DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/83/231

CONTAINS CONFIDENTIAL
INFORMATION

November 7, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Trinidad and Tobago - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Trinidad and Tobago. A draft decision appears on page 15.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Hardy, ext. (5)7158.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

TRINIDAD AND TOBAGO

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives
for the 1983 Article IV consultation with Trinidad and Tobago

Approved by E. Wiesner and W. A. Beveridge

November 4, 1983

I. Introduction

The 1983 Article IV consultation discussions with Trinidad and Tobago were held in Port-of-Spain during the period August 18-September 2, 1983. The country continues to avail itself of the transitional arrangements of Article XIV. The representatives of Trinidad and Tobago included the Prime Minister, who is also Minister of Finance and Planning, other ministers, the Governor of the Central Bank, senior government officials, and representatives of the private sector. The staff team consisted of Messrs. Hardy (Head), Kimaro, Sundgren, and Gronlie, Ms. Ross (all WHD), Mr. Nellor (FAD), and Ms. Maidment (Secretary-WHD). During the mission's stay Mr. Alexandre Kafka, the Executive Director for Trinidad and Tobago, visited Port-of-Spain.

The last consultation discussions with Trinidad and Tobago were held in May 1982. The relevant documents (SM/82/143, 7/19/82 and SM/82/146, 7/27/82) were considered by the Executive Board on September 24, 1982 (EBM/82/126).

II. Background to the Discussions

In the last three years the oil-based economy of Trinidad and Tobago has stagnated; real GDP, which had grown at an average of about 4 percent a year during 1978-80, remained about level in 1981 and 1982, and is likely to decline by about 2 1/2 percent in 1983. The oil sector accounts for about 80 percent of merchandise exports, 50 percent of central government revenue, and 30 percent of GDP. The slowdown in growth mirrored a steady decline since 1978 in crude oil production, and a weakening in the rate of expansion of the nonoil sector (Table 1). The declining trend in the petroleum sector was aggravated by the termination in late 1982 of a petroleum processing arrangement with the larger of the two local refineries, because of poor market conditions in the United States. The refinery has been kept in operation through a temporary arrangement to divert crude oil from the other refinery, leaving both of them operating at only 25 percent of capacity.

Table 1. Trinidad and Tobago: Selected Economic Indicators

(Annual percentage change)

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
Real GDP	3.9	2.7	4.8	0.4	0.4	-2.6
Petroleum GDP	0.4	-5.6	-1.8	-11.0	-5.1	-12.3
Of which: Crude oil	(0.4)	(-6.7)	(-0.8)	(-11.0)	(-6.5)	(-11.0)
Refined products	(-13.1)	(-4.0)	(-6.1)	(-18.7)	(-13.0)	(-58.1)
Nonpetroleum GDP	7.7	8.4	8.7	6.5	2.9	1.5
Of which: Agriculture	(-4.5)	(-2.7)	(-7.0)	(3.4)	(-11.7)	(0.1)
Manufacturing	(3.4)	(8.6)	(7.0)	(-4.0)	(-2.1)	(4.5)
Construction	(22.8)	(5.0)	(23.1)	(7.4)	(0.4)	(2.0)
Transport and storage	(11.6)	(12.2)	(15.0)	(10.6)	(9.7)	(-3.0)
Other	(3.8)	(9.2)	(5.5)	(7.2)	(3.1)	(2.5)
GDP deflator	9.6	27.7	36.5	8.6	6.1	5.8
Retail price index (period average)	10.3	14.7	17.4	14.4	11.5	18.2
Unit labor costs in manufacturing	17.3	20.8	15.9	35.9	13.1	19.3
Unemployment rate 1/	11.8	10.2	9.9	10.4	9.6	11.6

Sources: Central Statistical Office; and Fund staff estimates.

1/ Includes people unemployed but not seeking work; this category accounts for about half of the total.

Several large manufacturing projects based on natural gas were completed in 1982, including plants for steel, ammonia, and cement; other new plants (urea and methanol) are nearing completion. The contribution of these projects to exports has been less than had been expected, mainly because of depressed export prices, and weak external demand. In particular, steel encountered difficulties in its principal market, the United States, where legal suits pertaining to alleged dumping are pending. Production of traditional agricultural exports (sugar, coffee, and cocoa) and traditional manufactured exports (textiles, clothing, footwear, and furniture) has continued to decline owing to rising domestic costs and weak foreign demand.

Despite the slowdown in growth and the decline in exports, aggregate spending continued to rise bolstered by expansionary fiscal policies and large wage increases. Gross domestic expenditure increased by 27 percent in 1982, compared with 12 percent the previous year: the increase in expenditure led to a sharp boost in imports and a deterioration in the current account of the balance of payments.

Domestic inflation has been relatively high for a number of years, mainly because of strong demand pressures. In 1981-82 the rate of inflation moderated somewhat as import prices rose at a more reduced pace, but more recently inflation accelerated again to an annual rate of around 17 percent. The unemployment rate fell from about 12 percent in 1978 to around 10 percent in 1980-82, as the Government expanded work programs and employment rose in the construction, manufacturing, and service sectors. However, the unemployment rate is expected to climb back to 11-12 percent in 1983 as a result of cutbacks in employment in the refinery sector and in the special public works programs, and the recessionary conditions in the economy.

The balance of payments has been strongly influenced by developments in oil prices and output. Following the 1979-80 oil price hike the external position strengthened and official reserves reached an all-time high of US$3.2 billion at end-1981, equivalent to 14 months of the following year's imports. Since that time, with a reduction in international oil prices superimposed on the long-term decline in domestic oil production, the external accounts have weakened significantly. In 1982 export receipts fell by about 15 percent, while imports increased by nearly 40 percent because of the surge in aggregate demand. As a result, the external current account registered a deficit equivalent to 10 percent of GDP in 1982, in contrast to surpluses averaging 5 1/2 percent of GDP during 1980-81. Despite higher foreign borrowing, there was an overall deficit of US$260 million in 1982, the first in almost a decade (Table 2).

The balance of payments deficit is expected to widen in 1983, and net international reserves are projected to decline by about US$1 billion. Export earnings are forecast to decline by 12 1/2 percent, imports to rise by 8 percent, and the services account is expected to

Table 2. Trinidad and Tobago: Balance of Payments

(In millions of U.S. dollars)

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
Current account	35.9	-29.2	345.0	366.4	-735.4	-1,441.6
Exports	1,226.5	1,649.3	2,533.6	2,617.5	2,215.0	1,938.0
Of which: Petroleum products	(1,014.8)	(1,393.1)	(2,226.2)	(2,201.9)	(1,814.2)	(1,494.3)
Agricultural products	(40.7)	(51.8)	(41.5)	(39.7)	(30.4)	(30.2)
Ammonia and metal manufactures	(42.4)	(42.7)	(51.5)	(62.4)	(117.6)	(186.0)
Other	(134.6)	(161.7)	(214.4)	(313.5)	(252.8)	(227.5)
Imports	1,187.3	1,498.9	1,986.8	1,987.0	2,773.9	2,990.0
Of which: Consumer goods	(326.2)	(357.1)	(482.8)	(550.7)	(638.2)	(732.3)
Raw materials and intermediate goods	(494.0)	(583.2)	(789.1)	(817.0)	(1,015.2)	(1,124.2)
Capital goods	(355.1)	(561.1)	(727.2)	(618.4)	(1,120.5)	(1,133.5)
Services and transfers (net)	-3.3	-179.6	-201.8	-264.1	-176.5	-389.6
Capital account	292.9	352.1	284.7	188.7	472.8	391.6
Private (net) 1/	194.2	309.1	230.8	258.1	371.1	205.6
Official (net)	98.7	43.0	53.9	-69.4	101.7	186.0
SDR allocation	--	11.0	11.3	10.7	--	--
Overall balance	328.8	333.9	641.0	565.8	-262.6	-1,050.0
Memorandum items						
Current account/GDP ratio	1.0	-0.6	5.4	5.3	-10.1	-19.1
Gross international reserves (end of period)						
In millions of U.S. dollars	1,698	2,032	2,673	3,239	2,976	1,926
In months of imports 2/	13.6	12.3	16.1	14.0	11.9	9.5
External public and government guaranteed debt (millions of U.S. dollars; end of period)	377	591	771	965	1,097	1,307
Debt service ratio 3/	1.6	2.7	7.2	4.2	6.4	11.6

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

1/ Includes errors and omissions.
2/ Expressed in relation to imports in the following year.
3/ Interest and amortization payments as a percent of gross receipts from exports of goods and services and private unrequited transfers.

weaken because of rising interest payments and lower interest earnings. As a result, the current account deficit of the balance of payments is projected to widen to the equivalent of 19 percent of GDP.

Official external borrowing has been relatively moderate in recent years, and was mostly project-related. The term structure of the debt has been consistent with prudent debt management policies. At end-1982, outstanding debt (including guaranteed) amounted to US$1.1 billion, equivalent to 15 percent of GDP, and debt service payments that year represented about 6 1/2 percent of foreign exchange receipts from exports of goods and services and unrequited private transfers. Following a decline of US$580 million in the first half of the year, at the end of June 1983 net official reserves totaled US$2.4 billion; by year-end reserves are likely to be below US$2 billion, but would still be equivalent to about 9 1/2 months of projected 1984 imports.

Rising petroleum tax receipts and domestic incomes contributed to a strong increase in central government revenue in the period 1978-81, which was the basis of a major rise in budgetary expenditure as well as a sizable accumulation of cash balances (Table 3). Current expenditure rose sharply as outlays for transfers and subsidies were increased nearly fivefold, and lending to statutory bodies rose at a similar pace. Central government capital expenditure expanded at an average rate of more than 30 percent a year and was concentrated on social and economic infrastructure and on major investment projects in the manufacturing sector.

In 1982 the Central Government's financial position weakened dramatically. The drop in oil receipts led to stagnation of revenue, while expenditure rose by more than 40 percent, partly as a result of substantial wage increases which included retroactive payments for 1981. As a result the budget shifted from a surplus equivalent to 2.3 percent of GDP in 1981 to a deficit equivalent to 13.4 percent of GDP the following year. In 1983 the Government introduced a number of new tax measures, increased gasoline prices, and raised certain public enterprise tariffs substantially. On the other hand, as an incentive to increase production and exploration of petroleum, the supplementary taxes on oil production were reduced, with a resulting loss in revenue estimated at TT$300 million (about 5 percent of total revenue). Thus, despite the various revenue-raising measures, total revenue is estimated to fall by 12 percent owing to lower receipts from the petroleum sector. Total expenditure and net lending on the other hand is expected to rise slightly, partly as a result of growing subsidies to the refinery and steel sectors. As a result, the budget deficit is projected to widen to the equivalent to 18 percent of GDP: this will be financed primarily by a drawdown of cash balances, and to a lesser extent by borrowing from foreign and nonbank sources.

Reflecting the deterioration in the fiscal accounts, the growth in money supply (M2) accelerated to 37 percent in 1982 from about 22 percent a year in 1980-81 (Chart 1). Prior to 1982, the Government had steadily increased its creditor position with the banking system, but last year the widening fiscal deficit led to a substantial rundown of government deposits at the Central Bank, contributing to the sharp acceleration in the growth of the money stock, the loss of external reserves, and a temporary buildup of liquidity in the banking system (Chart 2 and Table 4). In the first half of 1983, as a result of the continued growth of lending and a sharp slowdown in the growth of deposits, liquidity conditions tightened again. Interest rates on loans and deposits have risen somewhat in recent years, but in general have been well below rates in international markets and below domestic inflation. Since the introduction of a marginal reserve requirement in early 1980, there have been no changes in reserve requirements on banks; the reserve requirement on licensed nonbanks was raised to 5 percent in March 1983.

Table 3. Trinidad and Tobago: Central Government Operations

	1978	1979	1980	1981	Prel. 1982	Revised Staff Est. 1983
	(In millions of Trinidad and Tobago dollars)					
Revenue	3,052	4,032	6,404	7,051	7,067	6,220
Of which: oil sector	1,718	2,347	4,130	4,307	3,291	2,301
Expenditure	2,846	4,161	5,373	6,661	9,422	9,527
Current	1,850	2,929	3,581	4,183	7,059	7,092
Of which:						
Wages and salaries	(815)	(1,177)	(1,301)	(1,390)	(3,064)	(2,390)
Transfers and subsidies	(682)	(1,217)	(1,858)	(2,190)	(3,423)	(3,700)
Capital and net lending	996	1,232	1,792	2,478	2,364	2,435
Overall balance	206	-129	1,031	390	-2,355	-3,307
Financing	-206	129	-1,031	-390	2,355	3,307
External	257	129	148	26	265	456
Domestic	-463	--	-1,179	-416	2,090	2,851
Central Bank	(-551)	(-175)	(-1,192)	(-393)	(-1,977)	(...)
Other	(88)	(175)	(13)	(-23)	(-113)	(...)
	(As a percent of GDP)					
Revenue	36.9	37.7	41.9	42.1	40.3	33.7
Expenditure	34.5	38.9	35.2	39.8	53.7	51.7
Overall balance	2.4	-1.2	6.7	2.3	-13.4	-18.0

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

CHART 1

TRINIDAD AND TOBAGO

DETERMINANTS OF CHANGES IN MONEY SUPPLY

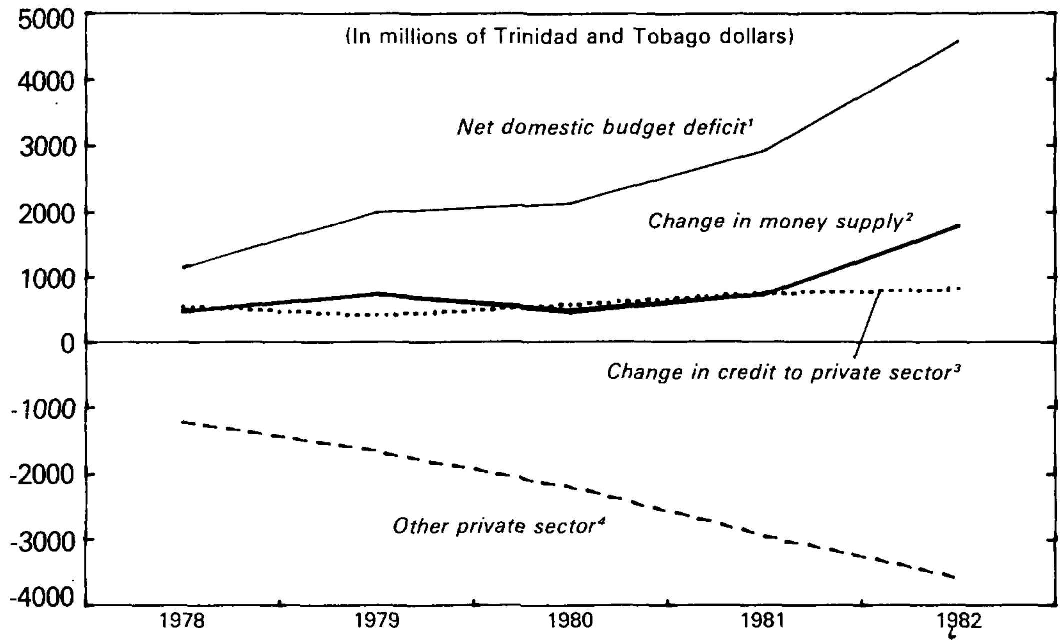
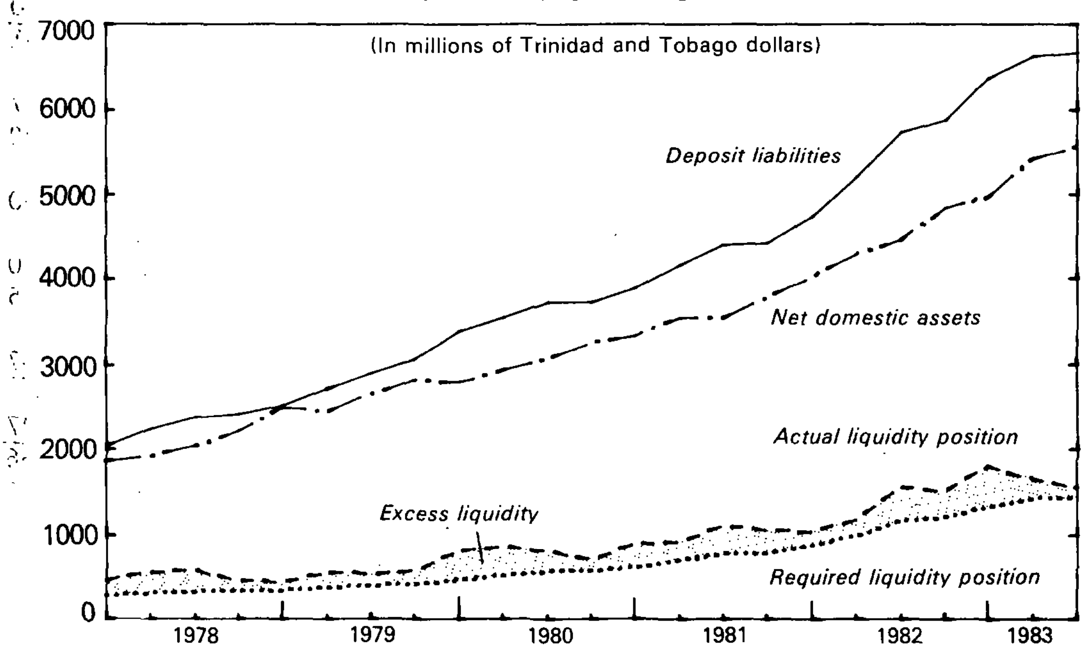


CHART 2

COMMERCIAL BANKS' LIQUIDITY POSITION



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

[1]Expenditure on domestic goods and services less domestic revenue.

[2]Money and Quasi-money.

[3]Extended by the banking system.

[4]Mainly reflecting the balance of payments deficit of the private sector; also includes change in banking systems' net *unclassified assets.*

Table 4. Trinidad and Tobago: Selected Monetary Indicators

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
I. Summary Operations of the Monetary System 1/						
(Changes in percent) 2/						
Net international reserves	27.5	25.7	34.8	25.5	-9.9	-29.0
Net claims on Central Government	-20.3	-4.7	-27.8	-6.9	28.1	30.1
Credit to private sector	27.4	15.3	18.8	18.9	18.4	11.1
Liabilities to private sector	26.8	26.8	21.3	23.5	37.4	16.0
II. Interest Rates						
						March
Commercial banks: average lending rate	9.94	10.79	11.70	12.28	12.67	12.64
Commercial banks: average deposit rate	4.75	5.94	6.29	6.60	6.05	5.89
Three months (London) Eurodollar rate	8.85	12.09	14.19	16.78	13.16	9.26
III. Required Reserve Ratios						
(As percent of deposits, end of period)						
						June
Basic reserves	9.0	9.0	9.0	9.0	9.0	9.0
Marginal reserves	--	--	15.0	15.0	15.0	15.0
Secondary reserves	5.0	5.0	5.0	5.0	5.0	5.0
NBFI reserve requirement	--	--	--	3.0	3.0	5.0

Source: Central Bank of Trinidad and Tobago.

1/ Includes the Central Bank, commercial banks, and nonbank financial intermediaries (NBFI).
2/ In relation to liabilities to the private sector at the beginning of the period.

The Trinidad and Tobago dollar is pegged to the U.S. dollar at TT$2.4 = US$1.00. Since 1977 the real effective exchange rate against trading partners has appreciated by over 30 percent: the rate appreciated by 13 percent from 1977 through end-1981, and by a further 19 percent from end-1981 through mid-1983. The real effective exchange rate appreciated by about 10 percent between 1977 and 1982 against the currencies of trading partners in the Caribbean Community (Chart 3). There has been a further effective appreciation with respect to CARICOM partners since the introduction of Jamaica's parallel market system in early 1983, which included a 21 percent depreciation of the Jamaica dollar for CARICOM transactions.

III. Economic Prospects and Policies

1. Introduction

According to the mission's estimates, export earnings, which will have declined by some 25 percent between 1981 and 1983, are unlikely to recover more than about half of the lost ground over the next three years mainly because of projected continued weakness in the petroleum sector. Thus, in order to restore external equilibrium, real domestic expenditure and imports need to be lowered significantly. Accordingly, the consultation discussions were focused on an adjustment strategy that would be appropriate in these circumstances, including specific policies and the sequence of their implementation.

The representatives of Trinidad and Tobago broadly agreed with the mission on the need for and magnitude of the required adjustment. They agreed with the mission's projections on exports, noting that with the planned construction of two marine platforms the declining trend in oil production should be halted within a year or two. They also explained that a comprehensive review of the problems facing the refineries was underway and that decisions would be taken soon. They were hopeful that intensive exploitation of the country's abundant natural gas resources would provide growth in export earnings over the medium term. Private investors have expressed interest in further expanding production of ammonia and methanol. In addition, the authorities have studied the feasibility of constructing an LNG plant in the more distant future.

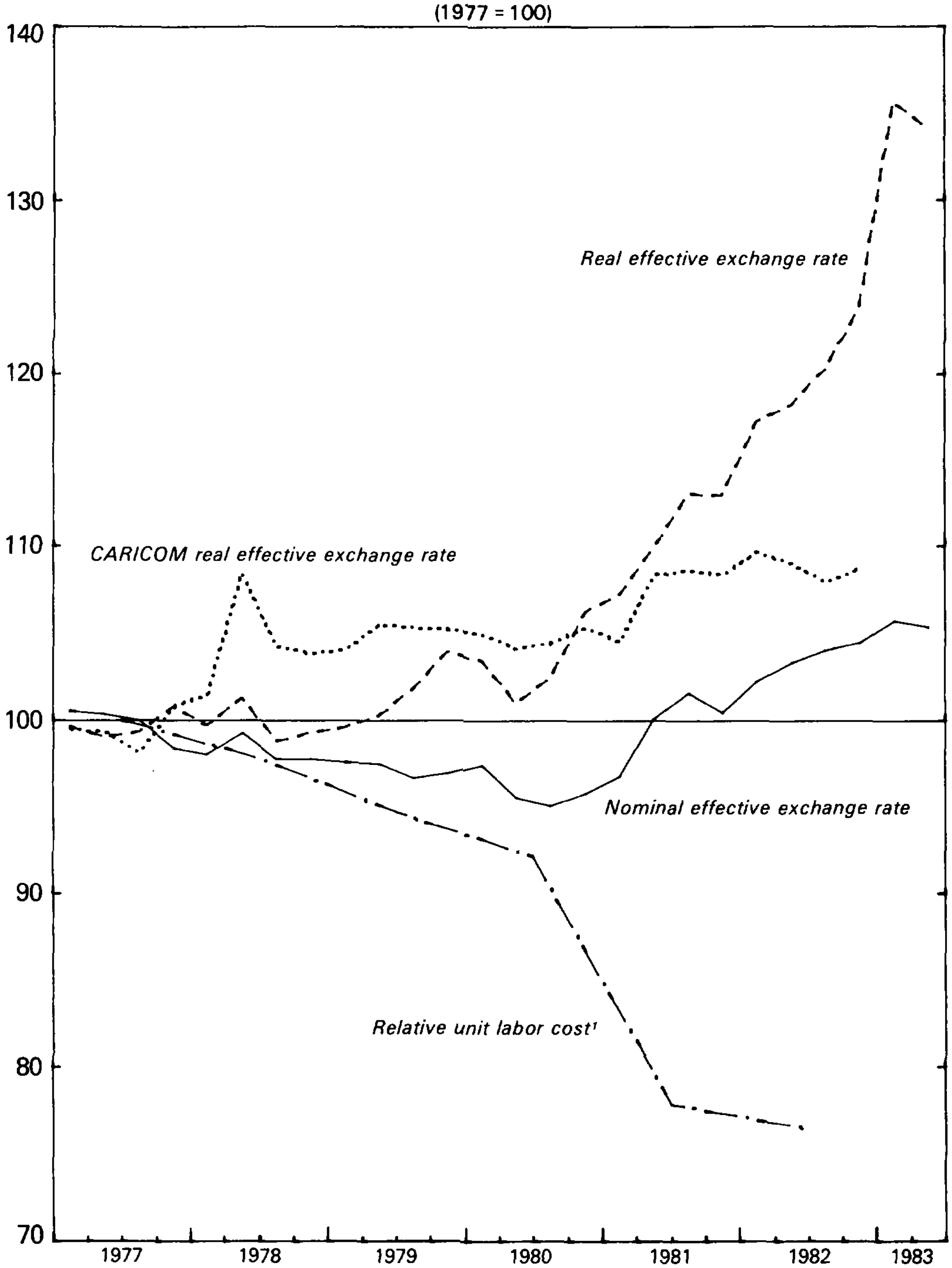
In the meantime, they noted that Trinidad and Tobago still maintains relatively high official reserves and a relatively low level of external debt. Thus, judicious foreign borrowing and some further use of reserves could serve to cushion the adjustment process. They explained that their balance of payments objective was to stabilize the external reserve position at around five months of imports within two or three years. The mission estimated that, allowing some margin for foreign borrowing, the attainment of this objective would entail a lowering of real domestic expenditure of around 15 percent over the period and a reduction in real imports of 20-25 percent compared with the estimated 1983 level. Such an adjustment would require strict wage policies and strong fiscal measures, including major curtailment of capital expenditure, subsidies and transfers.

CHART 3

TRINIDAD AND TOBAGO

REAL AND NOMINAL EFFECTIVE EXCHANGE RATE, REAL EFFECTIVE EXCHANGE RATE VIS-A-VIS CARICOM, AND RELATIVE UNIT LABOR COST IN MANUFACTURING

(1977 = 100)



Source: International Monetary Fund.

[1]Unit labor cost in the United States divided by unit labor cost in Trinidad and Tobago. Excludes sugar and petroleum manufacturing in Trinidad and Tobago.

2. Wage policies

The authorities emphasized that the pace of wage increases--which had averaged about 30 percent a year over the 1978-82 period--would need to be curtailed drastically to support the adjustment effort. They noted that there was a growing awareness of the need for wage restraint, and certain private sector companies had already proposed a wage freeze. Most of the recent wage settlements, however, still provided increases of around 15 percent a year, including partial cost of living adjustment.1/ The Government would soon be announcing strict guidelines for public sector employees, and it was hoped that this would exert a restraining influence on settlements in the private sector. The mission stressed that strict wage policies would be essential and that real wages have to be reduced significantly to achieve the required adjustment, without the burden falling heavily on employment.

The authorities felt that there was scope for expanding employment in agriculture, construction, and export manufacturing, and noted that the official unemployment figures included a substantial number of persons not actively seeking work. Nevertheless, they voiced concern at the rising trend in unemployment, particularly in view of the relatively weak economic growth prospects in the period ahead, and the strict budgetary stance that would be necessary.

3. Fiscal and monetary policies

The authorities noted that policies of demand restraint would have the major role in the adjustment effort. The staff suggested that the overall budget deficit would need to be reduced within two or three years from the equivalent of 18 percent of GDP projected for 1983 to around 7 percent of GDP, of which 2-3 percent of GDP would represent net foreign financing. Given the need to maintain confidence and protect the country's creditworthiness, the staff suggested that the authorities seek an adjustment of about TT$1.2 billion, or 8 percentage points of GDP, in the fiscal deficit in 1984 compared with the estimated 1983 outturn. This would be achieved through a combination of new tax measures, strict restraint on wages and public sector employment, major increases in utility tariffs, improvements in efficiency and restructuring of some state enterprises, cuts in budgetary transfers and subsidies, and a substantial reduction of capital outlays. The authorities agreed with the staff that the bulk of the adjustment should be made in 1984.

The discussion on possible new tax measures centered on an extension of the purchase tax base toward a general sales tax, increases in excise duty rates, abolition of various import duty exemptions and an

---

1/ Recent settlements have generally provided increases of 30-40 percent for the period 1983-85, apart from partial cost of living adjustments which generally add another 3 percent a year.

import surcharge. With the exception of the last measure, these proposals are based on the recommendations of a FAD technical assistance mission of March 1983. In addition the mission suggested a further adjustment of about 35 percent in domestic gasoline prices to eliminate the remaining subsidy; removal or reduction of subsidies on poultry feed, domestic sugar and certain other products; adjustments ranging from 50 percent to several hundred percent for the tariffs of the port, electricity, and water authorities; and other actions to improve efficiency and reduce transfers to utilities and state enterprises, particularly to the oil refinery, steel, airline and sugar sectors. The authorities noted that the sugar sector in particular posed difficult social and economic problems, and that they were reviewing ways to scale down the industry to supply only the domestic market.

With regard to monetary policy, the authorities believed that the emerging tight credit and liquidity conditions in the economy would help strengthen the balance of payments. The authorities envisaged that the Central Bank would extend credit to selected priority sectors, but only to the extent that such accommodation was consistent with the global constraint on the expansion of credit.

The authorities intend to continue their policy of allowing interest rates to be determined by market forces. The discount rate (6 percent) plays only a symbolic role, as central bank accommodation of the commercial banks, which has thus far been minimal, bears market-related interest rates. The staff suggested that the discount rate be raised to above the prime lending rate (now 13 percent) to discourage banks from making more than temporary recourse to this facility. The authorities, however, felt that a sharp increase in the discount rate might prompt banks to increase lending rates. They also reiterated their concern in regard to the wide and increasing spread between the banks' average lending and deposit rates. The banks justify the present spread on the grounds that certain costs are not directly charged to customers, and that the marginal reserve requirement has raised the effective cost of mobilizing funds.

4. External policies

While concerned about the recent decline in reserves, the authorities noted that Trinidad and Tobago still maintained a comfortable margin of external reserves. They also felt that the recent rate of reserve loss may have been exacerbated by changes in leads and lags associated with rumors of devaluation and of tightening of exchange controls.

The authorities explained that in 1983 they were planning to borrow about US$300 million (net); of the planned gross borrowing of about US$400 million, only US$70 million had been secured at the time of the discussions. The staff felt that, in view of the time constraint, it would be difficult to realize the planned amount in 1983.

Looking further ahead, the staff noted that net external borrowing of US$150-200 million a year over the next three years would raise outstanding public and publicly guaranteed debt from the equivalent of 15 percent of GDP in 1982 to close to 20 percent in 1986, and increase the debt service ratio from an estimated 11.6 percent in 1983 to 16-17 percent in the second half of the decade (Table 5). These appeared to be reasonably prudent and manageable limits.

With regard to medium-term adjustment, the staff estimated that real imports would need to be reduced by 20-25 percent over the period 1984 through 1986, compared with the estimated 1983 level. The authorities agreed with the staff that the curtailment of imports should be achieved through demand management policies, but felt that there was some scope for direct action to limit imports through administrative measures. They argued that selective limitation of nonessential imports would benefit the balance of payments and help foster the perception that the burden of adjustment was being equitably shared. Moreover, they maintained that the use of tariffs was circumscribed by the common external tariff provision of the CARICOM agreement. The mission argued in favor of using pricing policies and excise taxes, and cautioned that reliance on administrative measures to control imports would cause distortions and inefficient allocation of resources.

In the area of exchange rate policy the staff noted the large real effective appreciation of the Trinidad and Tobago dollar in recent years and suggested that consideration be given to a modification of exchange rate as an integral part of the adjustment effort. Exchange rate action would help restore the competitiveness of those sectors on which the country will need to rely for future growth of income and employment. The authorities acknowledged the adverse effect of the appreciation of the Trinidad and Tobago dollar in recent years, especially on traditional exports and import substitution. However, they felt that exchange rate adjustment might jeopardize their ability to contain wage increases. Moreover, some 80 percent of the country's exports consisted of petroleum products which they believed would not be affected by a modification of the exchange rate. They stated that export promotion and diversification was a major economic policy objective, and to this end they had announced special incentives in the 1983 budget, and were establishing an Export Development Corporation to underpin the new export strategy. They emphasized that payments difficulties of major trading partners within the region also had contributed to the weakness of exports of traditional manufactures, and they feared that any adjustment of the exchange rate might well be partially offset by similar moves in other CARICOM countries. They also noted that recessionary conditions and protectionism in the industrial countries had created difficulties for the new export industries, and complained that pending legal suits may result in barring Trinidadian steel exports to the United States and threaten cessation of steel production.

Table 5. Trinidad and Tobago: External Public Debt, 1982-90 1/

	Actual	Projected							
	1982	1983	1984	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)								
Outstanding (end of period)	1,097	1,307	1,500	1,700	1,900	2,100	2,300	2,500	2,700
Debt service	192	290	291	335	389	484	559	584	685
Principal	95	201	172	189	220	293	345	348	427
Intereest	97	89	119	146	169	191	214	236	258
	(In percent)								
Outstanding/GDP	15.0	17.3	17.9	18.9	19.4	19.6	19.7	19.7	19.5
Debt servicing 2/	6.4	11.6	11.3	12.8	14.1	16.0	16.8	16.0	17.0

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

1/ Government and government-guaranteed debt.
2/ Principal and interest as percent of receipts from exports of goods and services and private unrequited transfers.

After the mission's return, on October 7, Trinidad and Tobago introduced a foreign exchange budget for imports, with ceilings for the amount of foreign exchange to be allocated annually for the purchase of specific imports and, within those ceilings, limits on the amount to be made available to individual applicants. Foreign exchange would be provided on a priority basis for capital goods, raw materials, other industrial inputs and essential food and drugs, while imports of nonessential consumer goods would be restricted. Importers must henceforward obtain exchange approval from the Central Bank before an import license can be activated. Prior to this measure, Trinidad and Tobago had maintained an exchange system that was largely free of restrictions on payments and transfers for current international transactions.

IV. Staff Appraisal

Trinidad and Tobago is an oil-based economy which enjoyed almost a decade of rapidly rising income because of major increases in oil prices in 1973-74 and 1979-80. During this period reserves were built up to a peak of US$3.2 billion and major investments were made in export industries and in infrastructure. However, since 1981 declining oil prices and production have reversed the previously favorable trends, and the new petrochemical and gas-based industries have performed worse than expected because of weak world markets. As a result, since 1981 foreign exchange earnings have declined by about 25 percent. Domestic expenditure, however, continued to increase, bolstered by expansionary fiscal and wage policies. Consequently, there has been a marked deterioration in the current account of the balance of payments and a substantial drawdown of foreign exchange reserves, which by the end of 1983 are likely to be below US$2 billion; reserves would, however, still be equivalent to some 9 1/2 months of imports at the level projected for 1984.

Given the relatively moderate prospects for exports in the next few years, there is a need to adjust aggregate demand downward to a level which can be sustained over the medium term. The required adjustment appears to be of the order of 15 percent of GDP. Such an adjustment will require strong fiscal measures coupled with austere incomes policies. A further drawdown of reserves and some foreign borrowing can help cushion the adjustment process for a period, and the authorities' objective of stabilizing reserves at a level equivalent to five months of imports within the next two years would seem appropriate under the circumstances.

A rapid improvement in budgetary performance should be the centerpiece of the adjustment effort. The staff believes that the budget deficit needs to be cut back by some 8 percentage points in relation to GDP in 1984 and further in the following two years. This will require a major effort to increase revenue from the non-oil sector and to contain budgetary expenditure. Current expenditure should be curbed by restraining wages and employment, by raising utility rates and other prices, and by structural reforms in government enterprises so as to reduce budgetary subsidies and transfers. Moreover, central government capital outlays also will need to be cut back significantly.

In recent years wage increases, both in the public and private sectors, have been large, and have contributed significantly to financial imbalances in the economy and to an erosion of the competitiveness of traditional sectors. The staff believes that adoption of a strict wage guideline for the public sector is needed, and that this should also serve to restrain wage demands in the private sector.

Credit policies may need to be tightened to support the adjustment effort. The authorities' intention to selectively accommodate priority sectors should be monitored carefully to ensure that these operations remain within reasonable bounds and are consistent with restrained growth of overall credit. At the same time, public sector borrowing from the banking system should not be of such a magnitude as to crowd out priority needs of the private sector. In the staff's view interest rates should continue to be market determined, and no steps should be taken to counteract any possible rising trend.

The staff believes that rapidly increasing domestic costs and the more than 30 percent effective appreciation of the Trinidad and Tobago dollar since 1977 have contributed to the poor performance of traditional exports, and of import competing industry. The authorities would be well advised to consider exchange rate adjustment as a means of strengthening international competitiveness and complementing demand policies in achieving the external adjustment that is needed. The recently introduced foreign exchange restriction, which consists of allocating foreign exchange for nonessential imports, can only be of marginal assistance, inasmuch as it does not curb demand and constitutes an inefficient rationing mechanism. Limiting access to foreign exchange through such means would undermine confidence, impair resource allocation, and ultimately serve to retard economic growth. At present, economic policies do not give sufficient assurance that the restriction can be regarded as temporary, and therefore approval of Trinidad and Tobago's exchange measures under Article VIII is not proposed.

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

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to exchange measures of Trinidad and Tobago subject to Article VIII, Section 2, and in concluding the 1983 Article XIV consultation with Trinidad and Tobago, in the light of the 1983 Article IV consultation with Trinidad and Tobago conducted under Decision No. 5392 (77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Trinidad and Tobago has recently introduced a foreign exchange allocation system for imports. The Fund urges Trinidad and Tobago to implement policies which will facilitate the prompt elimination of this practice.

Fund Relations with Trinidad and Tobago
(As of September 30, 1983)

Membership date:	July 17, 1963		
Status:	Article XIV		
Quota:	SDR 123.0 million		
Fund holdings of Trinidad and Tobago currency:		Millions of SDRs	Per Cent of Quota
	General Resources Account	20.14	16.38
SDR Department:		Millions of SDRs	Per Cent of Cumulative Allocation
	Net cumulative allocation	46.23	100.0
	Holdings	105.02	227.2
Trust Fund loan disbursements:	--		
Direct distribution of profits of gold sales:	US$10.02 million		
Gold distribution (four distributions):	53,916.983 fine ounces.		
Exchange rate:	TT$2.4 per U.S. dollar.		

In March 1983, an FAD technical assistance mission visited the country. A mission from the Bureau of Statistics visited the country during January 1983 to train officials in GFS methodology and to update the country's presentation in the GFS Yearbook.

TRINIDAD AND TOBAGO

Area and population				
Area	1,980 sq. miles (5,128 sq. kilometers)			
Population (1982)	1.1 million			
Annual rate of population increase 1978-82	1.6 percent			
Unemployment rate (1982)	9.6 percent			
GDP (1982)	SDR 6,627 million US$7,316 million TT$17,558 million			
GDP per capita (1982)	SDR 6,025			

	1980	1981	Prel. 1982	Proj. 1983
Origin of GDP		(percent)		
Agriculture and fishing	2	2	2	2
Petroleum	43	36	30	24
Manufacturing	6	6	6	7
Construction	7	9	9	10
Government	8	10	11	12
Other	34	37	42	45
Ratios to GDP				
Exports of goods and nonfactor services 1/	49.3	45.1	36.2	30.0
Imports of goods and nonfactor services 1/	38.2	35.9	46.3	49.1
Current account of the balance of payments	5.4	5.3	-10.1	-18.8
Central government revenues	41.9	42.1	40.3	33.7
Central government expenditures	35.2	39.8	53.7	51.7
Central government savings	22.4	21.6	5.8	-1.2
Central government overall surplus or deficit (-)	6.7	2.3	-13.4	-18.0
External public and government guaranteed debt (end of year)	12.1	13.8	15.0	17.0
Gross national savings	41.4	36.5	28.0	19.3
Gross domestic investment	35.9	31.2	38.1	38.1
Money and quasi-money (end of year)	24.8	27.0	35.9	39.5
Annual changes in selected economic indicators				
Real GDP per capita	3.1	-1.2	-1.0	-4.0
Real GDP	4.8	0.4	0.4	-2.6
GDP at current prices	43.0	9.5	5.0	4.8
Domestic expenditure (at current prices)	34.7	11.8	27.3	13.4
Investment	(58.9)	(-5.0)	(28.1)	(5.0)
Consumption	(22.2)	(23.3)	(26.9)	(17.8)
GDP deflator	36.5	8.6	6.1	5.8
Consumer prices (annual averages)	17.4	14.4	11.5	18.2
Central government revenues	58.8	10.1	0.2	-12.0
Central government expenditures	29.1	24.0	41.5	1.1
Money and quasi-money	14.4	19.5	39.2	15.4
Money	(20.5)	(14.0)	(49.3)	(7.4)
Quasi-money	(11.9)	(21.9)	(35.1)	(19.1)
Net domestic bank assets 2/	-23.9	-8.2	52.2	52.8
Credit to public sector (net)	(-36.4)	(-19.0)	(42.1)	(46.1)
Credit to private sector	(15.7)	(17.9)	(16.4)	(10.8)
Merchandise exports (f.o.b.)1/	53.6	3.3	-15.4	-12.5
Merchandise imports (c.i.f.)1/	32.6	--	39.6	7.8
Travel receipts (gross)	26.2	0.5	-9.4	--

Central government finances	1980	1981	Prel. 1982	Proj. 1983
	(millions of Trinidad and Tobago dollars)			
Revenues	6,404	7,051	7,067	6,220
Expenditures	5,373	6,661	9,422	9,527
Current account surplus or deficit (-)	2,393	2,365	-504	-1,382
Overall surplus or deficit (-)	1,031	390	-2,355	-3,307
External financing (net)	148	26	265	456
Internal financing (net)	-1,179	-416	2,090	2,851
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)1/	2,534	2,618	2,215	1,938
Merchandise imports (c.i.f.)1/	1,987	1,987	2,774	2,990
Travel (net)	12	-16	-92	-123
Investment income (net)	-299	-190	94	-29
Other services and transfers (net)3/	107	-35	-153	-221
Balance on current and transfer account 3/	367	389	-710	-1,425
Official capital (net)	32	-93	76	169
Private capital and errors and omissions (net)	231	259	371	206
SDR allocations	11	11	--	--
Change in net official international reserves (increase -)	-641	-566	263	1,050

International reserve position	1980	1981	Dec. 31 1982	June 30 1983
		(millions of SDRs)		
Central Bank (gross)	2,096	2,782	2,698	2,242
Central Bank (net)	2,096	2,782	2,698	2,242
Rest of banking system (net)	-22	-21	-36	-58
Ratio of gross reserves to imports 4/	16.1	14.0	11.9	9.6

1/ Excludes petroleum traded for refining under processing agreement in Trinidad and Tobago.
2/ In relation to liabilities to the private sector at the beginning of the period.
3/ Excludes official transfers which are included in "official capital (net)."
4/ Imports for the subsequent year.