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2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; 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 2014 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 16, 2014, following discussions that ended on April 1, 2014, 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 June 3, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its June 16, 2014 consideration of the staff report that concluded the Article IV consultation with Trinidad and Tobago.
- A **Statement by the Executive Director** for Trinidad and Tobago.

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

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STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

June 3, 2014

KEY ISSUES

The economy is embarking on sustainable growth, but the main challenge will be to boost long-run growth by structural reforms and reorienting fiscal policy. Supply-side slowdowns in the energy sector are ending, while available evidence suggests non-energy growth is robust and economic slack is being used up. Non-energy growth should settle around a long-term 2–2½ percent per annum rate, while new energy sector investment may begin to bear significant fruit over the medium term. Headline inflation is trending down (in part for statistical reasons), while core inflation remains moderate. Domestic risks are to the upside. The main medium-term external risk would be a sustained decline in energy prices.

With excess capacity in the labor market significantly diminished, the time is drawing near for policy tightening. Although ad hoc measures will reduce the budget deficit this fiscal year, the underlying baseline suggests a growing overall imbalance and unsustainable debt accumulation on unchanged policies, although the authorities have announced their intention to pursue fiscal consolidation. The CBTT will have to carefully consider how to tighten the monetary stance given high excess bank liquidity.

Sustainable growth requires re-configuring fiscal policy, although achieving this will be challenging for the time being in view of national elections due in 2015. Ad hoc measures should be replaced with policies that durably improve non energy-based revenues and spending. The proceeds from extracting non-renewable resources should be saved and invested as a stepping stone to lasting prosperity. Fuel subsidies need to be curtailed and social programs rationalized. Non-energy sector tax bases should be broadened and tax expenditures limited.

Greater flexibility is needed in the foreign exchange market. Despite sizable reserves, foreign exchange shortages, which impose unnecessary economic costs, have recurred. There is no concrete evidence of either a parallel market or arrears on foreign exchange, and the CBTT has recently sold foreign exchange with the objective to clear the market, but a recurrence of the situation could indicate the existence of an exchange restriction. The CBTT can address the problem through increased flexibility in the foreign exchange system.

Structural reforms are underway, but more are needed to foster a diversified economic base. Financial sector reform is advancing, including expanding the CBTT's regulatory perimeter to systemically important non-bank financial institutions. Recent streamlining of regulations that have hampered business activity is welcomed, but needs to be further advanced. Government operations are increasingly hamstrung by a poorly functioning civil service. Perceptions of corruption can be reduced by adopting a transparent procurement process. Programs that mask underemployment should be replaced with more effective training. Growing statistical shortcomings have rendered the conduct of surveillance ever harder, and must be addressed.

Approved By
Charles Kramer (WHD) and Mary Goodman (SPR)

The mission comprised E. Canetti (Head), Q. Chen, M. Lutz, J. Okwuokei, and R. Price (all WHD) and visited Port of Spain during March 18–April 1, 2014. Mr. Finch (OED) also joined the mission. Messrs. Stavis and Strodel and Mmes. Kapijimpanga, Lindow and Sirbu provided able assistance. Outreach activities included meetings with parliamentarians and trade and labor unions.

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RECENT DEVELOPMENTS

1. **Trinidad and Tobago is embarking on sustained growth after several years of weak performance, attributable to the global crisis and energy sector supply-side slowdowns**. Growth estimated at 1.6 percent for 2013 was buoyed by 2.5 percent growth in the non-energy sector. Although data limitations inhibit analysis, government subsidies and transfers appear to be supporting consumption while public development spending supported construction.

2. **Inflation has fallen.** Headline inflation dropped to 5.6 percent in 2013, partly due to a change in methodology that eliminated a significant upward bias to food price inflation as of April 2013. Core inflation has remained within a narrow range of 2 to 3 percent. Recorded unemployment dropped to a record low of 3.7 percent in QI-2013, the latest data available, although a substantial amount of underemployment still goes unreported.

3. **The external position remains healthy given strong external buffers and a structural current account surplus**. External reserves grew from $9.2 billion at end-2012 to US$9.8 billion in February 2014, helped by December's $550 million external bond issue. The Heritage and Stabilization Fund (HSF) grew to $5.1 billion (September 2013), due to contributions and earnings.

4. **The estimated current account surplus rebounded to 11.8 percent of GDP in 2013.** Conclusions must be tempered by serious data deficiencies, but there are signs that excess bank liquidity may be leaking into imports, especially automobiles.[1] There is also a widespread view that portfolio outflows are starting to respond to interest rate differentials that have moved marginally in favor of U.S. dollar-denominated assets.[2]

5. **Although the external stability assessment indicates a large degree of overvaluation using official inflation data, there is a severe bias in measured inflation (Annex 1).** Estimates calculated using the official CPI indicate exchange rate overvaluation of 8.1 to 25.6 percent in 2013. However, adjusting for the measurement bias in inflation reduces that to 2.6 to 8.5 percent. Other indicators, such as the stability of Trinidad and Tobago's global share of non-energy exports, suggest that competitiveness may not yet be a critical problem. However, as energy resources dwindle, the country will need to rebalance exports towards the non-energy sector.

6. **The foreign exchange market has become a focus of concern once again**. The Central Bank of Trinidad and Tobago (CBTT) administratively determines both the price of U.S. dollars (within a narrow range) and the marginal volume via its own sales (Box 1). The CBTT has historically

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[1] Official trade data from the Statistical Agency are available only up to February 2012. Data for the rest of 2012 and 2013 are the CBTT's estimates using trading partner data (although the CSO has also recently provided some unaudited trade data). In addition, the capital and financial account has incomplete coverage and lacks detail on external assets and liabilities, resulting in a large and unexplained private capital account, equivalent to 10 percent of GDP in 2011. The CBTT is enhancing its BOP compilation system to meet international standards. The CBTT's plan has been to fully transition from BPM5 to BPM6 by 2014, and subscribe to SDDS. However, progress has been very slow, in significant part due to the challenges at the CSO, and significant delays are likely.

[2] According to the CBTT, sales of new automobile increased by 16 percent in 2013, while those of motor vehicles and parts are estimated to have grown 35 percent in 2013, Q1, yoy.

responded to excess foreign exchange demand by adjusting sales quantities in subsequent auctions until the market clears, including a sale of $200 million into the market in late May, 2014.

7. **However, market participants have reported fairly widespread and persistent foreign exchange shortages since the fourth quarter of 2013**. The persistence of the shortages, in contrast to previous episodes, may suggest growing balance of payments pressures stemming from high domestic liquidity, rather than merely a temporary mis-calibration of short-term shifts in supply and demand. Banks reportedly favor providing foreign exchange for current transactions, but there is no data on the types of transactions for which shortages have arisen, or on the length of delays. Several business associations have expressed concerns about foreign exchange shortages and the impacts on their members. Some have complained that their members are unable to pay foreign suppliers, risking adverse impact on their credit standing vis-à-vis foreign suppliers. In addition, repeated shortages have resulted in incentives to hoard foreign exchange. The CBTT reports that its most recent injection of $200 million was sufficient to clear unsatisfied demand queues for foreign exchange, although it acknowledges the market could return to a position of excess demand.

8. **Fiscal policy was relatively expansionary in FY 2012/13 (October 2012–September 2013).** The central government deficit was estimated at 3.5 percent of GDP. The outturn was lower than the budget target of 4.6 percent as revenue outperformance exceeded expenditure overruns (the latter incurred partly due to payment of previous multi-year wage settlements), but the degree of over-performance fell compared to recent history.

9. **Subsidies and transfers grew further**. Energy subsidies rose by 1.6 percentage points of GDP, which did not, however, prevent energy arrears from growing further.[3] Unlike previous years, capital expenditures exceeded the budget, in part due to a reallocation of resources from underperforming projects to other areas of the public sector investment program.

10. **Social programs remain overlapping and poorly coordinated**. The government is moving forward with reforms to better target vulnerable households and develop a central registry for some programs, to provide better client-service and to monitor and detect fraud.

11. **Debt remains moderate.** Gross central government and nonfinancial public sector debt ratios declined, to 16.0 and 30.7 percent of GDP, respectively (September 2013). Central government external debt was only 6.2 percent of GDP at end-FY 2013, while HSF assets totaled 18.5 percent of GDP at end-September 2013.

12. **The authorities intend to significantly outperform the FY 2013/14 deficit target.** This is being accomplished by *ad hoc* measures, including larger than budgeted dividend from state-owned enterprises and by reining in current expenditures, notwithstanding election pressures.[4] In addition,

[3] Fuel subsidy arrears to the state-owned energy company Petrotrin were estimated at 3.0 percent of GDP by the end of FY 2012/13. Additional cash has been appropriated for petroleum subsidies in FY 2013/14 (totaling some 3¾ percent of GDP), both to finance ongoing subsidies and reducing arrears, which are expected to be eliminated by the fiscal year's end.

[4] Dividends from nonfinancial SOEs, excluding the National Lotteries, already totaled 1¾ percent of GDP in the first quarter of FY 2013/14, compared to 0.8 percent of GDP budgeted for the whole fiscal year. This includes a dividend from the National Gas Company equivalent to ¾ percent of GDP.

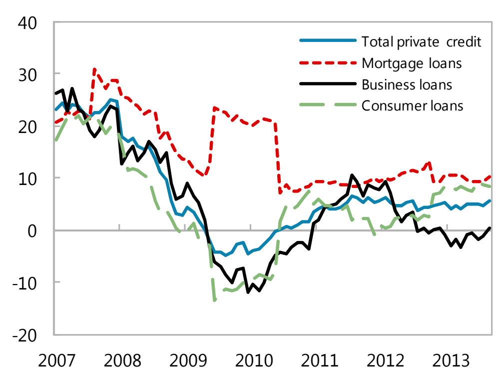
the development budget is likely to be under-executed as in prior years. Overall, staff project the FY 2013/14 deficit at 1½ percent of GDP. Absent these factors, the deficit would be closer to 3½ percent of GDP, suggesting the underlying structure of fiscal policies remains accommodative.

13. The authorities are making significant efforts to reduce arrears. Energy subsidy arrears are being eliminated by netting them off against tax arrears from the state-owned energy company Petrotrin. Budget allocations for VAT refunds have been increased to TT$500–600 million per month in order to reduce arrears on refunds to TT$ 1 billion by end-FY 2013/14. The intention is to clear them in FY 2014/15 and then change the system so only net VAT proceeds are remitted in future.

14. Fiscal revenues over-performed in FY 2012/13, and are set to do so this year too.[5] Direct tax revenues are on track due to robust economic activity and improvements in tax administration. Yields from indirect taxation were mixed as higher customs duties were more than offset by lower net VAT yields, the latter reflecting in part the partial clearing of refund arrears. On revenue policies, the authorities have begun the initial steps to eventually implement a property tax, to be phased in over three years. The authorities also intend to reform the VAT, but preparatory work has not yet significantly begun.

15. The National Insurance System (NIS) continues to run surpluses. While benefit expenditures exceeded contributions for the first time in FY 2012/13, earlier than projected, portfolio returns financed a continued accumulation in reserves.[6] In line with the 8th actuarial review's recommendations, benefits were increased in 2013–14 by some 50 percent to compensate for inflation since the previous review, while revenues were boosted by raising the maximum level of income subject to contributions (which also raises future benefits), and by increasing the contribution rate. However, further actuarial reforms will be needed to make the system solvent over the long term (Box 2).[7]

Private Credit Growth, Banks and NBFIs
(percent change, y-o-y)



16. Monetary policy remains accommodative. The CBTT has maintained its repo rate at a cyclical low of 2.75 percent, mostly in view of contained core inflation. Credit growth overall has been fairly moderate, increasingly concentrated in consumer loans and mortgages as business lending contracts (-3.6 percent yoy through end-December). Weak business credit reflects largely a lack of demand, given considerable spare capacity in certain sectors, large cash balances held by businesses, and a lack of confidence in a strong economic recovery.

[5] Revenues have over-performed in recent years, especially reflecting conservative energy price assumptions when projecting energy-sector revenues.

[6] The NIS's accumulated assets totaled TT$ 24.6 billion (13¾ percent of the staff's estimated GDP) in June 2013.

[7] Although the NIS is not a part of the general government, the government has a contingent legal liability to meet benefit obligations. The system is administered by the National Insurance Board of Trinidad and Tobago (NIBTT), which comprises representatives of government, employers and labor.

17. The banking system appears sound. After-tax profits have recovered from cyclical lows while system-wide NPL ratios have fallen 1.2 percentage points and capital is one-quarter of risk-weighted assets. Systemic liquidity, stemming from foreign exchange generated by the energy sector and domestic liquidity injections from fiscal operations, remains high, rising to TT$ 7.5 billion at end-March 2014, compared to an annual average of TT$3.6 billion in 2012.

18. The CBTT continues to absorb excess liquidity.[8] Treasury bonds totaling TT$ 1.56 billion were issued in mid-2013 and commercial bank deposits with the CBTT were rolled over. After limits on Treasury borrowing for liquidity sterilization were reached, they were increased in December 2013.[9] Nonetheless, excess liquidity continues to challenge the abilities of the CBTT to absorb it.

19. Financial sector reform is advancing (Box 3). Securities legislation, passed at the end of 2012, has enhanced the powers of the Securities and Exchange Commission (SEC), and the CBTT and SEC are collaborating on developing a new regulatory model for non-bank systemically important financial institutions. Legislation to modernize insurance regulation, including introducing risk-based regulatory capital, is anticipated for the summer of 2014, while laws on pension reform and bringing credit unions into the central bank's regulatory perimeter are still in the pipeline. The authorities have also taken steps to improve crisis prevention and planning, including at the regional level.

20. The wind-up of CL Financial Corporation (which owned CLICO, a failed insurance company) continues. A large majority of holders of government bonds issued after the collapse took up the offer to exchange their bonds for shares in the CLICO Investment Fund, which had been owned by CL Financial. Meanwhile, the government plans to recoup much of its remaining exposure to CLICO by selling its traditional insurance operations, and has retained a consultant to value those assets.

21. The government has advanced on structural reforms, notably to improve rankings on global competitiveness indices. The government has reduced the average time to start a business from 43 days to 3 and to obtain construction permits from 42 weeks to 6. It is also reducing the time to clear shipments through customs and intends to establish appropriate insolvency frameworks, reform procurement legislation, expedite property registration and improve contract enforcement.

22. Elsewhere, structural reform progress is lagging. There has been little to no progress in improving public service efficiency (Box 4). Many officials express frustration at the slow pace of hiring, promotions and disciplinary actions. Personnel decisions are cumbersome, requiring actions from three public agencies, subject to excessive judicial challenges, and excessively centralized. In addition, government bodies, including special purpose vehicles, have proliferated.

23. Despite the low recorded unemployment rate, there is evidence of significant underemployment. The estimated elasticity of employment to GDP is low, suggesting that official

[8] The Central Bank's primary tools for liquidity absorption are open market operations through the issuance of treasury bills, notes and bonds on behalf of the government and special fixed-term deposits with commercial banks. The proceeds of the treasury sales are kept at the CBTT rather than being made available for Government spending.

[9] The limits on Treasury bills were increased from TT$ 15 billion to TT$ 30 billion, and on Treasury notes from TT$ 5 billion to TT$ 15 billion.

data may underestimate the degree of slack in the labor market. Temporary make work programs reduce measured unemployment, but contribute little value added.[10]

24. Finally, and critically, there has been little concrete progress in improving the statistical base. The Central Statistical Office (CSO) has yet to move into suitable quarters and remains woefully under-staffed and under-resourced. The production of critical data (including GDP, trade, and labor, as well as tourism statistics) continues to fall further behind, grinding to a halt in critical areas and rendering the conduct of surveillance ever harder (Box 5).

RISKS AND MEDIUM-TERM OUTLOOK

25. Real growth is projected at near 2½ percent in 2014, as energy sector growth recovers following the maintenance outages of recent years. Non-energy growth should remain buoyant due to the high level of support from public expenditure.

26. Over the medium term, reduced slack in the labor market may become a binding constraint. Non-energy growth should settle in around long-term potential estimated at 2 to 2½ percent per annum. Absent a wide-ranging program of reforms, structural impediments will continue to hamper non-energy investment, and hence long-run potential output in that sector. Real medium-term energy sector growth potential is estimated around 1 percent per annum.

27. Beyond the medium term, a recent pickup in energy sector investment may bear significant fruit, especially if deepwater exploration proves as productive as hoped.[11] Foreign direct investment in the energy sector reached a historical high of $2.3 billion in 2012, and capital expenditure in the sector is expected to be around $3.3 billion in 2014.[12] Core inflation should remain relatively low, although demand-side pressures will have to be monitored carefully as the output gap closes.

28. On unchanged policies, projected fiscal deficits would grow to 5.5 percent of GDP by 2019, given falling energy prices in the WEO baseline. This assumes no fiscal adjustment since specific, quantified adjustment measures have not been announced. However, the authorities' have set a balanced budget target for 2016, and a range of measures is under discussion that could provide considerable scope for consolidation.

[10] See Box 1 on "Underemployment in Trinidad and Tobago" in Trinidad and Tobago: Staff Report for the 2013 Article IV Consultation, IMF, October 2013.

[11] The government has provided a range of fiscal incentives to the energy sector in recent years, including accelerated capital allowances, that energy company executives credit with the recent pickup in investment in the sector. In addition to the stimulus for new investment from such incentives, new technologies, such as Ocean Bottom Cable (which greatly improves results from seismic surveys), also hold out hope for increased production from previously developed provinces and improves prospects for Trinidad and Tobago's unexplored deepwater fields.

[12] The split of profits across the natural-gas value chain among upstream gas production, the National Gas Company, which aggregates and distributes natural gas, and the downstream users of natural gas is expected to be an important factor in determining the scale of investment in the industry. The government is currently drawing up a Natural Gas Master Plan that will play a critical role in determining, among other things, pricing along the gas value chain.

Medium-Term Macroeconomic Framework (Baseline Scenario)
(In percent of GDP, unless specified otherwise)

					Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (in percent)	-4.4	0.2	-2.6	1.2	1.6	2.3	2.1	1.9	1.8	1.8	1.7
Energy	-1.8	3.2	-3.9	-1.0	0.2	2.0	1.4	1.0	0.9	0.9	0.9
Non-energy 1/	-6.1	-1.8	-1.6	2.8	2.5	2.6	2.5	2.4	2.4	2.4	2.3
Inflation (end of period)	1.3	13.4	5.3	7.2	5.6	3.7	2.4	3.0	2.3	3.1	3.1
Revenue 2/	28.6	34.1	32.3	29.7	30.1	29.6	28.9	28.6	28.4	28.2	28.0
Energy	14.5	18.4	19.0	16.6	15.6	15.2	14.8	14.2	13.7	13.3	12.9
Non-energy	14.2	15.7	13.2	13.0	14.5	14.5	14.2	14.5	14.7	14.9	15.1
Expenditure	34.2	33.9	32.4	30.7	33.6	31.1	32.6	32.8	33.0	33.3	33.5
Current	27.9	29.0	28.0	26.6	28.9	27.9	28.4	28.5	28.7	29.0	29.2
Capital expenditures and net lending	6.3	4.9	4.4	4.1	4.7	3.2	4.3	4.3	4.3	4.3	4.3
Overall fiscal balance	-5.6	0.1	-0.2	-1.1	-3.5	-1.5	-3.7	-4.2	-4.6	-5.1	-5.5
Overall fiscal non-energy balance	-20.1	-18.2	-19.2	-17.7	-19.1	-16.6	-18.5	-18.4	-18.3	-18.4	-18.4
External current account balance	8.5	20.3	12.4	5.0	11.8	11.5	10.5	9.7	9.2	9.0	8.7
Central government debt 3/	14.8	18.0	16.2	21.0	16.0	16.5	20.5	24.5	28.8	33.4	37.7
Public sector debt 3/	30.6	35.8	33.4	37.2	30.7	30.9	34.6	38.5	42.6	47.0	51.1
Net of HSF deposits 4/	16.7	17.8	15.4	18.6	11.9	12.3	15.6	18.7	22.2	25.9	29.6
Gross official reserves (US$ millions)	8,652	9,070	9,823	9,201	9,986	10,430	10,635	10,750	10,832	10,962	11,015
In months of imports	14.1	15.8	11.9	11.6	11.7	12.7	12.8	12.8	12.7	12.6	12.3

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

1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).
2/ Fiscal data is central government unless otherwise specified and refers to the fiscal year ending in September.
3/ Excluding debt issued for sterilization.
4/ Starting in 2013, assumes no additional contributions to the HSF.

29. **Even under the conservative baseline, a debt sustainability analysis indicates no major concerns through the projection period** (Annex 2). Although the central government's debt trajectory is of some concern, the debt ratio's low initial level allows it to remain below 40 percent of GDP. Moreover, external debt remains at less than 20 percent of GDP by the end of the projection period, while the share of short-term debt is exceptionally low. Thus, rollover risks are limited and debt metrics are relatively insensitive to changes in risk parameters.

30. **The main external risk over the medium term would be a sustained decline in energy prices (Annex 3).** Prices for Trinidad and Tobago's liquefied natural gas (LNG) exports have held up well as it shifts its exports from the United States to Asia, Europe and Latin America.[13] Technological changes along with the development of a significant LNG export capacity from the United States could pose a long-term threat if it significantly expanded global natural gas supplies. However, local producers are confident that demand for natural gas will continue to outstrip supply.

31. **There are significant elements of conservatism in the medium-term projections.** Energy price projections already embody market expectations about the impact of the shale revolution. Moreover, staff projections are based on equally weighted (low) U.S. and (high) Asian gas prices, even though Trinidadian natural gas is no longer sold to the United States. Estimated energy reserves, based on past energy audits, appear conservative given the recent pick up in investor interest in the sector.

[13] The global energy market for natural gas remains significantly fragmented, with benchmark prices in the U.S. averaging around $4 in 2013, while prices in Japan averaged around $17 in 2013.

32. The potential for spillovers from instability within the Caribbean is uncertain. Trade links are limited, but there are significant gaps in knowledge about financial links.[14] The Caribbean Regional Financial Project will shed light on these links, with results expected in late 2014.

33. Domestic risks are likely to the upside. The baseline, which is based on current policies, assumes neither fiscal consolidation nor significant structural reform. While the electoral cycle suggests prospects for either are limited in the coming year, the authorities have set broad goals to achieve both over the medium-term, Once implemented, policy reforms could serve as near-term headwinds, but would also put the country on a more sustainable trajectory, help restore private sector confidence and enhance competiveness and potential growth in the non-energy sector. On the downside, failure to address an actuarial gap in the public pension system in the long term would pose an increasing contingent fiscal burden.

POLICY DISCUSSIONS

The time is drawing near for a tightening of policies as the business cycle turns.

34. Staff noted the time may be drawing near for policy consolidation. Excess capacity in the labor market has fallen with the unemployment rate dipping to 3.7 percent in 2013 Q1 and with relatively solid growth since then. Although there appears to be significant underemployment among low-skilled government workers, employers report shortages of skilled labor, which could pressure wages higher.[15] Core inflation remains low, but staff advised the authorities to remain vigilant for incipient inflationary pressures in view of labor market developments, and the recent pick-up in credit for consumer and real estate lending.

35. Fiscal policy is being tightened in FY 2013/14, but staff cautioned against excess reliance on ad hoc measures and on raising dividends from state-owned enterprises. While the government should reap rewards from its ownership of profitable enterprises, staff cautioned that excess reliance on such dividends could, in the long-run, undermine company finances. Staff welcomed the authorities' intention to maintain discipline on current spending in the run-up to 2015 elections.

36. Staff pointed to some indicators that suggest tightening monetary policy fairly soon. These include the fall in the unemployment rate, increases in credit to consumers and for real estate and the shift in interest rate differentials in favor of U.S. dollar rates.

[14] Of the eight licensed commercial banks, three are subsidiaries of large Canadian banks, which, along with the two large indigenous banks, have extensive operations across the Caribbean region. Banks have foreign country exposure of about 10 percent of total assets, of which about 40 percent is to Caribbean countries. The two largest domestically owned banks (Republic Bank and First Citizens Bank) have substantial operations in the Caribbean: the former has subsidiaries in Barbados, the Cayman Islands, Grenada, Guyana and St. Lucia, while First Citizens has operations in Barbados, Costa Rica, St. Lucia, and St. Vincent and the Grenadines.

[15] In an inaugural business conditions index, released by the CBTT in April 2014, 17 percent of respondents reported a shortage of skilled labor as a constraint to business.

37. **The CBTT will have to consider how to tighten monetary policy**. Given already high excess liquidity, a repo rate hike would not work via dampening banks' demand for liquidity, but it could signal banks to raise the structure of interest rates. However, if banks do not follow suit, high growth in consumer and real estate credit could continue. Thus, staff advised that the CBTT should continue to closely monitor inflation and risks in the consumer and mortgage sectors and be prepared to tighten prudential standards if necessary, along with interest rate hikes.

38. **The authorities agreed with staff's diagnosis of the conditions under which monetary policy should be tightened.** However, they felt that prudential standards were already sufficiently conservative, notably with respect to mortgages and that there are no signs of incipient credit deterioration. At the same time, supervisors have been advised to remain vigilant to prevent any relaxation of current lending standards. While they noted that a significantly faster than expected normalization of the monetary policy stance in the United States would force an undesirable pace of tightening of their own stance, they expressed confidence that the pace of normalization would be gradual enough not to be disruptive.

39. **The CBTT will have to contend with a structural liquidity overhang for the foreseeable future**. For the moment, the CBTT has little choice but to continue to absorb liquidity using the range of instruments at its disposal. However, the problem should ultimately be tackled at its source with a move towards durable fiscal surpluses and structural reforms to encourage private investment. The authorities agreed with the assessment, but are optimistic that business investment will soon pick up.

40. **The reported shortages of foreign exchange raise renewed concerns**. The problem is at root that the CBTT determines both the price of foreign exchange (within a narrow margin), and the residual supply to the market. When the CBTT is caught by unanticipated mismatches in supply and demand, foreign exchange shortages can result. In the past, shortages have been addressed relatively quickly through increased allocations in future central bank sales. However, shortages in the most recent episode appeared to be more persistent, although there has been no concrete evidence that a parallel market in foreign exchange has arisen. In late May, 2014, the CBTT responded to the shortages with a sale of US $200 million into the market, bringing total sales for 2014 to US $610 million with the objective of meeting existing estimated demand queues. The CBTT also agreed with the Bankers Association of Trinidad and Tobago to further improvements in the distribution of foreign exchange. The CBTT believes that these combined actions will help to restore normalcy to the market and eliminate accumulated, unsatisfied demand.

41. **The current system of foreign exchange allocation has imposed easily avoidable costs, despite the high level of foreign exchange reserves**. Uncertainty about foreign exchange availability has led to an inefficient allocation of foreign exchange as it is hoarded (as evidenced in the buildup of U.S. dollar deposits in the local banking system), further exacerbating the shortages. If, notwithstanding the recent actions of the CBTT, shortages recur, Trinidadian businesses may suffer damage from being unable to pay their foreign suppliers, and those parties unable to purchase foreign exchange from authorized dealers at the official exchange rate could be incentivized to pay a premium to purchase foreign exchange elsewhere.

42. A lasting solution to the shortages requires that the CBTT introduce greater flexibility to the foreign exchange market. This could be achieved through an unconditional commitment to meet foreign exchange demand or by allowing greater flexibility in the pricing mechanism (e.g. by widening the limits on the exchange rate). Either way would likely restore confidence in the foreign exchange market, eliminate shortages and hoarding, and provide authorities a rapidly responding barometer of foreign exchange supply and demand conditions, thus providing useful signals about macroeconomic policy. It may be that recent shortages are masking budding balance of payments pressures, stemming from high government subsidies and transfers and bank credit for imported goods (notably automobiles). Should there be continued pressures for foreign exchange, notwithstanding the changes introduced by the CBTT in late May, a failure to introduce greater flexibility into the foreign exchange market could lead to renewed shortages, indicating the existence of an exchange restriction.

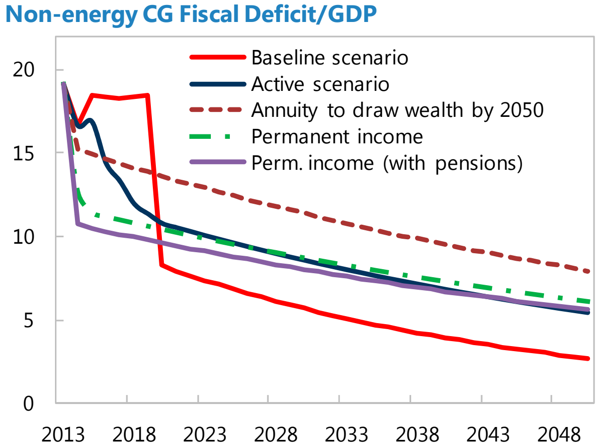
43. The authorities disagreed that foreign exchange shortages were a serious problem. They believed that shortages were temporary and that concerns have been overblown. They also believed changes to the system introduced on April 1 should be given more time to work, and that there was sufficient flexibility in the current system, since the amounts to be auctioned off can be changed over time. They oppose an unconditional commitment to meet all foreign exchange demand, given their goal to continue to build foreign exchange reserves for the foreseeable future. However, they have recently acknowledged that the changes on April 1 had not eliminated shortages, and hence they took the further actions noted above.

Over the medium term, the fiscal position should move back into surplus.

44. Although growth is reviving, achieving a sustained pick up will require more balanced growth. First, the country has achieved only limited success in diversifying its economy outside the energy sector. Second, while data limitations do not allow for definitive conclusions, non-energy growth appears to be concentrated in government and private consumption, rather than in the investment required to enhance potential growth.

45. Staff affirmed its view that the fiscal position should move towards surpluses over the medium term. Saving and investing the substantial resources extracted from the energy sector would spread that resource wealth over future generations. Within those structural surpluses, spending should shift from public consumption towards investment, and fiscal consolidation should be based on policy changes that durably improve the structure of non energy-based revenues and spending, rather than ad hoc measures.

Non-energy CG Fiscal Deficit/GDP



Source: IMF staff estimates.

46. Staff recommended quickly moving to start ending fuel subsidies. Cheap fuels induce excessive reliance on automobiles, leading to efficiency-killing traffic jams and environmental costs, and disproportionately benefit the well-off. The government prefers to first make compressed natural gas (CNG) widely available as a substitute for gasoline and diesel, while encouraging conversion of vehicles to CNG use, before removing fuel subsidies. Staff noted, however, that concurrent reduction of fuel subsidies would boost incentives to switch to CNG.

47. Staff welcomed the intention to rationalize social programs, notably through the creation of a central benefits registry. This would help detect fraud and ensure that benefits are provided as efficiently as possible. Staff also advocated more ex-post monitoring of program effectiveness, given that many programs are not currently evaluated.

48. Staff encouraged making revenue generation more buoyant, efficient and equitable, notably by broadening the non-energy tax base. The government has already started to adopt some measures including property taxation and reforming transfer pricing. Reform of the VAT to minimize exemptions and zero-ratings is critical to improve its efficiency and equity, and to ensure a level playing field across economic activities. Other reforms such as redressing the erosion of excise tax bases and enhancing personal and corporate income tax revenues could also be considered, if needed. Finally, staff cautioned that tax incentives should be granted sparingly, with full accountability and periodic reviews of such "tax-expenditures".

49. As in previous discussions, the staff has developed a long-term fiscal path (active scenario) that illustrates the impact of this set of policies through 2019. This includes (i) tax measures that yield 3½ percent of GDP (more than compensating for the gradual decline in energy revenues); (ii) current expenditure reductions of 4 percentage points of GDP, mainly through reducing fuel subsidies and better targeting social programs and other transfers, and (iii) increasing capital expenditures by 1¼ percent of GDP.

50. Staff continued to advocate setting fiscal policy in a long-term context, managed as part of a national balance sheet. Thus, sustained transfers into the HSF should be conditioned on a return to fiscal surpluses. Staff inquired whether HSF resources might be drawn down in the event of an adverse shock to energy prices, but the authorities maintained that it was the intent to continue building the HSF, emphasizing the saving aspect of the fund more than the stabilization aspect. Actuarial reports suggest that the national insurance system is not yet on a sound long-term footing, posing a sizable contingent fiscal liability. While welcoming the proposed expansion of the system to include the self employed, further parametric reforms of the employee scheme will be needed, whether on contributions or benefits, including possibly phasing in later retirement times as people continue to live longer.

Medium-Term Macroeconomic Framework (Active Scenario)
(In percent of GDP, unless specified otherwise)

					Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (in percent)	-4.4	0.2	-2.6	1.2	1.6	2.3	1.6	1.1	1.3	2.0	2.2
Energy	-1.8	3.2	-3.9	-1.0	0.2	2.0	1.4	1.0	0.9	0.9	0.9
Non-energy 1/	-6.1	-1.8	-1.6	2.8	2.5	2.6	1.7	1.2	1.5	2.7	3.0
Inflation (end of period)	1.3	13.4	5.3	7.2	5.6	3.7	3.1	3.0	3.1	3.3	3.3
Revenue 2/	28.6	34.1	32.3	29.7	30.1	29.6	30.6	31.6	31.4	31.4	31.5
Energy	14.5	18.4	19.0	16.6	15.6	15.2	14.8	14.2	13.8	13.3	12.9
Non-energy	14.2	15.7	13.2	13.0	14.5	14.5	15.8	17.4	17.6	18.0	18.6
Expenditure	34.2	33.9	32.4	30.7	33.6	31.1	32.6	31.7	30.9	30.0	29.9
Current	27.9	29.0	28.0	26.6	28.9	27.9	27.9	26.5	25.4	24.5	24.4
Capital expenditures and net lending	6.3	4.9	4.4	4.1	4.7	3.2	4.8	5.3	5.5	5.5	5.5
Overall fiscal balance	-5.6	0.1	-0.2	-1.1	-3.5	-1.5	-2.0	-0.1	0.5	1.4	1.6
Overall fiscal non-energy balance	-20.1	-18.2	-19.2	-17.7	-19.1	-16.6	-16.9	-14.4	-13.3	-11.9	-11.3
External current account balance	8.5	20.3	12.4	5.0	11.8	11.5	11.4	11.6	11.6	11.9	12.2
Central government debt 3/	14.8	18.0	16.2	21.0	16.0	16.5	18.9	19.0	18.5	17.8	16.8
Public sector debt 3/	30.6	35.8	33.4	37.2	30.7	30.9	33.0	33.0	32.3	31.5	30.2
Net of HSF deposits	16.7	17.8	15.4	18.6	11.9	12.3	14.0	13.1	11.6	9.1	6.1
Gross official reserves (US$ millions)	8,652	9,070	9,823	9,201	9,986	10,408	10,915	11,584	12,409	13,441	14,448
In months of imports	14.1	15.8	11.9	11.6	11.7	13.5	14.4	15.2	16.1	16.5	16.2

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

1/ Includes VAT and Financial Intermediation Services Indirectly Measured (FISIM).
2/ Fiscal data is central government unless otherwise specified and refers to the fiscal year ending in September.
3/ Excluding debt issued for sterilization.

51. The authorities agreed with the need to continue medium-term fiscal consolidation and to reallocate spending. They pointed to the revenue measures already in train and noted preparatory work will be done to reverse erosion in the VAT base caused by extensive zero-ratings and exemptions, though actual VAT reform is unlikely to take place in the next year or two. A number of other measures will also be considered in time, including, on the expenditure side, to rein in transfers and subsidies. The authorities maintained their position that while it is desirable to run fiscal surpluses, they would continue making transfers to the HSF solely by considering excess budgetary revenues from the energy sector. On pensions the authorities noted that, in addition to extending the system to include the self employed, the National Insurance Board of Trinidad and Tobago had adopted many corrective measures proposed under the latest actuarial review, and was reducing the interval between reviews from 5 to 3 years to increase the scope for more frequent parametric reforms.

Structural measures will be critical to achieve more balanced growth

52. Staff encouraged the authorities to continue to pursue an aggressive program of structural reforms. These will be necessary to encourage growth in the non-energy sector. At present, the business community reports that there are a number of critical impediments to investment in that sector. These include an inefficient public service that slows government decision-making, excessive regulations that inhibit business formation, governance concerns that lead to perceptions of a non-level playing field, labor market distortions that inhibit human capital formation and flexibility, and serious data shortcomings that subject business planning to great uncertainties.

53. Staff welcomed progress in financial sector reforms and removing the impediments to doing business, but the public service remains beset with a range of serious problems. Staffing in the public service is administratively cumbersome, subject to excessive judicial challenges and too centralized. Staff urged the government to revisit legislative changes that had amplified the litigiousness of personnel decisions and to explore ways to give greater autonomy in such decisions to government agencies.

54. In addition, government bodies continue to proliferate. While often well-intended, such proliferation leads to overlapping mandates, severe coordination challenges, and quite likely, over-staffing. Staff noted that a serious effort to streamline the overall structure of government and publically-owned bodies could yield substantial gains in efficiency.

55. Other important legislative reforms should be fast-tracked. Trinidad and Tobago continues to fall short on governance indicators and perceptions of corruption and staff supported calls from the business community for rapid progress on procurement reform. The government should also move to establish appropriate insolvency frameworks, including corporate bankruptcy and bank resolution legislation.

56. Staff expressed concerns that government temporary employment programs distort the labor market. While data are insufficient to establish a strong causal link, there is a *prima facie* case that employment in these programs is competitive with private sector jobs since they require participants to work much less than the officially required hours.

57. Staff echoed widely-held views that social transfers and make-work programs may be inculcating a sense of dependency on the part of the beneficiaries of those programs. While social safety nets are critical to protecting the most vulnerable segments of society, inclusive growth should be promoted through the provision of skills demanded by the economy and improved job matching. Some combination of carrots and sticks may be needed to help move participants into productive private sector employment, including via a greater role for training.

58. In the absence of concrete progress in lasting reforms to remedy data shortcomings, data lags are growing, rendering surveillance ever harder. Staff urged the authorities to take quick action to provide the CSO with the resources needed to begin to rebuild its capacity.

59. The authorities broadly agreed with the staff's views on the need for wide-ranging reforms. However, they cautioned that some problems had proved resistant to past attempts at reform, and that meeting reform challenges will take time. For now, they pointed to a specific emphasis on easing impediments to doing business. They did not see the temporary employment programs as particularly distortionary to the labor market, pointing out that participants in those programs do not have the skills to work in the private sector, and noting that these programs were increasingly oriented towards providing skills-training, which would improve prospects for more inclusive growth. They continue to acknowledge the problems with statistics and agreed that strengthening the national statistical infrastructure was critical, although they believe the plan to alleviate resource shortages on a temporary basis via a loan of staff from the CBTT will make some difference.

60. Staff welcomed multi-agency efforts under way to prepare for the upcoming FATF assessment of AML/CFT in early 2015. Continued focus and allocation of resources will be needed in the coming months to ensure that the country meets the 2012 FATF standards.

STAFF APPRAISAL

61. In the near term, and recognizing that severe data limitations make any assessments challenging, numerous signs point to a need to soon tighten the macroeconomic policy stance. Fiscal policy is already being tightened this fiscal year, but in significant part through ad hoc measures. Thus, there is a need to design and implement fiscal policies that durably improve the structure of non-energy based revenues and spending, although some measures are in train. Consideration will also have to be given to starting to tighten monetary policy, especially as the normalization of the monetary policy stance in the United States draws nearer. In view of already existing excess liquidity and a weak transmission mechanism, consideration should be given to tightening already conservative prudential standards should signs of froth emerge in specific asset markets.

62. Trinidad and Tobago is finally embarking on sustained growth, but diversifying the economic base remains the most critical medium-term challenge. The recent strong renewal of interest in exploration and development in the energy sector along with new technologies and the opening up of potentially "game-changing" deepwater acreage holds out the promise of significant increases in non-renewable resources. Nonetheless, sea-changes are continuing in the global energy industry, and prudence suggests the government should be conservative in its long-term assumptions about the sector's potential.

63. Diversification will require reorienting government expenditure towards supporting investment in the non-energy sector. To date, government spending has been concentrated on supporting current consumption through an excessively generous and poorly targeted set of subsidies and transfers, notably, regressive and expensive fuel subsidies. There is ample scope for revenue and expenditure reforms to move to structural fiscal surpluses and create the fiscal space for increasing public investment, while protecting the most vulnerable members of society. Further parametric reforms will be needed to put the National Insurance System onto a sustainable long-term footing, although there are no solvency concerns over the medium term.

64. Trinidad and Tobago's external position remains healthy, with a large current account surplus and a high level of external buffers. Although standard methodologies indicate a large degree of overvaluation using official inflation data, it is difficult to conclude that there is a significant exchange rate misalignment given the severe historical bias in measured inflation.

65. The government will need to build on recent successes in implementing structural reforms to unlock the country's full growth potential. There has been significant progress in easing the impediments to doing business, although more remains to be done. However, there are still critical needs to improve the efficiency of the public service and the functioning of labor markets.

66. There has been much progress in financial reform, but there may still be a need to introduce greater flexibility into the foreign exchange market. Important measures have been made to modernize financial regulation and bring systemically important non-bank financial institutions into the regulatory perimeter. However, the foreign exchange allocation system has led to an apparently widespread and persistent recurrence of foreign exchange shortages that, while recently eliminated according to the authorities, could indicate the existence of an exchange restriction if they recur. It is hoped that the recent changes introduced by the CBTT will introduce the required degree of flexibility into the foreign exchange allocation system to durably eliminate these shortages. Staff will continue to monitor developments closely and follow up with the authorities as needed to determine if an exchange restriction has arisen.

67. Critically, the lack of reliable and timely data is an overarching problem that hampers public and private decision-making. Since the last Article IV discussions, there has been little concrete progress in implementing lasting reforms to remedy data shortcomings. The CSO still has no permanent quarters after its building was condemned last year and it remains starved of resources, leading statistics production to seriously lag in critical areas. Data shortcomings now severely constrain staff's ability to conduct economic surveillance. Moreover, aside from the plan to help alleviate resource shortages on a temporary basis, there are no concrete signs of implementing an action plan to resolve the problems at the statistical agency, and there is therefore a critical and urgent need to provide the CSO the resources needed to fulfill its mission.

68. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Box 1. The Foreign Exchange Market

Most foreign exchange is provided directly to the market by private companies that earn foreign exchange, primarily in the energy sector. The central bank also auctions off dollars, obtained from the government, which receives tax payments in foreign exchange and converts the proceeds with the central bank. The central bank, which accounts for about 20 to 25 percent of the market, conducts both non-competitive sales and a competitive auction. However, the price of foreign exchange is set in the non-competitive sale, and authorized foreign exchange dealers have not been allowed to sell foreign exchange at a spread greater than 1 percent over the non-competitive rate in the week after the last non-competitive sale. New limits are determined every time there is a new central bank non-competitive sale. The CBTT also sets, at its discretion, (but based on an analysis of market data to determine supply and demand conditions) the amounts it sells at each non-competitive and competitive sale.

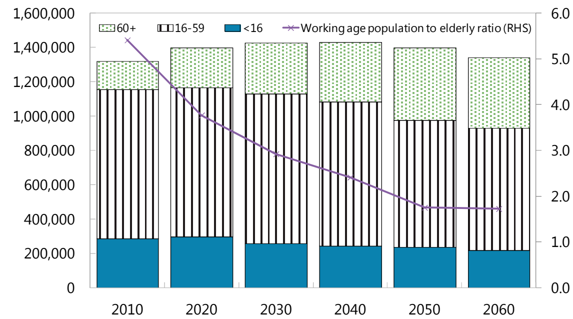
The CBTT made some changes to its foreign exchange allocation system on April 1, 2014, but the changes did not fundamentally alter the basic allocation system, which entails administrative determination of both the price and the marginal quantity sold into the market.[1] Some foreign exchange dealers have reportedly been disadvantaged by the new system since, given excess foreign exchange demand, dealers bid away the small margin between their buying and selling rates. But importantly, the new system does not entail any changes to the mechanism for pricing U.S. dollars to the ultimate customer, which is still constrained by narrow CBTT limits. On May 23, 2014, the CBTT announced it had agreed with the Bankers Association of Trinidad and Tobago on further improvements in the distribution of foreign exchange.

[1] The changes involved a shift in the CBTT's sales from the non-competitive auction towards the competitive auction, as well as changes in the rules governing inter-dealer allocations, which have been determined according to central bank guidelines.

Box 2. Pension Prospects in Trinidad and Tobago

Trinidad and Tobago is expected to face rising employee-based pension obligations from an aging population.[1] The total population is projected to rise from 1.32 million in 2010 to 1.43 million in 2036 before falling to 1.34 million in 2060. However, the working-age population (16–59 years) to elderly (60+ years) ratio is projected to fall dramatically, from 5.4 to 1.7 over the projection period.

Trinidad and Tobago - Prospective Aging Profile, 2010-60



Source: 8th Actuarial Review.

Staff projections show quasi-fiscal pressures, prior to recent reforms, would have totaled 3½ percent of GDP annually by 2060, with a negative net asset position equivalent to 87 percent of 2060 GDP. A 2010 actuarial review foresaw the system's expenditures exceeding contributions from 2017/18, while the system's financial assets would continue growing through 2026/27 but, absent reforms, be depleted by 2039/40.[2]

The actuarial review proposed reforms (some since partly adopted) to reduce the estimated shortfall, but additional measures remain necessary. These included:

- Increasing the general average premium to 17.6 percent over the projection period (from 11.4 percent in 2012 to 25 percent in 2041–60);
- Increasing maximum insurable earnings, which would benefit the system now through higher contributions (albeit with higher earned pension rights in the future); and
- Increasing the retirement age.

Contribution rates were increased to 11.7 percent in 2013 and to 12.0 percent in 2014, along with increases in maximum insurable earnings, consistent with actuarial recommendations. Auditors subsequently estimated that these reforms reduced the required increase in the general average premium from 17.6 percent to 17.1 percent (still, however, well above the current 12 percent contribution rate). The new measures postpone exhausting the scheme's accumulated assets only from 2039–40 to 2044–45. Thus, further reforms (including a possible increase in pension ages) are still required.

Also, the government announced it would table legislation in 2014 to include the self employed in the pension system. While these contributions and benefits would be managed by the National Insurance Board, they will remain segregated in an independent fund.

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[1] Trinidad and Tobago has a partly funded pay-as-you-go old-age, disability and survivors' pension system, mandatory for wage earners. Contributors in 2010 totaled 79 percent of the labor force, and 58 percent of the working age (16–59 years) population. Contributions are based on wage schedules, and contribution rates are 12 percent of wages, two-thirds payable by employers and one-third by employees, and capped at TT$12,000 (US$1,890) per month. The standard pension age is 65 years, compared to a life expectancy at birth of 66.3 years for men, and 73.6 years for women. (Life expectancies are from the United Nations, as reported in Social Security Systems Throughout the World: The Americas, 2013.) http://www.ssa.gov/policy/docs/progdesc/ssptw/2012-2013/americas/index.html

[2] Trinidad and Tobago: Eighth Actuarial Review of the National Insurance System as of 30 June 2010, Center for the International Promotion of Quebec Public Expertise, September 2012. http://www.nibtt.net/.

Box 3. Financial Sector Reform Agenda

The authorities are in the midst of wide-ranging financial reforms, including improving regulation of non-bank Systemically Important Financial Institutions (SIFIs). Five SIFIs have been identified, each of which is regulated by its own Act. The long-term objective is to bring these institutions under the regulatory and supervisory perimeter of the CBTT.

Joint work has begun among the CBTT and the Ministries of Finance and Planning on a National Financial Crisis Contingency Plan. A recent IMF technical assistance mission recommended that the Plan include a policy and operational framework that is based on the current legal framework, together with structures and procedures adaptable to changing policy preferences, financial market developments, and legislative changes. Trinidad and Tobago is also spearheading work on a **Regional Crisis Management Plan** and is taking a leading role in the **Caribbean Regional Financial Project**, in conjunction with Fund staff.

Multi-agency efforts are under way to prepare for the upcoming assessment of AML/CFT in early 2015 under strengthened CFATF standards.

There is also financial sector legislation in the pipeline:

- **Insurance Act** (revision). There are 30 active life and general insurance companies in Trinidad and Tobago. The current legislation is outmoded. Revised legislation has been in the works since 2008, but has run into roadblocks, including the collapse of CLICO. The draft legislation is modeled primarily on Canadian law and includes a major strengthening of regulatory (risk-based) capital. The pending legislation reportedly has broad industry support and the authorities are hoping for passage by the summer of 2014.
- **Credit Union Act**. The Act would transfer supervision from the Commissioner for Co-operative Development to the CBTT. It takes account of international standards and best practices of other jurisdictions. A law has been drafted but will be revised based on the findings (expected mid-2014) of a Commission of Enquiry into the collapse of CL Financial group and the Hindu Credit Union.
- **Occupational Pensions Plan Act**. An Act is being developed to update current provisions, harmonize pension rules for the private and public sectors, and ensure that pension plans are governed and regulated in accordance with international best practices.
- **Unit Trust Corporation (UTC) Act.** UTC is working with the CBTT to revise its Act, which has been unchanged since the UTC's 1982 creation. The law will need to cover a number of instruments and practices developed since then and clarify UTC's ownership structure and governance. Passage is expected by 2015.
- **Real Estate Legislation.** A new act would require that all agents be licensed. At present, only about one-third of the 1500 practitioners are licensed.

Box 4. Structural Reform Challenges—The Public Service

Trinidad and Tobago's public service employees represent one quarter of total employment. These include permanent, contract, and daily-paid workers in 48 ministries, agencies, and departments**.**

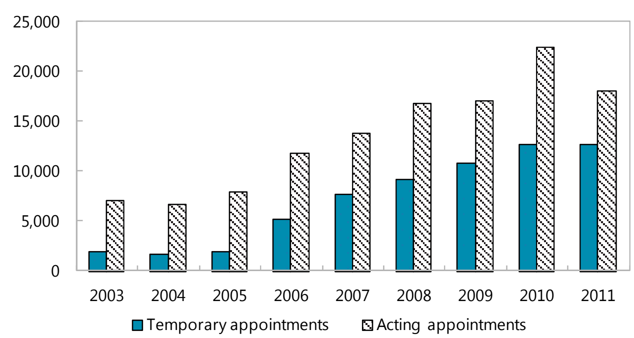
Human resource management in the public service is highly concentrated in a cluster of centralized government agencies. Line ministries and departments have little autonomy with their authority generally confined to providing performance reports and making recommendations for filling vacancies. They do not have powers to make their own hiring and promotions decisions, nor can they generally discipline their own staff.

At the same time, decision-making is highly fragmented among those centralized agencies.[1] The Chief Personnel Officer sets the terms and conditions of employment, conducts wage negotiations for public service positions, and advises the government on human resources management policies. The Service Commissions Department (SCD) appoints, promotes and disciplines staff.[2] Finally, the Ministry of Public Administration is responsible for restructuring of ministries and departments, training and development. Coordination is poor among the agencies, including due to limited information sharing. The fragmented nature of administration also makes accountability very low, so it is extremely difficult for line ministries and agencies to identify where bureaucratic bottlenecks reside.

As a result, recruitment and promotions are protracted. The centralized agencies are overburdened with long work backlogs, compounded by largely manual operational procedures, particularly for recruitment. For example, negotiations for the 2008–2010 wage round were only concluded in 2012. Moreover, personnel decisions are subject to excessive judicial challenge. The Judicial Review Act of 2000 granted public service staff very broad rights to challenge decisions made by the Service Commissions in the high court. Accordingly, to reduce the risk of lawsuits, the Service Commissions have become extremely deliberate in documenting and taking decisions.

Given long delays in personnel decisions, agencies find ways to bypass normal procedures. Recognizing the slow pace of decision-making, in 2006 the Public Service Commission allowed ministries to promote and hire on a temporary basis, leading to significant increases in the numbers of acting and temporary appointments. Temporary staff increased from 1,920 in 2005 to 12,636 in 2011, while new permanent appointments declined from 916 to 628.

Trinidad and Tobago
Temporary and Acting Appointments in Ministries and Departments



Source: Trinidad and Tobago Public Service Commission

Box 4. Structural Reform Challenges—The Public Service (concluded)

Over the same period, the number of personnel in an acting capacity (i.e. given higher responsibilities without a formal promotion) increased from 7,881 to 18,012. These patchwork solutions have worsened staff morale and retention of qualified professional staff. Consequently, the public service is unable to carry out many critical functions accurately and expeditiously.

The Public Service regulatory framework is extremely outdated. For example, governing legislation for the civil service, fire service, prison service, and public service commission date to 1965. Thus, many positions, as well as terms and conditions of service, are outdated and have not been reviewed for decades.

An ongoing "Gold-to-Diamond" reform aims to transform the public service in the next decade. Under this reform, a new public service structure will increase middle management positions to accommodate the majority of qualified employees who are currently working in lower level positions. The reform will modernize job descriptions, emphasize merit and performance, and aim to inculcate a culture of excellence. In addition, there are efforts to rationalize social services and enhance hiring, staffing and promotion practices in the public service. However, given resistance to past reforms, it is too early to judge whether the current reform will be successful.

[1] According to the Global Competitiveness Indicators (2012-2013), inefficient government bureaucracy is the second most problematic factor for doing business, after crime.

[2] The SCD is the Secretariat for the Public Service Commission, the Teaching Service Commission, the Judicial & Legal Service Commission, and the Police Service Commission.

Box 5. Data Issues

Data shortcomings have reached critical mass and now severely constrain staff's ability to conduct economic surveillance. The government data collection agency, the Central Statistical Office (CSO), temporarily ceased operations in mid-2013 and now operates under extreme resource constraints, leading to very long lags for GDP, trade and labor data.[1] Official trade data are available up to February 2012, labor market data up to March 2013, while the GDP data for 2012 is still only provisional.[2] There are also significant gaps in tourism statistics, while expenditure-side and quarterly GDP estimates are not compiled. The central bank's efforts to fill data gaps, although laudable, have resulted in estimates that are flawed due to methodological weaknesses.

The government is aware of these long-standing problems and has received an aggressive plan from Statistics Sweden to modernize the CSO. The report prioritizes: (i) connecting the agency better with data suppliers and users; (ii) improving IT systems; and (iii) enhancing human resources. The ultimate aim would be legislation to place the CSO on an independent footing by the end of 2014.

However, there has been little concrete progress implementing reforms. CSO staff are still in temporary locations and permanent quarters are unlikely in the next 12-18 months. The CSO's self-proclaimed goal to bring a wide range of statistics rapidly up-to-date once they move into new quarters is laudable, but severe resource shortcomings cast serious doubt on its achievability.

A plan to temporarily alleviate resource shortages entails the CBTT recruiting 15 staff and assigning them to the CSO for one year. The aim is to clear backlogs of trade and labor market data. Meanwhile, the CSO has committed additional resources (TT$2 million) for the same purpose, and is collaborating with the Customs Department to resolve trade data issues.

[1] The CSO currently has 350 staff, and due to inadequate office accommodation, some staff work from home, rotate office spaces, or do not work at all.

[2] Additional trade data recently became available from March 2012 to October 2013. However, the CSO, which is in the process of validating the data, has cautioned that they are not yet reliable.

[3] For example, the CSO intends to finalize new current and constant price GDP for 2010-2014 by end-July 2014.

Figure 1. Trinidad and Tobago: Structural Impediments to Growth

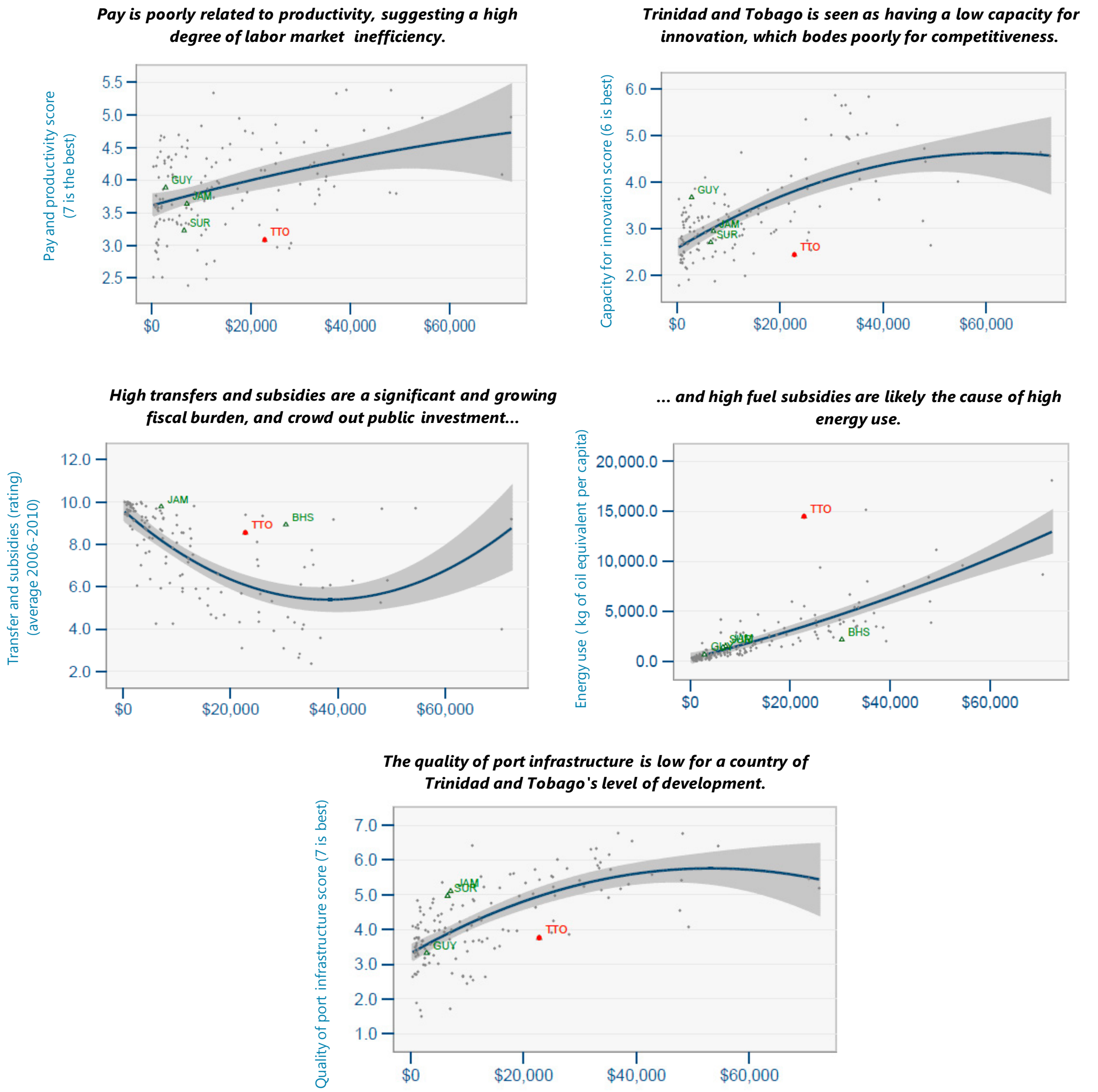
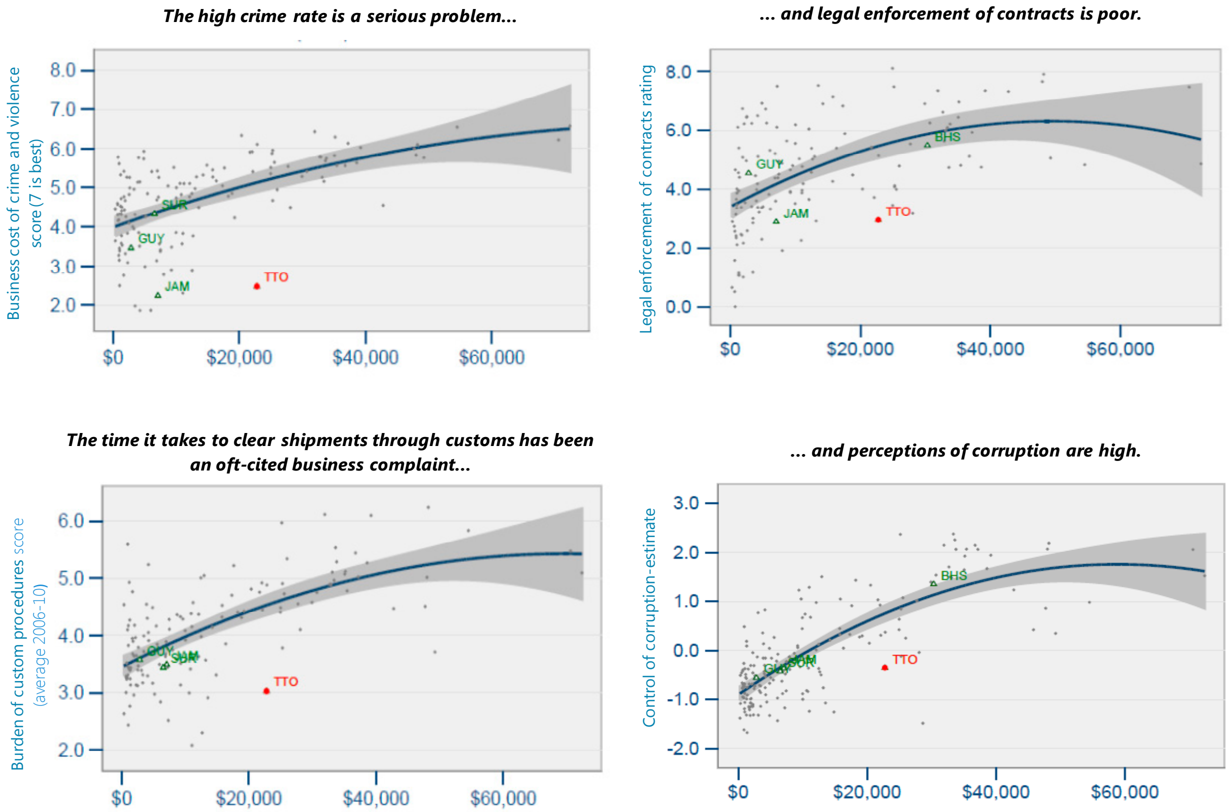


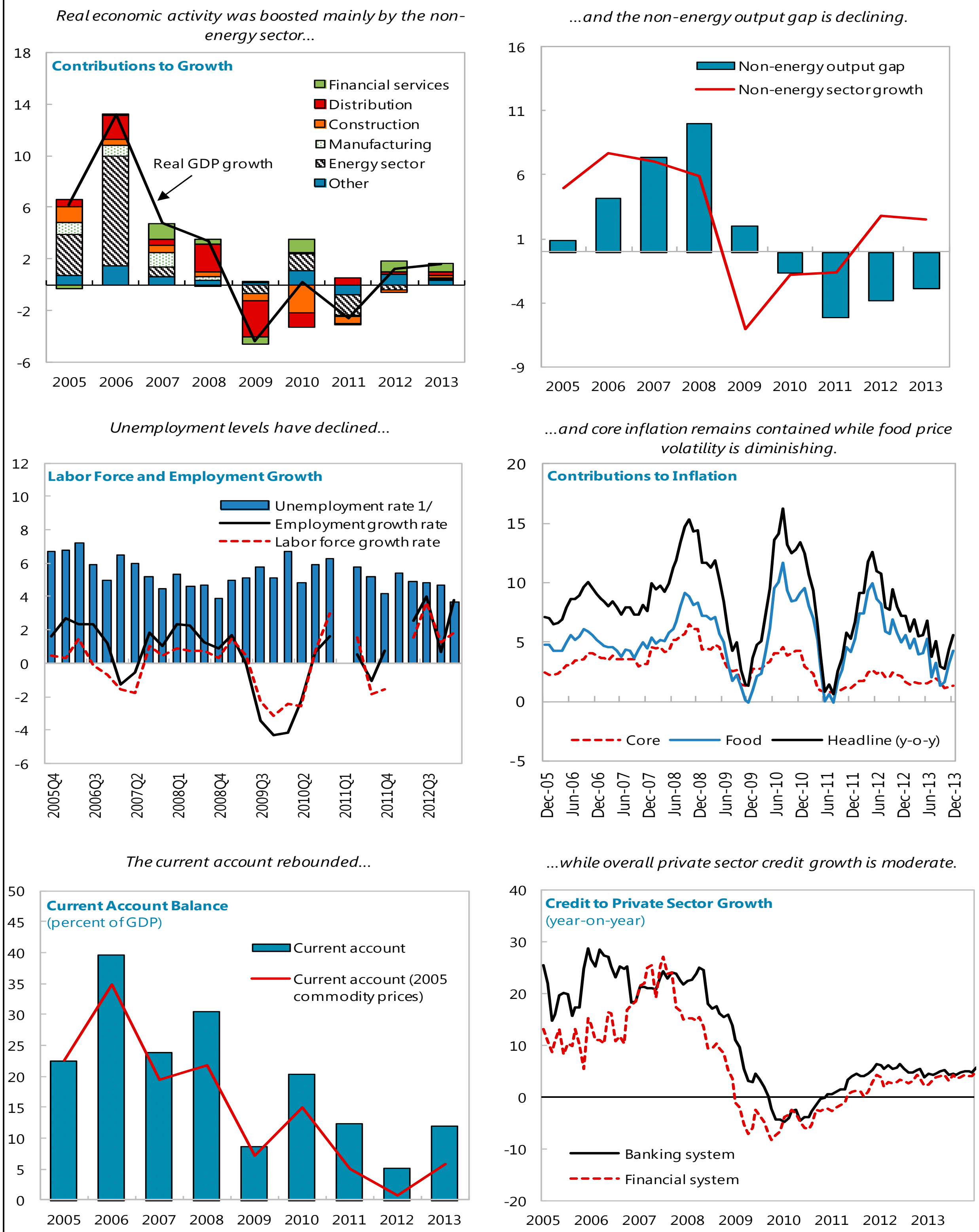
Figure 1. Trinidad and Tobago: Structural Impediments to Growth (concluded)



Sources: World Bank; Doing Business Report 2012; Global Competitiveness Report 2012; Global Financial Development 2010; World Govennance indicators 2010; and Economic Freedom of the World.
Note: Variable in X axis: GDP per capita (average 2005-2010), PPP (constant 2005 international $).

Figure 2. Trinidad and Tobago: Key Economic Developments

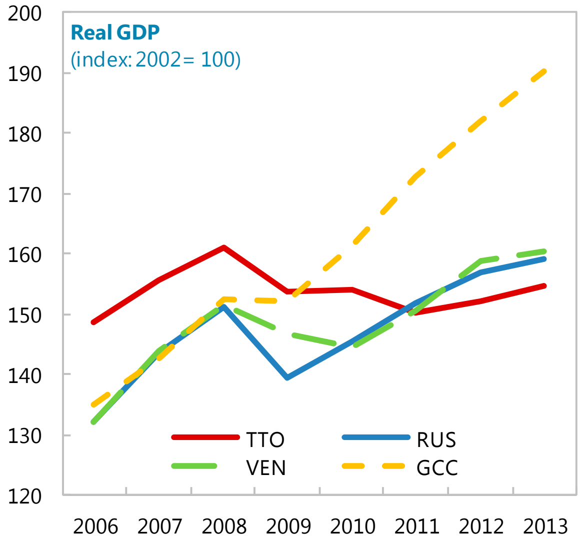
(In percent, unless otherwise indicated)



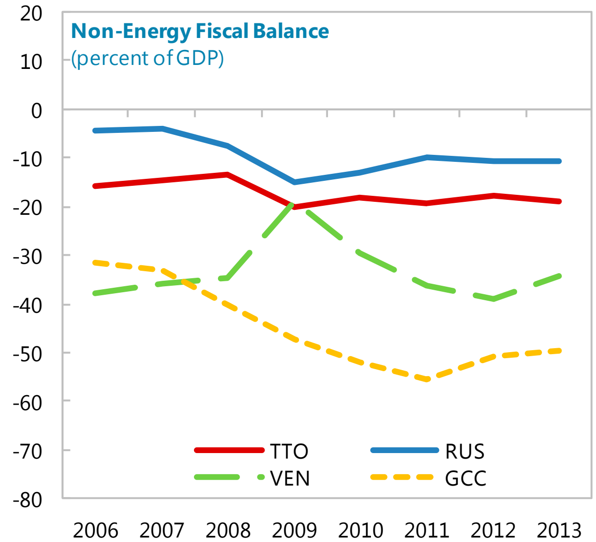
Sources: Trinidad & Tobago authorities; and Fund staff estimates.
1/ In percent of labor force.

Figure 3. Trinidad and Tobago: Comparative Macroeconomic Performance 1/

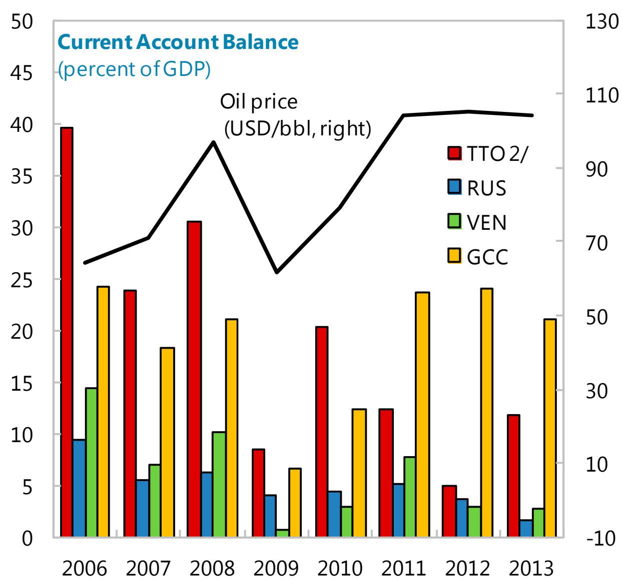
Trinidad and Tobago's growth has lagged behind other energy exporters in recent years...



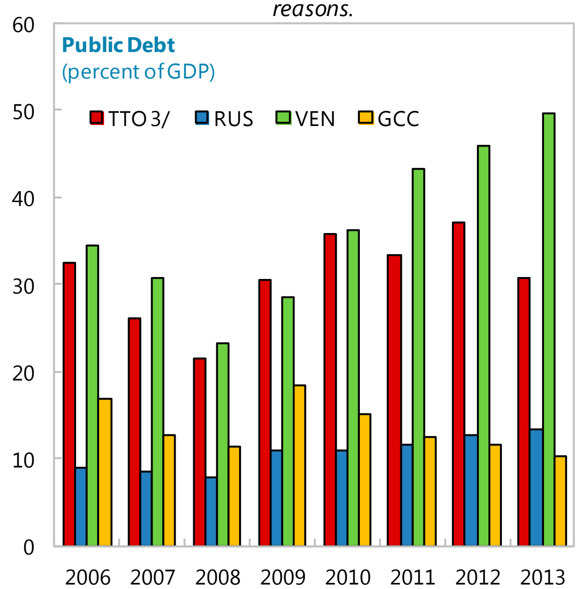
...while its non-energy fiscal balance has performed slightly better compared with most other energy exporters.



The current account surplus rebounded in 2013...



...while public debt dipped in 2013 for technical reasons.



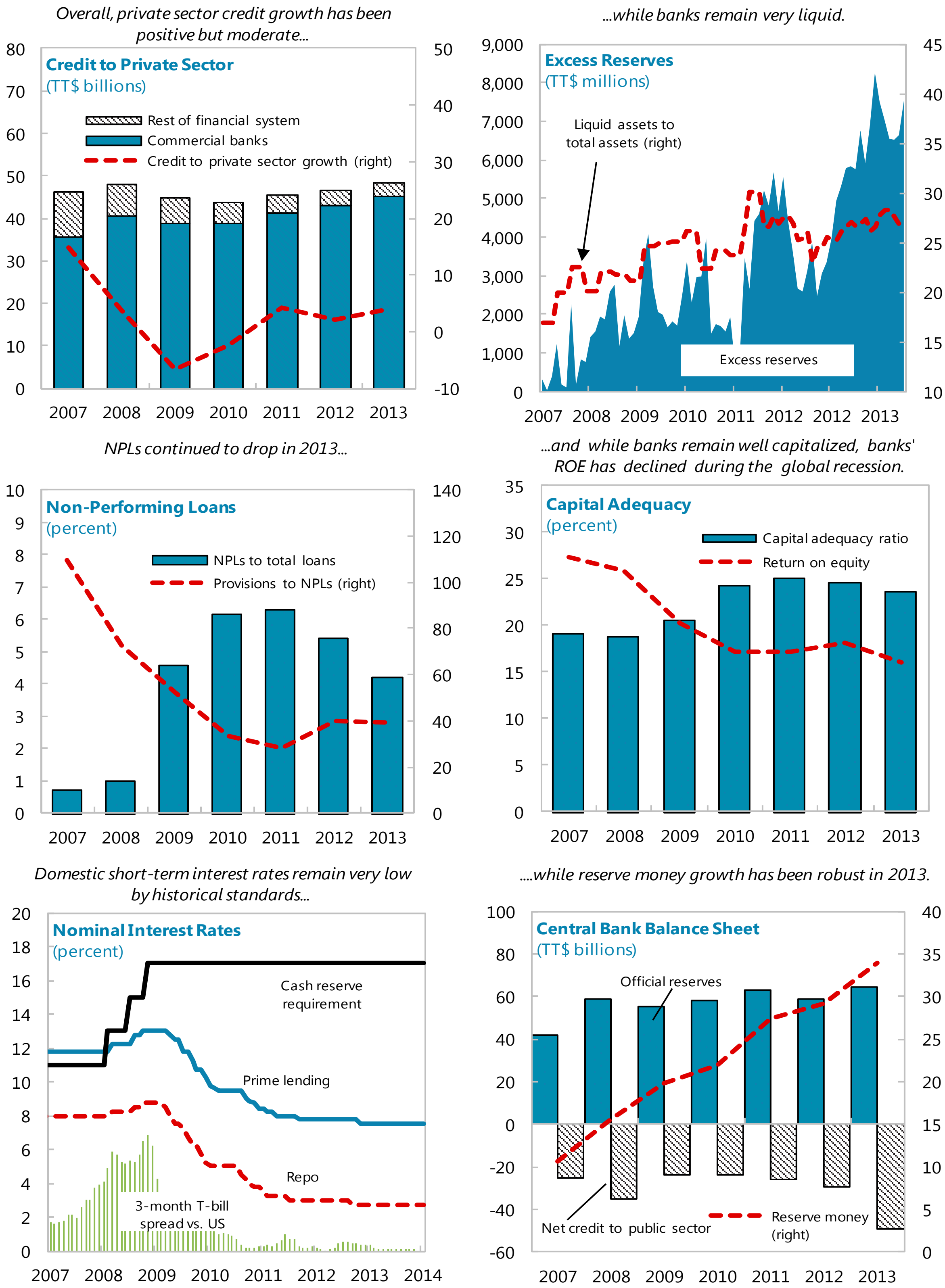
Sources: Trinidad & Tobago authorities; IMF/WEO; and Fund staff calculations.

1/ TTO stands for Trinidad & Tobago, VEN for Venezuela, RUS for Russia, and GCC for Gulf Cooperation Council.

2/ A correction in current account methodology led to the current account surplus being revised down sharply as of 2011. Thus, comparisons between 2011 and earlier periods should be made with caution.

3/ Seven percentage points of the rise in public debt in 2012 was due to the issuance of bonds to former CLICO policyholders. Much of this rise will be reversed once these policyholders complete debt for equity swaps.

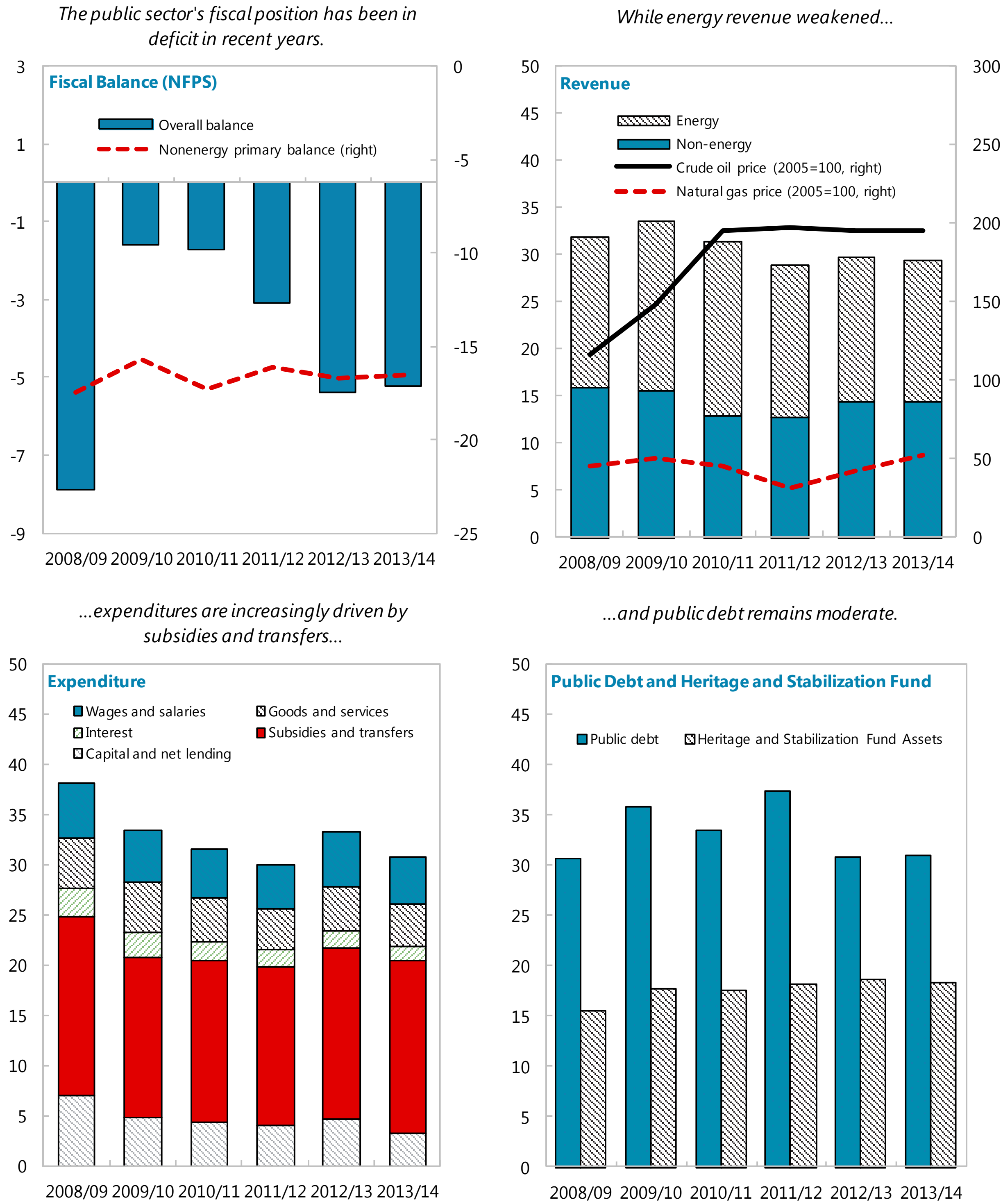
Figure 4. Trinidad & Tobago: Monetary Sector Developments



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

Figure 5. Trinidad & Tobago: Fiscal Sector Developments 1/

(In percent of GDP, unless otherwise indicated)



Sources: Trinidad & Tobago Authorities; and Fund staff calculations.
1/ Central government only unless otherwise specified. Panel 1 excludes PetroTrin and the National Gas Company.

Figure 6. Trinidad & Tobago: External Sector Developments

(In billions of U.S. dollars, unless otherwise indicated)

The current account surplus rebounded in 2013...

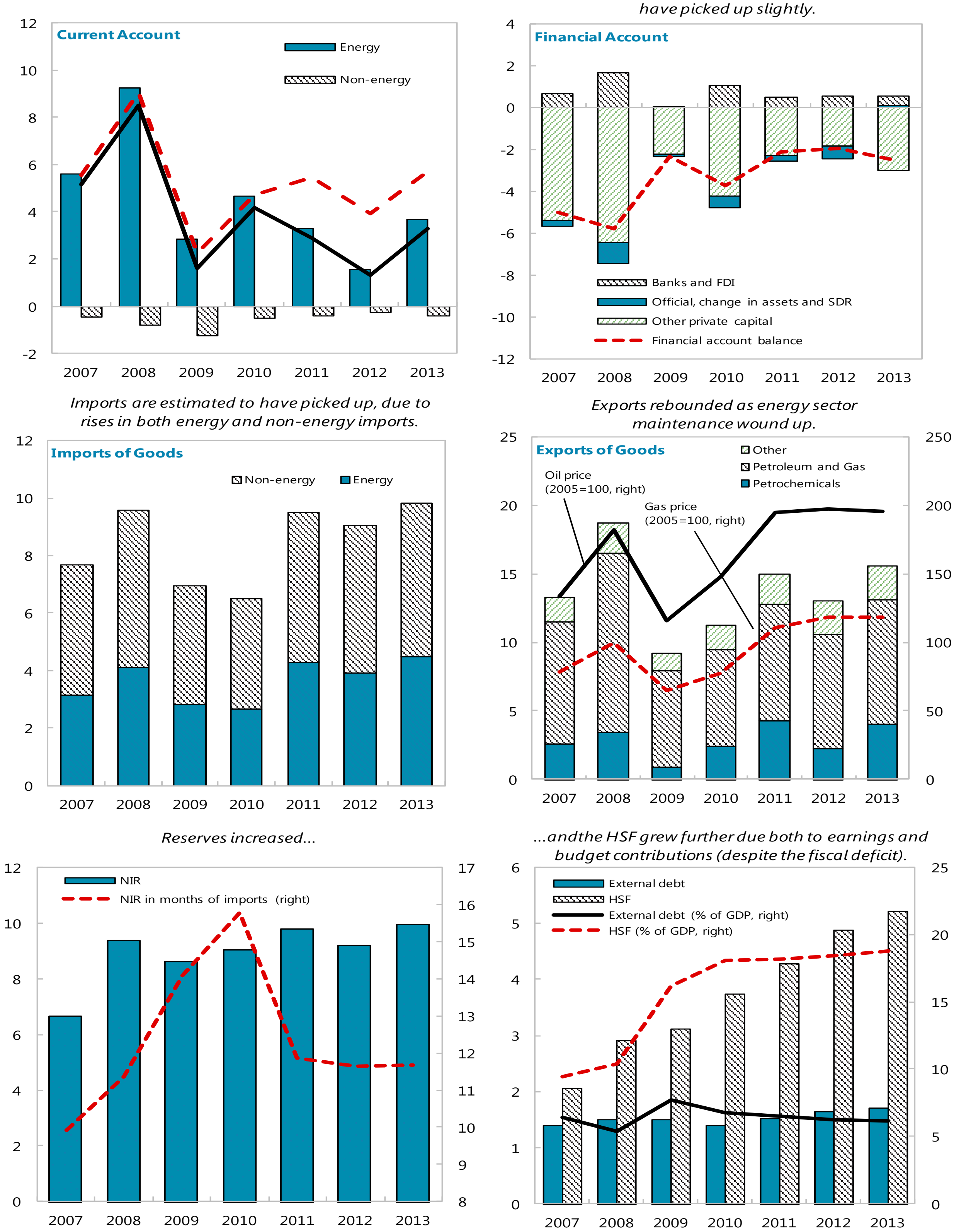
...while financial outflows are estimated to have picked up slightly.

Imports are estimated to have picked up, due to rises in both energy and non-energy imports.

Exports rebounded as energy sector maintenance wound up.

Reserves increased...

...andthe HSF grew further due both to earnings and budget contributions (despite the fiscal deficit).



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

Table 1. Trinidad and Tobago: Selected Economic Indicators

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2012)	19,734	Adult literacy rate (2012)	98.8
Population (millions, 2012)	1.34	Gini index (2010)	40.3
Life expectancy at birth (years, 2012)	70.3	Unemployment rate (2012)	4.8
Under 5 mortality rate (per thousand, 2012)	21	HDI Ranking (2012, of 187 countries)	67

II. Selected Economic and Financial Indicators

					Est.	Projections	
	2009	2010	2011	2012	2013	2014	2015
(Annual percentage changes, unless otherwise indicated)							
Output and prices							
Real GDP	-4.4	0.2	-2.6	1.2	1.6	2.3	2.1
Energy	-1.8	3.2	-3.9	-1.0	0.2	2.0	1.4
Non-energy 1/	-6.1	-1.8	-1.6	2.8	2.5	2.6	2.5
GDP deflator	-27.6	8.0	17.6	11.5	3.5	3.8	1.3
Consumer prices (headline)							
End-of-period	1.3	13.4	5.3	7.2	5.6	3.7	2.4
Average	7.6	10.5	5.1	9.3	5.2	4.7	3.1
Unemployment rate 2/	5.3	5.9	5.0	4.8	3.7	...	...
Real effective exchange rate (2005=100)	123.8	130.7	129.4	139.9	145.3	...	...
(In percent of fiscal year GDP, unless otherwise indicated)							
Nonfinancial public sector (NFPS) 3/							
Central government overall balance, excluding CLICO support	-5.6	0.1	-0.2	-1.1	-3.5	-1.5	-3.7
CLICO support	-1.4	-2.6	-0.6	-6.3	0.0	0.0	0.0
Of which: non-energy balance 4/	-20.1	-18.2	-19.2	-17.7	-19.1	-16.6	-18.5
Budgetary revenue	28.6	34.1	32.3	29.7	30.1	29.6	28.9
Budgetary expenditure	34.2	33.9	32.4	30.7	33.6	31.1	32.6
Of which : interest expenditure	2.6	2.6	1.9	1.6	1.7	1.5	1.4
Of which : capital expenditure	6.3	4.9	4.4	4.1	4.7	3.2	4.3
Overall statutory bodies balance	0.0	0.6	0.5	0.0	0.1	0.1	0.2
Overall public enterprises balance	-3.5	-4.6	-0.4	0.8	1.1	1.2	1.1
Overall NFPS balance	-9.0	-3.9	-0.1	-0.3	-2.3	-0.2	-2.4
Overall NFPS balance including CLICO	-9.0	-6.5	-0.7	-6.6	-2.3	-0.2	-2.4
Central government debt 5/	14.8	18.0	16.2	21.0	16.0	16.5	20.5
Gross NFPS debt 5/	30.6	35.8	33.4	37.2	30.7	30.9	34.6
Heritage and Stabilization Fund assets	13.9	17.9	18.0	18.6	18.8	18.6	19.0
(In percent of GDP, unless otherwise indicated)							
External sector							
Current account balance 6/	8.5	20.3	12.4	5.0	11.8	11.5	10.5
Exports of goods	48.1	54.6	63.7	49.2	56.0	52.9	50.6
Imports of goods	36.4	31.6	40.5	34.3	35.5	32.7	31.4
External public sector debt	7.7	6.7	6.5	6.2	6.2	6.9	8.4
Gross official reserves (in US$ million)	8,652	9,070	9,823	9,201	9,986	10,430	10,635
In months of goods and NFS imports	14.1	15.8	11.9	11.6	11.7	12.7	12.8
In percent of M3	97.2	102.9	102.5	85.3	84.6	83.7	82.5
(Percentage changes in relation to beginning-of-period M3)							
Money and credit							
Net foreign assets	-4.3	-0.3	14.2	-3.0	10.9	4.0	1.8
Net domestic assets	32.4	0.0	-5.6	15.6	-1.5	2.1	1.6
Of which: credit to the private sector	-4.0	0.3	4.4	2.6	2.9	4.8	2.5
Broad money (M3)	28.1	-0.2	8.6	12.6	9.4	6.1	3.4
M3 velocity	2.1	2.3	2.4	2.5	2.4	2.4	2.4
Memorandum items:							
Nominal GDP (in billions of TT$)	121.3	131.3	150.4	169.8	178.5	189.6	196.0
Non-energy sector in percent of GDP 1/	65.4	57.3	53.2	53.1	54.4	55.0	61.6
Energy sector in percent of GDP	34.6	42.7	46.8	46.9	45.6	45.0	44.3
Public expenditure (in percent of non-energy GDP)	54.7	57.3	59.9	57.8	58.7	57.3	58.5
Exchange rate (TT$/US$, end of period)	6.4	6.4	6.4	6.4	6.4	...	...
Crude oil price (US$/barrel)	61.8	79.0	104.0	105.0	104.1	104.2	97.9
Natural gas price (US$ per mmbtu) 7/	5.7	6.9	9.8	10.4	10.5	10.9	10.7

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

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

2/ 2013 reflects the first quarter unemployment rate.

3/ The data refer to fiscal year October-September.

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

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

6/ The current account balance for 2011 and thereafter have been revised to re-classify dividend payments from the "other private sector capital" account to the "factor income" account. A recent sharp downward revision in the 2012 current account surplus was based on "mirror data" from trading partners, in the absence of official trade data, which has not been produced since February 2012. The authorities have provided no official explanation of the revision, but their anecdotal explanations appear inconsistent with other data sources.

7/ Before 2009, Henry Hub price in Louisiana. From 2009, the average of Henry Hub and Asian LNG prices.

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

	2008/09	2009/10	2010/11	2011/12	2012/13 Budget	2012/13 Prov.	2013/14 Budget	2013/14 Art. IV	2014/15 Proj.
	(In millions of Trinidad and Tobago dollars)								
Revenue	**38,611**	**43,863**	**46,972**	**48,918**	**50,700**	**52,985**	**55,005**	**55,767**	**57,039**
Energy	19,489	23,649	27,688	27,445	26,750	27,465	29,873	28,707	29,510
Non-energy	19,122	20,214	19,284	21,472	23,950	25,520	25,132	27,060	27,528
Expenditure	**46,153**	**43,705**	**47,246**	**50,699**	**58,369**	**59,199**	**61,363**	**58,113**	**63,580**
Current	37,646	37,347	40,811	43,871	50,906	50,953	53,398	52,148	55,265
Wages and salaries	6,657	6,711	7,205	7,333	8,636	9,619	8,942	8,942	9,336
Goods and services	6,001	6,441	6,496	7,021	9,444	7,969	8,888	7,888	9,279
Interest payments	3,521	3,290	2,767	2,676	3,812	3,064	2,968	2,718	2,613
Transfers and subsidies	21,466	20,904	24,342	26,842	29,015	30,302	32,600	32,600	34,036
Capital expenditure and net lending	8,507	6,358	6,435	6,828	7,464	8,245	7,965	5,965	8,315
Non-energy balance	**-27,031**	**-23,491**	**-27,962**	**-29,227**	**-34,419**	**-33,679**	**-36,230**	**-31,053**	**-36,051**
Overall balance	**-7,542**	**158**	**-273**	**-1,782**	**-7,669**	**-6,214**	**-6,357**	**-2,346**	**-6,541**
CLICO financial support	1,900	3,400	848	10,400	…	…	…	…	…
Overall balance including CLICO	-9,442	-3,242	-1,121	-12,182	-7,669	-6,214	-6,357	-2,346	-6,541
Total financing including CLICO	9,442	3,242	1,121	12,182	7,669	6,214	6,357	2,346	6,541
Foreign financing	858	-1,056	51	812	2,556	2,538	2,857	1,715	2,180
Domestic financing	8,584	4,297	1,070	11,370	5,113	3,676	3,500	630	4,361
of which: Transfers to Heritage and Stabilization Fund	0	-3,027	-2,890	-1,332	…	0	…	…	…
	(In percent of GDP)								
Revenue	**28.6**	**34.1**	**32.3**	**29.7**	**30.4**	**30.0**	**31.1**	**29.7**	**29.1**
Energy	14.5	18.4	19.0	16.6	16.0	15.6	16.9	15.3	15.0
Non-energy	14.2	15.7	13.2	13.0	14.4	14.5	14.2	14.4	14.0
Expenditure	**34.2**	**33.9**	**32.4**	**30.7**	**35.0**	**33.6**	**34.7**	**30.9**	**32.4**
Current	27.9	29.0	28.0	26.6	30.5	28.9	**30.2**	**27.8**	**28.2**
Wages and salaries	4.9	5.2	4.9	4.4	5.2	5.5	**5.1**	**4.8**	**4.8**
Goods and services	4.5	5.0	4.5	4.3	5.7	4.5	**5.0**	**4.2**	**4.7**
Interest payments	2.6	2.6	1.9	1.6	2.3	1.7	**1.7**	**1.4**	**1.3**
Transfers and subsidies	15.9	16.2	16.7	16.3	17.4	17.2	**18.5**	**17.4**	**17.4**
Capital expenditure and net lending	6.3	4.9	4.4	4.1	4.5	4.7	**4.5**	**3.2**	**4.2**
Non-energy balance	**-20.1**	**-18.2**	**-19.2**	**-17.7**	**-20.6**	**-19.1**	**-20.5**	**-16.5**	**-18.4**
Non-energy balance in percent of non-energy GDP	-33.4	-30.8	-35.5	-33.3	-36.1	-35.3	-35.4	-30.3	-33.2
CLICO financial support	1.4	2.6	0.6	6.3	…	…	…	…	…
Overall balance	**-5.6**	**0.1**	**-0.2**	**-1.1**	**-4.6**	**-3.5**	**-3.6**	**-1.2**	**-3.3**
Overall balance including CLICO	-7.0	-2.5	-0.8	-7.4	-4.6	-3.5	-3.6	-1.2	-3.3
Memorandum items:									
Central government debt (in percent of GDP) 2/	14.8	18.0	16.2	21.0	…	16.0	…	16.2	19.8
Gross NFPS debt (in percent of GDP) 2/	30.6	35.8	33.4	37.2	…	30.7	…	30.5	33.9
Nonenergy primary balance (percent of nonenergy GDP)	-29.0	-26.5	-31.9	-30.3	…	-30.9	…	-30.4	-29.6
Crude oil price (US$/barrel) 3/	56.9	76.5	99.6	105.3	…	105.0	…	105.6	103.6
Natural gas (US$ per mmbtu, Henry Hub) 3/	6.5	6.6	9.1	10.3	…	10.5	…	11.0	11.0
Budget oil price (US$/barrel)	55.0	55.0	65.0	75.0	80.0	80.0	80.0	80.0	80.0
Budget natural gas price (US$ per mmbtu, netback)	3.3	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Nominal GDP (in billions of TT$, FY)	134.8	128.8	145.6	164.9	166.7	176.4	176.6	187.8	196.1

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

1/ Fiscal year data from October to September.
2/ Excluding debt issued for sterilization. Does not include arrears on the fuel subsidy.
3/ Before 2009, Henry Hub price in Louisiana. From 2009, the average of Henry Hub and Asian LNG prices.

Table 3. Trinidad and Tobago: Summary Balance of Payments

	2010	2011	2012	Est. 2013	Projections 2014	2015	2016	2017	2018	2019
	(In millions of U.S. dollars unless otherwise indicated)									
Current account balance 1/	**4,173**	**2,898**	**1,323**	**3,285**	**3,395**	**3,189**	**3,047**	**2,978**	**3,002**	**3,003**
Trade balance	4,736	5,433	3,919	5,694	5,955	5,838	5,706	5,637	5,647	5,671
Exports	11,239	14,944	12,984	15,533	15,574	15,413	15,309	15,336	15,493	15,676
Petroleum crude and refined	4,940	5,208	4,804	5,507	5,162	4,911	4,694	4,568	4,499	4,451
Natural gas	2,069	3,247	3,506	3,544	3,727	3,689	3,695	3,718	3,778	3,866
Petrochemicals	2,427	4,255	2,260	4,011	4,190	4,176	4,170	4,177	4,211	4,223
Other	1,804	2,234	2,414	2,472	2,496	2,637	2,749	2,872	3,004	3,137
Imports	6,504	9,511	9,065	9,839	9,620	9,575	9,603	9,699	9,845	10,005
Fuel imports	2,664	4,309	3,942	4,480	3,983	3,789	3,622	3,525	3,471	3,434
Capital	1,686	2,647	2,448	2,473	2,527	2,573	2,611	2,648	2,686	2,723
Other	2,153	2,555	2,675	2,885	3,110	3,212	3,370	3,526	3,688	3,848
Services and transfers (net)	-563	-2,534	-2,596	-2,410	-2,559	-2,649	-2,659	-2,659	-2,645	-2,668
Nonfactor services (net)	488	506	539	511	488	470	455	441	428	415
Factor income (net)	-1,080	-3,074	-3,251	-3,039	-3,168	-3,242	-3,239	-3,228	-3,204	-3,216
Current transfers (net)	29	33	116	118	121	123	126	128	131	133
Capital and financial account (net) 1/ 2/	-3,754	-2,146	-1,945	-2,499	-2,952	-2,983	-2,932	-2,897	-2,871	-2,950
Official, medium- and long-term (net) 3/	179	205	-29	323	367	441	501	571	638	655
Disbursements	250	311	86	554	515	544	596	652	709	723
Amortization	-72	-106	-115	-231	-149	-103	-94	-81	-71	-69
Change in assets, including HSF	-709	-489	-588	-230	-242	-377	-394	-412	-432	-437
Direct investment (net)	549	771	1,195	1,180	1,248	1,257	1,256	1,255	1,252	1,250
Inward	549	1,831	2,527	2,533	2,633	2,671	2,697	2,721	2,745	2,769
Outward	0	1,060	1,332	1,354	1,385	1,414	1,440	1,466	1,493	1,519
Commercial banks (net)	494	-310	-670	-731	-748	-764	-778	-792	-806	-820
Regional bond issues	0	0	0	0	0	0	0	0	0	0
Other private sector capital (net) 1/ 2/	-4,267	-2,322	-1,853	-3,041	-3,576	-3,541	-3,518	-3,518	-3,524	-3,599
Overall balance	418	753	-622	786	443	206	114	82	131	53
Change in gross official reserves (increase -)	-418	-753	622	-786	-443	-206	-114	-82	-131	-53
	(In percent of GDP, unless otherwise specified)									
Memorandum items:										
Current account balance 1/	20.3	12.4	5.0	11.8	11.5	10.5	9.7	9.2	9.0	8.7
Energy 4/	22.7	14.1	5.9	13.3	13.7	12.5	11.9	11.5	11.4	11.1
Non-energy	-2.5	-1.8	-0.9	-1.5	-2.2	-2.1	-2.2	-2.3	-2.4	-2.4
Exports of goods	54.6	63.7	49.2	56.0	52.9	50.6	48.9	47.6	46.5	45.2
Imports of goods	31.6	40.5	34.3	35.5	32.7	31.4	30.7	30.1	29.5	28.9
Gross international reserves 5/	9,070	9,823	9,201	9,986	10,430	10,635	10,750	10,832	10,962	11,015
In months of goods and NFS imports	15.8	11.9	11.6	11.7	12.7	12.8	12.8	12.7	12.6	12.3
Crude oil price (US$/barrel) 6/	79.0	104.0	105.0	104.1	104.2	97.9	93.0	90.0	88.1	86.6
Natural gas price (US$ per mmbtu) 7/	6.9	9.8	10.4	10.5	10.9	10.7	10.7	10.7	10.8	11.0
Net external position	-22.5	-19.0	-16.6	-15.1	-13.5	-12.4	-11.5	-10.6	-9.7	-8.8
GDP (in millions of US$)	20,593	23,462	26,404	27,739	29,458	30,457	31,310	32,251	33,342	34,650
Real GDP growth (in percent)	0.2	-2.6	1.2	1.6	2.3	2.1	1.9	1.8	1.8	1.7
Exchange rate (TT$/US$, end of period)	6.42	6.42	6.43	6.45	...	...	...	...	...	...
Exchange rate (TT$/US$, average)	6.38	6.41	6.43	6.44	...	...	...	...	...	...
Energy exports	45.8	54.2	40.0	47.1	44.4	41.9	40.1	38.6	37.5	36.2
Non-energy exports	8.8	9.5	9.1	8.9	8.5	8.7	8.8	8.9	9.0	9.1

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

1/ Starting in 2011 dividend payments have been re-classified from the "other private sector capital" account to the " factor income" account.
2/ Includes net errors and omissions.
3/ Excludes the IMF SDR allocation.
4/ Consists of petroleum, natural gas and petrochemical exports less fuel imports.
5/ In millions of US$, end of period.
6/ WEO simple average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh.
7/ Before 2009, Henry Hub price in Louisiana. From 2009, the average of Henry Hub and Asian LNG prices.

Table 4. Trinidad and Tobago: Monetary Survey

	2009	2010	2011	2012	Est. 2013	Proj. 2014
	(In millions of Trinidad and Tobago dollars)					
Net foreign assets	65,782	65,637	73,654	71,788	79,345	82,353
Official net foreign assets	52,226	55,127	60,014	55,786	64,257	67,115
Commerical bank's net foreign assets	13,556	10,511	13,640	16,002	15,088	15,239
Net domestic assets	-9,042	-9,024	-12,184	-2,578	-3,628	-2,029
Net credit to public sector	-19,357	-14,308	-20,545	-18,748	-40,455	-37,684
Central government	-16,060	-14,173	-15,666	-14,270	-33,301	-30,479
Rest of the public sector	-3,297	-135	-4,880	-4,478	-7,154	-7,205
Of which:						
Statutory bodies and public utilities	-711	-815	-4,516	-3,455	-4,006	-4,006
Public enterprises	-2,286	1,160	956	235	-388	-388
Credit to private sector	38,689	38,887	41,402	43,010	45,043	48,701
Other items (net)	-28,375	-33,603	-33,041	-26,840	-8,216	-13,046
Liabilities to private sector (M3)	56,739	56,613	61,469	69,210	75,717	80,324
Currency in circulation	3,850	4,242	4,690	5,396	6,050	6,418
Demand deposits	15,339	15,297	16,371	20,421	22,890	24,283
Time deposits	10,695	9,760	9,811	10,045	10,083	10,697
Savings deposits	25,689	27,227	30,524	33,325	36,672	38,903
Fund-raising instruments 1/	1,167	87	73	24	22	23
	(Changes in percent of beginning-of-period M3)					
Net foreign assets	-4.3	-0.3	14.2	-3.0	10.9	4.0
Net domestic assets	32.4	0.0	-5.6	15.6	-1.5	2.1
Net credit to public sector	38.0	8.9	-11.0	2.9	-31.4	3.7
Of which : central government	35.7	3.3	-2.6	2.3	-27.5	3.7
Credit to private sector	-4.0	0.3	4.4	2.6	2.9	4.8
Other items (net)	-1.6	-9.2	1.0	10.1	26.9	-6.4
Liabilities to private sector (M3)	28.1	-0.2	8.6	12.6	9.4	6.1
Memorandum items:						
Credit to private sector (12-month increase)	-4.4	0.5	6.5	3.9	4.7	8.1
M3 Velocity	2.1	2.3	2.4	2.5	2.4	2.4

Source: Central Bank of Trinidad and Tobago.

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

Table 5. Trinidad and Tobago: Indicators of External and Financial Vulnerability

(In percent, unless otherwise indicated)

	2009	2010	2011	2012	Est. 2013
External indicators					
Exports (percent change, 12-month basis in US$)	-50.5	21.9	33.0	-13.1	19.6
Imports (percent change, 12-month basis in US$)	-27.1	-6.8	46.2	-4.7	8.5
Terms of trade (1985=100), percent change	4.5	2.6	1.6	-0.3	0.1
Current account balance (in percent of GDP)	8.5	20.3	12.4	5.0	11.8
Capital and financial account balance (in percent of GDP)	-12.3	-18.2	-9.1	-7.4	-9.0
Gross official reserves (in US$ millions)	8,652	9,070	9,823	9,201	9,986
Official reserves in months of imports of goods and NFS	14.1	15.8	11.9	11.6	11.7
Ratio of reserves to broad money	97.2	102.9	102.5	85.5	85.0
Ratio of total public sector external debt to exports of goods and services	14.9	11.5	9.5	11.8	10.4
Ratio of public sector external interest payments to exports of goods and services	0.8	0.6	0.4	0.5	0.1
Public sector debt service to exports of goods and services	4.2	1.2	1.1	1.3	1.5
REER appreciation CPI-based (percent change)	8.9	5.6	-1.0	8.1	3.8
Foreign currency debt rating, (Moody's, end of period)	Baa1	Baa1	Baa1	Baa1	Baa1
Foreign currency debt rating, (Standard & Poor's, end of period)	A	A	A	A	A
Financial indicators					
90-day treasury bill, average discount rate	2.7	0.8	0.5	0.4	0.5
90-day treasury bill, real rate	-4.5	-9.7	-4.8	-8.9	-4.8
Capital adequacy					
Regulatory capital to risk-weighted assets	20.5	24.2	25.1	24.6	23.7
Regulatory Tier I capital to risk-weighted assets	18.5	21.7	22.7	22.4	21.8
Regulatory Tier II capital-to-risk-weighted assets	2.0	2.5	2.4	2.2	1.9
Banking sector asset quality					
Nonperforming loans-to-gross loans	4.6	6.2	6.3	5.4	4.2
Nonperforming loans (net of provisions)-to-capital	7.8	13.3	14.5	9.6	7.4
Specific provisions-to-impaired assets	52.3	30.0	28.3	39.7	38.9
Specific provisions-to-gross lending	2.4	2.1	1.8	2.1	1.6
Banking sector earnings and profitability					
Return on equity	20.2	17.2	17.2	18.1	16.0
Return on assets	2.7	17.2	2.4	2.6	2.2
Interest margin-to-gross income	66.6	2.3	64.8	65.4	65.4
Spread between average lending and deposit rates	10.1	63.3	8.6	8.2	7.9
Banking sector liquidity					
Liquid assets-to-total assets	25.0	24.3	27.7	25.2	28.2
Liquid assets-to-total short-term liabilities	32.5	24.3	36.6	32.6	36.3
Foreign currency liabilities-to-total liabilities	33.1	163.0	27.0	28.0	25.7

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

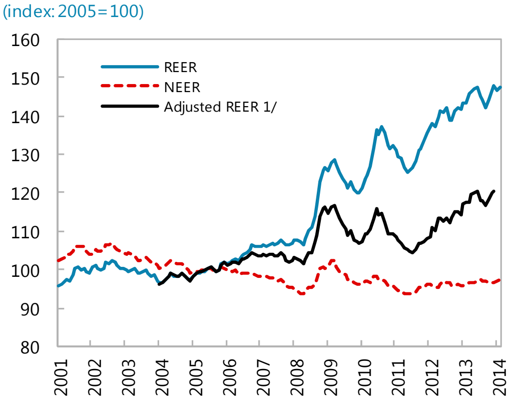
Annex I. Trinidad and Tobago: External Stability Assessment

Trinidad and Tobago's external position remains healthy, with a large current account surplus and a high level of external buffers. Although modified CGER methodologies indicate a large degree of overvaluation using official inflation data, it is difficult to conclude that there is a significant exchange rate misalignment given a severe bias in measured inflation that distorts the real effective exchange rate. While the energy sector's substantial current account surplus easily outweighs the non-energy current account deficit, in the longer term, results suggest there will need to be a rebalancing towards the non-energy sector as energy resources dwindle.

The current account and external position remain healthy. The current account (CA) surplus in 2013 is estimated to have rebounded to 11.8 percent of GDP, after a temporary dip to 4.9 percent of GDP in 2012. Gross official reserves were US$9.8 billion at end-February 2014, equivalent to 11.7 months of imports of goods and non-factor services. In addition, the net asset value of the Heritage and Stabilization Fund was US$5.1 billion at end-September 2013 (18.5 percent of GDP).

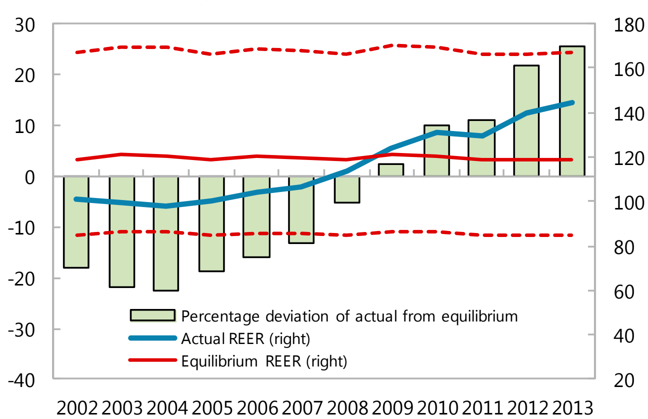
The real exchange rate remains within the 95 percent confidence interval of the estimated equilibrium level in 2013. With moderation in inflation in 2013, there was only a modest appreciation in the REER. However, reflecting continual appreciation from 2009, mostly because of overstated and high inflation, the REER calculated using the official CPI has increasingly diverged from the equilibrium level, with overvaluation estimated at 25.6 percent in 2013. Adjusting for the estimated inflation bias however suggests the overvaluation of the REER falls to 8.5 percent, broadly consistent with fundamentals. The equilibrium real exchange rate is calculated using estimates from an augmented CGER methodology for oil exporters.[1] Among the set of explanatory variables, commodity terms of trade contribute the most in the determination the equilibrium rate.

Real and Nominal Effective Exchange Rates
(index: 2005=100)



Source: Information Notice System.
1/ Based on adjusted CPI data and INS trade weights.

Real Effective Exchange Rates: Actual and Equilibrium
(REER index: 2005=100)

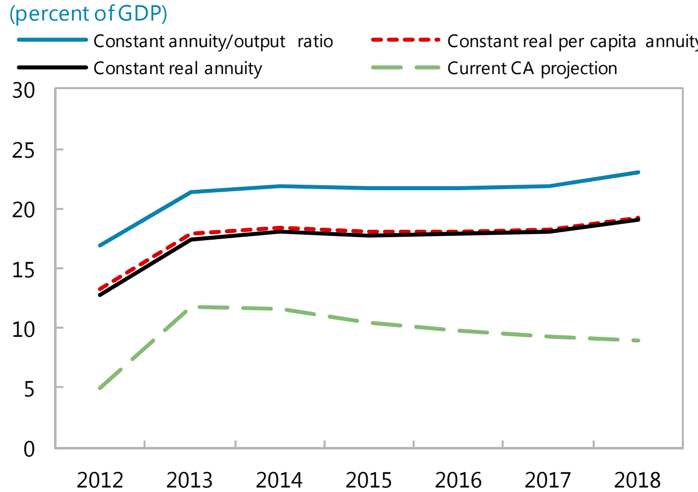


[1] Bems and de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries" IMF WP/09/281.

The macroeconomic balance approach also suggests that the underlying current account (CA) would also lie within the 95 percent confidence interval of the estimated CA norm over the medium term. The analysis applied estimates from a model tailored to oil exporters,[2] used 2018 as the reference year, and obtained a current account norm of a surplus of around 12 percent of GDP. Estimates suggest an overvaluation of 8.1 percent, but again, adjusting for measurement bias in inflation, overvaluation is estimated at 2.6 percent. The fiscal balance and oil trade balance are the main determinants of the estimated current account norms.

Results from the external sustainability approach suggests the need to rebalance the economy towards the non-energy sector as energy resources dwindle. Following the external sustainability approach (see Bems and de Carvalho Filho, 2009), the future paths of the current account and NFA are derived based on rules for inter-temporal allocation of temporary energy income. Under the three considered rules, Trinidad and Tobago would need to maintain a CA surplus of around 18 percent of GDP or more in the medium term to maintain a stable level of domestic absorption. The analysis assumes that at current extraction levels, oil and gas reserves (proven and probable) will run out in 22 and 14 years, respectively. However, these reserves are based on energy audits which appear likely to be conservative, especially in light of significant untapped energy resources that are not currently in the audited figures, but which are likely to be developed given prospective increases in exploration and development activity.

External Sustainability Approach: Current Account Norms
(percent of GDP)



[2] Beidas-Strom and Cashin, 2011, "Are Middle Eastern Current Account Imbalances Excessive? IMF WP/11/195

Annex II. Trinidad and Tobago: Debt Sustainability Analysis

DSA Figure 1. Trinidad and Tobago: Public Sector Debt Sustainability Analysis - Baseline Scenario

(in percent of GDP unless otherwise indicated)

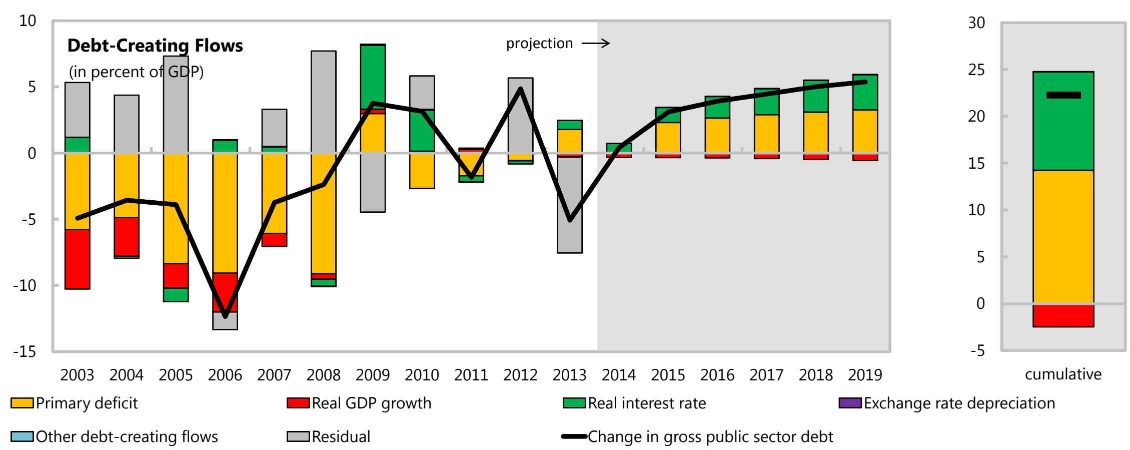
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2003-2011 2/	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	21.2	21.0	16.0	16.4	19.5	23.4	27.9	32.9	38.3
Public gross financing needs	0.5	2.3	4.7	2.3	4.9	5.5	6.0	6.5	7.0
Real GDP growth (in percent)	5.1	0.3	1.5	2.2	2.2	1.9	1.8	1.8	1.8
Inflation (GDP deflator, in percent)	6.6	13.0	5.3	3.7	1.9	1.0	1.1	1.5	2.0
Nominal GDP growth (in percent)	12.1	13.3	6.9	5.9	4.1	2.9	3.0	3.3	3.8
Effective interest rate (in percent) 4/	13.0	11.4	8.8	8.6	9.1	9.6	9.8	10.4	10.4

As of April 29, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		167
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	A	A
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	-2.9	4.9	-5.1	0.4	3.1	3.9	4.5	5.0	5.4	22.3	
Identified debt-creating flows	-5.4	-0.8	2.2	0.4	3.1	3.9	4.5	5.0	5.4	22.3	
Primary deficit	-5.0	-0.5	1.8	0.0	2.3	2.7	2.9	3.1	3.3	14.2	2.1
Primary (noninterest) revenue and grants	30.7	29.7	30.1	29.6	28.9	28.6	28.4	28.2	28.0	171.7	
Primary (noninterest) expenditure	25.8	29.1	31.8	29.7	31.3	31.3	31.3	31.3	31.3	186.0	
Automatic debt dynamics 5/	-0.5	-0.3	0.4	0.4	0.8	1.3	1.6	1.9	2.1	8.0	
Interest rate/growth differential 6/	-0.5	-0.3	0.4	0.4	0.8	1.3	1.6	1.9	2.1	8.0	
Of which: real interest rate	0.9	-0.2	0.7	0.7	1.1	1.6	2.0	2.4	2.7	10.5	
Of which: real GDP growth	-1.4	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.6	-2.5	
Exchange rate depreciation 7/	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., drawdown of dep	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	2.6	5.7	-7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

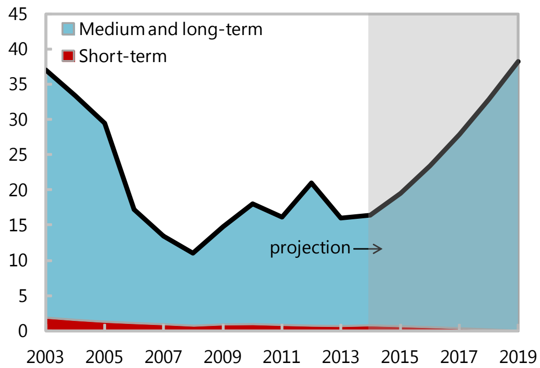
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

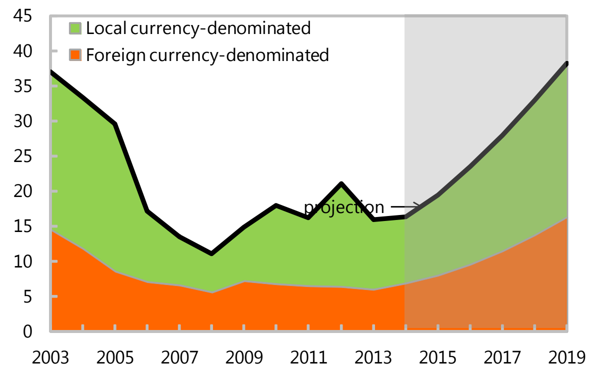
DSA Figure 2. Trinidad and Tobago: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



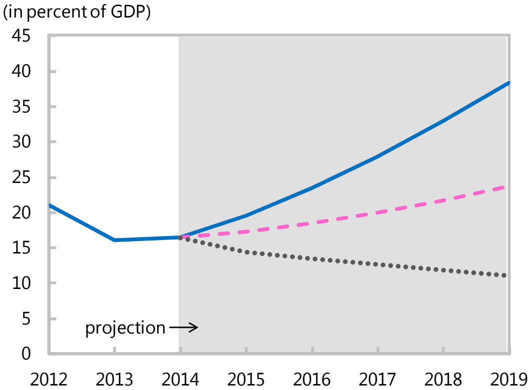
By Currency
(in percent of GDP)



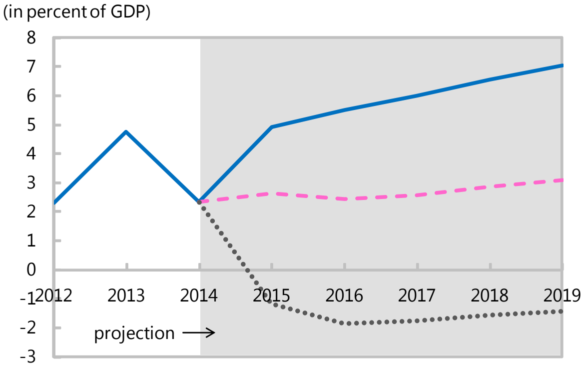
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.2	2.2	1.9	1.8	1.8	1.8
Inflation	3.7	1.9	1.0	1.1	1.5	2.0
Primary Balance	0.0	-2.3	-2.7	-2.9	-3.1	-3.3
Effective interest rate	8.6	9.1	9.6	9.8	10.4	10.4
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.2	1.9	1.8	1.8	1.8
Inflation	3.7	1.9	1.0	1.1	1.5	2.0
Primary Balance	0.0	0.0	0.0	0.0	0.0	0.0
Effective interest rate	8.6	9.1	10.3	11.1	12.6	13.2

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.2	3.4	3.4	3.4	3.4	3.4
Inflation	3.7	1.9	1.0	1.1	1.5	2.0
Primary Balance	0.0	3.8	3.8	3.8	3.8	3.8
Effective interest rate	8.6	9.1	11.4	13.3	16.5	19.2

Source: IMF staff.

Annex III. Trinidad and Tobago: Risk Assessment Matrix[1]

Nature/Source of Main Threats	Likelihood of Realization of Threat	Expected Impact if Threat is Realized	Policies to Ameliorate Threat
Contagion from Potential Financial Turbulence in the Region	*MEDIUM* • Deteriorating conditions in the region could spill over to Trinidad and Tobago's economy and financial sector. • There could be two key channels for potential financial contagion: (i) direct ownership links between Trinidadian institutions and other Caribbean-based institutions, particularly in the insurance sector (which could, for instance, lead local institutions to be downgraded) and (ii) portfolio losses for Trinidadian institutions from claims on regional institutions.	*MEDIUM/HIGH* • Funding links with the region appear likely to be limited. However, the extent of exposures is not well known, particularly for non-bank financial institutions.	• The authorities should investigate exposures to institutions in the region. This will be fostered by the ongoing regional financial interconnectedness project (the CRFP). In addition, the authorities are taking steps to bring non-bank SIFIs under their authority. • Should risks materialize, the authorities would need to implement crisis management plans, which they are currently moving forward to develop.
Sustained decline in oil or gas prices, triggered by deceleration of global demand and coming on stream of excess capacity.	*MEDIUM* • Over the near-term, the main concern would be a drop in global demand that reduces oil and gas prices. On the supply side, so far the reduction in gas prices has had little impact on the prices	*HIGH* • The country's vulnerability is increased by current fiscal deficits. On the external side, reserves are ample, but a failure to continue to build wealth, whether in the form of financial or physical	• In the short term, the economy is protected by substantial financial cushions 11.7 months of import cover in external reserves plus the Heritage and Stabilization Fund's net assets, equivalent to 18.5 percent of GDP).

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

	received by Trinidad and Tobago, which has shifted their exports to markets outside of the United States. However, over the longer term, an increase in LNG production in the United States and elsewhere could eventually serve to better integrate global natural gas markets and weigh on global gas prices. This will be particularly the case if restrictions on U.S. exports of LNG are eased. • The Trinidadian economy is heavily dependent on the energy sector, which accounts for roughly half of GDP and central government revenues, and 85 percent of exports, on average.	capital, will constitute a missed opportunity to convert the country's non-renewable resources into a permanent basis for healthy and diversified long-term growth.	• Over the medium term, the focus needs to be on diversifying the country's non-energy economic base by public investment and structural reforms. In addition, tax reforms to reduce dependence on energy sector revenues and expenditure reform to contain public consumption will be critical to making public finances more resilient to a downward energy price shock. • Were an energy price decline to be rapid, substantial and sustained, fiscal adjustments would likely have to be taken more rapidly, and in an extreme scenario, could be forced to take place in a disorderly fashion.
A more sudden than expected increase in U.S. interest rates, triggered by revised market expectations on unconventional monetary policy exit.	*HIGH* • Bouts of market volatility and higher-than-expected increases in long-term rates could occur as the US exits from unconventional monetary policy or in the event of geopolitical shocks. • Market expectations of the speed of interest rate adjustment in the U.S. could be revised upwards and could provide further incentives for Trinidadian residents to place funds in U.S. dollar-denominated assets.	*MEDIUM/LOW* • A rapid rise in U.S. interest rates may force the CBTT to follow suit, leading to a tighter monetary stance, and possibly forming an unwanted headwind to recovery. That said, the transmission of monetary policy signals is not currently very strong and corporations and banks currently have ample liquidity. In addition, while there might be some impact on portfolio outflows, the impact on reserves would not likely be critical, given their current ample level.	• An accelerated pace of structural reform could provide incentives to increase investment, possibly offsetting the dampening effect of higher than desired policy interest rates. • If there were signs that growth was being impacted by a tightening of monetary policy, the pace of fiscal consolidation could be slowed marginally, in order to provide more support to the economy.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

June 3, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of April 30, 2014)

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

General Resources Account:	SDR Million	%Quota
Quota	335.60	100.00
Fund holdings of currency (Exchange Rate)	212.97	63.46
Reserve Tranche Position	122.63	36.54

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	321.13	100.00
Holdings	275.73	85.86

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Projected Payments to Fund:[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.04	0.06	0.06	0.06	0.06
Total	**0.04**	**0.06**	**0.06**	**0.06**	**0.06**

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

Exchange Arrangements:
Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange system that is free of multiple currency practices and of restrictions on the making of payments and transfers for current international transactions. The system, a de jure float, is classified as a stabilized arrangement under the Fund's revised methodology.

Last Article IV Consultation and Recent Contacts:
The 2013 Article IV mission was concluded on March 28, 2013 and a staff visit took place on November 18–22, 2013.

Technical Assistance:

CARTAC has fielded a wide range of missions including on: Basel II Implementation; risk-based capital framework for security dealers (TTSEC) and improvements to the CPI. In addition, Trinidad & Tobago was represented in CARTAC-sponsored technical seminars and workshops on: Basel II implementation; consolidated supervision; risk-based supervision; market discipline; cash flow forecasting, planning and management; price statistics; auditing multi-national enterprises; collections enforcement; public-private partnerships; external sector statistics; chart of accounts; and on cash basis IPSAS reporting.

Department	**Dates**	**Purpose**
STA	May 2014	Financial Sector Statistics/FSI compilation
MCM-LEG	March 2014	National Financial Crisis Contingency Plan
FAD	July 2013	Tax Administration
FAD	January 2013	Tax Policy
MCM	October 2012	Non-life insurance regulation
STA	June 2012	Monetary and financial statistics
STA	April 2012	Consumer and Price Statistics
STA	March 2012	Monetary and balance of payments statistics
STA	February 2012	Consumer and producer price statistics
MCM	June 2010, September 2010, March 2011, and June 2011	Insurance supervision
MCM	December 2010 and April 2011	Public debt management, funding and medium term debt management strategies
STA	February 2011	Assistance on the compilation of an IIP and the financial account in the balance of payments as part of the requirements for the prospective Special Data Dissemination Standard (SDDS)
STA	December 2009	Multi-topic mission and assistance on subscription to the Special Data Dissemination Standard (SDDS)
STA	January 2008	Standardizing monetary and financial statistics
FAD	January 2008	Setting up institutional arrangements for a Medium-Term Fiscal Framework
MCM	2007-2008	Two resident experts for insurance supervision in the CBTT

RELATIONS WITH THE WORLD BANK

(As of May 2014)

Since graduation in 2003, Trinidad and Tobago has had no lending program with the World Bank Group. However, technical and advisory services have been provided since then focusing on promoting a better investment climate in order to stimulate inclusive growth, economic diversification and increased competitiveness; strengthening institutional capacity; and, building a modern and efficient public sector, with a view to promote the achievement of the country's long-term development objectives.

Since the fall of 2013, the Government has been more proactively reaching out to the Bank and new technical assistance activities are now being developed in a number of areas, including financial sector development, anti-money laundering and the fight against terrorism financing.

Trinidad and Tobago also receives grants in the Accounting and Extractive Sectors (Extractive Industries Transparency Initiative - EITI).

Reimbursable Advisory Services

Reimbursable Advisory Services Program: The RAS program with the Government of Trinidad and Tobago currently covers: (i) Pension Systems Harmonization; (ii) Public Debt and Cash Management; (iii) Doing Business Reform; (iv) Investment Promotion Special Economic Zones; and (v) Broadband Strategy.

Technical Assistance

Report on the Observance of Standards and Codes - Accounting and Auditing (ROSC): In September 2010, Trinidad and Tobago asked the World Bank to carry out a A&A ROSC, to facilitate the development of strong accounting and auditing standards in the private sector, State-Owned Enterprises, and the financial sector. The ROSC was completed in April 2013. Under the coordination of the Ministry of Finance and in consultation with key stakeholders at the Ministry of Finance, Securities and Exchange Commission, Central Bank and Institute of Chartered Accountants of Trinidad and Tobago (ICATT), it is expected that the World Bank will continue to provide support for implementing the recommendations of the ROSC, especially with regards to improving the financial reporting and auditing standards and to build sustainable capacity in key institutions in Trinidad and Tobago.

Extractive Industries Transparency Initiative (EITI): At the International EITI conference in Paris in March 2011, Trinidad and Tobago was officially granted candidate status for EITI. The Ministry of Energy & Energy Affairs (MEEA) publicly confirmed the Government's commitment to EITI and committed to making Trinidad and Tobago's energy sector one of the most transparent in the world, as well as to work closely with civil society. Trinidad and Tobago is expected to be soon declared a compliant EITI country, the third country in the region (after Peru and Guatemala). With support from a MDTF EITI grant, one of the successes in Trinidad was raising awareness with youth, civil society, communities, and parliamentarians. The MDTF EITI grant was extended up to September 2014, and Trinidad and Tobago is expected to ask for a second grant, which would focus on building a Caribbean knowledge hub for extractive industries with UWI, developing an environmental indicator to include in the EITI, and finally automating the information on EI revenues.

National Risk Assessment (NRA): The World Bank is supporting Trinidad and Tobago's National Risk Assessment (NRA) on Money Laundering (ML) and Terrorism Financing (TF). This project targets to assist them in their self-assessment of ML/TF risks with broad participation from various stakeholders. In addition to better understanding of the ML/TF threats and vulnerabilities in the country, the project aims to improve the skills and knowledge of the government agencies in assessing ML/TF risks and applying a risk based approach in this area. A workshop to begin the NRA was held on March 17-19, 2014 in Port of Spain, organized through the AML/CFT Compliance Unit of the Ministry of National Security and the Financial Intelligence Unit (FIU). Over the next six months, the World Bank team will continue to provide technical assistance to the Ministry of National Security and the FIU with a view to complete the NRA by October 2014, ahead of the Mutual Evaluation of Trinidad and Tobago's AML/CFT effectiveness under the FATF standards expected to be conducted in January 2015.

Statement of World Bank Group Loans

Disbursements and Debt Service

(In millions of U.S. dollars, fiscal year ending June 30)

	Actual										
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014***
Total disbursements	3.8	2.0	4.7	5.7	4.1	2.3	3.1	1.9	0.0	0.0	0.0
Repayments	15.5	17.3	16.4	15.3	13.0	11.3	6.9	3.6	3.3	3.3	2.8
Net disbursements	-11.7	-15.3	-11.7	-9.6	-8.9	-9.0	-3.9	-1.7	-3.3	-3.3	-2.8
Interest and fees	5.1	3.8	3.1	2.5	2.2	1.5	0.9	0.7	0.6	0.5	0.4

*As of May 2014

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of April 15, 2014)

Financing

The IDB approved the new Country Strategy with Trinidad and Tobago in November 2011. This strategy is the reflection of the enhanced relationship with the county and envisages a financial envelope for 2011–2015 for around US$1.6 billion.[1] The 2010 and 2011 approvals represented a substantial increase from the previous years: disbursements consisted of a few budget-support loans, implying significant positive cash flow. In contrast, in 2012 and 2013 approvals were investment loans concentrated in the water and sewage and urban development sectors, thus resulting in a negative net cash flow with the IDB in those years.

Table 1: Net Flows 2008-2013

(In millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013
Loan disbursements	44.6	26.5	143.0	241.9	29.8	47.8
Repayments	45.6	45.9	46.9	50.5	49.2	47.2
Net Loan Flow	**-1.0**	**-19.4**	**96.1**	**191.4**	**-19.4**	**0.6**
Subscriptions and Contributions	0	0	0	0	1.5	6.8
Interest and Charges	21.4	19.4	9.7	9.8	11.5	10.7
Net Cash Flow	**-22.4**	**-38.8**	**86.4**	**181.6**	**-32.4**	**-16.9**

Portfolio composition

The current loan portfolio consists of 11 loans for a total of US$602 million, of which over 85 percent is undisbursed (Table 2). The main areas of Bank involvement are: Wastewater Infrastructure Rehabilitation, Public Sector Modernization, Education, Citizen Security and strengthening of information production and management. The operations approved in 2013 include the Flood Alleviation and Drainage Program in Port of Spain, and the Global Services Offshoring Promotion Program. The Health Services Support Program, aimed at strengthening the organizational and institutional capacity of service delivery by the health sector, was also approved in 2013 and additional financing is expected in 2014. The Bank also has a portfolio of investment and technical assistance grants, totaling 24 operations valued at US$11.6 million, 76 percent of which is currently undisbursed.

[1] http://www.iadb.org/document.cfm?id=36567843

Table 2: Lending Operations in Execution

As of March 31, 2014 (US$ million)

Loan	Approval Date	Approved Amount	Disbursed	% Disbursed
Support for a Seamless Education System Program	May 20, 2009	48.8	18.4	37.7
Electronic Government & Knowledge Brokering	Nov 29, 2006	28	2.2	7.9
Citizen Security Program	Mar 11, 2008	24.5	11	45
Social Safety Net Reform Program	Oct 19, 2011	5	0	0
Neighborhood Upgrading Program	Dec 1, 2010	40	5.9	14.8
WASA Modernization and Wastewater Infrastructure Rehabilitation Program	Oct 26, 2011	50	24.6	49.1
Multi-Phase Wastewater Rehabilitation Program- Phase I	Dec 12, 2012	246.5	24.2	9.8
Health Services Support Program	Jun 25, 2013	1.5	0	0
Strengthened Information Management at the Registrar General's Department	Oct 23, 2013	20	0	0
Flood Alleviation and Drainage Program	Dec 4, 2013	120	0	0
Global Services Offshoring Promotion Program	Dec 4, 2013	18	0	0
TOTAL		602.3	86.24	14.32

STATISTICAL ISSUES

Trinidad and Tobago—STATISTICAL ISSUES APPENDIX As of June 2014
I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. The most affected areas are: national accounts, prices, and external sector statistics. Data shortcomings, especially in national accounts and balance of payments data, severely constrain staff's ability to conduct economic surveillance. Since the last Article IV discussions, there has been little concrete progress in implementing lasting reforms and TA recommendations back to the 1990s to remedy data shortcomings. The statistical agency (CSO) still has no permanent quarters after its building was condemned last year and it remains starved of resources, leading statistics production to seriously lag in critical areas, including national accounts, trade, and the labor market. The government is aware of these long-standing problems. However, aside from the plan to help alleviate resource shortages on a temporary basis by the Central Bank (CBTT), there are no concrete signs of implementing an action plan to resolve the problems at the CSO, and there is therefore a critical and urgent need to provide the CSO the resources needed to fulfill its mission.
Real Sector Statistics: The extreme resource constraints under which the CSO now operates have led to severe lags for GDP, trade, and labor data. GDP data at constant prices for 2012 is still only provisionally projected and without detailed sector breakdowns. The last expenditure-side GDP data is from 2008. Quarterly national accounts are not compiled. Labor market data are available only up to the first quarter of 2013, and significant gaps remain in tourism statistics.
Price Statistics: Recently, the methodology to estimate the Retail Price Index (RPI) was revised with technical assistance from CARTAC. The new method corrects flaws that created a significant upward bias, primarily in the food component. Implementation of the improved methodology commenced in mid-2012. However, the RPI basket (presently compiled with January 2003 = 100) needs to be updated to reflect the results of the latest household survey done in 2008. The producer price index needs to be revised to meet international standards and its weights (from 1978) should be updated.
Government Finance Statistics: The Ministry of Finance (MoF) compiles fiscal data using a national classification system for government transactions and debt of the central government. The compilation follows the GFSM 1986 methodology. Data on public enterprises and statutory bodies are compiled and published once a year. These data are compiled by three different divisions of the MoF and are subject to differences among them, particularly with respect to transfers.
Monetary and Financial Statistics: The monthly monetary accounts currently cover the CBTT and other depository corporations (ODCs), that is, commercial banks and nonbank financial institutions (finance houses, merchant banks, trusts, and mortgage companies), which report to the CBTT on a monthly basis. No data are reported by income funds, which act like money market funds and should be included as part of the ODCs sector. Since mutual funds are not regulated by the CBTT, an agreement with the Securities and Exchange Commission of Trinidad and Tobago is needed to obtain their data on a regular basis. Following two monetary and financial statistics (MFS) missions that visited the country in 2012, Trinidad and Tobago migrated to the standardized report forms (SRFs) for the submission of CBTT and ODCs data to STA.

In May 2014, an MFS mission supported the CBTT in developing SRFs for the other financial corporations (OFCs) sector, covering insurance corporations, pension funds, the Heritage and Stabilization Fund (HSF), the Agricultural Development Bank (ADB), and the Mortgage Finance Company (TTMF). The CBTT needs to expand the coverage to, at least, the National Insurance Board (NIB), the Unit Trust Corporation (UTC), the Home Mortgage Bank (HMB), and the credit unions.
External sector statistics: Official trade data from the CSO are only available up to February 2012, while data for the rest of 2012 and up to September 2013 are CBTT estimates, using trade partner data. The CSO recently provided some unaudited trade data but warned that these are not yet reliable. The CBTT's estimates for trade data are flawed due to methodological weaknesses. Quarterly aggregate balance of payments estimates and annual balance of payments data are disseminated by the CBTT in its national publications although with some lag. Generally, compilation of balance of payments statistics is heavily based on administrative records and survey data. Recent TA missions assisted the authorities in identifying a number of significant shortcomings, such as under-coverage and misclassifications in the goods and services account, particularly in the valuation of imports at c.i.f., missing insurance services provided to nonresidents, and in services provided by nonresident companies to local oil and gas corporations. Data on external assets and liabilities of mutual funds are not yet available. Incomplete coverage and lack of detail on external assets and liabilities is reflected in a large and unexplained private capital outflow, equivalent to 11 percent of GDP in 2013. TA missions provided assistance on the compilation of the International Investment Position (IIP), the proper classification of dividend flows by energy sector companies, other required improvements for subscription to the SDDS, and implementation of the Balance of Payments Manual sixth edition. The CBTT is enhancing its BOP compilation system following the recommendations of the TA missions. In collaboration with the Ministry of Finance, the CBTT plans to expand its current debt reporting system to include comprehensive coverage of external loans and domestic debt of the entire public sector, as well as publicly guaranteed debt, through the migration to the CS-DRMS system.

II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since 2004	No data ROSC is available.

III. Reporting to STA
Only partial fiscal data are reported to STA, covering above and below the line transactions with a significant time lag, for inclusion in the IMF's Government Finance Statistics database. Since mid-2013, the CBTT reports monetary data to STA using the SRFs. Annual balance of payments data are also sent to STA, although with considerable delay. IIP data for the *International Financial Statistics* have been provided for 2011 and earlier years.

Trinidad and Tobago: Table of Common Indicators Required for Surveillance

As of June 2, 2014

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	May 2014	May 2014	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	January 2014	March 2014	M	M	M
Reserve/Base Money	March 2014	May 2014	M	M	M
Broad Money	March 2014	May 2014	M	M	M
Central Bank Balance Sheet	March 2014	May 2014	M	M	M
Consolidated Balance Sheet of the Banking System	March 2014	May 2014	M	M	M
Interest Rates[2]	April 2014	April 2014	M	M	M
Consumer Price Index	March 2014	April 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	A	A	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	December 2013	March 2014	M	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2013	March 2014	Q	Q	Q
External Current Account Balance	2013Q3	January 2014	A	A	A
Exports and Imports of Goods and Services	2013Q3	January 2014	Q	Q	Q
GDP/GNP	2012	October 2013	A	A	A
Gross External Debt	September 2012	January 2013	A	A	A
International Investment Position[6]	2011	May 2013	I	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

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July 9, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Trinidad and Tobago

On June 16, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Trinidad and Tobago.

Trinidad and Tobago's economy is embarking on a sustainable growth path. Maintenance-related slowdowns in the energy sector are ending, while non-energy growth is robust, with economic slack being used up. Headline inflation is trending down (in part for statistical reasons), while core inflation remains contained at about 2–3 percent. The unemployment rate has fallen to only 3¾ percent, although this masks sizable underemployment in government "make-work" programs. The fiscal balance is likely to improve in fiscal year 2013/14, with the deficit falling to only 1½ percent of GDP, but largely for ad hoc reasons rather than durable improvements in revenues or expenditures. The external current account surplus has rebounded to over 10 percent of GDP and reserves are at 12 months of imports. However, the foreign exchange allocation system, although it had generally worked well for several years, led to fairly widespread and persistent foreign exchange shortages, as supply and demand imbalances grew from late 2013. A recent series of actions by the central bank has improved the supply of foreign exchange to the market.

The time is drawing near for policy tightening. The main external risk is from a sustained decline in energy prices. The domestic medium-term challenges are to boost long-run growth through structural reforms and reorienting fiscal policy, with measures to save more of the nation's nonrenewable energy wealth, and limiting current expenditures while increasing growth-enhancing capital spending. Such policies would likely pose near-term headwinds, but enhance competitiveness and boost potential growth in the non-energy sector. However, significant reforms are likely to be delayed by the electoral calendar. A greater degree of flexibility is needed in the foreign exchange system to avoid further shortages.

[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.

Executive Board Assessment[2]

Executive Directors welcomed the improved growth outlook, and noted the strong external position and limited fiscal vulnerabilities. They agreed, however, that the reduction in economic slack and the need for a durable consolidation of the fiscal position suggest that a tightening of macroeconomic policies may be necessary in the near future. Over the medium term, Trinidad and Tobago remains vulnerable to a decline in energy prices, which calls for structural reforms to diversify the economy and improve its growth potential.

Directors concurred that the authorities should stand ready to start tightening monetary policy in view of the reduced labor market slack and high consumer credit growth, and to prepare for the spillovers from the normalization of monetary policy in the United States. Implementing this tightening, however, could be complicated by banks' excess liquidity and the weak monetary transmission mechanism. Against this background, Directors concurred that tighter prudential regulations could be considered.

Directors welcomed recent measures to improve the budget outturn for the current fiscal year. They underscored the importance of moving toward fiscal surpluses as soon as feasible, using more durable improvements in revenues and expenditures, in order to make better use of the country's nonrenewable energy endowment. Spending should be reoriented away from current expenditure toward growth-enhancing capital projects, including by better targeting social benefits and reducing energy subsidies. Broadening the non-energy tax base remains key to strengthening revenues.

Executive Directors welcomed continued progress in financial sector reform, including improvements to the legislative framework for financial regulation. They also supported the actions taken to bring systemically important non-bank financial institutions into the regulatory perimeter and looked forward to a comprehensive assessment of Trinidad and Tobago's regime against money laundering and the financing of terrorism.

Directors took note of recurring shortages in the foreign exchange market. They encouraged the authorities to allow for sufficient flexibility in the operation of the market to ensure that it clears, especially given the ample foreign reserve position.

Directors expressed concerns about the lack of reliable and timely economic statistics, which severely limits the ability to conduct surveillance. They recommended prompt action to provide adequate resources to the statistical office.

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

Directors emphasized the benefits of further structural reforms to boost competitiveness and lay the foundation for sustainable and diversified growth. They welcomed recent measures taken to reduce business impediments, but noted that action remains necessary in several areas. In particular, inefficiencies in the public sector and distortions in the functioning of labor markets hinder private investment and should be addressed decisively.

Trinidad and Tobago: Selected Economic Indicators

	2010	2011	2012	2013	Proj. 2014	Proj. 2015
(Annual percentage changes, unless otherwise indicated)						
Output and prices						
Real GDP	0.2	-2.6	1.2	1.6	2.3	2.1
Energy GDP	3.2	-3.9	-1.0	0.2	2.0	1.4
Unemployment rate (percent of labor force)	5.9	5	4.8	3.7	...	...
Consumer prices (end of period)	13.4	5.3	7.2	5.6	3.7	2.4
Real effective exchange rate (2000=100)	130.7	129.4	139.9	145.3	...	...
Money and credit 1/						
Net foreign assets	-0.3	14.2	-3.0	10.9	4.0	1.8
Net domestic assets	0.0	-5.6	15.6	-1.5	2.1	1.6
Private sector credit	0.3	4.4	2.6	2.9	4.8	2.5
Broad money (M3)	-0.2	8.6	12.6	9.4	6.1	3.4
(In percent of fiscal year GDP, unless otherwise indicated)						
Public finances 2/3/						
Central government balance (excluding CLICO support)	0.1	-0.2	-1.1	-3.5	-1.5	-3.7
CLICO support	-2.6	-0.6	-6.3			
Budgetary revenue	34.1	32.3	29.7	30.1	29.6	28.9
Budgetary expenditure	33.9	32.4	30.7	33.6	31.1	32.6
Overall budget balance	0.1	-0.2	-1.1	-3.5	-1.5	-3.7
Overall non-energy budget balance 4/	-18.2	-19.2	-17.7	-19.1	-16.6	-18.5
Overall nonfinancial public sector balance	-3.9	-0.1	-0.3	-2.3	-0.2	-2.4
Public sector debt 5/	35.8	33.4	37.2	30.7	30.9	34.6
(In percent of GDP, unless otherwise indicated)						
External sector						
External public sector debt	6.7	6.5	6.2	6.2	6.9	8.4
Current account balance	20.3	12.4	5.0	11.8	11.5	10.5
Of which: exports	54.6	63.7	49.2	56.0	52.9	50.6
Of which: imports	31.6	40.5	34.3	35.5	32.7	31.4
Gross official reserves (in US$ million)	9,070	9,823	9,201	9,986	10,430	10,635
Memorandum items:						
Nominal GDP (in billions TT$)	131.3	150.4	169.8	178.5	189.6	196.0
Exchange rate (TT$/US$, end of period)	6.4	6.4	6.4	6.4	...	...

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

1/ Changes in percent beginning-of-period broad money.

2/ Fiscal year October-September. Data refer to fiscal years from 2009/2010 and 2014/2015.

3/ Data for 2013 are provisional.

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

5/ Excluding debt issued for sterilization.

Statement by Paulo Nogueira Batista, Executive Director
and Kevin Finch, Advisor to the Executive Director
June 16, 2014

1. The authorities wish to express their appreciation to the staff mission for the fruitful dialogue on the economy of Trinidad and Tobago. Framing discussions in a medium-long run context – a shift which occurred in the 2013 consultations – continues to be viewed by the authorities as a more productive approach.

Recent Economic Developments

2. Real GDP growth is showing signs of enhanced durability. In 2013, economic growth was estimated at 1.6 percent, driven by a revival of energy production during the fourth quarter of 2013. Much of the drag on growth imposed by the prolonged period of maintenance in the energy sector has dissipated. The non-energy sector continued to perform creditably. Economic activity was driven by execution of the government's public sector investment program, the financial services sector, wholesale and retail and resurgent construction activity. The authorities note staff's concern about the increase in private consumption and are of the view that more resources, particularly from the private sector, should be directed towards investment.

3. Inflationary pressures have subsided tremendously. On a year-on-year basis, headline inflation rose by 3.3 percent in April 2014 compared with double-digit levels almost two years ago. The containment of food prices, the main driver of inflation, was supported by the expansion of agricultural output. Core inflation has also been well contained at below 3 percent. Pursuant to Fund technical assistance (TA), the Central Statistical Office (CSO) is planning to issue the new Index of Retail Prices (RPI) around mid-2014. The RPI was rebased to September 2012 from January 2003 and utilizes a new basket of consumer items derived from the 2008 Household Budgetary Survey.

4. Thus far, tightening labor market conditions have not had an inflationary impact. The rate of unemployment reached a historic low of 3.7 percent during the first quarter of 2013. While the authorities acknowledge that the low rate may mask underemployment due to the inclusion of workers engaged in government employment programs, the authorities are taking steps to improve the training element of some of these programs in order to augment the labor supply to the private sector. The authorities have also expressed interest in receiving TA to conduct a comprehensive diagnostic of the labor market.

5. Improved management of state-owned enterprises and favorable dividend returns may contribute to a fiscal outturn near balance for the central government for FY2014 compared with a budgeted deficit of 3.6 percent of GDP. The authorities continue to target overall fiscal balance by FY2016 and plan to gradually normalize the fiscal stance towards the generation of primary surpluses over the medium-term. While a comprehensive package of measures has not yet been fully articulated, the authorities assure that reliance on what staff characterizes as "ad-hoc" measures is not the intention. The strategy to contain sizeable transfers and subsidies, especially fuel subsidies, remains broadly unchanged from the 2013

discussions. However, progress is being made with rationalizing and improving the governance and transparency of social programs. With general elections scheduled for 2015, the authorities also expressed a firm intention to exercise fiscal prudence.

6. Monetary policy remained broadly accommodative, but the Central Bank of Trinidad and Tobago (CBTT) is cognizant of emergent domestic and external factors which signal that discussions surrounding unwinding the accommodative stance may have to commence in the short-run. Private sector credit expanded by 5.8 percent in March 2014 (year-on-year), up from 3.4 percent in December 2013. Credit growth was heavily influenced by higher demand for consumer and real estate mortgage lending. Meanwhile, business credit is beginning to show some signs of revival. After declining for fourteenth consecutive months, business credit expanded by approximately 2 percent in February 2014 and further increased by almost 3.5 percent in March.

7. The repo rate, the main policy rate, has remained unchanged at 2.75 percent since September 2012. However, monetary transmission is being adversely affected by a build-up of excess liquidity in the banking system. Excess reserves at CBTT averaged TT$8.4 billion per day in May 2014 compared with just over TT$6 billion in April. In December 2013, Parliament approved an increase in borrowing limits under the Treasury Bills and Treasury Notes Acts. As a result, CBTT is now in a better position to expand open market operations to bring down excess liquidity to more manageable levels.

Short-term Outlook

8. Heightened exploration activity in the energy sector concomitant with the use of technological advancements has generated optimism among the international energy companies operating domestically. Production from a 1 trillion cubic foot natural gas field is projected to commence in June 2014 and gas output is estimated to increase further towards the end of 2014 as new supplies are brought online by two key operators. The decline in oil output appears to have bottomed-out, while prospects for increased oil production have improved with the imminent signing of new licenses for land acreage with three small to medium-sized companies. In this regard, energy GDP is projected to increase in 2014/15. In the non-energy sector, growth is likely to average around 3 percent per annum.

The Foreign Exchange Market

9. The foreign exchange market has been relatively tight since the beginning of 2014, prompting CBTT to make significant adjustments to its foreign exchange management policy – a policy which has remained broadly unchanged for more than two decades. Effective April 1, the new market-oriented measures are as follows: (i) Ninety percent of CBTT foreign currency sales to the market will be channeled through the competitive auction system, with 10 percent being allocated on a non-competitive basis; (ii) The market share-based formula used to allocate foreign currency inflows from three energy companies to the commercial banks (the sharing arrangement) will be adjusted such that the originating bank will retain 25 percent of the inflows and the remainder will be shared equally among authorized dealers (which now include an additional four entities) and; (iii)The second-tier arrangement, an

informal sharing agreement among the commercial banks, will be discontinued. These changes were undertaken beneath an umbrella of strengthened governance practices which seek to ensure that authorized dealers better understand underlying market demand, enabling them to prioritize accordingly. CBTT expects these changes to improve the distribution of foreign exchange in the market and foster the development of an interbank foreign currency market.

10. CBTT intended to review the new system in 6-9 months, at which time adjustments to the pricing mechanism would have been considered, if necessary. However, persistent reports in the press of tight foreign exchange availability caused an earlier than anticipated review. It should be stated that there were no shortages to satisfy legitimate demands for foreign exchange to make payments or transfers for current international transactions. Adjusting to the new system posed a challenge for the market. At the same time, rumors of shortages exacerbated excess demand conditions as economic agents sought to intensify their holdings of precautionary balances. CBTT intervened in the market on May 27, selling US$200 million to clear the excess demand and the periodicity of interventions is expected to increase going forward. In fact, CBTT sold an additional US$50 million in early June to alleviate any potential pressures until significant conversions by the energy sector take place at end-June.

11. Discussions with the authorized dealers resulted in a few modifications to the new system surrounding the share of foreign exchange that would be auctioned competitively versus on a non-competitive basis. In practice, the mix is now 50/50. With these developments, reports of tightness in the market have dissipated and the authorities do not anticipate any severe disruptions that could possibly give rise to exchange restrictions.

12. The authorities do not share staff's view that CBTT should provide an unconditional commitment to supply foreign exchange. CBTT prefers to retain the current supply mechanism where they set an intervention budget after consultations with market participants. The consensus among market participants that a parallel market for foreign currency does not exist allays concerns that recent supply issues are intractable. More broadly, staff's recommendation seems inconsistent with other policy advice. Staff encourages the authorities to save and invest the proceeds from extracting the country's non-renewable resources. Given high excess liquidity, the attractiveness of financial investments abroad and structural rigidities, manifested by a non-energy sector which is a net user of foreign exchange, it would be imprudent to provide such a blanket commitment. An unconditional commitment to meet all foreign exchange requirements risks eroding an important buffer, leaving the country vulnerable to exogenous shocks. It can also fuel private consumption and increase imports, eroding the healthy current account surplus – a surplus which, according to the external stability assessment, needs to increase even further in order to maintain a stable level of domestic absorption. The authorities see merit in giving serious consideration to introducing more flexibility in the exchange rate, but acknowledge that a national dialogue on foreign exchange policy, within a broader setting of structural transformation, is necessary – given that conditions have changed significantly since the market was liberalized in April 1993.

Financial Sector Developments

13. The Insurance Bill is before a Joint Select Committee of Parliament for review. Upon completion in June, the bill would be tabled for debate in Parliament in July 2014. Legislation to bring credit unions under the regulatory ambit of the CBTT is under consideration by the Legislative Review Committee (LRC), but progress has slowed because the LRC is awaiting the findings of a commission of inquiry into the operations of CLICO and the Hindu Credit Union in order to determine if there may be any legislative implications for the credit union sector. A policy for private occupational pension was developed, but the authorities are in the process of reforming the public pension plan and prefer both policy documents be dovetailed before taking them to cabinet for approval.

14. Five entities were designated systemically important financial institutions (SIFIs). These include; the Unit Trust Corporation, the Home Mortgage Bank (HMB), the Trinidad and Tobago Mortgage Finance Company(TTMF), the National Insurance Board and the Agriculture Development Bank. Appropriate steps to place these institutions under the regulatory and supervisory control of CBTT are in progress. In the interim, CBTT is utilizing moral suasion to discuss governance and risk management issues with the five SIFIs. There are also plans to merge the HMB and the TTMF and list the new entity on the local stock exchange. In March 2014, a TA mission on financial crisis preparedness examined the SIFI framework and presented their findings to the authorities.

15. The authorities are preparing for a comprehensive AML/CFT assessment by FATF in January 2015. The majority of legislative amendments to secure full technical compliance were completed by end-May 2014, while institutional capacity is being bolstered in order to improve effectiveness. With the assistance of the World Bank, a National Risk Assessment commenced in March 2014 in order to comply with Recommendation 1 of FATF's revised standards. While the timeline is challenging, the authorities are deeply committed to meeting the new assessment standards. An inter-ministerial cabinet committee chaired by the Attorney General was established to oversee the process. The committee is supported by a 12-member, multi-stakeholder National Anti-Money Laundering Committee.

Structural Reforms

Structural reforms would help lift private investment which is important to achieve potential growth, estimated by the authorities at 3-5 percent. The authorities have undertaken the following actions in this regard:

16. *Ease of Doing Business*: The Ministry of Trade, Industry and Investment has made significant strides towards addressing some of the shortcomings identified in the World Bank Doing Business Reports. The time taken to start a business and to obtain a construction permit has been significantly compressed.

17. *Public Sector Reform*: The inefficiencies in the public service are well-known and there are several initiatives underway to improve the functioning of the public service. The Ministry of Public Administration is undertaking a public service transformation plan

entitled, “A Journey from Gold to Diamond”. The program revolves around a citizen-centric design where citizens could access bundled government services in a “one-stop shop” arrangement. There is also focus on rationalization of social services to eliminate duplication, establishment of more cross-ministerial teams in order to devolve decision-making and to improve hiring, staffing and promotion practices in the public service. The IDB is assisting with some of these initiatives.

18. *Government Social Programs*: The authorities agreed that there is need to rationalize social programs both within the Ministry of the People and Social Development and across ministries. A Central Beneficiary Registry using social enterprise management software was launched in April 2014 in order to streamline the social safety net programs. The rollout of biometric cards, which will contain comprehensive information on all the benefits applicable to an individual, will track usage, aid fraud detection and prevent abuse.

Statistical Issues

19. CBTT has intervened to assist the CSO to improve the availability of macro-critical data. A Memorandum of Understanding will be signed between CBTT and the Ministry of Planning and Sustainable Development – the line ministry with responsibility for the CSO. The plan involves the provision of equipment and the employment of 15 persons (professional and technical) by CBTT on contract for one-year and their subsequent secondment to the CSO to work specifically on the trade statistics and the labor force surveys. This short-term solution should assist with improving data availability until more concrete measures can be implemented.