



FISCAL RESPONSIBILITY FRAMEWORK -

A rules-based fiscal framework for St. Vincent and the Grenadines

Published in the Government Gazette on the 7th day of January 2020

**FISCAL RESPONSIBILITY RESOLUTION
OF THE
GOVERNMENT OF ST. VINCENT AND THE GRENADINES**

Fiscal Responsibility Framework Resolution Government of St. Vincent and the Grenadines

WHEREAS the GOSVG is committed to enhancing the long-term fiscal resilience, stability and sustainability of St. Vincent and the Grenadines whilst at the same time fostering broad-based, inclusive economic growth and development;

RECOGNISING that the Government of St. Vincent and the Grenadines (GOSVG), in its National Economic and Social Development Plan (NESDEP) 2013 to 2025, has committed to maintaining strong macroeconomic fundamentals by continuing to implement sound fiscal policies and reducing the debt-to-GDP ratio to a prudential level; within the overall macro-economic context of financial stability, growth, competitiveness and equity;

REAFFIRMING that the GOSVG, being a member of the Eastern Caribbean Currency Union, has committed to attaining the debt-to-GDP target of sixty (60) percent by 2030;

BEING COGNIZANT that the GOSVG is aware of the myriad attendant risks that confront a small island developing state like St. Vincent and the Grenadines;

ACKNOWLEDGING that the GOSVG has expressed the desire to enhance further transparency and accountability in all matters related to the macro-economic and fiscal affairs of the state thereby deepening the involvement of all stakeholders;

BEING MINDFUL that a strong public financial management system, a comprehensive and credible budget, an internally consistent and coherent, well-structured Medium-Term Fiscal Framework and a properly designed rules-based fiscal framework are fundamental to enhancing fiscal discipline in the furtherance of its long-term fiscal policy objectives;

AND BUILDING upon all efforts hitherto to adhere to fiscal responsibility grounded in prudence and enterprise:

The GOSVG has adopted the Fiscal Responsibility Framework attached hereto and is hereby submitted to the Parliament and people of St. Vincent and the Grenadines and Gazetted.

Dated the 7th day of January, 2020

FISCAL RESPONSIBILITY FRAMEWORK FOR ST. VINCENT AND THE GRENADINES

FISCAL RESPONSIBILITY FRAMEWORK, 2019

**THIS FRAMEWORK IS TO ESTABLISH THE PRINCIPLES AND PROCEDURES OF
RESPONSIBLE FISCAL MANAGEMENT AND TO FACILITATE EFFECTIVE
PARLIAMETARY OVERSIGHT AND PUBLIC SCRUTINY OF THE FISCAL
PERFORMANCE OF THE GOVERNMENT**

A document of the House of Assembly of St. Vincent and the Grenadines

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1. Interpretation.

In this framework —

- “**annual budget**” means the annual estimates of revenues and expenditures and other annual budget documents submitted to House of Assembly;
- “**Committee**” means the Standing Committee on Finance established by section 61(1) of the Standing Orders of the House of Assembly;
- “**Constitution**” means the Constitution of St. Vincent and the Grenadines;
- “**fiscal balance**” means unless otherwise explicitly stated, the balance of revenues and expenditure;
- “**Fiscal Responsibility Mechanism**” means the mechanism established pursuant to Article 9;
- “**fiscal policy**” means decisions or actions undertaken by public authorities regarding public revenue, expenditure, assets and liabilities to influence the economy and achieve public policy objectives;
- “**fiscal responsibility principles**” means the specific principles of responsible fiscal management in Article 4;
- “**fiscal risks**” means the exposure of the government to short -term and medium-term deviations in fiscal variables compared to what was anticipated in the budget, the financial accounts, the fiscal strategy report or other statements or projections of public finances;
- “**fiscal rules**” means the measurable fiscal indicators for the fiscal policy to achieve the fiscal responsibility principles formulated in accordance with the *First Schedule* and stated in the Medium-Term Economic and Fiscal Outlook report;
- “**fiscal sustainability**” means the ability to conduct a given fiscal policy for a significant period of time in a manner that does not breach the general principles in Article 2 and specific principles of responsible fiscal management in Article 3;
- “**medium-term**” means a period of three consecutive financial years;
- “**Minister**” means the minister with responsibility for finance
- “**primary balance**” means overall fiscal balance excluding interest expenses;
- “**primary expenditure**” means total expenditure excluding interest expenses;
- “**public debt**” means all liabilities that require payments of interest or principal by the public sector to a resident or non-resident creditor, currently or in the future;
- “**published**” means published —
 - (a) on an official website of the Government for a minimum period of five years; and
 - (b) making the document available for inspection in print form in a readily accessible place;
- “**total expenditure**” means the sum of recurrent and capital expenditure less debt principal repayment and acquisition of financial assets.
- “**wage bill**” means the aggregate of current expenditure on wages, salaries and allowances paid to employees of the central government in any fiscal year.

2. Objectives of Framework

- (1) The objectives of this Framework are —
 - (a) to establish the principles, procedures and mechanisms for a rules-based fiscal responsibility framework;
 - (b) to guide the formulation and implementation of fiscal rules;
 - (c) to guide and anchor fiscal policy during the annual budget process within a medium-term macro-fiscal framework; and
 - (d) to facilitate further parliamentary oversight and public scrutiny of the fiscal management of the Government.

3. General Principles of Responsible Fiscal Management

- (2) The general principles of responsible fiscal management are —
 - (a) **accountability**, which means the Prime Minister, the Minister and all other Ministers are accountable to the House of Assembly and the public for the manner in which the Government discharges its responsibilities with respect to the management of the economy and fiscal policies;
 - (b) **sustainability**, which means the long-term fiscal and debt sustainability objectives shall underpin the framing of the medium term economic and fiscal report and the annual budget, including the management of fiscal risks;
 - (c) **stability**, which means fiscal policy shall be conducted in a manner that does not cause destabilizing changes in the macroeconomic and fiscal indicators;
 - (d) **transparency**, which means timely disclosure and wide publication of information on macroeconomic and fiscal policy matters to permit further public scrutiny and Parliamentary oversight;

4. Fiscal Responsibility Principles

The fiscal responsibility principles are —

- (g) achieving and maintaining a sustainable fiscal balance;
- (h) achieving and maintaining prudent levels of public debt;
- (i) prudently managing fiscal risks; and
- (j) promoting prudence and enterprise in fiscal management.

5. Fiscal Rules and Suspensions Reasonably Required

The Minister shall establish the fiscal rules contained in the *First Schedule* consistent with the achievement of the fiscal responsibility principles set out in Article 3;

- (1) The Minister shall set quantitative fiscal objectives for the fiscal responsibility principles in the Medium Term Economic and Fiscal Outlook report in accordance with the *First Schedule* which shall include one or more medium term fiscal objectives.
- (2) Subject to the approval of Cabinet, the Minister may suspend, for a period reasonably required by exigent circumstances, the fiscal rules, quantitative fiscal objectives and other fiscal measures where:
—

- a) a natural disaster has been declared pursuant to section 32 of the National Emergency Management Act;
- b) a public health epidemic has been declared;
- c) real GDP experiences a decline of two percent or more in a given fiscal year or a cumulative decline equal to or greater than three percent over two consecutive fiscal years;
- d) the Minister, after consultation with the Governor of the Eastern Caribbean Central Bank, certifies 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 disturb appreciably the fiscal balance,

if the Minister determines that implementation of the fiscal rules, quantitative fiscal objectives and fiscal measures would be unduly harmful to the public finances, financial stability or the economy.

- (3) When the Minister acts under Article 5(2), he/she shall submit for the consideration of Cabinet a paper which shall outline:
 - a. the reasons for the suspension and how the implementation of the fiscal rules would be harmful to the public finances, financial stability or the economy;
 - b. the impact of the suspension of the fiscal rules on the public finances;
 - c) a fiscal adjustment plan setting out the fiscal adjustment measures to be implemented and the expected period of time to return to compliance with the fiscal rules.
- (4) The Minister shall ensure the fiscal adjustment plan contains intended actions to return to compliance with the requirements for the fiscal rules in the *First Schedule* as soon as practicable.
- (5) The Minister shall submit, to House of Assembly, the fiscal adjustment plan and provide a copy to the Fiscal Responsibility Mechanism —
 - (a) within thirty days following the decision adopted by the Cabinet; or
 - (b) in the next annual Medium-Term Economic and Fiscal Outlook Report,
 whichever is earlier.
- (6) Upon submission to the House of Assembly of the fiscal adjustment plan, the Minister shall cause the adjustment plan to be published on an official website of the Government.

6. Preparation of Medium-Term Economic and Fiscal Outlook Report

- (1) A Medium-Term Economic and Fiscal Outlook which is consistent with the principles and procedures in this Framework shall be prepared by the Economic Research and Policy Unit, in the Ministry of Finance in accordance with the *Second Schedule*;
- (2) The Medium-Term Economic and Fiscal Outlook Report shall be formulated based on macroeconomic and fiscal projections which shall be done and updated in the manner prescribed in the Budget Calendar in the *Third Schedule*.
- (3) The Minister shall be responsible for the submission of the report to the Cabinet, Fiscal Responsibility Mechanism and House of Assembly;

7. Mid-Year Review

- (1) The Minister shall submit to House of Assembly no later than the last day of August of each fiscal year, a mid-year review of the progress against —
 - (a) the requirements of Articles 3 and 4;
 - (b) the fiscal responsibility principles; and
 - (c) the Medium-Term Economic and Fiscal Outlook report.
- (2) The mid-year review referred to in subsection (1) shall —
 - (a) contain the information specified in the *Fourth Schedule*; and
 - (b) be published on an official website of the government within one week of tabling.
- (3) The Minister may amend the *Fourth Schedule*, not inconsistent with the provisions of the Constitution, the Finance Administration Act and any other relevant law.

8. Public Financial Management System

The fiscal responsibility framework requires a properly functioning public finance management system which includes -

- (1) A credible Medium-Term Fiscal Framework (MTFF) – The Medium-Term Economic and Fiscal Outlook Report shall be approved by the Cabinet and be used as the document to guide the setting of the fiscal policy objectives, budget ceilings, and strategic policies and priorities of the government;
- (2) Credible budget formulation and preparation process—
 - i. Ministries and Departments shall ensure that their budget submissions accord with the instructions of the Budget Circular, are timely and reflect the policy priorities of the Government.
 - ii. the Public Sector Investment Projects should be subjected to an effective process of evaluation to determine priorities;
- (3) Effective and disciplined budget execution – Revenues and expenditures shall be brought to account in a timely manner and budgets should be seen as reasonable and reliable.
- (4) Reasonably reliable debt, macroeconomic and fiscal forecasts – debt, macroeconomic and fiscal forecasts shall be prepared and updated on a regular basis based on the timelines prescribed in the Budget Calendar in the *Third Schedule*.

9. Fiscal Responsibility Mechanism

Functions of the Mechanism

- i. The Mechanism shall be responsible for assessing compliance with the general principles, fiscal responsibility principles and fiscal rules and to advise on fiscal and budgetary matters of the Government including reviewing the:
 - Annual Budget;
 - Medium Term Economic and Fiscal Outlook report; and
 - Mid-year review.
- ii. Monitor compliance with the fiscal rules and targets established with respect to the relevant fiscal year

- iii. Provide at any time at its own initiative or upon request, advice to the Government on matters related to its functions under this framework.

Composition of the Mechanism

The Fiscal Responsibility Mechanism shall consist of three to five members appointed by the Cabinet and drawn from the public and private sectors, having qualifications and experience in law, economics and finance or related area of expertise.

Reports of the Mechanism

The Mechanism shall submit to the Cabinet and the Finance Committee a number of reports:

1. an assessment of the annual budget for the current year of the Government against general principles, fiscal responsibility principles and fiscal rules;
2. an assessment of the Medium Term Economic and Fiscal Outlook report of the Government against the general principles, fiscal responsibility principles and fiscal rules;
3. an annual report that includes:
 - The progress towards compliance with the fiscal rules and targets established with respect to the relevant financial year including where applicable, a statement on compliance with a fiscal rule or target within the fiscal year;
 - Outcomes and implication of the implementation of this framework;
 - Advice on measures that ensure compliance in accordance to the framework;
 - The occurrence of circumstances leading to any reasonably required suspension of the fiscal rules.

Reports of the Mechanism which have been submitted to and approved by the Cabinet shall be submitted to the Finance Committee and form part of the Committee's submission to the House of Assembly.

10. Duties of the Minister of Finance

The Minister shall take appropriate measures to ensure compliance with this Framework, including taking appropriate measures to ensure the following–

- (a) that the fiscal and financial affairs of the Government are conducted in a transparent manner with full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and the implications for finances;
- (b) that there is observation of the principle of fiscal sustainability by ensuring that debt is reduced to, and then maintained at, a prudent and sustainable level as prescribed pursuant to the *First Schedule*, by maintaining primary surpluses that are consistent with this objective and macro-economic stability, growth and competitiveness;
- (c) that Government spending does not exceed the budget ceilings set in accordance with the Medium-Term Economic and Fiscal Outlook Report;
- (d) that management of fiscal risks is in accordance with regulations and guidelines to be issued by the Minister; and

- (e) that documented public investment procedures are prepared and made available for the submission and approval of all projects submitted for inclusion in the capital expenditure programmes of the Central Government and covered public entities.

11. Duties of the Ministry of Finance

The Director General Finance and Planning shall take appropriate measures to ensure compliance with this Framework, including taking appropriate measures to ensure the following–

- (a) The Economic Research and Policy Unit within the Ministry of Finance shall be responsible for the preparation of the Medium-Term Economic and Fiscal Outlook report and shall update said report in the manner prescribed in the *Third Schedule*.
- (b) Medium-Term Economic and Fiscal Outlook report shall be the basis for the preparation of the estimates of revenue and expenditure required to be prepared and laid before the House of Assembly.

12. Duties of the Cabinet of Ministers

- (1) The Cabinet shall comply with the principles outlined in the Fiscal Responsibility Framework to ensure effective medium-term planning, manage risk and improve accountability.
- (2) The Cabinet shall develop and promote sound fiscal policy by adopting revenue and expenditure measures in keeping with the rules prescribed in the *First Schedule*

FIRST SCHEDULE

FISCAL RULES

Fiscal rules in the Medium-Term Economic and Fiscal Outlook

1. The Government shall state the Fiscal rules to achieve the fiscal responsibility principles in the Medium-Term Economic and Fiscal Outlook.
2. The Fiscal rules shall be set in accordance with the fiscal responsibility principles and this schedule.

Fiscal rules for debt

3. The long-term debt fiscal rule is to reduce public debt from 74.2 percent of GDP in 2017 to no more than 60 percent of GDP by 2030.
4. The Fiscal rules for debt shall be expressed as a percentage of GDP and as a nominal debt limit in the Medium-Term Economic and Fiscal Outlook and shall be included in the Annual Budget each year consistent with this Framework.

Primary balance

5. The fiscal rule for the primary balance is to target an improvement in the primary balance to a surplus of 1.0 percent of GDP at a time to be specified on the occasion of the presentation of the Annual Estimates of Revenue and Expenditure.

(i) Compliance Margin

Fiscal measures, being based on estimates and forecasts, are subject to some degree of uncertainty about their impact on the fiscal balance. When assessing the achievement of the fiscal rules, a compliance margin is necessary to accommodate this uncertainty, which shall not exceed 0.55% of GDP.

The compliance margin means that the production of a fiscal adjustment plan shall not apply if the final outcome for the fiscal balance in any given year, is within the compliance margin.

Expenditure

7. The fiscal rule for current expenditure shall be expressed as a nominal expenditure limit set in the Medium-Term Economic and Fiscal Outlook and the Annual Budget each year consistent with this Framework.
8. The Minister shall take appropriate measures to ensure that nominal current expenditure in a fiscal year does not reasonably exceed the growth in nominal GDP in that year.
9. The Minister shall take appropriate measures to ensure that the ratio of expenditure on the annual the wage bill shall not exceed (15.5%) fifteen point five percent of GDP/and or under fifty percent of recurrent expenditure less amortization and sinking fund contributions from 2021 onwards.

Review

9. The Government shall review the requirements in this Schedule in 2022 and every three years thereafter.
10. The Government may amend this Schedule following a review under paragraph 9 of the Schedule.

SECOND SCHEDULE

CONTENTS OF A MEDIUM TERM ECONOMIC AND FISCAL OUTLOOK REPORT

1. The Medium Term Economic and Fiscal Outlook (MTEFO) report shall contain an overview of recent fiscal and economic developments and an outlook for the budget year and two forward years based on macro-economic forecasts. The report shall include —

(a) INTRODUCTION

(b) ECONOMIC OUTLOOK AND ASSUMPTIONS

(i) Overview of and outlook for international economic developments

(ii) Overview of and outlook for the domestic economy

Assumptions on which GDP forecast is based

(c) FISCAL OUTLOOK – NO POLICY CHANGE (PASSIVE SCENARIO)

(i) Overview of current policy settings

(ii) Revenue Projections (Current Policy)

Assumptions on which revenue forecasts are based

(iii) Trends in Public Expenditure

Assumptions on which expenditure forecasts are based

(d) MEDIUM-TERM FISCAL STRATEGY

Preliminary MTEFO to Cabinet (prior to budget circular, NOT published)

(c) Key principles underlying fiscal strategy

(d) Proposed Medium-Term Fiscal Framework

Aggregate expenditure and revenues

Fiscal Balance Target and Debt/GDP Ratio

Fiscal Adjustment required.

(e) Policy Options/Fiscal Strategies for Meeting Target

Revenue measures

Expenditure Measures

(f) Annex - Ministry 'baseline' budget ceilings

Derivation from rolling forward estimates included in budget circular no. 1

Final MTEFO for publication (published with annual budget estimates)

(a) Key principles underlying fiscal strategy

Strengthening fiscal discipline and budget sustainability

Reducing fiscal deficit and debt,

Correcting structural imbalances

(b) Approved Medium-Term Fiscal Framework

Aggregate expenditure and revenues

Fiscal Balance Target and Debt/GDP Ratio
Approved Fiscal Adjustment

Revenue Policy

Highlight actual revenue measures and economic and fiscal implications

Expenditure Priorities

Approved major new spending
 New policy initiatives
 Development/Investment Expenditure (link to PSIP)
Highlight major approved savings
 Efficiencies
 Business process reengineering
 Low priority/poor performing programs
Annex: Final MDA Budget Ceilings

(a) DEBT MANAGEMENT STRATEGY

Present updated projections of outstanding debt and estimated interest payments on public debt in budget and forward estimate years

Provide debt tables – gross public debt (nominal and in % of GDP),
debt servicing costs (nominal and in % of GDP)
Targets for debt and debt servicing

Planned strategy for reducing debt

Link with fiscal strategy and expenditure priorities

Analysis of SOE loans and debt guaranteed by the State

(a) FISCAL RISKS, MITIGATION STRATEGIES, AND SENSITIVITY ANALYSES

Overview of Fiscal Risks

Overview of potential risks to the economy and fiscal strategy
Discussion on risk and exposure to the SoE Sector
 Contingent liabilities; extent of monitoring of autonomous government agencies and public enterprises

Risk Mitigation

Proposed strategies to manage risk
E.g., how to respond to external economic shocks, revenues shortfalls, need for savings

Develop alternative fiscal scenarios based on changes to economic indicators

E.g., assume that GDP growth were one standard deviation (or alternatively 1 percentage point) lower or higher

(b) TABLES

Approved Fiscal Table with projections

THIRD SCHEDULE

BUDGET CALENDAR – (The Norm)

| Key Tasks | Activities | Responsibility | Dates |
|---|--|---------------------------------------|----------------------|
| Preliminary Macroeconomic and Fiscal Forecast | The ERPU produces an initial set of macroeconomic and fiscal projections. | Economic and Research and Policy Unit | February-March |
| Intermediate Macroeconomic and Fiscal Forecast | The ERPU updates macroeconomic and fiscal projections based on Quarter 1 data. A preliminary, internal MTEFO is prepared and submitted to Cabinet to guide the budget process. | Economic and Research and Policy Unit | May |
| Budget Call Circular | Budget Call is issued to all Accounting Officers to provide: <ul style="list-style-type: none"> • Macro-fiscal context for budget and fiscal policy objectives • Instructions for Corporate Plan, new spending requests (recurrent and capital); • Mandatory Saving option and Revenue Measures • Templates for submitting proposals | Budget Department | July |
| Budget Call Briefing Session | A briefing session for all Accounting Officers on the Budget Call with a view to enhance compliance. | Budget Department | July |
| Ministries and Departments Submit Budget Proposals | Accounting Officers to prepare full Corporate Plan along with New Spending (recurrent and capital) proposals, Savings Options and Revenue measures. | Accounting Officers | August |
| Review of Budget Proposals | MoFEP reviews all submissions for administrative, technical and strategic compliance with Budget Call instructions. | Budget Department | September to October |
| First Draft Estimates Completed and distributed | 1 st Draft completed along with performance indicators and ready for discussion at Cabinet. Distributed to the Ministries and Departments in preparation for Cabinet discussion. | Budget Department | October |
| Final Macroeconomic and Fiscal Forecast | The ERPU updates macroeconomic and fiscal projections based on Quarter 2 data. A final MTEFO is prepared and submitted to Cabinet to be published with the annual budget estimates. | Economic and Research and Policy Unit | October |

| | | | |
|---|--|----------------------|----------|
| Approval of Budget Proposals, Final Budget Ceilings and forward estimates | <p>Cabinet meets with Accounting Officers to</p> <ul style="list-style-type: none"> • To discuss the draft Estimates of Ministries/Departments • To review performance management indicators and reports | Cabinet of Ministers | November |
| Final Performance Indicators | Ministries and Departments submit final performance indicators. | Accounting Officers | November |
| Final Draft Estimates | Budget Department reviews performance management information and completes the final draft Estimates. | Budget Department | November |
| Approval of Estimates | The Finance Committee considers and approves the Estimates of expenditure | Finance Committee | November |
| Estimates Debate | Parliamentarians debate the Estimates of Expenditure | House of Assembly | November |
| Budget Debate | Parliamentarians debate the Appropriation Bill | House of Assembly | December |

FOURTH SCHEDULE

CONTENTS OF A MID-YEAR REVIEW

The mid-year review shall provide an update to the Medium-Term Economic and Fiscal Outlook report and the annual budget and shall include the following information —

- (a) updated macroeconomic forecasts and assumptions from Medium-Term Economic and Fiscal Outlook report and annual budget;
- (b) updated fiscal information from the annual budget including —
 - (i) Government revenue outturn and forecasts for the current year and next three years;
 - (ii) Government expenditure outturn and forecasts for the current year and next three years including for expenditure, primary expenditure and expenditure on wages and related personnel costs;
 - (iii) approval of new spending since the annual budget including major investment and service projects and policies;
 - (iv) fiscal balance forecast for the current year, fiscal balance for past two years, and forecast next three years;
 - (v) net and gross debt for the current year and next three years;
 - (vi) level of guarantees;
 - (vii) tax relief, remissions, and other waivers;
 - (viii) the outstanding stock of arrears for all government entities including showing separately all new unpaid invoices since the stock of arrears was last reported; and
 - (ix) other significant financing matters that have occurred or are planned; and
- (g) information on virements, reallocations, use of the Contingency Fund, use of the Supplementary Estimates and any other matters required to be reported by this framework;
- (h) an update of the fiscal risk position compared to the Medium-Term Economic and Fiscal Outlook report and the annual budget;
- (i) progress on Government priorities;
- (j) any actual or expected significant differences for non-financial performance indicators that were presented in the fiscal strategy report or the Estimates and other annual budget documents of Ministries in the annual budget with an explanation of any deviations; and
- (k) updated information on the matters set out in paragraph 9(1) and (2) of the *Second Schedule* and where there has or is likely to be a breach of the fiscal responsibility principles or the fiscal objectives, the mid-year review shall contain a fiscal adjustment plan required by Article 5 of the framework.