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EB/CM/Trinidad & Tobago/62/1

November 5, 1962

To: Members of the Committee on Membership - Trinidad and
Tobago

From: The Secretary

Subject: Calculation of Quota

Attached for consideration at an early meeting is the
staff's calculation of a quota for Trinidad and Tobago.

Att:(1)

Other Distribution:
Members of the Executive Board
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Calculation of Quota for Trinidad and Tobago

Prepared by the European Department

(In Consultation with the Legal Department and the
Office of the Treasurer)

Approved by Gabriel Ferras

November 5, 1962

In a letter dated September 4, 1962, the Government of Trinidad and Tobago applied for membership in the Fund (EBD/62/143).

1. Background

Trinidad and Tobago, formerly a British territory, became independent on August 31, 1962. The population, which is expanding at the rate of 3 per cent per annum, totals 850,000, and the area of the territory is 1,980 square miles of which Tobago is 116 square miles: Trinidad is situated seven miles off the coast of Venezuela.

In the early 1950's, production of the main items in Trinidad and Tobago, e.g., oil and sugar, was not much higher than it had been in the prewar years. Since 1954, however, the economy has grown rapidly. By 1960, gross domestic product had expanded to over WI\$850 million, compared with WI\$310 million in 1951: there appears to have been a further substantial increase in 1961. Allowing for price rises, gross domestic product more than doubled, in real terms, in the ten years to 1961.

This economic expansion has been based to a large extent on the oil industry; three foreign-owned oil companies operate in Trinidad and Tobago. Domestic output of crude oil amounted to 21 million barrels in 1951 compared with 22 million barrels in 1940. By 1960, output had risen to 42.4 million barrels with a further sizable expansion in 1961. Largely because of marine discoveries, domestic oil production is expected to increase fairly rapidly in the next few years, although not as fast as in the 1955-1959 period when it rose by over 60 per cent. In addition to local production, Trinidad and Tobago imports crude oil from Venezuela and Saudi Arabia for refining and re-export: in 1960 these imports amounted to 45 million barrels, compared with 16 million barrels in 1951. The importance of the oil industry to the economy of Trinidad and Tobago is illustrated by the following figures.

Percentage Contribution of Oil Industry 1960

	<u>Per cent</u>
Gross domestic product	29
Government revenues	36
Gross fixed investment	36
Imports of crude oil as percentage of total imports	31
Exports and re-exports of fuels, lubricants, etc., as percentage of total exports	80

Manufacturing industry, which contributes about 12 per cent of the GDP, has grown appreciably in recent years: in 1960 output amounted to about WI\$110 million, some 80 per cent above the 1955 level. Food and clothing are the largest industries but construction materials, furniture and chemicals are of increasing importance. Moreover, a wide range of light industries has begun operations in recent years. To some extent the diversification of industry has been due to incentives provided by the Government.

As the oil industry is capital intensive, it provides relatively little employment for Trinidad and Tobago's rapidly growing population. The oil and manufacturing industries, between them, employ less than 20 per cent of those at work. Although no precise statistics are available, unemployment and underemployment are generally thought to be high. Thus, agriculture is important not only because it accounts for about 12 per cent of exports and 14 per cent of GDP, but also because it provides employment for a relatively large proportion of the work force. The main export crop is sugar and other crops include cocoa, coffee, coconuts, citrus fruits, rubber and bananas.

There has been a large increase in government expenditure in the past few years partly in association with the Economic Program currently covering the years 1958-1962. The purpose of the Program is to "increase the stock of economic and social overhead capital so as to create an atmosphere more conducive to direct productive investment....to increase national income..... and to provide more employment for the increasing labor force". In the six years 1956-1961 development expenditure amounted to about WI\$200 million. Surpluses from current revenue amounted to about WI\$150 million: other finance was provided from long-term government borrowing, from drawing down of government balances and from funds of Statutory Boards. Budget estimates suggest that there might be no surplus on current account in 1962. Expenditure on the Development Program is expected to reach WI\$82 million in 1962 compared with a revised estimate of WI\$53 million in 1961.

As noted earlier, sales abroad of fuels, lubricants, etc., represent about 80 per cent of exports and re-exports. Sales of food (mainly sugar), beverages and tobacco amount to another 12 per cent of total exports, and miscellaneous manufactured goods account for the remainder. About 30 per cent of Trinidad and Tobago's exports are shipped to the United Kingdom, and about 20 per cent to the United States, 5 per cent both to the West Indies and to Canada, and 14 per cent to the Overseas Sterling Area. Imports of crude oil amounted to nearly WI\$160 million in 1960, about 30 per cent of

total imports. Imports of machinery, vehicles and other manufactured goods make up the bulk of the remainder. About 30 per cent of Trinidad and Tobago's imports come from the United Kingdom, and about 20 per cent both from Venezuela and North America. In most recent years the visible trade account has been in surplus but, because of a growing net debit for invisibles, mainly due to increases in profits remittable by oil companies, the current account has been in deficit. However, the private capital inflow also has been rising and total official external assets probably were fairly steady between 1955 and 1960.

2. The monetary system

The Currency Board of British Caribbean Territories (Eastern Group) issues currency, the West Indies dollar, in Trinidad and Tobago as well as on behalf of Barbados, British Guiana, Leeward Islands (Antigua, St. Kitts, Monserrat) and Windward Islands (Grenada, St. Vincent, St. Lucia and Dominica). Legislation giving effect to the Currency Board was enacted by the individual governments concerned in 1950. Currency notes were issued by the Board for the first time in August 1951 when the Board also took over the currency notes previously issued by the individual governments as well as the asset backing. These government currency notes were demonetized, effective January 1955, from which date they ceased to be legal tender within the territories of the Currency Board's operations; as at July 1, 1962, less than WI\$1 million of the notes formerly issued by individual governments remained outstanding. The Currency Board began to issue coin as from November 1955 and U.K. coins are being gradually withdrawn from circulation.

The West Indies dollar (WI\$) is convertible into sterling at WI\$4.80 = £1 (i.e., US\$1 = WI\$1.715). Under legislation enacted by the governments of each of the territories mentioned above, currency notes issued in Jamaica became legal tender as from October 1955 at the rate of £J 1 = WI\$4.80. Similarly, under legislation enacted by the Jamaican Government, notes issued by the Caribbean Currency Board (Eastern Group) became legal tender in Jamaica. However, few Caribbean Currency Board notes circulate outside the territories in which it issues currency: Board notes taken to Jamaica are repatriated when they are deposited with a bank in Jamaica. Neither do Jamaican Currency Board notes (now being replaced by Bank of Jamaica notes) circulate actively in the area of the Eastern Caribbean Currency Board. The following table indicates the proportion of Board notes and coin in circulation in Trinidad and Tobago.

Average Currency Circulation in Trinidad and Tobago as
Proportion of Total Circulation in all Territories

	1958	1959	1960	July 1, 1962
Per cent	46.9	47.5	48.1	45.4

These figures do not take account of the not inconsiderable movements of notes among territories within the Group; such movements are believed to have been fairly important and thus the figures above may not indicate accurately the actual proportion of notes in circulation in Trinidad and Tobago.

In earlier years virtually all the Board's assets were in U.K. or other Commonwealth securities and deposits. In recent years the Caribbean Board has taken up debentures of governments within its territory. As at December 31, 1961 total currency in circulation (including holdings of banks in the area) amounted to WI\$105.0 million, which was covered as follows.

	<u>WI\$ million</u>	<u>Per cent of cur- rency circulation</u>
U.K. and other sterling area securities	87.4	83.2
Sterling deposits	11.6	11.0
Debentures of Government of Trinidad and Tobago	5.6	5.3
Debentures of Governments of Barbados, British Guiana, Grenada, Antigua	5.0	4.8
	<u>109.5</u>	<u>104.3</u>

Source: Saint Lucia Gazette, May 5, 1962.

There are six commercial banks, predominantly foreign-owned, operating in Trinidad and Tobago. Deposits at commercial banks at the end of June 1962 totaled WI\$174.5 million, of which savings deposits represented WI\$90.2 million. Total cash holdings by the banks were WI\$8.0 million while net balances held abroad amounted to WI\$64.9 million. Loans and advances by the commercial banks totaled WI\$85.7 million at June 1962 and investments were WI\$5.8 million. The Post Office also conducts savings bank business: deposits at June 1962 were WI\$12.1 million. These balances have, in recent years, tended to decline slightly.

In his budget speech in April 1962, the Minister of Finance said that to take best advantage of rapid economic development there should be a corresponding development of financial institutions. The Government, he said, had in the past deferred its plans for the establishment of a central bank because of the West Indies Federation. With the dissolution of the Federation "there will be no further delay in the preparations for such a bank".

3. Range of suggested quota

According to the Bretton Woods formula, the quota for Trinidad and Tobago works out at \$7.0 million. Table 2 compares recent foreign trade, national income and population figures for Trinidad and Tobago with those for selected Fund members. With regard to national income, Trinidad and Tobago comes closest to such countries as Costa Rica (with a quota of \$15 million), Bolivia (\$22.5 million) and Tanganyika (\$25 million). There is, however, wide variability in the date and concept of national income for the countries shown in Table 2. As far as foreign trade is concerned, Trinidad and Tobago has relatively high figures and could be ranked with countries such as Israel (\$25 million), Burma (\$30 million) and Ghana (\$35 million). As noted earlier, crude oil has, in recent years, been imported into Trinidad and Tobago and subsequently re-exported as refined fuel and lubricants; in the period 1958-1960 these imports averaged about \$80 million a year. If this figure were excluded from both imports and exports, Trinidad and Tobago's total foreign trade in the 1958-1960 period would average a little over \$370 million, somewhat higher than Sudan (quota \$15 million), Jamaica (quota \$20 million), and Tunisia (quota \$22.5 million).

A comparison with Jamaica, which accepted a quota of \$20 million, shows that Jamaica's population and national income are appreciably higher than that for Trinidad and Tobago. On the other hand, Trinidad and Tobago's foreign trade and the ratio of imports to national income are substantially higher than those for Jamaica: if full allowance were made for the import and re-export of oil, the margin for Trinidad and Tobago over Jamaica would be narrowed, but would remain significant.

In the light of these comparisons, the staff feels that a quota in the range of \$20 million to \$25 million would be appropriate.

4. Gold subscription

By applying the principle of Article III, Section 3(b) of the Articles of Agreement, it is recommended that Trinidad and Tobago be given the option of paying as its gold subscription the smaller of (a) 25 per cent of its quota, or (b) an amount equal to 10 per cent of the net gold and convertible currency holdings of Trinidad and Tobago as of the date that Trinidad and Tobago makes the representation to the Fund that it has taken all action necessary to adhere to the Articles of Agreement. The Trinidad and Tobago Ministry of Finance in a letter dated October 9, 1962 informed the staff that the total holdings of convertible currencies (all in sterling) of the British Caribbean Currency Board as at June 30, 1962 (most recent date at which figures are available) were WI\$16.6 million; there were no holdings of gold. The Ministry of Finance noted that, as at the same date, the Currency Board had on issue WI\$96,324,053 of which WI\$44,003,589 (or 45.68 per cent) was on issue in Trinidad and Tobago. Thus the Ministry estimated that holdings by the Currency Board of convertible currencies against currency issued in Trinidad and Tobago was WI\$7.6 million (i.e., 45.68 per cent of the Board's total holdings of WI\$16.6 million). The Ministry of Finance also stated that other official holdings of convertible currencies amounted

to WI\$1.7 million (see Table 3), making a total of all official holdings of WI\$9.3 million, or about US\$5.4 million.

In accordance with the Ministry's calculations, 10 per cent of the official holdings of gold and convertible currencies would amount to about US\$0.5 million on the basis of the latest available figures.

Table 1. Computation of Quota for Trinidad and Tobago
According to Bretton Woods Formula

	US\$ million	Per cent	US\$ million
National income (1940) <u>1/</u>	91.6	2	1.8
Gold and U.S. dollar reserves (July 1, 1943)	..	5	..
Average annual imports (1934-1938)	28.8	10	2.9
Maximum variation in exports (1934-1938)	11.4	10	<u>1.1</u>
Total			5.8
Total multiplied by ratio of average annual exports (1934-1938) to national income	$\frac{5.8 \times 30.4}{91.6}$		<u>2.0</u>
Total			7.8
Calculated quota (90 per cent)			<u><u>7.0</u></u>

1/ Estimate provided by Trinidad and Tobago authorities.

Table 1(a): Imports and Exports 1934-1938

(In thousands of U.S. dollars)

	Imports	Exports and re-exports
1934	22,611	26,567
1935	21,427	24,610
1936	28,140	31,023
1937	35,836	33,603
1938	36,170	36,040

Source: Information provided by Trinidad and Tobago authorities.

Table 2. Foreign Trade, National Income and Population of
Trinidad and Tobago and Selected Member Countries

	Fund quota	Average 1958-60			National income	Ratio of imports to national income 1/	Population 1960/61
		Exports	Imports	Total			
(..... In millions of U.S. dollars)							
						(Per cent)	(Millions)
Trinidad and Tobago		266	266	532	396 (NI 1960)	74	0.8
El Salvador	11.25	115	110	225	490 (GDP 1959)	20	2.5
Honduras	11.25	67	73	140	308 (NI 1958)	21	1.9
Costa Rica	15.00	84	104	188	393 (NI 1960)	28	1.2
Ecuador	15.00	141	110	251	731 (NI 1960)	14	4.5
Dominican Republic	15.00	149	128	277	660 (GNP 1959)	18	3.1
Guatemala	15.00	112	140	252	588 (NI 1960)	21	3.9
Sudan	15.00	166	172	338	952 (NI 1960)	19	12.1
Jamaica	20.00	140	197	337	574 (NI 1960)	38	1.6
Bolivia	22.50	53	71	124	375 (GDP 1957) 2/	24	3.9
Tunisia	22.50 3/	138	166	304	586 (GDP 1958)	26	4.2
Israel	25.00	181	449	630	1,913 (NI 1960)	26	2.2
Senegal	25.00	115 4/	147 4/	258 4/	641 (GDP 1956)	23	3.1
Tanganyika	25.00	144	123	267	470 (GDP 1958)	27	9.2
Uruguay	30.00	122	185	307	n.a.	n.a.	2.8
Burma	30.00	214	229	443	1,321 (NI 1960/61)	20	21.5
Peru	32.50	412	380	792	1,682 (NI 1959)	25	10.3
Ghana	35.00	281	305	586	1,503 (GNP 1960)	24	6.9

Sources: IMF, International Financial Statistics; UN, Yearbook of National Account Statistics and Monthly Bulletin of Statistics.

1/ Based on imports in year to which National Income figure relates.

2/ Staff estimate.

3/ Maximum to which quota is to be increased in installments. Tunisia's present quota is \$18.3 million.

4/ Obtained from EB/CM/Cameroun/62/1, Table 1, page 10.

Table 3. Statement Provided by Ministry of Finance in
Trinidad and Tobago of Official Holdings of
Convertible Currencies at June 30, 1962

(In West Indies dollars)

Holdings of the British Caribbean Currency Board:	
Cash deposit in Joint Consolidated Fund	15,892,690
Other short-term securities (i.e., original maturity less than 12 months)	<u>730,598</u>
Total	<u>16,623,288</u>
Ratio of notes in Trinidad and Tobago to notes issued in area 45.68 per cent (a)	
Official holdings against notes and coins issued in Trinidad and Tobago	<u>7,593,518</u>
Other official holdings:	
Joint Consolidated Fund (London) - cash	249,600
Cash deposits - Investment Account	138,113
Sinking funds	161,660
Railways Renewals Fund	374,403
Coca Subsidy Fund	397,430
Government Savings Bank	<u>423,618</u>
Total	<u>1,744,824</u>
Total official holdings	<u><u>9,338,342</u></u>

Sources: Trinidad Royal Gazette; Accountant General, Trinidad and Tobago.

Note: These holdings are in £ sterling only.

(a) Total notes issued in area	WI\$96,324,053
Total notes issued in Trinidad and Tobago	WI\$44,003,589
Ratio of notes issued in Trinidad and Tobago to total notes issued	45.68 per cent