



GOVERNMENT OF GRENADA

**BUDGET FRAMEWORK PAPER
2019**

Ministry of Finance, Planning, Economic & Physical Development

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1.0 Purpose

In accordance with the requirements of Section 13 of the Regulations for the Public Financial Management Act, No. 17 of 2015, this Budget Framework Paper 2019-2021 provides:

- i. a summary of macroeconomic and fiscal forecasts from the medium-term fiscal framework document as updated;
- ii. a summary of fiscal policy and the statement of the medium-term fiscal objectives from the medium-term fiscal framework;
- iii. a comparison between the performance of the medium-term fiscal framework and the National Budget of the current year based on projections from the most current available information;
- iv. the Government's priorities for the National Budget, including information on the funds available for new policies or projects and a prioritised list of proposed spending for such funds;
- v. proposed efficiencies and spending reductions;
- vi. ceilings to be approved in the National Budget for expenditure, debt and other ceilings as may be required by any enactment regulating fiscal responsibility as may be promulgated from time to time; and
- vii. fiscal risk information as specified in the Act and any other applicable enactment updated from the medium-term fiscal framework where relevant.

The Framework Paper proceeds as laid out above.

2.0 Medium-term Fiscal Objectives

The Government's Medium-term Fiscal Framework (MTFF) 2019-2021 has been prepared to ensure compliance with the Fiscal Responsibility Law (FRL) No. 29/2015 (as amended in 2017). Debt reduction is the primary fiscal policy objective for the medium term. Accordingly, the Government will continue to deploy revenue and expenditure strategies such that primary surpluses exceeding the FRL's target are generated to keep public debt on a firm downward trajectory.

With respect to revenue, the strategy will be aimed at enhancing compliance, enforcement and administration, all with a view to building up Government's revenue base to be able to comfortably finance its expenditure plans on a sustained basis. Recurrent revenue is projected to reach \$853.8 million in 2021, a 9.4 percent increase relative to the 2019 estimate. As a percentage of GDP, recurrent revenue is projected to average 23.1 percent over the period 2019-2021. Meanwhile, Grants are projected to average 3.7 percent of GDP over the medium term.

In relation to expenditure, the strategy will continue to focus on promoting greater efficiency in public spending to be consistent with the FRL's primary expenditure rule. More emphasis will be placed on improving the execution of the public sector investment programme and providing sufficiently for recurrent operating costs. Recurrent expenditure is projected to be to \$636.8 million (17.2 percent of GDP) in 2021, an increase of less than one percent when compared to the 2019 estimate of \$637.8 million (18.9 percent of GDP). Capital expenditure is projected to average around 4.4 percent of GDP over the medium term and total expenditure as a percent of GDP is projected at 24.7, 21.9 and 20.7 for 2019, 2020 and 2021 respectively.

Based on the projected outruns for revenue and expenditure, Government's overall surplus and primary surplus are forecasted to average 4.3 and 6.3 percent of GDP respectively in 2019-2021. Accordingly, public debt is forecasted to be on a persistent downward trajectory over the medium term, falling below its FRL's target of 55.0 percent of GDP by 2020.

Table 1 presents fiscal projections for 2019-2021 (MTFF) and assumptions underlying the MTFF projections are reflected in Table 2.

Table 1: Medium-Term Fiscal Framework 2019 - 2021

Grenada Fiscal Projections						
<i>In millions of Eastern Caribbean Dollars</i>						
	2019		2020		2021	
	Projected	as a % of GDP	Projected	as a % of GDP	Projected	as a % of GDP
	TOTAL REVENUE AND GRANTS	964.2	28.5	932.2	26.2	949.0
CURRENT REVENUE	780.4	23.1	821.5	23.1	853.8	23.1
Tax revenue	726.5	21.5	764.7	21.5	794.8	21.5
Taxes on Income	157.4	4.7	165.7	4.7	172.2	4.7
Taxes on Property	28.0	0.8	29.5	0.8	30.5	0.8
Taxes on Domestic Goods & Consumption	156.8	4.6	165.1	4.6	171.6	4.6
Taxes on International Trade & Transactions	384.3	11.4	404.5	11.4	420.4	11.4
Non - Tax Revenue	53.9	1.6	56.8	1.6	59.0	1.6
Grants	183.7	5.4	110.7	3.1	95.2	2.6
TOTAL EXPENDITURE & NET LENDING	834.2	24.7	780.9	21.9	766.0	20.7
CURRENT EXPENDITURE	637.8	18.9	637.7	17.9	636.8	17.2
Personal Emoluments, Wages, Allowances & social contributions	275.4	8.1	272.2	7.6	272.5	7.4
Goods and Services	124.8	3.7	126.1	3.5	125.1	3.4
Interest Payments	72.0	2.1	67.7	1.9	64.9	1.8
Transfers	165.6	4.9	171.7	4.8	174.3	4.7
Net Lending	0.0	0.0	0.0	0.0	0.0	-
Capital Expenditure	196.4	5.8	143.2	4.0	129.2	3.5
Current Balance (before Grants)	142.7	4.2	183.8	5.2	217.0	5.9
Overall Balance (after Grants)	129.9	3.8	151.3	4.3	183.0	4.9
Primary Balance (before Grants)	18.2	0.5	108.3	3.0	152.6	4.1
Primary Balance (after Grants)	201.9	6.0	219.0	6.2	247.9	6.7
Memo item						
GDP (Nominal market prices)	3,381.5		3,559.4		3,699.2	
Real GDP growth (%)	4.2		3.9			

Source: Ministry of Finance

Table 2: Baseline Medium-Term Fiscal Assumptions

CATEGORIES	2019	2020	2021
Recurrent Revenue	All categories of tax and non-tax revenue are assumed to grow in line with projected GDP. A policy decision on the reduction in the Personal Income Tax and Corporate Income Tax rates were also factored into the projections		
Recurrent Expenditure			
Personal Emoluments, Wages, Salaries and Allowances	Assumes that the agreement between the Government and the Unions for salary increase of 4% will stand	Projected to be consistent with the fiscal rule	
Social contributions to employees			
Goods & Services	Projected to be consistent with the fiscal rule		
Current transfers			
Interest payment	External and domestic interest rate payment reflects the conditions stated in the contractual agreements		
Grants			
Budgetary	Budgetary grants are equal to the expected inflow from donor agencies		
Capital	Capital grants will be fully covered		
Capital expenditure & Net Lending	Assumes that it will average 4.4 percent of GDP based on the project implementation schedule		

Source: Ministry of Finance

3.0 Summary of 2018 Performance: Estimated Outturns and Budget

The primary balance is estimated to be 35.1 percent higher than the budgeted amount at the end of 2018. This performance can be credited to a 5.2 percent increase in total revenue and 8.3 percent decrease in total expenditure, when compared to the respective budgeted amounts. Recurrent expenditure is estimated to be \$594.6 million, 2.1 percent less than the budgeted amount given Government's deliberate actions to better manage discretionary spending. Meanwhile, Capital expenditure is estimated at \$118.9 million, 30.6 percent less than the budgeted amount due to the slower-than-anticipated execution of public sector projects. Consequently, capital grants spent are estimated to be \$50.2 million less than what was budgeted.

Table 3 presents the estimated outturns for 2018 compared with the 2018 Budget.

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Table 3: 2018 Performance: Estimated Outturns and Budget		
Grenada Fiscal Projections		
<i>In millions of Eastern Caribbean Dollars</i>		
	2018	
	Estimated Outturn	Budget
TOTAL REVENUE AND GRANTS	849.8	858.4
CURRENT REVENUE	747.2	710.4
Tax revenue	695.6	658.9
Taxes on Income	146.7	136.6
Taxes on Property	29.0	24.8
Taxes on Domestic Goods & Consumption	152.9	269.3
Taxes on International Trade & Transactions	367.0	228.3
Non - Tax Revenue	51.5	51.5
Grants	102.6	148.0
TOTAL EXPENDITURE & NET LENDING	713.5	778.4
CURRENT EXPENDITURE	594.6	607.1
Personal Emoluments, Wages, Allowances & social contributions	256.6	265.6
Goods and Services	114.4	117.8
Interest Payments	63.3	67.8
Transfers	160.2	155.9
Net Lending	0.0	0.0
Capital Expenditure	118.9	171.3
Current Balance (before Grants)	152.6	103.3
Overall Balance (after Grants)	136.3	80.0
Primary Balance (after Grants)	199.6	147.8

Source: Ministry of Finance

4.0 Government's Priorities for the 2019 Budget

The priorities for the 2019 Budget are framed within the context of Government's wider Medium-term Agenda (MTA), which articulates the strategic development priorities for the period 2019-2021. The overall aim of the MTA is to anchor medium-term development planning and strategic interventions to promote resilience in all of its form (economic, social and environmental) and accelerate inclusive, job-rich growth, as well as poverty reduction. The MTA 2019-2021 rests on

three strategic pillars (National goals): (i) Accelerating Sustainable & Inclusive Economic Growth; (ii) Enhancing Social Capital & Citizen Well-being; and (iii) Promoting Resilient Governance. In the pursuit of those national goals, strategic interventions will be made in targeted sectors with the aim of achieving particular development outcomes.

For the purposes of the 2019 Budget, only the targeted interventions for 2019 are outlined in the MTA 2019-2021 document. The MTA document will be updated annually to include targeted interventions for the relevant Budget year. Table 4 outlines the national goals, the targeted sectors and the development outcomes to which the priority interventions (projects and programmes) identified for the 2019 are expected to contribute.

Table 4: Medium-term Agenda: Strategic Priorities and Interventions for 2019

NATIONAL GOALS	FOCUS AREAS	MEDIUM-TERM STRATEGIC PRIORITIES	2019 BUDGET: TARGETED INTERVENTIONS
Accelerating Sustainable & Inclusive Economic Growth	Agriculture	<ul style="list-style-type: none"> ▪ Strengthen the economic viability of the agriculture sector ▪ Increase agricultural productivity through greater mechanization, use of appropriate technology and improved farming techniques ▪ Harness linkages between agri-business, tourism and rural employment ▪ Increase value added in supply chain across sectors 	<ul style="list-style-type: none"> ▪ SAEP Project (Climate-smart Agriculture Component) ▪ Youth in Agriculture Project
	Small Business Development	<ul style="list-style-type: none"> ▪ Improve the competitiveness of SMEs and enhance their role in national development 	<ul style="list-style-type: none"> ▪ A comprehensive strategy for MSMEs developed
	Climate Resilience	<ul style="list-style-type: none"> ▪ Mobilize climate finance for development 	<ul style="list-style-type: none"> ▪ Expansion of MBIA ▪ St. Patrick's Port Facility & Marina designs completed ▪ Lauriston Airport v designs completed
	Youth	<ul style="list-style-type: none"> ▪ Promote economic and social empowerment of youth 	<ul style="list-style-type: none"> ▪ Youth in Agriculture Project ▪ New industry-relevant training programmes developed ▪ National Employment Policy and Strategy developed ▪ SAEP Project

NATIONAL GOALS	FOCUS AREAS	MEDIUM-TERM STRATEGIC PRIORITIES	2019 BUDGET: TARGETED INTERVENTIONS
			(Entrepreneurship Development Component) <ul style="list-style-type: none"> ▪ Youth Sewing Cooperatives established
Enhancing Social Capital & Citizen Wellbeing	Education	<ul style="list-style-type: none"> ▪ Modernize school infrastructure ▪ Strengthen teacher development and school leadership ▪ Address national skills shortages through curriculum reform and skills development 	<ul style="list-style-type: none"> ▪ Grenada Education Enhancement Project ▪ BNTF HRD Sub-Projects ▪ CARCIP Project
	Health Care	<ul style="list-style-type: none"> ▪ Integrated quality health services delivery ▪ Build a competent health care workforce to deliver client-centered healthcare services ▪ Implement a National Information System for the health sector 	<ul style="list-style-type: none"> ▪ Management Training Programme developed and executed ▪ National Health Insurance project
	Social Protection	<ul style="list-style-type: none"> ▪ Implement comprehensive pensions reform ▪ Strengthen interventions to combat domestic violence and child abuse ▪ Construct new homes for low & middle income families 	<ul style="list-style-type: none"> ▪ Low Income Housing Project ▪ Pension Restoration and Reform Project ▪ Enhanced Country Poverty Assessment Project ▪ Special Victims Unit established and operational

NATIONAL GOALS	FOCUS AREAS	MEDIUM-TERM STRATEGIC PRIORITIES	2019 BUDGET: TARGETED INTERVENTIONS
Promoting Resilient Governance	Public Service Modernization	<ul style="list-style-type: none"> ▪ Introduce smart service delivery platforms ▪ Modernize Public Service Management systems ▪ Ensure Government continuity ▪ Strengthen national data & statistics 	<ul style="list-style-type: none"> ▪ E-Government Project ▪ Public Service Modernization Programme ▪ Continuity of Government Project ▪ Statistics Institute Project

5.0 Proposed Efficiencies and Spending Reductions

The Government's medium-term fiscal strategy will continue to focus on promoting greater efficiency in public spending to be consistent with the FRL's primary expenditure rule. Greater emphasis will be placed on improving the execution of the public sector investment programme and providing sufficiently for recurrent operating costs. Specifically, delays in project implementation, which increase gestation periods and cost overruns will be seriously addressed, as well as the manner in which projects are selected, prioritised and managed.

Furthermore, expenditure control systems will be strengthened by upgrading procedures, processes and policies and reinforcing accountability and compliance mechanisms. In particular, Finance Officers will be given constant high-level attention and monitoring. Finally, priority will also be given to containing the growth of recurrent administrative costs by efficiently executing public sector reform so that cost efficiencies are maximised in the delivery of public services. A pay and grade exercise will be conducted to help inform any future changes to the wage bill.

6.0 Ceilings to be Approved in the 2019 Budget

Table 5 presents the approved expenditure ceilings for the 2019 Budget. The ceilings are based on the projections for the first year of the MTF period.

Table 5: 2019 Approved Expenditure Ceilings	
Grenada Fiscal Projections	
<i>In millions of Eastern Caribbean Dollars</i>	
	2019
	Projected
TOTAL EXPENDITURE & NET LENDING	834.2
CURRENT EXPENDITURE	637.8
Personal Emoluments, Wages, Allowances & social contributions	275.4
Goods and Services	124.8
Interest Payments	72.0
Transfers	165.6
Net Lending	0.0
Capital Expenditure	196.4

Source: Ministry of Finance

7.0 Fiscal Risk Statement

A mix of upside and downside risks can affect Grenada's positive macroeconomic outlook. On the upside, Grenada's economic improvement and the investor confidence that it is likely to engender, together with potential upside surprises such as a faster-than-anticipated economic growth in Grenada's main trading partners, especially in the United States, augur well for the outlook. Additionally, the country's oil and natural gas discovery bodes well for the medium-to-long-term outlook.

On the downside, the projected growth in the economies of Grenada's main trading partners is tenuous and vulnerable to setbacks with increasing risks of protectionism, the potential escalation of trade wars in advanced economies and low productivity, as well as ageing population, especially in the Euro Area. These global headwinds pose potential downside risks for Grenada, through lower tourist arrivals, remittances and foreign direct investment. Rising international oil prices is also a significant risk to the economic outlook, more so in the short term. Furthermore, the cessation of oil refining by Trinidad's State-owned company –Petrotrin-which was the main exporter of fuel to Grenada, can cause short-run disruptions that might increase the local price of fuel, as well as cost of

production, with negative consequences for economic activity. Relatedly, the estimated 2600¹ workers to be laid off by Petrotrin can negatively affect Grenada's tourist arrivals from Trinidad.

The fiscal outlook in particular, can also be affected should the anticipated inflows to the National Transformation Fund (NTF), as well as external grants from development partners not be as strong as anticipated over the medium term. Furthermore, fiscal risks can also materialise should state-owned enterprises (SOEs) fail to remain within their funding constraints or should there be calls on the Central Government's resources where SOEs cannot service their obligations. Furthermore, pension reform, as well as the implementation of the National Health Insurance, if not properly managed, can also pose significant risks to public finances. Therefore, the respective ongoing processes must be guided by the parameters of the FRL to prevent any major fiscal fallout. In relation to both initiatives, it is crucially important that they be carried out in a phased and fiscally-sound manner.

Finally, but by no means least, Grenada's vulnerability to natural hazards is an inherent risk; indeed, adverse effects of climate change can significantly affect our infrastructure agricultural output (in particular) over the medium term. Therefore, the building resilience to climate change is an urgent and necessary imperative.

The Fiscal Risk Statement to be laid in Parliament in accordance to Section 12 (1) (e) of the FRL, contains a fuller discussion on risks and mitigation measures.

¹Source: Petrotrin's Media Release dated 28 August, 2018.