



PRESENTATION ON GRENADA'S *HOME-GROWN PROGRAMME*

Ministry of Finance

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OVERVIEW OF PRESENTATION

- **Key Messages**
- **The Context**
- **The Way Forward**
- **Appendix**

KEY MESSAGES

- **Grenada needs a home-grown programme of fiscal adjustment and structural reforms** to boost economic growth and job creation and improve the livelihoods of citizens.
- **Shared sacrifices are needed by all:** government, citizens, private sector, creditors and donors.
- **A social compact among all Social Partners is essential** if Grenada is to build the New Economy and realise her potential of becoming the leading economy in the ECCU.

THE CONTEXT

Why does Grenada need a home-grown programme?

Background (2009-12)

External and financial shocks hit the economy:

- Decline of Tourism receipts: 4.0 percent
- Decline of Foreign Direct Investment: 40.0 percent
- Decline of Revenues and Grants: 12.3 percent

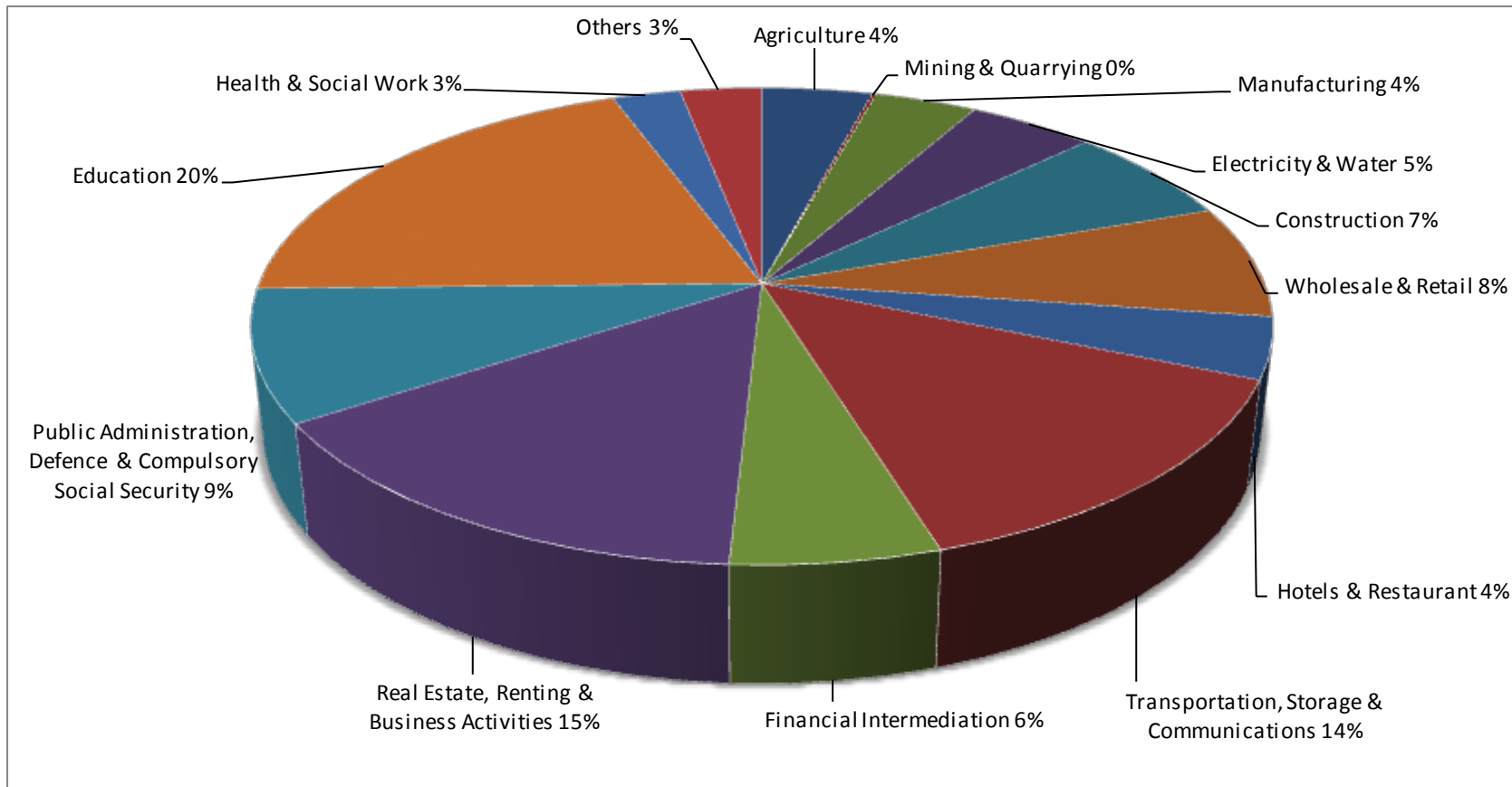
Leading to:

- Decline in National Output: 8.2 percent
- Fall in Employment: 12%
- Increase in overall deficit: 57.0 percent
- Cum. financing gap: US\$192 million (2008-13)

MAJOR CONCERNS

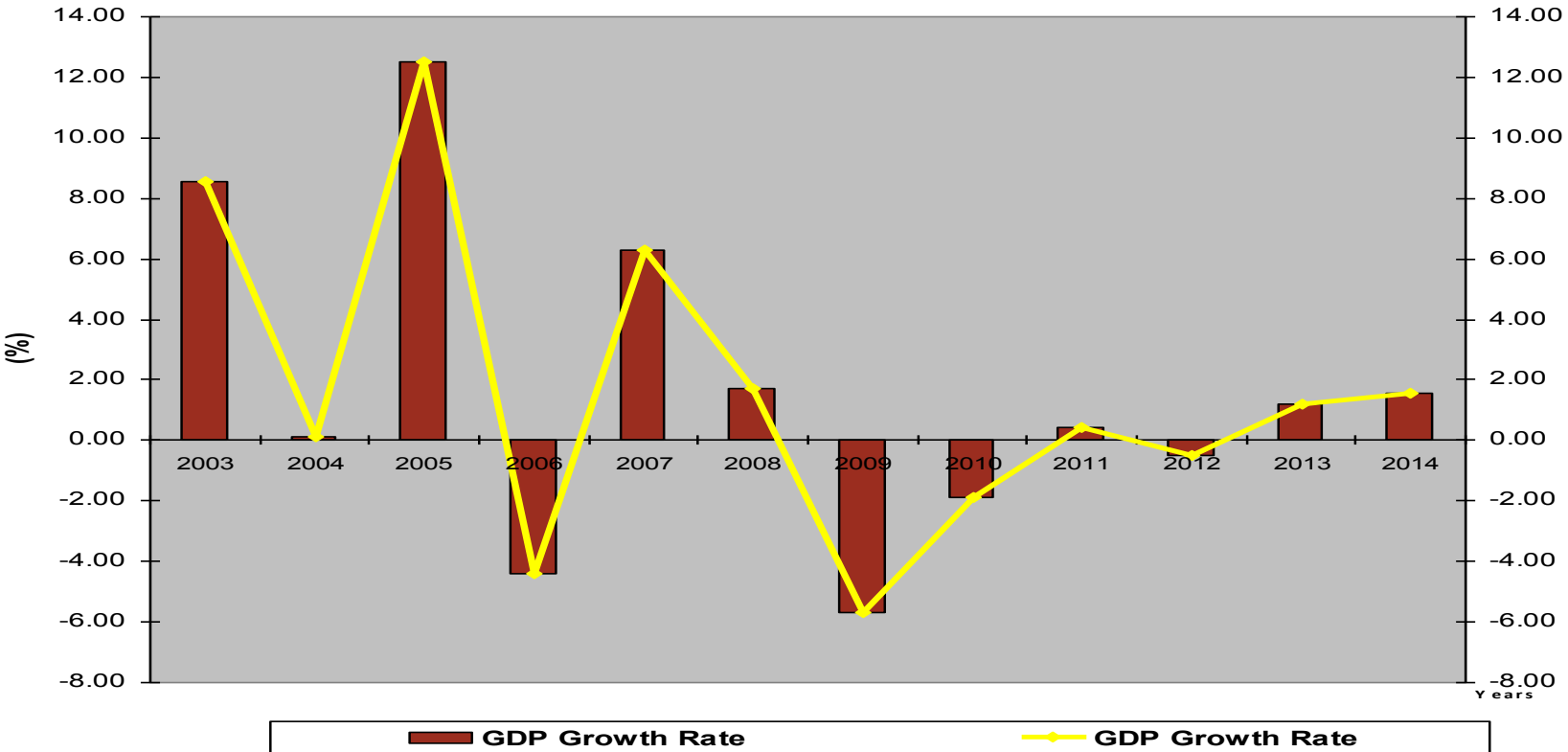
- **Grenada has averaged growth of -1.2% over the period: 2009-12**
- **Current Debt levels are not manageable**
- **Unemployment is unacceptably high**
- **Poverty is too high**
- **70 cents of every dollar Government collects is spent on salaries and pensions**
- **Grenada is underperforming in respect of revenue collection as measured by tax effort and is behind its peers in the ECCU.**

Grenada's Economy – GDP Performance by sector (2012)



Grenada's economy has been through a difficult patch in recent years...

Real GDP growth trends 2003 - 2014

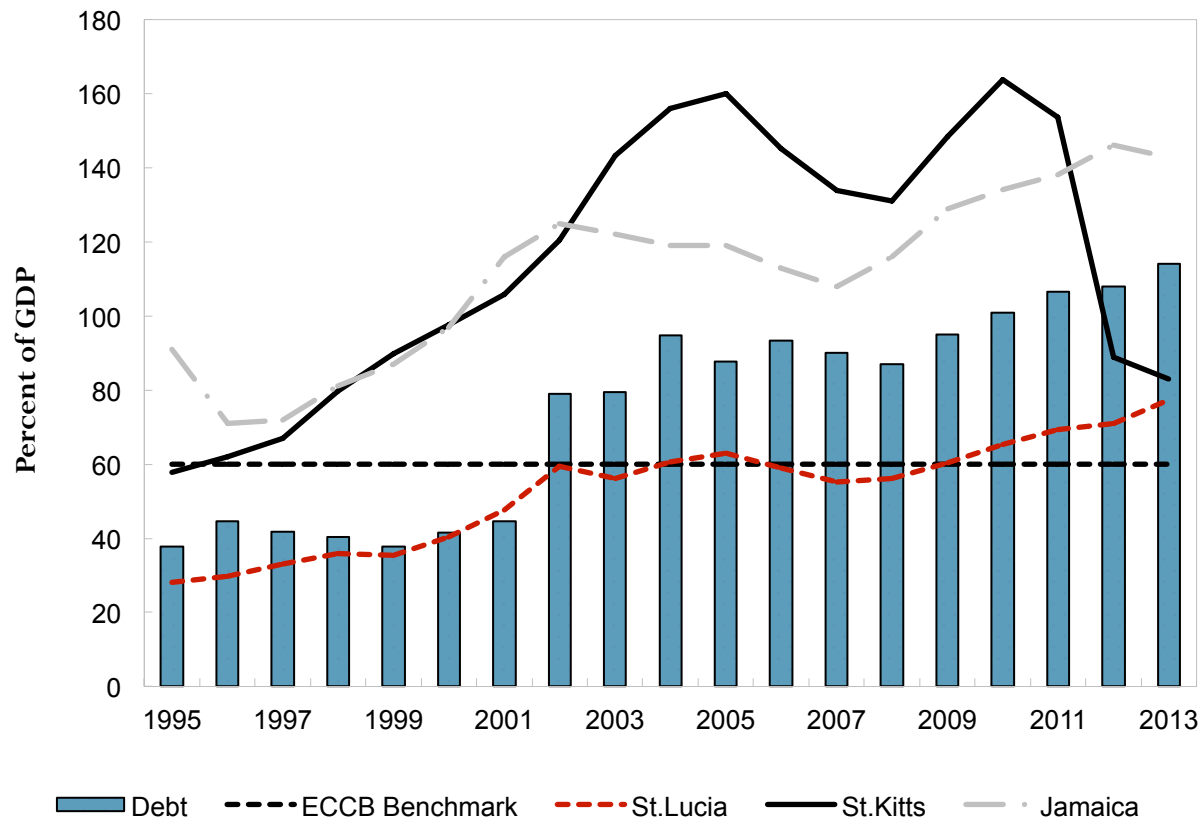


The global economy is still challenged....

- The global economy is yet to fully shake off the fall out from the crisis of 2008-09:
 - Europe remains in recession
 - US growth though improving is still low
 - Slowed growth in emerging economies
- Low growth and uncertainty in advanced economies and geopolitical tensions create some uncertainty for the global economy

Grenada's Debt is high

Public Sector Debt



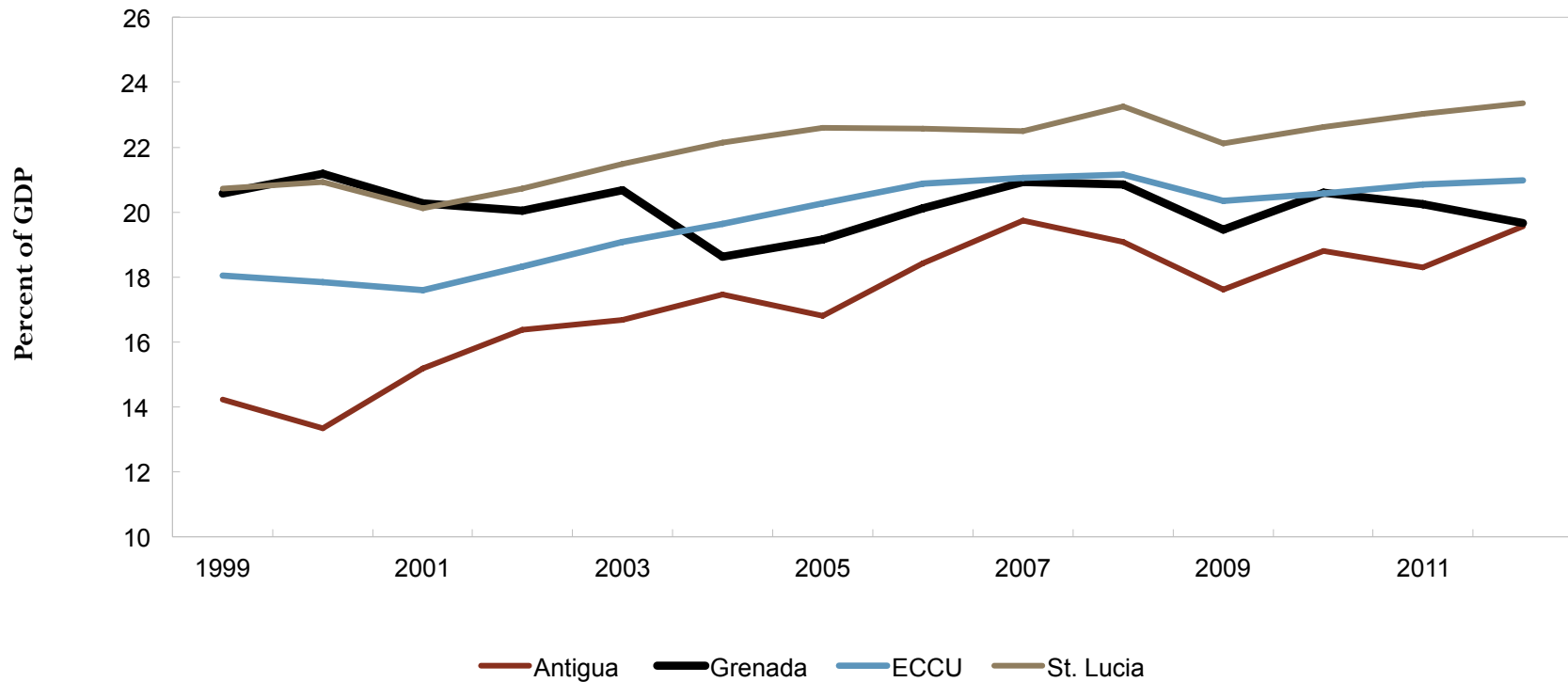
RECENT REVENUE TRENDS

Government of Grenada

	2009	2010	2011	2012	2013(p)
Current Revenues (EC\$mn)	405.6	428.9	425.9	425.6	430.3
Current Revenue (% of GDP)	19.5	20.6	20.3	19.7	19.6
Ave. Current Revenue (ECCU)	-	-	-	-	24.4

Grenada's revenue is below the ECCU Average...

Government Revenue



Grenada: Real GDP Performance: 2010 - 2014

MAJOR SECTORS	2010	2011	2012	2013p	2014e
Real GDP Growth	-1.9	0.1	-1.2	2.4	1.1
Value Added:					
Hotels & Restaurant	-13.6	6.4	-1.2	0.9	1.5
Agriculture	-12.1	3.1	6.0	-0.4	7.0
Construction	-1.0	-6.6	-14.9	15.0	2.0
Wholesale & Retail	-0.4	0.6	-3.0	6.0	1.0
Transport, Storage & Communications	-4.0	-2.6	-1.2	0.3	1.1
Financial Intermediation	-7.5	4.1	-3.7	-1.3	1.9
Real Estate, Renting and Business Activities	0.9	1.0	0.5	0.6	0.7
Education	-2.0	1.5	4.0	2.3	1.9
Public Admin, Defense & Social Security	5.7	3.0	2.8	0.5	-1.0

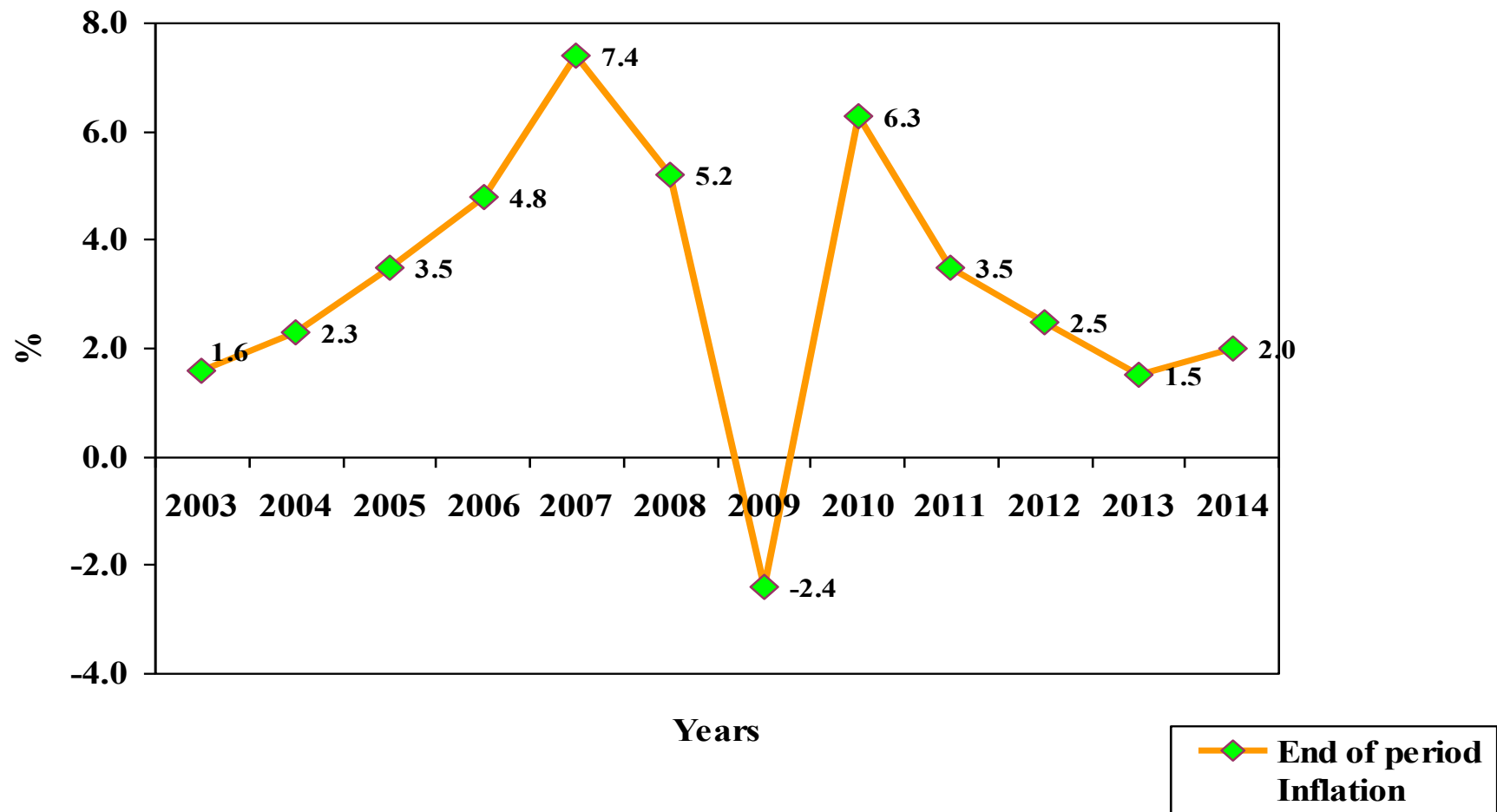
Growth challenges not unique to Grenada...

- Real GDP growth across the ECCU countries averaged 4.7 per cent from 2004-2008 but has since been negative, averaging -2.1 per cent from 2009 to 2012.

Recent Growth Performance in ECCU

COUNTRY	2011	2012	2013(p)
Anguilla	-1.5	-2.6	-0.9
Antigua & Barbuda	-2.1	2.8	1.2
Dominica	1.7	-0.2	-0.4
Grenada	0.1	-1.2	2.4
Montserrat	6.2	-2.0	0.7
St. Kitts & Nevis	-1.9	-0.9	1.9
St. Lucia	1.5	-0.8	0.3
St. Vincent & the Grenadines	0.3	1.5	2.3
ECCU	0.1	0.2	1.1

Following periods of high and rising prices, inflation pressures have remained subdued...



Without fiscal adjustment, Grenada's challenging fiscal situation will not readily improve...

- Government is spending more than it earns resulting in a monthly deficit of about \$15 million
- 70 cents of every dollar collected are spent salaries and pensions
- There is no money left from Government revenue for development projects and other services
- High unpaid claims and high debt are the results of this monthly deficit
- Back pay to public workers and pensioners - \$40.0 million over two years (2013 -14)

The Way Forward

Where do we go from here?

Objectives of Home-grown Programme

Growth and Job Creation:

- Structural Reforms
- Investments through Core PSIP
- Increased support for small businesses
- Citizenship by Investment Programme

Fiscal sustainability:

- Revenue administration reforms
- Civil service reforms
- Public financial management reforms
- Public enterprise reforms

Debt Sustainability

- Fiscal Consolidation
- Debt Restructuring

Key Performance Indicators

Growth and Job Creation:

- Higher economic growth
- Lower youth unemployment rate
- Improved Doing Business Rank

Fiscal sustainability:

- Increased tax effort
- Reduced non-personnel expenditure
- Monthly current expenditure in line with current revenue

Debt Sustainability

- Lower interest payments as a proportion of revenue and GDP
- Reduced public sector debt as percentage of GDP

BENEFITS OF PROGRAMME

- **Stronger Economy**
- **Increased confidence**
- **Investment in high priority development projects**
- **Significant debt relief**
- **External support of at least US \$100mn (soft loans and grants)**
- **Technical Assistance**

BENEFITS OF PROGRAMME

- **I n c r e a s e d e m p l o y m e n t opportunities**
- **More efficient Public Service/
better value for money**
- **Better targeted safety nets**

Key Success Factors for Home-Grown Programme

- **Societal consensus on need for shared sacrifice**
- **Comprehensive debt restructuring including debt reduction**
- **Prospective wage settlements**
- **Significant improvement in revenue collection**
- **Well designed PSIP (dev. Projects)**

SOME KEY DEVELOPMENT PARTNERS

- International Monetary Fund
- World Bank
- Caribbean Development Bank
- European Union
- People's Republic of China
- Great Britain (DFID)
- Canada
- Eastern Caribbean Central Bank

CLOSING THE FISCAL GAP

- Fiscal Adjustment – stronger revenue collection combined with expenditure cuts (Grenadians)
- Debt Relief (Creditors)
- External Loans and Grants (Donors)

Structural Reforms (Growth)

- **Improve Doing Business Ranking**
- **Amend the 2009 Investment Promotion Act**
- **Amend the Electricity Supply Act**
- **Establish a Framework for Public-Private Partnerships (policy and law)**
- **Commercialise Government Estates**

Structural Reforms (Growth)

- **Establish Grenada Tourism Authority**
- **Rebrand and Refocus GIDC**
- **Refocus GMNIB**
- **Support for Service Providers in the Export of Services**
- **Introduce a National Productivity Enhancement Programme**

Tax Administration Reforms

(Improving revenue collection)

Implement a Tax Administration Plan (TAP) including:

- **Introduce license fees for professionals**
- **Revamp compensation regime for tax collectors**
- **Re-introduce tax clearance certificates**
- **Re-introduce exit certificates**
- **Enact Tax Administration law**
- **Recruit skilled professionals in IRD**
- **Train IRD Staff**

Structural Reforms (Social Protection)

- **Maintain the level of social safety nets**
- **Improve Targeting through completion and use of the Proxy Means Test**
- **Adoption of safety nets policy**
- **Train staff**

Civil Service Reforms

- **Adopt attrition policy**
- **HR Audit for Ministry of Education including Teachers**
- **Enact new Public Service Act**
- **Strategic Review of Civil Service**
- **Strategic Review of Statutory Bodies**

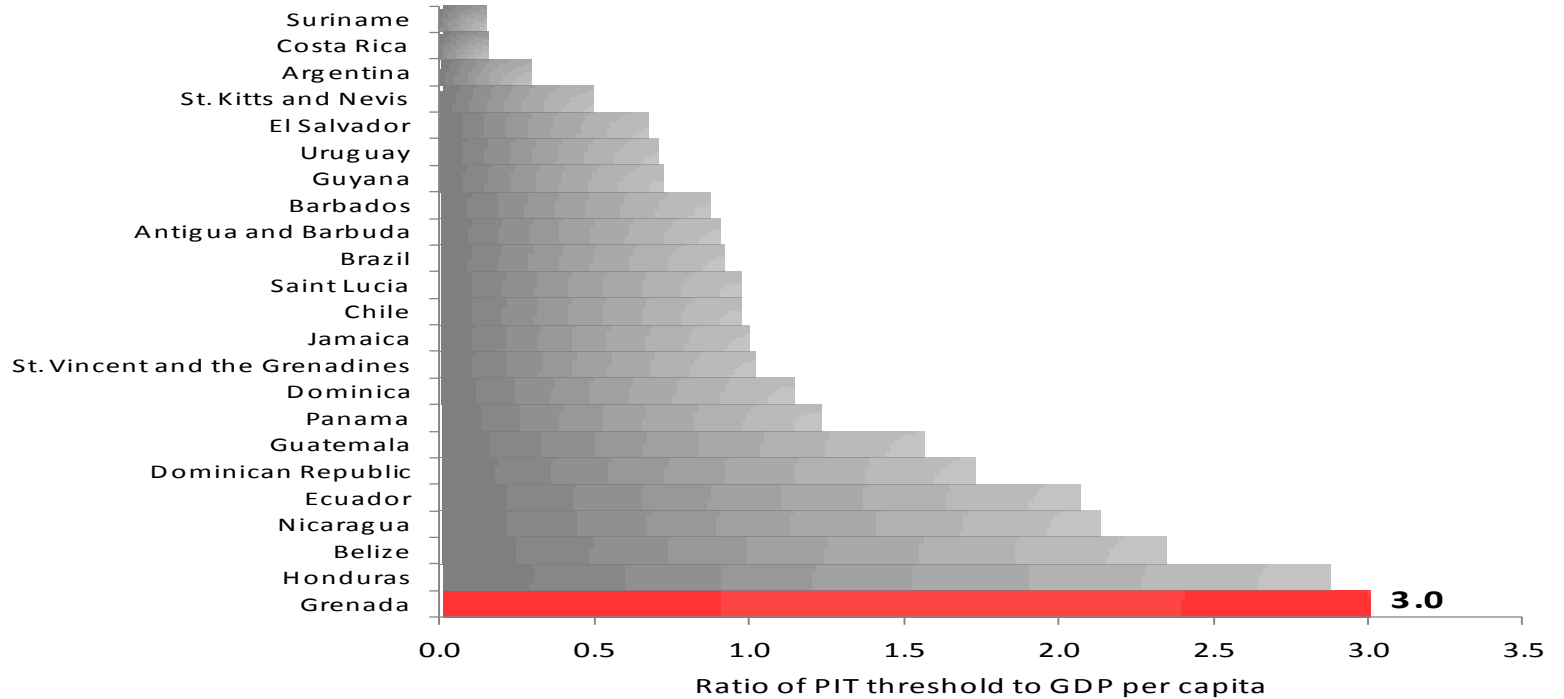
Building Resilience

- **Enact National Building Code and Guidelines**
- **Enact Revised Physical Planning and Development Control Act**
- **Expand insurance coverage to better manage risks/shocks**
- **Enact Engineers Registration Act**
- **Enact Architects Registration Act**

Revenue Measures

- **Lower Income Tax Threshold to \$36,000 from \$60,000**
- **Increase Property Tax on land from 0.10% to 0.2% and residential buildings from 0.15% to 0.30% (exemption on first \$100,000 remains)**
- **Increase Minimum tax from \$20 to \$40 and \$30 to \$60**

Grenada's tax threshold is the highest in the Caribbean



Sources: IMF, Fiscal Affairs Department; www.taxrates.cc/html; government Websites; IMF staff calculations.

Revenue Measures

- **Apply property tax on idle agricultural lands**
- **Introduce property tax of 0.5% on luxury goods (boats, yachts)**
- **Introduce US\$5 per night levy for stay-over visitors (airlift and marketing)**

Revenue Measures

- **Small business levy (on sales up to \$120,000) instead of 30% tax on profits**
- **Selected user fees (incl. personalised license plates, birth certificates)**
- **Reduced tax exemptions**
- **Improve tax administration and collection efforts**

Revenue Measures

- **Widen the withholding tax base to include lottery winnings**
- **Restore VAT rate on construction materials from 2014**
- **Reduce Manufacturer's Rebate**

Expenditure Measures

- **Wage Bill restraint with support of labour unions (2013-16)**
- **Reduced wage bill over time by strict enforcement of attrition policy**
- **Debt Restructuring**
- **Reduced non-personnel expenditure by 20% (utilities, fuel, rent)**
- **Rationalize statutory bodies**

Safeguards – Protecting Our Gains

- **Adoption of Fiscal Rules through Fiscal Responsibility Legislation:**

- **Interest payments as a proportion of Current Revenue and GDP**
- **Personal Emoluments and Pensions as a proportion of Current Revenue**
- **Cap Real Spending in line with GDP**

Proposed Monitoring Mechanisms

- **Committee of Social Partners**
- **Priorities and Planning Committee** for Core Public Sector Investment Programme (PSIP)
- **Growth and Competitiveness Council**

HOW CAN YOU HELP US GET THERE?



Government of Grenada



Thank You

Appendix

What Constrains Growth?

- Lack of sustainable public investment
- Lack of ease in Doing Business
- High energy prices
- Low Productivity
- Skills mismatch between education system and labour market

Yield of Revenue Measures (EC\$mn)

Measures	2014	2015	2016
Lowering Income Tax Threshold	14.0	14.0	14.0
Reduced tax concessions	12.0	12.0	12.0
Increased Property Tax	8.0	10.0	10.0
Increased Property Tax on Luxury Goods	2.0	2.0	2.0
Small Business Levy	2.0	2.0	2.0
User Fees	2.0	2.0	2.0

Yield of Expenditure Measures (EC\$mn)

Measures	2014	2015	2016
Capping of Wage Bill	6.0	6.0	6.0
Reduced Non-personnel expenditure (20%)	5.0	7.0	10.0

Lessons Learned from Previous Fund Programme

- Insufficient focus on growth and job creation
- Cuts in capital expenditure especially investments in the productive sectors hurt growth and job creation
- Provision of adequate safety nets is essential
- Overly optimistic growth and revenue forecasts are not prudent
- Overly aggressive primary balance targets are counter-productive

Lessons Learned from 2005 Debt Restructuring

- Overly optimistic and unrealistic growth forecasts are counter-productive
- DSA needs to be more realistic about financing gaps
- Step-up coupons are risky
- No provision for a reasonable shock
- Short term fixes are ultimately costly for the debtor and its creditors. The terms of the debt restructuring must be fully rooted in a sober assessment of the country's future payment capacity, and not more.

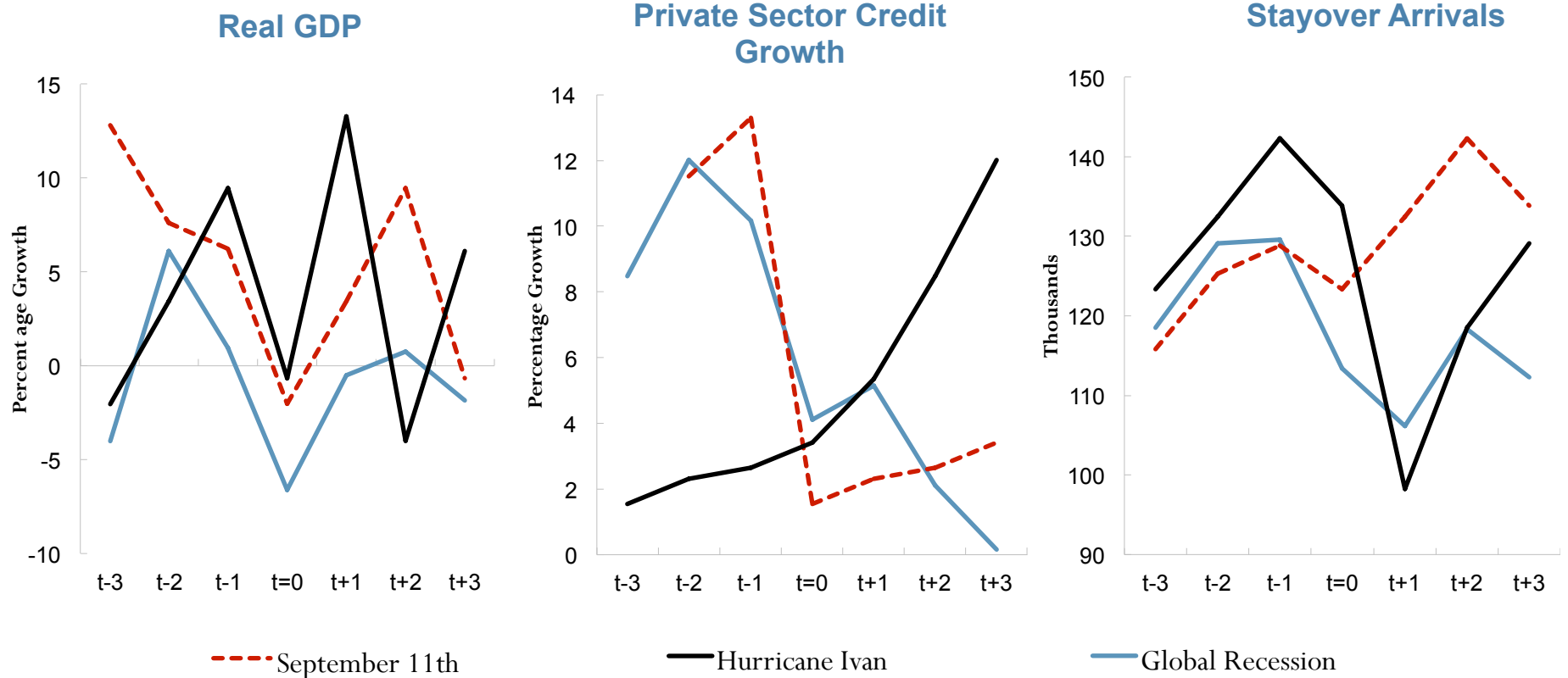
Fiscal and Debt Performance (EC\$m)

Fiscal and Debt Indicators	2011	2012	2013p
Current Revenue	425.9	425.6	430.3
Current Expenditure	431.1	457.2	454.3
Current Account	-5.2	-31.6	-24.0
Primary Balance	-54.4	-72.2	-88.6
Overall Balance	-106.0	-145.9	-106.7
Debt Stock (EC\$ billion)	2.21	2.33	2.37

Fiscal and Debt Performance

Fiscal and Debt Indicators	2011	2012	2013p
Current Revenue to GDP (avg. in ECCU = 24.4%)	18.4	19.7	19.2
Current Expenditure to GDP	20.5	21.1	19.6
Current Account (should be greater than or equal to 5 % of GDP)	0.0	-1.5	-1.0
Overall Deficit (should be less than or equal to 3% of GDP)	-5.0	-6.7	-5.3
Primary Balance	-1.0	-2.6	-4.0
Debt to GDP ratio (less than 60%)	105.0	108.0	107.0

This crisis is different...



Note: Time t=0 represents the period in which events occur, which are: September 11th (2001), Hurricane Ivan (2004) and the Global Recession (2009). The diagrams show 3 years prior and three years post the events.