

## BUDGET WARNING

### Economists: Don't use HSF for recurrent expenditure

■ Vivian Bowen

[vivian.bowen@trinidadexpress.com](mailto:vivian.bowen@trinidadexpress.com)

ECONOMIST Prof Roger Hosein is cautioning the Government against using withdrawals from the Heritage and Stabilisation Fund (HSF) to fuel consumption and recurrent expenditure in the upcoming budget.

He said it was a blunder that former finance minister Colm Imbert had made. 'He (Imbert) borrowed heavily to fuel recurrent expenditure. We have to move away from that now.' Hosein warned.

Earlier this month, while speaking to members of the media outside the Red House, Prime Minister Kamla Persad-Bissessar disclosed that her Government's first national budget will be presented in early October. And last week, while speaking to reporters outside the Diplomatic Centre in St Ann's, she said the upcoming 2025-2026 national budget would have mechanisms for job creation and revenue generation.

On Friday night, Hosein participated in a pre-budget discussion via Zoom with Dr Bhoendradatt Tewarie and economist Dr Indera Sagewan. The session, moderated by businessman Vivek Charran, provided a platform for him to stress that the S&P report underscored the urgent need for reforms.

He said that while he was hesitant to support the Government dipping into the HSF, 'if we have to go into the HSF, it must be strongly tied to widening supply space that could generate foreign exchange. Other than that, we cannot take the HSF to fuel consumption. We cannot take the HSF for recurrent expenditure.' Hosein said.

He stated that after the budget is laid in Parliament next month, it would be deemed successful only if it forms part of a larger economic plan. However, he pointed out that the budget cannot be disjointed. 'It cannot be one-off. It has to have a sequential logic and strategy to it that is aimed at increasing the stock of reserve while simultaneously reducing external debt. All of that while improving the labour force participation rate.' Hosein said, describing the labour force participation rate as the big monster in the room that is hardly ever given any attention or discussed.

According to Hosein, the Government needed to find a way to increase the labour force participation rate from 54.8% to 70%. He said if that could happen while the Government maintained the present unemployment rate, most of the country's problems would be solved.

He reported with concern that Trinidad and Tobago had the second lowest labour participation rate within Caricom, which reflects the number of people willing and able to be part of the labour force.

The concern expressed by Hosein followed the argument put forward by Sagewan where she said, while she accepted the need for a substantial deficit, the real measure of whether the Government was on the right track would be the steps taken to reduce fiscal imbalances by the time of the next budget. Asked whether a high fiscal deficit would jeopardise the creditworthiness of the country, Sagewan responded yes, but said it was a balancing act. 'If I was the minister of finance I would run the highest possible deficit that I can that would not compromise that. So, it is a balancing act, but I do not know that in this moment the Government has done enough work to be able to make the kinds of cuts that are being suggested.' Sagewan said, explaining that at this point the Government needed more leverage before it could streamline State enterprises and cut overall expenditure.

Touching on the HSF as well, Sagewan agreed that if the Government intended to use the fund, 'which most likely they will be, I will like to hear that draw-down linked directly to doing what Roger is saying. Investing to push the production possibility curve outward. It should not be that we are drawing down on the Heritage and Stabilisation Fund in order to support and to pay recurrent expenditure. So, those are some of the things that would be...I don't have the numbers in my head but I am assuming within the ministry there is that competence to ensure that whatever figure is arrived at it is one that would not compromise the rating.' Sagewan added.

**Wastage, inefficiency and corruption** Tewarie, during his presentation, said the country could not continue spending money at the same level as before because the country simply could not afford it. He said currently the economic system was plagued with wastage, inefficiency and corruption.

'So, if you want to deal with these things you have to make up your mind to cut and prune and begin to look at how you can get rid of inefficiencies, loss of wastage and deal out corruption from the system.' Tewarie said. He highlighted some aspects that would be reasonable to cut and pinpointed State enterprises that were not making a profit or were not managing themselves responsibly.

He questioned the reasoning for subsidising State enterprises that were losing money. 'You can decide that you are going to make a 10% cut to all of them or a 20% cut or

whatever, and they would then have to try with a board of management to manage their business.' Speaking on patronage, Tewarie labelled it 'a nasty little thing that haunts this country'.

He explained: 'We saw over the CEPEP debacle how horrible it is and out of that CEPEP debacle we saw how corruption is rooted in families, in communities, sometimes in gangs. We saw as well how the corruption in a society makes the corruption almost unendable.' Tewarie said and stressed that if patronage had to be done it should have a level of meritocracy to it. On the revenue shortfall expected from the dwindling and volatile energy industry, Tewarie suggested that the Government must act, adding that there were solutions.

'You cannot have a solution to the revenue problem by saying that we do not have the production in oil and we are subject to price fluctuations and therefore we have a revenue problem. You have to make up for the deficit and the loss of revenue and therefore you have to do something. Would it be direct or indirect taxes? Are you going to sell Government assets? Are you going to rent them, lease them. Are you going to put them on the stock market?' Tewarie questioned.

Asked what recommendation he would give the State to increase its revenue given the termination of the Trinidad and Tobago Revenue Authority and the elimination of property tax, Tewarie said that while he did not want to tell the Government what to do, he believed that citizens felt comfortable paying some form of land tax or home tax. 'And I know that the UNC was opposed to the property tax but you do not have to call it property tax. There is nothing that prevents them from having a modest tax on properties that could generate on property ownership if you want to call it that.'

He said the Government could also tax luxury items coming into the country as that would both bring revenue and decrease the spending on foreign exchange.