**HOUSE OF REPRESENTATIVES**

*Friday, November 20, 1992*

The House met at 2.15 p.m.

**PRAYERS**

[MADAM SPEAKER *in the Chair* ]

**PAPERS LAID**

1. Draft Estimates of Expenditure for the year 1993. *[The Minister of Finance, (Hon. W. Mottley)]*
2. Details of Draft Estimates of Recurrent Expenditure for the year 1993. *[Hon. W. Mottley]*
3. Draft Estimates of Revenue and Expenditure of Statutory Boards and similar Bodies and the Tobago House of Assembly for the year 1993. *[Hon. W. Mottley]*
4. Review of Fiscal Measures in the 1992 Budget. *[Hon. W. Mottley]*
5. Draft Estimates of Revenue for the year 1993. *[Hon. W. Mottley]*
6. Draft Estimates of Development Programme for the year 1993. *[Hon. W. Mottley]*
7. Report on the Development Programme 1992. *[Hon. W. Mottley]*
8. Public Sector Investment Programme 1993. *[Hon. W. Mottley]*
9. Review of the Economy 1992. *[Hon. W. Mottley]*

**ORAL ANSWERS TO QUESTIONS**

*The following questions stood on the Order Paper:*

## Job Creation

**43.** (a) Would the Minister of Labour and Co-operatives state for each successive year from 1992 until and including 1996, how many permanent jobs does the Government plan to create in Trinidad and Tobago?

(b) Would the Minister state for each successive year from 1992 until and including 1996, how many permanent jobs does the Government expect to be lost in Trinidad and Tobago? *[Mr. R. L. Maharaj]*

**Old Age Pensioners**
**(Monthly Payment)**

**47.** (a) Would the Minister of Consumer Affairs state if the Government intend to increase the monthly payments to old age pensioners who qualify for the receipt of state pension under the Old Age Pension Act, Chap. 32:02?

(b) If the answer is in the affirmative, please give some timeframe within which it is intended to implement such increase.

**Old Age Pension Act**
**(Amendment of)**

**48**. (a) Would the Minister of Consumer Affairs state if the Government intend to amend the Old Age Pension Act, Ch. 32:02 and its subsidiary legislation to increase the eligibility of persons to qualify for the receipt of state pension under the said laws?

(b) If it does, please give particulars of the measure or measures it intends to introduce.

**Penal Rock Road**
**(Repairs to)**

**55**. Will the Minister of Works and Transport indicate to this House when his ministry intends to effect repairs to Penal Rock Road between the 5 mm and 8 mm? *[Mr. S. Hosein]*

**Criminal Appeals**

**56**. (a) Could the Attorney General state the number of appeals from the Criminal Assizes to the Court of Appeal of Trinidad and Tobago for the past five years, on a yearly basis?

(b) How many of those appeals were dismissed?

(c) Of those allowed, how many retrials were ordered by the Court of Appeal?

(d) How many judicial days did these matters occupy in the court of first instance and in the Appellate Court? *[Mr. B. Panday]*

**The Minister of Local Government and Minister in the Ministry of Finance (Hon. Kenneth Valley)**: Madam Speaker, I ask that all the questions on the Order Paper be deferred. I had informed the Chief Whip that I should be requesting that the questions be deferred to the next sitting, for one weak.

*Questions, by leave, deferred.*

**APPROPRIATION BILL**
**(BUDGET)**

Bill to provide for the service of Trinidad and Tobago for the year ending on the 31st day of December 1993, presented by 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, 1993, be now read a second time. Madam Speaker, I feel honoured to have once more the responsibility for accounting to the national community through this honourable House on the conduct of the nation's economic and financial affairs this year and for making proposals for the next fiscal year, beginning January 1, 1993.

The occasional of the annual Budget Statement and debate on the Appropriation Bill is the premium statement of public accountability by which the management of the nation's financial and economic affairs is judged.

The theme of this year's budget presentation is "The Passage from Stabilization to Growth".

Madam Speaker, you will recall that earlier this year this administration was frustrated in its effort to gain legislative approval for a change in the fiscal year, ostensibly because certain Members of this honourable House felt that current parliamentary arrangements have led to inadequate parliamentary oversight and weak accountability of the Executive in handling the nation's finances.

In light of recent statements, therefore, I feel it is important to take this opportunity to outline the basic framework of responsibility and accountability within which we operate.

Our current parliamentary process of reporting on accountability involves continuous parliamentary oversight and scrutiny in many ways, not the least to say the obligation of ministers to answer faithfully and as accurately as possible any questions tabled by hon. Members. In fact, in the course of this financial year I had on two occasions informed this Parliament on the actual financial out-turn of budgetary projections and brought a Supplementary Appropriation Bill in keeping with a promise made to this honourable House. On those occasions I responded to questions relating to budgetary transfers and other matters.

Another very important channel is through the Auditor General's exercise of her constitutional right to undertake a full audit of Government's financial affairs and to report independently to Parliament within seven months of the close of the financial year.

Hon. Members are fully aware that the Reports of the Auditor General provide the basis for the bipartisan Public Accounts Committee, chaired by a Member of the Opposition to undertake as detailed an assessment as it wishes of Government's financial and economic performance in relation to the policies and objectives presented in the budget statement and in conformity with relevant laws, regulations and procedures.

Accordingly, the existing legal and institutional framework allows the Executive to proceed unhindered with the day-to-day operations which properly fall within its sphere of responsibility, while empowering the legislative branch of government to ensure accountability to the national community.

This administration will not subordinate the nation's higher interests to partisan causes. Hence, I come to this House today to make the Budget Statement for the traditional financial year confident that our system of accountability is intact. I now turn to the more substantial issues.

During the past year we witnessed a number of international events with significant implications for the fortunes of our economy. In this connection let me turn to a review of conditions in the international economy as they unfolded during the course of the year.

Review of International Economy:

Madam Speaker, some commentators have likened the current state of the world economy to the great depression of the 1930s. While the data may not support such an extreme view, it is certainly the case that they tell a rather grim story. The world economy grew by only 0.1 per cent in 1991 due mainly to a decline in economic growth in the United States, weak growth in all of Europe and a slowdown in economic activity in Japan.

In 1992 world output was forecast to recover slightly to approximately 1.1 per cent, reflecting some recovery in both the United States and Europe, while economic activity in Japan was expected to slow further. In the United States, however, economic growth in the first three quarters of the year has been considerably less than originally anticipated despite the fall in domestic interest rates to their lowest levels in 25 years. This reflects the ongoing process of asset adjustment by both the corporate and non-corporate sectors in response to the heavy debt burden incurred in previous years. While lower United States interest rates have had the beneficial effect of lowering our own interest service expenses on our own US dollar-denominated external debt this was offset to some degree by the appreciation of other currencies against the United States dollar.

In Germany, where the costs of unification were apparently under-estimated and the containment of wage increases has proven difficult, the inflation rate has risen thereby leading to increases in interest rates. For those European countries linked to the Deutsche Mark in the Exchange Rate Mechanism, the higher interest rates in Germany, eventually led to stresses within the Exchange Rate Mechanism, prompting the devaluation of both the lira and the sterling. Moreover, many non-member countries of the exchange rate mechanism, also had to adjust their interest rates upwards in order to safeguard the parity of their own domestic currencies. These developments no doubt, have acted as a constraint on economic growth in Europe.

In Japan the fall in oil prices and the real effects of balance sheet adjustments have not been as pronounced as in other industrial countries. Nevertheless, growth has slowed in response to low business and consumer confidence. The Japanese authorities have therefore sought to stimulate their economy by sizeable fiscal expenditure in the latter half of 1992 with the expectation that growth will pick up in 1993.

Madam Speaker, I think that it is easy to appreciate that if the major international economies are in recession, it becomes even more difficult to boost our exports and enhance our own prospects for growth.

**2.25 p.m.**

In almost all the seven major industrialised countries, Japan being the exception, the current slowdown has contributed to a cyclical deterioration in their fiscal positions. This resulted in a contraction in the pool of global savings which, together with the competing need for resources by the States of the former Soviet

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Union, has had adverse consequences for the flow of capital to developing countries. It is hoped that the anticipated recovery in the industrialised countries in the short term will contribute to the improvement of their fiscal positions thereby leading to increased financial flows to the developing countries.

With respect to developing countries, as a group, real GDP growth showed surprising resilience in the face of the slowdown in output in industrial countries. However, there exist substantial differences in economic performance between specific regions and individual countries. The most important development though, was the strong correlation between increases in output and successful adjustment efforts. The imperatives of adjustment have seen many developing countries attempt to reduce their macro-economic imbalances through improvement in domestic capacity, fiscal consolidation, strengthening their external competitiveness and structural reforms. We also, are similarly engaged in such a process and hope to reap the benefits afforded by such measures.

Consequent upon the slowdown in world output in 1991, the growth in world trade slowed to 2.3 per cent, while the value of such trade contracted by 1.1 per cent reflecting the substantial decline in world trade prices. More importantly, the terms of trade of oil exporting developing countries declined by 12.9 per cent. In 1992 world trade is forecast to recover somewhat, premised on the expected improvement in world economic output. Unfortunately, the terms of trade of oil exporting developing countries are forecast to decline by a further 3.3 per cent. We are in this category.

In the case of the Uruguay Round, these trade negotiations have stalled primarily on the issue of trade in agricultural products and it would now appear that a trade war between Europe and the United States cannot be ruled out. Closer to home, the United States, Canada and Mexico recently concluded negotiations on the North American Free Trade Agreement (NAFTA), which should be ratified by their legislatures very shortly. This is an important initiative with implications for trade and investment in this hemisphere of which we are an integral part. Investors worldwide have been extolling the benefits of operating or investing in economies such as Chile or Mexico, and these are among the countries with which we must compete for investment dollars.

It is clear that collectively and individually both developed and developing countries are seeking a variety of trading arrangements to protect their own interests regardless of the anticipated conclusion of the Uruguay Round. We are not immune to these global developments.

I have spent some time reviewing these developments in the international economy so that the national community might better appreciate how, apparently remote developments in the rest of the world can significantly impact on our lives in this country. Understanding these developments and devising strategies to deal with them or to obviate their worst effects is necessary not only for the government, but also for the private sector as it prepares to take the initiative in increasing our exports of goods and services within a difficult global economy.

Review of Domestic Economy:

When this Government assumed office in December 1991 it encountered a domestic economy which had begun to contract anew in the latter part of 1991. This decline followed an abortive recovery that started sometime in 1990 and continued into the first half of 1991. This short-lived recovery was inspired largely by the small windfall provided by higher oil prices in the run-up to the Gulf War, as well as by easier credit conditions in the first half of the year and higher levels of government spending preceding the December election.

The expansionary monetary and fiscal policies pursued in the first half of 1991 resulted in our gross foreign exchange reserves declining from US $607.9 million at the end of June 1991 to US $427 at year's end. Outflows accelerated in January amidst speculation surrounding the 1992 Budget, especially with respect to rumours about possible measures on the exchange rate. As a result, gross reserves fell further to US $306 million at the end of January 1992, hardly an auspicious start to the budget year. This situation was instrumental in determining the stance of fiscal and monetary policies during the year, as rebuilding the reserves position became a matter of high priority.

The economic decline continued into 1992, with economic activity falling by 1.0 per cent in the first half of 1992 relative to the first half of 1991. Preliminary forecasts suggest that for 1992 as a whole, the economy is likely to show minimal growth of approximately 0.2 per cent.

Three factors appear to be mainly responsible for the continued weakness of the economy this year. Firstly, in response to the substantial decline in gross reserves at the beginning of the year, the Central Bank further tightened its monetary policy. The resulting tight liquidity, together with the rise in interest rates, tended to dampen investment expenditure plans where new projects were being contemplated, and reduce the overall level of credit to businesses and individuals.

A second contributory factor has been the tight rein on government's expenditure in an effort to contain the overall deficit to the budgeted level and in keeping with its policy of fiscal consolidation. This policy clearly has had consequences for those sectors and industries dependent on government spending.

Thirdly, in the petroleum sector, the natural rate of decline in production from maturing wells accelerated, and this was compounded by the fact that the oil companies have not been able to maintain strong development and exploratory programmes either on land or off-shore.

While tight monetary and fiscal policies have had a contractionary impact on the level of economic activity, they have had two major beneficial effects: The containment of inflation and the strengthening of the country's external reserve position.

Inflation has been running at about 6 percent in the first nine months of this year relative to the corresponding period in 1991. This apparent increase in inflation is due entirely to the upward shifts in the price level arising from some of the budgetary measures implemented earlier this year, in particular higher excise duties on gasoline, alcohol and tobacco. It is clear that by the middle of this year, these effects had already been fully absorbed. The price level for the third quarter has shown no increase relative to the second quarter, and this suggests that this country's underlying inflation rate remains at about 3 per cent, reflecting mainly the impact of imported inflation.

Our gross foreign exchange reserves which stood at a low of US $232 million in February, rose to US $331 million by the end of September. In fact our balance of payments performance on current account so far this year has been somewhat better than anticipated, despite both weaker prices in the petrochemical sector and marginally low but stable international oil prices. Preliminary data indicate a small current account surplus in the first half of this year as imports have not increased relative to last year. However, the capital account continues to run a substantial deficit as projected inflows, especially from multilateral sources in respect of ongoing programmes, have not materialized on time.

The accumulation of foreign exchange reserves has been achieved despite meeting our high debt service obligations on schedule. In the period January to September, this country discharged its debt service obligations in the amount of US $383.9 million. At the end of 1992, our external debt would stand at approximately US $2.2 billion, compared with approximately US $2.4 billion at the end of 1991.

The fact that we have been able to meet our external obligations fully and on time is clearly cause for some satisfaction. This has been achieved mainly through the demonstrable capacity of our citizens to make the sacrifices necessary to see us through this difficult period by restraining consumption, particularly of imports.

During the course of 1992, the Government continued on a path of developing a competitive, market-oriented economy. In June all remaining items on the negative list, except for items related to national security, public safety and agricultural products were removed. In most instances, the items removed were subject to the applicable tariffs and surcharges. These surcharges will be reduced progressively to the level of the Caricom Common External Tariff by the end of 1994. so that from 1995, only the applicable CET will be in effect.

While financial stability is necessary for sustaining economic growth, we must not lose sight of the imperative to ameliorate the high social costs of adjustment. The pattern of rising unemployment, which had yielded briefly to moderate economic growth and higher government spending last year, rose to 20.2 per cent by June of this year and remains concentrated among our young people.

The government recognizes that unemployment is one of the most pressing issues for the nation and that the implications of this problem go beyond the economic to the social and psychological aspects of our lives. Last April the Government sponsored a national symposium on this issue, seeking the advice and suggestions of the national community on short and long-term measures to address the problem of unemployment. That symposium generated several valuable ideas and suggestions for projects, some of which the Government has already begun to implement; more of that later.

Review of Fiscal Performance 1992:

Madam Speaker, in the context of the reviews of the domestic and international economies, I should now like to turn to an assessment of performance in achieving some of the key targets adopted in the 1992 Budget with particular reference to the fiscal deficit, external debt service, and expenditure, to soften the impact of continuing adjustment on the most vulnerable groups in the society.

The main factors which determined the size of the 1992 Budget were the level of affordable deficit financing and the need to continue the process of consolidating the country's finances. We had hoped to achieve a very modest build-up of net foreign exchange reserves, assuming a certain level of capital inflows. This will in fact not materialize since capital inflows from multilateral sources in

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relation to ongoing programmes have been slow, reflecting the slow pace of project implementation. In this regard the Ministry of Planning and Development has been working assiduously this year on improving project implementation capacity in the line ministries.

As far as the fiscal deficit is concerned, the latest revised estimates show a projected deficit for 1992 of $382.8 million or 1.7 per cent of GDP, after excluding the extra budgetary financing of an energy sector project by the Inter American Development Bank. Compared with our target of 1.5 percent of GDP, this is not a substantial slippage. However, the effort and financial discipline required to hit so close to the target should not be under-estimated.

Revenue will fall short of the original forecast by $342.9 million, the equivalent of 1.5 per cent of GDP, prinicipally because of substantially lower receipts of VAT revenue, and a fall in revenue from trade taxes and other indirect taxes. In addition, equity profits from the state enterprises were below budgeted collections. Having regard to lower revenue receipts and in light of the inescapable higher expenditure commitments for public service salaries instituted from March this year, Government had to introduce stringent controls over other items of expenditure, including capital expenditure. In fact, capital expenditure is projected to amount to $405.2 million by year's end, or 31 per cent lower than budgeted.

As regards the financing of the deficit, the Government sourced $409.3 million on the domestic market, including $320 million through an issue of long-term bonds, while borrowings on the external market amounted to $558.2 million, including US $100 million in the Eurobond market. The Eurobond placement is important, in that it marks the return of this country to the international capital markets after an absence of almost five years. Moreover, the issue was successful notwithstanding the prevailing turmoil in the international currency and capital markets. We were very pleased to have Credit Suisse First Boston as the lead manager on this issue, as their resources and expertise were instrumental in ensuring the success of the issue in what was a difficult market. While there were and are other borrowing options open to this country, these were considered less desirable and the Government elected to wait until the markets settled. The Eurobond issue was eventually launched on October 29 and I can report to this honourable House that funds were received in the Central Bank this morning.

**2.40 p.m.**

In respect of financing from the Central Bank, I had indicated to this honourable House on the occasion of the last budget statement that this administration would seek to rectify the situation in the shortest possible time. The amounts involved are substantial and reflect a steady accumulation over the period 1987—1991, albeit with month-to-month and year-to-year fluctuations.

Because revenues this year have disappointed, and certain elements of our external financing, most notably the structural adjustment loan from the World Bank will not materialize until next year, the projected out-turn will be an increase in Central Bank financing this year. Our resolve to deal with this matter remains undiminished, but we must all appreciate that the unwinding of this accumulation, given our current circumstances, will take some time.

This administration believes that it has a special duty of care towards the more vulnerable segments of the society, particularly the aged, the unemployed and the otherwise disadvantaged. As I stated in the 1992 budget presentation, the benefits payable to the old age pensioners and persons receiving social assistance were raised, with the result that expenditure for these purposes increased by $7 million compared with 1991.

While we were unable to budget at the truly extraordinary level of expenditure achieved under the Labour Intensive Development Programme (LIDP) in 1991, we made special provision for expenditure on this account well above the anticipated revenue statutorily earmarked for this purpose. Despite the considerable shortfall in revenue and the consequent stringent control of overall expenditure, the Government demonstrated its commitment to caring for the people by exceeding its original budgeted $90 million expenditure on LIDP to $120.3 million. A total of 86,963 short-term jobs were provided under the programme in which, I understand, there has been a marked improvement in productivity.

It is also important to note that we made efforts to spread this programme throughout the country, and in fact the allocation to Tobago, whose programme is administered by the Tobago House of Assembly, has increased by about $1.2 million or 40 per cent during the year.

There can be no gainsaying that 1992 has been yet another difficult year in our struggle to set the country's economy on the path of sustainable growth. Experience throughout the world shows, that without first correcting the fiscal and monetary imbalances and creating a sturdy balance of payments position, it is near impossible to stimulate the high level of investment required for robust and sustained economic growth and job creation.

In this connection, therefore, progress has been achieved by restraining the fiscal deficit, attracting voluntary foreign portfolio investment, and generally achieving the economic stabilization targets which we set ourselves. The task before us is to strengthen this hard won foundation and now drive onwards for growth. This, is the task addressed in the Medium Term Policy Framework and to which I shall now direct attention.

Medium-Term Policy Framework:

In my budget speech, to this honourable House in January 1992, I had indicated that the Government intended to bring greater effectiveness to the budget process by placing it in the context of a medium-term action plan designed to achieve specific goals and objectives. Last Friday I laid in this honourable House a document entitled "Medium-Term Policy Framework: From Stabilization to Growth, 1993—1995". This document presents the broad mix of policies, the implementation of which the Government believes to be essential if our people are to begin once more to find the opportunities for the higher quality of life to which they legitimately aspire. The Government considered it important to develop a medium-term policy framework so that the national community and more particularly investors, could appreciate clearly the direction in which the Government intends to take the country. The Framework identifies the obstacles and issues and how these are going to be addressed.

It is also the case that perhaps too much emphasis tends to be placed on the annual budget. The annual budget is the operational means of implementing specific policy measures, but its focus is necessarily on the very short-term, that is, the fiscal year. The Medium-Term Policy Framework allows us to lift our vision to a horizon somewhat longer than the fiscal year and to develop programmes to achieve that vision. At the same time, the Medium-Term Policy Framework is not a development plan. It is therefore not so much strategic as it is tactical, and as such the Medium-Term Policy Framework will itself have to be revised on an annual basis as the underlying assumptions are modified in the light of actual developments and as external conditions evolve.

Madam Speaker, I do not intend to discuss the content of that Policy Framework in detail today. This occasion is not appropriate for such an undertaking. However, I should like to take this opportunity to highlight certain aspects of the policy framework which might in some ways help to guide deliberations on it. Three basic objectives underpin the Medium-Term Policy Framework. These are:

(a) improved fiscal and monetary management;

(b) increased reliance on the private sector for investment and growth;

(c) an export-led approach to growth and employment creation.

The specific goals of this Medium-Term Policy Framework are:

(i) creating the conditions for sustainable growth;

(ii) increased employment;

(iii) viability of the fiscal accounts and the balance of payments, and the rebuilding of the foreign exchange reserves;

(iv) price stability;

(v) institution of adequate protection for the more vulnerable and disadvantaged groups in the society; and

(vi) conservation and protection of the environment.

Growth and the expansion of employment opportunities will be derived essentially from increasing the level and efficiency of investments. This requires that we remove the bureaucratic and other impediments to efficient investments and improve the climate for foreign and local investments. Government has moved boldly to encourage investments in key areas of our economy including, and especially, the petroleum and petro-chemical sectors, and I shall elaborate on these initiatives later in this presentation.

The fiscal accounts require careful management over the medium-term. The central Government needs to move to an overall plus on its operations primarily to finance the net amortisation of external debt and strengthen the balance of payments position. As a consequence, restraint on transfers and other items of recurrent expenditure is necessary for the achievement of the fiscal objectives. Transfers to households will be reviewed and restructured where necessary to ensure that they are properly targeted, while financial support to state enterprises and public utilities will continue to be reduced over the medium-term. This will in turn demand that these entities achieve financial viability in the shortest possible time.

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Tight fiscal policy, with supported monetary policy and wage restraint, will ensure the desired improvement in our balance of payments and foreign exchange reserves.

Given the policy of fiscal consolidation and the need to generate surpluses on its fiscal operations the Government does not propose to enter into investments where the private sector can take the initiative. Government's participation in commercial activity will continue only in special and limited circumstances; in areas of strategic importance such as oil and gas, enterprises providing a social service, and other enterprises of strategic importance in which a foreign investor would be unwilling to undertake an investment without Government's participation. Where current investments do not now satisfy the criteria for retention, an orderly programme of divestment will be pursued.

In this regard, I should like to take this opportunity to update this honourable House, and through it the national community on the progress to date with our programme of divestment. After analysis, investments in some 24 enterprises which do not or no longer meet the criterion of strategic national importance have been slated for divestment. Seven of these are wholly-owned, four are majority-owned, and the Government has a minority interest in the remaining companies.

The divestment of two wholly-owned enterprises—Trinidad and Tobago Printing and Packaging Company and Farrell House (1975) Limited—is at an advanced stage. In respect of Fertrin and the Trinidad and Tobago Urea Company, first round bids have already been received from several highly reputable companies. The process will then move to a second round of bidding after due diligence exercises have been completed, and the divestment of these two major enterprises should be completed early next year. Government is also pursuing proposals for the divestment of the Trinidad and Tobago Methanol Company and its possible integration into an MTBE facility.

Madam Speaker, you will also note that the Medium-Term Policy Framework outlines a range of policies for the amelioration of social conditions. These include policies for the generation of short-term employment programmes targeting women and young people, training, financial assistance and other support services for self-employment. There will be a renewed focus on primary education, primary health care and improvements in the existing system of social security with a focus on improving the viability of the National Insurance System.

It is certainly the case that the Medium-Term Policy Framework is heavily oriented towards macro-economic stability, since without such stability, growth and development are less likely to be achieved or sustained. In this context, I also want to indicate that Government has commissioned several reviews of key aspects of development policy. Some of the task forces which have been commissioned and have reported are foreign policy; housing; business and financial centre. Other task forces which are still at work include the Educational Task Force, and a special task force on credit unions. Some of the recommendations of these committees are reflected in the budgetary proposals from the various ministries. Some are unrelated to budgetary appropriations and the specifics of some of these recommendations will be provided to this honourable House later on in the debate, or subsequently.

Government has also prepared and will lay in this honourable House a draft Public Sector Investment Programme spanning the period 1993—1995, as well as a detailed PSIP for 1993, already laid today. The PSIP represents the critical driving force behind our thrust to switch from the stop-go stabilization policies of the past to an investment-determined sustainable growth path. The PSIP proposes public sector investment of $4.154 million over the three-year period of which the Central Government will account for $2.313 billion in the current year.

Public Sector investment will average 5.3 per cent of GDP over the period. Of the total projected investment expenditure, 18 per cent will go towards economic infrastructure, that is, roads and bridges, electricity generation, water and sewerage and agricultural access roads; 34.2 per cent towards social infrastructure, that is education, health, housing and settlements; and 41 per cent towards directly productive activities, mainly energy related projects being undertaken by state enterprises.

The thrust of the PSIP over the period will be to enhance the quality of investment undertaken by the private sector, and over the triennium, will shift progressively from rehabilitation and amelioration, to creating new infrastructural capacity in critical areas. Some of the details of the programme will no doubt be revealed during the course of the debate.

**2.55 p.m.**

Policy Framework for 1993:

Having outlined the medium-term framework within which the 1993 Budget will be cast, and before outlining the specific fiscal measures to be introduced in

1993, I believe it would be useful to identify the basic objectives which guided the formulation of the measures I shall announce shortly. This Government intends to proceed along a very broad front, while giving emphasis or priority to particular areas and issues.

A number of areas of priority action will be pursued during 1993, consistent with the thrust of policy outlined in the Medium-Term Policy Framework. These include: (i) the achievement of an overall balance on Central Government fiscal operations; (ii) continued restraint of monetary policy to protect the balance of payments and contain inflation; (iii) the energy sector; (iv) the trade regime and the stimulation of business activity and investment; and (v) job creation and improving the social safety net.

The thrust of enhanced fiscal discipline will be made manifest in this budget in which we seek to balance the revenue and expenditure accounts. Emphasis will be placed on enhanced revenue collection and expenditure restraint. As I shall indicate later in the statement, I have deliberately refrained from too greatly increasing the burden of direct taxation while placing greater emphasis on the revenue collection effort through a range of institutional strengthening measures aimed at sharing the burden of adjustment in a more equitable manner. This honourable House is already aware of efforts we have been making in respect of administrative strengthening in the Customs and Excise and Inland Revenue Divisions, and the VAT Office. In addition, we propose to establish a Revenue Protection Agency.

The containment of expenditure to within available financial resources will be critically dependent on our exercising greater control over government outlays, particularly recurrent expenditure. To this end, personnel expenditure and government purchases of goods and services will be monitored closely. In addition, transfers to households will be better targeted and financial support to state enterprises and public utilities reduced in keeping with the objectives of making these enterprises more efficient and financially viable in the shortest possible period.

Our fiscal programme will be supported by a complementary monetary policy designed to conserve our foreign exchange resources, contain inflation and strengthen and deepen the process of financial intermediation. With respect to the latter, this Government will soon bring to this honourable House several pieces of legislation including a revised Insurance Act, a new Companies Act, and a revised Central Bank Act and a Financial Institutions Act. In addition, a Securities

Exchange Commission designed, among other things, to enhance confidence in the Stock Exchange, will be established in 1993.

This Government expects the energy sector, because of its size and potential, to lead the country into renewed growth. However, when we came to office we found in respect of the same sector not a little confusion. First, there was the overhang of the dispute between Fedchem and Tesoro/Trintopec, which had been compromised by an ill-advised settlement in respect of the Tesoro corruption matter. Second, the Trintomar project was in deep trouble. Third, the petroleum taxation regime had effectively expired in December 1991 and was awaiting revision. We tackled these problems resolutely.

We have settled the Fedchem/Trintopec-Tesoro dispute. This hard-negotiated settlement will require Trintopec to pay W.R. Grace US $18.5 million (TT $78.6 million) in full and final settlement of the dispute. Payments are to be spread over 36 months, with an initial payment of US $2.5 million. With this, we will be able to put this unhappy chapter of the unfortunate Tesoro story behind us.

The Trintomar gas development project presented us with a headache of major proportions. We have rescued this gas development project by concluding an agreement with Enron Oil and Gas Company, one of the largest US independent oil and gas producers. This company is expected to develop other gas fields in the South East Coast Consortium acreage and to begin production by September, 1993. This project will see investment of US $250 million, US $50 million of which will be spent in 1993.

From this more assured gas supply, the National Gas Company, which now incorporates the assets of the National Energy Corporation can now pursue aggressively the development of new gas intensive industries without prejudicing supplies to T&TEC and local industrial users of gas. These initiatives are at various stages of development and investment decisions are expected in 1993. These include: (1) a small LNG plant; (2) production of high quality feed stock for steel making using natural gas as the critical ingredient; (3) another methanol plant and (4) an MTBE plant. In addition, the National Gas Company is actively pursuing the development of an industrial park in the Point Fortin/La Brea area which will make use of the natural harbour at Brighton.

After consultation with the industry, we now have put in place a new petroleum taxation regime which provides significant incentives to new exploration and the development of heavy oil reserves. The new regime replaces the previous Supplemental Petroleum Tax with a sliding scale SPT. With respect to marine crude, the SPT rate is triggered only when oil prices exceed US $13 per barrel, and rises to 45 per cent when crude oil prices reach US $49.51 and higher. There are lower rates of SPT for land operations, and the new regime provides incentives for enhanced recovery schemes, heavy oil production and new investment in development activity. The Petroleum Profits Tax has been increased to 50 per cent, while the National Recovery Impost which had ranged from one to three per cent has been abolished. In addition, the production levy which assists in subsidising the cost of petroleum products to domestic consumers, has been limited to a maximum of three per cent of gross income.

The new regime establishes Trinidad and Tobago as an internationally competitive location for petroleum exploration and development, while providing useful incentives that will assist in arresting the decline in production. So, this issue has also been resolved, and the effects are already evident in the acceleration of plans for increased activity in gas and oil production which I shall now outline.

During 1993, we intend to pursue vigorously the further development of our petroleum and gas resources. The merger of Trintoc and Trintopec is being actively pursued and this will set the stage for the more efficient use of available resources and improve the effectiveness of our crude oil production operations. The merger will also pave the way for participation by a joint venture partner in the operations of the merged company.

As regards exploration activity, Amoco Trinidad Oil Company is expected to commence drilling to deeper horizons in the Samaan field in the course of 1993. In addition, the Southern Basin Consortium, with its lead operator Exxon, is expected to drill its first exploration well next year, having already identified a number of sites as a result of the successful completion of seismic and other surveys. The Government is currently finalizing licensing arrangements with two foreign oil companies for the development of blocks 89/2 and 89/3 off the East Coast, and with another joint venture consortium for exploration activity in the Northern Basin. In short, there will be considerable activity in the energy sector over the next few years, and while there may not be a significant impact on oil production or gas utilization in 1993, we would have laid the basis for increased production of oil and gas in the years beyond.

We all know that higher levels of investment and activity in the energy sector will not impact employment levels in the economy to any significant degree. It follows that the amelioration of unemployment will require specific initiatives outside the framework of energy policy. In this regard, Government proposes to take steps to encourage activity in the services sectors whose labour-absorptive capacity is much higher than the energy sector, and in particular emphasis will be placed on the tourism and the construction sectors.

I turn now, to the vexed issue of the trading regime for manufacturing and other businesses, and the related question of the stimulation of business investment. At the end of October, Caricom Heads of Government agreed to a new regime for the CET to be phased in over the period 1993 to 1998, such that by January 1998 the maximum rate will be 20 per cent. Commencing January 1993, the range of the maximum rates for the CET will be 30 to 35 per cent, except for agricultural products which will enjoy a special rate of 40 per cent. Non-competing inputs will enjoy tariffs of 5 per cent with the application of rebates where these are entered for production of exports, while competing inputs and capital goods will face a tariff of 20 per cent. Competing intermediate goods and non-competing final goods will attract a tariff of 25 per cent from 1993. Beginning 1995, when the regime of surcharges for previously negative-listed items would have been eliminated, the maximum level of the CET will be 30 per cent.

There has been strong reaction to the new tariff regime from manufacturers across the region and here in Trinidad and Tobago. However, the process of trade liberalisation has been ongoing in the global economy for some time. It is clear that if Trinidad and Tobago wishes to continue to be an economy open to foreign investment, external financial flows from multilateral and bilateral sources, and to the transfer of technology, it has to create a more open trading and investment environment.

We want this country to become the business and financial capital of the Caribbean region. We have the transportation links, the telecommunications and the essential elements of a good infrastructure to achieve this goal. But this will not happen unless investors perceive us to be open in our trading and investment relations. Investors—local and foreign—want a hospitable climate, where the rules are clear and consistent, and where uncertainty in the policies toward business is minimized.

As we strive to achieve this goal, it does not mean that we shall compromise our essential interests. For example, it makes little sense for countries like ours to agree to free trade in agricultural products when the industrial countries continue to subsidize their agricultural sectors extensively. The Anti-Dumping and Countervailing Duties Act has been passed and the regulations will soon be promulgated. This will provide for protection against foreign producers who may seek to take unfair advantage of our market. The Government will enforce resolutely the provisions of the Act and the regulations.

Now that the trading regime is clear and set for the next several years, the business community can make up its mind whether and how much it will invest, in which direction it wishes to grow, and get on with the business of developing the national economy. In this context, I want to suggest that if the business community is to be successful in a more liberalised international economy, it has to focus much more on improving productivity. We cannot rely on quick fixes like exchange rate adjustments to maintain profitability in the private sector. In accepting the challenge of acting as the prime mover in our economy, the private sector must be prepared to strive to improve efficiency on the plant floor and in offices.

To facilitate the private sector, Government has to provide an appropriate climate and other supporting mechanisms. Government has recently established a National Business Advisory Board to co-ordinate the operations of the Industrial Development Corporation, the Export Development Corporation, the Tourism Development Authority and the Free Zones Company. Government is also developing a venture capital programme, the details of which I shall come to in a moment. In addition, the Business Expansion and Industrial Restructuring Loan from the World Bank will provide credits to manufacturers who are re-tooling or otherwise streamlining their operations to meet a more competitive marketplace and will also provide resources in Cariri and the Bureau of Standards so that these institutions can better serve their clients in the manufacturing sector.

Our policy will be to promote investment missions from the United States, Europe, the Far East and Latin America so that local businesses may develop partnerships for production, technology or marketing. In this connection, an OPIC scout mission from the United States visited this country last week and this will be followed by a full mission early in the new year. The Government has also recently appointed a reputable firm of lobbyists to represent its interests in the United States and to provide relevant commercial intelligence to assist our businessmen in penetrating markets abroad.

Earlier this year the Central Bank relaxed considerably the business travel allowances so that the business community can travel more easily to establish contacts and markets. The bank is also seeking to expand and facilitate access to the various export credit schemes which will facilitate, co-ordinate, promote and support worthwhile initiatives of the local and foreign private sector.

Employment Creation:

Madam Speaker, the unemployment problem which we face is a matter of utmost concern to this Government. It remains one of the most serious impediments to our economic and social development. Government recognizes therefore that it must design measures to generate employment-creating activities in both the short and long term.

In this regard, Government proposes to take steps to encourage activity in the construction sector. Certain large-scale construction projects are already in train or planned—for example, the construction of a new prison, the development of Piarco Airport, health facilities and petrochemical plants. The tourism industry also has the capacity to increase our earnings of foreign exchange and provide employment. The Ministry of Trade, Industry and Tourism is in receipt of a specially commissioned action plan for the tourism sector. The details of this plan will be outlined to the national community shortly.

In order to further impact the unemployment problem in the short-term, Government will in 1993 appropriate the sum of $130 million to fund employment activities under the Labour Intensive Development Programme, an increase of $10 million above the revised expenditure for 1992.

Government will intensify its training programmes in conjunction with the private sector and other non-governmental organizations, with the aim of enhancing the employability of the labour force, especially among women and youth. Towards this end, the committee appointed by Cabinet to undertake the development of a National Apprenticeship Training System has completed the first phase of its mandate and submitted its recommendations. These recommendations include:

— The Board of Industrial Training should be phased out and replaced with a new statutory board called the National Apprenticeship Authority. The new board will be financed by a National Training Fund, the resources for which will be obtained through contributions of the three social partners namely the Government, the private sector and labour.

— Contributions by employers to the National Training Fund should be allowed as a business expense.

— Special incentives should be given to employers who provide training in non-traditional areas.

— Youth camps and trade centres should be re-designated and brought under the National Apprenticeship Authority.

— Existing technical/vocational training institutions should be strengthened by improved staffing, equipment and facilities, while the technical wings of the senior comprehensive secondary schools should be upgraded to support the National Apprenticeship system.

Government intends to implement the recommendations of the committee, and will shortly be bringing appropriate legislation to give effect to them. Pending the formal establishment of the National Apprenticeship Authority and the implementation of the National Apprenticeship Scheme, Government has increased its budgetary allocation for such training under the existing Apprenticeship for Industrialization Mobilization programme from $3.0 million in 1992 to $30 million in 1993. It is anticipated that the scale contemplated for the operation of the programme is such that increased funding in addition to the $30 million will be required and therefore, in conformity with the recommendations of the committee, the Government will be holding discussions with the three social partners with a view, as I said, to implementing the details of these recommendations. By the end of 1993, it is expected that at least ten thousand persons will be beneficiaries under the system. These initiatives had their genesis in the National Symposium on Job Creation.

In addition, government proposes to introduce a Civilian Conservation Corps, to undertake a programme of re-afforestation and conservation. The programme will not only impart important skills to participants, but will also contribute immeasurably to the conservation of our environment which has been afflicted by fires during the dry season. The corps will be administered by the Defence Force, and a sum of $15 million has been allocated initially for this programme.

I now turn, to improvements in our social safety net, as it is often termed these days. Government is well aware of the concerns of the national community with the incidence of violent crimes, many apparently drug-related, the problem of homelessness, and the drift of many of our young people into lives that are socially and psychologically unproductive. The Government shares these concerns fully and has attempted to direct as much of its expenditure as possible to the alleviation of these conditions in our society. In 1992, Government would have spent $487 million on a variety of social programmes. We all want a wholesome social and physical environment in which to live and work, a society of which we can be truly proud and in which we can all raise our children without fear and with a sense of community, which has long been a tradition in this country.

We plan to spend in 1993 a total of $566 million on social support programmes on both recurrent and capital account, with increased allocations for YTEPP, Old Age Pensions and Aided Self-Help. However, the Government cannot address social ills on its own. There are many church and community groups which have been wrestling with these problems and doing a magnificent job with their limited resources and in some cases the small subventions from the Government. The fact is that we all need to do more—government, churches, community groups, trade unions, co-operatives and private business. The effort to address and eliminate our various social ills must be a national effort in every sense of the word.

Fiscal Measures 1993:

Madam Speaker, let me now turn to the specific measures for 1993. Let me speak first of all to the expenditure side.

Total expenditure in 1993 will be marginally higher than the revised estimates for 1992. This is consistent with the need to restrain expenditure and to move as quickly as possible to an overall fiscal surplus.

Hon. Members would no doubt note that there is an increase in the budgetary provision for current transfers and subsidies while there has been a significant reduction in the transfers to state enterprises, utilities and statutory bodies. This reflects our continuing concern with protecting the more vulnerable members of the society from the distressing aspects of the adjustment process.

Despite the constraints under which we labour, in 1993 we intend to increase the outlays of recurrent expenditure for repairs and maintenance on roads and bridges, schools and health facilities to keep this item consistent with what we had laid out in the Medium-Term Policy Framework. Expenditure under these items is expected to increase from $59.5 million in 1992 to $66.8 million in 1993. With respect to the Development Programme, we intend to increase our expenditure on health facilities from $15.6 million to $61.3 million in 1993, while our outlays on housing will increase from $51.6 million to $103 million. Although we are unable to increase expenditure in all other areas by the same extent, additional capital expenditure will take place in the areas of education, roads and bridges.

Revenue Measures:

I have said before and I have repeated today that this Government is committed to sound fiscal management—by bringing our revenue and expenditure patterns into balance. The revenue measures I shall propose today have been guided by these principles and can be classified into three headings:

(i) revenue raising measures through direct and indirect taxation;

(ii) revenue raising measures through enhanced tax administration;

(iii) measures to stimulate economic activity and to afford relief to various categories of taxpayers.

This Government has continually expressed its desire to put the country back to work, moreso through the recognized need for maintenance and improvements in the physical infrastructure of the country. Suffice it to say that one of the lessons of the 'boom period' is that there is no free lunch. Consequently, the costs to improve roads, hospitals, schools and the environment must be met by increased levels of taxation. I therefore propose the following taxes on income:

**3.25 p.m.**

Revenue Raising measures through Direct and Indirect Taxation:

With respect to corporations, a business levy of 0.25 per cent will be imposed on gross sales for each year of income. Where the corporate tax liability exceeds the business levy a tax credit equivalent to the business levy will be allowed against the corporate tax liability. In those cases where the corporate tax liability is equal to or less than the business levy a credit equivalent to the corporate tax liability will be allowed. The business levy will be payable on a quarterly basis.

In essence, we shall be broadening the tax net to ensure that every business entity makes a contribution towards the public purse. At the same time, good corporate citizens who pay their taxes will in no way be penalized. This levy shall not apply to companies in the first year following registration and to those companies exempted from corporation tax under section (6) of the Corporation Tax Act. In addition, the levy shall not apply to:

(i) companies owning or engaged in the operations of hotels;

(ii) public utilities, the Deposit Insurance Corporation and the Agricultural Development Bank;

(iii) companies that are subject to tax under the Petroleum Taxes Act, Chap. 75:04.

This measure is expected to realize approximately $25 million in 1993.

With respect to taxes on individuals I propose the following adjustments:

The Income Tax Act, Chap. 75:01 as amended provides that with effect from January 1, 1972 approved agricultural holdings will be exempted from income tax for a period of 10 years. The period of exemption has been extended since then with the most recent extension ending on December 31, 1992. The Government is of the opinion that it is time that owners of approved agricultural holdings contributed to the general resources of the country. I therefore propose that exemptions from income tax enjoyed by approved agricultural holdings for a period in excess of 10 years, will expire at December 31, 1992. Where an approved agricultural holding has been exempted for a period less then 10 years the exemption will continue until the agricultural holding has had 10 years of tax exemption. New applications for this exemption will be granted for a period of not more than 10 years.

Other adjustments on income taxes will be the following:

The limit on mortgage interest payments allowed with respect to residential properties used either by or on behalf of the owner or used rent-free by the occupier will be reduced from $36,000 per annum to $24,000 per annum. This measure is expected to raise $36 million. We propose to extend by three years the time in which the new assessment roll for Lands and Buildings Taxes will come into force. In the intervening period we shall continue to reassess all existing properties on the assessment roll which was instituted in 1978. The existing rates of property tax will remain unchanged at this time. This measure is expected to realize additional revenues of approximately $40 million.

With respect to the home maintenance allowance, we had originally approved a home maintenance allowance of $12,000 in our 1992 Budget. In retrospect, we recognize the history of abuse associated with such allowances and we have therefore adopted certain new proposals which we feel would be more effective in attaining the original objectives we sought to achieve with the home maintenance allowance. Consequently, the 1993 financial year will be the last year against which this allowance can be claimed.

With respect to capital depreciation allowances on private motor cars, as defined in the Motor Vehicles and Road Traffic Act, Chap. 48:50, we intend to limit the cost which can be used in computing the capital depreciation claims in the case of companies, self-employed persons and sole traders. We propose to limit the cost to a maximum of $100,000 notwithstanding the fact that the actual cost of such vehicles exceeds this amount.

With respect to stamp duty, we propose to adjust it on transfer of residential properties in the following manner:

(i) For every dollar or value of the consideration for sale of the first $300,000—zero.

(ii) For every dollar or value of the consideration for sale of the next $100,000—5 per cent

(iii) For every dollar or value of the consideration for sale of the next $100,000—7.5 per cent

(iv) For every dollar or value of the consideration for sale thereafter—10 per cent

With respect to stamp duty on the transfer of non-residential properties, we propose to adjust the rates as follows:

(i) where the amount of value of the consideration for sale does not exceed $300,000—2 per cent

(ii) where the amount or value of the consideration for sale exceeds $300,000 but does not exceed $400,000—5 per cent

(iii) where the amount or value of the consideration for sale exceeds $400,000—7 per cent

Taxes on international trade:

In keeping with the agreement of the Heads of Government Conference of the Caricom states in 1990 Trinidad and Tobago instituted a Common External Tariff at the agreed upon rate of 45 per cent beginning January 1, 1991. At a special meeting of the Heads of Government in October of this year, an agreement was reached on a phased reduction of the CET to reach a range of 5 per cent to 20 per cent by January 1, 1998. The new arrangement also accords special treatment to agricultural goods and agricultural inputs as well as for products for which regional capacity is insufficient to meet regional demands.

Accordingly, we will implement the reduction in tariff rates in accordance with phased reduction of the CET from January 1, 1993. The tariff range will be 5 per cent to 35 per cent on a variety of imports. We shall accordingly amend the First Schedule to the Customs Act to give effect to these new rates. In addition, a schedule of the reduction of import surcharge and stamp duty will be tabled shortly. The revenue loss from the lower rates of the CET is estimated at $48.5 million, while the loss from the lower surcharge is estimated at $27 million. I should point out however that we anticipate benefits to the ordinary consumer in terms of a lower cost of living.

In addition, I intend to introduce a system of customs duty rebates on imported inputs used in the manufacture of goods for export. This is expected to encourage our export thrust and further reduce the anti-export bias created by our past policies of import substitution.

Finally, we intend to increase the airport departure tax from its current level of $50 to $75. This latter measure is expected to yield $13 million.

Revenue Enhancement through Improved Administration:

As I have recently mentioned in this honourable House, one of the most pressing constraints experienced last year was a substantial decline in the receipts from the value-added tax. Government sought and received technical assistance from the International Monetary Fund in formulating ways to improve our VAT administration.

In 1993, we intend to double the number of Field Auditors in the VAT Office as well as to increase the number of tax officers in this division. This will increase our capacity to carry out the critical functions of surveillance and compliance with respect to VAT. In addition, efforts will be made to reduce the time spent on each audit and to raise the efficiency of revenue generation by concentrating audits among the major sources of revenue. The strengthening of the VAT administration is expected to result in increased revenue of approximately $129 million.

The need to look into our administrative inefficiencies in one area of taxation led us to scrutinize several other areas of tax administration and to take the necessary action to improve performance. Therefore, in conjunction with technical advice provided by the United States Customs Service, efforts to improve the efficiency in the Customs and Excise Division which began in 1992 will continue in 1993. The improved efficiency of the Customs and Excise Division is expected to yield revenue of $50 million in 1993.

Similarly, in the area of property taxation, we intend to pursue vigorously those persons with substantial arrears to the Central Government. We expect this effort to yield $80 million.

No system of taxation is eternally efficient and the passage of time normally requires that we reassess the instruments that are currently in existence either to upgrade, maintain or abolish them as the circumstances warrant. With this in mind, we seek to modify certain current revenue raising measures so as to give relief to the relevant corporations and individuals in order to either encourage savings or stimulate economic activity.

Economic Stimulation and Relief:

I now turn to the measures to stimulate economic activity and to afford relief to various categories of taxpayers.

In an effort to permit the Small Business Development Company to provide a more cost effective operation, and to facilitate the provisions of its services to a wider cross-section of small entrepreneurs in the community, Government has agreed to exempt the SBDC from the payment of corporation taxes on profits. Additionally, interest earned on investments by the SBDC will also be exempted from tax.

Severance Pay Exemption:

We propose to increase the limit of severance and retirement severance benefits payments which are exempt from income tax from the present level of $80,000 to $100,000. We propose to extend these benefits to persons who retire or whose employment is terminated on grounds of ill health. This will offer much relief to those who have laboured long and hard in the service of this country and who clearly should enjoy the major portion if not all of the parting benefits that are due to them.

Exemption on Value Added Tax Payments:

In recognition of the cultural significance of the steelpan, particularly its recent designation as the national musical instrument, we propose to exempt the production and sale of steelband instruments from VAT.

In addition, we propose to bring to this honourable House legislation to exempt from VAT imported inputs of highly capital intensive manufacturing corporations where 80 per cent or more of their production is exported. This measure will reduce the cash flow problems many of these manufacturers have experienced with respect to the lead time between the payment of VAT on imported materials and VAT refunds. It is expected that this improvement in cash flow will manifest itself in greater output in these industries. At the same time, this measure will reduce the administrative work load of the VAT Office as these transactions tend to complicate needlessly the administration of the VAT. This proposal involves no loss of revenue.

Waiver of Premium Payments on Annuities:

In many cases when an individual purchases an annuity he also purchases a waiver of premium benefit which guarantees that the payments of premium will continue in the event of his disability or death so that full benefits of the annuity will accrue to the beneficiaries. At the present time, payments with regard to the annuity are deductible for income tax purposes, but those in respect of the waiver of premium are not. I propose to make payments for the waiver of premium provisions attached to an annuity, tax deductable for income tax purposes. Several other proposals by the insurance industry will be considered by the Fiscal Affairs Review Committee in the immediate future.

Stimulation of Construction Activity:

In an effort to kickstart the construction industry we propose to implement measures that will exempt from personal and corporation taxes all rental income that may accrue from residential, industrial and commercial properties, the construction of which begins after January 1, 1993 and is completed by December 31, 1994. In addition, gains or profits, including capital gains derived from the initial sale of such newly constructed properties will also be exempt from tax.

The construction cost of the residential unit must be in excess of $250,000 exclusive of the cost or value of the land in order to qualify for the exemption. This is so, as premium and rents derived from the letting of newly constructed residential houses below $250,000 are already exempt under the Income Tax Act in certain circumstances. This benefit will extend up to the year 2000 and will accrue to the owner of the property, whether such owner is the original builder or a purchaser.

**3.40 p.m.**

Eligibility for this exemption will require prior approval of the relevant authority. In the case of residential buildings this authority will be vested in the National Housing Authority, while in the case of industrial and commercial buildings the authority will be vested in the Industrial Development Corporation.

In addition, to alleviate the impact of high interest charges on persons constructing dwelling houses to be used as private residences, I propose that the interest paid on bridging finance be allowed as a tax deduction, subject to the limitation that the sum of the interest on bridging finance and mortgage interest payments does not exceed $24,000 in any given year. Members will recall that I announced in the 1992 Budget, proposals to allow first time home-owners to access their pension contributions for the purpose of making a downpayment towards the purchase of a owner occupied property. I am happy to report that the bill to give effect to this proposal is now out for public comment.

Venture Capital Funds:

Recent studies on investment in Trinidad and Tobago have identified clearly that one of the major constraints on the expansion of the export manufacturing sector, has been the reluctance of traditional commercial lending institutions to provide financial resources to help potential investors capitalize on high risk investment opportunities. This is particularly so where those opportunities are perceived to be new or in non-traditional areas of activity. This attitude towards risk aversion has also been known to affect established companies even those with a track record of successful entrepreneurial achievements.

As a means of overcoming this impediment, Government has agreed to restructure the Business Expansion Scheme to allow investors, both corporate and individuals, a tax benefit on their investment in venture capital companies. In addition, profits of the venture capital company as well as dividends in the hands of the shareholders of the venture capital company will be tax exempt. Investments undertaken by the venture capital company must be primarily in export oriented enterprises. Appropriate guidelines and monitoring mechanisms will be developed to manage the operations of this system.

Other Measures:

In response to various concerns raised with the Government during the year, I will make certain adjustments to several indirect taxes, not for the purpose of raising revenue, but for achieving certain efficiency objectives. In this context, I wish to announce adjustments to the wholesale and retain prices of certain petroleum products.

It has come to the notice of the Government that the existing margin for LPG plant operators was less than adequate to help cover their cost of operations. If the level of margin is not adjusted the impact on plant operations would be such that the maintenance levels would be adversely affected. Safety considerations require that the margin given to the plant operators be such as to prevent deterioration in the maintenance operations of LPG plants. I propose therefore to increase the price of LPG from the current wholesale price of 58.65 cents per pound to 65.50 cents per pound. The new retail price of LPG will be $1.00 per pound. This will increase the margin to plant operators from 8 cents per pound to 11 cents per pound.

It has also come to the attention of the Government that the price differential between regular gasoline and domestic gasoline has led the more adventurous among us to seek to blend these fuels in order to reduce their cost of transportation. I have it on good authority that this practice is extremely hazardous to internal combustion engines. This is an error, as grave as substituting Caroni bay rum for Caroni White Magic. To save from such errors and transgressions, I have mercifully pegged the price of domestic gas to just under the price of regular gas. I propose to raise the wholesale price of domestic gasoline from 94.88 cents per litre to $1.72 per litre. As a result the retail price will be raised to $1.82 per litre.

In addition, changes in prices will also be made with respect to auto and marine diesel fuel and kerosine with a view to reducing the subsidy element on these items. None of them will have any revenue impact. Gasolene, cigarettes, whisky, rum and beer, no change.

I propose to raise administrative fees and user charges on a wide variety of transactions. These items range from royalty on teak to weighbridge fees. The full list of these transactions will be published in the Provisional Collection of Taxes Order.

The Estimates of Revenue and Expenditure tabled today would show that we expect recurrent revenue of $6,829.3 million, and capital revenue of $70.3 million, for total revenues of $6,899.6 million. Recurrent expenditures will total $6,225 million, with planned capital expenditures of $674.7 million, excluding on-lending. We envisage a recurrent account surplus of $604.3 million, equivalent to 2.5 per cent of GDP, and a balanced budget. If I am to requote Dr. Williams, in this House several decades ago, "No surplus, no deficit."

However, given external amortization of $991.3 million and the need to amortise $64.7 million of domestic debt, Government intends to source $1,202.3 million, on the foreign market and $264.7 million locally which will allow the Government to retire $411 million of Central Bank financing. This level of borrowing is consistent with our fiscal objectives of a balanced budget, and an accumulation of foreign exchange reserves.

Madam Speaker, in concluding, while there is no gainsaying the difficulties which still confront the national community, I think we can be justifiably proud of our performance this year. Although the economy has lost some momentum, we have managed to achieve a current account surplus on the balance of payments in the first half of the year; we have kept inflation down to six per cent; we have successfully re-entered the international capital market with a Eurobond issue of US $100 million; we have met scheduled debt service of about US $400 million fully, and on time, and yet maintained gross reserves of two months import cover. We have kept our fiscal house in order with a projected deficit for 1992 of 1.7 per cent of GDP, we have attracted a significant foreign direct investment to our energy sector, and we have maintained relative social peace.

There were many at home and abroad who were skeptical or suspicious of the policy directions of this Government when it acceded to office. There were also those who predicted doom and gloom and we had to contend with all manner of negative thinking. But I think, that Government has demonstrated its seriousness and its sensitivity. We have sought to develop a vision for our society and economy consistent with the principles articulated in our manifesto. We have conducted our affairs with resolve, and we have not flinched from taking tough decisions where we have seen these to be in the national interest. We have honoured all our domestic and international commitments. The Government intends to continue, in the course of 1993, in this vein.

What we would ask of the national community—public and private sectors—that collectively and consciously we focus on raising our levels of productivity, that we focus on ensuring, that in whatever our field of endeavour, what we are doing is adding value to the national economy. We also would ask of the national community that we identify with and support one another, especially those of us who may have fallen on hard times.

Madam Speaker, in this year of the quincentennial of what was for the native peoples an unfortunate encounter with European civilization, let us, as a nation, confront a difficult global economy, over whose course we have little control, with confidence in ourselves and in our capabilities, a powerful competitive spirit, and with compassion for those of our fellow citizens less fortunate than ourselves.

In this budget and accompanying Medium-Term Policy Framework and Public Sector Investment Programme, we offer Trinidad and Tobago a clear plan, a way forward, and the inspiration and leadership to implement it.

I beg to move.

Madam Speaker, I name Wednesday, November 25, 1992 at 10.00 a.m. for the resumption of the budget debate.

*Motion made,* That this House do now adjourn to Wednesday, November 25, 1992 at 10.00 a.m. *[Hon. K. Valley]*

*Question put and agreed to.*

*House adjourned accordingly.*

*Adjourned at 3.53 p.m.*