Republic Bank

Budget 2023/2024 Commentary

A Response to a Convergence of Critical Issues?

The 2023/2024 National Budget was delivered at a very challenging time for the country, beset as it is by a number of issues. Among the major challenges confronting the nation are elevated prices (particularly for food) which have been felt most by low-income households and consequently have spurred calls for the minimum wage to be increased. National security is also very high on the agenda, with what was already a very frightening level of criminal activity now seeming to grow increasingly gruesome. Turning to the wider economy, while the projected 2.7 percent increase in GDP in 2023 is indeed a positive development, energy sector output maintained its downward trajectory in the first half of 2023. This impedes economic activity in more ways than one, as the related weak foreign exchange earnings have perpetuated the tightness in the foreign exchange market, much to the chagrin of businesses and households. With the demand for foreign exchange far outstripping supply, there have been repeated calls for the authorities to bring lasting resolution to the situation.

And then there is the government's continued fiscal constraints, which require prudent management, especially in the face of diverse demands for these scarce resources. Such demands include, but are not limited to, the need to improve the nation's infrastructure (including roads), to enhance the efficiency and reach of social programmes, and to attend to the growing necessity to accelerate the country's diversification thrust. Add to all these concerns the fast-approaching general elections in 2025, and you have a convergence of issues to which the government will likely feel compelled to respond in a meaningful way. While the Budget is not the only opportunity for government to present such plans, it does present a unique window, given the widespread attention it commands. In this regard, the interest in this fiscal package has been quite keen.

In response to calls to increase the minimum wage, government announced a $3 rise from $17.50 to $20.50; a move that is expected to benefit at least 190,000 workers. In the lead-up to the Budget, there were calls for government to carry the benchmark to as high as $30 in some quarters. On the other hand, while most acknowledged the need for a review, there were concerns that a considerable rise could impose further challenges on the non-energy sector and possibly restrict the post-pandemic recovery. In the end, government opted for a conservative increase which takes monthly salaries in this category from $2,800 to $3,280. Increases in the minimum wage tend to result in pressure from workers in some other tiers for their employers to augment their compensation rates. It remains to be seen if this occurs on this occasion.

The plans to triple the intake of police recruits in 2024, establish a riverine unit in Carenage and to provide funding to increase the service's fleet of vehicles, are welcomed and may provide some comfort to members of the public. However, with the rate of murders in 2023 on par with the record high of 2022, citizens are also anxious to hear of plans to integrate a greater level of technology into the operations of the police service, including forensic evidence such as DNA and other mechanisms to boost the detection rate.

Regarding the continued foreign exchange challenges, the government announced its collaborative approach to resolve the issue, involving the Central Bank, Commercial Banks and the business community, to name a few. Part of government's plans involves the development of strategies to increase the repatriation of foreign exchange earned overseas by local and foreign businesses operating in Trinidad and Tobago. While this is critical to enhancing the operations of the domestic foreign exchange market, it should be noted that such businesses will have to be assured that repatriated foreign exchange will be easily accessible to them when needed.

To encourage economic growth and the diversification of the local economy, government intends to create new arrangements that allow qualified SMEs preferential access to foreign exchange. The government expects this initiative to reduce the SMEs' foreign exchange demand via credit cards.

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While no details were provided, this initiative is expected to be implemented within the next six months. This move will be supported by the decision to extend the facility at the EXIMBANK which caters to manufacturers in the non-energy sector.

Turning to the arithmetic, the Budget is based on an oil price of US$85 per barrel and a gas price of US$5 per million British thermal units (MMBTU). These prices are reasonable. The oil price falls in line with the U.S. Energy Information Administration (EIA) forecast. While the gas projection is above the EIA's benchmark, it should be noted, that locally produced gas attracts an average price that is notably above the US market price. As was the case for the 2022/2023 fiscal package, there was room for a bit more price conservatism, considering the unrelenting global uncertainty. Government expects total expenditure to rise to $59.2 billion compared to actual expenditure of $57.2 billion in the 2022/2023 fiscal year. Encouragingly, government used the occasion to highlight its commitment to maintaining a healthy level of capital expenditure going forward, given its importance for economic growth. Accordingly, this category of spending is set to increase marginally to $6.2 billion, compared to $ 6 billion a year ago. However, only $3.8 billion of the 2022/2023 capital budget was used, demonstrating continued implementation challenges. It will redound to the nation's economic wellbeing if these challenges can be surmounted in the 2023/2024 fiscal year. Total revenue is projected to increase marginally to $54 billion from $53.8 billion, with oil revenue accounting for $16.7 billion. Only $1.8 billion in capital revenue is expected to be raised during the period. Once these projections are realised, they are expected to result in a fiscal deficit of $5.2 billion (2.7 percent of GDP).

In wrapping up the delivery of this latest fiscal package, the finance minister indicated that the government was cognisant of the challenges facing the average citizen and as such, did not want to add to the burden with new taxes or increased fuel prices. This, no doubt, will be welcomed by many citizens. Nevertheless, the extent to which the budget measures combine to assuage pressures facing households and businesses and thereby stimulate growth, will be determined firstly by the degree of implementation and also time.

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