


**INVESTMENT AND SOVEREIGN RESEARCH** October 2020

**2020/2021 Budget Highlights: Resetting the Economy for Growth**

On October 5, 2020 the Finance Minister Colm Imbert presented the 2020/21 Budget to the Parliament of Trinidad and Tobago. The Budget took action on the difficult decisions that was a long time in coming, resulting from the impact of the Covid-19 pandemic and its detrimental effects on both the revenue and expenditure side of Government affairs. The Minister of Finance projected a fiscal deficit of \$8.2 billion on the back of \$41.4 billion in revenue, while stating that last year's deficit was \$16.8 billion, in excess of the \$5.3 billion projected in the 2019/20 Budget presentation. In light of the current economic climate and indecisiveness of investors, this review takes a closer look at some of the major announcements from the viewpoint of an investor and highlights the associated implications.

(TTD\$Mn)	Actual 2014/15	Actual 2015/16	Actual 2016/17	Actual 2017/18	Actual 2018/19	Est. 2019/20	Est. 2020/21
<b>Revenue</b>							
Tax	41,351.4	28,990.6	25,654.5	31,177.1	32,035.7	25,479.3	28,094.4
Non-Tax	9,955.8	11,405.2	8,299.3	10,177.6	12,051.2	7,013.3	11,056.3
Capital	4,989.2	3,813.7	1,310.5	837.8	979.8	713.4	905.1
	<b>56,296.4</b>	<b>44,209.5</b>	<b>35,264.3</b>	<b>42,192.5</b>	<b>45,066.7</b>	<b>33,206.0</b>	<b>40,055.8</b>
<b>Recurrent Expenditure</b>							
Personnel	9,369.4	9,525.1	9,637.9	8,822.2	8,855.7	8,684.9	8,601.5
Goods, Services & Minor Equipment	7,556.3	6,247.9	5,259.1	5,871.8	5,651.7	5,358.1	5,352.1
Interest & Other Debt Charges	3,987.5	4,840.5	5,036.4	5,017.2	5,820.3	4,065.2	4,760.1
Transfers & Subsidies	26,296.0	22,212.7	20,150.0	20,662.4	22,346.7	23,571.6	23,024.3
Transfers to Statutory Bodies	7,534.6	7,292.5	6,630.8	6,328.1	6,167.4	6,035.3	5,183.6
	<b>54,743.8</b>	<b>50,118.7</b>	<b>46,714.2</b>	<b>46,701.7</b>	<b>48,841.8</b>	<b>47,715.1</b>	<b>46,921.6</b>
<b>CAPEX</b>							
Development Program	<b>4,064.3</b>	<b>2,927.2</b>	<b>1,946.9</b>	<b>1,652.2</b>	<b>1,609.8</b>	<b>1,807.3</b>	<b>2,221.7</b>
<b>Deficit</b>	<b>(2,511.7)</b>	<b>(8,836.4)</b>	<b>(13,396.8)</b>	<b>(6,161.4)</b>	<b>(5,384.9)</b>	<b>(16,316.4)</b>	<b>(9,087.5)</b>

Source: Ministry of Finance

Revenue and expenditure exclude the Unemployment and Green Funds

## The Property Tax

In the Fiscal Year 2020/21, the Government intends to begin collecting property taxes. The Minister of Finance sought to reassure the public that the rates would be “fair and reasonable and will not present an onerous burden”. Residential properties will be the first subject to the tax, followed by commercial, industrial and agricultural properties. We note that the property tax has been law since January 2010. However a moratorium was instated at that time as more than 50% of the properties required valuations to be completed. In an attempt to satisfy this requirement, the Minister announced that the Commissioner of Valuations would be making mandatory requests to property owners for information in the near future.

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### Public Utilities

Public utilities are very important for the economic well-being of our community. They satisfy our basic wants, especially during the Pandemic. In the Budget, the Minister of Finance indicated that the government would move forward with a Cabinet Sub-Committee focusing its attention on key issues such as WASA's aging pipelines, unsustainable debt and governance structure, which was leading to inadequate water distribution. The Committee will also review tariffs for the optimization of the water distribution system. This is likely to result in an increase in the rate in order to reduce the burden of the utility provider on the state and ultimately transfer cost to citizens.

### Personal Income Tax

The Government will increase the personal income tax exemption limit from \$72,000 to \$84,000 per year from January 1, 2021. This change will result in an additional \$3,000 per year into the pockets of over 250,000 taxpayers. This change expects to stimulate economic activity, as the net effect on GDP is projected to be greater than the \$750 million as opportunity cost.

### Agriculture

Within the Budget presentation, the Minister of Finance noted that in the past the Government has been spending \$4 billion annually on imported food for the citizens of Trinidad and Tobago. This has become unsustainable and due to the negative impact of the COVID-19 pandemic on the country's revenue, domestic food security will take priority. To support food self-sustainability the Minister has made a commitment to an additional \$500 Million via the Agriculture stimulus package to be established in 2021. Along with making all areas of agriculture a *tax-free industry*. Additionally focus will be on recognizing the food value and distribution chains as key strengths. These initiatives, if successful will drive the growth of the industry and support to local farming to restart towards food sustainability and reduce the strain on the already stressed foreign reserves.

### Liquid Petroleum Products Sector Reform

Beginning in January 2021, the fixed retail margins for all liquid petroleum products will be removed, allowing gas stations to set their own margins. The Minister reasoned that at current international oil prices, subsidies do not arise in the sale of premium gasoline or super gasoline, but they continue to prevail in the sale of diesel, kerosene and LPG (LPG to remain subsidized). In addition, all gas stations owned by National Petroleum (NP) will be offered to the private sector for purchase, with first preference being given to existing dealers and concessionaires. This initiative will provide the Government with a one-time revenue from the sale of assets. While, the Minister estimated that the net result should be little or no increase in the price of motor fuels at current oil prices, gas stations have historically earned net margins is in the range of 2% - 4%. We expect to see an increase in gas prices immediately, however what is clear when there is a

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recovery in global energy prices referencing Platt's pricing for fuel prices domestically would result in future pump prices exceeding the current price levels at the pumps, this is left to be seen. Petroleum Dealers Association President, Robin Naraynsingh has stated that he does not expect exorbitant increases, with prices at the pump likely going up less than 25 cents per liter.

### Privatization of the Port of Port of Spain

The Government indicated that by the end of 2021 a private sector operator will be pursued for the Port to execute on managerial, operational and financial responsibility for commercial activities such as terminals and equipment in the port area. The Port Authority will retain its regulatory and asset management functions, in keeping with global practice. This would provide the Government with a new source of revenue to negative funding gap as the economy shifts due to dwindling oil and gas revenue. While, privatization is expected to bring newfound efficiency to port operations, Chamber of Industry and Commerce President Reyaz Ahamad noted that role of the Customs & Excise Division will continue to be possible pain point for business owners.

### Cigarette Taxes

Taking effect on October 20, 2020 the Government will increase excise duty by 20% on locally manufactured tobacco products, increase customs duty by 20% on imported tobacco from the Common Market Origin and adjust the customs duty payable on tobacco products imported into Trinidad and Tobago from extra-regional sources to have it receive equal treatment to that of the common market. These measures should to curb the consumption of tobacco due to the harm it causes both socially as well as economically. The use of cigarette has resulted in the Government spending an estimated \$500,000 per year to treat one lung cancer patient, with the multiplier unknown. The immediate impact of this would be revenue generation to offset expenses, but the expected medical savings being long term, as the side effect of cigarette smoking takes years to materialize. For the locally listed West Indian Tobacco Company (WCO) the impact would direct and should manifest itself in dampening demand resulting in reduced profit and revenue, though the inelastic nature of WCO's product result is limited immediate impact.

### SME Stock Market Incentives

With an aim to promote access by Small-and-Medium Enterprises (SME's) to equity funding, there will be an amendment to the Corporation Tax act to incentivize companies to raise capital on the Trinidad & Tobago SME Exchange. Taking effective January 1, 2021, the incentive period will be a full tax holiday for the first 5 years, followed by a 50% tax holiday for the another 5 years. This will foster the access to financing to support growth of these companies with the aspiration that in the long term they become significant contributors to economy in the long term. Trinidad & Tobago Manufacturing Association (TTMA) President Franka Costelloe has said that this initiative mirrors the TTMA's focus on its'

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Manufacturing Strategy on a business environment that is conducive to entrepreneurship and innovation, leading to some optimistic speculation on our part that the new incentives may entice some members of the TTMA to list on the SME exchange.

### Rationalizing the New and Used Vehicles Market

Trinidad & Tobago imports approximately 25,000 motor vehicles at a cost of US\$400 million per year according to the Minister of Finance and identified as an unsustainable and serious leakage of foreign exchange. The Government proposed as of October 20, 2020 to remove all tax concessions on the importation of private motor cars, to reduce the permissible age of imported foreign cars to 3 years and to reduce import quotas by 30% for used cars. The intention is to suppress the demand, however these measures are likely to increase the purchase value of vehicles, both new and used on the local market, as the public transportation system is not currently a reliable option for segments of the population, due to inefficiency and crime. The lowest rates of duty and tax imposed was on hybrid, electric, CNG and small engine cars below 1,500cc, to encourage their use. Tax concessions for commercial, industrial and public transport vehicles remain in place. This measure will affect local conglomerates Massy and ANSA McAL as the country's large dealerships for all types of transport vehicles.

### National Insurance Board

In order to ensure that the National Insurance Board (NIB) remains able to provide citizens with income security for various needs including retirement, maternity, employment injury and funeral expenses, the Finance Minister aspires to move the retirement rate to 65 from the current 60 years. This will cushion the impact of the net outflows at NIB, as currently expenditure on benefits exceeds the contribution income. The actuarial reviews, as far back as 2014, had recommended increasing the retirement age as well as contribution rates. These recommendations have become necessary to ensure the survival of the NIB as changes in the population's composition, specifically to the aging, apart from greater social benefits by consecutive Governments that would have contributed to NIB's current unsustainable path.

### Digitization

On the heels of the elections, the Government in the budget continues its thrust towards digitization and with focus being on a new lifecycle of accessing new markets and new models with the build out of the e-government services that would lead to e-business, e-commerce, e-government and e-banking. These initiatives have greater priority as government looks to improve its ease of doing business. The Minister noted that they would be working to implement the e-identity to support data transmission by all agencies, which would be a significant advancement for both corporates and citizens of Trinidad and Tobago. The Minister of Finance provided strategic incentives to the private sector for the next two years, that includes grants for technology start-ups, tax credits for businesses that invest tech startups or new technology

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businesses and financing for entrepreneurs involved in software and mobile application development, among other technology support services. There will also be a Tech Investment Fund and a Tech Promotions and Development Company to support the growth. These incentives would support Trinidad and Tobago in securing a digital future, resulting in significant operational and performance efficiencies for both the government and corporates.

### Our View

Covid-19 has brought immeasurable hardship both socially and economically to our small twin island republic. However, the effects of the crisis seem to have nudged Government in the right direction as reduced energy revenues have led Government to raise necessary funds through divestment, while reducing excess spending in non-productive sectors of the economy but redirect funding to creating opportunity. There will be an increase in the cost of living to all citizens, along with the manufacturing sector as production costs increase through adjustments in fuel and utility prices. However, these adjustments are necessary to transition the citizens of Trinidad and Tobago into a market-based system. For the lower income bucket, the increase in the personal income tax exemption limit would counterbalance the escalating cost of living.

The privatization of the Port of Port of Spain and the liberalization of the Liquid Petroleum Products Sector are steps towards a more free-market approach. These changes are expected to yield increased operating efficiency and encourage enterprise risk-taking. Additionally, with the need to raise revenue to fill the bucket of falling revenue, we can expect further divestment from the Government, allowing members of the private sector to assume a greater role in the economy and drive both diversification and growth. This can provide an opportunity to SMEs to seek opportunity, which would further support growth in the local capital markets by either raising capital on the SME exchange as incentivized above or via debt financing. We are hopeful that the capital markets can benefit from the drive towards private-public partnership by the Government.

The expectation is that the Government's budget deficit will exceed the \$8.2 billion projected in the budget presentation, largely due to our view that oil and especially gas price estimates are slightly optimistic, given the COVID-19 pandemic impact in the next year at least. The current Debt/GDP ratio stands at 80%, which is at historic levels, coupled with the fact that the Government is either fully refinancing existing borrowings or borrowing to service existing debt, suggest that the need to further divest assets or draw on the Heritage and Stabilization Fund (HSF) to support the budgeted level of expenditure. Otherwise, we risk further deterioration in our credit quality and possible downgrade risk, which would elevate the borrowing cost for the country. Historically, the divestment of assets to the citizens of Trinidad and Tobago has provided favorable opportunities for investors to secure healthy returns in the short-medium term.

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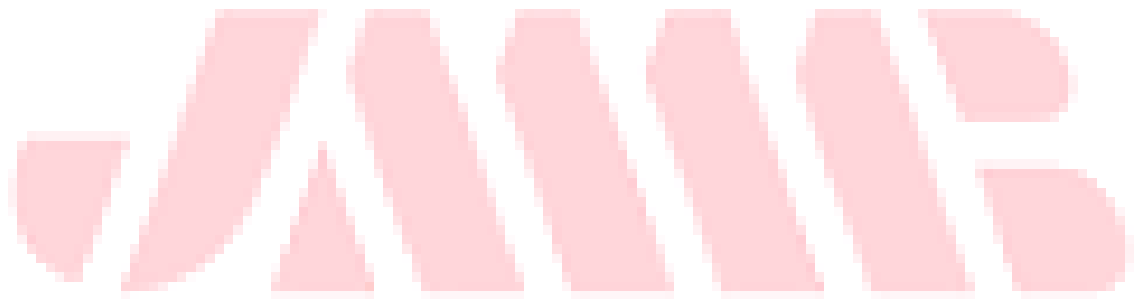


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For more information, please contact JMMB Investment (Trinidad and Tobago) Limited at [infott@jmmb.com](mailto:infott@jmmb.com) or call 224-JMMB to speak to one of our Investment Advisors



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