Report of the Fiscal Responsibility Oversight Committee 2019:
Response of the Minister of Finance

May 2020

The Minister of Finance thanks the Fiscal Responsibility Oversight Committee (FROC) for its 2019 Assessment Report. The FROC has an important mandate and the Committee is encouraged to continue to discharge its responsibilities as stipulated in Section 14 of the Fiscal Responsibility Law (FRL). Based on the FROC's assessment of the Government's compliance with the fiscal rules and targets in 2019, the Minister wishes to make the following observations, which are outlined in Table 1. The Minister of Finance also acknowledges the recommendations made by the FROC. The responses to these recommendations are outlined in Table 2.

Table 1:
Minister of Finance's Response to FROC's 2019 Assessment Report

FROC's Assessment	Minister of Finance's Response
Public Sector Debt to Gross Domestic Product (GDP) Ratio	
No intermediate public sector debt to GDP Ratio target was set in 2019.	There is no need for an intermediate public sector debt to GDP ratio target since three-year projections are done as part of the Medium-term Fiscal Framework. The projections are based on expected loan disbursements, amortization and the fiscal performance of the Government. It is not necessary to set annual intermediate targets for the debt-to-GDP ratio if there is a binding primary balance rule in place to anchor debt reduction. Once fiscal policies are deployed in a manner that allows the annual primary balance rule of 3.5% of GDP to be exceeded, public debt will be put on a firm downward trajectory. In other words, the relevant target to be met along the path towards achieving the FRL's stipulated 55% debt-to-GDP ratio is the primary balance. Primary surpluses exceeding 3.5% of GDP have been realized for five consecutive years (2015-2019), which have aided, along with debt restructuring, a sizable reduction in the debt stock, and together with increases in GDP, have contributed to declines in the debt-to-GDP ratio as well.
There has been continued improvement in the reporting of the debt of State Owned Enterprises (SOEs). However, all debt and contingent liabilities of SOEs and Statutory Bodies (SBs) assumed by the Government are still not captured. The Macroeconomic Policy Unit (MPU) has indicated intent to correct this deficiency in the medium-term.	The Debt Management Unit (DMU) captures and records the Government Guaranteed Debt of all SOEs which is included in the public debt, however, non-government guaranteed debt of SOEs are only monitored and not included in the public debt figure. Including all debt and contingent liabilities of SOEs and SBs will mean that their revenue and expenditure have to also be captured in the Government's fiscal accounts which is not presently being done. However, the Ministry of Finance will continue its work in this regard.

Given that the ratio was above 60 per cent in 2018, corrective measures ought to have been taken to bring the ratio down to 55 per cent within 3 years (by 2021) with 1/3 of the adjustment taking place in the first year, 2019.	Section 8 of the FRL must be taken in its entirety because the debt-to-GDP ratio was well above 55% when the FRL came into force. This notwithstanding, the Minister agrees with the FROC that the issue of when the debt-to-GDP target becomes binding is an important one. The Minister acknowledges that the absence in the FRL, of an explicit transition period within which the 55% debt-to-GDP target is to be achieved, could give rise to a narrow interpretation of Section 8 of the FRL. In this regard, proposed amendments to the FRL to introduce specificity and address ambiguities, are being considered by Cabinet.
Contingent liabilities arising from Public-Private Partnership (PPP)	
The FROC is still not satisfied that the MPU has a firm handle on this subject. Apart from one entity, the Fiscal Authorities are yet to scrutinize the relationships between public and private entities. This would give the FROC the comfort and assurance that there are indeed no PPPs.	The Government of Grenada Public-Private Partnership (PPP) Policy (2015), clearly defines the construct of a PPP, based on the definition in the policy, none of the arrangements mentioned by the FROC is considered a PPP. The FROC is aware of the arrangements in question and was informed that as at the end of 2019, the GOG has no PPP arrangement. Therefore, the ratio of PPP-related contingent liabilities not exceeding 5% of GDP cannot be assessed as being breached. **In sum, the fiscal rule of PPP-related contingent liabilities not exceeding 5% of GDP was met in 2019 because the ratio was 0%.** However, it is still unclear how a determination was made by the FROC that the related contingent liabilities exceeded 5% of GDP and hence breeching the FRL rule.
Wage Bill to GDP Ratio, Growth in Primary Expenditure (in real terms) & Primary Balance	
However, the wages of covered entities are not included in this ratio contrary to the Fiscal Responsibility Act (FRA). The MPU has indicated intent to correct this deficiency in the medium-term.	It is correct that the FRL rules and targets apply to both the central government and all covered public entities. Currently the fiscal accounts of the Government cover Central Government's revenue and expenditure only. While SOEs are monitored, their revenue, expenditure and debt data are not incorporated in the fiscal accounts to get a total public sector fiscal account. Government is working towards having a consolidated fiscal account, but the process would take some time because the inclusion of SOEs' data is not a straight forward matter given the fact there isn't commonality of accounting standards. Additionally, efforts are ongoing to improve the reporting regime for SOEs and covered entities with the aim of incorporating their data into the fiscal account of Government.

	As such, the rules and targets should be interpreted as being applicable to the Central Government only until there is consolidation of these accounts.

Table 2:
Minister of Finance's Response to FROC's recommendations in the 2019 Assessment Report

FROC's Recommendation	Minister of Finance's Response
Improve Medium-Term Fiscal Planning	
Revise the medium-term budgetary framework with more realistic macroeconomic and budgetary forecasts.	In March 2020, the macroeconomic indicators were revised to include the effects of the Covid-19. Further updates will be done as more data is received. It should be noted that the MPU does monthly revision of the medium-term fiscal numbers.
Identify and analyze any financing gaps in the medium-term.	An initial estimate for the 2020 financing gap was done in March 2020 in light of the fiscal impact of Covid-19. As fiscal developments unfold, the medium-term financing needs will be further revised as the medium-term projections are updated.
Utilize more development data/tools (i.e. fiscal multipliers, efficiency of capital spending indicators) to assess potential economic performance and social progress in the medium-term	The MPU will work along with the Central Statistics Office in this regard.
Strengthen any emergency response plans in public financial management and revenue administration	The Minister of Finance agrees with the recommendation and will intensify ongoing efforts in this regard.
Embrace the use of science, data analysis, and expert knowledge in medium-term planning.	This is already being done however the Ministry of Finance will seek to improve in this area.
Review the medium term PSIP to identify and prioritize any projects that can provide a short-term stimulus to the economy	This revision has already started and will be continued.
Re-look the investment criteria for Citizenship by Investment (CBI) to see whether there is scope for it to finance technological projects.	This can be accommodated since the Minister has the power (according to the CBI Act) to identify projects to be financed by the CBI programme.
Plan for any deferment of debt services carefully so that such action does not lead to any bunching of payments in the future, and that it maintains the credibility of government.	Debt deferrals are being properly planned out by Debt Management Unit and are based on projected debt service obligations as well priority spending needs of Government in the context of Covid-19. Discussions have commenced with bilateral and multilateral creditors.
Improve Fiscal Risk Management	
Develop a risk assessment framework.	The Ministry of Finance will continue to intensify its work in this regard.
Continue to improve monitoring of contingent liabilities in the public sector.	In January 2020, the Ministry of Finance hired an Information Technology (IT) consultant to meet with

	SOEs and SBs with the aim of creating a user-friendly system where the SOEs and SBs can input their data as required by the Ministry of Finance.
Develop an inter-institutional process to identify and monitor risks, led by the MOF	This is not necessary at this stage; however, the Minister welcomes review of the Fiscal Risk Statement from external organisations.
Ensure monitoring and build capacity to analyze fiscal risks from institutional issues and cyber threats.	The Minister of Finance agrees with the recommendation and will continue to ongoing efforts in this regard.
Improve Transparency and Communication	
Communicate to the public how any revised medium-term fiscal framework is in accordance with long-term fiscal and debt sustainability.	Revisions to the MTFF are done together with the Supplementary Budget. This is passed in Parliament and Gazetted together with the Supplementary Budget. However, the Ministry of Finance will intensify ongoing efforts in this regard.
Disclose the official total public sector debt figure, as per the definition of this debt in the FRA.	The total public debt figure is public knowledge. The total public debt figure is quoted in the quarterly report produced by the DMU. The stock figures for the central government debt, guaranteed debt, and SOEs total debt are reported separately in the Quarterly Debt Bulletins.
Disseminate longer-term projections from debt sustainability analyzes	The Debt Sustainability Analysis (DSA) is an internal document. It is not required by law to be published. Moreover, the DSA is a highly-technical document and as such only a non-technical summary is provided in the Medium-term Debt Management Strategy documents as well as in the debt section of the Annual Economic Reviews.
Disclose the potential costs of announced reforms such as those relating to pensions and national health insurance.	The cost of the National Health Insurance (NHI) and Pension are still being finalized and disclosing the cost at this point in time will be premature.
Provide more information online on supplementary budgets.	The Supplementary Budget is made public after being passed in the Houses of Parliament, however, the Ministry of Finance together with the Ministry of Legal Affairs will seek to improve in this area.
Deal with the backlog of audited financial statements of Central Government and ensure timeliness of upcoming ones.	Plans are already in place to deal with the backlog. The last audited financial statement was 2016. Currently 2017, 2018 and 2019 are being worked on by the Accountant General's Department, all outstanding should be completed by October 2020.
Explain to the public any trigger of the escape clause in the FRA.	The escape clause in the FRA was triggered given the current COVID-19 situation. The order for suspension of the rules were passed in Parliament on April 17th, 2020 and gazetted on 21st April 2020. A compliance assessment report which included a section on the suspension of the rules were completed and passed in Parliament in April 2020.
Improve the Role of FROC	

Review the Memorandum of Understanding (MOU) between the Ministry of Finance and the FROC.	The Minister of Finance will action this as soon as possible.
Share more information with the FROC on the timing and size of medium-term fiscal risks.	The Minister of Finance is open to sharing information once requested.
Provide frequent updates to the FROC throughout the year, if possible, on fiscal, debt or other economic developments.	The Minister of Finance is open to sharing information once requested.