TTCSI's Response to the National Budget for the FY 2018-2019

Monday's budget presentation by the Minister of Finance sought to highlight the economic recovery that has begun taking place in Trinidad and Tobago. After falling energy prices resulted in two consecutive years of economic decline, real growth of 1.9% is expected in 2018. The Minister's budget presentation was largely aimed at consolidating this improvement and restructuring government expenditure to increase financial efficiency.

An important aspect of consolidating recent economic improvements is increasing the foreign exchange earnings of the non-energy sector, as the energy sector has traditionally accounted for 80% of foreign exchange earnings. Our recent experience with the variability of energy prices has awakened us to the urgent need to diversify income streams away from the energy sector. The general tone of the budget indicated that the government is seriously thinking about developing alternative non- energy revenue streams. The Sandals project in Tobago, and the La Brea dry docking and ship building facility are two notable examples. While Sandals should indeed provide a much needed boost to the tourism sector in Tobago, the proposed idea for Magdalena Grand where guests would have the freedom to explore local restaurants, shops and excursions on an all-inclusive plan is particularly exciting. A similar strategy should be considered with Sandals to directly incorporate off-site businesses.

There was however very brief mention of plans to improve the general business environment in the non-energy sector. These efforts include the operationalization of the EXIM Bank Foreign Exchange Facility and the proposed foreign exchange earnings tax credit for manufacturers. In the Budget, the Minister promised to introduce appropriate legislation in this fiscal year to bring effect to the proposed tax credits to manufacturers. And whilst these measures target exporting manufacturers they ignore service providers who also earn significant amounts of foreign exchange. Hopefully the appropriate legislation mentioned will level the playing field for the development of export-oriented manufacturing and service sectors.

Another relatively simple measure that could foster the development of export-oriented service and manufacturing industries is the facilitation of electronic payments by local financial institutions, which would open opportunities for businesses of all sizes, particularly SMEs. Proper legislation is needed to make this a reality. The Electronic Transactions Act of 2011 which governs these payments has largely been developed but requires some adjustment to be effective as parts of the Act have not been officially proclaimed.

Efforts are also needed to increase the efficiency of public institutions, particularly those that impact the ease of doing business, and the operationalization of the procurement legislation is definitely a step in the right direction. Similar focus must also be

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placed on improving the timeliness of government payments and the efficiency of institutions such as the Port and the Customs and Excise Division in facilitating businesses, not just tax administration. These and other competitiveness enhancing reforms are critical at this time given the gradual removal of the fuel subsidy which would inevitable reduce the international competitiveness of local firms.

As the government reallocates money from the fuel subsidy to social safety nets like food cards etc, care must be taken to prevent prolonged dependence on these handouts. Social programmes must not be allowed to reduce the supply of available workers when private firms have substantial vacancies. Instead, focus should be placed on avoiding corruption and weaning individuals off handouts by increasing their access to training and thereby productive, sustainable and decent sources of income. While official unemployment figures are relatively low, many businesses still have a significant number of vacancies. Emphasis should be placed on assisting unskilled workers develop competencies in areas where private sector jobs are available. Funding for education (GATE etc.) and training programs should be aligned with private sector vacancies and skills gaps.

While economic growth has returned, and the budget seeks to consolidate that growth, these are still early days. Our recovery is still fragile and heavily reliant on the current upward trend in oil and gas prices. The only real solution to T&T's economic vulnerabilities is real diversification. While large scale projects are being pursued in some non-energy industries, there remain several simple and inexpensive measures which the Government can implement to improve the opportunities for increased foreign exchange earnings in the services sector. TTCSI stands ready to discuss these and other measures with the Government as we continue to promote the dynamic local services sector.