

## **Government Finances and the Economy - Part 1 - By Laurel Theresa Bain**

Grenada's ailing economy could ill afford the impact of the ongoing dispute on the capacity of the Government to pay salary increases to public officers. In the final analysis, the economic and social cost of the dispute will far outweigh the estimated \$13M to be paid to public officers. The controversy arose as the Government reneged on its signed Agreement to pay the four [4] percent salary increase. A more effective approach would have been through consultation with the view of achieving a 'Win-Win' outcome and arriving at a mutual agreement. At this junction, real dialogue based on publicly available up-to-date, accurate and comprehensive information should be the starting point for dialogue and resolving the dispute.

Importantly, the monitoring of the performance of the economy and the National Budget, and the publication of the accompanying reports to the public are critical in this 'low or no growth' and volatile economic environment. These reports should provide a comprehensive assessment of the financial position of the Government.

There are two major gaps in the published fiscal data. The financing component of the accounts needs to be included in the published reports. It provides information on either the sources of funds to finance a deficit or the allocation of resources derived from a surplus. Additionally, the operational summary of the National Transformation Fund and the transactions with the Consolidated Fund should be presented with clarity.

Notwithstanding these gaps, this Article, Part 1 is an analysis of the fiscal performance for 2020, based on the revised fiscal data published on the Ministry of Finance website [www.finance.gd](http://www.finance.gd). Following the publication of the first quarter data, Part 11, would be the review of fiscal developments in the first quarter of 2021.

The information presented to Parliament on 2<sup>nd</sup> December 2020 were preliminary estimates of the performance of the economy and government finances. The revised data published for 2020 is the starting point in the analysis of government finances and the economy for 2021.

The developments in December 2020 made the information provided to Parliament redundant. In that month, there was the emergence of the Covid-19 cluster and the accompanying restrictive measures which had a negative impact on the economy. Therefore, the estimated decline in GDP of 12.6 percent as reported then would need to be revisited to determine the actual performance of the economy in 2020.

Then there was the repurchase of the WRB shares in GRENLEC by the Government for a reported one hundred and seventy million EC dollars [\$170M]. This transaction affected fiscal developments in 2020, as according to the Government, the repurchase transaction was financed by 'grants' and concessionary loans derived from savings in the capital account of the 2020 Budget.

In 2020, the financial position of the Government tightened. This was due in part to the adverse impact of the Covid-19 Pandemic on domestic revenues and the shortfall in 'grants'. This lower than projected financial inflows were combined with the higher than budgeted expenditure. Operational or current expenditure was marginally higher than budgeted as the Government responded to the demands of the Covid-19 Pandemic. However, capital expenditure unexpectedly surpassed the budget as it included the repurchase of the WRB shares in GRENLEC. The higher than budgeted expenditure combined with the weak domestic revenue performance tightened the Government finances.

The actual data for 2020, as published by the Ministry of Finance, showed that operational or current revenue of \$689.6M was 12 percent or \$96.6M less than the budgeted amount of \$786.2m. The impact of

the Covid-19 recession was also manifested in the revenue performance relative to 2019. The revenue collected in 2020 was \$88.4M or 11 percent less than that collected in 2019.

However, expenditure, both current and capital, exceeded the budgeted amount and was higher than the amount incurred in 2019. Current or operational expenditure of \$650.8M was \$16.8M or 2.8 percent more than the budgeted amount of \$634M. The comparison of current expenditure with 2019 showed that the current or operational expenditure for 2020 was \$27.3M or 4 percent more than the amount spent in 2019. The revenue and expenditure performance in 2020 resulted in a surplus on Government current or operational account of \$38.8M. This was significantly lower than the budgeted surplus of \$152.2M and the actual current account surplus of \$154.5M in 2019.

Developments on the capital account further tightened the volatile fiscal position. Capital expenditure for 2020 was \$269.9M, which surpassed the budgeted \$225M. This higher than budgeted expenditure included the repurchase of the WRB shares in GRENLEC. The surplus of \$38M on the current account and the use of 'grants' were not sufficient to finance the capital expenditure. The Government spent \$103.1M in grants compared with the budgeted 'grants' of \$218.6M. The shortfall in 'grants' combined with the higher than budgeted expenditure contributed to a widening of the fiscal imbalances.

Consequently, the Government recorded a primary deficit of \$72.3M and an overall deficit of \$128.1M in 2020. This overall deficit does not include principal debt repayment which would increase the funds required to close the revenue/expenditure gap in the 2020 Budget.

Information on the financing of the deficit in 2020 is not publicly available. This is because the financing component of the account is not included in the published fiscal reports. The omission on the financing of Government operations needs to be corrected as fiscal transparency requires the publication of timely, accurate and comprehensive information.

Knowledge is power and experience is the greatest teacher.

**Ms Laurel Bain** is a former employee of the Eastern Caribbean Central Bank, where she served for over 25 years in various positions including that of Deputy Director in the Research Department, Senior Director of the Statistics Department and Adviser in the Governor's Office.

Ms Bain has undertaken assessments of the economies of the Eastern Caribbean Currency Union (ECCU) and research on fiscal policy and taxation issues in the ECCU. She is the Author of the books: Fiscal Policy The Economy and The Tax Structure of the Member Countries of the ECCB. Ms. Bain has worked extensively with international development agencies and regional institutions.

Ms Bain holds a Bachelor of Science (BSc) and Master of Science (MSc) degrees in Economics from the University of the West Indies, Trinidad and Tobago.

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