# FISCAL CONDITION OF GOVERNMENT AT THE TIME OF COVID AND VOLCANIC ERUPTIONS

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**BY**

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**THE ISSUE**

The state of the central government's finances — "the fiscal condition" — is of concern to every person in St. Vincent and the Grenadines. If the government's finances are in disarray, several adverse consequences are probable, including: Retardation of economic growth; impairment of financial sector stability; slow-down in job-creation; inability to pay the bills on time or at all, including those touching and concerning salaries and wages, public debt, retirement benefits, social safety net contributions, public assistance, upkeep of schools, health facilities, police stations and so forth; reduction of scholarships and bursaries to universities; curbing of spending on capital projects, among other pressing expenditure items; and the roll-back of social equity.

Thus, an acceptable and appropriate level of fiscal stability is vital for economic, social, and political well-being. An objective analysis of the fiscal outturn for the first eight months of 2021 (January-August, inclusive) shows a measure of fiscal stability in all the circumstances, even though there is a current account deficit of $9.6 million and a deficit on the overall account (recurrent and capital) of $62.1 million, net of the Capitalisation of the Contingencies Fund (CCF) of roughly $7 million; the deficits this year are manageable. Last year's comparable current account deficit up to the end of August was $47.3 million; the overall deficit was $101.4 million.

The comparable deficits in 2019 were: $30.6 million on the current account; and $46.5 million on the overall (capital and current) account. It is to be noted that after the first eight months of 2019, capital expenditure was only $36.5 million; in 2021, up to the end of August, capital expenditure stands at a very substantial $105.2 million or nearly three times the comparable capital expenditure in 2019. Given the latter fact, the extent of the overall deficit in 2021 is understandable; and it is manageable despite the challenge of raising monies on the difficult regional money market at the time of COVID and its consequences. Still, St.

Vincent and the Grenadines' prospects are buttressed by our ongoing credit worthiness and the payments of our debts on a timely basis. .

**CRITICAL DECISIONS FOR FISCAL STABILITY AND MORE**

The government of St. Vincent and the Grenadines took the following critical decisions on fiscal management which have contributed immensely to fiscal stability, including:

1. The establishment of a Fiscal Responsibility Framework which was laid in the Parliament at the time of Budget 2019 and published in the Official Gazette. This Framework contains all the central elements of the government's fiscal policy which rest, upon other things, on the twin principles of Prudence and Enterprise, among other things.

2. The setting up of the Contingencies Fund, funded by a one percentage point increase in VAT and a US $3 "disaster levy" per hotel room per night of occupancy. The "disaster levy" was suspended from May 1st 2020 as a consequence of the COVID pandemic. At the outset of COVID, the Contingencies Fund was capitalised in the sum of approximately $45 million. This was money for the proverbial "rainy day". Please remember that the NDP opposed the setting up of the Contingencies Fund and the manner of its funding.

3. The decision <u>not</u> to spend in 2020, one-half (US $20 million) of IDA-19 soft-loan monies from the World Bank. This sum was put into a Catastrophic Deferred Draw-Down Option (CAT-DDO) to fund any public health or natural disaster emergencies. In short, we did not pluck the proverbial chicken in the electoral year 2020. We saved for the "rainy day" of a prolonged COVID and a natural disaster.

4. The sensible approach of the government in not locking-down the country, not declaring a State of Emergency under the Constitution of St. Vincent and the Grenadines, and not imposing a curfew in our attempts to contain and reduce the spread of COVID. Keeping the country open meant keeping the economy open, thereby reducing or slowing the extent of economic decline in 2020 and 2021.

5. Managing the COVID pandemic relatively well thus far; serious COVID storm clouds, however, are here, now, and ahead.

6. Managing the volcanic eruptions and their aftermath quite well, thus far.

7. The sensible incorporation of assistance from regional and international governments and agencies, not simply to the government but to regional and international agencies and non-governmental organisations. In this

way the United Nations' agencies, and regional ones such as CDEMA, and international NGOs like the Red Cross were urged to be funded. This open and practical approach brought much benefit to St. Vincent and the Grenadines during and after the volcanic eruptions; these monies do not appear in the accounts of the government but they benefit the people directly through the various agencies and organisations which spend the money themselves.

8. Implementing soundly, all round, a series of practical measures/initiatives outlined and funded in Budgets 2020 and 2021 and the Supplementary Budgets in 2020 and 2021. These touch and concern every facet of public policy in the economy and society. Indeed, despite the challenges on the usual major items of Revenue, the government decided to provide additional fiscal relief to a range of persons who have been adversely affected by COVID and the volcanic eruptions. This additional relief has inevitably reduced the Revenue intake.

**REVENUE, GRANTS, AND EXPENDITURE (January – August 2021)**

The fiscal data show that there was an increase in current revenue, grants, capital revenue, and total expenditure (both current and capital spending). The spending however, outstripped the revenues and grants; thus, the current account and overall (current and capital) deficits to which I have earlier referred.

In the first eight months of 2021, total revenue and grants grew by a highly commendable 18 percent more than for the corresponding period in 2020. Indeed, it was much more than for the corresponding pre-COVID period of 2019: Please bear in mind that the first quarter last year (pre-COVID period of January-March 2020) was a good first quarter, but the subsequent months were very problematic.

The comparison of the actual numbers for revenue and grants for January-to-August of 2020 and 2021 shows as follows: For 2020, the sum of $401.7 million; for 2021, $473.9, an increase of over $72 million. This is remarkable in view of the fact that in January 2021, revenue and grants declined by $15 million compared to January 2020. The pick-up in the subsequent seven months (February to August) was thus pleasing and commendable.

The current revenue component of "Revenue and Grants" increased by 13.2 percent in January – August 2021 to $428.3 million, up from $378.3 in 2020. Taxes on Income and Profits (Individuals, Corporate, and Non-Resident) went up by 3.5 percent from $8.3 million in 2020 to $91.4 million in 2021. Taxes on "Goods and Services" fell by a marginal 1.9 percent but the domestic VAT increased by 3 percent. "Taxes on International Trade" grew marginally by 1 percent — reflecting, in part, huge tax concessions in this period, including the ongoing concessions generously applied on "Barrels". Revenue from other "Sales of Goods and Services" increased by 5.1 percent in the 2021 period compared to that of 2020; the main driver of increases in this revenue head was "Customs Service Charge" which increased by 7.7 percent to $25.5 million; this increase reflected, in part, the rise in the rate of the customs service charge from June 1, 2021, to assist in defraying the cost of regional organisations to St. Vincent and the Grenadines.

The biggest revenue increases, by far, in 2021 have been Alien Land-Holding Licence Fees which went up by 437 percent from $4.25 million in 2020 to $22.8 million in 2021, <u>and</u> "Stamp Duty on Property Transfers" which rose by 231 percent from $11.7 million in 2020 to $38.7 million in 2021. These numbers reflect sales of properties (house and land) by wealthy home-owners in Mustique to other wealthy foreigners. The ULP government had earlier increased the rate of Alien Land-Holding Licence Fees, which the opposition NDP had opposed.

The category "Capital Revenue and Grants" went up by 94.6 percent, from $23.4 million in 2020 to $45.6 million in 2021. The main revenue drivers in this category was "Other", mainly the Contingencies Fund resources, amounting to $31.8 million, an increase over 2020 of 5073 percent, and the Disaster Relief Fund. "Grants" actually fell from $18 million in 2020 to $12.9 million in 2021, a decline of nearly 29 percent.

## <u>DETAILS OF EXPENDITURE (January – August 2021)</u>

The total expenditure (recurrent and capital) increased overall by 6.1 percent, from $511.8 million in January-to-August 2020 to $543 million in the comparable period in 2021, an increase of roughly $31 million. Recurrent expenditure in this period went up by 2.9 percent from $425.6 million in 2020 to $437.9 million in 2021. Of this Recurrent Expenditure, the item "Compensation for Employees" increased by 4.9 percent, from $211.6 million to $222 million — wages and salaries are the main components here amounting to $212 million. Interest on the public debt declined by 8.1 percent from $35.7 million in 2020 to $32.8 million in 2021. "Transfers" increased by 3.4 percent to $128.4 million. The main "Transfers" have been: Grant contributions to state agencies, local bodies, regional and international organisations ($49.96 million); Social Assistance Benefit ($18.3 million); and Employment-Related Social Benefit ($38.3 million).

Capital Expenditure increased by 22 percent, from $86.2 million for the period January-to-August 2020, to $105 million for the corresponding period in 2021. Of this sum for 2021, the Capitalisation of the Contingencies Fund (CCF) amounted to just over $7 million, down by 18.6 percent from the 2020 number of $8.6 million. Please recall that the Disaster Levy component of the CCF was suspended from May 1, 2020, and following.

**SUMMATION: COVID, THE VACCINE AND THE FISCAL**

The government of St. Vincent and the Grenadines has been meeting its commitments despite COVID, the volcanic eruptions, and the slow down in the regional and global economies. We are holding things together, but it is very challenging. A prolongation of the COVID pandemic, inclusive of the refusal or failure of our people to take the COVID vaccine will cause even more severe challenges. The Delta, Mu, and Gamma variants of COVID and the increased incidence of COVID in St. Vincent and the Grenadines, and around us, portend real problems. Please take the vaccine to avoid disaster on the Health, Economic, Social (including Education) and Security fronts!

This year, our fiscal condition was greatly assisted by resources from the Contingencies Fund, the CATDDO funds reserved by us at the World Bank, resources from the Disaster Relief Fund, and the unusually high property sales in Mustique giving rise to exceptional revenues from Alien Land-Holding Licence fees and Stamp Duties on the transfers of these high-priced properties. It is true that the other revenue drivers did not collapse but they were not buoyant. Real fiscal dangers lay ahead!

Employees in the State sector (Central Government, Statutory Corporations, State-owned Companies and agencies) have had their salaries and wages protected and paid on-time during the COVID pandemic, the volcanic eruptions and their aftermath, through thick and thin; so, too, the pensioners — the retired persons from the State sector — have had their retirement benefits paid in full on a timely basis. In the aggregate, these persons number about 11 thousand. Each of these persons is from households with three or so persons, on average. In other words, in excess of 30 thousand Vincentians depend on a salary, wage or pension from the State. Additionally, monthly supports are provided to another 5,000 or so persons through public assistance and other forms of social safety net support. The COVID pandemic has the potential to derail all this.

So, too, can be derailed the well-being of the other employees and retirees in the private sector (paid employees in private businesses, own-a count/self-employed businesses, and retirees/pensioners) who, in conjunction with their dependants, total the bulk of the remainder of the population. The pandemic has increased the misery and pain of significant sections of the private sector employees and their dependants; and the situation can get worse if the pandemic is not controlled and stopped. In the worst-case scenario, the NIS pensions and other benefits can be adversely affected. This is the summation, bottom-line, of what can happen, possibly; it is not far-fetched. Together, we can avert it. Thus, taking the vaccine is critical. That is what the entire world is saying! Taking the vaccine is, in real terms, a fiscal measure for the better, for the people, individually and collectively. It is the best tool available against COVID-19.

The abstractions, follies, and selfishness in many of our heads about our pristine individualism and unrestrained/unlimited, individual rights will not slow-down or stop the grim reality of the COVID pandemic. It is thus necessary and desirable in a public health emergency like the current one to emphasise, in practice, social solidarity, the public interest (inclusive of persons' individual right not to be negligently or recklessly infected by others), and public health. Those who pretend not to know all this or that they have not been told so properly will see the reality as it unfolds; and those who claim that they have not heard of the harsh facts about COVID, as it mutates, and the good news of the effectiveness of the vaccine, will feel its ravages directly. So, take the vaccine and observe all the safety protocols. The midnight hour is at hand. This is not a time for personal vanities, misinformation, follies, and abstractions removed from the realities of public health, economic and social stability, and security concerns.