



Statement to
the House of Representatives on
the Economic Effect and Financial Response
to the Covid-19 Pandemic

Presented by the Minister of Finance, Honorable Colm Imbert, MP

Monday April 27, 2019



Madam Speaker, I am authorized by Cabinet to make a statement to this Honourable House on the economic effect and financial response of the Government to the COVID-19 pandemic. Please note that this is a statement on our current financial efforts and should not be construed as a plan for **recovery** from the economic effects of the virus, since that is being handled in another forum

Madam Speaker, we are in an unprecedented public health and economic crisis brought about by the novel coronavirus also known as COVID-19. The economic effects of this pandemic could not have come at a worse time.

Firstly, there has been a **35% decline** in natural gas prices since September 2019, as a result of weak demand, restarting of nuclear power plants in Japan and sharp increase in the availability of LNG from non-traditional exporters.

Add to this an unprecedented collapse of oil prices over the last three months, caused initially by a price war between Russia and Saudi Arabia, which drastically reduced the price of oil from \$60 a barrel in January to \$30 a barrel in March and then, the global economic shutdown resulting from Covid-19, which so depressed the demand for oil that out of nowhere last week the May futures price for West Texas Intermediate (WTI) oil dropped to **1 US cent per barrel** and then turned negative for the first time in history.

This crisis is global in scale and scope and the outlook is subject to extremely high uncertainty in the context of its unfolding character. With over 3 million confirmed cases of the virus worldwide and over 200,000 death thus far, no one can really say for certain what next month will bring.

Recognizing the sheer magnitude and impact of this COVID-19 pandemic, therefore, this PNM Administration, under the leadership of the Prime Minister, Dr. the Honourable Keith Rowley, came to the early conclusion that a comprehensive response and mobilization of all available resources and expertise at all layers of the public and private sectors was necessary. The response represented an urgent imperative to survive the health and economic crisis.

Madam Speaker, we are confronting a crisis, the like of which we have never seen before. Worldwide the virus is causing tragic loss of life and the lockdown needed to contain it has severely depressed world economic activity. As a result, the global economy is projected by the International Monetary Fund to contract sharply by at least **3.0 percent** in 2020, much worse than during the 2008–2009 financial crisis. In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by **5.8 percent** in 2021 as economic activity normalizes, helped by policy support.

However, Madam Speaker, there is extreme uncertainty about the global growth forecast. The economic fallout is affected by factors which interact in ways that are hard to predict, such as the spread of the virus, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes, such as people

avoiding shopping malls and public transportation, social distancing, confidence effects.

Most countries around the world face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals and a collapse in commodity prices. For us in Trinidad and Tobago, we are profoundly affected by volatile commodity prices.

Madam Speaker, the impact on Trinidad and Tobago is not different than to any other country. We face the same problems as the rest of the world.

Madam Speaker, since our assumption of Office in September 2015, this Government has met its public commitment to transparency and accountability in all public matters.

Today, I propose to share with members of the Honourable House the principal elements in our comprehensive package of policies which are in place to address this unprecedented humanitarian public health and economic challenge posed by the COVID-19 pandemic; but first of all I would like to express the sympathy of this Administration to all families and communities which have been affected by this pandemic. I would also like to commend our devoted and hardworking health care personnel, medical practitioners and essential workers for their collective responsibility for ensuring the containment of this pandemic in Trinidad and Tobago. They are all doing a tremendous job.

Madam Speaker, while the breadth, depth and duration of the effects of the virus are still uncertain, our strategic initiatives have been swift as we seek to slow the spread of the disease and minimize its economic consequences. We have been successful. We acted decisively, even before the World

Health Organization (WHO) had declared the virus a pandemic on March 11 2020. As a result, the number of known and confirmed cases as of today is limited at 116 with 8 associated deaths and these in the main have resulted from patients who had contracted the disease through overseas travel and from primary contacts. In addition, 59 people have recovered and have been discharged from our health facilities. Moreover, following international guidelines, we have been ramping-up our diagnostic testing capability to identify infected persons. Thus, we will be able to conduct contact tracing for treatment and isolation in a controlled environment. We are ensuring that a systematic resumption of economic activity would take place in healthy and safe surroundings. This Government will protect the lives of our citizens at all cost. We will not be reckless with human life. Further, notwithstanding the recommendations of some members opposite that we use dangerous pharmaceutical products, designed for other uses, to treat patients infected with the virus, we in this Government shall continue to rely on the best scientific and medical advice from the World Health Organization and other reputable international bodies.

Substantial budgetary resources are being directed to the health sector, and this is aided by external financial support. Additional medical personnel are being hired, medical equipment and PPE are being sourced, hospitals and medical facilities are being upgraded and commissioned and specific sites are dedicated to treating infected people. Step-down convalescing facilities are in place. We have created a health system parallel to the traditional health facilities to specifically respond to the pandemic.

In terms of international financial assistance to address the unprecedented financial demands of Covid-19, we are sourcing US\$300M (TT\$2B) from

various multilateral agencies – US\$20M from the World Bank, US\$130M from the IADB and US\$150M from the Development Bank of Latin America (CAF). We are also pursuing a further US\$500M (TT\$3.4B) for budgetary support from other external sources.

We have also raised TT\$500M locally to pay for the increased demands for goods and services for the Regional Health Authorities and to settle aged trade payables in the health sector. In terms of cash flow for the Ministry of Health and the RHAs, in the face of this pandemic, therefore, we are on a strong footing.

Madam Speaker, Trinidad and Tobago is not only impacted by the economic consequences of COVID-19; but as an oil-and-gas exporting country, the economic, financial and social consequences have been further compounded by the dramatic drop in oil and gas prices. The worldwide demand for crude oil has crashed in the context of stay-home-lockdown orders. As I indicated earlier, on April 20, 2020, the price of West Texas Intermediate (WTI) took an unprecedented turn entering negative territory for the first time in its history, The WTI June 2020 delivery for crude oil is currently US\$15 per barrel and the natural gas June futures price is US\$1.82 per MMBTU.

Notwithstanding this, the April 2020 World Economic Outlook is forecasting a price of oil of **US\$35.61** per barrel in 2020 and **US\$37.87** per barrel in 2021; while the latest US Energy Information Administration (USEIA) short term outlook estimates WTI to average **US\$29.34** for the rest of 2020 which, if correct, will put the price of our local MOLO crude at around **US\$32** per

barrel, above its breakeven price of **\$28**. The USEIA also estimates that natural gas will average US\$ 2.11 per MMBTU in 2020. However, oil and gas price forecasts are exceedingly problematic at this time.

Madam Speaker, as a result of these developments, and the consequent erosion of our oil and gas tax revenue base as well as the exceptional social support being channeled to our citizens, the country's economic and fiscal outlook and budget is being recalibrated. It should be noted that this year's budget was based on an **oil price of \$60** and a **gas price of \$3.00**

Madam Speaker, our early and initial response to the pandemic was proactive in nature. *A containment framework* to minimize the spread of the disease was swiftly put in place and appropriately strengthened:

- we closed our borders
- we closed our schools and some businesses;
- we limited (initially) public gatherings to ten (10) persons;
- we encouraged adjustment to business practices and working arrangements;
- we emphasized the importance of social distancing and deepened such efforts by placing restrictions on all non-essential activities on a limited period of time. ***These restrictions will be reevaluated on or before May 10, 2020.***
- we implemented subsequently, more stringent measures to deepen social distancing and shelter-in-place by reducing the number of persons who can congregate to 5, by advising that face masks be worn in public spaces and by imposing time restrictions on the operation of businesses which are permitted to remain open; and

- we operationalized immediately a parallel health care system with all necessary equipment, infrastructure and personnel for COVID-19 patients and persons under quarantine, with no significant disruption or interference to our main health care system.

Madam Speaker, as we sought to mitigate the health impact of the pandemic on our citizens, we recognized that economic activity would be curtailed. Indeed, there was no doubt that those containment measures would have a most severe economic fallout on some of our major employment-creating sectors: tourism, hospitality, manufacturing, trade, distribution, construction, agriculture, personal and professional services and arts, entertainment and recreation. We have responded quickly with a broad set of policy measures aimed at providing social protection, assisting the poor and vulnerable, protecting businesses, jobs and incomes, maintaining financial resilience and sustaining economic activity.

Madam Speaker, a targeted and sizable financial support programme for an initial period of three (3) months at a cost of approximately **\$4.5 billion** is providing a safety net for the most vulnerable households and businesses.

Over **75,000 households**, comprising over **200,000 Nationals of Trinidad and Tobago**, have benefitted from additional social support measures implemented by the Ministry of Social Development and Family Services so far. To date, over **\$65 million** has already been spent or committed by that Ministry on Covid-19 relief measures. These measures include over **\$25 million** worth of food cards distributed to Members of Parliament to assist parents for a 3-month period, whose children would normally receive meals through the school feeding programme, and for other needy persons in their constituencies.

Existing food card recipients have also had their food cards topped up with additional funds at a cost of over **\$17 million** and over 30,000 persons in receipt of public assistance or disability assistance have been given additional assistance at a cost of over **\$22 million**. Food hampers have also been sent to all Regional Corporations.

In addition to the above, the Ministry of Social Development is currently processing applications for Income Support Grants of up to **\$1,500 per month** per household, for persons who are outside of the NIS and BIR systems who have lost their jobs or incomes as a result of Covid-19 measures, i.e. persons in the informal economy. Rent Relief Grants of up to **\$2,400 per month** are also available.

It is expected that these social support measures will cost up to **\$200 million** for the period up to July 2020

Today, Madame Speaker, the Government has decided to expand the reach of its food support programmes by enlisting the assistance of our churches and religious bodies.

Grants totaling **\$10 million per month** for three months, May, June and July will be given to religious bodies in proportion to the size of their congregations for them to distribute food to the poor and needy in accordance with their existing procedures and programmes. This will cost **\$30 million**.

Additionally, a further **\$10 million per month** for food support will be given to the Ministry of Rural Development and Local Government for distribution within the 14 Municipal Regions in Trinidad, again for the months of May, June and July, at a cost of a further **\$30 million**. Emphasis in these food support programmes will be placed on the supply of fresh produce, as well as traditional processed foods.

In the Ministry of Finance, we are well advanced with the arrangements for the payment of Salary Relief Grants, designed for persons who are registered for National Insurance and whose employment has been terminated or suspended without pay as a result of the Public Health Regulations. These Grants are for up to **\$1,500 per month** for up to **3 months**.

As of Friday March 24, 2020, **30,300 applications** for Salary Relief Grants had been received, comprising **11,452** hand delivered applications from TTPost locations or 38% of the total and **18,758** applications received online by email or 62% of the total. Earlier estimates of online applications given to us, which were based on the assumed byte size of a typical application, proved to be inaccurate. Indeed, for those who are not Internet savvy, the statistics now justify the use of Police Stations for the physical collection of forms and TTPost offices for the drop off of completed applications.

I am pleased to report that although only two weeks have elapsed since we began to receive applications at TTPost outlets, we have processed and authorized the first batch of 1,000 salary relief grants. If all goes according to plan, these grants will be wired to recipients tomorrow and arrive in their

bank accounts by Wednesday April 29, 2020. Thereafter, we expect to be able to increase our capacity to be able to process and deliver up to **10,000** new grants per week, as we speed up and streamline the process.

These grants are eventually expected to reach as many as 100,000 persons at a cost of **\$400 million**.

An interesting statistic is the fact that 88% of the salary relief grant applications received so far have been found to be fully compliant in terms of identification documents, certification from their employers of loss of employment, bank account information etc.

At this time, I think it is important that we in Trinidad and Tobago look at what is being done in other countries in terms of financial support in the face of Covid-19.

Some people in Trinidad and Tobago tend to exaggerate at times, and I have heard complaints and demands that our salary relief grants should be given without question, and without documentation or application forms or eligibility criteria, and in one or two days, as well! I have heard it said that this is what is occurring in the USA for example.

However, in reality, in the United States, unless you are already registered with the Internal Revenue Service for income tax, with all your personal and private information, including banking information, entered on the IRS database, and you have filed your last year's tax return, and you have a social security number (their equivalent of our NIS), you have NOTHING to

get, in terms of Covid-19 relief. Persons in the informal economy in the United States are simply not eligible for relief. The equivalent in Trinidad and Tobago is workers who are not registered with the Board of Inland Revenue or the National Insurance Board.

The same applies in Canada – you must be registered for tax with the Canada Revenue Agency, otherwise you will not get any financial assistance from the CRA during the period of this pandemic. Further, in the USA, if you are not registered for electronic banking, it is estimated to take as much as 5 months to receive any money, if at all.

We, on the other hand, are giving relief to Nationals of Trinidad and Tobago in the formal economy, i.e. persons who are registered for tax and/or national insurance, **and** to our Nationals in the informal economy, i.e. Nationals of Trinidad and Tobago who are not currently registered for tax or NIS, but are counted in the official CSO statistics as being part of the national labour force. We are also giving assistance on a monthly basis over a 3-month period, whereas in the United States, the grant is a one-off payment.

In this context, it should be noted that whereas our labour force is estimated at **620,000** persons, only **420,000** persons are registered for national insurance in Trinidad and Tobago, which means that **200,000** persons or **32%** of our labour force are outside of the formal system. This is a serious matter which **MUST** be addressed when life gets back to normal. It is not fair to those persons who faithfully pay their taxes and NIS contributions for so many unregistered workers to be outside of the system.

Madam Speaker, in addition to individual financial assistance, we are improving the cash flow for our business sector to maintain employment. Payment of outstanding arrears of VAT refunds to businesses is being accelerated thereby easing the financial and economic burden on businesses during this strenuous time and facilitating in the process some measure of business continuity. Importantly, by this measure, we envisage the preservation of jobs at a time when most persons need them.

In March 2020, we issued over **3,800** VAT refund payments in cash to businesses with outstanding arrears of **\$250,000** per VAT period or less, at a cost of **\$260 million**. Last week, we made the decision to pay out a further **\$200 million** in cash in VAT refunds to businesses owed between **\$250,000** and **\$500,000** per VAT period, bringing the total of VAT refunds paid out in cash within a period of 4 weeks to **\$460 million**. The residual VAT arrears are being settled through the imminent issuance of **\$3 billion** in interest bearing VAT bonds as a result of the recent amendment of the Value Added Tax Act. These bonds will bear interest at a rate of **3.3%** over **3** years, and for those businesses who wish to cash them in, from all our discussions, we expect them to be converted by financial institutions at par, **100 cents on the dollar**

Madam Speaker, we are also taking the opportunity to expedite income tax refunds to individuals. To date, **\$116 million** in income tax refunds of \$20,000 or less has been paid to **17,195** individuals with **\$124 million** approved for payment to another **7,900** individuals within the next two weeks, thus clearing off ALL outstanding individual income tax refunds, at a cost of **\$240** million. Between VAT refunds and income tax refunds therefore, we

will have paid out **\$700 million** in CASH in a two-month period, all designed to inject money into the economy, to keep people in jobs during this difficult period. Accelerated payment of Corporation Tax refunds is also being seriously considered

Additionally, today Madam Speaker, I had the privilege to sign an agreement with the bodies representing the Credit Union Sector, to provide them with **\$100 million** in funds for soft loans to their members. With these funds, credit unions will now be able to provide affordable loans of up to **\$5,000** per month for three months, or **\$15,000** in total, to their members, to carry them through this period. These loans will be priced at half the usual interest rate and will have very favorable repayment terms.

We are also in the final stages of preparing a Government guaranteed soft loan programme for small and medium sized enterprises, to be administered through the commercial banks.

With respect to the availability of foreign exchange for the importation of food, pharmaceuticals, sanitary products, PPE and other essential supplies during the period of Covid-19, Cabinet last week approved the establishment of a special foreign exchange window through the EXIMBANK, providing **US\$25 million a month** for 3 months to established importers with a track record of bringing in these items. This special forex window is to ensure that there are no shortages of these essential items.

And we have not left out Tobago. We are sending **\$50 million** to the THA for the TRHA and other Covid-19 related expenses and a further **\$5 million** for their enterprise development programme to help small businesses. We are

also making available a Special Fund of **\$50 million** to provide grants to Tobago hoteliers for hotel upgrade and refurbishment, so that when hotels are permitted to reopen for business, their hotel plant will be ready to receive visitors.

We have also today initiated the [process for a wire transfer of funds in the amount of TT\$2,000, or US\$300, to our Trinidad and Tobago students at the UWI campuses at Mona, Jamaica and Cavehill, Barbados, who are not on national scholarships (national scholars at the two campuses have already received their personal maintenance allowances through our Unit Trust facility up to May, and in several cases up to June) to assist them with the purchase of **food** in April and May, in the first instance. These funds are being sent to the University Bursars at the two campuses for distribution to our students. Other students at regional universities, such as our students in Cuba, will also be assisted in due course.

The measures we have taken to contain the virus thus represent an essential investment in our individual and collective health. The fiscal support is providing relief to those who have lost their jobs and to low- and middle-income households. This expanded fiscal relief programme is supported by enhanced financial policies.

Madam Speaker, the Central Bank is acting to provide stability to the financial system and to support the flow of credit to the economy. The emergency measures adopted by the Central Bank have been reserved for truly rare circumstances such as those we face today. The Central Bank is helping the economy navigate through these difficult circumstances.

- reserve requirements for the commercial banks have been reduced by the Central Bank from 17.0 percent to 14.0 percent; and the repo rate from 5.0 percent to 3.5 percent. As a result, Commercial banks have reduced their prime lending rates from an average of 9.5 percent to 7.5 percent; the narrowing spread between lending rates and deposit rates will surely bring about improved efficiency within the banking system. It should be noted that whereas the reduction in the prime lending rate has an automatic beneficial effect on loans that have a variable interest rate, the commercial banks have advised that loan agreements with fixed interest rates require one-on-one consultation with the commercial banks, to discuss possible reductions
- additional liquidity through a freeing up of \$2.6 billion previously held in reserve is facilitating the reduction in lending rates. Liquidity in the banking system is now in the vicinity of \$6 billion;
- the banks are also providing a moratorium on mortgages and instalment loan payments. Penalties are being waived on overdraft facilities on a month by month basis;
- credit cards now have reduced rates and increased credit limits;
- banks are being encouraged to reduce mortgage interest rates and there will be discussions between the banks and the Ministry of Finance on this issue and interest rates generally
- moneylenders have reduced interest rates and deferred payments;
- credit unions are being encouraged to exercise forbearance

- the Trinidad and Tobago Mortgage Finance Limited (TTMF) and the Home Mortgage Bank (HMD) are deferring mortgage payments up to three (3) months in the first instance; a review could extend the deferrals to a further six (6) months;
- the Housing Development Corporation (HDC) is deferring mortgage payments of up to two (2) months which could be extended in the context of the evolving situation;
- the National Enterprise Development Company Limited (NEDCO) will receive funding to assist clients with soft loans to fund their projects;
- the Trinidad and Tobago Chamber of Commerce and the Trinidad and Tobago Manufacturer's Association have agreed to encourage their members to retain employees for a limited period of time- 4 weeks in the first instance;
- import duty and VAT is being waived or remitted on certain medical and emergency supplies being imported to mitigate the COVID-19 pandemic.

Madam Speaker, the comprehensive social, financial and economic support package of measures has expanded our expenditure envelope, in the context of a serious erosion of our tax base caused by the collapse of oil prices.

Accordingly, our fiscal deficit for fiscal 2020, which was originally estimated at **\$5.3 billion**, is now expected to expand to **\$15.5 billion**, **\$10.2 billion** higher than was envisaged in our FY 2020 Budget.

In calculating this revised deficit, we have taken note of the fact that the collapse of the price of WTI oil to **1 US cent per barrel** last week is having

an adverse effect on other oil prices. For example, Brent oil, which is closer in price to our local crude than WTI, has dropped to \$20. Such low prices were previously undreamt of.

Notwithstanding the forecasts of the USEIA and WEO of oil in the \$30 range and gas in the \$2.10 range for the rest of 2020, therefore, our latest revenue projections, are based on conservative prices of \$25 per barrel for oil for the rest of the year and \$1.80 per MMBTU for natural gas.

This results in a projected loss of revenue in fiscal 2020 of **\$9.2 billion**, to which must be added another net \$1 billion in extraordinary expenditure. Within that \$9.2 billion revenue loss, we estimate a loss of \$3.8 billion in taxes on Incomes and Profits, and losses of \$750 million in Business Levy and Green Fund Levy, \$600 million in taxes on Goods and Services and International Trade, \$2.5 billion in Royalties and Production Sharing and \$1.2 billion in Profits from State Enterprises, among other areas.

Madam Speaker, there is no question that fiscal 2020 will be exceptionally difficult even if the pandemic fades in the second half of the year thus allowing for a gradual lifting of the containment measures and a re-opening of the economy. Indeed, the April 2020 World Economic Outlook envisages a partial recovery in 2021. However, there is tremendous uncertainty around the outlook, given that it can get worse.

In 2020, therefore, our objective is to keep the economy moving, stimulate economic activity, provide financial assistance to individuals and businesses, and keep as many people employed as is possible including ALL workers in the public sector. We cannot allow this pandemic to destroy our economy and, therefore, while a reallocation of priority areas for spending is inevitable,

it is our intention to maintain our original expenditure target of **\$53 billion** for fiscal 2020.

For that reason, we have been in discussions with certain multilateral institutions and development banks with a view to ensuring that in addition to domestic financial resources, appropriate external financing is available to meet the requirements of the expanded fiscal deficit in 2020 and 2021.

Further, we have taken steps to allow for emergency drawdowns from the Heritage and Stabilization Fund (HSF), not exceeding **US\$1.5 billion** (TT\$10 billion) in any given year, for budgetary support in exceptional circumstances, such as the current pandemic. I wish to thank all members of this Honourable House for unanimously supporting the amendments to the legislation governing the HSF to allow for such drawdowns. As a country, we have long recognized the importance of building up a foreign exchange buffer through our HSF which now has a Net Asset value of **US\$6.1 billion, US\$500 million MORE** than when we assumed office in September 2015, despite withdrawals totaling **US\$600 million** since then and the collapse of the US stock market last month.

Madam Speaker I must emphasize to the national community and to those members opposite who seem obsessed with generating **MISINFORMATION**, that in rolling out our expanded fiscal and social relief programmes **WE HAVE NOT YET WITHDRAWN ONE DOLLAR** from the Heritage and Stabilization Fund. I wish to assure all concerned, therefore, that drawdowns will be made from the Fund in a structured manner, only as and when required, and not arbitrarily or by vapse.

We will also tap the domestic capital market for such resources which are necessary, and this is being facilitated by the recent amendment to the Development Loans Act, which created substantial headroom for funding mechanisms.

Again, there is tremendous misinformation being propagated about this increase in the borrowing limit. For the record, of the \$10 billion in additional borrowing that was approved by this House some weeks ago, the Government has so far only utilized \$500 million or 5% of the new limit. The exaggerated rumors of the Government capriciously accessing \$20 billion in additional funding and spending it recklessly are thus totally false.

We have also sourced external financing for both budgetary and balance of payments purposes, thereby preserving our foreign exchange buffers, and we continue to explore this avenue for budgetary support.

Madam Speaker, we consider policy and delivery execution to be an essential requirement to ensure that our citizens are able to steer through this crisis and come out of it more resilient, and we are preparing for the recovery.

On April 16, 2020, the Honourable Prime Minister established a 22-person committee to develop and design a *Road Map for Trinidad and Tobago Post COVID*. The Committee is chaired by the Prime Minister and comprises Ministers and esteemed representatives from the business community, senior public servants, academia and non-governmental organizations.

Madam Speaker, to sum it up, we recognized very early the characteristics of this crisis. It was fast moving and required quick and effective action which

we initiated almost immediately. Our proactive approach has saved us much of the pain and distress that other countries now face.

In response to the economic and financial crisis caused by the pandemic, we sought to access financial resources quickly to provide space for priority expenditure, public health and safety measures, actions to protect vulnerable people and maintain household incomes.

Like the rest of the world, we are working with the multilateral institutions while focusing on domestic solutions, and we have rapidly ramped up how to deliver support in the face of a national shutdown. We already have a better understanding of the challenges, risks and trade-offs which we will face as we gradually restart our economies.

We are confident that the Road Map Committee will bring a degree of certainty to the shaping of our future.

In closing, we have faced challenges in the past and survived. With the help of all our citizens and Almighty God, we will do so again on this occasion.

Thank you.