GOVERNMENT OF GRENADA

MEDIUM-TERM FISCAL FRAMEWORK: 2020-2022

Ministry of Finance, Planning, Economic & Physical Development

November 2019

I, Isha Abraham, Acting Permanent Secretary, Ministry of Finance, attest to the reliability and completeness of the information presented in the Medium-term Fiscal Framework 2020-2022 and its compliance with the Fiscal Responsibility Legislation No. 29/2015 as amended.

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Mrs. Isha Abraham

Permanent Secretary (Ag.)

1. ECONOMIC OVERVIEW

The Annual Economic Review for 2019 provides details of the most-recent economic performance. In summary, economic growth is estimated at 3.2 percent in 2019, underpinned by activity in the Services Sector particularly Private Education, Tourism, and Wholesale and Retail Trade, as well as activity in the Manufacturing Sector and to a lesser extent, the Agricultural Sector. Inflation is estimated to remain subdued and the unemployment rate is anticipated to decline. Public finances are estimated to remain healthy in 2019, with the primary surplus and overall surplus estimated at 6.8 percent of GDP and 5.0 percent of GDP respectively, compared to 6.9 percent of GDP and 4.9 percent of GDP correspondingly in 2018. As an upshot, public debt (Central Government plus Government guaranteed) is estimated to decline to 55.8 percent of GDP at end-2019 from 62.7 percent at end-2018.

2. MEDIUM-TERM MACROECONOMIC OUTLOOK

On balance, Grenada's medium-term economic outlook is positive. It is anticipated that economic expansion will continue, underpinned by activities in key sectors such as Construction, Tourism, and Agriculture. Regarding Construction, the assumption is that the sector will rebound from the estimated contraction in 2019, based on the expected commencement of new tourism-related private sector projects in 2020, as well as public infrastructure development, especially housing, road works, and investments to build climate resilience. In relation to Tourism, the relatively strong performance witnessed in 2018 is expected to continue, especially given the boost in room stock and product enhancement initiatives. With respect to the Agriculture sector, new linkages forged with the Tourism and Manufacturing sectors in 2018 are expected to continue as well as expand, which should help boost agricultural production in the foreseeable future. Accordingly, real GDP growth (at market prices) is projected to average 3.8 percent over the 2020-2022 period.

Barring any shocks to international commodity prices, it is likely that inflation will remain subdued in the medium-term, based on the forecast for international prices as well as US inflation. The domestic inflation rate is projected to average 1.6 percent in 2020-2022. Meanwhile, the employment situation is anticipated to improve over the medium-term, consistent with the projected expansion in economic activity. Accordingly, the unemployment rate is expected to decline further, but it is likely to remain in double digits – particularly the youth unemployment rate. Therefore, the Government will continue to invest in skills training as well as expand opportunities to promote entrepreneurship and small business development.

2.1 Medium-term Fiscal Policy Objectives

The Medium-term Fiscal Strategy for the period 2020-2022 is guided by the Goals and Objectives of the National Sustainable Development Plan 2020-2035, which will be the anchor for Grenada's development priorities over the 16-year period. The National Plan sets out the following three overarching Goals:

1. *High Human and Social Development: Putting People at the Centre of Sustainable Development and Transformation.*
2. *Vibrant, Dynamic, Competitive Economy with Supporting Climate-and-Disaster-Resilient Infrastructure.*
3. *Environmental Sustainability & Security.*

These Goals are to be realized through the attainment of the following eight National Outcomes:

- *Outcome #1 - A Healthy Population*
- *Outcome #2 - Educated, Productive, Highly-Skilled, Trained, and Conscious Citizens*
- *Outcome #3 - A Resilient, Inclusive, Gender-Sensitive and Peaceful Society*
- *Outcome #4 - Broad-based, Inclusive, and Sustainable Economic Growth and Transformation*
- *Outcome #5 - Competitive Business Environment*
- *Outcome #6 - Modern Climate-and-Disaster-Resilient Infrastructure*
- *Outcome #7 - Climate Resilience and Hazard Risk Reduction*
- *Outcome #8 - Energy Security and Efficiency*

The National Goals and Outcomes are to be achieved through concrete strategic actions that are to be undertaken during the 16-year period by key stakeholders in the development process; the Public Sector being the major stakeholder. Specific strategic actions will be programmed in three-year cycles; with the first cycle being 2020-2022.

Therefore, the Medium-term Fiscal Framework (MTFF) for 2020-2022 has been formulated to support the execution of strategic actions that will contribute to the Government's overarching development priority to build economic, social and environmental resilience, consistent with the Goals and Outcomes of the National Plan.

The MTFF 2020-2022 has three specific components: (i) a medium-term revenue strategy; (ii) an expenditure strategy; and (iii) a debt management strategy. The strategies outlined in this MTFF build on the previous MTFF for the period 2019-2021 and have incorporated recent developments, as well as new policies.

The revenue strategy will continue to focus on improving tax collection and addressing revenue leakages by plugging tax loopholes and strengthening enforcement and compliance measures. Therefore, institutional strengthening of the revenue-collecting agencies of Government would be given special attention, with the strategic aim of increasing revenue collection from all tax types. Recurrent revenue is projected to average 22.6 percent over the period 2020-2022.

The expenditure strategy is aimed at: (i) substantially improving the management of public expenditure; (ii) tightening expenditure controls; (iii) increasing value for money in public procurement; and (iv) prioritizing productive and efficient spending, especially geared at building resilience.

The Government will be undertaking a comprehensive Public Expenditure Review (PER) in 2020 to determine the efficiency, cost-effectiveness, alignment and consistency with Government's strategic development priorities. Concrete recommendations are expected from the Review that can contribute to expenditure efficiency gains in the medium-term with concerted actions taken. Additionally, Finance Officers will continue to be given constant high-level attention and monitoring as well as the operations of State-owned Enterprises and Statutory Bodies with the strategic intention of managing fiscal risks. Furthermore, special attention will continue to be accorded to bolstering project implementation capacity through targeted technical support.

Accordingly, recurrent expenditure is projected to be reduced from 18.2 percent of GDP in 2020 to 16.3 percent of GDP in 2022. Cost estimates associated with pension reform and the implementation of national health insurance were not yet finalized at the time of preparing the MTFF 2020-2022, and as such are not included in the medium-term expenditure projections. Capital expenditure is projected to average 5.2 percent of GDP in the period 2020-2022, on the assumption that implementation capacity support would be further strengthened so that the many projects in the pipeline can be effectively implemented, especially those focused on building resilience to carried change. The main sources of financing for capital expenditure are capital grants from the NTF and those secured from external development partners specifically to support Government's resilience-building agenda.

Based on the projected outturns for revenue and expenditure, Government's fiscal surpluses are forecasted to expand over the medium-term, with the overall and primary surpluses (including grants) widening to 5.8 and 7.4 percent of GDP respectively in 2022 from 4.2 and 6.1 percent of GDP correspondingly in 2020.

The Medium-term Debt Management Strategy focuses on: (i) managing public debt in a manner that is consistent with ensuring that the Budget is adequately funded as needed at the lowest cost and within a manageable risk framework; (ii) promoting debt sustainability; and (iii) ensuring that public debt management operations support the establishment of a well-developed domestic debt market in the medium-to-long term. Public debt (defined as Central Government debt plus Government guaranteed debt) is projected to decline from 53.7 percent in 2020 to 50.6 percent by 2022.

Appendix 1 presents the MTFF 2020-2022 with the key fiscal anchors that will guide the Government's policy, against which progress will be monitored. The assumptions underlying the MTFF projections are in Appendix 2.

3. CONSISTENCY OF THE MTFF 2020-2022 WITH THE FISCAL RESPONSIBILITY LEGISLATION

The MTFF 2020-2022 is framed to ensure compliance with the Fiscal Responsibility Law (FRL) No. 29/2015 (as amended in 2017).

The following explicit fiscal rules and debt target are stipulated in Sections 7 and 8 of the FRL:

1. *Primary Expenditure Rule:* the rate of growth of the primary expenditure[1] of the Central Government, and of every covered public entity, shall not exceed 2.0 percent in real terms in any fiscal year, when adjusted by the preceding year's inflation rate.

2. *Wage Bill Rule:* the ratio of expenditure on the wage bill shall not exceed 9.0 percent of GDP.

[1] Calculated as Total Expenditure less Interest Payments.

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

4. *Contingent Liabilities Rule:* contingent liabilities arising from, as a result of, or in connection with PublicPrivate Partnerships (PPPs) shall not exceed 5.0 percent of GDP.

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

The MTFF 2020-2022 is in compliance with the requirements of Sections 7 and 8 of the FRL. Table 1 shows that all fiscal rules are adhered to and public debt is projected to decline below the FRL's 55.0 percent of GDP target by 2020.

Table 1: Compliance Matrix

	2020		2021		2022	
	Fiscal Rule	**Proj.**	**Fiscal Rule**		**Fiscal Rule**	**Proj.**
Growth of Real Primary Expenditure less Capital Grants (Annual % change)	Not exceeding 2.0%	2.0%	Not exceeding 2.0%	2.0%	Not exceeding 2.0%	-3.2%
Wage Bill (% of GDP)	Not exceeding 9.0% of GDP	7.7%	Not exceeding 9.0% of GDP	7.5%	Not exceeding 9.0% of GDP	7.2%
Primary Balance (% of GDP)	Not less than 3.5% of GDP	6.1%	Not less than 3.5% of GDP	6.3%	Not less than 3.5% of GDP	7.4%
Contingent Liabilities related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%
Public Debt (% of GDP)^	55.0%	53.7%	55.0%	52.2%	55.0%	50.6%

Source: Ministry of Finance

Notes: ^ The FRL does not stipulate a year within which the 55% is to be attained. Proj. means projected.

4. RISKS TO THE MEDIUM-TERM ECONOMIC OUTLOOK

A mix of upside and downside risks can affect Grenada's positive macroeconomic outlook, but on balance, they are tilted to the downside. On the upside, Grenada's fiscal improvement provides space to upscale public investment that can boost growth and job creation, while simultaneously build resilience to climate change. On the downside, risks are linked to the waning expansion of the global economy and in particular, the economies of Grenada's main trading partners, which can negatively affect tourist arrivals, remittances, and foreign direct investment. Uncertainties regarding Brexit outcomes also pose downside risks to Grenada through lower tourist arrivals. Geo-political uncertainties portend volatile international fuel prices, which also pose a downside risk. Grenada's vulnerability to natural hazards is an inherent risk; adverse effects of climate change can significantly affect agricultural output (in particular) over the medium-term. The Medium-term Fiscal Framework can also be adversely affected should any of the downside risks materialise. The Fiscal Risk Statement to be laid in Parliament in accordance with Section 12 (1) (e) of the FRL, contains a fuller discussion on risks and mitigation measures.

Appendix 1: Grenada Medium-Term Fiscal Projectioins 2020 -2022

In millions of Eastern Caribbean Dollars unless otherwise stated						
	2020		2021		2022	
	Projected	% of GDP	Projected	% of GDP	Projected	% of GDP
TOTAL REVENUE AND GRANTS	**1004.8**	**28.9**	**993.5**	**27.2**	**1008.1**	**26.3**
Total Revenue	**786.2**	**22.6**	**824.4**	**22.6**	**865.6**	**22.6**
Tax revenue	**727.7**	**20.9**	**763.0**	**20.9**	**801.1**	**20.9**
Non - Tax Revenue	**58.5**	**1.7**	**61.4**	**1.7**	**64.5**	**1.7**
Grants	**218.6**	**6.3**	**169.1**	**4.6**	**142.5**	**3.7**
TOTAL EXPENDITURE & NET LENDING	**859.0**	**24.7**	**827.0**	**22.7**	**785.1**	**20.5**
CURRENT EXPENDITURE	**633.7**	**18.2**	**643.7**	**17.6**	**626.5**	**16.3**
Employee compensation	**282.2**	**8.1**	**289.0**	**7.9**	**289.9**	**7.6**
Personal Emoluments,Salaries, Wages and Allowances	**268.2**	**7.7**	**274.5**	**7.5**	**274.8**	**7.2**
Social contribution to employees	**14.0**	**0.4**	**14.5**	**0.4**	**15.1**	**0.4**
Goods and Services	**121.5**	**3.5**	**122.8**	**3.4**	**108.5**	**2.8**
Interest Payments	**67.0**	**1.9**	**64.9**	**1.8**	**60.5**	**1.6**
Transfers	**163.1**	**4.7**	**167.0**	**4.6**	**167.6**	**4.4**
Capital Expenditure	**225.3**	**6.5**	**183.3**	**5.0**	**158.6**	**4.1**
o/w: Grant financed	**201.8**	**5.8**	**151.5**	**4.2**	**123.9**	**3.2**
Current Balance (before Grants)	**152.5**	**4.4**	**180.7**	**5.0**	**239.2**	**6.2**
Overall Balance (after Grants)	**145.8**	**4.2**	**166.5**	**4.6**	**223.0**	**5.8**
Primary Balance (after Grants)	**212.8**	**6.1**	**231.4**	**6.3**	**283.5**	**7.4**
Memo item						
GDP (nominal market prices)	**3,475.3**		**3,650.0**		**3,834.1**	
Real GDP growth (%)	**4.2**		**3.6**		**3.4**	

Source: Ministry of Finance

Appendix 2: Baseline Medium-Term Fiscal Assumptions

CATEGORIES	2020	2021	2022
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected GDP except for the following: (i) Corporate Income Tax which was projected based on the average change in revenue collected; (ii) Import duty, Customs Service Charge, VAT and Excise tax which was projected based on the annual change in the value of imports over the past 10 years.		
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	Agreed salary increases of 4% per year for the 3 year period were programmed		
Social contributions to employees			
Goods & Services	Projected to be consistent with the fiscal rule.		
Current transfers			
Interest payment	External and domestic interest rate payment reflects the conditions stated in the contractual agreements		
Grants			
Budgetary	Budgetary grants are equal to the expected inflow from donor agencies		
Capital	Capital grants will be fully covered		
Capital expenditure & net lending	Assumes that it will average 5.2 percent of GDP based on the project implementation schedules		

Source: Ministry of Finance