

2020 Mid-Year Budget Review Snapshot

On Friday June 12, 2020, The Honourable Minister of Finance, Mr Colm Imbert, presented the 2020 Mid-Year Budget Review against the background of a worldwide pandemic with the global economy at a standstill. The uncertainty around availability of a COVID-19 vaccine and timelines for the resumption of economic activity both domestically and globally raise considerable difficulty in fiscal and monetary planning – however, this must be done.

It was revealed that while public spending projections are only up slightly from the original budgeted amount, revenue fell drastically, resulting in a further deterioration of the fiscal balance as can be expected. This is a marker of the sound decision to forfeit short term revenue by strictly limiting business activity to only the most essential sectors in order to contain the spread of COVID-19 and the impact of this on the health care sector and by extension the finances of the country. While a severe economic fallout is anticipated, the focus on containing the pandemic for the benefit of an earlier recovery is being encouraged. Also contributing to the increased budget deficit is the fall in energy prices below budget forecasts due to weak demand from stay at home orders instituted by governments globally.

The Honourable Minister highlighted the government's fiscal and health policy responses to the coronavirus pandemic – most notably of the latter being early border controls, stay-at-home orders and reallocation of resources to the health sector to avoid strain thereon.

The following are the most notable pronouncements on the fiscal side:

Social support measures of up to \$400 million for the unemployed, workers of the informal sector, transport workers and the poor and vulnerable. It is recognised that broad spending measures executed with transparency are essential to keeping many in our society above the poverty line.

A total of \$460 million in cash paid of VAT refunds to businesses owed less than \$500,000 per period and the

issuance of \$900 million in VAT bonds to address the remaining VAT arrears. The payment of cash VAT refunds and the initiative to pay some by way of bonds are welcomed and should directly improve the cash position of small businesses and should provide an avenue for larger ones to achieve same through the monetization of the bonds. The issuance of \$240 million in income tax refunds to individuals would also be welcomed as a stimulus for increased spending at this time.

Interest free loans administered through First Citizens Bank Limited of \$300 million would be made available to SMEs with a moratorium of 2 years. It is hoped that this and like measures aimed towards the business community will aid staff retention and the survival of vulnerable supply chains throughout the economic slowdown. It is advisable that the relevant authorities ensure that updated unemployment statistics are available via the Central Statistical Office (CSO) to allow for proper evaluation of labour market outcomes from public assistance measures to businesses.

The increased borrowing activity by the government in the domestic market to finance the above mentioned support policies, aided by the upward revision of borrowing limits under the Development Loans Act, should also be closely monitored in order to ensure that the highest level of capital in the financial markets is available for private borrowing outside of capital tied up in treasury bonds and loans.

Also imperative are policies geared towards integrating the mentioned 32% of the labour force engaged in the informal sector into the formal economy in order to diversify revenue streams away from the traditional energy sector. More stable revenue for the government would reduce the need for drawings on the Heritage and Stabilization Fund thus allowing the burden of funding recurrent expenditure to be borne by the present generation as it should. Greater focus can therefore be placed on the Fund's use as an investment in future generations, other than an economic downturn which also justifies withdrawals from same.



Dushyant Sookram
Managing Partner
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INCOME TAX AND VAT REFUNDS

From March to Mid-June 2020

- **\$1.6 billion** in VAT and Income Tax Refunds issued to businesses and individuals in bonds and cash.
- VAT Refunds paid out to businesses estimated at **\$1.3 billion**.
- Individual Income Tax Refunds paid out to 25,095 individuals estimated at **\$240 million**.
- March 2020 over 3,800 VAT refund payments issued to businesses for arrears of **\$250,000** per VAT period or less estimated at **\$260 million**.
- VAT refunds issued to businesses owed between **\$250,000** and **\$500,000** per VAT period estimated at **\$200 million**.
- Remaining VAT arrears settled through the issuance of tradeable bonds to the value of **\$900 million**.

VAT Bonds



Fully tradeable interest-bearing bonds to businesses of > \$500,000 per VAT period. Bears interest at a rate of 3.3% over 3 years. **Can be purchased by financial institutions at par i.e. 100 cents on the dollar**

Economy



- **2.4%** Decline in GDP in 2020
- **Projected Growth of 4.7%** by 2021
- Inflation: **1% or less in 2020**
- **Public Debt** increase to **70%** from 63% of GDP pre crisis in 2020
- **Forex reserves currently US\$7 Billion**

Revenue



- **Budget of \$47.749 Billion**
- Projected to fall to **\$38.5 Billion**
- **Mid-2020** revenue **\$9.2 million** above estimates

Expenditure



Budget of \$53.036 Billion revised upward to **\$53.107 Billion**

Fiscal Deficit



Budgeted of \$5.287
Revised deficit of **\$14.533 billion**
Mid-2020 deficit **\$5.387 billion**

Economic Road Map Focus on 8 Sectors



Agriculture, Construction, Energy, Manufacturing, Services, Wholesale, Retail and Distribution, Banking and Insurance. Focus also on Small Business and Credit Unions; **Tobago is accorded a special status**

Oil & Gas Prices



- Projected oil price of US\$60 reduced to **US \$25 per barrel**
- Gas price estimated at **US\$3.00 per MMBtu** reduced to **US \$1.80 per MMBtu**

Labour Force



- 68% or **420,000 employees** registered for national insurance
- **32%** or 200,000 individuals outside of the formal economic system which is to be corrected.

Other Matters

Commercial Bank Reserve Requirements



- Reduced from **17% to 14%**
- Repo rate was reduced from 5.0% to 3.5%

Commercial Bank Prime Lending Rates



- **Reduced from an average of 9.5% to 7.5%**
- Beneficial effect on variable interest rate
- Loans agreements with **fixed interest rates** require consultation with the banks

Supplementary Appropriation

Supplementary Appropriation of **\$2,686,000,800** for the Financial Year 2020 was agreed to in order to fund urgent and critical Recurrent and Capital needs to September 30, 2020.



Heritage & Stabilization Fund



- **Emergency drawdowns** allowed for up to US\$1.5B or TT\$10B per annum.
- **Net Asset Value of US\$6.0B**
- An increase from US\$400M from Sept 15 2019

Round of Applause



- **Oxford University**- T&T ranked #1 for managing COVID19 and exiting lockdown
- **Positive Credit Rating**- Standard and Poors, Fitch and CariCRIS
- **Economist Magazine**- 15th among 66 emerging economies in withstanding adverse economic impacts of COVID-19
- **Economist and Oxford University** – T&T among the strongest emerging economies in the world in terms of foreign reserves

Matters not Addressed



- **Tax deferrals and Waivers**
- TTRA passed in the Senate and now before the House of Representatives
- **Property Tax implementation**
- E-tax services and requisite training

Conclusion

There is no doubt that the government should be commended for its effective management of the COVID -19 pandemic in its thrust to “flatten the curve”. In that regard the Honourable Minister has emphasized that Trinidad and Tobago has been ranked as Number 1 in the world in terms of dealing with the multifarious demands and health, social and economic challenges caused by COVID-19, way above and beyond all of the countries of Europe, the USA and the Far East.

Notwithstanding all the praises heaped upon the government we are cautiously optimistic about our economic recovery





Contact Us

We hope our comments are of assistance to you but should you need to discuss further please do not hesitate to contact us

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