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IMF Executive Board Concludes 2010 Article IV Consultation with Trinidad and Tobago

On January 21, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Trinidad and Tobago.[1]

Background

After 15 years of positive growth, Trinidad and Tobago was hit hard in 2009 by the global financial crisis, the fall in energy prices, and the collapse of a large financial conglomerate. The country entered this period of crisis with large fiscal surpluses and low debt, which provided important buffers to help deal with both the external and domestic shocks. The fiscal balance has turned negative, despite a real decline in expenditure in 2009. In addition, the debt-to-Gross Domestic Product (GDP) ratio has increased significantly, in part reflecting the impact of lower energy prices on nominal GDP. Inflation has surged despite weak economic activity, reflecting weather-related increases in food prices, but has begun to fall back, and unemployment has increased sharply, to 6.7 percent in the first quarter of 2010. The external current account balance sharply deteriorated in 2009 as energy prices fell, but is projected to recover in 2010. The net international reserves position remains strong at over US$9 billion (14 months of imports).

After substantive monetary easing in 2009, the resurgence of inflation in 2010 stalled further policy rate reduction until more recently, when unease about the prolonged nature of the slowdown overtook concerns about inflation. The Central Bank of Trinidad and Tobago (CBTT) has lowered the repo rate over time since March 2009, most recently to 3.75 percent during August-November 2010. Despite the easing, credit market activity remains weak and private

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

sector credit continues to fall. Recent reports indicate bank profitability is down and non-performing loans up, but financial soundness indicators remain robust, and banks remain well capitalized with risk-adjusted capital at around 23 percent in September 2010.

The collapse of the CL Financial Group in January 2009 accentuated the economic slowdown. A government intervention of three financial subsidiaries helped contain contagion, but has been costly.

Growth is expected to pick up in 2011, with the near-term risks tilted to the downside reflecting fragile confidence, the weak regional outlook, and global uncertainty. Even with the expected firming of energy prices, economic prospects over the medium term are projected to be weaker compared to the strong growth period preceding the economic crisis.

Executive Board Assessment

The Executive Directors noted that Trinidad and Tobago has been hit hard by the global financial crisis, and commended the authorities for the continued prudent macroeconomic policies that helped mitigate the impact of external shocks. Directors observed that, notwithstanding the improving global conditions and the rebound in commodity prices, economic activity remains weak and the near-term outlook is affected by uncertainty. They recognized that the immediate challenge is to restore confidence by providing a supportive policy mix and addressing remaining weaknesses in the financial system.

Directors supported the 2010/11 budget, which is appropriately geared toward reinvigorating the economy, and encouraged the authorities to accelerate its implementation. They agreed that once the economic recovery is well established, fiscal policy should aim towards reducing public debt and rebuilding buffers in the medium term. This objective could be achieved by reversing the large increases in current expenditures that occurred during the boom years, while ensuring adequate social spending and investment to promote economic diversification. They also called for strengthening tax administration.

Directors agreed that the current accommodative stance of monetary policy is broadly appropriate. They suggested that, in case of further delays in economic recovery and weaker inflationary pressures, the authorities consider additional interest rate reductions to signal their commitment to a supportive policy. Directors welcomed the central bank's recent efforts to alleviate the pressures on the foreign exchange market and encouraged the authorities to improve liquidity management. Over the medium term, greater exchange rate flexibility could be considered to support the expansion of non-energy exports and to rebalance consumption.

Directors commended the authorities for moving forward with the restructuring of the failed insurance company CLICO while containing the ensuing fiscal costs. They supported the decision to provide a liquidity window for credit unions dealing with their claims on the company and open a compassionate window for particularly vulnerable individuals.

Directors welcomed the resilience of the banking system and insurance sectors in the face of the global slowdown and the collapse of a large financial conglomerate. They highlighted the importance of remaining vigilant to possible spillovers of the financial distress into the non-bank financial sector and encouraged the authorities to implement promptly the recommendations of the first ever Financial Stability Module. They noted that major steps are needed to strengthen the regulation and supervision of the financial sector, including implementing consolidated supervision, broadening the perimeter of regulation, addressing the remaining problems in the insurance sector, and improving legislation dealing with failed financial institutions.

Directors highlighted that the medium- and long-term growth prospects are challenging as the country's energy resources are depleted. They observed that the authorities need to strike a balance between saving energy revenues for future generations with investing today to lay the foundations for sustained non-energy growth. They welcomed the government's initiatives aimed at improving the business climate, facilitating private sector entrepreneurship, and promoting diversification.

Directors encouraged the authorities to continue efforts to improve the statistical infrastructure. They underscored the importance of reliable key macroeconomic data to provide a basis for informed policy making. They welcomed the authorities' planned move to the Special Data Dissemination Standard.

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Trinidad and Tobago: Selected Economic Indicators

					~~Proj~~Est.
	2006	2007	2008	2009	2010
(Annual percentage changes, unless otherwise indicated)					
Output and prices					
Real GDP	13.2	4.8	2.4	-3.5	0.0
Energy GDP	21.8	1.7	-0.2	2.6	2.4
Unemployment rate (percent of labor force)	6.2	5.6	3.9	5.1	7.8
Consumer prices (end of period)	9.1	7.6	14.5	1.3	10.4
Real effective exchange rate (2000=100)	111.4	114.3	121.8	132.7	...
Money and credit 1/					
Net foreign assets	52.6	29.7	67.6	-2.2	2.1
Net domestic assets	-34.9	-22.3	-53.1	30.3	1.4
Private sector credit	14.9	17.6	12.6	-4.0	-2.4
Broad money (M3)	17.7	7.4	14.4	28.1	3.5
(In percent of fiscal year GDP, unless otherwise indicated)					
Public finances 2/					
Central government balance (excluding CLICO support)	6.9	4.0	7.5	-5.6	~~-3.~~0.3
CLICO support				-1.4	-2.6
Budgetary revenue	34.7	30.4	35.0	28.4	~~32.5~~33.4
Budgetary expenditure	27.8	26.4	27.5	34.0	~~35.4~~33.7
~~Overall budget balance~~	~~6.9~~	~~4.0~~	~~7.5~~	~~-5.6~~	~~-3.0~~
Overall non-energy budget balance 3/	-15.9	-14.0	-13.4	-19.8	~~-20.0~~-18.1
Overall nonfinancial public sector balance	6.1	3.6	8.2	-9.0	~~-8.8~~6.2
Public sector debt 4/	32.6	28.9	25.4	34.4	39.8
(In percent of GDP, unless otherwise indicated)					
External sector					
External public sector debt	6.8	6.1~~6.0~~	~~4.8~~5.5	~~5.2~~7.6	~~5.1~~7.4
Current account balance	39.6	24.8	31.3	9.0	16.9
Of which: exports	77.4	61.9	68.8	46.7	54.6
Of which: imports	35.5	35.4	35.4	35.5	36.1
Gross official reserves (in US$ million)	5,120	6,660	9,365	8,653	9,103
Memorandum items:					
Nominal GDP (in billions TT$)	116.0	137.0	170.9	124.1	131.0
Exchange rate (TT$/US$, end of period)	6.31	6.34	6.30	6.37	~~...~~6.36

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

1/ Changes in percent beginning-of-period broad money.

2/ Fiscal year October-September. Data refer to fiscal years from 2005/2006 and 2009/2010.

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

4/ Excluding debt issued for sterilization.