

HOUSE OF REPRESENTATIVES*Friday, December 7, 1990*

The House met at 3.10 p.m.

PRAYERS**PAPERS LAID**

1. Report of the Auditor General on the Accounts of National Maintenance Training and Security Company Limited. (Formerly The Secondary Schools Maintenance Training and Security Company Limited) for the year ended December 31, 1989. [*The Minister of Industry, Enterprise and Tourism (Hon. B. Tewarie)*].
2. Report of the Auditor General on the Accounts of Caribbean Hotel Development Company Limited for the year ended May 31, 1980 [*Hon. B. Tewarie*].
3. Report of the Auditor General on the Accounts of Caribbean Hotel Development Company Limited for the year ended May 31, 1981 [*Hon. B. Tewarie*].
4. Report of the Auditor General on the Accounts of Caribbean Hotel Development Company Limited for the year ended May 31, 1982 [*Hon. B. Tewarie*].
5. Review of Fiscal Measures in the 1990 budget [*Hon. B. Tewarie*].
6. Report on the Development Programme, 1990 [*Hon. B. Tewarie*].
7. Public Sector Investment Programme, 1991 [*Hon. B. Tewarie*].

*Papers 1 to 4 to be referred to the Public Accounts (Enterprises) Committee.***ORAL ANSWERS TO QUESTIONS***The following questions stood on the Order Paper in the name of Trevor Sudama (Oropouche):***Post Office
(Debe)**

1. Could the Minister of Works, Infrastructure and Decentralization state whether his Ministry intends to construct a post office in Debe in 1991 for which requests have been made over the last nine years?

**Roadways
(Resurfacing)**

2. With respect to resurfacing work on the South Trunk Road, the Princes Town/Manahambre Road, the Naparima/Mayaro Road and the San Fernando/Siparia/Erin Road, could the Minister of Works, Infrastructure and Decentralization inform the House as follows:

- a) The sums expended under Development Expenditure and Recurrent Expenditure on each highway for the years 1987, 1988 1989, and 1990?
- b) The distance of roadway resurfaced on each of the above highways for the years 1987, 1988, 1989 and 1990?

**San Fernando General Hospital
(Extension)**

3. Could the Minister of Health state whether his Ministry has any plans for the extension of the San Fernando General Hospital in order to have increased bed space available to relieve the chronic overcrowding at that institution?

Mr. Speaker: Hon. Members, I have been advised that there has been agreement for the questions to be deferred.

Questions, by leave, deferred.

APPROPRIATION BILL

Bill to provide for the service of Trinidad and Tobago for the year ending December 31, 1991 [*Hon. S. Wilson*]; read the first time.

**APPROPRIATION BILL
(BUDGET)**

Order for second reading read.

The Minister of Finance (Hon. Selby Wilson): Mr. Speaker, I have the honour to move that the Appropriation Bill for 1991 to provide for the services of Trinidad and Tobago be now read a second time.

Mr. Speaker, it was only four years ago that this Government took control of the Trinidad and Tobago economy which was in acute crisis. We applied ourselves to the task of transforming the economy and putting it on a path of sustained growth in order to secure our future as a nation.

The Government's economic policy has two main objectives. The first is to enhance and promote the welfare of the people of this country not only in the short

term but in the medium and long term as well. The second is to put our economy back on a path of sustained growth, to diversify it and to make it internationally competitive.

These two objectives are closely related. If we succeed in the second, we are likely to succeed in the first. Unless the economy is put on a path of sustained growth we will not create the environment for the creation of more jobs and for the alleviation of poverty. Unless we are able to diversify the economy and to make it and keep it internationally competitive we will not be able to secure in the medium and long term any gains that we make in the creation of new jobs and the alleviation of poverty.

The first step in achieving the objective of sustained growth was to correct the imbalances in the fiscal and balance of payments accounts. This process which began in 1987 has already achieved considerable gains but it needs to be continued for some time to come. Therefore, this budget will build on the gains achieved over the past few years and not lapse into fiscal indiscipline. We must work towards achieving a surplus on our recurrent budget so that Government will contribute to the national savings effort.

We will not erode the gains so far achieved. To do this will imperil our future. This budget will address some of our obligations to public servants; it will provide more resources for manpower development and training particularly in the 15—25 years age group; and it will provide more resources to improve the quality of life for the less privileged groups in the society. I will come to the detailed mechanisms for doing so later.

Mr. Speaker, I propose to deal with global developments and their implications for Trinidad and Tobago. I will then review the recent economic performance of Trinidad and Tobago. I will discuss our relationship with the principal international financial institutions and finally, I will advance my budgetary proposals and look at the prospects for 1991.

3.20 p.m.

Global Developments and the Implications for Trinidad and Tobago: Mr. Speaker, the present state of the world economy is reflective of policies pursued by industrial countries for a number of years. At the present time, its prospects are being influenced to a large degree by the crisis in the Persian Gulf and the extraordinary events and developments taking place in Europe. Indeed, Mr. Speaker, the crisis in the Gulf and the resulting "oil price shock" pose a substantial threat to the world economy.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

Mr. Speaker, it is my view that the future course of oil prices will remain highly uncertain. It depends on the political and military situation in the Middle East. In forming a judgment on its likely evolution, we have taken due note of the projections made by a number of international institutions which, in recognizing the difficulties in accurately forecasting the average price of oil for 1991, have made projections based on a number of different scenarios.

Clearly, Mr. Speaker, the tensions in the Persian Gulf are creating additional uncertainties for the prospects of the world economy. In the case of oil-exporting developing countries, which are pursuing economic reform programmes, it would be unwise to budget expenditures on the basis of an optimistic price for oil which may only hold in the short-term. The ultimate level of oil prices will indeed have significant consequences for economic and trade developments in the world and in particular, for developing countries.

Economic and Trade Developments: Mr. Speaker, far-reaching changes are taking place in Central and Eastern Europe. There is growing concern in many quarters that the industrial countries' commitment to support these changes may result in diminished flows of financial resources to developing countries, including Trinidad and Tobago.

There is also the ongoing movement towards economic and political integration among the twelve members of the European Community. The scheduled completion of the single internal market is well underway and is expected to take place in 1992. It is hoped that these developments will not adversely affect trade and financial links with Caribbean countries.

In other world developments, Mr. Speaker, the United States/Canada Free Trade Agreement and the recently announced "Enterprise for the Americas Initiative" are setting the stage for closer economic co-operation in the western hemisphere. The Pacific Rim countries have also become major players in international trade and finance and will no doubt be working towards greater economic co-operation with one another. It is an inescapable fact that economic and political trends in the industrial countries, particularly in the United States, would have a profound effect on the economy of Trinidad and Tobago.

Mr. Speaker, our Government, led by the Honourable Prime Minister, is deeply committed to West Indian unity and wider Caribbean economic co-operation. In recent years, the Heads of Government of the Caribbean Community took a number of far-reaching decisions aimed at accelerating the on-going process of

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

deepening of CARICOM and the creation of a regional economy. They also envisaged the widening of the Caribbean Common Market.

Within recent years industrial countries have experienced a slow-down in the rate of growth of output, and a continuous rise in the level of consumer prices. There are now concerns that unemployment will begin to increase. In the United States a recession appears to be imminent. In fact, there seems to be little justification for optimism about the outlook for the economic performance of industrial countries.

The worsening international economic environment is likely to adversely affect net oil-exporting countries. We have already seen signs of increases in international interest rates and the prices of intermediate goods which are critical inputs in our production process. If these global trends persist in 1991, our own economic recovery could be impaired since we cannot insulate ourselves totally against external developments.

Economic Performance: It is my view that the domestic instability and macro-economic imbalances which emerged in the 1980s were not properly addressed. The domestic policy framework was not adequate. The efforts at diversification and transformation were less successful than originally anticipated. The economy, therefore, could not cope with the sustained decline in the price of oil, the rise in world interest rates, the volatility of international currencies and the reduced financial flows.

Mr. Speaker, the picture of macro-economic instability and disorder which prevailed in 1986 was as follows:

The deterioration in the terms of trade which began in 1981 worsened in 1986 due to the precipitous decline in the international price of petroleum and petroleum products; to make matters worse, crude oil production continued to decline and the current account deficit of the balance of payments widened to 15 per cent relative to GDP. The financing of this deficit required a drawdown on our reserves of approximately US \$670 million, the equivalent of TT \$2.4 billion in 1986.

The trade and foreign exchange systems were dominated by a network of controls and restrictions, all intended to protect the balance of payments and foreign exchange reserves. However, the general uncertainty in the economy, and the increasing erosion of confidence encouraged capital flight.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

The borrowing programme undertaken since the second half of the 1970s resulted in the emergence of heavy debt service obligations in the period 1988—1992. Balance of payments projections covering this period pointed to difficulties in meeting these obligations. In fact, in 1988, prior to the rescheduling exercise, external debt service as a proportion of our exports of goods and services was 31 per cent and was projected to increase to 39 per cent by 1990.

As a consequence of the deteriorating economic situation, investment had fallen from 32 per cent of GDP in 1981 to 22 per cent in 1986.

By the end of 1986 gross official foreign reserves had fallen to US \$415 million, comprising of 3.4 months import cover. Five years previously, in 1981 our reserve level was US \$3.2 billion and covered 19.5 months of imports.

Real economic growth began to decline in 1983 under the impact of declining revenues from the petroleum sector. In 1986, GDP had declined to about 80 per cent of its 1982 level and oil revenue had fallen from \$3,274 million to \$1,681 million. This situation necessarily led to a fall in the standard of living of all our citizens but in particular the less privileged in the society.

The loss of revenue without a corresponding cut in public expenditure resulted in central government borrowing of the equivalent of 5.9 per cent GDP in 1986. The fiscal deficit was financed principally by the Central Bank.

The manufacturing, agricultural and tourism sectors gradually lost their competitiveness, this was only partially restored with the December 1985 devaluation of the Trinidad and Tobago dollar.

The financial sector became increasingly fragile. A number of financial institutions found it increasingly difficult to meet their liabilities. A large number of borrowers were failing to meet their loan repayments. This situation was aggravated as private sector and government savings declined.

Mr. Speaker, it is against this background that the Government formulated its economic policies in order to rescue the country and to begin the reconstruction process. We recognized from the outset that this was not an overnight process but a long tedious climb. It is our firm conviction that the economy had to be transformed and be put on a path of sustained

growth. A strong economy means more jobs and a higher standard of living for all. More jobs contribute to the alleviation of poverty. As a Government, we believe that it is our duty to foster such conditions.

Wider public participation in decision-making processes was seen by us as a central instrument in restoring the cohesiveness and resilience of our society. The consultative and planning mechanisms which we put in place sought to resolve the competing claims by different groups on our diminished national resources. The process was started in order to co-ordinate the various facts of a national development policy.

As an initial step and as a prelude to the adoption of a comprehensive economic programme, efforts were made to contain the deterioration of the economy during the period 1987/1988. In January 1987, the existing dual exchange rate was unified in order to arrest the haemorrhage of our limited foreign exchange reserves. In August 1988, in order to improve the country's competitiveness, the Trinidad and Tobago dollar was devalued by 15.3 per cent. To defend the new exchange rate, cautious fiscal and credit policies were put in place.

We had to deal urgently with the fiscal crisis. We had to ensure that the financing of the fiscal deficit was put on a sustainable basis. It is well understood that in the absence of appropriate external inflows, the fiscal deficit must be financed to an increasing extent from domestic resources. Accordingly Mr. Speaker, given our conviction that revenue enhancement measures were not a viable option in the context of the state of the economy we began the process of gradually reducing public expenditure. Transfers to state enterprises and several of the statutory authorities, including the main public utilities had to be reduced.

By the second half of 1988 Mr. Speaker, we completed the planning framework for restructuring and transforming the national economy. As I indicated, this framework evolved in the context of extensive consultation and dialogue with all the major sectors and interest groups in the country. The objectives and instruments were incorporated in three documents: the seven-year *Medium Term Macro Planning Framework 1989—1995*, a *Public Sector Investment Programme 1989—1991* and a *Medium Term Economic Programme 1989/1991*. Our economic programmes for 1989 and 1990 had been designed within the broad parameters set by policies and guidelines in the documentation to which I have just referred.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

Our programme of economic recovery and reconstruction seeks to foster conditions of growth through necessary and appropriate reform measures; it seeks to eliminate over time the imbalances in the fiscal operations and the balance of payments position over the medium-term, while attempting to achieve social equity as best as possible with limited financial resources.

Accordingly Mr. Speaker, in stabilising the economy we focused on expenditure-cutting measures over the period 1987 to 1990 which brought the overall fiscal deficit relative to GDP down to a sustainable level of 2 per cent. Mr. Speaker, we are convinced that we cannot continue consistently to spend more than we earn. It does not make sense.

We recognized that the tax system had become increasingly inefficient. There was an equity problem. The proliferation of tax allowances, credits and exemptions resulted in identical amounts of income being taxed at very different rates. There was also an incentive problem. The steep progressivity of the rate structure encouraged evasion and avoidance and discouraged the work effort.

3.35 p.m.

Our tax reform programmes of 1989 and 1990 addressed these problems. We flattened the tax rate schedules. Tax brackets have been reduced from eleven to four; many income-tax exemptions and allowances have been modified or eliminated, and over the two-year period 1988/1990 the maximum marginal income-tax rate has been reduced and is now 35 per cent, compared to a marginal rate of 70 cent in 1988. Similarly, the corporation tax for the non-oil sector was reduced; in 1990 it is 40 per cent compared with a rate equivalent to approximately 55 per cent in 1988.

As in the case of the direct tax system, the indirect tax system had become distorted and inefficient. Accordingly, in conjunction with the reduction in direct taxation, we introduced in 1990 a comprehensive value added tax to simplify the tax system and broaden the tax base. I wish to emphasise that the VAT replaced existing purchase taxes ranging from 20 per cent to 85 per cent, and other indirect taxes. The new value added tax covers all goods and services. Exports, unprocessed foods, rice, flour, milk, margarine and bread are not taxed. Public services such as water and sewerage, public transport and the domestic air service are excluded from this tax.

Mr. Speaker, this expenditure-based tax has three significant advantages: first, by not taxing inputs used in production, it avoids the presence of multiple tax rates in consumer prices which prevailed under the purchase tax system. Second, it does not discriminate between imports and domestic production in domestic markets; third, exports are not taxed. Together these provisions ensure that the value added tax does not interfere with production and trade thereby improving the efficiency and competitive base of our economy.

Mr. Speaker, in 1990 the yield from the value added tax is expected to amount to \$890 million. Tax on income (individuals and corporations) with the reduction in marginal income-tax rates fell from \$1,715 million in 1988 to \$1,074 million in 1990, a fall of \$641 million or 37 per cent. I wish to remind Honourable Members that the total yield from taxes on income and taxes on goods and services, including VAT, in 1990 is approximately \$2.339 billion, virtually the same amount that was collected in 1988—\$2.364 billion.

As a consequence of the tax reform programme:-

Annual income of \$12,000 is tax free;

55,000 individuals are no longer paying income taxes;

176,000 individuals have had their tax liabilities reduced; and

36,000 individuals at higher income levels have had their tax liabilities increased.

In the area of expenditure, policy was focused on reducing government expenditure in a responsible and orderly manner; personnel emoluments of the central administration was in 1986 approximately 42 per cent of expenditure, and consumed one-half of revenues. The process of expenditure control resulted in a reduction of transfers to state enterprises and statutory agencies and in public sector wages and salaries. In 1987 we suspended, reluctantly, the cost of living allowances and merit increases of public servants and in 1989 we cut salaries and wages by 10 per cent. However, despite our difficult economic circumstances, we did not appeal against the court award which reinstated cost of living allowances and granted a 2 per cent increase in salaries. Instead, we acknowledged the award but were forced to postpone its implementation. As a result of these actions, in 1990 personnel emoluments of the central administration now comprise 32 per

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

cent of expenditure—10 percentage points lower than it was in 1986—and consume 35 per cent of revenue—18 percentage points less than in 1986.

In June 1989, a Voluntary Termination of Employment Plan for central government employees was introduced. Mr. Speaker, under this plan, 820 applications were approved by September 30, 1990.

Mr. Speaker, while the wage bill has fallen, as proportion of both expenditure and of government revenue, transfers to households which include pension and gratuity payments have risen from \$581 million in 1988 to \$792 million in 1990, a rise of \$211 million or approximately 36 per cent.

Mr. Speaker, the reform of the state enterprise sector has been a key instrument in managing public sector resources. We view this as crucial for ensuring a better and more effective production of goods and delivery of state services.

We have already indicated that our approach to the restructuring of these public enterprises, including the public utilities, is in three broad areas. In the first place, we have agreed to keep under state-ownership and control those enterprises which we consider to be of strategic importance; here our reforms are focussed on the restructuring of the capital base and improvements in management systems. In the second place, we have been reducing government ownership in those enterprises where we believe obvious benefits can be derived from divestment to wide cross-sections of the public. Finally, we have agreed to close those companies which have no real prospect of becoming commercially viable and their continued existence cannot be justified on the basis of social considerations.

Mr. Speaker, we have so far closed four enterprises. We have leased to a foreign concern the iron and steel company. We have partially divested the telephone company, the cement company, the National Commercial Bank and the Development Finance Company. We have decided to divest our shareholding in the Arawak Cement Company, which is jointly owned with the Government of Barbados. Additionally, the Water and Sewerage Authority and the Trinidad and Tobago Electricity Commission are being restructured with a view to improving their efficiency and delivery systems.

The state-owned sector including the public utilities, has been improving its operational, financial and administrative efficiency. Our public finances have benefited from the reform process as the state-owned sector is now absorbing, in

1990, a proportion of expenditure which is approximately six percentage points or \$427 million lower than it did in 1986.

Mr. Speaker, our orderly and comprehensive programme of economic reform is designed to improve the quality of life of all our citizens through sustainable growth. However, we have not been unmindful that in the short to medium-term, there is need to put in place safety-nets to protect the lower income groups, the unemployed and the vulnerable groups in the society. Accordingly, we have integrated our reform policies with appropriate compensatory measures which are aimed at protecting these groups, without, at the same time, undermining the overall recovery effort.

Although we have been liberalizing the domestic pricing system, we have nevertheless maintained price control over certain basic items of food such as rice, sugar, flour and powdered milk, school books and drugs. In addition, some of these, together with margarine, bread, all unprocessed food and prescription drugs, are not subject to the value added tax.

We have brought relief to many other low income groups in the following ways:

Individuals earning up to \$12,000 per annum are not subject to income tax resulting in 55,000 persons being excluded from the tax net.

Old age pension payments were increased in 1990 to \$160 million benefiting almost 60,000 individuals.

General social assistance grants were increased to \$43 million in 1990, benefiting 22,000 households.

Food subsidies, which were increased to \$61 million in 1990, are paid to all old age pensioners and social assistance beneficiaries. This benefits 82,000 households.

The School Feeding Programme was reinstated in 1988 after its suspension in June 1986, and in 1990 it is benefiting 54,000 children at a cost of \$30 million.

The Labour Intensive Development Programme provided employment opportunities for over 25,000 persons, at a cost of \$66 million in 1990. Projects in construction, agriculture and plantation revitalization were structured so as to promote meaningful employment under this programme.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

Through a newwork system, meals were provided on a daily basis to 2,500 needy persons. This number is expected to increase to 5,000 persons by the end of the year and even more will be provided for in 1991.

More than 7,500 persons benefited from a downward revaluation of NHA housing units at seven major housing estates, and a reduction of interest rates on mortgages from 7 per cent to 5 per cent. Consequently their monthly installments were reduced and their rental payments were also reduced.

Mr. Speaker, these strategies have provided sound results. They are the correct strategies given the state of the economy which we inherited in 1986. Efficient and effective public spending has brought expenditure relative to GDP down to 29.8 per cent in 1990 from 37.5 per cent in 1986. Public expenditure is now much more closely aligned to revenue and available resources for financing. Over the last two years, we have thus been able to finance our deficits from available resources.

Mr. Speaker, it is extremely important that the process of diversification and transformation be deepened and widened in the context of the economy's dependence on the fortunes of the petroleum sector. Discontinuous growth, cycles of instability with consequential high cost of adjustment all point to the need for tapping and developing additional points of growth and sources of foreign exchange.

In this scenario, the promotion of exports must be accorded the highest priority. We recognize that building up the necessary supply capability is difficult, lengthy and expensive. This fact has informed the design of our public sector investment programme. This programme provides a continuous pipeline of well-structured, and technically sound investment projects. While the objective of diversification of the production structure continues to be of paramount importance, the energy sector, in light of our resource endowment, is a key pillar in our restructuring programme. We believe that development of this sector is central to making available needed resources for the growth in the other key sectors—manufacturing, tourism and agriculture.

In the energy sector, we have embarked on a number of major projects with a view to increasing domestic production of oil and gas over the medium-term, as well as the further development of productive capacity in areas of down-stream processing:

The Trintomar Natural Gas Production Project, a joint venture of three fully-owned state enterprises at a total cost of US \$637.5 million, is already on stream. Production began from the licensed area in February 1990. Two wells, Pelican A-2 and A-3, are currently producing a combined average of 62 million cubic feet of gas per day and 3,100 barrels of condensate per day. Expenditure in 1990 on this project was \$266 million.

The Natural Gas Liquids Recovery Project, at a total cost of \$414.4 million, is off the ground. Plant construction, on which \$353 million was spent in 1990, is expected to be 75 per cent complete by the end of this year.

Methanol output is being increased as the de-bottlenecking of the plant of the Trinidad and Tobago Methanol Company at Point Lisas was completed in June of this year at a cost of \$34 million.

A number of other projects are in advanced stages of preparation or implementation and have the financial support of the Inter-American Development Bank, the European Investment Bank and the Export/Import Bank of Japan:

- i) The refinery at Pointe-a-Pierre is being upgraded, at a total cost of \$1,292 million to increase the yield of higher value products as well as to facilitate an increase in throughput capability from 100,000 barrels per day to 160,000 barrels per day. Expenditure is estimated at \$38 million in 1990.
- ii) The Trintoc secondary oil recovery programme, at a total cost of \$229.5 million, is expected to recover approximately 13.2 million barrels of oil. Expenditure is estimated at \$3 million in 1990.
- iii) The Trinmar Waterflood Project, at a total cost of \$166 million, is expected to recover 16 million barrels of oil. Expenditure to the end of 1990 is estimated at \$3 million.

As a result of the favourable climate created by Government, there are a number of oil exploration efforts by companies in joint venture arrangements with state-owned enterprises. The lease operatorships regime which was initiated in 1988 has recently produced its one hundred thousandth barrel of oil. These efforts are likely to increase petroleum production and exports significantly in the mid-1990s.

3.50 p.m.

Mr. Speaker, even the local private sector is becoming involved in an area of activity from which they were historically absent. The Colonial Life Insurance Company is leading an investment effort to establish a new methanol plant at Point Lisas at an estimated cost of \$765 million. There are increasing signs of investor interest in many other sectors of the economy.

Manufacturing: Mr. Speaker, our manufacturing sector has had until recently, a lack-luster record of performance. In the five years prior to 1986, despite a high degree of protection, its share of total output averaged only 6.5 per cent. Since that time, because of the policies we have introduced, the sector has made significant improvements contributing over the years 1989—1990, an average of 9.3 per cent of GDP.

We recognize that given the size of the domestic market, it is necessary for us to expand the scope and opportunities for export in order to bring our industries to an economical scale of production. The policy of import substitution with its emphasis on excessive post-infancy periods led to high costs and lack of competitiveness. The thrust of our policy therefore is to develop a more outward-looking approach among our manufacturers.

To this end, we initiated a process of liberalizing our foreign trade sector. An initial step, Honourable Members will recall, involved the setting of an exchange rate in 1988 to make our exports competitive. This action has paved the way for the gradual elimination of the foreign exchange allocation system as well as the dismantling of quantitative restrictions.

The dismantling of exchange controls, our second initiative, began in June 1989. Under a phased process, only 35 per cent of merchandise imports, comprising mainly consumer imports, remains subject to exchange control.

Our third initiative involved the replacement of quantitative restrictions by tariffs as a means of protection for the manufacturing sector. Honourable Members will recall that in 1989 a large number of items was removed from the Negative List and in 1990, appropriate temporary import surcharges were imposed resulting in a maximum rate of import charges of 100 per cent. In selecting the items for removal from the Negative List, due consideration was given to the level of domestic production, the amount of employment and the intensity of the use of labour and other local inputs. The relaxation of export licensing procedures provides a further boost to the export sector; however, we have retained the

export licensing regime where this is necessary on grounds of national security or for protection of our heritage, and on those products which are subject to international agreements or on which Government continues to provide subsidies.

Tourism: Mr. Speaker, tourism is another pillar on which the diversification of the economy is being built. It is already making a contribution to the economy through job creation, and foreign exchange earnings.

Improvements in the tourism infrastructure have been substantial. The water supply in Tobago was improved. The Crown Point Airport has been upgraded at a cost of \$96 million to accommodate direct international flights.

Mr. Speaker, LIAT is now providing additional air service to Tobago. Piarco airport facilities have been improved and upgraded at a cost of \$90 million. We are completing the Deep Water Harbour at Scarborough at a cost of \$82 million. As a result of these developments the flow of tourist traffic has grown. The number of cruise ship passengers visiting this country has increased from 12,278 in 1988 to an estimated 51,000 in 1990.

The Agricultural Sector: The agricultural sector, including forestry and fisheries, is the fourth pillar on which our development strategy is based. This sector has performed consistently well. In real terms its contribution to GDP has increased from 2.5 per cent in 1986 to an estimated 3.6 per cent in 1990. Caroni (1975) Limited has been spear-heading the rationalization of the sugar industry. Sugar production has become much more efficient. In 1990, sugar output amounted to 116.2 thousand tonnes, the highest production level over the last 10 years. Other activities are being promoted by Caroni (1975) Limited—livestock, food and tree crops, rice and aqua-culture. We regret however, that the diversification of Caroni (1975) Limited, through its subsidiary Caroni Diversified Products Limited has been delayed as a result of an injunction filed by the All Trinidad Sugar Estates and Factory Workers' Trade Union.

The Agricultural Development Bank has continued its on-lending to the farming community utilizing resources of \$9.8 million, secured from the Caribbean Development Bank. The facilities of Trinidad and Tobago Forest Products Limited (Tanteak) at Brickfield have been upgraded at a cost of \$5.8 million; its facilities at Carlsen Field are also being expanded and upgraded at a cost of \$40.4 million with assistance of a loan of \$19.6 million from the Caribbean Development Bank.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

Investment Climate: We recognize that an important source of finance is direct foreign investment. We believe that every effort must be made to attract such investment. Accordingly, to encourage foreign private sector investment, the new Foreign Investment Act has simplified the investment requirements and procedures. The Investment Co-ordinating Committee is facilitating this action through its expeditious processing of applications. We expect, therefore, to attract increasing flows of direct foreign investment. Over the past two years these flows have increased from \$268 million in 1988 to \$633 million and \$497 million in 1989 and 1990 respectively.

Employment and Business Enterprise: Mr. Speaker, unemployment began to increase in the mid-eighties, eventually rising to 22 per cent in 1987. This is too high. We believe that any approach to this problem must include the development of an entrepreneurial spirit among our young people. They must be brought into the mainstream of economic activity. In the absence of salaried jobs, they must be provided with the wherewithal to be independent entrepreneurs. Our philosophy is rooted in the principle of the widest possible participation in business enterprise.

We have placed considerable emphasis on the role of small business enterprise in creating job opportunities and in contributing, through this process, to the diversification and transformation of our economy. Our YTEP Programme is part of the systematic policy framework geared towards providing the expertise and resources for the formation and operation of small enterprises.

Special emphasis is placed on the expansion of opportunities for our youth in the most vulnerable age group 15 to 30 years. In addition to the several programmes offered at youth centres, trade centres and youth camps, the Youth Training and Employment Partnership Programme (YTEPP) has already graduated 20,000 young people. Ten thousand young people are presently participating in the third cycle.

The Youth Enterprise Support System (YESS) under the auspices of the Small Business Development Company, is providing support services to facilitate young people to secure loans from small scale enterprises.

The Small Business Development Company, through its various initiatives, including the Youth Enterprise Support System, has already provided assistance to 85 persons for investment totalling \$1.2 million. It is estimated that 364 persons would be employed as a result.

A number of community-based industrial cottages have been established throughout the country. They provide facilities for training as well as self-employment in skill-intensive activities. Facilities have recently been opened at Palo Seco, Mount Hope, Mausica, River Estate and Laventille. Initial equipping, management and supervision are provided by the Government of Trinidad and Tobago. In 1991 seven more cottages are expected to become operational.

The Apprenticeship for Industrial Mobilization (AIM), through its linkage to the YTEP Programme, is being geared to provide short-term work experience to approximately 10,000 young people. Already 458 persons have been assigned to job situations this year.

4.05 p.m.

These initiatives for promoting self-employment and small business enterprise, have contributed in large measure to a decline in the number of unemployed persons from 106,600 in 1987 to 94,500 in 1990. The unemployment rate in 1990 fell by 2 percentage points to 20.1 per cent.

Financing of the Economic Programme: Mr. Speaker, let me emphasize that financing is an essential requirement for the execution of our reform programmes. In 1987, our reserves had been exhausted and financial flows to this country had effectively dried up. Our commercial creditors were reluctant to enter into new commitments. Even foreign direct investment which has always been a supplementary source of financing, fell short of requirements. Short-term balance of payments support had become critical in the light of the financing gaps that developed over the years. Without this support, imports including essential goods, drugs, materials and machinery would have been severely restricted. Our manufacturing industry would have been crippled. Our citizens would have been denied access to supplies of vital goods and services. Our programme was designed to avoid this situation.

In November 1988, in order to supplement our foreign exchange reserves and to bridge the gap in our balance of payments we entered into an arrangement with the International Monetary Fund which allowed us to borrow up to US \$300 million thus far.

The IMF's support allowed us to reschedule our debts and to access financing from other sources. So far, US \$780 million had been rescheduled of which US \$449 million from our commercial creditors, US \$267 million from official

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

creditors and US \$64 million from the syndicate of Japanese Leasing Companies. The World Bank also made available through its structural adjustment loan an amount equivalent to US \$40 million. This is being co-financed to the extent of another US \$40 million by the Export-Import Bank of Japan. Under this arrangement we have already obtained approximately US \$40 million.

Mr. Speaker, the Inter-American Development Bank has developed an indicative lending programme for the country of the order of US \$650 million to be disbursed over the medium-term in support of investments in the petroleum, tourism, transport, agriculture and social sectors. Mr. Speaker, the longer maturity structure of the resources provided by these multilateral institutions, the World Bank and the Inter-American Development Bank, is making our debt service burden more manageable.

External financing and a postponement of debt repayments in the period 1988/1992 has enabled us to meet our financing requirements, to maintain an adequate level of imports essential for the manufacturing sector and to maintain employment levels. This has also contributed to the build-up of our foreign reserves.

Macro Economic Achievements of the Programme: Mr. Speaker, considerable sacrifice has been made by the population as we adjusted the economy to new economic realities. However, it must be clearly understood that had we not taken this course of action, the situation could have been much worse. That is the reality. The sacrifices we made as a nation have begun to yield positive results.

Mr. Speaker, as I had projected earlier this year, the continuous decline in economic activity observed since 1983 has finally come to an end. Real GDP in 1990 is being projected by the Central Statistical Office (CSO) to increase by 0.7 per cent. You will recall that the decline in real GDP had been decelerating in recent years; in fact, the decline in 1988 was 3.4 per cent and in 1989 0.2 per cent as revised by the CSO. What is significant is the improved performance in both the petroleum sector and key areas in the non-oil sector. In the non-oil sector, agriculture continued to lead the way growing by 15.3 per cent while manufacturing has been expanding at a lower rate of 2.3 per cent.

Crude output in the period January to September 1990, was 1.1 per cent higher than in the similar period of 1989. This is a clear demonstration of the wisdom and foresight displayed by this Government when it modified its oil taxation regime in 1988 so as to reverse the declining trend which was evident since 1983.

Conditions for relatively low and stable inflation rates have been established. I believe that reasonable price stability is crucial for ensuring that resources are shifted between and among sectors as efficiently as possible. The rate of inflation over the period 1987—1989 reached a high of 11.3 per cent in 1989 and a low of 7.8 per cent in 1988. For the year 1990, the annual rate of price increase may turn out to be approximately 11.3 per cent with an underlying rate of 7.3 per cent when we exclude the one-time effect of the introduction of the value added tax which is estimated at four percentage points.

The unemployment rate has declined by two percentage points to 20.1 per cent of the labour force and is likely to drop to below 20 per cent in 1991.

Total exports, excluding all mineral fuels, in 1989 were \$2,605 million, almost double the 1986 level of \$1,459 million. In 1990, total exports are running at 11.1 per cent above the corresponding January to June period of 1989.

While petroleum exports under the influence of increased prices have been partly responsible for this rise, the performance of non-petroleum exports has been noteworthy. These latter exports for the period January to June 1990 are 6.9 per cent higher than in the corresponding period of 1989.

Imports which had declined in 1987 and 1988 rebounded in 1989 to reach \$5,188 million and are now marginally above imports of \$4,939 million in 1986. However, imports in 1990 have been running at a lower level than in 1989, reflecting the policy-induced expansion in domestic production.

Our debt service is now at a manageable level allowing the country to meet necessary import requirements for growth and transformation. Honourable Members will recall that when we embarked on our rescheduling exercise in 1988, the debt service ratio was projected at 39 per cent for 1990. This ratio is now 23 per cent.

The Central Bank's gross official international reserves in October 1990 were US \$408 million, more than double the amount that prevailed in October 1988. Put differently, gross official international reserves which comprised 2.1 months of imports in 1988, will now comprise 4.4 months of imports. We have stemmed the rate at which our foreign reserves were being depleted up to 1986. Indeed, the trend has been reversed and our reserves are being built up once more.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

The balance-of-payments outlook has strengthened considerably as a result of our cautious fiscal and financial policy and economic reforms. On this basis, financing gaps are not projected over the medium-term.

Mr. Speaker, this pay-off has come after a long journey in economic planning, consultation, policy design and implementation. Together we have accomplished these achievements.

Mr. Speaker, the road to success is always under construction. I now therefore turn to outline the economic programme for 1991.

The economic programme for 1991 has been designed against this background of progress and achievement and is consistent with our *Macro Economic Framework 1989—1995*. Our economic strategy for 1991 is aimed therefore, at consolidating the substantial gains we have made and ensuring that the positive economic growth strengthens and becomes sustainable. The programme would continue to improve our fiscal and balance of payments positions, thereby contributing to a further build-up of international reserves. In pursuing these policy objectives, we will ensure that the most vulnerable groups in the society are provided for, despite the limited financial resources at our disposal.

We will continue to focus our attention on the key sectors we have identified for priority action.

The Energy Sector: Trintomar will continue development drilling in 1991. Currently three additional wells are scheduled to be drilled in 1991. This will lead to additional gas and condensate production, which will be channelled through the National Gas Company and Trinidad and Tobago Oil Company systems.

The Natural Gas Liquids Recovery project with expenditure of \$93 million in 1991, is scheduled for commissioning in April next with production of condensate resources, natural gasoline and liquified petroleum.

The IADB Board is expected to approve the loan to finance the up-grading of the Refinery at Pointe-a-Pierre, the Trintoc Secondary Oil Recovery programme and the Trinmar Waterflood project. In 1991, the expected expenditure on these projects is estimated at \$614 million.

In the area of oil exploration, the Joint Venture Consortium of Mobil Oil Company and Trintopex will spend \$13 million in 1991 on the drilling of at least one exploratory well. The Joint Venture Pecten/Trintoc exploratory programme

will spend \$31 million in 1991. The Southern Basin Consortium should complete the drilling of the first of four exploratory wells by the third quarter of 1991.

The Manufacturing Sector: The import liberalization programme will continue. The Central Bank will eliminate the foreign exchange allocation system by the end of December, 1990. Importers will be able to conduct their transactions on a normal basis with their commercial bankers as they did prior to October, 1983. Also, with effect from January 1, 1991, a number of items will be removed from the Negative List. Protection by appropriate levels of import surcharges, subject to a maximum import duty of 100 per cent will be put in place on January 1, 1991. The maximum import duty will include the new CARICOM common external tariff under the harmonized system of customs classification, stamp duty and other import duties. The items to be removed from the Negative List include bakery products, animal feeds, alcoholic and non-alcoholic beverages, paints and varnishes as well as manufactured metal products. The majority of the products that remain on the Negative List include agricultural produce, dairy products, textiles, garments and footwear. It is Government's intention to remove in 1991, the remaining items on the Negative List except for agricultural products and goods affecting public health and national security or which are covered by international agreements.

I wish to assure Honourable Members that I intend to impose on these items, temporary additional tariff protection. Mr. Speaker, these temporary import surcharges would remain in place for a transitional period after which a rational reduction in the tariff rates down to the CARICOM common external tariff will take place over a period of three years 1992—1994.

Finally, steps will be taken to address the problem of dumping through the introduction in 1991 of Anti-Dumping legislation.

The Agricultural Sector: In the agricultural sector we will concentrate on the provision of infrastructure in order to continue enhancing the environment in which farmers are encouraged to produce. The main areas of focus will be as follows:

Markets and Marketing: The proposed National Agricultural Marketing and Development Corporation (NAMDEVCO) to replace the Central Marketing Agency (CMA) will be established in 1991. The major role of this institution will be to facilitate marketing of domestic agricultural produce through the development and operation of an efficient marketing information system. A Trade Facilitation

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

service will be available to farmers and wholesale buyers through which all information on the current and projected supplies and prices of domestic fresh produce will be offered.

In addition, NAMDEVCO will have the responsibility of managing the Farmers' Wholesale Markets. The first of these markets is now under construction at Debe and will be completed in May, 1991. Consultancy works for the design of the North Market at Orange Grove will be undertaken in 1991.

Agricultural Access Roads: A consultancy firm has been chosen to conduct a feasibility study for the development of a national agricultural access roads programme. These studies will be completed by mid-1991.

Water Management Infrastructure: Feasibility studies aimed at improving irrigation and drainage infrastructure in the Plum Mitan and Oropouche areas will be completed in 1991. These studies are internationally funded, and are expected to produce investment projects for these rice and vegetable growing areas.

Institutional Strengthening: A series of pre-investment studies will be undertaken in 1991 under an IADB funding arrangement to identify specific areas for investment projects in the agricultural sector. The studies will focus on product diversification and incentive policy, research and technology transfer schemes, institutional streamlining and budget management, and land use rationalization.

Livestock Improvement Programme: The objective of the livestock improvement programme is the production of high quality breeding stock for use by farmers with a view to increasing their levels of output of meat and milk more economically.

The areas of focus will be on the utilization of modern technology through a joint venture operation with Trinidad Food Products Limited in embryo transfer. In addition, the programme will continue the importation of frozen semen for boosting the Ministry's artificial insemination services.

The small ruminant improvement programme has been enhanced through the arrival under an EEC funded project of 200 pedigree breeding goats for multiplication and eventual sale of high breeding stock to local farmers. In addition, a sheet production and marketing project funded by the Canadian International Development Agency (CIDA) will begin in 1991. It will be executed through the Caribbean Agricultural Research and Development Institute (CARDI).

Caroni (1975) Limited will continue its diversification programme and the Agricultural Development Bank, its on-lending programme. Additionally, the completion of the Oropouche Lagoon project will enhance rice production.

The Tourism Sector: Hotel capacity in Tobago would increase by about 130 rooms allowing us to capture an increasing proportion of hotel holiday visitors. While attention is being focused on expanding accommodation in Trinidad and Tobago, we recognize that this process will be slow over the medium-term. Hence, cruise-ship tourism would continue to be accorded a high priority, allowing Trinidad and Tobago to capture an increasing share of the cruise ship market in the Caribbean.

Welfare Programmes: We will continue our social programmes at increased levels of funding in order to take care of the aged, indigent and most disadvantaged groups in society.

The Health Sector: Mr. Speaker, we are committed to improving the quality of health care. We believe that costs to the population must be reasonable and affordable. Towards this end it is proposed to have a National Health Insurance Scheme in operation by 1992.

Mr. Speaker, in 1990, a number of new services were brought on stream at the Eric Williams Medical Sciences Complex. These include:

(i) A Children's Out-Patient Service:

This provides both general and specialized clinics including a Children's Cardiology Service; to date the service has seen approximately 3,900 patients.

(ii) A Same Day Surgery Service:

This provides for the treatment of cases requiring minor surgery where patients can be operated on and return home on the same day. The service is expected to undertake approximately 700 procedures by year-end:

(iii) A Radiology Service:

This service encompasses general X-rays as well as Contrast Media Studies. It is expected that over 2,000 examinations and studies would be undertaken by the end of the year:

During 1991 the following additional services will be introduced:

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

- (i) A Clinical Diagnostic Laboratory Service to provide services principally to the General Hospital, Port of Spain and to health centres in the northern part of Trinidad.
- (ii) A Paediatric In-Patient Service.
- (iii) An Adult In-patient Service, with corresponding out-patient services, to handle neurosurgery, cardiovascular, ophthalmology and ear, nose and throat (ENT) cases. Some 88 beds will be assigned to this service.
- (iv) A Dental Service providing general dental clinics and some speciality clinics.

In addition to the foregoing, the Radiology Service will be expanded to include CAT scanning and nuclear medicine scanning.

The funding of all these services cannot be met entirely from transfers from the Treasury. Accordingly, the authority will be permitted, in accordance with its Act, to charge fees for services provided. However, a decision has been taken that no patient presenting himself for treatment at the authority's hospital should be denied service because of inability to pay. For this reason, the authority has established a Patients' Trust Fund for the purpose of providing financial assistance to patients who are unable to pay the prescribed fees.

The Fund was launched on September 8, 1990 with the establishment of a Board of Trustees under the Chairmanship of Justice George Collymore. The assets of the Fund now stand at \$276,783.00. The trustees are currently in the process of preparing a plan of action to assist with fund-raising.

In respect of this Fund, the Government will make a contribution of \$5 million to ensure that no one is denied service because of an inability to pay.

A number of health centres and hospitals will be refurbished and upgraded during 1991.

The Housing Sector: Mr. Speaker, our settlements policy recognizes the social and economic importance of accessibility by all strata of society to acceptable and affordable levels of shelter. Our programme will continue to pay particular attention to the most disadvantaged groups in the society to ensure their access to satisfactory standards of shelter.

4.35 p.m.

In pursuit of this objective, we executed on June 20, 1990, a loan contract with the Inter-American Development Bank in the sum of \$281 million to finance a portion of the cost of our National Settlements Programme. We expect to provide approximately 5,000 new residential lots to low-income beneficiaries over the period 1990 to 1994. We will implement the country's first comprehensive policy for upgrading squatter settlements.

During 1990, we completed and distributed 465 apartment units at Powder Magazine and Embacadare. As of July 30, 1990, under the approved mortgage scheme some 540 families have benefited from loans amounting to over \$77 million.

The Government will continue to provide financial assistance to the Trinidad and Tobago Labour Congress in the implementation of projects at Pleasantville and Lopinot, involving the construction of 424 and 382 units respectively.

In 1991, under the urban renewal segment of the programme, 28 two-bedroom apartments will be completed at Bath Street, East Port of Spain. It is proposed to commence construction of another 48 units at Ramdial Mahabir Lands.

We propose to construct community and recreational facilities in order to improve the quality of life in a number of low-income housing estates.

Mr. Speaker, our settlements programme has been making a contribution towards the revival of the construction industry. It is anticipated that the development programmes in 1991 will create a substantial number of jobs in the construction industry.

Education: We have always recognized that education is critical to the future of our country. We are also keenly aware that this country's most precious resource, our children, are intimately involved in this process. We have inherited a situation however, in which many of our schools are dilapidated, the facilities for both teachers and students are run-down and inadequate, some of our students do not have the wherewithal in terms of clothes, books, transportation and, most distressing of all, adequate parental support. It is small wonder that in some of our schools we have been faced with problems of indiscipline and even violence.

In the context of our available resources we are not able to rectify these long outstanding problems immediately. Many of our teachers we know feel that they and their institutions are the victims of indifference and neglect. They feel

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

underpaid and their contributions are inadequately recognized by the society at large.

It is in recognition of this situation that we accorded early priority to a resuscitation of the school feeding programme that was terminated by the last administration in June 1986. It was also in recognition of this that we were prompted to begin the rehabilitation of the physical plant.

We have already constructed 22 primary schools providing accommodation for 16,000 students. We have replaced or refurbished another 35 primary schools thereby providing upgraded accommodation for existing students.

At the secondary level, 13 schools have been refurbished and/or extended. Two new schools were built at Mayaro and Cedros providing accommodation for 2,000 students.

In 1991, the Government will seek to organize in partnership with co-operatives, both state and private, a programme of sponsorship and support of schools in particular areas. This programme will be aimed at two main objectives: first of all providing assistance to rehabilitate and repair school facilities and to improve the conditions under which our students and teachers work. Secondly, to provide assistance with a range of educational services that are necessary to modernize and improve the quality of education in schools at all levels in our country.

Our school building programme will continue in 1991. Eighteen primary school buildings are to be constructed, 13 to replace existing structures and five in new communities. Three additional secondary schools will be built.

The Learning Resource Centre will come on stream early in 1991 providing facilities for in-service training for educational personnel, innovation and evaluation of curriculum, production and distribution of educational materials, establishment of a pedagogical information link and operation of a model school library. We have already provided appropriate training for the personnel who will be required to manage and operate the centre.

Public Sector Investment Programme: The public sector investment programme in 1991 is aimed at promoting economic expansion and improving essential social infrastructure. The total expenditure under the programme is \$1,418.7 million of which directly productive projects to be undertaken by the state enterprises will account for more than 55 per cent of expenditure under the

programme, while 25 per cent of the total expenditure will be directed towards the upgrading of economic infrastructure. The rest of the programme consists of investments in social infrastructure improvements in the area of public administration facilities.

Monetary Policy: Monetary conditions remained relatively stable during 1990. Liquidity in the banking system was comfortable, with excess liquidity averaging around 2 per cent, largely on account of weak private sector demand for credit and constraints placed by the monetary authorities on public sector access to bank credit. In these circumstances, interest rates have been stable with deposit rates averaging below six per cent while the median prime loan rate has remained at 12.88 per cent for most of the year. The upshot of all of this is that we have been able, through our prudent and tight fiscal policies, and the Central Bank's careful management of monetary conditions, to avoid the sharp increases in inflation and the cost of borrowing.

During 1990, monetary and fiscal policy focused on restraining public sector demand for credit while ensuring that the overall expansion of credit in the system was consistent with the crucial objective of rebuilding the country's foreign exchange reserves. The Central Bank, with the co-operation of the commercial banks and the rest of the financial community, has been able to monitor closely the expansion of credit by the financial system and at the same time, monitor changes in import demand, especially following the partial liberalization of the exchange control regime in September 1989.

This policy of restraint will be continued in 1991 so as to ensure that any expansion in economic activity is not so rapid as to be destabilising either in terms of inflation or in respect of the balance of payments and the foreign exchange reserves. The bank is of the view that while market forces will increasingly be permitted to influence resource allocation, it will seek to ensure, at least in the monetary sphere, that the appropriate signals are given and are understood. The bank will not permit liquidity conditions to become so easy that the control of credit expansion is compromised. The bank would prefer that real interest rates remain low, and would like to achieve this by lowering the inflation rate. If inflation were to remain high, then nominal interest rates will need to remain high as well. The bank has also counselled that a high rate of inflation will ultimately bring severe pressure on the balance-of-payments. We all, therefore, business and labour, citizens and co-operatives, have a powerful interest in lowering inflation

and keeping it down. This will ultimately mean spending less, saving more and investing in projects which enhance economic growth.

Relationship with the International Monetary Fund: The current stand-by arrangement with the International Monetary Fund comes to an end on March 31, 1991. Under this arrangement, Trinidad and Tobago is still eligible to make two more drawdowns in respect of the third and fourth quarters. However, having regard to our level of gross international reserves at the end of October, and the high cost of borrowing from the fund relative to short-term deposit rates prevailing in the United States, I do not propose at this time to exercise the option to make these drawdowns, unless there is a significant change in circumstances before March 31, 1991.

Mr. Speaker, on the basis of our medium-term balance of payments projections, there appear to be no external financing gaps and, therefore, no need for short-term balance of payments support from the International Monetary fund. Consequently, we will not be entering into a third stand-by arrangement with the IMF. Our relationship with the fund will now resort to annual Article IV consultations, required by all fund members in accordance with the provisions of the Fund's Articles of Agreement.

Budget Measures: Mr. Speaker, the budget measures that I shall announce today are designed to bring relief to the sections of the society most in need. These measures will require actions on both the expenditure and revenue sides of the budget.

Mr. Speaker, I wish to express my appreciation to the Chamber of Commerce, the Manufacturers' Association, the Trinidad and Tobago Labour Congress, the Council of Progressive Trade Unions, the Employers' Consultative Association, the Public Services Association and the Oilfield Workers' Trade Union, all of whom responded to my invitation to submit suggestions for my consideration in the 1991 Budget. We met and discussed the suggestions with most of them. In addition, I am grateful to the Credit Union League and the Retirees' Association and the many individuals who voluntarily made suggestions to the Ministry of Finance. Viewed in isolation, their proposals undeniably had merit. However, when consolidated they had the resulting effect of reducing overall revenue and increasing total expenditure. Unfortunately, I am unable to reflect all the suggestions in this budget.

I now turn to the 1991 fiscal measures.

Revenue Measures:

Income Tax and Corporation Tax: We remain committed to the undertaking that personal income tax and corporation tax should be reduced over time as and when our fiscal situation improves. In view of the many other expenditure demands on the budget, no change will be made to the income or corporation tax regimes in 1991.

Value Added Tax: Mr. Speaker, the performance of the value added tax regime has been in line with our expectations. In the early stages, there had been some teething problems particularly in the area of timely refunds. We have since reduced the time lag to two months. We are confident that our one month target will be achieved shortly. At this time, we do not propose to effect any changes to the regime. However, we propose to address the issue of school books on the expenditure side of the budget.

Taxation of Oil Companies: The current rates of taxation of 45 per cent corporation tax, 5 per cent unemployment levy and 3 per cent National Recovery Impost continue to apply to oil companies in addition to the supplemental petroleum tax (SPT) regime. During 1991, the Government will begin a review of the Petroleum Taxes Act as stated in the 1988 Budget.

Pensioners:

(i) Health Surcharge

The threshold level above which Health Surcharge would no longer be payable by any person will be reduced from age 65 to 60. As a result of this reduction, a large number of our senior citizens will obtain immediate relief from this tax. The estimated tax loss is \$400,000.

(ii) National Insurance Pension

Effective January 1, 1991 National Insurance Pensions will no longer be taxable and therefore not required to be added to other sources of income for tax purposes.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

It is estimated that 31,270 persons will benefit from this measure. The estimated tax loss will amount to \$6.2 million.

(iii) Tax on Savings Interest

Mr. Speaker, the tax of 15 per cent on savings interest has been a source of much concern to our senior citizen. In recognition of their peculiar situation, we propose to exempt from tax, interest on savings of all persons 60 years of age and over. In the case of joint accounts, all the account holders must be 60 years of age and over to obtain this benefit. The projected tax loss will be in the order of \$1.5 million.

4.50 p.m.

Incentives to Savings: In order to provide an additional incentive for the encouragement of individual savings, I propose, Mr. Speaker, to introduce measures for the creation of a special savings account free of tax which I will call the SAF-T ("Safety") Account. This special SAF-T Account may be opened by an individual any time after January 1, 1991 with any authorized commercial bank, financial institution or credit union. It shall remain such an account until the end of the period of five years commencing from the date on which it was opened, or until the death of the account holder, if that occurs earlier.

The limit of annual savings in any one year should not exceed \$2,400. However, in the first year a depositor, if he so wishes, can start the account with an initial deposit of \$4,000. The maximum amount that could qualify for this benefit will be \$12,000 over the five-year period. Withdrawals of interest will be permitted. The following rules will apply to the account:

- (i) An individual will only be allowed one SAF-T account, and must make a declaration to that effect;
- (ii) It must not be a joint account nor must it be held on behalf of another person;
- (iii) It must not be connected to any other account nor can it be used as collateral for any loan;
- (iv) Withdrawals of principal before the expiration of five years will result in a total loss of the tax free status.

The financial institutions will be required to inform the Central Bank of the number of accounts opened and the amount of deposits made through this mechanism. If maximum advantage is taken of this incentive, the tax loss could be approximately \$5.4 million.

Reduction of Closing Charges on Residential Properties: For some time now it has been recognized that the relatively high closing charges associated with the purchase of a property have in some cases acted as a deterrent to persons trying to acquire their own homes. In an attempt to address this and to assist persons in the lower and middle income groups in purchasing homes, Government proposes to reduce those closing charges over which it has jurisdiction. In this regard, the following changes will be made to the Stamp Duty Act:

- (i) Stamp duty will no longer be charged on the conveyance of a residential property which is sold for \$300,000 or less; and
- (ii) Stamp Duty will also be eliminated on the registration of mortgage deeds which do not exceed \$270,000.

Contributions to Charitable Institutions: The Income Tax Act at present requires that deeds of covenant for charitable organizations be for a duration of not less than two years. This requirement appears to limit the spontaneous generosity of companies or individuals who may in any year wish to make a donation to an approved institution of their choice but may not register a deed of covenant in its present form because this would require them to donate a similar amount in the following year.

The Government has therefore decided to encourage such one-off donations and thus augment financial assistance to charitable institutions and non-governmental organizations providing social needs by permitting deeds of covenant to approved bodies to be executed for one year at a time. To facilitate this measure the Board of Inland Revenue will approve a standard format for this deed of covenant and prescribe the form of receipt to be issued by institutions receiving the donations.

Import Duty: Mr. Speaker, in light of the introduction of the new common external tariff, the reduction of the number of items on the negative list and the liberalization of the exchange control regime, the Government has decided that it is no longer appropriate to continue the restriction of duty concessions granted under

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

sections 56 and 56A of the Customs Act if the competitiveness of our manufacturing industry is to be maintained and even fostered. The estimated tax loss from this decision is \$26.8 million.

Excise Duty: Mr. Speaker, the new excise duties included in the 1990 Budget provided *inter alia* for an imposition of \$6.00 per litre on “other fermented beverages.” This level of duty has made locally fermented beverages from local fruits uncompetitive with other alcoholic beverages.

The Government has considered the desirability of fostering this growing domestic industry and has agreed to eliminate the excise duty in respect of “other fermented beverages.” Corresponding adjustments will have to be made to the Caricom duty and alcohol tax.

Import Surcharge: Mr. Speaker, during 1991 the trade reform programme which was commenced in 1989 will be continued. The Negative List is being phased out and protection is being provided on a tariff basis.

A list of items being removed from the Negative List effective January 1, 1991 and the applicable rates of import surcharge will be published in the Provisional Collection of Taxes Order.

Common External Tariff: Mr. Speaker, in August 1990 at a meeting held in Jamaica, the Caricom Council of Ministers agreed to the introduction of new common external tariff and associated GATT valuation code, rules of origin, and the International Organization of Legal Metrology system, with effect from January 1, 1991.

I therefore take the opportunity to inform this honourable House of the substance of this decision:

The Common External Tariff—CET: The CET is based on the harmonized system for the description and coding of goods, and provides for a new regional tariff structure. There have been a number of significant changes in the applicable rates of duty over those currently in place.

The GATT Valuation Code: This new system based on GATT provides for the valuation of imported goods on the basis of transactional value, which is the price paid or payable for the goods. A number of safeguard mechanisms are to be put in place to permit the Comptroller of Customs and Excise to determine fair and equitable values.

Rules of Origin: New rules of origin for goods to be able to qualify for Caricom area treatment were agreed upon. The existing rules of origin under which goods may qualify for Caricom area treatment (free of duty) have, to a certain extent, been modified. Goods which undergo a simple process of assembly will no longer qualify for Caricom area treatment.

The value-added criteria in the new rules of origin, together with the manufacturing processes, will ensure the deepening of manufacturing in the Caribbean leading to improvement in the process of industrialization in the region.

International Organization of Legal Metrology (OIML): The International Organization of Legal Metrology (OIML) system of measuring alcoholic strength in spirits was also agreed upon by Council. This is different from the existing system which is based on imperial measurement, and where the strength of spirits is based on "proof". The strength of spirits in the OIML system is expressed as "alcohol by volume" and the quantities are also expressed in metric terms. The main thrust in this conversion is in keeping with international standards and in no way will increase excise duties. It will also facilitate our exports into European markets.

Expenditure Measures: The Government intends to control expenditures very closely and to ensure that it obtains value for every dollar spent. In the context of this discipline, we have been restructuring Government's expenditure with a view to improving the services to society. Let me outline some of the areas in which expenditure will be increased to accomplish this objective.

Financial assistance in respect of school books: Government has agreed to provide assistance in respect of the purchase of school books to targeted groups in the public school system. This assistance would benefit children at the primary

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

school and at the secondary school level. The estimated cost of this measure is \$9.75 million.

Education: Expenditure on education is projected to increase to \$860.7 million or by 5.5 per cent over the revised 1990 estimate of \$815.5 million. The main areas of increase are capital expenditure under the Development Programme to provide for construction of a number of schools and recurrent expenditure to meet the operations of the schools.

National Security: The total projected expenditure in 1991 for National Security is \$480 million which is 4.7 per cent above the 1990 revised estimate of \$458.2 million. The major focus for increased expenditure is under Minor Equipment Purchases where provision has been made for the purchase of a number of motor vehicles, jeeps and fire tenders for the relevant divisions of the Ministry. Increases were also given under the Development Programme to facilitate improvement works to the fire service and prison service.

Health: In 1991, efforts will continue to improve the health facilities and the delivery of health care. The overall allocation has been increased to \$582.8 million or 10.1 per cent above the \$529.3 million allocated in 1990. Increased allocations have also been made for drugs and food at institutions and for the refurbishing of health centres throughout the country. Increased provision has been made under the Development Programme for commencement of the expansion of the San Fernando Hospital as well as for improvement works to the existing hospital.

It should also be noted that provision has been made in 1991 for a contribution by Government of \$5 million towards the Patients Trust Fund at the Eric Williams Medical Complex.

5.05 p.m.

Roads and Bridges: The provision for the Ministry of Works, Infrastructure and Decentralization for 1991 represents an increase of 2.9 per cent over the 1990 allocation of \$957 million.

The most significant area which will benefit from the increased provision is paving and maintenance of roads. The total projected expenditure for these

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

activities increased by 29.4 per cent from \$42.9 million in 1990 to \$55.5 million in 1991. With respect to the maintenance of roads alone the provision increased from \$4 million in 1990 to \$11.9 million in 1991. The allocation for the paving of roads increased from \$38.9 million in 1990 to \$43.6 million in 1991.

Social Development and Family Services: Total expenditure under the Ministry of Social Development and Family Services is targeted to increase by 9.9 per cent to \$324.2 million in 1991 from \$294.9 million in 1990.

The three main areas of increased provision are:

(i) Old Age Pension and Social Assistance

Government proposes to increase old age pension and social assistance by 5 per cent. This results in the following increases to individual beneficiaries:

Old age pensions—from \$300 to \$315 per month

Public Assistance—Adult from \$140 to \$147

Public Assistance—Child from \$128 to \$135

The total allocation to these two items of expenditure together with the food subsidy will increase from \$263.6 million in 1990 to \$278.3 million in 1991.

(ii) Expansion of the Feeding Programme and the Implementation of a Developmental Programme ECHO—"Each Community Helping Out"

The Government proposes an expansion of the feeding programme to the needy and the unemployed through the use of non-governmental and community-based organizations.

Each Community Helping Out will be organized in five regional communities—South, East, Central and North in Trinidad and in Tobago. It is estimated that 6,000 persons will benefit in 1991, but this number could be increased since companies and individuals will be encouraged to make contributions to the programme in order to bring relief to more persons. An additional \$7 million is budgeted to be spent on this programme.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

The developmental aspect of the programme will focus on the refurbishing of buildings which will be used as feeding centres. The Labour Intensive Development Programme (LIDP) will be involved in this aspect of the project.

(iii) Non-Governmental Organizations

Government recognizes the very useful role that NGOs are playing in the efficient provision of services, care and attention to the socially disadvantaged and handicapped. In this connection the allocation for 1991 has been increased by \$6.7 million to \$24.7 million.

Community-Oriented Programmes: Community-oriented programmes commenced in 1990 in La Horquetta and Maloney and will continue in these areas as well as expanded to other areas in 1991. A provision of \$21 million has been made in 1991 to facilitate the implementation of these programmes.

Youth Training and Employment Partnership Programme (YTEPP): The Youth Training and Employment Partnership Programme (YTEPP) was introduced in 1988 as a short-term measure to address the problem of unemployment among youth in the age group 15–25. The strategy was to assist young people to improve their preparedness for the world of work. This involves various kinds of pre-service education and training, providing skills for income-earning activities, achieving widespread increases in the levels of literacy and numeracy, fostering self-reliance and positive attitudes to work.

The programme will provide opportunities for 10,000 young persons annually to acquire marketable skills for employment and self-employment. Recently, agreement has been reached with the World Bank for partial funding of the programme. This will result in more funds being allocated to the programme; in addition, the programme will be implemented with greater efficiency under a restructured administration. The provision for 1991 is \$15.1 million which is a 93.6 per cent increase over the 1990 figure of \$7.8 million.

Small Business Development Company: The Small Business Development Company came on stream in 1990 and generated loans to a number of small businesses. In 1991, the company will seek to expand its loan guarantee facilities.

Towards this end, the company has sought and received offers of assistance both locally and from abroad for investment in the Loan Guarantee Fund. The Government will provide \$5 million to the fund in 1991.

Apprenticeship for Industrial Mobilization (AIM): This programme, which began in October 1990, is geared towards providing employment opportunities to young persons between the ages of 15 and 25. The National Training Board, which is responsible for the administration of the programme, locates jobs within both the private and public sectors and places youths with the appropriate skills into these jobs. It is estimated that by the end of 1990 some 1,500 jobs would have been found and approximately 700 youths would have been placed. Already almost 300 youths found employment. It is estimated that some 8,000 youths will benefit from the programme in 1991. An allocation of \$12.4 million has been made for this purpose. It should be noted that the employment period per person is four months with a stipend of \$20 per day to be borne equally by Government and the employer.

Settlements and Public Utilities: Expenditure on Settlements and Public Utilities is estimated to increase by 27.6 per cent to \$139.4 million in 1991 from \$111.8 million in 1990.

The major areas of increase fall under the Development Programme and relate to the Water and Sewerage Authority and the National Housing Authority. The Water and Sewerage Authority will be provided with \$61.6 million and will concentrate on improving the water supply, as well as commence work on its metering project. The National Housing Authority will have a provision of \$57.6 million and will focus attention on increasing the housing stock, implementation of land development and the provision of community facilities.

Low Density Starter Housing: The Low Density Starter Housing Programme is geared towards providing financial assistance in the form of loans to low income earners with land. This programme complements the Settlements Thrust Programme which involves land development.

In 1991 a provision of \$5 million will be made to the Low Density Starter Housing Programme and it is anticipated that some 100 families will benefit from

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

this facility. This is in addition to a similar facility under the IADB loan in the same programme.

Mr. Speaker, I now turn to public sector emoluments. In this budget we are committed to begin the restoration of benefits to all employees in the central government and its statutory agencies. The accumulation of these benefits arose as a result of the suspension of COLA in 1987, the 10 per cent cut in emoluments in 1989 and the postponement of the Industrial Court award effective from January 1, 1989.

In early 1990, the Chief Personnel Officer and my Permanent Secretary held discussions with the Joint Negotiating Team comprising representatives from the public sector associations to keep them informed of Government's financial position and to explore the possibility of a mutually satisfactory resolution of the issue of outstanding emoluments. Eventually, discussions were discontinued as no understanding could be reached on the restoration of these benefits.

The arrears of emoluments owing to public servants and employees of statutory agencies as at December 31, 1990 amount to approximately \$1.7 billion. The cost of implementing the court award will amount to approximately \$903 million if effected from January 1, 1991.

Mr. Speaker, in my most recent consultations with the unions on this matter, I indicated that the financial resources of the Government would not permit settlement of the arrears in cash at this time. I accordingly proposed that arrears to all affected workers could be satisfied through the establishment of a "State Unit Trust" into which Government would transfer a percentage of its shareholding in the more profitable state enterprises and its shareholding in private sector companies. In satisfaction of the debt, units in the State Unit Trust would be issued to each employee. I also indicated that the unions would be consulted on the rules and regulations of the State Unit Trust before any legislation is enacted. I propose to publish a White Paper in respect of this State Trust in 1991, as soon as the details are developed.

Mr. Speaker, I would have been pleased to restore the full court award prospectively from January 1, 1991, if only our financial position would have permitted.

5.20 p.m.

Mr. Speaker, what is our financial position? The picture shows that on the basis of an average price of oil of US \$22 per barrel, and this indeed is an optimistic estimate, our total revenue in 1991 is projected to be \$6,481 million. Our total expenditure is estimated at \$7,028 million. Expenditure is therefore much larger than revenue. The resulting deficit of \$547 million would have to be financed by loans. Full restoration of benefits will increase the expenditure, net of taxes, to \$7,753 million and increase the amount to be financed by loans to \$1,272 million.

We understand the position of the unions and their membership, but we regret that the Government does not have the wherewithal to restore the emoluments, which we acknowledge as their rightful claim at this time. The money is just not available.

We have considered the possibility of reordering expenditure demands and of raising additional taxes. The former is not possible without causing serious shortfalls to occur in the provision of other essential services. The latter is contrary to our stated current policy and will not in any event raise significant additional revenues.

As a proportion of our total estimated expenditure, wages and salaries represent 34 per cent, transfers and subsidies 39 per cent, debt servicing 16 per cent, goods and services 9 per cent. This cost distribution does not leave much room to exercise a choice in favour of the public servants.

Mr. Speaker, in my meeting on Wednesday, December 5, with all the affected unions, they advanced a modified payment proposal which would require approximately \$650 million in 1991. This is \$400 million more than can be accommodated from the projected resources in 1991. Payment of this sum would mean reduced allocations to health services, education services, national security and the social programmes which provide the safety net for the most vulnerable groups. All these areas already need more resources than those currently allocated.

Mr. Speaker, we would dearly like to honour these obligations and to satisfy the legitimate demands of the public servants, but at the present time, we do not have the financial resources to do so.

In the circumstances, I propose to settle partially our obligations to all Government employees in central government and the statutory agencies affected

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

by the Reduction of Public Sector Emoluments Act, No. 5 of 1989. I propose also to settle partially our obligations to the employees of Caroni (1975) Limited.

In respect of Government employees, the partial settlement will be as follows:

- (1) Full restoration with effect from January 1, 1991 of the 10 per cent cut in salaries and wages of all employees who suffered this loss. The cost of this is approximately \$300 million.
- (2) Payment of \$30 million towards liquidating the 1989 liability in respect of accumulated arrears of cost of living allowance estimated to total \$789 million as at December 31, 1990.

In respect of employees of Caroni (1975) Limited, a payment of \$10 million will be made on account of arrears of wages amounting to approximately \$150 million.

Mr. Speaker, while an agreement was not arrived at with the various unions, we are endeavouring to make these payments after taking into account the points of view expressed by them during our extensive consultative discussions.

I hope that they have likewise taken into consideration the Government's view and understand the financial constraints of the country. I am sure if they do, they will appreciate that Santa's bag is not bottomless and that he has to provide not only for some of today's children but also for the generations tomorrow.

Mr. Speaker, on behalf of the Government and on my own behalf, I take this opportunity to express our deep admiration to the public sector employees and Caroni workers for their forbearance and discipline displayed by the large majority of them, in the face of the very personal sacrifices they and their families had been called upon to make.

The Government will, indeed, satisfy the indebtedness to them over time as the public finances are strengthened. What we have done in this budget is to demonstrate our resolve to honour our obligations.

Expenditure Adjustments: Mr. Speaker, the *Draft Estimates of Expenditure 1991* indicate a total expenditure of \$6,977,688,672 broken down as follows:

	\$
Recurent Expenditure	— 5,809,785,788
Capital Expenditure	— 634,148,946

*Appropriation Bill (Budget)**Friday, December 7, 1990*

\$

Debt Repayment	—	533,753,938
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I propose to move certain amendments in Finance Committee which will increase the recurrent expenditure by \$279,632,000 and the capital expenditure by \$353,844,000. The total expenditure for 1991 will therefore be \$7,611,164,672, broken down as follows:

\$

Recurrent Expenditure	—	\$6,089,417,788
Capital Expenditure	—	987,992,946
Debt Repayment	—	533,753,938

5.35 p.m.

1991 Budget Summary: Current revenue for 1991 has been projected at \$6,400.8 million, which is \$706.7 million or 12.4 per cent more than estimated current revenue in 1990. Capital receipts are projected at \$79.9 million. Thus total revenue in 1991 has been projected at \$6,480.7 million compared with \$5,776.5 million in 1990.

Total expenditure, excluding amortization repayments for 1991 has been budgeted at \$7,028.2 million, or 13.6 per cent greater than expenditure in 1990. Current expenditure is budgeted at \$6,104.1 million indicating an increase of \$360.1 million or 6.3 per cent over 1990 at \$5,744.0 million. Capital expenditure is budgeted to be \$479.5 million higher than in 1990.

The 1991 Budget thus provides for a current account surplus of \$296.7 million compared with a deficit of \$49.9 million in 1990, and an overall deficit of \$547.5 million or \$135.4 million higher than in 1990. In relative terms the overall deficit in 1991 is estimated at the equivalent of 2.4 per cent of GDP as against 2 per cent of GDP in 1990.

The overall deficit in 1990 is to be financed by net domestic borrowing of \$571.4 million and net foreign borrowing of minus \$23.9 million.

On the basis of these expenditure and revenue proposals, I expect to see the following:

In 1991, gross capital formation will rise by 1.6 percentage points to 19.7 per cent of GDP with private sector capital, including the foreign private sector, making the greater contribution.

Appropriation Bill (Budget)
[HON. S. WILSON]

Friday, December 7, 1990

Economic activity will expand further in 1991 with real GDP growing by 2.5 per cent and trending gradually to 4.5 per cent by 1995.

Unemployment will continue to decline falling below 20 per cent in 1991.

Inflation will remain stable and consistent with international inflation rates.

The external current account balance will weaken relative to 1990 because of a softening of oil prices and an increase in imports associated with implementation of a number of investment projects. However, the overall balance of payments is expected to improve primarily because of reduced outflows on the capital account.

The external debt is projected to remain relatively unchanged at US \$2.5 billion in 1991, while gross international reserves are projected to rise from US \$461 million at the end of 1990 to US \$500 million at the end of 1991.

Direct investment flows will remain buoyant, consistent with our new approach to foreign investment and the improved investor confidence and interest in the country.

The Challenge Facing Trinidad and Tobago: Mr. Speaker, our record has brought it clearly home to us that there are no shortcuts to achieving fundamental economic objectives. We have managed to avert the grim scenarios that were envisaged in 1987 and 1988. Real progress has been made towards setting our economy on the path of durable growth. This is a real accomplishment but it is not all. We are now facing the task, not only of preserving those hard-won gains achieved at considerable sacrifice, but also of sustaining and strengthening the economic recovery. The challenge is formidable but not beyond us.

We now need to build upon the progress by persevering in the implementation of sound policies, by assuring that our programmes are adequately financed and by nurturing the support of the entire country; a support which has been patient and enlightened. We must not only begin to act together and work together, we must do so decisively. You will appreciate that the challenges are great, but so too are the rewards of success.

This budget consolidates the gains made over the last few years. It adheres to a cautious fiscal and financial course, while pursuing vigorous policies and programmes to get production moving in all sectors—energy and non-energy. Above all, it seeks to look after the economic and social well-being of those in

Appropriation Bill (Budget)

Friday, December 7, 1990

most need. It provides for the upliftment in the quality of life for our youths and provides more for the elderly.

Indeed, Mr. Speaker, the 1991 Budget sets a course for the decade of the nineties and beyond. Economic growth at higher rates than previously is now definitely within our reach. We will continue with our policies and programmes geared to putting our economy on a path of sustained growth. It is only through sustained growth and balanced development that additional jobs will be created and poverty alleviated. We are committed to improving the quality of life and the standard of living of all our citizens. Mr. Speaker let us continue building. We must not falter. We must not roll back the gains achieved through our combined efforts.

Mr. Speaker, I beg to move.

5.35 p.m.

Mr. Speaker, I have the honour to suggest to you that the budget debate will continue on Wednesday, December 12, 1990 at 10.00 a.m.

Motion made and question proposed, That the House do now adjourn to Wednesday, December 12, 1990 at 10.00 a.m. [Hon. B. Tewarie]

Question put and agreed to.

House adjourned accordingly.

Adjourned at 5.39 p.m.