GOVERNMENT OF GRENADA

MEDIUM-TERM FISCAL FRAMEWORK: 2022-2024

Ministry of Finance, Economic Development, Physical Development& Energy

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1. PURPOSE

The Medium-Term Fiscal Framework is prepared in accordance with Section 12 of the Public Finance Management Act No. 17 of 2015 and Section 8 of the Public Finance Management Regulations SRO No. 33 of 2015.

2. RECENT ECONOMIC DEVELOPMENTS

2.1. Real Sector

The local economy continues to experience the lingering effects of the COVID-19 pandemic, 19 months after the first case was recorded in Grenada. Preliminary estimates for the first half of 2021 point to a recovery relative to the 13.8% contraction recorded in 2020.

Estimated growth for some key sectors in 2021 are as follows:

(i) The Agriculture and Fishing sectors; 12.5% driven by increased output in cocoa (31.8%), bananas (9.8%), nutmeg (2.1%) and fishing (3.9%).

(ii) The Construction sector; 22.8% reflective of robust activity in that sector.

(iii) The Financial Intermediation sector; 3.5% associated with increased financial services of commercial banks and credit unions.

(iv) The Private Education and Private Health subsectors; 2.0% and 4.4% respectively.

(v) The Manufacturing and Wholesale and Retail sectors; 9.7% and 4.4% respectively.

Sectors expected to decline in 2021 based on half year data are, Hotels and Restaurants (-2.6%) and Transport and Storage (-5.2%). While the economy is still estimated to recover in 2021 from the massive contraction in 2020, the recovery in 2021 is now projected to be slower than initially estimated. At this juncture, real GDP is forecasted to grow by 4.8% compared to the 6.0%, which was initially projected at the time the 2021 Budget was prepared in November 2020.

Inflation (Consumer Price Index)

Inflation is expected to strengthen and rise above initial projections as global commodity prices increase. More specifically, inflation is now projected to reach 2.2% as against the 1.6% projected at the time of the 2021 Budget presentation.

Unemployment

The almost doubling of the unemployment rate from its historic low of 15.1% at the end of 2019 to 28.4% at the end of the second quarter of 2020 has proven to be transient. As at the end of second quarter of 2021, the unemployment rate dropped to 16.6%.

2.2. Fiscal

The severe disruption in economic activity has significantly undercut Government's revenues,with a short fall of $96.6 million in 2020 relative to the budgeted amount.

Nonetheless, the fiscal performance has strengthened this year, but the prolonged effects of the COVID- 19 pandemic continue to weigh on the fiscal performance. Tax revenues showed signs of strengthening with collections exceeding this year's nine-month target and the outturn for the same period of last year. Grant receipts continue to lag target.

Total revenue and grants for the three quarters ending September 2021 were ahead of target by $6.5 million. Government recurrent outlays were $0.2 million behind the programmed amount and capital expenditure fell short of target by $57.5 million.

Considering the performance for the three quarters, a primary balance including grants of $117.1 million (3.9 % of GDP), is anticipated for 2021, which is $71.7 million above the budgeted amount. Likewise, an overall surplus of $62.7 million (2.1% of GDP), is expected compared to a budgeted deficit of $18.2 million. Total public debt[1] at the end of September 2021 stood at $2.1 billion or 70.6% of estimated GDP and included Central Government's external and domestic debt solely. Total debt at the end of 2021 is estimated to decline from the spike in 2020 to around 69.0% of GDP.

3. MEDIUM – TERM MACROECONOMIC FORECAST

The outlook for Grenada's economy is expected to remain favourable despite considerable risks, including from the still-unfolding COVID-19 pandemic. Real GDP growth is expected to average 4.3% during the period 2022 – 2024.

The recovery of the Tourism sector will depend to a large extent on the rebound of global travel and economic conditions in major source markets, which have been impacted by the pandemic. Prospects for growth in advanced economies such as the United States (one of Grenada's major source markets) are generally greater than for emerging markets and developing countries due to better vaccination access and additional policy support. It is therefore anticipated that these factors would quicken economic recoveries in Grenada's major source markets and increase global travel, which would benefit economies like Grenada. The uptick in commercial air 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, adequate protocols, such as physical distancing, sanitizing, mask wearing and mandating that all visitors be fully vaccinated, are needed to safeguard the health of citizens and visitors alike and reduce the risk of a resurgence of the virus locally.

The return of students to the St. George's University campus in August 2021 boosted demand in the second half of 2021 and spurred increased activity in other sectors, including Manufacturing, Real Estate, and Wholesale &Retail. Though there was a partial disruption due to the spike in COVID-19 cases in September 2021, this trend is expected to continue for the rest of the year and the medium term barring further spikes. Additionally, the outlook for the Construction sector is

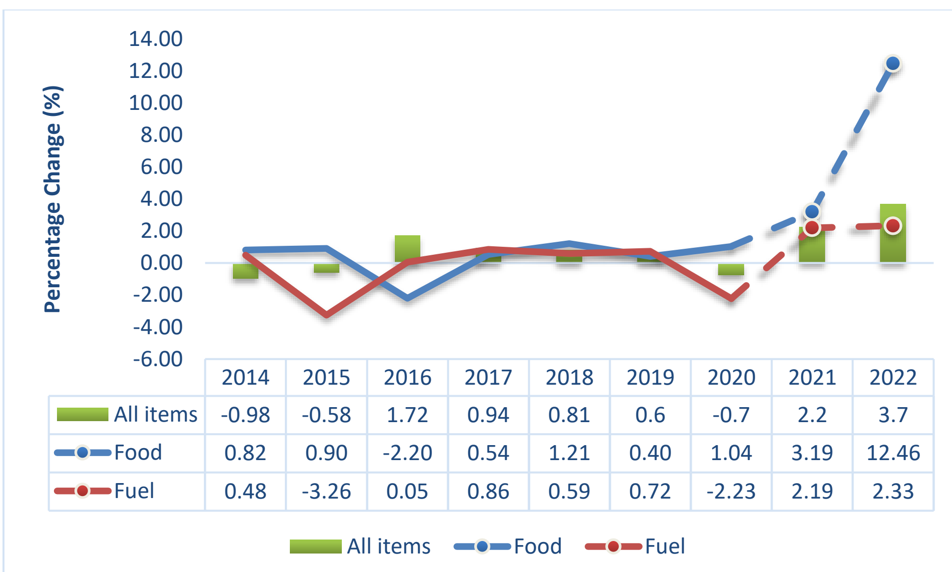
[1] Total public debt includes both the external and domestic debt of Central Government and Government Guaranteed debt of State-Owned enterprises

positive over the medium term with several public and private sector projects ongoing and in the pipeline. Major hotel projects, including the Six Senses Resort continue, as well as several private housing and commercial-building projects across the Tri-Island state. Moreover, significant investment in agriculture feeder roads, road and bridge repairs, and schools' upgrades across the Tri-Island, and other projects to improve infrastructure and boost climate resilience are ongoing. This should provide much-needed employment and further increase aggregate demand.

Appendix 1 provides detailed medium-term growth forecasts by economic sectors.

Consistent with the global outlook, inflation is likely to pick up further in the medium term. The domestic inflation rate is projected to average 2.2% over the period 2022-2024.

*Figure 1: Inflation (measured by CPI) - 2014-2022**



	2014	2015	2016	2017	2018	2019	2020	2021	2022
All items	-0.98	-0.58	1.72	0.94	0.81	0.6	-0.7	2.2	3.7
Food	0.82	0.90	-2.20	0.54	1.21	0.40	1.04	3.19	12.46
Fuel	0.48	-3.26	0.05	0.86	0.59	0.72	-2.23	2.19	2.33

Source: Ministry of Finance, CSO
*Projected

Over the medium term, further employment gains are expected. However, while the unemployment rate is expected to fall below its current level of 16.6% achieved at the end of the second quarter of 2021, it is expected that the unemployment rate will remain above the historic low of 15.1% achieved at the end of 2019.

4. MEDIUM-TERM FISCAL FORECAST

The fiscal situation is expected to gradually improve over the medium term.

Government's fiscal surpluses are forecasted to expand over the medium term, with the Overall and Primary Surpluses (including Grants) improving to 5.3 and 6.9% of GDP respectively in 2024 from deficits of -3.1 and -1.1% of GDP correspondingly in 2022.

Table 1 presents the Medium-Term Fiscal Framework (MTFF) for the period 2022-2024. The MTFF 2022-2024 has been prepared in the context of unprecedented uncertainty in the macroeconomic outlook and hence, the fiscal framework are baseline projections, which will be updated once the path of the pandemic and the macroeconomic outlook become clearer. The assumptions underlying the MTFF projections are in Appendix 2.

Table 1: Medium -Term Fiscal Framework 2022-2024

In millions of Eastern Caribbean Dollars, unless stated otherwise						
	2022		**2023**		2024	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	**897.6**	**28.2%**	**946.3**	**28.0%**	**963.7**	**27.1%**
Total Revenue	**722.2**	**22.7%**	**767.8**	**22.7%**	**812.2**	**22.9%**
Tax Revenue	630.9	19.8%	670.8	19.8%	710.4	20.0%
Non - Tax Revenue	91.3	2.9%	96.9	2.9%	101.8	2.9%
Grants	**175.4**	**5.5%**	**178.6**	**5.3%**	**151.5**	**4.3%**
Total Expenditure	**995.5**	**31.3%**	**890.1**	**26.3%**	**775.7**	**21.8%**
Primary Expenditure	931.8	29.3%	827.9	24.5%	718.8	20.2%
Current Expenditure	**661.7**	**20.8%**	**659.1**	**19.5%**	**573.8**	**16.2%**
Employee compensation	290.5	9.1%	293.5	8.7%	294.9	8.3%
wages, salaries & allowances	276.5	8.7%	278.9	8.3%	279.8	7.9%
Social Contribution to employees	14.0	0.4%	14.5	0.4%	15.1	0.4%
Goods and Services	132.6	4.2%	134.9	4.0%	119.8	3.4%
Interest Payments	63.7	2.0%	62.2	1.8%	56.8	1.6%
Transfers	174.9	5.5%	168.6	5.0%	102.2	2.9%
Capital Expenditure	**333.8**	**10.5%**	**231.0**	**6.8%**	**201.8**	**5.7%**
o/w: Grant financed	175.4	5.5%	178.6	5.3%	151.5	4.3%
Overall balance	**(97.9)**	**-3.1%**	**56.3**	**1.7%**	**188.0**	**5.3%**
Primary balance (excluding grants)	**(209.6)**	**-6.6%**	**(60.1)**	**-1.8%**	**93.4**	**2.6%**
Primary balance (including grants)	**(34.2)**	**-1.1%**	**118.5**	**3.5%**	**244.9**	**6.9%**
Memo Item						
GDP (Nominal market Prices)		3,185.7		3,380.6		3,551.7
Real GDP growth (%)		4.5%		4.4%		4.0%

5. MEDIUM-TERM FISCAL POLICY OBJECTIVES

Grenada remains firmly committed to maintaining strong fiscal discipline to support debt reduction, macroeconomic stability, and inclusive growth. That said, it is crucially important to avoid prematurely withdrawing policy support from the economy given the continued negative impact of the COVID-19 pandemic on the economy.

In this context, the MTFF 2022 – 2024 does not forecast a return to the rules and targets under the Fiscal Responsibility Law (FRL) until 2023. This will allow Government to adequately respond to ongoing challenges posed by the pandemic, vis-`a-vis sustaining social programmes and incentivising growth.

Accordingly, the MTFF 2022-2024 is formulated to support Government's strategic agenda in the context of "living with COVID-19" that is focused on recovery, resilience and transformation, which is elaborated in the Medium-term Action Plan (MTAP) 2022-2024. The MTAP is the operational vehicle through which Grenada's National Sustainable Development Plan 2020-2035 is being implemented. The MTAP 2022-2024 was approved by Cabinet in November 2021.

The MTFF 2022-2024 builds on the previous MTFF that covered the 2021-2023 and has incorporated recent macroeconomic developments (particularly, but not exclusively the impact of COVID-19), and new policies.

To support the Government's strategic agenda, the MTFF 2022-2024 sets out the following medium-term fiscal priorities.

5.1. Government's Expenditure Priorities:

In the context of the COVID-19 pandemic, Government's expenditure will be strategically prioritised for improved effectiveness, value-for-money, accountability, and impact. Specifically, there will be increased expenditure on health and education to improve service delivery. There will also be higher spending to support economic recovery, inclusive growth, and job preservation and/or creation. Expenditure will be better targeted to support the most vulnerable, particularly those who are disproportionally affected by the adverse effects of COVID-19. Priority spending will also be focused on building resilience to climate change and promoting economic transformation in all productive sectors. In this regard, greater attention will be given to improving the performance of the Public Sector Investment Programme by addressing implementation bottlenecks and building project management capacities.

More emphasis will be placed on strengthening expenditure management systems to better align public expenditure with desired outcomes to ultimately support Government's strategic development agenda. In this regard, Government will take steps to address weaknesses in expenditure controls along the Expenditure Cycle (especially at the Commitment/Requisition and Purchase Order stages) that have been identified by the Cabinet-approved Public Expenditure Review Committee. An Action Plan has already been developed to strengthen expenditure controls at each stage of the Expenditure Cycle.

Additionally, Government will take steps to substantially improve public procurement through measures geared at institutional and systems strengthening that have been recommended by the Public Expenditure Review and the Country Fiduciary Review that were completed in September 2020 and August 2021 respectively.

Furthermore, greater emphasis will be placed on staff training (particularly, but not exclusively of Finance Officers) to build capacity in accounting and public financial management more broadly. Lastly, but not least, Government will continue to monitor the operations of State-owned Enterprises and Statutory Bodies with the strategic intention of managing fiscal risks.

Accordingly, recurrent expenditure is projected to reduce from 20.8% of GDP in 2022 to 16.2% of GDP in 2024. Capital expenditure as a percent of GDP is projected to average 7.7% in the period 2022-2024, assuming 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 National Transformation Fund (NTF) and those secured from external developmentpartners specifically to support Government's resilience-building agenda.

5.2. Government's Revenue Priorities:

The revenue strategy will continue to focus on improving tax collection, addressing revenue leakages, strengthening enforcement and compliance measures, and enhancing revenue administration by placing greater emphasis on technology. Specifically, the containment of noncompliance growth and assistance to taxpayers in coping with the prolonged effects of the pandemic are two objectives proposed to enhance tax compliance. Additionally, compliance will be strengthened through greater focus on service delivery, education outreach and enforcement measures where necessary. Consequently, recurrent revenue is projected to average $767.4 million (22.7% GDP) over the period 2022-2024.

5.3. Government's Debt Management Strategy:

The Medium-term Debt Management Strategy for the period 2022-2024 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 debtmanagement operations support the establishment of a well-developed domestic debt market in the medium-to-long term. The strategy remains broadly unchanged from the 2021-2023 strategy. As such it targets concessional external financing and seeks to extend the maturity profile of the domestic debt portfolio and to maintain an active presence on the Regional Governments Securities Market (RGSM). Public debt (defined as Central Government debt plus Government guaranteed debt) is projected to decline from 67.0% of GDP in 2022 to 63.5% by 2024.

6. CONSISTENCY OF THE MTFF 2022-2024 WITH THE FISCAL RESPONSIBILITY LEGISLATION

The MTFF 2022-2024 is framed to ensure compliance with the FRL in 2023 and 2024. Given the impact of, and Government's response to the COVID-19 crisis, the rules stipulated in the FRL were suspended in April 2020 for one year and was further extended to the end of 2021. As the path of the pandemic remains uncertain and protracted, Government commits to confrontingthe challenges posed and will not prematurely withdraw support to affected sectors. Accordingly,the fiscal rules will remain suspended in 2022, but will revert to compliance in 2023. The Recovery Plan for the return to the fiscal rules and targets is set out in the MTFF projections in 2023-2024 and Appendix 2 outlines the underlying fiscal assumptions.

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[2] of the Central Government, and of every covered public entity, shall not exceed 2.0 % in real termsin 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% of GDP.

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

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

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

Table 2 presents the compliance matrix. As shown, the fiscal rules and targets will not be met in 2022. The 2023 and 2024projections comply with the requirements of Sections 7 and 8 of the FRL and the rules are adhered to. However, public debt, though on a downward path, is projected to be

[2] Calculated as Total Expenditure less Interest Payments

higher than the FRL's targeted 55.0% of GDP throughout the medium term.

Table 2: Compliance Matrix

	2022		2023		2024	
	Fiscal Rule	**Projected**	**Fiscal Rule**	**Projected**	**Fiscal Rule**	**Projected**
Growth of Real Primary Expenditure less Capital Grants (Annual % change)	Not Exceeding 2.0%	21.7%	Not exceeding 2.0%	-17.9%	Not exceeding 2.0%	-14.7%
Wage Bill (% of GDP)	Not exceeding 9.0% ofGDP	8.7%	Not exceeding 9.0% of GDP	8.3%	Not exceeding 9.0% of GDP	7.9%
Primary Balance (% of GDP)	Not less than 3.5% of GDP	-1.1%	Not less than 3.5% of GDP	3.5%	Not less than 3.5% of GDP	6.9%
Contingent Liabilities related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%
Public Debt (% of GDP) ^	55.0%	67.0%	55.0%	65.2%	55.0%	63.5%

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

7. RISKS TO THE MEDIUM-TERM ECONOMIC OUTLOOK

The economy is susceptible to unprecedented uncertainty and both upside and downside risks remain to the outlook, but are more tilted to the downside. On the upside, further improvements in the fiscal position through enhanced revenue mobilisation can boost public investment and spur job creation and growth. Downsides risks relate primarily to the COVID-19 pandemic and its prolonged effects on the global economy. A protracted health crisis can adversely affect tourist arrivals, remittances, and foreign direct investments. The recovery path also depends on the pace of vaccination and a rebound of economic activities in the private and public sectors. Vaccine hesitancy remains a hurdle to a return to normalisation and a premature removal/relaxing of protocols poses the threat of a domestic outbreak and second wave of the COVID-19. Meanwhile, rising international oil and food prices are meaningful risks to the outlook through inflationary pressures.Grenada's high vulnerability to natural disasters is an inherent risk and its susceptibility to the adverse effects of climate change can retard agricultural production. 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.

8. STATEMENT OF RESPONSIBILITY

I, Mike Sylvester, Permanent Secretary, Ministry of Finance, attest to the reliability and completeness of the information presented in the Medium-term Fiscal Framework 2022-2024 and its compliance with the Fiscal Responsibility Legislation No. 29/2015 as amended.

Mr. Mike Sylvester
Permanent Secretary

Appendix 1: Grenada Medium-Term Growth Forecast

	Rev	Prelim	Proj	Forward Estimates		
	2019	2020	2021	2022	2023	2024
Agriculture, Livestock and Forestry	-3.6	-15.0	12.5	8.4	5.7	4.2
Fishing	2.0	-13.0	3.9	3.8	4.2	4.7
Mining & Quarrying	5.0	-8.0	7.4	6.9	5.8	5.0
Manufacturing	3.2	-10.2	9.7	8.0	6.7	6.5
Electricity & Water	3.2	-6.4	2.1	3.8	2.8	2.3
Construction	-3.6	-20.5	22.8	12.0	9.6	7.1
Wholesale & Retail Trade	1.8	-15.4	4.4	6.6	5.5	5.6
Hotels & Restaurants	4.1	-68.2	-2.6	40.6	9.8	4.5
Transport and Storage	4.2	-33.1	-5.2	21.1	12.0	9.1
Communications	-7.9	-6.3	0.2	0.6	1.0	1.0
Financial Intermediation	2.9	4.3	3.5	2.0	1.5	4.2
Real Estate, Renting and Business Activities	1.5	-7.0	2.2	1.8	1.6	1.5
Public Administration	-0.8	-2.0	4.1	2.8	2.0	1.9
Education	4.2	-0.3	2.3	2.8	2.3	1.9
Health and Social Work	-3.8	-1.7	3.8	3.6	2.2	2.9
Other Community, Social & Personal Services	1.6	-11.4	-0.2	0.7	1.5	2.4
Activities of Private Households as Employers	0.6	-4.3	-0.2	1.6	1.8	0.9
Real Gross Value added (not GDP)	1.2	-13.7	4.6	6.4	4.5	4.0
Real Gross Domestic Product	**0.7**	**-13.8**	**4.8**	**4.5**	**4.4**	**4.0**
Other key indicators						
Nominal GDP (EC$ Millions)	3276.4	2817.2	2978.8	3185.7	3380.6	3551.7
Inflation (measured by CPI)	0.6	-0.7	2.2	3.7	2.1	2.7

*Percent growth unless indicated

Appendix 2: Baseline Medium-Term Assumptions

CATEGORIES	2022	2023	2024
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected nominal GDP, except for ImportDuty and Customs Service Charge. Import duty and Customs Service Charge are moved by the average growth of import values over the period 2009-2020.	All categories of tax and non-tax revenue are assumed to growin line with projected nominal GDP.	
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	Adjustment was made for the agreed 4% salary increase.	Pending salary agreement for the new negotiating cycle, estimated increment payments to eligible positions within the public service is used to project employee compensation.	
Social contributions to employees			
Goods & Services	Categories under this item move in line with inflation		
Current transfers	Inflation used to project for each category except for transfers abroad and pension. Transfers abroad reflect contractual agreements and pension values are adjusted by the 4% salary increase.	Inflation of the previous year was used to project for each category except for transfers abroad. Transfersabroad reflect conditions as per contractual agreements. Adjustment made to account for reductions in discretionary spending as per the expenditure strategy	
Interest payment	External and domestic interest payments reflect the conditions stated in the contractual agreements.		
Grants			
Capital	Capital Grants will be fully covered by the NTF		
Capital expenditure & net lending			
Grant financed	Assumed to grow in line with inflation.		
Non-Grant financed			

Source: Ministry of Finance