

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

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

COVID-19 Developments

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

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

Real GDP and Inflation

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

climbed to approximately 28.4 percent in 2020, after reaching a low of 15.1 percent in the last quarter of 2019.

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

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

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

Fiscal and Debt

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

Our authorities are cognizant of the risks to the fiscal outlook and are committed to fiscal responsibility and keeping debt on a downward and sustainable path. They therefore plan to

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

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

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

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

Financial Sector

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

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

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

Structural Reform

Our authorities are committed to policies which foster robust, resilient, and sustainable growth. They take positive note of staff's recommendations on strengthening cross industry linkages and leveraging the Marketing and National Importing Board (MNIB) to support these efforts. There are several major investment projects in the tourism industry set to break ground this year, which should increase room inventory, attract additional flights, and boost employment. To meet the demand for skilled workers, the private sector has made scholarships available to eligible applicants in the hospitality field to attend Cornell University. Our authorities are also working to modernize and encourage growth in agriculture and fisheries sectors, as well

as promote micro, small and medium-sized operations through the Small Business Development Fund. Support has been provided from the IFAD-CDB Climate-Smart Agriculture and Rural Enterprise program, with the overarching objectives of increasing agricultural production and improving the sector's adaptation to climate change. Progress continues on updating and strengthening the healthcare system, with donor funding supporting the acquisition of advanced diagnostic equipment.

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

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

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

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

in the region, call for global action toward an international mechanism to better address damage and loss.

Conclusion

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