



Statement by the Hon. Minister of Finance

on the Withdrawal from

The Heritage and Stabilization Fund

Parliament

Friday June 10, 2016

Madame Speaker

I have been authorized by the Cabinet to make the following Statement.

I wish to bring some clarity to the recent withdrawal from the Heritage and Stabilization Fund. There has been a lot commentary on this matter, much of which is inaccurate. A number of misconceptions have been presented to the national community from persons who should know better.

I will deal with the governing legislation first.

The Heritage and Stabilization Fund (HSF) was established by Act No. 6 of 2007, i.e. the Heritage and Stabilization Fund Act Chap. 70:09. This Act was subjected to wide ranging debate in this House and in the Senate, including contributions from members of both houses, who were in the Opposition then, as they are now, such as the Member for Siparia, the Member for Oropouche East, the Member for Chaguanas West and Senator Wade Mark.

The legislative framework and operating principles of the legislation are thus well known to key members of the UNC.

As a result, these persons, and other persons who previously held high office in Trinidad and Tobago, and have now assumed the role of political and economic commentators, are aware that Section 3 of the Act provides

that the purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to:

- a. cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;
- b. generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and
- c. provide a heritage for future generations, of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

In particular, Section 15 of the HSF Act states that:

"(1) Subject to subsections (2) and (3), where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten per cent, withdrawals may be made from the Fund as follows, whichever is the lesser amount:

- (a) either sixty percent of the amount of the shortfall of petroleum revenues for that year; or*
- (b) twenty-five percent of the balance standing to the credit of the Fund at the beginning of that year.*

(2)) Notwithstanding subsection (1), no withdrawal may be made from the Fund in any financial year, where the balance standing to the credit of the Fund would fall below one billion dollars in the currency of the United States of America, if such withdrawal were to be made.

It is be noted that under the HSF Act, withdrawals are permitted after the fact, i.e. ex post facto. In other words, they are permitted in the year following the shortfall in revenue.

It was reported to this House in the Budget debate of October, 2015, i.e. 7 months ago, and subsequently widely discussed, both inside and outside of this Parliament, that for the period October 1st, 2014 through September 30th, 2015 the revenue from petroleum was only TT\$11.6 billion, or TT\$7.5 billion below the projected petroleum revenue of TT\$19.1billion for fiscal 2015.

This shortfall of \$7.5 billion in 2015 represented a reduction in revenues of almost 40%, which was well beyond the threshold of 10 percent contained in Section 15(1) of the Act.

Accordingly, since October 2015, the conditions for a drawdown from the HSF were met

Further, as per Section 15(1)(a), 60 percent of this shortfall represents **TT\$4.5 billion.**

Similarly, with reference to Section 15(1)(b) of the Act, at the start of the 2014/2015 financial year the Fund had a Net Asset Value of US\$5.53 billion, 25 percent of which was US\$1.38 billion or approximately TT\$9.23 billion.

Because the Act stipulates that the lesser of the two amounts is to be used, as per Sections 15(1)(a) & (b), the amount now available for stabilization purposes in fiscal 2016 was TT\$4.5 billion.

We should keep in mind the size of the energy shock the economy has faced in this year. It is well known that the Budget was premised on an average oil price of \$45 per barrel.

However, while the price of WTI has risen in recent weeks to over \$49 per barrel, reaching \$50 on a few days, the average weighted price for the basket of crudes produced in Trinidad and Tobago from October 2015 to April 2016 was only **\$36.78**, with a low of **\$28.74** for the month of January 2016.

Statements from commentators therefore that the revenues from petroleum in 2016 are above the budget estimates are therefore a gross exaggeration,

and in totality, **the projected shortfall in income from all revenue streams in 2016 is close to \$10 billion**, when compared to the September 2015 figures.

It should also be noted that the current situation is vastly different from the 2008/2009 period, when we had to grapple with a similar oil shock. It is wrong, therefore, as some commentators have sought to claim, that the 2008/2009 situation was no different to our situation now in 2016, yet the then Government did not avail itself of the facility afforded by the HSF Act.

In reality, **the Government had over \$9 billion in credit in its account at the Central Bank in 2008/2009**, as a result of budget surpluses over the years. As a result, the Government was able to draw down on these surpluses in 2008/2009 to deal with the shortfall in revenues at that time.

We have no such luxury. **In its first two years in office, the previous UNC Government used up all of the surpluses left by the PNM in the Central Bank, and then sent the Government's account into permanent overdraft.**

We came into office meeting a situation in 2015, where the previous UNC Government had burned through over \$6 billion in credit it found in 2010 and had used up virtually all of the \$9 billion

overdraft available to the State, i.e. a loss of Government funds of \$15 billion.

Since September 2015, therefore, the PNM Government has had to manage the finances of Trinidad and Tobago, with the Government's account permanently in overdraft, courtesy the UNC.

In May 2016, because of the severely depressed revenues from petroleum, the overdraft reached 100% of its limit, and unless urgent action was taken, the Government would have been unable to pay salaries or pay for critical and essential goods and services.

In accordance with Section 15 of the HSF Act, therefore, the Ministry of Finance decided on a drawdown from the HSF in the amount of \$ 2.5 billion, or US\$375 million, out of the legally permissible TT\$4.5 billion. This was the only available source of funds in May 2016. If we had not done this, the Government would have been guilty of fiscal irresponsibility and country would have been in crisis.

It should be noted that the drawdown was TT\$2.5 billion, and not US\$2.5 billion as some commentators have wrongly alleged.

It should also be noted that in statements made by the Honorable Prime Minister and myself, inside and outside of this Parliament over the last 7 months, we made it clear that once it was required and permissible, we would draw down up to US\$1 billion from the HSF in 2016 for budgetary support. The drawdown of US\$375 million is thus way below the announced sum.

There have been allegations from members on the opposite side and other commentators who know better that the drawdown was used for all sorts of dubious purposes, with the Leader of the Opposition going so far as to say that it is for electioneering purposes. However, these allegations are simply not true.

The House would recall that when I presented the mid-year review I estimated that, even with the measures announced, given the sizable decline in our energy receipts, there was going to be a deficit of about \$7 billion. I also indicated that this deficit would be financed through a combination of borrowing and drawdown from the HSF, as needed. The Honorable Prime Minister in a speech to the nation in December 2015, had given the same message.

The HSF drawdown therefore was simply to finance the well-known budget deficit, not for any item in the budget in particular. When I used the term

“for the service of Trinidad and Tobago in 2016”, that is exactly what I meant.

In every appropriation bill presented in this House for the last 30 years, it is clearly stated up front in all the Budget documents that the appropriation is required “for the service of Trinidad and Tobago”, which simply means **to pay the country’s bills!!!**

For experienced Members opposite and in the Senate to pretend that they do not understand the meaning of the phrase is very disappointing. They themselves have used this terminology in all the years they were in Government and there is no mystery in the phrase.

In other words, the drawdown was simply added to the revenues we collect from other sources to help meet our expenditure commitments – all our expenditure commitments; both current and capital expenditure – to pay bills.

Another commentator who knows better argued that it was cheaper to borrow than to make the drawdown. But that is totally false and misleading.

The increase in value of the HSF for 2015 was a mere 1.6%, from US\$5.653 billion in December 2014 to US\$5.745 billion in December 2015.

However, it is public knowledge that the last Trinidad and Tobago Government bond just one month ago was raised from the commercial banks at an interest rate of **4.75%**.

Erroneous statements by a former MP who knows better that the HSF is earning 5% per annum and the Government is borrowing at 2%, and it is better therefore to borrow, rather than draw down from the HSF are absurd.

Also it should be noted that in addition to the cost, the level of our public debt is very important. In fact the Rating Agencies, as well as the IMF, saw as a strength, the fact that we had buffers (or savings), **such as the HSF**, that could be used to contain the increase in public debt.

Madam Speaker, in answer to the query that no indication of the withdrawal was given, I would like to quote the following from my Mid-term Budget Review:

“In 2016, we will close this \$15 billion gap with borrowings and one-off items of extraordinary income, such as proceeds from sale

of Clico assets, repayment of past lending from TGU, dividends from NGC, drawdowns from the HSF, the proceeds of the Phoenix Park IPO and so on”.

And later in the speech I said

“And with specific reference to the Heritage and Stabilization Fund, it must be emphasized that the purpose of this Fund is to offset serious shortfalls in revenue in periods of depressed petroleum prices. It is not as some believe, a trophy to be kept on the shelf, and never to be touched. In fact the legislation that established the Heritage Fund caters for drawdowns when the revenues from petroleum are lower than projected by a factor of 10 per cent, whereas at this time, we are facing a 75 per cent reduction in revenues from petroleum in 2016”.

Madam Speaker many members opposite are now calling for legislation to amend the HSF Act in order, inter alia, to separate the Heritage from the Stabilization element. In my original budget statement I noted that it was the Government’s intention to do just that, in order to make up for what the last Government has failed to do. I repeated that assurance in my mid-term budget review.

The HSF Act, which was approved by Parliament in 2007, called for a five-year review, which should have been completed by March 2012. I am told that sometime in early 2012 there were discussions with a World Bank in which the then Minister Of Finance (Minister Dookeran) participated and that a draft of an amendment to the HSF had been prepared. Between March 2012 and June 2015, the previous Government had more than ample time to introduce the amendment but it did not happen. It is however, this Government's intention to undertake the necessary public consultation and bring the Amendment to Parliament before the end of this year.

Incidentally, the HSF legislation does not require Parliament's approval for a withdrawal, as members opposite are well aware. It was never intended for that purpose. Parliament was required to approve the savings and withdrawal rule, i.e. the formula and conditions precedent for drawdowns, **and it did so in 2007.** Parliament also has to ensure, at the time of the annual reporting, that the deposits into the Fund and any withdrawals are consistent with the legislation.

To have a divisive Parliamentary debate at a time when quick fiscal action is required cannot be good policy, or practical, and this fact was clearly envisaged by the Parliament in 2007 **and by all Governments since then.**

In conclusion, the HSF still has over US\$5.3 billion in it, and the Government cannot whimsically use it as a “bran tub”, as incorrectly claimed by the Leader of the Opposition.

There are strict legal rules for drawdowns and the maximum permitted drawdown for 2016 is US\$675 million, of which we have drawn down US\$375 million so far.

At this time, we envisage no further drawdowns in fiscal 2016, but if it becomes necessary to provide the required support for Government expenditure in 2016, we will consider all options for financing the service of the Republic of Trinidad and Tobago, including the remaining available drawdown from the HSF for 2016.