INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/XX
FOR IMMEDIATE RELEASE
July 21, 2006

International Monetary Fund
Washington, D.C. 20431 USA

Statement by an IMF Mission to Trinidad and Tobago

The following statement was issued today in Port of Spain by Ms. Caroline Atkinson, Deputy Director in the Western Hemisphere Department, and Mr. Max Alier, mission chief for Trinidad and Tobago of the International Monetary Fund (IMF):

"An IMF staff mission visited Port of Spain from July 10-21, 2006 to conduct discussions for the 2006 Article IV Consultation. The discussions covered recent developments and current economic policies, as well as the medium-term economic outlook. The mission received excellent cooperation and benefited from a constructive exchange of views with Prime Minister the Honorable Patrick Manning, Ministers Conrad Enill and Christine Sahadeo in the Ministry of Finance, Minister of Trade and Industry Kenneth Valley, Central Bank Governor Ewart Williams, the Chief Secretary of the Tobago House of Assembly Orville London, the Leader of the Opposition Kamla Persad-Bissessar, other senior officials, and representatives from the private sector and labor unions.

Economic activity has remained robust and is set to accelerate further in 2006 with real output growth projected to exceed 12 percent. Surging energy prices and output, expanding industrial capacity, and buoyant construction activity underpinned strong economic growth. The current account surplus now exceeds 20 percent of GDP and FDI inflows are high. Driven by energy revenues, fiscal surpluses have increased and public debt is on a downward trend. However, there are signs that the economy is now operating near capacity. Inflation has accelerated, real estate prices are rising, capacity constraints have become evident in some sectors, and the labor market has tightened.

The mission agrees that record high energy prices present the country with a window of opportunity to set the country on a path to achieve high living standards for current and future generations. However, this requires striking a delicate balance: investing energy windfalls efficiently to advance long-term economic and social objectives, while pacing the use of energy revenues to avoid overheating the economy and pushing up inflation.

Fiscal policy should be at the forefront in fighting demand pressures. A tighter fiscal policy stance would help curb inflation and take pressure off the labor market. In that context, public spending should be contained to reduce the non-energy deficit—which has widened significantly in recent years. Looking ahead, sustainability considerations should anchor fiscal policy so as to avoid the need for sharp spending cuts or tax increases when energy income declines. The mission's sustainability exercise found that it would be prudent to keep the non-energy deficit bounded at not more than 20 percent of non-energy GDP—or about 10 percent of total GDP over the medium term.

The mission shares the authorities' view that the quality of fiscal policy is key to ensure the best use of energy resources. The mission supports the following priorities in this area: (i) improving further the efficiency of the tax system; (ii) developing a medium-term fiscal and budgetary framework and strengthening evaluation, selection, and implementation of spending programs; (iii) designing well-targeted social programs so that the population at large benefits from the energy windfall; and, (iv) ensuring adequate checks and balances on the special purpose vehicles recently created to implement the public investment program.

Transforming energy wealth efficiently into financial wealth also requires an effective asset and liability management framework. The mission notes the sizable balances in the interim Revenue Stabilization Fund. The authorities' plan to create a permanent Heritage Stabilization Fund (HSF), to institutionalize a long-term savings framework, will be an important step. The effectiveness of the HSF will depend on appropriately disciplined fiscal policies and a well designed fund structure. Transparency in HSF management and its relation with the budget as well as adequate parliamentary oversight are also essential.

Monetary policy also has an important role to play in managing price pressures. Rising energy revenues pose a difficult challenge. The central bank is reducing liquidity in the system by selling more foreign exchange and allowing interest rates to rise. The mission supports these measures and shares the authorities' view that further steps are needed to strengthen monetary management.

As the authorities recognize, boosting competitiveness of the non-energy sector requires generating productivity gains through structural reforms. Addressing infrastructure bottlenecks and improving the business environment would help remove impediments to economic diversification and growth in the non-energy sector. The mission supports the authorities' program underway to overhaul the regulatory and supervisory framework of the financial sector. Progress in establishing the CARICOM Single Market and Economy (CSME) is welcome.

The IMF mission thanks the government and the people of Trinidad and Tobago for their warm hospitality and wishes them every success in their ongoing efforts to build a strong, prosperous, and diversified economy."