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International Monetary Fund
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Statement by an IMF Mission to Trinidad and Tobago

An International Monetary Fund (IMF) mission headed by Judith Gold, Deputy Division Chief in the IMF's Western Hemisphere Department, issued the following statement on Monday, November 8 at the end of its discussions in Port of Spain:

"During the past two weeks, as part of the annual Article IV consultation with Trinidad and Tobago, an IMF team met with government officials and private sector representatives to review recent economic and financial developments and to discuss economic prospects and policies.

"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 from a position of strength, 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, notwithstanding a real decline in expenditure in 2009. Inflation has surged despite weak economic activity, reflecting weather-related increases in food prices, and unemployment has increased sharply, to 6.7 percent in the first quarter of 2010.

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

"The 2010/11 budget appropriately adopts an expansionary stance with some additional expenditure and tax incentives to catalyze increased private sector activity and higher domestic and external investments to support a recovery. The government could enhance confidence by accelerating efforts to implement the public sector investment program and addressing arrears to contractors and on VAT refunds. The medium-term challenge is to place debt on a downward trajectory as energy revenues are expected to moderate. A credible framework would contain and reverse the increases in spending on goods and services and on transfers during the boom period, while strengthening the collection of non-energy revenue through improved tax administration.

“The challenge for monetary policy is to provide an environment conducive to a non-energy sector recovery in the context of large excess liquidity in the financial system. The mission welcomes the recent policy rate reductions that signal the central bank’s commitment to improve credit activity in the economy. The banking system remains robust, with strong capital and profitability notwithstanding increases in non-performing loans which need to be monitored carefully. The government’s intervention of a large financial conglomerate in January 2009 avoided contagion but has been costly. The financial sector policy priorities are completing the intervention while containing the fiscal costs; intensifying financial sector supervision; enacting new legislation on insurance, credit unions, and securities; and enhancing the financial safety net.

“The mission supports the government’s plans for diversification and structural reform. The focus is on investing in physical and human capital to support the development of a knowledge-based economy, improving the business climate including through a one-stop shop for investors, strengthening the public enterprise sector by inviting private sector participation, and accelerating privatization. It will be important to prioritize government investments in support of diversification particularly in view of the increasingly constrained availability of resources. The mission also supports efforts to improve the timeliness and accuracy of economic statistics.

“The mission benefited from open and fruitful exchanges with many government and non-government representatives and wishes to express its gratitude for the excellent cooperation and kind hospitality.”