

GRENADA

STATUTORY RULES AND ORDERS

NO. OF 2021

THE MINISTER IN EXERCISE OF THE POWERS CONFERRED ON HIM BY SECTION 10 (1) OF THE FISCAL RESPONSIBILITY ACT, NO. 29 OF 2015 HEREBY MAKES THE FOLLOWING ORDER—

Citation

1. This Order may be cited as the

FISCAL RESPONSIBILITY (SUSPENSION OF SECTIONS 7 AND 8) ORDER, 2021.

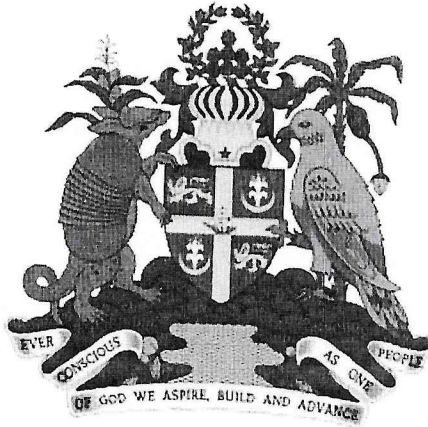
Suspension of sections 7 and 8 of the Act

2. The application of sections 7 and 8 of the Fiscal Responsibility Act No. 29 of 2015 is hereby suspended for the fiscal year ending on the 31st day of December 2022, in the light of the state of emergency declared by the Governor-General on the 11th day of January 2021 pursuant to section 17 (1) of the Constitution in response to the confirmation of cases of coronavirus disease (COVID-19) in the State of Grenada, which has been extended by the Houses of Parliament until the 1st day of May 2022.

Made by the Minister this 9th day of November 2021


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Minister of Finance

Suspension Order Memorandum



November, 2021

1.0 Introduction

This Memorandum is being prepared in fulfilment of Section 10 (1) of the Fiscal Responsibility Act 2015 as amended (FRA), to give effect to the suspension of the fiscal rules and targets under Sections 7 & 8 of the FRA for the fiscal year 2022. Two of the conditions for invoking the Escape Clause to suspend the fiscal rules, targets and corrective measures under the FRL have been 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 or greater than three percent.

2.0 Macroeconomic Context

Overall, while the fiscal position has improved somewhat, public finances remain acutely precarious. The COVID-19 pandemic continues to have severe social and economic impacts for Grenada, necessitating potent policy responses by the Government, chief of which being increased spending aimed at protecting lives and safeguarding livelihoods. Accordingly, the 2022 Budget will be a deficit one as the growth in expenditure far exceeds that of revenue. A fiscal deficit and tepid recovery of real GDP growth translate to breaches in two of the four fiscal rules and the public debt-to-GDP ratio is projected to deviate from its FRA target in 2022 as shown in Table 1.

A mix of upside and downside risks remain to the fiscal Outlook but skewed downward. On the upside, further improvements in the fiscal position can boost public investment and spur job creation and growth. Downside risks relate primarily to the COVID-19 pandemic and its prolonged socioeconomic effects; vaccine hesitancy and threats of the Delta and new variants; rising oil and commodity prices; and inherent climate-related risks faced by natural disasters.

As Table 1 shows, two of the four fiscal rules are estimated to be breached in 2022, while the public debt-to-GDP ratio is expected to deviate from its 55% target. These estimated breaches are justified because they are solely as a result of the impact of COVID-19 on key macro-economic variables particularly GDP, revenue and expenditure

Table 1: Compliance Matrix

Fiscal Variable	Fiscal Rules	2022 Budget	Compliance	2023 Projected	Compliance	2024 Projected	Compliance
Primary Balance, After Grants (percent of GDP)	3.5% (not f than)	-1.1%	No	3.5%	Yes	6.9%	Yes
Wage Bill (percent of GDP)	9.0% (not exceeding)	8.7%	Yes	8.3%	Yes	7.9%	Yes
Growth in Primary Expenditure less Capital Grants (real percent change)	2.0% (not exceeding)	21.7 %	No	-17.9%	Yes	-14.7%	Yes
PPP-related Contingent Liabilities (percent of GDP)	5.0% (not exceeding)	0.0%	Yes	0.0%	Yes	0.0%	Yes
Public Debt (percent of GDP) *	55.0%	67.0%	Deviation from target	65.2%	Deviation from target	63.5%	Deviation from target

Central Government plus Government Guaranteed.

Source: Ministry of Finance

3.0 Suspension of Fiscal Rules and Targets for the Fiscal Year 2022

Section 10 (1) and (2) of the FRA, which deals with Escape Clause states, *“the Minister may by Order suspend, for a period not exceeding one fiscal year, fiscal rules, targets and corrective measures under sections 7 and 8, where– (a) a natural disaster, public health epidemic, or war as a result of which a state of emergency has been declared by the Governor-General pursuant to section 17 (1) of the Constitution; (b) 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; (c) the Eastern Caribbean Central Bank has certified in writing that a financial sector crisis has occurred, or is imminent, and the Minister estimates that the fiscal costs of such crisis, including the costs of any related recapitalisation of banks by the Government after all possible private sector solutions have been explored, is likely to equate or exceed four percent of GDP.”*

Grenada continues to experience the lingering effects of COVID-19. Two of the conditions under which the Escape Clause can be invoked have been met.

First, a state of emergency was declared by the Governor General on the 11th day of January 2021 pursuant to Section 17 (1) of the Constitution in response to the confirmation of cases of coronavirus disease (COVID-19) in the State of Grenada, which has been extended by the Houses of Parliament until the 1st day of May 2022.

Second, the cumulative decline in real GDP over the last two consecutive fiscal years is greater than three percent. The cumulative decline in the last two consecutive years exceeds 5.0%.

Given the gravity of the macroeconomic impact of COVID-19, implementation of the fiscal rules and targets under Sections 7 & 8 of the FRA would indeed be harmful to economic and social stability. It is therefore necessary that the fiscal rules and targets be suspended for the fiscal year 2022 in accordance with Sections 10 (1) and (2) of the FRA to allow the Government to continue to take fiscal measures to protect lives and livelihoods as well as to support economic recovery.


4.0 Recovery Plan for Fiscal Rules and Targets

Section 10 (4) and (5) of the FRA states, “*Where the Minister has suspended any fiscal rule, target or corrective measure established under Section 7 or 8, the Minister shall immediately prepare and lay before the Houses of Parliament for approval a recovery plan memorandum pursuant to subsection (5). The recovery plan memorandum under subsection (4) shall set out the measures proposed to secure compliance with the fiscal rule, target or corrective measure at the expiration of the period for which Parliament approves the suspension of a fiscal rule, target or corrective measure established under section 7 or 8, including the size and nature of the revenue and expenditure measures.*”

Table 2 sets out Baseline fiscal projections for the years 2022-2024, which show some fiscal improvement on the following main assumptions: (i) GDP growth will rebound in 2022 and remain firm in the ensuing years, underpinned mainly by robust activity in the construction sector and wholesale and retail trade, as well as a pickup in ancillary services related to SGU; (ii) modest increase in total revenue, consistent with the projected economic activity; and (iii) deliberate measures (approved by the Cabinet) to contain discretionary expenditure and improve the strategic orientation and prioritisation of expenditure on the whole, in a concerted effort to return to the fiscal rules and targets to safeguard medium-term fiscal and debt sustainability.

Table 2: Grenada Medium Term Projections

In millions of Eastern Caribbean Dollars, unless stated otherwise

	2022		2023		2024	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	897.6	28.2%	946.3	28.0%	963.7	27.1%
Total Revenue	722.2	22.7%	767.8	22.7%	812.2	22.9%
Tax Revenue	630.9	19.8%	670.8	19.8%	710.4	20.0%
Non - Tax Revenue	91.3	2.9%	96.9	2.9%	101.8	2.9%
Grants	175.4	5.5%	178.6	5.3%	151.5	4.3%
Total Expenditure	995.5	31.3%	890.1	26.3%	775.7	21.8%
Primary Expenditure	931.8	29.3%	827.9	24.5%	718.8	20.2%
Current Expenditure	661.7	20.8%	659.1	19.5%	573.8	16.2%
Employee compensation	290.5	9.1%	293.5	8.7%	294.9	8.3%
<i>wages, salaries & allowances</i>	276.5	8.7%	278.9	8.3%	279.8	7.9%
<i>Social Contribution to employees</i>	14.0	0.4%	14.5	0.4%	15.1	0.4%
Goods and Services	132.6	4.2%	134.9	4.0%	119.8	3.4%
Interest Payments	63.7	2.0%	62.2	1.8%	56.8	1.6%
Transfers	174.9	5.5%	168.6	5.0%	102.2	2.9%
Capital Expenditure	333.8	10.5%	231.0	6.8%	201.8	5.7%
o/w: Grant financed	175.4	5.5%	178.6	5.3%	151.5	4.3%
Overall balance	(97.9)	-3.1%	56.3	1.7%	188.0	5.3%
Primary balance (excluding grants)	(209.6)	-6.6%	(60.1)	-1.8%	93.4	2.6%
Primary balance (including grants)	(34.2)	-1.1%	118.5	3.5%	244.9	6.9%
Memo Item						
GDP (Nominal market Prices)		3,185.7		3,380.6		3,551.7
Real GDP growth (%)		4.5%		4.4%		4.0%