FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

2019 ANNUAL REPORT

30 April, 2020

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

(FROC)

FROC

Fiscal Responsibility Oversight Committee

2019 ANNUAL REPORT

30 April, 2020

TABLE OF CONTENTS

LETTER OF TRANSMITTAL

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

30th April, 2020

Mr. Andrew Augustine
Clerk of Parliament (Ag.)
Office of the Houses of Parliament
Parliament Building
Mt. Wheldale
St. George's

Dear Mr. Augustine,

RE: SUBMISSION OF THE 2019 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 Responsibility Oversight Committee (FROC), I am pleased to submit, herewith, the required sixty (60) copies of the afore-mentioned report for consideration by the House of Representatives.

I shall therefore be grateful if you will bring the said report to the attention of the Hon. Michael Pierre, Speaker of the House of Representatives and Chairman of the Committee of Privileges, so that it may be laid before the House in accordance with the Act.

I thank you in anticipation of your kind co-operation.

Respectfully,

Richard W. Duncan
Chairman

Members: Richard W. Duncan, Chairman | Shadel Nyack Compton| Zanna Barnard | Anthony MacLeish |

Secretary: Michelle Millet | P.O. Box 1798 |Pannell House |Grand Anse |St. George's

GLOSSARY

BFP	Budget Framework Paper
CARTAC	Caribbean Regional Technical Assistance Center
CBI	Citizenship by Investment
CPI	Consumer Price Index
DPC	Development Policy Credit
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Legislation
FROC	Fiscal Responsibility Oversight Committee
GDP	Gross Domestic Product
HSAP	Homegrown Structural Adjustment Programme
IMF	International Monetary Fund
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPU	Macroeconomic Policy Unit
MTDS	Medium-Term Debt Management Strategy
NHI	National Health Insurance
NTF	National Transformation Fund
PDMA	Public Debt Management Act
PFMA	Public Finance Management Act
PPP	Public Private Partnership
PSIP	Public Sector Investment Programme
RGSM	Regional Government Securities Market
SB	Statutory Body
SOE	State-Owned Enterprise

I. FOREWORD

I. In its efforts to obtain sustainable economic development, the Grenada Government has recognized and embraced the concept that greater fiscal responsibility and discipline is a key factor which must be attained. To achieve this, there must be an enhanced level of fiscal management along with clearly defined, prudent fiscal targets and policies covering, not only the annual budgetary period, but the medium and long term as well. In January 2014, the Grenada Government embarked on a three-year, Homegrown Structural Adjustment Programme (HSAP) which was followed in 2015 with pioneering legislation on Public Financial Matters designed to ensure that the required level of fiscal discipline is achieved.

II. This legislation comprised the following Acts – the Fiscal Responsibility Act No. 29 of 2015 (FRA or the Act), the Public Finance Management Act No. 17 of 2015 (PFMA) and the Public Debt Management Act No. 28 of 2015 (PDMA). There have been a number of amendments to these Acts which are listed in Appendix 1.

III. The specific objectives of the FRA are ***"to establish a transparent and accountable rule-based fiscal responsibility framework in Grenada, to guide and anchor fiscal policy during the budget process, to ensure that Government finances are sustainable over the short, medium, and long term, consistent with a sustainable level of debt, and for related matters."***

IV. The PFMA regulates the proper management and control of money and other resources of the public sector including the Consolidated Fund while the PDMA consolidated and modernized the laws relating to the management of the public debt in furtherance of the objective of attaining debt sustainability. The FRA, the PFMA and the PDMA must be read and construed together.

V. In order to provide oversight of the Act, the FRA created a **Fiscal Responsibility Oversight Committee (FROC).** This Committee is responsible, under section 14 (3) of the FRA, for monitoring compliance with the fiscal rules and targets as stipulated in the Act and reporting to the House of Representatives thereon.

I. FOREWORD (CONTINUED)

VI. The FROC comprises five (5) persons who are appointed by the Governor General in accordance with section 1 of the Second Schedule of the Act. Four (4) persons are nominated by the Committee of Privileges of Parliament in consultation with the Director of Audit. The fifth person is appointed on the advice of the Governor of the Eastern Caribbean Central Bank (ECCB).

VII. The Second Schedule of the Act stipulates that members of the FROC must possess expertise in the following areas:

(i) accounting;

(ii) business management, having not less than ten years of experience;

(iii) public administration, having not less than ten years of experience; and

(iv) law

The nominee from the Governor of the ECCB is required to have expertise in economics.

Mrs. Michelle Millet, a practicing accountant, was appointed secretary to the FROC in September 2017.

As at 31 December, 2019 the FROC comprised the following persons:

 Mr. Richard W. Duncan – Chairperson	Accountant and Economist Term of appointment expires August 2020
 Ms. Zanna Barnard	Economist – Eastern Caribbean Central Bank Term of appointment expires August 2021

I. FOREWORD (CONTINUED)

<table>
<tr><td>
Ms. Shadel Nyack Compton</td><td>Attorney-at-Law
Term of appointment expires August 2021</td></tr>
<tr><td>
Mr. Anthony MacLeish</td><td>Business Manager and Accountant
Term of appointment expires August 2021</td></tr>
<tr><td>
Mr. Philbert Charles</td><td>Retired Public Administrator
Term of appointment expires August 2021</td></tr>
</table>

Secretary to the FROC

<table>
<tr><td>
Mrs. Michelle Millet – Secretary</td><td>Assurance Partner – Certified General Accountant (CGA)</td></tr>
</table>

I. FOREWORD (CONTINUED)

VIII. After serving for two years on the FROC the term of appointment of the following members expired in August 2019 - Ms. Sabina Gibbs, Mr. Adrian Hayes and Mr. Angus Smith. They were replaced on September1, 2019 with Ms. Shadel Nyack Compton, an attorney at law, Mr. Philbert Charles a retired public administrator and Mr. Anthony MacLeish a Business Manager. Ms. Zanna Barnard was re-appointed to serve on the FROC. Mr. Charles subsequently resigned from the FROC on 1 January, 2020 while he accepted a short-term position as Accountant General in the Ministry of Finance.

IX. The FROC is required to report to the House of Representatives annually on the status of implementation of the Act. Under section 14(4) of the Act, the Report shall include the following –

(a) ***the progress made towards compliance with the fiscal rules and targets established under sections 7 and 8 with respect to the relevant financial year including where applicable a statement on compliance with a fiscal rule or target within the fiscal year;***

(b) ***outcomes and implications of implementation of the Act;***

(c) ***advice on measures that ensure compliance in accordance with provisions of the Act;***

(d) ***the occurrence of circumstances leading to the activation of the automatic correction mechanism for cases of significant observed deviations for the targets included in the Act or the adjustment path towards it in accordance with Section 11 and any occurrence or cessation of such circumstances;***

(e) ***progress made in the period of adjustment towards ensuring that compliance with fiscal rules and targets is being made in accordance with the automatic correction mechanism.***

X. The FROC's first two (2) Reports covered the fiscal years 2016 and 2017 and were submitted to the Clerk of Parliament on 21 November, 2017 and 30 April, 2018 respectively. The 2018 Report was submitted on 30 April, 2019.

XI. As required under the FRA, this Report reviews the Government's fiscal and debt performance in 2019 through the lenses of the FRA, and is based on the data provided by, and discussions with, the Macroeconomic Policy Unit (MPU). It assesses compliance with the Rules and Targets enshrined in law and provides insights and recommendations where there are variances between the actual and targeted performance of Government.

I. FOREWORD (CONTINUED)

XII. As required by section 14(3)(b) of the Act, Reports from the FROC must be laid before Parliament and examined by the *Public Accounts Committee*, the *Standing Orders Committee* and the *Standing Committee on Finance of Parliament*. On 30 May, 2019 the FROC attended a meeting with Members of the *Committee of Privileges of Parliament* at which the 2018 Report was discussed. The FROC also held a media briefing on 5 September, 2019 at which the 2018 Report was discussed.

XIII. In the process of fulfilling its legislative mandate, the FROC held several meetings[1] with the Macroeconomic Policy Unit (MPU) in the Ministry of Finance (MOF) to review the data provided by the MPU for preparation of the 2019 Report. Discussions were also held on the potential impact of the COVID-19 pandemic on the Government's finances in 2020.

XIV. The FROC acknowledges the support received from the staff of the MPU as well as the Eastern Caribbean Central Bank (ECCB) in the preparation of this Report. The work of the retiring members Messers. Smith, Hayes and Ms. Gibbs is also acknowledged and the FROC thanks them for their invaluable contribution during their tenure.

XV. As required by section 14(3)(b) of the Act this Report is being forwarded to the Speaker of the House of Representatives to be laid before the House and examined by the *Public Accounts Committee*, the *Standing Orders Committee* and the *Standing Committee on Finance of Parliament*. The FROC appreciates the one-month extension for submission of the Report, graciously granted by the Speaker of the House of Representatives pursuant to section 3(1) (b) of the Fiscal Responsibility (Amendment) Act 11 of 2017.

…………………………	Shadel Nyack Compton …………………………	Zanna Barnard …………………………
Richard W. Duncan	**Shadel Nyack Compton**	**Zanna Barnard**
…………………………		
Anthony MacLeish	**30 April, 2020**	

[1] See Appendix 11

1.0 EXECUTIVE SUMMARY

1.1 This Report assesses Government's compliance for the 2019 financial year with the fiscal rules and targets as outlined in sections 7 and 8 of the Fiscal Responsibility Act as well as the other requirements outlined in sections 5, 6 and 12 of the Act.

1.2 The Government's fiscal performance in 2019 was commendable as it continued to make steady progress in its efforts to satisfy the requirements of the FRA and ensure its effective implementation. Real GDP growth of 3.2 per cent was recorded in 2019, less than projected, but nevertheless for the seventh (7th) consecutive year. The primary surplus for 2019 was 6.8 per cent, marginally less than 2018. Inflation was relatively stable at 1 per cent while the public debt continued to fall. Of particular note also is the steady improvement in the quarterly reporting of the state-owned enterprises (SOE) and the monitoring of their contingent liabilities. However, a number of underlining issues with the implementation of the Act remain outstanding.

Notwithstanding the significant improvement in quarterly reporting by the SOEs, the fiscal data provided by the Macroeconomic Policy Unit (MPU) still includes only that of Central Government. Most targets were met in 2019 but based on Central Government data only. This has therefore given rise to the cautious assessment in the majority of the targets as the Act is very clear that the data used must include not only Central Government but also "covered public entities".

Previous Reports of the FROC highlighted the need for significant amendments to the FRA in order to strengthen the Act by removing ambiguity and ensuring consistency with other legislation. Extensive discussions were held with the MPU and the International Monetary Fund (IMF) on proposed amendments and consensus was reached on the way forward. The amendments are however yet to be submitted to Parliament for consideration.

The inclusion, or non-inclusion, of the Petro Caribe debt as part of the public debt is still unresolved as a legal opinion is awaited from the Ministry of Legal Affairs. The previous recommendation from the FROC, that an assessment of all relationships between public and private entities be conducted to accurately ascertain the true status of any possible Public Private Partnerships (PPPs) and related contingent liabilities, has not been addressed.

1.0 EXECUTIVE SUMMARY (CONTINUED)

1.3 In this Report the following keys are used to assist readers to easily understand the FROC's assessment of compliance with the fiscal rules and targets -

Table 1: Compliance Symbols

SYMBOL	INTERPRETATION
	Compliant, without reservations
	Compliant, with reservations
	Non-compliant

1.4 There are five (5) specific Rules or Targets in the Act (as outlined in Table 2 below) with which Government must comply. Of the five (5) specific rules, the FROC assesses that there was compliance in 2019 with three (3) rules with reservations and non-compliance with two (2) rules.

1.0 EXECUTIVE SUMMARY (CONTINUED)

Table 2: Compliance with Rules and Targets

Fiscal Rule	Target	Compliance
1. Section 8(1) - Public Sector Debt to GDP ratio	**Not to exceed 55%**	STOP
2. Section 8(2) - Public Private Partnership (PPP) contingent liabilities	**Not to exceed 5% of GDP**	STOP
3. Section 7(3) - Wage Bill to GDP ratio	**Not to exceed 9% of GDP**	CAUTION
4. Section 7(1)(a) – Real Rate of growth of primary expenditure[2].	**Not to exceed 2%**	CAUTION
5. Section 8(3) - Primary Balance to GDP ratio	**Not less than 3.5 %**	CAUTION

1.5 The FRA governs ***"matters related to the management of public finances and fiscal matters relating to the Central Government and covered public entities."*** Under the Act, ***"covered public entity" means a statutory body (SB) or state-owned enterprise (SOE) which has -***

(i) received transfers or guarantees from Government in the last five years or

(ii) not met the quarterly reporting requirements for three consecutive quarters in the last year or

(iii) recorded negative equity on its audited balance sheet in the last three years.

Appendix III lists covered public entities at 31 December, 2019.

[2] Throughout this Report this target refers to primary expenditure less grant/NTF funded capital spending.

1.0 EXECUTIVE SUMMARY (CONTINUED)

1.6 The data submitted by the Macroeconomic Policy Unit for the preparation of this Report does not capture that of the covered entities as required by the Act. This omission has given rise to the caution applied in the assessment of a number of Rules and Targets. However, the MPU has made progress in building a full data set for covered public entities; and the FROC trusts that this short coming will be rectified in 2020.

1.7 To ensure that Government's fiscal and financial affairs are conducted in a fully transparent manner the FRA as well as the Public Finance Management Act (PFMA) and the Public Debt Management Act (PDMA) requires the submission to Parliament of a number of Reports. To this end, the following Reports were tabled in Parliament in November 2019 -

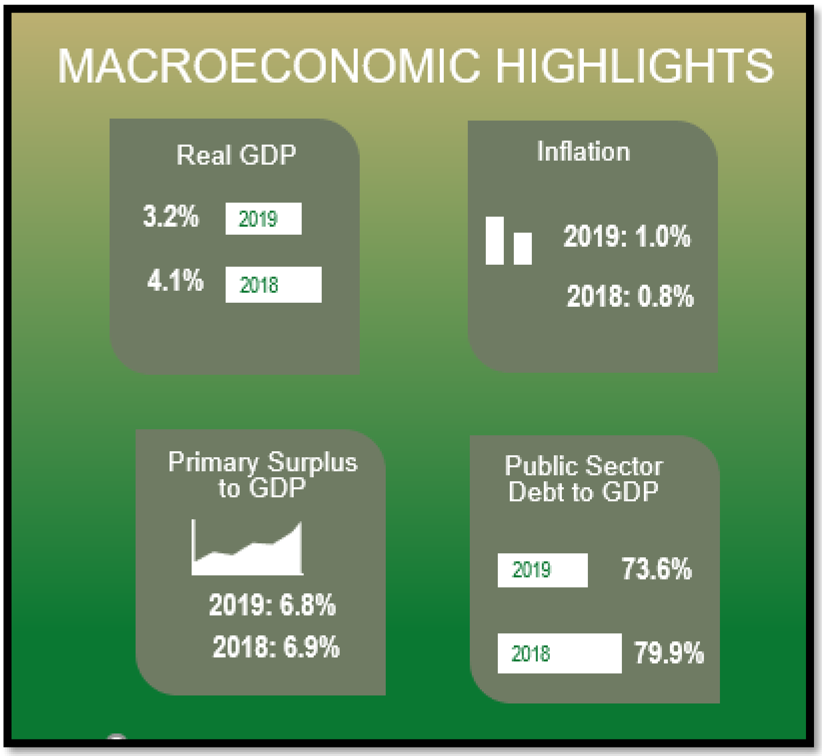
(i) Budget Framework Paper: 2020
(ii) Medium - Term Fiscal Framework: 2020 - 2022
(iii) Compliance Assessment Report: 2018 - 2019
(iv) Fiscal Risk Statement
(v) Medium - Term Debt Management Strategy: 2020 - 2022

Additionally, the Government produced a "2019 Economic Review & Medium- Term Outlook" which was also laid in Parliament in November 2019.

2.0 MACROECONOMIC CONTEXT

2.1 Macroeconomic outcomes for Grenada continued to validate that fiscal responsibility can coincide with economic growth. The year 2019 represented seven (7) consecutive years of real GDP growth in Grenada averaging 4.5 per cent. It also marked the fourth (4th) since the fiscal responsibility legislation came into force, and it culminated with relatively good macroeconomic prospects for the country despite potential downside risks and uncertainty. Figure 1 provides the key macroeconomic statistics for 2019.

Figure 1: Key Macroeconomic Statistics for Grenada in 2018 and 2019



2.2 The economy experienced a soft landing in 2019 as economic growth slowed to 3.2 per cent, from 4.1 per cent in 2018, and below the budgeted forecast of 4.7 per cent. Growth remained concentrated in the education sector and tourism industry. The deceleration in tourism was transmitted to lower spillover effects in sectors such as transportation, and wholesale and retail trade. A fall in overall construction activity in 2019, was another signal that the economy cooled off in 2019. These developments were accompanied by growth in average consumer prices of 1.0 per cent, similar to an increase of 0.8 per cent in 2018, and notably below the budgeted forecast of 2.8 per cent.

2.0 MACROECONOMIC CONTEXT (CONTINUED)

2.3 With developments in real GDP, the unemployment rate for the country is expected to have fallen by the end of 2019, from the previous year. The unemployment rate is estimated to have fallen to 15.2 per cent in the first quarter of 2019 (the latest available data in 2019), from an estimated 20.9 per cent at the end of 2018[3].

2.4 In the public sector, the Central Government registered a primary surplus of 6.8 per cent of GDP for 2019, slightly below the surplus gained in 2018 but above the budgeted value of 6.0 per cent. The surplus in 2019 stemmed chiefly from higher current revenue, largely owing to year-on-year increases in taxes on property, international trade, domestic goods and services as well as in non-tax revenue. Both total expenditure and primary expenditure (less grant related capital expenditure) rose year-on-year, primarily on transfers, the wage bill, and goods and services.

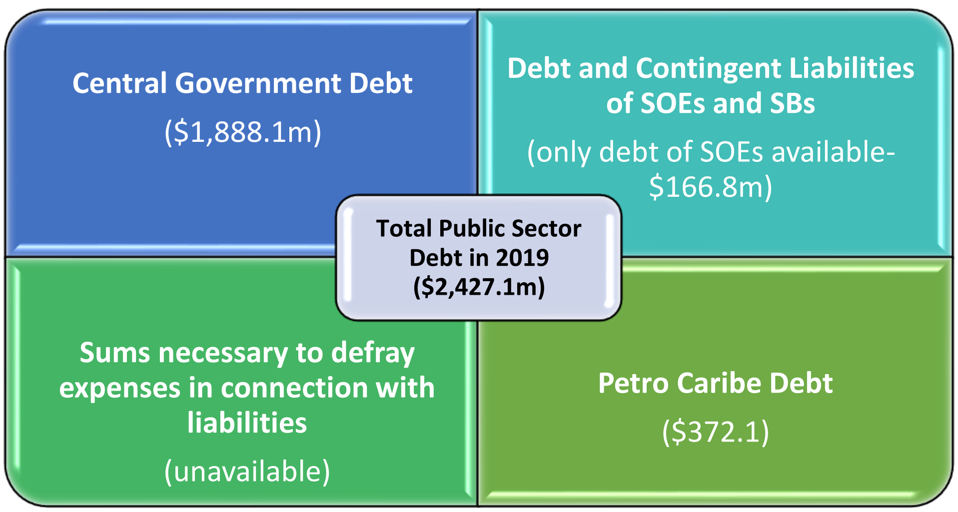
2.5 A comparison of Central Government's fiscal outcomes in 2019 with budgeted forecasts for 2019 showed evidence of wage restraint and tax shortfalls. The wage bill, the largest component of current expenditure, was $22.2m below the budgeted allocation of $275.4m, partly reflecting attrition and unfilled budgeted posts. At the same time, discretionary spending on transfers ($163.4m) and goods and services ($132.8m) were beyond their budgeted amounts by $11.2m and $8.0m respectively. The largest variance was for capital expenditure which reached $85.7m (2.6 per cent of GDP), $110.8m below the budgeted allocation, due to implementation challenges. The rate of implementation of the capital budget was consequently 43.6 per cent. Meanwhile, total tax receipts, which rose year-on-year, underperformed relative to budget expectations by $8.7m. There were revenue shortfalls in tax heads associated with income, profits, consumption of domestic goods and services, and international trade. Measures implemented in the 2019 tax period – reduction in personal income tax to 28.0 per cent for income in excess of $5,000 per month and lowering the corporate income tax to 28.0 per cent - negatively impacted collections. Non-tax revenue amounted to $55.3m, overperforming by $2.2m. Accordingly, current revenue

[3] The rate for the first quarter of 2019 was sourced from the Budget Statement delivered in November 2019, and the one for 2018 was provided to the FROC in 2018.

reached $773.9m, underperforming by $6.6m in 2019. Among other receipts, budgetary grants totaled $21.8m, $16.6m greater than budgeted.

2.6 Complete data on the stock of public sector debt is not available. Based on the available data (Figure 2), the public debt to GDP ratio was estimated at 73.6 per cent in 2019, down from 79.9 per cent in 2018. Economic growth and the primary surplus in 2019 would have contributed to an improvement in the ratio. Additional developments which aided debt reduction during 2019 included: (i) a $5.0m reduction of the re-issue size of a 365-Day Treasury bill on the Regional Government Securities Market (RGSM); and (ii) retirement of a $4.0m privately placed 2-year note upon maturity.

Figure 2: Public Sector Debt in Grenada in 2019



3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019

3.1 Summary

3.1.1 The sustainability of Government finances over the short, medium and long term consistent with a sustainable level of debt (one of the specific objectives of the FRA) depends heavily on the level of compliance with the Fiscal Rules and attainment of the Fiscal Targets.

3.1.2 Government has seen significant improvement in its finances in recent years arising from structural reforms and adjustments. Fiscal prudence, in particular, enhanced tax administration and efficient management of expenditure, needs to be maintained as the economy grows.

3.1.3 As indicated earlier in this Report the following keys are used to assist readers to easily understand the FROC's assessment of compliance with the Rules and Targets:-

Table 3: Compliance Symbols

SYMBOL	INTERPRETATION
	Compliant, without reservations
	Compliant, with reservations
	Non-compliant

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.1 Summary (continued)

Table 4: Tabular Summary of Assessment of Compliance

FISCAL RULES	FRA TARGETS	2018 Actual	2019 Target	2019 Actual	COMPLIANCE	COMMENTS
1. Public Sector Debt to GDP Ratio	Not to exceed 55%	79.9%	N/A	73.6%	**NO** STOP	**Non-compliant** (i) No intermediate public sector debt to GDP Ratio target was set in 2019. (ii) There has been continued improvement in the reporting of the debt of SOEs. However, all debt and contingent liabilities of SOEs and SBs assumed by the Government are still not captured. The MPU has indicated an intent to correct this deficiency in the medium-term. (iii) Given that the ratio was above 60 per cent in 2018, corrective measures ought to have been taken to bring the ratio down to 55 per cent within 3 years (by 2021) with 1/3 of the adjustment taking place in the first year, 2019.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.1 Summary (continued)

Table 4: Tabular Summary of Assessment of Compliance (continued)

FISCAL RULES	FRA TARGETS	2018 Actual	2019 Target	2019 Actual	COMPLIANCE	COMMENTS
2. Contingent liabilities arising from public-private partnerships	Not to exceed 5% of GDP				**NO**	**Non-compliant** The FROC is still not satisfied that the MPU has a firm handle on this subject. Apart from one entity, the Fiscal Authorities are yet to scrutinize the relationships between public and private entities. This would give the FROC the comfort and assurance that there are indeed no PPPs.
3. Wage Bill to GDP Ratio	Not to exceed 9%	7.8%	≤9.0%	7.7%	**YES**	**Compliant** However, the wages of covered entities are not included in this ratio contrary to the FRA. The MPU has indicated an intent to correct this deficiency in the medium-term.
4. Growth in Primary Expenditure (in real terms)	Not to exceed 2%	2%	≤2%	1.9%	**YES**	**Compliant** However, the growth in primary expenditure of covered entities is not included in this ratio contrary to the FRA. The MPU has indicated an intent to correct this deficiency in the medium-term.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.1 Summary (continued)

Table 4: Tabular Summary of Assessment of Compliance (continued)

FISCAL RULES	FRA TARGETS	2018 Actual	2019 Target	2019 Actual	COMPLIANCE	COMMENTS
5. Primary Balance	Not to be less than 3.5% of GDP	6.8%	≥3.5%	6.8%	**YES**	**Compliant** However, data of covered entities are not included in the calculation of the primary balance contrary to the FRA. The MPU has indicated an intent to correct this deficiency in the medium-term.

3.2 Assessment of Compliance

3.2.1 Public Sector Debt to GDP Ratio:

3.2.1.1 **Legal Requirement – Section 8(1):** ***(a) "the total stock of public sector debt from domestic or external sources for any purpose, including the total sum of debt guaranteed by the Government including contingent liabilities assumed by the Government, but excluding contingent liabilities arising from, as a result of, or in connection with public-private partnerships; (b) the debt and contingent liabilities of Statutory Bodies and State-Owned Entities; and (c) such sums as may be necessary to defray expenses in connection with such liabilities, to the GDP shall not exceed fifty-five percent of GDP".***

3.2.1.2 **Legal Requirement – Section 8(5):** ***"If in a fiscal year the debt level exceeds sixty percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year".***

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.2 Assessment of Compliance (continued)

3.2.1 Public Sector Debt to GDP Ratio: (continued)

3.2.1.3 The Fiscal Authorities continued in 2019 on a certain and definitive path of debt reduction. There was steady and significant progress towards the attainment of the public sector debt to GDP target of 55 per cent in the FRA.

3.2.1.4 An interim Public Sector Debt to GDP target was not set for 2019. Given that the ratio was above 60 per cent in 2018, corrective measures ought to have been taken to bring the ratio down to 55 per cent within 3 years (by 2021) with 1/3 of the adjustment taking place in the first year, 2019. This implies that the ratio should have declined by 8.3 percentage points in 2019 i.e. 1/3 of (79.9% -55%). The actual decline was 6.3 percentage points (79.9% -73.6%).

3.2.1.5 The FROC continues to hold the view that the Fiscal Authorities now have a firmer handle on the types of debt and a more comprehensive understanding of its dynamics than in the prior years. However, the Authorities have not yet firmly determined whether or not the Petro Caribe debt is part of the public sector debt. A legal opinion has been sought and is still awaited. In the meantime, and in the abundance of prudence and conservatism, the FROC continues to treat the Petro Caribe Debt, which amounted to $372.1m (11.3 per cent of GDP) in 2019, as part of the public sector debt.

3.2.2 Contingent Liabilities Arising from Public Private Partnerships:

3.2.2.1 **Legal Requirement – Section 8(2):** ***The Minister should ensure that contingent liabilities arising from, as a result of, or in connection with public private partnerships shall not exceed five per cent of GDP.***

3.2.2.2 The FROC's position on this matter in previous years was as follows - *"FROC is of the considered opinion that the MOF should, as a matter of high priority, scrutinize all relationships between public entities and private entities to determine whether they are Public Private Partnerships as defined by the FRA."* To date only one (1) such analysis has been undertaken and the FROC therefore maintains its position. Given this, an assessment of non-compliant is maintained for this target.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.2 Assessment of Compliance (continued)

3.2.2 Contingent Liabilities Arising from Public- Private Partnerships: (continued)

3.2.2.3 The FROC calls attention again to the following relationships between public and private entities which should be formally scrutinized to ascertain their PPP status. The arrangements for land reclamation and development on Melville Street, St. George's in which the Grenada Ports Authority and the National Insurance Scheme are involved; the Tyrell Bay land reclamation and development in Carriacou in which the Grenada Ports Authority is involved; arrangements for the provision of postal and related services in which Grenada Postal Corporation is involved and the Grenville Commercial Complex Project.

3.2.2.4 The FROC also repeats its recommendation in previous Reports viz: *"FROC further strongly recommends the establishment of a registry or database of all PPPs and that a system be developed to monitor their performance primarily in respect of acquisition of debt and debt servicing."* The system should also identify and monitor any contingent liabilities for Central Government resulting from any PPPs present.

3.2.3 Wage Bill to GDP Ratio:

3.2.3.1 **Legal Requirement – Section 7(3):** ***"The Minister shall take appropriate measures to ensure that the ratio of expenditure on the wage bill shall not exceed nine per cent of GDP".***

3.2.3.2 As in previous Reports this has been assessed as compliant but with strong reservations. The wage bill figure excludes covered public entities as required by the FRA. The MPU has indicated an intent to correct this deficiency in the medium-term.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.2 Assessment of Compliance (continued)

3.2.4 Growth in Primary Expenditure (in real terms)

3.2.4.1 **Legal Requirement – Section 7(1)(a)***: "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".*

3.2.4.2 The FROC confirms compliance with reservations as the primary expenditure of covered public entities was not included in the data. The MPU has indicated an intent to correct this deficiency in the medium-term.

3.2.5 Primary Balance

3.2.5.1 **Legal Requirement – Section 8(3)(a): "***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 the targeted primary balance shall be a minimum of three point five per cent of GDP".*

3.2.5.2 The FROC confirms compliance with reservations as data for covered public entities was not included in calculating this ratio. The MPU has indicated an intent to correct this deficiency in the medium-term.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019

3.3 Other Requirements in the FRA

Table 5: Other Requirements in the FRA: Status and Compliance

3.3 Other requirements in the FRA	Status and Assessment of Compliance
1. Section 5(a): *One of the Objects of the Act, "is to ensure that fiscal and financial affairs are conducted in a transparent manner;"* **Section 5(b):** *One of the Objects of the Act "is to ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications;"* **Section 12 (1) (a):** *The Minister "shall take appropriate measures to ensure transparency in the 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, or of financial or economic stability;"*	The Authorities continued to disseminate data and information on Central Government fiscal and debt operations. Most fiscal and debt documents required to be laid in Parliament were done in accordance with the FRA and other public finance legislation. Gaps in fiscal and debt transparency continued to exist, including those related to (i) limited coverage of fiscal and debt statistics provided on the public sector; (ii) inconsistencies in what the Authorities report as public sector debt as opposed to what Section 8(1) of the FRA requires; and (iii) incomplete information given on the ownership, assets and liabilities of Petro Caribe. Greater, wider, and more timely disclosure of data and information by the Fiscal Authorities would lead to more transparency.
2. Section 5(c): *One of the Objects of the Act "is 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;"*	The total public sector debt is estimated to have contracted in 2019, supported by the Central Government's achievement of a primary balance surplus in that year. The public sector debt level remains under reported and greater efforts should be made to capture and report more comprehensive debt statistics, consistent with the definition of public sector debt outlined in Section 8(1) of the FRA. A specific year should then be identified, based on prevailing economic circumstances, to achieve the 55.0 per cent debt target. Then, the annual debt reducing primary balance necessary to achieve the debt target should be computed and then targeted.
3. Section 5(d): *One of the Objects of the Act "is to ensure Prudent management of fiscal risks."* **Section 6(d):** *stipulates that "management of fiscal risks is in accordance with regulations and guidelines to be issued by the Minister;"*	Fiscal risk management was reflected in the continued efforts by the Fiscal Authorities in 2019 to build fiscal buffers for contingencies and natural disasters. Fiscal management also involved reprioritizing and reallocating expenditure.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 5: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
4. Section 6(c): *Stipulates "no announcements or implementation of any new policy initiative, unless measures that offset the impact of the policy initiative on the primary balance or overall level of spending have been identified;"*	GO Fiscal policy measures were announced and implemented in 2019 within the scope of available fiscal space in that year. Total expenditure was less than budgeted, offsetting the negative impact of implementation of fiscal support or expansionary measures on the primary balance.
5. Section 6(e): *provides 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."*	GO Documented public investment procedures were prepared and made available in Part XIII of the Public Finance Management Regulations (SRO 33 of 2015).
6. Section 7(1)(b): "*policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government and covered public entities shall be consistent with the targets under section 8(1) and the policies and plans set out in the Medium-Term Fiscal Framework under section 12(2) of the Public Finance Management Act;"*	CAUTION The policy on salary negotiations for Central Government workers was consistent with the FRA targets and incorporated into the Medium-Term Fiscal Framework presented in 2019. The same could not be verified for employees of all covered entities, in the absence of fiscal data on these entities. The FROC noted that all requests for salary adjustments from covered SOEs are appraised by the Ministry of Finance, within the context of the FRA.
7. Section 7(1)(c): *"no multi-year commitment shall be entered during a period in which Parliament is dissolved."*	GO Parliament was not dissolved in 2019.

3.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2019 (CONTINUED)

3.3 Other Requirements in the FRA (continued)

Table 5: Other Requirements in the FRA: Status and Compliance (continued)

3.3 Other requirements in the FRA	Status and Assessment of Compliance
8. Section 7(2)(c): *"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."*	GO The Minister establishes with trade unions three-year wage negotiating cycles for persons employed by the Government, and the compensation settlements are factored into the relevant Estimates of Revenue and Expenditure. Agreed salary increases for 2019 fell under the wage negotiation cycle of 2017-2019, and related expenses were factored into the 2019 Budget Estimates of Revenue and Expenditure. During 2019, there were negotiations for the triennium 2020-2022 and agreed salary increases of 4.0 per cent per annum were incorporated in the 2020 Estimates of Revenue and Expenditure presented to Parliament in 2019.
9. Section 12(1)(c): *The Minister "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;"*	GO A Compliance Assessment Report for 2018-2019 was prepared and submitted to Parliament in 2019, along with the presentation of the 2020 Budget Estimates. In that Report, a statement was given on the compliance of the 2020 Budget with the rules and targets in the FRA. A statement showing progress made towards compliance with the relevant rules and targets of the FRA, was prepared and submitted to Parliament along with the presentation of a Supplementary Budget in August 2019.
10. Section 12(1)(e): *The Minister also has to "prepare and submit to Parliament, with the annual Budget Bill, a fiscal risk statement that shall reflect all decisions by Cabinet and the Minister and circumstances that may have a material effect on the economic and fiscal outlook."*	GO A Fiscal Risk Statement was prepared and submitted to Parliament in 2019 along with the presentation of the 2020 Budget Estimates.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT

4.1 Outcome of Implementation of the Act in 2019

4.1.1 To sum up 2019, Grenada's fiscal responsibility legislation continued to be implemented amid relatively good economic conditions and the FRA maintained its influence on fiscal policy and fiscal management. The key outcomes and actions in 2019 were (i) year-on-year tax collection increases through reinforcement of the compliance strategy; (ii) primary expenditure containment through wage bill restraint and an under implemented Public Sector Investment Programme (PSIP); and (iii) convergence to the debt target by reducing the total of Central Government debt and guaranteed debt. There were also measures to improve implementation of the PSIP; consultation on impending reforms of the FRA; encouragement for contingency saving; and to commission an independent expenditure review in the public service.

4.1.2 The consequent gains in 2019 included compliance by Central Government with fiscal rules and convergence to the debt target. While these achievements are commendable, they cannot be applied to the public sector as required by the legislation. In accordance with the FRA, fiscal responsibility and, more so, fiscal reporting frameworks need to extend beyond the Central Government to the remaining elements of the public sector namely National Insurance Scheme, SOEs and SBs. This is not only essential for greater transparency, but also to better provision or mitigate risks with contingent liabilities.

4.1.3 There is still uncertainty surrounding the implementation of major reforms like national health insurance and pension. The year under review ended with a series of local engagements on the impending national health insurance, with no public disclosure on the likely costs, intended policy approach, or decided financing arrangement for this project. Additionally, pension reform is contingent on legal outcomes. The implicit contingent liabilities associated with these reforms were still not yet provisioned for by the end of 2019. These need to be planned and accounted for, and there must be a balance between implementing these developmental priorities and maintaining fiscal responsibility and debt sustainability.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act

4.2.1 The Medium-Term Fiscal Framework for 2020-2022 presented to Parliament in November 2019 did not incorporate the potential impact of COVID-19. The fiscal policy stance in this Framework was expansionary. Expectations for capital expenditure from 2020 were high relative to a few preceding years, and considering the existing implementation challenges with the PSIP. Current expenditure was also projected to expand in 2020 and 2021.

4.2.2 This overall expansionary stance is not likely to change in the medium term as developments unfold with COVID-19, but there are likely to be budget realignments, reprioritization and reallocation. Emergency or supplementary budgets would be required. Prioritization of spending is important. There are likely to be trade-offs between stabilizing or stimulating output and keeping debt on a sustainable trajectory. Medium term spending priorities are likely to focus more on health care, targeted interventions of support, and investments at the national level in food, border, and internal security. With wage increases already locked in for government workers for the next three (3) years, there may be only scope to defer expenditure on non-essential goods and services. Fiscal or debt policy may also focus on prioritized and deferred debt service payments.

4.2.3 The existing domestic public finance and fiscal policy frameworks and recent macroeconomic successes put Grenada in a relatively good standing to better mitigate or provision or accommodate any risks from COVID-19. The inbuilt mechanism of the FRA, which would have called for successive years of savings and prudent expenditure and debt management, should enable the Authorities to better weather a crisis and undertake some counter fiscal policy i.e. expansionary measures in a crisis or economic downturn. Furthermore, relevant ongoing reforms in the country (e.g. those to plan and build capacity in the public sector, improve transfers, and digitize the economy) should be supported, leveraged or quickened where there were unnecessary delays. Lessons from past crises should guide fiscal policy in the future.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act (continued)

4.2.4 The potential implications of COVID-19 can still not be overstated for a small, vulnerable and middle-income country like Grenada, with gaps in its health system and which is still transitioning from a large fiscal adjustment and debt overhang. The medium to long term would be unlike the last four (4) years – it would involve implementing the FRA during "bad economic times" rather than during economic growth. The international and local public policy responses to the pandemic threatens to disrupt the continuation of consecutive years of growth, price stability, fiscal surpluses, and debt reduction. If it were not for its flexibility in offering suspension of rules and targets, FRA implementation would also be under threat. Authorities must, however, be prudent in adhering to the stipulated time frame, procedures, short term planning and other requirements for any suspension, if it were to maintain the integrity of the fiscal legislation. Otherwise, fiscal credibility and governance may be at stake and expenditures and public debt can be pushed up, thus imperiling the gains of the last seven (7) years which could fuel a call for austerity.

4.2.5 Fiscal risk management must be intensified. Short to medium term planning within the context of the national development plan, should help mitigate risks associated with any prolonged economic and social instability. Managerial capacity, anticipation, and vision will be key in risk management.

4.2.6 Notwithstanding the monetary policy-like measures that can be taken to respond to shocks, the pandemic will put additional focus on the role of fiscal policy, especially within the context of the FRA. A multi-faceted fiscal response would be required for COVID-19 which is likely to have broad based impacts across sectors.

4.2.7 The Authorities will have to first quantify fiscal space available to undertake counter-cyclical fiscal policies, and update estimates of fiscal multipliers. Then identify when and to what extent they would want to implement such policies. There is capacity to provide a stimulus but this capacity is limited. The responsibility of business cycle stabilization would have to start with the Fiscal Authorities, with support from regional and international agencies, as well as from domestic institutions. There will be trade-offs that the Fiscal

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.2 Medium and Long-Term Fiscal Policy and Implications of the Act (continued)

Authorities would face between stabilizing output and keeping debt on a sustainable trajectory. Any stimulus has to be of the right form, size, targeted, timely and sustainable.

4.2.8 While stabilization policies and stimulus measures can be rolled out to cushion the effects of any shocks and revitalize the economy, new structural reforms may be necessary to re-orient the economy in a new environment. Transformative policies are needed to reduce the concentration of the economy on too few sectors; and to remove over dependence of government spending on previously escalating expenditure items like transfers and goods and services. The effectiveness of fiscal policy can be influenced by how adaptable Grenada is to any new world order.

4.2.9 Credible fiscal policy and maintained integrity of the FRA, during and after any crisis, should be essential priorities for long term development. A stable and solid fiscal framework would be important to underpin the efficient implementation of the long-term policy objectives of the National Plan launched in 2019.

4.3 Medium-Term Macroeconomic Forecasts and Implications of the Act

4.3.1 Prospects for the economy of Grenada were positive by the end of 2019, as they had not factored in the potential impact of COVID-19. The Medium-Term Fiscal Framework showed all fiscal rules and targets would be met, per annum, during 2020-2022. Specifically, throughout the forecasting period, Central Government operations were projected to result in the wage bill falling below its ceiling; real growth in primary expenditure at or below its cap; primary balances exceeding target; no contingent liabilities related to PPPs; and the public debt (Central Government and guaranteed debt) to GDP ratio reducing consistently from 53.7 per cent in 2020 to 50. 6 per cent in 2022. The Fiscal Framework was based on an average rate of real GDP growth of 4.1 per cent during the medium term.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.3 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

4.3.2 The FROC made the following observations in its analysis of these forecasts:

(i) The projected nominal amounts for the total wage bill in the outer years of the medium term, i.e. 2021-2022, were too flat considering that salary increases of 4.0 per cent for government employees would be granted per annum and that there would be no major cuts to employment in the public sector.

(ii) The inflation forecasts used to inform the real primary expenditure projections were reasonable in light of historical trend of domestic prices and prevailing global developments. In 2019 and prior years, inflation was over-predicted. As alluded to in the 2018 Report of the FROC, pessimistic inflation expectations contribute to underestimated budgeted growth in real primary expenditure (less grant related expenditure).

(iii) The capital expenditure estimates used to inform the real primary expenditure projections are optimistic and do not seem feasible amid the high probability of implementation challenges, administrative bottlenecks, and cash flow management issues relating to projects. Capital expenditure estimates as a percentage of GDP are forecasted to average unprecedented levels in the next three (3) years. That is, 5.2 per cent of GDP annually in the medium term, compared with an actual average rate of 2.7 per cent of GDP per annum during 2017-2019. The amount allocated for capital outlays in 2020 is more than double the amount spent in 2019.

(iv) Even with an ambitious medium term PSIP, there is either no policy intention to engage in new PPPs and/or assume any contingent liabilities in any PPPs. If PPP arrangements for certain projects can be leveraged in a cost effective manner without diverging from the objectives of the FRA, then they should be explored.

(v) Close attention needs to be paid to the revenue projections considering the budget variances in 2019.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.3 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

(vi) Compliance is being forecasted in the medium term for the debt target when public sector debt is under-reported. Authorities should make every effort to have comprehensive and timely debt statistics to ensure that the target is truly met.

(vii) Since the forecasts assume that that there would be compliance with the debt target in 2020, then in this scenario a debt-stabilizing primary balance should have been recalibrated for 2021 – 2022, resulting in a new primary balance floor other than 3.5 per cent of GDP presented in the Framework. Accordingly, as stated in Paragraph 11 (1) (5) of the FRA, the debt-stabilizing primary balance should be recalibrated for 2021 and every five (5) fiscal years thereafter with suspension of the expenditure rule during the transition to the lower primary balance. Based on the impressions given by the Framework for the public sector debt to GDP ratio in 2020, projections for 2021 and 2022 could have been prepared within the context of relaxing/suspending existing fiscal rules - the floor for the primary balance and the cap/ceiling for real primary expenditure.

(viii) There are potential liabilities that are unaccounted for in the forecasts, and if they are all correctly quantified and ideally factored in the medium-term could cause deviation from the fiscal rules and targets. The liabilities that can materialize and add up include those associated with pension reform; national health insurance; the transition in ownership of at least three (3) entities (i.e. Petro Caribe, GRENLEC, and the Grenville Commercial Complex Limited); and the outcome of the possible PPP turnkey dialysis operation.

4.3.3 Further analyzes of the forecasts showed that those in the Medium-Term Framework were generally similar with those published by the IMF in October 2019 (Figure 3 and 4). The two (2) sets of forecasts for inflation, the primary balance[4] and Central Government debt over the period 2020-2022 were generally alike. A major exception was that the primary surplus to GDP forecast for 2022 in the Framework was more optimistic than that of the IMF.

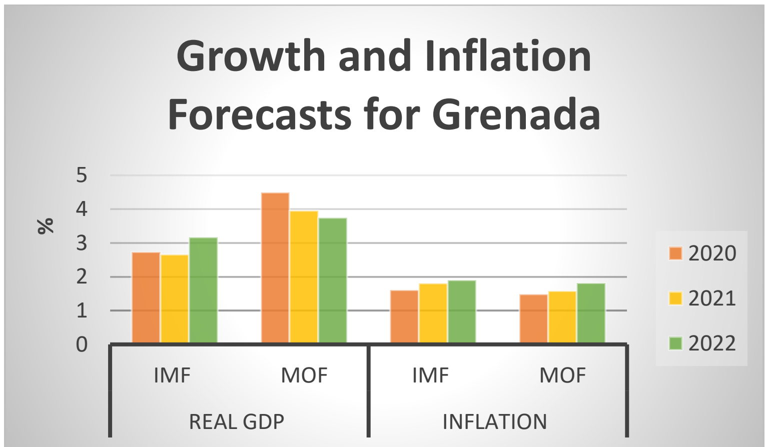
[4] The Ministry of Finance refers to this as the Central Government primary balance while the IMF refers to this as general government primary net lending/borrowing. The estimates for these variables are similar in prior years.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.3 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

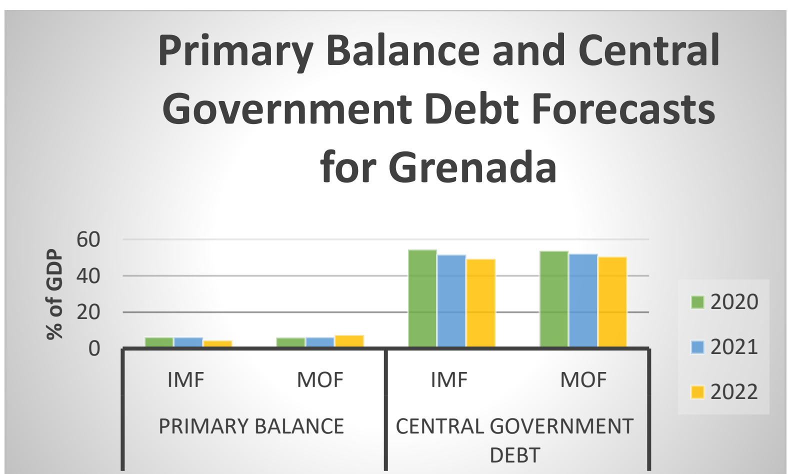
Also, on balance, the growth projections for the three-year period in the Framework were more optimistic than that of the IMF. Overprediction of key variables like growth and the primary balance should be avoided in medium term fiscal planning.

Figure 3: Growth and Inflation Forecasts for Grenada (2020-2022)



Sources: Government of Grenada Medium-Term Fiscal Framework: 2020 – 2022 and the IMF's World Economic Outlook Database in October 2019

Figure 4: Primary Balance and Central Government Debt Forecasts (2020-2022)



Sources: Government of Grenada Medium-Term Fiscal Framework: 2020 – 2022 and the IMF's World Economic Outlook Database in October 2019

4.3 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

4.3.4 There will undoubtedly be setbacks in the materialization of these prospects considering the outbreak of COVID-19 in China in December 2019. The Medium-Term Fiscal Framework must be revised to reflect the potential impact of the pandemic. This has implications for the 2020 Budget Estimates.

4.3.5 COVID-19 can pose a combination of shocks including those of an economic and fiscal nature. Unexpected spending pressures or revenue shortfalls will necessitate ad hoc adjustments or extra budgetary measures during the fiscal year. It is necessary to expand expenditure whether it is to save lives; stabilize household, firms, and the economy; and further stimulate the economy. There can be negative feedback loops from real sector to fiscal operations, and from the financial sector to the real sector with potential fiscal implications. Debt levels can increase. Risk aversion can be high, propensity to consume and invest low and normalization to Pre-COVID-19 levels would be a challenge.

4.3.6 Macroeconomic forecasts would have to be downgraded by the Authorities giving rise to the high probability of non-compliance to the FRA in 2020. Due to the uncertainty surrounding the pandemic, its severity and duration, it is not clear when or if the economy would recover in the medium term. Thus, the length of the period of non-compliance in the medium term is difficult to ascertain. Section 10 of the FRA provides a maximum of two years for recovery which would have to be programmed in revised macroeconomic forecasts as part of the preparation for a legislated adjustment plan to return to compliance if breached in 2020.

4.3.7 While the Fiscal Authorities of Grenada have not yet officially released a complete set of revised medium term or budget forecasts, the IMF has disseminated revised projections for Grenada through its World Economic Outlook database for April 2020. The World Bank has done the same in its April 2020 semiannual report of the Latin America and the Caribbean Region, titled *"The Economy in the Time of COVID-19"*. The latter two organizations assume a short-lived shock from COVID-19 with a V-shaped growth recovery – both the downturn in 2020 and the recovery in 2021 are sharp. The IMF and

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.3 Medium-Term Macroeconomic Forecasts and Implications of the Act (continued)

World Bank predict that real GDP growth in 2020 would fall by 8.0 per cent and 7.3 per cent respectively. They both assume an economic turnaround in 2021 with growth of 6.1 per cent. Inflation forecasts for the IMF are 0.2 per cent in 2020 and 1.2 per cent in 2021, and for the World Bank 0.8 per cent and 0.9 per cent respectively. IMF predictions for the overall fiscal balance (as a percentage of GDP) are -0.4 per cent in 2020 and 2.0 per cent in 2021. Meanwhile, the World Bank estimated that the overall fiscal balance (as a percentage of GDP) would be -0.8 per cent in 2020 and 1.8 per cent in 2021. The World Bank also predicted Central Government debt (as a percentage of GDP) at 60.0 per cent in 2020 and 55.6 per cent in 2021.

4.3.8 Considering these forecasts, as well as discussions held with the MPU on the outlook, the FROC concluded that a sharp contraction is possible for the economy of Grenada in 2020, by as much as 12.0 per cent. Any growth shock is likely to lead to a downward spiral as the economy would be coming from a high base of economic activity which has accumulated over successive years of growth. Oil price shocks can be positive for Grenada's economy and can translate to low domestic inflation but variability in prices as well, which should be closely monitored. Grenada's external vulnerability to growth and commodity prices, mean that there is not much scope to smooth growth in 2020.

4.3.9 The deteriorating fiscal forecasts in 2020 mean that there will be little or no fiscal savings in that year for significant new expenditure without the debt to GDP rising. The fiscal options would be to activate the escape clause or use the expenditure target to justify a delay for certain new spending. The FROC also asserts that the probability is high in 2020 for non-compliance by the Fiscal Authorities with at least two (2) fiscal rules (real primary expenditure and the primary balance) and for the debt to GDP ratio to increase in that year.

4.3.10 The latest forecasts by the IMF and the World Bank also imply that two (2) years (2020 and 2021) to suspend the rules and targets in the FRA may not be sufficient. The country will undoubtedly require, in addition to its domestic savings, financial support and spending adjustments to significantly enhance growth and to restore compliance to the FRA with a protracted economic downturn from COVID-19.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.4 Adequacy of Risk Assessment by Government

4.4.1 While macroeconomic fundamentals were good enough in 2019 there were underlying risks that could cause fiscal outcomes to deviate from the forecasts which the Authorities presented in the Medium-Term Framework. The Fiscal Risk Statement presented to Parliament in November 2019 disclosed the Government's analysis of key downside risks that could affect FRA compliance in the medium-term. It outlined the main downside risks as: *a softening of global economic activity; a sharp fall in tourism demand; occurrence of natural disaster and climate change; greater implementation challenges with the PSIP; unexpected deceleration in external grants and in inflows to the NTF; fiscal costs related to pension reform and the national health insurance; and public enterprises risks*. The Statement also provided instructive sensitivity analyzes on how the debt to GDP ratio could worsen if the risks associated with tourism demand and a natural disaster were to materialize. This underscored the vulnerability of the economy to external shocks and the importance of building economic and disaster resilience.

4.4.2 The FROC recognizes the Fiscal Risk Statement as an essential component of the framework for fiscal risk management. The Statement is not solely for the disclosure of fiscal risks to Parliament but, in the interest of transparency, should create greater public awareness, and ultimately ensure accountability in the management of potential risks to public funds. The FROC acknowledges the efforts by the Authorities in preparing and submitting the Statement to Parliament on a timely basis, but reiterates that there is room for improving the disclosure and analyzes of fiscal risks. Table 6 provides the findings of an evaluation by the FROC of the Fiscal Risk Statement.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.4 Adequacy of Risk Assessment by Government (continued)

Table 6: Summary Evaluation by the FROC of the 2019 Fiscal Risk Statement

FISCAL RISK DISCLOSURE / ANALYSIS IN THE RISK STATEMENT	EVALUATION BY THE FROC
Macroeconomic risks: a softening of global economic activity; a sharp fall in tourism demand; occurrence of natural disaster; and growth shocks from climate change.	**GOOD:** included discussion of these risks; covered sensitivity analysis and two (2) scenarios; reported two policy commitments (pension and national health insurance reforms) unaccounted for in the forecasts; and highlighted measures to manage/mitigate risks. **AREA FOR IMPROVEMENT:** include probability of occurrence of the risks.
Budget risks: unexpected deceleration in external grants and in inflows to the National Transformation Fund; cost overruns; fiscal costs related to pension reform and the National Health Insurance.	**BASIC:** risks were disclosed and discussed; and highlighted measures to manage/mitigate risks. **AREAS FOR IMPROVEMENT:** include quantification of risks and assess and report on their likelihood.
SOEs risks: commercial risks, capital investments that are too large, unfunded liabilities and mandates.	**BASIC:** risks were disclosed and discussed; and highlighted measures to manage/mitigate risks. **AREAS FOR IMPROVEMENT:** include analyzes of risks; fiscal reports should include, if not full balance sheet of SOEs, statements on their financial assets and liabilities and five-year trend analysis of key ratios.
Institutional risks: increasingly weak governance arrangements in SOEs, growing weaknesses e.g. administrative bottlenecks in project implementation**.**	**BASIC:** risks were disclosed and discussed. **AREA FOR IMPROVEMENT:** include analyzes of risks.
Long-Term fiscal and debt sustainability analysis.	**BASIC:** provided one chart with the baseline scenario and two alternative scenarios for the debt to GDP ratio over the next 10 years. **AREAS FOR IMPROVEMENT:** disclose fiscal and debt projections for at least ten (10) years. Include analysis of these long-term baseline projections.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.5 Impact of the COVID-19 Pandemic on Implementation of the Act

In December 2019, a Corona Virus Disease (COVID-19), a highly contagious respiratory disease, commenced in China and rapidly spread globally. On March 22, 2020, Grenada recorded its first confirmed case. There is no vaccine or specific treatment for COVID-19. To combat the disease's escalation, the Governor-General of Grenada declared a state of emergency on 25 March 2020 imposing restrictions on the movement of citizens. On the 17 April 2020, members of both Houses of Parliament unanimously extended the State of Emergency for a period of six (6) months. The Minister of Finance is empowered by the "Escape Clause" embodied in section 10 of the FRA to pass an Order suspending the fiscal Rules and Targets outlined in sections 7 and 8 of the Act, for a period not exceeding one (1) fiscal year, if any one of the following events occur:

(i) If the state of emergency is due to a **"public health epidemic"** as stated in section 10 (1) (a) of the Act;

(ii) Real GDP experiences a decline as stated in section 10 (1) (b) of the Act;

(iii) The Eastern Caribbean Central Bank issues a certificate in writing as stated in section 10 (1) (c) of the Act.

Criteria No. (i) above has been met. Consequently, the Minister has invoked the Escape Clause. In addition, he may further extend the suspension order for another fiscal year subject to the provisions of sections 10(7) and 10(8) of the Act. The Minister must prepare a Recovery Plan Memorandum setting out the measures proposed to be taken to secure compliance with the fiscal rules, targets, or corrective measures at the expiration of the escape clause period (subsections 4 and 5 of section 10 of the Act).

The costs of not adhering to fiscal rules and targets can be substantial. However, in cases of emergencies, like this, relaxation of fiscal policy is necessary to maintain public finances and financial stability. Strict observance of the measures set out in the Recovery Plan would ensure transparency in fiscal management and set Grenada back on the path to economic recovery.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act

Other key issues which are singled out for consideration are as follows:

i. **There will be fiscal and other economic opportunities (upside risks) in the near to medium term which should be leveraged.** The economy must position itself to take advantage of positive global developments which can include a rebound in global travel demand, a possible surge by investors in interest in Citizenship by Investment (CBI) programmes, greater availability of grants, and low commodity prices especially oil. Other opportunities can include increased availability of concessional fiscal financing for improvements in health care infrastructure and capacity; scope for further coordination, cooperation and integration locally, regionally and internationally; increased activity in the local pharmaceutical industry, wholesale and retail trade, agriculture and manufacturing; emerging markets for exports; shift in procurement arrangements to more local sources; additional development of plans/guidelines/strategies at the private and public sector levels; greater use of technology in the public and private sectors; and scope for strengthened bi-lateral and diplomatic relations.

ii. **Strengthened public debt management with increased debt transparency can assist Fiscal Authorities in building more trust with the public, investors and creditors, thereby supporting further growth in money and capital markets.** Debt transparency has been linked to better credit ratings, reduced borrowing or debt service costs, and greater foreign direct investment.

iii. **Failure to identify, measure, disclose, and prepare for any related contingent liabilities can cause additional fiscal obligations, unexpected accumulation of debt, and financing challenges.** There is uncertainty relating to the contingent liabilities that can arise from WRB Enterprises/Grenada Private Power (GPP) legal award, the pending legal outcome on pension reform, the costing of the national health insurance reform, and the rights and obligations in respect of Petro Caribe.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

iv. **A balanced approach to fiscal policy is critical for development, with the engagement of civil society and the private sector.** Medium-term priorities should focus on finding the right balance between providing transfers and maintaining fiscal sustainability; between financing the PSIP, supporting economic growth and securing debt sustainability; between meeting short term interventions and ensuring long-term development objectives.

v. **Implementation of the FRA, ultimately within the scope of the objectives of the National Development Plan, requires a focus on not only standard fiscal and economic indicators but also on indicators** like poverty, quality of jobs, equality, the public capital stock, public investment in climate change or clean technology, quality of the environment and the level of life satisfaction. This kind of data, which more accurately reflects the quality of life or standard of living of people, can better guide fiscal policy making in the long term. The objective of the Authorities to design and implement inclusive fiscal policy to improve the lives of people in Grenada, has to start with good metrics. Additionally, designing fiscal packages during a crisis with a lack of comprehensive and timely data would be a challenge for policy making. Misinformation among the public on critical indicators can potentially create distrust or lack of support for government policies.

vi. **The liquidity or cash flow situation of the government can become untenable** with any large variability in NTF funds, surge in outflows associated with greater discretionary spending, and continued budget shortfalls in tax revenue. An additional liquidity strain is the high amortization in Central Government's debt profile from 2019 to 2023, an issue that was raised in the FROC's 2018 Annual Report.

vii. **Contingent liabilities of SBs and SOEs can become current liabilities** of the Central Government given a crisis. SBs and SOEs can be faced with revenue and cash shortfalls, and the government may have to increase transfers to them or service their debts. Government may have to further stabilize SBs and SOEs.

4.0 OUTCOMES AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

4.6 Issues for Consideration in the Further Implementation of the Act (continued)

viii. **Digital economy developments so far in Grenada have been commendable. These investments are expected to yield long-term benefits such as productivity, efficiency and competitiveness gains.**

ix. **"Fiscal structural reforms are imperative to strengthen efficiency in expenditure," (FROC's 2018 Annual Report).** The announcement by the government in late 2019 of the plans to undertake a comprehensive review of public spending, is commendable. In pursuit of expenditure reform, the FROC posits that the findings of the 2012 Report of the Public Expenditure Review Commission of the ECCU be an additional guide to Authorities.

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION

5.1 The Fiscal Responsibility Act No. 29 of 2015 (FRA) of Grenada was created to provide for the prudent management of the island's resources, achieve fiscal stability and sustainability, improve the transparency in fiscal operations and increase the accountability of the government. It governs the matters that are related to the management of public finances and fiscal matters relating to the Central Government and covered public entities in Grenada. The Act also serves to "***guide and anchor fiscal policy during the budget process to ensure that government finances are sustainable over the short, medium and long term, consistent with a sustainable level of debt, and for related matters".***

The Act established the Fiscal Responsibility Oversight Committee (FROC) to ensure the enforcement of the country's economic objectives. The Committee's main task is to prepare an annual report that documents the progress made by the Government towards compliance with the fiscal rules and targets set for the relevant year, and to advise on measures that ensure compliance with the Act.

The Act forms a part of the bundle of legislation designed to achieve fiscal stability and sustainability, manage public debt, regulate the sound management of state resources, and protect the gains of the home-grown structural adjustment programme, by strengthening institutional and regulatory arrangements governing public financial management.

The Act is to be read and construed together with the following laws:

i) Public Finance Management Act No. 17 of 2015 (PFMA)
ii) Public Debt Management Act No. 28 of 2015 (PDMA).

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION (CONTINUED)

5.2 The objectives of the FRA are clearly delineated in section 5, namely to ensure the following:

i) Fiscal transparency;

ii) Full and timely disclosure and publication of transactions and decisions about public revenue and expenses;

iii) Prudent and sustainable debt management; and

iv) Prudent management of financial risks.

5.3 The FROC has made certain recommendations for amendments to the FRA. These recommendations are contained in the FROC's Annual Reports of 2016, 2017 and 2018 (See Appendix V). The FROC's recommendations for improvements to the FRA have been considered and endorsed by the MOF. The MOF has also made its own recommendations towards enhancing the Act. These recommendations were made so as to expand definitions, clarification and simplification of laws, address ambiguities and resolve inconsistencies between related legislation.

5.4 At a meeting of the FROC and officials from the MOF on the 13 March, 2019, careful consideration and further analysis of the FRA legislation was done. The FROC and MOF agreed that additional amendments to certain specific sections of the FRA are needed in order to clarify ambiguities; introduce specificity; and ensure consistency with other financial Acts and policies. These include the following sections -

i) Section 2 – Definition of public debt;

ii) Section 2 – Definition of public-private partnership;

iii) Section 2- Definition of wage bill;

iv) Section 7(1) (a) – Inflation;

v) Section 8(1)(a)-(c) – Debt target;

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION (CONTINUED)

vi) Section 8(3)(a) – Debt target;

vii) Section 8(3)(f)(i)-(ii) – National transformation fund (NTF);

viii) Section 8(3)(f)(iii) – National transformation fund (NTF);

ix) Section 8(4) – Public debt;

x) Section 8(5) – Debt target buffer;

xi) Section 11(1) - Stabilizing public debt;

xii) Section 11(2) – Stabilizing public debt;

xiii) Section 11(3)(i)-(ii) – Recalibration;

xiv) Section 11(4) – Recalibration;

xv) Section 12(d) – Reporting;

xvi) Section 12(e) – Reporting;

xvii) Section 14(2) – FROC's tenure; and

xviii) Section 14(4) – FROC's annual report.

5.5 The FROC and MOF have also acknowledged observations made by the IMF that portions of the Fiscal Responsibility Legislation (FRL) ought to be revised. These include the following:

i) Revising the debt definitions in the FRL to remove ambiguity and align with the concept of non-financial public sector;

ii) Revising the definition of primary balance in the FRL to be consistent with Central Government's primary balance;

iii) To recalibrate law at the debt stabilizing balance;

5.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILTY LEGISLATION (CONTINUED)

iv) Revising the FRL to apply the expenditure rule to current primary expenditure;

v) Determining the primary expenditure profile in nominal terms based on the 2018 outturn and a 20-year historical average for nominal GDP growth;

vi) Recalibration – update base level of current primary expenditure;

vii) Inserting a cap on current primary expenditure as a share of GDP;

viii) Addressing ambiguity in the wage rule/s and considering aligning with new expenditure rule methodology; and

ix) Resolving inconsistencies between the FRL and the PFM Act and PDM Act.

5.6 As it stands given the extensive amount of amendments which the FROC, MOF and IMF believe are necessary to enhance the FRA, it is the FROC's respectful submission that the current legislation – the Fiscal Responsibility Act No. 29 of 2015 – should be repealed and replaced. Given the significant amending to be done to the current FRA, a new FRA reflecting the improved changes would be a preferred approach, as simplicity and "reader-friendliness" would be achieved in understanding legislation, as opposed to having to read different amended sections if the current FRA is kept.

5.7 It is submitted that the changes to the above sections are necessary and indeed urgent as the need for same have become apparent to the FROC through its journey of preparing the Annual Reports from 2016 to present. The FROC was hopeful that the amendments would have been enacted in time for the preparation of the 2019 Report but this has not happened. Dialogue continues as these legislative issues were again raised by the FROC in a meeting with the Ministry of Finance on 14 April, 2020. The FROC hopes that all the proposed amendments would be enacted in 2020.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Grenada must be applauded for securing successive years of economic growth, improvements in Central Government's fiscal performance, and reductions in the debt of Central Government while concurrently continuing to implement fiscal responsibility legislation. The FRA continues to be a pillar of public financial management in the country, ensuring that fiscal discipline becomes entrenched. The legislation embodies the principles that economic growth is important for debt sustainability and that the necessary balance must be created between fiscal policy and development objectives.

6.2 The Fiscal Authorities will have to face unprecedented medium-term challenges, which the country is in a better position to confront now, than it was four years ago. There are announced, committed but not yet budgeted reforms. Certain legal outcomes can exacerbate spending requirements and/or increase contingent or current liabilities of the Central Government. It is worthwhile that medium-term priorities are focused on capital spending, but challenges threaten implementation and value added from public spending. To top it off, COVID-19 and an active upcoming hurricane season can create major economic disruptions.

6.3 Despite macroeconomic progress, Authorities must not become complacent and be caught completely off guard by additional fiscal obligations or unexpected accumulation of debt. It is important to effectively identify and analyze fiscal risks in the medium term and to efficiently mitigate or provision or accommodate them.

6.4 The coming year will be a true test of fiscal resolve, rigour and of adherence or commitment to the fiscal responsibility legislation. Leadership, managerial capacity and collective ownership will also be tested. The legislation offers flexibility for shocks with well-specified procedures for adjustment. Our previous FROC reports would have cautioned on the quick turnaround expected after suspension of rules. A suspension should not translate to a significant deviation from fiscal and debt sustainability in the long-term. Any major shock in the medium term require the regeneration of the home-grown recovery, with internal and external dynamism, innovation across sectors, engagement internally and externally, strong leadership, and shared sacrifices.

6.0 CONCLUSION AND RECOMMENDATIONS (CONTINUED)

6.5 Finally, there must be continuous improvement to Grenada's fiscal framework to ensure that it is robust, comprehensive and development geared. The focus of fiscal policy must move beyond Central Government's compliance of the FRA.

6.6 First and foremost, the Authorities should repeal and replace the FRA with agreed amendments, as recommended in the 2018 Annual FROC Report. Thereafter, quicken apace efforts to develop more accurate, timely, and comprehensive fiscal and debt statistics as well as development indicators. The fiscal framework, which has to be based on the public sector, cannot operate in isolation of development objectives laid out in the National Development Plan.

6.7 With a fiscal framework that has a stronger legal base, a long- term development thrust and better evidence for policy making, then a platform can be created to fill other gaps. The remaining pillars in the domestic fiscal framework must be strengthen namely (i) medium-term fiscal planning; (ii) fiscal risk management; (iii) increased transparency and communication; and (iv) the FROC.

6.8 Specific recommendations on each pillar are highlighted in the tables below, some of which are being reiterated from previous Reports of the FROC.

6.0 CONCLUSION AND RECOMMENDATIONS (CONTINUED)

Table 7: FROC Recommendations

1. Recommendations to Improve Medium-Term Fiscal Planning.	Revise the medium-term budgetary framework with more realistic macroeconomic and budgetary forecasts.	Incorporate the potential impact of COVID-19. Pay special attention to forecasts for growth, capital spending, and tax revenues. Estimate the true potential of the economy for revenue generation, growth, and capital spending.
	Identify and analyze any financing gaps in the medium-term.	Examine the scope for combined finance – brings together grants, concessional financing, and commercial funding. Also examine the scope for risk-sharing in proposed capital projects.
	Utilize more development data/tools (i.e. fiscal multipliers, efficiency of capital spending indicators) to assess potential economic performance and social progress in the medium-term.	Collect and analyze data through online surveys and sectoral assessments to guide fiscal policy.
	Strengthen any emergency response plans in public financial management and revenue administration.	
	Embrace the use of science, data analysis, and expert knowledge in medium-term planning.	
	Review the medium term PSIP to identify and prioritize any projects that can provide a short-term stimulus to the economy.	
	Re-look the investment criteria for CBI to see whether there is scope for it to finance technological projects.	

6.0 CONCLUSION AND RECOMMENDATIONS (CONTINUED)

Table 7: FROC Recommendations (continued)

1. Recommendations to Improve Medium-Term Fiscal Planning (continued).	Plan for any deferment of debt service carefully so that such action does not lead to any bunching of payments in the future, and that it maintains the credibility of government.	
2. Recommendations to Improve Fiscal Risk Management.	Develop a risk assessment framework.	
	Continue to improve monitoring of contingent liabilities in the public sector.	Establish databases for the fiscal and debt operations of SBs and SOEs.
	Develop an inter-institutional process to indentify and monitor risks, led by the MOF.	Create a working group to monitor, assess and prepare the Fiscal Risk Statement.
	Ensure monitoring and build capacity to analyze fiscal risks from institutional issues and cyber threats.	
3. Recommendations to Improve Transparency and Communication.	Communicate to the public how any revised medium-term fiscal framework is in accordance with long-term fiscal and debt sustainability.	
	Disclose the official total public sector debt figure, as per the definition of this debt in the FRA.	Clarify the measures of public sector debt outlined in the FRA. Issue a policy statement on targeted time frame for expanding fiscal and debt data coverage to the entire public sector.
	Disseminate longer-term projections from debt sustainability analyzes.	Offer more guidance on interpreting fiscal and debt projections. Offer more guidance on the assumptions used for medium term fiscal projections.
	Disclose the potential costs of announced reforms such as those relating to pensions and national health insurance.	

6.0 CONCLUSION AND RECOMMENDATION (CONTINUED)

Table 7: FROC Recommendations (continued)

3. Recommendations to Improve Transparency and Communication (continued).	Provide more information online on supplementary budgets.	
	Deal with the backlog of audited financial statements of Central Government and ensure timeliness of upcoming ones.	
	Explain to the public any trigger of the escape clause in the FRA.	
4. Recommendations to improve the role of the FROC.	Review the MOU between the Ministry of Finance and the FROC.	Sign and activate the MOU
	Share more information with the FROC on the timing and size of medium-term fiscal risks.	
	Provide frequent updates to the FROC throughout the year, if possible, on fiscal, debt or other economic developments.	

Legislation on Public Financial Matters as at December 31, 2019 - Appendix I

(i) Fiscal Responsibility Act No. 29 of 2015

Fiscal Responsibility Act (Commencement) Order SRO No. 2 of 2016

Fiscal Responsibility (Amendment) Act No. 1 of 2016

Fiscal Responsibility (Amendment) Act No. 11 of 2017

(ii) Public Debt Management Act No. 28 of 2015

Public Debt Management (Amendment) Act No. 28 of 2016

(iii) Public Finance Management Act No.17 of 2015

Public Finance Management Regulations SRO No. 33 of 2015

FROC Activities – Appendix II

	Date	Activity/Engagements	Purpose
1.	7 May, 2019	Meeting with the FROC and the IMF Article IV Consultation Mission.	General update from the FROC.
2.	22 May, 2019	Meeting with the FROC and the Speaker of the House of Representatives.	Courtesy call re: 2018 Annual Report.
3.	30 May, 2019	Meeting with the FROC and Committee of Privileges.	2018 Annual Report.
4.	15 July, 2019	Conference call with the Chairman, other members of the FROC and representatives from CARTAC and the Bahamas.	Administration and Planning - Sharing Grenada's FROC experience.
5.	22 August, 2019	FROC Committee Meeting.	Administration purposes.
6.	5 September, 2019	Held media briefing.	2018 Annual Report.
7.	8 September, 2019	Media Programme with Grenada Broadcast.	2018 Annual Report.
8.	27 November, 2019	Orientation for FROC Members facilitated by the Ministry of Finance.	Orientation for new members.
9.	16 December, 2019	FROC Committee meeting.	Administration and planning/Orientation for new members.
10.	31 January, 2020	Meeting with the FROC and Mr. Martin Ruben – Consultant for the Ministry of Finance.	Public Expenditure Review.
11.	19 February, 2020	Committee Member Ms. Zanna Barnard had a telephone interview with Mr. Reginald Darius - Lead Evaluator - Internal Evaluation Office of the IMF.	Discussion on the FRA, the FROC and the evaluation of IMF adjustment programmes.
12.	19 February, 2020	FROC's Chairman made presentation to the Bahamas Fiscal Responsibility Oversight Committee	Sharing Grenada's FROC experience.
13.	7 April, 2020	FROC Committee meeting.	Preparation of 2019 Annual Report.
14.	13 April, 2020	FROC Committee meeting.	Preparation of 2019 Annual Report.
15.	14 April, 2020	Meeting with the FROC and the Ministry of Finance.	Preparation of 2019 Annual Report.
16.	28 April, 2029	FROC Committee meeting	Preparation of 2019 Annual Report.

Covered Public Entities as at 31 December, 2019 – Appendix III

	Qualifying Factors				
	Entity	Reporting	Transfers	Equity	Government Guarantees
1	Child Protection Authority		√		
2	Financial Complex Limited		√		
3	Grenada Investment Development Corporation		√		
4	Grenada Bureau of Standards		√		
5	Grenada Cultural Foundation		√		
6	Grenada Food & Nutrition Council		√		
7	Grenada National Stadium Authority		√		
8	Grenada Postal Corporation			√	
9	Grenada Tourism Authority		√		
10	Spice Mas Corporation		√	√	
11	Public Utilities Regulatory Commission		√		
12	T.A. Marryshow Community College		√		
13	Marketing & National Importing Board		√		

Source: Macroeconomic Policy Unit

Selected Macroeconomic Indicators – Appendix IV – 2019

In EC $m unless otherwise stated

	2014	2015	2016	2017	2018	2019
Total Revenue and Grants	**602.8**	**649.5**	**751.6**	**778.1**	**849.8**	**871.4**
Current Revenue	502.3	571.3	651.6	700.1	755.9	773.9
Tax Revenue	448.1	511.8	600.5	651.8	704.1	718.6
Taxes on Income & Profits	89.9	101.7	127.3	140.6	153.9	151.3
Taxes on Property	21.4	23.3	23.9	24.3	29.3	39.6
Taxes on Domestic Goods & Services	104.1	116.1	140.0	147.7	151.4	154.5
Taxes on International Trade Transactions	232.8	270.6	309.3	339.2	369.5	373.1
Non-tax Revenue	54.2	59.4	51.1	48.2	51.8	55.3
Grants	100.5	78.3	100.0	78.1	94.0	97.5
Budgetary Grants	9.9	-	26.0	13.9	19.4	21.8
Capital Grants	90.6	78.3	74.0	64.2	74.6	75.7
Primary Expenditure	**631.3**	**597.2**	**603.3**	**605.5**	**632.1**	**648.5**
Primary Expenditure less grant funded capital spending	***540.7***	***518.9***	***529.3***	***541.3***	***557.5***	***572.8***
Real Growth in Primary Expenditure (less grant funded capital spending)	***3.9***	***(3.0)***	***2.6***	***0.6***	***2.0***	***1.9***
Total Expenditure	**718.1**	**688.9**	**685.6**	**686.5**	**695.3**	**709.2**
Current Expenditure	491.4	468.9	565.5	605.9	607.7	623.5
Employee Compensation	253.8	225.9	251.6	265.2	263.7	266.7
Personal emoluments, Wages & Allowances	242.4	215.3	240.4	246.8	251.0	253.3
Social contribution to employees	11.4	10.6	11.2	18.4	12.7	13.4
Goods & Services	72.2	76.0	117.6	126.5	130.5	132.8
Interest payments	86.8	91.7	82.3	81.0	63.2	60.6
Transfers	78.6	75.3	113.9	133.2	150.3	163.4
Capital Expenditure	226.7	220.0	120.1	80.6	87.6	85.7
Grants	90.6	78.2	74.0	64.2	74.6	75.7
Local Revenue	96.2	101.1	28.7	6.1	2.6	2.1
Loan	39.9	40.7	17.4	10.4	10.4	7.9
Primary Balance after grants	**(28.5)**	**52.3**	**148.3**	**172.6**	**217.7**	**222.9**
Overall Balance after grants	**(115.3)**	**(39.3)**	**66.0**	**91.6**	**154.5**	**162.3**
Primary balance as a % of GDP	***(1.2)***	***1.9***	***5.2***	***5.7***	***6.9***	***6.8***
Notional Compensatory Balance (as a % of GDP)	***-***	***-***	***-***	***(2.2)***	***(5.6)***	***(8.8)***
Memo Items						
Real GDP Growth (%) (Constant Prices)	**6.5**	**5.6**	**2.2**	**4.0**	**3.5**	**3.3**
Real GDP Growth (%) (Market Prices)	**7.3**	**6.4**	**3.7**	**4.4**	**4.1**	**3.2**
Nominal GDP in EC$m (Market Prices)	**2,461**	**2,692**	**2,866**	**3,039**	**3,155**	**3,297**
Wage Bill in EC$m	**242.4**	**215.3**	**240.4**	**246.8**	**251.0**	**253.3**
Wage bill as a percent of GDP	**9.9**	**8.0**	**8.4**	**8.1**	**8.0**	**7.7**
Public Sector Debt in EC $m	**2,610.5**	**2,652.9**	**2,612.9**	**2,441.5**	**2,521.7**	**2,427.1**
of which central government debt	2,124.1	2,189.5	2,174.9	1,997.2	1,977.7	1,888.1
of which total debt and contingent liabilities of state-owned enterprises	124.2	107.1	78.7	72.2	171.8	166.8
of which total debt and contingent liabilities of statutory bodies						
of which sums as may be necessary to defray expenses in connection with liabilities						
of which Petro Caribe Debt	362.1	356.3	359.3	372.1	372.1	372.1
Public Sector Debt (as a % of GDP)	106.1	98.6	91.2	80.3	79.9	73.6
Inflation Rate (end of period) (%)	**(0.6)**	**1.1**	**0.9**	**0.5**	**1.4**	**1.6**
Consumer Price Index (end of period)	**107.7**	**108.9**	**109.9**	**110.5**	**112.0**	**112.1**
Inflation Rate (period average) (%)	**(1.0)**	**(0.6)**	**1.7**	**0.9**	**0.8**	**1.0**
Consumer Price Index (period average)	**108.2**	**107.5**	**109.4**	**110.4**	**111.3**	**111.9**
Unemployment Rate (%)	**29.3**	**29.0**	**28.2**	**23.6**		
GDP per Capita (EC$)	**19,318.35**	**20,474.34**	**21,142.22**	**21,976.63**	**22,809.66**	**23,420.49**

Notes: Real primary expenditure growth calculated using period average rate of inflation. Total public sector debt for 2018 and 2019 now comprise: Central Government debt, both the guaranteed and non-guaranteed debt of SOEs (loans, overdrafts and arrears of SOEs) and Petro Caribe debt.

Data received in March 2020.
Source: Macro Policy Unit in the Ministry of Finance.

Suggested Amendments to the FRA – Appendix V

Suggested Amendments from 2016 Report:

Suggested Amendment 1:

1) It is submitted that an amendment to **Section 14(2) Schedule II of the Fiscal Responsibility Act (Amendment) Act No. 11 of 2017** is needed.

2) As it stands now, Section 14(2) Schedule II of the Fiscal Responsibility Act (Amendment) Act No. 11 of 2017 provides:

> *"2. Tenure and revocation.*
>
> *(1) The Governor General shall appoint as Chairperson of the Fiscal Responsibility Oversight Committee one of the four members nominated by the Committee of Privileges upon the Committee of Privileges nominating the member to be the Chairperson.*
>
> *(2) A member of the Committee shall hold office for a period not exceeding three years and shall be eligible for re-appointment subject to subsection (3).*
>
> *(3) In no case shall a person hold office as a member of the Committee for a period exceeding four consecutive years, but a person who has served for a period of four consecutive years may become eligible for re-appointment after the expiration of two years.*

3) There is ambiguity in the wording of the provision for tenure and revocation. It is submitted that the intention of Parliament is that members of the FROC are to be conferred with a term of office not exceeding three (3) years – Section 14(2)(2). The intention of Section 14(2)(3) is to prevent any person from serving for a period exceeding four (4) consecutive years. The cumulative period of any number of terms should not exceed four consecutive years. Accordingly, there can be reappointments. For instance, there can be four one-year appointments.

4) It is respectfully suggested that an amendment should be made to Section 14 (2) on the provision of tenure and revocation for members of the FROC that clearly communicates the following intentions:

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 1: (continued)

i) That a member of the FROC can initially have a tenure in office for a maximum period of three years;

ii) At the end of that three-year tenure; the member can be eligible for re-appointment for a term of one year;

iii) A person shall not hold office as a member of the FROC for a period exceeding four consecutive years; and

iv) After serving as a member of the FROC for a period of four consecutive years, a person may only become eligible for re-appointment after the expiration of two years.

Suggested Amendment 2:

1) **Section 8** of the **Fiscal Responsibility Act No. 29 of 2015** (FRA) sets out the fiscal targets for a fiscal year and specifically provides for, *"prudent debt, contingent liabilities, and primary balance target."*
2) Overall there is a need to reduce the ambiguity with the debt to GDP ratio.
3) Section 8(3) of the FRA is notably silent on what measures the Minister can implement when the ratio of public debt to GDP is over fifty-five per cent.
4) Section 8(3) currently provides:

   "(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).. – (f)(i), (ii), (iii)."
5) Accordingly, it is respectfully suggested that Section 8(3) of the principal act should be amended. This amendment would therefore replace the words, *"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 -…" with the following:

   "**Once the ratio of public debt to GDP is fifty-five per cent or more the Minister shall take appropriate steps to ensure that –**

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 2: (continued)

(a) the targeted primary balance shall be a minimum of three point five per cent of GDP;

(b) upon achievement of the target specified in paragraph (a), the target shall be maintained over the medium term by ensuring compliance with the expenditure growth rule established in section 7(1)(a);

(c) as a transitional arrangement, the targeted primary balance shall be at a minimum one point three per cent of GDP in the fiscal year ending in December 2015;

(d) a notional compensatory primary balance shall be calculated to reflect the cumulated difference between the target primary balance and the actual primary balance, by subtracting the actual primary balance from the target primary balance as realized in any fiscal year from the first full fiscal year after commencement of this section; ***[This paragraph 8(3)(d) herein by virtue of the Fiscal Responsibility (Amendment) Act 1 of 2016 is repealed and replaced by paragraph 8(3) (d) of the Principal Act]***

(e) If at any time the notional compensatory balance shows a value greater than three per cent of gross domestic product, revenue and/or expenditure corrective policies will be introduced to reduce the notional compensatory primary balance to zero over a period of three fiscal years to achieve compliance with the target, with at least one third of the adjustment in the first year;

(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;

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 2: (continued)

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 account; and*

iii) *upon achievement of the debt levels pursuant to subsections (1) and (2), the total sum of receipts from the programme, which are used for meeting the primary balance targets shall not exceed the equivalent of one point five per cent of GDP.*

Suggested Amendment 3:

1) It is further submitted that the aforesaid suggested amendment 2, would conflict with the current provision of Section 8(5) of the principal act which states:
   "*If in a fiscal year the debt level exceeds sixty percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures 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.*"
2) Given that the ratio of public debt to GDP shall not exceed fifty-five per cent as stipulated in section 8(1), it is submitted that section 8(5) also needs to be amended to ensure consistency in the statement of the ratio of public debt to GDP as provided in subsection 8(1), and in-keeping with the suggested amendment to section 8(3) above.
3) Presently section 8(5) speaks to the corrective revenue and expenditure measure to be employed by the Minister to reduce public debt when the debt level exceeds sixty per cent of GDP.

Suggested Amendments to the FRA – Appendix V (continued)

Suggested Amendments from 2016 Report: (continued)

Suggested Amendment 3: (continued)

4) It is respectfully submitted that section 8(5) of the FRA should be accordingly amended to reflect the following:

   "If in a fiscal year the debt level exceeds fifty-five per cent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures 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.**"**

Suggested Amendments from 2017 Report:

Suggested Amendment 1: Amendment to Section 14(6)(c) of FRA

Section 14(6)(c) of the FRA currently provides:

"(6) Where the Fiscal Responsibility Oversight Committee lays before the House of Representatives a report pursuant to paragraph (b) or (c) of subsection (3) –

(c) the Public Accounts Committee, the Standing Orders Committee and the Standing Committee on Finance of Parliament shall proceed to examine the report together and the representations made by the Minister and shall make recommendations to the House of Representatives on the implementation of measures to ensure compliance with the relevant provisions of this Act."

FROC's suggestion:

As it relates to Section 14(6)(c) of the FRA, the FROC suggests that a deadline or time-frame should be clearly set for the examination of the Annual Report by the Public Accounts Committee, the Standing Order Committee and the Standing Committee on Finance.

Suggested Amendments to the FRA – Appendix V (continued)

Suggested Amendments from 2017 Report: (continued)

Suggested Amendment 2: Amendment to Section 8 of FRA

Section 8 of the FRA makes provision for among other things the ratio of public sector debt to GDP.

FROC's observation:

The FROC's and the Ministry of Finance's (MOF) interpretation of this section differs as it is not clear. The FROC interprets the Debt to GDP target to be 55% and if this ratio exceeds 60% appropriate measures must be taken to reduce the debt to 55% over a three-year period. The FROC further interprets this provision to be currently in effect.

The MOF sets no yearly debt to GDP targets in order to get it to 55%. The MOF states also that it is only when the 55% level is achieved and subsequently surpasses 60%, will the three-year rule be effective.

The Act does not state the timeframe when the 55% is to be met. However, in interpreting this section, one has to look at the spirit and intention of the Act. The FROC is of the view that it will be best in the long-run to maintain the fiscal authority to set annual targets in pursuant of the 55% debt to GDP ratio.

Address:
P.O. Box 1798
Pannell House
Grand Anse
St. George’s
Grenada

Email:
frocgrenada@gmail.com