GOVERNMENT OF GRENADA

MEDIUM-TERM FISCAL FRAMEWORK: 2021-2023

Ministry of Finance, Economic Development, Physical Development, Public Utilities and Energy

November 2020

I, Mike Sylvester, Acting Permanent Secretary, Ministry of Finance, attest to the reliability and completeness of the information presented in the Medium-term Fiscal Framework 2021-2023 and its compliance with the Fiscal Responsibility Legislation No. 29/2015 as amended.

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Mr. Mike Sylvester

Permanent Secretary (Ag.)

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1. ECONOMIC OVERVIEW

Preliminary data for the first half of 2020 reflect the economic downturn due to the impact of the COVID-19 pandemic on the local economy. All sectors of the economy were negatively affected, most notably the Tourism and Private Education sectors. Inflation for the period is negative, which is largely due to the fall in oil prices globally. Public Finances are expected to weaken at the end of 2020, as a result of the current COVID-19 crisis with the primary balance and overall balance estimated at 2.9 percent of GDP and 0.9 percent of GDP respectively, compared to 6.9 percent of GDP and 5.0 percent of GDP in 2019. The public debt to GDP ratio is expected to reflect an uptick from 57.7 percent in 2019 to 68.6 percent in 2020, but would subsequently reverse thereafter as the economic recovery ensues. The rate of recovery is hinged on developments relating to the pandemic, and the effectiveness of Government interventions, with economic conditions expected to improve gradually over the medium-term.

2. MEDIUM-TERM MACROECONOMIC OUTLOOK

The outlook for Grenada's economy will depend on the global economic recovery, following the effects of COVID-19. The re-opening of the borders to commercial traffic from both regional and international markets, including the United States, should gradually ease the effects of the economic downturn in the Tourism sector primarily with spill-over effects in other sectors. However, strict adherence to protocols is needed to safeguard the health of citizens and visitors alike and to reduce the risk of further spread. Additionally, the tentative return of students to the St. George's University campus anticipated to take place in 2021 should boost demand and spur increased activity in other sectors, including manufacturing, real estate, and wholesale & retail.

The outlook for the Construction sector is positive over the medium-term with several public and private sector projects coming on stream. Major hotel projects, including the Six Senses Resort and Kawana Bay, continue, as well as several housing projects across the island. Moreover, significant investment in agriculture feeder roads, road repairs on the western side of the island, and other projects to improve infrastructure and boost climate resilience are scheduled to commence soon. This should provide much-needed employment and further increase aggregate demand.

Reflecting persistently weak demand and barring any further shocks, inflation is likely to remain subdued in the medium-term based on forecasted international commodity prices. The domestic inflation rate is projected to average 1.8 percent over the period 2021-2023.

2.1 Medium-term Fiscal Policy Objectives

The Medium-Term Fiscal Strategy 2021-2023 is highly influenced by the pace of economic recovery and envisages a return to the rules-based Fiscal Responsibility Law (FRL) once the pandemic abates. It aims to promote growth and macroeconomic stability and to rebuild and expand buffers. The Strategy is also guided by the Goals and Objectives of the National Sustainable Development Plan (NSDP) 2020-2035. The National Plan sets out three overarching Goals that are realized through the attainment of eight National Outcomes.

The National Goals and Outcomes are to be achieved through the Medium-Term Action Plan (MTAP). The MTAP is a companion document to the NSDP. It is a medium-term operational strategy designed to facilitate the implementation of the NSDP. The MTAP outlines the country's sustainable development priorities that are aligned to the Sustainable Development Goals (SDGs) and sets out the strategic programs and activities for the implementation of the NSDP during the period. Therefore, the Medium-term Fiscal Framework (MTFF) for 2021-2023 has been formulated to support the execution of the public sector work programme as set out in the Medium-Term Agenda (MTA) which is aligned to the MTAP.

The MTFF 2021-2023 has three specific components: (i) a medium-term revenue strategy; (ii) an expenditure strategy; and (iii) a debt management strategy. The strategies outlined in this MTFF incorporates recent developments, as well as new policies.

The revenue strategy will continue to focus on improving tax collection, addressing revenue leakages, and strengthening enforcement and compliance measures. Therefore, institutional strengthening of the revenue-collecting agencies of Government would be given special attention, with the strategic aim of increasing revenue collection from all tax types. Recurrent revenue is projected to average $714.4 million (22.0 percent of GDP) over the period 2021-2023.

The expenditure strategy is aimed at (i) substantially improving the management of public expenditure; (ii) tightening expenditure controls; (iii) increasing value for money in public procurement; and (iv) prioritising productive spending, especially geared at building resilience.

The Government will be undertaking recommendations from the recently-completed Public Expenditure Review (PER) intending to be more efficient, cost-effective, and ensure that the expenditure is aligned and consistent with the Government's strategic development priorities. The Government will continue to strengthen its efforts towards a waste reduction mechanism. Additionally, Finance Officers will continue to be given constant high-level attention and monitoring as well as the operations of State-owned Enterprises and Statutory Bodies with the strategic intention of managing fiscal risks. Furthermore, special attention will continue to be given to improving project implementation capacity through strategic prioritisation and targeted technical support.

Accordingly, recurrent expenditure is projected to be reduced from 20.7 percent of GDP in 2021 to 16.3 percent of GDP in 2023. Capital expenditure as a percent of GDP is projected to average 7.5 percent in the period 2021-2023, on the assumption that implementation capacity support would be strengthened so that the projects in the pipeline can be effectively implemented, especially projects that are focused on building resilience. The main sources of financing for capital expenditure are capital grants from the NTF and those secured from external development partners specifically to support Government's resilience-building agenda.

Based on the projected outturns for revenue and expenditure, the primary surplus (including grants) is forecasted to expand over the medium-term, moving from 1.5 percent of GDP in 2021 to 6.4 percent of GDP in 2023. The overall balance (including grants) is projected to improve from a deficit of 0.6 percent of GDP in 2021 to a surplus of 4.7 percent of GDP in 2023.

The Medium-Term Debt Management Strategy focuses on (i) managing public debt in a manner that is consistent with ensuring that the Budget is adequately funded at the lowest cost and within a manageable risk framework; (ii) promoting debt sustainability; and (iii) ensuring that public debt management operations support the establishment of a well-developed domestic debt market in the medium-to-long term. Public debt (defined as Central Government debt plus Government guaranteed debt) is projected to decline from 65.7 percent of GDP in 2021 to 62.7 percent by 2023.

Appendix 1 presents the MTFF 2021-2023 with the key fiscal anchors that will guide the Government's policy, against which progress will be monitored. It should be noted that the medium-term projections are baseline and assume that none of the fiscal risks (discussed in the Fiscal Risk Statement) materialises. All assumptions underlying the MTFF projections are in Appendix 2.

3. CONSISTENCY OF THE MTFF 2021-2023 WITH THE FISCAL RESPONSIBILITY LEGISLATION

The MTFF is framed to ensure compliance with the Fiscal Responsibility Law (FRL) in 2022 and 2023. Given the impact of, and Government's response to the COVID-19 crisis, the rules outlined in the FRL were suspended in April 2020 for one year and was further extended to the end of 2021. Compliance with the fiscal rules will resume in 2022.

The following explicit fiscal rules and debt target are stipulated in Sections 7 and 8 of the FRL:

1. *Primary Expenditure Rule:* the rate of growth of the primary expenditure[1] of the Central Government, and every covered public entity, shall not exceed 2.0 percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate.

2. *Wage Bill Rule:* the ratio of expenditure on the wage bill shall not exceed 9.0 percent of GDP.

3. *Primary Balance Rule:* the targeted primary balance shall be a minimum of 3.5 percent of GDP.

4. *Contingent Liabilities Rule:* contingent liabilities arising from, as a result of, or in connection with Public-Private Partnerships (PPPs) shall not exceed 5.0 percent of GDP.

5. *Public Debt Target*: the total stock of public sector debt shall not exceed 55.0 percent of GDP.

[1] Calculated as Total Expenditure less Interest Payments.

Consistent with the requirements of Sections 10 (6) and (7) of the FRL, Table 1 shows that the fiscal rules are complied with from 2022 (the year immediately following the period in which the fiscal rules and targets were suspended). The measures proposed to secure compliance with the fiscal rules are outlined in the Recovery Plan, which is an accompanying standalone document to be laid in Parliament in accordance with Section 10 (4) of the FRL.

Public debt is projected to average 64.0 percent of GDP over the medium-term, justifiably above the FRL's target of 55 percent of GDP given increased borrowing of long-term concessional loans from multilateral creditors, which were disbursed in 2020 to address socioeconomic fallout from the COVID-19 pandemic.

Table 1: Compliance Matrix

	2022		2023	
	Fiscal Rule	**Projected**	**Fiscal Rule**	**Projected**
Growth of Real Primary Expenditure less Capital Grants (Annual % change)	Not exceeding 2.0%	-1.1%	Not exceeding 2.0%	-12.8%
Wage Bill (% of GDP)	Not exceeding 9.0% of GDP	8.3%	Not exceeding 9.0% of GDP	8.1%
Primary Balance (% of GDP)	Not less than 3.5% of GDP	3.5%	Not less than 3.5% of GDP	6.4%
Contingent Liabilities related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%
Public Debt (% of GDP)^	55.0%	63.7%	55.0%	62.7%

Source: Ministry of Finance
Notes: ^ The FRL does not stipulate a year within which the 55% is to be attained.

4. RISKS TO THE MEDIUM-TERM ECONOMIC OUTLOOK

Grenada's macroeconomic outlook is subject to extreme uncertainty, with substantial risks tilted to the downside. Longer duration and depth of the COVID-19 pandemic would severely affect tourist arrivals, remittances, and foreign direct investment inflows as well as necessitate sizeable additional fiscal stimulus to mitigate the effects on the economy, whilst an increase in infection rates locally can severely affect economic activity through productivity losses. Lingering uncertainties regarding the unfolding of the final Brexit deal will also pose a potential risk for Grenada. Grenada's vulnerability to natural hazards is an inherent risk that, if coupled with the COVID-19 pandemic shock, can present a nightmare scenario that could be a major challenge. Also, the adverse effects of climate change can significantly affect agricultural output (in particular) over the medium-term. The MTFF can also be adversely affected should any of the downside risks materialise. The Fiscal Risk Statement to be laid in Parliament in accordance with Section 12 (1) (e) of the FRL, contains a more in-depth analysis and discussion on relevant risks and mitigation measures.

Appendix 1: Grenada Medium-Term Fiscal Projections

In millions of Eastern Caribbean Dollars, unless otherwise stated						
	2021		**2022**		**2023**	
	Projected	**% of GDP**	**Projected**	**% of GDP**	**Projected**	**% of GDP**
Total Revenue & Grants	**917.1**	**30.2%**	**915.4**	**28.1%**	**910.5**	**26.6%**
Total Revenue	**653.5**	**21.5%**	**725.9**	**22.3%**	**763.8**	**22.4%**
Tax Revenue	590.2	19.4%	650.4	20.0%	684.6	20.0%
Non-tax Revenue	63.2	2.1%	75.5	2.3%	79.1	2.3%
Grants	**263.6**	**8.7%**	**189.6**	**5.8%**	**146.8**	**4.3%**
Total Expenditure	**935.2**	**30.8%**	**863.3**	**26.5%**	**748.5**	**21.9%**
Primary Expenditure	**871.6**	**28.7%**	**801.3**	**24.6%**	**690.2**	**20.2%**
Current Expenditure	**629.6**	**20.7%**	**636.5**	**19.5%**	**556.3**	**16.3%**
Employee Compensation	277.8	9.1%	285.2	8.8%	290.5	8.5%
Wages, salaries and allowances	264.3	8.7%	271.2	8.3%	275.9	8.1%
Social Contribution to employees	13.5	0.4%	14.0	0.4%	14.6	0.4%
Goods and Services	121.8	4.0%	124.0	3.8%	109.2	3.2%
Interest Payments	63.7	2.1%	62.0	1.9%	58.3	1.7%
Transfers	166.3	5.5%	165.2	5.1%	98.3	2.9%
Capital Expenditure	305.6	10.1%	226.9	7.0%	192.2	5.6%
o/w: Grant financed	243.6	8.0%	169.2	5.2%	126.0	3.7%
Overall Balance	**(18.2)**	**-0.6%**	**52.1**	**1.6%**	**162.0**	**4.7%**
Primary Balance (excluding grants)	**(218.1)**	**-7.2%**	**(75.5)**	**-2.3%**	**73.6**	**2.2%**
Primary Balance (including grants)	**45.5**	**1.5%**	**114.1**	**3.5%**	**220.3**	**6.4%**
Memo Items						
GDP (Nominal at Market Prices)		3036.1		3259.6		3417.2
Real GDP Growth (%)		6.0		4.8		3.0

Source: Ministry of Finance

Appendix 2: Baseline Medium-Term Assumptions

CATEGORIES	2021	2022	2023
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected GDP except for the Personal Income Tax (PIT) and the Corporation Tax (CIT). For the PIT and CIT it is projected that there will be a decrease due to lay-offs and temporary unemployment in different sectors due to the 2020 Covid-19 pandemic.	All categories of tax and non-tax revenue are assumed to grow in line with projected GDP.	
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	Adjustment was made for inflation pending the results of the engagement between the Government and Trade Union on the deferral of the 4% salary increase.	Adjustment was made for the agreed 4% salary increase.	Inflation of the previous year was used to project employee compensation pending the agreement on the wage deferral and any other salary agreement for the new negotiating cycle.
Social contributions to employees			
Goods & Services	Categories under this item are adjusted for inflation		
Current transfers	Inflation of the previous year was used to project for each category with the exception of transfers abroad.	Inflation of the previous year was used to project for each category with the exception of transfers abroad and pension. Pension values are adjusted by the salary increase of 4 percent.	Inflation of the previous year was used to project for each category with the exception of transfers abroad.
Interest payment	External and domestic interest rate payment reflects the conditions stated in the contractual agreement.		
Grants			
Budgetary	Budgetary grants are equal to the expected inflow from donor agencies		
Capital	Capital Grants will be fully covered		
Capital expenditure & net lending			
Grant financed	Assumes a 50 percent increase in spending on capital projects pending. Tentative pending discussions with the Ministry of Implementation and Department of Economic and Technical Corporation.		
Non Grant financed			

Source: Ministry of Finance