Budget 2020/2021: A Case of Hard Decisions and Temporary Discomfort

As far as national Budgets go, the 2020/2021 fiscal package could probably lay claim to being delivered in the most challenging of circumstances, set as it is, against a backdrop of a nightmarish balancing act. The ongoing spread of the COVID-19 pandemic, not only represents a continued risk to citizens' lives and livelihoods but has also resulted in a drastic deterioration of the country's fiscal accounts, which were strained even before the virus emerged. As of October 5th, the virus has claimed the lives of 82 of our citizens and infected a total of 4,767 people in this country. With regard to the performance of the economy, the latest estimates from the Central Statistical Office (CSO) indicate that real GDP contracted by 1.2 percent in 2019 and by 5.9 percent during the first half of 2020. For all of 2020, economic activity is projected to shrink by 6.8 percent. Turning to Trinidad and Tobago's public accounts, the fiscal deficit jumped to 11 percent of GDP or $16.8 billion in the 2020 fiscal year, while public debt climbed to 80.7 percent of GDP. In this environment, government was forced to make difficult and some may even say bold decisions to address some long-standing issues, while it continues to look after the needs of the vulnerable in society and seeks to transform the domestic economy. Accordingly, and perhaps unavoidably, the budget contains some measures that are likely to generate some level of discomfort for various segments of society.

The budget is based on a projected oil price of US$45 per barrel and a gas price of $3 per million British thermal units (MMBTU), reasonable, considering that on budget day U.S. Energy Information Administration envisaged these prices to average US$49.07 and US$3.19, respectively in 2021. Overall, government expects total revenue to increase to $41.4 billion in fiscal 2021 from the previous year's actual figure of $34.1 billion. Of the total, $31.2 billion is expected to come from non-oil sources, while oil revenue is projected to reach $9.3 billion. Capital revenue is predicted to reach $0.9 billion. On the expenditure side, the package caters for capital and recurrent outlays of $4.1 billion and $45.5 billion, respectively, with total government spending anticipated to be $1.3 billion less than the outturn for the previous fiscal year. Based on these estimates, government foresees the fiscal deficit falling to $8.2 billion or 5.6 percent of GDP. Nevertheless, with the pandemic still generating a great level of uncertainty, these forecasts may prove to be optimistic. In this regard, the mid-year review, instituted by the government in its previous five-year term will be useful, as it offers policy makers the flexibility to make the necessary fiscal adjustments.

A major decision taken by the government is to privatise the operations of the nation's ports, with the Ministry of Works to take steps to rationalise the operation of the Port Authority of Trinidad and Tobago by 2021 and to turn over all managerial, operational and financial responsibility to the private sector. Under this new arrangement, the Port Authority will maintain its regulatory role. The same changes will be made with regard to the Point Lisas Industrial Port Development Corporation. While this is anticipated to address many of the long-standing issues plaguing the nations ports and is in line with government's desire to improve the ease of doing business in this country, there is likely to be some resistance on the part of labour.

For the first time in more than four decades, the motoring and travelling public will be without a fuel subsidy, starting in January 2021. In addition to removing the fuel subsidy, government has also taken the decision to liberalise the domestic fuel market. As a result, fixed retail margins will be removed from all petroleum products, giving retailers and dealers the ability to set their own margins. As a consequence of this, prices at the pump will reflect international prices to a significantly greater extent. Further, all gas stations owned by National Petroleum Marketing Co. will also be offered for sale to the private sector, with first preference given to existing dealers and concessionaires. Given what we are used to as a nation, a dynamic fuel market will require consumers to make some adjustments. With international prices currently low, this was an opportune time for government to roll out these measures, as they are not expected to result in a major increase in pump prices.

In an effort to conserve foreign exchange, government has made some notable changes to the new and used motor vehicle industries. Firstly, all tax concessions on imported private motor vehicles will be removed. Additionally, the permissible age for imported foreign used cars will be reduced to 3 years. The quota for imported used cars will also be reduced by 30 percent, while a quota system will be introduced for new vehicles in January 2021.

In addition to these measures, a fair amount of attention was also devoted to agriculture, and the digital economy. Under agriculture, government intends to reduce the country's billion-dollar food import bill by rolling out a $500 million stimulus package, among other things. With regard to the digital economy, grant funding will be made available to tech start-up businesses and tax credits will be given to businesses that invest in tech start-ups or new tech businesses.

With this latest fiscal package, government tried to address several current issues brought about by the pandemic. However, the package is also seeking to bring redress to some lingering structural and fiscal challenges, which it is hoped, will eventually help to lead to a path of an improved business environment and enhanced fiscal stability. These are two key elements of sustainable economic development and are sadly, two key ingredients the domestic economy has lacked for far too long. Unfortunately, at this juncture, the only way to weave these and other key elements into the fabric of our domestic economy and in particular, the management thereof, is by making additional tough decisions and creating some more short-term discomfort.

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