

Analysis of the 2022 National Budget

By Laurel Theresa Bain

The National Budget for 2022 would contribute to economic growth mainly through the provisions for increased expenditure. Rightfully so, as during a recession, the objective of fiscal policy is to resuscitate economic activity. This is achieved through reduction in taxes or/and increased expenditure. The accompanying higher disposable income is expected to increase spending for both consumption and investment purposes, resulting in an expansion in economic output and national income. It is generally anticipated that the higher economic growth would lead to reduced unemployment and poverty.

The 2022 National Budget is analyzed in two parts. A review of the legislative framework and the economic and social context of the Budget is undertaken in this article [Part 1]. The budget proposals and their implications for the economy are examined in the next article [Part 2].

The Legislative Framework

The budgetary process is governed by [i] The Constitution, [ii] The Public Finance Management Act, [iii] The Debt Management Act, [iv] the Fiscal Responsibility Act, and [v] the Audit Act.

Consistent with the Constitution, and a good practice, the Budget was presented before the beginning of the fiscal year. The presentation of the budget speech was accompanied with the laying of the Appropriation Bill and the Estimates of Revenue and Expenditure before Parliament. Contrary to the legislative requirement, some documents were not presented to Parliament by the time of the budget. In the budget speech, the Minister of Finance advised that the following reports would be submitted to Parliament namely: the Medium-term Fiscal Framework, the Fiscal Risk Statement, the Medium-term Debt Strategy, and the Annual Debt Report. The Annual Borrowing Plan, which is normally included in the Medium-term Debt Strategy, was not mentioned as being submitted to parliament. This should not have occurred. These documents should have been readily available for public scrutiny. It is important to assess these documents along with the budget speech as they contain data and other critical information on the budget and Government medium term economic strategy. The submission of the Report of the Director of Audit for 2020 to Parliament was also needed to close the budget process for 2020.

The existence of the state of emergency and the cumulative decline in GDP of approximately nine percent between 2020 and 2021, facilitated the suspension of the fiscal rules and targets in the Fiscal Responsibility Act for the third consecutive year. The Order to suspend sections 7 and 8 of the Act was presented to Parliament and the Recovery Plan Memorandum was submitted. The Covid-19 environment has now become normal for the economy. Therefore, the fundamental issue of whether the Fiscal Responsibility Act, in its current construct, is fit for purpose needs to be addressed.

The Economic and Social Context of the 2022 National Budget

The budget speech provided information on the economic and social developments in Grenada, but more focus was needed on the social developments. The inclusion of a comprehensive assessment of the social situation was important as prior to the Pandemic there were already signs of vulnerabilities in the economy. This was evident in the rate of unemployment particularly among the youth. The IMF Article IV Report of July 2019 placed the unemployment rate at 21.7 percent in 2018 and reported that youth unemployment was high. The Pandemic exposed some other social misalignments in the economy which need direct intervention by assessing the developments in the labour market and in the social sectors particularly education and health.

In relation to the labour market, when compared with the national unemployment rate, a higher rate of unemployment was recorded for youths and women. Based on data from the Statistics Department, by the end of the 4th quarter of 2019 and 2020, the overall unemployment rate stood at 15.1 percent and 18.5 percent respectively. By the second quarter of 2021, as outlined in the budget speech, the unemployment rate was 16.6%. However, in the interest of obtaining a more comprehensive picture of unemployment, reporting on unemployment by age and sex would have been most appropriate in the context of providing targeted interventions. Specifically, in 2019, unemployment among the youth stood at 29.6 percent. By 2020, unemployment among the youths was 39.5 percent and at the end of the 2nd quarter of 2021, youth unemployment was 38.6 percent, signaling high levels of chronic youth unemployment. Also, unemployment rates for women, were higher than the national rates, accounting for 18.3% (2019), 21.6 % (2020) and

19.5 % (2021). Detailed reporting on the structure of unemployment and persons who have dropped out of the labour force was necessary for targeted government intervention.

The unemployment rate provides only a partial indicator of the welfare of the population. This must be combined with indicators of poverty. The budget speech reported a poverty rate of 25 percent for 2018/2019 based on a poverty assessment undertaken by the World Bank and the Statistics Department. Similarly, information on the structure of poverty was required to determine the welfare of the population. Along with the overall poverty rate, the Report indicated that extreme poverty increased, and income inequalities widened. Detailed information on poverty and living conditions was needed to target policies and programmes.

The social conditions and the economic situation, among other things, would have influenced the effectiveness of the approach to teaching during the Pandemic. Information needed to be provided on the impact of the virtual method of teaching. Some children are lagging in their education, and some have dropped out of the school system. This could be attributable, in part, to the lack of access to internet service, interruptions in the internet service, the unavailability of electronic devices, the unsuitable learning and living environment, and inadequate technological and advisory support. There is evidence of the ill effects of the approaches to teaching during the Pandemic. A commentary on a UNICEF Report indicated that COVID-19 has further widened the education gaps between rich and poor families in Latin America and the Caribbean, and that many of the most vulnerable students may not return to school. A situational analysis needed to be undertaken for Grenada so that Government intervention could be well targeted.

A broad coverage of health indicators should have been included in the assessment of developments in the economy. The crisis began as a health issue, and although it turned into an economic crisis, it remains a major health challenge. The health implications were not restricted to the Covid-19 virus, but it affected other aspects of health both physical and mental. There were other social dislocations that accompanied the Pandemic as persons adopted to a new way of life. Deep analysis of the current health situation and the health infrastructure was needed to inform policy directives.

The economic situation aggravated these vulnerabilities. Grenada's economy, like the other countries in the ECCU, fell over a cliff in 2020 and remained trapped in the valley in 2021. After declining by 13.8 percent in 2020, economic growth in 2021 was estimated at 4.8 percent. The

slow rate of economic recovery is occurring in an inflationary period thereby suppressing real income and adversely affecting vulnerable groups.

The budget outturn in 2021 was more favourable than budgeted, recording a current surplus of \$91.8M [excluding budgetary support of \$37.2M] compared with the budgeted \$23.9M. This was due to the higher than budgeted current revenue and lower than budgeted current expenditure. Capital spending accelerated during the second half of the year to amount to a reported \$261.7M for 2021. The capital projects were financed with ‘grants’ of \$195.4M of which \$152.7M was from the National Transformation Fund.

The Estimates of Revenue and Expenditure is the Official record of government financial transaction and serves as the historical records. It is necessary to improve the document for accountability and transparency by broadening the data coverage by including a five-years series comprising two years of actual data prior to the year of the budget, the year of the budget, and projections for the two years after the budget. There should also be consistency in the data format throughout the Estimates of Revenue and Expenditure. This would avoid situations as occurred where the WRB transaction, which is a significant financial transaction, is omitted from any of the Estimates of Revenue and Expenditure.

In summary, the 2022 National Budget should have presented a more comprehensive review of social developments in 2020 and 2021. The Pandemic aggravated existing social vulnerabilities and created other social challenges. It is in this context that, Part 2, will examine the budget proposals for 2022; and their implications for the economy.

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. All Budget Alert articles could be obtained from website <https://www.innovativealliances.com/>.

December 3, 2021