

FEATURE ADDRESS BY MINISTER OF FINANCE AND ECONOMY,
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TO THE TRINIDAD AND TOBAGO GROUP OF PROFESSIONAL
ASSOCIATIONS LTD.

“PRE-BUDGET CONVERSATIONS WITH MINISTER OF FINANCE
AND ECONOMY”

Queens Park Cricket Club, Port of Spain

SALUTATIONS:

Thank you, Chairman

I am especially pleased for this opportunity this morning to share with you some of my perspectives on the performance of the Trinidad and Tobago economy. In particular, I intend to focus on the challenges and risks that we face as a small open economy in an increasingly uncertain global environment. I propose also to touch on some of the main policy directions that underpin our collective efforts aimed at achieving economic security and prosperity for our citizens on a sustainable basis.

This First Annual Breakfast hosted by the Trinidad and Tobago Group of Professional Associations

represents an ideal forum for engaging in what I consider to be those necessary and richly rewarding conversations involving the business and the professional community and the Minister of Finance and Economy.

I am particularly enthusiastic regarding this particular interaction as it comes at a time when the requirement for forging shared and common approaches to securing our aspirations for a bright and prosperous future for Trinidad and Tobago is at a premium. This certainly is a step in the right direction.

This morning I shall provide some insights into some aspects of the recent economic performance of the Trinidad and Tobago economy and the outlook for the economy over the medium term.

Without overly imposing on your busy schedules, I would appreciate your indulgence as I take the opportunity to share with you also some of the major policy directions that this administration is pursuing to ensure macroeconomic stability, promote sustained economic growth over the long term, create meaningful and high value jobs through diversification of the economy and broaden the sources of productive engagement with the global economy.

All indications are that the economy continues to improve. 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 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 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 seems to have abated somewhat as the data for inflation shows an inflation rate of 5.5% to April 2013. Healthy foreign exchange reserves, measuring US\$9,278.4 billion to April 2013 providing adequate import cover, reasonably good unemployment figures and sustainable fiscal and debt dynamics all convey an economy that is well positioned.

The clear indication is that Government 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 that had invaded the national psyche in the aftermath of the financial crisis. The demonstrated commitment of Government to strengthening the domestic business climate, including critical reforms to the regulatory framework for the financial services sector has served a like purpose.

My vision for the use of this regulatory framework though, is not just to prevent future crises but rather to create a platform for a dynamic and resilient regional capital market here in Trinidad and Tobago.

While these macro-economic indicators are comforting, there are underlying issues which must be addressed. Principal among these is the foreign exchange deficit that arises from activities of the non-energy sector. This is a challenge that must be addressed and indeed is the underlying theme in the focus on diversification of the economy. The positive effects of a return to growth must not distract us from the challenge of creating sustainable development for the economy as a whole. We have a long way to go and must certainly adopt a more communicative approach on the initiatives and timeframes associated with this goal.

Turning to the fiscal front, the Ministry of Finance and the 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.

This medium-term perspective specifically recognizes the need to address the concerns relating to sustained slow growth, falling revenue to GDP ratios, and increased recurrent expenditures.

The Ministry of Finance and Economy 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 the future by a combination of revenue reforms and management of expenditure.

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. Fuel subsidies also allow Trinidad and Tobago to keep

gasoline prices in nominal terms at a low level. We have said that this is a matter that will have to be addressed. Nevertheless we recognize the disruptive effect of a dramatic reduction in this subsidy and will address this in a manner that recognizes the need for public consultation, transparency and the implementation of a manageable process that is not disruptive to the economy.

In addition, Government must review 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.

I consider, 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 it would create the necessary fiscal space to ramp up development spending over time.

On the question of mobilizing revenues over the medium term, the Government is reviewing the

recommendations of a team of experts whom I had requested to review 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.

One of the initiatives which the Government must initiate is the raising of revenue through significant structural reforms in tax compliance and administration.

Reforms will focus on bringing the staff of the Inland Revenue and Customs Division up to full strength and strengthening the coordination between the two agencies. To this end, an IMF team will be 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.

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. We are committed to a review of the VAT system with a view to balancing the

objectives of efficient revenue collection with that of minimizing disruptions to business operations.

The Land and Building tax was not restored last year given the legal uncertainties relating to its re-implementation. It nevertheless remains a further source of much needed revenue for which arrangements need to be agreed to facilitate its introduction.

Notwithstanding its relatively strong fiscal position, 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 provide appropriately supportive regulatory environments, especially in relation to financial sector activities.

Together with the efforts on the revenue and expenditure side of the fiscal equation, Government proposes to introduce significant structural reforms to secure our long term growth prospects.

In this context, Government has prioritized a number of structural reforms to foster economic growth, preserve fiscal sustainability and promote economic

diversification. Government's structural reform agenda will revolve 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 as a new infrastructure priority.

Internally, reforms to the system of public financial management will also bring greater efficiency and transparency to Government's 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 results 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.

Government continues to make progress in protecting against financial 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.

In this regard our accession to IOSCO's MMOU on June 19th emphasizes Trinidad and Tobago's position as a well regulated jurisdiction and the laying of the Insurance Bill last week is also a positive step in the right direction.

Government is also reviewing its policy options for bringing key nonbank systemically significant financial institutions within the regulatory perimeter.

Overall, therefore, I am satisfied that the economy is in a good position with ample room to confront downside risks if they materialize. The better news is that a fiscal adjustment pathway involving tax reform initiatives that will increase non-energy revenues by roughly 3 per cent of GDP over a five year period, in conjunction with a matching profile of expenditure restraint, focusing on transfers and subsidies and complemented by a modest ramping up of public investment is within our reach.

Ladies and Gentlemen, the world that we live in is fraught with risk. The country's fiscal position is one that provides some cushion to successfully manage these risks in the short term should they materialize.

Attention now needs to be turned to the longer term issues of sustainable development and for this we need to be open, articulate and participative in our discussion on these objectives as we seek to build a dynamic, resilient and prosperous Trinidad and Tobago.

I thank you.