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Trinidad and Tobago: 2007 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Trinidad and Tobago.

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

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 20, 2007, 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 August 17, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of September 10, 2007 updating information on recent economic developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 11, 2007 discussion of the staff report that concluded the Article IV consultation.

- Statement by the Executive Director for Trinidad and Tobago.

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

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INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Trinidad and Tobago

Approved by José Fajgenbaum and Scott Brown

August 17, 2007

Discussions. M. Alier (head), P. Berkmen, I. de Carvalho Filho (all WHD), and C. Schiller (FAD) visited Port-of-Spain, during July 10–20, 2007. Mr. Samuel (OED) participated in several meetings and J. Fajgenbaum (WHD) joined the team for the final discussions.

Regional Context. Endowed with large oil and gas reserves, Trinidad and Tobago has the second highest GDP per capita in Latin America and the Caribbean, although inequality and poverty rates are only at about regional averages. It is also a major regional financial center in the Caribbean.

Economic Setting. Economic activity remains robust. The balance of payments and the government balance sheet have strengthened due to the high energy prices. However, the nonenergy deficit exceeds the medium-term sustainable level. Inflation has declined but remains moderately high.

Political Setting. The political scene is divided largely along ethnic lines, complicating policy making. The next general elections are due by January 2008.

Consultation Focus. Given the generally favorable economic situation, this year's consultation was streamlined. The consultation focused on the key policy challenge of implementing a prudent mix of macroeconomic and structural policies to support an orderly absorption of energy revenues over time, while taking into consideration the intergenerational aspects associated with the exploitation of exhaustible resources. Special attention was paid to the authorities' economic diversification strategy, and developing a medium-term public finances management framework.

Past Fund Advice. Control of excess liquidity through increased foreign exchange sales and open market operations, and modifications to the Heritage and Stabilization Fund bill have been in line with Fund advice. Technical progress has been made towards implementing the recommendations of the 2005 FSAP. The authorities have been less receptive to calls for lowering the nonenergy budget deficit to medium-term sustainable levels, and introducing greater exchange rate flexibility.

Exchange Arrangement. Classified as a conventional peg. Trinidad and Tobago has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

Trinidad and Tobago statistical database is broadly adequate for surveillance. However, some data weaknesses need to be addressed to support the quality of economic and financial analysis. Trinidad and Tobago began participation in the General Data Dissemination Standards system in September 2004.

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I. RECENT ECONOMIC DEVELOPMENTS

1. **Trinidad and Tobago's economic performance has been remarkable in a regional context and in comparison to other energy producing economies (Figures 1–2).** In the last four years, output doubled in U.S. dollar terms, net foreign assets have improved by the equivalent of a year's GDP, and public debt declined considerably. By contrast, inflation rose and reliance on energy revenues increased.

2. **Economic activity remains robust, supported by the strength of the energy sector, with signs that the economy is operating at full capacity (Figures 3–4).** In 2006, real GDP grew 12 percent, led by a double-digit expansion of the energy sector. Despite a temporary reduction in energy output early this year, the economy is expected to grow by some 6 percent in 2007. The nonenergy sector is projected to grow at about 7½ percent on the continued strength of construction and manufacturing, and supported by government spending and the expansion of credit to the private sector. Emerging capacity constraints and labor shortages represent a downside risk.

3. **The external accounts are solid and net foreign assets continue to accumulate at a rapid pace (Figure 5).** In 2006, the current account posted another strong surplus—26 percent of GDP—and FDI flows remained healthy, while portfolio outflows accelerated. International reserves, including deposits in the Heritage and Stabilization Fund (HSF), continued to accumulate rapidly, reaching US$6.5 billion. In 2007, the current account surplus will narrow reflecting higher imports of capital goods related to large scale projects financed with FDI. Net foreign assets are projected to turn positive.

4. **The government's balance sheet continues to strengthen but the underlying fiscal position is unsustainable (Figure 6).** In FY 2005/06, the central government's budget surplus increased to 7 percent of GDP, its gross debt fell to 18 percent, and deposits in the HSF reached 8 percent. The rapid increase in public spending widened the nonenergy deficit to 15 percent of GDP—exceeding the medium-term sustainable level (Box 1). In FY 2006/07 the budget surplus is projected to decline to 4 percent of GDP, and the nonenergy deficit to further increase to 16 percent, owing to higher public investment. Capital spending by public enterprises has increased rapidly in recent years owing to investments in infrastructure for the gas processing industry. Looking forward such spending is projected to remain high as Petrotrin's refinery needs to be upgraded to remain competitive. The government has continued to work on a fiscal reform agenda to improve the quality of fiscal policy (Text Table). Since the last consultation, the main development in this area was the approval of the HSF Act (Box 2 in IMF Country Report No. 07/10).

Text Table: Status of Structural Fiscal Initiatives

Project	Status
Heritage and Stabilization Fund (HSF): Sovereign wealth fund with intergenerational saving and stabilization objectives.	Approved in Parliament. Its board has been appointed. Investment guidelines to be finalized by September.
Tax Policy Unit in the Ministry of Finance.	Awaiting Cabinet approval.
Revenue Authority: The Revenue Authority will encompass the Customs and Inland Revenue Board.	Legislation being drafted.
Local Government Reform: Sharing of revenues and expenditure responsibilities with local governments.	Consultation with stakeholders ongoing.
Pension Reform: Marginal changes in pensions, based on recommendations in latest actuarial review.	Proposals are still to be sent to the Ministry of Finance.
Land and Building Tax Reform	Tied-up to the local government reform.
Capital Gains Taxation	Under study.

5. **Demand pressures continue despite efforts to tighten liquidity conditions.** Strengthened monetary management and improved policy coordination with the treasury allowed the central bank (CBTT) to regain control over liquidity (Figure 7). The CBTT raised the policy rate to 8 percent in October (for a cumulative 300 bp increase since early 2005). Open market operations intensified, the ceiling on CBTT sales of treasury bills increased, and the treasury bill rate was allowed to rise. Foreign exchange sales were stepped up reaching US$1.5 billion in 2006 and the unsatisfied demands for foreign exchange that emerged in early 2006 disappeared. Liquidity management was also assisted by the placement of TT$2.4 billion in long-term treasury bonds in the domestic market. Nevertheless, bank credit to the private sector continued to grow rapidly (19 percent), albeit at a more moderate pace than in 2005. The banking system remains well capitalized and profitable (Figure 8).

6. **Inflation has eased considerably in recent months** (Figure 9). Since October, headline inflation fell from a peak of 10 percent to 7.3 percent in June, and core inflation has stabilized at about 4½ percent. These favorable developments reflect the tightening of liquidity as well as measures to increase competition in food distribution, including removing the common tariff on a range of basic food items. There have been calls for price controls to address rising food prices, rents, construction costs, and real estate prices. Inflation expectations are not well anchored and wage settlements are starting to carry a cost of living adjustment (COLA) clause.

7. **The real exchange rate misalignment has narrowed but remains significant.** The TT dollar appreciated 4½ percent in real effective terms in 2006 as domestic inflation exceeded that of trading partners. However, improved terms of trade, increased NFA, and rapidly growing public spending raised somewhat the equilibrium real exchange rate (Box 2). Staff estimates indicate that the real exchange rate misalignment narrowed to 10–15 percent from 15–20 percent a year ago. These estimates are subject to larger than usual uncertainties given that Trinidad and Tobago is a large exporter of nonrenewable resources. For instance,

the fact that wage pressures in the nonenergy sector have been moderate suggests that the undervaluation of the TT dollar may not be that large.

II. Report on the Discussions and Medium-Term Outlook

8. **The discussions focused on the need to pursue macroeconomic and structural policies designed to use the energy buoyancy to promote long-term growth while strengthening macroeconomic stability.** Special attention was given to the macroeconomic implications of the authorities' diversification strategy, and the need to develop a medium-term fiscal framework.

9. **Fiscal issues.** The mission stressed the need for a tightening of fiscal policy to avoid overheating the economy, and for medium-term fiscal sustainability considerations. It recommended that the nonenergy deficit be brought down gradually from 16 percent of GDP projected for FY 2006/07 to 10 percent of current GDP in FY 2009/10, a level compatible with medium-term sustainability.[1] It suggested to start this process by targeting a 2–3 percentage points of GDP reduction in FY 2007/08. To this end, the mission encouraged the authorities to phase out fuel and utility subsidies while strengthening the social safety net to protect the poor. The authorities' indicated that medium term sustainability projections may be too conservative as more gas reserves are expected to be discovered. Nevertheless, the authorities agreed on the need to contain public spending growth from a demand management perspective. They intend to save revenues above the level projected in the budget supplementary bill and plan to keep public expenditure constant in real terms in FY 2007/08. This would reduce the nonenergy deficit by 1¼ percent of GDP. The authorities noted that fuel and utility subsidies could be reviewed next year.

10. **Public finance management issues**. The mission recommended adopting a medium term framework (MTF) to link the annual budget with medium-term sustainability objectives and long-term development plans. The authorities expressed interest and are considering to adopt such a framework with the FY 2008/09 budget. The mission welcomed the approval of the HSF bill and recommended to follow successful international experiences in the development of the HSF investment guidelines. The authorities intend to invest all HSF resources in foreign assets despite the provision in this regard having been dropped from the HSF Act. Regarding liability management, the mission endorsed the plan to strengthen the debt management unit at the Ministry of Finance and the CBTT's initiatives' to promote the development of local financial markets, including creating the conditions for the

[1] The authorities' Vision 2020—Operational Plan 2007–10 envisages a similar adjustment.

development of a secondary market for government securities.[2] The CBTT is studying the possibility of diversifying the investment of the portion of its international reserves that are in excess of optimal prudential levels.

11. **Monetary and financial issues.** The mission commended the improved monetary policy management, but noted that the risk of excess liquidity will remain a concern for as long as the nonenergy deficit remains large. The authorities concurred and reassured the mission that they are following developments closely. The mission recommended to resist calls to introduce price controls and to discourage the incipient practice of introducing COLA clauses in wage settlements. The authorities indicated that they do not intend to introduce price controls, but that a plan to support the agricultural sector will be announced soon. The mission noted that the banking sector health indicators remain strong but urged the authorities to closely monitor developments in the nonbank financial sector, in particular the rapidly growing mutual funds industry. Legislation to update the financial system's regulatory and supervisory framework will be submitted to parliament by year-end, incorporating a number of recommendations in the 2005 FSAP (Appendix I). Draft legislation to address the challenges identified in the evaluation by the FATF-style organization of the Caribbean (CFATF) has been prepared. While it waits for approval, compliance with the CBTT guidelines in this area is regularly assessed.

12. **Exchange rate issues.** The mission noted that even after acting on fundamentals through the fiscal adjustment described above, further real exchange rate adjustment might be inevitable. Thus, the mission recommended allowing a nominal appreciation of the TT dollar, as a means to accelerate convergence to the equilibrium real exchange rate and facilitate achieving the CBTT's inflation objective. The authorities concurred that a correction of the real exchange rate will continue to take place. However, they noted that supply side constraints are one of the underlying causes of inflation. They stressed, therefore, that for a nominal appreciation to be effectively translated into lower domestic prices while preserving the competitiveness of the nonenergy sectors, it would need to be supported by the removal of infrastructure bottlenecks, particularly in transportation. The mission noted that in recent years the real exchange rate measured by unit labor costs has depreciated substantially, and therefore the industrial sector should be in a condition to absorb a more appreciated currency, provided that wage increases maintain competitiveness. The authorities questioned the usefulness of real exchange rate misalignment measures for commodity exporters, especially for exporters of exhaustible resources.

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[2] These include creating electronic depository houses connected to a real time gross settlement system and to a trading platform at the TTSE (Stock Exchange), dematerializing government securities, and making the CBTT only registrar of government bonds.

13. **Economic diversification.** The government has been very active in promoting economic diversification to reduce dependency on energy resources. The mission recommended to focus efforts on creating the conditions for the development of sectors that are viable over the medium term without permanent government subsidies. The authorities agreed in principle, but indicated that industrial policies are needed to promote diversification. There was general agreement on the need to focus the government's effort on implementing structural reforms, addressing infrastructure bottlenecks, improving the business environment, increasing regional integration, and developing human capital.

14. **The medium term outlook remains favorable and vulnerability to external shocks seems limited under current policies (Table 7-Baseline Scenario).** Under the current outlook for energy prices, output growth would converge to 4 percent over the medium term, but a key challenge would be to lower inflation. The current account surplus would narrow but remain sizable, as the narrowing trade balance owing to higher imports is offset by rising factor services income. The net foreign assets position will continue to increase to about 60 percent of GDP by 2011. A large and persistent decline in energy prices is the main risk but the high level of reserves and low external debt provide a comfortable cushion to weather such shock well in the short- and medium-term.

15. **Stronger long-term growth with less vulnerabilities could be achieved by tightening fiscal policy consistent with long-term considerations (Table 7-Policy Scenario).** Although current macroeconomic policies are financially sustainable over the next decade, it would be important that fiscal policy be guided by intergenerational wealth distribution considerations associated with the exploitation of nonrenewable natural resources, which in the case of Trinidad and Tobago are expected to last for about 20 years. The inflation outlook could be improved by facilitating a correction of the real exchange rate through a nominal appreciation of the TT dollar. Under this scenario, a major fiscal adjustment would be avoided at the time when energy resources are exhausted as the public sector would accumulate sizable net assets; potential output growth would be boosted as more space is created for private investment and the private sector access cheaper imports of capital goods; inflation pressures would ease and bringing inflation back to international levels in the short-term would be feasible; and the current account surpluses would narrow faster but remain sizable, portfolio outflows would decline, and the rapid accumulation of international reserves would continue.

III. Staff Appraisal

16. **Trinidad and Tobago is rightly aiming at using energy resources to reach ambitious development goals before energy reserves are exhausted.** Key to this goal is the transformation of the energy wealth into a balanced combination of external financial assets, and physical and human capital. The challenge is to implement a prudent mix of

macroeconomic and structural policies, as this is essential to support an orderly and efficient absorption of the increased energy earnings over time.

17. **Long-term fiscal sustainability analysis and signs that the economy is operating at capacity indicate that the policy mix needs to be adjusted by tightening fiscal policy**. For the short-term, staff recommends saving any revenue overperformance to help contain demand pressures. For the medium to long-term, a nonenergy deficit of 10 percent of current GDP is needed to prevent large policy reversals when energy income declines. A gradual tightening is recommended to avoid disruptions in the economy. Staff recommends to target a 2–3 percentage points of GDP reduction in the nonenergy deficit in the FY 2007/08 budget and to bring it down to the level just mentioned by FY 2009/10. The recommended tightening would ideally be implemented in the context of phasing out the current fuel and utility subsidies while strengthening the social safety net to protect the poor.

18. **Adopting an MTF would facilitate this process and allow a more efficient management of public resources.** An MTF would assist in linking the annual budget with medium-term sustainability objectives and long-term development plans. Staff welcomes the authorities' intention to request technical assistance from the Fund in this area, and encourages them to start adopting an MTF in the context of the FY 2008/09 budget.

19. **Staff welcomes the approval of the HSF Act as a means to facilitate an efficient transformation of energy wealth into financial wealth.** The authorities are encouraged to examine successful international experiences as they develop the HSF investment guidelines. Staff supports the plan to strengthen the debt management unit at the Ministry of Finance, and the CBTT's initiatives to promote development of the local capital markets.

20. **Significant improvements in monetary policy management helped curb inflation.** The authorities will need to follow developments closely because, for as long as the nonenergy deficit continues to be large, there would be a need to mop up excess liquidity to contain inflation. Foreign exchange sales and open market operations would continue to be the first line of defense, while continued policy coordination with the Ministry of Finance is crucial to keep liquidity under control. Staff supports efforts to improve supply conditions in food markets and encourages the authorities to resist pressures to introduce price controls, as such controls are distortionary and usually ineffective. The incipient practice of establishing COLA clauses (indexation) in wage settlements needs to be discouraged, as they entrench inflation.

21. **The buoyancy of the energy sector inevitably puts upward pressure on the equilibrium real exchange rate.** A tighter fiscal policy stance and further opening the economy within the constraints of CARICOM would limit the real appreciation of the TT dollar. Monetary and exchange rate policies can affect whether the adjustment in the real exchange rate occurs through nominal appreciation, or through higher inflation than in

trading partners. Staff recommends allowing for a more appreciated TT dollar as a means to accelerate convergence to the equilibrium real exchange rate and to facilitate achieving the CBTT's inflation objectives. Efforts to remove infrastructure bottlenecks are important to support this policy. The depreciation of the real exchange rate measured by unit labor costs in recent years suggest that the industrial sector should be in a condition to absorb a more appreciated currency, provided that wage increases are in line with productivity gains.

22. **There are no indications of external instability and the balance of payments position is unlikely to give rise to disruptive exchange rate movements.** Except for the estimated exchange rate misalignment, other indicators of external instability listed in the 2007 Surveillance Decision do not suggest the potential for such instability. The sizable current account surplus is consistent with the need to accumulate foreign assets to smooth consumption once energy resources are exhausted.

23. **Success of the government's economic diversification efforts hinges on adequately preparing the economy for the eventual exhaustion of energy resources.** Continued efforts are needed to create the conditions for the development of industries that are viable over the medium term without permanent government subsidies. Staff recommends focusing on addressing infrastructure bottlenecks, improving the business environment, increasing regional integration, and developing human capital. Staff urges the authorities to attach priority to submitting to Parliament draft legislation to strengthen the financial sector regulatory and supervisory frameworks. This legislation is essential to ensure a healthy expansion of this key sector, and achieve the objective of becoming an international financial center.

24. **The staff recommends that the next Article IV consultation be held on the standard 12-month cycle.**

Box 1. Fiscal Sustainability[1/]

Medium-term fiscal projections indicate that the sustainable nonenergy deficit is no greater than 10 percent of current GDP. Such deficit would allow the government to build enough assets, before energy resources are exhausted, to finance indefinitely a nonenergy deficit constant in real terms. The corresponding sustainable primary expenditure is 38 percent of nonenergy GDP, substantially lower than the 51½ percent envisaged in the FY 2006/07 budget.

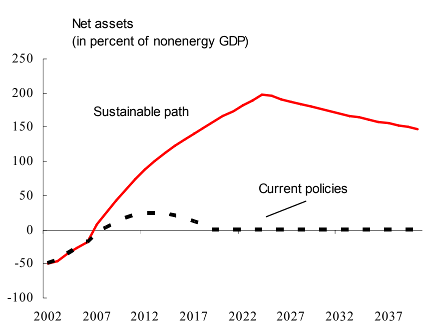
This result is based on the following assumptions:

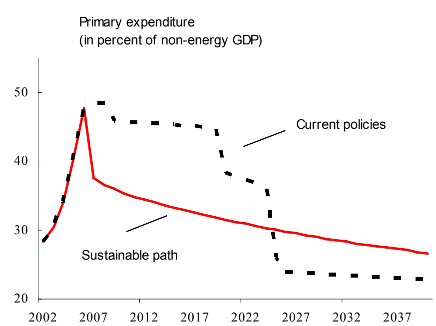
- energy prices as in the May 2007 WEO baseline until 2012, then they converge towards a long-term value of US$45/bbl in real terms (in line with the oil price used in the budget in recent years);
- proven, probable and possible reserves are assumed to have extraction probabilities of 100 percent, 75 percent, and 50 percent;
- the real rate of return on the government's financial assets is 4 percent;
- energy revenue in the long run is 27 percent of natural gas and oil production value;
- nonenergy revenue over the long term equals to 21 percent of nonenergy GDP.

The result is robust. The sustainable nonenergy deficit would be:

- 11 percent if long-term energy prices were 10 percent higher than in the baseline;
- 7 percent if only proven reserves were to materialize;
- 12 percent if probable and possible reserves were fully extracted;
- 8 percent if the real return on the government's financial assets were 3 percent.

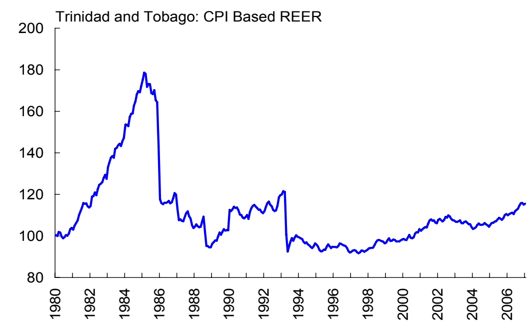
Maintaining the nonenergy deficit at current levels would involve a drastic fiscal adjustment of about 25 percent of nonenergy GDP in the five year period after 2020. Given that the tax burden on the nonenergy sector is in line with similar countries the brunt of the adjustment would need to fall on primary spending.



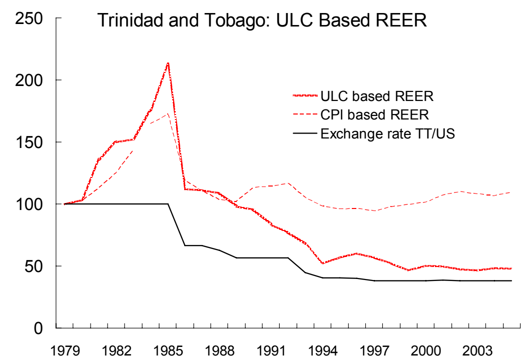


[1/] For a description of the medium-term fiscal sustainability framework and a discussion on alternative criteria, see the Selected Issues Paper prepared for the 2006 Article IV consultation (IMF Country Report No. 07/8).

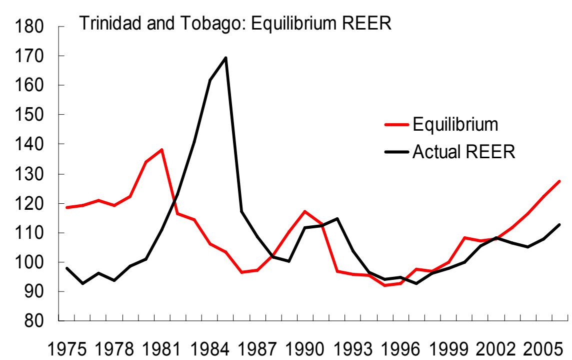
Box 2. Real Exchange Rate Developments



The TT dollar has continued to appreciate. Although the CPI-based real effective exchange rate (REER) has presented low volatility since the devaluation of 1993, the steady appreciation that started in the late 1990s has accelerated in recent years (11 percent since the beginning of 2004), and the REER is almost back to the pre-devaluation level.



The increase in energy earnings is the main cause leading the appreciation. The energy sector accounts for 45 percent of Trinidad and Tobago's GDP and 91 percent of exports. Consequently, the energy sector buoyancy of recent years led to a sharp increase in net wealth, thereby moving upward the equilibrium real exchange rate. Given the de facto fixed exchange rate vis-à-vis the U.S. dollar, the appreciation has occurred through a widening in the inflation differential between Trinidad and Tobago and its trading partners.

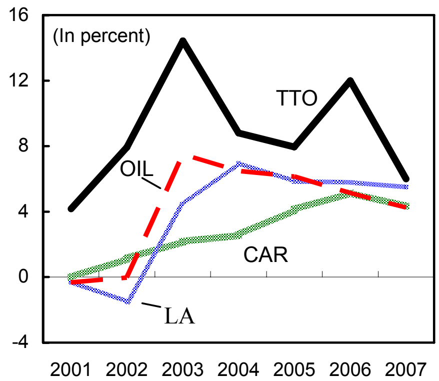


At the same time, Trinidad and Tobago's unit labor costs (ULCs) have declined faster than those of its trading partners, implying a competitiveness gain in the manufacturing sector. This decline has been more pronounced in the nonpetrochemical sectors, allowing them to mitigate the adverse effects related to the REER increase. In contrast with previous oil price booms, Trinidad and Tobago's ULCs have continued to improve in recent years.

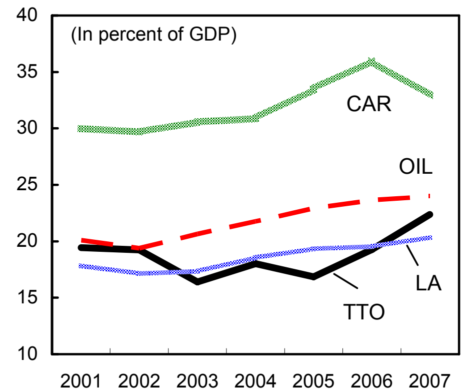
Econometric methods to estimate equilibrium real exchange rates based on economic fundamentals suggest that the TT dollar was undervalued by about 10–15 percent in 2006, slightly less than the 15–20 percent undervaluation estimated in the 2005 and 2006 Article IV consultations. The long-run relation is estimated using a cointegrating vector, estimated by the Johansen maximum likelihood method, based on the following fundamentals: NFA as a share of trade, productivity relative to trading partners, terms of trade, government consumption as a share of GDP, and trade restrictions index. The error correction term is also statistically significant, indicating that the short-term deviations from the equilibrium tend to revert. Although the TT dollar has appreciated recently, the sustained improvement in the terms of trade, in NFA position and in productivity have led to a further increase in the equilibrium real exchange rate.

Figure 1. Trinidad and Tobago: Macroeconomic Performance in a Regional Context 1/

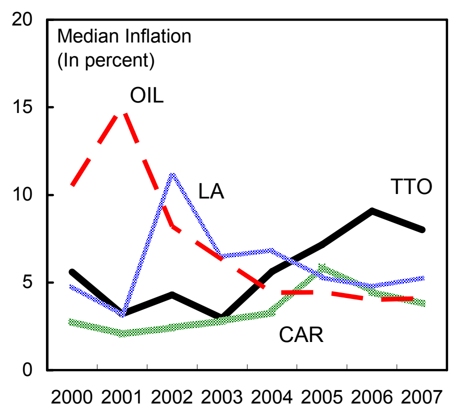
Trinidad and Tobago has experienced strong growth by regional standards in recent years...



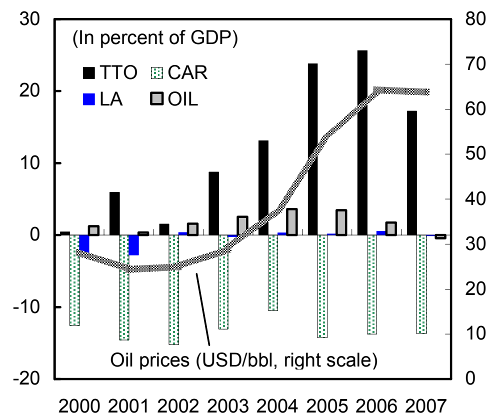
...and investment has recently picked up, but it is still low relative to other Caribbean countries.



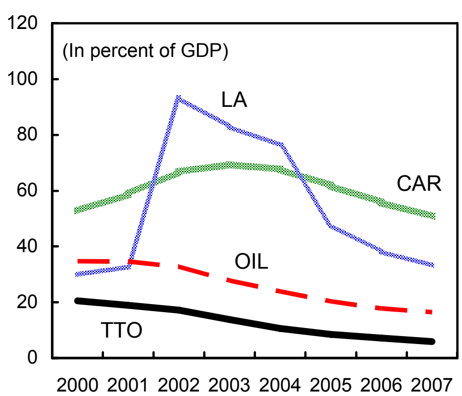
Inflation has increased since 2004 in contrast to other countries in the region.



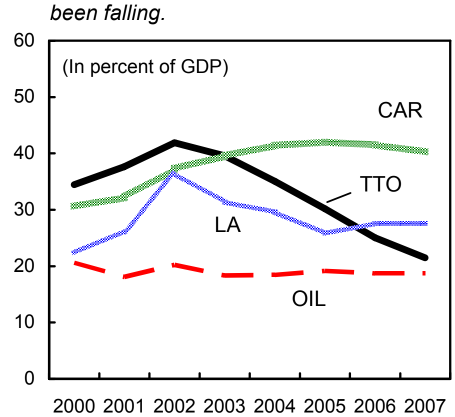
The current account has greatly benefited from high energy prices.



Trinidad and Tobago's external public debt is low and declining...



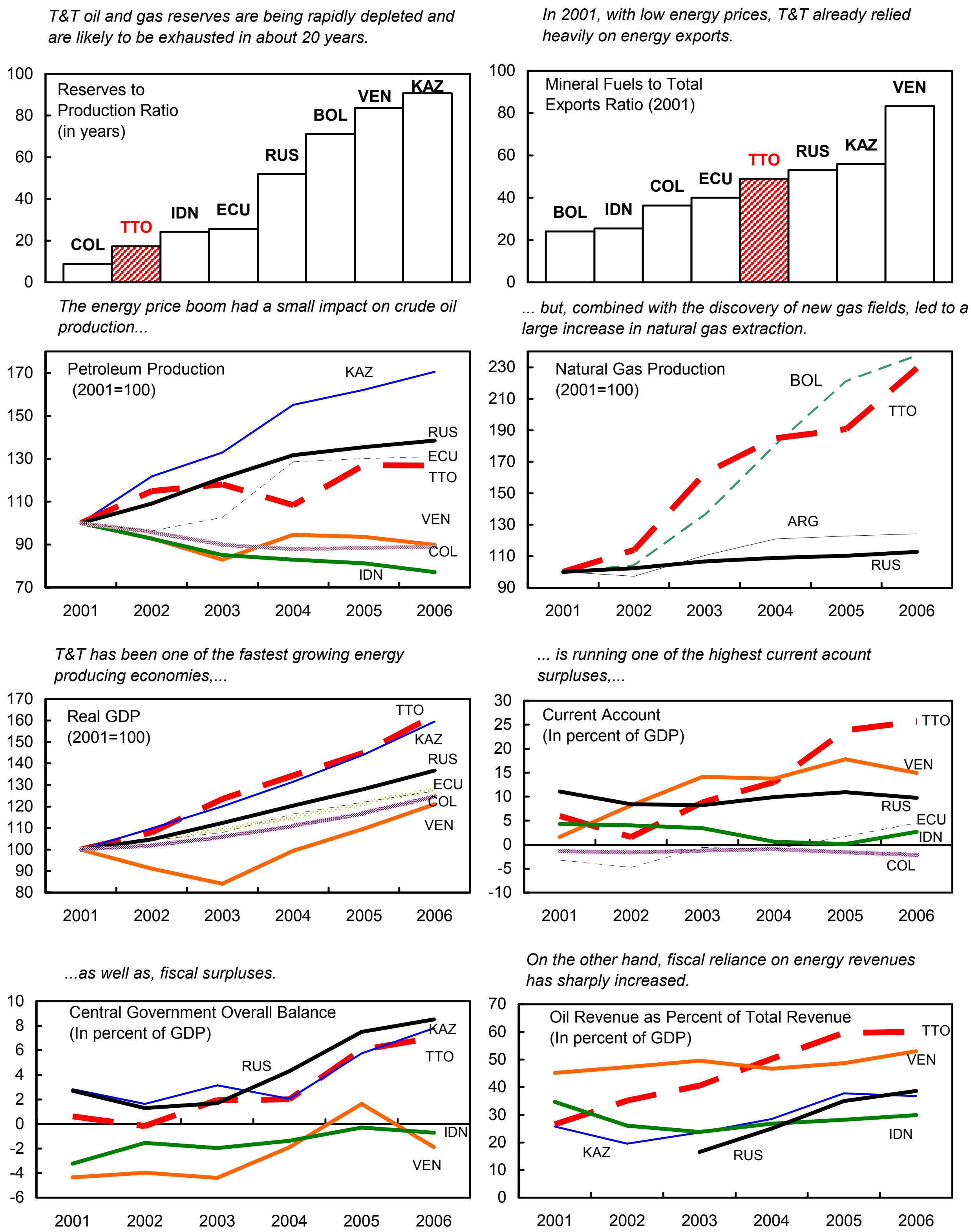
...and its domestic public debt has also been falling.



Source: Fund staff projections.

1/ The comparison includes Trinidad and Tobago (TTO) and the following regions or groups of countries: the Caribbean (CAR; including Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St.Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), oil-producing countries in Latin America (OIL; including Colombia, Ecuador, Mexico, and Venezuela), and other Latin American economies (LA; including Argentina, Brazil, Chile, Costa Rica, Peru, and Uruguay).

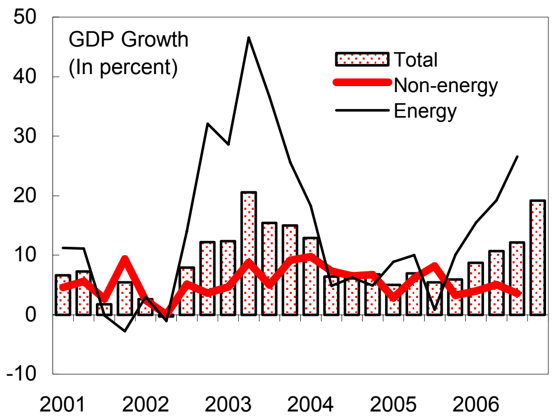
Figure 2. Trinidad and Tobago: Performance In the Context of Energy Producing Economies



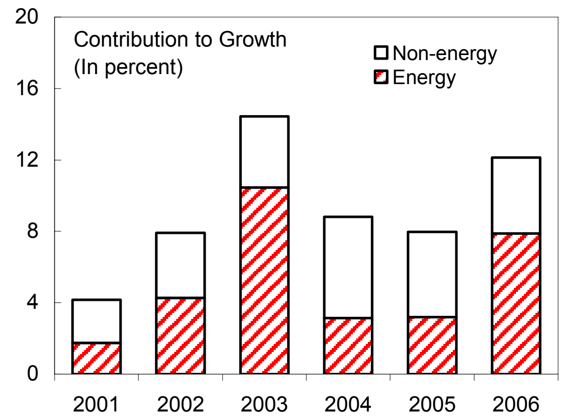
Sources: British Petroleum; IMF Staff Reports; IMF/WEO; and Fund staff estimates.

Figure 3. Trinidad and Tobago: Real Sector Developments

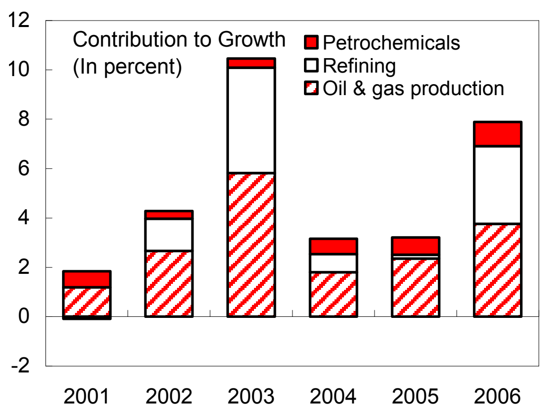
In 2006 economic growth accelerated,...



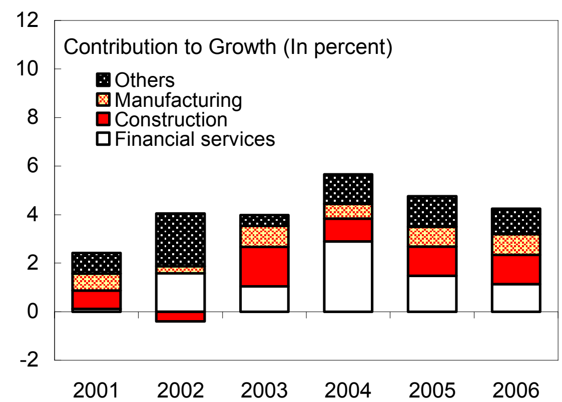
... led by the energy sector.



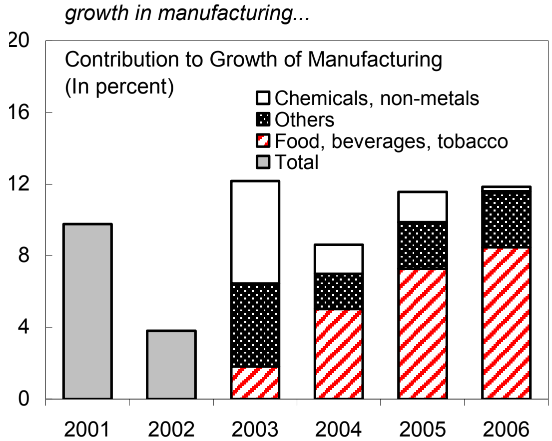
Output in the energy sector has benefited from a steady expansion in gas extraction rates.



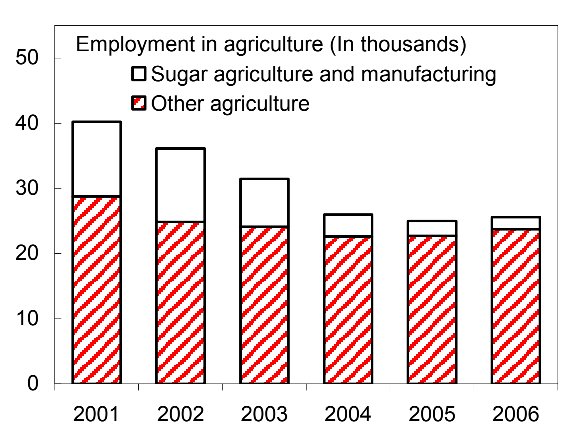
Financial services, construction and manufacturing have driven growth in the nonenergy sector.



Food, beverages and tobacco have contributed to growth in manufacturing...



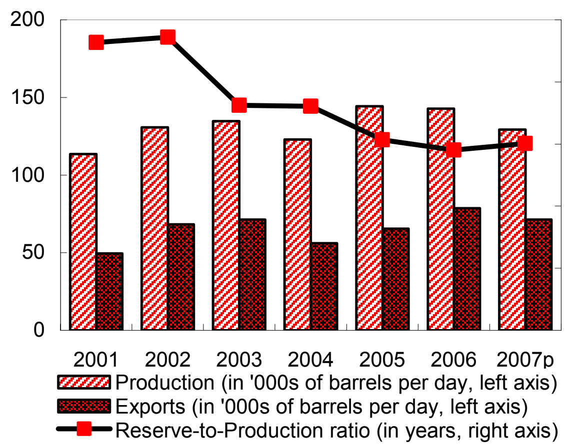
... despite the shut down of the sugar sector.



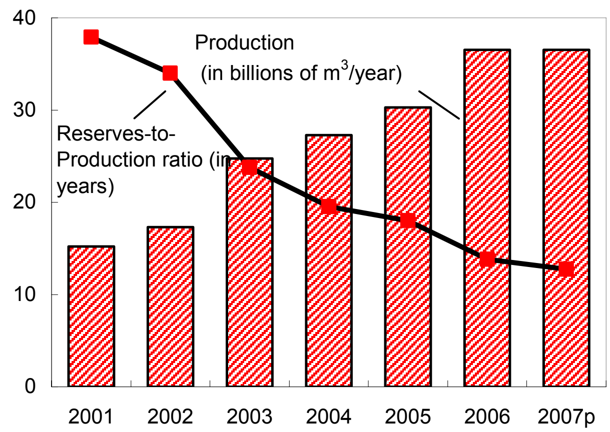
Sources: Central Bank of Trinidad and Tobago; Central Statistical Office; and Fund staff estimates.

Figure 4. Trinidad and Tobago: Energy Sector Developments

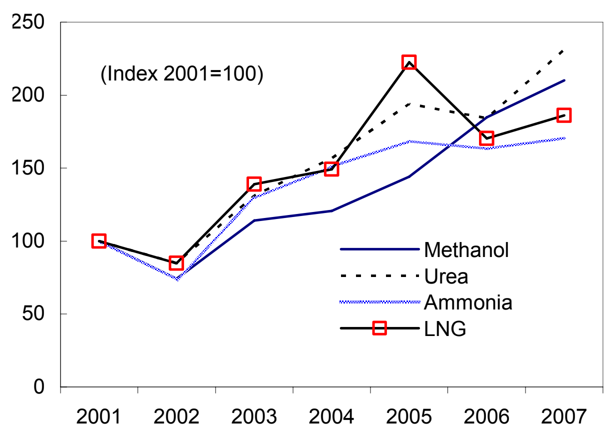
T&T's crude oil production is expected to decline in 2007 owing to temporary technical problems in one of its fields.



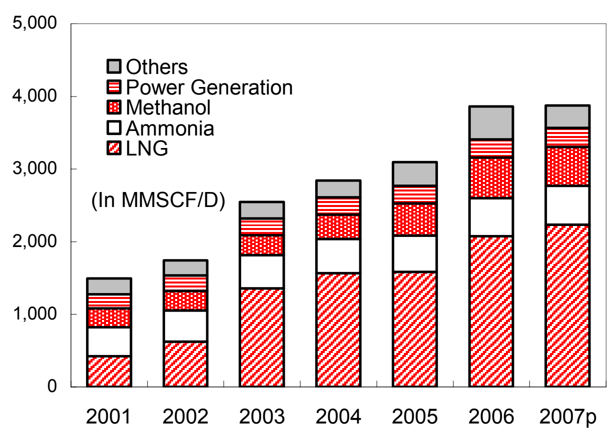
Natural gas production has soared in recent years and there are concerns that reserves are being depleted fast.



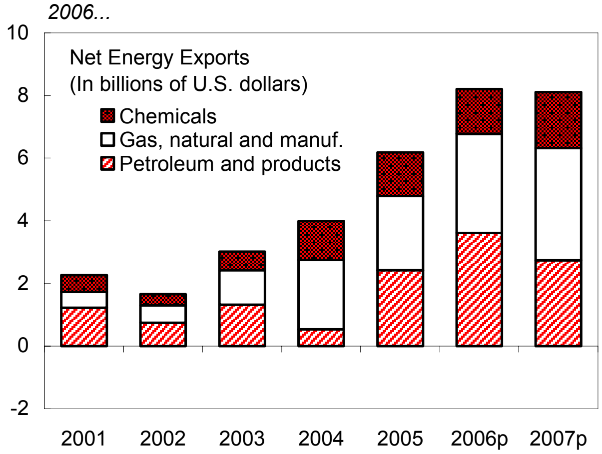
Prices for natural gas derivatives have stayed at historically high levels...



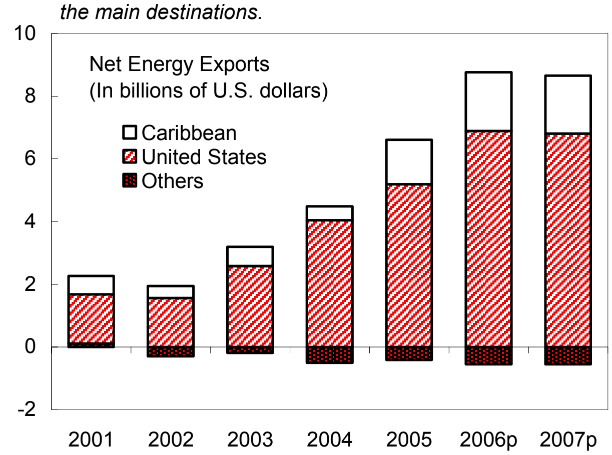
... as an increasing volume of gas has been processed.



Net energy exports reached unprecendented levels in 2006...

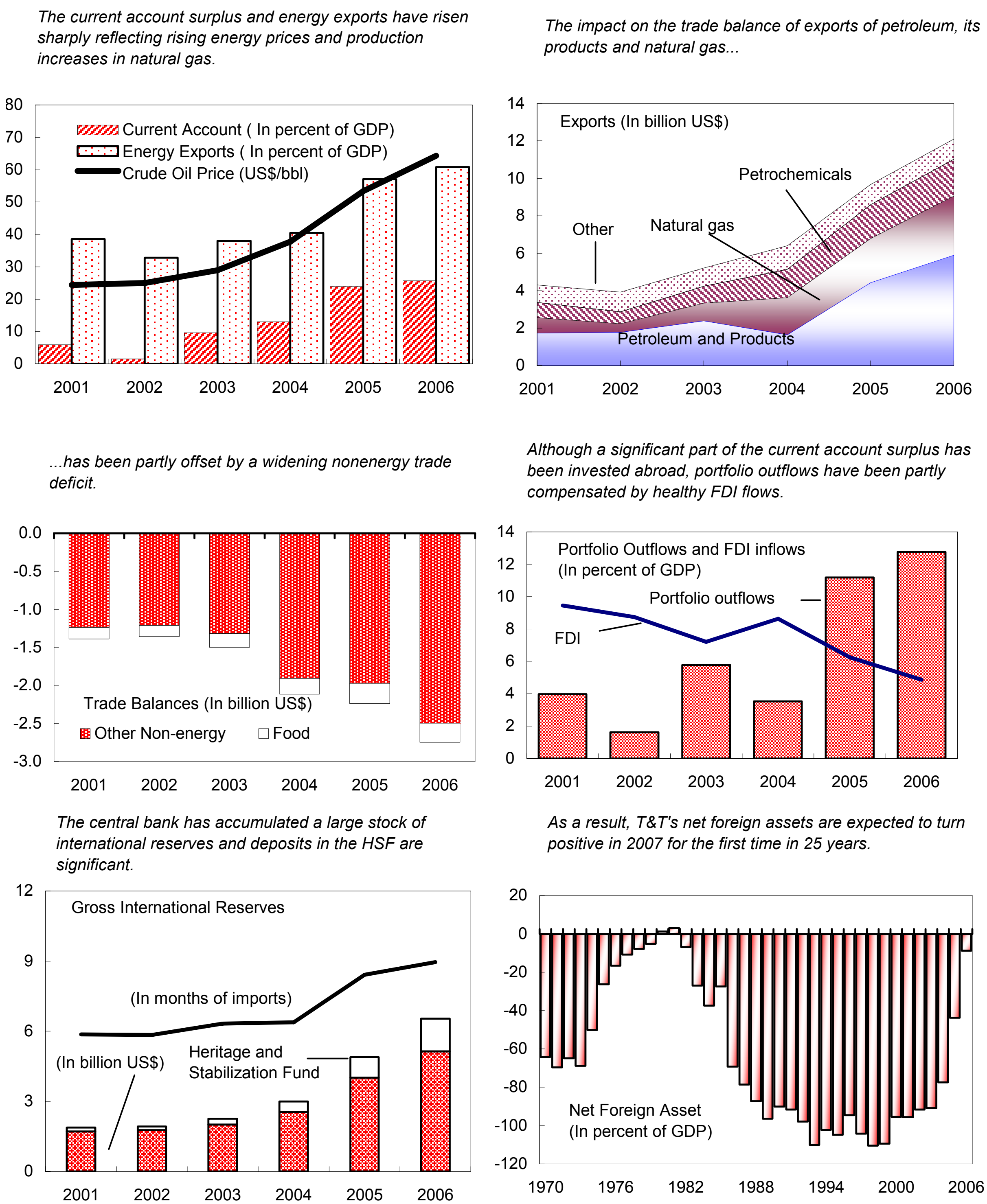


... with the United States and the Caribbean remaining the main destinations.



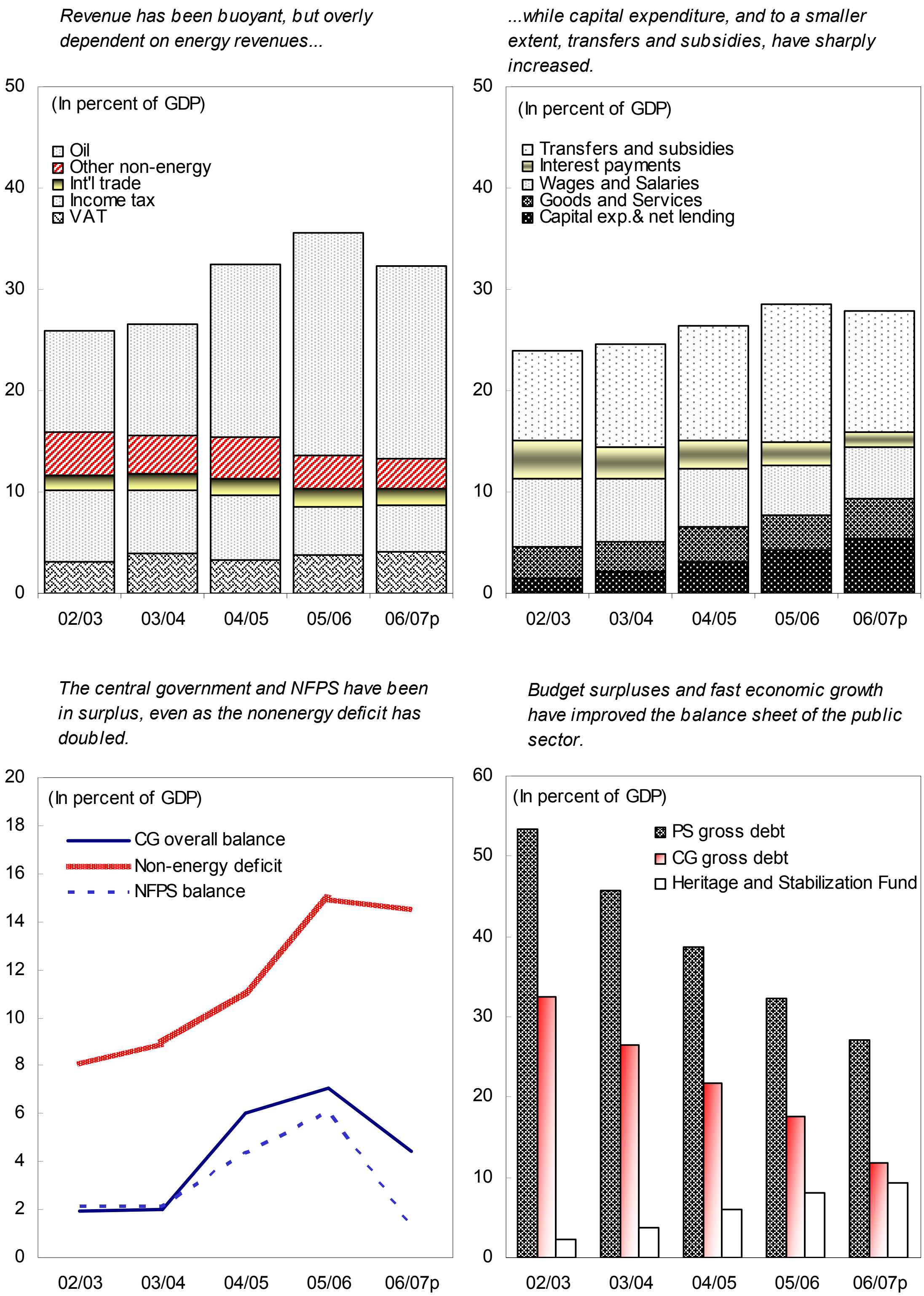
Sources: Trinidad and Tobago authorities; British Petroleum; WITS; and Fund staff estimates.

Figure 5. Trinidad and Tobago: External Developments



Sources: Trinidad and Tobago authorities; Milessi-Ferretti and Lane (2006); World Integrated Trade Solution; and Fund staff projections.

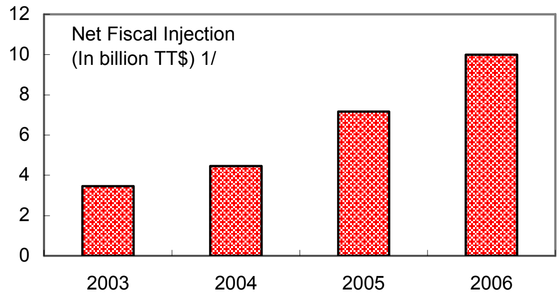
Figure 6. Trinidad and Tobago: Fiscal Developments



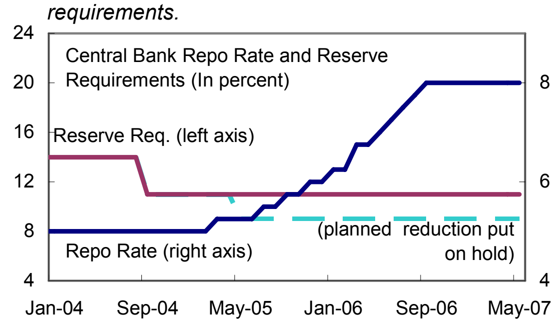
Sources: Trinidad and Tobago authorities; and Fund staff estimates.

Figure 7. Trinidad and Tobago: Monetary Developments

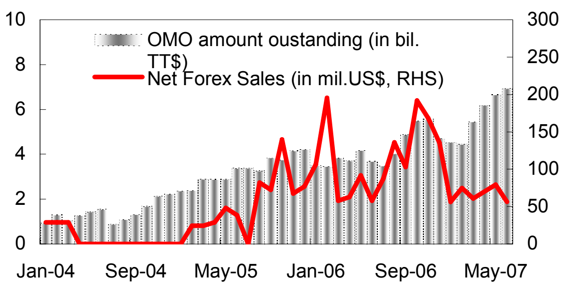
In response to the monetization of the government's energy receipts...



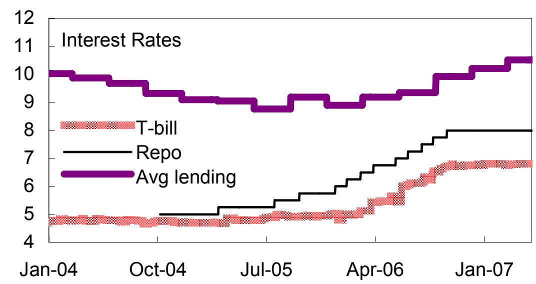
…the CBTT initially increased the repo rate and put on hold a scheduled reduction of reserve requirements.



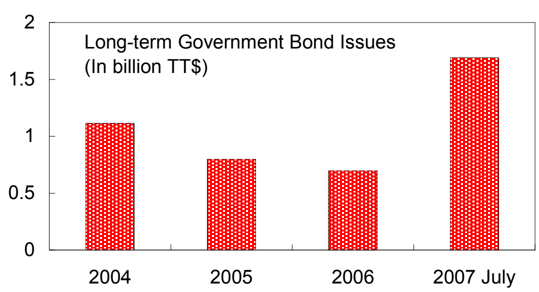
Since mid-2006, the CBTT has pursued a more aggressive liquidity management strategy by stepping up OMOs and foreign exchange sales.



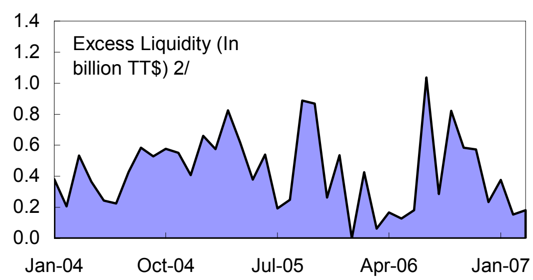
Policy coordination with the ministry of finance improved, the yields on T-bill were allowed to raise...



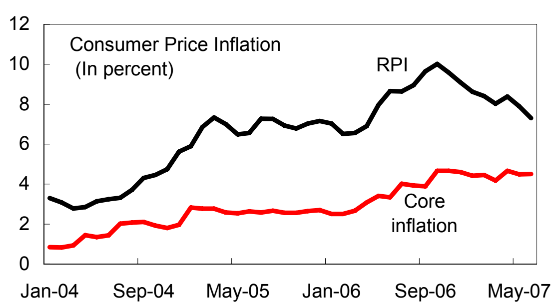
...and more long-term government bonds were placed to finance the nonenergy deficit.



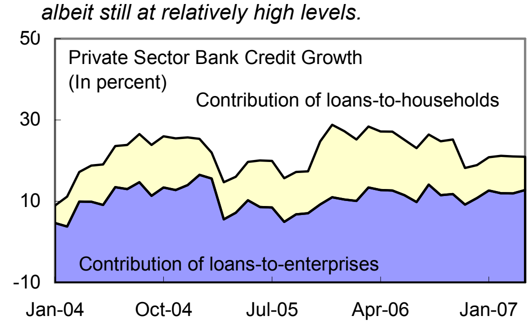
As a result, excess liquidity has abated...



…and inflation slowed down.



Private sector credit growth is also slowing down, albeit still at relatively high levels.

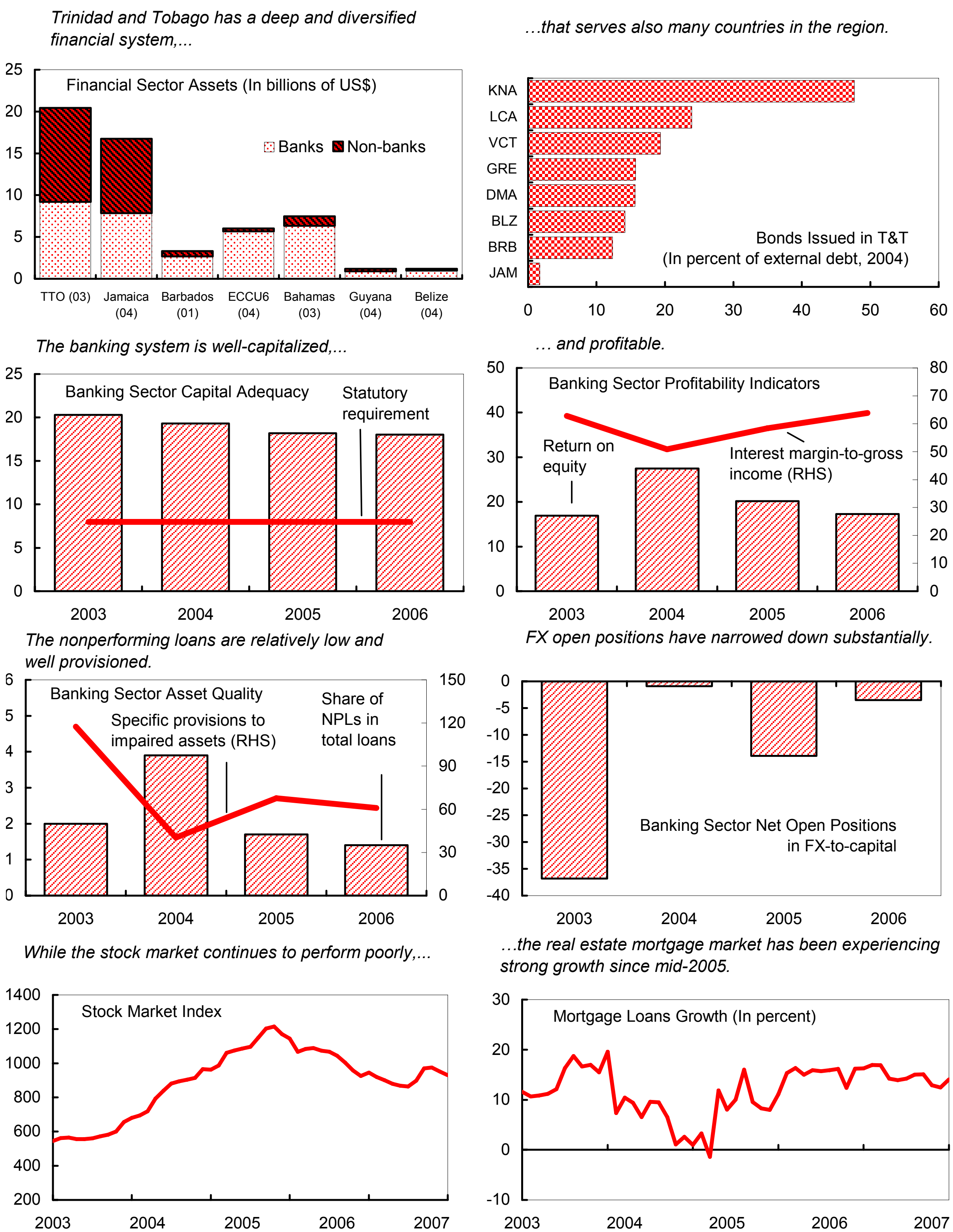


Sources: Trinidad and Tobago authorities; and Fund staff estimates.

1/ Defined as the overall balance plus net debt placements minus net foreign currency inflows.

2/ The central bank reduced the rate on special deposits to 0 percent in December 2005. As a result commercial banks leave any excess liquidity in their reserve requirement balances.

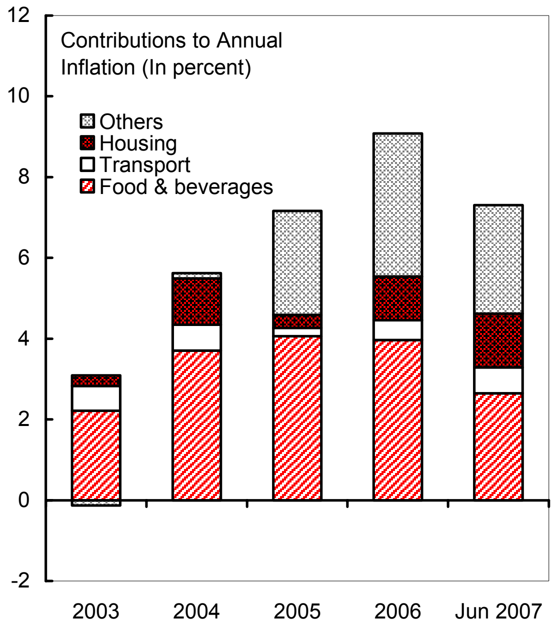
Figure 8. Trinidad and Tobago: Financial Sector Developments



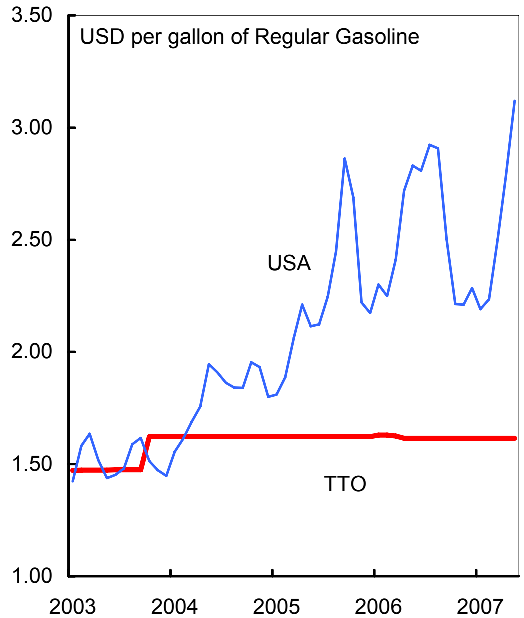
Sources: WDI/World Bank; CBTT; Caribbean Money Market Brokers; T&T Security Exchange Commission; and Fund staff estimates.

Figure 9. Trinidad and Tobago: Inflation Developments

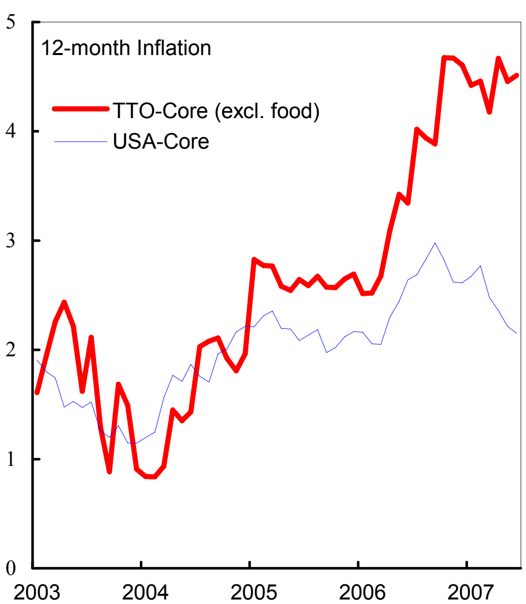
Food stuff inflation was a major contributor to the initial increase in inflation, but since 2006, price increases have been broad-based...



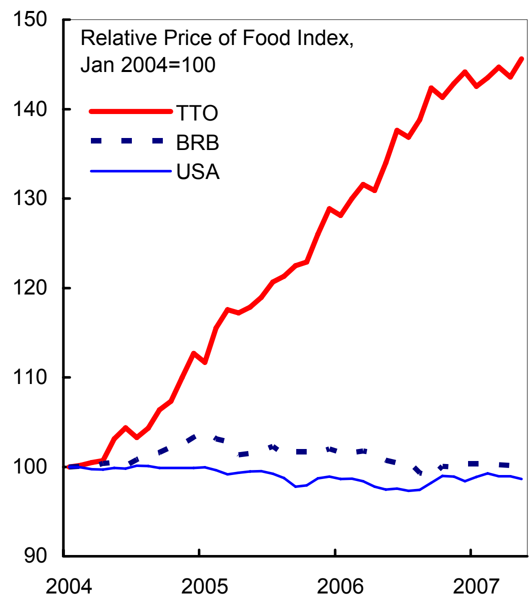
... despite isolation from world fuel price developments.



T&T core inflation has delinked from U.S. core inflation.



Relative food prices in T&T have increased more than in other countries in the region. Supply-side measures have slowed down food prices increases since October.



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

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

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2006)	13,999	Income share of highest 10 percent (1992)	28.8
Population (millions, 2005)	1.3	Income share of lowest 20 percent (1992)	5.9
Life expectancy at birth (years, 2005)	70	Access to safe water (percent, 2004)	91.0
Under 5 mortality rate (per thousand, 2005)	19		

II. Economic Indicators

					Est.	Proj.	
	2002	2003	2004	2005	2006	2007	2008
	(Annual percentage changes, unless otherwise indicated)						
Output and prices							
Real GDP	7.9	14.4	8.8	8.0	12.0	6.0	5.8
Energy	13.5	31.4	8.2	8.4	20.6	3.8	7.1
Nonenergy	5.4	6.0	9.2	7.7	6.6	7.5	5.0
GDP deflator	-5.3	9.8	3.7	10.3	7.5	4.2	7.5
Consumer prices							
End-of-period	4.3	3.0	5.6	7.2	9.1	8.0	7.0
Average	4.2	3.8	3.7	6.9	8.3	8.5	7.5
Unemployment rate (period average)	10.4	10.3	8.4	8.0	6.2	...	...
Real effective exchange rate (Index 2000=100)	108.2	106.4	105.0	107.8	112.7	...	...
	(In percent of fiscal year GDP, unless otherwise indicated)						
Nonfinancial public sector finances (NFPS) 1/							
Central government overall balance	-0.2	1.9	2.0	6.0	7.0	4.1	5.2
Of which: nonenergy budget balance 2/	-6.0	-8.1	-8.9	-11.1	-14.9	-15.8	-14.5
Budgetary revenue	24.8	25.8	26.6	32.5	35.5	33.4	33.1
Budgetary expenditure	24.9	23.9	24.6	26.5	28.5	29.3	27.9
Of which: interest expenditure	4.0	3.9	3.0	2.8	2.2	2.1	1.8
Of which: capital expenditure	1.3	1.5	2.1	3.1	4.2	5.0	4.5
Overall statutory bodies balance	-0.8	-0.6	-1.0	-0.7	1.0	0.4	0.4
Overall public enterprises balance	-2.2	0.7	1.1	-1.0	-1.5	-1.7	-3.6
Overall NFPS balance	-3.2	2.1	2.1	4.4	6.6	2.8	2.0
Central government debt 3/	37.8	32.4	26.5	21.6	17.6	12.7	11.7
Public sector debt 3/	59.1	53.4	45.7	38.7	32.2	27.4	27.1
Heritage and Stabilization Fund	1.8	2.3	3.7	6.0	8.0	9.0	13.7
	(In percent of GDP, unless otherwise indicated)						
Savings and investment							
Gross domestic investment	19.2	17.0	18.9	18.2	20.9	23.5	25.8
Of which: public investment	3.9	4.2	6.4	8.4	10.4	11.5	10.8
Gross national saving	20.8	25.7	31.9	42.1	46.5	42.9	42.5
Of which: public saving	1.6	5.3	7.4	11.4	12.5	10.1	11.6
External sector							
Current account balance	1.6	8.8	13.0	23.8	25.7	19.4	16.7
Of which							
Exports	43.5	46.3	50.5	64.1	66.7	62.0	57.6
Imports	40.2	34.8	38.6	37.9	37.7	40.1	39.0
External public sector debt	17.2	13.8	10.7	8.5	7.2	5.9	5.4
Gross official reserves (in US$ million)	1,760	2,008	2,539	4,015	5,134	6,334	7,134
In months of imports of goods	5.8	6.2	6.2	8.4	9.0	9.5	9.6
In percent of M3	52.0	58.6	62.5	82.6	89.9	99.8	98.5
	(Percentage changes in relation to beginning-of-period M3)						
Banking system							
Net foreign assets	2.5	5.7	36.4	42.6	52.6	34.1	38.8
Net domestic assets	0.2	-3.7	-17.6	-23.0	-34.9	-23.1	-24.7
Of which: credit to the private sector	3.1	2.6	18.2	21.6	15.2	13.1	10.6
Broad money (M3)	2.7	2.0	18.8	19.6	17.7	11.0	14.1
M3 velocity	2.7	3.3	3.1	3.1	3.2	3.2	3.2
Memorandum items:							
Nominal GDP (in billions of TT$)	56.3	70.7	79.8	95.1	114.5	126.4	143.8
Exchange rate (TT$/US$)	6.2	6.3	6.3	6.3	6.3	...	...
Oil export price (US$/barrel) 4/	25.0	28.9	37.8	53.4	64.3	63.8	68.8
Public expenditure (in percent of nonenergy GDP)	34.0	36.3	39.1	44.8	51.2	51.4	48.8

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

1/ The data refers to fiscal years 2001/2002–2007/08.

2/ Defined as expenditure minus nonenergy revenue of the central government.

3/ Refers to gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, in the context of the Interim Revenue Stabilization Fund/Heritage and Stabilization Fund, and accordingly lower net debt.

4/ World Economic Outlook.

Table 2. Trinidad and Tobago: Summary Balance of Payments

	2002	2003	2004	Prel. 2005	Est. 2006	Proj. 2007	2008
	(In millions of U.S. dollars, unless otherwise indicated)						
Current account balance	**141**	**985**	**1,648**	**3,594**	**4,654**	**3,884**	**3,803**
Trade balance	302	1,293	1,509	3,947	5,257	4,399	4,260
Exports	3,920	5,205	6,403	9,672	12,100	12,436	13,151
Petroleum crude and refined	1,768	2,386	1,643	4,418	5,891	5,053	5,583
Gas	459	951	1,978	2,371	3,162	3,578	3,582
Petrochemicals	643	907	1,522	1,807	1,962	2,447	2,612
Other	1,050	962	1,260	1,076	1,085	1,358	1,374
Imports	3,618	3,912	4,894	5,725	6,843	8,037	8,891
Fuel imports	1,018	1,064	1,181	1,992	2,281	2,314	2,473
Capital	1,165	1,257	1,796	1,125	1,921	2,535	2,825
Other	1,435	1,591	1,917	2,608	2,641	3,188	3,593
Services and transfers (net)	-161	-309	139	-354	-603	-515	-457
Nonfactor services (net)	264	314	480	356	286	275	288
Factor income (net)	-480	-681	-397	-760	-936	-857	-808
Current transfers (net)	55	59	56	50	47	67	63
Capital and financial account (net) 1/	**-91**	**-824**	**-1,319**	**-2,118**	**-3,535**	**-2,684**	**-3,003**
Official, medium- and long-term (net)	-51	-74	-232	-81	-157	-55	-37
Disbursements	18	26	23	22	198	27	31
Amortizations	-68	-100	-255	-103	-355	-82	-68
Heritage and Stabilization Fund (net)	0	-86	-203	-419	-525	-272	-1,159
Direct Investment (net)	684	583	973	599	513	1,332	1,566
Inward 2/	791	808	1,001	940	883	1,740	2,030
Outward	-106	-225	-29	-341	-370	-409	-465
Commercial banks (net)	-22	94	-524	98	-845	-385	-385
Other private sector capital (net) 1/	-703	-1,340	-1,333	-2,315	-2,522	-3,304	-2,988
Overall balance	50	161	329	1,476	1,119	1,200	800
Change in gross official reserves (increase -)	-50	-161	-329	-1,476	-1,119	-1,200	-800
	(In percent of GDP unless otherwise specified)						
Memorandum items:							
Current balance	1.6	8.8	13.0	23.8	25.7	19.4	16.7
Exports of goods	43.5	46.3	50.5	64.1	66.7	62.0	57.6
Imports of goods	40.2	34.8	38.6	37.9	37.7	40.1	39.0
Gross international reserves (millions of US$, end of period)	1,760	2,008	2,539	4,015	5,134	6,334	7,134
Heritage and Stabilization Fund (millions of US$, end of period)	162	249	452	871	1,396	1,759	3,035
Oil prices (WEO, spot crude)	25.0	28.9	37.8	53.4	64.3	63.8	68.8
Public sector external debt	17.2	13.8	10.7	8.5	7.2	5.9	5.4
GDP (US$)	9,009	11,236	12,673	15,089	18,142	20,060	22,814

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

1/ Includes net errors and omissions.
2/ FDI inflows projections include 5 percent of the proposed projects in 2007 and 10 percent of the proposed projects for the rest of the projection period.

Table 3. Trinidad and Tobago: Summary of Central Government Operations 1/

	2002/03	2003/04	2004/05	2005/06	Proj. 2/ 2006/07	Proj. 2007/08
			(In millions of Trinidad and Tobago dollars)			
Revenue	**17,350**	**20,629**	**29,649**	**38,911**	**41,218**	**46,207**
Energy	6,720	8,484	15,614	24,069	24,512	27,520
Nonenergy	10,629	12,145	14,035	14,846	16,706	18,687
Expenditure	**16,048**	**19,068**	**24,141**	**31,198**	**36,188**	**38,902**
Current	15,050	17,466	21,342	26,602	29,984	32,633
Wages and salaries	4,548	4,849	5,309	5,456	6,369	7,207
Goods and services	2,038	2,375	3,172	3,811	4,995	5,369
Interest payments	2,592	2,364	2,542	2,453	2,542	2,543
Transfer and subsidies	5,872	7,878	10,320	14,882	16,078	17,514
Capital expenditure and net lending	998	1,601	2,799	4,596	6,204	6,268
Overall nonenergy balance	**-5,419**	**-6,923**	**-10,106**	**-16,355**	**-19,482**	**-20,214**
Overall balance	**1,301**	**1,561**	**5,508**	**7,713**	**5,030**	**7,305**
Total financing	**-1,301**	**-1,561**	**-5,508**	**-7,713**	**-5,030**	**-7,305**
Foreign financing	12	-357	-1,273	-411	20	-517
Domestic financing	-1,313	-1,204	-4,235	-7,302	-5,050	-6,788
Of which : transfer to Heritage and Stabilization Fund	-497	-1,263	-2,593	-3,160	-1,717	-7,305
			(In percent of GDP)			
Revenue	**25.8**	**26.6**	**32.5**	**35.5**	**33.4**	**33.1**
Energy	10.0	10.9	17.1	22.0	19.9	19.7
Nonenergy	15.8	15.7	15.4	13.5	13.5	13.4
Expenditure	**23.9**	**24.6**	**26.5**	**28.5**	**29.3**	**27.9**
Current	22.4	22.5	23.4	24.3	24.3	23.4
Wages and salaries	6.8	6.3	5.8	5.0	5.2	5.2
Goods and services	3.0	3.1	3.5	3.5	4.0	3.9
Interest payments	3.9	3.0	2.8	2.2	2.1	1.8
Transfers and subsidies	8.7	10.2	11.3	13.6	13.0	12.6
Capital expenditure and net lending	1.5	2.1	3.1	4.2	5.0	4.5
Overall nonenergy balance	**-8.1**	**-8.9**	**-11.1**	**-14.9**	**-15.8**	**-14.5**
Overall balance	**1.9**	**2.0**	**6.0**	**7.0**	**4.1**	**5.2**
Total financing	**-1.9**	**-2.0**	**-6.0**	**-7.0**	**-4.1**	**-5.2**
Foreign financing	0.0	-0.5	-1.4	-0.4	0.0	-0.4
Domestic financing	-2.0	-1.6	-4.6	-6.7	-4.1	-4.9
Of which : transfer to Heritage and Stabilization Fund	-0.7	-1.6	-2.8	-2.9	-1.4	-5.2
Memorandum items:						
Central government debt 3/	32.4	26.5	21.6	17.6	12.7	11.7
Deposits in the Heritage and Stabilization Fund	2.3	3.7	6.0	8.0	9.0	13.7
Nonenergy revenue (in percent of nonenergy GDP)	24.0	24.9	26.0	24.4	23.7	23.4
Expenditure (in percent of nonenergy GDP)	36.3	39.1	44.7	51.2	51.4	48.8
Overall nonenergy balance (in percent of nonenergy GDP)	-12.2	-14.2	-18.7	-26.8	-27.7	-25.3
Oil price (U.S. dollar per barrel) 4/	28.2	34.4	49.9	63.7	61.8	68.2

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

1/ Fiscal year from October to September.
2/ Based on FY 06/07 mid year budget review and Fund staff estimates.
3/ Refers to gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, in the context of the Heritage and Stabilization Fund, and accordingly lower net debt.
4/ World Economic Outlook; fiscal year basis.

Table 4. Trinidad and Tobago: Consolidated Nonfinancial Public Sector
(In percent of GDP)

	2002/03	2003/04	2004/05	2005/06	Proj. 2006/07	2007/08
			I. Nonfinancial Public Sector			
Current balance	4.1	5.0	9.1	12.3	10.5	10.2
Capital revenue and transfers	2.0	3.2	3.4	4.8	3.9	3.6
Capital expenditure and net lending	4.0	6.0	8.1	10.5	11.6	11.8
Non-energy balance	**-7.9**	**-8.8**	**-12.7**	**-15.4**	**-17.1**	**-17.7**
Overall balance	**2.1**	**2.1**	**4.4**	**6.6**	**2.8**	**2.0**
Public sector debt 1/ 2/	**53.4**	**45.7**	**38.7**	**32.2**	**27.4**	**27.1**
			II. Central Government			
Current balance	3.4	4.1	9.1	11.2	9.1	9.7
Current revenue	25.8	26.6	32.5	35.5	33.4	33.1
Current expenditure	22.4	22.5	23.4	24.3	24.3	23.4
Capital revenue and grants	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	1.5	2.1	3.1	4.2	5.0	4.5
Non-energy balance	**-8.1**	**-8.9**	**-11.1**	**-14.9**	**-15.8**	**-14.5**
Overall balance	**1.9**	**2.0**	**6.0**	**7.0**	**4.1**	**5.2**
Central government debt 1/ 2/	**32.4**	**26.5**	**21.6**	**17.6**	**12.7**	**11.7**
			III. Statutory Bodies 3/			
Current balance	-0.9	-1.3	-1.2	-0.6	-0.7	-0.7
Current revenue	3.5	3.1	2.7	2.4	2.3	2.2
Current expenditure	4.4	4.4	4.0	3.0	3.0	2.8
Capital revenue and transfers	0.7	0.6	1.0	1.9	1.6	1.6
Capital expenditure and net lending	0.3	0.3	0.5	0.4	0.5	0.5
Overall balance	**-0.6**	**-1.0**	**-0.7**	**1.0**	**0.4**	**0.4**
Debt 4/	**8.3**	**8.5**	**8.4**	**7.7**	**7.4**	**5.8**
			IV. Public Enterprises 5/			
Current balance	1.6	2.2	1.2	1.7	2.1	1.2
Current revenue	33.9	31.5	37.6	25.2	33.4	31.2
Current expenditure	32.3	29.3	36.4	23.6	31.3	30.0
Capital revenue and transfers	1.3	2.6	2.3	2.8	2.3	2.0
Capital expenditure and net lending	2.2	3.7	4.5	5.9	6.1	6.8
Overall balance	**0.7**	**1.1**	**-1.0**	**-1.5**	**-1.7**	**-3.6**
Debt 4/	**12.7**	**10.7**	**8.7**	**7.0**	**7.4**	**9.6**
Memorandum item:						
Nominal GDP (in TT$ million, FY)	67,121	77,552	91,249	109,620	123,444	139,454

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

1/ Refers to gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, in the context of the Interim Revenue Stabilization Fund, and accordingly lower net debt.
2/ Includes BOLT and leases.
3/ Includes Public Transport Company, Electricity Company, Water Authority, Airport Authority and Port Authority.
4/ Refers to gross debt, and it includes government guaranteed debt and letters of comfort.
5/ Includes CARONI, MTS, NFM, NFM, NHSL, NPMC, NQCL, NGC, PETROTRIN, PLIPDECO, SWMCOL, TIDCO, TANTEAK, TRINGEN, TTST, and UDECOTT. Data for National Housing Authority was not available.

Table 5. Trinidad and Tobago: Monetary Survey

	2002	2003	2004	2005	2006	Proj. 2007	2008
	(In millions of Trinidad and Tobago dollars)						
Net foreign assets	**12,856**	**14,065**	**21,901**	**32,808**	**48,925**	**61,211**	**76,716**
Net domestic assets	**8,279**	**7,486**	**3,691**	**-2,190**	**-12,881**	**-21,200**	**-31,067**
Net credit to public sector	-2,825	-4,925	-10,243	-16,295	-26,545	-34,598	-44,989
Central government	-3,797	-5,041	-10,115	-16,939	-24,603	-32,656	-43,047
Rest of the public sector	972	116	-129	644	-1,942	-1,942	-1,942
Credit to private sector	14,691	15,234	19,147	24,662	29,330	34,052	38,275
Other items (net)	-3,587	-2,823	-5,213	-10,558	-15,666	-20,654	-24,353
Liabilities to private sector (M3)	**21,135**	**21,551**	**25,592**	**30,617**	**36,044**	**40,011**	**45,649**
Currency in circulation	1,502	1,709	1,957	2,425	2,654	2,947	3,362
Demand deposits	5,393	5,595	6,866	9,069	9,943	11,037	12,592
Time deposits	4,222	3,410	3,858	4,722	5,832	6,473	7,386
Savings deposits	8,685	9,701	11,111	12,727	15,220	16,895	19,276
Fund-raising instruments 1/	1,333	1,136	1,800	1,674	2,395	2,659	3,034
	(Changes in percent of beginning-of-period M3)						
Net foreign assets	**2.5**	**5.7**	**36.4**	**42.6**	**52.6**	**34.1**	**38.8**
Net domestic assets	**0.2**	**-3.7**	**-17.6**	**-23.0**	**-34.9**	**-23.1**	**-24.7**
Net credit to public sector	2.1	-9.9	-24.7	-23.6	-33.5	-22.3	-26.0
Of which : central government	-1.8	-5.9	-23.5	-26.7	-25.0	-22.3	-26.0
Credit to private sector	3.1	2.6	18.2	21.6	15.2	13.1	10.6
Other items (net)	-5.1	3.6	-11.1	-20.9	-16.7	-13.8	-9.2
Liabilities to private sector (M3)	**2.7**	**2.0**	**18.8**	**19.6**	**17.7**	**11.0**	**14.1**
Memorandum items:							
Credit to private sector (12-month increase)	4.6	3.7	25.7	28.8	18.9	16.1	12.4
M3 Velocity	2.7	3.3	3.1	3.1	3.2	3.2	3.2

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: Summary Accounts of the Monetary Authority

	2002	2003	2004	2005	2006	Proj. 2007	2008
	(In millions of Trinidad and Tobago dollars)						
Net foreign assets	12,517	14,315	18,929	30,447	40,777	50,637	63,716
Net international reserves	10,963	12,267	15,641	24,328	32,214	39,777	44,819
Heritage and Stabilization Fund	1,015	1,567	2,846	5,485	8,792	11,089	19,126
Other foreign assets, net	539	481	442	634	-230	-230	-230
Net domestic assets	-6,932	-8,433	-13,144	-22,412	-31,144	-39,998	-51,617
Net credit to public sector	-6,336	-8,000	-12,718	-20,437	-27,192	-35,593	-46,555
Central government	-6,502	-8,156	-12,871	-20,586	-27,230	-35,632	-46,593
Of which: Heritage and Stabilization Fund	-1,015	-1,567	-2,846	-5,485	-8,792	-11,089	-19,126
Rest of public sector	167	156	154	149	39	39	39
Net claims on financial institutions	380	380	380	380	380	380	380
Other items (net)	-976	-813	-806	-2,355	-4,332	-4,785	-5,442
Reserve money	5,585	5,882	5,785	8,035	9,632	10,639	12,100
Currency in circulation	2,005	2,295	2,554	2,991	3,560	3,932	4,472
Deposits of commercial banks	3,072	2,955	2,783	4,673	5,688	6,282	7,145
Deposits of nonbank financial institutions	509	632	449	371	384	424	482
	(Changes in percent of beginning-of-period reserve money)						
Net international reserves	6.5	32.2	78.5	199.1	128.6	102.4	122.9
Net domestic assets	-10.4	-26.9	-80.1	-160.2	-108.7	-91.9	-109.2
Net credit to central government	-6.7	-29.6	-80.2	-133.4	-82.7	-87.2	-103.0
Reserve money	-3.9	5.3	-1.6	38.9	19.9	10.4	13.7
Memorandum items:							
Blocked account of government 1/	-2,677	-3,100	-6,105	-7,407	-8,843	-15,796	-27,231

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

1/ Proceeds of treasury bills and treasury notes used for open market operations.

Table 7. Trinidad and Tobago: Illustrative Medium-Term Scenarios

	2005	Est. 2006	Proj. 2007	2008	2009	2010	2011
Macroeconomic parameters							
Oil prices (U.S. dollars per barrel)	53.4	64.3	63.8	68.8	68.5	66.8	66.0
I. Baseline Scenario							
(Annual percentage changes)							
Real sector							
Real GDP	8.0	12.0	6.0	5.8	5.6	4.1	4.0
Energy	8.4	20.6	3.8	7.1	7.6	4.2	4.0
Nonenergy	7.7	6.6	7.5	5.0	4.1	4.0	4.0
Average CPI	6.9	8.3	8.5	7.5	6.8	6.3	5.5
GDP deflator	10.3	7.5	4.2	7.5	3.7	3.1	3.3
(In percent of GDP, unless otherwise indicated)							
Gross domestic investment	18.2	20.9	23.5	25.8	22.7	21.5	20.4
Gross national saving	42.1	46.5	42.9	42.5	37.4	33.7	30.6
External sector							
Current account balance	23.8	25.7	19.4	16.7	14.7	12.2	10.2
Gross official reserves (in US$ million)	4,015	5,134	6,334	7,134	7,784	8,284	8,784
(In percent of FY GDP, unless otherwise indicated)							
Central government 1/							
Government revenue	32.5	35.5	33.4	33.1	32.7	30.5	29.2
Energy revenue	17.1	22.0	19.9	19.7	19.4	17.0	15.6
Government expenditure	26.5	28.5	29.3	27.9	27.8	27.8	27.8
Government budgetary balance	6.0	7.0	4.1	5.2	4.9	2.7	1.4
Of which: nonenergy	-11.1	-14.9	-15.8	-14.5	-14.5	-14.3	-14.2
Nonfinancial public sector balance	4.4	6.6	2.8	2.0	5.0	3.7	3.1
Government and government-guaranteed debt 2/	38.7	32.2	27.4	27.1	24.7	22.9	21.0
Heritage and Stabilization Fund	6.0	8.0	9.0	13.7	18.1	20.6	21.9
Memo Items							
Nominal GDP (billions of TT dollars)	95.1	114.5	126.4	143.8	157.4	168.9	181.3
Nonenergy deficit (in percent of nonenergy GDP)	-18.7	-26.8	-27.7	-25.3	-25.3	-24.4	-23.7
Government expenditure (in percent of nonenergy GDP)	44.8	51.2	51.4	48.8	48.5	47.4	46.5
II. Policy Scenario							
(Annual percentage changes)							
Real sector							
Real GDP	8.0	12.0	6.0	5.5	6.5	5.3	5.4
Energy	8.4	20.6	3.8	7.1	7.6	4.2	4.0
Nonenergy	7.7	6.6	7.5	4.4	5.7	6.0	6.3
Average CPI	6.9	8.3	8.5	6.5	4.8	4.3	4.0
GDP deflator	10.3	7.5	4.2	2.6	2.7	2.1	2.4
(In percent of GDP, unless otherwise indicated)							
Gross domestic investment	18.2	20.9	23.8	26.8	23.7	22.4	22.7
Gross national saving	42.1	46.5	43.2	41.0	37.2	34.5	32.7
External sector							
Current account balance	23.8	25.7	19.4	15.0	12.8	10.3	8.5
Gross official reserves (in US$ million)	4,015	5,134	6,334	7,024	7,564	7,954	8,344
(In percent of FY GDP, unless otherwise indicated)							
Central government 1/							
Government revenue	32.5	35.5	33.4	32.2	32.0	29.9	28.6
Energy revenue	17.1	22.0	19.9	18.6	18.3	16.1	14.7
Government expenditure	26.5	28.5	29.3	28.7	25.2	21.6	21.5
Government budgetary balance	6.0	7.0	4.1	3.5	6.8	8.3	7.1
Of which: nonenergy	-11.1	-14.9	-15.8	-15.0	-11.5	-7.8	-7.5
Nonfinancial public sector balance	4.4	6.6	2.8	0.2	7.0	9.4	9.0
Government and government-guaranteed debt 2/	38.7	32.2	27.4	28.2	25.6	23.5	21.7
Heritage and Stabilization Fund	6.0	8.0	9.0	11.4	18.0	26.1	32.9
Memorandum items:							
Nominal GDP (billions of TT dollars)	95.1	114.5	126.4	136.8	149.6	160.7	173.7
Nonenergy deficit (in percent of nonenergy GDP)	-18.7	-26.8	-27.7	-25.5	-19.3	-12.9	-12.1
Government expenditure (in percent of nonenergy GDP)	44.8	51.2	51.4	48.7	42.2	35.5	34.6

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

1/ Fiscal data refers to fiscal years ending September 30.
2/ Refers to non financial public sector gross debt. The baseline projections assume a significant increase in government deposits at the CBTT, in the context of the Interim Revenue Stabilization Fund, and accordingly lower net debt.

Table 8. Trinidad and Tobago: Indicators of External and Financial Vulnerability
(In percent of GDP, unless otherwise indicated)

	2002	2003	2004	2005	2006	Proj. 2007
External indicators						
Exports (percent change, 12-month basis in US$)	-8.9	32.8	23.0	51.1	25.1	2.8
Imports (percent change, 12-month basis in US$)	3.2	8.1	25.1	17.0	19.5	17.4
Terms of trade (percent change, 12-month basis)	2.5	15.8	30.7	41.3	20.5	-5.5
Current account balance	1.6	8.8	13.0	23.8	25.7	19.4
Capital and financial account balance	-1.0	-6.6	-8.8	-14.0	-19.5	-13.4
Gross official reserves (in US$ millions)	1,760	2,008	2,539	4,015	5,134	6,334
Official reserves in months of imports of goods	5.8	6.2	6.2	8.4	9.0	9.5
Ratio of reserves to broad money	52.0	58.6	62.5	82.6	89.9	99.8
Ratio of total public sector external debt to exports of goods and services	34.0	26.4	18.6	12.1	9.8	8.8
Ratio of public sector external interest payments to exports of goods and services	2.9	2.0	1.5	1.0	0.8	0.6
Public sector debt service to exports of goods and services	4.4	3.7	4.8	2.0	3.5	1.2
REER appreciation CPI-based (percent change)	2.5	-1.7	-1.2	2.7	4.4	…
Foreign currency debt rating, (Moody's, end of period) 1/	Baa3	Baa3	Baa3	Baa2	Baa1	…
Foreign currency debt rating, (Standard & Poor's, end of period) 1/	BBB-	BBB	BBB+	A-	A-	…
Financial indicators 2/						
90-day treasury bill, average discount rate 3/ 4/	6.7	5.1	5.0	5.5	7.2	...
90-day treasury bill, real rate 5/	2.3	2.1	-0.6	-1.5	-1.7	
Foreign currency loans-to-total loans	31.2	17.2	25.6	23.9	22.9	...
Net open positions in FX-to-capital	-18.2	-36.8	-0.9	-13.9	-3.5	...
FX deposits (in percent of total deposits)	34.0	32.9	36.5	30.8	32.5	…
FX deposits (in percent of gross international reserves)	56.2	49.7	50.6	33.5	31.2	…
Capital adequacy						
Regulatory capital to risk-weighted assets	20.6	20.3	19.3	18.2	18.0	…
Regulatory Tier I capital to risk-weighted assets	17.3	18.2	17.4	16.4	16.2	…
Regulatory Tier II capital-to-risk-weighted assets	3.3	2.2	1.9	1.7	1.9	…
Banking sector asset quality						
Nonperforming loans-to-gross loans	3.6	2.0	3.9	1.7	1.4	…
Nonperforming loans (net of provisions)-to-capital	3.4	-1.1	7.9	2.3	2.3	…
Specific provisions-to-impaired assets	70.8	117.5	40.3	67.7	60.9	…
Specific provisions-to-gross lending	2.6	2.3	1.6	1.1	0.8	…
Banking sector earnings and profitability						
Return on equity	20.0	16.9	27.5	20.2	17.3	…
Return on assets	2.4	2.1	3.7	2.5	2.2	…
Interest margin-to-gross income	62.1	62.8	50.9	58.4	63.8	…
Spread between average lending and deposit rates	9.1	8.7	7.4	7.1	7.4	…
Banking sector liquidity						
Liquid assets-to-total assets	16.1	15.9	14.8	15.0	20.1	…
Liquid assets-to-total short-term liabilities	22.6	22.3	20.5	21.9	26.9	…
Foreign currency liabilities-to-total liabilities	34.3	34.4	37.8	35.8	34.6	…

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

1/ As of end-August 2007.
2/ Includes commercial banks only.
3/ As of end-August.
4/ Weighted average discount rate.
5/ Adjusted for inflation.

Appendix I. Trinidad and Tobago: Status of Implementation of Key Recommendations of the 2005 FSAP		
I. Cross-Cutting Issues	**Status of Implementation**	**Comments on level of progress, expected implementation date, impediments hindering implementation, other**
A. Legal and Regulatory Issues		
1. Enact the Financial Institutions Act (FIA) amendments with a minimum of further delay.	Partially implemented.	The 'fast-track' amendments to the FIA have been implemented with the passage of the Financial Institutions (Amendment) Act, 2006, which came into force on September 4, 2006. These amendments: (i) introduced an approval requirement from the Ministry of Finance for mergers and acquisitions that result in a financial firm controlling more than 10 percent of the market; (ii) introduced fit and proper tests for controlling shareholders; and (iii) allowed for more information sharing with other country regulators. Comprehensive amendments: the final review of the bill is currently being done by the office of the Chief Parliamentary Counsel and will be ready for review by the Legislation Review Committee, a sub-committee of Cabinet in August 2007.
2. Require CBTT pre-approval of all major acquisitions of, and by, banks and insurers, and other financial companies within regulated groups.	Implemented.	Included in the Financial Institutions (Amendment) Act 2006 referred to above.
3. Establish home-host responsibilities for regionally active groups consistent with Basel Core Principles.	In progress.	A memorandum of understanding (MOU) has been signed among regional central banks to facilitate stronger cooperation between regulators regarding the supervision of regionally active financial groups. The MOU establishes criteria for home-host responsibilities.
4. Introduce consolidated supervision for financial groups on basis of supervisable structures as proposed in amendments to FIA; Ring-fencing financial from non-financial activities.	In progress.	The CBTT has made considerable progress in preparing a framework for consolidated supervision. In the absence of legislation, the Financial Institutions Supervision Department (FISD) of the CBTT sought informal agreements with the industry. The FISD has also conducted an onsite review of a framework for consolidated supervision. During the past year, FISD has also been working with the resident IMF consultant on the conduct of onsite examinations of groups. He has been part of the planning process and has accompanied examiners on site.
5. Consider an insolvency law that incorporates a procedure for the reorganization or administration of insolvent companies.	In progress.	A new bankruptcy law has been drafted by the Ministry of Finance.
B. Supervisory Issues		
6. Enforce existing regulations on connected exposures.	Partially implemented.	The CBTT has issued recommendations on connected exposures. This is captured in the new draft FIA bill, which will have the force of law.
7. Require licensees to inform CBTT of breaches of FIA and other legislation.	In progress.	This requirement will be included in the FIA comprehensive amendment. Until the amendments are passed, the CBTT is raising the issue during onsite reviews and asking the banks to comply.
8. Review supervisory resource needs, with a view to making supervision more risk-based and in anticipation of the implementation of the recommended amendments to the FIA.	In progress.	Two managers have been hired and one more will join in August. One manager transferred within FISD to strengthen the supervision unit. More staff is likely needed in the future. Currently, the focus is on staff's training for adequate risk-based supervision.

C. Financial Stability Framework		
9. Improve databases for better monitoring country exposure risk.	Not implemented.	The databases for stress testing and real estate indices take precedence. At the same time, the central bank is also revisiting and reviewing data needs and will enhance existing databases.
10. Establish a high level inter-agency Financial Stability Group, and develop CBTT databases for stress testing of market and credit risk (particularly the development of property price indices for commercial and residential property and housing and consumer lending).	Partially implemented.	A high level inter-agency Financial Stability Group has not been established yet, but the high-level Financial Stability Committee in the central bank has been revamped. The central bank made considerable progress in preparing the stress testing framework and the project on property prices. Routine execution of stress tests for the banking sector and later for the insurance sector still lies ahead.
11. Clarify (i) terms and conditions for access to emergency lending facilities, distinguishing these from arrangements for handling insolvency, and (ii) procedures for exit of problem institutions, removing the reference to forbearance.	Not implemented.	On the agenda for next year. Currently updating exit policy for financial institutions and development of an exit policy for credit unions.
II. Additional Sectoral Issues		
A. Banking		
12. Increase risk weight on lower investment grade and non-OECD sovereign exposure.	In progress.	The FISD has completed the internal analysis of how the higher weights would affect the banking sector. However, since financial institutions across the region invest in the sovereign debt issues of regional governments, a decision was taken that a regional approach to the treatment of CARICOM sovereign debt is necessary. It is expected that a final decision on the treatment of CARICOM sovereign debt would be made by regional Central Bank Governors at their meeting in November 2007.
B. Insurance and Pensions		
13. Introduce risk-based capital requirements and a principles-based investment regime for insurance companies and pension funds.	In progress for insurance companies; not implemented for pension funds.	This issue will be covered in the amendments to the Insurance Act. The CBTT is preparing the policy document for the Insurance Act and drafting the bill at the same time. The bill is under internal review at the CBTT, consultation with the insurance industry is scheduled to take place in September. The amendments are expected to be passed by the end of this year.
14. Introduce a stronger regime for related lending and investments, and rules for investment by insurers in subsidiaries.	In progress.	These issues are covered in the new Insurance Bill and Financial Institutions Bill amendments to the Insurance Act.
15. Establish a regulatory framework for deferred annuity products, demonstrating how liabilities under these short-term deposit contracts are supported by eligible investments of matching term and yield.	Not implemented.	Recommendations regarding asset-liability matching and to deferred annuity products are given during onsite reviews.
16. Establish guidelines to address conflicts of interest in pension fund management, and new regulations to address indexation of pension entitlements.	In progress.	Development of the Occupational Pension Act has commenced. Industry consultation is ongoing. Draft guidelines on Pension Administration, Communication with members, Pension Governance are currently being developed to address among other things, conflicts of interest. There is no policy decision on whether the new legislation will require indexation on pension plans.

C. Securities Markets 17. Improve disclosure requirements of mutual funds and start on-site inspections.	In progress.	The draft guidelines for Collective Investment Vehicles (CIV) were sent to the market last year, and a final market consultation is to be held shortly. CIV companies have already begun presenting data to the Trinidad and Tobago Securities and Exchange Commission (TTSEC) and have been registering new funds in line with the guidelines since the beginning of 2007. However, the TTSEC has no power to enforce them until the Securities Industry Act (SIA) amendments come in force. The proposed act is with the government for approval. The TTSEC also has no power to conduct onsite inspections until the amendments to the SIA are passed, but TTSEC has made these inspections with all brokers on a voluntary basis.
18. Bring the Unit Trust Corporation (UTC) under the regulatory purview of the TTSEC.	Not implemented.	Recommendations regarding asset-liability matching and to deferred annuity products are given during onsite reviews.
19. Review resource needs and possible funding mechanisms for TTSEC.	In progress.	Immediate resource needs have been identified. TTSEC has recently gotten approval for a more competitive compensation structure for the non-management staff. In addition, management had their compensation levels changed earlier this year. It is very difficult to find qualified staff to hire.
D. Market Efficiency and Infrastructure 20. Promote development of an inter-bank foreign exchange market and secondary market in government securities.	In progress.	The central bank is considering setting up an inter-bank foreign exchange. Initiatives are well on the way in setting up a Government Securities Bond Exchange.
21. Consider establishing a central borrowing authority to consolidate and manage all public sector guaranteed debt.	Not implemented.	Medium-term recommendation.
22. Enhance supply of equities through renewed privatization and demutualization of government owned commercial enterprises and statutory authorities.	Not implemented.	Medium-term recommendation.
E. Accounting and Auditing Practices 23. Require external auditors to report material concerns simultaneously to the boards of institutions as well as to the CBTT.	In progress.	This requirement is part of the proposed amendments to the Financial Institutions Act and the Insurance Act.
24. Improve disclosure on the methods used to value illiquid or unquoted securities.	Not implemented.	It is not clear who has the authority to impose stricter requirements on the accounting firms. No work has been done on this issue.
25. Introduce latest proposed international standards on accounting for annuities, provisioning and asset valuation for insurers.	Not implemented.	Medium-term recommendation. The finalization of international standards themselves is in progress.
F. Payments Systems 26. Accelerate the updating of the legal framework, and clarify the participation and contingency arrangements for all stakeholders involved.	In progress.	Amendments regarding the payment system will be included in the amended FIA.

G. Access to financial services 27. Separate regulation of credit unions from that of other non-financial cooperatives; specify their appropriate.	In progress.	Initial industry consultations on the policy document were concluded in August 2006. The document was revised and re-circulated to the industry for comment. The document was further revised on the basis of comments received and is scheduled to be submitted for Cabinet approval shortly. A draft Bill is expected to be submitted to Parliament before the year-end.
28. Enact legislation governing the Credit Information Sharing (Consumer Credit Reporting Bill and the Personal Property Protection Bill);encourage the expansion of the credit bureau to cover commercial credit.	In progress.	The bill has been drafted by the Legal Affairs Ministry. Further amendments proposed for drafted bill. All amendments and future consideration is with the ministry of Legal Affairs and chief Parliamentary council to complete and bring to Parliament.

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 2007 Article IV Consultation

Supplementary Information

Prepared by the Western Hemisphere Department

Approved by José Fajgenbaum and G. Russell Kincaid

September 10, 2007

This supplement provides information that has become available since the circulation of the staff report on August 20, 2007.

1. **Recent international financial market developments**. The recent international credit turmoil has had no apparent impact on local commercial banks. The stock exchange has also not been affected and the index is up 2 percent since mid-July. The exchange rate has remained stable against the U.S. dollar and international reserves have continued to accumulate.

2. **Inflation**. In July, annual inflation rose slightly to 8 percent, from 7.3 percent in June. However, core inflation remained stable at 4.5 percent.

3. **Monetary policy**. The central bank maintained the repo rate at 8 percent in the August 24 policy meeting.

4. **Fiscal policy**. In FY 2006/07 the overall budget surplus is now projected at 3.7 percent of GDP, slightly weaker than the 4.1 percent of GDP indicated in the staff report.

5. **The FY 2007/08 budget bill was submitted to parliament on August 20**.

- The budget bill envisages a small overall surplus and is predicated on conservative energy price assumptions for 2008 (oil export price of US$50 per barrel). As mandated by the Heritage and Stabilization Fund Act, the government must save at least 60 percent of the energy revenues in excess of budgeted amounts. If WEO oil price projections (US$68 per barrel) were to materialize and all excess revenues saved, as in recent years, the overall surplus would be 4.2 percent of GDP, compared to 5.2 percent projected in the staff report. The weaker result is primarily explained by higher expenditure growth than projected in the staff report.

- The budget provides for an increase in old-age and disability pensions, as well as a scheduled increase in contribution rates; an increase in the minimum wage and those paid under unemployment relief programs; and increased depreciation allowances to the manufacturing sector.

Trinidad and Tobago: Summary of Central Government Operations
(In percent of GDP)

	FY 2006/07		FY 2007/08	
	Staff Report	Rev. Proj.	Staff Report	Budget
Revenue	33.4	33.3	33.1	33.1
Expenditure	29.3	29.6	27.9	28.9
Overall balance	4.1	3.7	5.2	4.2

Staff Appraisal

6. The thrust of the staff appraisal remains unchanged. However, the weaker fiscal stance envisaged in the FY 2007/08 budget raises concerns as this would add further demand pressures at a time of cyclical strength, and make it more difficult to achieve the inflation objective. This underscores the need to save any revenue overperformance. Furthermore, under current trends, the needed medium term fiscal adjustment to compensate for the eventual decline in energy resources would be more difficult.

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IMF Executive Board Concludes 2007 Article IV Consultation with Trinidad and Tobago

On September 10, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

Endowed with important oil and gas reserves, Trinidad and Tobago has the second highest GDP per capita in Latin America and the Caribbean. The energy sector accounts for over 40 percent of GDP, about 90 percent of exports, and about 60 of government revenues. In terms of broader social and development indicators, its Human Development Index ranking is above the regional average. Trinidad and Tobago is also a regional financial center and a significant source of capital flows to sovereign and private entities in the Caribbean.

In 2006, real GDP grew 12 percent reflecting the first full year of activity of a major gas processing plant, which brought growth in the energy sector to about 20 percent. Growth in the nonenergy sector was also robust at 6½ percent, driven by construction, manufacturing and financial services. Turning to 2007, the economy is expected to grow by some 6 percent, reflecting a temporary reduction in energy output early in the year. The nonenergy sector is projected to grow at about 7½ percent on the continued strength of construction and manufacturing, and supported by government spending and the expansion of credit to the private sector.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The external accounts are solid and net foreign assets continue to accumulate at a rapid pace. In 2006, the current account posted another strong surplus—26 percent of GDP—and foreign direct investment (FDI) flows remained healthy, while portfolio outflows accelerated. International reserves, including deposits in the Heritage and Stabilization Fund (HSF), continued to accumulate rapidly, reaching US$6.5 billion. In 2007, the current account surplus will narrow reflecting higher imports of capital goods related to large scale projects financed with FDI. Net foreign assets are projected to turn positive.

The government's balance sheet continues to strengthen. In FY2005/06, the central government's budget surplus increased to 7 percent of GDP, its gross debt fell to 18 percent, and deposits in the HSF reached 8 percent. However, due to the rapid increase in public spending the nonenergy deficit widened to 15 percent of GDP—exceeding the long-term sustainable level. In FY2006/07 the budget surplus is expected to decline to 4 percent of GDP, and the nonenergy deficit to further increase slightly owing to higher public investment. Capital spending by public enterprises has also increased rapidly in recent years owing to investments in infrastructure for the gas processing industry. Looking forward investment is projected to remain high as Petrotrin's refinery would be upgraded to remain competitive.

Strengthened management and improved policy coordination with the treasury allowed the central bank (CBTT) to regain control over liquidity. The monetary policy rate was hiked to 8 percent in October (for a cumulative increase of 300 basis points since early 2005). Foreign exchange sales were stepped up in 2006 and the unsatisfied demands for foreign exchange disappeared. Open market operations were intensified, the ceiling on CBTT sales of treasury bills was increased, and the treasury bills rate was allowed to rise. Liquidity management was also assisted by the placement of TT$2.4 billion in long-term treasury bonds. Despite the tighter liquidity conditions, credit to the private sector continued to grow rapidly (19 percent) albeit at a more moderate pace than in 2005. The tightening of liquidity conditions and measures to increase competition in food distribution led headline inflation to fall from a peak of 10 percent in October 2006 to 7.3 percent in June 2007. Inflation is projected to continue to exceed that of trading partners.

The real exchange rate misalignment has narrowed but remains sizable. The TT dollar appreciated 4½ percent in real effective terms in 2006 as domestic inflation exceeded that of trading partners. The impact of the appreciation on narrowing the misalignment was partially offset by improved terms of trade, increased net foreign assets, and the rapidly growing public spending that raised the equilibrium real exchange rate.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. Directors commended Trinidad and Tobago's strong economic performance, led by the buoyant energy sector. They welcomed the robust economic activity, large fiscal and external surpluses, decline in public debt, and build-up of external reserves.

Directors noted that the major challenge facing the authorities is to implement a prudent mix of macroeconomic and structural policies to enable the efficient absorption of energy revenues and to reduce the country's vulnerability to energy shocks. They welcomed the authorities' strategy of investing in human and physical capital to support the development of the nonenergy sectors, while saving abroad part of the energy windfall. At the same time, Directors reiterated their concern that the sustained increase in public spending and widening nonenergy fiscal deficit, with the economy operating near full capacity, could exacerbate inflation pressures and jeopardize fiscal sustainability.

Against this background, Directors supported a gradual tightening of fiscal policy. They underscored that the nonenergy deficit needs to be reduced to a sustainable level. The ongoing structural fiscal initiatives will be important in this regard, as well as expenditure restraint. Some Directors recommended that fuel and utility subsidies be phased out, in conjunction with a strengthening of the social safety net.

Directors welcomed the proposed adoption of a medium-term fiscal framework. They regarded the establishment of the Heritage and Stabilization Fund as a key element of the strategy for efficient management of energy revenues, and encouraged the authorities to emulate successful international experiences as they develop the Fund's investment guidelines. Directors also supported plans to strengthen public debt management.

Directors commended the improvements in monetary management, which have helped to contain inflation. They encouraged the authorities to remain focused on containing inflation in light of rising domestic demand and labor costs, and to avoid price controls. They called for better coordination of fiscal and monetary policies to improve liquidity management, and stressed that wage increases should be linked to productivity gains rather than inflation.

Directors noted the appreciation pressures on the TT dollar in the context of buoyant energy exports. Some Directors were in favor of a nominal appreciation, especially as it would also help reduce inflation. Some other Directors, however, noted the uncertainties regarding the estimate of exchange rate misalignment, and that nominal appreciation may have only a limited effect on inflation because of local supply bottlenecks.

Directors welcomed the authorities' emphasis on economic diversification, and commended efforts to improve the business environment and spur investment in the non-energy sectors. They urged continued efforts to create the conditions for the development of industries that are self-sustaining over the long term without permanent government subsidies. Directors also welcomed plans to continue to strengthen financial regulation and supervision, and to develop the secondary market for government securities.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Trinidad and Tobago: Selected Economic Indicators

	2002	2003	2004	2005	2006
	(Annual percentage changes, unless otherwise indicated)				
Output and prices					
Real GDP	7.9	14.4	8.8	8.0	12.0
Energy GDP	13.5	31.4	8.2	8.4	20.6
Unemployment rate (percent of labor force)	10.4	10.3	8.4	8.0	6.2
Consumer prices (end of period)	4.3	3.0	5.6	7.2	9.1
Money and credit 1/					
Net foreign assets	2.5	5.7	36.4	42.6	52.6
Net domestic assets	0.2	-3.7	-17.6	-23.0	-34.9
Public sector credit (net)	2.1	-9.9	-24.7	-23.6	-33.5
Private sector credit	3.1	2.6	18.2	21.6	15.2
Broad money (M3)	2.7	2.0	18.8	19.6	17.7
	(In percent of fiscal year GDP, unless otherwise indicated)				
Public finances 2/					
Budgetary revenue	24.8	25.8	26.6	32.5	35.5
Budgetary expenditure	24.9	23.9	24.6	26.5	28.5
Overall budget balance	-0.2	1.9	2.0	6.0	7.0
Overall nonenergy budget balance	-6.0	-8.1	-8.9	-11.1	-14.9
Overall nonfinancial public sector balance	-3.2	2.1	2.1	4.4	6.6
Public sector debt	59.1	53.4	45.7	38.7	32.2
External sector					
External public sector debt	17.2	13.8	10.7	8.5	7.2
Current account balance	1.6	8.8	13.0	23.8	25.7
Of which: exports	43.5	46.3	50.5	64.1	66.7
Of which: imports	40.2	34.8	38.6	37.9	37.7
Gross official reserves (in US$ million)	1,760	2,008	2,539	4,015	5,134
Terms of trade (percentage change, end of period)	2.5	15.8	30.7	41.3	20.5
Memorandum item:					
Nominal GDP (in billions of TT$)	56.3	70.7	79.8	95.1	114.5

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

1/ Changes in percent beginning-of-period broad money.
2/ Fiscal year October–September. Data refer to fiscal years 2001/2002 and 2005/2006.

Statement by Pablo Nogueira Batista, Executive Director for Trinidad and Tobago and Garnett Samuel, Senior Advisor to Executive Director September 10, 2007

1. The Trinidad and Tobago authorities thank Management and staff for their ongoing support and for the helpful policy dialogue during the recent Article IV consultations.

2. The Trinidad and Tobago economy continues to perform well and macroeconomic stability remains well entrenched. Robust GDP growth has generated record-low unemployment (5 percent), fiscal discipline has been maintained, and the external accounts remain strong, facilitating the accumulation of sizeable foreign exchange reserves. In addition, gross public debt now measures only 28 percent of GDP, compared with 60 percent in 2001. Reflecting the good performance and prospects of the TT economy, the country enjoys favorable international debt ratings of A+ and Baa1 by Standard and Poor's, Moody's, respectively.

3. The authorities agree with staff that the medium-term prospects for TT are favorable and that external vulnerabilities are limited. Growth, led by activity in the oil and energy sector, should remain strong, with an improving contribution from the non-oil sector. The sizeable accumulation of external reserves and the low level of external public debt will attenuate risks from a fall in oil prices. Inflation is expected to fall to 7 percent by end-2007. Core inflation has stabilized at about 4.5 percent.

4. As many other developing-country oil producers, Trinidad and Tobago aims to avail of present favorable international oil prices to accelerate development. This is being done in the context of the government's integrated long-term plan (Vision 20/20), among whose objectives are the diversification of the economy, the enhancement of physical and human capital, and the reduction of poverty, all while paying due attention to the maintenance of macroeconomic stability and saving for future generations. The authorities concur with staff on the need to transform energy wealth into a balanced combination of external financial assets and physical and human capital, supported by a prudent mix of macroeconomic and structural policies. The authorities believe that this indeed characterizes their approach.

5. The authorities are aware that in the context of a fast-expanding macro economy and accelerated developmental thrust, inflation will continue to emerge as the major macro economic challenge. In this context the major successes recorded in containing inflation are noteworthy. Since peaking at 10 percent in October 2006, headline inflation has shown steady monthly declines (except for July 2007) as a result of an aggressive approach by the Central Bank on the monetary side, and the government on the supply side. To the end of July 2007 inflation registered 8 percent, and the government is confident that the target of 7 percent could be attained by the end of the calendar year.

Monetary Policy and Exchange Rates

6. Since October 2006, the Central Bank has redoubled its efforts to tighten liquidity and reduce the growth of domestic demand, mainly by complementing normal open market operations with stepped up issuance of long-term bonds, the proceeds of which have been sterilized. Bond issues in the first seven months of fiscal year 2006/07 (October 2006 to April 2007) totaled TT$2.4 billion whereas there were no issues in the similar period of fiscal year 2005/06. This unprecedented supply of bonds along a wide maturity spectrum also provided investment opportunities for institutional investors and will form a platform for the development of a secondary bond market in the coming months. This is consistent with the Central Bank's objective of enhancing the financial and monetary environments to facilitate more effective monetary management.

7. Central Bank sales of foreign exchange were scaled up by 100 percent in 2006 to US$1.5 billion to assist in liquidity control, and a similar total is likely for 2007 (US$1 billion). With tighter liquidity management, short-term interest rates and commercial bank lending rates have trended upward and, with the slowdown in the tightening cycle in the US, the differential between the TT and US short-term rates widened to 202 basis points in April 2007 from 174 basis points in October 2006.

8. With strong growth likely to continue into the foreseeable future, the authorities see inflation risks continuing to emanate from strong domestic demand, possible increases in import prices, particularly food prices, and the pattern of wage settlements. On the latter score, the staff has correctly noted that some wage settlements now include a cost of living adjustment (COLA) clause. The Central Bank is of the view that its consistent policies and clear communications will continue to bolster its credibility and help anchor inflation expectations. The authorities are committed to scaling up bond issuance to regulate liquidity, but will take other measures if necessary to achieve the established targets.

9. The authorities welcome staff's assessment that the TT economy exhibits no signs of external instability. They note the evaluation of some misalignment of the exchange rate, but also the observation with respect to the uncertainties in the analysis given Trinidad and Tobago's status as a large exporter of non-renewable resources. While a nominal appreciation could assist the Central Bank in its inflation objective, in practice, results may be limited if local supply conditions face bottlenecks, for example in distribution.

Fiscal Policy

10. The government's fiscal operations in fiscal year 2006-07 are projected to result in an overall surplus of TT$ 1,268.7 million compared with a surplus of TT$ 28.5 million forecast in the budget. Expenditure in 2006–07 included the allocation of TT$ 2,030.2 million to the Heritage and Stabilization Fund, the vehicle established for saving for future generations.

With this allocation, total savings in the HSF now stands at US$1,396 million or 8 percent of GDP. The government has also taken the decision to save the over-performance in fiscal 2006–07 in the HSF.

11. The government notes staff's recommendation to reduce the non-energy deficit for demand management and fiscal sustainability considerations. As staff observes, the government's intention is to reduce the non-energy deficit to 10 percent by 2010. At present, however, the more pressing considerations for curtailing expenditure seem to be demand management and spending efficiency reasons, as plans for a new fiscal regime for the oil sector hold the promise of significant new discoveries of oil and gas. For fiscal 2007–08, government expenditure is budgeted to increase by 7.6 percent, which is marginally above projected annual inflation. The expenditure budget for fiscal 2008 contains settlement of salary arrears that cannot be postponed much longer. In addition, in keeping with developmental and social objectives considerable attention is being given to improving infrastructure, education and health.

12. Nevertheless, the government is also aware that removing supply bottlenecks has an important role to play in alleviating emerging demand pressures as capacity constraints intensify. Efforts by the government on the supply side have played an important part in the success against inflation since October 2006. These efforts included measures to increase competition in food distribution and improving marketing arrangements for agricultural goods. In addition, the government removed the common external tariff on a range of basic food items. The government sees room for further improvement of supply conditions. The budget for 2007–08 proposes a substantial increase on the focus on agriculture production to further impact food price inflation. While, as can be expected in a situation of rapidly rising prices, especially for food, calls have emanated from certain sectors of the population for the introduction of price controls, the government has no intention of taking this path.

Structural Policies

Saving for the future

13. In March 2007, the Heritage and Stabilization Fund (HSF) replaced the Interim Revenue Stabilization Fund, which existed since 2000. Modeled on best practices for commodity funds worldwide, the HSF will be used to accumulate savings from the country's exhaustible oil and gas assets for future generations as well as insulate the economy from swings in international oil and gas prices. Governance structures are already in place. As mentioned above, the HSF now contains US$1,396 million.

Public Financial Management

14. The authorities are grateful to staff for the useful analysis of fiscal procedures undertaken during the mission. They have already begun elaborating a proposal for Fund technical advice in implementing the recommendations. It is hoped that by fiscal year

2008/09 the budget could be presented in the context of a medium-term framework. On another note, the tax administration system will be enhanced by the coming on stream of a Revenue Authority in September 2007.

Dealing with capacity constraints

15. The government is taking a multi-faceted approach to treating the problem of capacity constraints. One approach is the importation of labor through the CARICOM movement of labor mechanism. Labor inflows are expected to intensify as more skill categories are included in the movement of labor provisions of CARICOM. The authorities have also embarked on an intensive and wide-ranging program to expand the labor force in certain skill areas, which includes training for the young and on the job training.

The business climate

16. The authorities continue to take measures to enhance the business climate. The government is accelerating the implementation of the National Information and Communication Technology Plan and the liberalization of the telecommunications sector. Following the passage of the Fair Trading Act in 2006, a Fair Trading Commission is now being established. A Bill has already been presented to Parliament seeking to review the bankruptcy legislation to facilitate debt restructuring of ailing businesses. Customs processes are being updated by the introduction of ASYCUDA++ and the electronic processing of customs entries.