Fiscal Resilience Oversight Committee (FROC)

2023 Annual Report

28 March 2024

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FISCAL RESILIENCE OVERSIGHT COMMITTEE

28th March 2024

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

Dear Mr. Augustine,

RE: SUBMISSION OF THE 2023 ANNUAL REPORT ON THE STATUS OF IMPLEMENTATION OF THE FISCAL RESPONSIBILITY ACT (NO. 29 of 2015)

Pursuant to Section 14 (3) (b) of the Fiscal Responsibility Act (No. 29 of 2015), and on behalf of the Fiscal Resilience Oversight Committee (FROC), I am pleased to submit herewith, the above-mentioned report, with the supporting annex, for consideration by the House of Representatives.

The Fiscal Responsibility Act No. 29 of 2015 was repealed and replaced with the Fiscal Resilience Act (2023), effective 1st January 2024. This Annual Report is based on the assessment of Government's compliance in 2023 with the Fiscal Responsibility Act (2015). The report also assesses the consistency of the 2024 national budget and the medium-term fiscal framework for 2024-2026 with the Fiscal Resilience Act (2023). Additionally, the report examines the Fiscal Resilience Act (2023) for its simplicity, consistency, the flexibility it provides to the Government to manage the economy, and its appropriateness as an instrument for ensuring fiscal and debt sustainability. I shall therefore be grateful if you will bring this report to the attention of the Honourable Leo Cato, Speaker of the House of Representatives and Chairman of the Committee of Privileges, so that it may be laid before the House of Representatives in accordance with the Fiscal Resilience Act. I thank you in anticipation of your kind co-operation.

Respectfully,

Ms. Laurel Bain
Chairwoman

Members: Laurel Bain, Chairwoman | Leon Bullen | Lisa Taylor | Randy Lewis | Annette Henry
Technical/Administrative Manager: Afia Joseph-Zufelt

ABBREVIATIONS AND ACRONYMS

APP	Awareness and Public Participation Programme
CBI	Citizenship by Investment
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
FRL	Fiscal Responsibility Legislation
FROC	Fiscal Responsibility Oversight Committee/Fiscal Resilience Oversight Committee
GDP	Gross Domestic Product
IMF	International Monetary Fund
MOF	Ministry of Finance
MPU	Macroeconomic Policy Unit
MTDS	Medium-Term Debt Management Strategy
NHI	National Health Insurance
NSDP	National Sustainable Development Plan

ABBREVIATIONS AND ACRONYMS (CONTINUED)

NTF	National Transformation Fund
PDMA	Public Debt Management Act
PFMA	Public Finance Management Act
PPP	Public-Private Partnership
PSIP	Public Sector Investment Programme
SB	Statutory Body
SEED	Support for Education Empowerment and Development
SLCHBS	Survey of Living Conditions and Household Budget Survey
SOE	State-Owned Enterprise
WEO	World Economic Outlook

GLOSSARY

"arrears" means Central Government's obligations from the current and past years that are due but have not been paid;

"capital expenditure" means non-recurrent expenditure on goods, works and services carried out by Central Government which is aimed at accumulating new physical assets with usable value for more than one fiscal year;

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

"contingent liabilities" means financial obligations which arise by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Central Government, and includes debt guarantees, demand or price guarantees, and termination clauses or other default provisions that could imply a transfer of liabilities to Central Government, including financial obligations arising as a result of or in connection with public-private partnerships, but excludes letters of comfort;

"explicit contingent liabilities" means legal obligations for Central Government to make payments only if particular events occur;

"fiscal balance" means the total receipts of the Central Government (excluding debt receipts and unspent grants) less total expenses (excluding repayment of debt) during the fiscal year;

"fiscal risk" means the possibility that actual fiscal outcomes will deviate from the fiscal outcomes expected at the time of the presentation of the annual Estimates of Revenue and Expenditure arising from matters such as -

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

(b) Interest rates, exchange rates, and other variables associated with public debt;

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

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

"Fiscal Resilience Oversight Committee" means the Fiscal Resilience Oversight Committee preserved, continued and renamed under section 12 (1) of the Fiscal Resilience Act 2023;

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

"Macroeconomic Policy Unit" means the Macroeconomic Policy Unit of the Ministry of Finance and includes its successor department of Government;

"medium term" means a period not exceeding five fiscal years;

"medium-term fiscal framework" means the medium-term fiscal framework prepared in accordance with section 12 of the Public Finance Management Act;

"nominal GDP" means the level of gross domestic product measured at market prices;

"primary balance" means the fiscal balance before interest expense;

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

"public debt" includes all direct liabilities of Central Government, Statutory Bodies and State-Owned Enterprises, including advances, arrears, compensation claims, finance leases, Government securities, loans, overdrafts, promissory notes, and supplier's credit agreements and contingent liabilities, including explicit contingent liabilities arising as a result of or in connection with public-private partnerships;

"public-private partnership" means a long-term contract between a private party and— (a) Central Government; or (b) a Statutory Body or State-Owned Enterprise, for providing or managing a public asset and associated services, which shall be on terms and conditions as approved by Cabinet;

“public sector” means the Central Government, Statutory Bodies and State-Owned Enterprises;

“real GDP” means the level of gross domestic product at base year;

“real GDP growth rate” means the rate of change of real GDP on an annual basis;

“recurrent expenditure” means expenditures that are not capital expenditures, and includes normal overhead and administrative expenses, purchases of non-capital goods, personnel costs including salaries, emoluments and other benefits of Central Government’s current and past employees, maintenance expenditure, subsidies, interest payments, and transfers to Statutory Bodies and State-Owned Enterprises;

“revenue” means all taxes, tolls, imposts, levies, rates, duties, fees, penalties, royalties, surcharges, forfeitures, rents and dues, proceeds of sale, interest earned, and all other receipts of Central Government from whatever sources arising;

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

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

(b) a company, Board or Authority established under special legislation which recovers a significant portion of its operating costs through charges on users,

and being determined by the Minister to be a state-owned enterprise under the Public Finance Management Act;

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

“wage bill” means the total sum of payments made in respect of employees of Central Government, including personal emoluments, wages, allowances, and social contributions.

FOREWORD

In 2023, economic activity in Grenada returned to the level prior to the Covid-19 Pandemic. This recovery set the platform for the continued growth, reform and transformation of the economy. A review of the fiscal framework was a key element of the reform process. The Fiscal Responsibility Act (2015) and its amendments were examined and subsequently repealed and replaced with the Fiscal Resilience Act (2023) which became effective from 1 January 2024.

Grenada was not alone in the review of its Fiscal Responsibility Legislation. Among the countries, which operated with fiscal rules, the European Union undertook its third review of its fiscal framework in the aftermath of the Covid-19 Pandemic. The fiscal framework was made simpler and more transparent and took into account countries' different fiscal challenges. The fiscal rules and targets (referred to as the Treaty reference values) of 3 per cent of GDP for the deficit and 60 per cent of GDP for public debt were retained for the European Union as a group. The Member States were allowed to establish an adjustment path, over a four-year period, based on the characteristics of individual countries.

Fiscal surveillance of the Member States of the European Union focusses on a single operational indicator, namely the member state's multi-year expenditure targets. All Member States are expected to adopt net expenditure paths that reduce the public debt and maintain the government deficit below 3 per cent of GDP over the medium term. This no doubt provides the countries with flexibility in meeting the fiscal rules and targets.

There is general consensus that well designed fiscal rules and targets are essential for a credible fiscal framework. However, there is an ongoing debate on the fiscal rules and targets to be included in these frameworks, particularly when the fiscal rules and targets are legislated. There is general agreement that the fiscal framework should include a budget balance rule and a debt target, and these exist in most countries that operate with a fiscal framework. The debates have centered mainly around the expenditure fiscal rules, focusing on the appropriateness and structure of these rules. With no definitive conclusion, the design and implementation of expenditure rules is left to the determination of the government.

Grenada's fiscal framework has always comprised a combination of legislated fiscal rules and targets. The repealed Fiscal Responsibility Act specified rules with respect to expenditure (ie. growth in primary expenditure and the wage bill) and the budget balance (ie. the primary balance) and debt targets for the public sector and that of public-private partnerships. Grenada's fiscal framework as defined by the Fiscal Resilience Act (2023), which replaced the Fiscal Responsibility Act (2015), is less complex and retains an expenditure rule pertaining to the wage bill, a budget balance rule relating to the primary balance and a debt target covering all public debt.

The preparation of the FROC's 2023 Annual Report took account of the provisions of the Fiscal Responsibility Act (2015) and the Fiscal Resilience Act (2023). The Fiscal Responsibility Act (2015) remained in effect during 2023, hence the FROC 2023 Annual Report assesses government's compliance with the fiscal rules and targets in 2023 as specified by this Act. The Fiscal Responsibility Act makes provisions in Section 7 and Section 8 for the following fiscal rules and targets:

i. *The rate of growth of the primary expenditure of the Central Government, and of every covered public entity, shall not exceed two per cent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate;*
ii. *The ratio of expenditure on the wage bill shall not exceed nine per cent to GDP;*
iii. *The total stock of public sector debt from domestic or external sources for any purpose shall not exceed fifty-five per cent of GDP;*
iv. *Contingent liabilities arising from, as a result of, or in connection with public-private partnerships shall not exceed five per cent of GDP; and*
v. *Where the ratio of public debt to GDP for the preceding year reaches fifty-five per cent, the targeted primary balance shall be a minimum of three point five per cent of GDP.*

According to Section 8 (5) of the Fiscal Responsibility Act, *where in a fiscal year the debt level exceeds sixty per cent of GDP, appropriate corrective revenue and expenditure measures are expected to be undertaken to reduce the public debt to fifty-five per cent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.*

Additionally, Section 9 of the Fiscal Responsibility Act, made provisions for exemptions related to grants received for capital expenditures and the associated expenditures and the use of funds from the National Transformation Fund for capital expenditures.

The Fiscal Resilience Act (2023) took effect 1st January 2024, and this guided the preparation of the 2024 national budget and the Medium-term Economic and Fiscal Strategy Report for 2024 to 2026. Hence, the FROC undertook its assessment of the 2024 budget proposals and developments over the medium-term (2024 – 2026) in accordance with the Fiscal Resilience Act (2023) which, in Section 7 and Section 8, establishes the following fiscal rules and target:

i. *The annual wage bill of Central Government does not exceed thirteen per cent of nominal GDP.*
ii. *The public debt target shall be no more than sixty per cent of nominal GDP to be achieved by 2035.*
iii. *For the purposes of achieving the public debt target under subsection (1), the medium-term fiscal framework shall set an annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP until the public debt target is achieved.*
iv. *Where the public debt target specified under subsection (1) is achieved, the Minister shall take appropriate steps to ensure that primary balances are consistent with maintaining debt sustainability.*

Consistent with the definition of the public debt, the Fiscal Resilience Act makes provisions for the monitoring of statutory bodies and state-owned enterprises as follows:

13. (1) The Minister shall cause to be established Performance-Monitoring Guidelines for Statutory Bodies and State-Owned Enterprises in accordance with the objects of this Act.

(2) No later than three months prior to the beginning of a fiscal year, the Minister shall—

(a) review and, where applicable, update the Performance-Monitoring Guidelines for Statutory Bodies and State-Owned Enterprises; and

(b) *Where applicable, issue Statutory Bodies and State-Owned Enterprises with explicit guidelines for non-interest expenditure, new borrowings and other policies for the fiscal year, which shall be monitored by the Ministry of Finance.*

The provisions for fiscal transparency and accountability are the same under the repealed Fiscal Responsibility Act (2015) and the enacted Fiscal Resilience Act (2023). The Fiscal Resilience Act references the Public Finance Management Act and the Debt Management Act which were also amended to ensure consistency among the various financial management legislation. The Fiscal Resilience Act stipulates:

4. This Act shall be read and construed together with the Public Finance Management Act and the Public Debt Management Act.

The requirement for fiscal transparency is reinforced in Section 5 of the Act which states:

5. The objects of this Act are—

(a) *to ensure that fiscal and financial affairs of the public sector are conducted transparently and in a manner that bolsters fiscal resilience;*

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

Also, Section 6 of the Act stipulates:

6. The Minister shall take appropriate measures to ensure compliance with this Act, including taking appropriate measures to ensure the following—

(a) *that the fiscal and financial affairs of Central Government, Statutory Bodies and State-Owned Enterprises are conducted in a transparent manner with full and timely disclosure of fiscal and financial information;*

The report also examines the Fiscal Resilience Act (2023) to assess its simplicity, consistency, the flexibility it allows the Government for managing the economy, and its appropriateness as an instrument for ensuring fiscal and debt sustainability.

The FROC 2023 Annual Report is in keeping with the following mandate of the Fiscal Resilience Oversight Committee (FROC) as set out in Section 14 which is also consistent with Section 12 (Articles 3 and 4) of the Fiscal Resilience Act as follows.

(3) The Fiscal Resilience Oversight Committee shall—

(a) monitor, assess and report on the implementation of this Act;

(b) no later than three months after the end of each fiscal year, prepare and lay before the House of Representatives for consideration, an annual report on the status of implementation of this Act;

(4) An annual report prepared pursuant to subsection (3) (b) shall include—

(a) the progress made towards compliance with the fiscal rules and targets in this Act, with respect to the relevant fiscal year, including an assessment of the actual fiscal outturns compared to the medium-term fiscal framework approved with the annual budget; and

(b) outcomes and implications of the implementation of this Act.

The FROC 2023 Annual Report is anchored on the objectives of fiscal transparency, prudent debt management, debt sustainability and prudent management of fiscal risks.

This 2023 Annual report was completed by the FROC which comprises five (5) members who are appointed by the Governor General upon the nomination of the Committee of Privileges of Parliament. Four (4) of the members are nominated in consultation with the Director of Audit, while the fifth member is nominated on the advice of the Governor of the Eastern Caribbean Central Bank (ECCB). The Second Schedule of the Act stipulates that members of the FROC must possess expertise in the areas of accounting, business management, public administration and law while the nominee from the Governor of the ECCB is required to have expertise in economics. Two members of the Committee completed their assignment in August 2023, namely Ms. Kim George and Mr. Kipplin Charles. They were replaced with Mr. Randy Lewis and Ms. Lisa Taylor. The other members of the FROC are Ms. Laurel Bain who serves as Chair, Ms. Anette Henry and Mr. Leon Bullen.

FOREWORD (CONTINUED)

Dr. Juliet Melville provided technical support for the completion of the Annual Report; and Mrs. Afia Joseph-Zufelt provides technical and administrative services to the FROC, on a contractual arrangement. The engagement of Mrs. Michelle Millet, who provided administrative services to the FROC since its establishment in 2017, ended in December 2023.

This Report is accordingly being forwarded to the Speaker of the House of Representatives to be laid in Parliament and for the action of Parliament in accordance with Section 12 of the Fiscal Resilience Act which states:

(7) Where the Fiscal Resilience Oversight Committee lays before the House of Representatives a report prepared pursuant to subsection (3) (b) or (5), as the case may be–

(a) the House of Representatives shall cause a copy of the report of the Fiscal Resilience Oversight Committee to be served on the Minister within seven days of receipt of the report and cause a copy to be published in the Gazette within seven days of receipt of the report;

(b) not later than thirty calendar days after the report is laid before the House of Representatives, the Minister shall make representations in the House of Representatives in response to the contents of the report, including any areas of non-compliance referred to in the report;

and

(c) the House of Representatives may by Order appoint a Special Selection Committee to examine the report and the representations made by the Minister, and make recommendations to the House of Representatives on the implementation of measures to ensure compliance with the relevant provisions of this Act.

………………………	……………………….	…..……..…………..
Laurel Bain	**[1]Randy Lewis**	**Lisa Taylor**
………………………	……………………..……	
Leon Bullen	**Annette Henry**	**28th March 2024**

[1] Signature is not available

MEET THE FROC

Ms. Laurel Bain – Chairwoman

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

Ms. Annette Henry

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

Mr. Leon Bullen

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

Ms. Lisa Taylor

Lisa Taylor is the principal of the law firm, Lisa Taylor & Co. and was admitted to the Grenada Bar on 3rd October 1996. She holds a Bachelor of Arts degree with honors in Political Science from the City University of New York, Bachelor of Laws (Ll.B) with Honours from the University of the West Indies, and Legal Education Certificate from the Hugh Wooding Law School, Trinidad. She is a past President of the Grenada Bar Association. Ms. Taylor is an accredited director (Chartered Governance Institute of Canada) and has served variously on the boards of the Physical Development Authority, Grenada Community Development Agency (GRENCODA), Bel Air Home for Children and Adolescents, Diocesan Finance Committee of the Diocese of Saint George's in Grenada and Jonas Browne & Hubbard (Grenada) Ltd. She is currently Deputy-Chairman of Grenada Co-operative Bank Ltd. and Honorary Consul of Spain in Grenada.

Mr. Randy Lewis

Mr. Randy Lewis was appointed Chief Executive Officer of the Eastern Caribbean Home Mortgage Bank on 1st May 2015. He has more than 27 years' experience in the banking, retailing, manufacturing and financial services industries. Prior to his appointment as Chief Executive Officer, he held the positions of Manager, Corporate Finance and Chief Financial Officer.

Mr. Lewis holds the designations of Fellow and BFP with the Institute of Chartered Accountants in England and Wales; Fellow of the Association of Chartered Certified Accountants (FCCA); and obtained his MBA (merit) from the University of Derby. He is an alumni of Oxford University's Strategic Leadership Program and, attained the Accredited Director designation from the Institute of Chartered Secretaries and Administrators (ICSA).

Technical and Administrative Manager to the FROC

Mrs. Afia Joseph- Zufelt

Afia Joseph-Zufelt is a Grenadian national with diverse expertise in education, business leadership, finance, and strategic planning. She holds a BSc. in Accounting and an MBA in International Business Administration from St. George's University.

Technical Support

Dr. Juliet A. Melville

Dr. Juliet Melville is a development practitioner with over 15 years of experience at the Caribbean Development Bank where she served as Acting Director of Economics, Chief Country Economist and Chief Research Economist. She has considerable experience working with regional countries, including Grenada, and with international and regional institutions. Dr. Melville was also a lecturer in the Economics Department, UWI, St. Augustine. She holds a BSc. and MSc. in Economics from UWI and a Ph.D. in Economics from the University of Kent. Dr. Melville provided technical support for the production of the 2023 FROC Annual Report and the FROC 2023 Annual Report At A Glance.

ACTIVITIES OF THE FROC

On 31 March 2023, the FROC submitted its 2022 Annual Report to the House of Representatives, through the Clerk of Parliament, in accordance with Section 14 of the Fiscal Responsibility Act. Over the following six-month period (April 2023 to September 2023) the FROC continued with the activities related to the Annual Report, monitored compliance of the Government with the Fiscal Responsibility Act, and was engaged in consultations.

The Annual Report and a summary of the Annual Report (FROC 2022 Annual Report At a Glance) were published and the FROC engaged with the media through a press conference on 4th May 2023. Thereafter, the FROC participated in consultations with the International Monetary Fund (IMF) during its technical assistance mission to Grenada on the reform of the Fiscal Responsibility Act, and on the IMF Article IV Consultation. Subsequently, the Ministry of Finance engaged with the FROC on the proposals for reforming the Fiscal Responsibility Act for which recommendations were submitted.

The FROC examined the monthly ‘Fiscal Summary Reports’ and the ‘Quarterly Debt Bulletin’ of the Ministry of Finance and prepared two reports titled the ‘Statement of Compliance’. The ‘Statement of Compliance’ assesses the fiscal performance for consistency with the Fiscal Responsibility Act, based on data and information as of 31st March 2023 and the other as of 30th June 2023. A ‘Compliance Note’ was also prepared for the information of the Minister of Finance. A self-assessment on the performance of the FROC was completed and submitted to the Speaker of the House of Representatives during this period.

In the six-month period, September 2023 to March 2024, the work of the FROC focused primarily on the activities associated with the preparation for the FROC 2023 Annual Report. This initially involved the review of the Fiscal Resilience Act (2023) and the documents presented to Parliament with the 2024 National Budget, along with the determination of the structure of the Annual Report. The FROC benefitted from a working session on the Fiscal Resilience Act, and this was led by Attorney Lisa Taylor. This was followed with an orientation session on the Fiscal Resilience Act with the Ministry of Finance.

ACTIVITIES OF THE FROC (CONTINUED)

On request, the Ministry of Finance convened a technical session on the Debt Sustainability Analysis model that was used to determine the legislated minimum primary balance.

The concept for the Awareness and Public Participation (APP) Programme was strengthened, an outline for the FROC website was prepared, and the concept for a modified FROC logo was developed. The FROC completed the 2023 Annual Report which is hereby submitted to the House of Representatives for its consideration.

The activities of the FROC for the period 1st April 2023 to 31st March 2024 are outlined in Appendix I.

CHAIRWOMAN'S MESSAGE

It was indeed an honour to serve as Chairwoman of the Fiscal Resilience Oversight Committee in 2023. In meandering through the challenges in a period of the reform of the Fiscal Responsibility Act, it is obvious that the approach to attaining fiscal and debt sustainability will be an ongoing debate. The framework for achieving fiscal and debt sustainability must be based on the nature of the economy and its stage in the process of development and transformation. This is even more important for small countries such as Grenada where economic activity is strongly influenced by international developments. This international environment will remain fluid and unpredictable.

The uncertainties in the international environment which began as early as 2019 with the trade disputes between China and the USA, the two largest economies, intensified during and in the aftermath of the Covid-19 Pandemic. The upheaval and uncertainties in the global environment were manifested in 2023 with the ongoing Russia/Ukraine war and developments within Russia; the long-standing simmering conflict between Israel and the Palestinians which flared into war between Israel and the Harakat al – Muqawama al – Islamiya (Hamas) heightening geo-political tensions in the Middle East; unsettling political exchanges between China and Taiwan; the reaffirming and/or realignment of trading arrangements and political ties; the downward stickiness of core inflation despite aggressive interest rate policy and its impact on the financial system; and political and social upheavals, along with dysfunctional social behaviour within countries.

In the midst of all the uncertainties, there is a permanent feature, namely, the rapid advancement in technology. This is expanding the productive potential of countries and has implications for the skills needed to operate in the international environment. Technological advancement is making broad-based information global and instant. To overcome the challenges and embrace the opportunities, the country has to be in a constant **RESET** mode. In this **RESET** mode, the country is expected to be:

i. **R**eflective: actions must be guided by clear vision and deep thoughts to determine and pursue the opportunities that could be derived from the ongoing challenges.

ii. **E**quipped: its human resources must be capable and nimble; productive natural resources must be used effectively; and there must be social consensus on the development of a competitive and dynamic economy.

iii. **S**trategic: This involves well developed and executed plans, with clearly defined objectives, outputs and outcomes to achieve established goals.

iv. **E**nergetic: all segments of the population must contribute with vigour in order to achieve the national goals.

v. **T**actful: operating nationally and in the international environment with discernment.

This is the **RESET** mode that should underpin the transformation of the economy. The Government will need to lead the **RESET** mode. This requires the Executive, the Legislature and a supportive cadre of public service professionals to be capable and alert and able to respond with agility to ongoing and potential challenges. The efficient management of the economy and, in particular, the management of the public finances, is important to operate in this **RESET** mode. The Government has embarked on a strategy that is consistent with the reset mode. This is manifested through the policies, programmes and projects for increased access to both academic and vocational education and for reduced cost of such education, the development of the creative and digital economy, and the strengthening of the main productive sectors and enhancing linkages among these sectors, which is accompanied by strengthening the social and economic infrastructure.

Additionally, the Government has repealed the Fiscal Responsibility Act (2015) which was replaced with the Fiscal Resilience Act (2023). The more simplified and less rigid Fiscal Resilience Act allows for greater flexibility for the Government to manage the economy and implement its transformation agenda. In this fluid and unpredictable economic environment, it is important for the Government to prudently manage the public finances to maintain fiscal and debt sustainability.

This will support the development of a productive, dynamic and competitive economy and the achievement of the Government's stated goal of transforming the economy to "A Sustainable, Equitable and Prosperous Grenada for All".

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

Ms. Laurel Bain
Chairwoman
Fiscal Resilience Oversight Committee

ACKNOWLEDGEMENT

The Fiscal Resilience Oversight Committee (FROC) is pleased to submit to the House of Representatives the FROC 2023 Annual Report on the compliance of Government with the Fiscal Responsibility Act (2015) and the Fiscal Resilience Act (2023). The seamless transition from the repealed Fiscal Responsibility Act to the Fiscal Resilience Act is noted and the FROC extends its commendation to the architects of the new Act.

The FROC is appreciative of the time taken by Honourable Dennis Cornwall, Minister for Finance, to dialogue with the FROC on the provisions of the Fiscal Resilience Act. The input to the dialogue by the officials of the Ministry of Legal Affairs and the Ministry of Finance is also appreciated.

The Macro Policy Unit of the Ministry of Finance provided requested information necessary to prepare the Annual Report, and this was supplemented with consultations to clarify issues related to the implementation and monitoring of the provisions of the legislation. The Department of Statistics was accommodative of the request to explain aspects of the national accounts. The FROC wishes to express its appreciation to the supportive public officers for their cooperation and the timely submission of information and responses to requests for clarification.

Thanks to the Honourable Leo Cato, the Speaker of the House of Representatives, for his support and for transmitting the FROC 2023 Annual Report as stipulated in the Fiscal Resilience Act. Thanks are also extended to Mr. Andrew Augustine, Clerk of Parliament and to the staff of Parliament for the assistance provided to facilitate the preparation and submission of the Annual Report.

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

SPECIAL THANKS

The FROC extends its appreciation to Mrs. Michelle Millet who provided administrative support to the FROC since its establishment in 2017 until the end of her assignment in 2023. During my tenure as Chairwoman of the FROC, Mrs. Millet diligently provided professional administrative support to the FROC as we strived to comply with the legislated date of 31 March for the submission of the Annual Report to the House of Representatives, and as we monitored the compliance of Government with the Fiscal Responsibility Act. Mrs. Millet has efficiently facilitated the seamless transition of the operational support for the FROC to Mrs. Joseph-Zufelt who is the Technical/Administrative Manager. For these and the services provided to the FROC since its establishment, and by extension to the Government and people of Grenada, the FROC is very appreciative.

On my behalf and the members of the FROC, and on behalf of the Chair and members of the past FROC, I say, 'Thank You' to Mrs. Millet and extend best wishes to her.

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

EXECUTIVE SUMMARY

Economic Development

In 2023, Grenada's economy was estimated to have grown by 5.5 per cent as economic activity returned to the pre Covid-19 level, mainly due to a recovery in tourism and growth in the construction sector. Tourism, proxied by the hotels and restaurants sector, grew by 15.6 per cent and the construction sector by 12.6 per cent.

The deficit on the merchandise trade account widened due mainly to an increase in imports related to the expansion of the service-oriented sectors. Foreign exchange earnings from tourism only partially offset the merchandise trade deficit and other payments for services, resulting in the widening of the current account deficit. Inflows from the CBI programme, capital grants and loans, and from foreign direct investment provided foreign exchange to finance the deficit arising from current account transactions.

Economic growth and favourable fiscal performance contributed to increased liquidity in the banking system as manifested by a loan to deposit ratio of 50.8 per cent at the end of 2023. Meanwhile, inflation eased to 2.3 per cent, and the unemployment rate declined to 11.6 per cent.

The estimated growth of 5.5 per cent for 2023 is an upward revision from the projected growth rate of 3.6 per cent reported in the Medium-term Fiscal Framework (2023-2025). For the medium-term (2024 – 2026), the economy is projected to grow at a slower rate than originally projected. The economy is now projected to grow by 3.6 per cent in 2024, 3.0 per cent in 2025 and 4.2 per cent in 2026 compared with the original forecast of 4.0 per cent for 2024 and 4.8 per cent for 2025. Constrained by the available information, the FROC was not able to comment on the sectors that contributed to the deviations between the original and revised growth rates.

Developments in the international environment are uncertain and shocks would negatively impact on the domestic economy. However, the fiscal policy for 2024 is expansionary. If there are no economic shocks and the budget is implemented as planned, economic growth in 2024 is likely to be higher than projected.

The Strategic Priorities of the Government

The performance of the economy will also be influenced by the implementation of the Government's medium-term economic and social strategy. The strategic focus of the Government is to develop the economic sectors and strengthen linkages among agriculture, agro-processing, marine resources, tourism and the creative economy. This is supported by programmes to improve the social sectors through the provision of free education up to the tertiary level; the synchronisation of the school curriculum with the education and skills requirements of the economy; the training of health professionals and upgrading health facilities; and enhancing hospital and community health services. Specifically, the reforms in the education system are aimed at addressing the high youth unemployment brought about, in part, by the mismatch of the available skills with the skills demanded by the economy. The strategy for promoting growth and the social sectors also includes projects for upgrading the economic and social infrastructure.

Fiscal and Debt Performance and Strategies

Influenced by higher tax and non-tax revenue, the fiscal performance of the Central Government improved significantly in 2023. The Government recorded both primary and overall surpluses of $276.2M (7.6 per cent of GDP) and $225.0M (6.2 per cent of GDP) respectively. The growth in the economy and a tax amnesty contributed to higher tax revenue. Non-tax revenue rose significantly due to higher inflows from the CBI, influenced, in part, by the inclusion of CBI inflows under non-tax revenues, an accounting treatment which was implemented in 2023.

The fiscal balances are expected to moderate over the medium-term, declining in 2024 and showing some recovery over 2025 – 2026. The primary balance (including grants) is projected to fall from $276.2M (7.6 per cent of GDP) in 2023 to $57.2M (1.5 per cent of GDP) in 2024, and to improve to $72.3M (1.8 per cent of GDP) in 2025 and $107.7M (2.5 per cent of GDP) in 2026. The overall balance is projected to decline from $225.0m (6.2 per cent of GDP) in 2023 to $0.6M (less than .1 per cent of GDP) in 2024 and to rise to $20.8M (0.5 per cent of GDP) in 2025 and $58.7M (1.4 per cent of GDP) in 2026.

The operations of the Government in 2023 were assessed for compliance with the Fiscal Responsibility Act (2015) which requires the following: (i) the real growth in primary expenditure to be no more than 2 per cent; (ii) a wage bill of no more than 9 per cent of GDP (iii) an implied primary balance of 3.5 per cent of GDP; (iv) the contingent liabilities of public-private partnerships should not exceed 5 per cent of GDP; and (v) a public sector debt of 55 per cent of GDP. The Government was in compliance with the provisions relating to the real growth in primary expenditure (-10.4 per cent), the wage bill (7.8 per cent), primary balance (7.6 per cent), and there were no liabilities of public-private partnerships. The public sector debt to GDP ratio of 74.6 per cent was above the targeted 55 per cent debt to GDP ratio.

Central Government budgeted operations for 2024 and the projected fiscal outturn for 2025 and 2026 were evaluated in accordance with the Fiscal Resilience Act (2023) which replaced the Fiscal Responsibility Act (2015). The Fiscal Resilience Act is aimed at reducing the public debt to GDP ratio to 60 per cent by 2035, and the fiscal and debt strategies pursued are expected to be consistent with this target. The Act provides for a wage bill of 13 per cent of GDP and a minimum primary balance of 1.5 per cent of GDP to achieve the projected decline in the public debt to GDP ratio over the medium-term.

The primary balance is estimated at 1.5, 1.8 and 2.5 per cent of GDP for 2024, 2025 and 2026 respectively. In 2024, the estimated primary balance is equal to the legislated minimum primary balance and just offsets the required interest payment of 1.5 per cent of GDP for that year. The resources generated from current operations will not contribute to financing principal debt repayment, of which external principal debt repayment will amount to 2.2 per cent of GDP, and hence the projected reduction in reserves.

In 2025, the primary balance of 1.8 per cent of GDP is higher than interest payment of 1.3 per cent of GDP and the legislated minimum primary balance of 1.5 per cent of GDP. Similarly, in 2026, the primary balance is projected at 2.5 per cent of GDP, higher than interest payment of 1.1 per cent of GDP and the legislated minimum primary balance of 1.5 per cent of GDP. The fiscal outturn allows for a partial contribution to external principal debt repayment which is estimated at $98.4M or 2.4 per cent of GDP in 2024 and $105M or 2.5 per cent of GDP in 2026.

Therefore, in 2025 and 2026, a portion of the repayment of principal on domestic and external debt falling due will need to be financed by drawing down reserves and/or new borrowing. The Government is encouraged to continue generating primary balances that are above the legislated minimum primary balance, as fiscal and debt sustainability requires the generation of domestic revenue for interest and principal debt repayment.

Fiscal Transparency

In 2023, the Government disseminated information to the public on transactions impacting government finances. Most of the fiscal and debt reports were published as stipulated in the legislation, with the main exception being the audited public accounts and the report on proposed tax expenditures and the accompanying details on tax relief and exemptions. Generally, the reports were published within the legislative timelines, except for the Medium-term Debt Management Strategy which was submitted to Parliament on 4th December at the time of the presentation of the national budget. The Debt Management Act in Section 5 stipulates: (3) *The Minister shall lay the medium-term debt management strategy document before Parliament, no later than two months prior to the commencement of every fiscal year*.

There were some improvements in the consistency and comprehensiveness of the published fiscal and debt reports, particularly with the inclusion of the financing component in the Estimates of Revenue and Expenditure and the publication of the performance of statutory bodies and state-owned enterprises. However, the presentation of the information in published documents should be such that it makes it easier for users to gauge the trend in the data series and facilitate ease of analysis.

The Fiscal Resilience Act

The Fiscal Responsibility Act (2015) and its amendments were repealed and replaced with the Fiscal Resilience Act (2023). The new Act clarified the many ambiguities in the 2015 Act and revised the fiscal rules and targets. In the new Act, there is greater clarity in the definition of some key terms, in particular contingent liabilities and public debt.

Contingent liabilities were made specific to financial obligations arising because of or in connection with public-private partnerships instead of possible obligations. The definition of public debt was broadened to expressly include the debt of statutory bodies and state-owned enterprises and the explicit contingent liabilities arising because of or in connection with public-private partnerships. The sections of the Fiscal Responsibility Act that complicated its implementation and monitoring were excluded from the Fiscal Resilience Act, and the fiscal rules and targets were reduced from five to three. Importantly, the concept of 'covered entities' which constrained the implementation, monitoring and reporting on government's compliance with the Fiscal Responsibility Act is not in the Fiscal Resilience Act. Instead, the fiscal rules relating to the primary balance and wage bill are applied to the Central Government and the debt target is for the total public debt. The removal of the fiscal rule for the real growth in primary expenditure, the higher cap for the wage bill and the lower legislated minimum primary balance provide greater flexibility for the Government to manage the economy.

Recommendations

The recommendations arising from the assessment of compliance of the Government with the Fiscal Responsibility Act (2015) in 2023 and the Fiscal Resilience Act (2023) over the medium-term are categorised under the following headings: i. The Fiscal Resilience Act, ii. fiscal transparency and iii. economic growth and transformation.

The Fiscal Resilience Act

The Fiscal Resilience Act is the instrument for ensuring debt sustainability. The recommendations are related to the precision and scope of the primary balance, the definition of debt sustainability and the coverage of the suspension clause.

<u>The Primary Balance Rule</u>

The legislated minimum primary balance rule should be specific to Central Government. It is therefore recommended that Section 8 (3) be revised as follows:

The Minister shall take appropriate action to maintain an **annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP in order to reduce the Central Government debt to GDP ratio to that which is consistent with achieving the public debt target.**

Defining Debt Sustainability

To avoid ambiguity and for ease of reference in operationalising Section 8 (4) of the Fiscal Resilience Act, there is need to either define debt sustainability in the Act itself or alternatively provide a formula for calculating the indicator that will be used for debt sustainability in the schedule to the Act.

Suspension of Fiscal Rule and Target

In the Fiscal Resilience Act (2023), Section 9, the suspension of fiscal rules and target is specific to the primary balance rule and the public debt target. The wage rule is not referenced in the suspension clause.

It is recommended that the wording of Section 10(1) of the Fiscal Responsibility Act (2015), that is, the reference to "fiscal rules, targets and corrective measures", be maintained for the Fiscal Resilience Act (2023).

Extension of the Suspension of the Fiscal Rules and Target

In Section 9, the suspension clause provides for the suspension of the public debt target and primary balance with a listing of the scenarios or events which may trigger the suspension clause.

This section could be simplified as follows:

(5) *If the Minister is satisfied that– (a) one circumstance under subsection (1) (a), (b) or (c) applies; or (b) resumption of the application of the public debt target and primary balance rule suspended by an Order under subsection (1) would be unduly harmful to the public finances and macroeconomic or financial stability, the Minister may extend the period for the Order under subsection (1) by a second or subsequent order subject to affirmative resolution made concurrently with the presentation of the National Budget for the new fiscal year.*

Returning to Fiscal Rules and Target after Suspension

The debt target is to be achieved by 2035. Therefore, the Act should specify the requirements to return to the path towards achieving the debt target after the suspension rather than returning to the debt target. The Medium-term Fiscal Framework should inform the programmed debt level to be attained after the suspension period as the debt target is to be achieved by 2035.

The Structure of the Fiscal Resilience Oversight Committee

The Fiscal Resilience Act makes provision for enhanced monitoring and reporting on compliance with the Act by the Fiscal Resilience Oversight Committee. The work of the FROC is mainly concentrated on fiscal and economic issues and this should be adequately reflected in the expertise of members of the FROC and any supporting structures. Consequently, in the short term, the appointment to the FROC should be modified to include at least two economists with proven experience and expertise in the relevant areas. This can be achieved by merging the requirement for the qualification in business management and accounting, which are generally similar, in a single member and allowing for an additional appointment of an economist to the FROC. As the functions of the FROC are enhanced, it will become necessary to structure the FROC so it could effectively carryout its mandate.

Implementing the Institutional Arrangements for Debt Management

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

Fiscal Transparency

Dissemination of Information

To further improve the information that is disseminated to the public, the following are recommended:

- Publication of the report on proposed tax expenditures and the accompanying details on tax relief and exemptions as stipulated in the Public Finance Management Act.

- Present to Parliament reports on Special Fund established by an Act of Parliament in accordance with the Public Finance Management Act.
- Prepare the audited public sector accounts for submission to Parliament as stipulated in the Constitution, the Audit Act and the Public Finance Management Act.
- Publish an end-of-year fiscal report to allow for the timely assessment of the actual outturn of government operations during the fiscal year.
- Examine the financial legislation and the schedules (The Public Finance Management Act, the Debt Management Act and the Audit Act) for practicability.

Data and Information Management

Enhancing Data Coverage

Improve the timeliness and comprehensiveness of data, particularly for the estimation and projection of economic growth.

Strengthen the presentation of data for ease of analysis

Consistently include, in the same table, absolute figures as well as percentage of GDP, and provide information on, at least, the past two years, the year under review and the projected period in published documents.

Economic Growth and Transformation

Developing Indicators of Productivity and Economic Efficiency

Develop indicators or systems to measure the rate of productivity and the efficiency of doing business to allow for the identification of efficiencies and inefficiencies in the economy.

Strengthen Policies to Foster Linkages in the Economy

Along with the development of the productive sectors, establish policies and programmes that will strengthen linkages among the sectors in the economy. This could commence by the stipulation of local contents in goods and services provided to government and government-supported institutions.

Insulating Government Revenues from Wide Fluctuations

During the periods of high inflows from the CBI, the resources should be utilised in areas that provide a steady flow of national income over time by the channeling of investments into new growth areas. The scope of the National Transformation Fund could be broadened to supplement inflows from the CBI.

The financial management for other non-tax sources of revenue should be strengthened to improve revenue from these sources; and the system for expenditure management should be tightened.

Enhance Monitoring and Reporting on the Social Impact of Government Policies

To assess the impact of government policies, social indicators such as unemployment, poverty, health, education and access to basic utilities should be developed where they do not exist and reported regularly and as part of the Medium-term Economic and Fiscal Strategy Report.

INTRODUCTION

The Fiscal Responsibility Act No. 29 of 2015 was repealed and replaced with the Fiscal Resilience Act (2023), effective 1st January 2024. However, the 2023 national budget was approved by Parliament under the Fiscal Responsibility Act which was in effect throughout the 2023 fiscal year. The Fiscal Responsibility Act made provision for adherence by the Government to the fiscal rules related to the real growth in primary expenditure, the wage bill and the primary balance, and a target for the liabilities of public-private-partnership and the public sector debt. Fiscal transparency is also enshrined in the Fiscal Responsibility Act through its link with the Public Finance Management Act and the Debt Management Act.

Accordingly, the FROC 2023 Annual Report is an assessment of compliance of the Government with the fiscal rules and targets and other requirements of the Fiscal Responsibility Act (2015). The compliance of the Government with the fiscal rules and target over the medium-term (2024-2026) is assessed in relation to the provisions of the Fiscal Resilience Act (2023) which make provision for a wage rule, a primary balance rule and a debt target.

The report is anchored in the economic and social context, as outlined in Chapter One, which assesses the state of the economy in 2023. This is followed in Chapter 2 with a comparison of economic, fiscal and debt performance and strategies, and a review of the Medium-term Economic Strategy.

The compliance of the Government with the Fiscal Responsibility Act and the Fiscal Resilience Act is addressed in Chapter 3 and Chapter 4. In Chapter 3, the focus is on the Government compliance with the fiscal rules and targets, and the implications of compliance by the Government with the Fiscal Responsibility Act and the Fiscal Resilience Act. The adherence of the Government to the principles of fiscal transparency is addressed in Chapter 4. In Chapter 5, the Fiscal Resilience Act (2023) is reviewed for simplicity, consistency, flexibility, and its objective of ensuring fiscal and debt sustainability. The report concludes with a summary and recommendations.

CHAPTER 1: THE ECONOMIC AND SOCIAL CONTEXT: ANALYSIS OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ECONOMY IN 2023

Key Messages

Grenada's economy expanded further in 2023, driven primarily by activity in the tourism and construction sectors.

The rate of inflation declined moderately as global supply chain challenges eased and oil prices remained broadly stable.

Labour market conditions improved as the economy continued to rebound, with new jobs added in the tourism and ancillary sectors.

The banking sector remained broadly stable, with high levels of liquidity and relatively low non-performing loans.

Introduction

The Grenadian economy proved to be resilient in 2023, despite ongoing geopolitical tensions, still-high levels of global inflation and the coordinated tightening of monetary policies across the world's major central banks. The country was successful in attracting FDI as it pursued its broader development objectives. This was reinforced with continued high levels of public sector investments, paving the way for greater output in the public and private sectors over the medium to long term.

This chapter is an assessment of the performance of Grenada's economy in 2023. It begins with the external developments and forecast, which are followed by developments in the domestic economy. The assessment of the domestic economy provides an analysis of economic growth in 2023 and the main sectors that contributed to this growth.

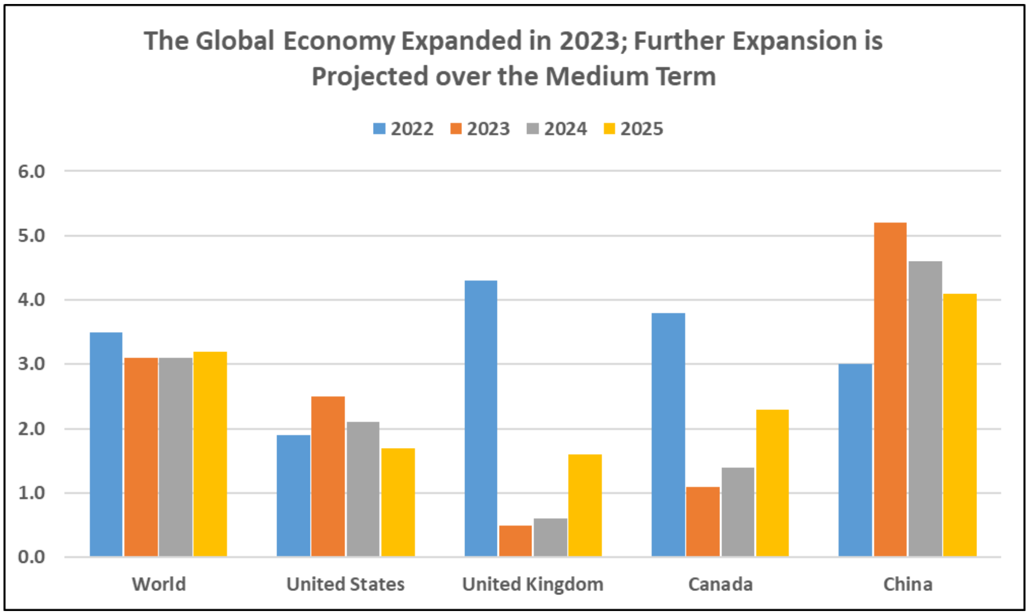
Based on the Government's policy to strengthen and develop linkages among the sectors, the analysis of the performance of the economic sectors is followed by an assessment of the developments on the balance of payments. This forms the basis for the review of the fiscal and debt performance and the assessment of the financial sector. The stated goal of the Government is to transform the economy to "A Sustainable, Equitable and Prosperous Grenada for All". As such, an analysis of the available social indicators is also included in this chapter.

Economic Developments

External Developments and Forecast

Based on the January 2024 update of the World Economic Outlook, the global economy is estimated to have expanded by 3.1 per cent in 2023, down from the 3.5 per cent growth recorded in 2022. This development was driven by a greater-than-expected uptick in activity in the United States and some emerging market and developing economies, while growth in the European and Canada economies decelerated (Chart 1).

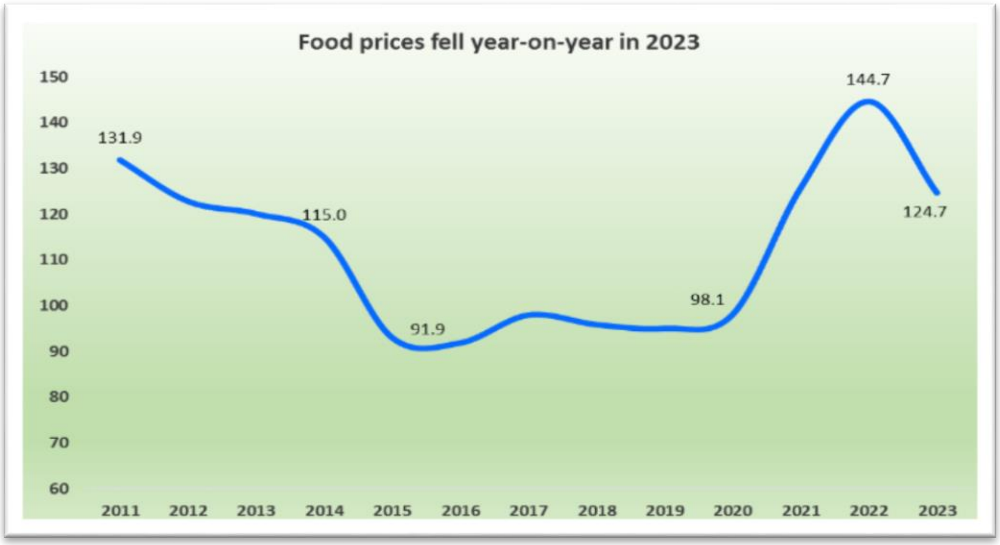
Chart 1: The Performance of the World Economy: Percentage Change (2022 – 2025)



Source: International Monetary Fund

Global inflation declined from 8.7 per cent in 2022 to 6.8 per cent in 2023, on account of an easing in supply chain bottlenecks, lower prices for food and energy (Charts 2 and 3), and a coordinated tightening in monetary policy by the world's major central banks. In addition, labour markets eased, as more persons entered the workforce, dampening upward pressure on wages.

Chart 2: World Food Price Index



Source: Food and Agriculture Organization

Chart 3: Global Oil Prices (US$ per barrel)

Source: Federal Reserve Bank of St. Louis

The International Monetary Fund (IMF) projects global growth to be sustained at 3.1 per cent in 2024, with the United States, China and other emerging market economies being the primary drivers. Some recovery is also expected for the United Kingdom, the Euro Area and Canada. For 2025, growth is projected to accelerate slightly to 3.2 per cent. This expansion will be supported by falling prices, as inflation is forecast to decline to 5.8 per cent in 2024 and then to 4.4 per cent in 2025.

Domestic Developments

Based on the latest available data, Grenada's economy is estimated to have expanded by 5.5 per cent in 2023, following growth of 7.3 per cent in the prior year. This economic outturn was shaped by the ongoing robust recovery in the tourism industry, proxied by hotels and restaurants (15.6 per cent); construction (12.6 per cent); transport, storage and communications (5.2 per cent); and education (3.8 per cent). The manufacturing sector is estimated to have grown by 4.3 per cent. Meanwhile, the agriculture sector is estimated to have contracted by 6.0 per cent. Consistent with global trends, the inflation rate fell to 2.3 per cent, from 2.9 per cent in the previous year, on an end-of-period basis. Wage development in 2023 was marked by the grant of a 13 per cent wage increase to public officers for the period 2023 – 2025, and an increase in the legislated minimum wage to $1,200 to be effective January 2024.

Assessment of Real Sector

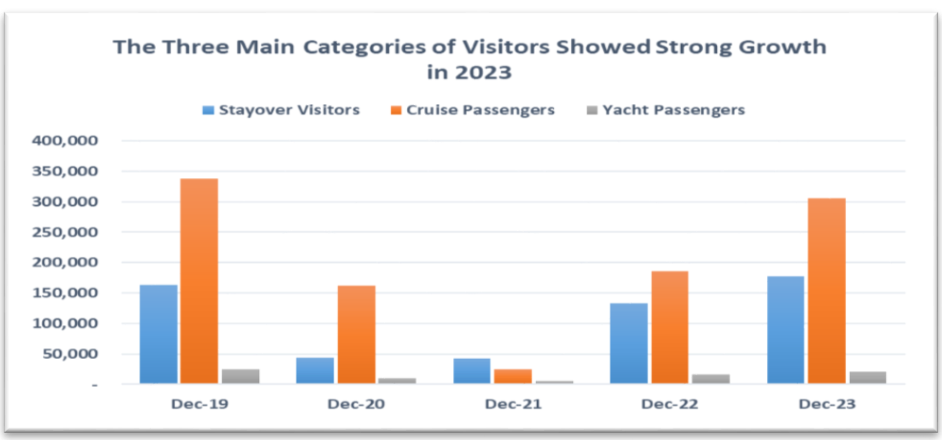
Tourism, one of the leading sectors in the economy, continued to expand in 2023, consistent with the global recovery in the demand for leisure services**.** Accordingly, total visitor arrivals increased by 50.7 per cent to 504,403, relative to the 334,799 visitors in the prior year (Chart 4).

Chart 4: Total Visitor Arrivals

Source: Statistics Department, St George, Grenada.
Eastern Caribbean Central Bank, Basseterre, St Kitts.

Importantly, all three major categories of travelers recorded strong growth in 2023, led by cruise ship passengers (64.5 per cent), stayover visitors (33.7 per cent) and yacht passengers (31.1 per cent) (Chart 5).

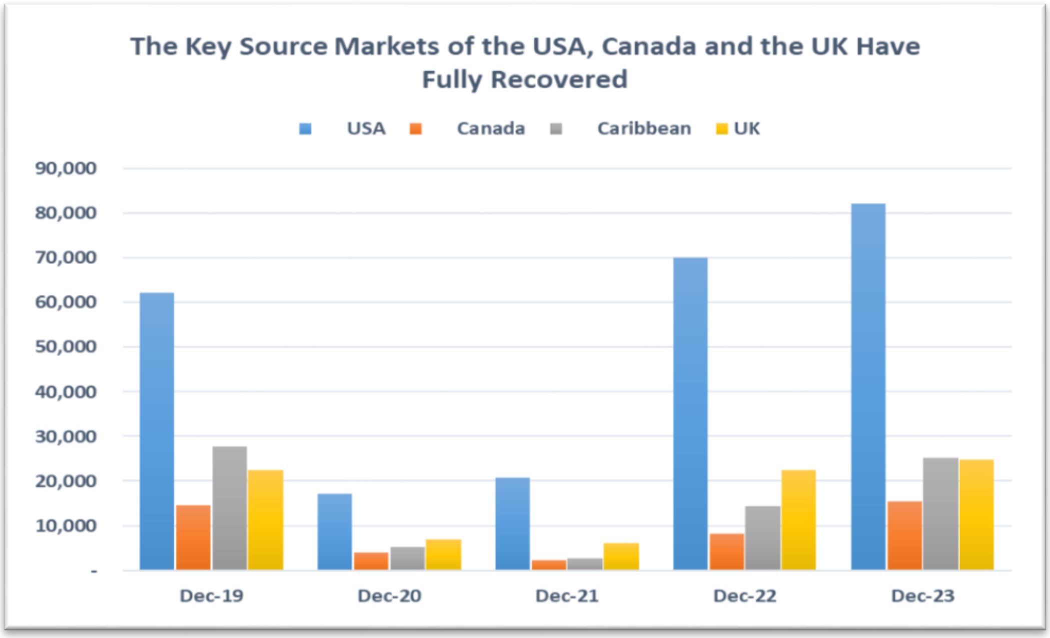
Chart 5: Visitor Arrivals by Main Category



Source: Statistics Department, St George, Grenada.
Eastern Caribbean Central Bank, Basseterre, St Kitts.

Equally as important is the fact that stayover arrivals from all the major source markets, except the Caribbean, have fully recovered relative to their 2019 levels, with growth recorded for the USA (17.5 per cent); Canada (87.9 per cent); the Caribbean (75.4 per cent); and the United Kingdom (10.7 per cent) (Chart 6).

Chart 6: Key Source Market Performance

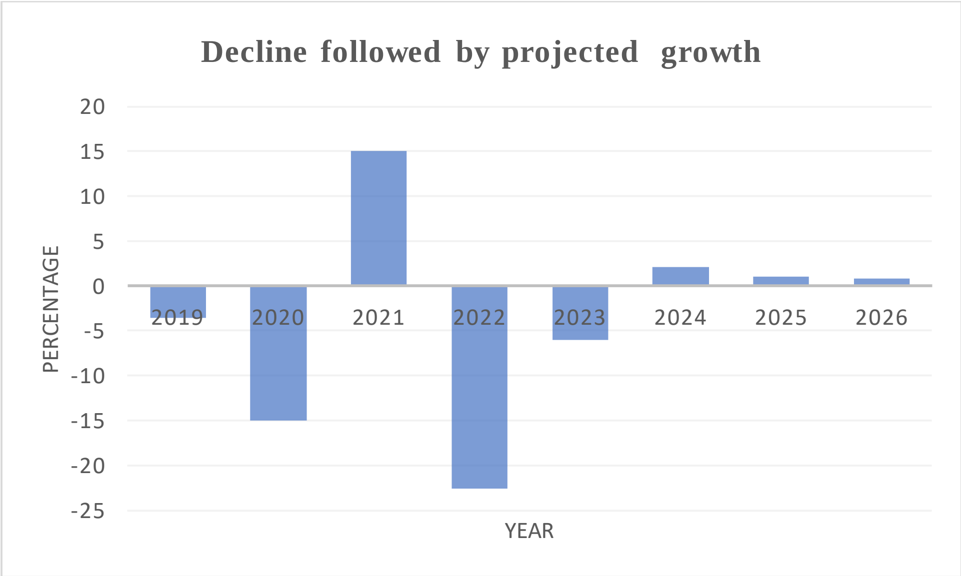


Source: Statistics Department, St George, Grenada.
Eastern Caribbean Central Bank, Basseterre, St Kitts.

Output in the construction sector is estimated to have expanded by 12.6 per cent, consistent with a vibrant tourism industry, coupled with ongoing public and private sector investments. While the government experienced delays in the execution of some of its key projects, including the Molinere Landslip Rehabilitation Project, the Western Main Road Corridor project and the St John's River Flood Mitigation Project (Phase II), critical advancements were made with the Grenada Climate Resilient Water Sector (G-Crews) project, the Seamoon Cultural Centre and several asphalt and concrete works. The expansion in the construction sector follows growth of 25.5 per cent in the prior year, with this development having a positive knock-on effect on other ancillary sectors including wholesale and retail, and transport, storage and communications.

For the agriculture, forestry and livestock sector, a key pillar of the government's transformation agenda, output is estimated to have declined by 6.0 per cent, on account of an 8.4 per cent contraction in crop production. However, this outturn was moderated by a 2.6 per cent expansion in livestock output. Negatively affecting crop output was an estimated decrease in the production of bananas (21.4 per cent) and other crops (9.8 per cent), which was moderated by an 11.5 per cent increase in nutmegs. The contraction in the sector is primarily attributable to adverse weather events, which negatively impacted production. (Chart 7).

Chart 7: Growth Rate of the Agriculture, Livestock & Forestry Sector (2019-2026)



Source: Medium-Term Economic and Fiscal Strategy Report 2024-2023, The Ministry of Finance, Grenada 2023

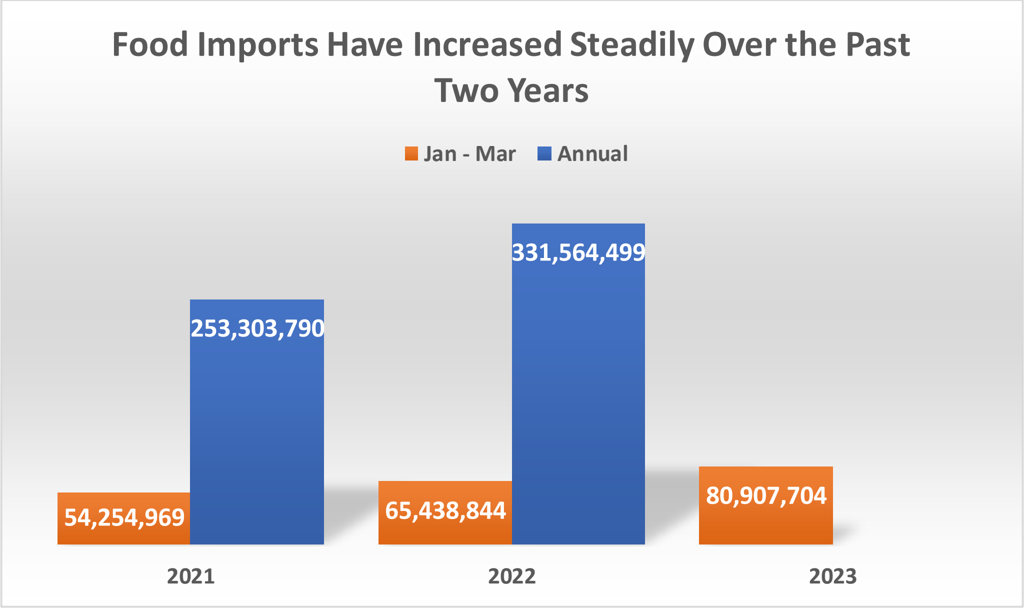
Assessment of the External Sector

On the external front, Grenada's current account deficit is estimated to have widened by 60.7 per cent to $589.0M, compared with one of $366.5M in the prior year[2].

[2] BOP estimates for the full year 2023 are based on administrative data for the year to September, 2023. Administrative data include trade, visitor expenditure, CBI flows, grants, commercial bank data, debt data and reserves.

This development was mainly influenced by a 25.2 per cent increase in the merchandise trade deficit to $1.5B, as the economy continued to expand, amid robust growth in the tourism industry (Table 1)[3]. This growth contributed to the upward trend in the food import bill (Chart 8).

Chart 8: Food Import Bill (2021 – 2023)



Source: Statistics Department, St George, Grenada.
Eastern Caribbean Central Bank, Basseterre, St Kitts.

On the positive side, rising visitor expenditures contributed to an 11.6 per cent improvement in the services trade surplus to $1.14B, up from $1.0B in 2022. Moderating the increase in this surplus was a 20.6 per cent expansion in outflows to $208.8M, associated with business services provided to Grenada in 2023. These services include professional and management consulting as well as other technical and trade-related services. Additionally, remittances rose by 14.7 per cent to $208.8m as the diaspora benefited from a robust recovery in advanced markets, especially the United States.

[3] Strong growth in the tourism industry is consistent with greater visible trade in goods, primarily on the import side, thereby contributing to a larger current account deficit.

The capital account surplus is estimated to have widened to $341.5M, up from $128.4M in the prior year. This outturn was driven by flows associated with CBI-approved projects and the National Transformation Fund (NTF), which rose to $329.6M, relative to $117.5M in 2022. The combination of the balances on the current and capital accounts resulted in a net deficit of $247.5M, up from $238.1M one year earlier.

Funding this deficit position were net inflows on the financial account, amounting to $259.2M, relative to the $188.6M in 2022. Foreign direct investments would not have been negatively impacted by the coordinated increase in interest rates across most advanced economies, posting growth of 5.6 per cent to $394.7M, compared with $373.0M in the prior year. Moderating the increase in the financial account balance were the net outward investments of deposit-taking corporations, which totalled $134.9M, down from $374.3M in the previous year. These investments included equity shares, debt securities, loans and accounts receivables.

Ultimately, Grenada's imputed stock of foreign reserves rose by $194.2M in 2023, relative to the $71.7M increase from the prior year. This outcome was influenced by the reserves of the Eastern Caribbean Central Bank, as well as the investments of deposit-taking corporations, benefitting from higher interest rates, especially from the Federal Reserve in the United States.

Table 1: Key Components of the Balance of Payments (EC$M)

	2019	2020	2021	2022	2023
Current Account Balance	(339.39)	(454.37)	(438.33)	(366.46)	(588.99)
Merchandise Trade Balance	(998.27)	(856.57)	(940.95)	(1,233.91)	(1,544.77)
Services Trade Balance	957.63	543.09	714.16	1,020.69	1,138.97
Remittances	164.94	184.88	162.93	181.97	208.76
Capital Account	167.44	212.40	150.49	128.39	341.48
Of which: CBI Approved Projects and NTF Contributions	76.16	65.40	143.87	117.46	329.60
Balance on Current + Capital Account	(171.95)	(241.97)	(287.84)	(238.08)	(247.51)
Financial Account	175.49	201.90	315.41	188.60	259.22
Of which: Foreign Direct Investment	403.69	350.78	326.03	373.70	394.72
Change in Foreign Reserves	6.65	153.65	149.32	71.66	194.16

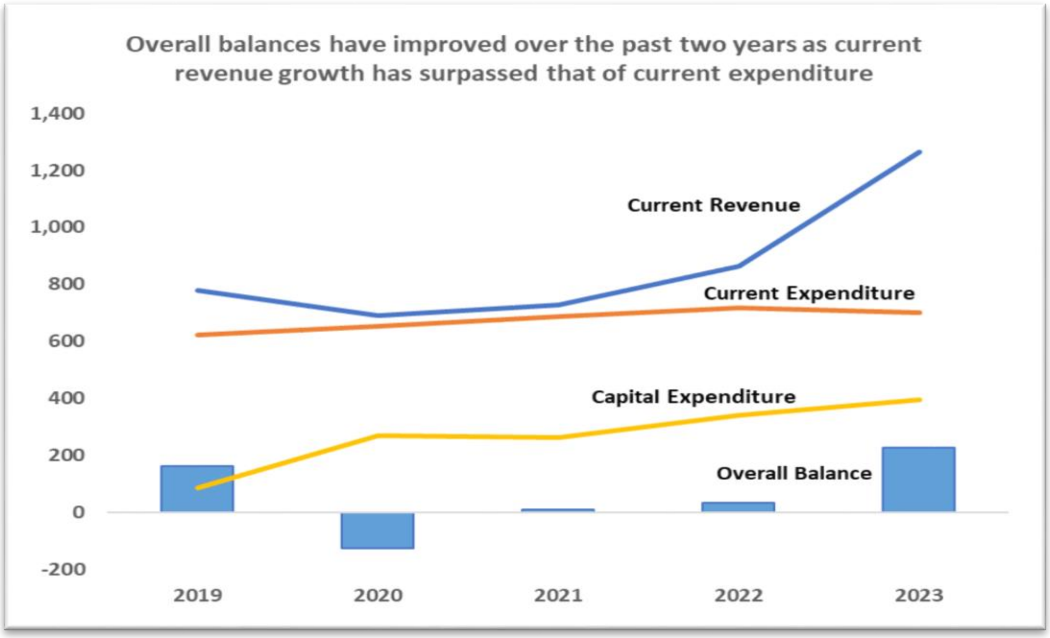
Source: Eastern Caribbean Central Bank, Basseterre, St Kitts.
Statistics Department, St George, Grenada.

Fiscal and Debt Performance

On the fiscal front, the Government of Grenada recorded both primary and overall surpluses of $276.2M (7.6 per cent of GDP) and $225.0M (6.2 per cent of GDP), respectively, in 2023. An outsized current account surplus after grants of $563.7M (15.6 per cent of GDP) was recorded mainly on account of the inclusion of CBI inflows under non-tax revenues, an accounting treatment which was implemented in 2023 (Chart 9). Prior to that, only fees associated with the National Transformation Fund (NTF) were entered under this category.

As a result, current revenue increased by 46.1 per cent ($398.4M) to $1.3M. Along with the one-time jump in non-tax revenue by 201.8 per cent to $449.6M, tax revenue also improved by 13.7 per cent to $813.0M, consistent with an expanding economy. Of note, all the major categories of tax revenue improved year-on-year.

Chart 9: Fiscal Performance: 2019 – 2023 (EC$M)



Source: Ministry of Finance, St George, Grenada.

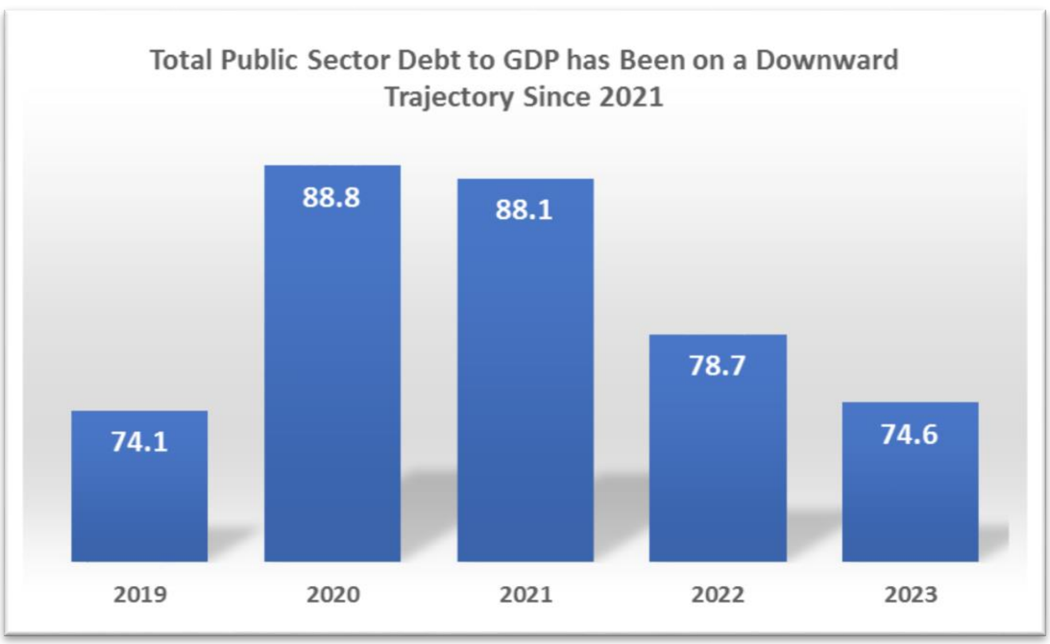
By contrast, current expenditure declined by 2.5 per cent ($17.7M) to $699.7m, influenced by a decrease in transfers and subsidies (10.8 per cent) and interest payments (4.6 per cent). Moderating the contraction in current expenditure were larger outlays for goods and services (6.8 per cent) and wages and salaries (1.4 per cent).

On the capital side, the government increased its spending by 15.6 per cent ($53.0M) to $393.2M. Dominating this were expenditures associated with the acquisition of assets, including 83.9 acres of land to serve as the future home for a national teaching hospital, the G-CREWS project, and the Digital Government for Resilience Project.

These outflows were supplemented by continued work, albeit at a reduced level, on key projects including the Molinere Landslip Rehabilitation Project and the St John's River Flood Mitigation Project (Phase II), among others.

Based on the latest data received from the Ministry of Finance, Grenada's total public sector debt (inclusive of Petro Caribe debt) rose by 3.1 per cent ($80.7M) to $2,696.2M, compared with $2,616.4M in 2022. The upward movement in debt was driven by the central government, which recorded a $105.9M increase, while the debt of statutory bodies and state-owned enterprises declined by $25.2M. Additionally, domestic debt expanded by $91.0M, in contrast to a decrease of $31.1M in external debt. Given the preliminary nominal growth in GDP of 8.8 per cent, total public sector debt as a per cent of GDP is estimated to have contracted by 4.1 percentage points to 74.6 per cent, down from 78.7 per cent one year earlier (Chart 10).

Chart 10: Public Sector Debt to GDP (per cent)

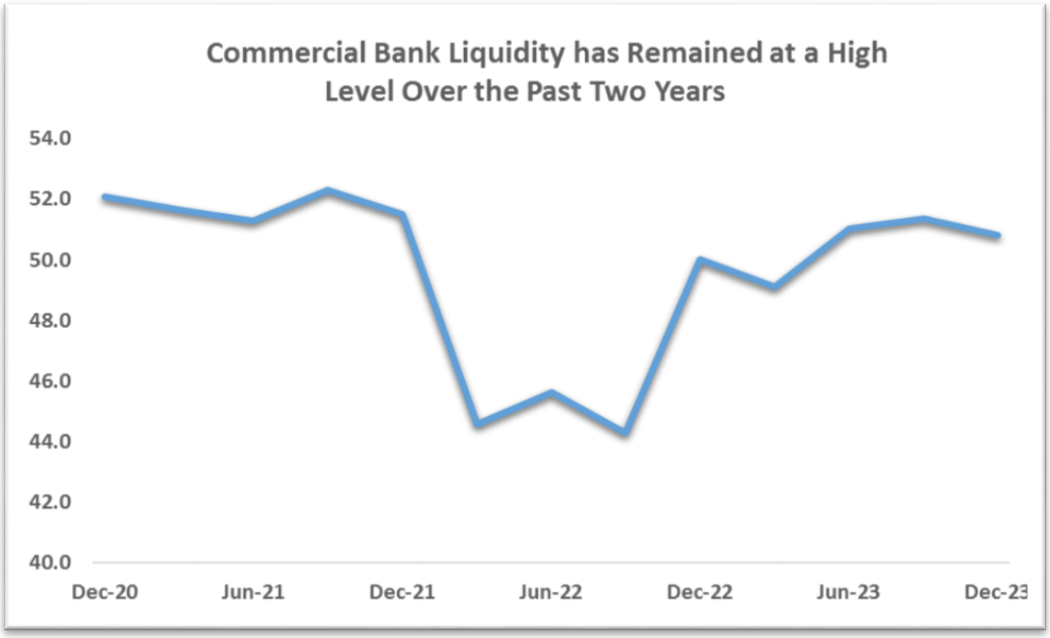


Source: Ministry of Finance, St George, Grenada.

Assessment of the Financial Sector

The financial sector was broadly stable in 2023, reflecting high levels of liquidity, sound asset quality, a marginal increase in lending rates and growth in the money supply. Estimated data as at December 2023 continue to show high levels of liquidity in the commercial banking sector, with the ratio of total loans to deposits reaching 50.8 per cent, marginally above the 50.0 per cent mark in 2022, but well below the prudential guideline of 80.0 to 85.0 per cent (Chart 11).

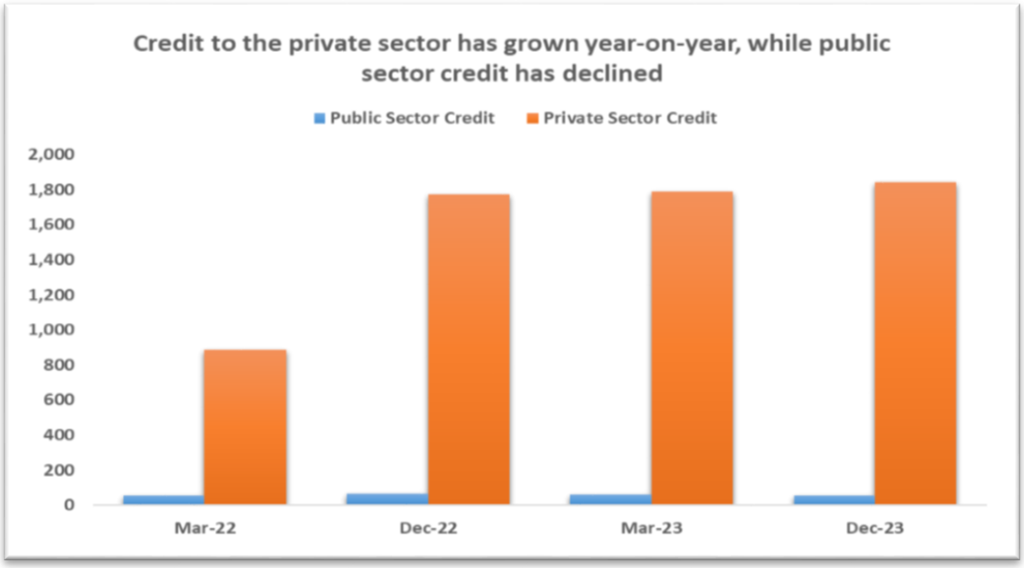
Chart 11: Commercial Banks - Total Loans to Deposit Ratio (per cent)



Source: Eastern Caribbean Central Bank, Basseterre, St Kitts.

Despite the coordinated increase in key policy rates across advanced economies, the weighted average lending rate in Grenada rose marginally by 10 basis points, from 6.9 per cent to 7.0 per cent in 2023. Against this backdrop, credit to the private sector expanded by 3.8 per cent ($67.4M) to $1,839.8M (Chart 12). A further disaggregation of the data reveals that the movement in private sector credit was driven by business credit, which increased by 31.8 per cent to $537.4M, while credit to households fell by 4.6 per cent to $1,302.4M. On the public sector side, credit declined by 10.9 per cent to $56.2M, as the government's deposits in the banking system increased year-on-year ($245.1M), in line with a sizeable overall fiscal surplus in 2023.

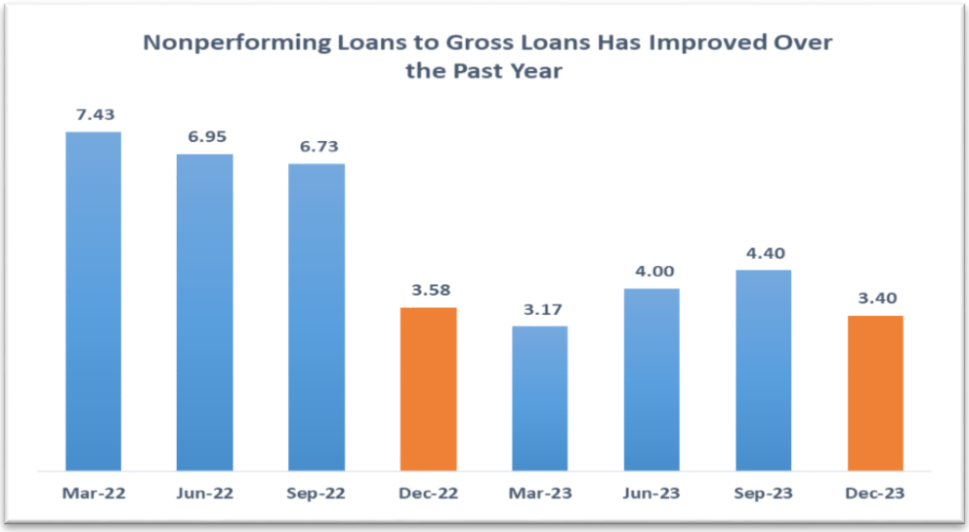
Chart 12: Commercial Banks - Credit to the Public and Private Sectors (EC$M)



Source: Eastern Caribbean Central Bank, Basseterre, St Kitts.

Importantly, the quality of banks' assets improved year-on-year, as the non-performing loan (NPL) ratio declined from 3.6 per cent one year earlier to 3.4 per cent as at December 2023 (Chart 13).

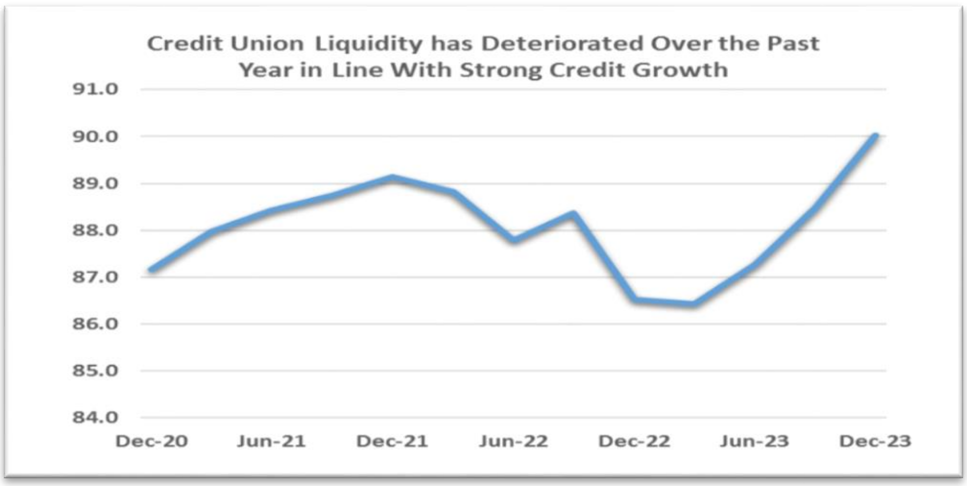
Chart 13: Commercial Banks - Non-Performing Loan Ratio (per cent)



Source: Eastern Caribbean Central Bank, Basseterre, St Kitts.

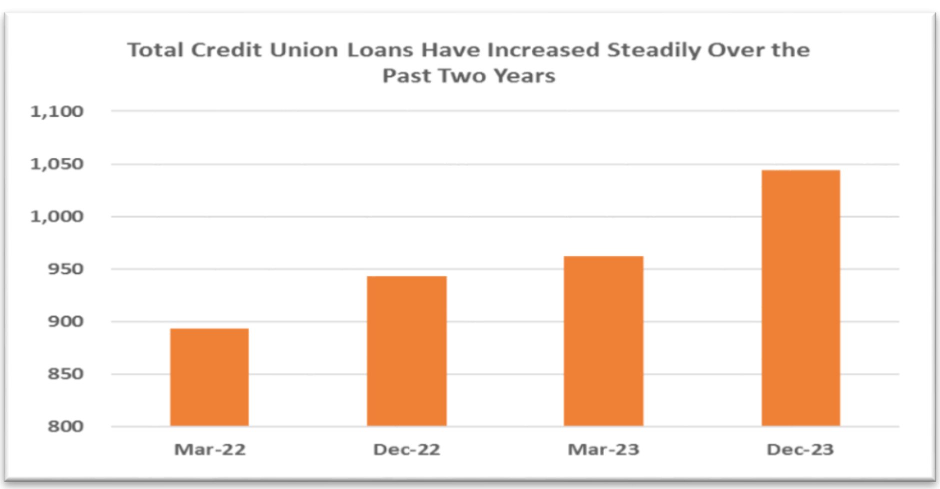
Liquidity in the credit union sector tightened, year-on-year, with the loans to deposit ratio peaking at 90.0 per cent in December 2023, above the recommended benchmark of 80.0 to 85.0 per cent (Chart 14). This development was heavily influenced by robust growth in credit of 10.6 per cent ($100.4M) to $1.04B by these financial institutions, following the 7.3 per cent ($64.1M) increase in 2022 (Chart 15).

Chart 14: Credit Unions – Total Loans to Deposit Ratio (per cent)



Source: Grenada Authority for the Regulation of Financial Institutions (GARFIN), St George, Grenada.

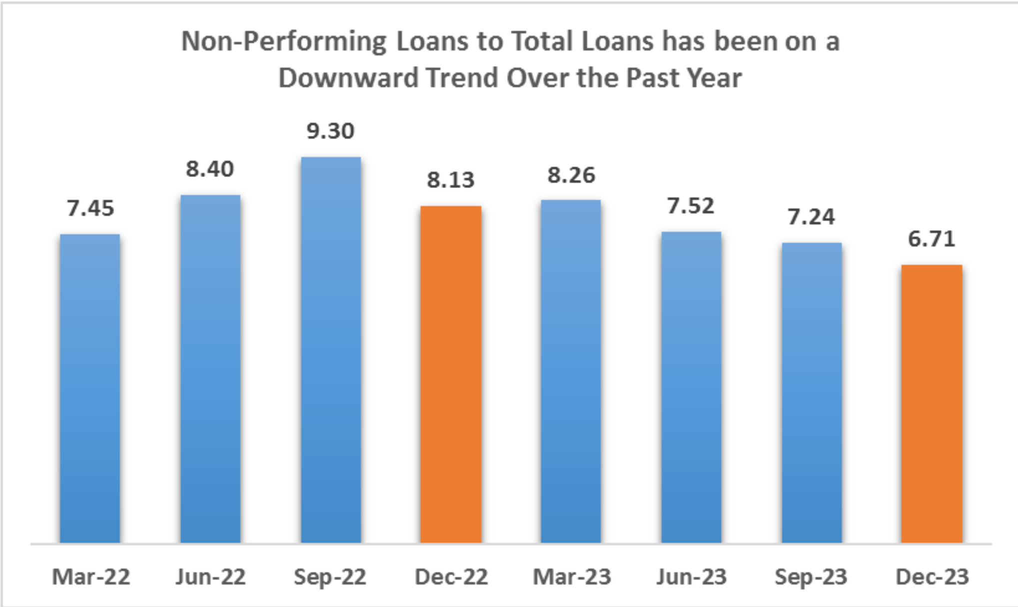
Chart 15: Credit Unions – Total Loans (EC$M)



Source: Grenada Authority for the Regulation of Financial Institutions (GARFIN), St George, Grenada.

However, despite this pace of credit expansion, the asset quality of credit unions improved, reflected in a decline in the non-performing loans (NPL) ratio to 6.7 per cent, relative to 8.1 per cent in 2022 (Chart 16). While a positive development, this ratio fell above the prudential benchmark of 5.0 per cent.

Chart 16: Credit Unions – Non-Performing Loan Ratio (per cent)



Source: Grenada Authority for the Regulation of Financial Institutions, St George, Grenada

Consistent with a growing economy, the money supply in Grenada rose by 1.4 per cent ($43.2M) to $3,213.0M as at December 2023. This was reflective of an increase in currency in circulation (2.3 per cent), checking deposits (10.1 per cent) and savings deposits (1.8 per cent). Moderating the increase in the money supply was a 25.4 per cent contraction in foreign currency deposits.

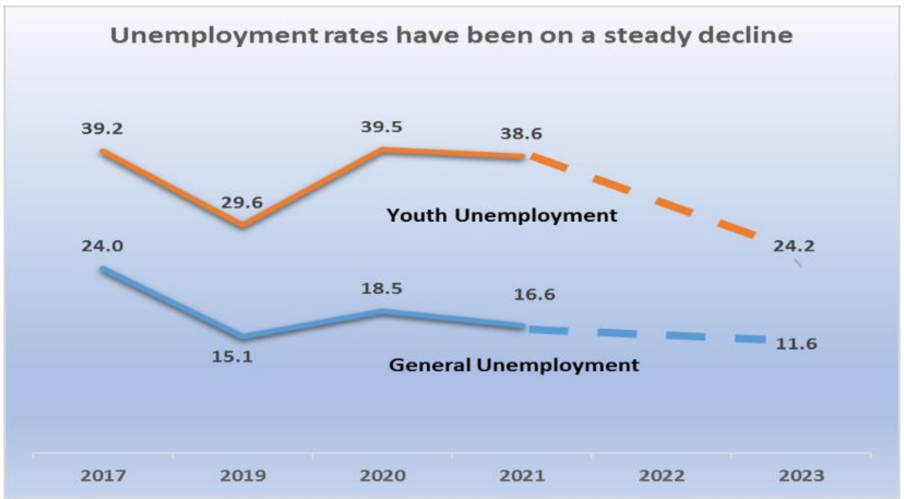
Analysis of Social Indicators

A key positive outcome of the economy's expansion has been the recovery of jobs across critical sectors such as tourism, construction, and wholesale and retail trade, among others. As such, the unemployment rate in Grenada improved to 11.6 per cent as at September 2023, down from 16.6 per cent in 2021 and less than the pre-COVID-19 low of 15.1 per cent (Chart 17).

Within the past five years, the unemployment rate peaked at 18.5 per cent in 2020, due to the onset of COVID-19 and the subsequent contraction of the economy. Further analysis reveals the gender imbalance in employment levels, with the unemployment rate for males recorded at 6.0 per cent compared with 18.1 per cent for females as at September 2023.

It is noteworthy that youth unemployment improved, falling to 24.2 per cent, relative to 39.5 and 38.6 per cent recorded for 2020 and 2021, respectively. While positive, this rate is still high and is compounded by low participation rates of 47.8 and 49.9 per cent among young males and females, respectively. The low participation rate is mainly among the 15 – 19 age group and unemployment is concentrated among those that have only attained primary and secondary education.

Chart 17: Unemployment Rates (2017 – 2023)



Source: Statistics Department, St George, Grenada.

Given the persistence of high youth unemployment, a cursory look at the number of work permit approvals across industries may be helpful in crafting policies to meet the skills gap in the country. Accordingly, data from the Department of Labour reveal that in 2023, 631 work permits were approved, in addition to the 215 that were granted exemptions. Some of the key industries for which permits were granted include: construction; hotel/tourism/catering; entertainment/arts/culture/sports; marine/yachting; and health services (Table 2).

The data further reveals that in the construction sector, there was a clear need for carpenters, plumbers, engineers, electricians, masons and waterproofing technicians, among others. Likewise, in the tourism industry, the greatest need was for chefs. Hence, a careful analysis of the data, coupled with ensuring that appropriate resources are available to the main tertiary and vocational schools on the island would be instrumental in meeting the emerging labour needs across vital industries.

Table 2: Selected Work Permit Approvals by Industry/Sector for the Period January – December 2023

Industry/Sector	Total Number of Approvals	Total Number of Exemptions
Construction	171	58
Hotel/Tourism/Catering	105	1
Entertainment/Arts/ Culture/Sports	64	45
Marine/Yachting	47	1
Health Services	15	
Managerial	15	1
Financial	11	1
Manufacturing	8	
Mechanics	5	1
Total	631	215

Source: Department of Labour, St George, Grenada.

Conclusion

Grenada has shown resilience in the face of immense global shocks, recovering to its pre-COVID level of GDP in four years. In the real sector, the tourism industry continues to make a robust recovery, with positive spillovers to construction, wholesale and retail trade and other ancillary sectors. As a result, government revenues, both tax and non-tax, have increased in tandem with an expanding economy, contributing to an improvement in fiscal outcomes. In addition, labour market conditions improved, as the country recorded its lowest unemployment rate in over a decade. On the financial side, the banking sector remained stable, with high levels of liquidity and low non-performing loans.

Grenada recorded a large external current account deficit, which was financed by inflows from the CBI programme and foreign direct investment. In addition, the country's stock of imputed reserves increased as the Central Bank's stock of reserves benefited from high global interest rates.

The prospects for the Grenadian economy are positive and are closely tied to the economic performance of its key trading partners, especially the United States, the United Kingdom and Canada. Additionally, the focus of the Government on laying the basic infrastructure for improved outcomes in the areas of health, education and skills training, and fostering the creative economy, augur well for the continued growth and development of the country.

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

Key Messages

Economic growth for 2023 was revised upward from 3.6 percent to 5.5 percent , and economic growth is projected to moderate over the medium-term to average 3.6 percent.

Central Government fiscal outturn for 2023 was more favourable when compared with the budgeted estimates, and the public debt to GDP ratio was lower than projected.

The outturn for Central Government operations in 2024 is projected to be less than 2023 and to improve over the medium-term as the government implements its reforms.

Public debt is projected to continue on a downward trend over the medium-term.

Introduction

This chapter is in accordance with Section 5 of the Fiscal Responsibility Act where, among others, the objective of the Act is to ensure fiscal and debt sustainability and the prudent management of fiscal risk as follows:

(c) to ensure that debt is reduced to, and then maintained at, a prudent and sustainable level by maintaining primary surpluses that are consistent with this object; and

(d) to ensure prudent management of fiscal risks.

Sustained economic growth is a prerequisite for fiscal and debt sustainability. Global developments generally influence the growth performance of the domestic economy. Therefore, public policies, programmes and projects should be informed by the uncertain international environment and the challenges in the domestic economy, and these should be reflected in the medium-term economic strategy. Debt sustainability also requires the pursuit of prudent fiscal and debt management strategies, the identification of fiscal risk, and the adoption of measures to mitigate these risks.

Accordingly, this chapter is a comparative assessment of the economic and fiscal performance in 2023 relative to the estimates and projections submitted to Parliament on 5th December 2022, at the time of the presentation of the 2023 national budget, and information submitted to the FROC on 25th January 2023 by the Ministry of Finance. The comparative outlook for the economic and fiscal indicators over the medium-term (2024 – 2026) is also assessed.

The chapter begins with a comparison of the original projected economic growth for 2023 with the revised economic growth for 2023, inclusive of the prospects for the economy over the medium-term. This is followed by a comparative assessment of the fiscal performance in 2023 and the fiscal and debt strategies for 2024 – 2026, along with an identification of the risks to the fiscal and debt strategies. Thereafter, the policies, programmes and projects that were implemented in 2023 and those proposed for the medium-term and the implications for addressing the challenges in the economy are highlighted. Based on a review of the recommendations provided in the FROC 2022 Annual Report and developments in 2023, recommendations to enhance economic, fiscal and debt management are included in the chapter.

Comparison of the Medium-term Fiscal Frameworks

Economic Growth

In its 2023 national budget, the Government outlined the Medium-term Fiscal Framework for 2023-2025 and the strategy for achieving economic growth and the transformation of the economy.

According to the Economic Assessment Report for 2022 and the Medium-term Fiscal Framework (2023 – 2025) that was presented to Parliament on 5th December 2022, the economy recorded economic growth of 6 per cent in 2022, and a slower growth rate of 3.6 per cent was estimated for 2023, with projection of growth rates of 4.0 per cent for 2024 and 4.8 per cent for 2025. The slower estimated growth rate of 3.6 per cent for 2023 was mainly attributed to projected lower growth rates in tourism and construction compared with 2022. Tourism, based on the hotels and restaurant sector as the indicator, was projected to expand by 19 per cent in 2023, compared with the estimated 51 per cent growth in 2022. The construction sector was projected to grow at a slower pace of 11.6 per cent, compared with the 19.2 per cent growth in 2022. The projected slower pace of economic expansion of these two sectors contributed, for the most part, to the projection for the slower growth rate of 3.6 per cent in 2023.

The growth performance of the economy as reported in the Mid-year Fiscal Policy Review of 25th August 2023 and in the Medium-term Economic and Fiscal Strategy Report of 4th December 2023 were higher than the estimates presented to Parliament on 5th December 2022. This upward revision to the growth rates was pronounced for the 2022 and 2023 fiscal years. Economic growth for 2022 was recorded at 7.3 per cent compared with the original estimate of 6 per cent and, among other factors, reflected adjustments in the growth rates for tourism, construction and the wholesale and retail trade. The projected economic growth of 3.6 per cent for 2023 was revised to 5.5 per cent, as presented in the Medium-term Economic and Fiscal Strategy Report. The FROC examined the data to identify the sectors that contributed to the upward revision of the growth rate for 2023. The revised growth primarily reflected higher product taxes than originally used in deriving the 2023 GDP at market prices.

The performance of the main sectors as reported in the Medium-term Economic and Fiscal Strategy Report was less robust than the original estimates. The original growth for agriculture, livestock and forestry of 2.4 per cent was revised to decline by 6 per cent. The hotels and restaurants sector, which was originally projected to grow by 19 per cent in 2023, was revised to a slower growth rate of 15.6 per cent.

Transport and Storage, which was initially projected to grow by 8.6 per cent, was revised to grow at a slower rate of 7.3 per cent. The education sector was initially projected to grow by 4.1 per cent, and this was revised to a lower rate of 3.1 per cent. The wholesale and retail trade sector followed a similar pattern, and the original growth rate of 7.3 per cent was revised downwards to 2.8 per cent.

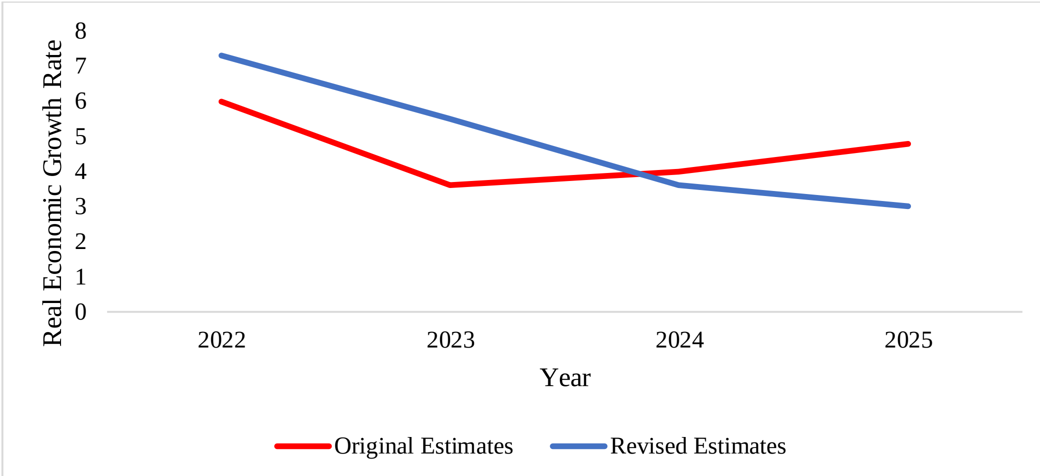
The construction sector, a main contributor to economic growth, improved only marginally. Originally, the construction sector was projected to grow by11.6 per cent in 2023, and there was a marginal upward revision to an estimated growth rate of 12.6 per cent. Real Estate, Renting & Business, another significant contributor to economic activity, recorded a moderate upward revision, moving from 1.8 per cent to 2.5 per cent.

These sectors are the main contributors to economic growth. Given the manner in which the data on the estimated GDP is presented in the Medium-term Economic and Fiscal Strategy Report and the subsequent information provided by the Ministry of Finance, with the percentage growth for the sectors and the nominal data for the total GDP only, the FROC was not able to comment on the sectors that contributed to the upward revision to the growth rate from the 3.6 per cent to 5.5 per cent.

This development raises the issue of whether the real GDP at market prices is the indicator that should be used to gauge production and productive capacity of the economy; or whether the GDP at factor cost is the most appropriate indicator. It is also timely for the method of gathering information and the methodology for compiling the GDP to be examined to ensure that the GDP reflects the output of the economy.

The Comparative estimates for economic growth are shown in Chart 18 and Table 3.

Chart 18: Comparison of Estimates of Economic Growth Rates for 2023



Source: Grenada Medium-Term Fiscal Framework: 2023-2025 Ministry of Finance 2022) and Grenada Medium-Term Economic and Fiscal Strategy Report 2024-2026 (Ministry of Finance 2023)

For the medium-term (2024 – 2026), the economy is projected to grow at a slower rate than originally projected. The economy is projected to grow by 3.6 per cent in 2024 compared with the original forecast of 4.0 per cent, and by 3.0 per cent in 2025 compared with the original forecast of 4.8 per cent, and a growth rate of 4.2 per cent in 2026, as shown in Chart 18 and Table 3. The main sectors of construction, hotel and restaurant and wholesale and retail trade that contribute to economic growth, are growing at a faster rate than was originally projected. Constrained by the data as presented in the Medium-term Economic and Fiscal Strategy Report and the subsequent information from the Ministry of Finance, the FROC was not able to comment on the sectors that contributed to the comparatively slower growth rates in 2024 and 2025.

Table 3: Comparison of Growth Rate of GDP and Main Sectors

Sector	2023		2024		2025		2023
	Original Estimate	Revised Estimate	Estimate	Revised Estimate	Estimate	Revised Estimate	Sectoral Contribution [1]
Agriculture, Livestock &Forestry	2.4	-6	1.8	2.1	2.2	1	3.4
Manufacturing	2.1	4.3	1.8	3.4	4.9	1.4	4.0
Construction	11.6	12.6	6.5	7.9	8.5	8.2	13.3
Wholesale & Retail Trade	7.3	2.8	2.2	3.8	2.3	3	7.6
Hotels & Restaurants	19	15.6	14.2	28.1	16.9	17.1	5.3
Transport & Storage	8.6	7.3	7.6	9.6	7.8	8	11.1
Financial Intermediation	6.6	4.6	4	4.2	4.3	3.6	8.9
Real Estate, Renting & Business	1.8	2.5	1.5	2.6	1.2	2.7	12.8
Education	4.1	3.8	4.2	1.5	4.3	0.7	17.6
Real GDP Growth	**3.6**	**5.5**	**4**	**3.6**	**4.8**	**3**	
Nominal GDP (per cent Change)	**7.2**	**8.8**	**5.6**	**6.3**	**5.8**	**5.6**	

Note: Per cent of Gross Value Added at Basic Prices.

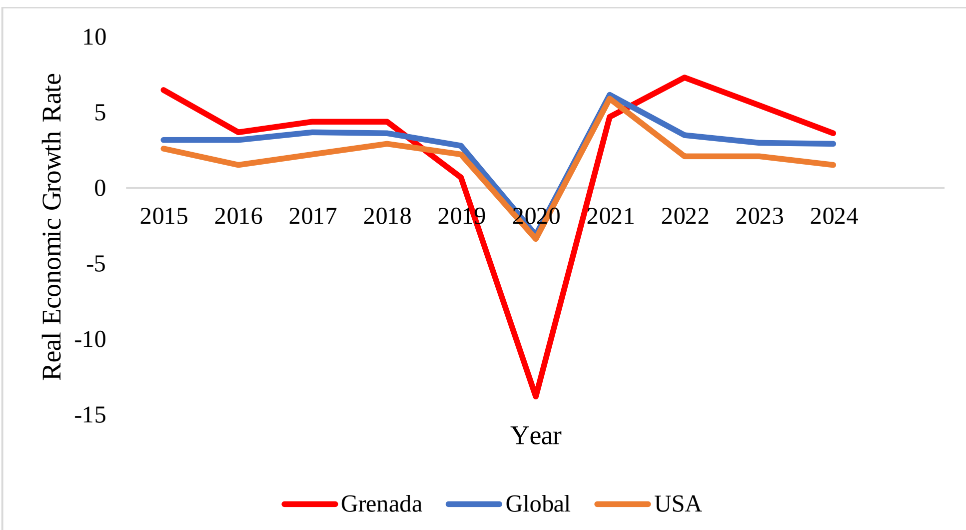
Source: Medium Term Fiscal Framework 2023- 2025 (Ministry of Finance 2002); Medium Term Economic and Fiscal Strategy Report 2024- 2026 (Ministry of Finance 2023); and data submitted by the Ministry of Finance, January 10, 2024.

To facilitate an analysis of the rationale for the deviations, the assumptions and data that support the projected economic growth, particularly for the leading sectors of transport and storage, hotels and restaurants, education and construction, should be included in the Medium-term Economic and Fiscal Strategy Report. In addition, the performance of the sectors should be presented in nominal values and the rate of growth. This will allow for the assessment of the causes of deviations, particularly when there are wide deviations in the estimated and projected growth rates.

Further, the comparison of the original estimated growth of 3.6 per cent for 2023 with the provisional outturn showed that the original estimated growth rate was conservative, being less robust than the estimated 5.5 per cent economic growth.

The projection of a conservative growth rate is evident for the medium term, with a projected growth rate of 3.6 per cent for 2024 and an average growth rate of 3.6 per cent for the period 2024 – 2026. The forecast for global output would have informed these estimates. However, the expansionary fiscal policy pursued in 2024 should also have some impact on economic growth, unless there is a negative economic shock. Additionally, as shown in Chart 19, Grenada's economy has historically grown above the rate of global output and that of its major trading partner, the USA. Persistent significant deviation between the estimated and actual economic growth over time, in the absence of shocks, suggests the need to improve the process for determining estimated and projected economic growth.

Chart 19: Grenada, Global and USA Real Economic Growth Rates



Source: IMF World Economic Outlook 2023; and Grenada Medium-Term Economic and Fiscal Strategy Report: 2024-2026 (Ministry of Finance 2023)

In the context of the goal of transforming the economy to "A Sustainable, Equitable and Prosperous Grenada for All", the Government should aim at implementing policies and projects that would support a targeted minimum growth rate of 4 per cent. This will be within the range recommended in the OECS Growth and Development Strategy (2019 – 2028) as follows:

"*In respect of Pillar 1, Member States have agreed that the economic growth to be generated should be at a level that allows for a meaningful reduction to the persistently high rates of unemployment that continues to fatigue Member States.*

A targeted reduction in the rate of unemployment of one-quarter was agreed to by the Economic Affairs Council. To achieve this, economic growth of 3 to 5 per cent annually is required across the Economic Union."[4]

Fiscal and Debt Strategies

Fiscal Strategy

The Government's fiscal strategy over the medium-term focuses on generating adequate resources to ensure stability of the public debt while implementing the transformation agenda in the context of the Fiscal Resilience Act (2023). Tax revenues are projected to grow in line with the growth in GDP, and revenue gains are expected to be achieved through increased law enforcement and the use of technology to facilitate tax payments. Specifically, in 2024, the Government intends to roll out the first phase of a new tax system (The Grenada Tax) which will allow for online filing and payment of the Value Added Tax or VAT, the Corporate Income Tax, and the Pay As You Earn (PAYE) Tax. The second phase of the Grenada Tax is targeted for implementation in 2025, involving the rollout of other tax types and other sources of revenue such as the Property Tax, Stamp Duty, and Business Licenses.

Non-tax revenue is highly dependent on inflows from the Citizenship by Investment (CBI) programme which recorded a peak of 83 per cent ($375.3M) of total non-tax revenue in 2023 and is estimated to subside to 77 per cent ($280.7M) of non-tax revenue in 2024. The contribution of the CBI to non-tax revenue is expected to decline to 65 per cent ($166.8M) in 2025 and 64 per cent ($169.7M) in 2026.

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4 Source: Organisation of Eastern Caribbean States Development Strategy, Economic Affairs Division, OECS Commission, Morne Fortune, Castries, Saint Lucia. Pg 22.

In light of the importance of the inflows from the CBI programme, the Government stated policy is to examine the recommendations of the Organization for Economic Corporation & Development (OECD) and the Financial Action Task Force (FATF) November 2023 Report to implement the recommendations that will aid in the strengthening of the design, implementation, and oversight of the CBI programme.

Consistent with the theme of enhancing human capacity and promoting good governance, comparatively higher growth in current expenditure was recorded in 2024. This facilitated, among others, the policies for increased access to education through the elimination of registration and tuition fees at schools and the increased subvention to the schools to cover operational cost; the continuation of the regularisation of the public service, with a target of approximately 1,754 workers to be considered for regularisation by December 2024; and addressing the income disparity of the senators and parliamentarians by providing for increased salary; and the provision of a constituency allowance to each elected member of Parliament.

The Public Sector Investment Programme focuses on digital transformation, building climate resilient and energy efficient economic and social infrastructure, and programmes for environmental sustainability.

Comparison of Fiscal Performance

The Estimates of Revenue and Expenditure for 2023 as approved by Parliament on 5th December 2022 made provision for the growth in primary expenditure of -9.1 per cent, a wage bill of 8.9 per cent of GDP, a primary balance of 3.6 per cent of GDP, and a Central Government debt to GDP ratio of 64 per cent. A Supplementary Appropriation Bill of $149M, comprising recurrent expenditure of $15.6M and capital expenditure of $134.4M, was approved by Parliament on 25th August 2023. The increased expenditure was financed by grants of $1M and loans of $27.3M, requiring the need to utilise $120.7M in revenue from domestic sources (See Table 4).

Table 4: Supplementary Appropriation

Financing	Amount
Appropriation	$148,990,234.00
Capital Grant	$981,334.00
Capital Local	$105,149,498.00
Capital Loans	$27,300,000.00
Recurrent Expenditure[1]	$15,559,402.00
Grand Total	$148,990,234.00

Source: Supplementary Estimates No 1 of 2023, Parliament Office, St George, Grenada, 25th August 2023.

At the end of the fiscal year, real primary expenditure was estimated to have declined by 10.4 per cent[5]. A wage bill of 7.8 per cent of GDP, a primary surplus of 7.6 per cent of GDP and a central government debt to GDP ratio of 60.1 per cent and the public debt to GDP ratio of 74.6 per cent were also estimated. The comparative data for the budgeted and estimated outturn for 2023 is shown in Table 5 and Table 6.

Table 5: Fiscal Rules and Targets for 2023

	Budget 2023	Estimated Outturn 2023
Real Growth in Primary Expenditure	-9.1 per cent	-10.4 per cent
Wage Bill	8.9 per cent	7.8 per cent
Primary Balance	3.6 per cent	7.6 per cent
Central Government Debt to GDP ratio	64 per cent	60.1 per cent

Source: Grenada Medium-Term Fiscal Framework: 2023-2025 (Ministry of Finance 2022) and Grenada Medium-Term Economic and Fiscal Strategy Report 2024-2026 (Ministry of Finance 2023)

[5] Real primary expenditure was calculated by deflating nominal primary expenditure less CBI financed expenditure by the period average inflation rate. Nominal primary expenditure recorded growth of 3.8 per cent over 2022, while the nominal adjusted primary expenditure declined by 16.9 per cent.

Table 6: Comparison of Budgeted and Estimated Fiscal Performance for 2023

	Budgeted 2023		Estimated 2023	
	in $M	as a per cent of GDP	in $M	as a per cent of GDP
Total Revenue and Grants	1118.6	32.1	1317.9	36.4
Current Revenue	1050.8	30.1	1262.6	34.9
Total Expenditure	1057.1	30.3	1092.9	30.2
Primary Expenditure	995.4	28.5	1041.6	28.8
Current Expenditure	743.2	21.3	699.7	19.3
Wage Bill	326.9	9.3	283.5	7.8
Interest Payment	61.7	1.8	51.2	1.4
Capital Expenditure	313.9	9.0	393.2	10.9
Primary Balance	123.1	3.5	276.2	7.6
Overall Balance	61.4	1.8	225	6.2
Central Government Debt	2314.5	66.4	2173.5	60.1
Nominal GDP	3487.7		3616.4	

Source: Grenada Medium-Term Economic and Fiscal Strategy Report 2024-2026 (Ministry of Finance 2023).

Fiscal Performance over the Medium-term

The projected decline in inflows from the CBI in 2024 and 2025, with moderate recovery in 2026, and the growth in expenditure in 2024 have contributed to the reduction in the fiscal balances over the medium-term.

Following the substantial increase in revenue in 2023, current revenue is projected to decline on average by 4.0 per cent over 2024 – 2025, and then is projected to increase marginally by 5.5 per cent in 2026. This will be influenced primarily by developments related to inflows from the CBI.

Tax revenue is projected to increase, by 5 per cent in 2024 and on average by 6.1 per cent over the medium-term, in line with the growth of the economy and as the Government seeks to strengthen tax administration through the implementation of the Grenada Tax technological system.

Non-tax revenue is estimated to decline sharply in 2024 (-19.2 per cent) and 2025 (-29.2per cent) with some recovery in 2026 (3.3 per cent); moving from $449.5M in 2023 to $265.7M in 2026. This is influenced by developments related to the CBI. Revenue from the CBI is projected to decline from a peak of $375.3M in 2023 to $280.7M in 2024 and to further decline to $166.8M in 2025. The inflows from the CBI are projected to recover moderately to $169.7M in 2026.

With the implementation of the policies for strengthening human capacity and promoting good governance, current expenditure is projected to grow by 28.8 per cent in 2024 and at an average rate of 0.9 per cent between 2025 and 2026. Consequently, current expenditure is estimated to increase from $699.7M in 2023 to $901.4M in 2024, thereby moving from 19.3 per cent of GDP to 23.4 per cent of GDP. Thereafter, the growth in current expenditure moderates and, as a percentage of GDP, declines to 22.3 per cent in 2025 and 21.3 per cent in 2026.

The planned regularisation of Government workers, the application of the minimum wage to affected officers and the increased provision for Parliamentarians and Senators would have contributed to the growth in the wage bill from 7.8 per cent of GDP ($283.5M) in 2023 to 9.7 per cent of GDP ($372.3M) in 2024. Transfers and subsidies were higher, reflecting the growth in the subvention to schools, increased allocation to the beneficiaries of the SEED programme, and higher pension cost. Interest payment increased marginally from 1.4 per cent of GDP to 1.5 per cent of GDP in 2024.

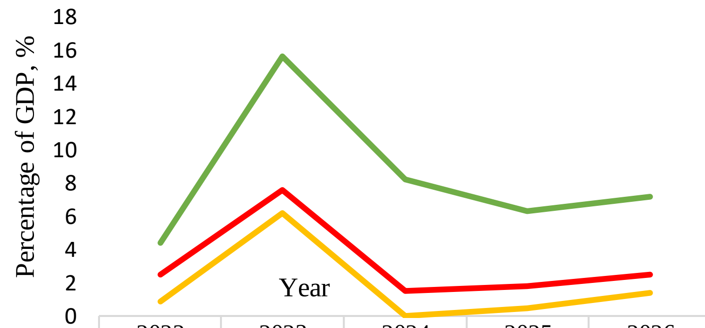
Thereafter, it is projected to decline from 1.5 per cent of GDP in 2024 to 1.3 per cent of GDP in 2025 and to 1.1 per cent of GDP in 2026, and this is consistent with the Medium-Term Debt Strategy of borrowing at concessional rates. Capital expenditure averages 8.4 per cent of GDP over the medium-term (2024 – 2026).

The current account balance, excluding budgetary support, which is an indicator of government savings, is projected to average 7.2 per cent of GDP over the medium-term. Concurrent with the growth in current expenditure, the current account surplus is estimated to decline from $562.9M (15.6 per cent of GDP) in 2023 to $315.4M (8.2 per cent of GDP) in 2024, and to further decline to $257.1M (6.3 per cent of GDP) in 2025 and improve in 2026 to $308.5M (7.2 per cent of GDP).

A similar pattern was observed for the primary balance and the overall balance. The primary balance (including grants) is projected to fall from an estimated $276.2M (7.6 per cent of GDP) in 2023 to $57.2M (1.5 per cent of GDP) in 2024 and to improve to $72.3M (1.8 per cent of GDP) in 2025 and $107.7M (2.5 per cent of GDP) in 2026.

The overall balance is projected to move from $225M (6.2 per cent of GDP) in 2023 to $0.6M (less than 0.1 per cent of GDP) in 2024, and to improve to $20.8M (0.5 per cent of GDP) in 2025 and $58.7M (1.4 per cent of GDP) in 2026. (Chart 20)

Chart 20: Grenada's Fiscal Balances as a Percentage of GDP 2022 - 2026



	2022	2023	2024	2025	2026
Current Account	4.4	15.6	8.2	6.3	7.2
Primary Balnce (including grants)	2.5	7.6	1.5	1.8	2.5
Overall Balance (including grants)	0.9	6.2	0	0.5	1.4

Source: Grenada Medium-Term Fiscal Framework: 2023-2025 (Ministry of Finance 2022); Grenada 2022 Annual Economic Review (Ministry of Finance 2022); Medium-term Economic and Fiscal Strategy Report 2024-2026 (Ministry of Finance 2023)

With an overall surplus of $0.6M (including grants) and given the planned principal repayment on external debt of $86.6M and the projected receipts from loan disbursements from external sources of $56.5M, $29.5M of the resources accumulated from reserves will be applied to the 2024 budget. The analysis of the financing is limited. It is noted that the financing of the budget does not include financial flows between the Government and domestic financial institutions and other domestic financiers. The financing component, specifically the domestic financing, needs to be disaggregated by the source of financing. In the absence of the financing component of the accounts for the projected period, a statement on financing over the medium term is not included in this report.

Comparison of the fiscal framework for 2024 – 2026 with the Medium-term Fiscal Framework 2023 – 2025 was not pursued.

The Fiscal Resilience Act (2023) makes provision for revised fiscal rules and a revised fiscal target. These differed from those of the repealed Fiscal Responsibility Act which informed the parameters of the Medium-term Fiscal Framework (2023 – 2025). Consequently, a new Medium-term Fiscal Framework commenced for the 2024 – 2026 period.

Debt Strategy and Analysis

The Government in the 2024 Budget Statement stated its commitment to maintaining fiscal and debt sustainability. This fiscal and debt strategy is based on the Fiscal Resilience Act (2023) which states:

5. The objects of this Act are—

(c) to ensure that public debt is reduced to, and then maintained at, a prudent and sustainable level by maintaining primary balances that are consistent with this object;

To operationalise the debt strategy, the Fiscal Resilience Act (2023) makes provisions for a primary balance rule and a public debt target as follows:

8. (1) The public debt target shall be no more than sixty per cent of nominal GDP to be achieved by 2035.

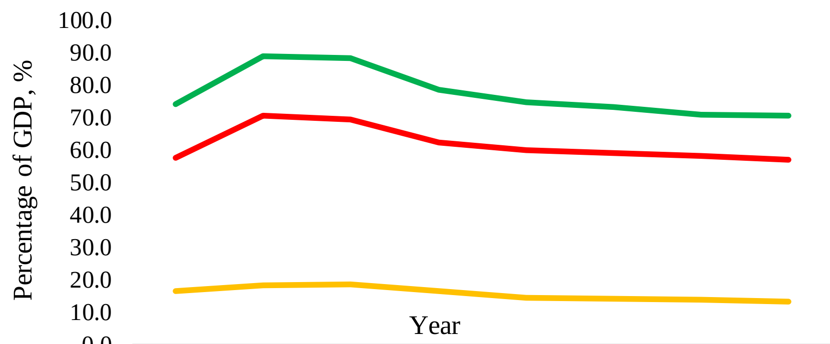
(3) For the purposes of achieving the public debt target under subsection (1), the medium-term fiscal framework shall set an annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP until the public debt target is achieved.

The debt strategy is therefore to reduce debt to the targeted 60 per cent of GDP by 2035, and to borrow, as necessary, on concessional terms. The Parliament, on 25th August 2023, authorised the contraction of debt amounting to US$100M. The debt will impact on the debt to GDP ratio during the disbursement phase. The impact on the public debt will depend on a combination of factors including the rate of economic growth and the annual net amortisation (that is the loan disbursement less loan principal repayment).

The public debt to GDP ratio has been on a declining trend attributed mainly to the fall in the debt to GDP ratio of the Central Government.

The total public debt is estimated to decline from 74.6 per cent of GDP ($2.7B) in 2023 to 73.3 per cent of GDP ($2.8B) in 2024 and is projected to decline further to 71.9 per cent of GDP ($2.9B) in 2025, and to 70.5 per cent of GDP ($3B) in 2026. The Central Government debt was reported at 60.1 per cent of GDP ($2.2B) in 2023 and is projected at 59 per cent of GDP ($2.3B) in 2024 and to decline further to 58.1 per cent of GDP ($2.4B) in 2025 and 57.1 per cent of GDP ($2.5B) in 2026. The debt of statutory bodies and state-owned enterprises averages 13.8 per cent of GDP over the medium-term and is dominated by the Petro Caribe debt which averages 9.2 per cent of GDP. (Chart 21 and Chart 22) The long-standing public debt owed to Trinidad and Tobago and Algeria, estimated at $95M, are debt overhangs to which current resources will need to be allocated for their liquidation. [6]

Chart 21: Total Public Sector Debt as a Percentage of GDP

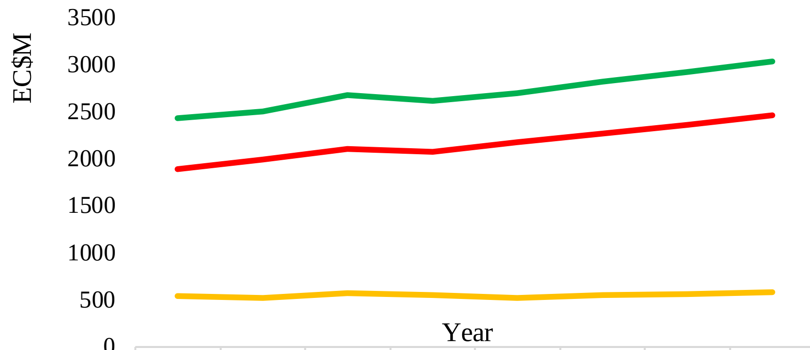


	2019	2020	2021	2022	2023	2024	2025	2026
Total Public Sector Debt as a % of GDP	74.1	88.8	88.2	78.7	74.6	73.3	71.0	70.5
Total Central Government Debt as a % of GDP	57.6	70.6	69.4	62.2	60.1	59.0	58.1	57.1
SOEs & SBs Debt as a % of GDP	16.4	18.3	18.7	16.5	14.5	14.3	13.8	13.4

Source: Ministry of Finance 2023. 2022 Public Debt Bulletin Quarter 4; Grenada Medium-Term Economic and Fiscal Strategy Report 2024-2026 (Ministry of Finance 2023)

[6] The public debt does not include liabilities that may arise if the Government provides guarantee for the purchase of the housing units that have been donated by the People's Republic of China.

Chart 22: Total Public Sector Debt in EC$M



	2019	2020	2021	2022	2023	2024	2025	2026
Total Public Sector Debt	2427.7	2502.7	2672.5	2617.2	2696.2	2819	2919.2	3034.2
Total Central Government Debt in $M	1888.8	1988.4	2104.4	2068.4	2173.5	2269.1	2358.9	2459.1
SOEs & SBs in $M	538.9	514.3	567.1	547.9	522.7	549.9	560.3	575.1

Source: Ministry of Finance 2023. 2022 Public Debt Bulletin Quarter 4; Grenada Medium-Term Economic and Fiscal Strategy Report 2024-2026 (Ministry of Finance 2023)

Potential Fiscal and Debt Challenges in the Medium-Term

There are three major risks to the effective implementation of the fiscal and debt strategies, namely: i. economic uncertainties ii. fluctuations in revenues and iii. economic shocks brought about by hazards.

Economic Uncertainties

The economic uncertainties are associated, among others, with the ongoing Russia/Ukraine war and the conflicts between Israel and the Harakat al – Muqawama al – Islamiya (Hamas) and the associated geo-political tensions. These have given rise to the possibility of freight charges returning to their 2022 highs, on account of continued attacks on the Red Sea; higher oil prices, driven by a larger regional war with Israel; and the implications for food prices of the ongoing war between Russia and the Ukraine.

There is also increased uneasiness between China and Taiwan; and the constant negotiations resulting in the reaffirming and realignment of trading arrangements and political ties. These could contribute to economic shocks and the accompanying slow growth in global output. The slower growth in global output and economic uncertainties are transmitted to the domestic economy through the fall in tourism and inflows from foreign investments and the consequential slower economic growth.

Fluctuations in Government Revenues

Economic uncertainties brought about by geo-political conflicts and the slower economic growth would depress government revenues which could become volatile. In addition, factors directly affecting inflows from the Citizenship by Investment Programme could negatively impact current revenue. In 2024, inflows from the CBI are projected to account for approximately 24 per cent of current revenue, a portion of which is allocated to financing capital programmes. Although the inflows from the CBI are projected to decline to an average of 14 per cent of current revenue in 2025 and 2026, these inflows are important sources of revenue.

The consideration being given by the European Union to impose stricter policies for countries engaged in the CBI programmes could contribute to ongoing adjustments of the requirements of the CBI programme and dampen these inflows.

Economic Shocks Brought About by Hazards

The occurrence of extremes of weather, hurricanes, pests and diseases, epidemics and other natural and manmade disasters could depress economic growth with the accompanying negative impact on government finances. The materialisation of the factors impeding economic growth and fallout from the Citizenship by Investment programme could impact negatively on the implementation of the strategic priorities of the Government.

Implementation of Strategic Priorities

The Government's stated goal is to transform the economy to “A Sustainable, Equitable and Prosperous Grenada for All”. The strategic focus of the Government, based on the 2023 national budget, is to strengthen the economic sectors and develop linkages among agriculture, agro-processing, marine resources, tourism and the creative economy.

For the social sectors, the priorities included the provision of free education up to the tertiary level, and the synchronisation of the school curriculum with the education and skills requirements of the economy. The programmes for health and wellness included training health professionals, upgrading health facilities, and enhancing hospital and community health services. Other areas of focus were the reform of the public service and pension reform. These were supported with projects for upgrading the economic and social infrastructure.

The status of the implementation of the priority areas was outlined in the 2024 Budget Statement which also consolidated the priority areas under the following themes: i. Human Development; ii. Promoting Robust Economic Growth and Job Creation; iii. Promoting Good Governance; and iv. Enhancing Climate Resilience, Environmental Sustainability, and Renewable Energy.

Promoting Robust Economic Growth

Under the theme 'Promoting robust economic growth' the institutionalisation of the creative industries commenced with the establishment of the Grenada Office of Creative Affair and the Creative Industries Development Fund. The Government also provided financial support to the creative industries through the granting of 100 per cent tax concessions on the importation of equipment. With the channeling of financial resources to the sector, it is necessary to establish systems to measure the contribution of creative industries to the economy and its integration with other sectors.

The extent of the linkages between the creative industries and tourism will need to be strengthened. The integration of the sectors should be taken into consideration as the Government undertakes a comprehensive review of the framework for the operations and management of the historical and geological sites. This is timely as work will continue in 2024 on the rehabilitation of Fort George and the enhancement of the Grand Etang Shoreline trail, and the rejuvenation and development of underwater sculpture parks and as the Government provides support to the private sector for the expansion of hotel capacity.

Further, the linkages between tourism and agriculture, and the use of domestically produced agricultural products in institutions should be more pronounced.

The implementation of the 'Food Security Enhancement Project' for crop, fishing, and livestock production and the spice planting programme will need to be accelerated in 2024. This project should be implemented with other programmes for increasing production such as the improved management of Government estates and support for farmers, fisherfolks, and the livestock industry. The reformed Marketing and National Importing Board (MNIB) is targeted to be operational in 2024 and should provide logistics and marketing support for agricultural production. Consideration will need to be given to the introduction of a legal and regulatory system to forge linkages among the sectors.

Addressing Social Imbalances

In the FROC 2022 Annual Report, poverty and unemployment were identified as social imbalances in the economy. As indicated in the FROC 2022 Annual Report, based on the Grenada Survey of Living Conditions and Household Budget Survey" (SLCHBS), the consumption expenditure-based poverty rate was estimated at 25 per cent and multi-dimensional poverty was estimated at 34.3 per cent in 2019, and the Covid-19 Pandemic would have aggravated the situation.

The overall rate of unemployment has been declining. Notwithstanding, youth unemployment is still elevated at 24.2 per cent with a higher rate of unemployment among young women (36.6 per cent). The inactive working population is high for youths of ages 15 to 19, and the unemployment rate is highest among those who have only attained primary or secondary education. The combination of these factors suggests that structural weaknesses are affecting the labour market.

There are no updated indicators for the trend in poverty, but the rate could be declining. The "Grenada Survey of Living Conditions and Household Budget Survey" (SLCHBS) reports that: "In terms of labour market indicators, not surprisingly poverty is considerably higher for those unemployed (38.8 per cent), compared to those employed (20.8 per cent)". The fall in the rate of unemployment would have contributed to some reduction in poverty.

Sustained growth is key to addressing poverty and unemployment. It is therefore necessary to determine the rate of growth that will lead to the reduction of poverty and unemployment and implement programmes and projects to achieve the targeted growth.

This must be combined with policies to address the structural weaknesses in the economy that contribute to persistent youth unemployment.

The Government has implemented policies to address the youth unemployment brought about by the mismatch of the available skills with the skills demanded by the economy. As such, reforms were implemented in the education system, including the policy for universal access to secondary school, the elimination of registration fees at pre-primary, primary and secondary schools and the removal of tuition fees at the T.A Marryshow Community College (TAMCC) and New Life Organisation (NEWLO). The policy to synchronise the school curriculum with the education and skills requirement of the economy was manifested in the strengthening of skills training in primary schools, the introduction of specialised courses in Entertainment Law and Introduction to Entrepreneurship at the TA Marryshow, Community College, and the granting of scholarships to undertake studies in creatives at TAMCC. The compulsory school age is expected to be increased from 15 years to 18 years from September 2024.

Among the other social policies to reduce poverty and income inequality is the increase in the legislated minimum wage, particularly for the lower income earners. According to the SLCHBS, the majority of the poor are among the unemployed, and a large proportion of the working poor are employed by the Government. The regularisation of the public service and the increased stipend to Imani should contribute to a reduction in poverty over time. Specifically, the SLCHBS report states: “Moreover, of those individuals currently employed, central government employees—who represent 21 per cent of all workers—are among the group with the highest poverty rate (24.5 per cent), followed by private workers and self-employed people without employees, with a poverty rate of 20.8 per cent and 19.9 per cent, respectively”. Reviewing, and adjusting as necessary, the legislated minimum wage every three years would lead to lower rate of poverty and reduce the widening of income inequality.

Improving domestic capacity and increasing productivity are also linked with the quality of the health service. In this regard, the strengthening of human resource capacity at health facilities and at managerial and auxiliary services and the application of technology combined with the upgrading of health facilities should contribute to improvement in the delivery of health services.

The introduction of National Health Insurance, planned for 2025, should be designed to improve access to health services, thereby strengthening the human capacity.

With the increase in crime, the priority areas of focus include Citizen Safety and National Security. The plan of the Government is to establish a National Security Council to prepare a national security policy and strategy to improve and strengthen the national security architecture. The programme also includes the introduction of CCTV cameras across public spaces and other vulnerable spots, the introduction of legislation which allows for the footage from the CCTV cameras to be used as evidence in Court Proceedings along with amendments to the Firearms Act to provide for stiffer penalties for persons convicted of possession, trading, or use of illegal firearms.

The Economic and Social Infrastructure

In upgrading the social and economic infrastructure, the rehabilitation of schools, upgrading of medical facilities, and the preparation for the construction of the teaching hospital would continue in 2024. A major socio-economic project was the upgrading and distribution of the housing units provided by the People's Republic of China. The implementation of the housing ‘Project 500’ will improve the socio-economic condition of the recipients.

Some of the infrastructure projects for which expenditure was less than budgeted in 2023 would need to be accelerated in 2024. These projects include Grenville Flood Reduction, St. John’s River Flood Mitigation, the Moliniere Landslip Rehabilitation and the Western Main Road Corridor Upgrade.

The policies and programmes for strengthening human capacity, facilitating robust economic growth, promoting good governance and building climate resilient, energy efficient and environmentally friendly social and economic infrastructure are summarised in Appendix II and detailed in the Annex to this report.

Conclusion

Economic growth was estimated at 5.5 per cent in 2023 and to expand on average by 3.6 per cent over the medium-term. The fiscal balances, which improved significantly in 2023, moderated over the medium-term. This is attributed to the budgeted higher expenditure in 2024 and the projected decline in inflows from the CBI in 2024 and 2025 and its moderate recovery in 2026. Meanwhile, the public debt to GDP ratio is projected to decline over the medium-term. The debt strategy is to reduce the debt to GDP ratio to 60 per cent by 2035, and throughout the period, to borrow as necessary on concessionary terms. Developments in the international environment are uncertain and shocks would negatively impact on the domestic economy. However, the fiscal policy for 2024 is expansionary. If there are no economic shocks and the budget is implemented as planned, economic growth in 2024 is likely to be higher than projected.

Recommendations

Enhancing Data Coverage

Improving the timeliness and comprehensiveness of data is necessary for the assessment of compliance by the Government with the provisions of the Fiscal Resilience Act. This is particularly so for the estimation and projection of economic growth which is the foundation for assessing compliance of the Government with the fiscal rules and target. Additionally, systems should be developed to capture data on the strategic areas of focus of the Government, particularly for crop and livestock production, agro-processing, marine resources and creative industries. An analysis of the data challenges and opportunities was presented in the appendix to the FROC 2022 Annual Report.

Strengthening the Presentation of Data for Ease of Analysis

To make it easier for users to gauge the trend in the data series and facilitate ease of analysis, there is the need to consistently include, in the same table, absolute figures and as percentages of GDP, and to provide information on, at least, the past two years, the year under review and the projected period. The Estimates of Revenue and Expenditure should include, in a consistent format, the preliminary outturn for the year under review and the actual outturn for the previous year.

This will ensure that the actual outturn of government operations is recorded and easily accessible in the Estimates of Revenue and Expenditure.

Developing Indicators of Productivity and Economic Efficiency

Economic growth could be achieved and sustained through improved productivity and economic efficiency. There is the need for indicators or systems to measure the rate of productivity and the efficiency of doing business. The use of a 'Productivity Index' and an 'Ease of Doing Business Indicator will allow for an assessment of the inefficiencies and efficiencies in the economy.

Strengthening Policies to Foster Linkages in the Economy

Along with the development of the productive sectors, it is necessary to establish policies and programmes that will strengthen linkages among the sectors in the economy. This could commence by the stipulation of local contents in goods and services provided to government and government-supported institutions.

Enhance Monitoring and Reporting on the Social Impact of Government Policies

To assess the impact of government policies. Social sector indicators such as unemployment, poverty, health, education and access to basic utilities, should be developed, where they do not exist, and reported regularly and as part of the Medium-term Economic and Fiscal Strategy Report.

Insulating Government Revenues from Wide Fluctuations

The dependence on inflows from the Citizenship by Investment programme has introduced the possibility of wide fluctuations in government revenues. During this period of high inflows, the resources should be utilised in areas that provide a steady flow of national income over time. This requires the channeling of investments into new growth areas such as agro-processing, projects for developing the blue economy, and the creative and digital economy. The scope of the National Transformation Fund could be broadened to supplement inflows from the CBI. The financial management for other non-tax sources of revenue should be strengthened to improve revenue from these sources; and the system for expenditure management should be tightened.

Implementing the Institutional Arrangements for Debt Management

The total public debt is increasing over the medium-term, and a deceleration or decline in economic growth could result in an increase in the debt to GDP ratio.

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

CHAPTER 3: ASSESSMENT OF COMPLIANCE OF THE GOVERNMENT WITH FISCAL RULES AND TARGETS

Key Messages

The compliance assessment of Government with the fiscal rules and targets for 2023 is based on the Fiscal Responsibility Act (2015).

The fiscal outturn of Central Government in 2023 was in compliance with the fiscal rules for:

- real growth in primary expenditure
- wage bill;
- the primary balance; and
- liabilities of Public Private Partnership.

Based on the Fiscal Resilience Act (2023):

- the Government's 2024 national budget and the medium-term projections for 2024 -26 are in compliance with the wage rule and the primary balance rule.
- the debt target is to be achieved by 2035.

In the medium-term, while the projected primary surpluses cover interest payments, they only contribute partially to the principal repayments falling due.

Introduction

This chapter assesses the compliance of the Government with the fiscal rules and targets for 2023 and over the medium-term. The Fiscal Responsibility Act (2015) was repealed and replaced with the Fiscal Resilience Act (2023), effective 1st January 2024. In both legislations, the Fiscal Resilience Oversight Committee is required to report to Parliament on the degree of compliance of the Government with the Act.

Accordingly, the chapter is an assessment of the consistency of the Central Government operations in 2023 with the fiscal rules and targets based on the Fiscal Responsibility Act (2015). The analysis is limited to the compliance of the Central Government operations with the fiscal rules and targets. The operations of the covered entities are not included in the assessment of compliance with the fiscal rules and targets due to the limitations of the data on the covered entities, and the constraints of strictly applying the provisions of the act to Central Government and covered entities. Secondly, the FROC assesses the compliance of Government with the fiscal rules and targets in the Fiscal Resilience Act (2023) based on the estimates in the 2024 National budget and the forecast for the medium-term (2024-2026).

The chapter concludes with an assessment of the implications of implementing the Fiscal Resilience Act in line with its objective of ensuring debt sustainability.

Assessment of Compliance of the Government with the Fiscal Rules and Targets

Assessment of Compliance for 2023

The assessment of compliance of the Government with the fiscal rules and targets for 2023 is in accordance with the Fiscal Responsibility Act (2015) which makes provisions in Section 7 and Section 8 for the following fiscal rules and targets:

i. The rate of growth of the primary expenditure of the Central Government, and of every covered public entity, shall not exceed two per cent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate;
ii. The ratio of expenditure on the wage bill shall not exceed nine per cent of GDP;
iii. The total stock of public sector debt from domestic or external sources for any purpose shall not exceed fifty-five per cent of GDP;
iv. Contingent liabilities arising from, as a result of, or in connection with public-private partnerships shall not exceed five per cent of GDP; and
v. Where the ratio of public debt to GDP for the preceding year reaches fifty-five per cent, the targeted primary balance shall be a minimum of three point five per cent of GDP.

According to the Fiscal Responsibility Act, in Section 8 (5), *where in a fiscal year the debt level exceeds sixty per cent of GDP, appropriate corrective revenue and expenditure measures are expected to be undertaken to reduce the public debt to fifty-five per cent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.*

An examination of the information submitted to Parliament on 4th December 2023, and the data submitted by the Ministry of Finance to the FROC on 10th January 2024 and on 12th and 16th February 2024, showed that in 2023 the Government was in compliance with the Fiscal Responsibility Act (2015) for the real growth in primary expenditure, the wage bill, primary balance, and the liabilities of public-private partnerships. As displayed in Table 7, the Government was in compliance with the real growth in primary expenditure (-10.4 per cent), the wage bill (7.8 per cent of GDP), primary balance (7.6 per cent of GDP), and there were no liabilities of Public Private Partnership.

The decline in real primary expenditure of 10.4 per cent in 2023 was influenced primarily by higher capital expenditure financed by grants and inflows from the CBI, which together amounted to $223.7M in 2023 compared with $116M in 2022. These inflows are not included in the calculation of the real growth in primary expenditure as provided for in the Fiscal Responsibility Act. Specifically, Section 9 of the act, states that:

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

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

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

Therefore, although primary expenditure grew by 3.8 per cent, the adjusted primary expenditure declined by 7.8 per cent due to the exclusion of capital expenditure financed by grants and by inflows from the CBI in the determination of the adjusted primary expenditure. An average inflation rate of 2.6 per cent accounted for the decline in real primary expenditure of 10.4 per cent.

The higher tax revenue and the significant increase in inflows from the CBI contributed to the growth in current revenue in 2023 and the accompanying higher than budgeted primary and overall balances.

The available information suggests that the liabilities of the public-private partnerships were less than the legislated 5 per cent of GDP. However, these are identified in the Medium-term Economic and Fiscal Strategy Report as a "source of potential risk" as follows:

> "There were two such 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 that is a World Bank-funded regional project between the Governments of Grenada, Saint Lucia and St. Vincent and the Grenadines and Digicel to support the countries' digital transformation agenda. Grenada's contribution to the regional projects 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 EC$18.8M, with Government owning 51.0 per cent of the shares of the venture".

In 2023, the public sector debt to GDP ratio of 73 per cent remained above the targeted 55 per cent of GDP. The degree of compliance with the fiscal rules and targets is highlighted in Table 7.

Table 7: Consistency of the Fiscal Outturn for 2023 with Fiscal Rules and Target

	Fiscal Rule	Outturn	Compliance	FROC Comments
Growth of Real Primary Expenditure (Annual percentage change)	Not exceeding 2.0 per cent	-10.4 per cent		The significant decline in real primary expenditure was due to the impact of the inflows from the Citizenship by Investment Programme. Along with the capital grants, capital expenditure financed from NTF inflows are excluded from the calculation of the real growth in primary expenditure. It is this adjustment that primarily contributed to the decline in real primary expenditure. The primary expenditure does not include the expenditure of covered entities as stipulated in the legislation.
Wage Bill of (Percentage of GDP)	Not exceeding 9.0 per cent of GDP	7.8 per cent		The comparative lower wage bill was due to, for the most part, the upward revision of GDP. The wage bill does not include wages for persons employed on projects as stipulated in the legislation. The wage bill of covered entities is not included.
Primary Balance (Percentage of GDP)	Not less than 3.5 per cent of GDP	7.6 per cent		The comparatively higher primary balance was due to the higher than projected revenue. Tax revenue was more than estimated due to the impact of economic growth and collections associated with the tax amnesty. The higher non-tax revenue was influenced by the inflows from the Citizenship by Investment Programme. There is no legislated primary balance for when the debt is above the targeted debt ratio of 55 per cent. The FRA indicates that the 3.5 per cent primary balance **is in effect after the achievement of the 55 per cent debt target** as follows: (3) Where the ratio of public debt to GDP for the preceding year reaches fifty-five per cent, the Minister shall take appropriate steps to ensure that–(a) the targeted primary balance shall be a minimum of 3.5 per cent of GDP.
Contingent Liabilities related to PPPs (Percentage of GDP)	Not exceeding 5.0 per cent of GDP	0.0 per cent		The Medium-term Economic and Fiscal Strategy Report stated that there are two Public-Private Partnerships. No liabilities were recorded.

	Fiscal Rule	Outturn	Compliance	FROC Comments
Public Debt (Percentage of GDP)	55.0 per cent	74.6 per cent	🔴	This refers to total public sector debt, which includes the debt of the Central Government, government guaranteed debt and the debt of statutory bodies. The 2023 Compliance matrix presented to Parliament on 5th December 2022, referred to Central Government and government guaranteed debt only, which is a component of the total public sector debt. At that time, the estimated total public sector debt, excluding the Petro Caribe debt, was 67 per cent of GDP. The inclusion of the Petro Caribe debt pushed the total public sector debt to 77 per cent of GDP.

Symbol	Meaning
🟢	Compliance
🔴	Breach
🟡	Cannot be determined

The 2024 National Budget

The 2024 National Budget was approved by Parliament under the provisions of the Fiscal Resilience Act (2023). In relation to the fiscal rules and target, the Fiscal Resilience Act makes provision for:

i. *The annual wage bill of Central Government does not exceed thirteen per cent of nominal GDP.*

ii. The public debt target shall be no more than sixty per cent of nominal GDP to be achieved by 2035.

(3) For the purposes of achieving the public debt target under subsection (1), the medium-term fiscal framework shall set an annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP until the public debt target is achieved.

(4) Where the public debt target specified under subsection (1) is achieved, the Minister shall take appropriate steps to ensure that primary balances are consistent with maintaining debt sustainability.

In keeping with the coverage of the public debt, the Fiscal Resilience Act makes provisions for the monitoring of statutory bodies and state-owned enterprises in Section 13 as follows:

(1) The Minister shall cause to be established Performance-Monitoring Guidelines for Statutory Bodies and State-Owned Enterprises in accordance with the objects of this Act.

(2) No later than three months prior to the beginning of a fiscal year, the Minister shall—

(a) review and, where applicable, update the Performance-Monitoring Guidelines for Statutory Bodies and State-Owned Enterprises; and

(b) where applicable, issue Statutory Bodies and State-Owned Enterprises with explicit guidelines for non-interest expenditure, new borrowings and other policies for the fiscal year, which shall be monitored by the Ministry of Finance.

The Government tabled in Parliament its Compliance Assessment Report for 2024, as part of the Medium-term Economic and Fiscal Strategy Report, which evaluated the 2024 budget for consistency with the fiscal rules and target. This report is in fulfilment of Section 12 (1) (C) of the Fiscal Resilience Act 2023, which states that: *The Minister of Finance shall prepare and submit to Parliament, along with the presentation of the annual and any supplementary budget, a statement showing the progress made towards compliance with the fiscal rules and targets under Sections 7 and 8, in the relevant financial year.*

The Compliance Matrix, submitted to Parliament on 4th December 2023 as part of the Medium-term Economic and Fiscal Strategy Report, showed that the Central Government budgeted operations are in accordance with the fiscal rules for a wage bill of 13 per cent of GDP and a minimum primary balance of 1.5 per cent of GDP. The estimated wage bill is 9.7 per cent of GDP, and the projected primary balance is 1.5 per cent of GDP (Refer to Table 8).

Table 8: Consistency of Budget 2024 with Fiscal Rules and Target

	Fiscal Rule	Budgeted	Compliance	FROC Comments
Wage Bill of (Percentage of GDP)	Not exceeding 13.0 per cent of GDP	9.7 per cent		The wage rule relates to Central Government and is presented with precision and clarity in the Act.
Primary Balance (Percentage of GDP)	Not less than 1.5 per cent of GDP	1.5 per cent		The primary balance refers to Central Government and the fiscal rule is to be read in conjunction with the definitions in the Act as follows: 1. Fiscal balance means the total receipts of the Central Government (excluding debt receipts and unspent grants) less total expenses (excluding repayment of debt) during the fiscal year; 2. Primary balance means the fiscal balance before interest expenditure; and 3. Primary balance rule means the fiscal rule under Section 8.
Public Debt (Percentage of GDP)	60 per cent of GDP	73.3 per cent		The debt target is to be achieved by 2035; and the fiscal target is presented with precision and clarity in the Act.

Symbol	Meaning
	Compliance
	Breach
	Cannot be determined

The Medium-Term Fiscal Framework

The Government submitted to Parliament the Medium-term Economic and Fiscal Strategy Report (2024-2026) which sets out its fiscal policy strategy and objectives for the Budget year 2024 and the two forward years, 2025 and 2026. The 2024 – 2026 Economic and Fiscal Strategy Report provides for lower primary balances and a higher wage bill, in keeping with the Fiscal Resilience Act. The information submitted to Parliament on 4th December 2023 showed that the Central Government operations are in accordance with the fiscal rules and target as outlined in the Fiscal Resilience Act.

The public debt target is to be achieved by 2035. In the Medium-term Economic and Fiscal Strategy Report, the public debt is projected to decline as a percentage of GDP over the medium term. The compliance of the Government is shown in Table 9, based on the information presented to Parliament and supported by that submitted to the FROC by the Ministry of Finance:

Table 9: Compliance of Medium-Term Fiscal Framework 2024 – 2026 with Fiscal Rules and Targets

Fiscal rules and Targets	Fiscal Variables	Fiscal Variables	Compliance	FROC Comments
Wage Bill of thirteen per cent of GDP	Budget 2024	9.7 per cent	🟢	The wage rule relates to Central Government and is presented with precision and clarity in the Act.
	Projected 2025	9.4 per cent	🟢	
	Projected 2026	9.0 per cent	🟢	
Primary balance not less than 1.5 per cent of GDP	Budget 2024	1.5 per cent	🟢	The primary balance refers to Central Government and the fiscal rule is to be read in conjunction with the definitions in the Act as follows: 1. Fiscal balance means the total receipts of the Central Government (excluding debt receipts and unspent grants) less total expenses (excluding repayment of debt) during the fiscal year; 2. Primary balance means the fiscal balance before interest expenditure; and 3. Primary balance rule means the fiscal rule under section 8 (3);
	Projected 2025	1.8 per cent	🟢	
	Projected 2026	2.5 per cent	🟢	
Public debt to GDP ratio of 60 per cent	Budget 2024	73.3 per cent	🟡	The total public debt, inclusive of the debt of statutory bodies and state-owned enterprises. The debt target is to be achieved by 2035; and the fiscal target is presented with precision and clarity in the Act.
	Projected 2025	71.9 per cent	🟡	
	Projected 2026	70.5 per cent	🟡	

Symbol	Meaning
🟢	Compliance
🔴	Breach
🟡	Cannot be determined

Implications of Implementing the Fiscal Resilience Act

The implications for implementing the Fiscal Resilience Act are outlined in relation to the object of the Act, that is, to maintain debt sustainability. This is specified in Section 5 of the Fiscal Resilience Act where, among others, the objective of the Act is to ensure fiscal and debt sustainability and the prudent management of fiscal risk as follows:

The objects of this Act are–

(c) to ensure that debt is reduced to, and then maintained at, a prudent and sustainable level by maintaining primary surpluses that are consistent with this object; and

(d) to ensure prudent management of fiscal risks.

The FROC examined the Debt Sustainability Analysis model applied to determine the primary balance necessary to reduce public debt to 60 per cent of GDP by 2035. At the time of the application of the model, in 2022, the public debt was $2.6B or 80 per cent of GDP and was dominated by Central Government Debt of $2.1B or 63 per cent of GDP. The debt of statutory bodies and state-owned enterprises was $0.5B or 17 per cent of GDP. The debt of the statutory bodies and the state-owned enterprises was dominated by the arrears for the Petro Caribe debt of $0.4B or 11 per cent of GDP.

With a debt to GDP ratio for the Central Government of 63 per cent at the time of the application of the model, and a timeframe of 13 years to attain the targeted public sector debt to GDP ratio, the primary balance requirement of the Central Government was 0.5 per cent of GDP. The model generated a primary balance that was significantly less than the required interest payment, which averages 1.3 per cent for the Central Government over the medium-term.

The inclusion of the debt of statutory bodies and state-owned enterprises of approximately 17 per cent of GDP pushed the primary balance requirement to 1.5 per cent of GDP to achieve the public debt target of 60 per cent of GDP by 2035. The FROC noted that the required primary balance generated applies to the total public debt. However, the primary balance is to be generated by the Central Government.

The Ministry of Finance has explained that the alignment of the primary balance to the total public debt is due to the dominance of the Central Government in the public debt. Technically, the primary balance effort of the Central Government should be for the debt of the Central Government, and this may require a review of the primary balance rule as stated in the Fiscal Resilience Act.

The FROC notes that the primary balance of 1.5 per cent of GDP in 2024, in accordance with the legislated minimum primary balance, just offsets the required interest payment for that year. The resources generated from current operations will not contribute to financing principal repayment on outstanding debt, of which external principal debt repayment will amount to $86.6M or 2.2 per cent of GDP. The financing of the 2024 national budget, therefore, made provision for the utilisation of reserves. In 2025, the primary balance of 1.8 per cent of GDP is higher than interest payment of 1.3 per cent of GDP and the legislated minimum primary balance of 1.5 per cent of GDP. This fiscal outturn allows for a partial contribution to external principal debt repayment which is estimated at $98.4M or 2.4 per cent of GDP. In a similar pattern, in 2026, the primary balance is projected at 2.5 per cent of GDP, higher than the legislated minimum primary balance of 1.5 per cent of GDP and interest payment of 1.1 per cent of GDP, allowing for a partial contribution to the financing of external principal debt repayment of $105M or 2.5 per cent of GDP. Therefore, in 2025 and 2026, a portion of the repayment of principal on domestic and external debt falling due will need to be financed by drawing down reserves and/or new borrowing. The Government is encouraged to continue generating primary balances that are above the legislated minimum primary balance, as fiscal and debt sustainability requires the generation of domestic revenue for interest and principal debt repayment.

All the components of Government expenditure should be examined for increased efficiency as these could negatively affect the fiscal balances. The Fiscal Resilience Act makes provision for a cap on the wage bill of 13 per cent of GDP. The FROC could not pronounce on the appropriateness of the 13 per cent of GDP wage rule. Based on the projected wage bill, the wage rule is not likely to be distortionary. However, the FROC, in its 2022 Annual Report, indicated that any of the components of expenditure whether it is expenditure on goods and services, transfers and subsidies or interest payment could have a negative impact on fiscal balances.

Given the potential for the wage rule to introduce distortions in employment in the public service, the FROC, in its 2022 Annual Report, recommended the elimination of the wage rule. The impact of the wage rule should be kept under constant review.

See Appendix III on the fiscal outturn of Central Government operations and Appendix IV on the public debt.

Conclusion

The operations of the Government in 2023 were in compliance with the Fiscal Responsibility Act for the real growth in primary expenditure, the wage bill, the primary balance and for the liabilities of public-private-partnership. The public debt was above the legislated 55 per cent of GDP. Over the medium term, the operations of the Government are in compliance with the Fiscal Resilience Act for the wage bill and the primary balance. The public debt target is to be achieved by 2035.

The projected primary balances for 2024 and 2025 are above the legislated minimum primary balance of 1.5 per cent of GDP. The projected fiscal outturn partially contributes to principal debt repayment. The Government is encouraged to continue generating primary balances that are above the legislated minimum primary balance.

Recommendations

In reviewing the Fiscal Resilience Act for effective monitoring and ensuring debt sustainability, the following should be considered:

i. the inclusion of a definition of debt sustainability in the Act;
ii. the precision of the language and the application of the primary balance rule; and
iii. the coverage of the Suspension Clause and the requirements for returning to the path of debt sustainability.

CHAPTER 4: THE COMPLIANCE OF GOVERNMENT WITH THE FISCAL RESPONSIBILITY ACT: FISCAL TRANSPARENCY

Key Messages

The Government disseminated information on public platforms on transactions affecting government finances.

Most of the fiscal and debt reports were published as stipulated in the Public Finance Management Act and the Debt Management Act.

The monthly Fiscal Summary Report and the Quarterly Debt Bulletin were updated and adequately captured the Government financial transactions.

Information on the operations of statutory bodies and state-owned enterprises was included in the Medium-term Economic and Fiscal Strategy Report.

A Release Calendar or a public announcement with directions for accessing the fiscal and debt reports will facilitate the greater utilisation of the various reports by the public.

The usefulness of reports could be enhanced by ensuring that critical data series have at least two years data prior to the year under review and there is consistency in the presentation of the data.

A report on proposed tax expenditures and the accompanying details on tax relief and exemptions is not published.

The audited public accounts remain outstanding. Measures should be taken to ensure the submission of the audited public accounts to Parliament as stipulated in the legislation.

Introduction

In this Chapter, the FROC focuses on the issues of fiscal transparency. Specifically, the FROC assesses whether the Government adhered to the principles of fiscal transparency, in accordance with the Fiscal Responsibility Act, the Public Finance Management Act, and the Debt Management Act as outlined in Section 4 of the Fiscal Responsibility Act which stipulates that: *This Act shall be read and construed together with the Public Finance Management Act and the Public Debt Management Act.*

The requirement of the Government to adhere to fiscal transparency is specified in Section 5 of the Fiscal Responsibility Act as follows:

Objects of this Act:

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

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

Further, Section 6 instructs as follows: *The Minister shall take appropriate measures to ensure compliance with this Act, including taking appropriate measures to ensure the following –*

(a) that the fiscal and financial affairs of the Government are conducted in a transparent manner with full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and the implications for finances;

The requirement for fiscal transparency is reinforced in Section 12 of the Fiscal Responsibility Act which states:

12. *(1)* *The Minister—*

(a) *shall take appropriate measures to ensure transparency in Central Government's fiscal operations at every stage of the budget preparation and execution cycle, unless it is reasonably required to withhold publication of information in the interest of national security;*

The practical actions to be taken to ensure fiscal transparency are detailed in the Public Finance Management Act (2015) which provides the procedures for the preparation, implementation and monitoring of the national budget, and for oversight and accountability; while the Debt Management Act (2015) provides guidelines for contracting, managing and monitoring the public debt. Embedded in these Acts of Parliament are the provisions for the publication of reports on the economy, government finances, the financial position of statutory bodies and state-owned enterprises, and on the public debt.

The Chapter, therefore, is an assessment of the Government dissemination of information affecting government finances to the public, and on the availability of fiscal and debt reports as stipulated in the legislation. It also assesses whether there are gaps in the existing system for providing timely, consistent and comprehensive information on government finances to the public. The Chapter concludes with recommendations for improving the timely dissemination of consistent and comprehensive information on government finances to the public.

Assessment of Compliance with Fiscal Transparency

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

During the year, the Government disseminated information to the public on transactions impacting on government finances on radio and social platforms, convened 'town hall' meetings, held consultations, and published economic, fiscal and debt reports.

Dissemination of Information on Public Platforms

The information disseminated on public platforms for transactions impacting on government finances pertained to both revenue and expenditure.

The main revenue related financial transactions were the granting of tax relief through the exemption of Value Added Tax on 19 essential foods and other basic necessities, the reduction in the petrol tax and the granting of 100 per cent tax concession on the importation of equipment for the creative industries. The expenditure related financial transactions impacted mainly transfers and subsidies and were related to the reorganisation of the Marketing and National Importing Board (MNIB), the elimination of tuition fees for T.A Marryshow Community College (TAMCC) and the New Life Organisation (NEWLO), and the subsidy on electricity bill to residential consumers consuming up to 99 kWh per month.

The financial transactions related to government assets were the acquisition of the Kimpton Kawana Bay Hotel, the reverting of the beach lands occupied by the Radisson hotel to the government, and the purchase of the lands adjacent to Camerhonge Park. The financial transactions are outlined in Box 1.

Box 1 Information Disseminated through Public Engagements

Financial transactions affecting revenue

- The removal of the cap on freight
- The exemption of Value Added Tax on 19 essential foods and other basic necessities.
- Reduction in the petrol tax.
- The granting of 100 per cent tax concessions on the importation of equipment for the creative industries

Financial transactions affecting expenditure

- A subsidy on electricity bill to residential consumers consuming up to 99 kWh per month.
- Increase to beneficiaries of the Support for Education Empowerment and Development (SEED) programme
- The state of the finances and operations of the Marketing and National Importing Board (MNIB)

Financial transactions related to government assets

- The bi-monthly payment of salaries, emoluments and pensions to government workers
- Amendments to the contribution and benefits of the National Security Scheme
- Revision to the minimum wage
- The outcomes of wage negotiations for public officers
- Provision of subsidised internet services to 3,000 households
- The elimination of tuition fees for students of the T.A. Marryshow Community College (TAMCC) and the New Life Organisation (Newlo).
- 25 per cent bonus to public officers
- The assumption of the Kimpton Kawana Bay Hotel
- The reverting of the beach lands occupied by the Radisson hotel
- The purchase of lands adjacent to Camerhonge Park

Publication of Fiscal Reports

Status of Publications

The Government published most of the fiscal and debt reports as stipulated in the Public Finance Management Act and the Debt Management Act. Among these were the monthly Fiscal Summary Report, the Quarterly Debt Bulletin, the Mid-year Fiscal Policy Review, the Estimates of Revenue and Expenditure and the Appropriation Bill for 2024, the Medium-term Economic and Fiscal Strategy Report (2024 – 2026) and the Medium-term Debt Management Strategy (2024 – 2026).

The audited public accounts remain outstanding. The audited accounts have not been presented to Parliament since 2016, and this is a breach of the provisions of the Constitution (Section 82), the Audit Act (2007) and Section 67 of the Public Finance Management Act (2015).

Specifically, the Public Finance Management Act stipulates:

66.—(1) Subject to subsection (2), the Accountant General shall within six months after the close of every financial year prepare, and submit to the Director of Audit as many copies as the Director of Audit may require of the Public Accounts of the Government of Grenada for that financial year accounting for all public money, disclosing the basis and accounting standards used in showing the financial position of the Government of Grenada as of the close of the financial year.

(2) In the event of exigent circumstances, the Minister may, with prior approval of the House of Representatives in its sole discretion, by direction to the Accountant General, extend the period within which the statements are required to be submitted to the Director of Audit and any direction so given shall be laid before the House of Representatives within thirty days of it being given and if there is no sitting of the House of Representatives, within fourteen days of its next sitting.

It is therefore necessary to provide information to Parliament on the status of the audited public accounts in accordance with the legislation.

The report on proposed tax expenditures and the accompanying details on tax relief and exemptions has not been published as stipulated in the Public Finance Management Act.

The status of the publication of fiscal reports is outlined in Table 10.

Table 10: Status of the Publication of Fiscal and Debt Reports

Name of report	Applicable legislation	Status
Public Finance Management Act		
Medium-term Fiscal Framework	Section 12	🟢
A Budget Calendar	Section 15	🟠
The Annual Budget	Section 24	🟢
Mid-year Fiscal Policy Review	Section 25	🟢
Tax Concession Report	Section 29	🔴
Audited Public Accounts	Section 67	🔴
Debt Management Act		
The Debt Management Strategy	Section 5	🟢
The Borrowing Plan	Section 6	🟢
Debt Bulletin	Section 24	🟢
Annual Debt Report	Section 25	🟢

Symbol	Meaning
🟢	Compliant
🟠	Partially compliant
🔴	Not compliant

Timeliness of Reports

In relation to the timeliness of the reports, the analysis is limited to reports with legislated deadline for submission to Parliament and to the public. In general, these reports were published within the legislative timelines, and these include the Mid-year Fiscal Policy Review and the Estimates of Revenue and Expenditure for 2024 with accompanying documents, notable the Mid-term Economic and Fiscal Strategy Report. The main exception to publishing as stipulated in the legislation was the Medium-term Debt Management Strategy.

The Debt Management Act in Section 5 stipulates: (3) The Minister shall lay the medium-term debt management strategy document before Parliament, no later than two months prior to the commencement of every fiscal year.

The date for the submission of the Medium-term Debt Management Strategy to Parliament should be synchronised with the time for the submission of the Estimates of Revenue and Expenditure, the Appropriation Bill and the accompanying documents as outlined in the Public Finance Management Act.

The reports for which there are no legislated dates for publication could not be assessed for timeliness due to the lack of publicly available dates for the release of the reports, and the inability to decern a consistent timeline for the publication of the reports. To assess the timeliness and predictability of the reports, and to facilitate greater utilisation of the reports by the public, a release calendar or announcement of the release of the reports is necessary. The assessment of the timeliness of reports is summarised in Table 11.

Table 11: Timeliness of the Published Fiscal and Debt Reports

Name of Report	Legislated Time for Publication	Status
Public Finance Management Act		
Medium-term Fiscal Framework	31st December	
Budget Calendar	Prior to budget preparation	
The Annual Budget	31st December	
Mid-year Fiscal Policy Review	1st September	
Tax Concession Report	By 31st December	
Audited Public Accounts	31st October	
Name of Report	**Legislated Time for Publication**	**Status**
Debt Management Act		
The Debt Management Strategy	1st November	
The Borrowing Plan	31st December	

Name of Report	Legislated Time for Publication	Status
Debt Bulletin	No specified date	🟠
Annual Debt Report[7]	31st December	🟠

Symbol	Meaning
🟢	Compliant;
🟠	Partially compliant
🔴	Not compliant

Consistency and Comprehensiveness of Reports

There were improvements towards achieving consistency and comprehensiveness of the published fiscal and debt reports during 2023. The financial position of the statutory bodies and state-owned enterprises as of June 2023, and the financing component of the fiscal accounts for 2023 and 2024 were published. Specifically, there was the inclusion of the 'year-to-date' position of the government finances in the monthly Fiscal Summary reports, the clear distinction between Central Government debt and that of statutory bodies and state-owned-enterprises in the Quarterly Debt Bulletin and clarity in the classification of the Petro Caribe debt. The financial position of statutory bodies and state-owned enterprises was included in the Medium-term Economic and Fiscal Strategy Report. This should be supported by the requirement to submit audited financial accounts to Parliament as specified by the Public Finance Management Act as follows: 73. The Minister shall present a statement of the overall performance of all and each Statutory Body and State-owned enterprise based on audited financial statements for the preceding year to Parliament alongside the budget proposals for the following financial year.

The financing component of the fiscal accounts for 2023 and 2024 was included in the Estimates of Revenue and Expenditure for 2024. The inclusion of the financing for the estimated fiscal outturn (2023) is an improvement compared with previous Estimates of Revenue and Expenditure.

[7] The Annual Debt Report is presented with a one-year lag. There is not a legislated date for the publication of the Quarterly Debt Bulletin, except that debt information should be made available to the public regularly.

Similarly, the inclusion of the financing component in the fiscal accounts should be extended to the Mid-year Fiscal Policy Review. It is also important for the financing component, particularly the domestic financing, to be disaggregated to determine the financial transactions of the Government with the domestic financial institutions and other local financiers of the Government.

In pursuit of continuous enhancement of fiscal transparency, it is necessary to strengthen the fiscal content of the Mid-year Fiscal Policy review. The Public Finance Management Act Section 29 stipulates the content of the Mid-year Fiscal Policy Review, and this should guide the content of the report, particularly when a Supplementary Appropriation Bill is presented to Parliament.

The reports, and in particular, the Medium-term Economic and Fiscal Strategy Report (2024 – 2026 and the Medium-term Debt Management Strategy (2024 – 2026), contain significant information. It is necessary to review the presentation of the data for important series such as the operations of central government and the public debt. The review should take into consideration the need to consistently provide absolute figures and as percentages of GDP, and to provide information on, at least, the past two years, the year under review and the projected period in the same table. In periods of reclassification of data, the data series should be adjusted accordingly, and a note provided to indicate that the data has been reclassified. Of importance, the Estimates of Revenue and Expenditure should include, in a consistent format, the preliminary outturn for the year under review and the actual outturn for the previous year. These will make it easier for users to gauge the trend in the data series and facilitate ease of analysis. The assessment of consistency and comprehensiveness of the reports are shown in Table 12.

Table 12: Consistency and Comprehensiveness of Fiscal and Debt Reports

Name of report	Applicable legislation	Status
Public Finance Management Act		
Medium-term Fiscal Framework	Section 12	
A Budget Calendar	Section 15	
The Annual Budget	Section 24	
Mid-year Fiscal Policy Review	Section 25	
Tax Concession Report	Section 29	
Audited Public Accounts	Section 67	
Debt Management Act		
The Debt Management Strategy	Section 5	
The Borrowing Plan	Section 6	
Debt Bulletin	Section 24	
Annual Debt Report	Section 25	

Symbol	Meaning
	Compliant
	Partially compliant
	Not compliant

Gaps in Reporting

The gaps in reporting were outlined in the FROC 2022 Annual Report and some of these gaps persist. The reports that are required to be prepared by legislation and are outstanding include: i. the report on proposed tax expenditures and the accompanying details on tax relief and exemptions, and ii. the audited public accounts.

Although not legislated, the FROC recommends that an end of year fiscal report be published. The fiscal performance presented to Parliament during the presentation of the national budget contains estimated data for the fiscal year, and this could differ significantly from the actual outturn for that year. Constrained by the timeframe for the preparation of the Estimates of Revenue and Expenditure and the economic, fiscal and debt reports, and the occurrence of unplanned activities, important transactions affecting government finances are not always included in these reports. This was evident in the 2020 fiscal year in the case of the Government financial transaction for the repurchase of the WRB shares in GRENLEC. The information considered and approved by Parliament on 2nd December 2020 did not incorporate this financial transaction of approximately $170M which was disclosed after the approval of the reports by Parliament.

For 2023, an important financial transaction not included in the Estimates of Revenue and Expenditure nor in the data in the economic, fiscal and debt reports is the agreement with the Joyau de Caraibes, developers of Silver Sands, for the lease of the Kawana Bay site. Based on the Budget Statement, the payment structure involves a US$8M cash payment to the Treasury, and the relinquishing of leasehold interest in the Rivera Site adjacent to the Camerhonge Park. An 'end of year' fiscal report, with actual outturn for the previous fiscal year should be published; based on the requirement for full and timely disclosure of transactions impacting on government finances.

The Annex to this document outlines the major fiscal reports with indicators for availability, timeliness, consistency and comprehensiveness based on the requirement for: "*Full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditure*".

Compliance with Other Provisions of the Fiscal Responsibility Act

The following is the status of compliance of the Government with other provisions of the Fiscal Responsibility Act:

Documented Public Investment Procedures

The Fiscal Responsibility Act, in Section 6, outlines the responsibility of the Minister as part of the fiscal responsibility framework to include:

(e) that documented public investment procedures are prepared and made available for the submission and approval of all projects submitted for inclusion in the capital expenditure programmes of the Central Government and covered public entities.

The Government has prepared public sector investment procedures which is contained in the document "Implementation and accountability arrangements for Budget implementation and monitoring; and the preparation, management, execution, and monitoring of the Public Sector Investment Programme (PSIP) through the Results-based performance monitoring and reporting Framework" of April 2023. The adherence to the procedures has to be enforced so that the results are manifested in the closer alignment of the budgeted capital expenditure and the actual outturn. This should minimise the large variations, both overbudgeting and underbudgeting, for some capital projects.

Compensation Settlement for Persons Employed by the Government

In 2023, the Government concluded compensation agreements for persons employed by the Government for the period 2023 to 2025. However, the provision for the salary increases for 2023 was included in the 2023 Estimates of Revenue and Expenditure. This is in compliance with the Fiscal Responsibility Act, Section 7 (2), which states that *for the purposes of subsection (1) (b), the Minister shall, by order subject to negative resolution, establish compensation negotiating cycles that allow for compensation settlement for persons employed by the Government to be incorporated into the Estimates of Revenue and Expenditure for the financial year to which such settlement relates.*

Supplementary Appropriation Bill

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

The Supplementary Appropriation Bill, which was submitted to Parliament on 25th August 2023 amounted to $149M, comprising recurrent expenditure of $15.6M and capital expenditure of $134.4M. The increased expenditure was financed by grants of $1.0M, loans of $27.3M and $120.7M in revenue. Given the fiscal performance at the time of the submission of the Supplementary Appropriation Bill and the fiscal performance at the end of 2023, the Supplementary Appropriation Bill was in keeping with the fiscal rules for the real growth in primary expenditure, the wage bill and the primary balance of the Central Government. The Central Government debt at the end of 2023 of $2.2B or 60 per cent of GDP was less than the estimated 64 per cent of GDP submitted to Parliament on 5th December 2022. As such, the financial transaction did not push the debt above the amount approved in the 2023 Appropriation Act. Notwithstanding, the debt to GDP ratio was above the targeted 55 per cent of GDP.

Inflows into the National Transformation Fund

The Fiscal Responsibility Act, in Section 8, makes provisions for 40 per cent of the monthly inflows into the National Transformation Fund to be saved for general budget financing purposes as follows:

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

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

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

The regulations to the National Transformation Fund were amended, and the following is based on the 2024 Budget Statement: "The deposit of 10 per cent of all National Transformation Fund receipts into A Contingency or "Rainy-Day Fund" under the National Transformation Fund Regulations has also been highly commended. As of 30th November 2023, an amount of $19.0M has been lodged with the Eastern Caribbean Central Bank (ECCB) into that Fund". (2024 Budget Statement, pg17).

Over the years, a report on the operations of the National Transformation Fund, which is a special fund established by an Act of Parliament, has not been submitted to Parliament. Based on Section 45 of the Public Finance Management Act, reports on Special Fund established by an Act of Parliament should be presented to Parliament as follows:

(3) A special fund shall be subject to all payment and accounting procedures applicable to public finances under this Act, Regulations or directives made pursuant to this Act, or any other relevant law.

(4) Within a period of two months after the end of the financial year, the Public Officer administering a special fund shall prepare, sign and submit to the Accountant General statements showing the financial position of the fund at the end of the financial year.

(5) The statements required under subsection (4)

shall include–

(a) a statement of assets and liabilities of the special fund;

(b) a detailed statement of receipts and payment of the special fund; and

(c) a statement of any investments and any interest or dividends credited to the special fund.

The National Transformation Fund is one such fund, and hence reports should be presented to Parliament in accordance with the Public Finance Management Act.

Conclusion

In 2023, the Government disseminated information on public platforms and published most of the fiscal and debt reports as stipulated in the legislation, with the main exception being the audited public accounts and the report on proposed tax expenditures and the accompanying details on tax relief and exemptions. The published reports were within the legislative timelines with the exception of the Medium-term Debt Management Strategy. There were some improvements toward achieving consistency and comprehensiveness of the published fiscal and debt reports.

However, the presentation of the information should be such that it is easier for users to gauge the trend in the data series and to facilitate ease of analysis.

Recommendations

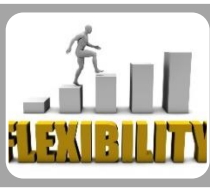
To further improve the information that is disseminated to the public, the following are recommended:

- Publication of the report on proposed tax expenditures and the accompanying details on tax relief and exemptions as stipulated in the Public Finance Management Act.
- Present to Parliament reports on Special Fund established by an Act of Parliament in accordance with the Public Finance Management Act. The National Transformation Fund is one such Special Fund.
- Prepare the audited public sector accounts for submission to Parliament as stipulated in the Constitution, the Audit Act and the Public Finance Management Act.
- Publish an end-of-year fiscal report to allow for the timely assessment of the actual outturn of government operations during the fiscal year. This report is not stipulated under any of the financial legislation.
- Examine the financial legislation and the schedules (The Public Finance Management Act, the Debt Management Act and the Audit Act) for practicability. Specifically, the date for the submission of the Medium-term Debt Management Strategy to Parliament should coincide with the time for the submission of the Estimates of Revenue and Expenditure, the Appropriation Bill and the accompanying documents as specified in the Public Finance Management Act.

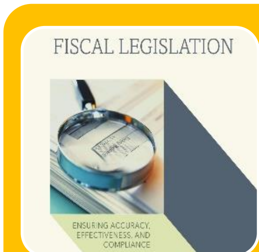
CHAPTER 5: ANALYSIS OF THE FISCAL RESILIENCE ACT (2023)

Key Messages

- The Fiscal Resilience Act (2023) repealed and replaced the Fiscal Responsibility Act (2015) and its various amendments:
- □The fiscal rules and the target have been simplified.
- Provisions have been made for the monitoring of statutory bodies and state-owned enterprises.



- The upward revision of the wage rule and the reduced legislated minimum primary balance rule provide greater flexibility for the Government to manage the economy.



The Fiscal Resilience Act should be kept under constant review to ensure its precision, coverage and ease of monitoring compliance focusing on:

- the working definition of debt sustainability in the Act;
- the primary balance rule;
- the coverage of the Suspension Clause and the requirements for returning to the path for achieving the public debt target; and
- the structure and composition of the Fiscal Resilience Oversight Committee.

Introduction

The Fiscal Responsibility Act No. 29 of 2015 was groundbreaking legislation of its time, providing the structure for a rules-based approach to government's sustainable management of its fiscal policy. The first amendment of the FRA was by Act No. 1 of 2016 which inserted a provision for calculating a notional compensatory primary balance. The second amendment, by Act No. 11 of 2017, provided greater certainty and clarity on the time frame for laying of the FROC report to Parliament as well as the composition and working of the FROC. The Fiscal Responsibility Act, as amended, was entirely repealed and replaced by the Fiscal Resilience Act No. 11 of 2023 which was gazetted on 6 November 2023 and became operative from 1st January 2024.

Selected Provisions of the Fiscal Resilience Act

The following are some of the main areas of simplification and clarification in the replacement Act.

General Reforms

In simplest terms, the Fiscal Resilience Act does away with the notion of fiscal responsibility and substitutes generally the concept of fiscal resilience. In the broadest sense, this demonstrates a refocus on shoring up the fiscal regime for long term sustainability and improved capacity to withstand economic shocks. In the objects clause of the Act (Section 5) this is clearly established as follows:

(5) The objects of this Act are (a) to ensure that fiscal and financial affairs of the public sector are conducted transparently and in a manner that bolsters fiscal resilience; (b) to ensure full and timely disclosure and wide publication of all documents and decisions involving public revenues and expenditures and their implications; (c) to ensure that public debt is reduced to, and then maintained at, a prudent and sustainable level by maintaining primary balances that are consistent with this object and (d) to ensure prudent management of fiscal risks.

Simplification of Provisions

While many definitions and provisions of the now repealed Fiscal Responsibility Act are retained in the new Act, greater clarity was provided for some key concepts by insertion of certain new definitions (Interpretation clause Section 2). For instance, the concept of 'covered public entity' as appears in the former Act was not included in the Fiscal Resilience Act and instead replaced by "statutory bodies and state-owned enterprises".

Clarity was provided for contingent liabilities and public debt. Contingent liabilities were made specific to financial obligations instead of possible obligations and were broadened to include financial obligations arising because of or in connection with public-private partnerships.

The definition of public debt was broadened to expressly include the debt of statutory bodies and state-owned enterprises and the explicit contingent liabilities arising because of or in connection with public-private partnerships.

The wage rule and public debt target specified in Section 7 and Section 8 are generally defined with greater clarity. The wage rule detailed in Section 7 is simple and direct ("the Minister shall take appropriate measures to ensure that the annual wage bill of Central Government does not exceed thirteen per cent of nominal GDP") and the supporting clauses in Section 7 are streamlined. The compensation negotiating cycle has been reduced from five to three years. (Section 7(2)). The public debt target is set at no more than sixty per cent of nominal GDP with a stated deadline for achievement by the year 2035 (Section 8(1)).

Some of the provisions of Section 8 (1) (e) and (f); (2,3, 4,5) and all the provisions of Section 9 of the former Act dealing with prudent debt, contingent liabilities and the primary balance target were not included in the Fiscal Resilience Act. The elimination of these provisions and the simplification of the fiscal rules and target removed the complications related to: the requirement to calculate the real growth in primary expenditure and the associated application of the inflation rate; monitoring and determining the application of the notional compensatory balance; determination of the action to be taken by the Minister when the debt to GDP ratio is between 55 per cent of GDP and 60 per cent of GDP; calculating the debt stabilisation balance; the process of recalibrating the primary balance; the determination of exemptions and the tracing of transactions from the National Transformation Fund.

Importantly, the concept of 'covered entities' which constrained the implementation, monitoring and reporting on government's compliance with the Fiscal Responsibility Act is not in the Fiscal Resilience Act. Instead, the fiscal rules relating to the primary balance and wage bill are applied to Central Government and the debt target is related to the total public debt, that is the debt of Central Government, statutory bodies and state-owned enterprises.

The Fiscal Resilience Act is therefore simpler. The provisions are more specific in most cases and thereby avoid ambiguities and differences in interpretation. This further minimises the possibility of differences in results because of differences in interpretation and variable applications of the Act.

Flexibility in Fiscal Management and Debt Sustainability

Overall, the new Act eliminates the rigidity of the rule dealing with real growth in primary expenditure, particularly in periods of low or negative inflation rates, and the need to determine the inflation rate applicable to estimate the real growth in primary expenditure for the forecasted periods. The wage rule is increased from 9 per cent of GDP to 13 per cent of GDP. It is anticipated that the higher wage bill to GDP ratio will provide adequate fiscal space to address the irregularities in the public service that were created to comply with the previous wage bill rule. A wage bill rule that does not allow the Government to adequately provide goods and services will lead to the hiring of workers under precarious terms and conditions. Given the potential for a wage rule to introduce distortions in the public service, and the wage bill being only one component of the expenditure items that could contribute to fiscal imbalances, the FROC recommended the elimination of the wage rule. With a lower primary balance of 1.5 per cent of GDP and a debt to GDP ratio to be achieved by 2035, the Fiscal Resilience Act provides flexibility for the Government to manage the economy with the use of fiscal policy.

New Climate Change Provision

An entirely new and significant inclusion is related to climate change as outlined in Section 6(e) as follows:

(e) *that, in respect of all projects submitted for inclusion in the capital expenditure programmes of the Central Government, documented public investment procedures are prepared, include climate change mitigation and adaptation considerations and are made available for submission and approval.*

Recommendations

There are four main areas of the new Act that the FROC wishes to highlight for possible future review. These include:

i. The primary balance rule;

ii. The Suspension Clause;

iii. The monitoring of statutory bodies and state-owned enterprises; and

iv. The structure of the Fiscal Resilience Oversight Committee.

The Primary Balance Rule

The primary balance rule should be specific as to whether it applies to Central Government or to Central Government **and** (emphasis added) the statutory bodies and state-owned enterprises.

The fiscal rule related to the primary balance states in Section 8:

(3) *For the purposes of achieving the public debt target under subsection (1), the medium-term fiscal framework shall set an annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP until the public debt target is achieved.*

The primary balance rule is critical to the achievement of debt sustainability. Therefore, similar to the precision for the wage rule, the primary balance rule should be precise as to the agent responsible for generating the primary balance of 1.5 per cent of GDP.

Recommendation

It is recommended that Section 8 (3) be revised as follows:

The Minister shall take appropriate action to maintain an annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP in order to reduce the Central Government debt to GDP ratio to that which is consistent with achieving the public debt target.

In addition, Section 8 (4) of the Fiscal Resilience Act reads:

4) *Where the public debt target specified under subsection (1) is achieved, the Minister shall take appropriate steps to ensure that primary balances are consistent with maintaining debt sustainability.*

To avoid any ambiguity and for ease of reference, there is need to either define debt sustainability in the Act itself or alternatively provide a formula for calculating the indicator that will be used for debt sustainability.

Recommendation

Include, in the Act, the definition of debt sustainability or include the formula for the determination of debt sustainability in the schedule to the Act in order to operationalise Section 8 (4).

The Suspension Clause

Suspension of Fiscal Rule and Target

In the Fiscal Responsibility Act (2015), the Escape clause allowed for the suspension of the fiscal rules and targets as follows:

10.— (1) The Minister may by Order suspend, for a period not exceeding one fiscal year, fiscal rules, targets and corrective measures under sections 7 and 8.

By contrast, in the Fiscal Resilience Act (2023), the suspension is specific to the primary balance rule and the public debt target. Section 9 provides as follows:

(1) The Minister may, by Order subject to negative resolution, suspend the public debt target and primary balance rule under section 8 at any time during a fiscal year where any of the following occurs …

The wage rule is not referenced in the suspension clause. Clarification is therefore required on whether it is the intention of the Act to enforce the wage rule during any suspension of the fiscal rules and target. If so, the rationale for the exclusion of the wage bill, (which is identified as a fiscal rule in Section 7) from the suspension clause, needs to be made clear. It may not be practical to reduce the wage bill during a period where there is a drastic decline in GDP.

Recommendation

It is recommended that the wording of Section 10(1) of the Fiscal Responsibility Act (2015), that is, the reference to "fiscal rules, targets and corrective measures", be maintained for the Fiscal Resilience Act (2023).

Extension of the Suspension of the Fiscal Rule and Target

As indicated above, section 9, the suspension clause, provides for suspension of the public debt target and primary balance as follows:

9.— (1) The Minister may, by Order subject to negative resolution, suspend the public debt target and primary balance rule under Section 8 at any time during a fiscal year where any of the following occurs.

There follows a listing of the scenarios or events which may trigger the suspension clause.

This could be simplified as follows:

(5) *If the Minister is satisfied that– (a) one circumstance under subsection (1) (a), (b) or (c) applies; or (b) resumption of the application of the public debt target and primary balance rule suspended by an Order under subsection (1) would be unduly harmful to the public finances and macroeconomic or financial stability, the Minister may extend the period for the Order under subsection (1) by a second or subsequent order subject to affirmative resolution made concurrently with the presentation of the National Budget for the new fiscal year.*

<u>Returning to fiscal rules and target after suspension</u>

The debt target is to be achieved by 2035. The Act should specify the requirements to return to the path towards achieving the debt target after the suspension rather than returning to the debt target. Therefore, the following may need to be addressed:

The new Act currently states in Section 9(3) and (4):

(3) Where the Order under subsection (1) is published in the Gazette within the first half of the fiscal year, the mid-year review report laid in accordance with section 25 of the Public Finance Management Act shall include the measures proposed to facilitate compliance with the public debt target and primary balance rule at the end of the suspension, including the size and nature of the revenue and expenditure measures.

(4) Subject to an extension under subsection (5), where the Order under subsection (1) is published in the Gazette within the second half of the fiscal year, the medium term economic and fiscal strategy report accompanying the national Budget for the new fiscal year shall include the measures proposed to facilitate compliance with the public debt target and primary balance rule in the new fiscal year, including the size and nature of the revenue and expenditure measures for the national Budget for the new fiscal year.

Recommendation

The Medium-Term Fiscal Framework should inform the programmed debt level to be attained after the suspension period as the debt target is to be achieved by 2035. The following formulation is recommended:

3) *Where the Order under subsection (1) is published in the Gazette within the first half of the fiscal year, the mid-year review report laid in accordance with section 25 of the Public Finance Management Act shall include the measures proposed to facilitate compliance with the fiscal rules (wage bill and primary balance) and public debt, as set out in the Medium-term fiscal framework, at the end of the suspension, including the size and nature of the revenue and expenditure measures.*

(4) Subject to an extension under subsection (5), where the Order under subsection (1) is published in the Gazette within the second half of the fiscal year, the medium term economic and fiscal strategy report accompanying the national Budget for the new fiscal year shall include the measures proposed to facilitate compliance with the fiscal rules (wage bill and primary balance) and public debt as set out, in the Medium-term fiscal framework, in the new fiscal year, including the size and nature of the revenue and expenditure measures for the national Budget for the new fiscal year.

Monitoring of Statutory Bodies and State-owned Enterprises

The Fiscal Resilience Act gives the Minister the authority to give directives to the statutory bodies and state-owned enterprises as follows:

13.— (1) The Minister shall cause to be established Performance-Monitoring Guidelines for Statutory Bodies and State-Owned Enterprises in accordance with the objects of this Act.

(2) No later than three months prior to the beginning of a fiscal year, the Minister shall–

(a) review and, where applicable, update the Performance-Monitoring Guidelines for Statutory Bodies and State-Owned Enterprises; and

(b) where applicable, issue Statutory Bodies and State-Owned Enterprises with explicit guidelines for non-interest expenditure, new borrowings and other policies for the fiscal year, which shall be monitored by the Ministry of Finance.

FROC notes that there is the potential for conflict between the exercise of this Ministerial authority and the governance authority ordinarily exercised by the Board of Directors of statutory bodies and state-owned enterprises.

Recommendation

This conflict or even the perception of it will have to be managed.

The Structure of the Fiscal Resilience Oversight Committee

The Fiscal Resilience Act makes provision for enhanced monitoring and reporting on compliance with the Act by the Fiscal Resilience Oversight Committee. Consideration should be given to the skills needed for the effective and efficient functioning of the FROC. The expertise identified in the Fiscal Resilience Act is hereunder summarised as follows:

In the case of four members, in consultation with the Director of Audit, having qualifications in the following areas—(i) accounting; (ii) business management; (iii) public administration; or (iv) law; and (b) in the case of one member who shall have expertise in economics, on the advice of the Governor of the Eastern Caribbean Central Bank.

The work of the FROC is mainly concentrated on fiscal and economic issues and this should be adequately reflected in the expertise of members of the FROC and any supporting structures. Therefore, to ensure that the FROC can effectively carry out its mandate, there should be an alignment of the expertise and technical competence with the responsibilities and activities associated with the government adherence to legislative provisions, debt sustainability, fiscal oversight and the monitoring of government operations.

This requires expertise gained through practical experience in relevant areas such as macroeconomics, government finances, debt sustainability analysis, and the legal and regulatory framework for the operation of the public sector.

Recommendation

In the short term, the appointment to the FROC should be modified to include at least two economists with proven experience and expertise in the relevant areas. This may be achieved by merging the qualification in business management and accounting required, which are generally similar, in a single member and allowing for the additional member to be an economist. As the functions of the FROC are enhanced, it will become necessary to structure the FROC so it could effectively carryout its mandate.

Conclusion

The language and concepts of the Fiscal Resilience Act are generally expressed in simpler terms and will tend to enhance implementation and monitoring, when compared with the Fiscal Responsibility Act. The clarification of the areas identified, primarily related to the primary balance, debt sustainability and the suspension clause, will further contribute to clarity and precision of the Fiscal Resilience Act. This will improve the transparency of the Act and facilitate ease of monitoring and reporting.

SUMMARY

Key Messages

- Economic growth, favourable fiscal performance, reduction in public debt and stable financial system in 2023.
- The government was compliant with the Fiscal Responsibility Act in 2023 for the real growth in primary expenditure, wage bill, primary balance and the liabilities of public-private-partnerships. The public debt was above target.
- The government was compliant with the Fiscal Resilience Act (2023) for the wage bill and the primary balance over the medium-term (2024-2026). Debt target to be achieved by 2035.
- Projected primary surpluses over the medium-term are above legislated minimum of 1.5 per cent of GDP, but will only contribute partially to principal debt repayment. Consequently, reserves will have to be drawn-down or new borrowing undertaken to finance a portion of principal repayment. .
- Further improvement is required for fiscal transparency as the audited public accounts remain outstanding.
- The Fiscal Resilience Act (2023) is simple and provides flexibility for the Government to manage the economy. It should be kept under continuous review.

Summary

In 2023, the economy was estimated to have grown by 5.5 per cent, and economic activity returned to the pre Covid-19 level. This expansion in economic activity was attributed to the recovery in tourism and heightened construction activity. The deficit on the merchandise trade account widened due mainly to an increase in imports related to the expansion of the service-oriented sectors. The use of foreign exchange for merchandise imports was further aggravated by the payment for imported workers and service providers. Foreign exchange earnings from tourism only partially offset the merchandise trade deficit and other payments for services, resulting in a current account deficit. The Foreign exchange inflows from the CBI programme, capital grants and loans, and from foreign direct investment provided foreign exchange to finance the deficit arising from current account transactions. The growth of the economy and favourable fiscal performance would have contributed to the increased liquidity in the banking system. Meanwhile, inflation eased, and the unemployment rate declined.

The estimated growth of 5.5 per cent for 2023 is an upward revision from the projected growth rate of 3.6 per cent reported in the Medium-term Fiscal Framework (2023-2025). For the medium-term (2024 – 2026), the economy is projected to grow at a slower rate than originally projected. The economy is projected to grow by 3.6 per cent in 2024 compared with the original forecast of 4.0 per cent, and by 3.0 per cent in 2025 compared with the original forecast of 4.8 per cent, and a growth rate of 4.2 per cent is projected for 2026. Constrained by the available information in the presentation of the data, the FROC was not able to comment on the sectors that contributed to the deviations between the original and revised growth rates.

The operations of the Government in 2023 were assessed in relation to the provisions of the Fiscal Responsibility Act (2015). The operations of the Government were in compliance with the Fiscal Responsibility Act for the real growth in primary expenditure (-10.4 per cent), the wage bill (7.8 per cent), primary balance (7.6 per cent) and there were no liabilities of public-private partnerships.

The public sector debt to GDP ratio was above the targeted 55 per cent debt to GDP ratio at 74.6 per cent. The Central Government budgeted operations for 2024 and the projected fiscal outturn for 2025 and 2026 are in accordance with the Fiscal Resilience Act (2023) which makes provision for fiscal rules of a wage bill of 13 per cent of GDP and a minimum primary balance of 1.5 per cent of GDP.

The projected primary balance of 1.5 per cent of GDP in 2024, in accordance with the legislated minimum primary balance, just offsets the required interest payment for that year, requiring the use of reserves to contribute to principal debt repayment of which external principal debt repayment will amount to 2.2 per cent of GDP. In 2025 and 2026, the projected primary surpluses of 1.8 per cent of GDP and 2.5 per cent of GDP partially contribute to principal debt repayment of 2.4 per cent of GDP in 2025 and 2.5 per cent of GDP in 2026. Therefore, in 2025 and 2026, a portion of the repayment of principal on domestic and external debt falling due will need to be financed by drawing down reserves and/or new borrowing.

During 2023, the Government published most of the fiscal and debt reports as stipulated in the legislation, with the main exception being the audited public accounts and the report on proposed tax expenditures and the accompanying details on tax relief and exemptions. The published reports were disseminated within the legislative timelines with the exception of the Medium-term Debt Management Strategy. There were some improvements toward achieving consistency and comprehensiveness of the published fiscal and debt reports. However, the presentation of the information should be such that it makes it easier for users to gauge the trend in the data series and to facilitate ease of analysis.

The Fiscal Responsibility Act (2015) and its amendments were repealed and replaced with the Fiscal Resilience Act (2023). The new Act clarified the many ambiguities in the 2015 Act and revised the fiscal rules and targets. In the new Act, there is greater clarity in the definition of some key terms, in particular public debt and contingent liabilities. The Public Finance Management Act and the Public Debt Management Act were also amended to ensure consistency in the definition of key terms in line with the Fiscal Resilience Act. The fiscal rules and targets were reduced from five to three.

SUMMARY (CONTINUED)

Provisions of the Fiscal Responsibility Act that made the implementation and monitoring of the act complicated due to its ambiguities, inconsistencies and unavailability of data were excluded from the Fiscal Resilience Act. The removal of the fiscal rule for the real growth in primary expenditure, the higher cap for the wage bill, and the lower legislated minimum primary balance provides greater flexibility for the Government to manage the economy.

RECOMMENDATIONS

Key Messages

- Continuous review of the Fiscal Resilience Act for the precision and scope of the primary balance rule, the definition of debt sustainability, the coverage of the suspension clause and the structure of the FROC.
- Continuous improvement in fiscal transparency through the publication of timely and comprehensive data and the reports required by legislation and, in particular, the audited public sector accounts.
- In support of the growth and transformation strategy, develop indicators or systems to measure productivity and the efficiency of doing business, establish policies and programmes to strengthen linkages among the sectors, and develop and report on social sector indicators to assess the impact of government policies.
- The Government is encouraged to continue generating primary balances that are above the legislated minimum primary balance, as fiscal and debt sustainability requires the generation of domestic revenue for interest and principal debt repayment.

Recommendations

The recommendations arising from the assessment of compliance of the Government with the Fiscal Responsibility Act (2015) in 2023 and the Fiscal Resilience Act (2023) over the medium-term are categorised under the following headings: i. The Fiscal Resilience Act, ii. Fiscal Transparency and iii. Economic Growth and Transformation.

The Fiscal Resilience Act

The Fiscal Resilience Act is the instrument for ensuring debt sustainability. The recommendations are related to the precision and scope of the primary balance, the definition of debt sustainability and the coverage of the suspension clause.

<u>The Primary Balance Rule</u>

The legislated minimum primary balance rule should be specific to Central Government. It is therefore recommended that Section 8 (3) be revised as follows:

The Minister shall take appropriate action to maintain an annual debt-reducing primary balance, which shall be no less than one and a half per cent of nominal GDP in order to reduce the Central Government debt to GDP ratio to that which is consistent with achieving the public debt target.

Debt Sustainability

To avoid ambiguity and for ease of reference in operationalising Section 8 (4) of the Fiscal Resilience Act, there is the need to either define debt sustainability in the Act itself or alternatively provide a formula for calculating the indicator that will be used for debt sustainability.

<u>The Suspension Clause</u>

Suspension of Fiscal Rule and Target

In the Fiscal Resilience Act (2023), Section 9, the suspension of fiscal rules and target is specific to the primary balance rule and the public debt target. The wage rule is not referenced in the suspension clause.

It is recommended that the wording of Section 10(1) of the Fiscal Responsibility Act (2015), that is, the reference to "fiscal rules, targets and corrective measures", be maintained for the Fiscal Resilience Act (2023).

Extension of the Suspension of the Fiscal Rules and Target

In Section 9, the suspension clause provides for the suspension of the public debt target and primary balance with a listing of the scenarios or events which may trigger the suspension clause.

This Section could be simplified as follows:

(5) *If the Minister is satisfied that– (a) one circumstance under subsection (1) (a), (b) or (c) applies; or (b) resumption of the application of the public debt target and primary balance rule suspended by an Order under subsection (1) would be unduly harmful to the public finances and macroeconomic or financial stability, the Minister may extend the period for the Order under subsection (1) by a second or subsequent order subject to affirmative resolution made concurrently with the presentation of the National Budget for the new fiscal year.*

<u>Returning to Fiscal Rules and Target after Suspension</u>

The debt target is to be achieved by 2035. Therefore, the Act should specify the requirements to return to the path towards achieving the debt target after the suspension rather than returning to the debt target.

The Medium-Term Fiscal Framework should inform the programmed debt level to be attained after the suspension period as the debt target is to be achieved by 2035. The following formulation is recommended for Section 9(3) and (4):

3) Where the Order under subsection (1) is published in the Gazette within the first half of the fiscal year, the mid-year review report laid in accordance with section 25 of the Public Finance Management Act shall include the measures proposed to facilitate compliance with the fiscal rules (wage bill and primary balance) and public debt, as set out in the Medium-term fiscal framework, at the end of the suspension, including the size and nature of the revenue and expenditure measures.

(4) Subject to an extension under subsection (5), where the Order under subsection (1) is published in the Gazette within the second half of the fiscal year, the medium term economic and fiscal strategy report accompanying the national Budget for the new fiscal year shall include the measures proposed to facilitate compliance with the fiscal rules (wage bill and primary balance) and public debt as set out, in the Medium-term fiscal framework, in the new fiscal year, including the size and nature of the revenue and expenditure measures for the national Budget for the new fiscal year.

The Structure of the Fiscal Resilience Oversight Committee

The Fiscal Resilience Act makes provision for enhanced monitoring and reporting on compliance with the Act by the Fiscal Resilience Oversight Committee. The work of the FROC is mainly concentrated on fiscal and economic issues and this should be adequately reflected in the expertise of members of the FROC and any supporting structures. The responsibilities and activities of the FROC are associated with the government adherence to legislative provisions, debt sustainability, fiscal oversight and the monitoring of government operations. This requires expertise gained through practical experience in relevant areas such as macroeconomics, government finances, debt sustainability analysis, and the legal and regulatory framework for the operation of the public sector.

In the short term, the appointment to the FROC should be modified to include at least two economists with proven experience and expertise in the relevant areas. This can be achieved by merging the requirement for the qualification in business management and accounting, which are generally similar, in a single member and allowing for an additional appointment of an economist to the FROC. As the functions of the FROC are enhanced, it will become necessary to structure the FROC so it could effectively carryout its mandate.

Implementing the Institutional Arrangements for Debt Management

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

Fiscal Transparency

Dissemination of Information

To further improve the information that is disseminated to the public, the following are recommended:

- Publication of the report on proposed tax expenditures and the accompanying details on tax relief and exemptions as stipulated in the Public Finance Management Act.
- Present to Parliament reports on Special Fund established by an Act of Parliament in accordance with the Public Finance Management Act. The National Transformation Fund is one such Special Fund.
- Prepare the audited public sector accounts for submission to Parliament as stipulated in the Constitution, the Audit Act and the Public Finance Management Act.
- Publish an end-of-year fiscal report to allow for the timely assessment of the actual outturn of government operations during the fiscal year.
- Examine the financial legislation and the schedules (The Public Finance Management Act, the Debt Management Act and the Audit Act) for practicability. Specifically, the date for the submission of the Medium-term Debt Management Strategy to Parliament should coincide with the time for the submission of the Estimates of Revenue and Expenditure, the Appropriation Bill and the accompanying documents as specified in the Public Finance Management Act.

Data and Information Management

Enhancing Data Coverage

Improve the timeliness and comprehensiveness of data, particularly for the estimation and projection of economic growth. Additionally, systems should be developed to capture data on the strategic areas of focus of the Government, particularly for crop and livestock production, agro-processing, marine resources and creative industries.

Strengthening the Presentation of Data for Ease of Analysis

Consistently include, in the same table, absolute figures and as percentages of GDP, and provide information on, at least, the past two years, the year under review and the projected period in published documents.

The Estimates of Revenue and Expenditure should include, in a consistent format, the summary of the preliminary outturn for the year under review and the actual outturn for the previous year. This will ensure that the actual outturn of government operations is recorded and easily accessible in the Estimates of Revenue and Expenditure.

Economic Growth and Transformation

Developing indicators of Productivity and Economic Efficiency

Develop indicators or systems to measure the rate of productivity and the efficiency of doing business. The use of a 'Productivity Index' and an 'Ease of Doing Business Indicator' will allow for an assessment of the inefficiencies and efficiencies in the economy.

Strengthen Policies to Foster Linkages in the Economy

Along with the development of the productive sectors, establish policies and programmes that will strengthen linkages among the sectors in the economy. This could commence by the stipulation of local contents in goods and services provided to government and government-supported institutions.

Insulating Government Revenues from Wide Fluctuations

During the periods of high inflows from the CBI, the resources should be utilised in areas that provide a steady flow of national income over time. This requires the channeling of investments into new growth areas such as agro-processing, projects for developing the blue economy, and the creative and digital economy. The scope of the National Transformation Fund could be broadened to supplement inflows from the CBI. The financial management for other non-tax sources of revenue should be strengthened to improve revenue from these sources; and the system for expenditure management should be tightened.

RECOMMENDATIONS (CONTINUED)

Enhance Monitoring and Reporting on the Social Impact of Government Policies

To assess the impact of government policies. Social sector indicators such as unemployment, poverty, health, education and access to basic utilities should be developed where they do not exist and reported on regularly and as part of the Medium-term Economic and Fiscal Strategy Report. This will allow for assessing the stated goal of the Government to transform the economy to "A Sustainable, Equitable and Prosperous Grenada for All".

APPENDIX I: FROC Activities: 1 April 2023 to 31 March 2024

Date	Activity/Engagements	Purpose
1st April 2023	Briefing with the Prime Minister and Minister of Finance on the FROC 2022 Annual Report	Review of Annual Report
14th April 2023	Completion of FROC 2022 Annual Report At A Glance	Review of Annual Report
20th to 28th April 2023	Circulation to the public and publication in local newspapers of the FROC 2022 Annual Report and the accompanying documents	Public awareness and transparency
24th April 2023	Meeting with the IMF on the reform of the Fiscal Responsibility Act	Discussion on the Fiscal Responsibility Act
4th May 2023	Press Conference on the FROC 2022 Annual Report	Public communication of Annual Report
2nd to 9th May 2023	Review of the reforms to the Fiscal Responsibility Act as proposed by the Ministry of Finance	Policy review and discussion
17th May 2023	Meeting with the IMF on the Article IV Consultation Mission	Consultation on economic matters
22nd to 29th May 2023	Review and submission of Revised proposals for the reform of the Fiscal Responsibility Act	Policy review and submission of proposals on the Fiscal Responsibility Act
22nd May 2023	Meeting with Civil Society on FROC Annual Report and economic issues	Public engagement and discussion
1st June 2023	Meeting with Ministry of Finance on the reform of the Fiscal Responsibility Act	Fiscal reform discussion

Date	Activity/Engagements	Purpose
1st to 10th June 2023	Consultation through email exchanges with the Ministry of Finance on the reform of the Fiscal Responsibility Act	Review of the Fiscal Responsibility Act
10th to 20th June	Preparation of 'Statement of Compliance' and submission to the Speaker of the House of Representatives, Minister of Finance and circulate to the general public through local newspapers	Assessment of compliance
10th to 20th June 2023	Preparation of 'Note of Compliance' and submit to the Minister of Finance	Compliance documentation
26th to 30th June 2023	Preparation of the 2022-2023 self-assessment report of the FROC	Internal assessment and reporting on the operation of the FROC
1st to 10th July 2023	Preparation of reports for the meeting of the FROC: **I.** Report on the reform of the Fiscal Responsibility Act **II**. Finalisation of the 2024 budget of the FROC and submit to the Speaker of the House of Representative and the Clerk of Parliament **III**. Report on improving the operations of the FROC **IV.** Finalisation of the self-assessment and submit to the Speaker of the House of Representatives, the Prime Minister and the Minister of Finance	Administrative and technical matters
12th July 2023	Meeting of the FROC	Discussion of the budget, self-assessment and improving the operations of the FROC
20th to 31ts August 2023	Preparation of ‘Compliance Report’	Compliance documentation
15th to 20th September 2023	Preparation of ‘Note of Compliance’ for submission to the Minister of Finance	Compliance documentation

Date	Activity/Engagements	Purpose
6th October 2023	Submit 'Note of Compliance' to the Minister of Finance	Compliance documentation
10th October 2023	Meeting of the FROC	Introductory meeting of the FROC
15th to 31st October 2023	Preparation of the 'Activities, Responsibilities and Timelines' document to guide the work of the FROC for 2023-2024	Planning and documentation
9th November 2023	Meeting of the FROC	Approval of: **I.** 'The Activity, Responsibilities and Timeline' for the preparation of the Annual Report **II.** The outline for the Annual Report **III** Data requirements for the Annual Report
15th to 30th November 2023	Preparation of contracts	Preparation of contract for Consultant and Technical/Administrative Manager
15th December 2023	Submission of concept note for website	Development of website
15th to 20th December 2023	Preparation of outcomes from discussion of the Fiscal Resilience Act	In preparation for the meeting with the Ministry of Finance
15th to 31st December 2023	**I**. Engagement of consultant and Technical/ Administrative Manager **II**. Preparation of chapters and other contents for the Annual Report **III**. Preparation of public awareness programs	Improving the Awareness and Public Participation programme and reviewing the concept note for the website
1st to 31st January 2024	**I**. Engagement of consultant and Technical/ Administrative Manager **II**. Preparation of chapters and other contents for the annual report **III**. Preparation of public awareness programs	Preparation of the 2023 Annual Report and Programme for public awareness

Date	Activity/Engagements	Purpose
31st January 2024	Orientation for FROC Members facilitated by the Ministry of Finance	FROC orientation on the new FRL
1st to 29th February 2024	Preparation and review of the contents for the Annual Report	Preparation for the Annual Report
13th February 2024	Meeting between the FROC and Ministry of Finance	Debt Sustainability Analysis model session and the subsequent consultation held on GDP estimation with Director of Statistics and National Accounts Officer
13th to 29th February 2024	Preparation for the FROC logo	Development of the FROC logo
15th February 2024	FROC meeting	Administration and preparation of the Annual Report
1st to 17th March 2024	Finalisation of 2023 Annual Report	Finalisation of 2023 Annual Report
21st March 2024	Meeting of the FROC	Approval of the 2023 Annual Report and other documents
By 31st March 2024	Submission of the 2023 Annual Report to the speaker of the House of Representatives	Submission of Annual Report to the speaker of the House of Representatives

Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
Human Development	Health and wellness	**Strengthening human resource capacity:** • Hired additional health professionals and commenced the training programmes for health professionals. • Provided an honorarium of $500 to nurses in 2023 and for 2024; and an honorarium of $1000 to doctors in 2024 as the Government implements the regularisation programme in phases. **Upgrading health facilities:** • Upgraded health centres and medical stations, including Hillsborough Smart Health Centre, Victoria Medical Station, the Princess Royal and Princess Alice Hospitals, and the Westerhall and Good Hope Medical Stations. • The facilities targeted for 2024 include Sauteurs Health Centre, Grand Bras Medical Station, the Mt. Rich Medical Station, the New Hampshire Medical Station, and repairs to the Operating Theatre. • Purchased land for the construction and operation of Grenada's Climate smart, Teaching Hospital Project. **Health financing:** • Renegotiated a contractual engagement with the Joint Independent Provider Association (JIPA) for the implementation of the National Health Insurance Project.
	Education and training	**Access to Education:** • Removed registration fees at the pre-primary, primary, and secondary levels and introduced the Free Tuition Programme up to the tertiary level (TAMCC and NEWLO). • Removal of the requirement for school children to pay $1 for the school meal in primary schools and $3 in secondary schools. **Addressing the skills gap:**

Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
		• Developed curriculum which includes the teaching of Grenadian history and Spanish in primary schools, and the expansion of the teaching of Creative and Performing Arts. • Introduction of specialised courses in Entertainment Law and Introduction to Entrepreneurship for Creative Industries at the TAMCC. **Training youths in coding** • Developed a road map for delivering coding to students, and the implementation of a pilot project.
	Youth, sports, culture, gender affairs and other social services	• Enhancements in youth, sports, culture, and community development **Re-imagining the IMANI Programmme:** • The regularisation of IMANIs as part of the third phase of the public service regularisation strategy slated for 2025. • The adjustment to the minimum stipend for Imani from $700 per month to a minimum salary of $1,200per month. • Government to meet the employer contribution to the National Insurance Scheme for all Government employees. **Affordable housing** • Appointed the Project 500 Steering Committee and Management Unit to plan and implement Project 500. • The completion of the retrofitting of the China aided 600 affordable housing units. **Empowering Beneficiaries of the SEED Programme:** • For the Education Empowerment and Development (SEED), beneficiaries who are 65 years and older, and for SEED beneficiaries with physical disabilities or who are differently abled or those with mental illnesses, were granted an increase of$200 per month. • The development of the cashless system of payment for SEED beneficiaries.

Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
Promoting Robust Economic Growth and Job Creation	Agriculture and food and nutrition security	**Mobilised funds for The Food Security Enhancement Project or FSEP:** • The project aimed at providing increased access to farm machinery and equipment, fertilizers, improved crop varieties, better and higher quality breeds of pigs, goats and sheep. Commenced the process of transforming the Marketing and National Importing Board (MNIB). • Established a Commission on Cannabis Legalisation and Regulation to work towards the decriminalisation and legalisation of cannabis and the establishment of a cannabis industry.
	Tourism and Hospitality	**Increased airlift** • Negotiated direct flights from major markets and the signing of services agreements with the Gulf States of Qatar and the United Arab Emirates and plans to sign services agreement with the Kingdom of Saudi Arabia to expand travel for tourism and business between Grenada and the Middle East. **The declaration of heritage sites, and the development of tourism products** • Under the Tourism Competitiveness Project, Work is ongoing on the restoration and rehabilitation of Fort George. The new sculptures, depicting Grenada's rich history and culture, have been laid at the Molinere Undersea Museum. **Nautical development** • The Government agreed to collaborate with the authorities in St. Vincent and the Grenadines on the development of the Yachting sector.
	The creative sector	**Develop the Creative Economy** • Launched the Grenada Office of Creative Affairs. • Hosted the Creative Economy Symposium to promote the Creative economy. • The launch of the Creatives Industries Development Fund.

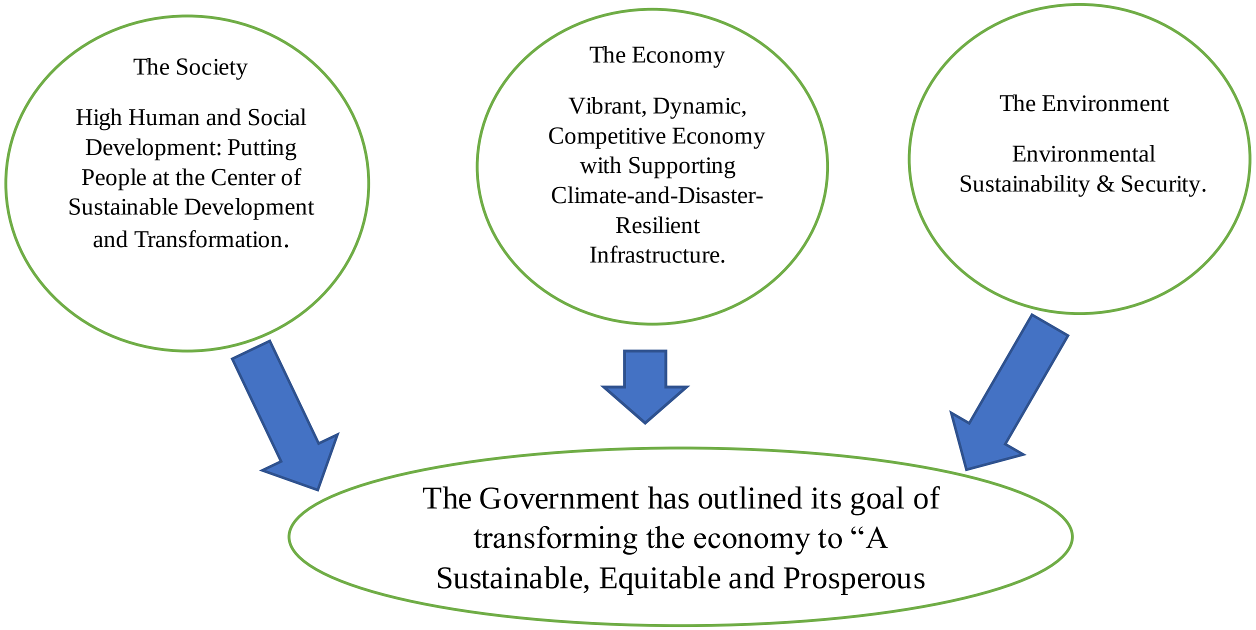
Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
		• Local creatives are granted 100 per cent duty free concessions on imported gear and or equipment. • The Office of Creative Affairs has collaborated with the Ministry of Education and the T.A Marryshow Community College to offer specialised courses in Entertainment Law and Introduction to Entrepreneurship for Creative Industries.
	Digital Transformation	**Improving education and access to Internet Service** • The following were undertaken i. Expanded broadband access, ii. Strengthened data protection, iii. Implemented programmes to bridge the digital divide, including the JUMP Programme, which targets underserved communities and children, iv. Enhanced digital literacy, and v. Provided training for digital job opportunities. • The following strategic areas are planned for 2024: i. Digitisation of the application process for passports and other certificates, such as birth and death certificates and other government services. ii. Continuation of work with internet service providers to establish a network of Free Wireless Access Points in communities, schools, government offices, tourism sites and recreational parks. iii. Expansion of education and training in coding and other critical IT skills.
	Private sector Development	**Reimagining the Grenada Investment Development Corporation and Access to Financing** • A comprehensive study to be undertaken to guide the merger of the Grenada Investment Development Corporation (GIDC) and the Grenada Development Bank (GDB). • The development of a national export strategy with the strategic aim of redefining and revitalising Grenada's approach to international trade. **Strengthening the Citizenship-By-Investment (CBI) programme** • The Government will review the Report of the Organisation for Economic Corporation & Development (OECD) and the Financial Action Task Force (FATF) of November 2023 and the Government intends to take the

Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
		necessary actions to implement the recommendations that will aid in the strengthening of the design, implementation, and oversight of the programme. **Support to Hotel Capacity Expansion** • Settled the Kawana Bay Arbitration Dispute matter by the acquisition of the site, and developer's withdrawal and discontinuance of the arbitration claim against Grenada. • Agreement with the Joyau de Caraibes, developers of Silversands, for the lease of the Kawana Bay site for the development of a 5-star hotel • Among the expansion in the hotel sector are: 1.Six Senses Resort – A 100-room hotel development in La Sagesse is scheduled to open in May2024. 2.Silver Sands Beach House Resort. A 30-room resort development in Point Salines will be opened in December 2023. The hotel is in the process of acquiring adjacent lands for further expansion in 2024. • Among the other projects identified are i. the Intercontinental Resort in La Sagesse, St. David, ii. The Port Louis Expansion in Belmont, St. George and iii. The commencement of the re-development of the old St. George's University Site on Grand Anse Beach into a major hotel development.

Promoting Good Governance	Institutional Strengthening, transforming the public sector and pension reform	**Public Service Transformation and Pension Reform:** • The establishment of the Pension Review Committee in November of 2022 to design a new defined contribution pension plan which will guarantee a pension for Government workers, who previously did not qualify for a pension. **Modernising labour relations** • Settlement of the following: i. Payment of pension and gratuity to public officers; ii. Payment of docked salaries to teachers and other public officers; iii. Settlement of outstanding salary increases to workers at the T.A Marryshow Community College; iv. Agreement with the trade unions to pay 13 percent in salary increases to all Government employees for the period 2023 – 2025. • The review of an upward adjustment to the legislated minimum wage in the public and private sectors. **Public Sector Regularisation** • Commencement of the regularisation of government workers which is being undertaken in phases. **National Security and Safety** • The focus for strengthening national security will be: (I)Strengthening the human resource capabilities of the police, prisons, and other national security institutions. (II) The introduction of CCTV cameras across public spaces and other vulnerable spots, along with legislation to allow the use of footage as evidence in court proceedings. (III) Amendment to the Firearms Act to provide for stiffer penalties. **Reinvigorating the Economy of Carriacou and Petite Martinique** • The approval of additional responsibilities to the Ministry of Carriacou and Petite Martinique in the management of their affairs, and the planned implementation of major projects including the 800 KW Solar PV Project with battery storage, the development of an undersea Museum and

Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
		Sculpture Park, the construction of the Hall of Justice and construction of the Climate Smart Carriacou Ministerial Complex. **Prioritising Foreign Policy** • Strengthening of relations with existing foreign partners and seeking to forge new strategic international relationships that align with the national transformation agenda. **Maintaining Diaspora Relations** • Established the Grenada Diaspora Advisory Council and appointed an Ambassador for Diaspora Affairs

Government Overarching Pillars	Focus Areas of the Government	Focus of Implementation
Enhancing Climate Resilience, Environmental Sustainability, and Renewable Energy	Energy Transition and the Environment.	**Prioritising Climate Resilience and Disaster Management** Major projects have been identified to reduce greenhouse gas emission and include: • The Limlair Solar PV Project, in Carriacou. • A mega solar PV system at the Maurice Bishop International Airport. • Development of a solar farm in Pearls, St Andrews. • The Grenada Geothermal Energy Development Project, in St. John and St. Patrick. To support the greening of the transport sector: • The Government will remove all duties, taxes and fees on the importation of electric vehicles and charging stations. • To tackle waste-related challenges, the Grenada Solid Waste Management Authority is investing in recycling facilities, colour-coded waste collection, and partnerships. **Transformative Physical Infrastructure** Exploration of the feasibility for a major road infrastructure project that will reduce the travel time from St. George to St. Patrick. In the interim, the Government plans to rehabilitate the existing Western Main Road by resurfacing the existing road and straightening hairpin corners. The major physical infrastructure projects include: 1. The Grenada Climate Resilience Water Sector Project (GCrews); 2. The Cliff Rehabilitation Project; 3. The South St. George Water and Sewerage Expansion Project; 4. The St. John's River Flood Mitigation Project; 5. The Coastal Protection for the Shoreline of Sauteurs Bay; and 6. The Molinere Landslip Rehabilitation.



Source: Budget Statement 2023, delivered by the Minister of Finance, on 5 December 2022, Parliament Building, St George, Grenada.

Budget Statement 2024, delivered by the Minister of Finance, on 4 December 2023, Parliament Building, St George, Grenada.

Throne Speech, delivered by the Governor General, on 26 September 2023, on the occasion of the 2nd Session of the 11th Parliament, Parliament Building, St George, Grenada. to the Houses of Parliament, 26 September 2023.

APPENDIX III: Central Government Data

	Grenada Central Government Fiscal Data In millions of Eastern Caribbean Dollars							
	Actual				**Estimated Outturns**	**Budgeted**	**Projected**	
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Total Revenue and Grants	**871.5**	**792.7**	**957.1**	**1088.3**	**1317.9**	**1321.4**	**1212.8**	**1275.7**
Current Revenue	778.0	689.6	727.1	863.9	1262.6	1216.8	1162.2	1226.7
Tax Revenue	718.6	622.8	625.4	714.9	813.0	853.7	905.1	961.1
Taxes on Income & Profits	151.3	135.0	121.5	138.0	159.5	167.8	177.9	188.9
Of which Personal Income Tax	70.8	65.9	65.5	77.6	86.7	91.0	96.5	102.4
Of which Corporate Tax	70.7	58.3	45.4	46.9	61.1	64.4	68.3	72.5
Taxes on Property	39.6	34.8	29.1	27.6	36.1	27.6	29.2	31.0
Taxes on Domestic Goods & Services	154.5	128.2	125.7	160.8	181.2	192.4	203.9	216.6
Of which Value Added Tax	124.5	103.7	98.9	130.4	147.9	158.7	168.3	178.7
Taxes on International Trade Transactions	373.1	324.8	349.1	388.9	436.2	466.0	494.0	524.6
Of which Import Duty	84.5	73.7	82.2	109.0	111.1	118.7	125.8	133.6
Of which Customs Service Charge	62.9	50.9	59.9	77.4	80.2	85.7	90.9	96.5
Of which Value Added Tax	127.7	113.2	124.5	157.9	166.6	177.9	188.6	200.3
Non-tax Revenue	59.4	66.8	101.7	149.0	449.6	363.1	257.2	265.7
Of which CBI	8.0	17.3	32.3	73.1	375.3	280.7	166.8	169.7
Total Grants	93.5	103.1	230.0	224.4	55.2	104.6	50.5	49.0
Of which Budgetary Grants	17.8	18.3	47.0	108.0	0.7	0.0	0.0	0.0
Of which Capital Grants	75.7	84.8	182.9	116.4	54.5	104.6	50.5	49.0
Capital Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	**709.1**	**921.0**	**947.2**	**1057.6**	**1092.9**	**1320.9**	**1192.0**	**1217.1**
Current Expenditure	623.5	651.1	686.8	717.4	699.7	901.4	905.1	918.3
Employee Compensation	266.7	276.4	307.6	279.7	283.5	372.3	382.5	386.6
Of which Personal Emoluments, Wages & Allowances	253.3	261.6	291.7	263.5	268.3	356.5	366.0	370.0
Of which social contribution to employees	13.4	14.8	16.0	16.2	15.2	15.8	16.5	16.6
Goods & Services	132.8	132.9	154.0	128.0	136.7	230.4	225.3	227.8
Interest payments	60.6	55.9	54.2	53.7	51.2	56.6	51.5	49.0
Transfers and subsidies	163.4	185.9	171.0	256.1	228.3	242.1	245.8	254.9
Of which Pensions	44.8	47.5	49.4	90.4	72.3	75.6	79.9	85.2
Capital Expenditure and Net lending	85.7	269.9	260.4	340.2	393.2	419.5	286.9	298.8
Financed by Grants	75.7	84.8	182.9	116.5	54.5	104.6	50.5	49.0
Local Revenue	2.1	165.3	33.8	192.5	296.2	258.3	190.6	165.0
Loan	7.9	19.8	43.7	31.2	42.5	56.5	45.8	84.9
Primary Expenditure	**648.5**	**865.1**	**893.0**	**1003.9**	**1041.6**	**1264.2**	**1140.5**	**1168.1**
Primary Expenditure less Capital Grants	572.8	780.3	710.1	887.5	987.2	1159.6	1090.0	1119.2
Current Account Balance (before budgetary grants)	154.6	38.5	40.3	146.5	562.9	315.4	257.2	308.4
Current Account Balance (after budgetary grants)	136.7	20.2	-6.7	38.5	562.2	315.4	257.2	308.4
Primary Balance (before grants)	129.5	-175.5	-165.9	-140.0	221.0	-47.4	21.7	58.6
Primary Balance (after grants)	223.1	-72.4	64.1	84.4	276.2	57.2	72.3	107.7
Overall Balance (before grants)	68.9	-231.4	-220.1	-193.7	169.8	-104.1	-29.7	9.6
Overall Balance (after grants)	162.4	-128.3	9.9	30.7	225.0	0.6	20.8	58.6
Financing					**-225.0**	**-0.6**	**-20.8**	**-58.7**
Domestic Financing		224.5	251.3	224.1	-183.8	29.5	-35.7	-105.1
External Financing		389.5	251.0	225.5	41.2	-30.1	14.9	46.4
Net Amortisation	-191.5	-34.6	-34.6	-179.8	41.2	-30.1	14.9	46.4
Of which Loan Disbursements	33.1	181.8	197.2	122.9	123.5	56.5	113.3	152.4
Of which Principal Loan Repayment	224.6	216.4	231.8	302.7	82.3	86.6	98.4	106.0
Other					0.0	0.0	0.0	0.0

Notes: Data on Current Account Balance including Budgetary Grants for 2023 -2026 and Net Amortisation for 2019 -2022 adjusted based on clarification received from the Ministry of Finance.

Source: Data received from the Ministry of Finance on 10th January 2024.

APPENDIX IV: Grenada Public Debt

	GRENADA PUBLIC DEBT							
	In millions of Eastern Caribbean Dollars							
	Actual				**Estimated Outturn**	**Budgeted**	**Projected**	
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Total Public Sector Debt	**2427.7**	**2502.7**	**2671.5**	**2616.4**	**2696.2**	**2819.0**	**2919.1**	**3034.2**
Central Government and Government guaranteed debt	1888.8	1988.5	2104.4	2068.4	2173.5	2269.1	2358.8	2459.1
Of which Central Government	1888.8	1988.5	2103.4	2067.6	2173.5	2269.1	2358.8	2459.1
Of which Government Guaranteed	0.0	0.0	1.0	0.8	0.0	0.0	0.0	0.0
Statutory bodies and SOEs (non-guarantee)	538.9	514.3	567.1	547.9	522.7	549.9	560.3	575.1
of which Petro Caribe debt	372.1	372.1	372.1	372.1	372.1	372.1	372.1	372.1
Public/Private/ Partnership	0	0	0	0	0			
	Percentage of GDP							
Total Public Sector Debt	74.1	88.8	88.1	78.7	74.6	73.3	71.9	70.5
Central Government and Government guaranteed debt	57.6	70.6	69.4	62.2	60.1	59.0	58.1	57.1
Of which Central Government	57.6	70.6	69.4	62.2	60.1	59.0	58.1	57.1
Of which Government Guaranteed	-	-	0.0	0.0	-	-	-	-
Statutory bodies and SOEs (Non-guaranteed)	16.4	18.3	18.7	16.5	14.5	14.3	13.8	13.4
of which Petro Caribe debt	11.4	13.2	12.3	11.2	10.3	9.7	9.2	8.6
Public/Private/ Partnership	-	-	-	-	-	-	-	-
Nominal GDP	**3,276.4**	**2,817.2**	**3,031.6**	**3,324.9**	**3,616.4**	**3,845.9**	**4,060.1**	**4,306.7**

Note: Total Public Sector Debt had to be adjusted for the double counting of the Petro Caribe Debt.

Source: Data received from the Ministry of Finance on 10th January 2024.