INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/204

TRINIDAD AND TOBAGO

June 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2016 Article IV consultation with Trinidad and Tobago, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 20, 2016 consideration of the staff report that concluded the Article IV consultation with Trinidad and Tobago.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 20, 2016, following discussions that ended on March 15, 2016, with the officials of Trinidad and Tobago on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 5, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Trinidad and Tobago.

The document listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No.16/298
FOR IMMEDIATE RELEASE
June 20, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Trinidad and Tobago

On May 20, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Trinidad and Tobago.

Trinidad and Tobago's output has continued to shrink while declines in global energy prices are leading to surging fiscal deficits and are pushing the external current account into deficit. Energy output is sharply lower due to supply-side constraints. Combined with weak non-energy growth, real GDP is estimated to have declined 2.1 percent in 2015 and is expected to fall another 2.7 percent in 2016. The lower energy prices and weaker growth have contributed to a steep fall in fiscal revenues, raising the FY 2014/15 (October to September) deficit to 4.7 percent of GDP, and once the full-year impact is felt, to a projected 10.9 percent of GDP in FY 2015/16.[2] In addition, lower energy prices reversed Trinidad and Tobago's usual current account surplus, with the current account estimated at a deficit of 5.4 percent in 2015, while gross official reserves fell from US$11.3 billion to US$9.8 billion during 2015. Core inflation remained anchored at 2.0 percent yoy in 2015, while headline inflation fell to 1.5 percent (yoy). Unemployment remained low (3.6 percent in September 2015), in part as make-work programs continue to facilitate employment, though layoffs are picking up.

The new government has undertaken fiscal adjustments intended to bring the economy back into balance. It introduced new revenue measures with the FY 2015/16 budget, and made further adjustment measures mid-year when it became clear that even the seemingly conservative energy price assumptions in the budget were overoptimistic, due to the subsequent continued decline in energy prices. The Central Bank began tightening monetary policy to mitigate capital outflows beginning in late 2014, before pausing in January 2016. Although the currency has been allowed to depreciate modestly against the U.S. dollar, external balance models suggest the currency remains substantially overvalued (although the degree of overvaluation is subject to uncertainty due to historical shortcomings in domestic data), while foreign exchange shortages persist. Banks remain strong, while there has been some progress on structural reforms, notably with respect to a

[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.

[2] The authorities count asset sales totaling some 6 percentage points of GDP as revenues, instead of "below-the-line" financing.

significant start on efforts to remedy statistical shortcomings.

Executive Board Assessment[3]

Executive Directors noted that the recent sharp decline in energy prices is posing major challenges to Trinidad and Tobago's economy. Directors welcomed the efforts taken by the new government and encouraged further policy actions, including additional fiscal consolidation and structural reforms, to preserve macroeconomic stability, diversify the economy, and enhance medium-term growth prospects.

Directors concurred that a strong medium-term fiscal plan is needed to re-establish a sustainable fiscal path and ensure debt sustainability. They commended the authorities for the important steps taken thus far and encouraged them to put in place a comprehensive fiscal framework to guide their multi-year adjustment efforts. Directors agreed that priority should be given to broadening the revenue base with a comprehensive VAT reform, improving tax administration, phasing out fuel subsidies, while improving targeted social protection. In this context, they also welcomed the authorities' intention to pursue a comprehensive expenditure review.

Directors supported the current pause in monetary policy tightening given the challenges to growth. They noted that while the immediate policy priority is to focus on maintaining external balance, addressing foreign exchange shortages on current transactions would be important. Directors noted that a well-communicated move to greater exchange rate flexibility, as part of a comprehensive demand-management package, would help strengthen the foreign exchange market and support the needed macroeconomic adjustment. Some Directors highlighted the importance of mitigating volatility in the foreign exchange market, and recommended a careful adjustment strategy.

Directors noted that strong comprehensive structural reforms are needed to achieve sustained and inclusive growth over the medium term. They emphasized the importance of pushing ahead with energy sector taxation reforms, addressing inefficiencies in the public service, and strengthening financial sector supervision and regulation, particularly the non-bank financial regulatory framework. They also welcomed ongoing efforts to further strengthen the AML/CFT framework. Directors encouraged continued efforts to reform the labor market, improve the business climate, and make further progress on the establishment of a tax policy unit and the National Statistical Institute to address the remaining shortcomings.

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[3] 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.

Trinidad and Tobago: Selected Economic Indicators

	2012	2013	2014	2015	Proj. 2016	Proj. 2017
(Annual percentage changes, unless otherwise indicated)						
Output and prices						
Real GDP	1.3	2.3	-1.0	-2.1	-2.7	2.3
Energy GDP	-2.8	1.3	-2.4	-4.9	-7.1	6.5
Unemployment rate (percent of labor force)	4.9	3.7	3.3	3.6	...	...
Consumer prices (end of period)	7.2	5.7	8.5	1.5	4.6	4.7
Real effective exchange rate (2000=100)	107.0	111.1	117.0	129.5	...	...
Money and credit 1/						
Net foreign assets	-1.1	5.4	6.4	-6.4	-3.7	-5.4
Net domestic assets	22.2	-2.5	0.7	7.3	3.6	13.2
Private sector credit	1.6	2.1	3.5	3.4	0.7	-0.3
Broad money (M3)	20.8	3.2	7.2	1.1	-0.1	7.8
(In percent of fiscal year GDP, unless otherwise indicated)						
Public finances 2/						
Budgetary revenue	29.7	31.2	33.0	31.9	28.0	25.4
Budgetary expenditure	30.8	34.1	35.1	36.5	38.8	38.8
Overall balance	-1.1	-2.9	-2.1	-4.7	-10.9	-13.4
Overall non-energy balance3/	-17.8	-18.8	-19.2	-17.6	-17.5	-20.5
Overall nonfinancial public sector balance	-0.3	-2.1	-4.0	-6.9	-11.5	-15.4
Public sector debt 4/	41.4	41.0	41.9	47.2	48.4	58.5
(In percent of GDP, unless otherwise indicated)						
External sector						
External public sector debt	6.2	5.9	7.4	8.9	11.4	15.4
Current account balance	3.2	7.3	4.6	-5.4	-7.0	-5.7
Of which: exports	50.5	48.3	43.3	36.9	29.2	32.2
Of which: imports	35.3	33.5	30.8	36.2	30.7	31.9
Gross official reserves (in US$ million)	9,515	10,411	11,317	9,788	9,194	8,347
Memorandum items:						
Nominal GDP (in billions TT$)	165.2	170.4	174.8	156.9	155.3	165.2
Exchange rate (TT$/US$, end of period)	6.4	6.5	6.4	6.4	...	...

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

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

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

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

4/ Excluding debt issued for sterilization.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

May 5, 2016

KEY ISSUES

Sharply declining energy prices and shrinking output constitute major fiscal challenges. In a baseline scenario, fiscal deficits exceed 10 percent of GDP through the medium-term, with an unsustainable increase in government debt. Although the authorities have adopted serious fiscal measures since taking office in September 2015, further declines in energy prices have moved the goalposts. A substantial multi-year fiscal adjustment of around 8 ½ percent of GDP will be needed to keep the debt burden manageable. There is scope to raise revenues including via comprehensive VAT reform, and to rationalize spending with a broad expenditure review.

With current account deficits for the foreseeable future, further depreciation could help restore external balance. Despite modest depreciation, staff estimates suggest the currency remains substantially overvalued, while foreign exchange shortages persist. Balance of payments pressures are also reportedly being exacerbated by capital outflows, due both to precautionary demand and speculation on the currency. A larger depreciation as part of a broader adjustment package could quell speculation and allow for stabilizing the exchange rate at a lower level, and would also raise fiscal revenues and help offset the contractionary impact of the needed fiscal adjustment. The recent pause in monetary policy tightening is appropriate.

Structural reforms are needed on a range of fronts. Growth and diversification would be aided by reforming labor markets, improving the public service and further removing impediments to doing business. Although the banking system is sound, legislative action is needed to strengthen the non-bank financial regulatory framework. A strong start has been made on remedying severe statistical shortcomings.

Approved By
Jorge Roldos (WHD) and Masato Miyazaki (SPR)

The mission, comprised of E. Canetti (head), M. Lutz, W. Mitchell, and R. Price (all WHD), X. Lin (RMU) and H. Pham and J. Ams (LEG), visited Port of Spain during March 3–15, 2016. Mr. Canuto and Ms. Ramcharan (both OED) also joined the mission. Messrs. Li, Loyola, and Moreno, and Ms. Canelas provided able assistance. Outreach activities included meetings with parliamentarians, academics, and trade and labor groups.

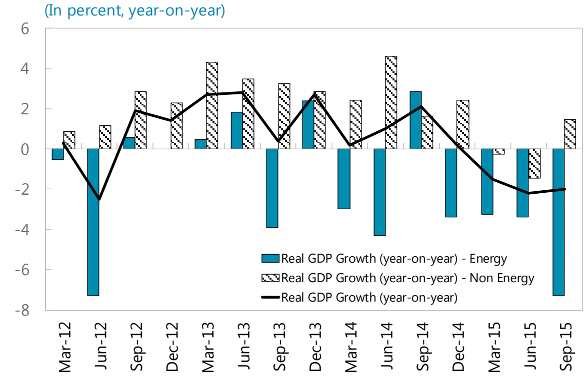
CONTENTS

RECENT DEVELOPMENTS

1. **Trinidad and Tobago's output has continued to shrink.** Ongoing maintenance and further declines in gas and oil production are estimated to have driven energy output 4.7 percent lower (yoy) as of September 2015 (Figure 1). Combined with weak non-energy growth, real GDP declined an estimated 2.1 percent in 2015. Core inflation remained anchored at 2.0 percent yoy in 2015, while headline inflation fell to 1.5 percent (yoy). Unemployment remained low (3.4 percent in September 2015), in part as make-work programs continue to sustain employment. However, more recently, there has been a pickup in layoffs.[1]

Real GDP Growth, 2012Q1~2015Q3

(In percent, year-on-year)



Source: Central Bank of Trinidad and Tobago.

2. **The long-standing current account surplus turned into a 5.4 percent of GDP deficit in 2015** (Figure 2).[2] The reversal is mostly due to a sharp drop-off in energy exports. With energy prices having fallen some 40 percent during 2015, exports are estimated to have declined from US$11.8 billion in 2014 to US$9.1 billion in 2015. Relatively expansionary fiscal policy in FY 2014/15 (October-September), growth in consumer credit, and robust foreign direct investment (FDI) raised capital and consumer imports. After an overall balance of payments surplus in 2014, reserves declined US$1.5 billion in 2015, albeit to a still comfortable US$9.8 billion (13.4 months of imports). Heritage and Stabilization Fund (HSF) assets increased by $212 million over the prior 12 months to US$5.8 billion in June 2015.

3. **The significant terms-of-trade shock implies that the real effective exchange rate has become more overvalued.** Estimates using two methodologies under the EBA-lite framework indicate a sizeable real effective exchange rate gap: 23 percent using the Current Account model, consistent with the large current account gap of -5.6 to -7.6 percent of GDP, and 50 percent under the Real Effective Exchange Rate (REER) Model (though the latter may be exaggerated due to ongoing measurement issues with headline inflation; Annex I). The terms-of-trade shock in 2015 explains some of the overvaluation. However structural impediments, domestic policy gaps relative to other countries and the appreciation of the US and US dollar pegged currencies (60 percent of trade) vis-á-vis the TT dollar are dominant contributors to the REER gap. The nominal exchange rate

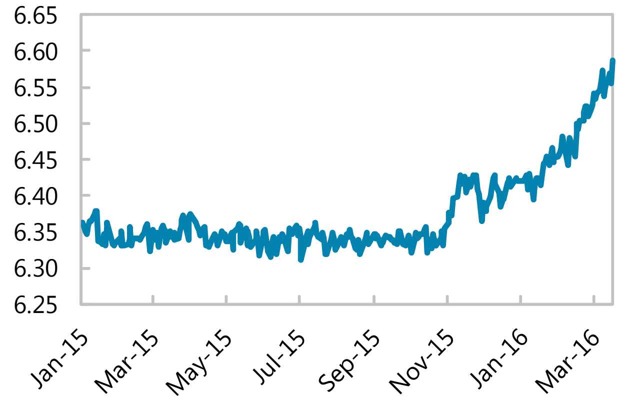
[1] The participation rate declined from 62.0 to 60.3 percent from Q3 2014 to Q3 2015.

[2] The BOP data for 2015 was extensively revised in early 2016 by the CBTT to reflect (i) the incorporation of new data on goods exports and imports from the Central Statistical Office (CSO), (ii) introduction of new data sources, and (iii) correction of some large errors in the data. The large revisions in the BOP estimates will cause a structural break in the data for 2015. Revisions to 2011-2014 BOP estimates, to make them comparable to 2015, and 2012 to 2014 IIP data are anticipated by the third quarter of 2016. CARTAC's technical assistance in 2015 and early 2016 has been instrumental in these developments.

has been closely managed by the Central Bank of Trinidad and Tobago (CBTT) to stabilize the currency against the US dollar, as its *de facto* nominal anchor.

4. **The authorities began to depreciate the TT dollar in November 2015 amid continued widespread reports of foreign exchange (FX) shortages.**[3] The rate, which had been maintained within a narrow range of +/- about 1 ½ percent around TT$6.35/US$1 since late 2009, was depreciated by 3 ½ percent through early April 2016. The CBTT injected US$500 million to the market at end-October, 2015 and commercial banks were requested "to ensure all legitimate demands for FX are met (within a reasonable time), with priority accorded to trade-related transactions."[4] Nevertheless, reports of FX shortages, including for current transactions, soon reappeared. In the period since then (November through March), the CBTT has injected smaller amounts of foreign exchange, averaging US$86 million per month. In April, the government announced that the bilateral rate versus the dollar would not be allowed to depreciate more than 7 percent from its September 2015 level, leaving room for another 3.3 percent depreciation from that date.

Exchange Rate
(TT$/US$, mid-market)



5. **Fiscal policies in recent years have been pro-cyclical.** Despite high energy prices, the budget remained in deficit, in part as non-energy tax bases were underutilized (or, regarding the VAT, undermined with expanded zero-ratings). Expenditures increased as a share of GDP, with transfers and subsidies (including for fuel) rising while capital spending has remained relatively flat. Accordingly, despite the windfall gains in energy revenues, the government debt-to-GDP ratio continued to rise while the assets of the Heritage and Stabilization Fund (HSF) grew only from 14 to 23 percent of GDP during FY2010-FY2015 (Table 2 and Figure 4), with only TT$4.5 billion of a cumulative TT$19.2 billion of energy revenues in excess of budgeted amounts being transferred to the HSF during 2010–14.[5]

6. **The 2014/15 fiscal accounts were hard hit by the decline in energy prices.** The deficit expanded to 4.7 percent of GDP, although it was contained from widening further by one-off revenues. The budget deficit had been targeted at 3.1 percent of GDP (GFS basis), based on oil prices

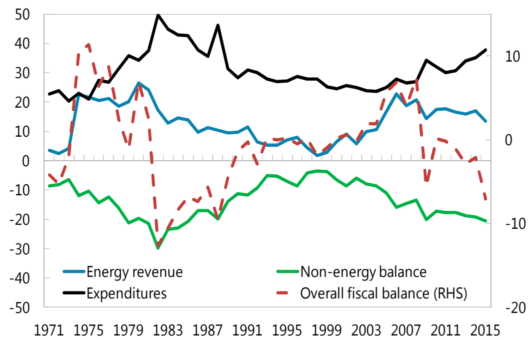
[3] The *de facto* exchange rate regime is official classified as a stabilized arrangement, but could be reclassified as "crawl-like" if the current trend of depreciation continues through June of this year.

[4] Central Bank of Trinidad & Tobago, Media Release No. 9/2015, October 29, 2015.

[5] These calculations are based on the Fund's definition of energy revenues, which is broader than that used by the authorities in determining HSF financing, in that it includes, for example portions of personal income and corporate profits taxes that are thought to be closely economically related to energy sector activity.

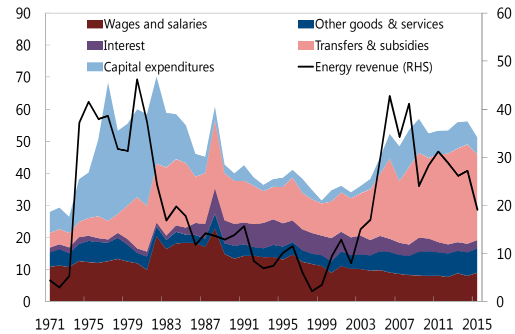
of US$80/barrel and (Henry hub) natural gas at US$2.75/mmBtu.[6] However, energy-based revenues fell short by 4.4 percentage points of budgeted GDP. While lower energy prices also reduced fuel subsidies, by ¾ of a percentage point of GDP, expenditures were hit by the unbudgeted costs of a multi-year public sector wage agreement. The authorities responded at mid-year with a "variance of appropriations," which sharply limited expenditures on other goods and services. Capital expenditures of TT$7.2 billion also fell short of budget. Recourse was made to a number of "one-off" revenue measures, notably greater reliance on dividend transfers from the National Gas Company and an income tax amnesty that reportedly brought in an additional 0.3 percent of GDP in revenues.

Energy Revenue and Fiscal Balances
(In percent of GDP)



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

Energy Revenue and Expenditure Components
(Percent of Non-Energy GDP)



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

7. **Despite the worse-than-budgeted fiscal outturn, the increase in government gross indebtedness was limited by recourse to "one-off" financing.** Asset sales, combined with an early loan repayment by a state-owned enterprise (SOE), provided TT$4.8 billion (3 percent of GDP) in financing, almost two-thirds of total requirements. The stock of arrears (especially for VAT refunds), estimated in the 2016 budget statement at TT$5 billion, was also used to help with financing difficulties. As a result, central government debt increased by only 2.0 percentage points of GDP, while external debt actually fell in nominal terms to US$2.1 billion (8.4 percent of GDP).[7]

8. **The sharp fall in energy prices since the new government's initial introduction of the budget is leading the 2015/16 deficit to surge.** With a seemingly conservative US$45/barrel oil price assumption, the budget deficit was initially targeted at 7.5 percent of GDP on a GFS basis (1.7 percent of GDP using the authorities' accounting convention).[8] This was to be achieved through adjustments totaling over 3 percent of GDP, including tight expenditure control, lower fuel subsidies (in part through hikes in fuel prices), and revenue measures. Base broadening of the value-added tax

[6] The authorities' budget target was 2.3 percent of GDP. However, this included privatization revenues totaling 0.8 percentage points of GDP, which are included as financing on a GFS basis.

[7] Continued excess domestic financial market liquidity required issuing additional short-term open-market-operation instruments, which are not included in gross debt. The proceeds of such bonds are placed in "frozen" government deposits, totaling 24 percent of GDP (end-September 2015).

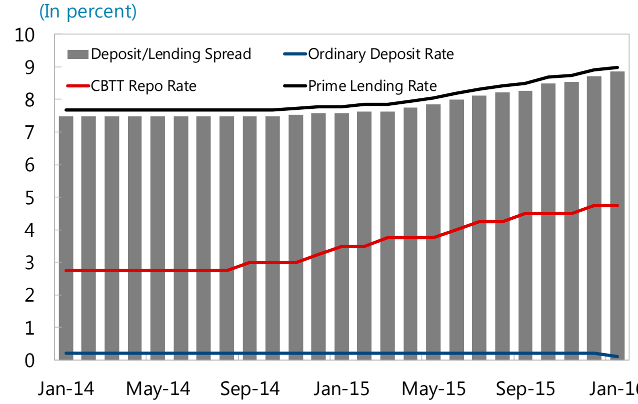
[8] The authorities count asset sales totaling some 6 percentage points of GDP as revenues, instead of "below-the-line" financing.

(VAT), combined with a rate reduction (from 15 to 12½ percent), was expected to yield a net 2½ percentage points of GDP. The budget also continued to rely on above-average SOE dividends. In addition, the government announced plans to use US$1 billion of HSF assets for deficit financing.

9. **As energy prices fell further and VAT revenues fell short, the authorities announced additional measures in an April Mid-Year Budget Review (MYBR), aimed at containing further fiscal erosion**. Energy price assumptions were revised down to US$35 per barrel for oil and US$2.00 per mmBtu for natural gas. The measures included mid-year cuts of 7 percent of budgeted expenditure, hikes in tobacco and alcohol excises and on excises and duties on large-engine automobiles, further fuel subsidy savings from additional fuel price increases, and, with effect from FY 2016/17, the introduction of a tax on internet purchases. However, even with these measures, given lower energy prices and weaker-than-expected economic activity, staff estimates the deficit could total almost 11 percent of GDP on a GFS basis.

10. **The CBTT tightened monetary policy, but the transmission to the economy is unclear.** Citing the need to mitigate potential capital outflows (in anticipation of "normalized" U.S. rates), the CBTT raised the repo rate 200 basis points over eight successive meetings, to 4.75 percent, before pausing in January 2016. This pushed lending rates higher, but given still ample, albeit significantly declining, system liquidity, deposit rates remain low, resulting in improved lending margins for banks.[9] Private sector credit growth has been concentrated in residential mortgages and consumer credit, while business credit, which had finally shown signs of strengthening, began to taper off in 2015 (Figure 3). Median house prices remained relatively stable in 2015.

Commercial Bank Deposit and Lending Rate and CBTT Repo Rate
(In percent)



Source: Central Bank of Trinidad and Tobago.

11. **Banks remain strong despite the weakening economic outlook**. The latest indicators (end-December, 2015) show no deterioration in asset quality, with non-performing loans (NPLs) below 3½ percent. In addition, capitalization remains high and balance sheets very liquid, despite recent reductions in excess reserves reflecting increased CBTT sales of FX.[10] Though returns have declined, banks remain profitable with ROA and ROE at 2.5 and 18.2 percent, respectively. The ratio of specific provisions-to-impaired assets of 42.1 percent at end-December 2015 has been increasing,

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[9] The Mortgage Market Reference Rate (MMRR), which commercial banks and their non-affiliated lenders are expected to apply, plus a margin, to all new and existing residential mortgage loans, increased by 75 basis points to 3 percent over the year (to end-March 2016). As of January 2016, banks' real estate mortgage loan rates were 7.5 percent, unchanged since November 2012.

[10] Commercial banks' excess reserves dropped from an average of TT$7.2 billion in December 2014 to TT$3.4 billion in December 2015.

but still falls well below the 79.2 percent five-year average prior to the global financial crisis (2003–2007). Continued robust overall credit growth has been a source of risk for the overall health of the financial sector, although the recent slowdown, in line with the slowing economy, has reduced this risk (see Financial Soundness Indicator Map). Banks' high liquidity and capital exceed prudential norms by significant margins, and provide an ample buffer against any uptick in degradation of loan quality, while CBTT stress tests show banks can withstand considerable levels of financial stress.[11] Moreover, the banking system does not appear overly exposed to foreign exchange risk.

12. **Some financial reforms have stalled.** Insurance legislation to improve regulatory oversight, strengthen prudential requirements, and enhance governance was passed in the Senate, but lapsed in the lower house. It is expected to be reintroduced in 2016. The Occupational Pensions Plan Act, Credit Union Bill and amendments to the Co-operative Credit Societies Bill also await drafting or reintroduction. Implementation of banking regulations to conform with Basel II, which began in 2014, is proceeding, along with the National Financial Crisis Management Plan and the Systemically Important Financial Institutions (SIFI) oversight project.

Financial Soundness Indicator Map

Trinidad and Tobago	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	Latest
Overall Financial Sector Rating	L	L	L	L	L	M	M	M	M	M	M	M
Credit cycle	L	L	L	L	L	M	M	H	M	M	M	M
Change in credit / GDP ratio (pp, annual)	0.5	0.4	0.4	0.9	2.3	3.4	4.1	5.0	4.3	3.7	3.1	3.1
Growth of credit / GDP (%, annual)	2.0	1.6	1.3	3.3	8.3	12.4	14.6	17.5	14.4	11.8	9.6	9.6
Credit-to-GDP gap (st. dev)	-0.5	-0.5	-0.4	-0.3	-0.2	-0.2	-0.1	-0.1	0.2	0.2	0.2	0.2
Balance Sheet Soundness	L	L	L	L	L	L	L	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	L	L	L
Deposit-to-loan ratio	186.3	186.1	186.2	189.2	188.7	185.7	181.2	178.6	173.4	164.0	166.4	166.4
FX liabilities % (of total liabilities)	27.4	25.5	25.2	24.5	25.1	24.4	23.5	24.4	25.3	24.5	25.1	25.1
FX loans % (of total loans)	18.2	18.2	17.2	17.6	16.3	16.4	16.9	16.7	17.5	15.8	15.2	15.2
Balance Sheet Buffers	L	L	L	L	L	L	L	L	L	L	L	L
Leverage	L	L	L	L	L	L	L	L	L	L	L	L
Leverage ratio (%)	27.4	27.8	27.5	28.3	27.9	26.6	25.3	23.2	23.2	22.7	23.8	23.8
Profitability	L	L	L	L	L	L	L	L	L	L	L	L
ROA	2.0	2.3	2.0	1.9	1.8	1.7	1.8	3.6	2.9	2.7	2.5	2.5
ROE	14.6	16.3	14.7	13.7	13.4	12.7	13.2	26.3	21.2	19.2	18.2	18.2
Asset quality	L	L	L	L	L	L	L	L	L	L	L	L
NPL ratio	4.4	4.6	4.2	4.2	4.0	4.3	4.1	4.1	4.0	3.5	3.4	3.4
NPL ratio change (%, annual)	-29.8	-16.1	-22.2	-10.2	-8.7	-5.7	-3.0	-2.1	0.4	-19.0	-16.1	-16.1

High vulnerability
Medium vulnerability
Low vulnerability

Memo items:	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	Latest
Credit-to-GDP (%)	27.6	27.6	28.2	28.6	29.9	31.0	32.3	33.6	34.3	34.7	35.4	35.4
Credit growth (%; annual)	5.0	4.5	4.1	6.0	7.6	8.2	6.7	5.8	5.6	5.9	6.5	6.5
CAR (in %)	24.7	24.1	23.1	23.7	23.0	23.4	22.5	23.0	22.8	22.1	22.1	22.1

Source: CBTT and Staff estimates

[11] CBTT stress tests include single factor tests on interest rate risk (+/- 100/700 basis points), foreign exchange risk (40 percent depreciation in TT$/US$), and credit risk (20 percent GDP decline, 30 percent property price decline), and scenario tests (energy price shock of 50 percent decline with and without policy responses, and a regional natural disaster).

13. **The windup of CL Financial Group (CLF) has progressed.** A final resolution plan for Colonial Life Insurance Company (Trinidad) Limited (CLICO) and British American Insurance Company (Trinidad) Limited, including phased payments to CLICO's policyholders and creditors from the monetization of CLICO's assets, was announced in March 2015. The government announced in April 2016 that CLICO's shareholdings in MIHL, Angostura, Home Construction, and CL World Brands and its traditional portfolio of insurance policies and other assets would be sold or disposed of in 2016, with a view to repaying all legitimate creditors and policyholders in full. CLICO's holdings in Republic Bank are to be disposed of in 2017. A plan to monetize assets held directly by CLF is to be announced in due course.

14. **The FX market has been experiencing long queues.** Market participants reported a worsening situation in the last 18–24 months, with a wait time for most requests of over four weeks (and sometimes considerably longer) for their FX demand to be satisfied, including for making payments and transfers for current international transactions. External payment arrears to creditors have emerged, and some foreign suppliers have reportedly cut off credit lines to local importers.

15. **The CBTT's intervention mechanism is targeted toward reducing market volatility, but by itself has proven insufficient to address the underlying FX imbalance problems.** The CBTT manages the TT$ exchange rate mainly through its regulation of the maximum market sell and buy rates, and through FX provision, accounting for approximately one-third of the total market FX supply via discretionary, non-competitive allocations to licensed authorized dealers.[12] The CBTT's FX supply has been insufficient to satisfy bona fide demand, including demand for current international transactions at the exchange rate that is set within limits it determines. Recently, the CBTT increased the frequency of its interventions to approximately every two weeks for better volatility management, without increasing its total FX supply. The CBTT limits sales of its FX intervention funds to meeting only "trade-related" demand, and has encouraged authorized dealers to similarly prioritize sales of FX obtained from other sources.[13]

16. **Progress has been made in improving the business climate.** The previous government adopted a new bankruptcy and insolvency law, significantly shortened the time to start a business, streamlined trade clearance procedures and simplified property registration. A public procurement law was adopted, although the new government plans to reform it further. Efforts are now being made to improve the insolvency framework, improve trade facilitation and access to credit, and streamline company registration procedures. Government efforts to transition individuals from "make-work" programs to the private sector have thus far largely failed, although the Government, in

[12] Dealers' maximum sell rate is set by applying a fixed margin over the intervention rate, which is the latest rate at which the CBTT sells FX to authorized dealers. Dealers' maximum buy rate is set at the mid-rate for the prior day. The rates for the CBTT's FX purchase from, and sale to, the government are set at the prior day's mid-rate and the prior day's average sell rate, respectively.

[13] "Trade related" transactions, however, do not include all current international transactions as defined under Article XXX(d) of the IMF's Articles of Agreement, and, accordingly, the priority sales do not cover payments and transfers for other current, but non-foreign trade, international transactions, such as interest and net income payments, loan amortization or direct investment depreciation payments, and family remittances.

its 2016 MYBR, has announced plans to reform these programs with a view to reducing financial support and making them more cost-effective.

17. **While data shortcomings continue to constrain staff's ability to conduct economic surveillance, significant efforts are being made to remedy these shortcomings and discrepancies across data sources.** The quality and timeliness of key macro-economic indicators had worsened in recent years due to insufficient attention and resources being provided in this area. However, more recently, the government has begun to make a concerted effort to improve data timeliness and quality. In particular, the new government has launched a process to transform the Central Statistical Office (CSO) into an independent National Statistical Institute, to be launched at the beginning of 2017 (Informational Annex).

MEDIUM-TERM OUTLOOK AND RISKS

18. **The economy is expected to shrink for a third year in 2016 given structural impediments, now abetted by cyclical headwinds.** Energy output will decline as natural gas, and especially oil fields continue to be depleted, while the petrochemical sector has suffered plant closures and gas shortages that constrain output. However, new gas fields should boost energy production in 2017-2018. Non-energy growth is projected to decline in 2016 on spillovers from job losses in the energy sector as well as the fiscal consolidation.[14] These factors would continue to weigh on activity until non-energy growth fully rebounds in 2018. Inflation should remain subdued on weak activity.

19. **In staff's baseline projections, with unchanged fiscal policies and current energy price forecasts, the current account remains in deficit through the medium-term.** Although exports recover gradually, in line with energy prices and the new gas production, they remain well below 2014 levels, even by 2021. Slow implementation of supply side structural reforms and the overvalued currency limit the potential for export diversification and growth. Import growth moderates in line with an expected decline in FDI. The drawdown of the HSF and increased official financing are insufficient to address the country's financing requirement and the overall external position steadily deteriorates to 3.3 months of imports by 2021.

20. **Under the baseline, the fiscal deficit rises to a range of 12½ to 13½ percent of GDP over the medium term, resulting in an unsustainable debt buildup**. The central government debt to GDP ratio rises to nearly 80 percent of GDP by 2021, while the broader nonfinancial public sector (NFPS) debt ratio rises to almost 100 percent. The Debt Sustainability Analysis' (DSA) "Heat Map" flashes red regarding the level of debt and gross financing needs, both in the baseline and under various shocks, although this is mitigated by authorities' strong policy commitment to enhancing revenues and reducing and rationalizing public expenditures (Annex II). That said, the authorities' ambitious target for revenue collection based on improvements to revenue administration may

[14] Given the magnitude of the needed fiscal adjustment, staff's projections took explicit account of negative multiplier effects, assuming a 3-year impact with a maximum and cumulative impact of 0.3 and 0.6, respectively.

prove difficult to achieve, although there does appear to be ample scope for gains in this area. In addition, the state-owned Petroleum Co. of Trinidad & Tobago (Petrotrin), which Moody's downgraded from Ba1 to Ba3 in April 2016, could represent a contingent liability to the government.[15]

Medium-Term Macroeconomic Framework (Baseline Scenario)

			Est.			Projections					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (in percent)	-0.3	1.3	2.3	-1.0	-2.1	-2.7	2.3	3.6	3.2	1.2	1.2
Energy	-3.9	-2.8	1.3	-2.4	-4.9	-7.1	6.5	6.1	5.7	0.3	0.3
Non-energy 1/	2.1	3.9	2.8	-0.2	-0.6	-0.4	0.1	2.3	1.8	1.8	1.8
Inflation (end of period)	5.2	7.2	5.7	8.5	1.5	4.6	4.7	5.0	4.4	4.6	4.6
Revenue 2/	29.8	29.7	31.2	33.0	31.9	28.0	25.4	25.5	25.5	25.5	25.4
Energy	17.6	16.7	15.9	17.0	13.0	6.6	7.1	7.2	7.3	7.2	7.0
Non-energy	12.2	13.0	15.3	15.9	18.9	21.3	18.3	18.2	18.2	18.3	18.4
Expenditure	30.0	30.8	34.1	35.1	36.5	38.8	38.8	37.9	38.3	38.7	39.1
Current	25.9	26.6	29.1	30.7	32.1	34.6	34.6	33.7	34.0	34.4	34.8
Capital expenditures and net lending	4.1	4.1	5.0	4.5	4.5	4.3	4.3	4.3	4.3	4.3	4.3
Overall fiscal balance	-0.2	-1.1	-2.9	-2.1	-4.7	-10.9	-13.4	-12.4	-12.8	-13.2	-13.6
Overall fiscal non-energy balance	-17.8	-17.8	-18.8	-19.2	-17.6	-17.5	-20.5	-19.7	-20.1	-20.4	-20.6
Primary balance	1.6	0.5	-1.2	-0.8	-2.8	-9.0	-11.0	-9.7	-9.7	-9.7	-9.8
External current account balance	11.4	3.2	7.3	4.6	-5.4	-7.0	-5.7	-4.4	-3.4	-3.8	-3.9
Central government debt 3/	14.9	24.7	24.4	25.4	27.4	28.6	38.7	48.5	58.2	68.1	78.1
Public sector debt 3/	30.9	41.4	41.0	41.9	47.2	48.4	58.5	68.2	77.9	87.9	97.9
Net of HSF deposits 4/	14.2	23.0	21.4	21.9	24.2	27.6	39.8	50.1	60.1	70.3	80.5
Gross official reserves (US$ millions)	10,233	9,515	10,411	11,317	9,788	9,194	8,347	7,007	5,756	4,464	3,019
In months of imports	12.6	11.9	13.7	12.8	13.4	11.8	10.3	8.2	6.5	4.9	3.3

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.

21. **Risks to growth are tilted to the downside and much will depend on the authorities' ability to navigate the transition to the lower energy price environment (Annex III).** Given still ample bank liquidity, monetary tightening's impact on the non-energy economy will likely be subdued, but may have a lagged effect. Absent sufficient exchange rate flexibility, renewed US dollar appreciation against the currencies of Trinidad and Tobago's trading partners would inhibit export diversification, while failing to address FX shortages would restrain economic activity as businesses are unable to make critical imports or pay suppliers in a timely manner. More worryingly, the expected erosion in the reserves position, while already significant in staff's baseline, could be exacerbated if currency speculation or precautionary demand for U.S. dollars pick up, both of which are much more likely should FX shortfalls persist. In the longer run, future energy investment will depend not only on future expected energy prices, but on whether the investment regime is seen to be appropriate to the new environment. Most critically, the government must demonstrate that its medium-term strategy safeguards fiscal sustainability in order to maintain consumer and business confidence. "De-risking", as in other Caribbean countries, is becoming an area of concern for the

[15] Moody's estimated that support to state-owned enterprises could increase central government debt by 2 to 4.5 percent of GDP in 2016, the latter in the unlikely event that the government would need to guarantee all of Petrotrin's financing needs.

authorities, particularly for institutions with perceived high risk profiles, including private members clubs and money remitters, though less so for the large commercial banks.

POLICY DISCUSSIONS

Fiscal Policy

22. **Given the need for sizable and sustained fiscal adjustment, staff encouraged the authorities to formulate and announce early on a comprehensive multi-year adjustment package.** If sufficiently ambitious, this would signal the authorities' commitment to fiscal sustainability despite challenging circumstances. A measured pace of implementation will allow time for rational policy formulation while spreading out the negative multiplier effects from contractionary policies. Staff estimated that, in addition to measures included in the FY2016 budget plus the MYBR, (which together total some 3 ½ percentage points of GDP), adjustments totaling 8 ½ percent of GDP would keep the central government (NFPS) debt/GDP ratio at 48 (68) percent by 2021.

23. **Staff welcomed the initial non-energy revenue measures and the authorities' intentions to do more.** The new budget included increases in business levies and a narrowing of the VAT's zero-rated bracket, albeit while reducing the rate from 15 to 12½ percent. The government announced its intention to re-introduce property taxation and to fast-track a Gaming and Betting Control Act, with potential to raise some ½ percent of GDP in revenues. Also, the government intends to reap sizable revenues from improved tax administration, in part through improved information sharing between the Board of Inland Revenue (BIR) and the Customs and Excise Division (CED). Staff agreed these efforts would help in reducing undue reliance on energy-sector revenues. However, staff advocated a more comprehensive VAT review to assess the scope for further base-broadening and increased collection efficiency. Staff also advocated increasing excises on cigarettes, alcohol and soft drinks, which would not only raise revenues, but could discourage consumption of products with potentially adverse health outcomes. It also saw scope to further enhance property taxation, a relatively non-distortionary revenue source.

Phasing of Measures - Active Scenario

	2016/17	2017/18	2018/19	2019/20	2020/21
Total Measures (percent of GDP)	3.00	5.00	7.00	7.75	8.50
Revenues	3.00	4.25	5.75	5.75	5.75
Excises	0.25	0.25	0.25	0.25	0.25
Property taxes	1.00	1.00	2.00	2.00	2.00
New top PIT rate	1.00	1.00	1.00	1.00	1.00
Gaming tax	0.13	0.25	0.25	0.25	0.25
Other unidentified 1/	0.63	1.75	2.25	2.25	2.25
Expenditures	0.00	0.75	1.25	2.00	2.75
Other current expenditure reductions 2/	0.00	1.50	2.25	3.00	3.75
Expand infrastructure investment	0.00	-0.75	-1.00	-1.00	-1.00

Source: IMF staff calculations.
1/ Includes improved public revenue administration and further VAT reforms, as needed.
2/ To be identified in public expenditure review. This can also include lower transfers to be achieved by increased public utility tariffs.

24. **Staff welcomed the announced spending cuts of TT$ 4 billion (2.5 percent of GDP), but urged a comprehensive review of expenditure programs to best achieve the government's economic and social policy goals within tightened financial constraints.** Particular attention

should be focused on reviewing "make-work" programs (the CEPEP and URP), given the widespread view that they are undermining incentives in the private labor market, although due regard should be given to social concerns. The government's free tertiary tuition program (GATE) could be made more cost-efficient, including by means-testing and tightening eligibility requirements. Staff also continued to urge the phasing out of fuel subsidies, noting their inefficiencies, deleterious side effects (pollution and congestion) and inequitable benefits (Box 1). Transfers to state-owned enterprises and statutory authorities also represent an important burden and could be reduced if commercial enterprises were run on a more profitable basis, including through pricing policies that allow for greater cost-recovery. Finally, staff advocated that revenue increases and cuts to current expenditure should be large enough to allow for an increase in growth-enhancing public investment.

Medium-Term Macroeconomic Framework (Active Scenario)

			Est.			Projections					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (in percent)	-0.3	1.3	2.3	-1.0	-2.1	-2.7	1.7	2.8	2.8	1.5	2.0
Energy	-3.9	-2.8	1.3	-2.4	-4.9	-7.1	6.5	6.1	5.7	0.3	0.3
Non-energy 1/	2.1	3.9	2.8	-0.2	-0.6	-0.4	-0.7	1.0	1.1	2.2	3.0
Inflation (end of period)	5.2	7.2	5.7	8.5	1.5	4.6	3.9	3.7	3.7	5.0	5.8
Revenue 2/	29.8	29.7	31.2	33.0	31.9	28.0	28.4	29.7	31.3	31.3	31.2
Energy	17.6	16.7	15.9	17.0	13.0	6.6	7.2	7.4	7.5	7.4	7.1
Non-energy	12.2	13.0	15.3	15.9	18.9	21.3	21.3	22.4	23.7	23.9	24.1
Expenditure	30.0	30.8	34.1	35.1	36.5	38.8	38.9	37.1	36.8	36.1	35.4
Current	25.9	26.6	29.1	30.7	32.1	34.6	34.6	32.1	31.5	30.9	30.1
Capital expenditures and net lending	4.1	4.1	5.0	4.5	4.5	4.3	4.3	5.0	5.3	5.3	5.3
Overall fiscal balance	-0.2	-1.1	-2.9	-2.1	-4.7	-10.9	-10.4	-7.4	-5.5	-4.9	-4.1
Primary balance	1.6	0.5	-1.2	-0.8	-2.8	-9.0	-8.0	-4.7	-2.7	-2.0	-1.2
Overall fiscal non-energy balance	-17.8	-17.8	-18.8	-19.2	-17.6	-17.5	-17.6	-14.8	-13.1	-12.3	-11.3
External current account balance	11.4	3.2	7.3	4.6	-5.4	-6.8	-5.0	-3.3	-1.4	-1.0	-0.8
Central government debt 3/	14.9	24.7	24.4	25.4	27.4	28.6	35.9	41.4	44.7	47.0	48.1
Public sector debt 3/	30.9	41.4	41.0	41.9	47.2	48.4	55.7	61.1	64.4	66.8	67.8
Net of HSF deposits 4/	14.2	23.0	21.4	21.9	24.2	27.6	36.9	42.5	46.0	48.6	50.1
Gross official reserves (US$ millions)	10,233	9,515	10,411	11,317	9,788	9,046	8,100	6,853	6,000	5,332	4,806
In months of imports	12.6	11.9	13.7	12.8	13.4	11.9	10.3	8.5	7.4	6.4	5.8

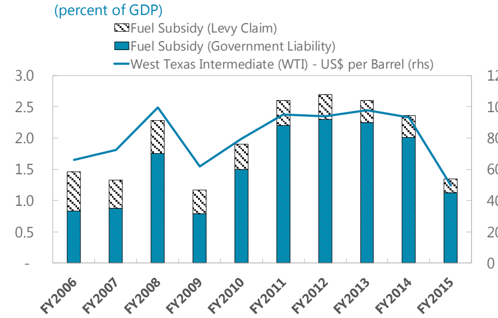
Sources: Ministry of Finance; Central Statistics Office; and Fund staff estimates and projections.

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.

Box 1. The Impacts of Fuel Subsidies in Trinidad and Tobago[1]

Energy subsidies in Trinidad and Tobago, established in 1974, increased dramatically during the period of rising global crude oil prices, stimulating a debate on the costs and benefits of subsidy reforms. From 2006-15, cumulative fuel subsidies amounted to TT$31 billion, or an average of around 2 percent of GDP per annum. Total subsidies and global crude oil prices are strongly positively correlated. As oil prices trended up between 2009 and 2014, fuel subsidies rose to 2.3 percent of GDP. As crude oil prices plummeted in 2015, subsidies dropped to 1.4 percent of GDP.

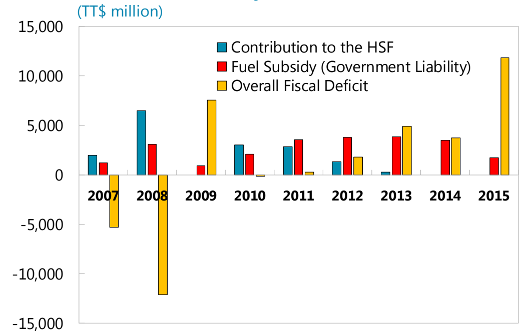
Crude Oil Price and Fuel Subsidy, 2006-2015
(percent of GDP)



Source: Ministry of Energy and Energy Industry; and Fund staff calculations.

Fuel subsidies have imposed a significant fiscal cost. Initially, a Petroleum Production Levy (PPL) was imposed on petroleum producers to pay the difference between the international and domestic prices of fuels. During 1974-1992, the PPL covered the entire value of the subsidy. However, an amendment in 1992 constrained the levy to 3 percent of producers' gross income (although it was increased to 4 percent in 2003, where it still stands). Moreover, in 2003 businesses that produced less than 3,500 barrels of oil per day were exempted from the levy. Thus, an increasing share of fuel subsidies has been paid by the government, with the PPL covering less than 20 percent of total costs during the past five years.

HSF and Fuel Subsidy, FY2007-FY2015
(TT$ million)

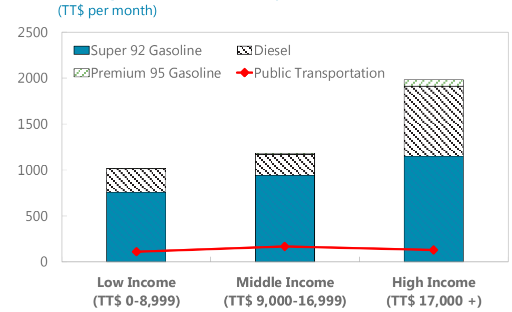


Sources: Ministry of Finance; and Fund staff calculations.

The resources spent on fuel subsidies have significantly contributed to procyclicality and might better have been saved in the HSF.[2] The fiscal contribution to the HSF has been declining since the global financial crisis while until recently the cost of the fuel subsidy was trending upward, driven by rising oil prices. Had the government contributed the amount spent on fuel subsidies since 2008 to the HSF instead, the Fund would now be worth an additional US$3.6 billion, 62 percent higher than where it currently stands.

There is strong evidence that fuel subsidies disproportionately benefit higher income people. According to CSSP (2014) and Chester (2015), low income earners, accounting for 50 percent of the population in 2014, gained only 27 percent of total fuel subsidies compared to 36 percent for the richest 15 percent of households. The average monthly subsidy for the richest households was 95 and 68 percent higher than for low and middle income households, respectively.

Average Fuel Subsidies by Income Group, 2014
(TT$ per month)



Sources: Central Statistical Office - Continuous Sample Survey of Population (2014); and Chester (2015).

Post-tax subsidies in Trinidad and Tobago are mostly driven by the negative externality from natural gas and petroleum products.[3] Based on staff calculations, global warming accounted for more than 50 percent of post-tax subsidies, or around US$2.1 billion, in Trinidad and Tobago in 2015. Pre-tax subsidies account for US$0.8 billion, vehicle externalities for another US$0.6 billion, local air pollution for US$0.3 billion and foregone consumption tax revenues for US$0.2 billion (0.9 percent of GDP).

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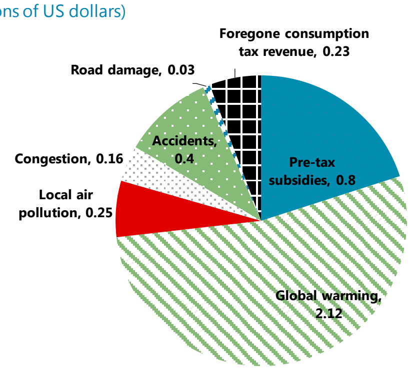
[1] See Trinidad and Tobago— Selected Issues, "Fuel Subsidies in Trinidad and Tobago: Fiscal, Distributional, and Environmental Impacts." May 5, 2016.

Box 1. The Impacts of Fuel Subsidies in Trinidad and Tobago (Concluded)

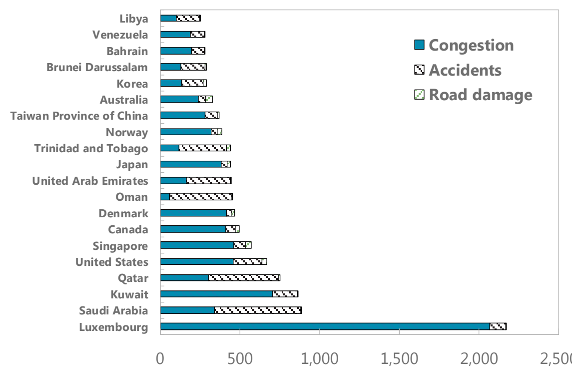
Trinidad and Tobago is one of the top subsidizers for vehicle-related externalities in the world.[4] The total cost of the traffic externality amounts to US$598 million in 2015. This amounts to an annual per capita traffic externality cost of US$441, placing the country among the top 12 subsidizers in the world. Moreover, the estimate is based on regional averages, and is quite likely a large underestimate of congestion costs, given the much higher incidence of automobile ownership in Trinidad and Tobago.

Composition of Post-Tax Subsidies, 2015
(billions of US dollars)



Source: Fund staff calcuations.

Estimated Vehicle Externalities, Top 20 Countries in 2015
(US$ per capita)



Source: IMF Fiscal Affairs Department IMF.

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[2] The saving (withdrawal) rule of the HSF is triggered when actual energy revenue exceeds (falls below) budgeted revenue by at least 10 percent. Contributions, however, are mandatory, whereas withdrawals are discretionary.

[3] Post-tax subsidies arise when the price paid by consumers is below the supply cost of energy plus an appropriate "Pigouvian" (or "corrective") tax that would reflect the negative externalities associated with energy consumption and an additional consumption tax that should be applied to all consumption goods (i.e., the value added tax).

[4] Vehicle-related externalities include traffic congestion, accidents, and road damage caused by the additional usage of vehicles due to fuel subsidies.

25. **Staff presented the case for adopting a countercyclical fiscal rule, while cautioning there is no fiscal space for such a countercyclical rule now given the projected size of deficits under the baseline**. However, once the country has adjusted to the current economic and fiscal stress, which will require a multi-year adjustment, a fiscal rule could be adopted to ensure that fiscal policy in the future supports the twin goals of debt sustainability while still playing a stabilizing, countercyclical role (Box 2).[16]

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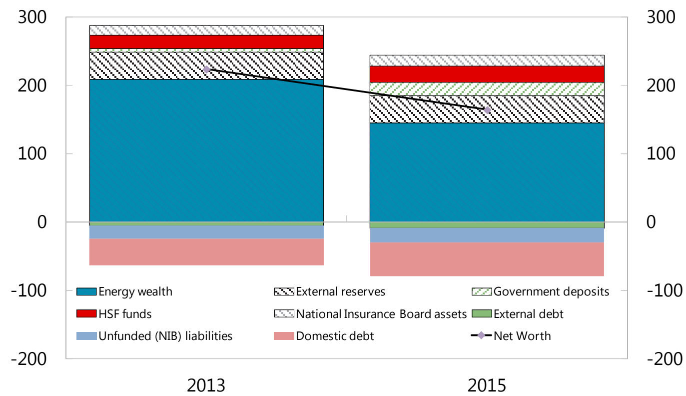
[16] In downgrading Trinidad and Tobago's sovereign debt rating in April 2015 to Baa2 from Baa1 and again in April 2016 to Baa3 (negative outlook), Moody's cited, in addition to persistent deficits and challenging prospects for fiscal reform among lower energy prices, the absence of a medium-term fiscal strategy.

Box 2. A Fiscal Rule for Trinidad and Tobago

As an energy dependent economy, Trinidad and Tobago has experienced large swings in national wealth. While its sizable endowment of oil and gas improves national welfare, heavy dependence on energy means that large swings in the value of the country's resources complicate fiscal policy formulation. The sharp drop in energy prices since 2014 represents a measurable drop in the nation's net worth.

Trinidad and Tobago: Public Wealth and Liabilities

(Share of GDP)

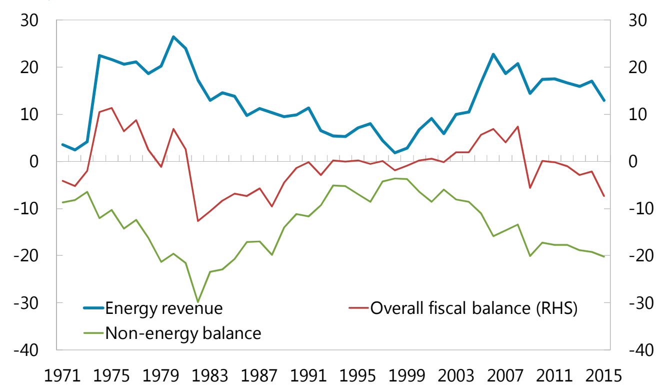


Sources: TTO authorities; and Fund staff estimates.

Trinidad and Tobago's fiscal policies have been highly pro-cyclical. For instance, the country ran fiscal deficits even as oil prices rose dramatically from early 2011, with oil prices above US$80 per barrel through mid-2014. The fiscal deficits were expansionary even as the energy price boom was already pouring additional financial resources into both the public and private sectors of the economy. The deficits increased government debt and led to only moderate increases in Heritage and Stabilization Fund, a sovereign wealth fund (SWF). Going back further, Trinidad and Tobago's fiscal history shows that booms in energy revenue have been associated with significant worsening of the non-energy fiscal balance, as increasing energy revenues were spent on non-energy expenditures.

Energy Revenue and Fiscal Balances

(In percent of GDP)



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

Once the situation permits, the authorities should look to adopt a multi-year fiscal rule that will help to stabilize economic activity while saving adequately for future generations. Given the size of the current fiscal gap, policies in the coming years will, by necessity, require pro-cyclical fiscal consolidation to stabilize the debt position.

An appropriately designed rule should take into account the trade-off between the rule's effectiveness in promoting debt sustainability and economic stabilization versus its implementation complexity. There are four types of fiscal rules: budget balance rules, debt rules, expenditure rules, and revenue rules. Debt rules by definition are more effective than other types of rules in promoting debt sustainability; however, they are not binding when debt is well below the limit. On the other hand, while cyclically-adjusted rules can work the best to temper the impact of economic fluctuations, they require substantial institutional and forecast capacity to implement.

Box 2. A Fiscal Rule for Trinidad and Tobago (Concluded)

Properties of Different Types of Fiscal Rules Against Key Objectives

Type of fiscal rule	Objectives			Complexity
	Debt Sustainability	Economic Stabilization	Government Size	
Budget Balance Rules				
Overall balance	++	-	0	
Primary balance	+	-	0	
Cyclically adjusted balance	++	++	0	
Balanced budget over the cycle	++	+++	0	
Debt rules	+++	-	-	
Expenditure rules	+	++	++	
Revenue rules				
Revenue ceilings	-	-	++	
Revenue floors	+	+	-	
Limits on revenue windfalls	+	++	++	

Source: IMF Fiscal Affairs Department.

Note: Positive signs (+) indicate stronger property, negative signs (-) indicate weaker property, and zeros (0) indicate neutral property with regard to objective.

Given high revenue volatility and limited forecasting capacity, Trinidad and Tobago could consider a rule that targets the non-energy primary balance, supplemented by a rule covering nominal primary expenditure. Such a combination has a number of virtues. It would be simple and transparent, and appropriate to the country's current institutional capacity. Targeting the non-energy primary balance would help ensure convergence of the debt ratio, while a primary expenditure rule would insulate expenditures from volatile energy revenues and help ensure the buildup of sufficient buffers in good times.[1]

[1] While an SWF can be useful to help save commodity revenues, it is not necessarily, by itself, adequate to prevent over-spending in good times.

Authorities' views

26. **The authorities concurred that the size of adjustment needed would require a substantial multi-year effort.** The government intends to implement property and gaming taxes and agreed to give serious consideration to raising excise taxes by bringing rates more in line with regional levels, an effort that was announced, as noted, in the MYBR with increased excises on alcohol and tobacco. The government is also placing a lot of emphasis on improved revenue administration, and believes that pursuing greater information sharing among revenue generating agencies, tightening rules on transfer pricing, and increasing resources devoted to tax enforcement will, over time, substantially increase revenue yields. Energy taxes may also need to be revisited in light of lower energy prices, with the dual goals of continuing to incentivize new investment while safeguarding public revenues.

27. **The authorities agreed on the need to rein in expenditures, especially transfers and subsidies**. They agreed to seek a comprehensive review of social expenditures from the World Bank both to reduce costs and improve program efficiency, while still providing a social safety net to protect the most vulnerable citizens. The authorities also agreed on the need to remove fuel subsidies, and announced their intention to do so in a phased manner in the MYBR, using the savings to improve the social safety net and reduce transportation costs for low-income groups.

They intend to propose a new pricing mechanism for public discussion that would henceforth pass through world oil price changes to local fuel prices. The authorities also intend to review a number of specific programs, especially CEPEP and URP, with a view to achieving cost efficiencies. Finally, the authorities acknowledged that it will be important to clear expenditure arrears, which will likely require recourse to domestic financing.

28. **The authorities emphasized efforts to enhance transparency and consult the private sector, aimed at seeking buy-in for the fiscal consolidation required to adjust to new circumstances.** The authorities inaugurated a National Tripartite Advisory Council with representatives from labor, businesses and government, to find ways to share the sacrifices required for medium-term stability. Separately, they have commenced a national discussion on energy subsidies and are starting discussions with the energy industry on reforming energy taxes.

Monetary and Exchange Rate Policy

29. **Staff supported the pause in monetary policy tightening as appropriate given the headwinds to growth.** This will give time to assess the lagged impact of tightening already in the pipeline and to gain greater clarity on the pace of the U.S. hiking cycle. Staff argued the CBTT is not currently in a position to ease policy until confidence is restored in the FX market. In fact, should FX pressures increase or inflation expectations rise, the CBTT may need to resume policy tightening. It will also need to carefully monitor and manage excess liquidity in the banking system, which has declined significantly due to appropriate sterilization operations by the CBTT. Contingent on a credible fiscal consolidation, a restoration of confidence in the FX market, and sufficient exchange rate flexibility, it may be possible in the future to implement more accommodative monetary policy to support economic activity, provided also that inflation and inflation-expectations remain "well-behaved". Similarly, as financial system liquidity is unwound, the CBTT could consider reducing bank reserve requirements, which are comparatively high, at 17 percent. More broadly, staff recommended that the authorities make clearer the CBTT's priorities among its multiple mandated objectives.

30. **In staff's view, pressures in the FX market have arisen for a variety of reasons, including both significant changes in underlying fundamentals and incentives that have set in motion adverse expectations dynamics.** Most obviously, the fall in energy prices has served to sharply diminish the supply of FX to the market. However, expansionary fiscal policies and growth in consumer credit have also contributed to demand. Importantly, expectations appeared to be playing a significant role in amplifying FX demand pressures for two reasons. First, ongoing shortages have led to strong incentives to hoard FX for precautionary reasons when it does become available. Second, the lack of flexibility in the nominal exchange rate (vis-à-vis the US dollar) has led to increasing expectations that the exchange rate cannot hold, leading to speculative outflows aimed at taking advantage of a weakening currency. In the MYBR, the Finance Minister attempted to quell such speculative pressures by announcing that the exchange rate would not deviate "at this time" by more than 7 percent from the rate that prevailed in September 2015, meaning that a floor on the rate would be set at a further 3.3 percent depreciation from the April 8, 2016 rate (the date of the MYBR).

31. **Exchange rate policy needs to take into account both the impact on market expectations, and the major fiscal and external adjustments needed in the face of the sharp declines in energy prices.** The recent depreciation is welcome as it should provide some incentive to favor switching expenditure towards domestic goods from foreign goods (both by residents and foreigners). However, it remains to be seen whether depreciation, even to the new exchange rate floor, is sufficient to bring the market into greater balance given the degree of estimated currency overvaluation.

32. **If not, one option would be to pursue a substantial depreciation to a level more commensurate with balancing FX demand and supply, and then allow the currency to fluctuate within a fairly wide band**. This could still give the market some flexibility to provide signals about fundamental pressures, while helping expectations to coalesce around a given rate and introducing two-way market risk so as to minimize speculation about further depreciation. At the same time, the high level of external buffers, in the form of FX reserves and a still substantial HSF, affords the authorities a range of options.[17]

33. **Any changes to the exchange rate regime should be introduced as part of a broader fiscal and structural reform package.** Keeping the benefits of a weaker currency from being eroded through inflation would require a firmly-implemented incomes policy, as well as monetary policy that is alert to second-round effects of the currency move. In addition, clear communications about the reasons for such reforms, and to clarify the "rules of the game" regarding how the FX regime will be operated in the future, would be critical to restoring market confidence. Staff also pointed to the fiscal benefits, as a currency depreciation would allow for a smaller active fiscal adjustment (as revenues in foreign exchange are converted into larger amounts of local currency), and thus have a less adverse impact on growth.

34. **Staff noted that private sector market participants continued to confirm queues for FX, including for current international transactions, notwithstanding official reserves equivalent to over 13 months of imports.** Staff acknowledged that the issue has been long-standing, although it became exacerbated as queues have become relatively long and external payment arrears have emerged, most likely starting in late 2014 as the impact of the fall in energy prices began to flow through to the FX market. Queues now appear to be of macroeconomic significance, due to the significant delays in obtaining FX for current imports and for debt servicing.[18]

35. **Trinidad and Tobago's current exchange rate regime gives rise to an exchange restriction and two multiple currency practices subject to Fund approval.** The exchange

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[17] Any exchange rate change would need to take due account of any balance sheet impacts, on which data is limited, though CBTT stress tests indicate the banking system's capital positions would easily withstand an illustrative 40 percent depreciation in the TT dollar. A 2011 survey of the country's international investment position (the only one ever undertaken) showed the country with a net foreign asset position.

[18] As was noted in the 2014 Article IV Staff Report, "a failure to introduce greater flexibility into the foreign exchange market could lead to renewed shortages, indicating the existence of an exchange restriction."

restriction arises from the authorities' restriction of the exchange rate (i.e., fixing the exchange rate and prohibiting banks from trading at any rate depreciated from this fixed rate), while not providing enough foreign exchange to meet all demand for current transactions at that rate, leading to undue delays and external payment arrears. The multiple currency practices arise due to the absence of a mechanism to prevent more than a two percent deviation at any given time among several multiple effective rates for spot exchange transactions, which are also regulated by the authorities.

Authorities' views

36. **The authorities explained that while the CBTT has multiple objectives, monetary policy was primarily aimed at controlling inflation.** Concerns about potential interest rate differentials vis à vis the United States, seen as an important driver of capital flows, were also a motivating factor behind interest rate hikes. At the same time, domestic rates had now been raised to a sufficiently high level that there was some space to hold rates to avoid creating disincentives for investment.

37. **The CBTT felt their exchange rate policy was clearly understood, was aimed at minimizing volatility, and would be guided by the presumption that the terms of trade shock is permanent.** They agreed that the exchange rate had a role to play in balancing supply and demand for FX, and that the rate would eventually find its level. Official intervention in the FX market would continue to take place via biweekly auctions, and the rate and volumes at each intervention would be informed by economic conditions at the time, particularly anticipated FX inflows and outflows. The central bank would not try to equilibrate the market at each point in time, given that this would lead to either an undesirably large loss of reserves or a high degree of volatility in the exchange rate, given the need to adjust to the major terms-of-trade shock.

Structural Policies

38. **Staff welcomed the authorities' efforts to improve the business climate and urged them to sustain these efforts to help achieve long overdue economic diversification.**[19] Despite repeated efforts at diversification, there has been little success since 2000, when the development of the LNG industry started to increase the country's dependence on global energy markets. To date, cumbersome regulations and administrative procedures and land scarcity are among the main concerns about starting a business.[20] Reforming government "make-work" programs to make them less distortionary would raise labor productivity and in the long run, social welfare. Staff continued to emphasize the need for reforms to make the public service more efficient, notably to increase the flexibility of employment decisions so that staff can be allocated to their best uses and strong performance is rewarded. In this regard, staff welcomed the new administration's significant

[19] Trinidad and Tobago's encouraging diversification process during 1983–1999 has stalled since 2000 as the rapid growth of the liquefied natural gas (LNG) industry crowded out manufacturing as well as other non-energy sectors. See Annex IV.

[20] In addition, hurdles to proving land title have been a particular obstacle to obtaining land in Tobago, where local authorities report legal title must sometimes be proven through multiple generations.

reduction in the number of government ministries, which sends an important signal about streamlining the public service.

39. **Staff noted the need for fiscal structural reforms.** A unified revenue authority, which the present government would like eventually to establish, could be one mechanism that would greatly improve the information flow between the BIR and CED. Staff called for delivering advance tax rulings promptly, since significant delays in such rulings are reportedly holding back investment decisions. The planned formation of a tax policy unit, with the help of technical assistance from the Fund, would greatly facilitate this. Staff commended the authorities for their improvements in debt monitoring, and urged that the next step now be taken, with the system being used to enhance debt management.

40. **Staff urged the authorities to move forward on long-pending legislation for improving insurance supervision.** This should be followed by legislation to improve supervision of credit unions, undertake occupational pension reform and address key AML/CFT shortcomings arising from the recently conducted Caribbean Financial Action Task Force (CFATF) evaluation (including ensuring robust AML/CFT supervision and publication of the national risk assessment). Finally, it is hoped that the long-standing issues related to CL Financial may be resolved relatively soon, both to provide clarity to markets and to eliminate any residual claims against, and uncertainty about, the government's finances.

41. **Staff strongly endorses the process to establish a renewed data institution, through the establishment of an independent and autonomous National Statistical Institute (NSI)**. The task force to establish this has made significant headway in a short amount of time, and staff welcomes the intention to pass legislation this year to establish the NSI. In the meantime, the CSO has already reduced data backlogs, particularly in trade statistics. Per CARTAC suggestions, the CSO also has a plan to produce quarterly GDP statistics and update the Producer Price Index (PPI), although the timeline will depend on the availability of staff resources.

Authorities' views

42. **The authorities concurred on the need for further structural reforms, made more urgent in light of energy price declines.** Important financial legislation, including the long-delayed Insurance Bill, procurement reforms, and gaming legislation, are immediate priorities. The government is pressing ahead with creation of a tax policy unit and hopes, at some point, to find political support for establishing the unified revenue authority. The need to establish a renewed, vigorous independent data institution also remains a critical priority, although fully rebuilding capacity to achieve best practice will take some time.

STAFF APPRAISAL

43. **In recent years, Trinidad and Tobago has under-saved and under-invested in its future given the size of energy revenue windfalls, with the consequence that there is currently no scope to pursue countercyclical policy.** Even current low debt levels and substantial financial cushions are insufficient to withstand the size of the terms of trade shock that now needs to be

confronted. If ignored (and barring an unexpected sharp rebound of energy prices), the imbalances that are now starting to build could lead the country to uncomfortable levels of debt and external financial cushions in a few short years. In turn, that could necessitate a very rapid pace of adjustment, with the attendant severe dislocations and associated deflationary consequences.

44. **The new government has made a strong start on the difficult fiscal adjustments needed to bring the economy back into balance.** They introduced new revenue measures with the FY 2015/16 budget, and introduced further adjustment measures mid-year when it became clear that even the seemingly conservative energy price assumptions in the budget were being outpaced by events. While these measures have been in the right direction, staff believes it will be important to provide a strong medium-term framework to guide an overall multi-year adjustment effort. While it would be neither possible nor advisable at this time to try to fully spell out all the measures required, the government should work towards a broad set of medium-term fiscal goals, backed by quantified estimates of measures where feasible, while leaving some scope to adjust the size of the adjustment as the situation unfolds. At the same time, the government should spell out broad intentions in areas where reforms will be desirable, regardless of how the economy evolves. In this regard, the government's intention to pursue a comprehensive expenditure review is welcome, as are the intentions to review government "make-work" programs and the GATE program. More broadly, staff welcomes the government's intention to develop a medium-term macroeconomic programming capacity, as well as a tax policy unit, with the help of Fund technical assistance. In addition, staff believes that once the fiscal path is back on track, a fiscal rule could help avoid the pro-cyclicality that has characterized economic management for decades.

45. **Monetary and exchange rate policy can work to support economic activity once confidence in the government's medium-term strategy is established.** For now, both monetary and exchange rate policy will need to be primarily oriented towards external balance. This will especially require giving confidence to the private sector that FX will be available on demand for legitimate current transactions. In turn, this will require both fundamental measures to restore underlying balance in the supply and demand for FX, while also undertaking confidence-building measures to reduce the adverse impact that expectations are currently having in exacerbating the demand for FX. In this sense, while the country has options, a depreciation that helps switch expenditures towards domestic activity and reduces current expectations that have been giving the market a one-way bet on the currency, could actually serve to stabilize the market. However, it would be essential to introduce any significant change to the exchange rate regime as part of a comprehensive package of demand management and growth-enhancing reforms, accompanied by a clear communications strategy that guides the private sector to a new equilibrium.

46. **Staff does not recommend Executive Board approval of the retention of the measures giving rise to the exchange restriction and multiple currency practices described in paragraph 35 above** since there is no clear plan and timetable to eliminate these measures, and for measures giving rise to the exchange restriction, since they are also not maintained for balance of payments reasons.

47. **With regards to structural reforms, the new government is building on some of the achievements of the previous government, and also introducing welcome new priorities.** Early

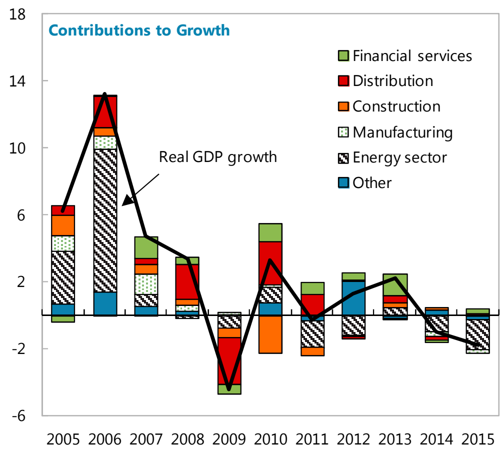
successes in passing critical legislation on insurance supervision and the new NSI, while progressing on a tax policy unit, could constitute an effective initial package of structural reforms. In addition, early commencement of an effort to design reforms in the areas of government "make-work" programs, GATE and in particular, to kick-start an effort to diagnose the reasons for inefficiencies in the public sector would go a long way towards establishing the government's reformist bona fides.

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

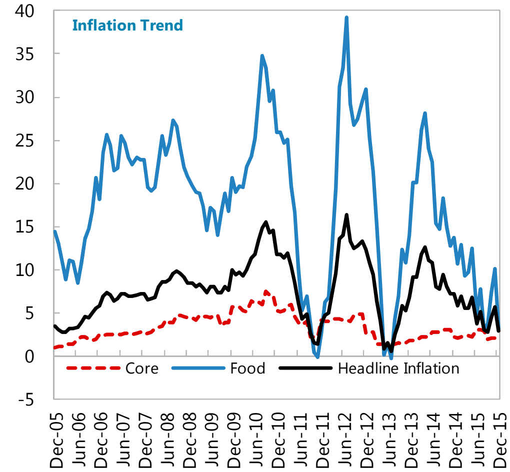
Figure 1. Trinidad and Tobago: Key Economic Developments

(In percent, unless otherwise indicated)

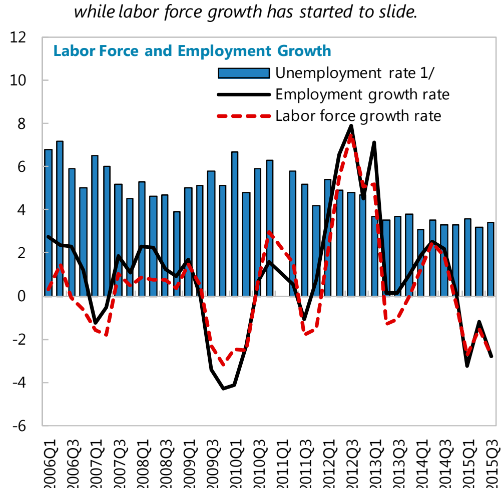
A weakening non-energy sector and declining energy production have held back growth. ...



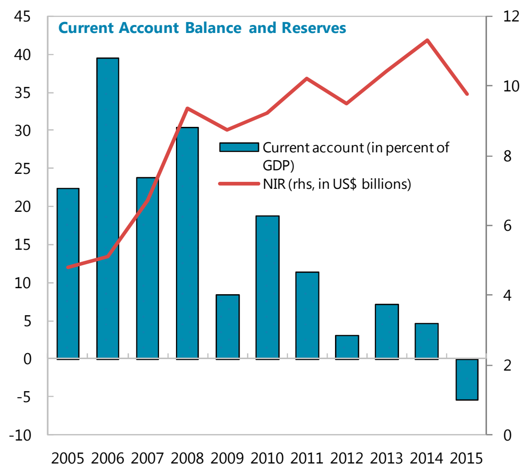
Core inflation stays well contained; the volatile food price index may remain subject to methodological errors



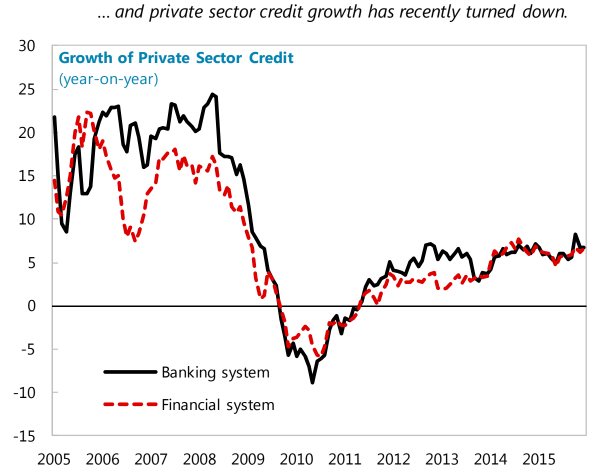
Unemployment remains low due to make-work programs, while labor force growth has started to slide.



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



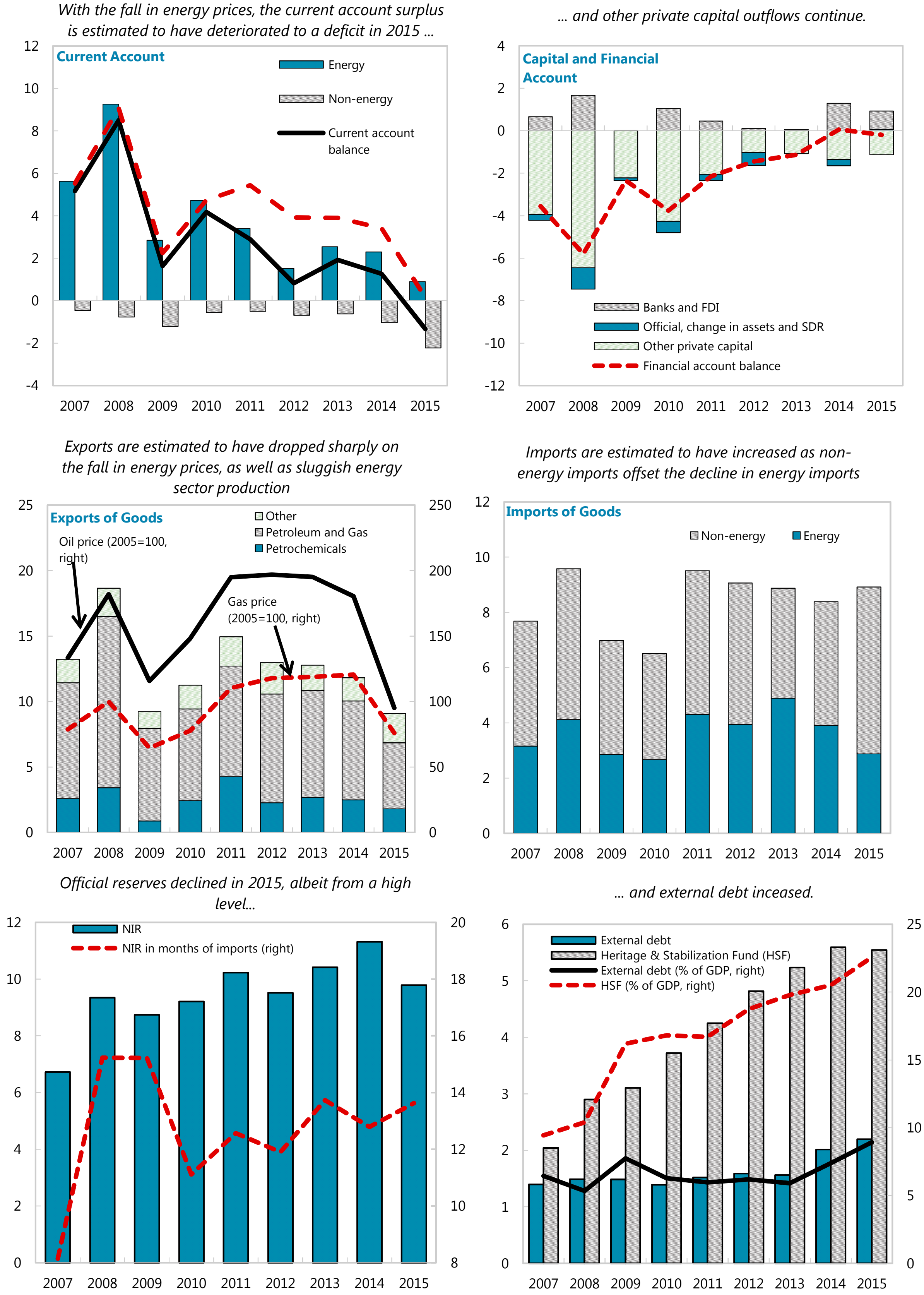
... and private sector credit growth has recently turned down.



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

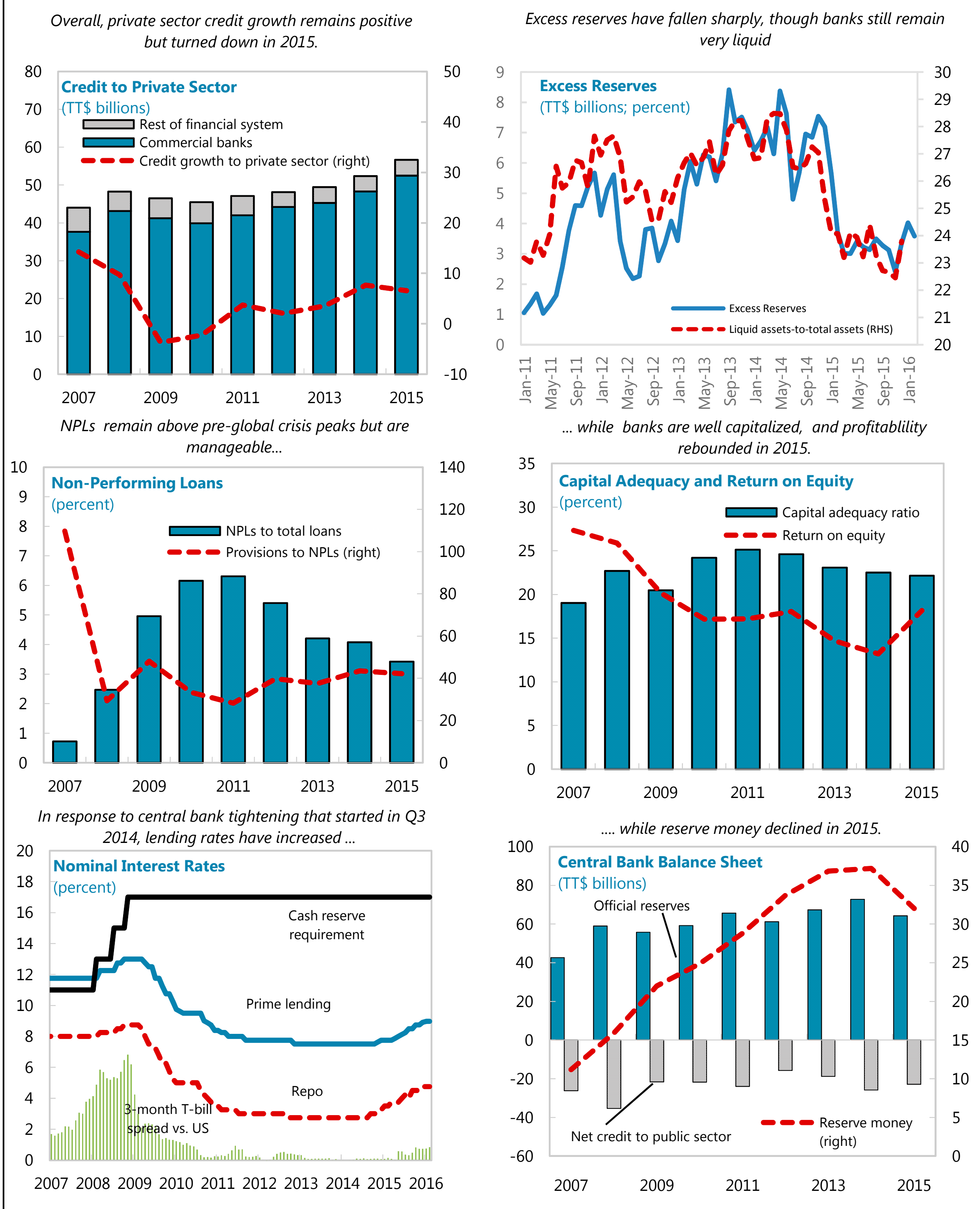
Figure 2. Trinidad and Tobago: External Sector Developments

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



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

Figure 3. Trinidad and Tobago: Monetary Sector Developments

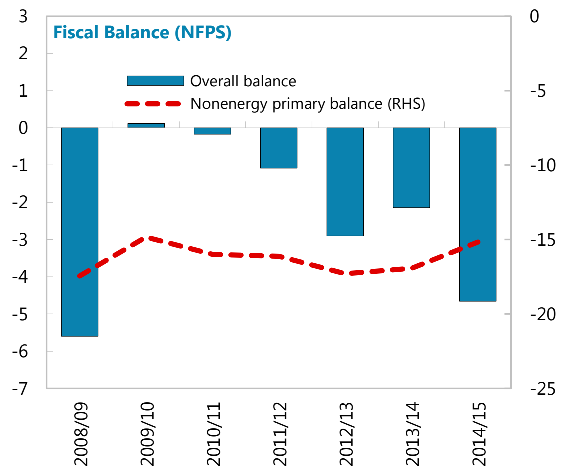


Sources: Trinidad and Tobago authorities; and Fund staff estimates.

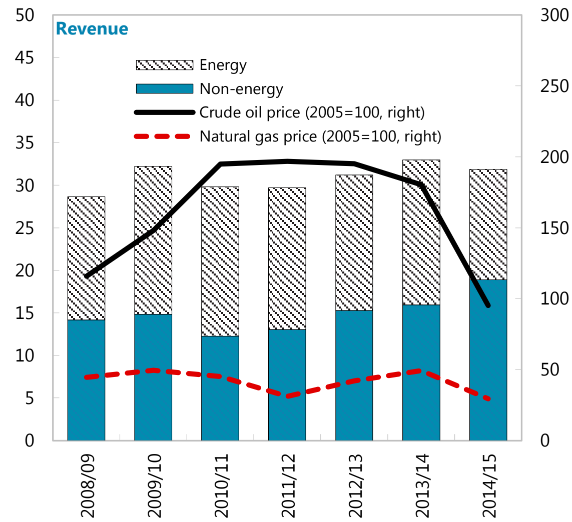
Figure 4. Trinidad and Tobago: Fiscal Sector Developments 1/

(In percent of fiscal year GDP, unless otherwise indicated)

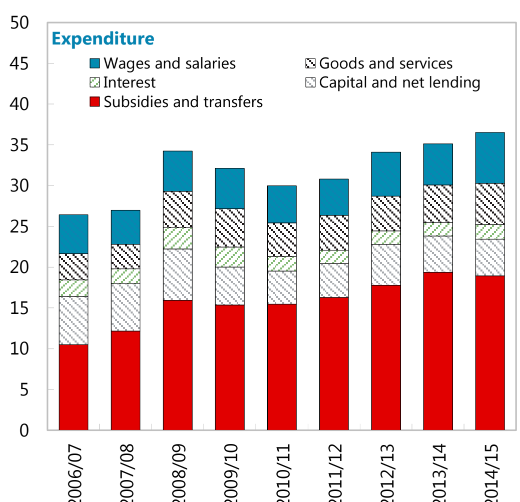
The public sector's fiscal position has worsened in recent years...



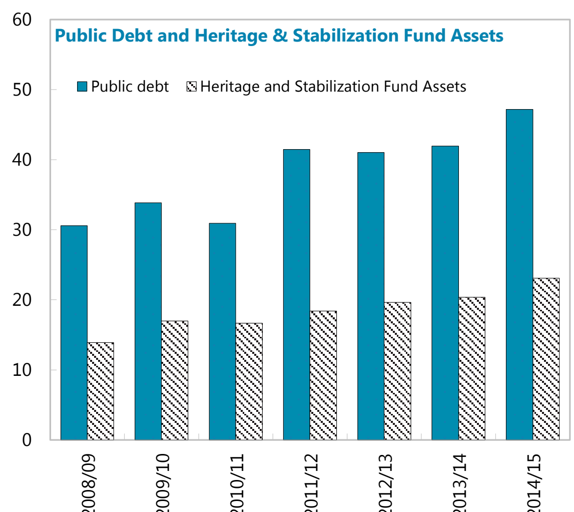
...both as energy revenue weakened...



... and as expenditures are increasingly driven by rising subsidies and transfers.



As a result, public debt is trending up by more than



Sources: Trinidad & Tobago Authorities; and Fund staff calculations.

1/ Central government only unless otherwise specified.

Table 1. Trinidad and Tobago: Selected Economic Indicators

GDP per capita (U.S. dollars, 2015)	$18,022	Adult literacy rate (2012)	99
Population (millions, 2015)	1.35	Gini index (2010)	40.3
Life expectancy at birth (years, 2012)	70.3	Unemployment rate (Q2 2015)	3.2
Under 5 mortality rate (per thousand, 2012)	21.9	HDI Ranking (2012, of 187 countries)	67

Selected Economic and Financial Indicators

				Estimates			Projections	
	2010	2011	2012	2013	2014	2015	2016	2017
(Annual percentage changes, unless otherwise indicated)								
Output and prices								
Real GDP	3.3	-0.3	1.3	2.3	-1.0	-2.1	-2.7	2.3
Energy	2.4	-3.9	-2.8	1.3	-2.4	-4.9	-7.1	6.5
Non-energy 1/	4.0	2.1	3.9	2.8	-0.2	-0.6	-0.4	0.1
GDP deflator	12.6	15.9	0.1	0.8	3.6	-8.3	1.8	4.0
Consumer prices (headline)								
End-of-period	13.4	5.2	7.2	5.7	8.5	1.5	4.6	4.7
Average	10.5	5.1	9.2	5.3	5.7	4.7	4.1	4.7
Consumer prices (core)								
End-of-period	4.7	1.5	3.0	2.0	1.4	2.0	2.0	2.0
Unemployment rate	5.9	5.1	4.9	3.7	3.3	3.6	...	...
Real effective exchange rate (2005=100)	100.0	99.0	107.0	111.1	117.0	129.5	...	...
(In percent of fiscal year GDP, unless otherwise indicated)								
Nonfinancial public sector (NFPS) 2/								
Central government overall balance, excluding CLICO support	0.1	-0.2	-1.1	-2.9	-2.1	-4.7	-10.9	-13.4
CLICO support	-2.5	-0.5	-5.0	0.0	0.0	0.0	0.0	0.0
Of which: non-energy balance 3/	-17.3	-17.8	-17.8	-18.8	-19.2	-17.6	-17.5	-20.5
Budgetary revenue	32.2	29.8	29.7	31.2	33.0	31.9	28.0	25.4
Budgetary expenditure	32.1	30.0	30.8	34.1	35.1	36.5	38.8	38.8
Of which : interest expenditure	2.4	1.8	1.6	1.7	1.7	1.8	1.9	2.4
Of which : capital expenditure	4.7	4.1	4.1	5.0	4.5	4.5	4.3	4.3
Overall statutory bodies balance	0.6	0.4	0.0	-0.1	0.1	0.4	0.7	0.8
Overall public enterprises balance	-4.4	-0.4	0.8	0.9	-2.0	-2.7	-1.4	-2.8
Overall NFPS balance	-3.6	-0.1	-0.3	-2.1	-4.0	-6.9	-11.5	-15.4
Central government debt 4/	17.0	14.9	24.7	24.4	25.4	27.4	28.6	38.7
Gross NFPS debt 4/	33.8	30.9	41.4	41.0	41.9	47.2	48.4	58.5
Heritage and Stabilization Fund assets	17.0	16.7	18.4	19.6	20.0	22.9	20.7	18.7
(In percent of GDP, unless otherwise indicated)								
External sector								
Current account balance 5/	18.9	11.4	3.2	7.3	4.6	-5.4	-7.0	-5.7
Exports of goods	50.8	58.8	50.5	48.3	43.3	36.9	29.2	32.2
Imports of goods	29.4	37.4	35.3	33.5	30.8	36.2	30.7	31.9
External public sector debt	6.3	6.0	6.2	5.9	7.4	8.9	11.4	15.4
Gross official reserves (in US$ million)	9,213	10,233	9,515	10,411	11,317	9,788	9,194	8,347
In months of goods and NFS imports	11.1	12.6	11.9	13.7	12.8	13.4	11.8	10.3
In percent of M3	77.8	85.7	65.9	69.9	70.6	60.9	60.7	51.1
In percent of GDP	42.0	40.3	37.0	39.5	41.4	40.2	40.4	34.5
(Percentage changes in relation to beginning-of-period M3)								
Money and credit								
Net foreign assets	-1.1	12.1	-1.1	5.4	6.4	-6.4	-3.7	-5.4
Net domestic assets	-1.7	-11.2	22.2	-2.5	0.7	7.3	3.6	13.2
Of which: credit to the private sector	0.0	3.0	1.6	2.1	3.5	3.4	0.7	-0.3
Broad money (M3)	1.0	0.8	20.8	3.2	7.2	1.1	-0.1	7.8
M3 velocity	1.9	2.1	1.8	1.8	1.7	1.5	1.5	1.5
Memorandum items:								
Nominal GDP (in billions of TT$)	141.0	163.0	165.2	170.4	174.8	156.9	155.3	165.2
Non-energy sector in percent of GDP 1/	60.1	55.2	58.6	61.7	62.8	72.8	75.9	74.9
Energy sector in percent of GDP	39.9	44.8	41.4	38.3	37.2	27.2	24.1	25.1
Public expenditure (in percent of non-energy GDP)	52.4	53.3	53.3	54.6	53.1	49.5	49.3	51.7
Exchange rate (TT$/US$, end of period)	6.4	6.4	6.4	6.47	6.39	6.45	...	...
Crude oil price (US$/barrel)	79.0	104.0	105.0	104.1	96.2	50.8	34.8	41.0
Natural gas price (US$ per mmbtu) 6/	6.9	9.8	10.4	10.5	10.7	6.7	6.1	6.3

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/ The data refer to fiscal year October-September.

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

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

5/ The current account balance for 2011 and thereafter has been revised to re-classify dividend payments from the "other private sector capital" account to the "factor income" account.

6/ 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/

					2014/15		2015/16			2016/17
	2010/11	2011/12	2012/13	2013/14	Budget	Staff Est.	Budget	Rev. Bud.	Staff Proj.	Staff Proj.
						(In millions of Trinidad and Tobago dollars)				
Revenue	**46,972**	**48,918**	**52,760**	**57,267**	**58,813**	**51,414**	**50,939**	**45,839**	**43,514**	**41,364**
Energy	27,688	27,445	26,939	29,593	29,230	20,952	14,778	10,777	10,316	11,578
Non-energy	19,284	21,472	25,821	27,674	29,583	30,462	36,161	35,062	33,199	29,787
Expenditure	**47,246**	**50,699**	**57,669**	**60,996**	**64,626**	**58,931**	**63,057**	**60,427**	**60,427**	**63,185**
Current	40,811	43,871	49,229	53,244	56,505	51,723	56,105	53,798	53,764	56,257
Wages and salaries	7,205	7,333	9,172	8,762	9,261	10,103	13,211	12,590	12,590	13,068
Goods and services	6,496	7,021	7,180	7,998	9,916	8,104	8,411	8,032	7,998	8,359
Interest payments	2,767	2,676	2,809	2,882	3,007	2,960	3,129	2,979	2,979	3,958
Transfers and subsidies	24,342	26,842	30,068	33,604	34,321	30,555	31,354	30,197	30,197	30,872
Capital expenditure and net lending	6,435	6,828	8,440	7,752	8,122	7,207	6,953	6,629	6,629	6,928
Non-energy balance	**(27,962)**	**(29,227)**	**(31,847)**	**(33,322)**	**(35,043)**	**(28,468)**	**(26,896)**	**(25,365)**	**(27,228)**	**(33,399)**
Overall balance	**(273)**	**(1,782)**	**(4,908)**	**(3,729)**	**(5,813)**	**(7,517)**	**(12,118)**	**(14,588)**	**(16,913)**	**(21,821)**
CLICO financial support	848	10,400	...	...	...	...	...	...	...	...
Overall balance including CLICO	(1,121)	(12,182)	(4,908)	(3,729)	(5,813)	(7,517)	(12,118)	(14,588)	(16,913)	(21,821)
Total financing including CLICO	1,121	12,182	4,908	3,729	5,813	7,517	12,118	14,588	16,913	21,821
Foreign financing	51	812	(155)	3,157	...	3,736	...	...	1,786	7,274
Domestic financing	1,070	11,370	5,064	573	...	3,781	...	...	15,126	14,547
of which: Transfers to Heritage and Stabilization Fund	(2,890)	(1,332)	(272)	...	...	...	6,640	6,640	6,640	3,415
						(In percent of GDP)				
Revenue	**29.8**	**29.7**	**31.2**	**33.0**	**31.4**	**31.9**	**31.3**	**27.1**	**28.0**	**25.4**
Energy	17.6	16.7	15.9	17.0	15.6	13.0	9.1	6.4	6.6	7.1
Non-energy	12.2	13.0	15.3	15.9	15.8	18.9	22.2	20.7	21.3	18.3
Expenditure	**30.0**	**30.8**	**34.1**	**35.1**	**34.5**	**36.5**	**38.7**	**35.7**	**38.8**	**38.8**
Current	25.9	26.6	29.1	30.7	30.1	32.1	34.5	31.8	34.5	34.6
Wages and salaries	4.6	4.5	5.4	5.0	4.9	6.3	8.1	7.4	8.1	8.0
Goods and services	4.1	4.3	4.2	4.6	5.3	5.0	5.2	4.8	5.1	5.1
Interest payments	1.8	1.6	1.7	1.7	1.6	1.8	1.9	1.8	1.9	2.4
Transfers and subsidies	15.5	16.3	17.8	19.4	18.3	18.9	19.3	17.9	19.4	19.0
Capital expenditure and net lending	4.1	4.1	5.0	4.5	4.3	4.5	4.3	3.9	4.3	4.3
Non-energy balance	**-17.8**	**-17.8**	**-18.8**	**-19.2**	**-18.7**	**-17.6**	**-16.5**	**-15.0**	**-17.5**	**-20.5**
Non-energy balance in percent of non-energy GDP	-31.5	-30.7	-30.9	-30.7	...	-25.2	...	...	-23.3	-27.3
Overall balance	**-0.2**	**-1.1**	**-2.9**	**-2.1**	**-3.1**	**-4.7**	**-7.4**	**-8.6**	**-10.9**	**-13.4**
Primary balance	1.6	0.5	-1.2	-0.8	-1.5	-2.8	-5.5	-6.9	-9.0	-11.0
Memorandum items:										
Central government debt (in percent of GDP) 2/	14.9	24.7	24.4	25.4	...	27.4	...	...	28.6	38.7
Gross NFPS debt (in percent of GDP) 2/	30.9	41.4	41.0	41.9	...	47.2	...	...	48.4	58.5
Nonenergy primary balance (percent of nonenergy GDP)	-28.4	-27.9	-28.4	-27.1	...	-21.6	...	...	-23.8	-24.1
Crude oil price (US$/barrel)	99.6	105.3	105.0	98.2	...	62.2	...	...	38.8	39.4
Natural gas (US$ per mmbtu, Henry Hub)	9.1	10.3	10.5	10.6	...	7.7	...	...	6.3	6.3
Budget oil price (US$/barrel)	65.0	75.0	80.0	80.0	80.0	80.0	45.0	40.0	...	...
Budget natural gas price (US$ per mmbtu, netback)	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.4	...	...
Nominal GDP (in billions of TT$, FY)	157.5	164.7	169.1	173.7	187.5	161.3	162.8	169.1	155.7	162.7

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.

Table 3. Trinidad and Tobago: Summary Balance of Payments

			Est.		Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(In millions of U.S. dollars unless otherwise indicated)									
Current account balance 1/	**824**	**1,920**	**1,266**	**-1,329**	**-1,627**	**-1,375**	**-1,141**	**-957**	**-1,102**	**-1,197**
Trade balance	3,918	3,899	3,420	159	-345	75	460	773	648	551
Exports	12,983	12,770	11,806	9,074	6,824	7,790	8,554	9,292	9,536	9,737
Petroleum crude and refined	4,804	4,725	4,368	2,664	1,721	2,062	2,275	2,432	2,526	2,582
Natural gas	3,506	3,448	3,188	2,387	1,733	2,073	2,379	2,710	2,731	2,757
Petrochemicals	2,260	2,682	2,479	1,800	1,373	1,585	1,748	1,912	1,963	2,006
Other	2,414	1,915	1,771	2,223	1,997	2,071	2,152	2,238	2,316	2,391
Imports	9,065	8,871	8,386	8,915	7,169	7,715	8,094	8,519	8,888	9,186
Fuel imports	3,942	4,892	3,906	2,874	2,056	2,394	2,567	2,743	2,850	2,913
Capital	2,448	1,870	2,105	2,982	2,381	2,383	2,255	2,231	2,232	2,167
Other	2,675	2,109	2,374	3,059	2,731	2,938	3,272	3,545	3,806	4,106
Services and transfers (net)	-3,095	-1,979	-2,154	-1,488	-1,282	-1,450	-1,602	-1,730	-1,751	-1,748
Nonfactor services (net)	261	271	302	-649	-535	-487	-469	-441	-411	-381
Factor income (net)	-3,390	-2,275	-2,436	-798	-722	-938	-1,106	-1,261	-1,312	-1,339
Current transfers (net)	34	25	-21	-41	-25	-26	-27	-27	-28	-28
Capital and financial account (net) 1/ 2/	**-1,446**	**-1,134**	**64**	**-200**	**1,033**	**528**	**-199**	**-294**	**-190**	**-247**
Official, medium- and long-term (net) 3/	-28	601	7	64	883	1,080	1,158	1,266	1,392	1,464
Disbursements	87	689	89	149	977	1,161	1,229	1,521	1,514	1,478
Amortization	-115	-88	-82	-85	-94	-81	-71	-254	-122	-14
Change in assets, including HSF	-588	-575	-300	-4	749	306	-168	-146	-126	-123
Direct investment (net)	772	-66	1,223	1,098	712	612	412	312	312	212
Inward	2,453	1,995	1,726	1,548	1,200	1,100	900	800	800	700
Outward	1,681	2,061	503	450	488	488	488	488	488	488
Commercial banks (net)	-669	94	66	-225	-219	-224	-232	-239	-242	-242
Other private sector capital (net) 1/ 2/	-1,029	-1,078	-1,357	-1,133	-1,092	-1,246	-1,369	-1,487	-1,526	-1,558
Overall balance	**-622**	**786**	**1,330**	**-1,529**	**-594**	**-847**	**-1,340**	**-1,251**	**-1,293**	**-1,444**
Change in gross official reserves (increase -)	622	-786	-1,330	1,529	594	847	1,340	1,251	1,293	1,444
	(In percent of GDP, unless otherwise specified)									
Memorandum items:										
Current account balance 1/	3.2	7.3	4.6	-5.4	-7.0	-5.7	-4.4	-3.4	-3.8	-3.9
Energy 4/	5.9	9.6	8.4	3.7	1.6	3.0	4.7	5.7	5.5	5.5
Non-energy	-2.7	-2.4	-3.8	-9.1	-8.6	-8.7	-9.1	-9.1	-9.2	-9.4
Exports of goods	50.5	48.3	43.3	36.9	29.2	32.2	32.8	33.5	32.5	31.4
Imports of goods	35.3	33.5	30.8	36.2	30.7	31.9	31.1	30.7	30.3	29.6
Gross international reserves 5/	9,515	10,411	11,317	9,788	9,194	8,347	7,007	5,756	4,464	3,019
In months of goods and NFS imports	11.9	13.7	12.8	13.4	11.8	10.3	8.2	6.5	4.9	3.3
Crude oil price (US$/barrel) 6/	105.0	104.1	96.2	50.8	34.8	41.0	44.5	47.6	49.4	50.5
Natural gas price (US$ per mmbtu)	10.4	10.5	10.7	6.7	6.1	6.3	6.4	6.4	6.4	6.5
Central government external debt (in millions of U	1,590	1,562	2,011	2,178	2,660	3,724	4,811	6,002	7,325	6,259
Net external position	-17.1	-16.2	-15.5	-17.5	-18.8	-18.5	-17.4	-16.6	-15.9	-15.3
GDP (in millions of US$)	25,694	26,444	27,268	24,599	23,385	24,185	26,045	27,774	29,334	30,984
Real GDP growth (in percent)	1.3	2.3	-1.0	-2.1	-2.7	2.3	3.6	3.2	1.2	1.2
Exchange rate (TT$/US$, end of period)	6.43	6.47	6.39	...	...	...	...	...	...	...
Exchange rate (TT$/US$, average)	6.43	6.44	6.41	...	...	...	...	...	...	...
Energy exports	41.1	41.0	36.8	27.9	20.6	23.6	24.6	25.4	24.6	23.7
Non-energy exports	9.4	7.2	6.5	9.0	8.5	8.6	8.3	8.1	7.9	7.7

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.

Table 4. Trinidad and Tobago: Summary Accounts of the Central Bank

	2011	2012	2013	2014	2015	Proj. 2016
	(In millions of Trinidad and Tobago dollars)					
Net foreign assets	62,739	58,474	64,596	71,231	61,985	57,930
Gross international reserves	65,649	61,202	67,325	72,751	64,280	60,225
Other foreign assets, net	-2,910	-2,728	-2,729	-1,520	-2,295	-2,295
Net domestic assets	-33,347	-24,331	-27,469	-33,655	-29,431	-19,823
Net credit to public sector	-24,136	-15,815	-18,893	-25,970	-23,012	-21,554
Central government	-24,136	-15,815	-18,893	-25,970	-23,012	-21,554
Rest of public sector	0	0	0	0	0	0
Net claims on financial insitutions	-1,866	-1,866	-1,873	-1,874	-471	-471
Other items (net)	-7,345	-6,651	-6,703	-5,811	-5,949	2,201
Reserve money	28,796	33,735	36,853	37,179	32,022	37,574
Currency in circulation	5,939	6,648	7,422	8,351	9,092	9,000
Deposits of commercial banks	21,428	22,462	26,439	27,219	22,406	28,051
Deposits of nonbank financial institutions	1,429	4,625	2,992	1,609	523	523
Debt securities issued	0	0	0	0	0	0
Nonliquid liabilities	596	407	274	396	533	533
	(Changes in percent of beginning-of-period reserve money)					
Net foreign assets	12.5	-6.8	10.5	10.3	-13.0	-6.5
Net domestic assets	9.2	-27.0	12.9	22.5	-12.6	-32.6
Of which						
Net credit to central government	10.5	-34.5	19.5	37.5	-11.4	-6.3
Reserve money	15.8	17.2	9.2	0.9	-13.9	17.3
Memorandum items:						
Blocked account of government 1/	23,883	23,015	24,960	35,153	32,827	33,155
NIR (in millions of U.S. dollars)	9,779	9,091	9,989	11,143	9,611	8,482

Source: Central Bank of Trinidad and Tobago.

1/ Proceeds of treasury bills and treasury notes used for open market operations. In millions of TT dollars.

Table 5. Trinidad and Tobago: Monetary Survey

	2011	2012	2013	2014	2015	Proj. 2016
	(In millions of Trinidad and Tobago dollars)					
Net foreign assets	76,716	75,903	80,864	86,985	80,469	76,654
Official net foreign assets	62,739	58,474	64,596	71,231	61,985	57,930
Commerical bank's net foreign assets	13,977	17,429	16,269	15,754	18,484	18,724
Net domestic assets	1,092	18,066	15,760	16,395	23,825	27,566
Net credit to public sector	-10,318	4,452	-182	-2,214	1,096	4,669
Central government	-16,096	-1,466	-6,851	-10,922	-9,991	-6,418
Rest of the public sector	5,778	5,919	6,670	8,708	11,087	11,087
Credit to private sector	45,847	47,082	49,005	52,302	55,751	56,517
Other items (net)	-34,437	-33,468	-33,063	-33,694	-33,022	-33,620
Liabilities to private sector (M3)	76,623	92,586	95,555	102,430	103,591	103,517
Currency in circulation	4,509	5,315	5,979	6,791	7,634	6,863
Demand deposits	24,105	32,749	34,323	39,391	36,929	39,809
Other deposits	48,009	54,521	55,253	56,248	59,028	56,845
Nonliquid liabilities	1,184	1,384	1,069	949	703	703
	(Changes in percent of beginning-of-period M3)					
Net foreign assets	12.1	-1.1	5.4	6.4	-6.4	-3.7
Net domestic assets	-9.8	22.2	-2.5	0.7	7.3	3.6
Net credit to public sector	-8.4	19.3	-5.0	-2.1	3.2	3.4
Of which: central government	-7.6	19.1	-5.8	-4.3	0.9	3.4
Credit to private sector	3.0	1.6	2.1	3.5	3.4	0.7
Other items (net)	-4.4	1.3	0.4	-0.7	0.7	-0.6
Liabilities to private sector (M3)	0.8	20.8	3.2	7.2	1.1	-0.1
Memorandum items:						
Credit to private sector (12-month increase)	5.2	2.7	4.1	6.7	6.6	1.4
M3 Velocity	2.1	1.8	1.8	1.7	1.5	1.5

Source: Central Bank of Trinidad and Tobago.

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

Table 6. Trinidad and Tobago: Indicators of External and Financial Vulnerability

(In percent, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	Latest 2015
External indicators							
Exports (percent change, 12-month basis in US$)	-50.5	21.9	33.0	-13.1	-1.6	-7.5	-23.1
Imports (percent change, 12-month basis in US$)	-27.1	-6.8	46.2	-4.7	-2.1	-5.5	6.3
Terms of trade (1985=100), percent change	4.5	2.6	1.6	-0.1	0.0	0.8	6.6
Current account balance (in percent of GDP)	8.5	18.9	11.4	3.2	7.3	4.6	-5.4
Capital and financial account balance (in percent of GDP)	-12.2	-17.0	-8.4	-5.6	-4.3	0.2	-0.8
Gross official reserves (in US$ millions)	8,741	9,213	10,233	9,515	10,411	11,317	9,788
Official reserves in months of imports of goods and NFS	15.2	11.1	12.6	11.9	13.7	12.8	13.4
Ratio of reserves to broad money	74.0	77.8	85.7	66.1	70.5	70.6	60.9
Ratio of total public sector external debt to exports of goods and services	14.9	11.5	9.6	11.4	11.3	15.7	21.5
Ratio of public sector external interest payments to exports of goods and services	0.9	0.6	0.4	0.4	0.5	0.5	0.6
Public sector debt service to exports of goods and services	4.3	1.2	1.1	1.3	1.1	1.1	1.5
REER appreciation CPI-based (percent change)	9.0	5.6	-1.0	8.1	3.8	5.3	10.6
Foreign currency debt rating, (Moody's, end of period)	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa2 1/
Foreign currency debt rating, (Standard & Poor's, end of period)	A	A	A	A	A	A	A
Financial indicators							
90-day treasury bill, average discount rate	2.69	0.85	0.48	0.38	0.16	0.10	0.47
90-day treasury bill, real rate	-4.5	-9.7	-4.8	-8.9	-5.1	-4.8	-4.2
Capital adequacy							
Regulatory capital to risk-weighted assets	20.5	24.2	25.1	24.6	23.1	22.5	22.1
Regulatory Tier I capital to risk-weighted assets	18.5	21.7	22.7	22.4	21.3	21.8	22.9
Regulatory Tier II capital-to-risk-weighted assets	2.0	2.5	2.4	2.2	1.8	0.7	-0.8
Banking sector asset quality							
Nonperforming loans-to-gross loans	5.0	6.2	6.3	5.4	4.2	4.1	3.4
Nonperforming loans (net of provisions)-to-capital	9.2	13.3	14.5	9.6	7.8	7.7	6.7
Specific provisions-to-impaired assets	48.1	30.0	28.3	39.7	37.6	43.5	42.1
Specific provisions-to-gross lending	2.4	2.1	1.8	2.1	1.6	1.8	1.4
Banking sector earnings and profitability							
Return on equity	20.2	17.2	17.2	18.1	14.7	13.2	18.2
Return on assets	2.7	2.3	2.4	2.6	2.0	1.8	2.5
Interest margin-to-gross income	67.9	66.9	64.8	65.4	65.0	59.9	61.2
Spread between average lending and deposit rates	10.1	9.1	8.6	8.2	8.0	7.2	7.2
Banking sector liquidity							
Liquid assets-to-total assets	25.1	24.3	27.7	25.2	27.5	25.3	23.8
Liquid assets-to-total short-term liabilities	32.7	31.9	36.6	32.6	35.3	31.7	30.4
Foreign currency liabilities-to-total liabilities	33.1	27.5	27.0	28.0	25.2	23.5	25.1

Sources: Central Bank of Trinidad and Tobago; Standard and Poor's; Trinidad and Tobago Stock Exchange; and Fund staff estimates and projections.
1/ Downgraded to Baa3 on April 15, 2016

Annex I. External Stability Assessment

Trinidad and Tobago's external position in 2015 is assessed to be substantially weaker than the level consistent with medium-term fundamentals and desirable policy settings. Much of the deterioration is due to the large terms of trade shock from the decline in energy prices. Policy responses have been insufficient to address the scale of the shock. A more flexible exchange rate, fiscal consolidation and structural reforms would be desirable policy changes over the medium term to improve the current account position, stabilize or secure reserve buffers and improve competitiveness *and prospects for export diversification. Reserves are assessed to be adequate and sufficient to absorb most shocks.*

1. **The Trinidad and Tobago economy is highly dependent on the energy sector.** Energy output accounts for about 45 percent of GDP, contributes 55 percent of government revenues and 82 percent of merchandise exports. The decline in oil prices and higher imports of capital and consumer goods reduced Trinidad and Tobago's current account to a deficit of 5.4 percent of GDP in 2015 from a 4.6 percent of GDP surplus the previous year.[1] Given the forecast for continued low oil prices, the REER appreciation and a no-policy change scenario, the current account would remain in a deficit position in the medium term. Notwithstanding high foreign exchange reserves, staff estimates that the external position would weaken over the medium term and growth would remain sub-optimal. A more flexible exchange rate policy would allow the exchange rate to adjust to the terms of trade shock, smooth volatility in the market as well as improve price competitiveness. Fiscal consolidation aiming for a small primary deficit over the medium term while providing space for infrastructure spending to ease supply bottlenecks would improve the current account position and help stabilize reserves. Supportive structural reforms over the medium term are also needed to boost productivity, improve competitiveness and prospects for export diversification away from the energy sector (see Annex IV).

Current Account

2. **The EBA-lite models suggest the cyclically-adjusted current account gap to be -5.6 to -7.6 percent of GDP away from the level consistent with medium term fundamentals and desirable policy settings in 2015.** Macroeconomic policies contributed -2.3 percent of GDP to the gap, much of this reflects the fiscal policy gap relative to other countries (-2.7 percent of GDP).

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

Cyclically Adjusted Current Account Norm	1.9
Cyclically Adjusted Current Account	-3.7 to -5.7
Estimated Current Account Gap	-5.6 to -7.6
Of which: Policy Gap	
Fiscal Policy	*-2.7*
Private Credit	*0.3*
Change in Reserves	*0.1*
EBA REER Index and level gaps[1]	21.3 and 50

Source: Fund staff estimates.

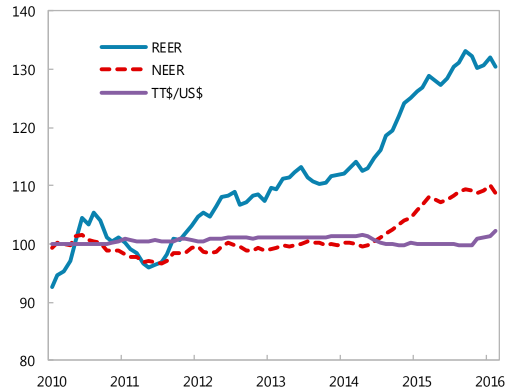
1/ Positive numbers indicate that REER is overvalued and above levels consistent with fundamentals and desirable policies.

[1] The BOP data for 2015 was extensively revised in early 2016 by the Central Bank of Trinidad and Tobago (CBTT) to reflect (i) the incorporation of new data on goods exports and imports from the Central Statistical Office (CSO), (ii) introduction of new data sources, and (iii) correction of some large errors in the data. The large revisions in the BOP estimates will cause a structural break in the data for 2015. Revisions to 2011 to 2014 BOP estimates, to make it comparable to 2015, and 2012 to 2014 IIP data are anticipated by the third quarter of 2016. CARTAC's technical assistance in 2015 and early 2016 has been instrumental in these developments.

Real Exchange Rate

3. **In 2015 the Nominal Effective Exchange Rate (NEER) appreciated by about 4.4 percent compared to the 2014 average while the Real Effective Exchange Rate (REER) appreciated by 12.4 percent, a result of higher headline inflation — driven in large part by volatile food prices and likely overstated.** [1] This CPI-based approach suggests that the exchange rate was overvalued by 30 percent by end-2015. The EBA-Lite methodologies suggest a wide range of Real Effective Exchange Rate (REER) gap estimates. The CA regression estimates an overvaluation of about 21.3 percent, while the Index REER regression illustrates an increasing REER gap (actual minus fitted values) beginning in 2008 that exceeds the fitted value by some 50 percent. The implied significant overvaluation partially reflects a marked appreciation in the U.S. dollar, given the tightly managed bilateral TT$/US$ exchange rate and the higher domestic inflation.

Exchange Rate Developments
(index: 2010=100)

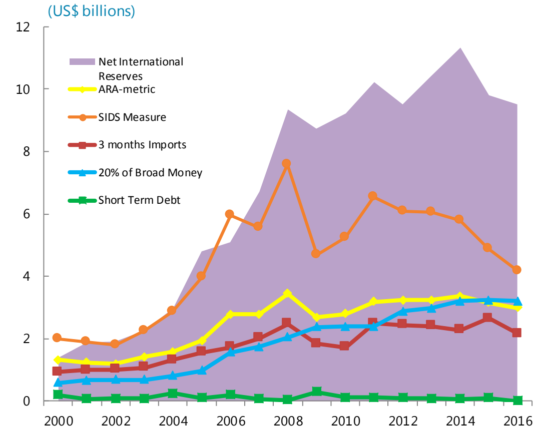


Source: IMF, Information Notice System.

Assessment of Reserve Adequacy

4. **At US$9.79 billion (13.6 months import cover), Trinidad and Tobago's net official foreign reserves exceed by a wide margin typical benchmarks of reserve adequacy, such as 3 months of imports of goods and services, 20 percent of broad money, and short-term debt falling due within one year**. The reserve level also exceeds the IMF's composite reserve adequacy (ARA) metric for fixed exchange rate regimes,[2] and the metric for small-island developing states (SIDs).[3] Under a baseline scenario of lower oil and gas prices combined with no-policy changes, staff project a shift from current account surpluses to modest deficits and higher capital

Net International Reserves and Reserve Metrics
(US$ billions)



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

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[2] A recent MCM Technical Assistance mission suggests the RPI is likely significantly overstated due to an overestimation of inflation of the volatile food component of the index. They point out that food price inflation averaging 14 percent since 2005 is almost certainly incompatible with average core inflation of less than 3 percent over the same period.

[3] Although TTO's exchange rate is classified as a stabilized arrangement, there are only two ARA metrics, one for floating and one for fixed. The latter is applied to all exchange rate arrangements other than floating and freely floating, including those classified as a stabilized arrangement. The metric is: .30*short-term debt + .20*other liabilities + .10*broad money + .10*exports of goods.

[4] Calculated as: .95*short-term debt + .10*broad money + .35*exports of goods.

outflows in coming years. Foreign exchange reserve levels are expected to decline to 3.3 months of import cover by 2021. The rate of decline in reserves would be faster should speculative demand for foreign currency exacerbate outflows.

5. **A more flexible exchange rate policy would allow the exchange rate to adjust to the terms of trade shock, smooth volatility in the market as well as improve price competitiveness and prospects for export diversification.** Fiscal consolidation supported by structural reforms would also improve the external position and address economic imbalances over the medium term.

Annex II. Debt Sustainability Analysis

Under current policies and projected energy prices, Trinidad and Tobago's central government debt is set to rise unsustainably. While sizable buffers do exist, and can be used to finance a coherent package of medium-term adjustment, they cannot substitute for them. Although the long-term profile, and relatively low foreign share of outstanding debt reduce risks, sustainability pressures would be exacerbated by slower growth, a worsened primary balance, and especially by further debt servicing burdens imposed by an additional fall in energy prices. Trinidad and Tobago's external debt is at low levels and is projected to increase over the medium term to moderate but sustainable levels. However, the debt is very sensitive to exchange rate shocks.

1. **Despite elevated energy prices during 2010-2014, government debt continued to rise.**[1] While part of this reflected the costs of cleaning up the CLICO financial group's collapse, pro-cyclical fiscal policies also prevented a further improvement in the public's balance sheet. Following the latest sizable drop in energy prices, and only limited prospects for their rebound over the projection period, absent significant additional adjustment the central government's debt ratio is projected to rise unsustainably in future years. While the authorities have sizable asset buffers that they can employ over the short term, including Heritage and Stabilization (HSF) sovereign wealth assets in excess of 20 percent of GDP, and "frozen" government deposits totaling an additional 20 percent of GDP, these would soon be exhausted by deficits projected to remain in excess of 10 percent of GDP under the baseline scenario.[2]

2. **The heat map clearly flags the high risks to debt sustainability under the current (non-adjustment) baseline scenario.** Despite recourse to "one-off" financing sources totaling almost 13 percent of GDP in fiscal years 2016-17 (including from privatization revenues, collection of "above average" dividends and early loan repayments by SOEs, and a partial rundown in HSF assets), the debt ratio is set to almost triple, to 78 percent of GDP by 2021. Only the debt profile aspect of the

[1] The DSA applies to the central government debt, which excludes short-term debt issued for open market monetary policy purposes. These instruments were equivalent to 20 percent of GDP at the end of the 2015 fiscal year, and were matched by corresponding "frozen" government deposits in the domestic banking system. The remainder of the central government debt is of a longer-term (more than one year's maturity) nature. The debt concept considered here is also narrower than the nonfinancial sector public (NFPS) debt which, in addition to central government debt, includes the government's contingent liabilities arising from current or soon-to-be guaranteed debt of public statutory authorities and state-owned enterprises. While central government debt totaled 27.4 percent of GDP at the end of FY2015, NFPS debt was equivalent to 44.2 percent of GDP. Although these contingent government liabilities have not been called in recent years, current pressures resulting from lower energy prices may require government support. In addition, the government also has potentially large contingent liabilities arising from guaranteed pensions from the National Pension Scheme. As discussed in the last Staff Report (IMF Country Report 14/271, p. 19), prior to recent parametric reforms to the pension scheme, IMF staff projected growing annual shortfalls in pension financing totaling about 3½ percent of GDP annually by 2060, with a cumulative net negative asset position equivalent to 87 percent of GDP.

[2] The authorities are making use of "one-off" financing measures to limit debt accumulation in the current and next fiscal years (which are included as "residual" financing, totaling 10.7 percent of GDP in FY2016 and 2.1 percent in FY2017). These include liquidating US$1 billion of Heritage and Stabilization Fund assets in the current fiscal year and potentially US$500 million in the next fiscal year (4.3, and 2.1 of GDP, respectively). In addition, privatization revenues totaling 6.4 percent of GDP are included in the current fiscal year.

assessment is not breached under the baseline assessment, as the assumed 1/3 foreign debt financing assumption, similar to the current share, continues to keep the total debt held by nonresidents at a moderate share of GDP. However, the recent (April 15) downgrade by Moody's of Trinidad and Tobago's sovereign debt rating to Baa3 leaves the country only one notch above sub-investment grade, and the rating carries a negative outlook. A downgrade to a sub-investment grade rating would likely have an adverse impact on the country's sovereign bond spread.

3. **On balance there appears to be no sizable systematic bias in the baseline assumptions, although recent real GDP growth projections were in retrospect optimistic.** Ongoing energy sector maintenance has resulted in weaker-than-expected economic growth. Given the large share of energy-based fiscal revenue sources, this has similarly led to a general overestimation of the primary fiscal balance, while, in contrast, and with the exception of the energy-price collapse related dip in 2009, inflation appears to have been slightly underestimated (although this is likely related to statistical shortcomings—see the discussion in the Informational Annex).

4. **Given the already unsustainable nature of the debt projections, macroeconomic stress tests confirming this conclusion are not unexpected.** Negative shocks to growth and the primary balance worsen the debt outlook. And with nominal growth and interest rates initially rather close, the debt projections are quite sensitive to interest rate shocks, although the magnitude of the shock is very large—the result of the sensitivity of the GDP deflator, and hence the real rate, to volatile energy prices.[3]

5. **Given the largely static nature of the projected primary balance, there is little difference to the projections were it to remain precisely constant—in sharp contrast to the debt reducing effects of a return to its historical norm.** This makes starkly clear the need for sizable additional fiscal adjustment—on the order of an additional 8 ½ percentage points of GDP on top of the 3.6 percent of measures already adopted in the current fiscal year.

External Debt Sustainability

6. **Trinidad and Tobago's external debt-to-GDP ratio has increased in recent years but is at a low level**. As a share of GDP, external debt was 12.2 percent at end-2015, up from a low of around 8.9 percent at end 2011 (Figure 1 and Table 1). The main reason for the increase has been a rise in general government borrowing through internationally issued bonds.

7. **External debt is projected to increase in the medium term**. Under the baseline, external debt would continue to steadily rise to 22.8 percent of GDP at end-2020 before stabilizing as government financing needs abate. External debt may increase above the current baseline if the government

[3] The large share of Trinidad and Tobago's energy sector and recent large swings in energy prices, have resulted in a very volatile path for the GDP deflator, with the latter increasing by 21.3 percent in 2008, thereby contributing to a 42.9 percent effective real interest rate in that year, followed by a 16.6 percent decline in the deflator in 2009. Even excluding this outlier, the volatile nature of the deflator raises the effective interest rate shock by 9 percentage points in 2021, with obviously deleterious implications for fiscal sustainability.

increases reliance on external financing (including multilateral loans) to help fund infrastructure projects.

8. **External sustainability is robust to interest rate and GDP shocks, but is more sensitive to current account and exchange rate shocks** (Figure 1). A 30 percent real depreciation in 2017 would almost double the external debt to GDP ratio to about 24½ percent in 2017 and it would peak at 34½ percent in 2019 before subsiding. A further deterioration in the current account balance from the current level would have the largest impact—a ½ standard deviation shock would introduce debt dynamics such that the external debt to GDP ratio reaches 56 percent by 2021 and increases beyond the 5-year projection period. However, an adverse shock of this size would almost certainly require a significant (in U.S. dollar terms) drop in energy prices from their already current low levels.

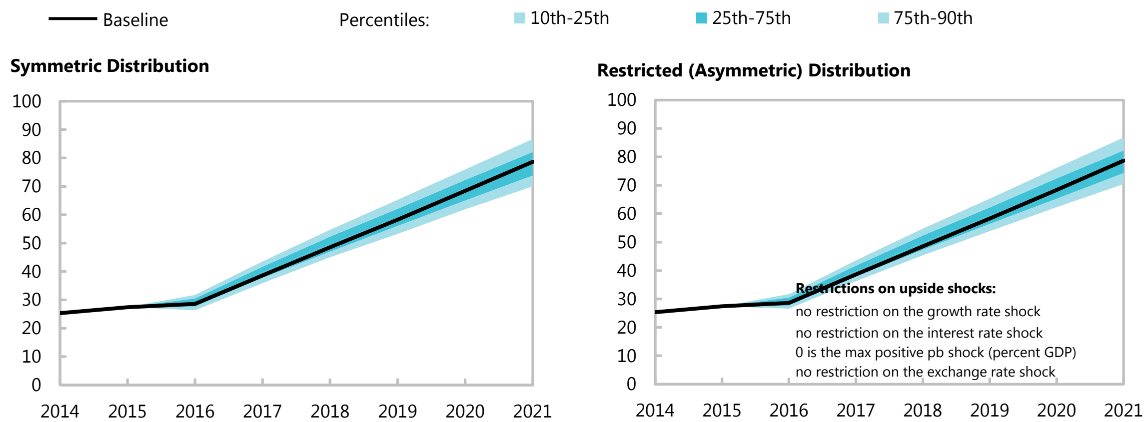
Figure A2.1. Trinidad and Tobago: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

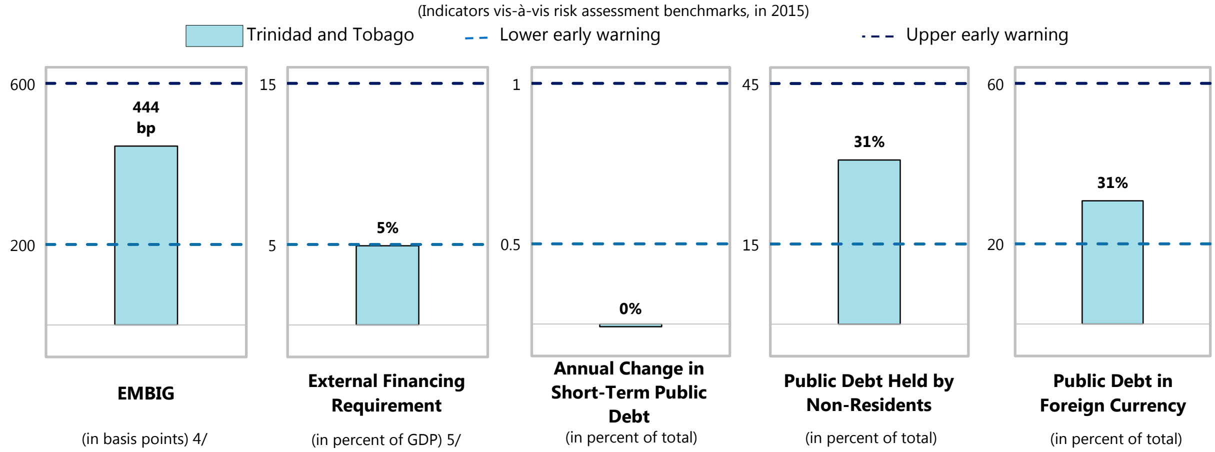
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: Fund staff estimates.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

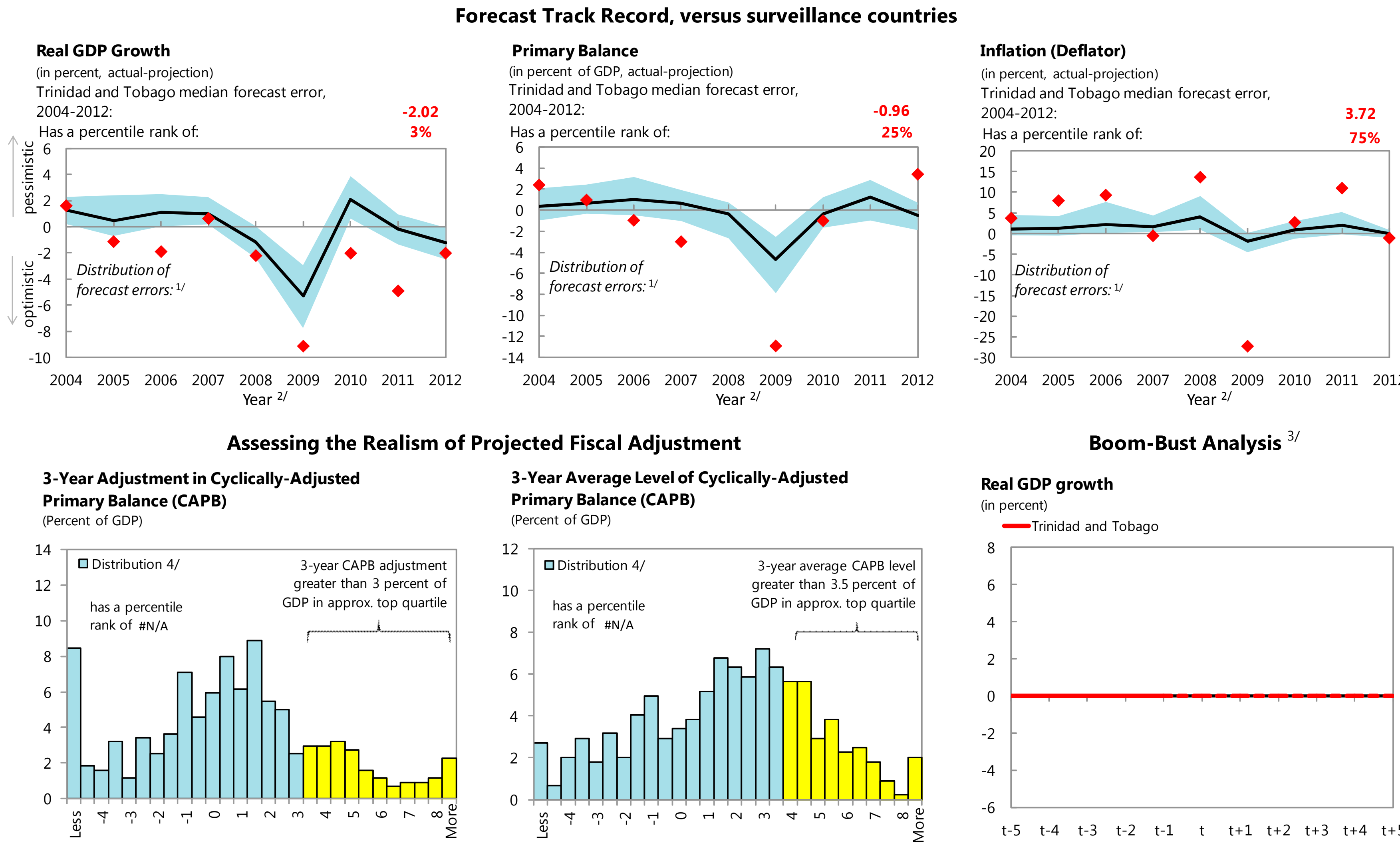
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 15-Jan-16 through 14-Apr-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure A2.2. Trinidad and Tobago: Public DSA–Realism of Baseline Assumptions



Source: Fund staff estimates.

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

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

3/ Not applicable for Barbados

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

Figure A2.3. Trinidad and Tobago: Public Sector Debt Sustainability Analysis DSA–Baseline Scenario

(in percent of GDP unless otherwise indicated)

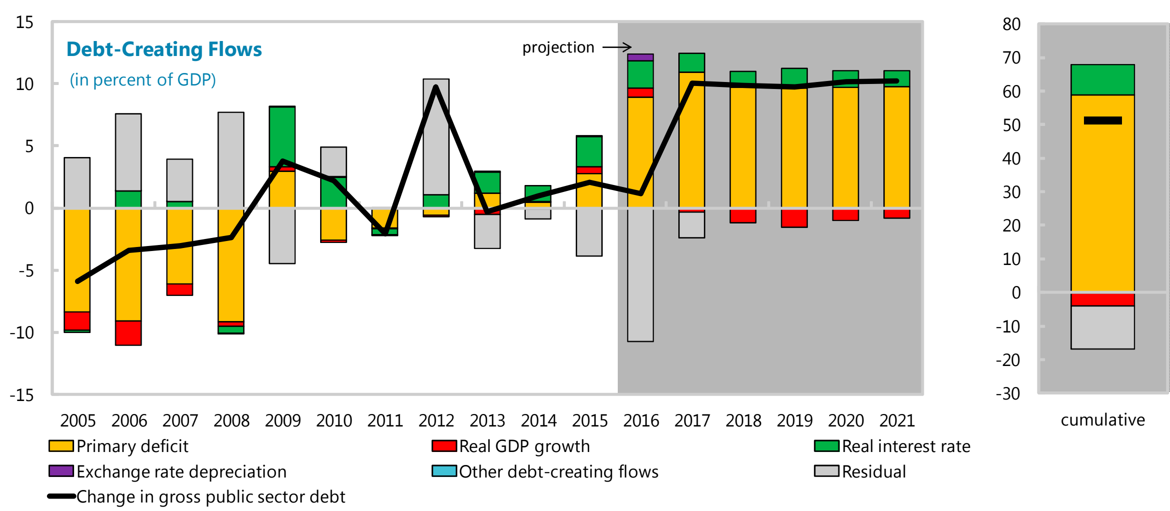
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	17.4	25.4	27.4	28.6	38.6	48.5	58.3	68.4	78.7
Public gross financing needs	-0.9	2.8	3.5	13.0	15.4	14.3	14.6	15.9	15.6
Real GDP growth (in percent)	3.4	-0.2	-1.9	-2.6	1.0	3.3	3.3	1.7	1.2
Inflation (GDP deflator, in percent)	5.6	2.9	-5.3	-0.9	3.5	4.0	3.5	4.1	4.3
Nominal GDP growth (in percent)	9.4	2.7	-7.1	-3.5	4.5	7.4	6.9	5.9	5.6
Effective interest rate (in percent) [4/]	13.6	7.0	6.7	6.8	8.9	7.8	7.1	6.6	6.3

As of April 14, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		426
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	A	A
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.2	1.0	2.1	1.1	10.1	9.8	9.8	10.2	10.2	51.2	
Identified debt-creating flows	-3.0	1.8	5.9	11.9	12.2	9.8	9.8	10.2	10.2	64.1	
Primary deficit	-3.7	0.5	2.8	9.0	11.0	9.7	9.7	9.7	9.8	58.8	0.5
Primary (noninterest) revenue and grant	31.3	33.0	31.9	28.0	25.4	25.5	25.5	25.5	25.4	155.3	
Primary (noninterest) expenditure	27.6	33.5	34.7	36.9	36.4	35.2	35.2	35.2	35.2	214.1	
Automatic debt dynamics [5/]	0.6	1.3	3.0	2.9	1.2	0.1	0.1	0.4	0.5	5.2	
Interest rate/growth differential [6/]	0.6	1.3	3.0	2.9	1.2	0.1	0.1	0.4	0.5	5.2	
Of which: real interest rate	1.2	1.3	2.5	2.2	1.5	1.3	1.6	1.4	1.3	9.2	
Of which: real GDP growth	-0.6	0.0	0.5	0.7	-0.3	-1.2	-1.5	-0.9	-0.8	-4.0	
Exchange rate depreciation [7/]	0.0	-0.1	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.5	
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	
Net privatization proceeds (negative)	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 Euroar	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/]	2.9	-0.8	-3.8	-10.7	-2.1	0.0	0.0	0.0	0.0	-12.8	



Source: Fund staff estimates.

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 $ae(1+r)$.

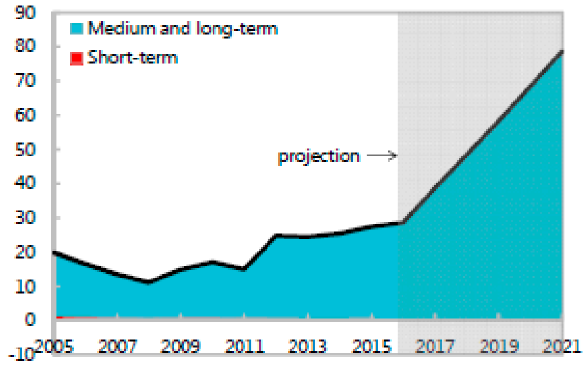
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

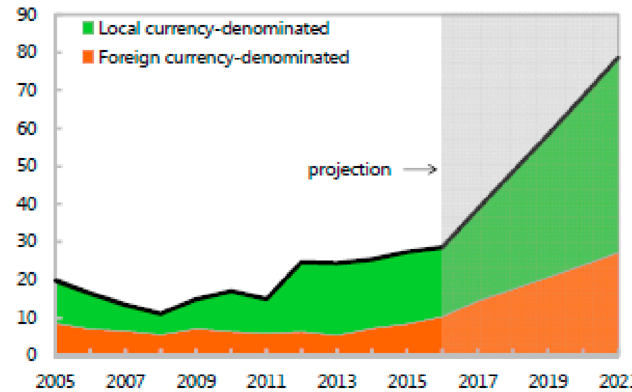
Figure A2.4. Trinidad and Tobago: Public DSA–Composition of Public Debt and Alternative Scenarios"

Composition of Public Debt

By Maturity
(in percent of GDP)



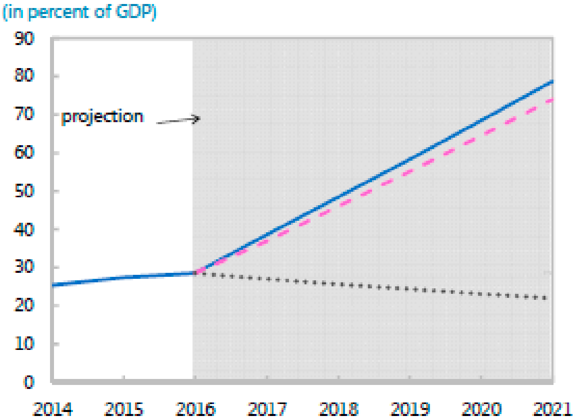
By Currency
(in percent of GDP)



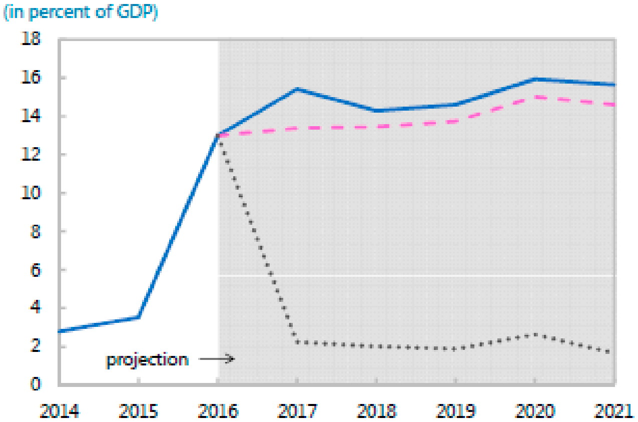
Alternative Scenarios

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	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.6	1.0	3.3	3.3	1.7	1.2
Inflation	-0.9	3.5	4.0	3.5	4.1	4.3
Primary Balance	-9.0	-11.0	-9.7	-9.7	-9.7	-9.8
Effective interest rate	6.8	8.9	7.8	7.1	6.6	6.3
Constant Primary Balance Scenario						
Real GDP growth	-2.6	1.0	3.3	3.3	1.7	1.2
Inflation	-0.9	3.5	4.0	3.5	4.1	4.3
Primary Balance	-9.0	-9.0	-9.0	-9.0	-9.0	-9.0
Effective interest rate	6.8	8.9	7.9	7.2	6.7	6.4

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.6	2.2	2.2	2.2	2.2	2.2
Inflation	-0.9	3.5	4.0	3.5	4.1	4.3
Primary Balance	-9.0	2.1	2.1	2.1	2.1	2.1
Effective interest rate	6.8	8.9	9.3	9.7	10.1	10.7

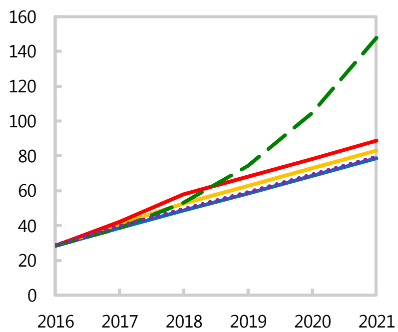
Source: Fund staff estimates.

Figure A2.5. Trinidad and Tobago: Public DSA–Stress Tests

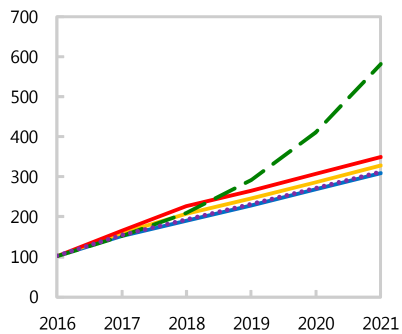
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

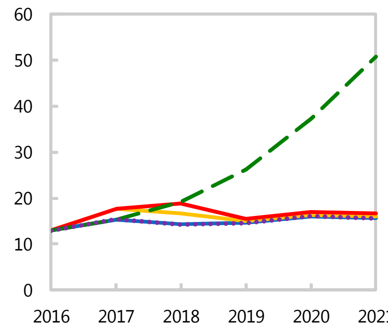
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



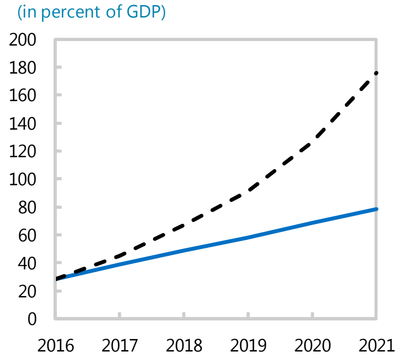
Public Gross Financing Needs
(in percent of GDP)



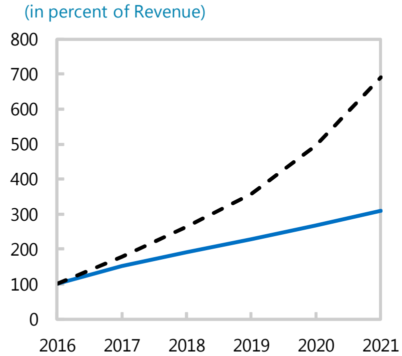
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock

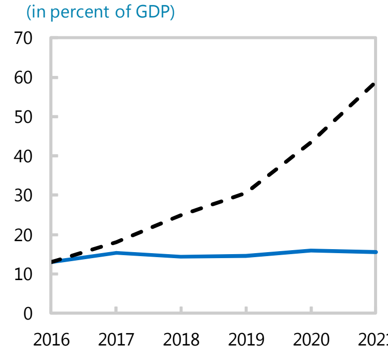
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



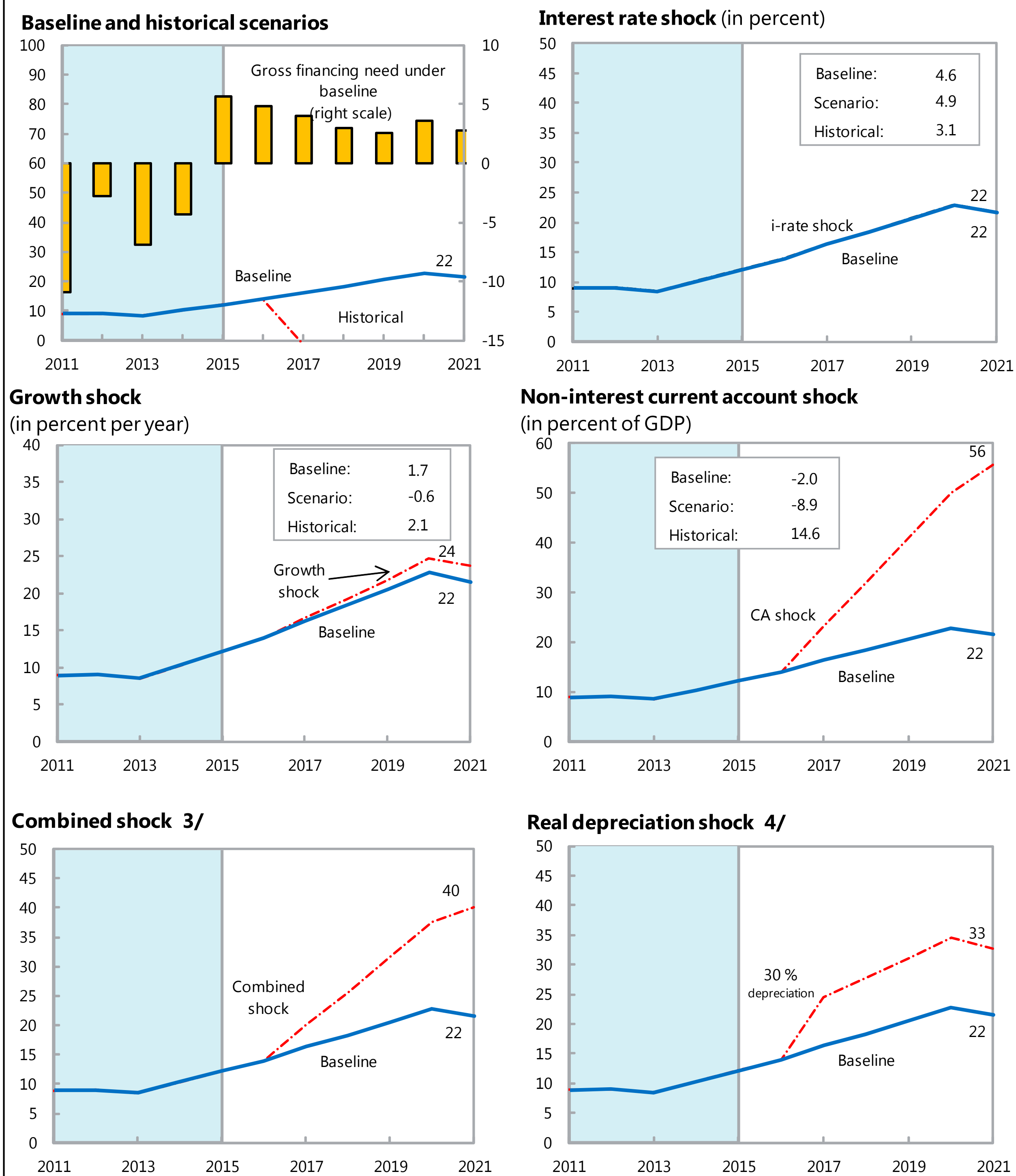
Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.6	1.0	3.3	3.3	1.7	1.2
Inflation	-0.9	3.5	4.0	3.5	4.1	4.3
Primary balance	-9.0	-13.2	-12.0	-9.7	-9.7	-9.8
Effective interest rate	6.8	8.9	7.8	7.2	6.8	6.5
Real Interest Rate Shock						
Real GDP growth	-2.6	1.0	3.3	3.3	1.7	1.2
Inflation	-0.9	3.5	4.0	3.5	4.1	4.3
Primary balance	-9.0	-11.0	-9.7	-9.7	-9.7	-9.8
Effective interest rate	6.8	8.9	21.1	29.8	35.3	39.0
Combined Shock						
Real GDP growth	-2.6	-3.2	-0.9	3.3	1.7	1.2
Inflation	-0.9	2.4	2.9	3.5	4.1	4.3
Primary balance	-9.0	-13.2	-13.6	-9.7	-9.7	-9.8
Effective interest rate	6.8	9.5	21.0	30.0	35.1	38.8

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.6	-3.2	-0.9	3.3	1.7	1.2
Inflation	-0.9	2.4	2.9	3.5	4.1	4.3
Primary balance	-9.0	-12.9	-13.6	-9.7	-9.7	-9.8
Effective interest rate	6.8	8.9	7.9	7.4	6.9	6.6
Real Exchange Rate Shock						
Real GDP growth	-2.6	1.0	3.3	3.3	1.7	1.2
Inflation	-0.9	10.1	4.0	3.5	4.1	4.3
Primary balance	-9.0	-11.0	-9.7	-9.7	-9.7	-9.8
Effective interest rate	6.8	9.5	7.6	6.9	6.5	6.3

Source: Fund staff estimates.

Figure A2.6. Trinidad and Tobago: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex III. Risk Assessment Matrix[1]

Table A3.1. Risk Assessment Matrix			
Nature/Source of Main Threats	**Likelihood of Realization of Threat**	**Expected Impact if Threat is Realized**	**Policies to Ameliorate Threat**
Persistently lower energy prices triggered by supply factors reversing only gradually, and weaker demand.	*MEDIUM* Although energy price projections have recently been revised much lower, they still reflect a more than 50 percent rebound over the medium term for oil prices, while natural gas prices are projected to rebound modestly. Given the current level of extreme uncertainties in energy markets, much lower price paths could be considered.	*VERY HIGH* • Trinidad and Tobago's economy will remain heavily dependent on the energy sector for the foreseeable future. • Thus, continued low oil prices and further declines in natural gas prices would have a yet more deleterious impact on fiscal prospects, and might also lead to persistent, and larger current account deficits. • In the short term, the economy is protected by substantial financial cushions, including 13 months of import cover in external reserves (end-2015) plus the Heritage and Stabilization Fund's (HSF) net assets, equivalent to nearly 25 percent of GDP. However, continued uncertainty about future energy prices could lead to a fall in energy-related foreign direct investment, which, if combined with persistent current account deficits, could erode those cushions, particularly if a loss of confidence in the authorities' ability to manage the situation were to lead to rapid capital outflows. The fall in energy prices, especially if sustained, could also damage consumer and business confidence that leads to serious spillovers to the non-energy sector.	• 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 persistently lower energy prices. • The authorities are intending to draw on the HSF for US$1-$1.5 billion in fiscal financing. While this is acceptable given the size of the terms of trade shock (as long as it serves as a bridge to durable fiscal adjustments), it reduces the remaining fiscal cushions, and any further such drawdowns should be explicit in their objective, and strictly limited in size and duration.

Table A3.1. Risk Assessment Matrix (Concluded)			
Surge in the U.S. dollar. Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge.	*HIGH*	*MEDIUM* • With energy prices already low, should the authorities continue to allow only modest depreciation vis-à-vis the U.S. dollar, depreciating persistent dollar strength would work against the authorities' efforts to diversify the economy. • Over the medium-term, continued sluggish growth would raise further challenges with respect to debt sustainability and improving income distribution and social outcomes.	• The risk further highlights the need for structural reforms to foster investment outside the energy sector, and for front-loaded fiscal adjustment to maintain fiscal space. • The authorities should give consideration to a more substantial depreciation that would help unwind some of the currency overvaluation, which derives in part from linking to the U.S. dollar. Widening the exchange rate band, and eventually adopting an alternative monetary framework to anchor on price stability would afford better insulation against terms of trade shocks, especially in the context of a strong dollar.
Failure to address foreign exchange (FX) shortages.	*MEDIUM* The new government has expressed commitment to resolving the FX shortages, but has not yet developed a definitive plan to do so, pending the receipt of technical assistance.	*HIGH* • The potential impact is very difficult to gauge, since by their nature, f/x shortages are a disequilibrium phenomenon. They are difficult to measure since they consist, by definition, of FX sales that are <u>not</u> made. Moreover, the very existence of the shortages engenders an unknown amount of precautionary FX demand, but may also discourage some potential buyers from attempting to purchase FX. • Nonetheless, it is clear from persistent and widespread reports that the problem is serious. There are frequent reports that businesses are either unable to make critical imports, or are unable to pay suppliers in a timely manner, thus damaging businesses relationships and impairing access to external trade credit.	• The authorities should operate the FX market more liberally, either via further currency depreciation, greater sales to the market, or some combination of both. A durable end to FX shortages will require a sustained period in which the market is shown to clear, so that precautionary demand for FX in excess of immediate needs is eventually limited, once credibility in the management of the FX market is restored.

[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.

Annex IV. A Case Study of Diversification in Trinidad and Tobago

Trinidad and Tobago remains highly dependent on the energy sector, and the need to diversify the economy has been long understood. This annex discusses different types of diversification and outlines Trinidad and Tobago's historical experience. It finds that while the development of an export-oriented petrochemical sector fostered export diversification in the 1980s/90s, export diversification has stalled since 2000, while no progress has been made in diversifying domestic output. Cross-country experience suggests the country should support "horizontal" export diversification and continue to improve the business climate.

1. **Although Trinidad and Tobago's (TTO) government has been speaking about the need to diversify its economy as early as 1966, the country remains highly dependent on the energy sector.** Thanks to its hydrocarbon resources, TTO increased its per-capita income from US$640 in 1962 to US$15,760 in 2013, making it one of the wealthiest countries in the Caribbean. Prior to recent sharp declines in energy prices, energy sector output accounted for about 45 percent of GDP, contributed 55 percent of government revenues and 82 percent of merchandise exports. Such dependence transmitted the volatility of energy prices into GDP growth and encouraged pro-cyclical economic policies, as government spending has tended to follow the energy revenue cycle.

A. Types of Diversification

2. **"Diversification" can refer to both domestic output and export diversification.** For the former, we analyze the changes of each sector's share in output and labor productivity. For the latter, we look at the development of new markets/products, diagnose export structure changes by using different export diversification indices, and examine history for policy changes that appeared to influence export diversification.

3. **Export diversification can be disaggregated into horizontal and vertical diversification.** Horizontal diversification refers to an increase in the number of new export product lines or the evenness of export value shares across different product lines. Vertical diversification is the upgrading of product quality along a so-called "quality ladder," which vertically arrays a specific export product line from low to high unit values.[1] Upgrading product quality along the ladder increases value-added in a given product category, thereby increasing their export values.

4. **The concept of economic complexity is related to diversification.** A country has a more complex product structure if it can produce more knowledge-intensive products.

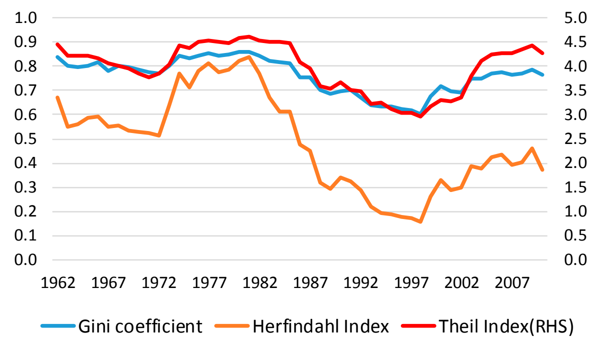
[1] IMF (2014a) followed the methodology of Henn et al. to estimate the quality of each of the 851 SITC 4-digit-plus (Rev.1) categories in the UNCOMTRADE dataset, then aggregated the quality of each product category into higher-level sectors (SITC 3-digit, 2-digit and 1-digit) by using current trade values as weights.

Hausmann, et al. (2011) maps major products according to similarities in their knowledge requirements in a product space. It then calculates an economic complexity index based on a country's relative comparative advantage in the product space and the number of different products it can export.[2] A country with higher complexity relative to its per capita income has higher expected growth because a country tends to move toward a level of income per capita compatible with its level of embedded knowhow.

B. Trinidad and Tobago's Experience

5. **Diversification indices (the Theil and Herfindahl indices and the Gini coefficient) show that TTO achieved diversification during 1983–1999, mainly through the increase of new export products (measured by the extensive margin).[3]** This conclusion is reinforced by counting the number of different product lines (at the SITC 4-digit level) exported from 1962 to 2010. TTO was able to export 165 new export products between 1983 and 1999.[4] The total number of export product lines increased from 276 to 419 in this period.[5]

Diversification Indices



Sources: UNComtrade , IMF diversification database, and staff calculation.

6. **However, export diversification has stalled since 2000.** Led by the export of liquefied natural gas (LNG) from 1999, the export share of energy products increased again, from 36 percent in 1998 to 60 percent in 2010. Although major non-energy exports such as chemicals (excluding fertilizers) maintained their export share, other manufactured exports saw their export shares and export growth rate declining significantly. The development of the LNG industry appeared to crowd out the development of the non-energy sector. Williams (2013) points out that almost all FDI between 1998 and 2005 was concentrated in the energy sector, and domestic private investment in agriculture declined sharply.

[2] If a country has a relative comparative advantage in a certain exported good, its share in the country's total exports will be larger than the share of the good in total world exports. For example, TTO exported US$2.9 billion of petroleum oils (18 percent of its total exports) while the world's exports of petroleum oil were 5.2 percent of world exports.

[3] All three measures are calculated based on export shares from 1962 to 2010. Lower values indicate higher diversification for all three indices. The Theil index can be decomposed into extensive and intensive margins. The extensive margin focuses on the number of new export products, while the intensive margin captures relative export values in different categories of products, with more evenly distributed values representing more diversification within that product line.

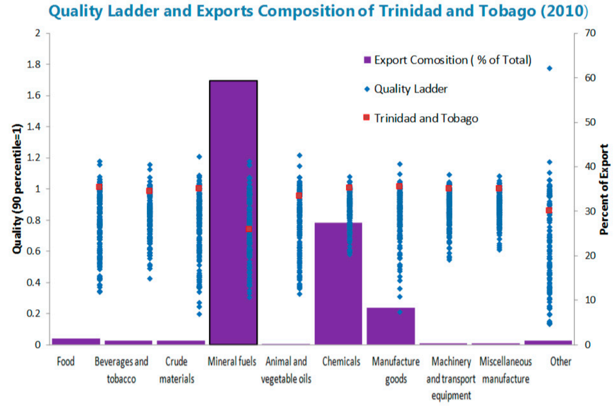
[4] Cadot et al (2011) define new products as those that have not been exported in at least the two previous years, but have been exported in the two following years.

[5] The total number of product lines at the end of the period does not equal to the sum of the number of product lines at the beginning of the period and the new products, since some product lines existing at the beginning of the period will also have been withdrawn from the export portfolio.

7. **TTO also has made no progress in diversifying its domestic output.** Since 1988, the labor force has increasingly moved out of agriculture and manufacturing to the service sector, where productivity growth has been negative. Since that time, manufacturing's employment share dropped from 10 percent to 8 percent while the agricultural employment share fell from 13 percent to 4 percent. With the share of employment now in the low productivity service sector rising from 35 percent in 1988 to over 40 percent, it appears that domestic output diversification has been constrained.

8. **The main driving force for the increase in export diversification was the government's development, on the back of the two oil booms in the 1970s, of an export-oriented petrochemical sector.** After completing a number of petrochemical projects by around 1982, petrochemical exports became the third largest export product category after LNG and oil. By 2010, petrochemicals' share of total exports had grown to about 30 percent. Another factor that may have contributed to greater export diversification stemmed from TTO's economic crisis at the end of the 1980s. The government's reform program included divestment of several loss-making state-owned enterprises, the devaluation of the TT dollar and the granting of incentives to attract investment. These measures improved the manufacturing sector's competitiveness and facilitated export diversification, for example the share of machinery and transport equipment in total exports doubled from 1.2 percent in 1987 to 2.5 percent in 1998.

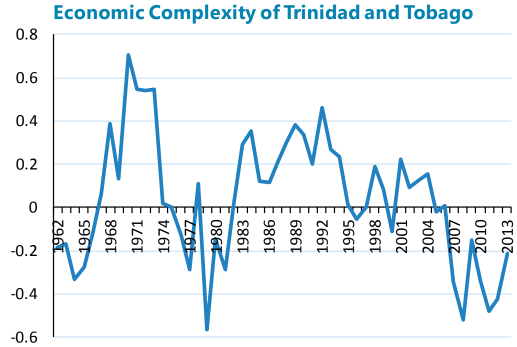
Quality Ladder and Exports Composition of Trinidad and Tobago (2010)



Source: IMF Quality Ladder Database and staff calculation.

9. **TTO has a high degree of vertical diversification with current export products already positioned close to the top in the quality ladder.** This suggests there is less room to achieve vertical diversification without improving horizontal diversification that is, widening the array of export products first, in particular developing high value-added products. The trending down economic complexity index also suggests that the lack of complex (i.e. high value-added) products is a key barrier to diversification and the raising of potential growth.

Economic Complexity of Trinidad and Tobago



Source: Hausmann et. al economic complexity database.

C. Lessons from Experience

10. **Lessons from relevant comparator countries (oil exporters and small non-energy exporters) suggest that improving business environments, developing human capital and focusing on high value-added industries can spur diversification**. In that sense, TTO is ranked

far behind many of the relevant countries in the Theil diversification index. Other countries, such as those of the Gulf Cooperation Council (GCC), provide "negative" lessons (what not to do). For these countries, export diversification has been limited because high transfers and subsidies and a significant distortion of the labor market through very high levels of public employment and high public sector salaries discourage private firms from investing in the non-oil tradable sectors, and workers from seeking jobs in the private sector. Even so, most GCC countries have higher rankings than TTO in the quality of their business environments, indicating ample room for TTO to improve.

11. **These lessons suggest the priorities for TTO should be to support horizontal export diversification and continue to improve the business environment.** Given limited ability to pursue further vertical diversification (quality improvements for given product lines), the emphasis should be on introducing new product lines (improving the extensive margin), while increasing value-added in current non-energy export product lines to improve the intensive margin.[6] Further improving the business environment can lay the foundation for the private sector to take initiatives to innovate and grow their businesses. In particular, improving the quality of human capital and reducing structural impediments to investment will help attract FDI to improve technology and know-how to increase the value-added of TTO's products.

[6] Hausmann, Hidalgo, et.al. suggest the best way to increase horizontal diversification is by developing products that are close in knowledge requirements to what is currently produced (for instance, diversifying from milk production to ice cream production). This way, knowledge can be developed that over time, allows a country to spread the range of its product lines. See http://atlas.cid.harvard.edu/

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

May 5, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of March 31, 2016)

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

General Resources Account:	SDR Million	%Quota
Quota	469.80	100.00
Fund holdings of currency (Exchange Rate)	331.62	70.59
Reserve Tranche Position	138.18	29.41

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	321.13	100.00
Holdings	242.23	75.43

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				
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.03	0.04	0.04	0.04	0.04
Total	**0.03**	**0.04**	**0.04**	**0.04**	**0.04**

[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. Its exchange system, a de jure float, is classified as a stabilized arrangement under the Fund's revised methodology.

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

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

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

b. The potential two percent deviation between: (i) on the one hand, the buy and sell rates for FX transactions between the CBTT and the government, and (ii) on the other hand, the authorized dealers' sell rates.

Last Article IV Consultation and Recent Contacts

The 2014 Article IV mission was concluded on June 16, 2014 and staff visits took place on January 19–26, 2015 and September 18–25, 2015.

Technical Assistance

Trinidad & Tobago has received a significant volume of TA across the various CARTAC fiscal, financial, statistical, and macroeconomic program areas including: TA missions to TTSEC on stress testing of securities markets, development of macroprudential indicators and an in-country workshop on financial stability indicators. On fiscal issues, CARTAC has supported Treasury modernization in cash management and bank reconciliation issues, while the Inland Revenue Division has benefited from focused TA on establishing internal audit capacity, enhancing performance management capabilities, and in-country training on basic taxpayer audit techniques. CARTAC assistance was provided to strengthen macro projection capacity and in the development of a medium-term strategy document. Statistical reform priorities have advanced with CARTAC help with CPI rebasing and with national accounts. Beyond the provision of direct in-country TA, officials from Trinidadian institutions participated in training events and regional workshops across all areas of CARTAC expertise.

Department	Dates	Purpose
STA	March 2016	External Sector Statistics
MCM	August 2015	Monetary Policy Framework
MCM	April 2015	Macroprudential Policy Framework
STA	March 2015	External Sector Statistics
FAD	March 2015	Revenue Administration
STA	May 2014	Financial Sector Statistics/FSI compilation
MCM-LEG	March 2014	National Financial Crisis Contingency Plan
FAD	July 2013	Tax Administration
FAD	January 2013	Tax Policy
MCM	October 2012	Non-life insurance regulation
STA	June 2012	Monetary and financial statistics
STA	April 2012	Consumer and Price Statistics
STA	March 2012	Monetary and balance of payments statistics
STA	February 2012	Consumer and producer price statistics
MCM	June 2010, September 2010, March 2011, and June 2011	Insurance supervision
MCM	December 2010 and April 2011	Public debt management, funding and medium term debt management strategies
STA	February 2011	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 April 2016)

Since graduation in 2003, Trinidad and Tobago has had no lending program with the World Bank Group (WBG). However, technical and advisory services have been provided 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.

Between the fall of 2013 and the fall of 2015, the Government proactively reached out to the Bank for new technical assistance activities 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).

Since the September 2015 elections, the authorities have requested technical assistance from the World Bank in several areas, including on a Public Expenditure Review. A World Bank team also returned to Trinidad and Tobago after the IMF/World Bank Spring Meetings in April 2016 for further discussions.

Reimbursable Advisory Services

Reimbursable Advisory Services Program: The RAS program with the Government of Trinidad and Tobago currently covers: (i) Investment Climate Reform; (ii) Anti-Money Laundering (National Risk Assessment); and, (iii) Broadband Strategy.

Technical Assistance

In 2014, the Government of Trinidad and Tobago requested the World Bank to provide in-depth technical assistance on a range of issues, such as: insolvency resolution, tax alternative dispute resolution, developing a commercial court, and developing a collateral registry. This request was formulated in the form of a RAS, following the successful completion of a previous RAS agreement with the Government that focused on investment climate reform with particular attention to the reforms related to Doing Business indicators. Under the previous RAS, which was concluded in May 2014, the World Bank supported the Government to reform the business registration process. This technical assistance program contributed to a positive reform on Starting a Business, and the Doing Business Report 2015 reflected these improvements in the efficiency of the business registration process. In the area of insolvency resolution, the World Bank provided recommendations on how to align a draft legislation with international good practices and supported the Government with technical assistance on a new insolvency legislation that was passed in May 2014. In the same year, the Government also requested to develop a RAS agreement related to improving the country's investment promotion capacity and developing special economic zones. More recently, changes in the fiscal conditions in Trinidad and Tobago have decreased the resources available for the proposed activities, and the discussions on the finalization of the RAS agreements have been limited.

RAS—Trinidad and Tobago—Broadband for Development Phase 2: This activity seeks to help transform the country's economy into a more diversified one that effectively utilizes broadband connectivity to unleash the power of information, technology, and knowledge throughout all economic sectors. The specific objective of the RAS is to support broader use of broadband for competitiveness and productivity through activities aimed at increasing IT skills, developing an IT-Enabled Services industry, and promoting innovation through open data. This Phase 2 of the RAS builds on the results of the Phase 1 Broadband Strategic Plan. The activities are designed to address bottlenecks identified in the supply as well as in the demand (i.e. take-up) of broadband services. As of April 2016, project implementation is pending. Several activities have been completed; and the legal agreement is going to be extended to reschedule the pending activities' milestones.

Extractive Industries Transparency Initiative (EITI): Trinidad and Tobago was officially granted candidate status for EITI in 2011 and was declared fully "compliant" in January 2015. The Ministry of Energy and Energy Industries (MEEI) leads the implementation of the initiative with the objectives of making Trinidad and Tobago's energy sector one of the most transparent in the world, as well as to work closely with civil society. 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 has asked for a second grant from the newly established Extractives Industries Global Programmatic Support (EGPS) MDTF. This program 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. Funding decision by EGPS MDTF donors is pending. TTEITI is set to publish the next report covering fiscal revenues from 2014 by end-September 2016. The scope of this report is being expanded to also include the mining sector.

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). Since the first workshop, the World Bank team continued to provide technical assistance to the Ministry of National Security and the FIU, including through the review and provision of comments on the draft NRA report and Action Plan prepared by Trinidad and Tobago. The final workshop that will mark the conclusion of the World Bank's technical assistance on the NRA is scheduled for May 24–25, 2016.

Statement of World Bank Group Loans

Disbursements and Debt Service (In millions of U.S. dollars, calendar year)											
	Actual										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Total disbursements	2.0	5.89	6.70	1.07	2.12	4.33	0.00	0.00	0.00	0.00	0.00
Repayments	17.3	16.50	14.26	12.19	9.79	4.09	3.52	3.28	3.28	2.67	2.13
Net disbursements	-15.3	-10.60	-7.56	-11.12	-7.67	0.24	-3.52	-3.28	-3.28	-2.67	-2.13
Interest and fees	3.8	2.75	2.37	1.81	1.15	0.76	0.68	0.60	0.49	0.39	0.30
*As of March 2016											

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of April 15, 2016)

Financing

The 2016-2020 Country Strategy (CS) is being developed and is expected to be submitted for approval during the last quarter of 2016. Meanwhile, the current CS 2011–2015 remains in force until the end of 2016 with the following priority areas: (i) financial sector regulation and supervision; (ii) public sector management; (iii) education; (iv) social protection; (v) climate change; (vi) energy; (vii) water and sanitation; and (viii) transport.

The current CS also envisages private sector development, fiscal sustainability, and integral solutions for local government, as areas for further dialogue during the CS period. We have programs approved under the current CS in 5 of the original 8 priority areas. It should be noted that at least one (1) SG operation was approved in a dialogue area as the Bank sought to respond to changes in client needs. The CS had envisaged Sovereign Guaranteed (SG) lending of US$1.5 billion for the period, however, SG lending reached only US$695.0M, as of March 15, 2016.

Table 1. Net Flow of IDB Convertible Currencies 2012–2016 [1]

(In millions of U.S. dollars)

	2012	2013	2014	2015	2016[e]
a. Loan disbursements	29.8	48.9	21.4	50.6	61.3
PBL Disbursements	0.0	0.0	0.0	0.0	0.0
b. Repayments (principal)	49.6	47.6	40.3	39.3	43.3
c. Net Loan Flow (a-b)	**-19.8**	**1.3**	**-18.9**	**11.3**	**18.0**
d. Subscriptions and Contributions	0.0	0.0	1.5	0.0	0.0
e. Interest and Charges	12.3	11.2	10.6	10.5	14.0
f. Net Cash Flow (c-d-e)	**-32.1**	**-9.9**	**-31.1**	**0.8**	**4.0**

[1] Debt Service Projections based on Approved Balances as at 31 Dec. 2015.

Portfolio composition

The active portfolio consists of 11 loans for a total of US$695.5M, 85.6 percent of which is undisbursed. The main sectors represented include: Water and Sanitation (3 loans, 60 percent of total volume); Social Protection and Health (2 loans); Housing (1 loan), Integration and Trade (2 loans) and Public Sector Modernization (3 loans). The Bank has proactively offered a task force to support execution on a targeted basis to improve portfolio execution.

Table 2. Projects in Execution
as of March 15, 2016 (US$ million)

Name	Approval Date	Approved Amount	Disbursed Life	Percent Disbursed	Available
Citizen Security Program	3/11/2008	24.5	16.2	66	8.3
Neighborhood Upgrading Program	12/1/2010	40	13.2	33	26.8
WASA Modernization and Wastewater Infrastructure Rehabilitation Program	10/26/2011	50	20.2	40	29.8
Multi-Phase Wastewater Rehabilitation Program-Phase I	12/12/2012	246.5	48.1	20	198.4
Health Services Support Program	6/25/2013	1.5	0.5	35	1
Strengthened Information Management at the Registrar General's Department	10/23/2013	20	1.7	8	18.3
Flood Alleviation and Drainage Program	12/4/2013	120	0	0	120
Global Services Offshoring Promotion Program	12/4/2013	18	0.5	3	17.5
Health Services Support Program	12/17/2014	110	0	0	110
Support to Strengthen Trinidad and Tobago's Public Financial Management System	5/20/2015	40	0	0	40
Strengthening of the Single Electronic Window for Trade and Business Facilitation	11/10/2015	25	0	0	25
11	**-**	**695.5**	**100.4**	**85.6**	**595.1**

STATISTICAL ISSUES

(As of April 2016)

I. Assessment of Data Adequacy for Surveillance
General: Serious shortcomings in the provision of timely, comprehensive, and accurate data significantly hamper surveillance, economic analysis and policy formulation. The authorities are committed to improving data provision, through the establishment of an independent National Statistics Institute (NSI), which will replace the Central Statistical Office (CSO). Legislation to establish the NSI is expected to be passed this year. In the meantime, the CSO has made substantial progress in recent months to reduce the backlog in producing some data, particularly trade statistics and GDP estimates. The CSO has secured new offices, taken on additional provisional staff to reduce the backlog of uncompleted surveys, agreed with the CBTT to acquire staff to work on National Accounts and other statistics, and made arrangements with a number of international partners to secure technical assistance.
Real Sector Statistics: While there is still a significant lag in providing overdue historical data, noticeable improvements have been achieved in 2015. The production-side real GDP data for 2012 have been finalized, while the calculation of real GDP data for 2013 and 2014 are expected to be finalized by the end of 2016. The last expenditure-side GDP data is from 2008 and there are no immediate plans to produce such data. Since the end of 2014, the CSO has reduced lags in publication of its quarterly labor force bulletin to about two quarters (from one year). Per CARTAC suggestion, the CSO also has a plan to produce quarterly GDP statistics, the timeline of which depends on the amount of available resources to fulfill its specific staffing needs.
Price Statistics: A revised method to estimate the Retail Price Index (RPI), implemented in mid-2012, corrects flaws that created a significant upward bias, primarily in the food component. In addition, the RPI basket has been rebased to January 2015, with the weights on each item updated to reflect the results of the latest household budgetary survey in 2008/2009. However, estimation of food index inflation remains a concern as it rose over 29 percent the past two years compared to 13 percent for All Items. This is possibly due to flaws in substitution procedures for seasonal items. As regards the producer price index (PPI), the business establishment list (BEL) has not been updated in years and the current weights used in the PPI are nearly 40 years old.
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; these broader data are now used in the monetary sector accounts in this staff report. In May 2014, an MFS mission supported the CBTT in developing SRFs for the other financial corporations (OFCs) sector, covering insurance corporations, pension funds, the Heritage and Stabilization Fund (HSF), the Agricultural Development Bank (ADB), and the Mortgage Finance Company (TTMF). The CBTT needs to expand the coverage to, at least, the National Insurance Board (NIB), the Unit Trust Corporation (UTC), the Home Mortgage Bank (HMB), and the credit unions. Trinidad and Tobago reports to STA all core and some encouraged financial soundness indicators.
External sector statistics: 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 from entities with external transactions. Official trade data from the CSO are only available up to February 2012, while data for the rest of 2012 and up to September 2015 are CBTT estimates, using trade partner data. The CBTT's estimates for trade data are flawed due to methodological weaknesses. The CSO is in the process of reviewing and auditing recently compiled trade data covering 2012 to September 2015. The authorities, following the recommendations from recent TA missions, are also revising the data in the goods and services account to address under-coverage and misclassifications, particularly in the valuation of imports at c.i.f., missing insurance services provided to nonresidents, and in services provided by nonresident companies to local oil and gas corporations. Recent TA missions have also assisted the authorities in the compilation of data on external assets and liabilities of mutual funds, the compilation of the International Investment Position (IIP), the proper classification of dividend flows by energy sector companies, other required improvements for subscription to the SDDS, and implementation of the Balance of Payments Manual sixth edition. The authorities anticipate that the audits of the data can be completed in time for an official release by September 2016. Data with comprehensive coverage of external loans and domestic debt of the entire public sector, as well as publicly guaranteed debt has been migrated to the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) utilized by the Ministry of Finance and the CBTT.

II. Data Standards and Quality	
Participant in the 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. External sector statistics are also sent to STA, although with considerable delay. The most recent data sent by the CBTT to STA for publication are for 2011.

Table of Common Indicators Required for Surveillance

(As of April 28, 2016)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	February 2016	March 2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	February 2016	March 2016	M	M	M
Reserve/Base Money	February 2016	April 2016	M	M	M
Broad Money	February 2016	April 2016	M	M	M
Central Bank Balance Sheet	February 2016	April 2016	M	M	M
Consolidated Balance Sheet of the Banking System	February 2016	April 2016	M	M	M
Interest Rates[2]	February 2016	April 2016	M	M	M
Consumer Price Index	January 2016	March 2016	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 2015	March 2016	M	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2015	March 2016	Q	I	Q
External Current Account Balance	2015Q3	March 2016	A	A	A
Exports and Imports of Goods and Services	2015Q3	March 2016	Q	Q	Q
GDP/GNP	2012	March 2016 October 2013	A	A	A
Gross External Debt	September 2015	March 2016	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)

Statement by Otaviano Canuto, Executive Director for Trinidad and Tobago and Veronica Ramcharan, Senior Advisor to the Executive Director May 20, 2016

On behalf of our authorities, we wish to thank the mission team for the constructive discussions on macroeconomic developments and policy issues in Trinidad and Tobago. In line with staff recommendations, the authorities are focused on consolidating the fiscal position and implementing strategic structural reforms towards enhancing the country's competitiveness and medium-term growth prospects.

Despite the significant challenges posed by the need to adjust to lower energy prices, Trinidad and Tobago is far from a crisis situation. The country has enormous strengths, including low levels of public debt, substantial financial buffers, a well-educated work force and a stable political system.

Upon assuming office in September 2015, the new administration had less than one month to present a budget to Parliament. Recognising that energy prices could remain low over the long term and faced with considerable structural challenges to increase economic diversification, the budget accommodated the fiscal adjustment requirements but was also carefully balanced to avoid exacerbating the economic slowdown. Under no illusions about the external environment, the authorities refined the budgetary framework during the Mid- Year Budget Review (MYBR) presented in April 2016 and further calibrated policy adjustments to meet their medium term economic objectives. The MYBR reflected expectations of lower oil and gas prices and entailed both adjustments in government spending and measures to broaden revenue sources.[1]

Economic Developments and Outlook

Trinidad and Tobago has suffered major consecutive shocks to its economy given the global financial crisis, followed more recently by a large terms of trade shock. Despite the negative impact of the global financial crisis, the country's economy remained resilient and quickly rebounded. Since mid-2014, the economy has been hard hit by the sharp decline in oil and gas prices. Indeed, growth contracted in 2014 and 2015, and lower domestic absorption is expected to continue in 2016. Given the permanent nature of the decline in hydrocarbons prices, the economy has been gradually adjusting to a new reality.

Underpinned by the authorities determined efforts, including significant fiscal adjustment measures in order to maintain macroeconomic and external stability, GDP is expected by staff to rebound sharply to 2.3 percent in 2017 and maintain steady positive growth over the medium term. Despite the enormous challenges faced by the country, headline inflation has been well contained by historical standards and the unemployment rate has remained very

[1] April 2016 assumption: US$35 per barrel and a gas price of $2.00 per mmbtu; October 2015 assumption: $45 per barrel and a gas price of $2.75 per mmbtu.

low. The resilience of the employment numbers suggests that private sector employment has also held relatively firm, and that employment has not been solely dependent on government "make-work" programs. In addition, the economy is protected by substantial financial buffers, including US$9.8 billion in international reserves or 13.4 months of import cover and a Heritage and Stabilization Fund (HSF) with US$5.8 billion, which together is equivalent to about 63 percent of GDP in 2015.

In an environment of heightened uncertainty and downside risks in the global economy, the authorities remain vigilant and focused on strengthening resilience. They recognize the enormous challenges stemming from the volatility of hydrocarbon prices and its impact on the main source of fiscal revenue generation. The new government has undertaken significant fiscal consolidation measures and implemented a tactical reform agenda designed to preserve macroeconomic stability and promote sustainable and inclusive growth. Beyond the short term, measures include structural reforms to raise productivity, promote constructive value-added economic diversification and further advance regional and global integration.

Fiscal Policy

The Ministry of Finance recently introduced a Medium-Term Fiscal Consolidation Framework which is an important anchor in supporting the authorities' efforts to meet budgetary targets, improve expenditure prioritization, and foster improved government performance. This plan also aims to invigorate high value-added investments, intensify human capital development and enhance public sector delivery, within the constrained fiscal space. The course of fiscal consolidation is underpinned by further reforms to broaden the government's revenue base, rationalize subsidies and better optimize supplies and services expenditure. As such, in the fiscal year 2016 the authorities intend to reduce total expenditure by TT$4 billion than originally budgeted in October 2015. Consequently, the fiscal deficit for 2016 is expected to be around 4 percent of GDP using the cash basis accounting methodology.

The financing gap for 2016 and 2017 will be closed through several available avenues, including borrowings and one-off items of extraordinary income, such as recoveries from the sale of CLICO assets, dividends from the National Gas Company (NGC), drawdowns from the HSF, and proceeds from the Phoenix Park IPO. By 2018 the authorities are determined to be well on their way to achieving a balance between current income and expenditure, with reliance on borrowings only for capital expenditure. Moreover, the authorities noted that if revenues disappoint, they are willing to further reduce expenditures.

The authorities have remained steadfast in their commitment towards fiscal consolidation, careful debt management and prudent expenditure restraint. Trinidad and Tobago's external debt continues to be low, despite a projected increase over the medium term to moderate but sustainable levels. The authorities have made significant progress towards establishing a medium term debt management framework, which will significantly enhance their capacity to address potential risks.

Alongside cuts in recurrent spending – including the reduction of operational expenditure by 7 per cent for all ministries – fiscal consolidation is being led by increased revenue generation from more diverse sources as well as enhanced tax efficiency and compliance. Some measures include the implementation of a property taxation system; broadening of the VAT base; increasing excise taxes; elimination of fuel subsidies and reducing other subsidies and transfers; and the introduction of wage and hiring restraint mechanisms. Furthermore, a levy of 7 percent on online purchases of goods and services from overseas retail companies will be effective from September 01, 2016. In addition, the capital investment program for fiscal year 2016 was reduced by 14.2 percent from the previous fiscal year and has been re-prioritised, refocused and, where necessary, consolidated towards areas and activities that will stimulate growth and achieve economic and social transformation.

The government has also made major efforts towards improving revenue administration, and proposes to establish a unified revenue authority in the near future. This will facilitate greater information sharing among revenue agencies, tighten rules on transfer pricing, and increase resources devoted to tax enforcement, which over time are expected to substantially increase revenue yields. This has been done in conjunction with amendments to several pieces of pertinent legislation, facilitating the required fiscal measures, including the passage of the Finance Act No.1 of 2016 in February and the Finance Bill No.2 of 2016, which is expected to be passed later this month. The government has also instituted steps to establish a "General Accounting Office", which will be responsible for the continuous real-time assessment of actual budget performance, and is also in the process of establishing a Tax Policy Unit, with technical assistance (TA) from the Fund.

The authorities have also commenced discussions with the energy industry on reforming energy taxes, and have requested TA from the Fund in this area as well. As noted in the MYBR, the removal of fuel subsidies have commenced and will be carried out in a phased manner, using the savings to improve the social safety nets and reduce transportation costs for low-income groups. The authorities also propose to implement a new pricing mechanism that will allow world oil price changes to pass through to local fuel prices.

Given the significant level of consolidation required, the authorities noted the importance of public support to ensure the success of the required adjustment. Accordingly, they have increased efforts to enhance transparency and consultations on a regular basis, and inaugurated a National Tripartite Advisory Council in March 2016 consisting of stakeholders from the government, private sector and labor sector.

Going forward, fiscal policy will continue to be focused on ensuring sound public finances while remaining supportive of policies for sustainable and balanced growth. In particular, measures to improve the quality and efficiency of public service delivery will be complemented by socio-economic support to vulnerable households. The authorities in collaboration with the World Bank have undertaken a comprehensive review of social expenditures to reduce costs and improve program efficiency, without sacrificing the social safety nets needed to protect the most vulnerable.

Monetary and Exchange Rate Policy

While monetary policy is primarily aimed at controlling inflation, which remains well contained, the Central Bank of Trinidad and Tobago (CBTT) follows a multiple policy objective framework, which provides much needed flexibility in light of the volatile global environment. The policy rate of 4.75 percent as of December 2015 is assessed to be appropriate given the balance of risks to the outlook for domestic inflation and growth, as well as taking into consideration the downside risks emanating from the external environment. The CBTT Monetary Policy Committee (MPC) continues to closely monitor the heightened external risks and assess the implications on macroeconomic and financial stability.

The exchange rate policy is aimed at minimizing market volatility, and is reflective of supply and demand conditions in the foreign exchange market. Going forward the policy would also be guided by the presumption that the terms of trade shock is permanent. Reflective of supply and demand conditions in the foreign exchange market, the TT dollar exchange rate has begun to depreciate against the US dollar since the end of 2015. Official intervention in the foreign exchange market will continue to take place via biweekly auctions, and the rate and volumes at each intervention will continue to be informed by economic conditions at the time, particularly anticipated foreign exchange inflows and outflows.

In April 2016, the government announced that the TT dollar would not be allowed to depreciate more than 7 percent from its September 2015 level. The authorities emphasize the need for caution in light of the on-going fiscal consolidation coupled with the significant austerity measures being undertaken to protect macroeconomic stability. The impact of a swift depreciation of the exchange rate could result in significant inflationary pressures, increases in wage pressures and even lead to labor unrest. Consequently, the government has given assurances that the currency will not become unstable and that monetary and fiscal policies will be conducted to support the level of depreciation signaled above.

Regarding the Article VIII issue, the authorities maintain that they have not "*imposed restrictions on the making of payments and transfers for current international transactions*" nor "*have their official exchange rate used by the CBTT for government transactions deviated by 2 percent or more from the prevailing market exchange rate*", and therefore do not agree that their exchange rate policy gives rise to exchange restrictions and multiple currency practices.

While the IMF staff has noted that there is a shortage of foreign currency in the market, there was no evidence that the authorities had imposed a restriction on making payments and transfers. Trinidad and Tobago *de facto* exchange rate regime is classified as a stabilized arrangement by the Fund. The aggregate data collected from the financial institutions on a daily basis illustrates that there has generally been a distributional problem among the commercial banks themselves leading to the formation of occasional queues, and in such circumstances the CBTT will make special interventions to clear the queues. In this regard, at the conclusion of the Article IV consultation, the Minister of Finance specifically requested TA from the Fund to analyze the issues surrounding the foreign exchange market and to find a suitable resolution to the assumed distributional issue.

Financial Sector Reform

The authorities recognize that there have been delays in passing important financial legislation, including the Insurance Bill, which pose certain risks to the financial sector. Therefore, as a matter of priority, they are committed to rectifying this problem and intend to lay the Insurance Bill and the Credit Union Bill in Parliament shortly. It should be noted that the long outstanding Procurement Bill has been enacted and the necessary regulations and amendments are in train to effect the proclamation of the Act. This should be finalized by the end of 2016. The authorities are also reviewing several other pieces of legislation, including the Financial Intelligence Unit Act and the Central Bank Act to align them with international best practice and will bring to Parliament their full legislative agenda, within the current fiscal year.

The authorities are also committed to addressing all AML/CFT shortcomings arising from the recently conducted Caribbean Financial Action Task Force (CFATF) evaluation and continue to take the necessary action to further strengthen the AML/CFT framework.

Pertaining to the long-standing issues related to CL Financial, the authorities continue to progress the resolution of this matter and the plan entails the sale of a number of assets in order to satisfy long outstanding liabilities in the context of the Memorandum of Understanding signed in 2009. Subsequently, the traditional insurance portfolio will be divested in an orderly fashion.

Structural Reforms

Trinidad and Tobago has earned a reputation as an excellent investment destination for international businesses and has one of the highest per capita incomes in Latin America and the Caribbean. Nonetheless, the authorities recognize that diversification is absolutely critical to ensure long term economic growth and sustainability. As such, they are determined to push ahead with the diversification drive to ensure a socio-economic environment that is attractive to domestic and foreign investment. Taking into account policy constraints, the authorities have targeted initiatives in areas that can deliver the greatest growth return within these constraints.

The diversification strategy is centered around international financial services, tourism and related maritime activities. The authorities have commenced discussions with several foreign investors pertaining to a set of integrated projects which include the expansion of the international financial centre, a new commercial port, a maritime and shipbuilding complex, an industrial park and the development of Special Economic Zones.

Trinidad and Tobago is well positioned to establish a viable and robust maritime economy. An initial step is the establishment of a maritime maintenance facility to meet the requirements of the existing fleet of government-owned naval and maritime assets. Such a facility will catalyze the development of a ship-repair and ship-building industry, eventually emerging as a hub within the CARICOM region, thereby creating a New Maritime Economy.

A Tourism Growth Strategy is currently being developed along with the reconvening of the Trinidad Tourism Standing Committee. The strategy will inform the direction of the industry, and address major issues impacting tourism development, such as airlift, marketing, product development and destination management. Tourism development will also be facilitated through the Tobago Comprehensive Development Plan, which sets out a road map for the development of the island, towards ensuring that the tourism sector becomes an important driver of economic growth.

Public-Private Partnerships (PPPs) will continue to play a major role in infrastructure development. The authorities have made provisions to support the growth and development of the technical and operational aspects of PPP arrangements. Trinidad and Tobago is already utilizing PPPs to deliver public infrastructure services in several areas, including health, education and ICT (Information and Communication Technologies). Technical capabilities are being incorporated into a number of government ministries and the authorities intend to continue using PPPs when establishing long-term contracts with investors for infrastructure development. In addition, the authorities remain committed to the implementation of a modern, transparent and fair public procurement system. They are currently in the process of conducting a review of the existing legislation and expect to table the appropriate amendments and institute the New Procurement Agency in 2016.

The authorities are also assessing a number of work programs, in particular CEPEP and the Unemployment Relief Program (URP), with the objective of achieving cost efficiencies and streamlining the operational framework to ensure value-added output. Moreover, the government has established a High-Level Committee to oversee the reform of the Government Assistance for Tuition Expenses (GATE), to rationalize expenditure and ensure that program objectives are aligned with the country's development needs. In an effort to promote a competitive and productive industrial relations climate, the authorities have undertaken a comprehensive review of all labor legislation, including the Industrial

Relations Act and the Retrenchment and the Separation Benefits Act.

Despite ongoing diversification efforts, the authorities recognize that the energy sector remains their major source of revenue and must continue its development. During the last five years, fiscal incentives were provided for the sector. However, there were no specific incentives that targeted the development of small and marginal gas fields. These are important resources which can make a significant contribution to addressing the current supply/demand imbalance. Accordingly, the government has initiated discussions with all relevant stakeholders on the adoption of appropriate strategies and incentives, which will result in new production in these fields. They will also move forward with a comprehensive review of existing arrangements along the natural gas value chain and, where necessary, implement appropriate measures on key aspects of the oil and gas sector.

Pertaining to outstanding data deficiencies, the authorities have made considerable progress – within a very short space of time – towards the establishment of an independent and autonomous National Statistical Institute (NSI). The required legislation establishing the NSI is expected to be passed in 2016. In collaboration with CARTAC, the operational efficiency of the Central Statistical Office has greatly improved as data backlogs have been significantly reduced, along with the generation of new time series data.