

## **Government Finances and the Economy - Part 3**

**By Laurel Theresa Bain**

The monitoring of the National Budget and reporting on its outcomes are important components of the budgetary process. A review of the Governments' finances for the first six months of 2021, showed that the fiscal performance was mixed. The outturn on the current or operational account was stronger than projected; while capital expenditure was less than planned. This assessment was based on the monthly Fiscal Summary Reports for January to June 2021 as published on the Ministry of Finance website [www.finance.gd.com](http://www.finance.gd.com).

Government Finances and the Economy – Part 2, outlined the challenges of using the monthly Fiscal Summary Reports to assess the current state of the public finances. There is a fundamental deviation in these fiscal reports from the standard practice for reporting on fiscal performance. The monthly reports do not include a 'year-to-date' position. Therefore, 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 should be rectified as it compromises fiscal transparency. To reiterate, it 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.

The following is an analysis of the fiscal performance for the first six months of 2021 based on an aggregation of the monthly Fiscal Summary Reports for January to June. The aggregated monthly data for the first six months of 2021 showed that the Government recorded [i] a current account surplus of \$34.9M; [ii] a primary surplus, after 'grants', of \$60.9M; and [iii] an overall surplus, after 'grants', of \$35.8M. The current account surplus of \$34.9M realized for the first six months of 2021 was above the \$23.6M that the Government planned to achieve for that period. This was due to higher revenue yield when compared with the amount the Government projected to collect.

Current or operational revenue of \$352.1M was 7 per cent or \$23M more than the \$329.1M Government projected to collect in the first six months of 2021. The details on the categories of revenue that contributed to the higher than projected revenue yield was not provided in the report. It is therefore impossible to pronounce on which category of taxes contributed to the higher than projected revenue yield. Revenue in both the first and the second quarters of 2021 was higher than projected. However, the higher revenue yield was more pronounced in the second quarter when \$18.5M or 11.8 per cent more in revenue was collected than projected.

In comparison, the revenue yield of \$352.1M for the first six months of 2021 was \$3.1M higher than the first half of 2020. This was influenced, in part, by the extremes of economic conditions brought about by the Covid-19 pandemic. In the second quarter of 2020, the global economy, including Grenada, was in virtual lockdown and domestic economic activity would have contracted. In contrast, with the partial lifting of international and domestic restrictions, economic activity was higher in the second quarter of 2021 compared with the second quarter of 2020. Consequently, in the second quarter of 2021, current revenue particularly from

expenditure related taxes, that is, taxes on goods and services and international trade and transactions were substantially higher than collected in the second quarter of 2020. This was combined with higher non-tax revenue, generally associated with fees and fines. This revenue outturn during the second quarter boosted the total revenue intake for the first six months of 2021.

While current revenue performed better than projected, current expenditure outpaced the amount the Government allocated for the period. Current or operational expenditure was \$317.2M for the first six months of 2021. This was higher than the Government's projected expenditure of \$305.5M for that period. The deviation was due to higher than planned expenditure on employee's compensation and goods and services.

Comparatively, the current or operational expenditure of \$317.2M in the first six months of 2021 was \$5.7M less than the expenditure of \$322.9M incurred in the first half of 2020. The lower current expenditure in 2021 was primarily due to the reduction in transfers and subsidies as Government spent \$77.6M for the first six months in 2021 compared to \$98.3M for the same period in 2020. The rollout of the stimulus package would have contributed to the peak in transfers and subsidies in 2020. Thereafter, expenditure in that category would have normalised. With these developments, the Government recorded the current account surplus of \$34.9M at the end of June 2021 which was higher than the surplus of \$26.1M at the end of June 2020.

Government investment during the first six months, as reported on the capital account, was less than planned. Capital expenditure of \$51.4M, was significantly less than the planned capital spending of \$124.9M. Correspondingly, lower 'grants' of \$52.5M was recorded compared with the planned utilization of \$109.7M in 'grants.' However, capital spending during the first six months of 2021 was \$19.1M more than the first half of 2020. Implementation of the capital budget is lagging. At the end of the first six months, capital expenditure was 17 per cent of the budgeted amount. The lagging projects have not been identified in the Fiscal Summary Reports. The capital budget for 2021 will need to be re-examined and prioritized as it is obvious that the budgeted capital expenditure of \$305M would not be achieved in 2021.

Combining the current and capital operations, the Government recorded a primary surplus as derived by excluding interest payments from the overall balance. The primary surplus before 'grants' was \$8.4M. With the inclusion of 'grants', the primary surplus after 'grants' was \$60.9M. There was an overall deficit, before 'grants' of \$16.7M and after 'grants' a surplus of \$35.8M for the first six months of 2021. These balances were stronger than the primary surplus, after 'grants' of \$36.1M and overall surplus, after 'grants' of \$8.4M that the Government planned to achieve in the first six months of 2021. However, these were slightly higher than the fiscal balances in 2020.

The following table is a summary of the Government's finances at the end of June 2021 as derived from the monthly Fiscal Reports.

### Central Government Finances EC\$M

Government Finances	Targeted 2021	Actual 2021	Actual 2020
<b>Total Revenue and Grants</b>	438.7	404.6	386.3
<b>Grants</b>	109.7	52.5	37.2
<b>Current Revenue</b>	329.1	352.1	349
<b>Total Expenditure</b>	430.3	368.7	355.2
<b>Current Expenditure</b>	305.5	317.2	322.9
<b>Capital Expenditure</b>	124.9	51.4	32.3
<b>Current Account Balance</b>	23.6	34.9	26.1
<b>Primary Balance (Before Grants)</b>	-73.6	8.4	19.6
<b>Primary Balance (After Grants)</b>	36.1	60.9	56.8
<b>Overall Balance (Before Grants)</b>	-101.3	-16.7	-6
<b>Overall Balance (After Grants)</b>	8.4	35.8	31.2

Source: Derived from the monthly fiscal report of the Ministry of Finance for January to June 2021.

The financing component, inclusive of debt transactions, could not have been analysed as the financing section of the fiscal account remains outstanding. This component not only informs about the sources of financing of the budget but provides the checks and balances that ensure the integrity of the fiscal accounts. This deficiency would need to be addressed.

More comprehensive information on the Government 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].

Knowledge is power and experience is the greatest teacher.

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