

## **National Debt Dilemma By Laurel Theresa Bain**

With a public debt, as derived from the Debt Report from the Ministry of Finance, of approximately 2.6 billion dollars or 85.4 percent of GDP, the issue of debt sustainability should be coming to the forefront. The public debt is approaching levels that are comparable to that recorded during the 2008 to 2010 financial and economic crisis. In the post pandemic period, the nature, composition, and status of the public debt would become a national issue.

The public debt, which is generally referred to as the national debt, is an outcome of the Governments' fiscal operations. A fiscal deficit is financed by either borrowed funds or the utilization of past savings. In Grenada, the financing of the budget deficit, which includes principal debt repayment, is generally by borrowing. This fiscal outcome impacts on the public debt.

The term national debt is used as the debt is a liability of the population. The repayment of the debt is from the collection of domestic revenues and could place a financial burden on the present and future population. Therefore, the proceeds of loans should be channeled into productive economic and social activities which will facilitate the achievement of economic growth.

The public debt is considered so important that it, along with pension payments, is specifically mentioned in the Constitution. Subsection 81 (1) stipulates that all debt charges for which Grenada is liable shall be a charge on the Consolidated Fund. The Constitution defines debt as all instruments that will be liabilities of the Government. It states at 81(2) that debt charges include interest sinking fund charges, the repayment or amortization of debt and all expenditure in connection with the raising of loans on the security of the Consolidated Fund and the service and redemption of the debt created thereby.

The public debt comprises the debt of Central Government and Government guaranteed debt; the debt of public sector institutions that are established by an Act of Parliament namely statutory bodies and state-owned enterprises; and other debts that are liabilities of the Government.

This broad definition of public debt is recognized in the Public Finance Management Act [2015]. The term public debt is also used in the Debt Management Act [2015] and the Fiscal Responsibility Act [2015]. This is the consistency that is required of legislation. However, reports on financial management now need to be consistent with the legislation and the Constitution. This is so since a common feature of the public debt reports is the restriction of the data and analysis to Central Government debt. The reports need to provide comprehensive information on the debt of statutory bodies, state-owned enterprises and other obligations that are charges on the Consolidated Fund or obligations that are guaranteed by the Central Government.

The 2020 Economic Review and Medium-term Outlook, which presented debt data as at the end of September 2020, was restricted to Central Government debt. The debt of the state-owned enterprises was excluded from the Report. There was no reference to debt of Statutory Bodies. The Debt Management Strategy and the Medium-term Fiscal Framework for 2021 to 2023 are restricted to Central Government debt.

The omission of comprehensive information on the debt of statutory bodies, state-owned enterprises and other liabilities of the Government could lead to an underestimation of the public sector debt and the debt to GDP ratio. The public debt of 2.6 billion dollars or 85.4 percent of GDP is derived from the reported debt of Central Government and state-owned enterprises. A closure of the information gap would lead to precision in reporting on the public debt.

The Debt Report for the first quarter of 2021 placed the Central Government debt at 2.1 billion dollars or 67.2 percent of GDP. The non-traditional debt of Government financial obligations to individuals for Court awarded judgement were not included in the reports. These judgement debts which are charges on the Consolidated Fund are constantly increasing due to the accumulation of interest payments. During the period that the judgement debt remains unsettled the debt burden on the population will be increasing. This rising debt burden is not efficient and hence it is not desirable, particularly in this depressed economic environment.

The debt of state-owned enterprises, based on data at September 2020, was recorded at 512.9 million dollars or 18.2 percent of GDP. Timely and comprehensive data on the operations of the State-owned Enterprises is required for the accurate reporting on the debt of these enterprises. Based on the reported Central Government debt and that of state-owned enterprises, the total public sector debt was estimated at approximately 2.6 billion dollars or 85.4 percent of GDP. There was no reference to statutory bodies.

The report indicated that there was a growth in the public debt in 2020 and in the first quarter of 2021. The higher debt was due mainly to the disbursement of loans for financing emergency expenditures associated with Covid-19. In addition, during the first quarter of 2021, there were disbursements to the Central Government from the loan from the EXIM Bank of China for the St. George's Airport Runway and Road Upgrade and Rehabilitation Project. The disbursement of loans already contracted is expected to continue and, with the sluggish economy, the public debt and debt to GDP ratio are likely to further increase during 2021.

The lack of comprehensive data presents a challenge in analysing governments' fiscal operations and, in this case the public debt. The Debt Report seems to suggest that the Central Government is the entity responsible for contracting the debt from the EXMIN Bank of China for the St. George's Airport Runway and Road Upgrade and Rehabilitation Project. This is deduced as the disbursement from the loan was included in the analysis of Central Government debt. Improved

data coverage and further disaggregation of the debt data are required to determine the holders of the public debt.

The legislative requirements are in place to facilitate the improved coverage of the public debt. The Public Finance Management Act Subsections 73 and 74 requires these bodies to submit reports to Parliament and the Director of Audit. The Act states:

73. The Minister shall present a statement of the over-all performance of all, and each Statutory Body and State owned enterprise based on audited financial statements for the preceding year to Parliament alongside the budget proposals for the following financial year.

74. The Board of Directors of every Statutory Body shall cause to be prepared the annual financial statements of such entity and shall no later than three months from the end of the fiscal year, submit such accounts to the Director of Audit for auditing, with a copy to the line minister, and the Minister.

Ideally, reports on fiscal performance should cover the total public sector, that is, the preparation of a consolidated public sector report. The public debt should cover the debt of Central Government, statutory bodies, state-owned enterprises, Government guaranteed debt and other financial obligations of the Government. This will be consistent with the intent of the Public Finance Management Act, the Debt Management Act, and the Fiscal Responsibility Act. It will also be in compliance with the Audit Act and the role of the Director of Audit to report on the public accounts. This will support fiscal transparency which requires the publication of timely, accurate and comprehensive information.

Knowledge is power and experience is the greatest teacher.

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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.

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