

ADDRESS TO THE NATION BY
DR THE HONOURABLE KEITH ROWLEY, MP
PRIME MINISTER OF THE REPUBLIC OF TRINIDAD & TOBAGO
Tuesday December 29th, 2015

Fellow Citizens, Ladies and Gentlemen

This evening I would like to address the national community on the state of the economy in light of the continuing fall in oil and gas prices and the consequences for the people of Trinidad and Tobago.

In June 2014, (18 months ago) the price of West Texas Intermediate, (WTI), our benchmark crude oil, was US\$106 per barrel. In December 2014, it had declined to US\$59 and it is now in the region of US\$36 per barrel.

You may recall that the 2015 budget was prepared on an anticipated oil price of \$80/barrel. As the oil price continued its relentless downward slide we were told early in the year that there was a new budgetary horizon based on downward adjustment to \$45/ barrel. This never happened but expenditure remained as if the revenue flows were coming in as originally planned.

You will also recall that the incoming new Government based the current 2016 Budget on an oil price of US\$45 per barrel, in October. Today the price of oil is hovering around \$36.00/barrel.

Similarly, the price of Liquefied Natural Gas (LNG) in the Japanese market decline from US\$16.40/ mmbtu in June 2014 to US\$15.70/mmbtu in December 2014 and is now around US\$9.00/mmbtu.

LNG prices have declined by similar percentages amounts in European and South American markets. Even in the United States where natural gas prices had been lower than in other markets, those prices have since fallen even further. The Henry Hub benchmark price is now about US\$1.90/mmbtu compared to US\$2.75/mmbtu which was used in the 2016 Budget, just two months ago. All the forecasts and predictions from the best available data and expert opinions conclude that this kind of situation is likely to get worse before it begins to improve in the medium term.

So the prices of our major exports have declined by as much as 70% for crude oil, and 45% for natural gas. If that were not serious enough, our levels of production of both crude oil and natural gas have been falling. Crude oil production has declined from 90,000 barrels per day in 2010 to 80,000 barrels per day in 2015.

Our natural gas production currently stands at 3.8 billion cubic feet per day when we need about 4.2 billion cubic feet per day to adequately supply the demand for LNG, petrochemicals, power generation and other uses for our natural gas. It is clear that the energy sector has been contracting for most of 2015. This includes the petrochemical industries which have been adversely impacted by curtailment of gas supplies.

THE IMPACT

What these developments mean is that the country's export earnings have dropped significantly. It is also evident that oil and gas prices will not recover any time soon. Some analysts are of the opinion that oil prices will recover to about US\$80 per barrel in 2020, some five (5) years from now.

The most recent projections of the World Bank indicate that crude oil prices will recover to only about US \$65 by 2020. Remember we had pitched our revenue stream and consumption lifestyle on \$80.00 oil as far back as October 2014. We are now being told that

by 2020 we would still be substantially short of that price target and our projected revenues will be similarly curtailed if we are not blessed by significant increases in production of oil and gas. Without such increases it means that in order to sustain where we are now we will have to borrow substantially for the next five years. Added to the last five years this would mean ten years of heavy deficit spending and explosive growth in the national debt burden. Whatever the projections, it is clear that we cannot expect any significant and immediate rebound in oil and gas prices. Nor can we significantly increase our production of these commodities in the short run. When our export earnings fall the supply of foreign exchange flowing into the economy is reduced. The whole of the rest of the economy outside of the energy sector depends on the availability of foreign exchange. We need it for food, medicines, clothing, books and education, cars, trucks and tractors, and computers; we are very dependent on foreign exchange to sustain our economy and our standard of living. The fall in exports reduces the amount of taxes payable by companies in the energy sector to the Government; this was made clear in the Budget Statement by the Hon. Minister of Finance. Oil revenues amount to about TT\$20 billion, or one third of total revenue. This fiscal year, because of the necessary tax incentives given to facilitate exploration, our oil revenues will be significantly less. In addition, companies in the energy sector are cutting back on employment as well as their expenditure on local goods and services. This will have a further negative knock-on effect on the rest of the economy of Trinidad and Tobago. Fellow citizens, there is simply no way that other sectors of the economy can realistically be expected to compensate for the loss of export earnings from oil and gas; not in the short run (1-2 years) and not even in the medium run (3-5 years). In the long run, yes we do need to work towards building an economy with many different contributing sectors so that it becomes less vulnerable to these types of shocks. But the fact is, today, we are where we are!

Options

What then are our options? Ladies and Gentlemen, one option we could pursue would be to use up our savings so that we could maintain our incomes and our levels of employment. But as I said earlier, there is now broad consensus that oil and gas prices will take several years to recover, and even then, they will probably not return to the levels we enjoyed in 2014 and the years before that.

Now I want to emphasize that our accumulated savings are not insignificant, but even so, they can only carry us for a while and postpone the inevitable if we do not act sensibly. We have approximately US\$10 billion in official reserves. Residents of Trinidad and Tobago have approximately US\$3.6 billion in deposits in the local commercial banks. Insurance companies, mutual funds, pension funds and the National Insurance Board also have a significant amount of foreign assets overseas, as permitted by the legislation. We have US\$5.6 billion in the Heritage and Stabilisation Fund. In addition to all of that, some experts estimate that citizens of Trinidad and Tobago have assets and cash overseas amounting to hundreds of millions of US dollars.

But given the rate at which we have been consuming foreign exchange, all of our reserves and most of our other savings would be exhausted before oil and gas prices recover or before production levels increase to the immediate rescue. If we set about to rapidly consume the foreign exchange which we have now then at that point, we would not have sufficient reserves to finance investment and restore growth as quickly as possible.

So what are our other options?

First, we have already used up almost US\$2 billion of our foreign exchange reserves in 2015. Actions could have been taken earlier in the year to minimize this decline.

Unfortunately, the Central Bank saw it fit to make foreign exchange cheaper in the face of falling export earnings and reduced inflows of foreign exchange and also opened up new channels for outflows of foreign exchange other than the traditional channels through the commercial banks. In addition, Government expenditure continued unabated and even accelerated in the run up to the General Election, thus fuelling even greater demand for foreign exchange in a period of heightened political uncertainty. Today it is painful to hear the expressions of concern on these matters and the voluminous questionable advice which are spewing from those who had the opportunity to not worsen our already challenging situation but who chose instead to splurge in the hope of winning an election, even as they lied to us about the very things that disturb us now.

We can reasonably expect that the balance of payments will continue to be in deficit in 2016 and 2017. Therefore while some further decline in the foreign exchange reserves is to be expected in 2016 and 2017, we have to minimize that decline as much as possible. In short, ladies and gentlemen, we have to ensure that by the end of 2017, the balance of payments deficit is stabilized so that the foreign exchange reserves remain stable at around at least 6 months import cover.

Second, we have to restrain expenditure overall and also to change the mix of expenditure so that the demand for foreign exchange is reduced whilst local dollars are put to maximum use. It is important to emphasize that in the type of economy we have, it would be highly imprudent to try to stimulate the economy just by increasing overall expenditure. This is because almost all types of expenditure in our economy, whether for consumer goods or capital equipment, involve using foreign exchange. What we must do at this stage is to conserve our foreign exchange.

Government should be expected to lead the way in restraining expenditure, not least because Government expenditure accounts for about 35% of GDP. However, as the Minister of Finance pointed out in his Budget Statement, our ability to reduce government spending in Fiscal 2016 has been severely constrained by the overhang of unpaid liabilities, settlement of negotiated wage increases, and incomplete projects which must be finished and put to use. On coming into office we needed time to evaluate the work and operations of the various Ministries and for Ministers to determine what expenditures could reasonably be reduced, while protecting employment as far as possible. In his mid-year review, the Minister of Finance will indicate in early April what savings in expenditure he has been able to secure across the various Ministries and we will adjust government expenditure accordingly.

Towards this end I have today instructed the Minister of Finance to direct the Management of every State Enterprise, Statutory body and each Ministry and the Tobago House of Assembly to review their operations and make identifiable adjustments of 7% reduction in proposed operating expenses (eliminating waste and/or inefficiencies) not relating to job cuts at this instance. These identifiable responses to be submitted to the Ministry of Finance by January 31st. This is expected to tighten and improve the management alertness and innovativeness in these sectors.

On the revenue side, Land and Building taxes will be restored from January 2016 and the revised VAT regime will be implemented from mid-January. The Minister of Finance will also be seeking to collect arrears of taxes, which are considerable. In short, the deficit indicated in the October Budget Statement is expected to be somewhat lower than originally projected.

We are mindful of the levels of debt we incur as a Government and we will ensure that our debt levels are sustainable over the medium term. As far as is feasible we will maximise the use of local dollars and projects largely driven by equipment and materials that are already

within the country e.g Housing, road construction and maintenance, agriculture, tourism and afforestation.

The Ministry of Finance together with the Central Bank will monitor the country's debt profile, including the debt of state enterprises and statutory bodies and ensure that the type of borrowing and the terms of the loans are consistent with a manageable debt profile, even with lower export earnings and reduced government revenues.

Ladies and gentlemen, private sector expenditure also needs to be examined. Some curtailment will occur automatically as overall expenditure falls. However, the Central Bank is also expected to evaluate current and prospective monetary conditions and take appropriate action on interest rates that will assist in moderating credit demand and keeping private sector expenditure in check. The Central Bank with renewed confidence will work closely with the Ministry of Finance to ensure that fiscal, monetary and exchange rate policies are aligned through effective cooperation and collaboration between the Central Bank and the Ministry, and will adjust these policies as they deem appropriate.

What do we expect to happen?

Ladies and gentlemen, we must all appreciate that the circumstances we now face as a nation require sacrifice and managed adjustment in our living standards for a period of time until the economy is successfully stabilized. If we fail to adjust now, we will find ourselves as we did in 1986 with an economy with insufficient foreign exchange reserves and having to restructure our debt under a series of IMF programmes. This administration will not take this country back to that kind of situation. But success will require sacrifice and adjustment on the part of all sections of the national community. The adjustment in spending that is required can be nullified by increases in wages and in profits.

The Government will initiate Tripartite discussions with the Labour Movement and the business community with the objectives of maintaining employment as far as possible, moderating demands for wage increases, and discouraging excessive profits. We will also be encouraging investment in foreign exchange earning activities during the adjustment period. As a country, we need to approach this situation with a high level of maturity, openness and willingness to compromise in the best interests of the nation as a whole. I take this opportunity to appeal to the business community and to the trade union movement to approach those discussions with the national interest uppermost. These tripartite discussions will commence early in the New Year. The business community can help by seeking out cheaper sources of imports and finding cheaper substitutes of imported goods. We the citizens can help ourselves by shifting more of our consumption with a recognition and preference for quality, locally produced goods which will have the added benefit of helping to create or sustain employment in the local economy.

Overall, there may well be some slowdown in economic activity as the economy adjusts to a lower level of foreign exchange inflows but the objective is to stimulate economic growth by selectively using what is available in the most innovative way. For example we intend to ramp up housing construction as a major driver of the economy but there will be a comprehensive overhaul of the funding arrangements of the program. There will be new initiatives which would encourage private capital to accelerate construction on private or state land for prearranged priced units which upon completion the state through the HDC will receive and direct these units quickly to mortgagees who will access and service facilities which will be readied at TTMF etc.

The objective here is to quickly move private capital into the housing market to service a sector which forms the HDC client base without initial state cash outlay. The private developers should be motivated to get into the program bringing finance in the expectation of a better return on capital than is easily available elsewhere and the state would get the

job done whilst stimulating the economy without too much up front capital coming from the state. The sustainability of this initiative will be maintained by the long term funding being the responsibility of the qualified, new home owner who will qualify for some element of subsidy.

We will encourage housing construction by the private sector and simultaneously, we will accelerate the implementation of the Trinidad and Tobago Mortgage Bank through the merger of the TTMF and the Home Mortgage Bank to provide the financing for the mortgages for those new homeowners. We will encourage homeowners and businesses to increase expenditure on maintenance activities. New home construction and building maintenance will sustain employment of plumbers, carpenters, masons and electricians, and will also lengthen the life of our buildings and improve the appearance of our homes and communities.

Mitigating Measures

My Government is committed to taking the tough decisions needed to get the economy back on track in a world of lower oil and gas prices. We are also committed to those of our citizens who are unable to cope effectively with more difficult circumstances because they are pensioners on fixed income, or elderly or disabled, or have child care responsibilities. We are also committed to ensuring that our children are protected from the effects of any loss of income that their parents or guardians may suffer. As a Government, while any loss of employment is a cause of great concern, we are particularly concerned about persons with dependent children and with youth unemployment.

The following are some of the measures that we will implement in the shortest possible time to mitigate the effects of the expected downturn in economic activity. First, we will bring legislation to Parliament to separate the Heritage and Stabilisation Fund into two distinct Funds. We intend to leave the bulk of the existing fund in the Heritage component and allocate the remainder to the Stabilisation Fund. We intend to use approximately US\$1.0 billion for stabilization purposes in FY 2016 and perhaps another US\$0.5 billion in FY 2017. This measure will fulfill our campaign commitment to separate the Funds and ensure that there is a Heritage Fund which can be increased over time irrespective of the level of oil prices and which can be utilized for approved projects through the appropriate mechanism as decided by Parliament. Using the Stabilization Fund will also help to finance the projected budget deficit and minimize increases in government borrowing. The circumstances we now face are precisely those which were envisaged for the use of the Stabilization Fund and we will utilize it rather than increase the country's debt levels unnecessarily.

Second, investment and economic activity does not stop during a period of adjustment. In fact, some activities may increase, especially where there is greater incentive to earn foreign exchange. Our exporters of manufactures and services should continue to do as well or better during the period of adjustment, and some of those businesses may even increase employment.

There are specific activities that Government will seek to encourage. We have already had extensive discussions with the authorities in Venezuela in respect of producing gas from the Loran-Manatee field which straddles our common border. The relevant companies are engaged in discussions and we anticipate that work in developing that field can begin in the not too distant future.

I have an invitation from President Maduro to visit Caracas in the context of these discussions which have been taking place through our technical teams. I propose to join him as soon as the technical work has advanced a little further so that specific commitments can be made and executed.

We will continue investment in infrastructure projects to be funded by the IADB and other multilateral and bilateral agencies. These projects will help to sustain a reasonable level of construction activity and employment. With respect to the current review on a mass transit system, that report is due at the end of February but already the issue of affordability looms large into any such decision at this time.

Third, the rationalization of the VAT regime will take particular note of those items which may be included in the basic list or must be retained in the list in light of these measures. This will cushion the effects of any increases in prices of basic food items. However, imported salt and fat dietary items, their local counterparts and luxuries will all be subjected to the full tax regime.

Fourth, the Personal Income Allowance has already been increased in the Budget and this will give citizens in the lower income brackets higher disposable incomes.

Fifth, Government will intensify its support to the vulnerable in our society through the Ministry of Social Development, the Ministry of Education, the Children's Authority, the Tobago House of Assembly and the Regional Corporations. These Ministries and Local Government bodies will be tasked with monitoring those households in their communities which may be adversely affected and providing specific assistance in a timely fashion. Teachers will be tasked with heightened monitoring of the children under their care for signs of stress or difficulty arising from loss of employment by parents or guardians.

We will encourage the local government bodies to accelerate the implementation of employment exchanges that would link needs of households and communities for certain skills with those who possess those skills and are seeking work. By encouraging persons who are unemployed to register with employment exchanges will allow us to keep track of the duration of unemployment, how affected households are coping and adapting, and allow more targeted assistance where this is needed. NGOs, religious groups, trade unions and civil society organizations can be of tremendous benefit in this regard and we will encourage them to partner with the government in supporting and assisting affected households.

Sixth, we will maintain our expenditure on the Unemployment Relief Programme and on CEPEP, even as we are striving to eliminate corruption and to make those programmes more efficient and effective. Together they account for approximately a billion dollars in expenditure.

This alone demands that there be some significant output from these programs even as they exist as unemployment relief expenditures. To this end the Ministries of Local Government and Rural Development, Urban Development, Works and Agriculture will have a determining role in some of the projects to which this expenditure can be targeted with a decent ratio between material and labour.

We have done this successfully before

Ladies and gentlemen, this is not the first time Trinidad and Tobago has had to face these serious external shocks and to deal with them. We went through very similar circumstances from 1969 to 1973, and again from 1983 to 1991. These episodes are, unfortunately, a characteristic of economies which are highly dependent on petroleum or natural gas and which have failed to diversify and become competitive during periods of boom. What we have learnt from the past is that we must not act late in restoring a sustainable fiscal position as well as external balance, and that balance must be achieved with plenty of foreign exchange reserves available so that investment and growth can proceed. That is just plain common sense. It is courting disaster and risking our future and the future of our coming generations to deliberately embark on a sustained policy of consistently spending much more than we earn and borrowing to maintain a lifestyle that we cannot afford as our

revenues decline.

The measures I have outlined this evening are the responsible course of action that we must take. Additional and more detailed measures will be announced by the Minister of Finance in his mid-year Review as we steady the ship and stay the course.

This administration was elected to restore integrity and responsibility in public life. We intend to do just that. Some persons have been heard to say that, given the difficulties we are facing, it would have been better to have lost the General Election. We are not daunted. It is in times like these that good, old-fashioned, honest leadership is the best tool available to a nation. That is where I stand. In a situation like this I share with you the wisdom of the age passed on to me by my father a long, long time ago, when he taught us that "It is not only about what you may work for it is also about what you do with it". I commend this wisdom to every citizen in these our testing times.

On that score as a symbolic gesture of our own willingness to share in the necessary adjustments my colleagues and I in the Government have decided that, with effect from January 2016 and for the next two year, we will each donate 5% of our salary to a selected charity, NGO or sporting body of our choice.

We accept this challenge as we have accepted our challenges in the past and we will do the right thing by the population of Trinidad and Tobago. In these difficult times the economy is surely in much better hands under this PNM administration.

The Government of Trinidad and Tobago is clear about what needs to be done. I have outlined the plan we will pursue to stabilize the economy within two years. We ask for the support of every business, every worker, every citizen, to get us through these next two years and in returning the economy to the path of strong, sustainable growth. As Prime Minister I will lead the Cabinet and our main advisers into frequent community and sectoral conversations on the many matters of national interest as we proceed.

Let us go forward as one people defending our homeland with boundless faith in our destiny.

As 2016 is only hours away, let us go forward as an intelligent and responsible people, doing what has to be done to protect the gains we have made.

I trust that you had a good Christmas and I wish all citizens good health, ample security and a peaceful and prosperous New Year.

May Almighty God continue to Bless Trinidad and Tobago.