



Government of the Republic of Trinidad and Tobago

2017 MID YEAR BUDGET REVIEW

PRESENTED BY THE HONOURABLE COLM IMBERT,
MINISTER OF FINANCE

IN THE HOUSE OF REPRESENTATIVES

ON

WEDNESDAY MAY 10th, 2017

Madam Speaker, in the context of the proposed variation of appropriations for fiscal 2017, I rise in this Honourable House to present the budgetary framework for these measures, by way of the mid-year review of Budget 2017. In this presentation, I will give an update on the fiscal outturn for the first half of 2017 and an update on the status and performance of a number of important financial initiatives.

You will recall that the 2017 budget was introduced against the background of an uncertain global economic environment, with Brexit casting a damper on economic activity in the Euro Zone and depressed oil and commodity prices impacting Latin America and other developing and emerging market economies. Based primarily on supply considerations, oil prices have fluctuated significantly since October 2016, trading in a \$10 band, between \$45 and \$55 per barrel. The oil price today is just over \$47.

In addition, the Trinidad and Tobago economy has faced three consecutive years of economic decline caused by a 23 percent fall in petroleum output between 2013 and 2016, with oil production dropping to its lowest level in 50 years in 2016, to 66,000 barrels per day. Fortunately, as a result of sustained focus on increasing oil production over the last year, the country is now back up to almost 76,000 barrels per day, an increase of 10,000 barrels per day. However, the general decline in oil production and collapse of oil prices since 2014 has resulted in a severe reduction in Government's revenue, leading to cuts in expenditure which have impacted the construction, manufacturing, and services sectors. It is worth repeating that as a country, we have lost \$20

billion in annual revenue since 2014 and US\$2.5 billion in annual foreign exchange inflows. Claims of the unavailability of foreign exchange by persons who demand US Dollars on call must be viewed in the context of this significant loss of Forex. This is the reality we now face – how to run an economy accustomed to \$57 billion in expenditure on \$37 billion in tax revenue!

But notwithstanding this serious challenge, we have made progress towards bringing our national accounts into balance. Our 2017 Budget, Madam Speaker, represented the second in our medium term fiscal consolidation plan which aims at achieving fiscal balance by the year 2020. The plan involves:

- I. A series of tax and institutional reforms;
- II. Containment of government expenditure; and
- III. Redirecting expenditure away from subsidies and discretionary transfers towards economic and social infrastructure.

The 2017 budget was predicated on the start of an economic recovery led by the reversal of the structural decline in oil and gas outputs. This recovery was to emanate from the startup of production from the Angostura and Sercan gas fields in the fourth quarter of 2016 with production momentum increasing in 2017. These projects were to be reinforced by the startup of the Trinidad Onshore Compression (TROC) project in mid-2017 and the Juniper field in late 2017. Combined with the expected rise in oil and gas prices, the

projection was for a moderate growth in energy tax collections which would help support a pickup in Central Government investment spending.

As the tax reforms announced in the 2016/2017 budgets were expected to take a few years to yield maximum effect, the 2017 budget was expected to depend on one-time revenues, equivalent to 6 percent of GDP, or \$9 billion, representing the proceeds from asset sales.

Madam Speaker, the expenditure side of the 2017 budget confirmed Government's commitment to a lower budget envelope, more in keeping with our medium-term revenue potential. From a level of \$63 billion in 2015, Government's expenditure was reduced to \$53 billion in 2016 and this expenditure level was maintained in the 2017 Budget. This represents a decrease of \$10 billion in annual Government expenditure from the 2014/2015 levels, no mean feat, which was achieved without causing social instability or economic collapse.

The budget target for 2017 was an overall deficit of \$6.03 billion, or the equivalent of 4 percent of projected GDP, compared with 5 percent of GDP in 2016.

PERFORMANCE IN THE FIRST HALF OF FISCAL YEAR 2017

Madam Speaker, the last official GDP data issued by the Central Statistical Office was its preliminary figure for 2016 which indicated that real GDP declined by 2.3 percent last year. According to the schedule of the Central Statistical Office (CSO) no official GDP estimates for 2017 or revised estimates for 2016 will be released until later this year, just prior to the 2018 budget. Any other estimate of GDP that has been published by other agencies is not official and should not be used to make projections or comparisons, lest the persons who do so fall into error.

Based on estimates published by the Ministry of Energy, gas production has in fact picked up in the first six months of fiscal year 2017 and natural gas prices have strengthened. Compared to 2016 when gas prices dropped below US\$2.00 per MMBtu, over the last six months, Henry Hub Natural Gas Spot Prices have reached as high as US\$3.75 per MMBtu, which occurred in December 2016, averaging well over US\$3.00 per MMBtu on many days. Today's Henry Hub price is over US\$3.30.

This trend is expected to firm up further during the remainder of the year as new fields begin production and the impact of bpTT's Trinidad Onshore Compression Project (TROC) begins to be felt on production.

In addition, the rate of implementation of the Government's public sector programmes is expected to be increased based on the availability of funding from the US\$300 million CAF or the Andean Development Bank loan. The available evidence therefore suggests that real GDP could show a small increase in 2017.

Madam Speaker, it is also noteworthy that notwithstanding the expansion of the VAT base, the gradual 7% depreciation of the currency over the last year, increases in fuel prices, and other tax adjustments, inflation has remained subdued with the twelve month increase in the retail price index hovering at between 2.5 and 3.6 percent. Food inflation has generally trended downwards since 2014 from a high of 18.2 percent in October 2014 to 7.7 percent in January 2017. Core inflation has remained relatively stable between 1.3 percent to 2.7 percent over the period January 2014 to January 2017. This containment of inflation is a deliberate strategy of this Government, designed to cushion the effect on the most vulnerable of the reduced national income, and it has worked so far.

Further, according to the latest data published by the CSO, notwithstanding our difficult circumstances, the unemployment rate has only risen by just over half of a percent to 4.0 percent as at the end of 2016 from 3.4 percent a year earlier. The number of unemployed persons rose to 25,500 by the end of 2016 from 21,900 the year before, or by less than 4,000. This is a far cry from the wild figure of 25,000 job losses being bandied about by Members opposite.

Madam Speaker, it must be emphasized that there has been a significant loss of US\$2.5 billion per year in foreign exchange inflows from oil and gas receipts since 2014. As a result, our Net International Reserves, or Foreign Reserves, have fallen by 12 percent from US\$10.4 billion in May 2014 to US\$9.1 billion in April 2017. This is also reflected in the decline in the months of import cover from 12 months in 2014 to 10 months in 2017. Notwithstanding this decline,

our Foreign Reserves continue to significantly exceed conventional international benchmarks of reserve adequacy, providing significant buffers to Trinidad and Tobago's external position.

Nearby Barbados, for example, has only 2 months of import cover at this time, compared to our 10 months of cover.

Central Government Finances

Madam Speaker, preliminary data, taking into account approximately \$1.5 billion in revenue held in the Suspense Account at Treasury, indicates that for the first half of the fiscal year central government operations resulted in an interim deficit of approximately \$5.40 billion compared with a budget projection of \$3.85 billion. The estimated interim deficit at the end of March 2017 is due to temporary shortfalls in capital revenues, largely proceeds of asset sales and lower than projected tax collections in particular areas. The shortfall in tax collections was in respect of taxes of goods and services, mainly VAT and transfers of state enterprise profits.

However, with the increase in international oil and gas prices over the half year, tax collections from the petroleum companies has increased. Oil prices have averaged US\$50.45 per barrel for the first 6 months of the fiscal year, and the petroleum companies were thus required to pay Supplementary Petroleum Tax (SPT) for the first time since the first quarter of fiscal 2016. Income tax collections from corporations also exceeded the budget projections.

Madam Speaker, as Honourable Members may be aware, the Supplemental Petroleum Tax (SPT) is a revenue based tax – it is not a tax on profit, and is only applicable to revenue from the sale of crude oil. In its current form, SPT rates can vary from 18 percent to a maximum of 55 percent depending on the price of crude oil as well as the size, maturity and location of the oil field. The SPT is triggered when the price of oil is above US\$50 per barrel. I will expand on this later in my presentation.

It is important to note that through careful management, government expenditure for the half year was also 14 percent lower than projected. In the six months of the fiscal year, we had projected to spend \$27.3 billion, roughly half of the approved budget of \$53 billion. We actually spent \$23.5 billion, or \$3.8 billion less than projected. The reduction in projected expenditure was both in respect of capital expenditure where disbursements amounted to \$1 billion, compared with the budget projection of \$2.7 billion for the half year, and recurrent expenditure, which was \$2 billion less than projected.

Variations in the Main Budget Aggregates

Madam Speaker, permit me to present to this Honourable House the reasons for the variations in the main Budget aggregates:

On the revenue side Madam Speaker, we expected to collect \$6.3 billion in capital revenues in the first half of year. These funds were earmarked to come, inter alia, from proceeds from the sale of CLICO's shareholdings in

Methanol Holdings International Limited (MHIL) of approximately \$2.3 billion as well as from the sales of other CLICO assets expected to yield a further \$3.4 billion. These transactions have been delayed because of complex legal, regulatory, corporate and administrative roadblocks which we are in the process of unravelling, once and for all.

There was also a shortfall on projected VAT collections in the first half of the year amounting to \$669 million. While some of this could be explained by the reduced spending by the oil and gas companies given the depressed oil and gas prices environment, and a decline in discretionary spending by individuals, there are indications that the major problem continues to be the long-standing weakness in our tax administration in both the Customs and Excise Division and the Board of Inland Revenue.

This weakness has continued for years, in part because of weak management and the tendency for both institutions to work in silos rather than a collaborative manner. Previously buoyant energy revenues had masked the revenue losses arising from tax non-compliance. With the fall in energy revenues we are now confronted with the full impact of poor revenue administration. In this context, the Government plans to bring legislation to the Parliament before the end of this fiscal year for the establishment of an integrated Revenue Authority. I will give an update on preparations for this later.

Additionally, in the same way that we have addressed the recruitment of personnel to assist with the collection of property tax, we also intend to engage

in a major employment programme of young and not-so-young professionals and graduates in the second half of 2017, to assist us with VAT and other tax collections. Space is available to accommodate this proposed new staff in the recently opened Government Plaza. In fact, we have the capacity to accommodate up to 400 additional members of staff in the new Inland Revenue building alone.

Madam Speaker, despite a shortfall in VAT collections, on the flipside, income tax collections were \$743 million, or 11 percent, higher than projected because of the collection of SPT as I mentioned earlier as well as the application of the new 30 percent tax bracket on corporations and individuals with taxable incomes in excess of \$1 million.

On the expenditure side, I am happy to confirm, as had been promised in the 2017 Budget Statement, the bulk of the additional outstanding wage arrears to public officers for this year 2017, and not counting last year, amounting to \$1.8 billion has now been paid. This backpay liability, gifted to us by the outgoing regime, has had a severe adverse effect on our cash flow, but is now largely satisfied.

The \$1.8 billion in payments of arrears of salary made in the first half of 2017 make a total of almost \$5 billion in backpay paid out by this Government since we assumed office in September 2015. It has not been easy and we have struggled to make these payments, but thankfully, that particular financial challenge is now behind us.

The Government has also reduced the outstanding arrears to contractors, as we continue to verify claims. This process of verification and payment will continue in the second half of the year. A small shortfall in projected wage and

salary payments has been largely due to administrative delays in the start of payments of the new salaries.

The shortfall in capital expenditure as I mentioned earlier has been largely due to delays in finalizing contracts and the time needed to verify outstanding bills for payment.

Financing the Deficit in the First Half of Fiscal 2017

Madam Speaker, the budget deficit of \$5.4 billion, estimated for the first six months of the fiscal year, was financed from two main sources:

- A drawdown from the Heritage and Stabilization Fund of US\$251 million or TT\$ 1.7 billion made on March 16, 2017; and
- Borrowing by the Central Government.

Madam Speaker, it is worth noting that this was the second drawdown from the Heritage and Stabilization Fund (HSF) since it was legally established in March 2007. The first drawdown for US\$375 million took place on May 13, 2016, which left the amount in the Fund at US\$5.42 billion at that time. Since then the fund has been able to recover through good management and good returns on investment. In fact, the balance on the HSF increased from US\$5.42 billion on May 2016 to US\$5.695 billion in March 2017. In other words, between May 2016 and March 2017, the HSF earned US\$275 million. Accordingly, after the second drawdown in March of this year, the balance in

the Fund was US\$5.44 billion which is the same level as it was after the first drawdown.

I am pleased to report that despite a second drawdown, in just the last two months, the balance in the HSF has increased by US\$100 million, to US\$5.54 billion at the end of April 2017.

Madam Speaker, with respect to the public debt, about which there is much misinformation and misplaced commentary, it is important to note that the net public sector debt, exclusive of Central Bank open market operations, at the end of fiscal 2010 was \$45.4 billion, with a corresponding debt-to-GDP ratio of 32.1 percent. However, by the end of fiscal 2015, the net public sector debt stood at \$76.5 billion with a resulting debt-to-GDP ratio of 50.9 percent – an increase in the net public sector debt of \$31.1 billion, equivalent to a 70% increase in our debt over the 2010-2015 period. Coupled with declining revenues, this massive increase in debt in that prior period has presented us with another serious financial challenge.

It should be noted that at the end of fiscal 2016, net public sector debt was \$87.6 billion, largely as a result of the US\$1 billion international bond issue raised in July/August 2016, which equated to a debt-to-GDP ratio of 60.1 percent. However, during the period under review, i.e. for the first six months of fiscal 2017, despite our very serious financial challenges, the net public debt only increased to \$89.1 billion, representing an increase in our debt-to-GDP ratio of just 1 percentage point to from 60.1 percent to 61.1 percent between October 2016 and March 2017, in stark contrast to the excesses of the past.

I wish to report that during the first six months of the fiscal year, the Central Government contracted three new loans:

- A \$1.0 billion, 5 year, 3.80 percent fixed rate bond issued on December 15, 2016;
- A \$1.0 billion 8-year 4.10 percent fixed rate bond, issued on issued on February 14, 2017; and
- A \$1.5 billion short-term, 6-month, 1.70 percent fixed rate bond, issued on March 16, 2017, to be repaid later in the year. Proceeds of these issuances were utilized for budgetary support.

In addition, there was one new government-guaranteed loan in the amount of \$90 million contracted by UDeCOTT for completion of works on the Brian Lara Cricket Stadium.

I believe that this is the first time in a long time that Government borrowing is being reported to the Parliament in this transparent manner.

REVISED FISCAL PROJECTION FOR 2017

Madam Speaker, there are two main revisions to be made to the fiscal projection for the year as a whole. These cover expected energy tax collections and capital revenues in the form of estimated receipts from asset sales.

Over the last 18 months, the new Government has made several adjustments to our tax regime and introduced some new taxes, such as the millionaire tax.

I have noted wild speculation by the usual suspects regarding our plans for taxation and fiscal consolidation at the time of this mid-year review, from rumors about a huge increase in fuel prices, to a massive devaluation of the currency and the introduction of punitive new taxes. Over the past week, I have been bombarded by journalists and others, seeking to determine our strategy with respect to these matters.

Let me put all of that to rest right now.

With respect to fuel prices, we made it clear that in like manner to our Caribbean neighbors, we intend over a three-year period, between 2015 and 2018 to remove the subsidy on gasoline and diesel, so that the price of fuel will rise and fall in accordance with changes in world oil prices and the refinery price of petroleum products.

This requires the proper design and application of an appropriate pricing formula, which is being worked on at this time. There will thus be no increases in fuel prices in this mid-year review.

With respect to the exchange rate, we have also made it clear that we will work in tandem with the Central Bank to ensure that there is an orderly and stable exchange rate regime, based on foreign exchange inflows and the demand for foreign exchange, with a suitable focus on the facilitation of exports. There will be no drastic or sudden depreciation of the currency.

In this respect, I wish to confirm that consistent with our drive to encourage local companies to become net earners of foreign exchange and/or to reduce our import bill, we have requested the Central Bank to give priority to manufacturing and trade whenever it intervenes in the disbursement of foreign exchange to the commercial banks.

Having laid the base for fiscal consolidation, our focus will now be on revenue collection, and instead of new tax or tariff adjustments at this time, the Government will intensify its efforts on improving tax administration and compliance for the balance of this fiscal year and beyond. We need to see a quantum leap in the performance of our revenue collection agencies as soon as possible, since there is no doubt that tax leakage and tax avoidance is widespread in Trinidad and Tobago, resulting in a loss of revenue to the Treasury in the billions of dollars.

Honourable Members will recall that the 2017 budget was predicated on an average oil price of US\$48 per barrel and a natural gas price of US\$ 2.25 per mmbtu. I can now report that in the first six months of the fiscal year, the corresponding prices have averaged US\$50.45 per barrel and US\$3.30 per mmbtu respectively. We have therefore increased the expected tax collections from the energy sector for 2017 to \$3.6 billion, compared with the original budget projection of \$2.6 billion, an increase of \$1 billion.

The expected receipts from asset sales, although registering a shortfall in the first half of the year, have been revised for the year as a whole to reflect Government decisions to include a different mix of assets, consistent with Government's policy of redefining the scope of the public sector.

Accordingly, Government revenue for the year as a whole has been revised upward from \$47.4 billion to \$48.0 billion, largely due to an expected increase of \$575 million from income taxes from the petroleum companies.

As a result, the overall central government deficit for 2017 is now projected at \$5.9 billion, or an estimated 3.8 per cent of GDP, compared with the original projected deficit of \$6.0 billion (3.9 percent of GDP). In terms of the projected deficit for this year, therefore, we remain on track.

Madam Speaker, permit me a few minutes to review progress made towards the implementation of some major tax reforms that were included in the 2017 budget.

1. The Property Tax

Madam Speaker, I am pleased to advise that Phase 1 of the implementation of the Property Tax regime, which involves the development of the Valuation Rolls, has been proceeding smoothly.

Starting with residential properties in the first instance, the Commissioner of Valuations has requested that property owners submit Valuation Return Forms along with any supporting documents on or before May 22, 2017. This form has been mailed out and has been made available at all offices of the Valuation Division.

We do not intend to extend this deadline, since it is necessary to get on with the job of assessing the rental values and determining the applicable property taxes, so that tax collection can commence.

The revenue from property taxation is an important component of national income which has been postponed for the last 7 years. Indeed, it is estimated that the Government has lost over \$2.5 billion in property taxation since 2009.

In April of this year, a communications campaign commenced to inform and educate the public on the operationalization of the Property Tax regime. To this end, sensitization advertisements have been placed in the daily newspapers; a website has been developed with information on the Property Tax regime and a Government hotline has been established to answer questions on the Valuation process. To compliment this advertising and information campaign, an expert panel of Valuers from the Ministry of Finance has been making the rounds of the various media houses, appearing on television and on radio, in order to answer questions and clarify a number of issues related to the implementation of the Property Tax Act of 2009. To these excellent public servants who have impressed us all with their ability, knowledge and demeanor, I wish to congratulate them for a job well done.

Further, to facilitate the preparation of the Valuation Rolls, the Ministry of Finance is in the final stages of recruiting two hundred and forty-eight (248) members of staff for the Valuation Division. This includes one hundred and eighty (180) field assessors and fifteen (15) field assessor supervisors.

The Ministry of Finance is also partnering with the Department of Geomatics Engineering and Land Management in the Faculty of Engineering at the University of the West Indies to ensure that all field assessors are well equipped to conduct field work.

Madam Speaker, it should be noted that it is expected that in many cases, the information provided by property owners will be adequate to assess the rental value of their properties, without a visit. However, there will be instances where site visits will be required, particularly in the case of new properties. In these cases, owners will receive a notice from the Commissioner of Valuations before a site visit is carried out. Furthermore, arrangements are being made by the Ministry of Finance to ensure that assessors of the Valuation Division are identifiable on the field, and if property owners are unsure about the authenticity of this process, they can contact the Valuation Division to confirm the identity of field assessors.

Madam Speaker, for clarity, we estimate that up to 75 percent of residential properties will not be visited by the Valuations Division following the completion of the current valuation exercise.

I also wish to stress that at present, the Ministry of Finance is simply in the process of gathering information on properties in Trinidad and Tobago, and it is only upon the completion of the Valuation Rolls that property owners will receive a notice from the Commissioner of Valuations with details the tax due and payable. It is only at this time that actual tax collection will commence.

With respect to the allocation of funds collected from the Property Tax Regime, the Ministry of Finance is currently discussing the operational details of recommendations made by the Ministry of Local Government. In the first instance, as part of Government's reform process, we are looking at the remittance of property tax on residential properties to the various Local Government bodies, to assist with their cash flow. As the property tax

collection system takes shape and evolves, other categories of property tax will be considered for devolution to Local Government in due course, but it is likely that property tax on industrial properties will remain the preserve of the Central Government

2. Trinidad and Tobago Revenue Authority

Madam Speaker, in keeping with the Government's intention to have a Revenue Authority established by the end of this fiscal year and to submit the enabling legislation to a Joint Select Committee of Parliament for scrutiny, an International Monetary Fund (IMF) and Caribbean Regional Technical Assistance Center (CARTAC) Mission visited Trinidad and Tobago in October 2016 to review the current state of revenue and customs administration, to recommend strategies for institutional strengthening, including the establishment of a Revenue Authority.

In February 2017, after considering the Mission's Technical Report which outlined the options for reform in revenue and customs administration, Cabinet agreed to the establishment of a Revenue Authority as the preferred modality for modernizing tax and customs administration.

Accordingly, a Project Implementation Committee has been established, to expedite the work required to implement the Revenue Authority in the next fiscal year. Notably, in this effort at modernization of our archaic and outdated revenue collection system, by this new Government, there will be appropriate consultation with the recognized Trade Unions, in order to build consensus and agreement on the aims and objectives of this important project.

3. Regulating the Gambling Industry

Madam Speaker, the Government is continuing its drive to regulate all aspects of gambling in the Trinidad and Tobago. A Joint Select Committee (JSC) of the Parliament has been reviewing the Gambling (Gaming & Betting) Control Bill 2016 and supporting regulations. The JSC is expected to submit a final report to Parliament before the end of the current Parliamentary session, thus paving the way for the reform of this sector.

Notwithstanding arguments by some players in the industry to the contrary, the Gaming and Gambling sector in Trinidad and Tobago is estimated to involve as much as \$10 billion per year in economic activity, largely bereft of appropriate regulation. On the approval of this legislation by Parliament, we expect to have in place a rigorous Licensing process, Compliance and Enforcement provisions, and an efficient taxation system. We continue to be mindful of the ills which are associated with the gambling industry, not the least of which are issues of chronic non-compliance with international anti-money laundering requirements and tax leakages, as well as the adverse social consequences of gambling addiction.

It is anticipated that after the passage of the Act, and the appointment of the Board of Directors to the Commission, the proposed new Gambling Control Commission can be fully operationalized in fiscal 2018.

4. Sale of Assets Programme

Madam Speaker, the Sale of Assets Programme to support the National Budget for FY2017 remains broadly on-track, as follows:

1. The Additional Public Offer issued by First Citizens Bank which was an offer for sale by First Citizens Holding Limited of 48,495,665 ordinary shares at \$32 per share closed on April 7, 2017. 4,440 applicants received 32,035,770 shares or 66.0 percent of the total shares on offer with proceeds amounting to \$1.025 billion. We have taken note of the comments that this APO did not realize the projected revenue and the theory that the offer price was too high. However, these comments ignore the fact that if the offer price for FCB shares in this APO had been priced lower than the actual market price, the value of the shareholding of existing shareholders would have been seriously compromised and diluted, leading to loss in asset value and net worth for thousands of ordinary people, pension plans and institutional investors. In the circumstances, we are quite satisfied to have been able to raise \$1 billion from this APO without damaging the value of FCB shares.
2. The Additional Public Offering by the National Gas Company of Trinidad and Tobago Limited for the sale of 40,248,000 Class B shares held by NGC or 26.0 percent of the issued share capital of Trinidad and Tobago NGL Limited (TTNGL) would be launched shortly. This would generate approximately \$800.0 million, given that the Government has decided to leave a residual balance of 25.0 percent held by NGC in TTNGL at this time to allow NGC to retain effective control of Phoenix Park Gas Processors Company Limited (PPGPL), and allow NGC to continue to discharge a strategic role in the gas sector value chain. Again, the focus

will be on maintaining the value of TTNGL shares for existing shareholders, while offering an attractive APO price.

3. The divestment of the Trinidad Generation Unlimited (TGU) by Union Estate Electricity Generation Company Limited (UEEGCL) is also advancing. After a review of our earlier decision to dispose of 20.0 percent of the shareholding of TGU to certain local institutional investors, we have now determined that it is more appropriate to pursue the introduction of an Independent Power Producer (IPP) or other suitably qualified private sector investor into the ownership and operations of TGU. We propose that the new shareholder would hold up to 40 percent of the shareholding in the Company, with another 10 percent offered to the public and/or institutional investors. The proceeds of this divestment exercise are estimated to range from \$3 billion to \$5 billion, depending on the final valuation of the Company, and the quantum of shareholding divested, with these proceeds compensating for potential shortfalls in any other one of the Government's sale of assets programme. Further details of this divestment will be made public in due course.

The Energy Fiscal Regime

Madam Speaker, we have embarked on a long-overdue reform of the oil and gas fiscal regimes with a view to ensuring consistency in their application with terms attractive for investment while at the same time securing a substantial share of the resources for the State. Having done the preliminary work in 2016, and consulted with industry, we are currently being assisted by the Fiscal Affairs Department of the IMF to establish a suitable legal and fiscal framework for oil and gas operations which would promote investment in the energy sector. We have listened and are in broad agreement with the upstream producers that a reform of the Supplemental Petroleum Tax (SPT) is required. We are satisfied that in a low-price environment and in its present form the SPT does not facilitate immediate investment.

Madam Speaker, as I mentioned earlier, the SPT rates can vary from a low of 18.0 percent to a maximum of 55.0 percent depending of the price of crude oil as well as the size, maturity and location of the oil field and is triggered when the price increases above US\$50 per barrel of oil. Although the SPT has a system of credits and discounts and is minimized through deductibility against the Petroleum Profit Tax (PPT) its application is not investment-friendly in that once a price band is triggered the new rate applies to all production from the relevant license. The reform would modify the SPT to bring a degree of stability and predictability of terms in the fiscal regime faced by the Government and upstream operators.

The Dragon Field Project

Madame Speaker, in addition to a number of initiatives to increase this country's domestic production of natural gas over the short, medium and long-term, Government is actively working to provide Trinidad and Tobago with access to Venezuelan natural gas within the shortest possible timeframe, as this could substantially reduce this country's persistent natural gas supply shortages. Towards this end, Trinidad and Tobago has signed a Government to Government Agreement with the Bolivarian Republic of Venezuela on May 23, 2016 for the purchase of natural gas from Venezuela's "Dragon" gas field, which is located north west of Trinidad, in close proximity to Shell Trinidad Limited's Hibiscus gas field and its Hibiscus Platform.

To access this Venezuelan gas, it is envisaged that a new pipeline would be constructed from the Dragon field to the Hibiscus Platform, which is already connected by pipeline to Atlantic's LNG facilities in Point Fortin. A separate connector pipeline would also be constructed to Pt Lisas to supply gas for downstream Petrochemical industries. To advance this project, a Preliminary Project Agreement between PDVSA, NGC and Shell was signed in Caracas on March 15, 2017. The companies are now actively working towards finalization of a Gas Sales agreement by July 2017, and advancing other technical aspects of the project. It is anticipated that first gas from the Dragon field could be obtained during the 2019 to 2020 period.

Petrotrin

Madam Speaker, the Petroleum Company of Trinidad and Tobago Limited (Petrotrin) has two significant outstanding long-term bonds on the international capital markets: a US\$750 million 6 percent Fixed Rate Bond due in 2022 and a US\$850 million, 9.75 percent Fixed Rate Bond due 2019 with a bullet repayment at maturity. In the case of the 2022 Bond, the company is meeting its obligations as they fall due.

However, given Petrotrin's current financial position and the still depressed state of hydrocarbon commodity prices, the Government foresees that the bullet repayment of the 2019 Bond will be problematic for the company. Accordingly, the Ministry of Finance has commenced discussions with Petrotrin to identify a cost-effective solution for Petrotrin to meet its 2019 debt service obligation without an explicit Government Guarantee.

One strategy currently under discussion is a partial refinancing of the Bond on the domestic market, followed by an International Bond issue.

It is noteworthy that despite the company's realization of its previously deferred tax liability of \$4.3 billion and its credit rating downgrade by Moody's Investment Services to Ba1 from Ba3, several International Investment Banks have expressed to the Ministry of Finance that Petrotrin is still in a position to access the International Market, without a Government guarantee. In fact, three major international banks have already made indicative proposals to the Ministry of Finance to refinance Petrotrin's long-term debt without adversely affecting the country's debt profile or our debt-to-GDP ratio.

Once the requisite approvals of Cabinet are obtained, the Ministry will make formal approaches to both the domestic and international financial markets in respect of the refinancing of the Petrotrin 2019 Bond. This will resolve a critical issue for Petrotrin and will allow the Company to focus on strategies to return the Company to profitability and growth, so that once again, Petrotrin can contribute to the national revenues, rather than being a burden on the Exchequer.

In this context, to help us better understand the true nature of the issues affecting Petrotrin, the Cabinet recently appointed a seven-member professional committee comprising representatives from the public sector, the private sector and the majority trade union, to conduct an independent review of the operations of Petrotrin. This committee is expected to present its first report next month.

Public Expenditure Review

Madam Speaker, the Government has recently commenced discussions with the World Bank to conduct a review of public expenditure in Trinidad and Tobago. The review will provide an analysis of the efficiency, equity and impact of public spending in selected sectors to inform the Government's fiscal consolidation programme.

The Public Expenditure Review would consist of the following:

- i. An Assessment of Public Spending, Budget Processes and Institutions. This will include a broad review of the evolution of public finances, revenues, size, composition and allocation of recurrent and capital spending; fiscal balances and public debt dynamics, based on data availability; and an assessment of strengths, gaps and weaknesses of budgetary institutions. Additionally, policy orientations that can result in a sustainable reduction of expenditures and in a stronger budget process will be identified;
- ii. Making Education Spending Better. The World Bank will evaluate the efficiency, effectiveness and sustainability of public spending in the education sector. Additionally, policy directions on how to prioritize education spending to identify areas for efficiency gains and increase impact in a fiscally sustainable manner will be presented;
- iii. Making Health Spending Better. This section will evaluate the efficiency, effectiveness and sustainability of public spending on health. Additionally, policy directions on how to prioritize health spending to identify areas for efficiency gains and increase impact in a fiscally sustainable manner will be presented; and
- iv. Improving Social Protection Spending. The Bank will evaluate the efficiency, effectiveness and sustainability of public expenditure on social assistance, labour programmes and pensions. Additionally, this section

will also discuss whether these expenditures are adequate to cover the needs of the poor and vulnerable; targeted to reach those most in need; efficient so that the costs of delivery and funds flows are justified for the intended outcomes; and coordinated so that the funds flow and agencies involved allow for timely, transparent, accountable delivery of funds with minimal risk of duplication.

A mission from the World Bank is expected to visit the country next month, i.e. in June 2017, to commence the Public Expenditure Review Programme.

Heritage and Stabilization Fund (HSF)

Madam Speaker, Honorable Members may recall that the Heritage and Stabilization Fund was established by this Parliament to save and invest surplus petroleum revenues derived from the production business in order to:

- I. Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn caused by a fall in prices in crude oil or gas;
- II. Generate an alternative 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
- III. Provide a heritage for future generations of citizens of Trinidad and Tobago from the savings and investment income of The Fund.

Madam Speaker, the Act provides for a savings and investment rule to govern deposits to and withdrawals from the Fund as well as robust governance structure and disclosure regime. Moreover, the Act provides that “the provisions of the Act shall be subject to review by the Minister of Finance who shall submit a report to the Parliament every five years. According to this provision a review of the Fund should have been presented to Parliament by April 2012. This review was never done.

Since assuming office the current Administration has been preparing to correct this non-compliance. To this end, on September 14, 2016, the Government convened a high-level Stakeholders Forum to discuss the principles that should underpin the reform of the HSF.

The discussions which were chaired by the Ministry of Finance included representatives from the business sector, the Bankers Association, the Central Bank, the Trade Union movement, the University of the West Indies, the University of Trinidad and Tobago and officials of the World Bank, some of whom had participated in the establishment of the Fund in 2007.

Madam Speaker, coming out of the discussions at the Forum, it was proposed that:

- The HSF should be segregated into two distinctly different funds; one for Stabilization and one for Heritage;

- There should be a single savings rule that will determine savings to both funds and that the savings rule should be closely aligned to the Government's medium term or multiyear fiscal consolidation plan

Since then, the Ministry of Finance has been collaborating with the World Bank to prepare a more detailed concept paper that will underpin the amended legislation. Madam Speaker, work is well underway on this project, and a final round of discussions with interested parties and stakeholders will be conducted before the amended legislation is presented to the Parliament for consideration.

Credit Rating

As is well known, Moody's Investors Service (Moody's) visited Trinidad and Tobago at the end of March 2017 to conduct their annual assessment of elements critical to the sovereign credit rating of Trinidad and Tobago. The results of their assessment was published on April 25, 2017.

Moody's downgraded Trinidad and Tobago's issuer and senior unsecured debt ratings to Ba1 from Baa3 and assigned a stable outlook, up from the previous negative outlook.

Similarly, Standard and Poor's Global Ratings Limited (S&P) visited Trinidad and Tobago in early April 2017 and conducted their annual review of Trinidad and Tobago's Sovereign Credit Ratings. The results of their assessment was published on April 21, 2017.

S&P lowered its long-term sovereign credit ratings on the Republic of Trinidad and Tobago to 'BBB+' from 'A-' and revised the country's outlook to stable from negative. Trinidad and Tobago's transfer and convertibility assessment was also downgraded to 'A' from 'AA-', whilst the short-term sovereign ratings was affirmed at 'A-2'.

Madam Speaker, the Government would like to highlight the fact that Moody's downgrade of the country to Ba1 or Non-Prime or Non-Investment Grade status means that Government's obligations are to be considered speculative securities subject to credit risk. S&P, however, downgraded the country to BBB+ which is within their band for Investment Grade securities. According to S&P, an obligation rated 'BBB' exhibits adequate protection parameters. Given the above, the Government is faced with an inconsistent situation of being rated Investment Grade by one Rating Agency and simultaneously rated Non-Prime by another.

In the case of the Ba1 rating by Moody's, the Ministry of Finance is of the view that the downgrade from Baa3 to Ba1 is unwarranted given Trinidad and Tobago's significant buffers which even Moody's acknowledges infer moderate external risk to the country. However, it is difficult to understand how a country with the following characteristics can be deemed a moderate credit risk:

- (i) Net Official Reserves of US\$9.1 billion or 10 months of import cover;
- (ii) A Heritage and Stabilization Fund of US\$5.5 billion, the equivalent of 25 percent of GDP; and
- (iii) Deposits in Sinking Funds for the express purpose of repaying debt, totaling TT\$6.5 billion.

It must be emphasized that given the ample buffers highlighted above, the Government has the ability to repay the Central Government External Debt several times over. Moody's most recent rating is thus puzzling, to say the least

Given this discrepancy the Government deems it prudent to seek a third credit rating in an effort to eliminate the discrepancy that currently exists. As a result, the Ministry of Finance recently approached Fitch Ratings Inc., the third of the three largest International Credit Rating Agencies in the world, for an indicative costing for the conduct of a private rating in the first instance. This arrangement with Fitch is expected to be finalized shortly and it is intended to bring a clearer and more balanced perspective to our country's credit rating.

Insurance Bill

Madam Speaker, the Government has been working vigorously on the full implementation of the Insurance Bill 2016. The Bill was laid in Parliament in 2016 and referred to a Joint Select Committee in February 2017 for further

deliberations and discussions with stakeholders in the Insurance Industry. The committee has had five sittings and the published two interim reports thus far. It is expected that the JSC deliberations will be completed in June 2017. I wish to point out to the Honourable House that the Insurance Bill is an important instrument to Trinidad and Tobago's Financial Sector and the Government is working assiduously to ensure that the Bill is appropriately implemented.

Procurement Legislation

Madam Speaker, His Excellency, the President is empowered under Section 10(1) of Act No. 1 of 2015 to appoint the Board of the Office of Procurement Regulation after consultation with the Prime Minister and the Leader of the Opposition. The appointment of the Regulator and the Board are critical elements in the implementation of the Public Procurement Act.

Accordingly, in pursuit of this objective and in virtually identical fashion to what obtained under the previous administration, the Ministry of Finance in is assisting His Excellency, at his request, to build a pool of suitably qualified and experienced candidates from which he may move forward with an informed selection.

The Ministry of Finance is therefore in the process of procuring a suitable consulting firm to search for suitable candidates, so that His Excellency could be equipped with a short-list of approximately 20 suitable candidates, ranked in order of merit, from which he can make a choice in his sole discretion, as required by the Act.

Madam Speaker, Section 11(9) of the Procurement Act requires that the salaries and allowances of the Regulator and other members be determined by the Minister, subject to the approval of Parliament. This is an essential prerequisite for the operationalisation of the new procurement regime. I am pleased to report that the proposed compensation package for the Regulator, who will be a public officer, of \$85,000 per month, inclusive of allowances, has now been approved by both Houses of Parliament, having been passed in the Senate last night and in this House last week.

Madam Speaker, the Government has also approved organizational structures for procuring entities for large, medium and small Ministries/Departments. Two smaller models for agencies that do not engage in significant procurement – a Basic and a Minor – have been put forward to widen the scope of thinking in the design of procuring entities.

The Government is also actively working with the United Nations Development Program (UNDP) as the Consultant for this important project. From the beginning of April 2017, the UNDP has been working with senior officers charged with the internal change process by their Accounting Officers towards building capacity for the customization of the Procurement and Disposal Handbook, as required under Section 30(3) of the Act; setting internal controls for efficiency and effectiveness in the procurement and disposal process; and preparation of Special Guidelines, as required by Section 30(2) of the Act. The UNDP Consultants have met with key stakeholders in Ministries, Departments and State Agencies to understand the unique challenges faced by entities which undertake significant construction activity, allocate public monies to non-governmental organizations with which they partner in meeting

certain strategic objectives and those where significant procurement is undertaken by decentralized units.

Madam Speaker, the transitional arrangements for Central Tenders Board staff under Section 66(2) of Act No. 1 of 2015 are in train and will allow for:

- I. Voluntary retirement from the public service on terms and conditions agreed to between his or her recognized Union and the Chief Personnel Officer (CPO);
- II. Transfer to the Office of Procurement Regulation; or
- III. Remain in the public service.

A multidisciplinary Transition Team has been established in the Ministry of Finance to prioritize all the needs of the staff of the Central Tenders Board in transitioning towards whichever option they choose.

FATCA

Implementation of the Foreign Account Tax Compliance Act Regime: The IGA and the TIEA Act 2017

The Intergovernmental Agreement (IGA) between Trinidad and Tobago and the United States of America was signed on August 19, 2016. The legislation to support the IGA, the Tax Information Exchange Agreements (United States of America) Act, 2017 was passed with the requisite majority in both Houses

of Parliament and assented to on March 20, 2017. The Act will come into operation on such date as is fixed by the President by Proclamation.

Madam Speaker, a commencement provision was included to allow the relevant persons to whom the TIEA Act will apply to put the necessary systems in place for the exchange of sensitive personal information as defined under the TIEA Act. The relevant persons include the Board of Inland Revenue (BIR), the Central Bank of Trinidad and Tobago (CBTT), the Trinidad and Tobago Securities and Exchange Commission (TTSEC) and the financial institutions namely, the banks and insurance companies.

Madam Speaker, you may wish to know that the BIR is continuing preparations and is on a positive path to meeting the reporting deadlines. The CBTT and TTSEC are in the process of drafting the guidelines to give effect to the IGA as required by the TIEA Act. The banks have indicated a readiness to meeting the reporting deadline. A few reported a readiness particularly in the area of having obtained client information for the purpose of the exchange of information. The insurance companies are in various stages of completion of the process.

It should be noted that the systems required to be put in place for the implementation of the TIEA Act are similar for that of the implementation of the IGA.

The Global Forum on Transparency and Exchange of Information for Tax Purposes (The Global Forum)

At present Trinidad and Tobago is deemed non-compliant with the Global Forum's Standard for the Exchange of Information on Request (EOIR) for tax purposes. This is the other part of the world. FATCA is the US approach to sharing of tax information and the Global Forum is the approach adopted by the rest of the world. To stay compliant and avoid financial and economic sanctions, we must satisfy all international bodies in terms of tax transparency, which is no easy task. That being said, in 2014, Trinidad and Tobago committed to a new global standard for the exchange of information for tax purposes and to commence the exchange of information according to the new standard by 2017.

In an effort to improve Trinidad and Tobago's current Global Forum rating, the Government has completed the following actions:

- a. Obtained Global Forum's approval for a deferral of our commitment to commence the exchange of information automatically in accordance with the new Global standard from 2017 to 2018; and
- b. On April 07, 2017 Trinidad and Tobago applied to the Global Forum's Fast Track Procedure with a view to improving the rating. In this regard, Trinidad and Tobago requested to become Party to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) and intends to become party to Multilateral Competent Authority Agreement once it has signed on to the MAC. In keeping with the ascension to the MAC, Madam Speaker T&T is required to put legislation

in place, and to this end, a Bill entitled ‘the Mutual Administrative Assistance in Tax Matters Bill’ was laid in the Parliament on April 28, 2017.

The Ministry of Finance continues to work closely with the Global Forum to improve Trinidad and Tobago’s current non-compliant rating and to ensure that Trinidad and Tobago honors its commitment to commence automatically exchanging information according to the new Standard by 2018.

I turn now to an update and overview of the Clico Resolution Plan.

CLF and CLICO

Madam Speaker as at September 2016, the Government and people of Trinidad and Tobago would have directly expended approximately \$20.3 billion in relation to the bailout of CL Financial while meeting the primary objectives of the bail-out which were:

- I. Providing full protection for the traditional policy holders of CLICO and British American (BAT); and
- II. Paying investors (Short Term Investment Products (STIPs) holders and depositors) of CLICO, BAT, Clico Investment Bank (CIB) and CMMB in line with legal priority.

In addition, by April 2017 the Government would have incurred approximately a further \$3.2 billion in funding costs, advisor fees and other costs.

Further, the Government is owed approximately \$325 million in interest on the CIB and BAICO promissory notes as well as up to \$4.3 billion for other liabilities which could arise under the liquidity support agreement with First Citizens Investment Services (FCIS) and in relation to CIB's liabilities to holders of Investment Note Certificates, which remain unpaid. Should these liabilities arise, the Government may be owed up to \$27.7 billion by the CLF Group.

Repayment Plan

Madam Speaker, having met the primary objective of the bail-out, that is, to settle legitimate creditors as expeditiously as possible and in line with legal priority, the Government is focusing on the recovery of taxpayers' funds.

Since the initial intervention, the Government and CLF have pursued the execution of the divestment strategy envisioned by the Shareholder's Agreement. However, each of the companies sold had several liabilities that had to be treated with from the proceeds, resulting in minimal net returns which are being held pending the full resolution of the repayment of debts to CLF's creditors, including the Government.

The Government's repayment plan envisages that legitimate non-conflicted third party creditors will be paid in addition to the repayment of the Government's debt. These remaining creditors include CLICO and BAT's legitimate policyholders (CLICO: \$9.8 billion; BAT \$800million) and the CIB Investment Note Certificate ("INC") holders.

The Government and the Central Bank are currently making efforts to divest the traditional insurance business of CLICO and BAT by way of one or more portfolio transfers. After the transfer of its traditional business, it is estimated that CLICO, among other assets, will still hold approximately \$2.8 billion in government bonds, cash and listed equities (excluding Republic Bank), including shares in the West Indian Tobacco Co. Ltd., JMMB Ltd, One Caribbean Media, First Citizens Bank Limited, Guardian Media Ltd, National Flour Mills Ltd, Guardian Holdings Ltd, Readymix(W.I.) Ltd, LJ Williams, Trinidad and Tobago NGL. Limited and others

Madam Speaker, there are several assets of the CLF Group which are available to repay the remaining creditors and settle the Government's debt. These assets include:

- (a) 57 percent of Methanol Holdings International Limited (MHIL) currently held by CLICO;
- (b) 25 percent of Republic Bank Limited (RBL) currently held by CLICO and CIB;
- (c) 78 percent of Angostura Holdings Limited (AHL) currently held by CLICO, CLF and CIB;
- (d) 100 percent of Home Construction Limited (HCL) currently held by CLF, CLICO and CIB;
- (e) 94 percent Colfire, 100 percent Caribbean Petrochemicals Manufacturing Limited, 23 percent One Caribbean Media and 51 percent of LJ Williams and other traded equities;

(f) A real estate portfolio in CLICO, the value of which is uncertain;

The repayment plan envisages that once the traditional business of CLICO and BAT is sold, the Government will seek to divest some or all of these assets, as is required, and repay the debt owed to taxpayers.

Madam Speaker, the Government is satisfied that the repayment plan, once completed will have achieved the following key objectives: the protection of policyholders and depositors; a reduction of the public debt and an improvement in the Government's fiscal options; and obtain the best possible recovery for the Government within a reasonable timeframe.

We will continue to work assiduously on the Clico Resolution Plan within the legal constraints and in accordance with the guidelines and directions ordered by the High Court

Conclusion

Madam speaker, since our assumption of office, we have established a robust and prudent macro-economic and development agenda. We are transitioning to a steady and sustainable growth path. Our educational and communication programmes are bringing a greater clarity and clearer definition of our priorities, policies and strategies for adjusting the economy to lower levels of revenue and expenditure and in particular we are re-balancing the reduced levels of expenditure with a greater emphasis on growth enhancing capital expenditures.

Madam Speaker, we are providing our citizens with astute leadership and good governance. We are partnering with the business sector and with every citizen in our efforts to lift the economy to its correct posture of macro-economic balance, sustainable growth and transformation. We are ensuring through our programmes that our citizens obtain their fair share of national resources and they will always receive good, honest, equitable and transparent government. In pursuit of this agenda our country will be restored to the growth trajectory which prevailed in the early years of this new millennium.

Barring unforeseen circumstances, we are on course to achieve our fiscal consolidation targets for 2017. This is a difficult year for us, as petroleum prices continue to be depressed and the economy adjusts to the drastic reduction in revenue and foreign exchange receipts. As a responsible Government, in these challenging times, we must cut our coat to suit our cloth. We cannot continue with the extravagance and excesses of the recent past. We must face reality and move forward with the understanding that everyone is required to make their contribution in one way or another, big or small, rich or poor.

Madam Speaker, I thank you and I beg to move.