Government of the Republic of Trinidad and Tobago

MINISTRY OF FINANCE

Update on the Actual Fiscal Outturn for Trinidad And Tobago for the first Four Months of Fiscal 2021

The Reality of Covid-19 and its Effect on the Energy Sector and the Economy

We, the government of Trinidad and Tobago think it is necessary to bring you up to date on the continued negative effects of Covid-19 on the Trinidad and Tobago economy.

In this respect, Trinidad and Tobago is no different to any other country in the world. In particular, like all oil and gas based economies, Covid-19 has hit us hard.

The official budget estimate of revenue for the period October 1, 2020 to January 31, 2021, i.e. the first 4 months of the fiscal year, was based on all available information at the end of September 2020 and was $13.823 billion.

However, primarily as a result of the adverse effects of the pandemic, the actual revenue collection for this 4-month period was $12.020 billion, a negative variance of $1.803 billion, or 13.0% less than the estimates

The shortfall in revenue occurred in a number of areas.

Firstly, Taxes on Income and Profits was down by $436 million, or 9%, compared with estimates.

Of this total:

- Taxes from oil companies was down by $268 million, or 39.7%. This was a direct result of depressed prices for oil and gas and lower than expected production volumes

- Taxes from other companies, which includes petrochemical companies, was down by $133 million or 8.4%. This was essentially due to the worldwide collapse of petrochemical prices
- Taxes from individuals was down by $27 million or only 1.4%, which is a relatively positive indicator
- Taxes on international trade (imports) was down by $46 million or only 4.8%, another relatively positive indicator
- Stamp duty was down by $25 million or 21.9%, reflecting a risk-adverse posture in the commercial sector

Secondly, Non-Tax Revenue was down by $1.430 billion or 35%

Of this total:

- Royalties on oil and gas was down by $806 million, or 49.2%, again as a result of depressed oil and gas prices and lower than expected production volumes
- Profits from the Central Bank was down by $422 million, or 23.5%, as a result of the lower repo rate and general instability in world stock markets
- Extraordinary receipts from oil and gas companies was down by $100 million or 98.0%, again as a result of the downturn in the oil and gas sector
- Profits from state enterprises was down by $22 million or 15.3%, as companies struggled with the commercial fallout from the virus

The Unemployment Levy in particular, which is a tax charged on the taxable profits of petroleum companies, was down by $52 million, or 56.7% for the period.

The effect of all this is that the Government has been seriously challenged in the first 4 months of the financial year to find the money necessary to keep the country running and to meet mandatory commitments and has had to resort to loan financing and withdrawals from the Heritage and Stabilisation Fund, to make up the deficit between income and expenditure. We have so far borrowed $3 billion for direct budgetary support and withdrawn the equivalent of a further $2 billion from the Heritage and Stabilization Fund, simply to pay salaries and wages and pensions and keep our health sector functioning in the face of the demands of Covid-19.

As per usual, payments of salaries and wages for the approximately 90,000 workers in the public sector has been our top priority, followed by senior citizens pension and social welfare payments, health care, support for key state enterprises such as the Water and Sewerage Authority, debt servicing, national security and the police service, and subsidies and transfers for public transportation, education and so on. We have also been careful not to stop ongoing Government construction projects, since this is a major source of employment and economic stimulus.

These essential payments, or mandatory payments, as we call them, cost the country a staggering $3.5 billion per month, each and every month. And, in order to make these essential payments, releases for goods and services have had to be reduced, which is creating its own problems as bills accumulate for rent, janitorial and private security services, among other things.

It has been difficult, but we have managed.

However, running persistent budget deficits and increasing the public debt without limits is unsustainable, and going forward, we must change our approach as a country and make serious choices as to what we use our scarce resources for.

For example, over the last 3 years, we have supported WASA by way of loan financing for its basic operations to the tune of $2.27 billion, including a loan facility of $675 million in 2020 just to pay for desalinated water, which is already spent, and must be replenished.

In addition, through direct subventions, again for its operating expenses, we have provided WASA with a further $1.67 billion per year, making the total financial support to WASA over the last 3 years equal to $7.28 billion. And with all that funding, WASA still struggles to pay its bills to suppliers and contractors.

Similarly, TTEC requires support of over $800 million a year to pay for the gas used to produce electricity and to service a series of loans.

TTPost gets financial support of $80 million a year; the Solid Waste Management Company costs $115 million per year; PTSC (bus transport) is subsidised to the tune of $300 million a year and the inter-island ferry service costs over $400 million a year in subsidies when all costs are considered.

These are just some examples of the subsidies and transfers that make up almost 50% of the annual budget.

Covid-19 has also adversely affected the air transportation sector, requiring subsidy by the Government of Caribbean Airlines to the tune of $700 million over the last year. The Airports Authority is also haemorrhaging, since with the borders being closed it is earning little or no revenue, while incurring significant operational costs.

And if the trend of the first 4 months of the financial year continues, we may lose up to $5 billion in revenue for fiscal 2021, primarily as a result of depressed production and low prices of natural gas.

To finance this unplanned deficit will require additional unbudgeted borrowing and further withdrawals from the HSF for this year. However, that approach is not sustainable and we must also move to control expenditure.

Accordingly, by next month, the retail fuels sector should be fully liberalised, thus removing the requirement for a fuel subsidy, which has cost taxpayers as much as $7 billion in one year, 2014. We also expect that the Regulated Industries Commission will adjudicate on appropriate levels of water and electricity rates in 2021.

Ministerial Teams have also reported on proposals for the restructuring of WASA for greater efficiency and the introduction of a private operator at the Port of Port of Spain to increase revenue and reduce costs, where feasible, and these reports are currently being reviewed.

However, as we move forward, our primary objective as a Government must be to preserve jobs and maintain essential Government services.

In this context, demands from Trade Unions for wage increases, with associated billions of dollars in backpay, are difficult to understand.

With a persistent budget deficit and uncertainty as to when the global and local economy will fully recover from the destructive effects of Covid-19, we simply can’t afford significant wage increases at this time.

By way of example, the Industrial Court has determined a wage increase for National Petroleum with consolidation of COLA going back 9 years to 2011. The effective wage increases were in excess of 20% and having implemented the increases, NP has moved from barely breaking even to a loss position of over $50 million in 2020, which is just not sustainable.

Simply put, if excessive wage increases are granted in the state sector, then employment levels may have to be reduced, because the additional money simply isn’t there

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The Honourable Colm Imbert, M.P.
Minister of Finance
February 10th, 2021