Government of the Republic of Trinidad and Tobago

MINISTRY OF FINANCE

ICATT's 2022 Conference

13th Annual International Finance and Accounting Conference (AIFAC 2022)

Address by the Honourable Colm Imbert, MP, Minister of Finance

Friday, November 18, 2022, at the
Hyatt Regency, Port of Spain, Trinidad.

Good morning

I would like to thank the Institute of Chartered Accountants of Trinidad and Tobago for the opportunity to be a Feature Speaker at its **13th Annual International Finance and Accounting Conference**

I wish to acknowledge this morning:

- My ministerial colleagues
- Mr Dwayne Rodriguez-Seijas, President of ICATT, and other members of the ICATT Council
- Ms Marsha Caballero - Chief Executive Officer ICATT
- Members of ICATT
- Other speakers, presenters, and subject matter experts
- Other distinguished guests
- Members of the Media

Overview

Ladies and Gentlemen, occasions such as these present important forums for cooperative collaboration in developing and refining public economic policy with the strategic plans of the private sector so that the broad national agenda is well executed.

We have all been affected by the socio-economic challenges brought on by the COVID -19 pandemic that impacted this same common agenda in March 2020, just as our economy was recovering from the external oil price shock that began in 2014.

These macroeconomic considerations shape an energy-commodity-driven economy such as ours as we adapt and build resilience to mitigate these risks. As auditors and accountants, you would appreciate that this is a continuous responsibility of the Government and as far as is possible we must put dedicated resources in place for these situations.

The term “public financial management” is often used to describe the annual budget cycle, which typically involves (1) budget formulation; (2) budget execution; (3) accounting and reporting; and (4) external audit.

In Trinidad and Tobago, this process typically begins at the end of the first half of the financial year, i.e., around April, with a call circular from the Minister of Finance to Ministries, Departments and Agencies, for their budgetary requests and proposals for the next fiscal year.

Within the next 3-4 months up to August, submissions are received and evaluated by the Budget Division of the Ministry of Finance, in preparation for the delivery of the annual Budget in September or October. It should be noted that the annual budget is split into two components - recurrent expenditure, and capital expenditure

Traditionally, the design of the capital expenditure element of the Budget, i.e., the Public Sector Investment Programme (PSIP), has been overseen by the Ministry responsible for Planning, although that aspect of the budgetary process has from time to time over the years has been dealt with by the Ministry of Finance, depending on the approach of various governments.

The Minister of Finance currently manages this process by giving the Minister of Planning an expenditure envelope for the PSIP, based on an analysis of the estimates of revenue and expenditure and the targeted fiscal deficit, which is normally a percentage of GDP, following international norms. The desired limit for the fiscal deficit has been set at 3% of GDP for some time now, which is an international benchmark.

Because we understand the importance of capital expenditure for growth and development, we sought to allocate at least $4 to $5 Billion each year to the capital development programme, or about 8% to 10% of total expenditure during the period 2016-2021. This year, because of improved revenue, our capital programme for 2023, at $6.2 billion, is 11% of total expenditure, $2.5 billion more than the actual expenditure in 2022.

You should note that the requested budgetary allocations usually exceed the available revenue and allowable expenditure by 100%. We can thus never meet all requests made, and cuts must always be made to fit within our expenditure limit and our planned budget deficit, in the finalisation of the annual Budget.

However, in tough economic times, it is not possible to even meet the desired benchmarks.

Allow me therefore to give you an overview of our financial management challenges over the last 7 years.

For example, when the price of oil dropped to US$26 per barrel in 2016, down from US$100 per barrel less than a year before, and the effect of tax incentives given to oil and gas companies in previous years also kicked in, the Government lost $12 billion in revenue in that year.

Revenue thus fell from $57 billion in 2015 to $45 billion in 2016, in just one year, and because of the public expenditure profile at the time and various contractual obligations, such as backpay owed from wage increases in 2015, it was not possible to reduce annual expenditure by more than $7 billion in 2016, without crashing the economy. This left an unfunded gap of $5 billion, which had to be financed by borrowing, leading to a fiscal deficit in that year of $8 billion, or 5.4% of GDP, above our target level.

Natural gas prices also plummeted, dropping from over US$6 per MMBtu in 2014 to US$2 per MMBtu in 2016 and oil prices continued to be in the doldrums. This had a further deleterious effect on government revenue, reducing revenue to $36 billion in 2017, or $21 Billion less than the revenue in 2015.

To cope with this 37% reduction in annual government revenue in just 2 years, further expenditure cuts had to be made, with a further $3 Billion reduction, taking expenditure down to under $50 billion in 2017. In that year, the fiscal deficit was $13.5 billion, or 8.9% of GDP, way above the targeted 3% of GDP. But we had no choice. To meet inescapable expenditure, or mandatory expenditure, as we call it, we had to maintain a minimum expenditure amount of about $4 billion a month, just to pay salaries and wages, service debt, pay social grants, including senior citizens' pension, keep essential services like water and electricity running, pay suppliers and contractors and so on.

By this time, out of necessity, we had adjusted our tax regime, including, in particular, the imposition of an across-the-board royalty of 12.5% on oil and gas. Our revenue position began to improve, increasing from $36 billion in 2017 to $43 billion in 2018 and almost $47 billion in 2019. The fiscal deficit was also reduced to $5.7 billion in 2018 and $4.0 billion in 2019, dropping to 2.5% of GDP in 2019, below our fiscal target.

So, from a public financial management perspective, things were looking up. We were moving towards a balanced budget and beginning to clear off arrears of payments that had built up in the difficult early years

And then came Covid-19 in 2020, which wrecked our work of the preceding 4 years.

However, despite the severe adverse effects of Covid-19 on government revenue, with the price of oil dropping to zero in 2020, we made a conscious decision to maintain public expenditure in the $50 to $51 billion range, to preserve economic momentum and keep people in jobs, and we also introduced many financial support measures for individuals and businesses.

Because of the global economic devastation of Covid-19, revenue plummeted to $34 billion in that year, 2020, the lowest for 14 years, GDP fell significantly, and the fiscal deficit ballooned up to $16.7 billion or 11.5% of GDP. We had to borrow heavily and make significant withdrawals from our rainy-day fund, the Heritage and Stabilisation Fund, just to keep afloat.

Further, as a result of public health restrictions and the worldwide recession in 2020, the following year, 2021, was still difficult, with the fiscal deficit for that year at over $12 billion, although revenue increased to $37 billion. But we managed to meet our mandatory commitments and we paid salaries and social grants on time, serviced our debt, kept essential services running and so on.

It was only in this year, 2022, as a result of the fiscal reforms, fiscal consolidation measures and incentives implemented over the years, and targeted support for the business sector, especially manufacturing and exports, and of course, elevated commodity prices from the Ukraine war, that we have seen the light at the end of the tunnel. Amazingly, revenue has skyrocketed from $37 billion in 2021 to $54 billion in 2022, an increase of $17 billion, of which increase, believe it or not, 30% is in the non-oil sector.

In fact, even though we spent $3 billion more in fiscal 2022 than originally planned, we almost balanced the Budget in 2022, reducing the fiscal deficit to 0.2% of GDP. Compare that to 2020, when the fiscal deficit was 11.5% of GDP. As accountants, you will be interested to learn that since we operate our government accounts on a cash basis, and not an accrual basis, if I had delayed one large fuel subsidy payment by one day, from September 30th to October 1st, I would have balanced the 2022 Budget!

What has also improved tremendously is our Government overdraft situation.

In those difficult years up to 2019 and then in the Covid years of 2020 and 2021, we had to operate our overdraft at the maximum, just to meet inescapable commitments.

Indeed, in the 2016-2018 period, we had to watch our overdraft carefully every single day, and as the end of each month approached and the overdraft crossed 80% and then 90%, we often had to rush to the commercial banking sector for budgetary support, otherwise, Government cheques would have been dishonoured. Many times, the overdraft hit 99% of the allowable statutory limit. Those days were not easy.

Compare that to yesterday, when I looked at the overdraft and it was 45% of the allowable limit, meaning that we had a buffer of over $6 billion for emergencies, which can carry us for over a month without collecting any revenue at all. So different to September 2015, when we had enough funds in the Government's account at the Central Bank to pay our bills for 3 days!

Driving Public Financial Management

Moving on now to the theme of this address, the Government has been engaged for several years in reforms that seek to strengthen the public financial management of the country.

The effectiveness of public financial management is essential, to ensure the viability of public finances and the success of all phases of budgeting; expenditure management, resource mobilization, and debt management. Our fiscal policies seek to improve the government's ability to create a sustainable environment that supports and promotes employment opportunities and new avenues for business development.

To ensure that we achieve these objectives, an agile tax administration is essential. There have been several recent studies that prove the importance of globalization, technological initiatives and modern strategies for improving tax administration. Further, the trend towards globalization has increased the magnitude and complexity of investments, electronic commerce, international trade, and service transactions.

As globalization continues apace, and the world becomes increasingly connected through the Internet, we see the growing use of Information and Communication Technology (ICT) for the supply of goods and services, especially for the mobility of businesses and people.
Globalization has thus impacted the development of modern-day tax administration while emphasizing the need for continuous improvements in the system. Indeed, the growing concern of tax administrations throughout the world is the determination of how to simplify the tax assessment system to encourage voluntary compliance, while at the

same time providing equity, and addressing the issue of tax avoidance by international companies, using information technology and continuous research and training.

Accordingly, several international initiatives have been adopted to improve tax administration and fiscal policies. The Organization for Economic Cooperation and Development (OECD) base erosion and profit shifting (BEPS) fifteen (15) point plan is one of the main initiatives. This plan includes information exchange, global minimum tax, presumptive tax and review of operations from a headquarters function and tax perspective. These crucial initiatives are increasingly important and are some of the key projects of the fledging Trinidad and Tobago Revenue Authority (TTRA), now under construction.

More than ever, in the current recessionary climate, a domestic and international approach must be considered to boost financial transparency and broaden the scope of public financial management. As a result, the reporting arrangement for a revenue agency model and an effective public financial management system is critical to bridging the gap between potential and actual revenue and ensuring the twin goals of transparency and sustainability of public finances. Sound public financial management will ensure that Trinidad and Tobago's efforts to reduce and eliminate fiscal imbalances and accelerate the structural reforms required for economic diversification yield results.

In all of this, the basic requirements to enable the Government to boost its capacity to prudently allocate and use resources effectively and efficiently are meticulous budgeting, use of well-established and proven financial management principles and systems, transparency, proper reporting to the public, accountability, and timely auditing.

Driving Sustainability

Institutional Strengthening

Institutional strengthening is a major factor in ensuring greater monetary and fiscal stability and improved debt management.

Enhancing institutional capacity has remained a top policy objective for the Government, due to the importance of its impact on economic growth and sustainable development. The strong governance of the Central Bank of Trinidad and Tobago has also resulted in over sixty (60) years of financial and currency stability, enabling trust in the country's institutional capacity, and ensuring continuous savings and investment, which are the pillars of growth.

The Ministry of Finance is also driving sustainability that supports the transformational agenda within the public service through the implementation of an Integrated Financial Management Information System (IFMIS), with one central database and operation on one single entry point for all classifications of fiscal data. This new system will become fully operational in 2023 and allow us to see our financial situation in real time. This would also support the adoption of the Cash Basis International Public Sector Accounting Standards (IPSAS), the development of a cash management strategy to include active cash management and cash flow forecasting, the implementation of a Treasury Single Account (TSA), process redesign to support automation and improved cash management.

Additionally, the effort to strengthen the Internal Audit Function within the public sector to be aligned with current practices within the standards of the International Professional Practices Framework of Internal Auditing will continue.

Debt Management

Due to external economic shocks such as the COVID-19 pandemic, supply-chain disruptions and the Russia-Ukraine Conflict, Government borrowing has been a valuable tool used for financing investments in productive sectors that are critical to achieving diversified growth and sustainable development, as well as for covering short-term imbalances between revenues and expenditures. However, this has led to increased debt-to-GDP ratios internationally and domestically. Trinidad and Tobago's debt-carrying capacity depends on various factors including the quality of institutions and debt management capacity, policies, and macroeconomic fundamentals.

Therefore, to maintain a good debt-carrying capacity, the capability of several institutions such as the Debt Management Division, the Treasury Division and the Investments Division in the Ministry of Finance as well as the Central Bank of Trinidad and Tobago has been strengthened to execute their role of monitoring and evaluating debt levels. The Government has thus made great strides in reducing its Debt-to-GDP ratio. Our fiscal consolidation initiatives and revenue-enhancing policies, coupled with expenditure restraint, have brought debt on a steep downward trajectory; from a high of almost 90 percent of GDP in 2021 to 70 percent in 2022. Indeed, our total public debt has remained stable for the last 11 months, with minimal central government borrowing since December 2021.

Balanced Budget

The Government has managed to place its fiscal accounts on a more sustainable basis. The fiscal balance has therefore been stabilized and is placed on a much better trajectory, to achieve positive fiscal balances in the coming years. Indeed, due to the prudent management of the economy, the growth of the domestic economy is expected to be 2.0 percent in 2022.

Furthermore, it is expected that the overall balance of payments will record surpluses, driven by positive outturns in the energy and non-energy sectors and external demand. These internal and external factors bode favourably for export revenues throughout the year. Net official reserves are anticipated to stay strong and healthy throughout 2023 and surpass US$8 billion in 2024 and the current account balance is forecast to stand at US$ 2.5 billion in 2024.

Revenue Generation

The Government recognizes the importance of enhanced revenue-generating streams and has developed several initiatives to improve the collection of revenue:

- **The Trinidad and Tobago Revenue Authority (TTRA)** has been constituted with the enactment of the Trinidad and Tobago Revenue Authority Act in 2021, following more than ten years of technical development and stakeholder engagements. After the partial promulgation of some sections of the Act in March 2022, the TTRA has started to develop its governance structure which will result in enhanced Government revenue in the coming years.

- **The Gambling Control Commission** was operationalized by the Government after sections of the Gambling (Gaming and Betting Control Act) were partially proclaimed in June 2021. The Government has established the Board of Commissioners, and is currently working to recruit staff, acquire information technology to support compliance and tax collection, acquire and outfit physical facilities, design business processes, initiate staff specialised training, and create a strategic plan. Accordingly, the Commission anticipates generating significant Government revenue from gambling in 2023.

- **Property Tax** implementation is anticipated to commence in the fiscal 2023, once the Valuation Rolls are completed, starting with residential taxes. So far, we have crossed the required threshold of 50% of properties in terms of gathering information.

Economic Diversification

The Government has remained committed to ensuring the sustainability of Trinidad and Tobago through actively encouraging innovation, entrepreneurship, and economic diversification.

- *Manufacturing*: As the Government's role in the sector is to be a facilitator of business expansion, export growth and the transitioning of firms to be more innovative and globally competitive, our manufacturers will continue to receive targeted support from the Government in their drive to double non-energy manufacturing exports by 2025.

- *Tourism*: Recovery in the Tourism sector post the COVID-19 pandemic is expected to be bolstered by initiatives such as the resumption of activity in the cruise industry, new hotels, and the return of KLM Royal Dutch Airlines to the shores of Trinidad and Tobago after twenty (20) years of absence.

- *Non-oil Investment*: In Fiscal 2022, over $1 billion in non-oil investments became operational, creating over 1,500 jobs, including investments in a wide range of activities including ICT, food and beverage, agro-processing, and logistics and distribution

During Fiscal 2023, the following main initiatives will be pursued to promote and facilitate local and foreign direct investments:

- **Implementation of the Special Economic Zones Regime** - New legislation to modernise the existing free zones regime as well as to ensure compliance with the requirements of the Global Forum and EU was enacted in January 2022 and partially proclaimed. Once fully operationalized, domestic, and foreign investors can expect enhanced transparency, predictability, and security for their investments.

- **Establishment of a Trade and Investment Promotion Agency**-as the Government seeks to reshape our institutions, another major initiative to strengthen and modernize the country's export and investment promotion arrangements is the establishment of a Trade and Investment Promotion Agency.

- **Caribbean Investment Forum** – earlier this month, the Government in collaboration with the Caribbean Export Development Agency (CEDA), the Caribbean Association of Investment Promotion Agencies (CAIPA), the Caribbean Development Bank (CDB), and the CARICOM Secretariat hosted the Caribbean Investment Forum (CIF) 2022. Over 300 delegates attended this event, including businesspersons from the Caribbean region, investors from around the globe, Investment Promotion Agencies from the Caribbean region, and investment facilitators.

- *Improving the Ease of Doing Business*: Several initiatives have been initiated such as the Implementation of a Trade and Business Information Portal by the Ministry of Trade and Industry in May 2022, and the enhancement of the Single Electronic Window which is an integral component of the MTI's flagship TTBizLinK platform which is currently utilized by almost all companies.

Renewable Energy and Carbon Reduction

To promote the eco-sustainability of the country, the Government has facilitated viable alternatives to gas or diesel powered cars as we reduce subsidies on traditional transportation fuels. In this context, all customs tariffs, motor vehicle taxes, and value-added taxes on electric car imports have been removed. Taxes have also been waived on small hybrid cars, up to 1500cc, to encourage the use of fuel efficient vehicles.

The Government is also involved in several initiatives to promote the utilization of renewable energy in the country. For instance, the Ministry of Energy and Energy Industries' is developing a 112-Megawatt Solar Photovoltaic Project - for Solar and Wind RE Projects and the Piarco International Airport Solar Project aims to generate 800 kilowatts of power.

Reinforcing Trust

To reinforce trust the following measures have been undertaken:

Inflation

Domestic inflationary pressures have grown because of cost-push inflation, caused by increasing worldwide prices and the resultant higher costs of imports into Trinidad and Tobago, as well as increased consumer and commercial activity because of the economy's complete reopening.

However, the Government of Trinidad and Tobago has implemented several policy actions to keep inflationary pressures contained, firmly anchored by the Government's stable exchange rate policy, which has been made possible by the country's considerable reserve buffers. As a result, import costs in Trinidad and Tobago have not increased as drastically as they would have under a flexible exchange rate system.

The Central Bank has also assisted the process by keeping the repo rate at a moderate level.

Social Assistance Programmes

Recognizing the detrimental social and economic repercussions of the COVID-19 Pandemic on residents, the Government increased its Social Assistance Programs and launched a budgetary stimulus package to guarantee that vulnerable individuals were safeguarded in the face of the unanticipated circumstances. These programmes, in addition to those that existed before the pandemic, continue to offer a social safety net for those who require it and help to mitigate the impact of current global circumstances on living expenses for those who can least afford it. Over 175,000 citizens currently receive social grants at a cost of over $5 billion per year

Education

The Government Assisted Tuition Expenses (GATE) Programme provides financial assistance to students while also increasing access to post-secondary education. The Government has updated the GATE requirements in the 2023 Budget to broaden its scope and subsidize the cost of tuition for students from low-income households.

Ladies and Gentlemen, in addition to the public policies and projects that I have outlined earlier the Government has introduced a suite of fiscal incentives to shape public policy and our response to building resiliency including:

- To assist citizens with increased utility costs, the Government has expanded utility rebates by 10 percent for residents with utility bills of $300.00 or less. This provision went into effect on January 1, 2022, and has already assisted 210,000 homes that currently receive the T&TEC bill rebate. When new tariff rates are established, further subsidies for electricity and water will be made available to low-income and vulnerable populations;

- Increase in the tax allowance from $3.0 million to $6.0 million for the corporate sponsorship of nationals in the local fashion industry; audio, visual or video productions for the purpose of local education or local entertainment;

- The removal of VAT, online purchase tax and customs duties on computers, mobile and digital equipment, cell phones, software, accessories, and peripherals;

- The provision of tax allowances to tech start-ups, new tech businesses and existing tech businesses at a rate of 150% with a cap of $3 million;

- To encourage home ownership, increase in the threshold for exemption from stamp duty for first-time homeowners up to $2.0

million, with deductions are allowed for mortgage interest up to $30,000 per year;

- The Tourism Accommodation Upgrade Project (TAUP) incentive has been extended to September 30, 2023;

- Provision of a 150 percent tax allowance of up to $1 million on corporate sponsorship to Heritage properties under the oversight of the National Trust, to encourage the maintenance and restoration of heritage properties throughout the country; among several other incentives

And, to complement the overall suite of programmes to stimulate the SME sector, in October 2022, the Government officially launched the SME Mentorship Programme and Market Place to be administered by the Trinidad and Tobago Stock Exchange. The Programme will offer an experienced and highly qualified cadre of industry professionals who would strategically develop the competencies of each SME to facilitate growth and innovation. The SME Market Place, a single entry portal on the Ministry of Finance website integrates the other support services provided to SMEs by government agencies, thereby promoting a stable and accessible environment for the growth of SMEs.

In addition to the measures mentioned above, the Government will be introducing the following from January 1, 2023:

- In this year's national budget, the Government also increased the personal income tax exemption level for individuals from $84,000.00 to $90,000.00 per year and this will provide an additional $1,500.00 in disposable income annually to approximately 300,000 working-class residents;

- Introduction of a one-time manufacturing tax credit for companies that makes an investment in new machinery, production lines and equipment up to a maximum of $50,000.00;

- Increase in the energy investment tax credit for energy companies from 25 percent to 30 percent to stimulate exploration and development-related investment in the energy sector;

- Decrease in the rate of the Petroleum Profit Tax (PPT) from the current 35 percent to 30 percent for companies engaged in deep water exploration to incentivize crude oil production; and reduction in SPT for shallow water production

- Increase in the threshold for Value Added Tax registration to $600,000; and

- Waiver of VAT on new equipment for manufacturing companies utilising alternate energy technologies; renewable energy options, such as gasifiers to use biomass and harnessing renewable energy through wind, solar and water;

Ladies and Gentlemen, these policy prescriptions represent just some of the ways that the Government is utilizing every single resource available to build resiliency and mitigate risks, all within the parameters of the governing macroeconomic fundamentals.

In all this, we will continue to partner with important private sector institutions such as ICATT, which is the repository of knowledge and expertise in auditing and accounting practices, and where the continued examination and application of important International Accounting Standards occur, for the benefit of the entire society and economy.

I thank you and wish you all the best with your Conference.