

## **Government Finances and the Economy - Part 2**

**By Laurel Theresa Bain**

Fiscal policy, as the main instrument of economic management is the business of all citizens. In Grenada, fiscal policy is implemented through the execution of the annual national budget. The preparation, implementation and evaluation of the budget should be participatory. For effective consultation and dialogue, information on the policies, outcomes, and their impact should be presented with clarity and precision.

The Government publishes monthly data on the fiscal performance on the Ministry of Finance website [www.finance.gd.com](http://www.finance.gd.com); and the monthly fiscal summary tables for the months of January to May 2021 have been published. The coverage of the data has gradually improved over the period to include principal debt repayments and loan disbursements. This is a step on a path to improving fiscal transparency.

However, there is a fundamental deviation from the standard practice for fiscal reports. Each monthly report needs to include a summary of the year-to-date financial position of the government as at the date of the published report. Currently, to assess the state of the government finances over a period, the data in each of the individually published monthly fiscal report must be aggregated. This practice inhibits persons who do not have the time, energy, and technical knowledge to consolidate the monthly reports from assessing the state of the government finances. Also, an accompanying analysis of the data, including the rationale for deviation from the expected or the normal trend, would be of great benefit to the citizens.

The important section of the report, that is, the financing component remains outstanding and could only be partially constructed based on published data. The Fiscal Summary Reports include data, in memo form, on the National Transformation Fund. In the absence of a summary report, the interpretation of the status of the Fund is left to the citizens. Timely, accurate and comprehensive publicly available data, along with easy-to understand reports, is a prerequisite to real dialogue.

Notwithstanding these challenges, the following is an analysis of the fiscal performance for the first quarter of 2021 based on an aggregation of the monthly Fiscal Summary Reports from the Ministry of Finance for January, February, and March. This aggregated monthly data for the first quarter of 2021 showed that the Government recorded [i] a current account surplus of \$27M; [ii] a primary surplus of \$36.7M; and [iii] an overall surplus of \$16.3M inclusive of principal debt repayment of \$12.5M. Based on the Debt Report published by the Ministry of Finance, the government finances were boosted during the first quarter by the receipt of \$127.9M in loan disbursements. The overall surplus of \$16.3M, combined with the loan disbursement of \$127.9M, resulted in unspent financial resources of \$144.2M as at the end of March 2021.

Current or operational revenue of \$176.3M was 2.6 percent or \$4.5M more than the \$171.8M government projected to collect in the first quarter of 2021. The details on the categories of revenue that contributed to the higher revenue yield was not provided in the report. It is therefore impossible to pronounce on any contributing factors.

In comparison, the revenue performance for the first quarter of 2021 was weaker than the first quarter of 2020. This was expected as economic activity was more robust during the first quarter of 2020. The impact of the Covid-19 pandemic began to be manifested in March 2020 and intensified thereafter. The first quarter of 2020 was therefore a relatively normal year for economic activity and government finances.

In contrast, the first quarter of 2021 experienced weaker economic activity as the Covid-19 pandemic persisted. In particular, the continued collapse of the tourism industry; and the absence of residential students at the St Georges University impacted negatively on the hotels and restaurant sector. The effects are generally pervasive throughout the economy with negative impact on transportation, communication, utilities [electricity and water] and the wholesale and retail trade.

Consequently, the comparison with 2020 showed that the current revenue collected in the first quarter of 2021 was \$ 29.5M or 14.3 percent less than that collected in the first quarter of 2020. This was due to lower tax revenue particularly revenue from the expenditure related taxes, that is, taxes on goods and services and international trade. It therefore reflected reduced expenditure in the economy which is generally consistent with a sluggish level of economic activity.

While current revenue performed better than projected, current expenditure outpaced the amount the government allocated for the period. Current or operational expenditure was \$149.3M for the first quarter of 2021. This was higher than the Government’s projected expenditure of \$146M for that quarter. This was due to higher than planned expenditure on goods and services. All the other components of current expenditure were within the amount projected to be spent during the quarter. When compared with 2020, current or operational expenditure in the first quarter of 2021 was \$6.2M less than the expenditure of \$ 155.5M incurred in the first quarter of 2020. The lower current expenditure in 2021 was due to a reduction in transfers and subsidies as government spent \$35.2M for the first quarter in 2021 compared to \$47.1M for the same period in 2020.

With these developments, the Government realized the current account surplus of \$27M for the first quarter of 2021. This surplus was higher than the \$25.8M that the Government planned to achieve for the quarter. However, it was lower than the current account surplus of \$50.3M achieved in 2020.

Government investment during the first quarter, as reported on the capital account, was less than planned. However, there was more capital spending in the first quarter of 2021 compared with the first quarter of 2020. During the first quarter of 2021, capital expenditure of \$23.4M, was significantly less than the planned capital spending of \$65.1M. Correspondingly, lower ‘grants’ of \$25.4M was recorded compared with the planned utilization of \$57M in ‘grants.’ The capital expenditure of \$23.4M in the first quarter of 2021 was \$8M more than was spent during the first quarter of 2020.

Implementation of the capital budget appeared to be challenging. At the end of the first quarter, capital expenditure was 7.7 percent of the budgeted amount. The capital budget for 2021 will need to be re-examined as significant capital expenditure would be required for the remainder of the year to achieve the budgeted \$305M.

With these developments on the current and capital accounts, the government recorded a primary surplus of \$ 36.7M and an overall surplus of \$ 28.8M for the first quarter of 2021. These balances were higher than the primary surplus of \$25.9M and overall surplus of \$17.7M that the Government planned to achieve in the first quarter of 2021. However, they were lower than the fiscal balances in 2020 when the primary surplus was \$63.9M and the overall surplus was \$56M. The following table is a summary of the government’s finances for the first quarter as derived from the monthly Fiscal Reports:

Central Government Finances EC\$M

<b>Government Finances</b>	<b>Targeted 2021</b>	<b>Actual 2021</b>	<b>Actual 2020</b>
<b>Total Revenue and Grants</b>	228.7	201.6	226.9
<b>Grants</b>	57	25.4	21

<b>Current Revenue</b>	171.8	176.3	205.8
<b>Total Expenditure</b>	211	172.8	170.9
<b>Current Expenditure</b>	146	149.3	155.5
<b>Capital Expenditure</b>	65.1	23.4	15.4
<b>Current Account Balance</b>	25.8	27	50.3
<b>Primary Balance (After Grants)</b>	25.9	36.7	63.9
<b>Overall Balance (After Grants)</b>	17.7	28.8	56

Source: Derived from the monthly fiscal report of the Ministry of Finance for January, February and March 2021.

The loan disbursement of \$127.9M during the first quarter boosted the financial resources available to the government. The overall surplus of \$28.8M was reduced to \$16.3M due to principal debt repayment of 12.5M. The overall surplus of \$16.3M and the loan funds of \$127.9M resulted in unspent funds of \$144.2M at the end of the quarter. Further analysis of the finances is constrained by the lack of publicly available information.

Comprehensive information on the public finances would be available to the public when the Mid-year Fiscal Policy Report is presented to Parliament in keeping with Subsection 25 of the Public Finance Management Act [2015]. It is anticipated that the Mid-year Fiscal Policy Report would be timely, with accurate and comprehensive information; and easy to understand analysis. In so doing, it will be consistent with the principles of fiscal transparency.

Knowledge is power and experience is the greatest teacher.

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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. 22 May 2021 PS.

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