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The Chairman's Summing Up at the Conclusion of the
1983 Article IV Consultation with Trinidad and Tobago
Executive Board Meeting 83/165 - November 30, 1983

Executive Directors noted that Trinidad and Tobago's economic growth, especially in the petroleum sector, had weakened in recent years, owing to domestic and external factors. That weakening, together with expansionary fiscal policies and substantial wage increases, contributed to the emergence of large internal and external imbalances in 1982 and 1983.

In view of the prospect of relatively modest export growth for the next few years, Directors underscored the urgent need to adopt a comprehensive adjustment program designed to bring aggregate domestic demand into line with resource availabilities. In order to moderate the rapid rate of decline in international reserves and protect the country's creditworthiness, Directors thought that, given the magnitude of the imbalances, substantial adjustment measures should be introduced promptly. Noting that the authorities still had some room for maneuver, Directors nonetheless urged them to take decisive measures before external constraints became too pressing. In that regard, the relatively high level of per capita income and the composition of imports should ease the adjustment process.

Directors agreed that wage restraint and an improvement in budgetary performance should form the centerpiece of the adjustment program and would require a major effort to increase revenue from the non-oil sector and to curb current and capital public expenditure through containment of wages, employment, subsidies, and transfers. Adjustments in the prices and tariffs of state enterprises were also seen as an important element of the policy package.

Directors noted that excessive wage increases had contributed to financial imbalances in the economy and eroded the competitiveness of traditional sectors. They therefore welcomed the Government's intention to announce strict wage guidelines for public sector employees and to encourage moderation in wage settlements throughout the economy.

Directors further observed that credit policy might need to be tightened and that interest rates should be market determined and should become positive in real terms.

Directors emphasized that restrained demand policies and actions to improve international competitiveness should be the means of restoring external viability. In that connection, the substantial appreciation of the real effective exchange rate of the Trinidad and Tobago dollar that has taken place in recent years was noted, and Directors underlined the close linkage between wage behavior and the exchange rate. The authorities would have to keep that relationship in mind in their effort to enhance the international competitiveness of Trinidad and Tobago. The recent introduction of foreign exchange restrictions for balance of payments reasons was regretted, and a number of Directors urged the authorities to abolish such restrictions as soon as possible in order to avoid misallocation of resources.

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