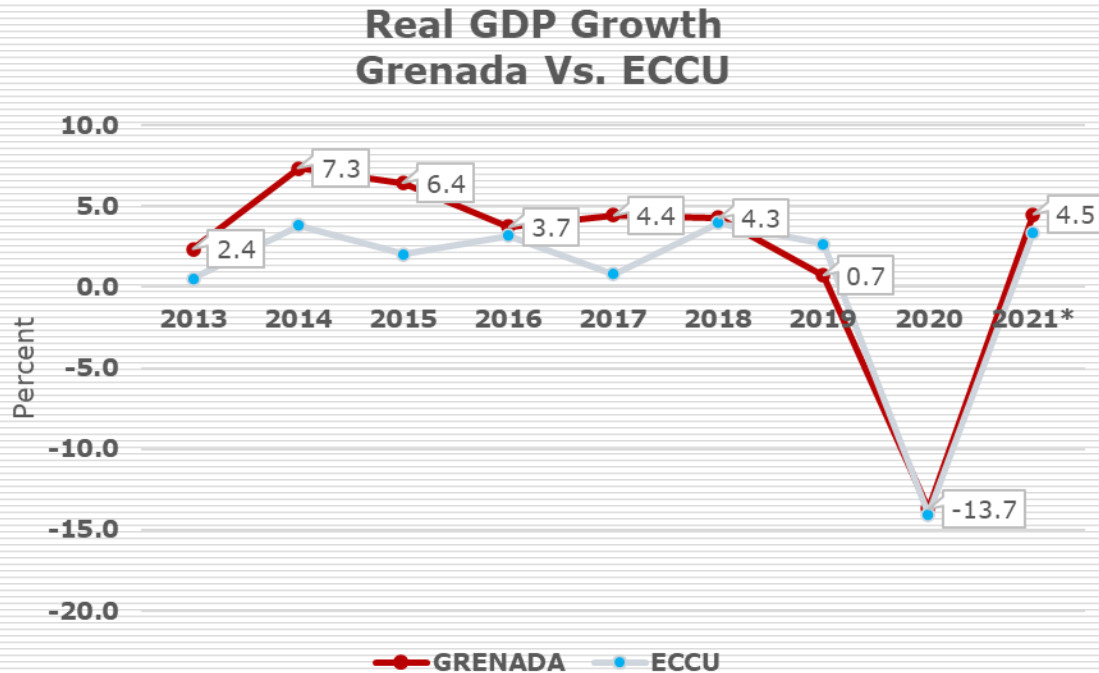


Economic Update and Budget Performance (Prel.)

July 2021

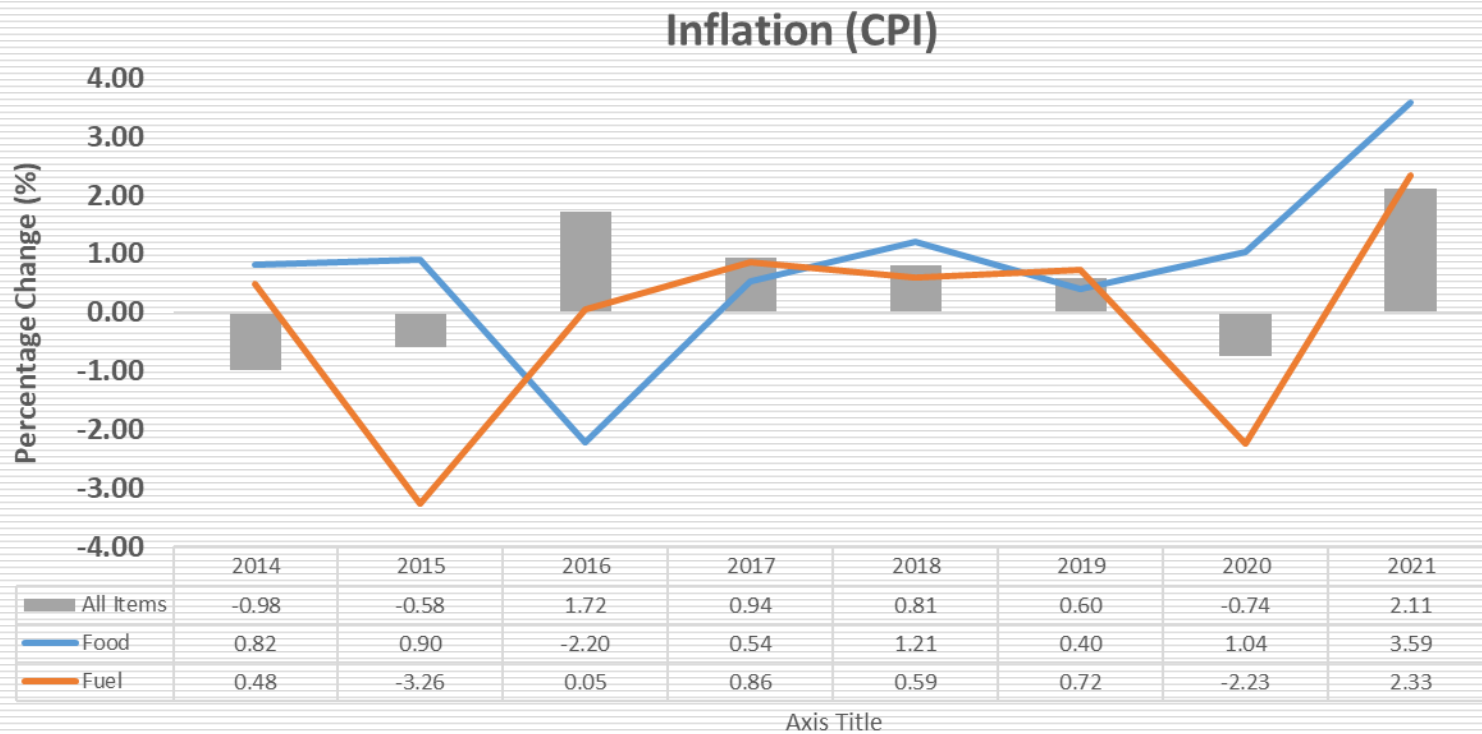
Ministry of Finance

An unprecedented economic contraction linked to COVID-19; evidence of incipient recovery so far



Source: ECCB & MOF
* Projected
2020 - Preliminary Estimate

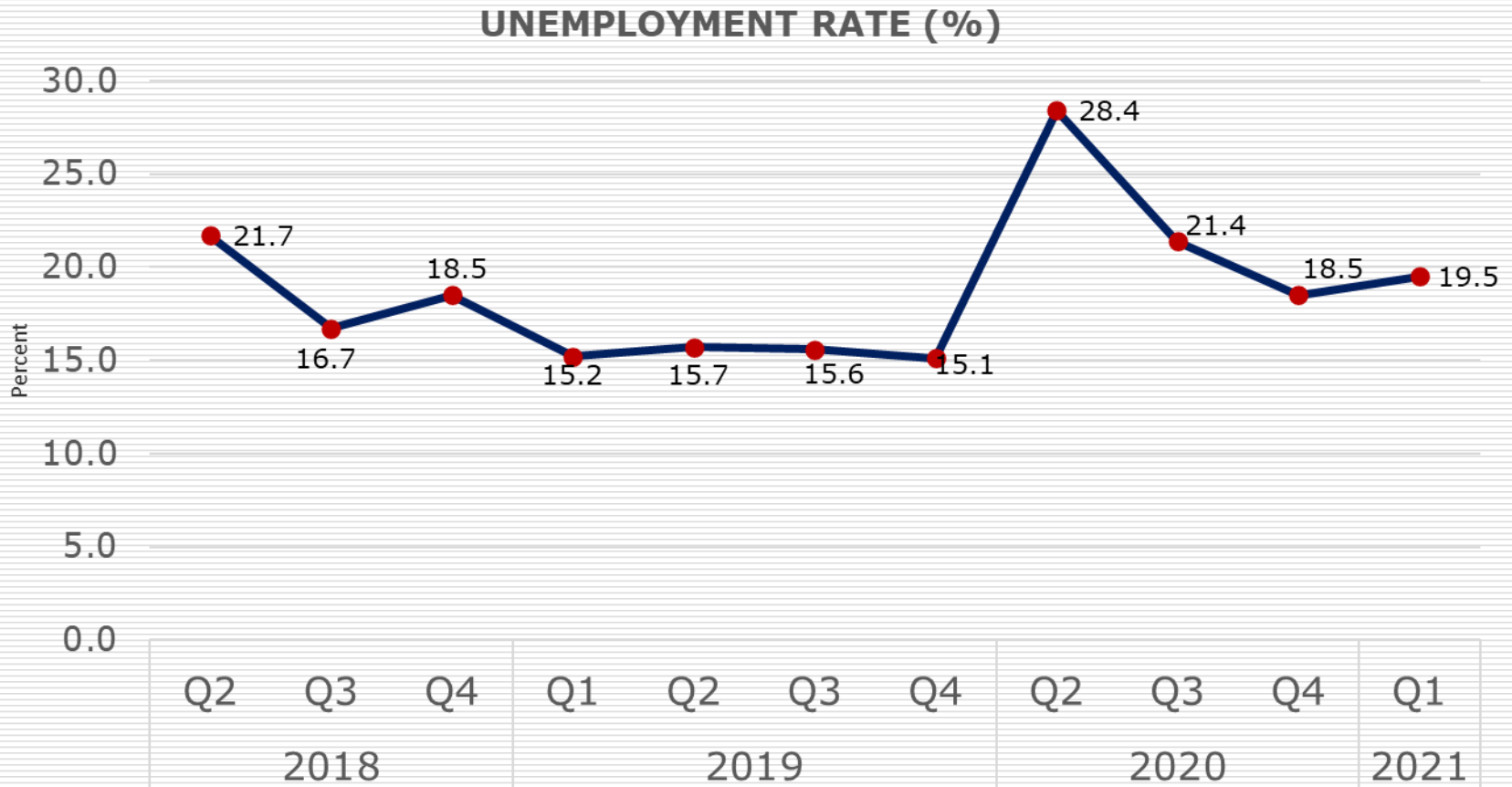
Grenada's inflation is mostly imported driven by int'l oil & food prices ...



■ All Items — Food — Fuel

Source: MOF,CSO

A sharp spike in the unemployment rate; gradual reversal but rate remain unacceptably high.



The fiscal situation deteriorated sharply last year....



Primary and Overall Balances:

	2019		2020		Variance	
	\$m	% of GDP	\$m	% of GDP	\$m	%
Primary Balance after Grants	223.1	6.8%	-72.2	-2.6%	-295.2	-132.3
Overall Balance after Grants	162.4	5.0%	-128.1	-4.6%	-290.5	-178.8

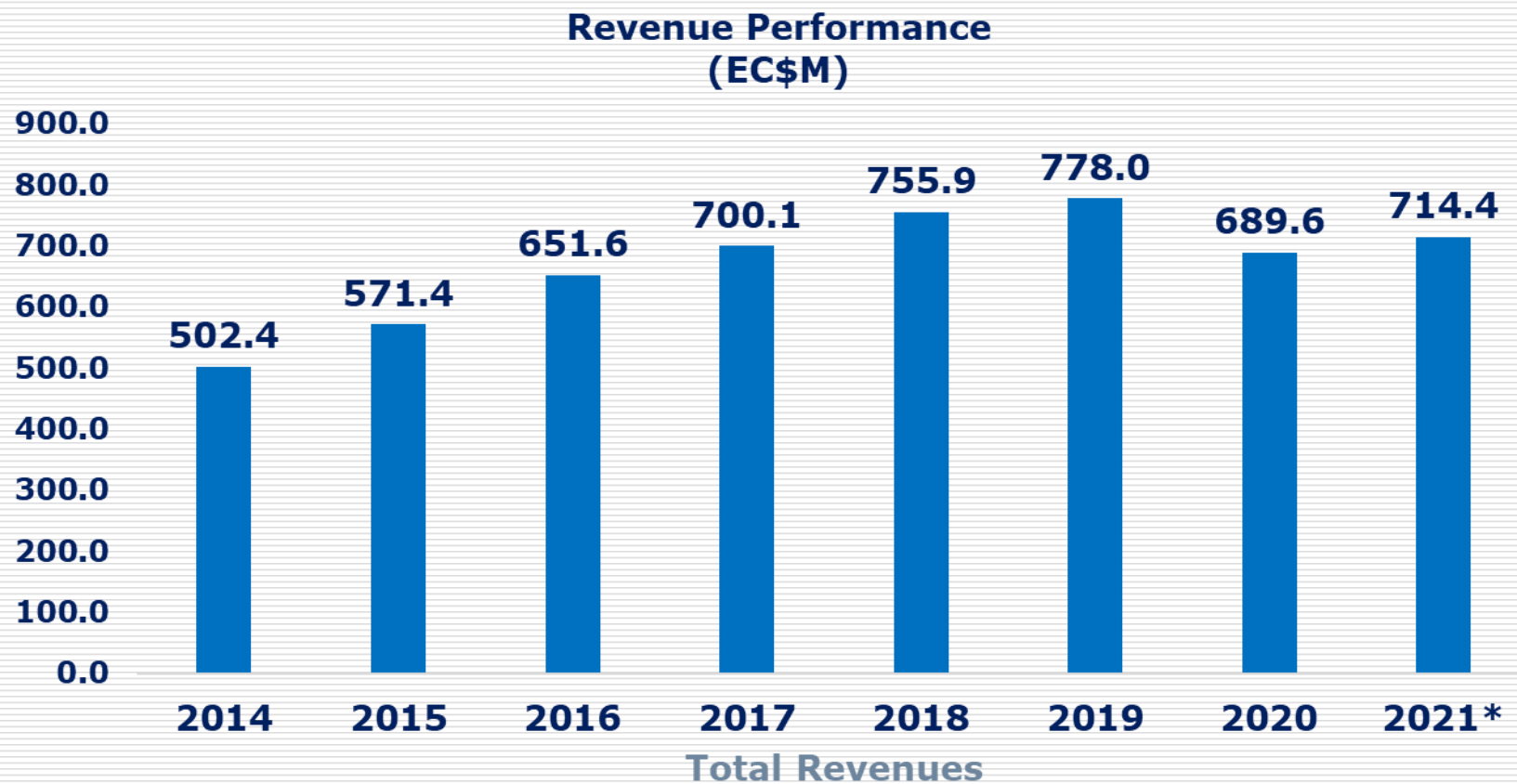
Source: MOF

Relative to the corresponding period of 2020, the fiscal situation has shown some improvement.

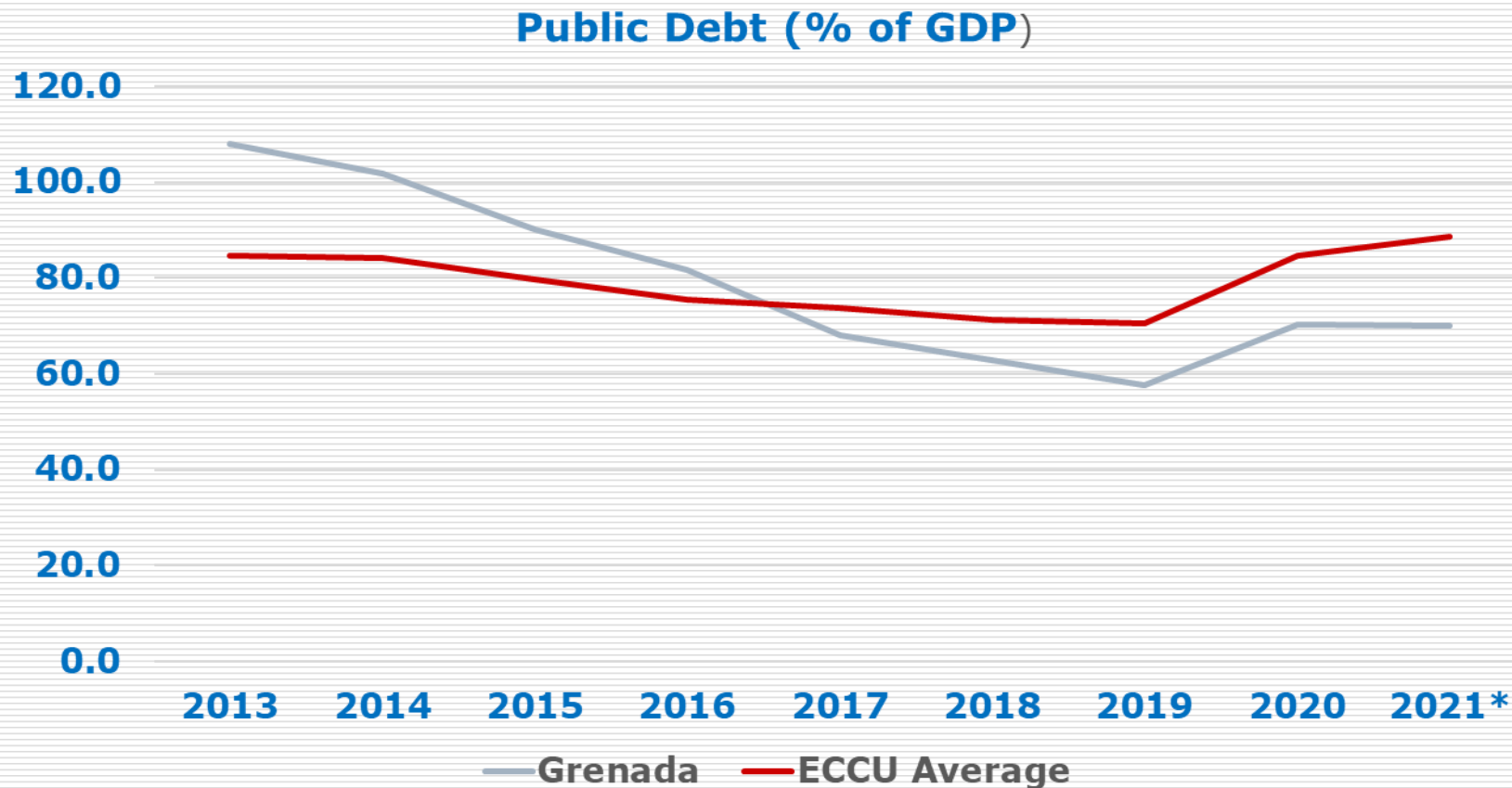
Primary and Overall Balances:

	Jan-June 2020	Jan-June 2021 (prel.)	Variance	
	\$m	\$m	\$m	%
Primary Balance after Grants	56.8	62.0	5.2	9.1
Overall Balance after Grants	31.2	36.6	5.5	17.6

Revenues continue to strengthen but remain below pre-COVID levels



The debt to GDP ratio jumped by over 10 percentage points in 2020, with a marginal decline estimated this year



Budget 2021: Supporting recovery, transformation, and resilience



		Budget 2021
A	Total Revenue and Grants	917.1
B	Total Revenues	653.5
C	Total Grants	263.6
D	Total Expenditures (excl. Principal Repayments)	935.2
E	Recurrent Expenditure	629.6
F	o/w Interest Payments	63.7
G	Capital Expenditures	305.6
	Current Account Surplus/ Deficit (B-E)	23.9
	Overall Surplus/ Deficit (A-D)	-18.1
	Primary Surplus/Deficit (A-D+F)	45.6

15 months into the crisis, the situation remains extremely challenging.

- ❑ A lower than expected recovery is anticipated, but downside risks remain elevated.
- ❑ Despite improving labour market statistics, unemployment remains unacceptably high.
- ❑ Upward pressures on food and fuel prices are driving inflation.
- ❑ On balance, fiscal performance has improved but remain below pre-pandemic levels.

Economic Activity.

- Preliminary results suggest that a weaker than expected recovery will materialize.
 - The economy contracted by an estimated 12.3% in Q1, 2021
 - A few sectors have rebounded strongly in the Q1, 2021 (agriculture, financial intermediation).
 - Anecdotal evidence suggests that the construction, wholesale and retail sales are picking up slowly
 - After falling by about 10 percentage points since Q2, 2020, the unemployment rate recorded a slight uptick at the end of Q1 2021.
 - The labour force participation rate continues to increase.

Budget Performance for the period Jan-June 2021

- ❑ Government revenue intake for the first half of this year surpassed the target and the corresponding period of 2020.
- ❑ However, the receipt of grants, including from the NTF, on which the budget is largely hinged, is underperforming
- ❑ **Taken together, total revenues and grants have fallen short of target by \$31.1 million.**
- ❑ Recurrent expenditure needs have grown since the beginning of the year. We have spent about \$6.8 million more than initially programmed.
- ❑ The roll out of the PSIP/Capital expenditures has so far been disappointing (some \$71.1 million lower than programmed).
- ❑ Including principal repayments, for the first six months we have spent \$56.6 million more than we collected in total revenues and grants.
- ❑ The outcome could have been far worse given a higher rate of implementation of the PSIP, especially those funded from local₂ sources.

Monthly Budget Performance Report (Preliminary)

	Jan-June 2021 Actual	Jan-June 2021 Target	Jan- June 2020 Actual	Variance Jan- June 2021 Actual vs Target	Variance Jan- June 2021 Actual vs Jan- June 2020
	EC\$M	EC\$M	EC\$M	EC\$M	EC\$M
Total Revenue & Grants	405.6	436.7	386.3	-31.1	19.3
Total Revenue	353.4	329.0	349.0	24.4	4.4
Tax Revenue	304.0	292.6	312.9	11.4	-8.9
Non-Tax Revenue	49.4	36.4	36.1	13.0	13.3
Grants	52.2	107.7	37.3	-55.4	14.9
Total Payments	462.2	520.0	457.7	-57.7	4.5
Employee Compensation	142.6	137.7	136.8	4.9	5.8
Good & Services	71.9	61.2	62.3	10.7	9.6
Debt Service	96.1	109.9	119.2	-13.8	-23.1
Transfers	77.7	84.1	98.2	-6.4	-20.5
Other (GWSMA,GAA, Overseas Missions, CBI,..)	22.5	4.6	8.9	17.9	13.5
Capital Expenditure	51.4	122.5	32.3	-71.1	19.2
Surplus/ (Gap)	-56.6	-83.3	-71.4	26.7	14.8

Estimated Outturn based on Jan-June actuals...

	2021			
	Estimated Outturn	Budget	Variance	
	EC\$M	EC\$M	EC\$M	%
Total Revenue & Grants	811.9	917.1	(105.1)	(11.5)
Total Revenue	714.4	653.5	60.9	9.3
Tax Revenue	636.5	590.2	46.2	7.8
Taxes on Income	115.6	103.1	12.5	12.1
Taxes on Property	28.8	27.4	1.4	5.1
Taxes on Domestic Goods & Consumption	137.4	124.5	12.8	10.3
Taxes on International Trade & Transactions	354.6	335.2	19.5	5.8
Non - Tax Revenue	77.9	63.2	14.7	23.2
Grants	97.6	263.6	(166.0)	(63.0)
Total Expenditure	768.9	935.2	(166.3)	(17.8)
Primary Expenditure	705.3	871.6	(166.3)	(19.1)
Current Expenditure	651.7	629.6	22.1	3.5
Employee compensation	286.9	277.8	9.1	3.3
<i>o/w wages, salaries & allowances</i>	272.3	264.3	7.9	3.0
Goods and Services	132.6	121.8	10.7	8.8
Interest Payments	63.7	63.7	-	-
Transfers	168.6	166.3	2.3	1.4
Capital Expenditure	117.2	305.6	(188.4)	(61.7)
<i>o/w Grant financed</i>	67.6	243.6	(176.0)	(72.2)
Overall balance	43.0	(18.2)	61.2	(336.6)
Primary balance (including grants)	106.7	45.5	61.2	134.5

Immediate Priorities



- ❑ Create space to support capital investment (increase revenues, contain recurrent spending)
- ❑ Accelerate resource mobilization efforts (NTF grants, concessional loans)
- ❑ Provide targeted policy support to mitigate the continued social and economic impact of the pandemic
- ❑ Accelerate PSIP Implementation to support economic recovery
- ❑ Facilitate and ,if possible, expedite major private sector projects
- ❑ Keep the nation fully informed of macro-fiscal developments

Conclusion



- Economic Activity has been negatively impacted by the COVID-19 pandemic. While the situation continues to be difficult, a weak recovery is underway.
- On balance, the Budget performance for the first 6 months of 2021 has been weaker than expected.
- Priority should be centred on efforts to bolster the recovery, create fiscal space for capital investments, and shield persons from the continued impact of the pandemic.
- Vaccine uptake by individuals is critical for a speedy economic recovery

Government of Grenada



Thank You
