



GOVERNMENT OF GRENADA

2023 Compliance Assessment Report

Submitted To:

The Parliament

By:

The Minister of Finance

November 2022

This Compliance Assessment Report is prepared in fulfillment of Section 12 (1) (C) of the Fiscal Responsibility Act (FRA) 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.”

The fiscal rules and targets as stipulated in Sections 7 and 8 of the FRA are:

- ❖ *Primary Expenditure Rule:* the rate of growth of the primary expenditure¹ of the Central Government, and 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.
- ❖ *Wage Bill Rule:* the ratio of expenditure on the wage bill shall not exceed 9.0 percent of GDP.
- ❖ *Primary Balance Rule:* the targeted primary balance shall be a minimum of 3.5 percent of GDP.
- ❖ *Contingent Liabilities Rule:* contingent liabilities arising from, because of, or in connection with Public-Private Partnerships (PPPs) shall not exceed 5.0 percent of GDP.
- ❖ *Public Debt Anchor:* the total stock of public sector debt shall not exceed 55.0 percent of GDP.

As stipulated in Section 12 (1) (C) of the FRA, the contents of the Compliance Report are as follows:

- i. A review of performance over the preceding two years in comparison with the fiscal

¹ Calculated as Total Expenditure less Interest Payments

rules and targets under Sections 7 and 8;

- ii. The notional compensation primary balance;
- iii. Explanations for every instance of underperformance or overperformance 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.

This Compliance Report is the first since 2019 following the Parliament's-approved suspension of the fiscal rules during the period 2020-2022, in the context of the State-of-Emergency that was in place as a consequence of the COVID-19 pandemic and its adverse socio-economic impacts. Accordingly, this report covers the compliance of the 2023 Budget with the fiscal rules and targets (that is, only item iv above).

Compliance Assessment of the 2023 Budget


The 2023 Budget has been prepared within the context of the Government's Medium-term Fiscal Framework (MTFF) 2023-2025 to support economic activity, job creation and ultimately Government's transformational agenda.

Government's medium-term fiscal objectives and strategies are reflected in an expansion of the Overall and Primary surpluses (including grants) from 1.8 percent and 3.6 percent of GDP respectively in 2023 to 3.7 percent and 5.1 percent of GDP correspondingly in 2025. Full details of the MTFF for the period 2023-2025, including the medium-term fiscal objectives and strategies as well as the assumptions underlying the projections are presented in the MTFF document, which is a separate document prepared in accordance with Section 12 of the Public Finance Management Act No. 17 of 2015.

Table 1 presents the MTFF for 2023-2025.

Table 1: Medium-Term Fiscal Framework 2023-2025

In millions of Eastern Caribbean Dollars, unless stated otherwise

	2023		2024		2025	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	1118.6	32.1%	1,170.6	31.8%	1277.4	32.8%
Total Revenue	1050.8	30.1%	1,099.0	29.8%	1201.6	30.8%
Tax Revenue	739.3	21.2%	780.7	21.2%	826.4	21.2%
Non - Tax Revenue	311.4	8.9%	318.3	8.6%	375.2	9.6%
Grants	67.8	1.9%	71.6	1.9%	75.8	1.9%
Total Expenditure	1,055.8	30.3%	1,094.6	29.7%	1131.3	29.0%
Primary Expenditure	994.1	28.5%	1,037.2	28.2%	1080.5	27.7%
Current Expenditure	741.9	21.3%	763.1	20.7%	780.4	20.0%
Employee compensation	325.6	9.3%	335.9	9.1%	341.9	8.8%
<i>wages, salaries & allowances</i>	311.1	8.9%	320.8	8.7%	326.6	8.4%
<i>Social Contribution to employees</i>	14.5	0.4%	15.1	0.4%	15.3	0.4%
Goods and Services	157.0	4.5%	162.4	4.4%	166.1	4.3%
Interest Payments	61.7	1.8%	57.4	1.6%	50.8	1.3%
Transfers	197.6	5.7%	207.4	5.6%	221.7	5.7%
Capital Expenditure	313.9	9.0%	331.5	9.0%	350.9	9.0%
o/w: Grant financed	67.8	1.9%	71.6	1.9%	75.8	1.9%
Overall balance	62.7	1.8%	76.0	2.1%	146.0	3.7%
Primary balance (excluding grants)	56.6	1.6%	61.8	1.7%	121.1	3.1%
Primary balance (including grants)	124.4	3.6%	133.4	3.6%	196.9	5.1%
Memo Item						
GDP (Nominal market Prices)		3,487.7		3,682.8		3,898.2
Real GDP growth (%)		3.6%		4.0%		4.8%

Source: Ministry of Finance

The Budget year estimated ceilings are based on the first year of the MTFF period. The 2023 Budget is in adherence to the fiscal rules following three consecutive years of suspension in the context of the State-of-Emergency that was in place, occasioned by the COVID-19 pandemic.

Accordingly, as Table 2 shows, all relevant fiscal variables of the Central Government adhere to the fiscal rules and targets as stipulated in Sections 7 and 8 of the FRA. The real growth in primary expenditure is projected at –9.0 percent. The wage bill as a percent of GDP as budgeted is 8.9 percent, while the primary surplus is budgeted at 3.6 percent of GDP. The projections for PPP-related contingent liabilities as a ratio of GDP is zero percent, and public debt is projected at 64.0 percent of GDP. The FRA does not specify a year by which the 55.0 percent of GDP ratio must be reached because the ratio is a medium-term anchor for public debt and not a yearly target. Assumptions underlying the fiscal projections, as well as risks to the projections are discussed in the Medium-term

Fiscal Framework document and the Fiscal Risk Statement, both of which can be accessed on www.finance.gd.

Table 2: Compliance Matrix

Fiscal Variable	Fiscal Rule	2023 Budget	Compliance
Primary Balance, After Grants (percent of GDP)	3.5% <i>(not less than)</i>	3.6%	Yes
Wage Bill (percent of GDP)	9.0% <i>(not exceeding)</i>	8.9%	Yes
Real Primary Expenditure (real percent change)	2.0% <i>(not exceeding)</i>	-9.0%	Yes
PPP-related Contingent Liabilities (percent of GDP)	5.0% <i>(not exceeding)</i>	0.0%	Yes
Public Debt (percent of GDP)	55.0%	64.0%	On track

Source: Ministry of Finance

In addition to the explicit rules and targets, Sections 7 and 8 of the FRA also set out other stipulations that must be complied with. These are covered in Table 3.

Table 3: Other Provisions of the FRA

Additional Provisions of Sections 7 and 8 of the FRA	Comment
Policy on the 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 FRA that Negotiations are forward-looking. Negotiations between the Government and Trade Unions for the period 2023-2026 commenced in November 2022. All requests for salary adjustments from covered SOEs are appraised by the Ministry of Finance, within the context of the FRA.
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 2022.
For purposes of subsection 7 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 the settlement relates.	Negotiations for the period 2023-2026 were ongoing at the time of writing this report in November 2022.

