169 Tragarete Road Port of Spain
Trinidad and Tobago

INVESTMENT AND SOVEREIGN RESEARCH *October 2018*

2018/2019 Budget Highlights: Pivoting to Economic Recovery

Economic Turnaround!

This was the theme for the FY 2018/2019 budget, presented by Finance Minister Colm Imbert on October 1, 2018. His address highlighted his continued optimism for the recovery of Trinidad and Tobago, expected projects for the energy sector and the Petrotrin story. In light of changing economic climate and wavering investor uncertainty, this review takes a closer look at the budget statement through the lens of the investor and discusses any associated implications.

FY 2018 – A year of improvements

Fiscal 2018 was not without its challenges but recovery can be seen in the energy sector, with spillover effects on non-energy sectors. In the last budget, the Administration pursued a number of austerity measures aimed at reducing government budget deficits through spending cuts and tax increases to soften the impact from subdued hydrocarbon prices (the 'new norm') and falling energy production levels. The Minister noted that the recent rebound in the economy is being facilitated by global growth, the recent improvements in energy markets and the increased natural gas production in Trinidad and Tobago. However, external shocks, including an all-out trade war, weigh heavily on the global growth prospects.

Trinidad and Tobago's energy sector reported growth rate of 2.2 percent in FY 2018, as energy projects materialized, boosting the country's gas production levels from an average of 3.37 billion standard cubic feet per day (BSCF) in 2017 to an average of 3.80 BSCF in 2018. Natural Gas production outlook in the medium term is expected to peak at 4.1 BSCF per day in 2021. The boost in energy sector will continue to have positive spillover effects onto the non-energy sector. Resultantly, Trinidad and Tobago's GDP growth is projected at 1.9% in 2018 and anticipated to reach 2.1% in 2021, a reversal of three years of consecutive GDP declines.

Total revenue collected for FY 2018 was recorded at $42.62 billion, approximately $4.78 billion lower than its budget estimate of $45.74 billion. The 6.8% pitfall was attributable to the inadequate tax collection procedures in certain areas. Total expenditure in FY 2018 was $48.9 billion, a notable improvement from a high of $62.8 billion in FY 2014. This led to an estimated fiscal gap of $6.26 billion or 3.9% of GDP in FY 2018 versus $12.6 billion in FY 2017 or 8.4% of GDP. The lower spending is attributed to reduction in subsidies, such as on petroleum, and lower capital outlay. Prices at the pump for petrol with the exception of diesel showed upward price adjustment. A litre of super unleaded gasoline is being sold for $4.97 per liter, an increase of 25.2% over 2018's price.

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Factor	Budgeted Estimates FY 2019	Estimated Outturn FY 2018	Budgeted Estimates FY 2018	Estimated Outturn FY 2017	Budgeted Estimates FY 2017	Estimated Outturn FY 2016
Oil Price US$ (WTI)	65.00	52.00	52.00	48.00	48.00	35.00
Natural Gas Price US$ (MMBTU)	2.75	2.75	2.75	2.25	2.25	2.00
Revenue (TTD Billions)	47.72	42.62	45.74	37.84	47.4	44.9
Expenditure(TTD Billions)	51.78	48.88	50.50	50.50	53.48	52.2
Fiscal Deficit (TTD Billions)	4.05	6.26	4.76	12.643	6.0	7.3
Fiscal Deficit of GDP (%)	2.50	3.90				

Pivoting to Stabilization: 2019 Budget Highlights

The Government continues with is thrust towards implementing a National Development Strategy, Vision 2030, to reverse the challenges now faced by the economy. Vision 2030 will pursue policy reforms in nine (9) areas: i. expanding exports and increasing foreign exchange earnings and employment; ii. solving and preventing crime; iii. reversing non-progressive values, attitudes and behaviors such as low productivity and poor work ethos; iv. undertaking constitutional and institutional reform; v. addressing the impact of shale gas, alternative energy sources and lower gas reserves and production; vi. discouraging the culture of dependency and sense of entitlement among the population; vii. ensuring effective and efficient public service delivery and implementation of development interventions and measurement of results; viii. transforming the existing growth model into one which is environmentally friendly; and ix. protecting and sustainability using environmental resources.

Revenue and Expenditure

Revenue for 2019 is projected at $47.7 billion, which is 12% or $5.1 billion more than the figures recorded in 2018. The budget is framed on the assumptions of oil prices at US $65.00 per barrel, gas prices at USD $2.75 per MMBTU, and higher production volumes. Major revenue streams include:

- *Energy Sector developments*

Revenues from the energy sector is expected to increase to $9.52 billion. Oil revenue accounted for as much as 57% of total revenues in the past, but has subsequently declined to 7% of total revenues in 2017 owing to subdued prices and production challenges. .

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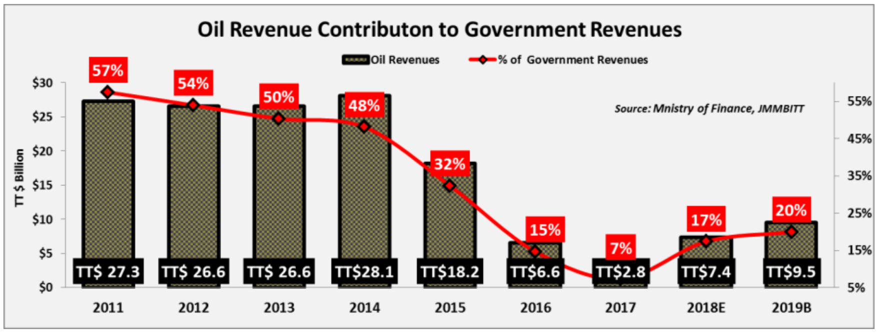

The current challenges being faced in the energy sector have forced the government to look at the non-energy sector to help diversify the sovereign's income stream. The authority is however expecting improvements in the sector as prices and production expands. Of note gas production increased to an annual average of 3.80 billion standard cubic feet per day in 2018 and is projected to continue to grow well into 2021:

- 3.94 billion standard cubic feet per day in 2019;
- 4.05 billion standard cubic feet per day in 2020; and
- 4.14 billion standard cubic feet per day in 2021

Projects	Operation dates
Terms of Agreement with the Government of Venezuela to supply natural gas from the Dragon Field in Venezuela	TBA
BP Juniper	fully operational
BP Angelin	To begin from Q1 2019
BP Cassia gas compression project	To begin in 2020
BP Trinidad Regional Offshore Compression (TROC) project	Completed at the end of 2021
Shell Starfish	drilling and production have already commenced
Shell Dolphin Field	drilling and production have already commenced

- *National Investment Fund 2*

Following the success of the initial public offering (IPO) of the $4.0 billion asset-backed National Investment Fund (NIF) bond, the Minister announced that there will be another National Investment Fund bond offering in 2019, similar to the 2018 offering. Details of the assets that will be included in the portfolio have not yet been made public. However, given the markets' appetite for relatively safe investment opportunities, this offering will likely be an attractive option to investors.

- *Housing Bonds*

The Government proposes to introduce new interest-bearing housing bonds in an initial amount of $1.5 billion offered to the national community. The bonds will be used to accelerate housing construction as well as finance the subsidy arising from the 2.0% interest rate for low-income mortgages. It is intended that citizens who invest will be given preference in the allocation of new Housing Development Corporation (HDC) housing units and will be able to assign the full value of their bonds to the Government, reducing the purchase price of their housing units. Further, investment in these funds will serve as a national savings tool and in addition provide first time home owners with access to affordable housing.

Government expenditure for FY 2019 is estimated at $51.78 billion, with major allocations going to Security, Education and Health. Considering the 2019 budgeted revenue, Trinidad and Tobago would be facing a fiscal deficit of $4.05 billion, $2.21 billion lower than the outturn in 2018 of $12.64 billion. To finance the fiscal deficit the government will issue securities in the domestic capital market in a net amount equivalent to $3.826 billion and external markets in a net amount of $0.226 billion.

The Petrotrin Story

The most significant story anticipated in the FY2019 Budget is that of Petrotrin. Government's decision to restructure the operations of the state owned refinery stems from years of the corporate operating at a loss, failure to pay taxes owed and growing debt to third parties, which has to be funded by taxpayers. According to the Minister, "Petrotrin is also now concentrating on exploration and production activities and in the process, will boost its current production level of 40,000 barrels per day, the foreign exchange earnings of which would redound to the benefit of the citizens of this country." The corporate has shuttered the refinery and will import distillates for distribution, which will cut and drive revenues.

The burning question now is, "how is Petrotrin going to pay its US$850 million bond due in August 2019, its TT $2.6 billion termination payment and its debt owed to the Government?" We still await further clarity to these unanswered questions. However, if Government decides to step in and bail out the refinery, the economy's net public debt would increase from its current 60.9% of GDP.

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Our View

As the economy begins to show signs of improvements, investors can look forward to upcoming market opportunities. Management of the exchange rate, through bi-monthly foreign exchange intervention, improved foreign exchange market conditions and various growth initiatives have created opportunities for manufacturers, wholesalers, retailers and investors. This is expected to help buoy long-term growth in the energy and non-energy sectors. Given the expected increase in local interest rates in the medium-term, to narrow the TTD-USD differential, we believe that some of the upcoming investment opportunities on the horizon could be attractive to add to your portfolio.

For more information, please contact a JMMB Investment (Trinidad and Tobago) Limited.