Prospects for sustainable fiscal policy: Transfers and subsidies examined

COTE 2014, UWI, St. Augustine
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Presentation outline

- Caribbean economic overview and some challenges
- Transfers and subsidies in the Caribbean
- Transfers and subsidies in Trinidad and Tobago
- The economic impact of subsidies in T&T
- Policy recommendations

Mainly Upper-middle to High-income Economies

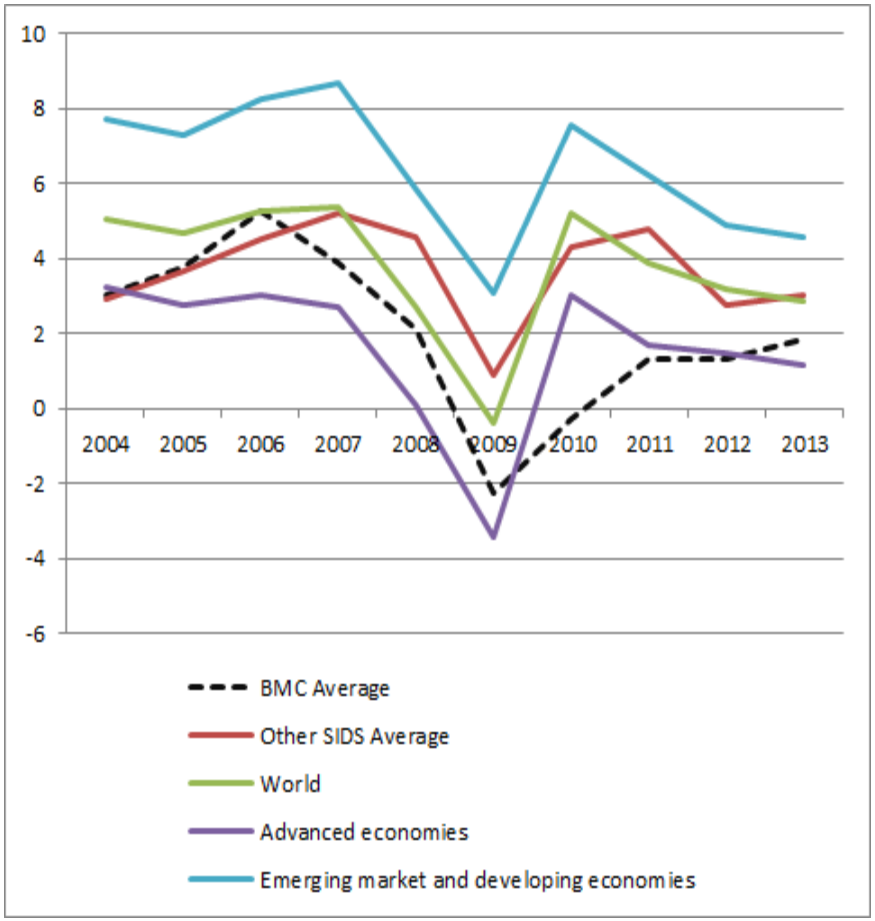
Country	Rank (177 countries)	Per capita Income (PPP)
Cayman Islands	13	49,686
British Virgin Islands	39	30,290
Trinidad and Tobago	42	28,743
Anguilla	46	27,274
Bahamas, The	52	22,639
Turks and Caicos Islands	59	20,878
St. Kitts and Nevis	61	20,582
Antigua and Barbuda	62	20,540
Montserrat	75	15,762
Barbados	79	15,354
Suriname	81	14,463
Grenada	92	11,221
Dominica	100	9,983
St. Lucia	103	9,893
St. Vincent and the Grenadines	104	9,883
Jamaica	109	8,329
Belize	111	8,212
Guyana		3,900
Haiti	157	1,557
Qatar	1	146,521
Singapore	6	72,296

Notes: 1/ GDP per capita (2011) calculated as PPP using the World Bank data,

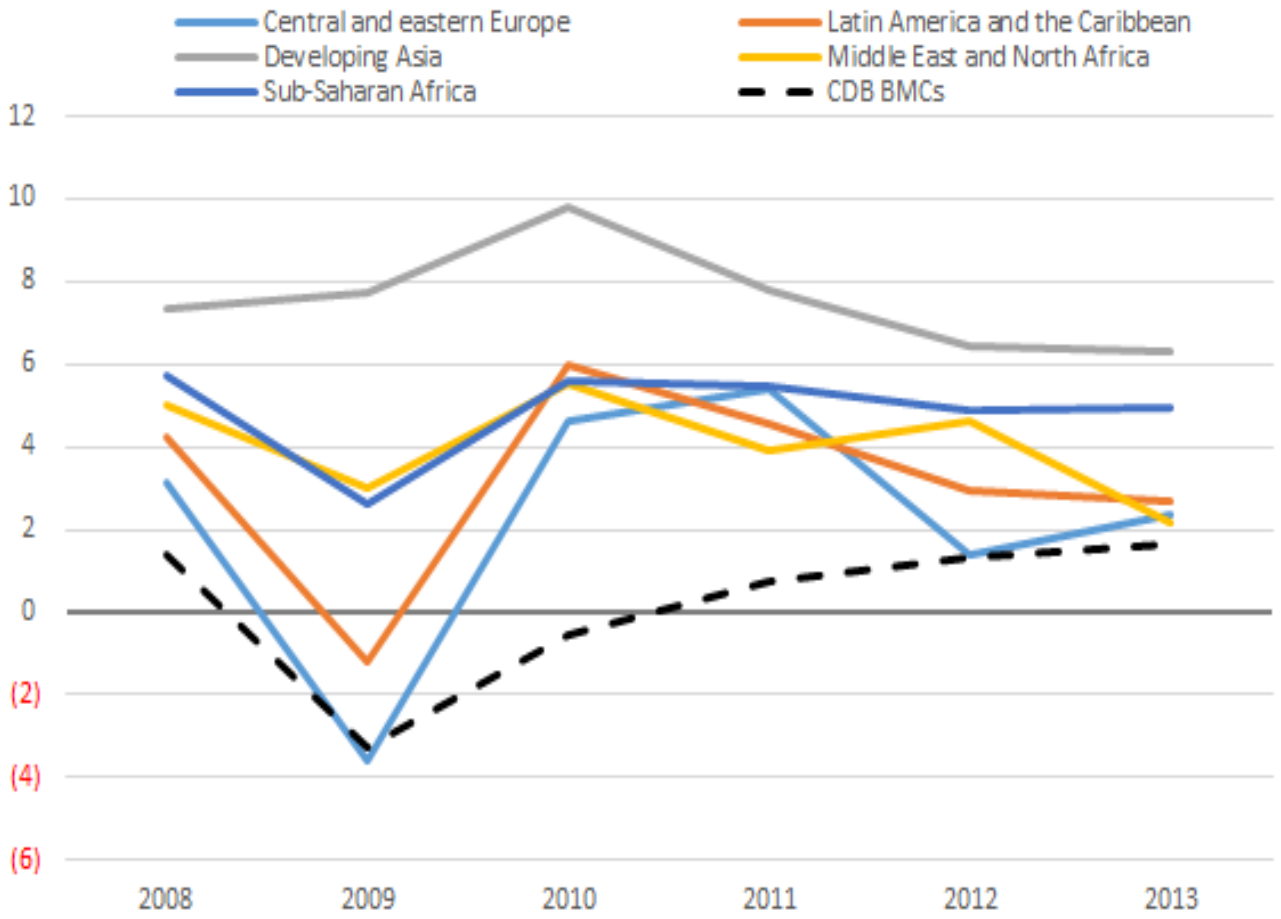
SOURCE: *World Bank*

Growth Experience

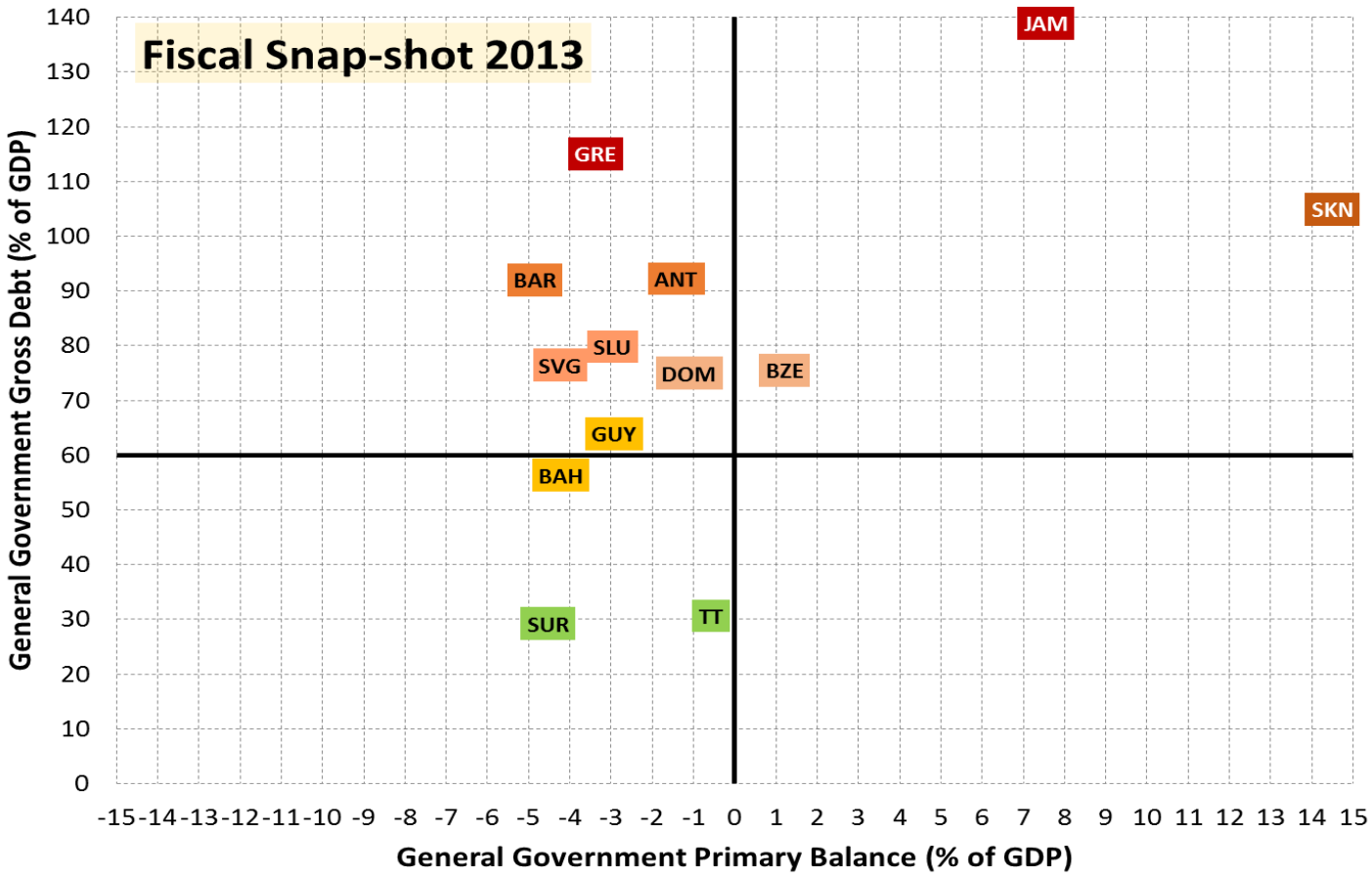
- Growth among CDB's BMCs has averaged 3% over the last decade
- By comparison, over the same period:
  - World growth averaged 3.8%
  - Emerging and developing countries averaged 6.4%
  - Other Small Island Developing States (SIDS) averaged 4%
  - Advanced economies averaged 1.6%



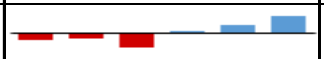
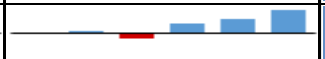
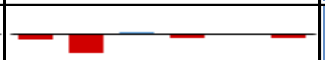
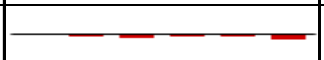
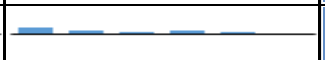
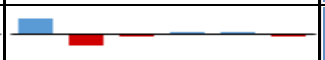
Growth in the Caribbean: Global Comparisons



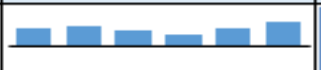
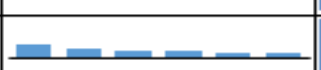
Fiscal Snapshot



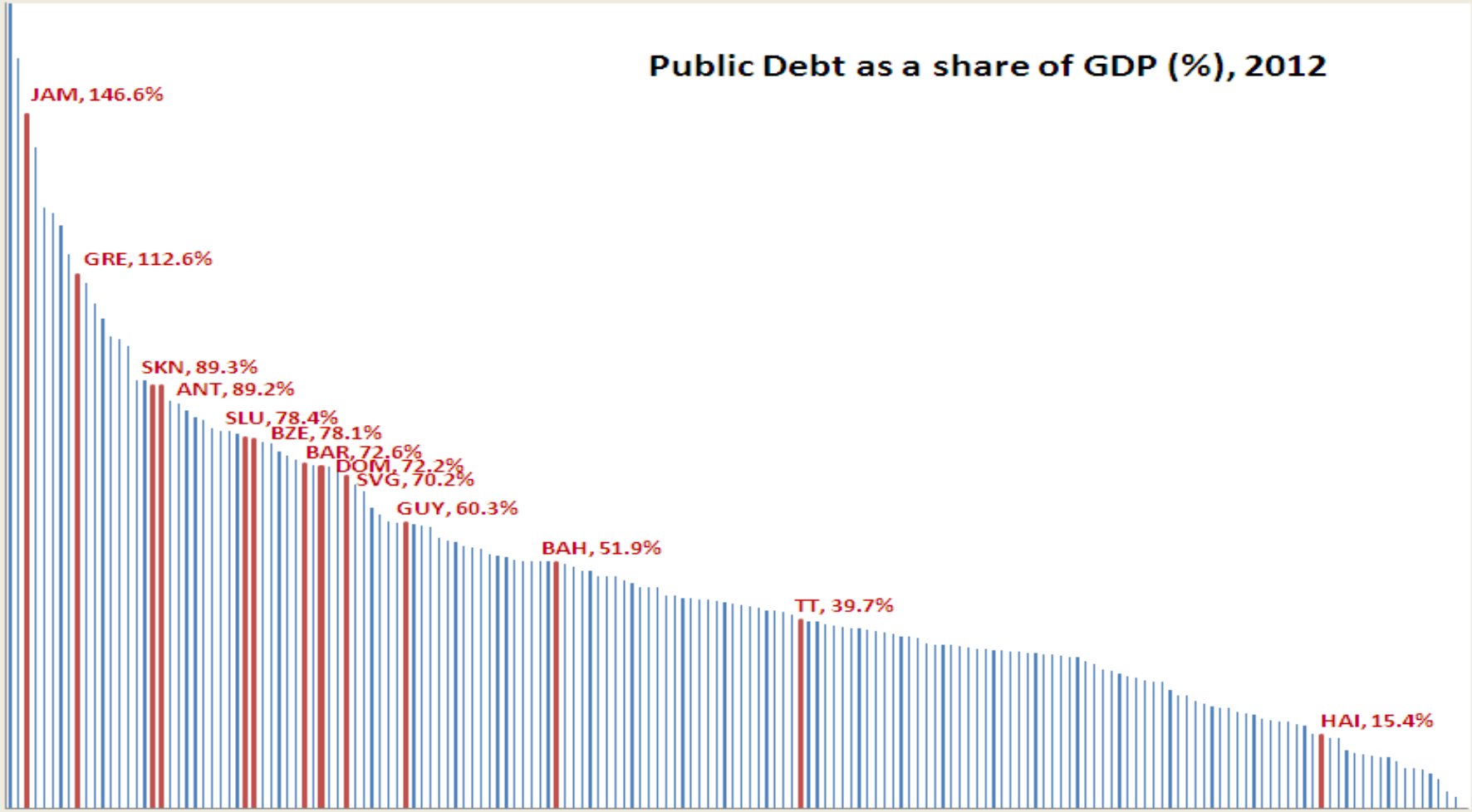
Debt and fiscal balances

Country	Overall Balance (% of GDP) '08 '09 '10 '11 '12 '13	Primary Balance (% of GDP) '08 '09 '10 '11 '12 '13	Gross Debt (% of GDP) 2013
Jamaica			138.9
Grenada			115.0
St. Kitts and Nevis			104.9
Antigua and Barbuda			92.2
Barbados			92.0
St. Lucia			79.8
St. Vincent and the Grenadines			76.4
Belize			75.5
Dominica			75.0
Guyana			63.9
The Bahamas			56.3
Trinidad and Tobago			30.6

Fiscal Performance: Highly-indebted BMCs

Country	Overall Balance (% of GDP) '08 '09 '10 '11 '12 '13	Primary Balance (% of GDP) '08 '09 '10 '11 '12 '13	Gross Debt (% of GDP) 2013
Jamaica			143
Grenada			116
Antigua and Barbuda			95
Barbados			92
St. Kitts and Nevis			83
St. Lucia			77
Dominica			77
Belize			75
St. Vincent and the Grenadines			73

With Limited Access to Concessional Financing Sources, Region Highly-indebted

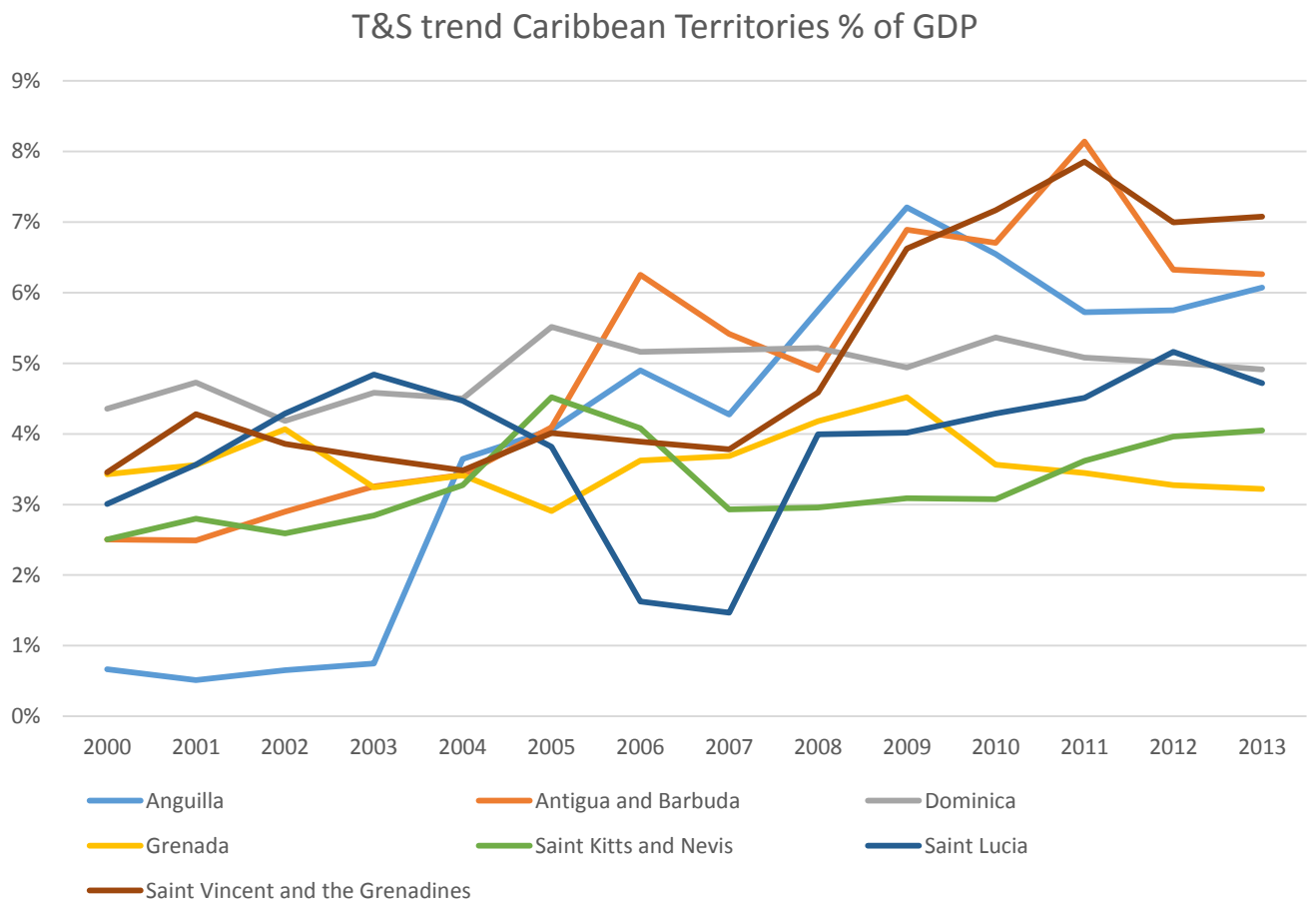


SOURCE: *International Monetary Fund World Economic Outlook, April 2013*

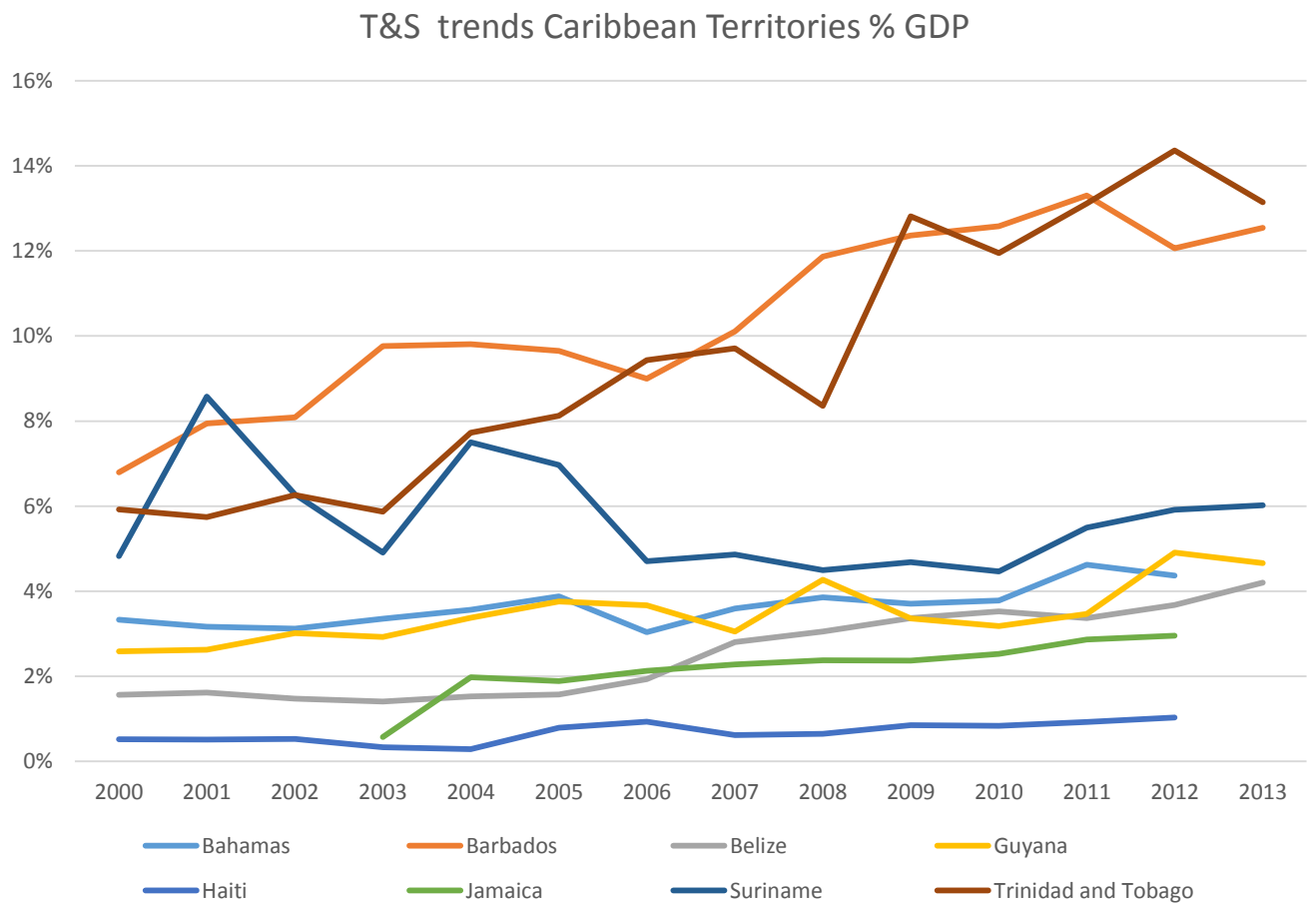
Reflected in recent credit rating actions

BMC	Standard & Poor's				Moody's				Other			
	Rating (R)	Outlook (O)	Action	Date	Rating (R)	Outlook (O)	Action	Date	Rating (R)	Outlook (O)	Action	Date
BAR	BB-	Negative	↓R ↓O	20-Nov-13	B3	Negative	↓R	02-Jun-14	*Cari*A-		↓R	17-Dec-13
GRE	SD	Default	↓R	12-Mar-13								
DOM									*Cari*BBB-		Affirmed	5-Jun-13
SLU									*Cari*BBB		↓R	14-Jun-13
SVG					B2	Stable	Affirmed	27-Nov-13				
BZE	B-	Stable	Affirmed	27-Nov-13	Caa2	Stable	↑R	15-Apr-13				
JAM	B-	Stable	↑R	24-Sep-13	Caa3	Positive	↑O	12-Feb-14	Fitch B-	Stable	↑R	25-Feb-14
BAH	BBB	Negative	Affirmed	5-Nov-13	Baa1	Negative	Affirmed	2-Jan-14				
SUR	BB-	Stable	↓O	28-Apr-14	Ba3	Stable	↓O	14-Feb-14	Fitch BB-	Stable	Affirmed	12-May-14
TT	A	Stable	Affirmed	24-Dec-13	Baa1	Stable	Affirmed	16-Jan-13	*Cari*AAA		Affirmed	14-Jun-13
ANG									*Cari*BBB+		↓R	8-Oct-13
CAY					Aa3	Stable	Affirmed	12-Feb-13				
MON	BBB-	Stable	Affirmed	30-Sep-13								

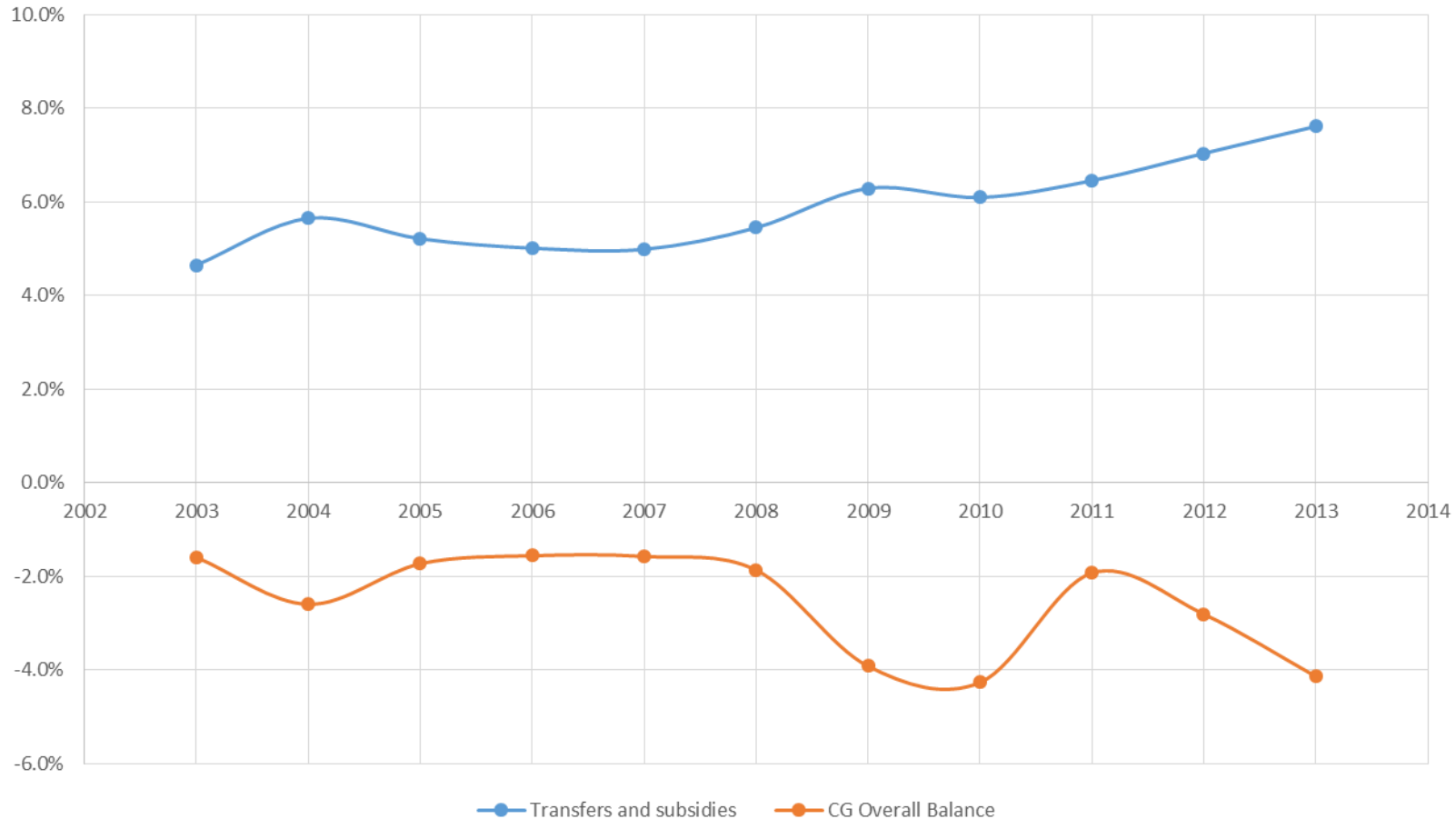
Transfers and subsidies



Transfers and subsidies

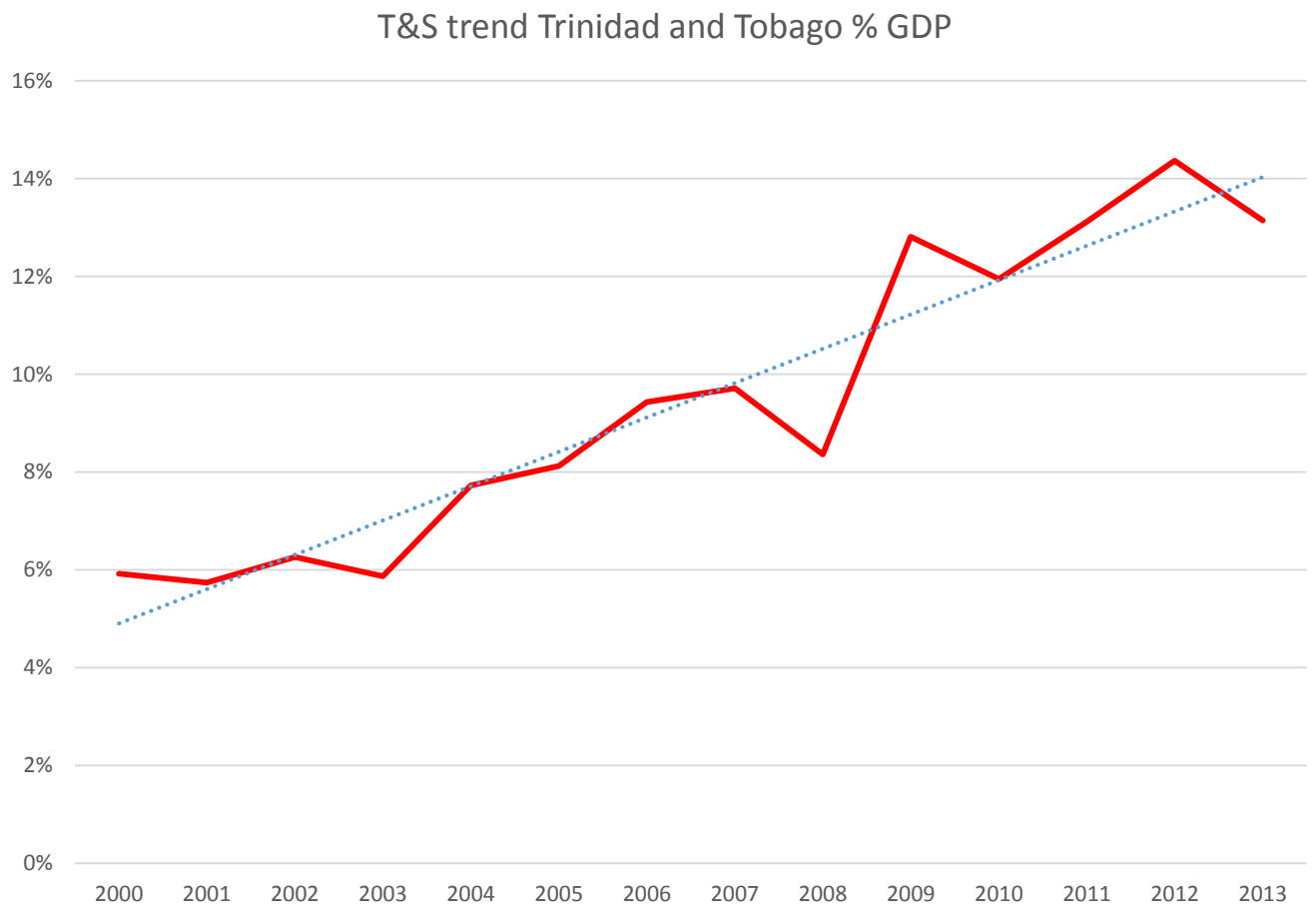


Regional Movement of T&S and CG Overall balance % of GDP

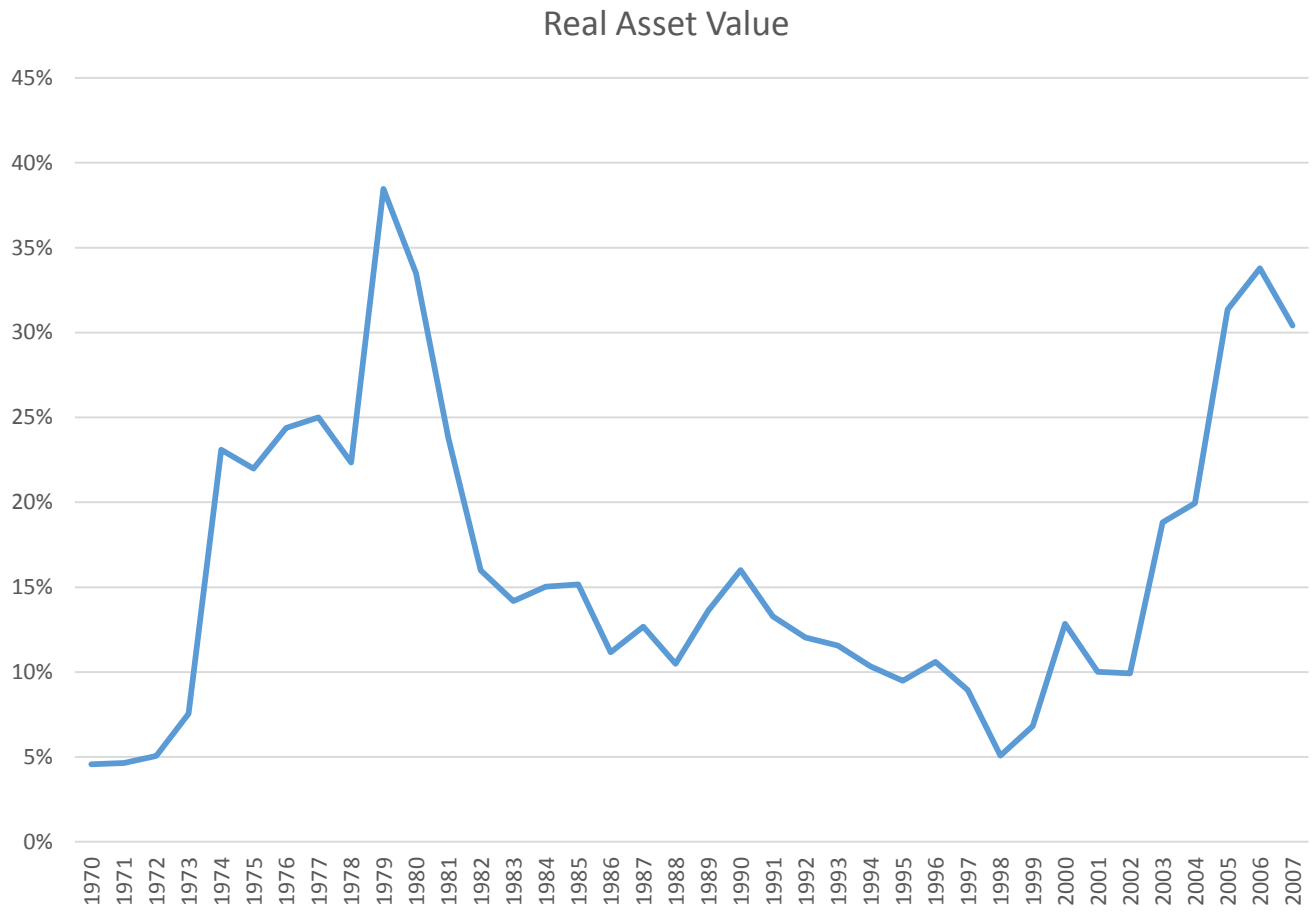


- NOW FOR TRINIDAD AND TOBAGO

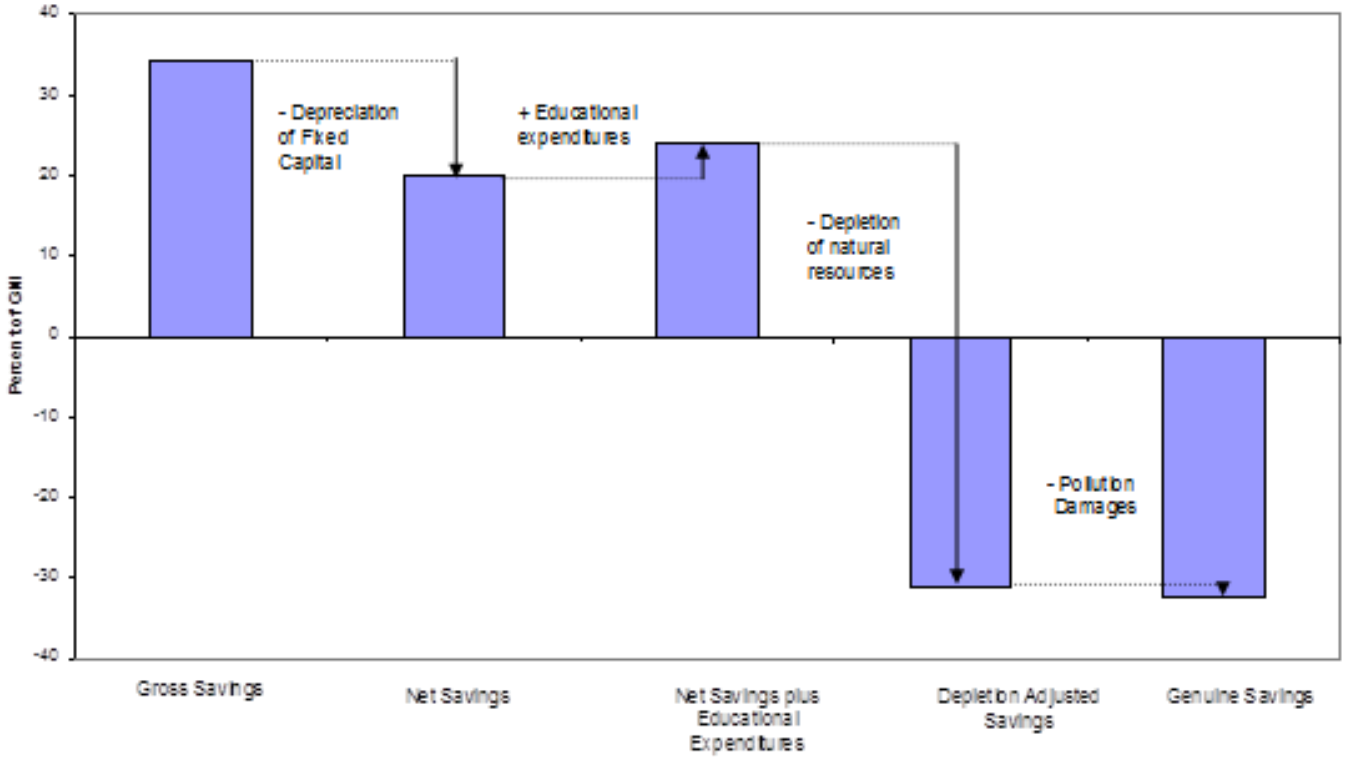
Now for Trinidad and Tobago: Increasing transfers and subsidies



While depletion of natural asset accelerates (% of GNI)

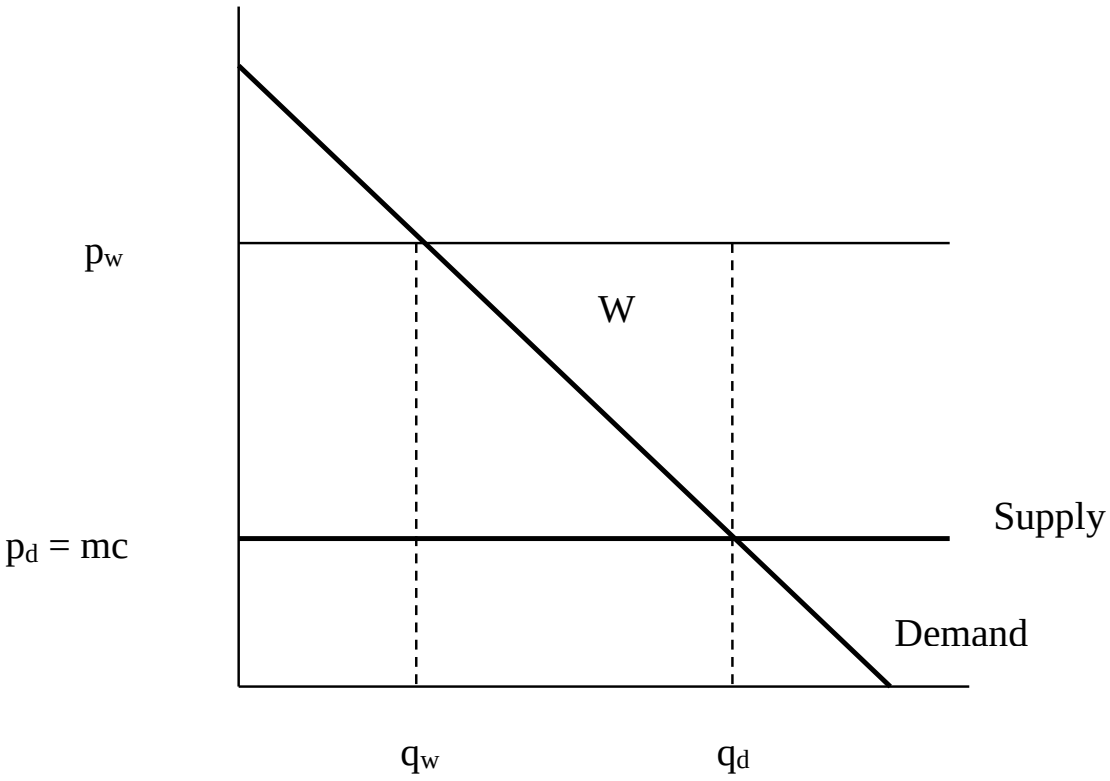


Indicative adjusted net savings (T&T)

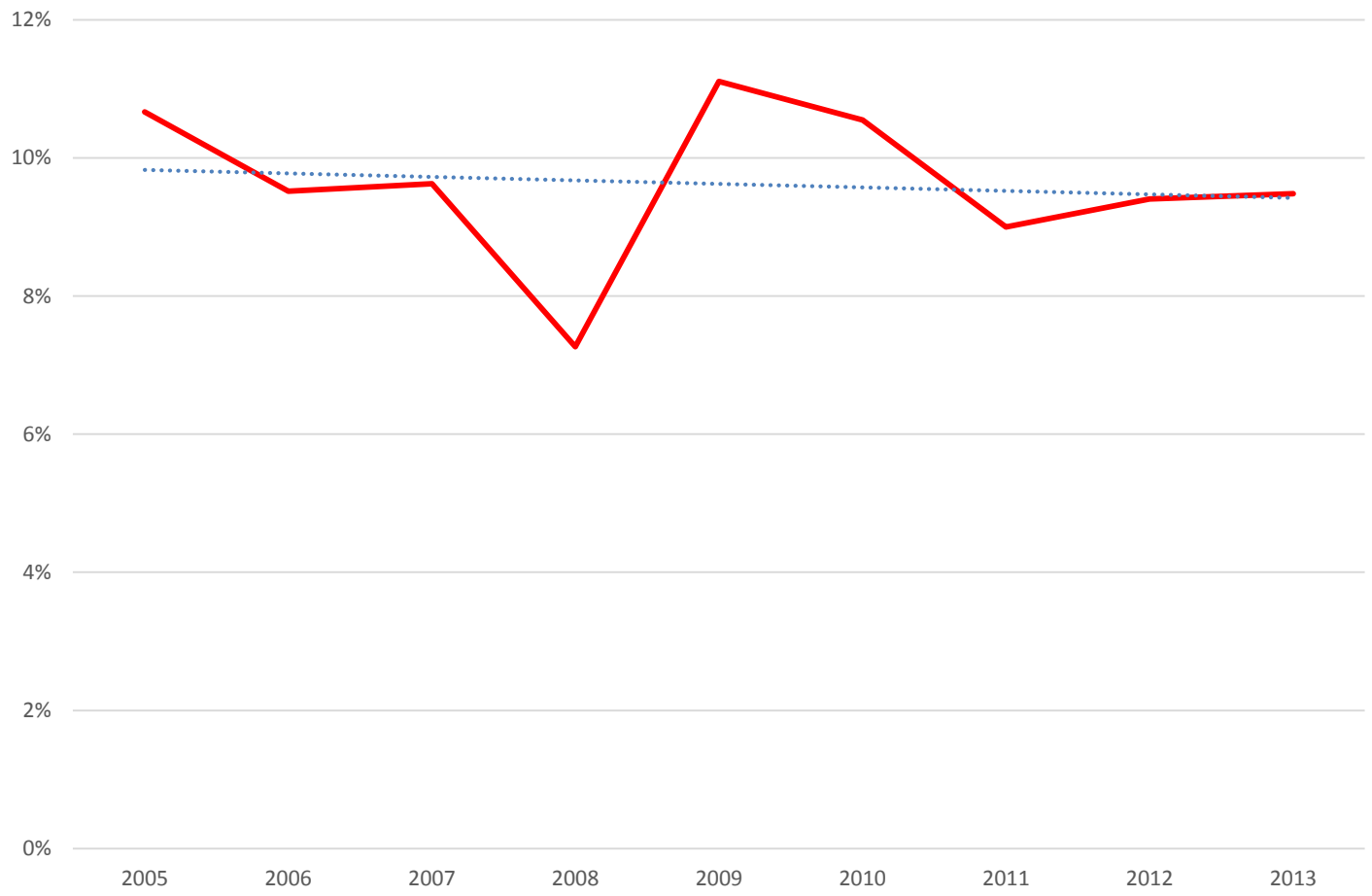


- FUEL SUBSIDIES EXAMINED

Two problems exist: (1) Opportunity cost



Opportunity Cost as % of gov't current revenue Note: this is in addition to actual cost of subsidy



Problem 2: Distribution of fuel subsidies

- **Identify the price increases to be analysed for each petroleum product.**

- **Estimate the direct impact on each household as a result of these price increases.**

- **Estimate the indirect impact on each household income group due to the resulting price increases on other goods and services.**

Price shifting model utilised

- Leontief framework
- Price vector
- Estimates the pass through effect of a price increase in fuel to border prices
- Resulting real income impact on
- Income groups

Utilizes a Leontief framework

$$\overset{c}{p} = v'_c (I - A)^{-1} = v'_c L$$

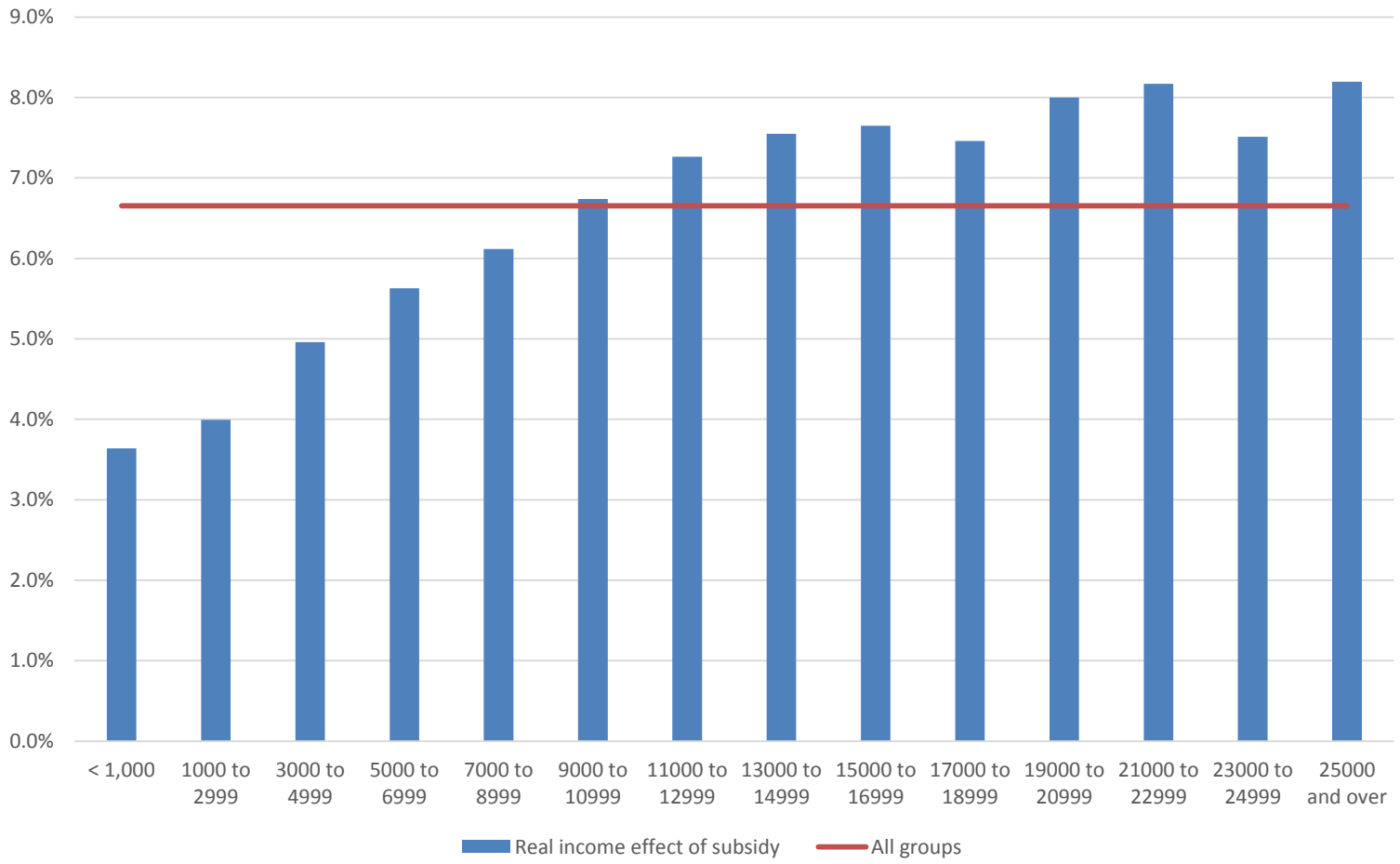
where

$(I - A)^{-1} = L$ is the Loentief Inverse Matrix and v'_c is the price vector of value added.

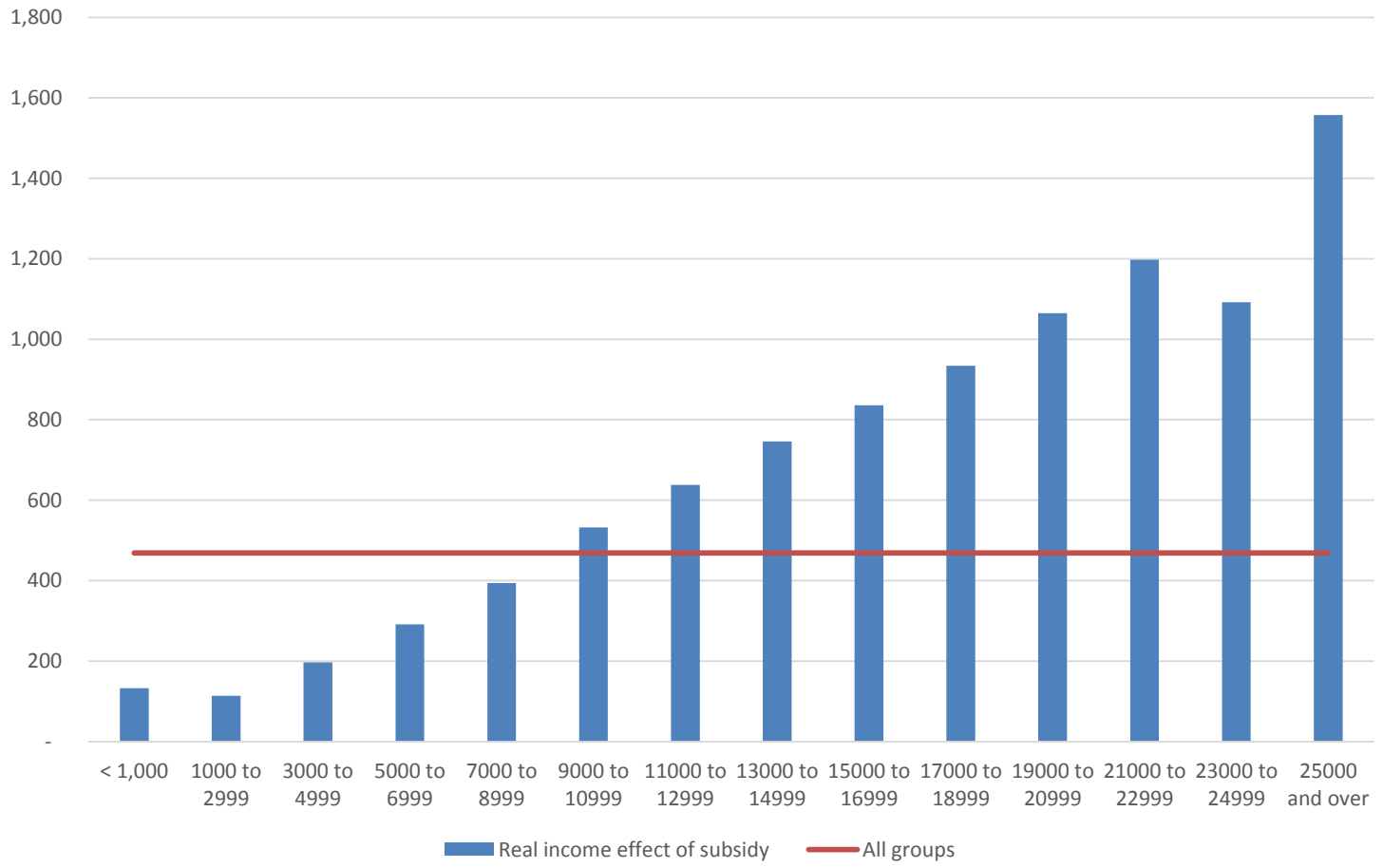
If the model is transposed and expressed in terms of column vectors it becomes:

$$\overset{c}{p} = (I - A')^{-1} v_c = L' v_c$$

Real income effect of subsidy as % of total income



Real income effect of subsidy – monthly TT$



Conclusion and Policy Recommendations

- Large opportunity costs associated with subsidies
- Regressive distribution of subsidies
- Allocative inefficient
- Possibly impacting real competitiveness

Conclusion and Policy Recommendations

- Need for reform.
- Phased reform.
- Reduce opportunity cost and overall subsidy. Possibly TT$6-8 billion in savings and increased economic revenues.
- Re- introduce CNG – new technology makes it more reliable.
- Efficient and reliable public transport is needed (mass transit)

Conclusion and Policy Recommendations

- EE and RE also possible alternatives.

- To offset impact of reform: target transfers to households that need it.

Thank you for your attention.

Questions?