GOVERNMENT OF GRENADA

Compliance Assessment Report: 2017-2018

Submitted To

The Parliament

By The Minister of Finance, Planning, Economic and Physical Development

November, 2018

This Compliance Assessment Report is prepared in fulfillment of Section 12 (1) (c) of the Fiscal Responsibility Law (FRL) No. 29 of 2015, as amended, which stipulates that,

> *"The Minister of Finance 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."*

More specifically, the FRL requires that the following information be provided in the Compliance Assessment Report:

i. A review of performance over the preceding two years in comparison with the fiscal rules and targets under Sections 7 and 8;

ii. The notional compensation primary balance;

iii. Explanations for every instance of underperformance or over performance and implications for future years; and

iv. The manner in which the annual budget or supplementary budget laid before Parliament complies with the fiscal rules and targets, and reflects improvement required for full compliance.

The required details are set out as follows:

Summary of Economic and Fiscal Performance in 2017-2018 and Assessment of Compliance

Following growth of 5.1 percent in 2017, preliminary estimates based on data for the first nine months of 2018 indicate that the economy will continue along a positive trajectory in 2018, with growth estimated at 5.2 percent. Economic activity in 2018 was underpinned primarily by the Construction and Tourism sectors, and supported by robust activity in the Transport and Retail Trade sectors. Average inflation, as measured by the Consumer Price Index, remained subdued in 2017, measuring 0.9 percent. In the first half of 2018, inflation averaged 0.6 percent mainly due to marginal increases in the price of food, fuel, communication and education compared to the first half of 2017. However, prices are expected to rise by year end principally because of the forecasted increases in international food and fuel prices. Preliminary data collected from the 2018 Labour Force Survey indicate that the unemployment rate fell to 20.9 percent from 23.6 percent in 2017.

Public finances are expected to strengthen in 2018, with the primary surplus widening to 6.2 percent of GDP from 5.7 percent in 2017; exceeding the FRL's target of 3.5 percent of GDP for the third consecutive year. The overall surplus also expanded. Improved revenue collection and administration, continued expenditure discipline and increased economic activity underpinned the strong fiscal performance. As an upshot, public debt is expected to decline to 62.7 percent of GDP from 68.9 percent at the end of 2017.

Table 1 presents a summary of the actual outturns of key fiscal indicators in 2017, as well as the provisional estimated outturns for 2018 and summary highlights of the 2019 Budget.

Table 1: Fiscal Summary of Central Government

(EC$ millions except where otherwise stated)

	2017 (Actual)	2018^ (Provisional Estimates)	2019 Budget
Total Revenue and Grants	**778.2**	**849.8**	**964.2**
Current Revenue	**700.1**	**747.2**	**780.4**
Grants	**78.1**	**102.6**	**183.7**
Of which Capital Grants	*64.2*	*92.8*	*178.5*
Total Expenditure	**686.5**	**713.5**	**834.2**
Primary Expenditure	**605.5**	**650.2**	**762.3**
Current Expenditure	**605.9**	**594.6**	**637.8**
Personal Emoluments, Wages & Allowances	246.8	256.6	275.4
Interest Payments	*81.0*	*63.3*	*72.0*
Current Account Balance	**94.2**	**152.6**	**142.7**
Capital Expenditure	**80.6**	**118.9**	**196.4**
Primary Balance after Grants	**172.7**	**199.6**	**201.9**
Overall Balance after Grants	**91.6**	**136.3**	**129.9**
Memo Items:			
Real GDP (Market Price) (annual percent change)	5.1%	5.2%	4.2%
Nominal GDP (Market Prices)	3,042.6	3,230.0	3,381.5
Public Debt (Included Guaranteed debt) (percent of GDP)	68.9%	62.7%	56.7%
Inflation Rate (Period Average) (percent)	0.94%	2.76%	2.32%

Source: Ministry of Finance

Notes: ^ Estimates done in October 2018, based on January-September actual data.

The FRL prescribes the following explicit fiscal rules and targets:

1. **Primary Expenditure Rule**: the rate of growth of the primary expenditure[1] of the Central Government, and of 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.

As stipulated in the FRL, the following are exempted from the fiscal rules and targets:

a) Grants made to the Government for the financing of capital expenditures in Grenada and the associated expenditures.
b) Any capital expenditures made from or under the National Transformation Fund.

As Table 2 shows, the actual 2017 outturns of the Central Government[2] for the relevant fiscal variables were FRL compliant. Table 2 also shows that the provisional estimates of the relevant fiscal variables for 2018 are also FRL compliant. All fiscal rules have been adhered to and public debt remained on a firm downward trajectory towards its FRL target. .

The primary surplus and wage bill as ratios of GDP were 5.7 and 8.1 percent of GDP respectively in 2017 and are estimated at 6.2 and 7.9 percent of GDP correspondingly in 2018. To calculate the primary expenditure rule for 2017, the nominal percentage change between the primary expenditure less capital grants figure for 2016 ($529.3 million) and the 2017 figure ($541.3 million) was computed; the real percentage change was then derived by subtracting the average inflation rate for 2016 (1.72 percent) from the nominal percentage change in primary expenditure less capital grants. The real change in primary expenditure less capital grants for 2018 is calculated similarly, using the relevant 2018 estimates and the 2017 actual data, as well as the average inflation rate for 2017 (see Table 1). With regards to PPP-related contingent liabilities, the ratio was zero in 2017 and remained unchanged in 2018. It should be noted that Government entered into a 15-year PPP agreement with Digicel in September 2018, valued at EC$ 87.7 million, for which there are no explicit related contingent liabilities. The PPP agreement is part of the Caribbean Regional Communication Program, which is

[1] Calculated as Total Expenditure less Interest Payments.
[2] The fiscal account does not include state-owned enterprises and statutory bodies.

a World Bank-funded regional project between the Governments of Grenada, St. Lucia and St. Vincent and the Grenadines and Digicel to support the countries' digital transformation agenda. In relation to the debt-to-GDP ratio, it is on track to meeting the FRL's target of 55.0 percent. The FRL does not specify a year by which the target must be reached; however, based on the projections, public debt will fall below its FRL target by 2020.

Table 2: Compliance Matrix

Fiscal Variables	**Fiscal Rules/Targets**	**2017 (Actual)**	**Rules/Targets Complied with in 2017**	**2018 (Provisional)**	**Rules/Target Complied with in 2018**
Primary Balance, After Grants (percent of GDP)	**3.5 %** *(Not less than)*	5.7%	Yes	6.2 %	Yes
Wage Bill (percent of GDP)	**9.0 %** *(Not exceeding* **)**	8.1%	Yes	7.9.%	Yes
Primary Expenditure less Capital Grants (real percent change)	**2.0 %** **(***Not exceeding*)	0.5%	Yes	2.0 %	Yes
PPP-related Contingent Liabilities (percent of GDP)	**5.0 %** *(Not exceeding)*	0.0%	Yes	0.0 %	Yes
Public Debt (percent of GDP)	**55.0 %**	68.9%	On track	62.7 **%**	On track

Source: Ministry of Finance

In addition to the explicit rules and targets, Sections 7 and 8 of the FRL also set out other stipulations. An assessment of compliance with the additional stipulations is provided at Appendix 1.

The Notional Compensation Primary Balance

Section 8 (3) (d) of the FRL, stipulates that *"a notional compensatory primary balance shall be calculated to reflect the cumulative difference between the targeted primary balance and the actual primary balance, by subtracting the actual primary balance from the targeted primary balance, as realised in any fiscal year from the first full fiscal year after commencement of this Act; if at any time the notional compensatory balance shows a value greater than 3.0 percent of GDP, 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.*"

As Table 3 shows, the notional compensatory primary balance (NCPB) was ($66.2) million or negative 2.2 percent of GDP in 2017 and the cumulative NCBP is estimated to reach ($152.7) million or negative 4.7 percent of GDP by the end of 2018. Thus, both the actual outturn for 2017 and the provisional estimate for 2018 are well below the FRL's stipulated threshold of 3.0 percent of GDP. Accordingly, no corrective revenue and/or expenditure policies are required.

Table 3: Notional Compensatory Primary Balance

Key Fiscal Indicator	2017 (Actual) EC$ Million	2017 Target (Equivalent of 3.5 % of GDP) EC$ Million	2017 NCPB EC$ Million	2017 NCPB (% of GDP)	2018 (Provisional Estimate) EC$ Million	2018 Target (Equivalent of 3.5 % of GDP) EC$ Million	2018 NCPB EC$ Million	2018 NCPB (% of GDP)
	(a)	**(b)**	**(b-a) = c**	**c/GDP**	**(d)**	**(e)**	**c+ (e-d) = f**	**f/GDP**
Primary Balance (after Grants)	172.7	106.5	(66.2)	(2.2)	199.6	113.1	(152.7)	(4.7)
Memo:								
Nominal GDP (Market Prices)	3,042.6				3,230.0			

Source: Ministry of Finance

Compliance of Annual Budget

Annual 2019 Budget

The 2019 Budget has been prepared within the context of Government's Medium-term Fiscal Framework (MTFF) 2019-2021 and is compliant with the Fiscal Responsibility Law (FRL) No. 29/2015 (as amended in 2017). The revenue and expenditure strategies are designed to generate a primary surplus exceeding the FRL's target to keep public debt on a firm downward trajectory. All the relevant fiscal variables of the Central Government as presented in column four of Table 1 are in compliance with the fiscal rules and targets as stipulated in Sections 7 and 8 of the FRL, as shown in Table 4.

Table 4: 2019 Annual Budget Compliance Matrix

Fiscal Variable	Fiscal Rule	2019 Budget	Compliance
Primary Balance, After Grants (percent of GDP)	**3.5%** *(not less than)*	6.0 %	Yes
Wage Bill (percent of GDP)	**9.0%** *(not exceeding)*	8.1 %	Yes
Primary Expenditure less Capital Grants (real percent change)	**2.0%** *(not exceeding)*	2.0 %	Yes
PPP-related Contingent Liabilities (percent of GDP)	**5.0%** *(not exceeding)*	0.0 %	Yes
Public Debt (percent of GDP)	**55.0%**	56.7 %	On track

Appendix 1

Additional Provisions of Sections 7 and 8 of the FRL	Complied with in 2017 and 2018
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 7 (1) (b).	Salary negotiations between Trade Unions and Government are guided by the stipulations of the FRL. Negotiations are forward looking; retroactive salary payments are essentially outlawed. Hence, public servants received one-off payments (not salary increases) in March 2017 for the period 2013-2016. All requests for salary adjustments from covered SOEs are appraised by the Ministry of Finance, within the context of the FRL.
No multi-year commitment shall be entered during a period in which Parliament is dissolved 7(1) (c).	Parliament was dissolved in January 2018 and was reopened in April 2018. No multi-year commitment was entered into while Parliament was dissolved.
For purposes of subsection 1 (b) the Minister must establish compensation negotiation cycles that allow for settlements for Government employees to be included in estimates of revenue and expenditure for the financial year to which settlement relates 7(2).	Three-year cycles are negotiated, which are included in the fiscal projections.