SAFEGUARDING OUR FUTURE

Dealing with the Deficit and Restoring Growth

An undisputed fact is that in whatever area of governmental decision- making, the one thing that stands out and which will always be the national conversation is that there is never one option available to address any national problem. It is always about choice of option and selection of priority. This being so one should not be overwhelmed by contrary views but as a people we must have the maturity to sensibly confront our circumstances, whatever they might be and take the best option available under the current circumstances. Options that give us the best chance to overcome whatever difficulties which challenge us, especially when our challenges are time sensitive.

The Basic Facts

There is no question that most of the country is now well aware of the very bad economic and financial situation the country fell into and a new government inherited in late 2015. After enjoying energy sector revenues taxes and royalties

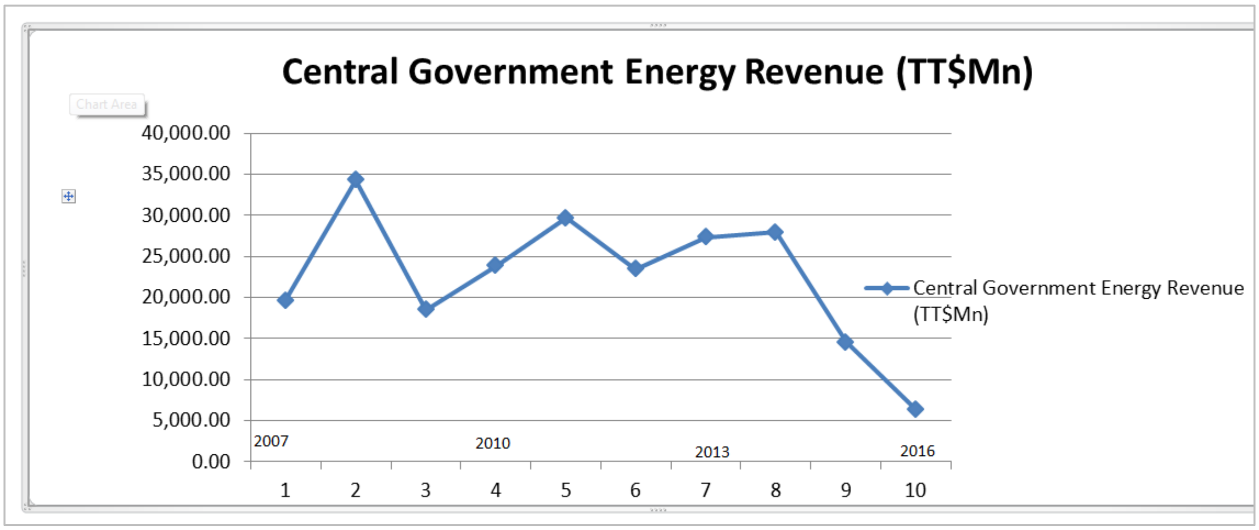
2010 - $15.7 B

2014 - $19.4 B

2016 - $1.6 B

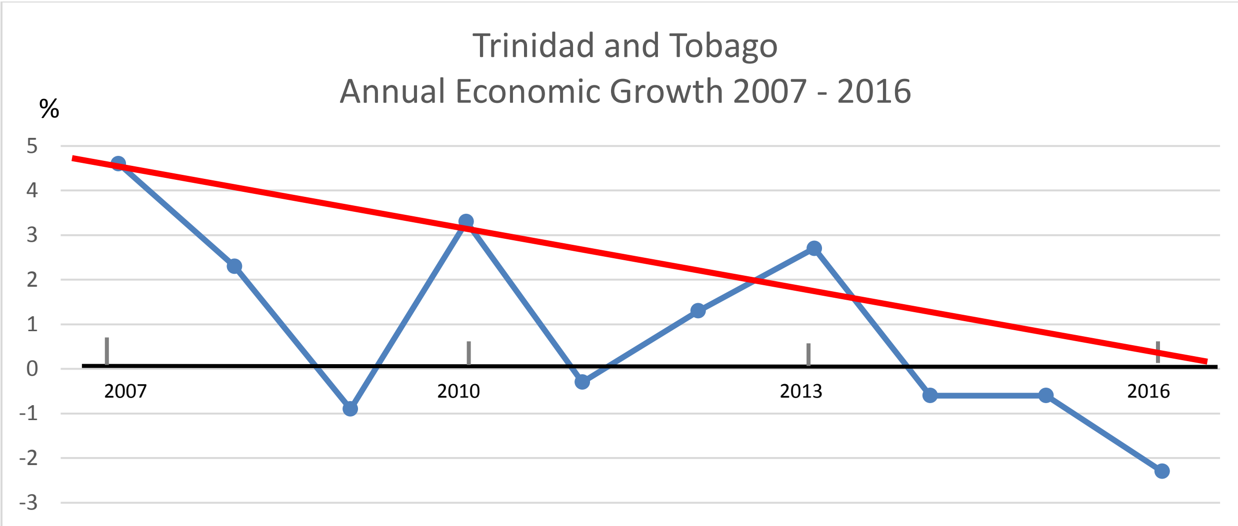
2017 - $2.1 B

In other words, the Government was faced with a fall of more than **89%** in its main revenue source between 2014 and 2017. (*The picture below tells the story [P1] .)*



From 2015, with the massive drop in revenues, the Government was faced with bills for running the affairs of the country, which it simply could not discharge. In this situation one of the main concerns of the Government was the level of public payroll employment. The Government is clearly one of the largest employers of labour in the country and since Government revenues have declined so precipitously, as they did, it is to be expected that public sector employment would be in serious jeopardy. The government has been at pains to keep the level of employment stable, even as we wind down the expenditure highs.

Compounding this bad revenue situation is a second dimension of the economic difficulties facing the country. The chronic minimal **economic growth** situation in the country constitutes a major difficulty. The fact is that for the past ten years the economic growth of the country has been on a slight downward trend. So even if we enjoyed a few growth spurts in that period we were not able to maintain the growth, far less, increase it. (We illustrate the growth trend in the picture below.)



From a rate of growth of **4 ½** percent in 2007 we reached just under **3%** in 2013 and we have been declining steadily since then, with the 2016 figure almost **negative 3%**.

The growth situation and the revenue position are no doubt related since government revenue is a major portion of the country's national income. So if the national income is on a negative long term downward trend the government revenue will follow the same trend. This means that even as it tries to stabilize the revenue situation the government is duty bound to get the growth process restarted, since it is growth that will bring new revenues for the government.

Coping With the Situation

Over the past two years, in an effort to keep expenditure stable, the government has been seeking to plug the gaps in its revenue. However, the government has always been cognizant of the fact that a healthy sustained revenue position will depend on how much growth can be engendered.

The revenue situation facing us in 2018 remains a very challenging one and the government will be taking steps necessary to ensure that it will be tightening its revenue collection mechanisms. The country, out of necessity should remain open to any and all suggestions to boost revenue levels. We are hopeful that today even at this late stage useful suggestions can still be put forward, if not for Monday but surely for the months and years ahead.

Today is simply a day where as a boost of public information, all known and ready options, are allowed equal time so that the population could draw its own conclusions as to the efficacy and likely consequential outcomes of the various options advanced from any quarter, government, academic or pontiff.

Equally important will be the measures the Government will take to better control its expenditure. We will put in place new expenditure monitoring systems and a new procurement system which should see expenditure levels lower than the present. We are mindful of the loud calls to reduce Government expenditure and we have certainly been moving in this direction. From a level of record planned spending of $63 billion in 2015/2016, the incoming new Government immediately, cautiously, moved to $53 billion in 2016/2017, a reduction in expenditure of more than 15%.

The Government knows that it has to be cautious about dramatic expenditure cuts because of the possible negative impact on the level of economic activity in the country in an already contracting economy. What the Government has been able to avoid is putting the economy in a steep and dizzy, downward spiral because of the necessary expenditure cuts. Having said this, the country needs to know, that faced with a possible deficit in 2018 significantly about **$14** billion dollars some further cuts in expenditure will be unavoidable. There will be some things which the country may want to happen in 2018 which will have to be postponed. This is where the patience of the population will be important. As we position ourselves to **do more with less** in the future, we will have to hold some strain for now. Having said that we would of necessity have to **now embark on development program initiatives** involving some government spending and, most importantly, **the mobilization of significant private capital**, to stimulate the economy from stable to growth, if only slowly at first then to sustainable acceleration.

In this connection we would call on the country to support the national effort as we seek to **prioritize the use of our limited inflows of foreign exchange.** We will not be going back to the exchange controls we had in place before 1993, but we will certainly not be using up our foreign reserves to keep the exchange rate at levels which will maximize our imports. When we took the decision in 1993 to let the market substantially determine the rate of exchange, we were accepting, in principle, that we would live with any rate the foreign exchange market determined. It is nevertheless true that when we were in a period of favourable foreign exchange inflows, if the market called for a big change in the exchange rate, we would use our reserves and put enough currency in the market to keep the rate at a level with which we were comfortable. However, in this period of significant decline in foreign exchange inflows it will be unreasonable and dangerous to use up our foreign reserves as we were accustomed to. This would be paving our way into the arms of the IMF and that is something this government is NOT prepared to do. What this means is that the only way in which the exchange rate will be held to its traditional level is if we cut back on our demand, bringing the demand more in line with the reduced inflows. This is where prioritizing comes in. Our basic position here will be that first priority for foreign exchange will be given to those firms or industries that generate reasonable amounts of foreign exchange. If the demand for foreign exchange is not curtailed we will eventually be forced to live with the rate determined by the market. This is where holding strain and varying our taste come in.

Beyond the Fiscal Deficit

As we said before, the government is fully aware that we have to go beyond dealing with the gap between revenues and expenditure, as important as this is. What we have to do is to trigger the growth process in the economy and take the steps required to sustain the growth once it is restarted. The basic strategy here is a simple one: getting the private sector to invest in targeted sectors or industries. Over the coming three years the government intends to pick a number of sectors to lead the revival and will work with the private sector to ramp up activity in these areas. These sectors include:

- Export Manufacturing
- Tourism
- Housing
- Maritime Services
- Agriculture
- Financial Services and
- Creative Industries

To begin with, the fiscal regime will be configured to support the spawning of new businesses and getting existing businesses to adopt new modes and new lines of activity. Three or four sectors will be selected each year with projects aimed at generating foreign exchange and new levels of output. The expectation is that the phenomenal investment we have made in education and human capital over the years will get opportunities to bear fruit for the country.

The table below illustrates the cumulative approach to boosting selected sectors.

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THREE –YEAR GROWTH STRATEGY

Year 1	Year2	Year 3	New Output	Forex
S_1			X_1	F_1
S_2			X_2	F_2
S_3			X_3	F_3
	S_4		X_4	F_4
	S_5		X_5	F_5
	S_6		X_6	F_6
		S_7	X_7	F_7
		S_8	X_8	F_8
		S_9	X_9	F_9
			X **TOTAL** **NEW OUPUT**	**F** **TOTAL** **NEW FOREX**

Notes: S_i refers to the sector selected for growth thrust

X_i refers to the output accumulated over three years

F_i refers to the foreign exchange generated by the respective outputs

In a diagram, **<u>as shown here</u>**, three sectors are identified in each year. Projects started in year 1 will be sustained over the three year period, and the same will hold for projects started in years 2 and 3. The intention is for the cumulative output, X, to yield at least 6% growth after three years, with 1 ½ % in the first year, 2 ½ % in the second year and 3% in the third year.

The Government will set up an **Implementation Team** to ensure that the specific objectives of the growth strategy are realized. This means that, with a 2017 GDP estimate of $145 billion, new output in the first year is targeted at just over $2 billion, the second year at $3.7 billion and $4.5 billion in year 3.

Moreover, with government revenues running at just above 25% of GDP, the expectation is for the deficit to be put on a declining trend, starting with a reduction of $0.5 billion in the first year and climbing to a reduction of $1.1 billion in year 3. These are the targets which will guide the Implementation Team.

It should be pointed out that there will be at least two other sets of activities which will contribute to growth over the period –

the *infrastructure investments* planned for the period and the expected *revival in the energy sector*. However, the truth is the government is not depending on these activities since the aim is to energize the diversification of the economy. The intention of this government is to get the economy to learn how to grow without depending on the energy sector. This, in our understanding, is what diversification requires. What happens in energy, whilst not being neglected nor minimised, will be like a backbone or bonus to what were are doing elsewhere in the economy.

In short the government is presenting a strategy which addresses the two main problems facing the country - the sizeable stubborn deficit and the need to reverse the growth trend of the economy. Our plan is to set the economy on a path which will gradually eliminate the deficit and put the economy on a moderate, but steady, growth path over the next three years.

Once again I want to thank the staff at the Office of the Prime Minister, ably supported by the staff at the Ministry of Finance, for organising this worthy event at such short notice and I must thank all of you who accepted the invitation to be here for these presentations, particularly those who have undertaken to make the necessary presentations, not just to those of us gathered here but the many tens of thousands who are listening and viewing across the nation today. Let us not turn away our face from the harsh realities of our circumstances but confront them with boundless faith in our destiny, as we chart and steer the course to a future which will be achieved only because we knew when to take up our bed and walk confidently into a brighter tomorrow.