

Government Finances and the Economy

By Laurel Theresa Bain

An assessment of the state of the public finances is important at this junction as the new administration of the National Democratic Congress [NDC] assumes responsibility for managing the economy. The following assessment of the public finances as of June 2022 is based solely on the aggregation of the monthly fiscal reports for the months of January to June that were published on the Ministry of Finance website www.finance.gd/index.php/fiscal-reports.

There are some deficiencies in using the published monthly fiscal reports for undertaking a comprehensive assessment of the public finances. Specifically, the published fiscal reports do not include the financing of Government operations, and the status of the National Transformation Fund. These deficiencies which result in a lack of fiscal transparency and accountability are outlined in the articles on ‘Government Finances and the Economy’ in the published book on ‘Budget Alert: Fiscal Policy Issues in Grenada in 2021’. However, as an urgent action, each monthly fiscal report needs to include a summary of the year-to-date financial position of the Government as at the date of the published report. This should not be prolonged as in this era of Information and Communication Technology [ICT], it could be easily accomplished.

The review showed that the fiscal performance for the first six months of 2022 was favorable, as the budget outturn was better than what the Government targeted to achieve. This was due primarily to higher revenue and grants, as total expenditure, particularly capital spending, was higher than targeted. Specifically, for the first six months Government recorded (i) a current account surplus, before budgetary support in ‘grants’, of \$118.1M; (ii) a current account surplus, after budgetary support in ‘grants’, of \$199.1M; (iii) a primary surplus, after ‘grants’, of \$123.9M; (iv) an overall deficit, before ‘grants’, of \$51.7M; and (v) an overall surplus, after ‘grants’, of \$99.3M.

On the current account, current or operational revenue of \$427.7M in the first six months of 2022 was 17.9 per cent or \$64.8 M more than the \$362.9M government projected to collect for that period. The components of revenue that contributed to the higher outturn compared with the targeted amount were not provided in the ‘Fiscal Summary Report’. However, the inflationary effects on tax revenue would have contributed to the higher than projected revenue. Also, with the ‘one off receipt in the form of dividends’ of \$17.5M in January, non-tax sources of revenue were higher than targeted. The Government received budgetary support, in the form of grants, of \$81M in March which boosted the financial resources available to the Government.

While current revenue outpaced the amount the Government planned to collect, current expenditure was contained below the amount the Government planned to spend for the first six months. Current or operational expenditure of \$309.6M for the first six months of 2022, was \$18.9M or 5.8 per cent less than the Government planned spending of \$328.5M for that period. Except for a marginal increase in transfers and subsidies, all the other components of current expenditure that is, employee compensation, expenditure on goods and services and interest payment, were less than the amount the Government planned to spend during the first six months of 2022. With these developments, the Government realized the current account surplus of \$118.1M [before budgetary support] and \$199.1M [after budgetary support] for the first six months of 2022. This surplus was higher than the \$34.4M that the Government planned to achieve for the

first six months of 2022.

The outturn from Government current operations was also stronger in the first six months of 2022 compared with the same period in 2021, due to the higher revenues, combined with lower current expenditure. The current revenue of \$427.7M collected in the first half of 2022 was \$70.2M or 19.6 per cent more than that collected in the first six months of 2021, influenced by higher revenue from both tax and non-tax sources. Revenue from all categories of taxes increased. However, the growth in tax revenue was more pronounced for the expenditure related taxes, that is, taxes on domestic goods and services and taxes on international trade. This was influenced by the higher value of the tax base due to the impact of inflation, and an expansion in economic activity during the first half of the year.

The inflationary period persisted in 2022. The inflation rate from Grenada's main sources of imports increased from 7.5 per cent in January to 9.1 per cent in June for the USA, and from 5.5 per cent to 9.4 per cent for the UK and from 5.1 per cent to 8.1 per cent for Canada for the same period. Higher prices for imported goods would have contributed to higher tax revenue. The growth in economic activity also accounted for the higher revenue. Tourist arrivals, a main driver of economic activity, increased significantly during the first six months, reflecting the opening up of the economy. Also, the construction sector would have expanded, fueled by higher Government capital spending. With the 'one off receipt in the form of dividends', non-tax revenue was significantly higher in the first half of 2022, and the receipt of budgetary support strengthened the Government fiscal position.

When compared with 2021, current or operational expenditure in the first six months of 2022 was \$9.2M less than the expenditure of \$318.8M incurred in the first six months of 2021. Except for transfers and subsidies, all the categories of current expenditure were less in 2022 compared with 2021. Consequently, the current account surplus of \$118.1M [before budgetary support] and \$199.1M [after budgetary support] for the first six months of 2022 was significantly higher than the \$38.7M recorded for the first half of 2021.

On the capital account, capital expenditure of \$169.8M, during the first half of 2022, was higher than the planned expenditure of \$132.8M, and the \$86.4M spent in the same period in 2021. The significant deviation between planned spending and actual spending occurred in the months of March, May, and June. The report did not provide information on the projects that were accelerated during this period, but this could be linked to the surge in spending prior to the general elections.

While capital expenditure was higher than planned, the 'grants' spending of \$70M was in line with the targeted \$69.9M that the Government planned to spend. At the end of the first six months, capital expenditure was 50.9 per cent of the budgeted \$333.8M. If this rate of spending is sustained throughout the year, the government would spend the budgeted amount for capital expenditure of \$333.8M.

With the favorable developments on the current account, the fiscal performance in the first six months of 2022 was better than targeted. The government achieved an overall deficit, before 'grants', of \$51.7M and an overall surplus, after 'grants', of \$99.3M for the first six months of 2022. In contrast, the Government targeted an overall deficit, before grants, of \$98.4M and an overall deficit, after grants, of \$28.5M. The table below is a summary of the Government's finances for the first six months of 2022 as derived from the monthly fiscal reports for January to June.

This is a partial analysis and a comprehensive report on the public finances for the first six months of 2022 should be available at the time of the submission of the Mid-Year Fiscal Policy Report to Parliament in keeping with Subsection 25 of the Public Finance Management Act [2015]. The actual state of the public finances for 2021 should be available on the submission of the annual report of the Director of Audit to Parliament in accordance with Section 82 of the Constitution, and sections 66 and 67 of the Public Finance Management Act [2015].

Table 1: Central Government Finances EC\$M

Government Finances	Targeted 2022	Actual 2022	Actual 2021
Total Revenue and Grants	432.8	578.7	429.1
Total Grants	69.9	151	71.6
Capital Grants	69.9	70	71.6
Current Grants	0	81	0
Current Revenue	362.9	427.7	357.5
Total Expenditure	461.3	479.4	405.2
Current Expenditure	328.5	309.6	318.8
Capital Expenditure	132.8	169.8	86.4
Current Account Balance (Before Current Grants)	34.4	118.1	38.7
Current Account Balance (After Current Grants)	34.4	199.1	38.7
Primary Balance (After Grants)	0.2	123.9	49.1
Overall Balance (After Grants)	-28.5	99.3	23.7

Source: Derived from the monthly fiscal report of the Ministry of Finance for the first six months of 2022.

Knowledge is power and experience is the greatest teacher.

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