

TRINIDAD AND TOBAGO'S **FY2027** BUDGET

Fiscal Consolidation in a Growth-Constrained Economy

The Economic, Institutional and Regional Dilemmas



FISCAL
ARITHMETIC
AND POLICY



ENERGY
PROSPECTS
AND RISKS



FOREIGN
EXCHANGE
CONSTRAINTS



REGIONAL
IMPLICATIONS
AND OUTLOOK



FISCAL POLICY
ENERGY AND GROWTH
FOREIGN EXCHANGE
SOVEREIGN RISK
REGIONAL IMPACTS

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EVIDENCE FOR
A STRONGER TOMORROW

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Fiscal Consolidation in a Growth-Constrained Economy: The Economic, Institutional and Regional Dilemmas

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AT A GLANCE

The Question

Trinidad and Tobago's FY2027 Budget proposes to reduce the central government deficit from TT\$7.000 billion in FY2026 (revised) to TT\$3.639 billion, or 2.1 per cent of GDP, in FY2027. The adjustment is taking place in an economy constrained by weak growth, diminished energy output and persistent foreign-exchange shortages.

The question is not simply whether the projected deficit is smaller. It is whether fiscal consolidation can be sustained without further weakening investment, enterprise liquidity and the productive capacity required to generate future revenue and foreign exchange.

Six Numbers That Frame the Issue

What the Budget arithmetic and economic indicators reveal—and why the adjustment remains a test of productive recovery.

Indicator / Finding	Key Data Point	Analytical Significance
FY2026 revised deficit	TT\$7.000bn	Starting fiscal imbalance
FY2027 budget deficit	TT\$3.639bn	Projected 2.1% of GDP
Revenue increase	TT\$5.482bn	Approximately 163% of deficit reduction
Expenditure increase	TT\$2.121bn	Offsets approximately 63% of revenue gain
Q1 2026 real GDP	-1.8%	Year-on-year contraction
Natural gas output	~2.4 bcf/day	Versus ~4.4 bcf/day in 2014

The arithmetic exposes the central tension: the planned improvement is driven by rising revenue, not a reduction in total expenditure. Its durability therefore depends on the performance of an economy that has yet to establish a sustained growth recovery.

The Analytical Problem

The Government is seeking to restore fiscal credibility while weak energy output, constrained private investment and rationed foreign exchange limit the channels through which fiscal adjustment can become durable economic recovery. Higher revenue collections can improve the deficit in the short term while reducing the liquidity available to firms for working capital and investment.

The Four Transmission Risks

Revenue and enterprise liquidity. The proposed 75 per cent ceiling on loss carryforwards, expected to yield TT\$430 million, can accelerate tax receipts without necessarily creating equivalent lifetime tax revenue. The timing of collections matters when firms already face investment and liquidity constraints.

Energy and fiscal expectations. New gas-project announcements are not the same as additional net average production in FY2027. Commissioning, ramp-up, depletion offsets and downstream availability determine whether capacity translates into export earnings and government revenue.

Foreign exchange and regional markets. Persistent foreign-exchange rationing in Trinidad and Tobago may induce investors to liquidate cross-listed securities in Jamaica, obtain Jamaican dollars and convert the proceeds into US dollars. This can transmit equity-market selling pressure and additional foreign-exchange demand beyond Trinidad and Tobago. The channel is economically credible even though its scale has not been independently quantified.

Debt and sovereign credibility. Approximately TT\$70 billion in debt maturities over five years increases refinancing pressures. S&P's July 22, 2026 affirmation of BBB-/A-3 with a negative outlook underscores the importance of growth, fiscal buffers and sustainable adjustment. Its general-government forecasts should not be conflated with the Budget's central-government estimates.

The Policy Dilemma

Pure expenditure restraint risks weakening public services and capital formation; postponing consolidation prolongs borrowing and refinancing exposure; revenue-led adjustment can constrain business liquidity; and stimulus without stronger domestic supply and foreign-exchange generation can intensify external pressures. The challenge is not to select one objective in isolation, but to manage their economic interactions.

Signals Worth Watching

Over the next several quarters: actual versus budgeted revenue | public capital execution | net average gas production and export receipts | business investment | foreign-exchange access and market conditions | debt refinancing costs | cross-market securities flows and Jamaican foreign-exchange demand.

Convergence across revenue performance, productive investment and export capacity would support the consolidation strategy. Revenue gains without stronger production, foreign-exchange generation or investment would raise doubts about the durability of the adjustment.

CBR Assessment

The FY2027 Budget offers a credible arithmetic route to a narrower central government deficit, but not yet proof of a self-sustaining recovery. The central test is whether fiscal consolidation can coexist with improved productive capacity, stronger foreign-exchange earnings, effective capital execution and restored confidence between the State and private enterprise. The regional consequences of foreign-exchange rationing are part of that assessment, not a peripheral concern.

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Executive Assessment

Trinidad and Tobago's FY2027 Budget is an exercise in fiscal consolidation undertaken under conditions that ordinarily demand economic stimulus. The Government must reduce its borrowing requirement while confronting prolonged economic stagnation, declining energy production, persistent foreign-exchange shortages and weak private investment. Yet the instruments available to restore fiscal balance may themselves constrain the recovery upon which longer-term fiscal sustainability depends. Higher taxation can strengthen the Treasury's immediate cash position while weakening enterprise liquidity and capital formation; additional public expenditure can support demand while intensifying import dependence and foreign-exchange pressures. The resulting challenge is not simply to reconcile revenue and expenditure, but to restore fiscal stability without further impairing the economy's capacity to generate growth.

The Budget proposes a reduction in the fiscal deficit from TT\$7 billion in FY2026 to TT\$3.639 billion in FY2027, equivalent to approximately 2.1% of GDP. The projected improvement of TT\$3.361 billion is substantial, but its composition is particularly important. Revenue is expected to increase by TT\$5.482 billion, while expenditure rises by TT\$2.121 billion. Its success depends on the Government's ability to extract significantly more revenue from an economy whose underlying productive performance remains weak, whose principal export industry has experienced prolonged decline and whose businesses face persistent constraints on access to foreign exchange.

The fiscal dilemma is compounded by institutional and political considerations. Economic transformation requires more than appropriately designed tax measures and expenditure allocations; it depends on a credible relationship between the State and the private sector, continuity in essential economic policies, the effectiveness of public institutions and an operating environment in which businesses can invest with reasonable confidence. Crime, weaknesses in public administration, delayed project execution and uncertainty surrounding access to foreign exchange all affect the expected returns on productive investment. These constraints cannot be separated from fiscal policy because they influence the size and responsiveness of the tax base upon which the Government ultimately depends.

There is also an important regional dimension to Trinidad and Tobago's foreign-exchange difficulties. Where investors and businesses cannot obtain foreign currency through conventional domestic channels, securities cross-listed on regional exchanges can become alternative instruments for accessing foreign exchange. The liquidation of cross-listed holdings in Jamaica, followed by the conversion of Jamaican-dollar proceeds into United States dollars, illustrates how a domestic foreign-exchange imbalance can potentially transmit selling pressure into another country's equity market and additional demand into its foreign-exchange market. This mechanism raises questions not only about the efficiency of Trinidad and Tobago's exchange-rate arrangements but also about the distribution of their adjustment costs across an increasingly interconnected Caribbean financial system.

The central proposition of this assessment is that Trinidad and Tobago faces a fiscal policy trilemma: the need to consolidate public finances, stimulate productive economic activity and preserve external stability under conditions in which progress towards one objective can compromise the others. The Budget's success must consequently be judged against a more demanding standard than achievement of its headline deficit target. The decisive question is whether the adjustment improves the economy's capacity to generate sustainable growth, investment and foreign-exchange earnings, or primarily strengthens the Government's near-term cash position while leaving the underlying constraints substantially unresolved.

1. Economic diagnosis: A structural weakness, not merely a cyclical downturn

Trinidad and Tobago's economic underperformance cannot adequately be explained as a temporary downturn associated with unfavourable commodity prices or fluctuations in global demand. The country has experienced a prolonged deterioration in the productive foundations of its economy, particularly in the energy sector, while efforts to establish sufficiently strong alternative sources of growth have produced limited results. Natural gas production has declined from approximately 4.4 billion cubic feet per day in 2014 to around 2.4 billion cubic feet per day, a reduction of approximately 45%. This decline has affected government revenue, export earnings, downstream industrial production and the supply of foreign exchange necessary to support the wider economy.

The consequences extend beyond the direct contribution of oil and gas extraction to GDP. Natural gas is a critical feedstock for Trinidad and Tobago's petrochemical industries, including ammonia and methanol production. A sustained reduction in gas availability therefore affects the utilisation of existing industrial assets, the competitiveness of downstream processing, the reliability of export supply and the profitability of enterprises whose operations depend on stable energy inputs. The resulting transmission from upstream production weakness to downstream industrial contraction makes the energy problem considerably more consequential than the loss of output from individual gas fields.

The available economic indicators reflect these difficulties. Real GDP contracted by 1.8% year-on-year during the first quarter of 2026, with energy output declining by 2.8% and manufacturing by 0.7%. Nevertheless, the aggregate figures conceal important differences in sectoral performance. Non-energy manufacturing expanded by approximately 11.6%, while food, beverages and tobacco manufacturing recorded growth of around 20.5%. These developments indicate that opportunities for non-energy expansion remain, but they do not establish that the economy has achieved a durable structural transition. The relevant questions concern the scale and sustainability of these activities, their capacity to generate foreign exchange and the extent to which their growth can compensate for the long-term contraction of the energy-based industrial economy.

The limits of non-energy diversification

Diversification is frequently presented as the solution to Trinidad and Tobago's energy dependence, but the concept requires greater specificity. Expanding activities outside the energy sector is not necessarily equivalent to reducing external vulnerability. An industry may generate domestic employment and value added while remaining heavily dependent on imported machinery, raw materials, technology and intermediate goods. Where such activities do not generate sufficient exports or competitively substitute for imports, their expansion can increase demand for foreign exchange without materially strengthening its supply.

The challenge is therefore not simply to increase the share of non-energy activities in GDP. It is to develop internationally competitive production capable of generating net foreign-exchange earnings, improving productivity and broadening the tax base. This requires investment, reliable infrastructure, access to technology, skilled labour, predictable regulation and an operating environment in which businesses can obtain essential inputs without prolonged uncertainty. It also requires a realistic assessment of comparative advantage and the scale at which enterprises can compete in regional and international markets.

These conditions establish why the Budget cannot be evaluated solely through its fiscal aggregates. The sustainability of public finances ultimately depends on the economy's capacity to generate income. Where that capacity has weakened over an extended period, increasing tax collections without addressing the constraints on production may provide temporary fiscal relief but cannot, by itself, create a durable foundation for growth.

2. The fiscal arithmetic: Revenue-led consolidation in a weak economy

The FY2027 Budget projects total revenue of TT\$59.729 billion and expenditure of TT\$63.368 billion, producing a deficit of TT\$3.639 billion. Compared with the revised FY2026 estimates, revenue is expected to increase by approximately 10.1%, while expenditure rises by 3.5%. The deficit consequently declines by about 48%, representing a material adjustment in the Government's annual financing requirement.

Fiscal indicator	FY2026 revised	FY2027 budget	Change
Total revenue, TT\$bn	54.247	59.729	+5.482
Total expenditure, TT\$bn	61.247	63.368	+2.121
Fiscal deficit, TT\$bn	7.000	3.639	-3.361
Revenue growth	—	10.1%	
Expenditure growth	—	3.5%	
FY2027 deficit/GDP	—	2.1%	

The arithmetic establishes that the adjustment is dependent on revenue performance rather than absolute expenditure restraint. Indeed, the TT\$5.482 billion increase in projected revenue is equivalent to approximately 163% of the TT\$3.361 billion reduction in the deficit, with additional expenditure absorbing the equivalent of approximately 63% of the net improvement. This is not a criticism of expenditure growth in itself. It is a recognition that the Government's fiscal strategy requires a substantial increase in collections from an economy whose recent performance provides limited evidence of a broad-based acceleration in taxable activity.

For clarity, the deficit bridge is TT\$7.000 billion (FY2026 revised deficit), less TT\$5.482 billion in additional projected revenue, plus TT\$2.121 billion in additional projected expenditure, yielding TT\$3.639 billion for FY2027. This is an arithmetic reconciliation of the Government's estimates, not independent evidence that the projected collections will materialise.

The distinction between projected and realised revenue is therefore critical. Some additional collections may arise from new tax measures, improved administration or compliance, while others depend on commodity prices, production volumes and economic activity. The Budget assumes an oil price of US\$77 per barrel, compared with US\$73.25 in FY2026, and a natural gas price of US\$5 per MMBtu, compared with US\$4.25. These represent increases of approximately 5.1% and 17.6%, respectively. Higher commodity prices may support revenue, but they are not equivalent to a structural improvement in the economy's capacity to produce, export or generate taxable profits.

The Government's revenue projections comprise TT\$14.355 billion in oil revenue, TT\$45.062 billion in non-oil revenue and TT\$312 million in capital revenue. Although non-oil sources account for approximately three-quarters of total projected revenue, this composition should not be interpreted as evidence that fiscal dependence on the energy sector has been substantially overcome. Energy production influences activity, employment, imports, foreign-exchange availability and profits across the wider economy, meaning that the economic effects of declining energy output extend into revenue categories formally classified as non-oil.

Headline versus structural consolidation

A reduction in the headline deficit does not necessarily establish an equivalent improvement in the underlying structural fiscal position. For a commodity-dependent economy, the distinction between cyclical revenue changes, commodity-price effects, temporary measures and permanent improvements in the tax base is especially important. A deficit reduction supported by favourable commodity prices or temporary receipts may improve immediate cash flow without producing a comparable increase in recurring fiscal capacity.

The appropriate analytical framework would therefore examine the change in the cyclically adjusted primary balance, with particular attention to the non-energy fiscal position. Such an exercise would help distinguish the effects of discretionary fiscal policy from changes attributable to commodity markets

and the economic cycle. In the absence of a complete structural balance calculation, the headline deficit should not be treated as a sufficient measure of the fiscal impulse or the durability of the adjustment.

The revenue bridge

The specifically quantified additional revenue measures identified in the Budget amount to approximately TT\$1.026 billion. The two largest are the restriction on carried-forward business losses, projected to yield TT\$430 million, and the proposed withholding-tax treatment of remotely supplied management and technical services, expected to generate TT\$300 million. Together, these account for approximately 71% of the quantified revenue measures.

Revenue measure	Projected yield, TT\$m
Restriction on carried-forward losses	430.0
Petroleum Unemployment Levy increase	155.0
Higher withholding tax on distributions	25.1
VAT on digital and remote services	18.0
Withholding tax on remote management and technical services	300.0
Disallowance of deductions relating to exempt income	75.0
Electricity surcharge	17.8
VAT clearance certificate fee	0.5
VAT non-filing penalties	5.0
Total	1,026.4

These measures represent approximately 18.7% of the projected TT\$5.482 billion increase in total revenue. The remaining increase should not automatically be characterised as an unexplained funding gap, since it may reflect changes in energy receipts, collections under existing taxes, non-tax revenues and other baseline assumptions. Nevertheless, the distinction demonstrates the need for a transparent reconciliation between new policy measures and the overall revenue forecast. Without such a bridge, it is difficult to assess how much of the projected improvement depends on discretionary tax changes, how much reflects expected economic recovery and how much remains exposed to commodity-price and production risks.

The timing of implementation also matters. Several measures are proposed to take effect in January 2027, while VAT on digital and remote services is scheduled for March. Since the fiscal year begins in October, the initial-year yield will reflect only part-year implementation. The distinction between FY2027 collections and subsequent full-year effects is therefore necessary when assessing both fiscal sustainability and the continuing burden on taxpayers.

3. The pro-cyclical–counter-cyclical conundrum

The fiscal arithmetic establishes the scale and composition of the proposed adjustment. The more difficult question is how that adjustment will interact with an economy already experiencing prolonged weakness. The conventional distinction between fiscal consolidation and counter-cyclical intervention becomes particularly problematic when productive capacity is constrained, private investment is subdued and foreign-exchange access is rationed. Under such conditions, the effectiveness of fiscal policy depends not merely on the size of the deficit but on the incidence, timing and transmission of individual measures. The central challenge is to reconcile the immediate requirement for fiscal stabilisation with the longer-term imperative of restoring the economy's capacity to generate income, investment and sustainable public revenue.

Under ordinary circumstances, counter-cyclical public expenditure could support household demand, employment and private investment until economic conditions improve. In Trinidad and Tobago, however, additional spending may generate significant import demand because domestic productive capacity is insufficient to satisfy all the resulting consumption and investment requirements. Imported consumer goods, construction materials, machinery and intermediate inputs require foreign exchange. Where foreign currency is already rationed, fiscal expansion can intensify the shortage and weaken the ability of businesses to obtain the inputs necessary for production. The fiscal multiplier is consequently reduced by import leakage and supply constraints, while the external consequences of stimulus become more pronounced.

Additional business taxation presents the opposite problem. Higher taxes can improve the Government's immediate financing position but reduce the resources available to businesses for working capital, maintenance, debt servicing and investment. These effects are particularly consequential in an economy where firms already face uncertainty over foreign-exchange access, imported inputs and future demand. A business may be commercially viable over the medium term yet lack sufficient liquidity to undertake necessary investment after meeting additional tax obligations. The result may be lower capital formation, weaker future production and a smaller tax base than would otherwise have emerged.

The dilemma is intensified by the sequencing of policy effects. Tax measures can affect cash flow relatively quickly, whereas the benefits of infrastructure development, new energy projects, skills programmes and institutional reforms require time to materialise. If additional revenue is collected before productive investment generates compensating economic gains, the Government may secure an immediate fiscal improvement while weakening the conditions necessary to sustain it. This creates a potential pro-cyclical effect even where aggregate expenditure continues to rise.

The policy alternatives involve different trade-offs.

Fiscal approach	Potential contribution	Principal constraint
Revenue-led consolidation	Reduces immediate financing pressures	May weaken private liquidity, investment and future revenue capacity
Broad fiscal stimulus	Supports demand and employment	Import leakage and foreign-exchange shortages may limit domestic output gains
Expenditure-led restraint	Reduces financing needs without directly raising business taxes	May suppress activity and defer necessary infrastructure
Targeted productive investment with phased consolidation	Addresses supply constraints while preserving fiscal discipline	Requires strong institutions, project execution and credible sequencing

Pure expenditure restraint is constrained by the political and social costs of reducing public services, employment-related expenditure and transfers in an already weakened economy, while cuts to capital spending risk further undermining the infrastructure and productive capacity needed for recovery. Equally, postponing consolidation would prolong substantial borrowing requirements in the face of approximately TT\$70 billion in debt maturities over the next five years, exposing the Government to refinancing pressures, potentially higher borrowing costs and further erosion of fiscal flexibility.

The fourth approach offers a potentially more coherent response to the country's circumstances, but its success depends on the quality of expenditure and the Government's capacity to implement projects. It also requires careful differentiation between spending that provides necessary social protection, expenditure that supports short-term demand and investment that permanently raises productive capacity. These objectives are not interchangeable, and their economic effects should not be assumed to be equivalent.

A definitive classification of the overall FY2027 fiscal stance as pro-cyclical would require an estimate of the change in the cyclically adjusted primary balance, ideally separating energy and non-energy operations. Nevertheless, the direction of several measures creates a credible risk of pro-cyclical effects. The Government is seeking substantial additional revenue from businesses at a time when private investment and output remain weak, while the economic benefits of its growth-supporting interventions are uncertain in both timing and magnitude. That is the central fiscal conundrum: the measures intended to stabilise public finances may undermine the productive recovery upon which longer-term stability depends.

4. Revenue measures and their economic transmission

The Budget's revenue initiatives should be evaluated not only according to their statutory design and projected yields but also according to their effects on enterprise behaviour, investment and the timing of economic activity. Taxpayers do not necessarily respond passively to changes in tax liabilities.

Businesses may alter financing arrangements, investment schedules, dividend policies, contractual terms and the timing of transactions. These responses may be legitimate commercial adjustments or forms of tax planning, but in either case they can cause realised revenue to differ from estimates based on unchanged behaviour.

This is particularly relevant when a Government seeks substantial additional collections from an economy experiencing weak growth. The immediate transfer of resources from the private sector to the Treasury may improve public liquidity, but it can also reduce the funds available for production and capital formation. The net economic effect depends on how those resources are subsequently deployed, how efficiently public expenditure is executed and whether the benefits of that expenditure compensate for the private activity displaced or deferred.

The restriction on carried-forward business losses

The proposal to restrict the utilisation of carried-forward business losses to 75% of chargeable profits is expected to generate TT\$430 million, making it the largest individually quantified revenue measure. It also presents one of the clearest examples of the distinction between revenue acceleration and permanent revenue additionality. Although the restriction does not necessarily extinguish accumulated losses, it requires businesses with sufficient brought-forward losses to recognise a current taxable base even where those losses would previously have eliminated the liability for that year.

The economic function of loss carry-forwards is frequently underestimated. Commercial profitability does not conform neatly to annual accounting or tax periods. Enterprises may experience substantial losses during investment phases, economic downturns, production interruptions or periods of restructuring before returning to profitability. Permitting those losses to offset subsequent profits recognises that taxation should take account of the cumulative economic performance of the enterprise rather than treating profitable and loss-making years as wholly unrelated events. This is particularly relevant to capital-intensive industries, businesses exposed to significant volatility and enterprises undertaking investments whose returns emerge over several years.

The proposed restriction changes the timing of tax payments for such businesses. Consider an enterprise with TT\$10 million in accumulated losses and TT\$4 million in current-year chargeable profits before applying those losses. Under unrestricted utilisation, the enterprise could potentially offset the entire TT\$4 million and carry the remaining TT\$6 million forward. Under a 75% ceiling, only TT\$3 million of losses could be utilised against the current year's profits, leaving TT\$1 million subject to taxation despite the existence of substantial accumulated losses. The precise liability would depend on the applicable tax rate and other provisions, but the cash-flow consequence is clear: the Government receives revenue earlier than it otherwise would.

This does not mean that the entire TT\$430 million represents a permanent addition to the Government's revenue capacity. To the extent that unused losses remain available for subsequent

utilisation, some current collections may be offset by lower receipts in later years. The ultimate degree of additionality will depend on future profitability, applicable carry-forward rules, the likelihood that losses would otherwise expire or remain unused and the behaviour of affected enterprises. The distinction is particularly important for assessing structural fiscal sustainability because an acceleration of collections can improve the annual deficit without producing an equivalent improvement in the Government's long-term fiscal position.

The liquidity implications are equally significant. A business emerging from several difficult years may have returned to accounting profitability while still facing accumulated liabilities, deferred maintenance, depleted inventories and the need to restore working capital. Its capacity to reinvest may be constrained by limited access to financing and, in Trinidad and Tobago's case, by uncertainty over foreign-exchange availability. Additional tax payments at this stage can delay capital expenditure or weaken the balance-sheet recovery necessary for sustained expansion. The effect is not uniform: mature businesses with stable profits and few accumulated losses may experience little change, while recovering enterprises and businesses with long investment cycles may face materially greater burdens.

There is also a potentially significant corporate restructuring and tax-arbitrage vulnerability. The German concept of *Mantelkauf*, historically associated with the acquisition of corporate shells possessing accumulated tax losses, illustrates how the economic value of those losses can become an object of financial engineering. In an increasingly integrated global financial system, restrictions on loss utilisation may create incentives for sophisticated investors and corporate groups to explore alternative ownership structures, acquisitions, reorganisations and cross-border arrangements through which the economic value of accumulated losses might be preserved or exploited. The proposed 75 per cent ceiling does not, by itself, establish that such arrangements would be effective or legally permissible in Trinidad and Tobago. Nevertheless, it raises a legitimate question about whether the measure, considered alongside existing provisions governing changes in ownership, group relief, related-party transactions and corporate reorganisations, could generate unintended opportunities for tax arbitrage or regulatory circumvention. The relevant policy risk is therefore not confined to reduced business liquidity or altered investment incentives. It also concerns the possibility that a measure intended to protect the revenue base could encourage financial structuring that complicates enforcement, creates uneven treatment between enterprises and ultimately undermines part of the anticipated fiscal benefit.

There is also a question of legitimate commercial expectations. Businesses may have incurred losses or undertaken long-cycle investments under a tax regime that permitted broader utilisation of those losses. A subsequent restriction can change the expected after-tax returns on investments already made. This does not establish that tax rules must remain unchanged indefinitely, but it provides an economic rationale for considering transitional treatment, particularly where accumulated losses reflect earlier investments undertaken in reliance on the previous framework.

The measure therefore illustrates the Budget's central tension. It may generate substantial near-term collections while imposing additional liquidity pressures on enterprises whose recovery is important to the future tax base. Its fiscal merits should be assessed alongside its effects on investment, the timing of revenue and the credibility of the Government's commitment to supporting productive enterprise.

Petroleum taxation and investment incentives

The increase in the Unemployment Levy on petroleum companies from 5% to 8% is projected to generate TT\$155 million. The Government's objective of securing an appropriate contribution from the industry is understandable, particularly given the demands on public finances and the long period since the levy was last adjusted. However, the measure must be evaluated within the wider economics of energy investment, including existing taxation, capital allowances, production costs, regulatory requirements and the expected returns available in competing jurisdictions.

Trinidad and Tobago is seeking to reverse a prolonged decline in natural gas production, making the responsiveness of upstream investment particularly important. International energy companies allocate capital among projects with differing geological risks, development costs, fiscal regimes and expected rates of return. An increase in taxation may have limited consequences for highly profitable established operations but a greater effect on marginal projects or investments requiring substantial upfront expenditure. The relevant question is therefore whether the cumulative fiscal regime remains sufficiently competitive to attract the capital required to restore production, rather than whether the additional levy is justified in isolation.

The same consideration applies to the wider industrial chain. New upstream investment is essential to improving gas supply, but its economic contribution depends partly on whether the resulting production supports viable downstream operations. Tax policy must therefore balance immediate revenue extraction against the longer-term objective of restoring the productive and export capacity from which future fiscal receipts will be generated.

Cross-border taxation and the cost of economic modernisation

The proposed withholding-tax treatment of remotely supplied management and technical services, expected to generate TT\$300 million, is the second-largest quantified revenue initiative. It seeks to protect the domestic tax base where services can be supplied internationally without a substantial physical presence. The objective is legitimate, but the economic incidence of the tax may differ from its statutory incidence. Non-resident suppliers may adjust their prices or invoke contractual gross-up provisions, causing domestic purchasers to bear part or all of the additional cost.

This matters because the country's economic transformation requires access to specialised engineering, technology, management expertise and other internationally traded services. Where such services are essential inputs into domestic investment and production, additional taxation may increase the cost of

modernisation. The ultimate effect will depend on the final legislative design, treaty provisions, contractual arrangements and the availability of domestic substitutes. Nevertheless, the possibility that a revenue measure could increase the cost of productivity-enhancing services deserves explicit recognition.

The proposed increases in withholding taxes on distributions to non-residents, from 8% to 10% generally and from 3% to 5% for non-resident parent companies, present a related issue. Their projected revenue contribution of TT\$25.1 million is relatively modest, but they may influence the timing of dividends, repatriation policies and the after-tax returns available to foreign investors. The significance will depend on the interaction with tax treaties, credits available in investors' home jurisdictions and the structure of corporate financing. In an economy seeking additional foreign investment, these effects should be considered alongside the fiscal yield.

VAT design and embedded production costs

The extension of VAT to non-resident digital and remote services can improve neutrality between domestic and foreign suppliers and reduce gaps in the tax base. Its projected yield of TT\$18 million is modest relative to the overall revenue adjustment, but the measure may affect the cost of digital services purchased by households and businesses. Where affected services are used in taxable business activities and input VAT is recoverable, the economic burden may be limited. Where recovery is unavailable, the tax can become an additional production cost.

The proposed conversion of selected zero-rated goods to VAT-exempt status requires separate examination because the two treatments are not economically equivalent. Under zero-rating, suppliers generally charge VAT at 0% while retaining the ability to recover qualifying input VAT. Under exemption, suppliers generally do not charge output VAT but cannot recover input VAT attributable to exempt supplies. The consequence is that previously recoverable tax may become embedded in production and distribution costs, potentially increasing consumer prices or reducing supplier margins. A measure that appears to preserve relief at the point of sale may therefore produce a different economic outcome once the full supply chain is considered.

Other measures, including the electricity surcharge on high consumption, adjustments to alcohol taxation, customs penalties and electronic filing requirements, have more varied effects. Some may improve compliance and administrative efficiency; others may alter relative prices, operating costs or consumption incentives. The important consideration is their cumulative interaction. A business facing higher taxes on profits, imported expertise, electricity consumption and unrecoverable input VAT may experience a more substantial increase in operating costs than an examination of each measure separately would suggest.

The broader policy issue is whether the combined tax package supports the Government's objectives for investment and diversification. A revenue measure can be technically defensible and

administratively feasible while still imposing costs on productive activity. Those costs must be weighed against the expected fiscal benefits and the economic value generated by the Government's subsequent use of the revenue.

5. Expenditure quality, execution and the timing of economic returns

The Budget's expenditure programme provides an important counterweight to the revenue measures, but its economic effectiveness cannot be inferred from the size of the allocations alone. Total expenditure is projected to increase by approximately TT\$2.121 billion, with commitments to social protection, infrastructure, education, health, public utilities and other priorities. Some of these expenditures can provide immediate support to households and businesses, while others may strengthen productive capacity over time. Their economic effects depend on composition, implementation and the extent to which expenditure translates into completed services and assets.

The proposed TT\$250 monthly increase in selected social grants, at an estimated additional cost of TT\$555 million, is likely to support consumption among eligible households. The distributional rationale is clear, particularly where beneficiaries have limited savings and a high propensity to spend additional income. However, the macroeconomic stimulus will depend on the domestic content of the resulting expenditure. Purchases of locally produced goods and services can support domestic employment and value added, whereas expenditure on imports increases demand for foreign exchange. The measure may therefore deliver important welfare benefits without producing a proportionate expansion in domestic output.

Public investment offers greater potential for durable productivity gains, particularly where it improves transport, utilities, logistics and other essential infrastructure. Yet the conversion of capital allocations into economic benefits requires successful project preparation, procurement, execution, commissioning and maintenance. The Government indicated that approximately TT\$3 billion of the TT\$5 billion budgeted for FY2026 capital expenditure had been spent at the time of the Budget presentation, with outstanding invoices affecting the final position. The reported figure should not be treated mechanically as the final execution rate, but it highlights the distinction between budgeted expenditure and delivered investment.

This distinction has direct implications for the fiscal conundrum. If the Government increases business taxes immediately while the infrastructure intended to stimulate production is delayed, the private sector may experience the contractionary effects of fiscal adjustment before receiving the corresponding benefits. Procurement bottlenecks, project-management weaknesses, delayed contractor payments and incomplete project preparation can all weaken the expected fiscal multiplier. In some circumstances, payment delays may also transfer financing pressures to private contractors, reducing their working capital and ability to undertake other commercial activity.

The economic assessment of capital expenditure should therefore move beyond allocations to examine execution rates, project completion, operational readiness and measurable improvements in productivity. A road project, utility investment or industrial facility generates its intended economic return only when it becomes functional and improves the conditions under which households and businesses operate. Expenditure that remains committed but undelivered may increase the Government's apparent development ambitions without producing a corresponding increase in productive capacity.

Skills development, agricultural training and youth internships present similar questions of economic conversion. They can strengthen employability and enterprise capability, but their returns depend on the existence of investment opportunities and demand for the skills being developed. Training additional workers will not automatically generate employment where firms are unable to expand production because of foreign-exchange shortages, infrastructure constraints or weak investment confidence. The effectiveness of these initiatives consequently depends on their integration with a wider strategy for enterprise development and productive expansion.

The Budget's expenditure strategy must ultimately be assessed by the extent to which it raises the economy's capacity to generate sustainable income rather than merely increasing the volume of public transactions. That distinction is especially important where fiscal space is limited and the Government is seeking additional revenue from an already constrained private sector.

The productive return on public investment is also conditioned by whether enterprises can secure the foreign currency needed to import machinery, materials and intermediate inputs. Expenditure execution and foreign-exchange access must therefore be evaluated together, rather than as separate fiscal and monetary questions.

6. Foreign-exchange rationing: A domestic constraint with regional consequences

Trinidad and Tobago's foreign-exchange difficulties are central to the assessment because they affect production, investment, competitiveness and the transmission of fiscal policy. The decline in energy production has weakened an important source of foreign-currency earnings, while businesses continue to require imported machinery, equipment, raw materials, technology and specialised services. Persistent shortages therefore represent more than an inconvenience in obtaining United States dollars; they constitute a constraint on the economy's ability to invest and produce.

Trinidad and Tobago has maintained a heavily managed, quasi-fixed exchange-rate arrangement since 2016, even as persistent US-dollar shortages have complicated businesses' ability to pay suppliers and obtain essential imports. Official reserves have fallen substantially from their 2014 peak, although the country retains meaningful external financial assets. The existence of aggregate financial buffers must therefore be distinguished from the effective availability of foreign exchange to productive enterprises.

An economy can maintain substantial official reserves while businesses experience persistent excess demand for foreign currency at the prevailing exchange rate. Where the exchange rate is administratively maintained and market demand exceeds the amount supplied, rationing becomes an important allocation mechanism. Access may depend on banking arrangements, administrative priorities, transaction characteristics and the timing of foreign-currency inflows. Such arrangements can affect competition because enterprises with more reliable access may be better positioned than emerging firms, even where the latter possess commercially viable investment opportunities.

The economic consequences can become self-reinforcing. Businesses require foreign exchange to purchase the machinery and inputs necessary to expand production, but the shortage of foreign exchange delays that investment. The resulting weakness in productive capacity limits the economy's ability to increase exports or competitively substitute for imports, perpetuating the underlying shortage. In this sense, foreign-exchange rationing can obstruct the very structural adjustment needed to resolve the imbalance.

Exchange-rate rigidity and the effective cost of foreign currency

The persistence of shortages raises questions about the relationship between the official exchange rate and the rate that would clear the market under prevailing conditions. A stable nominal exchange rate does not necessarily establish external equilibrium, particularly where demand is constrained through administrative allocation rather than price adjustment. The extent of any currency misalignment would require a fuller assessment of productivity, external balances, capital flows and equilibrium exchange-rate conditions. Nevertheless, sustained excess demand for foreign exchange is consistent with an allocation system in which the official price does not fully reconcile supply and demand.

The costs of such an arrangement are not limited to the foreign currency itself. Businesses may incur additional expenses through delayed payments, disrupted supply chains, precautionary inventory accumulation, financing costs and the loss of commercial opportunities. These costs can raise the effective price of imported inputs and reduce competitiveness even while the official exchange rate remains unchanged. They may also encourage businesses and investors to seek alternative channels through which foreign-currency obligations can be satisfied.

This introduces a dimension of the foreign-exchange problem that is insufficiently recognised in conventional national fiscal analysis: the possibility that domestic exchange-rate distortions are transmitted into regional capital markets.

Cross-listed securities as an alternative foreign-exchange channel

Regional securities markets provide an important mechanism through which capital can move between Caribbean jurisdictions. Where a security is listed or can be transferred between exchanges, an investor may be able to dispose of an existing holding in a market where the proceeds are received in a different

currency. Under ordinary circumstances, this facilitates portfolio diversification, improves market access and contributes to regional financial integration. Under conditions of persistent foreign-exchange rationing, however, the same mechanism can acquire a different economic function.

Consider an investor or business in Trinidad and Tobago holding shares in a company traded on both the Trinidad and Tobago and Jamaica stock exchanges. Where access to United States dollars through domestic banking channels is constrained, the investor may seek to transfer or liquidate the holding in Jamaica, receive Jamaican-dollar proceeds and subsequently purchase United States dollars to meet external obligations. The transaction effectively converts a regional equity asset into an alternative means of obtaining foreign exchange. Its primary motivation may therefore be access to currency rather than a reassessment of the underlying company's investment prospects.

This process is more accurately described as cross-market liquidation or securities-based foreign-exchange conversion than conventional short selling, which generally involves selling securities that the seller does not own. The distinction does not diminish the economic significance of the mechanism. Indeed, the ability to liquidate existing holdings means that such transactions can occur without the borrowing arrangements normally associated with short sales. The incentive may arise from the need to obtain convertible currency rather than from any deterioration in the underlying company's prospects.

The potential consequences operate through two related markets. Sustained liquidation of cross-listed securities can increase selling pressure on the destination exchange, particularly where market depth is insufficient to absorb additional supply without price adjustment. The subsequent conversion of Jamaican-dollar proceeds into United States dollars can increase demand in Jamaica's foreign-exchange market. If transactions are sufficiently large or concentrated, they may contribute to exchange-rate pressure or require additional foreign-exchange intermediation in Jamaica, even though the original demand for foreign currency arose in Trinidad and Tobago.

The mechanism therefore creates a possible regional externality. A foreign-exchange regime designed to preserve nominal currency stability in one jurisdiction may displace part of the associated adjustment into the securities prices, market liquidity and foreign-exchange demand of another. The adjustment costs do not necessarily disappear because the domestic exchange rate remains stable; some may instead be transferred through regional financial transactions.

An implicit foreign-exchange premium

Cross-market transactions can also reveal the economic cost of restricted currency access. Where comparable securities trade at prices that imply different exchange values after adjusting for transfer costs, brokerage fees, taxes and settlement arrangements, the resulting price differential may contain an implicit foreign-exchange premium. An investor seeking access to foreign currency may be willing to

accept a discount on the security or incur transaction costs that would not be justified by ordinary portfolio considerations.

The effective exchange rate embedded in such a transaction may therefore differ materially from the official exchange rate. This does not necessarily establish a single alternative market-clearing rate, since securities prices are influenced by liquidity, market sentiment, corporate fundamentals and transaction restrictions. Nevertheless, it provides a potential means of observing the economic value investors attach to foreign-currency access when conventional channels are constrained.

The implications extend to capital-market efficiency. Cross-listed securities are intended to facilitate regional investment and broaden market participation, but persistent currency-access transactions may cause their prices to reflect monetary distortions as well as company fundamentals. Where market liquidity is limited, these effects can be amplified, potentially affecting investors who have no direct connection with the original foreign-exchange shortage.

The Jamaica transmission mechanism

The Jamaica example is particularly relevant because the country operates a more flexible foreign-exchange arrangement and maintains an active market for United States dollars. A Trinidad and Tobago investor who liquidates cross-listed holdings in Jamaica and converts the proceeds into US dollars introduces an additional source of foreign-currency demand into the Jamaican market. Depending on the size and timing of the transactions, this may contribute to demand pressures that would otherwise not have arisen domestically.

The magnitude of this effect remains an empirical question. Establishing a measurable contribution to movements in the Jamaican dollar would require information on cross-market securities transfers, transaction volumes, price differentials, the conversion of sale proceeds and contemporaneous foreign-exchange conditions. Other influences on Jamaica's exchange rate would also have to be considered. The mechanism is economically plausible, but its actual contribution to exchange-rate movements should not be asserted without supporting evidence.

The broader implication is nevertheless substantial. Regional financial integration can transmit not only investment and liquidity benefits but also the consequences of divergent national policy regimes. Where one jurisdiction maintains persistent foreign-exchange rationing and another permits more flexible currency transactions, cross-listed securities may become an adjustment channel between the two systems. The resulting effects can extend beyond the original investors to other market participants through securities prices and foreign-exchange demand.

This suggests that Trinidad and Tobago's foreign-exchange regime should be assessed not only in terms of domestic reserves, imports and investment but also in relation to regional capital-market stability. It also raises questions for regional securities regulators, exchanges and monetary authorities concerning

the monitoring of unusual cross-market transactions and the distinction between ordinary investment flows and currency-access-driven liquidation.

The appropriate response is not to discourage legitimate cross-border securities trading, which is an important component of regional financial integration. It is to recognise that the persistent rationing of foreign exchange can create distortions whose economic consequences extend beyond national borders. A more efficient foreign-exchange framework in Trinidad and Tobago could therefore produce benefits not only for domestic investment and competitiveness but also for the functioning of interconnected Caribbean financial markets.

7. Energy recovery and the credibility of the growth outlook

The Government's expectations for renewed natural gas production are central to the FY2027 economic and fiscal outlook. Several projects are expected to contribute additional supply, including Ginger, Mahogany A Extended, Juniper Phase II, Coconut, Aphrodite and Manatee Plus. These developments could help reverse production declines, improve export earnings and alleviate feedstock shortages affecting downstream industries. However, the distinction between announced production capacity and actual average deliveries during the fiscal year is essential to assessing their economic contribution.

Project	Announced production potential	Indicative timing	FY2027 average net contribution
Ginger	335 MMscfd peak	First quarter 2027	Not established by stated peak capacity
Mahogany A Extended	200 MMscfd	2027	Not established by stated capacity
Juniper Phase II	272 MMscfd	2027	Not established by stated capacity
Coconut	300 MMscfd	2027	Not established by stated capacity
Aphrodite	100–130 MMscfd	2027	Not established by stated capacity
Manatee Plus	600 MMscfd	Late 2027	Not established by stated capacity

Project figures and indicative timings are drawn from the FY2027 Budget presentation and accompanying budget analysis; they are announcements rather than independently verified FY2027 deliveries. Timing remains subject to implementation, commissioning and ramp-up. The available figures do not establish the net average production increment after declines in existing fields.

The potential scale of additional supply is considerable, but simply aggregating announced capacities would risk overstating the volume available during the fiscal year. Projects may commence production

at different times, require commissioning periods and reach peak output only after gradual ramp-up. Moreover, additional production from new fields must be considered against continuing declines in existing fields. Part of the new supply may merely offset declines elsewhere, meaning that the net increase in national production may be materially smaller than the sum of announced project capacities.

The allocation of additional gas also matters. Increased upstream production can improve government revenue and export earnings, but the wider domestic benefit depends on whether the supply supports viable downstream processing, industrial employment and associated services.

The October 2026 announcement by Nutrien that its Trinidad nitrogen operations would remain closed indefinitely provides a particularly important illustration. Its facilities had already undergone a controlled shutdown in October 2025 amid difficulties associated with reliable and commercially viable gas supply and related operating conditions. This is not an entirely new FY2027 production loss: the operations were already suspended during FY2026. Rather, the case demonstrates that prolonged feedstock constraints can impair the viability of downstream facilities even where physical assets remain in place. Reopening may require maintenance, workforce mobilisation, renewed supplier arrangements and commercial commitments, while corporate investment priorities may have changed. Consequently, renewed upstream gas production cannot be assumed to restore an equivalent volume of downstream output, industrial employment or export earnings. The country may recover upstream production without recovering the industrial value added previously generated from that gas.

There is also a timing mismatch between energy production and the Budget's revenue expectations. New projects entering production during 2027 may contribute only part-year volumes, while fiscal receipts will depend on applicable contracts, realised prices, production costs and tax arrangements. The Government's assumption of US\$5 per MMBtu for natural gas introduces a further variable. Even where production volumes improve, realised revenue may differ from projections because of commodity-price movements and contractual arrangements. Conversely, favourable prices may temporarily support collections without establishing that the underlying production decline has been permanently reversed.

The energy outlook should therefore be assessed through three separate but connected indicators: gross additions from new projects, net national production after declines elsewhere, and the contribution of available gas to downstream industrial output. The first measures project development; the second determines the broader supply recovery; and the third provides a more complete indication of the sector's contribution to domestic value added and structural resilience.

The distinction is essential because the fiscal and economic benefits of energy recovery are not identical. The Government may receive additional revenue from upstream production while the domestic industrial base remains weaker than before. A sustainable recovery requires not only more

gas but also a commercially viable structure through which that gas supports production, exports and long-term investment.

8. Institutional credibility, State–private-sector trust and the investment environment

The economic effectiveness of the FY2027 Budget will depend partly on the institutional environment within which households and businesses respond to its measures. Tax policy, expenditure allocations and investment incentives operate through decisions made by enterprises, investors, financial institutions and consumers. Those decisions are influenced not only by prices and expected returns but also by confidence in public administration, the predictability of regulation, the reliability of infrastructure, personal and commercial security, and the expectation that public commitments will be implemented consistently.

These considerations are particularly important for Trinidad and Tobago because the country requires substantial private investment to reverse energy-sector decline, strengthen non-energy production and expand its foreign-exchange earnings. The State cannot independently deliver the necessary structural transformation through expenditure allocations alone. Private enterprises must commit capital, undertake commercial risks, adopt technology and develop markets, while the Government must provide the public goods, regulatory environment and institutional stability necessary for those investments to become viable.

Trust as an economic asset

The relationship between the State and the private sector is therefore one of mutual dependence. The Government requires profitable and expanding enterprises to generate employment, exports and tax revenue, while businesses depend on the State for reliable infrastructure, effective administration, public security, predictable taxation and access to an enabling commercial environment. When either party doubts the credibility of the other's commitments, the resulting uncertainty can affect investment decisions even where the formal policy framework appears economically reasonable.

The distinction between business confidence and institutional trust is useful. Confidence concerns expectations about future economic conditions, while trust concerns the credibility of commitments and the predictability of behaviour. A business may believe that demand for its products will improve but remain reluctant to invest if it expects delays in public approvals, unpredictable taxation, uncertain foreign-exchange access or inconsistent enforcement of regulations. Similarly, a Government may seek greater private investment while questioning whether businesses are contributing adequately to national development or responding constructively to public initiatives.

Such differences are not inherently irreconcilable. Governments and businesses have distinct responsibilities and may legitimately disagree over taxation, regulation and the distribution of economic benefits. The difficulty arises when the relationship becomes sufficiently uncertain or adversarial that

neither party can rely on the other to fulfil the commitments necessary for sustained investment. Under those conditions, businesses may shorten investment horizons, retain liquidity, defer capital expenditure or direct resources towards activities perceived as less exposed to domestic policy risk.

The FY2027 Budget raises this issue because the Government is seeking additional tax contributions from businesses while simultaneously relying on private investment to generate recovery. The economic response will depend partly on whether enterprises regard the measures as components of a credible development strategy or primarily as attempts to increase collections without adequately addressing the constraints on production. Consultation, transparent revenue assumptions, transitional arrangements and demonstrable improvements in public services can therefore have economic value beyond their immediate administrative purpose.

Political division and policy continuity

Political disagreement is a normal feature of democratic governance and does not necessarily imply weak institutions or economic instability. Trinidad and Tobago's established parliamentary democracy and record of orderly political transitions remain important strengths. The more relevant distinction is between political competition, which is inherent to democracy, and policy discontinuity, which can impose economic costs. The coexistence of political stability and weak economic transformation is an important feature of the country's development challenge.

The economic concern is not the existence of political competition but the possibility that political division makes it more difficult to sustain reforms requiring implementation over several electoral cycles. Energy development, tax administration, infrastructure investment, education, public-sector reform and foreign-exchange management all involve long planning horizons. Where policy frameworks are frequently reconsidered or where necessary reforms lack sufficient continuity, investors may incorporate additional uncertainty into their expected returns.

The appropriate objective is not the elimination of political disagreement or the suspension of legitimate scrutiny. It is the establishment of sufficient continuity in essential economic institutions and development priorities to permit long-term commitments. Governments must retain the authority to change policy, and oppositions must retain the ability to challenge it, but predictable procedures, transparent evidence and durable institutional arrangements can reduce the economic costs of political uncertainty.

Crime and the economic risk premium

Crime must also be incorporated into the economic assessment as a cost of production and investment rather than treated exclusively as a matter of public safety. Businesses incur direct expenditure on security, insurance, protection of inventories and facilities, while criminal activity can disrupt operations, damage property and increase the costs of transporting goods and conducting transactions.

These expenses absorb resources that might otherwise be available for productive investment, workforce development or expansion.

The indirect effects may be equally consequential. Concerns about security can influence operating hours, business location, employee mobility, investment decisions and the willingness of enterprises to enter particular markets. Organised criminal activity, illicit trade and financial crime can undermine legitimate businesses and weaken confidence in commercial institutions. Where enforcement is perceived as unreliable, businesses may attach a higher risk premium to investments, especially those requiring substantial fixed capital that cannot easily be relocated.

The economic cost of crime is likely to be particularly burdensome for smaller enterprises, which cannot spread security and insurance expenses across large production volumes. A fuller assessment would require evidence on business security expenditure, crime-related operating disruptions, insurance costs, investment decisions and the effectiveness of enforcement.

The interaction between crime and institutional confidence is particularly important. An investor assessing a long-term project considers not only expected revenues but also the reliability of property protection, contract enforcement, dispute resolution and public administration. Where insecurity coincides with regulatory uncertainty and foreign-exchange shortages, the cumulative effect on expected returns may be greater than the sum of the individual costs. This helps explain why tax incentives alone may be insufficient to attract investment into an otherwise difficult operating environment.

Public administration and the credibility of fiscal adjustment

The quality of public administration is also central to fiscal sustainability. Stronger tax enforcement and higher penalties may improve compliance, but durable revenue mobilisation benefits from confidence that the tax system is administered fairly and that public resources are used effectively. Businesses may be more willing to accept additional fiscal obligations where they can observe corresponding improvements in infrastructure, public services, security and administrative efficiency.

Weaknesses in the timeliness and reliability of economic data, and limited progress in strengthening public institutions, have direct implications for fiscal management. Incomplete or delayed data can impair revenue forecasting, project appraisal, economic surveillance and the evaluation of policy outcomes. Weak execution capacity can delay infrastructure benefits, while administrative uncertainty can increase compliance costs for businesses.

Institutional credibility is therefore not a separate social or governance objective detached from economic performance. It is a determinant of the effectiveness of fiscal policy and private investment. A Government seeking to increase revenue while encouraging businesses to expand must demonstrate

that its own commitments to efficiency, transparency, security and productive investment are being translated into measurable results.

The wider implication is that Trinidad and Tobago's economic transformation requires a credible development partnership between the State and productive enterprises, supported by institutions capable of sustaining policy implementation beyond individual budget cycles. Without that foundation, even technically defensible fiscal measures may deliver less than their anticipated economic benefits.

These institutional conditions also affect the Government's financing environment. Predictable implementation and credible economic data influence investor confidence, while weak execution can undermine the growth and revenue assumptions on which debt sustainability depends.

9. Debt sustainability, refinancing and the distinction between financial buffers and productive capacity

Trinidad and Tobago's debt sustainability must be assessed against both its substantial financial assets and its prolonged weak economic performance. The Heritage and Stabilisation Fund and other liquid government assets provide important protection against financing shocks, but financial buffers do not establish that the underlying fiscal position is sustainable. The critical issue is whether the economy can generate sufficient recurring revenue and growth to stabilise debt without progressively drawing down assets or imposing increasingly restrictive fiscal measures.

The Government faces substantial debt maturities, with approximately TT\$70 billion falling due over the next five years. This creates a significant refinancing requirement and strengthens the case for reducing persistent fiscal deficits. However, debt sustainability depends on more than the annual balance between revenue and expenditure. It reflects the interaction of economic growth, borrowing costs, primary fiscal balances, the existing debt stock and the Government's capacity to manage contingent obligations.

The FY2027 Budget's projected deficit reduction could ease immediate financing pressures if realised. Nevertheless, the improvement must be assessed alongside the economy's growth prospects and the broader public-sector balance sheet. A Government can reduce its annual deficit while continuing to experience an unfavourable debt trajectory where economic growth remains weak, interest costs rise or liabilities outside the central-government accounts become payable. Conversely, stronger productive growth can improve sustainability by expanding the tax base and reducing the debt burden relative to national income.

An independent perspective on Trinidad and Tobago's fiscal vulnerabilities is provided by S&P Global Ratings' July 22, 2026 sovereign assessment, which affirmed the country's BBB- rating while maintaining a negative outlook. The agency identified prolonged weak economic growth, declining fiscal

and external buffers, limited monetary flexibility and persistent energy dependence as constraints on sovereign creditworthiness. It assessed the probability of a downgrade over the following twelve months at no less than one in three, absent meaningful improvements in fiscal sustainability, economic performance and the external position. Importantly, the assessment preceded the presentation of the FY2027 Budget and should therefore be understood as a baseline evaluation of the country's underlying vulnerabilities rather than an assessment of the measures subsequently announced.

The distinction between the Government's fiscal projections and S&P's estimates also requires care. The Budget projects a central government deficit equivalent to 2.1 per cent of GDP in FY2027, whereas S&P's earlier forecast envisaged a general government deficit of 2.7 per cent (S&P Global Ratings, 22 July 2026, Selected Indicators, p. 6). These estimates are not directly comparable: S&P explicitly includes social security fund revenues and expenditures in its general government measure, and its projections were prepared before the Budget. Nevertheless, the broader implications of the rating assessment remain relevant. Trinidad and Tobago's substantial liquid financial assets provide important protection against near-term financing pressures, but they cannot indefinitely compensate for weak productive growth, rising debt-servicing obligations and the gradual erosion of fiscal flexibility.

The agency forecast gross general government debt at 88.4% of GDP in 2027 and net debt at 55.2% (S&P Global Ratings, 22 July 2026, Selected Indicators, p. 6). Its methodology includes specified guaranteed obligations and adjusts for liquid financial assets, including the Heritage and Stabilization Fund, eligible National Insurance Board assets and government commercial-bank deposits. These figures should not be equated with narrower measures of central-government debt. The report also identifies additional contingent liabilities associated with non-financial public enterprises, estimated at approximately 14% of GDP outside the debt already included in its general-government calculation. These exposures illustrate why a comprehensive assessment of fiscal sustainability must extend beyond the annual Budget deficit.

Refinancing and the cost of public borrowing

The maturity profile creates financing requirements even where the Government succeeds in reducing new borrowing. Maturing debt must be repaid or refinanced, and the cost of refinancing depends on interest rates, market liquidity, investor confidence and the perceived credibility of fiscal policy. The proposed expansion of government savings bonds and retail securities could broaden participation in public financing and diversify funding sources. However, increased public borrowing may also compete with private-sector demand for domestic savings, particularly where banks and institutional investors already maintain substantial exposure to government securities.

S&P identifies the banking sector's material exposure to the public sector as a factor potentially limiting its willingness or capacity to absorb additional government obligations. This is relevant to the possibility of crowding out, although the extent of any such effect would depend on domestic liquidity, credit

demand and the structure of financial intermediation. The central point is that debt-management measures should be assessed not only by their success in securing financing for the Treasury but also by their implications for the availability and cost of capital to productive enterprises.

Financial buffers and the limits of resilience

Trinidad and Tobago retains substantial financial assets, including the Heritage and Stabilization Fund, which provide protection against economic shocks and support the country's external credit profile. S&P estimates that liquid government financial assets will represent approximately 32% of GDP over its forecast horizon (33.2% in 2027 in its selected-indicators table), while recognising that the country's net external creditor position remains an important source of resilience. These assets help explain why the sovereign retains an investment-grade rating despite prolonged economic weakness and significant fiscal pressures.

The existence of these buffers is a genuine economic strength, but it should not be confused with the capacity to generate recurring income. Financial assets can help the Government meet obligations, absorb shocks and finance adjustment during periods of weak revenue. They cannot indefinitely compensate for declining production, inadequate investment and a narrow export base. Where assets are repeatedly drawn down to support expenditure without a corresponding improvement in productive capacity, financial resilience may gradually diminish.

This distinction is especially important for Trinidad and Tobago because the country has accumulated considerable financial resources from its energy sector while experiencing prolonged weakness in per capita income and limited diversification. The central policy challenge is to convert the time and flexibility provided by those assets into durable improvements in productivity, investment and export capacity. The value of the buffers lies not only in their ability to finance immediate obligations but also in the opportunity they provide to undertake reforms before financing constraints become more severe.

For future borrowing conditions, the credibility of fiscal adjustment will depend on stronger growth, more reliable revenue, effective expenditure management and preservation of external buffers. A strategy that improves the annual deficit while weakening investment or productive capacity could deliver less improvement in underlying creditworthiness than the headline figures suggest.

10. Overall assessment: Fiscal stabilisation without structural transformation?

The FY2027 Budget contains measures intended to improve revenue mobilisation, strengthen fiscal discipline, support vulnerable households and address selected institutional weaknesses. It also recognises the importance of renewed energy production, infrastructure investment and economic diversification. These objectives respond to genuine economic challenges, and the proposed reduction in the fiscal deficit is material. Nevertheless, the credibility of the adjustment depends on the

interaction between the revenue measures, the economy's productive constraints and the Government's ability to implement its expenditure and reform commitments.

Test 1 — Fiscal credibility and the durability of adjustment

The principal vulnerability is that fiscal improvement may precede, rather than accompany, productive recovery. Several measures increase the immediate tax obligations or operating costs of businesses, while the anticipated benefits of infrastructure investment, energy production and administrative reform remain dependent on execution and timing. Individually defensible measures may nevertheless impose cumulative costs on productive activity; their combined effects must therefore be assessed against the Government's wider growth objectives.

Test 2 — Productive conversion and foreign-exchange generation

The foreign-exchange constraint further complicates the policy response. Generalised fiscal stimulus may increase import demand without producing a proportionate increase in domestic output, while additional business tax obligations may suppress investment without expanding the supply of foreign currency. Persistent rationing also creates distortions in capital allocation and may transmit adjustment pressures into neighbouring financial markets through the liquidation of cross-listed securities. The resulting costs are not necessarily captured in the Government's fiscal accounts or in conventional assessments of exchange-rate stability.

Test 3 — Institutional execution and investment confidence

Institutional credibility is equally important. The Government requires private investment to expand the tax base, but private enterprises require predictable policy, reliable public services, effective security and confidence that public commitments will be implemented. Political disagreement need not undermine these conditions, but prolonged reform requires sufficient continuity to support investments extending beyond individual budget cycles. Where crime, administrative weaknesses and foreign-exchange uncertainty raise the risk premium on domestic investment, tax measures and expenditure allocations alone are unlikely to produce the desired transformation.

The debt outlook reinforces the urgency of these issues. Substantial refinancing requirements, contingent public-sector liabilities and weak trend growth mean that fiscal sustainability cannot be secured solely through annual deficit reduction. Trinidad and Tobago's financial buffers provide important protection, but their economic value ultimately depends on whether they support an adjustment that strengthens future productive capacity rather than merely financing continued structural weakness.

The policy priorities

The evidence points towards a strategy organised around five connected priorities. First, revenue mobilisation should be assessed for its compatibility with the recovery and expansion of productive enterprises. Second, public expenditure should be evaluated according to execution and measurable productive outcomes rather than allocations alone. Third, energy recovery should be assessed through net production gains and downstream industrial viability, not merely announced upstream project capacities. Fourth, foreign-exchange reform should address the allocation and competitiveness problems that constrain domestic investment and potentially transmit distortions across regional markets. Finally, institutional reform should strengthen the credibility of the relationship between the State and private enterprises through more predictable policy, effective administration, improved security and transparent performance measurement.

These priorities are mutually reinforcing. Stronger institutions improve the effectiveness of public investment and tax administration; more reliable infrastructure and foreign-exchange access encourage private investment; and increased productive capacity generates employment, exports and sustainable revenue. The difficulty is that these benefits require time, coordination and implementation discipline. The fiscal strategy must therefore be sequenced so that immediate revenue measures do not unnecessarily weaken the enterprises and investments upon which longer-term recovery depends.

11. Conclusion

Trinidad and Tobago's FY2027 Budget is an attempt to restore fiscal stability in an economy whose underlying productive foundations have weakened over an extended period. The proposed reduction in the deficit could ease financing pressures and contribute to greater fiscal confidence, but its success depends on revenue assumptions that must be realised under difficult economic conditions. The Government is seeking significantly higher collections while the economy faces prolonged energy-sector decline, weak investment, foreign-exchange shortages and institutional constraints that limit the effectiveness of conventional fiscal intervention.

The challenge is not simply to choose between consolidation and stimulus. It is to develop a fiscal strategy capable of strengthening public finances without undermining the productive recovery necessary to sustain them. Broad expenditure expansion risks import leakage and additional foreign-exchange demand, while higher business taxation risks reducing liquidity and investment. These competing effects make the quality, sequencing and institutional credibility of fiscal policy more important than the headline direction of the deficit alone.

The regional implications of foreign-exchange rationing add another dimension. Where businesses and investors seek currency access through cross-listed securities, domestic monetary distortions can potentially affect neighbouring capital and foreign-exchange markets. This demonstrates that the costs

of policy arrangements may extend beyond national boundaries, even where their immediate objectives are domestic.

Trinidad and Tobago retains important economic strengths, including established institutions, substantial financial buffers, industrial infrastructure and opportunities for renewed energy production. However, these assets cannot substitute indefinitely for productivity growth, investment and the expansion of sustainable foreign-exchange earnings. Their value lies in providing the resources and time necessary to undertake structural adjustment before fiscal and external constraints become more binding.

The ultimate test of the FY2027 Budget is therefore not simply whether the Government achieves a deficit of 2.1% of GDP. It is whether the adjustment leaves Trinidad and Tobago with a stronger productive economy, a more credible investment environment, improved foreign-exchange availability and a revenue base capable of supporting its future obligations. Fiscal consolidation can contribute to stability, but without structural transformation it cannot, by itself, secure economic recovery.

Appendix A — Economic Impact Assessment of the FY2027 Fiscal and Other Measures

The following matrix examines the likely economic effects of 34 fiscal, administrative, social and financial-sector measures identified in the Budget. It distinguishes the Government's intended policy direction from the possible economic responses, recognising that implementation, taxpayer behaviour and prevailing economic conditions will influence actual outcomes.

No.	Measure	Likely economic impact or outcome
1	Limit carried-forward business losses to 75% of chargeable profits	Accelerates tax payments from businesses with accumulated losses, potentially reducing liquidity available for recovery and investment while bringing forward revenue that might otherwise have been collected in later years.
2	Increase petroleum Unemployment Levy from 5% to 8%	Increases near-term collections from petroleum companies but may affect the economics of marginal upstream investments and the competitiveness of the cumulative fiscal regime.
3	Increase withholding taxes on non-resident distributions	Raises revenue while potentially influencing dividend timing, capital repatriation and the after-tax returns available to foreign investors.
4	Reduce alcohol excise rates by 25% and reform import duties	May improve competitiveness and stimulate sales, although the net fiscal effect will depend on consumption responses and changes in the treatment of domestic and imported products.
5	Introduce VAT on non-resident digital and remote services	Broadens the tax base and improves neutrality between suppliers, while potentially increasing costs where businesses or consumers cannot recover input VAT.
6	Extend withholding taxation to remotely supplied management and technical services	Protects the domestic tax base but may increase the cost of specialised foreign expertise, engineering and technology-related services required for economic modernisation.
7	Disallow deductions for expenditure incurred in earning exempt income	Strengthens tax-base integrity but may increase compliance costs and disputes concerning the allocation of expenses between taxable and exempt activities.
8	Strengthen tobacco and vaping taxation and controls	May discourage consumption and generate revenue, although substitution, informal distribution and

No.	Measure	Likely economic impact or outcome
		illicit trade could affect the realised fiscal yield.
9	Increase taxes on classic, antique and vintage vehicles	Raises the cost of affected discretionary imports and transactions, with a relatively narrow direct macroeconomic effect.
10	Introduce an electricity surcharge above 3,000 kWh per billing period	May encourage conservation and generate additional revenue but increases operating costs for affected electricity-intensive users.
11	Increase the pensioner tax allowance from TT\$90,000 to TT\$102,000	Provides targeted tax relief and additional disposable income to eligible pensioners, with a modest aggregate demand effect.
12	Introduce a Farm Business Formalisation Programme	Could improve agricultural enterprises' access to finance, markets and support services where the benefits of formalisation exceed the associated compliance costs.
13	Expand agricultural internships from 30 to 100 participants	Strengthens agricultural skills and workforce development, although the immediate contribution to national output is likely to be limited.
14	Convert selected zero-rated VAT supplies to exempt status	May create unrecoverable input VAT and increase embedded supply-chain costs, potentially raising consumer prices or reducing supplier margins.
15	Introduce a TT\$100 VAT clearance certificate fee	Generates modest administrative revenue while adding a small transaction cost for affected taxpayers.
16	Deregister government entities without taxable supplies from VAT	May simplify administration and reduce inappropriate VAT claims or unnecessary compliance obligations.
17	Introduce penalties for VAT non-filing	Strengthens incentives for timely compliance, with realised revenue dependent on enforcement and taxpayer behaviour.
18	Introduce mandatory electronic tax filing through GenTax	Could improve processing efficiency, compliance monitoring and administrative transparency, provided system reliability and taxpayer readiness are adequate.
19	Increase penalties for false customs declarations	May deter misdeclaration and protect customs revenue, subject to consistent enforcement and effective risk management.

No.	Measure	Likely economic impact or outcome
20	Increase the foreign-currency declaration threshold from US\$5,000 to US\$10,000	Reduces reporting burdens for some legitimate transactions but does not materially resolve the underlying shortage of foreign exchange.
21	Introduce a customs broker licensing framework	Could strengthen professional standards and customs compliance while imposing additional licensing or administrative costs on affected operators.
22	Require quarterly tax payments by registered clubs	May improve the regularity of collections and reporting while altering the cash-flow requirements of affected organisations.
23	Expand technical and vocational education and training	Could strengthen productivity and employability if training programmes respond to actual labour-market and investment requirements.
24	Introduce the READY youth internship programme	Provides practical work experience and may improve participants' employment prospects, with relatively modest immediate macroeconomic effects.
25	Increase selected social grants by TT\$250 monthly	Supports household welfare and consumption, although import leakage may limit the corresponding expansion of domestic production.
26	Introduce a National Care and Support Programme	May strengthen social protection and support care-related employment while creating recurrent expenditure commitments requiring sustainable financing.
27	Increase penalties for non-payment of National Insurance contributions	May strengthen contribution compliance and collections where enforcement is effective and administrative procedures are reliable.
28	Review National Insurance contribution arrears and backlogs	Could improve arrears management and recovery, with the fiscal and compliance effects dependent on the final administrative arrangements.
29	Address National Insurance eligibility gaps associated with COVID-era contribution interruptions	May protect benefit eligibility for affected contributors and improve continuity of social insurance coverage.
30	Reform the Foreign Investment Act and foreign-exchange framework	Could reduce investment barriers and improve market access, but meaningful economic gains will depend on whether implementation alleviates

No.	Measure	Likely economic impact or outcome
		persistent currency-allocation constraints.
31	Establish permanent licensing arrangements for virtual-asset service providers	May improve regulatory certainty and support financial innovation while requiring effective safeguards for consumers, financial integrity and cybersecurity.
32	Introduce government savings bonds in TT\$ and US\$	Broadens public financing options and investor participation but may redirect savings from private investment and create currency-specific financing obligations.
33	Introduce a retail government securities programme	Expands individual access to government debt instruments while potentially increasing competition for domestic savings.
34	Undertake a local-currency bond-market diagnostic	Could support more efficient debt management and capital-market development if its findings lead to substantive institutional and market reforms.

Appendix synthesis

The measures reveal an important asymmetry between the timing of fiscal collections and the expected benefits of economic reform. The largest quantified revenue initiatives primarily affect business taxation and can generate collections relatively quickly, while many of the measures intended to strengthen productive capacity, skills, investment facilitation and financial-market development depend on longer implementation periods.

The cumulative economic effect must therefore be assessed rather than assuming that individually defensible measures will necessarily produce a coherent aggregate outcome. Additional business taxation, higher operating costs, foreign-exchange shortages and weak investment confidence may reinforce one another, while delayed infrastructure and institutional improvements could limit the expected offsetting benefits.

Appendix B — Evidence, comparability and verification note

This note distinguishes reported observations, official projections, independent forecasts, author's calculations and mechanisms that remain analytically plausible but unquantified. It is not a substitute for the underlying primary documents. Figures are attributed to their reporting periods and institutional perimeters; announced measures should not be assumed to have entered into force until the relevant legislation is enacted.

Material proposition	Evidence category and basis	Interpretive limitation / verification requirement
FY2026 revised deficit TT\$7.000bn; FY2027 projected deficit TT\$3.639bn	Government Budget estimates; fiscal bridge calculated from projected revenue and expenditure	FY2027 figures are forecasts, not outturns; source: FY2027 Budget Statement, 12 October 2026
Revenue increase TT\$5.482bn and expenditure increase TT\$2.121bn	Arithmetic from Government FY2026 revised and FY2027 estimates	Revenue-led adjustment is established by the budget arithmetic; realisation remains conditional
TT\$1,026.4m from nine quantified measures, equivalent to approximately 18.7% of revenue increase	Sum of identified measure yields; author's calculation	Not a comprehensive attribution of all forecast revenue growth; baseline collections and other assumptions require reconciliation
TT\$430m from the loss carry-forward ceiling	Government estimate for a proposed tax measure	Actual timing and lifetime revenue depend on subsequent loss utilisation, behaviour and final legislation; PwC Budget Insights 2027 identifies the measure primarily as a timing and cash-tax change
Energy projects and announced capacities	FY2027 Budget presentation and PwC Budget Insights 2027	Peak potential is not annual average net production; project delivery, ramp-up, allocation and depletion offsets require follow-up

Material proposition	Evidence category and basis	Interpretive limitation / verification requirement
Regional securities-based foreign-exchange conversion	Economic transmission mechanism analysed by the author	Transaction volumes, price effects and attributable FX demand have not been independently quantified; no claim of conventional short selling
S&P sovereign rating, growth and debt projections	Original S&P Global Ratings, <i>Trinidad and Tobago BBB- Sovereign Ratings Affirmed; Outlook Remains Negative</i> , 22 July 2026, pp. 1–8, directly reviewed	Verified: BBB–/A–3, negative outlook and at least one-in-three downgrade chance (p. 1); 2027 growth 1.3%, deficit 2.7% of GDP, gross debt 88.4%, net debt 55.2%, liquid assets 33.2% (pp. 5–6); pre-Budget baseline
Budget central-government deficit 2.1% of GDP versus S&P general-government deficit forecast 2.7%	Government FY2027 Budget; original S&P report, pp. 4, 6	Not a like-for-like comparison: S&P includes social security fund revenue and expenditure; different forecast dates; no inference of forecasting error warranted
Financial assets as buffers against financing risk	Budget information and sovereign-rating assessment	Liquidity and shock absorption are not equivalent to recurring fiscal capacity or solvency

Principal documentary sources and comparability. The primary FY2027 Budget Statement dated 12 October 2026 and *PwC Budget Insights 2027* (12 October 2026) are available as documentary references for the announced measures, fiscal estimates and energy project announcements. The original S&P Global Ratings sovereign assessment of 22 July 2026 provides the primary basis for the rating language, downgrade-risk statement, 2027 growth and fiscal forecasts, liquid-asset estimates and debt definitions (pp. 1–8). Its general government fiscal coverage includes social security fund revenue and expenditure, while its gross-debt perimeter includes specified guaranteed obligations. Its liquid-asset definition excludes central-bank government deposits earmarked for working capital (p. 4).