

# The 2023 National Budget: An Integrated Approach to Development - Part 1

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The national budget for 2023 presented an integrated approach to economic development, and, if implemented as planned, could lead to a higher standard of living. An analysis of the 2023 national budget is undertaken in two parts. This Article, Part 1, highlights and assesses the framework and the economic and social context of the budget. The next Article, Part 2, would be an assessment of the policy proposals and projected fiscal outcomes of the budget.

The national budget was presented within a defined framework which made it easy to follow logically. It was presented under the theme “Vision 2035: People-Centered Transformation Laying the Foundation for Resilience, Empowerment and Growth”. Consistent with good practices in budgeting, the budget was anchored on the five pillars in the National Sustainable Development Plan [NSDP]. Under the pillars of the NSDP, the six strategic focus areas were outlined in the budget speech.

This framework was a good approach to the presentation of the budget and encompasses the main areas for policy intervention by the Government. Within the short period after getting into office on 24<sup>th</sup> June 2022, the Government must be applauded for holding consultations, developing the framework for the budget, and presenting the budget prior to the beginning of the fiscal year. Additionally, the budget speech and the Estimates of Revenue and Expenditure were accompanied with the legally required documents.

The synopsis of economic development in Grenada points to the weak global environment which would undoubtedly have a negative impact on the domestic economy. There are also high downside risks and, if they materialize, would impact the domestic economy, and would need quick policy responses by the Government. However, along with developments in the global economy, domestic developments have a significant impact on the performance of the economy, particularly as capacity exists in the economy. After the steep decline of 13.8 percent in economic activity in 2020, the economy is estimated to have grown by 4.7 percent in 2021 and 6 percent in 2022. Despite the growth in 2021 and 2022, at the end of 2022, economic activity was still below the pre-pandemic level. Therefore, there is existing capacity for economic expansion.

Sustained economic growth is fundamental to transforming the economy and hence the importance of the growth rate. The estimated growth rate of 3.6 percent for 2023 would have taken into consideration the prospects of a weakened global economy, particularly the USA, and the heightened risk in the global economy. However, domestic policies should have a positive impact on economic growth in 2023. In light of government expenditure of \$75M in November 2022 and the roll-out of the Covid-19 Economic Stimulus programme which would extend into 2023, and the pronouncements in the 2023 national budget, it is my view that the projected growth rate of 3.6 percent for 2023 could be a very conservative estimate. The estimated growth is placed in the context of the average growth of 7 percent for the Eastern Caribbean Currency Union [ECCU], where countries are registering growth rates as high as 10.4 percent in St. Kitts and Nevis, 8.1 percent in Antigua and Barbuda, 7.6 percent in Anguilla and 5.9 percent in Saint Lucia. The projected growth rate places Grenada among the slowest growing countries of the ECCU. Alternatively, the issue could be related to the indicators used to compile comparative economic data among the countries in the ECCU which should also be explored.

There are a number of initiatives, when implemented, should stimulate the domestic economy. Among the sectors, the policies to increase flights from major markets, and to facilitate improved inter-island travel; combined with the easing of the administrative requirements for travelling through the airports should contribute to the continued growth in the tourism industry. The policies for increased agricultural production, linking agriculture production to nutrition through the school feeding programme; improving linkages and value added in the economy, particularly, agriculture, agro-processing, the creative industries, and tourism; should result in a more integrated economy. The impact should be manifested in economic growth through increased domestic production and curbing the rate of growth in imports. These initiatives, which are supported by the projects for the development of the social, digital, and economic infrastructure should also contribute to economic growth in 2023. It is in this context that I consider the rate of growth for 2023 to be a conservative estimate.

As the Government pursues the transformation agenda, there should be benchmark data to monitor and report on the process of transformation. Therefore, the assessment of the economy should include benchmark information which would make it align with the transformative agenda. Specifically, the ultimate goal of the Government is to transform the economy to “A

Sustainable, Equitable and Prosperous Grenada for All”. This implies that there should be details on the existing social conditions in the country, particularly, on unemployment and poverty, and on health and education which are among the priorities for the provision of social services. The data requirements for establishing the benchmark would be more demanding and would require the gathering of information beyond the existing data gathering systems. However, data gathering, and data analysis have been made much easier with the advent of electronic communication systems, and these should be utilized to improve the gathering of information.

Baseline information on the structural variables that must be changing to signal that the economy is transforming should be incorporated prominently in the assessment of the economy. In the productive sectors, the variables that would provide information on the achievement of an improved agriculture sector; diversification and increased linkages in the economy; improved food and nutrition security; and greater use and integration of Information and Communication Technology [ICT] in production and in doing business should be integrated in the assessment of the economy. This would include indicators such as i. The trend in the value of agriculture production in the Gross Domestic Product. This would require overcoming the challenges of collecting comprehensive data on the production of crops, horticulture, livestock, poultry, fishing, and other marine resources. ii. The data on the manufacturing sector would need to be extended beyond the traditional commodities to include developments in agro-processing. The dominance of the cottage type industries could make the collection of data on agro-processing products challenging. However, innovation and technology must be applied in the data gathering process to support the monitoring of the transformation of the economy. iii. Information systems must be established for incorporating developments in the creative industries, the electronic transacted services, and transactions related to ICT in the assessment of economic performance.

These indicators are important as the Government seeks to diversify the economy and to strengthen these sectors for domestic purposes, and to increase exports while curbing the growth in imports. It is therefore important to link the developments in these sectors with the use and earnings of foreign exchange. This would include assessing the food import bill, foreign exchange earnings from the creative industries, cultural and professional services, and the payment to external agencies for such services.

The social sector must be given equal importance. The overall poverty and unemployment rates are generally included in the assessment of the economy. However, the information on unemployment and poverty should be more comprehensive to assess the impact of policy interventions. The gaps in the education system that are being addressed and could be quantified; and the core health indicators that would allow for monitoring and reporting on the transformation process should be integrated in the assessment of the economy.

The focus of the budget on the six priority areas, and the emphasis on the development of linkages which would increase value added in the domestic economy signaled that the Government is seeking to transform the economy. However, transformation of the economy should be measurable by some structural changes. Therefore, the economic and social indicators that would be changing over time should be included in the assessment of the economy.

Knowledge is power and experience is the greatest teacher.