

Budget Time Again: A Budget with A Human Touch

By Laurel Theresa Bain

It will soon be time for the presentation of the National Budget for 2022. The public would be informed of the policies and programs for 2022, the expenditures associated with these and the sources of financing for the expenditures. The economic, social, and budgetary developments in 2021 should inform the policies and programmes for the 2022 National Budget.

The 2021 Budget was presented with optimism under the theme Recovery, Transformation and Resilience. The theme was appropriate as the economy declined sharply by 14 percent in 2020 due to the Covid-19 Pandemic. The projected growth rate of 6 percent for 2021 was based on an estimated expansion in economic activity associated with the easing of the Covid-19 Pandemic; and the aggressive implementation of the Central Government capital programme. The persistence of the Covid-19 Pandemic and the controversies on fiscal matters overshadowed the implementation of the 2021 National Budget.

The emergence of a Covid cluster in December 2020 downgraded the prospects of achieving the projected 6 percent economic growth for 2021. The tourism industry remains subdued. The reopening of the St Georges University in August had the potential of boosting the economy. However, in that same month, the Covid-19 Pandemic intensified rapidly with the associated negative effects on the economy. The prospects of achieving economic growth in 2021 is slim. The sluggish economy was accompanied with higher prices. This has resulted in a decline in real income thereby reducing the amount of goods and services that could be purchased with existing incomes. It could be deduced that unemployment and poverty remained elevated in 2021. It is therefore a harsh economic period for economic agents, particularly for the vulnerable groups.

The state of Government finances, as of June 2021, was published in the article on ‘Government Finances and the Economy Part 3’. With the spread of Covid-19 infections from August and the associated negative economic and social impacts, improvements in the Government finances are not expected in the second half of the year. Consequently, the growth in public debt would persist in 2021. Beyond the published data, there were critical fiscal issues being addressed. Foremost among these were the repurchase of the WRB shares in GRENLEC by the Government; payment of the 4 percent increase of salary to public officers; payment of outstanding Court awarded judgement debts; status of pension and gratuity for public officers; and issues of fiscal transparency associated with the comprehensiveness of the fiscal reports. It is in this context that the 2022 National Budget would be presented.

The 2022 Budget is expected to be guided by the Fiscal Responsibility Act. The Resolution was passed in Parliament, in March 2021, to suspend the fiscal rules and targets for the 2021 fiscal year. A Recovery Plan Memorandum was prepared with the measures to be implemented to ensure compliance with the fiscal rules and targets at the end of the suspension period. The Fiscal

Responsibility Act [2015] would therefore be in effect for the 2022 fiscal year unless it is amended or repealed.

The theme of the Budget adopted for 2021 of Recovery, Transformation and Resilience is still relevant for 2022 as the economy remains depressed. However, there is the need to directly address the social fall-out associated with the Pandemic and the high unemployment and poverty. In the already harsh economic conditions, it is important that the theme of the 2022 National Budget include the phrase ‘**With a Human Touch**’. This will allow for the decisions, policies and programmes that are implemented to include elements that alleviate the suffering of the vulnerable groups.

In this context, poverty and unemployment should be addressed frontally. The focus on the human element would eliminate the State pushing citizens into poverty through its approach to the settlement of rightfully due financial obligations. In the current difficult economic period, the cost of continuous impasse between Government and citizens, has not only been detrimental to affected individuals and their families, but has placed additional financial burden on the entire population.

A Budget with a human touch would also focus on strengthening the education system and the health sector. In strengthening the education system, urgent attention would need to be given to the students that may be dropping out or lagging due to the Covid-19 related approaches to teaching. The Covid-19 Pandemic has vividly demonstrated the need for an overhaul of the health system, inclusive of its integration with the proposed National Health Insurance. A focus on these social areas would be consistent with a National Budget with a human touch. Development is about people and their quality of life. If the wellbeing of the citizens is not placed at the forefront of policies, society would disintegrate and there would be no development.

The economic or structural policies to be pursued as the economy recovers from the Covid-19 Pandemic have been outlined in a previous article on “Proposals for the 2021 National Budget”. The fundamentals of the economy have not changed and the proposals remain relevant. Given the persistence of depressed economic activity, more aggressive fiscal policy must be pursued in 2022. Fiscal policy should aim at achieving growth but should also be targeted at alleviating the plight of the vulnerable groups. In periods of economic recession, Government fiscal policy should be to reduce taxes, and/or increase expenditure. This should be the policy approach to the 2022 National Budget.

The revenue system should be thoroughly examined to identify areas for relief. Grenada’s current or operational revenue is dominated by tax revenue. As of June 2021, current or operational revenue amounted to \$352.1M of which \$304M or 86.3 percent was tax revenue. Grenada’s tax revenue is derived mainly from indirect or expenditure related taxes which amounted to \$219.5M or 72.2 percent of the tax revenue, comprising mainly of import duty and Value Added Tax [VAT].

The revenue yield from these expenditure-related taxes has increased during the first half of 2021 due to, in part, the higher value on which the taxes are applied [the tax base] associated with global inflation and increases in freight rates.

Specifically, import duty and the customs service charge are applied on the value of the imported goods, inclusive of the cost of the good and the insurance and freight [CIF]. Therefore, higher international prices and freight rates are automatically transmitted into higher tax revenue. The revenue yield from the VAT is influenced twice from global inflation and higher freight rate. The VAT is a tax on domestic consumption or local purchases of goods and services. Therefore, the value on which VAT is applied comprises the CIF in addition to the calculated import duty and the customs service charge which already include elements of the higher international prices and freight rate. Further, if the goods and services are then sold by internal marketing outlets, unless the product is exempt from VAT or zero rated, the domestic prices become another component of the tax base. With the higher freight and prices, Government coffers have benefited from the higher value of goods and services. This is good for the Government finances particularly during this period of no economic growth. However, it places a greater tax burden on the low income workers, unemployed, poor, and other vulnerable groups particularly during a period of rising prices. Policy measures to reduce the tax burden and direct levies and fees particularly on these vulnerable groups should be a feature of the 2022 National Budget.

Government expenditure policies should aim at improving the effectiveness and efficiency of expenditure, with an immediate focus on goods and services and transfers and subsidies. In this new economic environment, the modes of delivery of public services have changed and the opportunity should be taken to reform the delivery of goods and services to reduce unit cost and improve efficiency. The transfers and subsidies component of Government expenditure, which is dominated by allocations to social safety net programmes, while providing well targeted income support should aim at elevating persons out of poverty and supporting a transformed economy.

The 2022 National Budget should present a well packaged and realistic capital programme based on the need to restructure the economy. The persistence of the Covid-19 pandemic globally requires a rethinking of the approach to tourism. The capital budget should highlight programmes for accelerating the development of the agriculture sector and agro-processing; strengthening the provision of professional and creative services; and transforming the education and health sectors. The path towards the transformation of Grenada's economy should be the most prominent feature of the capital programme for 2022.

The availability of fiscal reserves and the financial status of the National Transformation Fund would determine to what extent these could be sources of financing for the 2022 National Budget. These should be the first financing options and their role in financing the budget should be explicit

and transparent. A cautious approach to contracting new debt should be adopted and should be the last resort.

The public would eagerly await the Budget Speech which continues to be the most visible and attention grabbing. However, this should not distract the public from thoroughly examining the legally binding Estimates of Revenue and Expenditure and accompanying documents such as The Medium-term Debt Strategy, the Borrowing Plan, and the Medium-term Fiscal Framework.

Knowledge is power and experience is the greatest teacher.

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