Budget 2021/2022: Perhaps More Accommodating than Most Expected

Since 2015, when global energy prices and domestic revenue plummeted with the emergence of largescale US Shale production, each successive National Budget has been regarded by no shortage of individuals, to be among the most pivotal in our nation's history. This is reflective of both the intense pressures facing the economy and the need for key reforms to enhance economic sustainability and business facilitation. The occasion of the 2021/2022 fiscal package is no different. If anything, the anxiety is now much more acute, with the domestic economy and sadly, portions of the population, having suffered the ravages of the COVID-19 pandemic for 18 months. For instance, real GDP is estimated to have contracted by 7.4 percent in 2020, with energy sector output slumping by 12.2 percent and the non-energy sector by 5 percent. Overall economic activity is expected to decline further by 1 percent in 2021. Regarding the virus' impact on the population's health, while the Finance Minister was in the middle of his budget speech, it was confirmed that as at October 4th, 2021, the country had a total of 51,387 cases and 1,508 deaths to date.

Set, as it was against a daunting domestic economic landscape, the lead-up to this latest fiscal package was characterised by cries for government to focus on stimulating economic activity, even as it attended to other challenges spawned by the pandemic and despite its own fiscal challenges. These calls were married with appeals for government not to consider increasing taxes at this time, with many fearful the state would move to re-introduce the property tax during the 2022 fiscal year. As it turned out, the 2022 budget was a lot more accommodating than most expected, with the increase in the penalty for overweight trucks to $8,000, representing the only increased levy.

The government is seeking to further its digital transformation agenda, with the fiscal package highlighting its desire for the country to eventually become an exporter of digital goods and services. To this end, the plan to develop a Fintech hub through the expanded mandate of the International Financial Centre could prove quite useful. It would have been good if a timeframe was provided for this initiative though. Nevertheless, government expects that its Memorandum of Understanding with Estonia, a global leader in digital transformation, will greatly facilitate its digitisation ambitions. Other plans to advance the current administration's national digitisation drive include the provision of broadband access to 25 underserved communities and an increase in the number of IT Access Centres from 6 to 50 in 2022. The government also plans develop a Digital Developer Hub in collaboration with the private sector and academia.

In terms of providing further support to embattled businesses, the proposed 5 percent reduction in the tax rate for qualified manufacturers, exporters and SMEs will no doubt be welcomed. However, one suspects further liquidity support and access to foreign exchange will also be urgent needs among many firms for the foreseeable future. The move to encourage firms to invest more in research and develop by way of a 40 percent capital allowance is indeed commendable and demonstrates at least an understanding of the need to build an economy that is more centred on innovation. Finally, in what must be the state's boldest move to encourage SMEs to list on the junior stock exchange to date, the budget offers a full-tax holiday for five years and a reduced tax rate (50 percent) for the ensuing five years for such businesses that decide to offer shares on the domestic stock market. The extent to which this can provide some impetus to the much under-utilised junior stock market remains to be seen.

The budget also seeks to provide further relief to the vulnerable in society by removing Value Added Tax on more basic food items and increasing the utility rebates to which they are eligible. In this regard, the government must be commended for seeking to provide the relief in a more targeted way by means of a utility cash card. Likewise, fuel cash cards will be provided to low income households to cushion the effects of rising fuel prices. Despite the intent to provide such relief in a more efficient manner, it will not be a surprise if these programmes are tainted by corruption in some way in the future.

With climate change and the control of greenhouse gas emissions now a very hot topic, it’s absolutely no surprise that the Finance Minister took the opportunity to remove all taxes and duties from electric vehicles.

The budget is based on an oil price of US$65.00 per barrel and a gas price of US$3.75 per MMBtu. The budgeted oil price is just US$1 below the US Energy Information Administration’s (EIA) Brent Spot price projections for 2022, while the budgeted gas price is above EIA’s US$3.47. If EIA’s projections materialise, the government may be forced to make adjustments during its Mid-Year Review. Government envisages total revenue to reach $43.3 billion in fiscal 2022, compared to the actual outturn of $37.1 billion a year earlier. Energy revenue is expected to increase to $12.6 billion from $8.6 billion. Total expenditure is expected to increase slightly to $52.2 billion in 2022 from $50.8 billion. The budget is set to produce an overall deficit of $9.1 billion, down from $13.7 billion in fiscal 2021. The government announced that the deficit will be financed by a range of financial options. One of those measures is likely to include the proceeds of divestments, though to a limited extent. The aim is to raise $550 from the sale of a small portion of government’s holding of shares in First Citizens Bank. The government also plans to execute an initial public offer after it merges the operations of Trinidad and Tobago Mortgage Finance Company Limited and the Home Mortgage Bank. Adjusted government debt is expected to rise to 87.2 percent of GDP in 2022 from 84.8 percent in 2021.

The title of this latest fiscal package (“Resilience in the Face of a Global Pandemic”) is very much reflective of the objective of most developing nations in the wake of COVID-19. That is, besides building herd immunity through vaccination of course. The package itself seeks to highlight how government intends to proceed with many of its previously announced initiatives, while also introducing a few new ones, although no timelines were identified in some instances. One suspects though, that for the country to gain any meaningful headway in any of these plans, we must overcome what is by now a very familiar bugbear, namely our failure to successfully implement programmes. It will also be a good idea to evaluate past missteps to ensure that we learn from previous errors. Finally, such objectives should be accompanied by measurable goals by which we can gauge success.

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