the banking system. The authorities are still resolving the problems of one publicly owned bank, which has been undergoing restructuring in preparation for privatization. To monitor the soundness of the financial system, the authorities use a set of monthly indicators. In 1998, indicators of banking soundness continue to strengthen, with a high average ratio of capital to risk adjusted assets (18 percent), a declining level of problem loans (6¼ percent), and adequate provisioning.[16] In 1998, bank capital continued to expand through new issues as well as through reinvestment of profits.

35. Nonbank financial institutions (many of which are owned by banks) continue to diversify and banks themselves are expanding offshore, thus putting the current regulatory apparatus to the test. The authorities are continuing to improve the legal and regulatory oversight of the financial system, guided in part by the recommendations of a recent World Bank study. In view of the growing financial importance of nonbanks and nonlicensed financial institutions, the staff advised the authorities to seek legislative approval to extend the central bank's legal authority to institute reporting requirements on these institutions and, having done so, expand the data collected to include the most significant of these institutions.

36. Although the staff had last year expressed some concern that the real estate and stock markets were being driven upward by loose credit, recently the upward momentum in these markets has weakened, alleviating concerns of a potential speculative bubble. The stock market index grew a still robust 24 percent in 1998, after more than doubling in 1997, but declined in the first four months of 1999. There have not been any noticeable spillover effects of reduced upward movement in these asset markets on the banking sector or real activity.

C. External Policies

37. The staff projects that the balance of payments will strengthen in 1999, allowing an accumulation of US$191 million in reserves. The current account imbalance is expected to narrow to 6½ percent of GDP while the capital account surplus would rise to a projected

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[16]The banking system uses internationally accepted accounting and reporting standards. The central bank is the sole banking supervisory agency and determines whether banks are in compliance with Basle Core Principles. There appear to be no major discrepancies between local practices and these principles. There are no statutory limits on banks' net foreign exchange positions, though according to the central bank's inspection department, all banks have established foreign currency position limits, which are approved at the highest level in the institution and are reviewed at least annually. In addition, banks maintain limits on their daylight and overnight positions, as well as on branch trading to minimize risks.

9½ percent of GDP on the strength of foreign direct investment inflows and the government's re-entry into international markets with a US$200 million bond issue.

38. Exchange rate stability remains one of the government's principal policy aims. The authorities are committed to a market-determined exchange rate and are pursuing prudent monetary and fiscal policies to provide a low inflation environment consistent with exchange rate stability. When downward pressure on the currency has occurred while the nominal rate was in the neighborhood of the threshold level established by the authorities (TT$6.00 in most of 1996 and TT$6.30 in most of 1997 and 1998), the monetary authorities have acted to limit depreciation by a combination of policies including tightening of liquidity, direct foreign exchange market intervention, and tacit agreement with commercial banks whereby potential buyers are forced to queue until the desired amount of foreign exchange becomes available at the ceiling rate.[17]

39. The staff noted that there has been a moderate real appreciation of the currency over the past two years, together with a significant deterioration in the terms of trade that is not expected to be soon reversed. Although some criteria—the consistent growth of international reserves and the sustained growth of non-oil exports—suggest that the rate could be judged broadly competitive, periodic queues indicate the need for some changes in the authorities' approach to exchange rate management. The staff recommended that the authorities discontinue the practice of allowing short-term market disequilibria to be settled through queueing. If the authorities desire stability in the rate, it is best achieved by the appropriate use of market mechanisms—including interest rates and, if necessary, central bank intervention—to smooth supply and demand. The authorities viewed the current exchange rate as competitive and said that there was no queueing at present. They intend to rely on market mechanisms for stabilizing the exchange rate, but that discrete and lumpy flows of foreign exchange into the market may require occasional intervention in foreign exchange markets.

40. Trinidad and Tobago's trade regime is relatively open, with generally low tariffs and relatively few nontariff barriers. With the reduction of the common external tariff to 20 percent in 1998, Trinidad and Tobago met its obligations under the Caricom agreement. Most of the remaining tariffs and import surcharges above the level of the common external tariff apply to agricultural and foodstuff imports and cars. The authorities indicated that these tariffs are WTO consistent, and that there is a schedule for their reduction over the next

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[17]The staff has alerted the authorities to the fact that should this queueing measure result in undue delays on the availability of foreign exchange for payments and transfers for current international transactions, the measure will amount to an exchange restriction subject to the approval of the Fund under Article VIII, Section 2(a) of the Articles of Agreement. Nevertheless, at the moment, there is no evidence of such undue delay, nor of a parallel market for foreign exchange.

several years. Most surcharges on vegetables, fruits, meats, and milk will be removed by 1999, but those on sugar are expected to remain until 2004. The mission recommended the dismantling of remaining trade barriers and urged the authorities to keep to their stated timetable of tariff reductions. It also suggested that the authorities consider trade-neutral methods to discourage auto imports, such as through the imposition of a domestic excise tax, covering imports and domestic production, or through higher taxes on gasoline or registration fees for cars.

41. The authorities indicated that apart from the completion of scheduled reductions in the Caricom common external tariff, little progress had been made in the efforts to create a Caricom single market because of a general failure of members to meet convergence criteria as well as to ratify agreements on the free movements of services and capital in the region.

D. Structural Policies

42. The authorities have scheduled divestment of several large public sector enterprises in 1999, and public debate continues on the prospects for dealing with the major remaining public enterprises whose finances are a concern for the government. Gasoline distribution is being demonopolized, with entry allowed to domestic interests initially and to foreign investors later. Telecommunications is also being demonopolized, with foreign investors allowed to enter in 1999. Although the public utilities continue their restructuring, progress on agricultural reform is moving ahead slowly. In this connection, the authorities said that they are considering steps to restructure Caroni into a holding company with separate subsidiaries, and to using private sector management contracts for Caroni and its subsidiaries. They expressed their commitment to meeting the agreed conditionality requirements involving land reform and distribution for the disbursement of the second tranche of the IDB Agricultural Sector Loan.

43. The National Insurance System is being significantly restructured to ensure that the social insurance system is adequate and financially solvent in the long term. As adopted in the 1998/99 budget, on the contributions side the current insured earnings ceiling will rise from TT$1,000 per month to TT$3,600 per month and a new earning class system will take effect, while retaining the current total contribution rate of 8.4 percent. Matching the increase in contributions, there will also be a significant rise in benefits. This increase will range from 25 percent for individuals earning TT$1,000 per month to 212 percent for individuals earning TT$3,600 per month. A number of other benefits, including maternity, sickness, employment, injury and medical expense benefits, will also increase. Remaining on the agenda are plans to harmonize the Old Age Pension and the benefits under the National Insurance System, and to add a second tier to the National Insurance System through the adoption of a transparent, fully funded, contributory scheme.

E. Staff Monitored Program

44. The authorities believed that the series of SMPs had been very helpful in maintaining direction and discipline in economic policies. They indicated interest in continuing with a new SMP, which would include a Memorandum of Economic and Financial Policies (MEFP) and monitorable targets. They emphasized, and the staff concurred, that the content and presentation of a SMP should make clear that its purpose was to help provide an appropriate macroeconomic framework, and as a signal to private markets, and was not an indication of economic difficulties. They also expressed some concern that there had been some attrition in their capacity for gathering and monitoring the data necessary for an SMP in a timely and consistent manner. It was agreed that the next step should be a staff visit in August, with a view to formulating a SMP in the context of the 1999/2000 budget.

F. Statistical Issues

45. The authorities provide core economic and financial data that are generally adequate for surveillance. Cooperation with the Fund staff in seeking specific improvements continues to be excellent (Appendices IV and V). There has, however, been some weakening in the quality of reporting of main financial aggregates, and reporting on the financing of central government operations and the state enterprises and utilities remains deficient. There are currently shortcomings in recording off-budget items in the central government's accounts, in classifying financing data in an economically meaningful manner according to the GFS distinction of bank and nonbank sectors, and in ensuring that there is consistency between what is reported as financing of the budget in the fiscal accounts and what is implied in the monetary accounts. The same applies to the financial accounts of the rest of the public sector. In the national accounts, service sectors such as finance and insurance show implausibly low rates of growth, which may be due to inadequate adjustment for productivity changes.

46. Coverage of the banking sector needs to be expanded to cover financial institutions more comprehensively. In addition, there are weaknesses in the balance of payments, particularly with respect to coverage of external debt obligations. In all these areas, the shortcomings could be addressed by better collection of data from entities that maintain records on transactions in financial markets and greater collaboration between the ministry of finance and the central bank. Finally, data on poverty and income distribution gathered in a 1997 household survey are still waiting to be processed owing to technical staffing shortages. The authorities recognize the need to continually modernize and broaden the collection and processing of statistical data and have requested technical assistance in order to assess areas in need of development and to help in the preparation of an action plan to address these needs.

47. The authorities are making progress in addressing the Y2K problem. The Cabinet has appointed two committees: a Year 2000 Steering Committee to be responsible for assessment, leadership, and information, and a Year 2000 Compliance Committee to

coordinate activities dealing with the preparedness of the public service. The government has already started to train staff and replace older equipment and software with more than TT$25 million already spent on awareness, information, and replacement purchases and another TT$15 million committed for these activities. The public utilities and banking system are also updating their systems to address this problem.

IV. Medium-Term Outlook

48. The medium-term economic prospects remain favorable despite recent terms of trade reverses.[18] Economic growth is expected to accelerate to over 6 percent in 2000 with the coming on-stream of new energy projects. To sustain this high rate of growth over the longer run, new investment projects would be needed. However, if the price of oil stays depressed prospective investments are likely to be postponed. In this scenario, the growth rate after 2000 is expected to converge toward a trend rate of about 3 to 3½ percent. The current account imbalance would be expected to narrow, as capital goods imports moderate and exports grow significantly over the next several years. The trade deficit would be eliminated by 2000, even without a significant improvement in the terms of trade. On the services account, profit remittances would contribute to a larger outflow under factor services, but would be offset partly by growing tourism earnings, and possible oil exploration signature bonuses in 2000. The capital account surplus would fall sharply in 2000 in response to a reduction in foreign direct investment and a large repayment of debt not matched by new inflows of foreign borrowing. However, continued overall balance of payments surpluses would allow a gradual increase in import coverage. Under this scenario, the ratio of external debt to GDP would resume declining in 2000, reaching 16½ percent by 2003. This positive outlook could, however, be threatened by continuing terms of trade shocks, or by the emergence of new energy sources elsewhere in the world that would limit foreign interest in developing Trinidad and Tobago's resources.

49. In an environment with only a moderate increase in oil prices in prospect, a continuation of current policies should permit the public sector finances to remain roughly in balance. The central government balance would move into surplus in 1999/2000. It is more difficult to project the financial position of the rest of the public sector, though continued divestment should shrink the importance of the state enterprise sector and ongoing public utility reform should lead to operations based on commercial principles.

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[18]The assumptions underlying the medium term include the WEO partner country and commodity price projections of March 1999, maintenance of current macroeconomic policies, and a decline in foreign direct investment to the 1994–96 average.

V. Staff Appraisal

50. Sound macroeconomic management and continued progress in liberalization and structural reform have contributed strongly to Trinidad and Tobago's steady economic expansion over the past five years. During this period, external debt has declined, inflation has decelerated, and unemployment has fallen. A foreign investment boom now underway in the petrochemical sector promises growth and diversification of exports as well as strengthening of fiscal revenues over the longer run.

51. The sharp deterioration in the terms of trade in 1998 and 1999 has put a strain on the public sector finances and postponed a strengthening of the balance of payments surplus. While the windfall of oil exploration signing bonuses in 1998 helped to soften this blow, the consequences of the shock were visible in the deviation from most of the SMP benchmark targets during the year. The 1998/99 budget envisaged spending restraint as a means of dealing with the lower expected oil prices. However, since the oil price so far in 1999 is below that assumed in the budget, further fiscal adjustments are warranted to avoid an excessive deficit and overreliance on central bank financing. The staff believes that expenditure restraint, planned asset sales, and a return to moderate foreign borrowing should be adequate to ensure a central government balance that will not require any significant domestic financing. This assessment is based on a continuation of the latest trend in oil prices and a revenue performance in line with revised budget projections. The staff recommends that the authorities prepare contingency revenue measures that could be implemented in the short run in the event that oil prices weaken or that other revenues fall short, in order to limit any unexpected surge in domestic financing requirements. The staff also recommends that steps be taken promptly to raise existing domestic debt ceilings so that the government can repay central bank credit extended so far this fiscal year.

52. Given the secular trend in commodity prices in general and the slowly declining oil output in Trinidad and Tobago, it would be prudent for the authorities to consider measures beginning in the next fiscal year to further strengthen the budget's revenue base. Such measures could include ongoing strengthening of tax administration, a broadening of the VAT base, wider use of excises, and limitations on the loss carry-forward provisions of the corporate income tax. On the expenditure side, priority should be given to adjusting pay comparability for senior managerial and technical staff in the public sector in order to stem personnel loss and turnover.

53. At present there is an incomplete picture of the financial activities of the rest of the public sector. The overall management of the public finances as well as the ability to control the execution of fiscal policy would benefit from the development of a more complete information base on activities of the rest of the public sector, as well as more explicit and transparent coordination of financial activities within the broad public sector. In this regard, the authorities' intention to forego further use of off-budget arrangements for the financing of

capital projects is also welcome. Also, for the sake of transparency, it would be useful to publish estimates of tax expenditures in the annual budget.

54. In the rest of the public sector, welcome progress is being made in privatization and commercialization of the remaining public utilities and other entities. Restructuring of the activities of the larger public utilities is underway; and this should be complemented by the adoption of utility tariff schedules that are more in line with international standards. The staff supports the efforts to find solutions to the problems of Caroni and endorses the policy objectives of land reform and land distribution.

55. Monetary policy has been managed successfully over the past year, despite challenges created by financial innovations. The use of indirect means of monetary control has expanded, as the central bank has been strengthening the tools of open market operations. The staff continues to support a reduction in reserve requirements to prudential levels as a means of reducing the present high costs of financial intermediation, as well as uniform treatment of domestic and foreign currency deposits. This reduction should proceed in a carefully managed manner with close coordination with fiscal policy management.

56. Indicators of banking soundness are positive and recent entry of new financial institutions underscores the economic buoyancy of this sector. The central bank's supervision of commercial banks is based on observation of the Basle core principles. Nevertheless, financial innovation continues to present new challenges which should be met by new efforts at coordination and integration of supervisory efforts with the deposit insurance and insurance regulatory authorities. The staff recommends that the one publicly owned commercial bank be privatized.

57. Exchange rate management has contributed stability to the economy over the recent period of external shocks. While the rate does not appear to have lost competitiveness to any significant degree despite its recent modest appreciation in real effective terms, market expectations concerning the stability of the rate may be adversely affected by the persistence of queueing, as well as by weakening budgetary and balance of payments positions. The staff would recommend a greater degree of flexibility in exchange rate management and the use of market-based instruments to deal with pressures on the rate.

58. The staff has noted some deterioration in the integrity of the statistical base. Gaps and inconsistencies have emerged in the reconciliation of monetary and fiscal data, and reliability of national accounts data has become a concern. The authorities recognize the extent to which these shortcomings affect the quality of the statistical data produced by the central bank and other statistical agencies, and staff supports the authorities' request for an assessment mission from STA to assist in identifying areas in need of development and preparing an action plan which could involve possible follow-up technical assistance from the Fund. In response to this request, provision for such a mission is included in the STA regional allocation plan for fiscal year 2000.

59. The medium-term outlook remains quite favorable, owing to the large volume of energy sector investment now underway and to the soundness of the fiscal and monetary policy stances. Even with only a small improvement in the terms of trade, the large current account deficit of the past two years is expected to narrow considerably in 1999 and to give way to approximate balance in the following years, based on a significant growth in export volumes. The fiscal balance should slowly improve over the next several years. The improved external current account would be a key factor in allowing a further accumulation of net international reserves over the medium term.

60. The staff endorses the authorities' decision to seek a renewal of the SMP in the future. This process has enhanced the economic policy dialogue between the authorities and the staff and provided a framework for economic policy formation and implementation that has proved productive. A subsequent SMP would be based on a comprehensive macroeconomic framework, including an agreed MEFP and quantifiable benchmarks.

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

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

	1994	1995	1996	1997	Prel. 1998	Proj. 1999
	(Annual percentage changes, unless otherwise specified)					
National income and prices						
Real GDP	3.6	3.8	3.5	3.5	3.2	4.5
GDP deflator	15.4	4.1	4.0	2.4	-2.1	2.4
Consumer prices						
End-of-year	5.5	3.8	4.3	3.5	5.6	4.2
Period average	3.7	5.3	3.3	3.7	5.6	4.2
External sector						
Exports, f.o.b.	18.6	25.6	1.1	-3.1	-8.1	5.1
Imports, c.i.f.	-8.3	37.2	10.9	45.2	-0.8	-7.4
Export volume	9.1	22.5	-12.2	2.6	11.3	9.1
Import volume	-9.7	32.3	0.5	52.9	8.5	-5.5
Oil export price (US$ per barrel)	16.7	17.8	20.8	20.1	14.5	12.7
Terms of trade (deterioration -) 1/	9.3	7.0	1.8	6.8	-11.1	-1.2
Nominal effective exchange rate; (1990=100) end-of-period (depreciation -)	1.7	-0.8	-0.2	4.5	-1.1	...
Real effective exchange rate; (1990=100) end-of-period (depreciation -)	-3.3	-1.6	-1.8	4.1	2.6	...
Financial system 2/						
Net domestic assets	-1.4	21.3	10.2	18.6	-10.6	1.6
Of which:						
Credit to public sector 3/	-9.3	6.1	-1.4	7.8	-8.3	-1.9
Credit to private sector	-3.9	3.7	3.6	16.2	2.4	1.8
Broad money 4/	11.2	16.0	14.5	15.4	-5.6	7.6
Money and quasi-money	11.2	8.3	7.3	7.7	5.4	6.6
Liabilities to the private sector (LPS)	13.2	19.3	19.4	23.0	-7.2	9.1
Deposit rates (weighted) (in percent)	6.5	5.8	5.4	5.3	5.8	...
Lending rate (in percent)						
Prime 5/	16.0	15.0	15.5	15.5	17.5	...
Weighted	13.9	12.9	13.5	11.9	12.4	...
Treasury bill rate (in percent)	10.2	8.5	10.5	9.8	11.9	...
	(As a percentage of GDP)					
Public sector 6/						
Overall central government balance	0.0	0.2	0.5	0.1	-1.6	-0.4
Total revenue and grants	25.8	26.9	28.0	27.6	26.9	27.9
Total expenditure and net lending	25.8	26.7	27.5	27.4	28.5	28.3
Overall public sector balance	3.0	1.4	1.4	-1.2	-2.5	-0.6
Domestic financing	-0.8	3.7	-2.0	5.3	4.0	-1.4
Foreign financing	-2.2	-5.1	0.5	-4.1	-1.4	1.9
National income and prices						
Gross investment	20.2	15.9	16.4	27.1	25.9	22.0
Gross national savings	24.5	20.6	18.8	17.1	15.8	15.6
External sector						
External current account balance	4.5	5.1	2.4	-10.0	-10.0	-6.4
Trade balance	12.1	11.2	7.3	-8.6	-11.6	-3.9
Net capital inflow 7/	-0.8	-4.5	1.3	13.1	7.9	9.6
External public debt (end-of-period)	41.7	36.2	34.2	26.8	24.6	25.3

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

	1994	1995	1996	1997	Prel. 1998	Proj. 1999
	(As a percentage of exports of goods and nonfactor services)					
External public debt service	26.3	17.6	13.2	15.3	9.6	10.2
Interest payments	7.1	7.8	6.6	4.8	3.9	3.5
	(In millions of U.S. dollars)					
Overall balance of payments	181.0	32.5	213.5	175.3	77.0	191.1
Gross official reserves						
End-of-period	354.4	352.1	546.3	727.1	800.2	991.2
In months of imports 8/	2.0	1.8	2.0	2.6	3.2	3.9

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

1/ WEO GEE figures.
2/ In relation to liabilities to the private sector at the beginning of the period. The financial system excludes finance houses, thrifts, and development banks.
3/ This measure excludes the government's blocked account for open market operations in the central bank.
4/ Includes new fund-raising instruments.
5/ A general guiding rate set by the commercial banks and not necessarily the applicable rate for prime customers.
6/ The central government switched to an October 1-September 30 fiscal year as of October 1, 1998. Hence 1999 refers to October 1, 1998-September 30, 1999.
7/ Includes errors and omissions.
8/ Imports of goods and nonfactor services in the following year.

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

	1994	1995	1996	1997	Prel. 1998	Budget 1998/99	Proj. 1998/99
	(In millions of Trinidad and Tobago dollars)						
Total revenue and grants	7,565	8,511	9,542	9,954	9,823	11,277	10,699
Current	7,505	8,456	9,537	9,126	9,678	10,497	9,919
Oil	1,478	2,221	2,727	1,555	673	1,049	834
Non-oil	6,027	6,235	6,810	7,571	9,005	9,448	9,085
Taxes	5,147	5,534	6,034	6,649	7,746	7,856	7,754
Income	2,287	2,661	3,033	3,132	3,382	3,683	3,683
Goods and services	2,087	2,252	2,370	2,739	3,426	3,236	3,134
VAT	1,259	1,345	1,414	1,624	2,154	2,040	1,938
Other	828	907	956	1,115	1,272	1,196	1,196
International trade	610	494	496	607	781	733	732
Other	53	67	77	114	98	112	112
Nontaxes	880	700	776	922	1,259	1,592	1,332
Capital revenue and grants 1/	60	56	6	828	145	780	780
Expenditures	7,571	8,458	9,371	9,913	10,400	11,185	10,871
Current	7,103	7,838	8,791	8,770	9,540	10,315	10,057
Wages and salaries 2/	2,767	2,884	3,155	3,227	3,522	3,738	3,738
Other goods and services	751	891	919	930	960	1,281	1,185
Interest payments 3/	1,574	1,577	1,581	1,690	1,916	1,886	1,886
Transfer payments	2,012	2,487	3,137	2,923	3,143	3,410	3,248
Capital and net lending 3/	468	620	580	1,142	860	870	814
Current balance	402	617	746	356	138	182	-137
Overall balance	-6	54	171	41	-577	91	-171
Total financing	6	-54	-171	-41	577	-91	171
Foreign financing	-285	-906	96	-1,599	-668	841	1,093
Disbursements	1,349	144	1,260	376	386	1,922	2,044
Amortization	1,633	1,050	1,164	1,975	1,054	1,080	951
Domestic financing	-311	794	-312	1,559	1,244	-932	-923
Financial system	-479	157	-324	702	-990	-932	325
Central bank	-979	-916	-937	-580	804	-1,000	468
Other bank	500	1,073	613	1,282	-1,794	67	-143
Other financial system and nonbank 3/	168	637	12	857	2,234	0	-1,248
Divestment 1/	602	59	44	n.a.	n.a.	n.a.	n.a.
	(As a percentage of GDP)						
Revenues	25.8	26.9	28.0	27.6	26.9	29.3	27.9
Oil	5.0	7.0	8.0	4.3	1.8	2.7	2.2
Nonoil 1/	20.6	19.7	20.0	21.0	24.7	24.5	23.7
Expenditures	25.8	26.7	27.5	27.4	28.5	29.1	28.3
Current 3/	24.2	24.8	25.8	24.3	26.1	26.8	26.2
Wages and salaries 2/	9.4	9.1	9.3	8.9	9.7	9.7	9.7
Capital and net lending 3/	1.6	2.0	1.7	3.2	2.4	2.3	2.1
Current balance	1.4	1.9	2.2	1.0	0.4	0.5	-0.4
Overall balance	0.0	0.2	0.5	0.1	-1.6	0.2	-0.4
Total financing	0.0	-0.2	-0.5	-0.1	1.6	-0.2	0.4
External financing	-1.0	-2.9	0.3	-4.4	-1.8	2.2	2.8
Domestic financing 3/	-1.1	2.5	-0.9	4.3	3.4	-2.4	-2.4
Divestment 1/	2.1	0.2	0.1	n.a.	n.a.	n.a.	n.a.
Memorandum items:							
Overall balance on cash basis	0.0	0.7	1.5	1.1	0.4	1.0	0.3
Overall balance with capital revenue as financing	-0.2	0.0	0.5	-2.2	-2.0	-1.8	-2.5
Overall balance with above adjustments	-0.2	0.6	1.5	-1.2	0.0	-1.0	-1.7

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

1/ The staff agreed with the authorities' request to present capital revenues above the line, from 1997 on, to allow consistency with the published budget. This includes the Methanol Company sale ($735.3 million in 1997).

2/ In 1995-1998, wage arrears bonds are included in current spending as issued (they mature two years after issue).

3/ In 1998, the police facilities project is included in capital spending ($121 million), interest ($169.9 million), and nonbank financing, although debt service begins in 1998 on a cash basis.

Table 3. Trinidad and Tobago: Overall Deficit of the Nonfinancial Public Sector and its Financing

	1994	1995	1996	1997	Prel. 1998	Budget 1998/99	Proj. 1998/99
	(In millions of Trinidad and Tobago dollars)						
Overall balance	**890**	**431**	**489**	**-422**	**-927**	**205**	**-218**
Central government	-6	53	171	41	-577	91	-171
Nonfinancial public enterprises	896	377	318	-464	-350	114	-47
Total financing	**-890**	**-431**	**-489**	**422**	**927**	**-205**	**218**
External financing	-651	-1,617	178	-1,498	-524	500	748
Central government	-285	-906	96	-1,599	-668	841	1,093
Nonfinancial public enterprises	-366	-711	82	101	144	-341	-345
Domestic financing	-239	1,186	-667	1,920	1,451	-705	-531
Financial system	-1,044	802	-5	1,206	-821	-879	503
Central government	-479	157	-324	702	-990	-932	325
Nonfinancial public enterprises	-565	645	319	504	169	53	178
Other 1/	805	384	-662	714	2,272	174	-1,033
Central government	770	695	57	857	2,234	0	-1,248
Nonfinancial public enterprises	35	-311	-719	-143	38	174	214
	(As a percentage of GDP)						
Overall balance	**3.0**	**1.4**	**1.4**	**-1.2**	**-2.5**	**0.5**	**-0.6**
Central government	0.0	0.2	0.5	0.1	-1.6	0.2	-0.4
Nonfinancial public enterprises	3.1	1.2	0.9	-1.3	-1.0	0.3	-0.1
Total financing	**-3.0**	**-1.4**	**-1.4**	**1.2**	**2.5**	**-0.5**	**0.6**
External financing	-2.2	-5.1	0.5	-4.1	-1.4	1.3	1.9
Central government	-1.0	-2.9	0.3	-4.4	-1.8	2.2	2.8
Nonfinancial public enterprises	-1.2	-2.2	0.2	0.3	0.4	-0.9	-0.9
Domestic financing	-0.8	3.7	-2.0	5.3	4.0	-1.8	-1.4
Financial system	-3.6	2.5	0.0	3.3	-2.3	-2.3	1.3
Central government	-1.6	0.5	-1.0	1.9	-2.7	-2.4	0.8
Nonfinancial public enterprises	-1.9	2.0	0.9	1.4	0.5	0.1	0.5
Other 1/	2.7	1.2	-1.9	2.0	6.2	0.5	-2.7
Central government	2.6	2.2	0.2	2.4	6.1	0.0	-3.2
Nonfinancial public enterprises	0.1	-1.0	-2.1	-0.4	0.1	0.5	0.6
Memorandum items:							
Overall balance on cash basis	3.0	1.9	2.4	-0.2	-0.5	1.3	0.2
Overall balance with capital revenue as financing	2.6	0.7	1.2	-3.6	-3.2	-1.7	-2.8
Overall balance with above adjustments	2.6	1.3	2.2	-2.7	-1.2	-0.9	-2.0

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

1/ In 1998, of this nonbank financing, wages arrears bonds account for TT$436 million and amounts for the police facilities account for TT$290.9 million.

Table 4. Trinidad and Tobago: Summary Accounts of the Monetary Authorities

(In millions of Trinidad and Tobago dollars)

	December 31					
	1994	1995	1996	1997	1998	Proj. 1999
Net international reserves	**1,554**	**1,776**	**3,157**	**4,286**	**4,751**	**6,106**
Net domestic assets 1/	**-605**	**-711**	**-1,992**	**-2,963**	**-3,416**	**-4,678**
Credit to public sector 2/	466	114	-907	-1,389	-831	-1,692
Central government 2/	714	-202	-1,139	-1,719	-693	-1,551
Rest of public sector 3/	-248	316	232	330	-137	-141
Official capital	-2,794	-2,687	-1,098	-1,193	-1,432	-1,728
Credit to commercial banks (net)	-1,608	-1,629	-1,738	-2,134	-2,393	-2,489
Advances	507	385	377	378	377	377
Deposits	-2,116	-2,013	-2,115	-2,512	-2,770	-2,867
Credit to nonbank financial institutions (net)	-120	-125	-232	-259	-389	-416
Other foreign assets	2,496	2,474	913	923	910	946
Medium- and long-term foreign liabilities	-276	-97	-28	-23	-48	-50
SDR allocation	-390	-432	-398	-394	-391	-407
Other	1,623	1,670	1,496	1,506	1,158	1,158
Currency issue	**949**	**1,065**	**1,165**	**1,323**	**1,335**	**1,428**
Of which:						
Cash in circulation	745	833	910	1,063	1,047	1,031
Memorandum item:						
Blocked account of government at the central bank 4/	...	...	...	588	328	735

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

1/ The projection for 1999 assumes no reduction in reserve requirements.

2/ Public sector and central government net credit includes the blocked account containing funds from open market operations.

3/ This includes deposits of WASA ($227 million) and Piarco airport ($218 million). Piarco airport is not included in the definition of the rest of public sector in the fiscal accounts.

4/ This is comprised of the proceeds of T-bill issues that are used for open market operations.

Table 5. Trinidad and Tobago: Summary Accounts of the Financial System

	December 31					Proj.
	1994	1995	1996	1997	1998	1999
	(In millions of Trinidad and Tobago dollars)					
Net international reserves	**3,053**	**2,760**	**4,343**	**5,266**	**6,127**	**7,903**
Monetary authorities	1,554	1,776	3,157	4,286	4,751	6,106
Commercial banks	1,499	984	1,186	980	1,376	1,797
Net domestic assets	**11,366**	**14,441**	**16,203**	**20,014**	**17,331**	**17,697**
Credit to public sector 1/	1,270	2,146	1,913	3,515	1,408	973
Central government 1/	2,227	2,384	2,059	3,350	2,321	1,830
Rest of the public sector 2/	-957	-237	-146	165	-913	-857
Credit to private sector	8,957	9,497	10,121	13,456	14,074	14,501
Official capital 3/	-2,794	-2,687	-1,098	-1,193	-1,432	-1,728
Other items (net) 4/	3,933	5,484	5,267	4,825	3,608	4,686
Liabilities to private sector	**14,419**	**17,201**	**20,546**	**25,281**	**23,458**	**25,599**
Broad money	11,610	13,923	16,418	19,573	18,161	19,935
Money and quasi-money	11,610	12,802	14,057	15,637	17,006	18,549
Currency in circulation	745	833	910	1,063	1,047	1,031
Deposit liabilities	10,865	11,969	13,147	14,574	15,959	17,518
Of which:						
Foreign deposit liabilities	1,817	2,195	2,968	3,352	3,885	4,155
Fund-raising instruments	0	1,121	2,361	3,936	1,155	1,386
Private capital, reserves and other liabilities	2,809	3,278	4,128	5,708	5,297	5,664
	(Nominal percentage change)					
Net domestic assets	**-1.5**	**27.1**	**12.2**	**23.5**	**-13.4**	**2.1**
Credit to public sector 1/	-48.4	69.0	-10.9	83.7	-59.9	-30.9
Of which:						
Central government 1/	-17.7	7.0	-13.6	62.7	-30.7	-21.2
Credit to private sector	-5.3	6.0	6.6	32.9	4.6	3.0
Liabilities to private sector	**13.2**	**19.3**	**19.4**	**23.0**	**-7.2**	**9.1**
Broad money	14.1	19.9	17.9	19.2	-7.2	9.8
Money and quasi-money (M2)	14.1	10.3	9.8	11.2	8.8	9.1
Fund-raising instruments	...	...	110.6	66.7	-70.7	20.0
	(Contribution to liquidity growth; percentage change) 5/					
Net international reserves	**14.5**	**-2.0**	**9.2**	**4.5**	**3.4**	**7.6**
Net domestic assets	**-1.4**	**21.3**	**10.2**	**18.6**	**-10.6**	**1.6**
Credit to public sector 1/	-9.3	6.1	-1.4	7.8	-8.3	-1.9
Of which:						
Central government 1/	-3.8	1.1	-1.9	6.3	-4.1	-2.1
Credit to private sector	-3.9	3.7	3.6	16.2	2.4	1.8
Memorandum items:						
Velocity (GDP/LPS)	2.0	1.8	1.7	1.4	1.6	1.5
Multiplier (LPS/base money)	4.6	5.4	6.0	6.3	5.4	5.6

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

1/ Excluding the government's blocked account at the central bank.
2/ Inclusive of National Insurance Board deposits.
3/ Includes valuation adjustments.
4/ Includes medium- and long-term foreign assets and liabilities, and SDR allocation.
5/ In relation to liabilities to the private sector at the beginning of the year.

Table 6. Trinidad and Tobago: Summary Balance of Payments

	1994	1995	1996	1997	Prel. 1998	Proj. 1999
(In millions of U.S. dollars)						
Current account balance	**221**	**270**	**138**	**-579**	**-583**	**-390**
Trade balance	598	592	415	-494	-677	-334
Exports, f.o.b.	1,972	2,477	2,506	2,542	2,335	2,455
Of which:						
Fuels	770	1,131	1,261	1,171	1,002	1,150
Imports, c.i.f.	-1,374	-1,885	-2,090	-3,036	-3,012	-2,790
Of which:						
Capital goods	-338	-650	-552	-1,372	-1,206	-1,002
Services (net)	-370	-306	-271	-89	88	-60
Current transfers (net)	-6	-16	-7	4	6	5
Capital account (net) 1/	**-34**	**-36**	**36**	**830**	**460**	**581**
Investment assets and liabilities	177	149	307	807	451	565
Official, medium and long term	70	-121	19	-137	-98	154
Private sector (net)	227	181	316	922	599	470
Commercial banks (net)	-121	89	-27	22	-50	-60
Short term (net)	-211	-185	-271	23	9	16
Net errors and omissions	-7	-202	40	-76	199	0
Overall balance	**181**	**33**	**213**	**175**	**77**	**191**
Change in net official reserves (increase -)	-188	-43	-214	-175	-77	-191
Of which:						
IMF	-72	-43	-25	-18	-4	0
Exceptional financing	7	10	0	0	0	0
(In percent of GDP, unless otherwise indicated)						
Memorandum items:						
Exports	39.9	46.7	44.3	44.1	40.2	42.3
Imports	27.8	35.5	36.9	52.6	51.8	46.1
Current account	4.5	5.1	2.4	-10.0	-10.0	-6.4
Capital account balance	-0.7	-0.7	0.6	14.4	7.9	9.6
Overall balance	3.7	0.6	3.8	3.0	1.3	3.2
Gross international reserves (in millions of U.S. dollars, end of period)	354	352	546	727	800	991
(in months of the following year's goods and nonfactor services imports)	2.0	1.8	2.0	2.6	3.2	3.9

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

1/ Includes short-term capital flows.

Table 7. Trinidad and Tobago: Summary of Public External Debt

	1994	1995	1996	1997	Prel. 1998	Proj. 1999	2000	2001	2002	2003
	(In millions of U.S. dollars)									
Drawings	**326**	**108**	**254**	**60**	**62**	**306**	**87**	**79**	**64**	**58**
Central government	228	24	210	60	62	306	87	79	64	58
Public enterprises	92	84	44	0	0	0	0	0	0	0
Financial public sector	6	0	0	0	0	0	0	0	0	0
Of which:										
IMF	0	0	0	0	0	0	0	0	0	0
Amortization due	444	285	251	349	176	204	298	79	88	86
Central government	279	177	185	296	132	148	245	40	49	47
Public enterprises	44	28	27	31	36	53	50	36	35	35
Financial public sector	121	80	39	23	8	4	4	4	4	4
Of which:										
IMF	72	43	25	18	4	0	0	0	0	0
Valuation adjustments	**72**	**24**	**-33**	**-47**	**0**	**0**	**0**	**0**	**0**	**0**
Central government	64	7	-31	-53	0	0	0	0	0	0
Public enterprises	2	10	-1	8	0	0	0	0	0	0
Financial public sector	6	7	-2	-2	0	0	0	0	0	0
Of which:										
IMF	8	2	-2	0	0	0	0	0	0	0
Outstanding debt (end of period)	**2,058**	**1,905**	**1,875**	**1,539**	**1,431**	**1,533**	**1,322**	**1,322**	**1,299**	**1,271**
Central government	1,513	1,367	1,361	1,073	1,002	1,160	1,003	1,042	1,057	1,068
Public enterprises	376	442	459	436	408	355	305	270	235	200
Financial public sector	168	95	55	30	22	18	14	11	7	3
Of which:										
IMF	91	50	24	6	0	0	0	0	0	0
Interest payments (due)	**163**	**225**	**140**	**122**	**116**	**109**	**105**	**83**	**78**	74
Central government	121	140	107	107	98	87	83	65	62	60
Public enterprises	25	61	31	14	18	20	17	13	11	9
Financial public sector	17	25	3	1	1	2	6	5	5	5
Debt service (scheduled)	**607**	**510**	**391**	**471**	**292**	**314**	**403**	**163**	**166**	**159**
Central government	400	316	292	402	230	235	328	105	111	107
Public enterprises	70	89	57	45	54	73	66	49	46	44
Financial public sector	137	105	42	24	9	6	9	9	9	9
	(In percent)									
Memorandum items:										
Debt/GDP	41.7	36.2	34.2	26.8	24.6	25.3	20.0	19.1	17.7	16.5
Debt service due 1/	26.3	17.6	13.2	15.3	9.6	10.2	11.4	4.4	4.3	4.0
Average implied interest rate 2/	7.8	11.1	7.4	6.8	7.7	7.5	7.1	6.3	6.0	5.7
Government	8.1	9.5	7.8	8.8	9.4	8.0	7.7	6.3	5.9	5.6

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

1/ As a percentage of exports of goods and nonfactor services.

2/ Interest as a percentage of average outstanding debt.

Table 8. Trinidad and Tobago: Benchmarks for Key Variables in the Authorities' Program for 1998

	1997		1998 Benchmarks							
	Prog. Dec.	Actual Dec.	Prog. March	Actual March	Prog. June	Actual June	Prog. Sep.	Actual Sep.	Prog. Dec.	Actual Dec.
	(In millions of Trinidad and Tobago dollars)									
Net domestic assets of central bank 1/	-3,555	-2,963	-3,130	-3,253	-3,480	-3,093	-3,670	-3,329	-4,075	-3,416
Net credit to the non-financial public sector 2/	215	2,927	1,330	3,111	-465	873	-550	1,255	2,060	1,526
Credit to the private sector 3/	10,920	13,456	14,490	14,060	14,310	13,363	13,635	13,710	13,415	14,074
Broad money 4/	15,980	19,573	21,690	20,411	20,435	17,557	20,160	17,912	20,740	18,161
Overall central government balance 5/	640	657	409		370		100	-384	444	-586
	(In millions of U.S. dollars)									
Net international reserves of monetary authorities 6/	765	682	680	701	700	680	740	720	850	758
Disbursements of medium- and long-term external loans 7/	196	58	16	6.9	51	13.2	77	11.6	115	27
Commercial bank borrowing 8/	122	148	0	0	0	0	0	0	200	0

Sources: Data provided by the Central Bank of Trinidad and Tobago; the Ministry of Finance; and Fund staff estimates.

1/ Defined as currency issued minus net international reserves of the central bank.

2/ Consolidated financial system--central bank, commercial banks, and the Trust and Mortgage Finance companies. Defined as advances minus deposits of the nonfinancial public sector (central government and nonfinancial public enterprises minus NIB deposits).

3/ Consolidated financial system.

4/ Money and quasi-money of the consolidated financial system, plus fund-raising instruments.

5/ The overall central government balance, revised ministry of finance figures for the first nine months of 1998 and final quarter. Quarterly figures are cumulative.

6/ Net international reserves of the central bank plus holdings with the Crown Agents.

7/ Only central government (excluding energy). Maturity of five years or more; mainly from multilateral institutions.

8/ Mainly placements of bonds in the Eurodollar and Caribbean markets.

Table 9. Trinidad and Tobago: Summary Projections of Medium-Term Economic Indicators 1/

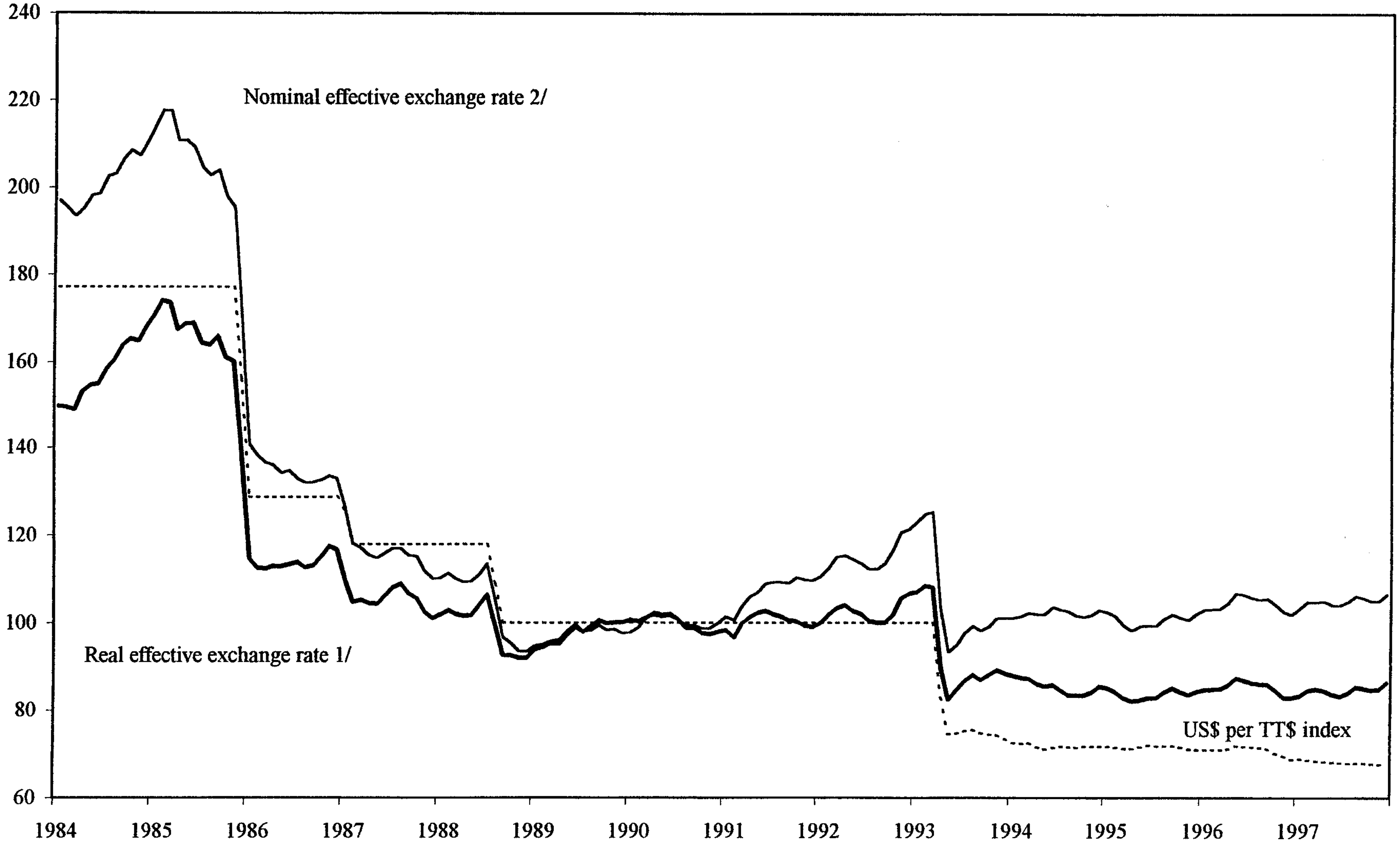
(In percent, unless otherwise indicated)

	1999	2000	2001	2002	2003	Average 1999-2003
National accounts and prices						
Real GDP growth	4.5	6.3	3.4	3.4	3.3	4.4
Oil/gas sector	14.4	15.6	2.5	2.7	1.9	8.8
Non-oil/gas sector	1.5	3.1	3.7	3.7	3.9	3.0
Inflation 2/	4.2	3.0	4.1	3.2	4.2	3.6
External terms of trade	-1.2	-0.4	1.7	0.2	-0.8	0.1
Investment (in percent of GDP)	22.0	19.0	16.0	16.0	16.0	18.3
Of which:						
Central government	1.9	2.4	2.5	2.7	2.8	2.4
Gross national savings (in percent of GDP)	15.6	18.1	15.4	15.5	15.7	16.2
Of which:						
Central government	-0.6	2.0	2.1	2.7	3.2	1.6
Public finances						
Public sector balance (in percent of GDP)	-0.6	0.0	0.2	0.2	0.4	-0.1
Central government 3/						
Revenue (in percent of GDP)	27.9	26.6	26.4	26.0	25.9	26.7
Expenditure (in percent of GDP)	28.3	26.6	26.1	25.7	25.4	26.7
Of which:						
Capital and net lending	2.1	2.3	2.4	2.6	2.8	2.4
Current balance (in percent of GDP)	-0.4	1.4	2.1	2.1	3.1	1.3
Overall balance (in percent of GDP)	-0.4	0.1	0.3	0.3	0.5	0.1
External sector						
External current account						
(In millions of US$)	-390	-62	-42	-35	-26	-132.3
(In percent of GDP)	-6.4	-0.9	-0.6	-0.5	-0.3	-2.1
Overall balance						
(In millions of US$)	191.1	9.8	121.2	110.1	121.7	108.1
(In percent of GDP)	3.2	0.2	1.8	1.5	1.6	1.6
Gross official reserves (end of period)						
(In millions of US$)	991	1,001	1,122	1,232	1,357	1,087
(In months of imports) 4/	3.9	3.8	4.1	4.4	4.7	4.2
External debt service ratio 5/	10.2	11.4	4.4	4.3	4.0	7.6
External debt (in percent of GDP)	25.2	20.0	19.1	17.7	16.6	20.5
Memorandum items:						
Oil price (in US$/barrel) 6/	12.7	14.4	15.1	15.2	15.4	14.4
Crude oil production (in millions of barrels)	42.9	42.8	41.5	40.5	39.3	41.9
LIBOR (6 months)	5.1	5.1	5.1	5.1	5.1	5.1

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

1/ The medium-term projections are based on WEO assumptions.
2/ Retail price index (end period).
3/ The central government switched to an October 1-September 30 fiscal year in 1998. 1999 refers to fiscal year 1998/99 and similarly for subsequent years.
4/ Imports of goods and nonfactor services in the following year.
5/ In percent of exports of goods and nonfactor services.
6/ Differs from WEO projections by premium received for Trinidad and Tobago's oil.

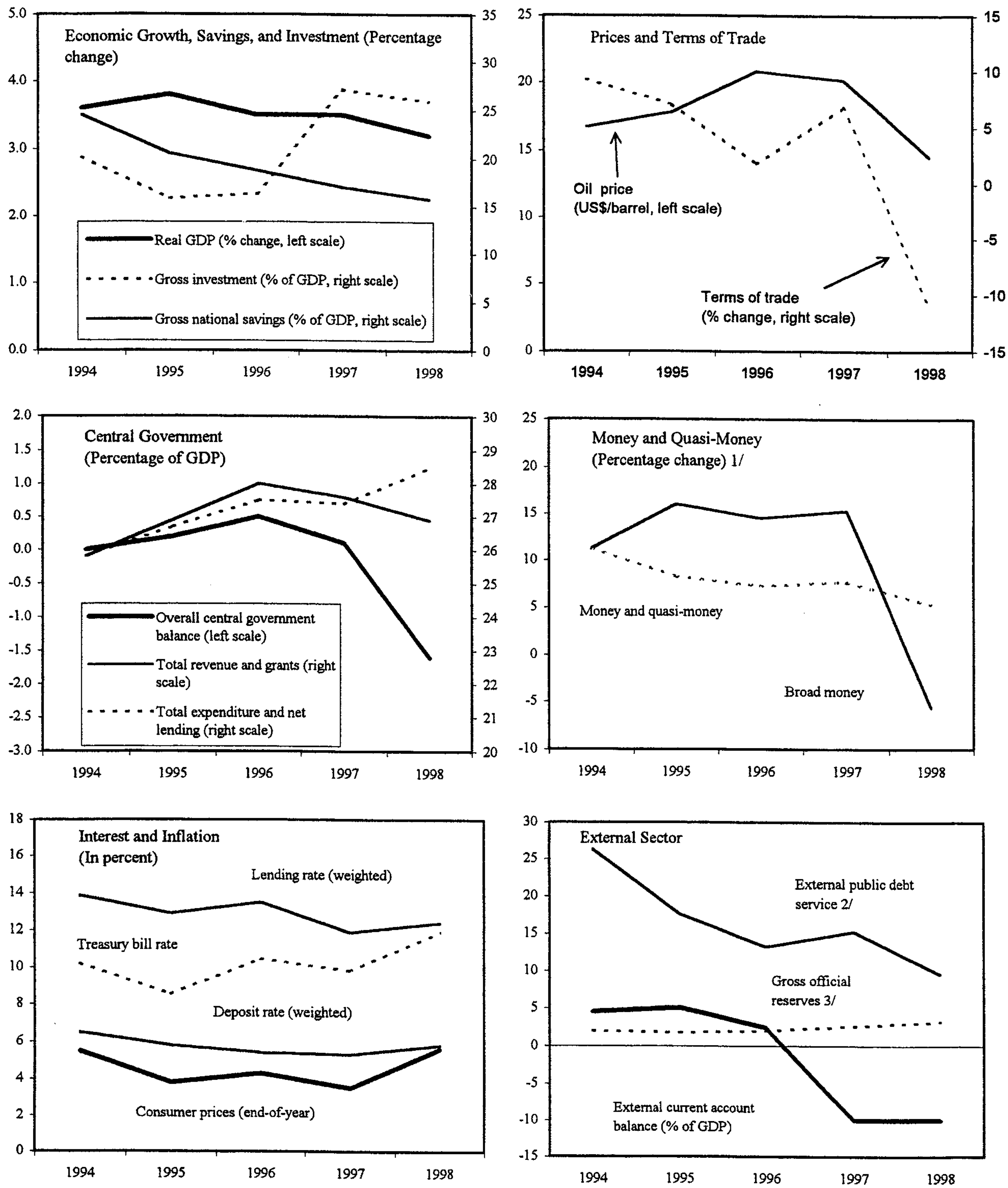
Figure 1. Trinidad and Tobago
Exchange Rate Developments
(1990=100)



Source: IMF Information Notice System.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.
2/ Trade-weighted index of nominal exchange rates; increase means appreciation.

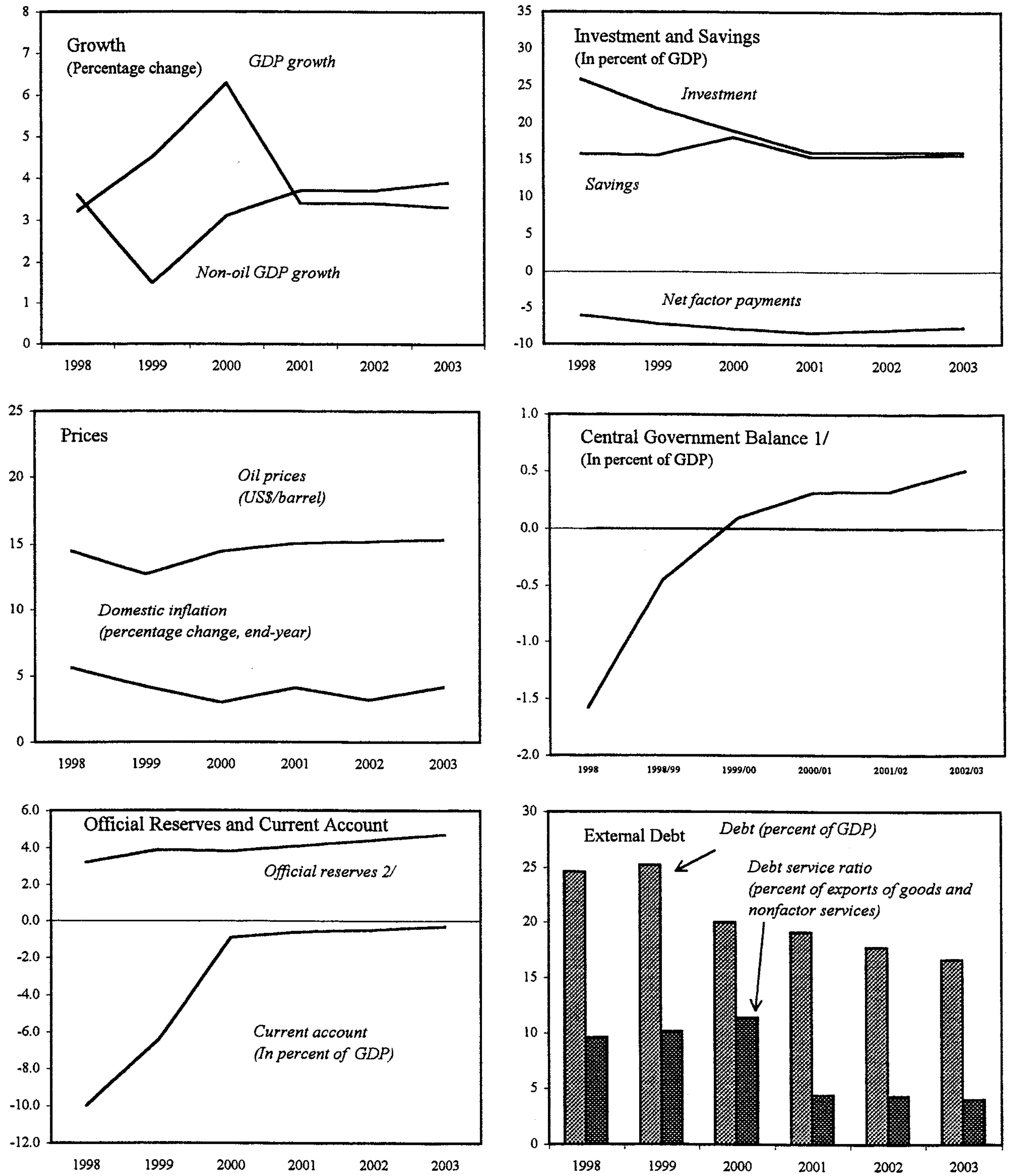
Figure 2. Trinidad and Tobago:
Selected Economic Indicators



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

1/ In relation to liabilities to the private sector at the beginning of the period.
2/ In percent of exports of goods and nonfactor services.
3/ In months of the following year's imports of goods and nonfactor services.

Figure 3. Trinidad and Tobago: Medium-Term Outlook



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

1/ Starting in October 1998, the government of Trinidad and Tobago changed from a calendar year to a fiscal year budget.
2/ In months of the following year's imports of goods and nonfactor services.

Trinidad and Tobago—Relations with the Fund
(As of March 31, 1999)

I. **Membership Status**: Joined 9/16/63; Article VIII

II. **General Resources Account**:	SDR million	Percent Quota
Quota	335.60	100.0
Fund holdings of currency	335.59	100.0
Reserve position in Fund	0.02	0.0

III. **SDR Department**:	SDR million	Percent of Allocation
Net cumulative allocation	46.23	100.0
Holdings	0.16	0.3

IV. **Outstanding Purchases and Loans**:

None

V. **Financial Arrangements**:

			(SDR Million)	
Type	Approval Date	Expira-tion Date	Amount Approved	Amount Drawn
Stand-by	4/20/90	3/31/91	85.0	85.0
Stand-by	1/13/89	2/28/90	99.0	99.0

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

	Overdue	Forthcoming			
	03/1/99	1999	2000	2001	2002
Charges/interest	—	1.2	1.6	1.6	1.6
Total		1.2	1.6	1.6	1.6

VII. **Exchange Arrangements**:

The Trinidad and Tobago dollar was pegged to the U.S. dollar at TT$4.25 = US$1.00 from August 17, 1988 to April 12, 1993. It was devalued to TT$5.72 per U.S. dollar (mid-point) and floated on April 13, 1993. Since then, the exchange rate has moved within a narrow range and the mid-point between buying and selling rates was TT$6.27 per U.S. dollar at end-December 1998.

VIII. **Last Article IV Consultation and Recent Contacts**:

The 1998 Article IV consultation was completed by the Executive Board on June 15, 1998 (EBM/98/64); the staff documents were SM/98/101 and SM/98/106.

IX. **Technical Assistance**:

a. STA: In September 1991, a technical assistance mission advised on national accounting methodology.

b. FAD: In June 1992, a member of the panel of fiscal experts advised on measures to improve the VAT audit program. In 1996 a mission provided technical assistance on VAT.

c. MAE: In February 1993, a technical assistance mission advised on options for liberalizing exchange controls and possible exchange rate regimes.

d. STA: In July 1994, a technical assistance mission reviewed the methodology underlying the compilation of money and banking statistics and established procedures for improvement.

e. FAD: In March 1996, technical assistance was provided on improving VAT administration.

f. MAE: In November 1997, a technical assistance mission assisted the central bank in defining its technical assistance needs in the area of research.

g. MAE: In 1998, there were three visits each by two experts providing assistance in the area of monetary policy and developing a research capacity.

h. MAE: In 1999, a Caribbean regional central bank advisor took up residence in Port of Spain.

Trinidad and Tobago—Relations with the World Bank

(As of April 5, 1999)

The World Bank's program includes projects in environment, education, water, and business expansion and industrial restructuring. Total commitments amount to US$109.3 million, of which approximately US$56.7 million is undisbursed. Recently the World Bank prepared a Country Assistance Strategy for the period fiscal year 1999 to fiscal year 2001.

I. Ongoing Projects

A. Business Expansion and Industrial Rehabilitation

The business expansion and industrial rehabilitation loan combines technical assistance (US$7 million) and a credit (US$20 million) to assist Trinidad and Tobago in developing internationally competitive business activities. The project, which seeks to improve the stability of the financial system and to finance private sector investments, became effective in March 1993. US$4.9 million is undisbursed.

B. Water Sector Institutional Strengthening

The Water Sector Institutional Strengthening loan (US$25 million) was approved by the Bank's Board in September 1994 to assist the Water and Sewerage Authority (WASA) with its financial and managerial restructuring and to help prepare it for private sector participation. A private sector operator is now in place. US$3.8 million is undisbursed.

C. Environmental Management Assistance

The Environmental Management Assistance loan (US$6.3 million) assisted in the establishment of the environmental management agency and is now being used to enhance the agency's capacity and improve environmental management and regulation. US$3.3 million is undisbursed.

D. Basic Education

The Basic Education loan (US$51 million) became effective in December 1996. It is intended to finance construction and rehabilitation of schools and will assist with a fundamental reform of the education system, especially at the primary and preschool levels. US$44.6 million is undisbursed.

II. The Future Assistance Program

The Bank's future assistance will focus on the financial sector (legislation, supervision of banks and insurance companies, and deposit insurance), and public sector modernization which will include assisting in the reform of the public procurement system, whose slowness has been a constraint on implementation of past projects, judicial reform, and postal service reform, and assisting in strengthening regulatory frameworks in water, power, and telecommunications.

Trinidad and Tobago—Relations with the Inter-American Development Bank

(As of February 9, 1999)

As of February 1999, the IDB had a portfolio of active loans of US$553.1 million of which US$189.4 million had been disbursed.

I. Investment and Sector Loans

A. Energy

In 1991, the IDB approved its first loan in support of Trinidad and Tobago's energy sector, of which the IDB's share was US$260 million. The balance included cofinancing from the Eximbank of Japan, the European Investment Bank, Texaco, and the government.

B. Urban Development

In 1989, the IDB approved the National Settlement Program loan of US$66.1 million to equip approximately 8,000 urban lots with basic infrastructure and upgrade the conditions for approximately 2,500 squatter families. A parallel nonreimbursable technical cooperation in the amount of US$3.34 million was also approved to assist the government in the reform of the housing and urban sectors.

C. Transport and Telecommunications

A rural access roads and bridges project for US$31.5 million was approved in October 1992 and a national highways project for US$120 million was approved in June 1996.

D. Education/Science and Technology

In 1987 the IDB approved two loans to execute a Primary Education Program, one for US$6.9 million and the other for US$46 million. A Secondary Education Program loan of US$105 million is scheduled for approval in 1999.

E. Agriculture and Fisheries

In addition to several major sectoral studies on agriculture and land tenure, the IDB has provided financial support for an Agricultural Credit Program to be executed by the Agricultural Development Bank (ADB). The ADB is also being restructured under the IDB-financed Investment Sector Reform Program. A US$74 million Agricultural Sector Reform Program was approved in 1995 to support a range of policy and institutional reforms and strengthen the performance of the agricultural sector. An Agricultural Investment Program of US$30 million is scheduled for 1999.

F. Sanitation/Environment

Five studies related to the water and sewerage system totaling US$1.65 million have been completed and used for the preparation of a loan request to the World Bank by the Water and Sewerage Authority (WASA). An environmental protection and rehabilitation program for US$5.07 million together with a nonreimbursable technical cooperation worth US$238,000 was approved in 1991 with the purpose of assisting the government in a program of studies on mined-lands reclamation, forestry, wetlands and fisheries ecology. Other projects include a solid waste management project (US$30 million) scheduled for approval in 2000.

G. Preinvestment

In 1993, the IDB approved the Preinvestment Program II for US$15 million, with an IDB contribution of US$10.5 million, to enable the government to energize the public sector investment program with well-prepared studies, many of which support the IDB's operative program for 1995–2000.

H. Investment Reform

In July 1993, the IDB approved an investment sector reform program consisting of two loans: one of US$65 million and another of US$15 million which is eligible for the Intermediate Financing Facility. The major components of the reform program include a divestment program; reforms in the financial system; a strengthening of the legal and regulatory framework affecting private sector investment; an initial stage of agricultural trade and price reforms; and a social impact mitigation program. The third tranche is scheduled for approval in 1999.

I. Tourism

A short-term support program (US$5.0 million) was approved in September 1995, to finance training, environmental studies, institutional support, and small rehabilitation works related to tourism. Another Tourism Development Program (US$30.0 million) is scheduled for approval in 2000.

J. Social Sector

A Community Development Fund (US$28 million) was approved in July 1995, to finance small community-driven projects targeted to the poor. It may finance small community infrastructure works (retaining walls, community centers, etc.) and small social services programs.

Trinidad and Tobago: Core Statistical Indicators

As of end-April 1999

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	4/99	2/99	2/99	2/99	1/99	2/99	11/98	Q4 98	Q4 98	3/99	1999	Q4 98
Date received	4/99	4/99	4/99	4/99	4/99	4/99	4/99	3/99	3/99	4/99	3/99	4/99
Frequency of data[1]	D	M	M	M	M	M	M	M	Q	Q	A	Q
Frequency of reporting[1]	D	M	M	M	M	M	M	Q	Q	Q	A	Q
Source of update[2]	A	A	A	A	A,N	A,N	A	A,N	A	A	A	A
Mode of reporting[3]	T,C,M	T,C,M	T,C,M	T,C,M	T,C,M	T,C,M	T,M	V/O,N Art. IV Consult.	V/O,N Art. IV Consult.	V/O,N Art. IV Consult.	V/O,N Art. IV Consult.	V/O,N Art. IV Consult.
Confidentiality[4]	C	D	D	D	D	D	C	C	D	D	D	D
Frequency of publication	M	M	M	M	M	M	M	M	Q	Q	A	Q

[1] D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other.

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

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

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

Trinidad and Tobago: Statistical Issues

I. Outstanding Statistical Issues

A. Real Sector

Data are not officially reported for publication in *International Financial Statistics (IFS)* but are obtained from central bank publications. Wages, and trade volume and unit value indices are not current because these data are not published in the available publications.

A 1991 technical assistance mission recommended a methodology for the compilation of quarterly national accounts estimates by the Central Statistical Office (CSO). It is understood that these recommendations have been implemented in the central bank's quarterly gross domestic product (GDP) estimates. However, these quarterly data are not submitted for publication in *IFS* because they do not have official status.

There appear to be several problems in the compilation of GDP. First, nominal GDP is measured as the sum of value-added plus the value-added tax, ignoring other indirect taxes and subsidies. Second, value-added in some sectors, such as the financial services sector, may not capture apparent growth in the industry for lack of appropriate productivity indicators.

B. Government Finance

GFS annual data on the consolidated central government through 1995 are in the 1997 *GFS Yearbook* and in *IFS*. No quarterly data have been made available for *IFS*.

There are several important fiscal data problems. Financing data for the central government and the rest of the public sector are incomplete because nonbank financing is derived as a residual amount. There also appear to be some problems of classification in the budget of U.S. dollar borrowing from domestic banks. Financing data for the public enterprises, public utilities, and statutory boards are also incomplete and hinder a proper assessment and monitoring of this sector.

C. Monetary Accounts

Most of the recommendations issued by the July 1997 STA money and banking statistics mission have been implemented by the authorities and the improvements have been reflected in the *IFS* publication. In April 1998, new report forms and detailed accounts for reporting monetary statistics to the Fund were prepared on the basis of the new presentation recommended by the mission. Starting with the May 1998 issue of *IFS*, with historical data from January 1997 onwards, data are based on an improved sectorization of the accounts for the monetary authorities, deposit money banks, and other bank-like institutions. Commercial bank performance indicators continue to be reported with a long lag.

D. Balance of Payments

There are several important problems with balance of payments statistics. Capital account coverage is deficient. Coverage of public enterprise foreign borrowing and repayment only includes government guaranteed debt and is therefore not comprehensive. Private capital movements and portfolio flows are also inadequately surveyed. Gaps in coordination between the central bank and ministry of finance prevent appropriate exchange of data. Balance of payments data up to 1995 have been provided to STA for publication in the BOPSY and the IFS.

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 99/49
FOR IMMEDIATE RELEASE
June 21, 1999

International Monetary Fund
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Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Trinidad and Tobago

On June 9, 1999, the Executive Board concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

After emerging from a prolonged period of decline in the 1980s, the Trinidad and Tobago economy has performed well in recent years, with steady economic growth and low inflation. Although a sizeable investment boom in the energy sector should contribute to faster growth in the coming years, a serious terms of trade shock in 1998 limited output growth. Inflation has declined to a relatively low level, although rising food prices led to some pick-up in 1998. The unemployment rate, although declining, remains high, at about 14 percent.

The deficit of the nonfinancial public sector in 1998 reflected deterioration in the financial position of the central government and a small improvement in the rest of the nonfinancial public sector. The central government deficit of just over 1½ percent of GDP in 1998 reflected the absorption of sizeable off-budget capital expenditures incurred in earlier years. In addition, tax collections weakened, owing to lower than projected oil prices and tax deductions associated with investments in the energy sector that were only partly offset by improvements in value-added tax and customs collections.

Monetary policy continued to be tight in 1998, although monetary aggregates fluctuated in response to changes in reserve requirements. In April 1998, the authorities extended the

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

coverage of reserve requirements to new fund-raising instruments, designed to avoid high reserve requirements, and lowered the required reserve ratio on the deposit liabilities of commercial banks to 21 percent from 24 percent. The banks subsequently reduced their reliance on these new instruments.

The external current account deficit remained at around 10 percent of GDP in 1998 and continued to be largely financed by an inflow of foreign direct investment, which was sufficient to allow some build up of foreign exchange reserves. Deterioration in the trade account was offset by an improvement in the services account. The larger trade deficit reflected increasing imports of capital goods and construction materials related to foreign direct investment projects in the petrochemical sector, and a weakening of oil and petrochemical export earnings owing to the drop in their prices. In 1999, the external current account deficit is projected to improve significantly, even without a recovery in export prices, as export volumes expand. The exchange rate has continued to be under moderate and intermittent pressure, and limited queueing and foreign exchange market intervention have been used in an effort to maintain a nominal exchange rate below TT$6.30.

There was some progress on structural change in 1998. There were several changes in the administration of the income tax designed to improve compliance. The threshold on the VAT was raised to exempt small taxpayers and free up administrative resources to focus on compliance by large taxpayers. A large taxpayers' unit was formed.

Since completion of a stand-by arrangement in 1991, the IMF staff has collaborated with the authorities in formulating and monitoring their economic policies under annual staff-monitored programs (SMP). While these SMPs have been generally quite successful, a number of deviations from program benchmarks occurred in 1998, largely as a result of the sharp decline in oil prices.

Executive Board Assessment

Executive Directors commended the authorities for their pursuit of sound macroeconomic policies and for the progress achieved in implementing a number of structural reforms, which had helped achieve sustained growth with low inflation, a steady decline in external debt, and falling unemployment. Moreover, they noted that an investment boom in the energy sector was expected to spur economic growth and diversification of exports, as well as strengthen fiscal revenues over the longer run.

Directors stressed the need for the authorities to continue to maintain a prudent fiscal stance and to accelerate their program of structural reforms so as to achieve a high rate of growth, address the still high unemployment rate, and cushion the impact of fluctuating oil prices. Directors welcomed the authorities' efforts to restrain expenditure in the current fiscal year in order to compensate for the shortfall in oil revenues and achieve their budget target. They stressed that, over the medium term, it would be important to strengthen revenues through continued improvements in tax administration and broadening of the tax base, including with respect to the value-added tax. Directors welcomed the authorities' commitment to eliminate off-budget operations by bringing all financial activities of the central government under the control of the annual budget process.

Directors encouraged the authorities to press ahead with improvements in the performance of public enterprises and in trade liberalization.

Directors noted that the pursuit of prudent fiscal and monetary policies had supported a stable exchange rate, but urged the authorities to take a more flexible approach to management of the rate, and in particular to avoid any emergence of queueing, which has at times characterized the foreign exchange market.

Directors commended the authorities for their responsive management of monetary policy. They welcomed the authorities' decision in 1998 to lower reserve requirements on domestic currency deposits in commercial banks and to extend them to cover new fund-raising instruments, which the commercial banks had designed to circumvent the high requirements. Directors recommended that the authorities take early steps to lower these requirements to prudential levels. They endorsed the authorities' efforts to continue to improve surveillance of the banking system and to strengthen further the indirect instruments of monetary policy.

Directors encouraged the authorities to resume the informal monitoring of their economic program by the IMF staff in the context of a macroeconomic framework covering the 1999–2000 fiscal year, which would be a clear indication of their commitment to sound economic management. They welcomed the authorities' decision to publish the Article IV consultation staff report under the pilot project for the publication of these reports.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Trinidad and Tobago: Selected Economic Indicators

	1996	1997	Prel. 1998	Proj. 1999
	(Annual percentage changes)			
Output and prices				
Real GDP	3.5	3.5	3.2	4.5
GDP deflator	4.0	2.4	-2.1	2.4
Consumer prices (annual average)	3.3	3.7	5.6	4.2
	(In percentage of GDP)			
Investment and savings				
Gross investment	16.4	27.1	25.9	22.0
Gross national savings	18.8	17.1	15.8	15.6
Budgetary operations 1/				
Overall central government balance	0.5	0.1	-1.6	-0.4
Total revenue and grants	28.0	27.6	26.9	27.9
Total expenditure and net lending	27.5	27.4	28.5	28.3
External sector				
Exports, f.o.b.	44.3	44.1	40.2	42.3
Imports, c.i.f.	36.9	52.6	51.8	46.1
External current account balance	2.4	-10.0	-10.0	-6.4
External public debt (end-of-period)	34.2	26.8	24.6	25.3
Gross reserves (in months of imports) 2/	2.0	2.6	3.2	3.9
	(Changes as a percentage of liabilities to the private sector at the beginning of the period)			
Monetary sector				
Net foreign assets	9.2	4.5	3.4	7.6
Net domestic assets	10.2	18.6	-10.6	1.6
Money and quasi-money	7.3	7.7	5.4	6.6

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

1/ The central government switched to an October 1–September 30 fiscal year as of October 1, 1998. Hence 1999 refers to October 1, 1998–September 30, 1999.

2/ Imports of goods and nonfactor services in the following year.

Statement by Mr. Portugal and Mr. Dhanpaul on Trinidad and Tobago
June 9, 1999

My Trinidad and Tobago authorities are in broad agreement with the comments and analysis contained in the staff report. They would like to thank the staff and management of the Fund for their usual helpful advice emanating from the recent policy discussions and for the technical assistance and continued support given to Trinidad and Tobago.

I. Recent Economic Developments

2. There is little doubt that the protracted decline in international commodity prices affected the economy in 1998, as the terms of trade deteriorated by over 8 percent. The impact was felt in both the fiscal accounts and the external balance of payments. Against this background, the growth in real GDP in 1998 of 3.2 percent was particularly gratifying, demonstrating an emerging resilience of the economy to external shocks, a welcome improvement from the effects of the oil price decline of 1986, which precipitated a severe economic recession and subsequent recourse to Fund resources. While the revenue effects in 1998 posed challenges for fiscal management, the growth in real output largely mitigated the effects of the terms of trade decline on the broader economy.

3. The diversification and additional plant capacity in the petrochemical sector was mainly responsible for the fifth consecutive year of positive economic growth although the non-energy sector continued to exhibit dynamism. In the energy sector, shortfalls in the prices of methanol, ammonia and urea were somewhat compensated by higher production levels with the coming on stream of an additional methanol plant and two new ammonia production facilities. The non-energy sector expanded by 3.6 percent in 1998, with growth evident particularly in the construction, manufacturing and tourism sub-sectors. However, the agricultural sector sustained heavy losses due to adverse weather conditions. This performance in the non-energy sector has been driven by high capital investment by both the private and public sectors, and an intensification of the effort towards positioning Trinidad and Tobago as an attractive tourist destination.

4. The expansion in economic activity continued to have a positive impact on the unemployment rate which averaged 14.2 percent in 1998, the lowest level of unemployment recorded in more than a decade. While this trend is encouraging, my authorities are nevertheless concerned with the high level of unemployment and continue to seek solutions for achieving a faster pace of employment creation. Inflation continued to be moderate although it rose from 3.8 percent at the end of 1997 to 5.6 percent at the end of 1998 mainly due to higher domestic food prices induced by the unusual weather conditions.

5. The impact on the fiscal accounts of lower commodity prices and oil in particular was demonstrated by the emergence of a fiscal deficit of 1.6 percent of GDP for 1998 compared to a small surplus of 0.1 percent of GDP in 1997. Total revenue and grants fell from 27.6 percent of GDP in 1997 to 26.9 percent of GDP in 1998 as a result of the lower than budgeted oil prices. However, the shortfall in oil tax revenue was partly compensated by the enhanced administrative capabilities of the tax authorities in other areas of tax collection, specifically PAYE and Value Added Tax. However, at the same time, total expenditure

increased almost 1 percentage point of GDP from the previous year to reach 28.5 percent of GDP. This was largely the result of the payment of wage arrears bonds as well as bringing to account of an outstanding off-budget capital obligation. The Government did not borrow from the Central Bank in 1998 although its balances which had been accumulated from previous surpluses were partly drawn, with an effect not dissimilar perhaps to borrowing from the Central Bank. The staff report has recognized the policy dilemma of the fiscal authorities in balancing the need for fiscal retrenchment in the face of declining revenue while refraining from an overly contractionary policy.

6. Monetary policy focussed on the maintenance of price and exchange rate stability as well as a sound financial system. During 1998 the authorities re-structured the reserve requirement of the banking system by extending the coverage of the statutory reserve requirements to include fundraising instruments other than deposits and by lowering the ratio of reserves from 24 to 21 percent for commercial banks. The impetus for monetary expansion stemmed mainly from fiscal operations, but as a result of the reserve requirement measures and an active program of open market operations, credit expansion to the private sector was restricted to 4½ percent, substantially lower than the 1997 expansion, while credit to the public sector contracted significantly.

7. The authorities are mindful of the cost of the high reserve requirement on the banking system and, as a prelude to embarking on a sustained program of reserve reduction, began a process of strengthening the institutional framework for trading in government securities and for open market operations. They also introduced repurchase agreements in their open market activity as a response to comparatively short-term liquidity movements. In response to the changes in monetary policy, prime lending rates increased by 250 basis points over 1997, the median rates on demand, overdraft and real estate mortgage loans rose between 125-230 basis points while the median rates for savings and time deposits rose between 29-90 basis points.

8. The overall balance of payments recorded a surplus for the fifth consecutive year in 1998, notwithstanding a current account deficit of 10 percent of GDP, the same as in 1997. Exports declined in value terms in response to falling international commodity prices, and the level of capital goods imports continued to expand to meet the demands of the energy sector projects. The deficit on the current account was more than offset by significant inflows on the capital account, as the country continued to attract substantial levels of foreign direct investment. Gross international reserves stood at US$800 million or 3.2 months of import cover while debt service as a percent of exports of goods and non-factor services declined from 15.3 percent in 1997 to 9.6 percent by end-1998. The nominal exchange rate remained relatively stable throughout 1998 at an average of TT$6.29 per US dollar.

9. In the case of structural policies, the authorities have made several significant changes aimed at ensuring the solvency of the national insurance pension system. The aim of the new pension program is to assist retired people in maintaining an adequate standard of living using an appropriate combination of social assistance and social insurance programs. Its goal is to target vital national resources towards the needy while encouraging individual and corporate retirement savings.

10. The privatization program continued in 1998 with the sale of Trinidad and Tobago Methanol Company and shares in Trinidad Cement Limited, while private sector participation has been introduced into the mail delivery system. The authorities also implemented several of the recommendations of the FAD and the US Internal Revenue Service with respect to improving tax compliance and collections.

II. Economic Prospects and Policy Considerations

11. Real GDP is projected to grow by 4½ percent in 1999 led by the startup of a liquefied natural gas plant and a methanol plant during the year. In the non-energy sector, output will probably grow at a slower pace than in previous years as activity in the construction and distribution sectors contracts in response to the completion of major projects following the peak performance over the 1996-1998 period. Inflation is expected to decline to 4.2 percent as the authorities continue their tight monetary stance.

12. In the absence of any further adverse exogenous shocks, the overall central government fiscal account is programmed to be in virtual balance in 1999. The authorities are intent on strengthening the fiscal consolidation process and have been curtailing discretionary expenditure to compensate for possible revenue shortfalls from fluctuating oil prices. The major policy objective of the consolidation process is to avoid the accumulation of arrears by channeling appropriate funding to the relevant agencies on a timely basis and to maintain a reasonable level of capital expenditure. They are also exploring several revenue raising measures including the review of the generous loss carry forward provision for corporate taxes, increasing the efficiency of VAT collection, and strengthening the administration for all small businesses to improve their tax contribution.

13. The authorities are also committed to fiscal transparency and will continue to use the annual budget to ensure that the appropriate data are placed in the public domain. All activities, including project financing facilities, are being brought under the control of the budget process in a transparent manner. The authorities recognize the impact on staffing at the senior levels of the public service of pay disparity relative to the private sector. Recommendations have been laid in the Parliament to address the imbalance.

14. The Government is cognizant of the risks of recourse to central bank financing and have put in train the legislative machinery to increase the ceiling on domestic borrowing to ensure that any fiscal deficit is financed by the market. Steps are also being taken to ensure more effective co-ordination of the activities of the non-financial public sector in the context of the government's fiscal objectives.

15. While the economy remains vulnerable to commodity prices, the structural changes in the energy sector have mitigated the impact of the fall in oil prices, traditionally the major bell-weather of domestic developments. The falling share of oil revenue is not altogether unexpected as the authorities continue to encourage diversification of downstream and gas related industries.

16. Monetary policy will be guided by the need to limit the growth of monetary aggregates to accommodate the projected growth objectives for GDP, while limiting the inflation rate to moderate levels, close to that of major trading partners. The authorities have entered into discussions with the commercial banks to ensure that there is a proper framework in which the reserve requirement can be reduced, since the readjustment of the reserve ratio will also involve the issue of securities. The authorities are of the view that reducing the reserve requirement to prudential levels is a policy measure of a long-term structural nature and its implementation will depend crucially on the development of the primary and secondary markets. To this end, they are currently in the process of strengthening market mechanisms for trading securities and for effective implementation of open market operations.

17. While monetary and financial conditions of the domestic financial system continued to be healthy, the monetary authority felt that there are lessons to be learnt from the events in Asia. The introduction of a Financial Stability Committee within the Central Bank is intended to provide early warning signals of potential threats to the domestic financial system from events in the international and domestic macro- and micro-economic environment. The authorities view the entry of two new institutions, the consolidation of existing institutions and the internationalization of domestic banking groups through expansion in the Caribbean area as healthy developments. The supervisory authority is maintaining an active monitoring program of licensed institutions in the context of Basle Core Principles and is intent on ensuring that international standards are met by domestic financial institutions.

18. In the external sector, the deficit on the current account is programmed to decline to 6½ percent of GDP in 1999 as the deterioration in the terms of trade is compensated for somewhat by the increase in export volume. The capital account surplus is programmed to reach 9.6 percent of GDP led by continued substantial foreign direct investment inflows coupled with the government's re-entry into the international commercial market. Gross international reserves are projected to reach US$991 million by end-1999, the equivalent of 3.9 months of imports, while the debt service as a percent of export of goods and nonfactor services is estimated at 10.2 percent.

19. Exchange rate stability is a major policy priority of the authorities and they agree with the staff that the current exchange rate is realistic and competitive. Additionally, they believe that there is technical merit in the staff's recommendation of a greater degree of flexibility in exchange rate management and the use of market-based instruments to deal with pressures on the rate. Given the fact that the flows into the foreign exchange market are discrete and lumpy, and bearing in mind the current competitiveness of the rate, the Central Bank is of the view that intervention may be necessary from time to time, perhaps on a more timely basis, to prevent volatility which is likely to create an unstable situation with respect to savings, investment and external flows.

20. On the structural front, the authorities will continue the privatization program. They will retain or acquire equity in the state enterprises sector only where such ownership is integral to the achievement of policy objectives for the sector in which the enterprise is located. In the case of the sugar company Caroni (1975) Limited, they are taking steps to restructure the company into a holding company with separate subsidiaries under private

management. In addition, the second phase of the pension reform program involving the introduction of a defined contribution mechanism will be implemented while work will continue on the operational restructuring of the Inland Revenue and Customs and Excise Divisions.

21. My authorities have expressed a desire to adopt a formal Staff Monitored Program (SMP), which would include a Memorandum of Economic and Financial Policies (MEFP) and monitorable targets. As has been clearly stated in the staff report, my authorities wish to emphasize that it should be made very clear that the purpose of the SMP is to provide an appropriate macroeconomic framework, and as a signal to private commercial markets, and not as an indication of economic difficulties. They have also requested that the Staff Report for the 1999 Article IV Consultation be published as part of the pilot project following today's Board meeting.