Government Finances and the Economy

By Laurel Theresa Bain

This assessment of the state of the government finances, as of 30th June 2023, coincides with one year of the National Democratic Congress (NDC) administration assuming responsibility for economic management with the stated goal of transforming the economy to "A Sustainable, Equitable and Prosperous Grenada for All". The Government's strategy for transforming the economy, as summarized, involves i. strengthening linkages among the sectors; ii. developing the creative and digital economy; iii. improving the social sectors, particularly education and health; and iv. developing a climate resilient economic and social infrastructure. The implementation of the programmes targeted for 2023 is dependent, in part, on the state of the government finances. Therefore, the analysis focuses on the government finances at the end of June 2023, relative to the targeted outturn for that period. The information for the analysis was derived from the monthly Fiscal Summary Reports from January to June, as published on the Ministry of Finance website www.finance.gd/index.php/fiscal-reports.

The review showed that the fiscal performance for the first six months of 2023 resulted in higher positive fiscal balances than the Government planned to achieve. This was due primarily to higher domestic revenue, which was combined with lower than planned expenditure. At the end of June, the Government recorded (i) a current account surplus of $281.1M; (ii) a primary surplus, after grants, of $205.9M; (iii) an overall surplus before grants, of $172.2M; and (iv) an overall surplus after grants, of $181.1M.

On the current account, current or operational revenue of $624.8M in the first six months of 2023 was 24.1 percent or $121.5M more than the $503.3M government projected to collect for that period. The higher than targeted revenues were derived from both the customs and inland revenue departments along with non-tax sources of revenue. In contrast to the domestic revenue performance, inflows from grants of $8.9M were less than the targeted $27.2M. Due to the higher domestic revenue, total revenue and grants were higher than the Government targeted to realise for the period.

While current revenue outpaced the amount the Government planned to collect, current expenditure was lower than the amount the Government planned to spend for the first six months.

The current or operational expenditure of $343.7M for the first six months of 2023, was $25.8M or 7 percent less than the Government planned spending of $369.5M for that period. There was higher expenditure for transfers and subsidies. However, the other components of current expenditure, that is, employee compensation, goods and services, and interest payments performed less than targeted and these contributed to the lower outturn in current expenditure.

The combination of the higher than targeted revenue and the lower expenditure outturn resulted in a more favourable current account surplus. The current account surplus of $281.1M at the end of June was higher than the $133.8M that the Government planned to achieve for that period. The current account surplus provides an indicator of the available domestic resources or savings available to finance capital expenditure and for principal debt repayment. The current surplus was more than adequate to cover the capital expenditure of $108.9M.

The outturn from Government's current operations was also stronger for the first six months of 2023 compared with the same period in 2022, due mainly to the higher domestic revenue. The current revenue of $624.8M collected in the first half of 2023 was $194M or 45 percent more than that collected in the first six months of 2022, influenced by higher revenue from both tax and non-tax sources. Total tax revenue of $420.1M was $74.8M (21.7 percent) more in the first half of 2023 compared with the same period in 2022. All the tax categories recorded higher revenue. Taxes on income and profit rose by $16.3M (23.7 percent), taxes on property by $6.0M (32.3 percent), taxes on goods and services by $16.7M (20.3 percent), and taxes on international transactions by $35.8M (20.4 percent). The fiscal reports did not differentiate between the past and current tax revenue. However, the continued expansion in economic activity would have also contributed to the comparatively higher revenue yield from taxes.

The higher non-tax revenue of $204.7M, $119.2M more than that collected in 2022, was attributed to the inflows from the Citizenship by Investment programme. This category accounted for 76.7 percent of non-tax revenue and was $89.3M above the receipts of $85.5M for the first half of 2022. There were no current grants or budgetary support during the first half of 2023 compared with the $81M received during the first half of 2022.

When compared with 2022, current or operational expenditure in the first six months of 2023 was $33M more than the expenditure of $310.7M incurred in the first six months of 2022, as all the categories of current expenditure were more in 2023 compared with 2022.

The current account surplus of $281.1M (before budgetary support) for the first six months of 2023 was significantly higher than the $120.1M recorded for the first half of 2022. The inclusion of the budgetary support of $81M for 2022, resulted in a surplus of $201.1M in 2022, which was lower than the surplus of $281.1M in 2023.

On the capital account, capital expenditure of $108.9M during the first half of 2023 was less than the planned expenditure of $126.1M. This expenditure was less than the $169.9M spent for the same period in 2022, which is consistent with the lower budgeted capital expenditure for 2023. At the end of June, the Government spent 34.8 percent of the budgeted capital expenditure of $313M. The Government will need to accelerate its spending on capital programmes and projects to achieve its targeted capital expenditure for 2023.

With the higher positive balance on the current account and the less than planned capital expenditure, the fiscal balances in the first six months of 2023 were better than targeted. The government achieved an overall surplus, after grants, of $181.1M for the first six months of 2023. In contrast, the Government targeted an overall surplus, after grants, of $34.9M. The table below is a summary of the Government's finances for the first six months of 2023, as derived from the monthly fiscal reports for January to June.

Table 1: Central Government Finances EC$M

Government Finances	Targeted 2023	Actual 2023	Actual 2022
Total Revenue and Grants	530.5	633.7	582.2
Total Grants	27.2	8.9	151.4
Capital Grants	27.2	8.9	70.1
Current Grants			81
Current Revenue	503.3	624.8	430.8
Total Expenditure	495.6	452.6	480.6
Current Expenditure	369.5	343.7	310.7
Capital Expenditure	126.1	108.9	169.9
Current Account Balance (Before Current Grants)	133.8	281.1	120.1
Current Account Balance (After Current Grants)			201.1
Primary Balance (After Grants)	61.8	205.9	126.3
Overall Balance (After Grants)	34.9	181.1	101.6

Source: Derived from the monthly fiscal report of the Ministry of Finance for the first six months of 2023.

Knowledge is power and experience is the greatest teacher.

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