



Government of the Republic of Trinidad and Tobago

MINISTRY OF FINANCE

FEATURE ADDRESS BY

THE HONOURABLE COLM IMBERT,

MINISTER OF FINANCE.

THE EXIMBANK FOREX FACILITY MEDIA LAUNCH

FRIDAY 4TH MAY 2018

HYATT REGENCY, TRINIDAD

Diversification...

The availability of foreign exchange, or put another way, in the language of economists, the *disequilibrium* between the supply of and the demand for foreign exchange, in Trinidad and Tobago is a significant issue that has engaged discussions and analysis since the collapse of oil prices in mid-2014.

In order to better understand our current economic environment, it is worth reiterating that in 2013, the energy sector contributed over 50% of total government revenue, whereas by 2016, the energy sector's contribution to government revenue had dropped to 18%.

Direct revenues from petroleum (oil and gas) also declined over the period from US\$3 billion to less than \$500 million.

When one examines the published data, which is readily available on the Central Bank's website, we see that in 2013, the conversions of foreign exchange in the local banking sector, including injections by the Central Bank, was US\$7.1 billion. Despite a declining economy, and significantly reduced foreign exchange earnings, demand increased, and total foreign exchange conversions increased to US\$7.4 billion by 2015. This required an increase in the injections by the Central Bank into the banking sector from US\$1.3 billion in 2013 to US\$2.6 billion in 2015. It is noteworthy that over the period 2013 to 2017, the foreign exchange converted by the private sector in the local banking system, declined from US\$5.8 billion in 2013 to US\$3.6 billion in 2017.

However, that level of intervention by the Central Bank was unsustainable, since all of the foreign exchange injected into the banking sector is taken from the Government's foreign reserves, and the net effect of these injections, has been a decline in our foreign reserves from the end of 2015 to the end of 2017 in the amount of US\$1.6 billion (US\$9.9 billion to US\$8.3 billion). Since 2015, therefore, the annual injection of foreign exchange by the Central Bank has averaged US\$1.8 billion, which is significantly more than the amounts injected in 2013 and 2014. Notwithstanding these significant injections, our foreign reserves are still over US\$8 billion, which amounts to well over 9 months of import cover, **well above any international benchmark**, but it would be irresponsible of the Government to deplete our reserves to the point where import cover reaches dangerously low levels. Accordingly, the Government will continue to ensure that foreign exchange is available in moderation but not in excess.

The reason for the shortage of foreign exchange in Trinidad and Tobago, therefore, is not Government interventions, or the lack thereof, but rather, the drastic reduction in foreign exchange conversions by the private sector from US\$5.8 billion in 2013 to US\$3.6 billion in 2017, a reduction of 38%. Much of this decline can be attributed to the downturn in the energy sector, but there has also been a significant reduction in conversions of foreign exchange by the non-oil sector, which inevitably leads to speculation about hoarding.

Fortunately, we are seeing the signs of a recovery in the energy sector, with average daily natural gas production increasing by over 15% over the last 12 months. In fact, the gap between supply and demand in the natural gas sector is closing steadily, and we hope that by next year, all of the requirements of the gas-based industries can be satisfied.

We have also seen a rebound in oil prices, from a low of US\$28 per barrel in 2016 to over US\$68 a barrel as of today May 4th, 2018.

These improvements in gas production and in oil prices, coupled with the new royalty regime for oil and gas that was introduced in the 2018 Budget, where the rate of royalty on oil and gas was increased to 12.5% and applied across the board to all hydrocarbons, have resulted in increased inflows of foreign exchange. Indeed, we at the Ministry of Finance were commenting recently that for the first time in years, we saw a monthly increase in reserves, rather than a decline, as a result of increased revenue from royalties and supplementary petroleum tax.

However, the need to diversify our economy and to wean Trinidad and Tobago away from overdependence on oil and natural gas continues to be of great importance. This has always been known by administrations past and present but the crystallization of concrete implementation on any scale has remained elusive.

History has taught us that Trinidad and Tobago cannot rely on market mechanisms and the private sector alone to drive our economy. Accordingly, there continues to be a need for Government intervention and assistance to ensure that the non-oil sector is given the tools to survive and grow, and to become, where possible and feasible, a net earner of foreign exchange, which must be a primary objective.

In many ways, we are a nation of importers and distributors. We import everything from food to household goods to cell phones and luxury motor cars.

Many important businesses in Trinidad and Tobago are net users of foreign exchange. These import-focused businesses employ thousands of people and contribute in no small way to the economy and we must support them as well. In this context, it is noteworthy that most the Government's foreign exchange that is injected into the banking sector by the Central Bank is given by the commercial banks to importers.

But in the face of a shortage of foreign exchange we must be sensible and prioritise our efforts where they will have positive effects. It goes without saying that successful export businesses increase economic activity, encourage inward private sector investment, generate foreign exchange and much needed meaningful and sustainable employment. It should also be noted that manufacturing currently contributes over 18% of our country's GDP and is thus a vital pillar of our economy.

In our stakeholder meetings and other engagements with the manufacturing sector, we have heard and acknowledged your concerns, especially your need for foreign exchange for the purchase of raw materials and other essential inputs. Diversification is happening, but valuable foreign exchange is needed to keep the export momentum going for existing exporters and assist start-ups and growing companies to reach their export potential.

The Ministry of Finance thus conceptualised the foreign exchange window that we are launching today – the Eximbank's Forex Facility, designed specifically for manufacturers.

The Forex Facility's main focus will be to assist and further enable local manufacturers with export promotion through foreign exchange allocation.

The facility will be capitalized initially with US\$100 million and will fund the operations and import requirements of our local manufacturers and exporters. To qualify, at least 30 percent of a business's production must be for export, in the case of existing established manufacturers, to qualify, these companies must agree to repatriate a suitable amount of their foreign exchange earnings. Start-ups or fledgling manufacturers with a lower level of export production, but with a feasible export plan, will also be considered favourably. (Eximbank will work with them and help them grow.) Additionally, I must stress that for those existing manufacturers who have expressed concern for not meeting the 30 percent export quota, I would like to reassure you that Eximbank, WILL CONSIDER ALL applications and treat them on a case by case basis.

I would also like to stress that this initial allocation of foreign exchange, this US 100 million dollar facility, will be reviewed and adjusted as necessary, as more manufacturers join this new export promotion programme.

We, the Government of Trinidad and Tobago, are fully committed to doing our part in providing an avenue for eligible exporters to access foreign exchange to acquire raw materials and other manufacturing essentials to run their businesses, and today we are delivering on this commitment.

It is only through diversification and responsible financial management that we can overcome the current economic challenges we face. We are moving in the right direction and this new initiative provides another significant stepping stone from which manufacturers and exporters can build their businesses, create increased employment opportunities, develop local expertise and create new income streams through foreign exchange earnings.

We look forward to the full participation of all eligible exporters in this new initiative and encourage businesses - existing, new, and potential to seize this opportunity, seek out business opportunities in markets outside of Trinidad and Tobago and make exports their focus for the future.

This Forex window follows an initiative of the Government taken in 2017 where the commercial banks were asked to give priority to trade AND manufacturing in the allocation of the Government's foreign exchange that is injected into the banking sector by the Central Bank. Prior to this, "trade" was prioritised, which essentially led to a focus on providing foreign exchange for imports, with little value added. This made no practical common sense, hence the adjustments in the guidance given to the banks. It is worth noting that this guidance, i.e. to **include** manufacturing as a priority for the provision of foreign exchange was misconstrued, since it applies ONLY to the Government's foreign exchange and not to the foreign exchange acquired by the commercial banks from the private sector and individuals in their normal course of business.

This Forex window for manufacturers is a new step, one of several taken by the Government of Trinidad and Tobago to stabilize, strengthen and diversify our economy and looking at all the distinguished attendees, from the Central Bank, from ExportTT, from the Trinidad and Tobago Chamber of Industry and Commerce and the Trinidad and Tobago Manufacturers' Association, and of course Eximbank, I look forward to your continued engagement,

collaboration and consultation for we all have a part to play in moving Trinidad and Tobago forward, changing the economic paradigm for the better.

Thank you