



MINISTRY OF FINANCE AND THE ECONOMY

Government of the Republic of Trinidad and Tobago

Address made by the Honourable Larry Howai, Minister of Finance and the Economy

The Greater Tunapuna Chamber of Industry and Commerce

Post Budget Forum

Thursday, October 4 2012

Thank you Roshan,

Members of the Head Table

My long-time colleague and former Minister of Finance, Selby Wilson

Chair of the HSF, Ms. Ferguson

Distinguished Ladies and Gentlemen

I will keep my speech relatively brief as I would like to leave time for the Question and Answer Segment. And also, after my experience yesterday at the American Chamber's Forum in discussing the demographics of the country i.e. the lower birth-rates and the increase in persons who need social security, I highlighted that there was a disequilibrium that we needed to address not knowing that the bottom-line in the papers this morning would have been "Make more Babies". (Laughter) I suppose that this is an example of the challenges one faces in public life where anything you say can be held against you and often is. Therefore, I would like to be very careful with what I say to avoid making the headlines in the wrong way in the morning.

I did say that in preparing the budget, I had three months. It felt like three weeks. Not only because of the number of things that had to be done and the way the agenda is crowded but it also takes you about two months to tell you where everything is in the Ministry before you can actually get down to doing anything. The government is a very complex organism. We run small, medium and large businesses but the government is huge by comparison and extremely complex and certainly with some kinds of processes that you would never believe exists anywhere especially in what is described as the underpinning of the entire economy.

One of the things I tried to do in developing the budget was trying to determine which way to go. After I looked at the options, on one hand we have different degrees of austerity and on the other hand we have growth and stimulus. People try to determine what kind of philosophy guides your thinking – whether you are liberal, conservative, a monetarist, a Keynesian or even neo-Keynesian. At the end of the day though, from my perspective, you look at what is practical, pragmatic and prudent. I looked at the existing condition and what in my view were the priorities. I must say though that I am not short on priorities. Even in preparing the budget, it was not possible to put everything there because I would have still been reading. So among all the competing priorities I had in front of me, I had to make a choice. I felt that in determining the way forward – and in coming from the business community myself- we needed to do something about the confidence in the economy and also growth. I recognise that there are significant risks there and I spoke very briefly to them in the budget but of course one of the big risks is what is going on in the global economy and whether things would go the way rational expectations would infer. We keep our fingers crossed that:

- the global economy will continue to grow
- the Europeans will make the right decisions,
- the Americans will make the right decisions.

There are all kinds of options that come out of every possible twist and turn that takes place in each of these economies. And of course, you see the build-up of inventories in China and the slow-down in India – both major issues. Over the past few years, the growth poles have really been China and India and they were the countries to help the global economy and they added a new dimension to growth which led us to believe that growth will always happen. We look back however, and realize in making those assumptions, we made several big missteps along the way and which led to the crisis of 2008 and which subsequently led to the European Crisis and so on. So, for me, one of the big assumptions is what happens in the world economy; how stable

would the world be; what would be demand for commodities- particularly oil and gas- ; where prices would be; and finally what the implications would be for Trinidad and Tobago.

I took the decision expecting reason to prevail. I expect the United States to do something about their fiscal difficulties by the end of Jan 2013 and thereby get the global economy relatively stable- even if not growing –and certainly not going down. So, in terms of going forward with our budget into next year, assumptions such as the price of oil at \$80.00 a barrel were made. For us, that is an equivalent of 75 West Texas Intermediate seeing that we produce a basket of crudes. Each type of crude carries a different price and a hence a weighted average was used. The relationship between the prices of those crudes and the prices of West Texas Intermediate (WTI) is an approximate \$5.00 difference. The reason I delved into this in the budget statement is because I know the man on the street would be more familiar with the WTI and it gives a sense of the basic underlying assumptions. The US Energy Agency has projected a WTI figure of \$102.00 for next year while last year's average stands at about \$100.00. It means that our numbers are reasonably conservative and we have an element of a buffer within the price to sustain our proposed expenditure.

I must say, as Minister of Finance, I am never short on people who advise me on what should be done. Some advice has been very well-meaning, some intelligent, some insightful and some helpful in considering where we go and what we do. I took all this feedback into account in deciding to stimulate the economy and make that step to get things moving. I think it was the right decision, recognizing their risks. The figures we received from the CSO said to me that there are signs of growth once more. I suppose it is like a car driving at 80miles per hour. If it tries to stop right away it will spin out of control and likewise many people were saying that we need to cut back on this and cut back on that all at the same time because it is important to balance the budget. While I agree there is merit in balancing the budget- and we must do that- an important element of the budget is to also get the economy going. It is better to balance the budget or cut-back on certain measures under an economy that is growing; an economy that is creating jobs; where people can find alternative employment for example, the overhang of things like CEPEP and URP and so on. We need to protect the most vulnerable in our society so this explains why stimulating the economy is the way we had to go. Social unrest carries an immeasurable but very tangible cost. So we felt it was appropriate to move forward with a growth agenda and then implement an appropriate reform agenda once growth happens. For me, the reform agenda is the more critical aspect we would like to see rolled out within the next few years. The reform agenda will be the basis on which we will build competitiveness and build sustainability in the economy. The reform agenda is intended to deal with the issues Ronald (Ramkissoon) alluded to earlier. It will put the necessary management processes and

the kinds of systems and requirements in place that will allow us to be a competitive economy going forward in the future and also allow us to move away from subsidies and so on.

Some of you may have seen, for example, where I would have mentioned the fuel subsidy is something where on an annual basis is equivalent to building 3 small hospitals, 20 schools and giving all the public servants a 10% increase every year... SO you see, it is a substantial figure- twice the number we give Tobago! The fuel subsidy contributes significantly to the overall deficit that the country carries and could prove problematic for the future.

Just like you, when the government spends more that it collects/earns, it has to borrow the difference. This indicates that it's a cost to the future and I am very wary of that. So even while I pursue this deficit, it is growth that helps with the process. In technical terms, growth increases the denominator used to compute our Debt to GDP ratios and to determine sustainability. Nevertheless, it is something that we will be monitoring closely and will take action to control as quickly as possible. Hence, the deadline of bringing us back to a balanced budget by 2016. Therefore, within the next 4 to 5 years , most of fuel subsidy will need to be taken out of the equation.

In Trinidad and Tobago, our electricity, water, fuel and telecommunication prices are among the lowest in the world as well as there is no land and building taxes and health services and education up to tertiary education are also free. Our tax levels are also relatively low in comparison to some places such as New York where taxes can be up to 50% of one's salary if not managed properly. In this context, we must recognize the fact that as we move forward in a competitive environment and as oil and gas becomes less and less the driver of the economy we must get back on a level playing field with the rest of the world.

There are costs to the services and benefits that one gets and therefore the process of starting with premium gas was necessary. It is a process that will be phased so that we come to terms with the reality of this world gradually and not at a total shock. This way the revenues we generate will be sustainable for the standards of living that we wish to enjoy now and in the future. So this was the reasoning behind the increase in premium gas and I also understand the issue of switching and we made assumptions about how many people would switch and what the impact of that would be. The need to earn revenue off of this measure now was certainly not as much as us wanting to signal to the population that we are serious about dealing with the issues that we have to deal with as it pertains to the reform agenda. In fact I placed zero revenue regeneration here. We know that there is going to be some switching, we know there will be some measure of pushback but we must start the process even if relatively gently.

I would end by saying though, that in the point of view of a particular sector; there is some talk about “goodies” being given out in the budget. But for me though, it was important to signal to the private sector that the government needs you as a partner in this process of transforming the economy. This was the biggest statement that I tried to make in the budget. Whether it is by way of the Public Private Partnerships, the Public Offerings Programme or any other sector identified - the key issue was not so much the specifics but the message to the private sector. We need you to go forward. The government alone cannot mobilize all the capital needed to move the economy forward- but together we can. There is a need to create a strategic partnership with the private sector. I recognize however, that the private sector may not be prepared to come in immediately but I am prepared to put the money in and get things started. For example, with the CNG initiative we would like it to be headed by the private sector. As a start, the idea is to work with some of the State Companies involved in the sector such as NGC, NP and Petrotrin – who would help in getting things ‘off the ground’. We are looking at building possibly 62 CNG stations – I’ll need to confirm the figure- and we are also open to partnering with existing multi-fuel stations.

The government is not going to wait until we reach a point where completion needs to be rushed. We are prepared to start and continue the process until such a time that the private sector is in a position to come in. And similarly for the Tourism thrust. We currently own a few hotels and frankly I prefer that we own less. So in order to get the Tourism industry going in Tobago, we need to make an investment if the private sector does not step up. But of course, if you- the private sector- does step up, we will be more than willing to stand aside and let you do what you do. One of the issues high on our reform agenda is the ease of doing business in Trinidad and Tobago.

Minister Bharath has spent a lot of time trying to deal with some of the issues related to the ease of doing business in terms of streamlining processes at the port, cutting down the time it takes to start a new business etc. Minister Bharath has brought to Cabinet, recommendations for a process which reduces the time it takes to start a business from 43 days to 3 days. It is just a matter now of rolling out the implementation of the process. So, it is things like these that are being done side by side with other initiatives at a macroeconomic level to ensure that we are in a position to fast-track the investments that we need to make. Another initiative of Minister Bharath’s Ministry is ExportTT. Usually, investors in T&T have to visit 4 or 5 different agencies before they can have business done. So he has boiled it down to one company called ExportTT and more importantly one location. He has simply called it that because it focuses on being globally competitive and generating foreign exchange - not waiting on the oil and gas sector to

produce this for you. So there are a number of other initiatives in process at a microeconomic level such as Asycudda and SEW System which will make doing business as easy as possible.

Let me end now, as we need time for questions. Thank you.