

Analysis of the 2022 Budget - Part 2

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It is in the context of the negative social impact of the Pandemic and the slow rate of economic recovery that this article, Part 2, examines the budget proposals for 2022 and their implications for the economy.

In the 2022 Budget, the objective of economic expansion is pursued through higher expenditure, and some tax relief. Both current and capital expenditures are budgeted to increase in 2022. In this regard, capital expenditure is budgeted at \$333.8 M, compared with actual expenditure of \$261.7M in 2021. The higher capital spending is combined with increased current or operational expenditure. Actual operational expenditure was \$598.6M in 2021 compared to \$661.7M budgeted for 2022. The allocations for all categories of operational expenditure were budgeted to increase in 2022.

Tax relief was granted through the following measures: i. The price per gallon for gasoline and diesel was fixed at \$15.00; ii. the threshold for the application of VAT and the environmental levy for domestic consumers of electricity was raised to 500 kWh together with a 25 percent reduction in the non-fuel cost per kWh for all users; and iii. expansion of the list of zero-rated goods for VAT to include saltfish, turkey parts, vegetable cooking oil, cheddar cheese and split peas. These zero-rated products supplemented the existing list which, according to the budget speech, were items such as rice, flour, sugar, bread, ground provision, vegetables, and fish. These measures should bring some relief to households and other economic agents. At the macro-level, tax relief measures are intended to increase national output through higher disposable income and a corresponding increase in spending.

An important feature of the Budget for 2022 is the inclusion of the financing component. This is a good step as it facilitates fiscal transparency and allows for the examination of the financing of government operations and the impact of this on the public debt. However, this financing component would need to be examined and recalibrated to ensure consistency with international standards and with the information provided in the Estimates of Revenue and Expenditure. This is important as the financing of government operations has implications for the growth in public debt, particularly if available financial resources are not sufficient to fund the budget and for principal

debt repayment. This is in the context of increased debt obligations. Based on information derived from the Quarterly Debt Bulletin of the Ministry of Finance as at September 2021, the total public debt was \$2.6 billion or 88.4 percent of GDP, comprising Central Government debt of \$2.1 billion or 70.7 percent of GDP and the debt of State-owned Enterprises of \$527.9M or 17.7 percent of GDP, leading to issues of debt sustainability.

Implications of the Budget Proposals

The revenue measures could be considered as providing needed relief to economic agents due to the high prices at a time when incomes were constant or falling. During the period of rising prices, consumers would have adjusted their purchases or dip into their savings to maintain a level of consumption. With the relief measures, economic agents could now rebalance their budget. This is particularly so for the relief on the cost of electricity which would benefit consumers.

The adjustment to the price of gas at the pump, while providing relief, also seems to be an attempt to align the price of gas in Grenada with the other caribbean countries. There should not have been a pricing system where the price per gallon of gas of \$17.23 in Grenada is the highest in the ECCU. Gasoline price in Grenada diverges significantly from the other countries in the ECCU, where the prices converge to approximately \$14 to \$15 per gallon. Operating in a common market and a single financial space, it would be appropriate for a common approach to the pricing of gas be adopted among the governments of the ECCU.

The intention of zero-rating goods is generally to ensure essential items remain affordable to low-income households. Given the socio-economic conditions, consideration should also have been given to reducing the tax burden on the poor. The report on poverty indicated that, despite the decline in overall poverty between 2008/2009 and 2018/2019, extreme poverty increased, and income inequality widened. There were more poor women headed households, and the poor families had twice the number of children compared with the non-poor families. The Pandemic would have worsened the poverty situation. The zero-rating of goods for VAT should have been targeted to a broader basket of necessities to cater for the vulnerable groups.

The higher government expenditures, combined with the tax relief measures, should contribute to economic growth and reduced unemployment. These outcomes are highly dependent on the quality of expenditure undertaken. The persistent high unemployment among youths and women and the

pockets of extreme poverty needs well designed programmes to elevate them out of their deprived conditions. Priority needed to be given to developing productive industries that can earn foreign exchange or save on the use of foreign exchange and provide sustainable employment. In the absence of a clearly defined strategy for building domestic productive activities, increased government expenditure would be channeled into imports at the expense of developing local productive capacity. The future growth and development of the economy would be constrained.

The quantity, quality and the focus of capital spending will determine the impact of the Budget on the economy and whether meaningful economic transformation is being pursued. It could be challenging to achieve the budgeted capital expenditure of \$333.8 M which is dependent on adequate human and financial resources.

Given the impact of the Pandemic, the capital budget must be examined in terms of its contribution to transforming the economy. Direct government intervention to transform the economy is inadequate, particularly in the agriculture, livestock, and fishing sectors and in the processing of these products. Specifically, there is still the need to develop a modern and technology driven agricultural sector and agro-processing to attract youths and that could employ women, both of whom are above the national rate of unemployment.

The operational expenditure or current account is examined in the context of its responsiveness to the Covid-19 environment. For example, in education, many students have fallen behind or dropped out of school due to the electronic form of teaching. Therefore, programmes for direct intervention targeted at recovering the lost students and remedial actions for the lagging students should have been included in the Budget. Failure to reverse this situation would have long-term consequences not only for the human capacity of the country, but also for the social fabric of the society. Such programmes, along with the reorientation of the education system, should be a component of the Covid-19 Response Project.

Priority needed to be given to upgrading the health infrastructure, including health education, community health services, mental health services and hospital services. These would need to be addressed overtime.

In reorienting government operational expenditure, there is the need for well-defined programmes for supporting a more diversified economy and for enhancing the skills of the youths so they could

be integrated into the labour-force. Some of the areas previously identified for the diversification of the economy are culture, web design, data analysis and other creative and innovative industries and these would require technical, financial, and administrative support. This reorientation of government operational expenditure was observed in St Kitts and Nevis where a Ministry of Entrepreneurship, Entertainment and Talent Development was established in 2020 to develop and transform the creative and innovative industries. The Ministry provides technical and administrative support to these industries to enhance the quality of creative and innovative talent and output; and to professionalize the arts, entertainment, creative and innovation industries. This is an example of a conscious policy decision to diversify the economy by providing support to the emerging industries. This level of coherence and a strategic approach are not apparent in the 2022 National Budget.

The revenue measures would provide needed financial relief to economic agents, and government expenditure should contribute to economic growth in 2022. While it is impossible to transform the economy within one year, some structural changes should have been observed in the current and capital accounts as indicators that the government was pursuing a transformative agenda. This urgent restructuring of the economy was not a dominant feature of the National Budget for 2022.

Knowledge is power and experience is the greatest teacher.

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