Fiscal Responsibility Oversight Committee (FROC)

2021 ANNUAL REPORT

29th April, 2022

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FISCAL RESPONSIBILITY OVERSIGHT COMMITTEE

29th April, 2022

Mr. Andrew Augustine
Clerk of Parliament
Office of the Houses of Parliament
Parliament Building
Mt. Wheldale
ST. GEORGE-

Dear Mr. Augustine,

RE: SUBMISSION OF THE 2021 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 above-mentioned report for consideration by the House of Representatives. Please note that an electronic copy was submitted to your Office on the 29th April 2022.

The Escape Clause of the Fiscal Responsibility Act (Section 10) was invoked in 2020 and extended for the year 2021. This Report has been adjusted accordingly to reflect the suspension of the targets normally required by law.

I shall therefore be grateful if you will bring this 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 | Leon Bullen| Kim George | Kipling Charles | 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
GOG	Government of Grenada
HSAP	Homegrown Structural Adjustment Programme
IBRD	International Bank for Reconstruction and Development
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
WEO	World Economic Outlook

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 January 2014, the Grenada Government embarked on a three-year, Homegrown Structural Adjustment Programme (HSAP) with the support of the International Monetary Fund (IMF) and other international financial institutions. This Programme followed the economic shocks endured by the Grenada economy in 2004 and 2005 from hurricanes Ivan and Emily and the word economic recession from 2008 - 2012. The success of the Programme led the Government to recognize that the gains made therefrom must be maintained in order to achieve sustainable economic development. The Government also recognized that in order to achieve this, greater fiscal responsibility and discipline must be attained. This would require an enhanced level of fiscal management along with clearly defined fiscal targets and policies.

In 2015 the Government therefore moved to enact "fiscal responsibility" legislation, which was new to the region, and which enshrined, among other things, the fiscal rules and targets to be pursued.

The legislation comprised the following three enactments –

- Fiscal Responsibility Act No. 29 of 2015 (FRA or the Act),
- Public Finance Management Act No. 17 of 2015 (PFMA), and
- 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 preamble to the FRA states that it is an Act ***"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 specific objectives of the FRA as outlined in Section 5 are as follows:

(a) to ensure that fiscal and financial affairs are conducted in a transparent manner;
(b) to ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications;
(c) 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; and
(d) to ensure prudent management of fiscal risks.

The PFMA regulates the proper management and control of money and other resources of the public sector including the Consolidated Fund.

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.

Section 14 of 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 the members shall be nominated in consultation with the Director of Audit while the fifth member 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.

The term of office of three members of the FROC - Ms. Shadel Nyack Compton, Ms. Zanna Barnard and Mr. Anthony Mac Leish - expired in August 2021. They were replaced by Ms. Kim George an Attorney at Law, Mr. Leon Bullen an economist at the ECCB and Mr. Kippling Charles, an accountant. The other two members of the FROC are Dr. E. Angus Friday (Chairman), a former staff member of the World Bank, and Mrs. S. Sally Anne Bagwhan Logie, a retired public officer.

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". The global pandemic caused by the COVID-19 virus since 2020 qualifies as a public health epidemic. Accordingly, the Minister of Finance 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 of the FRA, the Minister suspended the fiscal rules, targets and corrective measures for 2020. Given the ongoing pandemic into 2021 the Minister also suspended the rules and targets for 2021. The 2021 FROC Report, like the 2020 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 held several meetings[2] to review the data provided by the Macro-Economic Policy Unit (MPU) for preparation of the 2021 Report. An orientation session was held in February 2022 for members of the FROC facilitated by the Ministry of Finance (MOF).

The FROC expresses appreciation for the professional support received from the staff of the MPU in the preparation of this Report. The FROC also wishes to thank the Speaker of the House for granting an extension for submission of this Report to 30th April 2022. 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 required Reports to Parliament.

[2] See Appendix II.

FOREWORD (CONTINUED)

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

……	……	……..……..……
E. Angus Friday	**Kim George**	**Kippling Charles**
……	…….	
Leon Bullen	**S. Sally Anne Bagwhan Logie**	**30th April, 2022**

MEET THE FROC

The FROC comprises the following persons:

Dr. E. Angus Friday

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

Term of Appointment expires August 2022.

Mr. Leon Bullen

Mr. Bullen is a Grenadian national and former country economist for Anguilla and Saint Lucia at the Eastern Caribbean Central Bank where he has been employed for over 15 years. He has written papers on fiscal and debt issues, energy pricing policies, private sector development and foreign direct investment, among others.

Term of appointment expires January 2024.

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Mrs. S Sally Anne Bagwhan Logie

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.

Ms. Kim George

Ms. George is a practicing attorney-at-law for the past 22 years and Head of Chambers at the law firm of Kim George & Associates. Her knowledge and experience also extend beyond the law, to civic life and as a Director on statutory and private boards. She is also a past member of the Upper House of the Parliament of Grenada.

Term of appointment expires August 2024

Mr. Kippling Charles

Mr. Charles is a Certified Accountant with over 17 years of experience. He holds a Masters Degree in Business Administration. He is an Accredited Director and a qualified broker on the Eastern Caribbean Securities Market. Currently he serves as the Executive Manager - Finance and Operations at Ariza Credit Union.

Term of appointment expires August 2024

Mrs. Michelle Millet

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

CHAIRMAN'S LETTER

Dear Reader,

Buffering future economic shocks. COVID-19 has been an unprecedented shock for Grenada and the global economy. Reflecting on major economic shocks to the Grenadian economy such as 9/11 in 2001, Hurricane Ivan in 2004, the Global Financial Crisis of 2008/09 and the COVID-19 Pandemic, it should be clear that future shocks can be expected. This expectation necessitates robust Fiscal Responsibility Legislation. The evolving FRA has been and will continue to be for the foreseeable future, a central pillar in the economic stewardship and fiscal management of Grenada, Carriacou and Petit Martinique. Practical experience since the FRA's inception has highlighted the need for several enhancements, as part of its evolution, prompting the FROC to call for a comprehensive review of the Act, with a view to improving fiscal and economic decision-making for the nation.

With each shock, structural vulnerabilities have been exposed including over-reliance on any one sector to drive the economy. And while the positive impacts of diversification may take years to manifest, it is incumbent upon Grenada (Government, Private sector, Civil Society and other stakeholders) to ensure that Grenadian budgets continue to reflect ample provision for catalysing economic diversification and modernization to keep pace with a rapidly evolving global environment. Government has played an important role and should play an even more pivotal and enabling role in this regard, as part of a medium to long-term strategy for buffering the economy against future shocks.

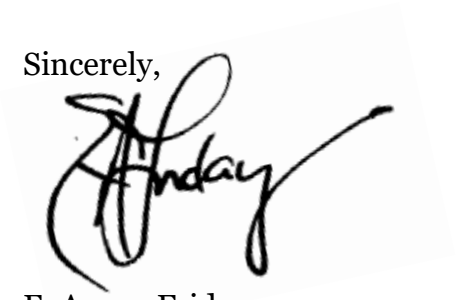
Thanks and Appreciation. At the time of writing, hopes in Grenada and internationally, continue to grow as the severity of COVID infections diminishes. While the pandemic is not yet over, it is not too soon to say that it has been an honor to serve in the role of Chairman of the Fiscal Responsibility Oversight Committee during these unprecedented times of the COVID-19 pandemic (2020 to 2022). During this time, the

work of the FROC was delivered by an astute cadre of outgoing and incoming professionals with whom I've had the privilege of working and from whom I've been able to learn considerably. The tireless work and institutional knowledge of the FROC's Secretary and the Report's editing consultant has been fundamental to the success of the FROC. Our work, in turn, was enabled by the solid foundation and stellar leadership of the FROC's previous chairman, Mr. Richard Duncan. Critical inputs from Private Sector and Civil Society have also strengthened our work.

None of the work of the FROC would be possible without the professionalism and responsiveness of the Ministry of Finance whose timely provision of information has been extremely helpful and very much appreciated. I join with the FROC and with the Ministry of Finance in looking forward to the signing of a Memorandum of Understanding between the two entities; a step that would build on the cordial relations between our teams and which would augur well for the future.

Special thanks are due to the Governor of the ECCB and to the ECCB staff whose engagement on the FROC continues to inspire us while raising the ambitions of our collective endeavours. My profound thanks to all the aforementioned as well as to the Government of Grenada for allowing me to serve our nation in this important capacity.

Sincerely,



E. Angus Friday

Chairman (August 2020 to August 2022)

EXECUTIVE SUMMARY

Macroeconomic Situation. COVID-19 has had the most detrimental impact on the Grenadian economy in recent times, with the economy contracting by 13.7 percent in 2020. With the easing of health and travel restrictions in 2021, the economy grew by 4.8 percent that year aided by growth in hotels and restaurants, construction, quarrying, fishing, and agriculture. Moreover, the local unemployment situation improved from 21.4 percent in 2020 to 16.6 percent by December 2021.

Despite this improved outlook, several challenges remain. COVID is not yet over, climate risks still abound and the Russia/Ukraine conflict increases inflationary pressures especially for food, fertilizers and fuel.

As such the FROC is recommending continued vigilance on the global COVID situation while taking steps domestically to buffer the population from future health shocks. The FROC is also recommending a more explicitly institutionalized approach to assessing climate risks in its budget forecasting process in collaboration with the FROC and other entities. Considering the rebound in tourism, the FROC suggests targeted investments in capacity building in the sector while at the same time engaging in diversification strategies for greater economic resilience in the medium to long-term. Mindful of the conflict in Europe, consideration for buffering the vulnerable against food basket inflation is also recommended alongside the urgent need for Grenada to diversify its energy portfolio to counteract fuel price volatility.

The Fiscal and Debt Situation. From a fiscal and debt management perspective, the FROC notes the increase in the debt to GDP ratio to 70.6 percent in 2021 as the Government undertook the necessary counter-cyclical measures including the provision of social safety nets and accelerated capital investments through the PSIP. This came against a backdrop of a declining GDP with the loss of tourism arrivals and other economic activities in 2020. Overall, the FROC is satisfied with the projected downward trajectory of the debt to GDP ratio. In a baseline scenario with no unforeseen catastrophes, the Government's prospects of reaching the targeted debt to GDP ratio of 55 percent by 2025, are good. Assuming the possibility of climate disruptions such as a hurricane event, it may still be possible to reach this target

by 2030. The FROC notes that the number of performance indicators stipulated in the FRA may, at times, be conflicting and counterproductive and urges a simplification of indicators alongside other recommended amendments to the FRA outlined in this document. For example, the FROC recommends that the FRA be adjusted to allow flexibility on the real rate of growth on primary expenditure (currently limited to 2.0 percent), to allow the Authorities to benefit from revenue windfalls and undrawn loan commitments. Overall, the critical roles played by both the FRA and the National Transformation Fund in helping Grenada to buffer the economic fallout of COVID-19 cannot be over-stated. The important role played by CBI in financing the NTF should therefore be recognized and safeguarded.

The Fiscal Legislative Situation. In terms of compliance with the Fiscal Responsibility Act (FRA), FROC is satisfied that the Escape Clause may be successively invoked, provided that the conditions mandated in Section 10(1) of the Act continue to exist and that the objects of the Act continue to be achieved. The FROC is satisfied that the invocation of the Escape Clause was consistent with the stipulated conditions for invocation. Commendations are due to the Ministry of Finance and the government for exercising a level of fiscal restraint even in the face of the Escape Clause. The FROC is mindful that the Authorities have extended the Escape Clause for a third year in 2022 due to the continued impact of the COVID-19 Pandemic. While the Escape Clause is a safeguard in difficult economic times, the Authorities should ensure that it is temporary and that the measures contained in the Recovery Plan are strictly adhered to so that there can be a return to the fiscal rules and targets in 2023 to maintain the integrity of the fiscal legislation. Over the years, the FROC has made several recommendations for improvements in the FRA. The FROC recommends a more formalized process for reviewing the implementation of these recommendations. Such a process will better serve the needs of Parliament and the needs of the people of Grenada by ensuring that recommendations, where accepted, would be implemented in keeping with the initial intentions of the framers of the Fiscal Responsibility Act. An MOU desired by both the FROC and the Ministry of Finance would be an important step towards such formalization

and would build on the highly respectful, functional and cordial relations already established between personnel in the Ministry and the FROC.

Previous Recommendations. Finally, the previous recommendations of the FROC still stand:-

i) Commit to a phased and targeted approach to attaining full compliance with the Fiscal Responsibility Act;

ii) Review, repeal and replace the Fiscal Responsibility Act[3];

iii) Ensure a green, resilient and inclusive recovery with continued fiscal prudence; and

iv) 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.

[3]This is not a call for the "scrapping" of the FRA, but rather a call for a comprehensive upgrade to the legislation.

CHAPTER 1: THE MACROECONOMIC CONTEXT

Key Messages

Grenada's economy rebounded in 2021, as the tourism and construction sectors expanded and the country continued on its path to full reopening;

Covid-19 infection rates have declined significantly, providing further support to the vital tourism industry and broader economic recovery;

Consumer prices increased, largely influenced by the rising cost of food and energy;

Despite a positive growth outlook, there are several critical downside risks, including the prospect of high and sustained inflation and the potential global fallout from the Russia/Ukraine crisis.

Introduction

The world currently finds itself in a precarious position, characterized by the ongoing challenges with the Omicron strain of the COVID-19 virus rising, sustained inflation, and uncertainty regarding the evolution of the Russia/Ukraine crisis. Despite higher levels of vaccination worldwide, thousands of lives continue to be lost on a daily basis to COVID-19 as new outbreaks are recorded in Asia, Europe and other regions. In addition, the price of energy, food and consumer durables continue to increase as supply chain bottlenecks persist in an environment of resurgent growth. These factors are exacerbated by the ongoing war between Russia and Ukraine, which are important global suppliers of oil, wheat and corn.

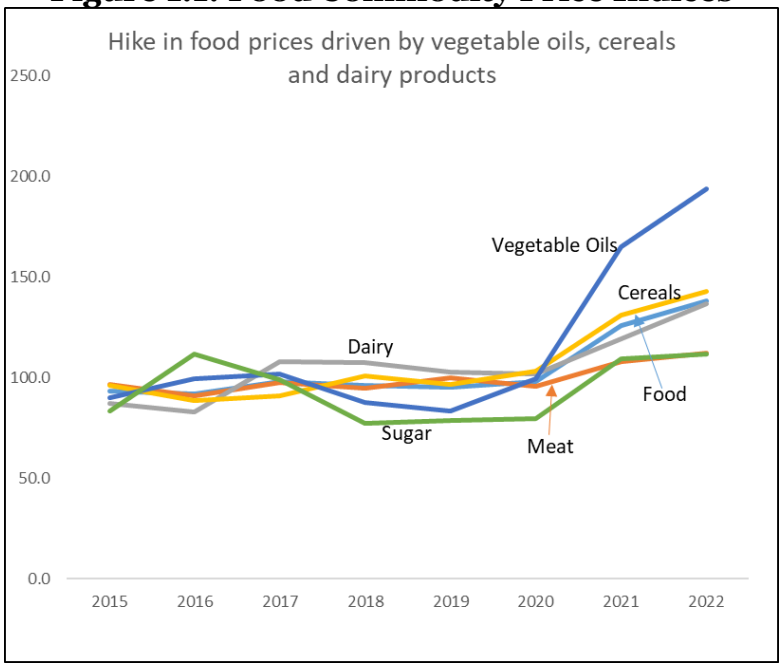
On the domestic front, Grenada's economy continues to rebound from the worst economic contraction in its history of 13.7 percent in 2020; as its tourism industry recovers, its public sector investment programme gains traction and its education sector, largely influenced by the St. George's University (SGU) begins to normalize. Additionally, Grenada's COVID-19 infection rate has declined significantly as the vaccine uptake continues to advance slowly and COVID protocols are broadly adhered to. These developments are likely to have a positive knock-on effect on the other key sectors of the economy including construction, manufacturing, agriculture, wholesale and retail trade, Additionally, the Government's fiscal position is anticipated to improve in tandem with an improving economic environment, thus brining its key fiscal indicators into closer alignment with the established targets enshrined in the Fiscal Responsibility Act (FRA).

External Developments

According to the January 2022 update of the World Economic Outlook (WEO), the global economy expanded by 5.9 percent in 2021, bouncing back from the 3.1 percent contraction recorded one year earlier. Advanced economies are estimated to have grown by 5.0 percent, led by some of Grenada's key trading partners to include the United States (5.6 percent), the United Kingdom (7.2 percent) and Canada (4.7 percent). China, the world's second largest economy, also expanded by 8.1 percent. The expansion in these economies was driven by the unleashing of pent-up demand for goods and services as COVID-19 restrictions were generally eased and some measure of normalcy returned to most major markets. However, supply chain disruptions continued as a consequence of the enduring nature of the COVID-19 virus affecting important manufacturing centres. This development, coupled with a resurging global economy, led to supply-demand mismatches, thereby spiking inflation around the globe. The IMF estimates that consumer prices in advanced economies rose by 3.1 percent in 2021, while that for emerging markets and developing countries increased by 5.7 percent.

Leading the rise in prices were food and energy. According to the Food and Agriculture Organisation, the food index rose by 28.1 percent in 2021, largely driven by a surge in prices for vegetable oils, cereals and dairy products (Figure 1.1).

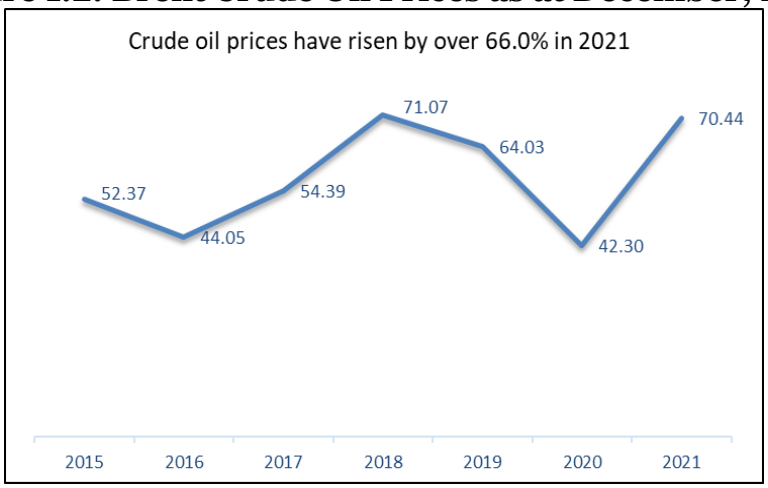
Figure 1.1: Food Commodity Price Indices



Source: Food and Agriculture Organisation (FAO)

Similarly, the price of crude oil increased by 67.4 percent to an average of $70.40 per barrel, following a decline of 32.8 percent in 2020 (Figure 1.2). Based on data as at the time of writing, high oil prices were expected to persist into 2022, further exacerbated by the ongoing crisis in Ukraine. Consequently, oil price futures traded at $92.62 at end March 2022 for delivery in December 2022 (Chicago Mercantile Exchange Group).

Figure 1.2: Brent Crude Oil Prices as at December, 2021



Source: World Bank Commodity Price Data

In light of the ongoing challenges, the WEO projects that global growth will moderate to 4.4 percent in 2022, down from 5.9 percent one year earlier. The moderation in growth is being partially driven by downgrades to the world's two largest economies, the United States of America and China, due in part to a less expansive fiscal package and financial system difficulties, respectively. Despite the deceleration in growth, Grenada's key export markets, the United States and the United Kingdom, are forecast to expand by 4.0 percent and 4.7 percent, respectively in 2022. This augurs well for the domestic economy as these two markets contributed over 60.0 percent of Grenada's total stayover visitors in 2021. Accordingly, the tourism industry, as well as affiliated sectors are expected to be positively impacted.

Domestic Developments

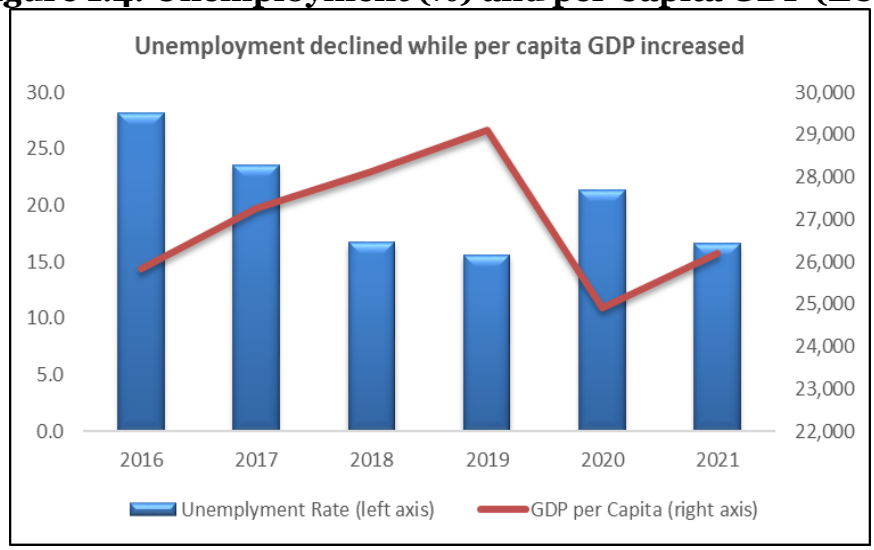
Based on the most recent data provided by the Statistical Office, Grenada's economy expanded by 4.8 percent in 2021, falling short of the projected 6.0 percent growth, but reversing the unprecedented contraction of 13.7 percent in 2020 (Figure 1.3). ECCB data further shows that growth was broad-based and was led by hotels and restaurants (40.3 percent), construction (30.0 percent), mining and quarrying (23.7 percent) and fishing (18.4 percent). The agricultural sector performed creditably expanding by 9.0 percent.

Figure 1.3: Real GDP Growth (%)

Source: Statistical Office

The rebound in the tourism industry was consistent with a general easing in global travel restrictions and reopening of the domestic economy, resulting in lower levels of unemployment and higher per capita GDP (Figure 1.4). Based on official figures, the unemployment rate in Grenada fell to 16.6 percent as at December 2021, compared with 21.4 percent, one year earlier. However, the domestic job market has yet to recover all the jobs lost as a result of the pandemic.

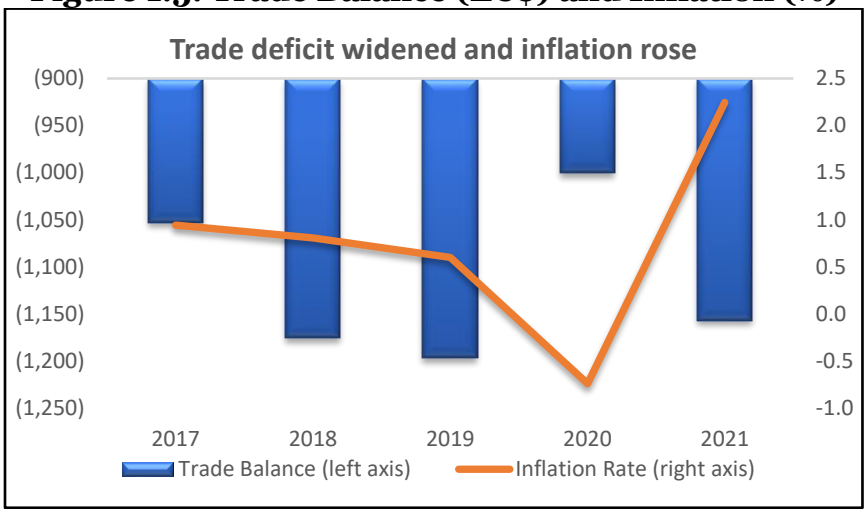
Figure 1.4: Unemployment (%) and per Capita GDP (EC$)



Source: Statistical Office

The nascent recovery in the Grenada economy was accompanied by a widening trade deficit as total imports increased by $182.4m, while exports grew by $25.5m. This development was consistent with an expanding economy, as well as the rising cost for food and fuel. Accordingly, consumer prices rose by 2.2 percent, on a period average basis, compared with a decline of 0.7 percent in 2020 (Figure 1.5).

Figure 1.5: Trade Balance (EC$) and Inflation (%)



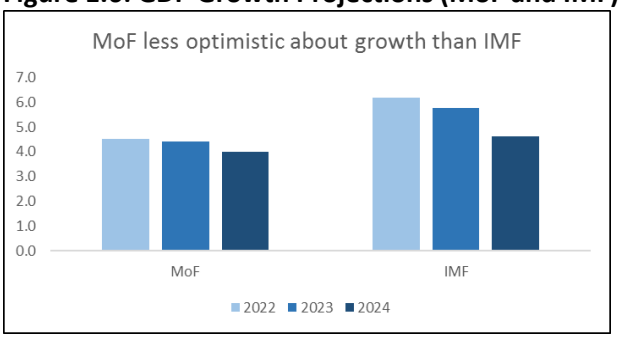
Source: Statistical Office

Assessment of Real Sector Forecasts

The Government of Grenada, based on its 2021 Annual Economic Review and Medium-Term Outlook, forecasts that the domestic economy will expand by 4.5 percent in 2022, as the recovery in the tourism sector gains further traction, coupled with increased public and private sector investments. Growth is also forecast to be sustained at a relatively high level of 4.4 percent in 2023 and decelerate to 4.0 percent in 2024 (Figure 1.6). The IMF however, appears to be more optimistic about Grenada's growth prospects, with growth of 6.2 percent projected for 2022. Economic output is then expected to decelerate to 5.8 per cent and 4.6 percent in 2023 and 2024 percent, respectively. Given the ongoing uncertainty with respect to the evolution of the COVID-19 virus, coupled with the potential global fallout from the Russia/Ukraine crisis, the FROC is cautiously optimistic about Grenada's growth prospects and believes it prudent to maintain growth at no more than 5.0 percent over the medium-term. Given the projected growth rates, Grenada is expected to match and/or surpass its 2019 level of GDP by 2023, a development that is realistic in the FROC's view. Consequently, the FROC is in general agreement with the forecasts produced by the Ministry of Finance.

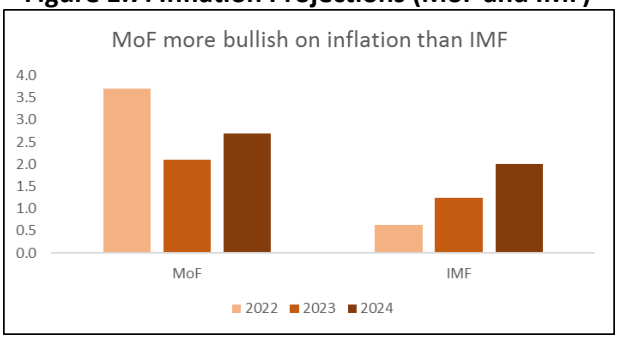
Additionally, the FROC notes the inflation projection of 3.7 percent in 2022 by the MoF, which is significantly greater than that of the IMF at 0.6 percent (Figure 1.7). In fact, the projection for inflation by the MoF exceeds that of the IMF over the medium-term: 2022 to 2024. In the FROC's view, inflation expectations for 2022 are more in line with the forecast furnished by the MoF, as oil prices are expected to remain high and possibly increase, should the Russia/Ukraine crisis escalate any further. In addition, given the importance of Russia and Ukraine's importance in the global supply of wheat, the price of flour is expected to increase appreciably, thereby putting additional upward pressure on the cost of food in the domestic market. Moreover, the supply chain bottlenecks are anticipated to persist for the greater part of 2022, especially if new strains of the COVID-19 virus emerge in important production centres of the world.

Figure 1.6: GDP Growth Projections (MoF and IMF)



Source: Statistical Office and IMF

Figure 1.7: Inflation Projections (MoF and IMF)



Source: Statistical Office and IMF

The generally optimistic economic forecast for Grenada, if realized, would be critical in rebuilding fiscal buffers, expanding the labour force, building resilience to future shocks, and putting the country's debt to GDP ratio on a downward trajectory. As highlighted previously, however, Grenada's economy faces many headwinds which could derail these forecasts and prolong the period of recovery. Some of the key risks include:

- Further and sustained spikes in the price of food and energy, negatively impacting consumers' disposable income;
- A global downturn emanating from the Russia/Ukraine crisis, should the situation escalate and possibly cross over to neighbouring NATO countries;
- The emergence of new and more deadly strains of the COVID-19 virus;

- A contraction in the revenue flows associated with the CBI programme as a result of sanctions imposed on Russian investors; and
- The inherent threat of hurricanes and other natural disasters;

Conclusion

The Grenada economy has proven to be resilient in the face of COVID-19 pandemic. Despite a record contraction in economic output in 2020, the economy recovered some of those losses in 2021 and is poised to continue on a positive growth trajectory over the medium-term. This development would be largely driven by continued expansion of the tourism and education sectors, with knock-on benefits on other key sectors of the economy such as wholesale and retail trade, real estate, renting and business activities, manufacturing and agriculture. In addition, the construction sector is projected to expand as the Government ramps up its public sector investment programme (PSIP) and new private sector projects come on stream. The FROC was in general agreement with the GDP forecasts generated by the MoF, although it noted the key downside risks which could derail the forward momentum of the Grenada economy.

CHAPTER 2: THE FISCAL AND DEBT CONTEXT

Key Messages

The Government generated a primary surplus in 2021, despite an increase in current expenditure; capital expenditure levels remained high reletive to the most recent five-year average.

Total public sector debt expanded to facilitate COVID-19 related expenditure. The bulk of capital expenditure was financed by grants sourced from the National Transformation Fund.

Public finances are projected to improve over the medium- to long-term as economic activity gains momentum. As a result, debt to GDP is forecast to be on a downward trajectory.

Important downside risks loom, including high and sustained levels of inflation, uncertainty associated with new strains of the COVID-19 virus and the global ramifications of the Russia/Ukraine conflict.

Introduction

As highlighted in the previous chapter, the Grenada economy regained momentum in 2021 as the tourism industry recovered somewhat and Government's fiscal support programmes gained traction. As a result of an expanding economy, revenue increased, leading to an improved fiscal position relative to 2020. However, the debt position of the Central Government also increased as it implemented a second economic stimulus package and accelerated its public sector investment programme (PSIP). While there has been some improvement in the submission of financials for State-Owned Enterprises (SOE's) and Statutory Bodies (SB's), the coverage of the total public sector is still incomplete for the purposes of fiscal and debt analyses.

Despite the improved fiscal performance in 2021, the Government, cognizant of the potential negative impact of a premature withdrawal of fiscal support to the broader economy, activated the Escape Clause for a second consecutive year. That is, the fiscal rules and targets under Sections 7 and 8 of the Fiscal Responsibility Act (FRA) were

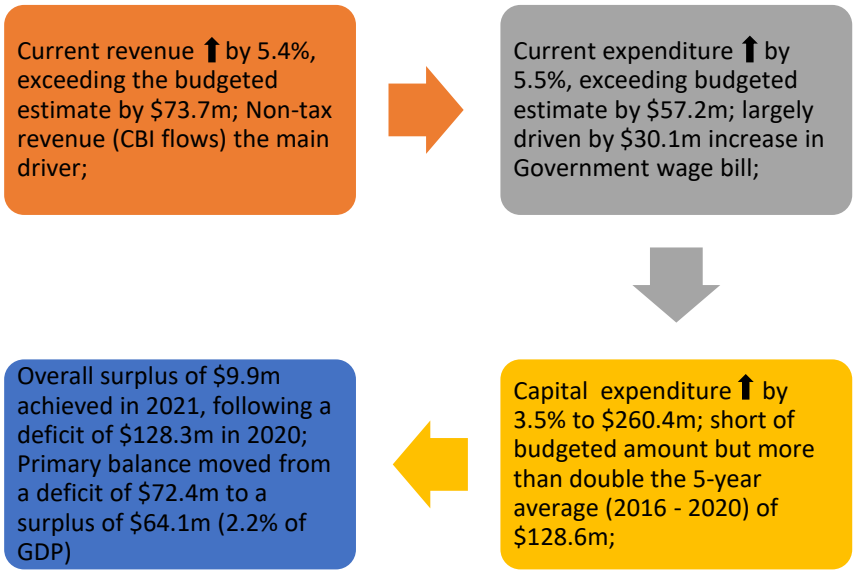
Fiscal and Debt Performance in 2021

suspended, pursuant to the Suspension Resolution approved in Parliament in March 2021.

After recording an overall deficit of EC$128.3m in 2020, the largest such deficit since 2013, the fiscal operations of the Government of Grenada resulted in a surplus of $9.9m (0.3 percent of GDP) or $28.1m above the budgeted deficit of $18.2m. Similarly, the primary balance after grants, which measures the overall balance net of interest payments, improved from a deficit of $72.4m one year ago to a surplus of $64.1m or 2.2 percent of GDP.

The improved fiscal performance was driven by increased tax inflows, consistent with stronger economic growth relative to 2020. Accordingly, current revenue grew by 5.4 percent to $727.1m, surpassing the budgeted estimate by $73.7m. While tax revenue increased marginally, year-on-year, the growth in current revenue was dominated by the non-tax component, which rose by $34.9m to $101.7m, as flows from the Citizenship by Investment Programme (CBI) expanded (Figure 2.1).

Figure 2.1: Snapshot of Fiscals in 2021



Similarly, current expenditure increased by 5.5 percent, year-on-year, to $686.8m, exceeding the budgeted estimate by $57.2m. This development was largely driven by an 11.5 percent increase ($30.1m) in the Central Government's wage bill, as the Government honoured the 4.0 percent negotiated salary increase for 2021 to public servants, as well as bonus payments at the end of the year.

Having invoked the Escape Clause of the FRA in March 2021, the Government maintained a high level of capital expenditure (EC$260.4m) during the year, falling short of the previous year's total of EC$269.9m, but more than doubling the five-year average (2016 – 2020) of EC$128.6m. Capital expenditure was funded primarily from grants sourced from the National Transformation Fund (NTF), providing further credence to the importance of building fiscal buffers to respond to domestic and external shocks.

While a formal compliance report was not necessary for 2021, having invoked the Escape Clause, a preliminary analysis conducted by the FROC shows that three of the five targets were breached, namely: the wage bill as a percent of GDP; primary balance as a percent of GDP; and the debt to GDP ratio (Table 2.1). The FROC also notes that the issues previously highlighted with regard to PPPs are still unresolved. In addition, given the further extension of the Escape Clause, the FROC agrees with the estimates from the Policy Unit for further breaches in 2022. While the debt to GDP ratio is projected to remain above the stipulated target of 55.0 percent over the medium-term, the FROC is encouraged by the downward trajectory.

Table 2.1: Compliance Matrix (2021 – 2023)

		2021	2022	2023
	Fiscal Rule	Estimated	Projected	Projected
Growth of Real Primary Expenditure less Capital Grants (annual % change)	Not exceeding 2.0%	-8.3%	4.3%*	-17.9%
Wage Bill (% of GDP)	Not Exceeding 9.0%	9.8%	8.7%	8.3%
Primary Balance (% of GDP)	Not less than 3.5% of GDP	2.2%	-1.1%	3.5%
Contingent Liabilities Related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%	0.0%	0.0%
Public Debt (% of GDP)	55.0%	70.6%	67.0%	65.2%

Source: Macroeconomic Policy Unit

*FROC calculations.

According to the Public Debt Bulletin for the fourth quarter of 2021, the total outstanding public sector debt increased by 5.7 percent (EC$113.2m) to EC$2,101.6m compared with the balance at the end of 2020 (Figure 2.2). The Bulletin further explains that this development was driven by new borrowing associated with the COVID-19 pandemic, oversubscriptions allowed on the Regional Governments Securities Market (RGSM), and a new Government-guaranteed loan contracted by the Marketing and National Importing Board.

Figure 2.2: Debt Developments in 2021

The Fiscal Stance for 2021

The Government of Grenada pursued an expansionary suite of fiscal policies in 2021 with the explicit aim of reigniting growth to restore jobs and enhance resilience to future shocks. Consequently, Government's policies were centered on reducing current expenditure where possible, improving the efficiency of tax collections and compliance, and scaling up capital expenditure to lay the foundation for faster and sustained long-term growth. In the FROC's view, the Government was largely successful in pursuing its stated policies. As mentioned earlier, current expenditures were largely contained, with the increase primarily influenced by the Government's honouring of negotiated public sector wage increases. In addition, capital expenditure remained at a relatively high level despite global supply chain issues. Moreover, current revenue increased in tandem with an expanding economy, giving the Government some additional fiscal space to undertake the rise in current expenditure.

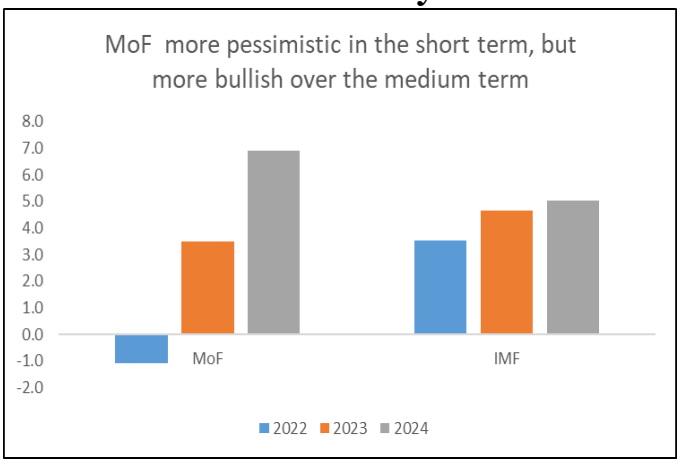
Importantly, the Government launched a second COVID-19 Economic Stimulus Programme on 1st September, 2021, valued at EC$36.0m. The programme was funded through the Caribbean Development Bank (CDB) under the Inter-American Development Bank (IADB) Global Loan Programme and was estimated to have directly benefited close to 9,000 Grenadians across key sectors.

Assessment of Medium-Term (2022–2024) Fiscal and Debt Forecasts

The Government of Grenada forecasts real GDP growth to average 4.3 percent over the 2022 to 2024 period. This favourable growth projection is premised on continued expansion in the tourism, construction and related sectors. In addition, the full resumption of classes at the St. George's University in August 2022 is expected to provide additional stimulus to growth, with the education sector accounting for approximately 19.5 percent of GDP in 2021. Consistent with an expanding economy, Government's tax revenues are forecast to grow over the medium-term, thus allowing it some fiscal space to continue an expansionary fiscal policy into 2022. Moreover, pursuant to Statutory Rules and Orders No. 62 of 2021, the Minister for Finance exercised his power to suspend sections 7 and 8 of the Fiscal Responsibility Act No. 29 of 2015, for the third consecutive year. This was in light of the fact that two of the conditions for invoking the Escape Clause were met, namely the existence of a State of Emergency declared by the Governor General pursuant to Section 17 (1) of the Constitution and the cumulative decline in real GDP over the last two consecutive fiscal years of equal to or greater than three percent.

Given the Government's continued focus on stimulating growth in 2022, the FROC agrees that a primary balance deficit is the likely outcome over the year, as capital expenditure is projected to increase by 28.2 percent ($73.4m). Thereafter, barring any unforeseen additional global shocks, the FROC expects a return to the FRL in 2023, thus limiting Government's expansionary policies and restoring primary surpluses in 2023 and 2024 (Figure 2.3).

Figure 2.3: Central Government Primary Balance Forecast (% of GDP)

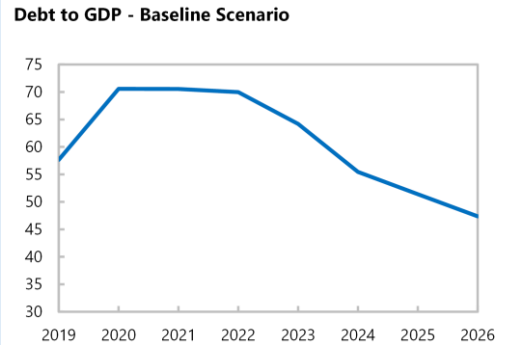


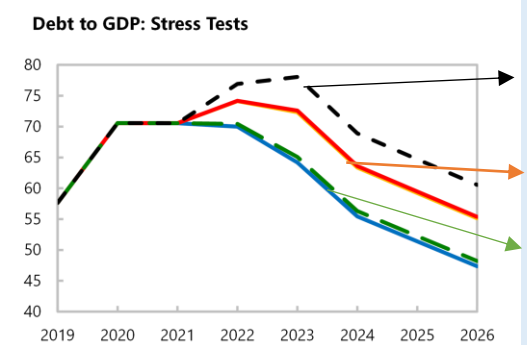
Source: WEO October 2021 and Policy Unit

Using the MPU's baseline assumptions for growth, interest rates and primary balances, and assuming no additional adverse shocks to the economy, the FROC estimates that Grenada will achieve its debt to GDP target by 2025, with the ratio projected at 51.4 percent at the end of that year (Box 1).

There are, however, some important downside risks to these projections, which could negatively alter the path for fiscal and debt outcomes going forward. As mentioned in chapter 1, already high levels of inflation are being further stoked by the ongoing crisis between Russia and Ukraine. Given the importance of these two countries in the global supply for of energy, wheat and fertilizer inputs, further increases in the cost of fuel and food could have a dampening effect on the demand for goods and services in Grenada, including tourism exports. Such an outcome would negatively impact growth, reduce revenue intake and possibly lead to a larger primary deficit and debt levels in 2022. Another key risk is the likely impact of the ongoing crisis in Ukraine on CBI flows. To the extent that sanctions are imposed on potential applicants tied to the Russian leadership, CBI inflows may fall short of Government's projections, thus negatively impacting NTF transfers and driving up debt levels to fund Government's capital budget. In addition, risks associated with the evolving nature of the COVID-19 virus remain, with potentially destabilizing effects on the global and domestic economies.

Box 1: Debt to GDP Trajectory under Various Scenarios





Under the baseline scenario, Grenada's debt to GDP follows a downward trajectory, falling below the 55 per cent benchmark by 2025. A two-year growth shock, represented by a contraction in GDP of 6.0 per cent (1 standard deviation) relative to the baseline, and emanating from a hurricane, other natural disaster or a worldwide recession, would result in the debt to GDP ratio rising to 74.2 per cent in 2022, thereafter declining to 59.5 per cent by 2025. Alternatively, a customized shock scenario, which entails shocks to growth, the primary balance and interest rates, would see the debt to GDP ratio accelerating to 78.1 per cent by 2023 before declining to 64.7 per cent by 2025.

The FROC assessed the Medium-Term Fiscal and Debt Strategy as being broadly appropriate and aligned with the National Sustainable Development Plan (2020 – 2035). Based on the Medium-Term Debt Management Strategy (2022 – 2024), risks to the existing portfolio were judged to be moderate, given the highly concessional nature of external debt and the ongoing use of the Regional Government Securities Market (RGSM) to fund operations. In addition, the FROC notes the positive developments with respect to the average term to maturity (ATM) of the existing portfolio, which stood at 9.4 years, exceeding the benchmark of 8 years or greater, and surpassing the 2020 figure by 0.5 years. Furthermore, the weighted average interest rate of the portfolio fell to 2.8 percent in 2021 from 3.0 percent in the year prior. However, the FROC observes the rising share of non-US dollar denominated debt and cites the potential risk of valuation changes with respect to other currencies relative to the EC dollar. The key risk indicators are replicated from the Medium-Term Fiscal and Debt Strategy and presented in Table 2.2.

Table 2.2: Risk Targets and Ranges

Risk Indicators	2021 Current	2024 Target Range
Central Government Debt as % of GDP	69.0	<=55.0%
Interest payment as % of GDP	1.9	<=2.5%
Debt maturing in 1 yr. (% of total)	15.0	<=20.0%
Debt maturing in 1 yr. (% of GDP)	10.4	<=10.0%
ATM Total Portfolio (years)	9.4	>=8 years
ATR (years)	9.0	>=10 years
FX debt as % of total	72.8	<=80.0%

Source: Medium-Term Debt Management Strategy 2021 - 2023

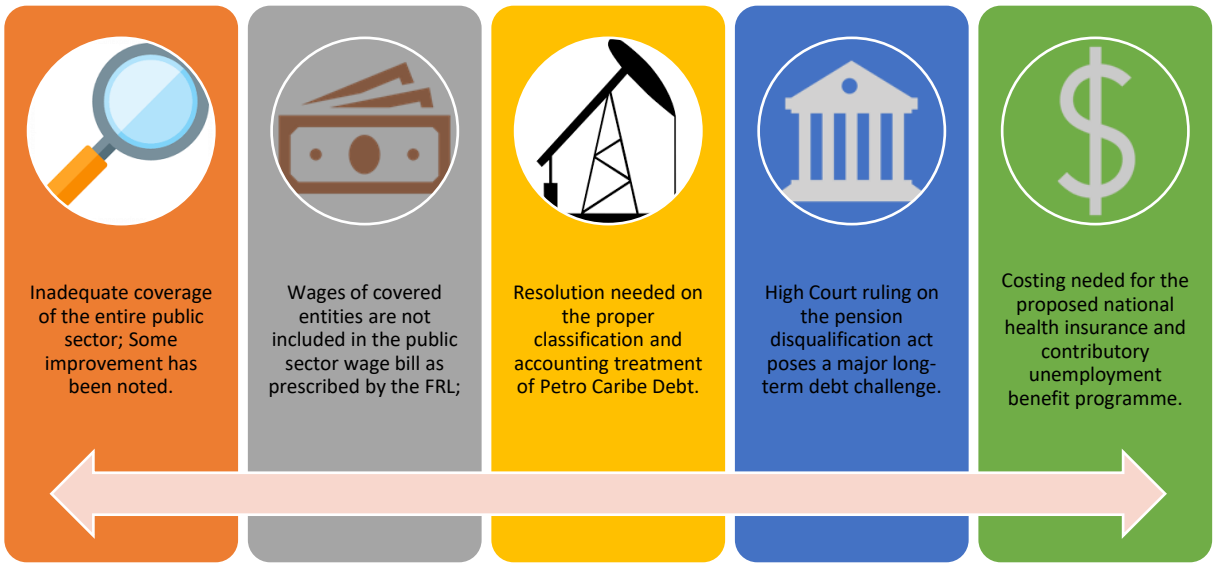
The FROC supports the policy of extending the maturities of the domestic portfolio by issuing longer-dated securities, utilizing committed undisbursed balances and maximizing concessional funding from external multilateral creditors to the extent possible.

Potential Fiscal and Debt Challenges in the Medium-Term

As mentioned earlier, the FROC notes that, under the baseline scenario, public sector primary and debt balances are projected to decline, provided the assumptions for growth and public sector revenue materialize. However, there are some important challenges and deficiencies which pose a threat to the long-term sustainability of Government debt (Figure 2.4). The FROC has stated in earlier Reports that the coverage of the entire public sector is insufficient and reiterates the issue in this report. While there has been some improvement in the submission of financials of covered public entities, a comprehensive picture of the current or potential debt of these institutions is not immediately apparent as annual borrowing plans are not submitted to the Central Government. Additionally, the FROC observes that the wages paid to employees of covered public entities are not

included as part of total public sector wages (thus understating the wages as a percent of GDP) as well as growth in real primary expenditure, as stipulated in Article 7(3) of the FRL. Moreover, the FROC believes that decisive action needs to be taken in respect of the Petro Caribe debt, which is not listed as part of the official public sector debt. As a result, the FROC urges that negotiations between the local Petro Caribe Company and Petroleos de Venezuela (PDVSA) be concluded soonest to arrive at a way forward in respect of settlement of the debt and its appropriate accounting treatment.

Figure 2.4: Potential Medium-Term Fiscal and Debt Challenges



The recent judgement by the High Court regarding the Pension Disqualification Act also poses a significant challenge to the long-term sustainability of Grenada's debt as new sources of revenue would need to be sourced, should the Government not appeal the case. The FROC advises that scenarios be conducted by the MPU to analyze the potential impact on the debt to GDP ratio and make recommendations for appropriate measures to put the debt on a sustainable footing. Finally, as recommended in the 2020 report, a comprehensive costing for the proposed national health insurance and a formal

contributory unemployment benefit programme should be done to determine their feasibility, especially in light of the recent high court judgement.

Conclusion

Based on data provided by the MPU, the Government of Grenada generated both a primary and overall surplus in 2021, despite the uncertainties surrounding the COVID-19 pandemic, the retroactive payment of public wages and the provision of a second stimulus. This outcome was largely driven by increased non-tax revenues as grant flows from CBI funds were transferred from the NTT to the Consolidated Fund. The suspension of sections 7 and 8 of the FRL also facilitated a high level of public investment, as the Government sought to stimulate economic activity and lay the foundation for long-term growth. The foregoing developments offer support to the usefulness of the FRL in fostering fiscal discipline and building the necessary reserves to respond to economic shocks, while containing the growth in debt.

In examining the medium-term debt management strategy, the FROC was satisfied that it was consistent with achieving a debt to GDP target of 55.0 percent by 2030. The FROC also examined a customized shock to key macro-fiscal variables and concluded that Grenada's debt to GDP ratio would be on a downward trajectory over the medium to long-term, barring any prolonged economic shocks in the future. However, the FROC has identified some long-standing issues that are in breach of the FRL and could potentially threaten fiscal and debt sustainability. These include incomplete coverage of the public sector and the status and treatment of Petro Caribe Debt. In addition, the recent ruling by the High Court on the Pension Disqualification Act may precipitate a substantial increase in public liabilities over the long-term, the funding for which needs to be secured, without unduly increasing the country's indebtedness.

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

Key Messages

The expansionary fiscal stance to stimulate growth are already showing positive results.

The FRA mandates a return to fiscal rules and budgetary targets in 2022.

Vaccine hesitancy poses the risk to a return to pre COVID-19 activities.

It is impertive to implement recommendations made over the years to repeal and replace the FRA legislation and to review the measures and targets contained therein.

Introduction

This chapter seeks to ascertain whether legal procedures were followed for the extension of the Escape Clause. This chapter also examines the progress made to return to the fiscal rules and targets, provides considerations for the next two years, and highlights potential challenges and opportunities to be leveraged in implementing the Act. Chapter 2 highlighted that, in 2021 the Escape Clause under Section 10 of the FRL was extended for one year due to the State of Emergency and the presence of the COVID-19 cases. Notwithstanding the activation of the Escape Clause, the FRA was implemented in the other areas outside of Sections 7 and 8 outlined in Appendix VII and the FROC continues

to perform its regulatory function to maintain the credibility of the country's fiscal responsibility framework.

The introduction of vaccines in February 2021, signaled hope to contain the virus, but also experienced hesitancy from the population posing a risk to a return to normalcy by mid-year.

The budget process that is governed by the Constitution, the Public Finance Management Act, the Debt Management Act, the Fiscal Responsibility Act, and the Audit Act was compliant with the legal framework. The Budget was presented before the beginning of the fiscal year. The Budget Statement was accompanied with the laying of the Appropriation Bill and the Estimates of Revenue and Expenditure before Parliament.

In compliance with the FRA and Regulations under the Public Finance Management Act and the Public Debt Management Act the following reports accompanied the Budget Statement and the Appropriation Act and were tabled in Parliament on 2nd December, 2020:

i) Medium-Term Fiscal Framework 2021 -2023;
ii) Budget Framework Paper 2021;
iii) Medium-Term Debt Management Strategy 2021 - 2023
iv) Fiscal Risk Statement;
v) The 2020 Economic Review and Medium-Term Outlook; and
vi) The 2019 Annual Debt Report

The Recovery 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 with a plan to return to compliance in 2022. The Government signaled its commitment to the FRA while it continued to implement measures to support, stimulate, and develop the economy.

The FROC notes that the economic recovery in 2020 outlined in the Budget Statement for 2021 was driven by the construction, agriculture, wholesale and retail trade and financial intermediaries and tourism. The key outcomes in 2021 were a recorded overall surplus amounting to 0.3 percent of GDP and a primary balance of 2.2 percent of GDP. The improved fiscal performance was driven by increased tax inflows, consistent with stronger economic growth relative to 2020. Growth in current revenue was 5.4 percent surpassing the budgeted estimate. It should be noted that the growth in current revenue was dominated by the non-tax component. Current expenditure recorded a growth of 5.5 percent, year-on-year, to $686.8m, exceeding the budgeted estimate by $57.2m. This development was largely driven by an 11.5 percent increase ($30.1m) in the Central Government's wage bill, as the Government honoured the 4.0 percent negotiated salary increase for 2021 to public servants, as well as bonus payments at the end of the year.

Having invoked the Escape Clause of the FRA in March 2021, the Government maintained a high level of capital expenditure (EC$260.4m) in 2021, falling short of the previous year's total of EC$269.9m, but more than doubling the five-year average (2016 – 2020) of EC$128.6m. Capital expenditure was funded primarily from grants sourced from the National Transformation Fund (NTF), providing further credence to the importance of building fiscal buffers to respond to domestic and external shocks.

Assessment of the Extension of the Escape Clause

Section 10 (1) of the FRA states *inter alia* that the Minister of Finance may suspend, for a period not exceeding one year, 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 there is a natural disaster, public health epidemic or war and a State of Emergency is declared. The fiscal rules may also be suspended if 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. 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 FROC recalls that, the Escape Clause was triggered in 2020 for one fiscal year, as mandated by Section 10(1) of the Act. In 2021, Section 10(7) was invoked as the Minister determined that the State was unable to return to compliance with the fiscal rules under FRA Sections 7 and 8 at the expiration of the year. Accordingly, a second Order to extend the period for another fiscal year accompanied by a Memorandum (pursuant to FRA Section 3), and affirmative resolution of Parliament (FRA Section 8) was tabled in Parliament in March 2021 together with the resolution for the extension of the suspension of the fiscal rules to December 2021. The Fiscal Responsibility (Extension of the Suspension of Section 7 and 8) (SRO No. 17 of 2021) was passed in Parliament on the 2nd March, 2021 and published in the Government Gazette on 12th March, 2021.

The Order states that "Suspension of the application of sections 7 and 8 of the Fiscal Responsibility Act No. 29 of 2015 for the fiscal year ended the 31st day of December 2020 is hereby extended for the fiscal year ending on the 31st day of December 2021, in light of the state of emergency declared by the Governor-General on the 30th day of March 2020 and on the 11th day of January 2021, pursuant to section 17 (1) of the Constitution in response to the confirmation of the cases of Coronavirus disease (COVID-19) in the State of Grenada."

The specific process for the Minister to comply with the Escape Clause requirements is outlined in Sections 10(1) and 10(3 – 5) of the FRA and summarized in Table 3.1. The Minister is mandated to implement the measures approved by Parliament in the Recovery Plan. The extension of the Escape Clause by another year gave the Government flexibility

to temporarily depart from its compliance with fiscal rules and budgetary targets. As a result, the Government was able to take urgent measures to address the economic shock, the health emergency and to sustain the economy in preparation for economic recovery.

In assessing the Government's compliance, it is the FROC's position that there was compliance with the extension of the Escape Clause. The criteria to trigger the extension of the Escape Clause was the declaration of a State of Emergency as a result of a public health epidemic, thus fulfilling the requirement under FRA Section 10 (1)(a).

The FROC notes the assumption given to address the implications of the estimated expenditure on the current and subsequent fiscal year were a GDP growth forecast at 6 percent in 2021 and 4.8 percent in 2022 with the lead sectors being construction activity, agriculture and wholesale and retail trade. A return of activity at SGU with the related spin-off from the ancillary services in august 2021 and the reopening of the borders to commercial traffic from both regional and international markets should ease the effects of the economic downturn in the tourism sector with spillover effects in the other sectors. The growth in revenue was projected to remain flat at an average of 22% of GDP over the period 2021 – 2023. In addition, there will be restrained expenditure growth with significant effort to contain discretionary spending. The Recovery Plan Memorandum also highlighted that "three of the four fiscal rules were estimated to be breached, while Public debt-to-GDP ratio was expected to deviate from its target."

The FROC's position is that the Memorandum was partially compliant as there was an absence of quantitative indicators to satisfy the criteria outlined in the FRA. Criteria (a) of the Act require proof that the implementation of fiscal rules and targets would be harmful to the public finances, macroeconomic or financial stability.

Criteria (b) requires the estimated levels of expenditure on wages for the present and two successive years be presented for Central Government and covered public entities. 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 requires.

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 outlined measures to support positive GDP growth in the medium-term, to restrict discretionary recurrent expenditure which will assist in the strategic prioritization of capital expenditure and a return to the Fiscal Rules in 2023. The measures to achieve sustainable growth include; increased revenue collection, cap on discretionary current expenditure, targeted capital expenditure and 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 increased revenue from the CBI programme.

It is the view of the FROC that the extension of the Escape Clause of the Fiscal Responsibility Act for 2021 was justified as the country continues to recover from the economic and social fall out resulting from the COVID-19 pandemic.

The Fiscal Risk Statement submitted to Parliament in December 2020 identified macroeconomic, budget, public enterprises and climate risks. The Statement highlighted the fiscal risks posed from external receipts which can negatively impact the anticipated inflows to the National Transformation Fund (NTF). This is already a reality with the Russian invasion of Ukraine and the economic sanctions imposed by the European Union

and the US Governments. In addition, the rising inflation from the increased commodity prices also pose a threat. This statement made no mention of the ongoing Court matter between the Government and the Public Workers Union of Pension Benefits.

Table 3.1 provides a summary of the FROC's assessment of the Extension of the Escape Clause in 2021.

Table 3.1: Assessment of the Activation and Implementation of the Escape Clause in 2021

Requirement of the FRA	Actual Developments	FROC's Assessment
Section 10(1) – Reason(s) given for Parliamentary approval for activating the Clause. **a. Natural disaster, public health epidemic or war are 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 3% over two consecutive years.** **c. the ECCB has certified that a financial sector crisis has occurred or is imminent and the Minister estimates that the fiscal costs of such crisis equate or exceeds four percent of GDP.**	The criteria to trigger the extension of the Escape Clause was the declaration of a State of Emergency, as a result of a public health epidemic, thus fulfilling the requirement under FRA Section 10 (1)(a).	The extension of the Escape Clause for one year followed procedures. Only one criterion 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 2021 (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 Recovery 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 Fiscal Responsibility (Suspension of Section 7 and 8) (SRO No. 17 of 2021) was passed in Parliament on the 2nd March 2021 and published in the Government Gazette on 12th March, 2021. The requirement that the Memorandum accompanies the Suspension Order was compliant.
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. It was tabled in March 2021. 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.	There was compliance

Return to the Fiscal Rules and Targets

The Authorities 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 and signaled their commitment to a return to the fiscal rules in 2023. As indicated in chapter 2, the Government pursued an expansionary suite of fiscal policies in 2021 with the explicit aim of reigniting growth to restore jobs and enhance resilience to future shocks. The Government will finance some of the expansion through accumulated savings, particularly from the NTF. 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 resulting expansionary fiscal policy led to an increase in debt.

It is the FROC's view that the Government was successful in pursuing its stated policies by restraining current expenditures, with the increase primarily influenced by the Government's honouring of negotiated public sector wage increases. In addition, capital expenditure remained at a relatively high level despite global supply chain issues. The FROC further notes that current revenue increased in tandem with an expanding economy, giving the Government some additional fiscal space to undertake the rise in current expenditure. To achieve this, the Authorities have outlined the corrective measures to be taken with a view to return to fiscal rules in the Recovery Plan.

For 2022 Government presented a National Budget with provisions for increased expenditure and the expressed objective of resuscitating economic activity. It is envisaged that the higher level of public spending, coupled with the reduction in some taxes, would alleviate the unemployment situation. The authorities continue to take an expansionary fiscal stance and the medium-term projections show that in 2022, the Central Government will not deviate significantly, from most fiscal rules and targets. In 2022, the debt to GDP ratio is projected to have

the largest deviation (see Table 2.1 in chapter 2). This suggests that the adjustment to meet the targets in 2022 must factor in measures to deal with debt.

The Suspension of Section 7 and 8 (SRO No. 17 of 2021) mandated a return to the fiscal rules and targets in 2022 for which the adjustment path (i.e. corrective measures to secure compliance) has been identified in the Recovery Plan.

Considerations for further implementation of the Act

The accompanying documents to the Budget on the growth, fiscal and debt outcomes in 2021 prepared by the Ministry of Finance and laid before the Parliament outlined the projections and measures to achieve economic growth and return to the fiscal rules in 2022.

The FROC is mindful that the Authorities have extended the Escape Clause for a third year in 2022 due to the continued impact of the COVID-19 Pandemic. While the Escape Clause is a safeguard in difficult economic times, the Authorities should ensure that it is temporary and that the measures contained in the Recovery Plan should be strictly adhered to so that there can be a return to the fiscal rules and targets in 2023 to maintain the integrity of the fiscal legislation.

The FROC also notes non-compliance in areas such as absence of a public sector communication strategy to explain the activation of the Escape Clause and the absence of data for covered public sector entities. The FROC also noted the non-submission of the Annual Debt Ceiling and Annual Borrowing Plan for covered public entities.

Opportunities to Leverage further Implementation of the Act

Since the establishment of the FROC in 2016, several recommendations were made for legislative amendments (See Appendix VI) which should be given urgent attention. It is

recommended that the existing FRA be repealed and replaced given the number of amendments.

The FROC notes that the FRA in its current construct does not allow the Authorities to fully exploit revenue windfalls, given the restrictions placed on the real rate of growth of primary expenditure, which is set at 2.0 percent. Additionally, this "hard" target also places restrictions on the drawdown of loans once the 2.0 percent target has been reached. Consequently, the Government could face the prospect of loan commitment fees for the undrawn portion of existing loans.

Potential challenges in further implementation of the Act

In so far as the FRA sets out strict fiscal guidelines and targets, the question has arisen as to what extent and for what period can the Government avail itself of the Escape Clause contained in Section 10 of the Act, by suspending certain fiscal rules, targets and corrective measures set out under the Act. As a matter of legal interpretation, the section fails to be considered in the context of the Act and given its purposive interpretation, the FROC is satisfied that the Escape Clause may be successively invoked, provided that the conditions mandated in Section 10(1) of the Act continue to exist and that the objects of the Act continue to be achieved.

While this Report covers the year 2021, a major potential challenge is the geopolitical situation with the invasion of Ukraine by Russia and the impact of the economic sanctions by the EU and the US on the CBI programme which is a major non-tax revenue earner to finance the PSIP. This event is already pushing the price of commodities up and major financial institutions are forecasting increased inflation and possible recession.

Other challenges remain, such as the lack of data for covered public sector entities and the lack of resources to support the work of the FROC. For the first time in 2020, the

FROC requested the views of the private sector and the Civil Society which enriched the report. This collaboration needs to be strengthened.

Conclusion

Grenada is quite fortunate to have had the vision to include the Escape Clause in the FRL and to name a health pandemic as a trigger for its use. The FRA provides for savings through contributions from the National Transformation Fund to finance the counter cyclical fiscal policy which is a positive measure. However, the outstanding issue of legislative reform must be addressed urgently and should include policy reform to address the limitations of the target indicators. The low vaccination rate and vaccine hesitancy poses a serious risk to the opening of the borders in mid-2021 and the return of SGU students and tourists which are a major boost for the economy.

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS

The FROC's recommendations fall under four categories:

i) Macroeconomic
ii) Fiscal and Debt Management
iii) The FRA and the FROC
iv) Summary of previous (2020) recommendations

Macroeconomic Recommendations

COVID and Vaccinations. COVID-19 created the worst recession in Grenada's recent history, with loss of lives, loss of jobs and numerous hardships faced both globally and in Grenada. This warranted the invocation of the Escape Clause of the FRA, discussed below. With increasing expectations that COVID may become endemic and more mild, the FROC welcomes the easing of COVID related restrictions in Grenada and in many economies around the world. However, COVID is not yet over and Grenada's vaccination rate remains low with only 34% of the population fully vaccinated, in comparison with other island economies[4] that also rely on a safe environment for the tourism industry. While COVID deaths have fallen considerably around the world, it should be noted that the rate of new COVID cases in 2022 outpaces the rate of new cases in 2020 and 2021. In March 2022, World Health Organisation Director General[5] noted that the pandemic was not yet over and that it "would not be over until it was over everywhere". This statement emphasizes the fact that new variants of COVID could emerge from anywhere in the world and quickly evolve into a pandemic, with consequences for the global economy. While the downward trend in severity of COVID is encouraging, Grenada's economy and fiscal position remains dependent upon the evolving COVID situation.

[4] As of 24th April, 2022 the rates of full vaccination in selected islands were: Seychelles, 82%; British Virgin Islands, 59%; US Virgin Islands, 54%; Barbados, 52%; St. Lucia, 30%; St. Vincent and the Grenadines, 27%; Jamaica, 25%.
[5] Dr. Tedros Adhanom Ghebreyesus

Meanwhile, COVID cases in Grenada are not at zero, but measured 364 cases for the period of 11th – 24th of April, 2022.

- The FROC recommends that the government continue to survey the global COVID situation and prepare a strategy to counteract vaccine misinformation while also preparing for the next pandemic. Meanwhile, Grenadians should continue to have access to vaccines and credible vaccine information. Ongoing investments to improve the management and delivery of healthcare across the tri-island state, including through the introduction of a National Health Insurance, should also be prioritized.

Climate Change. The FROC notes the Government's ongoing focus on climate resilience and welcomes national initiatives related to climate resilience as reflected in the budget. Despite these measures, Grenada remains vulnerable to climate change which presents an ongoing risk to the Grenadian economy and fiscal management.

- The FROC recommends that the Ministry of Finance and the Ministry for Climate engage in scenario planning exercises to stress test budget assumptions and debt management projections under various climate scenarios.

Tourism Industry Rebound. According to the UN World Tourism Organization (UNWTO) the pace of recovery of the tourism sector remained slow and uneven across world regions due to varying degrees of mobility restrictions, vaccination rates and traveler confidence. Europe and the Americas recorded the strongest results in 2021 compared to 2020 (+19% and +17% respectively), but still both 63% below pre-pandemic levels. By subregion, the Caribbean saw the best performance (+63% above 2020, though 37% below 2019). Looking forward, UNWTO scenarios point to 30% to 78% growth in international tourist arrivals in 2022 depending on various factors. This would be 50% to 63% below pre-pandemic levels, globally. In Grenada, the industry is experiencing a rebound and the Grenada Tourism Authority anticipates a return to pre-pandemic arrival numbers during 2023.

- The FROC recommends strengthening Grenada's capacity to compete in and take advantage of, a rebounding tourism market, including through more hospitality training. At the same time, the FROC also maintains its recommendations to adopt diversification strategies to ensure greater fiscal resilience in the medium to long term.

New Inflationary Pressures. In the FROC's view, inflation expectations for 2022 are more in line with the forecast furnished by the MoF, as oil prices are expected to remain high and possibly increase, should the Russia/Ukraine crisis escalate any further. In addition, given the importance of Russia and Ukraine to the global supply of wheat, the price of flour is expected to increase appreciably, thereby putting additional upward pressure on the cost of food in the domestic market. Moreover, the supply chain bottlenecks are anticipated to persist for the greater part of 2022, especially if new strains of the COVID-19 virus emerge in important production centres of the world. Regarding fuel prices, the FROC notes Grenada's continued reliance on diesel generation and is mindful of Government's intentions to transition from diesel towards renewable energy sources.

- The FROC recommends that the Authorities consider a range of measures to buffer inflationary pressures on a selection of food basket items, on fertilizer and on fuel prices. Regarding the latter, an accelerated approach towards renewables would be prudent while also in keeping with the aspirations of the National Sustainable Development Plan 2020 - 2035[6].

[6] In addition to renewables, a policy to transition Grenada's vehicles to electric would help buffer households and commercial entities against fuel price volatility. While the transition to electric vehicles is a medium to long term play, the policy announcement will have immediate benefits on GRENLEC's ability to access the necessary finance to transition to renewable energy given the anticipated growth of the electricity sector.

Fiscal and Debt Management Recommendations

Growth Estimates. The FROC notes the more optimistic growth outlook proposed by the IMF. While the FROC is cautiously optimistic about Grenada's growth prospects, the FROC's expectations are in line with the more conservative projections made by the Ministry of Finance.

- The FROC recommends that, for fiscal planning purposes, growth expectations do not exceed 5.0% over the medium term.

National Transformation Fund. The FROC notes the success of the National Transformation Fund to finance the counter cyclical fiscal policy measures as a positive step. The FROC notes ongoing and new downside risks to the CBI program which could affect CBI programs, globally. These include statements emanating from the United States and the European Union, regarding such programs, especially during the Russia /Ukraine conflict.

- The FROC recommends safeguarding the integrity of the CBI program and the replenishment of the National Transformation Fund as an ongoing counter cyclical "insurance policy", including as a catalyst for implementing recommendations made by the FROC and other measures that would ensure a more robust and resilient economy.

Petro Caribe Debt. The FROC notes the continued ambiguity surrounding the treatment of the Petro Caribe debt which has been raised in previous FROC Reports.

- The FROC recommends the formalization of the treatment of this debt so that it may be properly recorded in Government's fiscal accounts.

FRA and FROC Recommendations

The Escape Clause. FROC is mindful that the Authorities have extended the Escape Clause for a third consecutive year in 2022 due to the continued impact of the Covid-19 Pandemic. FROC is satisfied that the Escape Clause may be invoked for consecutive years, provided that conditions mandated in Section 10(1) of the Act continue to exist and that the objects of the Act continue to be achieved. Moreover, the FROC is satisfied that the government's invocation of the Escape Clause in 2021 was properly conceived and implemented. While the Escape Clause is a safeguard in difficult economic times, the Authorities should ensure that it is temporary and that the measures contained in the Recovery Plan are be adhered to so that there can be a return to the fiscal rules and targets in 2023 to maintain the integrity of the fiscal legislation. The FROC commends the Government for its ongoing fiscal prudence even under the circumstances where the Escape Clause has been invoked. However, while the Authorities did communicate with the public on the invocation of the Escape Clause, the FROC notes non-compliance with the absence of a *public sector communication strategy* to explain the activation of the Escape Clause.

- The FROC recommends a return to the fiscal rules in 2023, provided there are no new catastrophic events that would warrant the triggering of the Escape Clause.

- The FROC recommends that the FRA be amended to provide better guidance on fiscal rules in the event of consecutive economic shocks.

- The FROC recommends the preparation and execution of a public sector communication strategy be developed for any future invocation of the Escape Clause. It is further recommended that such a draft strategy be developed as soon as possible, in anticipation of capacity constraints during emergency situations where the Escape Clause may be invoked in the future.

The Fiscal Responsibility Act Legislation. The FROC notes the success of the Fiscal Responsibility Act as an effective buffer against unforeseen economic and financial stressors that may be detrimental to the national economy and public finances. Since the establishment of the FROC in 2016, several recommendations were made for legislative amendments (outlined in Appendix VI) which should be given urgent attention as they have implications for the proper functioning of the FROC. The FROC also notes that the FRA in its current construct does not allow the Authorities to benefit from revenue windfalls and undrawn loan commitments where the real rate of growth of primary expenditure exceeds the statutory target of two percent. The FROC also notes the limitations of the target indicators.

- The FROC recommends that the outstanding issue of legislative reform must be addressed urgently and should also include policy reform to address the limitations of the target indicators.

- The FROC recommends that the FRA be adjusted to allow flexibility on the real rate of growth on primary expenditure (currently limited to 2 percent), to allow the Authorities to benefit from revenue windfalls and undrawn loan commitments.

- The FROC recommends a comprehensive review of the Fiscal Responsibility Act with a view to safeguarding the original intentions of the Act while also implementing the proposed amendments set out in Appendix VI in this Report.

- Moreover, given the high number of amendments to be made, the FROC has recommended and continues to recommend that the existing FRA be repealed and replaced with a new and improved version of the Fiscal Responsibility Act.

Other Recommendations. The FROC welcomes the ongoing improvements in the Ministry of Finance's ability to provide timely information to the FROC and is very encouraged by the responsive "open door" approach taken by the Ministry in its dealings with the FROC. The FROC also understands the rationale for the Government's across-

the-board budget cuts during times of austerity. However, these are the times when the FROC's services can add the greatest value. For example, the FROC notes the positive impact on its Reports provided by engagement with the private sector and civil society and considers this an area for further strengthening which will have budgetary implications.

- The FROC recommends that engagements with key stakeholder groups be strengthened and that more resources be provided to the FROC for such engagements and for other activities that would improve the quality of the FROC's work and its Reports.
- The FROC recommends that Parliament considers ring-fencing the FROC's budget to improve the FROC's ability to provide guidance to Parliament, including through enhanced analytical capacity, wider consultations with Civil Society and the Private Sector, improved communication tools for the public and targeted stakeholders and other improvements.

- The FROC recommends that both the FROC and the Ministry of Finance redouble efforts to realize their joint desire of signing an MOU in 2022, and that such an MOU should include formalized processes for following up, including through the adoption of a phased approach for the implementation of FROC recommendations.

Summary of previous recommendations made in the 2020 Report.

i) Commit to a phased and targeted approach to attaining full compliance with the Fiscal Responsibility Act;

ii) Review, repeal and replace the Fiscal Responsibility Act[7];

[7] NB. This is not a call for the "scrapping" of the FRA, but rather a call for a comprehensive upgrade to the FRA

iii) Ensure a green, resilient and inclusive recovery with continued fiscal prudence; and

iv) 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

End of Main Document

APPENDIX I-LEGISLATION ON PUBLIC FINANCIAL MATTERS AS AT 31st DECEMBER, 2021

(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

Fiscal Responsibility (Suspension of Sections 7 and 8) SRO No.17 of 2021

(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
18th August, 2021	FROC Media Briefing	2020 Annual Report
27th August, 2021	Committee Member's Luncheon with past Chairman, Mr. Richard W. Duncan	Recognition of service of past Members
7th January, 2022	Meeting between the FROC and the International Monetary Fund (IMF)	General overview of fiscal policies.
13th January, 2022	FROC Committee Meeting	Administration and planning
20th January, 2022	FROC Committee Meeting	Administration and planning
27th January, 2022	FROC Committee Meeting	Administration and planning
2nd February, 2022	Orientation for FROC Members facilitated by the Ministry of Finance.	Orientation for new members
3rd February, 2022	FROC Committee meeting	Planning and Administration
3rd February, 2022	Meeting between the FROC and the Attorney General	Preparation of 2021 Annual Report
17th February, 2022	FROC Committee Meeting	Planning and Administration
21st February, 2022	Meeting between the FROC and the International Monetary Fund (IMF)	General overview of fiscal policies.
3rd March, 2022	FROC Committee Meeting	Preparation of 2021 Annual Report
31st March, 2022	FROC Committee Meeting	Preparation of 2021 Annual Report
14th April, 2022	FROC Committee Meeting	Preparation of 2021 Annual Report
25th April, 2022	Meeting between the FROC and the International Monetary Fund (IMF)	Current fiscal trends and ideas.

APPENDIX III-THE PRIVATE SECTOR'S RESPONSE TO THE 2022 BUDGET

The Private Sector in its response to the 2022 budget presentation raised the following key points:

- The Sector articulated its support for the non-pursuit of oil exploration and development as a prudent investment at this time, particularly due to the extensive reserves that is necessary to make exploration commercially viable. The Sector pointed out the slim possibility of attracting investments from the World Bank and the IMF for this initiative. The Sector echoed its support for the production of Gas. Particularly highlighted, was the significant reduction in rates that can be realized if there is an effective transfer from the consumption of diesel to natural gas.

- The Private Sector emphasized the need to thoroughly study and have a profound understanding of the factors considered in constructing the budget, to allow for proper understanding of the context in with the projections are made. The Sector therefore showed its support for focus on protecting lives, safeguarding livelihoods and investing for growth and perspective. The Sector commended the strategic planning approach which allows for common understanding of the articulated mission as a country. This approach will allow for continuity in the possible event of transitioning to new administrations.

- Focus was given to the low rate of vaccination on the recovery process. This was highlighted in the context of the need for speedy recovery considering the suspension of the FRL rules. The Government was commended on measures taken which resulted in an improved fiscal performance in 2021 compared to 2020. The Sector observed the increased debt to GDP but supported the Government's decision, as it was deemed necessary as an efficient measure in dealing with the pandemic.

- The Private Sector highlighted the PSIP implementation of 80% as a vehicle for putting more spending power in the average man's hand.

APPENDIX III-THE PRIVATE SECTOR'S RESPONSE TO THE 2022 BUDGET (CONTINUED)

- The importance of establishing a linkage between the short-term sector and the productive sector was emphasized, particularly the linkages between construction and other sectors such as tourism and agriculture.

- The threat of climate change was singled out as a key risk in 2022. Key issues raised are, erosion of our beaches, rising sea levels, leaching, acidification of our oceans and the impact on fisheries.

- The Private Sector expressed the need for Government to capitalize on the increased demands under the CBI programme as an alternative income stream.

- The increased freight cost was raised as a matter of concern. The Sector articulated its support for a recalculation of the CIF value.

- The increase in the fiscal measures such as reductions on tax rates and other reliefs were priorities of the Private Sector. Notwithstanding the Sector's preference for more measures to have been implemented, satisfaction was expressed with the maintenance of the existing tax base.

- The Private Sector projects that with the opening of hotels in the St. David's area, there is the likely possibility for needed labour in the Grand Anse area within the hospitality sector. This was seen as an opportunity for the expansion of the hospitality programme at TAMCC.

APPENDIX IV-FISCAL DATA

	2017	2018	2019	2020	2021
Total Revenue and Grants	**778.1**	**849.8**	**871.5**	**792.7**	**757.1**
Current Revenue	700.1	755.9	778.0	689.6	727.1
Tax Revenue	651.8	704.1	718.6	622.8	625.4
Taxes on Income & Profits	140.6	153.9	151.3	135.0	121.5
Taxes on Property	24.3	29.3	39.6	34.8	29.1
Taxes on Domestic Goods & Services	147.7	151.4	154.5	128.2	125.7
Taxes on International Trade Transaction	339.2	369.5	373.1	324.8	349.1
Non-tax Revenue	48.2	51.8	59.4	66.8	101.7
Grants	78.1	94.0	93.5	103.1	230.0
Budgetary Grants	13.9	19.4	17.8	18.3	47.0
Capital Grants	64.2	74.6	75.7	84.8	182.9
Primary Expenditure	**605.5**	**632.1**	**648.5**	**864.5**	**893.0**
Primary Expenditure less Capital Grants	*541.3*	*557.5*	*572.8*	*779.7*	*710.1*
Real Growth in Primary Expenditure	*0.6*	*2.0*	*1.9*	*35.5*	*(8.3)*
Total Expenditure	**686.5**	**695.3**	**709.2**	**920.4**	**947.2**
Current Expenditure	605.9	607.7	623.5	650.5	686.8
Employee Compensation	265.2	263.7	266.7	277.1	307.6
Allowances	246.8	251.0	253.3	262.3	291.7
Social contribution to employees	18.4	12.7	13.4	14.8	16.0
Goods & Services	126.5	130.5	132.8	131.6	154.0
Interest payments	81.0	63.2	60.6	55.9	54.2
Transfers	133.2	150.3	163.4	185.9	171.0
Capital Expenditure	80.6	87.6	85.7	269.9	260.4
Grants	64.2	74.6	75.7	84.8	182.9
Local Revenue	6.1	2.6	2.1	165.3	33.8
Loan	10.4	10.4	7.9	19.8	43.7
Primary Balance after grants	**172.6**	**217.7**	**223.0**	**(71.8)**	**64.1**
Overall Balance after grants	**91.6**	**154.5**	**162.4**	**(127.7)**	**9.9**
Primary balance as a % of GDP	5.7	6.9	6.8	(2.6)	2.2
Notional Compensatory Balance	*(2.2)*	*(5.6)*	*(8.9)*	*(2.8)*	*(1.5)*

APPENDIX IV-FISCAL DATA (CONTINUED)

Memorandum Items					
	2017	2018	2019	2020	2021
Real GDP Growth (%) (Constant Prices)	**4.0**	**3.5**	**2.4**	**-11.8**	**4.6**
Real GDP Growth (%) (Market Prices)	**4.4**	**4.1**	**2.0**	**-12.2**	**4.8**
Nominal GDP in EC$m (Market Prices)	**3039.4**	**3155.5**	**3271.4**	**2825.9**	**2978.8**
Wage bill in EC $m	**240.4**	**246.8**	**251.0**	**253.3**	**291.7**
Of which personal emoluments, wages, allowances, and payments for professional services made to Government established employees.	197.8	199.7	202.0	205.3	223.9
Of which personal emoluments, wages, allowances, and payments for professional services made to Government un-established employees including project workers employed under the Public Sector Investment Programme	49.0	52.0	51.3	57.0	67.8
Wage bill as a percent of GDP	7.9	7.8	7.7	9.0	9.8
Primary Expenditure in EC$m	**605.5**	**632.1**	**648.5**	**864.5**	**893.0**
of which primary expenditure of Central Government	605.5	632.1	648.5	864.5	893.0
Public Debt in EC $m	**2441.5**	**2350.1**	**2260.9**	**2360.6**	**2472.8**
of which total stock of public sector debt from external sources	1401.3	1417.8	1410.9	1531.3	1636.9
of which total stock of public sector debt from domestic sources	595.9	560.0	477.9	457.1	463.7
of which guaranteed debt and contingent liabilities of statutory bodies and state-owned enterprises	72.2	0.2	0.0	0.0	1.0
of which Petro Caribe Debt	372.1	372.1	372.1	372.1	372.1
Public Debt as a % of GDP (with Petrocaribe)	*80.3*	*74.5*	*69.1*	*83.5*	*83.0*
Public Debt as a % of GDP (without Petrocaribe)	*68.1*	*62.7*	*57.7*	*70.4*	*70.6*
Central Government as a % of GDP	*65.7*	*62.7*	*57.7*	*70.4*	*70.5*
Inflation Rate (end of period) (%)	**0.5**	**1.4**	**0.1**	**-0.8**	**2.0**
Consumer Price Index (end of period)	**110.5**	**112.0**	**112.1**	**111.2**	**113.2**
Inflation Rate (period average) (%)	**0.9**	**0.8**	**0.6**	**-0.7**	**2.2**
Consumer Price Index (period average)	**110.4**	**111.3**	**111.9**	**111.1**	**113.6**
Unemployment Rate (%) - Q3 each year	**23.6**	**16.7**	**15.6**	**28.4**	**16.6**
GDP per Capita (EC$)	**28142.1**	**29217.4**	**30012.6**	**25925.6**	**26198.6**

Source: Macroeconomic Policy Unit

APPENDIX V–COVERED AND NOT COVERED PUBLIC ENTITIES AS AT 31st DECEMBER, 2021

	Covered Public Entities	Qualifying Factor			
		Reporting	Transfers	Equity	Government Guarantees
1	Child Protection Authority		✓		
2	Financial Complex Limited		✓		
3	Grenada Investment Development 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	Marketing and National Importing Board	✓			✓
12	Spicemas Corporation		✓		
13	T.A. Marryshow Community College		✓		

	Not Covered Public Entities				
1	GARFIN				
2	Gravel, Concrete & Emulsion Production Co.				
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				
10	Public Utilities Regulatory Commission				
11	Housing Authority of Grenada				

Source: Macroeconomic Policy Unit

Aviation Services of Grenada Limited which is a wholly owned subsidiary of the Grenada Airport Authority is not included here.

APPENDIX VI–SUGGESTED AMENDMENTS TO THE ACT

Successive Reports of the FROC since its creation in 2016 have observed and highlighted the need for clarity in several sections of the Fiscal Responsibility Act. At a meeting with 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.

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

These legislative issues were also raised by the FROC in meetings 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 VI–SUGGESTED AMENDMENTS TO THE ACT (CONTINUED)

The FROC and the 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 rules and considering aligning with new expenditure rule methodology; and

ix) Resolving inconsistencies between the FRL, the PFM and the PDM Acts.

Despite the significant improvement in reporting by SB's and SOE's over the years, the data from covered public entities (see Appendix VI) is still not yet being consolidated with Central Government data as required by the FRA. The MOF had indicated an intent to correct this in the medium-term. In the interim however consideration could be given to inclusion of a relevant amendment to the FRA to account for this omission.

As mentioned in chapter 3 the FROC notes that the FRA does not allow the Authorities to fully exploit revenue windfalls, given the restrictions placed on the real rate of growth of primary expenditure, which is set at 2.0 percent. Additionally, this "hard" target also places restrictions on the drawdown of loans once the 2.0 percent target has been reached. Consideration could be given to addressing this matter in an amendment to the Act.

APPENDIX VI–SUGGESTED AMENDMENTS TO THE ACT (CONTINUED)

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 with a new Act. A new FRA which reflects all the necessary changes would be the 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 since the first FROC Report in 2016. The FROC had hoped that with the invocation of the Escape Clause for 2020 and 2021, the opportunity would have been taken to amend the legislation but this has not occurred. Given the number of ambiguities and inconsistencies in the ACT the full benefits of the FRL legislation are probably not being realized by the Government. The FROC will continue to dialogue with the MOF in support of getting the amendments enacted.

APPENDIX VII-OTHER REQUIREMENTS OF THE 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 VII-OTHER REQUIREMENTS OF THE 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;"*	There continue to be gaps in fiscal and debt transparency, including those related to limited data coverage. The Authorities disseminated information that focused primarily on the central government, rather than the entire public sector. The following fiscal reports were prepared as required by the various financial legislations, and were laid in Parliament on 2 December, 2020: i. Medium-Term Fiscal Framework 2021 -2023; ii. Budget Framework Paper 2021; iii. Medium-Term Debt Management Strategy iv. 2021 - 2023 v. Fiscal Risk Statement; vi. The 2020 Economic Review and Medium-Term Outlook; and vii. The 2019 Annual Debt Report These Reports can be found on the Government's website. In addition, quarterly Debt Bulletins were published on the Ministry of Finance's website. The monthly Fiscal Summary Reports were also published on the Ministry's Bulletin Board and on its website. The Recovery 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, with a plan to return to compliance in 2022. The Government signaled its commitment to the FRA while it continued to implement measures to support, stimulate, and develop the economy.

APPENDIX VII-OTHER REQUIREMENTS OF THE ACT (CONTINUED)

Other requirements in the FRA	Status and Assessment of Compliance
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 increased in 2021, reflecting new borrowings to address the fallout from the COVID-19 pandemic as well as oversubscriptions allowed on the RGSM and a new Government-guaranteed loan contracted by a State-owned enterprise. A primary surplus was recorded in 2021, which when coupled with positive GDP growth, helped to stabilize debt to GDP at 70.6%. However, a primary deficit is forecast for 2022 and debt levels are projected to rise as the Government provides more policy support to accelerate growth. Should strong growth materialize in 2022, the debt to GDP is also expected to remain stable in that year. Thereafter, upon resumption of the FRL and, provided medium-term growth projections hold, the debt to GDP would be on a downward trajectory, potentially falling below the 55% target by 2025.
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$54.9m was passed in September 2021 to implement stimulus measures to cushion the negative effects of COVID-19. The Approved 2021 Budget was revised accordingly.

APPENDIX VII-OTHER REQUIREMENTS OF THE ACT (CONTINUED)

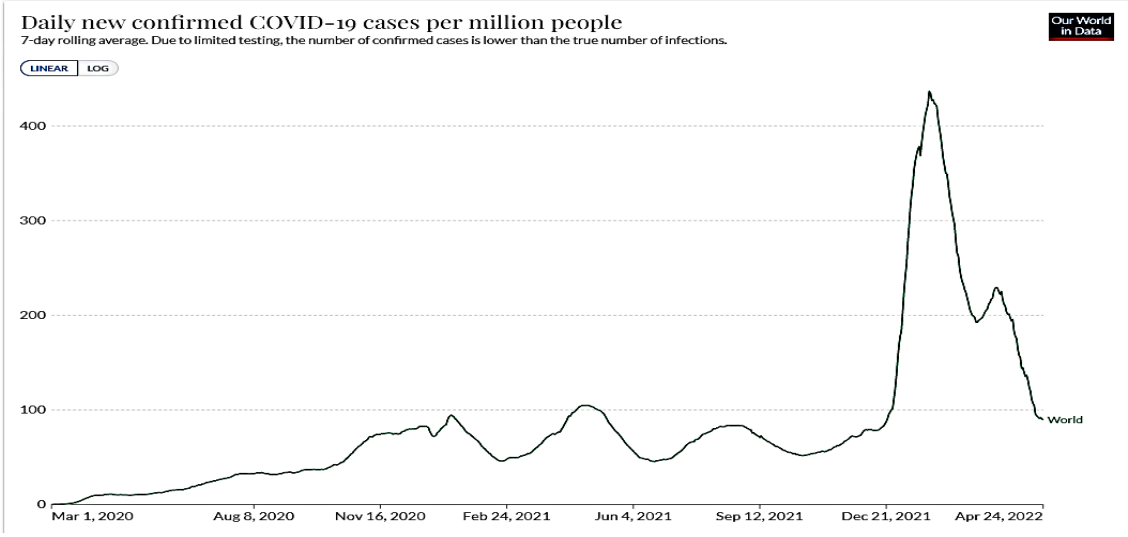
Other requirements in the FRA	Status and Assessment of Compliance
5. **Section 6(e):** *provides that "documented public investment procedures are prepared and made available for the submission and approval of all projects submitted for inclusion in the capital expenditure programmes of the Central Government 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.
6. **Section 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.	GO The Central Government wage bill was 9.8% of GDP in 2021. This was driven by Government's decision to honor the 4% negotiated salary increase for 2021 to public servants which was paid retroactively in August 2021 and bonus payments equivalent to one month's salary and half month's salary in some instances to public servants in December 2021.
7. **Section 7(2):** The Minister shall, by order subject to negative resolution, establish 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.	GO The three-year wage negotiation cycle for 2020-2022 was in effect. Retroactive salary increases for January to July 2021 was paid in August and this increase was applied for the remaining months of 2021 reflecting the negotiated increases for that year. Commitment was made by Government to honor the negotiated 4% salary increase for 2022 to be reflected from January 2022 salary payment.

APPENDIX VII-OTHER REQUIREMENTS OF THE ACT (CONTINUED)

Other requirements in the FRA	Status and Assessment of Compliance
8. 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 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."	GO No Compliance Report was prepared with the 2021 Budget because the Escape Clause was activated.
9. 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 This Fiscal Risk Statement was prepared and submitted to Parliament in December 2021. The Statement addressed the following areas: (i) 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;

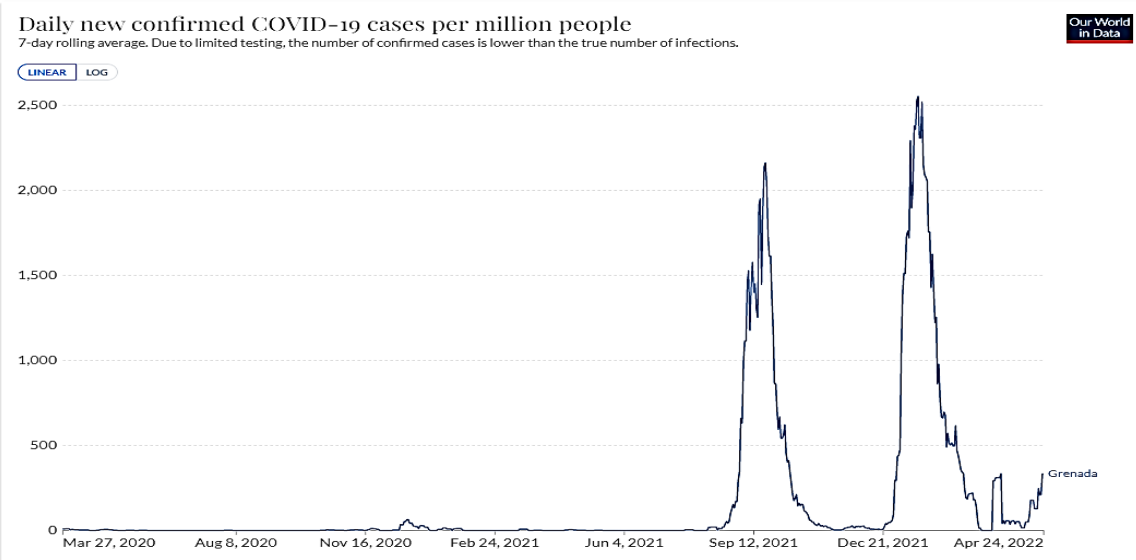
APPENDIX VIII-CONFIRMED COIVD-19 CASES - MARCH 2021 TO APRIL 2022

Global Covid situation as at 24th April, 2022



Source: Our World in Data

Domestic Covid situation as at 24th April, 2022



Source: Our World in Data