Budget Summary – A Balanced Approach

The key word for the Trinidad and Tobago budget for 2015/2016 is balance.

The economy of Trinidad and Tobago, has seen negative growth for the first half of the calendar year (projected to be (-2%) for 1st half 2015). The 2015/ 2016 budget had to be structured in such a way to address the economic contraction as well as the need for revenue growth; whilst leaving the strong economic indicators such as low inflation (headline inflation stood at 4.0% as at August 2015), low unemployment (holding at less than 4% as at August 2015) and relatively high import cover (which stands at 12 months) untouched.

The economic slowdown and need for revenue growth has been driven largely by the sustained decline and low levels of petroleum prices (currently below $50/ barrel), slowing energy sector output and exports as well as further reductions in revenue from the non-energy sector. High government expenditure (the pre-adjustment deficit stands at TT $21.4 billion), has also been another contributing factor. The fiscal deficit has begun to be addressed through asset sales (TTNGL IPO of $1.5 billion) but more permanent measures had to be considered.

Given the dependency on the energy sector, the Trinidadian economy faces widening balance of payment deficits with a loss of foreign reserves of $720 million. The economic slowdown and widening balance of payments deficit underscores the critical need for economic diversification; this point was duly noted in the budget.

Revenue Generation Measures

The major fiscal measures articulated in the budget were as follows:

- VAT reform – lowered to 12.5% from 15%, the registration threshold was increased to $500,000 and the basket of goods will be adjusted. This is expected to yield an estimated $4 billion in revenue.
    - This measure is intended to yield both from an increase in collections as well as the adjustment.
- Increases in taxes e.g. business levy, green fund levy and the reintroduction of the property tax. These measures are expected to yield an estimated $3.4 billion in revenue.
    - It is important to note here that the business levy is netted off corporation tax and will not impact all businesses.
    - It is also important to note that the property tax will be implemented at 2009 levels using 2009 rates.

- Reduction of the fuel subsidy, a reduction of $3.1 billion, along with immediate increases in the prices of super gasoline and diesel.
- The implementation of a tax regime for the gaming industry.

The measures outlined in the budget are estimated to raise an additional $18.6 billion in revenue, closing the deficit to $2.8 billion.

Conclusion

We believe that although the Trinidadian economy faces headwinds, it is however not all doom and gloom and the stormy seas can be navigated with skill. The budget delivered was balanced, especially given the short time between elections and its delivery. In our opinion, the key areas arising from the budget to be managed are the revenue collection mechanism, the monitoring of inflationary pressures that may result from some of the revenue generation measures and the dire need of economic diversification. Execution is important and time is imperative, the Finance Minister articulated that outside of the potential sale of Republic Bank shares in the next two years, there were no more planned asset sales. No more "patchwork" fixes. If the aforementioned areas are prudently managed, and future fiscal expenditure is managed equally well, we believe that Trinidad may be set on a course for growth.