

## **Government Finances and the Economy**

### **By Laurel Theresa Bain**

Fiscal policy, which is the main instrument for economic management, is implemented through the execution of the annual national budget; and hence the importance of monitoring its implementation. To facilitate the monitoring of the National Budget, the Government publishes monthly data on the fiscal performance on the Ministry of Finance website [www.finance.gd/index.php/fiscal-reports](http://www.finance.gd/index.php/fiscal-reports); and the monthly fiscal summary reports for the months of January, February and March 2023 have been published. Unlike previous publications, the report for March included accumulated data on the outcome of Government operations as at the quarter ended 31<sup>st</sup> March 2023. This is a good initiative. However, the omission of the details on the performance of the categories of current revenue and items of expenditure required an aggregation of the data from each monthly fiscal report to derive the performance of the components of revenue and expenditure.

This analysis of government finances focuses primarily on the performance during the first quarter of 2023 relative to the targeted outturn, as 2022 was an abnormal year for government finances. In the first quarter of 2022, the Government received budgetary support in grants of \$81M from the St. George's University and a 'one off receipt in the form of dividends' of \$17.5M. Additionally, there was the payment of approximately \$75M in arrears of pension and gratuity to retired public officers in the fourth quarter. These financial transactions contributed to deviations in the trend in government finances.

The overall fiscal performance for the first quarter of 2023 was favourable relative to the targeted performance. This was influenced by higher domestic revenue while both current and capital expenditures were lower than targeted. Specifically, the Government recorded (i) a current account surplus of \$121.7M; (ii) a primary surplus, after grants, of \$79M; (iii) an overall surplus, before grants, of \$64M; and (iv) an overall surplus, after grants, of \$68.8M.

The current or operational revenue of \$292.8M in the first quarter of 2023 was 16.2 percent or \$40.9M more than the 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 report. Therefore, the tax types that contributed to the deviation between the actual outturn and the targeted amount are not analysed.

The comparison of revenue performance between 2023 and 2022 showed that the current revenue of \$292.8M collected in the first quarter of 2023 was \$65.4M or 28.8 percent more than that collected in the first quarter of 2022. The aggregated data from each of the Fiscal Summary reports for January, February, and March showed that the comparatively higher revenue during the first quarter was influenced by the revenue intake from both tax and non-tax sources. In the 2023 national budget, revenue enhancing and reducing measures were implemented. The revenue reducing measures included the exemption of the Value Added Tax (VAT) on selected food items and sanitary products, and the reduction on electricity service, while the revenue enhancing measures included the increase in VAT on alcohol and sugar products. The net impact

of these tax measures on government revenue is not incorporated in this analysis as it requires more detailed information.

Notwithstanding, all the tax categories recorded higher revenue compared to 2022. Total tax revenue increased by \$33M (19.1 percent) in the first quarter of 2023 compared with the same quarter in 2022. In this regard, taxes on income and profit increased by \$10.7M (28.9 percent), taxes on property by \$1.5M (17 percent), taxes on goods and services by \$9.9M (23.8 percent), and taxes on international transactions by \$11.4M (13.1 percent). The broad-based increase in tax revenue could be linked, in part, to growth in the economy associated with the continued strong recovery in tourism. All the categories of tourist arrivals were higher than the first quarter of 2022.

The growth in non-tax revenue of \$31.5M (60.9 Percent) was attributed to higher inflows from the Citizenship by Investment programme which increased by \$26.7M (89.3 percent). In the monthly fiscal reports, the term 'exceptional revenue' is introduced in the non-tax revenue. The exceptional revenue is defined as 'revenue that is not part of the regular collections but has a significant impact for the relevant period'. For economic analysis, an economic definition is needed for the exceptional revenue. Grant inflows were abnormally high in the first quarter of 2022. Consequently, grants of \$4.8M in the first quarter of 2023 were less than the same period in 2022 and below the targeted \$13.3M that the Government planned to collect.

During the first quarter of 2023, total expenditure was less than the targeted amount. The current or operational expenditure of \$171.1M for the first quarter of 2023 was \$10.1M or 5.6 percent less than what the Government planned to spend for that quarter. This was due to lower than targeted expenditure for employees' compensation and goods and services, as transfers and subsidies and interest payment were higher than planned. The current or operational expenditure in the first quarter of 2023 was \$20.3M more than the expenditure of \$150.8M incurred in the first quarter of 2022. All categories of expenditure were higher than in 2022, however, the higher expenditure was more pronounced for transfers and subsidies.

On the capital account, capital expenditure of \$57.7M, during the first quarter of 2023, was less than the planned expenditure of \$61.6M and of the \$78.1M spent for the same period in 2022. At the end of March, the Government spent 18.4 percent of the budgeted capital expenditure of \$313M. The rate of capital spending was slightly below the targeted 19.7 percent that the Government planned to spend during the first quarter, and with no significant obstruction, the Government could achieve the targeted capital expenditure.

With the combined effects of the higher than targeted current revenue and less than planned expenditure, the fiscal outturn for the first quarter was more favourable than targeted. The government achieved an overall surplus, before grants, of \$64M and an overall surplus, after grants, of \$68.8M for the first quarter of 2022. In contrast, the Government targeted an overall surplus, before grants, of \$9.1M and an overall surplus, after grants, of \$22.4M.

The financing component of the fiscal accounts continues to be excluded from the published reports. This section is required for assessing government financial transactions with domestic and external entities. Based on the available information, the overall surplus of \$68.8M was

adequate to finance principal debt repayment of \$32M. Comprehensive information on the financing of government operations should be included in the published fiscal reports.

The following table is a summary of the Government's finances for the first quarter of 2023 as derived from the monthly Fiscal Reports:

**Table 1: Summary of the Government's Finances for the First Quarter of 2023**

Central Government Finances in EC\$M			
Government Finances	Targeted 2023	Actual 2023	Actual 2022
Total Revenue and Grants	265.2	297.6	340.4
Total Grants	13.3	4.8	113
Capital Grants	13.3	4.8	32
Current Grants	0	0	81
Current Revenue	251.9	292.8	227.4
Total Expenditure	242.8	228.8	228.9
Current Expenditure	181.2	171.1	150.8
Capital Expenditure	61.6	57.7	78.1
Current Account Balance (Before Grants)	70.7	121.7	76.6
Current Account Balance (After Grants)	70.7	121.7	157.6
Primary Balance (After Grants)	32.4	79	120.4
Overall Balance (After Grants)	22.4	68.8	111.5

Source: Derived from the monthly fiscal report of the Ministry of Finance for January, February, and March 2023.

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/>.

12<sup>th</sup> May, 2023

**Disclaimer: This article is written in my personal capacity and not in my capacity as Chairwoman of the Fiscal Responsibility Oversight Committee.**