DECISIVE ACTION NEEDED

Prepared by: First Citizens Research & Analytics

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On Monday 2nd October, the much-anticipated National Budget for Fiscal Year 2017/2018 was presented as the current administration approaches its mid-point since assuming office. As with the case of many other natural resource-rich countries, the government continues to face significant challenges as a result of lower energy prices, resulting in severely diminished revenue and increased budget deficits and public borrowing. For the new fiscal year, however, the Finance Minister has announced further expenditure cuts and increased taxation measures in an attempt to limit the growing fiscal shortfall. The country continues to face tighter fiscal policies to ensure that the ballooning debt stock does not continue to expand at an unsustainable rate. The country's sovereign credit rating has come under pressure and was dealt two downgrades within the last year due primarily to drawdown from external buffers and accumulated debt to assist in meeting its financing needs. In April 2017, both Moody's and S&P lowered T&T's credit rating, with Moody's removing the country's investment-grade rating. This could result in rising external financing costs and rising risk premiums for the debt issued by the Government.

Economic activity continues on a negative trajectory according to the Central Bank of Trinidad & Tobago's (CBTT's) latest estimate, contracting by 10.8% y-o-y for the quarter ending September 2016. Preliminary data for the first six months of 2017 from the Central Statistical Office (CSO) indicate that the economy is likely to contract by 2.3% for 2017. While crude oil and natural gas prices have shown some upswing during the last fiscal year (WTI: 7.11%, BRENT: 17.28%, Henry Hub 3.48%), there has not been a concurrent dent in the fiscal deficit gap. In addition to this, local crude production for the first six months of 2017 registered declines of 10.3% and, a decline of 4.1% for land and marine acreages. Natural gas production continued its downward trend, falling by 6.2% over the period January to June 2017 y-o-y. However, natural gas production is expected to see some improvement as key energy sector projects such as EOG's Sercan, bpTT's Trinidad Onshore Compression (TROC) and bpTT's Juniper project come on line. Meanwhile, the non- energy sector continues to see contractions as data provided for the first half of 2017, show declines in construction activity, port activity and a suppressed retail and distribution sector.

FOREIGN EXCHANGE CHALLENGES PERSIST

As noted by the CBTT, the foreign exchange rate (TT$/US$) continues to face intense pressure given the shortfall in energy revenues as demand for the US dollar continues to exceed supply. Latest data show that for the period January–August 2017, there was a decline of 24.5% in foreign exchange purchases from the public by authorised dealers to US$2.2 billion while foreign exchange sales to the public fell by 9% to US$3.4 billion when compared to the similar period in 2016. Against this backdrop, net official reserves stand at US$8.7 billion as at August 2017, representing 10.1 months' import cover. While this may represent ample foreign exchange stock when compared to the international benchmark of three months, we believe a relatively gradual pace of depreciation is likely overtime, in order to reduce the substantial demand for the US dollar. Additionally, while exports are anticipated to pick up over the coming quarters with new natural gas production, it is expected that T&T's external accounts will remain a significant source of weakness.

In 2016, as a result of the decline in prices, and domestic production, energy exports fell by close to 50%, resulting in an external current account deficit of 10.9% of GDP, compared to the substantial surplus of 15% of GDP recorded in 2014. More recent data show that exports increased by 27.4% for the 1Q2017 alongside a 6.6% increase in imports for the similar period. It is expected that uptick in foreign reserves from rising exports will not be enough to satisfy demand for foreign exchange, particularly given the unimpressive outlook on energy prices. According to the US Energy Information Administration, the WTI crude oil is projected at US$49.58 per barrel for 2018 while US$3.41 is expected for Natural Gas Henry Hub. Despite government's policy of prioritising manufacturers' access to foreign exchange, estimates show that the retail and distribution sector and the settlement of credit cards continue to be the major users of foreign exchange ahead of sales to manufacturers. According to CBTT, manufacturers were able to access 11.4% of foreign exchange sales for the first eight months of 2017, lower than the sector's 15% average share between 2013-2015.

'CHANGING THE PARADIGM: PUTTING THE ECONOMY ON A SUSTAINABLE PATH

The budget is predicated on an oil price of US$52 per barrel and a natural gas price of US$2.75 per mmbtu. GDP growth is expected to be modest in the short term, against the premise of prolonged reduced energy revenues and increasing public sector financing constraints. Consequently, a key challenge that remains for government is to bring the medium-term expenditure in harmony with today's dilemma of significantly lower national revenue, as it seeks to plug a forecasted budget deficit of TT$4.76 billion for FY 2017/2018.

Based on these assumptions, the budget for the fiscal year 2017/2018 expects the following:

	(In TT$, billions)		
	FY 2015/ 2016 (Actual)	FY 2016/2017 (Provisional)	FY 2017/2018 (Budgeted)
Total Revenue	44.973	37.836	45.741
Oil Revenue	8.278	9.039	6.412
Non-Oil Revenue	36.69	36.135	32.910
Capital Revenue	3.814	1.700	6.419
Total expenditure Net of Capital Repayments and Sinking Fund Contributions	52.944	50.479	50.501
Overall Fiscal Deficit	7.972	12.643	4.50
Overall Fiscal Deficit (In % of GDP)	5.0	8.4	3.0
Central Government Debt Service as a % of Total Revenue	9.84	19.68	–

The provisional outturn for fiscal year 2016/ 2017 shows the extent of the challenges which the government faces. The fiscal deficit rose sharply from 5% of GDP in FY 2016 to 8.4% of GDP in FY 2017, and of concern is the growing central government debt service, which now accounts for close to 20% of total government revenue.

The Minister announced the following key measures:

1. Further incentives to increase the usage of alternative fuel vehicles.
2. Enhance tax collection and compliance, and intent to present the legislation establishing the Revenue Authority to Parliament by December 2017.
3. The Central Bank is expected to license the EximBank as a dealer in foreign exchange and give the EximBank the responsibility to allocate foreign exchange to exporters. This facility which will allow eligible exporters to access foreign exchange, will be capitalised at US$100m.
4. Adjustments to the fuel subsidy: (immediately)
   a. Super: From TT$3.58 increase to TT$3.97 (10.89%)
   b. Diesel: From TT$2.30 increase to TT$3.41 (48.26%)
   c. Premium: no change (currently unsubsidised)
5. Revised tax regime for the gaming industry: Rate of duty of gaming machines increases from 20% to 40%
6. Corporate Tax:
   a. Base tax bracket for companies up from 25% to 30% from Jan 1st, 2018.
   b. Revised tax bracket of 35% for all commercial banks – Jan 2018
7. Government will continue the T&T Hotel & Guestroom stock upgrade programme, increase reimbursement of costs from 25% to 50%. A decision was also taken to subsidise new tourist facilities by 5%.
8. Cash payment of TT$100,000 per house to private developers who construct houses according to design specifications by the Government.

In addition to the above measures, the following were announced to generate revenue and raise capital:

1. Sale of Assets Programme, including repayments relating to the CLF/Clico bailout plan
2. Plans to raise funding on the domestic capital market to finance expenditure
3. Withdrawals from the Heritage and Stabilisation Fund (HSF)

THE NEED FOR GREATER PUBLIC PRIVATE PARTNERSHIPS

Given current government budget constraints, we believe that private sector participation in conjunction with the Public Sector Investment Programme (PSIP) is now critical to address existing infrastructure and service needs. Essentially this will go a long way in ensuring that the medium-term investment strategy, is aligned to national objectives. Promoting and implementing such partnerships can help the government shorten delivery times, share risks, achieve better value for money and increase innovation in the infrastructure rollout and provision of services especially in boosting the housing sector. Such partnerships will allow our local private sector organisations to apply their skills and experience to infrastructure development and operation and mobilise finances for long-term infrastructure investments.

Disciplined Approach Required

Overall the 2017/2018 budget unveils a commitment by the present administration to fiscal prudence and continued focus on more sustainable levels of spending. However, estimates for capital revenue in the new fiscal year seem to be optimistic, as it is expected to reduce the fiscal deficit to 3% of GDP, a sharp drop from the 8.4% in FY 2017. The success of the approach outlined lies heavily on the discipline exercised and the government's ability to fully implement its stated objectives. It is expected that the economy will be driven by a rebound in natural gas production, proving to be the primary growth driver over the short term, supporting net exports and investment. Conclusively, the Minister stated that this budget represents a major step in the call for the collective support and commitment of citizens, signalling that sacrifices were needed to be made thereby ensuring the long-term sustainability of the nation's economy for the future generation.