TRINIDAD AND TOBAGO FISCAL BUDGET REPORT
FY2015/16

“Restoring Confidence and Rebuilding Trust: Let’s Do This Together.”

The Fiscal Budget for FY2015/16 for the first time in several years, did not set a record for being the largest ever, and falls short of the original FY2014/15 budget by TTD1.6 billion or 2.5%. This is not surprising given current oil and gas prices, and the fact that the Government expects to earn a mere TTD5.5 billion in energy revenue in FY2015/16—woefully short of the usual TTD20-30 billion. The Government is aiming for a deficit of TTD2.8 billion in the current fiscal year—the lowest since FY2010/11—and plans to balance the budget by FY2017/18. On the theme of restoring confidence and trust, addressing the fiscal issues is necessary but insufficient in resolving the deterioration in transparency, governance, and as a result, confidence, as reflected in the country’s ranking on the Institutions sub-index of the Global Competitiveness Index, and Transparency International’s Corruption Perceptions Index. It is however, an important step in the right direction.

- **Expenditure**—Budgeted expenditure in FY2014/15 was originally TTD64.664 billion, but the actual level of spending is estimated to have reached TTD61.817 billion—a shortfall of TTD2.8 billion or 4.4%. Fiscal expenditure therefore actually came in lower in FY2014/15 than the previous fiscal year, by TTD1 billion or 1.63%. In FY2015/16, expenditure is planned at just over TTD63 billion—a 2% or TTD1.23 billion increase over the level of spending estimated for FY2014/15. The capital investment programme for FY2015/16 has been reduced by 14.2% to TTD7.0 billion compared to FY2014/15, but does not include the public mass-transit system which is expected to be funded by the IADB.

- **Revenue**—Fiscal revenue for FY2014/15 was estimated at TTD54.8 billion—9.2% or TTD5.547 less than originally budgeted, and TTD3.6 or 6.15% below the previous fiscal year. Energy revenue for FY2014/15 is estimated at TTD8 billion, which is TTD13 billion less than originally budgeted. In FY2015/16, revenue is expected to increase by 10% or TTD5.5 billion to TTD60.3 billion. This, despite the fact that energy revenue is budgeted to fall by 72% to TTD5.5 billion in FY2015/16. According to the budget, the new Revenue Authority would enhance tax administration and generate TTD8 billion in additional revenue. Other tax measures are expected to yield an additional TTD5.2 billion in recurrent revenue, and will be supplemented by capital revenue of TTD13.4 billion, through IPOs, divestment and extra-ordinary dividends.
**Overall Fiscal Deficit**—The FY2014/15 estimated deficit of TTD7 billion or 4.2% of GDP is 63% wider than originally budgeted, but which was revised to roughly TTD11.7 billion in January 2015. The FY2015/16 deficit at TTD2.8 billion or 1.7% of GDP, will be 60% lower than the FY2014/15 estimated deficit. Empirical research conducted by the IMF has shown that Trinidad and Tobago’s economy is characterized by low fiscal multipliers. Specifically, this research finds that a 1% rise in government spending increases GDP growth by 0.07% in the second year, and with time the effect diminishes. Government spending therefore has transitory effects on economic activity with a delay of two years, which raises questions as to the usefulness of discretionary fiscal policy for short-run stabilization purposes. The research further suggests that tax reform aimed at curtailing the growth of debt or fiscal deficits may yield desirable results while improving GDP growth. The budget stated to this point “given projections for weak energy revenues, growth will now depend on the private sector’s willingness to expand investment and production for export markets.” The non-energy sector will now have to adjust to lower levels of fiscal spending. Public expenditure rose over the last five years from TTD46.7 billion in 2010 to TTD62.0 billion for FY2014/15—an increase of 33% percent. The majority of this spending came from personnel expenditure, transfers and subsidies, and capital expenditure, according to the budget.

**Budgeted Oil and Gas Prices**—The FY2015/16 budget used an oil price assumption of USD45/bbl and a mix of gas prices to properly reflect our markets, including Henry Hub of USD2.75/mmBtu and Indonesian LNG at USD8.00/mmBtu. The average of Brent, WTI and Dubai Fateh has fallen from a peak of USD108.40/bbl in June 2014. RBC Capital Markets expects WTI to average USD52/bbl this year and USD63/bbl in 2016, while acknowledging the growing risk of terrorism-driven supply disruptions—US intelligence indicate that the number of foreign ISIS fighters in Syria has nearly doubled in the past year, and currently stands at over 30,000. The IMF projects crude to average USD58/bbl in 2015 and USD66/bbl in 2016. In October 2014, daily average crude oil output reached 86,000 bpd, but has declined by about 5% y-o-y to 78,200 bpd in July 2015. August 2015 saw a production low of 75,238 bpd according to the budget. The IMF is projecting an average gas price per mmBtu of USD9.48 in 2015 and USD9.78 in 2016. In February 2014 the daily average natural gas output reached 4,403 mmcf per day, but has declined by 11.32% y-o-y to 3,674 mmcf per day in July 2015.

**Growth**—The economy is in (at least) a technical recession, as growth is estimated by the Central Bank to have contracted by 1.7% in Q1 and 2% in H1 2015, y-o-y. Growth is not expected to exceed 1.4% for the next two years, barring a strong recovery in energy prices, according to the budget. The number of employed persons is falling, having declined by 20,400 in one year to March 2015, as unemployment increased to 3.7%, after having held at 3.3% throughout the latter half of 2014.

**Fuel Subsidies**—The government continued the phasing-out of the
fuel subsidy by increasing the prices of diesel and super gasoline by 15% each to TTD1.72 and TTD3.11 per litre respectively. This is expected to save about TTD340.0 million, but the subsidy will still cost over TTD1 billion in FY2015/16. Empirical research has shown that at a 5% y-o-y increase in diesel and super fuel prices, ceteris paribus, we can expect an overall inflationary impact of 2.6% per annum. Assuming a linear relationship between changes in fuel prices and changes in the overall price level, a 1% change in fuel prices should lead to a 0.486% increase in transport prices and 0.522% increase in the overall price level. For now however, a disinflationary trend is in place—headline inflation slowed from 5.6% in July to 4% in August, while core inflation fell to 1.6%.

- **Debt**—Gross public sector debt has been expanding in the double digits y-o-y since Q4 2014. In Q2 2015, gross public sector debt grew by almost 18% y-o-y to TTD111.6 billion.

- **Foreign Reserves**—Reserves stood at USD10.48 billion or 12.1 months of imports in July 2015. In Q1 2015, the Balance of Payments deficit reached USD606.4 million, and there was an overall balance of payments deficit and a loss in official foreign reserves of USD720 million in FY2014/2015 according to the budget. Central Bank USD injections reached USD1.8 billion y-t-d in September 2015—an increase of 51.3% y-o-y. In September 2015, the TTD appreciated for the 16th consecutive month against the USD, to average TTD6.3625 : USD1.00, though supply constraints persist. The Central Bank will be asked by the Government to revert to the pre-April 2014 USD allocation system, which is more market based and could lead to a depreciation of the TTD versus the USD.

**A summary of the various initiatives announced:**

- Complete the Tamana Intech Park and the Piarco Aero Park and through public-private-partnerships, upgrade all existing industrial estates and create new ones.
- Establish a Sports Institute to modernize the sports industry with the ultimate objective of developing and promoting sports tourism.
- Encourage all public financial institutions to create small business windows to enable greater ease for SME entrepreneurs to access their facilities. Engage private financial institutions to do the same.
- Establish a Maritime Maintenance Facility to meet the maintenance requirements for the existing fleet of government-owned naval and maritime assets. Such a maintenance facility will catalyze the development of a ship-repair and ship-building industry.
- Provide a free national public broadband wireless network beginning with free hotspots in popular areas.
- Increase the personal income tax exemption limit from TTD60,000 to $72,000. All taxpayers earning TTD6,000 per month or less will now be exempt from tax and will not be required to file tax returns.
- Increase the Business Levy from 0.2% per quarter to 0.6% per quarter.
- Increase the rate of contribution to the Green Fund from 0.1% per quarter to 0.3% per quarter.
- Improve efficiency in VAT collection and broaden the base by reviewing
and adjusting exemptions and zero-rated items which are associated with non-essential or luxury items. VAT to be reduced from 15.0% to 12.5%.

- Establish a Revenue Authority by the end of the new fiscal year.
- Implement the existing Property Tax Act 2009 with a view to having a fair and equitable property tax regime in place by January 1, 2016, using the old levels and old rates as a starting point.
- Introduction of transfer pricing legislation.
- Introduction of a tax regime for the gaming industry.
- Introduction of legislation to increase all NIS earnings class limits by 13.5% with the maximum insurable earnings class limit increasing from TTD12,000 to TTD13,600. The NIS contribution rates will also be increased from 12.0% percent to 13.2%.
- Increase the cap on joint incomes received by retirees in respect of National Insurance and Old Age pensions, to TTD5,000, or an additional TTD500.00 per month.
- Creation of a Retirees’ Benefits Programme that will provide free drivers’ permits and passports for retirees over the age of 60. Additionally, later in 2016, introduce a system of discounts on utility bills for other categories of retirees, among other things.
- Reinroduction of a 10-year validity period for passports, for adults over the age of 18, and remove the requirement for our citizens to complete immigration forms at all official ports of entry.
- A 20% increase in stipends for the On the Job Training (OJT) Programme.
- Introduce a Graduate Recruitment Programme in 2016 in all twenty three Ministries and Tobago. Provide TTD55.0 million for the employment of at least twenty such university graduates in each Ministry and a suitable amount in Tobago, or a total of 500 graduates.
- Exempt from all duties and taxes, inputs into the agricultural sector, including approved chemicals, pest control, approved vehicles, approved fishing vessels and equipment.
- Introduce a video conferencing system at the Remand Yard, and a pilot project under which lay magistrates will address minor offences, thus reducing the burden on the magistrates’ court.
- Give the Judiciary financial autonomy with the ability to manage its own resources, projects and programmes, including the responsibility for procurement and construction of judicial facilities.

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<tr>
<th>TTD Millions</th>
<th>Actual FY2009/10</th>
<th>Actual FY2010/11</th>
<th>Actual FY2011/12</th>
<th>Actual FY2012/13</th>
<th>Actual FY2013/14</th>
<th>Budgeted FY2014/15</th>
<th>Estimated FY2014/15</th>
<th>% change</th>
<th>Budgeted FY2015/16</th>
<th>% change</th>
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<tbody>
<tr>
<td>Total revenue and grants</td>
<td>43,893</td>
<td>47,536</td>
<td>49,310</td>
<td>52,782</td>
<td>58,397</td>
<td>60,351</td>
<td>54,804</td>
<td>-9.2%</td>
<td>60,287</td>
<td>10.0%</td>
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<tr>
<td>Total Expenditure</td>
<td>46,731</td>
<td>49,853</td>
<td>53,840</td>
<td>58,827</td>
<td>62,839</td>
<td>64,664</td>
<td>61,817</td>
<td>-4.4%</td>
<td>63,048</td>
<td>2.0%</td>
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<tr>
<td>OVERALL BALANCE</td>
<td>-2,839</td>
<td>-2,317</td>
<td>-4,530</td>
<td>-6,045</td>
<td>-4,442</td>
<td>-4,313</td>
<td>-7,014</td>
<td>62.6%</td>
<td>-2,800</td>
<td>-60.1%</td>
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