FROC
Fiscal Responsibility Oversight Committee

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

2020 ANNUAL REPORT

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE
(FROC)

2020 ANNUAL REPORT

30th April, 2021

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FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

30th April, 2021

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 2020 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 copies of the afore-mentioned report for consideration by the House of Representatives. An electronic copy has already been submitted to your Office.

Please note that with the advent of the Covid-19 virus which triggered the Escape Clause of the Fiscal Responsibility Act, the 2020 Report has been adjusted accordingly and does not include a report on compliance with the targets as required by law.

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,

Dr. E. Angus Friday
Chairman

Members: Dr. E. Angus Friday, Chairman | Shadel Nyack Compton| Zanna Barnard | Anthony MacLeish | S. Sally Anne Bagwhan Logie

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

ABBREVIATIONS AND ACRONYMS

BFP	Budget Framework Paper
CBI	Citizenship by Investment
CPI	Consumer Price Index
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
SGU	St. George’s University
SOE	State-Owned Enterprise

GLOSSARY[1]

"arrears" means Government obligations from the current and past years that are due but have not been paid;

"capital expenditure" means non-recurrent expenditure on goods, works and services carried out by the Government or any public entities on its own or by one or more public entities in conjunction which is aimed at accumulating new physical assets with usable value for more than one financial year or improving or rehabilitating such existing physical assets to achieve development objectives;

"Central Government" means every branch, ministry, department, agency of the Government and includes all special funds established and maintained by the Government under the Consolidated Fund;

"covered public entity" means a statutory body or state-owned enterprise for which any of the following applies –

(a) the entity has received transfers of any kind from the Budget, including subventions or guarantees for any year in the five-year period immediately preceding the fiscal year;
(b) the entity has, for three consecutive quarters in the preceding fiscal year, not met the quarterly reporting requirements established by the Minister; or
(c) the audited balance sheet of the entity has recorded a negative equity position as at the end of one of the preceding three financial years;

"expenditures" means expenditures of the Central Government and covered public entities and includes –

(a) interest and non-interest spending
(b) current spending under the Recurrent Expenditure Chart of Accounts; and
(c) capital spending under the Capital Expenditure Chart of Accounts;

"fiscal balance" means the total receipts into Central Government accounts and accounts of covered public entities (excluding debt receipts and unspent grants) less total disbursements (excluding repayment of debt) during the financial year;

"fiscal risk" means the possibility that actual fiscal outcomes will deviate from the fiscal outcomes expected at the time of the presentation of the annual estimates of revenue and expenditure arising from matters such as -

(a) economic outcomes differing from the assumptions made in the budget;
(b) the structure of public debt;

[1] *Source – Fiscal Responsibility Act*

(c) the potential call on explicit Government guarantees and the realization of other contingent liabilities, including those associated with public-private partnerships; and
(d) the occurrence of natural disasters and other ‘acts of God’;

“fiscal target” means a specified quantitative limit against which a particular fiscal variable is measured and monitored;

“primary balance” means the overall fiscal balance before interest expense.

“primary expenditure” means the total expenditure less interest payment on debt in a fiscal year;

“public debt” includes all direct liabilities of Central Government and covered public entities including advances, arrears, compensating claims, finance leases, Government securities, loans, overdrafts, promissory notes, supplier’s credit agreements and contingent liabilities but excludes explicit contingent liabilities arising as a result of or in connection with public-private partnerships;

“public-private partnership” means a contract or arrangement governed by a long-term procurement contract between one or more public entities and one or more private entities, for providing or managing a public asset and associated services, through the appropriate sharing of resources, risks and rewards;

“public sector” means the Central Government, the National Insurance Scheme, statutory bodies and state-owned enterprises;

“recurrent expenditure” means expenditures that are not capital expenditures, and includes normal overhead and administrative expenses, purchase of non-capital goods, personnel costs including salaries, emoluments and other benefits of the Government’s current and past employees, interest payments and transfers to covered public entities;

“state-owned enterprise” means an entity whether or not incorporated under company law being-

(a) a company in which the Government or an agency of the Government by the holding of shares, is in a position to direct the policy of that company through, among other things, its representation on the governing board of the entity; or
(b) a company, board or Authority established under special legislation which recovers a significant portion of its operating costs through charges on users,

and being determined by the Minister to be a state-owned enterprise;

“statutory body” means a body set up by an enactment with statutory powers and operational autonomy to carry out Government related functions and which are part of and under the direct control of the Government;

FOREWORD

In 2015, the Grenada Government introduced what at the time was, and still is, pioneering legislation in the region on "Public Financial Matters". This legislation was based on the concept that, in order to achieve sustainable economic development there must be greater fiscal responsibility and discipline. It was also recognized that in order to achieve the required level of responsibility and discipline there must be enhanced fiscal management along with clearly defined annual fiscal targets coupled with medium and long-term plans and policies. The fiscal targets had to be enshrined in legislation.

The legislation therefore comprised the following enactments - 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.

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."***

The PFMA regulates the proper management and control of money and other resources of the public sector including the Consolidated Fund while the PDMA consolidates and modernizes 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 complement each other and must be read and construed together.

The FRA created a **Fiscal Responsibility Oversight Committee (FROC)** which is responsible for monitoring compliance with the fiscal rules and targets as stipulated in the Act and reporting to the House of Representatives accordingly.

The FROC comprises five (5) members who are appointed by the Governor General upon the nomination of the Committee of Privileges of Parliament, four (4) of whom shall be nominated in consultation with the Director of Audit; while the fifth person is nominated on the advice of the Governor of the Eastern Caribbean Central Bank (ECCB).

The Second Schedule of the Act stipulates that members of the FROC must possess expertise in the areas of accounting, business management, public administration and law while the nominee from the Governor of the ECCB is required to have expertise in economics.

After serving for three years as Chairman of the FROC, Mr. Richard Duncan's term of appointment expired in August 2020. Mr. Duncan's Chairmanship was critical in further establishing the FROC as a technically proficient and independent body capable of providing sound guidance to the Parliament. His tenure provided continuity and stability in furtherance of the objectives of the Fiscal Responsibility Act. At the end of his tenure, Dr. Angus Friday, a former staff member of the World Bank, was appointed as the new Chairman. Dr. Friday is joined by Mrs. S. Sally Anne Bagwhan Logie, a retired public officer, who was also appointed in August 2020 to replace the outgoing committee member, Mr. Philbert Charles. The other members of the FROC are Ms. Shadel Nyack Compton, an Attorney at Law, Mr. Anthony MacLeish, a Business Manager and Ms. Zanna Barnard an Economist. Mrs. Michelle Millet, a practicing accountant, was appointed secretary to the FROC in September 2017.

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; and*

(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.*

Under Section 10 of the Act (the Escape Clause) provision is made for the suspension of the fiscal rules, targets and corrective measures established under Sections 7 and 8 if there are certain catastrophic events, including a "public health epidemic" such as the global pandemic caused by the Covid-19 virus. Under this framework, the Minister of Finance had determined that *"implementation of the fiscal rules, targets or corrective measures would be unduly harmful to the public finances and macroeconomic or financial stability". As such, and in accordance with the provisions, the Minister suspended the fiscal rules, targets and corrective measures.* The 2020 FROC Report will therefore be different from previous Reports given the suspension of fiscal compliance targets, in accordance with the law.

In the process of fulfilling its legislative mandate, the FROC has held several meetings[2] to review the data provided by the Macro-economic Policy Unit (MPU) for preparation of the 2020 Report. An orientation session was held in December 2020 for members of the FROC facilitated by the Ministry of Finance (MOF).

[2] See Appendix II.

The FROC expresses appreciation for the professional support received from the staff of the MPU in the preparation of this Report. The FROC also takes this opportunity to recognize the outstanding leadership of retiring Chairman, Mr. Richard Duncan, and thanks him for his invaluable contributions during his tenure. We also wish to thank the Speaker of the House for granting an extension for submission of this Report to 30th April 2021.

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*. Since its creation in 2017 the FROC has fulfilled its mandate by submitting all four required Reports to Parliament for the years 2016 - 2019.

This Report is accordingly being forwarded to the Speaker of the House of Representatives to be laid in Parliament.

…………………………	……………………………	…..……..………………
E. Angus Friday	**Shadel Nyack Compton**	**Zanna Barnard**
…………………………	……………………………	
Anthony MacLeish	**S. Sally Anne Bagwhan Logie**	**30th April, 2021**

MEET THE FROC

Dr. E. Angus Friday
Chairman

Dr. Friday works internationally on island economies through the Waitt Institute, served at the World Bank and is Grenada's former Ambassador to the United Nations, the United States and the OAS. He holds a Masters degree in Business Administration (MBA) and a medical doctorate from St. George's University.
Term of appointment expires August 2022.

Mrs. Michelle Millet
Secretary

Mrs. Millet is a Chartered Accountant and an Assurance Partner at PKF- Accountants and Business Advisers.

Ms. Zanna Barnard
Committee Member

Ms. Barnard is a Senior Economist at the ECCB. She is a former Country Economist for Grenada at the ECCB (2014 – 2018), and served as a member of Grenada's Homegrown Programme Monitoring Committee (2014-2017).
Term of appointment expires August 2021.

Mr. Anthony Mac Leish
Committee Member

Mr. Mac Leish has a varied background in real estate and accounting. He presently serves as Chairman of NAWASA, Financial Complex Ltd. and Aviation Services of Grenada Ltd.
Term of appointment expires August 2021.

Ms. Shadel Nyack Compton
Committee Member

Ms. Nyack Compton is an Attorney - at- Law and an Agri-tourism and Agri-business entrepreneur.
She has served as the Chairperson of the Grenada Board of Tourism and is presently the Honorary Consul of India to Grenada.
Term of appointment expires August 2021.

Mrs. S. Sally Anne Bagwhan Logie
Committee Member

Mrs. Bagwhan Logie is a retired Public Administrator who has served as Permanent Secretary in several ministries and Director on various local and regional organizations.
Term of appointment expires August 2022.

MESSAGE FROM GOVERNOR OF THE EASTERN CARIBBEAN CENTRAL BANK

Mr. Timothy Antoine, ECCB Governor

Grenada has been at the forefront of efforts to articulate, enact and implement fiscal resilience frameworks in the Eastern Caribbean Currency Union. Other member countries have taken notice and are now emulating Grenada's pioneering efforts.

Following the shocks of Hurricane Ivan (2004), Hurricane Emily (2005) and the Global Financial Crisis (2007-8) which morphed into the Great Recession (2008-2012), Grenada developed its own Homegrown Programme in partnership with the International Monetary Fund and other international financial institutions. Motivated to sustain the impressive gains of the Programme which included: a reduction in the Debt-GDP ratio to 69 percent from 107 percent; average primary surpluses of 6 percent and average real growth of 5.0 percent, the Government of Grenada, after consultation with the Social Partners, moved to enact Fiscal Responsibility legislation (2015).

At the launch of the Fiscal Responsibility Oversight Committee in 2017, I asserted that the **"the Fiscal Responsibility Act (FRA) is an important instrument of governance for Grenada and is the most significant fiscal reform in Grenada's history**". Five years on, I am reinforced in that assertion. Armed with the lessons of the past five years, it is now right and appropriate for Grenada to review and refine the FRA to optimize its clarity and efficacy.

In the context of the ongoing pandemic and the relentless shocks on our small states, the necessity for fiscal buffers is ever more apparent. Although still difficult, *could you imagine how much harder things would be if the Government of Grenada did not have some fiscal buffers to finance its care and relief programmes*? Or *if Grenada did not possess the fiscal fundamentals to attract concessionary financing to supplement these buffers*? My general observation is that countries with fiscal buffers have fared better than countries without. Indeed, fiscal buffers are critical to enable governments to cushion the effects of adverse shocks on households and businesses but especially on the poor and most vulnerable.

The Grenadian economy does not operate in a vacuum. Policymakers and legislators must fully understand the future of the global economy is digital and that future is now. Indeed, they ought to take due cognizance of a key lesson of this pandemic - the criticality of connectivity and digital tools as a bulwark of resilience. Furthermore, digitalization is essential for the ECCU, if we are to build globally competitive and diversified economies.

Against this backdrop, Grenada's refinement of its fiscal resilience framework ought to be forward looking and inclusive. That means, inter alia, Grenada should be very strategic and deliberate about the adoption of digital technologies across all sectors (existing and emerging). An ideal place to start would be:

- Recognition by the Government of Grenada that **access to broadband connectivity should be treated as a human right.** Moreover, this access is essential to the attainment of the United Nations Sustainable Development Goals especially SDG 9.C;

- **Digitizing all citizen-facing services** such as bill and tax payments and social transfers within an explicit time frame;

- **Making** IT a mandatory CSEC subject and encouraging students to sit the examination from as early as Form 2;

- **Training our youth in coding** using both schools and academies; and

- **Establishing innovation incubators** and **providing incentives to support SMEs and** spur job creation.

As Grenada refines its fiscal resilience framework and builds resilience through the requisite investments in human capital and the productive sectors, the imperative for dialogue among the Social Partners cannot be overemphasized.

In conclusion, I seize this opportunity to place on record my gratitude for the important work of Mr. Richard Duncan, the inaugural Chairman of the FROC and other members who served. I also thank my ECCB colleague, Ms. Zanna Barnard for all her valuable contributions to the FROC over the past four years. I extend my best wishes to the new Chairman, Dr. Angus Friday and the current members of the FROC.

Rest assured, the ECCB stands ready to continue to support the Government and people of Grenada on this path of building fiscal resilience for it is a wise and prudent move.

EXECUTIVE SUMMARY

Overview

Covid-19 has had a detrimental impact on the global economy and on Grenada with the economy estimated to have declined by 12.2% in 2020. The Grenada authorities took corrective measures by implementing necessary public health measures and by invoking Section 10 of the Fiscal Responsibility Act, also known as the Escape Clause. The Escape Clause was properly invoked. Only one criterion needs to be satisfied for the activation of the Escape Clause and only one was satisfied, that being, FRA (10(1)(a) that a "public health epidemic" resulted in a "state of emergency" being "declared by the Governor General". However, Covid-19 has exposed a number of shortcomings of the Act which necessitates an urgent and comprehensive review.

Ensuring a green, resilient and inclusive recovery is critical given the need to ensure social cohesion and stability during this fragile time where 14,000 jobs have been lost in Grenada in the second quarter of 2020 relative to the fourth quarter in 2019. Government measures in 2020, though costly, should help to reduce the extent of the economic damage caused by the pandemic, and ultimately lead to economic recovery in 2021 which is essential for fiscal and debt sustainability. Job-rich growth that prepares Grenada for the new post-pandemic realities, must be prioritized which will help to reduce unemployment and improve the debt to GDP ratio. Indeed, St. Vincent's April 2021 volcanic eruptions is a reminder that Grenada must prepare for double jeopardy risks that may arise in the future. To do so, it is vital to maintain sound fiscal management to effectively buffer future shocks.

In this vein, other Sections of the FRA are still in effect and this means that public finance should be managed in such a way that it is transparent, accountable, and involves prudent management of debt and fiscal risks. Efficient public finance management systems are critical in shaping improved fiscal and debt outcomes in the medium term. Otherwise, the Government could face significant challenges in the medium term even if the economy grows in 2021. For example, public sector finances remain under-reported, and the comprehensive data requirements of the FRA are still not being met. Data limitations precludes comprehensive assessments by the FROC of outturns, the impact of fiscal policy, and potential risks.

Moving Forward

In addition to filling the information and data gaps, it is vital to take cognisance of Grenada's heavy reliance on tourism which has been hit hard by the pandemic. The World Travel and Tourism Council (WTTC) highlighted that travel and tourism contributed 40.5% of total GDP, 42.9% of total employment, and 79.3% of total exports in 2019. Since tourism is unlikely to recover before 2023, other economic industries or sectors should be explored to lift growth. However, Grenada's economy is concentrated in four sectors which have also been affected by the pandemic namely, Education, Real Estate Renting and Business Activities, Transport Storage and Communications, and Construction. These sectors, out of a total of sixteen, accounted for about 54.6% of total GDP in 2020.

Therefore, diversification of the economy must be a priority. The growth potential in the 2021 Budget focused mainly on large private sector tourism projects, and there was not enough indication of the diversity of income to assist with the growth of the economy, given the impact of Covid-19 on the tourism industry. Due to the uncertainty in tourism, the Government should consider the following to secure medium-term growth and contribute to long-term competitiveness:

- Strengthening the enabling policy environment for Health, ICT, Agriculture, and Manufacturing;
- Jump-starting investments in Healthcare, ICT, CBI and Agriculture to create jobs and resilience;
- Examining the future of Travel & Tourism and adapting accordingly;
- Accelerating the PSIP as planned, while also prioritizing programmes that are green, resilient, inclusive and job-rich;
- Strengthening support for vital tourism related business to adapt and navigate;

- More aggressively pursuing renewable energy, including solar PV, battery storage and geothermal;
- Quickening transformation in the public sector, and provide the enabling environment for adaptation to ICT in the private sector;
- Promoting innovation and entrepreneurial spirit among the youth to boost their self-employment; and
- Continuing to improve data and use it to inform policy.

Recommendations

The unprecedented impact of Covid-19 on government's revenues and the government's ability to buffer this traumatic shock have proven the case for robust fiscal rules underpinned by a comprehensive legislative framework. Covid-19 has also exposed shortcomings in this framework many of which were anticipated in range of recommended amendments put forward by the FROC in recent years. The FROC recommends that the time has come to repeal and replace the Fiscal Responsibility Act. As the government undertakes efforts to ensure a smooth recovery, the FROC encourages that it be green, resilient and inclusive, while continuing to exercise fiscal prudence.

In summary, the key recommendations are:

1) Commit to a phased and targeted approach to attaining full compliance with the Fiscal Responsibility Act;
2) Repeal and replace the Fiscal Responsibility Act;
3) Ensure a green, resilient and inclusive recovery with continued fiscal prudence; and
4) Diversify, Decentralize and Digitize to *grow* the economy, focusing on:
    a) Health, Wellness and Medical Services and Technologies, underpinned by a National Health Insurance;
    b) Agri-Tech and the Agricultural Sector;
    c) Info-Tech and Digital Nomads underpinned by a Digital Transformation; and
    d) Manufacturing

CHAPTER 1: THE MACROECONOMIC CONTEXT

Key Messages

2020 was an exceptional year for Grenada's economy as the Covid-19 pandemic led to a downturn in domestic economic activity and a suspension of fiscal rules and targets in the FRA.

Progress made since the end of the Homegrown Structural Adjustment Programme of 2014-2016 and the implementation of the FRA from January 2016, enabled the Government to quickly cushion the effects of Covid-19.

Economic growth is expected to resume from 2021 but there are significant downside risks that can cause the recovery to be weaker than anticipated.

The pandemic can have lasting effects on Grenada, and it is therefore necessary that policy actions build growth that is resilient and transformative

Introduction

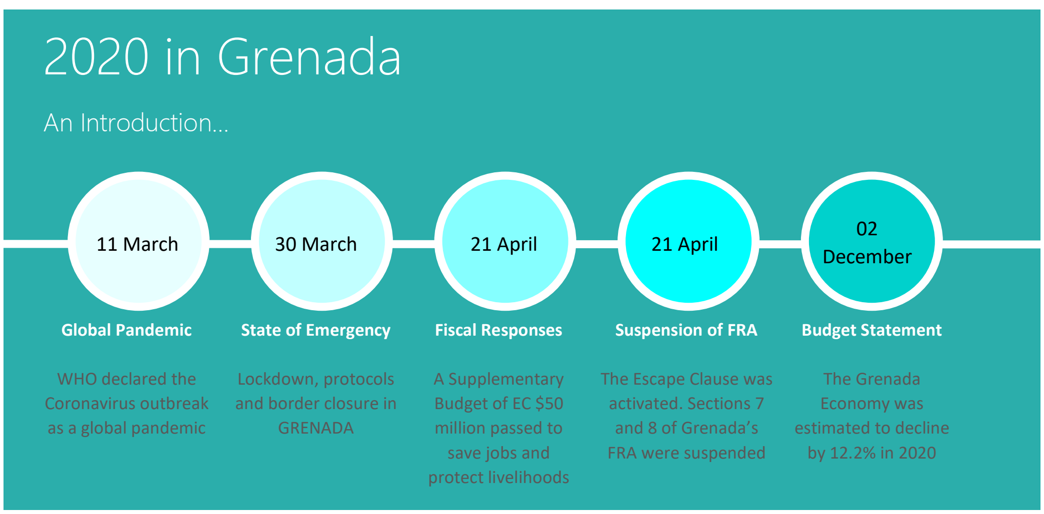
Prior to March of 2020, Grenada experienced seven (7) successive years of growth averaging 4.5%. However, as a result of Covid-19, the economy was set to contract by as much as 12.2%. In March of 2020, measures to contain the spread of Covid-19 began unfolding in Grenada. While the Grenada Government had not yet officially released revised macroeconomic forecasts for 2020-2022, the IMF and the World Bank provided initial predictions that real GDP growth in 2020 would fall by 8.0% and 7.3% respectively in Grenada[3]. Based on this, as well as discussions held then with the MPU, the FROC concluded then that a sharp contraction of 12.2% was possible.

[3] Sources: IMF World Economic Outlook database for April 2020 and the World Bank's April 2020 semiannual report of the Latin America and the Caribbean Region, titled "The Economy in the Time of Covid-19"

Additionally, at that time, the Committee agreed with the MPU, that the original forecast for 2020 of 4.5% real GDP growth[4] be downgraded and the Escape Clause in the FRA be activated.

Today, the pandemic continues to impact all aspects of lives and livelihoods. Its pervasive nature led to a downturn in global and domestic economic activity. Moreover, in Grenada Covid-19 led to the suspension of the fiscal rules and targets, in what was the fifth year of implementation of the fiscal responsibility legislation. Figure 1.1 highlights the chronology of events in Grenada in 2020. This Chapter draws on available data and information to report on the extraordinary macroeconomic developments which restricted Grenada's progress towards compliance with the rules and targets in the FRA.

Figure 1.1: Selected Highlights in 2020



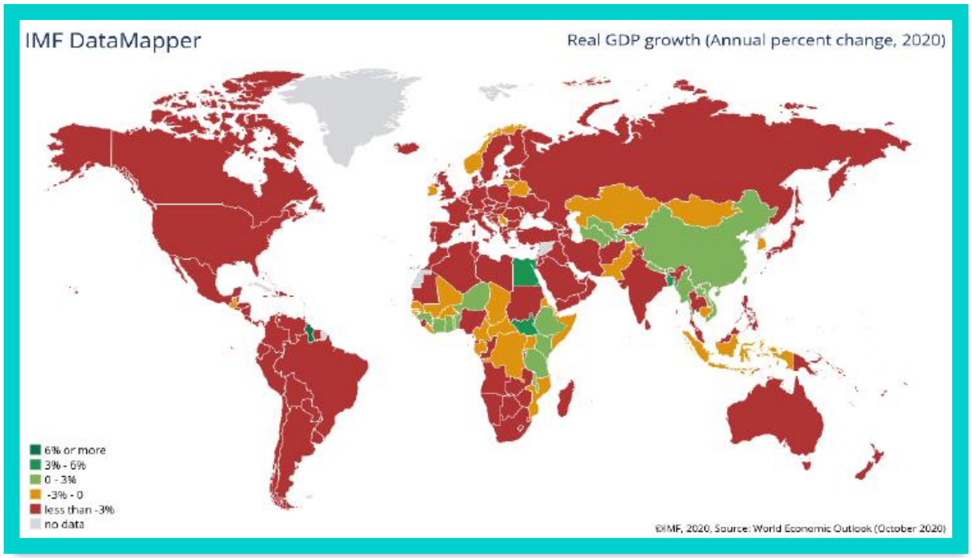
Sources: Statutory Rules and Orders No. 23 of 2020 and Supplementary Appropriation Act No. 1 of 2020, World Health Organisation (WHO).

[4] Original forecast sourced from the 2020 Budget Statement, Budget Framework Paper: 2020, and Medium - Term Fiscal Framework: 2020 – 2022.

External Developments

Covid-19 led to a worldwide recession, meaning that the majority of economies across the globe experienced two consecutive quarters of decline in 2020. Most economies across the world experienced an annual contraction of more than 3.0%. This is illustrated by the areas shaded in red in Figure 1.2. Overall, the global economy is estimated to have contracted by 3.5 % in 2020 (IMF World Economic Outlook Update January 2021). All major trading partners of Grenada experienced declines, namely the USA (-3.4 %), UK (-10.0 %), Canada (-5.5 %), and the Euro Area (-7.2 %).

Figure 1.2: Worldwide Changes in Real GDP in 2020



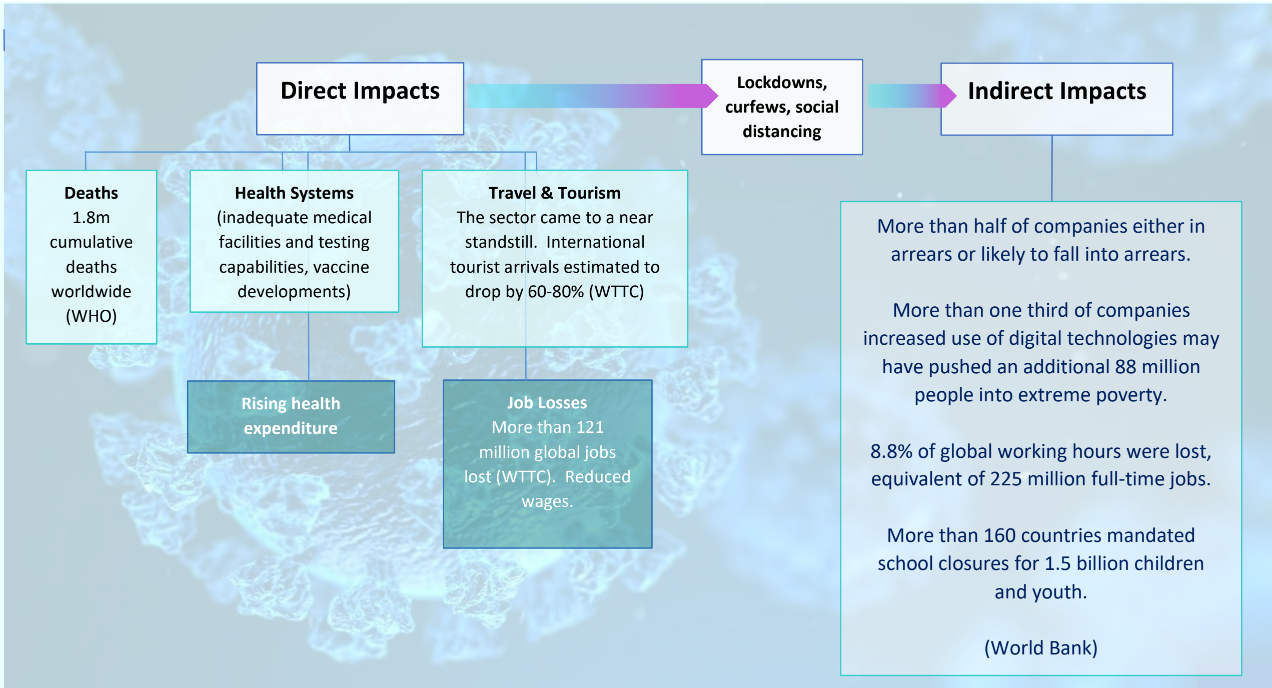
Source: IMF World Economic Outlook (October 2020)

The Eastern Caribbean Currency Union, of which Grenada is a member country, recorded an estimated contraction of 16.2% (ECCB[5]). Another regional organization, the Caribbean Development Bank, reported an average rate of economic decline of 12.8 % among its nineteen (19) borrowing member countries[6].

[5] Source: https://www.eccb-centralbank.org/statistics/dashboard-datas/. Data retrieved 10 March 2021.
[6] Source: https://www.caribank.org/newsroom/news-and-events/cdb-projects-return-economic-growth-2021

The recession was accompanied by both challenges and opportunities. On the upside, global commodity prices, particularly for oil, were lower and there was acceleration in digital transformation leading to productivity and efficiency benefits. On the downside, there were worldwide increases in unemployment, public debt burdens, poverty, and inequality. There were renewed concerns about rising food insecurity and lower inflows of remittances. Disruptions in the global supply chain impacted trade, businesses activity and consumption. Some of the direct and indirect effects of the pandemic on the world during 2020 are highlighted in Figure 1.3.

Figure 1.3: Major Impacts of the Pandemic on the World during 2020



Adapted from United Nations ECLAC and the Eastern Caribbean Central Bank.

Sources: World Health Organisation (WHO), World Travel & Tourism Council (WTTC), World Bank (WB)

Domestic Developments

It was totally unexpected that a public health pandemic in 2020 would have broken Grenada's track record of successive years of economic growth. Commendably, the Authorities were visionary for having included an Escape Clause in the FRA which could be triggered by a declaration of a state of emergency from a public health epidemic. In essence, a major public health issue had always been considered by the Authorities as a potential downside risk not only to growth but also towards meeting the fiscal rules and targets of the FRA.

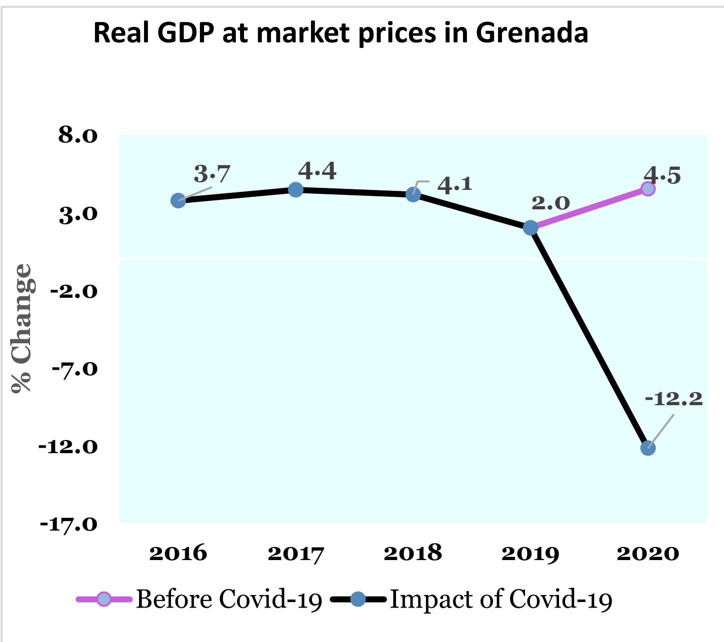
As the Covid-19 epidemic evolved into a pandemic in 2020, Grenada experienced rising challenges in the real sector, more significantly a double-digit decline estimated at 12.2 %. This was the deepest fall, based on the historical records of real GDP from 1988. The Authorities should be commended for the measures taken to ensure that the number of confirmed Covid-19 cases was contained at 130 confirmed cases and 1 death for the year[7]. Fiscal savings and external funding were mobilised from the World Bank (IDA) and IMF (Rapid Credit Facility) during 2020 to finance safety nets to jump start the economic recovery. Progress made since the 2014-2016 Homegrown Structural Adjustment Programme and the FRA, placed Grenada in a better position to deal with the shock of the pandemic.

While real economic activity declined, inflationary pressures eased and unemployment rose in Grenada. With the loss of almost 14,000 jobs due to the sudden drastic decline in tourism activity, the unemployment rate rose to 28.4% in the second quarter of 2020, from 15.6% in the third quarter of 2019. A comparison of the trade data for the first half of 2020 (the latest period for which data is available) relative to the first half of 2019, showed: (i) the value of imports decreased by 20.2% to $506m due to volume or value changes in the importation of commodities, machinery & transport equipment, mineral

[7] Source: https://covid19.who.int//region/amro/country/gd

fuel and lubricants; and (ii) the value of total exports fell by 55.3% to $21.2m reflecting declines in agriculture and manufacturing exports. Figures 1.4 to 1.6 provide an overview of the key setbacks in the real economy of Grenada due to Covid-19.

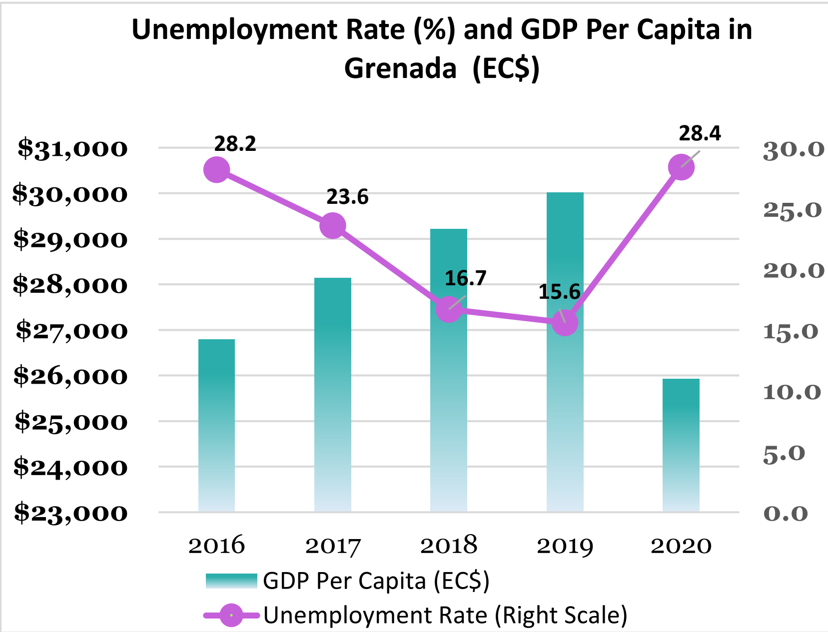
Figure 1.4: Impact of Covid-19 on Growth in Grenada



- Depressed tourism activity with knock-on effects on other sectors
- Delays in construction & investment projects
- SGU ceased face-to-face classes until further notice
- Trade disruptions affected agriculture & manufacturing
- Reduced consumption due to lockdowns, curfews and protocols

Sources: Government of Grenada Medium-Term Fiscal Framework: 2020 – 2022, 2020 Economic Review & Medium-Term Outlook and 2021 Budget Statement.

Figure 1.5: Impact of Covid-19 on Employment and Income in Grenada

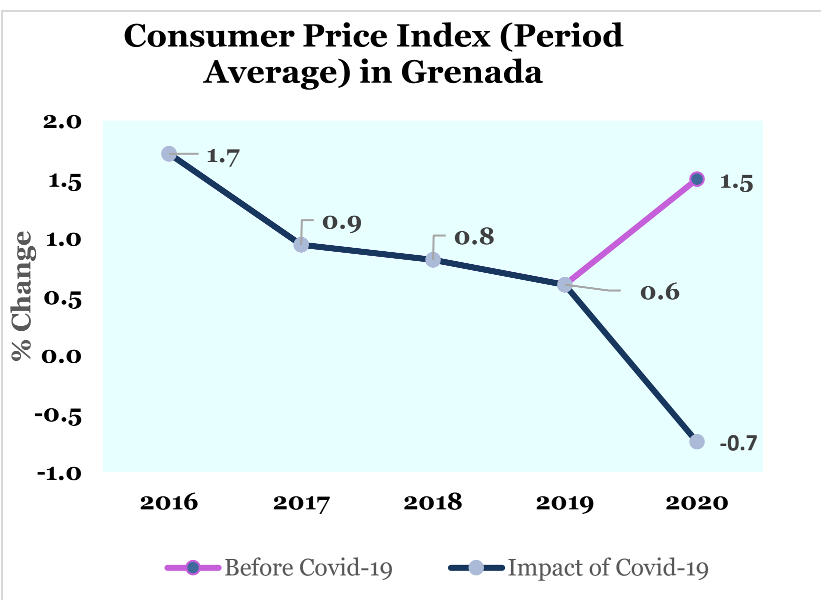


Unemployment Rate (%) – Quarter 3 each year, except for 2020 which is Quarter 2.

- 14,000 jobs lost in the second quarter of 2020
- Women and youth are likely to have been more impacted
- Losses of income
- Persons could not sustain themselves and their families

Jobs

Figure 1.6: Impact of Covid-19 on Prices and trade in Grenada



Sources: Government of Grenada Medium-Term Fiscal Framework: 2020 – 2022, 2020 Economic Review & Medium-Term Outlook and 2021 Budget Statement.

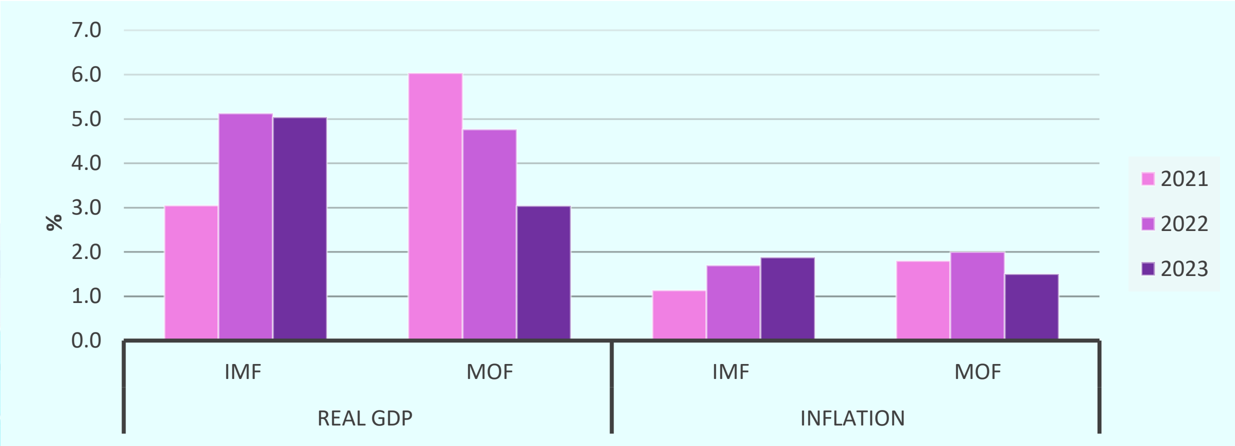
- Local fuel prices fell with decline in international oil prices
- Food prices rose largely due disruption in global supply
- Lower trade deficit
- Reduction in value of both exports and imports

Inflation and Trade

Assessment of Real Sector[8] Forecasts

In the 2020 Economic Review & Medium-Term Outlook, economic growth is projected at an average rate of 4.6% during 2021-2023. This differs slightly from the IMF which predicts average growth of 4.4%. Of note, the Authorities predict a sharp recovery of 6.0% in 2021, and a deceleration in growth to 4.8% and 3.0% in 2022 and 2023 respectively. The IMF, however, predicts a softer recovery of 3.0% in 2021, an accelerated uptake in 2023 of 5.1 %, and stabilization to 5.0 % in 2023 (Figure 1.7). The Authorities based their medium-term growth forecasts on the view that there would be no additional lockdowns at home; the mass resumption of face-to-face classes for SGU students; increasing commercial activity, especially construction and agriculture; good weather[9]; and a worldwide economic recovery.

<u>Figure 1.7: Growth and Inflation Forecasts for Grenada</u>



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

[8] The real economy concerns the production, purchase and flow of goods and services (like oil, bread and labour) within an economy. It is contrasted with the financial economy, which concerns the aspects of the economy that deal purely in transactions of money and other financial assets, which represent ownership or claims to ownership of real sector goods and services.
[9] Absence of catastrophic weather events, such as floods and hurricanes.

The medium-term forecasts for inflation are generally similar, except that those of the IMF have less fluctuation and an increasing trend throughout the years. Like the growth projection, the inflation projections are highly uncertain and depend on global developments.

The FROC assesses that 6.0% growth for 2021 is optimistic, and the local economy needs additional policy support and effective immunization to make this a reality. There are a number of reasons why the FROC is cautiously optimistic. Firstly, vaccination of more than 50.0% of the population may take until the third quarter of the year, which could perhaps delay the economic recovery. Secondly, rising infections in 2021 can lead to curfews and protocols being reintroduced this year, which would see a softer recovery. Thirdly, a mass resumption of face-to-face classes for SGU students will not take place until August 2021, thus delaying the resumption of local activity that heavily relies on the presence of the students. Fourthly, tourism will be affected by re-emerging and new restrictions on travelers. Various forecasts indicate that a recovery in global tourism will take place during 2023-2024.[10] Moreover, there is much uncertainty surrounding the IMF's forecast for the global economy to grow by 5.5 %[11], and much will depend on the pace of global containment of the virus, as well as effective policy actions and immunizations across the world.

Risks to the Growth Outlook for Grenada

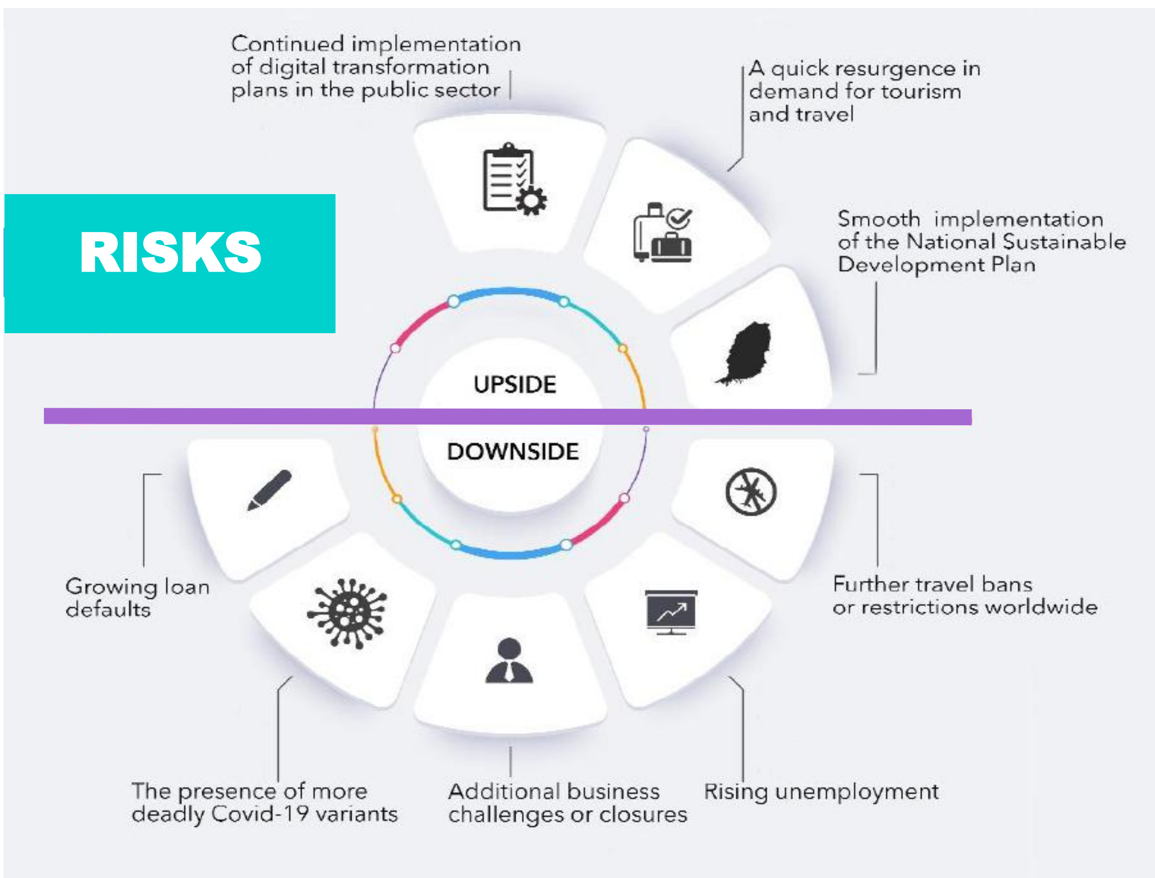
The Economic Review & Medium-Term Outlook suggests that domestic economic output would be close to its pre-Covid-19 (2019) level by the end of 2022. There are several factors that could hinder or lift this expected outcome – some factors are peculiar to Grenada.

[10] IATA, Oxford Economics, UNWTO, WTTC, Mc Kinsey &Company
[11] https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

The key ones are listed below and others are highlighted in Figure 1.8.

- A delayed global economic recovery;
- Continued low rate of implementation of the PSIP;
- Additional deferments by SGU of on campus learning;
- Adverse weather including an active hurricane season; and
- Unplanned or unbudgeted spending or contingent liabilities that can reallocate spending from required growth enhancing reforms.

Figure 1.8: Upside and Downside Risks to Medium-Term Growth



Conclusion

The pandemic brought challenges and opportunities to Grenada during the year under review. The country should leverage the upside risks such as digital transformation and seek opportunities to diversify the economy. It is important that Grenada examines the future of trade and tourism while determining how it can diversify and increase its resilience as we enter the post Covid-19 period. See Box 1 for advice on measures to achieve more resilient growth. Stronger and more resilience will help to support fiscal and debt sustainability. Also, fiscal responsibility is crucial in dealing with challenges requiring public sector support for the economy.

Box 1: The Way Forward for Growth in Grenada


Photo Credits: Official Website of the Government of Grenada and the Prime Minister's Facebook Page

Growth and the FRA

The return to the FRA's fiscal rules and targets is linked to the strength of the economic recovery. If real GDP experiences a decline of 2.0% in 2021, this would be a case to request a suspension of the rules, targets and corrective measures under Sections 7 & 8 of the FRA. In fact, if the forecasted 6.0% growth materializes in 2021, then this would mean a cumulative decline in economic growth over the period 202o-2021 of -6.2% (i.e. -12.2% in 2020 + 6.0% in 2021 = -6.2 %). This would be a condition for suspension in 2022, according to Section 10(1) b of the Law. The FRA, in its current form, however, does not allow for this further suspension in 2022. It is therefore important that there is a strong recovery in 2021 and the remainder of the medium term, even greater than highlighted in the Medium-Term Framework. We need to return to a very strong growth-oriented adjustment path in 2022, and beyond, to maintain the credibility of the FRA. Once the economic recovery takes hold in the medium term, the country needs to build greater resilience to shocks and persist with transformation of the economy to achieve sustainable growth in the long term.

Reflections on the Economy

Grenada is heavily reliant on tourism which has been hit hard by the pandemic. The WTTC highlighted that Travel & Tourism contributed 40.5% of total GDP, 42.9% of total employment, and 79.3% of total exports in 2019. Since tourism is unlikely to recover to 2019 levels before 2023, then other economic industries or sectors should be explored to lift growth. Our country's economy is too concentrated in four sectors which were hit hard by the pandemic namely, Education, Real Estate Renting and Business Activities, Transport Storage and Communications, and Construction. These sectors, out of a total of sixteen, accounted for about 54.6% of total GDP in 2020.

Way Forward

Diversification of the economy must be a priority. The 2021 Budget focused mainly on large private sector tourism projects, and there was not enough indication of measures to diversify income and growth, given the impact of COVID-19 on the tourism and travel industry. Due to the uncertainty in tourism, the Government should consider the following to secure medium term growth and build long term competitiveness:

- Strengthening the enabling policy environment for Agriculture, Manufacturing and Fishing;
- Jumpstarting investments in Healthcare, ICT, CBI and Agriculture to create jobs and resilience;
- Examining the future of Travel & Tourism and how we can adapt;
- Accelerating the PSIP as planned;
- Strengthening support for vital tourism related business to adapt and navigate;
- Continuing exploration of alternative energy like geothermal and solar power;
- Quickening transformation in the public sector, and provide the enabling environment for adaptation to ICT in the private sector;
- Promoting innovation and entrepreneurship among the youth to boost their self-employment; and
- Continuing to improve data and further use it to inform policy.

CHAPTER 2: THE FISCAL AND DEBT CONTEXT

Key Messages

KEY MESSAGES

Unprecedented circumstances from the Covid-19 pandemic, allowed for a suspension of the fiscal rules, targets and corrective measures under Sections 7 and 8 of the FRA for 2020. The suspension enabled the Government to facilitate a timely response to the economic downturn caused by the pandemic.

Government measures in 2020, though costly, should help to reduce the extent of the economic damage caused by the pandemic, and ultimately lead to economic recovery in 2021 which is essential for fiscal and debt sustainability.

Efficient public finance management systems are criticial in shaping improved fiscal and debt outcomes in the medium term. Otherwise, the Government could face significant challenges in the medium term even if the economy grows in 2021.

Public sector finances remain under-reported, and the comprehensive data requirements of the FRA are still not being met. Data limitations precludes comprehensive assessments by the FROC of outturns, the impact of fiscal policy, and potential risks.

Introduction

At the beginning of 2020, Grenada's economy was in relatively good standing to deal with a shock. The inbuilt mechanism of the FRA, which encourages savings and prudent fiscal and debt management, helps in undertaking counter fiscal policy (e.g. undertake additional expenditure and provide tax relief) during an economic downturn. By March 2020, the Government launched an Economic Stimulus Plan to deal with the economic hardships brought on by the Covid-19 pandemic. By April 2020, a Supplementary Budget, with an accompanying Statement of Compliance, was passed to activate this Plan.

GOVERNMENT OF GRENADA
COVID - 19 Emergency Economic Stimulus Plan

A Supplementary Budget, not exceeding the sum of $50m in current expenditure, was approved by Parliament to facilitate the rollout of a Covid-19 Economic Stimulus Package

This Chapter reflects on the circumstances related to these events, and more broadly speaks to the fiscal and debt developments during the year. It draws on the macroeconomic context provided in Chapter 1 to assess the medium-term forecasts, fiscal stance, and debt strategy for Grenada. Potential challenges are also highlighted towards the end of the Chapter.

Of note, the fiscal and debt data reported in this Chapter is not fully comprehensive. Complete data is available and reported on the revenue, expenditure and debt of Central Government for 2020 and preceding years. Complete fiscal and debt data, however, is unavailable for the fifteen (15) covered public entities (Appendix VII). Therefore, the fiscal and debt outturns reported in this Chapter are for Central Government only, and could be a serious underestimation of the entire operations of the public sector in 2020. Furthermore, the limited coverage of public sector data narrows the scope of the analyses presented in this Chapter. The limited data and information on these entities prevents a comprehensive assessment of the potential fiscal risks and contingent liabilities that they may pose to the Central Government in the medium term.

Fiscal and debt performance in 2020

Grenada's five-year record of solid primary fiscal surpluses and declining public debt was broken by the end of 2020. The Covid-19 pandemic, which began affecting the country during the first quarter of the year, negatively impacted Central Government's fiscal performance through both expenditure and revenue, consequently leading to a primary deficit and driving up the level of debt. The domestic and international measures to contain the spread of the virus (including curfews and lockdowns) as well as those to support and stimulate the domestic economy, weighed on public finances. Figures 2.1 to 2.3 show the key developments in 2020 relating to Grenada's Central Government expenditure, revenue, and debt. Specifically, Table 2.1 shows the divergence of the Central Government's fiscal and debt performance from the fiscal rules and targets under Sections 7 and 8 of the FRA.

<u>Figure 2.1: Expenditure Highlights in 2020</u>

Actual current expenditure was $27.1m more than 2019, due mainly to higher transfers and wage bill. This expenditure was $16.8m more than budgeted especially because actual payments were higher than budgeted for transfers and goods & services.

Year-on-year, there were reductions in interest payments ($4.8m) and goods & services ($1.2m). Interest payments were below the budgeted amount by $11.1m while goods & services was $10.2m above the budgeted amount.

Actual capital expenditure was $184.2m above the level spent in 2019, and $44.6m more than budgeted, largely due to the purchase of the Grenlec shares.

Figure 2.2: Revenue Highlights in 2020

- Tax revenue was $95.8m less than 2019, and $105.8m lower than budgeted, primarily reflecting lower collection in taxes on international trade transactions.
- Non-tax revenue was up by $7.4m compared to 2019, and $9.2m above budgeted, supported by higher CBI receipts.
- Year-on-year increases recorded in both capital grants spent ($9.1m) and budgetary grants received ($0.5m). The amount of capital grants spent was $117.0m less than budgeted, reflecting delays in executing the public sector investment programme.

Figure 2.3: Debt Highlights in 2020

Estimate of Public Sector Debt in 2020 ($2,501.4m)

Central Government Debt
($1,988.5m)

Debt and Contingent Liabilities of SOEs and SBs
(complete data unavailable; partial SOE debt data available amounting to $140.8m at the end of Quarter 3 2020)

Sums necessary to defray expenses in connection with contingent liabilities (FRA Section 8(1))
(data unavailable)

Petro Caribe Debt
($372.1m)

The MOF's Quarter 4 Public Debt Bulletin

"At the end of Quarter 3 2020, with the exception of two (2) SOEs, the total debt stock of SOEs was $512.9m (18.2% of GDP). This is inclusive of the debt obligations of Petro Caribe which is $372.1m"

Includes new disbursements from the World Bank's IDA, the IMF and CDB.

Table 2.1: Estimated Deviations of Central Government's Operations from the Fiscal Rules and Targets in 2020

FRA RULES	FRA TARGETS	2019	2020
Section 8(1) – Public Sector Debt to GDP ratio **(with Petro Caribe Debt)** ***(without Petro Caribe Debt)***	**Not to exceed 55%**	 **69.1%** ***57.7%***	 **83.5%** ***70.4%***
Section 8(2) – Public- Private Partnership (PPP) contingent liabilities	Not to exceed 5% of GDP	0%	0%
Section 7(3) - Wage Bill to GDP ratio	**Not to exceed 9%**	**7.7%**	**9.3%**
Section 7(1)(a) - Rate of growth of primary expenditure	Not to exceed 2% in real terms	1.9%	35.5%
Sub-Section 8(3) – Primary Balance	**Not less than 3.5% of GDP**	**6.8%**	**-2.5%**

Source: MPU, Ministry of Finance Grenada; Data received in February 2021.

The fiscal stance for 2020

The fiscal stance for 2020 was dominated by efforts to contain the impact of the pandemic. The Government rolled out fourteen (14) strategies in the Economic Stimulus Plan comprising payroll support especially for hospitality workers; business loan facilities; unemployment benefits; deferred tax payments; business incentives; loan moratoria; an electricity subsidy; and stimulus measures in agriculture and through public investment. The Plan intended to provide at least $42m worth of support. Some of the strategies were not costed, as a few cannot be easily quantified, but those involving tax deferments did not specify revenue forgone/losses.

Specifically, the expansionary fiscal stance involved tax relief as well as actual expenditure being above the budget on items such as transfers, and goods & services. Additionally, one-off expenditure would have also been associated with the purchase of Grenlec shares.

The relaxation of fiscal rules and targets in 2020 helped to facilitate a timely response to the Covid-19 pandemic by the Government. The FROC welcomed the use of the Supplementary Budget in 2020, and the accompanying Statement of Compliance, to cope with additional costs brought on by Covid-19. The public sector support, was substantial and warranted in order to contain adverse effects on lives and livelihoods (Figure 2.4).

Figure 2.4: Findings of the FROC on the Covid-19 Support Measures

1. Public sector support has been large and warranted.
2. Greater targeting and proper timing of the end of support measures could help to achieve better outcomes
3. Further investments needed in the labour market, health and agriculture to promote growth and development.

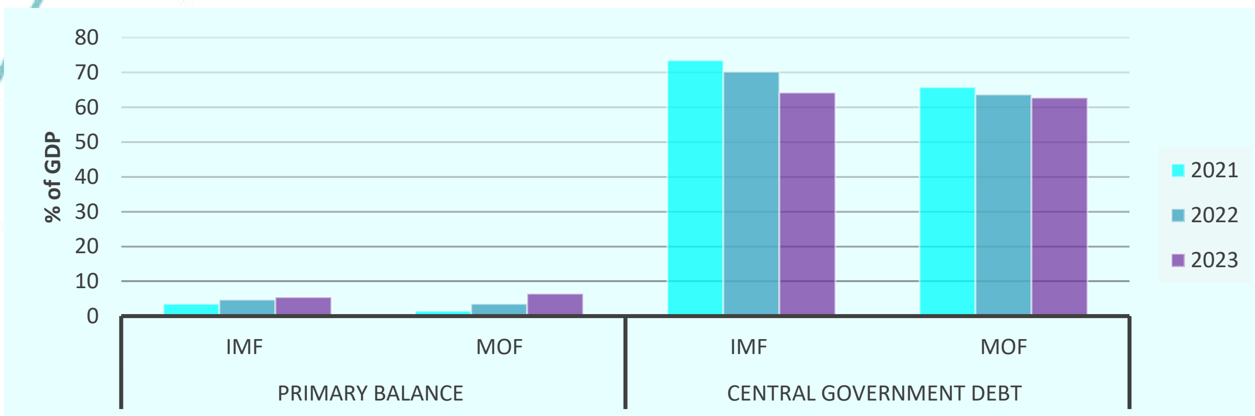
Assessment of medium-term (2021-2023) fiscal and debt forecasts

The fiscal and debt forecasts presented in the Medium-Term Framework of November 2020 generally have a similar trend with the IMF projections of October 2020 (Figure 2.5)[12]. Over the medium term, the primary balance to GDP ratio is expected to gradually improve, leading to projected declines in the Central Government debt to GDP ratios.

[12] These forecasts would always differ because of factors including (i) the date in which each set was prepared and (ii) the GDP assumptions on which each set is based.

The forecasts in the Medium-Term Framework are slightly more optimistic than the IMF. Overall, the FROC is satisfied that the forecasts of the Framework align with that of other well-known regional and international agencies, including the way the Covid-19 shock were factored into the projections.

Figure 2.5: Central Government Primary Balance and Debt Forecasts for Grenada



Sources: Government of Grenada Medium-Term Fiscal Framework: 2021 – 2023 and the IMF's World Economic Outlook Database in October 2020

There are still gaps in the forecasts presented:

1. **The projections, and in general fiscal reporting, need to be more robust and cover the broader public sector.** The Medium-Term Fiscal Framework circumvents and ignores the comprehensive scope or coverage of the FRA, and focuses only on Central Government which could lead to serious underestimation of public finances in the medium term. While the FROC notes existing challenges in improving the data coverage of the public sector, little progress has been achieved in the last four years in overcoming the problem. Efforts should therefore be accelerated to expand debt forecasts to include covered public entities that pose a significant fiscal risk.

2. Given the exceptional uncertainty surrounding the forecasts, **a rich medium-term fiscal framework would contain fiscal scenarios in addition to the debt scenarios presented**. Fiscal scenarios could be based on different assumptions for revenue; the capital expenditure programme; and the wage bill.
3. **More detailed and transparent notes and assumptions need to be set for the three-year budgetary forecasts.** It is difficult to assess how much of spending in 2020 will be temporary, by how much the budgeted rise in levels of public investment in the medium term will drive the economic recovery, and which commitments are unaccounted for in the forecasts.

Assessment of Medium-Term fiscal stance and debt strategy

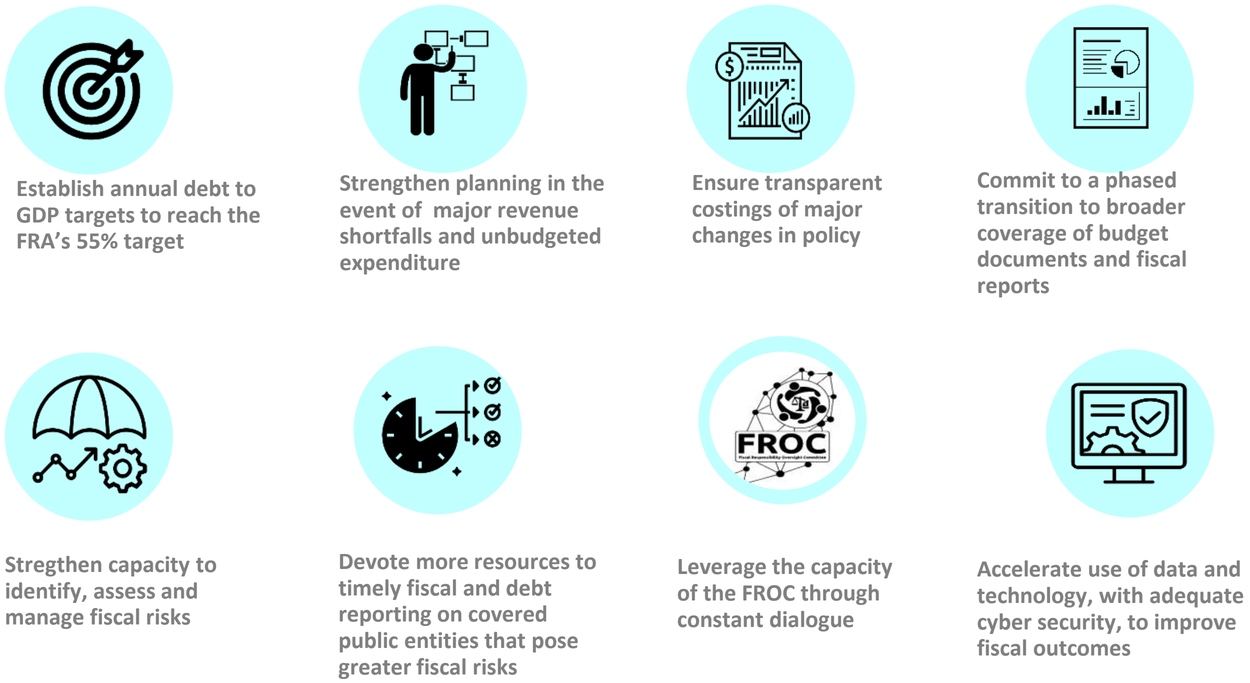
The FROC assessed the Medium-Term Fiscal Strategy as being broadly appropriate. The Strategy seems rightly aligned with the National Sustainable Development Plan (2020-2035) and comprises revenue, expenditure and debt management measures. Also, having studied the Medium-Term Debt Strategy for 2021-2023, the FROC assessed the most feasible option for a debt strategy - meeting Government's financing needs through external concessional debt and the Regional Government Securities Market - as broadly adequate. The fiscal savings over the last five years, along with enhanced practices in public finance management have improved the credibility of fiscal policy in Grenada and helped to increase the availability of external concessional financing. While financing is available, the Government, though, should not encourage any persistent increase in debt in the coming years. There is a need to continue to build buffers to accommodate shocks without having to increase debt in an unsustainable way, or make abrupt fiscal adjustments.

THE FISCAL AND DEBT CONTEXT (CONTINUED)

The Government can deliver more effectively and efficiently on its Fiscal and Debt Strategies if certain factors were acted upon (Figure 2.6). With debt surging in 2020, and substantial pressures to return to the fiscal rules and targets by 2022, there is a need for careful and thorough planning. It is critical to carefully plan how to manage competing fiscal pressures that may arise from any adjustment needs, demands for wage bill increases, climate change, public investment stimulus and digitization. Also, important, is that the other requirements of the FRA be met.

The fiscal rules, targets and corrective measures under Sections 7 and 8 were suspended in 2020 and likewise in 2021. Other Sections of the FRA are still in effect and this means that public finance should be managed in such a way that it is transparent, accountable, and involves prudent management of debt and fiscal risks.

Figure 2.6: Key Considerations Proposed by the FROC



Potential fiscal and debt challenges in the medium term.

The Government could face significant challenges in the medium term even if economic growth returns in 2021. As long as a recovery from Covid-19 is underway, there is a need for fiscal adjustment. While the Fiscal Strategy has ruled out tax increases and the introduction of new taxes, spending reductions, which will be undertaken based on the results of the 2019/2020 Public Expenditure Review, are imminent. Effective and efficient expenditure management and budget execution will thus be critical in the medium term.

There are long standing fiscal and budget challenges. One weakness is in the structure of public finances whereby domestic revenues used to finance the capital programme are dominated by CBI receipts. Volatility in these receipts will impact the predictability of resources to spending programmes in the longer term.

Furthermore, standing commitments have not yet been fully costed such as national health insurance, pension, geothermal energy, and a formal contributory unemployment benefit programme. All of these can contribute to budgetary pressures over the medium to long term. In addition, there is a risk that some of the estimated temporary spending increases in 2020 for example in transfers and goods & services, end up becoming permanent rather than temporary. The Government should clarify how the larger spending items in 2020 (e.g. the purchase of Grenlec shares) will be managed sustainably. The Government has made clear their plans to reduce discretionary spending on goods and services and to streamline transfers. It should also set out how medium-term budgetary plans would be modified if the economic recovery does not take hold by June 2021, and expenditure and/or revenues by then significantly deviate from expectations.

It is worthwhile that medium-term priorities are focused on capital spending, but challenges threaten implementation and value added from public spending. Moreover, further adverse developments with Covid-19 and an active upcoming hurricane season can pose significant downside risks. Public finance management has to be strengthened based on the context of the people and the economy.

Conclusion

The FRA offered the Government flexibility in dealing with the unfolding shock of the public health pandemic. This flexibility allowed the Government to increase spending and contract more debt in 2020. This means that fiscal adjustment is necessary to return to compliance by 2022 which is the maximum time that is provided by the FRA. The FROC reiterates from its 2019 Annual Report that the shock of Covid-19 requires "the regeneration of the home-grown recovery, with internal and external dynamism, innovation across sectors, engagement internally and externally, strong leadership, and shared sacrifices". Fiscal responsibility, debt management as well as fiscal and debt transparency are also of paramount importance. Lessons from the fiscal adjustment under the HSAP should guide fiscal policy in the medium term. Additionally, any fiscal structural reforms under the HSAP which have not been completely implemented, and are deemed appropriate, should be steadfastly pursued.

CHAPTER 3: OUTCOMES AND IMPLICATIONS OF THE IMPLEMENTATION OF THE ACT

Key Messages

1. In the medium term (2021-2023) it will be essential for the Government to find the right balance between (i) remaining committed to the FRA; and (ii) continuing to support, stimulate and develop the economy.

2. In a state of Emergency, the Government can invoke the Escape Clause, which grants flexibility to temporarily depart from compliance with fiscal rules and budgetary targets.

3. The FRA mandates a return to fiscal rules and targets in 2022, and the Central Government plans to be in compliance then by undertaking fiscal adjustment.

4. This recent test of the Escape Clause in action, presents the opportunity to amend the legislation to ensure it is more practical, and effective.

Introduction

It is no easy task for the Government to implement the FRA amid the unfolding macro-economic and fiscal challenges posed by the Covid-19 pandemic. Chapter 1 highlighted that unlike the first four years when the FRA came into effect (2016-2019), the year 2020 was exceptional. 2020 called for implementing the fiscal responsibility legislation during "bad economic times" with declines in economic growth and income as well as rising unemployment. Outcomes in 2020 included fiscal and debt performances which diverged from the fiscal rules and targets. The Escape Clause was activated, with a plan to return to compliance by the end of 2022. In the medium term (2021-2023) it will be essential for the Government to find the right balance between (i) remaining committed to the FRA; and (ii) continuing to support, stimulate, and develop the economy.

In light of these developments, it is important for the FROC as an 'independent' watchdog to help maintain the credibility of the country's fiscal responsibility framework. This Chapter uses available information, to ascertain whether legal procedures were followed in 2020 for the activation and implementation of the Escape Clause. It takes stock of progress to return to the fiscal rules and targets, provides considerations for the next years, and highlights potential challenges and opportunities that could be experienced or leveraged in further implementation of the Act.

Assessment of the activation of the Escape Clause

The Covid-19 pandemic has been a major shock for all global economies, and Grenada is no exception. In cases of emergencies, like a pandemic, natural disaster or war, a country's legislation can trigger a State of Emergency to be declared. This State of Emergency allows governments to invoke special legislation, known as the Escape Clause, which grants the government flexibility to temporarily depart from its compliance with fiscal rules and budgetary targets. This allows the country to withstand the economic shock by taking the necessary measures to address the emergency, sustain the economy and prepare for economic recovery at the same time.

Grenada's Escape Clause is embodied in Section 10 of the FRA. The Escape Clause states that the Minister of Finance may suspend the fiscal rules, targets and corrective measures outlined in Sections 7 and 8 of the Act if he determines that compliance would be unduly harmful to the public finances and macroeconomic or financial stability and if one of the following events occurs:

(i) "a natural disaster, public health epidemic or war as a result of which a State of Emergency has been declared by the Governor General pursuant to Section 17(1) of the Constitution;

(ii) real GDP experiences a decline of two percent in a given fiscal year or a cumulative decline equal to or greater than three percent over two consecutive fiscal years;

(iii) The Eastern Caribbean Central Bank has certified in writing that a financial sector crisis has occurred, or is imminent, and the Minister estimates that the fiscal costs of such a crisis, including the costs of any related recapitalization of banks by the Government after all possible private sector solutions have been explored, is likely to equate or exceed four percent of GDP."

Initially, the Escape Clause can be triggered for one fiscal year, as mandated by Section 10(1) of the Act. However, the Act under Section 10(7) allows that the Minister may extend for another fiscal year, if he determines that resumption to fiscal norms would still be harmful to the country's economy.

The FRA Section 10(2) and (3) then sets out a specific process for the Minister to comply with the Escape Clause requirements. The draft Order must be accompanied by a Memorandum that explains why the implementation of the fiscal rules and targets would be harmful to the public finances, macroeconomic or financial stability and sets out the estimates for expenditure or wages for the period, and the implications for the current and subsequent fiscal years. The draft order must be approved by the Cabinet and laid before Parliament and subject to the negative resolution of Parliament.

In addition, the FRA Section 10(4) further requires the Minister to immediately prepare and lay before Parliament for approval a Recovery Plan Memorandum, which outlines how the country will return to fiscal compliance. The Minister is mandated to implement the measures approved by Parliament in the Recovery Plan Memorandum to ensure return to full compliance. If the Minister determines that country is unable to return to compliance of the fiscal rules under FRA Sections 7 and 8 at the expiration of the year, then the Minister may make a second Order to extend the period for another fiscal year. The second draft order is required to be accompanied by a Memorandum (pursuant to (FRA Section 3), and further that it be subject to the affirmative resolution of Parliament (FRA Section 8).

In assessing the Government's compliance, it is the FROC's position that relating to initiating the Escape Clause, there was compliance. Pursuant to her powers under the Constitution of Grenada, the Governor-General of Grenada declared a State of Emergency on 30th March, 2020. This fulfilled the criteria to trigger the Escape Clause, as the State of Emergency was declared as a result of a public health epidemic, thus fulfilling the requirement under FRA Section 10 (1)(a). The Fiscal Responsibility (Suspension of Section 7 and 8) (SRO No. 23 of 2020) was passed in Parliament on the 10th day of April 2020 and published in the Government Gazette on 21st April, 2020. The Order cites the "state of emergency declared by the Governor General" as the reason for the Suspension Order in response to the confirmation of the cases of Coronavirus disease (Covid-19) in the State of Grenada.

As regards the requirement of the Memorandum to accompany the Order, the FROC confirms partial compliance. As required by the FRA, the said Memorandum accompanied the draft Order and was appropriately laid before Parliament. From the information presented to the FROC, the Memorandum outlined that two of the criteria required for invoking the Escape Clause were met: "(i) a State of Emergency was declared by the Governor General on 30th March, 2020 and; (ii) GDP is preliminary estimated to contract by 12.9% in 2020." It is the position of the FROC that only this first criterion was fulfilled. The FROC notes that criteria (b) of the legislation specifically requires a real GDP decline of 2% in a given fiscal year or a cumulative decline equal to or greater than 3% over two consecutive years. In light of the wording of the legislation, this would be an ex-post rather than an ex-ante criterion. In other words, the event of real GDP would have had to occur in order to trigger the suspension. The FROC recommends a review of the wording of this section for clarity and practicality.

In addition, FRA 10(3) specifically sets out what should be included in the Memorandum, being :-

(a) the manner in which the implementation of the fiscal rules or targets would be harmful to the public finances, macroeconomics or financial stability; and

(b) the estimated levels of expenditure or wages for the period as a result of the relevant circumstances under subsection (1) and the implications for the current fiscal year.

The Memorandum reveals that the “economic impact of Covid-19 is broad based, and that the main “assumptions for the pronounced decline in GDP estimated for 2020 are; a 50% decline in Tourism value added; 20% reduction in private education, 15% decrease in private construction activity as well as wholesale and retail trade. It further explains that “three of the four fiscal rules were estimated to be breached, while Public debt-to-GDP ratio is expected to deviate from its target.”

The FROC’s position is that the Memorandum did not specifically address the criteria outlined in the FRA. Regarding criteria (a), the Act requires that the Memorandum show how the implementation of fiscal rules etc. would be harmful to the public finances, macroeconomic or financial stability. The Memorandum does not specifically do so. It does forecast a decrease in economic activity and focuses on breaches – that three of the four fiscal rules were estimated to be breached, and that the Public debt-to-GDP ratio is expected to deviate from its target.

Regarding (b) the Memorandum did lay out the estimated levels of expenditure on wages for the periods 2021 & 2022, but not for 2020. The FROC notes that the amounts provided for estimated wage expenditure in 2021 and 2022 relate only to Central Government, and does not extend to covered public entities as the legislation would require. The FROC also noted that the wage to GDP ratio was provided for 2020, and not the nominal amount of the wage expenditure.

Regarding the requirement to address the implications of the estimated expenditure on the current and subsequent fiscal year, the Memorandum does make some reasonable assumptions that " (i) GDP growth will rebound in 2021 underpinned mainly by a pickup in construction activity as well as wholesale and retail trade and a return of activity at SGU, with the related positive spinoffs on ancillary services; (ii) modest increase in total revenue, consistent with the projected positive GDP growth; and (iii) restrained expenditure growth particularly in current transfers."

It is the FROC's position that the Memorandum, though not fully compliant based on the information provided, embraces the spirit of the legislation and justifiably supports the appropriate action, invoking the Escape Clause, based on the State of Emergency and based on the fact that as a result of the pandemic, the Government needed to cushion the economic impact, relax the fiscal rules and implement a plan for recovery of the economy. However, it is important that there is stricter compliance to the letter of the law. The FROC does recognize however, that there are sections of the law that are not practical, having tested the legislation, and it would be recommended to amend the legislation.

The requirement that a Recovery Plan Memorandum be "immediately" prepared and laid before Parliament for approval did not specifically meet the statutory requirement, as the Recovery Plan Memorandum was not immediately prepared, but presented as part of the 2021 Budget on December 3, 2020, to be tabled at a later date. It is the position of the FROC that this part of the legislation is not practical enough, and should be reviewed for re-drafting.

Considering that in a State of Emergency warranting this suspension order, the situation could at first be very uncertain, thus, immediate or early projections could be speculative or useless. A period of time should be factored in the legislation for information gathering, and assessment in order to put an effective Recovery Plan in place. It is the position of the FROC that the legislation should be amended to offer a more specific and realistic timeline for the preparation of the Recovery Plan Memorandum.

The FRA Section 10(5) further requires that the Recovery Plan Memorandum shall "set out the measures proposed to secure compliance with the fiscal rule, target or corrective measure at the expiration of the period". The Recovery Plan Memorandum adequately outlined (1) Measures to support positive GDP growth in the medium term; (2) Measures to restrict growth in discretionary recurrent expenditure and improve the strategic prioritization of capital expenditure; and Return to Fiscal Rules. The measures include sustainable growth, increasing revenue, decreasing discretionary current expenditure, improving capital expenditure and improving debt management. Some of the important growth and revenue-focused areas include the re-opening of the tourism sector and St. Georges University, expansion in agriculture and construction projects, improved tax collection, and CBI development.

Table 3.1 provides a summary of the FROC's assessment of the activation and implementation of the Escape Clause in 2020.

Table 3.1: Assessment of the Activation and Implementation of the Escape Clause in 2020

Requirement of the FRA	Actual Developments	FROC's Assessment
Sections 10 (1) - Reason(s) given Parliamentary approval for activating the Clause. **Sections 10 (1) - Reason(s) given Parliamentary approval for activating the Clause.** **a. A natural disaster, public, health epidemic or war as a result of which a state of emergency has been declared by the Governor -General.** **b. real GDP experiences a decline of two percent in a given fiscal year or a cumulative decline equal to or greater than three percent over two consecutive fiscal years.** **c. the Eastern Caribbean Central Bank has certified that a financial sector crisis has occurred or is imminent and the Minister estimates that the fiscal costs of such crisis, equate(s) or exceed(s) four percent GDP.**	The Escape Clause was initiated by Parliamentary Order. According to rationale provided by the Ministry of Finance, in "a Memorandum that accompanied a Resolution to Parliament to enable the Escape Clause, "two of the criteria required for invoking the Escape Clause have been met:" namely the Escape Clause activation and GDP is preliminarily estimated to contract by 12.9% in 2020.	The Escape Clause was properly invoked. Only one criteria needs to be satisfied for activation of the Escape Clause, and only one was satisfied, that being, FRA 10(1)(a) that a "public heath epidemic" resulted in a "state of emergency" being "declared by the Governor-General."

Table 3.1: Assessment of the Activation and Implementation of the Escape Clause in 2020 (continued)

Requirement of the FRA	Actual Developments	FROC's Assessment
Sections 10 (3) - A memo must accompany the Suspension Order, and it should contain the required content (i.e. information about implementation of the rules and targets being harmful, estimated levels of expenditure or wages and implications for the current and subsequent fiscal years)	The Memorandum accompanied the Suspension Order, forecasting a decrease in economic activity, outlining that three of the four fiscal rules were estimated to be breached, and that the Public debt-to-GDP ratio is expected to deviate from its target.	The requirement that the Memorandum accompany the Suspension Order was partially complied, for though it did accompany the Order, it did not comply with all the requirements for the criteria to be included in the Memorandum – namely, to show why compliance with the rules would be harmful to the economy. The Memorandum did lay out the estimated levels of expenditure on wages for the periods 2021 & 2022, but not for 2020
Sections 10 (4), (5) – A Recovery Plan Memorandum must be immediately prepared and laid before Parliament, and it should contain certain content (i.e. size and nature of corrective measures to secure compliance at the expiration of the period for which Parliament approves suspension).	The Recovery Plan Memorandum was prepared in November 2020 and presented as a part of the 2021 Budget and to be tabled at a later date. The Recovery Plan Memorandum included 1) Measures to support positive GDP growth in the medium term; (2) Measures to restrict growth in discretionary recurrent expenditure and improve the strategic prioritization of capital expenditure; and Return to Fiscal Rules.	It is the position of the FROC that this part of the legislation is not practical enough, and should be reviewed for re-drafting. There needs to be more time allocated to preparing the Recovery Plan Memorandum. While the time requirement was not met, the substantive requirements of the Recovery Plan Memorandum were sufficiently met.

Return to the Fiscal Rules and Targets

"MR. SPEAKER, ONCE THE RECOVERY TAKES HOLD, GOVERNMENT WILL RETURN TO THE RULES AND TARGETS UNDER THE FRL. WE ANTICIPATE THAT THIS WILL HAPPEN IN 2022."

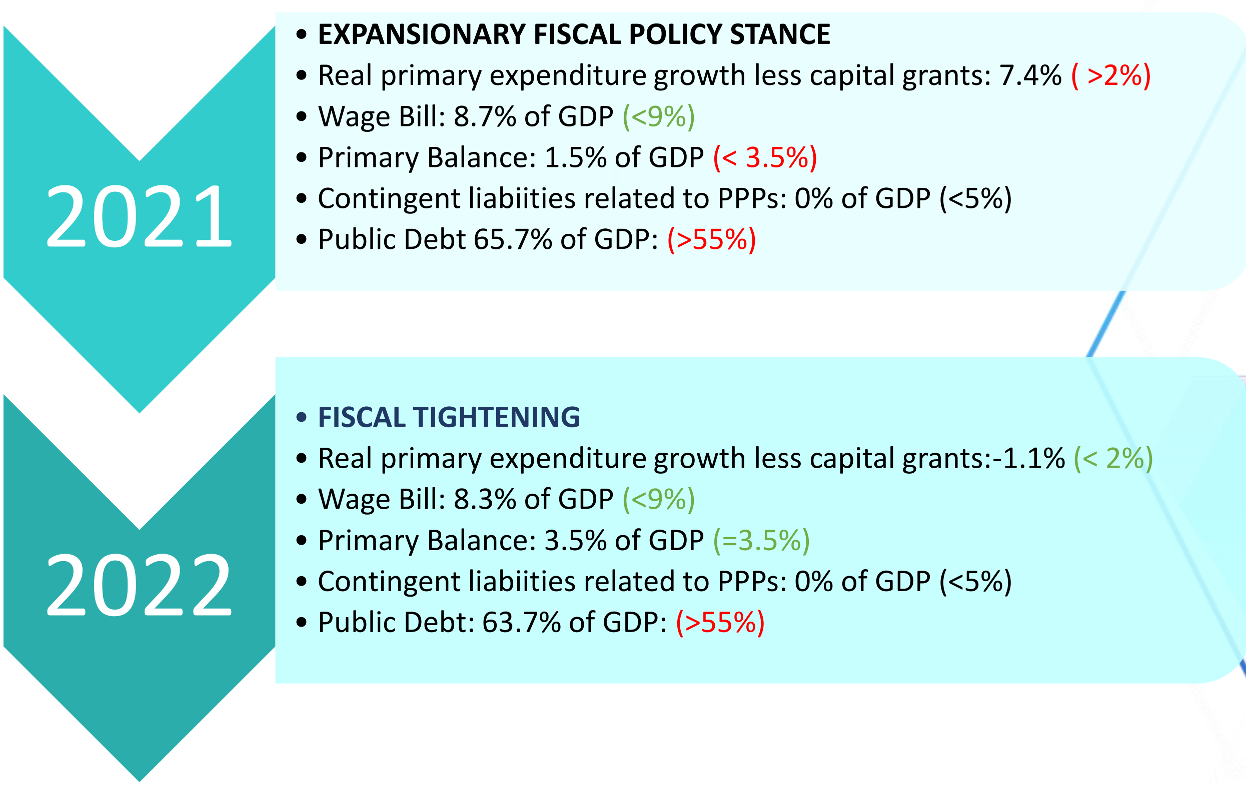
THE BUDGET STATEMENT 2021

The 2021 Budget Statement indicated that the suspension of the rules, targets and corrective measures under Sections 7 and 8 of the FRA would last until the end of the fiscal year 2021. In 2021, the fiscal policy stance will generally be expansionary, geared at stimulating aggregate demand and reviving the economy to achieve growth of 6.0%. In other words, the public sector is targeted to be a major driver of economic growth. The Government will finance some of the expansion through accumulated savings, particularly from the NTF. Most of the remaining financing needs will be met from external concessional loans and from securities on the RGSM, according to the Medium-Term Debt Management Strategy for 2021-2023. The trade-off in a Government led stimulus is therefore rising debt. The Authorities should ensure that additional stimulus in 2021 be of the right form, size, targeted, and timely. Equally important is that the private sector and civil society play an even more active role in achieving growth in 2021, to support the efforts of the Government.

In light of the expansionary fiscal stance, the medium-term projections show that in 2021, the Central Government would deviate, although not significantly, from most fiscal rules and targets. The levels of primary expenditure and debt (Figure 3.1) are projected to have the largest deviations. This suggests that the adjustment to meet the targets in 2022 must factor in measures to deal with expenditure and debt. Of note, there is convergence to the wage bill target in 2021, but the projection for this item in 2021 factors in inflation only and not the 4% salary increase for public sector workers which was agreed to in 2019 but currently under re-negotiation for postponement.

The effectiveness of expansionary fiscal policy in 2021 will depend on how quickly Grenada is able to adapt to this new world order. While additional stimulus is vital to revitalize the economy in 2021, structural reforms should be re-activated in 2021 to ultimately re-orient the economy in this new dispensation. Stimulus policies should promote transformation i.e. reduce the concentration of the economy on too few sectors.

Figure 3.1: Forecasted Deviations from the Fiscal Rules and Targets in 2021 and 2022



Sources: The Medium-Term Fiscal Framework 2021-2023 and the MPU. The convergence or divergence from the fiscal rules and targets are in parenthesis.

The FRA mandates a return to the fiscal rules and targets in 2022. Simply put, under the existing FRA, the Government cannot request an additional year of suspension from 2021. The fiscal policy stance has to tighten since the Central Government intends to be in compliance with the rules in 2022 (Figure 3.1). The adjustment path (i.e. corrective measures to secure compliance) to be applied to revert to the rules have been identified in a Recovery Plan. This Plan was presented as part of the 2021 Budget and tabled in Parliament in March 2021 together with the resolution for the extension of the suspension of the fiscal rules to December 2021. The measures in the Plan focus on supporting growth, raising revenue, reducing discretionary current expenditure, improving capital expenditure and enhancing debt management. Additionally, the Government intends to implement feasible recommendations from the Public Expenditure Review. The sequencing and timing of these measures must be well planned and executed, so that they would not hurt the economy. Also, potential risks to the planned fiscal and growth outcomes must be managed well.

The key risks to growth were highlighted in Chapter 1. Notably, fiscal adjustment (or tightening) typically tends to pose negative effects on economic growth, but Grenada's economic history during the HSAP has shown that fiscal adjustment can coincide with growth. On the fiscal side, risks can be associated with expenditure related to committed reforms that have not yet been budgeted like pension, national health insurance and an unemployment benefit programme.

Considerations for further implementation of the Act

Having analysed the growth, fiscal and debt outcomes in 2020, and studied the Medium-Term Fiscal Framework, it is essential to maintain the credibility of the FRA during 2021-2023. In that regard, there are several factors that could be considered (Figure 3.2).

Figure 3.2: Maintaining the Credibility of the FRA

Sources: FROC's views and a Note by the IMF Fiscal Affairs Department (2020) entitled "Fiscal Rules, Escape Clauses, and Large Shocks"

The Authorities should ensure that the use of the Escape Clause in Grenada is not only temporary but also consistent with the FRA and transparent. Prudence is necessary 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.

Apart from those in Sections 7 and 8, there are other requirements of the Act which should be met (Appendix IV). Those call for transparency, among other areas, and it is in this respect that efforts should continue apace to develop a public sector communication strategy to explain the activation of the Escape Clause to the public and markets. The content of regular reports by the Ministry of Finance to the public, can extend to information on the suspension as well as on the objectives, costs, risks, and liabilities of corrective measures and programmes.

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

In addition, greater information sharing with the FROC can enhance the Committee's external role in monitoring and scrutinizing, ultimately helping to maintain the credibility of the FRA. It is also important that timely, relevant, understandable and accessible information is available from Government.

Opportunities to Leverage further Implementation of the Act

> "Periods after larger shocks are usually a time to review and, if necessary, revise rules to make them more resilient." *IMF Fiscal Affairs Department, 2020*

The first year of experience with the Covid-19 pandemic and the FRA, further prompts the need to review the legislation. There are aspects of the legislation on the Escape Clause which need to be relooked, including the requirement of immediately submitting a Recovery Plan to Parliament. Moreover, the FROC reiterates, from its prior Annual Reports, that given the extensive amount of amendments which the FROC, MOF and IMF believe are necessary to enhance the FRA (Appendix VIII), that the current legislation – the Fiscal Responsibility Act No. 29 of 2015 – should be repealed and replaced. The FROC notes though that caution and the right timing must be applied when making legislative changes, as this can show a lack of fiscal discipline by the Government, and lead to worsening fiscal governance and performance in addition to higher borrowing costs. Also, any changes would have to be transparent.

Potential challenges in further implementation of the Act

Challenges relate to a number of factors including inadequate data, resource capacity, and social consensus. A major potential challenge is the economy not returning to growth by 2022. There would be a case to request a further extension of the Suspension and amend the FRA. Such a decision would have to be made by the Cabinet and the necessary amendments to the FRA taken to Parliament.

Conclusion

In a time of crisis, particularly a pandemic, Grenada has laws in place that can shield the economy from a steep decline. The Escape Clause has been invoked by the Minister mostly in compliance with the requirements stated in the legislation. The FROC recommends that it is likewise an opportune time to review and amend the FRA as there are several aspects of the law that needs to be revisited including the Recovery Plan.

The challenge is ensuring fiscal prudence and compliance with the Recovery Plan to lift the economy to a state of growth, and a return to compliance with the FRA's targets. It is vital that the country's fiscal legislation is both viable and attainable to ensure the success of its implementation. The FROC remains committed in overseeing the efficient execution of the FRA to help the country's economy weather the pandemic's impact and prepare for its full recovery.

CHAPTER 4 – CONCLUSIONS AND RECOMMENDATIONS

Summary

The unprecedented impact of Covid-19 on Government's revenues and the Government's ability to buffer this traumatic shock has proven the case for robust fiscal rules underpinned by a comprehensive legislative framework. Covid-19 has also exposed shortcomings in this framework many of which were anticipated in range of recommended amendments put forward by the FROC in recent years. The FROC recommends that the time has come to repeal and replace the Fiscal Responsibility Act.

As the Government undertakes efforts to ensure a smooth recovery, the FROC encourages that it be green, resilient and inclusive, while continuing to exercise fiscal prudence. Finally, Covid-19 has exposed Grenada's over-reliance on short-stay tourism and on pre-clinical training at St. George's University. Rather than abandon these important sectors in which Grenada has invested a tremendous amount of infrastructure and human capacity, it is recommended that Grenada builds on these sectors through concentric diversification. In summary, the recommendations are:

1) Commit to a phased and targeted approach to attaining full compliance with the Fiscal Responsibility Act;
2) Repeal and replace the Fiscal Responsibility Act;
3) Ensure a green, resilient and inclusive recovery with continued fiscal prudence; and
4) Diversify, Decentralize and Digitize to *grow* the economy focusing on:
   a) Health, Wellness and Medical Services and Technologies, underpinned by a National Health Insurance;
   b) Agri-Tech and the Agricultural Sector;
   c) Info-Tech and Digital Nomads underpinned by a Digital Transformation; and
   d) Manufacturing

Details of Recommendations

Recommendation #1. Commit to a phased and targeted approach to attaining full compliance with the Fiscal Responsibility Act. Key steps would include:

- Establishing annual debt to GDP targets to reach the FRA's 55% target;
- Committing to a phased transition to broader coverage of budget documents and fiscal reports by enhanced analytical rigor and depth of information in the reports;
- Ensuring transparent costings of major changes in policy (such as policies in Recovery Plan, Emergency Economic Stimulus Plan etc.). Transparency in this sense means that costings should be reliable, accessible, timely, and relevant;
- Strengthening planning in the event of revenue shortfalls and unbudgeted expenditure;
- Strengthening capacity to identify, assess and manage fiscal risks;
- Devoting more resources towards debt reporting on covered public entities that pose greater fiscal risks;
- Accelerating the use of data and technology – with adequate cyber security – to improve fiscal outcomes e.g. strengthen the use of technologies in tax administration; and
- Leveraging the capacity of the FROC through constant dialogue.

Recommendation #2. Repeal and Replace the Fiscal Responsibility Act.

With Covid-19 and 12.2% negative growth, the Government of Grenada took appropriate steps by invoking Section 10 of the Fiscal Responsibility Act, also known as the Escape Clause. Previous recommendations by the FROC have outlined a wide range of amendments to improve the FRA. Moreover, Covid-19 has served to highlight a number of areas of weakness of Act. Therefore, at this time, it is recommended that the Government moves to Repeal and Replace the Fiscal Responsibility Act by the end of 2022, to deal with current and future shocks.

Recommendation # 3. Ensure Green, Resilient and Inclusive Development for a Sustainable Recovery[13].

a) **For a Green and Resilient Recovery consider**: (a) ensuring that the PSIP metrics allow for the prioritization of projects that confer climate resilience; (b) for example, Climate Smart Agricultural initiatives should be prioritized over those that do not include climate considerations; (b) incentivizing resilient roof improvements for domestic households and commercial operations; (c) revisiting the debt for nature swap if such a programme could help create jobs and build coastal resilience while reducing the national debt burden (d) fast-tracking the implementation of a job-rich Solar PV transformation programme that could take Grenada closer towards 100% renewable energy by 2030; (e) Implementing an aggressive electric vehicle policy that could help to drive demand for national renewable energy while also allowing Grenada to turn a profit on its acquisition of GRENLEC shares while reducing balance of payments on imported fossil fuels.

b) **For a Resilient and Inclusive Recovery, continue to invest in social safety nets for vulnerable households while maintaining fiscal discipline on the Government's wage bill.** A range of sectors have been negatively impacted by Covid-19, particularly those related to the hospitality and international education sector. This has impacted livelihoods of 14,000 workers and their families in a wide range of sectors. Where possible, and for social stability, it is vital to continue to provide social safety nets. At the same time, Authorities should not become complacent and be caught off guard by additional fiscal obligations or unexpected accumulation of debt unlinked to growth in jobs, diversification and economic growth.

[13] David Malpass, President of the World Bank, https://twitter.com/worldbank/status/1379328167568105475

CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

Recommendation # 4. Diversify, Decentralize and Digitize. Implicit in the budget is an assumption that the global economy will return to normal, where tourism might continue to be one of the leading industries. However, with tourism taking the hardest hit from the pandemic, Grenada should look at other opportunities that could boost the economy, in line with the 2035 National Sustainable Development Plan.

Diversification #1: Health, Wellness and Medical Services and Technologies underpinned by a National Health Insurance.

Already, St. George's University (SGU) is a major asset for the nation. Estimates vary on SGU's contribution to GDP, which is believed to be around 20%[14]. This provides a strong base for concentric diversification in this sector. Key features of this strategy could include: Development of a National or Regional Teaching Hospital in St. George's; Super Clinics in each parish with diagnostic and treatment capacities; Re-purposing many district medical offices into health wellness centres; Medical tourism; Spa and wellness tourism; Export of medicinal herbs and derived oils; Natural foods; Medical back-office international services; Tele-medicine; Medical device manufacturing; Bio-pharmaceuticals and so forth. Development of a National Teaching Hospital could be a critical trigger in getting more Grenadian diaspora to return home, spurring further growth in the construction sector as well as demand for local goods and services.

Implementation of The National Health Insurance (NHI) is a critical financing tool to help enable the delivery of high-quality services. Restructuring and improving Grenada's health care system can only be achieved by a significant restructuring of the financing of health care. Using the current health care expenditure, funds derived from reducing out-of-pocket payments, international grant support, working with the private insurance marketplace, and some additional support from the Government, a progressive sustainable funding mechanism has been developed but now requires implementation.

[14] Tamoya Annika Lois Christie, Ran Li, '*Grenada COVID-19 Crisis Response and Fiscal Management DPC (P174527)*', World Bank, 17 Sep 2020

Consideration could be given to a formal initiative to make recommendations on moving forward with the NHI and a wider transformation and diversification strategy around health and wellness to build a healthier and more prosperous Grenadian society. In addition to NHI, Grenada's CBI programme can also play a critical role.

Diversification #2: Agri-Tech and the Agricultural Sector. Grenada's agri-food sector continues to be a significant contributor to the national economy. It is also a major source of job opportunities, food and nutrition security, foreign exchange earnings, raw materials for agro-processing activities, and rural stability with important linkages to the tourism sector. However, under investment is turning a whole generation away from this important sector while increasing national reliance on imports. Lessons from countries like Israel[15] where more and more young people are getting into agriculture technology, should be considered including the possibility of attracting training institutions to help develop Grenada as a tropical agri-tech hub. The important role of Marketing and National Import Board in linking farmers to market, cannot be understated. This can be aided by adopting agricultural Apps that allow buyers and farmers to forward plan demand and supply. The Guru agricultural platform developed in St. Lucia and being adopted by Massy Industries[16] is one such example that could be adopted in Grenada.

Moreover, in addition to implementing the Food and Nutrition Security Policy (FNS) passed by Cabinet in 2015, other legislation is required to support the sector, including (i) a biosafety bill, geared at supporting and enhancing agricultural production and prioritizing the approval and (ii) implementation of the draft Land

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15 The Economist. *'How Silicon Makes Israel's Desert Bloom'*, 12th Jan 2019.
16 Massy Stores, *New Agricultural Technology Platform Being Piloted with Massy Stores Partnership*, 18th Nov 2020

Use policy to ensure that Grenada will not lose its best arable lands to speculators and competing developments.

Diversification #3: Info-Tech, Digital Nomads and Digital Transformation. Long-stay digital nomads combined with greater focus on information technology and a digitized economy could prove to be a successful diversification strategy for Grenada. Antigua and Barbuda and Barbados are at the top of a global chart of 19 countries that are attracting this market through digital nomad visas; a list that includes places such as Estonia and Dubai[17]. Grenada could imitate Barbados and Antigua and develop a more competitive and integrated Residency *and* Citizenship (CBI) programme that could bring more long-staying tourists to Grenada with extensive benefits for local communities and local businesses. Establishing a wider net of double taxation treaties with source markets, greater investment in broadband infrastructure and targeted electronic marketing touting Grenada as a safe and secure environment would help to spur such an initiative and diversification strategy. Ancillary developments could include: (i) digitization of citizen facing services; (ii) development of entrepreneurial, innovation and coding centres; (iii) A digital and innovation window in the transformation fund; (iv) digital cash adoption; (vi) digital development school curriculum.

Diversification #4: Manufacturing. *Developments in the Manufacturing sector could help to further diversify Grenada's economy.* Agro-processing and food packaging would be a natural starting point. Beyond the proposed improvements to the Bureau of Standards, a more integrated approach would see the Bureau of Standards and T.A. Marryshow Community College collaborating more closely to build capacity in these areas.

[17] Headout. '*19 Digital Nomad Visas Perfect for a Remote Work Life'*. 8 Feb 2021

APPENDIX I

LEGISLATION ON PUBLIC FINANCIAL MATTERS

AS AT 31st DECEMBER, 2020

(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

Fiscal Responsibility (Amendment) Act No. 9 of 2019

Fiscal Responsibility (Suspension of Sections 7 and 8) SRO No.23 of 2020

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

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

Public Debt Management Act (Commencement) Order SRO No. 45 of 2016

Public Debt Management Act Regulations SRO No. 46 of 2016

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

Public Finance Management Regulations SRO No. 33 of 2015

Public Finance Management (Amendment) Regulation SRO 27 of 2019

Public Finance Management (Section 56) Resolution SRO No. 32 of 2019

Public Finance Management (Section 48) Resolution SRO No. 33 of 2019

APPENDIX II

FROC ACTIVITIES

Date	Activity/Engagements	Purpose
19th August, 2020	FROC Media Briefing	2019 Annual Report
29th October, 2020	Conference call between Chairman and Past FROC Chairman, Mr. Richard Duncan.	Courtesy call
2nd November, 2020	FROC Committee Meeting	Administration and planning
2nd December, 2020	Attendance at Budget Presentation	General oversight
14th December, 2020	Orientation for FROC Members facilitated by the Ministry of Finance.	Orientation for new members
18th December, 2020	FROC Committee meeting	Planning and Administration
January 2021	FROC Survey circulated (see Appendix III).	Feedback on Annual Reports
21st January, 2021	FROC Committee meeting	Planning and Administration
28th January, 2021	FROC Committee meeting	Preparation of 2020 Annual Report
4th February, 2021	FROC Committee meeting	Preparation of 2020 Annual Report
11th February, 2021	FROC Committee meeting	Preparation of 2020 Annual Report
11th February, 2021	Conference call between the Chairman, Committee Member Barnard and Ms. Denise Edwards, Acting Finance Secretary of Dominica.	Sharing Grenada's experience with setting up the FROC
18th February, 2021	FROC Committee meeting	Preparation of 2020 Annual Report
25th February, 2021	Meeting between FROC and the Ministry of Finance.	Administration and planning
March 2021	Discussions with some members of the Private Sector.	Feedback on the 2021 Budget
March 2021	Discussions with some members of the Civil Society.	Feedback on the 2019 Annual Report
3rd March, 2021	Meeting between FROC and the Attorney General.	Administration and planning
11th March, 2021	FROC Committee Meeting	Preparation of 2020 Annual Report
1st April, 2021	FROC Committee Meeting	Preparation of 2020 Annual Report
15th April, 2021	FROC Committee Meeting	Preparation of 2020 Annual Report

APPENDIX III

FROC SURVEY

In January 2021, the following survey was circulated among approximately 300 persons in the private sector, civil society, parliamentarians and the media. Nineteen (19) responses were received.

The Grenada Fiscal Responsibility Oversight Committee (FROC) is currently in the process of reviewing its Annual Report to make it more relevant and user-friendly to the public.

We would be very grateful if you can spare a few minutes of your time to help us improve our 2020 Report by taking the below survey.

All responses will remain confidential and anonymous.

Thank you for your time and opinion.

For more information, please contact the FROC's Secretary, at 440-2562 or frocgrenada@gmail.com

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1. Please indicate which group you belong to:

- ○ Media
- ○ Private Sector
- ○ Government
- ○ NGO
- ● Other

2. Are you clear on the FROC's mandate?

- ○ Yes
- ○ No
- ○ Not Sure

3. Have you read the FROC's Annual Report of 2019?

- ○ Yes, I read the entire report.
- ○ I read the report partially.
- ○ No, I did not read the report.

APPENDIX III

FROC SURVEY (CONTINUED)

4. If yes, what was your reason for reading?

- Required by my work or organization.
- Personal interest in the Government's performance.
- Study or Research
- Other (please specify)

5. If not read or partially read, please tell us why?

- The report was too long.
- The report was too difficult to read.
- Other (please specify)

6. Please indicate how easy it was to read the 2019 Report (1 very easy - 5 difficult).

7. What would you like to see in future reports of the FROC?

- More charts / graphs
- More pictures and graphics
- More summaries
- Other (please specify)

The results of the survey indicated that most persons were aware of the FROC and its mandate, but very few read the Report in detail as they found it lengthy. The readers suggested that more graphs, charts and summaries be included in the Report.

APPENDIX IV

THE PRIVATE SECTOR'S RESPONSE TO THE 2021 BUDGET

The following are points raised by the Private Sector in response to the 2021 Budget presentation: -

- The Private Sector was in agreement with the Government of Grenada (GOG) on using the Construction Sector for energizing the economy but was concerned about implementation as the history in this area was not kind to the GOG.

- They also felt that it was important that the GOG works closely with SGU so that return of students can resume in August/September 2021 considering that education services accounted for 17% of GDP.

- They expressed concerns that the budget was a deficit budget as the traditional stream from taxes and cross border taxes would be far less based on business performance in 2020 and the economic downturn currently being experienced in 2020 and expected in 2021.

- They were also of the view that the tourism sector would not see a rebound until 2024 (cruise and stayover arrivals) due to the issue with airlift and cruise, but were hopeful that vaccinations would help bring some relief in the 2021 winter season. Also, suggested that the GOG should consider some relief package for the tourism sector plants to help with their high debt leveraging, something similar to what Barbados did in their Employment and Sustainable Transformation BEST Programme.

- They supported the efforts that will be made for the agriculture sector and urged that now was the time to change the perception of the sector and encourage value added.

- Concerns were raised on the purchase of the Grenlec shares. As stated by GOG, funds were raised from savings on capital projects. They asked if these will be projects would be completed.

- A few social programmes were also supported as this was a very unprecedented time and there is need to take care of the really vulnerable. They understood the social fallout that can come from the pandemic.

- Concluded by congratulating the GOG on their handling of the pandemic particularly the Ministry of Health and the security forces.

APPENDIX V

VIEWS FROM CIVIL SOCIETY ORGANISATIONS ON IMPLEMENTATION OF THE FISCAL RESPONSIBILITY ACT

The Civil Society Organisations (CSO) considers the FROC Report 2019 to be comprehensive and generally technically sound. The CSO highlighted a recurring weakness with the practical application of the FRA as it relates to central government and covered entities and indicated that the data provided do not include statutory bodies and state-owned enterprises to conduct a comprehensive review.

The CSO also highlighted difficulties with the coverage of Public Private Partnerships [PPPs] and the covered entities as stipulated in the Act and indicated that the Act is not applied legally due to the lack of comprehensive data on the public sector.

The CSO noted that the Report is silent on the provisions for transfers of funds from the National Transformation Fund (NTF) to the Consolidated Fund, as the FRA stipulates that forty (40) percent of the inflows in the NTF should be saved for budget expenditure associated with contingencies, natural disasters and debt repayments. The CSO recommends that reports on the transactions from the NTF should be included in the report on compliance with theAct. The CSO has also introduced the concept of penalties for the breach of the legislation since non-compliancewith the Act has been reoccurring annually.

The CSO made recommendations that the FROC 2020 Report should focus on the following:

- Escape Clause contained in Section 10 of the FRA;
- the Recovery Plan Memorandum which sets out the measures proposed to secure compliance with the fiscal rule, target or corrective measure at the expiration of the period and the progress of the Government; and
- addressing data deficiencies and enhancing the consistency and transparency of the Act.

APPENDIX VI

FISCAL DATA

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	2016	2017	2018	2019	2020
Total Revenue and Grants	**751.6**	**778.1**	**849.8**	**871.5**	**792.7**
Current Revenue	651.6	700.1	755.9	778.0	689.6
Tax Revenue	600.5	651.8	704.1	718.6	622.8
Taxes on Income & Profits	127.3	140.6	153.9	151.3	135.0
Taxes on Property	23.9	24.3	29.3	39.6	34.8
Taxes on Domestic Goods & Services	140.0	147.7	151.4	154.5	128.2
Taxes on International Trade Transact	309.3	339.2	369.5	373.1	324.8
Non-tax Revenue	51.1	48.2	51.8	59.4	66.8
Grants	100.0	78.1	94.0	93.5	103.1
Budgetary Grants	26.0	13.9	19.4	17.8	18.3
Capital Grants	74.0	64.2	74.6	75.7	84.8
Primary Expenditure	**603.3**	**605.5**	**632.1**	**648.5**	**864.5**
Primary Expenditure less Capital Grants	***529.3***	***541.3***	***557.5***	***572.8***	***779.7***
Real Growth in Primary Expenditure	***2.6***	***0.6***	***2.0***	***1.9***	***35.5***
Total Expenditure	**685.6**	**686.5**	**695.3**	**709.2**	**920.4**
Current Expenditure	565.5	605.9	607.7	623.5	650.5
Employee Compensation	251.6	265.2	263.7	266.7	277.1
Personal emoluments, Wages &	240.4	246.8	251.0	253.3	262.3
Social contribution to employees	11.2	18.4	12.7	13.4	14.8
Goods & Services	117.6	126.5	130.5	132.8	131.6
Interest payments	82.3	81.0	63.2	60.6	55.9
Transfers	113.9	133.2	150.3	163.4	185.9
Capital Expenditure	120.1	80.6	87.6	85.7	269.9
Grants	74.0	64.2	74.6	75.7	84.8
Local Revenue	28.7	6.1	2.6	2.1	165.3
Loan	17.4	10.4	10.4	7.9	19.8
Primary Balance after grants	**148.3**	**172.6**	**217.7**	**223.0**	**(71.8)**
Overall Balance after grants	**66.0**	**91.6**	**154.5**	**162.4**	**(127.7)**
Primary balance as a % of GDP	***5.2***	***5.7***	***6.9***	***6.8***	***(2.5)***
Notional Compensatory Balance	-	***(2.2)***	***(5.6)***	***(8.9)***	***(2.9)***

APPENDIX VI

FISCAL DATA (CONTINUED)

Memo Items					
	2016	2017	2018	2019	2020
Real GDP Growth (%) (Constant Prices)	**2.2**	**4.0**	**3.5**	**2.4**	**-11.8**
Real GDP Growth (%) (Market Prices)	**3.7**	**4.4**	**4.1**	**2.0**	**-12.2**
Nominal GDP in EC$m (Market Prices)	**2866.4**	**3039.4**	**3155.5**	**3271.4**	**2825.9**
Wage Bill in EC$m	**240.4**	**246.8**	**251.0**	**253.3**	**262.3**
Of which personal emoluments, wages, allowances, and payments for professional services made to Government established employees.	*189.5*	197.8	199.7	202.0	205.3
Of which personal emoluments, wages, allowances, and payments for professional services made to Government un-established employees including project workers employed under the Public Sector Investment Programme	*50.9*	49.0	52.0	51.3	57.0
Wage bill as a percent of GDP	8.4	8.1	8.0	7.7	9.3
Primary Expenditure in EC$m	**603.3**	**605.5**	**632.1**	**648.5**	**864.5**
of which primary expenditure of Central Government	603.3	605.5	632.1	648.5	864.5
Public Debt in EC $m	**2612.9**	**2441.5**	**2350.1**	**2260.9**	**2360.6**
of which total stock of public sector debt from external sources	1582.2	1401.3	1417.8	1410.9	1531.3
of which total stock of public sector debt from domestic sources	592.7	595.9	560.0	477.9	457.1
of which guaranteed debt and contingent liabilities of statutory bodies and state-owned enterprises	78.7	72.2	0.2	0.0	0.0
of which Petro Caribe Debt	359.3	372.1	372.1	372.1	372.1
Public Debt as a % of GDP (with Petrocaribe)	*91.2*	*80.3*	*74.5*	*69.1*	*83.5*
Public Debt as a % of GDP (without Petrocaribe)	*78.6*	*68.1*	*62.7*	*57.7*	*70.4*
Central Government as a % of GDP	*75.9*	*65.7*	*62.7*	*57.7*	*70.4*
Inflation Rate (end of period) (%)	**0.9**	**0.5**	**1.4**	**0.1**	**-0.8**
Consumer Price Index (end of period)	**109.9**	**110.5**	**112.0**	**112.1**	**111.2**
Inflation Rate (period average) (%)	**1.7**	**0.9**	**0.8**	**0.6**	**-0.7**
Consumer Price Index (period average)	**109.4**	**110.4**	**111.3**	**111.9**	**111.1**
Unemployment Rate (%) - Q3 each year	**28.2**	**23.6**	**16.7**	**15.6**	**28.4***
GDP per Capita (EC$)**	**26789.1**	**28142.1**	**29217.4**	**30012.6**	**25925.6**

***Q2 Estimate- Most recent data available**
**** Population data taken from IMF WEO Database for October 2020**

Data received in February 2021.

Source: Macroeconomic Policy Unit

APPENDIX VII

Covered and Not Covered Public Entities

as at 31st December, 2020

	Covered Public Entities	Qualifying Factor			
		Reporting	Transfers	Equity	Government Guarantees
1	Child Protection Authority		✓		
2	Financial Complex Limited		✓		
3	Grenada Investment Devevlopment Corporation		✓		
4	Grenada Airport Authority			✓	
5	Grenada Bureau of Standards		✓		
6	Grenada Cultural Foundation		✓		
7	Grenada Food and Nutrition Council		✓		
8	Grenada National Stadium Authority		✓		
9	Grenada Postal Corporation			✓	
10	Grenada Tourism Authority		✓		
11	Housing Authority of Grenada		✓		
12	Marketing and National Importing Board	✓			
13	Spicemas Corporation		✓		
14	T.A. Marryshow Community College		✓		
15	Public Utilities Regulatory Commission		✓		

	Not Covered Public Entities				
1	GARFIN				
2	Gravel, Concrete and Emulsion Production Corporation				
3	Grenada Solid Waste Management Authority				
4	National Insurance Scheme				
5	National Lotteries Authority				
6	National Water and Sewerage Authority				
7	Grenada Development Bank				
8	National Telecommunication Regulatory Commission				
9	Grenada Ports Authority				

Source: Macroeconomic Policy Unit
Information received in February 2021.

APPENDIX VIII

SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILITY ACT

Since its first Report in 2016 the FROC has observed and noted the need for clarity in several sections of the FRA. At a meeting of the FROC and officials from the MOF in March 2019, careful consideration and further analysis of the FRA legislation was undertaken. The FROC and MOF agreed that amendments to certain specific sections of the FRA were indeed needed in order to clarify ambiguities, introduce specificity and ensure consistency with other financial Acts, regulations and policies. These specific sections include the following –

i) Section 2 - Definition of public debt;
   - Definition of public-private partnership;
   - Definition of wage bill;

ii) Section 7(1) (a) - Inflation;

iii) Section 8 - Debt target;
   - National transformation fund (NTF);
   - Public debt;
   - Debt target buffer;

iv) Section 11 - Stabilizing public debt;
   - Recalibration;

v) Section 12 - Reporting;

vi) Section 14 - FROC's tenure;
   - FROC's annual report.

Details of the above recommendations are included in the FROC's Reports for 2016 - 2019.

Dialogue continues as these legislative issues were again raised by the FROC in a meeting with the Ministry of Finance in April 2020 and February 2021, as well as in a meeting between the FROC and the Attorney General in March 2021.

APPENDIX VIII

SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILITY ACT

(CONTINUED)

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) Recalibration of the law at the debt stabilizing balance;

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, the PFM and the PDM Acts.

Suspension of the fiscal rules and targets in April 2020 also highlighted the need to clarify certain areas in Section 10 (Escape Clause) of the Act. These are addressed in Chapter 3.

Given the extensive number 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

APPENDIX VIII

SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILITY ACT

(CONTINUED)

with a new Act. A new FRA reflecting the changes would be a preferred approach, as simplicity, clarity and consistency would be achieved in following the legislation, as opposed to having to read various amended sections, if the current FRA is maintained. A new, clear and concise FRA would also redound to the benefit of the Government in its efforts to achieve a "*transparent and accountable rule-based fiscal accountability framework in Grenada.*"

The FROC submits that the changes to the above sections are indeed urgent as the need for same have become apparent in the preparation of the Annual Reports from 2016 to present. Given the present situation where the Escape Clause has been invoked and the fiscal rules and targets suspended, a golden opportunity now exists to amend the legislation before the suspension period expires.

APPENDIX IX

OTHER REQUIREMENTS OF THE FISCAL RESPONSIBILITY ACT

The following keys are used to assist readers to understand the FROC's assessment of compliance with the other requirements of the Fiscal Responsibility Act.

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

APPENDIX IX

OTHER REQUIREMENTS OF THE FISCAL RESPONSIBILITY ACT (CONTINUED)

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;"*	CAUTION There were gaps in fiscal and debt transparency including those related to limited data coverage. The Authorities continued to disseminate information that focused only on central government rather than the entire public sector. The following reports were prepared and laid in Parliament in December 2020: (i) 2020 Economic Review & Medium-term Outlook; (ii) Medium-term Fiscal Framework 2021 – 2023; (iii)Medium-term Debt Management Strategy 2021 – 2023; (iv)Budget Framework Paper 2021; and the (v) Fiscal Risk Statement. These Reports can be found on the Government's website. The Recovery Plan, however, was not laid in Parliament in 2020. A Debt Sustainability Analysis as well as the 2019 Annual Debt Review were completed and submitted to Cabinet. Other published data and information included Monthly Fiscal Summary Reports, Quarterly Public Debt Bulletins, and the Annual Debt Report 2019.
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;"*	CAUTION The total Central Government debt is estimated to have increased in 2020, reflecting new borrowings to address the fallout from the Covid-19 pandemic. A primary deficit was incurred in that year. Once an economic recovery takes hold in the medium term, reductions are anticipated in Central Government debt, but the ratio of Central Government debt to GDP is projected to be above 55% of GDP by the end of 2023. The reductions will be backed by primary surpluses. Of note, 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. For policy purposes, a specific year should be targeted

APPENDIX IX

OTHER REQUIREMENTS OF THE FISCAL RESPONSIBILITY ACT (CONTINUED)

Other requirements in the FRA	Status and Assessment of Compliance
	to achieve the 55% debt to GDP target. Annual debt reducing primary balance necessary to achieve the intermediate debt targets 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;"*	GO Fiscal risk management was reflected in the commitment of the authorities to implement strategies for revenue, expenditure and debt management in the medium term.
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 A Supplementary Budget of EC $50 m was passed in April 2020 to implement stimulus measures to cushion the negative effects of Covid-19. The Approved 2020 Budget that was prepared in October 2019 was revised accordingly.
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 are set out in Part XIII of the Public Finance Management Regulations (SRO 33 of 2015). While the procedures are prepared and available, they are followed by Central Government only.

APPENDIX IX

OTHER REQUIREMENTS OF THE FISCAL RESPONSIBILITY ACT (CONTINUED)

Other requirements in the FRA	Status and Assessment of Compliance
6. **Section 12 (2):** *"A report statement pursuant to subsection (1) (c) shall include (a) a review of performance over the preceding two years in comparison with the fiscal rules and targets under sections 7 and 8; (b) the notional compensation primary balance; (c) explanations for every instance of underperformance or overperformance and implications for future years; and (d) 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."*	CAUTION A Compliance Assessment Report was prepared and submitted to Parliament in April 2020, along with the Supplementary Budget. No Compliance Report was prepared with the 2021 Budget because the Escape Clause was activated. While the fiscal rules and targets were suspended during the year under review, a report statement on compliance could have accompanied the Budget focusing on applicable requirements of the FRA, namely: (i) explanations for every instance of underperformance and implications for future years; and (ii) the manner in which the 2021 Budget laid before Parliament complied with the fiscal rules and targets, and reflected improvement required for full compliance.
7. **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 2020 along with the presentation of the 2021 Budget Estimates. While the Statement did not fully address certain areas, it provided: (i) insightful sensitivity analyses of debt forecasts to growth shocks; and (ii) a comprehensive overview of risks. The areas which the Statement could have elaborated on, in accordance with the FRA, are: (i) sensitivity analyses of real sector and fiscal forecasts; (ii) exposure of the Government to contingent liabilities, including guarantees and obligations arising from judicial proceedings in progress; (iii) commitment and circumstances that are unaccounted for in the forecasts; and (iv) measures implemented by Cabinet, or the Minister, to manage fiscal risks.

   

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