GOVERNMENT OF GRENADA

MEDIUM-TERM ECONOMIC AND FISCAL STRATEGY REPORT

2024-2026

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GOVERNMENT OF GRENADA

MEDIUM-TERM ECONOMIC AND FISCAL STRATEGY REPORT: 2024-2026

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Ministry of Finance

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Table of Contents

List of Abbreviations

CBI	Citizenship-by-Investment
CED	Customs and Excise Division
CPI	Consumer Price Index
ECCU	Eastern Caribbean Currency Union
FRA	Fiscal Resilience Act
GARFIN	Grenada Authority for the Regulation of Financial Institutions
GDB	Grenada Development Bank
GDP	Gross Domestic Product
GTA	Grenada Tourism Authority
HDI	Human Development Index
HDR	Human Development Report
IMF	International Monetary Fund
IRD	Inland Revenue Division
MIT	Ministry of Mobilisation, Implementation and Transformation
MNIB	Marketing and National Importing Board
MTAP	Medium-term Action Plan
MTDS	Medium-term Debt Management Strategy
MTFF	Medium-term Fiscal Framework
NBFS	Non-bank Financial Sector
NSDP	National Sustainable Development Plan
NTF	National Transformation Fund
pp	percentage points
PPP	Public-Private Partnerships
PSIP	Public Sector Investment Programme
SBs	Statutory Bodies
SGU	St. George's University
SITC	Standard International Trade Classifications
SOEs	State-owned Enterprises
UK	United Kingdom
USA	United States of America
WEO	World Economic Outlook

EXECUTIVE SUMMARY

The Medium-term Economic and Fiscal Strategy Report covers in a single document; (i) the extant macroeconomic context and medium-term outlook, (ii) the Government's strategic priorities for the 2024 Budget and the two forward years (2025 and 2026), (iii) the medium-term fiscal policy objectives and forecasts, and (iv) the associated fiscal risks and mitigating strategies.

Grenada's macroeconomic context and medium-term prospects are broadly positive- barring risks to the economic outlook, such as Grenada's susceptibility to natural hazards and external economic shocks given a tenuous global economic outlook. The effects of the COVID-19 pandemic and the Russia-Ukraine war- among other major external shocks over the past three years still linger. Nonetheless, the economy has been steadily recovering with Real Gross Domestic Product (GDP) estimated to expand by 5.5 percent in 2023, primarily driven by growth of the Tourism, Construction, Wholesale and Retail Trade, Manufacturing, and Transport Sectors. Although the lingering external shocks continue to affect the local economy, inflationary pressures eased somewhat, the fiscal position strengthened, and public debt continued a firm downward trajectory in 2023. Likewise, the financial sector remained stable and sound, and external stability was well anchored.

In the context of a tenuous economic outlook, the strategic priorities for the 2024 Budget and the medium term, as set out in the Government's Medium-term Action Plan (MTAP) are intentionally aimed at supporting economic activity, creating decent and sustainable jobs, and advancing the Government's agenda for transformation as well as resilient, sustainable, and inclusive development. Accordingly, the fiscal strategy has been designed to advance the Government's agenda through fiscal policies that are both supportive and sustainable. Specifically, the Government's fiscal profile over the medium term is an expansionary one, with smaller projected primary surpluses, providing greater fiscal space for the advancement of Government's strategic agenda, while simultaneously safeguarding fiscal and debt sustainability. The projected primary surpluses average 1.9 percent of GDP over the period 2024-2026, while public sector debt (Central Government and State-owned Enterprises [SOEs]) is projected to decline from 73.4 percent of GDP in 2024 to 70.5 percent of GDP in 2026, consistent with the new fiscal rules and targets of the Fiscal Resilience Act 2023.

Grenada's medium-term economic prospects, though assessed as broadly positive, are subject to considerable downside risks, which can adversely affect public finances and by extension, the implementation of Government's strategic policies and programmes. This Report assesses these key risks and sets out appropriate mitigation measures.

1 INTRODUCTION

This Medium-term Economic and Fiscal Strategy Report is the Government's overarching fiscal and economic strategic document for the Budget year 2024 and the two forward years 2025 and 2026, which is prepared in fulfillment of Section 12A of the Public Finance Management Amendment Act No. 12 of 2023.

This Report brings together in a single document the following key elements that are integral in the formulation of the 2024 Budget and the economic and fiscal strategies of the Government over the medium term: (i) the macroeconomic context and medium-term outlook; (ii) Government's strategic priorities for the 2024 Budget and for the medium term; (iii) Government's medium-term fiscal policy objectives and forecasts; and (iv) fiscal risks and mitigation measures.

The macroeconomic context and medium-term outlook give an overview of economic performance for the full year 2023 and discuss broad economic prospects over the medium term based on key macroeconomic assumptions, taking due cognisance of risks that can affect the outlook.

The medium-term strategic priorities for the Budget year and the two forward years are set out in the Throne Speech delivered in September 2023 and are congruent with Government's broader medium-term priorities for sustainable development and transformation as detailed in its MTAP 2023-2025, which is aligned to the National Sustainable Development Plan (NSDP) 2020-2035.

The Government's fiscal policy objectives are set out in its Medium-term Fiscal Framework (MTFF). The MTFF establishes the resource envelope available over the period 2024-2026 that will fund the implementation of Government's policy priorities for the Budget year and the two forward years. The fiscal targets and strategies are intentionally formulated to ensure that the Government's agenda for transformation, resilience, and sustainable and inclusive development is advanced over the period 2024-2026 through fiscal policies that are both supportive and sustainable. Specifically, smaller primary surpluses are projected, expanding the fiscal space for the Government to advance its strategic agenda, while simultaneously safeguarding fiscal and debt sustainability.

The medium-term fiscal forecasts have been prepared in alignment with the Fiscal Resilience Act No. 11 of 2023 (FRA), which takes effect from January 1, 2024, replacing the Fiscal Responsibility Act of 2015. The rebranding of "fiscal responsibility" as "fiscal resilience" reflects lessons learned during the past seven years of implementation of the 2015 Act. While fiscal responsibility is a necessary condition for generating positive fiscal and economic dividends, without fiscal resilience, fiscal and economic gains can easily be eroded. Accordingly, the new FRA includes key provisions that seek to explicitly ensure that in the exercise of fiscal responsibility, fiscal resilience is bolstered through prudent fiscal policies and overall good fiscal governance practices.

In summary, the new FRA aims to strengthen fiscal resilience in Grenada. It also seeks to reform the rules-based fiscal responsibility framework 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 public debt. Overall, the new FRA simplifies the fiscal framework to ease implementation and monitoring.

Appendix 1 sets out the salient features of the new FRA.

The remainder of this Report is laid out as follows:

- Section 2: Macroeconomic Context and Medium-term Outlook.
- Section 3: Medium-term Fiscal Policy Objectives and Forecasts.
- Section 4: The Strategic Priorities for Fiscal Year 2024.
- Section 5: Compliance with the Fiscal Resilience Act.
- Section 6: Fiscal Risks Analysis and Management.
- Section 7: Statement of Responsibility.

The Currency used in this document is EC dollars unless otherwise stated.

2 MACROECONOMIC AND SOCIAL CONTEXT

2.1 Real Sector

The economy is steadily recovering following the effects of a series of major external shocks over the past three years, including the COVID-19 pandemic and the Russia-Ukraine war. Real GDP is expected to be relatively strong, estimated at 5.5 percent for 2023. Considering Grenda's economic vulnerability to external economic risks, as well as natural hazards, the medium-term outlook, though broadly positive, is subject to considerable downside risks; as such, average growth is conservatively projected to average 3.6 percent during the period 2024-2026.

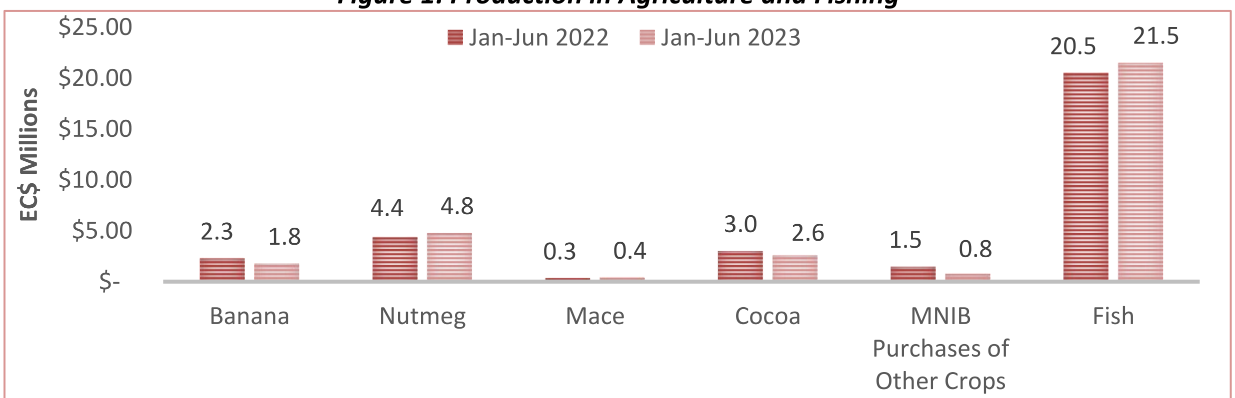
The following are the salient highlights of activity in the main economic sectors in 2023.

2.1.1 Agriculture & Fishing

The analysis of data for the first half of 2023 (the latest available) for the Agriculture and Fishing Sectors showed notable declines in several key agricultural produce. Amidst data challenges, a 22.7 percent decrease was observed in the value of banana production, while cocoa production fell by 13.9 percent. The indicator used to measure the production of "Other Crops" also had an estimated 47.1 percent reduction in the first half of 2023 relative to the comparable period in 2022. The underperformance of these key areas was largely due to unfavorable weather conditions, which included high temperatures and sporadic changes in weather patterns; and (ii) the high costs of fertilisers. (Figure 1).

On a more positive note, the value of nutmeg and mace production showed marked increases of 9.3 percent and 21.6 percent respectively for the January to June 2023 period compared to the exact period in 2022. Fish production is estimated to have increased in value by 5.0 percent for the period under review. Full the full year 2023, a decline of 6.0 percent is estimated for this sector, underpinned by shortages of key crops, especially short crops, due to the adverse weather conditions experienced during the year. Further, given that the cocoa production season starts in the last quarter of the year, an increase of 10.0 percent is expected for this commodity in 2023, which is expected to soften the decline in the sector overall. The Agriculture and Fishing Sectors are expected to improve in the medium term as efforts are being made to boost agricultural productivity. It is also important to note that concerted efforts will be made to systematically improve data collection.

Figure 1: Production in Agriculture and Fishing

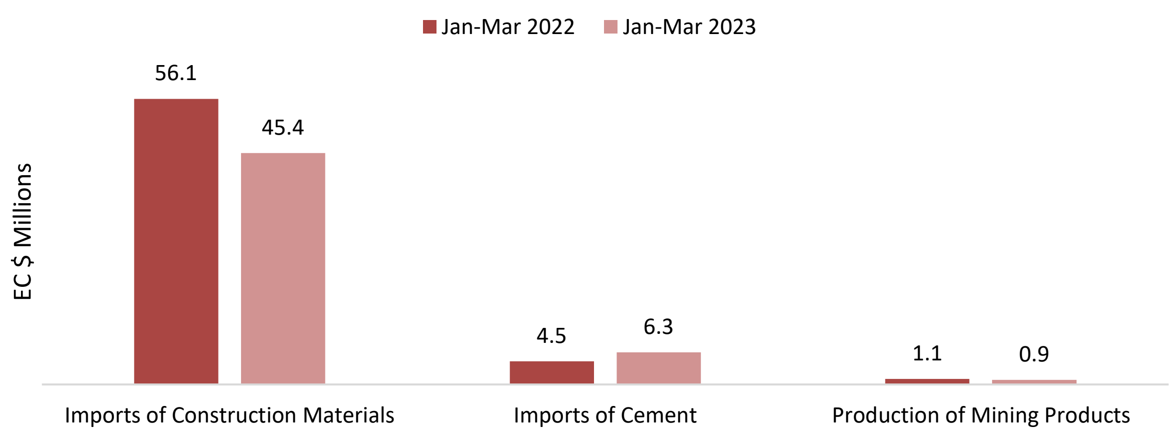


Source: Central Statistics Office (CSO)

2.1.2 Construction

The value of imported construction materials declined by 19.1 percent at the end of the first quarter of 2023[1] compared to the same period in 2022 (Figure 2). Conversely, there was a 10.8 percent growth in the quantity of construction materials imported during the same period. Anecdotally, growth in the Construction Sector can be surmised by the number and size of ongoing public and private investment projects. Several major public and private sector projects are ongoing, including the Molinere Landslip Rehabilitation Project, the Agricultural Feeder Roads, the St. John's River Flood Mitigation Project (Phase II), the Beach House Project, the Six Senses Hotel, and the Intercontinental Hotel. It is anticipated that the current growth trajectory in this sector will persist as the appetite for foreign investment expands in areas such as tourism and agro-processing. Nevertheless, supply chain disruptions, high shipping costs, and shortage of skilled labour can challenge the sector's productive capacity. Notwithstanding, growth of 12.6 percent is estimated in 2023 and the medium-term outlook is assessed as broadly positive given planned projects of both the public and private sectors.

Figure 2: Construction Indicators



Source: CSO

2.1.3 Tourism

Data for the first nine months of 2023 shows growth of 41.4 percent in visitor arrivals compared to the same period in 2022. The growth in tourist arrivals surpassed that of 2019 by 4.2 percent (Table 1). Of these arrivals, 47.4 percent stayed in hotels/resorts for an average of approximately seven days. Additionally, 32.2 percent stayed in private homes, and the remainder stayed in apartments, yachts, and villas. The month of August recorded the highest influx of visitors (16,435), 33.4 percent higher than arrivals in August 2022.

[1] The latest period for which data is available.

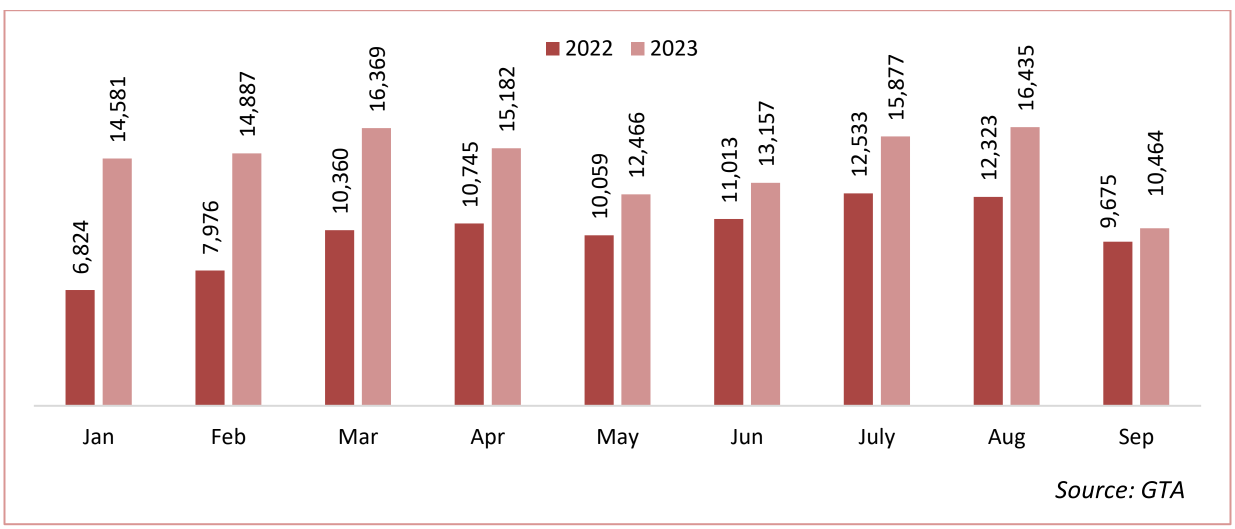
Table 1: January-September Stayover Arrivals (Number)

Visitor Arrivals	Jan- Sep- 2019	Jan -Sep-2022	Jan - Sep-2023	2023/2022 % Change
United States	58,005	55,542	70,337	26.6
Europe	5,754	2,151	4,592	113.5
United Kingdom	19,748	17,073	19,582	14.7
Canada	13,818	4,405	11,972	171.8
Caribbean	23,132	10,208	19,728	93.3
Other	3,712	2,131	3,207	50.5
Total Stayover Arrivals	124,169	91,510	129,418	41.4
Cruise Passengers	224,062	107,937	198,896	84.3

Source: Grenada Tourism Authority (GTA)

The number of visitors from the European region and Canada more than doubled at the end of September 2023 compared to the end of September 2022 (Figure 3). A large influx of visitors also came from the Caribbean region, the United States of America (USA), and other countries. In a similar vein, airlines such as British Airways, Virgin Atlantic, Air Canada, SVG Air, American Airlines, and JetBlue made inter-regional and intra-regional travel more accessible to visitors by increasing the frequency of their flights. Plans are underway to further increase the number of flights in the last quarter of 2023 to accommodate more travelers during the winter season. JetBlue will be opening a new route from Boston to Grenada, beginning November 2023. Air Canada will increase flights to four times per week beginning in October 2023. Sunwing will also be adding a flight from Toronto to Grenada from November 2023, and Condo is expected to offer a flight from Frankfurt to Grenada from November 2023. With these new developments, it is anticipated that visitor arrivals will continue to grow in the last quarter of 2023. The overall growth of the Tourism Sector for the full year of 2023 is estimated to be 15.6 percent.

Figure 3: Monthly Stayover Arrivals

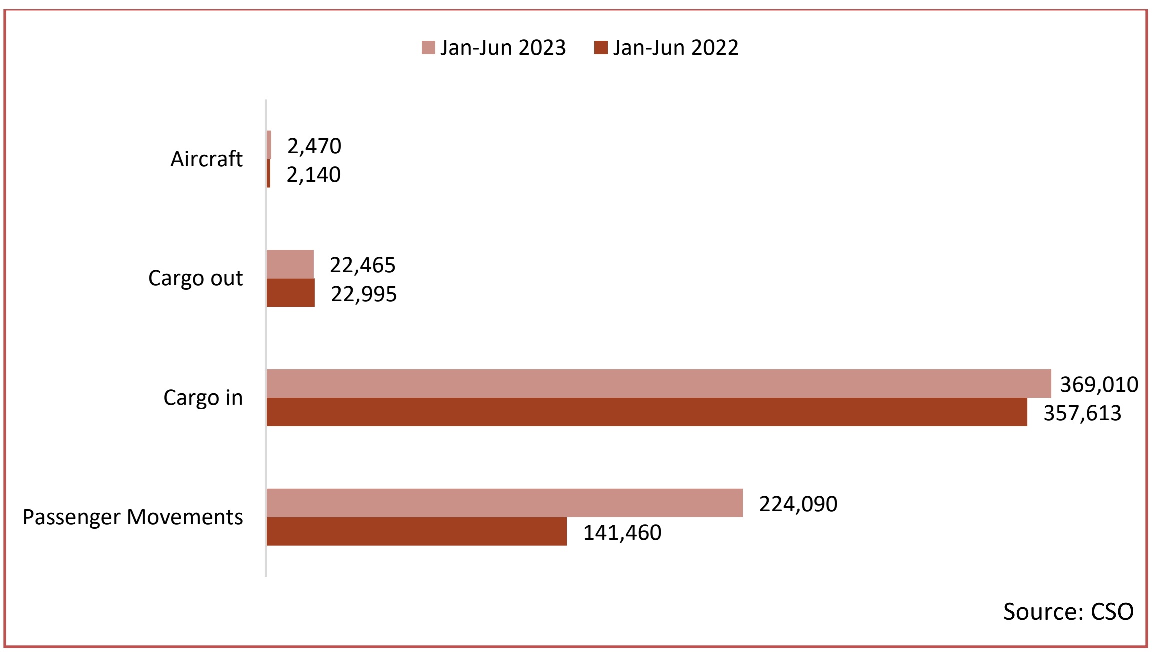


Cruise ship passenger arrivals increased by 84.3 percent in the first nine months of 2023, compared to the same period in 2022. A notable number of cruise passengers originated from cruise lines such as MSC Cruises, P & O Cruises (UK) Ltd., Royal Caribbean Internal, Aida Cruises, and Costa Cruises. In 2023, cruise ship passenger arrivals remained below the 2019 level, but are expected to surpass pre-COVID-19 performance in the medium term. For the 2023/2024 cruise season, which begins in November 2023, a total of 372,390 passenger arrivals is projected.

2.1.4 Transport and Storage

Activity within the Transport and Storage Sector is heavily influenced by both the Construction and Tourism Sectors. In 2023, the Transport and Storage Sector is estimated to perform favourably owing to the increased movement of people and goods. Based on data gathered from the Airports Authority, Ports Authority, and travel agents, growth of 5.2 percent is estimated for this sector in 2023. In terms of Air Transport, a 58.4 percent uptick in passenger movements was observed during the first half of 2023 compared to the same period in 2022 (Figure 4). Growth of 15.4 percent was recorded in relation to the movement of Aircraft, which is consistent with the uptick in tourism activity. For the full year of 2023 and into the medium term, it is expected that Air transport will continue to grow as airlift progressively increases. Road transport, which is also affected by tourism, is projected to expand as the demand for taxis and tours increases, and the demand for trucks and vans grows to support the activities of the Construction and Wholesale and Retail Sectors. It is further anticipated that the sub-sector, Sea Transport, will also continue to perform well as the GTA intensifies efforts to boost cruise ship arrivals for the 2023/2024 cruise ship season, and the robust activities of ferries and cargo vessels continue to strengthen over the period.

Figure 4: Passenger and Cargo Movements

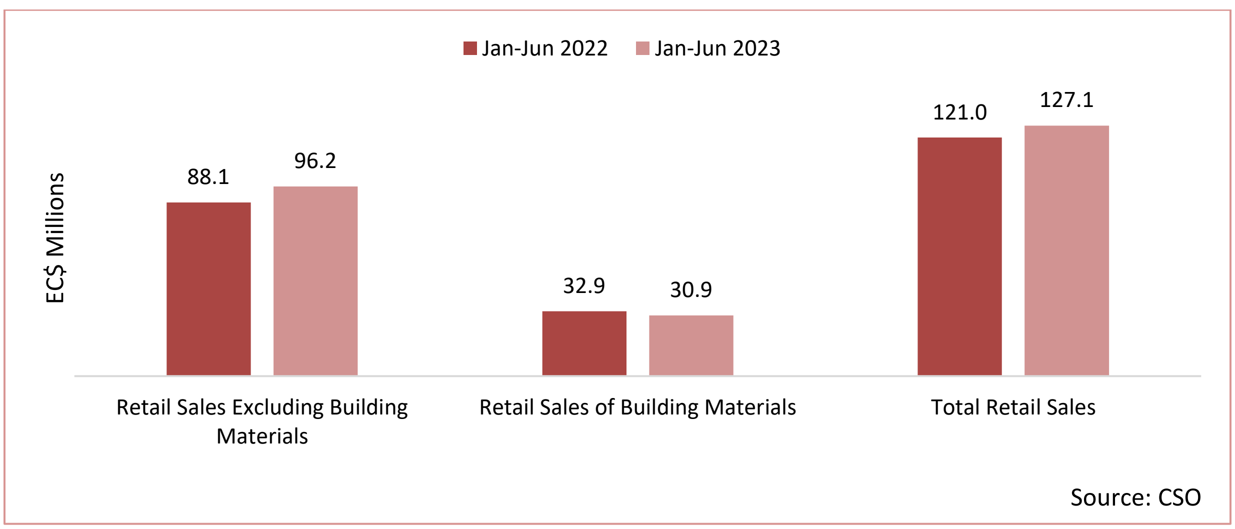


2.1.5 Wholesale and Retail Trade

The Wholesale and Retail Trade Sector showed promising growth for the first half of 2023 based on the latest available data. The performance of this sector is measured by the following activities: retail sales of building materials and retail sales of other products that are not building materials (such as food and drinks, household items and vehicles for example). The sector is heavily dependent on activities undertaken within various other sectors of the economy. For example, the economic activities of the Construction Sector will have knock-on effects for this sector. Preliminary data shows that the value of retail sales of building materials declined by 6.2 percent during January to June 2023, whilst retail sales of other commodities increased by 9.3 percent (Figure 5).

Moreover, increased visitors on the island and the return of students to the St. George's University (SGU) contributed immensely to the growth of this sector, evident through the activities of retail outlets-primarily supermarkets. However, supply chain disruptions due to limited availability of containers, inconsistent supply of specific construction materials, and high freight costs continue to be a challenge for this sector. Nonetheless, it is expected that the Wholesale and Retail Trade Sector will remain vibrant with activities, catapulted by the growth prospects of other sectors that would stimulate wholesale and retail activities.

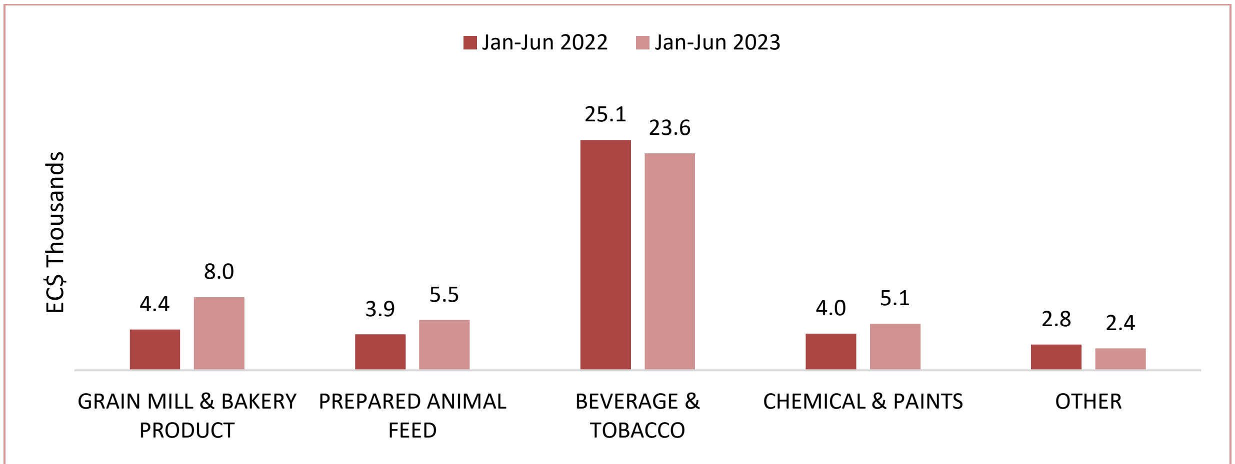
Figure 5: Retail Sales



2.1.6 Manufacturing

Growth in the Manufacturing Sector was evident during the first six months of 2023. Production in most industries expanded to meet the demands of the local and regional markets. The data analysed points to a 79.6 percent increase in the production value of grain mill and bakery products for the first half of 2023 relative to same period last year. The price of wheat stabilised in 2023 after doubling in 2022, which had a pass-on effect on the price of flour. The production value of animal feed increased by 40.2 percent, reflecting the significant advancements made by the Poultry Association to boost poultry production over the review period. In line with the notable upswing in the Construction Sector, the production of chemicals and paints grew by 26.7 percent during the first half of the year relative to its comparable period in 2022. On balance, a 10.6 percent growth in industrial production was recorded for the period under review. Despite this, there was a drop in beverage and tobacco production by 5.9 percent and other products by 14.9 percent (Figure 6).

Figure 6: Industrial Production



Source: CSO

Despite this positive outlook, challenges within this sector continue to hinder manufacturers from producing at a higher capacity. Manufacturers have indicated that the prohibitive cost and limited supply of empty containers restrict their capacity to compete effectively in the export market. Further, other issues such as the rising cost of raw materials and inputs, and lack of or limited port space for manufacturers, were also flagged as having an adverse effect on their productive capacities. Overall, growth in this sector is estimated at 4.3 percent in 2023.

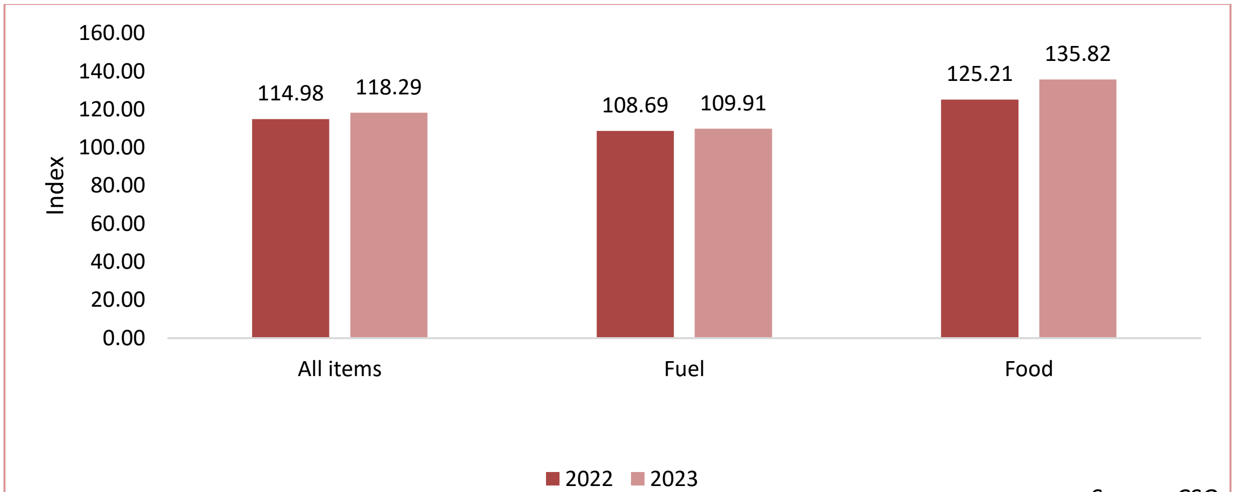
2.1.7 Private Education

Data on student arrivals, captured by the GTA, was used to measure the activity of the Private Education Sector. The analysis of the data showed that during the months of January to September 2023, relative to the same period in 2022, student arrivals grew by 25.0 percent. With the full resumption of face-to-face classes, 8,316 students returned to the island for studies at the SGU. Of the total student arrivals, 78.7 percent came from the USA, while the remainder came from Canada, CARICOM countries, and the rest of the world. Approximately 43.6 percent stayed in apartments, 43.5 percent stayed in student dorms, and the remainder in private homes, guest houses, and villas. Growth in student enrolment at SGU is expected for the 2023/2024 financial year. This growth will be driven by increased scholarships offered to students, improved interest in the School of Veterinary Medicine, and the full return of SGU students on campus as all COVID-19 protocols were relaxed in May 2023.

2.1.8 Inflation

Period average inflation, as measured by the Consumer Price Index (CPI), was 2.9 percent for the first nine months of 2023. Specifically, food and fuel inflation were 8.7 percent and 1.2 percent respectively (Figure 7). Grenada's inflation rate is heavily influenced by prices in the economies of its main trading partners such as the USA, United Kingdom (UK), and Canada. The rates of inflation have been decelerating steadily among these trading partners and as such, inflationary pressures are expected to ease in Grenada in the short term. An overall inflation rate of 2.7 percent is forecasted for 2023 and 2.0 percent for 2024.

Figure 7: Consumer Price Index (January – September, average)



Source: CSO

At the end of September 2023, relative to the end of September 2022, the end-of-period (or year-on-year) inflation rate was estimated to be 1.7 percent, while food and fuel inflation were 7.6 percent and -1.1 percent year-on-year, respectively (Table 2).

Table 2: Year-on-Year Inflation

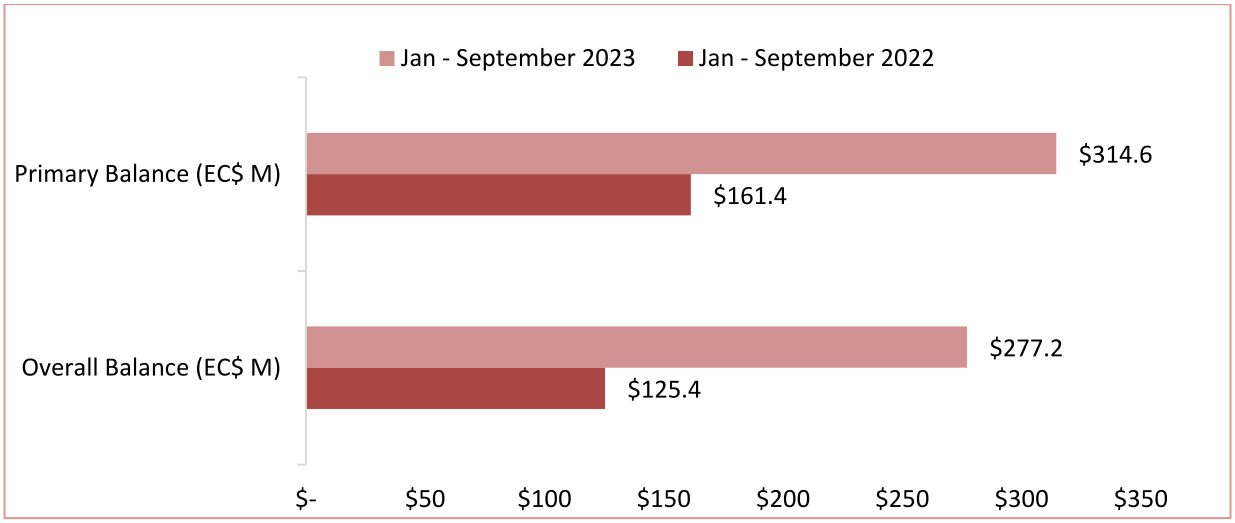
CPI	Sep-22	Sep-23	Inflation (%)
Food	129.18	137.89	6.75
Fuel	108.72	109.48	-1.07
Total	116.07	118.78	2.34

Source: CSO

2.2 Central Government's Fiscal Operations

Grenada's fiscal position strengthened in 2023 despite lingering effects of a series of external shocks over the period 2020-2022. During the first nine months of 2023, the primary and overall balances including grants were $314.6 million and $277.2 million respectively, which were considerably more than the comparable period of 2022 (Figure 8).

Figure 8: Primary Balance and Overall Balance after Grants, 2023 vs 2022 (January – September)



Source: Ministry of Finance

Total revenue and grants for the first nine months of 2023 amounted to $965.6 million, of which total revenue was $954.1 million and total grants were $11.5 million (Table 3). Total revenue and grants were 15.4 percent more than what was collected in the same period of 2022, primarily because of improved performances in tax revenue (19.2 percent), reflecting the general economic vibrancy, as well as strong intake from the tax amnesty ($20.3 million was collected during the first nine months of the year).

All tax types recorded higher collections in 2023. Taxes on property were 41.1 percent more than the amount collected in 2022. Taxes on income and profit, domestic transactions, and international transactions were 23.8 percent, 19.5 percent, and 15.7 percent more respectively, than the collections of 2022.

Non-tax revenue more than doubled relative to the same period in 2022 reflecting strong receipts from the Citizenship-by-Investment (CBI) programme.

Total grants lagged last year's amount by $188.4 million because there were no large one-off grants in 2023 as there were in 2022. It is worth recalling that in 2022, the Government received a one-off grant from the SGU of $81.0 million and another from Saudi Arabia of $27.0 million. Additionally, lower grants also reflect the reclassification of receipts into National Transformation Fund (NTF) as non-tax revenue (starting in 2023) from capital grants as they had been classified up until 2022.

Table 3: Total Revenue and Grants, 2023 vs 2022 (January – September)

	2022	2023	Variance	
	January - September			
	$M	$M	$M	%
Total Revenue and Grants	**836.6**	**965.6**	**129.0**	**15.4**
Total Revenue	**636.7**	**954.1**	**317.4**	**49.9**
Tax Revenue	**519.8**	**619.8**	**100.0**	**19.2**
Taxes on Income and Profit	98.4	121.8	23.4	23.8
Taxes on Property	23.1	32.6	9.5	41.1
Taxes on Domestic Transactions	118.6	141.7	23.1	19.5
Taxes on International Transactions	279.7	323.7	44.0	15.7
Non-Tax Revenue	**116.9**	**334.3**	**217.4**	**186.0**
Total Grants	**199.9**	**11.5**	**(188.4)**	**-94.2**

Source: Ministry of Finance

The total expenditure for the first nine months of 2023 was 3.2 percent less than the same period of 2022 (Table 4). This outturn was due primarily to a 31.6 percent decrease in capital spending, reflecting a revert to typical capital spending patterns vis-a-vis the higher-than-normal spending during the lead up to the 2022 general election, as well as some delays in project implementation, which were expected to be rectified during the last quarter of the year.

There was a significant expansion in current transfers of 21.1 percent reflecting additional spending to mitigate the high cost of living (fuel and electricity subsidies) and costs associated with the restructuring of the Marketing and National Importing Board (MNIB). Goods and services increased by 18.2 percent, reflecting elevated costs generally in the context of high global inflation. Employee compensation increased by 2.7 percent, which includes a 6.6 percent increase in social contributions and 2.4 percent growth in personal emoluments. Interest payments rose by 3.9 percent when compared to the first nine months of 2022. Recurrent outlays expanded by 11.1 percent overall.

Table 4: Total Expenditure, 2023 vs 2022 (January – September)

	2022	2023	Variance	
	January - September			
	$M	$M	$M	%
Total Expenditure	**711.2**	**688.4**	**(22.8)**	**-3.2**
Recurrent Expenditure	**473.3**	**525.6**	**52.3**	**11.1**
Employee Compensation	**210.0**	**215.6**	**5.6**	**2.7**
Personal Emoluments	197.8	202.6	4.8	2.4
Social Contributions	12.2	13.0	0.8	6.6
Goods and Services	91.8	108.5	16.7	18.2
Interest Payments	36.0	37.4	1.4	3.9
Current Transfers	135.5	164.1	28.6	21.1
Capital Expenditure	**237.9**	**162.8**	**(75.1)**	**-31.6**

Source: Ministry of Finance

Based on the actual outturns, together with seasonality patterns, and other assumptions, Grenada's fiscal position is estimated to remain strong for the full year 2023 (Table 5). Total revenue and grants are preliminary estimated at $1,317.9 million for the full year 2023, 17.8 percent higher ($199.3 million) than the 2023 budgeted amount, reflecting strong intake from all tax types. Total expenditure is estimated to be $1,092.9 million for the full year 2023, 3.4 percent ($35.8 million) more than the budgeted amount, in large measure, reflecting planned acquisition of non-financial assets (land and property for strategic purposes) by the Government during the last quarter of the year, as well as ramped up project implementation that were delayed earlier in the year. For the full year, an overall surplus including grants of $225.0 million (6.2 percent GDP) is estimated, higher than the budgeted surplus of $61.4 million, while the primary surplus including grants is estimated at $276.2 million (7.6 percent of GDP), much higher than what was budgeted.

Table 5: Central Government's Estimated 2023 Fiscal Performance

	2023			
	Estimated Outturn	**Budget**	**Variance**	
	EC$M	EC$M	EC$M	%
Total Revenue & Grants	**1,317.9**	**1,118.6**	**199.3**	**17.8**
Total Revenue	**1,262.6**	**1,050.8**	**211.9**	**20.2**
Tax Revenue	**813.0**	**739.3**	**73.7**	**10.0**
Taxes on Income	159.5	139.0	**20.5**	**14.8**
Taxes on Property	36.1	29.7	**6.4**	**21.6**
Taxes on Domestic Goods &	181.2	160.3	**20.9**	**13.0**
Taxes on International Trade & Transactions	436.2	410.4	**25.8**	**6.3**
Non - Tax Revenue	**449.6**	**311.4**	**138.2**	**44.4**
Grants	**55.2**	**67.8**	**(12.6)**	**(18.6)**
Total Expenditure	**1,092.9**	**1,057.1**	**35.8**	**3.4**
Primary Expenditure	**1,041.6**	**995.4**	**46.2**	**4.6**
Current Expenditure	**699.7**	**743.2**	**(43.5)**	**(5.8)**
Employee compensation	283.5	326.9	**(43.4)**	**(13.3)**
o/w wages, salaries & allowances	268.3	311.1	**(42.7)**	**(13.7)**
Goods and Services	136.7	157.0	**(20.3)**	**(13.0)**
Interest Payments	51.2	61.7	**(10.4)**	**(16.9)**
Transfers	228.3	197.6	**30.7**	**15.5**
Capital Expenditure	**393.2**	**313.9**	**79.2**	**25.2**
o/w Grant financed	**54.5**	**67.8**	**(13.3)**	**(19.6)**
Overall balance	**225.0**	**61.4**	**163.5**	**266.1**
Primary balance (including grants)	**276.2**	**123.1**	**153.1**	**124.3**

Source: Ministry of Finance

2.3 Fiscal Operations of State-owned Enterprises

The Ministry of Finance monitors twenty- six (26) Statutory Bodies (SBs) and SOEs. The unaudited financial statements of all SBs and SOEs as at June 2023 showed an improved financial position compared to the same period in 2022. Revenues increased by 37.0 percent compared to 2022 and net financial position showed a tremendous turnaround from a deficit of $50.1 million to a surplus of $32.3 million. Total expenditure declined by 10.0 percent in 2023, with employee-related expenditure stabilising due to the settlement of retrospective salary increases for all public entities (Table 6).

The consolidated balance sheet as at June 2023 showed a weakening of the asset base of SOEs and SBs of $165.2 million, an 8.0 percent decline from the previous year. This was driven by the reduction in the asset portfolio of two major SOEs and the winding down of the MNIB. Non-guaranteed debt declined by 2.0 percent compared to June 2022. The consolidated equity position of all public entities declined by 8.0 percent, which is in line with the reduction in the asset base of SOEs and SBs. Most entities showed strong equity positions with equity-to-asset ratios greater than 50.0 percent, while four entities held equity positions that require strengthening over the medium term.

Table 6: SOEs Fiscal Performance

Description	June, 2021	June, 2022	June, 2023	2022/2021	2023/2022
	$M			% Change	
Revenue	**211.9**	**163.3**	**224.0**	**-23**	**37**
Of which, Government Assistance	*17.5*	*19.3*	*15.7*	*10*	*-19*
Expenditure	**179.2**	**213.3**	**191.3**	**19**	**-10**
Of which, Interest expenditure	*1.8*	*2.7*	*2.5*	*48*	*-7*
Employee Related Expenditure	*45.2*	*52.4*	*40.0*	*16*	*-24*
Surplus/ (Deficit)	**32.6**	**(50.1)**	**32.6**	**-254**	**-165**
Assets	1,976.7	1,955.8	1,793.8	-1	-8
Liabilities	275.3	336.1	304.5	22	-9
Of which, Non- Guaranteed Debt	174.7	154.2	150.6	-12	-2
Equity	1,704.1	1,619.7	1,486.3	-5	-8

Source: Ministry of Finance

2.4 Public Sector Debt

Public Sector Debt[2] as a ratio of GDP, a key indicator of debt sustainability, is estimated to decline by 5.8 percentage points (pp) to 74.6 percent of GDP by the end of 2023, relative to the ratio at end-December 2022. The estimated improvement in the debt position is influenced by the

[2] Defined as the debts of the Central Government, Central Government guaranteed debts, and the non-guaranteed debts of all debt-carrying SOEs.

improvement in GDP as well as the implementation of debt management strategies as contained in the 2023 Medium-Term Debt Management Strategy (MTDS), in particular, focusing on concessional borrowing.

2.4.1 Central Government Debt

At end-September 2023, the total stock of disbursed outstanding debt of the Central Government and the guaranteed debts of SOEs was $2,066.3 million, the equivalent of 57.1 percent of 2023 estimated nominal GDP, compared to 63.9 percent of GDP in the corresponding period in 2022. By year end, the combined Central Government's debt and guaranteed debt are estimated at 60.1 percent of GDP based on expected disbursements during the fourth quarter.

2.4.2 Non-Guaranteed Debts of State-Owned Enterprises

At end-June 2023 (the latest period for which data is available), nine SOEs held non-guaranteed debts amounting to $522.7million (14.5 percent of GDP). This was inclusive of the debt obligations of Petro Caribe, which was $372.1 million (10.3 percent of GDP). All non-guaranteed instruments contracted by SOEs are long-term loans and the major creditor is a local commercial bank. By year end, the debts of SOEs are estimated at 14.5 percent of GDP.

2.5 Financial Sector

2.5.1 Performance of the Commercial Banking Sector

The resurgence of the Tourism Sector and the full reopening of the SGU have augured well for the banking sector in 2023, with increased. Domestic credit increased to areas such as Construction, Home Renovation, Real Estate, Commercial Building and Land Purchase, Motor Vehicles, Wholesale & Retail Trade, and Professional Services. Overall, total credit to the private sector increased by 1.0 percent or $22.18 million at end-August 2023, relative to the total at end-December 2022. Notwithstanding the increase in bank loans to these areas, commercial banks continue to be very liquid, with the ratio of total non-interbank loans to total non-interbank deposits exceeding 50.0 percent. Meanwhile, the average non-performing loans ratio across the entire sector was 3.6 percent, below the regulatory benchmark of 5.0 percent. Importantly also, all loan moratoria facilities implemented in 2020 to cushion the impact of COVID-19 on creditors were successfully ended during the third quarter of 2023.

To-date, there are only three commercial banks in Grenada since the acquisition of CIBC First Caribbean International Bank (Grenada) by the Grenada Cooperative Bank Limited, which has increased its market share, making it the largest commercial bank in Grenada, and the 3rd largest indigenous bank in the Eastern Caribbean Currency Union (ECCU). Overall, the banking sector remained stable, sound, and well capitalised.

2.5.2 Performance of the Non-Bank Financial Sector

The non-bank financial sector (NBFS) posted a robust performance in the first half of 2023, with a robust growth in assets and profit across all sub-sectors. According to Grenada's Authority for the Regulation of Financial Institutions (GARFIN) the NBFS is stable, and all entities continue to show favourable conformity to the relevant regulatory requirements. GAFRIN currently monitors 10 credit unions, 25 insurance companies, one development bank, 46 pensions funds, seven micro lending agencies, and two money transmission companies.

- *Credit Unions* – As at June 30, 2023, total assets stood at $1,360.6 million, which reflected an increase of $60.1 million or 4.6 percent when compared to December 31, 2022. For the first six months ended June 30, 2023, credit unions generated a net surplus of $10.2 million. All credit unions met the prudential liquidity standards during 2023, while one entity failed to meet the prescribed capital benchmarks. Non-performing loans stood at 7.8 percent at end-June 2023, a slight improvement relative to 8.6 percent at end-December 2022.

- *Grenada Development Bank (GDB)* – As at June 30, 2023, total assets stood at $115.8 million, which was an increase of $2.1 million or 1.8 percent when compared to December 31, 2022. For the six months ended June 30, 2023, GDB recorded a net surplus of $545,000.

- *Insurance Companies* – As at June 30, 2023, total assets stood at $545.2 million, representing growth of $29.1 million or 5.6 percent when compared to December 31, 2022. For the six months ended June 30, 2022, insurance companies generated an operating surplus (after taxes) of $6.3 million. All insurance companies met the statutory solvency requirements during 2023 and all except one company maintained adequate assets in their Insurance Fund as at June 30, 2023. (This company was subjected to the necessary supervisory action).

- *Pension Funds* – As at June 30, 2023, total assets stood at $276.5 million, which reflected an increase of $26.5 million or 10.6 percent when compared to December 31, 2022.

The NBFS is expected to record an overall positive performance in 2023, notwithstanding downside risks. Appropriate measures are in place to mitigate risk.

2.5.3 Financial Regulatory Developments

GARFIN has made commendable progress in the execution of its duties within the NBFS. In 2022, GARFIN undertook to review and revise Grenada's existing legislation for Cooperatives Societies with a view of creating closer alignment to the approved Harmonised Cooperatives Society's 2019 Regulation of the ECCU. To date, the updated draft Bill has been submitted to the Authorities for review and consideration.

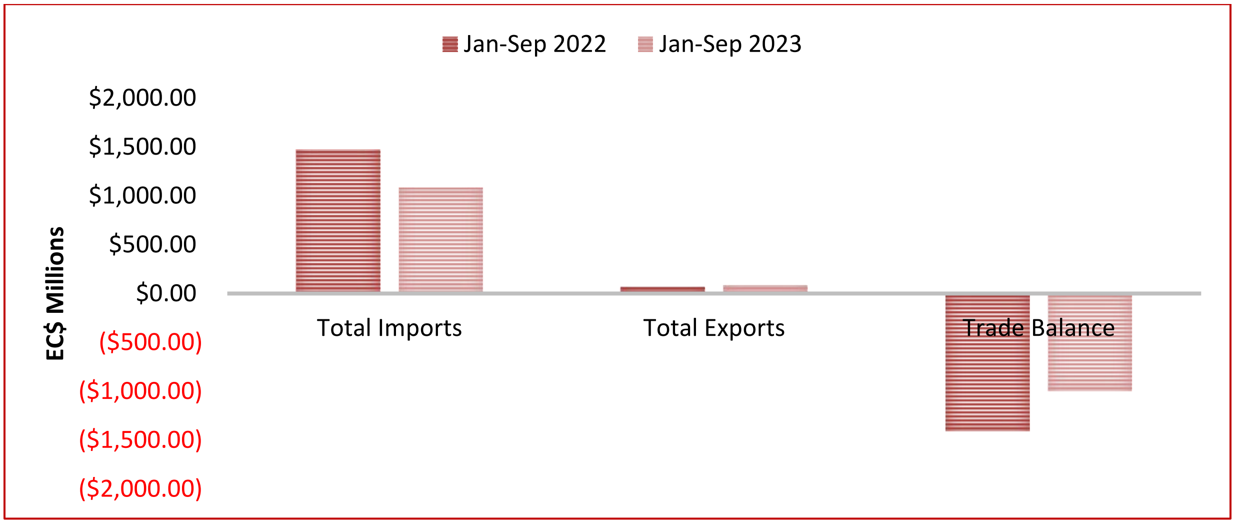
Work is also underway for the development of a Risk-Based Supervisory and Stress Testing Framework, which is scheduled to be completed by the end of the first quarter in 2024. This Framework will further support the macroprudential duties of GARFIN through the creation of an early warning system for the relevant authorities. The stress testing framework will ensure that the relevant provisions are made by the respective entities to accommodate unanticipated shocks given a wide range of unexpected risks.

GARFIN has also expanded its coverage for the regulation of Fin-tech businesses in Grenada in accordance with the ECCU's Virtual Assets Act. As of June of 2023, the Authority commenced accepting applications for the registration of Virtual Asset Businesses. However, applications for the registration of crypto currency and bitcoins businesses are not yet available.

2.6 External Sector

Data from the Customs and Excise Division (CED) was utilised to assess the performance of the external sector. Based on this data, a trade deficit of $999.7 million was recorded during the first nine months of 2023. Total imports were $1,472.6 million and total exports were $66.0 million (Figure 9). Grenada's food import bill totaled $41.8 million for the January to September 2023 period; this was 13.7 percent lower than the total recorded for the same period in 2022.

Figure 9: Balance of Trade



Source: Ministry of Finance

An analysis of the category of imports based on statistical value for January to September 2023 shows that the most imported products during that period were "petroleum and bituminous minerals - oils other than crude". There was also a high importation of motor cars, construction materials, and food (Table7).

Table 7: Top 10 Imports (January-September 2023)

TOP	CATEGORY*	VALUE
1	Petroleum oils and oils obtained from bituminous minerals, other than crude	$ 211,480,204.11
2	Motor cars and other motor vehicles principally designed for the transport of persons	$ 39,562,874.72
3	Meat and edible offal, fresh, chilled, or frozen	$ 32,644,105.48
4	Cement	$ 22,992,504.13
5	Other furniture and parts thereof	$ 17,271,054.20
6	Food preparations not elsewhere specified or included	$ 16,188,965.90
7	Telephone sets	$ 15,174,505.52
8	Waters, including mineral waters and aerated waters	$ 15,172,826.90
9	Medicaments	$ 14,124,234.70
10	Bread, pastry, cakes, biscuits, and other bakers' wares	$ 13,917,988.15
*Most Categories were simplified for clarity and should not be confused with Standard International Trade Classifications (SITC) sections. *Source: Ministry of Finance*		

Regarding exports, the most popular exported products were “wheat or meslin flour,” and “nutmeg, mace, and cardamoms” with a value of $12.7 million and $10.2 million, respectively. Other major exports for the review period included bottles and containers, paints, fish, and cocoa beans (Table 8).

Table 8: Top 10 Exports (January-September 2023)

TOP	CATEGORY*	VALUE
1	Wheat or meslin flour	$ 12,695,203.51
2	Nutmeg, mace, and cardamoms	$ 10,228,003.35
3	Preparations of a kind used in animal feeding	$ 9,731,882.83
4	Carboys, bottles, flasks, jars, pots, phials, ampoules, and other containers	$ 6,851,156.84
5	Paints and varnishes	$ 5,200,933.67
6	Fish, fresh or chilled	$ 3,743,423.68
7	Cocoa beans, whole or broken, raw or roasted	$ 3,570,417.65
8	Toilet paper and similar paper, sheets, and similar household, sanitary or hospital articles, articles of apparel and clothing accessories, of paper pulp, paper, cellulose wadding, or webs of cellulose fibres	$ 3,406,163.83
9	Tubes, pipes and hoses, and fittings of plastics	$ 2,627,962.11
10	Waters, including mineral waters and aerated waters	$ 2,531,735.77
* Most Categories were simplified for clarity and should not be confused with SITC sections. *Source: Ministry of Finance*		

2.7 Social Context

Grenada's key social indicators are broadly positive. Based on the 2022 Human Development Report (HDR), Grenada's Human Development Index (HDI) value for 2021 (the latest period for which data is available) was 0.795, which placed the country in the "high human development" category and positioned it at 68 out of 191 countries and territories globally. The three dimensions of human development used to determine the HDI are long and healthy life, access to education, and a decent standard of living. Based on the HDR, Grenada's achievements in the three basic dimensions were high. Life expectancy at birth in 2022 was 74.9 years (77.9 years for females and 72.2 years for males); the expected years of schooling was 18.7 years per child with a marginal difference between females (19.3 years) and males (18.1 years); and per capita gross national income was estimated at US$13,484 at 2017 purchasing parity prices.

Regarding labour market developments, data from the CSO showed that the employment situation improved in 2023, based on the reduction in the unemployment rate, which was preliminary estimated at 12.0 percent in the second quarter of 2023, down from 13.9 percent in the second quarter of 2022 and from 16.6 percent in the same period in 2021. The results of the 2023 2nd Quarter Labour Force Survey show that the unemployment rate was higher among women than men (14.6 percent for women and 9.6 percent for men). A significant number of people between the ages of 15 to 24 were unemployed, compared to the other age groups. The sectors that employed the largest number of people were wholesale and retail trade, construction, agriculture, forestry and fishing, and education.

3 MEDIUM-TERM FISCAL AND ECONOMIC POLICY OBJECTIVES AND FORECASTS

The principal objectives of fiscal policy over the medium term are to generate primary surpluses and reduce public debt within the context of the rules-based FRA to effectively support the advancement of Government's agenda for transformation, resilience, sustainable, and inclusive development over the period 2024-2026 through fiscal policies that are both accommodative and sustainable.

3.1 Government's Medium-term Revenue Objectives

The Government's overarching objective is to strengthen revenue mobilisation and administration. In relation to the Inland Revenue Division (IRD), the predominant strategic priorities for the 2024-2026 period include: (i) improving taxpayer experience and compliance through digitisation; (ii) strengthening operational effectiveness; (iii) enhancing work-force professionalism; (iv) reducing tax arrears and improving data integrity; and (v) reviewing legislations to close tax loopholes.

In 2024, greater efforts will be made to improve compliance and enforcement by focusing on E-registration of the large taxpayers and online businesses; reducing outstanding tax arrears, as well as improving on-time payment rates; and identifying risks and conducting more audits. Additionally, in 2024, the IRD will roll out its new and modern digital tax system, which will allow for online payment of all tax categories, as part of its medium-term strategy to enhance tax administration. Furthermore, Government, through the IRD, will seek to strengthen relationships with international organisations for tax matters in tax information sharing, with a view to enhancing its ability to effectively deal with issues such as tax evasion, cross-border transfer pricing and tax planning, and illicit financial flows.

Specifically relating to the CED, the Government will focus on closing gaps in Customs administration. It will do this by strengthening border control measures and implementing risk-based approaches to Customs inspections. The Government will also strengthen collaboration with regional and international Customs authorities to bolster its ability to enhance international trade tax collections and improve Customs administration.

3.2 Government's Medium-term Expenditure Objectives

The Government's transformational agenda will kick into high gear during the 2024-2026 period, requiring higher capital and recurrent expenditures, though the increases in spending will be bounded by the fiscal rules enshrined in the new FRA.

Pertaining to recurrent expenditure, four key factors account for the programmed increases over the medium term: first, the Government has taken the decision to maintain physical public assets and has explicitly budgeted for the maintenance; second, the majority of Government offices will be operating from rented spaces in 2024 and in 2025 given the extant unsafe working conditions of several Government buildings; third, selected categories of civil servants will be regularised in 2024 and 2025; and fourth, a new public sector pension plan is expected to be operational in 2024, which will require contributions from the Government going forward.

Regarding capital expenditure, higher planned outlays will support major transformational projects that are planned for the 2024-2026 period, including the construction of a new teaching hospital as well as two new secondary schools, the reconstruction of the financial complex and other Government buildings, major infrastructural upgrades to several roads, and the start of a major climate adaptation project.

Accordingly, in the context of higher public spending, the Government will be more deliberate in improving spending efficiencies by actively pursuing cost-savings measures in relation to the procurement of goods, services, and works. Additionally, expenditure evaluations will be more structured and systematic with a view to identifying cost-savings and reducing inefficiencies across the Public Service. Overall, expenditure management and controls will be strengthened to optimise development results.

Investing in productive and resilient-building capital projects and programmes, as well as enhancing the results-orientation of the Public Sector Investment Programme (PSIP) will be given greater priority. The PSIP's implementation rate and capital expenditure efficiencies are expected to continue improving with more systematic monitoring and structured reporting during project/programme execution by the Ministry for Mobilisation, Implementation and Transformation (MIT), which has since bolstered its human and technical capacity following its establishment in June 2022. MIT's mandate is to provide hands-on and results-oriented implementation support to Ministries and Departments that are executing Government's priority projects and programmes.

Moreover, the Government will continue to systematically implement recommendations that are set out in the 3-year (2022-2024) Action Plan for Strengthening Public Procurement, with a particular focus on ensuring value for money. Further, the Government will continue to focus on sustainable wage bill management through forward-looking wage negotiations and strategic human resource management. Still further, the Government will strengthen the monitoring of SOEs and SBs through revised performance monitoring guidelines, with the overarching strategic objectives of improving their financial and operational performance and managing fiscal risks, consistent with explicit provisions in the new FRA.

The Government will also continue focusing on improving the systems and institutional arrangements undergirding public financial management to better support fiscal transparency and accountability, through regular publication of fiscal reports among other measures.

3.3 Medium-term Baseline Fiscal Forecasts

The fiscal profile over the medium term is an expansionary one, with expanded fiscal space to allow the Government to advance its agenda for transformation, resilience building, and inclusive and sustainable development, through fiscal policies that are both supportive and sustainable.

Based on the Government's medium-term objectives and strategy for revenue, total revenue and grants is projected at $1,321.4 million (34.4 percent of GDP) in 2024, $3.6 million more than the estimates for 2023. The total for revenue and grants is projected to average 29.7 percent of GDP for 2025 and 2026. Tax revenue is projected to average around 22.3 percent of GDP over the medium term and non-tax revenue around 7.3 percent of GDP. Regarding non-tax revenue, the Government is cautiously optimistic about the inflows to the CBI programme and will continue to make concerted efforts to aggressively market the Programme, while enhancing due diligence. Capital grants, which have been committed by development partners for strategic capital projects, are forecasted to average 1.7 percent of GDP over the medium term.

Consistent with Central Government's medium-term expenditure objectives and strategy, total expenditure is projected at $1,320.9 million (34.3 percent of GDP) in 2024, $227.9 million more than the estimated total outlays in 2023, reflecting higher spending on both recurrent and capital programmes. Recurrent expenditure is projected to average 22.3 percent of GDP in the medium term. The programmed amount of $419.5 million (10.9 percent of GDP) for capital expenditure in 2024, is $26.3 million more than the estimated outturns for 2023 and reflects Government's expressed intention to ramp up its PSIP execution in a systematic and results-oriented manner, guided by a coherent framework for PSIP development, implementation, and monitoring that was approved by the Cabinet in June of 2023. Capital expenditure is projected to average 7.0 percent of GDP in 2025 and 2026.

Accordingly, a Central Government's primary surplus (including grants) of 1.5 percent of GDP is programmed for 2024, and an average of 2.1 percent of GDP is projected in 2025 and 2026. The programmed surpluses exceed the 1.5 percent of GDP primary balance rule required by the new FRA for the reduction of public debt to its 60.0 percent target by 2035. An overall surplus (including grants) of 0.0 percent of GDP is projected to be generated in 2024 from the operations of the Central Government, and an average of 0.9 percent of GDP is projected in the two forward years.

Table 9 is the MTFF, it presents the baseline fiscal projections for the 2024 Budget and the two forward years. The fiscal projections reflect the resource envelope available to the Government to push forward its transformational agenda through the 2024 Budget and in the two forward years, while adhering to the critical principles of fiscal and debt sustainability.

Appendix 2 provides the assumptions underlying the baseline fiscal projections.

Table 9: Medium-Term Fiscal Framework 2024-2026

In millions of Eastern Caribbean Dollars, unless stated otherwise	2024		2025		2026	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	**1,321.4**	**34.4%**	**1,212.8**	**29.9%**	**1,275.7**	**29.6%**
Total Revenue	**1,216.8**	**31.6%**	**1,162.2**	**28.6%**	**1,226.7**	**28.5%**
Tax Revenue	853.7	22.2%	905.1	22.3%	961.1	22.3%
Non - Tax Revenue	363.1	9.4%	257.2	6.3%	265.7	6.2%
Grants	**104.6**	**2.7%**	**50.5**	**1.2%**	**49.0**	**1.1%**
Total Expenditure	**1,320.9**	**34.3%**	**1,192.0**	**29.4%**	**1,217.0**	**28.3%**
Primary Expenditure	1,264.2	32.9%	1,140.5	28.1%	1168.1	27.1%
Current Expenditure	**901.4**	**23.4%**	**905.1**	**22.3%**	**918.2**	**21.3%**
Employee compensation	372.3	9.7%	382.5	9.4%	386.6	9.0%
wages, salaries & allowances	356.5	9.3%	366.0	9.0%	370.0	8.6%
Social Contribution to employees	15.8	0.4%	16.5	0.4%	16.6	0.4%
Goods and Services	230.4	6.0%	225.3	5.6%	227.8	5.3%
Interest Payments	56.6	1.5%	51.5	1.3%	49.0	1.1%
Transfers	242.1	6.3%	245.8	6.1%	254.9	5.9%
Capital Expenditure	**419.5**	**10.9%**	**286.9**	**7.1%**	**298.8**	**6.9%**
o/w: Grant financed	104.6	2.7%	50.5	1.2%	49.0	1.1%
Overall balance	**0.6**	**0.0%**	**20.8**	**0.5%**	**58.7**	**1.4%**
Primary balance (excluding grants)	**(47.4)**	**-1.2%**	**21.7**	**0.5%**	**58.7**	**1.4%**
Primary balance (including grants)	**57.2**	**1.5%**	**72.3**	**1.8%**	**107.7**	**2.5%**
Memo Item						
GDP (Nominal market Prices)		3,845.9		4,060.1		4,306.7
Real GDP growth (%)		3.6%		3.0%		4.2%

Source: Ministry of Finance

3.4 Government's Medium-term Debt Management Strategy

The Government's overarching objective for public debt (defined as the outstanding debts of the Central Government, guaranteed debts, and non-guaranteed debts of indebted carrying SOEs) is to reduce the public debt as a ratio of GDP from an estimated 74.6 percent (at the end of 2023) to 60.0 percent by 2035. Consistent with the overarching objective, at a strategic level, the MTDS for the period 2024-2026 prioritises debt sustainability, risk management, and transparency in debt matters. Operationally, the MTDS focuses on managing public debt to ensure that Government's operations are adequately funded through a diversified suite of financing instruments at the lowest cost and risk.

The MTDS also prioritises concessional borrowings, though a predetermined limit is set for non-concessional borrowings consistent with debt sustainability targets and objectives to specifically aid with the roll out of major projects to advance the Government's agenda for transformation, resilience, and sustainable and inclusive development. Accordingly, special emphasis will be placed on improving risk assessments and evaluation of debt proposals, as well as strengthening debt negotiating and contracting practices to intentionally ensure favourable terms and conditions that accord with debt sustainability targets and objectives.

Importantly, the MTDS also focuses on strengthening debt monitoring and reporting by improving the scope and contents of debt reports as well as the timeliness of their publication. SOEs will be given stricter monitoring in relation to incurrence of new debts and the management of existing debts.

Public sector debt is projected to be on a downward trajectory throughout the medium term towards the legislated target of 60.0 percent of GDP by 2035, declining from 73.3 percent in 2024 to 70.5 percent in 2026.

3.5 Medium-term Economic Outlook

Grenada's macro-fiscal context is heavily influenced by global macroeconomic developments. Based on the International Monetary Fund's (IMF's) World Economic Outlook (WEO) that was released in October 2023, the global economy continues to recover, albeit slowly, aided in large measure by policy support as well as the waning of most of the harsh effects of the Pandemic and the Russia-Ukraine war.

The IMF's baseline forecasts are for the pace of global economic growth to decelerate from an estimated 3.5 percent in 2022 to 3.0 percent in 2023 and to 2.9 percent 2024; the 2024 projection is 0.1 percentage point lower than the forecast made by the IMF in its July WEO. Factors such as the effects of monetary and fiscal policy tightening, adverse weather, and the long-term consequences of the Pandemic weigh on the global growth prospects, hence the modest growth projections. The deceleration in global growth is forecasted to be particularly sharp in Advanced Economies, with growth forecasted to slow down from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024. The forecasts are more sanguine for Emerging and Developing Economies, with growth moderating slightly from 4.1 percent in 2022 to 4.0 percent in both 2023 and in 2024. Regarding global inflation, it remains high by historical standards, but is projected to moderate from its peak of 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024.

The balance of risks to the global economic outlook is tilted to the downside portending modest global growth prospects. Global economic activity could be significantly impacted should China's real estate sector challenges worsen. According to the IMF's assessment, any significant financial and economic challenges in China will have global implications. Apart from the situation in China, volatile commodity prices pose risk to the global economy. Should geopolitical tensions continue to rise, and more climatic shocks occur, there will be larger and more erratic swings in commodity prices, especially of fuel, food, and natural minerals, with adverse implications for the global economy. While not stated in the IMF's October WEO because it occurred after, the Israeli–Palestinian war poses serious risk to the global economy should it escalate and negatively affect the export of fuel from the Middle East.

Specifically relating to the economies of Grenada's major source markets for goods and investments, the growth projections are modest at best. In the USA, the largest source market for Grenada's tourists, growth is forecasted at 2.1 percent in 2023, the same as in 2022, but is projected to decelerate to 1.5 percent in 2024. In the UK, another major source market for tourists, growth is projected to slow down sharply from 4.1 percent in 2022 to 0.5 percent in 2023, picking up slightly to 0.6 percent in 2024. In Canada, economic growth of 1.3 percent is forecasted for 2023 and 1.6 percent in 2024, retreating relative to the 3.4 percent achieved in 2022. In China, a major source market for manufactured goods, growth is forecasted to pick up from the 3.0 percent in 2022 to an estimated 5.0 percent in 2023 and 4.2 percent in 2024.

The outlook for Grenada’s economy depends on developments in the global economy as well as domestic policies. In that regard, positive (though tepid) growth in the USA coupled with receding inflation point to a “soft landing” situation in the USA in which inflation is lowered without causing a major economic downturn in the USA. The "soft landing” scenario in the USA, as well the “no recession” scenario in the UK bode well for Grenada’s tourism, and wider economic prospects.

Grenada’s economy is forecasted to growth by 3.6 percent in 2024. Underlying the growth forecasts are conservative assumptions about activity in key sectors such as Tourism, Construction, Private Education, and Agriculture. Recovery of the Tourism Sector is underway but faces headwinds in the context of modest economic growth and high (though moderating) inflation in Grenada’s major tourist source markets. Regarding the Construction Sector, though the outlook is broadly positive with several public and private sector projects ongoing and planned, high import costs of construction materials could weigh on activity in the sector. Activity in the Private Education Sector is also expected to be sustained in 2024 as SGU aims to boost enrolment by offering more scholarships and increasing its course offerings in Arts & Science in the 2023/2024 academic year. The Agriculture Sector is likely to benefit from the Government’s increased focus on boosting agricultural production and value-addition through concrete initiatives to promote the use of technology, modern methods of farming, farm labour support, and mechanisation of the sector through the World Bank-supported Food Security Enhancement Project and other strategic initiatives.

The cautiously optimistic outlook for the major sectors bodes well for ancillary sectors such as Manufacturing, Real Estate, and Wholesale and Retail Trade. Sustained economic activity in the major sectors will provide a fillip to the other sectors, increasing the prospects of employment creation. Medium-term prospects for the financial sector are expected to be favourable as the sector pivots its focus on leveraging technology to improve its service delivery. Domestic inflationary pressures are expected to ease over the medium term in tandem with the global projections.

Grenada’s economic prospects for the Budget year 2024 are broadly positive but can be adversely affected by downside risks (discussed in detail in Section 6), including relatively high global inflation, tepid economic growth in some of Grenada's main source markets for tourism and investments, rising geopolitical tensions, and adverse weather. Accordingly, this Medium-term Economic and Fiscal Strategy Report has been prepared amidst acute economic uncertainties, which, in the context of the 2024 Budget, has necessitated realism of policy objectives, proper sequencing of priorities, and built-in flexibility to minimise risks to implementation that can arise from an uncertain global macroeconomic environment.

Appendix 3 provides details of the medium-term growth forecasts by economic sectors.

4 THE STRATEGIC PROGRAMME FOR FISCAL YEAR 2024

4.1 Budget Priorities

The Government's strategic priorities for the Budget year 2024 and over the medium term are set out in its MTAP for the period 2023-2025, as well as the Governor General's Throne Speech that was delivered in September 2023. The 2023-2025 MTAP is the second in the series of the five 3-year rolling MTAPs that are designed to guide the implementation of priority programmes and projects that are aligned to high-level strategic actions of the NSDP 2020-2035. Specifically relating to the Budget year 2024, the following strategic priority areas of the 2023-2025 MTAP cycle remain relevant:

- Health and Wellness
- Education, Youth, and Sports
- Physical and Digital Infrastructure
- Agriculture, Food Security, and the Marine Industry
- Culture and the Creative Industry
- Energy Transition and the Environment

Additionally, the Throne Speech identified the following additional strategic priority areas:

- Citizen Safety and National Security
- Foreign Policy and Trade
- Restoring the Public Service Integrity and Maintaining Industrial Peace
- Housing and Community Development
- Economic Growth and Job Creation
- The Creative Industry
- Physical and Digital Infrastructure
- The Blue Economy

The 2024 Budget Statement elaborates on the strategic priority areas as well as the specific programmes and projects, which are to be implemented in 2024 in the first instance and which are aligned to the broad strategic focus areas of the MTAP and NSDP. The 2024 Budget priorities are to support economic activity, job creation, and ultimately the Government's transformational agenda. They are based on the seriousness and urgency of addressing the development issues, and the feasibility of implementation within the Budget year. The 2024 Budget is results-and-outcomes oriented, focusing on the implementation of specific actions that are aligned to the broad priority areas to gain the maximum benefits from the resources that are available to the Government. Importantly, the priority projects and programmes reflect inputs from stakeholders who were engaged in the sectoral and national consultations on the 2024 Budget that occurred during the month of September 2023.

4.1.1 Gender Responsive Budgeting

The Government is keenly aware that the implementation of projects, programmes, and policies that are financed by public expenditure has differential impacts on women and men. As such, the 2024 Budget takes into consideration gender issues and priorities in various sectors and factoring in relevant cost implications in the Budget estimates. The 2024 Gender Budget Statement, which is a separate report, provides details.

4.1.2 Climate Change Budget Tagging

The Government has been working with the World Bank in the area of Climate Change budget tagging, with the strategic aim of categorising, measuring, and monitoring climate-relevant public expenditures, to better identify and mobilise fiscal resources toward climate resilience building. A Climate Change budget tagging pilot was rolled out for selected ministries in the 2023 Budget, which has been expanded for the 2024 Budget.

4.2 Expenditure Efficiencies for Fiscal Year 2024

Strategic management and prioritisation of expenditure is a key fiscal objective of the Government for the Budget year 2024 and the two forward years 2025 and 2026, as stated in its MTFF. Specifically, the public procurement process will be further enhanced, and the Government will continue to systematically implement recommendations that are set out in the 3-year Action Plan (2022-2024) for Strengthening Public Procurement, with particular attention paid to ensuring value for money. Furthermore, the Government will continue to focus on sustainable wage bill management through forward-looking wage negotiations and strategic human resource management. Strict management of discretionary expenditure will be enforced by strengthening controls along the expenditure cycle to ensure the actual outlays are within budget.

Moreover, the Government will strengthen its monitoring of SOEs and SBs through revised performance monitoring guidelines, with the overarching strategic objective of managing fiscal risks. Furthermore, construction input costs are likely to remain elevated due to persistent global inflation, as such, strengthening contract management will continue, with a view to containing expenditure as much as is feasible. Overall, the Government will continue to focus on improving the systems and institutional arrangements undergirding public financial management to better support fiscal transparency and accountability, through among other measures, regular publication of fiscal reports.

4.3 Resource Envelope for Fiscal Year 2024

The following are the indicative expenditure ceilings for the 2024 Budget that are derived from the 2024-2026 MTFF:

- Total Expenditure is programmed at **$1,320.9 million**.

- Recurrent Expenditure is programmed at **$901.4 million:**
  - Total Employee Compensation: $372.3 million
  - Goods and Services: $230.4 million
  - Transfers: $242.1 million
  - Interest Payments: $56.6 million.

- Capital Expenditure is programmed at **$419.5 million.**

- Amortisation (Principal Repayment) is programmed at **$335.5 million.**

5. COMPLIANCE WITH THE FISCAL RESILIENCE ACT 2023

As highlighted in Section 1 of this Report, the Fiscal Responsibility Act of 2015 as amended has been repealed and replaced with the new FRA of 2023. To reiterate, the new FRA aims to strengthen the rules-based fiscal policy framework and its accompanying risk management systems, to promote fiscal resilience, enhance transparency in the management of the fiscal operations of the Government, and to ensure sustainable levels of public debt. Importantly, the new FRA simplifies the fiscal framework, clarifies methodological and procedural ambiguities, introduces specificity, and ensures consistency with other financial legislations. These are all with the view of improving the implementation and monitoring of the new FRA, and importantly, expanding the fiscal policy options for Government to better support the attainment of its macroeconomic objectives and broader sustainable development and transformational goals.

One of the salient features of the new FRA is the reduction in the number of numerical fiscal rules from five to three. The three new fiscal rules are:

- ❖ Total employee compensation ("wage bill") not exceeding 13.0 percent of GDP annually;
- ❖ Primary balance after grants of no less than 1.5 percent of GDP annually; and
- ❖ Public debt of 60.0 percent of GDP by 2035.

Table 10 shows that the projections of the relevant fiscal variables comply with the new fiscal rules over the projection period 2024-2026, with public debt projected to be on a downward trajectory throughout the medium term towards the legislated target of 60.0 percent of GDP by 2035. Central Government's debt (including its guaranteed debt) is projected to decline from 59.0 percent of GDP in 2024 to 57.1 percent of GDP by 2026, while the consolidated debts of SOEs are forecasted to move from 14.3 percent of GDP in 2024 to 13.4 percent of GDP by 2026.

Table 10: FRA Compliance

	2024		**2025**		**2026**	
	Proj.	**Compliance**	**Proj.**	**Compliance**	**Proj.**	**Compliance**
Total Employee Compensation "Wage bill" (percent of GDP) **Not Exceeding 13%**	**9.7%**	Yes	**9.4%**	Yes	**9.0%**	Yes
Primary Balance after grants (percent of GDP) **Not less than 1.5%**	**1.5%**	Yes	**1.8%**	Yes	**2.5%**	Yes
Public Sector Debt (percent of GDP):**60% by 2035**	**73.3%**	On track	**71.9%**	On track	**70.5%**	On track
Central Gov't:	59.0%		58.1%		57.1%	
SOEs & SBs:	14.3%		13.8%		13.4%	

Source: Ministry of Finance

6. FISCAL RISKS ANALYSIS AND MANAGEMENT

This section discusses key risks that can adversely affect public finances and by extension, the implementation of Government's strategic policies and programmes in support of transformation, resilience, and sustainable and inclusive development. The main categories of risks discussed are: (i) Macroeconomic Risks; (ii) Budget Implementation Risks; (iii) SOEs Risks; and (iv) Climate Risks. Other potential sources of risks are also flagged.

6.1 Macroeconomic Risks

The baseline fiscal projections for 2024 and the two forward years are based on assumptions about global macroeconomic developments given available information at the time of their formulation in October 2023. Grenada's macro-fiscal context is heavily influenced by global economic developments. As stated in Section 3.5 of this Report, the global economic recovery continues to be slow, inflation (though moderating) is high by historical standards, and risks are titled to the downside, portending modest medium-term growth prospects.

Accordingly, the outlook for Grenada's economy, and by extension, public finances depend in large measure on developments in the global economy. A protracted global economic slowdown would adversely affect tourist arrivals, remittances, foreign direct investment, external grants receipts, and public finances. Meanwhile, high and rising international commodity prices (especially fuel and food) will continue to stoke domestic inflationary pressures in the near term. However, domestic inflation is projected to moderate over the medium term consistent with the forecasted global trend, but there is a real risk that even with a moderation in global inflation from its 2022 peak, it will remain high by historical standards, causing the cost of imported production inputs to remain elevated, with a consequential drag on domestic economic output.

Moreover, should the Israeli-Palestinian war be prolonged, global oil prices could remain higher for longer, with consequential impacts on the Grenada economy. Furthermore, global inflation could reverse its downtrend, intensifying cost of living pressures locally. In the context of persistent global inflation, global interest rates could remain higher for longer, with adverse implications for the cost of credit globally and domestically.

Should any of these risks materialise, the actual fiscal outturns could deviate from what is contemplated in the baseline fiscal forecasts that are set out in the 2024-2026 MTFF.

The sensitivity of the primary balance and public debt to changes in key economic variables is illustrated in Table 11. The illustrative scenarios show how vulnerable the baseline fiscal variables are to economic shocks.

Under Scenario 1 in which real GDP growth in 2024 is two pp below the baseline forecast, tax revenues decline ceteris paribus, causing the primary balance and public debt as ratios of GDP to worsen relative to their baseline projections, deviating from the fiscal rules stipulated in the new FRA.

Under Scenario 2, where higher-than-projected inflation increases expenditure on goods and services and capital expenditure above their respective baseline projections ceteris paribus, the primary balance as a ratio of GDP narrows to 0.8 percent, well below the FRA target of 1.5 percent, while public debt as ratio of GDP increases to 75.8 percent, 2.4pp higher than the 2024 baseline projection.

Under Scenario 3, which illustrates the impact of a combined GDP and inflation shock on the ratios of the primary balance and the public debt to GDP, the difference from the baseline projections and extent of the deviation from the new FRA's targets are most pronounced. These illustrative scenarios highlight the need for Government to continue to monitor and manage fiscal risks, build fiscal buffers, and maintain fiscal prudence.

Table 11: Sensitivity of Key Fiscal Variables to Economic Shocks

Economic Assumptions	***Estimated Impact (2024)***			
	Primary Balance		***Public Debt***	
	% of GDP	*Difference from Baseline (% of GDP)*	*% of GDP*	*Difference from Baseline (% of GDP)*
Scenario 1: Real GDP 2pp lower than the 2024 forecast	0.1%	Lower by 1.4pp	75.8%	Higher by 2.4pp
Scenario 2: Inflation 2pp higher than the 2024 forecast	0.8%	Lower by 0.7pp	73.6%	Higher by 0.3pp
Scenario 3: Combined Real GDP and Inflation Shock: GDP growth is 2pp lower and inflation is 2pp higher relative to the 2024 forecasts	-0.6%	Lower by 2.1pp	76.5%	Higher by 3.3pp

Source: Ministry of Finance

6.2 Budget Implementation Risks

Receipts from the CBI programme, which is a major source of non-tax revenue is particularly at risk in the context of the AMIGOS Act that was passed in the Congress of the USA in December 2022, which prohibits immediate E2 visa privileges of an economic citizen and instead stipulates a 3-year domicile residency requirement. Any significant reductions in CBI revenues would weaken the fiscal position and complicate Budget implementation. Near-term uncertainties about CBI inflows, especially inflows into the NTF will complicate Budget programming. The fiscal outlook can be negatively affected should the forecasted NTF receipts not materialise. Lower-than-projected receipts would adversely affect project implementation and Budget execution. However, deliberate actions are being deployed to enhance the attractiveness and secure the sustainability of the programme.

Meanwhile, persistent high global inflation will stoke domestic inflationary pressures in the near term, posing a challenge for Budget execution, both on the revenue and expenditure sides. On the revenue side, high inflation can potentially complicate Budget execution by eroding any possible windfall revenue from duties and border taxes (because of imported inflation) through expanded fiscal support to citizens, especially the most vulnerable. On the expenditure side, given the forecasts for global inflation, the costs of procuring goods and services are likely to remain high (though easing relative to peak prices in 2021-2022), especially that of construction inputs, which can trigger cost overruns of infrastructure projects in the PSIP. Active contract management by implementing ministries will be necessary to mitigate this risk.

The Government will continue to strengthen implementation capacity through training and hands-on support as part of the roll-out of a comprehensive implementation strategy for its PSIP. Budget and PSIP implementation are expected to continue improving with more systematic monitoring and structured reporting on Budget execution using the Budget Implementation Tool, which was developed by the MIT and approved by the Cabinet in June 2023. Since its establishment in June 2022, MIT has bolstered its human and technical capacity to deliver on its mandate to provide hands-on and results-oriented implementation support to Ministries and Departments that are executing Government's priority projects and programmes.

However, the limited pool of technical personnel across the Public Service in general, notwithstanding MIT's support, is a challenge to Budget execution, and by extension the attainment of Government's strategic objectives. A widening of the human resource pool, through the on-boarding of technical personnel, is an urgent priority for the Government and has been budgeted for.

6.3 Climate Risks

Grenada's vulnerability to natural hazards is an inherent risk. Climate change directly affects the Tourism, Agriculture, and Construction Sectors, at substantial fiscal cost. Based on the 2021[3] Global Climate Risk Index Report, which analyses and ranks the exposure and vulnerability to extreme events of 180 countries globally using data for the period 2000-2019, Grenada ranked 24th overall with a score of 39.67[4], confirming Grenada's high exposure and vulnerability to natural hazards such as hurricanes, storms, floods, and heat waves for example.

The Government continues to build resilience to climate change as demonstrated in its ongoing and planned adaptation and mitigation actions, consistent with its Disaster Resilience Strategy. Moreover, the Government has adopted a risk-layering approach to natural hazard financing that includes insurance, contingencies, lines of concessional credit, and budgetary finances. Additionally, as part of its 2015 debt restructuring, hurricane clauses have been included in its restructured bonds, which would trigger an automatic reprofiling following a hurricane and other types of natural events.

6.4 Other Potential Sources of Risks

6.4.1 Financial Sector

Though some financial vulnerabilities exist particularly because of businesses within the key productive sectors that have been adversely affected by the back-to-back shocks of COVID-19, Russia's invasion of Ukraine, and global inflation, financial institutions have remained strong and adequately capitalised. However, enhanced financial sector surveillance and continued efforts to safeguard financial stability would be required as uncertainties surrounding the macroeconomic outlook persist. Enhanced supervision and monitoring of credit unions will be particularly important given elevated non-performing loans at some institutions.

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[3] Latest period for which data is available.
[4] Low scores indicate high exposure and vulnerability.

6.4.2 Public-Private Partnerships

There were two public-private partnership (PPP) arrangements in place in 2023: (i) a 15-year agreement with Digicel, which is part of the Caribbean Regional Communication Programme, which 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 is a current liability (concessional loan financing) and as such, there are no explicit related contingent liabilities associated with the PPP arrangement; and (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 51.0 percent of the shares of the venture.

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6.5 State-Owned Enterprises Risks

In the context of fiscal risks, the operations of SOEs could give rise to financial obligations that are borne by the Central Government. These financial obligations are referred to as contingent liabilities as they can arise by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Central Government. Contingent liabilities can be explicit, such as guaranteed debts or implicit, such as non-guaranteed debts and other sources of liabilities. These contingent liabilities do not add to the Central Government's expenditures immediately; however, an unexpected future exogenous shock could require direct payments from the Government.

6.5.1 Explicit Contingent Liabilities - Guaranteed Debt

The Central Government has only one guaranteed loan in its debt portfolio. It was contracted from a local commercial bank by an SOE. The balance on this loan at the end of September 2023 was $0.8 million. As such, the fiscal risk with respect to the explicit contingent liabilities of SOEs to the Government is assessed as low.

6.5.2 Implicit Contingent Liabilities- Non- Guarantee Debt

As at end-June 2023, nine SOEs held non- guaranteed debt instruments, and as such, these liabilities are a potential source of contingent liabilities for the Central Government. The non-guaranteed debt stock for SOEs stood at $552.0 million at end-September 2023. Generally, the loans are issued in local currency, at fixed interest rates with long-term amortisation schedules, thereby limiting potential vulnerabilities to interest rate and exchange rate fluctuations. Domestic lenders typically include commercial banks, larger SOEs with lending facilities or the Central Government (through on-lending arrangements). On a less frequent basis, loans are incurred from the regional banking institutions (such as the Caribbean Development Bank). Importantly, debt owed to other SOEs also represents implicit contingent liabilities for the Central Government because the risk of non-repayment may ultimately be borne by the Government. Fiscal risks to the Central Government are assessed as moderate.

As assessment of the consolidated loan portfolio of SOEs points to no debt servicing challenges by any of the SOEs. All SOEs are monitored by the Ministry of Finance, with a view to ensuring timely and complete reporting of all factors that can potentially pose risks to public finances.

Table 12 summaries all the risks and mitigation measures that have been discussed in this Report.

__Table 12: Risk Assessment Summary__

Risk Description	Source of Risk	Risk Rating	Measures to Manage/Mitigate Risks
Macroeconomic	• Global economic slowdown. • High global inflation.		The Government will continue to implement targeted measures to support sectors most directly affected by the economic slowdown. Prudent use of the Contingency Fund to provide financial resources to facilitate counter-cyclical fiscal policy should the slowdown be steeper than estimated. Over the medium term, the Government will continue to implement structural reforms to diversify the economy to boost economic competitiveness and resilience.
Budget Implementation	Lower-than-forecasted NTF receipts.		The Government will prioritise capital expenditure on projects tailored to support employment generation and target building resilient infrastructure through the PSIP. It will ensure that discretionary outlays adhere to budgeted expenditures and continue to strengthen revenue administration.
	Capacity and institutional constraints affecting project implementation.		The Government will continue to strengthen the public investment management system to improve the execution of the capital budget. Continuous capacity building in project management, greater coordination among implementing ministries, on-boarding of technical personnel, and the work of MIT should help mitigate this risk.
Fiscal Risks from SOEs	Contingent liabilities of SOEs.		The Government will work to have up-to-date audited financial statements submitted on time and closely monitor management performance of SOEs to ensure that they pursue their respective stipulated mandates in the most cost-efficient and cost-effective manner.
Climate Change	Adverse effects of natural hazards.		A comprehensive disaster risk financing strategy has been developed that includes: a Contingency Fund; a Line of Credit for which the drawdown trigger is an unforeseen natural event; and insurance. Debt instruments include Hurricane clauses.

Key	
	High Risk
	Medium Risk

7 STATEMENT OF RESPONSIBILITY

I, Mike Sylvester Permanent Secretary, Ministry of Finance, attest to the reliability and completeness of the information presented in this Medium-term Economic and Fiscal Strategy Report 2024-2026.

Mr. Mike Sylvester
Permanent Secretary

APPENDIX 1

Salient Features of the Fiscal Resilience Act, 2023

Item	2015 Fiscal Responsibility Act	New 2023 FRA
Fiscal Objectives	Fiscal and debt sustainability and fiscal risk management.	Retained.
Debt Target	55% or 60% of GDP (unclear).	60.0% of GDP by 2035.
Primary Balance Rule	Floor of 3.5% of GDP.	Floor of 1.5% of GDP.
Primary Expenditure Rule	Ceiling of 2% annual real growth.	Removed.
Wage Bill Rule	9% of GDP 2% real annual growth (unclear).	Limit of 13.0% of GDP annually.
Contingent Liabilities related to PPPs	Ceiling of 5% of GDP.	Removed.
Escape Clause	Ambiguity about frequency of activation.	Clear guidance about frequency of activation and the renaming of the Section as the "Suspension Clause".
Recovery Plan	Immediate preparation upon suspension.	Removed as a standalone document, but measures proposed to return to compliance with the fiscal rules are contained in the Mid-year Economic Report (if suspension occurs within the first half of a fiscal years) and included in the Medium-term Economic and Fiscal Strategy Report if suspension occurs within the second half of a fiscal year.
Reports	Six.	Single consolidated Medium-term Economic and Fiscal Strategy Report.
Medium-term Fiscal Framework	No provisions.	Explicit provisions.
Coverage	Central Government and Covered Public Entities.	Central Government and **All** SOEs for Public Debt. Central Government only for fiscal variables.
Stated –owned Enterprises (SOEs) and Statutory Bodies (SBs)	Fiscal rules apply to both Central Government and "covered public entities."	New section with explicit provisions for all SOEs and SBs.
Independent Fiscal Oversight Committee	Ex-post assessment only.	Ex-ante and Ex-post assessments.

Source: Ministry of Finance

APPENDIX 2

Baseline Medium-term Fiscal Assumptions

<table>
<tr><th>CATEGORIES</th><th>2024</th><th>2025</th><th>2026</th></tr>
<tr><td>Recurrent Revenue</td><td colspan="3">All categories of tax revenue are assumed to grow in line with projected nominal GDP. Non-tax revenue, except for CBI revenue, moves in line with nominal GDP. CBI revenue are tempered estimates from the CBI Unit based on counter-balancing assumptions about the possible impact of the AMIGOS Act and other risks to the Programme as well as various strategies to be deployed to enhance the attractiveness of the Programme over the medium term.</td></tr>
<tr><td colspan="4">Recurrent Expenditure</td></tr>
<tr><td>Personal Emoluments, Wages, Salaries and Allowances</td><td rowspan="2">These categories reflect the negotiated 4.0% salary increase as well as fringe benefits. Additionally, 1.0% of 2023 GDP was assumed as the total cost of staff regularisation, of which 90.0% of that estimated total cost is assumed to be incurred in 2024.</td><td colspan="2" rowspan="2">Categories reflect the negotiated 5.0% salary increase and fringe benefits in 2025, regularisation cost in 2025, and inflation in 2026.</td></tr>
<tr><td>Social contributions to employees</td></tr>
<tr><td>Goods & Services</td><td colspan="3" rowspan="2">Items under these categories move in line with inflation except for transfers abroad. Goods & Services reflect several initiatives such as maintenance, costs of renting office spaces, free tuition up to tertiary level, and revamped and new public assistance programmes, as well as the high cost of goods and services in general. Regarding Current Transfers, the negotiated salary increases of 4.0%, 4.0% and 5.0% respectively are applied to pensions also. Gratuity in 2024 is assumed to increase by 10.0% over the 2023 budgeted figure to cater for possible increases in early retirements. Estimated costs associated with Government's contributions to a new Public Service Pension Plan, which is expected to be operational during 2024 are also factored in.</td></tr>
<tr><td>Current transfers</td></tr>
<tr><td>Interest payment</td><td colspan="3">External and domestic interest payments reflect the conditions stated in the contractual agreement.</td></tr>
<tr><td colspan="4">Capital Expenditure & Net Lending</td></tr>
<tr><td>Grant financed</td><td colspan="3" rowspan="2">Capital expenditure over the medium term is driven by the Government's new and existing public sector investment projects and programmes that align with the Government's transformational agenda. Consistent with the new FRA, capital expenditure is projected to average 8.3 percent of GDP over the 2024-2026 period.</td></tr>
<tr><td>Non-Grant financed</td></tr>
</table>

Source: Ministry of Finance

APPENDIX 3
Medium-term Growth Forecasts, Percent Change

	Actual	Actual	Actual	Est.	Est.	Forward Estimates		
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Agriculture, Livestock and Forestry	-3.6	-15.0	15.0	-22.5	-6.0	2.1	1.0	0.8
Fishing	2.0	-13.0	17.6	0.0	1.1	2.1	2.1	3.6
Mining & Quarrying	5.0	-8.0	18.8	11.0	6.0	6.6	3.9	4.2
Manufacturing	3.2	-10.2	11.1	8.3	4.3	3.4	1.8	1.4
Electricity & Water	3.2	-6.4	-0.8	6.7	2.7	1.4	1.0	1.8
Construction	-3.6	-20.5	25.7	25.5	12.6	7.9	8.2	1.0
Wholesale & Retail Trade	1.8	-15.4	6.5	0.1	2.8	3.8	3.0	0.2
Hotels & Restaurants	4.1	-68.2	37.6	60.9	15.6	28.1	17.1	3.5
Transport and Storage	4.2	-33.1	-13.5	26.7	7.3	9.6	8.0	9.7
Communications	-7.9	-6.3	0.7	0.2	1.0	0.5	0.2	1.5
Financial Intermediation	2.9	4.3	4.1	4.5	4.6	4.2	3.6	4.5
Real Estate, Renting and Business Activities	1.5	-7.0	0.8	3.4	2.5	2.6	2.7	3.4
Public Administration	-0.8	-2.0	0.1	3.5	1.4	3.5	2.3	3.2
Education	4.2	-0.3	1.7	-4.1	3.8	1.5	0.7	0.7
Health and Social Work	-3.8	-1.7	2.4	2.7	1.1	1.0	1.1	1.7
Other Community, Social & Personal Services	1.6	-11.4	1.2	1.0	1.9	0.8	0.7	1.1
Activities of Private Households as Employers	0.6	-4.3	0.0	1.1	1.8	0.8	0.9	0.9
Real Gross Value added (not GDP)	1.2	-13.7	5.2	6.2	4.7	5.1	4.2	2.7
Real Gross Domestic Product	**0.7**	**-13.8**	**4.7**	**7.3**	**5.5**	**3.6**	**3.0**	**4.2**
Nominal GDP	**4.0**	**-14.0**	**7.6**	**9.7**	**8.8**	**6.3**	**5.6**	**6.1**
Nominal GDP (EC$ Millions)	**3276.4**	**2817.2**	**3031.6**	**3324.9**	**3616.4**	**3845.9**	**4060.1**	**4306.7**

Source: Ministry of Finance