GOVERNMENT OF GRENADA

MEDIUM-TERM FISCAL FRAMEWORK: 2023-2025

Ministry of Finance

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1. PURPOSE

The Medium-Term Fiscal Framework (MTFF) sets out Government's fiscal policy strategy and fiscal objectives for the Budget year 2023 and the two forward years 2024 and 2025. It aims to ensure that Government's spending plans encapsulated in the fiscal forecasts for 2023-2025 adequately support its sustainable development priorities and give substance to its transformational agenda.

The MTFF 2023-2025 is prepared on the premise of a return to the fiscal rules and targets in 2023 and their maintenance throughout the 2023-2025 period, following Parliament's-approved suspension in 2020-2022 in the context of the State-of-Emergency that was in place as a consequence of the COVID-19 pandemic and its adverse socio-economic impacts. The fiscal rules and targets are stipulated in Sections 7 and 8 of the Fiscal Responsibility Act No.29/2015 (as amended in 2017) (FRA).

The remainder of this document is laid out as stipulated in Section 12 of the Public Finance Management Act No. 17 of 2015 and Section 8 of the Public Finance Management Regulations SRO No. 33 of 2015:

- Section 2: Summary of recent macroeconomic developments.
- Section 3: Summary of medium-term macroeconomic forecasts.
- Section 4: Medium-term fiscal policy objectives and fiscal forecasts.
- Section 5: Consistency of MTFF 2023-2025 with the FRA.
- Section 6: Risks to the medium-term macroeconomic outlook.
- Section 7: Statement of responsibility.

Executive Summary

Following a rebound in output of 4.7 percent of GDP in 2021 relative to a sharp contraction in 2020, the economy is anticipated to continue recovering in 2022 expanding by 6.0 percent in real terms. This growth is projected to be driven by robust activities in the construction, tourism, and wholesale and retail trade sectors. The outlook over the medium term remains positive with growth averaging 4.1 during the period 2023-2025 despite considerable downside risks. Inflation period average is estimated to reach 5.5 percent in 2022 and moderate to 3.7 percent over the medium term. As the economy expands, unemployment is forecasted to reduce further but remains stubbornly high.

The fiscal sector is projected to improve with primary and overall balances averaging 4.1 percent and 2.5 percent of GDP respectively.

The Monetary and Financial sectors remain stable, and growth is forecasted over the medium term in tandem with a spur in economic output.

Consistent with global trade disruptions, tightening financial conditions, and elevated inflation levels, the trade deficit is estimated to deteriorate over the period 2023-2025.

The primary focus of the Government's Medium-term Fiscal Strategy is to support its transformational agenda and to concurrently protect fiscal credibility and sustainability. Consequently, the MTFF 2023-2025 is framed to comply with the fiscal rules and targets enshrined in the Fiscal Responsibility Legislation (FRL) of 2015.

2. RECENT ECONOMIC DEVELOPMENTS

2.1 Real Sector

The local economy is preliminarily estimated to grow in real terms by 6.0 percent in 2022; an acceleration relative to the 4.7 percent expansion in 2021. Highlights and assumptions of the main economic sectors are as follows:

- ***The Hotels and Restaurants*** sub-sector is forecasted to grow by 51.0 percent in 2022. For the period January-September 2022, there were significant increases in tourist arrivals from Grenada's largest markets, which are the United States (US) and Canada. Arrivals from those markets increased by 55.0 percent and 20.0 percent respectively, compared to pre-pandemic levels. Pent-up demand for travel and the removal of travel bans and COVID-19 protocols boosted arrival numbers in 2022 over 2021; however, below 2019 arrivals. The Christmas season is anticipated to bring in many visitors as seen in the past years. Further improvements in November and December are expected as additional airlifts will be added in those months. Airlines such as British Airways, Air Canada, Condor, and Sunwing, will add additional flights and this would bring more visitors to the island. The Grenada Hotel and Tourism Association reported that forward bookings increased in the last quarter of 2022.

- ***Growth in the Construction*** sector is estimated at 19.2 percent. The importation of construction materials improved significantly at the end of June 2022, compared to 2021, by 49.2 percent. In addition, retail sales of construction materials also increased during the first half of 2022 by 15.8 percent. Inflation played a major role in the increase in the value of construction-related imports. The value of construction-related imports increased substantially, whereas the quantity increased by only 3.9 percent. Nevertheless, the construction sector continued to perform well on account of the various public and private sector projects in implementation in 2022. The sector grew by 25.7 percent in 2021.

- ***The Manufacturing sector*** is estimated to grow by 4.5 percent in 2022, based on positive performances during the first half of 2022. The production of Grain Mill and bakery products is projected to increase marginally at the end of 2022 due to the high demand usually recorded around the Christmas season. Additionally, prepared animal feed, beverages, and chemical paints continued to grow in the last quarter of the year.

- ***The Wholesale and Retail Trade sector*** continued to grow because of the uptick in construction activities, as well as the return of St. George's University (SGU) students to the Island in August 2022. Growth was evident in Supermarkets, Hardware stores and other retail businesses, as indicated by stakeholders within that sector. For the first half of 2022, retail sales increased by 18.6 percent over 2021. A boost in spending is anticipated for November and December on account of pension payments to the retroactive cohort of retirees. An overall increase of 10.8 percent is forecasted for this sector at the end of 2022.

- A decline of 2.4 percent is estimated for the ***Private Education sector.*** SGU resumed face-to-face classes in August 2021. Since then, the University has recorded low enrollment figures. It is anticipated that low enrollment figures will be recorded for the fiscal year 2022/2023, compared to the fiscal year 2021/2020. To boost enrollment, more scholarships were offered to students. In addition, more courses in the Arts & Science Department would be offered in the medium term to attract students from new markets.

- An overall decline of 10.9 percent is estimated for the ***Agriculture Sector*** in 2022. Based on the data available, the production of all crops declined in the second quarter of 2022 apart from nutmeg and mace. However, limitations in data and the proxy indicator[1] used (purchases of bananas and other crops by the Marketing and National Importing Board) may not give a true representation of actual production in the sector.

- An overall decline in ***fish production*** of 11.1 percent is expected at the end of 2022. This decline reflects the shortage of fish within the first nine months of the year. The high cost of diesel prevented fisherfolks from fishing as much as they usually do. Therefore, fish catch decreased significantly. Lack of airlift remained an issue and led to a decline in fish exports as well.

[1] Mindful of the limitations of this indicator, the MoF is in the process of reassessing this with the aim to improve data collection and reporting.

2.1.1 Inflation (Consumer Price Index)

The Inflation rate for the full year of 2022 is revised up to 5.5 percent from the 3.7 percent estimated in March 2022, based on data collected from the first eight months of 2022. The upside inflation revision reflects elevated global inflation and its transmittal through imports, especially of food and fuel into Grenada.

2.1.2 Unemployment

Preliminary unemployment data based on the information from the National Census collected during the first half of the year points to a reduction in the unemployment rate to 13.9 percent at the end of the second quarter of 2022 from 16.6 percent in the same period in 2021. However, the estimated participation rate was 63.2 percent, lower than the participation rate of 67.1 percent in the second quarter of 2021. Taken together, the two estimates (the unemployment rate and the participation rate) suggest that although there was a decline in the unemployment rate, it may not solely be a result of job creation because more persons becoming economically inactive and/or leaving the labour force (lower participation rate) may have also contributed to the drop in the unemployment rate.

2.2 Fiscal

Public finances continue to bolster in 2022 and revenue intake for the first nine months outperformed this year's target and the comparable period of 2021 by $100.8 million and $102.0 million respectively. Grants receipts were ahead of target by $80.8 million principally because of grants from SGU and Saudi Arabia of $81.0 million and $27.0 million respectively, received in March and September. Government's recurrent and capital expenditures were ahead of the budgeted totals by $34.7 million and $33.7 million respectively. Based on data collected for the three quarters ending September, a primary surplus including grants of $55.7 million (1.7 percent of GDP) is estimated for 2022, compared to a budgeted deficit of $34.2 million. Relatedly, an overall surplus of $ 4.8 million (0.1 percent of GDP) is estimated, compared to a budgeted deficit of $97.9 million. Total public debt[2] at the end of September 2022 stood at $2.1 billion or 66.2 percent of GDP. Under the baseline scenario, public debt is expected to be 66.5 percent of GDP at the end of 2022 a gradual uptick relative to the end of September because of expected disbursements on concessional debts already contracted.

[2] Total public debt includes both the external and domestic debt of Central Government and Government Guaranteed debt of State-Owned enterprises.

2.3 Financial Sector

The Monetary and Financial sectors strongly navigated through the COVID-19 pandemic in 2020. Banks and Non-Bank Financial Institutions continue to see improvements in their asset base in 2021 and 2022. Domestic credit has experienced improvements over the year June 2021-June 2022 as commercial bank loans to various sectors increased by 3.5 percent to $1.9 billion owing to the general uptick in economic activity. Non-performing loans remain below the prudential benchmark whilst liquidity ratios continue to trend in the right direction on account of increased lending by commercial banks. The outlook for the sector over the medium term is positive and further improvement is envisioned as growth returns in many sectors of the economy.

2.4 External Sector

The visible trade balance widened by 33.3 percent to -$311.5 million at the end of the first quarter of 2022 relative to the same period of 2021. Despite buoyant exports that increased by 36.9 percent over the period, there was a 33.6 percent increase in total imports, predominantly because of high commodity prices that propelled the overall worsening of the trade balance. Over the medium term, the visible trade balance is projected to widen slightly if high inflation remains entrenched on account of elevated global food and energy prices. Notwithstanding, exports are projected to pick up along with the overall growth in economic output.

2.5 Poverty

Poverty remains a recurring issue in Grenada despite continued growth in the economy. Notwithstanding a sizable decline in the poverty rate from 37.7 percent (2008) to 25.0 percent (2019[3]), extreme poverty levels increased by 1.1 percentage points to 3.5 percent over the same period. While challenges of COVID-19 and its socio-economic impact has taken a toll on the domestic economy, the Government has made tremendous strides to limit further increases in extreme poverty and vulnerability through various fiscal measures such as the expansion of the Support for Education Empowerment and Development (SEED) programme and other support measures operationalised through the COVID-19 Economic Support Secretariat (CESS). In the medium term, poverty levels are not anticipated to increase further due to continued Government

[3] Based on information from the Living Conditions in Grenada: Poverty and Equity Update Report 2021

fiscal support and announced targeted interventions to alleviate socio-economic burdens on vulnerable groups.

3. MEDIUM-TERM MACROECONOMIC FORECAST

The outlook for Grenada's economy remains favourable, despite considerable downside risks. Risks include the lingering pandemic, high and rising global inflation, and the possibility of a recession in economies of some of Grenada's main source markets for tourism. Growth is estimated to decelerate to 3.6 percent in 2023 relative to 6.0 percent in 2022 and an average of 4.4 percent in 2024-2025. Underlying the growth forecasts are conservative assumptions about activity in key sectors such as Tourism, Construction, Private Education, and Agriculture over the medium term.

Recovery of the Tourism sector though underway, faces serious headwinds in the near term in the context of high travel costs owing to elevated international fuel prices and global inflation; COVID-19 and its lingering effects; new viruses such as Monkeypox; shortages of workers in the global airline industry; and modest growth rates projected for the economies of Grenada's major trading partners (with the possibility of them being even lower than currently forecasted). The prospects for the sector are brighter over the medium term.

The outlook for the Construction sector is broadly positive over the medium term with several public and private sector projects ongoing and planned. Major hotel projects, including the Six Senses Resort and Intercontinental Resorts, as well as several private housing and commercial building projects, agriculture feeder roads, roads, and bridges repairs, and school upgrades are expected to sustain activity in the sector.

Activity in the Private Education subsector is also expected to improve over the medium term; SGU aims to boost enrolment by offering more scholarships and increasing its course offerings in Arts & Science Department.

The Agriculture sector is likely to benefit from the Government's increased focus on boosting agricultural production and value-added through concrete initiatives to promote the use of modern technology and methods of farming, labour support, and mechanisation of the sector.

Activities in these major sectors should boost demand and spur increased activity in other sectors, including Manufacturing, Real Estate, and Wholesale & Retail, which should increase employment.
Consistent with the global outlook, domestic inflation is likely to remain elevated in the short term but is likely to moderate over the medium term in line with rates in the United States, as monetary policy tightening takes hold. The domestic inflation rate is projected to average 3.7 percent over the period 2023-2025.
Appendix 1 provides detailed medium-term growth forecasts by economic sectors.

4. MEDIUM-TERM FISCAL POLICY OBJECTIVES AND FISCAL FORECASTS

The underlying objective of the Government's Medium-term Fiscal Strategy is to support its transformational agenda, while simultaneously safeguarding fiscal credibility and sustainability. In summary, the Medium-term Fiscal Strategy focuses on strategic expenditure management, technology-imbued enhancements in revenue mobilisation and administration, and prudent debt management. This is to support the attainment of the Government's transformational priorities over the medium term as set out in its Medium-term Action Plan 2023-2025 (MTAP), which is inextricably linked to the governing Administration's Manifesto. The medium-term priorities are to contribute to economic, social and environmental resilience, consistent with the long-term Goals and Outcomes of the National Sustainable Development Plan (NSDP) 2020-2035.

4.1. Government's Medium-term Expenditure Objectives

The Government's overarching medium-term expenditure objective is to support the systematic and results-focused channelling of resources to strategic priority areas to achieve the outcomes and results that are being targeted to bring maximum benefits to Grenadians. The strategic priority areas and outcomes are set out in the MTAP 2023-2025 and for brevity include: (i) improving health care access; (ii) enhancing education and training; (iii) reducing poverty levels and improving living standards; (iv) strengthening citizen security and safety; (v) increasing economic diversification and competitiveness; (vi) upgrading physical infrastructure; and (vii) improving environmental protection, energy efficiency and climate resilience.

For the Budget year, 2023, the Government has articulated the following six priorities:

1. Health and Wellness
2. Education Transformation, with special focus on Youth and Sports
3. Agriculture, Food Security, and the Marine Economy
4. Physical and Digital Infrastructure
5. Culture and the Creative Economy
6. Energy Transition and the Environment

Spending and investments in support of these outcomes will be done in a fiscally prudent and responsible manner, aimed at improving expenditure efficiencies, tightening expenditure controls, increasing value for money in public procurement, and prioritising productive and efficient spending to enhance the results-orientation of the Public Sector Investment Programme (PSIP). The Government will take steps to address weaknesses in expenditure controls along the Expenditure Cycle. Additionally, Government will also take steps to substantially improve public procurement through measures geared at institutional and systems strengthening that are set out in the 3-year (2022-2024) Action Plan for Procurement.

Furthermore, greater emphasis will be placed on staff training (particularly, but not exclusively for Finance Officers) to build capacity in accounting, fiscal forecasting, cashflow management, and public financial management more broadly. Current Transfers are another area where strict expenditure controls will be implemented more specifically on Grants and Subventions. The wage bill will be consistent with the fiscal rule of 9.0 percent of GDP and sustainably managed through forward-looking wage negotiations with Trade Unions. Moreover, Government will continue to monitor the operations of State-owned Enterprises and Statutory Bodies with the strategic intention of managing fiscal risks. Additionally, the specific recommendations from the Cabinet-approved Public Expenditure Review (PER) Committee will continue to be implemented and improved where necessary.

Capital expenditure is projected to average 9.0 percent of GDP over the medium term. The performance of the Public Sector Investment Programme (PSIP) is anticipated to be substantially improved with the creation of the new Ministry for Mobilisation, Implementation and Transformation (MIT) whose mandate is to support the delivery of the priorities of the Government through the robust implementation of programmes and projects. MIT's hands-on, proactive and results-oriented implementation support is expected to boost PSIP execution rates. MIT's work will focus on several key areas including mobilisation of required financial, human, technical, and material resources at the

national, regional and international levels, as well as providing project management support.

4.2. Government's Medium-term Revenue Objectives

In the context of a tenuous macroeconomic environment and outlook, Government's revenue strategy will, of necessity, focus on minimising revenue leakage and bolstering enforcement and compliance measures through technology-driven improvements. The Inland Revenue Department (IRD) will continue to execute activities geared at digitising its services, improving registration compliance, reducing outstanding arrears, and boosting service delivery through outreach programmes. Some of the major measures to improve tax administration include; (i) Re-establishment of the IRD/Customs Risk Management Committee (ii) Introduction of online filing and payment for large taxpayers (iii) Improvement in taxpayer services for large taxpayers (iv) Creation of collaborative relationships with the Grenada Bankers Association and the Grenada Cooperative League on property tax compliance. Based on these initiatives and the net effect of the new budgetary revenue measures, recurrent revenue is forecasted to average 30.3 percent of GDP or $1,117.1 million over the period 2023-2025 inclusive of non-tax revenue averaging $335.0 million or 9.1 percent of GDP. The significant increase in non-tax revenue projected in this MTFF relative to previous years reflects the new treatment of Citizenship-by-Investment (CBI) receipts. Henceforth, 60.0 percent of the gross monthly receipts into the National Transformation Fund (NTF) will be transferred into the Consolidated Fund's NTF account as non-tax revenues and not treated as grants receipts as previously done. The remaining 40.0 percent will be set aside as legislated into a special fund as savings for general budget financing purposes, including contingency spending, natural disasters and debt reduction. Receipts from the NTF Special Fund will only enter the fiscal accounts when a drawdown is made for a purpose consistent with the use of the Fund. The NTF Special Fund will be managed in accordance with the NTF Regulations.

4.3. Government's Medium-term Debt Management Strategy

The Medium-term Debt Management Strategy for the period 2023-2025 will focus on (i) managing public debt to ensure that the Budget is adequately funded at the lowest cost and within a manageable risk framework; (ii) promoting debt sustainability; and (iii) ensuring that public debt management operations support the establishment of a well-developed domestic debt market in the medium-to-long term. The Strategy is not expected to deviate substantially from the 2022-2024 Strategy and will target concessional external financing and extension of the domestic debt portfolio maturity profile. The Government is

committed to maintaining a presence in the Regional Government Securities Market (RGSM) to aid with the market's development. Under the baseline scenario, public debt (defined as Central Government debt plus Government guaranteed debt) is projected to decline from 64.0 percent of GDP in 2023 to 60.5 percent by 2025.

4.4. Medium-term Fiscal Forecasts

The MTFF for 2023-2025 is presented in Table 1. Overall and primary surpluses (including grants) are expected to improve over the medium term from 1.8 percent and 3.6 percent of GDP respectively in 2023 to 3.7 percent and 5.1 percent of GDP correspondingly in 2025. Appendix 2 presents the underlying baseline assumptions of the MTFF projections.

Table 1: Medium-Term Fiscal Framework 2023-2025

In millions of Eastern Caribbean Dollars, unless stated otherwise

	2023		2024		2025	
	Projected	% GDP	Projected	% GDP	Projected	% GDP
Total Revenue & Grants	**1118.6**	**32.1%**	**1,170.6**	**31.8%**	**1277.4**	**32.8%**
Total Revenue	**1050.8**	**30.1%**	**1,099.0**	**29.8%**	**1201.6**	**30.8%**
Tax Revenue	739.3	21.2%	780.7	21.2%	826.4	21.2%
Non - Tax Revenue	311.4	8.9%	318.3	8.6%	375.2	9.6%
Grants	**67.8**	**1.9%**	**71.6**	**1.9%**	**75.8**	**1.9%**
Total Expenditure	**1,055.8**	**30.3%**	**1,094.6**	**29.7%**	**1131.3**	**29.0%**
Primary Expenditure	994.1	28.5%	1,037.2	28.2%	1080.5	27.7%
Current Expenditure	**741.9**	**21.3%**	**763.1**	**20.7%**	**780.4**	**20.0%**
Employee compensation	325.6	9.3%	335.9	9.1%	341.9	8.8%
wages, salaries & allowances	311.1	8.9%	320.8	8.7%	326.6	8.4%
Social Contribution to employees	14.5	0.4%	15.1	0.4%	15.3	0.4%
Goods and Services	157.0	4.5%	162.4	4.4%	166.1	4.3%
Interest Payments	61.7	1.8%	57.4	1.6%	50.8	1.3%
Transfers	197.6	5.7%	207.4	5.6%	221.7	5.7%
Capital Expenditure	**313.9**	**9.0%**	**331.5**	**9.0%**	**350.9**	**9.0%**
o/w: Grant financed	67.8	1.9%	71.6	1.9%	75.8	1.9%
Overall balance	**62.7**	**1.8%**	**76.0**	**2.1%**	**146.0**	**3.7%**
Primary balance (excluding grants)	**56.6**	**1.6%**	**61.8**	**1.7%**	**121.1**	**3.1%**
Primary balance (including grants)	**124.4**	**3.6%**	**133.4**	**3.6%**	**196.9**	**5.1%**
Memo Item						
GDP (Nominal market Prices)		3,487.7		3,682.8		3,898.2
Real GDP growth (%)		3.6%		4.0%		4.8%

Source: Ministry of Finance

5. CONSISTENCY OF THE MTFF 2023-2025 WITH THE FISCAL RESPONSIBILITY ACT

Following three consecutive years of Parliament's-approved suspension of the fiscal rules, induced by the COVID-19 pandemic and sharp economic contraction, the MTFF 2023-2025 is framed to ensure compliance with the following rules and targets as stipulated in Sections 7 and 8 of the FRA:

- *Primary Expenditure Rule:* the rate of growth of the primary expenditure[4] of the Central Government, and every covered public entity, shall not exceed 2.0 percent in real terms in any fiscal year when adjusted by the preceding year's inflation rate.

- *Wage Bill Rule:* the ratio of expenditure on the wage bill shall not exceed 9.0 percent of GDP.

- *Primary Balance Rule:* the targeted primary balance shall be a minimum of 3.5 percent ofGDP.

- *Contingent Liabilities Rule:* contingent liabilities arising from, because of, or in connection with Public-Private Partnerships (PPPs) shall not exceed 5.0 percent of GDP.

- *Public Debt Anchor*: the total stock of public sector debt shall not exceed 55.0 percent of GDP.

Table 2 presents the compliance matrix illustrating that the MTFF 2023-2025 complies with the requirements of Sections 7 and 8 of the FRA. All the fiscal rules are adhered to and public debt is projected to be on a downward trajectory throughout the medium term.

[4] Calculated as Total Expenditure less Interest Payments

Table 2: Compliance Matrix

	2023		2024		2025	
	Fiscal Rule	**Projected**	**Fiscal Rule**	**Projected**	**Fiscal Rule**	**Projected**
Growth of Real Primary Expenditure less Capital Grants (Annual % change)	Not exceeding 2.0%	-9.0%	Not exceeding 2.0%	-6.9%	Not exceeding 2.0%	-7.0%
Wage Bill (% of GDP)	Not exceeding 9.0% of GDP	8.9%	Not exceeding 9.0% of GDP	8.7%	Not exceeding 9.0% of GDP	8.4%
Primary Balance (% of GDP)	Not less than 3.5% of GDP	3.6%	Not less than 3.5% of GDP	3.6%	Not less than 3.5% of GDP	5.1%
Contingent Liabilities related to PPPs (% of GDP)	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%	Not exceeding 5.0% of GDP	0.0%
Public Debt (% of GDP)^	55.0%	64.0%	55.0%	62.6%	55.0%	60.5%

Source: Ministry of Finance

6. RISKS TO THE MEDIUM-TERM ECONOMIC OUTLOOK

The economy is susceptible to unprecedented uncertainty and risks are firmly on the downside, especially in the near term. Lingering effects of the COVID-19 pandemic, new public health concerns such as the Monkeypox virus, Russia's war in Ukraine, high and rising global inflation, global supply chain challenges, geo-political strains, and tighter financial market conditions (as major central banks hike interest rates) pose the greatest risks to the global economy, and by extension, Grenada's macroeconomic and fiscal prospects in the near term. The global economic situation could be worse than what is projected in the baseline scenario should China's economic slowdown be steeper than expected and should tighter global monetary and financial conditions trigger a full-blown debt crisis in emerging markets and developing economies.

A protracted global economic slowdown would adversely affect tourist arrivals, remittances, foreign direct investment, external grants receipts, and the CBI Programme. The CBI programme is particularly at risk in the context of the pending legislation in both the European Union and the US to penalise nations offering CBI programmes. In March 2022, legislation intending to prevent countries that offer CBI beyond 2025 from accessing the US Visa Waiver Scheme, was introduced in the US Congress.

Meanwhile, high and rising international commodity prices (especially fuel and food) will stoke domestic inflationary pressures in the near term. These global forces can potentially complicate Budget execution by eroding any possible windfall revenue from duties and border taxes (because of imported inflation) through possibly expanded fiscal support to citizens especially the most vulnerable and higher cost of goods and services for the Government. Moreover, costs of construction inputs are likely to remain high, which can negatively affect the implementation of infrastructure projects in the PSIP. Active contract management by implementing ministries will be necessary to mitigate this risk.

The March 29th High Court Ruling on the Pension Disqualification Act poses significant risk to budget execution if various scenarios, in particular, the worst-case scenario, were to materialize. Under the worst-case scenario, where roughly 2,000 public officers can opt to retire immediately based on years of service, the fiscal costs will rise significantly and crowd out public investments.

Consistent with the global outlook, the growth of the economies of Grenada's main source markets for tourism should pick up over the medium term, albeit modestly, which would augur well for local economic activities and the medium-term fiscal outlook. Domestic inflation is likely to moderate over the medium term in line with rates in the United States, as monetary policy tightening takes hold.

Grenada's high vulnerability to natural disasters and susceptibility to the adverse effects of climate change are inherent risks.

The Fiscal Risk Statement to be laid in Parliament under Section 12 (1) (e) of the FRA contains a more in-depth analysis and discussion of relevant risks and mitigation measures

7. STATEMENT OF RESPONSIBILITY

I, Mike Sylvester, Permanent Secretary, Ministry of Finance, attest to the reliability and completeness of the information presented in the Medium-term Fiscal Framework 2023-2025 and it compliance with the Fiscal Responsibility Legislation No. 29/2015 as amended.

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Mr Mike Sylvester

Permanent Secretary

APPENDIX 1: GRENADA MEDIUM-TERM GROWTH FORECASTS

	Actual	Actual	Actual	Actual	Est.	Forward Estimates		
	2018	2019	2020	2021	2022	2023	2024	2025
Agriculture, Livestock and Forestry	3.0	-3.6	-15.0	15.0	-10.9	2.4	1.8	2.2
Fishing	2.5	2.0	-13.0	17.6	-11.1	2.6	0.6	1.4
Mining & Quarrying	3.3	5.0	-8.0	18.8	14.8	16.8	9.5	10.4
Manufacturing	9.4	3.2	-10.2	11.1	4.4	2.1	1.8	4.9
Electricity & Water	5.4	3.2	-6.4	-0.8	4.6	1.2	0.4	-0.2
Construction	12.6	-3.6	-20.5	25.7	19.2	11.6	6.5	8.5
Wholesale & Retail Trade	7.8	1.8	-15.4	6.5	10.8	7.3	2.2	2.3
Hotels & Restaurants	9.9	4.1	-68.2	37.6	51.0	19.0	14.2	16.9
Transport and Storage	8.1	4.2	-33.1	-13.5	15.1	8.6	7.6	7.8
Communications	8.4	-7.9	-6.3	0.7	0.7	1.1	1.2	0.5
Financial Intermediation	7.0	2.9	4.3	4.1	5.7	6.6	4.0	4.3
Real Estate, Renting and Business	1.8	1.5	-7.0	0.8	1.7	1.8	1.5	1.2
Public Administration	-3.8	-0.8	-2.0	0.1	2.5	4.2	5.8	7.1
Education	-4.8	4.2	-0.3	1.7	-1.7	4.1	4.2	4.3
Health and Social Work	5.9	-3.8	-1.7	2.4	2.7	2.9	2.3	3.5
Other Community, Social & Persor	1.9	1.6	-11.4	1.2	0.9	1.8	2.8	1.1
Activities of Private Households as	1.5	0.6	-4.3	0.0	1.6	1.9	1.0	1.0
Real Gross Value added (not GDP)	3.7	1.2	-13.7	5.2	5.8	5.7	4.3	5.0
Real Gross Domestic Product	**4.4**	**0.7**	**-13.8**	**4.7**	**6.0**	**3.6**	**4.0**	**4.8**
Other key indicators								
Nominal GDP (% Change)	3.6	4.0	-14.0	7.6	7.3	7.2	5.6	5.8
Nominal GDP (EC$ Millions)	3149.6	3276.4	2817.2	3031.6	3252.5	3487.7	3682.8	3898.2

Source: Ministry of Finance

APPENDIX 2: BASELINE MEDIUM-TERM FISCAL ASSUMPTIONS

<table>
<tr><th>CATEGORIES</th><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>Recurrent Revenue</td><td>All categories of tax and non-tax revenue are assumed to grow in line with projected nominal GDP except for Import Duty, Customs Service Charge and CBI Revenues. Import duty and Customs Service Charge are moved by the average growth of import values from 2015-2021. Petrol tax is assumed to reduce to $3.50 per gallon with a complete cap removal. CBI Revenues reflect projections from the CBI Unit and assumes 60% of NTF fees. Revenue estimates also reflect the net effect of new budgetary measures; some will be revenue generating and others, revenue losing.</td><td colspan="2">All categories of tax and non-tax revenue are assumed to grow in line with projected nominal GDP.</td></tr>
<tr><td colspan="4">Recurrent Expenditure</td></tr>
<tr><td>Personal Emoluments, Wages, Salaries and Allowances</td><td rowspan="2">These categories were assumed to grow by 4.0% based on agreements already reached with two groups of public servants</td><td colspan="2" rowspan="2">Pending salary agreement for the new negotiating cycle, these categories were moved in line with projected inflation.</td></tr>
<tr><td>Social contributions to employees</td></tr>
<tr><td>Goods & Services</td><td colspan="3" rowspan="2">Most categories are adjusted for inflation except for Transfers Abroad and Transfers to Household. Transfers abroad reflect contractual agreements and Transfers to Household include pension payments that incorporate estimated payments to eligible pensioners based on the court judgment equivalent to 2.3%, 2.8% and 3.2% of GDP over the period 2023-2025.</td></tr>
<tr><td>Current transfers</td></tr>
<tr><td>Interest payment</td><td colspan="3">External and domestic interest payments reflect the conditions stated in the contractual agreement.</td></tr>
<tr><td colspan="4">Capital Expenditure & Net Lending</td></tr>
<tr><td>Grant financed</td><td colspan="3" rowspan="2">Based on ongoing and pipelined projects in the PSIP. Total Capital expenditure averages 9.0% of GDP over the medium term and is mostly financed with Local revenue averaging 5.6% of GDP. Grant-financed capital spending averages 3.7% of GDP and are sourced from external developmental partners and other grant sources. Gradual uptick in spending over the period reflects climate resilience and mitigation projects envisioned in the PSIP.</td></tr>
<tr><td>Non Grant financed</td></tr>
</table>

Source: Ministry of Finance