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EBS/88/262

CONFIDENTIAL

December 22, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Trinidad and Tobago - Request for Stand-By Arrangement and Possible Access to Contingency Financing Under the CCFF

Attached for consideration by the Executive Directors is a paper on Trinidad and Tobago's request for a stand-by arrangement and possible access to contingency financing under the compensatory and contingency financing facility (CCFF). The proposed decisions and the proposed text of the stand-by arrangement will be issued shortly.

This paper, together with the Letter of Intent issued as EBS/88/234 on November 16, 1988 will be brought to the agenda for discussion on a date to be announced.

Mr. Elson (ext. 8477) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Request for Stand-By Arrangement and Possible Access to Contingency Financing Under the CCFF

Prepared by the Western Hemisphere Department

(In consultation with Exchange and Trade Relations, Fiscal Affairs, Legal, Research and Treasurer's Departments)

Approved by S.T. Beza and Eduard Brau

December 21, 1988

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I. Introduction

Discussions on an economic program for 1989 that could be supported by the use of Fund resources under a stand-by arrangement were carried out in Port-of-Spain during August 18 to September 3 and October 17-28 and were concluded at Fund headquarters during November 7-10. The representatives of Trinidad and Tobago in the discussions included Prime Minister A.N.R. Robinson (who is also Minister of Finance and the Economy), the Minister of Planning and Mobilization, the Minister in the Ministry of Finance and the Economy, the Governor of the Central Bank of Trinidad and Tobago and other senior government officials. The staff team in the discussions consisted of R.A. Elson (Head), J. Clark, O. Gronlie, J. Karlik, S. Sosa (all WHD), and V. Rowles and S. Koo (both secretaries - WHD). Mr. Hospedales, Alternate Executive Director for Trinidad and Tobago, participated in the discussions.

In the attached letter, dated November 15, 1988, the authorities of Trinidad and Tobago request a 14-month stand-by arrangement beginning in January 1989 in an amount equivalent to SDR 99 million (50 percent of quota on an annual basis). The letter also requests that the Fund decide that, should adverse external contingencies occur during the period of the stand-by arrangement, the Fund will provide, in association with the arrangement, external contingency financing under the CCFF decision (Decision No. 8955 - (88/126), adopted August 23, 1988) up to a maximum amount equivalent to SDR 42.5 million (25 percent of quota) in accordance with the factors set out in Annex I to the letter.

It is proposed that the amount of the stand-by arrangement be made available in five purchases as presented in Table 1 and Attachment III. The first purchase, to be made upon approval of the arrangement, would be equivalent to Trinidad and Tobago's first credit tranche (SDR 42.5 million); each subsequent purchase would be for an amount equivalent to SDR 14.1 million. Purchases of the full amount available under the arrangement would raise the Fund's holdings of Trinidad and Tobago dollars (under tranche policies) from 100 percent of quota to 158.2 percent of quota, and total use of Fund credit (including CF purchases) from 50 percent of quota to 108.2 percent of quota. If the full amount of external contingency financing to be provided under the CCFF were used, the Fund's holdings of Trinidad and Tobago dollars under special facilities would rise to 75 percent of quota.

On November 18, 1988 the Fund concluded the 1988 Article IV consultation with Trinidad and Tobago and approved a CF purchase, under the transitional provisions of the CCFF decision, in an amount of SDR 85.05 million (50 percent of quota).

Table 1. Trinidad and Tobago: Projection of IMF Position during Period of Stand-By Arrangement

	Outstanding Nov. 30, 1988	1989 Jan.-Mar.	1989 Apr.-June	1989 July-Sep.	1989 Oct.-Dec.	1990 Jan.-Feb.
	(In millions of SDRs)					
Transactions under tranche policies (net)		42.5	14.1	14.1	14.1	14.1
Purchases 1/		42.5	14.1	14.1	14.1	14.1
Ordinary resources		42.5	14.1	14.1	14.1	14.1
Borrowed resources		--	--	--	--	--
Repurchases		--	--	--	--	--
Ordinary resources		--	--	--	--	--
Borrowed resources		--	--	--	--	--
Transactions under special facilities (net) 2/		--	--	--	--	--
Purchases		--	--	--	--	--
Repurchases		--	--	--	--	--
Total Fund credit outstanding (end of period)	85.1	127.6	141.7	155.9	170.0	184.1
Under tranche policies 3/	--	42.5	56.6	70.8	84.9	99.0
Special facilities 2/	85.1	85.1	85.1	85.1	85.1	85.1
	(In percent of quota)					
Total Fund credit outstanding (end of period)	50.0	75.0	83.3	91.6	99.9	108.2
Under tranche policies 3/	--	25.0	33.3	41.6	49.9	58.2
Special facilities 2/	50.0	50.0	50.0	50.0	50.0	50.0

Source: IMF.

1/ Purchases may be augmented by up to SDR 42.5 million in respect of purchases under the contingency element of the CCFF.
2/ Compensatory Financing Facility; excludes use of Fund resources under the CCFF in connection with external contingencies.
3/ Ordinary resources.

II. Background 1/

Since the early 1980s Trinidad and Tobago's economic and financial position has deteriorated markedly because of the decline in international oil prices and delays in the development of an adequate policy response. Efforts were made in 1984-85 to bring aggregate expenditure into line with reduced oil earnings by means of fiscal restraint and exchange rate adjustment. However, the authorities also increased reliance on exchange and trade restrictions and wages continued to increase in real terms. Trinidad and Tobago's internal and external imbalances were reduced in those years as the economy contracted sharply, but they widened again in the wake of the oil price collapse in 1986.

Since late 1986, when the present administration took office, the authorities have been taking measures to intensify the adjustment effort. As a result of a tightening of fiscal policy and a further real depreciation of the currency, the fiscal position and balance of payments performance improved in 1987. The overall deficit of the nonfinancial public sector was reduced from around 11 1/2 percent of GDP in 1986 to nearly 8 percent in 1987, while the external current account deficit was cut back from 14 percent of GDP to 6 1/2 percent of GDP. However, economic activity and employment continued to contract for the fifth consecutive year, and the financial system weakened further because of bank loan recovery problems and a decline in private financial savings.

Faced by a renewed decline in international oil prices in 1988, after midyear the authorities introduced significant corrective actions involving a further depreciation of the Trinidad and Tobago dollar, sizable budget cuts, and increases in the central bank lending rate. On the basis of these actions, it is anticipated that the overall fiscal deficit would be reduced to around 7 percent of GDP in 1988, while the external current account deficit would fall to somewhat less than 5 percent of GDP.

III. The Program for 1989

The principal objectives of the economic program for 1989 are to reduce further domestic and external imbalances in the economy and begin to arrest the decline in economic activity. Thus, the authorities have targeted an improvement in the external current account deficit, an increase in the gross foreign reserves of the Central Bank, and a deceleration in the rate of decline of real GDP. For these purposes, the authorities will seek to reduce the overall deficit of the nonfinancial public sector, take steps to liberalize the exchange and trade regimes, provide enhanced incentives for financial savings, and pursue a

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1/ Recent developments were reviewed in detail in the staff reports for the 1988 Article IV consultation (SM/88/224 and SM/88/225).

prudent external debt management policy, including the restructuring of external debt. These policies are consistent with the Government's medium-term economic framework (1989-91) which is designed to promote private sector investment, diversify the economy, and increase the foreign trade orientation of domestic production.

1. Domestic economic policies

Following several years of declining investment and economic activity, the authorities envisage a bottoming out of the economic downturn in 1989 and 1990 and the beginning of a recovery of investment. Real GDP is projected to decline by 1 percent in 1989 with prices (as measured by the GDP deflator) increasing by nearly 7 percent, reflecting in part the corrective adjustments associated with the exchange rate depreciation in August 1988 (18 percent in local currency terms) (Table 2). By mid-1988, the rate of domestic price increase, on a 12-month basis, had fallen to around 5 to 6 percent. Given the weak state of demand in the economy and the absence of wage cost pressures, the rate of inflation could be expected to decelerate during the second half of 1989 toward a rate of around 4 percent, in line with the rate of inflation among Trinidad and Tobago's trading partners.

a. Public finances

The fiscal program for 1989 calls for a reduction in the overall public sector deficit from an average of 10 percent of GDP in 1986-87 and an estimated 6.9 percent of GDP in 1988 to 4.1 percent of GDP in 1989, on the strength of improved savings and lower capital spending by the Central Government together with a modest improvement in the overall balance of the rest of the public sector (Table 3).

Central government operations are projected to yield an overall deficit of 4.1 percent of GDP, compared with an estimated 6.8 percent of GDP in 1988, as revenues are projected to increase modestly in terms of GDP, while expenditures would be reduced from an estimated 36.5 percent of GDP in 1988 to 34.2 percent of GDP in 1989 (Table 4).

The projected level of central government revenue reflects an increase in capital revenue of 0.5 percentage points of GDP, resulting mainly from the divestment of shares in the government-owned cement company and the sale of the existing inventory to a foreign company which will lease the Government's steel smelter. Current revenue is projected to decline slightly in relation to GDP, as falling nontax revenue and lower income tax receipts are projected to outweigh higher receipts from the oil sector and taxes on international trade. The decline in income tax receipts reflects the implementation in 1989 of the first phase of a two-year tax reform program. Beginning January 1, 1989, income tax rates will be reduced for companies and individuals, while the tax base will be widened through the elimination of many exemptions and deductions. Under the second phase, to be introduced

Table 2. Trinidad and Tobago: Macroeconomic Indicators

	1985	1986	Est. 1987	Proj. 1988	Proj. 1989
	(In percent of GDP)				
Savings and investment					
Investment	17.1	22.8	19.1	18.6	20.0
Central Government	7.0	3.6	2.3	4.2	3.6
Private sector 1/	10.1	19.2	16.8	14.4	16.4
Savings	17.1	22.8	19.1	18.6	20.0
External savings	2.0	14.1	6.5	4.8	4.1
Domestic	15.0	8.7	12.6	13.9	15.9
Central Government	4.3	-1.0	-2.1	-1.9	-0.6
Private sector 1/	10.7	9.7	14.7	15.8	16.5
Investment-savings gap	2.0	14.1	6.5	4.8	4.1
Public sector borrowing requirement 1/	5.3	11.5	8.3	6.9	4.1
Private sector (net savings: -)	-3.2	2.6	-1.9	-2.2	--
	(Annual percentage change)				
GDP and prices					
GDP at current market prices	-3.2	-5.4	-5.9	0.1	5.7
GDP at constant market prices	-3.9	-3.8	-4.8	-4.0	-1.0
GDP deflator	0.7	-1.7	-1.2	4.2	6.7
Retail price index (period average)	7.7	7.7	10.8	9.3	...
	(In millions of Trinidad and Tobago dollars)				
Memorandum items					
GDP at current market prices	18,427	17,432	16,401	16,411	17,340

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

1/ Includes state enterprises.

Table 3. Trinidad and Tobago: Overall Deficit of the Nonfinancial Public Sector and its Financing

	1985	1986	1987	Proj. 1988	Proj. 1989
(In millions of Trinidad and Tobago dollars)					
Central government deficit	872	1,252	1,106	1,114	715
Rest of public sector deficit	97	749	261	20	--
Public sector borrowing requirement	969	2,001	1,367	1,134	715
Net external financing	391	217	-16	308	176
Net borrowing	391	217	-16	-125 1/	-988
Debt relief	--	--	--	434	1,165
Net domestic financing	578	1,784	1,383	826	539
Financial system	238	1,670	961	608	245
Other	340	114	422	218	294
(In percent of GDP)					
Central government deficit	4.7	7.2	6.7	6.8	4.1
Rest of public sector deficit	0.5	4.3	1.6	0.1	--
Public sector borrowing requirement	5.3	11.5	8.3	6.9	4.1
Net external financing	2.1	1.2	-0.1	1.9	1.0
Net domestic financing	3.1	10.2	8.4	5.0	3.1

Sources: Trinidad and Tobago authorities; and Fund staff estimates.

1/ Includes encashment of foreign assets held by the Central Government (TT$90 million).

Table 4. Trinidad and Tobago: Summary Central Government Operations

	1985	1986	1987	Proj. 1988	Proj. 1989
(In millions of Trinidad and Tobago dollars)					
Total revenue	6,612	5,289	5,204	4,884	5,220
Current revenue	6,612	5,289	5,204	4,864	5,122
Petroleum revenue	2,468	1,681	2,106	1,678	1,827
Other	4,144	3,608	3,097	3,186	3,295
Taxes on income	2,123	1,785	1,528	1,611	1,629
Taxes on goods and services	640	595	598	683	725
Taxes on international trade	629	500	385	357	453
Nontax revenue	667	660	519	473	427
Other	85	68	68	62	61
Capital	—	—	—	20	98
Total expenditure	7,484	6,541	6,310	5,997	5,935
Current	5,823	5,469	5,547	5,172	5,284
Wages, salaries, and contribution to NIS	2,563	2,578	2,212	2,335	2,306
Goods and other services	419	416	493	419	400
Interest	280	476	561	593	870
Domestic	78	145	239	236	337
External	202	331	322	357	533
Transfers and subsidies	2,562	1,999	2,281	1,825	1,708
Capital	1,661	1,071	763	825	651
Capital formation	1,299	627	379	683	620
Transfers and net lending	362	444	384	142	31
Overall balance	-872	-1,252	-1,106	-1,114	-715
Financing	872	1,252	1,106	1,114	715
External	326	-210	64	553	195
Net borrowing	326	-210	64	362	-458
Debt relief	—	—	—	191	653
Domestic	546	1,462	1,042	561	520
Memorandum item					
Overall public sector deficit	-969	-2,001	-1,367	-1,134	-715
(In percent of GDP at market prices)					
Total revenue	35.9	30.3	31.7	29.8	30.1
Current revenue	35.9	30.3	31.7	29.7	29.5
Petroleum revenue	13.4	9.6	12.8	10.2	10.5
Other	22.5	20.7	18.9	19.4	19.0
Taxes on income	11.5	10.2	9.3	9.8	9.4
Taxes on goods and services	3.5	3.4	3.6	4.2	4.2
Taxes on international trade	3.4	2.9	2.3	2.2	2.6
Nontax revenue	3.6	3.8	3.2	2.9	2.5
Other	0.5	0.4	0.4	0.4	0.4
Capital	—	—	—	0.1	0.6
Total expenditure	40.6	37.5	38.4	36.5	34.2
Current	31.6	31.4	33.8	31.5	30.5
Wages, salaries, and contribution to NIS	13.9	14.8	13.5	14.2	13.3
Goods and other services	2.3	2.4	3.0	2.6	2.3
Interest	1.5	2.7	3.4	3.6	5.0
Domestic	0.4	0.7	1.4	1.5	1.4
External	1.1	1.9	2.0	2.2	2.0
Transfers and subsidies	13.9	11.5	13.9	11.1	10.0
Capital	9.0	6.1	4.7	5.0	3.8
Capital formation	7.0	3.6	2.3	4.2	3.6
Transfers and net lending	2.0	2.5	2.3	0.9	0.2
Overall balance	-4.7	-7.2	-6.7	-6.8	-4.1
Memorandum item					
Overall public sector deficit	-5.3	-11.5	-8.3	-6.9	-4.1

Sources: Ministry of Finance and the Economy; and Fund staff estimates.

with the 1990 budget, receipts from indirect taxes are expected to increase through the introduction of a value-added tax, while direct tax rates will be reduced further.

The lower level of central government expenditure relative to GDP in 1989 reflects a decline in both current and capital expenditure, in about equal shares. The decline in current expenditure (by 1 percentage point of GDP) reflects mainly reduced outlays for personnel emoluments and transfers to the state enterprises. The budgetary savings on wages and salaries will result from the elimination of allowances for workers acting temporarily in higher paid positions. In July 1988 the Industrial Court ruled that cost-of-living allowances (COLAs) for government workers, which have been suspended since the beginning of 1987, be reinstated and that a salary increase of 2 percent be awarded in 1989. The authorities have indicated that the court's ruling cannot be implemented at the present time, given the Government's weak fiscal position, and are prepared to introduce offsetting measures, if necessary, to prevent the wage bill from increasing above the programmed amount.

In order to reduce the size of the central government work force, the authorities have decided to introduce in January 1989 a Voluntary Termination of Employment Plan (VTEP) which includes an early retirement scheme for employees aged 50 to 60 years and a severance scheme for employees under age 50. Under the plan, termination benefits will be paid with a combination of cash and negotiable bonds in a ratio of 30 to 70 after an initial cash payment of up to a maximum of TT$20,000. The authorities hope that 9,000 to 10,000 employees will take advantage of these schemes which offer enhanced termination benefits and tax incentives to bondholders. The authorities estimate that the cost to the 1989 budget in terms of foregone tax revenue, additional pension payments, and termination benefits will be about offset by reduced salary payments. However, this estimate is sensitive to a number of variables, including the timing during the year when employees choose to take advantage of the scheme.

It is expected that payment of about TT$80 million (around 0.5 percent of GDP) of termination benefits due in 1989 will be postponed through the issuance of bonds to VTEP participants. As explained in Table 1 of the attached letter of intent, it is proposed that this amount of deferred payments be excluded from the limit on the overall government deficit under the stand-by program, although payments of interest on the bonds would be included. After the VTEP has been terminated during 1990, it is estimated that the cash savings to the budget in terms of lower recurrent outlays for wages and salaries will be of the order of 1 percent of GDP.

The Government will continue to reduce current transfers and subsidies in 1989, by around 1 percentage point of GDP, mainly affecting the rest of the public sector. As a consequence, local governments and state enterprises have prepared budgets and operational plans for 1989 which accommodate the reduced levels of financial support (see below).

The reduction in central government capital outlays in 1989 by 0.6 percentage points of GDP to a level of 3.6 percent of GDP reflects the projected execution in 1989 of the Central Government's share of the three-year public sector investment program (PSIP) which was elaborated in 1988. The PSIP includes major projects in the energy and chemical sectors, but also gives priority to investments in agriculture, tourism and manufacturing. Capital transfers to the public enterprises will be reduced by 0.5 percent of GDP in 1989, in part reflecting reduced support for debt service payments made possible by improved export performance of selected enterprises.

Based on the revenue projections and expenditure plans summarized above, the central government borrowing requirement will be reduced by TT$400 million in 1989 to TT$715 million. Most of this reduction will be reflected in lower net external financing, which includes debt relief in 1989 anticipated from rescheduling operations with foreign commercial banks and official creditors. As in previous years, most of the government deficit will be financed with domestic resources; however, the larger share of this financing in 1989 is expected to come from domestic bond placements, in particular through a local consortium (FINCOR) established last year to provide private long-term funding for government investment projects.

The overall balance of the rest of the nonfinancial public sector is projected to remain about unchanged in 1989, although net of transfers from the Central Government it would improve by around 1 1/2 percentage points of GDP. The cutback in financial support by the Central Government and reduced reliance on domestic and foreign financing is to be absorbed to a large extent by improvements in the operating balance of the state enterprises.

The state enterprises (including the public utilities) have required substantial budgetary support in the past, but improvements in their financial performance are being achieved, mainly on the basis of recommendations of the Commission on Public Enterprises established in 1987, which call for wide-ranging reforms, including financial restructuring, divestiture and closure in some cases. In particular, three enterprises were closed during 1988; a contract has been signed with a foreign company to lease the government-owned steel smelter (ISCOTT); and the Government expects to divest part of its holdings in three entities 1/ to domestic and foreign investors in 1989.

Several other state enterprises and public utilities have undergone major operational changes in 1988 and will continue to rationalize their

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1/ The Government is offering for sale 49 percent of its holdings in the telephone company (TELCO) and all of its shares in a state-owned cement company and the National Commercial Bank.

operations in 1989: the Port Authority has eliminated overtime benefits and certain other compensation arrangements, laid off casual workers, leased underutilized facilities, and introduced an early retirement program; the Water and Sewerage Authority (WASA) has reduced its use of casual labor and has mounted a program to collect overdue accounts; the government-owned bus company (PTSC) has reduced the number of routes sharply, leaving the vacant routes to private operators, and is taking action to reduce its workforce. A rationalization plan is also being developed for the state sugar company (CARONI), which is a major landowner and a large employer, to reduce its staff and diversify production; also, the domestic price of sugar was raised by one third in October 1988 to improve CARONI's operating revenues. The state enterprises in the export sector have benefited from the devaluation of the Trinidad and Tobago dollar mentioned earlier, and some of them (particularly in the chemical sector) are benefiting from higher international prices for their products.

The authorities are placing considerable emphasis on continuing the improvement in the financial situation of the state enterprise sector. Accordingly, a committee has been set up under the supervision of the Minister of Finance and the Economy and the Minister of Industry, Enterprise and Tourism to monitor the enterprises and the public utilities to ensure that their operations remain within the parameters developed for the fiscal program.

Of the external public debt repayments of US$274 million which are expected to be rescheduled by commercial banks and the Paris Club in 1989, US$120 million pertains to debt of the state enterprises. As stated in the attached letter of intent, the enterprises will be required to service this debt according to the original schedules by crediting the local currency equivalent of the amortization payments to a blocked account in the Central Bank, as the rescheduled amortization payments are expected to become direct obligations of the Central Government.

b. Monetary policy

On the basis of the improvement in the public finances in 1989, net credit expansion to the public sector from the domestic financial system 1/ will decline from TT$608 million in 1988 to TT$245 million in 1989 (Table 5). Accordingly, the authorities expect that a greater flow of financial resources will be available to support a recovery of private investment and business activity during the program period. Financial system credit to the private sector is projected to increase by around TT$250 million, following very little growth in 1988. In addition to reducing the financing requirement of the nonfinancial public sector, the authorities have been taking action to stimulate the

1/ For purposes of program monitoring, the financial system comprises the Central Bank, the commercial banks, and the trust and mortgage finance companies.

Table 5. Trinidad and Tobago: Summary Accounts of the Central Bank and the Financial System

	TT$3.6 = US$1				TT$4.25 = US$1	
	1985	1986	1987	Proj. 1988	Proj. 1988	Proj. 1989
	(In millions of Trinidad and Tobago dollars)					
	I. Central Bank of Trinidad and Tobago					
Net international reserves	3,650	1,193	354	-230	-272	-272
Net domestic assets	-2,806	-320	465	1,008	1,050	1,089
Net claims on public sector	-185	1,158	1,326	1,814	1,814	2,156
Central Government	-227	1,053	1,212	1,665	1,665	2,007
Rest of public sector	42	105	114	149	149	149
Official capital and surplus	-2,410	-1,693	-1,081	-1,132	-1,260	-1,260
Of which: valuation adjustment	-1,274	-1,274	-1,274	-1,274	-1,414	-1,414
Net credit to commercial banks	-1,496	-698	-169	-181	-171	-285
Net credit to nonbank financial institutions	13	-75	-87	-77	-77	-83
Other foreign assets	1,169	1,128	1,051	963	1,137	1,137
Medium- and long-term foreign liabilities	--	--	--	-36	-43	-226
Other	103	-140	-575	-343	-350	-350
Currency issue	844	873	819	778	778	817
	II. Consolidated Financial System 1/					
Net international reserves	3,553	1,232	478	-154	-183	-162
Net domestic assets	5,821	7,997	8,807	9,367	9,396	9,607
Net claims on public sector	144	1,814	2,775	3,383	3,383	3,628
Central Government	-122	1,390	2,002	2,485	2,485	2,705
Rest of public sector	416	657	1,083	1,348	1,348	1,523
Minus: National Insurance Board (NIB) deposits	-150	-233	-310	-450	-450	-600
Credit to private sector	7,214	7,416	7,631	7,693	7,756	8,006
Interfinancial claims minus NIB deposits	-580	-742	-1,176	-1,434	-1,434	-1,471
Credit to public financial institutions	-113	-201	-258	-350	-350	-420
Other foreign assets	1,169	1,128	1,051	963	1,137	1,137
Medium- and long-term foreign liabilities	--	--	--	-36	-43	-226
Other	-2,013	-1,418	-1,216	-851	-1,053	-1,047
Liabilities to the private sector	9,374	9,229	9,285	9,213	9,213	9,445
	(Annual percentage change) 2/					
Net domestic assets	-3.9	23.2	8.8	6.0		2.3
Credit to the public sector	2.6	17.8	10.4	6.5		2.7
Credit to the private sector	-0.1	2.2	2.3	0.7		2.7
Liabilities to the private sector	4.3	-1.5	0.6	-0.8		2.5
	(Flows in percent of GDP at market prices)					
Net domestic assets	3.4	12.4	4.9	3.4		1.2
Credit to the public sector	2.1	9.6	5.9	3.7		1.4
Credit to the private sector	0.1	1.2	1.3	0.4		1.4
Liabilities to the private sector	1.7	-0.8	0.3	-0.4		1.3

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

1/ Includes the Central Bank, the commercial banks, and the trust and mortgage finance companies.
2/ In relation to liabilities to the private sector at the beginning of the year.

mobilization of private financial savings, improve the allocation of credit, and strengthen the financial institutions, many of which are facing difficulties related to weak loan recovery.

In an effort to put upward pressure on deposit rates and to discourage commercial bank borrowing from the Central Bank, the authorities raised the rediscount rate by 2 percentage points to 9 1/2 percent during the latter half of 1988. As stated in the attached letter of intent, the authorities intend to maintain, as a minimum, the existing margin between the Central Bank lending rate and the weighted average rate on time deposits in the banking system (around 2 percentage points). In addition, the Central Bank has devised a schedule under which the commercial banks will be required to reduce the stock of outstanding advances from the Central Bank during 1989.

In an effort to facilitate a reduction of the large spreads between their average deposit and lending rates, which was around 6 percentage points in the third quarter of 1988, the Central Bank raised its minimum bid in the treasury bill auctions in November 1988, thereby allowing the average yield on treasury bills to rise from below 5 percent to nearly 6 percent. At the same time, nonbank financial institutions were invited to participate in the auction. Beginning in January 1989, the authorities intend to phase out the secondary reserve requirement applicable to the commercial banks (which can be satisfied by investments in treasury bills). While the domestic bank borrowing requirement of the Government will be lower in 1989 than in 1988, it is expected that the phasing out of the secondary reserve requirement and the expansion of the market for treasury bill auctions will raise the yield on treasury bills to levels competitive with time deposit rates in the financial system early in 1989.

Following a net decline in recent years, bank liabilities to the private sector are projected to grow by around 2 1/2 percent in 1989, or by somewhat less than the growth in nominal GDP. This projection represents a reversal of the recent downward trend of money and quasi-money and allows for the projected increase in government bond placements with the private sector in 1989.

Consistent with the program target of no change in the net international reserves of the Central Bank of Trinidad and Tobago during 1989 and the projected growth of financial system liabilities to the private sector, the Government has established quarterly ceilings on the net domestic assets of the Central Bank (defined as the difference between its currency issue and net official international reserves), which involve a substantial deceleration in the growth of net Central Bank credit with respect to previous years. In view of the low level to which gross foreign reserves have fallen in 1988, the authorities consider that these net foreign reserve targets represent a minimum policy objective which they will endeavor to exceed during the program.

c. Incomes and prices policies

The authorities consider that the reduction in real wages which has taken place in the last few years has been necessary to prevent an even larger burden of the adjustment to lower oil prices from being borne by increased unemployment. While real wages in the manufacturing sector increased significantly in the first half of the 1980s, they declined by an average of around 5.5 percent a year in 1986 and 1987. Based on wage contracts registered with the Ministry of Energy and Labor, the authorities expect that real wages in the private sector will continue to decline in 1988 and 1989.

As noted above, in keeping with their policy of wage restraint, the authorities intend to postpone implementation of the court-ordered wage award and the reinstatement of COLAs in the government sector until such time as the government finances permit, and in the last half of 1988 action was taken to reduce the salaries of managerial staff in the state enterprises. Also, special bonuses for government employees temporarily working in higher grades will be eliminated in January 1989.

In September 1988, prices of imported items subject to price control were adjusted to take account of the August devaluation of the Trinidad and Tobago dollar; at the same time, the prices of poultry and animal feeds were decontrolled. The existing price controls apply to essential foodstuffs, building materials, school books, drugs, and some automotive parts. The authorities plan to take further action before the end of 1988 to reduce the number of items subject to price control from 18 to 13. With respect to the remaining items subject to control, the authorities have indicated that steps will be taken to introduce greater automaticity to the price adjustment process. These changes would allow enterprises in some cases to adjust prices subject only to ex-post notification to the secretariat of the Prices Commission and would expand the authority of the secretariat to approve price increases within guidelines established by the Commission.

2. External sector policies

Under the government's economic program, the current account deficit of the balance of payments is projected to decline from 4.8 percent of GDP in 1988 to 4.1 percent in 1989, reflecting a slight improvement in the trade balance and lower net service payments. The value of exports and imports are both expected to grow by 6 to 7 percent in U.S. dollar terms; nonpetroleum exports are projected to grow by 12 percent (Table 6). Also, a further reduction in net payments of nonfactor services is expected to more than offset an increase in interest charges on public external debt from less than US$170 million in 1988 to nearly US$200 million in 1989.

It is expected that the deficit in the capital account balance will increase from US$94 million in 1988 to about US$110 million in 1989,

Table 6. Trinidad and Tobago: Summary Balance of Payments

	1985	1986	1987	1988	Proj. 1989
	(In millions of U.S. dollars)				
Current account	-97.0	-632.9	-268.9	-184.8	-163.3
Trade balance	561.0	-108.4	239.5	306.1	320.7
Exports	2,155.4	1,357.7	1,400.0	1,316.1	1,400.1
Of which: petroleum	1,674.7	955.9	985.9	766.6	786.1
Imports	-1,594.4	-1,466.1	-1,160.5	-1,010.0	-1,079.4
Services (net)	-597.3	-486.4	-469.0	-461.9	-454.0
Of which: interest on public debt	-152.6	-140.3	-139.4	-167.8	-199.2
Transfers (net)	-60.7	-38.1	-39.4	-29.0	-30.0
Capital account	-146.5	-50.7	39.7	-94.3	-110.7
Private (net)	-235.2	-125.5	28.9	-48.1	60.0
Direct investment	1.2	92.5	54.5	49.0	60.0
Other 1/	-236.4	-218.0	-22.3	-97.1	--
Public (net)	88.7	74.8	7.5	-46.2	-170.7
Central Government 2/	61.3	-43.7	29.7	34.1	-110.3
Financial institutions	--	--	--	10.0	61.8
Rest of public sector	27.4	118.5	-22.2	-90.3	-122.2
Overall balance	-243.5	-683.6	-229.2	-279.1	-274.0
Financing					
Change in net official international reserves (increase -)	243.5	683.6	229.2	177.1	--
Assets	243.5	616.0	245.9	95.4	-88.2
IMF (net)	--	--	--	110.6	110.2
Other liabilities	--	67.6	-16.7	-28.9	-22.0
Proposed debt relief	--	--	--	102.0	274.0
Memorandum items					
Public external debt, end of year	1,651	1,810	2,074	2,122	2,314
Public debt service payments	320.5	323.2	396.6	471.6	563.8
Net international reserves of Central Bank	1,013.8	331.4	98.2	-63.9	-63.9
	(In percent of GDP)				
Current account	-2.0	-14.1	-6.5	-4.8	-4.1
Trade balance	11.7	-2.4	5.8	7.9	8.1
Exports	45.0	30.2	33.7	34.1	35.4
Imports	-33.3	-32.6	-28.0	-26.2	-27.3
Services and transfers	-13.7	-11.7	-12.3	-12.7	-12.2
Public external debt	34.5	40.3	50.0	55.2	58.5
Public debt service ratio 3/	13.1	19.6	24.5	30.6	35.0
Gross international reserves of Central Bank (in months of imports)	7.6	3.2	1.5	0.6	1.6

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

1/ Includes net errors and omissions.
2/ Includes net external lending operations.
3/ Debt service payments as percent of exports of goods and nonfactor services.

mainly on account of higher debt repayments by the nonfinancial public sector in 1989 and the nonrecurrence of special borrowing operations that were arranged in 1988. External debt service of the public sector will rise from 31 percent of exports of goods and nonfactor services in 1988 to 35 percent in 1989 (on an accrual basis). Included in the projected disbursements of official capital in 1989 are US$40 million from the World Bank under a structural adjustment loan (SAL) with cofinancing from other official sources and US$42 million in project lending from the IDB.

Given the targeted buildup of gross international reserves of the Central Bank to the equivalent of 1.6 month of imports in 1989, and taking into account purchases from the Fund under the proposed stand-by arrangement, Trinidad and Tobago will require additional external financing of US$274 million in 1989, which is expected to be provided by restructuring of external debt to official creditors (US$138 million) and commercial banks (US$136 million).

Trinidad and Tobago has requested that the debt restructuring arrangements which have been agreed in principle with the commercial banks, as well as those being sought with official creditors under the aegis of the Paris Club, cover all amortization payments falling due from September 1, 1988 through the end of the period of the stand-by arrangement. According to the terms agreed with Trinidad and Tobago's Bank Advisory Committee, the debt restructuring arrangement which is being negotiated with the commercial banks, in fact, will cover the period through August 31, 1992 and will be tranched in two segments, the first of which will run from September 1, 1988 through December 1990. 1/ The proposed debt restructuring operations with commercial and official creditors would have the effect of reducing the external debt service ratio in 1989 from 35 to 19 percent (in relation to exports of goods and nonfactor services). Trinidad and Tobago's outstanding medium- and long-term external public debt (including obligations to the Fund) is projected to increase by US$192 million in 1989 to 59 percent of GDP, compared with 55 percent of GDP in 1988.

An important policy objective of the authorities is to liberalize significantly the exchange and trade restrictions which have been imposed in recent years. To this end, they intend to reduce quantitative import restrictions, initially by exempting from the specific licensing requirement (the so-called "negative list") by the end of 1989 items corresponding to nearly 40 percent of imports subject to the List (in terms of 1986 import value). This reduction is to be implemented in three equal installments of US$50 million each before the end of 1988, the end of June 1989, and the end of 1989. The reductions in the negative list scheduled to take place before mid-1989 and the end

1/ A temporary standstill agreement with the banks was established in early November 1988 in respect of debt repayments falling due from September 1 to December 31, 1988, pending the conclusion of a rescheduling agreement.

of 1989 are performance criteria under the stand-by arrangement. In exempting items from quantitative import control the authorities intend to give priority to products which currently are not produced in Trinidad and Tobago and to products which have reached a mature stage of domestic production and no longer require quantitative protection. As mentioned in the attached letter of intent, the authorities intend to develop further reforms in the trade policy area in connection with the preparation of the World Bank SAL mentioned earlier.

Along with the liberalization of the trade system, the authorities intend to reduce the scope of the foreign exchange allocation system for imports which constitutes an exchange restriction subject to Fund approval. This system, which was simplified at the beginning of 1988 through the provision of annual allocations for each importer registered at the Central Bank, is estimated to cover roughly 80 percent of imports; excluded from the allocation system are imports from CARICOM, government imports of capital goods and imports funded through foreign currency accounts. Effective January 1, 1989, petroleum service companies, selected enterprises related to the tourist industry, and net exporters will be exempted from the allocation system. With a view to dismantling the system in 1990, the authorities will take further action to liberalize substantially the exchange allocation system by September 30, 1989 (this is a performance criterion). 1/ In the attached letter of intent, the authorities have reaffirmed their commitment to have the Central Bank continue to authorize bona fide exchange applications for payments or transfers above the limits delegated to the authorized dealers, subject only to verification that the application is for current international transactions.

The devaluation of the Trinidad and Tobago dollar since late 1985 from TT$2.40 to TT$4.25 per U.S. dollar, together with the depreciation of the U.S. dollar against other major currencies, has reduced the real effective value of the Trinidad and Tobago dollar by around 50 percent from its peak in early 1985 (Chart 1). In the view of the authorities, this action has restored the competitiveness of Trinidad and Tobago's nontraditional exports and has helped make Trinidad and Tobago more attractive to foreign investors. During the period of the stand-by arrangement, exchange rate management will take into account developments in the balance of payments as well as trends in external competitiveness.

To help foster the development of export industries, particularly those outside the petroleum and chemical sectors, the authorities intend to introduce certain changes to the Aliens Landholding Act which would reduce existing barriers to foreign investment. These changes include the elimination of controls or licensing requirements that apply to bona fide requests of foreign investors for the acquisition of real estate

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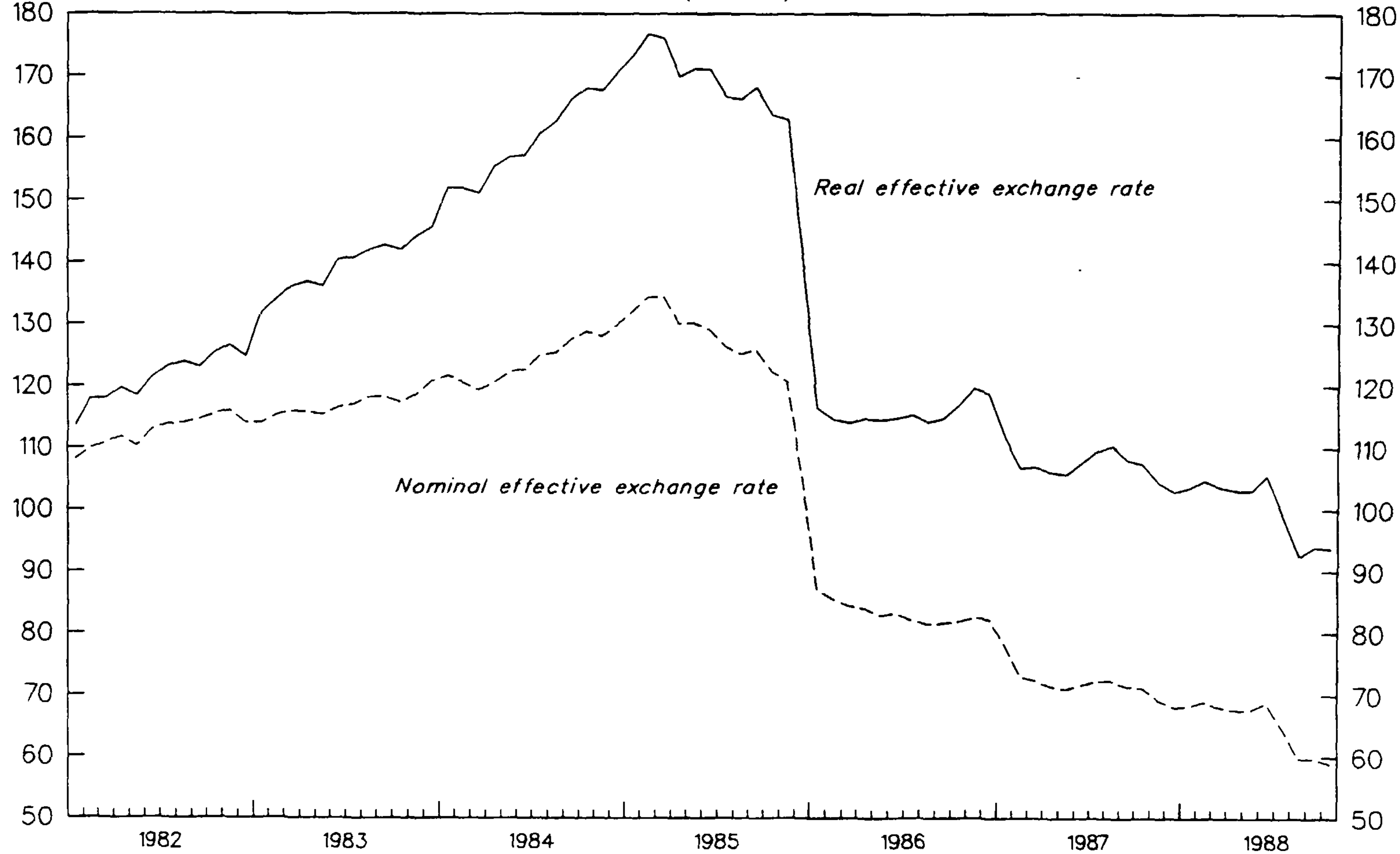
1/ It is expected that the measures to be taken in this area will be discussed with the Fund staff during the proposed mid-term review of the stand-by program.

CHART 1

TRINIDAD AND TOBAGO

REAL AND NOMINAL EFFECTIVE EXCHANGE RATE

(1980=100)



Sources: Central Statistical Office and International Monetary Fund.

for residential, commercial, or industrial uses; the removal of the requirement that foreign investment in new and existing private enterprises require local equity participation; and the exemption of licensing requirements in respect of foreign minority investments in publicly owned enterprises. (Henceforth, these investments will be subject only to control and approval by the local stock exchange.) Pending these revisions, the existing guidelines, which in most cases provide sufficient flexibility to accommodate the need of prospective investors, will remain subject to liberal interpretation.

IV. External Contingency Financing 1/

In association with the requested stand-by arrangement, Trinidad and Tobago has requested a decision that the Fund will provide external contingency financing under the compensatory and contingency financing facility (CCFF) to meet its need for additional financing should adverse external developments occur during the period of the stand-by arrangement. The contingency element of the CCFF will cover unanticipated deviations from the program projections of export prices for crude oil and petroleum products and of interest rates on variable rate external debt (including repurchase obligations to the Fund), net of receipts on international reserves. The baseline period, during which deviations in these prices and interest rates will affect Trinidad and Tobago's performance under the program supported by the stand-by arrangement, will run to the end of 1989. The quarterly baseline projections of the variables covered are set out in Table 7.

The contingency element would be activated during the period of the stand-by arrangement when the net sum of deviations exceeds 10 percent of Trinidad and Tobago's quota of SDR 170.1 million. In the first calendar quarter when Trinidad and Tobago becomes eligible for contingency financing, i.e., when the impact on the balance of payments exceeds the minimum threshold for the net sum of deviations, financing equivalent to 75 percent of the applicable net sum of deviations would be made available. Contingency financing would be reduced by 25 percentage points in each subsequent quarter when Trinidad and Tobago is eligible, provided that the proportion of financing of the part of the applicable net sum of deviations in any subsequent quarter that exceeds the largest net sum of deviations in any previous quarter shall be 75 percent, and shall be reduced by 25 percentage points in each following quarter. The maximum amount of contingency financing to be provided by the Fund during the period of the stand-by arrangement would be SDR 42.5 million.

Under this framework for the contingency element, a deviation of US$1 a barrel from the baseline projection of the export prices of crude oil and petroleum products would trigger the contingency element after a

1/ For a more detailed presentation of the assumptions underlying Trinidad and Tobago's request for contingency financing, see Annex II to Attachment V.

Table 7. Trinidad and Tobago: Baseline Projections for Crude Oil and Petroleum Products and Interest Payments on Variable Rate External Debt

	1988		1989				
	Actual	Projection	Projection				
	QIII	QIV	QI	QII	QIII	QIV	Avg./ Total
I. Exports of crude oil							
Volume (mn. bbls)	6.8	6.9	6.7	6.7	6.7	6.7	26.9
Price (US$/bbl)	15.3	14.3	15.7	16.2	16.9	16.9	16.4
Value (US$ mn.) 1/	104.0	98.7	105.2	108.6	113.7	113.7	441.2
II. Exports of petroleum products							
Volume (mn.bbls)	6.0	6.1	5.6	5.6	5.6	5.6	22.4
Price (US$/bbl)	14.5	14.2	14.7	15.2	15.9	15.9	15.4
Value (US$ mn.) 1/	86.8	86.7	82.0	84.8	89.0	89.0	345.0
III. Interest payments on variable rate debt							
Net debt outstanding at beginning of period (US$ mn.) 2/		1,283	1,278	1,287	1,287	1,286	1,285
Interest rate 3/		9.6	9.6	9.6	9.5	9.5	9.6
Interest payments (US$ mn.)		30.8	30.6	30.7	30.7	30.7	122.7

Sources: Trinidad and Tobago authorities; and Fund staff estimates.

1/ International reference prices for crude oil and petroleum products, to be used in measuring deviations from the baseline projections, are set out in Annex II to Attachment IV (Letter of Intent).

2/ Public sector variable rate debt, net of gross official international reserves.

3/ Weighted average of 9.75 percent (U.S. dollar six-month LIBOR plus 1 percent) on external debt to be rescheduled; 8.37 percent in respect of charges on liabilities to the Fund; and 8.75 percent for the rate of return on the Central Bank's foreign reserves. International reference rates, to be used in measuring deviations from the baseline projections, are set out in Annex II to Attachment V (Letter of Intent).

period of six months; an increase in interest rates of around 4 percentage points in respect of variable rate external debt would be required to activate the contingency element during the same period.

The amount of Trinidad and Tobago's access to external contingency financing (25 percent of quota) reflects mainly the concern that an appropriate balance be struck between financing and adjustment to deviations that may not be reversed in the near term, particularly deviations in petroleum prices. However, it also reflects the need for Trinidad and Tobago to preserve future access to the CCFF after a purchase equivalent to 50 percent of quota was made under the compensatory element of the CCFF in 1988.

In the event that the 10 percent threshold on net deviations is crossed in a positive (favorable) direction, and given the low level of Trinidad and Tobago's net international reserves, the program target for the net international reserves of the Central Bank of Trinidad and Tobago would be increased by 75 percent of the applicable net sum of deviation in the first quarter when the threshold is exceeded, declining by 25 percentage points in each subsequent quarter when the threshold is exceeded.

In the event the contingency mechanism is triggered, the authorities will consult with the Fund on the appropriate adjustments of the quantitative program targets and performance criteria, and on such policy adaptations as may be necessary to attain the objectives of the program supported by the stand-by arrangement.

The Trinidadian authorities have approached their commercial bank creditors with a proposal to provide parallel contingent financing of a similar amount as contemplated under the contingency element of the CCFF. If that financing is secured, the Fund's contribution to the contingency financing of the mechanism would be less than the quarterly financing proportions mentioned above. If parallel contingency financing is not secured, the Fund would provide the full amount of the financing proportions specified under the mechanism, subject to a maximum limit of Fund financing equivalent to SDR 42.5 million; in addition, a limit of 2 percentage points would apply to the increase in interest rates on variable rate external debt that would be taken into account in calculating the net sum of deviations with respect to the baseline scenarios.

V. Summary of Performance Criteria

The economic program described in the attached letter contains the following quantitative performance criteria for the period of the stand-by arrangement (Table 8):

1. Minimum targets, specified quarterly, for the net international reserves of the Central Bank of Trinidad and Tobago;

Table 8. Trinidad and Tobago: Quantitative Performance Criteria

	Dec.31 1988	Program Jan.1-Mar.31 1989	Apr.1-June 30 1989	July1-Sept.30 1989	Oct.1-Dec.31 1989
	(In millions of Trinidad and Tobago dollars)				
Net domestic assets of Central Bank	1,050	1,010	1,055	1,065	1,090
Net credit of the financial system to the nonfinancial public sector	3,385	3,390	3,525	3,570	3,630
Overall deficit of the Central Government 1/	1,115	1,140	1,345	1,695	1,830
	(In millions of U.S. dollars)				
Net international reserves	-63	-70	-75	-75	-63
Limits on disbursement of medium- and long-term external debt of the Public Sector 2/					
1-12 years	...	32	58	78	99
1-5 years	...	15	30	45	60
Outstanding short-term external debt	3	3	3	3	3

1/ Cumulative from January 1, 1988 to end of period indicated; excluded from these limts would be expenditures for the Voluntary Termination of Employment Program (VTEP) financed with bonds up to an amount of TT$80 million.
2/ Cumulative from January 1, 1989 to end of period indicated.

2. Ceilings, specified quarterly, on the net domestic assets of the Central Bank of Trinidad and Tobago;

3. Ceilings, specified quarterly, on the net credit of the financial system to the nonfinancial public sector;

4. Ceilings, specified quarterly, on the overall deficit of the Central Government (measured from the financing side);

5. Limits on disbursements of external debt of the public sector with maturities from 1 to 12 years, with sublimits on disbursement of debt with maturities from 1 to 5 years; and on the outstanding short-term debt (i.e., less than one year) of the nonfinancial public sector.

The proposed reductions in the scope of the "negative list" for imports (quantitative restrictions) by June 30, 1989 and December 31, 1989, and action by no later than September 30, 1989 to liberalize substantially the exchange restriction on import payments are performance criteria.

Progress made in implementing the program will be assessed in a review to be completed by end-July 1989, which is a performance criterion. The customary performance criteria on overdue financial obligations to the Fund and on exchange and trade restrictions are applicable at all times during the arrangement.

VI. World Bank Operations in Trinidad and Tobago

As per capita income rose in the 1970s, Trinidad and Tobago became ineligible for World Bank borrowing, and at the beginning of 1988 the outstanding debt to the World Bank had been reduced to around US$25 million. However, in 1987 the International Finance Corporation of the World Bank Group provided some US$175 million in financing for the expansion of ammonia production capacity by 50 percent in Trinidad and Tobago through the construction of the Tringen II plant.

With the decline in national income since the early 1980s, it is expected that Trinidad and Tobago's eligibility for World Bank borrowing will be formally restored in 1989. In the meantime, a World Bank mission visited Trinidad and Tobago in November 1988 to prepare the groundwork for a resumption of Bank lending, initially in the form of a structural adjustment loan.

VII. Medium-Term External Outlook

The Trinidadian authorities have formulated a medium-term program of adjustment and structural reform which is embodied in a seven-year macroeconomic plan (1989-95) and elaborated in more detail in their medium-term economic program and public sector investment plan (both for

1989-91). To make room for a recovery of private investment, the overall public sector deficit is to be reduced from nearly 8 1/2 percent of GDP in 1987 to 4 percent in 1989 and around 1 1/2 percent in 1991, while the domestic savings performance is expected to improve in order to reduce reliance on external borrowing. Consistent with these objectives, the external current account deficit is projected to decline from 6 1/2 percent of GDP in 1987 to around 4 percent in 1989 and 2 percent in 1991; by 1992-93, the current account of the balance of payments is projected to be in approximate balance (Table 9).

The medium-term balance of payments projections assume that additional capacity in ammonia production will come on stream in 1989 and that a new methanol plant will begin operations during 1992. As a result of tax revisions introduced during the first half of 1988, it is expected that the natural decline in oil production will be temporarily reversed, as output is projected to recover to its current level in 1991-92 after a further small decline in 1989-90. In addition to improving secondary oil recovery techniques, public investment geared to the development of natural gas liquids will contribute to expanded petroleum sector output. The average realized price for oil exports, which are comprised about equally of premium quality crude and petroleum derivatives, is projected to rise from US$15.3 a barrel in 1988 to US$15.9 a barrel in 1989. Subsequently, a stable real price is assumed, consistent with the WEO projections for inflation in industrial countries.

The authorities are committed to a flexible management of the exchange rate as an essential instrument for developing nontraditional exports and tourism and reducing the country's reliance on imports. Following the exchange rate adjustments over the last three years, nontraditional exports are projected to grow by around 12 percent in 1989 and by about 7 percent annually thereafter in U.S. dollar terms. The authorities are encouraging investment in tourism, and several hotel construction projects are under way. To support further expansion in this sector, an upgrading of both major airports and of the water and sewage system in Tobago is being planned. Restocking of private sector inventories and capital goods requirements for the southeast coast gas project are expected to raise imports in 1989; after 1990, imports are projected to grow in line with economic activity and projected price increases in supplier countries.

Projected capital inflows over the medium term allow for an increase in foreign direct investment in accord with the relaxation of restrictions on foreign investment and external borrowing from multilateral institutions to finance projects identified in the public sector investment plan. No repayments to Trinidad and Tobago of its large claims on regional governments (around US$600 million) has been assumed in these projections.

Table 9. Trinidad and Tobago: Medium-Term Balance of Payments Projections

	1989	1990	1991	1992	1993
(In millions of U.S. dollars)					
Current account	-163	-148	-97	-14	-15
Trade balance	321	330	370	445	423
Exports	1,400	1,430	1,536	1,687	1,752
Of which: petroleum	786	795	865	895	887
Imports	-1,079	-1,100	-1,166	-1,242	-1,329
Services (net)	-454	-446	-433	-423	-400
Of which: interest on public debt	-199	-218	-227	-230	-214
Transfers (net)	-30	-32	-34	-36	-38
Capital account	-110	-164	23	--	84
Private (net)	60	70	85	100	115
Direct investment	60	70	85	100	115
Other	--	--	--	--	--
Public (net)	-170	-234	-62	-100	-31
Central Government	-110	-187	-36	-108	-88
Rest of public sector	-122	-62	-41	-7	42
Financial institutions	62	15	15	15	15
Overall balance	-274	-312	-74	-14	69
Financing	274	312	74	14	-69
Change in official reserves					
Assets	-88	-72	-91	52	37
IMF (net)	110	18	-14	-97	-106
Other liabilities	-22	--	--	--	--
Proposed debt relief	274	255	180	60	--
Financing gap	--	111	--	--	--
Memorandum items					
Public external debt 2/	2,314	2,475	2,578	2,513	2,277
Public debt service payments 3/	314	401	341	606	604
Gross official international reserves (in months of imports)	1.6	2.5	3.3	2.6	2.1
(In percent of GDP)					
Current account	-4.1	-3.6	-2.2	-0.3	-0.3
Trade balance	8.1	8.0	8.4	9.5	8.4
Exports	35.4	34.6	35.0	36.1	35.0
Imports	-27.3	-26.6	-26.6	-26.5	-26.5
Services and transfers	-12.3	-11.6	-10.6	-9.8	-8.7
Public external debt	58.5	59.8	58.8	51.6	45.4
Public debt service (in percent of exports of goods and nonfactor services) 3/	19.0	23.5	18.7	30.3	29.0
Petroleum price (in U.S. dollars per barrel) 4/	15.9	16.5	17.1	17.7	18.3
Growth in real GDP (in percent)	-1.0	1.0	2.5	3.0	3.5

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

1/ Includes debt rescheduling agreed in principle through August 1992 with commercial bank creditors.
2/ Includes borrowing required to fill financing gaps.
3/ After rescheduling.
4/ Weighted average for crude oil and petroleum products.

In 1989-90, Trinidad and Tobago's overall balance of payments deficit is expected to average close to US$300 million a year, but the deficit is to decline sharply thereafter. In view of heavy repayment obligations falling due during the period 1989-91, the authorities have requested that foreign commercial banks and official creditors reschedule debt repayments maturing in the period after September 1, 1988. Most of the external financing requirement over the next few years would be covered by anticipated debt relief from commercial banks and official creditors. In the view of the authorities, the remaining external financing gap can be filled mainly by new borrowing from multilateral organizations.

With the benefit of debt relief from commercial banks and official creditors, debt service payments as a proportion of exports of goods and nonfactor services would be reduced to around 20 percent during the period 1989-91, but would then rise to about 30 percent in 1992-93 after the expiration of the four-year consolidation period which has been agreed in principle with the commercial banks. The outstanding stock of external public debt is projected to peak at 60 percent of GDP in 1990 and then decline to 45 percent by 1993, as a result of repayments to foreign banks and official creditors under rescheduling arrangements expected to be concluded in 1988-89 and repayments of Fund purchases.

The external position of Trinidad and Tobago will remain sensitive to variations in export prices for crude oil and petroleum products over the medium-term; a change of US$1 a barrel would alter export receipts in 1992-93 by some US$50 million, or the equivalent of about 1 percent of GDP; similarly, a 1 percentage point variation in interest rates would alter interest payments by roughly half a percentage point of GDP. Given a modest recovery in oil prices during 1989 and the maintenance of that level in real terms in subsequent years, a strengthening of foreign capital inflows, and a competitive exchange rate to encourage investment in trade-oriented production, it is anticipated that Trinidad and Tobago will be able to satisfy its foreign debt obligations, including the repayment of purchases from the Fund under the requested stand-by arrangement.

VIII. Staff Appraisal

Trinidad and Tobago's growing economic difficulties of recent years have mainly reflected the decline in petroleum export earnings since the early 1980s. However, the effects of the fall in oil prices have been aggravated by delays in adjusting domestic spending and in providing incentives for growth and employment in the tradable goods sector. As a result, over the last five years real GDP has declined by more than one fourth, the unemployment rate has more than doubled to around 25 percent, and gross official international reserves have been reduced to very low levels.

Since late 1986, the current administration has sought to strengthen the efforts which were initiated in 1984-85 to adjust domestic expenditure and restructure the economy. After initial actions to control public expenditure and improve competitiveness, the Government has developed a medium-term program of adjustment that is intended to begin the process of economic recovery and diversification and to strengthen Trinidad and Tobago's external position. Successful implementation of the Government's economic program for 1989, which is being supported by the requested stand-by arrangement, would represent a significant advance toward those goals.

The fiscal component of the program is a central element of the government's adjustment effort and calls for an important reduction in the overall public sector deficit in 1989. To achieve the program's fiscal objective, the authorities have undertaken to reduce wage and salary payments in the central government, to improve the operating position of the state enterprises and to reform the tax system.

The Government's wage stance is based on the continuation of the freeze on central government salaries, the reduction of allowances for employees working temporarily in higher grades, and the introduction of a voluntary retirement and severance scheme for central government workers. The Government also intends to delay implementation of a court-ordered reinstatement of cost-of-living allowances and a wage increase for 1989 until the Government's fiscal position and economic conditions improve.

In view of the past burden of the state enterprise sector on the budget, the steps being taken to restructure the operations of the enterprises and to reduce their need for budgetary transfers are particularly welcome. This restructuring is based on the studies of a special commission which was appointed by the cabinet in 1987, and is being supported by a strengthening of the Government's monitoring of state enterprise operations. Apart from the improved outlook for some of the enterprises in the export sector, the measures to strengthen financial performance of the enterprises rely heavily on reductions in expenditure which the staff considers to be an appropriate approach given the cost inefficiencies which have built up over many years. However, should these measures not be sufficient to meet the program's fiscal objectives, the authorities need to be ready to consider tariff adjustments in selected enterprises.

The tax reform to be implemented by the authorities would appear to be a significant step toward a more rational and efficient tax system. Also, given the recent contraction in personal incomes, it would seem appropriate to shift the burden of taxation toward consumption and to increase incentives for production through a reduction in marginal income tax rates. The goal of instituting a value-added tax by January 1, 1990 is one that is welcome, but achievement of this target will require careful planning and the maintenance of a firm plan of action on the part of the authorities.

In the area of monetary policy, the actions already taken or planned for 1989 are designed to promote greater interest rate flexibility and to reduce the large spread which exists between bank deposit and lending rates. This spread reflects to a large degree inefficiencies in the banking system and problems of loan recovery which have increased in recent years, as well as the cost for the banks involved in the secondary reserve requirement. The recent increase in the yield of treasury bills and proposed phase out of the secondary reserve requirement should help to improve earnings of the banks. In the view of the staff, these measures, as well as the maintenance of the Central Bank's rediscount rate at a significant premium over bank deposit rates, also would serve to stimulate financial savings and strengthen the balance of payments. To preserve the soundness of the banking system, these measures should be complemented by a further strengthening of the supervisory functions of the Central Bank. Also, in view of the low level to which foreign reserves have fallen in 1988, the staff considers that credit policy should be pursued in such a manner as to ensure that the program target for net international reserves is exceeded.

The improvement in Trinidad and Tobago's competitive position since 1985 has strengthened the incentives for efficient resource allocation and growth of the tradable goods sector. Of course, the recent gains in competitiveness will need to be preserved by wage restraint and implementation of the policies envisaged under the program. Nevertheless, the exchange rate will need to be kept under continuous review in the light of developments in the balance of payments and indicators of external competitiveness. In addition, during the transition to an exchange and trade system free of restrictions, the authorities should stand ready to adjust the exchange rate, as necessary, to reinforce the favorable effects of the liberalization. In this connection, the staff would urge the authorities to move rapidly toward a freer exchange and trade system in order to maximize the opportunities for export promotion and efficient import substitution.

The Government of Trinidad and Tobago has reached agreement in principle with its foreign commercial bank creditors to reschedule 100 percent of the amortization payments falling due from September 1, 1988 through August 31, 1992, and is seeking a restructuring of its repayments to official creditors during the period of the proposed stand-by arrangement. It is expected that this debt relief, in addition to the financing which is being negotiated with multilateral lending institutions, will be sufficient to close the external financing gap for 1989. Given the recent sharp rise in Trinidad and Tobago's external debt burden and its need for rescheduling, the authorities need to pursue a prudent debt management policy and to encourage private direct investment. The authorities should use this period of debt relief to implement vigorously its economic reform program so that the country can meet its debt obligations on a sustained basis in the future. With such policies, the staff expects that Trinidad and Tobago will be able to discharge its future obligations to the Fund in a timely manner.

Trinidad and Tobago maintains exchange restrictions on payments and transfers for current international transactions, evidenced by the exchange allocation system for import payments and arrears on debt service payments pending the completion of rescheduling agreements with foreign commercial and official creditors, as described in SM/88/225 and EBS/88/262, which are subject to approval under Article VIII, Section 2(a). The staff welcomes the action already taken by the authorities to liberalize the exchange system, and in view of the authorities' intention to reduce substantially these restrictions in 1989 and to eliminate them in 1990, it recommends that the Executive Board approve the retention of these restrictions until July 31, 1989.

In view of the policy actions already adopted and those scheduled for 1989, the staff believes that the economic program of the Government of Trinidad and Tobago represents a strong adjustment effort and deserves the support of the Fund in the form of a stand-by arrangement for an amount equivalent to SDR 99 million. The staff also supports Trinidad and Tobago' request for external contingency financing under the CCFF decision in the event of adverse external contingencies during the period of the stand-by arrangement and would underscore the importance of the member's efforts to secure parallel contingency financing from the commercial banks.

Trinidad and Tobago - Relations with the Fund
(As of November 30, 1988)

I. Membership Status

(a) Date of membership: July 17, 1963
(b) Status: Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 170.1 million

	Millions of SDRs	Percent of Quota
(b) Total Fund holdings of Trinidad and Tobago currency:	255.20	150.0
of which CCFF	85.05	50.0
(c) Reserve tranche position	--	—

III. SDR Department

(a) Net cumulative allocation: SDR 46.2 million

(b) Holdings: SDR 5.6 million, equivalent to 12.1 percent of cummulative allocation.

(c) Current designation plan: None

IV. Stand-by or extended arrangements and special facilities

(a) Stand-by and extended arrangements during last ten years: none
(b) Use of special facilities during last ten years:
CFF 11/18/88 SDR 85.05 million

(B) Nonfinancial Relations

V. Exchange rate: Pegged to the U.S. dollar since August 17, 1988 at TT$4.25=US$1.00.

VI. Effective October 1983 a foreign exchange budget for imports was introduced whereby importers must obtain exchange approval from the Central Bank before an import license can be activated.

VII. The last Article IV consultation was concluded on November 18, 1988 (SM/88/224 and SM/88/225); the Executive Board did not approve Trinidad and Tobago's exchange restriction on that occasion.

Trinidad and Tobago: Selected Economic and Financial Indicators

	1985	1986	Prel. 1987	Proj. 1988	Proj. 1989
	(Annual percent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices (at factor cost)	-3.9	-3.8	-4.8	-4.0	-1.0
GDP deflator	0.7	-1.7	-1.2	4.2	6.7
Consumer prices (period average)	7.7	7.7	10.8	9.3	...
External sector					
Exports, f.o.b. (in U.S. dollars)	0.8	-37.0	3.1	-6.0	6.4
Imports, c.i.f. (in U.S. dollars)	-16.8	-8.0	-20.8	-13.0	7.0
Export volume	5.5	-5.7	-5.5	--	-2.0
Import volume	-14.2	-8.4	-22.2	-20.9	1.8
Terms of trade (deterioration -)	-1.4	-33.5	6.8	-14.9	3.3
Nominal effective exchange rate; end of period (depreciation -)	-9.8	-29.3	-15.5	-13.0	...
Real effective exchange rate; end of period (depreciation -)	-7.5	-24.2	-11.6	-8.7	--
Central Administration					
Revenue and grants	0.5	-20.1	-1.6	-6.1	6.9
Total expenditure	-8.4	-12.6	-3.5	-5.0	-1.0
Financial system					
Net domestic assets 1/	6.2	23.2	8.8	6.0	2.3
Of which: public sector	3.7	17.8	10.4	6.5	2.7
private sector	0.2	2.2	2.3	0.7	2.7
Liabilities to private sector (LPS)	3.1	-1.5	0.6	-0.8	2.5
Velocity (GDP relative to LPS)	1.8	1.9	1.8	1.8	1.8
Interest rate (annual average median rate, three-month deposits)	7.6	6.7	6.4	6.7	...
	(In percent of GDP)				
Central Government overall balance	-4.7	-7.2	-6.7	-6.8	-4.1
Public sector overall balance	-5.3	-11.5	-8.3	-6.9	-4.1
Domestic financing	3.2	10.3	8.4	5.0	3.1
Foreign financing	2.1	1.2	-0.1	1.9	1.0
Gross domestic investment	17.1	22.8	19.1	18.6	20.0
Gross national savings	15.0	8.7	12.6	13.9	15.9
External current account balance	-2.0	-14.1	-6.5	-4.8	-4.1
Trade balance	11.7	-2.4	5.8	7.9	8.1
External public debt (end-period)	34.5	40.3	50.0	55.2	57.6
	(In percent of exports of goods and nonfactor services)				
Public debt service ratio	13.1	19.6	24.5	24.0 2/	18.8 2/
Interest payments	6.2	8.5	8.6	10.9	10.6
	(In millions of U.S. dollars)				
Overall balance of payments	-243.5	-683.6	-229.2	-279.1	-274.0
Gross official reserves, end-period (in months of imports)	8.3	4.1	1.8	0.8	1.7

Sources: Central Bank of Trinidad and Tobago; Ministry of Finance and the Economy; and Fund staff estimates.

1/ In relation to liabilities to the private sector outstanding at the beginning of the period.
2/ After assumed rescheduling.

Trinidad and Tobago: Schedule of Purchases
During Period of Stand-By Arrangement

Amount	Scheduled Availability Date	Conditions Necessary for Purchase
SDR 42.5 million	January , 1989	Board approval of program
SDR 14.1 million	On or after May 15, 1989	Compliance with quantitative performance criteria as of March 31, 1989
SDR 14.1 million	On or after August 15, 1989	Compliance with quantitative performance criteria as of June 30, 1989 and completion of program review 1/
SDR 14.1 million	On or after November 15, 1989	Compliance with quantitative performance criteria as of September 30, 1989 2/
SDR 14.2 million	On or after February 15, 1990	Compliance with quantitative performance criteria as of December 31, 1989 1/

1/ Including action to reduce quantitative restrictions on imports mentioned in paragraph 28 of letter of intent.

2/ Including action to liberalize exchange restriction on import payments mentioned in paragraph 27 of the letter of intent.

Trinidad and Tobago: Summary of the 1989 Economic Program

I. Objectives and Targets

1. External current account deficit to decline to 4.1 percent of GDP (from 4.8 percent in 1989).

2. Net official international reserves of the Central Bank to remain unchanged from December 1988 to December 1989 (after a decline of US$162 million in 1988).

3. Real GDP to decline by 1 percent (after a decline of 4 percent in 1988).

II. *Main Assumptions*

1. Average export price of crude oil to increase to US$16.4 per barrel (from US$15.8 per barrel in 1988).

2. Weighted average export price of petroleum products to increase to US$15.4 per barrel (from US$14.8 per barrel in 1988).

3. Average interest rate on public external debt of the public sector to increase to 9 percent (from 8 percent in 1988).

4. External debt repayments of US$274 million to be rescheduled with commercial banks and official creditors.

5. Nonpetroleum exports to grow by 12 percent in U.S. dollar terms

6. The financial system's liabilities to the private sector to grow by 2.5 percent (compared with a decline of 0.8 percent in 1988).

III. Principal Elements of Policy

1. Public Finances

   a. Overall public sector deficit to decline to 4.1 percent of GDP (from 6.9 percent in 1988), with central government deficit declining to 4.1 percent of GDP (from 6.8 percent in 1988).

   b. Current and capital spending of the Central Government to decline to 30.5 and 3.8 percent of GDP, respectively (from 31.5 and 5.0 percent in 1988).

   c. First phase of two-year tax reform (covering income tax regime) to be introduced with 1989 budget.

d. Budgetary transfers (current and capital) and subsidies to be reduced to 10.2 percent of GDP (from 12.0 percent in 1988), and transfers to statutory bodies, state enterprises, and local governments to be reduced to 5.8 percent of GDP (from 7.2 percent in 1988).

e. Voluntary Termination of Employment Plan (VTEP) to be offered to government employees in 1989.

2. Monetary Policy

a. Secondary reserve requirement applicable to commercial banks to be phased out beginning in January 1989.

b. The existing margin between the Central bank rediscount rate and average time deposit rates in the banking system, as a minimum, to be maintained.

c. Commercial banks to reduce their outstanding advances from the Central Bank.

d. Financial system credit to the private sector to increase by 2.7 percent (compared with 0.7 percent in 1988).

e. Local currency counterpart of rescheduled external debt of the state enterprises and public utilities to be deposited in a blocked account in the Central Bank.

3. Incomes and Prices Policies

a. Wages in the public sector will continue to be frozen, and reduced in some cases; wage bill of the government budget will decline in 1989 due to the suspension of acting allowances and employment reduction associated with a voluntary retirement and severance scheme (VTEP).

b. Scope of price controls will be reduced before the end of 1988 and procedures for price adjustment in the future will be simplified.

4. External Sector Policies

a. Import restrictions to be liberalized by reducing the number of items on the "negative list" (subject to individual licenses) in three stages; i.e., before the end of 1988, before mid-1989, and before end-1989.

b. Exchange restrictions to be liberalized by exempting certain categories of importers from the exchange allocation system before December 31, 1988; a further substantial liberalization of the exchange restriction on import payments is to be introduced by no later than September 30, 1989 with a view to its elimination in 1990.

c. The exchange rate is to be managed flexibly in order to attain program objectives and target for net official international reserves.

Table 1. Trinidad and Tobago: Quarterly Limits for the Overall Central Government Deficit 1/

(In millions of TT dollars)

Time Period	Cumulative Amounts 2/
January 1-December 31, 1988	1,115
January 1, 1988-March 31, 1989	1,140
January 1, 1988-June 30, 1989	1,345
January 1, 1988-September 30, 1989	1,695
January 1, 1988-December 31, 1989	1,830

1/ Defined as the central government borrowing requirement including net disbursements of external debt (including loans to refinance or reschedule existing debt), net credit of the financial system and bond placements with the nonbank private sctor and rest of the public sector.

2/ Excluded from these limits would be bonds issued under the Voluntary Termination of Employment Plan (VTEP) up to an amount of TT$80 million.

Table 2. Trinidad and Tobago: Quarterly Ceilings on the Net Credit of the Financial System to the Nonfinancial Public Sector 1/

(In millions of TT dollars)

Time Period	Outstanding Stock
October 1-December 31, 1988	3,385
January 1-March 31, 1989	3,390
April 1-June 30, 1989	3,525
July 1-September 30, 1989	3,570
October 1-December 31, 1989	3,630

1/ Defined as net claims of the Central Bank of Trinidad and Tobago, the commercial banks, and the trust and mortgage finance companies on the central government, the local authorities, the statutory bodies and state enterprises (including the public utilities).

Table 3. Trinidad and Tobago: Quarterly Ceilings for the Net Domestic Assets of the Central Bank of Trinidad and Tobago 1/

(In millions of TT dollars)

Time Period	Outstanding Stock
October 1-December 31, 1988	1,050
January 1-March 31, 1989	1,010
April 1-June 30, 1989	1,055
July 1-September 30, 1989	1,065
October 1-December 31, 1989	1,090

1/ Defined as the difference between the currency issue and the net international reserves of the Central Bank of Trinidad and Tobago.

Table 4. Trinidad and Tobago: Quarterly Targets for the Net International Reserves of the Central Bank of Trinidad and Tobago 1/

(In millions of U.S. dollars)

Time Period	Outstanding Stocks
October 1-December 31, 1988	-63
January 1-March 31, 1989	-70
April 1-June 30, 1989	-75
July 1-September 30, 1989	-75
October 1-December 31, 1989	-63

1/ Defined as the gross foreign reserves of the Central Bank of Trinidad and Tobago (excluding external claims on other Caribbean countries and regional settlement balances in the inactive CMCF) minus short-term foreign liabilities (including repurchase obligations with the IMF, repurchase agreements and reimbursement obligations with commercial banks).

Table 5. Trinidad and Tobago: Quarterly Limits for Disbursements of Medium-Term External Credits

(In millions of U.S. dollars)

Time Period	Cumulative Amounts	
	1-5 Years	1-12 Years
January 1-March 31, 1989	15	32
April 1-June 30, 1989	30	58
July 1-September 30, 1989	45	78
October 1-December 31, 1989	60	99

External Contingency Mechanism

This annex shows our understanding of the main factors, according to which determinations and calculations will be made by the Fund for the purpose of the application of relevant provisions of the CCFF decision (Decision No. 8955-(88/126), adopted August 23, 1988), in accordance with our stated request in paragraph 7 of the letter dated November 15, 1988.

(1) The duration of the baseline period shall extend from October 1, 1988 to December 31, 1989.

(2) The maximum amount of external contingency financing that may be permitted in case of unfavorable external contingent deviations shall be equivalent to SDR 42.5 million (25 percent of quota).

(3) The external contingencies to be taken into account during the baseline period shall be Trinidad and Tobago's export price of crude petroleum and petroleum products and net interest payments on variable rate external debt, net of interest receipts on international reserves.

(4) The minimum threshold to be exceeded by the applicable net sum of deviations before financing is provided shall be an amount equivalent to ten (10) percent of Trinidad and Tobago's quota of SDR 170.1 million.

(5) The maximum amount of adjustment in case of favorable external contingent deviations shall be an amount equivalent to SDR 42.5 million.

(6) The proportion of financing shall be 75 percent of the applicable net sum of deviations in the first quarter in which the threshold is exceeded and shall be reduced by 25 percentage points in each subsequent quarter, provided that the proportion of financing of the part of the applicable net sum of deviations in any subsequent quarter that exceeds the largest net sum of deviations in any previous quarter shall be 75 percent, and shall be reduced by 25 percentage points in each following quarter.

Technical Memorandum of Understanding

The purpose of this memorandum is to set out the technical parameters and procedures of the contingency element of the Compensatory and Contingency Financing Facility (CCFF) referred to in Annex I of the letter of intent dated November 15, 1988.

1. Coverage

The Contingency Element will cover unanticipated deviations in Trinidad and Tobago's export earnings from crude petroleum and petroleum products and in net interest payments on variable rate external debt resulting from external contingencies. The contingencies to be covered are variations in the export prices of crude petroleum and petroleum products and interest rates on variable rate external debt (as described below).

2. Baseline projections and calculation of deviation

a. Crude oil and petroleum products

The projected export prices and volumes of crude oil and petroleum products incorporated in the underlying program are set out in Table 1. For the purpose of the contingency mechanism, the projected monthly volume of exports of crude oil and petroleum products will be one third of the quarterly projections shown in Table 5, and the projected quarterly prices apply to each month of the quarter.

For exports of crude oil and petroleum products, the deviation in export revenue from the baseline projection will be calculated as the deviation in export prices from the baseline projection multiplied by the export volumes specified in Table 1. The deviation in export prices will be calculated as the difference in U.S. dollar terms between the prices in the baseline projection and the observed international reference prices as they affect Trinidad and Tobago's balance of payments in the period of the stand-by arrangement. For the purpose of these calculations, the international reference price for crude oil will be the monthly transfer price for exports by AMOCO. This transfer price is calculated as a simple average of the average monthly spot prices for Nigerian Bonny Light and North Sea Brent (calculated on the basis of daily assessments published in Platts Oilgram Price Report), adjusted upward for location and quality differentials. For the purposes of these calculations, the location adjustment with respect to Nigerian Bonny Light will be fixed at a premium of US$0.49 a barrel. In the case of North Sea Brent, the location adjustment will be fixed at a premium of US$0.42 a barrel, while the quality adjustment will be fixed at a premium of US$0.47 a barrel.

Table 1. Trinidad and Tobago: Baseline Projections for Crude Oil and Petroleum Products and Interest Payments on Variable Rate External Debt

	1988		1989				
	Actual	Projection	Projection				
	QIII	QIV	QI	QII	QIII	QIV	Avg./ Total
I. Exports of crude oil							
Volume (mn. bbls)	6.8	6.9	6.7	6.7	6.7	6.7	26.9
Price (US$/bbl)	15.3	14.3	15.7	16.2	16.9	16.9	16.4
Value (US$ mn.) 1/	104.0	98.7	105.2	108.6	113.7	113.7	441.2
II. Exports of petroleum products							
Volume (mn.bbls)	6.0	6.1	5.6	5.6	5.6	5.6	22.4
Price (US$/bbl)	14.5	14.2	14.7	15.2	15.9	15.9	15.4
Value (US$ mn.) 1/	86.8	86.7	82.0	84.8	89.0	89.0	345.0
III. Interest payments on variable rate debt							
Net debt outstanding at beginning of period (US$ mn.) 2/		1,283	1,278	1,287	1,287	1,286	1,285
Interest rate 3/		9.6	9.6	9.6	9.5	9.5	9.6
Interest payments (US$ mn.)		30.8	30.6	30.7	30.7	30.7	122.7

Sources: *Trinidad and Tobago authorities; and Fund staff estimates.*

1/ International reference prices for crude oil and petroleum products, to be used in measuring deviations from the baseline projections, are set out in Annex II to Attachment IV (Letter of Intent).

2/ Public sector variable rate debt, net of gross official international reserves.

3/ Weighted average of 9.75 percent (U.S. dollar six-month LIBOR plus 1 percent) on external debt to be rescheduled; 8.37 percent in respect of charges on liabilities to the Fund; and 8.75 percent for the rate of return on the Central Bank's foreign reserves. International reference rates, to be used in measuring deviations from the baseline projections, are set out in Annex II to Attachment IV (Letter of Intent).

For purposes of the contingency element calculations, the international reference price for petroleum products will be calculated as the weighted average of international (70 percent) and Caribbean regional (30 percent) prices for fuel oil, gasoline, aviation fuel, and gas oil, as published in Platts Oilgram Price Report, using Platts Caribbean Cargoes for international sales and Platts Caribbean Product Postings for regional sales. In determining the average export prices, the following weights will be given to international sales: fuel oil (85 percent); and gasoline, aviation jet fuel and gasoil (each 5 percent). In the case of regional sales, the following weights will be used: fuel oil (21 percent); gasoline and aviation jet fuel (each 28 percent); and gasoil (25 percent).

b. Net interest payments on external debt

For the purpose of the contingency mechanism, interest payments on Trinidad and Tobago's net external debt will be defined as interest payments on variable rate external debt of the public sector (including the Central Bank of Trinidad and Tobago) less earnings on the international reserves of the Central Bank. In calculating the net sum of deviations, it is assumed that the projected net monthly interest payments are one third of the quarterly projections set out in Table 1, and that the projected quarterly interest rates apply to each month of the quarter.

For net interest payments, the deviation will be calculated as the difference (in terms of percentage points) between the projected and actual international reference interest rate, as it affects Trinidad and Tobago's balance of payments, applied to the amount of variable interest rate debt outstanding at the beginning of each quarter as projected under the program, subject to the limitation specified in section 10 below. The international reference interest rate shall be (1) the six-month LIBOR for eurodollar deposits (as published in the monthly edition of the Fund's International Financial Statistics) plus a spread of 1 percentage point which is assumed to be the average spread applied to Trinidad and Tobago's variable rate external debt (excluding liabilities to the Fund); (2) charges to the Fund of 8.37 percent; and (3) the six-month LIBOR for Eurodollar deposits for interest earnings on official international reserves. All variable rate external debt falling due beginning September 1, 1988 that is expected to be rescheduled through London and Paris Club agreements is assumed to carry an interest rate denominated in U.S. dollars.

3. Applicable sum of net deviations

The contingency element of the CCFF will be triggered during the period of the stand-by arrangement when the cumulative net sum of deviations exceeds 10 percent of Trinidad and Tobago's quota in the

Fund, i.e., SDR 17.01 million. 1/ For this purpose, the net sum of deviations will be calculated as the net sum of deviations in all variables covered, relative to their values in the baseline projection. The applicable net sum of deviations for purposes of calculating the financing that would be made available from the Fund (or before applying symmetry procedures--see section 7 below) will be calculated by deducting 4 percent of quota (i.e., SDR 6.8 million) from the net sum of deviations. This deductible will be applied once during the period of the stand-by arrangement, on the first occasion when the contingency mechanism is triggered.

4. Proportion to be financed

In the quarter in which the contingency mechanism is first triggered, total financing in an amount equivalent to 75 percent of the applicable net sum of deviations would be provided. In each subsequent quarter when financing is provided, the financing of the calculated net sum of deviations will be reduced by 25 percentage points if that deviation is equal to or less than in the previous quarter when financing was provided. If, after the first quarter when the contingency element is activated, the net sum of deviation increases, the financing to be provided under the contingency mechanism in relation to the additional net sum of deviations would start at 75 percent in the first quarter and would be reduced by 25 percentage points in subsequent quarters when financing is provided. The maximum financing to be provided by the Fund under the contingency element during the period of the stand-by arrangement is 25 percent of quota (SDR 42.5 million).

5. Calculation of financing proportions

The financing proportions specified in section 4 above will be calculated by multiplying the applicable net sum of deviations by the proportion to be financed, as explained in section 4 above. As an example, consider the threshold of 10 percent of quota and 75 percent financing of the applicable net sum of deviations. A cumulative net deviation equivalent to 15 percent of Trinidad and Tobago's Fund quota (SDR 25.5 million) would trigger the contingency element of the CCFF and provide financing of 8.25 percent of quota (SDR 14 million) in the first quarter when financing is made available after applying the deductible of 4 percent of quota (SDR 6.8 million). The remaining part of the net deviation, SDR 11.5 million, would be absorbed through adjustment measures (see section 9 below).

6. Activation of the Contingency Element

Once it becomes evident that the minimum threshold will be exceeded, a Fund mission would visit Port-of-Spain to establish under-

1/ All references to Trinidad and Tobago's quota in this Annex is to the present quota of SDR 170.1 million.

standings with the authorities on necessary policy adjustments and revised quarterly targets/ceilings for the underlying program. Purchases under the contingency element would take place at the time of the quarterly purchases under the associated arrangement after a review of the impact on the program of the external contingency has been completed by the Executive Board of the Fund; the quantitative performance criteria of the arrangement would need to be met after they have been adjusted to take account of the effect of the contingencies. Subsequent purchases under the contingency element will be made available upon observance of the adjusted performance criteria, as approved by the Executive Board.

7. Symmetry provisions

The crossing of the 10 percent of quota threshold in a favorable direction also would trigger a special review by a Fund mission to discuss with the authorities adjustments to the underlying program with a view to conserving a substantial part of the favorable net deviation. In such an event, given Trinidad and Tobago's low level of gross international reserves, 75 percent of the net favorable deviation (after allowing the deductible amount of 4 percent of quota), would be added to official international reserves in the calendar quarter when the benefit of the favorable net deviation affects the balance of payments. In subsequent quarters, the proportion used to build up the net international reserves would be reduced in the same manner as the financing provided in the case of net unfavorable deviations (see section 4 above).

8. Lagged effect on the balance of payments

In calculating the effect of an external contingency on the balance of payments, it is recognized that there is a lag between the changes in the exogenous variables (export prices and interest rates) that would trigger the contingency mechanism and the impact of the contingency on the balance of payments. These lags are as follows:

(1) changes in the reference price of crude oil and petroleum product exports affect the balance of payments with a one month lag; and

(2) changes in the reference interest rates affect the balance of payments three months after the change takes place.

If Trinidad and Tobago enters into longer term contracts at fixed prices for sale of petroleum products covered under the contingency mechanism, or if variable rate loans are converted to fixed rate, the projected baseline will be adjusted accordingly.

9. Adjustment of performance criteria

In the case of net favorable deviations, the program target for the net international reserves of the Central Bank of Trinidad and Tobago would be adjusted upward as outlined in section 7 above. In the case of net unfavorable deviations, the target for the net international reserves of the Central Bank of Trinidad and Tobago for the quarter in which the net sum of deviation impacts on the balance of payments will be adjusted downward by an amount equal to the financing provided by the Fund in that quarter. The ceiling on the net domestic assets of the Central Bank, the limit on the overall central government deficit and the ceiling on net credit of the financial system to the nonfinancial public sector also would be adjusted by appropriate amounts.

10. Parallel Contingent Financing

The Government of Trinidad and Tobago has initiated discussions with its commercial bank creditors for the provision of parallel contingent financing in an amount similar to that provided by the Fund. Parallel financing from the banks will increase total contingent financing available to Trinidad and Tobago and would imply that the proportion of Fund financing applicable to an unfavorable net sum of deviations would be less than the shares of 75 percent, 50 percent and 25 percent, mentioned in section 4 above. The proportions of financing from the Fund and the commercial banks will be determined by the relative size of the contingency facilities provided by the Fund and the commercial banks and would be set by the Executive Board at the time the contingency mechanism is activated. In the event that commercial banks do not provide parallel contingency financing, the increase in interest rates that would be taken into account in calculating the net sum of deviations for the contingency mechanism would be limited to 2 percentage points.

11. Ex-post review

In the event that the contingency element of the CCFF is activated and Fund financing is provided, an ex post review will be conducted to determine whether, on the basis of actual crude oil transfer prices, actual petroleum product prices, and actual variable interest rates, the amount of contingent financing provided by the Fund on the basis of estimated data was appropriate. In the event that purchases under the contingency element were larger than would have been calculated on the basis of actual prices and interest rates, Trinidad and Tobago will be expected, unless the Fund decides otherwise, to make a prompt repurchase of the excess.