

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE (FROC)



2016 ANNUAL REPORT

10 November, 2017

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE (FROC)



2016 ANNUAL REPORT

10 November, 2017

TABLE OF CONTENTS

	Page
1.0 Letter of Transmittal	3
2.0 Glossary	4
3.0 Foreword	5
4.0 Executive Summary	9
5.0 Macroeconomic Context	12
6.0 Compliance with Fiscal Rules and Targets: 2016	14
7.0 Outcomes and Implications of Implementation of the Act	27
8.0 Suggested Amendments to the Fiscal Responsibility Legislation	32
9.0 Conclusions and Recommendations	37
10.0 Annex: Data Sources	39

1.0 LETTER OF TRANSMITTAL

FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE



21st November, 2017

Mr. Willan Thompson
Clerk of Parliament
Office of the Houses of Parliament
Botanical Gardens
St. George's

Dear Mr. Thompson,

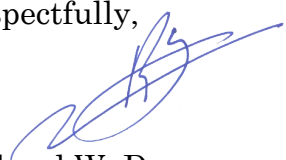
RE: SUBMISSION OF THE 2016 ANNUAL REPORT ON THE STATUS OF IMPLEMENTATION OF THE FISCAL RESPONSIBILITY ACT (NO. 29 of 2015)

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 sixty (60) copies of the afore-mentioned report for consideration by the House of Representatives.

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,



Richard W. Duncan
Chairman

Members: Richard W. Duncan, Chairman | Sabina Gibbs | Zanna Barnard | Adrian Hayes | Angus Smith

Secretary: Michelle Millet | PKF - Accountants & Business Advisors | P.O. Box 1798 | Pannell House | Grand Anse | St. George's

2.0 GLOSSARY

CARTAC	Caribbean Regional Technical Assistance Centre
CBI	Citizenship by Investment
GDP	Gross Domestic Product
GPRS	Growth Poverty Reduction Strategy
ECCB	Eastern Caribbean Central Bank
EU	European Union
FRA	Fiscal Responsibility Act
FROC	Fiscal Responsibility Oversight Committee
IMF	International Monetary Fund
NAFTA	North American Free Trade Agreement
PDMA	Public Debt Management Act
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SB	Statutory Body
SOE	State-Owned Enterprise

3.0 FOREWORD




- 3.1 Small countries like Grenada are beginning to recognize the advantages of practicing fiscal responsibility by devoting attention not only to the maintenance of prudent fiscal policies in each budgetary period, but also seeking to build, over the medium to long term, a coherent, consistent and stable fiscal policy with specific rules and targets. Concurrent with this is the need for fiscal responsibility legislation and to this end the Grenada Government introduced, in 2015, the Fiscal Responsibility Act No. 29 of 2015. The objectives of this Act 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.”*
- 3.2 The Fiscal Responsibility Act (the Act or the FRA) created a Fiscal Responsibility Oversight Committee (FROC). This Committee is responsible, under section 14 (3) of the FRA, for monitoring compliance with the fiscal rules and targets and reporting to the House of Representatives annually on the status of implementation of the Act.
- 3.3 The FRA governs matters related to the management of public finances and fiscal matters relating to the Central Government and covered public entities.
- 3.4 The FROC comprises five persons, four of whom were nominated by the Committee of Privileges of Parliament in consultation with the Director of Audit and appointed by the Governor General on 23 August, 2017. As required by the Act these persons possess expertise in:
- (i) accounting;
 - (ii) business management, having not less than ten years of experience;
 - (iii) public administration, having not less than ten years of experience; and
 - (iv) law

3.0 FOREWORD (CONTINUED)



The fifth member, a person with expertise in Economics, was appointed by the Governor General on the advice of the Governor of the Eastern Caribbean Central Bank.

The FROC appointed PKF – Accountants & Business Advisers as its secretariat on 20 September, 2017.


The FROC comprises the following persons:

 <p>Mr. Richard W. Duncan – Chairperson</p>	<p>Accountant and Economist Term of appointment - 4 years</p>
 <p>Ms. Sabina Gibbs</p>	<p>Attorney-at-Law Term of appointment - 2 years</p>
 <p>Ms. Zanna Barnard</p>	<p>Economist - Eastern Caribbean Central Bank Term of appointment - 2 years</p>

3.0 FOREWORD (CONTINUED)

 Mr. Adrian Hayes	Retired Public Administrator Term of appointment - 1 year
 Mr. Angus Smith	Retired Accountant Term of appointment - 1 year

Secretary to the FROC

 Ms. Michelle Millet – Secretary	Assurance Partner - PKF Accountants & Business Advisers
---	---

3.5 All members of the FROC attended an orientation seminar conducted by the Ministries of Finance and Legal Affairs and a training workshop conducted by a Caribbean Regional Technical Assistance Center (CARTAC) consultant, Lynne Mc Kenzie.

3.6 This Report is the first of its kind produced by the FROC. It covers the fiscal year ending December 31, 2016 and is produced in accordance with section 14(3)(b) of the Act. Data for the preparation of the Report was provided by the Division of Economic

3.0 FOREWORD (CONTINUED)

Management and Planning (the Macroeconomic Policy Unit) in the Ministry of Finance. The Report reviews the Government's fiscal performance in 2016, based on available data, as compared to the rules and targets in the FRA and assesses the variances between the actual and targeted performance and Government's overall implementation of the Act.

3.7 The FROC wishes to acknowledge the support received from the Division of Economic Management and Planning (the Macroeconomic Policy Unit) in the Ministry of Finance in the preparation of this Report. Particular mention is made of Dr. Kari Grenade who played a pivotal role in the facilitation of the process in a relatively short time frame. The FROC also benefitted significantly from the advice and guidance of Dr. Lynne McKenzie the CARTAC consultant who conducted the training workshop. Administrative and secretarial support services for the preparation of the Report were provided by Ms. Michelle Millet of PKF Accountants and Business Advisers while the first draft of the Report was prepared by Dr. Paul Pounder.

3.8 As required by section 14(3)(b) of the Act, this Report is being forwarded to the Speaker of the House of Representatives to be laid before the House. Under the Act the Report is also to be examined by the Public Accounts Committee, the Standing Orders Committee and the Standing Committee on Finance of Parliament. The FROC will also engage the media on the Report.



Richard W. Duncan



Sabina Gibbs



Zanna Barnard



Adrian Hayes









Angus Smith

10 November, 2017

4.0 EXECUTIVE SUMMARY

4.1 This Report assesses Government's compliance for 2016 with the specific fiscal rules and targets as outlined in sections 7 and 8 of the Act as well as the other duties and responsibilities outlined in sections 5, 6 and 12. On an overall basis the Government has begun to put measures in place to satisfy the requirements of the FRA and progress is being made in a number of areas including revenue enhancement and debt reduction. However a number of areas need concerted attention including fiscal reporting.

4.2 Of the six (6) Rules and Targets there was compliance with three (3), compliance with one (1) with reservation and non-compliance with two (2).

Fiscal Rule	Target	Compliance	Comments
1. Sub-Section 8(1) – Public Sector Debt to GDP ratio	Not to exceed 55%		Non-compliant. Target not attained
2. Sub-Section 8(2) – Public Private Partnership (PPP) contingent liabilities	Not to exceed 5% of GDP		Non-compliant. No PPPs reported to the FROC
3. Sub-Section 7(3) - Wage Bill to GDP ratio	Not to exceed 9% of GDP		Compliant, with reservation. Target attained
4. Sub-Section 7(1)(a) - Rate of growth of primary expenditure.	Not to exceed 2%		Compliant. Target attained
5. Sub-Section 8(3) – Primary Balance	Not less than 3.5 % of GDP		Compliant. Target attained
6. Sub-Section 8(3) – Notional Compensatory Primary Balance	Not more than 3%		Compliant. Target attained

4.0 EXECUTIVE SUMMARY (CONTINUED)

4.3 In order to ensure that Government's fiscal and financial affairs are conducted in a fully transparent manner (unless secrecy is required for national security or economic stability) the FRA as well as the Public Finance Management Act (PFM) and the Public Debt Management Act (PDM) require the submission to Parliament of a number of Reports. These Reports include an annual fiscal risk statement and a statement on the submission of the annual or any supplementary budget on compliance with the FRA.

4.4 While the Government produces a number of Reports including annual and mid-term reviews of its performance, the FRA requires more detailed, specific information to be presented which is not being adhered to. Teething challenges with the introduction of the FRA have been advanced as reasons for non-compliance and the FROC has been advised that systems are being put in place to ensure that all Reports required by the FRA are generated and submitted to Parliament on time.

4.5 In addition the Macroeconomic Policy Unit must build appropriate mechanisms to provide support relating to the supply of data and any supplementary information requested by the FROC in a timely manner in order to facilitate easy discharge of the FROC's functions.

4.6 Since the appointment of the FROC members in August 2017 the Committee has been diligently pursuing its mandate.

4.6.1 *Meetings*

The FROC held three (3) regular meetings on 20 September, 2017, 1 November, 2017 and 10 November, 2017.

The FROC members also attended special meetings on 29th September, 2017 and 4th October, 2017. These meetings were held with members of the Macroeconomic Policy Unit, the Chairman of the Privileges Committee, the Consultant from CARTAC and Dr. Paul Pounder, Economist.

4.0 EXECUTIVE SUMMARY (CONTINUED)

4.6.2 *Training*

In order to conduct their duties effectively the FROC members underwent extensive training in fiscal responsibility as follows:

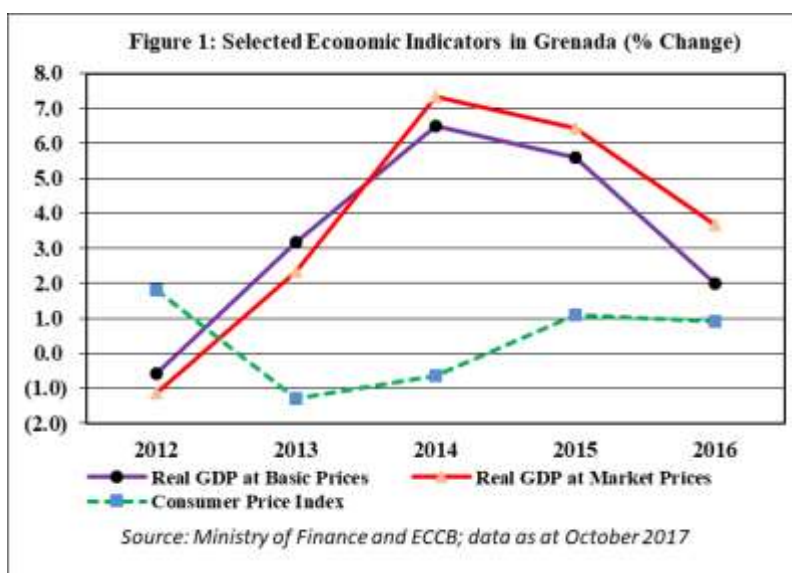
Dates	Presenters	Topics Covered
23 August, 2017	Ministries of Finance and Legal Affairs	Orientation Seminar which included topics on: Instructive Legislative Instruments. Establishment and Composition of the Committee. Obligations and Responsibilities of the Committee. Reporting Requirements.
2 and 5 October, 2017	Dr. Lynne McKenzie, Consultant from the Caribbean Regional Assistance Center (CARTAC)	Overview of Fiscal Councils and Fiscal Rules. Overview of Fiscal Responsibility requirements. Independence, Governance and Operations. Reporting by Fiscal Responsibility Committees. Organizing the FROC Work Programme.

5.0 MACROECONOMIC CONTEXT

5.1 Grenada's economy experienced a series of shocks during the decade 2004 – 2013, namely hurricanes Ivan and Emily in 2004 and 2005 respectively; high world food and fuel prices in 2007; and the global economic and financial crisis of 2007/2008. Real GDP at market prices rose at an average annual rate of 3.1 percent in the first half of the decade, in contrast to an average annual pace of decline of 1.0 per cent in the latter half of the period. This was accompanied by deterioration in the operations of central government, escalating public sector debt, as well as challenges in the financial and external sectors. In spite of debt restructuring efforts in 2005 and reforms implemented under IMF-supported programmes of 2006 - 2010 and 2010 - 2013, the macro-economy and public finances were on an unsustainable path¹.

5.2 Economic growth (real GDP at market prices) recovered by 2013, peaking at 7.3 percent in 2014, and decelerating to 3.7 percent in 2016 (See Figure 1). The performance in 2016

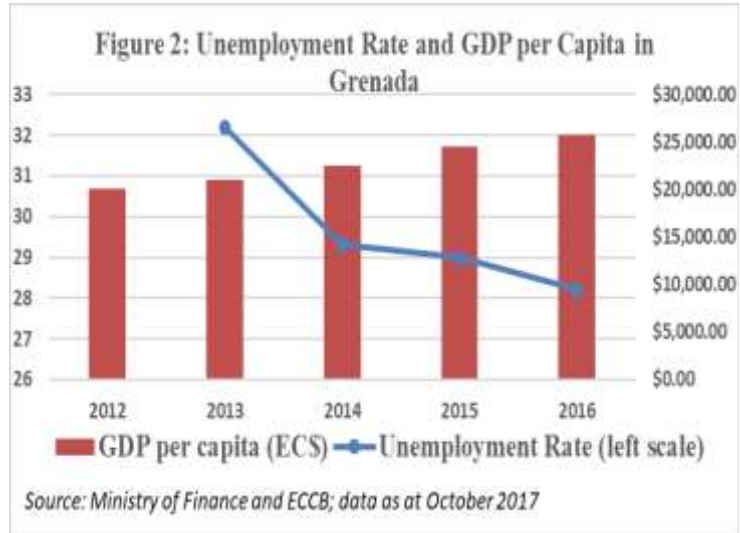
was heavily influenced by declines in agriculture and wholesale and retail trade which were offset by improved performances mainly from construction, tourism, and education. Against this backdrop, the consumer price level remained stable, rising by 0.9 percent in 2016 relative to 1.1 percent in 2015, after two consecutive years of deflation in 2014 and 2015.



¹ Source: Government Press Release of March 2013 - http://www.gov.gd/egov/news/2013/mar13/08_03_13/item_3/grenada_commence_discussions_creditors_restructuring_public_debt.html

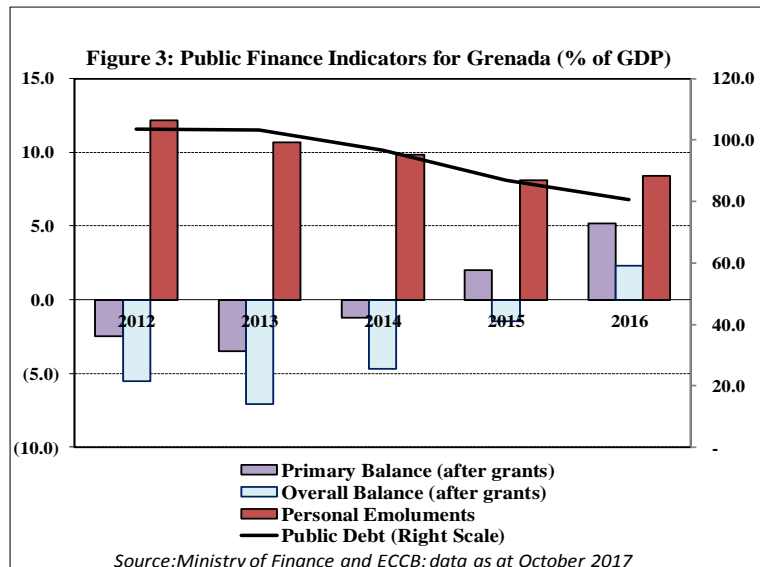
5.0 MACROECONOMIC CONTEXT (CONTINUED)

5.3 Accordingly, as real GDP per capita grew progressively from 2013, the unemployment situation improved (See Figure 2). The average Grenadian was richer in 2016 than in 2013 – the average annual income per person grew by 23.1 percent to roughly EC\$25,786 in 2016 relative to the amount in 2013.



The unemployment which peaked at 32.2 percent in 2013, dropped to 28.2 percent in 2016, aided by the economic upturn.

5.4 The country's fiscal and debt performance improved remarkably since the introduction of its three-year Fiscal Homegrown Structural Adjustment Programme in January 2014, which was supported by a formal IMF arrangement and other development policy-based loans from external partners. Fiscal adjustment measures were undertaken, structural reforms progressed and



negotiations on public debt restructuring advanced during the three years of the Programme. In 2015, the country recorded its first primary surplus after grants (\$52.3m or 2.0 percent of GDP) in a decade. In the following year, the first overall surplus after grants (\$66.0m or 2.3 percent of GDP) was registered in a decade. Aided by debt restructuring efforts, the debt to GDP ratio contracted from a high of 103.4 percent in

5.0 MACROECONOMIC CONTEXT (CONTINUED)

2013 to 80.5 percent at the end of 2016. Consistent with the growth and fiscal gains, there have been improvements in the external and financial sectors. Current account deficits narrowed and the reserve position remained positive from 2014. In the financial sector, overall banking sector performance improved but private sector credit remained weak at the end of 2016.




6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016

6.1 Summary

6.1.1 The extent of compliance with the Fiscal Rules and the attainment of targets are pivotal to the sustainability of Grenada's public sector finances.

6.1.2 Much of the improvements in Grenada's public finances have been, by design, from structural reforms and adjustments. However, medium to long term sustainability rests on improved job-inclusive growth and enhanced tax administration.



6.1.3 In this Report the following keys are used to assist readers to easily understand the FROC's assessment of Compliance with the Rules and Targets:-

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

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.1 Summary (continued)





TABULAR SUMMARY
OF
ASSESSMENT OF COMPLIANCE

FISCAL RULES	FRA TARGETS	2015 Actual	2016 Target	2016 Actual	COMPLIANT	Comment
1.Public Sector Debt to GDP Ratio	Not to exceed 55%	86.9%	N/A	80.5%	NO 	Non-compliant. (i) No target was set in 2016. (ii) The FROC is not convinced that all elements of the public sector debt as defined in Section 8(1)(a) of the FRA are comprehensively captured and fully accounted for. Of particular concern are (a) contingent liabilities assumed by the Government, (b) the debt and contingent liabilities of statutory bodies and state-owned enterprises. (iii) Given that the ratio was above 55% in 2015, corrective measures ought to have been taken to bring the ratio down to 55% within 3 years (by 2018) with 1/3 of the adjustment taking place in the first year 2016.
2.Contingent liabilities arising from public-private partnerships	Not to exceed 5%				NO 	Non-compliant FROC is not satisfied the Macroeconomic Policy Unit has a firm handle on this subject. The Fiscal Authorities have not thoroughly, or at all, scrutinized the relationships between Government, government agencies and private entities.

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.1 Summary (continued)

TABULAR SUMMARY
OF
ASSESSMENT OF COMPLIANCE (continued)

FISCAL RULES	FRA TARGETS	2015 Actual	2016 Target	2016 Actual	COMPLIANT	Comment
3. Wage Bill to GDP Ratio	Not to exceed 9%	8.1%	≤9.0%	8.4%	YES 	Compliant. However, the FROC is concerned that the application of the definition of wage bill can potentially result in under reporting of actual wages in the central government. Such under reporting results in the ratio being lower than it should be, thus implying availability of ‘fiscal space’ that can encourage heightened union ‘pushfulness.’
4. Growth in Primary Expenditure (in real terms)	No to exceed 2%	-3.4%	≤2%	0.9%	YES 	Compliant This is a commendable performance.
5. Primary Balance	Not to be less than 3.5% of GDP	2%	≥3.5%	5.2%	YES 	Compliant. Apart from being compliant and surpassing Target in 2016; the transitional 2015 target of 1.3% was also surpassed. At a high level this broadly confirms the soundness of the expenditure and revenue strategies of the Fiscal Authorities.
6. Notional Compensatory Primary Balance	Not more than 3%	-0.1% ²	≤ 3%	-0.2%	YES 	Compliant. The 2015 actual is included only for purposes of comparison as this was a transition year. The 2016 target, apart from being compliant appears to be on track for further improvements in 2017

² 2015 was a transition year. A Notional Compensatory Primary Balance (NCPB) target was not in effect for in 2015.

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.2 Assessment of Compliance

6.2.1 Public Sector Debt to GDP Ratio:

6.2.1.1 **Legal Requirement – Sub-section 8(1):** *the total stock of public sector debt from domestic or external sources for any purpose, including the total sum of debt guaranteed by the Government including contingent liabilities assumed by the Government, but excluding contingent liabilities arising from, as a result of, or in connection with public-private partnerships;(b) the debt and contingent liabilities of statutory bodies and state-owned enterprises; and(c) such sums as may be necessary to defray expenses in connection with such liabilities, to the GDP shall not exceed fifty-five percent of GDP.*

6.2.1.2 **Legal Requirement – Sub-section 8(5):** *If in a fiscal year the debt level exceeds sixty percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.*

6.2.1.3 The Fiscal Authorities have achieved strong and highly commendable downward movement in the Debt to GDP Ratio from 86.9% in 2015 to 80.5% in 2016.

6.2.1.4 Given that the ratio was above 55% in 2015, corrective measures ought to have been taken to bring the ratio down to 55% within 3 years (by 2018) with 1/3 of the adjustment taking place in the first year, 2016. This implies that the ratio should have declined 10.3 percentage points in 2016 i.e. 1/3 of (86.9% -55%). Actual decline is 6.4 percentage points.

6.2.1.5 It is perplexing that a Debt to GDP ratio target was not set in 2016, having regard for the crucial importance of Debt Management in enhancing the viability of the public finances.

6.2.1.6 The FROC has not been provided with Government's debt reduction strategy in order to assess compliance with same or the efficacy of its implementation. The reason proffered by the Macroeconomic Policy Unit was *“The Medium Term Debt Strategy for 2016 is not finalized”*. This the FROC considers as unacceptable given that the Government is into the 10th month of the 2017 fiscal year.

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.2 Assessment of Compliance (continued)

6.2.1 Public Sector Debt to GDP Ratio: (continued)

6.2.1.7 The FROC was unable to reconcile the figure provided by the Macroeconomic Policy Unit in the “**Grenada Fiscal Data 2014 - 2016**” for Public Debt as at December 31, 2016 of \$2,295.63 million versus the higher figure of \$2,613.37 million published in the “**Quarterly Public Debt Bulletin**” for December 2016 which was provided to the FROC also by the Macroeconomic Policy Unit.

6.2.1.8 The FROC was not provided with a schedule of Public Sector Debt as requested. Given that the management of the Public Debt is vitally critical to the viability of the public finances, the FROC cannot over emphasize the importance of having a very firm handle on the debt stock and a comprehensive understanding of its dynamics.

6.2.2 Contingent Liabilities Arising from Public- Private Partnerships:

6.2.2.1 **Legal Requirement – Sub-section 8(2):** *contingent liabilities arising from, as a result of, or in connection with public private partnerships shall not exceed five percent of GDP.*

6.2.2.2 FROC is of the considered opinion that the Ministry of Finance should, as a matter of high priority, scrutinize all relationships between public entities and private entities to determine whether they are Public Private Partnerships as defined by the FRA.

6.2.2.3 In particular the FROC calls attention to the arrangements for land reclamation and development on Melville Street, St. George’s in which the Grenada Ports Authority and the National Insurance Scheme are involved; the Tyrell Bay land reclamation and development in Carriacou in which the Grenada Ports Authority is involved; and arrangements for the provision of postal and related services in which Grenada Postal Corporation is involved.

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.2 Assessment of Compliance (continued)

6.2.2 Contingent Liabilities Arising from Public- Private Partnerships:

6.2.2.4 FROC further strongly recommends the establishment of a registry or database of all PPPs and that a system be developed to monitor their performance primarily in respect of acquisition of debt and debt servicing.

6.2.3 Wage Bill to GDP Ratio:

6.2.3.1 **Legal Requirement – Sub-section 7(3):** *The Minister shall take appropriate measures to ensure that the ratio of expenditure on the wage bill **shall not exceed nine percent to GDP.***

6.2.3.2 This has been assessed as compliant, with strong reservations. The FROC has received oral and written explanations as to the application of the definition of “wage bill” in the FRA in bringing to account, payments to employees on contract in central government.

6.2.3.3 Both explanations lead the FROC to conclude that the application of the definition of wage bill has resulted in under reporting of actual wages in the central government. Such under reporting results in the ratio being lower than it should be, thus implying availability of ‘fiscal space’ that can encourage heightened union ‘pushfulness’.

6.2.4 Growth in Primary Expenditure (in real terms)

6.2.4.1 **Legal Requirement – Paragraph 7(1)(a):** *the rate of growth of the primary expenditure of the Central Government, and of every covered public entity, **shall not exceed two percent** in real terms in any fiscal year, when adjusted by the preceding year’s inflation rate.*

6.2.4.2 The FROC confirms full compliance and commends the Fiscal Authorities for commendable advances made in respect of this target.

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.2 Assessment of Compliance (continued)

6.2.5 Primary Balance

6.2.5.1 **Legal Requirement – Paragraph 8(3)(a):** *Where the ratio of public debt to GDP for the preceding year reaches fifty-five percent, the Minister shall take appropriate steps to ensure that the targeted primary balance shall be a minimum of three point five percent of GDP.*

6.2.5.2 **Legal Requirement – Paragraph 8(3)(c):** *as a transitional arrangement, the targeted primary balance shall be at a minimum one point three percent of GDP in the fiscal year ending in December 2015;*

6.2.5.3 The FROC confirms full compliance and commends the Fiscal Authorities for commendable advances made in respect of this target. Apart from being compliant and surpassing target in 2016, the transitional 2015 target of 1.3% was also surpassed. At a high level this broadly confirms the soundness of the expenditure and revenue strategies of the fiscal authorities.

6.2.6 Notional Compensatory Primary Balance³

6.2.6.1 **Legal Requirement – Paragraph 8(3)(d):** *a notional compensatory primary balance shall be calculated to reflect the cumulated difference between the actual primary balance and the target primary balance realised in any fiscal year from the first full fiscal year after commencement of this Act;*

6.2.6.2 **Legal Requirement – Paragraph 8(3)(e):** *if at any time the notional compensatory balance shows a value greater than three percent of gross domestic product, revenue and/or expenditure corrective policies will be introduced to reduce the notional compensatory primary balance to zero over a period of three fiscal years to achieve compliance with the target, with at least one third of the adjustment in the first year.*

³ The Notional Compensatory Primary Balance (NCPB) is the difference between the targeted primary balance (primary balance rule) and the actual balance.

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)




6.2 Assessment of Compliance (continued)

6.2.6 Notional Compensatory Primary Balance (continued)

6.2.6.3 The FROC confirms full compliance and commends the Fiscal Authorities for commendable advances made in respect of the target.




6.2.6.4 2015 was a transitional year in which targeted Primary Balance to GDP was 1.3%; given the actual primary balance for 2015, the Notional Compensatory Primary Balance for 2015 was a commendable - 0.02%, consistent with 2016.

6.3 Other Requirements in the FRA

Other requirements in the FRA	Status and FROC comments
<p>1. Paragraph 7(1)(b): <i>policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government and covered public entities shall be consistent with the targets under section 8(1) and the policies and plans set out in the Medium Term Fiscal Framework under section 12(2) of the Public Finance Management Act.</i></p>	<p> FROC has not been provided with the Medium Term Fiscal Framework required under section 12(2) of the Public Finance Management Act; or any other documentation to allow an assessment.</p> <p><i>The Macroeconomic Policy Unit assured the FROC that “the Medium Term Fiscal Framework will be shared once approved by cabinet.”</i></p>
<p>2. Paragraph 7(1)(c): <i>no multi-year commitment shall be entered during a period in which Parliament is dissolved.</i></p>	<p> The FROC confirms full compliance as Parliament was not dissolved in 2016.</p>
<p>3. Paragraph 7(2)(c): <i>For purposes of subsection 1(b) the Minister must establish compensation negotiation cycles that allow for settlements for government employees to be included in estimates of revenue and expenditure for the financial year to which settlement relates.</i></p>	<p> FROC has not been provided with the negative resolution, to confirm the establishment of compensation negotiating cycles that allow for compensation settlement for persons employed by the Government to be incorporated into the Estimates of Revenue and Expenditure for the financial year to which such settlement relates.</p>



6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.3 Other Requirements in the FRA (continued)

Other requirements in the FRA	Status and FROC comments
<p>4. Paragraph 12(1)(c): <i>The Minister “shall prepare and submit to Parliament, along with the presentation of the annual and any supplementary budget, a statement showing the progress made towards compliance with the fiscal rules and targets under sections 7 and 8, in the relevant financial year”.</i></p>	<p> These compliance and fiscal risk statements were not fully done in 2016. The 2016 Budget presented in 2015, contained only a summary of fiscal risks as part of each Budget Framework Paper.</p> <p>The FROC expects the fiscal authorities to fully complete these statements in the 2018 Budget prepared in 2017.</p>
<p>5. Paragraph 12(1)(e): <i>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</i></p>	<p> These compliance and fiscal risk statements were not fully done in 2016. The 2016 Budget presented in 2015; contained only a summary of fiscal risks as part of each Budget Framework Paper.</p> <p>The FROC expects the authorities to fully complete these statements in the 2018 Budget prepared in 2017.</p>
<p>6. Paragraph 5(a): <i>One of the Objects of the Act, “is to ensure that Fiscal and financial affairs are conducted in a transparent manner.”</i></p>	<p> The FROC observed that some documents have been published, in order to improve transparency. These include online quarterly Citizen by Investment (CBI) statistics. Additionally, the Quarterly Debt Bulletin for December 2016 is available on the official website of the government: however, the Medium-term Debt Strategy for 2016 is not.</p> <p>Going forward, the FROC expects to receive a full listing of all official documents (including debt sustainability analyses) required to be presented in Cabinet and/or Parliament and published as required by the Public Finance Management Act, Public Debt Management Act and Fiscal Responsibility Act. The listing should provide, for each document, the date required in law and the actual date presented or published in the relevant financial year.</p>


6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.3 Other Requirements in the FRA (continued)

Other requirements in the FRA	Status and FROC comments
	Further FROC asserts that its work in promoting transparency cannot be achieved if it is provided only with information already in the public domain; or if it received responses to its questions, rather than answers.
<p>7. Paragraph 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” as per Section 5 (b)</p>	 <p>The government publishes monthly fiscal summaries online. In addition, hard copies are posted on the Ministry of Finance’s Bulletin Board. The FROC opines that more could be done, however, to highlight the implications of transactions and decisions through Cabinet briefings and Ministry of Finance press releases.</p>
<p>8. Paragraph 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.”</p>	 <p>Division of Economic Management and Planning reported that primary surpluses are projected to average 6.1% over the medium-term.</p> <p>The FROC noted that if these primary balances were to materialize, this should keep the public debt on a downward trajectory. Going forward, the FROC expects a final copy of the debt management strategy for the year under review as well as medium to long term fiscal and debt projections with supporting assumptions, to comprehensively assess compliance with the FRA. (Refer to Debt To GDP discussion in previous section).</p>



6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.3 Other Requirements in the FRA (continued)

Other requirements in the FRA	Status and FROC comments
<p>9. Paragraph 5(d): One of the Objects of the Act “is to ensure Prudent management of fiscal risks; Furthermore, paragraph 6(d) stipulates that “management of fiscal risks is in accordance with regulations and guidelines to be issued by the Minister”</p>	 <p>The FROC observed that in the 2016 Budget, fiscal reforms such as implementation of the FRA were cited as mitigating measures against the impact of risks related to external shocks.</p> <p>The FROC also noted the status of oversight of State Owned Enterprises (SOE) and Statutory Bodies which can pose fiscal risks.</p> <p>The Debt Unit monitors guaranteed debt as well as liabilities arising from judgments of the Court. Regarding SOEs, they are subject to the same financial practices that bind the Government, as stipulated in the Public Finance Management Act No. 17 of 2015.</p> <p>Further, in order to ensure prudent management, there are set expenditure ceilings for statutory bodies. In addition, a statutory body shall not incur any liability or make commitments exceeding the recommended ceiling without the Minister's approval; plus the Minister also has the right to override the financial decisions or commitments made by a statutory body.</p> <p>Though these methods of guidance will assist in ensuring control and prudent management, there has been non-compliance in reporting. It is noted that out of the 24 of these organizations, only 21% of them have shown 100% compliance in delivering their reports on time each quarter; while 21% of them have shown 100% non-compliance having not delivered any of their reports on time in any given quarter.</p> <p>The FROC was unable to assess the efficacy and comprehensiveness of the existing regime for data capturing and reporting on covered public entities.</p> <p>FROC expects to be provided with information requested to assess the implementation status of these initiatives and to corroborate representations and assertion made.</p> <p>The FROC looks forward to future full fiscal risk statements that will highlight not just the risks,</p>

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.3 Other Requirements in the FRA (continued)

Other requirements in the FRA	Status and FROC comments
	their potential impact, and proposed mitigation measures, but also the status of current measures and plans for strengthening them.
<p>10. Paragraph 6(c): Stipulates that “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”</p>	<p> The FROC noted that in 2016, the 2017 Budget announced a number of relief measures to be implemented in 2017. These measures included: tax registration amnesty; the tax filing amnesty for annual stamp tax; reduction in the price of the 20-pound cylinder; reduction of the lower rate for the personal income tax rate from 15% to 10%; and removal of all income tax on pension income. It was pointed out that the fiscal space was sufficient to accommodate revenue loss from the income tax change, without the introduction of offsetting measures. The FROC noted that the impact of these relief measures would be offset by strengthened primary expenditure management systems and improved tax collections. In terms of the latter, VAT receipts were bolstered by the full application of this tax on bank service charges from 01 August 2016.</p> <p>The FROC commends the efforts by the fiscal authorities in this area of the FRA.</p>
<p>11. Paragraph 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”</p>	<p> Part XIII of the Public Finance Management Regulations (SRO 33 of 2015) outlines the procedures and processes for public sector projects to be included in the capital expenditure budget. Appendix D outlines the criteria to be used to evaluate projects. The Public Investment Management System (PIMS) dated February 2016 outlines the format for the preparation and submission of projects by line Ministries and Departments.</p> <p>The FROC was not provided with information to assess the efficacy of the system being implemented.</p>

6.0 COMPLIANCE WITH FISCAL RULES AND TARGETS: 2016 (CONTINUED)

6.4 Other Requirements in the FRA- Assessment of compliance

6.4.1 Negotiation of Rates of Pay and Related Conditions of Employment

6.4.1.1 **Legal Requirement – Paragraph 7(1)(b):** *policy on negotiation of rates of pay and related conditions of employment for persons employed in the Central Government and covered public entities shall be consistent with the targets under section 8(1) and the policies and plans set out in the Medium Term Fiscal Framework under section 12(2) of the Public Finance Management Act.*

6.4.1.2 FROC has not been provided with the Medium Term Fiscal Framework required under section 12(2) of the Public Finance Management Act; or any other documentation to allow an assessment.

6.4.1.3 *The Division of Economic Management and Planning assured the FROC that “the Medium Term Fiscal Framework will be shared once approved by cabinet.”*

6.4.2 Multi-year Commitment During a Period in which Parliament is Dissolved

6.4.2.1 **Legal Requirement – Paragraph 7(1)(c):** no multi-year commitment shall be entered during a period in which Parliament is dissolved.

6.4.2.2 The FROC confirms compliance as Parliament was not dissolved in 2016.

6.4.3 Compensation Negotiation Cycles

6.4.3.1 **Legal Requirement – Paragraph 7(2):** *For purposes of subsection 1(b) the Minister must establish compensation negotiation cycles that allow for settlements for government employees to be included in estimates of revenue and expenditure for the financial year to which settlement relates.*

6.4.3.2 FROC has not been provided with the negative resolution, to confirm the establishment of compensation negotiating cycles that allow for compensation settlement for persons employed by the Government to be incorporated into the Estimates of Revenue and Expenditure for the financial year to which such settlement relates.

7.0 OUTCOME AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT

- 7.1 The FRA has implications for the most crucial tool of fiscal policy, the budget. It contains rules and targets which act as an operational guide in the preparation of the budget as well as a medium term debt anchor to shape fiscal policy (IMF, 2017).⁴ Therefore, the budget and its related processes and practices such as medium term planning have to be in line with the rules, targets and requirements of the FRA. This is essential to sustain the recent macro-economic gains that Grenada has experienced since 2014.
- 7.2 The 2016 Budget was not fully in accordance with the targets of the Homegrown Structural Adjustment Programme and the FRA. However, corrective action was subsequently taken (IMF, 2017) and the 2017 Budget was in line with the FRA.
- 7.3 While the FROC recognizes the efforts by the authorities to ensure that its fiscal policy practices and documents are in keeping with the Act, the Committee faced limitations in assessing full compliance. While responses were provided to questions asked, those responses were, in too many instances, not answers to the questions asked. The information in major policy documents such as the budget is not presented in the same form as is required for a comprehensive assessment because of specific definitions, exclusions and public sector coverage in the FRA. A fundamental limitation is that the FRA coverage encompasses not only central government fiscal and debt operations, but that of the entire public sector, including that of public entities, for which complete data was unavailable.

⁴ Source: International Monetary Fund (2017, May). IMF Country Report No. 17/131 - Sixth Review Under the Extended Credit Facility Arrangement and Financing Assurances Review. Retrieved from <http://www.imf.org/en/Publications/CR/Issues/2017/05/23/Grenada-Sixth-review-Under-the-Extended-Credit-Facility-Arrangement-and-Financing-Assurances-44936>.

7.0 OUTCOME AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

7.4 Medium and Long Term Fiscal Policy and Implications for the Act

7.4.1 The FROC noted that there are three main fiscal rules in the FRA for guiding medium term fiscal policy in Grenada. These are:

- (1) The total stock of public sector debt to the GDP shall not exceed fifty-five percent of GDP;
- (2) The rate of growth of the primary expenditure (excluding grant or National Transformation Fund (NTF) financed capital expenditure) of the Central Government, and of every covered public entity, shall not exceed two percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate;
- (3) The ratio of expenditure on the wage bill shall not exceed nine percent to GDP.

7.4.2 The current fiscal policy of government, as can be gleaned from budget and other policy documents, is focused on each of these three rules subject to varying degrees of compliance. In practice, strengthened tax and customs administration, expenditure restraint, improved debt management, and debt restructuring and the regularization of arrears were at the core of fiscal policy in 2016, in keeping with the FRA.

7.4.3 Rule No. 1 above is being applied by the authorities to an inadequate measure of public sector debt, relative to what is defined in the FRA, and the FROC hopes that this coverage issue will be rectified in the medium term. The FROC noted that, at least in the medium term, fiscal policy of the central government is centered on the attainment of a minimum primary balance of 3.5 percent of GDP until the public sector debt stock falls below the equivalent of 60 percent of GDP (Annual Budget Address, 2017). Furthermore, the IMF Letter of Intent (2017), suggests that in 2017 and up to the year the debt to GDP ratio reaches 55 percent, a 3.5 per cent primary surplus would be targeted, among other parameters by the central government. Notably, in the Act Section 8(3)(a), this minimum primary balance applies "*Where the ratio of public debt to GDP for the preceding year reaches fifty-five percent*". Therefore, the FROC concludes that debt stabilizing primary balances should be calculated to guide the attainment of the timelines,

7.0 OUTCOME AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

7.4 Medium and Long Term Fiscal Policy and Implications for the Act (continued)

if any, that were set for the attainment of policy and operational debt targets of 55 and 60 percent, respectively. Moreover, the FROC notes that if the FRA were to be applied in its strict sense, since the measure of debt to GDP was above 60.0 percent in 2016, then Section 8 (5) should apply in the short to medium term – *“there should be revenue and expenditure measures to lower the public debt to 55 percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year”*.

7.4.4 Rule No. 2 above is being applied by the authorities to only the primary expenditure (excluding grant or NTF financed expenditure) of central government. Data unavailability on covered public entities precludes the Committee from fully assessing whether the country was compliant with this rule in 2016. In order for medium term fiscal policy to be in keeping with the Act, current efforts at strengthening the oversight of statutory bodies should also be geared at gathering the requisite primary expenditure data on covered public entities. Nonetheless, the FROC noted the continued policy efforts by the authorities to contain primary expenditure, through the attrition policy, and waste reduction strategies, among others.

7.4.5 Rule No. 3 above is being applied by the authorities to a definition of the wage bill that is not consistent with the one provided in the FRA, and the FROC hopes that this measurement issue will be clarified in the short term. The FROC also observed, based on the Letter of Intent placed in the IMF Country Report No. 17/131 that the central government is committed to a public sector wage bill of 8.8 percent of GDP, lower than the 9.0 percent ceiling mandated in the FRA. While the FROC anticipates that future reforms - implementation of both the Cabinet approved public sector wage bill management reform strategy and the human resource registry for the public service – would help to contain the wage bill, it is concerned that the operational target of 8.8 percent would be met in the medium term. The concerns are in light of the wage demands by public sector unions in 2017.

7.0 OUTCOME AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

7.4 Medium and Long Term Fiscal Policy and Implications for the Act: (continued)

7.4.6 If the country achieves the 55 percent debt to GDP target in the medium term, then Section 8(3) should be the central focus of long term fiscal policy. This Section of the legislation would call for, in the long term, prudent management of Citizenship by Investment flows; and contained primary expenditure, among other parameters.

7.5 Medium and Long Term Macroeconomic Forecasts and Implications for the Act

Fiscal and debt forecasts, as garnered from the annual budget statements and Review/Outlook Reports for 2016 and 2017, focus on central government operations in the medium term. The medium term baseline projections provided, which were based on existing trends, assume adherence to the Act. In other words, they assume that the authorities are committed to the Act and that there will be smooth implementation of the legislation in the medium term.

7.6 Adequacy of Risk Assessment by Government

The 2016 and 2017 Budgets provided summaries of key fiscal risks in the medium term as follows: growth slippages in economies of major trading partners; occurrence of natural disasters; the impact of Brexit and the Zika virus; loss of correspondent banking relations; acute disruptions in the supply chain in the agricultural sector; and implications of low global fuel prices on Petro Caribe grant funding. The summaries provided, at varying depths, brief notes for most of the risks on their potential fiscal transmission and measures for managing them. It would have been useful to develop alternative scenarios to the baseline projections, based on these risks, quantifying the impact of the risks in cases where possible and discussing the associated implications for adherence to the fiscal responsibility legislation. Additionally, future assessments can provide information on the likelihood or probability of risks and a specified period of time for their materialization i.e. short, medium or long term.

7.0 OUTCOME AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

7.7 Issues for Consideration in the Further Implementation of the Act

The following issues, apart from the aforementioned risks, are highlighted for consideration by the authorities since they can constrain adherence to the legislation:

- (i) Disaster relief plans have to strategize recovery of the economy within one year as certain rules, targets and corrective measures in the FRA can be suspended for a period not greater than one fiscal year after a natural disaster.
- (ii) Uncertainty with respect to (a) costs of impending universal health care and pension reform; and (b) covered public entities which have the potential to pose fiscal risks.
- (iii) Economic growth will provide the anchor for adherence to the legislation. Growth enhancing reforms through continued implementation of the Growth and Poverty Reduction Strategy (GPRS) (2014 - 2018) and the pending long-term development plan, are essential for fiscal and debt sustainability. There must be a proper policy balance between the implementation of the fiscal responsibility framework and of the growth plans. Adherence to the FRA, should not come at the opportunity cost of growth, but rather the two objectives should complement each other. For instance, restraints in expenditure should not come at the cost of cutting necessary capital expenditure.
- (iv) Demands are likely to rise for higher public spending and wages as the next general elections draws nearer. This will be a crucial test for the government's commitment to the new fiscal responsibility framework. Higher than anticipated public spending could push central government operations beyond the ceilings outlined in the FRA.
- (v) Public ownership is still lacking for the FRA. "While there has been initial dialogue on the Fiscal Responsibility Legislation, the future success requires deeper engagement and collaboration with the public sector unions and other key partners to advance the design and implementation of the New Human Resource Management and Development approach for the Public Service" (Annual Budget Address, 2017). Wage negotiations in early 2017 reflected the government's determination to adhere to the FRA but the Public Workers' Union has challenged the wage bill ceiling of the law referring to it as an impediment to their rights of free bargaining (IMF, 2017).

7.0 OUTCOME AND IMPLICATIONS OF IMPLEMENTATION OF THE ACT (CONTINUED)

7.7 Issues for Consideration in the Further Implementation of the Act (continued)

(iv) Debt above 55 percent, can be a drag on growth⁵. Efforts must be strengthened to improve debt management and finalise debt restructuring with outstanding creditors to ensure, at least, the debt level of central government is reduced.

8.0 SUGGESTED AMENDMENTS TO THE FISCAL RESPONSIBILITY LEGISLATION

8.1 The FROC in the preparation of its Report herein has observed areas of the Fiscal Responsibility legislation that need amendment. Specifically three amendments are being recommended – one to the Fiscal Responsibility (Amendment) Act No. 11 of 2017 and two to the Principal Act, the Fiscal Responsibility Act No. 29 of 2015.

8.2 Suggested Amendment 1

8.2.1 It is submitted that an amendment to **Section 14(2) Schedule II of the Fiscal Responsibility Act (Amendment) Act No. 11 of 2017** is needed.

8.2.2 As it stands now, Section 14(2) Schedule II of the Fiscal Responsibility Act (Amendment) Act No. 11 of 2017 provides:

“2. Tenure and revocation.

(1) The Governor General shall appoint as Chairperson of the Fiscal Responsibility Oversight Committee one of the four members nominated by the Committee of Privileges upon the Committee of Privileges nominating the member to be the Chairperson.

(2) A member of the Committee shall hold office for a period not exceeding three years and shall be eligible for re-appointment subject to subsection (3).

⁵ Source: Craigwell, R., Drakes, L., Greenidge, K., & Thomas, C., 2012. Threshold Effects of Sovereign Debt: Evidence from the Caribbean. IMF Working Papers, 2012(157), pp. 01-23.

8.0 SUGGESTED AMENDMENTS TO FISCAL RESPONSIBILITY LEGISLATION (CONTINUED)

Suggested Amendment 1 (continued)

(3) In no case shall a person hold office as a member of the Committee for a period exceeding four consecutive years, but a person who has served for a period of four consecutive years may become eligible for re-appointment after the expiration of two years.

8.2.3 There is ambiguity in the wording of the provision for tenure and revocation. It is submitted that the intention of Parliament is that members of the FROC are to be conferred with a term of office not exceeding three (3) years – Section 14(2)(2). The intention of Section 14(2)(3) is to prevent any person from serving for a period exceeding four (4) consecutive years. The cumulative period of any number of terms should not exceed four consecutive years. Accordingly, there can be reappointments. For instance, there can be four one-year appointments.

8.2.4 It is respectfully suggested that an amendment should be made to Section 14(2) on the provision of tenure and revocation for members of the FROC that clearly communicates the following intentions:

- i) That a member of the FROC can initially have a tenure in office for a maximum period of three years;
- ii) At the end of that three year tenure the member can be eligible for re-appointment for a term of one year;
- iii) A person shall not hold office as a member of the FROC for a period exceeding four consecutive years; and
- iv) After serving as a member of the FROC for a period of four consecutive years, a person may only become eligible for re-appointment after the expiration of two years.

8.0 SUGGESTED AMENDMENTS TO FISCAL RESPONSIBILITY LEGISLATION (CONTINUED)

8.3 Suggested Amendment 2

8.3.1 **Section 8** of the **Fiscal Responsibility Act No. 29 of 2015** (FRA) sets out the fiscal targets for a fiscal year and specifically provides for, “*prudent debt, contingent liabilities, and primary balance target.*”

8.3.2 Overall there is a need to reduce the ambiguity with the different debt to GDP ratio in the Act.

8.3.3 Section 8(3) of the FRA is notably silent on what measures the Minister can implement when the ratio of public debt to GDP is over fifty-five percent.

8.3.4 Section 8(3) currently provides:

“Where the ratio of public debt to GDP for the preceding year reaches fifty-five percent, the Minister shall take appropriate steps to ensure that –

“(a).. – (f)(i), (ii), (iii).”

8.3.5 Accordingly, it is respectfully suggested that Section 8(3) of the principal act should be amended. This amendment would therefore replace the words, “*where the ratio of public debt to GDP for the preceding year reaches fifty-five percent, the Minister shall take appropriate steps to ensure that -...*” with the following:

“Once the ratio of public debt to GDP is fifty-five percent or more the Minister shall take appropriate steps to ensure that -

(i) the targeted primary balance shall be a minimum of three point five percent of GDP;

(ii) upon achievement of the target specified in paragraph (a), the target shall be maintained over the medium term by ensuring compliance with the expenditure growth rule established in section 7(1)(a);

(iii) as a transitional arrangement, the targeted primary balance shall be at a minimum one point three percent of GDP in the fiscal year ending in December 2015;

8.0 SUGGESTED AMENDMENTS TO FISCAL RESPONSIBILITY LEGISLATION (CONTINUED)

8.3 Suggested Amendment 2 (continued)

- (iv) *a notional compensatory primary balance shall be calculated to reflect the cumulated difference between the target primary balance and the actual primary balance, by subtracting the actual primary balance from the target primary balance as realized in any fiscal year from the first full fiscal year after commencement of this section; [This paragraph 8(3)(d) herein by virtue of the Fiscal Responsibility (Amendment) Act 1 of 2016 repealed and replaced paragraph 8(3)(d) of the Principal Act].*
- (v) *If at any time the notional compensatory balance shows a value greater than three percent of gross domestic product, revenue and/or expenditure corrective policies will be introduced to reduce the notional compensatory primary balance to zero over a period of three fiscal years to achieve compliance with the target, with at least one third of the adjustment in the first year;*
- (vi) *Where the programme established under the Citizenship by Investment Act, 2013 is in effect –*
 - (a) *forty percent of the monthly inflows into the National Transformation Fund shall be saved for general budget financing purposes, including contingency spending, natural disasters and debt reduction;*
 - (b) *at the end of every month, the inflow under subparagraph (i) shall be transferred from the National Transformation Fund account to the Consolidated Fund account to the Consolidated Fund; and*
 - (c) *upon achievement of the debt levels pursuant to subsections (1) and (2), the total sum of receipts from the programme, which are used for meeting the primary balance targets shall not exceed the equivalent of one point five percent of GDP.*

8.0 SUGGESTED AMENDMENTS TO FISCAL RESPONSIBILITY LEGISLATION (CONTINUED)

8.4 Suggested Amendment 3

8.4.1 It is further submitted that the aforesaid suggested amendment 2, would conflict with the current provision of Section 8(5) of the principal act which states:

“If in a fiscal year the debt level exceeds sixty percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.”

8.4.2 Given that the ratio of public debt to GDP shall not exceed fifty-five percent as stipulated in section 8(1), it is submitted that section 8(5) also needs to be amended to ensure consistency in the statement of the ratio of public debt to GDP as provided in subsection 8(1), and in-keeping with the suggested amendment to section 8(3) above.

8.4.3 Presently section 8(5) speaks to the corrective revenue and expenditure measure to be employed by the Minister to reduce public debt when the debt level exceeds sixty percent of GDP.

8.4.4 It is respectfully submitted that section 8(5) of the FRA should be accordingly amended to reflect the following:

“If in a fiscal year the debt level exceeds fifty-five percent of GDP, the Minister shall undertake appropriate corrective revenue and expenditure measures to reduce the public debt to fifty-five percent of GDP over a period of three fiscal years, with at least one-third of the adjustment in the first year.”

9.0 CONCLUSION AND RECOMMENDATIONS

- 9.1 Grenada's economy has achieved macroeconomic gains, especially over the last three (3) years, aided by the implementation of adjustment measures and reforms under its recent IMF endorsed Homegrown Structural Adjustment Programme. The gains of the Programme are likely to be sustained with adherence to the fiscal responsibility legislation. The inbuilt mechanisms of the fiscal responsibility framework will allow the economy to respond better to shocks that have exposed the vulnerabilities of the economy in the past.
- 9.2 Grenada is in the early stages of implementation of its FRA, a very crucial phase that will set the precedence for policies in the medium to long term. This juncture tests the initial resolve and commitment of the authorities, which will subsequently determine the extent to which public demands and expectations can be managed or spiral out of control. This stage also reflects the actual degree of ownership by the public of this enabling fiscal reform. Undoubtedly, the next two years will shape the legacy of the FRA in Grenada.
- 9.3 It is clear that efforts were made to comply with the legislation in 2016 and this bodes well for the performance of the economy in the medium to long term. There are still safeguard mechanisms that should be developed to ensure adherence to the law. In light of this, the following are recommended by the FROC:
1. Fiscal risks of intended policies to have universal healthcare and public pensions, must be carefully evaluated and considered against the legislation. Costs should be quantified to guide the medium term and any long term fiscal policy framework.
 2. A transition period from 2017 should be identified in national policy documents for the attainment of the debt to GDP targets (policy target of 60 per cent and operational target of 55 percent) enlisted in the legislation. The legislation does not state the time for attainment of these targets.

9.0 CONCLUSION AND RECOMMENDATIONS (CONTINUED)

3. Greater efforts and resources are needed to improve recording and monitoring of fiscal and debt statistics of all public entities as the fiscal legislation encompasses the entire public sector and not just central government.
4. Continued vigilant monitoring of the financial system through a framework that provides early warning systems on any actual or potential fiscal risks in the country's financial sector. Continued collaboration with the ECCB is necessary on this matter.
5. In addition there needs to be an acceptance by the Ministry of Finance, that the Macroeconomic Policy Unit has to build appropriate mechanisms to provide support relating to the supply of data and any supplementary information requested by the Committee, in order to facilitate the discharge of its functions – a requirement of the FRA. Through a Memorandum of Understanding between the Ministry of Finance and the FROC a trusting and respectful relationship has to be cultivated.
6. Strengthened advocacy by the government on the fiscal responsibility legislation, with support that can be sought from regional and multi-lateral organisations. This would help improve the fiscal literacy of citizens and strengthen ownership of the rules-based framework.

10.0 ANNEX: DATA SOURCES

Grenada Fiscal Data 2014 -2016					
<i>in millions of Eastern Caribbean Dollars</i>					
	2013	2014	2015	2016 (Actual)	2016 (Budget)
Total Revenue and Grants	471.5	602.8	649.5	751.6	776.2
Current Revenue	440.3	502.3	571.3	651.6	574.6
Tax Revenue	376.8	448.1	511.8	600.5	526.2
Taxes on Income & Profits	66.1	89.9	101.7	127.3	93.9
Taxes on Property	15.1	21.4	23.3	23.9	22.0
Taxes on Domestic Goods & Services	92.4	104.1	116.1	140.0	128.5
Taxes on International Trade Transactions	203.2	232.8	270.6	309.3	281.8
Non-tax Revenue	63.5	54.2	59.4	51.1	48.3
Grants	31.3	100.5	78.3	100.0	201.6
Budgetary Grants	0.0	9.9	-	26.0	-
Capital Grants	31.3	90.6	78.3	74.0	201.6
Primary Expenditure	552.0	631.3	597.3	603.3	672.7
Total Expenditure	632.3	718.1	688.9	685.6	776.0
Current Expenditure	471.9	491.4	468.9	565.5	481.3
Employee Compensation	254.5	253.8	225.9	251.6	232.0
Personal emoluments, Wages & Allowances	243.5	242.4	215.3	240.4	220.0
Social contribution to employees	11.1	11.4	10.6	11.2	12.0
Goods & Services	75.9	72.2	76.0	117.6	69.9
Interest payments	80.3	86.8	91.7	82.3	103.3
Transfers	61.1	78.6	75.3	113.9	76.0
Capital Expenditure	160.5	226.7	220.1	120.1	294.7
Grants	31.3	90.6	78.3	74.0	201.6
Local Revenue	70.9	96.2	101.1	28.7	78.2
Loan	58.4	39.9	40.7	17.4	15.0
Primary Balance after grants	(80.5)	(28.5)	52.3	148.3	103.5
Overall Balance after grants	(160.8)	(115.3)	(39.4)	66.0	0.2
Memo Items:					
Real GDP Growth (%) (Market Prices)	2.4	7.3	6.4	3.7	
Nominal GDP	2,274.94	2,461.21	2,656.97	2,851.71	-
Public Debt (included Guaranteed debt)	2353.29	2,382.70	2,310.15	2,295.63	-
CPI index	109.23	108.16	107.53	109.37	
Inflation Rate (end of period) (%)	(1.30)	(0.60)	1.10	0.90	-
Rules and Target					
Primary Balance (% of GDP)	-3.5	-1.2	2.0	5.2	
Wage Bill (% of GDP)	10.7	9.9	8.1	8.4	
Nominal Primary Expenditure less Capital Grants	520.8	540.7	519.0	529.3	
Nominal Primary Expenditure less Capital Grants (% change)		3.8	-4.0	2.0	
Real Primary Expenditure less Capital Grants (% change)		5.1	-3.4	0.9	
Public Debt (% of GDP)	103.4	96.8	86.9	80.5	

Other data sources include: <https://www.eccb-centralbank.org/>