

**ADDRESS BY MINISTER OF FINANCE AND ECONOMY,
LARRY HOWAI**

**TO THE EMPLOYERS CONSULTATIVE ASSOCIATION
OF TRINIDAD AND TOBAGO'S BREAKFAST MEETING**

HYATT REGENCY HOTEL ON 26th JULY, 2013

**“How is Trinidad and Tobago positioning itself to
meaningfully address the Macro and Microeconomic
Challenges in our Economy?”**

SALUTATIONS:

Executive Director and Board of Management of the Employers
Consultative Association

Distinguished Private Sector Executives

Ladies and Gentlemen

Members of the Media

Good morning.

First of all, I am indeed grateful for this opportunity to address you this morning on the subject of “How is Trinidad and Tobago positioning itself to meaningfully address the Macro and Microeconomic Challenges in our Economy?” and would like to convey my sincere appreciation to the Employers Consultative Association for their kind invitation.

This particular interaction also represents an invaluable opportunity for me to engage in meaningful dialogue with the private sector and business community regarding the perspectives

and common approaches needed if we are to achieve our shared aspirations for a better Trinidad and Tobago.

The theme of this morning's presentation is quite broad and for it to be meaningfully and comprehensively addressed will require more time than I have been allotted and will require the involvement of several of my Cabinet colleagues, principally the Ministries of Planning and Trade.

My focus this morning will be on some of the fiscal and institutional strengthening initiatives now being implemented. This narrows the remit somewhat but does not address some of the diversification issues and progress in this area

which has been assigned to the Ministry of Trade, Industry and Investment. It also does not address some of the contextual issues around the diversification thrust which the Minister of Planning and Sustainable Development has been addressing.

In my address to you this morning, I shall provide an update on the recent performance of the Trinidad and Tobago economy and identify some of the main issues and challenges confronting the economy at the macro level as well as some selected micro level issues. I recognize also that

you have a very keen interest in the policy directions that your Government is contemplating and in this regard I will also touch on some of the strategies and elements of the policy framework needed to address the challenges and risks that Trinidad and Tobago face as a small open economy in an increasingly uncertain global environment.

Recent Economic Performance

By way of contextualizing this discussion, it is useful to recall that whilst half of a decade has elapsed since the “Great Recession”, its legacy

of dampened growth prospects, heightened uncertainty, and weakened confidence continue to present significant challenges to the recovery efforts being made across many economies of the global landscape.

As a small, open and commodity-based economy, Trinidad and Tobago demonstrated considerable resilience in the wake of the crisis; it was not insulated from the effects of the global financial meltdown. In the period from 2000 to 2006, Trinidad and Tobago enjoyed increased economic prosperity as the economy recorded real GDP

growth rates that averaged 10 percent annually and major macroeconomic variables strengthened markedly. This growth was driven primarily by the construction and output of the 4 LNG trains.

Expectedly economic growth began slowing in 2007 and was followed by the global economic crisis which started in 2008, leading to four consecutive years of negative or negligible growth between 2008 – 2012.

In 2013, there is every indication that the Trinidad and Tobago economy is emerging from the dark shadow of the global recession as GDP

growth is slowly building momentum across a widening range of economic sectors.

For the first quarter of 2013, our initial estimate is that the economy grew by 1.7 per cent. This is based on the indication that the energy sector grew by 0.5 per cent and the non-energy sector by 2.6 per cent. This follows growth of 1.5% in the quarter to September 2012 and 1.0 % for the quarter to December. This represents three consecutive quarters of growth for the economy. Our expectation for the current quarter to June is also positive.

Growth in the energy sector in the last quarter was affected by the ongoing maintenance programme in the sector as well as by the decline in crude oil output which fell by 2.3% mainly as a result of industrial relations problems. But this was offset by 1.6% growth in the Exploration & Production sub-sector and an estimated 2.0% growth in the Natural Gas Production sub-sector while LNG output grew by 5.4%.

I am also extremely heartened by the incipient dynamism being demonstrated by GDP trends in the non-energy sector which, according to Central Bank estimates, grew by 2.6 percent for first quarter of 2013. This growth was fuelled by expansions in the Finance, Insurance and Real Estate (6.0%); Manufacturing (3.0%) and; Construction (3.0%) sectors.

Inflationary pressures have abated significantly as the most recent data for inflation shows an inflation rate of 5.6% to May 2013. Healthy foreign exchange reserves, totaling US\$9,395.7

million to June 2013 provide adequate import cover according to international standards.

This does not include the HSF.

The Heritage and Stabilization Fund crossed the USD5 billion mark at the beginning of July but the risks in the international market place especially the concerns arising from the possible withdrawal of quantitative easing requires close monitoring.

Total direct foreign investment which had declined to US\$ 709 million in 2009 and to US\$ 549 million in 2010 recovered to US\$2.5 billion in 2012.

Reasonably good unemployment figures and sustainable fiscal and debt dynamics all convey an economy that is well positioned.

The clear indication is that Government's policies, particularly those providing targeted fiscal stimulus, as well as the actions relating to the resolution of the CLICO matter which is drawing to a close and the resolution of many hitherto outstanding wage settlements are beginning to ameliorate the uncertainty in the aftermath of the financial crisis. Most of the 66 wage settlements

which were a hangover from the 2008 – 2010 period were settled in the last year.

Very importantly, the energy sector which suffered a slowdown as a result of the maintenance work required in the wake of the Macondo disaster as well as the slowdown in activity which began just after the middle part of the last decade, has begun to show a turnaround.

The current Minister of Energy and Energy Affairs must be complimented for his very proactive measures to create vitality in this sector. The number of rig days has increased from 744 in 2009 to 2788 in 2012. In 2013, the

number of rig days will cross the 3000 mark, which is the highest level since 2007.

The demonstrated commitment of Government to strengthening the domestic business climate, including critical reforms to the regulatory framework for the financial services sector has also served to build confidence.

My vision is that the broad based strengthening of the regulatory framework relating to the financial services sector is not merely to prevent future crises but also to create a platform for a

dynamic and resilient regional capital market with Trinidad and Tobago at its centre.

While these are good statistics, they really emanate from the heritage of oil and gas. The challenges of the non-energy sector development remains stubbornly sticky.

A plan for the development of this broad grouping of sectors, which the recurrent Budget and the PSIP supports, and which focuses on the challenge of development rather than growth, has been put in place by the Ministries of Planning and Trade and focuses on the following sectors:

- Downstream Oil and Gas

- Agriculture
- ICT
- Tourism
- Creative Industries
- Maritime Sector
- Financial Services

As I indicated, my remit this morning will not be to address these areas, which are more appropriately the remit of the Minister of Planning and Sustainable Development and Trade, but I need to note them as no discussion on the broader economy can be complete without some mention of these areas.

Turning now to

Main Issues and Macroeconomic Challenges

Easily the most imminent and significant source of risk to the growth prospects of Trinidad and Tobago in the medium term, remains the increasingly subdued growth outlook for the global economy.

The outlook for the global economy beyond 2014 envisages a more protracted recession in Europe than had been originally contemplated, weaker growth prospects in emerging markets and new risks worldwide. There is the potential for the continuing slowdown in China, the world's second

largest economy, to accelerate. For a global economy that is struggling to rebound from the downturns of the past six years, a sharp slowdown in China could have significant implications for the recovery across a wide swath of countries. These developments can certainly be expected to further dampen the prospects for global growth and employment.

For a small open economy such as Trinidad and Tobago, achieving sustainable growth demands focused attention on fiscal, external and financial sector vulnerabilities. In addition, rebalancing of

the Trinidad and Tobago economy away from its dependence on its non-renewable resource endowment has its own implications for designing an optimal fiscal adjustment path and for managing external vulnerabilities, in particular.

In terms of mapping an optimal fiscal adjustment path, the Ministry of Finance and Economy has attached the highest priority to embedding a medium term perspective into its budget processes and to taking particular cognizance of the long-term context of the country's non-renewable resource endowment. I should add that

my colleague in the Ministry of Planning and Sustainable Development has also introduced a three year planning framework that now contextualizes the annual allocations in the Public Sector Investment Programme (PSIP).

Perhaps the most immediate short term imperative remains the need to consolidate Trinidad and Tobago's growth momentum in the face of falling revenue to GDP ratios, and strong recurrent expenditures in a manner that ensures fiscal and debt sustainability.

To this end, the Government is fully committed to positioning the economy on a gradual path of fiscal adjustment that allows the economy to enjoy the fruits of its energy sector wealth well into future by a combination of revenue reforms and a rationalization of current expenditure patterns.

Ladies and Gentlemen, we must be mindful, however, that when it comes to the impact of expenditure on growth prospects, it is not solely a question of the quantum but more so the issues relating to the composition of expenditure that

matters. In this context, I wish to highlight that the burden of transfers and subsidies on Government's fiscal operations is the second largest in the Caribbean region and now represents more than half of total recurrent spending at 17 per cent of GDP and needs to be addressed in a manageable way.

Policy Directions Going Forward

As a consequence, the Ministry of Finance and the Economy is reviewing all transfers and subsidies available under the various social programmes for efficiency, duplication and

effectiveness with respect to their target objectives. The results will provide the basis for reorganizing the programmes' operations and streamlining the expenditure associated with these programmes.

It appears, therefore, that there is ample scope for a gradual alteration of the impact of subsidies and transfers on the trajectory of the fiscal aggregates. Indeed, I am anticipating that in so doing we shall create the necessary fiscal space to increase development spending over time.

On the question of mobilizing revenues over the medium term, the Government is reviewing the recommendations of an international team of consultants on tax policy initiatives to be pursued with a view to ensuring consistency with its strategy of returning to fiscal balance without jeopardizing a full and complete resumption of growth.

To avoid the possibility of increases in tax rates, the Government is seeking to raise revenue through significant reforms in tax compliance and administration.

Reforms will focus on bringing the staff of the Inland Revenue and Custom Division up to full strength and strengthening the coordination between the two agencies. To this end, a group of international consultants is currently examining the operations of both the BIR and Customs and Excise with a view to making recommendations for greater operational interaction between the two revenue agencies.

Indeed, a fiscal adjustment pathway involving tax reform initiatives that will increase non-energy

revenues, in conjunction with a matching profile of expenditure restraint, focusing on transfers and subsidies and complemented by a modest ramping up of public investment are the main pillars for a return to a balanced budget within an acceptable time frame.

The government acknowledges that VAT is a tax collected on a net basis and therefore the current system of constraining VAT refunds is neither effective nor efficient. A team of international experts has provided me with preliminary recommendations aimed at revamping, the VAT

system and a for improving the efficiency and effectiveness of the collection system.

Government continues to make progress in protecting against financial sector vulnerabilities.

In addition to the passage of a new Securities Act,

Government's legislative agenda includes

legislative reforms in the insurance, credit union,

and pensions sectors. New insurance legislation

has been laid in Parliament and legislation for the

more effective regulation of the Credit Union

sector will be laid in the first half of 2014.

Government is reviewing its policy options for

bringing key nonbank systemically significant

financial institutions within the regulatory

perimeter. As I indicated before, this legislative framework is seen not just as a means for regulation only but as a foundation for the development of a vibrant financial services market.

In addition to efforts on the revenue and expenditure side of the fiscal equation, as well as efforts to mitigate external and financial sector vulnerabilities, the long term growth prospects for the Trinidad and Tobago economy remains grounded in the aggressive pursuit of a portfolio of structural reforms that preserve fiscal

sustainability, promote business competitiveness, and most importantly promote the public and private investment flows to support economic diversification.

In this context, Government's structural reform agenda revolves around Pension Reform, Doing Business Reform, Public Debt and Cash Management, Investment Promotion and Special Economic Zones, institutionalizing Public-Private Partnerships and a National Broadband Strategy. The Ministry of Trade has already introduced measures to facilitate the ease of doing business.

They have reduced the time taken to start a business from 43 days to 3 days. Amendments have been made to Section 25 of the VAT Act to effect registration for VAT within one working day from 30 days and Section 30 of the NIB Act makes it mandatory for the National Insurance Board to effect registration for NIS within one working day. Name Reservation, Business Registration and Company Incorporation are now available online through the SEW under the MTTI Company Registration Module.

Internally, reforms to the system of public financial management will also bring greater efficiency and transparency to Government fiscal operations. These include the strengthening of the budgeting process; treasury management; and the creation of an Integrated Financial Management Information System (IFMIS), with an aim towards the introduction of performance based budgeting.

Overall these reforms are expected to improve efficiency and provide for greater accountability of public expenditure, improve the alignment

between resource allocation and the Government's growth objectives, and ultimately improve the quality of service delivery to the population.

There is of course much more that can be said about these institutional strengthening initiatives but time and space does not permit it here.

In closing, I would say that the Government is pursuing a gradual approach to the rebalancing of the economy in keeping with the emerging risks and challenges that face our nation. The challenge is to maintain growth while reorienting

expenditure and ensuring value for money. The Trinidad and Tobago economy is in a good position with ample room as a result of our financial and economic buffers, to confront downside risks if they materialize.

Ladies and Gentlemen, given our strong fiscal position and the several initiatives in place to address our economic imbalances we are well on the way to achieving our shared aspirations for a more dynamic, resilient and prosperous Trinidad and Tobago.

Thank You