INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/134

GRENADA

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GRENADA

May 2022

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Grenada, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 4, 2022 consideration of the staff report that concluded the Article IV consultation with Grenada.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 4, 2022, following discussions that ended on February 25, 2022, with the officials of Grenada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 14, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Grenada.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with Grenada

FOR IMMEDIATE RELEASE

Washington, DC – **May 10, 2022:** On May 4, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Grenada.

Grenada's tourism-dependent economy was hit hard by the pandemic, with a decline in real output of 14 percent in 2020. Growth in 2021 is estimated to have partly recovered to 5.6 percent, driven by construction and agriculture. The authorities' policy response helped mitigate the pandemic's impact through containment measures, increased health and social spending, and an expanded public investment program. Central government debt rose and the current account deficit widened. The financial sector has so far weathered the crisis well.

Economic growth is expected to continue into 2022, though at a slower pace of 3.6 percent, on the back of construction activity, the gradual pickup in tourist arrivals, and the recovery in offshore education. The war in Ukraine affects Grenada primarily through higher commodity prices and represents a significant headwind to the outlook. The major risks to the outlook are a further rise in global commodity prices, which could lead to further increase in inflation, and/or a more prolonged pandemic, with implications for recovery in tourism-related activities.

The government is committed to a return to the fiscal rules in 2023, after triggering the escape clause in 2020–22 to allow for counter-cyclical fiscal policy. It is also weighing the options of amending its fiscal responsibility law to best support the country's sustainable development. The government is seeking international support to facilitate the implementation of its Disaster Resilience Strategy and a transition towards renewable energy, critical for enhancing resilience to natural disasters and economic competitiveness.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' timely response to the pandemic, facilitated by past fiscal prudence, that helped mitigate its impact on Grenada's tourism-dependent economy. Directors noted that while the near-term outlook is favorable, it remains subject to significant downside risks, including from the impact of the war in Ukraine on food and commodity prices, and potential worsening of the trajectory of the pandemic. They agreed that the immediate policy priorities are to accelerate vaccination and provide time-bound fiscal support for the most vulnerable. Implementing reforms targeted at building resilience to climate change and increasing economic

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

diversification will also be necessary to promote higher and more inclusive long-term growth.

Directors agreed that triggering the escape clause under the fiscal responsibility framework (FRF) for the third time was appropriate given the still difficult economic situation. However, they encouraged a timely return to fiscal rules and a strengthening of the FRF over time—supported by the Fund's technical assistance—to help underpin fiscal credibility and debt sustainability and better support the country's development needs. Directors stressed the importance of securing concessional financing and mobilizing domestic resources to strengthen resilience-building investments and welcomed the continuing efforts to increase spending efficiency and transparency. They also noted the potential fiscal risks from the recent court ruling on public pensions and underscored the need to ensure the system's sustainability.

Directors agreed that the financial sector has been resilient in the face of the pandemic shock. However, they noted that asset quality should be monitored closely as loan moratoria and regulatory forbearance expire. Directors called for increased provisioning and strengthened supervisory oversight of credit unions. They also underscored the need for further strengthening of the AML/CFT framework also to help maintain correspondent banking relationships.

Directors welcomed the authorities' commitment to implement their Disaster Resilience Strategy to strengthen Grenada's resilience to climate change and transition towards renewable energy. To further increase competitiveness and boost growth, Directors encouraged the authorities to increase the value-added in tourism through deeper linkages across sectors, diversify tourism sources, and improve cost competitiveness. Addressing long-standing labor skills mismatches should also be prioritized.

Grenada: Selected Economic and Financial Indicators

Rank in UNDP Human Development Index out of 189 countries (2020)	74	Infant mortality rate (2019, per 1000)	14.7
		Adult illiteracy rate in percent (2014)	1
Life expectancy at birth in years (2020)	72	Poverty rate in percent of population (2019)	25
GDP per capita in US$ (2020)	9,680		
Population in millions (2018)	0.11	Unemployment rate (2021 Q2)	17

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.			Proj.			
National income and prices									
GDP at constant prices	0.7	-13.8	5.6	3.6	3.6	3.9	3.5	3.2	2.8
GDP deflator	0.6	-0.7	1.2	3.1	3.3	1.8	2.0	2.2	2.2
Consumer prices, end of period	0.1	-0.8	1.9	5.4	2.3	1.8	2.0	2.0	2.0
Money and credit, end of period									
Credit to private sector	1.4	3.1	3.8	3.8	3.9	4.2	3.8	3.4	3.2
Broad money (M2)	2.9	9.1	8.5	3.3	3.4	3.6	3.4	3.3	3.0
Central government balances (accrual)									
Revenue and grants 1/	26.6	28.1	31.8	29.0	29.6	28.8	28.2	28.0	28.0
Expenditure 2/	21.6	26.9	31.5	32.4	27.9	26.6	26.1	25.7	25.6
o.w. Capital expenditure	2.6	3.8	8.6	10.4	6.9	5.7	4.6	4.7	4.7
Primary balance	6.8	3.2	2.1	-1.5	3.5	3.8	4.2	4.3	4.2
Overall balance	5.0	1.2	0.3	-3.4	1.7	2.2	2.0	2.3	2.4
Public debt (incl. guaranteed) 3/	58.5	71.4	70.3	69.0	66.5	64.4	58.9	53.6	48.6
Domestic	14.6	16.2	15.4	15.3	13.8	12.5	11.4	9.6	8.0
External	44.0	55.2	54.9	53.8	52.7	51.8	47.6	44.0	40.6
Savings-Investment balance	-14.6	-21.0	-24.5	-27.9	-20.6	-15.4	-13.6	-12.9	-12.4
Savings	9.8	4.2	3.4	0.3	4.5	8.9	10.1	11.4	12.5
Investment	24.4	25.2	28.0	28.2	25.0	24.4	23.8	24.3	24.9
External Sector									
Gross international reserves (US$, millions)	234.1	290.9	324.2	353.2	357.2	361.2	363.2	371.2	378.7
(in months of imports)	4.8	5.2	4.8	5.1	4.8	4.6	4.5	4.4	4.2
Current account balance, o/w:	-14.6	-21.0	-24.5	-27.9	-20.6	-15.4	-13.6	-12.9	-12.4
Exports of goods and services	54.5	40.4	40.1	47.5	54.4	59.9	61.7	61.3	61.2
Imports of goods and services	59.9	56.3	60.4	67.5	65.6	66.0	65.9	64.7	64.0
External debt (gross)	81.8	92.9	94.8	91.7	87.5	83.9	77.5	72.5	68.0

Sources: Country authorities, ECCB, UN, World Bank, and IMF staff estimates and projections.
1/ Includes Citizenship-by-Investment (CBI) related non-tax revenue.
2/ The expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2014 format.
3/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

INTERNATIONAL MONETARY FUND

GRENADA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

April 14, 2022

KEY ISSUES

Context. Grenada's economy was hit hard by the pandemic, with a decline in real output of 14 percent in 2020 from both a collapse of tourism-related activities and the suspension of in-person classes at Saint George's University (SGU). Growth in 2021 is estimated to have partly recovered to 5.6 percent, driven by construction and agriculture. The authorities' policy response helped mitigate the pandemic's impact through containment measures, increased health and social spending, and an expanded public investment program (including to build resilience to natural disasters). Central government debt rose to 70 percent of GDP in 2021 (from 59 percent in 2019) and the external position has worsened. The financial sector has so far weathered the crisis well.

Outlook and risks. The economy is projected to expand by 3.6 percent in 2022 and continue to be driven by construction and agriculture. The tourism recovery is expected to be tepid. The major risks to the outlook are a further rise in global commodity prices amid the war in Ukraine, which could lead to further increases in inflation, and/or a more prolonged pandemic, with implications for tourism and students' return to SGU. These could weigh on the recovery and require additional government support, which would, in turn, add to the public debt and external imbalances.

Key macroeconomic policy recommendations. The authorities' counter-cyclical fiscal efforts (facilitated by the triggering of the escape clause to the fiscal rule in 2020-22) have been essential to help return the economy as quickly as possible to pre-pandemic levels of activity. The current conjuncture provides an opportunity to carefully reconsider the design of the Fiscal Responsibility Framework and how it can best support the country's development. Given the increased debt burden and rising public spending needs linked to building resilience to climate change, efforts to secure concessional financing and mobilize domestic resources will be critical. To strengthen the prospects for investment, growth and job creation, there is scope to increase domestic value-added in the tourism sector, invest more in skills development and training, and incentivize renewable energy. A plan will likely be needed to adapt to pandemic-related shifts in the tourism sector—notably the potential for a long-lasting reduction in the demand for cruises (that Grenada is reliant on).

Approved By
Nigel Chalk (WHD) and Natalia Tamirisa (SPR)

The mission team comprised Huidan Lin (head), Weicheng Lian, Rui Mano, Camila Perez Marulanda (all WHD), and was accompanied by Kevin Woods (Eastern Caribbean Central Bank), Donna Kaidou-Jeffrey (Caribbean Development Bank), and Ran Li (World Bank). Discussions took place in Saint George's during February 15–25, 2022. The team met with Prime Minister Dr. The Right Honorable Keith C. Mitchell, Minister of Finance, Economic Development, Physical Development and Energy Honorable Gregory Bowen, Minister of Climate Resilience, the Environment, Forestry, Fisheries and Disaster Management Honorable Simon Stiell, Permanent Secretary of Ministry of Finance, Economic Development, Physical Development and Energy Mike Sylvester, other senior government officials, and private sector, labor union, and civil society representatives. Ms. Latoya Smith (OED) attended some meetings and Mr. Philip Jennings (OED) participated in the concluding meeting. Anahit Aghababyan, Nischel Pedapudi, and Huilin Wang (all WHD) assisted in the preparation of the report.

CONTENTS

TABLES

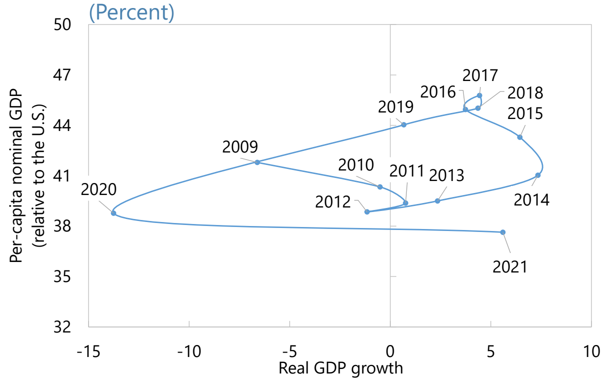
ANNEXES

RECOVERING FROM THE COVID SHOCK

A. Context

1. **Grenada's economy grew strongly prior to the COVID-19 shock, supported by the implementation of important reforms and favorable external conditions.** Real GDP growth averaged 4.5 percent during 2014-19, driven by agriculture, tourism, and construction, and spillovers from the long U.S. expansion. The successful implementation of the Fiscal Responsibility Framework (FRF) helped address fiscal imbalances, boosted confidence, and underpinned an impressive reduction in public debt. An updated tax incentives regime helped attract foreign direct investment (FDI) inflows. Although still high, the poverty rate fell to 25 percent (from 38 percent in 2008) and unemployment declined to 15.4 percent in 2019.

Grenada : Growth and Income Convergence
(Percent)



Sources: IMF World Economic Outlook and IMF staff calculations.

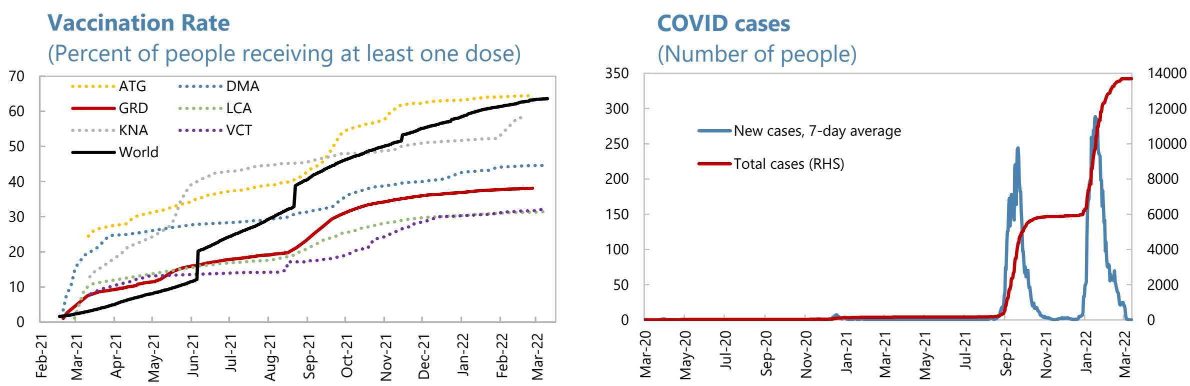
2. **The tourism-dependent economy was hit hard by the pandemic.** Tourism directly and indirectly made up 40 percent of value-added, one-quarter of employment, and 80 percent of exports. Lockdown measures, necessary to contain the spread of the virus, prompted a collapse of tourism-related activities and suspension of in-person classes at Saint George's University (SGU), a key contributor to activity. Real GDP contracted by 14 percent in 2020 and over 14,000 jobs were lost (over one-quarter of the labor force). The recovery of tourist arrivals has been slow, amid elevated uncertainties over the pandemic's lasting impacts, including possible shifts in consumer preferences (notably reduced demand for cruises).

3. **Grenada's vulnerability to climate and natural disaster shocks poses additional challenges.** Annual losses from past weather events are estimated by staff at around 1.7 percent of GDP but the frequency and severity of such events are likely to increase and new challenges—such as the slow-moving effects of rising sea levels—are likely to become more pressing. These will likely exacerbate resource and implementation constraints and highlight gaps in critical infrastructure. Building on the 2019 Climate Change Policy Assessment (CCPA), the authorities have prepared a Disaster Resilience Strategy (DRS) that elaborates a comprehensive plan outlining the needed policies for resilience building, their expected benefits and costs, and a roadmap of actions that are consistent with debt sustainability.

B. A Protracted Recovery

4. The authorities' policy response has played a critical role in containing the outbreak and reducing fatalities. After maintaining one of the lowest case counts in the world, Grenada experienced two outbreaks (in August–October 2021 and January–February 2022) that resulted in nearly 14,000 cases among 112,500 people. While vaccine supply is no longer a key constraint,[1] only one-third of the total population (less than half of the eligible population) are fully vaccinated due to hesitancy. Grenada received US$22.4 million under the Rapid Credit Facility in April 2020 and $42.4 million in concessional financing from the World Bank (WB) and the Caribbean Development Bank (CDB) that supported the government's response to the pandemic.

Grenada: COVID-19 Developments



Sources: Johns Hopkins University, Our World in Data and IMF staff calculations.

5. The economy is recovering gradually from the pandemic.

- *Real GDP* is estimated to have expanded by 5.6 percent in 2021, driven mainly by growth in public-led construction and agriculture, and, to a lesser extent, a recovery in wholesale and retail, hotels and restaurants, manufacturing, and financial intermediation. The recovery in other tourism-related sectors (e.g., transport, storage, and communications) remains anemic.
- *Inflation* reached 1.9 percent at end-2021 (from -0.8 percent at end-2020), reflecting higher food and fuel prices and shipping costs associated with supply chain disruptions. Despite this, core inflation remained 0.6 percent, in part reflecting weak domestic demand (Box 1).
- *Unemployment* fell to 16.6 percent in the second quarter of 2021 (from 28.4 percent in 2020Q2). The participation rate increased to 67 percent (from 60.9 percent), returning to pre-pandemic levels although male participation recovered faster (reflecting the reliance of the hospitality sector on female workers). Youth unemployment remains high at 38.6 percent even with a low participation rate (47 percent).

[1] The 69,030 doses of Pfizer vaccine that Grenada received from the U.S. government in December 2021 are sufficient to fully vaccinate over 30 percent of population.

- *The current account* deficit is estimated to have widened to 24.5 percent GDP in 2021 (from 21 percent in 2020). Weak tourism receipts (with arrivals in 2021 at 25 percent of the 2019 level), higher import prices and import demand outweighed increases in agricultural exports and remittances. Despite stronger-than-expected inflows from the Citizenship-by-Investment (CBI) program, weaker FDI worsened the financial account.

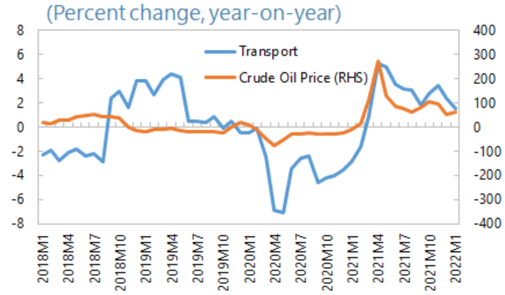
Box 1. Grenada: Inflation Developments

CPI inflation picked up in 2021, ending the year at 1.9 percent (year-on-year, hereafter), driven by food (3 percent), housing, utilities, gas and fuels (2.3 percent), and transport (2.4 percent).

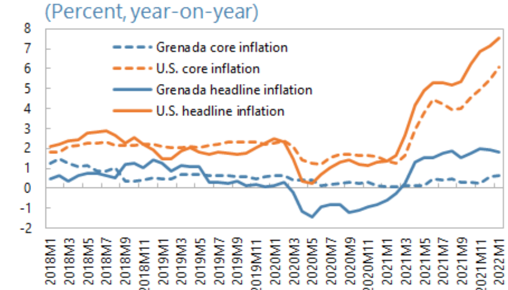
Local prices seem to have decoupled from the United States. The inflation differential increased to 5.2 percentage points in December 2021 (from 2.2 percent in December 2019). This reflects much weaker domestic demand in Grenada and remaining significant slack.

In the near term, price pressures are expected to continue building, despite the authorities' temporary measures. The government announced some temporary measures (for December 2021 – May 2022) in the 2022 Budget to alleviate the effects of price increases. They include a relief of VAT and environmental levy charges on electricity for small consumers, a reduction of 25 percent on the electricity non-fuel charge, a cap of EC$15 per gallon on gasoline and diesel, and an exemption of VAT on five food items. Despite this, the rapid run-up in international commodity prices will continue to increase inflation and second-round effects are also possible insofar as price increases are reflected in higher wages.

Grenada: Transport and Crude Oil Prices
(Percent change, year-on-year)



Inflation in Grenada and the U.S.
(Percent, year-on-year)



Sources: FRED, ECCB and IMF staff calculations.

6. Grenada's external position in 2021 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. The REER is estimated to have depreciated by 4.1 percent in 2021 reflecting a stronger increase in trading partners' inflation. The EBA-Lite-based current account gap of 2.4 percent of GDP underpins the assessment (Annex II). As the pandemic recedes, fiscal consolidation and tourism recovery should improve the current account balance. Over the medium term, supply-side reforms to reduce energy costs, increase labor skills, and build resilience to natural disasters should help strengthen competitiveness and improve the external position. The 2021 SDR allocation (around 2 percent of GDP) has been kept in reserves.

C. Outlook and Risks

7. The economy is projected to recover gradually from the pandemic. The war in Ukraine will affect Grenada primarily through commodity prices, representing an important headwind to its economic outlook. Output is projected to expand by 3.6 percent in 2022, underpinned by construction activity, the gradual pickup in tourist arrivals, and the continued return of SGU students. Inflation is expected to further increase to 5.4 percent by end-2022, in line with rising global commodity prices, and to ease gradually. The current account deficit is projected to worsen further in 2022 given the sharp increases in import prices, before improving in 2023 supported by increases in tourism export receipts and moderation in fuel imports. With a fiscal contraction envisaged for 2023, growth is expected to be driven by pent-up demand boosting consumption and the ongoing recovery of tourism-related activities (with tourism export receipts projected to return to the 2019 level by 2025). Output is expected to return to its pre-pandemic level by 2024 and then gradually converge back to potential by 2027.

8. Risks around the outlook are high. The main risks to the outlook are a further increase in food and oil prices and prolonged supply chain disruptions given the war in Ukraine (which could lead to further increases in inflation including through second-round effects) and/or a more prolonged pandemic (with implications for tourism recovery and return of SGU students). Either force could weigh on the recovery, require additional government spending, and exacerbate fiscal and external imbalances. Other external risks include a sharp rise in global risk premia (reducing liquidity and credit provision domestically) and natural disasters—with the potential for increased severity due to climate change. Domestically, a sharp rise in pension liabilities poses an important downside risk. On the upside, reduced hesitancy and accelerated vaccinations, breakthroughs in COVID treatment, higher deployment of public investment, and faster implementation of reforms to improve competitiveness could support a stronger recovery (Annex III).

Authorities' Views

9. The authorities broadly agreed with staff's growth projection and risk assessment. While public investment is expected to moderate in the medium term, the construction sector will continue to perform well which will, in turn, support the recovery of tourism and related sectors. Given the upside risks to the inflation outlook, the authorities noted that higher import prices and supply chain disruptions, aggravated by the war in Ukraine, might create fiscal pressures.

POLICY DISCUSSIONS

A. Supporting the Recovery and Building Resilience

10. In response to the pandemic, fiscal policy swiftly shifted toward supporting activity and protecting the vulnerable. The escape clause under the FRF was triggered in both 2020 and 2021, allowing the government to launch two stimulus packages (equal to 2.1 and 1.2 percent of

GDP, respectively), increase public investment (including to build resilience), and reprioritize expenditures.[2]

Grenada: Fiscal Support Measures in 2020 and 2021
(In millions of EC dollars, unless otherwise specified)

	The first package (launched around 2020Q2)			The second package (launched in September 2021)[1/]		
Measures	**Details**	**Budgeted**	**Executed**	**Details**	**Budgeted**	**Executed**
1. Health sector expenditure	PPEs, screening and testing equipment and gears, and premises for quarantine.	10	7	Covid-19 response; vaccination.	4	4
2. Wage subsidies and social protection	Wage subsidies (temporary payroll support for hospitality and tourism sectors; income support to the transportation sector and other hospitality-based businesses); temporary unemployment benefit program.	30	14	Formal employment programs; income support for informal sector workers, support to expand young entreprenuer program; unemployment benefits; expansion of SEED.	24	2
3. Credit support	Small hotel lending facility (adjusted) and small business lending facility (expanded), both run by the Grenada Development Bank.	12	7	COVID-19 support Fund Facility for MSMEs; small hoteliers facility; restructured small business development fund.	8	12
4. Other	Price support for farmers, tax deferral, household electricity bills.	8	9	Internet connectivity program.	1	0
Total		60	37		36	18
Total (in percent of 2020 and 2021 GDP, respectively)		2.1%	1.3%		1.2%	0.6%

1/ The second package is jointly funded by the Caribbean Development Bank (US$8.95 mn or EC$23.9 mn) and the Government of Grenada. Executed amount reflects outturn as of end-January 2022. Some components will run through August 2022.

Sources: Grenadian authorities and IMF staff estimates.

11. **Responding to the pandemic has worsened the fiscal position.** The primary surplus declined sharply (from 6.8 to 2.1 percent of GDP during 2019-2021). The revenue-to-GDP ratio declined modestly but primary expenditure rose significantly due to higher social spending and capital expenditure. Grants rose as the government tapped into the National Transformation Fund (NTF) (which holds accumulated CBI inflows). Central government debt rose from 59 to 70 percent of GDP during 2019-2021. Nonetheless, the Debt Sustainability Analysis (DSA) suggests that public debt is sustainable although Grenada is found to be “in debt distress” due to its outstanding arrears to official bilateral creditors.[3] The sustainability of public debt in the DSA is predicated on the authorities’ strong commitment to the FRF, fiscal structural reforms, and further improvement in debt management.

12. **The 2022 Budget appropriately proposes a mix of spending and revenue measures to support activity.** Given the pandemic, triggering the escape clause under the FRF for the third year was appropriate to provide fiscal space to continue responding to the difficult economic situation.

[2] Execution of the first package fell short due to a low participation of informal sector workers, an issue that is better addressed in the second package.

[3] The authorities are making good faith efforts to reach an agreement on outstanding arrears (totaling about US$25 million). See ¶4 in the accompanying DSA.

As a result, the primary balance is expected to swing into deficit in 2022, financed by drawing down government deposits and external borrowing.

- *Temporary measures to mitigate rising living costs (Box 1).* Their estimated costs are 1 percent of GDP. This is likely to offset staff's projection of potential improvement in tax revenues alongside the recovery and buoyant trade-related collections (on pricier imports), resulting in a broadly unchanged tax revenue-to-GDP ratio from 2021.[4] To cushion the impact of price increases once the temporary measures are lifted in end-May 2022, targeted transfers should be increased, including through the SEED[5] and other social assistance programs. Temporary direct support could be considered for businesses (such as bus operators) directly affected by higher energy costs. It will be important to allow higher international food and energy costs to pass through to domestic prices, especially if price increases persist.

- *Other measures.* It will be important to sustain, with better targeting, the higher levels of social spending achieved during the pandemic, as envisaged in the 2022 Budget. Efforts should continue to mitigate potential scarring through spending on healthcare, expanding youth entrepreneurship initiatives, gender empowerment, and providing internet access to poor families. Expedited implementation of the authorities' compliance risk management program, together with the cyclical recovery of tax revenues, will help offset staff's more conservative projection of higher wage bills and goods and services in light of rising inflation.

13. After 2022, fiscal policy should return to complying with the parameters of the FRF, carefully balancing supporting growth with reinforcing fiscal credibility. The Medium-Term Fiscal Framework (MTFF) establishes a downward path for the debt-to-GDP ratio to converge towards the medium-term ceiling (of 55 percent of GDP). This will imply a significant fiscal consolidation in 2023-24 as emergency measures introduced during the pandemic expire. To help return output to its pre-pandemic level by 2024, there is likely scope to increase spending in some priority areas (e.g., social protection, infrastructure maintenance, and acquisition of core skills) while still complying with the FRF. This can be partly supported by stronger efforts in raising revenues (see ¶16) to their pre-pandemic levels (that averaged 21.7 percent of GDP during 2016-19).

[4] The projection of tax revenues in the 2022 Budget is more conservative and based on outturns in the first three quarters of 2021 (outturn in the last quarter surprised positively).

[5] A major social program "Support for Education, Empowerment and Development (SEED)."

Fiscal Projections
(Percent of GDP)

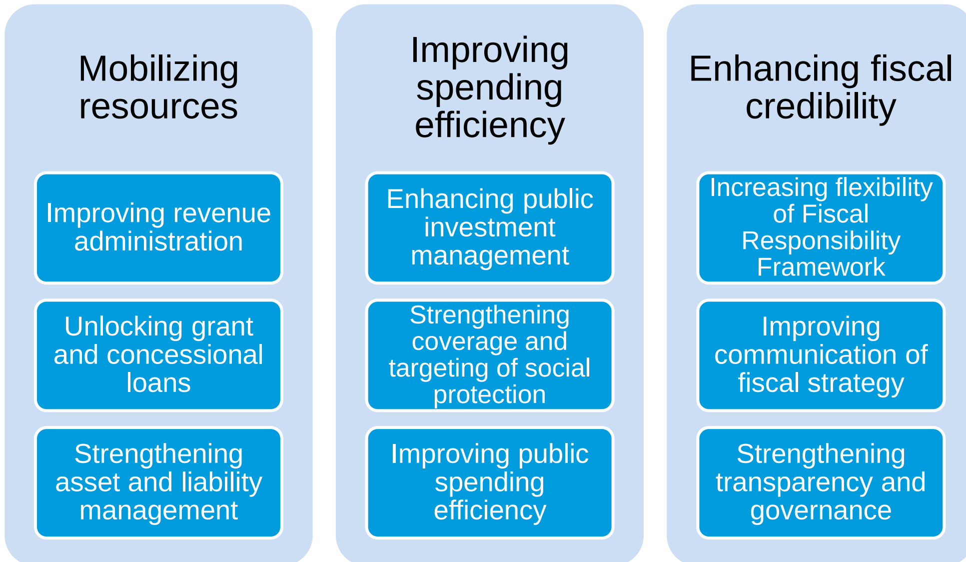
	2019	2020	2021	2022		2023		2024	
			Est.	Budget	IMF staff	MTFF	IMF staff	MTFF	IMF staff
Total revenue and grants	26.6	28.1	31.8	28.2	29.0	29.1	29.6	28.0	28.8
Tax revenues	21.9	22.1	20.8	19.8	20.7	20.7	21.6	20.8	21.8
Non-tax revenues	1.8	2.4	3.4	2.9	2.8	2.9	2.8	2.9	2.8
Grants	2.9	3.7	7.6	5.5	5.5	5.5	5.2	4.3	4.2
Total expenditure and net lending	21.6	26.9	31.5	31.2	32.4	27.4	27.9	25.1	26.6
Wages, salaries and allowances	7.7	9.3	9.7	8.7	9.0	8.5	8.8	8.2	8.6
Goods and services	4.1	4.7	5.1	4.2	5.0	4.0	4.4	3.9	4.8
Transfers and contribution to NIS	5.4	7.1	6.2	5.9	6.1	6.4	6.0	6.1	6.0
Capital expenditure	2.6	3.8	8.6	10.5	10.4	6.7	6.9	5.3	5.7
Interest payments	1.9	2.0	1.8	2.0	2.0	1.8	1.8	1.6	1.6
Primary balance	6.8	3.2	2.1	-1.1	-1.5	3.5	3.5	4.5	3.8
Overall balance	5.0	1.2	0.3	-3.1	-3.4	1.6	1.7	2.9	2.2

Sources: Grenadian authorities and IMF staff projections.

14. **Given the elevated uncertainty—particularly regarding the outlook for inflation and tourism—the MTFF should contain a detailed contingency plan that could be deployed if more adverse outcomes are realized.** The Budget's Fiscal Risk Statement could further elaborate and quantify the potential contingent measures identified in response to a range of shock scenarios. In the event of stronger-than-expected increases in international food and energy prices, the government could raise the cap on diesel and gasoline prices before it is due to expire to mitigate impacts on fiscal accounts, while using part of the recovered revenues to increase direct support to the most affected.

15. **Over the medium term, there is a need to structurally increase capital spending to enhance resilience.** Creating the needed fiscal space while achieving a higher primary balance will require (i) mobilizing domestic and international resources; (ii) improving spending efficiency; and (iii) modifying the fiscal framework to strengthen credibility.

Fiscal Reform Agenda to Support Resilience Building



Sources: IMF staff.

(i) Mobilizing Resources

16. **Further efforts can be made to enhance compliance, reduce tax arrears, boost digitalization, and increase equity of the tax system.** This will require tackling longstanding staffing shortages in tax collection agencies, notably in the areas of risk management and audit. An online system for registration, filing, and payment has been launched to support collection of certain taxes and fees. A better alignment of job assignments with functions and the provision of information through a single window have helped improve the efficiency of customs. The tax authorities are working to agree payment plans with delinquent taxpayers. To enhance compliance, legislation can be implemented to enforce mandatory online filing and payment by large and medium taxpayers and for more taxes. A regular revaluation of property values—especially for new and remodeled properties—would increase collections. Ensuring that residents' foreign-source income is brought into the tax net and providing a dependent child allowance to lower-income workers would increase equity.

17. **There is scope to more systematically identify resilience investments that could be financed through donor grants and concessional financing.** This, combined with improved public investment management, could increase prospects for donor support. By couching the investments within the government's Disaster Resilience Strategy, it may also help meet transparency requirements for donor funding.

(ii) Improving Expenditure Efficiency

18. **The authorities' ongoing efforts to strengthen public investment management will support improved project implementation and mitigate fiscal costs and risks.** The government

has established criteria and systems for estimating maintenance and rehabilitation costs for physical infrastructure investments and strengthened coordination of spending across government agencies. These efforts have supported a significant increase in the implementation rate of public investment projects. The recent Public Investment Management Assessment, incorporating a climate module, was aimed at assisting the authorities in achieving a better planning, allocation, and implementation of infrastructure and maintenance projects.

19. To improve public service provision, work should be accelerated to implement the Public Service Management Reform Strategy passed in 2017. This would include completing the ongoing functional review of ministry responsibilities and the compilation of a comprehensive public sector compensation database. This will help develop an action plan to identify skills gaps in the public sector and formulate steps to address them.

20. There is scope to strengthen the coverage and targeting of social assistance programs. Several cash transfer programs were consolidated into one flagship program (SEED) in 2015, providing conditional transfers to needy families. SEED coverage (currently of around 5,500 households) has been expanded over time, including during the pandemic. The program is expected to be reviewed in light of results of the forthcoming country poverty assessment to ensure proper targeting. A temporary unemployment insurance program was introduced during the pandemic and a permanent scheme is being established. Coverage of social protection could be strengthened by adding more poor families into SEED and expanding other programs (e.g., those to enhance education, skills developments, and youth empowerment). Targeting could be improved through better data systems and stronger collaboration across ministries that would help reduce duplication and omission. Attention should also be paid to addressing gaps in coverage (e.g., the disabled).

(iii) Strengthening the Institutional Framework for Fiscal Policy

21. The current conjuncture provides a useful nexus to examine how best to amend the fiscal responsibility framework and address identified shortcomings (Box 2 and Annex IV). The amended framework should ultimately aim to be centered on the medium-term debt ceiling (55 percent of GDP or lower given natural disaster shocks), reduce overlaps in the numerical rules, and provide clear procedures to return to the targeted debt path following shocks. It should also provide stronger incentives for revenue mobilization to create greater space for social and capital spending. To prepare for the amendment, a realistic and credible macroeconomic and fiscal framework needs to be developed to provide a guide for policy in the post-pandemic environment and ensure annual budgets are aligned with medium-term goals, and efforts should continue to strengthen public financial management. Recommendations from the 2019 IMF technical assistance on the FRF provides a basis for amendments but would need to be reviewed in the post-pandemic context, supported by IMF TA. In the meantime, the role of the Fiscal Responsibility Oversight Committee can be strengthened in assessing medium-term forecasts and outlining shock scenarios and contingent measures, to ensure compliance with the FRF.

Box 2. Grenada: Fiscal Rules

Grenada's fiscal rules are the cornerstone of its fiscal policy framework and have contributed to the government's prudent fiscal management. Enshrined in the Fiscal Responsibility Act 2015, the fiscal rules—underpinned by strong political buy-in—guided fiscal adjustment and reforms under and after the 2014 ECF-supported program. The design of the fiscal rules effectively reduces deficit bias while allowing some space for counter-cyclical fiscal policy. During the pandemic, the accumulated fiscal space under the rules allowed for a fiscal response to support livelihoods and the recovery.

The fiscal rules consist of a medium-term debt ceiling and three operational rules. They can be suspended in the face of a severe adverse shock (including a pandemic, an epidemic, a natural disaster, or a financial crisis).

Grenada: Operational Rules under the Fiscal Responsibility Framework

Public debt (ceiling)	Above 55 perent of GDP	Below or at 55 percent of GDP
1. Primary balance	At least 3.5 percent of GDP	At a debt-stabilizing level
2. Real primary expenditure[1/]	At most 2 percent for year-on-year growth	Recalibrated
3. Wage bill	At most 9 percent of GDP	

1/ Excludes capital spending financed by grants or the National Transformation Fund. 2 percent is based on the long-run potential growth rate of output estimated in 2014.

The fiscal framework has several shortcomings. First, the use of a backward-looking deflator and growth rate to constrain primary expenditure can perpetuate the impact of transitory shocks (e.g., the under-execution of public investment projects in previous years). Second, the focus on the expenditure side may lead to less incentive for revenue mobilization since increasing high-value spending may be precluded even if revenues were to increase. Third, ambiguity on procedures (e.g., whether or not the escape clause can be triggered over multiple years) could be clarified and the definition of public debt in the law could be aligned with that used in practice.

22. To further enhance fiscal governance and transparency, the publication of audited financial statements of the public sector should be expedited. The government has begun to publish data on its fiscal and debt operations which is an important step forward. Adoption of GFSM 2014, with a consistent classification of expenditure items, would be beneficial. Expenditures, including those extraordinary items undertaken in response to COVID,[6] should be audited and the results should be published on the Ministry of Finance website.

23. Oversight of SOEs should be further strengthened. Since 2019, annual risk assessments of SOEs have been presented in the Fiscal Risk Statement. Progress is also being made in reviewing SOE tariffs to better support cost recovery and investment needs, especially in the water sector. To improve transparency and oversight, the authorities should resume the publication of SOE financial performance.

24. Rising pension payments due to population aging will place an increasing burden on the fiscal accounts in the medium and long term. This calls for a comprehensive reform, likely one that increases contributions and raises the retirement age. A recent court ruling in favor of

[6] In the Letter of Intent requesting disbursement under the RCF, the authorities committed to earmarking resources received form the development partners for specific COVID-19-related expenses and providing to the public accurate and timely information with regard to that use. While an internal audit has been prepared, the publication of the expenditure and its audit report has not been completed.

public servants' claims can potentially give rise to additional pension liabilities for the government. A contingency plan should be developed to handle various possible outcomes.[7]

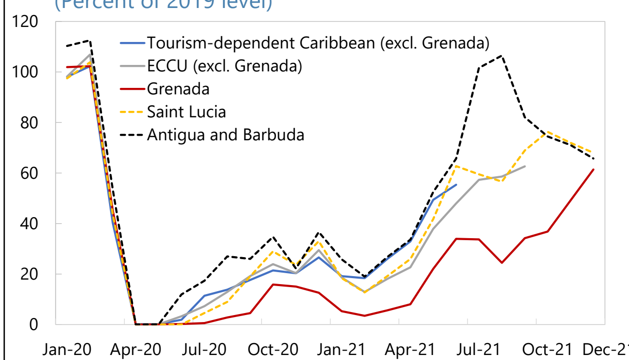
Authorities' Views

25. The authorities broadly agreed on staff's proposed fiscal policy agenda to support sustainable development and resilience building. On the fiscal relief measures to mitigate rising living costs, they recognized the need to keep them temporary and that transfers are in principle a better tool to target the most affected. They acknowledged that information gaps need to be closed to improve the targeting of responses. The authorities, while underscoring their commitment to fiscal responsibility and reiterating their plan to return to the fiscal rules in 2023, acknowledged that the FRF needs to be reassessed to better support the country's sustainable development. They welcomed the discussion on the strategy and options to amend the FRF and expressed strong interest in receiving capacity development support from the Fund in this regard. There was broad agreement on the need to make further progress on structural fiscal reforms.

B. Achieving Sustainable Growth and Unleashing Job Opportunities

26. The tourism recovery has been slower than in regional peers. This partly reflects the impact of stricter quarantine requirements in response to the pandemic but also structural factors including Grenada's reliance on cruise ships (with less hotel capacity) and having fewer flights to main source markets (Annex V).

Stayover arrivals
(Percent of 2019 level)



Sources: Caribbean Tourism Organization and IMF staff calculations.

27. There is scope to increase the domestic value-added of the tourism sector. Linkages between tourism and agriculture and agri-processing can be strengthened by coordinating among producers to gear the product selection towards the demand in the tourism sector and to increase the reliability of local supply and distribution. The Marketing and National Import Board (MNIB) can play an important role in coordinating improvements in this area. There is scope to increase the number of flights, leverage the medical facilities and knowledge of SGU to improve health services for visitors, increase job opportunities in fishing and eco-tourism ventures, and promote environmentally-sensitive use of Grenada's ocean resources. All these will help attract stay-over tourists whose daily spending is much higher than cruise ship passengers.

[7] On March 29, Grenada's High Court ruled unconstitutional the 1983 amendment to the Pension Act that establishes that any person entering the public service on or after February 22, 1985 shall not be entitled to any public pension, gratuity or other allowances (in an effort to unify the pension and benefits system for public servants with the National Insurance Scheme that was established at the same time).

Declines in electricity costs from a switch to renewables would help support price competitiveness of the tourism sector.

28. Continued efforts are needed to implement the authorities' Disaster Resilience Strategy.

- *Structural resilience*. Progress has been made in the areas of marine and coastal protection, disaster resilience in the education sector, and stocktaking of public assets. Efforts are ongoing to secure donor financing, incorporate sustainability requirement into procurement, and identify projects with an important resilience pay-off. The ongoing update to the national adaptation plan and its implementation will further improve resilience. The updated building code should be legislated to ensure a meaningful impact on building quality.

- *Financial resilience*. Grenada has established a risk-layering framework with self-insurance through a contingency fund under the National Transformation Fund, a Catastrophe Risk Insurance Facility (CCRIF) policy, the WB Catastrophe Deferred Drawdown (CAT-DDO), hurricane clauses in debt contracts, and private sector insurance mechanisms. Facilitating risk pooling among private insurers (e.g., through a public guarantee for any excess liability from natural disasters) can help improve the insurance coverage for public assets (notably hospitals and schools) and private properties (only 20-40 percent of homeowners are estimated to have windstorm insurance). Insurance products should be further developed for agriculture.

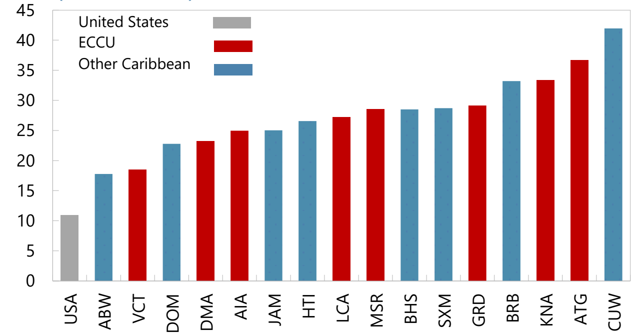
- *Post-disaster and social resilience*. The integration between the National Disaster Management (NaDMA) and regional organizations could be strengthened to increase the agency's technical and operational capacity.[8] The legislative framework for the Disaster Risk Management Act needs to be finalized to institutionalize the policy responses to climate risks. Moreover, a new database—in line with a standardized damage and loss assessment methodology across ministries—should be established with adequate resources to the disaster management coordinating body. A climate risk map for hydro-meteorological and geological hazards should be developed to guide new development, impact forecasting, and disaster response, which will also help address long-standing information asymmetries in the private insurance market.

29. Grenada can reduce its carbon footprint, improve its longer-term balance of payments position, and strengthen competitiveness by shifting to renewables and investing in energy conservation. High electricity costs from the reliance on diesel generation hamper competitiveness and make the country vulnerable to swings in international fuel prices. Electricity generation assets have depreciated (as illustrated by recent outages), offering an opportunity to switch to renewable sources. Doing so should lower costs and reduce emissions. An enabling environment to support this shift could be provided through regulatory adjustments (including updates to the national energy policy and interconnection policy), enactment of an energy efficiency act, and promulgation

[8] Regional technical organizations supporting these efforts include the Caribbean Institute of Meteorology and Hydrology (CIMH), the Caribbean Disaster Emergency Management Agency (CDEMA), as well as the Seismic Research Center (SRC) at the University of the West Indies.

of procurement regulations that favor renewables. In addition, changes to construction standards (e.g., to incentivize small-scale solar on new buildings), tax incentives for renewables, and higher excises on energy-using products could be useful tools to further explore.

Domestic Electricity Tariffs: 2021
(In US¢/kWh)



Source: Cable Co UK.

30. Efforts to reorient the use of CBI inflows and improve competitiveness can help strengthen the prospects for growth and job creation.

- *CBI inflows* are currently being mainly used for real estate projects (in addition to contributing to the National Transformation Fund). These could be redirected toward resilience building investments and developing sectors outside of real estate (e.g., agri-business, ICT and renewable energy).

- *Property rights.* Work is under way to improve the land registry, aimed at electronically recording title and deed, geographic information, coverage of property registry, and plat maps.

- *Trade facilitation.* Efforts are ongoing to achieve international standards food safety and improve logistics. With the MNIB being the sole authorized importer of bulk purchases of several staples, there is room for gradually opening it to competition from other private sector importers.

- *Labor market.* To address the long-standing skills mismatch, the authorities should continue to provide training programs and improve their effectiveness by strengthening the integration between academic institutions and firms, facilitating the transition to employment, and focusing on both technical and entrepreneurial skills.

- *Regulatory management practices.* There appears room for improving the transparency of rule-making, increasing public consultation, and conducting impact assessments of proposed regulations alongside an ex-post review of regulations to assess whether they achieved their policy objective.[9]

Authorities' Views

31. The authorities concurred on the need to increase the value added of the tourism sector and reaffirmed their commitment to implement the Disaster Resilience Strategy. They acknowledged headwinds to the sector, but expressed cautious optimism given expected increase in room capacity from CBI-financed hotels that is likely to attract additional flights. They indicated that ongoing initiatives in the tourism sector will help increase the value-added and create job

[9] According to the World Bank's Global Indicators of Regulatory Governance.

opportunities, especially for the youth. The authorities agreed on the importance of an accelerated shift to renewable energy generation and highlighted the imperative of attracting private investment. While remaining determined to press ahead with their climate resilience plans, the authorities stressed the need for securing concessional financing and grants given the limited fiscal space and for stepped-up global action for an improved international mechanism to better address damage and loss.

C. Safeguarding Financial Stability

32. The financial sector has weathered the pandemic well. Given the size of economic contraction, credit growth was lukewarm in 2020-21 despite ample liquidity in the system, particularly for those entities exposed to the hard-hit education and tourism sectors. Nonperforming loans (NPLs) in credit unions rose to 7.2 percent in end-2021 (from 5.2 percent in end-2019) but bank NPLs remain low at 2.9 percent. With the prolonged strains in the broader economy, NPLs look set to rise (especially as moratoria and regulatory forbearance are removed). Bank loan loss provisioning meets the ECCB's recently-revised guidance (of 60 percent of NPLs) but credit union provisioning should be bolstered. Banks and all but one credit union have capital adequacy ratios that exceed the regulatory minimum. Banking system profitability (return on assets) has declined, reflecting the challenging economic situation. The digital EC dollar (or DCash) pilot was launched in March 2021, but uptake has been slow.

Grenada: Financial Soundness Indicators

(In percent)

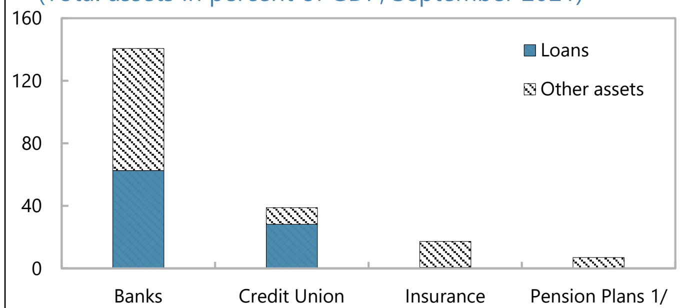
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Credit Growth (year-on-year change)										
Banks	0.2	-5.7	-5.1	-3.8	-0.2	0.6	2.8	1.4	1.4	3.8
Credit Unions	7.6	11.3	9.8	16.5	13.8	19.8	11.6	12.1	8.5	7.9
Balance Sheet Structural Risk										
Deposit-to-loan ratio, Banks	118.4	130.6	145.8	163.5	170.0	167.8	170.5	177.0	181.6	182.1
Deposit-to-loan ratio, Credit Unions	103.5	104.1	114.9	115.9	116.0	112.5	112.2	114.6	114.0	114.9
FX liabilities (share of total liabilities), Banks	8.8	7.0	7.2	8.8	8.7	11.1	12.4	14.2	13.7	15.6
FX loans (of total loans), Banks	6.0	4.2	4.4	5.3	4.8	4.9	8.8	10.9	11.5	11.3
Profitability, Return on Assets										
Banks	0.5	-1.9	-0.1	1.5	1.5	1.1	1.0	1.4	0.4	0.3
Credit Unions	0.8	0.8	0.7	0.8	0.7	0.8	0.8	0.7	0.7	0.2
Asset quality, Non-performing Loan Ratio										
Banks	11.8	13.8	14.6	10.0	6.7	3.9	2.4	2.2	2.2	2.9
Credit Unions	7.6	7.8	5.3	4.6	5.5	5.8	5.2	5.2	5.2	7.2
Liquidity Ratio										
Banks	22.8	27.6	32.7	37.8	41.4	42.1	44.9	43.5	46.8	44.9
Credit Unions	9.4	10.3	14.2	16.6	14.2	13.2	16.5	19.3	18.1	17.5
Capital Adequacy Ratio										
Banks	14.5	14.1	13.7	12.6	14.2	13.8	13.2	11.9	15.1	15.8
Credit Unions	11.2	11.4	10.8	11.0	11.3	11.5	11.6	11.6	12.3	12.9

Sources: ECCB and IMF staff calculations.

33. The ECCB's temporary measures helped mitigate the pandemic's impact on banks. Loan moratoria—which were initially applied system-wide, extended selectively in March 2021 and September 2021, and expired in March 2022—have overwhelmingly benefited the sectors most hit by the pandemic. The expiration of loan moratoria underlines the need for an increased use of workouts and purchases by the Eastern Caribbean Asset Management Corporation. New capital may be required in some banks.

34. The oversight of credit unions warrants particular attention. Although much smaller than the banking sector, credit unions have grown rapidly in the last decade, are highly concentrated (the top three account for 89 percent of sector assets), and make up a substantial fraction of domestic credit. The Grenada Authority for the Regulation of Financial Institutions (GARFIN) appropriately enhanced the frequency and intensity of oversight of credit unions during the pandemic, and should remain steadfast in these efforts.

Grenada: Financial Sector
(Total assets in percent of GDP, September 2021)



1/ Data as of end-2019.
Sources: Country authorities, ECCB and IMF staff calculations.

- *Oversight*. Regulations on asset classification and provisioning for credit unions, aligned with that of banks, should be issued. Stress tests should be conducted regularly (including assessing risks of overheating in property markets) and could be disclosed to the industry to raise awareness. Examination procedures of loan policies should continue to ensure robust underwriting standards and evaluation of credit risk. Governance should be strengthened, including "fit and proper" principles for Board members.

- *Capital*. The planned phased increase of the institutional capital ratio for credit unions (from 7 to 10 percent) is appropriate. It will also be important to use a tighter definition of capital in line with standards provided by the World Council of Credit Unions.

- *Data*. GARFIN is procuring a better system to collect, treat and present data. Collection should be more granular on loans' sectoral composition and recovery processes. Published statistics should be more detailed including prudential ratios and credit portfolios' composition by type of borrower and credit. That improved data should then feed back into supervision and oversight functions to better risk-base the allocation of scarce supervisory resources.

35. Contingency planning and crisis preparedness and management can be further bolstered. Grenada still lacks an adequate and effective framework for crisis prevention or a financial safety net.[10] Given the vulnerability to natural disasters, there is a need to strengthen the

[10] See 2021 ECCU Regional Consultation Staff Report.

monitoring of climate risks particularly for the insurance sector. Creating a Crisis Management Committee would help coordinate and share information across the ECCB, GARFIN and MOF.

36. The uncertain environment continues to create risks for the stability of correspondent banking relationships. The U.S. National Defense Authorization Act is likely to further raise compliance costs of correspondent banking. To strengthen financial integrity, Grenada has designated the ECCB as the competent AML/CFT authority for banks. Cooperation between GARFIN, Grenada's Financial Intelligence Unit, and the ECCB can be further enhanced. Due diligence of the CBI program should remain attentive to risks to the integrity of the program, including through continued strengthening of its oversight and transparency.[11] The authorities should also facilitate the timely availability of beneficial ownership information of companies registered in Grenada.

37. Safeguards assessments. An update safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of DCash introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Authorities' Views

38. The authorities broadly agreed that the financial sector is stable and sound, though credit unions require greater attention. While they remain vigilant, particularly regarding asset quality, the authorities noted that the improving economic backdrop should provide sufficient cushion to avoid a sharp rise in delinquency. Given the adequate provisioning and capital for banks and largest credit unions, the expiration of loan moratoria was expected to be accommodated smoothly. Insurers are solvent and comply with regulatory requirements. GARFIN elaborated that the slight delay in the passage of the standardized regulations for credit unions was due to another round of consultations to increase uniformity across jurisdictions. Although the latest version maintains the authorities' preferred definition of institutional capital, the proposed regulations are consistent with staff recommendations. Developing capacity on assessing climate risks for the financial sector is a priority and work on improving crisis preparedness is ongoing.

DATA ISSUES

39. Data quality and timeliness should be enhanced to help inform government and private sector planning. Data provision is broadly adequate for surveillance but has important weaknesses. CARTAC has provided technical assistance on national accounts, consumer price index, and external sector statistics. There is room for further improvement, though, in the collection of high frequency indicators, publication of consolidated financial statements of SOEs, and preparation

[11] The European Parliament recommended in March 2022 restricting visa-free European Union access to third countries with CBI schemes to support abolishment of such schemes on security grounds.

of balance of payments data. The compilation of statistics has been negatively affected by mobility restrictions during the pandemic and turnover in the statistics office. Rebuilding staffing levels and investing in training should be a priority going forward.

STAFF APPRAISAL

40. The authorities' fiscal and public health responses to the pandemic have helped mitigate the impact on Grenada's tourism-dependent economy and its people. The government rightly suspended its fiscal rules in 2020-2022 and increased health, social, and capital expenditure. The external position in 2021 was weaker than the level implied by fundamentals and desirable policies. Public debt is assessed sustainable although Grenada is found to be "in debt distress" due to its outstanding arrears to official bilateral creditors.

41. The economy is recovering gradually but faces significant downside risks. Real GDP is projected to expand by 3.6 percent in 2022. Higher food and oil prices and supply chain disruptions—especially from the war in Ukraine—could lead to further increases in inflation, while a more prolonged pandemic could harm the recovery of tourism and offshore education.

42. The immediate policy priorities are to accelerate vaccination and provide time-bound fiscal support. It will be important to allow higher international food and energy costs to pass through to domestic prices alongside targeted support to protect the vulnerable. Temporary direct support could also be considered for micro-, small-, and medium-sized firms that are most affected by rising energy costs.

43. Barring unforeseen events, the fiscal rules should come back into force starting 2023 to ensure fiscal credibility and sustainability. To sustain the recent increase in public investment in resilient infrastructure, it will be important to secure concessional financing and mobilize domestic resources. The government should implement a comprehensive pension reform to improve the financial position of the pension system. The efficiency of public spending can be strengthened, through better public investment management, an accelerated implementation of the 2017 Public Service Management Reform Strategy, and better targeting of social assistance programs.

44. The current conjuncture provides an opportunity to carefully reconsider the design of the fiscal framework. The framework should be centered on the medium-term debt ceiling, with fewer overlaps in numerical rules, and with clear procedures to return to the targeted debt path following an unanticipated shock. It should also provide stronger incentives for revenue mobilization to create greater space for social and capital spending. Transparency would be enhanced by timely publishing public sector and SOE audited financial statements.

45. The government should aim to facilitate a shift in the tourism model toward higher value-added. This can be achieved by working with local producers to align output with the demands of hotels and restaurants. A diversification of the sources of tourism can be achieved by increasing the number of flights, leveraging the presence of Saint George's University to offer health services to visitors, and advancing investments in fishing and eco-tourism ventures.

46. Implementing Grenada's Disaster Resilience Strategy should continue to receive a high priority. The establishment of a public asset registry will help prioritize critical maintenance spending. Working with the private sector to broaden insurance coverage—particularly catastrophic risk insurance—will help in responding to natural disasters. The legislative framework for the Disaster Risk Management Act should be finalized and a "risk map" for hydro-meteorological and geological hazards should be developed to help guide scenario planning and disaster response.

47. To increase its competitiveness, Grenada should accelerate the shift to renewable energy. This can be supported by regulatory adjustments, changes to construction standards, and incentives to invest in renewables. To address the long-standing skills mismatch, the authorities should continue to provide training programs and improve their effectiveness.

48. The financial sector has weathered the pandemic well. Banks have increased their loss provisioning to meet the ECCB revised guidelines. Nonetheless, asset quality could deteriorate following the expiration of loan moratoria and regulatory forbearance. Provisioning in the credit union sector ought to be increased and supervisory oversight should be strengthened.

49. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Grenada: Recent Economic Developments

Following a significant decline in 2020, real GDP grew 5.6 percent in 2021…

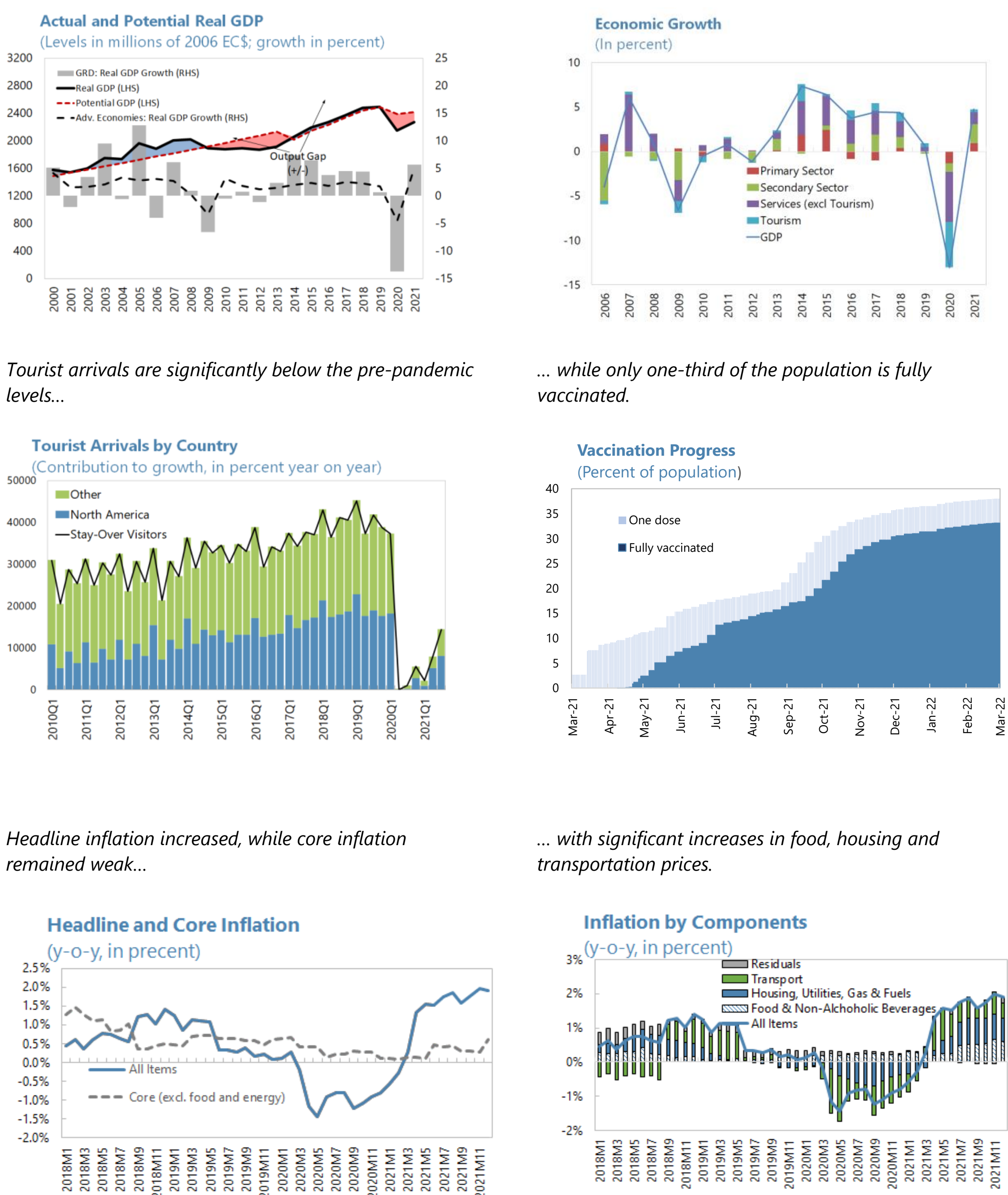
…driven by strong recovery of agriculture and construction.

Tourist arrivals are significantly below the pre-pandemic levels…

… while only one-third of the population is fully vaccinated.

Headline inflation increased, while core inflation remained weak…

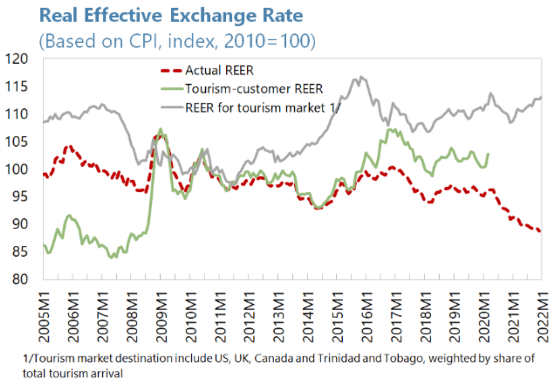
… with significant increases in food, housing and transportation prices.



Sources: ECCB, country authorities and IMF staff calculations.

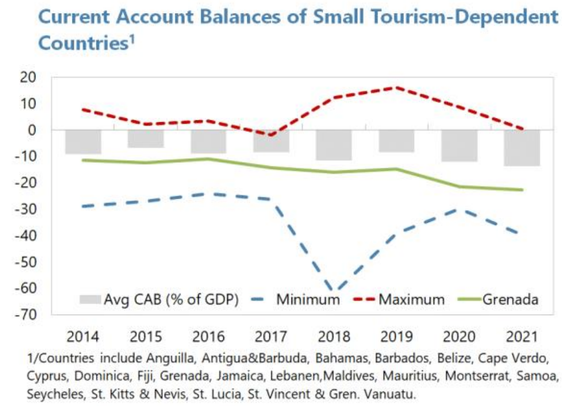
Figure 2. Grenada: External Developments

The real exchange rate continued depreciating…



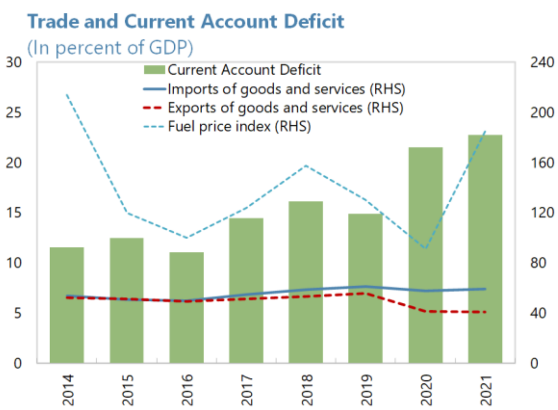
1/Tourism market destination include US, UK, Canada and Trinidad and Tobago, weighted by share of total tourism arrival

…but the current account deficit widened like in other tourism-dependent economies.

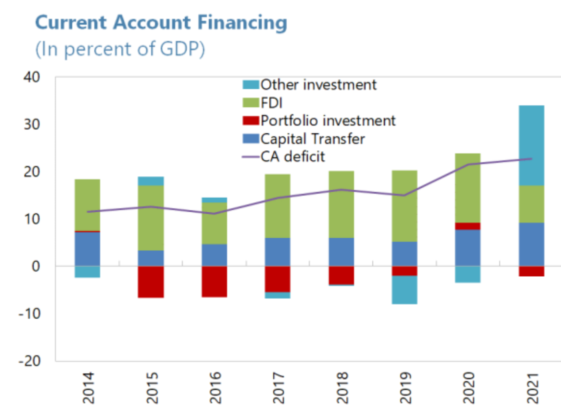


1/Countries include Anguilla, Antigua&Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanen,Maldives, Mauritius, Montserrat, Samoa, Seycheles, St. Kitts & Nevis, St. Lucia, St. Vincent & Gren. Vanuatu.

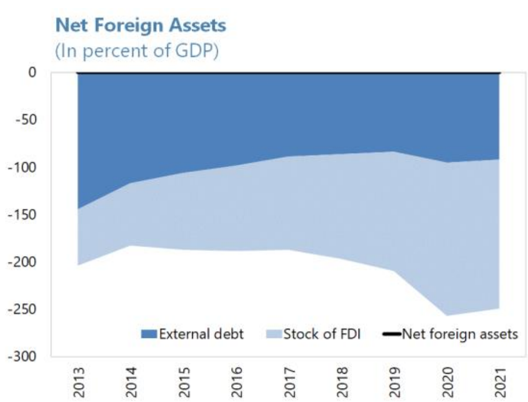
Buoyant goods exports offset weak tourism, while imports increased, on the back of higher commodity prices.



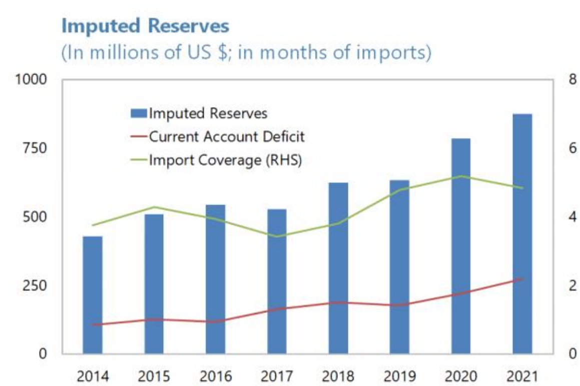
The current account was financed by FDI and other investment.



Net foreign assets deteriorated slightly…



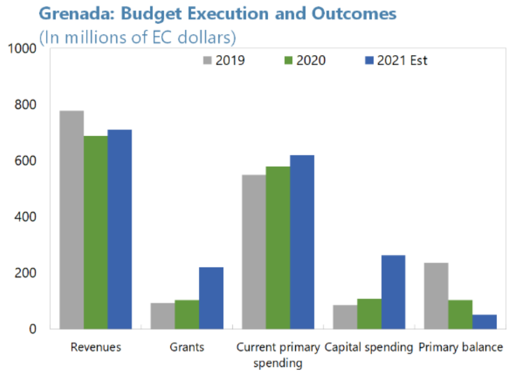
…while reserve coverage improved.



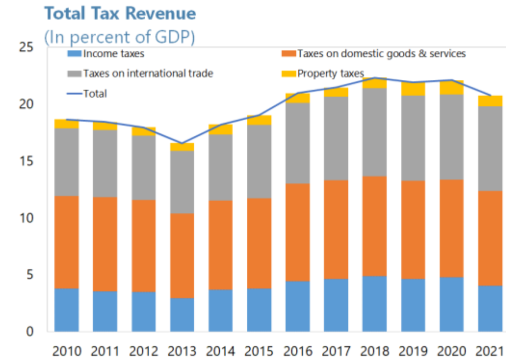
Sources: ECCB, country authorities and IMF staff calculations.

Figure 3. Grenada: Fiscal Developments

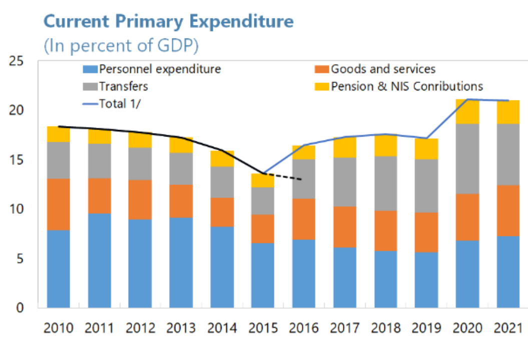
Counter-cyclical fiscal support was financed by an increase in grants.



The tax base shrank, reversing the pre-pandemic upward trend.

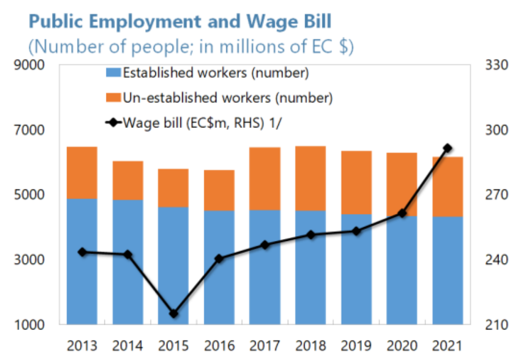


The suspension of the fiscal rules facilitated an increase in current spending.



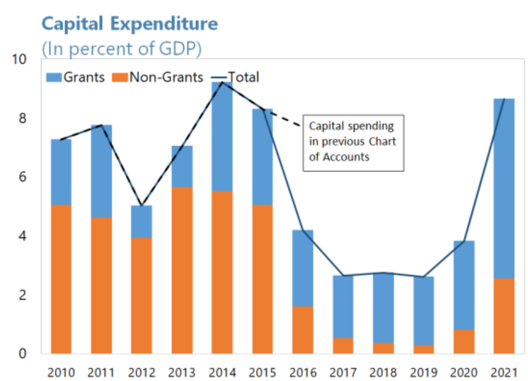
1/ In 2016 spending estimated at 3.5 percent of GDP was reclassified from capital expenditure to current expenditure in the new chart of accounts (GFSM 2014). Dotted line shows old chart of accounts classification.

Rising wage costs, however, present a risk for restoring the fiscal rules.

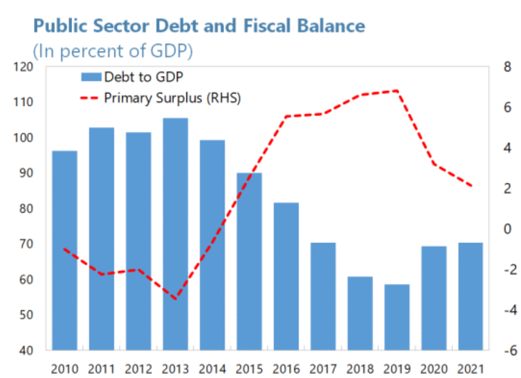


1/ 2016 and 2017 includes retroactive payment of wage increments.

Public investment surged in 2020 and 2021, to support the recovery and build resilience.



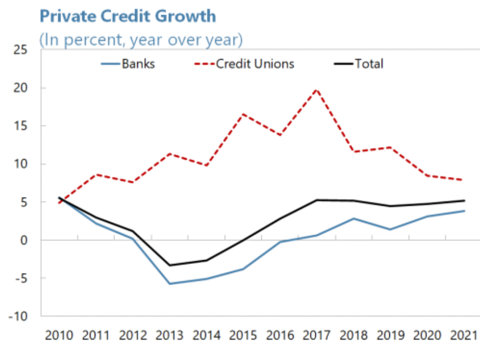
Public finance deteriorated, with rising debt and falling primary balance.



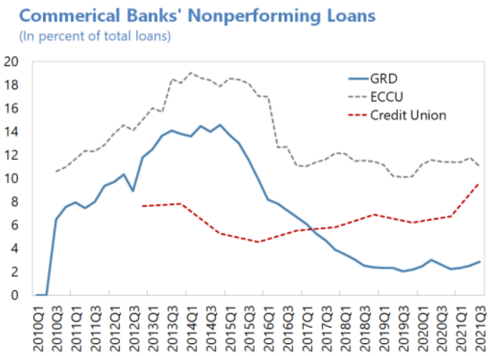
Sources: ECCB, country authorities and IMF staff calculations.

Figure 4. Grenada: Financial Sector Developments

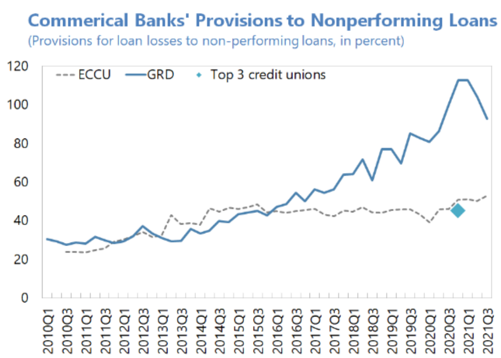
During the pandemic, credit growth has slowed, particularly among credit unions, …



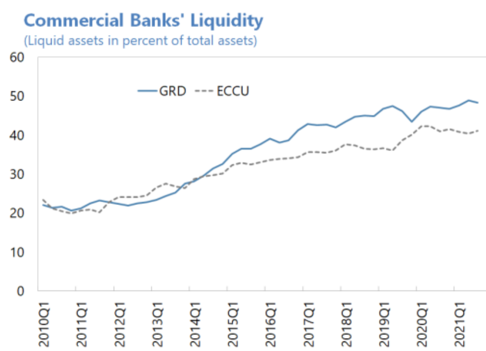
… nonperforming loans rose modestly, …



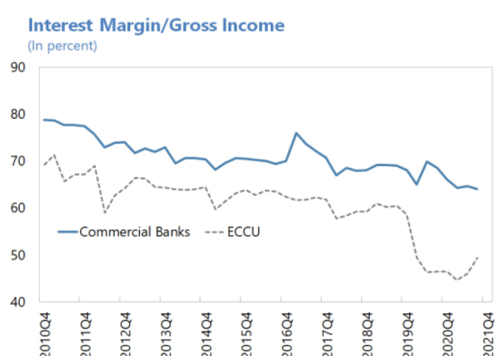
…as did banks' provisioning ahead of the rollout of ECCB tighter requirements in 2022.



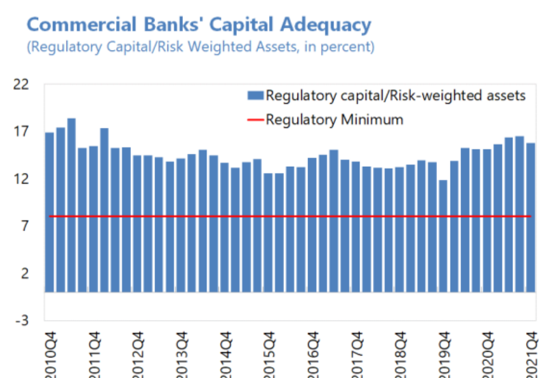
Liquidity remained ample…



…and interest margins held stable.



Solvency risks are contained in the banking sector.



Sources: ECCB, country authorities and IMF Staff calculations.

Table 1. Grenada: Selected Economic and Financial Indicators, 2017–27

Rank in UNDP Human Development Index	74	Infant mortality rate per '000 births (2019)	14.7
out of 189 countries (2020)		Adult illiteracy rate in percent (2014)	1
Life expectancy at birth in years (2020)	72	Poverty rate in percent of population (2019)	25
GDP per capita in US$ (2020)	9,680	Unemployment rate (2021 Q2)	16.6
Population in millions (2018)	0.11		

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.			Proj.			
				(Annual percentage change, unless otherwise specified)							
Output and prices											
Real GDP	4.4	4.4	0.7	-13.8	5.6	3.6	3.6	3.9	3.5	3.2	2.8
Nominal GDP	6.0	3.6	4.0	-14.0	6.9	6.8	7.0	5.8	5.6	5.4	5.1
Consumer prices, end of period	0.5	1.4	0.1	-0.8	1.9	5.4	2.3	1.8	2.0	2.0	2.0
Consumer prices, period average	0.9	0.8	0.6	-0.7	1.2	4.4	3.5	1.8	2.0	2.0	2.0
Output gap (percent of potential GDP)	1.5	1.5	0.1	-10.1	-6.1	-4.9	-3.7	-2.2	-1.2	-0.5	-0.1
Real effective exchange rate	-1.4	-2.4	0.7	-2.0	…	…	…	…	…	…	…
Central government balances (accrual)				(In percent of GDP, unless otherwise specified)							
Revenue and Grants	25.6	27.0	26.6	28.1	31.8	29.0	29.6	28.8	28.2	28.0	28.0
Taxes	21.4	22.3	21.9	22.1	20.8	20.7	21.6	21.8	21.9	21.7	21.7
Non-tax revenue 1/	1.6	1.6	1.8	2.4	3.4	2.8	2.8	2.8	2.8	2.8	2.8
Grants	2.6	3.0	2.9	3.7	7.6	5.5	5.2	4.2	3.5	3.5	3.5
Expenditure 2/	22.6	22.4	21.6	26.9	31.5	32.4	27.9	26.6	26.1	25.7	25.6
Current primary expenditure	17.3	17.6	17.2	21.1	21.0	20.1	19.2	19.3	19.4	19.1	19.1
Interest payments	2.7	2.0	1.9	2.0	1.8	2.0	1.8	1.6	2.1	2.0	1.8
Capital expenditure	2.7	2.8	2.6	3.8	8.6	10.4	6.9	5.7	4.6	4.7	4.7
Primary balance 1/	5.7	6.6	6.8	3.2	2.1	-1.5	3.5	3.8	4.2	4.3	4.2
Overall balance	3.0	4.6	5.0	1.2	0.3	-3.4	1.7	2.2	2.0	2.3	2.4
Public debt (incl. guaranteed) 3/	70.4	64.0	58.5	71.4	70.3	69.0	66.5	64.4	58.9	53.6	48.6
Domestic	22.6	15.7	14.6	16.2	15.4	15.3	13.8	12.5	11.4	9.6	8.0
External	47.8	48.3	44.0	55.2	54.9	53.8	52.7	51.8	47.6	44.0	40.6
Money and credit, end of period (annual percent change)											
Broad money (M2)	4.0	5.9	2.9	9.1	8.5	3.3	3.4	3.6	3.4	3.3	3.0
Credit to private sector	0.6	2.8	1.4	3.1	3.8	3.8	3.9	4.2	3.8	3.4	3.2
Balance of payments											
Current account balance, o/w:	-14.4	-16.1	-14.6	-21.0	-24.5	-27.9	-20.6	-15.4	-13.6	-12.9	-12.4
Exports of goods and services	51.4	53.3	54.5	40.4	40.1	47.5	54.4	59.9	61.7	61.3	61.2
Imports of goods and services	54.7	58.7	59.9	56.3	60.4	67.5	65.6	66.0	65.9	64.7	64.0
Capital account balance	5.9	5.9	5.1	7.5	10.6	9.6	9.2	7.7	5.7	5.7	5.7
Financial account balance	-7.5	-7.1	-6.6	-6.8	-14.0	-18.3	-11.4	-7.7	-7.9	-7.2	-6.7
Errors and omissions	1.0	3.1	2.9	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross)	88.9	86.0	81.8	92.9	94.8	91.7	87.5	83.9	77.5	72.5	68.0
Savings-Investment balance	-14.4	-16.1	-14.6	-21.0	-24.5	-27.9	-20.6	-15.4	-13.6	-12.9	-12.4
Savings	6.5	8.0	9.8	4.2	3.4	0.3	4.5	8.9	10.1	11.4	12.5
Investment	20.9	24.1	24.4	25.2	28.0	28.2	25.0	24.4	23.8	24.3	24.9
Memorandum items:											
Nominal GDP (millions of EC$)	3,039	3,150	3,276	2,817	3,011	3,217	3,443	3,644	3,847	4,056	4,264
Net imputed international reserves											
Months of imports of goods and services	3.4	3.8	4.8	5.2	4.8	5.1	4.8	4.6	4.5	4.4	4.2

Sources: Country authorities; Eastern Caribbean Central Bank; United Nations, Human Development Report; World Bank WDI; and IMF staff estimates and projections.
1/ Includes Citizenship-by-Investment (CBI) related non-tax revenue.
2/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2014 format.
3/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

Table 2. Grenada: Balance of Payments Summary, 2017–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.			Proj.			
					(In millions of US dollars)						
Current account	**-162.5**	**-188.0**	**-177.0**	**-219.6**	**-273.8**	**-332.5**	**-262.1**	**-208.3**	**-194.2**	**-193.9**	**-195.3**
Trade balance for goods and services	-37.6	-63.5	-65.5	-165.6	-225.9	-238.0	-143.9	-82.0	-59.8	-51.0	-44.1
Exports of goods and services	578.1	621.3	661.7	421.8	447.3	566.3	693.4	809.1	879.5	920.9	967.2
o/w Tourism	482.0	521.9	561.8	181.2	175.5	285.4	400.7	503.5	560.2	586.9	615.5
Imports of goods and services	615.7	684.8	727.2	587.4	673.1	804.4	837.2	891.0	939.3	971.9	1011.3
o/w Mineral fuels	48.7	68.6	68.7	46.0	68.8	96.7	87.6	82.7	79.5	77.5	79.8
Services	245.9	273.9	309.6	241.6	265.3	289.5	331.8	374.6	413.2	418.9	425.5
Net Income	-121.6	-114.5	-115.9	-72.5	-77.5	-82.8	-104.9	-111.0	-117.2	-123.6	-129.9
Current transfers	-3.3	-9.9	4.4	18.5	29.6	-11.7	-13.4	-15.3	-17.3	-19.3	-21.3
Capital account	**66.9**	**69.0**	**62.0**	**78.7**	**117.9**	**114.2**	**116.8**	**104.2**	**81.5**	**85.7**	**90.0**
Financial account	**-84.9**	**-82.3**	**-80.3**	**-71.1**	**-155.9**	**-218.4**	**-145.3**	**-104.1**	**-112.8**	**-108.2**	**-105.4**
Foreign direct investment	-152.2	-166.0	-178.2	-149.3	-136.3	-128.3	-141.1	-156.1	-172.0	-188.8	-206.4
Portfolio investment (net)	61.7	45.5	24.4	-14.5	-15.7	-17.0	-18.0	-18.9	-19.8	-20.7	-21.6
Other investment (net)	14.5	3.4	71.0	35.8	-59.3	-102.1	9.8	66.9	76.9	93.3	115.0
Change in imputed reserves	-8.9	34.8	2.5	56.9	55.5	29.0	4.0	4.0	2.0	8.0	7.5
Errors and omissions	**10.7**	**36.7**	**34.6**	**69.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
					(In percent of GDP, unless otherwise specified)						
Current account	**-14.4**	**-16.1**	**-14.6**	**-21.0**	**-24.5**	**-27.9**	**-20.6**	**-15.4**	**-13.6**	**-12.9**	**-12.4**
Trade balance for goods and services	-3.3	-5.4	-5.4	-15.9	-20.3	-20.0	-11.3	-6.1	-4.2	-3.4	-2.8
Exports of goods and services	51.4	53.3	54.5	40.4	40.1	47.5	54.4	59.9	61.7	61.3	61.2
Tourism	42.8	44.7	46.3	17.4	15.7	24.0	31.4	37.3	39.3	39.1	39.0
Imports of goods and services	54.7	58.7	59.9	56.3	60.4	67.5	65.6	66.0	65.9	64.7	64.0
o/w Mineral fuels	4.3	5.9	5.7	4.4	6.2	8.1	6.9	6.1	5.6	5.2	5.1
Services	21.8	23.5	25.5	23.2	23.8	24.3	26.0	27.8	29.0	27.9	26.9
Net income	-10.8	-9.8	-9.5	-6.9	-6.9	-6.9	-8.2	-8.2	-8.2	-8.2	-8.2
Net current transfers	-0.3	-0.9	0.4	1.8	2.7	-1.0	-1.0	-1.1	-1.2	-1.3	-1.4
Capital account	**5.9**	**5.9**	**5.1**	**7.5**	**10.6**	**9.6**	**9.2**	**7.7**	**5.7**	**5.7**	**5.7**
Financial account	**-7.5**	**-7.1**	**-6.6**	**-6.8**	**-14.0**	**-18.3**	**-11.4**	**-7.7**	**-7.9**	**-7.2**	**-6.7**
Foreign direct investment	-13.5	-14.2	-14.7	-14.3	-12.2	-10.8	-11.1	-11.6	-12.1	-12.6	-13.1
Portfolio investment (net)	5.5	3.9	2.0	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Other investment (net)	1.3	0.3	5.8	3.4	-5.3	-8.6	0.8	5.0	5.4	6.2	7.3
Change in imputed reseves	-0.8	3.0	0.2	5.5	5.0	2.4	0.3	0.3	0.1	0.5	0.5
Errors and omissions	**1.0**	**3.1**	**2.9**	**6.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:											
Gross external debt	88.9	86.0	81.8	92.9	94.8	91.7	87.5	83.9	77.5	72.5	68.0
External public and publicly guaranteed debt	47.8	45.0	44.0	54.1	54.9	53.8	52.7	51.8	47.6	44.0	40.6
Foreign liabilities of private sector 1/	41.1	41.0	37.8	38.8	39.8	37.9	34.8	32.1	29.9	28.5	27.4
External financing gap (millions of USD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (millions of USD)	1125.7	1166.5	1213.5	1043.4	1115.3	1191.5	1275.3	1349.7	1425.0	1502.4	1579.2

Sources: Ministry of Finance; Eastern Caribbean Central Bank; and IMF staff estimates and projections.

1/ Comprises foreign liabilities of commercial banks and other liabilities under the "Other investment" item of financial account.

Table 3a. Grenada: Operations of the Central Government, 2017–27

(In millions of EC dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.			Proj.			
Total revenue and grants	**778.2**	**849.1**	**871.9**	**792.7**	**957.1**	**932.3**	**1,018.8**	**1,049.7**	**1,084.4**	**1,136.8**	**1,192.4**
Revenue	700.1	754.8	778.4	689.6	727.1	756.9	840.2	896.7	949.7	994.9	1,043.2
Tax revenue	651.9	703.0	718.7	622.8	625.4	665.6	743.3	794.9	842.2	881.5	924.1
Taxes on income and profits	140.6	153.9	151.4	135.0	121.5	131.9	145.7	161.8	171.6	180.9	190.2
Taxes on property	24.3	29.2	39.7	34.8	29.1	35.4	37.9	40.1	42.3	44.6	46.9
Taxes on goods and services	263.7	276.4	282.2	241.5	250.3	270.2	292.7	309.8	330.9	348.9	366.7
Taxes on international trade	223.3	243.4	245.4	211.5	224.6	228.0	267.1	283.2	297.4	307.2	320.3
Nontax revenue	48.2	51.8	59.7	66.8	101.7	91.3	96.9	101.8	107.5	113.3	119.1
Grants	78.1	94.3	93.5	103.1	230.0	175.4	178.6	153.0	134.7	142.0	149.2
Total expenditure and net lending 1/	**686.6**	**704.5**	**709.1**	**758.7**	**947.2**	**1,042.9**	**960.2**	**969.2**	**1,005.8**	**1,042.9**	**1,090.9**
Current expenditure	605.9	617.7	623.4	650.8	686.8	709.1	724.2	761.2	828.9	853.8	890.5
Wages and salaries	246.9	251.6	253.3	261.6	291.7	289.5	303.0	313.4	338.6	357.0	375.2
NIS contributions	18.4	18.9	13.4	14.8	16.0	16.0	16.6	17.3	18.2	19.2	20.2
Goods and services	126.5	130.7	132.8	132.9	154.0	160.9	153.0	173.3	178.0	182.0	191.9
Transfers	133.2	153.3	163.3	185.6	171.0	179.0	189.4	200.4	211.6	215.0	226.0
Interest payments	81.0	63.2	60.6	55.9	54.2	63.7	62.2	56.8	82.5	80.7	77.3
Capital expenditure and net lending	80.6	86.8	85.7	107.9	260.4	333.8	236.0	208.0	177.0	189.0	200.4
Grant-financed	64.2	74.9	75.7	84.8	182.9	175.4	178.6	153.0	134.7	142.0	149.2
Non-grant financed	16.4	11.9	10.0	23.1	77.5	158.4	57.4	55.0	42.3	47.1	51.2
Primary balance 2/	**172.6**	**207.8**	**223.5**	**89.9**	**64.1**	**-46.9**	**120.9**	**137.3**	**161.0**	**174.6**	**178.8**
Overall balance	**91.6**	**144.5**	**162.8**	**34.0**	**9.9**	**-110.6**	**58.7**	**80.5**	**78.5**	**94.0**	**101.5**
Public Debt	**2,140**	**2,016**	**1,918**	**2,012**	**2,117**	**2,221**	**2,291**	**2,346**	**2,267**	**2,173**	**2,072**
Memorandum items:											
Nominal GDP (millions of EC$)	3,039	3,150	3,276	2,817	3,011	3,217	3,443	3,644	3,847	4,056	4,264

Sources: Ministry of Finance and IMF staff estimates.

1/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to

2/ The primary balances include non-tax revenue from the Citizenship-by-Investment program.

Table 3b. Grenada: Operations of the Central Government, 2017–27

(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.			Proj.			
Total revenue and grants	**25.6**	**27.0**	**26.6**	**28.1**	**31.8**	**29.0**	**29.6**	**28.8**	**28.2**	**28.0**	**28.0**
Revenue	23.0	24.0	23.8	24.5	24.1	23.5	24.4	24.6	24.7	24.5	24.5
Tax revenue	21.4	22.3	21.9	22.1	20.8	20.7	21.6	21.8	21.9	21.7	21.7
Taxes on income and profits	4.6	4.9	4.6	4.8	4.0	4.1	4.2	4.4	4.5	4.5	4.5
Taxes on property	0.8	0.9	1.2	1.2	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	8.7	8.8	8.6	8.6	8.3	8.4	8.5	8.5	8.6	8.6	8.6
Taxes on international trade	7.3	7.7	7.5	7.5	7.5	7.1	7.8	7.8	7.7	7.6	7.5
Nontax revenue	1.6	1.6	1.8	2.4	3.4	2.8	2.8	2.8	2.8	2.8	2.8
Grants	2.6	3.0	2.9	3.7	7.6	5.5	5.2	4.2	3.5	3.5	3.5
Total expenditure and net lending 1/	**22.6**	**22.4**	**21.6**	**26.9**	**31.5**	**32.4**	**27.9**	**26.6**	**26.1**	**25.7**	**25.6**
Current expenditure	19.9	19.6	19.0	23.1	22.8	22.0	21.0	20.9	21.5	21.0	20.9
Wages and salaries	8.1	8.0	7.7	9.3	9.7	9.0	8.8	8.6	8.8	8.8	8.8
NIS contributions	0.6	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Goods and services	4.2	4.1	4.1	4.7	5.1	5.0	4.4	4.8	4.6	4.5	4.5
Transfers	4.4	4.9	5.0	6.6	5.7	5.6	5.5	5.5	5.5	5.3	5.3
Interest payments	2.7	2.0	1.9	2.0	1.8	2.0	1.8	1.6	2.1	2.0	1.8
Capital expenditure and net lending	2.7	2.8	2.6	3.8	8.6	10.4	6.9	5.7	4.6	4.7	4.7
Grant-financed	2.1	2.4	2.3	3.0	6.1	5.5	5.2	4.2	3.5	3.5	3.5
Non-grant financed	0.5	0.4	0.3	0.8	2.6	4.9	1.7	1.5	1.1	1.2	1.2
Primary balance 2/	**5.7**	**6.6**	**6.8**	**3.2**	**2.1**	**-1.5**	**3.5**	**3.8**	**4.2**	**4.3**	**4.2**
Overall balance	**3.0**	**4.6**	**5.0**	**1.2**	**0.3**	**-3.4**	**1.7**	**2.2**	**2.0**	**2.3**	**2.4**
Public Debt	**70.4**	**64.0**	**58.5**	**71.4**	**70.3**	**69.0**	**66.5**	**64.4**	**58.9**	**53.6**	**48.6**
Memorandum items:											
Nominal GDP (millions of EC$)	3,039	3,150	3,276	2,817	3,011	3,217	3,443	3,644	3,847	4,056	4,264

Sources: Ministry of Finance and IMF staff estimates.

1/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2014 format.

2/ The primary balances include non-tax revenue from the Citizenship-by-Investment program.

Table 4. Grenada: Summary Accounts of the Monetary Sector, 2017–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.			Proj.			
	(In millions of EC dollars; end of period)										
Net foreign assets	1,053.5	1,315.0	1,400.2	1,720.7	1,919.1	2,056.7	2,095.4	2,114.2	2,128.1	2,154.4	2,200.1
ECCB	526.1	623.2	632.1	785.5	875.3	953.6	964.4	975.2	980.6	1,002.2	1,022.5
Commercial banks (net)	527.4	691.8	768.1	935.2	1,043.8	1,103.1	1,131.0	1,139.0	1,147.5	1,152.2	1,177.6
Assets	1,112.5	1,246.7	1,273.6	1,302.4	1,492.4	1,546.2	1,549.4	1,532.1	1,526.5	1,530.9	1,557.9
Liabilities	585.0	555.0	505.5	367.2	448.5	443.1	418.4	393.1	379.0	378.7	380.3
Net domestic assets	1,182.7	1,053.9	1,036.8	938.1	965.5	922.3	984.8	1,077.2	1,171.9	1,254.6	1,312.3
Public sector credit (net)	-351.8	-500.2	-552.1	-430.6	-389.5	-546.6	-620.4	-614.2	-625.8	-661.2	-706.1
Central government	-120.6	-201.3	-222.6	-219.6	-308.2	-394.3	-482.9	-504.3	-546.7	-605.9	-651.5
ECCB	-42.0	-109.7	-110.7	-36.7	-93.8	-111.8	-133.5	-139.3	-150.5	-165.3	-176.4
Commercial banks	-78.6	-91.6	-111.9	-183.0	-214.3	-282.5	-349.4	-364.9	-396.1	-440.6	-475.1
Net credit to rest of public sector	-206.5	-211.2	-215.9	-221.1	-226.8	-232.7	-238.9	-245.4	-252.3	-259.6	-267.1
National Insurance Scheme	-102.1	-106.7	-111.4	-116.6	-122.3	-128.3	-134.5	-141.0	-147.9	-155.1	-162.7
Credit to private sector	1,558.5	1,602.0	1,624.1	1,674.5	1,738.2	1,804.7	1,875.6	1,953.6	2,028.5	2,098.3	2,165.2
Other items (net)	-24.1	-47.9	-35.2	-305.9	-383.1	-335.7	-270.4	-262.1	-230.8	-182.6	-146.7
Broad money	2,236.2	2,368.9	2,437.0	2,658.8	2,884.7	2,979.0	3,080.2	3,191.5	3,300.0	3,409.0	3,512.4
Money	625.1	702.3	762.9	825.3	1,026.0	1,032.5	1,088.9	1,159.9	1,227.0	1,293.7	1,356.4
Currency in circulation	151.4	143.9	138.6	160.8	188.1	189.3	199.6	212.6	224.9	237.2	248.7
Cash in commercial banks	473.7	558.4	624.3	664.5	837.9	843.2	889.3	947.2	1,002.1	1,056.6	1,107.8
Quasi-money	1,611.2	1,666.6	1,674.1	1,833.5	1,858.6	1,946.6	1,991.3	2,031.6	2,072.9	2,115.3	2,156.0
Time deposits	215.6	191.0	170.1	171.2	162.6	170.3	174.2	177.8	181.4	185.1	188.7
Savings deposits	1,216.3	1,265.3	1,297.3	1,371.0	1,377.9	1,443.1	1,476.3	1,506.2	1,536.8	1,568.2	1,598.4
Foreign currency deposits	179.3	210.3	206.8	291.2	318.1	333.1	340.8	347.7	354.7	362.0	369.0
	(Annual percentage change, unless otherwise specified)										
Net foreign assets	8.0	24.8	6.5	22.9	11.5	7.2	1.9	0.9	0.7	1.2	2.1
Net domestic assets	0.6	-10.9	-1.6	-9.5	2.9	-4.5	6.8	9.4	8.8	7.1	4.6
Public sector credit, net	14.3	42.2	10.4	-22.0	-9.5	40.3	13.5	-1.0	1.9	5.7	6.8
Credit to private sector	0.6	2.8	1.4	3.1	3.8	3.8	3.9	4.2	3.8	3.4	3.2
Broad money	4.0	5.9	2.9	9.1	8.5	3.3	3.4	3.6	3.4	3.3	3.0
NFA contribution	3.6	11.7	3.6	13.2	7.5	4.8	1.3	0.6	0.4	0.8	1.3
NDA contribution	0.3	-5.8	-0.7	-4.1	1.0	-1.5	2.1	3.0	3.0	2.5	1.7
Money	8.2	12.4	8.6	8.2	24.3	0.6	5.5	6.5	5.8	5.4	4.8
Quasi-money	2.4	3.4	0.5	9.5	1.4	4.7	2.3	2.0	2.0	2.0	1.9
	(In percent of GDP, unless otherwise specified)										
Net foreign assets	34.7	41.8	42.7	61.1	63.7	63.9	60.9	58.0	55.3	53.1	51.6
Net domestic assets, o/w	38.9	33.5	31.6	33.3	32.1	28.7	28.6	29.6	30.5	30.9	30.8
Public sector credit, net	-11.6	-15.9	-16.9	-15.3	-12.9	-17.0	-18.0	-16.9	-16.3	-16.3	-16.6
Private sector credit, net	51.3	50.9	49.6	59.4	57.7	56.1	54.5	53.6	52.7	51.7	50.8
Broad money (M2)	73.6	75.2	74.4	94.4	95.8	92.6	89.5	87.6	85.8	84.0	82.4
Money	20.6	22.3	23.3	29.3	34.1	32.1	31.6	31.8	31.9	31.9	31.8
Quasi-money	53.0	52.9	51.1	65.1	61.7	60.5	57.8	55.7	53.9	52.1	50.6

Sources: Eastern Caribbean Central Bank; Ministry of Finance; and IMF staff estimates.

Annex I. Implementation of Past Staff Advice

2019 Article IV Policy Recommendations	Policy Actions
Growth Agenda	
Enhance positive spillovers from **tourism** to the rest of the economy.	**Ongoing.** The West Indies School of Hospitality (WISH), launched in 2021, will provide Cornell University Scholarships for hospitality workers in Grenada. The Community Tourism Project seeks to link the agriculture sector with tourism.
Accelerate efforts to facilitate **trade** through simplifying customs procedures and reducing port charges.	**Ongoing.** Grenada Customs received TA from CARTAC to support the development of performance targets and KPI in key functional, operational and organizational areas. However, implementation has been limited due to constraints in human and material resources, among other.
Operationalize the regulations to the **2016 electricity supply act** to unlock renewable energy investment.	**Ongoing.** From a total of nine Public Utilities Regulatory Commission's regulatory instruments, the Electricity Tariff-Setting Methodology Regulations and the Electricity Generation, Expansion Planning, and Competitive Procurement Regulations were both gazetted on April 8, 2022, and two are close to promulgation.
Further improve **labor market institutions** and **education and training programs** to enhance job matching.	**Ongoing.** The government is implementing recommendations to improve the IMANI program, the main vehicle for training. The National Skills development Program continues to help in developing skills in various areas as well as business support for youth entrepreneurs.
Prepare a national **Disaster Resilience Strategy**.	**Completed.** Strategy aimed at addressing the infrastructure and resilience gaps was prepared in January 2021 and published in February 2022.
Fiscal Policy	
Carefully plan steps to enhance **the FRL**, with a consistent and well-sequenced implementation. Continue improving **public financial management**.	**Ongoing.** The pandemic reinforced the need to amend the Fiscal Responsibility Framework. Various options are under consideration, with the timing and the details to be ironed out. Debt reports have been published regularly. Audited financial statements of the government for the last several fiscal years are still pending.
Further enhance the level and targeting of **social assistance**, including a further upgrade of the SEED.	**Ongoing.** A temporary unemployment insurance program was introduced in 2020 and is being formalized. The SEED was expanded in 2021 to better protect the poor. Income support and wage subsidies were provided to both formal and informal sector workers in sectors hard hit by the pandemic.
Improve **public investment management**.	**Ongoing.** The new institutional framework for coordinating capital projects is helping improve the efficiency of managing public investment. The registry of public assets is being established. An IMF Public Investment Management Assessment (with a climate module) took place in April 2022.
Address delays in the implementation of the 2017-19 **public service reform**.	**Ongoing.** The attrition policy is being used to manage size of the public sector. A Management Information System was launched to better manage human resources. More government services have moved online, including efforts in improving the communication between the cabinet and the public.
Implement **sectoral structural reforms** on aging-related spending, tax administration, and public enterprise efficiency.	**Ongoing.** Limited progress on aging-related spending. The inland revenue division is taking measures to reduce tax arrears. Studies for expanding the tax base are ongoing, including on reassessing property values. A centralized effort in assisting SOEs in wage negotiation has been established. Pension and dividends of SOEs are managed actively, based on profitability.
Financial Sector	
Strengthen the regulation and oversight of **non-bank financial sector**, in coordination with ECCB and ECCU's peer regulators aimed at continuously harmonizing oversight of non-banks.	**Ongoing.** The Grenada Authority for the Regulation of Financial Institutions (GARFIN) improved its capacity for credit quality review and stress testing of credit unions and intensified monitoring of credit unions and insurers during the pandemic. Standardized regulations for credit unions are yet to be promulgated and work is ongoing in conjunction with regional partners on an optimal regulatory framework for the financial sector. The development of a national crisis management plan is progressing albeit with delays.
Ensure compliance with **AML/CFT** regulations.	**Ongoing.** AML/CFT Commission has been established and is now staffed. The Financial Intelligence Unit has strengthened monitoring.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Grenada in 2021 was weaker than the level implied by fundamentals and desirable policies. The slow recovery in tourism from the COVID-19 pandemic and higher import prices and volumes led to a widening of the current account deficit.*

Potential Policy Responses: *In the near term, given the unprecedented social and economic fallout from the pandemic, continued fiscal support is needed to ease the burden on households and firms and to secure the economic recovery. Once the recovery takes hold, it is critical to return to the fiscal rule parameters while increasing resilience building investment. Structural policies to unleash growth potential and job creation, including enhancing domestic linkages of the tourism sector, addressing labor skills mismatch, and fostering renewable energy generation, can also support external rebalancing.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) deficit, which averaged about 126 percent during 2015-19, increased slightly from minus 157 percent of GDP in 2020 to minus 172 percent of GDP in 2021.[1] In 2021, other investment (mostly currency and deposits) and reserve assets were the largest components on the asset side, while FDI and other investment (mostly loans) were the largest liabilities. Most of the external debt is in the form of other investment liabilities, particularly long-term general government loans (49 percent of other investment).

Assessment. The slight deterioration of the NIIP in 2021 does not constitute a significant concern for external debt sustainability, and the expected improvement in the current account in 2022 and beyond (as tourism continues to recover) will help improve the NIIP over the medium term.

2021 (% GDP)	NIIP: -172	Gross Assets: 80	Debt Assets: 21.5	Gross Liabilities: 251	Debt Liabilities: 4

Current Account

Background. The current account deficit, which averaged around 14 percent of GDP during 2015-19, increased to 24.5 percent of GDP in 2021 from 21.5 percent of GDP in 2020. The main driver was a reduction in tourism receipts of 1.7 percentage points of GDP, and an increase in imports of 4 percentage points of GDP, driven by higher international prices, particularly fuel, and the gradual recovery in domestic demand.

Grenada: Model Estimates for 2021 (in percent of GDP)

	CA model	REER model
CA-Actual	**-24.5**	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustor (+) 1/	12.1	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-12.7**	
CA Norm (from model) 2/	**-10.3**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-10.3**	
CA Gap	**-2.4**	**6.3**
o/w Relative policy gap	8.3	
Elasticity	-0.39	
REER Gap (in percent)	**6.1**	**-16.1**

1/ Additional cyclical adjustment to account for the temporary impact of the tourism (12.1 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

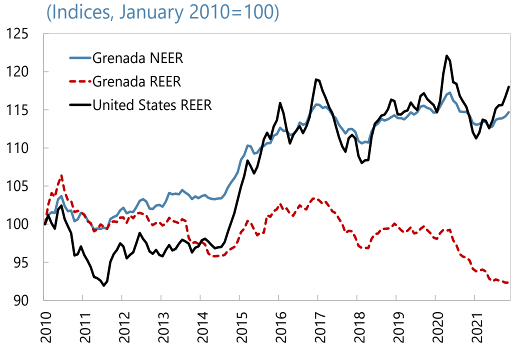
Assessment. The external position was weaker than the level implied by fundamentals and desirable policies. The deterioration of the current account is mainly due to the exceptional COVID-19 shock on tourism.[2] There were no exchange rate movements or significant changes in the structural fundamentals. Once economic recovery takes hold, the external position is expected to improve in line with the recovery of tourism and economic activity.

Real Exchange Rate

Background. In 2021, the real effective exchange rate (REER) depreciated by 4.1 percent, reaching its lowest point since 2010.[3] Much of the decline in the REER was driven by inflation differentials—the NEER depreciated by only 1.6 percent. A comparison with other Caribbean tourism-dependent economies suggests a slight improvement of Grenada's competitiveness.

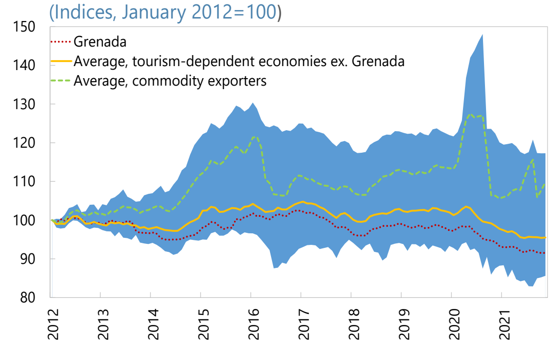
Assessment. The REER gap was 6.1 percent, derived from the EBA-Lite CA model with an elasticity of -0.39. Results of EBA-Lite REER model point to a gap of -16.1 percent.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



Sources: INS and IMF staff calculations.

Real Effective Exchange Rates
(Indices, January 2012=100)



Sources: INS and IMF staff calculations.

Capital and Financial Accounts: Flows and Policy Measures

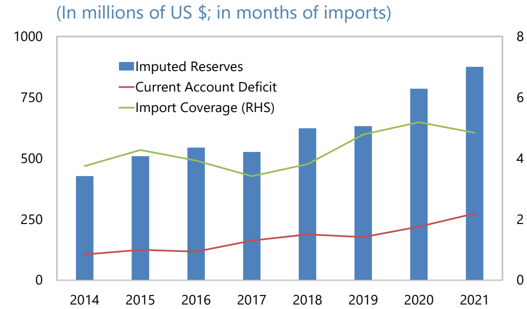
Background. Grenada relies on FDI (averaging 14 percent of GDP during 2017-20) to finance the saving-investment imbalance. Citizenship-by-Investment (CBI) revenues are stable at 4 percent of GDP. In 2021, FDI declined to 12 percent of GDP, due to disruptions caused by the pandemic.

Assessment. FDI is projected to average 12 percent of GDP over the medium term. Downside risks include a sharp rise in global risk premia, which could reduce liquidity and drive savings out of the region in search for yield, and natural disasters—including of higher severity with climate change. Upside risks include a faster implementation of structural reforms to improve business environment and competitiveness.

FX Intervention and Reserves Level

Background. Grenada's reserve position improved in 2021. As a member of the Eastern Caribbean Currency Union, Grenada is under a quasi-currency board arrangement. Foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[4 5] Estimated imputed reserves increased by 14 percent from 2020 to 2021: from US$291 million in 2020 to US$330 million in 2021. Imputed reserves covered 4.8 months of imports (compared to 5.2 months in 2020) and 11 percent of broad money (same as in 2020).

Imputed Reserves
(In millions of US $; in months of imports)



Assessment. Imputed reserves exceed the typical benchmark of three months of imports but are below the 20 percent of broad money benchmark.[6] In 2021, with the general SDR allocation, Grenada received 15.7 million SDRs (about US$22.8 million) which have been kept in reserves.

[1] Based on preliminary estimates by the Eastern Caribbean Central Bank (ECCB).
[2] The ESA model includes a COVID-19 cyclical adjustor to account for the temporary impact of the pandemic on a country's external position. In the case of Grenada, the COVID-19 adjustor for tourism yields a total adjustment of 12.1 percent of GDP.
[3] The Eastern Caribbean dollar, the currency of Grenada, is pegged to the U.S. dollar.
[4] According to the ECCB by-laws, the imputed reserves of each ECCB member are calculated as the difference between the member's reserve money and net domestic assets. The ECCB has the mandate to maintain a foreign exchange cover of 60 percent of total demand liabilities.
[5] IMF, 2015, *Assessing Reserve Adequacy–Specific Proposals.* Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level, supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial architecture and supportive institutions and the correlation of shocks facing union members.
[6] Information on short-term debt and other liabilities is unavailable and consequently assessments against other reserve adequacy metrics such as the IMF's composite Assessment Reserve Adequacy (ARA) metric cannot be computed.

Annex III. Risk Assessment Matrix[1]

Risks		Policy Response
	External	
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries. Rapidly increasing hospitalizations and deaths in slow-to-vaccinate countries could force new lockdowns, while policies to cushion the economic impact could be constrained by lack of policy space.	**High Likelihood** **High Impact**	If needed, reinstate mobility restrictions and provide temporary fiscal measures while designing and communicating a credible medium-term plan to preserve fiscal sustainability. Continue the public education campaign to address vaccine hesitancy and intensify medical preparedness for an increase in cases, including those of new variants.
Abrupt policy tightening to arrest de-anchoring of inflation expectations in the U.S. and/or advanced European economies could lead to sharp tightening of financial conditions and spiking risk premia, followed by currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects (e.g., possible contagion across EMDEs).	**Medium Likelihood** **Medium Impact**	Implement prudent fiscal policies under the Fiscal Responsibility Framework and structural reforms to build buffers and improve competitiveness. Pursue enhanced monitoring of the financial sector by GARFIN in close coordination with regional peers and the ECCB. Accelerate the preparation of the national crisis plan.
Rising and volatile food and energy prices amid pent-up demand, extended supply disruptions, and conflicts could lead to shortages of intermediate and final consumer goods, growth slowdown, and broad-based price surges.	**High Likelihood** **High Impact**	Use clearly communicated temporary measures to limit impact of price increases on the vulnerable. Accelerate energy sector reforms and improve agriculture quality to reduce reliance on imports.
	Domestic	
Higher frequency and intensity of natural disasters and continued sea-level rises due to climate change negatively impact agriculture and tourism activity, worsening fiscal and external balances and dampening medium-term outlook.	**Medium Likelihood** **High Impact**	Continue implementing the Disaster Resilience Strategy to strengthen structural, financial and post-disaster resilience, including by implemeting the national adaptation plan, fully operationalizing the contingency fund under the National Transformation Fund, and legislating a comprehensive disaster risk management.
Hysteresis from the pandemic downturn could cause unexpected private sector distress and scarring. This could heighten macro-financial vulnerabilities, slow the pace of recovery, and result in persistently high unemployment.	**Medium Likelihood** **High Impact**	Facilitate structural transformation through public investment in critical areas, strenthening domestic linkages of the tourism sector, addressing labor skills mismatches, and reducing red tape and other hinderances to the business climate.
Persistent rise in spending needs that are inconsistent with the Fiscal Responsibility Framework (FRF). Initiatives on pension and health care, higher than expected public sector wage increase and delays in public sector wage bill reforms could push the expenditure above the expenditure ceiling mandated by the FRF.	**Medium likelihood** **High Impact**	Adopt parametric reforms of the pension system. Identify revenue and spending measures in case of unfavorable court rulings on pension disputes. Improve the competitiveness of the economy and implement a comprehensive fiscal reform strategy that improve resource mobilization, spending efficiency, and fiscal credibility.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex IV. Options for Revising Grenada's Fiscal Responsibility Law[1]

This annex provides considerations and options for designing a strategy to enhance the Fiscal Responsibility Framework (FRF) of Grenada. It presents three types of options for amending the FRF: (i) addressing shortcomings of the current FRF without departing from the current rules significantly; (ii) option (i) plus revisiting operational rules; (iii) option (ii) plus revisiting the medium-term debt ceiling.

Context

1. **Grenada's adoption of a Fiscal Responsibility Framework (FRF) in 2015 has been widely considered as a great success.** Before the pandemic, the FRF safeguarded a sharp reduction in central government debt, which fell from 99.5 percent of GDP in 2013 to 58.6 percent of GDP in 2019. The accumulation of fiscal buffers prior to the pandemic allowed the authorities to provide counter-cyclical fiscal support, facilitated by the triggering of the FRF's escape clause in 2020-22.

2. **The FRF, however, has three main shortcomings that will need to be addressed to better balance fiscal prudence with the need for supporting economic development.**

- *The primary expenditure rule*, limiting the real growth rate of primary expenditure to below 2 percent (after excluding spending on grant and projects financed by the National Transformation Fund) now appears somewhat rigid. In particular, the expenditure rule binds frequently when real GDP growth exceeds 2 percent significantly. One consequence is that resilience investment, which should be prioritized during years without severe natural disasters, can be inefficiently low.

- *The speed of convergence towards the medium-term debt ceiling* is required to be less than three years. However, it is not practical or ideal to require the debt to come back to the target quickly when the debt is high, with the current pandemic being a case in point.

- *Ambiguity on procedures and definitions* in the FRF. The definition of public debt in the FRF, which includes the debt of state-owned enterprises, is inconsistent with what is used in practice and what is defined in the public debt management act (PDMA), which refers to only central government debt. The debt definition matters for the timing of recalibrating the parameters of numerical rules. Therefore, clarifying this issue is critical for the credibility of the regime. Moreover, the FRF does not explicitly specify how many times in a row the escape clause can be triggered. The authorities also highlighted the difficulty of preparing a recovery plan immediately after the trigger is announced in response to the current pandemic shock.

[1] Prepared by Weicheng Lian and Rui Mano.

Strategy

3. The Fiscal Responsibility Law (FRL) should be amended before 2024, when the primary expenditure rule will be binding again under the current FRL. Given the relatively low level of interest payments (reflecting a significant share of concessional financing), the primary balance of 3.5 percent already puts Grenada firmly on a downward debt path towards the medium-term target of 55 percent. Amending the FRL before 2024 can allow fiscal policy to better support the recovery, build resilience, and strengthen social protection, while continuing to ensure debt sustainability. Meanwhile, Grenada has time to deliberate on options to amend the FRL, as the consolidation in 2023 to comply with the FRL will come from moderating the public sector investment program, which is desired given the current unsustainable level of public investment. On the other hand, as shown in staff's baseline framework in compliance with the current FRL, the primary expenditure rule would be binding in 2024 leaving the primary balance exceeding the minimum of 3.5 percent of GDP required by the FRL.

4. Strategic communications are the key for the amended FRL to be credible. Without a clear communication about medium-term fiscal and debt strategy, fiscal discretion after the escape clause being triggered can lead to excessive deficits (which can happen if the triggering shock is a small natural disaster), or restrictions introduced to limit fiscal discretion can cause too strong a fiscal consolidation when the economy is still experiencing a fragile recovery from large shocks. The amended FRL should address these concerns to create a larger room for strategic communications to guide fiscal policy (rather than hitting overlapping numerical constraints set by the FRL). The Fiscal Responsibility Oversight Committee (FROC) should accordingly play a more active role in monitoring and assessing the performances against such communications from the government as well as in the process of triggering the escape clause.

5. More generally, strong public financial management (PFM) will provide the institutional foundation for a successful amendment. In additional to more strategic communication, critical areas for Grenada to further improve PFM also include reporting of SOE financial performances and public investment management.

Options: A Phased Approach

6. The objective of amending the FRL should be to have a simpler, more flexible, and still enforceable framework. These are principles followed by successful fiscal rule systems (Eyraud et al., 2018). The amended framework should have a clearly defined medium-term debt ceiling (with an appropriately defined broad definition of public debt like in the current FRL) and a clearly specified procedure for debt to converge to the ceiling following shocks, especially large ones. Simplifying the framework makes it easier to defend the hard-won credibility and can come from a reduction of the number of numerical rules, making it more flexible should remove rigidity highlighted above (also see Box 2), and maintaining its enforceability can take the form of clear communications about fiscal and debt path in the medium term and the FROC monitoring and assessing the performances. The key is that the new framework would continue to ensure that debt has sufficiently rapid convergence towards the target after severe shocks, while giving fiscal policy more flexibility.

(i) Option #1

7. The first option is to just address the existing ambiguity and relax the real primary expenditure rule while staying largely within the current framework. These include introducing exemptions to or lifting the ceiling of the primary expenditure rule, addressing ambiguity in triggering the escape clause, avoiding inconsistency in the debt definition, and clarifying that the debt target is a medium-term ceiling (therefore the convergence path should depend on the size and nature of the shock).

- Some caveats should be highlighted regarding *introducing exemptions to the primary expenditure rules*. While it appears an easy fix to introduce exemptions for high priority spending, significant downside risks can emerge at the expense of simplicity and enforceability, including creative accounting, or a misallocation of resources (when the urgency of spending on exempted items subsides).

- *A simpler way is to lift the ceiling of the real primary expenditure rule*. The current FRL requires the ceiling to be set at the real long-run potential growth, which is currently estimated by staff at around 2.8 percent. A higher ceiling does not present significant risks, because the primary balance rule will anchor the debt path at or below the ceiling, but would have additional benefits of encouraging stronger revenue collection effort. The amended FRL is equally flexible as the current one during the downturn. The procyclicality of the primary balance rule during a recession would continue to be mitigated by triggering the escape clause, as how the current FRL avoids such issues.

(ii) Option #2

8. Another more ambitious option of amending the FRL involves rethinking the set and parametrization of operational rules. The current framework includes several overlapping rules that may unduly constrain policy options. A prudent debt reduction can still be achieved with potentially fewer targets. The amended FRL can consider a gradual transition to option #2 but could return to option #1 if fiscal discipline is not maintained (e.g., public debt being persistently higher than the target, showing little sign of convergence). Grenada should be cautious in moving to these options given rising pension and health expenditures, which present long-term fiscal challenges. Moreover, revising these rules should be careful not to introduce issues of institutional coverage that may weaken their enforceability.

- *On the wage rule,* a cautious approach is warranted. The wage rule has played an important role in anchoring wage negotiation in the public sector, and as a key feature of the current FRL, contributed to the restoration of fiscal discipline before the pandemic. Keeping the wage rule is desired for maintaining fiscal discipline, although its parameter can be adjusted after implementing the public service reform. Moreover, a more dynamic private sector can alleviate the pressure for the public sector to support employment and growth. These considerations therefore suggest against revising the current wage rule in the next round of revisions.

- *On the real primary expenditure rule*, the question is whether to drop it all together. In principle an appropriately defined floor on the primary balance is sufficient to ensure debt converges to below the ceiling. Dropping the primary expenditure rule then depends on whether the primary balance rule can be implemented effectively, as is elaborated in the next bullet.

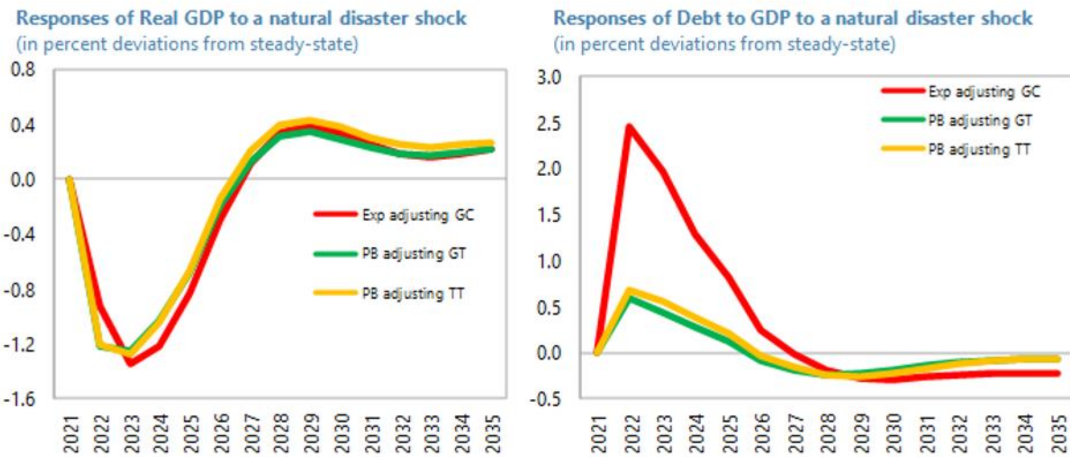
- *On the primary balance rule,* if fiscal discipline is sufficiently established, the primary balance rule floor could be set more flexibly. For example, instead of having a fixed floor, it can be low if a shock significantly slows the economic growth, without having to trigger the escape clause, while setting it higher when faster convergence towards the debt target is deemed as needed.

9. To explore the trade-off of different parameterization of numerical rules for Grenada, the IMF's Global Integrated Monetary and Fiscal (GIMF) model is used following the methodology developed by Andrle and Hunt (2020). The model is calibrated to four regions—Grenada, rest of the ECCU, the United States and rest of the World. The simulations are based on the historical distribution of annual GDP, inflation and natural disaster shocks over the last two decades. The advantage of using a dynamic stochastic general equilibrium model is that it can run counterfactual experiments of alternative rules. A crucial assumption is that any fiscal rule is credible, debt is sustainable, and that is understood by all agents, households and firms, in this economy.

10. A key finding from the model is that primary balance rules do not necessarily lead to excessive pro-cyclicality during the downturn when compared with an expenditure rule, with a potential gain of faster debt convergence (Figure 1). When judging the trade-off of growth and speed of debt convergence to the ceiling inherent in any fiscal rule, it is crucial to define the types of spending (revenue) that can be adjusted to comply with the rule. Adjusting types of spending that have higher multiplier leads to greater growth volatility. Primary balance rules that use transfers as adjustors achieve similar growth outcomes as expenditure rules, but avoid the debt overshoot often implied by expenditure rules. This finding suggests that at least for Grenada, the primary balance rule does not necessarily lead to an "excessive" fiscal consolidation at the expense of output growth, when compared with the expenditure rule. Instead, avoiding an excessive build-up in debt after an adverse shock and hence reducing the need to consolidate later, as well as choosing a strategy to reprioritize expenditures to minimize growth impact, are more crucial. A further assessment in the FRL amendment regarding such issues should focus on how mild shocks that would not trigger the escape clause affect growth and debt for economies like Grenada. If climate shocks lead to a large expenditure need for rebuilding the economy, debt overshooting under an expenditure rule could be a concern.[2]

[2] This is in the same spirit with the view that a key effort to addressing the challenge of climate change is to build resilience. Relying solely on post-disaster expenditures to avoid scarring can trigger public debt buildup.

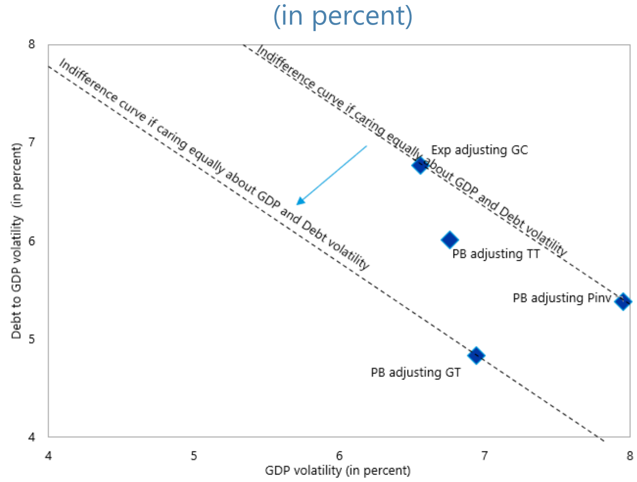
Figure AVI.1. Impulse Responses to a Natural Disaster Shock



Note: Exp = expenditure-based rule, PB=primary balance-based rule; GC=Govt Consumption (e.g. goods and services), GT=General transfers (i.e. untargeted transfers), TT=Targeted Transfers.
Source: Staff calculations using GIMF model.

11. Ultimately, the decision on which rules to adopt is guided by the authorities' relative preference over output and debt volatility. This can be summarized in a simple scatter plot that depicts the growth and debt volatility (or the speed of convergence to the debt ceiling) achieved by different rules (Figure 2). The origin of the chart depicts the point with least output and debt volatility. As one moves northeast in the chart, both volatilities rise. Thus, rules that are further northeast are less preferred than those closer to the origin of the chart. A primary balance rule that adjusts general transfers is superior to a primary balance rule that adjusts public investment to achieve it, since the latter leads to significant GDP volatility given the higher multiplier on public investment and higher debt volatility.

Figure AVI. 2. Relative Volatility of GDP and Debt to GDP for Different Rules
(in percent)



Note: Exp = expenditure-based rule, PB=primary balance-based rule; GC=Govt Consumption (e.g. goods and services), GT=General transfers (i.e. untargeted transfers), TT=Targeted Transfers.

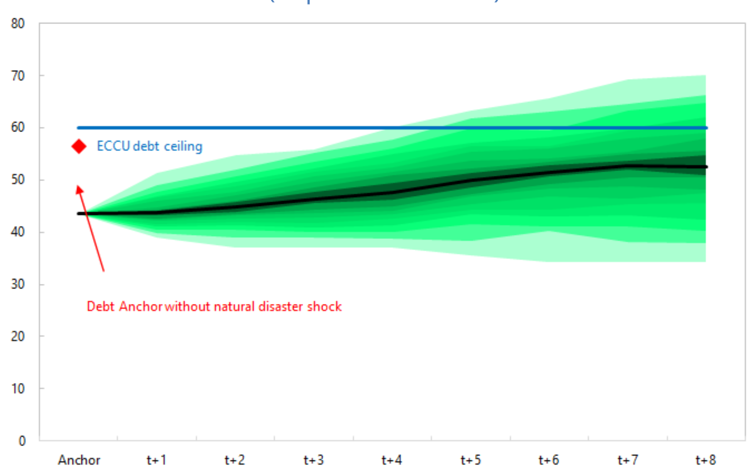
Source: Staff calculations using GIMF model.

(iii) Option #3

12. Finally, the debt anchor can also be revisited, with one caveat being that a lower debt anchor should be achieved within a reasonable timeframe to be credible. Such a low debt anchor is desired if the financial buffer against severe natural disasters is considered insufficient. Although Grenada has a Disaster Resilience Strategy that includes the buildup of significant financial buffers, it does not necessarily mean that the insurance instruments would always provide sufficient payments during the downturn. On the other hand, it is important for the government to be able to rebuild the economy sufficiently rapidly to avoid scarring effects of a severe natural disaster, which can imply a significant borrowing need (Lian, Moran and Vishvesh, forthcoming).

13. The importance of natural disasters in affecting the choice of the debt anchor is illustrated using a new tool of the IMF Fiscal Affairs Department (Gbohoui and Akanbi, 2022). The tool incorporates natural disaster shocks and suggests that considering natural disaster shocks can lead to a lower medium-term debt ceiling by around 10 percentage points of GDP. Under the assumption that 70 percent of debt is undesirably high and Grenada should minimize the probability of exceeding this level, the medium-term debt anchor is shown to be significantly below 55 percent, once the significant need to borrow to recover from large natural disaster shocks is considered. Unlike demand and inflation shocks, natural disasters represent, often large, asymmetric supply shocks that lower output, increase inflation and deteriorate the fiscal and current account balances not only in response to lower output, but also due to the need to support vulnerable households and reconstruction spending. The degree to which the debt ceiling should be set lower depends crucially on the extent of scarring or persistence of subdued growth due to natural disasters, the prevalence of natural disasters, and the size of financial buffers in place, including the government's self-insurance, insurance policies, disaster clauses in debt securities, access to grants conditional on disasters, and private self-insurance.

Figure AVI. 3. Debt Ceiling with and without Considering the Presence of Natural Disasters
(in percent of GDP)



Conclusion

14. Grenada has had a great success in restoring fiscal discipline with the Fiscal Responsibility Framework. It reduced public debt to a level close to the medium-term debt target of 55 percent on the verge of the pandemic. However, the fiscal responsibility law does not account for the unprecedented challenge presented by the pandemic, which requires fiscal policy to support not only resilience building but also economic transformation and social protection. To address this challenge, the fiscal responsibility law should be amended to have the credibility of the regime built around a sufficiently rapid convergence towards the medium term, while providing more flexibility to fiscal policy. Achieving this objective will require strategic thinking and planning.

15. As a first step, authorities could consider addressing current shortcomings within the existing framework, without creating more exemptions compared with what is in the current FRL. Raising the ceiling of the primary expenditure rule can be a way to address its rigidity. Meanwhile, strategic communications should be strengthened to achieve flexibility and enforceability. Furthermore, operational rules can be revisited and the debt anchor can be re-considered to better manage various trade-offs and to preserve the hard-won counter-cyclicality despite large shocks.

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Gbohoui, William, and Olusegun Akanbi, 2022, "Integrating Natural Disaster Risks in the Calibration of Fiscal Rule Limits". Technical Note, Fiscal Affairs Department, IMF.

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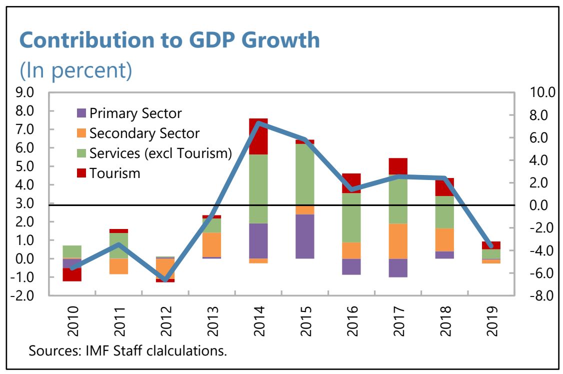
Annex V. Grenada's Tourism Sector: More Competitive, Nimbler and Visible to Address Challenges[1]

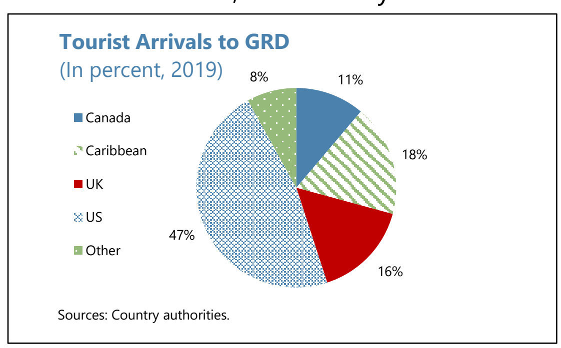
Tourism is a key sector for the Grenadian economy, with an estimated total contribution to both value-added and employment of around 40 percent. Tourism was hit hard by the pandemic and the pace of its recovery had been slower than in other countries in the region until recently. COVID-related travel restrictions such as quarantine requirements for international tourists are the most plausible explanation. Existing vulnerability, such as limited flight connectivity, could amplify the effects. Going forward, efforts should focus on moving up the value chain of the tourism sector, creating stronger links between tourism and agriculture, and enhancing competitiveness through lowering energy costs and increasing digitalization.

The Tourism Sector Before the Pandemic

1. Tourism is a key sector of the Grenadian economy. The direct contribution of tourism to output was 8.3 percent of GDP in 2019 (up from only 4 percent in 2010), and its total contribution is much larger at 41 percent, if considering the linkages with other sectors. Tourism is also an important source for jobs, accounting for about 8 percent of total employment when measured directly, and 42 percent considering contributions through connected sectors.[2]



2. Four key source markets for tourism are: the U.S., other Caribbean countries, the UK, and Canada. The U.S. accounted for 47% of total tourist arrivals in 2019, followed by rest of the Caribbean region (18%), the U.K. (16%), and Canada (11%). The average length of stay is 8.9 days, which varies significantly across source markets, being the highest for the U.K. (11.6 days), followed by Canada (10), the U.S. (8.6) and other Caribbean countries (6.8). In terms of the average daily spending per tourist, the U.S. is the highest (EC$422), followed by the U.K. (EC$330) and Canada (EC$292).

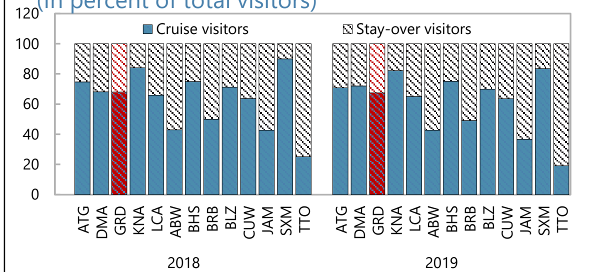


3. Cruise arrivals constitute the majority of tourist arrivals but contribute to only a small fraction of total tourism expenditures. In 2019, cruise ship arrivals accounted for 64 percent of total arrivals, up from 60 percent in 2014. They, however, contributed to only around 15 percent of

[1] Prepared by Weicheng Lian, Camila Perez Marulanda, and Huilin Wang.

[2] World Travel & Tourism Council estimates.

total tourism expenditure, due to the lower average daily spending of cruise ship passengers (cruise ship passengers spent EC$141 in 2019 vs. EC$360 for stayover visitors) and their shorter length of stay (the majority stayed for less than one day).

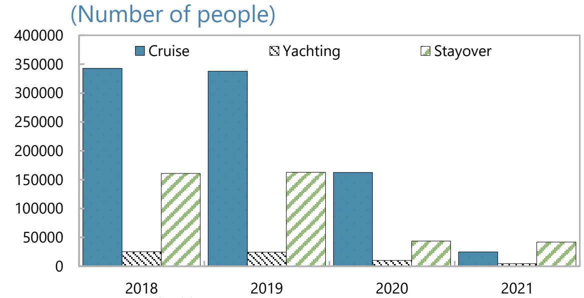


Sources: CTO and IMF staff calculations.

4. The hospitality market consists of several segments. Hotels account for 43 percent of stayover tourists, private homes 39 percent, and apartments 9 percent. Many of tourists staying in private homes are Grenadians from diasporas, accounting for 14 percent of total stayover arrivals in 2019. Apartments serve not only visitors but also some of students of the Saint George's University. The majority of them come from the U.S., with the rest from a wide range of countries such as Canada, Trinidad and Tobago, India, Nigeria and South Korea. The average length of stay in private homes in 2019 was 11.4 days, significantly above the average length of stay in hotels (7 days), consistent with the two segments serving different types of visitors.

Assessing the Underperformance of Tourism Recovery

5. Tourism is recovering gradually. Tourist arrivals recovered during 2021, especially in November and December (see more below). They, however, reached only 14 percent of the 2019 level, substantially lower than peers in the region. Arrivals from the U.S. reached 35 percent of the 2019 level, and those from the U.K. 27 percent. Other source markets like Canada and the Caribbean recovered only modestly in 2021. The performance also varies in other dimensions. While stayover arrivals reached 25 percent of the pre-pandemic level, yachting only recovered to 20 percent and cruise ship to 7 percent. The average length of stay for stayover tourists increased to 12.7 days from 8.9 days before the pandemic, while average daily expenditure decreased with respect to its pre-pandemic level, likely caused by both quarantine requirements and other local restrictions.

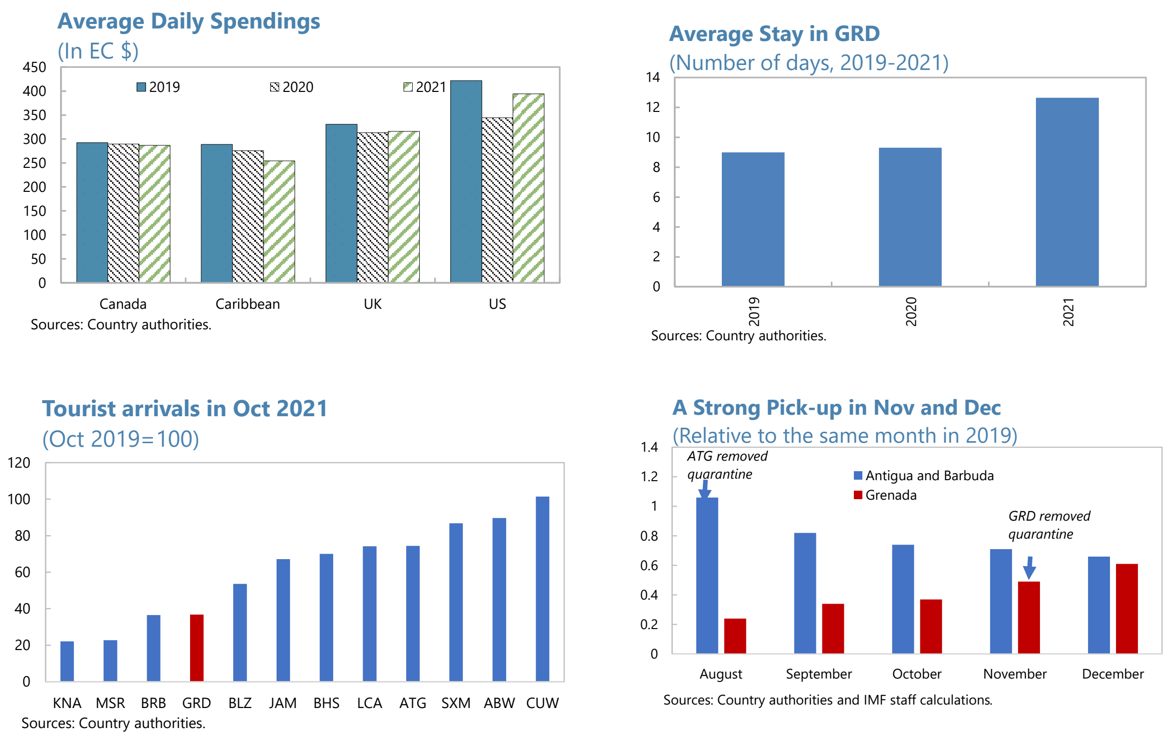


Sources: Country authorities.

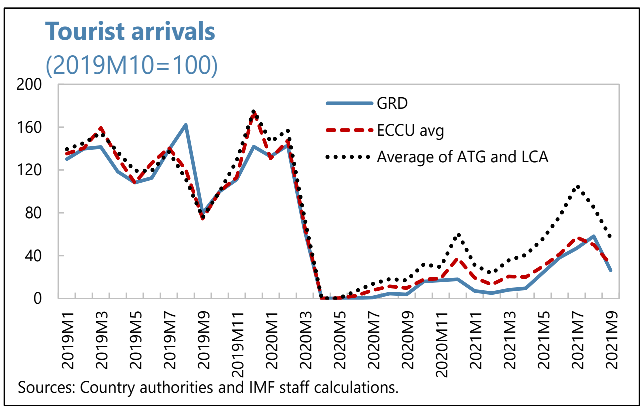
6. Stay-over tourist arrival in Grenada fell below the regional peers significantly before November 2021. In October 2021, for example, the tourist arrival was below 40 percent of the level in October 2019, while those in Jamaica, Bahamas, St. Lucia and Antigua and Barbuda were significantly above 60 percent. The situation, however, changed sharply in November and December, with arrivals in December reaching around 60 percent of the level in December 2019. The convergence between Grenada and Antigua and Barbuda in tourist arrivals in December 2021 coincided with the removal of the quarantine requirement for tourists into Grenada at end-

November, while Antigua and Barbuda had removed it in August 2021. This suggests a potential role of the quarantine requirements in explaining Grenada's underperformance.

Figure AV.1. Grenada: Tourist Arrival and Spending



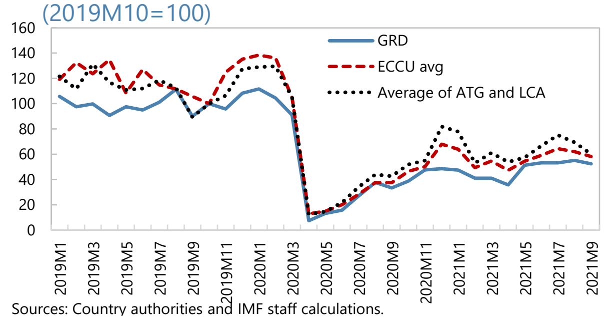
7. Given significant difference across ECCU countries in tourist arrivals before November, several factors are compared to shed light on the underlying cause. They include exposure to pent-up demand, flight connectivity, hotel prices, and general lockdown restrictions.



- Grenada benefitted less from *the pent-up demand* in the U.S. and U.K. than its regional peers. Using the ratio of tourist arrival over that in October 2019 as a metric (October is considered the beginning of the high season), Grenada had much fewer arrivals from the U.S. and the U.K. compared with the average in ECCU and especially Antigua and Barbuda and St. Lucia (despite a similar level of vaccination in St. Lucia). Nevertheless, Grenada received a stronger recovery of tourist arrival from other regions than the ECCU average, Antigua and Barbuda, and St. Lucia. It is hard to identify the exact cause of this development, which should reflect the halted regional tourist travel in the ECCU rather than pent-up demand difference.[3]

- Grenada under-performed also in the recovery of *the number of flights*. In 2019, Grenada had 12 daily flights, around half of the number in other ECCU countries like Antigua and Barbuda and St. Lucia. This partly reflects the fact that Grenada has a smaller tourist market, with the number of hotel rooms being one third of the stock in St Lucia and one fourth of the stock in Antigua. Interestingly, during the summer of 2021, despite tourist arrival hovering around 20 percent of the 2019 level, flight connectivity already recovered to around 50 percent of the pre-pandemic level. Likely airline companies, due to a break-even point of the passenger load factor being substantially lower than the pre-pandemic average load factor, already resumed a significant number of flights. However, Grenada did not see a further pick-up in flight connectivity as observed by other ECCU peers. This divergence between Grenada and other ECCU peers in flight connectivity also existed during the high season of 2019/20, suggesting its lower capacity in attracting flights.[4]

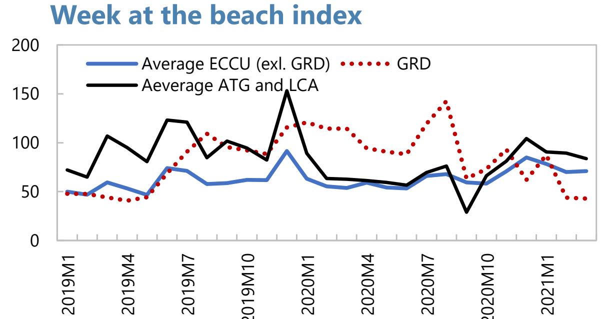
Flights
(2019M10=100)



Sources: Country authorities and IMF staff calculations.

- *Hotel prices*, which presumably could play a significant role in attracting tourists, do not have a salient difference across ECCU countries, with a caveat being that the data has a significant time lag. The "week at the beach" index as a proxy for hotel prices does not suggest a clear difference between Grenada and other ECCU countries in the first year of the pandemic. If anything, Grenada hotel prices had a sharper decline than other ECCU countries, suggesting that hotel price rigidity should not be a major factor behind Grenada's underperformance in tourist arrival.

Week at the beach index



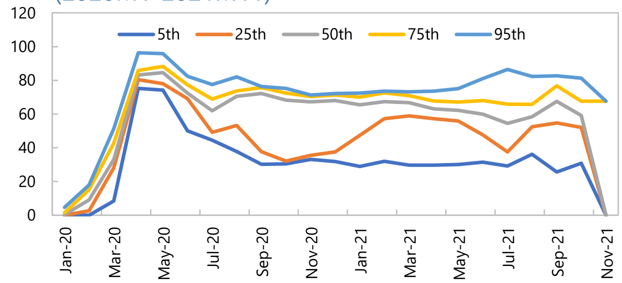
Sources: Country authorities and IMF staff calculations.

[3] The collapse in regional travel has various aspects, with the restructuring of a key airline in the Caribbean region, LIAT, being one of them. The headquarter of LIAT is in Antigua and Barbuda.

[4] One caveat here is that weak recovery in flight can reflect demand-side factors.

- A *general lockdown* appears less important than travel protocol (restrictions on international travelers) in affecting tourist arrival in other Caribbean countries. The lockdown stringency was found statistically insignificant in explaining the variation in tourist arrivals during January-October 2021, based on a regression analysis for eight Caribbean countries (ABW, BHS, BLZ, BRB, DMA, GUY, JAM, and TTO). The availability of the stringency index measure, which comes from the Oxford government response tracker and is an average of 20 sub-indexes (with restrictions on international travelers being only one of them), restricts the sample coverage. Although the average lockdown restriction in the Caribbean had been relaxed significantly during the summer of 2021, the insignificant coefficient of lockdown stringency suggests that it did not play a significant role in affecting tourist arrivals. One caveat is that other drivers of tourist arrival are not controlled in the analysis, but the regression results clearly suggest that the role of lockdown stringency in explaining the cross-country difference in tourist arrival has declined over time—its coefficient is large and significant for the full sample of 2020M1 and 2021M10, a pattern that is less likely to be driven by omitting variables. Moreover, these regression findings should not be driven by the cross-country variation in lockdown stringency, which has been broadly stable over time.

Cross-country distribution of stringency index
(2020M1-2021M11)



Sources: Oxford University and IMF staff calculations.

Table AV.1. Regression Results: Tourist Arrival and Stringency Index

VARIABLES	(1) 2020M1 - 2021M11	(2) 2020M1 - 2021M11	(3) 2021M1 - 2021M10	(4) 2021M1 - 2021M10
Stringency index	-5.008***	-2.724***	-0.557	0.120
	(0.454)	(0.656)	(0.827)	(0.603)
Country fixed effects	Y	Y	Y	Y
Time fixed effects	N	Y	N	Y
Observations	164	164	78	78
R-squared	0.711	0.901	0.879	0.950

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Note: The regression has the logarithm of stay-over tourist arrival as the dependent variable, and the stringency index as the independent variable, controlling for country and time fixed effects. The stringency index comes from the Oxford governmen response tracker and is the average of 20 subindexes, with the restriction on international travelors being only one of them.

Sources: IMF staff estimates.

- *The curfew time* did not seem to differ between Grenada and St. Lucia. Moreover, the curfew time was also similar between Antigua and Barbuda and Grenada in August 2021, when their tourist arrival was sharply different.

	Curfew in 2021M8	Curfew in 2021M10
Antigua and Barbuda	8pm - 5am	11pm - 5am
Dominica	6pm - 5am	
Grenada	9pm - 5am	7pm - 4am
St. Kitts and Nevis	11pm - 5am	
St. Lucia	9pm - 4am	7pm - 4am

Implications, Further Assessments, and Policy Recommendations

8. Targeted COVID-19 related measures are critical for the delicate balancing between lives and livelihoods for small island economies such as Grenada. The apparently larger importance of travel protocols than general lockdowns in driving tourist arrivals is consistent with the idea that tourists staying in all-inclusive hotels are more sensitive to quarantine restrictions than to curfews. The possibility that the impact on tourist arrival relative to that on the spread of a COVID virus varies across restrictive measures calls for targeted responses.

9. The pandemic makes it more urgent to resolve challenges that preceded the pandemic. Grenada faces fierce competition from peers in the region, more so if the pandemic shifts preference of travelers, making them pickier when comparing travel destinations. The pre-existing vulnerabilities include low flight connectivity, small stock of hotel rooms, heavy reliance on cruise ship arrivals, and high energy costs. The relatively high reliance on cruise arrival can be particularly challenging in the aftermath of the pandemic, and will require stepped up efforts to attract stayover arrivals. High energy costs are an existing obstacle for attracting private investment and in making the sector more price competitive. Some measures have been taken to address these issues. Through concerted effort in attracting FDI, the government plans to double the existing hotel room stock during 2022-2025, with the addition of new hotels and the expansion of existing ones, financed mainly with CBI revenues. The new rooms are expected to also improve flight connectivity.

10. To address these challenges, in the short-to-medium term, tourism needs to be nimbler. One lesson from the weak recovery of tourism during the pandemic is that tourists are sensitive to any "inconvenience" created either by quarantine requirements or other pre-existing weakness of Grenada's service industries. To mitigate these, Grenada's tourism needs to be nimble. This can come in the form of higher use of automation, contact-less payments and services (DCash), digital COVID certificates and online travel and health platforms, and real-time information provision in the tourism services, as recommended by IMF (2021).[5] To achieve these, investment in the information and communication technolgy and its infrastructure is critical.

11. For Grenada to attract niche oriented tourists, it is important to have a targeted advertisement strategy. A further expansion of Grenada's hotel room stock will present an interesting question on how rapidly it would enable Grenada's economy to expand, to trigger a virtuous cycles of more tourist arrival, better flight connectivity, and stronger FDI inflows. Targeted

[5] "Diversion of Tourism Flows in the Asia & Pacific Region: Lessons for COVID-19 Recovery", IMF WP/21/224.

effort in making Grenada tourism more visible can help on this front. One recommendation made by WTTC is to increase presence in social media and digital marketing, which has an important benefit for attracting young tourists.

12. In the longer term, Grenada should increase the value added of the tourism sector (with a focus on niche-oriented tourists), to not only help the cruise industry recover but also move the entire tourism sector and related sectors up along the value-chains. The tourism sector can be further developed and diversified to include eco-sustainable tourism services, with lower density and higher value-added, including health and wellness and "philantourism". Advertisement through cruise arrivals can be a venue to make Grenada as a tourism destination more visible in the source market. Measures should be taken to get more out of the cruise industry and hotels, through more integration with the local agriculture sector and a further development of agro-processing. Homeporting and provisioning for cruiseships, which will benefit from and contribute to higher flight connectivity, are also areas to explore. All these areas can potentially benefit from CBI flows, through providing a third option to CBI participants by investing in any project in Grenada's tourism sector that enhances its competitiveness, improves the diversification within the sector, or upgrade its position the value chain, beyond just real estate projects. In addition, given the small economic size, the health sector in Grenada can only serve a relatively small number of patients. However, the presence of the SGU presents a potential advantage relative to its regional peers to offer reliable and quality health services to certain types of tourists, including retirees.

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INTERNATIONAL MONETARY FUND

GRENADA

April 13, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2022)

Membership Status Joined 8/27/75; Article VIII

General Resources Account	**SDR Million**	**Percent of Quota**
Quota	16.40	100.00
Fund holdings of currency	15.23	92.84
Reserve Tranche Position	1.18	7.16

SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	26.88	100.00
Holdings	15.59	57.97

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	16.40	100.00
ECF Arrangements	11.02	67.2

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	06/26/14	05/26/17	14.04	14.04
ECF	04/18/10	04/17/13	8.78	2.53
ECF[1]	04/17/06	04/13/10	16.38	16.38

Outright Loans:

Type	Date of Commitment	Date Approved	Amount Drawn/Expired (SDR Million)	Amount Drawn (SDR Million)
RCF	04/28/20	04/30/20	16.40	16.40

[1] Formerly PRFG.

Overdue Obligations and Projected Payments to the Fund (SDR Million; based on existing use of resources and present holdings of SDRs):[2]

	Forthcoming				
	2022	**2023**	**2024**	**2025**	**2026**
Principal	2.20	2.81	2.81	3.64	4.28
Charges/Interest	0.03	0.04	0.04	0.04	0.04
Total	**2.23**	**2.84**	**2.84**	**3.68**	**4.32**

Implementation of HIPC Initiatives: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement: The exchange rate arrangement is a currency board. Grenada participates in a currency union with seven other members of the Eastern Caribbean Currency Union (ECCU) and has no separate legal tender. The common currency, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. Grenada has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on June 12, 2019. Grenada is on a 12-month cycle.

Technical Assistance: Grenada has received significant technical assistance from Caribbean Regional Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on:

- **Public Financial Management (PFM).** CARTAC TA in PFM has focused on reform of SOEs and statutory bodies (SBs), cash forecasting and commitment control, development and transition to a new chart of accounts consistent with the *Government Finance Statistics Manual 2014 (GFSM 2014)*, and the Public Expenditure and Financial Accountability (PEFA) assessment. Assistance was also provided on strategic budget reform to modernize the budget preparation process. Regarding the SOE/SB reforms, the 2016 CARTAC mission provided some limited assistance on

[2] Based on existing use of resources and present holdings of SDRs.

Public Service Pension Reform. In 2017, CARTAC provided assistance with a one-week training mission for the Grenada Fiscal Responsibility Committee and conducted a risk assessment on the SOEs. In April 2018, a mission was completed on assisting with moving to International Public Sector Accounting Standards (IPSAS) cash-based accounting and to bring their public accounts up to date. A roadmap on reforms to move Grenada to IPSAS Accruals was provided. Later in the year, Grenada participated in regional workshops geared at improving capacities for Internal Audit, Cash Management and SOE Oversight as well as assessing Fiscal Risks. In February 2019, a TA mission from Fiscal Affairs Department reviewed the Fiscal Responsibility Law with the aim of strengthening it by removing inconsistencies and ambiguities and reframing the expenditure rule.

- **Tax Administration.** TA was provided to strengthen tax administration at both the Inland Revenue and Customs Departments. For IRD, the support included establishing a Large and Medium Taxpayer Unit and a Design, Planning and Monitoring Section. In 2020, they received TA to prepare a new business model with processes enabled by a new information technology (IT) system. A follow up mission on the advancement of the basic compliance risk management strategy for the Large and Medium Taxpayer unit took place in 2021. For Customs, TA was provided in 2020 to strengthen analytical capacity and risk management.

- **Financial Stability Supervision and Regulation.** Significant TA has been provided to the Grenada Authority for the Regulation of Financial Institutions (GARFIN) to implement risk-based supervision across the non-banking sector, including capacity building to review reinsurance contracts, contingency planning for crisis preparedness and management, and conduct review of retail lending portfolios at credit unions. TA was also provided, as part of the broader ECCU-wide initiative, to develop financial health and stability indicators for the insurance sectors. In 2021 (GARFIN) received TA to enhance its stress testing framework for credit union.

- **Macroeconomic framework and statistics.** To support the authorities' efforts to establish an annual medium-term economic framework and promote informed policy making, CARTAC provided TA to strengthen medium-term macroeconomic projections and improve macroeconomic statistics. TA was provided during 2013 to 2015 to assist with compiling GDP by expenditure estimates; and during 2016, 2017, and 2019 to develop quarterly GDP by economic activity at current and constant prices and improve them further. In 2020, CARTAC provided TA for rebasing annual and quarterly estimates of GDP by economic activity to 2018 prices and assisted with the compilation of supply and use tables. In addition, CARTAC conducted TA in 2017 to develop the Producer Price Index and in 2021 to update the CPI basket. TA was also provided in 2014–21 to produce balance of payments (BOP) statistics according to the *Balance of Payments and International Investment Position Manual (BPM6)* and to initiate the production of international investment position (IIP) statistics, and review and improve upon the BPM6-compliant BOP and IIP statistics first released in July 2017.

Other Technical Assistance (Since 2016)

FAD and LEG have provided extensive assistance on tax policy and administration, public financial management, and public expenditure rationalization. In particular, TA was provided in the design and drafting of the PFM legislation and the Tax Administration legislation, reforms of the tax incentives system, and reform of the following Acts: income tax, property, VAT, excise tax. FAD provided TA on the public wage bill reform. FAD/LEG also provided comprehensive TA to draft the Fiscal Responsibility Act of 2015. FAD also provided TA in 2019 to further strengthening the Fiscal Responsibility Act. MCM provided TA on formulating a medium-term debt management strategy and implementing institutional changes to strengthen debt management and, together with LEG, provided TA to draft the Public Debt Management Act of 2015.

Start Date	End Date	Mission Description
01/11/2016	01/15/2016	Public Financial Management
03/21/2016	03/25/2016	Improving Balance of Payments Statistics
04/18/2016	04/22/2016	Tax Administration
06/09/2016	06/17/2016	Improving External Sector Statistics
06/09/2016	06/17/2016	Medium-Term Debt Management Strategy
07/06/2016	07/19/2016	Managing the Public Wage Bill
08/15/2016	08/26/2016	Improving GDP estimates by expenditure
4/24/2017	4/28/2017	Developing Methodology for new Producer Price Index
7/24/2017	7/28/2017	Balance of Payments Statistics
9/18/2017	9/22/2017	Review and Assessment of the Adequacy of Reinsurance Contracts/Treaties
10/23/2017	10/27/2017	Developing a Stress Testing Framework for Credit Union Sector
11/13/2017	11/24/2017	Improving Annual & Quarterly GDP Methodology
11/27/2017	12/1/2017	Risk-focused Examinations of Retail Lending Portfolios at Credit Union
4/16/2018	4/20/2018	Strengthening BOP & New IIP
4/23/2018	4/27/2018	Developing Financial Health and Stability Indicators for the Insurance Sector
4/24/2018	5/2/2018	Revenue Administration Diagnostic Mission
5/29/2018	5/30/2018	Review of Tax Administration Reform Priorities and FAD Recommendations
10/8/2018	10/12/2018	Contingency Planning for Crisis Preparedness and Management
1/30/2019	2/11/2019	Strengthening the Fiscal Responsibility Law
2/11/2019	2/15/2019	Improving External Sector Statistics

Start Date	End Date	Mission Description
4/1/2019	4/12/2019	Improving the Source Data and Compilation Methodologies Used for GDP Estimates
2/17/2020	2/28/2020	Compilation of Supply and Use Tables
2/24/2020	2/28/2020	Strengthening Risk Management in Customs
4/20/2020	4/24/2020	Strengthening Annual Balance of Payments Statistics
6/22/2020	6/26/2020	Strengthening Program Development and Compliance Risk Management Framework
2/8/2021	2/12/2021	Strengthening Balance of Payments/IIP data
3/22/2021	4/1/2021	Price Statistics (Consumer prices)
4/11/2021	4/24/2021	Compliance Risk Management Strategy for the Inland Revenue Division
6/14/2021	6/18/2021	Developing Performance Targets and KPI
7/19/2021	7/23/2021	Follow up on Stress Test for Credit Unions
2/7/2022	2/11/2022	Developing Quarterly Balance of Payments Data
2/21/2022	3/4/2022	Rebasing annual and quarterly GDP by economic activity to 2018 prices

Source: Based on available TA reports and consultations with CARTAC.

FSAP Participation: Grenada participated in the regional Eastern Caribbean Currency Union FSAP conducted in September and October 2003. The Financial System Stability Assessment is IMF Country Report No. 04/293.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of March 31, 2022)

- World Bank https://financesapp.worldbank.org/en/countries/Grenada/
- Caribbean Development Bank https://www.caribank.org/countries-and-members/borrowing-members/grenada

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is adequate for surveillance.

National Accounts: There are significant delays related to both receiving and processing survey data for GDP compilation. Supported by the CARTAC mission, estimates of quarterly GDP by production approach have been developed but compiled with a lag. The CSO is working to rebase the annual and quarterly GDP by economic activity to 2018 prices, and plans to release the series in the second half of 2022. There are currently no GDP estimates by expenditure.

Prices and high frequency statistics: The authorities compile regular data on consumer prices, retail sales; agricultural production and purchases; motor vehicle registrations; total cargo handled; fish production and exports; industrial production; imports of construction material; and water and electricity production. The 2010 update of the CPI brought methodology in line with international standards. The CPI basket is being updated based on the 2018/19 Household Budget Survey HBS, and a new CPI calculation system called CPI+ will be implemented, to replace the Price Index Processor System (PIPS) which is obsolete and not supported. A producer price index (PPI) and export and import price indices are not yet available, but the CSO intends to develop a PPI for certain sectors.

Labor statistics: Labor statistics are improving. The authorities introduced an annual Labor Force Survey in 2013, which was completed again in 2014 and 2015. They started a quarterly Labor Force Survey in 2018. A population census is being conducted and will be finished in 2022. Regular wage data are not available with the exception of partial data available from the National Insurance Scheme. The CSO conducted a Country Poverty Assessment in 2008, with assistance from the Caribbean Development Bank, and is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics.

Government finance statistics: The reporting of central government data has improved in recent years, with monthly data being provided to the ECCB, IMF, and other users in Fund economic classification format with lags of about 4–6 weeks. However, some challenges remain with the availability of fiscal data. Some donor-financed capital spending data are often not available until the end of the year, as they are not reported to or do not pass through the accounts of the central government. The new Chart of Accounts introduced in 2016 has improved the classification of public expenditure. The coverage of the rest of the public sector has improved, but remains limited, and there are no consolidated public-sector accounts. This is consistent with the requirement in the PFM Act of 2015 that the Minister of Finance present a statement of the overall performance of all enterprises to Parliament alongside the budget proposals. The PFM Act also requires public enterprises to submit annual financial statements no later than three months from the end of the fiscal year to the Director of Audit and the Minister of Finance.

Monetary statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended by the Monetary and Financial Statistics Manual and Compilation Guide. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission.
Grenada reports some data and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: The ECCB reports quarterly all Grenada's core and additional FSIs for deposit takers, covering commercial banks only.

External Sector Statistics: BOP statistics are improving, but there is uncertainty on the stability of the data series. BPM6-compliant BOP and IIP were released in July 2017 for 2014–16 and 2013–16, respectively for the first time, as part of the ECCU-wide initiative. Subsequent data releases in September 2018 and April 2019 added preliminary and estimated data for 2017 and 2018, and also reviewed and revised the entire data series by improving data sources. Ongoing work continues to improve estimates of tourism expenditure, including using alternative estimates for the pandemic year. The CSO is working to release consistent historical data series for 2000-13 BPM6 compliant, improve data timeliness, and produce comprehensive public and private sector external debt statistics in line with international standards. Actions are undertaken in collaboration with the ECCB, which coordinates the compilation of external sector statistics of the ECCU economies.

External and domestic debt statistics: The database for central government external debt is comprehensive and can be used to provide detailed and reasonably up-to-date breakdowns of disbursements and debt service, including future projections. Capacity upgrades are however needed to improve reliability of the data and fully eliminate the possibility of errors. There is also a detailed database on domestic government securities maintained by the Regional Governments Securities Market (RGSM) that provides data on auction results, and outstanding securities of the central government. Although the stock information on privately placed domestic T-bills, loans, bonds, and overdraft facilities are available on a monthly basis, there is no reliable data on future projections. Data availability on government-guaranteed debt and debt of public enterprises has been improved, and there is data on private sector external debt, other than from the monetary survey, in the case of the commercial banks.

II. Data Standards and Quality

While Grenada has participated in the Fund's General Data Dissemination System since March 2001, most of the metadata have not been updated since late 2002. Grenada has not fully implemented the e-GDDS as it does not yet have a National Summary Data Page (NSDP).

III. Reporting to STA

The International Financial Statistics page includes data on exchange rates, international liquidity, monetary statistics, prices, balance of payments, national accounts, and population. The authorities do not report fiscal data for publication in *International Financial Statistics (IFS)*. The ECCB provides data to the IMF for publication in the *Balance of Payments Yearbook*. Grenada has not provided any fiscal data, either on a GFSM 2001 basis, or a cash basis, for presentation in the *GFS Yearbook*. The ECCB disseminates Grenada's quarterly GFS data in its Economic and Financial Review.

Grenada: Table of Common Indicators Required for Surveillance
(As of February 28, 2022)

	Data of latest observation	Date Received[6]	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve liabilities of the Monetary Authorities [1,2]	09/2021	11/2021	M	M	M
Reserve/Base Money	09/2021	11/2021	M	M	M
Broad Money	09/2021	11/2021	M	M	M
Central Bank Balance Sheet	09/2021	11/2021	M	M	M
Consolidated Balance Sheet of the Banking System	09/2021	11/2021	M	M	M
Interest Rates[3]	09/2021	11/2021	M	M	M
Consumer Price Index	1/2022	3/2022	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing - – Central Government[4]	12/2021	2/2022	M	M	Q
Stocks of Central Government and Central Government- Guaranteed Debt[5]	10/2021	11/2021	A	A	A
External Current Account Balance	2020	11/2021	A	A	A
Exports and Imports of Goods and Services	2020	11/2021	M	A	A

Grenada: Table of Common Indicators Required for Surveillance (Concluded)
(As of February 28, 2022)

GDP/GNP	2020	08/2021	A	A	A
Gross External Debt	10/2021	11/2021	M	Q	A
International Investment Position	2020	11/2021	A	A	A

1 Grenada is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1 = EC$2.70.
2 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
3 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
4 Foreign, domestic banks, and domestic nonbank financing.
5 Currency and maturity composition are provided annually.
6 Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA); Not Applicable (n.a.).

GRENADA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 14, 2022

Approved By
Nigel Chalk and Natalia Tamirisa (IMF); Marcello Estevão and Robert R. Taliercio (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association.

Grenada: Joint Bank-Fund Debt Sustainability Analysis[1]	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

Grenada remains in external public debt distress solely due to longstanding unresolved arrears to official bilateral creditors of about US$24.5 million (2.2 percent of GDP) as of end-2021. However, debt is assessed as sustainable reflecting favorable projected debt dynamics from substantial fiscal surpluses that are supported by the return to the Fiscal Responsibility Law (FRL) in 2023. Public debt rose to 71.4 percent of GDP in 2020 from 58.5 percent in 2019, due chiefly to the pandemic-induced collapse in GDP. Supported by the economic recovery driven by a normalization of the tourism and offshore education sectors, it resumed its pre-pandemic downward trend in 2021 to reach an estimated 70.3 percent of GDP, with a further marginal decline expected in 2022. Going forward, continued adherence to the FRL and regularization of arrears will be needed to maintain a sustainable debt trajectory and upgrade the risk rating. Debt-to-GDP should be further reduced and kept at levels needed to withstand the existing vulnerabilities to external shocks and natural disasters.

[1] The last published DSA for Grenada can be accessed here.

PUBLIC DEBT COVERAGE

1. **Public debt in this DSA is defined as the sum of central government debt (including arrears on principal and interest and overdue membership fees to international organizations) and government-guaranteed debt.** It does not include non-guaranteed debt of state-owned enterprises (SOEs) and limited liability companies, notably PDV Grenada's debt on account of the Petrocaribe arrangement. Based on the determination that the Government of Grenada is not responsible for the debt but only for its shares in the company, the Petrocaribe debt has not been included in the stock of central government debt.[2] Until recently, gaps and time lags in the public enterprises' reporting hampered complete coverage of public sector debt. Substantial improvement in the comprehensiveness and timeliness of SOE debt data has been made more recently, but an expansion of the perimeter to the public sector is still unfeasible because of less clarity on SOE above-the-line operations. Non-guaranteed debt is estimated at around 16 percent of GDP in end-2021, including 12.4 percent of GDP for the Petrocaribe arrangement. Grenada does not have subnational government debt.

Text Table 1. Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

2. **The contingent liability stress test accounts for the risks from the estimated stock of non-guaranteed SOE debt as well as ongoing PPPs and financial markets.** The stock of non-guaranteed SOE debt is substantial, estimated at around 16 percent of GDP at end-2021, and is reflected in the contingent liability stress test. The bulk of this shock (12.4 out of 16 percent of GDP) is accounted for by PDV Grenada's total debt.[3] The current stock of PPP capital remains at zero, and thus the related contingent liability shock is also set to zero. Grenada's FRL puts a cap on PPP-related government liabilities at 5 percent of GDP. Contingent liabilities from financial markets are set at the minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in LICs since 1980. Estimates for other elements not covered are either zero (there is no central bank debt borrowed on behalf of the government) or need to be firmed up in the context of developing a comprehensive presentation of consolidated non-financial public sector debt, which is planned to be developed by the authorities.

[2] As reported in the 2014 staff report for the approval of the ECF arrangement, PDV Grenada is a limited liability company with the government's share of 45 percent and Venezuela's PDVSA's share of 55 percent.

[3] If anything, the approach taken toward public enterprise debt is conservative. For example, a substantial "haircut" on Petrocaribe debt was granted to St. Vincent and the Grenadines in 2018. Moreover, an existing debt of the central government to PDV Grenada of 3.5 percent of GDP is not subtracted from the possible contingent liability (see text table 3).

Text Table 2. Contingency Liability Calibration Table

1	**The country's coverage of public debt**	The central government, government-guaranteed debt			
			Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	16.0	SOE non-guaranteed debt stock at end-2021.
4	PPP	35	percent of PPP stock	0.0	PPP capital stock is zero
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			21.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

3. **External and total public debt rose sharply in 2020 and remained elevated in 2021.** Prior to the pandemic, Grenada's public debt as defined in this DSA declined significantly from 94.3 percent of GDP in 2014 to 58.5 percent of GDP in 2019, on the back of solid growth averaging 4.5 percent and robust primary surpluses averaging 4.7 percent of GDP in the same period. Total external debt rose in 2020-21 driven by external public debt dynamics. Public debt rose in 2020 to 71.4 percent of GDP from 58.5 percent in 2019, due chiefly to the collapse in GDP but also to a smaller primary balance surplus. In 2021, public debt resumed its earlier downward trend to reach an estimated 70.3 percent of GDP. At the same time, the composition of debt shifted towards longer maturities and external sources due mainly to strong support during the pandemic from multilateral organizations. In 2020, Grenada benefited from a deferral of debt service of US$1.4 million or 0.1 percent of GDP under the G20 Debt Service Suspension Initiative.

Text Table 3. Public sector Debt 2018-21
(Year end, in millions of EC dollars)

	2018			2019			2020			2021 (prel.)		
		Percent of			Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	2158.6	100.0	68.5	2054.3	100.0	62.7	2149.1	100.0	76.3	2249.9	100.0	74.7
Central government debt	2016.0	93.4	64.0	1918.3	93.4	58.5	2011.8	93.6	71.4	2117.8	94.1	70.3
Central-government guaranteed debt	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0
Other public sector debt	142.4	6.6	4.5	136.0	6.6	4.3	137.3	6.4	4.9	131.1	5.8	4.4
External debt (A+B+C)	1557.7	72.2	49.5	1476.8	71.9	45.1	1591.8	74.1	56.5	1672.2	74.3	55.5
A. Central Government	1520.2	70.4	48.3	1440.4	70.1	44.0	1554.7	72.3	55.2	1654.1	73.5	54.9
1. Multilateral	848.8	39.3	26.9	832.8	40.5	25.4	987.8	46.0	35.1	1060.8	47.1	35.2
2. Official bilateral	227.2	10.5	7.2	209.0	10.2	6.4	195.7	9.1	6.9	244.0	10.8	8.1
of which Paris Club	19.4	0.9	0.6	16.0	0.8	0.5	16.3	0.8	0.6	16.4	0.7	0.5
3. Commercial debt	405.9	18.8	12.9	369.1	18.0	11.3	347.8	16.2	12.3	332.1	14.8	11.0
4. Overdue membership fees	38.3	1.8	1.2	29.5	1.4	0.9	23.4	1.1	0.8	17.2	0.8	0.6
B. Central-government guaranteed	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. SOE non-guaranteed debt	37.3	1.7	1.2	36.4	1.8	1.1	37.1	1.7	1.3	18.1	0.8	0.6
Domestic debt (A+B+C)	600.9	27.8	19.1	577.5	28.1	17.6	557.3	25.9	19.8	577.7	25.7	19.2
A. Central Government	495.8	23.0	15.7	477.9	23.3	14.6	457.1	21.3	16.2	463.7	20.6	15.4
B. Central-Government Guaranteed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0
C. SOE non-guaranteed debt	105.1	4.9	3.3	99.6	4.8	3.0	100.2	4.7	3.6	113.0	5.0	3.8
Memorandum items:												
On-Lent Loans to Public Bodies 1/												
External	30.1		1.0	29.4		0.9	34.2		1.2	102.7		3.4
Domestic	3.9		0.1	3.6		0.1	3.3		0.1	3.0		0.1
PetroCaribe Grenada												
Debt to Venezuela	372.1		11.8	372.1		11.4	372.1		13.2	372.1		12.4
Loan to Grenada's Central Government	125.1		4.0	117.5		3.6	111.9		4.0	106.4		3.5
Loan to Public Bodies	27.0		0.9	67.5		2.1	67.5		2.4	93.3		3.1
Nominal GDP	3149.6			3276.4			2817.2			3011.3		

Sources: Grenadian authorities and Fund staff estimates.
1/ On-lent loans to public bodies are not counted as SOE debt since they are part of central government debt.

4. **External arrears are broadly unchanged, despite the authorities' good faith efforts to resolve the remaining non-Paris Club arrears.** These arrears are a legacy from the 2014 debt restructuring and reflect both private sector and non-Paris Club holdouts. The authorities have continued to make payments on overdue membership fees in line with the revised schedule published in mid-2017. Arrears of about US$25 million owed to non-Paris Club official bilateral creditors including Trinidad and Tobago, Algeria, and Libya remain to be regularized.[4] The authorities report progress in advancing negotiations as of early 2022, particularly with Trinidad and Tobago, for which high-level discussions have taken place and an escrow account was recently opened to deposit debt payments, and Algeria, for which informal discussions took place in late 2021. Commercial arrears purport overwhelmingly to holdouts of the 2012 USD restructured bonds. The authorities continue to engage commercial creditors to reach a resolution.

Text Table 4. External and Domestic Arrears 2019-21
(Year end, in millions of U.S. dollars, unless otherwise indicated)

	2019		2020		2021 (est)	
	US$mln	% of GDP	US$mln	% of GDP	US$mln	% of GDP
Total arrears	**43.9**	**3.6**	**41.6**	**4.0**	**41.2**	**3.7**
External arrears	**43.9**	**3.6**	**41.6**	**4.0**	**41.2**	**3.7**
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	22.9	1.9	22.8	2.2	24.5	2.2
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	22.9	1.9	22.8	2.2	24.5	2.2
Algeria	1.8	0.1	1.8	0.2	1.9	0.2
Libya	5.0	0.4	5.0	0.5	5.0	0.4
Trinidad and Tobago	16.1	1.3	16.0	1.5	17.6	1.6
Commercial	10.1	0.8	10.1	1.0	10.3	0.9
Unpaid contribution to organizations	10.9	0.9	8.7	0.8	6.4	0.6
Budget expenditure arrears	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic debt	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Grenadian authorities and staff estimates.

5. **Most portfolio characteristics of Grenada's debt continued to improve.**[5] Consistent with their debt strategy, the authorities sought to shift towards (largely) concessional external debt. The new long-term concessional financing helped keep the average time to maturity around 9 years in 2020. Average time to re-fixing of the debt portfolio similarly remained roughly unchanged at 8.9 years, and the average effective interest rate on central government debt declined from 3.2 to 3.0 percent in 2020. As expected from the financing structure, the share of multilateral debt increased to around 45 percent and that of foreign exchange debt to 71.5 percent in 2020 from 69.1 percent in 2019.

6. **Portfolio risks, while declining, continue to be present.** The interest rate is subject to a moderate risk with an average time to re-fixing of 8.6 years in which 21 percent of the portfolio is subject to a change in interest rates in one year. This risk resides predominantly in the domestic portfolio in which

[4] Arrears have increased due to the accrual of interest.

[5] The metrics provided in this paragraph purport exclusively to central government debt.

31 percent of this debt is subject to re-fixing in one year. The refinancing risk profile of the portfolio has an average time to maturity of 9 years which exceeds the set target of greater than 8 years. The current portfolio is subject to only moderate foreign exchange risk as most of foreign currency debt is denominated in U.S. dollars to which the EC dollar is pegged.

BACKGROUND ON MACRO FORECASTS

7. **Data for 2019-21 came out weaker than anticipated in the 2020 RCF.**[6] The pandemic ended up resulting in a sharper contraction of real GDP in 2020 and a slower recovery in 2021 than anticipated in the 2020 RCF. Weaker-than expected tourism receipts led to a higher current account deficit than expected in 2019-21. Fiscal outturns were favorable, with stronger-than-expected revenues including grants more than compensating the larger spending.

Text Table 5. Macroeconomic Assumptions
(In percent of GDP, unless otherwise indicated)

	Historical	Projections					
	2012-2018	2019-21		2022-27		2028-38	
		2020 RCF	2022 AIV	2020 RCF	2022 AIV	2020 RCF	2022 AIV
Real GDP growth (in percent)	3.9	0.0	-2.5	3.4	3.4	2.7	2.8
Inflation rate (GDP deflator, in percent)	2.0	1.0	1.4	2.0	2.4	2.1	2.2
Non-interest current account deficit	13.9	18.8	23.0	10.8	15.5	10.0	11.1
Growth of exports of G & S (USD terms, in percent)	19.4	4.4	-1.2	8.5	14.0	5.0	4.7
Net current official transfers (negative=inflow)	0.1	0.3	0.2	0.3	1.0	0.4	0.9
Net FDI	-11.2	-9.4	-12.4	-13.1	-11.9	-12.9	-13.8
Primary deficit	2.0	-3.6	-4.0	-3.6	-3.1	0.6	0.0
Revenue and grants	24.2	26.0	28.8	26.2	28.6	25.7	28.3
of which: grants	2.7	3.3	4.7	2.6	4.2	2.1	3.5
Primary (non-interest) expenditure	22.2	22.5	24.8	22.5	25.5	26.3	28.3

Source: Grenadian authorities and IMF staff projections

8. **Medium-term projections are predicated on a slow recovery, as the rebound in tourism is partly offset by tighter fiscal policy, particularly in 2023 (Box 1)**

Box 1. Grenada: Macroeconomic Assumptions for 2022–42

Real GDP growth reached 4.5 percent between 2014-19, well above the regional average, supported by structural reforms and strong tourism demand. Real GDP growth is projected to expand by 3.6 percent in 2022, underpinned by public construction activity, the gradual pickup in tourism arrivals, the continued return of SGU students, and private investment in the hospitality sector. Public investment is expected to boost longer-term potential GDP and mitigate risks from natural disasters and climate change. For example, the WB regional tourism competitiveness project and the international airport expansion will increase flights capacity and contribute to the recovery of tourism. Projects like the climate resilience water sector; smart agriculture; climate resilient cities; and those supporting an expansion of solar power generation and battery storage are critical components of climate adaptation and mitigation. The war on Ukraine and resulting increases in global commodity prices are already posing headwinds to growth but could still create further strains, crucially depending on its length. The primary surplus is expected to rise significantly in 2023 with the return to the FRL, as public investment is paired back and the recovery takes hold driving up revenues. Still, the economy is only expected to reach the pre-pandemic output level by 2024, supported by post-pandemic pent-up demand, a recovery of tourism related activities, and robust private investment that takes the mantle from public investment. Output is expected to gradually converge to

[6] Grenada: Request for Disbursement Under the Rapid Credit Facility.

Box 1. Grenada: Macroeconomic Assumptions for 2022–42 (Concluded)

potential by 2026 and remain around that level thereafter. The baseline includes estimated average costs of natural disasters.[1] Over the long term, potential growth is assumed at 2.8 percent. This incorporates the potential negative impacts of natural disasters and climate change, as well as the positive impact of implementing the Disaster Resilience Strategy (DRS).[2] The DRS provides a platform for robustly identifying financing and capacity building needs and a framework for coordinated support from development partners. Increased access to donor financing is crucial for its implementation.

Inflation is expected to further increase to 5.4 percent in 2022, in line with higher U.S. inflation and import prices, particularly commodities on the back of the war in Ukraine, and continued recovery in domestic demand and to slowly converge back to 2 percent over the long-term, anchored by the currency board arrangement under the Eastern Caribbean Central Bank (ECCB). The GDP deflator is expected to rise by 3.1 percent in 2022. In 2021, the Government implemented temporary relief of VAT and environmental levy charges on electricity for small consumers, a reduction of 25 percent on the electrical non-fuel charge, a cap of EC$15 per gallon on gasoline and diesel, and an exemption of VAT on five food items to curb rising living costs of the most vulnerable groups. The measures are assumed to be temporary as announced.

Fiscal policy. Anchored by the FRL, Grenada's primary surplus averaged 4.7 percent of GDP between 2014-19. In the same period, solid growth and cumulated primary surpluses drove down public debt as defined in this DSA from 94.3 percent to 58.5 percent of GDP. In 2020-21, the sharp GDP contraction and additional spending needs reversed this trend, and public debt stood at 70.3 percent of GDP at end-2021. Projections for 2022 follow roughly the Budget and thus assume a triggering of the escape clause under the FRL for the third year. Continued compliance with the FRL starting in 2023 is assumed until debt is sustainably below 55 percent of GDP, which is the case in 2027. The return to the FRL is supported by the strong recovery of the tourism sector, the slowdown of major public construction projects, as well as tax administration and spending containment measures indicated in the medium-term recovery plan. These tax administration and spending containment measures are expected to have insignificant contractionary impacts on growth, while bringing long-term revenue gains. Primary fiscal surpluses are expected to continue to overperform the FRL's 3.5 percent of GDP floor on average through 2027 but then turn into small primary deficits as permitted by the fiscal rule and needed to fill the investment gap estimated by the government's DRS at around 4 percent of GDP annually. The looser fiscal policy assumed after 2027 is in line with keeping a roughly stable debt-to-GDP ratio at 45 percent (well below the target).

The non-interest current account deficit is currently projected at 15.5 percent in the medium term, much higher than previously projected driven by the slow recovery in tourism receipts after the collapse in 2020. FDI was also adjusted upward reflecting large ongoing projects and the lower GDP base. Over the long-term, the current account deficit is likely to return to closer to its long-term historical average.

Gross reserves are expected to hover around 5 months of imports after jumping in 2021 due to the SDR allocation.

Risks are tilted to the downside and uncertainty is especially high. Key risks arise from the evolution of the pandemic and how it may affect tourism, and natural disasters. Inflationary pressures, if persistent, could drive up borrowing costs, through their impact on advanced economies' monetary policy and consequent tightening of global financial conditions, and lead to an erosion of real growth. The high inflation could feed into higher goods and services spending and public wage bill, higher-than-expected VAT exemption costs, both of which may weaken fiscal performance. At the same time, tax collection on pricier imports could overperform. Ongoing reforms to promote renewable energy and energy efficiency can reduce Grenada's exposure to future energy price swings, while also strengthening economic competitiveness, improving the long-term balance of payments position, and reducing emissions. The prospective monetary tightening in major economies could revert the recovering trend of FDI and threaten the sustainable financing of development projects, including the DRS.

[1] The future annual fiscal cost of natural disasters is assumed at ½ percent of GDP, broadly consistent with the World Bank-modeled losses that have an estimate of 0.3 percent of GDP (The latter covers most but not all types of historical natural disasters and does not model additional potential fiscal effects from the revenue losses and intensifying climate change).

[2] The government's published document is available here.

9. **Financing assumptions have been updated based on most recent data.** The latest financing projections from the World Bank's International Development Association (IDA) program and existing Caribbean Development Bank (CDB) projects have been incorporated. Also, remaining disbursements from the loan extended by the Export-Import Bank of China will take place in 2022-23.[7] As a result, external financing is projected to increase in the short term and be sufficient to cover the high level of debt service in 2022. In the long run, the government is assumed to mainly rely on concessional loans from the World Bank and CDB for external financing, with commercial external debt rising in importance after 2035. Domestic financing sources are assumed to also play a larger role as the market matures.[8]

10. **Realism tools indicate that short-term growth is conservatively forecasted, given the projected fiscal adjustment and in the context of the recovery from the pandemic** (Figure 4). It should be noted that policy-based fiscal adjustment is not envisioned in the projection period. However, the projected fiscal path incorporates the potential enhancement of tax administration, wage bill containment and public purchases streamlining. As such, the fiscal projection lies just shy of the top quartile of the distribution of past adjustments of the primary fiscal deficit, which is also consistent with the authorities' determination to return to the FRL. The expected return of tourism and the other efficiency measures will support the adjustment, while remaining relatively growth friendly. The improved long-term outlook, results in lower projected external debt and public debt to GDP ratios relative to the previous DSA after 2030 (Figure 3).

[7] The loan, which is for financing infrastructure projects (such as airport and road network constructions), amounts to US$69 million, with US$24 million already disbursed in 2021.

[8] See the 2021 Article IV consultation with the ECCU here.

COUNTRY CLASSIFICATION AND DETERMINANTS OF SCENARIO STRESS TESTS

11. Grenada continues to be assessed at medium debt-carrying capacity.[9] The rating is based on the CI score, which captures the impact of the different factors through a weighted sum of the 2020 World Bank's Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and world growth.[10] Under the CI, Grenada continues to be rated as a medium performer.

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.604	1.39	46%
Real growth rate (in percent)	2.719	2.921	0.08	3%
Import coverage of reserves (in percent)	4.052	46.703	1.89	62%
Import coverage of reserves^2 (in percent)	-3.990	21.812	-0.87	-29%
Remittances (in percent)	2.022	5.868	0.12	4%
World economic growth (in percent)	13.520	3.137	0.42	14%
CI Score			3.03	100%
CI rating			Medium	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 3.03	Medium 2.99	Medium 2.94

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

12. Both external and public debt analyses consider standard-DSA alternative scenarios to this baseline as well as three tailored scenarios. A "contingency liability" shock captures risks from SOE and PDV debt. An extreme "natural disaster" scenario is calibrated based on the estimated growth effects that the 2017 hurricane Maria had on Dominica (the total damage from Maria for Dominica is similar to that of

[9] The composite index (CI), estimated at 3.03 and based on the October 2021 World Economic Outlook (WEO) and 2020 World Bank CPIA data, indicate a medium debt carrying capacity for Grenada.

[10] Based on the *IMF World Economic Outlook, October 2021*.

hurricane Ivan for Grenada in 2004). The fiscal response assumes an increase of expenditures by a total of 5 percent in the two years following a hurricane or 2.5 percentage points in the first two years to cover reconstruction costs. Finally, a "commodity" shock captures a possible price shock to exports of goods and services, with the resulting price gap reverting only gradually to baseline.

EXTERNAL DSA

13. External PPG debt-to-GDP ratio is projected to trace a downward path in the baseline scenario. The thresholds under the baseline scenario are breached for the present value of debt to GDP ratio and debt service-to-revenue ratio (Figure 1). These underscore the current high level of debt and the need to mobilize domestic resources by enhancing tax compliance, reducing tax arrears, boosting digitalization, and increasing the equity of the tax system.

14. Under stress tests thresholds are breached for all key indicators of PPG external debt under an export shock. The present value of debt-to-GDP remains above its threshold under all stress tests (Table 3). The most severe shock is the "exports" shock, due to high exposure to tourism (exports). For the present value of debt-to-exports, debt service-to-exports ratio, and debt service-to-revenue ratio, the exports shock is the most extreme shock as well. A large natural disaster and a contingent liabilities shock have significant effects on the debt path. The effect of a natural disaster has a protracted effect on the debt path in part due to its interaction with the export shock (e.g., due to the likelihood of the tourism infrastructure being damaged by a natural disaster).

15. Risks to external debt sustainability are high. Under the exports shock, all benchmarks are breached. The shock is applied on top of the already sharp contraction in exports due to COVID-19 and thus it should be interpreted with caution. The same applies to the historical scenario. Still, staff agrees with the mechanical assessment that risks are high.

OVERALL RISK OF PUBLIC DEBT DISTRESS

16. The total PPG Debt-to-GDP ratio is projected to gradually decline up to 2027 and broadly stabilize thereafter. Nevertheless, due to the remaining unresolved arrears to official bilateral creditors, Grenada's DSA rating stands unchanged at "in debt distress". The key drivers of the projected decline in PPG debt-to-GDP in the next few years are sizable primary surpluses and GDP growth as reflected in the updated macroeconomic assumptions. The PV of debt-to-GDP ratio would return to below benchmark in the baseline scenario after 2026, reflecting continued access to concessional financing (Figure 2). Debt is projected to stabilize below the FRL target of 55 percent of GDP after 2027 as a cushion against large shocks, including natural disasters. Under the most severe scenario as implied by the growth shock, all benchmarks are breached. Staff notes that the design of this shock in the template is overly onerous and conservative since the collapse in tourism during 2020 had an exceptional and sizable temporary element which is not appropriately taken into account by the default template.

RISK RATING, VULNERABILITY AND RECOMMENDATIONS

17. Grenada remains in external debt distress, but its debt is assessed as sustainable. The assessment that debt is sustainable is predicated on the authorities' strong commitment to the FRF, fiscal structural reforms, and further improvement in debt management. This is also supported by the authorities' strong past record of debt reduction and the availability of liquid financial assets (e.g., SDR allocation and government deposits). The debt to GDP ratio rose in 2020 after a significant decline through several consecutive years of fiscal consolidation anchored by the FRL, robust economic growth, and a restructuring of Grenada's public debt. Fully regularizing external arrears would help tangibly improve the country's DSA rating. Further progress in public debt reduction would also be essential, including through maintaining the FRL's rules-based framework, pursuing fiscal structural reforms, and further improving debt management capacity.

18. Risks to debt sustainability remain substantial. Grenada's debt sustainability is subject to two-sided risks. The recovery of the tourism sector is highly uncertain and could either over- or under-perform expectations. Shocks to oil prices are an added risk to the medium-term outlook. Domestically, higher-than-expected pension and health care-related liabilities can put additional stress on public finances and a possibility of particularly large natural disasters are an ever-present risk, which can also have adverse spillovers on the tourism sector. Continued strong commitment to the FRL is needed to manage those risks. The debt dynamics are highly susceptible to growth underperformance, which could intensify with climate change (Table 3). The risks, including those associated with the Petrocaribe contingent debt, are mitigated by continued improvement of debt reporting and monitoring. The climate related risks are mitigated by the implementation of the DRS, as supported by the IMF, WB and other development partners.

19. To cushion the fiscal risks from natural disasters, Grenada has significantly advanced climate resilience building and responses to other emergencies. The Government has a long history developing the legal and institutional framework for disaster risk management (DRM). Disaster risk reduction has been included in the national development planning process (e.g., National Hazard Mitigation Policy 2003 and Plan 2006), and expanded across various line ministries and sectors under a multifaceted approach (e.g., Grenada Blue Growth Coastal Master Plan, and National Adaptation Plan 2017-2021). Resilience building was built into all infrastructure sectors, land, agroforestry, agriculture, fishing, food security, water, mangrove, marine, coral, health, and zone management, to mitigate the potential damages. Surveillance and evaluation procedures have also been established to detect and manage outbreaks and response mechanisms for public emergency events, including health-related shocks. However, implementation capacity remains a significant impediment. Development partners have been providing technical and capacity assistance to Grenada to further advance this area.

20. The government is also shifting to a more proactive and layered financial response planning to disaster risk. A variety of instruments are in place to meet different liquidity and funding needs for disasters of different severity and frequency. As part of its 2015 debt restructuring, some Grenada bonds included hurricane clauses, whereby debt service on the restructured debt (mainly to 2025 private bondholders, but also to Taiwan, Province of China and the Paris Club) would be automatically re-profiled following a hurricane and in some cases other types of natural disaster. This clause could release up to EC$45 million in funds in the event of a major natural disaster (the amounts would be smaller for smaller events, depending on the triggers). Insurance from CCRIF, the contingency fund under the National Transformation Fund, and other savings would provide additional layers of protection. Although various instruments are in place, they are not used efficiently and need to be optimized to ensure the complementarity between the various risk retention and risk transfer instruments. The newly adopted Disaster Resilience Strategy and the DRM Bill under preparation will help consolidate the different resources and provide the most efficient cushions against natural disasters.

21. Debt management and debt data coverage need to be further enhanced. The authorities' debt management capacity would benefit from further reform efforts, including in data management and IT system enhancements, building on the Debt Management Performance Assessment (DeMPA) undertaken with the World Bank in 2018. The Ministry of Finance (MoF) is monitoring non-guaranteed debt of SOEs, which is important in the context of FRL's debt targets. Such monitoring and the quality of information has improved considerably in recent years but can further improve, particularly in the timeliness of coverage of SOE debt and in including information on their above-the-line operations.

22. The situation and status of Petrocaribe debt should be reviewed to improve analysis of risks to Grenada's debt profile in the context of the country's medium-term debt strategy. U.S. sanctions on Venezuela blocked payments on Grenada's Petrocaribe debt in 2018-19. A careful assessment of Grenada's Petrocaribe liabilities is needed. Recent ample concessional external financing from multilateral organizations and substantial receipts under the Citizenship-by-Investment (CBI) program have strengthened the need to enhance the reporting and efficiency of asset management, and the capacity for asset/liability operations. Continuing to operationalize the National Transformation Fund's link to natural disasters should be followed up with adequate financing. Implementation of the Disaster Resilience Strategy would further support debt sustainability and resistance to shocks.

Authorities' Views

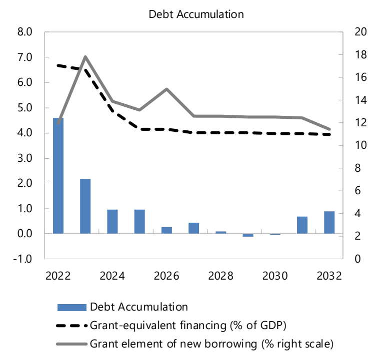
23. The authorities agreed with staff's debt sustainability assessment. The effort to regularize bilateral official arrears is ongoing, and the authorities are making payments consistent with 2015 Paris Club agreement into an escrow account concerning the largest of such debts (to Trinidad and Tobago). They indicated that the staff's financing assumptions are broadly in line with the government's Medium-Term Debt Strategy. The authorities stressed that their commitment to the FRL underpins and strengthens the assessment that debt is sustainable.

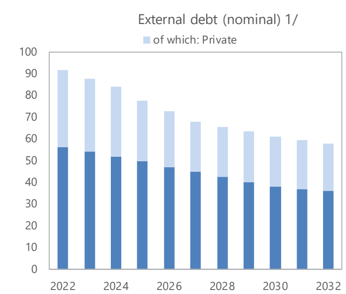
Table 1. Grenada: External Debt Sustainability Framework Baseline Scenario 2019–2042

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	81.8	92.9	94.8	91.7	87.5	83.9	77.5	72.5	68.0	57.8	45.6	105.2	71.7
of which: public and publicly guaranteed (PPG)	44.0	55.2	54.9	56.0	54.1	51.7	49.6	47.0	44.9	35.9	26.5	55.7	45.2
Change in external debt	-4.2	11.1	1.8	-3.1	-4.2	-3.6	-6.4	-5.0	-4.5	-1.6	-1.0		
Identified net debt-creating flows	-3.4	20.1	6.3	13.9	6.4	0.6	-1.2	-2.0	-2.7	-2.7	-3.3	0.7	0.1
Non-interest current account deficit	13.1	19.4	23.0	26.5	18.9	13.7	11.9	11.3	10.8	11.0	11.6	15.3	13.4
Deficit in balance of goods and services	5.4	15.9	20.3	20.0	11.3	6.1	4.2	3.4	2.8	3.8	3.7	9.4	6.1
Exports	54.5	40.4	40.1	47.5	54.4	59.9	61.7	61.3	61.2	60.2	58.8		
Imports	59.9	56.3	60.4	67.5	65.6	66.0	65.9	64.7	64.0	64.1	62.4		
Net current transfers (negative = inflow)	-0.4	-1.8	-2.7	1.0	1.0	1.1	1.2	1.3	1.4	1.6	2.2	-0.6	1.3
of which: official	0.4	0.2	-0.5	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9		
Other current account flows (negative = net inflow)	8.1	5.3	5.4	5.5	6.6	6.5	6.5	6.6	6.6	5.5	5.8	6.4	6.0
Net FDI (negative = inflow)	-14.7	-14.3	-12.2	-10.8	-11.1	-11.6	-12.1	-12.6	-13.1	-13.6	-14.8	-12.0	-12.6
Endogenous debt dynamics 2/	-1.9	15.0	-4.5	-1.8	-1.4	-1.6	-1.1	-0.7	-0.4	-0.2	-0.1		
Contribution from nominal interest rate	1.5	1.7	1.5	1.4	1.7	1.7	1.7	1.7	1.6	1.4	1.2		
Contribution from real GDP growth	-0.6	13.1	-4.9	-3.2	-3.1	-3.3	-2.8	-2.3	-2.0	-1.6	-1.2		
Contribution from price and exchange rate changes	-2.8	0.2	-1.1	...	...	...	...	...	...	...	...		
Residual 3/	-0.8	-9.0	-4.5	-17.0	-10.6	-4.2	-5.2	-3.0	-1.8	1.1	2.3	-4.9	-3.4
of which: exceptional financing 4/	0.0	0.0	0.0	-0.9	-0.3	0.2	0.2	0.1	0.1	0.1	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	49.5	50.7	49.4	47.6	46.0	43.8	42.1	34.3	25.6		
PV of PPG external debt-to-exports ratio	...	...	123.6	106.6	90.8	79.4	74.5	71.5	68.8	57.0	43.5		
PPG debt service-to-exports ratio	7.8	16.7	15.6	13.6	9.8	8.6	8.7	8.5	8.3	6.8	6.1		
PPG debt service-to-revenue ratio	17.9	27.6	25.9	27.5	21.9	21.0	21.8	21.3	20.7	16.6	14.5		
Gross external financing need (Million of U.S. dollars)	33.5	124.1	191.1	265.4	168.9	99.9	75.8	59.5	44.5	32.2	12.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	0.7	-13.8	5.6	3.6	3.6	3.9	3.5	3.2	2.8	2.8	2.8	2.0	3.2
GDP deflator in US dollar terms (change in percent)	3.3	-0.3	1.2	3.1	3.3	1.8	2.0	2.2	2.2	2.2	2.2	1.8	2.3
Effective interest rate (percent) 5/	1.8	1.8	1.8	1.6	1.9	2.1	2.1	2.3	2.3	2.5	2.7	1.7	2.2
Growth of exports of G&S (US dollar terms, in percent)	6.5	-36.3	6.0	26.6	22.4	16.7	8.7	4.7	5.0	4.9	5.0	11.2	9.8
Growth of imports of G&S (US dollar terms, in percent)	6.2	-19.2	14.6	19.5	4.1	6.4	5.4	3.5	4.1	5.1	5.1	6.0	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	12.0	17.8	13.9	13.1	15.0	12.6	11.4	9.2	...	13.3
Government revenues (excluding grants, in percent of GDP)	23.8	24.5	24.1	23.5	24.4	24.6	24.7	24.5	24.5	24.8	24.6	22.3	24.6
Aid flows (in Million of US dollars) 6/	34.6	38.2	85.2	65.0	90.1	66.7	56.9	59.7	62.6	78.8	125.8		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	6.7	6.5	4.9	4.1	4.2	4.0	3.9	3.8	...	4.6
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	42.6	51.6	53.8	49.2	52.8	52.5	53.3	56.6	...	52.0
Nominal GDP (Million of US dollars)	1,213	1,043	1,115	1,192	1,275	1,350	1,425	1,502	1,579	2,023	3,318		
Nominal dollar GDP growth	4.0	-14.0	6.9	6.8	7.0	5.8	5.6	5.4	5.1	5.1	5.1	3.9	5.6
Memorandum items:													
PV of external debt 8/	...	...	89.4	86.4	82.8	79.8	73.8	69.3	65.2	56.3	44.7		
In percent of exports	...	...	222.9	181.8	152.2	133.1	119.6	113.1	106.5	93.4	76.1		
Total external debt service-to-exports ratio	7.9	16.9	15.8	13.8	10.0	8.8	8.8	8.6	8.4	6.9	6.1		
PV of PPG external debt (in Million of US dollars)			552.6	604.0	629.9	642.3	655.1	658.6	665.4	694.1	848.8		
(PVt-PVt-1)/GDPt-1 (in percent)				4.6	2.2	1.0	1.0	0.2	0.5	0.9	0.5		
Non-interest current account deficit that stabilizes debt ratio	17.3	8.2	21.2	29.6	23.1	17.3	18.4	16.2	15.3	12.7	12.6		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes, the former being unusually negative in 2022-23 and thus contributing to the negative residuals.

4/ For 2020 it includes all sources of exceptional financing under the RCF. For 2021 and beyond it includes Eximbank China lending to an SOE.

5/ Current-year interest payments divided by previous period debt stock.

6/ Defined as grants, concessional loans, and debt relief.

7/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

8/ Assumes that PV of private sector debt is equivalent to its face value.

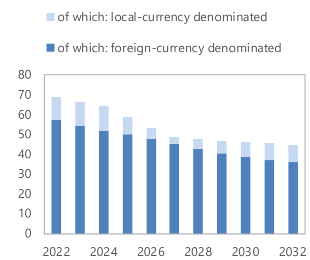
9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

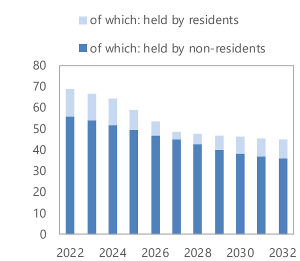
Table 2. Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	58.5	71.4	70.3	69.0	66.6	64.3	58.9	53.5	48.5	44.9	41.6	78.2	53.8
of which: external debt	44.0	55.2	54.9	56.0	54.1	51.7	49.6	47.0	44.9	35.9	26.5	55.7	45.2
Change in public sector debt	-2.2	12.9	-1.1	-1.3	-2.4	-2.3	-5.4	-5.4	-5.0	-0.7	-0.1		
Identified debt-creating flows	-7.8	8.4	-4.9	0.3	-5.3	-5.9	-5.9	-5.7	-5.3	-0.7	-0.1	-4.4	-2.9
Primary deficit	-6.8	-3.2	-2.1	1.5	-3.5	-3.8	-4.2	-4.3	-4.2	0.0	0.1	-2.6	-1.7
Revenue and grants	26.6	28.1	31.8	29.0	29.6	28.8	28.2	28.0	28.0	28.3	28.1	25.6	28.5
of which: grants	2.9	3.7	7.6	5.5	5.2	4.2	3.5	3.5	3.5	3.5	3.5		
Primary (noninterest) expenditure	19.8	24.9	29.7	30.4	26.1	25.0	24.0	23.7	23.8	28.3	28.2	23.0	26.8
Automatic debt dynamics	-1.0	11.6	-2.7	-2.1	-2.0	-1.9	-1.6	-1.2	-0.9	-0.6	-0.2		
Contribution from interest rate/growth differential	-0.5	10.2	-3.1	-2.1	-2.0	-1.9	-1.6	-1.2	-0.9	-0.6	-0.2		
of which: contribution from average real interest rate	0.0	0.9	0.7	0.4	0.4	0.6	0.6	0.6	0.5	0.7	0.9		
of which: contribution from real GDP growth	-0.4	9.3	-3.8	-2.5	-2.4	-2.5	-2.2	-1.8	-1.5	-1.2	-1.1		
Contribution from real exchange rate depreciation	-0.5	1.4	0.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.9	0.3	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	-0.2	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow 2/	0.0	0.0	0.0	0.9	0.3	-0.2	-0.2	-0.1	-0.1	-0.1	0.0		
Residual 3/	5.6	4.4	3.8	-1.6	2.8	3.6	0.5	0.3	0.3	-0.1	-0.1	1.8	0.6
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	...	...	64.9	63.7	61.9	60.2	55.2	50.3	45.7	43.3	40.6		
PV of public debt-to-revenue and grants ratio	...	...	204.3	219.8	209.1	208.9	195.8	179.4	163.5	153.2	144.7		
Debt service-to-revenue and grants ratio 5/	32.7	45.4	37.9	36.7	23.1	23.4	25.3	23.8	19.1	21.7	31.8		
Gross financing need 6/	1.9	9.6	9.9	13.0	3.6	2.8	2.8	2.2	1.0	6.0	9.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	0.7	-13.8	5.6	3.6	3.6	3.9	3.5	3.2	2.8	2.8	2.8	2.0	3.2
Average nominal interest rate on external debt (in percent)	3.2	3.1	2.8	2.6	3.0	3.2	3.3	3.4	3.5	3.9	4.6	3.1	3.4
Average real interest rate on domestic debt (in percent)	-3.2	3.1	1.5	-0.5	-0.5	1.0	0.9	0.4	-0.2	1.0	2.3	-1.2	0.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.2	2.7	0.6	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	3.3	-0.3	1.2	3.1	3.3	1.8	2.0	2.2	2.2	2.2	2.2	1.8	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.1	8.7	25.5	6.3	-11.2	-0.2	-0.8	2.0	3.1	2.8	2.7	3.7	3.0
Primary deficit that stabilizes the debt-to-GDP ratio 7/	-4.6	-16.0	-1.0	2.8	-1.1	-1.5	1.2	1.1	0.8	0.7	0.3	-7.2	0.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

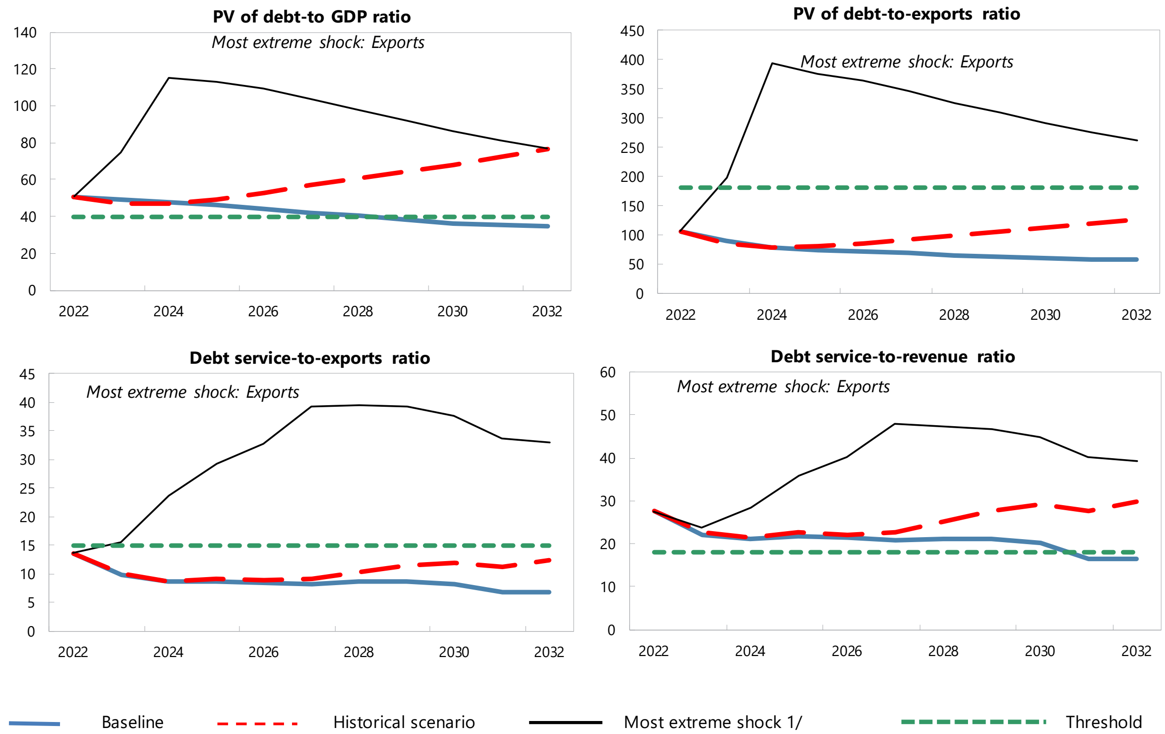
Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.
2/ Reflects financing to SOEs from Exim Bank China and World Bank.
3/ Includes fluctuations of government bank deposits.
4/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
6/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
7/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2022–2032



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	Yes
Commodity price	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

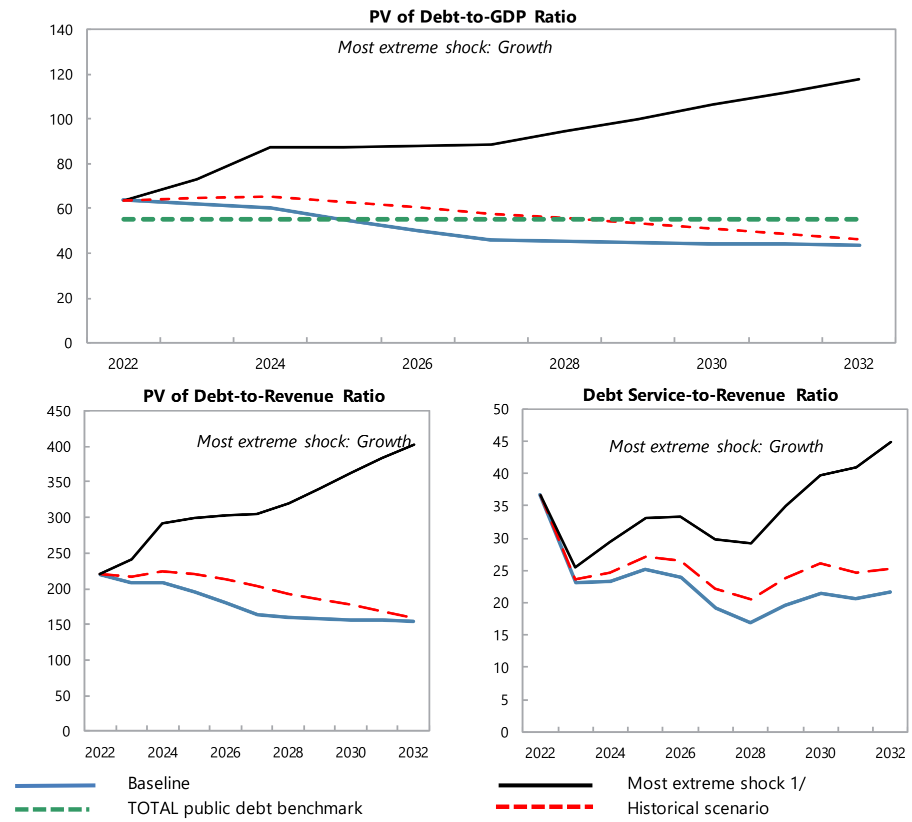
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.2%	4.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	2	2

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Grenada: Indicators of Public Sector Debt Under Alternative Scenarios 2022–2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	96%	96%
Domestic medium and long-term	3%	3%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.2%	4.2%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	2	2
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.9%	1.9%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1.9%	1.9%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(In Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	**51**	**49**	**48**	**46**	**44**	**42**	**40**	38	36	35	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**51**	**47**	**47**	**49**	**52**	**57**	**61**	**64**	**68**	**72**	**76**
B. Bound Tests											
B1. Real GDP growth	**51**	**56**	**61**	**59**	**56**	**54**	**52**	**49**	**47**	**45**	**44**
B2. Primary balance	**51**	**54**	**59**	**57**	**55**	**53**	**51**	**49**	**47**	**46**	**45**
B3. Exports	**51**	**74**	**115**	**113**	**109**	**103**	**98**	**92**	**86**	**81**	**77**
B4. Other flows 3/	**51**	**54**	**57**	**56**	**53**	**51**	**48**	**46**	**43**	**42**	**40**
B5. Depreciation	**51**	**62**	**56**	**54**	**51**	**49**	**47**	**45**	**42**	**41**	**41**
B6. Combination of B1-B5	**51**	**73**	**78**	**76**	**72**	**69**	**66**	**62**	**59**	**56**	**54**
C. Tailored Tests											
C1. Combined contingent liabilities	**51**	**68**	**67**	**65**	**63**	**61**	**59**	**57**	**55**	**54**	**53**
C2. Natural disaster	**51**	**71**	**72**	**74**	**75**	**77**	**79**	**80**	**82**	**84**	**87**
C3. Commodity price	**51**	**49**	**48**	**46**	**44**	**42**	**40**	38	36	35	34
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	107	91	79	74	72	69	66	63	60	58	57
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	107	86	78	80	86	93	99	106	113	120	127
B. Bound Tests											
B1. Real GDP growth	107	91	79	74	72	69	66	63	60	58	57
B2. Primary balance	107	98	98	93	90	87	84	81	78	76	75
B3. Exports	107	**198**	**394**	**375**	**363**	**345**	**326**	**309**	**291**	**275**	**261**
B4. Other flows 3/	107	100	96	90	87	83	79	75	72	69	67
B5. Depreciation	107	91	74	69	66	64	61	59	56	55	54
B6. Combination of B1-B5	107	154	107	162	155	148	141	134	128	122	118
C. Tailored Tests											
C1. Combined contingent liabilities	107	126	111	105	103	100	97	94	91	90	88
C2. Natural disaster	107	139	130	129	132	136	139	142	146	150	156
C3. Commodity price	107	91	79	74	72	69	66	63	60	58	57
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	14	10	9	9	9	8	9	9	8	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	14	10	9	9	9	9	10	11	12	11	12
B. Bound Tests											
B1. Real GDP growth	14	10	9	9	9	8	9	9	8	7	7
B2. Primary balance	14	10	9	10	10	10	10	10	10	9	9
B3. Exports	14	**16**	**24**	**29**	**33**	**39**	**39**	**39**	**38**	**34**	**33**
B4. Other flows 3/	14	10	9	9	10	10	10	10	10	8	8
B5. Depreciation	14	10	9	8	8	8	8	8	8	6	6
B6. Combination of B1-B5	14	13	**16**	**16**	**18**	**18**	**18**	**18**	**17**	15	15
C. Tailored Tests											
C1. Combined contingent liabilities	14	10	10	10	10	10	10	10	10	8	8
C2. Natural disaster	14	12	12	12	12	12	13	13	13	12	12
C3. Commodity price	14	10	9	9	9	8	9	9	8	7	7
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**27**	**22**	**21**	**22**	**21**	**21**	**21**	**21**	**20**	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**27**	**23**	**21**	**23**	**22**	**23**	**25**	**28**	**29**	**28**	**30**
B. Bound Tests											
B1. Real GDP growth	**27**	**25**	**27**	**28**	**27**	**27**	**27**	**27**	**26**	**21**	**21**
B2. Primary balance	**27**	**22**	**22**	**25**	**25**	**25**	**25**	**26**	**24**	**21**	**21**
B3. Exports	**27**	**24**	**28**	**36**	**40**	**48**	**47**	**47**	**45**	**40**	**39**
B4. Other flows 3/	**27**	**22**	**22**	**23**	**24**	**25**	**25**	**25**	**24**	**20**	**20**
B5. Depreciation	**27**	**28**	**26**	**27**	**26**	**24**	**25**	**25**	**24**	**19**	**19**
B6. Combination of B1-B5	**27**	**25**	**29**	**30**	**34**	**33**	**33**	**33**	**32**	**27**	**27**
C. Tailored Tests											
C1. Combined contingent liabilities	**27**	**22**	**24**	**25**	**25**	**24**	**24**	**24**	**23**	**20**	**20**
C2. Natural disaster	**27**	**22**	**23**	**24**	**24**	**24**	**25**	**26**	**25**	**22**	**23**
C3. Commodity price	**27**	**22**	**21**	**22**	**21**	**21**	**21**	**21**	**20**	17	17
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Grenada: Sensitivity Analysis for Key Indicators of Public Debt 2022–2032

(In Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	**64**	**62**	**60**	**55**	50	46	45	45	44	44	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**64**	**65**	**65**	**63**	**60**	**58**	**56**	53	51	49	46
B. Bound Tests											
B1. Real GDP growth	**64**	**73**	**87**	**88**	**88**	**88**	**94**	**100**	**106**	**112**	**118**
B2. Primary balance	**64**	**66**	**72**	**67**	**62**	**57**	**56**	**56**	**55**	55	54
B3. Exports	**64**	**81**	**112**	**106**	**100**	**92**	**89**	**85**	**82**	**78**	**75**
B4. Other flows 3/	**64**	**67**	**70**	**65**	**60**	54	53	52	51	50	49
B5. Depreciation	**64**	**75**	**71**	**64**	**58**	52	50	47	45	43	41
B6. Combination of B1-B5	**64**	**65**	**70**	**66**	**63**	**60**	**61**	**62**	**63**	**64**	**65**
C. Tailored Tests											
C1. Combined contingent liabilities	**64**	**82**	**80**	**75**	**70**	**65**	**64**	**64**	**63**	**63**	**62**
C2. Natural disaster	**64**	**86**	**87**	**85**	**83**	**82**	**85**	**88**	**92**	**95**	**98**
C3. Commodity price	**64**	**65**	**69**	**70**	**71**	**73**	**80**	**87**	**94**	**101**	**108**
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	220	209	209	196	179	163	159	157	157	155	153
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	220	217	225	221	213	204	193	185	177	169	160
B. Bound Tests											
B1. Real GDP growth	220	241	292	300	303	305	320	341	363	383	402
B2. Primary balance	220	224	249	237	220	204	198	197	196	194	192
B3. Exports	220	273	387	377	356	330	312	300	289	277	265
B4. Other flows 3/	220	226	243	230	213	195	188	184	182	178	174
B5. Depreciation	220	257	250	231	209	187	176	168	161	154	147
B6. Combination of B1-B5	220	218	240	233	223	212	213	217	222	226	229
C. Tailored Tests											
C1. Combined contingent liabilities	220	276	277	265	248	232	226	225	224	222	220
C2. Natural disaster	220	281	296	297	292	287	293	305	318	330	340
C3. Commodity price	220	220	241	250	255	261	281	307	333	359	383
Debt Service-to-Revenue Ratio											
Baseline	37	23	23	25	24	19	17	20	21	21	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	37	24	25	27	26	22	20	24	26	25	25
B. Bound Tests											
B1. Real GDP growth	37	25	30	33	33	30	29	35	40	41	45
B2. Primary balance	37	23	25	28	28	24	21	24	26	25	26
B3. Exports	37	23	26	33	35	37	34	36	38	36	37
B4. Other flows 3/	37	23	24	27	26	23	20	23	25	24	25
B5. Depreciation	37	25	29	31	29	25	23	25	27	25	26
B6. Combination of B1-B5	37	23	27	30	29	24	21	24	26	26	27
C. Tailored Tests											
C1. Combined contingent liabilities	37	23	27	29	27	23	20	23	24	24	25
C2. Natural disaster	37	26	29	32	31	26	24	28	31	30	32
C3. Commodity price	37	23	24	27	27	25	25	30	34	36	40
Debt Service-to-GDP Ratio											
Baseline	**10.6**	**6.8**	**6.7**	**7.1**	**6.7**	**5.4**	**4.8**	**5.6**	**6.1**	**5.8**	**6.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	11	7	7	8	7	6	6	7	8	7	7
B. Bound Tests											
B1. Real GDP growth	11	8	9	10	10	9	9	10	12	12	13
B2. Primary balance	11	7	7	8	8	7	6	7	7	7	7
B3. Exports	11	7	8	9	10	10	10	10	11	10	10
B4. Other flows 3/	11	7	7	8	7	6	6	6	7	7	7
B5. Depreciation	11	7	8	9	8	7	6	7	7	7	7
B6. Combination of B1-B5	11	7	8	8	8	7	6	7	8	7	8
C. Tailored Tests											
C1. Combined contingent liabilities	11	7	8	8	8	6	6	6	7	7	7
C2. Natural disaster	11	8	9	9	9	8	7	8	9	9	9
C3. Commodity price	11	7	7	7	8	7	7	8	10	10	11

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

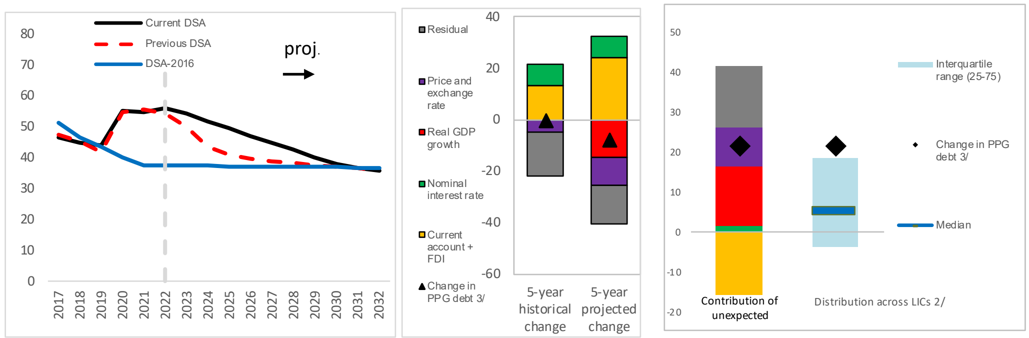
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Grenada: Drivers of Debt Dynamics—Baseline Scenario

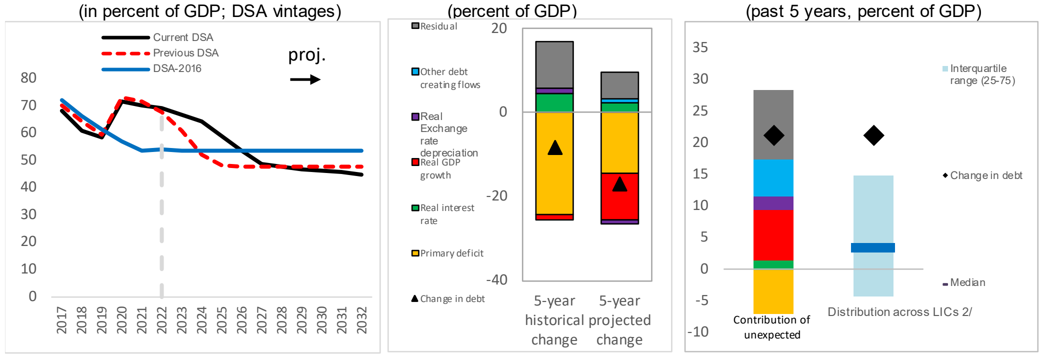
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



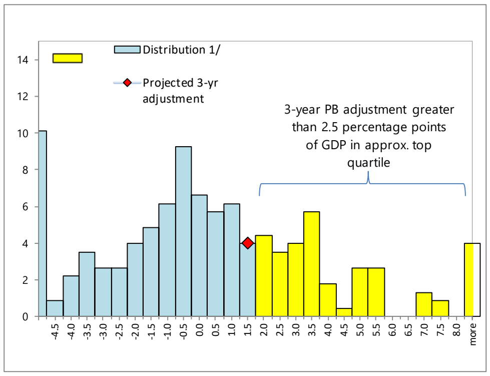
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

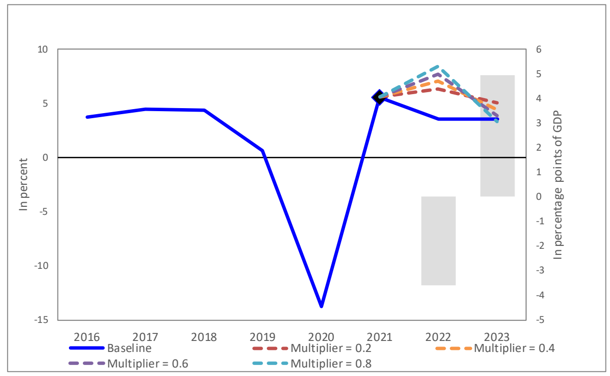
Figure 4. Grenada: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



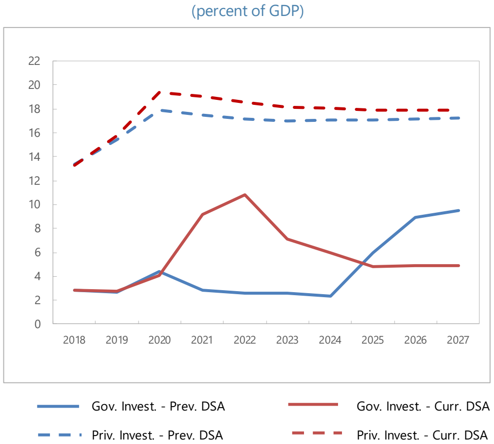
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

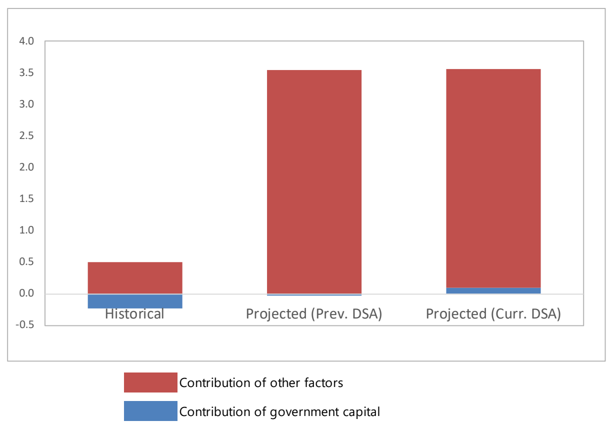


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



Statement by Mr. Jennings and Ms. Smith on Grenada
May 4, 2022

Our Grenadian authorities extend their appreciation to staff for their consistent engagement and support. They are also grateful for the productive deliberations during the Article IV consultation and broadly endorse the detailed appraisal of economic conditions and recommendations provided in the staff report. As the analysis shows, the pandemic had a significant impact on the economy and people of Grenada. Nevertheless, our authorities' sound fiscal and macroeconomic policies made them better equipped to weather the pandemic. Support from the Fund, through the Rapid Credit Facility, as well as from other multilateral partners, was helpful in mitigating the pandemic's impact on the vulnerable.

COVID-19 Developments

Our authorities' response to the pandemic was swift and comprehensive, and benefited from the fiscal buffers built-up in the years prior to the onset of the COVID-19 crisis. The measures to bolster the healthcare system included the adoption of new Public Health Regulations to govern the national response to the pandemic, accelerating pandemic preparedness including through upgrading health facilities, obtaining personal protective equipment as well as vaccines, and launching public awareness campaigns. In support of saving jobs and preserving livelihoods, a Supplementary Budget in April 2020 was approved to facilitate temporary payroll and income support targeted to persons employed in both the formal and informal sectors. A temporary unemployment benefit program was also implemented to bolster the social safety net. Small hotels and businesses received a lifeline to keep their businesses afloat by relaxing terms and conditions and increasing access to loans through a lending facility at the Grenada Development Bank (GDB), as well as temporary deferrals on Corporate Income Tax and the instalment payments on the Annual Stamp Tax.

In this context, COVID-19 cases totaled 14,024, and deaths amounted to 218 over the period March 2020 to November 2021. New cases peaked at nearly 300 in December 2021, due to the Omicron variant, but have since improved significantly so far in 2022. Our authorities' vaccination campaigns yielded an inoculation rate of approximately 34 percent of the eligible population as of end-April, with slower rollout largely attributed to vaccine hesitancy. They are working to address this through increased public education and easy access to vaccines.

Real GDP and Inflation

The pandemic took a significant toll on the Grenadian economy, with the sudden stop in tourism and the suspension of in-person classes at the Saint George's University contributing to a 13.8 percent contraction in real GDP in 2020. In this environment, the unemployment rate climbed to approximately 28.4 percent in 2020, after reaching a low of 15.1 percent in the last quarter of 2019.

Bolstered largely by strengthened construction activity and agricultural output, combined with positive impulses from wholesale and retail and financial intermediation, the economy has started to bounce back. Real GDP growth rebounded to 5.6 percent in 2021, following the prior year's double-digit decline. Staff expects this expansion to be sustained over the 2022-2023 period, albeit at a lower rate of 3.6 percent. In line with the economic recovery, the unemployment rate narrowed to 16.6 percent in the second quarter of 2021 and is expected to continue to fall gradually.

Our authorities largely agree with staff's appraisal of the economic outlook and the downside risks. The continued return to in-person classes at the Saint George's University is anticipated to increase domestic demand, with positive spillover impacts on agriculture and real estate. Planned public investment projects and approved privately funded developments are also expected to bolster the growth outlook. Nevertheless, our authorities remain cautiously optimistic, given underlying risks and their vulnerability to external shocks.

Supply chain issues, and higher food and energy costs due to Russia's invasion of Ukraine, have placed upward pressure on inflation. Grenada has historically enjoyed low inflation rates, which in recent years averaged less than 1.0 percent. Inflation climbed from an average of -0.7 percent in 2020 to 1.2 percent in 2021 and is expected to reach a period average of 4.4 percent in 2022. To provide targeted and temporary support to the vulnerable, our authorities announced a 25 percent reduction in the electricity non-fuel charge per kilowatt hours (kWh), as well as removed VAT and environmental levy on electricity bills for low energy consumers of less than 500 kWh. A cap of EC$15 per gallon was placed on gasoline and diesel, and VAT exemptions were provided on a few staple food items.

Fiscal and Debt

The policy measures necessary to mitigate the pandemic's impact and provide support to the vulnerable led to deterioration in Grenada's fiscal position and triggered the escape clause under the fiscal responsibility framework (FRF). Grants from the country's National Transformation Fund—sourced from citizenship-by-investment receipts—were helpful in funding the mitigation measures; however, with lower overall revenue, while social and capital spending increased, the overall surplus narrowed to 2.1 percent of GDP in 2021, from 6.8 percent in 2019. Further, amid the decline in GDP relative to 2019, the debt to GDP ratio rose by 11 percentage points to 70 percent in 2021, derailing the pre-COVID convergence path toward the fiscal responsibility law's (FRL) medium-term debt target of 55 percent of GDP and the Eastern Caribbean Currency Union's (ECCU's) 2030 debt target of 60 percent of GDP.

Our authorities are cognizant of the risks to the fiscal outlook and are committed to fiscal responsibility and keeping debt on a downward and sustainable path. They therefore plan to return to improved, better calibrated, fiscal rules in 2024 and will continue to make best efforts to regularize outstanding arrears with three bilateral creditors. While the fiscal responsibility framework has been useful as a policy anchor and in reducing debt, there are areas that must be strengthened to better serve the authorities' objectives—including improving infrastructure and building resilience, without compromising fiscal and debt sustainability. Our authorities largely agree with the reforms identified by staff to mobilize revenue, improve spending efficiency, and enhance fiscal credibility, with a view to support resilience building. To this end, our authorities have requested technical assistance from the Fund to assist with strengthening the FRL, recalibrating fiscal rules, and assessing the tax gap.

They have also adopted an expenditure strategy, aimed at improving the management of public expenditure, tightening expenditure controls, increasing the value for money in public procurement, and prioritizing productive spending. Recognizing that the implementation of public sector projects, programs, and policies can potentially impact women and men differently, our authorities are also making efforts to make their Budget gender responsive. They have committed to continued work towards closing information gaps, in order to improve the targeting of their social protection programs, and to keeping relief measures timebound. Policies to broaden the tax base and strengthen revenue administration are being considered, and steps have been taken to improve the country's statistical system through the establishment of a National Statistical Institute of Grenada by 2024.

Transparency and sound governance remain a priority for the Grenadian authorities. To this end, they have worked arduously to audit public accounts for outstanding years. To date, public accounts up to 2019 have been audited and 2020 is currently being finalized. In addition, an audit of COVID-19 expenditure has been completed and the publication of the report is expected by the end of the second quarter 2022.

Our authorities are committed to resolving the matter of the March 29th, 2022 High Court's Ruling on public sector pension benefits in a manner which maintains fiscal prudence, does not compromise debt sustainability, upholds social justice, and benefits the Grenadian people. Our authorities are concerned about the potential fiscal impact and implications of the Ruling on public sector investments and growth, and fiscal and debt sustainability. To this end, they are actively engaging all stakeholders to arrive at a mutually agreed upon framework that would be in the best interest of the country and people. They have established a multi-disciplinary committee comprising of private and public sector experts to make recommendations to Government on a plan of action that will be put before all stakeholders. Our authorities have also proactively requested technical assistance from the Fund, in collaboration with the World Bank, to undertake a comprehensive assessment of the fiscal impact and policy implications.

Financial Sector

The measures implemented during the height of the pandemic were helpful in mitigating the pandemic's impact on the financial system. The temporary measures, including loan moratoria, were targeted to the sectors such as tourism, which were hardest hit by the pandemic and are gradually being phased out. Over the course of the pandemic, banking sector non-performing loans (NPLs) remained low at 2.9 percent of the total, while for credit unions, NPLs rose to 7.2 percent from 5.2 percent at the end of 2019. Banks continue to meet the ECCB's guidance of 60 percent of NPLs for loan loss provisioning, while credit unions continue to work toward it. Credit growth has been mild, although the banking sector remains very liquid. In this context, and reflecting economic conditions, banks' average profitability has declined. Nevertheless, banks, and most credit unions, have maintained capital adequacy indicators, above the regulatory minimum.

Regulators for banks and credit unions increased surveillance and enhanced supervision during the pandemic to quickly identify and address risks. Credit unions play an important role in financial intermediation and inclusion, and the Grenada Authority for the Regulation of Financial Institutions (GARFIN) remains committed to enhancing oversight of credit unions, increasing their institutional capital ratio and adhering to global standards set by World Council of Credit Unions. To this end, GARFIN has commenced the process of procuring an enhanced system for data collection and organization. Efforts to standardize regulations for credit unions are ongoing, alongside regional work on an optimal regulatory framework for the financial sector.

The underlying risks to the stability of correspondent banking relationships, due to international policy changes, continue to be a concern for our authorities. Provisions in the U.S. National Defense Authorization Act may result in higher compliance costs for correspondent banks. Our authorities have sustained efforts to strengthen financial integrity and have named the ECCB as the authority for AML/CFT compliance at banks. The Grenadian authorities are pleased to note that the August 2021 safeguards assessment of the ECCB revealed a strong external audit and financial reporting practices, which are aligned with international standards, and that the capacity of the internal audit function continued to improve.

Structural Reform

Our authorities are committed to policies which foster robust, resilient, and sustainable growth. They take positive note of staff's recommendations on strengthening cross industry linkages and leveraging the Marketing and National Importing Board (MNIB) to support these efforts. There are several major investment projects in the tourism industry set to break ground this year, which should increase room inventory, attract additional flights, and boost employment. To meet the demand for skilled workers, the private sector has made scholarships available to eligible applicants in the hospitality field to attend Cornel University. Our authorities are also working to modernize and encourage growth in agriculture and fisheries sectors, as well as promote micro, small and medium-sized operations through the Small Business Development Fund. Support has been provided from the IFAD-CDB Climate-Smart Agriculture and Rural Enterprise program, with the overarching objectives of increasing agricultural production and improving the sector's adaptation to climate change. Progress continues on updating and strengthening the healthcare system, with donor funding supporting the acquisition of advanced diagnostic equipment.

The Grenadian authorities view digital transformation as an important pillar of resilient growth and have taken steps to develop in this area. A digital transformation office was established to support accelerated implementation of the World Bank-supported Digital Governance for Resilience and the Caribbean Regional digital transformation projects. Further, the ECCB's D-Cash pilot was launched in March 2021, and efforts are underway to increase education and usage of the digital currency. Nevertheless, they are cognizant of cyber risks and the importance of mitigation measures to protect consumers and maintain the integrity of the financial system, as well as building capacity in the area of digital skills.

The performance of the Citizenship by Investment (CBI) program was strong during the second half of 2021, with increased approvals for investment projects and higher contributions to the National Transformation Fund. Our authorities maintain a robust vetting process for CBI applicants to ensure that the integrity and reputation of the country is upheld. The Grenadian authorities take note of staff's recommendation to increase efforts to reorient the use of Citizenship by Investment (CBI) inflows to further strengthen the prospects for growth and job creation.

The authorities are grateful for the Fund's support in developing their Disaster Resilience Strategy (DRS) and are working towards its implementation but stress the need for grants and concessional funding to accelerate progress. With assistance from global climate finance partners, Grenada has made some progress in building resilience to shocks and protecting the environment, including through marine and coastal protection. However, full execution of the DRS and necessary investment in renewable energy will require additional resources at concessional terms, in addition to private sector investment. Our authorities plan to upgrade the National adaptation plan this year and have revised their Nationally Determined Contributions (NDCs) to reduce emissions by 40% of their pre-2010 level by the year 2030. The legislative landscape has been strengthened, with the April 8, 2022 enactment of the Tariff Setting Methodology and the Generation Expansion Planning and Competitive Procurement Regulations under the 2016 Electricity Supply Act—which incentivize the use of renewable energy.

Several mechanisms have been put in place as insurance in case of a natural disaster; namely, a contingency fund under the National Transformation Fund, a policy under the regional Catastrophe Risk Insurance Facility (CCRIF), and the World Bank's Catastrophe Deferred Drawdown (CAT-DDO). In support of building resilience within the agriculture and farming industries, the authorities have developed insurance products, which allow policy holders to receive payouts in the event of a qualifying disaster. Grenada also had recent success in negotiating hurricane clauses in debt contracts. Nevertheless, our authorities, together with others in the region, call for global action toward an international mechanism to better address damage and loss.

Conclusion

Our Grenadian authorities are encouraged by the global recovery and the rebound in domestic economic activity. They are cognizant of the downside risks and are committed to policies that support robust, resilient, and inclusive, long-term growth. Our authorities welcome the newly approved Resilience and Sustainability Trust (RST) and its potential as a source of concessional resources to fund resilience building and pandemic preparedness, as well as its potential to catalyze addition funding. Our authorities will continue to rely on the Fund as a trusted partner for sound analysis and technical advice, as well as for building capacity.