GOVERNMENT OF GRENADA

Compliance Assessment Report: 2018-2019

Submitted To

The Parliament

By The Minister of Finance, Planning, Economic and Physical Development

November 2019

This Compliance Assessment Report is prepared in fulfillment of Section 12 (1) (c) of the Fiscal Responsibility Law (FRL) No. 29 of 2015, as amended, which stipulates 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."*

More specifically, the FRL requires that the following information be provided in the Compliance Assessment Report:

i. A review of performance over the preceding two years in comparison with the fiscal rules and targets under Sections 7 and 8;
ii. The notional compensation primary balance;
iii. Explanations for every instance of underperformance or over performance and implications for future years; and
iv. The manner in which the annual budget or supplementary budget laid before Parliament complies with the fiscal rules and targets, and reflects improvement required for full compliance.

The required details are set out as follows:

Summary of Economic and Fiscal Performance in 2018-2019 and Assessment of Compliance

Economic growth is estimated at 3.2 percent in 2019, underpinned mainly by activity in the Services Sector particularly Private Education, Tourism, and Wholesale and Retail Trade, as well as activity in the Manufacturing Sector and to a lesser extent, the Agricultural Sector. Average inflation, as measured by the Consumer Price Index, remained subdued in 2019, estimated at 1.0 percent compared to 0.8 percent in 2018. Preliminary data collected from the 2019 Labour Force Survey indicate that the unemployment rate fell to 15.2 percent in the first quarter of 2019.

Public finances remained healthy in 2019, with the primary surplus and overall surplus estimated at 6.8 percent of GDP and 5.0 percent of GDP respectively, compared to 6.9 percent of GDP and 4.9 percent of GDP correspondingly in 2018. In the case of the primary surplus, the 2019 estimate exceeds the FRL's target of 3.5 percent of GDP for the fourth consecutive year. The estimated 2019 fiscal surpluses largely reflect the performance of capital expenditure, which is estimated to be 15.7 percent higher than the 2018 amount. Public debt (Central Government debt plus Government guaranteed debt) is expected to decline to 55.8 percent of GDP by year-end from 62.7 percent at the end of 2018.

Table 1 presents a summary of the actual outturns of key fiscal indicators in 2018, as well as the provisional estimated outturns for 2019 and summary highlights of the 2020 Budget.

Table 1: Fiscal Summary of Central Government

(EC$ millions except where otherwise stated)

	2018 (Actual)	2019^ (Provisional Estimates)	2020 Budget
Total Revenue and Grants	**850.2**	**880.2**	**1004.8**
Current Revenue	**755.9**	**782.1**	**786.2**
Grants	**94.3**	**98.1**	**218.6**
Of which Capital Grants	*74.9*	*82.2*	*201.8*
Total Expenditure	**695.3**	**715.2**	**859.0**
Primary Expenditure	**632.1**	**655.0**	**792.0**
Current Expenditure	**608.5**	**614.7**	**633.7**
Personal Emoluments, Wages & Allowances	251.6	245.4	268.2
Interest Payments	*63.2*	*60.2*	*67.0*
Capital Expenditure	**86.8**	**100.5**	**225.3**
Current Account Balance	**147.4**	**167.4**	**152.5**
Primary Balance after Grants	**218.1**	**225.1**	**212.8**
Overall Balance after Grants	**154.9**	**165.0**	**145.8**
Memo Items:			
Real GDP (Market Price) (annual percent change)	4.1	3.2	4.2
Nominal GDP (Market Prices)	3,155.5	3,297.3	3,475.3
Public Debt (Included Guaranteed debt) (percent of GDP)	62.7	55.8	53.7
Inflation Rate (Period Average) (percent)	0.8	1.0	1.5

Source: Ministry of Finance

Notes: ^ Estimates done in October 2019, based on January-September actual data.

The FRL prescribes the following explicit fiscal rules and targets:

1. **Primary Expenditure Rule**: the rate of growth of the primary expenditure [1] of the Central Government, and of every covered public entity, shall not exceed 2.0 percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate.

2. **Wage Bill Rule**: the ratio of expenditure on the wage bill shall not exceed 9.0 percent of GDP.

3. **Primary Balance Rule**: the targeted primary balance shall be a minimum of 3.5 percent of GDP.

4. **Contingent Liabilities Rule**: contingent liabilities arising from, as a result of, or in connection with Public-Private Partnerships (PPPs) shall not exceed 5.0 percent of GDP.

5. **Public Debt Target**: the total stock of public sector debt shall not exceed 55.0 percent of GDP.

As stipulated in the FRL, the following are exempted from the fiscal rules and targets:

a) Grants made to the Government for the financing of capital expenditures in Grenada and the associated expenditures.
b) Any capital expenditures made from or under the National Transformation Fund.

As Table 2 shows, the actual 2018 outturns of the Central Government[2] for the relevant fiscal variables were FRL compliant. The Table also shows that the provisional estimates of the relevant fiscal variables for 2019 are FRL compliant. All fiscal rules have been adhered to and public debt remained on a firm downward trajectory towards its FRL target.

The primary surplus and wage bill as ratios of GDP were 6.9 and 8.0 percent of GDP respectively in 2018 and are estimated at 6.8 and 7.4 percent of GDP correspondingly in 2019. To calculate the primary expenditure rule for 2018, the nominal percentage change between the primary expenditure less capital grants for 2017 and 2018 was computed; the real percentage change was then derived by subtracting the average inflation rate for 2017.

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[1] Calculated as Total Expenditure less Interest Payments.

[2] The fiscal account does not include state-owned enterprises and statutory bodies.

The real change in primary expenditure less capital grants for 2019 is calculated similarly, using the relevant 2019 estimates and the 2018 actual data, as well as the average inflation rate for 2018.

With regards to PPP-related contingent liabilities to GDP ratio, it remained at zero in 2018 and 2019, as there was only one PPP agreement in place for which there were no associated contingent liabilities because the PPP arrangement was financed through a concessional loan from the World Bank as part of a regional digital project with three regional governments and a Telecommunications provider. Accordingly, Grenada's portion in the regional PPP arrangement represents a current and not a contingent liability.

In relation to the debt-to-GDP ratio, it is well on track to meeting and surpassing the FRL's target of 55.0 percent; the ratio declined from 62.7 percent in 2018 to an estimated 55.8 percent in 2019. The FRL does not specify a year by which the target must be reached; however, based on the projections, public debt will fall below its FRL target by 2020.

Table 2: Compliance Matrix

Fiscal Variables	Fiscal Rules/Targets	2018 (Actual)	Rules Complied with in 2018	2019 (Estimate)	Rules Complied within 2019
Primary Balance, After Grants (percent of GDP)	**3.5 %** *(Not less than)*	6.9%	Yes	6.8%	Yes
Wage Bill (percent of GDP)	**9.0 %** *(Not exceeding* **)**	8.0%	Yes	7.4%	Yes
Primary Expenditure less Capital Grants (real percent change)	**2.0 % (***Not exceeding*)	2.0%	Yes	2.0%	Yes
PPP-related Contingent Liabilities (percent of GDP)	**5.0 %** *(Not exceeding)*	0.0%	Yes	0.0%	Yes
Public Debt (percent of GDP)	**55.0 %**	62.7%	On track	55.8%	On track

Source: Ministry of Finance

In addition to the explicit rules and targets, Sections 7 and 8 of the FRL also set out other stipulations. Appendix 1 presents an assessment of compliance with the additional stipulations.

The Notional Compensatory Primary Balance

Section 8 (3) (d) of the FRL, stipulates that *"a notional compensatory primary balance shall be calculated to reflect the cumulative difference between the targeted primary balance and the actual primary balance, by subtracting the actual primary balance from the targeted primary balance, as realised in any fiscal year from the first full fiscal year after commencement of this Act; if at* *any time the notional compensatory balance shows a value greater than 3.0 percent of GDP, revenue and/or expenditure corrective policies will be introduced to reduce the notional compensatory primary balance to zero over a period of three fiscal years to achieve compliance with the target, with at least one third of the adjustment in the first year.*"

As Table 3 shows, the notional compensatory primary balance (NCPB) was ($107.7) million or negative 3.4 percent of GDP in 2018 and the cumulative NCBP is estimated at ($217.4) million or negative 6.6 percent of GDP in 2019. Thus, both the actual outturn for 2018 and the provisional estimate for 2019 are well below the FRL's stipulated threshold of 3.0 percent of GDP. Accordingly, no corrective revenue and/or expenditure policies are required.

Table 3: Notional Compensatory Primary Balance

Key Fiscal Indicator	2018 (Actual) EC$ Million	2018 Target (Equivalent of 3.5 % of GDP) EC$ Million	2018 NCPB EC$ Million	2018 NCPB (% of GDP)	2019 (Estimate) EC$ Million	2019 Target (Equivalent of 3.5 % of GDP) EC$ Million	2019 NCPB EC$ Million	2019 NCPB (% of GDP)
	(a)	(b)	(b-a) = c	c/GDP	(d)	(e)	c+ (e-d) = f	f/GDP
Primary Balance (after Grants)	218.1	110.4	(107.7)	(3.4)	225.1	115.4	(217.4)	(6.6)

Source: Ministry of Finance

Compliance Assessment of 2020 Budget

The 2020 Budget has been prepared within the context of Government's Medium-term Fiscal Framework (MTFF) 2020-2022. Column 4 of Table 1 shows the approved expenditure ceilings for the 2020 Budget. Total expenditure is projected to $859.0 million, comprising recurrent expenditure of $633.7 million and capital expenditure of $225.3 million. The budgeted amount for capital expenditure is particularly noteworthy because it is much higher than the estimated outturns for 2019 as well as the amount that was budgeted in 2019. The primary reasons for this are the Government's concerted actions to strengthen implementation capacity with the hiring of several technical personnel including engineers. Additionally, capital grants from external partners have been secured to execute large projects, especially focusing on building climate resilience. As Table 4 shows, all relevant fiscal variables of the Central Government are in compliance with the fiscal rules and targets as stipulated in Sections 7 and 8 of the FRL. The real growth in primary expenditure (less capital grants) is projected at 2.0 percent, relative to the 2019 outturn. The wage bill as a percent of GDP is budgeted at 7.7 percent, while the primary surplus is budgeted at 6.1 percent of GDP. The projections for PPP-related contingent liabilities as a ratio of GDP is zero percent and public debt is projected at 53.7 percent of GDP.

Table 4: 2020 Annual Budget Compliance Matrix

Fiscal Variable	Fiscal Rule	2020 Budget	Compliance
Primary Balance, After Grants (percent of GDP)	**3.5%** *(not less than)*	6.1%	Yes
Wage Bill (percent of GDP)	**9.0%** *(not exceeding)*	7.7%	Yes
Primary Expenditure less Capital Grants (real percent change)	**2.0%** *(not exceeding)*	2.0%	Yes
PPP-related Contingent Liabilities (percent of GDP)	**5.0%** *(not exceeding)*	0.0%	Yes
Public Debt (percent of GDP)	**55.0%**	53.7%	Achieved

Source: Ministry of Finance

Appendix 1

Additional Provisions of Sections 7 and 8 of the FRL	Complied within 2018 and 2019
Policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government and covered public entities shall be consistent with the targets under section 8 (1) and the policies and plans set out in the Medium-Term Fiscal Framework under Section 12 (2) of the Public Finance Management Act 7 (1) (b).	Salary negotiations between Trade Unions and Government are guided by the stipulations of the FRL that Negotiations are forward-looking. Negotiations between the Government and Trade Unions for the period 2020-2022 commenced in 2019. All requests for salary adjustments from covered SOEs are appraised by the Ministry of Finance, within the context of the FRL.
No multi-year commitment shall be entered during a period in which Parliament is dissolved 7(1) (c).	No multi-year commitment was entered into in 2019.
For purposes of subsection 1 (b) the Minister must establish compensation negotiation cycles that allow for settlements for Government employees to be included in estimates of revenue and expenditure for the financial year to which settlement relates 7(2).	At the time of publication, there were only two unions (Grenada Union of Teachers and Gazetted police and prison officers) who have completed salary negotiations for the period 2020-2022 at a rate of 4%, 4% and 4%, repectively.