

GOVERNMENT OF GRENADA



RECOVERY PLAN: 2023-2024

**Ministry of Finance, Economic Development, Physical Development
and Energy**

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RECOVERY PLAN FOR FISCAL RULES AND TARGETS

Section 10 (4) and (5) of the FRL states, “*Where the Minister has suspended any fiscal rule, target or corrective measure established under section 7 or 8, the Minister shall immediately prepare and lay before the Houses of Parliament for approval a recovery plan memorandum pursuant to subsection (5). The recovery plan memorandum under subsection (4) shall set out the measures proposed to secure compliance with the fiscal rule, target or corrective measure at the expiration of the period for which Parliament approves the suspension of a fiscal rule, target or corrective measure established under section 7 or 8, including the size and nature of the revenue and expenditure measures.*”

Further, Section 10 (6) and (7) states, “*Subject to subsection (7), in the fiscal year immediately following the period for which fiscal rules and targets are suspended pursuant to this section, the Minister shall implement the measures approved by Parliament under the recovery plan memorandum to ensure full compliance with the fiscal rules and targets under sections 7 and 8. Where the Minister determines that resumption of the application of fiscal rules, targets or corrective measures at the expiration of the period stipulated in an Order made pursuant to subsection (1) would be unduly harmful to the public finances and macroeconomic or financial stability, the Minister may make a second Order to extend the period for which such fiscal rules and targets are suspended under this section by a period not exceeding one fiscal year.*”


The Government remains firmly committed to the principles and practices of fiscal sustainability to support debt reduction, macroeconomic stability, and inclusive growth. Government also remains committed to continue supporting the economy, given the ongoing negative impact of the COVID-19 pandemic on the economy, because a premature withdrawal of support would be harmful to economic and social stability. In this context, the Medium-term Fiscal Framework (MTFF) 2022 – 2024 does not forecast a return to the rules and targets under the FRL until 2023.

Table 1 sets out baseline fiscal projections for the years 2022-2024, which show some fiscal improvement on the following main assumptions: (i) GDP growth will rebound in 2022 and average 4.3 percent in 2022-2024, underpinned mainly by robust activity in the Construction sector and Wholesale and Retail Trade, as well as a pickup in ancillary services related to the St. George’s

University (SGU); (ii) modest increase in total revenue, consistent with the projected economic activity; and (iii) deliberate measures (approved by the Cabinet) to contain discretionary expenditure and improve the strategic orientation and prioritisation of expenditure on the whole, in a concerted effort to return to the fiscal rules and targets to safeguard medium-term fiscal and debt sustainability. The MTFF 2022-2024 document, which is prepared separately, contains details of the medium-term fiscal and economic strategies.

While the outlook for Grenada's economy is expected to be favourable, considerable risks remain, including from the still-unfolding COVID-19 pandemic, an uneven and fragile global recovery and natural shocks. Accordingly, it is crucially important to emphasise that the baseline fiscal projections have been prepared in the context of unprecedented uncertainty in the macroeconomic outlook and hence, the fiscal framework may be revised once the path of the pandemic and the macroeconomic outlook become clearer.

Table 1: Baseline Medium-term Fiscal Projections.

<i>In millions of Eastern Caribbean Dollars, unless stated otherwise</i>						
	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%
<i>wages, salaries & allowances</i>	276.5	8.7%	278.9	8.3%	279.8	7.9%
<i>Social Contribution to employees</i>	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%

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 percent of GDP respectively in 2024 from deficits of -3.1 and -1.1 percent of GDP correspondingly in 2022. Real GDP growth is expected to average 4.3 percent during the period 2022 – 2024. The MTF 2022-2024 has been prepared in the context of unprecedented uncertainty in the macroeconomic outlook. The framework assumes that intakes from all major tax categories are grown in line with projected GDP over the period. Adjustments are made for agreed salary increase in 2022 and inflation is used to project employee compensation in 2023 and 2024. All expenditure categories under Goods and Services and Current Transfers are moved in line with inflation except for transfers abroad and pension. Interest payments are based on contractual agreements and capital grants are assumed to be fully covered by the NTF whereas capital expenditure is assumed to grow in line with inflation.

Return to Fiscal Rules

Consistent with the requirements of Sections 10 (6) and (7) of the FRL, Table 2 shows that the fiscal rules are complied with from 2023 (the year immediately following the period in which the fiscal rules and targets were suspended). Public debt is projected to average 65.3 percent of GDP over the medium term, justifiably above the FRL's target of 55.0 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 2: Compliance Matrix

	2023		2024	
	Fiscal Rule	Projected	Fiscal Rule	Projected
Growth of Real Primary Expenditure less Capital Grants (Annual % change)	Not exceeding 2.0%	-17.9%	Not exceeding 2.0%	-14.7%
Wage Bill (% of GDP)	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	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%	Not exceeding 5.0% of GDP	0%
Public Debt (% of GDP)^	55.0%	65.2%	55.0%	63.5%