Budget 2018/2019: Noticeably more Upbeat but no Major Change in Expenditdure

The tone of the 2018/2019 National Budget was noticeably more upbeat than the previous three deliveries by the Minister of Finance, Mr. Colm Imbert. On this occasion he was even in high praise of citizens. In particular he said ***"we wish to now salute our citizens for their patience and for their patriotism in their support of the series of economic transformations which have now placed our economy on a trajectory of solid growth and development."*** Based on the projected performance of the economy in 2018, one can certainly understand the positive mood and optimistic outlook. Driven by the improved performance of the energy sector, real GDP is expected to expand by 1.9 percent after declines of 6.5 percent and 1.9 percent in 2016 and 2017, respectively. Despite this development, the minister sought to temper expectations and made sure to repeat what by now, is sure to be a familiar refrain to all of us, which is the "country is not yet out of the woods". In this regard, the underlying theme of this latest fiscal package remains consistent, with the previous three presented by the current PNM administration, that is controlling expenditure and seeking to boost revenue. However, there were no cuts in overall expenditure, neither were there any increases in taxes. The 2018/2019 fiscal package focuses a bit more on addressing tax leakage and does not seek to increase the burden on the compliant. This will undoubtedly be welcomed by businesses and individuals alike.

Expenditure for the 2018/2019 fiscal year is projected to be $51.8 billion, slightly above the budgeted expenditure of $50.5 billion for the previous fiscal year and the actual outturn of $48.9 billion. This level of expenditure is consistent with previous statements attributed to Mr. Imbert, which suggest that the Trinidad and Tobago economy is at risk of collapse at levels of expenditure significantly below $50 billion. On the revenue side, government expects to generate $47.7 billion, which is $5.1 billion higher than the actual 2017/2018 revenue figure and $2 billion above the budget figure for that year. Oil revenue is expected to reach $9.5 billion. Yet again, extraordinary revenue items are a feature in government's revenue forecasts, with the minister indicating the intention to raise additional capital on the domestic market by way of another National Investment Fund bond offer in 2019. How much of this is intended to comprise government's $3 billion capital revenue projections remains to be seen. The budget is based on the same gas price set a year ago (US$2.75 per mmbtu), but an oil price (US$65 per barrel) significantly higher than the price expectation in the previous fiscal package (US$52). The budget caters for a fiscal deficit of $4.1 billion (2.5 percent of GDP), down from the actual result of $6.3 million or 3.9 percent of GDP in 2018.

In order to boost tax revenue, 150 additional staff members will be employed by the Inland Revenue Department to help increase tax compliance among the self-employed. These new employees will be tasked with the responsibility of visiting businesses in various parts of the country. Government also moved to increase a number of fines and penalties to improve its revenue yield.

As a means to ease the burden on taxpayers, in particular, those at lower income levels, a decision was taken to delay the complete deregulation of fuel prices, which was scheduled to take place in 2018. Nevertheless, the fuel subsidy on super gasoline was reduced, as its price was increased from $3.97 per litre to $4.97 per litre, with immediate effect. Therefore, at current market prices, the subsidy on this type of fuel is now only 50 cents. For the time being, diesel prices remain unchanged at $3.41 per litre. As a result of this change, the fuel subsidy for 2018/2019 is expected to be $700 million.

In what we perceive to be an attempt to reduce the resistance to the cut in the fuel subsidy, the Finance Minister directly linked the cost savings to the government's ability to provide relief to the population in other areas. This was an astute move, the success of which remains to be seen. Given our still challenging economic environment, it is likely that government will be required to make additional tough decision and making such linkages will be important to gain widespread buy-in. Below are some of the initiatives government plans to implement to provide relief to members of society.

- A minimum pension of $3,500 for public servants upon retirement, until delays in the pension system are resolved
- Increase in the stamp duty threshold from $850 thousand to $1.5 million
- $100 increase in the value of food cards

This year's budget is simply titled "Turnaround", but given the recent experiences of the domestic economy, this one word is indeed very loaded. It is intended to convey optimism to key stakeholders, but it is important for the country to proceed with caution; it is expected to signal that we have made it through the worst, but the government knows that we still have a long way to go. At this point we will certainly welcome whatever positive developments that emerge, but our greatest concern as a country should be how this latest fiscal package allows us to build them.

Garvin Joefield
Economist
Republic Bank Limited