

GOVERNMENT OF GRENADA



BUDGET FRAMEWORK PAPER

2021

**Ministry of Finance, Economic Development, Physical Development
Public Utilities and Energy**

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1.0 Purpose

In accordance with the requirements of Part III, Section 13 of the Regulations for the Public Financial Management Act, No. 17 of 2015, this Budget Framework Paper 2020 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 Medium-Term Fiscal Strategy 2021-2023 is highly influenced by the pace of economic recovery and envisages a return to the rules-based Fiscal Responsibility Law (FRL) once the pandemic abates. It aims to promote growth and macroeconomic stability and to rebuild and expand buffers. The Strategy is also guided by the Goals and Objectives of the National Sustainable Development Plan (NSDP) 2020-2035. The National Plan sets out three overarching goals that are realized through the attainment of eight National Outcomes.

The National Goals and Outcomes are to be achieved through the Medium-Term Action Plan (MTAP). The MTAP is a companion document to the NSDP. It is a medium-term operational strategy designed to facilitate the implementation of the NSDP. The MTAP outlines the country's sustainable development priorities that are aligned to the Sustainable Development Goals (SDGs) and sets out the strategic programs and activities for the implementation of the NSDP during the period. Therefore, the Medium-term Fiscal Framework (MTFF) for 2021-2023 has been formulated to support the execution of the public sector work program as set out in the Medium-term Agenda (MTA) which is aligned to the national MTAP.

The MTFF 2021-2023 has three specific components: (i) a medium-term revenue strategy; (ii) an expenditure strategy; and (iii) a debt management strategy. The strategies outlined in the MTFF incorporates recent developments, as well as new policies. Table 1 presents the key projections of the MTFF 2021-2023 that is predicated upon containment of disease spread and a rebound in the major economic sectors beginning in the first quarter of 2021.

Table 1: Key Medium-term Projections


	2021	2022	2023
Real GDP Growth (%)	6.0	4.8	3.0
Total Revenue (% of GDP)	21.5	22.3	22.4
Total Expenditure (% of GDP)	30.8	26.5	21.9
Overall Fiscal Balance (after grants) (% of GDP)	-0.6	1.6	4.7
Primary Balance (after grants) (% of GDP)	1.5	3.5	6.4
Public Debt (% of GDP)	65.7	63.7	62.7

Source: Ministry of Finance

3.0 Summary of 2020 Performance: Estimated Outturns and Budget

Grenada's fiscal position weakened due to the economic fallout occasioned by the COVID-19 pandemic. However, despite the challenges, at the end of 2020, the Government is expected to achieve a primary balance after grants of \$82.2 million, \$160.3 million lower than the budgeted amount. Total revenue and grants are estimated at \$768.8 million of which total revenue is \$654.2 million and total grants \$114.6 million. Total expenditure is estimated at \$742.2 million, 13.6 percent lower than the budgeted amount. Current transfers are above the budgeted amount by 15.9 percent. This is as a result of the income and payroll support to hoteliers, small businesses, bus drivers, taxi drivers, market vendors, hairdressers, and barbers, as part of the stimulus package announced by the government in March 2020, to assist individuals and businesses directly affected by the COVID-19 pandemic. Goods and services are estimated to be lower than the budgeted amount by 9.3 percent because of deliberate actions to rein in discretionary non-COVID-19-related expenditure. The estimated capital expenditure outturns reflect the stalling of projects due to the pandemic. Consequently, capital grants spent were significantly below what was budgeted by 51.7 percent. Table 2 presents the estimated outturns for 2020 compared with the Budget.

Table 2: Grenada Fiscal Projection 2020

	2020			
	Esimated Outturn	Budget	Variance	
	EC\$M	EC\$M	EC\$M	%
Total Revenue & Grants	768.8	1004.8	(235.9)	(23.5)
Total Revenue	654.2	786.2	(132.0)	(16.8)
Tax Revenue	594.8	727.7	(132.9)	(18.3)
Non-tax Revenue	59.4	58.5	0.9	1.6
Grants	114.6	218.6	(104.0)	(47.6)
Total Expenditure	742.2	859.0	(116.8)	(13.6)
Primary Expenditure	686.6	792.0	(105.4)	(13.3)
Current Expenditure	620.1	633.7	(13.6)	(2.1)
Employee Compensation	265.3	282.2	(16.8)	(6.0)
<i>o/w Wages, salaries and allowances</i>	252.4	268.2	(15.8)	(5.9)
Goods and Services	110.2	121.5	(11.3)	(9.3)
Interest Payments	55.6	67.0	(11.4)	(17.0)
Transfers	189.0	163.1	25.9	15.9
Capital Expenditure	122.1	225.3	(103.2)	(45.8)
o/w: Grant financed	97.5	201.8	(104.3)	(51.7)
Overall Balance	26.6	145.8	(119.2)	(81.7)
Primary Balance (including grants)	82.2	212.8	(130.5)	(61.3)

Source: Ministry of Finance

4.0 Government's Priorities for the 2021 Budget

In April 2020, the Cabinet approved an Economic Taskforce as part of Grenada's response to the COVID-19 pandemic with a specific mandate to make recommendations to rebuild the Grenadian economy inclusive of, but not limited to identifying imperatives for job creation and business resuscitation, as well as opportunities presented by the pandemic that if seized, will make the Grenadian economy stronger and more resilient. Additionally, and more fundamentally, the Taskforce was mandated to consider structural shifts to position the Grenadian economy for long-term economic resilience. Accordingly, as part of the general Task Force for Rebuilding the Grenadian Economy, seven sub-committees were established with the specific objectives to provide recommendations and advice to the Cabinet (through the Chair) on respective sectoral imperatives and actions (immediate, short term and medium-to-long term) to support economic recovery and transformation. The Sub-committees focused on priorities for:

- Agriculture and Fisheries
- Construction
- Education (including private education – medical education)
- E-Commerce/Digitisation
- Micro, Small and Medium-sized Enterprises
- Tourism
- Wholesale, Retail Trade and Manufacturing

In September 2020, a national budget consultation was held to ascertain the views of sectoral stakeholders on priorities for the 2021 Budget against the backdrop of the imperative to protect lives and livelihoods as the country conducts its affairs in the midst of COVID-19. Stakeholders discussed priorities under the following seven priority areas:

- Agriculture, Agri-business and Fisheries
- Enhancing Social Capital and Citizen's Wellbeing
- Information Communication Technology (ICT)
- Business Creation & Re-activation
- Tourism and Hospitality

➤ Economic Transformation and Strengthening Resilience

























Several cross-cutting issues emerged from the economic taskforce and national budget consultation that aligned with the Goals and Outcomes of the NSDP 2020-2035. Therefore, against the backdrop of the new COVID-19 social and economic realities, the priorities to be addressed in the 2021 Budget are:

1. Health care
2. Education
3. Social protection, poverty and vulnerability reduction, inclusion and Citizens' wellbeing
4. Gender
5. Economic recovery, employment and youth empowerment
6. Agricultural production and value added, food and nutrition security
7. Micro, small and medium-sized development
8. Governance: Public sector efficiency and effectiveness
9. Digitization
10. Environmental sustainability and Climate resilience

Table 3 outlines the National Goals and National Outcomes of the NSDP 2020-2035 and their alignment with relevant Sustainable Development Goals, to which the 2021 Budget and subsequent Budgets throughout the NSDP's horizon are expected to contribute.

Table 3: National Goals, National Outcomes and Alignment with Sustainable Development

Goals

National Goals Identified in the National Sustainable Development Plan	National Outcomes Identified in the National Sustainable Development Plan	SDG Alignment
High Human and Social Development: Putting people at the Centre of Sustainable Development & Transformation	A Healthy Population	
	Educated, Productive, Highly- Skilled, Trained, and Conscious Citizens	 
	A Resilient, Inclusive, Gender-Sensitive, and Peaceful Society	   
Vibrant, Dynamic, Competitive Economy with Supporting Climate-and-Disaster-Resilient Infrastructure	Broad-based, Inclusive, and Sustainable Economic Growth and Transformation	    
	Competitive Business Environment	  
	Modern Climate-and-Disaster-Resilient Infrastructure	   
Environmental Sustainability & Security	Climate Resilience and Hazard Risk Reduction	  
	Energy Security and Efficiency	 

5.0 Proposed Efficiencies and Spending Reductions

One of the main objectives outlined in the medium-term fiscal strategy is the expenditure strategy which is aimed at improving the management of public expenditure, tightening expenditure controls, increasing the value for money in public procurement, and prioritising productive and efficient spending. The Government will be undertaking recommendations from the recently- completed Public Expenditure Review (PER) intending to be more efficient, cost-effective, and ensure that the expenditure is aligned and consistent with the Government's strategic development priorities. The Government will continue to strengthen its efforts towards a waste reduction mechanism. Additionally, Finance Officers will continue to be given constant high-level attention and monitoring as well as the operations of State-owned Enterprises and Statutory Bodies with the strategic intention of managing fiscal risks. Furthermore, special attention will continue to be given to improving project implementation through strategic prioritisation and targeted technical support.

The Government will put a freeze on the hiring of new workers to the public service and continue the implementation of the attrition policy. Expenditure on Goods & Services will grow in line with inflation of the previous year. Current Transfers is another area where strict expenditure controls will be implemented, a needs assessment will be conducted to determine priority areas specifically on Grants and Subventions.


Additionally, the operations of State-owned Enterprises and Statutory Bodies would be more strictly and systematically monitored, and governance frameworks bolstered.

6.0 Ceilings for 2021 Budget

Table 4 presents the approved expenditure ceilings¹ for the 2021 Budget. Total expenditure is projected at \$935.2 million, comprising recurrent expenditure of \$629.6 million and capital expenditure of \$305.6 million.

¹ Excludes principal repayments.

Table 4: Approved Expenditure Ceilings for 2021

	2021
	Projected
	EC\$M
Total Expenditure	935.2
Primary Expenditure	871.6
Current Expenditure	629.6
Employee Compensation	277.8
<i>Wages, salaries and allowances</i>	264.3
<i>Social Contribution to employees</i>	13.5
Goods and Services	121.8
Interest Payments	63.7
Transfers	166.3
Capital Expenditure	305.6
o/w: Grant financed	243.6
Overall Balance	(18.2)
Primary Balance (excluding grants)	(218.1)
Primary Balance (including grants)	45.5
Memo Items	
GDP (Nominal at Market Prices)	3036.1
Real GDP Growth (%)	6.0

Source: Ministry of Finance

7.0 Fiscal Risk Statement

Grenada's macroeconomic outlook is subject to extreme uncertainty, with substantial risks tilted to the downside. Longer duration and depth of the COVID-19 pandemic would severely affect tourist arrivals, remittances, and foreign direct investment inflows as well as necessitate sizeable additional fiscal stimulus to mitigate the effects on the economy, whilst an increase in infection rates locally can severely affect economic activity through productivity losses. Lingering uncertainties regarding the unfolding of the final Brexit deal will also pose a potential risk for Grenada. Grenada's vulnerability to natural hazards is an inherent risk that if coupled with the COVID-19 pandemic shock can present a nightmare scenario that could be a major challenge. Also, the adverse effects of climate change can significantly affect agricultural output (in particular) over the medium-term. The Medium-term Fiscal Framework can also be adversely affected should any of the downside risks materialise. The Fiscal Risk Statement to be laid in Parliament in accordance with Section 12 (1) (e) of the FRL, contains a more in-depth analysis and discussion on relevant risks and mitigation measures.