FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE
(FROC)

2018 ANNUAL REPORT

30 April, 2019

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LETTER OF TRANSMITTAL

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

30th April, 2019

Mr. Andrew Augustine
Clerk of Parliament (Ag.)
Office of the Houses of Parliament
Parliament Building
Mt. Wheldale
St. George's

Dear Mr. Augustine,

RE: SUBMISSION OF THE 2018 ANNUAL REPORT ON THE STATUS OF IMPLEMENTATION OF THE FISCAL RESPONSIBILITY ACT (NO. 29 of 2015)

Pursuant to Section 14 (3) (b) of the Fiscal Responsibility Act (No. 29 of 2015), and on behalf of the Fiscal Responsibility Oversight Committee (FROC), I am pleased to submit, herewith, the required sixty (60) copies of the afore-mentioned report for consideration by the House of Representatives.

I shall therefore be grateful if you will bring the said report to the attention of the Hon. Michael Pierre, Speaker of the House of Representatives and Chairman of the Committee of Privileges, so that it may be laid before the House in accordance with the Act.

I thank you in anticipation of your kind co-operation.

Respectfully,

Richard W. Duncan
Chairman

Members: Richard W. Duncan, Chairman | Sabina Gibbs | Zanna Barnard | Adrian Hayes | Angus Smith

Secretary: Michelle Millet | Assurance Partner, Certified General Accountant | P.O. Box 1798 |Pannell House |Grand Anse |St. George's

GLOSSARY

BFP	Budget Framework Paper
CARTAC	Caribbean Regional Technical Assistance Center
CBI	Citizenship by Investment
CPI	Consumer Price Index
DPC	Development Policy Credit
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
FRA	Fiscal Responsibility Act
FROC	Fiscal Responsibility Oversight Committee
GDP	Gross Domestic Product
HSAP	Homegrown Structural Adjustment Programme
IMF	International Monetary Fund
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPU	Macroeconomic Policy Unit
MTDS	Medium-Term Debt Management Strategy
NHI	National Health Insurance
NTF	National Transformation Fund
PDMA	Public Debt Management Act
PFMA	Public Finance Management Act
PPP	Public Private Partnership
PSIP	Public Sector Investment Programme
SB	Statutory Body
SOE	State-Owned Enterprise

I. FOREWORD

I. Since 2014, the Grenada Government has recognized and embraced the concept that greater fiscal responsibility and discipline is a key requirement to obtain sustainable economic growth. To achieve this there must be an enhanced level of financial management coupled with clearly defined, prudent fiscal targets and policies covering the annual budgetary period as well as the medium and long term. In January 2014, the Grenada Government embarked on a three year, Homegrown Structural Adjustment Programme (HSAP) and followed this in 2015 with legislation designed to ensure that the required level of fiscal discipline is achieved.

II. This legislation comprised the following Acts - The Public Finance Management Act No. 17 of 2015 (PFMA), the Public Debt Management Act No. 28 of 2015 (PDMA) and the Fiscal Responsibility Act No. 29 of 2015 (FRA or the Act).

III. The FRA governs matters related to the management of public finances and fiscal matters relating to the Central Government and covered public entities. The FRA must be read and construed together with the PFMA and the PDMA.

IV. The specific objectives of the FRA are ***"to establish a transparent and accountable rule-based fiscal responsibility framework in Grenada, to guide and anchor fiscal policy during the budget process, to ensure that Government finances are sustainable over the short, medium, and long term, consistent with a sustainable level of debt, and for related matters."***

V. In order to monitor and provide oversight of the Act, the FRA created a **Fiscal Responsibility Oversight Committee (FROC).** This Committee is responsible, under section 14 (3) of the FRA, for monitoring compliance with the fiscal rules and targets as stipulated in the Act and reporting to the House of Representatives thereon.

I. FOREWORD (CONTINUED)

VI. The FROC comprises five persons who are appointed by the Governor General in accordance with section 1 of the Second Schedule of the Act. Four persons are nominated by the Committee of Privileges of Parliament in consultation with the Director of Audit with the fifth being appointed on the advice of the Governor of the Eastern Caribbean Central Bank (ECCB).

VII. As required by the Second Schedule of the Act the members of the FROC possess expertise in the following areas:

(i) accounting;

(ii) business management, having not less than ten years of experience;

(iii) public administration, having not less than ten years of experience; and

(iv) law

The nominee from the Governor of the ECCB is required to have expertise in economics.

In September 2017 the FROC appointed Mrs. Michelle Millet as secretary to the FROC.

As at December 31, 2018 the FROC comprised the following persons:

 Mr. Richard W. Duncan – Chairperson	Accountant and Economist Term of appointment expires August 2020
 Ms. Sabina Gibbs	Attorney-at-Law Term of appointment expires August 2019

I. FOREWORD (CONTINUED)

 Ms. Zanna Barnard	Economist - Eastern Caribbean Central Bank Term of appointment expires August 2019
 Mr. Adrian Hayes	Retired Public Administrator Term of appointment expires August 2019
 Mr. Angus Smith	Retired Accountant Term of appointment expires August 2019

Secretary to the FROC

 Mrs. Michelle Millet – Secretary	Assurance Partner – Certified General Accountant (CGA)

I. FOREWORD (CONTINUED)

VIII. On initial appointment in 2017, the members of the FROC attended an orientation seminar conducted by the Ministries of Finance and Legal Affairs as well as a training workshop conducted by the Caribbean Regional Technical Assistance Center (CARTAC).

IX. The FROC is required to report to the House of Representatives annually on the status of implementation of the Act. Under section 14(4) of the Act the Report shall include the following –

(a) the progress made towards compliance with the fiscal rules and targets established under sections 7 and 8 with respect to the relevant financial year including where applicable a statement on compliance with a fiscal rule or target within the fiscal year;

(b) outcomes and implications of implementation of the Act;

(c) advice on measures that ensure compliance in accordance with provisions of the Act;

(d) the occurrence of circumstances leading to the activation of the automatic correction mechanism for cases of significant observed deviations for the targets included in the Act or the adjustment path towards it in accordance with Section 11 and any occurrence or cessation of such circumstances;

(e) progress made in the period of adjustment towards ensuring that compliance with fiscal rules and targets is being made in accordance with the automatic correction mechanism.

X. The FROC's first two Reports covered the fiscal years 2016 and 2017 and were submitted to the Clerk of Parliament on 21 November, 2017 and 30 April, 2018 respectively. This Report reviews the Government's fiscal and debt performance in 2018, based on the data provided by, and discussions with, the Macroeconomic Policy Unit (MPU). It assesses the variances between the actual and targeted performance of Government as well as Government's overall implementation of the Act.

I. FOREWORD (CONTINUED)

XI. As required by section 14(3)(b) of the Act, Reports from the FROC must be laid before Parliament and examined by the Public Accounts Committee, the Standing Orders Committee and the Standing Committee on Finance of Parliament. On 8 November, 2018 the FROC attended a meeting of the Public Accounts Committee at which the 2017 Report was discussed. The FROC held briefings with the media on both the 2016 and 2017 Reports following their submission to Parliament.

XII. In the process of fulfilling its legislative mandate, the FROC held several meetings[1] with the Macroeconomic Policy Unit (MPU) in the Ministry of Finance (MOF) to review the data provided by the MPU for preparation of the 2018 Report and discuss possible fiscal risks facing the Government. The FROC also met with the MPU to discuss proposed amendments to the FRA.

XIII. The FROC wishes to acknowledge the support received from the staff of the MPU as well as the Eastern Caribbean Central Bank (ECCB) in the preparation of this Report.

XIV. As required by section 14(3)(b) of the Act this Report is being forwarded to the Speaker of the House of Representatives to be laid before the House and examined by the Public Accounts Committee, the Standing Orders Committee and the Standing Committee on Finance of Parliament. The FROC appreciates the one-month extension for submission of the Report, graciously granted by the Speaker of the House of Representatives pursuant to section 3(1) (b) of the Fiscal Responsibility (Amendment) Act 11 of 2017.

………………………	………………………	………………………
Richard W. Duncan	**Sabina Gibbs**	**Zanna Barnard**
………………………	………………………	
Adrian Hayes	**Angus Smith**	**30 April, 2019**

[1] See Appendix 1

1.0 EXECUTIVE SUMMARY

1.1 This Report assesses Government's compliance for the 2018 financial year with the fiscal rules and targets as outlined in sections 7 and 8 of the Fiscal Responsibility Act as well as the other requirements outlined in sections 5, 6 and 12 of the Act.

1.2 The Government continued to make progress in 2018 in its efforts to satisfy the requirements of the FRA and ensure its effective implementation. A number of Reports, as required by the Act, were submitted to Parliament in November 2018. Amendments to strengthen the Act, including those recommended by the FROC, have been considered by Cabinet. Following further discussions between the FROC and the MPU proposed amendments are expected to be enacted in 2019. Efforts are ongoing by the MPU to obtain and compile consolidated data for the covered public entities as required by the Act.

1.3 In this Report the following keys are used to assist readers to easily understand the FROC's assessment of compliance with the rules and targets -

Table 1: Compliance Symbols

SYMBOL	INTERPRETATION
	Compliant, without reservations
	Compliant, with reservations
	Non-compliant

1.0 EXECUTIVE SUMMARY (CONTINUED)

1.4 Of the five (5) specific Rules and Targets in the Act there was compliance in 2018 with three (3) with reservations and non-compliance with two (2).

Table 2: Compliance with Rules and Targets

Fiscal Rule	Target	Compliance
1. Section 8(1) - Public Sector Debt to GDP ratio	**Not to exceed 55%**	
2. Section 8(2) - Public Private Partnership (PPP) contingent liabilities	**Not to exceed 5% of GDP**	
3. Section 7(3) - Wage Bill to GDP ratio	**Not to exceed 9%**	
4. Section 7(1)(a) - Rate of growth of primary expenditure.	**Not to exceed 2%**	
5. Section 8(3) - Primary Balance to GDP ratio	**Not less than 3.5 %**	

1.5 The FRA governs ***"matters related to the management of public finances and fiscal matters relating to the Central Government and covered public entities."*** Under the Act, ***"covered public entity" means a statutory body (SB) or state-owned enterprise (SOE) which has (i) received transfers or guarantees from Government in the last five years or (ii) not met the quarterly reporting requirements for three consecutive quarters in the last year or (iii) recorded negative equity on its audited balance sheet in the last three years.*** Appendix II list covered public entities at 31 December, 2018.

1.0 EXECUTIVE SUMMARY (CONTINUED)

1.6 The data submitted by the Macroeconomic Policy Unit for the preparation of this Report does not capture that of the covered entities. The Unit has been working towards ensuring that the full data set, as required by the Act, is available for the preparation of FROC Reports. In the meantime, this omission has given rise to the caution applied in the assessment of a number of Rules and Targets.

1.7 To ensure that Government's fiscal and financial affairs are conducted in a fully transparent manner the FRA as well as the Public Finance Management Act (PFMA) and the Public Debt Management Act (PDMA) requires the submission to Parliament of a number of Reports. To this end the following Reports were tabled in Parliament in November 2018 -

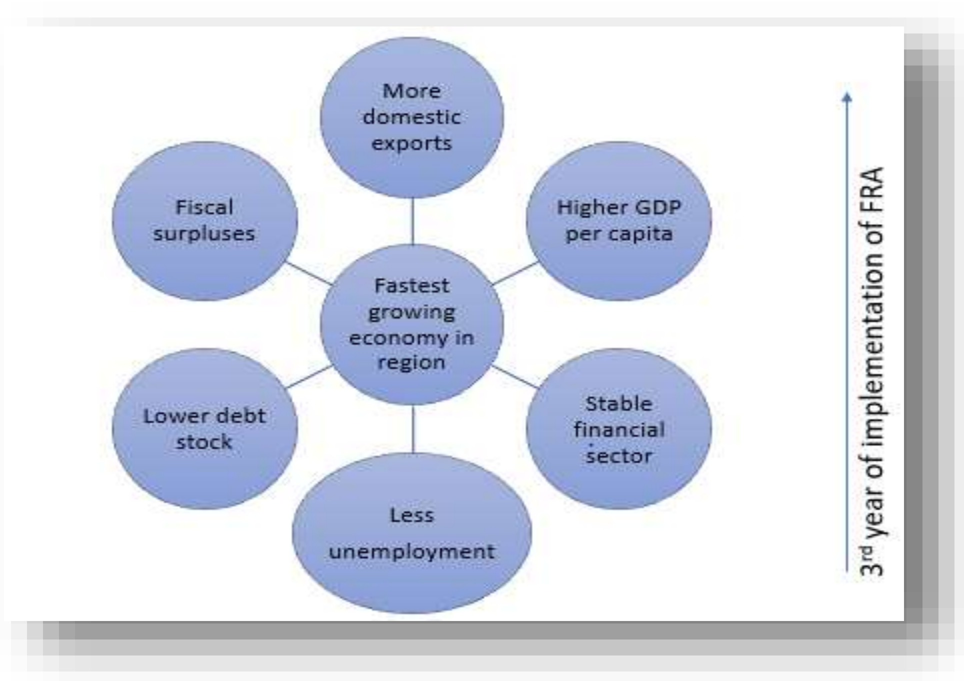
(i) Budget Framework Paper: 2019
(ii) Medium - Term Fiscal Framework: 2019 - 2021
(iii) Compliance Assessment Report: 2017 - 2018
(iv) Fiscal Risk Statement
(v) Medium - Term Debt Management Strategy: 2019 - 2021

Additionally, Government produced an "Annual Economic Review 2018 & Economic Outlook".

2.0 MACROECONOMIC CONTEXT

2.1 Macro-economic developments in Grenada in 2018 were largely favourable, based on the preliminary data available (See Figure 1).

Figure 1: Key Macro-economic achievements of Grenada in 2018[2]



2.2 The economic expansion underway since 2013 continued, as real GDP (at market prices)[3] is estimated to have expanded by 5.2 per cent in 2018 from growth of 5.1 per cent in 2017. Core elements of the 2018 increase were robust construction activity largely associated with private sector led investments in hotel/resort properties; and strong performance of the tourism industry supported by global growth. Accordingly, GDP per capita is estimated to have risen from EC$ 27, 296 in 2017 to EC$ 29,072 in 2018.

2.3 The six-year economic expansion came along with unemployment falling from a high of 32.2 per cent at the end of 2013 to 23.6 per cent by year-end 2017 and further downwards

[2] The Caribbean Development Bank publicised Grenada as the fastest growing economy in 2018 among its 19 borrowing member countries. Other sources of information used were the Ministry of Finance Grenada and the Eastern Caribbean Central Bank.
[3] All real GDP is quoted at market prices.

to an estimated 20.9 per cent in June 2018. The unemployment rate is estimated to have decreased further by year-end 2018, supported not only by the construction boom but also by Government led employment programmes.

2.4 There was still a lack of information and data on movements in poverty and wealth distribution, amid efforts by the authorities to preserve social spending to enhance inclusion.

2.5 Amid volatility in international oil prices, there was relatively low inflation in the domestic economy. The average rate of inflation, measured by the Consumer Price Index (CPI), moved from 0.9 per cent in 2017 to 0.8 per cent in 2018. The end-of-period inflation increased from 0.5 per cent in 2017 to 1.4 per cent in 2018. Both measures of inflation were below their 2018 budgeted values of 2.8 per cent respectively.

2.6 The available central Government fiscal data indicated that the primary surplus rose by 26.4 per cent to $218.1m (6.8 per cent of GDP) in 2018 relative to the prior year, surpassing Approved and Supplementary Estimates for 2018 (See Table 3 below). Total revenue outperformed both set of Estimates. Meanwhile, total expenditure rose year-on-year, resulting from an increase in capital expenditure which focused largely on special projects in rural communities, road development, Parliament building phase one, disaster risk reduction and housing. Capital outlays, however, underperformed relative to both Estimates on account of project management and implementation challenges with grant-financed projects. Of note, roughly seventy per cent of capital grants spent in 2018 were from the National Transformation Fund (NTF). The other major category of expenditure, current outlays, declined year-on-year largely attributed to lower interest payments from debt re-profiling and restructuring. Most remaining components of current expenditure rose year-on year, despite Government's efforts to cut discretionary spending[4]. This was due to one-off salary payments; new pension and public assistance payments; and higher outlays on goods and services.

[4] The Ministry of Finance gave directives in June 2018 to all spending ministries with the intention to reduce by 5.0 per cent discretionary spending (especially supplies and material) for the remainder of the year, in relation to their budgeted allocations.

2.0 MACROECONOMIC CONTEXT (CONTINUED)

Table 3: Summary of Grenada's Central Government Fiscal Operations 2017-2018

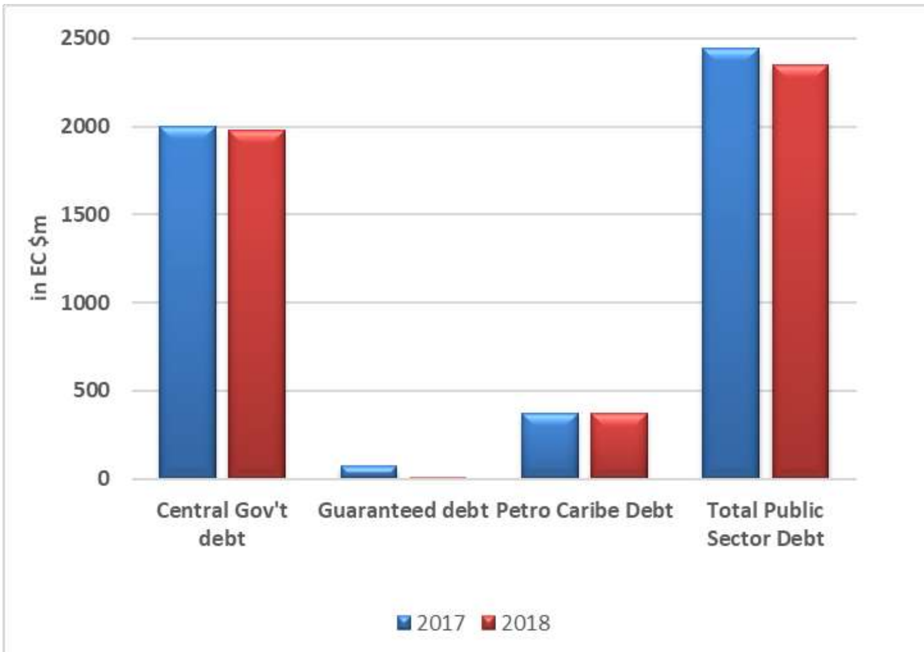
(in EC$m unless otherwise stated)

	2017 Actual	2018 Approved Estimates	2018 Supplementary Budget	2018 Actual
Total Revenue	**700.1**	**710.4**	**725.4**	**755.9**
Total Grants	**78.1**	**148.0**	**96.5**	**94.3**
o/w: Capital grants	64.2	143.0	91.5	74.9
Total Expenditure	**686.5**	**778.4**	**716.8**	**695.3**
Current expenditure	605.9	607.1	614.8	595.8
o/w: Wages and salaries	246.8	265.6	256.0	251.6
o/w: Interest payments	81.0	67.8	67.8	63.2
Capital expenditure	80.6	171.3	102.0	86.8
Primary Expenditure less capital grant related expenditure	541.3	567.5	557.5	557.1
Real Primary Expenditure less grant/NTF-funded capital spending (annual % change)	**0.6**	**3.9**	**2.0**	**2.0**
Primary Balance after grants	172.6	147.8	172.9	218.1
Primary Balance after grants (% of GDP)	**5.7**	**4.9**	**5.4**	**6.8**
Wage bill (% of GDP)	**8.1**	**8.3**	**8.0**	**7.8**

Source: Ministry of Finance Grenada. Notes: The Approved Estimates for 2018 were prepared in October 2017, except the FRA target indicators (highlighted in grey) which were re-calculated end-June 2018. The Supplementary Budget Estimates were prepared as at end-June 2018. The 2017 and 2018 Actuals were received in March 2019.

2.7 The improved fiscal performance, among other factors, aided debt reduction. The public sector debt (which comprised central Government debt, Government guaranteed debt and Petro Caribe Debt) is estimated to have contracted by 3.7 per cent to $2,350.1m (72.8 per cent of GDP) in 2018. This level is understated since complete data is unavailable on the total debt and contingent liabilities of SB's and SOE's at the end of December 2018. Almost all guaranteed debt was reclassified to SOE debt mainly because of restructuring by an SOE which consolidated and refinanced its debt, and no longer required Government guarantee. (See Figure 2 for the debt stocks between 2017/2018).

Figure 2: Debt Stocks in Grenada during 2017-2018



Source: Ministry of Finance, Grenada. Data received in March, 2019

2.8 The total debt of all but two (2) SOEs (excluding Petro Caribe) was $170.2m (5.3 per cent of GDP) at the end of the third quarter of 2018 (the latest available period)[5].

[5] Source: https://www.finance.gd/docs/Q42018BULLETIN.pdf

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018

3.1 Summary

3.1.1 The extent of compliance with the Fiscal Rules and the attainment of the Fiscal Targets are pivotal to the sustainability of Grenada's public sector finances.

3.1.2 Much of the improvements in Grenada's public finances have been, by design, from structural reforms and adjustments. However, medium to long term sustainability rests on lowering unemployment as the economy grows and fiscal prudence, in particular, enhanced tax administration and efficient management of expenditure.

3.1.3 As indicated earlier in this Report the following keys are used to assist readers to easily understand the FROC's assessment of compliance with the Rules and Targets:-

Table 4: Compliance Symbols

SYMBOL	INTERPRETATION
	Compliant, without reservations
	Compliant, with reservations
	Non-compliant

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.1 Summary (continued)

Table 5: Tabular Summary of Assessment of Compliance

FISCAL RULES	FRA TARGETS	2017 Actual	2018 Target	2018 Actual	COMPLIANCE	COMMENTS
1. Public Sector Debt to GDP Ratio	Not to exceed 55%	80.2%	N/A	72.8%	**NO** STOP	**Non-compliant.** (i) No intermediate public sector debt to GDP Ratio target was set in 2018. (ii) The FROC recognizes that there has been improvement in the reporting of the debt of SOEs, but remains concerned that all debt and contingent liabilities assumed by the Government, SOEs and SBs are not captured. The Macroeconomic Policy Unit articulates an intent to correct this deficiency in the medium-term. (iii) Given that the ratio was above 60% in 2017, corrective measures ought to have been taken to bring the ratio down to 55% within 3 years (by 2020) with 1/3 of the adjustment taking place in the first year 2018.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.1 Summary (continued)

Table 5: Tabular Summary of Assessment of Compliance (continued)

FISCAL RULES	FRA TARGETS	2017 Actual	2018 Target	2018 Actual	COMPLIANCE	COMMENTS
2. Contingent liabilities arising from public-private partnerships	Not to exceed 5% of GDP				**NO**	**Non-compliant** FROC is still not satisfied that the Macroeconomic Policy Unit has a firm handle on this subject. The Fiscal Authorities are yet to scrutinize the relationships between Government, Government agencies and private entities. However, one (1) relationship of recent vintage has been reviewed.
3. Wage Bill to GDP Ratio	Not to exceed 9%	8.1%	≤9.0%	7.8%	**YES**	**Compliant.** However, the wages of covered entities are not included in this ratio. The Macroeconomic Policy Unit articulates an intent to correct this deficiency in the medium-term.
4. Growth in Primary Expenditure (in real terms)	Not to exceed 2%	0.6%	≤2%	2%	**YES**	**Compliant** However, the growth in primary expenditure of covered entities is not included in this ratio. The Macroeconomic Policy Unit articulates an intent to correct this deficiency in the medium-term.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.1 Summary (continued)

Table 5: Tabular Summary of Assessment of Compliance (continued)

FISCAL RULES	FRA TARGETS	2017 Actual	2018 Target	2018 Actual	COMPLIANCE	COMMENTS
5. Primary Balance	Not to be less than 3.5% of GDP	5.7%	≥3.5%	6.8%	**YES**	**Compliant.** However, data of covered entities are not included in the calculation of the primary balance. The Macroeconomic Policy Unit articulates an intent to correct this deficiency in the medium-term.

3.2 Assessment of Compliance

3.2.1 Public Sector Debt to GDP Ratio:

3.2.1.1 **Legal Requirement – Section 8(1):** ***(a) "the total stock of public sector debt from domestic or external sources for any purpose, including the total sum of debt guaranteed by the Government including contingent liabilities assumed by the Government, but excluding contingent liabilities arising from, as a result of, or in connection with public-private partnerships; (b) the debt and contingent liabilities of SBs and SOEs; and (c) such sums as may be necessary to defray expenses in connection with such liabilities, to the GDP shall not exceed fifty-five percent of GDP"***.

3.2.1.2 **Legal Requirement – Section 8(5):** ***"If in a fiscal year the debt level exceeds sixty percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year"***.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.2 Assessment of Compliance (continued*)*

3.2.1 Public Sector Debt to GDP Ratio: (continued)

3.2.1.3 Steady and significant progress has been made towards the attainment of the 55% Debt to GDP target. However, the fiscal authorities remain ambivalent as to whether or not the Petro Caribe debt is part of the public debt. In the abundance of prudence and conservatism the FROC treats the Petro Caribe Debt, which amounted to $372.1m (11.5 per cent of GDP) in 2018, as part of the public debt.

The FROC is also of the view that the Fiscal Authorities have a firmer handle on the types of debt and a more comprehensive understanding of its dynamics than in the prior years.

Given that the ratio was above 60% in 2017, corrective measures ought to have been taken to bring the ratio down to 55% within 3 years (by 2020) with 1/3 of the adjustment taking place in the first year, 2018. This implies that the ratio should have declined by 8.4 percentage points in 2018 i.e. 1/3 of (80.2% -55%). The actual decline was 7.4 percentage points (80.2% -72.8%). When compared with last year, those results are noteworthy.

3.2.1.4 It is perplexing that an interim Public Sector Debt to GDP target was not set for 2018, having regard to the crucial importance of debt management in enhancing the viability of the public finances. However, a 2018 Central Government Debt to GDP target was set per Medium-Term Fiscal Framework 2018-2020.

3.2.1.5 The FROC was provided with Government's Medium-Term Debt Management Strategy 2018-2020. This enhanced the 2018 FROC Report.

3.2.1.6 The Fiscal Authorities are on a certain and definitive path of debt reduction**.** This is commendable once sustained.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.2 Assessment of Compliance (continued*)*

3.2.2 Contingent Liabilities Arising from Public- Private Partnerships:

3.2.2.1 **Legal Requirement – Section 8(2):** *The Minister should ensure that contingent liabilities arising from, as a result of, or in connection with public private partnerships* ***shall not exceed five per cent of GDP.***

3.2.2.2 FROC repeats its prior years' position on this matter thus *"FROC is of the considered opinion that the MOF should, as a matter of high priority, scrutinize all relationships between public entities and private entities to determine whether they are Public Private Partnerships as defined by the FRA."*

3.2.2.3 In particular the FROC calls attention to the arrangements for land reclamation and development on Melville Street, St. George's in which the Grenada Ports Authority and the National Insurance Scheme are involved; the Tyrell Bay land reclamation and development in Carriacou in which the Grenada Ports Authority is involved; and arrangements for the provision of postal and related services in which Grenada Postal Corporation is involved.

3.2.2.4 One (1) relationship, of recent vintage, with central Government has been analysed.

3.2.2.5 FROC repeats and reiterates its recommendation in its two (2) previous Reports viz: *"FROC further strongly recommends the establishment of a registry or database of all PPPs and that a system be developed to monitor their performance primarily in respect of acquisition of debt and debt servicing."* The system should also identify and monitor any contingent liabilities for central government resulting from any PPPs present.

3.2.3 Wage Bill to GDP Ratio:

3.2.3.1 **Legal Requirement – Section 7(3):** ***"The Minister shall take appropriate measures to ensure that the ratio of expenditure on the wage bill shall not exceed nine per cent of GDP".***

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.2 Assessment of Compliance (continued)

3.2.3 Wage Bill to GDP Ratio: (continued)

3.2.3.2 As in the 2016 and 2017 Reports, this has been assessed as compliant, with strong reservations. The wage bill figure excludes covered public entities as required by the FRA, suggesting further under reporting. The Macroeconomic Policy Unit articulates an intent to correct this deficiency in the medium-term.

3.2.4 Growth in Primary Expenditure (in real terms)

3.2.4.1 **Legal Requirement – Section 7(1)(a)**: ***"the rate of growth of the primary expenditure of the Central Government, and of every covered public entity, shall not exceed two per cent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate".***

3.2.4.2 The FROC confirms compliance with reservations as the primary expenditure of covered public entities was not included in the data.

3.2.5 Primary Balance

3.2.5.1 **Legal Requirement – Section 8(3)(a): "*Where the ratio of public debt to GDP for the preceding year* reaches fifty-five *per cent; the Minister shall take appropriate steps to ensure that the targeted primary balance shall be a minimum of three point five per cent of GDP".***

3.2.5.2 The FROC confirms compliance with reservations as data for covered public entities was not included in calculating this ratio. The Macroeconomic Policy Unit articulates an intent to correct this deficiency in the medium-term.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.3 Other Requirements in the FRA

Table 6: Other Requirements in the FRA: Status and Compliance

3.3 Other requirements in the FRA	Status and Assessment of Compliance
1. **Section 5(a):** *One of the Objects of the Act, "is to ensure that fiscal and financial affairs are conducted in a transparent manner;"* **Section 5(b):** *One of the Objects of the Act "is to ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications;"* **Section 12 (1) (a):** *The Minister "shall take appropriate measures to ensure transparency in the Government's fiscal operations at every stage of the budget preparation and execution cycle, unless it is reasonably required to withhold publication of information in the interest of national security, or of financial or economic stability;"*	CAUTION The authorities continued to make strides at disseminating information on public finances, due in part to the requirements of the FRA and other public finance legislation. Public finance documents were prepared and presented to Cabinet and Parliament on a timely basis in 2018. They are all accessible online, namely the Budget Estimates and Speech, Medium-Term Debt Management Strategy (MTDS), Fiscal Risk Statement, Budget Framework Paper (BFP), Medium-Term Fiscal Framework (MTFF), Annual Economic Review and Economic Outlook, Compliance Assessment Report, and Borrowing Plan. Also available online are quarterly Citizenship by Investment (CBI) statistics for end 2018, monthly summary fiscal reports up to end October 2018, and quarterly debt bulletins for 2018. Likewise, the 2016 and 2017 Annual Reports of the FROC are also available. Further information is made available to the general public via press releases, social media as well as audio and televised programmes. Of note, the cost/fiscal implications of the main expenditure decisions implemented in 2018 (i.e. pension payments to 56 workers who joined the Service between 1983-1985 and an EC$100 increase in public assistance) were disclosed in the 2019 Budget Speech. Concomitantly, all the expected implications of budgetary measures announced in 2018 (e.g. reduction in the Personal Income Tax and Corporate Income Tax rates) were not fully disclosed in the Speech, although they were factored into the medium-term revenue projections. Fiscal transparency is undermined by constraints in the institutional fiscal framework and by certain reporting practices that are not in line with the FRA. There are different accounting systems between central Government and public corporations, exacerbated by a lack of timely and comprehensive reporting by some of these.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 6: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
	corporations. As a result, there is no consolidated public sector fiscal accounts and fiscal information remain unreported to the public on covered entities. While the total debt of the majority of SOEs, by the end of the third quarter of 2018, was disclosed, it was not included in official public debt reported for end-2018 as required by the FRA. Furthermore, there is incomplete or lack of information in the public domain on certain fiscal or economic decisions/announcements and on their related fiscal costs or risks. Greater public information needs to be disseminated on the potential implications of some of the major components of fiscal policy which can pose risks such as pension, social security and health insurance. Additionally, more information should be shared on the current and projected medium-term debt and contingent liabilities of both SBs and SOEs. Of note, the 2018 Supplementary Budget should be shared online and audited financial statements need to be timelier and continued to be published online.
2. **Section 5(c):** *One of the Objects of the Act "is to ensure that debt is reduced to, and then maintained at, a prudent and sustainable level by maintaining primary surpluses that are consistent with this object;"*	 There have been successive annual reductions in the officially reported public debt to GDP ratio since 2013, when there was a high of 96.3 per cent. This was underpinned by economic growth, debt restructuring and primary balance surpluses. While the FRA did not specify a time frame for attaining the debt target, the FROC reasserts that the fiscal authorities should have done so and calibrated annual debt reducing primary balance targets from 2016. Moreover, as required by the FRA, the debt and contingent liabilities of SBs and SOEs need to be included in officially reported public debt statistics in order to confirm compliance in 2018.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 6: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
3. Section 5(d): *One of the Objects of the Act "is to ensure Prudent management of fiscal risks."* **Section 6(d):** *stipulates that "management of fiscal risks is in accordance with regulations and guidelines to be issued by the Minister;"*	GO There were ongoing initiatives by the authorities in 2018 to manage fiscal risks. Fiscal policy was deployed prudently in order to generate primary surpluses to maintain public debt on a firm downward trajectory. Revenue administration and compliance were strengthened (i.e. there was continued implementation of the compliance strategy) and there were attempted efforts to reduce discretionary expenditure. Notably, fiscal risk management remained embedded in the continued commitment by the authorities to adhere to the FRA in 2018. For instance, the authorities publicly expressed their intention to properly manage negotiations for pension reform within the scope of the FRA so that it does not pose significant risks to public finances.
4. Section 6(c): *Stipulates "no announcements or implementation of any new policy initiative, unless measures that offset the impact of the policy initiative on the primary balance or overall level of spending have been identified;"*	GO The main fiscal initiatives announced in November 2018 were increasing ex-gratia payments and reducing personal income tax and corporate tax. The authorities did not specifically identify offsetting fiscal measures but explained that these expansionary measures were expected to stimulate growth, eventually improving the primary balance. Other budgetary measures announced included the provision of relief for claimants who secured judgements against the Government; and of a soft loan facility for small indigenous hoteliers available at the Grenada Development Bank. The authorities ascertained that the fiscal space was available to accommodate the initiatives announced and expenditure measures related to pension reform and public assistance implemented in 2018, so there was no need for offsetting measures.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 6: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
	It was noteworthy that the authorities tried to preserve the primary balance surplus in 2018 particularly through these measures (i) vigorous enforcement and collection efforts at the Inland Revenue Department and Customs; and (ii) instructions in June 2018 by the MOF to all spending ministries to reduce by 5.0% discretionary spending (especially supplies and material) for the remainder of the year, in relation to their budgeted allocations.
5. **Section 6(e):** *provides that "documented public investment procedures are prepared and made available for the submission and approval of all projects submitted for inclusion in the capital expenditure programmes of the Central Government and covered public entities."*	Part XIII of the Public Finance Management Regulations (SRO 33 of 2015) outlines the procedures and processes for public sector projects to be included in the capital expenditure budget of the Central Government. The Regulations also apply to covered entities which have their separate and individual capital expenditure programmes.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 6: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
6. **Section 7(1)(b):** "*policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government and covered public entities shall be consistent with the targets under section 8(1) and the policies and plans set out in the Medium-Term Fiscal Framework under section 12(2) of the Public Finance Management Act;*"	 The Government negotiates salary increases with central Government workers within the context of the FRA. A three-year (2017-2019) wage negotiation cycle continued to be in effect for these workers in 2018. The negotiated 3% salary increase for 2018 was honored and a 'one-off' payment of a maximum of $750 was made to public workers, all consistent with the relevant provisions of the FRA. Meanwhile, all agreements for salary increases for employees of covered entities were approved by the MOF based on the entity's performance and ability to pay as per the SOE Guidelines. Notably, in April 2018 Cabinet approved the Compensation Management Policy Framework for the public sector, consistent with the rules and targets of the FRA. The Framework includes guidelines/standards for payroll management and wage negotiation, for public sector workers, in compliance with the wage bill rule[6]. The policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government seem consistent with the policies and plans set out in the Medium-Term Fiscal Framework prepared in 2018. The Framework provided projections for the wage bill of central Government workers from 2019-2021 which were in accordance with the FRA. The same could not be verified for employees of covered public entities since the Framework focuses solely on central Government employees.

[6]Source: http://documents.worldbank.org/curated/en/174581529897428157/pdf/Grenada-PD-06012018.pdf

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2018 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 6: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
7. Section 7(1)(c): *"no multi-year commitment shall be entered during a period in which Parliament is dissolved."*	GO Parliament was dissolved in January 2018 and was reopened in April 2018. There was no multi-year commitment during the period in which Parliament was dissolved.
8. Section 7(2)(c): "*the Minister shall, by order subject to negative resolution, establish compensation negotiating cycles that allow for compensation settlement for persons employed by the Government to be incorporated into the Estimates of Revenue and Expenditure for the financial year to which such settlement relates.*"	GO Three-year cycles are negotiated for central Government workers, which are incorporated into the Budget Estimates. The 2017-2019 wage negotiation cycle was factored into the 2018 and 2019 Budget Estimates of Revenue and Expenditure.
9. Section 12(1)(c): *The Minister "shall prepare and submit to Parliament, along with the presentation of the annual and any supplementary budget, a statement showing the progress made towards compliance with the fiscal rules and targets under sections 7 and 8, in the relevant financial year;"*	GO A Compliance Assessment Report was prepared and submitted to Parliament in November 2018 with the presentation of the 2019 Budget Estimates. A Compliance Assessment Report was also prepared and submitted to Parliament in July 2018 with the presentation of the Supplementary Budget 2018. The FROC noted that the text in the final version of the Report was not always consistent with the Fiscal Summary table contained in the Report i.e. the text highlighted estimates for the Revised 2018 Budget done at end-June 2018 but these were not included in the Fiscal Summary table.
10. Section 12(1)(e): *The Minister also has to "prepare and submit to Parliament, with the annual Budget Bill, a fiscal risk statement that shall reflect all decisions by Cabinet and the Minister and circumstances that may have a material effect on the economic and fiscal outlook."*	GO A Fiscal Risk Statement was prepared and submitted to Parliament in November 2018 with the presentation of the 2019 Budget Estimates.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT

4.1 Overview

4.1.1 The positive economic conditions supported FRA implementation in 2018, and vice versa. In fact, the latter was crucial in achieving fiscal improvements. Risks associated with natural disasters, health epidemics, real GDP declines, and fiscal costs in the financial sector did not materialize and there was no need to activate the escape clause of the legislation.

4.1.2 The FRA continued to bind fiscal policy and prompted a review and revision of the Approved Estimates for 2018 by June, leading to the Supplementary Budget[7]. The latter Budget contained estimates for real growth in central Government primary expenditure (less grant/NTF funded capital spending) which was within the FRA ceiling. While there was an intention to reduce discretionary spending, ultimately the challenges with implementing public sector projects largely accounted for the downward adjustment in primary expenditure growth in the Supplementary Budget.

4.1.3 The fiscal stance of the authorities seemed marginally expansionary and pro-cyclical in 2018. Most measures announced and implemented in the year under review were expansionary; and nominal and real primary expenditure (less grant related expenditure) grew amid above-trend real GDP growth. The opportunity cost of this stance includes lower savings, but the authorities assured that an appropriate level of NTF funds were saved during the year. Also, the 2019 Budget Statement mentioned two aspects of savings – that fiscal surpluses are saved and invested to build buffers against economic shocks; and the establishment of a Contingency Fund, after meeting the debt target, which will support response and recovery efforts in the event of a natural disaster.

[7] When the 2018 Approved Estimates were prepared in October 2017, they were reported as being in accordance with the Act's rules and targets. Specifically, one rule, growth in real primary expenditure (less grant/NTF-funded capital spending) was originally budgeted at 1.9 per cent in 2018, compared with 2017 provisional data. When this growth was re-calculated at end-June 2018, compared with the 2017 actual data, it was budgeted at 3.9 per cent in 2018 which was above the 2 per cent FRA ceiling. The Supplementary Budget Estimates were prepared as at end-June 2018, with real primary expenditure growth (less grant/NTF-funded capital spending) budgeted at 2.0 per cent.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.1 Overview (continued)

4.1.4 The 2019 Budget Statement alluded to the Public Sector Investment Programme (PSIP) as one of the key factors contributing to strong economic performance in 2018. This was despite the underperformance of the capital programme. Growth may have been higher in 2018 with the implementation of a larger PSIP (contingent on positive fiscal multipliers) but perhaps not in accordance with the primary expenditure rule (if loan financing was mostly used for additional spending). An emerging issue is whether the FRA rules and targets can potentially pose a binding constraint on the PSIP and growth.

4.1.5 Another notable feature in 2018, was the seemingly "implicit sanction" that financing arrangements (external grants/concessionary loans) imposed on the Government encouraged compliance with the FRA. The 2019 Budget Speech highlighted that "it is important to note that a lot of the external support Grenada is receiving is due to us maintaining good fiscal discipline and staying within the provisions of the FRL". The loss of potential and much needed funding for development was a stated consequence of Government's deviation from the fiscal responsibility legislation. One form of funding approved in 2018 was Grenada's First Fiscal Resilience and Blue Growth Development Policy Credit (DPC) from the World Bank (US$30m) intended to support fiscal measures and compliance with the FRA.

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act

4.2.1 The stated principal fiscal policy objective in the medium-term is to reduce the debt to GDP ratio to a value which is below the FRA's target. The authorities are therefore aiming for sustainability in debt ratios to ultimately create space to combat economic downturns.

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act (continued)

They forecasted that this will occur in 2020/2021[8], albeit the use of a narrow definition of public debt relative to the one in the FRA.

4.2.2 In order to reach the debt objective, the Government intends to continue to use revenue and expenditure strategies. Revenue strategies, which do not have explicit targets in the FRA, are likely to benefit from prior administrative reforms and strong anticipated medium-term growth. On the other hand, challenges are foreseen for the expenditure strategies mainly because of the focus on implementing interventionist supply side policies. Policy priorities in the medium-term emphasize expenditure - utilising committed undisbursed balances from external creditors; improving implementation of the PSIP; and meeting implicit contingent liabilities particularly those on pension and health insurance reform.

4.2.3 Against this context, the 2019 budgeted expenditure estimates appear conservative. It assumes that any wage and pension liabilities in the medium-term would be in line with the FRA. Growth in real primary expenditure is budgeted at the FRL cap in 2019-2020, reflecting the pressure on Government finances. The conclusion of negotiations and court proceedings on 2020-2022 wages and on pensions[9] respectively are crucial in determining the FRA compliance of medium-term outcomes. Fiscal policy must therefore manage tradeoffs between submitting to public demands and ensuring that public debt remains on a downward trajectory.

4.2.4 There are further uncertainties relating to the cost of the National Health Insurance (NHI) project, which the Budget Framework Paper (BFP) describes as a targeted intervention in 2019. While an amount has been budgeted for initial work related to the NHI in 2019, the cost of actual implementation of such reforms has not been identified. The project would

[8] Most public finance documents presented to Parliament in November 2018 highlighted that the public debt to GDP ratio is projected to decline below 55.0 per cent of GDP in 2020. The Macroeconomic Policy Unit stated in March 2019, however, that the projected year for attainment of the target was by 2021.

[9] The Budget Framework Paper 2019 mentions comprehensive pensions reform (the Pension Restoration and Reform Project) as a medium-term strategic priority.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act (continued)

require fiscal space, among competing priorities, and financing that would have to be eventually programmed for 2020 and 2021[10].

4.2.5 There is a focus on accessing additional finance in the medium-term, despite anticipated conditions such as projected primary surpluses, a PSIP which is largely grant financed, and a level of undisbursed funds targeted for use. Mobilizing climate finance for development is referred to as a medium-term strategic priority. At the same time, the 2019-2021 MTDS highlighted that the most feasible option for financing Government's needs in the medium-term, which is firmly in line with debt management targets and objectives, is one that assumes utilizing committed undisbursed debt and re-issuing Government securities on the regional market. Any additional funding secured in the short to medium-term seem more likely to be used in the long term, thus Government should not encounter any further accumulation of undisbursed balances which is costly. If more loan financing is utilized and there is an eventual levelling off in NTF financing in the long term, then debt pressures are more likely then. Fiscal and debt sustainability in the longer term seems to be more of an issue, and the receipt of more information on the results of the most recent Debt Sustainability Analysis (DSA) would have been more insightful in that regard.

4.2.6 A balancing act seems to be required between three aspects of policy focus – increasing the implementation rate of the PSIP; maintaining the role of the state in the growth agenda; and central Government's adherence to the primary expenditure rule. The ideal scale of the infrastructure stimulus to the economy in the medium-term will have to be determined, among other policy targets. Moreover, it is imperative to have a balanced and credible fiscal and growth policy mix to maintain macroeconomic stability.

4.2.7 Fiscal structural reforms are imperative to strengthen efficiency in expenditure. It is commendable that the authorities have seen it fit to target a range of activities in that regard

[10] The Health Economics Unit of the University of the West Indies has produced macroeconomic analyses of the fiscal space for financing the NHI.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act (continued)

including improving the execution of the PSIP; strengthening expenditure control systems; efficiently executing public sector modernization/reform; and conducting a pay and grade exercise to inform any future changes to the wage bill. The emphasis on the PSIP calls for more - deliberations on the capacity available versus what is needed to implement the PSIP in the near to medium-term; ideal levels of capital expenditure for the economy; and realistic implementation rates.

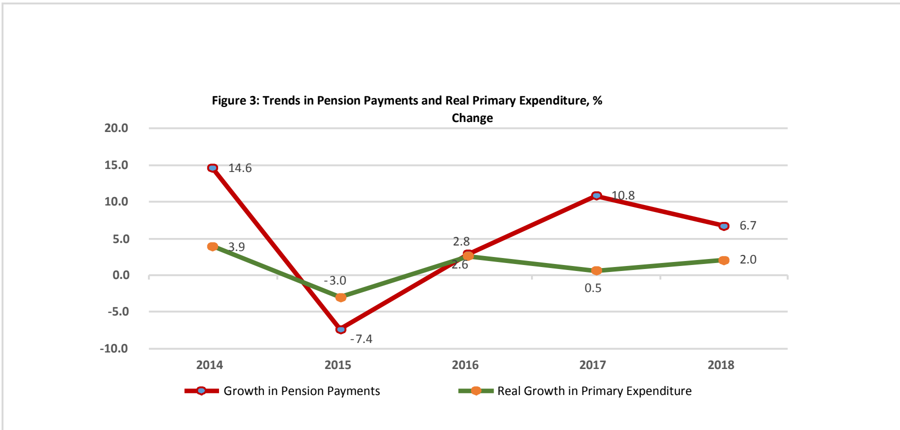
4.3 The Implications of the FRA on Pension Restoration and Reform in Grenada

4.3.1 Since its enactment in 2015, the Fiscal Responsibility Act (FRA) has provided an important anchor for sound fiscal policy and debt management in Grenada. The FRL was birthed during the HSAP, which was implemented over the period 2014-2017. The combined implementation of fiscal measures, growth enhancing initiatives and successful debt restructuring efforts under the programme led to significant improvements in the primary and overall fiscal balances and a reduction in the debt stock (see Section 2 of the report).

4.3.2 Notwithstanding these improvements, Grenada remains vulnerable to a number of adverse economic shocks and fiscal risks. These shocks include natural disasters and developments that could constrain global economic growth. On the fiscal side, one of the main fiscal risks currently being confronted by the Government is Pension Restoration and Reform, which has implications for the attainment of the fiscal targets embedded in the FRA. According to the FRA, a fiscal risk is ***"the possibility that actual fiscal outcomes will deviate from the fiscal outcomes expected at the time of the presentation of the annual estimates of revenue and expenditure".***

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.3 The Implications of the FRA on Pension Restoration and Reform in Grenada (continued)



4.3.3 The commitment by the Government to restore and reform pension in the Memorandum of Understanding (MOU) signed with Public Sector Unions and Staff Associations on 18 February, 2018 bears with it additional fiscal costs. These fiscal costs, namely the honoring of pension benefits, will add to total primary expenditure. However, adherence to the FRL, requires that real growth in primary expenditure does not exceed 2.0 per cent, except in situations where the escape clause is triggered and the primary balance would need to be recalibrated. Pension payments to eligible pensioners, increased 10.8 per cent in 2017 and 6.7 per cent in 2018, lower than the rate of growth of 14.8 per cent recorded in 2014, when retroactive payments were made (see figure 3). However, during these years the primary expenditure rule was not breached.

4.3.4 The Government has already begun to fulfil its commitment to Pension Reform and Restoration as agreed to under Phase 1 of the MOU. Pension benefits amounting to $7.7m were paid to 56 eligible public officers who joined the public service between 4 April, 1983 to 22 February, 1985. However the full extent of the cost of Phase 1 was not known at the time of writing this report, as pension payments are to be made to eligible public officers who joined the service from 22 February, 1985 to 31 December 2018. Meanwhile, the cost to the Government under Phase 2 is likely to be lower as the intention is for a contributory

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.3 The Implications of the FRA on Pension Restoration and Reform in Grenada (continued)

pension scheme for established and non-established workers. Given the forgoing, it is imperative that those expected additional pension costs be mitigated through a combination of factors that would yield consistent and robust fiscal revenue and contain overall expenditure.

4.4 Medium-Term Macroeconomic Forecasts and Implications of the Act

4.4.1 The medium-term outlook shows expected compliance of central Government's fiscal operations with the FRA (See Table 7). It is based on the assumption of average real GDP growth of 4.0 per cent, which will help to support compliance (See table 7 below).

Table 7: Medium-Term Macro-Economic Forecasts for Grenada

	2019		2020		2021	
	Fiscal Rule	Projected	Fiscal Rule	Projected	Fiscal Rule	Projected
Growth of Real Primary Expenditure less capital grants (Annual % change)	2.0%	2.0%	2.0%	2.0%	2.0%	1.8%
Wage Bill (% of GDP)	9.0%	8.1%	9.0%	7.6%	9.0%	7.4%
Primary Balance (% of GDP)	3.5%	6.0%	3.5%	6.2%	3.5%	6.7%
Contingent Liabilities related to PPPs (% of GDP)	5.0%	0.0%	5.0%	0.0%	5.0%	0.0%
Debt Anchor: 55% of GDP*						
Public Debt (% of GDP)		56.5%		50.6%		44.7%
Notes: * the FRL does not stipulate a year in which the 55% is to be reached.						

Source: Medium-Term Fiscal Framework (2019-2021)

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.4 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

4.4.2 While there is space (difference between projection and FRA ceiling) for higher than budgeted wage expenditure provided that forecasted growth is realised, there is little or no space for additional real primary expenditure (less grant/NTF funded capital spending) in the medium-term. The forecasted growth in real primary expenditure (less grant/NTF funded capital spending) of central Government will be almost or at the FRA cap over the next three years.

4.4.3 Projected inflation, one of the key inputs into the growth in real primary expenditure (less grant/NTF funded capital spending) forecast, has been predominantly higher than actuals in the last few years. Pessimistic inflation expectations contribute to underestimated budgeted growth in real primary expenditure (less grant related expenditure). In the preparation of the medium-term outlook, an estimated period average rate of inflation of 2.8 per cent was used for 2018 which was higher than the actual rate of 0.8 per cent. The budgeted growth in real primary expenditure (less grant/NTF funded capital spending) of central Government in 2019 is in breach of the Act, using the primary expenditure and inflation outturns in 2018 and budgeted estimates for 2019. A supplementary budget is envisaged for 2019. In adjusting the Approved Estimates for 2019 dichotomy in policy priorities may result– cutting approved estimates for capital spending versus focusing on increasing implementation of the PSIP versus making use of undisbursed loan balances. The inflations expectations over the medium-term – a period average rate of about 2.4 per cent per annum- should be scrutinized against the latest global inflation expectations for commodities over the medium-term.

4.4.4 The forecasts also imply that there is either no policy intention to engage in new PPPs and/or assume any contingent liabilities in any PPPs established in the medium-term. Considering the policy focus on the PSIP, it would perhaps be worthwhile for the Government to scrutinize the medium-term PSIP projects to identify whether any project(s) could provide more returns through the PPP arrangement, within the parameters of the FRA.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.4 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

4.4.5 The projected debt trajectory is favourable, albeit this debt only includes central government and guaranteed debt. The forecasts do not include Petro Caribe Debt. The primary surplus floor is intended to be kept at 3.5 per cent in 2021 even after the debt target is perceived to be achieved in 2020. The FRA is ambiguous in guiding fiscal policy after attaining the debt target. Maintaining the 3.5 per cent primary surplus is among a few of its diverging requirements. (Figure 4).

Figure 4: Certain Fiscal Rules in the FRA after reaching the Debt to GDP Target

4.5 Adequacy of Risk Assessment by Government

4.5.1 The Fiscal Risk Statement submitted to Parliament in November 2018 was assessed by the FROC as being inadequate. The assessment of the Statement, which is depicted in Figure 5, was done in relation to the requirements of the FRA.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.5 Adequacy of Risk Assessment by Government (continued)

4.5.2 A number of specific fiscal and other macro-economic risks were acknowledged in the Statement however, the disclosure was not adequately comprehensive in some cases and the relationship of the risks to the fiscal baseline projections was not always clear. The Statement could have encompassed the following areas: (i) contingent liabilities associated with outstanding and adverse court judgements;(ii) any implications on fiscal and debt sustainability from the demise of the Petro Caribe arrangements; (iii) fiscal scenarios under different assumptions for central Government's liabilities relating to national health insurance and pension reform , as well as under different wage assumptions for the public wage negotiation cycle for the next triennium beginning 2020; and (iv) the estimated impact of any acceleration/deceleration in climate change financing. These risk factors could have been quantified through the presentation of alternative scenarios to the baseline projections. Furthermore, clarity should have been given on commitments and circumstances unaccounted for in the medium-term forecasts.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.5 Adequacy of Risk Assessment by Government (continued)

Figure 5: FROC's Summary Evaluation of the Fiscal Risk Statement of November 2018

Where we are……..

- general overview of risks and their potential implications
- reported on the severity of identified risks
- provided analysis of the vulnerability of debt to growth shocks
- no indication of whether pending reforms (e.g. pension and health insurance) or circumstances (e.g. exploration/harnessing of oil and natural gas) are accounted for in forecasts
- stated ongoing measures to manage risk
- prescribed measures for mitigating risks

Where we ought to be….

- identify sources of risk and potential implications
- conduct and present sensitivity analyses of macroeconomic forecasts to shocks
- estimate/quantify risk magnitude (i.e. probability of event and its potential impact)
- greater disclosure of Government contingent liabilities
- disclosure of any fiscal risks arising from the financial sector, public entities and other institutions
- report commitments and circumstances unaccounted for in the economic and fiscal forecasts
- highlight any specific recent measures to manage fiscal risks OR provide updates on ongoing measures.

4.5.3 An enhanced Fiscal Risk Statement which incorporates more analyses and discloses more information would engender not only greater transparency but also increased credibility. The FROC is hopeful that the quality of the Statement will improve with the commitment to greater disclosure of information; build-up of experience in compiling this report; and the dedication of resources towards this exercise.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act

4.6.1 There are several issues for the authorities to consider in the further implementation of the FRA. Some of the issues have already surfaced and are likely to persist in the medium-term, while others may become more pronounced in the long term. They are discussed below.

(i) The sustainability of economic growth over the medium to long term to support adherence to the fiscal responsibility legislation. While the FRA has inbuilt mechanisms to provide insulation from adverse shocks and troughs or to deal with them, ideally growth promotes compliance. The economic cycle translates to an eventual plateau of growth. Transition of the economy following an imminent cooling down of the construction boom is crucial. It is hoped that the upcoming national development plan will articulate a clear strategy for growth in the long run which would be consistent with the FRA;

(ii) The assumption upon which the primary expenditure rule was based - potential output growth estimate in 2014 – may no longer be relevant by 2021 if the economy grows as envisaged by the authorities. Based on the medium-term projections of the authorities, by 2021 there is likely to be a near decade of 4.7 per cent average real GDP growth. If potential growth increases by then there is a case for revisiting the primary expenditure ceiling;

(iii) The FRA mirrors the case for identification, monitoring and valuation of contingent liabilities in Grenada. It is imperative to closely monitor contingent risks and liabilities to avoid their materialization or to sufficiently prepare the fiscal space for such events. Financing under the World Bank's 2018 DPC should be effectively and efficiently utilized for this purpose. More inclusive monitoring of the public sector would enhance assessments of the country's current and projected fiscal and debt positions;

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

(iv) There are ambiguities in the FRA which should be addressed in an appropriate and timely manner. It is laudable that the authorities have acknowledged the need to revisit the legislation to clarify these ambiguities. Any revisions, however, must be properly managed, as too many amendments not long after enactment and in close succession can raise credibility concerns among the public, investors and creditors;

(v) The effective operationalisation of the FRA and other public finance legislation call for adequate human resource capacity; drawing from different expertise; and effective and efficient use of available public sector staff. This must be a crucial consideration under public sector reform. A concern is whether the MPU, the de facto Division of Economic Management and Planning, is adequately resourced to fulfil its current mandate related to the requirements of the FRA and other public finance legislation. The Unit is also the de facto Monitoring Unit of SOEs and SBs. Notably, in the Ministry of Finance, four (4) policy analyst positions were budgeted in 2019, down from five (5) in 2018. Also, an addition of two (2) planning officers were budgeted in 2019. Hopefully, the Unit will be adequately staffed in 2019;

(vi) Fiscal reporting is a major input to fiscal policy discussions and there is always scope for enhancing such reports presented to Parliament. There is a noted tendency to repeat content across reports, requiring some review and revisions across documents. Consistency is also needed within and across reports. Regarding consistency, a consistent measure of inflation should be used for all years to calculate growth in real primary expenditure. Furthermore, consistency is needed in the public debt definition across reports. The MTDS focuses solely on central Government debt, while other reports extend debt coverage to include Government guaranteed debt of public entities. Although the PDMA mandates contingent liabilities of central Government as part of the public debt, the MTDS highlights a target for only Central

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

Government debt-to-GDP to be less than or equal to 55.0 per cent by 2021. Meanwhile, other reports mentioned attaining lower than the targeted debt level by 2020, even with a broader definition of debt. Another fundamental issue is that compliance cannot be reported in circumstances where data is omitted or lacking;

(vii) ***Improvements in accounting systems as well as fiscal and debt statistics compilation are essential to proper decision making on fiscal matters.*** It is commendable that the authorities have recognized the need to produce more comprehensive fiscal statistics**.** The Government is aiming to have a consolidated public sector fiscal account (central Government and covered entities) in place in the medium-term. Also, efforts are geared at reporting the wage bill of these entities for the 2019 reporting cycle. On a larger scale, the medium-term strategic priority of strengthening national data and statistics will be associated with a targeted intervention in 2019 to develop the Statistics Institute Project. Alongside this, there should be advancements in central Government fiscal statistics from the present modified cash basis to accrual-based financial statements. Reports should present information on the consolidated public sector including revenue, expenditure and financing on both cash and accrual bases;

(viii) ***Gaps in transparency can negatively impact the quality of fiscal policy, so it is important that those be addressed.*** There was greater transparency in reporting different types of public debt but they were not consolidated in the overall reported debt figure for 2019. While the authorities provide a wealth of public finance information, they do not systematically provide enough information on key elements of fiscal risks to the broader public. Generally, public information is lacking on long term fiscal policy goals and challenges; the entire public sector; the status of fiscal structural reforms such as those related to the PSIP; and fiscal costs for certain measures. Publishing briefs on long-term fiscal and debt sustainability is something

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

to consider as it would perhaps strengthen public consensus on the FRA compliance approach to indispensable reforms. Also, information about the PPP arrangement which Government entered in September 2018 should be publicly available including fiscal commitments to the project as well as potential fiscal implications of the project;

(ix) ***While the FRA promotes establishing a prudent liquidity position through saving of NTF receipts and reducing dependence on the use of CBI revenue, the medium-term budget framework is very reliant on using NTF deposits to fund the PSIP.*** The medium-term liquidity position of the Government is of concern. Furthermore, the very long-term redemption profile displayed in the 2019-2021 MTDS indicates the highest levels of debt amortization from 2019 to 2023;

(x) ***The issue of whether Petro Caribe Grenada Ltd. debt should be included in total public sector debt, has not yet been clarified.*** During 2018 the MOF in Grenada continued to monitor and receive quarterly reports from PDV Grenada Limited, just as if it were a covered entity. The Public Debt Quarterly Bulletin (Quarter 3 2018) captured the debt obligations of Petro Caribe under “other debt” as it was stated as an implicit contingent liability to Government, while the Quarter 4 Bulletin captured Petro Caribe debt under SOE debt. The IMF Country Report No.14/196 highlighted that "Because PDV Grenada is incorporated under the Companies Act 1994 as a limited liability company, the Government’s liability is limited only to the unpaid amounts (if any) on shares it holds in the company (i.e. the Government is not liable for the debts of the company). Therefore this debt is excluded from the stocks of central Government contracted or guaranteed debt." Meanwhile, IMF Country Report No.17/400 stated that the additional debt contracted with Petro Caribe (which was not previously recorded) was included in gross public sector debt from 2016 in St Vincent and the Grenadines, a regional counterpart to Grenada;

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

(xi) ***The FRA is silent on excluding NTF revenues, while it is explicit on the exclusion of the NTF expenditure.*** Under current fiscal recording practices by the authorities, NTF revenues are recorded simultaneously as capital grants and capital expenditure, excluding both NTF revenue and related expenditure from fiscal rules and targets. Meanwhile, the FRA restricts but does not exclude the use of receipts from the CBI programme for meeting the primary balance target after debt to GDP reaches 55.0 per cent. The recording and exclusion of NTF revenues, relative to objectives of the FRA, need to be reconsidered. All CBI inflows (including NTF revenue) should be included in the fiscal data, with the corresponding outflows; and

(xii) ***Reporting on like net debt worth (assets minus liabilities) of the public sector may be something to consider in the medium to long-term.*** This indicator can complement the analyses done with the conventional debt to GDP ratio. Internationally, fiscal statistics have evolved to stock positions and economic flows of financial assets and liabilities.

The following are issues raised in the 2017 Report which the FROC wishes to reiterate:

(i) To further improve debt management practices, the MOF should consider establishing an interim debt to GDP ratio;

(ii) In the event of a natural disaster, the Act can be suspended for a period no greater than one year. However under section 10(7) the Minister may under certain special circumstances extend the period for an additional one year. As a result, the disaster management and recovery machinery must be efficient and swift. This should therefore be a priority area for the government;

(iii) Uncertainty regarding the implementation of impending initiatives such as the National Health Insurance and pension reform; and contingent liabilities of covered entities are potential risks to the adherence of the legislation;

(iv) Sustained economic growth is paramount in maintaining compliance with the Act.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

(v) Greater citizenship engagement on the legislation is required to improve accountability and transparency in all matters relating to compliance to the FRA and fiscal and economic issues; and

(vi) The FROC should be provided with the resources as well as all data and documents required on both the public sector and covered entities, in a timely manner, to effectively fulfil its mandate as an oversight committee.

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION

5.1 The **Fiscal Responsibility Act No. 29 of 2015** (FRA) was created in order to govern the matters that are related to the management of public finances and fiscal matters relating to the Central Government and covered public entities in Grenada. It is part of the cluster of legislation designed to protect the gains of the home-grown structural adjustment programme, by strengthening institutional and regulatory arrangements governing public financial management. It is to be read and construed together with the Public Finance Management Act No. 17 of 2015 (PFMA) and the Public Debt Management Act No. 28 of 2015 (PDMA).

5.2 The Grenada FRA is a unique and significant piece of legislation given its ultimate intention and objective as set out in section 5.

5.3 The FROC has made certain recommendations for amendments to the FRA. These recommendations are contained in the FROC's Annual Reports of 2016 and 2017. (See Appendix IV). The FROC's recommendations for improvements to the FRA have been considered and endorsed by the MOF. The MOF has also made its own recommendations towards enhancing the Act.

5.4 At a meeting of the FROC and officials from the MOF on the 13 March, 2019, careful consideration and further analysis of the FRA legislation were done. The FROC and MOF agreed that additional amendments to certain specific sections of the FRA are needed in order to clarify ambiguities; introduce specificity; and ensure consistency with other financial Acts and policies. These include the following sections -

i) Section 2 – definition of public debt;
ii) Section 2 – definition of public-private partnership;
iii) Section 2- definition of wage bill;
iv) Section 7(1) (a) – inflation;
v) Section 8(1)(a)-(c) – debt target;

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION (CONTINUED)

vi) Section 8(3)(a) – debt target;
vii) Section 8(3)(f)(i)-(ii) – national transformation fund (NTF);
viii) Section 8(3)(f)(iii) – national transformation fund (NTF);
ix) Section 8(4) – public debt;
x) Section 8(5) – debt target buffer;
xi) Section 11(1) - stabilizing public debt;
xii) Section 11(2) – stabilizing public debt;
xiii) Section 11(3)(i)-(ii) – recalibration;
xiv) Section 11(4) – recalibration;
xv) Section 12(d) – reporting;
xvi) Section 12(e) – reporting;
xvii) Section 14(2) – FROC's tenure; and
xviii) Section 14(4) – FROC's annual report.

5.5 The FROC and MOF have also acknowledged observations made by the IMF that portions of the Fiscal Responsibility Legislation (FRL) ought to be revised. These include the following:

i) revising the debt definitions in the FRL to remove ambiguity and align with the concept of non-financial public sector;
ii) revising the definition of primary balance in the FRL to be consistent with Central Government's primary balance;
iii) to recalibrate law at debt stabilizing balance;
iv) revising the FRL to apply the expenditure rule to current primary expenditure;
v) determining the primary expenditure profile in nominal terms based on the 2018 outturn and a 20-year historical average for nominal GDP growth;
vi) recalibration – update base level of current primary expenditure;
vii) inserting a cap on current primary expenditure as a share of GDP;
viii) addressing ambiguity in the wage rule/s and considering aligning with new expenditure rule methodology; and
ix) resolving inconsistencies between the FRL and the PFM Act and PDM Act.

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION (CONTINUED)

5.6 As it stands given the extensive amount of amendments which the FROC, MOF and IMF believe are necessary to enhance the FRA, it is the FROC's respectful submission that the current legislation – the Fiscal Responsibility Act No. 29 of 2015 – should be repealed and replaced. Given the significant amending to be done to the current FRA, a new FRA reflecting the improved changes would be a preferred approach, as simplicity and "reader-friendliness" would be achieved in understanding legislation, as opposed to having to read different amended sections if the current FRA is kept.

5.7 It is submitted that the changes to the above sections are necessary and the need for same have become apparent to the FROC through its journey of preparing the Annual Reports from 2016 to present. Dialogue is ongoing with the MOF and FROC hopes that all the proposed amendments would be enacted in 2019.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Macroeconomic conditions were ideal for FRA compliance in 2018 and while complete data and information are not available for the entire public sector, central Government's performance largely followed the Act. Grenada continues to be in a very critical phase of sustaining the successes of the 2014-2017 IMF supported Home grown programme and implementing crucial public finance legislation.

6.2 In the country's transition to the full adoption of the FRA, it is inevitable that lessons be learnt, best practices emerge, and adjustments be made for improvement. Grenada took a bold step in enacting fiscal responsibility legislation at a time in which it was not data ready; the policy institutional framework was improved but not yet ideal; and when financial resources to support compliance such as the World Bank's DPC had not yet been accessed. The public finance legislative agenda is comprehensive and rigorous. It calls for, at least, a sound policy and technical approach; communication and public inclusion; and political commitment. Moreover, fiscal policy under the FRA ideally must be implemented not at the expense of, but within the wholistic context of inclusive growth and development. Policymakers must take a long-term perspective to this.

6.3 The medium-term outlook shared by the authorities is favourable, but still delicate with uncertainties surrounding the fiscal baseline. Uncertainties are even more pronounced in the long term, contingent on the sustainability of growth, among a confluence of factors. Medium-term policy priorities focus on continued strengthening of the revenue base in order to preserve social and infrastructure outlays. The medium-term agenda aims for accelerating "inclusive, job rich growth, as well as poverty reduction." There is an emphasis on inclusive fiscal policy, but expenditure is a constraint.

6.4 Given this era of above-potential growth[11], policymakers should keep up the momentum from the HSAP to implement reforms that improve labor supply and investment; support entrepreneurship; promote digital transformation; and raise medium-term incomes. Fiscal buffers should be strengthened to prepare for the next economic downturn.

[11] Potential economic growth refers to the rate at which economic output could increase if all resources were utilized most efficiently.

6.0 CONCLUSION AND RECOMMENDATIONS (CONTINUED)

6.5 The FROC seeks to ensure full implementation of the FRA in the medium to long term and in doing so aims to develop collaborative mechanisms, modalities and relationships in the fulfilment of this mandate. Accordingly, the FROC continues to spearhead efforts to establish an MOU with the MOF. The Committee also seeks to contribute towards a culture of fiscal responsibility, transparency, and accountability. Within this context the following are recommendations from the FROC based on its review of 2018 macro-economic performance and compliance with the FRA:

(i) Undertake exercise to identify, monitor and valuate contingent liabilities of central government, SOEs, and SBs. Design and set up a legal and administrative framework for managing contingent liabilities. Integrate contingent liabilities (fiscal risks) into fiscal analysis and the budget process;

(ii) Promote savings through urgent development of the Contingency Fund;

(iii) Increase transparency on long term fiscal and debt sustainability. Greater disclosure and public sensitization needed on current issues that may have a greater impact in the longer term;

(iv) Negotiate financing arrangements in the medium-term which would incur minimal or no costs for undisbursed balances;

(v) Create a working group to include external expertise (e.g. from ECCB) to monitor, assess and report on fiscal risks;

(vi) Revisit methodology for forecasting inflation;

(vii) Issue a policy statement on targeted time frame for expanding fiscal and debt data coverage to the entire public sector;

(viii) Strengthen efforts to improve PSIP management in line with the PFMA Regulations.

(ix) Publish all public finance legislation especially the FRA on Government's official website;

(x) Ensure preservation of critical infrastructure investment with the scope of the FRA;

(xi) Repeal and replace FRA with agreed amendments; and

(xii) Continue assessment of issues relating to climate change and resilience building to inform how these can be incorporated into the implementation of the FRA.

FROC Activities – Appendix I

Date	Activity/Engagements	Purpose
4 May, 2018	Meeting with the FROC and IMF Article IV Consultation Delegation.	Overview of the FROC's work to date.
11 May, 2018	Meeting with the FROC and IMF Article IV Consultation Delegation.	Re: 2016 and 2017 Annual Reports.
21 June, 2018	Attended opening of new Parliament Building.	Public Relations.
18 July, 2018	FROC Committee Meeting.	Planning and Administration.
26 July, 2018	Held media briefing.	Re: 2017 Annual Report.
31 October, 2018	Meeting with the FROC and the IMF's 2018 ECCU Common Policy and Article IV Consultation Delegation.	Overview of Grenada's FROC.
8 November, 2018	Meeting with the FROC and the Public Accounts Committee.	Re: 2017 Annual Report.
17 November, 2018	Meeting with the Prime Minister and representatives from various sectors in Grenada.	Re: Fiscal risk (pension reform).
19 November, 2018	Attended Throne Speech.	General Oversight
21 November, 2018	Attended 2019 Budget presentation.	General Oversight
15 January, 2019	FROC Committee Meeting.	Planning and Administration.
1 February, 2019	Meeting with the FROC and the IMF World Bank Joint Mission.	Status of the implementation of the Fiscal Responsibility Legislation.
12 February, 2019	Meeting between the Chairman of the FROC and the World Bank Development Policy Credit Mission.	Update on the work of the FROC.
13 February, 2019	Luncheon attended by the Chairman hosted by the High-level Delegation from the IMF.	Public Relations.
13 March, 2019	Meeting with the FROC and Ministry of Finance.	Proposed amendments to the Fiscal Responsibility Legislation.
20 March, 2019	FROC Committee Meeting.	Preparation of the 2018 Annual Report.
27 March, 2019	Meeting with the FROC and the Ministry of Finance.	Preparation of the 2018 Annual Report.
1 April, 2019	Meeting with the FROC and the Permanent Secretary of the Ministry of Finance.	Courtesy call.
25 April, 2019	FROC Committee Meeting.	Preparation of the 2018 Annual Report.

Covered Public Entities at 31 December, 2018 – Appendix II

		Qualifying Factors			
		Reporting	Transfers	Equity	Government Guarantees
1	Child Protection Authority		√		
2	Financial Complex Limited		√		
3	Grenada Investment Development Corporation		√		
4	Grenada Airports Authority			√	
5	Grenada Bureau of Standards		√		
6	Grenada Cultural Foundation		√		
7	Grenada Development Bank				√
8	Grenada Food & Nutrition Council		√		
9	Grenada National Stadium Authority		√		
10	Grenada Postal Corporation			√	
11	Grenada Tourism Authority		√		
12	Petro Caribe			√	
13	Spice Mas Corporation		√	√	
14	T.A. Marryshow Community College		√		
15	Marketing & National Importing Board	√	√		

Source: Macroeconomic Policy Unit

Selected Macroeconomic Indicators – Appendix III

In EC $m unless otherwise stated

	2013	2014	2015	2016	2017	2018
Total Revenue and Grants	**471.5**	**602.8**	**649.5**	**751.6**	**778.1**	**850.2**
Current Revenue	**440.3**	**502.3**	**571.3**	**651.6**	**700.1**	**755.9**
Tax Revenue	**376.8**	**448.1**	**511.8**	**600.5**	**651.8**	**704.1**
Taxes on Income & Profits	66.1	89.9	101.7	127.3	140.6	153.9
Taxes on Property	15.1	21.4	23.3	23.9	24.3	29.3
Taxes on Domestic Goods & Services	92.4	104.1	116.1	140.0	147.7	151.4
Taxes on International Trade Transactions	203.2	232.8	270.6	309.3	339.2	369.5
Non-tax Revenue	**63.5**	**54.2**	**59.4**	**51.1**	**48.2**	**51.8**
Grants	**31.3**	**100.5**	**78.3**	**100.0**	**78.1**	**94.3**
Budgetary Grants	0.0	9.9	0.0	26.0	13.9	19.4
Capital Grants	31.3	90.6	78.3	74.0	64.2	74.9
Primary Expenditure	**552.0**	631.3	597.3	603.3	605.5	632.1
Primary Expenditure less NTF/Grant Related Capital Spending	**520.8**	**540.7**	**519.0**	**529.3**	**541.3**	**557.1**
Real Growth in Primary Expenditure less NTF/Grant Related Capital Spending (%)	**7.9**	**3.9**	**-3.0**	**2.6**	**0.6**	**2.0**
Total Expenditure	**632.3**	**718.1**	**688.9**	**685.6**	**686.5**	**695.3**
Current Expenditure	**471.9**	**491.4**	**468.9**	**565.5**	**605.9**	**595.8**
Employee Compensation	**254.5**	**253.8**	**225.9**	**251.6**	**265.2**	**264.3**
Personal emoluments, Wages & Allowances	243.5	242.4	215.3	240.4	246.8	251.6
Social contribution to employees	11.1	11.4	10.6	11.2	18.4	12.7
Goods & Services	**75.9**	**72.2**	**76.0**	**117.6**	**126.5**	**130.7**
Interest payments	**80.3**	**86.8**	**91.7**	**82.3**	**81.0**	**63.2**
Transfers	**61.1**	**78.6**	**75.3**	**113.9**	**133.2**	**150.3**
Capital Expenditure	**160.5**	**226.7**	**220.1**	**120.1**	**80.6**	**86.8**
Grants	*31.3*	90.6	78.3	74.0	64.2	74.9
Local Revenue	*70.9*	96.2	101.1	28.7	6.1	1.5
Loan	*58.4*	39.9	40.7	17.4	10.4	10.4
Primary Balance after grants	**-80.5**	**-28.5**	**52.3**	**148.3**	**172.6**	**218.1**
Overall Balance after grants	**-160.8**	**-115.3**	**-39.4**	**66.0**	**91.6**	**154.9**
Primary balance (after grants) as a % of GDP	**-3.5**	**-1.2**	**1.9**	**5.2**	**5.7**	**6.8**
Memo Items						
Real GDP Growth (%) (Constant Prices)	**3.2**	**6.5**	**5.6**	**2.2**	**4.6**	**5.1**
Real GDP Growth (%) (Market Prices)	**2.4**	**7.3**	**6.4**	**3.7**	**5.1**	**5.2**
Nominal GDP in EC$m (Market Prices)	**2,275.1**	**2,461.0**	**2,691.9**	**2,866.4**	**3,042.6**	**3,230.0**
GDP per capita (EC$)	**20,953.0**	**22,501.2**	**24,450.7**	**25,844.4**	**27,295.8**	**29,072.2**
Wage Bill in EC$m	**243.5**	**242.4**	**215.3**	**240.4**	**246.8**	**251.6**
Wage bill as a percent of GDP	**10.7**	**9.9**	**8.0**	**8.4**	**8.1**	**7.8**
Public Debt (Central Gov't, Guaranteed, and Petro Caribe) in EC $m	**2,500.3**	**2,610.5**	**2,652.9**	**2,612.9**	**2,441.5**	**2,350.1**
Public Debt (Central Gov't, Guaranteed, and Petro Caribe) in % of GDP	**109.9**	**106.1**	**98.6**	**91.2**	**80.2**	**72.8**
Public Debt (Central Gov't and Guaranteed) in EC $m	**2,190.1**	**2,248.4**	**2,296.6**	**2,253.6**	**2,069.3**	**1,977.9**
Public Debt (Central Gov't and Guaranteed) in % of GDP	**96.3**	**91.4**	**85.3**	**78.6**	**68.0**	**61.2**
Unemployment rate (%)	32.2	29.3	29.0	28.2	23.6	20.9
Inflation Rate (end of period) (%)	-1.2	-0.6	1.1	0.9	0.5	1.4
Inflation Rate (period average) (%)	**0.0**	**-1.0**	**-0.6**	**1.7**	**0.9**	**0.8**
Notional Compensatory Balance	-	-	-	-	*-2.2*	*-5.4*

Notes

Real primary expenditure growth calculated using period average rate of inflation. 2018 data is preliminary; GDP data for 2018 was estimated by the MPU.

Source: Central Statistics Office and Ministry of Finance, Grenada. *Data as at March 2019*

Suggested Amendments to the FRA – Appendix IV

Suggested Amendments from 2016 Report:

Suggested Amendment 1:

1) It is submitted that an amendment to **Section 14(2) Schedule II of the Fiscal Responsibility Act (Amendment) Act No. 11 of 2017** is needed.
2) As it stands now, Section 14(2) Schedule II of the Fiscal Responsibility Act (Amendment) Act No. 11 of 2017 provides:

   "2. Tenure and revocation.

   (1) The Governor General shall appoint as Chairperson of the Fiscal Responsibility Oversight Committee one of the four members nominated by the Committee of Privileges upon the Committee of Privileges nominating the member to be the Chairperson.

   (2) A member of the Committee shall hold office for a period not exceeding three years and shall be eligible for re-appointment subject to subsection (3).

   (3) In no case shall a person hold office as a member of the Committee for a period exceeding four consecutive years, but a person who has served for a period of four consecutive years may become eligible for re-appointment after the expiration of two years.
3) There is ambiguity in the wording of the provision for tenure and revocation. It is submitted that the intention of Parliament is that members of the FROC are to be conferred with a term of office not exceeding three (3) years – Section 14(2)(2). The intention of Section 14(2)(3) is to prevent any person from serving for a period exceeding four (4) consecutive years. The cumulative period of any number of terms should not exceed four consecutive years. Accordingly, there can be reappointments. For instance, there can be four one-year appointments.
4) It is respectfully suggested that an amendment should be made to Section 14 (2) on the provision of tenure and revocation for members of the FROC that clearly communicates the following intentions:

Suggested Amendments to the FRA – Appendix IV (continued)

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 1: (continued)

i) That a member of the FROC can initially have a tenure in office for a maximum period of three years;

ii) At the end of that three-year tenure; the member can be eligible for re-appointment for a term of one year;

iii) A person shall not hold office as a member of the FROC for a period exceeding four consecutive years; and

iv) After serving as a member of the FROC for a period of four consecutive years, a person may only become eligible for re-appointment after the expiration of two years.

Suggested Amendment 2:

1) **Section 8** of the **Fiscal Responsibility Act No. 29 of 2015** (FRA) sets out the fiscal targets for a fiscal year and specifically provides for, *"prudent debt, contingent liabilities, and primary balance target."*
2) Overall there is a need to reduce the ambiguity with the debt to GDP ratio.
3) Section 8(3) of the FRA is notably silent on what measures the Minister can implement when the ratio of public debt to GDP is over fifty-five per cent.
4) Section 8(3) currently provides:

   "(3) ***Where the ratio of public debt to GDP for the preceding year reaches fifty-five per cent****, the Minister shall take appropriate steps to ensure that –*

   (a).. – (f)(i), (ii), (iii)."
5) Accordingly, it is respectfully suggested that Section 8(3) of the principal act should be amended. This amendment would therefore replace the words, *"where the ratio of public debt to GDP for the preceding year reaches fifty-five per cent*, the Minister shall take appropriate steps to ensure that -…" with the following:

   "**Once the ratio of public debt to GDP is fifty-five per cent or more the Minister shall take appropriate steps to ensure that –**

Suggested Amendments to the FRA – Appendix IV (continued)

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 2: (continued)

(a) *the targeted primary balance shall be a minimum of three point five per cent of GDP;*

(b) *upon achievement of the target specified in paragraph (a), the target shall be maintained over the medium term by ensuring compliance with the expenditure growth rule established in section 7(1)(a);*

(c) *as a transitional arrangement, the targeted primary balance shall be at a minimum one point three per cent of GDP in the fiscal year ending in December 2015;*

(d) *a notional compensatory primary balance shall be calculated to reflect the cumulated difference between the target primary balance and the actual primary balance, by subtracting the actual primary balance from the target primary balance as realized in any fiscal year from the first full fiscal year after commencement of this section;* ***[This paragraph 8(3)(d) herein by virtue of the Fiscal Responsibility (Amendment) Act 1 of 2016 is repealed and replaced by paragraph 8(3) (d) of the Principal Act]***

(e) *If at any time the notional compensatory balance shows a value greater than three per cent of gross domestic product, revenue and/or expenditure corrective policies will be introduced to reduce the notional compensatory primary balance to zero over a period of three fiscal years to achieve compliance with the target, with at least one third of the adjustment in the first year;*

(f) *Where the programme established under the Citizenship by Investment Act, 2013 is in effect –*

   i) *forty per cent of the monthly inflows into the National Transformation Fund shall be saved for general budget financing purposes, including contingency spending, natural disasters and debt reduction;*

Suggested Amendments to the FRA – Appendix IV (continued)

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 2: (continued)

ii) at the end of every month, the inflow under subparagraph (i) shall be transferred from the National Transformation Fund account to the Consolidated Fund account; and

iii) upon achievement of the debt levels pursuant to subsections (1) and (2), the total sum of receipts from the programme, which are used for meeting the primary balance targets shall not exceed the equivalent of one point five per cent of GDP.

Suggested Amendment 3:

1) It is further submitted that the aforesaid suggested amendment 2, would conflict with the current provision of Section 8(5) of the principal act which states:
   "*If in a fiscal year the debt level exceeds sixty percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five per cent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.*"
2) Given that the ratio of public debt to GDP shall not exceed fifty-five per cent as stipulated in section 8(1), it is submitted that section 8(5) also needs to be amended to ensure consistency in the statement of the ratio of public debt to GDP as provided in subsection 8(1), and in-keeping with the suggested amendment to section 8(3) above.
3) Presently section 8(5) speaks to the corrective revenue and expenditure measure to be employed by the Minister to reduce public debt when the debt level exceeds sixty per cent of GDP.

Suggested Amendments to the FRA – Appendix IV (continued)

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 3: (continued)

4) It is respectfully submitted that section 8(5) of the FRA should be accordingly amended to reflect the following:
   "If in a fiscal year the debt level exceeds fifty-five per cent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five per cent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.**"**

Suggested Amendments from 2017 Report:

Suggested Amendment 1: Amendment to Section 14(6)(c) of FRA

Section 14(6)(c) of the FRA currently provides:

"(6) Where the Fiscal Responsibility Oversight Committee lays before the House of Representatives a report pursuant to paragraph (b) or (c) of subsection (3) –

(c) the Public Accounts Committee, the Standing Orders Committee and the Standing Committee on Finance of Parliament shall proceed to examine the report together and the representations made by the Minister and shall make recommendations to the House of Representatives on the implementation of measures to ensure compliance with the relevant provisions of this Act."

FROC's suggestion:

As it relates to Section 14(6)(c) of the FRA, the FROC suggests that a deadline or time-frame should be clearly set for the examination of the Annual Report by the Public Accounts Committee, the Standing Order Committee and the Standing Committee on Finance.

Suggested Amendments to the FRA – Appendix IV (continued)

Suggested Amendments from 2017 Report: (continued)

Suggested Amendment 2: Amendment to Section 8 of FRA

Section 8 of the FRA makes provision for among other things the ratio of public sector debt to GDP.

FROC's observation:

The FROC's and the Ministry of Finance's (MOF) interpretation of this section differs as it is not clear. The FROC interprets the Debt to GDP target to be 55% and if this ratio exceeds 60% appropriate measures must be taken to reduce the debt to 55% over a three-year period. The FROC further interprets this provision to be currently in effect.

The MOF sets no yearly debt to GDP targets in order to get it to 55%. The MOF states also that it is only when the 55% level is achieved and subsequently surpasses 60%, will the three-year rule be effective.

The Act does not state the timeframe when the 55% is to be met. However, in interpreting this section, one has to look at the spirit and intention of the Act. The FROC is of the view that it will be best in the long-run to maintain the fiscal authority to set annual targets in pursuant of the 55% debt to GDP ratio.