MINISTRY OF FINANCE

MEDIUM-TERM FISCAL FRAMEWORK

2025-2027

FINANCE.GD

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1. INTRODUCTION

This Medium-Term Fiscal Framework (MTFF) serves as the Government's primary fiscal strategy document for the 2025 Budget and the forward years of 2026 and 2027. It aims to ensure that the Government's spending plans are reflected in the fiscal forecasts for 2025-2027, supporting sustainable development, recovery priorities in the context of Hurricane Beryl, and the advancement of its transformational agenda.

This report is prepared in compliance with Section 12A of the Public Finance Management Act No. 17 of 2015, as amended. It consolidates key elements of the 2025 Budget and the Government's medium-term economic and fiscal strategies. The MTFF covers:

- Current macroeconomic context and outlook,
- Fiscal policy objectives and forecasts,
- Fiscal risks and mitigation strategies.

The macroeconomic context and medium-term outlook provide an overview of economic performance during the first half of 2024, while analyzing broader economic prospects for the medium term. These projections are based on key macroeconomic assumptions, with careful consideration of potential risks that could impact outcomes. Strategic priorities for the Budget year and subsequent two years are outlined in the Medium-Term Action Plan (MTAP) 2023-2025, which aligns with the National Sustainable Development Plan 2020-2035. A revised MTAP 2025-2027 is expected to be completed by the end of 2024.

The Government's fiscal policy objectives, as outlined in the MTFF, define the budget framework for 2025-2027 to support its key policy priorities. The MTFF is designed to advance the Government’s overarching goals of transformation, resilience, and sustainable development. In light of the impact of Hurricane Beryl, it prioritizes spending on recovery efforts and the revitalization of businesses and industries. The fiscal policies aim to be supportive while ensuring long-term sustainability, with projections of a highly expansionary fiscal stance to create fiscal space for strategic initiatives, while maintaining fiscal and debt sustainability.

The medium-term fiscal forecasts have been prepared in accordance with the Fiscal Resilience Act of 2023 (FRA), which took effect on January 1, 2024, replacing the Fiscal Responsibility Act of 2015. The FRA aims to enhance fiscal resilience by implementing prudent fiscal policies and robust governance practices. It reforms the rules-based fiscal responsibility framework, providing a clearer guide for fiscal policy throughout the budget process. The FRA ensures government finances remain sustainable over the short, medium, and long term while keeping public debt at manageable levels. In addition, it simplifies the fiscal framework, enabling easier implementation and monitoring.

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

The report is laid out as follows:

- Section 1: Macroeconomic Context and Medium-term Outlook.
- Section 2: Medium-term Fiscal Policy Objectives and Forecasts.
- Section 3: The Strategic Priorities for Fiscal Year 2025.
- Section 4: Compliance with the Fiscal Resilience Act.
- Section 5: Fiscal Risk Management.
- Section 6: Statement of Responsibility.

2. MACROECONOMIC AND SOCIAL CONTEXTS

2.1 Real Sector

In the first half of 2024, the Grenadian economy demonstrated strong performance, especially in the tourism, transport and storage, fishing, and manufacturing sectors. However, it faced a significant setback due to Hurricane Beryl on July 1st, 2024. Despite this, economic growth for 2024 is still anticipated, largely driven by a robust performance in the tourism sector, which is expected to sustain its momentum due to continued strong travel demand.

The hurricane caused severe damage to Carriacou, Petite Martinique, and the northern parts of mainland Grenada, resulting in significant declines across several key sectors and the loss of homes and economic livelihoods. The agriculture sector, in particular, sustained extensive damage from the widespread destruction of crops and farmlands and require significant rebuilding efforts. In contrast, the wholesale and retail sectors have seen increased sales due to relief support targeted at affected households. Additionally, the construction sector is projected to experience growth as rebuilding efforts commence.

Despite the relatively positive outlook for the tourism, wholesale and retail trade, and construction sectors, the threat of natural disasters, exacerbated by climate change, poses a significant challenge to Grenada's economic stability. Developments within the main economic sectors in the first half of 2024 are analysed below.

2.1.1 Agriculture & Fishing

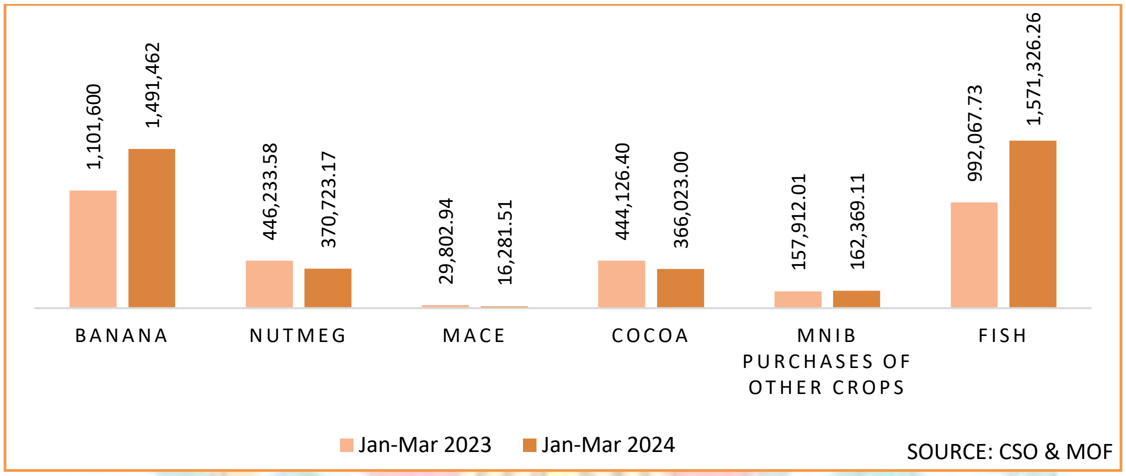
Agriculture

In 2024, data collection challenges persist in the agriculture and fishing sectors, complicating accurate estimates of their outputs. Current data issues, including inconsistent fishing data and underrepresented crop production, lead to conservative estimates for the agriculture sector.

Recent economic surveys in May 2024 indicated positive trends in agriculture, with a 35.4% increase in banana production and a 2.8% rise in purchases of other fresh produce by the Marketing and National Importing Board (MNIB). However, production of nutmeg, mace, and cocoa decreased by 16.9%, 45.4%, and 17.6%, respectively, due to drought, adverse weather, labour shortages, high input costs, and limited access to farmlands.

Hurricane Beryl worsened the sector's conditions, destroying over 80% of Grenada's nutmeg and cocoa trees. The hurricane also severely impacted livestock, infrastructure, and farmland, leading to significant damage. Soil erosion and land degradation further compounded the crisis. Recovery will require substantial resources to rebuild the sector and ensure its sustainable development, emphasizing the vulnerability of agriculture to natural disasters.

Figure 1: Production in Agriculture and Fishing



Fishing

Fish production In the first quarter of 2024 rose to 1.6 million pounds, up from the same period in 2023, due to increased longlining and expanded regional market access. The sector includes over 3,000 active fisherfolk and nine hundred fishing vessels, employing more than 7% of the labour force. Valued at approximately $400 million ECD, the fishing industry plays a crucial role in income generation, employment, foreign exchange earnings, and poverty alleviation.

Despite ongoing challenges with data accuracy, the government has introduced several initiatives to support the sector, including safety training, fishing gear concessions, fuel tax rebates, and technical support.

Hurricane Beryl caused significant damage to the fishing infrastructure, including vessels, equipment, communication networks, and fish markets, particularly in Carriacou, Petite Martinique, and northern Grenada. Environmental damage to marine ecosystems and reef restoration projects was also reported. Recovery is expected to require substantial financial investment and may take 6 to 12 months.

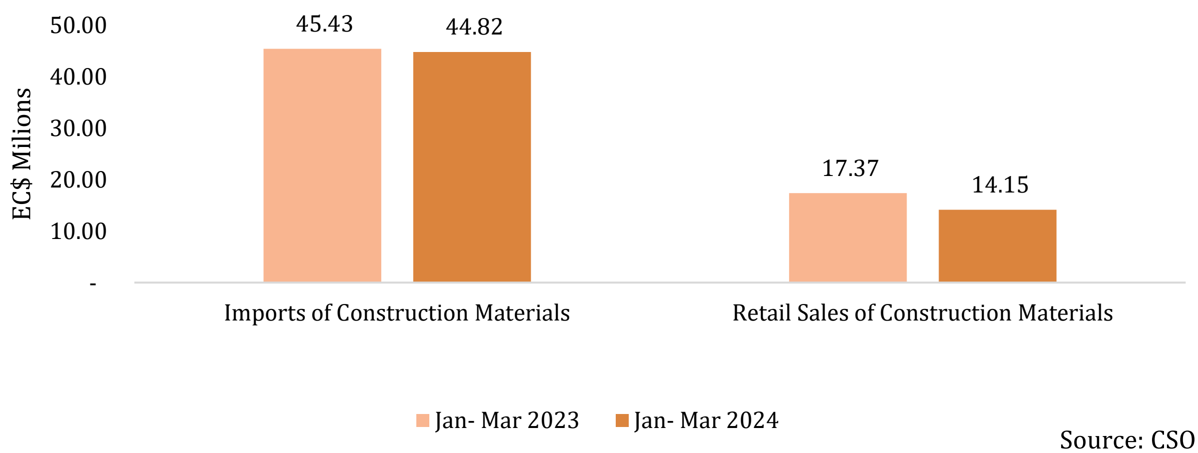
2.1.2 Construction

The construction sector, which saw a strong recovery with over 20% growth in 2021 and 2022 after a COVID-19-induced decline in 2020, faced a downturn in 2023 with a 10.9% decrease in activity. This decline was mainly due to a reduction in the value of construction material imports.

In the first quarter of 2024, construction material imports values fell by 1.3%, despite a 14.4% increase in the volume of materials imported. This decrease is attributed to global disinflation and improved supply chains. Major projects like Six Senses and Silversands Beach House were completed, with others like the Intercontinental Hotel progressing.

Hurricane Beryl caused extensive damage in northern Grenada and the sister isles, with 95% of buildings affected. This disaster is expected to drive significant reconstruction efforts through 2024 and into 2025, boosting demand for construction materials, labour, and equipment.

Figure 2: Construction Indicators



Source: CSO

2.1.3 Tourism

The tourism sector has shown strong growth in the first half of 2024, with stayover arrivals exceeding pre-COVID levels. Compared to 2023, arrivals were up by 18.9%, and 25.0% higher than in 2019, indicating a full recovery since the pandemic. Key drivers of this growth include major events such as the 50th Anniversary of Independence Celebrations and the 2024 CARIFTA Games. The sector has also benefited from increased room inventory with the commencement of operations of Silversands Beach House and Six Senses Resort. This positive trend in stayover arrivals is expected to continue through 2024, on the back of the ongoing 50th Anniversary celebrations and the annual carnival festivities.

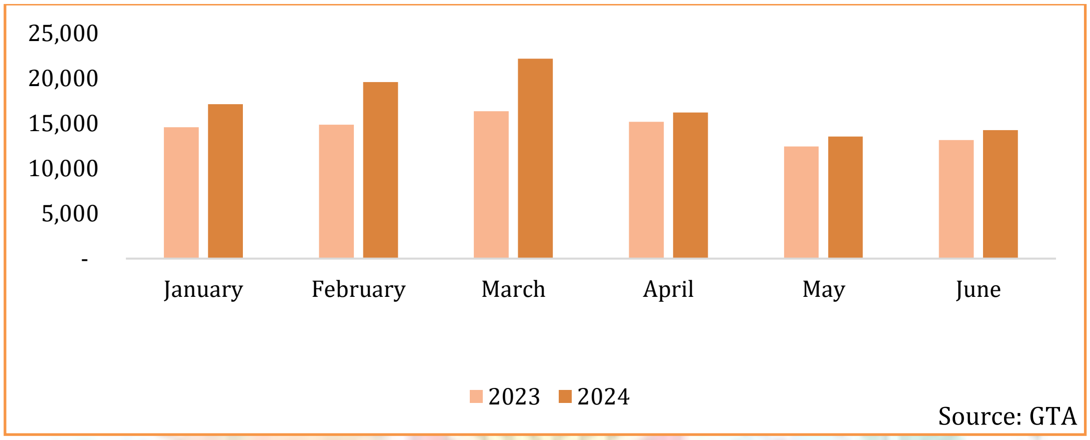
Table 1: January-June Stayover Arrivals

Stayover Arrivals	Jan-June 2023	Jan-June 2024	2024/2023 % Change
United States	46,424	55,393	19.3
Europe	3,869	4,248	9.8
United Kingdom	13,377	15,129	13.1
Canada	9,563	11,251	17.7
Caribbean	11,351	14,384	26.7
Other	2,058	2,622	27.4
Total Stayover Arrivals	86,642	103,027	18.9
Cruise Passengers	198,896	193,394	-2.8
			Source: GTA

Stayover arrivals from the Caribbean rose by 26.7 percent during the review period. Most of these visitors originated from Trinidad and Tobago, which saw an 18.1 percent increase in arrivals compared to the same period in 2023. Visitors from Grenada's largest source market, the United States, increased by 9.3

percent in the first half of 2024 compared to the same period in 2023, with the majority coming from the state of New York.

Figure 3: First Half Monthly Stayover Arrivals (2024 vs 2023)



As of May 2024, overall cruise passenger arrivals declined by 2.8% and cruise ship calls fell by 20.9% compared to 2023, indicating ongoing struggles in the cruise industry. In contrast, the yachting sector showed promise with a 6.0% increase in yacht calls, though yacht passenger arrivals dropped by 4.3%.

The tourism sector is expected to continue growing through 2024, driven by strong performance in other areas, but faces challenges including labour shortages, geopolitical tensions, and climate change impacts, such as tropical cyclones.

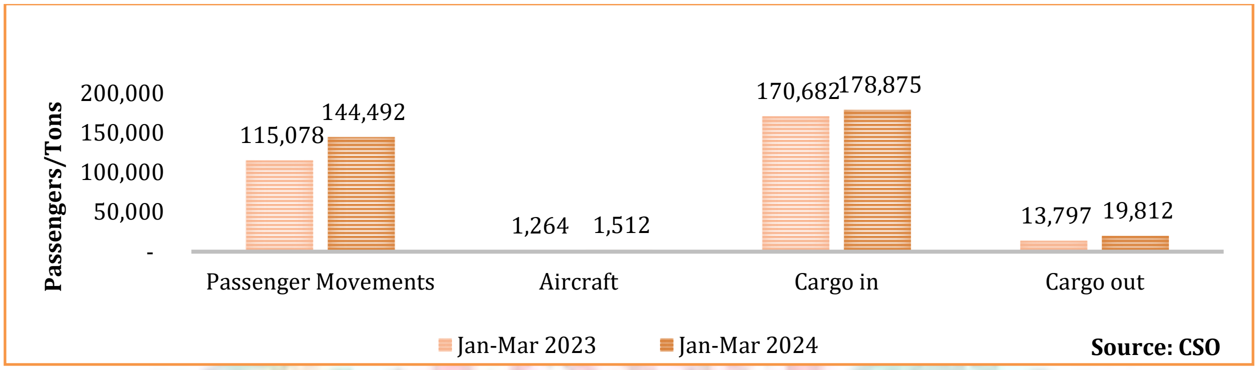
Hurricane Beryl caused significant damage to about 10.4% of Grenada's total room stock, particularly affecting the northern parts of Grenada, Carriacou, and Petite Martinique. Key tourism infrastructure, including marinas, airports, and attractions, sustained heavy losses. The estimated damage to the tourism sector in Carriacou and Petite Martinique is about $10 million EC dollars, with recovery expected to take up to a year. Despite this, Grenada's total room stock increased by 6.6% from the end of 2023.

2.1.4 Transport and Storage

By the end of March 2024, the transport sector showed promising growth with a 25.6% increase in passenger movements and a 19.6% rise in aircraft movements compared to the same period in 2023. This growth was supported by expanded airlift capacity from major and regional airlines. Mail movement through the airport also surged by over 50%, and cargo movement increased by 7.7%, with imports rising by 4.8% and exports growing by 43.6%.

The increase in sea transport activity is particularly notable due to the aftermath of Hurricane Beryl, which has heightened sea traffic between mainland Grenada and the sister isles, Carriacou and Petite Martinique. This traffic is crucial for delivering relief, assessing damage, providing services, and starting reconstruction efforts. This trend is expected to continue through the end of 2024 and into 2025.

Figure 4: Passenger and Cargo Movements

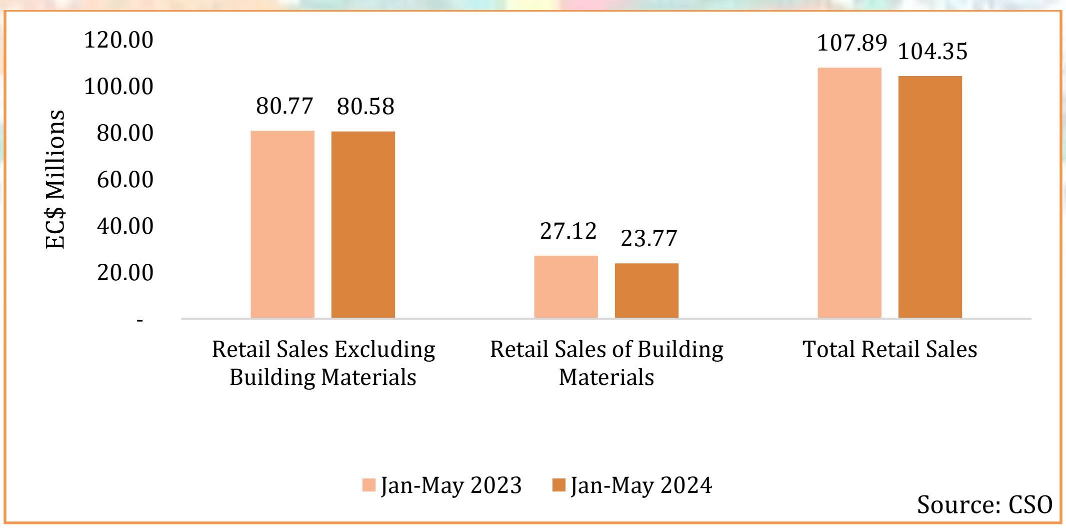


2.1.5 Wholesale and Retail Trade

In the first five months of 2024, Grenada's wholesale and retail trade sectors saw a 3.3% decline in total retail sales compared to the same period in 2023. Sales of building materials fell significantly by 12.4%, largely due to the completion of major construction projects. Excluding building materials, retail sales dropped slightly by 0.2%. Contributing factors include large hotels importing goods and a rise in small retail establishments. Some major wholesalers and retailers may not be included in current data, affecting overall sector performance.

Despite this decline, the sector is expected to see moderate growth for the remainder of 2024. The aftermath of Hurricane Beryl has increased demand for relief items, boosting sales of perishable goods, vehicles, building supplies, and other essentials. However, an oversupply of relief items could potentially dampen demand from local wholesalers and retailers.

Figure 5: Retail Sales



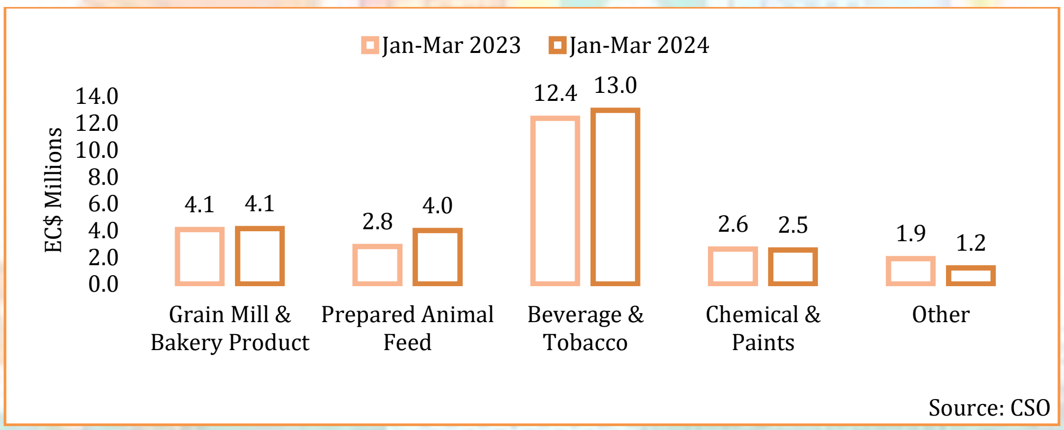
2.1.6 Manufacturing

A In the first quarter of 2024, Grenada's manufacturing sector grew by 4.7% compared to the same period in 2023. The beverage and tobacco sector, the largest in manufacturing, saw a 4.9% increase due to high demand from major events. Grain mill and bakery product production rose by 1.7%, and prepared animal feed surged by 43.4% due to increased agricultural activity. However, the production of chemicals and paints declined by 2.2%, and toilet paper production dropped by 36.7%, reflecting issues in the construction sector.

External risks, including trade disruptions and increased raw material costs from recent attacks in the Red Sea, have affected productivity. Delays in equipment delivery and a shortage of local expertise further exacerbate these challenges. Additionally, high costs for empty containers and issues with the implementation of Article 164 of the Revised Treaty of Chaguaramas continue to hinder export capabilities and production efficiency.

Despite these obstacles, opportunities exist for the sector's growth. Investing in climate-smart technologies, such as solar panels and energy-efficient equipment, could reduce operational costs, improve competitiveness, and enhance profitability, strengthening Grenada's manufacturing sector and benefiting the overall economy.

Figure 6: Industrial Production



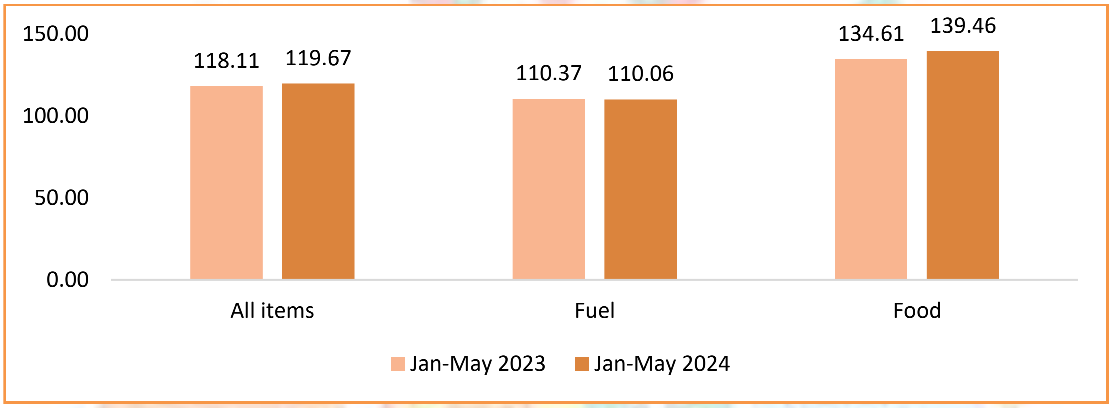
2.1.7 Private Education

St. George's University is a key indicator of private education activity in Grenada due to its significant economic impact. From January to April 2024, 4,333 new students enrolled, bringing total enrolment to 8,500, with 69% in the school of medicine. Enrolment in veterinary and undergraduate pre-clinical programs has increased. However, overall student enrolment is expected to decline in 2024 and stagnate in the medium term, mainly due to reduced demand for medical education in the US post-pandemic. To address this, SGU is expanding its marketing strategy to new markets in Dubai, the Middle East, and North Africa.

2.1.8 Inflation

The Consumer Price Index (CPI) has been rising steadily over the past three years due to increasing goods prices post-COVID-19. Global inflation remains a major concern, with the Grenadian economy sensitive to global food and fuel prices. For the first five months of 2024, the average inflation rate increased by 1.3% compared to the same period in 2023. Food inflation remains high at 3.6% due to steep food price rises, while fuel inflation saw a modest decline of 0.3% from January to May 2024, likely due to fiscal measures aimed at reducing fuel costs.

Figure 7: **Consumer Price Index (5-month average)**



By the end of May 2024, overall year-on-year inflation had risen by 1.5% compared to 2023. Food inflation increased by 2.5%, and fuel inflation by 0.4%. Additionally, there were notable price rises in household maintenance items, medical products, appliances, alcoholic beverages, tobacco, and narcotics. These increases in the cost of goods and services align with similar trends seen in Grenada's main trading partners. Given Grenada's reliance on imports, high import prices and associated duties and taxes are expected to continue exerting significant pressure on the restaurant and food sectors.

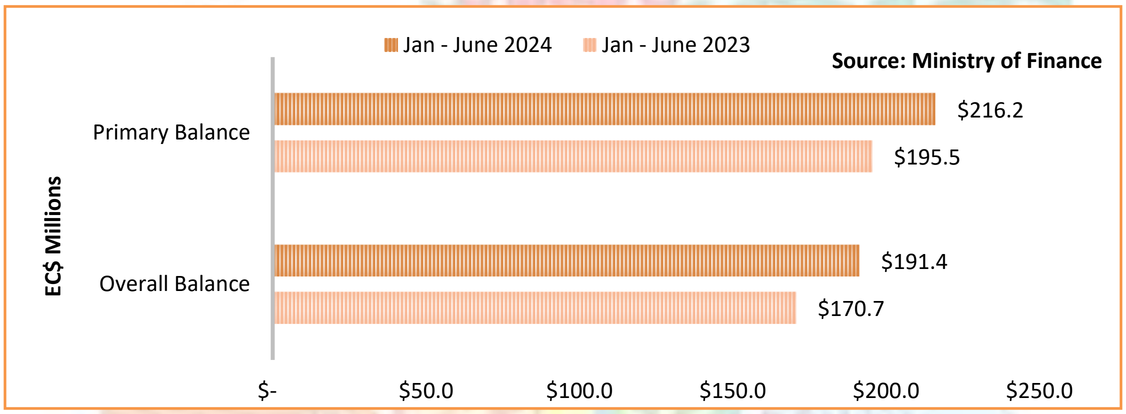
Table 2: **Consumer Price Index (Year on Year)**

CPI (YOY)	May-23	May-24	Inflation (%)
Food	136.33	139.77	2.52
Fuel	110.08	110.47	0.35
All items	118.34	120.06	1.45

2.2 Central Government's Fiscal Operations

On balance, Grenada's fiscal position strengthened in the first half of 2024 due to strong intake from all tax types. The robust implementation of compliance strategies by the Inland Revenue Department (IRD), substantial receipts from the Investment Migration Agency (IMA) Programme, and relatively vibrant economic activity buoyed revenue collections. During the first half of 2024, the Primary Balance, and Overall Balance including grants, stood at $216.2 million and $191.4 million, respectively. These figures represent an increase in the fiscal position by 12.1 percent and 10.6 percent compared to the same period in 2023. (Figure 8).

Figure 8: Primary Balance and Overall Balance after Grants, 2023 vs 2024 (January – June)



Total revenue and grants for the first half of 2024 amounted to $737.4 million of which total revenue was $727.6 million and total grants were $9.7 million. Total revenue and grants were 16.4 percent more than what was collected in the same period of 2023, primarily because of improved performances in tax revenue and non-tax revenue.

During the period, all tax types recorded higher collections than in 2023. Taxes on property were 13.7 percent more than the amount collected in 2023. Taxes on income and profit, domestic transactions and international transactions increased by 6.2 percent, 5.0 percent, and 5.1 percent respectively, (Table 2). The rebranded Investment Migration Agency Grenada (IMA) formerly referred to as the Citizenship by Investment unit (CBI) recorded a 58.5 percent increase in revenues compared to the same period in 2023. This is primarily owed to the enhancement of IMA's application process and a new, comprehensive marketing plan which targets additional source markets. The IMA has also introduced internal system upgrades in pursuit of a four-to-six-month application turnaround timeline which is evidently being realized in 2024. Further, "Other Related Fees" previously recorded in net terms under non-tax revenue was revised in 2024 to only reflect inflows of revenue. In 2024 IMA Revenues amounted to 88 percent of non-tax revenue an 11.0 percentage point increase compared to 2023.

Following the impact of Hurricane Beryl in July, a suite of fiscal incentives including 100 percent waiver on certain duties and taxes was introduced to stimulate individual rebuilding efforts and economic recovery. As a result, lower revenue inflows can be reasonably expected for the next six months.

Table 3: Total Revenue and Grants, 2023 vs 2024 (January – June)

	2023	2024	Variance	
	January - June			
	$M	$M	$M	%
Total Revenue and Grants	633.5	737.4	103.9	16.4%
Total Revenue	624.4	727.6	103.2	16.5%
Tax Revenue	420.1	444.7	24.6	5.9%
Taxes on Income and Profit	85.0	90.3	5.3	6.2%
Taxes on Property	24.6	28.0	3.4	13.7%
Taxes on Domestic Transactions	98.8	103.8	5.0	5.0%
Taxes on International Transactions	211.7	222.6	10.9	5.1%
Non-Tax Revenue	204.3	282.9	78.6	38.5%
o/w IMA Revenues	156.3	247.7	91.4	58.5%
Total Grants	9.1	9.7	0.7	7.3%

Source: Ministry of Finance

The total expenditure for the first half of 2024 was 18 percent more than the same period of 2023. Recurrent outlays increased by 23.8 percent, mainly due to the recent introduction of IMA expenses ($37.3 million) as a line item in 2024, following the disaggregation of IMA Related fees (net) in non-tax revenue. Employee compensation increased by 12.7 percent overall. Social contributions increased by 21.4 percent and personal emoluments increased by 12.2 percent. These movements reflect the ongoing Public Service Regularisation Programme and are expected to increase gradually over the medium term as this process accelerates.

On the capital expenditure side, outlays increased by EC$0.6 million year-on-year. While this increase is moderate, capital expenditure is expected to surge within the latter part of the year due to the additional infrastructural work required to recover from Hurricane Beryl.

Table 4: Total Expenditure, 2023 vs 2024 (January – June)

	2023	2024	Variance	
	January - June			
	$M	$M	$M	%
Total Expenditure	462.8	546.0	83.2	18.0%
Recurrent Expenditure	346.6	429.2	82.6	23.8%
Employee Compensation	141.3	159.3	18.0	12.7%
Personal Emoluments	133.1	149.3	16.2	12.2%
Social Contributions	8.2	10.0	1.8	21.4%
Goods and Services	70.4	80.6	10.2	14.5%
Interest Payments	24.8	24.8	0.0	0.0%
Current Transfers	110.1	127.2	17.1	15.5%
IMA Expenses	0.0	37.3	37.3	0.0%
Capital Expenditure	116.2	116.8	0.6	0.5%

Source: Ministry of Finance

Based on the actual outturns up to June and other assumptions, Grenada's fiscal performance for the full year 2024 shows a notable divergence from the budgeted expectations (Table 5). Total revenue and grants are estimated at EC$1,404.1 million, which is 6.3 percent higher (EC$82.7 million) than the budgeted amount of EC$1,321.4 million. This increase is primarily due to higher-than-expected collections in non-tax revenue, particularly IMA revenues, which exceeded the budget by a significant margin of 42.0 percent. However, grants fell short of the budget by 30.5 percent, partially offsetting the gains from increased non-tax revenue.

Total expenditure for 2024 is estimated to be EC$1,548.1 million, representing a 17.2 percent (EC$227.2 million) increase over the budgeted amount of EC$1,320.9 million. This surge in expenditure is largely attributable to a substantial 44.9 percent increase in capital expenditure over the budgeted amount, reflecting heightened capital investment for rapid Hurricane Beryl response. Additionally, the decision to record IMA expenses separately, rather than netting them against revenue as done in previous years, contributes to the variance noted.

The fiscal outcome for 2024 shows a notable overall deficit of EC$144.0 million, compared to a budgeted surplus of EC$0.5 million, resulting in a large negative percentage variance. The primary balance, including grants, is estimated to be a deficit of EC$88.2 million, in stark contrast to the budgeted surplus of EC$57.1 million, reflecting a percentage variance of -254.5%.

Overall, the fiscal performance for 2024 indicates a deterioration relative to the 2024 budget and the 2023 fiscal performance, driven by unexpectedly high expenditures on account of the initial cleanup and rebuilding efforts in the immediate aftermath of Hurricane Beryl. Given the economic shock experienced as a result of Hurricane Beryl and the fiscal implications as outlined, suspension of the Fiscal Resilience Act is necessary to accommodate the overall impact of the recovery and rebuilding process on Government's revenue and expenditure against the established fiscal targets.

The projected overall deficit for 2024 is estimated to be fully financed from a combination of sources, including from the CCRIF SPC insurance payout, grants and donations, and drawdown from the Consolidated Fund,

Table 5: Central Government's Estimated 2024 Fiscal Performance

	2024			
	Estimated Outturn	Budget	Variance	
	EC$M	EC$M	EC$M	%
Total Revenue & Grants	**1,404.1**	**1,321.4**	**82.7**	**6.3**
Total Revenue	**1,331.4**	**1,216.8**	**114.6**	**9.4**
Tax Revenue	**864.8**	**853.7**	**11.1**	**1.3**
Taxes on Income	170.7	167.8	**2.9**	**1.7**
Taxes on Property	38.5	27.6	**11.0**	**39.9**
Taxes on Domestic Goods & Consumption	190.6	192.4	**(1.7)**	**(0.9)**
Taxes on International Trade & Transactions	465.0	466.0	**(1.0)**	**(0.2)**
Non - Tax Revenue	**466.6**	**363.1**	**103.5**	**28.5**
o/w IMA Revenues	398.5	280.7	**117.8**	**42.0**
Grants	**72.7**	**104.6**	**(31.9)**	**(30.5)**
Total Expenditure	**1,548.1**	**1,320.9**	**227.2**	**17.2**
Primary Expenditure	**1,492.4**	**1,264.3**	**228.1**	**18.0**
Current Expenditure	**940.1**	**901.4**	**38.7**	**4.3**
Employee compensation	346.8	372.3	**(25.4)**	**(6.8)**
o/w wages, salaries & allowances	329.0	356.5	**(27.5)**	**(7.7)**
Goods and Services	195.5	230.4	**(34.9)**	**(15.2)**
Interest Payments	55.7	56.6	**(0.9)**	**(1.6)**
Transfers	247.4	242.1	**5.3**	**2.2**
IMA Expenses	64.6	-	**64.6**	**-**
Capital Expenditure	**608.0**	**419.6**	**188.4**	**44.9**
o/w Grant financed	**78.1**	**104.6**	**(26.5)**	**(25.4)**
Overall balance	**(144.0)**	**0.5**	**(144.4)**	**(29,878.3)**
Primary balance (including grants)	**(88.2)**	**57.1**	**(145.4)**	**(254.5)**

Source: Ministry of Finance

2.3 Fiscal Operations of State-owned Enterprises

As at the end of June 2024, there were twenty-five (25) Statutory Bodies (SBs), and State-Owned Enterprises (SOEs) actively being monitored by the Ministry of Finance. This does not include Petro Caribe Grenada and the Marketing and National Importing Board (MNIB) which underwent restructuring in 2023.

An analysis of the consolidated unaudited financial statements at the end of the second quarter of 2024 depicts improvements in the financial performances of most SOEs and SBs compared to the same period in 2023. Revenues increased by 5.0 percent compared to 2023 and net surpluses experienced a moderate growth from $38.4 million in 2023 to $39.1 million in 2024. Total expenditure also rose by 9.0 percent in 2024, increasing from $212 million to $231.6 million compared to the previous year. Employee-related expenditure declined by 16.0 percent. Given last year's implementation of retrospective salary increases this resulted in a temporary spike in employee related expenditure, however this has sin normalised in 2024. After reviewing quarterly reports, it was observed that most SOEs and SBs were able to reduce employee expenditure by implementing cost-saving measures such as reducing overtime, optimizing workforce allocation and cutting down on non-essential expenses. (Table 6)

The Total non-guaranteed debt increased by 6 percent compared to June 2023, from $154.4 million in 2023 to $163.0 million. One of the larger entities sought financing to acquire a property valued at $9 million as part of its investment strategy to establish a new headquarters, with the goal of reducing operational costs. It has also been observed that entities with existing loans have been making timely payments to their respective private lenders. The consolidated balance sheet as of June 2024 continues to show a weakened asset base of SOEs and SBs of $1,858.6 million, a 1.0 percent decline from the previous year which was $1,874 million. The combined equity positions of all public entities increased by 5 percent, which was influenced by the 28 percent reduction in liabilities of SOEs and SBs. However, despite the overall improvement in 2024, four entities failed to report on their equity positions, and their absence is notable throughout the report. Therefore, it is essential to continue monitoring progress and addressing challenges to ensure that a meaningful impact is achieved.

Table 6: SOEs Consolidated Fiscal Performance

Description	June, 2023	June, 2024	2023/2024
	in EC$ millions		% Change
Revenue	**250.4**	**270.8**	**8.0**
Of which, Government Assistance	*13.0*	*9.7*	*-25.0*
Expenditure	**212.0**	**231.6**	**9.0**
Of which, Interest expenditure	*2.6*	*2.0*	*-23.0*
Employee Related Expenditure	*47.1*	*39.5*	*-16.0*
Surplus / Deficit	**38.4**	**39.1**	**2.0**
	-	-	-
Assets	**1,874.0**	**1,858.6**	**-1.0**
Liabilities	**344.6**	**247.7**	**-28.0**
Of which, Non- Guaranteed Debt[1]	*154.4*	*163.0*	*6.0*
Equity	**1,529.3**	**1,610.9**	**5.0**

Source: Ministry of Finance

2.4 Public Sector Debt

Public sector debt as a percentage of GDP, an important measure of debt sustainability, was projected to decrease by 1.7 percentage points to 73.3% of GDP by the end of 2024. A strong GDP performance in the first half of the year brought the debt-to-GDP ratio down to 70.5%. Cognizant of the damage caused by Hurricane Beryl, the Government activated disaster deferral clauses and other financing options. Nonetheless, initial analysis suggests that the robust GDP performance in the first half and the economic response to the hurricane will support GDP growth, keeping the debt-to-GDP ratio on a downward path.

2.4.1 Central Government

The estimated stock of disbursed outstanding debt for the Central Government at the end of June 2024 stood at $2,137 million, equivalent to 56.2% of the estimated nominal GDP for 2024. This is a slight decrease from 56.9% of GDP in the same period in 2023. The stock of Central Government's debt is expected to increase due to additional disbursements in the latter half of the year. Additional rise in debt may be attributed to the government's response to the impacts of Hurricane Beryl. Central Government Debt to GDP is projected to reach 57.1% by year end.

2.4.2 Non-Guaranteed State-Owned Enterprises

The non-guaranteed debt stock (loans) of Statutory Bodies and State-Owned Enterprises was EC$163.0 million[1] at the end of June 2024. These loans are owed by nine (9) SOEs of which the majority are domestic loans with long term durations. The inclusion of the debt owed by Petro Caribe ($372.1 million), will bring the total debt stock to EC$535.1 million which represents 14.1 percent of nominal GDP.

[1] Specified loan details for GSWMA, GAA and GCEPC was available up to the end of December 2023, while data For TAMCC was available up to the end of December 2022.

2.5 Financial Sector

Between January and June 2024, Grenada's financial sector showed resilience and strong regulatory compliance, despite minor declines in key ratios. Banks experienced moderate liquidity growth, increased profitability, and prudent equity use. Credit Unions saw growth in membership, deposits, and lending capacity. There was a notable shift in demand for credit from personal loans to real estate investments, contributing to an overall robust sector performance.

2.5.1 Performance of the Commercial Banking Sector

In 2024, Grenada's banking sector, with three commercial banks, showed moderate improvement and financial stability under the ECCB's regulatory framework. By March 2024, the total loan portfolio was EC$2,184.2 million, with EC$121.0 million in new loans approved for the year. Lending grew in Construction and Land Development (15.19%), Private Loans (27.97%), and Real Estate Activities (28.06%). The ratio of Non-Performing Loans (NPLs) net of provisions to capital improved by 1.3 percentage points. Due to extensive damage from Hurricane Beryl, credit demand for recovery is expected to rise significantly in the second half of 2024 and into the medium term.

2.5.2 Performance of the Non-Bank Financial Sector

Grenada's non-bank financial sector remains in robust financial health, characterized by prudent risk management and consistent asset growth in the first quarter of 2024. It includes ten credit unions, twenty-five long-term insurance companies, and seven money services businesses, amongst others, all regulated and supervised by the Grenada Authority for the Regulation of Financial Institutions (GARFIN). All entities continue to demonstrate strong adherence to the relevant regulatory requirements.

Credit Unions – Credit Unions are showing improved capability in managing their financial obligations. In the first quarter of 2024, they attracted 584 new members, bringing total membership to 87,425. Their assets now total EC$1 billion. Deposits increased by 2.3% to EC$1.18 billion from EC$1.15 billion, primarily held in savings accounts. This growth has strengthened the Credit Unions' capacity to expand their lending activities, with total loans rising to EC$1.4 billion.

Grenada Development Bank (GDB) – Total Assets as of June 2024 were EC$115 million comprising majorly long-term assets of EC$101 million. For the period January to June, the GDB recorded an operating deficit of EC$18.2 thousand. The Total Loans portfolio stands at EC$98.5 million, with the non-performing loan ratio rising to 8.14%, above the 5% threshold targeted.

Insurance Companies – As at March 2024, total assets stood at EC$552 million, representing growth of EC$2.5 million or 0.5% when compared to December 31, 2024.

Pension Funds – At present, there are fifty (50) registered pension plans in Grenada, of which forty-six (46) were active at end-March 2024. The combined Total Assets of these plans at the end of that quarter were EC$277 million.

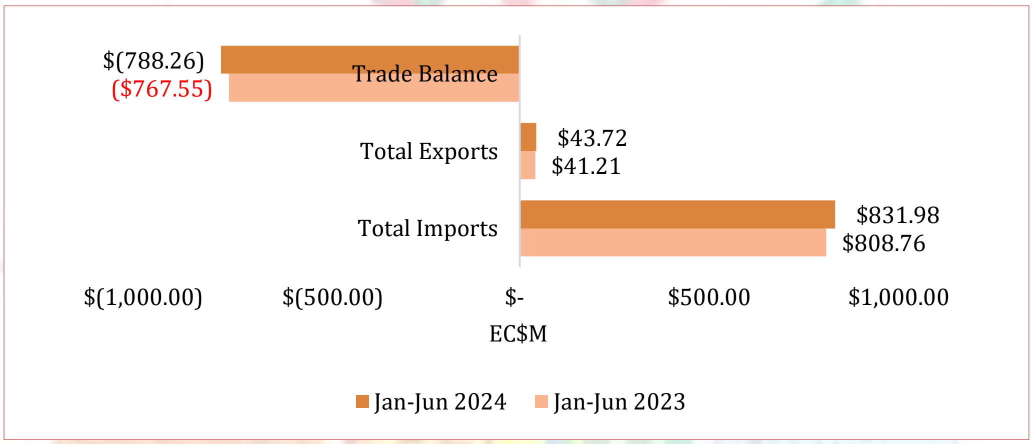
2.5.3 Financial Regulatory Developments

The Parliament has approved the Friendly Societies (Amendment) Bill and the Co-operative Societies (Amendment) Bill to enhance oversight, including public access to member and director registers. The Virtual Asset Business Regulations, S.R&O. 9 of 2024, were also approved to set guidelines for the virtual asset sector, focusing on transparency, integrity, and security. Although applications for Virtual Asset Businesses (VABs) began in 2023, no VABs have been registered yet.

2.6 External Sector

In the absence of trade statistics from Grenada's Central Statistics Office, an analysis of Customs Department data showed a 2.7% widening of the trade deficit in the first half of 2024, increasing from -$767.6 million in 2023 to -$788.3 million in 2024. Grenada's economy remains heavily dependent on imports, with limited export capacity. Imports rose by 2.9% by June 2024, compared to the previous year. However, exports improved by 6.1%, driven by increased production and demand for locally produced goods in regional and international markets.

Figure 9: Balance of Trade (EC$ M)



An analysis of key import categories shows that petroleum products were the largest, totalling $153.9 million in the first half of 2024. Motor vehicle imports also saw a notable increase, reaching $31.6 million, while food and meat made up a significant portion of total imports. These figures highlight Grenada's ongoing dependence on imports and the need for strategies to balance trade and boost domestic production.

***Table 7:* Top 10 Imports based on Statistical Values (Jan-Jun 2024)**

TOP 10 Imports	CATEGORY*	STATISTICAL VALUE
1	Petroleum oils and oils obtained from bituminous minerals, other than crude	$ 153,890,093.86
2	Motor cars and other motor vehicles principally designed for the transport of persons	$ 31,564,326.71
3	Meat and edible offal, fresh, chilled or frozen	$ 23,884,967.98
4	Food preparations not elsewhere specified or included	$ 14,387,533.92
5	Motor vehicles for the transport of goods	$ 13,335,554.73
6	Medicaments	$ 12,070,201.02
7	Telephone sets	$ 11,636,217.91
8	Cement	$ 11,601,073.10
9	Bread, pastry, cakes, biscuits, and other bakers' wares	$ 11,411,612.82
10	Waters, including mineral waters and aerated waters	$ 10,597,521.43

	* Most Categories were simplified for clarity and should not be confused with SITC sections	Source: Customs & MOF

Exports saw an uptick in the export of wheat or meslin flour during the review period of January-June 2024, driven by demand in neighbouring countries. Other items such as animal feed, nutmeg and mace, bottled water, and cocoa beans also experienced increases during this period.

Table 8: **Top 10 Exports based on Statistical Values (Jan-Jun 2024)**

TOP 10 Exports	CATEGORY*	STATISTICAL VALUE
1	Wheat or meslin flour	$ 9,617,552.14
2	Preparations of a kind used in animal feeding	$ 6,092,904.84
3	Nutmeg, mace and cardamoms	$ 5,174,967.59
4	Waters, including mineral waters and aerated waters	$ 4,765,601.34
5	Cocoa beans, whole or broken, raw or roasted	$ 3,086,099.71
6	Paints and varnishes	$ 3,072,130.30
7	Fish, fresh or chilled	$ 2,657,111.85
8	Toilet paper and similar paper	$ 2,034,750.22
9	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen	$ 1,546,255.86
10	Paints and varnishes	$ 1,382,297.43
	* Most Categories were simplified for clarity and should not be confused with SITC sections	Source: Customs & MOF

Grenada's export trade is limited by capacity constraints, but improvements could be made by investing in the agricultural and manufacturing sectors. Strengthening these areas could reduce reliance on food imports, particularly perishables like fruits and vegetables. Despite challenges such as supply shortages, this approach could improve Grenada’s trade balance and overall economic performance, benefiting both the real and financial sectors in the long term.

2.7 Social Context

Grenada’s social indicators reflect broadly positive trends. According to the 2022 Human Development Report (HDR), Grenada’s Human Development Index (HDI) for 2022 was 0.793, placing it in the "high human development" category, ranked 73rd out of 193 countries and territories. The HDI evaluates three dimensions: health, education, and standard of living.

- Life Expectancy: As of 2022, life expectancy at birth was 74.9 years, with females living an average of 77.9 years and males 72.2 years.
- Education: The expected years of schooling were 18.7 years per child, with minimal gender disparity (19.3 years for females and 18.1 years for males).
- Gross national income Per capita was approximately US$13,484 at 2017 purchasing power parity prices.

In 2023, Grenada saw a notable improvement in employment conditions. The unemployment rate fell to 11.1 percent at the end of the fourth Quarter in 2023. However, disparities remain, with women facing higher unemployment rates at 15.8 percent compared to men 7.2 percent. A significant number of people between the ages of 15 to 24 were unemployed, compared to the other age groups. The sectors that employed the largest number of people were wholesale and retail trade, construction, agriculture, forestry and fishing, and education.

3. MEDIUM-TERM FISCAL POLICY OBJECTIVES AND FORECASTS

Grenada's fiscal policy objectives for the medium-term should focus on supporting the resilient recovery of the economy of Carriacou and Petite Martinique and advancing Government's transformative agenda in a fiscally sustainable manner. Accordingly, a return to the rules and targets under the FRA is projected for the fiscal year 2026.

3.1 Government's Medium-term Revenue Objectives

The Government of Grenada aims to implement an aggressive revenue mobilisation strategy that sustains recurrent expenditures and enhances the fiscal position. This approach will accommodate the increased capital expenditures necessary to effectively respond to the challenges posed by Hurricane Beryl. The ongoing efforts by the Inland Revenue Department (IRD) to enhance its revenue collection mechanisms through a more modern, digitized tax administration tool should help advance this process. This upgraded multi tax solution, GTAX, aims to achieve an eighty percent (80%) online taxpayer rate. Currently, it accepts payments for Corporate Income Tax (CIT), Value Added Tax (VAT) and Pay as You Earn (PAYE). All other tax types are expected to be onboarded by the end of 2024.

At the border, the Customs and Excise Division (CED) has initiated efforts to enhance its operational efficiency. Ongoing upgrades to the Automated System for Customs Data (ASYCUDA) will automate the customs declaration process, thereby improving overall processing efficiency. Additionally, the CED will collaborate more closely with regional entities to harmonise customs administration, strengthen regulatory compliance, and build the capacity of staff to manage the various taxes, duties, and levies collected at ports of entry.

Through support from the International Monetary Fund (IMF), Government will also seek to review the legislative frameworks governing all tax types to identify gaps and opportunities for enhancing the overall effectiveness of Grenada's tax administration system. In addition, the Ministry of Finance is undertaking a comprehensive policy development exercise to review exemptions provided and rates charged on all property types across Grenada. The review is informed by the recently completed property revaluation exercise, which resulted in revised property values within the Standard Industrial Classification (SIC) Tax System. The current exercise could result in a redistribution of property tax revenue across the different tax types. A key objective of the exercise is revenue neutrality.

Despite these initiatives, a moderate transitory reduction in several tax-based revenue streams is anticipated in the short run as several expansionary fiscal policy measures are pursued. Notably, the Government has waived all taxes, duties, and levies on imports of food, clothing, and household items for personal use as a temporary relief measure for individuals impacted by Hurricane Beryl. This initiative, running from July to December 2024, will impact revenue inflows associated with import duty, VAT, and Customs Service Charges (CSC) generated by the CED. Furthermore the Government has waived 100% of duties, taxes, fees, and charges on all building materials+, furniture and fixtures, and household appliances for household and businesses affected by Hurricane Beryl for a period of 1 year in the first instance. Additionally, Government has approved the exemption from the payment of property taxes for 2025 for property owners on Carriacou and Petite Martinique and on mainland Grenada, whose properties suffered damage.

3.2 Government’s Medium-term Expenditure Objectives

The medium-term fiscal policy will focus on recovery and reconstruction efforts in the northern part of mainland Grenada and on Carriacou and Petite Martinique, while simultaneously advancing Government’s transformative agenda.

Accordingly, significantly higher expenditures are expected in the medium term as part of the Government’s "Build Back Better" campaign as well as to support key priority areas in health, education, energy, and housing, to name a few. The additional outlays will necessitate a further activation of the Suspension Clause of the Fiscal Resilience Act for the fiscal year 2025.

While a rapid damage assessment of Beryl’s impact has been completed, a comprehensive Post-Disaster Needs Assessment is ongoing to quantify the full scope of capital investment required to "Build Back Better." Climate-proofing homes, businesses, public utilities, and infrastructure against future environmental shocks will be critical to recovery efforts and will demand substantial investment.

On the recurrent expenditure side, the Government will continue to subsidize access to education from primary through tertiary levels. There will also be increased rental costs for temporary accommodation of essential government operations during public building construction. In addition, higher employee contributions and transfers are expected as the public service regularization and the New Government Pension Plan come into effect.

To support these rising public expenditures, the Government will enhance public procurement processes, strengthen the monitoring and evaluation framework of the Public Sector Investment Programme (PSIP), and build staff and institutional capacity to formulate transformational policies and implement key projects.

Overall, the Government’s medium-term fiscal outlook will feature increased capital expenditure, supported by revamped revenue-generation mechanisms, and improved institutional frameworks. These efforts will be complemented by continued publication of monthly fiscal reports and periodic public engagements, reinforcing the principles of good governance, debt sustainability, transparency, and accountability.

To finance the medium term budgets, Government will need to deploy a combination of financing options, including new concessional borrowing, debt relief, grants and donations and drawdown from the consolidated fund including the NTF Contingency window.

3.3 Government’s Medium-term Debt Management Strategy

In keeping with the goal to cut Public Debt to 60.0% of Nominal GDP by 2035, the Medium-term Debt Management Strategy (MTDS) for 2025-2027 will prioritise stringent debt management, including restructuring of the Petrocaribe and Republic of Trinidad and Tobago debt obligations, prudent risk management, and increased transparency. Current trends point to this being reached prior to the required date. The MTDS will also enhance risk assessments, debt negotiation practices, and improve debt monitoring and reporting, with stricter oversight on State-Owned Enterprises (SOEs) and Statutory Bodies (SBs) regarding their debt activities.

To finance the bucket of capital projects expected to commence in the short to medium term, the Government will pursue low cost, low risk concessional borrowing arrangements where possible. However, the primary objective will remain identifying capital grants, utilising local revenue and mobilizing donors – such as through the recently established Hurricane Beryl Relief Fund – to fully minimize debt financing as far as practicable.

Table 9: Medium-Term Fiscal Framework 2025-2027

In millions of Eastern Caribbean Dollars, unless stated otherwise						
	2025		**2026**		**2027**	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	**1246.1**	**30.8%**	**1,301.5**	**30.1%**	**1,300.6**	**28.6%**
Total Revenue	**1,163.0**	**28.8%**	**1,218.9**	**28.2%**	**1,213.5**	**26.7%**
Tax Revenue	878.4	21.7%	938.5	21.7%	987.8	21.7%
Non - Tax Revenue	284.6	7.0%	280.3	6.5%	225.8	5.0%
Grants	**83.1**	**2.1%**	**82.7**	**1.9%**	**87.0**	**1.9%**
Total Expenditure	**1,536.8**	**38.0%**	**1,274.2**	**29.5%**	**1,261.8**	**27.8%**
Primary Expenditure	1,480.2	36.6%	1,222.8	28.3%	1212.8	26.7%
Current Expenditure	**890.0**	**22.0%**	**894.3**	**20.7%**	**889.6**	**19.6%**
Employee compensation	350.7	8.7%	354.3	8.2%	358.2	7.9%
wages, salaries & allowances	332.7	8.2%	336.0	7.8%	339.8	7.5%
Social Contribution to employees	18.1	0.4%	18.2	0.4%	18.5	0.4%
Goods and Services	197.6	4.9%	199.6	4.6%	201.9	4.4%
Interest Payments	56.6	1.4%	51.5	1.2%	49.0	1.1%
Transfers	253.2	6.3%	255.8	5.9%	258.7	5.7%
IMA Expenses	31.8	0.8%	33.1	0.8%	21.8	0.5%
Capital Expenditure	**646.8**	**16.0%**	**379.9**	**8.8%**	**372.1**	**8.2%**
o/w: Grant financed	83.1	2.1%	82.7	1.9%	87.0	1.9%
Overall balance	**-290.8**	**-7.2%**	**27.3**	**0.6%**	**38.8**	**0.9%**
Primary balance (excluding grants)	**(317.2)**	**-7.8%**	**(3.9)**	**-0.1%**	**0.7**	**0.0%**
Primary balance (including grants)	**(234.1)**	**-5.8%**	**78.8**	**1.8%**	**87.8**	**1.9%**
Memo Item						
GDP (Nominal market Prices)		4,042.4		4,319.1		4,545.7
Real GDP growth (%)		4.2%		4.5%		4.7%

Source: Ministry of Finance

3.4 Medium-term Economic Outlook

Notwithstanding the effects of climate-related shocks, Grenada’s economic outlook will largely depend on global economic developments and domestic expansionary fiscal policies. Grenada's macro-fiscal context is heavily influenced by global economic trends. According to the International Monetary Fund’s (IMF) World Economic Outlook’s (WEO) update released in July 2024, the global economy is stabilizing. While economic growth in advanced economies remains low by historical standards, inflation is retreating to target levels. The IMF’s baseline forecasts suggest that global economic growth will remain steady at 3.2 percent in 2024, with a modest acceleration to 3.3 percent in 2025. Fears of a global recession, a banking system collapse, and a sudden halt in the growth of major emerging markets have subsided. Despite severe inflation hikes over the past three years, an uncontrollable wage spiral was avoided. Global growth bottomed out in 2022 following headline inflation’s peak at 9.4 percent. Advanced economies are expected to see slight growth, reflecting the euro area's recovery from low growth in 2023 and stable growth for emerging markets over the medium term.

Several factors underlie the projected global growth rate, including rapid deceleration in global inflation, prospects of monetary policy easing, robust employment growth mitigating economic scarring from the pandemic, tightening fiscal policies aimed at reducing public debt and building fiscal buffers, and the rising threat of geo-economic fragmentation. Global headline inflation is projected to decrease from an annual average of 6.8 percent in 2023 to 5.9 percent in 2024, and then to 4.5 percent in 2025.

Regarding the economies of Grenada’s major source markets for goods and services, growth projections are modest. In the USA, the largest source market for Grenada’s tourists, growth is forecasted to increase from 2.5 percent in 2023 to 2.7 percent in 2024, then decelerate to 1.8 percent in 2025. In the United Kingdom (UK), another major source market for tourists, growth is projected to rise from 0.1 percent in 2023 to 0.5 percent in 2024, and 1.5 percent in 2025. In Canada, economic growth is forecasted at 1.2 percent in 2024 and 2.3 percent in 2025, accelerating from 1.1 percent in 2023. In China, a major source market for manufactured goods, growth is expected to decelerate from 5.2 percent in 2023 to 4.6 percent in 2024 and 4.1 percent in 2025.

Grenada’s Real GDP is forecasted to grow by 3.9 percent in 2024 and 4.2 percent in 2025. These forecasts are based on conservative assumptions about activity in key sectors such as tourism, construction, private education, and agriculture, cognizant of the deleterious effects of Hurricane Beryl on the northern parts of mainland Grenada and the sister isles of Carriacou and Petite Martinique.

Despite tepid growth in Grenada’s major tourist source markets and the adverse effects of Hurricane Beryl, the tourism sector is poised for strong growth in 2024, surpassing pre-COVID levels. Hurricane Beryl caused significant infrastructural damage, disrupting local businesses within the sector. Combined with modest global economic growth, these factors present challenges that could constrain the tourism sector’s expansion in the medium term.

The construction sector outlook remains broadly positive, as significant public and private projects are underway to restore infrastructure damaged by Hurricane Beryl. These projects are crucial for rebuilding and enhancing resilience against future storms. However, the sector faces challenges that could impede progress, including high import costs for construction materials and ongoing supply chain disruptions. These issues may delay project timelines and increase overall costs, affecting the sector's ability to rapidly and effectively complete the necessary rebuilding efforts.

Activity in the private education sector is expected to be subdued in 2024 as SGU adjusts to shifts in student source markets. However, the University aims to boost enrolment by offering more scholarships and increasing its course offerings in Arts & Science in the 2024/2025 academic year.

The north of Grenada often referred to as the “Breadbasket” of Grenada has sustain a significant blow in the wake of Hurricane Beryl. Key crops such as Nutmeg, Cocoa, Banana and Other produce predominantly grown in the Parish of St. Andrew and St. Patrick were severely impacted with over 80 percent of trees lost or damaged. Similarly, in Carriacou and Petite Martinique, several fishing vessels were damaged significantly affecting the local fishing industry, disrupting livelihood, reducing fish supplies, and affecting both domestic and export markets. Despite extensive efforts in the past year to enhance food security and revive agricultural production, the sector has experienced a substantial setback. To stabilise agricultural production in the near-to medium-term, the government plans to implement aggressive reactivation strategies to support the sector and restore its stability.

Overall, Grenada’s economic outlook is cautiously optimistic despite anticipated disruptions in major sectors due to Hurricane Beryl. A temporary moderation in employment prospects is expected, while ancillary sectors such as manufacturing, real estate, and wholesale and retail are projected to remain resilient over the medium term.

Grenada’s economic prospects for the 2025 Budget year are broadly positive, though extreme weather events like Hurricane Beryl present significant risks, redirecting capital resources away from economic development and resilience building. Although global downside risks, such as high inflation (which is gradually decreasing), are anticipated to ease, the slow economic growth in some of Grenada's primary tourism and investment source markets could dampen the expected growth. Accordingly, the 2025 Budget will be prepared amidst acute economic uncertainties, necessitating realistic policy objectives, proper sequencing of priorities, and built-in flexibility to minimize implementation risks stemming from an uncertain global macroeconomic environment and ever-changing climatic conditions.

Appendix 2 provides details of the medium-term growth forecasts by economic sectors.

4. COMPLIANCE WITH THE FISCAL RESILIENCE ACT 2023

The Fiscal Responsibility Act of 2015, as amended, has been repealed and replaced by the new Fiscal Resilience Act (FRA), 2023. The updated FRA strengthens the rules-based fiscal policy framework and enhances its accompanying risk management systems. These changes aim to promote fiscal resilience, improve transparency in the management of the Government's fiscal operations, and ensure sustainable levels of public debt.

Section 12(2) of the Public Finance Management Act mandates the preparation of a Medium-Term Fiscal Framework (MTFF), which details the progress made toward compliance with the fiscal rules and targets outlined in the Fiscal Resilience Act of 2023. Notably, Section 8(1) and (3), as well as Section 7, sets forth the following numerical fiscal rules:

- Total employee compensation (wage bill) must not exceed 13.0% of GDP annually.
- Primary balance must be no less than 1.5% of GDP annually.
- Public debt must be reduced to a target of 60.0% of GDP by 2035.

The passage of Hurricane Beryl has necessitated government intervention to restore economic and social stability. In the medium term, substantial resources will be required to rehabilitate livelihoods and rebuild critical infrastructure. Adhering to the fiscal rules and targets outlined in Section 8 of the Fiscal Responsibility Act (FRA) would place an undue strain on public finances and, by extension, the broader macroeconomy. Therefore, in accordance with Section 9 of the FRA, the Minister of Finance has suspended the fiscal rules and targets for the fiscal year 2024. This suspension will enable the Government to implement essential fiscal measures in support of ongoing economic recovery efforts. Given the anticipated scope of the recovery, a similar suspension may also be necessary for the fiscal year 2025.

Table 10 shows that the projections for relevant fiscal variables comply with the fiscal rules and targets for 2025–2027. Public debt is projected to follow a downward trajectory throughout the medium term, aligning with the legislated target of 60.0% of GDP by 2035.

Central Government debt is projected to decline from 57.1% of GDP in 2025 to 54.3% by 2027, while the consolidated debts of state-owned enterprises (SOEs) are forecasted to decrease from 14.1% of GDP in 2025 to 13.1% by 2027.

Table 10: FRA Compliance Matrix

	2025		2026		2027	
	Proj.	Compliance	Proj.	Compliance	Proj.	Compliance
Total Employee Compensation "Wage bill" (percent of GDP) Not Exceeding 13%	8.7%	Yes.	8.2%	Yes	7.9%	Yes
Primary Balance (percent of GDP) Not less than 1.5%	-5.8%	No	1.8%	Yes	1.9%	Yes
Public Sector Debt (percent of GDP): Sixty % by 2035 Central Gov't: SOEs & SBs:	71.2% 57.1% 14.1%	On track	69.3% 55.7% 13.6%	On track	67.3% 54.2% 13.1%	On track

Source: Ministry of Finance

5. FISCAL RISKS MANAGEMENT

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

5.1 Macroeconomic Risks

Grenada's fiscal projections for the year 2025 and the next two years are based on global economic conditions as of June 2024. The global recovery is slow, inflation remains high (though decreasing), and there are significant risks that could lead to modest growth. Grenada's economic and fiscal situation is closely tied to global trends. A prolonged global economic downturn could hurt tourism, remittances, foreign investment, and public finances. High international commodity prices, especially for fuel and food, may continue to drive domestic inflation in the short term. Although inflation is expected to decrease over time, it might still be high compared to historical norms, keeping costs for imported goods elevated and affecting domestic economic performance.

Moreover, ongoing conflicts like the Israeli-Palestinian war could keep global oil prices high, impacting Grenada's economy. Persistent global inflation might also increase local living costs, and higher global interest rates could raise credit costs both globally and locally. Additionally, the occurrence of another sudden natural disaster remains a constant risk. Should these come to pass, Grenada's actual fiscal results will differ from the current forecasts.

5.2 Budget Implementation Risks

Receipts from the IMA program, a key source of non-tax revenue, are particularly vulnerable due to the AMIGOS Act passed by the U.S. Congress in December 2022. This Act imposes a three-year domicile residency requirement, eliminating immediate E2 visa privileges for economic citizens. A significant decline in IMA revenues could weaken the fiscal position and complicate budget implementation. However, proactive measures are being taken to enhance the program's attractiveness and ensure its sustainability.

Uncertainties regarding IMA inflows, particularly into the National Transformation Fund (NTF), may further complicate budget programming. Should the anticipated NTF receipts fail to materialize, the fiscal outlook could deteriorate. Lower-than-projected receipts would adversely impact project implementation and overall budget execution.

Additionally, high global inflation, though easing from its peak in 2021-2022— continues to exacerbate domestic inflationary pressures, presenting challenges for both revenue generation and expenditure management. On the revenue side, persistent high inflation could erode potential windfall revenues from duties and border taxes (due to imported inflation), necessitating expanded fiscal support for the most vulnerable citizens. On the expenditure side, forecasts for continued global inflation suggest that the costs of procuring goods and services will remain elevated which could lead to cost overruns in infrastructure projects within the Public Sector Investment Program (PSIP). Active contract management by implementing ministries will be crucial to mitigate this risk.

The Government will continue to enhance implementation capacity through training and direct support as part of a comprehensive strategy for PSIP execution. Improved budget and PSIP implementation are expected through systematic monitoring and structured reporting using the Budget Implementation Tool, developed by the Ministry of Implementation and Transformation (MIT), and approved by the Cabinet in June 2023. Since its inception in June 2022, MIT has augmented its human and technical capacity to provide direct, results-oriented implementation support to ministries and departments managing the Government's priority projects and programs.

Notwithstanding the support of MIT, a limited pool of technical personnel across the public service poses a challenge to effective budget execution and achieving the Government's fiscal objectives. Expanding this pool through the onboarding of technical personnel is an urgent priority for the Government.

5.3 Climate Risks

According to the 2021 Global Climate Risk Index Report, which assesses the exposure and vulnerability to extreme events across 180 countries using data from 2000-2019, Grenada is ranked 24th, with a score of 39.67. This ranking underscores Grenada's high exposure and susceptibility to natural hazards, including hurricanes, storms, floods, and heat waves.

In response to the recent devastation caused by Hurricane Beryl, the Government remains committed to enhancing resilience to climate change through its ongoing and planned adaptation and mitigation efforts, in line with its Disaster Resilience Strategy. The Government has implemented a risk-layering approach to natural hazard financing, incorporating insurance, contingency funds, concessional lines of credit, and reserved budgetary resources. Furthermore, as part of its 2015 debt restructuring, the Government included hurricane clauses in its restructured bonds, which will support the automatic reprofiling of these debts in the aftermath of hurricanes and similar natural events.

5.4 Other Potential Sources of Risks

5.4.1 Financial Sector

Despite the financial vulnerabilities faced by businesses in key productive sectors, exacerbated by the COVID-19 pandemic, commodity price shocks from geopolitical tensions, global inflation, and the recent impact of Hurricane Beryl, financial institutions are still expected to uphold capital adequacy standards. To address ongoing macroeconomic uncertainties, it is crucial to improve financial sector surveillance and implement sustained measures to ensure stability. Financial institutions may need to bolster their internal risk assessments and early warning systems, as well as enhance communication with debtors, to mitigate the risk of rising non-performing loans (NPLs) and avoid further financial sector tightening.

5.4.2 Public-Private Partnerships

As of June 31st, 2024, the Government of Grenada had two significant public-private partnership (PPP) arrangements with financial risk implications:

- **Digicel Partnership:** This 15-year agreement is part of the Caribbean Regional Communication Programme, a World Bank-funded regional initiative involving Grenada, Saint Lucia, St. Vincent, and the Grenadines, and Digicel. It supports the countries' digital transformation efforts. Grenada's financial commitment to this regional project is classified as a current liability due to concessional loan financing, meaning there are no explicit contingent liabilities directly associated with this PPP.

- **Grenville Commercial Complex:** This PPP involves the Government collaborating with a private partner to develop commercial rental spaces, at a total estimated cost of EC$18.8 million. The Government holds a 51% share in this venture. The financial risk here includes the capital invested and the potential return on this investment, which is dependent on the success of the commercial project and rental income generated. The commencement of this Project is significantly delayed.

5.4.3 State-Owned Enterprises Risks

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

5.4.3.1 Explicit Contingent Liabilities - Guaranteed Debt

As of June 31st, 2024, Central Government holds no guaranteed debt within its loan portfolio.

5.4.3.2 Implicit Contingent Liabilities- Non- Guaranteed Debt

As of the end of June 31st, 2024, nine State-Owned Enterprises (SOEs) held non-guaranteed debt instruments totalling $163 million. The majority of these loans are denominated in local currency, with fixed interest rates and long-term amortization schedules, helping to reduce the exposure of these entities to interest rate and exchange rate fluctuations. Loan financing for SOEs and SBs is predominantly obtained through domestic commercial banks, larger SOEs with lending facilities, or via the Central Government through on-lending arrangements reflecting the strong reliance on local lending markets to meet their financial needs. Less frequently, loans are obtained from regional banking institutions, such as the Caribbean Development Bank. Importantly, debt owed to other SOEs also represents implicit contingent liabilities for the Central Government, as the risk of non-repayment may ultimately be borne by the Government.

An analysis of the debt portfolio reveals that the majority of SOEs holding non-guaranteed debt have been meeting their loan obligations on time and possess sufficient financial resources to manage their debt even in the face of unforeseen shocks. Consequently, the risk from implicit contingent liabilities remains low. In the furtherance of fiscal risk reduction and mitigation, the Government will continue to maintain regular monitoring and evaluation of the performance of State-Owned Enterprises (SOEs) and Statutory Bodies (SBs), utilizing both audited and unaudited financial statements. This ongoing oversight will enable consistent assessment of the fiscal risks posed by these entities and ensure timely implementation of necessary interventions.

Table 12: Risk Assessment Summary and Mitigation Measures

Risk Description	Source of Risk	Risk Rating	Measures to Manage/Mitigate Risks
Macroeconomic	Global economic slowdown. High global inflation.		The Government will maintain targeted support for sectors hit hardest by the economic slowdown and use the Contingency Fund prudently to manage deeper-than-expected economic challenges. In the medium term, it will pursue structural reforms to diversify the economy, enhancing competitiveness and resilience.
Budget Implementation	Lower-than-forecasted NTF receipts.		The Government will focus capital spending on projects that create jobs and build resilient infrastructure through the PSIP. It will keep discretionary spending within the budget and work on improving revenue collection.
	Capacity and institutional constraints affecting project implementation.		The Government will enhance the Public Investment Management System to better manage the capital budget. This includes improving project management skills, coordinating more effectively among ministries, hiring technical experts, and supporting the work of MIT to reduce risks.
Fiscal Risks from State-owned Enterprises	Contingent liabilities of SOEs.		The Government will ensure timely submission of up-to-date audited financial statements and closely oversee the management performance of SOEs to guarantee they fulfil their mandates in the most cost-effective and efficient way. The technical capacity of the Macroeconomic Policy Unit has been expanded to better conduct this function.

Climate Change	Adverse effects of natural hazards.		A disaster risk financing strategy has been created, featuring a Contingency Fund, a Line of Credit for unexpected natural events, insurance through CCRIF, and debt instruments with Hurricane clauses.

Key	
	High Risk
	Medium Risk

6. STATEMENT OF RESPONSIBILITY

I, Mike Sylvester, Permanent Secretary with responsibility for the Ministry of Finance, hereby accept responsibility for the information presented in this Medium-term Fiscal Framework 2025-2027 and its compliance with the FRA 2023, including errors, omissions, or misstatements.

………………………………
Mr. Mike Sylvester
Permanent Secretary

Appendix 1: Salient Features of the Fiscal Resilience Act, 2023

Item	2015 FRA	2023 FRA
Fiscal Objectives	Fiscal & debt sustainability & fiscal risk management	Retained
Debt Target	Fifty-five percent or 60% of GDP (unclear)	60.0% of GDP by 2035
Primary Balance Rule	Floor of 3.5% of GDP	Floor of 1.5% of GDP
Primary Expenditure Rule	Ceiling of 2% annual real growth	Removed
Wage Bill Rule	Nine percent of GDP Two percent real annual growth (unclear)	Ceiling of 13.0% of GDP Annually
Contingent Liabilities related to PPPs	Ceiling of 5% of GDP	Removed
Escape Clause	Ambiguity about frequency of activation	Clear guidance about frequency of activation and the renaming of the Section as the Suspension Clause
Recovery Plan	Immediate preparation upon suspension	Removed as a standalone document, but measures proposed to return to compliance with the are contained in the Mid-year Economic Report (if suspension occurs within the first half of a fiscal years) and included in the Medium-term Economic and Fiscal Strategy Report if suspension occurs within the second half of a fiscal year
Reports	Six	Single consolidated Medium-term Economic & Fiscal Strategy Report
Medium-term Fiscal Framework	No provisions	Explicit provisions
Coverage	Central Gov't & Covered Public Entities	Central Gov't & All SOEs & SBs for Public Debt. Central Gov't only for fiscal flow variables
Stated –owned Enterprises (SOEs) and Statutory Bodies (SBs)	Fiscal rules apply to both Central Government and "covered public entities"	New Section with explicit provisions for all SOEs & SBs
Independent Fiscal Oversight Committee	Ex-post assessment only	Ex-ante and Ex-post assessments

Source: Ministry of Finance

***Appendix 2**: Medium-term Growth Forecasts, Percent Change*

	Actual	Actual	Actual	Est.	Est.	Est.	Forward Estimates		
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Agriculture, Livestock and Forestry	-3.6	-15.0	15.0	-22.5	-23.5	**-2.7**	-2.4	1.8	1.4
Fishing	2.0	-13.0	17.6	0.0	-6.0	**-2.9**	-2.3	1.3	3.0
Mining & Quarrying	5.0	-8.0	18.8	11.0	-27.0	**5.0**	4.3	4.1	4.5
Manufacturing	3.2	-10.2	11.1	8.3	11.6	**3.6**	6.7	4.5	5.1
Electricity & Water	3.2	-6.4	-0.8	6.7	7.7	**-1.6**	1.9	3.4	4.2
Construction	-3.6	-20.5	25.7	25.5	-10.9	**3.2**	15.6	7.8	8.3
Wholesale & Retail Trade	1.8	-15.4	6.5	0.1	6.2	**4.1**	3.7	3.1	2.4
Hotels & Restaurants	4.1	-68.2	37.6	60.9	15.8	**23.1**	20.1	16.2	14.0
Transport, Storage & Communications	0.5	-25.6	-8.5	16.5	9.1	**8.2**	7.5	6.4	3.8
Financial Intermediation	2.9	4.3	4.1	4.5	4.6	**4.2**	4.4	4.6	4.6
Real Estate, Renting and Business Activities	1.5	-7.0	0.8	3.4	2.5	**2.7**	3.1	3.7	4.8
Public Administration	-0.8	-2.0	0.1	3.5	1.4	**3.5**	2.3	3.2	3.8
Education	4.2	-0.3	1.7	-4.1	3.8	**1.5**	1.5	1.7	1.7
Health and Social Work	-3.8	-1.7	2.4	2.7	1.1	**1.0**	1.1	1.7	1.5
Other Community, Social & Personal Services	1.6	-11.4	1.2	1.0	1.9	**0.8**	0.7	1.1	1.1
Activities of Private Households as Employers	0.6	-4.3	0.0	1.1	1.8	**0.8**	0.9	0.9	1.1
Real Gross Value added (not GDP)	1.2	-13.7	5.2	6.2	2.2	**4.1**	5.7	5.0	4.9
Real Gross Domestic Product	0.7	-13.8	4.7	7.3	4.7	**3.9**	4.2	4.5	4.7
Nominal GDP	4.0	-14.0	7.6	9.1	8.4	**6.0**	6.4	6.8	5.2
Nominal GDP (EC$ Millions)	3276.4	2817.2	3031.6	3306.4	3585.3	**3799.6**	4042.4	4319.1	4545.7

Source: Ministry of Finance

Appendix 3: *Baseline Medium-Term Assumptions*

Categories	2025	2026	2027
Recurrent Revenue	All categories of tax revenue are assumed to grow in line with projected nominal GDP except for tax revenue from international transactions (IT). Changes in Tax revenues from IT are aligned with the average growth of imports. Inland Revenue Division's new tax system GTAX which be able to accommodate all the tax types increasing efficiency in tax collection. There will be a reduction in Property Tax collection in the medium term because of Hurricane Beryl relief efforts where Carriacou and Petite Martinique will receive P/Tax exemption and St. Patrick on a case-by-case basis. Non-tax revenue, except for IMA revenue, moves in line with nominal GDP. IMA revenue are tempered estimates from the IMA Unit based on counter-balancing assumptions about the possible impact of the AMIGOS Act and other risks to the Programme as well as various strategies to be deployed to enhance the attractiveness of the Programme over the medium term.		
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	These categories reflect the negotiated 5.0% salary increase as well as fringe benefits and inflation. Additionally, the ongoing staff regularization process was taken into consideration.	Categories reflect the salary increase and fringe benefits in 2026 and inflation in 2027.	
Social contributions to employees			
Goods & Services	Items under these categories are adjusted for inflation except for transfers abroad. Goods & Services reflect several initiatives such as Hurricane Beryl relief efforts, free tuition up to tertiary level and revamped and new public assistance programmes, as well as the high cost of goods and services in general. The negotiated salary increase of 5% in 2025 will be applied to pensions also. Increase for 2026 and 2027 are yet to be negotiated.		
Current transfers			
Interest payment	External and domestic interest payments reflect the conditions stated in the contractual agreement.		
Capital Expenditure & Net Lending			
Grant financed	Capital expenditure over the medium term is driven by the Government's new and existing public sector investment plans that aligns with the Government's transformational agenda. Consistent with the proposed amendments to the FRA, and suspension of the fiscal rules for 2025 expenditure is projected to average 11 percent of GDP over the medium term.		
Non-Grant financed			