# IMF Executive Board Concludes 2013 Article IV Consultation Discussions with Trinidad and Tobago

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On June 14, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the 2013 Article IV consultation discussions with Trinidad and Tobago.[1]

The economy of Trinidad and Tobago is poised for a modest recovery in 2013, after disappointing growth in 2012 that was due largely to supply constraints, including maintenance operations in the energy sector and an industrial dispute in the non-energy sector. The staff projects real gross domestic product (GDP) growth of some 1.5 percent in 2013, with risks slightly to the downside, should development spending be under-executed. Headline inflation rose to 9.3 percent in 2012, but core inflation, which excludes food prices, remained moderate at 3.1 percent, and has since fallen further to 2.2 percent in March 2013. Unemployment is low at about 5 percent, but underemployment remains significant. The external current account surplus fell slightly on increased dividend outflows, but remained high at 10 percent of GDP. Gross official reserves remained strong at US$9.2 billion at end-2012 (some 12.5 months of imports).

The central government realized a deficit of 1.1 percent of GDP in fiscal year 2011/12 (October−September), after near balance the previous year, and was more than explained by a decline in energy revenues due to output shortfalls. Gross government debt increased by some 6 percentage points of GDP to a still-manageable 39 percent of GDP. Most of this increase relates to a one-off issuance of bonds relating to a failed insurance company (CLICO), about half of which is expected to be retired in 2013.

Despite accommodative monetary policy, private sector credit growth was modest. The Central Bank of Trinidad and Tobago (CBTT) cut its policy repo rate to 2.75 percent in September 2012. The CBTT continues to mop up considerable excess liquidity via voluntary term deposits by commercial banks and a recent TT$1 billion government bond. Commercial banks remain well capitalized, profitable and liquid, and the end-2012 non-performing loan (NPL) ratio fell to 5.4 percent.

## Executive Board Assessment

Executive Directors welcomed the signs of economic recovery, fueled by growth of the non-energy sector. They agreed that the authorities' macroeconomic policies are appropriately supporting the recovery in the near term given downside risks. Over the longer term, the policy priority should be to recast fiscal policy in the context of the country's non-renewable resource endowment while pursuing structural reforms aimed at diversifying the economic base.

Directors commended the authorities' adoption of a medium-term fiscal consolidation target. Specific measures should be identified, which would also improve the composition of public spending. This should include the phasing-out over time of poorly-targeted and unsustainable subsidies (notably on fuels) and transfers, while protecting the most vulnerable segments of society and priority social spending. Looking ahead, Directors recommended adoption of a longer-term strategy embodied in a fiscal framework to extend the benefits of current natural resource wealth to future generations. Increasing non-energy revenues and containing current expenditure to raise development spending over time will be important.

Directors supported the accommodative monetary stance, given subdued underlying inflation and economic slack. Nonetheless, overall credit developments, especially in the real estate sector, and excess liquidity in the financial system should be closely monitored in determining the future direction of monetary policy.

Directors noted that the financial sector appears sound, and welcomed progress on financial sector reforms, including the 2011 Financial Sector Assessment Program recommendations. They encouraged the authorities to continue enacting legislation under preparation and expand the regulatory perimeter to include non-bank systemically important financial institutions.

Directors underscored the need for structural reforms to facilitate economic diversification and improve competitiveness, and, in this context, welcomed the authorities' commitment to improve the business climate. They also encouraged the authorities to press ahead with efforts to improve the effectiveness of the public service to support investment and facilitate diversification.

Directors noted that while economic statistics are broadly adequate for surveillance purposes, efforts to improve their timeliness and quality should be a priority.

**Trinidad and Tobago: Selected Economic Indicators**

| | Est. | Proj. |
|---|---|---|

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| (Annual percentage changes, unless otherwise indicated) | | | | | | |
| **Output and prices** | | | | | | |
| Real GDP | 3.4 | -4.4 | 0.2 | -2.6 | 0.2 | 1.6 |
| Energy GDP | -0.3 | -1.8 | 3.2 | -3.9 | -4.7 | 0.3 |
| Unemployment rate (percent of labor force) | 4.6 | 5.3 | 5.9 | 4.9 | ... | ... |
| Consumer prices (end of period) | 14.5 | 1.3 | 13.4 | 5.3 | 7.2 | 4.0 |
| Real effective exchange rate (2000=100) | 113.6 | 123.7 | 130.7 | 129.4 | 138.9 | ... |
| **Money and credit 1/** | | | | | | |
| Net foreign assets | 50.0 | -4.3 | -0.3 | 14.2 | -3.0 | -1.4 |
| Net domestic assets | -35.6 | 32.4 | 0.0 | -5.6 | 15.6 | 5.3 |
| Private sector credit | 12.6 | -4.0 | 0.3 | 4.4 | 2.6 | 4.0 |
| Broad money (M3) | 14.4 | 28.1 | -0.2 | 8.6 | 12.6 | 3.9 |
| (In percent of fiscal year GDP, unless otherwise indicated) | | | | | | |
| **Public finances 2/** | | | | | | |
| Central government balance (excluding CLICO support) | 7.3 | -5.6 | 0.1 | -0.1 | -1.1 | -2.5 |
| CLICO support | | -1.4 | -2.6 | -0.6 | -6.6 | |
| Budgetary revenue | 34.3 | 28.6 | 34.1 | 32.3 | 30.9 | 31.2 |
| Budgetary expenditure | 27.0 | 34.2 | 33.9 | 32.4 | 32.0 | 33.6 |
| Overall budget balance | 7.3 | -5.6 | 0.1 | -0.1 | -1.1 | -2.5 |
| Overall non-energy budget balance 3/ | -13.4 | -20.1 | -18.2 | -19.1 | -18.5 | -19.3 |
| Overall nonfinancial public sector balance | 8.0 | -9.0 | -3.9 | 0.0 | -0.3 | -1.2 |
| Public sector debt 4/ | 21.5 | 30.6 | 35.5 | 33.4 | 39.3 | 33.9 |
| (In percent of GDP, unless otherwise indicated) | | | | | | |
| **External sector** | | | | | | |
| External public sector debt | 5.3 | 7.7 | 6.7 | 6.4 | 6.7 | 7.2 |
| Current account balance | 30.5 | 8.5 | 20.3 | 12.3 | 10.1 | 8.8 |
| *Of which: exports* | 66.9 | 48.1 | 54.6 | 63.4 | 54.4 | 53.2 |
| *Of which: imports* | 34.4 | 36.4 | 31.6 | 40.3 | 33.2 | 33.2 |
| Gross official reserves (in US$ million) | 9,380 | 8,652 | 9,070 | 9,823 | 9,200 | 9,054 |

**Memorandum items:**

| | | | | | | |
|---|---|---|---|---|---|---|
| Nominal GDP (in billions TT$) | 175.3 | 121.3 | 131.3 | 150.4 | 161.0 | 169.8 |
| Exchange rate (TT$/US$, end of period) | 6.30 | 6.37 | 6.4 | 6.4 | 6.4 | ... |

Source: 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 from 2007/2008 and 2012/2013.

3/ Defined as non-energy revenue minus expenditure of the central government.

4/ Excluding debt issued for sterilization.

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.


## IMF COMMUNICATIONS DEPARTMENT

| Public Affairs | | Media Relations | |
|---|---|---|---|
| E-mail: | publicaffairs@imf.org | E-mail: | media@imf.org |
| Fax: | 202-623-6220 | Phone: | 202-623-7100 |