

The Most Important Budget of the Decade

“Strengthening Efficiency, addressing the challenges” was the theme of the 2009/2010 Budget presented by the Honourable Minister of Finance in the lower House on September 7th 2009. It was anticipated that this would have been a presentation that addressed the Way Forward for Trinidad & Tobago in the context of a fundamentally changed global economic environment that had rapidly evolved from a general sense of optimism and confidence in the future, to an environment that was fraught with angst and anxiety from perspectives of the consumer and investor.

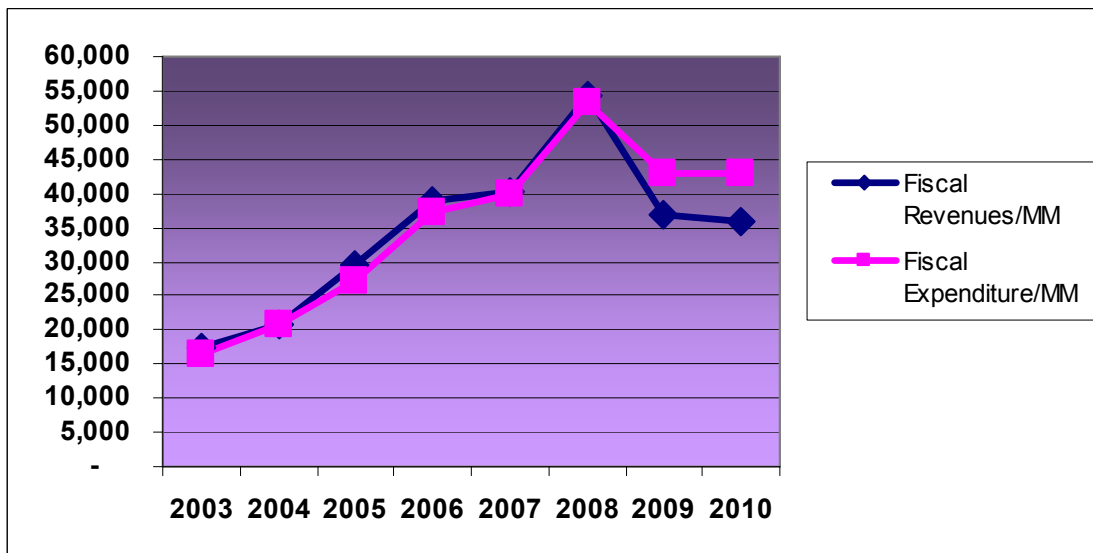
Indeed Budget 2009/2010 was an opportune moment for the Government to assure the citizenry that decisive action was being taken to mitigate the effects of the global downturn and restore growth to the local economy. It was expected that the centrepiece of the social and economic commentary would have addressed strategic issues such as:

- The stabilisation and eventual restoration of growth to the local economy in light of an expected gradual and not rapid return to growth in the larger economies such as the US and Eurozone, and the smaller economies of CARICOM, all representing our most important trading partners.
- The identification of the sectors that would provide these sources of new growth.
- The fiscal strategies that would engender growth in these identified sectors.
- The attainability of the current Vision 2020 objectives given the slowdown of the local economy and whether there was a need to revisit and revise the objectives of Vision 2020.
- Energy sector policy in light of declining crude oil production levels, an increasingly competitive global market for natural gas, and reserve levels that are weakening.

In fact, the budget presentation while recognising the importance of these issues did not offer key details with respect to the particular strategies that will be employed to achieve the desired ends.

Therefore, the 2009/2010 budget is described as the most important of this decade since it signals the intent of the Central Government in an environment of weakened fiscal revenues and high recurrent expenditure levels. Under these circumstances, Budget 2009/2010 signals that the Central Government will:

1. Reduce Capital Expenditure
2. Increase indirect taxation through the imposition of higher sin taxes etc.
3. Incur an overall deficit and borrow to finance such a deficit.

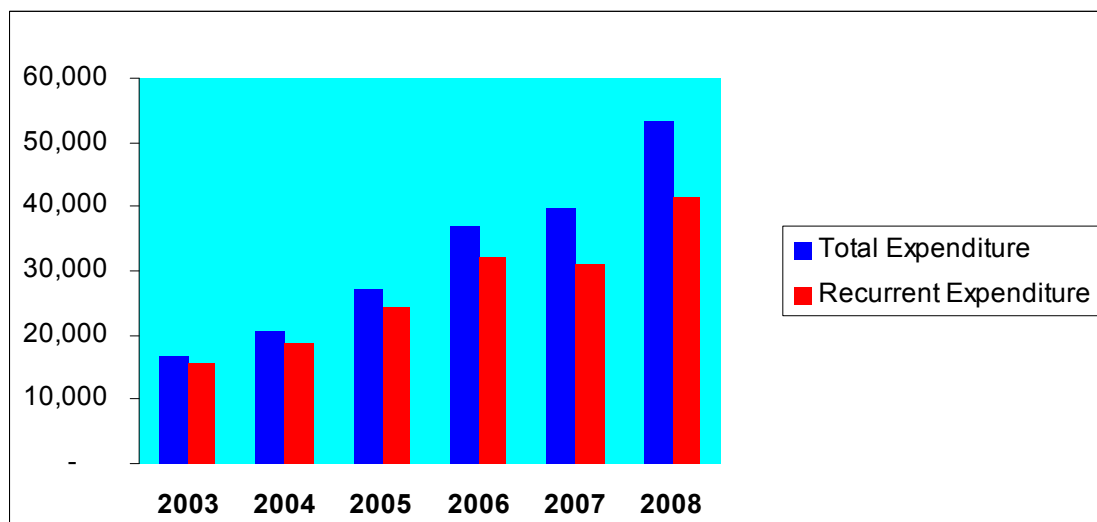


Increasing indirect taxation and incurring fiscal deficits can adversely affect inflation and reducing capital expenditure negatively impact employment levels. Excessive government borrowing from local banks will have a crowding out effect, in that lending to the Government may provide the most attractive risk-adjusted returns to the commercial banks when compared with consumer and corporate lending. The other effect of fiscal deficits for the small, open economy is the potential impact on the exchange rate. Government spending financed through borrowing in TT Dollars will inevitably catalyse the importation of goods and services which will have to be paid for in foreign currency that will be in relatively short supply.

It may therefore be important in the current environment of lower export earnings for the Government to utilise a prudent mix of local and foreign debt to finance its deficit and seek to protect the country's net international reserves position and by extension the stability of the exchange rate.

Yet, Recurrent Expenditure is the more difficult component of Total Expenditure to reduce as it has a direct impact on the quality of life and is comprised of expenditure items such as wages and salaries, transfers and subsidies and goods and services purchased by the Central Government. It consumes as much as 80% and more of Total Revenue which reduces the flexibility of Government's expenditure profile if social dislocation is to be minimised, hence borrowing to replace declining revenues is the expected strategy.

However, increasing public debt in the pursuit of fiscal objectives cannot be indefinitely continued in the context of a small open economy. It is expected that this is a short term approach and the expectation is that capital expenditure and components of recurrent expenditure will have to be significantly reduced in the ensuing fiscal years if there is no recovery in Government Revenue.



This economy and society are restrained by an economic cycle that is wedded to that of our larger trading partners namely the US and the Eurozone and this was an opportunity to espouse a new thinking as it relates to enhancing trade with non-traditional trading partners in South and Central America. It was an opportunity to highlight a commitment to economic diversification and the application of funding to support such a process. Budget 2009/2010 may turn out to be a lost opportunity.

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