

Leave of Absence

Friday, January 17, 1992

HOUSE OF REPRESENTATIVES

Friday, January 17, 1992

The House met at 4.00 p.m.

PRAYERS

[MADAM SPEAKER in the Chair]

LEAVE OF ABSENCE

Madam Speaker: I have received communication from the Member for Tobago West (Miss P. Nicholson) indicating her inability to attend this sitting of the House due to illness. A medical certificate has been forwarded to this effect.

ACCOMMODATION FOR MEMBERS

Madam Speaker: I also wish to inform Hon. Members that I have been able to arrange for two rooms to be equipped with chairs and tables: one for use by Members of the Government, the other for use by Members of the Opposition incidental to the performance of their duties in this honourable House.

The rooms can be to used from Wednesday when debate in this House begins.

The Clerk of the House or the Sergeant-at-Arms will be very pleased to show these to Members.

PAPERS LAID

1. Draft Estimates of Revenue for the year 1992. [*The Minister of Finance (Hon. W. Mottley)*]
2. Draft Estimates of Expenditure for the year 1992. (*Hon. W. Mottley*)
3. Details of Draft Estimates of Recurrent Expenditure for the year 1992. (*Hon. W. Mottley*)
4. Draft Estimates of Revenue and Expenditure of Statutory Boards and similar bodies and the Tobago House of Assembly for the year 1992. (*Hon. W. Mottley*)
5. Draft Estimates of Development Programme for the year 1992. (*Hon. W. Mottley*)
6. Review of the Economy 1991. (*Hon. W. Mottley*)
7. Review of Fiscal Measures in the 1991 Budget. (*Hon. W. Mottley*)

8. Report of the Development Programme in the 1991 Budget. (*Hon. W. Mottley*)

**APPROPRIATION BILL
(BUDGET)**

Bill to provide for the service of Trinidad and Tobago for the year ending on the 31st day of December, 1992 [*The Minister of Finance*]; read the first time.

The Minister of Finance (Hon. Wendell Mottley): Madam Speaker, I beg to move that the Appropriation Bill (Budget) for 1992 be now read a second time.

Madam Speaker, this is the first Bill of a new Government in a new Parliament. From the outset, it is important that we strike a relationship of openness with our population, explaining with candour and simplicity the sometimes complex reality of our present situation in Trinidad and Tobago and our proposed course of action.

We would hope, thereby, to consult and receive the support of our people as we take difficult decisions in their interest over the next several years.

Ultimately, the welfare of our people is the prime consideration for this Government. The performance of the economy is undoubtedly a key element among the many factors that determine social welfare. In this connection, there is no gainsaying that in recent years we have endured significant losses. These are reflected not only in eight successive years of decline in the country's real GDP through 1990, but most dramatically in the loss of employment and a stubbornly high level of unemployment, particularly among the nation's youth. The number of persons gainfully employed fell from 390,500 in 1986 to 374,100 in 1990, while the rate of unemployment rose from 17.2 per cent to 20 per cent, a figure which would certainly have been higher but for the fact that many adults simply stopped looking for work.

The fundamental reason for the considerable erosion of our living standards was the decline in the real price of oil in the world market, a trend which started in 1981 and reached crisis proportions in 1986. As a small economy highly dependent on exports of that single commodity, Trinidad and Tobago's fortunes are necessarily and intimately entwined with developments in the international economy. What then, are the pertinent recent trends and the outlook for the world economy? Let us, therefore, turn to the international economy.

Both the rate of economic growth and the expansion of world trade slowed markedly in 1991. Real GDP in the industrialized countries which had increased at an average annual rate of about 3.5 per cent in the years 1987—90, managed to grow by only 1.1 per cent last year. Similarly, world trade expanded at rates between 6 per cent and 9 per cent in 1987—89, continued at a relatively healthy pace of 4.3 per cent in 1990, but plummeted to a growth rate of barely 1 per cent in 1991. Throughout the last five years, inflation held steadily in the range of 3 to 4 per cent.

Within this overall picture, the outlook for the United States remains very uncertain. The recession which started in 1990 and was expected to be shallow, seems likely to continue well into 1992. With alarming frequency, large corporations have been reporting plans for sizeable retrenchment and there is a high incidence of bankruptcies in many industries, including the financial and air transport sectors. From our perspective, the only really positive sign is the decline of interest rates to levels not seen since the 1960s and the continuing low rate of inflation. Since the United States is our major trading partner, we must clearly follow with keen interest, developments in that economy during this, a presidential election year.

International prices for products exported by Trinidad and Tobago were fairly volatile recently, both within and between years. In the case of oil, the average price of our export crude fluctuated markedly from lows of US \$14—\$15 in 1986 and 1988 to highs of US \$20—\$21 in 1990 and 1991. For our key petrochemical products, prices fluctuated as follows:

- Ammonia from US \$94 per metric tonne in 1986 to US \$105 in 1991;
- Urea from US \$87 per metric tonne in 1986 to US \$155 in 1991; and
- Methanol from US \$104 per metric tonne in 1986 to US \$182 in 1991.

In some respects, 1992 offers the promise of a somewhat better international economic environment than in 1991. Growth in the industrialized economies is expected to accelerate, though only to around 2 per cent, while world trade is forecast to increase by 4 per cent and inflation to decline slightly. Interest rates in the United States and Japan—countries in whose currencies much of our external debt is denominated—have been falling.

When one looks beyond 1992, the trend towards closer economic union is a factor which will considerably influence the shape of the international market for our products and the decisions of investors as to where to locate new operations. The formation of a North American Free Trade Area encompassing the United States, Canada and Mexico could potentially dilute the already limited benefits of the Caribbean Basin Initiative. The Single European Market may adversely affect existing marketing arrangements in Europe for our petrochemical products—ammonia, urea and methanol. It may also act as a deterrent to further investment, to the extent that investors perceive that Trinidad and Tobago could become a target of restrictive trade practices, given that it is a large player in the world market for the products which I have just mentioned. In Latin America, there is an emerging trade liberalization, including the adoption of low and uniform tariff structures, much stronger than we have ever considered in CARICOM.

These are developments which both the Government and our private sector must come to understand very deeply in order to map appropriate strategies for marketing both our traditional and non-traditional exports in the larger volumes required to stimulate growth and employment at home.

4.15 p.m.

Since 1983, Trinidad and Tobago embarked on an inescapable programme of economic stabilization and structural change. The initial effort was derailed by the collapse of oil prices in 1986. Subsequently, the international situation improved somewhat although it continued to be volatile.

The economic stabilization programme implemented in conjunction with the IMF from 1988 onwards seems to have achieved its limited, though essential, goal of remedying the imbalances in the economy generated principally by the collapse of oil prices in the mid-1980s. Temporarily high oil prices in 1990—prices on average of US \$25 per barrel for our exports of crude oil—coupled with conservative fiscal and monetary policies, facilitated an accumulation of foreign exchange reserves. Gross official reserves increased by US \$252 million to an amount equivalent to 5.2 months' import payments. This increase in gross foreign exchange holdings permitted net reserves to rise to US \$138 million, some US \$95 million above the target agreed under the Standby Arrangement then in force with the IMF. This situation permitted the government of the day to eschew renewal of a formal Standby Arrangement and opt instead for monitoring of its economic programme by the IMF.

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There are indications that the economy finally stirred to life in 1991. Preliminary estimates based on data for the first half of the year show GDP growth of 2.7 per cent in real terms for 1991, with the manufacturing and services sectors taking the lead. For the year as a whole, however, the rate of growth may have been lower. The increase in consumer prices was contained to only 3.8 per cent in 1991.

The official employment statistics show an increase of 25,400 or 6.8 per cent in the number of persons employed based on data for the third quarter of 1991 when compared with the same period in 1990. This reported growth in employment was some 2.5 times higher than the preliminary estimate of real economic growth and was concentrated in service sectors such as "Community, Social and Personal Services." While any increase in the number of persons gainfully employed is a welcome development, one cannot but be concerned that last year's increase was not sustainable given the sectors which generated the new jobs and the implication of substantial erosion of productivity in the economy. It is, of course, probable that many of these new jobs were created in the special employment programmes funded by the Government and, therefore, could not be sustained if the fiscal situation weakened.

Indeed, the state of the economy remained very fragile, as exposed in the fiscal and balance of payments performance. On the fiscal side, the central government recorded an overall deficit of \$87 million or 0.4 per cent of the GDP. That the deficit was in fact not larger was due to the convenient timing of oil tax receipts of over \$400 million and the fact that state enterprises and statutory boards—failing to obtain transfers from the Government—had to seek over \$150 million in new loans from the financial system. The significance of this latter development was its contribution to the weakening of the balance of payments, since the additional lending to those entities was ultimately funded by the Central Bank. In view of tight liquidity in the banking system in the second half of the year, the Bank accommodated the commercial banks with advances without which they would not have been able to honour prior lending commitments to their own clients.

In other words, tight fiscal policy was accompanied by an easy monetary policy which left the authorities unable to staunch the haemorrhage of foreign exchange in the second half of the year. The gross foreign exchange holdings of the Central Bank fell by US \$146 million in the course of the year, to the equivalent of 3 months' import payments by year's end. The banking system as a

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whole ended the year with net foreign exchange reserves of around US \$50 million, because of the strong foreign asset position of the commercial banks.

The permissive link between fiscal and monetary policy is also demonstrated in the status of the banking relationship between the Government and the Central Bank. Under the Act establishing the Bank, there is provision for it to make advances to the Government and to hold securities issued by the Government to specified limits. The Bank's audited accounts for the year ended 31 December, 1986 showed advances of \$1,003.2 million, and securities in its portfolio to a value of \$103.5 million, both within the statutory limits. Subsequently, its holdings increased beyond the relevant statutory limits, a fact highlighted in the reports of the Auditor General which were tabled each year in this honourable House. Preliminary data for 1991 indicate that the level of advances had increased to \$1,442.3 million and a portfolio of securities to \$946.8 million, both well beyond the relevant limits. The Government, in the words of the *1987 Budget Statement*, "... has been surviving on overdraft from the Central Bank."

Of course, the real issue is the economic consequences of such considerable use of Central Bank financing. This administration will seek to rectify this undesirable situation within the shortest possible time.

The country's external debt obligations further underline the fragility of the process of recovery. Madam Speaker, I believe that hon. Members will recall the commitment made by the then Minister of Finance and the Economy in the *1987 Budget Statement* to "...rescue the country from the jaws of three financial dragons..." Madam Speaker, I think it is very significant that we draw to your reference the time at which the dragon entered the national debate. To get back to the question of the financial dragons, and among them, Madam Speaker, "...the debt trap..." that was one of them named. Well, where are we?

The country's public external debt increased from US \$2,064.8 million as at 31 December, 1986 to US \$2,391 million at 31 December, 1991. The Government did not seek the renewal of the rescheduling agreement with Paris Club creditors which ended in March, 1991 and the companion agreement with commercial banks will expire in August. Moreover, we must begin this year to repay to the IMF the funds drawn down in 1988—91. Whereas the rescheduling agreements permitted the postponement of payments to the value of US \$87 million in 1988, US \$242.9 million in 1989, US \$275.9 million in 1990 and US \$121.2 million in 1991, for a total of US \$727 million over the four years, the comparable figure for 1992 is only US \$63.3 million and there is no further relief.

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The servicing of the public external debt will be a major challenge over the next three years or so. On the basis of the stock of debt as at 31 December, 1991, the country's debt service obligations—both principal and interest—on public and publicly-guaranteed debt will jump from US \$423.4 million in 1991 to US \$612 million this year, and US \$607 million and US \$501 million in 1993 and 1994, respectively. The debt service ratio, that is, the share of the country's earnings from the export of goods and non-factor services required to pay interest and principal, will rise to about 30 per cent in 1992 compared with 21 per cent last year.

Additionally, the servicing of the debt places a great burden on fiscal management. More than one-half of the increase in debt service payments in 1992 and 1993 must be generated by the central government in its budgetary operations, a factor which will constrain our capacity to undertake priority expenditure in other vital areas. We propose to examine the scope for mitigating the prospective adverse impact of debt service on the budget and balance of payments in the period through 1994.

In short, Madam Speaker, the answer to the question "where are we?" is that we begin 1992 with an external debt some 16 per cent larger than in 1986 and with a need to use much more of our income to service that debt, because of the postponement of obligations under the rescheduling agreements. In no little measure did the improved fiscal and balance of payments performance for 1988—91 reflect the benefit of the deferral of obligations—to the tune of US \$727 million as I already mentioned—to 1992 and beyond. It is significant, however, that the real value of our output and income as a nation—the resources from which we must service that increased debt—remains lower than in 1986. This really means that each and every one of us will have to commit a larger share of our income to service the external debt of the nation.

Let me now turn, Madam Speaker, to the medium term economic strategy. Madam Speaker, within the constraints of time for preparation of this Budget—the General Elections after all were held barely one month ago—we have necessarily focussed on the immediate stabilization of the economy. In particular, we have had to keep a keen eye on the need to rebuild the country's foreign exchange reserves, given the substantial outflow since the middle of last year.

In the months ahead, we shall be undertaking the detailed technical work required to convert our ideas into a fully coherent, consistent medium term economic strategy and investment programme. We plan to consult broadly with

all segments of the population in this exercise. I shall, however, take this opportunity to sketch the strategic outlines of our medium term economic policies.

We shall seek to achieve three broad objectives in the medium term. These are:

1. Sustainable growth of the economy;
2. A significant and durable reduction of unemployment; and
3. A restoration of an adequate level of foreign exchange reserves.

The strategy for achieving these objectives would principally entail a substantial increase in investment and in exports. While investment would be encouraged in a broad range of sectors—agriculture, oil and gas, tourism and other services, construction and manufacturing—we shall give special emphasis to those sectors which have the leverage to generate substantial foreign exchange (such as oil and gas) or a considerable number of new jobs (such as agriculture and food processing and some of the service industries). As far as exports are concerned, we must push beyond CARICOM to the admittedly difficult markets of North America, Latin America and Europe.

The Government recognizes that exporting is a very difficult business. Success in this activity must be a national priority, hence it is necessary for the Government to support our exporters with a full range of technical assistance and extension services for training, product design, market penetration, and so on. This function will be specifically entrusted to the export development arm of the Ministry of Trade, Industry and Tourism which, along with other governmental agencies involved in this effort, will be restructured to function in an efficient manner.

In order to assure an acceptable level of investment, we must in the first instance raise the level of domestic savings in both the public and private sectors. Various incentives will be provided to encourage private savings, some already included in this year's budget measures. But, given the magnitude of the task in the face of almost one out of every five members of the labour force already being unemployed, we must inevitably seek to attract a high level of foreign savings preferably through direct investment. Moreover, in today's increasingly complex global economy, foreign investment should be especially encouraged because of the technology transfer and market access benefits which may accompany it.

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This year, the Government intends to undertake a comprehensive review of the various laws, regulations and practices which affect investors—both domestic and foreign—with a view to adopting appropriate policies and specific action plans to remove the critical bottlenecks which may be hampering our competitiveness as a location for new economic activity. Our producers in these areas must be efficient and competitive in external markets, hence it is important to move with determination towards an economy with fewer restrictions, barriers and special protectionist devices.

Liberalization of the economy does not, however, mean that the Government should abdicate to the markets. Government has an important role as regulator where there is potential for monopoly and, in certain conditions, as a partner in joint venture enterprises. In addition, the Government can properly fill the role of marketing the advantages of the country as a location for investments in particular activities. We shall carefully specify the role of Government, consistent with our commitment to foster development of a competitive, market-oriented economy.

When the country enjoyed substantial windfall income from its oil industry, the Government took on the role of venture capitalist in strategic energy and energy-related industries, of trustee on behalf of the public in various enterprises and, also, of investor of last resort in many failing firms. Accordingly, the state now holds a substantial portfolio of investments in commercial enterprises. We intend to divest those assets which have no particular or public purpose value. A programme for divestment will be prepared, based on the principle of realization of the fullest value for our assets and the widest possible shareholder participation.

Let me stress that we see no need to link a programme of divestment of state ownership in commercial enterprises with the settlement of salary arrears in the public service or any part of the extended public sector. We are reviewing work undertaken in the past year—at high financial cost to the country—in connection with the still-born National Investment Company in order to rescue what may be salvageable.

I turn now, Madam Speaker, to the policy framework for 1992. This administration recognizes the imperative of establishing a firm foundation from which to launch a new era of sustainable economic growth and to permit the population to realize its legitimate aspirations for improvement in the general welfare. Accordingly, a primary objective of this budget is to consolidate the

country's financial position, that is, to deepen the process of bringing our expenditure as a nation in line with our income and our capacity to borrow externally on a viable basis.

Madam Speaker, let me explain to hon. Members and to the national community why we cannot but pay heed to the "Imperatives of Adjustment," if I may use the title of the *Draft Development Plan* published in 1983. The real value of our income declined precipitously with the fall in oil prices during the first half of the 1980s. For a while, we did not cut our spending by the full amount of the income loss because we could draw on our savings and even borrow. Our external creditors themselves did not anticipate the full extent of the fall in oil prices which ensued, particularly in 1986. Since the decline in our major source of income turned out to be enduring and of considerable magnitude, it obviously became necessary to reduce our expenditure by an even greater amount so that resources would be available to settle obligations to our creditors.

The main channel, by far, through which the population at large enjoyed the benefit of higher oil prices was the Government which in the first instance garnered the windfall income of tax revenue. Accordingly, the major downward adjustment of expenditure also had to take place in the Government's budget. In other words, the correction of our spending habits to match our lower income requires tight fiscal policy buttressed by conservative monetary policy.

Madam Speaker, most of us readily understand the imperative of restoring balance in our income and expenditure pattern. The difficulty arises in establishing a consensus on the distribution of the burden of adjustment, particularly as it affects the more vulnerable members of the community such as old age pensioners, unemployed youth and low income households headed by women. This administration intends to consult with all relevant groups—churches, community-based organizations, trade unions, business, local government bodies—in taking decisions about the distribution of the continuing heavy cost of adjustment.

Clearly, the ideal would be to stimulate investment and, therefore, growth and employment. We intend to do this by fostering structural reforms in the economy along the general strategic lines which I earlier outlined as the basis for a comprehensive development initiative. However, this process takes time so it is imperative to establish affordable support programmes out of care for those members of our community who have fallen way behind in the near decade of economic adjustment.

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Let me turn, Madam Speaker, to those factors which give quantitative shape to the 1992 Budget.

The main consideration in setting the size of the budget, is our concern to rebuild the country's foreign exchange reserves. Madam Speaker, I think that bears repeating. The main consideration in setting the size of the budget is our concern to rebuild the country's foreign exchange reserves. As a small economy with a necessarily high level of trade, Trinidad and Tobago needs readily available foreign exchange for investment and the steady growth of production. As I indicated earlier, gross official reserves at the end of 1991 stood at US \$338 million. We have targeted very modest growth in the Central Bank's net reserves, about US \$50 million for 1992.

How can we provide for a higher level of debt service in 1992—you remember we spoke about all that debt service just now—and still plan to add to our net foreign exchange reserves? The alternatives are:

1. marked deflation of the economy to reduce the demand for imports; or
2. an increased inflow of capital, whether through refinancing or rescheduling of some obligations falling due in the year.

Madam Speaker, I am convinced that it is in our interest as a nation, as well as our creditors', that we seek to build on the little growth evidenced last year. Surely, this is better than reverting to the pattern of negative growth and impoverishment of increasingly large numbers of families which we suffered for so many years. Accordingly, we intend to follow through on certain positive indications from potential lenders with regard to placement of bonds on the international market.

Needless to say, a voluntary return to the international capital market can be achieved only to the extent that creditors have confidence in our country. As far as economic policy is concerned, this demands of us the discipline of tight fiscal and monetary policy designed to ensure that collectively we live within our means complemented by trade and investment policies which assure sustainable growth into the medium-term future. Our analysis suggests that an overall fiscal deficit equivalent to 1.5 per cent of the GDP is feasible, in the sense that it could be financed from identifiable foreign sources and domestic borrowing from the non-bank public. In this context the Government does not perceive the need to borrow from the domestic commercial banking system this year.

We plan to draw about US \$40 million from the World Bank and Japan EXIM-Bank in connection with the structural adjustment loan which the Government negotiated in 1989. The World Bank has extended the date for compliance with its second tranche policy conditionalities from December, 1991 to December, 1992. Failure to implement negotiated conditions on a timely basis damages the country's credibility in dealing with the international community. We shall make every effort to establish a suitable timetable for implementation of the agreed programme and disbursement of the associated tranche of loan funds.

Our financial projections do not include any major new loans from multilateral lenders. However, I wish to inform hon. Members that, in keeping with our medium-term economic strategy which I outlined earlier in this statement, the Government intends to begin discussions shortly with the IDB on the scope of a fast-disbursing loan related to reform of policies and practices which may be functioning as major disincentives to investment—both domestic and foreign. This operation, which will fall within the Enterprise for the Americas Initiative (EAI), not only holds out the prospect of immediate balance of payments support, but will also make us eligible to tap grants from the new Multilateral Investment Fund (MIF) to be administered by the IDB—that's the Inter-American Development Bank. The resources of the MIF will be available for purposes such as worker re-training and capital market development.

4.45 p.m.

The bottom line of foreign financing of the central government's budget, however, is expected to be an outflow of funds—that is the bottom line, not an inflow, an outflow of funds. Accordingly, any domestic borrowing by the Government will not be fully available for financing capital expenditure since some part of it—that is some part of the domestic borrowing—must be used to cover the transfer of resources overseas to meet our external obligations. How much, then, can we realistically expect to raise on the domestic market here in Trinidad and Tobago?

Non-bank institutional investors are expected to have resources for long-term investment of the order of \$900—\$1,000. The Government considers it very important that the need for long-term capital by other investors in the domestic economy should be accommodated in an orderly fashion. Hence, it will restrain its own recourse to the market so as not to crowd them out.

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In this connection, let me reiterate my commitment to ensuring that the Central Bank, in its role of banker to the Government, operates within the provisions of the Central Bank Act. There are those who may recommend a simple adjustment to the legislation. This however, will not be a signal of prudent financial management. Far better for the Bank to sell its holdings in the market and discipline itself to use monetary policy instruments which free it from any obligation to function always as the buyer of last resort of government securities.

Let me now turn to fiscal and other measures in 1992. Hon. Members will see from the *Estimates of Revenue and Expenditure* tabled today, that we expect recurrent revenue in 1992 of \$6,546.4 million. The principal assumptions underlying this forecast are that the market price for our crude oil exports will average US \$19 per barrel and that production will be approximately the same as in 1991. The price assumption, which is consistent with the data used by the IMF in preparing the latest forecast for its *World Economic Outlook*—that is an IMF document—implies a decline of US \$2 per barrel compared with 1991.

Revenue from the oil sector in 1992 will be only \$2,014.1 million compared with \$2,717 million in 1991 when, as I indicated previously, substantial extraordinary revenue was brought to account. Overall revenue, after the proposed fiscal measures—I repeat—overall revenue, after the proposed fiscal measures, which I shall outline later, is estimated to be \$112.6 million lower than last year. So that despite the fiscal measures, we will still have lower revenue this year than compared with last year. The full implication of this decline in revenue can be gauged when measured against the size of the additional recurrent expenditure commitments of the Government, the subject to which I now turn.

Madam Speaker, the political party now mandated by the population to manage the affairs of this country has always scrupulously observed the laws of the land in discharging its responsibilities. The entire national community has a vital stake in the rule of law. This is the tradition that informed the commitment in our manifesto for the recent general elections, to pay to public servants on a current basis the award granted by the Special Tribunal of the Industrial Court, a superior court of record. In view of the passage of time since the grant of the award, we believe that, despite its considerable cost, we must begin to honour it as soon as possible.

The award, which encompasses the consolidation of cost of living allowance (COLA), a 2 per cent across-the-board increase and a new COLA formula with effect from January 1, 1989, is estimated to cost \$495.9 million on an annual basis. The decision to pay this award was not easy, in view of its cost which is equivalent to more than 2 per cent of GDP. Among other things, this means that we cannot raise our investment level in the short run, given the stringent financial limitations to the size of the budget, constraints that I explained earlier. I propose to pay the settlement awarded by the Industrial Court with effect from March 1, 1992.

Madam Speaker, despite our straitened financial circumstances, not only must we meet our legal obligations but we must also provide some measure of assistance to the less fortunate. In this regard, I propose to increase by 10 per cent, with effect from January 1, 1992, the payment to old age pensioners—inclusive of the food subsidy—and social assistance benefits. This means that the monthly payment to old age pensioners will be increased from \$315 to \$347. Social assistance for adults will be raised from \$92 to \$101 per month and in the case of children from \$80 to \$88 per month.

The Government is certain that the majority of the population shares its concern for the plight of the large number of our fellow citizens who are unemployed. We believe that it is our duty to provide within our limited resources some measure of relief to the less fortunate among us. Such resources and commitment for this effort need to be mobilized, not only by government but by the wider national community.

Any programme which springs from this concern must not be conceived as charity, neither by the beneficiaries nor the community as a whole. On the contrary, such programmes are an investment in social stability, a demonstration of respect for the human dignity of all, and a vehicle for undertaking activities designed to raise the welfare of the entire community.

The Government has begun a review of the Labour Intensive Development Programme (LIDP) as the first step in a plan to design and implement an efficient and cost effective alternative to be put in place next year. In the meantime, we shall continue the LID Programme, with some modifications. Similarly, we are evaluating with a view to redirecting, where necessary, other initiatives such as YTEPP, YESS, and AIM. We also propose to build on successful initiatives already taken by the private sector such as the Royal Bank's RoyTec.

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Since the anticipated revenue from the Unemployment Levy for 1992 is only \$31.4 million—affected by the lower oil prices—it is necessary to appropriate resources from the Consolidated Fund to ensure an acceptable level of operation of unemployment relief in 1992. While we are unable to match the unusually large expenditure of approximately \$163 million recorded in 1991 in this programme, we shall seek to make about \$90 million available from our limited funds in 1992. Accordingly, provision has been made to appropriate \$58.6 million for the purpose of financing unemployment relief programmes—that is on top of the existing Unemployment Levy.

Arising from similar concerns, Madam Speaker, this Government will be making a special effort in squatter regularization. Towards this end, we will bring an amendment, at the appropriate time, to increase the funds made available to T&TEC to provide the associated electrical connections in this regard.

Madam Speaker, as the entire national community knows, the party now with a popular mandate to form the Government has always expressed concern about the regressive impact of the value added tax (VAT), as we all know it, in light of its application to certain items which we consider to be basic necessities. We have been examining the many aspects of this issue in the short time available for preparation of the 1992 Budget. As a result of this review, we propose the immediate removal of VAT on all books (except periodicals, journals and newspapers) and selected over-the-counter drugs. This action will result in a loss of revenue of \$18 million. Unfortunately, we could not take similar action, as much as we had wished, for certain basic food items owing to the difficult fiscal situation.

As I have already stressed, the restoration of a fully sustainable fiscal situation is absolutely necessary in order to create conditions favourable to real growth in the economy. The financial requirements:

- to meet the Government's legal obligations as an employer committed to good industrial relations practices; and
- to provide support to the economically weaker groups in our society

made it incumbent on us to raise additional revenue. Although the main sources of additional revenue will be indirect taxes on selected items, we have also had to propose some increase in direct taxation. We intend to review the latter increases

in the light of developments in the economy, with a view to reduction as soon as is appropriate and in keeping with our broad medium-term strategy.

Let me turn now, Madam Speaker, to revenue. The proposed revenue measures, to be published today in the Provisional Collection of Taxes Order, may be classified in three broad groups. These are:

- (a) measures intended to stimulate economic activity;
- (b) administrative fees and charges; and
- (c) revenue-raising measures.

The stimulative measures are basically geared to encouraging individual savings and activity in the construction industry largely with an eye to job creation. In order to increase the level of savings and to provide a source of funding to the Government, it is proposed that tax free savings bonds be re-introduced in 1992.

5.00 p.m.

The bonds will have maturities of five, seven or 10 years with interest rates of six, seven and eight per cent depending upon the maturity. Tax credit will also vary with the maturity. Hence five-year bonds will be entitled to a tax credit of 15 per cent of the purchase price of the bonds. Seven-year bonds will bear a 20 per cent tax credit and 10-year bonds will bear a 25 per cent tax credit. Maximum investment per person will be limited to \$50,000 per annum and \$500,000 overall, and interest earned on the bonds will be tax free. It is estimated that approximately \$40 million will be raised from the sale of these bonds.

The tax credit on net increases in Unit Trust and credit union holdings will be increased from 20 per cent to 25 per cent up to a maximum of \$625.

In order to stimulate the construction sector as a means of reducing unemployment, it is proposed to re-introduce an allowance for home-owners who spend on repairs to their owner-occupied residences. They may claim tax relief on the amount spent, up to a maximum of \$12,000.00 per annum.

As an incentive to increase the funds available for financing residential construction, it is proposed that the rules in the Insurance Act governing the permitted investments for pension funds and statutory funds of insurance companies be amended to increase the percentage which may be lent on mortgages of real estate or leaseholds from 75 per cent to 80 per cent of the value of the property. An amendment will also be made to permit contributors to

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pension funds to use their contributions to meet the downpayment on a first home under certain conditions.

Continuing the matter of stimulative measures, I am referring now in particular to a matter affecting trade liberalization. Motor vehicles will be removed from the negative list with immediate effect. A measure of protection to domestic manufacturers will be provided while they make the necessary adjustments to their production process to enable them to compete with foreign producers. To this end, import surcharges of 15 per cent and 50 per cent respectively will be applied on passenger vehicles and commercial vehicles. For safety reasons, some measure of control will continue to be exercised over the importation of used vehicles.

The motor vehicle tax structure will also be revised and the new rates will apply equally to locally assembled and imported vehicles. The details will be published in the Order. Taxis, including maxi taxis, will pay 25 per cent of the applicable rates. The revenue to be derived from all these measures is estimated at \$55 million. The Minister responsible, during the course of the debate, will address other matters related to the Negative List.

With respect to the motor vehicle industry in general, Madam Speaker, the Government is fully satisfied that significant benefits will be gained from the increased use of compressed natural gas as a motor fuel, for the following reasons:

- in maximizing the use of our abundant natural gas resources;
- in the promotion of a healthier environment;
- in saving valuable foreign exchange;
- and not the least, in significant savings in fuel costs to the motoring public.

With the cooperation of National Petroleum Marketing Company Limited and National Gas Company Limited, compressed natural gas refuelling equipment was installed at two additional gas station outlets in 1991 at an investment cost of \$1.6 million.

The present Minister of Energy has now advised National Petroleum Marketing Company Limited that it should accelerate the installation of new outlets and there are plans to install a further 10 outlets in the very near future.

I move on, Madam Speaker. As a first step to encourage exporters, the Central Bank will be requested to move expeditiously to remove restrictions on

the use of foreign currency accounts held in local banks by net exporters. The bank—that is the Central Bank—will also make arrangements to permit non-residents to hold foreign currency accounts in local banks, with due safeguards.

The administrative fees and ad valorem stamp duty applicable to several types of transactions will be increased. Among these transactions are: appointment of new trustee, agreement under seal, bond for letters of administration, power of attorney. In many cases, these fees have not been increased for more than 30 years. The full list will be published in the Provisional Collection of Taxes Order. This measure is expected to yield \$11.7 million.

The remaining proposals are principally designed to raise additional revenue. Among these revenue raising measures, Madam Speaker, are that the rate of excise duty on petroleum products be increased by 65 per cent.. This will result in an increase in the selling price of premium gasoline from \$1.50 to \$1.96; regular gasoline from \$1.44 to \$1.88 and diesel fuel from 90 cents to 98 cents—all per litre.

Hon. Member: I will have to walk to Parliament now.

Mr. Mottley: The petroleum dealers' mark-up will be increased from 9 cents to 12 cents per litre for premium gasoline; from 7 cents to 10 cents per litre for regular gasoline and from 6.8 cents to 7.4 cents per litre for diesel fuel. These mark-ups are already built in to the prices.

We are aware, Madam Speaker, of the impact that this measure will have on the travelling public and it is with this in view that action is being taken by this Government to promote the use of alternate and cheaper fuels such as CNG.

It is proposed that the rate of excise duty on alcoholic beverages be increased by 50 per cent. This will increase the wholesale price of a bottle of rum, for example, Vat 19, from approximately \$22.52 to approximately \$27.89 and the wholesale price of a bottle of beer from approximately \$1.83 to \$2.12.

It is proposed that the rate of excise duty on locally manufactured cigarettes and other tobacco products be increased by 75 per cent from \$1.20 to \$2.10 per pack of 20. The wholesale price of 20 Benson & Hedges cigarettes will increase from approximately \$4.98 to \$6.00 and for Du Maurier an increase from approximately \$4.36 to approximately \$5.40.

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The increase in excise duties will require a corresponding increase in customs duties charged on petroleum products, alcoholic beverages and cigarettes imported from within the Caricom region.

In order to maintain the differential between locally manufactured alcoholic beverages and tobacco and competing extra-regional imports, the alcoholic beverages tax and tobacco tax will be increased by 50 per cent and 75 per cent respectively.

The yield from the increased excise duties is estimated to yield \$324 million.

The Minister of Industry, Trade and Tourism will issue an order to change the price of all grades of sugar by 15 per cent so as to make additional resources available to Caroni (1975) Ltd.

Various other items covered in the Order are: a trade union membership allowance to a maximum of \$200 per annum; liquor licence duties which will be increased by 50 per cent; registration of recreation clubs, also to be increased by 50 per cent; fees payable to Registrars and Superintendent Registrars of Births and Deaths to be increased by 100 per cent. That means—

Madam Speaker: Silence please!

Mr. Mottley: That's very little money being paid on registration; and the imposition of a levy of \$200,000 annually to outlets operated by the holder of a Betting Office Licence, in lieu of the existing tax of 25 per cent on all bets at fixed odds.

Now I turn to income taxes. Income taxes payable by corporations and individuals will also be adjusted. The rate of corporation tax will be raised from 40 per cent to 45 per cent. This will necessitate a corresponding adjustment to the dividend income allowance. In the case of individuals, the rate of tax on personal income between \$20,000 and \$40,000 would be increased from 30 to 35 per cent and, over \$40,000, the rate would be increased from 35 to 40 per cent. All other rates will remain unchanged. These measures in respect of income taxation are expected to yield \$154 million.

Let us now look at the overall picture. The overall budget deficit has been constrained to 1.5 per cent of the gross domestic product, the GDP, a level which

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we believe can be financed from domestic savings without unduly crowding out the private sector or putting strain on the balance of payments. Moreover, to avoid foreign exchange becoming a constraint to growth of the economy, we consider it desirable to limit, as far as possible, the outflow of our savings to meet the cresting debt service payments of 1992 and 1993. We have good reason to believe that it may be possible to refinance, on relatively favourable terms, a substantial share of the principal payments falling due in 1992.

The fiscal operations proposed in this budget may be summarized as follows: with estimated recurrent revenue of \$6,577.8 million and recurrent expenditure of \$6,340.0 million, we shall generate a current surplus of \$237.8 million to contribute to the financing of proposed capital expenditure and net lending of \$584.9 million.

5.15 p.m.

Owing to the fact that amortization of external debt exceeds estimated disbursements on this account by \$55.2 million. I repeat that, more going out than coming in, and given the need to amortize \$81.4 million of maturing domestic debt, the domestic financing to be raised by Government should be less than \$500 million in 1992.

Madam Speaker, the required level of domestic borrowing is totally consistent with my objectives of not crowding out borrowers, leaving some room for the Central Bank to place part of its holdings of government paper in the capital market, and restraining domestic credit expansion sufficiently to permit some accumulation of foreign exchange reserves.

Therefore, Madam Speaker, as we look ahead and as we look backwards and we see the whole picture from this present vantage point, we see that the decade of the 1980s has been characterized as the "lost decade" for development. In Trinidad and Tobago, we experienced a decline in our real income in the 1980s of more than 30 per cent. This, unfortunately, was accompanied by an increasing incidence of poverty. So far, the 1990s do not offer much cause for optimism. There is recession abroad and political turmoil in sensitive areas of the world.

Madam Speaker, today we face formidable challenges, but they are not insurmountable. The task before us is not easy and cannot be accomplished in a short time. We must understand, however, that to raise our living standards, we must become competitive in the wider world. This we can achieve, but only

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through diligence, discipline, thrift and a spirit of enterprise. This Government is sensitive and caring, but can carry out its mandate successfully only if all of us in our communities, work-places, schools, and places of worship live by the watchwords of the nation: Discipline, Production, Tolerance.

Madam Speaker, the time allowed for the preparation of this budget statement has been extremely tight and, frankly, the demands on my staff have been great. I wish to thank them.

I have also had the opportunity of consulting very widely both organizations and individuals. I also wish to thank them for their contributions. The numbers are too broad, too many, for me to name here. But I will be remiss if I did not single out and thank my dear friend and ex-Cambridge university friend, Dr. Bobb

for his assistance. However, quite naturally, the actions that flow from this statement are the actions and decisions of this Government, by which we stand.

Madam Speaker, I beg to move.

With your permission, may I name Wednesday, January 22, 1992, at 10.00 a.m. as the date and time for the resumption of the budget debate.

Motion made and question proposed, That the House do now adjourn to Wednesday, January 22, 1992, at 10.00 a.m. [Hon. K. Valley]

Question put and agreed to.

House adjourned accordingly.

Adjourned at 5.20 p.m.