Statement by Mr. Bevilaqua, Mr. Fuentes, and Ms. Mahabir on Trinidad and Tobago

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behalf of our Trinidad and Tobago authorities, we thank staff for the comprehensive report and the productive engagement during the Article IV consultation. Our authorities welcome the opportunity provided by this policy dialogue and value staff's assessment and recommendations.

Mitigating the shock and preparing for the recovery

Prior to the start of the pandemic, Trinidad and Tobago had begun to show signs of recovery after several years of underwhelming performance. The impact of the pandemic was coupled with a sharp decline in international energy prices. Given the preeminence of energy production in the Trinidad and Tobago economy, the low energy prices translated into several petrochemical plants being temporarily mothballed. In response to the crisis, the authorities provided targeted fiscal support of about 4 percent of GDP and ample liquidity to the banking system to preserve financial stability. Yet, rigorous containment measures severely impacted mobility, non-essential businesses, and high-contact service sectors, particularly tourism. The extent of the impact of the pandemic on employment remains inconclusive as the publication of labor market statistics has been delayed. However, alternative indicators imply that a significant portion of the retail sector closed their doors permanently, and the number of contributions paid to the national insurance board experienced a sharp drop.

The surge in international energy prices is helping the economy to gradually regain its footing. The country has been able to benefit from the rising oil and gas prices, despite important bottlenecks in domestic production. In that regard, the exploration and potential production from the seventeen offshore deep-water blocks should help maintain energy production levels into the medium-term. In addition, there are plans for other bid rounds covering onshore and shallow water blocks. Under these circumstances, real GDP growth is expected to reach 5.5 percent in 2022, stronger that initially projected, partially offsetting the combined economic contraction occurred in 2020-21.

Despite the recent spike in COVID cases, activity in the non-energy sector is also starting to pick up. As in many countries around the world, an aggressive wave of cases is impacting Trinidad and Tobago since late 2021, resulting in a higher number of infections and deaths than in preceding waves. The government, however, has so far refrained from reimposing quarantines and movement restrictions on the population. In the meantime, the gradual reopening of businesses in the non-energy sector is expected to provide an additional boost to economic activity. This trend is consistent with the most recent Monetary Policy Announcement made by the Central Bank of Trinidad and Tobago (CBTT), which noted that business credit rose by 1.3 percent (year-on-year) in October 2021—the first increase since August 2018.

Fiscal Policy

The authorities' decisive emergency response widened the fiscal deficit in 2020 and 2021. The government provided ample policy support to vulnerable households and SMEs to mitigate the widespread impact of the pandemic. In addition to the ongoing support to the health sector and the vaccine rollout, targeted policy measures will continue to deliver social assistance to avoid further scarring. To aid in the transparency of all pandemic-related expenditures, the authorities created a new sub-item in the Draft Estimated for Recurrency Expenditure for FY 2021. Going forward, as expenditures normalize and revenue gradually recovers due to improved economic activity and the implementation of mobilization measures, the fiscal deficit is projected to continue narrowing in FY 2022 and achieve a primary surplus by FY 2023.

The Heritage and Stabilization Fund (HSF) helped finance the emergency response to the health crisis. While the country has drawn heavily from the Development Bank of Latin America (CAF) for deficit financing, significant funding has also come from domestic sources, including the HSF. Notwithstanding the withdrawal of these resources, the HSF is currently valued at US$5.6 billion (26 percent of GDP), and the authorities remain committed to gradually rebuild buffers as the crisis subsides.

The authorities are working towards strengthening debt sustainability. They are in the process of implementing policies to bring public debt back to a downward trajectory. Regarding revenue mobilization, initiatives to establish a revenue authority, reintroduce the collection of property tax, liberalize the fuel market, and reform the tax and customs administration are under discussion. Also, the new Gambling Control Bill should contribute to increase fiscal revenue while improving transparency and compliance with international best practices. On the expenditure side, the authorities will continue to rationalize transfers and subsidies. They also recognized the importance of strengthening the fiscal framework and continue to make progress towards formulating medium-term fiscal projections in line with IMF TA recommendations.

Regarding national statistics, the authorities seek to achieve significant upgrades in availability and timeliness. They are engaged in the creation of the National Statistical Institute to transform the Central Statistical Offices (CSO) into a body with the autonomy and authority to coordinate national statistical systems in accordance with best international standards. In the interim, the CSO continues to work to make the available data more accessible to the public through its website. A key action to improve data accessibility has been the launch in 2021 of a national data summary page hosted by the CBTT.

Monetary policy, exchange rate and the financial sector

The CBTT has appropriately maintained an accommodative stance during the crisis. At the onset of the pandemic, the CBTT reduced its policy rate and the primary reserve requirement rate to stimulate the economy and inject liquidity into the banking system. To date, the CBTT's stance remains accommodative to support the emerging recovery. However, during the latter part of 2021, inflationary pressures, particularly those emanating from food prices, have greatly intensified. Unfortunately, this trend is expected to continue into 2022. Against this background, the CBTT's Monetary Policy Committee will carefully balance the need to support economic activity within the mandate to control inflation.

Despite the slowdown in energy sector receipts, the authorities have preserved a strong level of international reserves and a stable exchange rate. Typically, Trinidad and Tobago exhibits a current account surplus driven by energy exports, which directly impacts reserve accumulation and foreign exchange (FX) provision to the domestic market. Nonetheless, under the current circumstances, the CBTT is engaging in bi-monthly FX interventions to help stabilize the FX market amid the drop in energy exports. On average, such interventions represent around one-quarter of the total FX available from authorized dealers. However, the authorities expect higher FX supply from the energy sector as new energy projects become operational.

The financial system has shown resilience and remained stable during the crisis. Banks have maintained healthy capitalization levels, strong liquidity buffers, and adequate profitability. In dealing with the pandemic, the CBTT allowed commercial banks to engage in forbearance through the restructuring of loans via deferred payments or rate reductions. These actions helped to keep non-performing loan ratios low and maintain capital and profitability above acceptable thresholds. Overall, the financial sector remains well structured and stable. Given the interconnectedness of this sector with other countries in the region, the CBTT continues to collaborate with Caribbean partners in the supervision of selected entities.

AML/CFT

The Trinidad and Tobago authorities continue to work diligently to achieve tax cooperation and AML/CFT targets. In 2020, the country was removed from FATF's list of countries under monitoring but remains on the EU and Global Forum lists. In response, the authorities are implementing an action plan to introduce the necessary measures to be delisted. Following the recommendations from the Global Forum Secretariat, the Government is considering amendments to various pieces of legislation, including the Companies Act, Income Tax Act, Tax Information Exchange Agreement Act, and the Mutual Administrative Assistance in the Tax Matters Act.

Structural Reforms

The authorities are firmly committed to implement important reforms to diversify the economy and boost non-energy sector growth. In the Roadmap to Recovery, the Government plans to reset the post-pandemic growth model, expanding its base and making it more inclusive. With that objective in mind, the authorities have been undertaking several reforms to improve the business climate, including the use of technology to expedite business registration and issue Digital CARICOM Certificates of Origin (COOs) to exporters. Another initiative recently approved in Parliament was the transformation of Free Zones into Special Economic to attract new dynamic industries and foster economic diversification.

Bolstering fiscal sustainability and resilience are also priorities in reform efforts. Following the 2018 restructuring of the state-owned oil company, Petrotrin, the authorities are poised to continue with SOE reform by rationalizing transfers, particularly for those enterprises providing water and electricity. In addition, a comprehensive review of the oil and gas taxation regime is planned to ensure that the domestic hydrocarbon sector remains internationally competitive. Also, the authorities have reiterated their strong commitment to build a climate-resilient economy and upgrade critical infrastructure. As a signee of the Paris Agreement, Trinidad and Tobago is working towards reducing GHG emissions and increasing the renewable energy component of power generation. Moreover, legislative actions are underway to implement the National Climate Change Policy (NCCP) as part of the National Development Strategy 2016-2030.

Closing remarks

The authorities remain committed to support the recovery with prudent macroeconomic management and steadfast implementation of structural reforms. In addition, the resurgence of international energy prices, and its ripple effects in the rest of the economy, will bolster economic activity in Trinidad and Tobago. At the same time, the authorities recognize the high level of uncertainty in the global economy and the need to prioritize the protection of the vulnerable population in the near-term while strengthening fiscal sustainability and diversifying the economy.