Budget 2024/2025 Commentary

Budget 2024/2025 - a Matter of Holding Strain

With Prime Minister, Dr. Keith Rowley, advising the country to expect to face challenging times heading into 2027, just four days before the delivery of the 2024/2025 National Budget, citizens may have been surprised by the optimistic tone adopted by the finance minister during the presentation. In fact, the Prime Minister's admonition came just a few months after the minister himself voiced similar sentiments in the Mid-year Review for the 2023/2024 Budget. Undoubtedly mindful of the approaching general election in 2025, the government used the opportunity to tout its accomplishments while in office, being sure to highlight that the country recorded a third consecutive year of economic growth in 2024, notwithstanding challenging domestic and global conditions. As encouraging as this is, the 1.9 percent growth in real GDP recorded during the year, fell short of earlier projections by the IMF (2.4 percent) and was not enough to take domestic economic activity back to pre-pandemic levels. Government's efforts to manage expectations in the lead-up to the budget, stoked expectations/fears that it would move to ease some of its fiscal burdens by further cutting expenditure on the fuel subsidy both at the gas station pump and regarding electricity rates. Instead, the finance minister announced the government's plan to once again, use one-off revenue measures (the sale of assets) to help finance its expenditure, a strategy that featured prominently early in its previous term in office (2015-2020).

Overall, the latest fiscal package focused heavily on the continuation of existing initiatives and so, did not offer a plethora of new initiatives. It also did not provide much in the way of pre-election goodies. Given the pressure placed on the nation's fiscal account, it would have been foolhardy for the administration to attempt to provide that type of budget. In a way, the budget was portrayed as a mechanism to help the country to hold strain until it can tap into the cross-border energy resources (Manatee, Dragon etc.) beginning in 2027.

The finance minister indicated that the 2024/2025 National Budget is based on an oil price of US$77.80 per barrel and a gas price of US$3.59 per million British thermal units (MMBTU). These prices are in line with the forecasts of the U.S. Energy Information Administration (EIA) but may not be as conservative as some would have hoped, given continued global uncertainties. The EIA expects West Texas Intermediate and Brent spot oil prices to average US$79.63 per barrel and US$84.09 per barrel, respectively and gas prices to average US$3.14 per MMBTU. With weak growth in China and two major wars driving global uncertainty, the minister may have to use the opportunity of the 2024/2025 Mid-year review to adjust his revenue projections. For now, total expenditure is expected to increase to $59.7 billion, compared to actual expenditure of $57.5 billion in the 2023/2024 fiscal year, while revenue is expected to rise to $54.2 billion from $50.4 billion. Capital revenue is expected to total $4 billion, up from $ 2.9 billion, with government highlighting its intention to divest its holdings of CLICO shares, the Point a Pierre refinery and the Magdelana hotel in Tobago. At the same time, energy revenue is projected to fall by 3.9 percent, while non-energy revenue is envisaged to rise by 7 percent. If these projections are actualised government will incur a $5.5 billion fiscal deficit, estimated at 2.9 percent of GDP, down from 3.5 percent a year earlier.

With the country on course to surpass the 577 murders recorded in 2023 by some distance, citizens were keen to hear, not only the level of resources that would be allocated to national security, but also government's plans to stem the exploding illegal activity. In response to these concerns government promised to take steps to improve the protection of the country's borders, to provide the security agencies with technological and other equipment and to enhance social programmes aimed at reducing criminal activity and rehabilitating offenders. To this end, the PNM administration intends to purchase drones, eight high-speed interceptors and two surveillance aircraft, among other things, between 2025 and 2027. While these initiatives and acquisitions have the potential to bring relief over the medium-long-term, they likely fall short of the more immediate, strong responses some citizens were hoping for, such as a limited state of emergency.

After increasing the national minimum wage in 2023 to $20.50 per hour, it was decided not to make further increases at this time, given the challenges such a move can impose on small and medium enterprises (SMEs) and marginal firms. Instead, from November 1st, 2024, only the minimum wage of government employees will increase by $2 to $22.50. The move is expected to benefit 18,200 persons, including CEPEP, MTS and URP workers. For years, SMEs have complained about labour shortages, with some of them indicating that they are not able to compete with URP and CEPEP wages and hours, in particular. The increase in the public sector minimum wage could therefore price some firms out of the market or force them to increase their compensation packages, even beyond the $22.50 to compete. This will likely result in the very consequences the minister sought to avoid, namely increased strain on small and marginal firms and increased unemployment.

The decision to settle outstanding VAT refunds will, no doubt, be welcomed by the affected companies and will likely provide a lifeline for many SMEs. The minister indicated that the SMEs that are owed refunds, would be paid in cash by the end of 2024, while the larger firms will once again be issued interest-bearing bonds to settle the arears. These bonds are expected to total $3 billion and are targeted to be issued by January 31st, 2025.

Faced with the long-term decline in the country's foreign currency reserves, government plans to introduce legislation in 2025 that would require energy sector companies to remit all their taxes in US dollars. This could help to slow the slide of reserves but will not remove the critical need for the country to diversify its foreign exchange earnings. Now, only 50 percent of energy sector taxes are paid in US dollars.

Overall, the 2024/2025 Budget is reasonable given the challenges facing the country and the wider global economy. While it is not filled with an abundance of new initiatives, it does seek to bring relief to certain sections of society. However, the minister suggests a very heavy dependence on the benefits the country is expected to receive when it is finally able to access the energy resources that straddles the nation's border with Venezuela. While this is understandable, ongoing events in that country and/or the potential change of administration in the November US Presidential election could place the deals in jeopardy. In terms of the initiatives identified, the government would do well to surmount the implementation challenges that have plagued Trinidad and Tobago for so long. Nevertheless, the fast-approaching general election could prove to be an added incentive.

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