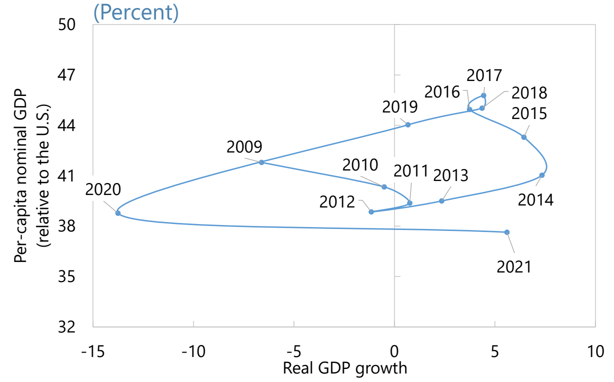
RECOVERING FROM THE COVID SHOCK

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.

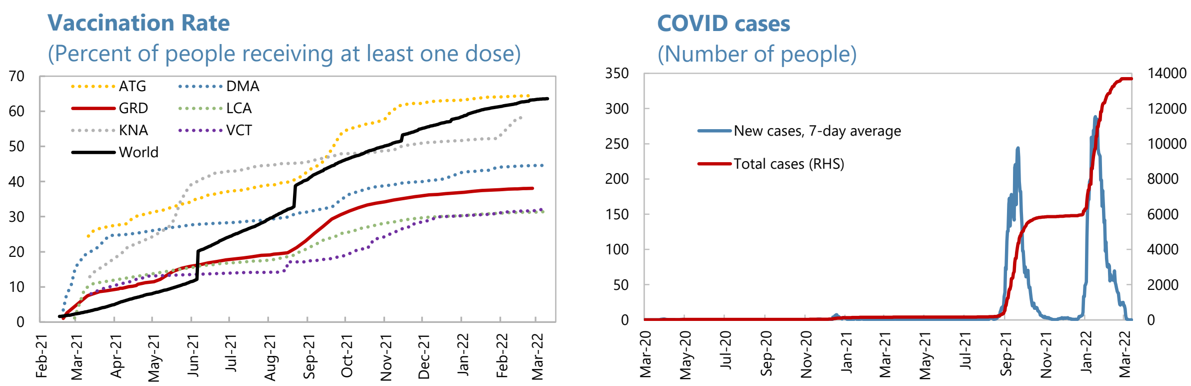
2. **The tourism-dependent economy was hit hard by the pandemic.** Tourism directly and indirectly made up 40 percent of value-added, one-quarter of employment, and 80 percent of exports. Lockdown measures, necessary to contain the spread of the virus, prompted a collapse of tourism-related activities 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.

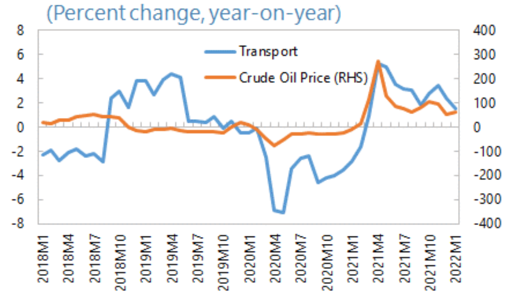
Box 1. Grenada: Inflation Developments

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).

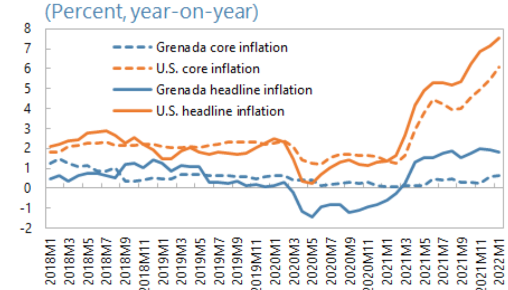
Local prices seem to have decoupled from the United States. The inflation differential increased to 5.2 percentage points in December 2021 (from 2.2 percent in December 2019). This reflects much weaker domestic demand in Grenada and remaining significant slack.

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)

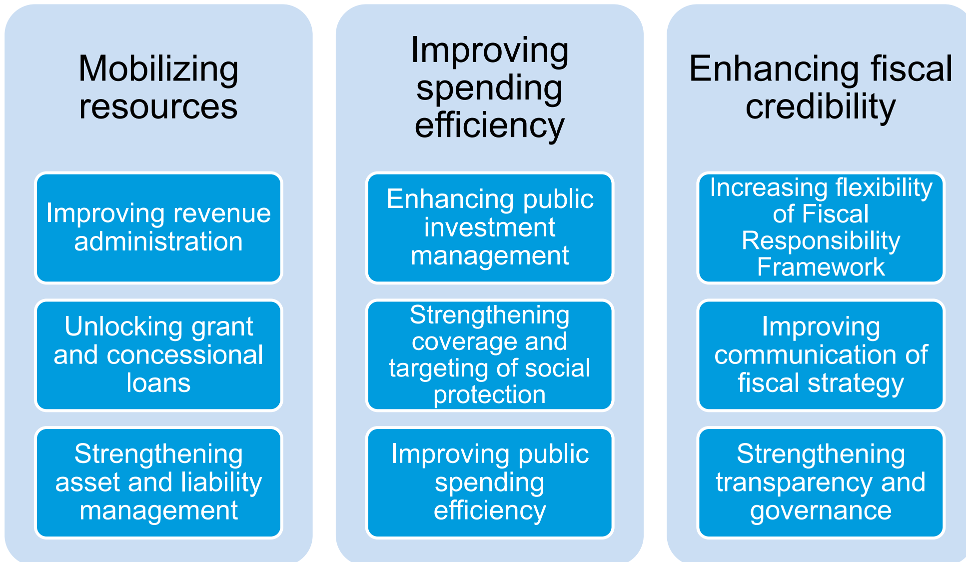
	2019	2020	2021	2022		2023		2024	
			Est.	Budget	IMF staff	MTFF	IMF staff	MTFF	IMF staff
Total revenue and grants	26.6	28.1	31.8	28.2	29.0	29.1	29.6	28.0	28.8
Tax revenues	21.9	22.1	20.8	19.8	20.7	20.7	21.6	20.8	21.8
Non-tax revenues	1.8	2.4	3.4	2.9	2.8	2.9	2.8	2.9	2.8
Grants	2.9	3.7	7.6	5.5	5.5	5.5	5.2	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 percent 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]

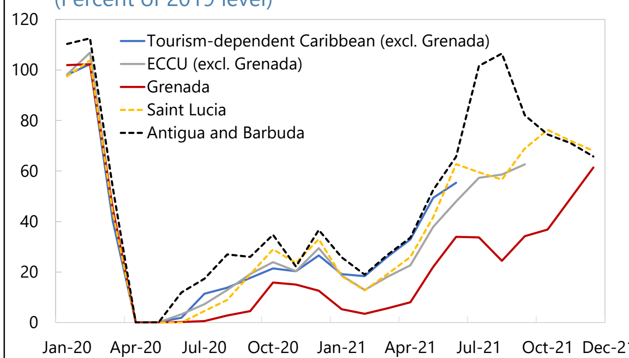
Authorities' Views

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.

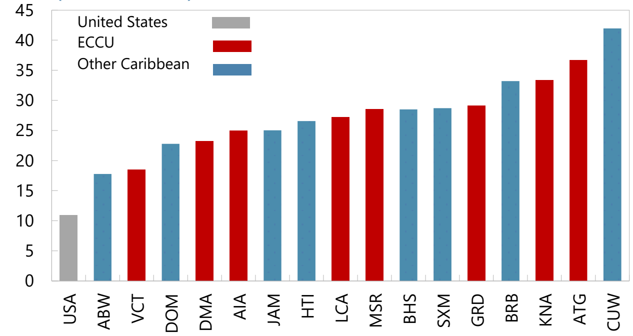
- *Post-disaster and social resilience*. The integration between the National Disaster Management (NaDMA) and regional organizations could be strengthened to increase the agency's technical and operational capacity.[8] The legislative framework for the Disaster Risk Management Act needs to be finalized 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)

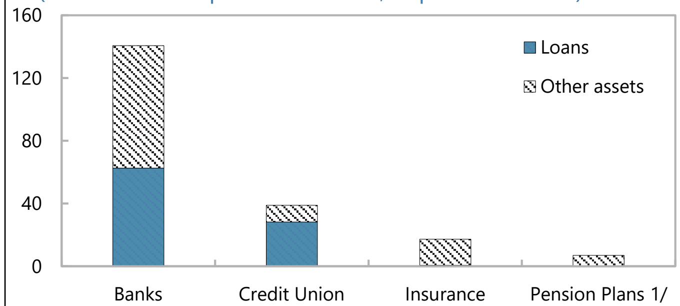
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Credit Growth (year-on-year change)										
Banks	0.2	-5.7	-5.1	-3.8	-0.2	0.6	2.8	1.4	1.4	3.8
Credit Unions	7.6	11.3	9.8	16.5	13.8	19.8	11.6	12.1	8.5	7.9
Balance Sheet Structural Risk										
Deposit-to-loan ratio, Banks	118.4	130.6	145.8	163.5	170.0	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.

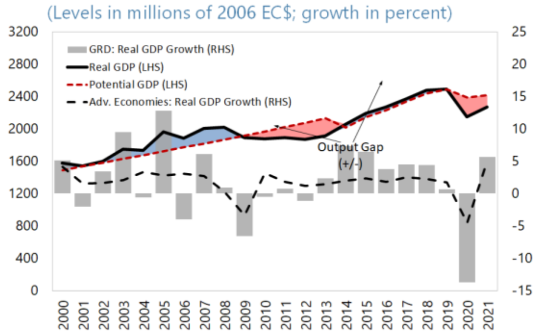
49. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Grenada: Recent Economic Developments

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

Actual and Potential Real GDP

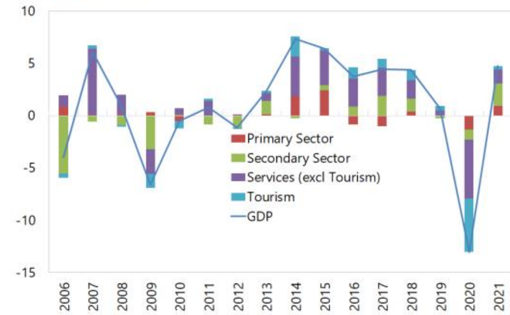
(Levels in millions of 2006 EC$; growth in percent)



…driven by strong recovery of agriculture and construction.

Economic Growth

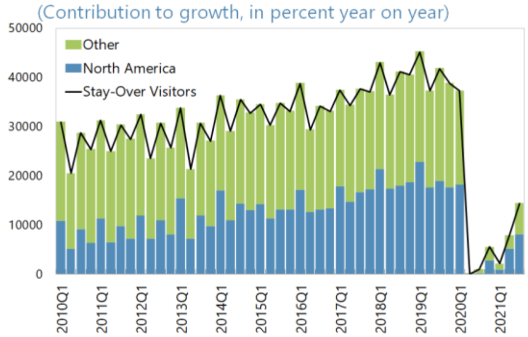
(In percent)



Tourist arrivals are significantly below the pre-pandemic levels…

Tourist Arrivals by Country

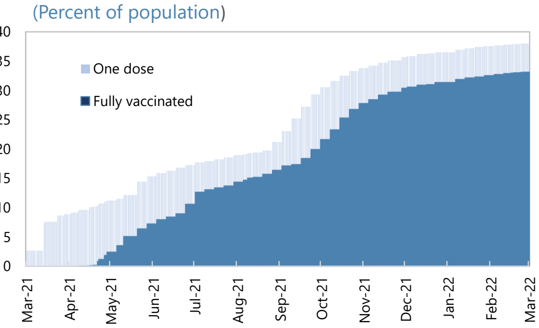
(Contribution to growth, in percent year on year)



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

Vaccination Progress

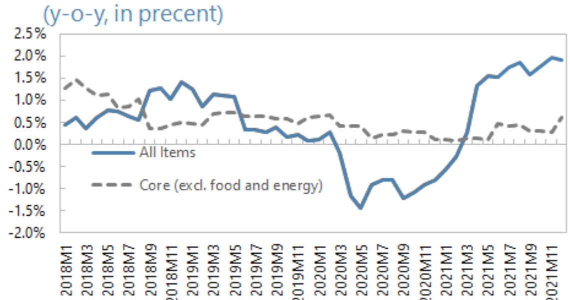
(Percent of population)



Headline inflation increased, while core inflation remained weak…

Headline and Core Inflation

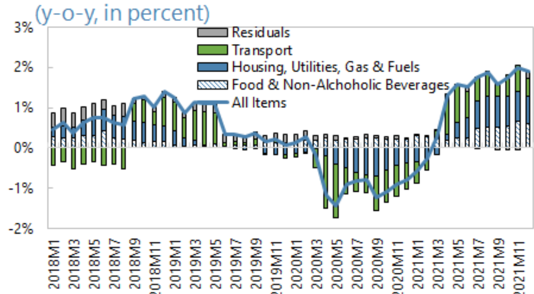
(y-o-y, in precent)



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

Inflation by Components

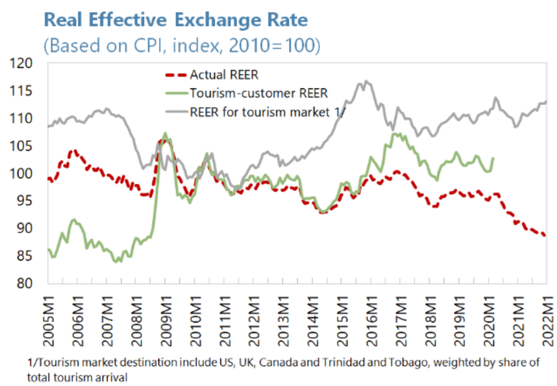
(y-o-y, in percent)



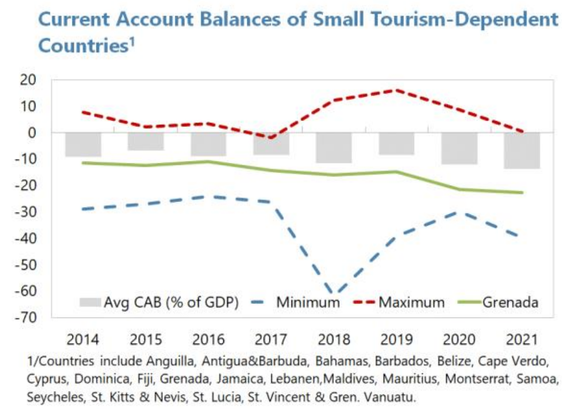
Sources: ECCB, country authorities and IMF staff calculations.

Figure 2. Grenada: External Developments

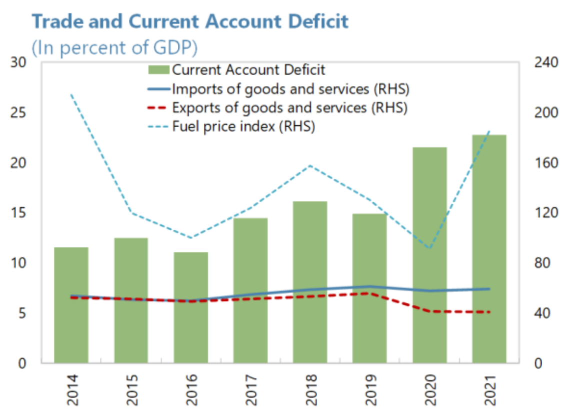
The real exchange rate continued depreciating…



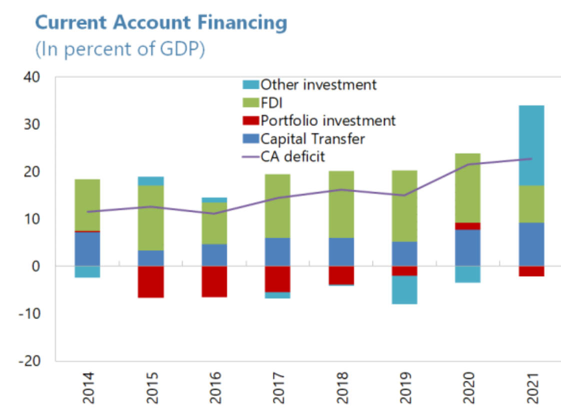
…but the current account deficit widened like in other tourism-dependent economies.



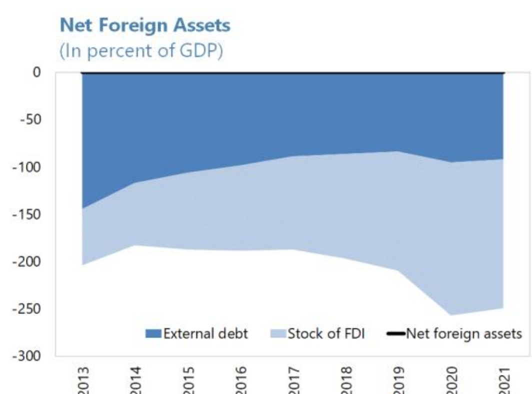
Buoyant goods exports offset weak tourism, while imports increased, on the back of higher commodity prices.



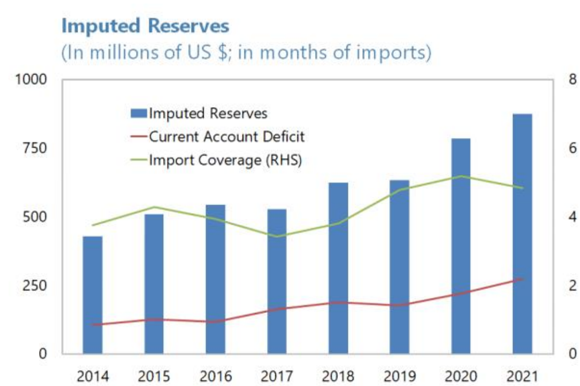
The current account was financed by FDI and other investment.



Net foreign assets deteriorated slightly…



…while reserve coverage improved.

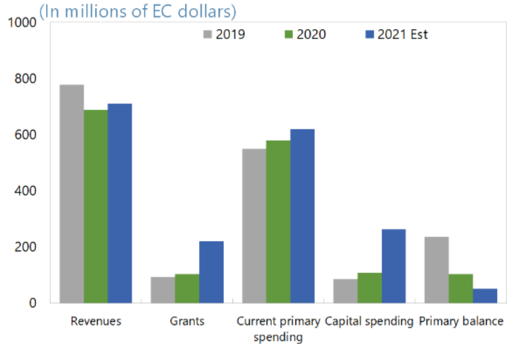


Sources: ECCB, country authorities and IMF staff calculations.

Figure 3. Grenada: Fiscal Developments

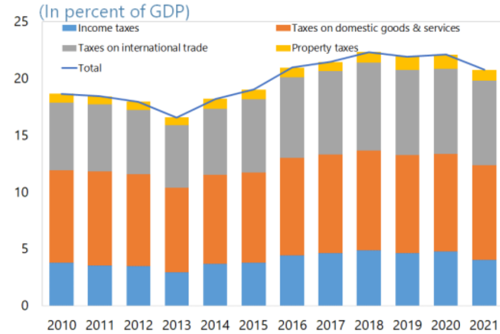
Counter-cyclical fiscal support was financed by an increase in grants.

Grenada: Budget Execution and Outcomes
(In millions of EC dollars)



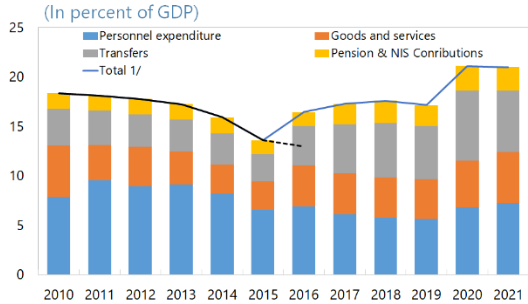
The tax base shrank, reversing the pre-pandemic upward trend.

Total Tax Revenue
(In percent of GDP)



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

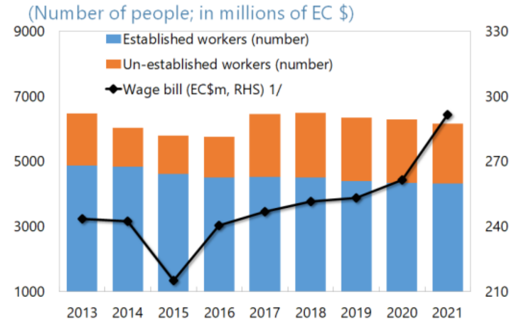
Current Primary Expenditure
(In percent of GDP)



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.

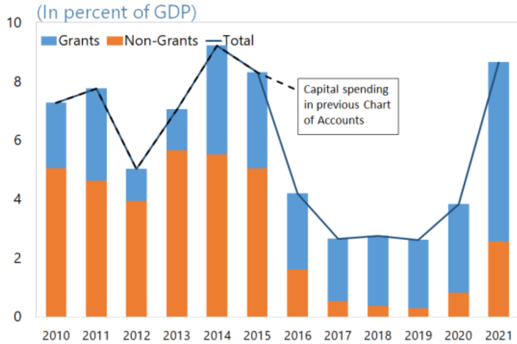
Public Employment and Wage Bill
(Number of people; in millions of EC $)



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

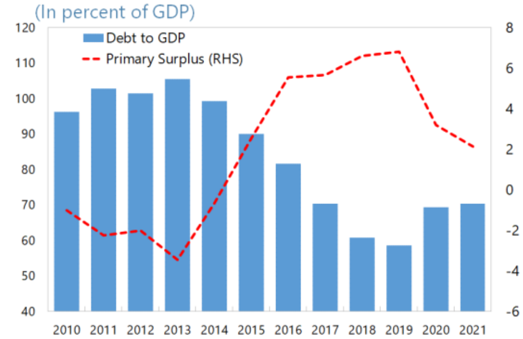
Public investment surged in 2020 and 2021, to support the recovery and build resilience.

Capital Expenditure
(In percent of GDP)



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

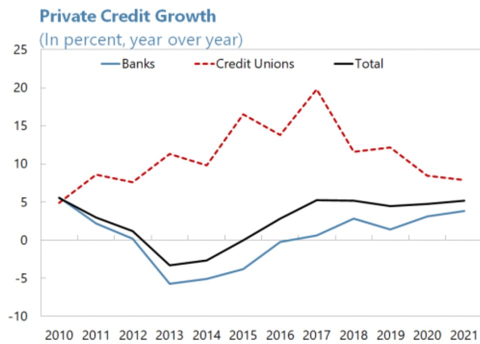
Public Sector Debt and Fiscal Balance
(In percent of GDP)



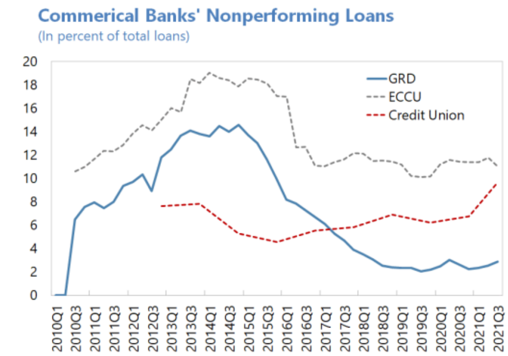
Sources: ECCB, country authorities and IMF staff calculations.

Figure 4. Grenada: Financial Sector Developments

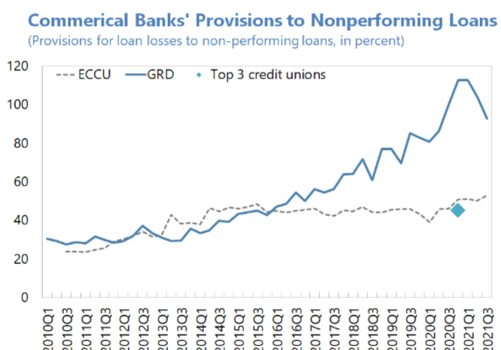
During the pandemic, credit growth has slowed, particularly among credit unions, …



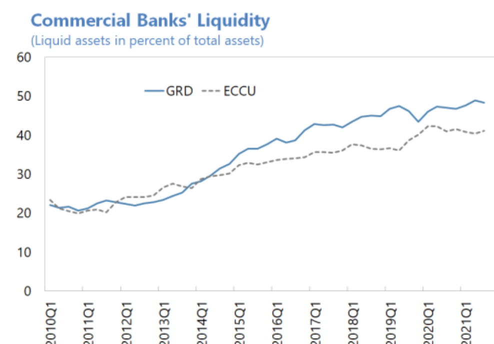
… nonperforming loans rose modestly, …



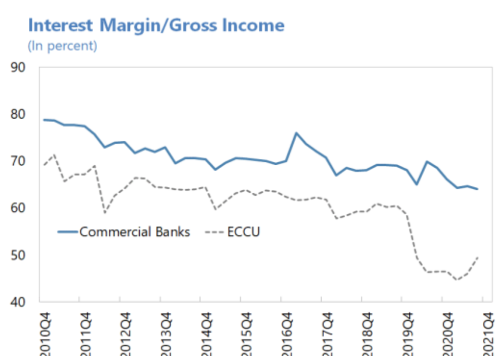
…as did banks' provisioning ahead of the rollout of ECCB tighter requirements in 2022.



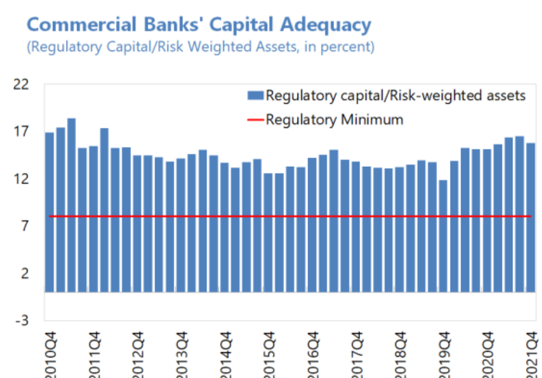
Liquidity remained ample…



…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.

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.

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**

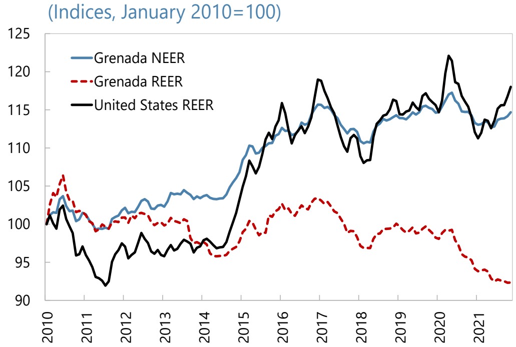
1/ Additional cyclical adjustment to account for the temporary impact of the tourism (12.1 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

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.

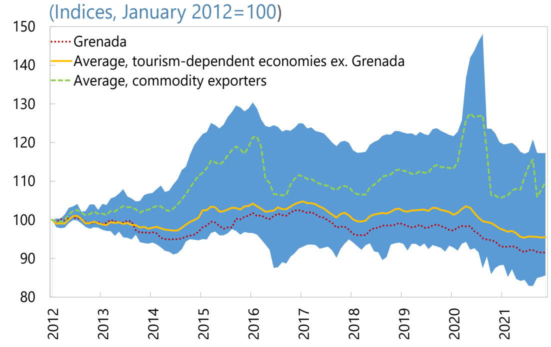
Assessment. The REER gap was 6.1 percent, derived from the EBA-Lite CA model with an elasticity of -0.39. Results of EBA-Lite REER model point to a gap of -16.1 percent.

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

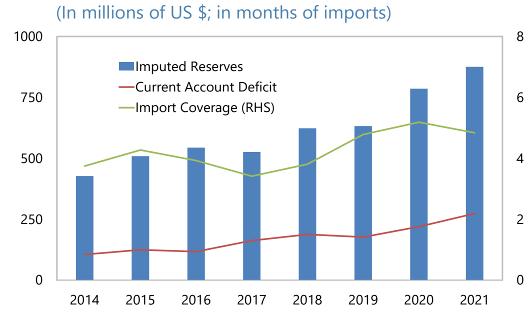
Background. Grenada relies on FDI (averaging 14 percent of GDP during 2017-20) to finance the saving-investment imbalance. Citizenship-by-Investment (CBI) revenues are stable at 4 percent of GDP. In 2021, FDI declined to 12 percent of GDP, due to disruptions caused by the pandemic.

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.

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[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.

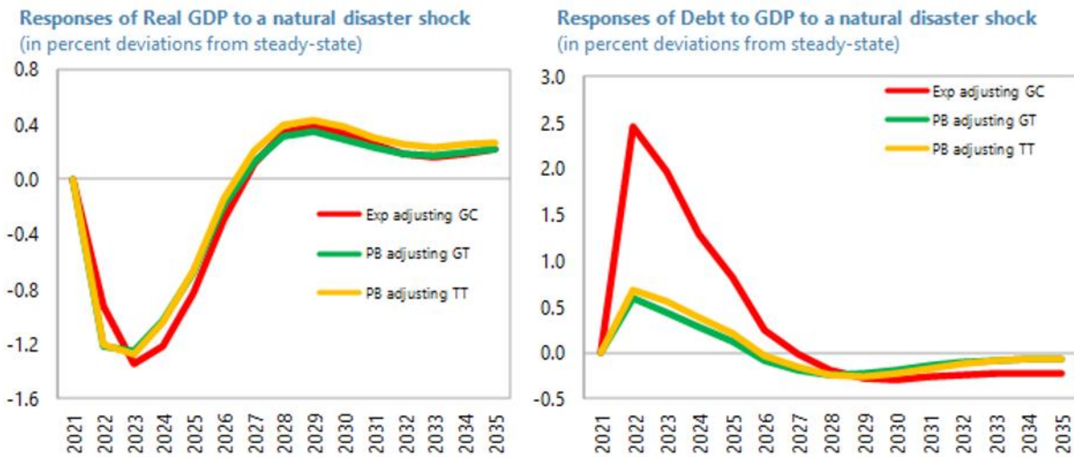
- *On the primary balance rule,* if fiscal discipline is sufficiently established, the primary balance rule floor could be set more flexibly. For example, instead of having a fixed floor, it can be low if a shock significantly slows the economic growth, without having to trigger the escape clause, while 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.

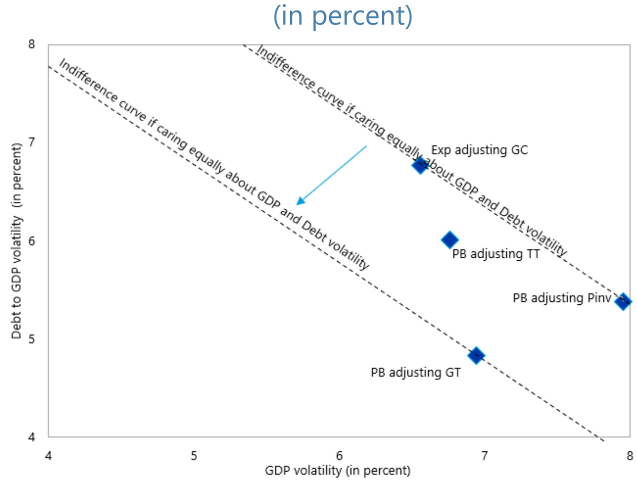
Figure AVI.1. Impulse Responses to a Natural Disaster Shock



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.

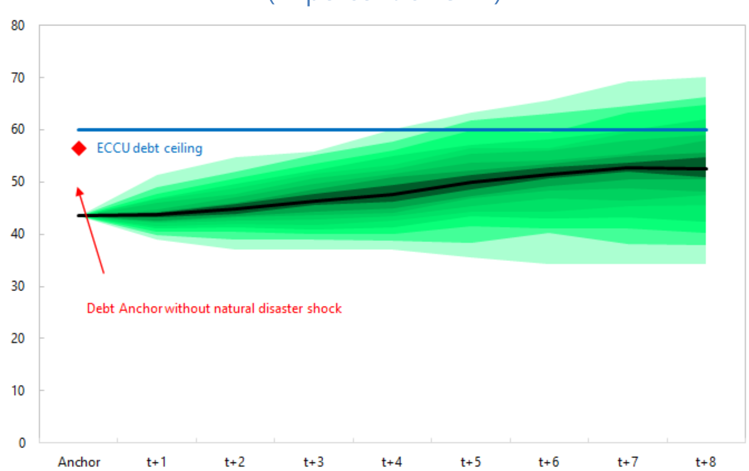
(iii) Option #3

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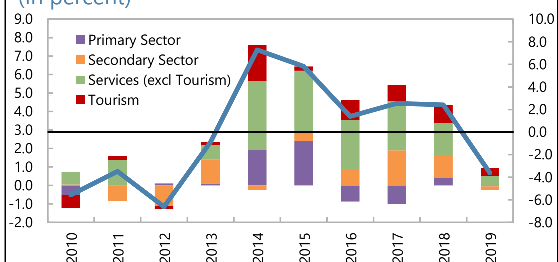
Annex V. Grenada's Tourism Sector: More Competitive, Nimbler and Visible to Address Challenges[1]

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]

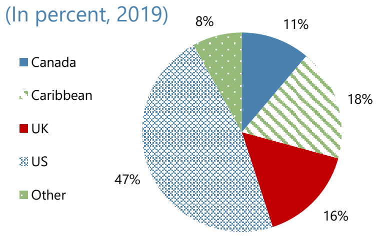
Contribution to GDP Growth
(In percent)



Sources: IMF Staff clalculations.

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).

Tourist Arrivals to GRD
(In percent, 2019)



Sources: Country authorities.

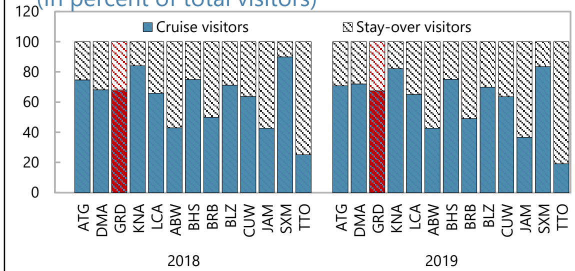
3. Cruise arrivals constitute the majority of tourist arrivals but contribute to only a small fraction of total tourism expenditures. In 2019, cruise ship arrivals accounted for 64 percent of total arrivals, up from 60 percent in 2014. They, however, contributed to only around 15 percent of

[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).

Cruise Visitors to the Caribbeans
(In percent of total visitors)



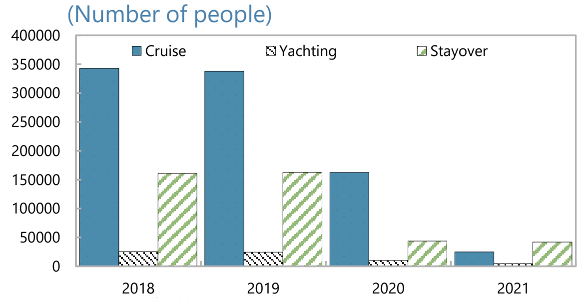
Sources: CTO and IMF staff calculations.

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.

Comparative Visitor Arrivals
(Number of people)

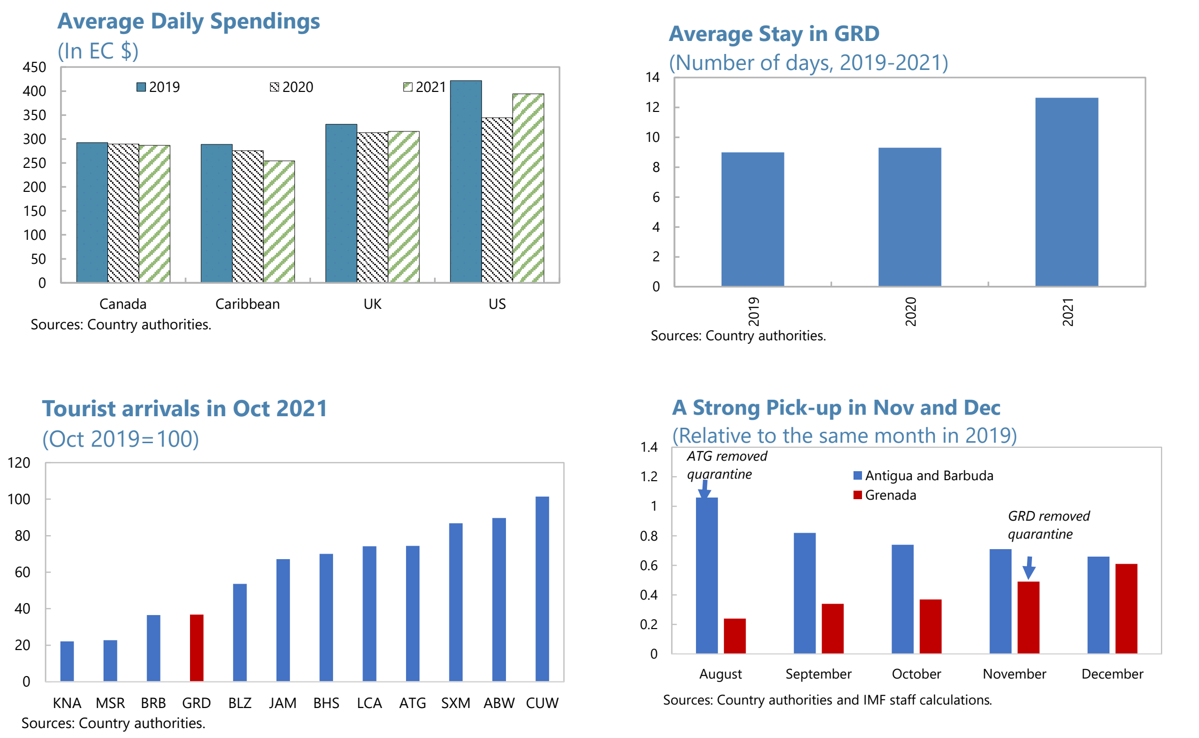


Sources: Country authorities.

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-

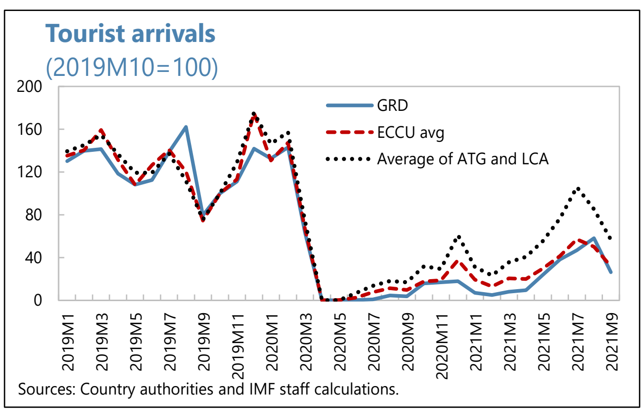
November, while Antigua and Barbuda had removed it in August 2021. This suggests a potential role of the quarantine requirements in explaining Grenada's underperformance.

Figure AV.1. Grenada: Tourist Arrival and Spending



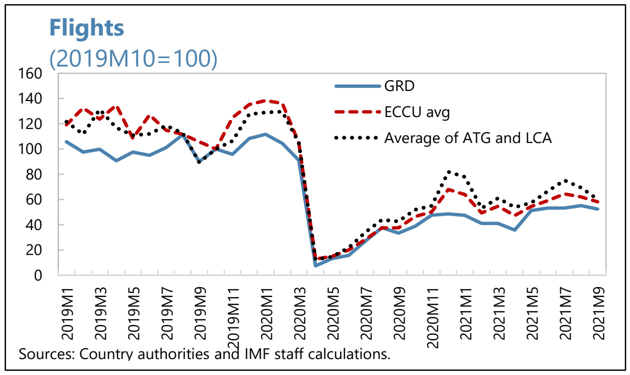
7. Given significant difference across ECCU countries in tourist arrivals before November, several factors are compared to shed light on the underlying cause. They include exposure to pent-up demand, flight connectivity, hotel prices, and general lockdown restrictions.

- 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

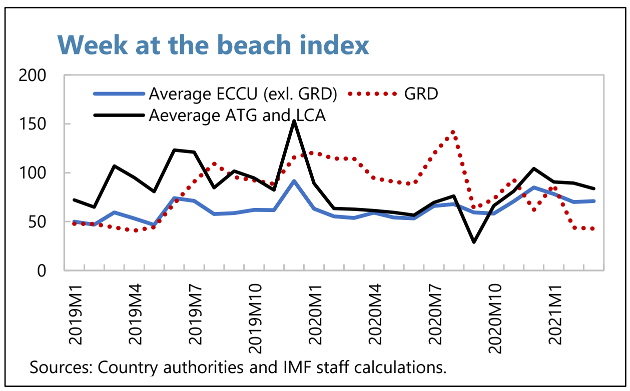


development, which should reflect the halted regional tourist travel in the ECCU rather than pent-up demand difference.[3]

- 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]



- *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.

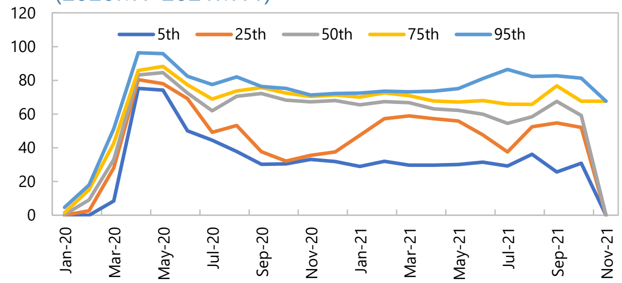


[3] The collapse in regional travel has various aspects, with the restructuring of a key airline in the Caribbean region, LIAT, being one of them. The headquarter of LIAT is in Antigua and Barbuda.

[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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