



TRINIDAD AND TOBAGO'S MID-TERM BUDGET REVIEW: THE STRATEGY FOR ECONOMIC ADJUSTMENT IN A DIFFICULT GLOBAL ECONOMIC ENVIRONMENT	Pg. 1
REGIONAL ECONOMIC NEWS	Pg. 2
PUBLICATIONS OF INTEREST	Pg. 6

TRINIDAD AND TOBAGO'S MID-TERM BUDGET REVIEW: THE STRATEGY FOR ECONOMIC ADJUSTMENT IN A DIFFICULT GLOBAL ECONOMIC ENVIRONMENT

The Trinidad and Tobago economy, structurally small, open and relatively undiversified, is vulnerable to external shocks. Global economic prospects therefore have huge implications for the fortunes of Trinidad and Tobago's economic performance. Over seven years after the onset of the international financial and economic crisis and despite improvements in key advanced economies, the global economy is still characterized by uneven and weaker than expected economic growth. The lower than expected outturn for 2016 and the propensity for reversals over the last five years reflect underlying structural weaknesses in some major economies and global vulnerability to major downside risks. These downside risks include long-standing issues such as inadequate and incomplete policy responses to structural weaknesses, problems with international policy coordination, lingering vulnerabilities in the international financial systems from the recent crisis and global imbalances, as well as more recent challenges such as commodity price and exchange rate volatility and risks associated with the normalisation of monetary policy in advanced economies. A continuing pattern of downward revisions in global economic growth forecasts is testament to these vulnerabilities and reversals.

The spillover effects on the performance of the Trinidad and Tobago economy has been reflected in low growth, fiscal sustainability issues and balance of payments imbalances, leading to problems with consumer and business confidence which are critical to strong growth. Very importantly, these factors have also contributed to significant imbalances in the foreign exchange market. In this context, the new administration in Trinidad and

Tobago needed to confront the adjustment challenge early in their term. The budget statement on October 5, 2015 therefore laid out the broad structure of the Government's plan for fiscal consolidation. The main measures included adjustments to the VAT regime, the reintroduction of property taxes and increases in the Green Fund and Business Levy to increase revenues. Additionally, the Government proposed to introduce the Trinidad and Tobago Revenue Authority by the end of fiscal year 2016 to increase the efficiency with which taxes were collected. There were no major expenditure reduction initiatives announced in October 2015 but the Minister of Finance did signal that there would be subsequent adjustments in expenditure, especially in the subsidies and transfers line item.

The mid-year budget review presented on April 8, 2016 sought to flush out the government's fiscal consolidation plans for fiscal year 2016 in more detail. This included additional revenue measures such as a new 7% tax on online purchases from non-resident vendors, proposed unspecified levies on alcohol and tobacco, enhanced collection of taxes from the gaming and gambling industry and a 50% increase in customs duties and motor vehicle tax on private vehicles with engine sizes exceeding 1999 cc. In an effort to soften the impact of the increased tax burden, the vehicle tax on compressed natural gas and hybrid vehicles with engine sizes not exceeding 1999 cc was reduced and an unspecified reduction on tax on taxis was also expected to be implemented in May 2016. In terms of expenditure, an immediate cut in the fuel subsidy on gasoline and diesel was introduced and the Minister of

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Finance also signaled the rationalization of the CEPEP, URP and GATE programmes.

The Minister of Finance also indicated that they are committed to maintaining the stability of the exchange rate. Which suggest that most of the adjustment would be done via fiscal policy. Based on an oil price of US\$35 per barrel and a gas price of US\$2.00 per mmbtu, current revenue for fiscal year 2016 is expected to be TT\$44 billion. The government also expects to collect revenues of approximately TT\$8.3 billion from one-off transactions such as the sale of CLICO's assets, the repayment of past lending to the Trinidad Generation Unlimited (TGU), proceeds from the Phoenix Gas Processors IPO and dividends from the National Gas Company of Trinidad and Tobago Limited (NGC). Total revenue for fiscal year 2016 is therefore expected to be TT\$52.3 billion with expenditure expected to be approximately TT\$59 billion. This means that the deficit is expected to be roughly TT\$6.7 billion or 4% of GDP. This is expected to be financed by a combination of borrowings and drawdowns from the Heritage and Stabilization Fund.

The bulk of the fiscal adjust so far is therefore being implemented on the revenue side. This may be due to concerns that a sharp reduction in expenditure may further depress economic growth. Moreover, the apparent choice to implement most of the adjustment through the fiscal account rather than letting the exchange rate absorb most of the adjustment is also prudent since it is a price subject to all kinds of psychological influences and group irrationality. The Central Bank and the Ministry of Finance are well advised to tread carefully in this area because once a certain kind of market sentiment solidifies there is very little policymakers can do to control the rate. Most importantly, although fiscal consolidation and adjustment is of paramount importance now, the government needs to also address longer-term issues such as the need to increase Trinidad and Tobago's level of competitiveness, reduce the level of uncertainty and increase the productive capacity of the economy since these offer the only sustainable solutions to the current economic problems.

By
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REGIONAL ECONOMIC NEWS

Aruba; Curacao and Sint Maarten

- Dutch Caribbean economies too dependent on tourism, say finance committees - Curacao, St Maarten and Aruba have to focus on more than just tourism. The economies of these three countries in the Caribbean part of the Kingdom remain vulnerable, because there are not enough other sources of income. This is according to special teams in charge of financial monitoring of the islands. These committees presented their findings for the year 2015 last Wednesday. (CNnow, 18 April 2016)
- BP ships US crude to Venezuelan terminal in Curacao - BP (formerly known as British Petroleum) has shipped a cargo of US crude oil to PDVSA's terminal in Curacao, the third one that the firm has sent since winning a tender along with China Oil last month to provide the Venezuelan state-run oil company with some eight million barrels of light oil, according to sources and Reuters data. (CNnow, 25 April 2016)

The Bahamas

- A day of relief, hope for CLICO policyholders in The Bahamas - Retired insurance executive Basil Christie said he contemplated jumping off the Paradise Island bridge when he learned that CLICO, the insurance company in which he invested \$440,000, had gone into liquidation. On Thursday, Christie was one of hundreds of people who had policies or investments with CLICO that reclaimed some or all of their money. (CNnow, 2 April 2016)
- Chinese fast-tracking megaresort sale, says Bahamas PM - Bahamas Prime Minister Perry Christie on Friday revealed that the China Export-Import (EXIM) Bank is fast-tracking its process to find a buyer for the troubled multibillion dollar Baha Mar megaresort property, which has been mostly shuttered for more than nine months. (CNnow, 4 April 2016)
- Transparency International branch president linked to

REGIONAL ECONOMIC NEWS cont'd

Bahamas companies - The fallout from the so-called "Panama Papers" leak continued on Tuesday. The latest casualty with a connection to The Bahamas was the president of the Chilean branch of Transparency International, who resigned on Monday after documents showed he was linked to at least five offshore companies domiciled in The Bahamas. (CNnow, 7 April 2016)

- Bahamas government foots bill to finish Baha Mar convention centre -The Bahamas government assumed the cost to finish the Baha Mar Convention Centre ahead of the Inter-American Development Bank (IDB) annual general meetings this week, government project coordinator Janeen McCartney revealed on Tuesday. (CNnow, 7 April 2016)
- Caribbean countries urged to focus on tourism value - The International Monetary Fund (IMF) has published its Regional Economic Outlook: Western Hemisphere and recommends that tourism economies like The Bahamas use what the fund deems a "tourism upswing" to push through structural measures that would ensure that tourists get value for money from high-end destinations. (CNnow, 28 April 2016)

Barbados

- Barbados defends economic benefits of its offshore structures - In response to the global outcry against offshore financial jurisdictions caused by the "Panama Papers" leak, the government of Barbados has issued a statement intended to provide the public with a balanced and rational perspective. (CNnow, 9 April 2016)
- Barbados seeking to break into Cuban market - With the formal re-establishment of diplomatic relations between Cuba and the United States, Barbados and other Caribbean Community (CARICOM) countries are now seeking to further partner with that country in an effort to take advantage of emerging opportunities. (CNnow, 14 April 2016)
- Barbados visitor arrivals up - Barbados has recorded an increase in visitors for this tourist season so far when compared with the same period last year. (CNnow, 18 April 2016)

Belize

- Belize's Government unveils 3-year development strategy - last week, the Government of Belize revealed its strategic plan to grow Belize's economy. The plan is called "Growth and Sustainable Development Strategy" (GSDS), and it runs from 2016 to 2019. The strategy was launched by the Government of Belize, through the Ministry of Economic Development, Petroleum, Investment, Trade and Commerce, the strategy on April 7. (Belize Business News, 14 April 2016)
- Belize launches Caribbean's latest internet exchange point - The Belize Public Utilities Commission announced that

Belize's first Internet exchange point, named BIXP, was successfully launched in Belize City on April 27 at the campus of the University of Belize. (CNnow, 30 April 2016)

ECCU

- St Kitts-Nevis receives EC\$12.5m from EU as part of sugar adjustment scheme - Prime minister of St Kitts and Nevis, Dr Timothy Harris, and Cabinet Secretary Josephine Huggins met with the European Union's ambassador to the Eastern Caribbean, OECS and CARICOM/CARIFORUM, Mikael Barfod in Barbados on Thursday morning. The delegation officially learnt from the ambassador that a disbursement of EC\$12.5 million (4.2 million euro) to St Kitts and Nevis had been effected one hour earlier. (CNnow, 5 April 2016)
- New skills for government statisticians in Cayman Islands, Jamaica and St Kitts-Nevis - The Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean and the Caribbean Development Bank (CDB) are jointly hosting a regional capacity building workshop in Kingston, Jamaica from 4-15 April 2016. (CNnow, 5 April 2016)
- ECCB and OECS strengthening collaboration - The governor of the Eastern Caribbean Central Bank (ECCB), Timothy Antoine, and the director general of the Organisation of Eastern Caribbean States (OECS) Commission, Dr Didacus Jules, along with their respective senior staff, met on Thursday, 31 March 2016 to discuss strengthening the working relationship between the two regional institutions. (CNnow, 6 April 2016)
- St Lucia on target to begin exploratory geothermal drilling - The recently completed surface exploration studies, designed to better understand the geothermal resource conditions, suggest that the resource exists outside of the Sulphur Springs area and outside of the Piton Management Area (PMA). (CNnow, 12 April 2016)
- Caribbean development trajectory and debt outlook to be discussed in St Kitts-Nevis - A proposal to address the Caribbean's high debt burden and strategies to achieve sustainable development in the region will be the focus of discussions when two important meetings of the Economic Commission for Latin America and the Caribbean (ECLAC): the Caribbean Development Roundtable (CDR) and the Caribbean Development and Cooperation Committee (CDCC) convene in Basseterre, St Kitts, on 21 and 22 April 2016, respectively. (CNnow, 16 April 2016)
- IMF completes mission to Dominica - An International Monetary Fund (IMF) mission, led by Alejandro Guerson, visited Dominica from March 29 to -April 11 to conduct the 2016 Article IV consultation. (CNnow, 18 April 2016)
- Antigua-Barbuda records third month of double digit

REGIONAL ECONOMIC NEWS cont'd

increase in visitor arrivals by air - Projections that Antigua and Barbuda would end the first quarter of 2016 with a double-digit increase in visitor arrivals by air have materialized, with the latest announcement of a strong increase in air arrivals. The 2016 visitor air arrivals reported for the first two months of the year, showed double digit growth month on month. (CNnow, 19 April 2016)

- Antigua-Barbuda calls on region to speak out on issues relating to financial services - Antigua and Barbuda will continue to speak out against the false allegations against the region as "high risk" for financial services and the label of "tax havens", said the country's minister of trade, E.P. Chet Greene at a Caribbean Community (CARICOM) trade ministers meeting in Guyana. (CNnow, 23 April 2016)
- ECLAC calls for Caribbean resilience fund at high-level meeting in St Kitts - The Economic Commission for Latin America and the Caribbean (ECLAC) has made a call for the creation of a Caribbean Resilience Fund as part of a debt alleviation strategy based on a climate change swap proposal. (CNnow, 23 April 2016)
- St Kitts-Nevis land for debt swap a tangled web, says PM - The controversial land-for-debt-swap that was passed by the St Kitts and Nevis National Assembly under the former administration has entangled many institutions in its web, prompting the new government of national unity to seek advice in terms of its revocation. (CNnow, 29 April 2016)
- ECCB concerned about region's financial stability - As two more indigenous banks in the region go under, the Eastern Caribbean Central Bank (ECCB) is concerned about the status of the financial stability of the Eastern Caribbean Currency Union (ECCU). In recent days, the National Bank of Anguilla Ltd (NBA) and the Caribbean Commercial Bank (CCB) were closed and their operations are to be transferred to a new entity. (CNnow, 29 April 2016)
- St Lucia signs six million Euro agreement with European Commission - Ambassador Mikael Barfod, head of the delegation of the European Union to the Eastern Caribbean Countries, the Caribbean Community (CARICOM) Secretariat and the Caribbean Forum (CARIFORUM) met with Dr Kenny Anthony, prime minister of Saint Lucia, on Tuesday. During the meeting, a financing agreement between the European Commission and Saint Lucia was signed. The agreement is valued at €6,175,000 and will be utilized to finance the Saint Lucia Post Trough Emergency Infrastructure Rehabilitation Programme. (CNnow, 30 April 2016)

Haiti

- Report finds October 2015 presidential elections in Haiti fair and generally fraud free - According to NOAH/Haiti Democracy's eighth mission, the October 25, 2015 presidential

elections were found to be generally fair and fraud free. The report released on Friday morning found that the process was generally free of major irregularities in the three most important stages of the electoral process namely: opening voting locations, the actual voting process, and post election vote counting. (CNnow, 9 April 2016)

- UN food relief agency to assist one million Haitians hit by three-year drought - The United Nations World Food Programme (WFP) announced on Monday that it will launch an emergency operation in Haiti to assist one million people devastated by three years of prolonged drought exacerbated by the El Niño weather phenomenon. (CNnow, 19 April 2016)

Guyana

- Guyana becomes 57th member of the Islamic Bank - Guyana is now a member of the Islamic Development Bank (IsDB), after joining the Organization of Islamic Cooperation (OIC) in 1998, according to a press release from the ministry of finance on Friday. Membership in the OIC is a prerequisite to joining the IDB. The official public announcement of Guyana's membership will be made when the finance minister of Guyana, Winston Jordan, makes his debut appearance at the 41st Islamic Bank Annual meeting in Jakarta on May 15. (CNnow, 4 April 2016)
- Caribbean Fisheries Forum meets to discuss emerging challenges - Fisheries experts from across the Caribbean region travelled to Guyana last week for the 14th meeting of the Caribbean Fisheries Forum -- the primary technical deliberative body of the Caribbean Regional Fisheries Mechanism (CRFM). The Forum met in Georgetown on Thursday and Friday to undertake its annual stocktaking and planning for the fisheries and aquaculture sector. (CNnow, 11 April 2016)
- US\$30.9 million sea and river defence project launched in Guyana - On Wednesday April 13, the Caribbean Development Bank (CDB) and the government of Guyana launched a US\$30.9 million sea and river defense project. The project is expected to provide for the reconstruction and improvement of approximately 5.4 km of sea and river defences in eight critical areas, and will benefit over 45,000 Guyanese residents - about 9,000 households in Regions Two, Three, Four and Six. (CNnow, 19 April 2016)
- COTED convenes Thursday: CSME, correspondent banking in focus - Matters that impact on the economic health of the Caribbean Community (CARICOM) come under focus in Georgetown, Guyana, when the Council for Trade and Economic Development (COTED) meets on Thursday and Friday. Regional ministers with responsibility for trade will hold discussions on a range of matters including the CARICOM Single Market and Economy (CSME), and

REGIONAL ECONOMIC NEWS cont'd

treatment of nationals travelling in the region. (CNnow, 21 April 2016)

Jamaica

- UTECH Jamaica to house Caribbean regional procurement centre - After a rigorous and competitive process, The University of Technology, Jamaica (UTech) has been selected to house a Caribbean regional procurement centre, which aims to improve procurement practices across the Caribbean. The centre, which was announced last year by the Caribbean Development Bank (CDB) and the World Bank (WB), is expected to be operational by late 2016. (CNnow, 9 April 2016)
- Jamaicans aren't feeling the neighbourly love from Trinidad's airport border control - Jamaica's relationship with its neighbours to the base of the Caribbean archipelago, Trinidad and Tobago, has been an uneasy one for at least the past decade in one specific area -- it believes that its citizens are too often denied entry and unfairly treated when arriving at Trinidad's Piarco International Airport. (CNnow, 19 April 2016)
- Jamaica to take full advantage of CARICOM benefits - The government of Jamaica will be appointing a Caribbean Community (CARICOM) Review Commission, aimed at positioning the country to take full advantage of benefits under the organisation. (CNnow, 29 April 2016)

Suriname

- IMF reaches agreement with Suriname on US\$478 million stand-by facility - A staff team from the International Monetary Fund (IMF) led by Daniel Leigh visited Paramaribo March 30-April 12 2016 for discussions with the Suriname government. (CNnow, 18 April 2016)
- Suriname's top diplomat calls on Islamic bloc to invest - At the just concluded 13th Organisation of Islamic Cooperation (OIC) heads of government summit in Istanbul, the foreign minister of Suriname, Niermala Badrising, used the occasion to showcase her country and urged member states to invest in Suriname. (CNnow, 20 April 2016)

Trinidad and Tobago

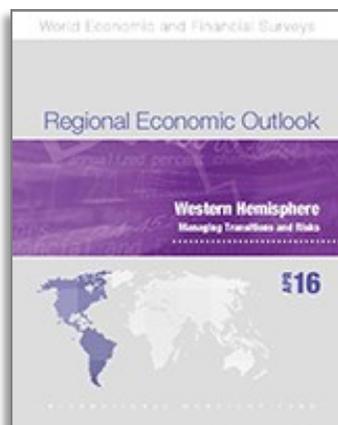
- Policymakers meet in Trinidad to discuss attainment of SDGs for the Caribbean - Pursuit of the United Nations Sustainable Development Goals (SDGs) for Caribbean Small Island Developing States (SIDS) was due to be the main focus of discussion at a meeting in Port of Spain, Trinidad, on Tuesday. Policymakers, representatives from regional organizations, and civil society groups were expected to attend. (CNnow, 6 April 2016)
- TT\$7 to US\$1 by end of 2016 - Trinidad and Tobago will allow its dollar to fall to \$7 to US\$1 by the end of 2016, and to

\$7.50 to US\$1 by the end of 2017, Scotiabank analysts in Canada have forecast in the bank's March executive briefing released in Canada and Port of Spain on Tuesday. (TTEpress, 6 April 2016)

- Taxes galore - Citizens are now paying more to travel after a 15 per cent increase in the price per litre of super gasoline and diesel went into immediate effect yesterday. Alcohol and cigarettes are also going up, a 50 per cent tax will be levied on luxury vehicles with an engine size exceeding 1999cc, and Internet shoppers will face a seven per cent tax by September. These were some of the key measures Finance Minister Colm Imbert presented in the government's first Finance Variation of Appropriation Bill 2016 in the House of Representatives, yesterday. (TTGuardain, 9 April 2016)
- Robinson-Regis signs IDB loan contract - T&T has entered into a loan contract that will see the nation benefiting through the upgrading of the Customs system which is a major source of fiscal revenue. (TTEpress, 13 April 2016)
- Moody's downgrades T&T again - Moody's Investors Service yesterday downgraded T&T's government bond ratings to Baa3 from Baa2 and assigned the country a negative outlook. The New York ratings agency said despite recent fiscal consolidation efforts, low oil and gas prices will continue to "negatively and materially undermine the country's economic and government financial strength at least throughout 2018." (TTGuardain, 18 April 2016)
- Latin America development bank appoints new director-representative for Trinidad and Tobago - The Development Bank of Latin America (CAF) has appointed Joel Branski as its new director-representative for Trinidad and Tobago, effective April 1, 2016. (CNnow, 18 April 2016)
- T&T at a critical point - Economic director of the Caribbean Development Bank (CDB) Justin Ram has said the bank will be lending financial assistance to Trinidad and Tobago as the country faces challenging economic times. Ram was in Port of Spain earlier this week to meet with the Government and other officials to discuss how the bank could lend assistance over the next five years. (TTEpress, 22 April 2016)

PUBLICATIONS OF INTEREST :

IMF Regional Economic Outlook: Western Hemisphere Managing Transitions and Risks



With the global economy still struggling, many countries in Latin America and the Caribbean are facing a harsher world than they did just a few years ago. The growth outlook is weaker in advanced and emerging economies alike, while the gradual slowdown and rebalancing of economic activity in China is likely to keep commodity prices lower for longer. Meanwhile, favorable external financial conditions over the past several years have become more volatile, and risks of a sudden tightening are on the rise.

Against this backdrop, economic activity in Latin America and the Caribbean has been revised downward, compared with our January update and is likely to contract for a second consecutive year in 2016. But the growth outlook varies substantially within the region. While external conditions have placed a large drag on all commodity exporters, countries expected to post negative growth will do so mainly because of domestic imbalances and rigidities at home, and, in certain cases, temporary impact of policies designed to transition away from earlier distortions.

But the news isn't all bad. In the rest of the region – and particularly where policy frameworks have been strengthened over the past two decades – a relatively smooth adjustment continues. Given these broad contours, growth stories vary between the south and north.

IMF Working Paper : Structural Reform and Growth : What Really Matters? Evidence from the Caribbean

Summary : Since the 1980's with the introduction of IMF/WB adjustment programs structural reforms have been a core part of the reform agenda in the Caribbean. The paper reviewed the package of structural reforms in trade liberalization, financial liberalization and tax policy, and gauges their impact on growth. The paper used a set of reform indices to gauge both short-run and long-run effects of structural reforms on growth, controlling for other possible growth determinants using panel dynamic OLS estimation. In addition, recognizing the importance of institutions to growth the empirical analysis also analyzed the impact of institutional quality on growth for a sample of small states including the Caribbean. We concluded that the benefits of structural reforms are only seen over the long-term and in reinvigorating growth the reform effort needs to be revived and include greater attention to strengthening institutional quality.

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