

**2020/
2021**

**SUNDAY
MARKET
NETWORK**

**POST
BUDGET
ANALYSIS**

Prepared by Dana Sookdeo



"Now is a time to weigh in..."

TABLE OF CONTENTS

CAVEAT

CAVEAT

MACROECONOMIC DATA

2

**MACROECONOMIC
INDICATORS**

3

**MAJOR BUDGET
ALLOCATIONS**

4

THE ENERGY SECTOR

5

ANALYSIS AND COMMENTARY

6

OTHER FISCAL MEASURES

7

ECONOMIC DIVERSIFICATION

11

CONCLUSION

14

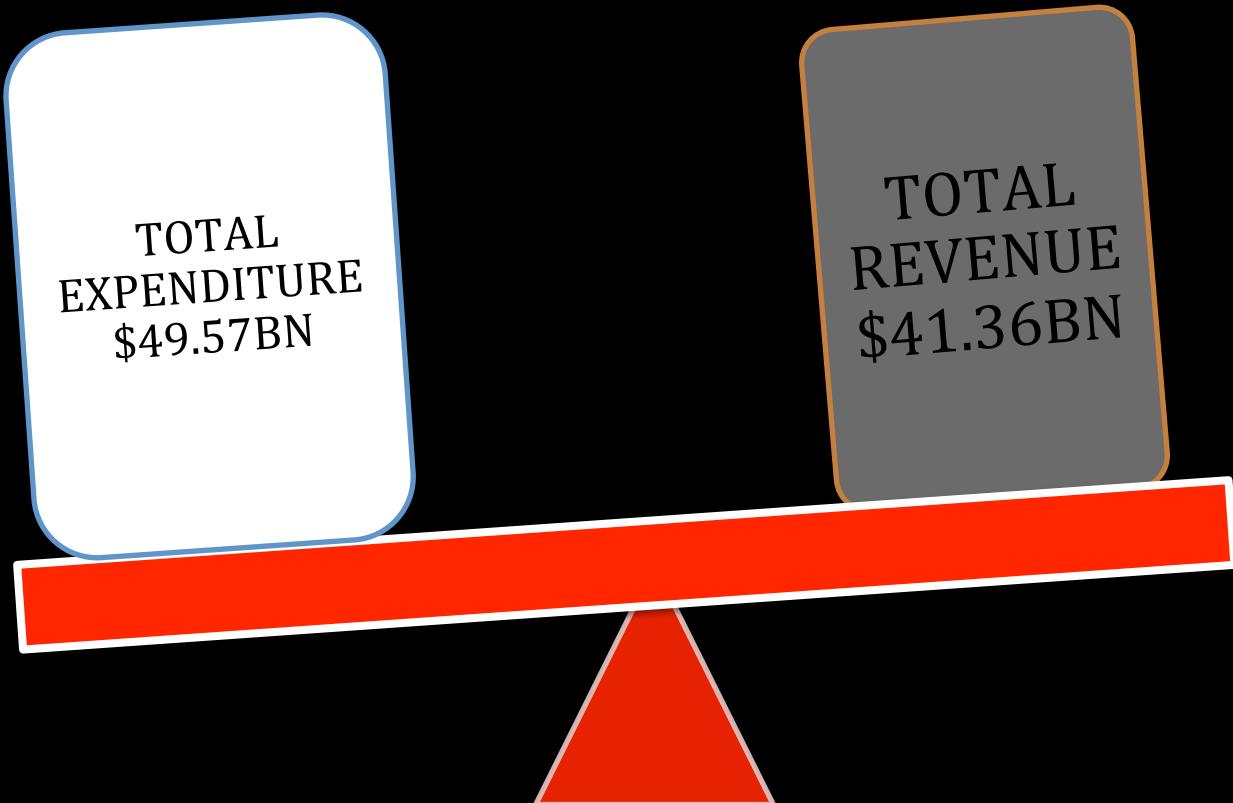
ACKNOWLEDGEMENTS

15

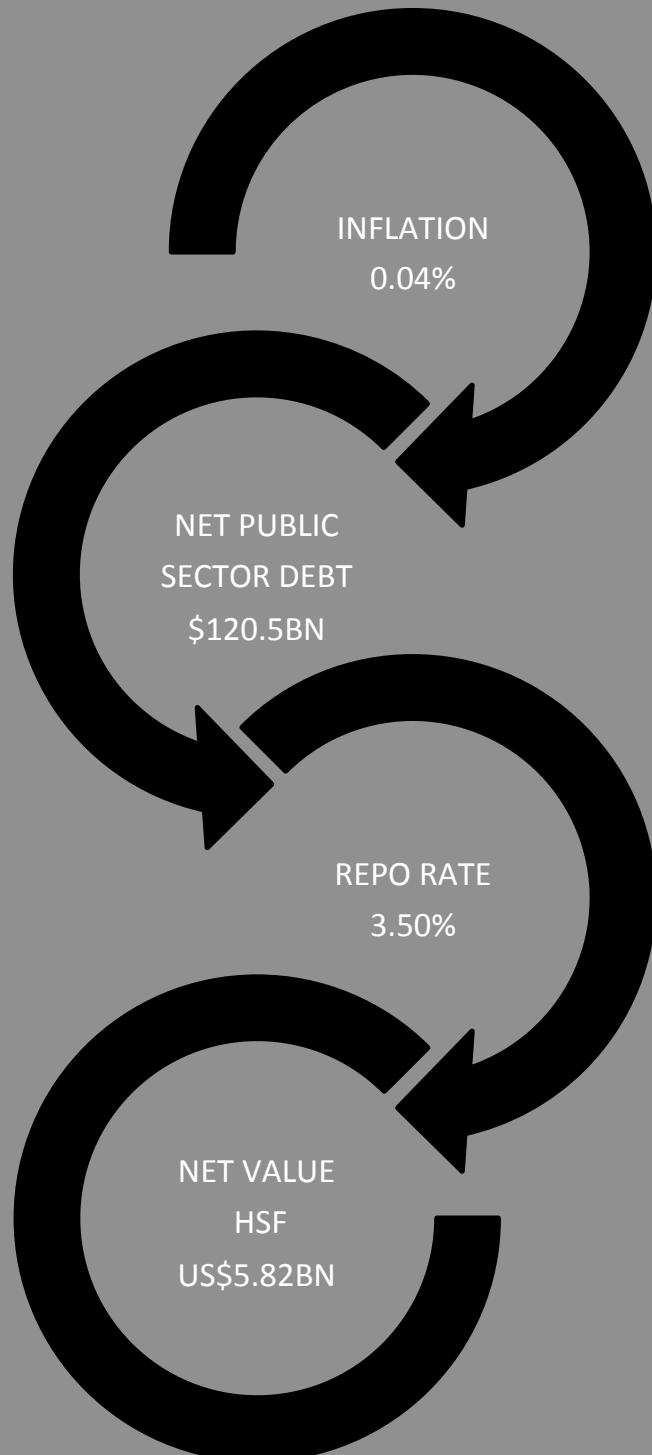
16

This document was composed to provide an Economic Analysis of the 2020/2021 Budget Statement, '*Resetting the Economy for Growth and Innovation*', which was presented by the Honorable Minister, Colm Imbert, on October 5th, 2020.

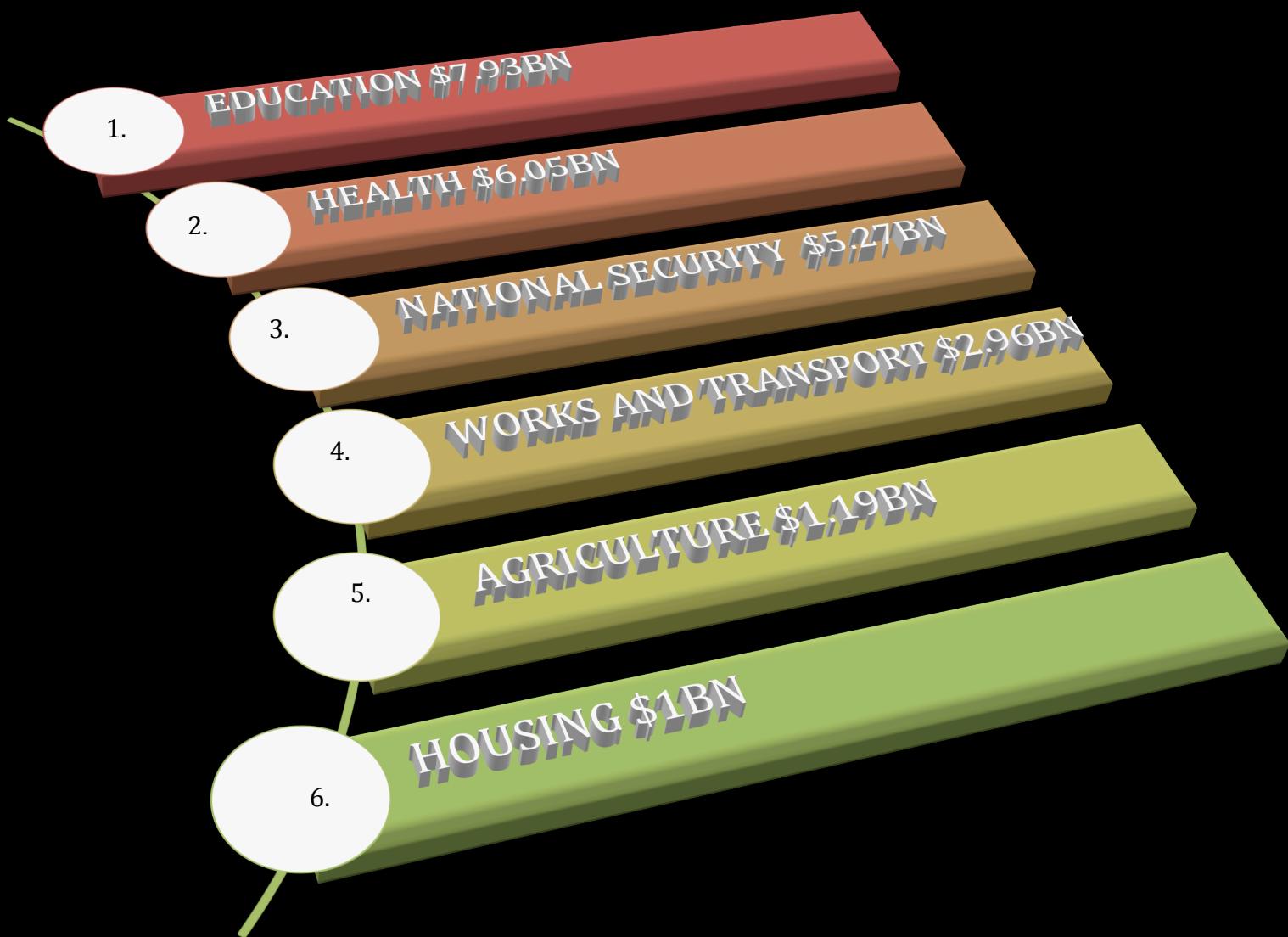
This review is prepared under the Sunday Market Network organization and is intended for educational purposes of the general public.



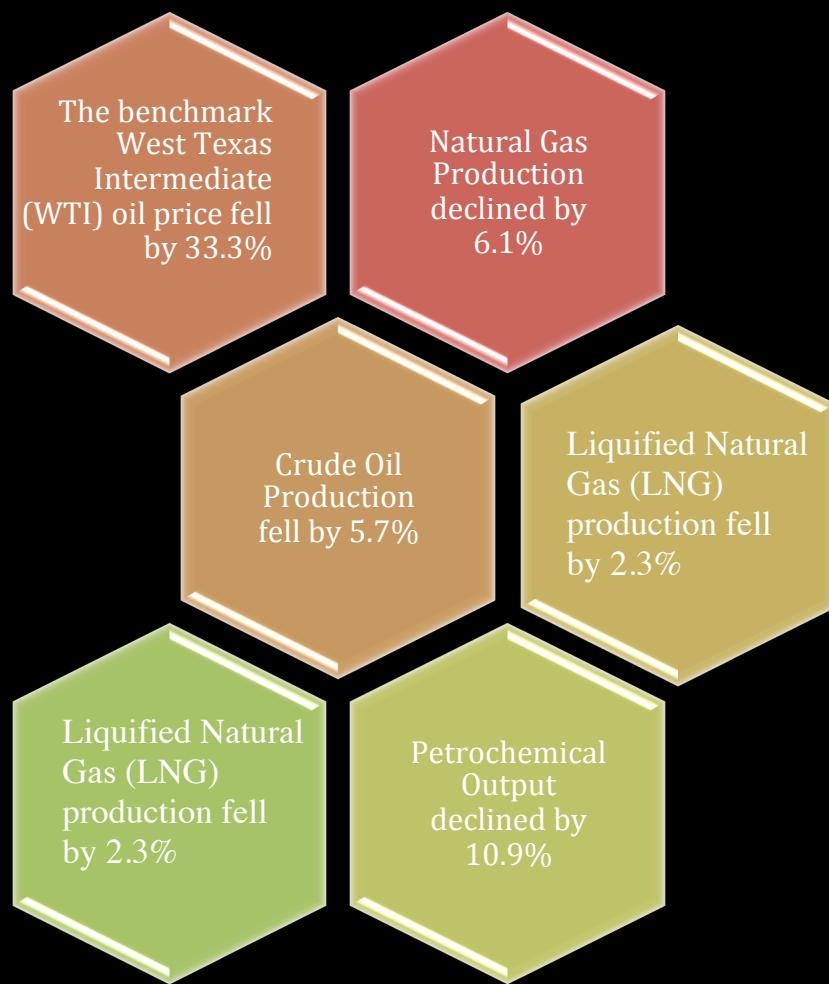
TOTAL FISCAL DEBT \$8.20BN



Source: Central Bank of Trinidad and Tobago



THE ENERGY SECTOR



Source: Central Bank of Trinidad and Tobago



THE ENERGY SECTOR

The continuous decline of the energy sector has been a grave concern for the country. As such, the Minister of Finance addressed this downward trend in the budget, yet expressed uncertainty about the future of the sector. Hoping to salvage the residual profit available in non-renewable aspects of this sector, the government announced its hope of securing the sale of Petrotrin to Patriotic Energies. The hope to restructure EXIMBANK was also announced as the government aims to provide financing for the domestic energy sector.

Undoubtedly, taxes and other incentives will be pivotal in allowing for export revenue to be gained through the regional energy market.

The conversation on renewable energy has been around for quite some time with small-scale measures being implemented by the government in the past. Given that Trinidad and Tobago has been named the second highest contributor of carbon dioxide emissions, it is heavily emphasized that substantial plans must be implemented in order to aid in combating the disastrous effects of climate change, and to remain a player in the energy sector.

In this regard, the 2020/2021 budget has brought to light its plans to potentially construct the largest solar farm in the Caribbean. There were also strategies to replace hydrogen in the natural gas reform process as well as utilizing the by-product of steam to run a turbine, which will also supply electrical energy. While these initiatives are commendable, the Government has often fallen short in execution, not only in the energy sector, but several others. Therefore, it is with great hope that the Trinidad and Tobago economy is able to capitalize on renewable energies, and utilize research and development to further boost this area.



EDUCATION

The Government of Trinidad and Tobago made the largest allocation to education, which has been a trend over the past few years, and very much necessary. Allocations to education have been steadily increasing in the past three years.

This year, funds were allocated specifically to bridge the gap of the digital divide which students now face in the online learning environment, due to the COVID-19 pandemic. This significant commitment to digitalizing the education sector includes:

- \$50 million was allocated for the procurement of laptops for students who are in need.
- The removal of taxes on computers, laptops and mobile devices

The fiscal measures taken to remove taxes on electronic devices will also be of great aid to the business sector.

HEALTH

Health received the second largest allocation in the 2020/2021 budget.

The COVID-19 pandemic has placed great emphasis on the importance of the health sector and a country's human capital globally. Therefore, it comes as no surprise that the Government is committed to ensuring that health of human capital remains at the forefront for this fiscal year.

Although, while the hefty amount allocated to health is necessary, the Government has placed a focus on the use of infrastructure to refurbish and construct new infrastructure in the health sector. However, strong emphasis must be placed on ensuring that there is an improvement in the quality of healthcare being delivered along with higher efficiencies in the system.

Extreme focus primarily on infrastructure can take away from tackling the existing intangible problems such as human capital efficiency and other bureaucratic inefficiencies that lie in the system.

NATIONAL SECURITY

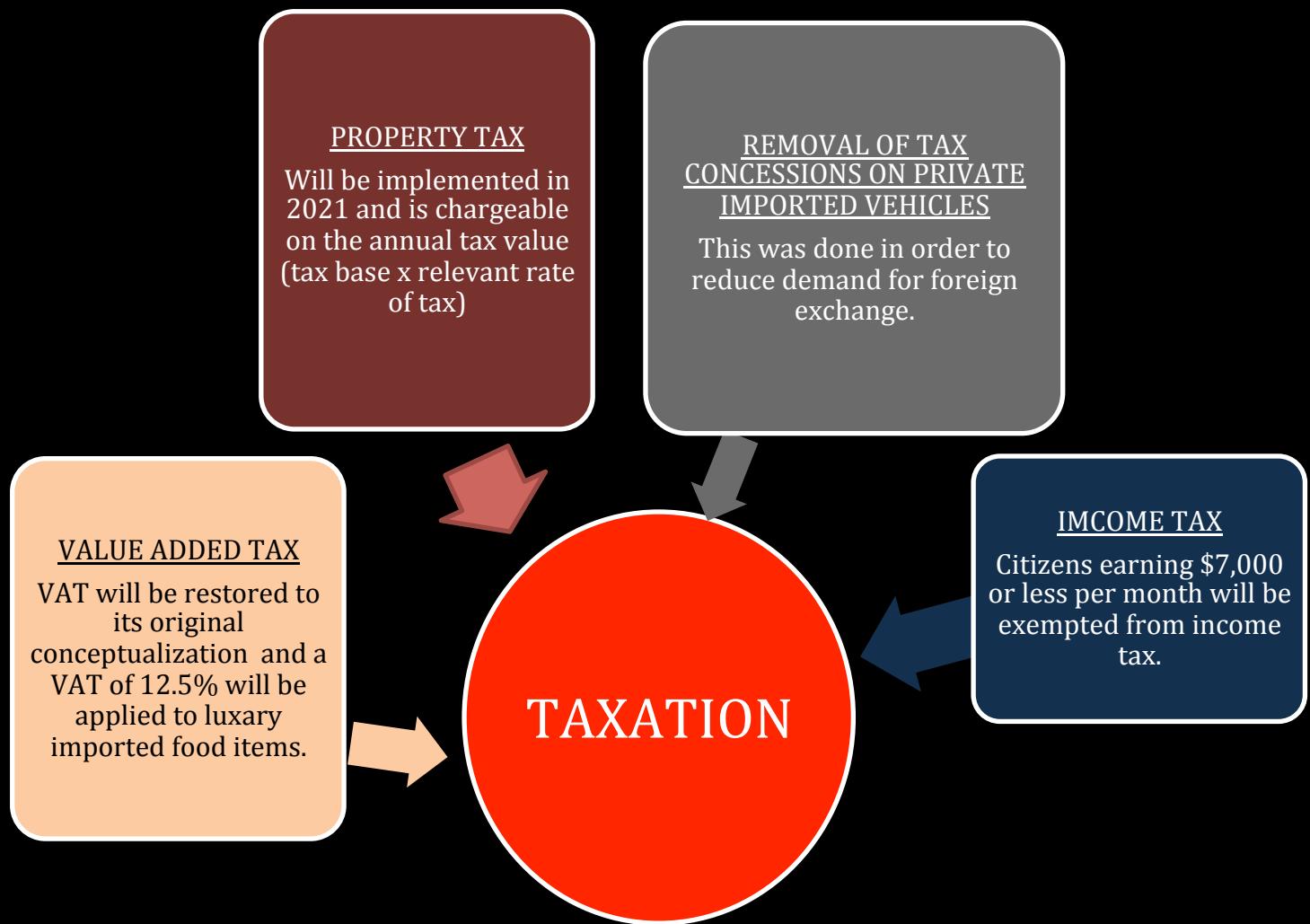
Receiving the third largest allocation in this year's budget, national security has still faced a decrease in this year's allocation due to decreased revenues and the government's decision that funds would be allocated more efficiently in other sectors for development. However, the Government must be weary of the negative social impacts of COVID-19 pandemic and economic downturn of the country that may exacerbate criminal activity and other national security issues.

AGRICULTURE

Agriculture has been deemed the backbone of the economy. Essential for food security, livelihoods and potential export revenue; the sector has been critical in fostering growth and development. Yet, it has often been given the least amount of allocations in past budgets. Despite efforts to revamp the sector, there continues to be a stigma which surrounds the sector, pulling focus away from its importance.

This year, the COVID-19 pandemic has exposed several weaknesses that were inevitably addressed in the budget. As a result, in Budget 2020/2021, the sector has received its largest allocation, as compared to previous years, of \$1.198B (with \$500M as an additional stimulus). However, there is much more that needs to be done than merely allocating funds to the sector.

This allocation is intended to improve infrastructure, and work alongside promotion of technological adaptation and support for farmers in aims of increasing productivity. These measures are expected to stimulate domestic output and thereby tackle issues of food security, lower import dependency, create opportunities for economic activity from small enterprises and eventually become viable for substantial exportation.



Taxation is a component of government revenue and thus, is necessary to implement when revenues are declining. The implementation of VAT on luxury imported food items is a policy decision that can benefit the local agriculture sector by increasing demand for locally grown products. While the removal of taxes for those earning \$7,000 or less per month may stimulate economic activity by placing more income in the hands of the individual, the increase in property taxation can potentially decrease the disposable income of vulnerable citizens and increase the cost of living, causing economic hardship.



Improving access to equity funding on the stock market for Small and Medium Enterprises

This fiscal measure will impact investors and small business owners and has the potential to utilize the current excess liquidity in the financial system.

Tobacco Products

20% increase on excise and customs duty on locally manufactured and imported tobacco products respectively.

This fiscal measure aims to decrease the consumption of tobacco products and can gain revenue due to habitual nature of the good.



Supplemental Petroleum Tax for Small Oil Producers

This fiscal measure will impact small onshore oil producers and can increase investment in further production. This measure comes with a sacrifice of short term tax revenue in order to gain more in the long term.

Removal of gas subsidies and Liberalization of the market

While the liberalization of the market should encourage new entrants into the market, as well as foster increased competition for the benefit of both the industry and its consumers, there must be effective Government intervention to prevent the formation of monopolies/cartels.

Freezing of Public Sector Vacancies

This move was taken by the Government in order to curtail its expenditure on public sector wages. While Trinidad and Tobago has a large, inefficient public sector, this expenditure decision may contribute to a rise in unemployment figures in the near future.

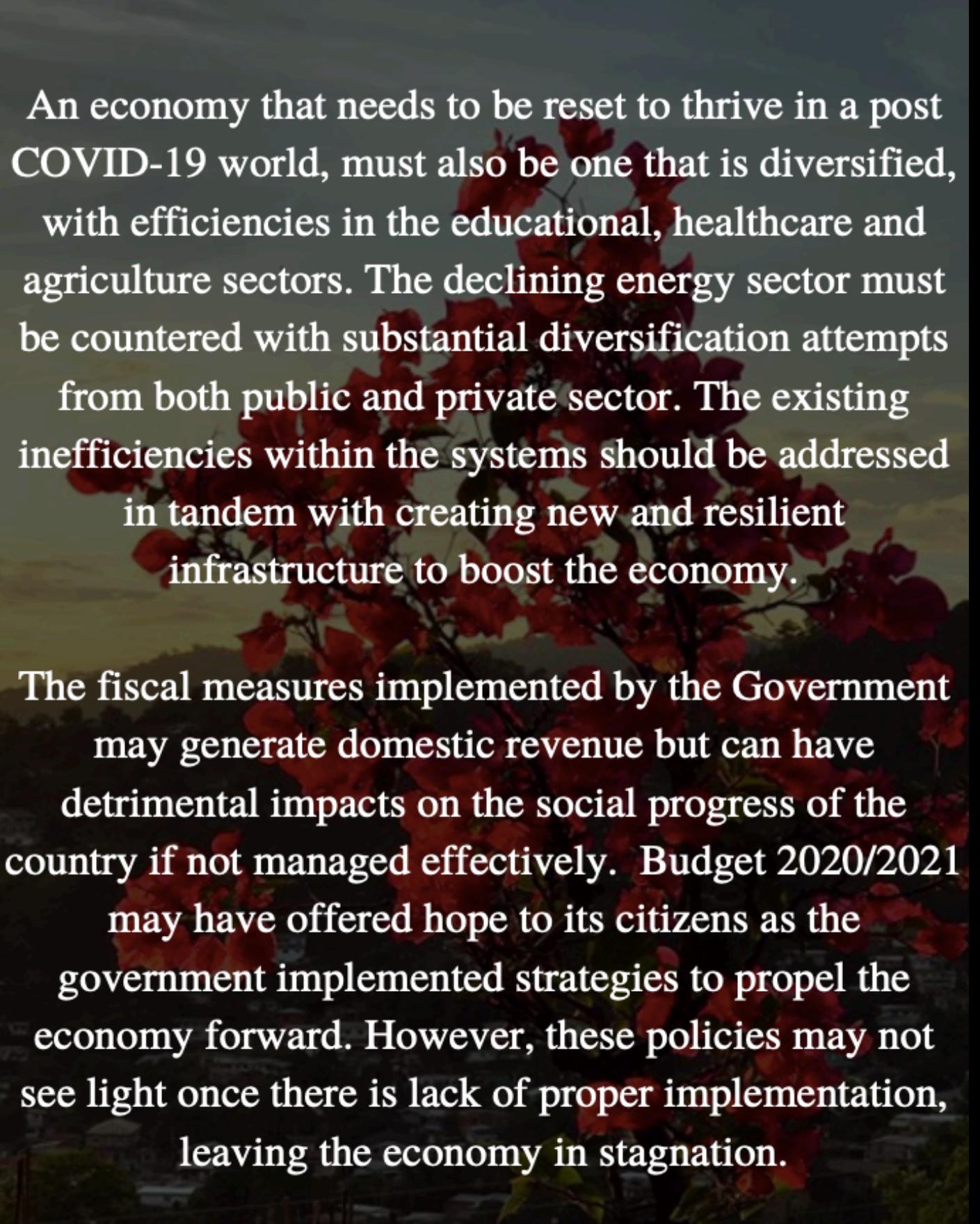
Technology Transformation

As part of its push for full digitalization of the T&T economy and Government services, tax allowances of 150% capped at \$3 million.

DIVERSIFICATION

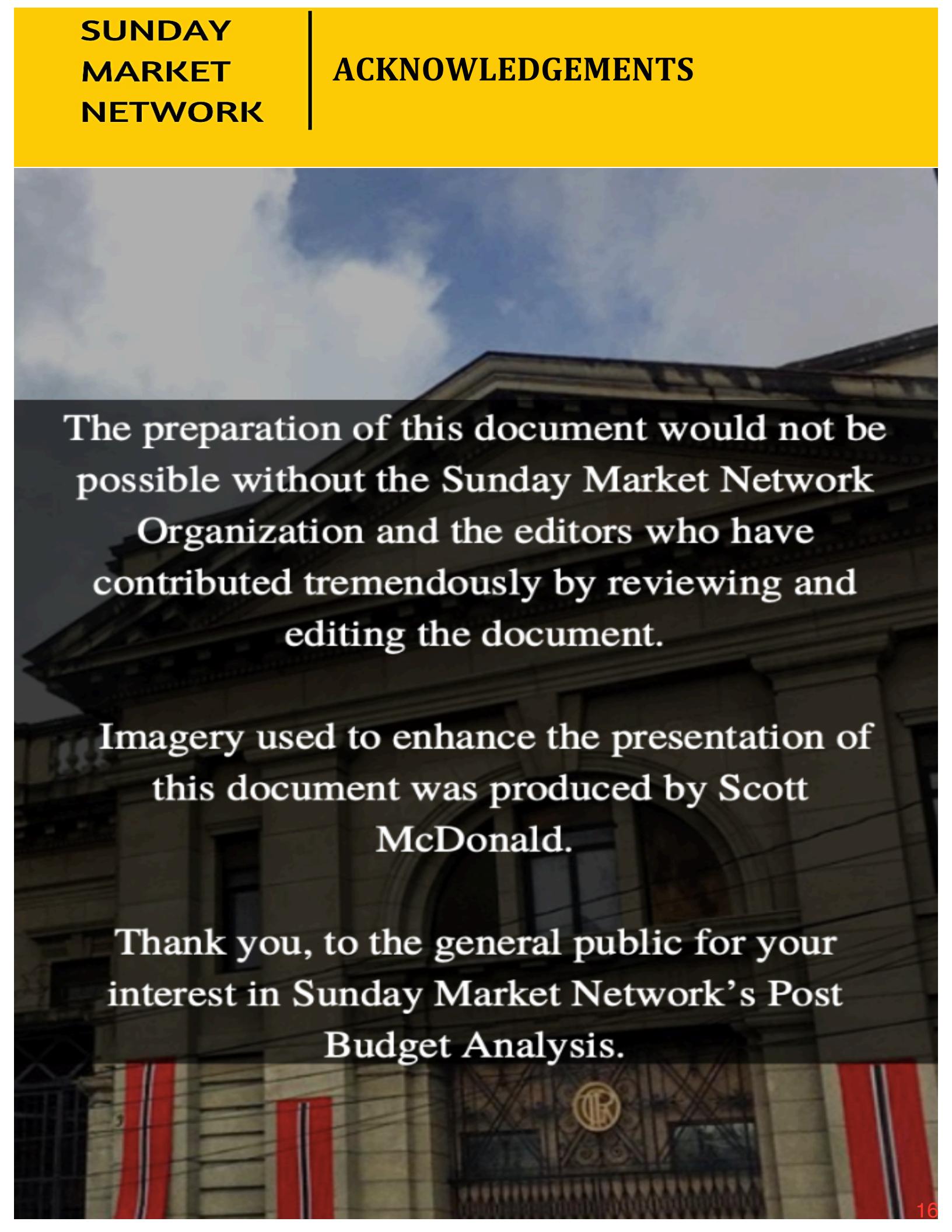
Diversification has been a phenomenon around for decades. Yet, Trinidad and Tobago has failed to successfully diversify the economy due to suffering from the effects of the Resource Curse and the Dutch Disease. In a post COVID-19 economy, diversification must take priority in order to generate new revenue streams. In particular, the manufacturing sector shows great promise and has the capabilities to boost Trinidad and Tobago's economy through creating sustainable employment and generating foreign exchange.

With the sector holding over 30% excess capacity, the President of the Trinidad and Tobago Manufacturing Association has announced that she was pleased with the Minister's commitment to support TTMA's strategic plan to double exports by 2024/2025. She also stated that the Minister's focused intention to improve the Ease of Doing Business through the implementation of building an "e-Government" will provide the foundation for transformation that will allow Manufacturing to thrive in the future.



An economy that needs to be reset to thrive in a post COVID-19 world, must also be one that is diversified, with efficiencies in the educational, healthcare and agriculture sectors. The declining energy sector must be countered with substantial diversification attempts from both public and private sector. The existing inefficiencies within the systems should be addressed in tandem with creating new and resilient infrastructure to boost the economy.

The fiscal measures implemented by the Government may generate domestic revenue but can have detrimental impacts on the social progress of the country if not managed effectively. Budget 2020/2021 may have offered hope to its citizens as the government implemented strategies to propel the economy forward. However, these policies may not see light once there is lack of proper implementation, leaving the economy in stagnation.



The preparation of this document would not be possible without the Sunday Market Network Organization and the editors who have contributed tremendously by reviewing and editing the document.

Imagery used to enhance the presentation of this document was produced by Scott McDonald.

Thank you, to the general public for your interest in Sunday Market Network's Post Budget Analysis.