

SUR/07/116

September 18, 2007

**The Acting Chair's Summing Up
Trinidad and Tobago—2007 Article IV Consultation
Executive Board Meeting 07/78
September 10, 2007**

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.

The next Article IV Consultation with Trinidad and Tobago is expected to be held on the standard 12-month cycle.