

# **"THE ECONOMY: RISKS AND CHALLENGES"**

---

**JULY 28, 2010**



Presented by | The Honourable Winston Dookeran Minister of Finance

**ADDRESS BY:**

**The Honourable Winston Dookeran Minister of Finance to the American Chamber of Commerce of  
Trinidad and Tobago (AMCHAM) at their Luncheon Meeting on Wednesday 28th July, 2010.**

**Venue: Hyatt Hotel**

**“THE ECONOMY: RISKS AND CHALLENGES”**

Ladies and Gentlemen, I have come to begin a conversation on the economy: the risks and the challenges ahead of us - on how to get the economy right.

We have witnessed three waves of reform in our development cycle over the last twenty-five (25) years. The first wave of reform was about “getting the macro-economic policies right,” culminating in the adoption of a floating exchange rate regime in 1993.

Then we embarked on the second wave which can be described as “getting the institutions right” – a shift towards transfers and subsidies, now accounting for 14.9 percent of our GDP, having grown by an average annual percentage change of 15 percent between 2003/2004 and 2009/2010. At the same time, many of our institutions faltered.

The third wave in the development cycle is “to get the governance right” and it is with that impetus that the recent political change in Government took place – This current wave acquires a special meaning as it can influence sustained growth and inclusive development --- treating politics and economics as inseparable in the analysis of development. In this wave, the challenge is to ensure that “right politics will yield right outcomes.”

**What is our starting point? What are our strengths? What is the meaning of development? Where do we start from?**

- 1) The sharp decline in energy prices coupled with the slow recovery in the United States economy led to a pronounced economic slow-down and a rapid deterioration in the fiscal position;
- 2) This was exacerbated by bad corporate governance and major regulatory lapses resulting in the near collapse of CL Financial and its subsidiaries including CLICO;
- 3) Relatively low debt levels permitted the Government to accommodate a large fiscal deficit and sustained economic activity, which otherwise would have even been weaker;
- 4) The high level of foreign reserves permitted the Central Bank to intervene in the foreign exchange market and sustain the exchange rate, despite a nearly 50 percent decrease in export earnings;
- 5) For 2009/2010, a deficit of 4.1 percent of GDP is being projected with a downside risk and flat economic growth is the expected outcome;
- 6) The overall deficit is likely to widen as the share of energy revenue to GDP falls. The debt burden (excluding open market operations) will rise to 48 percent of GDP in 2014/2015;
- 7) After falling sharply, food inflation has again pushed the headline inflation rate upwards as food prices continue to rise despite a short drop in international food prices;
- 8) Bank credit growth continues to decline notwithstanding high excess liquidity in the banking system.



## What are our strengths?

The underlying strength of our economy can be measured by our capability to offset the risks facing us with concrete and realistic policy initiatives. Trinidad and Tobago has had a strong public resolve to put our books in order and pursue a programme of fiscal consolidation.

This necessitates a programme for increasing the revenue base, expanding the production space in the energy and non-energy sectors and converting our social expenditure to social investment.

There is still “wobble room” for us to manage our economic prescription - to reverse the direction of our economic trends while building a competitive economy and enhancing our social strategy. These are the development goals that will set the agenda for “innovation, investment and advancement” - the theme of a presentation used by the young people of our country in our ongoing Budget interaction.

As I continue to meet with the young, civil society, labour and business, I have growing confidence that the “wobble room” before us could be expanded to create a new confidence in our economic future. That confidence will require us to:

- 1) Find innovative ways to “de-risk” business loans in the commercial banking system;
- 2) Improve the tax regime to encourage exploration of oil and gas reserves, for after all, the reserve position of our energy reserves is a product of our investment;
- 3) Mount an aggressive “investment strategy” to materialize “new investment” in a cluster-type development approach to our investment in the energy sector;
- 4) Incubator Financing – we need to explore innovative ways to make “unbankable” transactions “bankable” by the use of risk sharing models which include “mentoring” by specialists and offer young entrepreneurs a complete back office capability in IT, sales and financial management, legal and tax advice and small equity stakes. These models have been used successfully in South Africa and India, from where we shall seek technical advice for execution;
- 5) Turning the corner on food production is a Caribbean-wide problem – and within the context of a regional approach to food sovereignty, revitalizing the financing of agriculture through the Agricultural Development Bank will commence;
- 6) The Public Sector Investment Programme (PSIP) will focus on capital formation to provide adequate and growing infrastructure for food production and competitiveness, and accessing the growing out-sourcing markets in the world;
- 7) The state enterprise sector including the special purpose companies will be subject to new governance accountability and the adoption of a “business risk radar” that anticipate threats, respond and adapt to effective investment that improve the performance of the enterprise. A wider restructuring exercise that incorporates public offerings and ownership is being contemplated.
- 8) The Innovative and Competitive Council is soon to be established, the terms of which are as follows:
  - (a) Provide critical support to Government in the execution of its policies and programmes as these relate to increasing public investment in human capital, generating industry relevant research, promoting industrial

innovation, and enhancing coordination and simplification of the country's competitiveness, diversification and innovation support systems;

(b) Develop an Execution and Implementation Plan based on the numerous competitiveness and innovation studies completed in Trinidad and Tobago;

(c) Trigger organizational change in competitive, effective and innovative governance that will improve the country's programme for sustainable development.

9. We will also establish a Development Board to design a new framework and process for the economic development of the T&T economy.

Development is a process through which societies will widen the capabilities and facilitate investment in "nearby" goods, thus building linkages from within. This approach will require the design of a governance system for our industrial estates to promote a wider public management of these zones for cultural and service products. This would be within a self organizing system which trusts stakeholders to organize themselves according to their own self-interest.

The aim of this is to foster creativity with an emphasis on building capabilities (competences) for development and inclusiveness.

In this regard, a new synergy between communities and the state will be forged in what has been described as an open architecture for development.

Ladies and Gentlemen, getting the direction right requires a paradigm shift, a shift from an industrial-based, technology-driven economy to a human-centered, knowledge driven economy. It requires a new Social Partnership between key stakeholders representing critical sectors of the society. It requires a new social consensus between Civil society, Labour, Business and Government. It demands a new commitment to a different development framework routed in the philosophical premise that development cannot be imported and must be sustained from within the economy.

Ladies and Gentlemen, when this Government came into office approximately 2 months ago, economic indicators illustrated that there were systemic challenges that had to be dealt with. Essentially, if the baseline trajectory is allowed to continue, we run the risk of further destabilizing the economy similar to what has occurred in European nations such as Portugal, Italy, Ireland, Greece, Spain, and Hungary and indeed many of our counterparts including Jamaica. In fact the IMF has signaled that the ongoing debt crisis in Europe could act as catalyst for a "double dip" recessionary impact and we must be mindful of this with our policy prescriptions.

Regionally, the CARICOM Secretariat said that at least half of the 15-member grouping will record either zero or negative growth this year, with officials expressing concern that high unemployment and other factors which are likely to exacerbate the problems.

As we assess the risks ahead of us, there is "wobble room". From that, we have the huge tasks to rebuild a platform for growth, embrace a strategy for competitiveness, explore new frontiers for social investment and agree on an equation for fiscal consolidation.

These are our challenges ahead. The time has come to meet these challenges head on.

## Minister of Finance Winston Dookeran's Question & Answer Segment at AMCHAM's Luncheon Meeting on Wednesday 28th July, 2010



Q: The Construction Industry in Trinidad and Tobago is on its knees as a result of the very slow and in many cases non-existing payments by Government or the HDC over the past ten months or more on contracts such as Victoria Keys and other low cost housing projects. Are you in a position to tell us when we can expect some of these long overdue payments?

A: I understand the problem and we have been faced with many bills that were not within their budgetary allocations. They are increasing in number and in size and we at the Ministry of Finance have been trying to work out and honour those commitments. I cannot put a time frame on that but I can tell you, we are making every effort to meet those commitments on a proper basis without disturbing our fiscal balance at this point in time. Hopefully, by budget day I'll be able to say more on that issue.



Q: The subsidies on fuel are currently \$2 billion. It's obvious that the country cannot afford this as is evident by the continuing late payment to manufacturers, successive Governments have avoided addressing the situation. The only recent attempt was the increase in the price of Premium. Is the reduction of subsidy cost a priority of the new Government?

A: I'll have to wait for the budget to answer that question but I understand the demands on the treasury and I also understand the need to ensure that there is a kind of equilibrium in the society on the question of cost of living. It all depends really on how we find the financing gap that is likely to emerge in the next year's budget and what we need to do to ensure that we can finance it without affecting our macroeconomic possibility. So I'll ask you to wait for some time for a specific answer as to what priorities we attach to the question of fuel subsidies.



Q: There is concern that the banks are "extremely dry of \$US." Some intervention is urgently needed for our confidence in the US rate issue. Is this something that the Government will be addressing?

A: From my assessment of the situation I believe that the exchange rate is being properly managed and there are in fact adequate reserves available to support the exchange rate for some time to come. I do not foresee that as a major problem facing us but we will of course have to deal with it on a longer term basis but at this point I believe that the short falls are due to the cash flow arrangements rather than to structural issues and availability of resources.



Q: Is the Government thinking of diluting its shareholding in some of the Government owned companies? This would help in reducing fiscal deficit and also some liquidity in the system.

A: I did mention in my comments that the issue of public offerings to deepen the capital market and also deal with some of the issues with respect to the financing of development is being considered at this point. I wouldn't want to go much further than to say that it is not an option that we have ruled out.



Q: What are the Government's plans in relation to the implantation of the International Financial Centre and in fact depository receipts which were discussed with the previous Government?

A: The International Financial Centre is an idea that never should have been. The fact of the matter is that we do not have a serious institution for what has been called promoting investment in Trinidad and Tobago. Since the demise of TIDCO, there has been a missing link in the Government's institutional framework for promoting investment and we are aware of that. Some of it has been through the energy sector in the National Energy Corporation, a little is being done in the Ministry of Trade, some in the Ministry of Tourism, so it is our intention and I have set up a task force, a number of individuals both here and abroad to redesign the International Financial Centre concept into a broader concept that will now include investment promotion.



I must say to you that we are exploring a new form of investment promotion that will incorporate two components, the public sector component that will be offered to investors and secondly a very dynamic process of knocking down the doors of investors. The time has come for us to knock on the doors both here and abroad, and in so doing anticipate that those in the world will join, be an equal partner in the process of acquiring new investment for Trinidad and Tobago. I have estimated that we need \$US 2 billion of investment to start during the next year. Some of it will come through our public sector investment program. We've begun discussions with the International Financial Institute particularly the Inter-American Development Bank to work towards financing a public sector investment program. We expect further billion dollars in investment to be generated in the private sector. So therefore, the IFC will be converted from a prominent liability into an asset for the country to achieve the goal of investment as a result of the reorganization. That to I do not have the full details, the committee that has been working on it has expertise from abroad who have been associated with this project and sooner rather than later we would be in the position to announce the new initiative to promote investment in Trinidad and Tobago at the level of the institution. We will want to dialogue with you further to see how we can have the executing arm of that institution involve the private sector.



Q: What will be the role of E-Teck for the promotion?

A: Well I did mention that the Ministry of Trade and Industry is partly involved. E-Teck has been a sore point for the government not only because its buildings still remain incomplete and the bills continue to rise. So there is an immediate financial problem. There is also the problem that we have begun to discuss as to the use as an instrument for development in the future. It was meant to be that but it has not turned out to be that and therefore we would be looking at restructuring the E-Teck operation within the context of the investment plan of which I spoke to you earlier on. So that is being considered. The Minister of Planning and Social and Economic Restructuring was just mandated to relook at E-Teck with that in mind.



Q: What is the Government's policy on the petroleum tax reduction for new oil development and exploration?

A: Well I did indicate that the whole question of results, the Scott Ryder Report and the public debate that has emerged on that issue have always assumed that there is some finite level of reserves and that will come sooner rather than later. We have said that the level of reserves is really a function of investment and if it can create the investment for exploration in the Oil and Gas Sector then we can deal with the issues of reserves more effectively and I didn't say that the Ministry of Energy is looking at how to encourage more production via the tax system for exploration and production.



Q: What can the new Government do to advance and implement meaningful local content policy?

A: Part of the development program that I suggested is to develop a strategy promoting what I referred to as "near-by products." Near-by products are likely to emerge from the current production structure and therefore we can build on that. Local content is part of it but we don't want to only utilize local content to build in firms that will supply it. We are saying that the vision should be larger than that and that the local content should be the base for building firms that could at least exploit other markets. We don't know whether it will be realistic but that is the direction in which we are considering at this point in time and in this regard we believe that we must search the opportunities in our market in Latin America and Brazil in particular.




Q: The Construction Industry employs close to 200,000 persons. Does this Government have plans to ensure sustained development that will stimulate jobs in the short and medium term?

A: Well there is a financing problem in the short term. There's no question about that but we have instructed our ministries with regards to the expansion of the public sector development program to select as priorities such programs that have a large construction content and hopefully in the next fiscal year the public sector program will have a large construction content. What has happened is that the public sector investment programs have



recurrent programs which do not generate capital, so we are trying to re-direct that program. How much of it will happen in the short term depends on our executing capability and our financing options. But we are very conscious that this economy will resume growth with a strong construction sector that is directed at not only employment but increasing competitiveness of the economy and we'll be very happy to encourage the development of investment projects and private investment. The time has come now for the private sector to develop an investment program for capital formation to supplement the public sector investment program.

 Q: Relating to expenditure and the cash flow issues that are currently being experienced and the laptops for the school children of which it has been reported in the news 45 million, plus teacher training, support issues with respect to power, networking, security, is this something that the government would confer or phase in as a way to manage or create more “wiggle room” over a phased basis rather than all at once.


A: Generally speaking the mandate which we have from the electorate must be phased over time subject of course as we said to the financial situation but the attention of engaged much attention. The Ministry of Education is about to engage in a competitive bidding process on this matter. I think the issues that you raised are within the realm of that process to determine. The exact cost of it I don't know, I have had no submissions from the Minister on that as yet but it is a commitment that we would like to keep. In the context of our long term commitment to ensuring that information is available to everyone in the society, we start with the school system because the distinction between poverty and wealth really lies with the use of information so we're really trying to set at the same time the infrastructure that is required for social investment in the country.

 Q: What measures are being implemented to avoid corruption or the perception there of in these new strategies, boards and councils?

A: Of course it is an issue that has engaged the society. What we have done so far is to introduce for deliberations in parliament a bill and we intend to find ways to enforce that bill so that is the first step we have taking in this regard. The second step that we have taken is and I mentioned it in my presentation that we are designing new corporate governance for the new state-owned enterprises that will allow for a more transparent accountability of their actions over time. The third of course, has to deal with the value system in the country itself and the toleration of that system that tends to support issues of corruption too easily, we will have to introduce measures to address this. So those are the issues and we'll continue to account to the people on our performance.

 Q: What are government's plans for unraveling CLICO's intergroup indebtedness and communicating a way forward and what is the time frame for implementing the regulatory change to prevent this situation from reoccurring?

A: Well as you are aware the government has established a high level technical committee which did some intensive work on the complex issues that we had to face up with and it involves a lot of things that you have mentioned. The deliberations by committees are still on-going and in due course we'll be able to come up with our approach to that problem. It is very complex, it is very large, it involves a large share of the Gross Domestic Product of this country and we have to navigate the solution to win public confidence but not at the cost of having a real economic solution. I can't say too much on that issue at this point but it won't be very long I hope that we'll be able to outline our approach to it.

 Q: With the new push to Corporate Governance several State and special purpose companies are without boards. When can we expect these appointments?

A: It is an ongoing process but it will accelerate from now on.



