Feature Address By

Senator, the Honorable Larry Howai

Minister of Finance and the Economy

at the

Chaguanas Chamber of Industry & Commerce (CCIC)

On The Topic:

"Achieving Financial Stability"

Wednesday 18th March, 2015

Thank you Chairman.

Mr. Richie Sookhai, President of the Chaguanas Chamber of Industry and Commerce;

Mr. Vishnu Charran, Vice President of the Chaguanas Chamber of Industry and Commerce;

Distinguished members of staff of the Chaguanas Chamber;

Specially invited guests;

Members of the media;

Good morning.

It is indeed a pleasure to be invited to share some remarks with you on achieving financial stability in the Trinidad and Tobago Economy.

Let me first thank and congratulate the Chaguanas Chamber of Industry and Commerce for convening this important meeting

My talk today will focus on the performance of the local economy in the context of global challenges in the energy industry; Government's response to these headwinds in terms of stabilizing the domestic economy and placing it on strong platform for growth; as well as some thoughts towards fostering a robust business environment to maintain a high level of economic activity.

Global Cross Winds

Today we operate in a world of increased uncertainty due to economic and geopolitical events globally. From the brutal insurgencies of ISIS in Syria and Iraq to the atrocities of Boko Haram in Nigeria, risks and uncertainties are being created every day.

On the economic front, the ongoing crisis in the Eurozone, and the slowdown in the Chinese and Indian economies from the rapid growth rates experienced in the first decade of this century has resulted in lower levels of growth for the global economy, with the US being a particular exception.

This has had an effect on commodity prices particularly those of oil and gas, which has also been impacted by technological developments in the shale industry. With respect to oil and gas prices, the expectation is for continuing softness with this accelerating in the near term. Inventory levels are high and are expected to hit full capacity in the next four weeks. This can result in a further fall in prices.

This will escalate the impact that the recent fall in energy prices have had on the Trinidad and Tobago economy. As you may well know, without adjustments on our side, the fiscal deficit was expected to increase by approximately

$7.5 billion this year as a result of the fall in energy revenues. I will come back to this later on in my presentation this morning.

The upside to lower oil prices is the expected boost to growth globally over the next two years according to the latest International Monetary Fund's World Economic Outlook update. This sliver of silver in the proverbial dark clouds is however expected to be more than offset by an adjustment to lower medium-term growth in major economies.

Factors such as weak investment, and inflation and inflation expectations in the euro area; the technical recession into which Japan fell in the third quarter of 2014; lower growth in China and its implications for emerging Asia; a weaker outlook for Russia; and the downward revisions to potential growth in commodity exporting countries, have all contributed to the adjustment to lower medium-term growth in most major economies.

The weaker-than-expected growth in these economies is largely seen as reflecting ongoing, protracted adjustment to diminished expectations regarding medium-term growth prospects, as noted in recent issues of the World Economic Outlook.

The growth forecast for Latin America and the Caribbean have been reduced to 1.3 percent in 2015 and 2.3 percent in 2016.

Local Conditions

I am indeed happy to report that due to prudent economic management on the part of the Ministry of Finance and the Economy, the $1.0 billion fiscal deficit projected for the first quarter of this year as a result of the fall in energy prices, has turned out to be a $328.4 million surplus thus far over the first quarter of fiscal 2015.

Our economic fundamentals are very strong as we have over US$10 billion in official reserves which represents approximately 12 months of import cover. Our savings in the Heritage and Stabilization Fund stands at US$5.67 billion as at the end of December 2014. Unemployment remains historically low at 3.6 percent, while inflation remains subdued in single digits at 9.0 percent. Our debt levels remain quite sustainable with overall net debt to GDP measuring approximately 43.0 percent. The external debt service ratio remains very manageable at approximately 9 percent.

Preliminary revenue figures during the first quarter of fiscal 2015 were overall lower than budget estimates by approximately 5.5 percent, primarily because of lower than anticipated receipts from taxes on Goods and Services and

International Trade, which declined by 15.5 percent and 12.1 percent respectively. These declines were somewhat offset by higher than anticipated revenues from Other Taxes and Non-Tax Revenue which were higher by 11.5 percent and 2.0 percent respectively.

Preliminary expenditure figures over the same 3-month period fell below budget projections by 14.3 percent, primarily due to reductions in Government's expenditure on other Goods and Services. Personnel expenditure and Interest Payments were also down by 6.75 percent and 13.7 percent respectively.

It is primarily because of these cuts in recurrent expenditures and the streamlining of other expenditures to ensure more efficient spending and guarantee value for money spent, that we were able to move from a projected deficit of approximately $1.0 billion to a surplus of approximately $328.4 million.

The effect of this reduction in Government's revenues will be a lower level of expenditure in several areas which can result in a slowing of the local economy. This is not necessarily a bad thing given the indications that the economy is at full capacity, the potential for build up in inflationary pressures although this may possibly be dampened by the strong US dollar and the queues for foreign exchange which had developed in the recent past. I understand that this latter problem has now largely abated.

On the latter point of foreign exchange, with the reduction in energy revenues, it is of paramount importance that we carefully manage our foreign exchange reserves. Although these can be considered as adequate – the IMF has identified that out reserves are several multiples higher than the minimum benchmarks for developing countries – the early and proactive management of this resource is the prudent thing to do. In this regard, a number of policy measures are currently under consideration.

With respect to the fact that we shall have lower levels of Government expenditure over the next three years, our strategy will be to partner with the private sector in several development projects using the PPP model to continue our growth momentum.

Turning now to the issue of wage negotiations, our goal is to have these settled without significant dislocation of the local economy. With respect to the recent civil service agreement, the entire increase is just about half of one percent of the budget and we have identified funding coming from unbudgeted repayments of loans coming in to Government and unbudgeted dividend payments which will allow Government to pay the outstanding commitment of backpay without negatively affecting our cash balances. This does not mean that all agreements can or should be settled at the same levels. The settlement figures will be contingent on a number of factors including, inter alia, the future trajectory of energy prices, the ability of the entity to pay and salary levels prevailing within the entity as compared with comparator organisations. We also use this opportunity to urge that back pay awards be well invested for the long term by recipients.

Outside of our short term stabilization measures, our government has done quite a lot to stabilize the domestic economy over the past four and a half years or so. We have stabilized the domestic financial sector from the destabilizing head winds that was the CLICO crisis by pumping over $20.0 billion to bailout and stabilize this insurance behemoth. We have also settled the Hindu Credit Union issue. Our actions in dealing with these two financial institutions have averted a potentially systemic financial crisis, and have aided in stabilizing the domestic financial industry, where confidence has now been restored. The payments to the depositors and investors of the HCU are close to completion and the final settlement of the CLICO payments is imminent.

The 2008/09 financial and economic crisis have shown the need for financial regulations keeping abreast of the changing financial landscape in terms of new financial products and firms that conduct business of a banking nature as part of their business portfolio although they are not registered and regulated as banks.

Regulatory Environment

On the regulatory side, we have strengthened the legislation of the Securities and Exchange Commission to give it greater powers to regulate the market participants under its jurisdiction. A new Insurance Bill will be tabled in Parliament shortly and work is well advanced to make the Central Bank the regulator of Systemically Important Financial Institutions (SIFIs), namely:

- The Unit Trust Corporation (UTC);
- The Agricultural Development Bank (ADB);
- The National Insurance Board (NIB);
- The Home Mortgage Bank (HMB); and
- The Trinidad and Tobago Mortgage Finance Company Limited (TTMF).

A Bill has been tabled in Parliament to have the Central Bank also regulate Credit Unions in terms of the prudential side of their operations. The administrative side of their operations will be regulated by the Commissioner for Co-operative Development in the Ministry of Labour and Small and Microenterprise Development. New legislation to regulate the insurance industry is expected to be tabled in the next few days. We have, over the past few years, created a more robust regulatory environment to assure confidence in our financial system.

Economic Stability

In terms of the economic stability that can come from diversification of our production base, we have been working very hard in getting the International Financial Centre (IFC) up and running. Only two weeks ago, we continued our push in this direction with the Caribbean Investment and Finance Forum, where I reminded the local attendees that the local financial services sector was identified as one of seven strategic business clusters for economic development in Trinidad and Tobago. The aim is to increase the contribution of the financial services sector to GDP. In 2013, with the centralisation of back office operations of two banks operating locally, we were able to create 1000 new well paying jobs.

Building on the success to date it is projected that by 2019/2020, the operations of the TTIFC could contribute between $700-$850 million US dollars annually to GDP. This would go a long way towards diversifying the economy's production base in terms of the various sectors' contribution to GDP annually.

But we must strive to do more than just diversify our production base. We must also seek to diversify our markets. The nature of our domestic market, in terms of smallness of size, dictates that we must constantly be seeking to gain footholds in foreign markets, more so extra regional markets which are not our traditional export markets.

Partnering with the Private Sector

Returning to the issue of our partnership with the private sector, I want to emphasize that in the context of Government's more limited fiscal space, the role of the private sector now becomes more important. The Government will seek therefore to accelerate the use of public-private partnerships to address deficiencies in key areas of the economy.

PPP arrangements will allow the Government to make the best use of the resources and expertise of both the public and the private sectors to deliver in a sustainable manner quality assets and essential services to the population.

The PPP agenda therefore seeks to:

(i) mobilize private investment for building infrastructure and delivering associated services;

(ii) harness private sector efficiencies in asset creation, maintenance and service delivery;

(iii) create opportunities for fostering innovative and technological improvements; and

(iv) allocate risk to the public and private parties clearly, comprehensively, and in a way which achieves value for money by ensuring that each bears those risks which they are best suited to manage.

To further this initiative, Government has identified a number of opportunities in various sectors/areas, including health, transport, environment, energy, education, tourism, Government accommodation and public utilities.

During the last fifty years since independence, government has changed its perspectives on business from being at first the ‘Prime Mover of Business’ during the 1960 and 70s, where it took control of the ‘Commanding Heights’ of the economy, to that of a facilitator of business during the

1980s and 90s, when it had to face the realities of a decade long economic recession. Government now has to play the role of the catalyst for business development.

Of course, to free up the private sector, we must remove the obstacles and constraints to doing business and this Government has sought to address this. We have facilitated the ease of doing business by reducing the time it takes to set up a business from 43 days to 3 days. A significant improvement if I should say so. This is further supported by Trinidad and Tobago's ranking on the World Bank's Ease of Doing Business Index, where we jumped 12 places on the rankings of the 2015 Doing Business Report.

Closing

In closing, let me take the opportunity to thank your Chamber again for inviting me to share a few words with you and your members.

Trinidad and Tobago's economic fundamentals continue to be robust and strong. We have a well-educated population, and our schools and universities continue to churn out a cadre of well qualified individuals, who will one day find themselves contributing to society as productive citizens in various professional fields; as captains of industry and as future entrepreneurs.

Going forward, we see the private sector as an important partner in the growth and diversification of our economy and as an important generator of foreign exchange. To play this role, the private sector will have to increase its investment in research and development and create a more determined focus on innovation and the creative identification of new opportunities for exploiting global demand for our goods and services as we move to propel ourselves to a more sustainable and prosperous future.

Ladies and Gentlemen, I thank you.