FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE (FROC)

2022 ANNUAL REPORT

31st March, 2023

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FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

FROC
Fiscal Responsibility Oversight Committee

31st March 2023

Mr. Andrew Augustine
Clerk of Parliament
Office of the Houses of Parliament
Parliament Building
Mt. Wheldale
St. George

Dear Mr. Augustine,

RE: SUBMISSION OF THE 2022 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 above-mentioned report for consideration by the House of Representatives.

The Escape Clause of the Fiscal Responsibility Act (Section 10) was invoked in 2020 and was in effect for 2021 and 2022. This Annual Report reflects the suspension of the fiscal rules and targets which are normally required to be reported on under the Fiscal Responsibility Act. The Annual Report therefore focusses on the invoking of the Escape Clause and matters relating to fiscal transparency. It also assesses the consistency of the 2023 national budget and the medium-term fiscal framework with the Fiscal Responsibility Act. The report also examines the Fiscal Responsibility Act and its implementation and advances proposals for its reform. I shall therefore be grateful if you will bring this report to the attention of the Honourable Leo Cato, 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,

Ms. Laurel Bain
Chairwoman

Members: Laurel Bain, Chairwoman | Leon Bullen| Kim George | Kippling Charles | Annette Henry
Secretary: Michelle Millet | P.O. Box 1798 |Pannell House |Grand Anse |St. George's

ABBREVIATIONS AND ACRONYMS

APP	Awareness and Public Participation Programme
BFP	Budget Framework Paper
CARTAC	Caribbean Regional Technical Assistance Centre
CBI	Citizenship by Investment
CESS	Covid-19 Economic Support Secretariat
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Legislation
FROC	Fiscal Responsibility Oversight Committee
FY	Fiscal Year
GDP	Gross Domestic Product
GOG	Government of Grenada
HSAP	Homegrown Structural Adjustment Programme
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPU	Macroeconomic Policy Unit
MTDS	Medium-Term Debt Management Strategy

ABBREVIATIONS AND ACRONYMS (CONTINUED)

NGO	Non-Governmental Organisation
NHI	National Health Insurance
NSDP	National Sustainable Development Plan
NTF	National Transformation Fund
PDMA	Public Debt Management Act
PFMA	Public Finance Management Act
PPP	Public-Private Partnership
PSIP	Public Sector Investment Programme
RGSM	Regional Government Securities Market
SB	Statutory Body
SGU	St. George’s University
SLCHBS	Survey of Living Conditions and Household Budget Survey
SOE	State-Owned Enterprise
WEO	World Economic Outlook

GLOSSARY

“arrears” means Government obligations from the current and past years that are due but have not been paid;

“capital expenditure” means non-recurrent expenditure on goods, works and services carried out by the Government or any public entities on its own or by one or more public entities in conjunction which is aimed at accumulating new physical assets with usable value for more than one financial year or improving or rehabilitating such existing physical assets to achieve development objectives;

“Central Government” means every branch, ministry, department, agency of the Government and includes all special funds established and maintained by the Government under the Consolidated Fund;

“covered public entity” means a statutory body or state-owned enterprise for which any of the following applies –

(a) the entity has received transfers of any kind from the Budget, including subventions or guarantees for any year in the five-year period immediately preceding the fiscal year;

(b) the entity has, for three consecutive quarters in the preceding fiscal year, not met the quarterly reporting requirements established by the Minister; or

(c) the audited balance sheet of the entity has recorded a negative equity position as at the end of one of the preceding three financial years;

“expenditures” means expenditures of the Central Government and covered public entities and includes –

(a) interest and non-interest spending

(b) current spending under the Recurrent Expenditure Chart of Accounts; and

(c) capital spending under the Capital Expenditure Chart of Accounts;

GLOSSARY (CONTINUED)

"fiscal balance" means the total receipts into Central Government accounts and accounts of covered public entities (excluding debt receipts and unspent grants) less total disbursements (excluding repayment of debt) during the financial year;

"fiscal risk" means 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 arising from matters such as -

(a) economic outcomes differing from the assumptions made in the budget;

(b) the structure of public debt;

(c) the potential call on explicit Government guarantees and the realization of other contingent liabilities, including those associated with public-private partnerships; and

(d) the occurrence of natural disasters and other 'acts of God';

"fiscal target" means a specified quantitative limit against which a particular fiscal variable is measured and monitored;

"primary balance" means the overall fiscal balance before interest expense.

"primary expenditure" means the total expenditure less interest payment on debt in a fiscal year;

"public debt" includes all direct liabilities of Central Government and covered public entities including advances, arrears, compensating claims, finance leases, Government securities, loans, overdrafts, promissory notes, supplier's credit agreements and contingent liabilities but excludes explicit contingent liabilities arising as a result of or in connection with public-private partnerships;

"public-private partnership" means a contract or arrangement governed by a long-term procurement contract between one or more public entities and one or more private entities, for providing or managing a public asset and associated services, through the appropriate sharing of resources, risks and rewards;

"public sector" means the Central Government, the National Insurance Scheme, statutory bodies and state-owned enterprises;

GLOSSARY (CONTINUED)

"recurrent expenditure" means expenditures that are not capital expenditures, and includes normal overhead and administrative expenses, purchase of non-capital goods, personnel costs including salaries, emoluments and other benefits of the Government's current and past employees, interest payments and transfers to covered public entities;

"state-owned enterprise" means an entity whether or not incorporated under company law being:

(a) a company in which the Government or an agency of the Government by the holding of shares, is in a position to direct the policy of that company through, among other things, its representation on the governing board of the entity; or

(b) a company, board or Authority established under special legislation which recovers a significant portion of its operating costs through charges on users, and being determined by the Minister to be a state-owned enterprise;

"statutory body" means a body set up by an enactment with statutory powers and operational autonomy to carry out Government related functions and which are part of and under the direct control of the Government;

FOREWORD

The enactment of the Fiscal Responsibility Act No 29 of 2015, as part of the comprehensive update of the fiscal framework legislation[1], together with fiscal consolidation, structural reforms and the restructuring of the public debt constituted key elements of an IMF-supported reform programme. A major goal of the Government was the achievement and maintenance of fiscal and debt sustainability by operating within a legislated fiscal framework. The Fiscal Responsibility Act (FRA) was enacted "*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*."[2]

The Fiscal Responsibility Oversight Committee (FROC) was established under the Act with a mandate to monitor and report to the House of Representatives on the compliance of Government with the FRA. According to Section 14 of the FRA, the FROC is required to:

(3) (a) monitor compliance with the fiscal rules and targets under Sections 7 and 8;

(b) lay before the House of Representatives for consideration, an annual report on the status of implementation of this Act; and

(c) upon request by the House of Representatives, lay before the House of Representatives an assessment report on the degree to which economic forecasts set out in the annual budget or supplementary budget, and supporting documents, comply with the provisions of this Act.

(4) An annual report pursuant to Subsection 3 (b) shall include:

(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;

[1] Other key pieces of legislation included the Act 28 of 2015: The Debt Management Act and Act 17 of 2015: The Public Finance Management Act.
[2] Preamble to Act No. 29 of 2015: The Fiscal Responsibility Act.

FOREWORD (CONTINUED)

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

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

(d) the occurrence of circumstances leading to the activation of the automatic correction mechanism for cases of significant observed deviations from the targets included in this 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.

In keeping with its mandate, this FROC Annual Report for 2022 provides an assessment of the Government's compliance with the FRA.

The core of the report focusses on Government compliance with provisions for invoking the Escape Clause and for fiscal transparency. The assessment is undertaken in the context of Section 10 of the FRA which makes provisions for the application of the Escape Clause and lists the conditions for the suspension of the fiscal rules and targets; and provides for the submission of a Recovery Plan Memorandum to the House of Representatives indicating the measures that would be taken by the Government to return to compliance with the fiscal rules and targets. Fiscal transparency and accountability are assessed as Section 3 of the FRA stipulates that the Act is to operate in conjunction with the Public Finance Management Act (2015) and the Debt Management Act (2015). The Annual Report also examines the consistency of the national budget for 2023 and the medium-term fiscal framework with the fiscal rules and targets.

The basis for the assessment of Government's compliance with the FRA is set out in Sections 6 to 12 of the Act. Sections 7 and 8 specify the fiscal rules and targets as follows:

FOREWORD (CONTINUED)

i. the rate of growth of the primary expenditure of the Central Government, and of every covered public entity, shall not exceed two percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate;

ii. the ratio of expenditure on the wage bill shall not exceed nine percent to GDP;

iii. the total stock of public sector debt from domestic or external sources for any purpose shall not exceed fifty-five percent of GDP;

iv. contingent liabilities arising from, as a result of, or in connection with public-private partnerships shall not exceed five percent of GDP; and

v. Where the ratio of public debt to GDP for the preceding year reaches fifty-five percent, the targeted primary balance shall be a minimum of three point five percent of GDP.

According to Section 8 (5), where in a fiscal year the debt level exceeds sixty percent of GDP, appropriate corrective revenue and expenditure measures are expected to be undertaken 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.

Section 9 deals with the receipts for expenditures that are exempted from the provisions of the FRA. These exemptions are related to grants received for capital expenditures and the associated expenditures, and the use of funds from the National Transformation Fund for capital expenditures.

The main objective of the FRA is to achieve and maintain fiscal and debt sustainability. Once the indicative 55 percent debt to GDP ratio is achieved, Section 11 provides for the recalibration of the primary balance in order to maintain debt sustainability.

The Annual Report is anchored on the following expected outcomes anticipated from the implementation of the FRA as stated in Section 5:

(a) to ensure that fiscal and financial affairs are conducted in a transparent manner

(b) to ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications;

FOREWORD (CONTINUED)

(c) 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; and

(d) to ensure prudent management of fiscal risks.

The report was completed by the FROC which comprises five (5) members who are appointed by the Governor General upon the nomination of the Committee of Privileges of Parliament. Four (4) of the members are nominated in consultation with the Director of Audit, while the fifth member is nominated on the advice of the Governor of the Eastern Caribbean Central Bank (ECCB). The Second Schedule of the Act stipulates that members of the FROC must possess expertise in the areas of accounting, business management, public administration and law while the nominee from the Governor of the ECCB is required to have expertise in economics. Two members of the Committee completed their assignment by August 2022, namely Dr. Angus Friday who served as Chairman of the previous FROC and Mrs. Sally Ann Bagwhan Logie. They were replaced with Ms. Laurel Bain as Chairwoman and Ms. Annette Henry. The other members of the FROC are Mr. Kippling Charles, Ms. Kim George and Mr. Leon Bullen. Dr. Juliet Melville provided technical support and Mrs. Michelle Millet provided secretarial services to the FROC, both on a contractual arrangement. The activities of the FROC in completing this report are outlined in Appendix I.

This report is transmitted to the House of Representatives in accordance with Section 14 of the FRA, which includes the procedures to be followed on the submission of the Report as follows:

(6) Where the Fiscal Responsibility Oversight Committee lays before the House of Representatives a report pursuant to paragraph (b) or (c) of subsection (3)– (a) the House of Representatives shall cause a copy of the report of the Fiscal Responsibility Oversight Committee to be served on the Minister within seven days of receipt of the report and cause a copy to be published in the Gazette within seven days of receipt of the report; (b) the Minister shall make representations in the House of Representatives in response to the contents of the report, including any areas of non-compliance referred to in the report; and (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

FOREWORD (CONTINUED)

recommendations to the House of Representatives on the implementation of measures to ensure compliance with the relevant provisions of this Act.

This Report is accordingly being forwarded to the Speaker of the House of Representatives to be laid in Parliament.

…………………………	………………………………	…..……..……………
Laurel Bain	**Kim George**	**Kippling Charles**
…………………………	…………………………….	
Leon Bullen	**Annette Henry**	**31st March 2023**

MEET THE FROC

Ms. Laurel Bain – Chairwoman

Ms. Laurel Bain, is a former employee of the Eastern Caribbean Central Bank (ECCB) where she served in various positions, including that of Deputy Director in the Research Department, Senior Director of the Statistics Department and Senior Director in the Governor's Office. Ms. Bain has over 25 years of central banking experience and has undertaken economic assessments of countries and considerable research on fiscal policy and tax structures. She has worked extensively with the countries of the Eastern Caribbean Currency Union, regional institutions, and international organisations and development agencies. During her career at the ECCB, Ms. Bain received the Governor's award on two occasions for excellent and dedicated service. Ms. Bain has published books on fiscal policy and continues to write on economic and fiscal policy issues. Ms. Bain is an accredited Director and served as Deputy Chair of the Grenada Authority for the Regulation of Financial Institutions. Ms. Bain holds a Bachelor of Science (B.Sc.) and Masters of Science (M.Sc.) degrees in Economics from the University of the West Indies, Trinidad and Tobago.

Term of appointment expires on 31st August 2024.

Ms. Annette Henry

Ms. Annette Henry, former Registrar of the Corporate Affairs and Intellectual Property Office, Ministry of Legal Affairs, retired from the Public Service of Grenada in August 2022, having served in various capacities as a Public Servant since 6th October, 1980. Ms. Henry is an Attorney-at-Law and holds a Bachelor of Laws (LLB) and Certificate in Legal Education (CLE). Ms. Henry was admitted to the Grenada Bar in November 2003.

Term of appointment expires on 31st August 2024.

MEET THE FROC (CONTINUED)

Mr. Leon Bullen

Mr. Leon Bullen is a Grenadian national and former Country Economist for Anguilla and Saint Lucia at the Eastern Caribbean Central Bank where he has been employed for over 15 years. He has written papers on fiscal and debt issues, energy pricing policies, private sector development and foreign direct investment, among others.

Term of appointment expires January 2024.

Ms. Kim George

Ms. Kim George is a practicing attorney-at-law for the past 22 years and Head of Chambers at the law firm of Kim George & Associates. Her knowledge and experience also extend beyond the law, to civic life and as a director on statutory and private boards. She is also a past member of the Upper House of the Parliament of Grenada.

Term of appointment expires August 2023

Mr. Kippling Charles

Mr. Kippling Charles is a Certified Accountant with over 17 years of experience. He holds a Master's Degree in Business Administration. He is an Accredited Director and a qualified broker on the Eastern Caribbean Securities Market. Currently he serves as the Executive Manager - Finance and Operations at Ariza Credit Union.

Term of appointment expires August 2023

MEET THE FROC (CONTINUED)

Technical and Administrative Support to the FROC

Mrs. Michelle Millet

Mrs. Michelle Millet is a Chartered Accountant and an Assurance Partner at PKF – Accountants and Business Advisers. Mrs. Millet provides administrative support to the FROC.

Dr. Juliet A. Melville

Dr. Juliet Melville is a development practitioner with over 15 years' experience at the Caribbean Development Bank where she served as Acting Director of Economics, Chief Country Economist and Chief Research Economist. She has considerable experience working with regional countries, including Grenada, and with international and regional institutions. Dr. Melville was also a lecturer in the Economics Department, UWI, St. Augustine. She holds a BSc. and MSc. in Economics from UWI and a Ph.D. in Economics from the University of Kent. Dr. Melville provided technical support for the production of the 2022 FROC Annual Report and the FROC's Awareness and Participation Programme.

CHAIRWOMAN'S MESSAGE

I am entrusted with the privilege and challenge to serve as Chairwoman of the Fiscal Responsibility Oversight Committee (FROC). It is a privilege to serve as it provides the opportunity to coordinate ideas and debates on fiscal and debt sustainability among the members of the FROC, comprising a team with expertise in economics, accounting, law and administration. It also provides an avenue to collaborate with institutions, agencies and stakeholders on policies for economic development and transformation while maintaining fiscal and debt sustainability.

The challenge is due to the unpredictable economic environment requiring creative thinking to operate outside the norm for which there is no roadmap. The Covid-19 Pandemic and the political, social and economic fallout were unprecedented. Many governments, including Grenada, resorted to debt financing to cushion the impact of the Covid-19 Pandemic on the population. Public debt expanded and, with the contraction in economic activity, a legacy of the Covid-19 Pandemic is a higher debt to GDP ratio. Beyond the fiscal outcomes, the Covid-19 Pandemic radically altered the global economy, and social and business transactions have been transformed with greater reliance on electronic platforms. This has resulted in economic transactions which are invisible as they cross borders, challenging the traditional approaches to formulating policies and gathering data on the economy. Fiscal and debt sustainability, which is based on comprehensive data, must take into consideration this new mode of interaction among economic agents.

The challenge of achieving fiscal and debt sustainability is complicated by the number of adverse phenomena simultaneously impacting countries. In the wake of the lingering impact of the Covid-19 Pandemic in 2022, the global economy was plunged into further distress with the Russia/Ukraine war which reverberated globally through soaring energy prices. This further aggravated the inflationary spiral which had emerged during the pandemic as a result of disruption to the global supply chain. The aggressive interest rate policy of central banks to curb the unprecedented inflationary spiral, the threats of economic recession, the recent bank failures; social and political unrest, and the destruction caused by extreme weather conditions all have implications for countries' fiscal and debt position. These developments complicate the impact of fiscal policy and are testing the robustness of systems for maintaining fiscal and debt sustainability, particularly in cases where fiscal policy is the main instrument for regulating economic activity.

CHAIRWOMAN'S MESSAGE (CONTINUED)

The ultimate goal of fiscal policy, when combined with other policies, is to develop and transform the economy. Sustained economic growth is fundamental to achieving economic development and transformation. The dismal global economy, and the downside risks if materialized, would constrain the growth of the Grenada economy. However, domestic policies should be pursued in such a manner to buffer the impact of some of the negative developments in the global economy.

The strengthening of linkages in the economy and increasing value added through the development of the creative economy, strengthening agriculture and agro-processing, and establishing a supportive education system should contribute to increasing the value added in the economy and reducing the foreign exchange leakages from the leading tourism industry. Further, improvements in the economic, digital and social infrastructure should boost economic activity.

Fiscal policy, which is guided by the FRA, is the most important instrument for managing the economy. The provisions of the FRA should allow for flexibility by the Executive to manage the economy. It is in this context that a comprehensive review of the FRA is warranted, and as such, the review of the FRA has commenced. The framework for the Government to operate within the FRA should provide for fiscal and debt sustainability while facilitating the implementation of programmes and projects to develop and transform the economy.

On my behalf, and that of the other members of the FROC, I extend appreciation to all who contributed to the completion of the Report.

Ms. Laurel Bain
Chairwoman
Fiscal Responsibility Oversight Committee.

ACKNOWLEDGEMENT

The Fiscal Responsibility Oversight Committee (FROC) is honoured to accept the mandate to monitor and report to the House of Representatives on the compliance of Government with the Fiscal Responsibility Act (FRA). The FROC is appreciative of the time taken by the Honourable Dickon Mitchell, Prime Minister and Minister of Finance to receive the courtesy call by the Chairwoman of the FROC. The newly appointed members of FROC benefitted from a familiarisation workshop with the officials in the Ministry of Finance on the relevant Acts of Parliament. The Macro Policy Unit of the Ministry of Finance provided the information necessary to undertake the assessment of the Government's compliance with the FRA and the realism of the medium-term economic outlook. The FROC wishes to express its appreciation to the supportive public officers for their cooperation and the timely submission of the information. The FROC acknowledges the technical guidance provided by the Director of the Caribbean Regional Technical Assistance Centre (CARTAC) and his team.

The 'Awareness and Public Participation (APP)' programme outreach, with representatives of the private sector, commercial banks, the Cooperative League, the Public Workers Union, the Inter Agency Group of Development Organisations and the St Patrick's Youth Organisation, was well received. The FROC is appreciative of their comments and suggestions on the FRA and on economic issues. The FROC is also thankful for the work of the previous FROC whose reports were informative in the preparation of the Annual Report for 2022.

Thanks to the Honourable Leo Cato, the Speaker of the House of Representatives, for his engagement with the Chairwoman on the work of the FROC and for transmitting the FROC Annual Report for 2022 as stipulated in the Fiscal Responsibility Act. Thanks are also extended to Andrew Augustine, Clerk of Parliament and to the staff of Parliament for their support of the process.

Ms. Laurel Bain
Chairwoman of the Fiscal Responsibility Oversight Committee (FROC), on behalf of the FROC.

EXECUTIVE SUMMARY

The Fiscal Responsibility Act (FRA) of 2015 and its amendments set out rules and targets to guide the conduct of fiscal policy in Grenada. The FRA together with the Public Finance Management Act (2015) and the Debt Management Act (2015) are intended to ensure fiscal discipline, transparency in government financial transactions, accountability in government operations, and fiscal and debt sustainability. The Fiscal Responsibility Oversight Committee (FROC) was established under the FRA with the mandate to monitor and report to the House of Representatives on the compliance of Government with the provisions of the FRA.

The declaration of a state of emergency by the Governor General as a result of the Covid-19 Pandemic and the negative impact of the pandemic on economic growth led to the suspension of the fiscal rules and targets for fiscal year (FY) 2020 through to FY 2022. Following the suspension of the fiscal rules and targets in 2022, the Government returned to the fiscal rules and targets in 2023. In the wake of this suspension, the FROC's report for 2022, therefore, examines compliance of the government with the requirements for the suspension of the fiscal rules and targets in 2022; the transparency of government's fiscal operations in 2022; and the consistency of the 2023 budget and medium-term fiscal framework with the FRA. The FROC also examined the FRA and its implementation and put forward proposals for its reform.

Economic Performance

During the 2020 - 2022 suspension period, the economy began to recover from a 13.8 percent decline in GDP in 2020 brought about by the COVID-19 Pandemic. The economy grew by 4.7 percent in 2021, even as the tourism industry contracted further, as stayover arrivals declined by 4 percent following a 73 percent contraction in 2020. Despite the decline in stayover arrivals in 2021, the hotel sector recorded significant growth of 37 percent as it benefited from the longer length of stay required by the COVID-19 quarantine regulations. A rebound in tourism and the acceleration of construction activity in a general election year resulted in a 6 percent expansion of the economy in 2022.

The fiscal situation improved moderately in 2021 compared with 2020 when the fiscal balances turned negative. Further improvement was recorded in 2022, as revenue outpaced the budgeted amount due to the growth in tax revenue associated with higher prices, the receipt of budgetary support in the form of grants and Citizenship by Investment (CBI) related flows.

Debt level remained elevated over 2020 – 2022 due to the continued disbursements of funds from loans contracted to assist with COVID-19 related expenditures and for the rehabilitation and upgrade of the Maurice Bishop International Airport. The Central Government outstanding debt, which was 58 percent of GDP in 2019, increased to 71 percent of GDP in 2020 mainly as a result of the steep decline in GDP. This moderated, thereafter, to 64 percent in 2022. The inclusion of the debt of statutory bodies and state-owned enterprises (excluding the Petro Caribe debt) resulted in a public sector debt to GDP ratio of 69.1 percent in 2022. The inclusion of the Petro Caribe debt pushes total public sector debt to 80.5 percent of GDP.

The Government has projected growth rates of 3.6 percent for 2023, 4.0 percent in 2024 and 4.8 percent in 2025, averaging 4.1 percent over the medium-term. The projected economic growth is achievable over the medium-term, if the economic strategy outlined by the Government is successfully implemented.

There are many downside risks associated with the achievement of the targeted growth over the medium-term with implications for fiscal and debt sustainability. These include macroeconomic risks linked to sluggish growth in global output and persistent inflation; the uncertainty related to the possible impact of proposed legislation by the European Union and the USA to penalise nations offering Citizenship-by-Investment (CBI) programmes; the impact of climate change; and threat of cyber-attacks in an electronically dominated environment. However, there is scope for expansion in the economy, and with an aggressive transformation programme the projected economic growth over the medium-term could be achieved.

Suspension of the fiscal rules and targets for 2022

The suspension of the fiscal rules and targets in 2022 was in compliance with the Escape Clause of the FRA. The Suspension Order Memorandum was made and dated November 2021 in accordance with Section 10(2-3) of the FRA. In this, the Minister explained the rationale for the Order as: *"… the existence of a State of Emergency declared by the Governor General pursuant*

EXECUTIVE SUMMARY (CONTINUED)

to Section 17(1) of the Constitution and the cumulative decline in real GDP over the last two consecutive fiscal years of equal or greater than three percent." These reasons advanced for the suspension were consistent with Section 10 (1) a – b of the FRA.

As required by Section 10 (4 - 5) of the FRA, a Recovery Plan Memorandum was made and dated November 2021 for the fiscal years 2022 and 2023 with further details on the medium-term fiscal and economic strategies outlined in the Medium-Term Fiscal Framework 2022-2023.

It is therefore the view of the FROC that the Government complied with its statutory obligations such as they arose consequent on the Order for the suspension of Sections 7 and 8 of the FRA.

Fiscal Transparency

In 2022, the Government sought to comply with the provisions for fiscal transparency through the dissemination of information on radio and social platforms, convening 'town hall' meetings, holding consultations for the preparation of the 2023 national budget and by the publication of fiscal and debt reports. There is scope for improving the timeliness and comprehensiveness of the fiscal reports. The published fiscal reports do not include information on the performance of covered entities and other statutory bodies and state-owned enterprises, and hence there is not a consolidated public sector accounts. The legislation governing public finance in Grenada does not require the publication of an 'End-of-year' Fiscal Report'. To provide timely information on the actual performance of the Government during the fiscal year, the FROC recommends that an end-of-year fiscal report be published.

The FROC notes that the audited public sector accounts have not been presented to Parliament since 2016. Therefore, oversight and accountability are absent from the management of the public finances.

Consistency of 2023 Budget and the MFF with Fiscal Rules and Targets

The absence of comprehensive data on covered entities and that of other statutory bodies and state-owned enterprises limits the analysis of the compliance of the Government with the FRA to that of the Central Government. This is an area that needs to be addressed to assess full compliance of the Government with the FRA.

The 2023 budget of the Central Government was in accordance with the fiscal rules for the real growth in primary expenditure, the wage bill, the primary balance and liabilities of the public-private partnerships. The projected debt to GDP ratio for Central Government of 64 percent and the estimated 77 percent for the public sector debt require corrective actions. Similarly, over the medium-term, Central Government operations are in accordance with the fiscal rules for the real growth in primary expenditure, the wage bill, the primary balance and liabilities of the public-private partnerships. The public sector debt is consistently above the targeted 55 percent of GDP.

The public sector debt is an important target in the FRA. The reporting on the public debt has been primarily related to the Central Government. It is therefore necessary to report consistently on the total public sector debt which includes the debt of Central Government, statutory bodies and state-owned enterprises.

Based on data provided by the MOF, the FROC modified the Compliance Matrix presented for the 2023 budget to be in line with guidance given in the FRA on the calculation of the fiscal rules and targets. The wage bill was adjusted to take account of the estimated wage bill of the covered entities and the estimated total stock of public sector debt was taken into account. The results of the modified Compliance Matrix show that the Government could be in breach of the wage rule and the debt target. The available information was not adequate to incorporate the expenditure of the covered entities in order to assess the fiscal rule for the growth of primary expenditure. However, with the steep decline in real primary expenditure in 2023, it is most likely that the Government estimates were in compliance with the primary expenditure rule.

The FROC attempted to modify the Compliance Matrix for the medium-term fiscal framework to be consistent with the fiscal rules and targets as defined in the FRA. However, there were some fundamental conceptual, theoretical, and practical challenges which made it impossible to assess compliance with the fiscal rules and targets over the medium-term.

EXECUTIVE SUMMARY (CONTINUED)

Reform of the FRA

There are a number of shortcomings in the FRA and in its implementation which have affected full compliance with the rules and targets, and which also have implications for effective oversight by the FROC. The shortcomings of the FRA are related to its lack of clarity, inconsistencies, and omissions in key parts of the Act and the complexities of some of its provisions which have affected the interpretation of key provisions and the implementation of the rules and targets. Reporting and data challenges have limited the application of the FRA to the Central Government. Previous FROC, the MOF and the International Monetary Fund (IMF) recognised the issues and have recommended the reform of the FRA. The FRA is in need of a comprehensive reform, requiring not only clarification of the many ambiguities in its provisions, but also a re-examination of the fiscal rules and targets and other requirements.

Specifically, the provisions in Section 8 which pertain to the debt target, and are core for achieving fiscal and debt sustainability, lack clarity and some of these are inconsistent. Other issues include: the appropriate budget balance indicator to be used for reducing public sector debt; the appropriateness, determination of and impact of the binding rules for the real growth in primary expenditure and the wage bill; ambiguities with respect to the use of the Escape Clause over successive years and the burdensome reporting requirements; and ambiguities in the provision relating to the tenure and revocation of members of the FROC.

The repeal of the FRA is therefore warranted given the many issues surrounding the interpretation of some of its key provisions and the difficulties encountered in its practical application. The Government has commenced the process of reforming the FRA. A legislated fiscal responsibility framework is considered key in the pursuit of fiscal discipline and maintaining fiscal and debt sustainability. Such a framework also contributes to fiscal transparency and accountability. However, the fiscal rules and targets must be designed to give the Executive some flexibility to manage the economy and provide for fiscal and debt sustainability without placing undue burden on the administrative system to implement and to assess and monitor compliance with the provisions.

EXECUTIVE SUMMARY (CONTINUED)

Recommendations

Sustained economic growth is necessary for fiscal and debt sustainability. The FROC recommends an examination of the causes of the low public sector project implementation rate and adopt measures to improve project implementation. This should be combined with the development of indicators for measuring productivity and the ease of doing business with a view to improving efficiency in both the private and public sectors.

The medium-term fiscal and debt strategies must be pursued within a stronger framework for fiscal transparency. There is scope for improving the timeliness and comprehensiveness of fiscal reports. The public sector accounts must be audited and submitted to Parliament in accordance with the relevant Acts of Parliament. Although the Public Finance Management Act does not stipulate the preparation of an 'End-of-Year Fiscal Report', for timely information on the actual outturn of Government operations for the fiscal year, it is recommended that an 'End-of-Year Fiscal' Report be published. The institutional arrangement for the management of public debt should be strengthened through the operationalisation of the Public Debt Co-ordinating Committee as provided for in the Debt Management Act.

The design of public policies, the assessment of the impact of such policies and the assessment of the performance of the economy must be based on timely and comprehensive information. The FROC identified the challenges with the current data systems and outlined opportunities for improving the data.

The FROC urges the reform of the FRA as follows:

1. Eliminate the fiscal rules of real growth of two percent in primary expenditure, and the wage bill of nine percent of GDP. If an expenditure rule is considered necessary, amend the rule to conform with best practice which is based on a technical rationale for an appropriate numerical value for the growth in primary expenditure, the variable that should be used to adjust the growth in primary expenditure, and the elimination of capital expenditure from the primary expenditure rule. Alternatively, a simple intermediate

target is a current account balance that ensures that the government generates adequate savings.

2. Introduce a target related to an overall fiscal balance which results in a reduction in Central Government debt until the debt to GDP ratio is achieved and then maintain an overall balance that constraints the rapid accumulation of debt. This would be in the context of a targeted debt for the rest of the public sector.
3. Review the targeted debt to GDP ratio of 55 percent and establish a revised targeted debt to GDP ratio and determine a timeline for the attainment of the revised debt to GDP ratio.
4. The targeted debt to GDP ratio should be applied to the total public sector; and the other rules and targets should be applied to Central Government. The statutory bodies and state-owned enterprises should be monitored, and reports presented to Parliament in keeping with the Public Finance Management Act. The fiscal rules and targets should be accompanied by the requirement for a well-developed medium-term fiscal framework, that is approved by Parliament, for achieving fiscal and debt sustainability. In this framework, indicators for revenue, expenditure and primary balance could be included and monitored annually or as determined by the Executive.

INTRODUCTION

The report on the Government compliance with the Fiscal Responsibility Act (2015), as prepared by the Fiscal Responsibility Oversight Committee (FROC), is mandated in Section 14 of the Fiscal Responsibility Act (FRA). Accordingly, this report is an assessment of the compliance of the Government with the FRA. The rules and targets in the FRA were suspended over the period 2020 to 2022 due to the declaration of a state of emergency as a result of the Covid-19 Pandemic and the negative impact of the pandemic on economic growth. A Recovery Plan Memorandum was prepared and dated November 2021. The fiscal rules and targets were reinstated in 2023. Therefore, the fiscal rules and targets in the FRA and the policies of the Recovery Plan Memorandum are applicable to the national budget for 2023.

The report begins, in Chapter One, with an assessment of the state of the economy in 2022, with 2019 as the reference period for tracing the developments in the economy. It incorporates developments globally and their impact on the domestic economy, particularly on fiscal and debt sustainability. The report then outlines, in Chapter Two, the Government's strategy and policies as the basis for assessing the realism of the medium-term economic outlook and fiscal and debt sustainability. The compliance of the Government with the FRA in 2022 is assessed in Chapter Three. This chapter is subdivided into the circumstances related to the invoking of the Escape Clause and the compliance of the government with the principles of fiscal transparency. Chapter Four examines the consistency of the 2023 national budget and the medium-term fiscal framework with the FRA. Chapter Five discusses the reform of the FRA and the previous recommendations put forward by the FROC, the Ministry of Finance and the International Monetary Fund for improving the FRA. The chapter concludes with recommendations for simplifying the FRA, improving the transparency in its application, and for the FRA to provide for fiscal and debt sustainability while facilitating the development and transformation of the economy. The report concludes with recommendations, in Chapter Six, for improving policies and processes, reforming the FRA and strengthening the data systems.

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY

Key Messages

Grenada's economy recorded robust growth in 2022, but still remains smaller than it was in 2019.

The fiscal operations of the government resulted in both primary and overall surpluses in 2022. The debt to GDP ratio declined.

Consumer prices gathered pace in 2022, on account of higher food and fuel prices.

Key downside risks include further escalation of the Russia/Ukraine war, persistently high inflation, and additional monetary tightening by major central banks.

Introduction

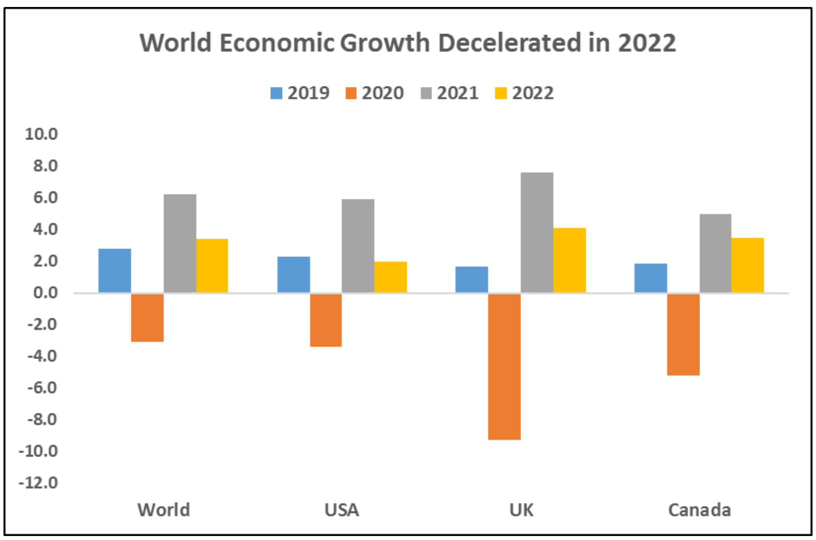
Grenada’s economy is estimated to have rebounded in 2022, as its key tourism sector continued to recover, with knock-on effects on affiliated sectors. This occurred against a backdrop of rising uncertainty, characterized by persistently high inflation, monetary tightening, rising geopolitical tensions and the ongoing battle against new strains of the Coronavirus. However, despite the economic expansion, Grenada has yet to recover to its 2019 level of activity. Of note is the fact that, after recording an overall deficit in 2020, as the country responded to the COVID-19 crisis, Grenada registered two consecutive years of primary and overall surpluses (2021-2022). When coupled with average real growth of 5.4 percent over the past two years, these developments have resulted in a downward movement in Grenada’s debt to GDP ratio. This trend is projected to continue over the medium-term, following the reinstatement of the Fiscal Responsibility Act

(FRA), after a three-year hiatus. Additionally, consumer prices rose in 2022, consistent with rising food and fuel prices.

External Developments

Grenada's external environment is predominantly shaped by activity in its key trading partners. Global output, which declined by 3.1 percent in 2020, recovered to record a growth rate of 6.2 percent in 2021. Based on the January 2023 World Economic Outlook (WEO) Update by the International Monetary Fund (IMF), global growth for 2022 is expected to slow to 3.4 percent (Chart 1). The global slowdown was reflected in a softening in economic activity across the ECCU's main trading partners, including the United States (1.6 percent), the United Kingdom (3.6 percent) and Canada (3.3 percent).

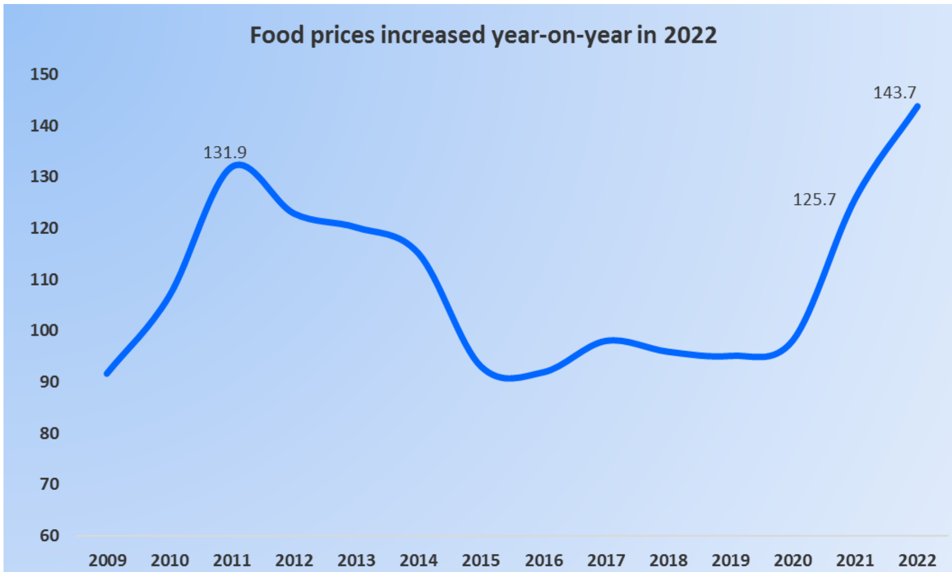
Chart 1: The Performance of the World Economy and the ECCU's Main Trading Partners (%): (2019;2022)



In respect of inflation, global prices rose by 8.8 percent in 2022 compared with 4.7 percent one year earlier, as the impact of the Russia/Ukraine war took hold. On a positive note, however, price increases during the year softened somewhat as supply bottlenecks began to ease. The higher cost for food globally is reflected in the Food and Agriculture Organization's (FAO) food price index for the full year 2022, which rose by 14.3 percent (Chart 2).

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

Chart 2 Annual Food Price Index



Source: Food and Agriculture Organisation (FAO)

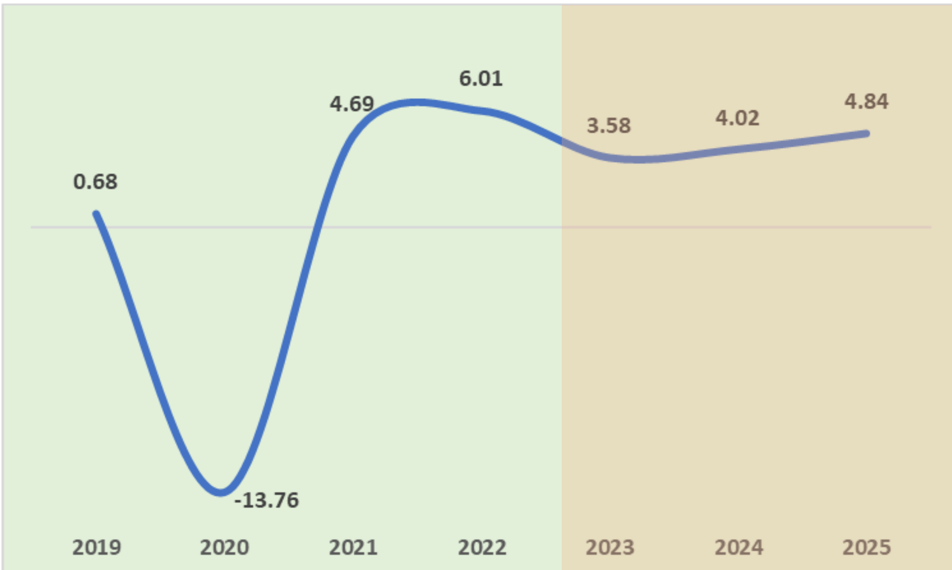
Domestic Developments

Assessment of the Real Sector

On the domestic front, Grenada's economy is estimated to have expanded by 6.0 percent in 2022, relative to the 4.7 percent expansion recorded in 2021 following the steep decline of 13.8 percent in 2020 (Chart 3). It is noteworthy that despite two consecutive years of growth, the Grenadian economy has not yet recovered to its 2019 level, when the size of the economy was estimated at $2.49 billion compared with $2.38 billion at end of 2022. Economic growth in 2022 was primarily driven by heightened activity in the hotels and restaurant, construction, and wholesale and retail trade sectors, which grew by 51.0, 19.2 and 10.8 percent, respectively.

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

Chart 3: Real GDP Growth at Market Prices (2019-2025)



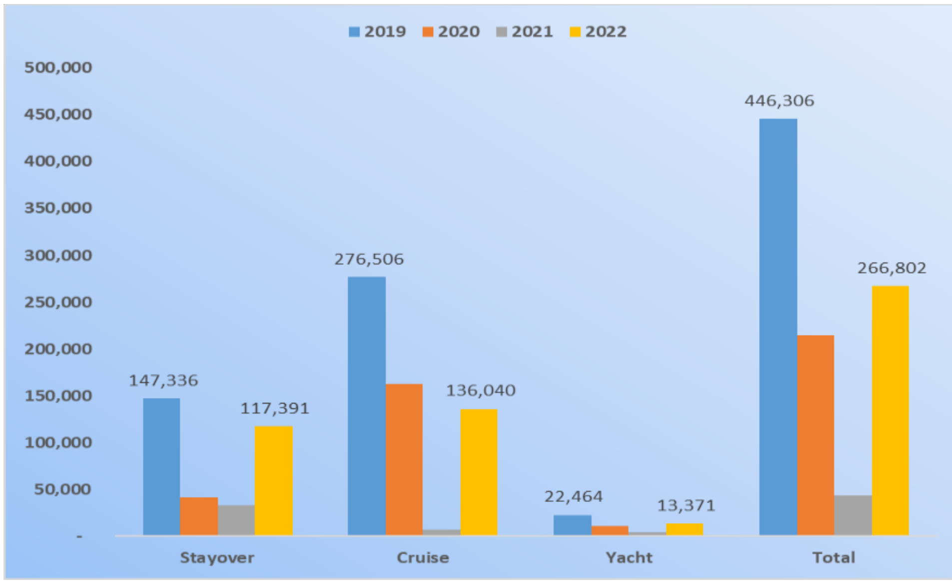
Source: Ministry of Finance, Grenada

Tourism data for the period January to November 2022 indicate that total visitor arrivals recorded a more than six-fold increase over the levels recorded in the same period in 2021, with all three major categories of visitors posting strong gains (Chart 4). Despite these improvements, total visitor arrivals remained approximately 40.0 percent below the highs recorded in 2019.

Stayover arrivals rebounded in 2022 to record a growth of over 200 percent relative to 2021 and contributed to the 51 percent growth in the hotels and restaurant sector. This significant improvement followed from the contraction of 73 percent in 2020 and a further four percent contraction in 2021. Despite the decline in stayover arrivals in 2021, the hotels and restaurant sector recorded a growth of 37 percent, as it benefited from the longer length of stay required by the COVID-19 quarantine regulations. When compared with 2019 levels, the stayover visitors' category has been the best performing sub-sector, recovering approximately 80.0 percent of the market.

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

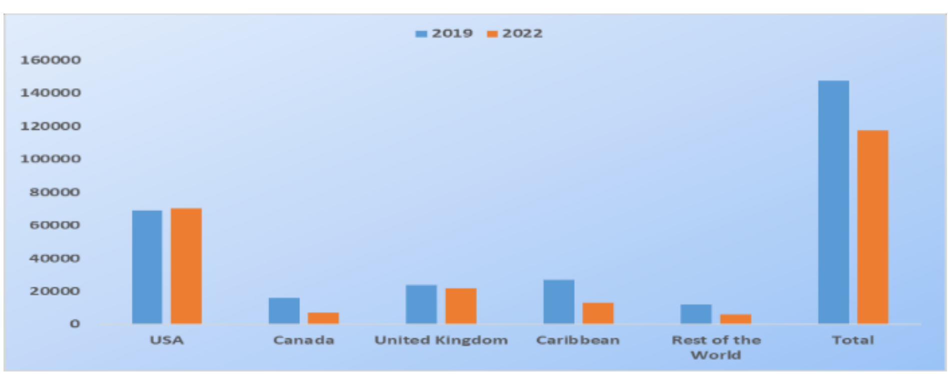
Chart 4: Visitor Arrivals by Category – January to November



Source: Grenada Tourism Authority

Importantly, the US market for stayover arrivals has fully recovered, exceeding its 2019 level by 1.5 percent (1,007 visitors) to 70,082. The UK market has also performed well, recovering approximately 90.0 per cent of its 2019 level. By contrast, stayover visitors from the Caribbean, which was the second largest source market in 2019, has only recovered 49.0 percent of the level recorded in that year (Chart 5).

Chart 5: Stayover Visitors by Major Market – (2022 vs 2019)



Source: Grenada Tourism Authority

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

Activity in the construction sector accelerated in 2022, which was also a general election year. The construction activities in the public sector focussed on infrastructural projects such as the Maurice Bishop International Airport Runway and Road Upgrade and Rehabilitation Project; St. John's River Flood Mitigation Project, Moliniere Land Slip Rehabilitation Project, agricultural feeder roads, bridges and the renovation of schools. The activities in the private sector were dominated by CBI funded hotel-related projects. The expansion in tourism and construction had a spill-over effect on the wholesale and retail sector, and other ancillary sectors such as transport and storage. Among initiatives to spur economic activity, the Government rolled out the COVID-19 Economic Support Secretariat (CESS) programme to assist small businesses and entrepreneurs with grant funding of up to $30,000 to either start new businesses or expand on existing ones.

Price Developments

Consistent with rising prices globally, consumer prices in Grenada are estimated to have increased by 2.5 percent (on a period average basis) relative to the 1.2 percent increase recorded one year earlier[3]. Driving the upward movement in prices were higher costs for food and alcoholic beverages, and energy, which rose by 5.8 and 3.8 percent, respectively. The two sub-categories accounted for 49.4 percent of the average consumer basket in Grenada. Tempering the overall price rise were declines in the cost of transport (0.8 percent) and communication (0.1 percent).

In an effort to contain prices on the domestic market, the Government introduced the following cost of living relief measures: (i) the removal of the petrol tax, effective 18 September 2022, for a period of 4 months; (ii) adjusted freight charges to reflect 2019 freight costs over the period 1st October 2022 to 31 March 2023; (iii) maintained a fixed price of $40 on the price of the 20 lbs cylinder of LPG; and (iv) zero-rated the VAT on up to 500 kWh of electricity consumption until December 31, 2022.

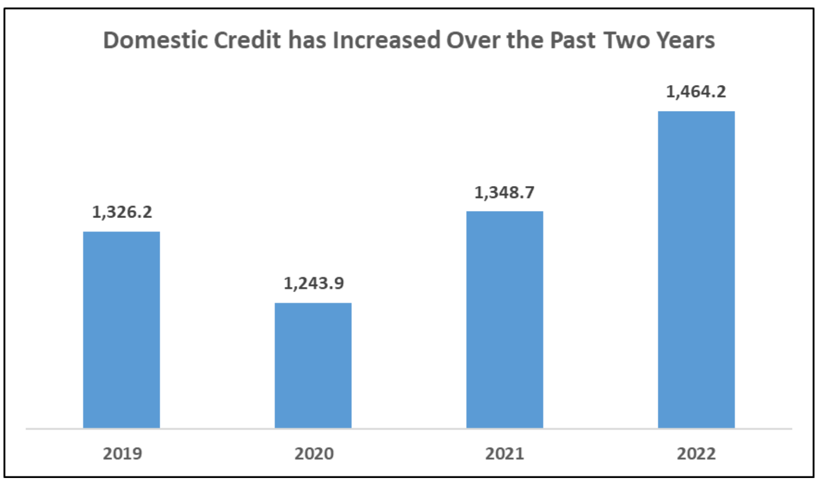
[3] The Ministry of Finance reported an average inflation rate of 5 percent in 2022 which was used to calculate the real growth in primary expenditure for 2023.

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

Assessment of the Financial Sector

The financial sector continued to be stable, characterised by high liquidity and adequate capital and low non-performing loans of commercial banks. Consistent with an expanding economy, domestic credit rose by 8.6 percent in 2022 to $1,464.2M, marginally above the 8.4 percent growth recorded in 2021 (Chart 6). The rise in credit was dominated by the private sector, which saw growth of 2.1 percent to $1,772.4M, down from the 3.8 percent expansion in the prior year. By contrast, credit to the public sector fell by 20.9 percent to $63.0M.

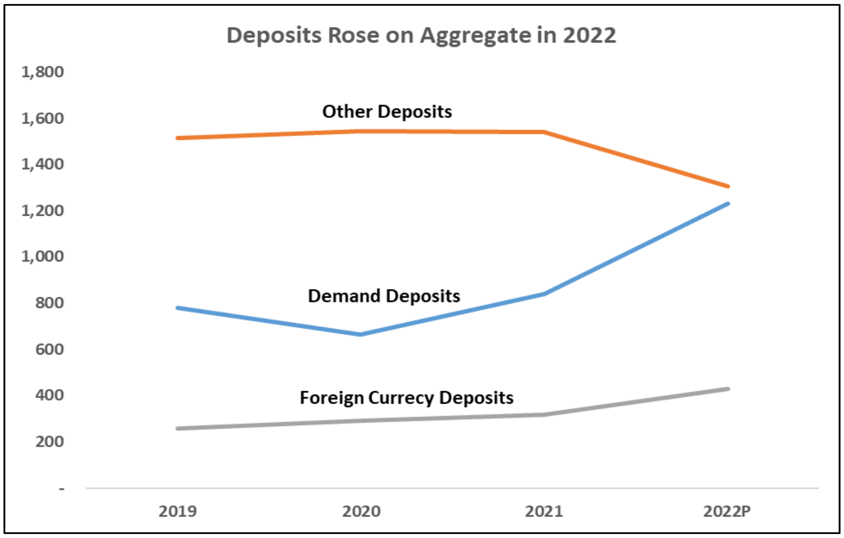
Chart 6: Domestic Credit Developments, EC$M (2019 -2022)



In a similar vein, deposits in the banking system rose on aggregate, in line with broader economic developments (Chart 7). Accordingly, the supply of money increased by 9.9 percent, following the 8.5 percent expansion in 2021.

CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

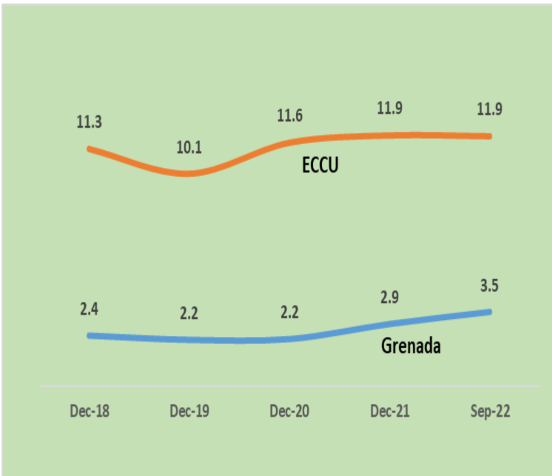
Chart 7: Deposits in the Banking System, EC$M (2019 – 2022)



The non-performing loans (NPL) ratio was 3.6 percent as at end September 2022, and is comfortably below the ECCB benchmark of 5 percent (Chart 8). In respect of liquidity, the position of commercial banks has remained strong, reflected in the loan to deposit ratio of 50.0 percent as at December 2022, less than the ECCB threshold of 80.0 percent, and the banks are adequately capitalized (Chart 9). The weighted average interest rate on deposits fell from 1.19 percent in 2021 to 0.8 percent in 2022, while over the same period, the weighted average lending rate increased from 6.2 percent to 6.89 percent, leading to a widening of the interest rate spread.

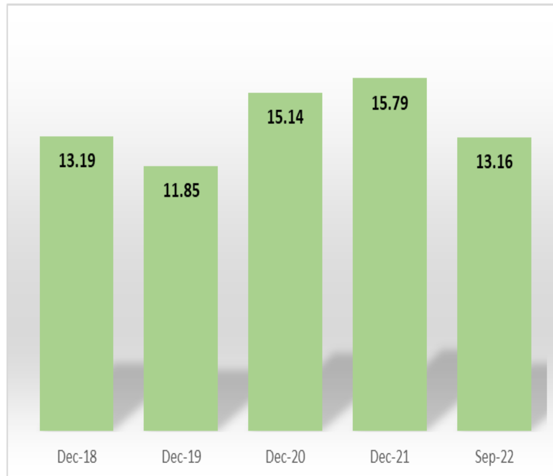
CHAPTER 1: THE ECONOMIC CONTEXT: ECONOMIC ANALYSIS OF THE STATE OF THE ECONOMY (CONTINUED)

Chart 8: Non-Performing Loan – (NPL) Ratio (%)



Source: ECCB

Chart 9: Capital Adequacy Ratio (%)

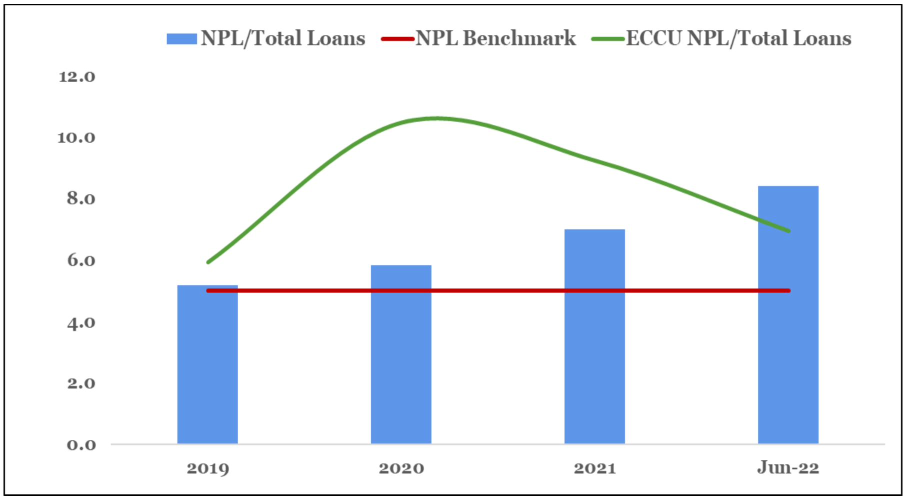


Source: ECCB

Despite the steep contraction in economic activity in 2020 and the ongoing recovery in midst of global shocks in 2022, the banking system is deemed to be stable, characterised by high quality assets, as well as strong levels of capital adequacy and liquidity.

Activity across credit unions followed a similar trend, with total credit rising by 3.2 percent to $907.3M as at June 2022 relative to the levels in December 2021. In addition, deposits continued to grow, expanding by 4.7 percent to $1,033.5M over the same period. However, it is noteworthy that the asset quality of credit unions in aggregate deteriorated somewhat over the first 6 months of 2022 (Chart 10). As such, the NPL ratio rose to 8.4 percent as at June 2022, over 3.0 percentage points above the established benchmark of 5.0 percent.

Chart 10: NPL Ratio of Credit Unions



Assessment of the External Sector

As the Grenadian economy recovers, the pace of imports continues to exceed that of exports, partially driven by growth in the tourism and construction industries. In 2022, the current account widened to \$559.4M (17.4 percent of GDP) relative to \$394.7M (13.0 percent of GDP) one year earlier (Table 1). The country's merchandise trade deficit ballooned to \$1.2 billion compared with \$941.0M in the year prior, partially on account of higher energy and food prices in the midst of a recovery. Receipts from external services, primarily tourism activity, showed strong gains as the economy reopened and international travel gathered pace. As a result, travel receipts more than doubled to \$1.4 billion during the year, from \$627.4m in 2021.

The major inflows on the capital and financial accounts were related to foreign direct investment, higher government financing from grants and inflows from the National Transformation Fund, and net inflows from Government loan transactions (external principal loan repayment and loan disbursements). However, with high liquidity in the banking system, there were net financial outflows associated with the accumulation of net foreign assets by the commercial banks.

Table 1: Grenada's Balance of Payments (EC$M)

Line Item	2019	2021	2022
Merchandise Trade Deficit	998.3	941.0	1,231.9
Services Surplus	958.1	704.9	911.7
Travel Receipts	1,512.8	627.4	1,355.5
Remittances	164.9	182.0	164.7
Current Account Deficit	**332.5**	**394.7**	**559.4**
Foreign Direct Investment	551.0	377.4	471.9

Fiscal and Debt Performance in 2022

Fiscal Performance: Central Government

After recording an overall surplus after grants of $9.9M in 2021, the government of Grenada is projected to generate a larger surplus of $30.7M in 2022, supported by stronger growth in current revenue relative to current expenditure. Accordingly, current revenue is estimated to have risen by 18.8 percent ($136.8M) to $863.9M. This result was largely influenced by increases in both tax and non-tax revenue of 14.3 percent and 46.5 percent, respectively. The increase in tax revenue was associated with the higher price of imported goods and the recovery of the economy. Key tax flow increases were attributed to domestic goods and services and international trade and transactions, which grew by 27.9 percent and 11.4 percent, respectively. CBI-related fees dominated the non-tax component, more than doubling its 2021 level to $73.1M. In addition, one-off budgetary grants from the St. George's University (SGU) and Saudi Arabia of $81.0M and $27.0M, respectively, boosted government's total current account inflows.

Similarly, current expenditure expanded, but by a slower rate of 4.5 percent ($30.6M) to $717.4M. The increase in current expenditure was dominated by transfers and subsidies, as the government made good on its promise to pay retroactive pensions to some 525 retired public servants, amounting to $75M.[4] This increase was mitigated by declines in government spending on wages and salaries (9.7 percent) and goods and services (16.9 percent), as pandemic-related spending eased. On the capital side, the government ramped up its spending by 30.6 percent ($79.8M) to $340.2M as it pursued major infrastructural projects to include roads, bridges and the renovation of schools. These projects were primarily financed by grants and local revenue amounting to $309.0M, with the balance being funded through a loan of $31.2M. Given the foregoing, the government is projected to generate a primary surplus after grants of $84.4M (2.6 percent of GDP), improving its position over the 2021 fiscal year (2.1 percent of GDP). Further details are provided in Appendix II.

Public Debt: Central Government and Government Guaranteed

At the end of 2022, Grenada's public debt[5] is estimated to have declined by 1.7 percent ($36.0M) to $2,068.4M, consistent with the generation of fiscal surpluses over the past two years. When combined with an expanding economy[6], the result is a 5.8 percentage point decline in Grenada's debt to GDP ratio to 63.6 percent as at December 2022 (Chart 11). It is expected that the reinstatement of the FRA would impose even greater fiscal discipline on government operations and that the debt to GDP ratio would continue on a downward trajectory as the economy expands over the medium-term.

Using the latest data provided by the MOF, the FROC undertook a debt sustainability analysis of Grenada's Central Government and government guaranteed debt of the covered entities[7]. This analysis revealed that the debt to GDP ratio is projected to follow a downward path (See Appendix IV).

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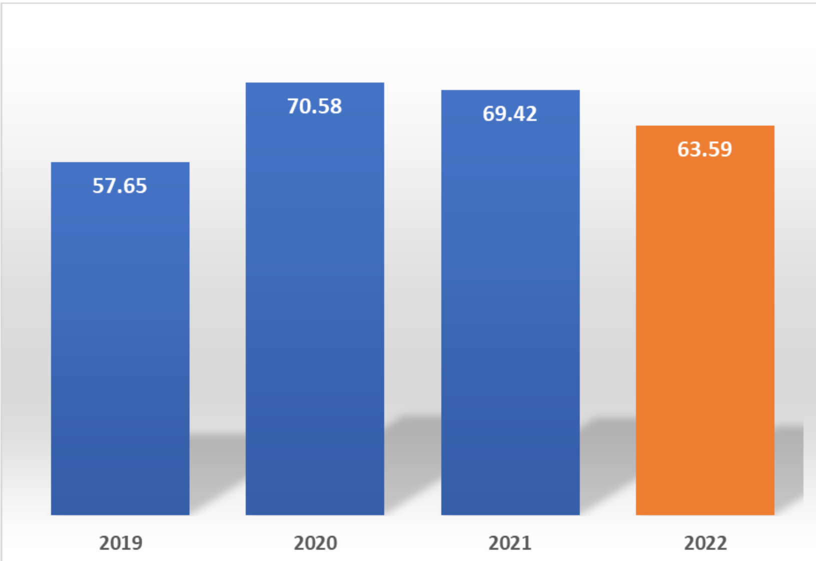
[4] As at December 2022, the estimated payout was $67.0M. Applications that were submitted beyond the deadline are still being processed, payment for which is expected in 2023 (Source: Ministry of Finance).

[5] Public debt is here defined as Central Government debt plus the debt guarantees for covered state-owned enterprises and statutory bodies.

[6] The value of GDP in 2022 was approximately 95.6 percent of what it was in 2019.

[7] See list of covered entities in Appendix III.

Chart 11: Debt to GDP (2019 – 2022)



Source: Ministry of Finance

Conclusion

Grenada has shown resilience in the face of COVID-19 and the multiple shocks that have buffeted the global economy in recent years. Despite major geopolitical tensions, rising inflation and tighter global financial conditions, the country has managed to generate real growth in excess of 5.0 percent over the past two years. In addition, the fiscal operations of the government have resulted in both primary and overall surpluses after grants, despite having invoked the escape clause of the FRA for three successive years. It is expected that, in the absence of a major global or climatic shock, Grenada's economy will continue to recover over the medium term. When coupled with the fiscal discipline enshrined in the FRA, Grenada is projected to achieve its debt to GDP targets over the medium-term, thereby generating the fiscal space to respond more effectively to unexpected global events and lay the foundation for more transformative growth and development.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK

Key Messages

Growth in the global economy is projected to average 3.0 percent in 2023 and 2024, and the downside risks are high.

Growth in Grenada's main trading partners of the USA, Canada, Germany and the UK is projected to be sluggish.

The projected growth for Grenada over the medium-term, averaging 4.1 percent, is achievable, but is dependent on the rate of implementation of the planned programmes and projects.

Government's finances are projected to improve over the medium-term, and the debt to GDP ratio for the Central Government is projected to decline. However, the debt of statutory bodies and state-owned enterprises cannot be projected due to the lack of comprehensive data.

Grenada's debt is rated at medium risk, but a number of factors have been identified that could negatively affect the public debt.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Introduction

The rate of economic growth and its impact on employment and poverty influence the capacity of the Government to achieve fiscal and debt sustainability. Therefore, this chapter examines the medium-term economic outlook, based on Grenada's 'Medium-Term Fiscal Framework: 2023 – 2025', as informed by the economic strategy summarised in the 2023 Budget Statement. The forecast for developments in the global economy is first reviewed. The realism of the projected growth rates of Grenada for the period 2023 – 2025 is then assessed, given the forecast for global output and the proposed policies, programmes and projects for achieving economic growth and for transforming the economy. Finally, the fiscal and debt forecasts are examined for consistency with fiscal and debt sustainability over the medium-term.

The Global Economic Environment

As a small open economy, Grenada's medium-term outlook is informed by the prospects for the global economy, particularly that of Grenada's main trading partners. Global output is expected to slow in 2023 and recover moderately over the medium-term, as some of the factors that contributed to the deceleration of economic growth in 2022 are expected to persist in 2023. Specifically, the pace of growth in global output is expected to be 2.9 percent in 2023 and 3.1 percent in 2024, less than the 3.4 percent expansion in 2022. Growth rates in Grenada's major trading partners are also expected to be lower than 2022. In the USA, with an estimated growth of 2 percent in 2022, the economy is projected to slow to 1.4 percent in 2023 and 1.0 percent in 2024. Growth in Canada is forecasted to be marginal at 1.5 percent in both 2023 and 2024; and in Germany, the economy is projected to stagnate in 2023 with an estimated growth rate of 0.1 percent and to recover marginally to 1.4 percent in 2024. Economic activity in the United Kingdom is projected to contract by 0.6 percent in 2023 and then grow by 0.9 percent in 2024 (IMF 2023).

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Economic developments are uncertain as downside risks are high due to the ongoing Russia/Ukraine war and threat of political and social unrest, volatile energy cost, supply chain disruptions and the deployment of restrictive monetary policy to curb inflation and the negative impact on the banking sector. In addition, Covid-19 lingers and there is the ongoing impact of extreme weather conditions. In this unfavourable international environment, growth in the Grenadian economy has to be driven mainly by the effective implementation of domestic private and public investment projects.

Government Medium-Term Strategy and Outlook

The developments in the global economy will impact on domestic activity. However, Government's policies, programmes and projects should seek to buffer the economy from any negative effects of external factors. Therefore, the medium-term outlook should also be influenced by Government's strategy.

The Government has outlined its goal of transforming the economy to "A Sustainable, Equitable and Prosperous Grenada for All". The approach of the Government is to align its programmes with the National Sustainable Development Plan (NSDP) which was approved by Parliament in 2019. The NSDP is based on three pillars, namely: The Economy, The Society & The Environment and has three Goals:

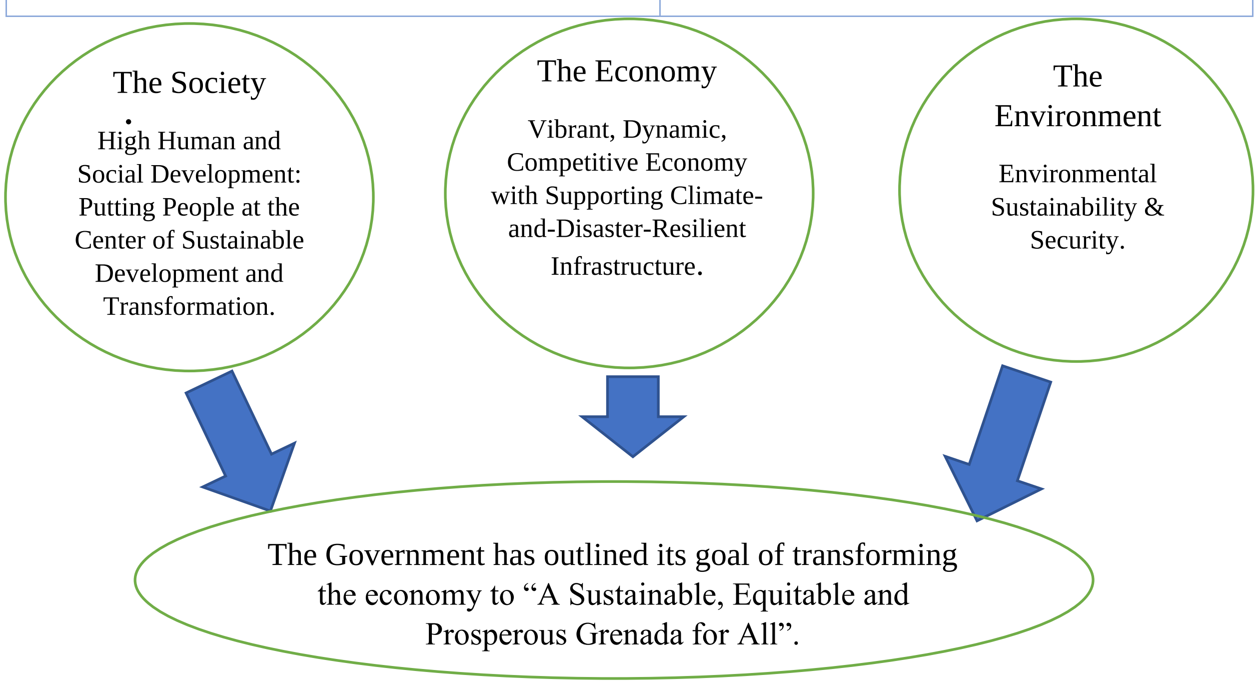
i. High Human and Social Development: Putting People at the Center of Sustainable Development and Transformation.
ii. Vibrant, Dynamic, Competitive Economy with Supporting Climate-and-Disaster-Resilient Infrastructure.
iii. Environmental Sustainability & Security.

The Government has identified six strategic focus areas over the medium-term as shown in Table 2 with further details in Annex 1.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Table 2: Government Strategic Focus over the Medium-Term

Government Overarching Pillars	Focus areas of the Government
Empowerment of Our Citizens	Health and wellness
	Education and training
	Youth, sports, culture, gender affairs and other social services
Economic Transformation	Agriculture and the marine industry
	Physical and digital infrastructure
	Culture and the creative sector
	Tourism
Governance and Institutional Rebuilding	Institutional Strengthening, transforming the public sector and pension reform
Building Resilience and Environmental Management	Energy Transition and the Environment.
Strengthening Regional and International Cooperation	Rationalisation of diplomatic missions, maintain diaspora relations.



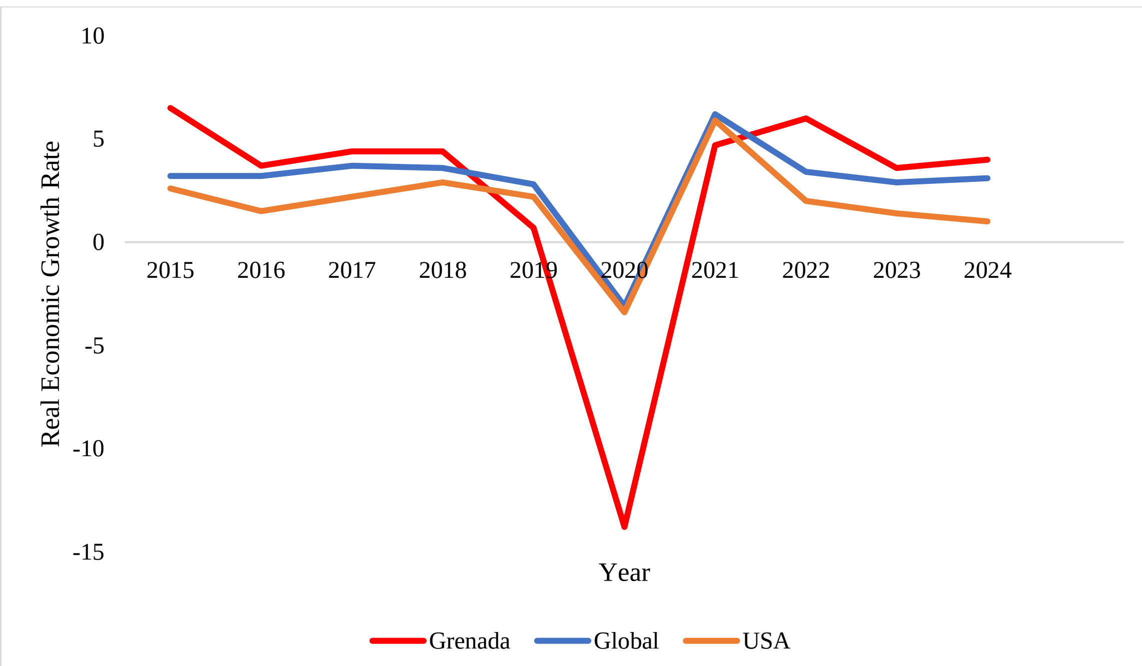
Source: (Government of Grenada 2022)

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Government Strategy and Prospects for the Domestic Economy

The Government has projected growth rates of 3.6 percent for 2023, 4.0 percent in 2024 and 4.8 percent in 2025, averaging 4.1 percent over the medium-term. The projected economic growth is achievable over the medium-term, if the economic strategy outlined by the Government is successfully implemented. Although the projected growth rate is higher than that for global output and the USA, Grenada has historically grown at a higher rate as shown in the chart below.

Chart 12: Grenada, Global and USA Real Economic Growth Rates



Source: IMF World Economic Outlook 2023; (ECCB n.d.) and Grenada Medium-Term Fiscal Framework: 2023-2025 (Ministry of Finance 2022)

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Strategy for the Economic Sectors

The Government has outlined its strategic focus to strengthen the economic sectors and develop linkages among agriculture, agro-processing, marine resources, tourism and the creative economy leveraging digital platforms. The successful implementation of the Government's strategic priorities in a well co-ordinated manner has the potential to develop stronger linkages and increase value-added in the economy and should contribute to economic growth.

Government has outlined plans to prepare a National Cultural and Creative Industry Policy and Strategy for the creative industries. Support to the creative and digital economy will be provided through institutional strengthening by the establishment of the Grenada Office of Creative Affairs; financial support through the establishment of the Creative Industries Development Fund; and the granting of tax concessions on the importation of equipment. The development of the creative and digital economy has the potential for job creation, particularly for the youthful segment of the population. Additionally, the creative industries and the maximisation of the use of electronic platforms for other business transactions could strengthen exports and foreign exchange earnings.

Agriculture, marine resources and agro-processing are identified by the Government as priority areas for transforming the economy. The stated goal of the Government is to contain the growth of the import bill, while achieving food and nutrition security. The 'Food Insecurity Reduction Project' for crop, fishing, and livestock production and the spice planting programme is expected, in the short term, to lead to increased production. This must be followed by well-developed projects for sustaining agriculture production, utilizing marine resources and agro-processing.

The economy is heavily dependent on tourism. Along with the planned integration of tourism with the other economic sectors and with sports and culture, the Government has identified projects for improving the historical, geological and geographical sites and other amenities. The Government has also increased airlift with the negotiation of flights from Canada, the UK and Germany; and there is continued negotiations to strengthen inter-island travel. This is combined with the easing of the administrative requirements for travelling through the airports.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

The strategy for linking agriculture, agro-processing, marine resources, tourism and the creative industries should be well designed and effectively coordinated among government entities, non-government organisations and the private sector to increase value-added in the economy. A coordination matrix could be developed for major impactful projects so that entities are aware of their point of intervention in the project implementation process.

Strategy for the Social Sectors

The strategy for developing the economic sectors is supported by policies for improvement in the social sectors. In education, the policy for free education up to the tertiary level should improve access to education, particularly at the tertiary level[8]. The policy to synchronise the school curriculum with the education and skills requirement of the economy and to develop vocational training should, overtime, reduce the gaps in the labour market. It should also lead to a reduction in the outflow of foreign exchange for the recruitment of external service providers. For health and wellness, the policies and projects of the Government are for improving the quality and delivery of health services. The programmes and projects include the training of health professionals, upgrading of health facilities, enhancement of hospital and community health services, and accessibility of medical records electronically.

Improving Infrastructure

The Government has outlined the strategy for upgrading the economic and social infrastructure which includes rehabilitation of schools, health and community facilities; increasing the housing stock; and improvements in the economic infrastructure. These projects are expected to be consistent with the strategy for protecting the environment, energy efficiency and climate resilience.

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[8] The "Grenada Survey of Living Conditions and Household Budget Survey" (World Bank 2021) found a gap in persons transitioning from secondary to tertiary level education.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Addressing Social Imbalances

The Covid-19 Economic Support Secretariat (CESS) programme and the payment of the arears of pension and gratuity to retired public officers in 2022 would have provided increased income to the beneficiaries and, by extension, the economy. Additionally, in the 2023 national budget statement, the Government introduced measures to address the impact of the higher rate of inflation on the population. These included the exemption of VAT on selected food and sanitary products, and reduced VAT on electricity. However, the existing social imbalances are deep and these are likely to persist over the medium-term. Specifically, based on the SLCHBS, the consumption expenditure-based poverty rate was estimated at 25 percent and multi-dimensional poverty was estimated at 34.3 percent in 2019. This rate of poverty would have been aggravated by the Covid-19 Pandemic. Sustained growth will be required to reduce consumption expenditure-based poverty. This will need to be combined with targeted interventions to address income inequality and multidimensional poverty.

Information derived from the on-going population census placed the unemployment rate at 13.9 percent in 2022, compared with an unemployment rate of 16.6 percent from the labour-force survey of June 2021. Given the differences in the method of data collection, the comparison is only indicative. Despite the reported decline in overall unemployment, chronic youth unemployment was evident from the June 2021 labour-force survey, which placed youth unemployment at 38.9 percent. Additionally, based on the preliminary information from the ongoing Census, potential workers have dropped out of the labour market as manifested by the reduction in the labour-force participation rate.

As a result, Government's strategy is aimed at achieving growth and addressing the social imbalances. The success of the strategy rests on the achievement of sustained growth and the successful implementation of policies to address the socio-economic realities of high poverty, income inequality and youth unemployment.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Government Medium-Term (2023-2025) Fiscal and Debt Strategy

Fiscal Strategy

The Government's fiscal strategy over the medium-term focusses on strengthening the public finances by revenue and expenditure measures. Revenue is expected to be boosted through increased tax compliance, the use of technology to facilitate tax payments and improved customer services. On the expenditure side, the emphasis will be on strengthening institutional arrangements for stronger expenditure controls, improving the efficiency of expenditure and strengthening procurement.

The impact of the fiscal policy measures is captured in the Medium-Term Fiscal Outlook which shows an improvement in the government finances. Over the medium-term, 2023 – 2025, the overall and primary balances (including grants) are projected to increase, strengthening Grenada's fiscal position. The overall balance is projected to move from $30.73M (0.9% of GDP) in 2022 to $62.7M (1.8% of GDP) in 2023, and to improve further to $146.1M (3.7 percent of GDP) in 2025. The primary balance (including grants) is projected to rise from an estimated $84.4M (2.6% of GDP) in 2022 to $124.4M (3.6% of GDP) in 2023 and to improve further to $196.94M (5.1% of GDP) in 2025.

The current account balance, excluding budgetary support, which is an indicator of government savings, is projected to average 9.6 percent of GDP over the medium-term. It is estimated to increase from $146.47M (4.5% of GDP) in 2022 to $308.9M (8.9 % of GDP) in 2023. This significant percentage growth in the current account balance, excluding budgetary support, is primarily due to a large increase in current revenue, more specifically, non-tax revenue. The higher intake from non-tax revenue of 8.9 percent of GDP ($311.4M) in 2023 compared with 4.6 percent of GDP ($148.97M) in 2022 is a result of the reclassification of inflows from the NTF as of 2023**.** As such, the receipts of the NTF and related fees have been reclassified from Capital Grants to Non-Tax Revenue (See Table 3 for the effect of this reclassification).

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Tax revenue is projected to increase over the medium-term in line with the growth of the economy and as the Government seeks to improve tax collections.

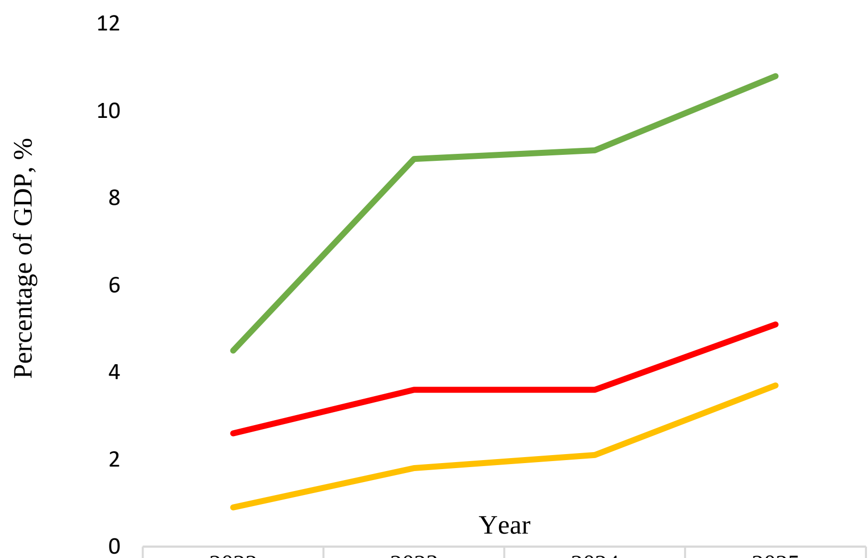
Table 3: Effect of Reclassification of NTF on Current Revenue Estimates in EC$M and Growth Rates

	2021	2022	2023	2024	2025
			EC$M		
Current Revenue	727.1	820.4	1050.8	1099	1201.6
Tax Revenue	625.4	668.2	739.3	780.7	826.4
Non-tax Revenue	101.7	152.2	311.4	318.3	375.2
			%Change		
Current Revenue	-	12.8	28.1	4.6	9.3
Tax Revenue	-	6.8	10.6	5.6	5.9
Non-tax Revenue	-	49.7	104.6	2.2	17.9

Source: Grenada's Estimates of Revenue and Expenditure for the Year 2023 (Minstry of Finance 2022)

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

Chart 13: Grenada's Fiscal Balances as a Percentage of GDP – 2022 - 2025



	2022	2023	2024	2025
Current Account	4.5	8.9	9.1	10.8
Primary Balnce (including grants)	2.6	3.6	3.6	5.1
Overall Balance (including grants)	0.9	1.8	2.1	3.7

Source: Ministry of Finance

Current expenditure, as a percentage of GDP, is projected to decline steadily over the medium term, moving from 22.1 percent of GDP in 2022, to 21.3 percent in 2023, 20.7 percent in 2024 and 20.0 percent in 2025. This could be linked to the return to the fiscal rules for primary expenditure and the wage bill. Although interest payment is estimated to increase from $53.7M in 2022 to $61.7M in 2023, it is projected to decrease in 2024 and 2025 to $57.4M and $50.84M, respectively. This decrease in interest payment is consistent with the Medium-Term Debt Strategy of borrowing, as necessary, at concessional rates to finance the budget.

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

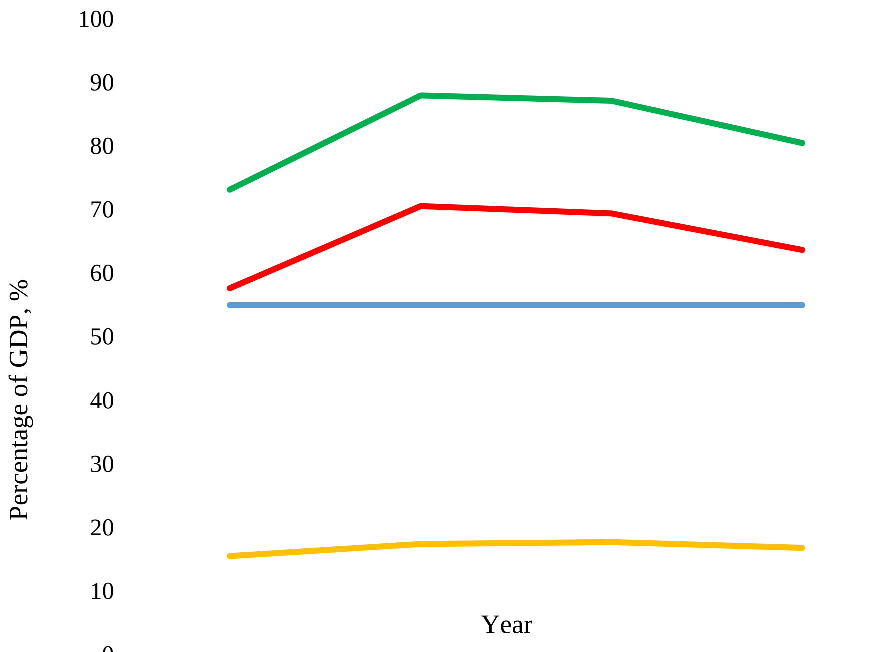
Debt Strategy and Analysis

The primary objective of the debt strategy is to promote debt sustainability. In doing so, the Government plans to focus on low cost and low risk borrowing as needed to finance the budget. However, the Government will seek to reduce the debt to GDP ratio to a level that ensures debt sustainability while adequately financing the budget.

Debt Situation

Based on the Quarterly Debt Report for the period ending December 2022, the total stock of public sector debt, excluding that of Petro Caribe, was $2.2 billion (69.1 percent of GDP). This comprised Central Government and Government Guaranteed debt of $2.1 billion (63.7 percent of GDP) and the rest of the public sector of $0.1 billion (5.4 percent of GDP). However, there is need for clarity and consistency in the classification and reporting on the Petro Caribe debt. The Quarterly Debt Bulletin incorporates the Petro Caribe debt in the rest of the public sector and placed this debt at $0.4 billion (11.4 percent of GDP). The liability and hence the classification of this debt was discussed with the MOF. It is necessary to present the total stock of public sector debt with clarity, as the inclusion of the Petro Caribe debt in the public sector debt pushes the stock of public sector debt to $2.6 billion (80.5 percent of GDP). While there are medium-term projections for Central Government and government guaranteed debt, there is no data available for the total debt stock of statutory bodies and state-owned enterprises for the medium-term. The following chart displays the debt developments between 2019 to 2022 inclusive of the Petro Caribe debt.

Chart 14 : Total Public Sector Debt

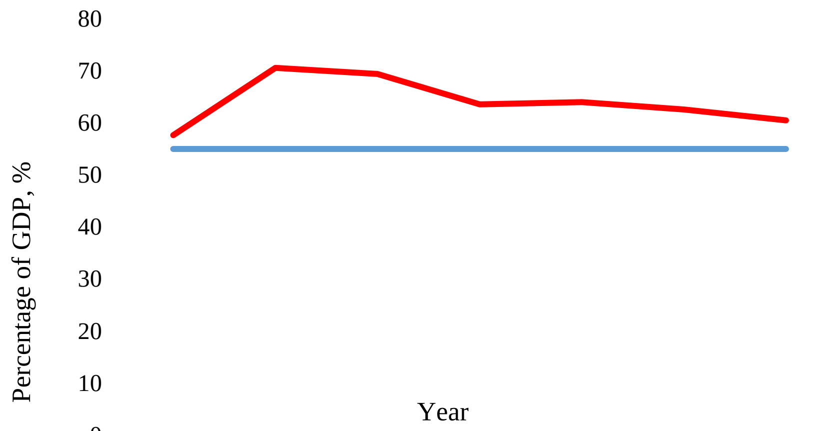


	2019	2020	2021	2022
Total Public Sector Debt as a % of GDP	73.16	87.99	87.13	80.52
Total Central Government Debt and Guaranteed Debt as a % of GDP	57.65	70.58	69.42	63.7
Non-Guaranteed/Guaranteed SOE Debt as a % of GDP	15.51	17.41	17.71	16.82
Fiscal Debt Target as a % of GDP	55	55	55	55

Source: Ministry of Finance 2023. 2022 Public Debt Bulletin Quarter 4

Central Government debt, which was on a declining trend before the Covid-19 Pandemic, increased sharply from 58 percent of GDP in 2019 to 71 percent of GDP in 2020. Thereafter it began trending downward and was estimated at 64 percent of GDP in 2022 and is projected to decline steadily to 61 percent of GDP in 2025 as shown in the following chart.

Chart 15: Central Government Debt as Percentage of GDP



	2019	2020	2021	2022	2023	2024	2025
Fiscal Debt Target as a % of GDP	55	55	55	55	55	55	55
Central Government Debt as a % of GDP	57.65	70.58	69.42	63.59	64	62.6	60.5

Source: Medium-Term Fiscal Framework and Ministry of Finance

The challenge of operating with the debt target of 55 percent of GDP is recognised and the Recovery Plan Memorandum of November 2021 indicated that the debt would be above the target attributing this to the socio-economic fallout from the Covid-19 Pandemic.

Potential Fiscal and Debt Challenges in the Medium-Term

The potential fiscal and debt challenges over the medium-term are comprehensively stated in the Fiscal Risk Statement presented to Parliament on 5 December 2022. The Statement outlined the Government's assessment of key risks that can adversely affect public finances and by extension, compliance with the fiscal rules and targets. The Fiscal Risk Statement highlighted risks associated with adverse macroeconomic developments, budget implementation challenges, contingent liabilities arising from the operations of state-owned enterprises and the adverse effects of climate change. The major risks identified in the Fiscal Risk statement are as follows:

CHAPTER 2: THE ECONOMIC CONTEXT: THE MEDIUM-TERM ECONOMIC STRATEGY AND OUTLOOK (CONTINUED)

1. The Macroeconomic indicator for growth points to an increase in the rate of growth over the medium-term. However, there are uncertainties associated with the possibility of a protraction of the global economic slowdown, which can potentially adversely affect tourist arrivals, remittances, foreign direct investment, external grant receipts, and ultimately economic growth which is essential to fiscal and debt sustainability.

2. Inflation which has begun to moderate is still elevated, particularly for international commodity prices (especially fuel and food) and could result in domestic inflationary pressures in the medium-term, which could become entrenched, and can create a drag on the economic performance of the country.

3. There is also the uncertainty related to the possible impact of proposed legislation by the European Union and the USA to penalise nations offering Citizenship-by-Investment (CBI) programmes, and the possible impact of the recent decision by OECS countries not to accept economic citizens from Russia and Belarus. Receipts from CBI continue to contribute significantly to Government's non-tax revenue inflows. The Fiscal Risk Statement indicated that uncertainties about CBI inflows, especially inflows into the National Transformation Fund (NTF) could induce uncertainty in Budget programming and execution.

4. The impact of climate change is global, and therefore, Grenada is under threat from climate change. This is elaborated in the IMF Climate Risk Index of 2019, and the Fiscal Risk Statement provides the policies and measures being adopted by the Government.

5. The low implementation rate of public sector projects is a domestic risk to the achievement of the projected growth rate. The work of the Ministry of Mobilisation Implementation and Transformation should contribute to boosting the project implementation rate. However, a thorough assessment of the causes of the low implementation rate for public sector projects should be undertaken to establish policies and systems, including coordination mechanisms, for improving the implementation rates for programmes and projects.

Additionally, low rates of productivity and efficiency could constrain economic growth which is fundamental to fiscal and debt sustainability. There is no indicator to measure the rate of productivity. The last 'Doing Business Survey' by the World Bank was undertaken in 2019 and Grenada ranked 147 out of 190 countries. It is necessary to identify inefficiencies in the system with a view to their elimination. The use of a 'Productivity Index' and an 'Ease of Doing Business Index' will allow for an assessment of the inefficiencies and efficiencies in the economy.

With the experience of the Covid-19 Pandemic, it is important that the risk mitigation strategy encompasses an 'all hazards' approach, inclusive of epidemics; pest and diseases; the outcomes of extreme weather inclusive of fires; and the possibility of cyber-attacks in an electronically dominated mode of social and economic transactions.

Recommendations

Improving Project Implementation

The impact of Government programmes and projects has been affected by the low implementation rate. It is necessary to assess the causes of the low implementation rate and establish policies and systems for improving the implementation of public sector projects.

The successful implementation of the strategy requires coordination among government entities, non-government organisations and the private sector. For clarity of operation and effective implementation of major projects, a coordination matrix should be prepared to ensure that all parties are aware of their point of intervention in the implementation of the programmes and projects.

Information Sharing and Dissemination

The proposal by the Government to establish a Social Partners Committee comprising representatives from Government, labour unions, private sector, churches, nongovernmental organisations (NGOs), and youth should be accelerated and implemented in a manner that would ensure productive engagements.

Improving Debt Management

The Government debt strategy aims at reducing the debt to GDP ratio overtime. This could be achieved by a combination of sustained economic growth and improvement in government finances.

The effective management of the public debt requires the monitoring of the planned debt of statutory bodies and state-owned enterprises, and the mechanism for doing so should be strengthened. The operation of the Public Debt Management Coordinating Committee as envisaged in the Debt Management Act could contribute to strengthening debt management for both the Central Government and the statutory bodies and state-owned enterprises.

There is mixed information on the classification of the Petro Caribe debt and this should be clarified. If it is a public sector debt, it should be fully integrated in the public sector accounts. Alternatively, if it is a private sector debt, it should be omitted from the public sector accounts.

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION

Key Messages

The Government complied with the legal process for invoking the Escape Clause for 2022 with the issue of a Suspension Order Memorandum and the preparation of a Recovery Plan Memorandum.

Based on the Suspension Order Memorandum of November 2021, Central Government operations for 2022 were expected to result in a breach of the rules for primary expenditure and the primary balance and the debt target.

According to the Recovery Plan Memorandum, full compliance is expected with the fiscal rules in 2023 except for the debt target which "is projected to average 65.3 percent of GDP over the medium-term".

The Government sought to comply with the provisions of the legislation for fiscal transparency through the dissemination of information on radio and social platforms, convening 'town hall' meetings, holding consultations for the 2023 national budget and by the publication of fiscal and debt reports.

Fiscal transparency could be enhanced by the publication of timely and comprehensive reports, with public announcements on the release of the reports and instructions for accessing the reports. Additionally, the audited public sector accounts must be submitted to Parliament as stipulated in the legislation.

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

Introduction

In this Chapter, the FROC provides an assessment of how far, and to what extent, the Government has complied with its obligations under the FRA for the fiscal year 2022, with particular reference to the extension of the Escape Clause and its statutory obligation to provide a Suspension Order Memorandum and a Recovery Plan Memorandum to Parliament once the Escape Clause was invoked.

This Chapter also assesses whether the Government observed fiscal transparency in 2022 in accordance with the FRA, the Public Finance Management Act and the Debt Management Act.

The Statutory Context

Grenada's Fiscal Responsibility Act (FRA) provides a rules-based framework for the operation of the Government and makes provisions for transparency with full and timely disclosures.

This is captured in the objective of the FRA which is specified in Section 5 as follows:

> Objects of this Act:
> *(a) to ensure that fiscal and financial affairs are conducted in a transparent manner;*
> *(b) to ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications;*
> *(c) 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; and*
> *(d) to ensure prudent management of fiscal risks.*

The provisions for fiscal transparency are enshrined in the FRA. Section 12 (1) (a) ***which*** states that***:*** *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*;"

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

Furthermore, Section 3 of the FRA stipulates that the Act is to operate in conjunction with the Public Finance Management Act (2015) and the Debt Management Act (2015). The Public Finance Management Act details the procedures for the preparation and execution of the budget and the systems for oversight and accountability. The Debt Management Act provides guidelines for contracting, managing and monitoring the public debt. These Acts of Parliament also include provisions for the publication of reports on government finances and on the public debt.

In the context of the FRA's stated overall purpose, to provide a *"fiscal responsibility framework in Grenada, to guide and anchor fiscal policy during the budget process,"* the FROC is mandated, *inter alia*, to *"monitor compliance with the fiscal rules and targets under Sections 7 and 8 (of the FRA)"* [9]

In particular, Section 7 sets out certain expenditure and wage rules and Section 8 speaks to prudent debt, contingent liabilities and a primary balance target. Section 10, however, provides for a suspension, by Order of the Minister of Finance, for a period not exceeding one fiscal year, of the Government's obligations under Sections 7 and 8 relating to the fiscal rules and targets.

Assessment of Compliance with the Escape Clause

Section 10 (1) of the FRA Escape Clause Stipulation

The Escape Clause is contained in Article 10 of the Fiscal Responsibility Act. The provisions are outlined as follows: Section 10 (1) (a) of the Act, authorizes the Minister "*to by Order, suspend for a period not exceeding one fiscal year, fiscal rules, targets and corrective measures under sections 7 and 8 of the said Act, where (a) A natural disaster, public health epidemic, or war as a result of which a state of emergency has been declared by the Governor-General pursuant to section 17 (1) of the Constitution; (b) Real GDP experiences a decline of two (2) percent in a given fiscal year or a cumulative decline equal to or greater than three (3) percent over two (2)*

[9] See Section 14 (3) (a) of the Act

consecutive fiscal years; (c) The Eastern Caribbean Central Bank has certified in writing that a financial sector crisis has occurred, or is imminent, and the Minister estimates that the fiscal costs of such crisis, including the costs of any related recapitalisation of banks by the Government after all possible private sector solutions have been explored, is likely to equate or exceed four (4) percent of GDP; and (d) If the Minister determines that implementation of the fiscal rules, targets or corrective measures would be unduly harmful to the public finances and macroeconomic or financial stability."

The Covid-19 Pandemic introduced an unexpected element to the fiscal climate in Grenada in 2020 which resulted in the declaration of a State of Emergency by the Governor General, initially on 30th March 2020 and subsequently extended on 11th January 2021. Based on this, the Government invoked the provisions of Section 10, by Order of the Minister for Finance made on 10th April 2020 for fiscal year 2020. An extension of this first Suspension Order was made on 15th February 2021 for fiscal year 2021.

Another Suspension Order was made on 9th November 2021 for fiscal year 2022. In 2022, the fiscal rules and targets were suspended in accordance with the Escape Clause in the Fiscal Responsibility Act.

The Suspension Order Memorandum – Section 10 (2) requires that in such a case, *An Order made pursuant to subsection (1) shall, being accompanied by a memorandum pursuant to subsection (3), be subject to approval by Cabinet and laid before Parliament, which shall be subject to negative resolution of Parliament.* This Memorandum must set out the manner in which the implementation of the particular fiscal rule or target would be harmful to the public finances, macroeconomic or fiscal stability; and the estimated levels of expenditure or wages for the period, as a result of the relevant circumstances under subsection (1) and the implications for the current fiscal year and the subsequent fiscal year.

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

The Recovery Plan Memorandum - Immediately upon suspension of Sections 7 and 8, the FRA also mandates that the Minister *"shall immediately prepare and lay before the Houses of Parliament for approval, a Recovery Plan Memorandum pursuant to Subsection 5"*.[10] This Memorandum must set out the measures proposed to secure compliance with the fiscal rules, targets or corrective measures at the expiration of the period for which Parliament approves the suspension of the fiscal rule, target or corrective measures established under Sections 7 and 8, including the size and nature of the revenue and expenditure measures[11].

Assessment of Government's Compliance with the Escape Clause

In compliance with the Escape Clause in 2022, the Suspension Order Memorandum was made and dated November, 2021. In it, the Minister referenced the following two factors as the basis for the Order: *"… the existence of a State of Emergency declared by the Governor General pursuant to Section 17(1) of the Constitution and the cumulative decline in real GDP over the last two consecutive fiscal years of equal or greater than three percent."*

GDP declined by an unprecedented 13.8 percent in 2020 due to the Covid-19 Pandemic, but began recovering in 2021 to record a growth rate of 4.7 percent. This resulted in a cumulated decline of 9.1 percent over the two years (2020 and 2021), which is in accordance with the Escape Clause.

The Suspension Order Memorandum of November 2021, in paragraph 2.0, sets out the factors which would have caused the implementation of Sections 7 and 8 to have a harmful macroeconomic effect. These were primarily the need for increased spending aimed at protecting lives and safeguarding livelihoods due to the impacts of the Covid-19 Pandemic at the time of the Order and over the medium-term. Further, it also pointed to the prolonged socioeconomic effects of the pandemic, vaccine hesitancy and threats from the Delta and new Covid 19 variants, rising oil and commodity prices and inherent climate related risks posed by natural disasters as additional justification.

[10] See section 10(4) of the FRA
[11] See section 10 (5) of the FRA

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

Based on the Suspension Order Memorandum, Central Government operations in 2022 were expected to result in a breach of the rules for primary expenditure and the primary balance, and the debt target. The Order states "*Accordingly, the 2022 Budget will be a deficit one as the growth in expenditure far exceeds that of revenue. A fiscal deficit and tepid recovery of real GDP growth translate to breaches in two of the four fiscal rules and the public debt-to-GDP ratio is projected to deviate from its FRA target in 2022 as shown in Table 1*".

Table 2 of the Suspension Order Memorandum sets out the estimated levels of expenditure and wages for 2022, as a result of the circumstances mentioned at paragraph 2.0 and the implications for the fiscal years 2022 and 2023 are set out in paragraph 4.0, as well as in the said table.

The Recovery Plan Memorandum was made and dated November, 2021 for the fiscal years 2022 and 2023 with further details on the medium-term fiscal and economic strategies outlined in the Medium-Term Fiscal Framework 2022-2023 plan[12]. It outlines the medium-term fiscal and economic strategies intended to secure compliance with Sections 7 and 8 at the expiration of the 2022 fiscal year. [13]

The Recovery Plan Memorandum states:

> "*Consistent with the requirements of Sections 10 (6) and (7) of the FRL, Table 2 shows that the fiscal rules are complied with from 2023 (the year immediately following the period in which the fiscal rules and targets were suspended). Public debt is projected to average 65.3 percent of GDP over the medium term, justifiably above the FRL's target of 55.0 percent of GDP given increased borrowing of long-term concessional loans from multilateral creditors, which were disbursed in 2020 to address socioeconomic fallout from the COVID-19 pandemic* (3)."

The Recovery Plan Memorandum of November 2021 did not address corrective measures for the higher than targeted debt to GDP ratio, but provided the rationale for operating above the target.

[12] See The Medium-Term Fiscal Framework: 2022-2024 Plan dated November, 2021.
[13] See Table 1

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

It is the view of the FROC that the Government has complied with its statutory obligations such as they arose consequent on the Order for the suspension of Sections 7 and 8 of the FRA.

Assessment of Compliance with Fiscal Transparency

Fiscal transparency refers to the operation of the public sector in an environment where there is clarity of government objectives, policies, rules, regulations and decisions, and the process of their formulation and implementation. It requires the availability of timely, comprehensive, consistent, easy to understand and accessible information on the operations of the public sector.

During the year, the Government sought to comply with the provisions of the legislation through the dissemination of information on radio and social platforms, convening 'town hall' meetings, holding consultations for the preparation of the national budget for 2023, and by the publication of fiscal and debt reports. The 'town hall' meeting is a good mechanism for transmitting information and for community participation in matters of governance and government finances. Therefore, it should be sustained.

Adherence to Principles of Timeliness, Comprehensiveness and Consistency of Publications

In 2022, the Government published the monthly Fiscal Summary Report for January to December and the Quarterly Debt Bulletin for the quarters ending March, June, September and December, which could be found on the website. Further improvements are required in the timeliness and comprehensiveness of the publications. A definitive date cannot be discerned for the publication of the monthly Fiscal Summary Report, and no information has been provided to the public on the dates for the publication of the Quarterly Debt Bulletin. To facilitate the thorough assessment of the timeliness of the relevant reports, it is recommended that for reports where no dates are stipulated in the legislation an Information Release Calendar be published, accompanied with press releases on the publication of the reports.

The comprehensiveness of the reports needs to be enhanced. The Monthly Fiscal Summary Report should provide information on the status of Government finances as of the date of the published report, and should include an analysis for all major tax categories. The Quarterly Debt Bulletin and the Annual Debt Report should present the information with clarity on the aggregated public sector debt comprising Central Government, state-owned enterprises and statutory bodies. The components of the stock of public sector debt are analysed separately, but there is the need for a comprehensive analysis of the aggregated stock of public sector debt.

The Public Finance Management Act Section 29 stipulates the content of the Mid-year Fiscal Policy Review, and this should guide the content of this report. A major deficiency in the published fiscal reports is the absence of the financing component of the fiscal account. The omission of the financing component results in a lack of public information on Government financial transactions with domestic financial institutions and some of the external financing transactions.

The national budget for 2023 was presented within the fiscal year and was accompanied with the required legislated documents. The major challenge that needs to be addressed is the treatment of the reclassification of the inflows from the Citizenship by Investment Programme. A revision of the accounts for, at least 2022, would have facilitated the comparison based on consistent information. There is need for either a notation in the data series or a reclassification of the series.

The Public Finance Management Act does not stipulate the preparation of an 'End-of-year Fiscal Report'. The Estimates of Revenue and Expenditure for the following fiscal year contains estimates for the current fiscal year. For example, the Estimates of Revenue and Expenditure for 2023 has estimates of the fiscal outturn for 2022. The actual end of year position of the Government for 2022 may only be available in the Mid-year Fiscal Policy Review which is scheduled to be published in September of 2023. There is usually a disparity between the estimated and the actual outturn which can be significant at times. This is not consistent with the timely provision of information on Government transactions. An end-of-year Fiscal Report should be available by 15th February of the following year.

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

The published fiscal reports, with the exception of the Quarterly Debt Bulletin which includes partial information on the debt of statutory bodies and state-owned enterprises, pertain to Central Government. Reports on the performance of covered entities are not published regularly and are not included in the information on the status of their compliance with the fiscal rules and targets as required by Section 7 (1) of the FRA. This stipulates the "The Minister shall take appropriate measures to ensure that – (a) the rate of growth of the primary expenditure of the Central Government, and of every covered public entity, shall not exceed two percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate."

The lack of data for covered entities could be linked to the 'balance sheet type' reporting of the statutory bodies and state-owned enterprises which needs to be translated into the fiscal type reporting. This would require the strengthening of technical capacity that could only be developed over time. Therefore, the provisions relating to statutory bodies and state-owned enterprises in the Public Finance Management Act, Part 12 - Sections 68 to 82, should be enforced, particularly the submission of the audited annual reports to Parliament.

Gaps in Reporting

The report on the granting of tax concessions which should have been published in 2016, 2019 and 2022, if published, is not accessible on the Government website. The report is required in accordance with Section 29 of the Public Finance Management Act which states:

> (1) *The Minister shall cause to be maintained a public record of any waiver, exemptions, or revisions granted by the government.*
>
> *(2) Within six months after the coming into force of this Act and every 3 years thereafter, the Minister shall cause to be prepared and submitted to Parliament, a report analyzing the rationale, cost and benefits of existing tax incentives and recommendations for retaining or removing such incentives.*

/

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

The audited public sector accounts, which have not been submitted to Parliament since 2016, continued to be outstanding. Therefore, the audited public sector accounts for 2021 were not submitted to Parliament in 2022. The lack of audited accounts and the failure to adhere to accompanying provisions for oversight and accountability are breaches in the budget process.

Consideration could be given to focussing on the completion of the 2022 public sector accounts which should be submitted by the Accountant General to the Director of Audit by 30th June 2023. The Director of Audit is required to submit the audited public sector accounts to Parliament through the Minister of Finance by October 2023. The Government should then remain current in presenting the audited public sector accounts to Parliament. With technical assistance, if necessary, the outstanding public sector accounts could be audited over an agreed timeframe.

Compliance with Other Provisions of the FRA

Among the other provisions of the FRA, the Government was compliant with Section 7 (c) which states that "*no multi-year commitment shall be entered during a period in which Parliament is dissolved; and 7 (2) For the purposes of subsection (1) (b), 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*."

The Government submitted one supplementary budget to Parliament during the year in accordance with section 23 (2) of the Public Finance Management Act Section 23 (2) which provides for no more than two (2) Supplementary Appropriation Bills within a fiscal year.

Annex 2 to this document lists the major fiscal reports and provides recommendations for strengthening fiscal transparency, based on the requirement for: '*Full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditure.*

CHAPTER 3: COMPLIANCE WITH THE FISCAL RESPONSIBILITY ACT: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION (CONTINUED)

Recommendations

Improve fiscal transparency by the publication of timely, comprehensive and consistent reports; the notification of the release of the reports and engaging in dialogue with the public on the contents of the reports.

Prepare an end-of-year fiscal report to allow for the timely assessment of the actual outturn of government operations during the year.

Preparation of the audited public sector accounts and the submission to Parliament as stipulated in the legislation.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS

Key Messages

The Compliance Matrix, as submitted to Parliament on 5th December 2022 pertains to Central Government operations. Information on the covered entities is inadequate for a comprehensive assessment of compliance with the fiscal rules and targets.

According to the Compliance Matrix, the Central Government budgeted operations for 2023 and for the medium-term are in accordance with the fiscal rules and targets for the real growth in primary expenditure, the wage bill, the primary balance and the liabilities of Public-Private Partnerships.

The debt to GDP ratio of 64 percent in 2023 is above the targeted debt to GDP ratio of 55 percent.

Adjustment of the Compliance Matrix for 2023 to align with provisions of the FRA shows that the Government could be in breach of the wage rule and the debt target. The information was inadequate to assess compliance with the rule for the real growth in primary expenditure.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Introduction

The national budget for 2023 was presented prior to the beginning of the fiscal year and was preceded by public consultations. The required public finance documents were tabled in Parliament at the time of the presentation of the budget on 5th December 2022. These documents can be accessed from the Ministry of Finance's website and include:

- 2022 Annual Economic Review
- 2023 Compliance Assessment Report
- Annual Debt Report 2021
- Budget Statement 2023
- Estimate Of Revenue and Expenditure 2023
- Fiscal Risk Statement Budget 2023
- Medium-Term Debt Management Strategy 2023 – 2025
- Medium-Term Fiscal Framework: 2023-2025

This chapter assesses the compliance of the Government with the fiscal rules and targets. The unavailability of comprehensive data on the covered entities limits the assessment of the compliance of the Government with the fiscal rules and targets. Therefore, this chapter assesses the consistency of the Central Government operations with the fiscal rules and targets based on the Compliance Matrix and the Medium-term Fiscal Framework which were submitted to Parliament on 5 December 2022. Secondly, the FROC recalculated the parameters used to determine compliance with the fiscal rules and targets. This took into account the available data on the wage bill of covered entities, and total public sector debt and not just Central Government debt and government guaranteed debt.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

The 2023 National Budget

The Government tabled in Parliament its Compliance Assessment Report for 2023 which evaluated the 2023 budget for consistency with the fiscal rules and targets. This report is prepared in fulfilment of Section 12 (1) (C) of the Fiscal Responsibility Act (FRA) No. 29 of 2015, as amended which states that: "*The Minister of Finance 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.*" This Compliance Matrix reports on the consistency of the operations of Central Government with the fiscal rules and targets. It does not include the covered entities (See Appendix III).

The Compliance Matrix, submitted to Parliament on 5 December 2022, showed that the Central Government budgeted operations are in accordance with the fiscal rules and targets for the real growth in primary expenditure of 2 percent, the wage bill of 9 percent of GDP, the primary balance of 3.5 percent of GDP and the liabilities of Public-Private Partnerships of no more than 5 percent of GDP as outlined in Section 7 and Section 8 of the FRA. Real primary expenditure is estimated to decline by 9.1 percent, the wage bill is 8.9 percent of GDP, the primary balance is 3.6 percent of GDP and no liabilities were reported for Public-Private Partnerships (Refer to Table 4).

The projected decline (- 9.1 percent) in real primary expenditure in 2023 is in contrast to the expected expenditure pattern in an inflationary period. A detailed examination of the data revealed that this decline was due primarily to a fall in nominal primary expenditure and an increase in the capital expenditure financed from grants and the NTF. The continued decline in real primary expenditure over the medium-term is associated with an increased in grant and NTF funded capital expenditure. These inflows are exempted from the calculation of the real growth in primary expenditure. This is in accordance with Section 9 of the FRA which states:

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

"*The following are exempted from the fiscal rules and targets established under this Part–*

(a) grants made to the Government for the financing of capital expenditures in Grenada and the associated expenditures; and

(b) any capital expenditures made from or under the National Transformation Fund."

The public debt (Central Government and Government Guaranteed debt) to GDP ratio of 64 percent is above the targeted 55 percent debt to GDP ratio. The FRA stipulates at 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*."

The Recovery Plan Memorandum of November 2021 did not include measures to address the public debt, but included an explanation for the elevated public debt. It indicated that the debt would be above the targeted 55 percent of GDP due to the socio-economic fallout from the Covid-19 Pandemic. The position of the Government relating to the fiscal rules and targets was stated in the Recovery Plan Memorandum as follows:

> "*Consistent with the requirements of Sections 10 (6) and (7) of the FRL, Table 2 shows that the fiscal rules are complied with from 2023 (the year immediately following the period in which the fiscal rules and targets were suspended). Public debt is projected to average 65.3 percent of GDP over the medium term, justifiably above the FRL's target of 55.0 percent of GDP given increased borrowing of long-term concessional loans from multilateral creditors, which were disbursed in 2020 to address socioeconomic fallout from the COVID-19 pandemic*."

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 4: Consistency of Budget 2023 with Fiscal Rules and Targets

	Fiscal Rule	Budgeted	Compliance	FROC Comments
Growth of Real Primary Expenditure less Capital Grants (Annual % change)	Not exceeding 2.0%	-9.1%		It is important to indicate, that along with the capital grants, capital expenditure financed from NTF inflows are excluded from the calculation, particularly as it is these flows that are primarily contributing to the decline in real primary expenditure in 2023. The primary expenditure does not include the expenditure of covered entities.
Wage Bill of (% of GDP)	Not exceeding 9.0% of GDP	8.9%		The wage bill does not include wages for persons employed in projects as stipulated in the FRA. The wage bill of covered entities is not included.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 4: Consistency of Budget 2023 with Fiscal Rules and Targets (continued)

	Fiscal Rule	Budgeted	Compliance	FROC Comments
Primary Balance (% of GDP)	Not less than 3.5% of GDP	3.6%		The FRA indicates that the 3.5 percent primary balance is in effect after the achievement of the 55 percent debt target as follows: (3) Where the ratio of public debt to GDP for the preceding year reaches fifty-five percent, the Minister shall take appropriate steps to ensure that–(a) the targeted primary balance shall be a minimum of 3.5 percent of GDP.
Contingent Liabilities related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%		The Fiscal Risk Statement indicated that there are two Public-Private Partnerships. No liabilities were recorded.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 4: Consistency of Budget 2023 with Fiscal Rules and Targets (continued)

	Fiscal Rule	Budgeted	Compliance	FROC Comments
Public Debt (% of GDP)	55.0%	64.0%	🔴	This refers to Central Government and government guaranteed debt, which is a component of the total public sector debt. The estimated total public sector debt, excluding the Petro Caribe debt, is 67 percent of GDP. The inclusion of the Petro Caribe debt pushes the total public sector debt to 77 percent of GDP.

Symbol	Meaning
🟢	Compliance
🔴	Breach
🟡	Cannot be determined

Modified Compliance Matrix for the 2023 Budget

Based on data provided by the MOF, the FROC modified the Compliance Matrix to be in line with guidance given in the FRA on the calculation of the fiscal rules and targets. In the modified

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Compliance Matrix**,** the wage bill of 8.9 percent of GDP, which is for Central Government, is aggregated with the estimated wage bill of 0.9 percent of GDP for the covered entities. The aggregated wage bill is estimated at 9.8 percent of GDP, which is above the targeted 9 percent of GDP. The following table shows the basis for utilizing an estimated 0.9 percent of GDP for the wage bill of covered entities.

Table 5: Wage Bill of Covered Entities

	2019	**2020**	**2021**	**2022**
Wage bill in EC$M	42.91	38.26	36.67	28.26
Wage bill as a % of GDP	1.3	1.4	1.2	0.9

Source: Ministry of Finance. February 2023.

The public debt (Central Government and Government Guaranteed) of 64 percent of GDP is replaced with an estimated total public sector debt of 77 percent of GDP of which the Petro Caribe debt is approximately 10.7 percent of GDP. This recalculated public sector debt is consistent with the provisions of the FRA. According to Section: 8(1) *"The Minister shall take appropriate measures to ensure that the ratio of the total of–*

(a) the total stock of public sector debt from domestic or external sources for any purpose, including the total sum of debt guaranteed by Government including, contingent liabilities, but excluding contingent liabilities arising from, as a result of, or in connection with public-private partnerships;

(b) the debt and contingent liabilities of statutory bodies and state-owned enterprises; 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."

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

The FRA defines the "public sector" as: "the Central Government, the National Insurance Scheme, statutory bodies, and state-owned enterprises."

Data is not provided for Public-Private Partnerships. However, two such arrangements are identified in the **Fiscal Risk Statement** which states:

> "*Concerning Public/Private/Partnerships (PPPs), there were two such existing arrangements in place in 2022: (i) a 15-year agreement with Digicel, which is part of the Caribbean Regional Communication Programme that is a World Bank-funded regional project between the Governments of Grenada, Saint Lucia and St. Vincent and the Grenadines and Digicel to support the countries' digital transformation agenda. Grenada's contribution to the regional projects (sic) is a current liability (i.e. concessional loan financing) and as such, there are no explicit related contingent liabilities associated with the PPP arrangement. (ii) the Grenville Commercial Complex, which is an arrangement between the Government and a private partner to construct commercial spaces for rent, costing an estimated $18.8 million, with Government owning 51% of the shares of the venture* (Ministry of Finance (MOF) 2022, 10)."

The results of the modified Compliance Matrix, based on the estimated outturn for the public sector, show that the Government could be in breach of the wage rule and the debt target (Refer to Table 6). The available information was not adequate to pronounce on the rules for the primary expenditure and the primary balance. However, with such a steep decline in real primary expenditure in 2023, it is most likely that the Government would be in compliance with the real primary expenditure rule. The following shows the revised Compliance Matrix.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 6: Compliance of Budget 2023 with Fiscal Rules and Target as Calculated by the FROC

	Fiscal Rules	FROC Estimates	Compliance	FROC Comments
Growth of Real Primary Expenditure less Capital Grants and NTF (Annual % change)	Not exceeding 2.0%			Data on primary expenditure is not available for the covered entities to calculate total primary expenditure. Therefore, primary expenditure of Central Government and covered entities could not be determined.
Wage Bill of (% of GDP)	Not exceeding 9.0% of GDP	9.8%		The wage bill is adjusted to include the estimates based on available data for covered entities. The wage bill does not include persons employed in projects as stipulated in the Act.
Primary Balance (% of GDP)	Not less than 3.5% of GDP			Based on the FRA, this fiscal rule applies where the debt to GDP reaches 55 percent of GDP. Notwithstanding, the available data does not allow the calculation of a primary balance. Comprehensive

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 6: Compliance of Budget 2023 with Fiscal Rules and Target as Calculated by the FROC (continued)

	Fiscal Rules	FROC Estimates	Compliance	FROC Comments
Primary Balance (% of GDP)	Not less than 3.5% of GDP			information for covered entities is not available.
Contingent Liabilities related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%		The Fiscal Risk Statement outlined two Public-Private Partnerships. The information presented suggests that, if there is a liability, it would be less than 5 percent of GDP.
Stock of Public Sector Debt (% of GDP)		67%		This pertains to Central Government and government guaranteed and rest of the public sector debt, excluding Petro Caribe Debt.
Stock of Public Sector Debt (% of GDP)	55.0%	77.0 %		This pertains to Central Government and government guaranteed and rest of the public sector debt, including Petro Caribe Debt.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Symbol	Meaning
🟢	Compliance
🔴	Breach
🟠	Cannot be determined

The Medium-Term Fiscal Framework

In keeping with its medium-term economic strategy, the Government prepared the Medium-Term Fiscal Framework (MTFF) which sets out its fiscal policy strategy and objectives for the Budget year 2023 and the two forward years, 2024 and 2025. The 2023-2025 MTFF provides for an improvement in government finances. The information submitted to Parliament on 5th December 2022, showed that the Central Government operations are in accordance with the fiscal rules and targets except for the debt target. The Central Government debt to GDP ratio remains outside the targeted 55 percent of GDP. This is shown in the following table based on the information presented to Parliament:

Table 7: Compliance of Medium-Term Fiscal Framework 2023 – 2025 with Fiscal Rules and Targets

Fiscal rules and Targets	Period	Fiscal Variables	Compliance	FROC Comments
Real growth in Primary Expenditure of two percent	Budget 2023	-9.1%	🟢	It is important to indicate, that along with the capital grants, capital expenditure financed from NTF inflows are excluded from the calculation and this is responsible for the decline
	Projected 2024	-6.9%	🟢	
	Projected 2025	-7.0%	🟢	

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 7: Compliance of Medium-Term Fiscal Framework 2023 – 2025 with Fiscal Rules and Targets (continued)

Fiscal rules and Targets	Period	Fiscal Variables	Compliance	FROC Comments
Real growth in Primary Expenditure of two percent	Budget 2023	-9.1%		in real primary expenditure over the medium-term. The primary expenditure does not include the expenditure of covered entities.
	Projected 2024	-6.9%		
	Projected 2025	-7.0%		
Wage Bill of nine percent of GDP	Budget 2023	8.9%		The wage bill does not include wages for persons employed in projects, nor the wage bill of covered entities.
	Projected 2024	8.7%		
	Projected 2025	8.4%		
Primary balance not less than 3.5% of GDP	Budget 2023	3.6%		The FRA indicates that the 3.5 percent primary balance is in effect after the achievement of the 55 percent debt to GDP target as follows: (3) Where the ratio of public debt to GDP for the preceding year reaches fifty-five
	Projected 2024	3.6%		
	Projected 2025	5.1%		

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Table 7: Compliance of Medium-Term Fiscal Framework 2023 – 2025 with Fiscal Rules and Targets (continued)

Fiscal rules and Targets	Period	Fiscal Variables	Compliance	FROC Comments
Primary balance not less than 3.5% of GDP	Budget 2023	3.6%	🟢	percent, the Minister shall take appropriate steps to ensure that–(a) the targeted primary balance shall be a minimum of three-point five percent of GDP.
	Projected 2024	3.6%	🟢	
	Projected 2025	5.1%	🟢	
PPP-related Contingent Liabilities of 5 percent of GDP	Budget 2023	0.0%	🟢	
	Projected 2024	0.0%	🟢	
	Projected 2025	0.0%	🟢	
Public sector debt to GDP ratio of 55 percent	Budget 2023	64.0%	🔴	This refers to Central Government and government guaranteed debt, which is a component of the total public sector debt.
	Projected 2024	62.6%	🔴	
	Projected 2025	60.5%	🔴	

Symbol	Meaning
🟢	Compliance
🔴	Breach
🟡	Cannot be determined

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Modified Compliance Matrix for the Medium-Term Fiscal Framework

The FROC examined the Compliance Matrix for the medium-term with a view to aligning it with the fiscal rules and targets as defined in the FRA. There were some fundamental conceptual, theoretical and practical challenges which made it impossible to assess compliance of the Government with the fiscal rules and targets over the medium-term. One practical challenge is the lack of comprehensive information for covered entities. Specifically, data is unavailable for covered entities beyond 2022. The wage bill as specified in the FRA includes the wages of employees on projects as well as the wage bill of the covered entities. The information on covered entities is inadequate.

An important variable in determining the growth in real primary expenditure is the inflation rate. The calculation of the real growth in primary expenditure requires the adjustment of primary expenditure by the inflation rate of the previous year. The FRA did not specify which inflation rate is to be used, that is, whether it is the annual average inflation rate or the ‘end of period’ inflation rate, or how the inflation rate for calculating the growth in real primary expenditure for the medium-term should be determined.

Given these challenges, primary expenditure and the wage bill could not have been recalculated for the medium-term. The stock of public sector debt remains above the targeted 55 percent of GDP over the medium-term.

There are a number of factors mitigating against the fiscal rules and targets being implemented in accordance with the FRA. There are fundamental conceptual, technical and practical challenges in implementing and monitoring compliance of the Government with the FRA. Therefore, there is an urgent need to reform the FRA.

CHAPTER 4: ASSESSSMENT OF CONSISTENCY OF THE 2023 NATIONAL BUDGET AND THE MEDIUM-TERM FISCAL FRAMEWORK WITH THE FISCAL RULES AND TARGETS (CONTINUED)

Recommendation

Given the conceptual, technical and practical challenges and the technical and administrative demands required to monitor and report on compliance with the FRA, urgent attention should be given to reforming the FRA.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT

Key Messages

Fiscal rules are not fixed and over time these have to be modified in light of experience and implementation challenges. The FRA has a number of shortcomings which have affected full compliance with the rules and targets and effective oversight.

The FRA suffers from a lack of clarity, inconsistencies and omissions in key parts of the Act and the complexities of some of its provisions which have affected their interpretation and implementation.

Reporting and data challenges have limited the application of the FRA to the Central Government. The appropriateness of the fiscal rules and targets needs to be re-examined.

Previous FROC, the Ministry of Finance and the International Monetary Fund recognised the issues and recommended a reform of the FRA.

The FRA is in need of a comprehensive reform, requiring not only clarifying the many ambiguities in its provisions, but also a re-examination of the fiscal rules and targets and other requirements.

The FRA should be repealed and replaced with a fiscal responsibility framework with operational rules and targets devised to achieve fiscal and debt sustainability, while paying due regards to the administrative and technical capacity of the country and the agenda for transforming the economy.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

Introduction

Following two debt restructuring exercises, legislation was promulgated which sought to anchor fiscal policy within a rules-based framework. The Fiscal Responsibility Act No. 29 of 2015 (came into force by the Fiscal Responsibility Act (Commencement) Order SRO No. 2 of 2016) and its subsequent amendment by Act No. 1 of 2016; Act No. 11 of 2017 and Act No. 9 of 2019. The FRA established rules and targets to guide the conduct of fiscal policy and an oversight mechanism to monitor and report on compliance with these rules and targets.

The Fiscal Responsibility Act (FRA) provides for discipline in the pursuit of fiscal policy. However, the fiscal rules and targets must be designed to give the Executive some flexibility to manage the economy. This is particularly so in the Eastern Caribbean Currency Union where fiscal policy is the primary tool for economic management. Additionally, the fiscal rules and targets must provide for fiscal and debt sustainability without placing undue burden on the administrative system to assess and monitor compliance with the Act. This must be taken into consideration in small economies with limited administrative and technical capacity. Fiscal rules are not cast in stone. They are work in progress. Over time countries have revised their fiscal rules in light of experience and empirical evidence on their effectiveness[14].

This chapter reviews the experience with the implementation of the FRA. It begins with an assessment of the challenges and issues that have arisen with its implementation. Previous recommendations advanced for the reform of the FRA are then discussed. A SWOT analysis of the FRA is undertaken as a backdrop to proposals to guide the reform of the fiscal responsibility legislation. Finally, recommendations are offered for reforming the FRA.

[14] Since 1997, the United Kingdom has had eight set of fiscal rules comprising twenty different rules in total (Hourston 2022). The fiscal rules for the European Union have been modified a number of times since their enactment and currently "[t]here is a heated debate on reforming the EU's fiscal framework, see for example the discussion in the European Fiscal Board's August 2019 report and the Economic Governance Review of the DG-ECFIN in February 2020 (cfmsurvey.org. n.d.) ."

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

Challenges and Issues in Implementing the FRA

The implementation of the FRA and the Fiscal Responsibility Oversight Committee's (FROC's) monitoring of compliance with its provisions have brought to the fore a number of issues constraining the FRA's operation in practice. The FROC's first Annual Report and all subsequent reports have pointed to shortcomings in the FRA and in its implementation which have affected full compliance with the rules and targets, and which also have implications for the effective oversight by the FROC. Some of these challenges, which are immediately manifested, relate to the lack of clarity, inconsistencies and omissions in parts of the Act and the complexities of some of its provisions[15]. These have contributed to differing interpretations of critical aspects of the Act. The design of the fiscal rules also restricts the conduct of fiscal policy to manage the economy, divorces the growth in expenditure from revenue growth and constrains capital expenditure.

The FROC, the Ministry of Finance (MOF) and the International Monetary Fund (IMF) have, at various times, suggested that reform of the FRA was needed. Some of the key issues are reviewed below, while a detailed review of the various sections of the Act is presented in Annex 3.

Coverage of the Fiscal Responsibility Act

Since the enactment of the FRA, the monitoring and reporting on compliance with this have been restricted to the operations of the Central Government while the FRA makes provisions for Central Government and covered entities. Data on the performance of statutory bodies and state-owned enterprises are not included in the reporting framework. This in effect means there has not been strict compliance with the FRA, given the unavailability of information on the covered entities to incorporate them in the assessment. The compliance assessment undertaken by the FROC is in fact a qualified one that pertains only to the Central Government.

[15] Since the enactment of the principal Act there has been three amendments.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT
(CONTINUED)

Appropriateness of the Fiscal Rules and Targets

The FRA includes expenditure rules and targets, the primary objective of which is to maintain fiscal and debt sustainability. The targets in the FRA are the primary balance and the debt to GDP ratio. The overall fiscal balance is what ultimately and directly determines whether the country accumulates debt or not. This is not included as a target. This is in direct contrast to the case of many countries that operate within a rules-based framework. For example, the European Union, the West African Union, Chile, Malta and The Bahamas have included the overall balance as a target.

Interpretation of Provisions Pertaining to the Debt to GDP Target

Previous FROC reports highlighted a number of ambiguities with respect to the interpretation and implementation of key provisions related to the public sector debt to GDP target (Section 8). The target debt to GDP ratio is set at fifty-five percent. A careful reading of Section 8, Sub-sections (3 -5), reveals a number of inconsistencies as it pertains to attainment of the debt target and policy actions that are specified to achieve this.

Section 8 (3) (a – f) sets out the steps the Minister is expected to undertake **once the debt target is achieved.** Section 8(5) of the FRA provides for the debt to GDP ratio to be reduced to the target level over three years **when this ratio exceeds sixty percent**. The Act does not explicitly outline the actions required by the Minister when the ratio of the public debt to GDP is over fifty-five percent but less than sixty percent. Further, the wording of the provision at 8(3)(a) implies that a primary balance of three-point five percent must be maintained **only when the debt target is achieved**[16]. This is in conflict with the provision at 8(4) which requires the maintenance of a debt-stabilizing primary balance of "*one percent of GDP which shall be computed in accordance with*

[16] Section 8(3)(a) is clearly incorrectly worded. It is the FROC's contention that the intent was for an effective primary balance target of 3.5 percent of GDP to operate when the actual debt to GDP ratio exceeded the targeted fifty-five percent (See Suggested Amendments 2 and 3 in FROC Annual Report 2016 (FROC 2017). In fact, the primary balance of 3.5 percent of GDP has been treated as the operational target in practice since the debt is over the legislated target.

the First Schedule" upon achievement of the debt target. The Act also fails to state any timeframe in which the fifty-five percent debt to GDP target is to be achieved.

With respect to Section 8 of the FRA, the 2017 FROC report noted: "*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."[17]

Since the Act came into force, the target has never been attained, the MOF, therefore, sets no annual targets in line with Section 8(5) in order to reach the targeted fifty-five percent. The FROC has suggested amendments to Section 8 of the Act to remedy the inconsistencies and to bring clarity to all matters pertaining to the debt target (FROC Annual Report 2019: Appendix V, 56-60)[18].

Application of the Primary Expenditure Rule

The expenditure rule limits the growth in primary expenditure to two percent in real terms in any given fiscal year when adjusted by the previous year's rate of inflation. The rule applies to Central

[17] Reported in FROC Annual Report 2019 (FROC 2020), 60.
[18] Since the enactment of the FRA, Section 8 of the principal Act has been amended twice by Act No. 1 of 2016: Fiscal Responsibility Amendment and Act No. 9 of 2019: Fiscal Responsibility (Amendment) Act, 2019.

Government and the covered entities. The expenditure rule is generally applied to eliminate cyclical expenditure, so that expenditure would remain stable during fluctuations in revenue. This permits the government to accumulate reserves during periods of high revenue and use the reserves to stabilize expenditure during periods of falling revenue.

There is no technical note explaining the basis of this expenditure rule, *ie*. the limit of two percent real growth. The primary expenditure rule is defined in relation to inflation. In periods of no or declining inflation, the rule restricts Government expenditure, even if capital projects require higher current expenditure for operation, and it allows for higher expenditure only in inflationary periods, at a time when the Government should be reducing expenditure to curb inflation. This rule thus restricts the Government's use of fiscal policy to manage the economy. The flexibility to use fiscal policy is important in the ECCU as monetary policy is regional, requiring consensus by the Monetary Council. Monetary policy impacts on the economy with a lag due to the lack of a money market.

Capital expenditure financed by grants and from the National Transformation Fund (NTF) is exempt from the expenditure rule. This implies that capital expenditure financed from domestic resources and loans are subject to the expenditure rule. These capital expenditures may be negatively impacted by the binding rule because, compared with current expenditure, these are easier to cut or postpone. Additionally, capital expenditure is lumpy and such expenditure is critical to augmenting and transforming the productive capacity of the country and meeting social objectives, and therefore should not be subject to such a binding constraint of two percent real growth. To address this, some rules apply only to current expenditure and exclude investment expenditure that contributes to long term economic and social development objectives.

The primary expenditure rule sets a limit on expenditure growth independently of GDP or revenue growth. The current construct does not allow the Authority to benefit from revenue windfalls and undrawn loan commitments where the real rate of growth of primary expenditure exceeds the statutory target of two percent. There are few countries with such fiscal rules which set an absolute limit on the growth of expenditure independently of the movements in GDP and/or revenue. In the case of Jamaica and The Bahamas the expenditure limit is set as a percentage of GDP. This constrains expenditure to grow at the rate of GDP. Some rules constrain nominal current expenditure to grow at the rate of nominal GDP adjusted for the level of debt. A primary expenditure rule may be redundant given effective implementation of a budget balance rule.

Application of the Wage Rule

Section 7 (3) imposes a cap on the wage bill of nine percent of GDP. The rationale for limiting the wage bill to nine percent of GDP is not clear. It is difficult to assess the rule for the wage bill as no technical note was provided. Additionally, given the deficiencies in the data on statutory bodies and state-owned enterprises, it is unknown how the ceiling of nine percent was determined[19]. Further the definition of the relevant wage bill in the FRA needs to be revisited, as this incorrectly includes payment to "project workers employed under the Public Sector Investment Programme"[20] which is a capital expenditure**.**

Restricting the wage bill to a fixed percent of GDP gives priority to containing the wage bill over the manpower needed to deliver effective and quality publicly provided services. In these circumstances, the government resorts to creative ways in order to ensure that the public service is adequately staffed, so as not to violate the wage rule. These have had the unintended consequence of making working conditions more tenuous and precarious for workers. In the long term, such a rule can have an adverse effect on the quality of professional staff the public service is able to attract and retain[21].

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[19] Under the Financial Administration and Audit [No.] (Amendment) Act, 2014, Jamaica's fiscal rules also limit wages to 9 percent of GDP.

[20] See FRA Section 2- Interpretation – Wage Bill.

[21] Although not directly attributed to the wage rule, making a case for a new compensation structure in Jamaica, it was noted that "[f]or years, the public service has been losing talented, qualified staff and has not been able to adequately attract and retain staff (Ministry of Finance and Public Service (MOFPS) 2022, 5)."

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

If the purpose of the fiscal rule is to ensure expenditure grows in line with the country's capacity to fund these and to comfortably service its debts, then total expenditure, with the appropriate adjustments to safeguard transformational investment, rather than specific components of expenditure seems to be the more relevant target for any fiscal rule. According to Fuest and Gros (2019) the primary purpose of expenditure rules is not to determine the overall level of public spending in a country, but only the spending that can be financed with a given level of taxes (2-3). Similarly, one can argue that expenditure rules should not be used to determine the allocation of resources across competing categories of expenditure by selectively placing a cap on only certain categories of expenditure. Rather such rules should ensure that overall spending does not compromise fiscal and debt sustainability. Given the primary concern is with debt sustainability, and ballooning debt service can account for a sizeable share of total expenditure and of revenue, limits on interest payments and the contraction of debt may be more impactful[22].

Implementation, Monitoring and Reporting

The lack of clarity, inconsistencies and ambiguities and the complexities of some of the provisions of the FRA make its interpretation and implementation challenging. Some of the technical terms, and technical provisions, for example recalibrating the primary balance, must be more clearly defined, and better explained for the benefit of those responsible for the administration and oversight of the Act. The principles and the model underlying the legislated rules and targets should be easily understood by those charged with the implementation of the FRA and by those responsible for monitoring compliance. The variables used in setting the rules and targets, to calibrate the model and to monitor adherence to the rules and targets should be readily available. The reporting requirements should not overburden the limited technical and administrative capacity of the country (such as the timing for the preparation of the Recovery Plan Memorandum). This poses a hindrance to the effective implementation and monitoring of the FRA in the manner in which it was intended. A key factor in the success of any policy is the simplicity of its provisions

[22] Malaysia in addition to a domestic debt ceiling has limits on offshore borrowings, issuances of conventional treasury bills, and debt service charges (Chul Ju Kim 2020)

and the ease of interpretation, implementation and monitoring and the effectiveness of the oversight[23].

Previous Recommendations for Reforming the FRA

From the inception of the FRA, the interpretation of some of its key provisions and their application have presented a number of challenges which have been highlighted in the reports produced by the FROC. The FRA has never been implemented in the manner in which it was intended. The 2019 FROC Annual Report, Appendix V, includes the various recommendations for the reform of the FRA which were advanced between 2016 - 2019 for rectifying inconsistencies, clarifying ambiguities, and correcting omissions identified in the FRA[24].

The FROC's 2016 report suggested amendments to the following:

i. Section 14(2) Schedule II to address an ambiguity in the provision relating to the tenure and revocation of members of the FROC; and
ii. Section 8 of the Principal Act to clarify the provisions pertaining to the attainment of the debt to GDP target.

The 2017 report recommended amendments to

1. Section 14(6) c to set a clear deadline or timeframe for the examination of the Annual Report by the Public Accounts Committee, the Standing Order Committee, and the Standing Committee on Finance; and
2. Section 8 to clarify the interpretation and timing of the measures the Minister must take to reduce the debt to GDP to the target ratio and to set annual targets in pursuant of this target.

[23] The IMF notes that "multiple rules contribute to the complexity of the fiscal framework (including conflict between rules and objectives) and make compliance more difficult to explain and monitor (Davoodi, et al. 2022, 7)."
[24] FROC – 2109 Annual Report (2020). Suggested Amendments to the Fiscal Responsibility Legislation (42-45)"; and Appendix V - Suggested Amendments to the FRA brings together recommendations from the FROC 2016 and 2017 reports (55-60).

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

Suggestions for amendments to address ambiguities in the wording of the provision for tenure and revocation of the FROC's members were again advanced (FROC 2019 AR, 55-56).

The FROC in 2019 also reported on recommendations put forward by the MOF "to expand definitions, clarification and simplification of laws, address ambiguities and resolve inconsistencies between related legislation (43)". These covered the definition of public debt, public-private partnership and the wage bill (Section 2), the expenditure rule – inflation (Section 7 (1) (a)), the debt target and associated provisions (Section 8), recalibration of the primary balance target (Section 11), the duties and powers of the Minister for implementation and reporting on the FRA (Section 12) and the FROC's tenure and annual report (Section 14).

Reforms suggested by the IMF were also reported on. These included, *inter alia*, revising the debt definitions to remove ambiguity and align with the concept of non-financial public sector; revising the definition of primary balance to be consistent with Central Government's primary balance; revising the FRL to apply the expenditure rule to current primary expenditure; recalibration of the law at the debt stabilizing balance, update the base level of current primary expenditure and set a cap on primary expenditure as a share of GDP.

The FROC 2019 report opined that "given the extensive amount [sic] of the amendments which the FROC, MOF and IMF believe are necessary to enhance the FRA, it is the FROC's respectful suggestion that the current legislation … should be repealed and replaced (45)".

The 2021 FROC Annual Report (FROC 2022) reiterated the urgent need for reform of the FRA, while identifying additional challenges with the design of the existing FRA. In the wake of the Covid 19 Pandemic and the invoking of the Escape Clause, the FROC noted that amendments to the FRA were warranted to provide better guidance on the suspension of fiscal rules in the event of consecutive economic shocks. Additionally, the FROC concluded that the FRA "current construct does not allow the Authorities to benefit from revenue windfalls and undrawn loan commitments where the real rate of growth of primary expenditure exceeds the statutory target of two percent (55)" and it recommended that the FRA be adjusted to allow the Authorities to benefit from revenue windfalls and undrawn loan commitments.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

The 2021 Report reiterated the following two main recommendations which were previously advanced:

1. "The Government must commit to a phased and targeted approach to attain full compliance with the Fiscal Responsibility Act, and
2. Review, repeal and replace the Fiscal Responsibility Act (56)."

The IMF (2022) identified several shortcomings in the existing fiscal responsibility framework[25] *viz.*:

- Rigidity of the expenditure rule which acted as a disincentive to revenue mobilisation and restricts investment spending;
- The impracticality of the three-year time-frame for reducing debt to its target limit when debt is high; and
- Ambiguity on procedures and definitions specifically related to the number of times the escape clause can be extended and difficulty of preparing a recovery plan immediately after the trigger is announced (as in the case of the response to the current pandemic shock) and the inconsistent definition of public debt across the various Acts (36-43).

Given the shortcomings identified, the following three options were advanced by the IMF for reforming the Fiscal Responsibility Law:

1. Addressing the shortcomings of the FRA while maintaining the current rules, i.e., modifying the expenditure rule by exempting relevant categories of expenditure or by increasing the limit; and clarifying that the debt target is a medium-term ceiling (therefore the convergence path should depend on the size and nature of the shock).
2. Addressing the shortcomings and revisiting the operational rules (e.g. deciding on a primary balance rule or expenditure rule or both; flexible primary balance rule? wage rule?); and

[25] IMF. 2022. IMF Country Report No. 22/134 Grenada 2022 Article IV Consultation—Press Release; Staff Report; And Statement by The Executive Director for Grenada Annex IV Options for Revising Grenada' Fiscal Responsibility Law (May) 36-43.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

3. Addressing the shortcomings of the FRA, revising the operational rules, and revisiting the medium-term debt ceiling (i.e., establish a lower debt ceiling).

The IMF suggested that the amendments of the FRA should be undertaken before the primary expenditure rule becomes binding again in 2024 under the current FRL[26]. The amended framework should have a clearly defined medium-term debt ceiling (with an appropriately defined broad definition of public debt like in the current FRL) and a clearly specified procedure for debt to converge to the ceiling following shocks, especially large ones.

Given the number of problematic areas or deficiencies which have manifested over the life of the FRA, a comprehensive reform of the law is necessary.

SWOT Analysis of the Fiscal Responsibility Act

The following table summarises the results of a SWOT analysis of the FRA.

Table 8: SWOT analysis of the Fiscal Responsibility Act

Strength	Weaknesses
a. Past Government enacted and supported the FRA and the new administration of June 24, 2022 is committed to the FRA. b. The FRA provides guidelines for fiscal and debt sustainability and for fiscal transparency. c. The FRA makes specific reference to the Public Finance Management Act and the Debt Management Act which governs the budget process. d. The FRA has a built-in mechanism known as the Escape Clause which is the only	a. The FRA does not allow the Government to fully exploit revenue windfalls, given the restrictions placed on the real rate of growth of primary expenditure, which is set at 2.0 percent. b. There is not a publicly available concept note which explains how the numerical value for the 2 percent real growth in primary expenditure, the wage bill of 9 percent of GDP, and the debt to GDP ratio of 55 percent were determined.

[26] FRL refers Fiscal Responsibility Legislation.

Table 8: SWOT analysis of the Fiscal Responsibility Act (continued)

Strength	**Weaknesses**
authority to suspend the fiscal rules and targets as outlined in Articles 7 and 8 of the FRA and acts as a safeguard in periods of economic and social shocks. e. The Escape Clause can be successively invoked, provided that the conditions mandated in article 10(1) of the Act continue to exist and the objects of the Act continue to be achieved. f. Provides a monitoring mechanism by establishing the FROC which is expected to operate independently as outlined in the Fiscal Responsibility (Amendment) Act No. 11 of 2017.	c. Practical challenges could be encountered in using the rate of inflation to determine the growth in government expenditure and countries are experimenting with alternative variables. d. The principle of simplicity in the design of the fiscal rules and targets and for the monitoring of compliance with the fiscal rules is not adequately addressed in the FRA. e. The binding expenditure rules limit the ability of the Executive to use fiscal policy to manage the economy; given the constraints of monetary policy. f. The Escape Clause cannot be used except in extremely difficult times such as natural disasters, public health epidemic and other extreme events. g. Public education/awareness on the FRA is lacking.
Opportunities	**Threats**
a. Given the recommendations made by previous FROC, MOF and the IMF for clarifying ambiguities and inconsistencies in the FRA, there is room for reviewing the FRA.	a. Environmental catastrophe due to climate change which may not necessarily be seasonal. Increased natural disasters, public health epidemic, war and its effect which are far reaching for example,

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

Table 8: SWOT analysis of the Fiscal Responsibility Act (continued)

Opportunities	Threats
b. Grenada could benefit from its own experience in implementing the FRA, the experiences of other countries that have implemented fiscal rules and targets, and from countries that are reviewing their fiscal rules and targets with a view to reforming their fiscal rules and targets. c. The application of the Escape Clause has been tested in an unprecedented situation with the onset of the Covid-19 Pandemic. d. Implementation of Awareness and Public Participation (APP) with various stakeholders/organisations and the public to understand the FRA which advocate transparency and accountability.	Russia vs Ukraine war which impacts energy cost and inflation rate. b. Rise in inflation rate and the accompanying actions of monetary authorities to curb inflation which could weaken global output. c. Judicial ambiguities can lead to diverse interpretations that may erode the objectives of the FRA.

Proposals for Reforming the FRA

The repeal of the FRA is indeed warranted given the many issues surrounding the interpretation of some of its key provisions and the difficulties encountered in its practical application. The two main purposes of the FRA are to attain fiscal and debt sustainability and transparency in government's operations. Fiscal transparency requires the full disclosure about government operations, while fiscal and debt sustainability requires that the Government avoid the rapid accumulation of debt associated with chronic fiscal deficits. There have been many challenges in the implementation of the FRA, and numerous recommendations have been put forward for reforming the FRA. The FROC has examined these recommendations and reviewed the experiences of other countries.

Against this backdrop, proposals are advanced for the reform of the FRA. In reforming the FRA, the objectives of the Fiscal Responsibility Framework should be clear and consistent with the growth and transformation objectives of the country.

The suggested reforms are guided by the following principles. The fiscal rules and targets should be:

1. Simple and transparent;
2. Easy to monitor and for reporting to Parliament;
3. Allow for flexibility for the government to manage the economy;
4. Designed to take account of the peculiar circumstances of the country, including its limited technical and administrative capacity;
5. Generate incentives to reduce excessive public debt; and
6. Embed an escape clause in case of very large shocks.

Given the unavailability of information on the covered entities to incorporate them fully in the assessment, the rules and targets in a reformed FRA should be restricted to Central Government, except for the public debt target. The provisions for attaining the public sector debt to GDP target should be such that it does not require a rapid reduction in debt at the expense of the growth and transformation of the economy. With a total public sector debt of approximately 77 percent of GDP (inclusive of the Petro Caribe debt), and 67 percent (exclusive of the Petro Caribe debt), the targeted debt to GDP ratio of 55 percent should be re-examined and a timeframe provided for the achievement of the revised target. Fiscal rules and targets should be devised to achieve fiscal and debt sustainability, while taking into consideration the administrative and technical capacity of the country.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

Policy Recommendations

It is the FROC's considered view that the existing Fiscal Responsibility Act should be repealed and replaced. The following recommendations are advanced for the reform of the fiscal rules and targets:

1. Eliminate the fiscal rules of real growth of two percent in primary expenditure, and the cap on the wage bill of nine percent of GDP. If an expenditure rule is considered necessary, amend the rule to conform with best practice. Such a rule should be based on sound technical rationale for an appropriate numerical value for the growth in primary expenditure and the variable(s) that will be used to adjust the growth in primary expenditure over time. Capital expenditure should be excluded from the primary expenditure rule. Alternatively, the current account balance can serve as a simple intermediate target that ensures that the government generates adequate savings.
2. Introduce a target related to an overall fiscal balance which results in a reduction in Central Government debt until the targeted debt to GDP ratio is achieved and then set an overall balance target that constrains the rapid accumulation of debt. This would need to be combined with a target for the debt of the rest of the public sector.
3. Review the targeted debt to GDP ratio of fifty-five percent and establish a revised targeted debt to GDP ratio and determine a timeline for the attainment of the new debt to GDP ratio.
4. The targeted debt to GDP ratio should be applied to the total public sector; and the other rules and targets should be applied to Central Government.
5. The statutory bodies and state-owned enterprises should be monitored and reports presented to Parliament in keeping with Part 12 Sections 68 to 82 of the Public Finance Management Act.
6. The fiscal rules and targets should be accompanied by the requirement for a well-developed medium-term fiscal framework, that is approved by Parliament, for achieving fiscal and debt sustainability. In this framework, indicators for revenue, expenditure and primary balance could be included and monitored annually or as determined by the Executive.

CHAPTER 5: REFORMING THE FISCAL RESPONSIBILTY ACT (CONTINUED)

Table 9 juxtaposes the existing legislated fiscal framework with the recommended legislated fiscal responsibility framework.

Table 9: Reform of the FRA

Existing Legislated Fiscal Rules, and Targets	Recommended Legislated Fiscal Rules and Targets
• Growth in real primary expenditure of two percent • The wage bill not exceeding nine percent of GDP. • Public sector debt to GDP ratio of 55 percent. • Contingencies of public private partnerships not exceeding 5 percent of GDP. • A primary balance of 3.5 percent of GDP (where the ratio of public debt to GDP for the preceding year reaches fifty-five percent**).**	• An overall balance (after grants) to be applied to Central Government. • The overall balance would be informed by the required principal debt repayments and the policy on the accumulation of reserves. • A total public sector debt to GDP ratio. • The existing debt target should be reviewed and a revised debt target established to be achieved over a specific time. • A medium-term fiscal framework, with fiscal variables such as current account balance, primary balance, revenue targets and expenditure ceilings and other variables as determined on assessment of the economy. • The medium-term fiscal framework should be reviewed annually, to ensure that it is in accordance with the objective of achieving fiscal and debt sustainability.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

Conclusion

This Annual Report, as prepared by the Fiscal Responsibility Oversight Committee (FROC), is an assessment of the compliance of Government with the Fiscal Responsibility Act (FRA) and the associated Acts of Parliament, namely the Public Finance Management Act and the Debt Management Act.

The fiscal rules and targets in the FRA were suspended from 2020 to 2022, due to the declaration of a state of emergency by the Governor General as a response to the Covid-19 Pandemic and the negative impact of the pandemic on economic growth.

The fiscal rules and targets were reinstated for fiscal year 2023. Given the suspension of the fiscal rules and targets for 2022, the FROC's assessment for fiscal year 2022 entailed a determination of whether the use of the Escape Clause was in accordance with the provisions of the FRA and the attendant conditions fulfilled. The 2023 budget and the medium-term fiscal framework were also examined for consistency with the rules and targets which took effect in 2023. Additionally, the provisions and application of the FRA were examined and recommendations advanced for the reform of the fiscal responsibility framework.

The FROC concluded that the suspension of the fiscal rules and targets in 2022 was in compliance with the Escape Clause. The Suspension Order Memorandum, which outlined the justification for the suspension request, was made and dated November 2021 and submitted to Parliament as required. The Recovery Plan Memorandum covering the fiscal years 2022 and 2023 was made and dated November 2021.

In the wake of the suspension of the fiscal rules and targets for 2022, the government's compliance with the fiscal transparency provisions of the FRA was assessed. The FROC concluded that the Government sought to comply with provisions for fiscal transparency by disseminating information on government operations using a variety of media including radio, social platforms, 'town hall' meetings, consultations with key stakeholders and the publication of fiscal and debt reports. There is scope for improving the timeliness and comprehensiveness of the various fiscal reports. There is no published 'End-of-Year' Fiscal Report', and there is no legislated requirement to produce this report. However, it is recommended that such a report be published to facilitate the timely dissemination of information on the actual outturn of Government operations for the fiscal year. The lack of audited public sector accounts compromises the principles of fiscal transparency and accountability.

The FROC notes the absence of comprehensive data on the covered entities and that of other statutory bodies and state-owned enterprises. This has restricted the monitoring and reporting on compliance with the provisions of the FRA to the operations of the Central Government, while the FRA applies to Central Government and covered entities. This in effect means the compliance assessment undertaken by the FROC is in fact a qualified one that pertains only to the Central Government. Timely and comprehensive information on covered entities and other statutory bodies and state-owned enterprises is an area that needs to be addressed to ensure full compliance with the FRA.

The 2023 budget and the medium-term fiscal outlook for 2024 and 2025 were developed in accordance with the fiscal rules pertaining to the growth of real primary expenditure, the wage bill, the primary balance and the liabilities of Public-Private Partnerships. The debt to GDP ratio is above the target and requires that corrective actions be taken.

Based on data provided by the MOF, the FROC modified the Compliance Matrix for the 2023 Budget to be in line with guidance given in the FRA on the calculation of the fiscal rules and targets. The information was adjusted to include the estimated wage bill of the covered entities and the estimated total stock of public sector debt. Based on the modified Compliance Matrix, the Government could be in breach of the wage rule and the debt target for the 2023 fiscal year. The available information was not adequate to pronounce on the fiscal rule for the primary expenditure. However, with the steep decline in real primary expenditure in 2023, it is most likely that the Government was in compliance with the real primary expenditure rule.

The FROC was unable to modify the Compliance Matrix for the medium-term to align it with the fiscal rules and targets as defined in the FRA due to some fundamental conceptual, theoretical and practical challenges. Consequently, it was not possible to assess compliance of the medium-term fiscal framework with the fiscal rules and targets.

Recommendations

Macroeconomic and Economic Sector

Improving the implementation of public sector projects

Growth is essential to achieving fiscal and debt sustainability. Investment by the government is a key driver of economic activity, and therefore it is important that the various programmes and projects be implemented efficiently and according to schedule. The impact of Government programmes and projects has been affected by the low implementation rate. It is necessary to assess the causes for the low implementation rate and develop policies and systems for improving the implementation of public sector projects.

The successful implementation of the medium-term economic strategy requires coordination among government entities, non-government organisations and the private sector. For clarity of operation and effective implementation of major projects, a coordination matrix should be developed to ensure that all parties are aware of their point of intervention in the implementation of the programmes and projects.

Improving productivity and the ‘doing business’ environment

Economic growth could also be achieved by improving productivity and the efficiency of doing business. It would be necessary to develop a productivity index to assess productivity in both the public and private sectors. Technical assistance could be sought from regional and international agencies in constructing a productivity index which could be utilized within the OECS. The last ‘Doing Business Survey’ by the World Bank was undertaken in 2019. Grenada could develop an instrument to assess the efficiencies and inefficiencies of doing business. This would provide factual information and could feed into the agenda for the meeting with the social partners.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS (CONTINUED)

Fiscal and Debt Management

The Government debt strategy aims at reducing the debt to GDP ratio overtime. This could be achieved by a combination of sustained economic growth and improvement in government finances.

The framework for fiscal transparency and for oversight and accountability must be strengthened. This includes: ensuring the timeliness and comprehensiveness of the fiscal reports; the financing component must be included in the published fiscal reports; the Mid-year Fiscal Policy Review should be presented as stipulated in the Public Finance Management Act; and the public sector accounts must be audited in a timely manner, submitted to Parliament and reviewed by the Public Accounts Committee. The Public Finance Management Act does not stipulate the preparation of an 'End-of-Year Fiscal Report'. However, in order to obtain timely information on the actual outturn of Government operations for the fiscal year, it is recommended that an 'End-of-Year Fiscal Report" be published.

The institutional arrangement for the management of public debt should be strengthened. The Debt Management Act provides for the establishment of a Public Debt Coordinating Committee and a Debt Unit. The Public Debt Co-ordinating Committee should function in accordance with the Debt Management Act.

Information Sharing and Dissemination

The proposal by the Government to establish a Social Partners Committee comprising representatives from Government, labour unions, private sector, churches, nongovernmental organisations (NGOs), and youth should be accelerated and implemented in a manner that would ensure productive engagements.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS (CONTINUED)

Enhancing Data Coverage

Improving the comprehensiveness of data is necessary for the assessment of compliance by the Government with the provisions of the Fiscal Responsibility Act. This is particularly relevant for assessing compliance with the fiscal rules and targets, provisions for invoking the Escape Clause and the determination of fiscal and debt sustainability. The challenges and opportunities in data collection and management are outlined in Appendix V.

Reforming the Fiscal Responsibility Act

The two main focus of the FRA are fiscal and debt sustainability and transparency. Fiscal transparency requires the full disclosure of government operations and fiscal and debt sustainability requires that the Government avoids the rapid accumulation of debt which is associated with chronic fiscal deficits.

There have been challenges in the implementation of the FRA and numerous recommendations have been put forward for its reform. The FROC has examined the previous recommendations and reviewed the experiences of countries with fiscal rules and targets. The FROC concurs that the FRA is in need of reform. The objectives of the new fiscal responsibility framework should be clear and consistent with the growth and transformation objectives of the country. Additionally, the fiscal rules and targets should be:

1. Simple and transparent;
2. Easy to monitor and for reporting to Parliament;
3. Allow for flexibility for the government to manage the economy;
4. Designed to take account of the peculiar circumstances of the country including its limited technical and administrative capacity;
5. Generate incentives to reduce excessive public debt; and
6. Embed an escape clause in case of very large shocks.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS (CONTINUED)

Recommendations

The FROC recommends the following:

1. Eliminate the fiscal rules of real growth of two percent in primary expenditure, and the wage bill of nine percent of GDP. If an expenditure rule is considered necessary, amend the rule to conform with best practice which is based on a technical rationale for an appropriate numerical value for the growth in primary expenditure, the variable that should be used to adjust the growth in primary expenditure, and the elimination of capital expenditure from the primary expenditure rule. Alternatively, a simple intermediate target is a current account balance that ensures that the government generates adequate savings.

2. Introduce a target related to an overall fiscal balance which results in a reduction in Central Government debt until the debt to GDP ratio is achieved and then maintain an overall balance that constraints the rapid accumulation of debt. This is in the context of a targeted debt to GDP ratio for the rest of the public sector.

3. Review the targeted debt to GDP ratio of 55 percent and establish a revised targeted debt to GDP ratio and determine a timeline for the attainment of the revised debt to GDP ratio.

4. The targeted debt to GDP ratio should be applied to the total public sector; and the other rules and targets should be applied to Central Government. The statutory bodies and state-owned enterprises should be monitored in accordance with the Public Finance Management Act, and reports presented to Parliament as stipulated in the legislation. The fiscal rules and targets should be accompanied by the requirement for a well-developed medium-term fiscal framework, that is approved by Parliament, for achieving fiscal and debt sustainability. In this framework, indicators for revenue, expenditure and primary balance could be included and monitored annually or as determined by the Executive.

These recommendations are intended to strengthen fiscal transparency and fiscal discipline, and to maintain fiscal and debt sustainability while achieving sustained economic growth.

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APPENDIX I: FROC ACTIVITIES

Date	Activity/Engagements	Purpose
23rd November 2022	FROC Committee Meeting	Administration and planning
24th November 2022 to 15th December 2022.	'Activities, Responsibilities and Timeline' document and the "Information and Data Requirements" document for the Ministry of Finance were prepared and reviewed by the Members of the FROC for approval at the next meeting.	Preparation of 2022 Annual Report
1st December 2022 to 15th December 2022	On-going consultation between the Chairwoman and FROC member Ms. Kim George, Attorney at Law, to finalise the contracts for the administrative and technical support services for the FROC.	Administration
1st December 2022 to 31st January 2023	On-going consultations between the Chairwoman and the Ministry of Finance on the refinement of the Memorandum of Understanding (MOU) between the FROC and the Ministry of Finance.	Finalisation of MOU
15th December 2022	Orientation for FROC Members facilitated by the Ministry of Finance.	Orientation for new members
15th December 2022	Meeting between the FROC Chairwoman and Permanent Secretary of the Ministry of Finance.	Courtesy call meeting
16th December 2022	FROC Committee meeting	Preparation of 2022 Annual Report
17th December 2022 to 26th January 2022	"Awareness and Public Participation (APP)' document was prepared for approval at the next FROC meeting.	Awareness Programme
19th December 2022	Meeting between the Chairwoman of FROC and the Speaker of the House.	Courtesy call meeting
23rd December 2022	Submission of "Information and Data Request' to the Ministry of Finance. Information was received on 23rd January 2023.	Preparation of 2022 Annual Report

APPENDIX I: FROC ACTIVITIES (CONTINUED)

Date	Activity/Engagements	Purpose
8th January 2023	Meeting between the Chairwoman of the FROC and the Prime Minister.	Courtesy call meeting
27th January 2023	FROC Committee meeting	Preparation of 2022 Annual Report
1st February 2023	Meeting between the Chairwoman of the FROC, FROC Committee Member Leon Bullen, Consultant Dr. Juliet Melville, the President of the Chamber of Commerce and Industry and the Private Sector Representative in the Senate.	Awareness and Public Participation Programme
9th February 2023	Follow-up request for additional information from the Ministry of Finance. Information received on 23 February 2023.	Preparation of 2022 Annual Report
13th February 2023	Meeting between the Chairwoman of the FROC, FROC Committee Member Leon Bullen, Consultant Dr. Juliet Melville and the President of the Public Workers Union.	Awareness and Public Participation Programme
15th February, 2023	Meeting between the Chairwoman of the FROC, FROC Committee Member Leon Bullen, Consultant Juliet Melville and the Representative for the Inter Agency Group of Development Organisations.	Awareness and Public Participation Programme
15th February 2023 to 15th March 2023	On-going consultations between the Chairwoman, the lead author for the chapters and the Consultant to review the chapters for the Annual Report.	Preparation of 2022 Annual Report
17th February 2023	FROC Committee meeting	Preparation of 2022 Annual Report
22nd February 2023	Meeting between the Chairwoman of the FROC, Consultant Juliet Melville, the Bankers Association and the Grenada Co-operative League.	Awareness and Public Participation Programme.
1st March 2023	Meeting with the FROC and the Ministry of Finance.	Preparation of 2022 Annual Report

APPENDIX I: FROC ACTIVITIES (CONTINUED)

Date	Activity/Engagements	Purpose
3rd March 2023	Meeting with the Chairwoman of the FROC, Committee Member Leon Bullen, Consultant Juliet Melville and the St. Patrick's Youth Organisation.	Awareness and Public Participation Programme
13th March 2023	Meeting between the Chairwoman of FROC and the Speaker of the House	Preparation of 2022 Annual Report
22nd March 2023	FROC Committee meeting	Preparation of 2022 Annual Report
24th March 2023 to 27th March 2023	Formatting of the 2022 Annual Report	Preparation of 2022 Annual Report
28th March 2023 to 29th March 2023	Finalisation of the FROC 2022 Annual Report	Preparation of 2022 Annual Report

APPENDIX II: GRENADA CENTRAL GOVERNMENT FISCAL DATA

Grenada Central Government Fiscal Data							
In millions of Eastern Caribbean Dollars							
	Actual				Budgeted	Projected	
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Total Revenue and Grants	**871.52**	**792.69**	**957.09**	**1088.34**	**1118.60**	**1170.60**	**1277.40**
Current Revenue	777.99	689.57	727.11	863.90	1050.80	1099.00	1201.60
Tax Revenue	718.57	622.76	625.42	714.93	739.47	780.65	826.43
Taxes on Income & Profits	151.27	134.96	121.48	138.00	160.70	169.70	179.60
Taxes on Property	39.63	34.79	29.06	27.55	29.70	31.31	33.15
Taxes on Domestic Goods & Services	154.53	128.25	125.74	160.83	138.70	146.30	155.00
Taxes on International Trade Transactions	373.13	324.76	349.14	388.94	410.37	433.33	458.68
Non-tax Revenue	59.42	66.81	101.70	148.97	311.40	318.30	375.20
Of which CBI	8.03	17.28	32.27	73.14	240.46	243.35	295.92
Total Grants	93.53	103.12	229.97	224.43	67.80	71.60	75.80
Of which Budgetary Grants	17.83	18.29	47.04	108.00	0.00	0.00	0.00
Of which Capital Grants	75.70	84.83	182.93	116.43	67.80	71.60	75.80
Capital Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Expenditure	**709.10**	**920.98**	**947.23**	**1057.60**	**1055.80**	**1094.60**	**1131.30**
Current Expenditure	623.47	651.08	686.82	717.44	741.90	763.12	780.52
Employee Compensation	266.66	276.37	307.64	279.71	325.60	335.89	341.89
Of which Personal emoluments, wages & Allowances	253.28	261.59	291.67	263.46	311.10	320.77	326.62
Of which social contribution to employees	13.38	14.78	15.97	16.25	14.50	15.12	15.27
Goods & Services	132.82	132.95	153.95	127.97	157.00	162.45	166.14
Interest payments	60.64	55.90	54.20	53.69	61.70	57.40	50.84
Transfers and subsidies	163.35	185.86	171.03	256.06	197.60	207.39	221.66
Of which Pensions	44.79	47.53	49.43	90.37	81.77	101.71	124.15
Capital Expenditure and Net lending	85.68	269.90	260.41	340.17	313.94	331.50	350.90

APPENDIX II: GRENADA CENTRAL GOVERNMENT FISCAL DATA
(CONTINUED)

Grenada Central Government Fiscal Data							
In millions of Eastern Caribbean Dollars							
	Actual				Budgeted	Projected	
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Financed by Grants	75.70	84.80	182.90	116.50	67.80	71.60	75.79
Local Revenue	2.10	165.30	33.80	192.50	195.13	206.04	218.10
Loan	7.90	19.80	43.70	31.20	51.01	53.86	57.01
Primary Expenditure	**648.50**	**865.09**	**893.04**	**1003.91**	**994.15**	**1037.23**	**1080.48**
Primary Expenditure less Capital Grants	572.80	780.26	710.11	887.48	926.35	965.63	1004.68
Current Account Balance (before budgetary grants)	154.52	38.49	40.30	146.47	308.90	335.88	421.08
Current Account Balance (after budgetary grants)	172.35	56.79	87.34	254.47	308.90	335.88	421.08
Primary Balance (before grants)	129.53	-175.52	-165.92	-140.01	56.70	61.80	121.14
Primary Balance (after grants)	223.06	-72.40	64.05	84.43	124.50	133.40	196.94
Overall Balance (before grants)	68.89	-231.41	-220.12	-193.70	-5.00	4.40	70.30
Overall Balance (after grants)	162.42	-128.29	9.85	30.73	62.80	76.00	146.10

Source: Ministry of Finance, Feb. 2023.

APPENDIX III: COVERED AND NOT COVERED PUBLIC ENTITIES AS AT 31st DECEMBER 2022

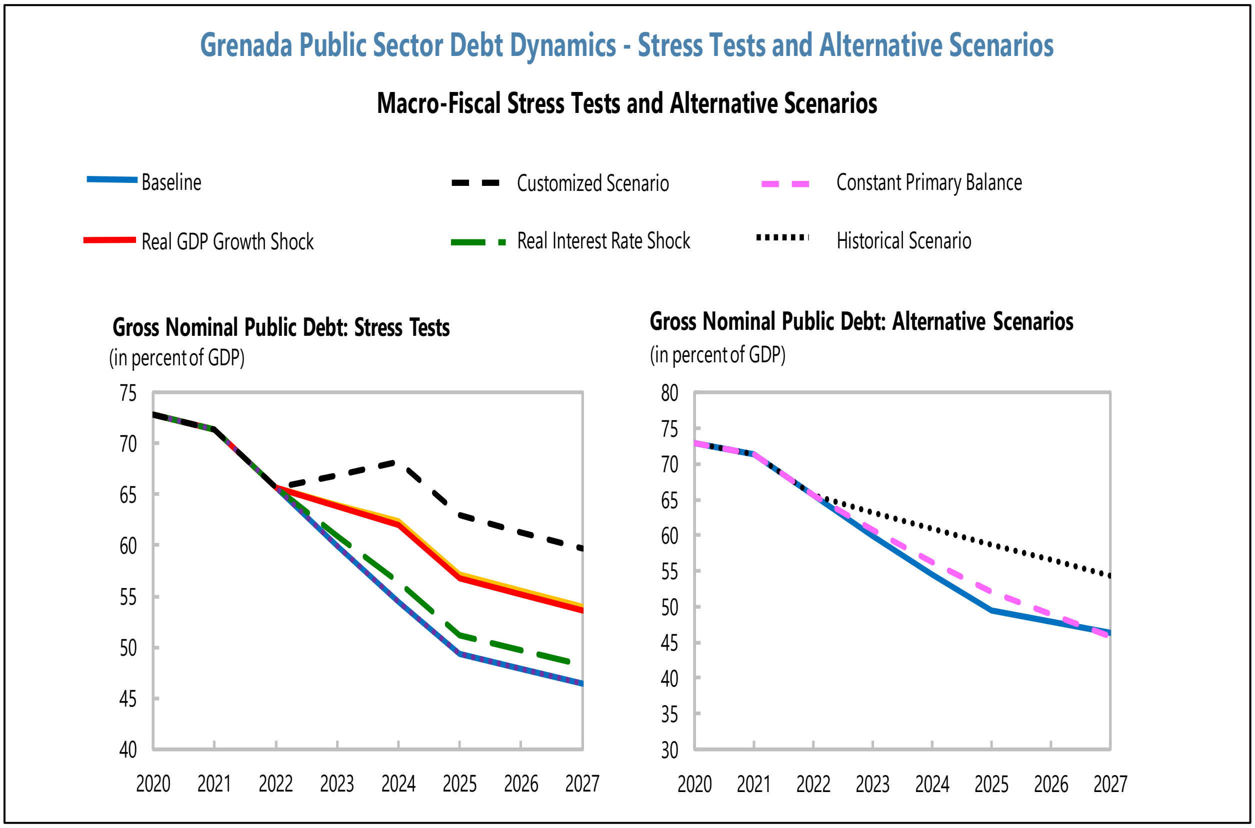
List of covered entities included in the report	List of all SOES	List of all SBs
1. Child Protection Authority	1. Gravel, Concrete & Emulsion Production Co.	1. Child Protection Authority
2. Financial Complex	2. Grenada Airports Authority	2. Financial Complex Ltd.
3. GIDC	3. Grenada Development Bank	3. Grenada Food & Nutrition Council
4. Grenada Airports Authority	4. Grenada Ports Authority	4. Grenada Tourism Authority
5. Grenada Bureau of Standards	5. Grenada Postal Corporation	5. Public Utilities Regulatory Commission
6. Grenada Cultural Foundation	6. Grenada Solid Waste Management Authority	6. Grenada Cultural Foundatioin
7. Grenada Food and Nutrition Council	7. Housing Authority of Genada	7. TAMCC
8. Grenada National Museum	8. National Lotteries Authority	8. Grenada National Museum
9. Grenada National Stadium Authority	9. NAWASA	9. Grenada Bureau of Standards
10. Grenada Postal Corporation	10. GIDC	10. GARFIN
11. Grenada Tourism Authority	11. MNIB	11. National Insurance Scheme
12. Housing Authority of Grenada	12. Grenada National Stadium Authority	12. NTRC
13. MNIB	13. Spice Mas Corporation	
14. PURC		
15. Spice Mas Corporation		
16. TAMCC		

Source: Ministry of Finance

APPENDIX IV: DEBT SUSTAINABILITY ANALYSIS

This analysis pertains to Central Government and government guaranteed debt of covered entities. Under baseline conditions (Table 1), the debt to GDP ratio is projected to follow a downward path, achieving the 55.0 debt target by 2024 at the earliest[27]. This projection is made under the assumption that real GDP growth will average 4.3 percent over the 2023 – 2025 period and then revert to a conservative long run average of 2.0 percent thereafter. In addition, the average effective interest rate for public sector debt is estimated at 3.0 percent and the government is expected to meet its primary balance target of 3.5 percent of GDP over next three years as stipulated by the FRA. Thereafter, a primary balance surplus of 1.0 percent is assumed (See Chart 1).

Chart 1



[27] This analysis does not cover total stock of public sector debt as defined in the Fiscal Responsibility Act.

Table 1: Baseline Assumptions Underpinning Grenada's Debt Trajectory

Baseline	2022	2023	2024	2025	2026	2027
Real GDP growth	6.0	4.5	4.4	4.0	2.0	2.0
Inflation	1.2	2.0	2.0	2.0	2.0	2.0
Primary balance	2.6	3.5	3.5	3.5	1.0	1.0
Effective interest rate	2.5	3.0	3.0	3.0	3.0	3.0

In addition, several shocks were individually applied to the baseline assumptions over the period 2023 to 2024, including a shock to GDP, real interest rate and the primary balance. Importantly, a customized shock involving all three scenarios happening concurrently was used to test the country's ability to achieve the debt targets by 2030. In this scenario, real effective interest rate was increased to 5.0 percent; the economy is assumed to contract by approximately 1.5 percent; and a primary deficit of 0.4 percent is projected. With these shocks occurring over the two-year period 2023-2024, Grenada's debt to GDP ratio is projected to rise to 68.2 percent by 2024 and gradually decline to 55.0 percent by end 2030 (See the following Table).

Grenada Public Sector Debt Dynamics - Baseline Scenario

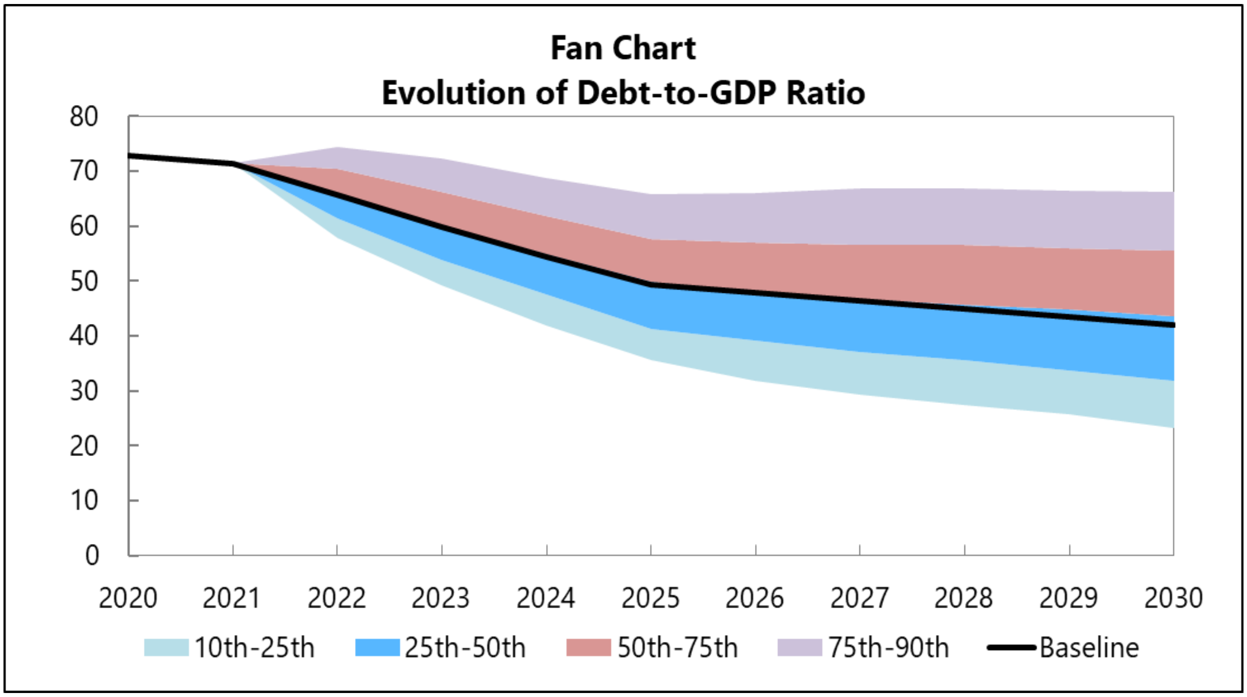
(in percent of GDP unless otherwise indicated)

Debt and Economic Indicators [1/]

	Actual			Projections								
	2013-2019 [2/]	2020	2021	2022	2023	**2024**	2025	2026	2027	2028	2029	**2030**
Nominal gross public debt	80.7	72.9	71.4	65.6	59.9	54.5	49.4	47.9	46.4	44.9	43.5	42.1
Of which: guarantees (uncalled) [3/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real GDP growth (in percent)	4.2	-13.8	4.7	6.0	4.5	4.4	4.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator, in percent)	1.9	-0.3	2.8	1.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (in percent)	6.2	-14.0	7.6	7.3	6.5	6.5	6.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate (in percent) [4/]	1.9	2.9	2.7	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Given the uncertainties surrounding these estimates and the need to provide a greater sense of realism to the forecasts, a fan chart was generated to provide a range of likely outcomes for Grenada's debt to GDP (See Chart 2). As such, while the general trajectory is downward, it can be shown that Grenada's debt to GDP could range anywhere from approximately 25.0 to 70.0 per cent by 2030. However, the likelihood of Grenada achieving its debt target of 55.0 percent by 2030 was estimated at 73.6 percent.

Chart 2



APPENDIX V: DATA CHALLENGES AND OPPORTUNITIES

Introduction

The accuracy and comprehensiveness of data greatly influence the integrity of the reported assessment of compliance by the Government with the provisions of the Fiscal Responsibility Act (2015). This is particularly relevant for assessing compliance with the fiscal rules and targets, provisions for invoking the Escape Clause and the determination of debt sustainability. Therefore, the projects included in the national budget for 2023 for improving statistics should be accelerated, and the Statistics Department should be adequately staffed to implement the upgrades of the statistics.

The monitoring of compliance with the Fiscal Responsibility Act (FRA) requires information on: economic performance as measured by the Gross Domestic Product (GDP); public finances and the public debt, inclusive of Central Government finances and that of the statutory bodies and state-owned enterprises, and public private partnerships; inflation as measured by the Consumer Price Index (CPI); and nominal interest rates on outstanding government debt.

The following is an analysis of the current data used for monitoring the FRA with recommendations for improving the accuracy and comprehensiveness of the data. The identification of the data challenges should be used as an opportunity to upgrade the data system for Grenada, producing comprehensive, high quality and timely data on government finances and the economy.

Government Finances and the Public Debt

The challenges related to the public sector accounts are the comprehensiveness of the accounts and the classification of the items in the accounts.

The Comprehensiveness of the Accounts

The Fiscal Responsibility Act is applicable to Central Government and covered entities. These covered entities are statutory bodies and state-owned enterprises, and the Act outlines the criteria for including these entities in the coverage as follows:

"*covered public entity" means a statutory body or state-owned enterprise for which any of the following applies—*

(a) the entity has received transfers of any kind from the Budget, including subventions or guarantees for any year in the five-year period immediately preceding the fiscal year;

(b) the entity has, for three consecutive quarters in the preceding fiscal year, not met the quarterly reporting requirements established by the Minister; or

(c) the audited balance sheet of the entity has recorded a negative equity position as at the end of one of the preceding three financial years.

Therefore, for analysis of compliance with the Act comprehensive data on the public sector must be reported. At present, data is provided only on Central Government operations while the FRA covers Central Government along with qualifying statutory bodies and state-owned enterprises.

Importantly, the FRA includes a target for public sector debt and explains that the "*public sector means the Central Government, the National Insurance Scheme, statutory bodies, and state-owned enterprises*."

Recommendation

The Government has developed a format for quarterly reporting by statutory bodies and state-owned enterprises and to capture the debt of Public-Private Partnerships. The non-reporters should be aggressively pursued. The format should allow for capturing primary expenditure, the wage bill, transfers from the Government and public guaranteed and nonguaranteed debt. Thereafter, to assess fiscal and debt sustainability, data on the general government (Central Government, local government and the National Insurance Scheme) and the rest of the public sector should be prepared separately and then combined to report on the operations of the public sector.

The debt data should include the total public sector, but it should differentiate between the debt of the Central Government and the rest of the public sector.

APPENDIX V: DATA CHALLENGES AND OPPORTUNITIES (CONTINUED)

Classification of the Central Government Accounts

The inflows from the Citizenship by Investment Programme which were classified as grants have now been properly reclassified as Government revenue, that is, non-tax revenue. The historical records should be corrected as these would be utilized for analysis of the government finances.

The Consumer Price Index

The Consumer Price Index is used to measure the rate of inflation. It is an important variable in the expenditure rule as the real growth in primary expenditure should not exceed 2 percent. Therefore, the rate of inflation influences the cap on the growth in primary expenditure. The Consumer Price Index is also used to calculate the real interest rate. Therefore, the Consumer Price Index should reflect current prices. The extent to which the Consumer Price Index reflects the current prices is determined by the base year of the index.

The Household Budget Survey, from which the current items in the 'basket of goods' are used to calculate the Consumer Price Index, was derived from the Country Poverty Assessment: Grenada Carriacou and Petit Martinique that was undertaken in 2008/2009. The base year for the Consumer Price Index is 2010. Over the last twelve years, the pattern of expenditure of consumers has changed. The increased growth in the electronic economy, the intensification of extreme weather conditions and the impact of the Covid-19 Pandemic would have rendered the 'basket of goods' used to calculate the Consumer Price Index outdated.

Recommendation

The 'basket of goods' should be updated to ensure that the items in the 'basket of goods' reflect the purchasing pattern of consumers and that the Consumer Price Index reflects current price developments.

APPENDIX V: DATA CHALLENGES AND OPPORTUNITIES (CONTINUED)

Gross Domestic Product (GDP)

The Gross Domestic Product is the core to determining the status of the rules and targets in the Fiscal Responsibility Act. The expenditure rule and the fiscal targets are denominated in GDP, inclusive of the public sector wage bill, the primary balance and the public debt. Therefore, the GDP should reflect, as far as possible, the total value of goods and services produced in the country.

The data system must be strengthened to capture the reorientation of the economy. The Government is focusing on increasing crop production, and improvement in livestock and the fishing industries. However, systems for data collection are weak and data on agriculture production is deficient. For example, the source of the information for 'Other Crops' was the Marketing National and Importing Board (MNIB). As the government strengthens linkages in the economy and develops agro-processing, agriculture production would not be channeled through traditional purchasing agents. It is important for systems to be established to collect data on agriculture production.

Systems would also need to be developed to capture output from agri-businesses, particularly as the Government provides support to these industries. Currently, the majority of agri-businesses are in the informal sector and such activities are not included in the Gross Domestic Product. For example, it is reported that Grenada has over three hundred (300) agro-processors. The majority are in cottage industry stage (55%), a few medium to large size (5%) and the remainder (40%) are processing out of their family kitchen with no separate processing area. They make up a large portion of the informal agri-business sector on the island and their goods are sold locally, through indirect export (visiting nationals and tourists purchase) and exported through the suitcase trade. Only a small portion of their business is exported formally, and the majority of the formal exports are from the larger companies. With the planned expansion in agriculture and agro-processing, systems must be established to capture output from the sector.

APPENDIX V: DATA CHALLENGES AND OPPORTUNITIES CONTINUED)

The Government intends to support and promote the development of creative industries, electronic services and the digital economy. An assessment would need to be undertaken to determine the adequacy of the current process for capturing the value of goods and services produced in the country. In particular, these activities include music and filming, arts and crafts, databases, web-design and multimedia applications; and the provision of research, tutoring, legal, medical, and accounting services electronically. The system for collecting data on these services must be examined to ensure that they are included in the estimates of goods and services produced in the country.

Recommendation

An examination of the data collected in the system of national accounts to ensure that the emerging and innovative sectors are included in the estimation of the Gross Domestic Product.

The Balance of Payments

There are no indicators in the balance of payments that are directly required for monitoring compliance of Government with the Fiscal Responsibility Act. However, the balance of payments is important for assessing developments in the economy. Therefore, a system should be established for the frequent updating of the balance of payments to provide information on trade in goods and services, and for financial and capital flows. Currently, transactions with the rest of the world are assessed regularly for merchandise imports and exports, and for receipts from tourism. Details on the other transactions in the balance of payments, particularly trade in other services, financial services transactions, and private and official capital flows are not included in the regular reports. Along with providing for a more comprehensive analysis of the economy, the inclusion of the balance of payment allows for an assessment of the impact of policies on the use and earnings of foreign exchange, particularly as policies are aimed at structural reforms in the economy.

Recommendation

A system should be developed for the timely updating of the balance of payments to include information on the services account and financial and capital flows.

APPENDIX V: DATA CHALLENGES AND OPPORTUNITIES (CONTINUED)

Conclusion

Adequate information is required to assess developments in the economy, and by extension, compliance of the Government with the Fiscal Responsibility Act. The major deficiencies are related to the coverage of the operations of the public sector, the extent to which the Consumer Price Index reflects current price developments, regular reports on the balance of payments, and the data coverage for estimating the Gross Domestic Product. The deficiencies must be addressed to improve economic analysis and ensure the economic indicators reflect the developments in the economy.