



GRENADA

May 2022

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

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.

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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 consultation¹ 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 Assessment²

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

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								
Life expectancy at birth in years (2020)	72								
GDP per capita in US\$ (2020)	9,680								
Population in millions (2018)	0.11								
Infant mortality rate (2019, per 1000)									14.7
Adult illiteracy rate in percent (2014)									1
Poverty rate in percent of population (2019)									25
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/									
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									
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.									



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 Aghababayan, Nischel Pedapudi, and Huilin Wang (all WHD) assisted in the preparation of the report.

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