Government of the Republic of Trinidad and Tobago

Stimulating Growth, Generating Prosperity

50 YEARS OF INDEPENDENCE
TRINIDAD & TOBAGO

APPROPRIATION BILL 2013

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Stimulating Growth, Generating Prosperity

PRESENTED BY

MINISTER OF FINANCE AND THE ECONOMY, LARRY HOWAI

OCTOBER 15, 2012

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INTRODUCTION

Mr President, I beg to move:

That a Bill – entitled *An Act to Provide for the Service of Trinidad and Tobago for the Financial Year October 1, 2012 to September 30, 2013* – be now read a second time.

Mr President, this is a money Bill and it was approved in the other place on October 10, 2012. The Bill provides for the issue from the Consolidated Fund of the sum of $51,194 million under various Heads as indicated in the schedule of the Bill.

INTRODUCTION

Mr President, I thank you for the privilege of being here to add to the discussion and debate surrounding the 2012/2013 Budget focused on Stimulating Growth and Generating Prosperity for the citizens of Trinidad and Tobago.

Mr President, since May 2010, Government's strategic focus has been based on its seven pillars for sustainable development:

1. People-Centred Development
2. Poverty Eradication and Social Justice
3. National and Personal Security
4. Information and Communication Technologies
5. A More Diversified, Knowledge Intensive Economy
6. Good Governance
7. Foreign Policy

Our focus has been on transforming Trinidad and Tobago with sustainable job creation and wealth generation to achieve our national mission of prosperity for all. For this to be realised, we need the collaboration of the public and private sectors, and the members of the wider national community.

ECONOMIC CONTEXT

Let me begin by highlighting the global economic context within which we discuss the Budget. The sovereign debt crisis in the Eurozone remains the most obvious threat to the global economic outlook, and though the recovery is underway, it is a major setback to the pace and strength of the recovery. Many governments are also attempting to address fiscal imbalances in an environment where uncertainty is high, confidence is low, financial sectors are weak and growth has been minimal.

It is anticipated that growth in world output will fall from 3.9 percent in 2011 to 3.3 percent in 2012, according to the most recent forecast, published a few days ago by the International Monetary Fund (IMF). Growth is expected to be positive in the United States, the United Kingdom, Japan, the Middle East and North Africa. In Latin America and the Commonwealth of Independent States, growth is expected to slow to 3.7 percent and 4.2 percent in 2012 from 4.5 percent and 4.2 percent in 2011.

The Caribbean Region achieved moderate growth of 2.2 percent in 2011, led by Guyana, which achieved real GDP growth of 5.4 percent, followed by Jamaica and Grenada, whose economies grew marginally by 1.3 percent, and 1.1 percent respectively.

Mr President, Trinidad and Tobago has shown resilience during the eruption of the financial crisis, and the subsequent fragile global economic recovery. Our low debt-to-GDP levels; strong foreign reserve position; and well capitalised banking system validate this claim. These gave us some fiscal space within which to manoeuvre, without compromising the sustainability of Government's financial position or the stability of the economy.

This Government's plan, Mr. President, is to return to a balanced budget over the medium term by reducing the deficit by a minimum of 1.0 per cent of GDP per year over the next four years. This year's budget is therefore focused on growth stimulation, boosting competitiveness and refocusing government expenditure.

Mr President, the 2013 Budget was crafted within the medium term fiscal framework 2013-2015 with a projected annual real GDP growth of 2.5 percent, and an inflation rate of 5.6 percent. It is predicated on conservative price assumptions of US $80 per barrel of oil, and US$2.75 per million metric cubic feet of natural gas. Total revenue is forecast at $50.736 billion, and total expenditure net of capital repayments and sinking fund contribution is forecast at $58.405 billion. For fiscal 2013, the budget deficit is projected to be $7.669 billion or 4.6 percent of GDP.

Mr. President, in the last fiscal year, based on an average oil price of US$75.00 per barrel and an average natural gas price of $2.75 per million metric cubic feet (mmcf), the Government had budgeted an overall fiscal deficit of $7.6 billion, or 4.9 percent of GDP, for fiscal 2012. Planned Revenue and Grants of $46.9 billion and planned Expenditure and Net Lending of $54.6 billion would have shaped this deficit. Additionally, a Current Account balance of $572.6 million was anticipated.

For fiscal 2012, Central Government's fiscal operations are expected to result in an overall deficit of $6.6 billion or 4.3 percent of GDP. Total Revenue and Grants is estimated at $47.6 billion and Total Expenditure and Net-Lending at $54.3 billion. On the Current Account, a surplus of $1.5 billion is expected. This revision is based on actual oil and gas revenues for the period October 1, 2011 to August 31, 2012, and assumptions of oil and gas prices of US$90.00 per barrel and US$2.75 per mmcf for September 2012.

At the end of fiscal 2011, the Net Asset Value of the Heritage and Stabilisation Fund (HSF) stood at TT$26.3 billion or US$4.1 billion. Transfers to the Fund for fiscal 2012 amounted to TT$1.33 billion, bringing the Net Asset Value of the HSF as at September 30th, 2012 to approximately TT$30.1 billion or US$4.7 billion.

Central Government's Total Revenue, including Grants, in fiscal 2012 is estimated at $47,672.8 million or 31 percent of GDP. This reflects an increase of $172.2 million over last year's outturn of $47.5 billion. Tax Revenue, accounting for 86.3 percent of Total Revenue, is anticipated to fall by 2.0 percent to $41.1 billion. On the other hand, Non-Tax Revenue is expected to register an increase of 24.6 percent to $6.4 billion, contributing to the overall increase in Total Revenue of 0.4 percent.

Total Expenditure, inclusive of Net Lending, is estimated to increase by 5.5 percent to $54.3 billion, or 35.4 percent of GDP for fiscal 2012. Of that amount, Recurrent Expenditure is anticipated to increase by 4.9 percent to $46.0 billion and Capital Expenditure is projected to increase by 9.4 percent to $8.2 billion.

Mr President, we propose to strengthen revenue generation over the next three years through various reform measures. These include reviewing our current tax system, reintroduction of land and building taxes, and a more efficient, targeted allocation of resources for fuel subsidies. However, these measures will be subject of dialogue with various stakeholders to ensure that society's most vulnerable are least affected, and to facilitate a cooperative, participatory approach with relevant stakeholders and interest groups.

In respect of Land and Building Taxes, given the several issues involved in the proper implementation of a system of land taxation for Trinidad and Tobago, Government continues to work towards eventual implementation, while the waiver of taxes under the Property Tax Act, 2009 for the years 2011, 2012 and 2013 continues.

We must create an enabling environment for investment and growth if our economy is to thrive. Government views itself as the enabler of growth, and the private sector as the main engine of growth. Our responsibility therefore will include providing a sound macroeconomic, legal and regulatory framework that is conducive to business development; and support the private sector with improvements in infrastructure and accessibility to finance.

Part of creating this enabling environment is addressing some of the challenges in the local economy. We must therefore improve our delivery systems so critical to doing business within the country; from the efficiency of our ports to the ease of facilitating tax payments and improving delivery of critical services by our public service. This is the rationale of our ongoing work with the World Bank as we move towards improving our competitiveness, both within the region and internationally. Over the coming fiscal year, we will pay specific attention to our customs delivery system with the Ministry of Trade, Industry and Investment taking the lead role in the syncing of the Single Electronic Window facilitating payments from the private sector, and the ASYCUDA World System, which allows Customs to control their core processes in a timely manner.

We shall also continuously examine issues relating to our competitiveness and factors that affect our attractiveness as a place to do business. With respect to the petroleum sector, the amendments to the fiscal regime for new and existing fields are designed to enhance the competitiveness of this country's fiscal system for the upstream petroleum sector, encourage investment from existing and new players in the industry, provide incentives that target desired activities, increase production of this country's oil and gas resources and minimise the short term net loss in revenues to government. Overall, these measures are expected to result in increased revenues to the government, strengthen this country's energy supply and promote sustained development of the sector and country.

Mr President, none of our initiatives will be successful unless we address the crime situation and the lack of personal security that has been inherited by this administration. The resources put into this effort have been significant, with $5.5 billion being allocated in the coming fiscal year, up from $5.2 billion in fiscal 2012. Our approach has been different to past administrations, in that we recognise that we need to be more strategic in our intervention and cannot simply 'throw money' at the crime problem hoping that it fades away. It is because of this that we have identified a number of strategic interventions including our Life Sport and Hoop for Life Programmes as well as several other initiatives to ensure that our expenditures in the Ministry of National Security on manpower and material are effective.

Government's goal is to build an economy that is capable of generating economic growth based on knowledge generation and innovation, increased productivity levels and export expansion in order to create wider opportunities for high paying jobs at all levels. As part of a broader strategy for economic transformation, Government has been exploring new physical, financial and investment spaces within which the private sector and State Enterprises can operate.

The Public Sector Investment Programme is one of the tools that we will continue to utilise to enable us to translate our vision into distinct, identifiable investment projects necessary to fill our infrastructure gap on the road towards sustainable development. In that sense, it is a 'rolling' investment plan that will be reviewed continuously to ensure that expenditure of our resources are aligned with our long term goals. In the next fiscal year, $7.5 billion will be allocated to the PSIP for various projects across the country.

Mr President, in addition to the PSIP, the thrust toward Public-Private Partnerships (PPPs) has been to redefine the way in which public services are delivered and managed, and strengthen the role of the private sector in local development. Public services need to be provided in a manner which is affordable, efficient and effective, and delivery needs to be innovative and flexible.

To address this need, the Government is shifting from services exclusively funded and provided from public funds, to the provision of services in close partnership with the private sector leveraging in the process the knowledge, expertise and financial resources of private organisations, and rewarding them by mechanisms that are based on performance and outcome measures. Mr. President approximately ten (10) projects in several Ministries including: the Ministry of National Security, Transport, Public Utilities, Local Government and Education are currently being assessed by the Ministry of Finance and the Economy to commence partnership with private sector over the coming fiscal year.

Mr President, the programme of public offerings is also part of the public sector transformation efforts aimed at reconfiguring the ways in which the Government improves the efficiency, quality and effectiveness of the channels through which public goods and services are delivered to the citizens of Trinidad and Tobago. This programme also seeks to enhance the domestic capital market, increase investment in the domestic economy, and boost transparency in the provision of public services. Over the next fiscal year, Government will take the appropriate steps to make the IPOs for First Citizens Bank Limited and Trinidad and Tobago Mortgage Bank a reality, subsequent to:

- Consultation with the line Ministries and Boards of Directors responsible for First Citizens Bank Limited as well as the Trinidad and Tobago Mortgage Bank;
- Engagement of locally-based investment advisory firms in executing the first wave of the public offerings programme; and
- Adopting an allocation policy for promoting the widest possible participation in share ownership

Finally, Government also intends to stimulate economic growth by creating a diversified and knowledge intensive economy. This is the 5th pillar of our overall strategic plan. Mr President, no longer can we pay lip service to local diversification efforts, and this Government intends to develop our country's non-energy sector so that it can create high value jobs and generate wealth for our citizens. As I indicated in the Lower House, we shall focus on 7 priority sectors: financial services; tourism; downstream energy; agriculture; creative arts; information and communications technology; and maritime.

Within this context, we have taken the initiative to provide incentives to the creative industries, which include fashion, film and entertainment and animation. Our entertainment industry can emerge as a significant area of economic activity, providing jobs and foreign exchange earnings. There is also great potential for creating wealth in areas such as music, dance, theatre, film and video production, writing and publishing, fashion, craft and local cuisine.

Mr President, the education sector has been identified as the champion for People Centred Development and will be responsible for "Building the Foundation for an Intelligent and Creative Economy". The education system will be transformed to empower all citizens to meet the needs of 21st century development though curriculum reform, teacher training and technology.

Although the provision of the Government Assistance for Tuition Expenses (GATE) at institutions of higher learning will be continued, we must adopt a number of stringent measures to streamline the programme to prevent waste and abuse of Government funding. In addition to the measures I mentioned in the Lower House, the level of monitoring, compliance and auditing of GATE will be improved, as well as the strategies to ensure that students fulfill their obligations in respect of the Student Agreement. The Committee to enforce the Student Performance Policy will ensure students maintain the minimum GPA and meet normal academic standards. Our investments in skills training will be directed towards implementing programmes that will increase participation widen access and improve quality and relevance to the labour market.

Mr President, the decision to encourage the private sector to hire URP and CEPEP employees was taken with the view that companies will provide enhanced training and skill enhancement opportunities for individuals enrolled in these programme. Mr President, we see this as an intervention strategy for crime prevention and sustainable development for vulnerable persons. As mentioned in the Lower House this transition will be facilitated by the National Productivity Council. We are confident that this Council will promote and develop greater productivity, quality awareness and inculcate new values and attitudes regarding productivity in individuals enrolled in CEPEP and URP programmes.

THE FUEL SUBSIDY

Mr. President, Government has embarked on a plan to reduce the subsidy programme, beginning with premium gasoline, the price of which we have fixed at TT$5.75/litre. We have left the prices of super and diesel untouched and we have put in place an inter-ministerial committee comprising the Ministries of Finance and the Economy, Energy and Energy Affairs and Food Production to review measures to address and to reduce the current levels of the subsidy.

Government's plan is to generate greater use of compressed natural gas as an alternative transportation fuel. Infrastructure and incentives are being put in pace, to encourage the transition by motorists and fleet owners to CNG usage. We are now pursuing a balanced transition between CNG usage and a reduction in the subsidy. Over the next five (5) years we shall roll out a business plan which would invest TT$1.5 billion in converting gasoline vehicles to CNG. We will construct multi fuel stations and NGC will put in place the pipeline infrastructure. This measure will support the plan to reduce the fiscal deficit over time.

SOCIAL PROTECTION

Government's social protection initiatives are aimed at the wellness of all its citizens as a primary objective, and in particular the development of an environment where basic and special needs are adequately met. It is our responsibility to address the social challenges of poverty, social inequality and social exclusion. Despite our extensive social protection programme, we have large geographic disparities with respect to poverty rates as well as "pockets of poverty" which tend to have high levels of extreme poverty, in some cases twice the national average. We place particular emphasis on developing and executing programmes and services that protect and assist vulnerable and marginalised groups in society such as persons with disabilities, the poor/indigent, the socially displaced, ex-prisoners, deportees and persons living with HIV/AIDS.

Currently, our social safety net programmes public expenditure is estimated at 5 percent of GDP. As previously indicated these programmes will be screened to ensure that social spending is made more efficient and sustainable. The main cash transfer programmes, namely, the Targeted Conditional Cash Transfer Programme (TCCTP), the Social Assistance/Public Assistance Grant Disability Grants and the Senior Citizens' Pension will be consolidated to focus on protecting the most vulnerable. We expect that the consolidation of programmes will strengthened administrative systems and programme synergies as well as develop a transparent and effective targeting mechanism to target households for all social safety net programmes.

Overall, Government intends to reform its social safety net by establishing a comprehensive social security system, targeting women, the elderly, children and differently-abled, as well as by assisting households to take hold of opportunities that create prosperity and reduce the number of people classified as poor.

Part of Government's fight against poverty is ensuring that basic necessities are available at the lowest possible cost to households, which was the primary rationale for the proposed zero-rating of all food items, except luxury goods and alcoholic beverages. This measure will be the subject of a review by a Cabinet-appointed inter-Ministerial Committee.

As Government moves forward with the upgrade of the pension system in Trinidad and Tobago, we must do so in a manner that is sustainable and guarantees equity for the recipients. Due to the prevailing fiscal realities vis-a-vis revenues and debt, moving forward it is imprudent to expect benefits to diverge from contributions, as has occurred in the past.

This has been the rationale behind the introduction of the Universal Harmonised Pension System in Trinidad and Tobago. This was proposed to ensure that all citizens regardless of creed, class or socioeconomic status would be able to provide themselves with a dignified standard of living in the later stages of life. A critical issue for this demographic was the inequality between the minimum public sector pension and the National Insurance Pension. This issue was resolved with the increase in the minimum NIS pension during fiscal 2012.

Our aim going forward is to further strengthen the NIB by increasing the quantum of grants and other benefits offered by the NIB, which we believe are long overdue. This will commence with the increase in the Maternal and Minimum Survivorship Benefits in fiscal 2013 with the latter class of benefits also scheduled to increase in fiscal 2014. It is our view that the general structure of the NIB adequately links contributions to benefits to afford these increases in a sustainable manner.

Later in the coming year, we expect to commence the rollout of the Inclusion of the Self Employed in the National Insurance System (NIS). This is perhaps the most significant change to the National Insurance System in the past decade. This will allow for coverage of a wide range of persons previously denied access to the benefits of the system, and will target: private consultants, taxi drivers, domestic workers, and others. We will continue to push forward with our mandate to deliver a social protection system that is efficient, effective and fair to all in this nation.

CONCLUSION

Mr President, we recognise that we operate in a world where downside risk prevails. But we also recognise that opportunities abound. What is required is insightful leadership, prudent management and thoughtful communication with all stakeholders.

We are committed to the adoption of an approach characterised by these attributes as we continue to build on the progress made thus far with our initiatives for growth, reform, and competitiveness.

Mr President, I beg to move.

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