

SUMMARY OF FISCAL OPERATIONS OF THE CENTRAL GOVERNMENT OF ST.VINCENT AND THE GRENADINES

For the period ended June 30, 2020

The objective of this report is to present the public with a brief summary of the Government of St. Vincent and the Grenadines' fiscal operations, for the period ended June 30, 2020. The report is prepared by the Economic Research and Policy Unit, Ministry of Finance.

Preliminary data as at June 30, 2020 indicated that the Central Government fiscal operations deteriorated when compared to the same period in 2019. Current Revenue decreased marginally by 0.1 percent to \$282.84 million, while Current Expenditure increased by 4.0 percent to \$307.19 million. Consequently, the Current deficit went from \$12.03 million in 2019 to \$24.35 million in 2020. The Overall Balance also worsened, moving from a deficit of \$14.63 million in 2019 to a deficit of \$51.69 million in 2020 mainly on account of increased capital spending.

Table 1: Summary of fiscal operations for the period ended June 30, 2020

	BUDGET 2020 \$ M	ACTUAL 2020 \$ M	ACTUAL 2019 \$ M	% CHANGE
Current Revenue	307.14	282.84	283.25	(0.1)
<i>of which:</i>				
Taxes on Income & Profits	74.48	66.70	65.28	2.2
Taxes on Property	15.29	11.22	11.46	(2.1)
Taxes on Goods & Services	94.08	96.99	87.91	10.3
Taxes on International Trade	80.46	68.84	75.68	(9.0)
Sale of Goods & Services	35.09	28.63	31.00	(7.7)
Current Expenditure	327.27	307.19	295.28	4.0
<i>of which:</i>				
Compensation Employees	163.65	158.77	151.08	5.1
Use of Goods & Services	40.42	37.41	32.65	14.6
Interest Payments	32.65	25.23	25.89	(2.5)
Transfers	90.55	85.78	85.66	0.1
Current Balance	(20.13)	(24.35)	(12.03)	(102.4)
Primary Balance (net CCF)	(19.57)	(26.43)	11.25	(335.1)
Capital Expenditure	45.49	42.10	16.22	159.5
<i>Of which:</i>				
Capitalisation of Contingency Fund (CCF)	6.43	7.01	6.02	16.5
Capital Revenue	13.40	7.75	7.60	1.9
Overall Balance (net CCF)	(52.22)	(51.69)	(14.63)	(253.2)

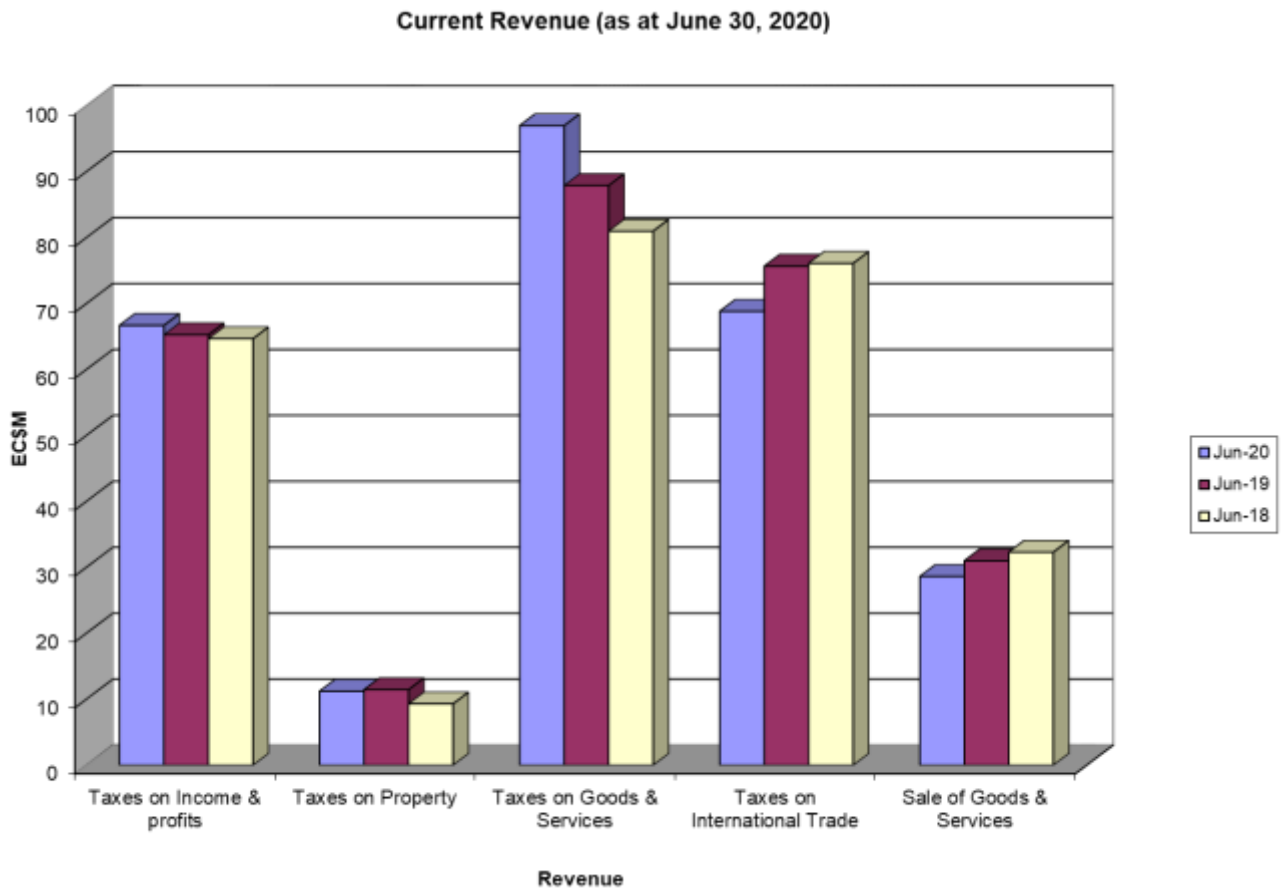
Source: Ministry of Finance and Planning

Revenue

Receipts from Taxes on Income and Profits increased by 2.2 percent to \$66.70 million due to higher collections from Personal Income Tax and Corporate Income Tax. The increase in Personal Income Tax of 5.9 percent is partially reflective of the 2.0 percent salary enhancement received by public servants for 2020 while the greater collection from Corporate Income Tax was mainly on account of the improved profitability of some companies during the tax period. Non-Resident (Withholding) Tax receipts declined by 29.4 percent. This was related to a reduction in the number of audits conducted during the period.

Revenue from Taxes on Property declined by 2.1 percent to \$11.22 million during the period. This resulted mainly from reduced collection from Stamp Duty on Property (which fell by 13.4 percent) and Property Tax (which fell by 25.9 percent). However, Alien Land Holding Licence went up from \$1.22 million collected in the first half of 2019 to \$2.55 million for the corresponding period in 2020. This boost in collections was due to greater land sales to foreigners during the period.

Figure 1: Items of Current Revenue as at June 30, 2020



As at 30th June, 2020, Taxes on Goods and Services which totalled \$96.99 million, increased by 10.3 percent. This resulted mainly from improved receipts from Excise Duty on Imports (72.9 percent), largely related to payments received in 2020 which were related to 2019 imports. Greater amounts were also collected from VAT on domestic transactions, Motor Vehicle Licences, Merchant Shipping International Fees and Interest Levy. The increase in revenue from Taxes on Goods and Services was however moderated by lower takings from Telecomm Broadcast Licence, Yacht Licence and Insurance Premium Tax during the period.

Revenue from International Trade Taxes fell by 9.0 percent, to \$68.84 million. Under this rubric, revenue collection from all major subcomponents decreased; VAT receipts dropped by 8.6 percent, Import Duty decreased by 9.5 percent and Vehicle Surtax fell by 11.4 percent. The decline in revenue from Vehicle Surtax reflects a fall in vehicle imports during the period while the fall in revenue from VAT and Import Duty reflects the 5.9 percent fall-off in imports during the period.

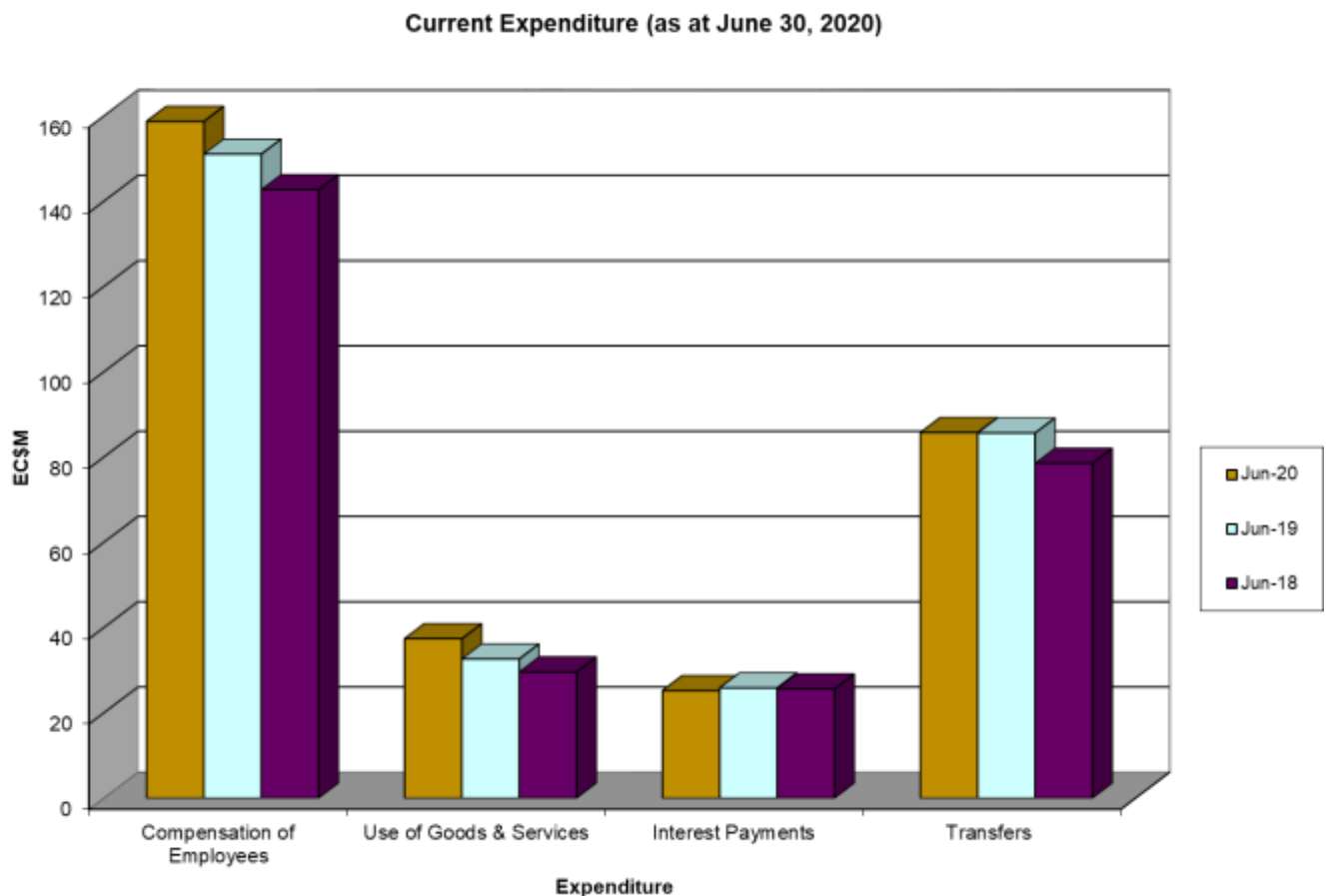
Revenue from Sales of Goods and Services grossed \$28.63 million. This represents a 7.7 percent reduction on the amount collected in 2019 as all major subcategories saw reductions in revenue. Collections from International Financial Services, CIPO Registration Fees, Driver's Licence fees and Customs Service Charges declined by 3.5 percent, 24.0 percent, 8.8 percent and 4.9 percent, respectively. The decline in revenue from sales of Goods and Services reflects the slowdown in business activity during the period.

Capital inflows as at June 30, 2020 amounted to \$7.75 million, up 1.9 percent from the amount collected in the corresponding period in 2019. This was due to an amount of \$0.62 million recorded as other Capital receipts. Meanwhile, revenue from Grants and Sales of Lands went down by 6.3 percent and 4.5 percent, respectively.

Expenditure

As at June 30, 2020, Current Expenditure amounted to \$307.19 million. This figure represents an increase of 4.0 percent when compared to the amount spent during the same period in 2019. Payment of Wages and Salaries amounted to \$151.92 million and the Employer's Social Security Contribution to \$6.85 million, these were responsible for the overall 5.1 percent increase in Compensation of Employees. The 2.0 percent salary enhancement paid to public servants from January 2020 would have contributed to the increased spending on Wages & Salaries. Changes in increments and allowances also contributed to the growth in Wages and Salaries.

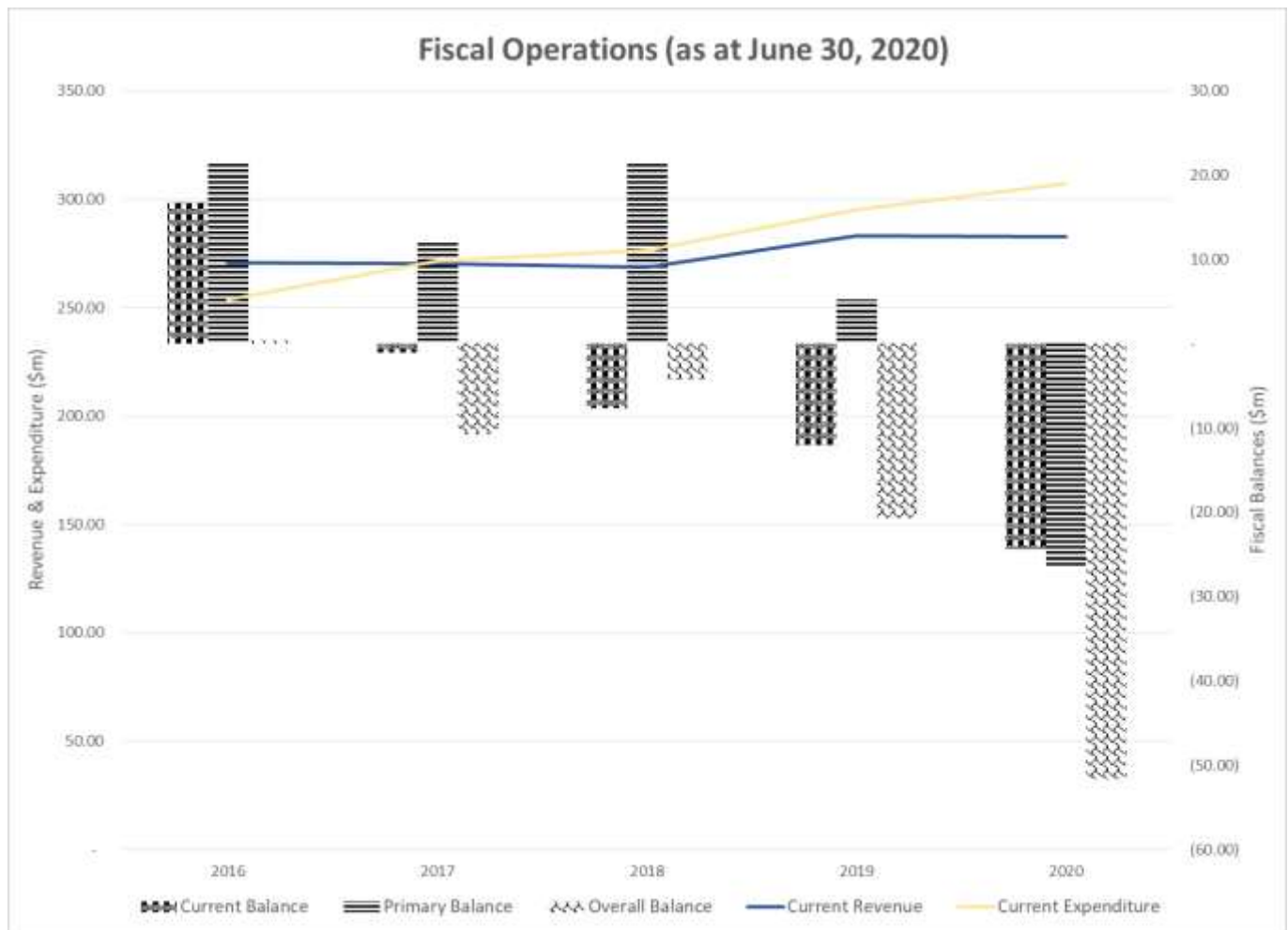
Figure 2: Items of recurrent expenditure as at June 30, 2020



Interest Payments decreased during the period by 2.5 percent to \$25.23 million as a result of a 6.5 percent drop in payments on the domestic component of debt. This reduction in payments was mostly due to deferred payments on some debt instruments. External interest payments, however, increased by 4.9 percent, due to the contraction of new debt. Outlays on Transfers increased by 0.1 percent to

\$85.78 million mainly based on higher amounts expended on Social Assistance (18.0 percent) while pension benefits declined by 7.4 percent, moderating the increase of transfers.

Figure 3: Fiscal Recurrent Activity June 2016-2020



Preliminary data indicates that Capital Expenditure for the period amounted to \$42.10 million, up from the \$16.23 million recorded for the same period in 2019. The larger items of capital expenditure included the Road Rehabilitation and Repair Programme (\$4.00 million) and the Diamond Hotel Project (\$4.50 million). Other significant spending was recorded for the first phase of the Diamond Sporting Facility and on the Support for Education and Training Programme (SET).

Financing

Table 2 below summarizes the Central Government financing as at June 30, 2020 with comparable numbers for 2019.

Table 2: Summary of Central Government Financing as at June 30, 2020 compared with 2019

	2020 \$ M	2019 \$ M
OVERALL DEFICIT	(51.69)	(14.63)
FINANCED BY:	51.69	14.63
External Loans	(30.40)	(27.61)
Disbursements	0.07	0.32
Less: Amortisation	(30.47)	(27.92)
Domestic Financing (net)	82.09	42.24

Source: Ministry of Finance and Planning

Table 2 above shows a deficit of \$51.69 million for the period financed from domestic sources. The main categories of domestic financing were reducing cash balances by \$66.16 million, issuance of \$26.20 million in domestic bonds and the disbursement of domestic loans amounting to \$24.08 million.

Fiscal Operations for the Second Quarter of 2020

The fiscal performance of the Central Government, for the second quarter of 2020, weakened considerably compared to the same period in 2019. The overall deficit moved from \$6.79 million to \$42.89 million. The deterioration in the fiscal balance was mainly related to a rise in capital spending to \$32.38 million from \$13.10 million spent in the second quarter of 2019 and a 9.0 percent fall in Current Revenue (to \$135.72 million). An increase in recurrent expenditure also contributed to the overall deficit. These adverse performances were mainly reflective of the impact of the COVID-19 pandemic on the economy.

Table 3: Summary of fiscal operations for the second quarter of 2020

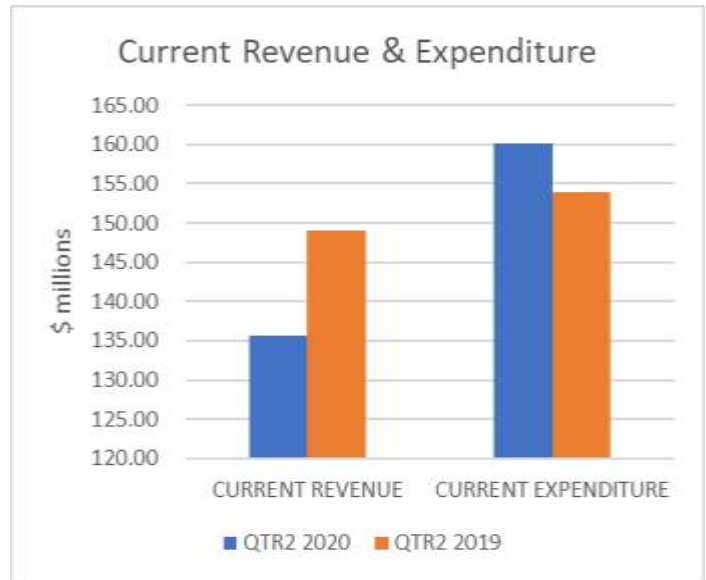
	QTR 2 2020 \$ m	QTR 2 2019 \$ m	% Change
Current Revenue	135.72	149.09	(9.0)
<i>of which:</i>			
Taxes on Income & Profits	38.74	38.06	1.8
Taxes on Property	1.97	5.39	(63.4)
Taxes on Goods & Services	41.93	44.63	(6.1)
Taxes on International Trade	33.37	39.22	(14.9)
Sale of Goods & Services	12.89	15.09	(14.5)
Current Expenditure	160.17	153.97	4.0
<i>of which:</i>			
Compensation Employees	79.67	75.48	5.5
Use of Goods & Services	21.94	19.32	13.6
Interest Payments	11.73	13.72	(14.5)
Transfers	46.84	45.46	3.0
Current Balance	(24.45)	(4.88)	(401.6)
Primary Balance (net CCF)	(31.16)	6.92	(550.1)
Capital Expenditure	32.38	13.10	147.2
<i>Of which:</i>			
Capitalisation of Contingency Fund (CCF)	6.81	6.02	13.1
Capital Revenue	7.14	5.16	38.4
Overall Balance (net CCF)	(42.89)	(6.79)	(531.4)

Current Revenue & Recurrent Expenditure

Current Revenue collected during quarter 2, 2020 was \$13.37 million lower than the amount collected for the same period in 2019 as revenue under most subcategories declined. The most significant contributor was Taxes on International Trade which fell by 14.9 percent on account of lower imports. Imports during the period amounted to \$132.65 million compared with \$191.43 million in 2019, a decrease of 30.7 percent. Taxes on Goods & Services and Sale of Goods & Services also fell reflecting

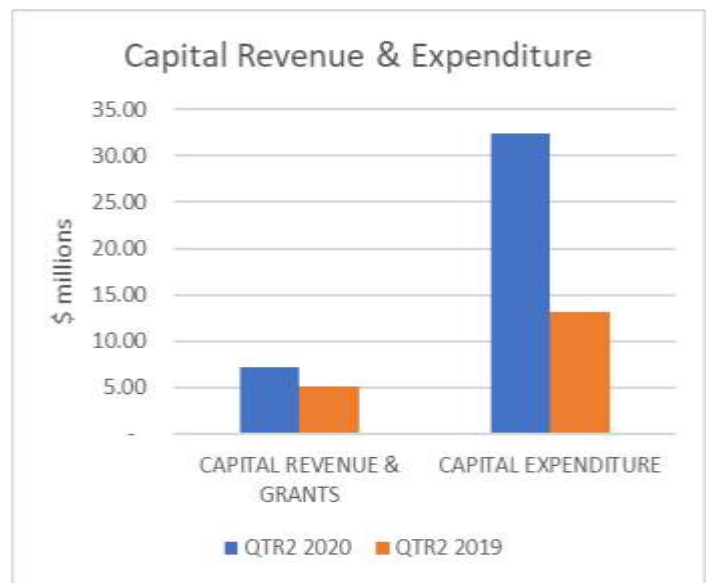
dampened domestic business activity as a result of safety measures taken as a result of the pandemic. Taxes on Property went down by 6.1 percent as less lands were sold to locals and foreigners during the period.

Recurrent Expenditure increased by 4.0 percent. Along with the expected increase in Compensation of Employees mainly due to the salary increase paid to public servants, greater amounts were spent on goods and services and transfers. In particular, the pandemic gave rise to greater spending on supplies and materials and rental of assets, across Ministries. The increase in transfers was mainly related to funds transferred to the AIA to compensate for the decline in air transport.



Capital Revenue & Expenditure

On the capital side, greater pressure was placed on the overall balance as Capital expenditure rose by 147.2 percent, from \$13.10 million spent in second quarter 2019 to \$32.38 million spent in Quarter 2, 2020. Much of the increase in capital spending (\$11.00 million) was related to the implementation of capital projects approved as part of the fiscal stimulus package in response to the COVID-19 pandemic. The main items of COVID-19 capital expenditure were road rehabilitation (\$4.00 million), LIAT capital support (\$1.83 million) and the Isolation facility (\$1.42 million).



Financing

Table 3 below summarizes the Central Government financing for Quarter 2, 2020 with comparable numbers for 2019.

Table 3: Summary of Central Government Financing for Quarter 2, 2020 compared with 2019

	2020 \$ M	2019 \$ M
OVERALL DEFICIT	(42.89)	(6.79)
FINANCED BY:	42.89	6.79
External Loans	(10.77)	(15.57)
Disbursements	0.00	0.32
Less: Amortisation	(10.77)	(15.89)
Domestic Financing (net)	53.67	22.36

Source: Ministry of Finance and Planning

Table 3 above indicates that the Overall Deficit for the period was financed through domestic sources mainly, drawing down cash balances (\$33.79 million) and the issuance of domestic bonds (\$26.20 million).