Press Release: IMF Executive Board Approves US$65.6 Million in Disbursements to Dominica, Grenada, and St. Lucia to Address COVID-19 Pandemic
April 28, 2020

Grenada: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 21, 2020

The following item is a Letter of Intent of the government of Grenada, which describes the policies that Grenada intends to implement in the context of its request for funding under the IMF’s Rapid Credit Facility. The document, which is the property of Grenada, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. Grenada is confronting the severe repercussions of the COVID-19 pandemic. We have identified 14 cases that tested positive for COVID-19, with 13 patients having been isolated and recovering well. We have instituted several mitigation measures, including, more recently, emergency powers legislation under which all educational institutions are closed for a significant period of time, all non-essential economic and social activities are limited, and a curfew has been implemented. And with international support and reallocation of budget resources we have beefed up quarantine facilities and our capacity for treatment. We are making every effort to ensure that the humanitarian situation remains under control.

2. Tourism is Grenada’s main economic sector and a prime source of foreign exchange. Since the outbreak of the virus, we have seen a halt in cruise ship arrivals and a decline of almost 100 percent in bookings by tourist visitors. In a typical year, tourism accounts for over 80 percent of our foreign exchange earnings. This year’s decline will have a major adverse impact on our economy. Consequently, we have announced several measures, after consultation with a wide cross section of stakeholders, to mitigate the economic impact of the crisis over the next three months. These include payroll support to tourism businesses and related sectors and individuals; an expansion of short-term employment programs; an increase in credit facilities to small businesses; and the suspension of corporate taxes and stamp duties for three months. Banks will also play their part by providing a moratorium on debt service on client loans for 6 months. This is supported by the ECCB, the regional regulator. Additionally, we will ensure that beneficiaries of our cash transfer program, which supports the most vulnerable among our population, have easier access to these funds.

3. The COVID-19 outbreak interrupted a positive trajectory of our economy. Growth averaged almost 5 percent in 2014-19, well above the 20-year historical average of 2¾ percent, supported by robust tourism inflows and solid expansion in construction and private education sectors. Employment creation had picked up, although the unemployment rate (15 percent in Q1 2019) remained unacceptably high. Over the past four years we have averaged an annual primary surplus of 6 percent of GDP, significantly above the required 3.5 percent of GDP primary balance rule established in our 2015 Fiscal Responsibility Law (FRL). Our central government debt ratio has
significantly declined to 59 percent of GDP at end-2019 from 108 percent of GDP at end-2013 and government bank deposits have reached the level of 8½ percent of GDP.

4. The COVID-19 outbreak will result in an immediate and severe economic disruption. Our preliminary projections suggest that real GDP in 2020 could decline by 9.2 percent because of the adverse supply and demand shocks from the pandemic. We anticipate that the marked slowdown in the economy will undercut our tax revenue potential as taxpayers struggle to manage their own difficult circumstances and, with the additional spending needs, our primary balance will decline by 7½ percentage points to -0.7 percent of GDP in 2020. Given the existential threat of the health pandemic and the declared state of emergency, we will shortly invoke the Escape Clause as per Article 10 of the FRL and temporarily suspend fiscal rules and targets for 2020. The current account deficit could increase to 27½ percent of GDP in 2020 from around 16 percent of GDP in 2019.

5. At the same time, we anticipate a robust rebound in activity and tourism services exports once the immediate crisis has passed and our overseas visitors resume their normal travel patterns. Should there be a significant economic recovery in 2021, the suspension of the fiscal rules and targets under Section 7 and 8 of the FRL would be limited to one year and the debt dynamics are expected to resume a downward trajectory toward the FRL’s 55 percent of GDP threshold. Balance of payments pressures should also ease, and the current account deficit decline. Consequently, our balance of payments need is expected to be resolved within one year.

6. Against this background, the government of Grenada requests emergency financing from the IMF in the equivalent of SDR 16.4 million (about US$22.3 million), corresponding to a purchase of 100 percent of our quota under the Rapid Credit Facility (RCF). This assistance will help us meet the urgent balance of payments needs that are associated with the increased spending related to mitigating the coronavirus pandemic and the adverse economic impact of the significant decline in tourism activity. We intend to use the RCF disbursement as budget support.

7. Despite the challenging macroeconomic outlook, we remain committed to maintaining macroeconomic stability, fostering competitiveness and growth, and supporting the most vulnerable among our population. The government of Grenada intends to continue an open dialogue with the IMF to further explore solutions to our balance of payments difficulties in the coming weeks and months. We are committed to ensuring continued macroeconomic stability and we will not introduce measures or policies that would compound the balance-of-payments difficulties.

8. Our fiscal policies will be guided by the needs for effective, targeted, and temporary support during the crisis. We have adopted a supplementary 2020 budget, with a full costing of the measures that were announced on March 20 and provision of space for follow-up measures to deal with the crisis. We project that, reflecting the lower revenues and expected increases in expenditures to support the economy, the overall fiscal balance will become temporarily negative and the public debt ratio will rise to 68½ percent of GDP. We will further increase health spending in areas that are most effective at managing the COVID-19 pandemic. Our support measures and employment programs, which are consistent with the objectives of supporting growth and reducing poverty outlined in the 2020-35 National Sustainable Development Plan, will include elements that ensure
compatibility with the principle of social distancing. Contingency plans will be put in place should the crisis become more severe than currently projected, with prompt activation based on high-frequency monitoring of fiscal and financial data. Our fiscal liquidity buffers will be deployed to enhance social protection, particularly for the most vulnerable, including in the informal economy.

9. We are committed to a robust plan to protect the liquidity of our budget, a prior action for the RCF disbursement. This plan, which has been recently announced in the context of the presentation of the supplementary budget to parliament, would be part of our comprehensive strategy to mitigate the effects of the crisis. It would ensure that our significant liquidity buffers prioritize COVID-related emergency spending, natural disaster shocks, and other emergencies, deferring less urgent expenditures such as significant asset acquisitions for a post-emergency period. We will also increase our efforts to strengthen public finance management and public debt management regarding entities for which we have management control.

10. The support of the international community will be paramount to financing our fiscal operations this year. We are in discussions for additional World Bank emergency financing for the health care sector (US$2.5 million) and are exploring financial support from the Caribbean Development Bank and several other donors during the year. We will also explore options available with the Eastern Caribbean Central Bank (ECCB).

11. Grenada will continue to comply with the provisions of the Fund’s Articles of Agreement, and will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payment purposes, or multiple currency practices, or entering into bilateral payments agreements which are inconsistent with our obligations under Article VIII, and will implement public policies under that framework.

12. With respect to the safeguards assessment, we note that the next ECCB safeguards assessment is scheduled to take place in 2020, in accordance with the four-year cycle. In line with IMF safeguards policy, we have received the assurance of the ECCB that they will collaborate with IMF staff in undergoing a safeguards assessment. To facilitate this, they will provide the most recently completed external audit reports and will accommodate any need for meetings between IMF staff and ECCB staff and its external auditors. The authorization for the ECCB’s external auditors to hold discussions with staff has been provided.

13. We concur with Fund staff that strengthening institutions and promoting good governance, transparency and accountability, and tackling corruption are crucial for inclusive and sustainable growth. We are keen to ensure that the best possible use will be made of the funds provided by the IMF. As envisioned in the supplementary 2020 budget, resources received from the development partners will be earmarked for specific COVID-19-related expenses. Accurate and timely information will be provided to the public with regard to that use.

14. The challenges and uncertainties ahead of us are unprecedented and will test our resolve. Nonetheless, we are determined to succeed. We are thereby requesting disbursement under the RCF for 100 percent of quota or SDR 16.4 million. We seek your support in our endeavors and intend to
do our utmost to support you in your efforts at the IMF to mitigate the inevitable impact on the world economy arising from this pandemic. We look forward to an early approval of the financial assistance by the IMF.

15. We authorize the Fund to publish this letter and the request for a purchase under the RCF.

Sincerely yours,

/s/
Dr. The Right Hon. Keith Mitchell
Prime Minister and Minister of Finance

Table 1. Prior Action for the Request for Purchase under the RCF

<table>
<thead>
<tr>
<th>Measure</th>
<th>Scheduled Completion Date</th>
<th>Macroeconomic Justification</th>
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<tr>
<td>Announcement by the Prime Minister of a robust strategy to manage liquidity, prioritizing COVID-related spending and response to natural disaster shocks.</td>
<td>Already completed; announced in the context of the presentation of the supplementary budget to parliament.</td>
<td>Ensure that Grenada’s liquidity buffers are focused on supporting an effective fiscal response to (i) the pandemic, given its severity and uncertain duration and (ii) potential natural disasters.</td>
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