

UPDATE ON THE NATIONAL BUDGET

FIRST QUARTER REPORT

GDP GROWS BY 1.5%

Overview of the Global Economy

In January, the IMF lowered its growth forecast for 2013 for the global economy from 3.6% to 3.5% and the US Department of Commerce's preliminary data showed that US GDP contracted in the fourth quarter of 2012 by 0.1%. This latter result is seen more as an aberration and the US economy is expected to grow by just over 2% this year.

Although Europe has avoided meltdown, there remain many challenges and it will be some time before the Union can reduce the unemployment challenges which they face.

The emerging markets fared much better, although performance has been below the trend of the past few years, mainly as a result of the slowdown in China and India.

Overall, the performance of the global economy has been tepid, but there has been no significant deviation from our expectations at the time that the National Budget was read in October last year.

Local Economy

Latest data available from the Central Bank which reflects performance for the third quarter of 2012 are also in line with our expectations:

- GDP grew by 1.5% following a contraction of 3.3% in the quarter ended June 2012
- The construction industry grew during the quarter by 1.3% following two consecutive quarters of decline
- The energy sector grew by 0.5% representing a strong rebound from the 7.3% contraction in the previous quarter
- The retail and financial sectors grew at a robust 4% and 2.4% respectively
- Unemployment increased slightly to 5.4%

- The Current Account continued to remain strong, with a US\$1.8 billion surplus in the third quarter of 2012; and
- Inflation fell to 7.2%

These indicators are good signs but, of course, they represent performance for only one quarter, and we need to continue to monitor and manage this process. We expect that the overall performance of the fourth quarter may be less positive as a result of continued downtime in the Energy Sector arising from maintenance work currently being done. Apart from this sector and agriculture, all other areas of the economy are expected to show growth.

Table.1 Economic Growth, 2012

2012	GDP	Energy Sector	Non-Energy Sector
<u>Qtr II</u>	-3.3	-7.3	-0.2
<u>Qtr III</u>	1.5	0.5	2.1

Performance for the First Quarter

During the quarter, the Securities Bill, a major piece of legislation, was passed; the country was removed from the 'grey list' by the FATF, and the CLICO Investment Fund was implemented. To date, over 51% of the bondholders have exchanged bonds for Units. In addition the second phase of payments to HCU stakeholders was implemented from November and the final phase will be the processing of clients with joint accounts, which will occur during March 2013.

Many other projects have made significant progress as well:

- Work has commenced on the Debe campus of the UWI after the successful negotiation of funding for the project in the first quarter of 2013.
- Of the 18 Police stations carded for construction, 8 are well advanced and are expected to be completed by the end of calendar 2013.
- The Public-Private partnership initiative has begun to make progress. The structures for moving this forward were not as well developed at the time of reading the Budget as originally thought, but we have made good progress since and the list of priority projects has been finalized.

- Progress has been made on the National Self-Help Commission's mandate to assist vulnerable citizens with residential construction. The programme got off the ground in November and 10 houses were built as of December 2012. Another 10 were under construction as of January 2013. The aim is to build at least 10 houses per month under this programme.
- In Tobago, the gas receiving facility at the Cove Industrial Estate was completed and boasts the ability to process 100 million cubic feet of natural gas daily.
- The Tourism Development Fund finally got going towards the end of the first quarter of the fiscal period and 15 applications were received of which 4 were forwarded to financial institutions for processing.
- The proposals for the dualling of the Rivulet Road were completed and the tenders are expected to be put out within the next three months.
- Discussions have commenced with the Government of Guyana regarding regional food security and an MOU is now being finalized.
- The Chancery Lane Hospital was handed over at the end of the quarter.
- The Review of the Tax System also commenced.

There are a number of other initiatives in several Ministries that have made progress. It is expected that the tenders for the construction of the Sangre Grande Hospital would be issued in August 2013. A new site has been identified for the Chaguanas health facility, but Cabinet's approval still has to be obtained for construction. The National Public Health Laboratory at Caura is currently in the design stage, and the design brief is expected to be presented by April 2013. The Ministry of Health has approved funding for the San Fernando General Hospital to undertake a number of upgrade works including a new Cardiac Catheterisation lab, upgrading of the Accident and Emergency Unit, a new Mortuary and a new Potable Water Storage System. Road construction works have started at the site for the Couva Hospital, and hospital building works are expected to begin in April 2013. Loan arrangements for the Teaching Hospital in San Fernando are being finalized with the Austrian government, and construction work on the National Centre for Non-Communicable Diseases is expected to begin by June 2013.

The Ministry of Transport has made some progress toward the setting up of a GPS system for the bus fleet. All 371 buses in the fleet have been outfitted with GPS equipment and the implementation of the control system for the network is in progress to make the system operational. Evaluations of tenders are being conducted by NIPDEC for the procurement of the 100 New CNG Buses, and three experimental conversions of buses to CNG have been done, with a view to converting the remainder of the fleet.

Fifteen acres of land have also been acquired for the construction of the Tarouba Bus Complex, and steps are being undertaken to acquire land for a similar project in Siparia. The Point Fortin Bus Hub has been identified as being in need of repair, and estimates are currently being prepared for such an activity.

With respect to the diversification of the economy, the recently enacted Finance Act facilitates the creation and formalization of the financial institution support services industry (FineSS). This will support the development of an industry in Trinidad and Tobago for the outsourcing and consolidation of the middle and back office processing services for regional financial institutions. So far RBC Royal Bank has already opened their back office centre at London Street and Scotiabank and Pan-American Life have signed MOU's with the IFC to do likewise. We are projecting the creation of 3000 jobs in this sector over the next five (5) years.

Various other Ministries will provide details of their activities in due course.

Central Government Fiscal Operations

The Preliminary numbers for the first quarter are as follows:

Table.2 –Fiscal Operations, 2012

\$MN		
<u>Heading</u>	2012	
<u>Revenue</u>	Budget <u>12,642</u>	Actual <u>10,587</u>
of which:		
Taxes on Incomes & Profits	8,276	6,422
Taxes on Goods & Services	1,987	2,021
Other	2,379	2,144
<u>Expenditure</u>	<u>15,342</u>	<u>10,593</u>
of which:		
Personnel Expenditure	1,886	1,792
Other Goods & Services	1,657	967
Current Transfers	7,590	4,410
Transfers Statutory Boards	1,980	1,932
Other	2,229	1,492
<u>Surplus/(-Deficit)</u>	<u>-2,700</u>	<u>-6</u>

When compared to Budget, revenue fell short by 16% mainly as a result of a fall in revenue collected from the Energy Sector. This decrease in energy revenue resulted from lower crude oil prices, lower production and the timing of tax payments.

Although expenditure increased by 8.2% over the same period last year, the actual expenditure is much less than originally projected mainly due to reductions in transfers and subsidies versus the budget and, as a consequence, the budget was generally in balance.

More details will be provided in the mid-year review.

Concluding Remarks

During the quarter, Standard & Poors and Moody's maintained the country's international credit rating and the financial and economic buffers by way of foreign exchange reserves and the Heritage and Stabilisation Fund remained strong.

The return to growth is heartening but this needs to be monitored and managed. There is need to increase revenues and manage expenses better.

We must also be careful not to confuse growth with development. The latter is a much more all-embracing concept which refers to an economy that continues to grow in a self-sustaining manner, anchored on a solid social infrastructure of social cohesiveness and responsible participation by all citizens in the affairs of the nation.

This is a long term objective and our task now is to engage in meaningful dialogue to move ourselves forward along the path of national development.

While downside risks for the global and local economy exist, we are reasonably comfortable that the prospects for the remainder of the current fiscal year remain good.