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ISSUER COMMENT
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Contacts

David Rogovic +1.212.553.4196
AVP-Analyst
david.rogovic@moodys.com

Mauro Leos +1.212.553.1947
Associate Managing Director
mauro.leos@moodys.com

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Government of Trinidad & Tobago

Mid-year budget review signals narrowing fiscal deficit

On 10 May, Trinidad and Tobago's (Ba1 stable) Ministry of Finance published its mid-year budget review, in which it showed the fiscal deficit narrowing as spending restraint combined with higher energy and non-energy tax revenue offsets lower capital revenue from asset sales. The government now expects the fiscal deficit to narrow to TT$4.2 billion, or 2.5% of GDP for the fiscal year ending 30 September 2018 (fiscal 2018), down from 3.1% of GDP in the original budget. While we expect an energy sector-led rebound in growth to support the fiscal trajectory, we see downside risks to the government' revised revenue targets and therefore expect a slightly wider fiscal deficit of around 3.5% of GDP this year, still much narrower than last year's 8.5% deficit. Beyond the current fiscal year, we expect delays in several fiscal reform measures to lead to a more gradual pace of fiscal consolidation.

Higher energy, non-energy tax revenue and lower capex will narrow deficit

The government revised down its projections for total revenue collection in 2018 because of lower asset sales, although it now expects to collect more revenue from the energy and non-energy sectors (see Exhibit 1). The government is progressing with its plans for the liquidation of CL Financial (unrated). The government has transferred a portion of the assets to the National Investment Fund, and expects to raise about TT$4.0 billion through an initial public offering.

Excluding revenue from asset sales, revenue collection will improve because of higher oil prices and increased gas production, as well as increased non-energy tax collection. The government expects energy sector revenue to increase to close to 8% of GDP, up from 7% in the original budget. The upward revision reflects higher oil prices, which triggers mandatory payment of the Supplemental Petroleum Tax (SPT) when oil prices surpass US$50 per barrel; crude oil prices averaged US$59 per barrel through the first six months of the fiscal year.

Increased gas production will also support higher revenue collection from the energy sector. With a full year of production at Juniper in 2018, and prospects for gas production at Shell's Starfish field to start in the second half of the year, natural gas production could reach 3.8 billion standard cubic feet per day (mmscf/d) by the end of 2018. Finally, revenue from royalties will increase by about TT$2.0 billion compared with the previous fiscal year.

In terms of the non-energy revenue, corporate tax revenue increased by more than TT$500 million in the first half of fiscal 2018 compared to the same period a year ago, following an increase in the corporate tax rate to 30% from 25%. The government also increased the tax rate for banks to 35% from 30% this year, which should provide an additional boost to tax revenue going forward.

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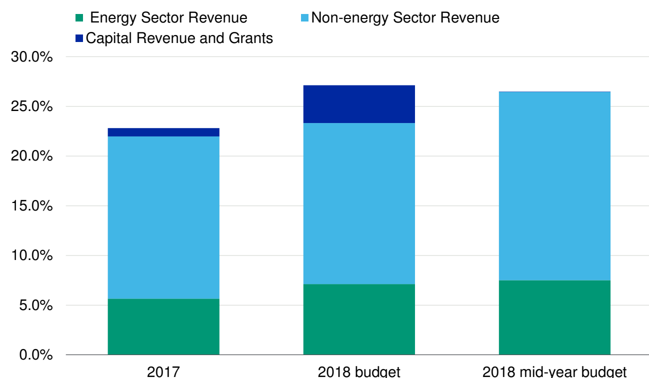
Exhibit 1

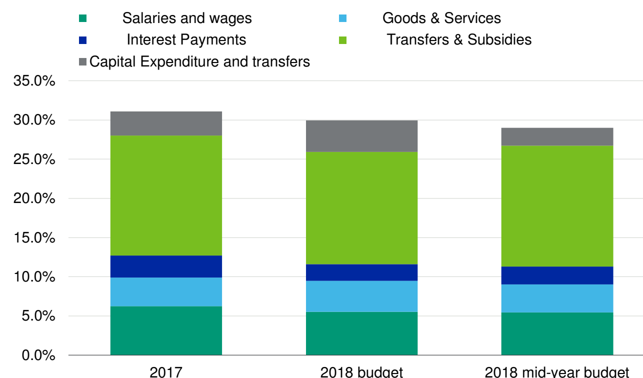
Energy and non-energy tax revenue to offset lower capital revenue (% GDP)



Source: Ministry of Finance

Exhibit 2

Lower capex will reduce government expenditures (% GDP)



Source: Ministry of Finance

At the same time, the government revised down its total budgeted spending by TT$1.6 billion, with more than four-fifths of the downward revision stemming from lower expected capital spending following delays in projection implementation (see Exhibit 2). Through the first six months of the fiscal year, realized spending on goods and services was only 46% of the full-year budget, prompting the government to revise down its projected spending for the year as a whole.

Narrowing fiscal deficit will support credit profile in the near term

We expect higher energy-related revenue to support a narrowing of the fiscal deficit in fiscal year 2018. However, we see some downside risks to the government's revised budget, particularly related to asset sales. We expect the government to raise less than the TT$4.0 billion it expects from the IPO of shares in the National Investment Fund. We also see some downside risks to non-energy related tax revenue and expect only a very gradual recovery in the non-energy sector of the economy. As such, we expect lower tax collection from households and from the value-added tax. We also see risks of higher spending on goods and services and transfers and subsidies. As a result, we expect a narrowing of the fiscal deficit to around 3.5% of GDP this year – wider than the government's 2.5% of GDP deficit projection, but still substantially narrower than the 8.5% deficit last fiscal year. Based on our nominal growth forecast, fiscal deficits of this size will allow government debt to remain broadly stable at 63% of GDP over the near to medium term.

Beyond 2018, slow implementation of fiscal reforms will prevent further narrowing of deficits

Beyond 2018, we expect only a gradual pace of fiscal consolidation as revenue-enhancing measures such as the introduction of a property tax and the establishment of a unified revenue authority face delays, preventing a more significant increase in non-energy revenue (see Exhibit 3). The introduction of a property tax continues to face delays because of legal and administrative issues related to the valuation of properties. The establishment of the Trinidad and Tobago Revenue Authority has also faced legislative hurdles. A unified revenue authority would improve tax compliance and collection, potentially leading to significant revenue gains – the government believes it could generate up to 3.0% of GDP in additional revenue. Legislation for both the property tax and the revenue authority require special three-fifths majorities in parliament. With elections scheduled for 2020, we believe parliamentary approval will be difficult. At the same time, we expect increases in spending – both capital spending and spending on goods and services and wages – as the government begins to focus on increasing support ahead of the elections.

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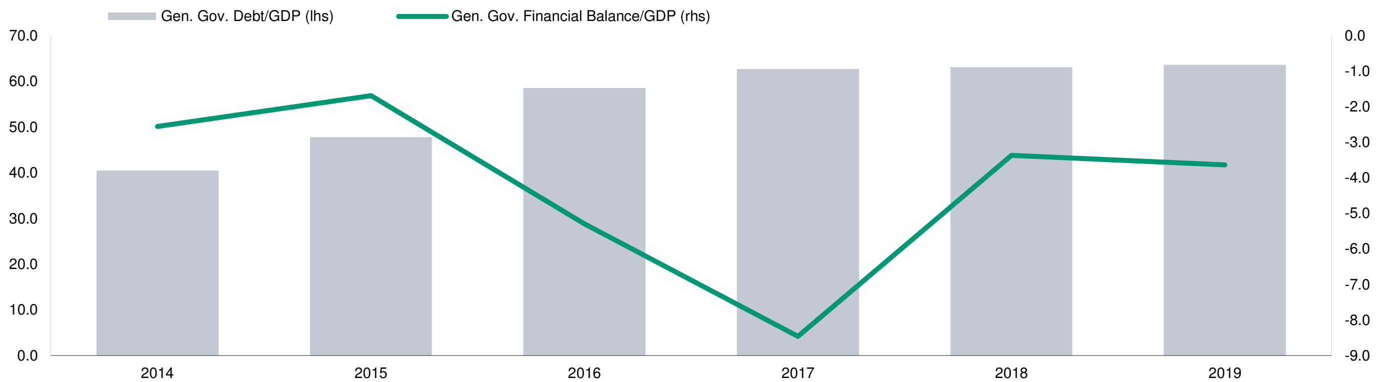
Exhibit 3
Slow implementation of fiscal reforms to prevent narrowing in fiscal deficit in 2019
(% GDP)



Source: Moody's Investors Service

Moody's related publications

» **Credit Opinion:** Government of Trinidad and Tobago - Ba1 Stable, May 2018

» **Outlook:** Latin America & Caribbean: 2018 outlook stable as growth momentum offsets rising debt and policy uncertainty, January 2018

» **Issuer Comment**: 2018 budget primarily relies on fiscal consolidation through windfall revenues and increased tax collection, October 2017

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