July 2003
IMF Country Report No. 03/232
Corrected August 2003

Trinidad and Tobago: 2003 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Trinidad and Tobago

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **April 4, 2003,** with the officials of Trinidad and Tobago on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 28, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its June 23, 20023 discussion** of the staff report that concluded the Article IV consultation.

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

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

Selected Issues and Statistical Appendix

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

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2003 Article IV Consultation

Prepared by a Staff Team of the Western Hemisphere Department
in Consultation with Other Departments

Approved by John Dodsworth and G. Russell Kincaid

May 28, 2003

- **Discussions:** The consultation was conducted in Port-of-Spain during March 25–April 4, 2003. The mission met with the Minister of State in the Ministry of Finance, Conrad Enill; Minister of Trade and Industry, Kenneth Valley; Governor of the Central Bank, Ewart Williams; other government officials; the leader of the opposition; and trade union and private sector representatives.

- **Team:** The mission comprised Ms. Turner-Jones (Head), Ms. Kufa, Mr. Rizavi, and Ms. Velculescu (all WHD). Mr. Boote (WHD) participated in the final meetings.

- **The last Article IV consultation** was concluded on July 6, 2001. In 2002, at the authorities' request, the Article IV consultation mission was postponed in light of the uncertain political situation.

- **Exchange system:** Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2a, 3, and 4, and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

- **Statistics:** The coverage, frequency, and timeliness of economic statistics are adequate for surveillance purposes. Financial sector data and those of the fiscal accounts of the central government are comprehensive and are available on a timely basis. The authorities are taking steps to address some of the weaknesses in the data including the methology for compiling GDP and CPI (Appendix IV). Trinidad and Tobago does not participate in the General Data Dissemination System (GDDS).

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Background

- **Trinidad and Tobago is projected to enjoy its tenth consecutive year of growth in 2003.** Favorable developments in the energy sector—including new oil and gas discoveries, and the associated expansion in downstream industries—have supported activity. Inflation has remained subdued, and unemployment has declined to about 10 percent. Prospects for growth remain positive over the medium term.

- **Despite strong growth, the underlying fiscal situation has deteriorated steadily, masked by higher energy related revenues.** Narrowing of the domestic tax base and increasing non-discretionary current spending have weakened the structure of the budget and steadily increased the non-energy fiscal deficit. In the absence of concerted action, the government's objective of a balanced budget by 2004 would be hard to achieve.

Policy advice

- **Rising energy revenues should facilitate budget surpluses, part of which should be invested offshore through the revenue stabilization fund (RSF).** A strengthened RSF could help dampen inflationary pressures from the large foreign exchange inflows in the energy sector from spilling over into the non-energy sector; assist in building a stock of wealth for future generations from peak earning years; and reduce vulnerability to external shocks.

- **The nonfinancial public enterprise (NFPE) sector should be overhauled.** Loss-making NFPEs need to be restructured and, where appropriate, prepared for divestment.

- **The current exchange rate regime (a heavily managed float) still appears appropriate given that there is no evidence of a loss of competitiveness.**

- **While progress has been made in restructuring the sugar company, other structural reforms need to be reinvigorated.** Pension reform, a Public Expenditure Review, a review of the VAT design, and of procurement policies would all be desirable. A fiscal ROSC is recommended.

- **Data improvement and GDDS participation should be a priority.**

I. Introduction

1. **At the 2001 Article IV Board discussion on July 6, 2001, Directors viewed the key policy priorities as strengthening the fiscal situation and accelerating structural reforms.** They recommended improving tax administration, containing public sector wage growth, and strengthening financial control over state enterprises. Directors observed that the privatization program should be accelerated, including by restructuring of the loss-making sugar company. They welcomed the authorities' steps to keep the supervision of the financial system in line with international standards.

2. **The authorities' response has been mixed, partly reflecting the parliamentary deadlock, which persisted during the second half of 2001 and most of 2002.** To strengthen revenue collections, the government initiated steps to create a revenue authority with the aim of integrating the functions of the inland revenue and the customs and excise departments. Financial controls over the activities of the state enterprises remain weak, although there has been some improvement in submissions of their financial accounts to the ministry of finance. The interim revenue stabilization fund has remained inactive and its parliamentary approval is still pending. After remaining stalled, the privatization program is being reinvigorated, and the restructuring plan for the sugar company has been launched. Some progress has been made in strengthening supervision of the financial system.

3. **The political stalemate ended with the general elections held in October 2002.** The United National Congress (UNC) lost its parliamentary majority in 2001 when three of its legislators withdrew their support alleging inadequate attention to fighting corruption, and the government was forced to call new elections in December 2001. The latter resulted in the UNC and the Peoples National Movement (PNM) winning an equal number of seats. The President appointed the leader of the PNM as prime minister, who had to call elections after failing to pass the FY 2002/03 budget. The October 2002 election resulted in a clear victory for the PNM. Nonetheless, political divisions largely along ethnic lines continue to complicate the policy making context.

II. Recent Economic Developments and Prospects For 2003

4. **Trinidad and Tobago recorded its ninth consecutive year of economic growth in 2002** (Figure 1, Table 1). Real GDP growth moderated slightly to 2.7 percent compared with 3.3 percent in 2001, reflecting the global economic slowdown and the lingering negative impact on regional trading partners of the September 11, 2001 attacks. Unemployment fell from 14 percent in 1998 to about 10 percent in 2002, while inflation remained subdued. In March 2003, Standard & Poor's upgraded Trinidad and Tobago's credit rating to BBB from BBB-.

5. **The overall fiscal position of the central government deteriorated considerably in FY 2001/02** (Figure 2).[1] Despite higher than budgeted oil prices, the government

[1] Fiscal year is October 1 to September 30.

recorded a deficit of 1½ percent of GDP compared with a similar surplus in the previous year. The swing reflected lower tax collections (by 4 percentage points of GDP) as a result of tax write-offs for dry wells and higher than anticipated tax-deductible capital expenditures by a major oil company. Total expenditures were lower by about 1 percentage point of GDP than in the previous year. Reflecting a steady decline in the buoyancy of non-energy revenues, the non-energy fiscal deficit of the central government widened to about 10 percent of non-energy GDP from 4 percent in 1998. The overall deficit was mainly financed through domestic borrowing.

Figure 1. Growth and Unemployment (In percent)

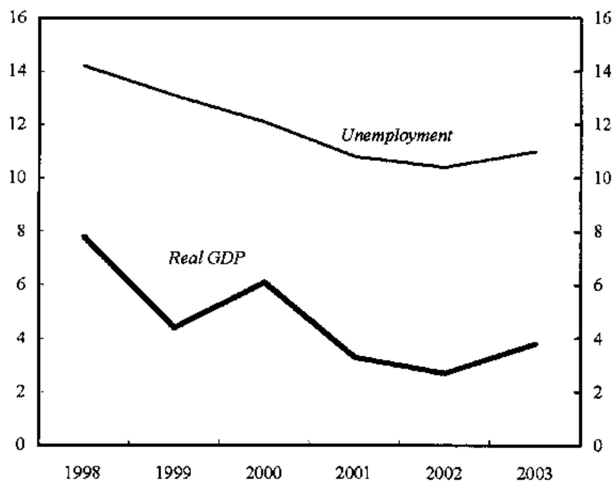
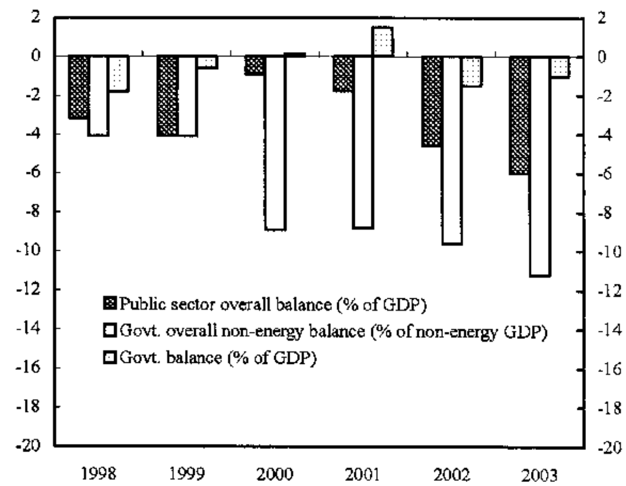


Figure 2. Public Sector Balances (In percent)

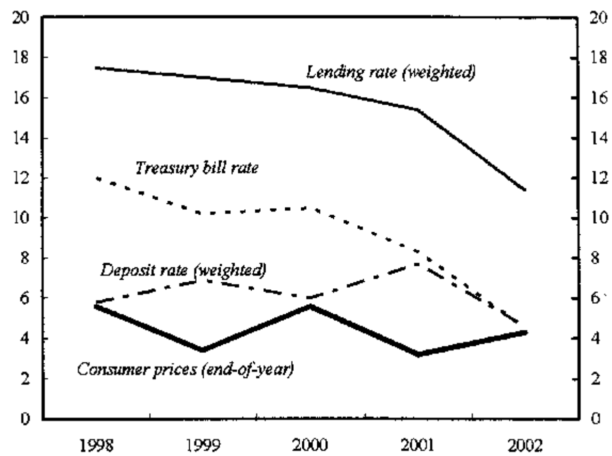


6. **The performance of the nonfinancial public enterprises remained weak.** In FY 2001/02, they recorded an overall deficit of about 3 percent of GDP as a result of operating losses incurred mainly by the sugar company, the water utility, and the airport authority. A number of public enterprises continued to depend on government transfers to service their debts, while some continued to implement infrastructure projects on behalf of the central government.

7. **At end-2002, the total public sector debt was 66 percent of GDP; of which guaranteed debt was equivalent to 19 percent of GDP, and external debt 20 percent of GDP.** The bulk of domestic debt is held by commercial banks (Table 4).

8. **Monetary conditions eased in 2002 resulting in appreciable declines in interest rates.** Reserve requirements were lowered from 21 to18 percent during the course of the year. The commercial banks' average prime lending rate declined from 15½ percent in 2001 to 11½ percent by December 2002, with other rates following suit (Figure 3). However, despite declining borrowing costs, growth in private sector credit was less than 1 percent compared to 6 percent in 2001. This deceleration reflected the economic slowdown exacerbated by increased uncertainty due to the political stalemate. The central bank introduced a new liquidity management mechanism in May 2002, based on the announcement of an overnight repo rate, with an initial rate of 5¾ percent. This rate was reduced to 5¼ percent in August 2002, and has since remained unchanged.

Figure 3. Interest and Inflation (In percent)



9. **In the context of a heavily managed exchange rate, the CPI-based real effective exchange rate (REER) depreciated throughout 2002 after a long period of appreciation.**[2] The depreciation largely reflected the decline in the U.S. dollar against other currencies. Alternative measures of the REER based on unit labor costs and the producer price index show a longer period of depreciation (Figures 4 and 5).

Figure 4. Exchange Rate Developments (Index 1990=100)

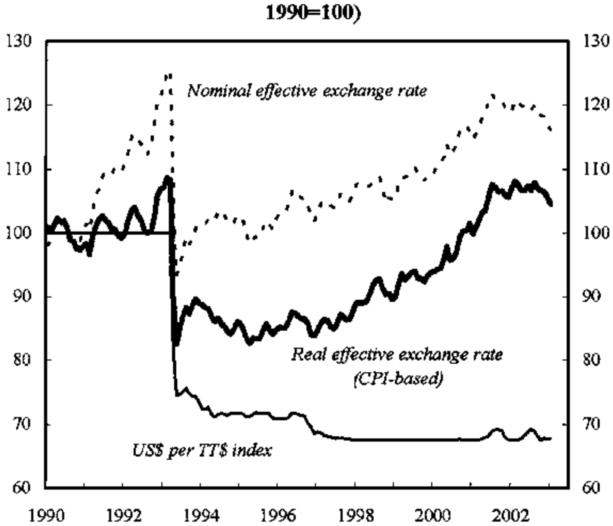
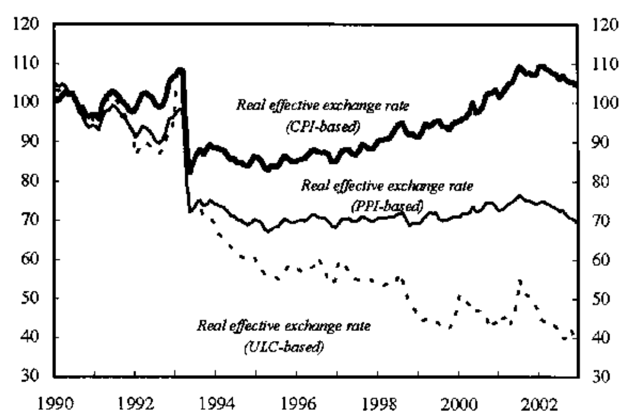


Figure 5. Exchange Rate Developments - Alternative Calculations (Index 1990=100)



[2] The REER has appreciated by over 20 percent since 1999. However, this figure should be interpreted with caution, since there are known measurement problems with the CPI, which could lead to an overestimation of domestic inflation.

10. **The external current account weakened in 2002 to record a small deficit (¼ percent of GDP) (Table 7).** This partly reflected lower oil prices in the first half of 2002 compared with 2001, and continuing weak demand for manufactured exports as growth slowed in the Caribbean.[3] The overall balance of payments recorded a sharply smaller surplus of ¼ percent of GDP (down from 5½ percent) as direct investment slowed. Gross official reserves cover remained at around five months of imports.

11. **Structural reforms in 2002 remained stalled with the exception of a second public offering of the National Enterprises Limited (NEL) shares.** Despite reaching an agreement in principle to sell part of the operations of the sugar company, and for allowing private sector participation in the state telecommunications, water, and broadcasting companies, there was no follow through, partly reflecting the absence of a functioning Parliament until the October 2002 general elections.

12. **The economic outlook for 2003 is favorable**. Real GDP growth of around 4 percent is projected for 2003 driven by the start up of new liquefied natural gas (LNG) operations and by robust growth in the manufacturing, financial and construction sectors. Inflation is projected to remain subdued in line with international trends and a stable nominal exchange rate. Unemployment could rise slightly due to the restructuring of the sugar company, but would then resume its gradual declining trend in 2004.

III. Medium-Term Outlook and Vulnerability Assessment

13. **Trinidad and Tobago's rich resource base offers strong growth prospects (Table 9).** New large oil and gas discoveries are expected to generate expanding LNG exports, and development of downstream petrochemicals. Based on current estimates of proven reserves and the current extraction rate, the combined real output of oil and gas is projected to double between 2002 and 2006. This expansion, in addition to increasing exports, will support growth in the production of ammonia, methanol, and LNG. Led by these factors, overall growth is projected to average slightly above 4 percent annually over the medium term, peaking in 2005 at 9 percent, before tapering off. Reflecting developments in the energy sector, the external current account is projected to record sizeable surpluses for the next three years before gradually turning to small deficits due to profit repatriation by the oil and gas companies.

14. **Under the baseline scenario (based on current policies), the central government would continue to run increasingly large fiscal deficits and the public debt-to-GDP ratio would remain above 50 percent over the medium term.** This situation reflects the anticipated peak in real output growth in the energy sector in 2005 (when the new gas

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[3] Trinidad and Tobago's major export market is CARICOM, accounting for 26 percent of non-oil exports.

projects come on stream) before falling sharply in 2006. A large fiscal deficit is projected for 2008 as energy revenues are projected to decline substantially in that year.

Trinidad and Tobago: Baseline Medium-Term Projections
(In percent)

	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP growth	3.3	2.7	3.8	4.0	9.1	5.9	0.8	2.2
Of which								
Energy sector growth	2.4	4.5	7.6	5.1	23.5	9.6	-8.1	-4.8
Non-energy sector growth	3.6	2.1	2.5	3.6	4.0	4.4	4.7	5.0
Unemployment rate	10.8	10.4	11.0	10.7	10.4	10.0	9.7	9.5
CPI Inflation (end of year)	3.2	4.3	2.8	2.7	2.6	2.6	2.6	2.6
(period average)	5.5	4.2	3.5	2.8	2.7	2.6	2.6	2.6
Central government's overall balance/GDP	1.5	-1.5	-1.5	0.7	-0.7	-1.1	-2.4	-5.3
External current account balance/GDP	5.6	-0.2	4.0	6.4	5.4	0.3	-2.2	-2.5
Public debt-to-GDP	67.5	66.2	67.8	69.7	57.9	54.5	56.0	59.0
Oil price, WEO (US$/barrel)	25.9	26.1	26.5	23.5	22.0	21.0	21.0	21.0

15. **With the growing importance of the energy sector, the economy's vulnerability to external shocks has increased, although this situation should improve as the sector becomes more diversified.** While a decline in the price of oil may not seriously affect growth given the strong profitability of the sector, its impact on the fiscal and external situation would be sharply adverse (see below) as indicated in staff's medium-term scenario II.[4] A 50 percent decline in the WEO-based oil prices, in the absence of any demand tightening, would raise the size of the central government's overall fiscal deficit to over 4 percent of GDP in 2005 and to 8 percent of GDP in 2008, compared with the baseline of around 1 percent and 5.3 percent of GDP, respectively. The external current account surpluses over the medium term would swing into deficits beginning in 2005 of about ½ percent of GDP to 3.2 percent of GDP in 2008.

16. **Preliminary analysis of Trinidad and Tobagos's debt sustainability suggests that debt ratios could remain high over the medium term particularly in the event of adverse shocks (Annex I)**. In order to achieve a sustainable debt path in which the debt-to-GDP ratio falls to around 50 percent by 2006, the central government would need to generate annual primary surpluses in the range of 4–5 percent of GDP. This would require

[4] Staff also carried out two other adverse scenarios (III and IV), see Table 10.

of an increase of about 1–3 percentage points GDP in the primary surplus between 2005 and 2008 (Table 10).

Trinidad and Tobago: Medium-Term Projections with a 50 percent Decline in the Price of Oil
(In percent of GDP)

	2002	2003	2004	2005	2006	2007	2008
Real GDP growth	2.7	3.8	4.0	9.1	5.9	0.8	2.2
Central government overall balance	-1.5	-1.3	-2.1	-4.3	-4.3	-6.7	-8
Central government overall non-energy balance	-9.6	-11.2	-10.8	-13	-15.1	-17.3	-18.6
Central government primary balance	2.4	2.8	2.1	-0.3	-0.5	-3.2	-4.7
External current account	-0.2	0	0.6	-0.3	-2.9	-4.1	-3.2
Public sector debt-to-GDP ratio	66.2	67.7	67.4	61.5	57.7	60.3	61.7
Oil price, WEO (US$/barrel)	26.1	13.3	11.8	11.0	10.5	10.5	10.5

17. **The staff carried out a long term analysis of fiscal sustainability focusing on the non-energy fiscal balance, in the context of the country's total net energy wealth** (Box 1). Given current oil and gas extraction rates, it is estimated that proven reserves will be depleted by 2020, notwithstanding new discoveries.[5] On this basis, and using ten-year production projections by the authorities and a discount rate equal to a long run real interest rate of 3.5 percent, energy wealth is estimated at US$8,623 million (in constant 2002 prices). The yearly public consumption level consistent with maintaining this wealth constant over time indefinitely is estimated at around US$302 million (equivalent to US$232 per capita in 2002). The corresponding sustainable non-energy fiscal deficit is around 4½ percent of non-energy GDP for 2002, compared with a non-energy fiscal deficit 10 percent of non-energy GDP in 2002. If non-energy fiscal deficits are maintained at the current high level over the medium term, energy wealth would be depleted in about a decade from now.

18. **In the context of the required fiscal adjustment over the medium term, staff suggested that a stabilization fund could be a useful tool of fiscal management.** The current RSF needs to be strengthened to enhance its flexibility, transparency, and accountability (Box 2). Given such changes, however, the RSF can help to preserve the competitiveness of the non-energy sector as well as perform a stabilization function in the event of negative shocks. As in other countries, the RSF may be seen as contributing to the achievement of fiscal sustainability in the long run by encouraging national savings.

[5] Trinidad and Tobago has total proven oil and gas reserves estimated at about 4,220 million barrels (of which 820 million barrels are oil reserves; and 3,400 million are gas reserves in equivalent barrels of oil).

Box 1. Trinidad and Tobago: Estimating the Sustainable Consumption out of Energy Wealth

A key issue in conducting fiscal policy in countries rich in natural resources is how much to consume and how much to save out of current and expected resource revenues. This intertemporal decision-making process crucially depends both on intergenerational equity considerations, as well as on the expected energy reserves of the country.

According to permanent income hypothesis (PIH) theory, the government should optimally smooth consumption out of energy wealth over time. Since the government's intergenerational discount rate is difficult to gauge, a useful benchmark is to assume that it equals the real interest rate prevailing on the international markets. Under the benchmark, and assuming no population and technological growth, PIH implies that optimal consumption is constant over time and equals the annuity value of wealth. This implies that all generations enjoy the same amount of consumption in perpetuity without increasing the country's debt or reducing its total wealth.

Sustainable consumption out of energy wealth under the benchmark can be calculated as follows:

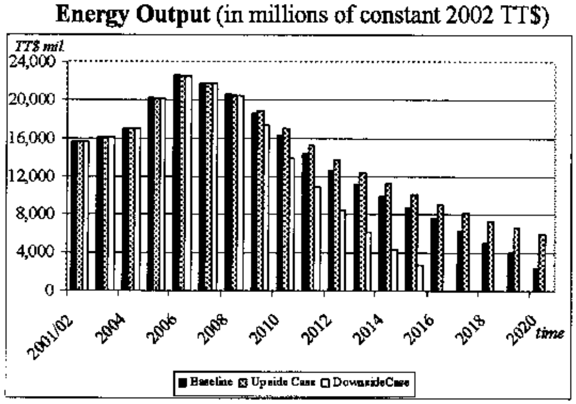
$$\boxed{\textit{Sustainable consumption} = r_t \times \left[V + \sum_{t=1}^{n} \frac{R_t}{(1+r_t)^t} \right]},$$

where: V is the value of net energy revenues at the end of the previous fiscal year, in constant prices; R1 ... Rn are projected energy revenues for the current and future fiscal years, in constant prices, based on projections of total real production in the energy sector according to proven, probable, and possible reserves; r is the average real return on wealth expected to prevail in the future.[1]

Sustainable Consumption from Energy Wealth in Trinidad and Tobago

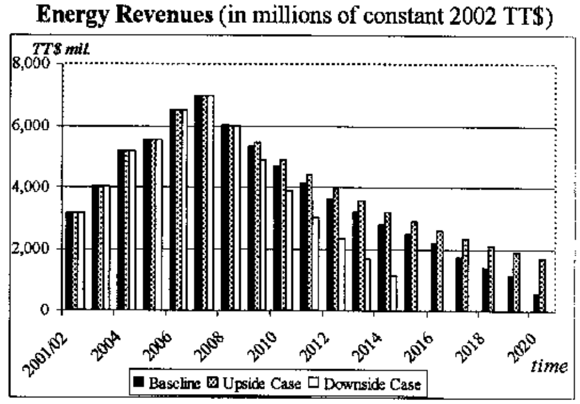
	r	Base Case (Proven reserves)	Upside Case (Proven + probable)	Downside Case (2/3 proven reserves)
Energy Wealth	3.5%	8,623.3	9,873.2	6,942.9
(in millions of 2002 US$)	2.5%	9190.1	10,688.1	7,291.5
Sustainable Consumption	3.5%	301.8	345.6	243.0
(in millions of 2002 US$)	2.5%	229.8	267.2	182.3
Non-energy Sustainable Balance	3.5%	-4.4	-5.0	-3.5
as Percent of Non-energy GDP	2.5%	-3.3	-3.9	-2.7

Energy Output (in millions of constant 2002 TT$)



Source: Energy Ministry Data and Fund Staff Projections

Energy Revenues (in millions of constant 2002 TT$)



Source: Energy Ministry Data and Fund Staff Projections

1. The sustainability analysis presented here assumes that the government undertakes current rather than capital expenditure, and that all saving is done abroad. This is justified based on three grounds: (1) the authorities' expressed medium term objectives to raise current expenditures; (2) the poor historical performance of domestic capital investment, which led to a loss of competitiveness in the non-energy sector (see Box 4); and (3) the difficulty to gauge the return on social capital investments, such as in education and health.

Box 2. Trinidad and Tobago: Strengthening the Government's Revenue Stabilization Fund

In FY 1999-2000, Trinidad and Tobago's government put in place an interim Oil Revenue Stabilization Fund (RSF) with the aims of: promoting fiscal discipline during oil booms; cushioning the effects of unexpected drops in oil prices; and promoting public saving. The fund, however, has not yet been formally approved by parliament, and after a one time transfer of nearly TT$1,000 million in 2001, it has remained inactive.

According to best practice criteria, developed by FAD and outlined in the table below, the RSF's rules, operations, accountability, and asset management strategy could be improved. The fund's current operational structure is based on rigid rules. Deposits and withdrawals to the RSF are to be made when quarterly petroleum revenues exceed or respectively fall below the quarterly revenues anticipated in the Budget by 10 percent or more. Deposits should be at least 67 percent of the difference between realized and anticipated petroleum royalty and tax revenues, and withdrawals are to be equal to the lesser of: (a) the petroleum taxation deviation for the quarter/year under reference; and (b) 25 percent of the balance of the RSF at the beginning of the quarter/year.

It is advisable that the current rules of the fund be modified to allow for greater flexibility, and that portfolio management, transparency and accountability be improved along the lines of the Norwegian State Petroleum Fund. Deposits to the fund should comprise all energy revenues, including oil and natural gas exploitation and refining, not only oil revenues, as is current practice. The budget should transfer all net energy revenues to the RSF, and drawings from the fund should only be used to finance budget deficits (via a reverse transfer) arising from expenditures and revenues approved under the normal budget appropriation process. The amount of funds available to the government from the RSF in any one year could be subject to "sustainable income" guidelines, as described in Box 6. Furthermore, the investment strategy of the RSF could be improved by putting in place clear and conservative rules regarding the portfolio composition of the fund, and transparency and accountability should be enhanced. Finally, the RSF should operate within a prudent fiscal environment.

Best Practices	Current Practice	Comments
	Operational Aspects:	
• Coherent integration within the budget;	√	• RSF is in the form of an account at CBTT;
• Flexible rules, such as the fund financing the overall budget balance;	☐	• Rigid rules: deposits and withdrawals occur when oil revenues exceed budgeted revenues, which are based on a discretionary reference price;
• The fund's assets should constitute the net savings of the government;	☐	
• Parliament should approve expenditures;	☐	• Withdrawals authorized by MOF;
• Countercyclical fiscal policies should be adopted;	☐	Fiscal policy appears procyclical;
	Asset Management:	
• The central bank or private investment managers may manage the fund's assets;	√	• CBTT manages RSF's financial assets; it may appoint professional investment bankers;
• Assets should be placed abroad;	√	• Assets are denominated in foreign currency and are to be invested in foreign currency securities issued by sovereign countries;
• Explicit consideration of mix of assets, currencies, liquidity and maturity of assets;	☐	
• Explicit restrictions to borrow, lend, make capital expenditures directly or use fund's capital as collateral;	☐	
	Transparency and accountability:	
• Transparent rules and operations;	☐	
• Regular and frequent (inter-year) reporting of the fund's operational guidelines, its asset flows, and the allocation and return on assets should be submitted to legislature and made publicly available;	☐	• CBTT submits an annual report of the operations of the RSF to the MOF; no inter-year reporting, not made publicly available;
• Clear assignment of responsibilities and accountability;	☐	• No clear assignment of accountability;
• Independent external audit of investment performance.	☐	• Annually audited by the auditor general or by another auditor authorized by it.

IV. Policy Discussions

A. Macroeconomic Framework

19. **The authorities view the current conjuncture of strong economic growth and projected rising energy revenues as an opportunity to address some long-standing social issues through higher spending on health, education, and infrastructure.** Their long-term objectives, included in the strategy paper 'Vision 2020' (Box 3), focus on poverty alleviation, employment generation, and a stable, harmonious society. They hope to achieve developed country status by the year 2020. The government's priority is to invest a large portion of the energy wealth to transform the economy into a knowledge-based one. They emphasized that in the absence of fiscal surpluses, they are unable to transfer any of the higher-than-budgeted oil revenues to the RSF, as the windfall is being used to finance spending in priority areas. They aim to preserve macroeconomic stability through a balanced budget, to reduce the public debt to GDP ratio to 50 percent over the medium term, and maintain the country's investment grade credit rating.

20. **The staff raised concern that the planned use of projected energy revenues would lead to excessive growth of the government sector and crowd out the non-energy economy.** The government needed to avoid the pitfalls from previous oil booms (wasteful, inefficient spending) and consider sustainable consumption in the context of the country's energy wealth. Competitiveness of the economy could deteriorate in such circumstances as demand pressures build, which would aggravate prospects in the non-energy economy. On current trends, proven reserves could be depleted within 10 years, a relatively short period. Furthermore, the future oil price trajectory may be less favorable than currently envisaged which would further deteriorate fiscal revenue prospects. Against this backdrop, procyclical fiscal policy should be avoided. As noted in Box 4, during the first oil boom, government invested heavily in local projects, a large portion of which was used to prop up declining industries. To better manage the projected resources in the current expansion, the government would need to be careful in its choice of local investments, and aim to invest at least part of its surpluses abroad. In this connection, a fully operational RSF, to build up reserves offshore for future generations, would be important. The RSF could also help to protect the competitiveness of the non-energy sector given its importance to employment creation.

21. **While agreeing with the staff's concerns on the use of energy revenues, the authorities differed on the timetable for generating fiscal surpluses.** They concurred that a medium-term framework based on sustainable consumption was useful, but questioned the need to focus on lowering the non-energy fiscal deficit, and suggested that maintaining an overall central government fiscal deficit of around 1 percent of GDP was sufficiently prudent. They argued that the structure of the economy was shifting gradually towards energy related production, which they emphasized was becoming increasingly diversified (oil, gas, petrochemicals, and other downstream activities). Further, their view diverged on the fiscal path, preferring to spend in priority areas now to build a more productive economy, rather than to begin generating surpluses from the current increased energy related revenues. Hence, they were noncommittal about reactivating the RSF.

Box 3. The Government's Social and Economic Policy Framework- Vision 2020

The government of Trinidad and Tobago, in October 2002, published a Social and Economic Policy Framework (SEPF), to map its policy agenda for achieving developed country status by 2020. To facilitate this transformation, the SEPF places special emphasis on the creation of a knowledge-based society, enhancement of the quality and delivery of public services, strengthening of the infrastructure base of the country, and modernization of the country's legal system.

At the center of the policy agenda would be human development with high priority on poverty alleviation, the generation of sustainable employment opportunities, and the creation of a harmonious society. **For 2003–05, the government's policy objectives in the context of SEPF are:**

- Expanding and improving access to social services to enhance the quality of life.
- Eradicating poverty and promoting a more equitable society.
- Developing a human resource base to produce an efficient and knowledgeable workforce.
- Sustaining strong economic growth through sound macroeconomic policies while aiming to enhance higher value-added activities.
- Enhancing competitiveness to meet the challenge of globalization and liberalization.
- Adopting an environmentally sustainable development to ensure long-term growth.
- Promoting a more cohesive, tolerant and harmonious society.

Policy matrices entailing objectives, strategies, performance indicators, and target dates will support achieving these objectives.

B. Fiscal Policy

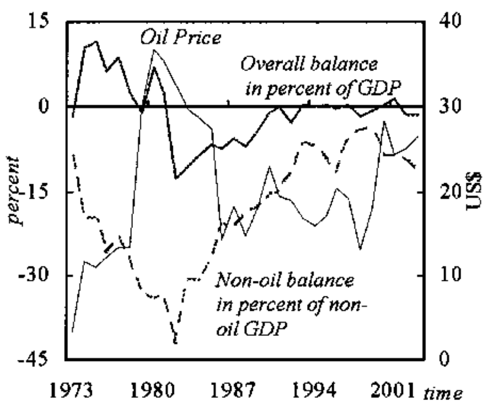
22. **The central government's overall deficit in 2002/03 is projected to be slightly lower than last year, despite higher than budgeted oil prices.**[6] This reflects a 12 percent increase in current expenditures, mainly to fulfill election related promises (including a one-time payment of long-standing arrears, equivalent to almost 1 percent of GDP to public servants). The non-energy fiscal balance is expected to deteriorate to about 11 percent of non-energy GDP in FY 2002/03. The overall deficit, including the non-financial state owned enterprises, is projected to rise to around 6 percent of GDP, mostly as a result of higher capital spending by the public enterprises. Total public debt is projected to increase by 1½ percentage points to 68 percent of GDP by end-2003.

[6] Based on oil price of US$22 per barrel (compared with WEO average of US$26 per barrel).

Box 4. Trinidad and Tobago: Fiscal Policy During the Oil Booms of the 1973–1974 and 1979–1980[1]

Fiscal policy was cautious during the first oil boom, which occurred at end of 1973 and beginning of 1974, with around 70 percent of the windfall being saved abroad. This led to current account surpluses which averaged 7 percent of GDP over 1974–78 and to an accumulation of international reserves. The rest of the windfall was divided between domestic investment (12 percent) and consumption (18 percent). Of the funds used for investment, approximately half went into economic infrastructure and a fifth into social infrastructure. The remainder was set aside to pursue gas-based industrialization, but a large portion of the funds was sidetracked into taking over declining industries to maintain jobs. Subsidies for food, fuel and utilities accounted for more than 7 percent of GDP by 1978.

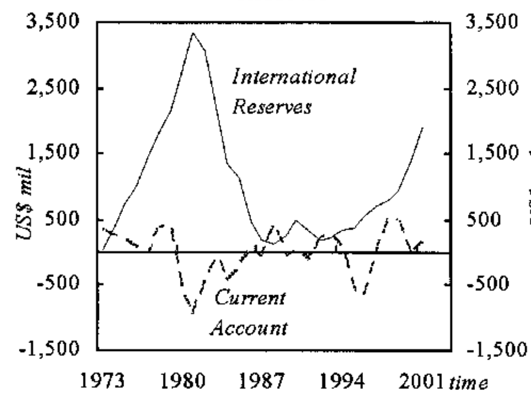
Overall and Non-Oil Balances and the Oil Price



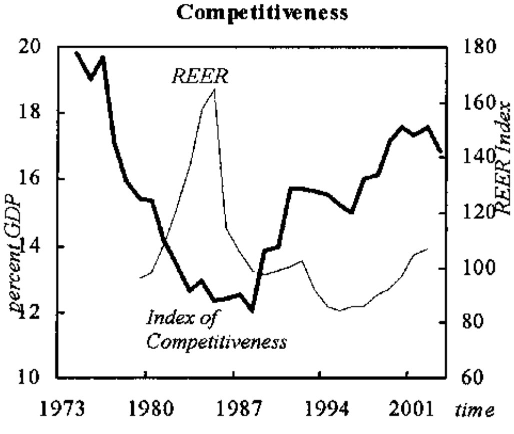
By 1978, several danger signs pointed towards the unsustainability of current levels of consumption and investment. Among the problems were: high recurrent expenditures; inefficient investments in loss-making industries; loss of competitiveness in the non-energy sector (a decline in the share of non-oil tradable in non-oil output); poorly conceived food programs that did not generate planned revenues; loss of competitiveness due to import controls; and an increase in dependence on oil and oil-financed expenditures. The government had recognized these problems and planned to address them, but new natural gas finds in 1978 and the second oil boom removed the incentive to be cautious.

During the second oil boom, in 1979–1980, fiscal policy became increasingly expansionary, as subsidized consumption and capital investments accelerated, each using up around 25 percent of the windfall. The remaining 50 percent was saved abroad. The use of public investment funds was mainly geared towards start-up requirements for large capital projects in the gas and steel industries and towards covering the cash-flow problems of state owned enterprises. Subsidized consumption increased to 33 percent of oil revenues. Rapidly increasing wages and large labor subsidies contributed to high domestic inflation, leading to an appreciation of the real exchange rate.

Current Account and International Reserves



The Real Exchange rate and Competitiveness



A decade long recession began in 1982, shortly after the second oil boom ended. After 1982, unsustainable demands to finance investment, public consumption, subsidies and transfers threatened to eliminate the large international surpluses accumulated since 1973. In 1982–83, fiscal deficits equaled 67 percent of oil revenues and the non-oil deficit reached 42 percent of non-oil GDP. The policy response was sluggish, as the authorities thought the shock was temporary. Per capita GDP fell by about 33 percent, and international reserves contracted from a peak of US$ 3,350 million in 1981 to US$ 175 million by end of 1992.

1 The data substantiating this analysis is from previous IMF Staff Reports

23. **Staff urged the authorities to aim at a fiscal surplus at the central government level**. The authorities viewed the present fiscal stance as appropriate and in line with their commitment to improve public infrastructure and strengthen social programs. Staff urged the authorities to start generating surpluses at the central government level this year, by controlling spending, while taking advantage of the revenue windfall from higher oil prices.

24. **Revenue buoyancy is weak and action is required to strengthen revenues from traditional taxes.** Tax exemptions appear to be undermining the VAT intake, reflected in lower revenues so far in FY 2002/03. Staff suggested that a moratorium on new exemptions should be introduced, along with efforts to minimize ad-hoc exemptions to the extent possible. The government is considering plans to modify the gas royalty regime and is currently trying to identify a consultant to help them implement their plans. Staff encouraged them to increase the gas share and remove distortions to the royalty regime, and to consider implementation of other FAD recommendations on gas taxation quickly, and if possible in advance of 2005,[7] when oil and gas production is expected to increase substantially as LNG train IV comes on stream.

25. **Staff also proposed measures to reduce the overall deficit of the non-financial public enterprise (NFPE) sector, which is expected to rise in FY 2002/03 (Box 5)**. While the bulk of the deficit will be used to finance capital programs in FY 2002/03, staff proposed that stronger financial management and accountability in most of the NFPEs would help to stem operating losses. Further, higher electricity and water tariffs to offset economic costs of these services would help to mitigate additional losses. At the same time, to offset the impact on the poor, the government should ensure compensatory, targeted social assistance. The government intends to reduce "letters of comfort" to guarantee borrowing by public enterprises, now that its debt limit has been increased. These letters were used primarily to quicken the approval process for small loans, but also served to circumvent debt limits. The staff suggested that these letters be eliminated. The government explained that they are unlikely to be eliminated entirely especially in the case of the small state owned entities, which would find borrowing difficult without them.

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[7] These include (i) simplifying and extending to natural gas production the supplemental petroleum tax; (ii) placing a royalty for gas on a uniform basis for all producers; and (iii) terminating the granting of tax holidays to petrochemical sector investments.

Box 5. Nonfinancial Public Enterprises and Public Sector Accounts Reclassified

Nonfinancial Public Enterprises

The overall deficit of the nonfinancial public enterprises in FY 2001/02 was 3 percent of GDP (broadly unchanged from the previous year) mainly reflecting operating losses recorded by most of the non-energy enterprises. The losses result from inefficient operations combined with user charges that are well below average costs. The energy enterprises also recorded a loss of ¼ percent of GDP compared with a surplus of 2¾ percent in the previous year due to lower oil and gas prices in the last quarter of 2001. Most of the large non- energy enterprises (in particular CARONI, WASA, AATT, and SWMCOL) continue to depend on government transfers for their debt service payments. The overall debt of the non financial public enterprises was 28½ percent of GDP in 2002, including letters of comfort and government-guaranteed debt totaling 19¼ percent of GDP.

Currently, the main items of the government's reform agenda are to:

• Restructure CARONI. A Voluntary Separation Employment Package was offered to all employees, closing in April 2003. An Estate Management and Business Development Company was established to manage leasing of land belonging to CARONI, while government plans to takeover CARONI liabilities.

• Offer to the public 62 million shares of National Enterprises Limited this year.

• Enter into partnership with strategic private investors for the Port of Spain Ltd. and Port of Spain Infrastructure Company Ltd.

In addition, the government is also considering action on the National Broadcasting Network (engaged a divestment consultant), Trinidad and Tobago Unit Trust Corporation (drafting the Bill), First Citizens Bank Ltd. (restructuring the balance sheet), and the Export-Import Bank of Trinidad and Tobago (issuing share capital of TT$10 million to local institutions). The government also plans to offer management contracts on all port related entities.

Public Sector Accounts Reclassified

Reliable public sector statistics are required to evaluate fiscal policy and to analyze debt sustainability, which has become an important feature in Fund surveillance. In Trinidad and Tobago, public enterprises are extensively engaged in quasi fiscal activities (their services are subsidized and they undertake capital outlays on behalf of the central government). Overtime, the quality and timeliness of the accounts of the public enterprises have deteriorated, reducing the effectiveness of surveillance. During the 2003 Article IV mission, considerable progress was made in improving the quality of these accounts. Based on these improvements, the fiscal accounts were reclassified as follows:

• **Public sector interest payments** increased from 5 percent of GDP in FY2001/02 to 5¾ percent of GDP in FY 2002/03, after adjusting for rentals paid on Build Own Lease and Transfer projects (BOLT) and leases (previously recorded in other goods and services of government accounts), and interest payments paid out to statutory bodies and public enterprises (previously recorded in current transfers of government accounts).

• **Public sector capital budget** increased from 6¼ percent of GDP in FY2001/02 to 8½ percent of GDP in FY2002/03 after including projects implemented by public enterprises on behalf of government. Previously, public enterprises reported central government capital projects as other recurrent expenditures for goods and services.

• **As a result, the overall public sector deficit estimate** widened by 1½ percentage points to about 6 percent of GDP in FY2002/03, largely due to capital expansion in the energy sector public enterprises. Under previous practice, capital transfers for debt repayment were netted out, resulting in a lower overall public sector balance. This component is now reflected as net financing in the fiscal accounts. .

• **Outstanding public sector debt** is estimated to rise by 1½ percentage points to 67¾ percent of GDP in FY 2002/03, reflecting inclusion of contingent liabilities—BOLT, Finance Leases, and Letters of Comfort.

26. **Debt management is receiving greater attention.** In discussing the results of the staff's debt sustainability analysis (DSA), the authorities reiterated that key objectives of

their debt management strategy are preserving their credit rating (BBB), while reducing the debt to GDP ratio over time. The DSA carried out by the staff indicates that Trinidad and Tobago's debt is vulnerable to adverse shocks and could remain at high levels depending on the nature of the shock (Annex I). The government aims to refinance part of its debt on lower interest terms, but has no plans to borrow externally in 2003. Plans also include developing the domestic capital market.

27. **In an effort to improve transparency, the authorities have initiated a comprehensive review of their financial management systems.** Steps include efforts to strengthen the monitoring of the financial position of the major state owned enterprises enabling a more comprehensive assessment of the public finances (Box 5). The mission, thus, stressed the desirability of extending the coverage to the rest of the public sector entities, and suggested that it would be timely to conduct a fiscal ROSC to inform the findings and recommendations of the wider review. The authorities have requested additional information and are considering this possibility. The mission also suggested a Public Expenditure Review (PER) conducted by the World Bank, and the implementation of a competitive bidding process for all government procurements in line with the World Bank's report on procurement reforms.

C. Monetary and Exchange Rate Policy, and Financial Sector Issues

28. **External competitiveness does not appear to be a problem at this time.** The central bank views a stable exchange market, especially in the context that the government is the major foreign exchange earner, as critical to keeping inflation low. They highlighted the lack of shortages in the foreign exchange market; the fairly strong growth of non-energy manufactured exports;[8] the absence of a parallel market; and the surpluses on the external current account as evidence that competitiveness was not out of line. The mission suggested that should there be any incipient loss of competitiveness due to energy related inflows, the response should be through a strengthening of fiscal policy and an acceleration of structural reforms.

29. **The authorities' monetary policy aims to maintain low inflation and orderly conditions in the foreign exchange market**. In May 2002, the central bank introduced an overnight repurchase (repo) rate to assist in liquidity management, exchange rate stabilization, and signaling the stance of monetary policy. Recently, the authorities established the Capital Markets Committee, tasked to strengthen liquidity and debt management. Plans include introducing government bonds of different maturities;[9]

[8] Total manufacturing exports grew by about 9 percent in 2002, slightly below the growth recorded in 2001.

[9] The creation of a yield curve should facilitate capital market development and help to promote a secondary market in government bonds.

increasing the number of primary dealers in the government bond market (currently, only commercial banks are allowed to bid for government paper); publishing a calendar of government's anticipated borrowing requirements for the information of market participants; and regular meetings between the central bank and treasury managers of commercial banks.

30. **These reforms, however, could be made more effective by modifying the framework to encourage the interbank market and deepen capital markets.** This could include accelerating the planned reduction in unremunerated reserve requirements (on a gradual but pre-announced basis);[10] increasing the government's borrowing limit further to give the central bank more instruments to control liquidity; limiting special deposits (remunerated) per bank to stimulate the interbank market; and restricting repo-allocations (which will also force deficit banks to go to the interbank market first).

31. **The banking system appears sound, but early action is required to strengthen supervision of the nonbank financial sector, which remains less effectively regulated.** The banking sector is well capitalized, nonperforming loans are low (under 4 percent of total loans), and loan loss provisioning has been increasing. The authorities have two bills for Parliament's approval, aimed to strengthen the supervision of non-bank institutions (insurance companies and pension funds). Staff stressed the desirability of early implementation of this legislation, and recommended that credit unions also be brought under the supervision of the central bank at an early date, especially given their growth in recent years.

32. **The exposure of the country's financial sector to the Eastern Caribbean Currency Union (ECCU) and wider Caribbean has been growing, but is small relative to the total assets of the system.** Nonetheless, the economic weakness in the region has prompted the supervisory authorities to pay closer attention to the portfolios of those banks with direct exposure to the ECCU, to ensure that prudential guidelines are being observed. In any event, given the small exposure, such lending does not pose a systemic threat even if there were defaults on some of the debts. The authorities indicated their willingness to participate in the joint World Bank/IMF Financial Sector Assessment Program (FSAP).

D. Structural and Regional Issues

33. **The authorities have reinvigorated the structural reform agenda beginning with the restructuring of the loss-making sugar company (CARONI).** Policies are aimed at reducing the size of the work force through a voluntary separation plan; inviting private sector participation in ownership and maintaining the profitable parts of the company, (e.g., rum production). The staff urged the government to pursue these efforts with resolve. Other

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[10] This will help reduce the differential between reserve requirements among financial institutions, weaken the incentive for financial disintermediation, and potentially narrow the commercial banks' interest rate spreads.

plans to restructure the First Citizens Bank Ltd for divestment, sell Port Authority shares to the private sector and issue additional shares of the National Enterprises Ltd are scheduled for later this year. Staff encouraged the government to adhere to its timetable in these areas.

34. **Pension reform in the public sector is needed to harmonize benefits and protect against a build up of unsustainable liabilities as the population ages.** The authorities are considering action on pension reform, but remain unconvinced that FAD's recommendations were fully appropriate.[11] Staff suggested that at a minimum, to eliminate overlapping benefits, the National Insurance Scheme (NIS) should harmonize its old age benefits with the non-contributory schemes elsewhere in the economy, including the public sector pension scheme, and old age pensions.

35. **Trinidad and Tobago appears well placed to take advantage of trade liberalization (FTAA) and CARICOM's single market and economy (CSME).** The authorities expressed their commitment to maintain their open and liberal trade regime[12] and take a leading role in preparing their economy for the advent of FTAA and the goals of CSME. Manufacturers, however, expressed ongoing concerns about non-tariff trade barriers to accessing developed markets. In October 2002, the government removed the export trade assistance allowance in compliance with the WTO rules.

36. **The government expressed concern about the weak state of the CARICOM economy.** Given that CARICOM is Trinidad and Tobago's major export market, the regional recession poses a risk to domestic growth. The authorities are willing to consider ways to help with financial or other assistance to avert further decline in the region. Staff suggested that, where appropriate, these efforts should be carried out in a context of conditionality and structural adjustment. Such assistance, as indicated by the government, could include access to oil prices on a concessional basis with financing; and in some cases additional financial support.

V. Staff Appraisal

37. **Trinidad and Tobago has enjoyed an extended period of positive growth, low inflation and a steady decline in unemployment, but challenges remain.** The authorities are to be commended for their prudent management of the economy in recent years despite the global and regional slowdown.

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[11] The main recommendations are: (i) the introduction of a fully funded pension scheme to replace the current advance-funded program; (ii) integrating the old age pension program with the national insurance scheme; (iii) a gradual increase in the retirement age to 65; and (iv) a reduction in the generosity of civil service pensions for new hires.

[12] According to IMF's trade restrictiveness index, Trinidad and Tobago has a rank of 4 on a scale of 1 (most open) to 10 (least open).

38. **Effective use of prospective energy revenues is key to Trinidad and Tobago's future development and growth.** The authorities' plans to achieve developed country status by 2020 through establishing a highly educated work force, and strengthening infrastructure, are ambitious. There is a risk that public spending may be inefficient and unproductive, as occurred in earlier oil booms, and crowd out the employment generating non-energy sector. Public expenditures should be tempered to what can be effectively and efficiently spent, consistent with the country's absorptive capacity, while the non-energy deficit should be reduced over time from current high levels through expenditure restraint and broadening the tax base. A significant part of the rising energy revenues should be used to build up fiscal surpluses, which should be invested abroad in income earning assets to provide income for future generations.

39. **The current fiscal policy stance is not ambitious enough.** The objective should be to take advantage of the higher-than-budgeted oil prices to raise the primary surplus closer to 4 percent of GDP, and start investing the surpluses in a strengthened revenue stabilization fund. Expenditures—particularly permanent entitlements—should be kept under tight control given that increased revenues may not be sustained.

40. **Looking ahead, the authorities should give priority to developing a well articulated macroeconomic framework underpinned by a three-year rolling budget.** The government is urged to target overall budget surpluses, including efforts to reduce the non-energy fiscal deficit through expenditure restraint, broadening the tax base, and curtailing exemptions. The reactivation and strengthening of the RSF (to make it more transparent and flexible) could be an integral tool of prudent fiscal policy. A comprehensive review of the country's fiscal management is recommended. This should entail a PER conducted by the World Bank; a review of fiscal standards and codes conducted by the Fund; an evaluation of the gas taxation regime—in line with FAD's earlier recommendations; and a review of the VAT. The budget should be transparent and comprehensive—explicitly incorporating the financial activities of all public enterprises undertaken on behalf of the central government. The results of the reviews could help to inform and support the government's own efforts to improve fiscal management and transparency.

41. **A strengthened liquidity management system would help to deepen capital and the interbank markets.** The system of pre-announced repo rates has gained acceptability, and financial institutions view this rate as the benchmark for their own lending decisions. However, it has not been able to function effectively as a tool of liquidity management due to constraints including the availability of instruments with which to mop up liquidity (the government's debt ceiling would have to increase, and the maturity structure expanded). The work of the newly established Capital Markets Committee should help in this regard, as well as with debt management.

42. **The current exchange rate regime has served Trinidad and Tobago well.** The authorities' managed float has helped to ensure an orderly foreign exchange market and stable exchange rate. External competitiveness is not a problem at this time. But, it should

be monitored closely, especially as the energy sector expands, to protect growth prospects in the non-energy sector.

43. **Trinidad and Tobago continues to evolve as a regional financial center, warranting heightened supervision, especially of the nonbank sector.** The banking system is sophisticated, dynamic and well capitalized, and currently does not appear vulnerable to the weaknesses in the regional economies. However, the existing supervisory framework for non-bank financial institutions needs considerable strengthening. Parliament has yet to approve legislation to transfer authority from the ministry of finance to supervise insurance companies and mutual funds to the central bank. This should be implemented quickly along with work to bring credit unions under similar supervision. The authorities' willingness to participate in the joint World Bank/IMF FSAP is welcome.

44. **The steps to reinvigorate the structural reform program are positive and should be expanded to include pension reform.** The authorities' divestment program has been rekindled with the proposed restructuring of the sugar company, and some other state-owned entities are slated for private sector participation. The authorities need to maintain the momentum of the structural reform agenda, and to adhere strictly to their announced divestment timetable. The National Insurance Scheme should eliminate overlapping benefits with other public pension schemes. To remove these distortions, efforts should focus on streamlining and harmonizing the system of old age benefits and pensions, as well as the public sector pension scheme.

45. **Considerable progress has been made in developing an improved methodology of compiling GDP and CPI data in the past year.** In general data are adequate for surveillance purposes, although continued improvements in public sector statistics would be helpful. Trinidad and Tobago should now be in a position to participate in the IMF's GDDS and should aim to do so as quickly as possible.

46. **It is proposed that the next Article IV consultation with Trinidad and Tobago take place on the standard 12-month cycle.**

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

	1998	1999	2000	2001	Prel 2002	Proj. 2003
(Annual percentage changes, unless otherwise specified)						
National income and prices						
Real GDP	7.8	4.4	6.1	3.3	2.7	3.8
GDP deflator	-1.5	7.9	13.1	6.6	-0.1	3.3
Consumer prices						
End-of year	5.6	3.4	5.6	3.2	4.3	2.8
Period average	5.6	3.4	3.5	5.5	4.2	3.5
Unemployment rate	14.2	13.1	12.2	10.8	10.4	11.0
External sector						
Exports, f.o.b.	-11.0	24.4	52.3	-0.3	-8.9	18.7
Imports, c.i.f.	-0.8	-8.8	21.3	6.3	4.4	5.7
Export volume	10.6	5.9	5.8	0.7	-2.0	15.2
Import volume	15.1	-0.3	17.7	10.1	1.4	0.8
Oil export price, (US$ per barrel)	14.4	19.3	30.3	25.9	26.1	26.5
Terms of trade (deterioration -)	-9.1	11.5	16.9	-3.7	-0.6	-0.6
Nominal effective exchange rate;						
(1990=100) end-of-period (depreciation -) 1/	-1.2	4.1	5.7	2.7	-1.4	-0.9
Real effective exchange rate;						
(1990=100) end-of-period (depreciation -) 1/	1.9	4.7	8.3	3.9	-0.1	-0.9
Nominal exchange rate (TT$/US$)	6.3	6.3	6.3	6.2	6.3	6.3
Financial system 2/						
Net domestic assets	-7.7	8.9	6.1	4.3	1.5	-10.2
Of which						
Credit to public sector 3/	-4.7	-1.6	-9.4	-5.3	1.7	-9.2
Credit to private sector	2.9	12.3	9.4	6.0	0.7	4.7
Broad money 4/	-4.9	3.6	3.7	6.9	1.5	5.1
Money and quasi-money	5.6	4.0	4.1	5.7	1.5	4.8
Liabilities to the private sector (LPS)	-4.4	11.2	18.3	9.8	3.5	-4.6
Deposit rates (weighted) (in percent) 1/	5.8	6.9	6.0	7.7	4.6	2.8
Prime lending rate 1/	17.5	17.0	16.5	15.4	12.4	11.5
Treasury bill rate (in percent) 1/	12.0	10.2	10.5	8.3	4.8	4.6
(As a percentage of GDP)						
Fiscal sector 5/						
Central government overall balance	-1.8	-0.6	0.2	1.5	-1.5	-1.0
Central government savings	0.3	0.0	2.6	2.8	-0.3	0.0
Public sector overall balance	...	-4.2	-0.9	-1.7	-4.6	-6.0
Public sector savings	...	1.6	5.7	5.4	1.3	2.2
Public sector debt 6/	69.1	70.1	67.3	67.5	66.2	67.8
External sector						
External current account balance	-10.6	0.5	6.5	5.6	-0.2	4.0
Trade balance	-12.3	1.0	11.6	8.0	2.1	7.0
Net capital inflow 7/	12.0	1.8	-1.0	-0.3	4.1	0.6
External public debt (end-of-period) 8/	24.7	23.6	20.8	18.2	17.2	15.6
(As a percentage of exports of goods and services)						
External public debt service 8/	9.8	8.0	7.8	3.8	4.4	4.2
Interest payments 8/	4.0	2.9	2.2	2.5	2.9	2.6
(In millions of U.S. dollars; unless otherwise specified)						
Overall balance of payments surplus	83.3	156.0	444.8	485.6	43.8	461.8
Gross official reserves, end-of-period	783.0	945.4	1,386.2	1,875.9	1,923.5	2,384.5
In months of imports 9/	2.6	3.3	3.8	5.0	4.9	5.6
In percent of broad money	30.0	34.3	47.8	56.9	56.9	65.2
In percent of external public debt service	271.3	344.8	367.1	1,030.7	973.9	1,068.3

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

1/ The 2003 figures refer to January.

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/ Excludes the government's blocked account for open market operations in the central bank.

4/ Includes new fund-raising instruments.

5/ The fiscal year switched to an October 1-September 30 fiscal year as of October 1, 1998. For example, 1999 refers to October 1, 1998- September 30, 1999. Earlier years refer to calendar years.

6/ Coverage includes government, guaranteed and non guaranteed public debt and contingent liabilities.

7/ Includes errors and omissions.

8/ Covers government and government guaranteed debt.

9/ Imports of goods and services in the following year.

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

	1998	1998/99	1999/00	2000/01	Prel. 2001/02	Proj. 2002/03
	(In millions of Trinidad and Tobago dollars)					
Total revenue and grants	**9,702**	**10,264**	**12,144**	**14,672**	**13,088**	**14,765**
Current	9,673	9,999	12,133	14,647	13,058	14,723
Oil	661	1,092	3,206	4,261	3,172	4,384
Non-oil	9,012	8,907	8,926	10,386	9,886	10,340
Grants	29	265	11	26	31	41
Expenditures	**10,400**	**10,526**	**12,068**	**13,861**	**13,957**	**15,403**
Current	9,540	10,008	10,860	13,079	13,214	14,744
Wages and salaries	3,522	3,665	3,141	4,284	4,225	4,771
Other goods and services	960	1,095	1,236	1,768	1,742	2,152
Interest payments	1,916	1,986	2,520	2,330	2,260	2,568
Transfer and subsidies	3,143	3,262	3,962	4,697	4,988	5,253
Capital and net lending	860	518	1,208	782	743	659
Current balance	**133**	**-10**	**1,273**	**1,568**	**-156**	**-20**
Overall balance	**-698**	**-263**	**76**	**812**	**-868**	**-638**
Total financing	**698**	**263**	**-76**	**-812**	**868**	**638**
Foreign financing	-458	750	1,608	-2	-194	2,562
Domestic financing	1,156	-487	-1,684	-810	1,062	-1,924
Financial system	-1,028	-354	-2,084	-313	-248	-59
Other 3/	2,184	-133	400	-497	1,310	-1,865
	(In percent of GDP)					
Revenues	**25.3**	**24.4**	**24.6**	**26.5**	**22.6**	**24.0**
Oil	1.7	2.6	6.5	7.7	5.5	7.1
Non-oil	23.5	21.1	18.1	18.7	17.1	16.8
Capital and grants	0.1	0.6	0.0	0.0	0.1	0.1
Expenditures	**27.1**	**25.0**	**24.5**	**25.0**	**24.1**	**25.1**
Current	24.9	23.8	22.0	23.6	22.9	24.0
Wages	9.2	8.7	6.4	7.7	7.3	7.8
Capital and net lending	2.2	1.2	2.4	1.4	1.3	1.1
Current balance	**0.3**	**0.0**	**2.6**	**2.8**	**-0.3**	**0.0**
Overall balance	**-1.8**	**-0.6**	**0.2**	**1.5**	**-1.5**	**-1.0**
Overall balance, excl privatization funds	**-1.9**	**-1.3**	**0.1**	**1.4**	**-1.6**	**-1.2**
Total financing	**1.8**	**0.6**	**-0.2**	**-1.5**	**1.5**	**1.0**
External financing	-1.2	1.8	3.3	0.0	-0.3	4.2
Domestic financing	3.0	-1.2	-3.4	-1.5	1.8	-3.1
Financial system	-2.7	-0.8	-4.2	-0.6	-0.4	-0.1
Other	5.7	-0.3	0.8	-0.9	2.3	-3.0
Memorandum items:						
Primary balance (overall balance w/o interest)	3.2	4.1	5.3	5.7	2.4	3.1
Overall non-energy balance (percent of non-oil GDP)	...	-4.1	-8.9	-8.8	-9.6	-11.2

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

Table 3. Trinidad and Tobago: Public Sector (Central Government and Nonfinancial Public Enterprise) 1/2/

	1998/99	1999/00	2000/01	Prel. 2001/02	Proj 2002/03
(In millions of Trinidad and Tobago dollars)					
Total revenue and grants	10,665	13,454	15,828	13,742	15,930
Current revenue	10,332	13,119	15,492	13,405	15,593
Central government	9,999	12,133	14,647	13,058	14,723
Operating surplus of nonfinancial state entities	333	986	846	347	869
Capital revenue and grants	334	335	336	337	338
Total expenditure and net lending	12,398	14,025	16,645	16,231	19,380
Current expenditure	10,008	10,860	13,079	13,214	14,744
Less government current transfers	334	559	572	573	510
Capital expenditure	2,724	3,724	4,138	3,590	5,147
Central government	518	1,208	782	743	659
Less government capital transfers	60	114	100	21	143
Nonfinancial state entities	2,266	2,630	3,456	2,868	4,631
Current balance	657	2,818	2,986	764	1,359
Primary balance 3/	859	2,708	2,884	443	-127
Overall balance	-1,733	-441	-966	-2,673	-3,675
Financing	1,733	441	966	2,673	3,675
External net	686	1,342	674	733	671
Domestic net	1,047	-901	292	1,940	3,004
(In percent of GDP)					
Public sector revenue and grants	25.6	27.3	28.6	23.8	25.9
Public sector expenditure and net lending	29.7	28.4	30.0	28.1	31.5
Capital expenditure	6.5	7.5	7.5	6.2	8.4
Current balance	1.6	5.7	5.4	1.3	2.2
Primary balance 3/	2.1	5.5	5.2	0.8	-0.2
Overall balance	-4.2	-0.9	-1.7	-4.6	-6.0
External net	1.6	2.7	1.2	1.3	1.1
Domestic net	2.5	-1.8	0.5	3.4	4.9

Sources: Ministry of Finance and Fund staff estimates

1/ Comprises the government, major enterprises and public utilities.

2/ The fiscal year is from October 1 to September 30.

3/ Total public sector interest payment includes current transfers for interest payments, and rentals paid on BOLT and leases.

Table 4. Trinidad and Tobago: Public Sector Debt 1/

	1998	1999	2000	2001	Prel. 2002	Proj. 2003
	(In millions of TT$)					
Public sector debt	26,313	30,046	34,646	38,299	38,515	42,395
External debt	9,567	11,313	11,991	11,685	11,326	13,674
Interest payments	...	3,008	2,751	3,157	2,714	3,119
Outstanding debt						
Central government	17,823	19,720	20,127	22,029	21,941	22,567
Foreign debt 2/	8,007	8,735	9,385	9,166	8,849	11,443
Domestic debt	9,817	10,985	10,741	12,864	13,092	11,124
Bonds	9,265	10,139	10,285	10,368	10,811	8,587
OMO 4/	332	627	150	1,720	1,543	1,500
BOLT	127	125	196	589	574	913
Leases	92	94	111	187	164	124
Public enterprises	8,490	10,326	14,520	16,269	16,574	19,828
Foreign debt	1,561	2,578	2,605	2,519	2,477	2,231
Domestic debt	6,930	7,748	11,914	13,750	14,097	17,598
Interest payments 3/	...	3,008	2,751	3,157	2,714	3,119
Central government	...	1,534	1,900	1,802	1,827	2,101
Foreign	...	732	852	807	572	626
Domestic	...	802	1,048	996	1,255	1,475
Public enterprises	602	1,474	852	1,354	888	1,018
Foreign	78	822	274	676	245	216
Domestic	524	653	578	678	642	802
Memorandum items:						
	(In percent of GDP, unless otherwise stated).					
Public sector debt	69.1	70.1	67.3	67.5	66.2	67.8
External debt	25.1	26.4	23.3	20.6	19.5	21.9
Total interest	...	7.0	5.3	5.6	4.7	5.0
Total interest, in percent of public sector revenue	...	26.4	19.5	20.8	19.3	19.0
Average interest rate	...	10.0	7.9	8.2	7.0	7.4
Open market operations 4/	0.9	1.5	0.3	3.0	2.7	2.4
BOLT projects	0.3	0.3	0.4	1.0	1.0	1.5
Finance leases	0.2	0.2	0.2	0.3	0.3	0.2
Banking system statutory required reserves	7.3	5.9	5.3	4.8	4.7	...
Gross official reserves	13.7	14.4	17.5	21.1	21.2	23.6
Public sector deposits in the financial system	5.1	6.0	9.8	13.8	13.5	...

Source: Ministry of Finance, Central Bank of Trinidad and Tobago, and Fund staff estimates.

1/ Coverage includes government, guaranteed and non guaranteed public debt and contingent liabilities.

2/ Debt outstanding at end of period has been adjusted for revaluation and debt restructuring.

3/ Total public sector interest payment includes current transfers for interest payments, and rentals paid on BOLT and leases.

4/ CBTT notes are excluded.

Table 5. Trinidad and Tobago: Summary Accounts of the Central Bank

(In millions of Trinidad and Tobago dollars)

	1998	1999	2000	2001	Prel. 2002	Proj. 2003
Net foreign assets	**5,225**	**6,192**	**9,022**	**11,947**	**12,322**	**14,696**
Net international reserves	4,779	5,796	8,595	11,494	11,870	14,243
Other foreign assets (net)	446	397	427	453	453	453
Net domestic assets	**-731**	**-1,404**	**-3,855**	**-6,133**	**-6,737**	**-8,693**
Net credit to public sector	-831	-1,524	-3,848	-5,874	-6,336	-8,291
Of which						
Central government	-694	-1,475	-4,046	-6,113	-6,502	-8,530
Net claims on financial institutions	377	380	380	380	380	380
Other items (net)	-277	-260	-387	-639	-781	-781
Reserve money	**4,494**	**4,788**	**5,167**	**5,814**	**5,585**	**6,003**
Currency issue	1,335	1,756	1,698	1,843	2,005	2,155
Deposits of commercial banks	2,770	2,558	2,943	3,466	3,072	3,302
Deposits of nonbank financial institutions	389	474	526	505	509	547
Memorandum item:						
Blocked account of government 1/	-328	-618	-980	-2,334	-2,677	-2,360

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

1/ This comprises the proceeds of treasury bills and notes used for open market operations.

Table 6. Trinidad and Tobago: Summary Accounts of the Financial System 1/

	1998	1999	2000	2001	Prel. 2002	Proj. 2003
	(In millions of Trinidad and Tobago dollars)					
Net foreign assets	**6866**	**7423**	**10847**	**12682**	**13408**	**15536**
Net international reserves	6155	6709	10051	11696	12211	14505
Monetary authorities	4779	5796	8595	11494	11870	14243
Commercial banks	1376	913	1455	201	342	262
Other foreign assets, net	711	714	796	987	1197	1031
Monetary authorities	446	397	427	453	453	453
Finance houses and merchant banks	266	317	370	534	745	578
Net domestic assets	**18325**	**20577**	**22276**	**23699**	**24232**	**20388**
Credit to public sector	2649	2238	-393	-2137	-1530	-5000
Central government	2090	1664	-1246	-2709	-3091	-5409
Rest of the public sector	559	575	853	572	1561	409
Credit to private sector	15365	18476	21108	23090	23356	25108
Other items (net)	310	-137	1561	2746	2406	280
Liabilities to the private sector	**25190**	**28000**	**33122**	**36381**	**37640**	**35924**
Private capital and reserves	3946	4688	6040	6869	8104	8509
Currency outside banks	1020	1292	1271	1373	1505	1505
Deposit liabilities	17111	18283	19792	22437	22149	20095
Of which						
Foreign currency deposits	4606	5867	6855	4995	5115	5576
Fund-raising instruments 2/	1389	1232	5014	4920	4828	5000
Other liabilities	1725	2504	1006	781	1055	815
Broad money	**16341**	**17253**	**18276**	**20578**	**21132**	**23033**
Money and quasi-money	15186	16191	17343	19239	19799	21600
Banks' fund-raising instruments 2/	1155	1062	933	1340	1333	1433
	(Annual percentage change)					
Net domestic assets	**-10.0**	**12.3**	**8.3**	**6.4**	**2.2**	**-15.9**
Credit to public sector	-31.7	-15.5	-117.6	443.4	-28.4	226.8
Of which						
Central government	-27.4	-20.4	-174.9	117.5	14.1	75.0
Credit to private sector	5.3	20.2	14.2	9.4	1.2	7.5
Liabilities to private sector	**-4.4**	**11.2**	**18.3**	**9.8**	**3.5**	**-4.6**
Private capital and reserves	15.6	18.8	28.8	13.7	18.0	5.0
Deposits	12.4	6.9	8.3	13.4	-1.3	-9.3
Broad money	-7.4	5.6	5.9	12.6	2.7	9.0
	(Contribution to liquidity growth; percentage change) 3/					
Net international reserves	**3.4**	**2.2**	**11.9**	**5.0**	**1.4**	**6.1**
Net domestic assets	**-7.7**	**8.9**	**6.1**	**4.3**	**1.5**	**-10.2**
Credit to public sector	-4.7	-1.6	-9.4	-5.3	1.7	-9.2
Credit to private sector	2.9	12.3	9.4	6.0	0.7	4.7
Broad money	-4.9	3.6	3.7	6.9	1.5	5.1

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

1/ Consolidates the central bank, commercial banks, trust and mortgage companies, and finance houses and merchant banks.

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

3/ In relation to liabilities to the private sector at the beginning of the year.

Table 7. Trinidad and Tobago: Summary Balance of Payments

	1998	1999	2000	2001	Prel. 2002	Proj. 2003
	(In millions of U.S. dollars)					
Current account balance	-645	36	531	514	-18	398
Trade balance	-747	69	955	729	193	709
Exports, f.o.b.	2,264	2,816	4,288	4,273	3,894	4,621
Of which						
Fuels	1,008	1,524	2,799	2,623	2,321	2,862
Petrochemicals	496	529	732	816	658	715
Other	761	763	757	834	915	1,043
Imports, c.i.f.	3,012	2,747	3,333	3,544	3,701	3,911
Consumer goods	460	502	476	535	549	636
Raw materials and intermediate goods	1,306	1,360	1,886	1,775	1,885	2,139
Capital goods	1,246	885	971	1,234	1,267	1,137
Services (net)	81	-71	-462	-249	-258	-348
Nonfactor services	423	329	166	227	185	191
Factor services	-342	-400	-629	-476	-443	-539
Current transfers (net)	22	38	38	33	47	37
Capital account (net) 1/	695	218	325	559	339	63
Investment assets and liabilities	582	575	682	908	564	213
Official, medium- and long-term	-100	122	114	-34	-51	-39
Disbursements	59	295	384	26	18	46
Amortization	170	176	270	61	68	85
Other	11	3	0	0	0	-1
Direct investment (net)	732	379	654	685	695	403
Commercial banks (net)	-50	74	-86	257	-80	-150
Short term (net)	113	-357	-357	-349	-225	-150
Net errors and omissions	33	-98	-410	-587	44	0
Overall balance	83	156	445	486	44	462
Financing	-83	-156	-445	-486	-44	-462
Change in net official reserves (increase -)	-83	-156	-445	-486	-44	-462
Memorandum items:						
	(In percent of GDP, unless otherwise indicated)					
Exports	37.4	41.2	52.3	46.7	41.5	45.9
Imports	49.7	40.2	40.6	38.7	39.5	38.8
Current account	-10.6	0.5	6.5	5.6	-0.2	4.0
Capital account balance	11.5	3.2	4.0	6.1	3.6	0.6
Overall balance	1.4	2.3	5.4	5.3	0.5	4.6
Gross international reserves (millions US$, end of period)	783.0	945.4	1386.2	1875.9	1923.5	2384.5
(In months of imports of goods and services) 2/	2.6	3.3	3.8	5.0	4.9	5.6

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

1/ Includes short-term capital flows.
2/ Imports are for the following year.

Table 8. Trinidad and Tobago: Indicators of External and Financial Vulnerability

(In percent of GDP, unless otherwise indicated)

	1994-97	1998	1999	2000	2001	Prel. 2002	Proj. 2003
External indicators							
Exports (percent change, 12-month basis in US$)	11.7	-11.0	24.4	52.3	-0.3	-8.9	18.7
Imports (percent change, 12-month basis in US$)	38.1	-0.9	-8.8	21.3	6.3	4.4	5.7
Terms of trade (percent change, 12 month basis)	4.8	-5.9	27.4	43.6	1.6	-11.3	-1.3
Current account balance	0.2	-10.6	0.5	6.5	5.6	-0.2	4.0
Capital and financial account balance	3.5	11.5	3.2	4.0	6.1	3.6	0.6
Gross official reserves (in US$)	490	783.0	945.4	1386.2	1875.9	1923.5	2384.5
Official reserves in months of imports of goods and services	1.8	2.6	3.3	3.8	5.0	4.9	5.6
Ratio of reserves to broad money	...	30.0	34.3	47.8	56.9	56.9	65.2
Ratio of total public sector external debt to exports of goods and services	65.9	50.9	47.1	35.2	34.3	35.9	29.7
Ratio of public sector external interest payments to exports of goods and services	6.9	4.0	2.9	2.2	2.5	2.9	2.6
Public sector debt service ratio	17.8	9.8	8.0	7.8	3.8	4.4	4.2
REER appreciation CPI-based (percent change)	2.2	1.9	4.7	8.3	3.9	-0.1	...
Financial indicators 1/							
Foreign currency debt rating, (Standard & Poor's, end of period) 2/		BB+	BBB-	BBB-	BBB-	BBB-	BBB
90-day Treasury bill, average discount rate (percent) 3/		11.9	10.4	10.5	8.3	4.8	4.6
90-day Treasury bill, real rate (percent) 4/		6.0	6.7	6.8	2.7	0.6	1.1
Share of non-performing loans in total loans of banks (percent)		6.2	5.0	4.7	3.8	3.6	...
Risk-based capital asset ratio of banks (percent)		18.2	17.5	20.0	19.8	21.9	...
Ratio of banks' after-tax profits to equity capital (percent)		14.9	17.7	16.6	...	...	...

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

1/ Reflects data through end-April.

2/ Long-term foreign currency rating was upgraded on Sept 13, 1999 from BB+ to BBB-; on April 1, 2003 from BBB- to BBB.

3/ Weighted average of the monthly discount rates.

4/ Weighted average discount rate for 90-day bills adjusted by the annual average inflation rate.

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

(In percent, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	Average 2002-08
National accounts and prices								
Real GDP growth	2.7	3.8	4.0	9.1	5.9	0.8	2.2	4.1
Oil/gas sector	4.5	7.6	5.1	23.5	9.6	-8.1	-4.8	5.3
Non-oil/gas sector	2.1	2.5	3.6	4.0	4.4	4.7	5.0	3.8
Inflation 2/	4.3	2.8	2.7	2.6	2.6	2.6	2.6	2.9
Unemployment rate	10.4	11.0	10.7	10.4	10.0	9.7	9.5	10.2
External terms of trade	-0.6	-0.6	-3.3	-2.0	-1.6	-0.3	-0.3	-1.2
Investment (in percent of GDP)	16.8	19.8	20.7	21.2	21.4	20.8	19.7	20.1
Gross national savings (in percent of GDP)	16.6	23.7	27.0	26.0	21.0	18.7	17.8	21.5
Public finances								
Central government 3/								
Revenue (in percent of GDP)	22.6	24.0	25.4	24.7	25.3	26.3	25.5	24.8
Expenditure (in percent of GDP)	24.1	25.1	24.7	25.4	26.5	28.8	30.8	26.5
Of which								
Capital and net lending	1.3	1.1	0.8	1.3	1.5	1.8	2.1	1.4
Current balance (in percent of GDP)	-0.3	0.0	1.4	0.5	0.3	-0.7	-3.2	-0.3
Overall balance (in percent of GDP)	-1.5	-1.0	0.7	-0.7	-1.1	-2.4	-5.3	-1.6
External sector								
External current account								
(In millions of US$)	-18.3	398.5	689.7	659.6	40.5	-305.8	-359.9	157.8
(In percent of GDP)	-0.2	4.0	6.4	5.4	0.3	-2.2	-2.5	1.6
Overall balance								
(In millions of US$)	43.8	461.8	594.9	704.6	-36.0	-227.1	-338.0	172.0
(In percent of GDP)	0.5	4.6	5.5	5.8	-0.3	-1.6	-2.3	1.7
Gross official reserves (end of period)								
(In millions of US$)	1,923.5	2,384.5	2,979.5	3,684.1	3,648.1	3,421.0	3,082.9	3,017.7
(In months of imports) 4/	4.9	5.6	6.5	7.2	6.5	6.0	5.5	6.0
External debt service ratio 5/	4.4	4.2	6.3	3.0	5.1	2.1	2.1	3.9
External debt (in percent of GDP)	17.2	15.6	12.6	10.9	8.5	8.0	7.4	11.5
Memorandum items:								
Oil price, WEO (in US$/barrel)	26.1	26.5	23.5	22.0	21.0	21.0	21.0	23.0
Crude oil production (in millions of barrels)	129.0	129.9	173.3	203.0	180.9	159.9	139.3	159.3
LIBOR (6 months)	1.9	1.7	3.5	5.5	5.5	5.5	5.5	4.2

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 public finance accounts are in fiscal year October 1-September 30. 2002 refers to fiscal year 2001/02 and so on.
4/ Imports of goods and nonfactor services in the following year.
5/ In percent of exports of goods and nonfactor services.

Table 10. Trinidad and Tobago: Illustrative Medium-Term Scenarios
(In percent of GDP unless stated otherwise)

	Prel.	Projections					
	2002	2003	2004	2005	2006	2007	2008
Baseline							
Rate of growth of real GDP 1/	2.7	3.8	4.0	9.1	5.9	0.8	2.2
Oil price, WEO (US$/bbl)	26.1	26.5	23.5	22.0	21.0	21.0	21.0
Central government overall fiscal balance	-1.5	-1.3	0.7	-0.7	-1.1	-2.4	-5.3
Central government overall non-energy fiscal balance	-9.6	-11.2	-10.8	-13.0	-15.1	-17.3	-18.6
Central government primary fiscal balance	2.4	3.1	4.8	3.3	2.6	1.1	-2.0
Balance of payments current account	-0.2	4.0	6.4	5.4	0.3	-2.2	-2.5
Debt-to-GDP ratio	66.2	67.8	64.7	57.9	54.5	56.0	59.0
Scenario I: Fiscal Adjustment							
Rate of growth of real GDP	2.7	3.8	4.0	9.0	5.7	0.4	1.7
Central government overall fiscal balance	-1.5	-1.3	0.7	0.4	1.3	1.5	0.3
Central government overall non-energy fiscal balance	-9.6	-11.2	-10.7	-11.4	-11.6	-11.7	-10.9
Central government primary fiscal balance	2.4	3.1	4.8	4.4	5.0	5.0	3.6
Balance of payments current account	-0.2	4.0	6.4	6.3	3.1	2.6	3.4
Debt-to-GDP ratio	66.2	67.7	64.6	56.8	52.1	52.1	53.4
Scenario II: A 50 Percent Decline in Price of Oil 2/							
Rate of growth of real GDP	2.7	3.8	4.0	9.1	5.9	0.8	2.2
Central government overall fiscal balance	-1.5	-1.3	-2.1	-4.3	-4.3	-6.7	-8.0
Central government overall non-energy fiscal balance	-9.6	-11.2	-10.8	-13.0	-15.1	-17.3	-18.6
Central government primary fiscal balance	2.4	2.8	2.1	-0.3	-0.5	-3.2	-4.7
Balance of payments current account	-0.2	0.0	0.6	-0.3	-2.9	-4.1	-3.2
Debt-to-GDP ratio	66.2	67.7	67.4	61.5	57.7	60.3	61.7
Scenario III: A Delay in Implementation of the Oil and Gas Projects 3/							
Rate of growth of real GDP	2.7	3.0	3.9	6.0	5.8	5.5	2.5
Central government overall fiscal balance	-1.5	-1.3	0.7	-0.8	-1.4	-2.7	-5.4
Central government overall non-energy fiscal balance	-9.6	-11.2	-10.8	-13.2	-15.5	-17.8	-19.0
Central government primary fiscal balance	2.4	2.8	4.8	3.4	2.5	0.8	-2.1
Balance of payments current account	-0.2	0.7	-2.5	-2.5	-2.7	-1.4	0.0
Debt-to-GDP ratio	66.2	67.7	64.6	58.0	54.8	56.3	59.1
Scenario IV: A 50 Percent Decline in Real GDP Growth due to Global Recession 4/							
Rate of growth of real GDP	2.7	1.9	2.0	4.5	3.0	0.4	1.1
Central government overall fiscal balance	-1.5	-1.3	0.7	-1.1	-2.0	-3.8	-7.3
Central government overall non-energy fiscal balance	-9.6	-11.2	-11.0	-14.0	-17.1	-20.2	-22.5
Central government primary fiscal balance	2.4	2.8	5.0	3.2	2.2	0.1	-3.5
Balance of payments current account	-0.2	0.4	0.7	0.5	-0.1	-0.4	-0.5
Debt-to-GDP ratio	66.2	67.7	64.6	58.3	55.4	57.4	61.0

Source: Ministry of Finance and Fund staff projections.

1/ Based on WEO growth projections augmented by expansion in oil and gas, construction, and petrochemical industries.

2/ A 50 percent decline in the price of oil over the projection period.

3/ Baseline assumes that under construction projects will be completed on their announced dates.

4/ A 50 percent decline in real GDP over the projection period reflecting a slowdown of the world economy.

Trinidad and Tobago–Fund Relations
(As of March 31, 2003)

I. Membership Status: Joined: 09/16/1963; Article VIII.

II. General Resources Account:	SDR Million	Percent of Quota
Quota	335.60	100.00
Fund holdings of currency	249.24	74.27
Reserve position in Fund	86.37	25.73
Financial transaction plan transfers (net)	11.00	

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	46.23	100.00
Holdings	0.35	0.75
Designation Plan	0.00	

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements

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

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

	Overdue	Forthcoming				
	02/29/2001	2003	2004	2005	2006	2007
Charges/Interest		0.61	0.80	0.80	0.80	0.80
Total		0.61	0.80	0.80	0.80	0.80

VII. Exchange Arrangements:
Trinidad and Tobago exchange rate regime is a managed float with no pre-announced path for the exchange rate. 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 devaluated to TT$5.72 per U.S. dollar (mid-point) and floated on April 13, 1993. Since then, the exchange rate has been heavily managed; the mid-point between buying and selling rates was TT$6.26 per U.S. dollar on March 26, 2003.

VIII. Last Article IV Consultation and Recent Contacts:

The 2001 Article IV consultation was completed by the Executive Board on July 6, 2001; the staff documents were SM/01/183 and SM/01/184.

XI. Technical Assistance:

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

Trinidad and Tobago – Relations with the World Bank

(As of April 2003)

The World Bank's last Country Assistance Strategy for Trinidad and Tobago was discussed at the Board in 1999. A Country Assistance Strategy Progress Report will be prepared and will be discussed at the Board at the end of FY04. The current Bank program includes two projects, in education and privatization. Total commitment amounts to US$62.5 million, of which US$20 million is undisbursed.

Ongoing project(s):

Basic Education: The Basic Education loan (US$51 million) finances the construction and rehabilitation of schools and assists the Government in its fundamental reform of the education system, in particular at the primary and preschool levels.

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

Project(s) under preparation:

HIV/AIDS Prevention and Control: The HIV/AIDS Prevention and Control project (US$20.25 million) currently under preparation will support the Government's goal to reduce the incidence of HIV infections and mitigate the negative impact of HIV/AIDS on persons infected and affected in Trinidad and Tobago. The project is expected to be presented to the Board in June 2003.

Trinidad and Tobago—Relations with the World Bank

I. Statement of World Bank Loans as of March 31, 2003

Active Projects							
				Original Amount in US$ million			
Project ID	Project Name	Borrower	Approval in Fiscal Year	IBRD	IDA	Cancel.	Undisbursed
P035312	Basic Education	Gov't of Trinidad and Tobago	1996	51	0	0	14.3
P040108	Postal Service Reform	Gov't of Trinidad and Tobago	1999	14.9	0	3.4	5.7

Loans/Credits Summary in US$ as of March 31, 2003

Total disbursed (IBRD):	250,864,001
Of which has been repaid:	140,930,105
Total now held by IBRD:	109,933,896
Total undisbursed:	20,026,915

Trinidad and Tobago—Relations with the Inter-American Development Bank
(As of May 6, 2003)

As of May 6, 2003, the IDB has an active lending portfolio with a total value of almost US$449 million, of which US$135 million (30 percent) has been disbursed. Of this total amount, and in keeping with the Bank's country strategy for Trinidad and Tobago, the key areas of focus for investment include unemployment and poverty (65 percent), economic growth and diversification (28 percent) and public sector reform (7 percent). Though the IDB continues to support the transport sector, since the mid-1990s greater emphasis has been placed on the education and health sectors.

UNEMPLOYMENT AND POVERTY

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

In 1999, the IDB approved financing in the amount of US$105.0 million for a Secondary Education Program. This program's objectives are aimed at providing equitable, high quality secondary education; updating educational content and teaching methodologies; and developing a more efficient management of resources at the central and local levels.

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

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

ECONOMIC GROWTH AND DIVERSIFICATION

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

In 1995, the IDB approved a short-term support program for US$5.0 million to finance training, environmental studies, institutional support and small rehabilitation works related to tourism.

PUBLIC SECTOR REFORM

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

In 1995, the IDB approved a US$9.0 million reimbursable technical cooperation project to assist the Government of Trinidad and Tobago in implementing the Agriculture Sector Reform Program. This technical cooperation project is expected to assist agribusiness in the identification of opportunities, and by increasing its responsiveness to the new policy environment; and to strengthen the long-term institutional capacity of the ministry of agriculture.

In 1993, the IDB approved a Pre-investment Program II for US$10.5 million to enable the government to energize the public sector investment program with well-prepared studies, and to improve the allocation of public sector investment resources in Trinidad and Tobago.

Trinidad and Tobago: Statistical Issues

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

Real Sector

The central statistical office makes good use of available source data to produce annual national accounts. However, the quality of these annual estimates is deficient owing to source data that suffer from poor survey response rates and long delays in compiling survey results. In applying the recommendations by STA, the CSO has begun revising the real GDP series by rebasing it from 1985 to 2000 and by updating the methodology for calculating production at each sector level. This involves changing the estimation techniques in the telecommunications sector (by using the number of call units as opposed to the number of callers); the financial sector (by constructing individual extrapolators for each sub-industry and then aggregating them up); and the energy sector (by distinguishing between value added for gas and oil). The CSO should ensure that new series is finalized before the end of the fiscal year, in October 2003. The central statistical office does not currently produce quarterly GDP estimates. Although the central bank currently constructs quarterly indicators of real GDP, eventually the central statistical office should assume exclusive responsibility for compiling quarterly national accounts. The retail price index is also undergoing a major revision, including rebasing it from 1985 to 2003 reflecting the 1997/98 Household budget survey, and correcting the aggregation formula. The CSO should ensure that the new series is finalized by October 2003 and that a similar methodology is used to revamp the producer price index.

Fiscal Accounts

Data on central government operations and debt are compiled separately by the ministry of finance, planning, and development (MFPD) and the central bank, and data compiled by the two agencies differ significantly. The authorities should work to reconcile on a regular basis these two sets of data. Data on the nonbank financing are derived as residual owing to the absence of data collection. The national classification system for government transactions and debt of the central government is sufficiently detailed for use in compiling data according to GFS methodology.

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

Monetary Accounts

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

Balance of Payments

The balance of payments data are produced in a timely fashion and the statistics conform to many of the standards of the BPM5. A Private Sector Capital Flows and Investor Perception survey was conducted in June 2002, to strengthen the institutional framework for collecting private capital flow. This survey needs to be improved on the quantity and quality of responses (previously 61 percent response rate), and estimating market value shares. There are sizable differences between some items of the external public debt compiled by the central bank and the ministry of finance, planning, and development. The central bank should expand its current debt reporting system to include comprehensive coverage of external loans and debt of the entire public sector, as well as publicly nonguaranteed debt. Resumption of reporting balance of payments data to STA is strongly encouraged (the latest data reported to STA were for the year 1998).

Trinidad and Tobago: Core Statistical Indicators
(As of May 13, 2003)

	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	04/03	2/03	2/03	2/03	2/03	04/03	04/03	12/02	12/02	02/03	2002	12/02
Date received	04/03	03/03	4/03	4/03	4/03	04/03	04/03	03/03	03/03	03/03	03/03	03/03
Frequency of data[1]	D	M	M	M	M	M	M	M	Q	M	A	M
Frequency of reporting[1]	D	B	B	B	B	B	B	M	Q	M	A	M
Source of update[2]	A	A	A	A	A	A	0A	A	A	A	A	A
Mode of reporting[3]	E	E	E	E	E	E	C	E	E	E	V/O,N Staff visit	E
Confidentiality[4]	C	D	D	D	D	D	C	D	D	D	D	D
Frequency of publication	M	M	M	M	M	M	M	M	Q	M	A	M

[1] D-daily, W-weekly, B-bi-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: Debt Sustainability Analysis

This is a background report to the medium-term public debt sustainability discussed in the Staff Report SM/03/192. The methodology used follows the framework endorsed by the Executive Board.[13]

1. Debt sustainability tests were applied on the medium-term scenario discussed in section IV of the staff report (Table 10). The baseline projections show that the debt-GDP-ratio would decline from 66 percent in 2002 to only about 59 percent of GDP by 2008 (Table A1).

2. As anticipated (Table A2), in the order of magnitude, the public debt was sensitive to real interest rate (Test 2), primary balance (Test 4), other debt creating flows (Test 6), real GDP growth (Test 3), and revenues (Test 7), when these factors weakened, the debt-to-GDP ratio increased by 12¾ percentage, 10½ percentage, 8½ percentage, 7 percentage and 5 percentage points of GDP by 2004, respectively. A shock on the revenue-to-GDP ratio resulted in the debt to revenue ratio increasing by 23 percentage points of revenue in 2004, before falling by 54½ percentage points of revenue by 2008 (Test 8). If the key macroeconomic variables were kept at historical averages, the debt-to-GDP ratio would fall to about 48 percent of GDP in 2008 (Test 1). This mainly reflects higher primary surpluses and positive real GDP growth during 1991-2002 period.

3. In the order of magnitude, public sector external debt was sensitive to shocks to the non interest current account balance (Test 5), U.S. dollar deflator (Test 4), interest rates (Test 2), and real GDP growth (Test 3); when these variables deteriorated the debt-to-GDP ratio increased by 33¾ percentage points, 8½ percentage points, 8 percentage points, and 5¼ percentage points of GDP by 2004, respectively. A 30 percent exchange rate devaluation in 2003 would result in 10 percentage points increase in external debt-to-GDP ratio in 2003 (Test 7). However, if the non debt creating capital flows and real interest rates were kept at historical averages (Test 1), the external debt-to-GDP ratio would fall to about 14¾ percent of GDP in 2008.

[13] The sensitivity tests follow the methodology designed by PDR on "Assessing Sustainability" SM/02/166.

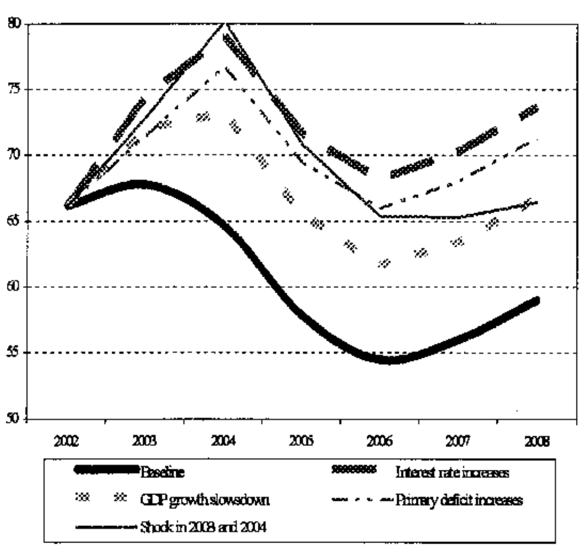
Table A1. Trinidad and Tobago: Fiscal and External Debt Sustainability

The staff applied sensitivity tests to the medium term baseline scenario. The methodology used follows the framework endorsed by the Executive Board.[1] The use of historical averages of the key assumptions reduces the debt-GDP-ratio from 66 percent in 2002 to about 59 percent of GDP by 2008. If the economy experiences temporary shocks (two standard deviations) in 2003 and 2004 to key assumptions such as interest rates, real exchange rate, GDP deflator, and real GDP growth, the debt-to-GDP ratio would initially increase and once conditions normalize, begin to decrease. (In the Graph below, "*shock in 2003 and 2004*" refers to a combined one standard deviation shock on all key assumptions).

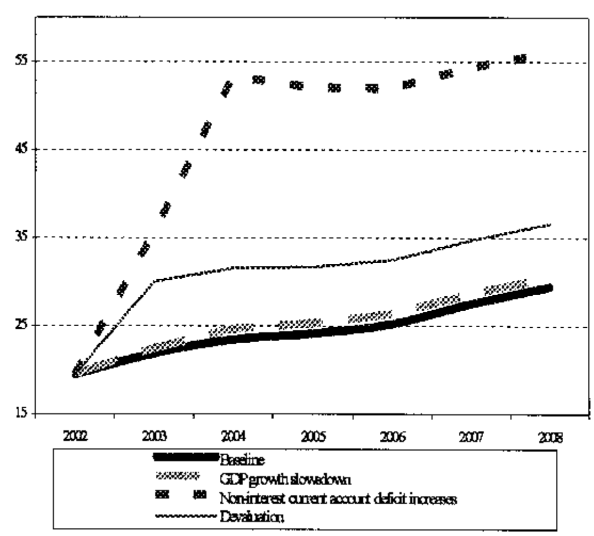
Key Economic Variables

	Baseline Average	Historical Averages	Standard Deviation[2]
Public sector primary balance	1.5	3.8	4.4
Real GDP growth (in percent)	4.3	3.2	2.8
Nominal interest rate (in percent)	8.2	10.6	1.5
Real interest rate (in percent)	5.0	4.7	5.4
Inflation rate (GDP deflator, in percent)	3.2	6.0	5.4
Revenue-to-GDP ratio	28.3	28.0	2.0
Current account balance, excluding interest payments (in percent of GDP)	2.8	1.0	4.8
Net non-debt creating capital inflows (In percent of GDP)	3.8	8.9	3.9

Gross Public Sector Debt-to-GDP ratio



External Debt-to-GDP ratio



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[1] The sensitivity tests follow the methodology in "Assessing Sustainability," SM/02/166.

[2] These relate to historical averages, 1991-2002.

Table A2. Trinidad and Tobago: Public Sector Debt Sustainability Test, 2002-2008

	Prel.	Projections					
	2002	2003	2004	2005	2006	2007	2008
(In percent)							
I. Baseline medium-term projections							
Real GDP growth (at factor cost)	2.7	3.8	4.0	9.1	5.9	0.8	2.2
Inflation (period average)	4.2	3.5	2.8	2.7	2.6	2.6	2.6
External current account balance in percent of GDP	-0.2	4.0	6.4	5.4	0.3	-2.2	-2.5
Total public debt in percent of GDP 1/	66.2	67.8	64.7	57.9	54.5	56.0	59.0
External debt in percent of GDP 1/	19.5	21.9	23.4	24.1	25.2	27.5	29.4
II. Fiscal sustainability stress test: Effect on public sector debt-to-GDP ratio							
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003-2007	66.2	63.2	60.1	57.1	54.0	50.8	47.6
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004	66.2	74.5	79.0	71.7	68.2	70.3	73.7
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	66.2	72.0	73.2	65.5	61.7	63.4	66.8
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004	66.2	71.5	76.7	69.4	66.0	68.0	71.3
5. Combination of 2-4 using one standard deviation shocks	66.2	72.9	80.2	70.8	65.4	65.3	66.4
6. 10 percent of GDP increase in other debt-creating flows in 2003	66.2	77.8	74.7	67.5	64.1	66.0	69.3
7. Impact on debt-to-GDP ratio if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04	66.2	70.0	71.2	64.2	60.8	62.5	65.7
8. Impact on debt-to-revenue ratio if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04	273.3	291.3	296.3	231.9	214.3	212.4	218.8
III. External sustainability stress test: Effect on public sector external debt-to-GDP ratio							
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-07	19.5	21.5	25.4	28.2	25.9	20.7	14.8
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004	19.5	23.5	27.4	27.8	28.8	31.0	32.9
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	19.5	22.4	24.7	25.3	26.4	28.7	30.6
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004	19.5	23.8	27.9	28.3	29.3	31.6	33.4
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004	19.5	35.7	53.3	52.1	52.0	54.4	56.0
6. Combination of 2-5 using one standard deviation shocks	19.5	33.2	50.5	49.4	49.4	51.8	53.5
7. One time 30 percent nominal devaluation in 2003 2/	19.5	30.0	31.5	31.7	32.5	34.8	36.6

Memorandum items:

Historical Statistics for Key Variables (1991-2002)	**Baseline Averages**	**Historical Averages**	**Standard Deviation 3/**
Public sector primary balance	1.5	3.8	4.4
Real GDP growth (in percent)	4.3	3.2	2.8
Nominal interest rate (in percent)	8.2	10.6	1.5
Real interest rate (in percent)	5.0	4.7	5.4
Inflation rate (GDP deflator, in percent)	3.2	6.0	5.4
Revenue and grants-to-GDP ratio	28.3	28.0	2.0
Current account balance, excluding interest payments (in percent of GDP)	2.8	1.0	4.8
Net non-debt creating capital inflows (in percent of GDP)	3.8	8.9	3.9

Sources: Ministry of Finance and Planning; and Fund staff projections.

1/ Coverage includes government, guaranteed and non guaranteed public debt and contingent liabilities.
2/ Real devaluation is defined as nominal devaluation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
3/ These relate to historical averages.

INTERNATIONAL MONETARY FUND
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IMF Concludes Article IV Consultation with Trinidad and Tobago

On June 23, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.1

Background

Trinidad and Tobago recorded its ninth consecutive year of economic growth in 2002 despite the global economic slowdown and the lingering negative impact on regional trading partners of the September 11, 2001 attacks. Unemployment fell from 14 percent in 1998 to about 10 percent in 2002, while inflation remained subdued. In March 2003, Standard & Poor's upgraded Trinidad and Tobago's credit rating to BBB from BBB-.

Despite the government's efforts to lower expenditures, the overall fiscal position of the central government weakened somewhat in FY 2001/02 with an overall deficit of nearly 1½ percent of GDP reflecting lower tax collections (by 4 percentage points of GDP) as a result of tax write-offs for dry wells and higher than anticipated tax-deductible capital expenditures by a major oil company. Reflecting a steady decline in the buoyancy of non-energy revenues, the non-energy fiscal deficit of the central government widened to about 10 percent of non-energy GDP from 4 percent in 1998. The overall deficit was mainly financed through domestic borrowing. A number of public enterprises continued to depend on government transfers to service their debts, while some continued to implement infrastructure projects on behalf of the central government.

[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. This PIN summarizes the views of the Executive Board as expressed during the June 23, 2003 Executive Board discussion based on the staff report.

At end-2002, the total public sector debt was 66 percent of GDP; of which guaranteed debt was equivalent to 19 percent of GDP, and external debt 20 percent of GDP. The bulk of domestic debt is held by commercial banks.

Monetary conditions eased in 2002 resulting in appreciable declines in interest rates. Reserve requirements were lowered from 21 to18 percent during the course of the year. However, despite declining borrowing costs, growth in private sector credit remained weak. This reflected the economic slowdown exacerbated by increased uncertainty due to the political stalemate. The central bank introduced a new liquidity management mechanism in May 2002, based on the announcement of an overnight repo rate, with an initial rate of 5¾ percent. This rate was reduced to 5¼ percent in August 2002, and has since remained unchanged.

The external current account weakened in 2002 to record a small deficit (¼ percent of GDP). This partly reflected a continuing weak demand for manufactured exports as economic growth slowed in the Caribbean. The overall balance of payments recorded a sharply smaller surplus of ¼ percent of GDP (down from 5½ percent) as direct investment slowed. Gross official reserves cover remained at around five months of imports.

Executive Board Assessment

Executive Directors observed that Trinidad and Tobago has enjoyed an extended period of positive growth, low inflation and a steady decline in unemployment. Directors commended the authorities for their prudent management of the economy in recent years despite the global and regional slowdown, but noted that challenges remain. These include the strengthening of the non-energy fiscal and external balances and the improvement of the performance of public enterprises.

Directors viewed the effective use of prospective higher energy revenues as key to Trinidad and Tobago's future development and growth. They noted that the authorities' plan to achieve developed country status by 2020 through establishing a highly educated work force, and strengthening infrastructure, is a commendable objective, but cautioned that the government needs to tailor its spending in line with the country's absorptive capacity. Specifically, they recommended that the authorities take advantage of the higher-than-budgeted oil prices to raise the primary surplus, and transfer part of it to a strengthened revenue stabilization fund (RSF), whose assets could be invested abroad to generate income for future generations. Expenditures—particularly permanent entitlements—should be kept under tight control given that increased revenues may not be sustained. Directors supported higher spending on health, education and infrastructure, while cautioning that adequate attention should be paid to the efficiency of such spending.

Looking ahead, Directors encouraged the authorities to give priority to developing a well articulated medium-term macroeconomic framework underpinned by a three-year rolling budget. They urged the government to target overall budget surpluses and avoid pro-cyclical fiscal policies, strengthen efforts to reduce the non-energy fiscal deficit, and curtail tax exemptions. Directors welcomed the creation of a unified revenue authority, which they saw as a major step in strengthening tax and customs administration. Directors also noted that the planned reactivation and strengthening of the RSF—to make it more transparent and flexible—should be an integral tool of prudent fiscal policy. They recommended a comprehensive review of the country's fiscal management entailing a public expenditure review by the World Bank; a review of fiscal standards and codes; a revision of the gas taxation regime in line with earlier Fund recommendations; and a review of the VAT.

Directors welcomed the system of pre-announced repo rates as a market benchmark. They noted that a deepening of capital markets through additional public debt instruments would render repo rates a more effective tool of liquidity management. In this regard, they also welcomed the newly established Capital Markets Committee.

Directors observed that the managed float has helped to ensure low inflation and an orderly foreign exchange market. Noting that external competitiveness appears adequate at this time, they encouraged the authorities to monitor it closely, especially as the energy sector expands, to protect growth prospects in the non-energy sector.

Directors welcomed Trinidad and Tobago's role as a regional financial center, which warrants heightened supervision, especially of the nonbank sector. They viewed the banking system as sophisticated, dynamic and well capitalized, and noted that it does not appear to be exposed to the weaknesses in the regional economies. However, they warned that the existing supervisory framework for nonbank financial institutions needs further strengthening and, in this context, welcomed ongoing moves to integrate the supervision of insurance companies and pension funds with that of commercial banks, under the authority of the central bank. Directors welcomed the authorities' planned participation in the financial sector assessment program.

Directors welcomed recent steps to reinvigorate structural reforms and encouraged the authorities to include pension reform in this agenda. In particular, the proposed restructuring of the sugar company, CARONI, is a positive step. Directors urged the authorities to maintain the momentum of the structural reform agenda, and to adhere to their announced divestment timetable. They also encouraged the government to consider eliminating overlapping benefits of the national insurance scheme with other public pension schemes. Efforts should focus on streamlining and harmonizing the system of old age benefits and pensions, as well as the public sector pension scheme. Directors welcomed the authorities' commitment to further trade liberalization, and their decision to participate in a pilot study to adopt transparency guidelines under the Extractive Industries Transparency Initiative.

Directors welcomed the considerable progress made in the past year in developing an improved methodology of compiling GDP and price data. They noted that in general, data are adequate for surveillance purposes, although continued improvements in public sector statistics would be needed. Directors encouraged Trinidad and Tobago to participate in the IMF's general data dissemination system.

Trinidad and Tobago: Selected Economic Indicators

	1998	1999	2000	2001	2002
Real economy					
Real GDP (percentage change)	7.8	4.4	6.1	3.3	2.7
Non-oil GDP	4.4	11.6	6.6	2.4	4.5
Unemployment rate (in percent)	14.2	13.1	12.2	10.8	10.4
Consumer prices (percentage change, end of period)	5.6	3.4	5.6	3.2	4.3
Public finance (in percent of GDP) 1/					
Central government overall balance	-1.8	-0.6	0.2	1.5	-1.5
Central government current balance	0.3	0.0	2.6	2.8	-0.3
Revenue and grants	25.2	24.9	25.9	22.7	26.5
Expenditure and net lending	27.0	25.5	25.7	23.8	25.0
Money and credit 2/					
Net foreign assets	3.4	2.2	11.9	5.0	1.4
Net domestic assets	-7.7	8.9	6.1	4.3	1.5
Public sector	-4.7	-1.6	-9.4	-5.3	0.7
Private sector	2.9	12.3	9.4	6.0	0.7
Liabilities to the private sector	-4.4	11.2	18.3	9.8	3.5
Average prime lending rate	17.5	17.3	16.5	15.0	12.0
Average deposit rate	5.8	6.9	6.0	5.7	3.7
External sector 3/					
Trade balance	-12.3	1.0	11.7	8.0	2.0
Current account balance	-10.6	0.5	6.5	5.6	-0.2
Gross official reserves (US$ million)	783	945	1386	1876	1924
Reserve cover (months of imports of GNFS)	2.6	3.3	3.8	5.0	4.9
External public debt (end-of-period)	24.7	23.6	20.8	18.2	17.2
Real effective exchange rate index					
(1990 = 100) percentage change	1.9	4.7	8.3	3.9	-0.1

Sources: Data supplied by the authorities; and IMF staff estimates.

1/ The central government switched to an October 1–September 30 fiscal year in 1998.

2/ Annual percentage change in relation to previous year's liabilities to private sector.

3/ In percent of GDP, unless indicated otherwise.

Statement by Murilo Portugal, Executive Director for Trinidad and Tobago, and Charles de Silva, Assistant to Executive Director
June 23, 2003

1. The Trinidad and Tobago economy remains fundamentally strong, the result of the comprehensive structural measures implemented during the last decade, which included significant tariff reform, liberalization of the current and capital accounts, floating of the currency, and extensive privatization of state enterprises. The country's external debt is now manageable and sustainable and the financial sector has been strengthened through improvements in the legislation as well as supervisory practices. Developments in the global and regional economies constrained growth in Trinidad and Tobago, in 2002, especially in the non-energy sector. Nevertheless, prospects favor acceleration in 2003 and further strengthening over the medium term. This outlook is based on anticipated strong energy sector investment, increased social expenditure by government (particularly in education, health and housing) in the near term, and increased oil production and natural gas expansion in the medium term. The staff has raised with our authorities issues related to fiscal behavior in light of the expected strong growth phase and potential increase in fiscal revenue. The Trinidad and Tobago authorities have indicated that there are significant demands in the social and physical infrastructure that need to be met if the country is to lay a strong foundation for self-sustaining growth in the non-energy sector. Our authorities have welcomed the dialogue with the Fund and wish to express their appreciation for the candid discussions held with the staff. They look forward to the publication of the report.

Recent Economic Developments

2. The Trinidad and Tobago economy registered its ninth consecutive year of positive growth in 2002. Real GDP grew by 3.2 percent in 2002, slightly below the rate of 4 percent recorded in the previous year. The slowdown occurred against the backdrop of a weak global economic recovery, while at home there was a great deal of uncertainty on account of the parliamentary deadlock resulting from the general elections of December 2001. Growth was propelled mainly by the energy sector where, in addition to an upturn in oil production, a new ammonia plant was commissioned and annual export capacity of LNG more than doubled with the coming on stream of a second LNG train. Prices for Trinidad and Tobago's major energy exports also trended upward during the year. However, the uncertain global environment and the slowdown in the regional economies, which account for over a quarter of Trinidad and Tobago's exports, constrained the growth of the non-energy sector, especially manufacturing.

3. Inflation has remained low and stable in the context of the authorities' firm anti-inflationary monetary stance and a weakening of domestic demand. Headline inflation as measured by the All-Items Retail Price Index (RPI) rose moderately by 4.2 percent in 2002 compared with 5.6 percent in 2001, but core inflation, gauged by the non-food component, was almost zero. The gap between the two indicators may be largely due to a measure of upward bias in the food component, arising from a technical problem, which is now being addressed with the rebasing of the RPI by the Central Statistical Office.

4. Labor market conditions have continued to improve in step with the continued expansion of the economy, with the unemployment rate declining to 10.4 percent of the labor force from 10.8 percent in the previous year. Most of the new jobs were generated in the services sector notwithstanding the fact that there were some job losses in the construction sector, in 2002, as many projects in the energy sector neared completion.

5. The central government recorded a fiscal deficit of 0.3 percent of GDP in 2002 against the backdrop of a projected balanced budget for that year. This deficit resulted mainly from lower-than-projected revenue collections and increased expenditure. Revenue collections declined primarily due to lower tax receipts from oil and petrochemical companies. As a result of the declining revenue, our authorities maintained a tighter control on the growth in spending thus keeping the deficit within an acceptable range.

6. The Central Bank has been conducting monetary policy with the aim of keeping inflation low and maintaining orderly conditions in the foreign exchange market, two closely related objectives given the openness of the economy. In May 2002, our authorities introduced a new tool in its monetary policy framework based on an announced overnight repurchase or 'repo' rate at which the Central Bank is prepared to provide liquidity to the banking system. The benchmark repo rate, which was initially set at 5.75 percent, is expected to provide a signal to the public and the markets of the Central Bank's monetary policy intentions. The rate was lowered to 5.25 percent in August in the context of weak domestic demand and subdued inflation at home, and the further softening of interest rates abroad. This first adjustment to the repo rate triggered reductions across the spectrum of domestic interest rates, such that by the end of the year the prime lending rate had fallen by 300 basis points from its starting level. In the face of continuing weak credit growth, the repo rate has since been maintained at 5.25 percent. In the foreign exchange market, the Central Bank intervened to counter swings in liquidity and on a net basis sold over US$300 million in 2002, against a background of strengthening official reserves. Periods of tightness in the market were associated in part with a high level of direct investment abroad as well as capital issues raised mainly by regional governments on the local bond market. Gross official reserves, at the end of 2002, amounted to just about US$2.0 billion, equivalent to 5.8 months of prospective imports.

7. Financial indicators for the banking system suggest that the system remains sound and adequately capitalized. On the supervisory front, there has been significant progress in the implementation of risk-based supervision of commercial banks, and the regulatory capacity of the Central Bank has been strengthened through recruitment and training of staff. With the assistance of the IDB, our authorities have embarked on a program of strengthening and modernizing regulatory systems of the non-banks with a view to bringing them in line with international norms. Legislation will soon be presented to Parliament to transfer supervisory responsibility for insurance companies and private pension funds from its present location in the Office of the Supervisor of Insurance of the Ministry of Finance, to the Central Bank. This measure will enhance the capacity of regulators to deal with the phenomenon of universal banking, now a reality within the financial sector, and this should also allow for efficiency gains by having one supervisory agency. The authorities are also considering extending the integrated supervision framework to include other classes of financial institutions. A Credit Union Supervisory Unit has been established within the

Ministry of Finance and is working towards institutional strengthening of that sector, including the updating of legislation and the strengthening of supervision. In the context of ongoing efforts to enhance the financial infrastructure, the Office of the Banking Services Ombudsman was established in May 2003 under the auspices of the Central Bank, and plans for the establishment of a Credit Rating Agency are at an advanced stage.

External Sector

8. On the external front, Trinidad and Tobago recorded reduced surpluses on the overall balance of payments and on the current account, with the fall-off in the value of energy exports largely explaining both these developments. Further, the capital account has begun to weaken in line with the expected decline in FDI, as a number of major energy sector investment projects neared completion. At the same time, there has been an upward trend of outward direct investment by local firms seeking opportunities in the regional markets and in North America. With a greater reliance on non-debt creating flows, the stock of public sector external debt is down to a comfortable 16 percent of GDP, from 40 percent of GDP some five years ago. The external debt service ratio remains viable at just about 5 percent of exports of goods and non-factor services. Trinidad and Tobago has enhanced its creditworthiness through prudent economic management, and this has enabled it to secure an investment grade rating on its sovereign debt. In April 2003, Standard and Poor's upgraded the country's sovereign credit rating to BBB from BBB-, which is among the highest in Latin America.

Prospects and Policies

9. Our authorities project real GDP growth averaging 4 to 6 percent over the years 2003-2005, led by strong energy sector expansion. While natural gas is fast becoming more important in the energy sector, oil production will continue to be significant , with output projected to rise by more than 60 percent in the next three years as a result of recent new discoveries. In May 2003 – a matter of weeks ago – a third LNG train was added to the two that are already in production, and a fourth will become operational in 2005. This will establish Trinidad and Tobago as one of top five LNG producers in the world. In addition, work continues on two mega-methanol plants; one of which will begin operations in 2004 while the other is in gestation and due for completion in two years. These two plants will help to double methanol production and reinforce Trinidad and Tobago's position as the leading global methanol exporter. A new ammonia facility will begin operations in early 2004.

10. While the main engine of growth will continue to be the energy sector, our authorities will intensify their efforts to create the conditions necessary to support the expansion of the non-energy sectors of the economy, given their potential for job creation. They see the preservation of macroeconomic stability, specifically the maintenance of low and stable inflation and a competitive exchange rate, as critical elements of the incentive framework for domestic and external private sector investment as they press ahead with their social and economic agenda. They intend to continue to rely on strong fiscal discipline and prudent monetary policy. In fact, the authorities have just recently undertaken a mid-year review of the fiscal accounts, which has resulted in a revised fiscal deficit of just under 1.0 % of GDP

for the current fiscal year. The revised fiscal deficit reflects the re-allocation of expenditures as well as increased revenues from the petrochemicals sub-sector.

11. Our authorities are particularly cognizant of the significant risks, both to macroeconomic stability and to long-term competitiveness, that could arise from overly rapid monetization of energy based revenue inflows. In light of their commitment to social equity, our authorities are shifting the structure of expenditure more towards education, health, housing, and social safety net programs. This strategy is critical for helping to promote sustainable growth in the non-energy sectors geared towards supporting the long-term growth and development agenda of the country.

12. The establishment of a Revenue Stabilization Fund is viewed as a critical fiscal management tool by our authorities. They also keenly appreciate the need to guard against vulnerabilities arising from price volatility in the energy markets and to deal with inter-generational equity in the distribution of the country's oil and gas wealth. They are now actively considering how best to structure the asset management, operational, and governance aspects of the proposed Revenue Stabilization Fund (RSF). They anticipate that legislation to establish the RSF will be presented to Parliament by the end of December 2003. Work is continuing apace on the improvement of the fiscal regime for the energy sector, taking into account recent studies on the sector including the report submitted by FAD

13. Our authorities are moving decisively to address systemic deficiencies affecting the buoyancy of non-oil revenue . They consider that tax reforms introduced during the nineties, including the introduction of a value added tax (VAT) and the progressive lowering of direct taxes, have worked well. Nevertheless, there are concerns about the efficiency of the VAT, and our authorities are proposing to undertake a comprehensive review of the VAT. In addition, our authorities have moved to strengthen revenue administration with the decision to establish a Revenue Authority, which will consolidate the functions of the Board of Inland Revenue and the Customs and Excise Division.

14. Our authorities are continuing to address the inefficiencies of the state enterprises and have commenced the process of restructuring Caroni (1975) Limited, which is the state sugar company. They have also embarked on the process of introducing the private sector into the operations of National Broadcasting Network and the Port Authority.

15. Trinidad and Tobago has become the leading financial centre in CARICOM, and prospects for further development of the financial system will be enhanced by the measures currently being undertaken to reform this sector. In addition, dismantling barriers to trade and financial flows under CSME will contribute to further enhancement of this sector. Our authorities have issued for public comment a Green Paper on the financial sector, which sets out various recommendations for fostering a more efficient, integrated, and dynamic financial system. In this context, our authorities recognize that participation in an FSAP could bring a fresh perspective and independent review to financial sector issues.

16. Our authorities are committed to the development of a well functioning and modern information infrastructure to support sound macroeconomic policy making. In this regard,

they are considering subscription to the GDDS as a first step in improving the dissemination of economic and financial information.

17. In conclusion, our authorities would like to assure the Executive Board that they remain committed to the implementation of sound fiscal, monetary, and structural policies geared towards enhancing the long-term stability, growth, and development of Trinidad and Tobago.