Tuesday 7th November 2017 –7:50 am
Local

Prepared by: Trevis Gangaya, Analyst I (Research and Analytics)
Trevis.Gangaya@firstcitizenstt.com

IMF Executive Board Concludes Article IV Consultation with Trinidad and Tobago

- On October 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] with Trinidad and Tobago.
- The IMF estimates that there was a 11% fall in energy sector output, a 2% decline in non-energy sector activity resulting in real GDP shrinking by 6% in 2016, with a further decline of 3.25 % projected by IMF staff in 2017.
- The combined impact of weak growth and low energy sector revenues increased the overall fiscal deficit to 12.1% of GDP in fiscal year 2016, however there is expected to be a decline of 11% of GDP in fiscal year 2017.
- With regards to the country's current account, there was a deterioration of 14.5 percentage points to a deficit of 10.7% of GDP in 2016, with an 8.5% of GDP deficit expected in 2017 on the backdrop of low energy export prices and volumes.
- Gross reserves fell from US$9.9 billion (10.25 months of imports) in 2015 to US$9.5 billion (9.5 months of imports) in 2016. There is a projection of a further decline by US$1 billion (1 month of imports) this year given the prolonged foreign exchange shortage.
- Headline and core inflation remained low at 3% and 2% y-o-y as at the end of 2016
- The unemployment rate was estimated to be 4% as at the end of 2016.
- While the IMF commended the government for the steps taken in FY2016/17 and in the FY2017/18 budget proposal towards fiscal adjustment, the agency reiterated the need for further consolidation. This is needed to restore macroeconomic stability, manage external imbalances, and support broad based and inclusive growth.

- The IMF also highlighted that measures should be put in place to restore balance in the foreign exchange market and structural reforms. While the nominal exchange rate against the US dollar was allowed to depreciate by about 7% in the second half of 2016, but has been held steady since, the IMF believes external balance models suggest a substantial real exchange rate overvaluation persists.
- On the monetary front, the IMF supported the accommodative stance taken by the country's central bank to strike a balance between supporting growth and managing capital flows.
- The IMF views the banking sector as "resilient and profitable."
- The central bank was also given high praise for efforts towards the adoption of Basel II standards by June 2018. However, mention was made for a legislation to be passed swiftly with respect to insurance addressing deficiencies in the AML/CFT framework.
- The agency suggested that there the need to further broaden the VAT base and consider raising the overall VAT rate to the regional average. Additionally, government should finalize reforms of the fiscal regime for oil and gas; and significantly reduce the cost of transfers and subsidies through better targeting, while protecting vulnerable segments of the population.
- Conclusively, the IMF recommended that policy measures be put in place to deal with foreign exchange shortages, which can hamper investor confidence and country risk perceptions. Commendation was also given to government for the creation of the National Statistical Institute which will assist in addressing data shortfalls thereby strengthening policy making and surveillance.

Key Economic Metrics

Projections

	2012	2013	2014	2015	2016	2017	2018
Real GDP (%)	1.3	1.0	-0.3	1.5	-6.0	-3.2	1.9
Energy	-2.8	1.7	-1.7	-2.5	-11.1	-3.3	7.7
Non-energy	4.1	1.5	1.1	2.6	-1.9	-3.1	-1.2
Consumer prices Headline (annual average) %	9.3	5.2	5.7	4.7	3.1	3.2	3.2
Unemployment rate	5.0	3.7	3.3	3.4	4.1	-	-
Central government overall balance (In percent of fiscal year GDP)	-1.3	-2.9	-5.4	-8.3	-12.1	-11.0	-9.6
Central government debt (In percent of fiscal year GDP)	24.8	25.3	25.4	27.9	37.5	41.1	41.4
Heritage and Stabilization Fund assets (In percent of fiscal year GDP)	18.5	19.6	20.4	22.8	25.1	25.6	26.3
Current account (percent of GDP)	13.2	20.4	14.5	3.8	-10.7	-8.5	-7.9
External public sector debt (percent of GDP)	8.2	7.0	8.6	10.2	15.7	17.2	19.2
Gross official reserves (in US$ billion)	9.371	10.177	11.493	9.927	9.466	8.419	7.766
In months of goods and NFS imports	9.4	11.4	12.7	10.3	9.5	8.4	7.4
Non-energy sector in percent of GDP	62.3	64.8	65.5	78.2	81.5	81.7	81.2
Energy sector in percent of GDP	37.7	35.2	34.5	21.8	18.5	18.3	18.8
Exchange rate (TT$/US$, end of period)	6.4	6.47	6.39	6.45	6.76	-	-
Crude oil price (US$/barrel)	105.0	104.1	96.2	50.8	42.8	50.3	50.2
Natural gas price (US$ per mmbtu	10.4	10.5	10.7	6.8	5.0	4.5	4.3

Source: International Monetary Fund (IMF)

Follow us on Twitter @FCISResearch