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INFORMATION

July 3, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Trinidad and Tobago - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Trinidad and Tobago, which is proposed to be brought to the agenda for discussion on Monday, July 28, 1986. A draft decision appears on page 20.

Mr. Fajgenbaum (ext. 7161) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the 1986 Consultation with Trinidad and Tobago

Approved by S. T. Beza and S. Kanesa-Thasan

July 1, 1986

I. Introduction

The 1986 Article IV consultation discussions with Trinidad and Tobago were held in Port-of-Spain during the period April 29-May 16, 1986. 1/ The Trinidad and Tobago representatives in the discussions included the Acting Minister in the Ministry of Finance and Planning; the Governor of the Central Bank; the Permanent Secretaries of the Ministries of Finance and Planning, Energy and Mines, Agriculture, Labor, and Public Utilities; and other senior officials. The staff representatives were Messrs. Fajgenbaum (Head-WHD), Budhoo (WHD), Chu (FAD), and Snoek (CBD), Mrs. Sosa (WHD), and Mrs. Koo (Secretary-WHD). Mr. Hospedales, Advisor to the Executive Director for Trinidad and Tobago, participated in a number of the policy discussions.

The last consultation discussions with Trinidad and Tobago were held in January-February 1985. The relevant documents (SM/85/92, 3/29/85 and SM/85/105, 4/15/85) were considered by the Executive Board on May 1, 1985 (EBM/85/68). In that meeting, Executive Directors welcomed the progress made during 1984 toward adjusting the economy to the drop in oil export earnings that started in 1981. Directors urged the authorities to continue reducing the central government deficit and stressed the need for additional improvements in the performance of the public enterprises to further strengthen the public sector finances. At the same time, they encouraged a review of interest rate policies to stimulate domestic financial savings.

Directors emphasized that demand management policies needed to be supplemented by a change in the exchange rate to enhance the competitiveness of the economy and to facilitate the elimination of exchange controls and the liberalization of the trade system, in order to foster investment and growth of output and employment in the medium to longer term. Directors commended the authorities for their firm stance in the wage negotiations with public sector employees and encouraged continued wage restraint.

1/ Trinidad and Tobago continues to avail itself of the transitional arrangements of Article XIV.

II. Background

The oil-based economy of Trinidad and Tobago enjoyed almost a decade of rapidly rising real incomes through 1981 because of the major increases in oil prices in 1973-74 and 1979-80. 1/ The external accounts and the consolidated public sector finances registered substantial surpluses, notwithstanding a sizable expansion of public spending in an attempt to broaden the productive base of the economy and to enhance social services. With the weakening of the world oil market in late 1981, however, there was a general worsening in the country's economic performance (Table 1 and Chart 1). The finances of the consolidated public sector shifted to deficits of the order of 14 percent of GDP in 1982-83 as the rise of public spending picked up even though government receipts were adversely affected by the decline in oil prices (Table 2 and Chart 2). Wage and price inflation remained high and, with a fixed exchange rate, the competitive position of the nonpetroleum sectors was eroded.

In reflection of the expansion in aggregate expenditure and the real appreciation of the currency, from 1981 to 1983 imports rose by some 30 percent and the deficit in the services account widened sharply. 2/ With export earnings declining by nearly 20 percent, the external current account moved to deficits averaging 11 percent of GDP in 1982-83 (Table 3 and Chart 3). The capital account strengthened in 1982 but then weakened in 1983, and the overall balance of payments shifted from surpluses in 1980-81 to deficits of US$270 million in 1982 and nearly US$1 billion in 1983. As a result, net international reserves declined from US$3.4 billion at the end of 1981 to US$2.1 billion at the end of 1983.

To slow the loss of reserves, in late 1983-early 1984 the authorities introduced a broad range of exchange and import restrictions and tightened demand management policies. In October 1983, the authorities introduced import licenses and prohibitions as well as ceilings on annual foreign exchange allocations for specific imports, including allocations for individual importers. At the same time, stamp duties of 6 percent on imports of capital goods and of 12 percent on nonessential imports were introduced. In addition, with effect from January 9, 1985, a 10 percent tax was established on the sale of foreign currency for travel abroad and remittances to emigrants.

The public sector finances strengthened significantly in 1984-85. The consolidated public sector deficit was reduced from 14 percent of GDP in 1983 to 7 percent in 1985, owing mainly to a 42 percent reduction in capital outlays by the Central Administration and improvements in the finances of the rest of the public sector through increases in telephone, electricity, and transportation rates, and through the

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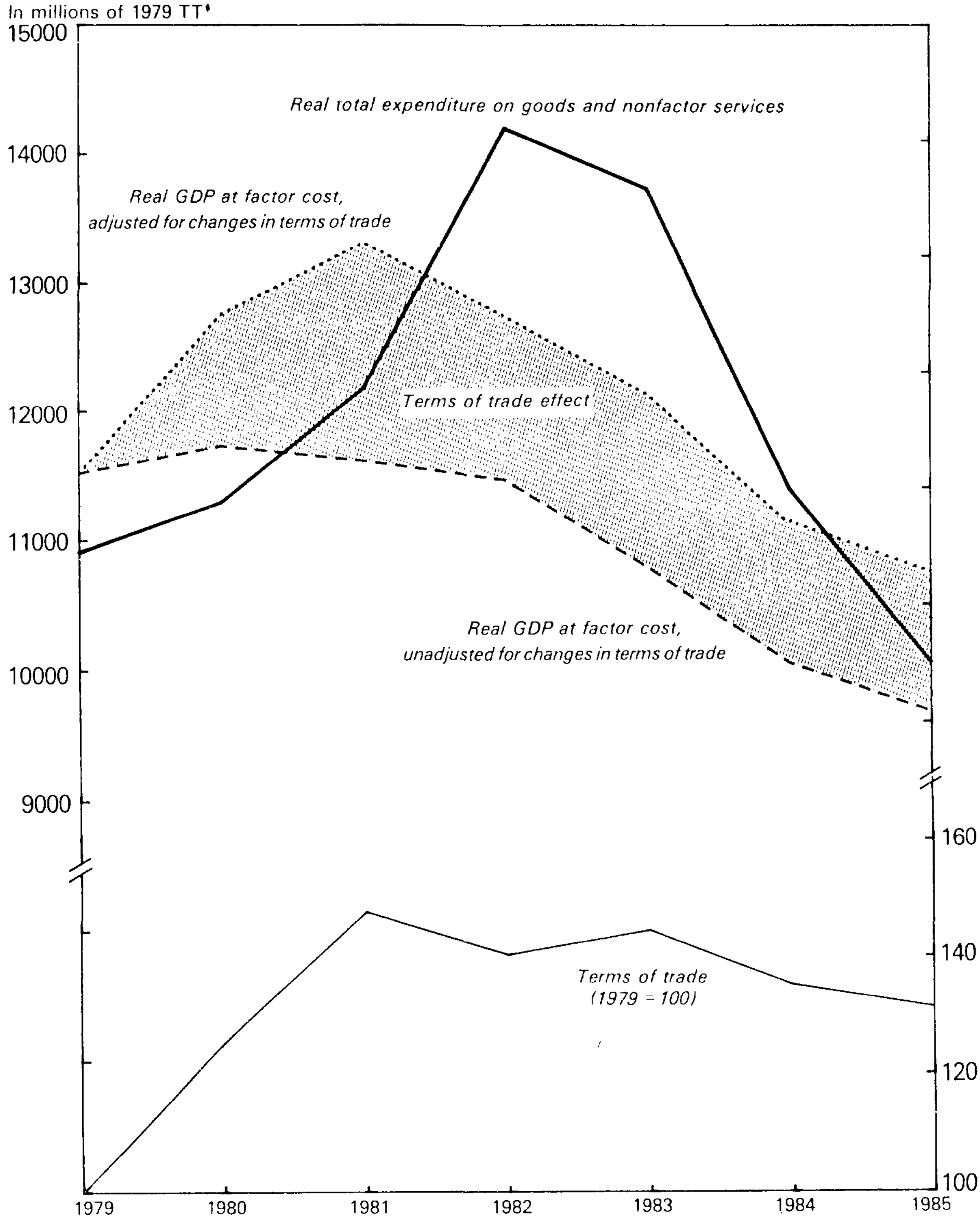
1/ In 1985 the petroleum sector accounted for nearly 80 percent of export earnings, 40 percent of central administration revenue and 24 percent of GDP.

2/ In part, this was attributable to the termination of a processing arrangement for imported oil in a local refinery.

CHART 1

TRINIDAD AND TOBAGO

REAL GDP ADJUSTED FOR TERMS OF TRADE, TOTAL DOMESTIC EXPENDITURE, AND TERMS OF TRADE



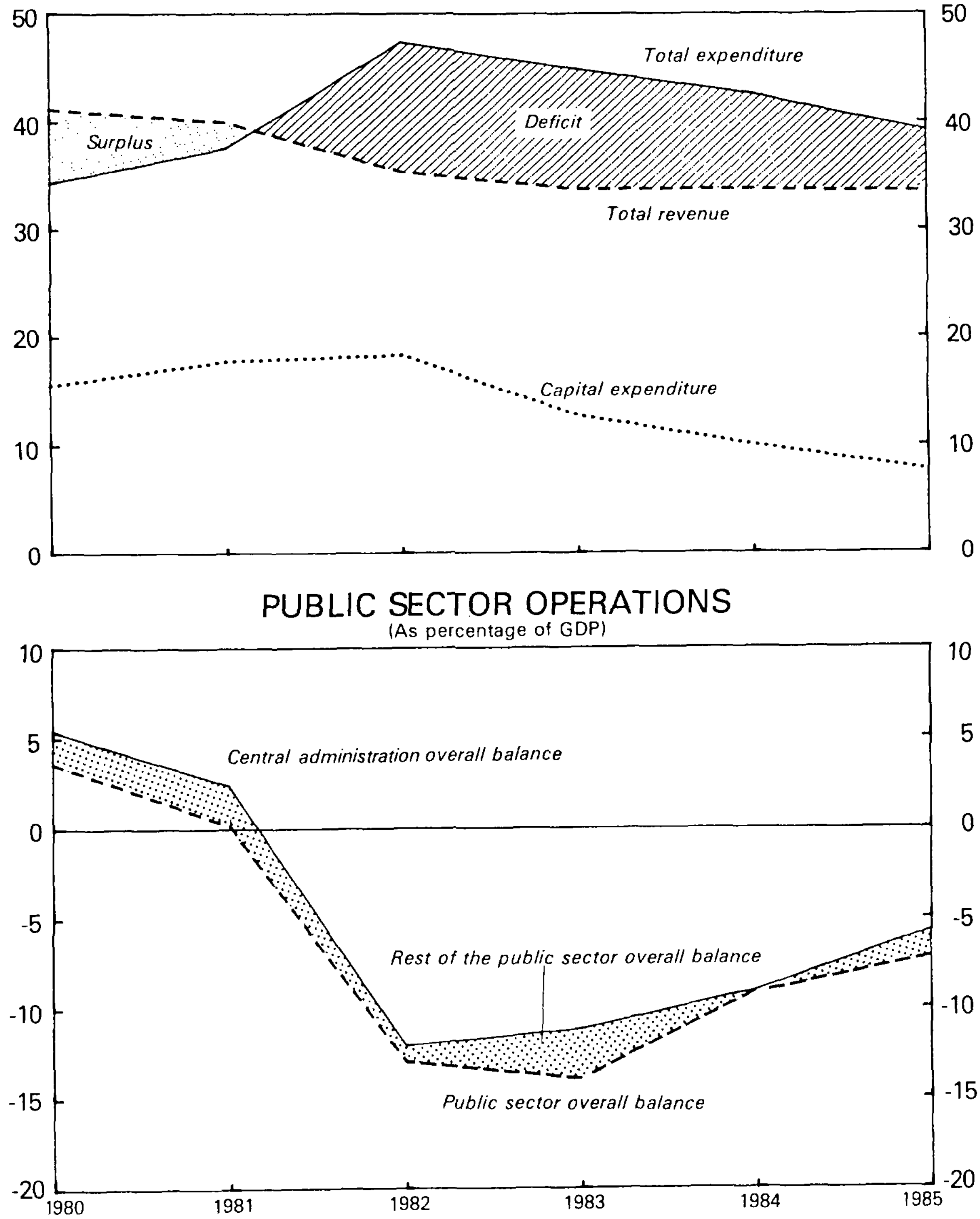
Sources: Central Statistical Office; and Fund staff estimates.

CHART 2

TRINIDAD AND TOBAGO

CENTRAL ADMINISTRATION OPERATIONS

(As percentage of GDP)



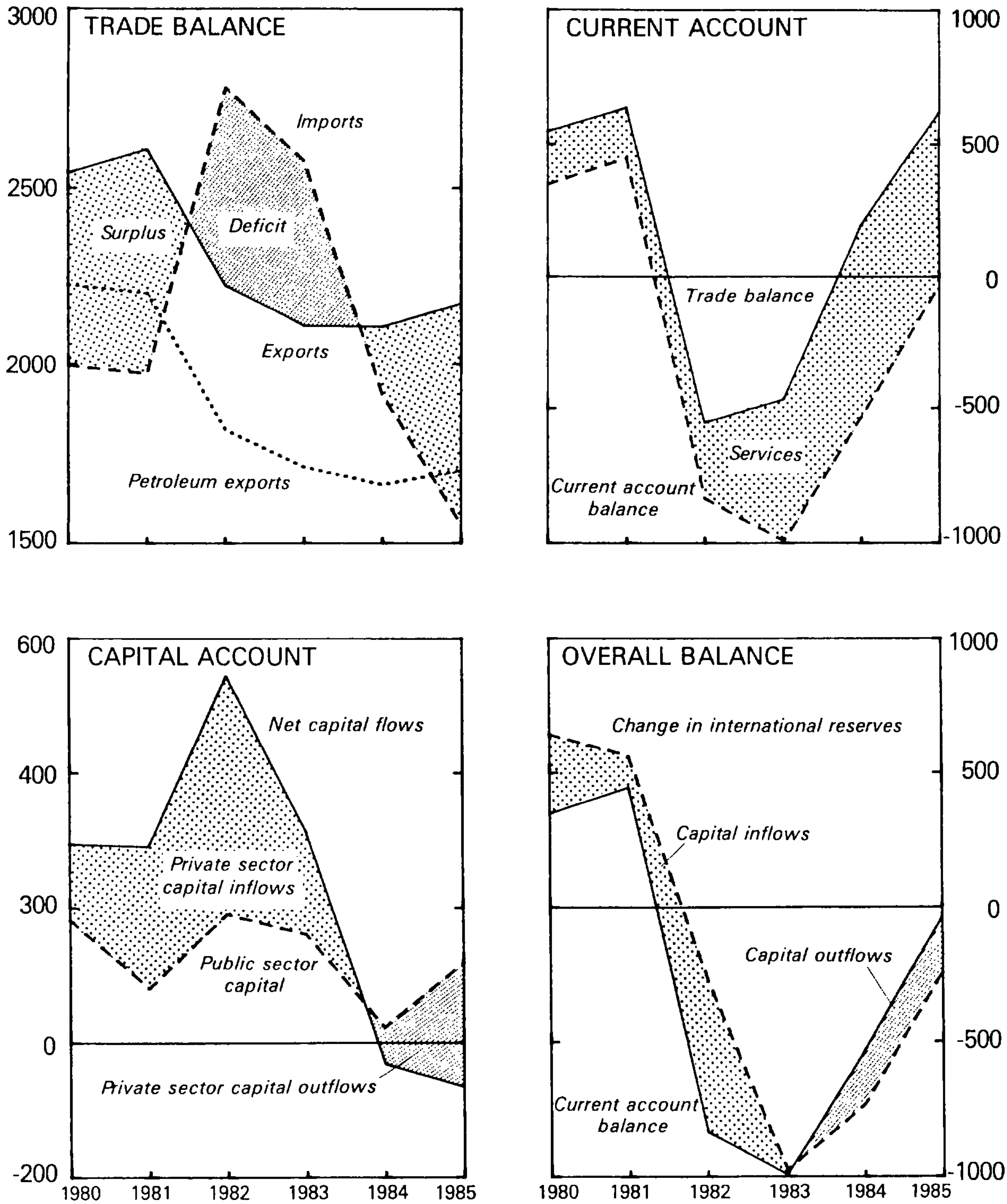
Sources: Ministry of Finance and Economic Planning; and Fund staff estimates.

CHART 3

TRINIDAD AND TOBAGO

BALANCE OF PAYMENTS

(In millions of U.S. dollars)



Source: Table 4.

Table 1. Trinidad and Tobago: Selected Economic Indicators

	1981	1982	1983	1984	Prel. 1985	Proj. 1986
I. National Accounts						
(Annual percentage change)						
Real GDP at factor cost	-1.0	-1.3	-5.9	-6.9	-3.7	-4.1
Petroleum sector	-11.4	-5.3	-12.2	6.3	5.0	1.8
Other sectors	4.4	0.5	-3.3	-11.8	-7.7	-7.2
Real GDP at factor cost adjusted for changes in terms of trade 1/	4.3	-4.3	-4.8	-8.4	-3.5	-18.6
Nominal GDP at market prices	10.7	12.5	-1.9	--	-2.7	-1.3
Total domestic expenditure 2/	15.3	32.5	-1.3	-7.1	-8.5	2.0
Terms of trade	17.4	-5.0	3.0	-6.6	-2.7	...
(As percent of nominal GDP at market prices)						
Domestic consumption	66.6	81.5	84.0	80.6	75.2	81.7
Gross capital formation	25.7	27.3	25.5	21.2	20.5	17.2
Central Government	11.6	11.8	9.8	6.5	4.7	2.5
Other	14.1	15.5	15.7	14.7	15.9	14.7
Total domestic expenditure	92.3	108.8	109.5	101.7	95.8	98.9
Gross national savings	31.8	17.2	13.3	14.6	20.1	10.5
II. Other Indicators						
(Annual percentage change, unless otherwise specified)						
GDP deflator	11.8	16.3	4.6	6.8	-0.2	0.8
Retail price-index (end of period)	11.6	10.8	15.4	14.1	6.7	14.3
Average weekly earnings in manufacturing 3/	20.6	17.2	18.4	14.4	7.5	5.0
Unemployment rate (as percent of labor force)	10.5	9.5	11.1	12.8	15.3	...

Sources: Central Statistical Office; and Fund Staff estimates.

1/ The adjustment for the terms of trade was computed as the difference between merchandise export earnings deflated by import prices and merchandise export earnings deflated by export prices, with 1979 as the base for the deflators.
2/ Excludes net factor payments abroad.
3/ All industries, including oil and sugar.

Table 2. Trinidad and Tobago: Summary of the Public Sector Operations

	1981	1982	1983	1984	Prel. 1985	1986 Budget	1986 Fund Staff Est.
	(In millions of Trinidad and Tobago dollars)						
	I. Central Administration 1/						
Total revenue	7,101	7,066	6,564	6,573	6,339	7,647	5,430
Petroleum revenue	4,253	3,274	2,462	2,760	2,472	3,370	1,620
Nonpetroleum revenue	2,848	3,791	4,102	3,814	3,867	4,277	3,810
Income tax	1,465	2,274	2,387	2,276	2,077	2,270	...
Other taxes	798	940	1,098	1,099	1,307	1,610	...
Nontax revenue	585	578	617	439	484	397	...
Total expenditure and net lending	6,675	9,498	8,747	8,323	7,412	8,817	8,850
Current expenditure	3,510	5,827	6,276	6,361	5,970	6,806	...
Wages and salaries	1,269	2,574	2,476	2,638	2,613	2,785	...
Transfers and subsidies	1,537	2,381	2,958	2,753	2,552	2,671	...
Other	704	872	842	969	805	1,350	...
Capital expenditure and net lending	3,165	3,671	2,471	1,962	1,442	2,011	...
Adjustment gap							2,020 2/
Overall balance	426	-2,432	-2,183	-1,750	-1,073	-1,170	-1,400
	II. Rest of the Public Sector 3/						
Overall balance 4/	-338	-233	-583	-62	-263	-960 5/	-960 5/
	III. Public Sector						
Overall balance	88	-2,665	-2,766	-1,812	-1,336	-2,130	-2,360
Financing							
External	457	399	476	255	486	829.0	-90
Drawings	548	536	880	800	884	...	155
Repayments	-91	-137	-403	-545	-398	...	-245
Domestic	-545	2,266	2,290	1,556	850	1,301	2,450
Financial system	-738	2,174	2,126	1,270	526	...	...
Other sources	193	92	164	286	324	...	...
	(As percent of GDP)						
	I. Central Administration						
Total revenue	40.0	35.3	33.7	33.7	33.5	40.9	29.0
Petroleum revenue	24.0	16.3	12.6	14.1	13.1	18.0	8.7
Nonpetroleum revenue	16.1	18.9	21.1	19.5	20.4	22.9	20.4
Total expenditure and net lending	37.6	47.4	44.9	42.6	39.2	47.2	36.5 6/
Current expenditure	19.8	29.1	32.2	32.6	31.5	36.4	...
Capital expenditure and net lending	17.8	18.3	12.7	10.0	7.6	10.8	...
Overall balance	2.4	-12.1	-11.2	-9.0	-5.7	-6.3	-7.5
	II. Public Sector						
Overall balance	0.5	-13.3	-14.2	-9.3	-7.1	-11.4	-12.6

Sources: Ministry of Finance and Planning; Central Bank; and Fund staff estimates.

1/ Includes accounts of the Consolidated Fund, the Special Funds for Long-Term Projects, and the Unemployment Fund.
2/ Adjustment measures needed to obtain an overall central administration deficit of TT$1,400 million.
3/ Includes accounts of the National Insurance Board, the statutory authorities, the local governments, the nonfinancial public enterprises, and the public utilities.
4/ Compiled from data on external and domestic financing from the financial system and activity in the stock exchange; any other sources of financing the rest of the public sector have not been identified and, therefore, not included.
5/ Includes TT$660 million in 1986 for the expected central bank losses due to the dual exchange rate system.
6/ After adjustment measures of TT$2,020.0 million.

Table 3. Trinidad and Tobago: Summary Balance of Payments

	1981	1982	1983	1984	1985	Staff Proj. 1986
	(In millions of U.S. dollars)					
Current account	445.0	-834.8	-993.5	-534.8	-35.1	-347.0
Merchandise	635.6	-555.5	-466.2	192.5	621.7	296.0
Exports f.o.b.	2,607.8	2,224.8	2,108.3	2,106.3	2,172.6	1,541.0
Petroleum (crude oil and products)	2,201.9	1,814.2	1,711.0	1,660.5	1,701.6	1,044.8
Other	405.9	410.6	397.3	445.8	471.0	496.2
Imports	1,972.2	2,780.3	2,574.5	1,913.8	1,550.9	1,245.0
Services	-99.8	-139.6	-408.7	-603.0	-550.6	-543.0
Investment income	-27.2	35.0	-104.7	-269.1	-263.4	-303.0
Travel	-104.0	-152.2	-175.6	-178.0	-125.0	-100.0
Other	31.4	-22.4	-128.4	-155.9	-162.2	-140.0
Transfers	-90.8	-139.7	-118.6	-124.3	-106.2	-100.0
Capital account	215.5	619.8	20.1	-177.9	-172.6	-203.0
Public sector (net)	79.9	190.5	161.3	22.2	116.9	-25.0
Central Government	8.0	122.0	99.0	168.0	153.0	--
Rest of public sector	182.3	44.3	99.5	-61.6	27.4	-25.0
Official lending	-110.4	24.2	-37.2	-84.2	-63.5	--
Direct investment	185.8	118.7	115.1	56.8	-64.9 1/	-30.0 1/
Private borrowing	-13.8	28.4	-24.1	-31.5	-73.8	-45.0
Commercial banks	36.7	39.7	68.1	84.1	28.8	25.0
Short-term capital (including errors and omissions)	-73.1	242.5	-300.3	-310.7	-179.6	-128.0
Allocation of SDRs	10.7	--	--	--	--	--
Valuation adjustment	-107.9	-54.4	-2.4	-21.2	-35.1	--
Changes in reserves (increase -)	-563.3	269.4	975.8	735.1	242.8	550.0
	(As percent of GDP)					
Current balance	6.0	-10.0	-12.2	-6.6	-0.4	-6.7
Overall balance	7.6	-3.2	-12.0	-9.0	-3.1	-10.6
Memorandum items						
Gross official international reserves (billions of U.S. dollars, end of period)	3.4	3.1	2.1	1.4	1.1	0.6
Outstanding external public debt (billions of U.S. dollars, end of period)	1.0	1.1	1.3	1.4	1.6	1.6
Total debt service ratio 2/	6.3	8.9	15.4	17.9	17.6	20.9

Sources: Central Statistical Office; and Fund staff estimates.

1/ Reflects in part the Government's acquisition of Texaco's refinery in 1985 and of Tesoro International Corporation's holdings in Trinidad-Tesoro Oil Company in 1986.
2/ As a proportion of exports of goods and nonfactor services.

elimination of most subsidies on oil products. The strengthening of the public sector finances was accompanied by higher bank reserve requirements and a slowdown in the demand for bank credit by the private sector, as the economy went into recession. The expansion of the net domestic assets of the financial system was brought down to 23 percent in 1984 and to 7 percent in 1985 from a yearly average of 45 percent in 1982-83 (Table 4 and Chart 4). 1/ Broad money rose by 7 percent and narrow money fell by almost 11 percent from the end of 1983 to the end of 1985. With the slowdown in inflation in 1985, average lending rates became positive in real terms while average deposit rates were slightly negative in real terms.

The reduction in domestic expenditure and the application of exchange and import restrictions resulted in a cumulative decline of imports of about 40 percent from 1983 to 1985. Total export earnings were virtually flat over this period even though non-oil exports rose strongly owing mostly to higher exports of urea and methanol. In spite of a significant increase in net service payments, the external current account deficit was reduced from 12 percent of GDP in 1983 to 6 1/2 percent of GDP in 1984 and to 1/2 percent of GDP in 1985. Notwithstanding sizable net capital outflows in 1984-85, the deficit in the overall balance of payments narrowed from nearly US$1 billion in 1983 to US$750 million in 1984 and US$240 million in 1985. At the end of 1985, net international reserves stood at US$1,130 million (equivalent to nearly nine months of 1985 imports), and Trinidad and Tobago's external public debt amounted to US$1.6 billion (31 percent of GDP). Total external debt service payments were equivalent to 18 percent of exports of goods and nonfactor services in 1985.

The rate of increase in consumer prices fell from more than 15 percent in 1983 to less than 7 percent in 1985, owing, inter alia, to the reduction in aggregate expenditure and a marked deceleration of wages. The rate of wage increases fell from 13 percent a year in agreements covering the period 1983-85 to 5 percent a year in agreements for the period 1985-87. A major factor contributing to this development seems to have been the authorities' firm stance in the negotiations on a wage contract for public sector employees for the period 1984-86; as no agreement was reached, the issue has been referred to a Special Tribunal of the Industrial Court, which had the effect of extending the coverage of the Tribunal's decision to five years (1984-88). The unions have asked for a wage increase of 27 percent for the first three-year period and 27 percent for the remaining two years, plus cost of living allowances (COLA), whereas the authorities have maintained their offer of 6 percent for the whole period, plus COLA. 2/ The Special Tribunal is expected to take a decision by September 1986.

1/ Data expressed in relation to liabilities to the private sector at the beginning of each year. The effect of the revaluation of foreign exchange holdings due to the devaluation of the Trinidad and Tobago dollar is excluded in 1985.

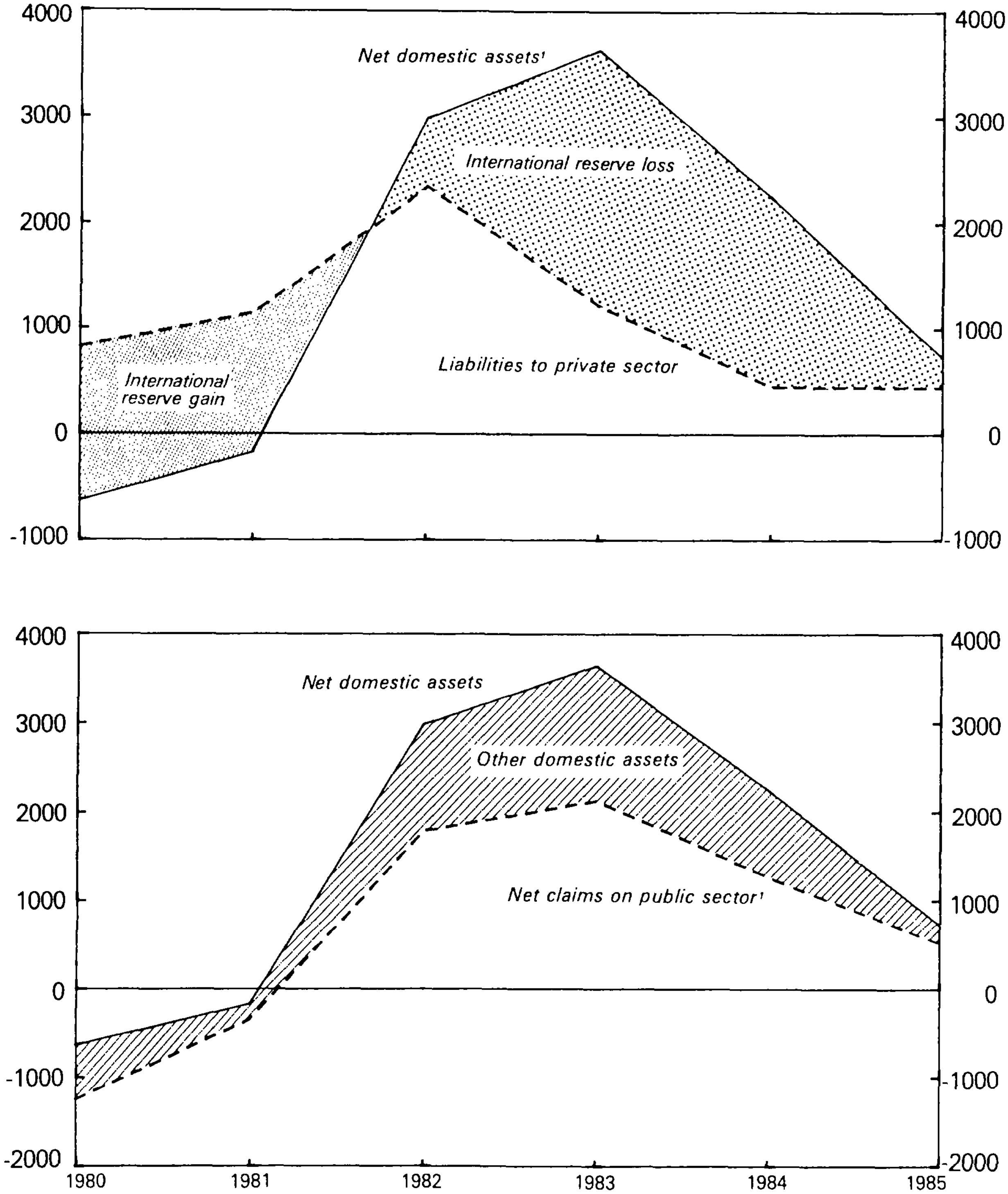
2/ The COLA compensates workers with a fixed amount per point increase in the retail price index.

CHART 4

TRINIDAD AND TOBAGO

FINANCIAL SYSTEM OPERATIONS

(Annual changes; in millions of Trinidad and Tobago dollars)



Source: Central Bank of Trinidad and Tobago.

[1] In 1985, net domestic assets are adjusted to eliminate the effect of the revaluation of international reserves.

Table 4. Trinidad and Tobago: Summary Accounts of the Financial System

	1981	1982	1983	1984	1985	Staff Proj. 1986
(In millions of Trinidad and Tobago dollars; end of period)						
Net international reserves	7,962	7,307	4,877	3,070	3,954	1,780
Net domestic assets	-1,678	1,309	4,947	7,199	6,836	9,010
Net claims on public sector	-5,424	-3,250	-1,124	147	673	2,067
Central Government	-5,220	-3,102	-1,226	-139	191	1,285
Local governments	-64	-92	-112	-80	-71	
Statutory bodies	-113	-96	-13	17	64	782
State enterprises	-27	41	228	348	490	
Credit to private sector	5,396	6,496	7,691	8,278	8,255	8,374
Other assets (net)	-1,650	-1,937	-1,621	-1,226	-2,092	-1,432
SDR allocation	129	122	116	109	183	183
Liabilities to private sector	6,156	8,493	9,708	10,160	10,607	10,607
Money	1,315	1,929	1,979	1,808	1,766	1,680
Time deposits	2,827	3,754	4,676	5,149	5,502	5,467
Savings and other deposits	1,602	2,279	2,417	2,422	2,448	2,500
Private capital and surplus	412	531	637	781	891	960
(Annual changes as percent of liabilities to private sector at the beginning of the period)						
Net international reserves	26.5	-10.7	-28.6	-18.6	-1.9 1/	-20.3
Net domestic assets	-3.4	48.5	42.8	23.2	7.0 1/	20.5
Of which: net claims on public sector	-14.7	29.0	25.0	13.1	5.2	13.1
credit to private sector	22.7	17.9	14.1	6.0	-0.2	1.1
Liabilities to private sector	22.8	38.0	14.3	4.7	4.4	--
(As percent of GDP)						
Liabilities to private sector 2/	34.9	42.8	49.9	52.2	56.0	56.7
Of which: money and quasi-money	32.5	40.1	46.6	48.2	51.3	51.6
Credit to private sector 3/	6.5	5.5	6.1	3.0	-0.1	0.6
Credit to public sector 3/	-4.2	9.0	10.9	6.5	2.8	7.5
Memorandum items						
Interest rates						
Commercial banks, average lending rate 4/	12.35	12.67	13.31	13.65	13.40	...
Commercial banks, average deposit rate 4/	6.60	6.05	6.80	6.71	6.27	...
Three-months (London) Eurodollar rate 4	16.51	13.11	9.60	10.78	8.34	...
Retail price index (percentage change) 4/	11.60	10.80	15.40	14.10	6.70	14.30
Total reserve requirements (as percent of deposits, end of period) 4/	18.6	21.1	21.9	22.0	22.0	...

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

1/ Adjusted to eliminate the effect of the revaluation of international reserves.
2/ Stock at the end of the period.
3/ Flows during the year.
4/ End of period.
5/ Consists of the legal reserve requirement and a 5 percent secondary reserve requirement.

Real GDP declined by more than 10 percent from 1983 to 1985, which brought the cumulative drop in total output in the period 1982-85 to 17 percent; adjusted for changes in the terms of trade, the decline during the past four years was almost 20 percent. The sharpest declines in production in recent years were in manufacturing, construction, transportation, and retail trade. Agricultural output grew by a cumulative 10 percent during 1984-85 as a result of the return to the farms of a large number of workers who had moved to the urban areas. In response to enhanced fiscal incentives, petroleum production rose by 11 percent during 1984-85, thereby reversing the downward trend that had started in 1978. The unemployment rate rose from a low of 9 1/2 percent in 1982 to 15 1/4 percent in 1985.

The real effective value of the Trinidad and Tobago dollar increased by about 80 percent from 1978 to the end of 1984, followed by some real depreciation during 1985 as the Trinidad and Tobago dollar fell together with the U.S. dollar against other major currencies. Effective December 18, 1985 the Trinidad and Tobago dollar was devalued from TT$2.40 per U.S. dollar to TT$3.60 per U.S. dollar for all transactions except for essential imports, 1/ which account for about one fourth of total merchandise imports. Outstanding trade credits also were granted access to the TT$2.40 per U.S. dollar exchange rate. These subsidies are expected to result in substantial exchange losses for the Central Bank; for 1986, these losses are estimated at TT$660 million. At the time of the devaluation, the authorities eliminated the 10 percent tax on the sale of foreign exchange for travel and remittances to emigrants as well as the stamp duty on imports of raw materials and other industrial inputs, but introduced a 15 percent surcharge on specified imports from non-CARICOM countries. As of February 1986, the Trinidad and Tobago dollar was on average still some 20 percent higher in real effective terms than in 1978 (Chart 5).

III. Summary of Policy Discussions

The recent collapse of international oil prices has weakened substantially the economic outlook for Trinidad and Tobago. On the assumption of an average oil export price of US$16 a barrel, 2/ oil export earnings and central administration revenue in 1986 would decline by about 10 percent of GDP relative to the budget which was based on a price of US$24.50 a barrel. The decline in oil export earnings would be US$650 million (13 percent of GDP) compared with the 1985 level. On the basis of the program included in the 1986 budget (discussed below) and in the absence of corrective action, the consolidated public sector deficit would exceed 23 percent of GDP in 1986, while the external

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1/ Defined to include foodstuffs, medicines, certain agricultural inputs, and school books.

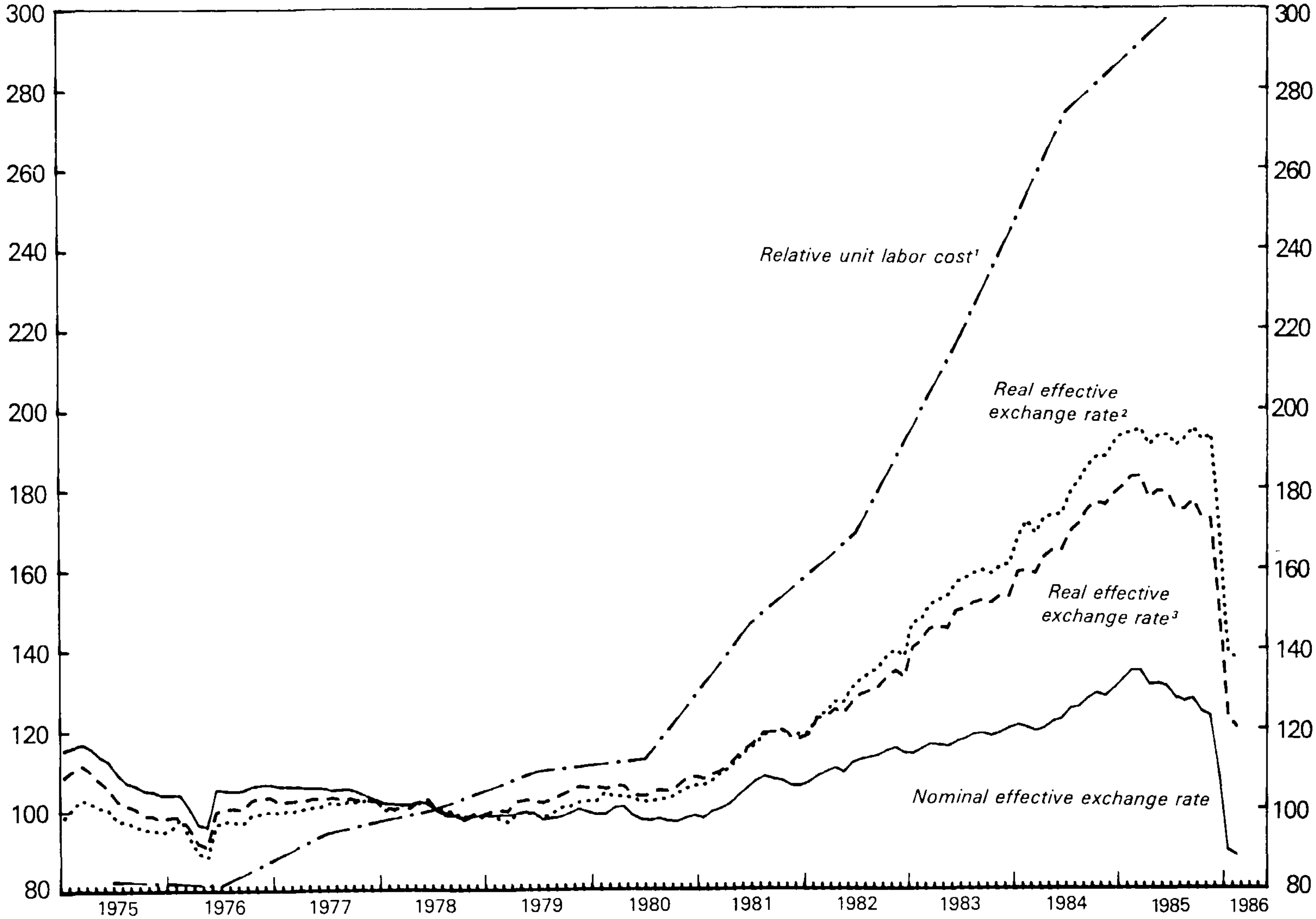
2/ This is consistent with the price of US$15 a barrel assumed in the recent WEO exercise, since the average price obtained by Trinidad and Tobago traditionally has been higher than the WEO price owing to location and quality factors.

CHART 5

TRINIDAD AND TOBAGO

REAL AND NOMINAL EFFECTIVE EXCHANGE RATE AND UNIT LABOR COST IN MANUFACTURING

(1978 = 100)



Source: Central Statistical Office and International Monetary Fund.

1 Unit labor cost in manufacturing in Trinidad and Tobago divided by the weighted average of unit labor costs in the major trading partners.

2 Deflated by the consumer price index for Trinidad and Tobago and export unit values for its trading partners.

3 Deflated by the consumer price indices for both Trinidad and Tobago and its trading partners.

current account deficit would be over 15 percent of GDP. The Trinidad and Tobago representatives shared the mission's view that it would not be prudent to assume that oil prices would recover significantly in the immediate future, although they expected an average export oil price in 1986 somewhat higher than that assumed by the mission (US$18-20 a barrel). They were aware that failure to undertake corrective measures promptly would lead to a much harsher adjustment in following years as international reserves would have been depleted and the country's creditworthiness impaired.

The discussions centered on the policies needed to adjust the economy to the lower level of external income in order to attain a sustainable balance of payments. Because of the proximity of elections--which are due at the latest by March 1987 but are likely to take place before the end of 1986--the authorities said that they would not be able to address the adjustment problem in one step. However, they would adopt corrective measures in 1986 to contain the consolidated public sector deficit in that year to 12 1/2 percent of GDP. On that basis, the external current account deficit would be in the range of 6-7 percent of GDP in 1986 and international reserves at the end of the year--though greatly reduced from present levels--would still be equivalent to some six months of imports. Further corrective measures would be implemented in 1987-88 to bring the fiscal and external accounts to a sustainable position.

1. Demand management policies

a. Fiscal policy

The budget of the Central Administration for 1986, which was drawn up late in 1985, envisaged a major increase in revenue, mainly because of the effect of the devaluation of the Trinidad and Tobago dollar (which offset, by far, the effect of a projected decline in export oil prices to US$24.50 a barrel from US$28.20 in 1985) and an increase in taxation on goods and services and on imports. Total expenditure was budgeted to grow very strongly, including an increase of 40 percent in capital outlays. In all, the overall deficit of the Central Administration was expected to rise from 5 3/4 percent of GDP in 1985 to 6 1/4 percent of GDP in 1986. Allowing for some weakening in the financial performance of the public enterprises and the exchange losses of the Central Bank resulting from the introduction of the dual exchange system, the consolidated public sector deficit was expected to rise from about 7 percent of GDP in 1985 to 11 1/2 percent of GDP in 1986.

As noted, the decline in international oil prices in the early part of 1986 has had a major effect on the outlook for the public sector finances. On the basis of an average oil export price of US$16 a barrel and a fall in revenue from income taxes and import duties stemming from the weakening in economic activity associated with the decline in oil income, the mission estimated that total central administration revenue would be TT$2 1/4 billion less than projected in the budget. Accordingly, before any corrective measures the consolidated pubic sector deficit would be expected to exceed 23 percent of GDP in 1986, with the deficit of the Central Administration being equivalent to more than 18 percent of GDP (TT$3.4 billion).

The authorities stated that the adjustment effort they were in a position to undertake in 1986 would limit the central administration deficit to about TT$1.4 billion (7 1/2 percent of GDP). This deficit would be consistent with present legal provisions on central bank lending to the Government (15 percent of central administration revenue) and a moderate amount of bond placements with the private sector and local commercial banks. The authorities said that no net foreign borrowing was planned for 1986. The deficit of the Central Administration targeted by the authorities for 1986 would imply a consolidated public sector deficit of 12 1/2 percent of GDP, i.e., 5 1/2 percentage points of GDP higher than in 1985.

The authorities explained that they had decided not to introduce revenue measures or submit a revised budget for Parliament approval in 1986, but instead to cut expenditure as part of the budget implementation process. A high level commission had been set up early in 1986 to monitor revenue and expenditure on a weekly basis and to authorize expenditures in accordance with the targeted deficit. The authorities stressed that reductions were being made in all categories of expenditure, except for external debt service payments and wages. The mission was in general agreement with the authorities' plan to cut expenditure, but suggested that a broad-based review of the budget by the commission might be useful to guide the weekly monitoring process within a longer term perspective, so as to reduce expenditure in an orderly manner. The authorities said that a budget review along these lines would be undertaken after the petroleum tax payment for the second quarter was made at the end of June.

As regards the size of the expenditure cuts required to achieve the authorities' objective for the deficit, the estimates of the mission suggested that cuts of TT$560 million (3 percent of GDP) from the 1985 outturn or TT$2 billion (11 percent of GDP) from the 1986 budgeted level would be needed. However, the authorities noted that the extent of the required expenditure reduction depended crucially on the assumption for the price of oil. A change of US$1 a barrel in the average export price affects central administration revenue by about TT$170 million or nearly 1 percent of GDP. For instance, if the price of oil averaged US$18-20 a barrel, expenditure cuts would not require retrenchment of employees in the Central Administration. In any event, they stressed that if the price was lower than US$18 a barrel, expenditure would be adjusted as necessary to attain the fiscal target.

Beyond 1986, the authorities shared the mission's view that the consolidated public sector deficit would need to be reduced to around 4 percent of GDP by 1988. In this respect, the Trinidad and Tobago representatives noted that they had been intensifying collection efforts, and for 1987 they were considering phasing out exemptions and concessional tariff rates on imports and accelerating the establishment of a generalized sales tax by broadening the base for indirect taxation. In addition, the authorities were envisaging a simplification and rationalization of the income tax system, but were concerned at the potential loss of revenue in the transition period. The mission suggested that the implementation of the income tax reform be delayed until the other tax measures started yielding the expected returns.

The mission noted that despite the authorities' efforts to strengthen the performance of public enterprises and public utilities in recent years, central administration transfers to these entities still amounted to 11 percent of GDP in 1985. The mission urged the authorities to address overstaffing and improve efficiency through a medium-term plan of action and suggested that in the meantime steps be taken to ensure that these entities at least cover their operating costs. The mission felt that the monitoring of these entities also needed strengthening. The Trinidad and Tobago representatives acknowledged that utility rates were low even after substantial increases in 1984-86, but noted that--following many years during which rates had been kept unchanged--it was difficult to bring them up to an economic level in a short period. Nevertheless, they emphasized their commitment to increase rates over time and thus reduce the utilities' dependence on central administration transfers.

b. Monetary policy

The authorities said that tight monetary and credit policies had contributed to limiting the loss of reserves in 1984-85 and to lowering inflation in 1985. They explained that the commercial banks no longer had excess reserves and that banks were asking their clients to reduce loans and overdrafts outstanding. Overall credit policies were buttressed with guidelines for credit allocation, which were intended to direct resources away from loans to consumers; these guidelines, however, were only indicative and were administered flexibly.

The authorities expressed concern about the large spread between deposit and lending interest rates and indicated their intention to lower reserve requirements gradually in an attempt to reduce the spread. The mission felt that in view of the large financing requirements of the public sector being met by the Central Bank, such a policy carried the risk of giving rise to additional pressures on the balance of payments. Thus the mission suggested that, to lower the spread, the Central Bank pay a higher interest rate on the 5 percent secondary reserve requirement or allow banks to hold larger amounts of high yielding government bonds as part of these reserves.

The mission noted that the slow growth of domestic financial savings in recent years might be related not only to the decline in real incomes but also to the negative real average deposit interest rate, and suggested that the authorities encourage an increase in deposit rates. The authorities felt that the low growth of financial savings mainly reflected the weak performance of the economy and that higher interest rates on deposits would influence savings only marginally while further depressing economic activity. They pointed out that lending rates were already high in real terms and in line with foreign lending rates. Although the authorities agreed that the rediscount rate of 7 1/2 percent was relatively low, they noted that access to the facility was limited.

Several nonbank financial institutions have been experiencing liquidity problems in recent years. The authorities were hopeful that the provisions introduced by the 1986 amendment to the Central Bank Act would result in a more forceful supervision of financial institutions and prevent the recurrence of such problems in the future. In this respect, they also noted that the recent legislation created the Deposit Insurance Fund to be financed by the Central Bank and the financial institutions. An advisory mission of the Fund's Central Banking Department in June 1986 counselled the authorities to enforce regulations, to intervene quickly and facilitate restructuring and mergers of institutions in difficulties, and to liquidate such institutions if necessary.

2. External policies

On the assumption that the public sector deficit would be contained within the government target, the mission estimated that the current account of the balance of payments would show a deficit of about US$350 million or the equivalent of 7 percent of GDP in 1986, up from a deficit of 1/2 percent of GDP in 1985. Total export earnings would decline by 30 percent because of a drop of US$650 million in petroleum export earnings; as noted, this estimate was based on an average oil export price of US$16 a barrel, with volume virtually unchanged from the 1985 level. Exports of energy-related manufactured products could be expected to grow by about 7 percent, as a sharp expansion in the volume of steel and modest gains in the volume of urea, methanol, and ammonia exports would more than offset the effect of lower world prices for some of these products. Other manufacturing exports were projected to increase as a result of the improved competitiveness and the authorities' intensified export promotion efforts. Imports would decline by a further 20 percent, reflecting mostly smaller imports of consumer goods in response to a reduction in domestic expenditure and a further tightening of import and exchange controls. The services account would remain virtually unchanged.

The deficit in the capital account was projected to widen a little to about US$200 million, largely reflecting the authorities' intention not to resort to foreign borrowing for the Central Administration and some net debt repayments by the rest of the public sector. Partial offsets would arise from a decline in private capital outflows stemming from tight credit conditions at the commercial banks, some repatriation of capital in the aftermath of the devaluation, and a smaller net outflow of foreign direct investment following a large acquisition by the Government of foreign-owned assets in Trinidad and Tobago in 1985. Moreover, the authorities expect that there will be no net lending under the regional cooperation program (oil facility), following substantial net lending in the two previous years. In all, the mission estimated an overall balance of payments deficit of US$550 million in 1986, which would result in a decline of international reserves to US$580 million by the end of 1986. As noted, the authorities expect that the price of oil in 1986 will be somewhat higher, and the current account and overall balance of payments deficits to be about US$50 million lower, than projected by the mission. On that basis, international reserves at the end of 1986 still would exceed six months of imports.

In the area of exchange rate policy, the mission urged the authorities to unify the exchange rates promptly to avoid distortions in the allocation of resources and to eliminate exchange subsidies which have weakened the fiscal position. The authorities recognized the adverse effects of the dual exchange rate system and underscored its temporary nature, although they were not in a position to indicate the timing for unification. They emphasized that maintenance of the TT$2.40 per U.S. dollar exchange rate for essential imports should be seen in the context of the wage negotiations with public sector employees.

The authorities were of the view that important structural changes since the mid-1970s had led to increased labor productivity and that the new exchange rate had re-established international competitiveness. They stressed that their preferred route to further enhancing competitiveness was to implement policies aimed at keeping production costs under control and noted the recent trend toward wage restraint. Thus, the authorities stated their intention to maintain the present exchange rate for some time to allow its effects to work through the economy. They attached importance to the promotion efforts being made through the Export Development Corporation in seeking new markets and the Industrial Development Corporation in providing financial assistance to exporters, and through the encouragement of joint ventures with foreign investors.

The mission welcomed the exchange rate adjustment of December 1985, which had reversed a large part of the real effective appreciation of the domestic currency that had taken place since 1978. Nevertheless, the mission stressed that a further improvement in competitiveness would allow adjustment policies to rely less heavily on demand-restraint measures as it would accelerate changes in the pattern of expenditure and in the structure of production. The recent sharp deterioration in the terms of trade caused by the drop in oil prices and the still high real effective value of the Trinidad and Tobago dollar relative to 1978 point to the need for enhancing competitiveness further to promote rapid growth of exports, tourism, and efficient import substitution.

Although the authorities recognized that the exchange and import controls system had become increasingly cumbersome, they stressed that no important shortages had emerged and indicated that no change in the system of controls was envisaged in the near future. The mission cautioned the authorities about the distortions in the allocation of resources that will be induced over time, as existing restrictions provide excessive protection to import-substituting sectors and discriminate against export activities. The mission stressed that implementation of cautious demand management policies and appropriate relative prices should facilitate a removal of the existing exchange and import restrictions. This process could be guided by a timetable to direct private sector activities in an orderly manner during the transition period.

3. Price and wage policies

The authorities were satisfied with the sharp drop in inflation in 1985, which they attributed mainly to the reduction in domestic demand, the substantial slowdown in wage increases, and the larger availability of agricultural products. For 1986, they expected the rate of increase of consumer prices to pick up to about 15 percent from less than 7 percent in 1985, because of the impact of the devaluation of the Trinidad and Tobago dollar in late 1985.

The authorities noted that recent collective wage agreements in the private sector had been influenced by weak demand conditions and the firm stance of the authorities in the negotiations with the public sector unions. A number of agreements in the private sector had resulted in actual reductions in nominal wages and fringe benefits. With regard to the wage policy for public sector employees, the authorities explained that, in view of the decline in petroleum revenue, a case could be made for withdrawing the Government's initial proposal for a 6 percent increase over five years, but this was not a feasible option. The authorities noted that the decision of the Special Tribunal of the Industrial Court will be binding, and that a wage award higher than that proposed by the Government would pose a major problem.

In this connection, it was noted that some of the criteria used by the Industrial Court in arriving at its decisions, including the principle of comparability with settlements previously agreed outside the court, might hamper the adjustment process, and the mission wondered whether it would be feasible to give more weight to macroeconomic and financial considerations. More generally, the mission encouraged the authorities to maintain their policy of wage restraint. In the light of the recent decline in external income, the mission stressed that a significant reduction in real incomes was necessary to facilitate adjustment. Furthermore, wage flexibility was critical in view of the rapid increase in unemployment in recent years.

4. Medium-term policies and prospects

As noted, the authorities agreed with the mission on the need to reduce the consolidated public sector deficit to about 4 percent of GDP by 1988. They said that this objective would be pursued through a significant reduction in the size of the public sector, which had expanded rapidly over the past decade. They also noted that the need to restore the level of public investment to more appropriate levels would call for substantial reductions in current expenditure and some increase in nonpetroleum revenue. In this regard, they stressed the importance of the tax reform proposals mentioned above.

In an effort to diversify production and exports, in the mid-1970s the authorities adopted a development strategy which consisted in allocating a part of the petroleum earnings to develop industries based on the exploitation of the country's large reserves of natural gas. A steel plant, two cement factories, and petrochemical plants producing ammonia, urea, and methanol were built, but their contribution to exports has been less than expected, mainly because of depressed export prices. In addition, the steel plant experienced technical and managerial difficulties, resulting in major losses which had to be covered through budgetary transfers; the Government signed management and marketing contracts with two foreign companies in early 1986, and the monthly output has risen sharply since then. Two new plants, one of methanol and one of urea, began production in 1984. Construction of a fourth ammonia plant started in late 1985 and is expected to be completed in 1989. The authorities said that further developments in this area would largely depend on private sector involvement, including joint ventures with foreign investors.

The mission also drew attention to the need for structural adjustment measures that would help diversify further the economy and permit an early resumption of growth. In this connection, the mission recommended a more active policy toward developing the agricultural sector, a simplification of foreign investment regulations, a liberalization of import and exchange controls, and a cutback in administrative red tape, as well as further improvements in competitiveness.

The authorities emphasized that their external debt management strategy had been, and remained, cautious; even with the decline in oil export earnings, the debt service ratio in the next five years was projected at around 20 percent except for 1990, when an accumulation of public sector maturities would raise the ratio to 25 percent (Table 5). 1/ Although the authorities expressed concern about the short maturity profile of the public debt (about 70 percent of the debt falls due in 1986-90), they said that they did not intend to seek a formal restructuring arrangement. They also expressed concern about the large proportion of debt with commercial banks and stated their objective of increasing borrowing from regional and multilateral organizations.

The medium-term outlook for the balance of payments prepared by the mission was based on the assumptions of the most recent WEO exercise. Nonpetroleum exports were projected to grow by 5 percent in 1986 and by an average of 13 percent a year in the following four years. After a

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1/ This ratio includes service payments on identified debt of local private companies.

Table 5. Trinidad and Tobago: Medium-Term Balance of Payments and External Debt Projections

	Prel. 1985	Proj. 1986	1987	1988	1989	1990
	(In millions of U.S. dollars)					
I. Balance of U.S. dollars						
Current account balance	-35	-342	-240	-178	-136	-142
Exports	2,173	1,541	1,660	1,805	1,994	2,180
Of which: petroleum and petroleum products	1,702	1,045	1,097	1,181	1,271	1,368
Imports	-1,551	-1,245	-1,252	-1,299	-1,426	-1,587
Nonfactor services (net)	-287	-240	-214	-215	-214	-226
Investment income (net)	-264	-298	-334	-369	-390	-409
of which: reinvestment earnings	-202	-160	-171	-183	-196	-210
Transfers	-106	-100	-100	-100	-100	-100
Capital account	-208	-208	140	178	256	292
Direct investments (net)	-65	-30	51	75	99	122
Public sector debt	180	-25	107	91	105	100
Public sector lending	-64	--	--	--	--	--
Private sector	-45	-20	-20	--	20	30
Trade financing	-73	-77	2	12	32	40
Other short term 1/	-135	-56	--	--	--	--
Overall balance	-243	-550	-100	--	120	150
II. External Debt and International Reserves						
Total external public debt outstanding	1,609	1,584	1,691	1,782	1,887	1,987
Total service payments 2/	446	397	403	457	485	659
Of which: public sector service payments	330	301	315	377	402	571
Net official international reserves	1,129	579	479	479	599	749
	(As percent of GDP, unless otherwise specified)					
Memorandum items						
Current account	-0.4	-6.5	-5.1	-3.7	-2.7	-2.6
Total public debt	30.6	30.2	36.0	37.0	37.2	36.6
Total interest payments	2.7	3.6	4.0	4.3	4.3	4.3
Total debt service ratio 3/	17.6	20.9	19.8	20.8	20.2	25.2
Net official reserves (in months of imports)	8.7	5.6	4.6	4.4	5.0	5.7

Sources: Ministry of Finance and Economic Planning; Central Bank of Trinidad and Tobago; Central Statistical Office; Ministry of State Enterprises; and Fund staff estimates.

1/ Includes errors and omissions and valuation adjustments.
2/ Includes debt servicing obligations of local private companies.
3/ As percent of exports of goods and nonfactor services.

major decline in 1986, the value of imports would be unchanged in 1987 before rising substantially in subsequent years, partly reflecting higher volume; however, the value of imports would not recover to the 1985 level until 1990. In all, the external current account deficit would decline to less than 4 percent of GDP by 1988 and to less than 3 percent of GDP in 1989-90. The ratio of Trinidad and Tobago's external public debt to GDP is projected to rise to 37 percent by 1988 and remain at that level thereafter. These projections are predicated on a successful implementation of the adjustment policies for 1987-88 outlined above and a continuation of cautious fiscal and credit policies in 1989-90. On this basis, international reserves would recover to around six months of imports by the end of the decade, after falling below that level in 1987-88.

IV. Staff Appraisal

In 1984-85, Trinidad and Tobago made substantial progress in reducing expenditure in response to the decline in oil export earnings that took place starting in late 1981. The overall public sector deficit was reduced from about 14 percent of GDP in 1982-83 to 7 percent of GDP in 1985, including the effects of a sharp curtailment in capital expenditure. As a result of these policies and a tightening of exchange and import controls starting in late 1983, imports fell by a cumulative 40 percent and the deficit in the external current account declined from an average of 11 percent of GDP in 1982-83 to 1/2 percent of GDP in 1985. The overall balance of payments deficit was reduced from nearly US$1 billion in 1983 to US$1/4 billion in 1985. At the end of 1985, net international reserves stood at about US$1.1 billion and Trinidad and Tobago's external public debt amounted to US$1.6 billion (31 percent of GDP). In 1985, the country's external debt service payments amounted to 18 percent of exports of goods and nonfactor services.

Economic activity fell sharply during the past four years and unemployment rose from 9 1/2 percent in 1982 to 15 1/2 percent in 1985. Inflation declined from an average 13 1/2 percent a year in 1982-84 to less than 7 percent in 1985, largely reflecting lower aggregate expenditure and a marked slowdown in wage increases. Following a substantial real effective appreciation of the currency during the first half of the 1980s, in December 1985 the authorities adjusted downward the value of the Trinidad and Tobago dollar in terms of the U.S. dollar by 33 percent, but the previous exchange rate of TT$2.40 per U.S. dollar continued to apply to some 25 percent of total imports.

Trinidad and Tobago's economic prospects have suffered a severe setback with the recent collapse in international oil prices. Assuming an average oil export price of US$16 a barrel, oil export earnings and central administration petroleum revenue are expected to decline by about 10 percent of GDP in 1986 compared with the original projections; relative to 1985, the effect of the decline in oil export earnings would be equivalent to 13 percent of GDP. On the basis of the budget plans (which contemplated a sharp expansion of expenditure) and in the absence of adjustment measures, the consolidated public sector deficit would reach 23 percent of GDP; the external current account deficit would be 15 percent of GDP. This situation calls for strong adjustment measures if the authorities are to avoid a severe external payments problem and an intensification of inflationary pressures.

The authorities are aiming at limiting the consolidated public sector deficit to about 12 1/2 percent of GDP in 1986. Achievement of this target will require cutbacks in central administration capital and current expenditure, amounting to the equivalent of 3 percent of GDP in relation to the outturn in 1985 or 11 percent of GDP in relation to the 1986 budget. To supplement the weekly monitoring of the budget implementation process that has been established and to provide a more secure basis for expenditure reduction, the staff recommends that the authorities review the budget comprehensively and establish longer-term guidelines. Consistent with the fiscal policy just described, the balance of payments in 1986 would show a current account deficit of US$350 million (7 percent of GDP) and an overall deficit of US$550 million. Net international reserves at the end of 1986 would amount to US$580 million, still equivalent to around six months of 1986 imports.

The authorities have stated that further adjustment measures in the fiscal area will be needed in 1987 and beyond to ensure a viable balance of payments and reasonable price stability, which are necessary to create the basis for the resumption of economic growth. In the view of the staff, reduction of the consolidated public sector deficit to around 4 percent of GDP by 1988 would go a long way toward meeting these objectives. Attainment of such an improvement in the overall fiscal position, together with the need to raise public investment from its present low level, will require substantial cuts in current expenditure and increases in revenue. As is proposed by the authorities, the latter could be best pursued through the introduction of a general sales tax and the phasing out of exemptions on other taxes.

In view of the needed adjustment in the public finances, a significant strengthening of the savings performance of the public enterprises and utilities is necessary to facilitate substantial reductions in central administration transfers. In this context, while noting the recent price and tariff increases, the staff would urge the authorities to implement promptly further price adjustments, with a view to assuring that current revenues at least cover the operating costs of these entities. The staff would also recommend that the authorities take steps to improve the data base of the public entities and utilities to strengthen the monitoring of their operations and thus to facilitate the prompt adoption of corrective measures as may be needed.

Monetary policy also needs to be tightened to avoid additional balance of payments and inflationary pressures. In this respect, a large reduction of public sector access to bank finance is essential to allow for some expansion in credit to the private sector and thus to limit the effect of a tightening of credit policy on economic activity. Moreover, in view of the relatively low growth of domestic financial savings in the recent past, the staff urges the authorities to introduce measures to encourage financial savings, including an increase in deposit interest rates. The recently enhanced supervisory powers of the Central Bank and the implementation of the Deposit Insurance Fund might restore confidence in the financial system, but these measures would need to be reinforced by a prompt solution--for example, by promoting mergers or restructurings--of the problems faced by the nonbank financial institutions.

The cautious wage policy of the authorities in recent years helped contain aggregate expenditure and inflation, and the staff would stress the importance of the maintenance of a firm stance in this area. In the light of the renewed decline in external income, a significant reduction in real wages is unavoidable. Continued wage restraint will be crucial in preventing unemployment from becoming an even more serious problem during the adjustment period.

Exchange rate policy is critical in promoting the much needed restructuring of the economy and in fostering economic growth. The staff welcomes the exchange rate adjustment of December 1985, which together with recent wage developments has helped improve the country's competitiveness. Nevertheless, the present dual exchange rate system results in distortions in the allocation of resources and contributes to the fiscal problem through the provision of exchange subsidies; thus the staff urges the authorities to unify the exchange rates promptly. Moreover, a further improvement in competitiveness is needed to induce changes in the pattern of expenditure and in the structure of production, particularly in the non-oil sectors, while avoiding excessive reliance on demand-restraint policies. Such action, together with cautious demand management policies, would facilitate the elimination of quantitative import restrictions and foreign exchange rationing.

The system of foreign exchange allocations in effect since 1983 and the dual exchange system introduced in 1985 constitute exchange restrictions subject to approval under Article VIII, and the staff urges the authorities to eliminate them at an early date. While the authorities have stated that these practices are temporary, they have not established a timetable for their elimination. In these circumstances, the staff does not propose approval of Trinidad and Tobago's exchange restrictions and multiple currency practices under Article VIII, Sections 2(a) and 3.

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

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to exchange measures of Trinidad and Tobago subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with Trinidad and Tobago, in the light of the 1986 Article IV consultation with Trinidad and Tobago conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Trinidad and Tobago has maintained a foreign exchange allocation system for imports and intensified other exchange restrictions since 1983 and has maintained a multiple currency practice resulting from the dual exchange rate system since December 1985. The Fund urges Trinidad and Tobago to implement policies which will facilitate the prompt removal of these practices.

Trinidad and Tobago - Fund Relations
(As of May 31, 1986)

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:	67.28	39.55
(c) Reserve tranche position	102.82	60.45

III. SDR Department

(a) Net cumulative allocation: SDR 46.2 million

(b) Holdings: SDR 109.99 million or 237.9 percent of net cumulative allocation.

(c) Current designation plan: None.

IV. Current stand-by and special facilities

The country has not used Fund resources to date.

(B) Nonfinancial Relations

V. Exchange rate: Pegged to the U.S. dollar since December 18, 1985 at TT\$3.60=US\$1.00. A preferential exchange rate of TT\$2.40=US\$1.00 applies to "essential" imports.

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 May 1, 1985 (SM/85/92 and SM/85/105) and the Executive Board did not approve Trinidad and Tobago's exchange restrictions.

Financial Relations of the World Bank Group with Trinidad and Tobago 1/

IBRD Lending, April 30, 1986	IBRD Disbursed	Undisbursed
	(In millions of US$) (Amount less cancellation)	
Power	23.40	
Education	19.74	
Agriculture	17.00	
Transport	15.56	
Health	3.00	
Industry	4.33	
Telecommunications	10.34	
Total	93.37	Nil

Principal payments	US$59.09 million
Debt outstanding	US$34.28 million
Commitments, September 1983-November 1984	Nil
Disbursements, November 1984-April 1986	Nil
IFC investments	US$2.35 million (fully repaid)
Technical assistance	In FY 1986 IBRD provided technical assistance in connection with an Energy Assessment Study.
Recent economic and sector missions	An economic mission visited Trinidad and Tobago in May 1982 (Report: Trinidad and Tobago: Development Issues for the 1980s). A review of investments, policies, and strategies for the energy sector was part of the Energy Assessment Study.

1/ Early in 1984 the Bank proposed the graduation of Trinidad and Tobago; the Government has not agreed with this decision.

Trinidad and Tobago--Statistical Issues

1. Outstanding Statistical Issues

a. National accounts

The latest data published in the June 1986 issues of IFS correspond to 1982. The authorities explained that a major revision of the accounts was being undertaken and that they would send data up to 1985 to the Bureau of Statistics as soon as they were available.

b. Monetary accounts

The Bureau had requested that data on Trinidad and Tobago dollar securities issued by nonresidents 1/ be classified as external assets. However, these securities are still being reported by the Central Bank as domestic assets. The central bank correspondent will send disaggregated monthly data on these securities so that the Bureau could classify them correctly in IFS.

c. Government finance

Data in both IFS and the 1985 GFS Yearbook cover operations of consolidated Central Government only through 1981. In spite of earlier assurances to previous Article IV missions and in a cable (dated July 11, 1985) from the authorities that new data would soon be sent, no updated data have been received. The authorities explained that shortages of staff and computer services had delayed their submission of data but that they would send 1982 and 1983 data within three months.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Trinidad and Tobago in the June 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Trinidad and Tobago.

1/ These comprise: ten-year IADB Bonds; IADB Public Issues; Caribbean Development Bank TT$ Public Bonds; and Barbados TT$ Bonds.

Status of IFS Data

		Latest Data in June 1986 IFS
Real Sector	- National Accounts	1982
	- Prices: CPI	February 1986
	- Production (crude petroleum)	August 1985
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1981
	- Financing	1981
	- Debt	1981
Monetary Accounts	- Central Bank	November 1985
	- Deposit Money Banks	September 1985
	- Other Financial Institutions:	
	Other Banklike institutions	June 1985
	Development banks	December 1984
	Life insurance	1983
Interest Rates	- Bank Rate	December 1985
	- Deposit Rate	QI 1985
	- Lending Rate	QI 1985
	- Government Bond Yield	December 1985
External Sector	- Merchandise Trade:	
	Values: Exports and imports	August 1985
	Petroleum exports	Q2 1985
	Sugar exports	Q2 1985
	Prices: Unit values (exports and imports)	Q2 1985
	- Balance of Payments	1985
	- International Reserves	April 1986
	- Exchange Rates	April 1986

Trinidad and Tobago - Basic Data

Area and population	
Area	1,980 sq. miles (5,128 sq. kilometers)
Population (1985)	1.2 million
Annual rate of population increase 1981-85	1.6 percent
Unemployment rate (1985)	15.3 percent
GDP at market prices (1985)	SDR 7,673 million US$7,790 million TT$18,932 million
GDP at market prices per capita (1985)	SDR 6,524

	1983	1984	Rev. 1985	Proj. 1986
		(percent)		
Origin of GDP				
Agriculture	2.6	2.9	3.4	3.9
Petroleum	23.4	24.9	23.5	19.9
Manufacturing	7.0	6.8	6.8	6.5
Construction	13.6	12.2	11.1	10.5
Government	13.2	14.2	15.3	16.9
Other	40.2	39.0	39.9	42.3
Ratios to GDP				
Exports of goods and nonfactor services	30.6	30.7	48.0	36.2
Imports of goods and nonfactor services	40.1	32.4	41.7	35.1
Current account of the balance of payments	-12.2	-6.6	-0.7	-6.6
Central administration revenues	33.7	33.8	33.5	29.0
Central administration expenditures	44.9	42.8	39.2	36.5
Central administration savings	1.5	1.1	1.9	...
Central administration overall balance	-11.2	-9.0	-5.7	-7.5
Public sector overall balance	-14.2	-9.3	-7.1	-12.6
External public debt (end of year)	16.3	17.6	30.6	30.2
Gross domestic savings	16.0	19.4	24.8	...
Gross capital formation	25.5	21.2	20.5	17.2
Money and quasi-money (end of year)	46.6	48.2	51.3	51.6
Annual changes in selected indicators				
Real GDP (at factor cost)	-5.9	-6.9	-3.7	-4.1
GDP at current prices	-1.9	--	-2.7	-1.3
Domestic expenditures (at current prices)	-1.3	-7.1	-8.5	2.0
Gross capital formation	-8.3	-17.1	-5.6	-17.4
Consumption	1.0	-4.1	-9.2	7.3
GDP deflator	4.6	6.8	-0.2	0.8
Consumer prices (end of period)	15.4	14.1	6.7	14.3
Central administration revenues	-7.1	0.1	-3.6	-14.3
Central administration expenditures	-7.9	-4.8	-10.9	-7.9
Liabilities to private sector 1/	14.3	4.7	4.4	--
Money	0.6	-1.8	-0.4	-0.8
Quasi-money	12.5	4.9	3.7	0.2
Net domestic assets of the financial system 1/	42.8	23.2	7.0	20.5
Credit to public sector	25.0	13.1	5.2	13.1
Credit to private sector	14.1	6.0	-0.2	1.1
Merchandise exports (in U.S. dollars)	-5.2	-0.1	3.1	-29.1
Merchandise imports (in U.S. dollars)	-7.4	-25.7	-19.0	-19.7

	1983	1984	Rev. 1985	Est. 1986
Central administration finances	(Trinidad and Tobago dollars)			
Revenues	6,563.5	6,573.2	6,339.1	5,430.0
Expenditures	8,746.6	8,322.8	7,412.1	6,830.0
Current account surplus or deficit (-)	287.4	209.1	197.4	...
Overall surplus or deficit (-)	-2,183.1	-1,749.6	-1,073.0	-1,400.0
External financing (net)	237.6	403.2	420.0	--
Balance of payments				
Merchandise exports	2,108.3	2,106.3	2,172.6	1,541.0
Merchandise imports	2,574.5	1,913.8	1,550.9	1,245.0
Investment income (net)	-104.7	-269.1	-263.4	-303.0
Other services and transfers (net)	-422.6	-458.2	-393.4	-340.0
Balance on current account	-993.5	-534.8	-35.1	-347.0
Official capital	161.3	22.2	116.9	-25.0
Financial system	68.1	84.1	28.8	25.0
Private capital, including errors and omissions	-211.7	-305.4	-353.4	-203.0
Changes in reserves	975.8	733.9	242.8	550.0

International reserve position	Dec. 31 1984	Dec. 31 1985	Mar. 31 1986
	(in millions of SDRs)		
Central Bank (net)	1,400	1,028	732
Financial system (net)	1,305	1,000	703

1/ As a percent of liabilities to the private sector at the beginning of the period. In 1985, the change in net domestic assets excludes the effect of the revaluation of the foreign assets held by the Central Bank.