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Statement by an IMF Mission to Trinidad and Tobago

An International Monetary Fund (IMF) team visited Trinidad and Tobago during February 1-10, 2012 to conduct the 2011 Article IV consultation. The team met with senior government and central bank officials, a broad range of private sector representatives, and political and business leaders, and discussed recent macroeconomic and financial developments, medium-term prospects, and policy challenges. At the end of the visit, Ms. Judith Gold, head of the IMF mission to Trinidad and Tobago, issued the following statement in Port of Spain:

"There is concrete evidence that the economy is turning the corner and that economic growth will resume in 2012 notwithstanding the ongoing technical disruptions in the energy sector. Real economic activity is projected to increase by 1.7 percent in 2012 as private sector credit expansion gains momentum, the resolution of a large failed insurance company (CLICO) proceeds, the faster pace of government investment continues and energy production returns to normal as the maintenance work is completed while energy prices remain high. Still, there are downside risks to the forecast stemming from the global economic environment, uncertainty in gas prices, and possible delays in the implementation of the public sector investment program.

"The economic slowdown that began with the global financial crisis has been more profound and lasted longer than anticipated. The economy is estimated to have contracted by 1.3 percent in 2011, after recording no growth in 2010 and a significant decline in 2009. Ample buffers, including savings in the Heritage and Stabilization Fund, low public debt, and high international reserves, have cushioned the impact of the crisis, including the failure of CLICO. While unemployment has increased during this period, it remains low at 5.8 percent. Inflation, despite its recent resurgence due to volatility in food prices, also remains moderate at 5.3 percent.

"The 2011/12 budget seeks to provide further support to the economic recovery by maintaining the high level of public capital expenditure, strengthening the business environment, and enhancing the social safety net. The mission agrees that the near-term focus of fiscal policy should be on reviving economic activity, and the timely implementation of the investment program should be a priority. The completion of the restructuring of CLICO claims will also be important to defuse remaining uncertainties. Over the longer term, a shift in the fiscal trajectory will be needed to continue building net savings for future generations while maintaining public investment to support diversification and growth of the non-energy sector. Such a strategy would focus on containing increases in transfers and subsidies while better targeting social benefits to vulnerable groups. It would also include a strengthening of the tax effort through ongoing improvement of tax and customs administration and a broadening of the tax base.

"The financial system has not been immune to the prolonged economic downturn. Although commercial banks remain well capitalized, profitable, and liquid, the banking system's non-performing loans (NPLs) have increased and provisioning has declined. Given financial vulnerabilities, the mission agrees that continued intensified monitoring and surveillance of the financial system is warranted and urges accelerating the strengthening of the regulatory and supervisory framework, including the enactment of legislation on insurance, credit unions, and securities. The mission concurs with the central bank's accommodative monetary stance to support the revival of private sector credit.

"Key challenges in the energy sector are the projected depletion of oil and gas reserves and the uncertainty in the gas market as a result of the shale gas production in the United States. The industry has been successful in redirecting its exports to new markets in view of the falling gas prices in the United States. Looking forward, adapting the sector's investment framework and the fiscal regime to ensure its competitiveness will be essential. Just as critical will be the continued effort to diversify the economy. The mission welcomes the government's focus on improving the regulatory and administrative framework for private sector activity, and fostering investment, including the planned divestment and public/private partnership programs. It will also be important to strengthen public administration and the public service, to ensure effective and efficient delivery of public goods and services.

"The mission wishes to express its gratitude for the exceptional collaboration of many government and non-government representatives, and for their kind hospitality."