INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/192

GRENADA

July 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GRENADA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Grenada, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Director as expressed during its June 12, 2019 consideration of the staff report that concluded the Article IV consultation with Grenada.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 12, 2019, following discussions that ended on May 8, 2019 with the officials of Grenada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 29, 2019.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- An **Informational Annex** prepared by the IMF Staff.
- A Statement by the **Executive Director** for Grenada.

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

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INTERNATIONAL MONETARY FUND

Press Release No. 19/265
FOR IMMEDIATE RELEASE
July 3, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Grenada

On June 12, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Grenada.

The Grenadian economy continues to grow robustly. GDP expanded by 4¼ percent in 2018, driven by strong activity in construction and tourism. Unemployment has been falling, but it remains high at 21.7 percent as of mid-2018. Inflation has remained low and bank credit growth is positive. The external current account deficit is estimated to have narrowed in 2018 due to strong tourism receipts, but it remains elevated at around 11 percent of GDP. Robust FDI flows, including from the citizenship-by-investment (CBI) program, are financing the external deficit while supporting economic growth.

Adherence to the fiscal responsibility law (FRL) has enabled further debt reduction. The fiscal surplus increased further in 2018, reflecting a combination of strong revenues and the FRL-mandated expenditure restraint. Low execution of grant financing and institutional bottlenecks in project execution combined to keep capital outlays subdued at 2¾ percent of GDP. Central government debt fell from 70 to 63½ percent of GDP in 2018, but arrears to Algeria, Libya, and Trinidad and Tobago remain to be regularized.

Growth is set to remain above potential in 2019, but is projected to ease somewhat over the medium-term, consistent with a waning of FDI-driven construction. The fiscal position is projected to loosen over the medium term in line with the FRL's provisions that take effect after public debt falls below 55 percent of GDP and should provide some support to the economy. External risks are mainly on the downside and are centered on prospects for U.S. growth and global financial conditions. Domestic risks are two-way and partly hinge on the efficiency of the envisioned fiscal expansion that is permitted by the FRL.

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

Executive Board Assessment[2]

Executive Directors welcomed Grenada's continued strong economic and fiscal performance and sustained debt reduction, underpinned by sound policies. They emphasized that further policy improvements and public support for reforms are critical to achieve higher and broad-based medium-term growth, further reduce unemployment, entrench debt sustainability, and strengthen financial stability.

Directors underscored the importance of focusing policy efforts on making growth more resilient, sustainable, and inclusive. They noted that Grenada's growth potential is held back by susceptibility to economic shocks and natural disasters in addition to long-standing structural weaknesses such as high unemployment and an external competitiveness gap. In this context, Directors supported making prudent and efficient use of Grenada's hard-earned fiscal space to address the country's infrastructure and resilience gaps. They highlighted the need to enhance the business climate and competitiveness, including through improvements in labor market institutions. They noted that education and training programs to match job opportunities with the labor force are also needed.

Directors commended the authorities' steadfast compliance with the Fiscal Responsibility Law (FRL). They agreed that the FRL could be enhanced, with a consistent and well-sequenced implementation, to facilitate more productive spending while safeguarding debt sustainability. In particular, they emphasized the need to improve the procedures for expenditure planning and classification. Directors welcomed the authorities' intention to implement initiatives on pension reform and healthcare coverage in a manner that is consistent with the FRL and fiscal sustainability.

Directors encouraged the authorities to move ahead with fiscal structural reforms to improve spending quality and mitigate fiscal risks. They stressed the importance of implementing the public-sector management reform strategy to improve public sector productivity and service delivery. They recommended further strengthening social assistance programs and continuing public investment management and public enterprise reforms, while regularizing bilateral arrears. Directors welcomed the climate change policy assessment and the authorities' intention to elaborate a comprehensive disaster resilience strategy with inputs from key stakeholders. This should help catalyze concessional financing to address the infrastructure and resilience gaps.

Directors welcomed steady improvements in bank credit growth and banking soundness indicators. At the same time, they noted that the continued fast growth in lending by credit unions and the rising property markets warrant close monitoring. They called for a proactive

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

approach to strengthening the supervision and regulation of the non-bank financial sector by the local regulator and the need for coordination with the ECCB and the ECCU’s peer regulators. Directors highlighted the importance of continued efforts to ensure compliance with AML/CFT regulations in all areas to support correspondent banking relationships and preempt any financial integrity concerns.

Grenada: Selected Economic Indicators 2015–2024

Rank in UNDP Human Development Index out of 188 countries (2016)	79	Infant mortality rate per '000 births (2016)	9.9
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2014)	73	Poverty headcount index (2008)	38
GNI per capita in US$ (2018)	10,950	Unemployment rate (2018)	21.7
Population in millions (2018)	0.11		

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Projections					
	(Annual percentage change, unless otherwise specified)									
National income and prices										
GDP at constant prices	6.4	3.7	5.1	4.2	3.5	2.7	2.7	3.2	3.2	3.0
GDP deflator	2.8	2.6	1.0	1.0	1.2	1.9	2.1	2.1	2.1	2.1
Consumer prices, end of period	1.1	0.9	0.5	1.4	0.9	1.9	1.9	1.9	1.9	1.9
Real effective exchange rate (annual average, depreciation)	2.5	-0.2	-2.6	-2.4	…	…	…	…	…	…
Money and credit, end of period										
Credit to private sector	-3.8	-0.2	0.6	2.8	5.2	4.7	3.6	3.7	2.2	2.7
Broad money (M2)	5.2	1.3	4.0	5.9	4.7	4.6	4.8	5.3	5.3	5.1
Lending rate (in percent)	8.7	8.4	8.0	7.6	…	…	…	…	…	…
Deposit rate (in percent)	1.6	1.3	0.9	1.2	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)									
Revenue	24.5	26.2	25.6	26.5	25.6	25.5	25.3	25.3	25.1	24.8
Expenditure 1/	25.7	23.9	22.6	21.7	21.5	20.9	20.5	22.4	24.2	26.3
o.w. Capital expenditure	8.3	4.2	2.6	2.7	2.8	2.5	2.4	4.0	5.4	7.1
Primary balance	2.1	5.2	5.7	6.8	6.2	6.5	6.6	4.5	2.5	0.0
Overall balance	-1.2	2.3	3.0	4.8	4.1	4.6	4.8	2.8	0.9	-1.4
Public debt (incl. guaranteed) 2/	90.1	81.6	70.0	63.4	58.7	53.7	50.6	48.3	44.9	44.2
Domestic	28.7	25.0	22.6	19.0	16.7	14.3	12.0	10.4	9.5	9.8
External	61.4	56.6	47.4	44.5	42.0	39.4	38.6	37.9	35.4	34.4
Savings-Investment balance	-12.2	-11.0	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1	-10.0	-9.9
Savings	5.5	9.1	9.0	11.0	9.0	9.1	10.1	10.8	11.2	13.1
Investment	17.7	20.1	20.9	22.2	20.2	19.3	18.7	19.9	21.2	22.9
External Sector										
Gross international reserves (millions of dollars)	188.5	201.4	194.9	230.8	237.2	241.2	242.7	244.7	253.8	263.4
GIR (in months of imports)	4.3	4.0	3.6	4.1	4.1	4.0	3.8	3.6	3.6	3.6
Current account balance, o/w:	-12.2	-11.0	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1	-10.0	-9.9
Exports of goods and services	51.2	49.3	51.3	54.2	54.0	54.1	54.1	53.9	53.6	53.4
Imports of goods and services	50.9	49.8	53.1	55.2	54.9	54.1	52.5	52.8	53.3	52.9
External debt (gross)	133.2	125.7	117.4	108.0	106.6	101.7	98.9	96.0	91.3	88.2

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.

1/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2001 format.

2/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

INTERNATIONAL MONETARY FUND

GRENADA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 29, 2019

KEY ISSUES

Context. Owing to improved policy frameworks and favorable external conditions, Grenada's economy has been growing rapidly. Policies have remained prudent, helping reduce public debt and financial system vulnerabilities. The domestic policy debate is increasingly focused on using potential fiscal space for spending on public pensions and investment on building resilience to natural disasters.

Outlook and risks. Growth is projected to ease gradually as the FDI-driven construction activity wanes. The outlook hinges on how future fiscal space is used. Yielding to pressures for large hikes in pensions for public employees and other spending without making gains in efficiency pose risks to policy frameworks and economic prospects. Vulnerability to natural disasters and climate change remains a perennial risk.

Key policy recommendations

Climate resilience. Build on existing plans and frameworks to formulate an integrated disaster resilience strategy (DRS), drawing on the climate change policy assessment (CCPA) and inputs from other relevant stakeholders.

Fiscal framework. Maintain key elements of the rules-based framework, while easing restrictions on resilience-related spending through well-sequenced and prudent steps. Target debt below the 55 percent of GDP limit, improve the analysis of fiscal risks, and regularize arrears.

Structural fiscal policies. Pursue reforms of the civil service, public enterprises, and the pension system. Improve investment execution, upgrade tax administration, and boost well-targeted social spending.

Pro-growth measures. Improve the business climate, trade facilitation, governance, and education and training programs, enhance positive spillovers from tourism, and operationalize steps that facilitate renewable energy.

Financial oversight. *S*trengthen regulation and supervision of credit unions and other non-bank financial institutions, enhance cross-border coordination, and forcefully comply with AML/CFT requirements to pre-empt any concerns.

Approved By
Krishna Srinivasan (WHD) and Edward R. Gemayel (SPR)

Discussions took place in St. George's during April 25–May 8, 2019. The team comprised Bogdan Lissovolik (head), Takuji Komatsuzaki, and Wayne Mitchell (all WHD) and Kwangwon Lee (STA). Malika El-Kawkabi, Sheng Tibung, and Vivian Parlak (all WHD) provided support from headquarters. Mike Sylvester (OED) participated in the latter part of the mission. Beverly Lugay (Eastern Caribbean Central Bank), Donna Kaidou (Caribbean Development Bank), and Tamoya Christie (World Bank) attended the mission's meetings. The mission met with Prime Minister and Minister of Finance, Planning, Economic and Physical Development Dr. The Rt. Hon. Keith C. Mitchell; Minister of Infrastructure Development, Public Utilities, Energy, Transport, and Implementation Hon. Gregory Bowen; Minister of Climate Resilience, the Environment, Forestry, Fisheries, Disaster Management, and Information Hon. Simon Stiell; Permanent Secretary of the Minister of Finance, Planning, Economic and Physical Development Patricia Clarke, and other senior government officials and private sector and civil society representatives.

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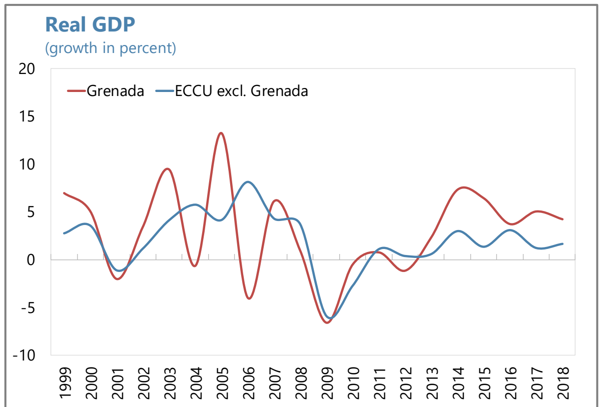
ECONOMIC AND POLITICAL CONTEXT

1. **Grenada's impressive economic performance over the past five years is marked by a virtuous cycle of high growth and falling debt.** At the root of this success are fiscal and structural reforms implemented under the authorities' homegrown program that was supported by the 2014-17 ECF arrangement. Notwithstanding the large and sustained fiscal consolidation, growth surged in 2014-18, averaging 5½ percent per year. Good agriculture harvests early in this period, strong FDI into large tourism projects, solid US growth, and confidence effects from fixing fiscal imbalances and other policy improvements supported this expansion. Central government and government-guaranteed debt is set to fall below the regional target of 60 percent of GDP this year, after peaking at 108 percent of GDP in 2013.



Sources: ECCB and IMF Staff estimates.

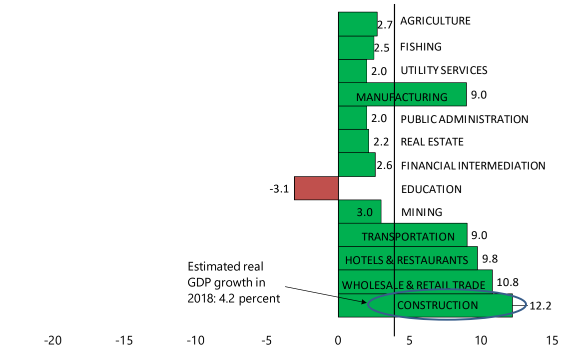
2. **The focus needs to shift toward making growth more sustainable, resilient, and inclusive.** Implementation of many of the recommendations from the 2018 Article IV surveillance has begun, but progress has been mixed (Annex I). Without further progress in improving policies, Grenada's long-term growth is unlikely to exceed 3 percent and unemployment would not decline further significantly. The economy's potential is held back by gaps in infrastructure, external sustainability, public sector efficiency, and human development, and is exacerbated by emigration and related brain drain. Susceptibility to natural disasters further saps Grenada's potential. Sizable regional disparities highlight the need for more inclusive growth. Financial sector soundness needs to be maintained to support sustainable growth. These challenges call for an intensification of well-tailored "second-generation" reforms.

3. **Getting a broad buy-in to advance and deepen the reform agenda is a key challenge.** While the government that was re-elected in 2018 fully controls the House of Representatives, it has been confronted by pressures to augment the already significant increases in public workers' pension benefits. Pressures for higher spending could also emerge in other areas, including the cost of health care and the forthcoming round of government wage negotiations. The improved fiscal position and financing situation are lessening the appeal of fiscal prudence and further reforms. At the same time, implementation of an ambitious reform agenda is constrained by gaps and mismatches in the quality and efficiency of the public service.

RECENT DEVELOPMENTS

4. **Growth remained vigorous in 2017–18, but was uneven across sectors.** Activity expanded by 4-5 percent, led by booming construction in FDI-financed tourism-related projects. Tourism-related industries, including hotels and restaurants, and transportation grew by about 10 percent in 2018, with activity in these sectors being further temporarily boosted by cruise passenger traffic and port storage demand diverted from the region's hurricane-struck countries at the turn of 2017/18. Unemployment declined from 23½ percent in 2017 to 21¾ percent in mid-2018, but remained elevated, with youth unemployment remaining particularly high (but also on a declining trend). Solid Citizenship-by-Investment (CBI) inflows (4½ percent of GDP) supported growth through FDI and financing of public projects. [1]

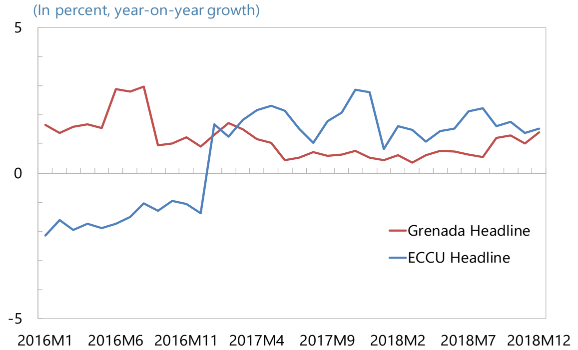
Real growth per sector, 2018
(percent change)



Source: ECCB and IMF Staff estimates.

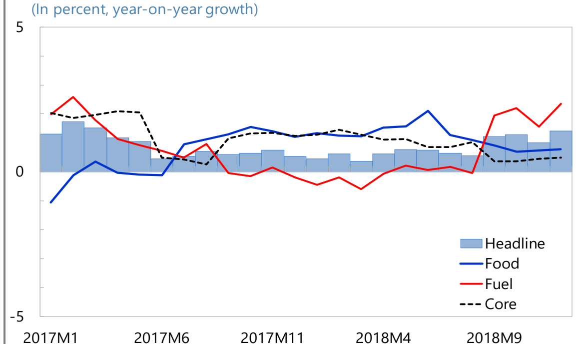
5. **Inflation has remained subdued.** CPI growth continued to be under 1 percent in 2018 (year-average basis) and was below the ECCU average due to relatively slower growth of regulated prices, and curbed by still-high unemployment and public wage restraint.

Average Inflation
(In percent, year-on-year growth)



Source: ECCB.

CPI and Components
(In percent, year-on-year growth)



Source: ECCB.

6. **Compliance with the fiscal responsibility law (FRL) has facilitated record budget surpluses and rapid debt reduction**. The primary surplus increased further to 6¾ percent of GDP in 2018, reflecting a combination of strong revenues (due to robust economic growth and strengthened tax administration) and rule-based expenditure restraint. Wage bill growth was curbed by continued limits on the hiring of public employees. Low execution of grant financing and institutional bottlenecks in project implementation combined to keep capital outlays subdued at 2¾ percent of GDP. Government debt fell from 70 to 63½ percent of GDP in 2018. This measure of debt

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[1] Grenada's CBI program offers citizenship in return for a real estate investment or a contribution to the public sector.

excludes non-guaranteed debt of public enterprises of 3½ percent of GDP and the debt of PDV Grenada to Petrocaribe (some 11½ percent of GDP). Arrears to three bilateral creditors (about US$19 million, or 1.6 percent of GDP) remain to be regularized, which impedes an upgrading of Grenada's in-distress rating (see DSA). The authorities are progressing with operationalizing a contingency fund to deal with shocks and natural disasters. Reflecting the improved fiscal position and sizable access to concessional loans, the government's average borrowing costs continued to fall perceptibly.

Grenada's Fiscal Performance in 2018

	Fiscal Rule Targets	2018 Article IV	2018 Outcome
Primary Balance Rule	3.5% of GDP surplus	5.6	6.8
Primary Expenditure Rule [1/]	2% real growth cap	2.0	2.0
Wage Bill/GDP	9% of GDP ceiling	8.4	7.9
Public Debt/GDP		65.0	63.4

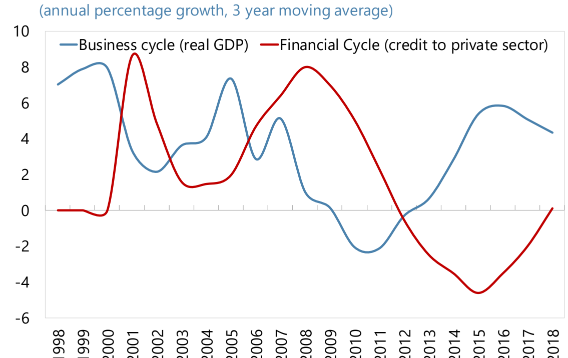
1/ Excludes grants and NTF funded capital spending.

7. The fiscal surplus strengthened further in early-2019, despite moderate tax cuts. The top personal income tax rate and the corporate income tax rate were both reduced from 30 to 28 percent starting from 2019. Staff estimates a combined loss of 0.2 percent of GDP from these cuts. Nonetheless, the 2019 Q1 fiscal surplus has further increased year-over-year.

8. The external current account deficit likely narrowed in 2018. Imports continued to see double-digit growth in 2018, but they were more than offset by robust services exports due to strong tourist arrivals. The current account deficit is estimated to have fallen to 11 percent of GDP in 2018. FDI, partly related to the CBI programs, has been the main source of financing. Imputed reserves increased from US$195 million to US$236 million. These external indicators reflect two recent statistical revisions of BoP data, which on balance resulted in a widening of the external deficit by 3½-8 percent of GDP for 2014-18 relative to levels estimated during the 2018 Article IV consultation, due to revised services trade and primary income accounts.[2]

9. Bank credit growth has gained momentum, while lending by credit unions continued to expand rapidly. Banks have solid capital buffers while the NPL ratio, helped by effective enforcement procedures for delinquent loans, fell below 2½ percent in 2018. Supported by improved soundness and economic growth, the bank lending cycle swung into positive phase in 2017-18 after experiencing protracted deleveraging. This pattern is consistent with the longer duration and amplitude of the financial cycle than the business cycle observed in Grenada and some other ECCU countries. Tourism was a key contributor to 2018

Grenada: Financial Cycle VS. Business Cycle
(annual percentage growth, 3 year moving average)



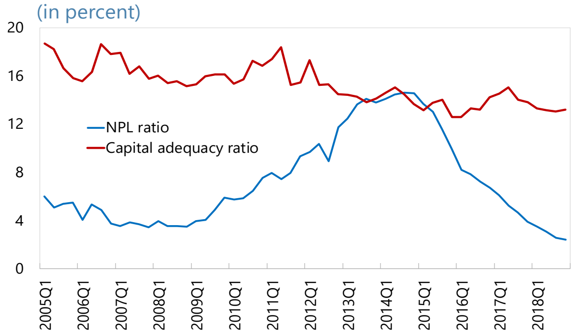
Sources: ECCB and IMF Staff estimates.

[2] There were also substantial revisions to the IIP, largely due to the downward revision of the stock of inward FDI.

bank credit growth. Credit union lending (which is dominated by mortgages and personal loans) grew by 12 percent in 2018, chipping away at banks' market share. In late 2018, Canada-based Scotiabank announced the sale of its banks in the region to Trinidad-based Republic of Financial Holdings Limited (RFHL), which already has a subsidiary in Grenada.

Banks' Capital Adequacy and Asset Quality [1]

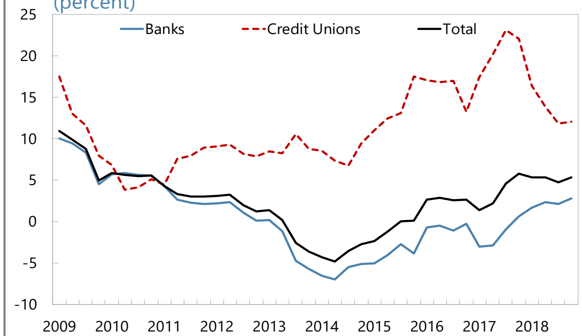
(in percent)



1/ Capital adequacy ratio is only for domestic banks.
Source: ECCB.

Credit Growth to Private Sector

(percent)



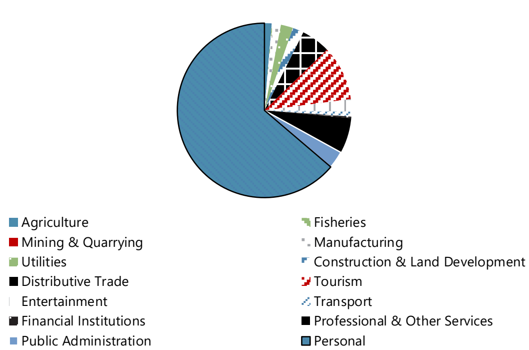
Sources: ECCB and IMF Staff claculations.

Grenada: Heatmap of Banking Sector Soundness 1/

Grenada	)15Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
Overall Banking Sector Rating	M	L	L	L	L	L	L	L	L	M	M	M	L	L	L	L
Credit cycle	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	(10.0)	(8.6)	(7.0)	(7.0)	(4.2)	(3.9)	(4.1)	(3.5)	(4.9)	(4.7)	(3.6)	(2.7)	(2.1)	(1.8)	(1.9)	(1.6)
Growth of credit / GDP (%, annual)	(14.1)	(12.6)	(10.8)	(11.1)	(6.9)	(6.6)	(7.0)	(6.2)	(8.7)	(8.5)	(6.7)	(5.2)	(4.1)	(3.5)	(3.8)	(3.2)
Balance Sheet Soundness	M	L	L	L	L	L	L	L	L	M	M	M	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	M	M	M	L	L	L	L
Deposit-to-loan ratio	152.1	155.2	156.7	163.5	166.0	162.0	166.8	170.0	176.3	-	-	-	#N/A	#N/A	#N/A	#N/A
FX liabilities % (of total liabilities)	7.7	8.7	9.5	8.8	8.8	8.8	9.0	8.7	9.6	9.7	10.3	11.1	11.4	11.6	12.2	12.4
FX loans % (of total loans)	4.5	4.7	4.9	5.3	5.6	5.7	5.5	4.8	4.7	4.7	5.0	4.9	5.0	5.6	8.2	8.8
Balance Sheet Buffers	M	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Leverage	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M
Leverage ratio (%)	4.6	4.8	5.1	5.1	5.0	5.4	5.5	5.7	6.0	6.5	6.5	6.7	6.4	6.0	6.0	5.6
Profitability	H	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
ROA	(0.3)	0.1	0.6	1.5	1.7	1.8	1.8	1.5	1.4	1.3	1.3	1.1	1.2	1.2	1.2	1.0
ROE	(6.3)	1.0	12.9	31.3	34.3	35.8	34.2	28.4	25.7	22.5	20.5	17.2	18.2	18.1	18.7	15.8
Asset quality	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
NPL ratio	13.7	13.0	11.6	10.0	8.2	7.9	7.3	6.7	6.1	5.2	4.7	3.9	3.5	3.1	2.6	2.4
NPL ratio change (%, annual)	(2.8)	(10.2)	(20.8)	(31.6)	(40.1)	(39.6)	(37.3)	(32.7)	(25.6)	(33.2)	(35.6)	(41.8)	(42.6)	(41.6)	(45.4)	(38.5)

1/The indicators do not reflect the forthcoming prudential regulations or the introduction of IFRS9 and thus the map can potentially underestimate the provisioning needs and related risks.
Source: ECCB

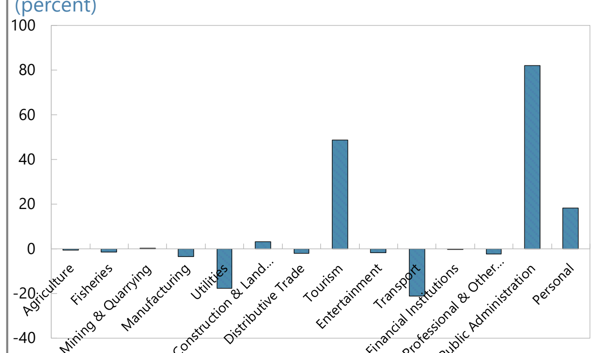
Sectoral Share of Bank Credit to Private Sector



Sources: ECCB and IMF Staff calculations.

Sectoral Contribution of Bank Credit Growth in 2018

(percent)



Sources: ECCB and IMF Staff calculations.

10. Grenada's external position is weaker than that implied by medium-term fundamentals and desirable policies (Annex II). The EBA-lite current account model points to the cyclically adjusted current account being 2¾ percent of GDP lower than the current account norm, implying a 7 percent REER overvaluation. The external sustainability approach suggests a real depreciation of 22 percent is needed to maintain NIIP at the current level. By contrast, the real effective exchange rate model suggests a 30 percent undervaluation, but this approach is less reliable for Grenada due to short data series. International reserves are at 250 percent of the IMF's adequacy metric for credit-constrained economies. To resolve the remaining competitiveness gap, policies need to ensure continued prudence in current public spending while channeling the increases in public investment to address critical infrastructure and resilience gaps, catalyzing overall investment in renewable energy, and boosting the business environment to reduce costs in tradable sectors. Economy wide wage growth should also be contained.

Grenada: External Balance Assessment (EBA) Estimates
(2018, in percent of GDP unless otherwise noted)

	Multilaterally Consistent Cyclically adjusted Current Account Norm	Cyclically adjusted Current Account Baseline	Current Account Gap	Elasticity	REER gap 1/2/
Current Account Regression	-7.3	-10.1	-2.8	-0.40	7.1
External Sustainability Approach					22.0
REER Regression	...	...	...	...	-30.0

1/ Positive number suggests overvaluation.
2/ In percent.

OUTLOOK AND RISKS

11. Growth is set to remain above potential in 2019, but moderate going forward, consistent with a waning of FDI-driven construction. The baseline outlook projects long-term potential growth of 2¾ percent, continued compliance with the FRL, minor tax cuts announced in the 2019 budget, and modest progress on supply-side and structural fiscal reforms. It also internalizes the average economic and fiscal cost of natural disasters.[3] Large fiscal surpluses would persist in 2019-2021, but the fiscal position would be loosened thereafter within the constraints of the fiscal rule, providing some support to the economy. The current account deficit would narrow only moderately as the gradual normalization of the construction-related imports would be broadly offset by the envisioned fiscal expansion. Bank credit is expected to register positive rates of growth.

[3] The annual fiscal cost of natural disasters is assumed at ½ percent of GDP (this is broadly consistent with the World Bank-modeled losses that yield an estimate of 0.3 percent of GDP but excludes some types of natural disasters and the effects of climate change).

Grenada: Medium-Term Scenario
(In percent of GDP, unless otherwise noted)

	Estimate		Projections					
	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth (percent)	5.1	4.2	3.5	2.7	2.7	3.2	3.2	3.0
Inflation (percent, average)	0.9	0.8	0.8	1.7	1.9	1.9	1.9	1.9
Primary fiscal balance	5.7	6.8	6.2	6.5	6.6	4.5	2.5	0.0
Public sector gross debt	70.0	63.5	58.8	53.8	50.6	48.3	45.0	44.2
External current account balance	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1	-10.0	-9.9
Credit to GDP ratio	51.2	50.0	50.3	50.3	49.7	48.9	47.4	46.4

Sources: Grenada's authorities, ECCB, and Fund staff estimates.

12. Risks to the outlook are two-way, but on balance are tilted to the downside (Annex III). External downside risks are linked to the prospects for U.S. growth, retreat from international multilateralism, and tighter global financial conditions. Key domestic risks are mixed. On the one hand, the use of the fiscal space for productive investment could help sustain strong growth, along with a further up-tick in tourism-related FDI. On the other hand, boosting spending without gains in efficiency could undermine long-term growth, while possible difficulties in maintaining correspondent banking relationships could affect financial intermediation. Other risks include the perennial threat of large natural disasters, pension settlements or other spending that could breach the FRL, and an adverse court judgment on the Grenlec power company that could cause a one-off increase the public debt path.[4]

Authorities' Views

13. The authorities broadly agreed with staff's baseline growth projection and risk assessment. While they also expected the growth in the construction sector to moderate in the medium term, they thought that the current pipeline of FDI projects in the tourism sector as well as planned public investments to build climate resilience could support a higher growth trajectory than projected by staff. They were also hopeful that the stronger linkage between the agriculture and tourism sectors that was witnessed in 2018 would further gain momentum and bolster agricultural output. The authorities also noted that several initiatives they were implementing to boost youth employment (in agriculture, manufacturing, and ICT areas) would substantially contribute to inclusive growth. They agreed that the efficiency of public spending would be a key consideration in determining future growth and risks to it.

[4] Grenada Private Power (GPP), the majority commercial partner in Grenlec, claims that the Energy Supply Act enacted in 2016 breaches the terms of their 80-year contract as sole energy provider. In 2016 GPP demanded that the government repurchase its shares in Grenlec at an estimated price equivalent to 5.5 percent of GDP. The matter is in arbitration. A ruling mandating the repurchase would increase public debt unless the government drew down some of its deposits in the banking system or found a suitable strategic investment partner.

FISCAL POLICIES

14. The FRL has been successful in guiding fiscal policy, but its next phase of implementation should strike a proper balance between fiscal prudence and much-needed increases in productive spending. The government's 3-year medium-term fiscal plan charts a policy course of large primary surpluses through 2021. Thereafter, once the public debt ratio reaches 55 percent of GDP, the FRL allows for recalibrating the primary balance target to stabilize debt at that level. An effective and prudent use of the fiscal space would be crucial to maximizing the economy's productive potential and resilience to shocks, and to address pressing social issues related to poverty alleviation. However, if the fiscal space is used to finance large-scale unproductive spending, it could fuel debt sustainability concerns.

Grenada's Fiscal Responsibility Law

	Phase I	Phase II	Phase III
Period/Milestone	**2015–2016**	**2017 until Debt/GDP reaches 55%**	**After Debt/GDP reached 55%**
Primary Balance Rule	ECF-supported program targets	3.5% of GDP surplus	0.7% of GDP deficit 1/
Primary Expenditure Rule 2/	2% real growth cap	2% real growth cap	3% real growth cap
Wage Bill/GDP	9% of GDP ceiling	9% of GDP ceiling	9% of GDP ceiling

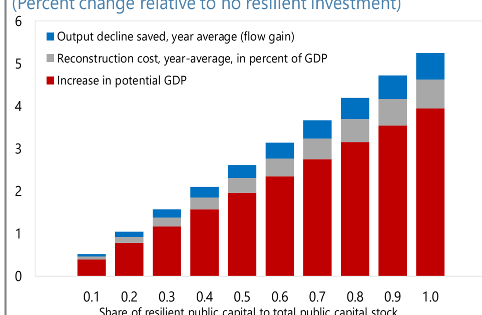
1/ Staff assessment of debt-stabilizing primary balance based on current projections once the public debt-to-GDP target of 55 percent is reached
2/ Excludes grants and NTF funded capital spending. The expenditure rule of 2 percent was based on the long-term average output growth estimated in 2014 and the 3 percent estimate is based on staff assessment at end 2018. Under the FRL, upon reaching phase III and every 5 years thereafter, potential growth and the debt stabilizing primary balance are to be re-estimated or recalibrated.

15. Grenada's general infrastructure and resilience gaps are the main priorities to be addressed with the increased resource envelope.

- **Infrastructure gap.** Public capital spending has been particularly low in recent years.[5] The authorities' assessments of infrastructure indicates a substantial maintenance gap -- a consequence of cumulative underinvestment and lack of maintenance of infrastructure objects in the past. Evidence suggests that future maintenance of neglected infrastructure would be costly as it would increasingly involve rehabilitation. In addition, Grenada has a broader infrastructure gap related to under-investment in areas that could catalyze new sources of growth, such as ICT, tourism, and transport infrastructure. Total infrastructure needs are estimated to be in the order of 5 percent of GDP annually.

- **Climate-resilience gap.** Advances are being made in understanding Grenada's climate resilience-building needs and benefits. The recent climate change policy assessment (CCPA) has documented progress and proposed a comprehensive approach to address climate risks. The authorities' national adaptation plan identifies the needs for climate-related investment projects of 3 percent of GDP that are additional to those identified in the general infrastructure gap (Box 1). It is desirable that a significant part of these projects be financed with grants or concessional loans, although own resources are needed to back-stop and leverage process.

Long-term GDP Return of Resilient Investment
(Percent change relative to no resilient investment)



Source: IMF Staff estimates.

[5] The historical comparisons are affected by the tightening of classification of capital spending from 2016, but even against this benchmark capital spending has been underperforming.

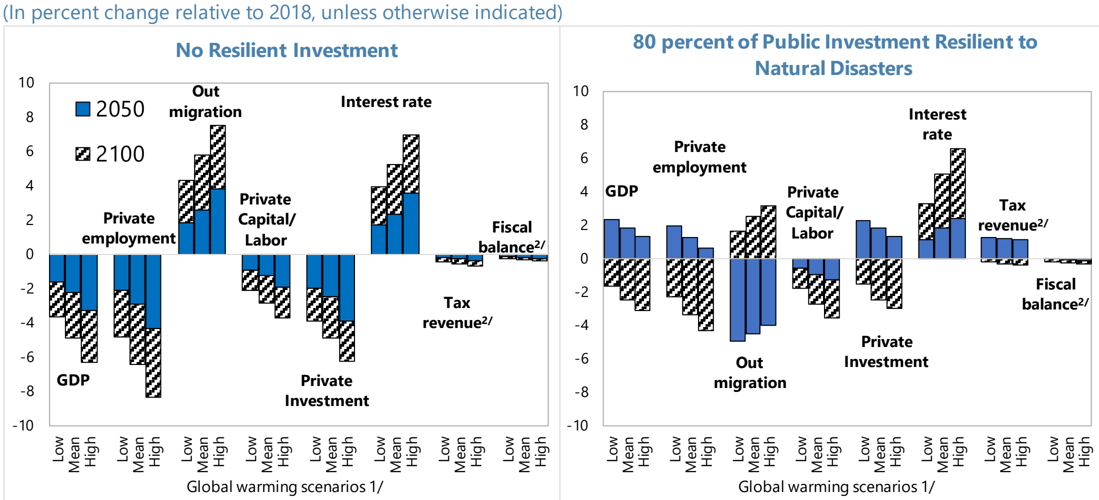
Box 1. Climate Resilience and the CCPA

The CCPA – prepared jointly by the IMF and World bank staffs – has assessed Grenada's vulnerability to climate change and policy priorities.

Vulnerability. Grenada is highly vulnerable to climate events, both due to recurring damages from natural disasters and the effect of rising projected temperatures. Staff analysis indicates substantial negative long-run effects of the climate change on output and other economic variables.

Grenada: Economic Impact of Global Warming

(In percent change relative to 2018, unless otherwise indicated)



Source: Staff calculations based on authorities' data.

1/ Based on increase of athmospheric temperatures in the RCCP8.5 scenario, the IPCC 2014 report:
Low: 1.2 and 3.0 degrees Celsius by 2050 and 2100 respectively.
Mean: 1.7 and 4.3 degrees Celsius by 2050 and 2100 respectively.
High: 2.2 and 5.6 degrees Celsius by 2050 and 2100 respectively.

2/ In percentage points of GDP.

Preparedness. Grenada made strides in improving climate planning, including through detailed and costed 2017 Climate Change Policy and National Adaptation Plan. The operational capacity of the National Disaster Management Agency and other key institutions has been strengthened. Notable progress is being made in attracting grant financing, including climate funds, helped by the creation of a separate Ministry dedicated to climate resilience.

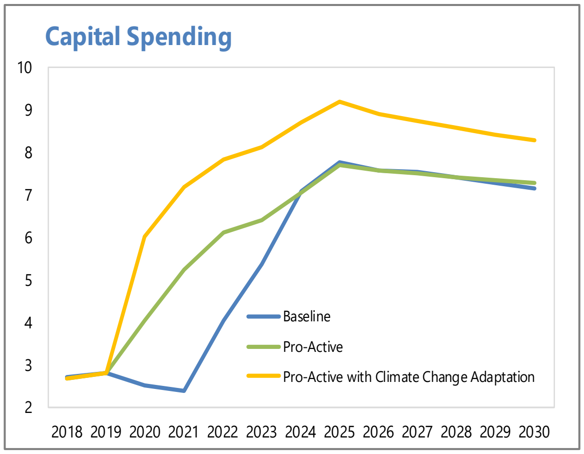
Key recommendations. Key areas for addressing the remaining agenda include (i) implementing mitigation measures (a modest carbon tax and/or feebates for cars); (ii) scaling up adaptation investment spending through 2030 (a key element of "structural" resilience); (iii) adopting a layered insurance approach for financial protection, including a dedicated contingency/saving fund ("financial resilience"); and (iv) pursuing a broad range of steps to improve government capacity in climate-related areas, including to improve disaster preparedness, social resilience, and private sector response (key elements of "post-disaster" resilience).

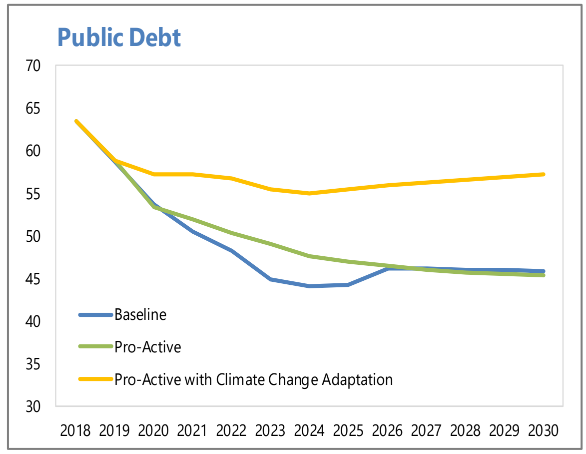
Financing. The financing needs are large and include scaling up public investment by 3 percent of GDP annually for climate resilience projects alone (of which about 2½ percentage points would be at the central government level) and financing additional insurance and self-insurance needs (with total size of the

Box 1. Climate Resilience and the CCPA (concluded)

estimated protection of around 10 percent of GDP). While Grenada may have some options for own debt financing of some of this spending, it would be critical to maximize grant support to safeguard other essential spending needs. Staff simulations within a pro-active scenario suggest that financing all the core infrastructure and climate-related spending by debt could result in an upward public debt trajectory over the next decade.

Disaster Resilience Strategy. Grenada could benefit from a single operational document that integrates the three pillars of resilience-building (structural, financial, and post-disaster resilience) and secures its predictable financing.

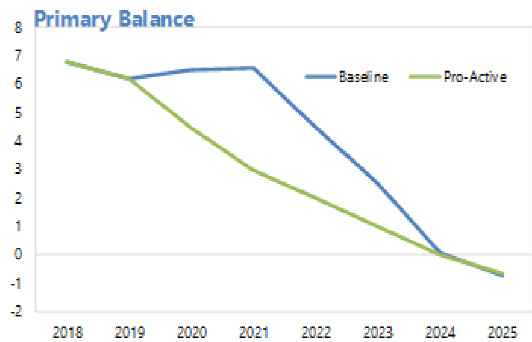




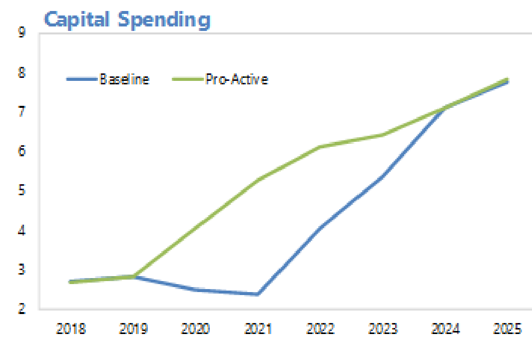
16. Staff's scenario analysis illustrates policy trade-offs in the next FRL phase and the need for supporting reforms. The fiscal and economic outcomes would crucially depend both on specific policy choices and the pace of absorptive capacity improvements. The baseline scenario assumes modest reforms and capacity improvements, wherein the large fiscal expansion permitted by the FRL could result in spending on inefficient projects, with limited benefits for the economy. Instead, staff recommends pro-actively improving the capacities for implementation and strengthening accountability systems in the public service in parallel with using the fiscal space to improve service delivery and address infrastructure and resilience-building objectives ("pro-active" scenario). Staff's simulations indicate that this scenario would have a higher payoff in terms of sustained growth. Given the substantial capacity bottlenecks in Grenada, the pace of improvements will likely be gradual. In this context, there are substantial risks that the pace of capacity improvements could surprise on the downside. Should these risks materialize, staff recommended saving financial resources until the capacity can be fully upgraded.

Figure 1. Grenada: Transition to Phase III of the FRL (in percent of GDP unless indicated)

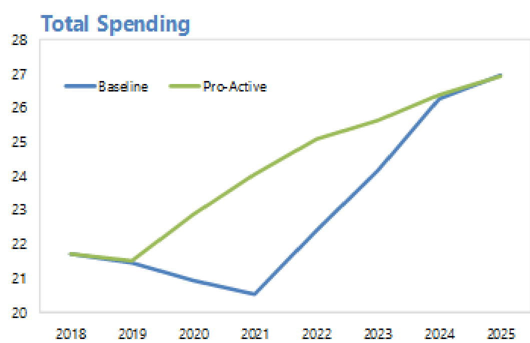
More gradual transition provides the opportunity for policy and reform implementation …



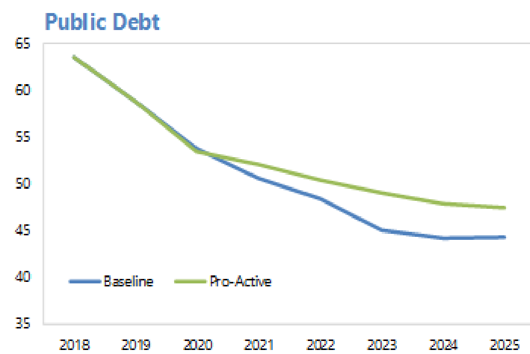
… a pro-active scenario allows an earlier increase in capital spending at manageable levels …

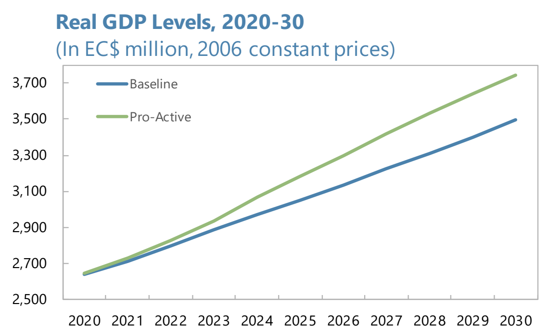


… with the total spending trajectory also smoothed



… and public debt below target levels with larger buffers.





Source: IMF Staff projections.

Scenario definitions:

1. Baseline – uses current parameters of the FRL including a 3-year transition to Phase III with full upward adjustment in spending levels to achieve a debt-stabilizing balance. Assumes a modest implementation of the Public Sector Modernization Strategy and that general grant financing is sustained through 2024 before declining.

2. Pro-Active -- assumes a more gradual 5-year transition period to Phase III, which allows for implementation of fiscal reforms including (i) significantly improved quality of capital spending, (ii) stronger implementation of the Public Sector Modernization Strategy, (iii) greater well-targeted social protection schemes; and (iv) improved revenue efficiency and unproductive spending savings that helps generate savings for increased social protection.

3. Multipliers – draws on WP/19/72 that calculates fiscal multipliers for small states (investment shock), using the upper range and longer-horizons for the pro-active scenario due to improved efficiency of its spending relative to other scenarios.

4. Note: For comparability, the differences between the scenarios have concentrated on capital spending path. None of the scenarios assume additional impact of CCPA-related spending that could be financed by grants. All scenarios include the public pension payments as per the MoU in Annex V, excluding the cost of lump-sum benefits withdrawal.

Source: Staff estimates and projections.

17. There is scope for moderately amending the FRL to ensure a smooth transition to the next phase and support resilience-building while reinforcing fiscal sustainability. As foreshadowed in the 2018 Article IV Consultation, the authorities have been evaluating ambiguities in the FRL and other laws in the context of clarifying the operation of the rules and of alternative options for implementing the expenditure rule. Consistent with recent FAD technical assistance, staff discussed options to prioritize resilient investment while reinforcing fiscal prudence, focusing on:

- *Building further debt buffers* by targeting a safer debt level below the FRL's 55 percent of GDP trigger and fixing ambiguities in the FRL's definition of the public debt threshold opting for a broader coverage (to include non-guaranteed SOE debt). This would improve the resilience of the budget to macroeconomic shocks and natural disasters and enable countercyclical fiscal policy. The size of the needed buffer would depend on the adequacy of savings funds and insurance protection.

- *Strengthening analysis of fiscal risks* through comprehensive assessments of public enterprises, public private partnerships, and other contingent liabilities, while building capacity for evaluating risks from natural disasters, climate change, and long-term aging.

- *Reframing the primary expenditure rule.* One option would be to shift to a *current* primary expenditure rule. Staff underscored that while this option had important benefits for upscaling resilient investment, it also carried risks of circumvention, necessitating significant improvements in accountability and capacity to classify, implement, and report capital spending. Another option discussed was exempting specific resilience-related projects from the primary expenditure rule. Staff underscored that this option also carried risks and entailed substantial capacity and governance requirements.

- *Reaping low-lying fruit.* There were several options for modestly tweaking the expenditure rule with more limited risks, including: (i) exempting local counterpart funding for grant financing from the rule (grants themselves are already exempt); (ii) allowing only concessional loans to finance rule exemptions for resilience projects; and (iii) allowing the spending rule to follow a pre-determined multi-year path instead of an annual ceiling based on prior-year spending.

Staff advised that changes to the FRL should be carefully prepared with enough time allocated for devising consistent and well-sequenced implementation steps. Involving the fiscal responsibility oversight committee (FROC) in assessing and scrutinizing such changes would support public confidence and transparency.

18. The pursuit of "second-generation" reforms should anchor improvements in government efficiency, implementation capacity, and policy inclusiveness. A concerted policy commitment with advances in public financial management is required in the following areas:

- **Public service.** Implementation of the 4-pillar Public Sector Management Reform Strategy (2017-19) has lagged due to inadequate financial and human resource capacity (Annex IV). Little progress has been made on re-tooling the public service and strategic compensation management. Thus, functional reviews and the job analysis and evaluations -- critical to assessing strategic staffing needs and the framework for wage bargaining for the 2020-22 period, set to kick-start in June-- are mostly at the initial stages.[6] A review of the quantitative performance target indicators of ministries to improve transparency, accountability, and efficiency has not been undertaken. Given these lags, it is particularly important to set prudent wage-setting parameters for the 2020-22 cycle.

- **Public investment management.** The authorities expect improved outcomes from the new procedure for project execution that was adopted in early-2019. Project accounts management was moved to the Treasury and capacity enhanced while the responsibilities for project coordination and implementation were shifted to the Ministry of Implementation, but staff with critical skills (for example engineers) are needed. The Priority and Planning Consultative Committee, headed by Permanent Secretary at the Ministry of Finance, has been tasked to select prioritized projects, monitor project implementation, and report to the Cabinet on a quarterly basis. The Treasury aims to complete a registry of government's physical assets to facilitate their valuation and management by end 2019.

Public Investment Management Assessment - 2018

Source: IMF staff and Authourities' estimates.

- **Public enterprises.** All 24 entities provided financial reports for 2018. With technical assistance from CARTAC and the World Bank, the authorities strengthened monitoring and established key performance indicators, and quantified risk assessments are expected in 2019. The second phase of reforms to adjust tariffs to reflect cost recovery and investment needs has started for the water and solid waste entities and should be completed in 2019. It is crucial that reviews of the other entities proceed expeditiously and the oversight committee on SOE operations and investment be re-activated. There has been no progress on restructuring the Concrete and Postal enterprises. PDV Grenada Ltd., a joint venture between Venezuela's PDVSA and the government, is insolvent and the authorities have sought legal advice on its status to help devise a resolution strategy.[7] Commissioners and Chief Executive Officer for the Utilities Regulatory Commission were appointed in April, with the Commission expected to become operational by end-2019.

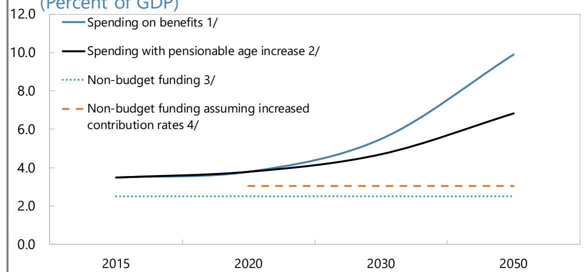
- **Social assistance.** The core targeted assistance program, Support for Education, Employment and Development (SEED) added almost 500 beneficiaries in 2018. However, plans to further enhance the level and targeting of social assistance hinge on a completion of the Country Poverty Assessment, which is taking longer than anticipated.

[6] A functional review was completed only for the Ministry of Climate Resilience.
[7] See IMF Country Report No. 14/196 for background information on PDV Grenada.

- **Pensions.** Drawing on the government-commissioned actuarial report, the national insurance scheme has engaged the public about the need for containing and financing the costs of future pension liabilities. Increases in social security contribution rates from 9 to 11 percent and a phased raising of the retirement age from 60 to 65 are a part of a package of measures that are being discussed. Staff underscored the importance of persevering with these reforms given the unfavorable demographic trends over the next few decades and the uncertain spill-overs from the public sector pension benefit situation, which will depend on the outcome of the arbitration process (Annex V). Staff advised continued efforts to contain the fiscal costs and identification of offsetting measures should the court rule unfavorably, while applying parametric reforms both to public and private segments of the system. The measures should include raising the pensionable age for public employees, given adverse incentives of the duality of the pension system for private sector employment.

Illustrative Scenario of Pension System Flows, Combined Public and Private, 2015-2050

(Percent of GDP)



Source: National Insurance Scheme, United Nations, and IMF Staff Estimates and Projections.
1/ The scenario is illustrative and assumes that increases in total spending on benefits are entirely driven by demographic projections. As such, it implicitly assumes that any initiatives to contain the level of current pension benefits are defeated or reversed.
2/ Assumes that pensionable age increases from 60 to 65 in gradual steps to be completed by 2030.
3/ Assumes that contribution-based revenue remains constant in terms of GDP at the 2015 level.

- **Tax administration**. The Inland Revenue Division (IRD) and Customs and Excise Division (CED) are expected to benefit from new initiatives to enhance compliance by using third party information, tax compliance certificates, and public outreach. However, staffing needs and shortcomings in HR and risk management capacities in both divisions need to be addressed. IRD's arrears collections have averaged 1 percent of GDP annually from a stock of about 20 percent of GDP. A stronger effort is needed to determine collectible amounts and set a time bound period (3 years) for collections, in line with the tools under the 2016 Tax Administration and Procedures Act. Staff welcomed plans and encouraged prompt action to upgrade IT systems at the IRD.

19. The improved fiscal situation offers an opportunity to upgrade asset/liability management. To this effect, staff recommended: (i) regularizing all remaining bilateral arrears; (ii) fully operationalizing the contingency fund to address natural disasters; (iii) building insurance layering by optimizing CCRIF coverage and using other instruments for comprehensive risk management as recommended in the CCPA; and (iv) pre-paying expensive existing debt.

20. A comprehensive disaster resilience strategy (DRS) would be a key vehicle to close the climate-resilience gap. The country-led and country-owned DRS could integrate existing plans and frameworks, including the authorities' mitigation and adaptation plans and operational disaster response documents, augmenting them with a fully-fledged disaster risk management framework. It could also build on the successes in attracting climate fund financing and the ongoing work to better understand general infrastructure and climate resilience gaps. The DRS could be operationalized by seeking inputs from all relevant stakeholders, including government and private sector partners, official donors, and climate funds. The key parameters would be imbedded in a quantified macroeconomic framework and synchronized with the budget processes and documents.

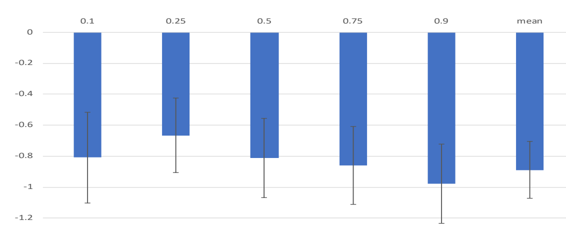
Authorities' Views

21. **The authorities emphasized the importance of the FRL in providing discipline and underlined their commitment to the rules.** Efforts were underway to strengthen the FRL to monitor debt in the broadest sense. With respect to reframing the expenditure rule, the authorities indicated commitment to a prudent approach, leaning toward considering limited exemptions for specific resilience-building projects, and recognizing the need for improving capacity before making substantial changes. They also noted that the FROC would have a role in assessing these changes. They indicated that they were actively working to regularize arrears with the remaining bilateral creditors and expected an agreement with Algeria in mid-2019. While committed to reforming pensions and expanding health care coverage and benefits consistent with the dialogue with stakeholders, they noted that the costs would fit within the framework of the FRL and fiscal sustainability more generally. They reaffirmed readiness to take offsetting measures to mitigate risks arising from pension liabilities. They acknowledged the criticality of fiscal structural reforms and recognized the 2017-19 public service reforms' delays. They were committed to intensify implementation of the public service reform management strategy. They re-affirmed commitment to prudent wage-setting for the 2020-22 cycle. They indicated that the Country Poverty Assessment is underway and would be completed in 2020. They expressed interest in pursuing an integrated DRS and looked forward to next steps.

FINANCIAL SECTOR POLICIES

22. **Rapid growth of lending by credit unions and ongoing changes in the financial sector's ownership and regulations warrant monitoring.** Staff's estimation based on historical bank data and growth-at-risk methodology (Annex VI) suggests that rapid credit growth is associated with lower subsequent GDP growth, as the vulnerabilities that accumulate during credit booms materialize over time. As documented by the recent technical assistance, the oversight, data, and capital of credit unions need further strengthening. Additionally, buoyant property markets and proliferation of other nonbank financial intermediaries raise the need for a comprehensive assessment of systemic risks. In the banking sector, concentration risks from the sale of Scotiabank should be monitored (the merged bank would have about one-half of banking assets). The introduction of IFRS9 and the new ECCB prudential standards also warrants monitoring.

Credit Growth and Real GDP Growth in the Medium Term



Source: staff estimates

Note: The columns are regression coefficients that represents a percentage point change in the 12 quarters ahead real GDP growth forecast associated with a one standard deviation increase in bank credit growth rate, at different quantiles (for quantiles regression) and by OLS estimation. The error bars represent 10 percent confidence intervals. See IMF WP/19/36 for further description of empirical methodology.

23. **Correspondent banking relationships (CBRs) and AML/CFT continue to elicit policy imperatives.** While Grenadian banks have not experienced a significant loss in CBRs, Scotiabank's move could entail a potential re-evaluation of existing relationships following the exit. Non-bank

financial institutions may have trouble maintaining access to banks based on AML/CFT concerns. While Grenada was removed from EU's grey list of tax havens, its CBI program is listed by the OECD among schemes posing a potential high-risk to the integrity of the Common Reporting Standard.

24. Further enhancement of regulation and supervision by the local regulator in coordination with the ECCB and regional peers would bolster financial stability and integrity:

- The institutional capital ratio for the credit unions should be raised from 7 to 10 percent and its definition should be tightened in line with World Council of Credit Unions standards through a phased approach. Regulations on asset classification and provisioning for credit unions should be issued, and their regular stress tests should be continued and extended to insurance companies.

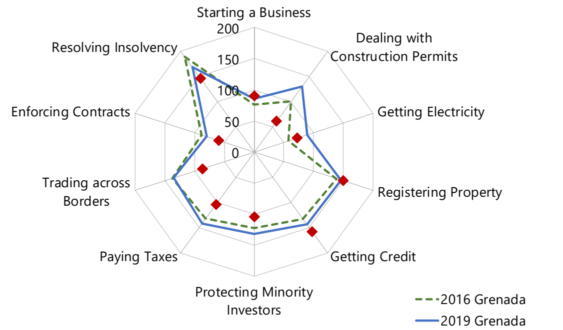
- The capacity of the local regulator should be strengthened while improving cross-border coordination with ECCB and ECCU's local regulators in the context of ongoing steps toward regional harmonization of oversight of the non-bank financial sector, which is particularly important for the foreign-dominated insurance sector. Regional coordination is also important for contingency planning and monitoring of systemic risks, with the need for further progress in identification and monitoring of systemically important financial institutions, analyzing interconnectedness, and assessing risks of overheating in property markets.

- Forceful compliance with AML/CFT standards and strict enforcement of the due diligence requirements needs to be ensured. Cooperation between the local regulator (GARFIN), Grenada's Financial Intelligence Unit, and the ECCB on AML/CFT aspects of financial sector supervision that started in 2018 should be intensified.

Authorities' Views

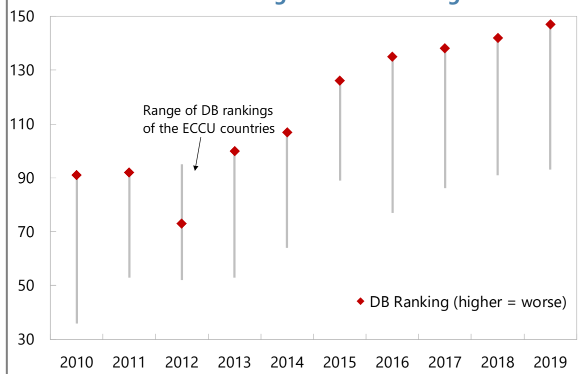
25. The authorities agreed with staff regarding the direction of policies while clarifying details of implementation. Although they would increase the institutional capital ratio to 10 percent as agreed regionally, they noted that the definition of institutional capital would still need to be coordinated and envisaged a transition period of 3 years. They confirmed that the progress on the reginal integration of insurance supervision is more advanced than that of credit unions given the international nature of the insurance industry. In this context, they emphasized that adequate resources were needed to be secured for supervision of credit unions, which for now would stay at the national level. The authorities emphasized they were forcefully complying with financial integrity requirements but expressed concerns over recurrence and incremental nature of such requirements, which increase transaction costs and undercut competitiveness of financial institutions relative to other jurisdictions. Given limited human resources and tight deadlines, these efforts divert resources from other critical priorities.

Ease of Doing Business Compared with the ECCU Countries (Ranking higher = worse)



Source: *Doing Business* (World Bank).

Performance in the Doing Business Ranking



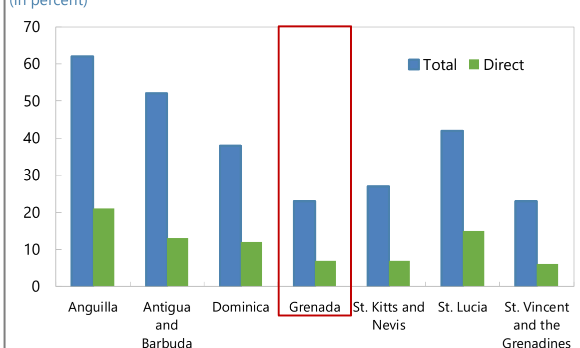
Source: *Doing Business* (World Bank).

SUPPLY SIDE REFORMS

26. Improving the business environment should complement fixing the infrastructure and resilience gaps for a more broad-based and resilient growth. Grenada's ranking in the WB Doing Business Index denotes sizable gaps in construction permits, property registration, and trading across borders. The barriers to business environment and high export/import costs limit opportunities for further growth in construction, tourism, and other sectors. Better labor market institutions are needed to match those opportunities with Grenada's still-young labor force. Reform acceleration is needed in:

- **Tourism.** This dynamic sector accounts for a quarter of the economy, but cross-country comparisons suggest potential for greater contribution. Enhancing links between tourism and other sectors, including through agri-tourism, medical tourism, and integrating hotel services with the economy could enhance positive spillovers.

Tourism Contributions to GDP in the ECCU
(in percent)

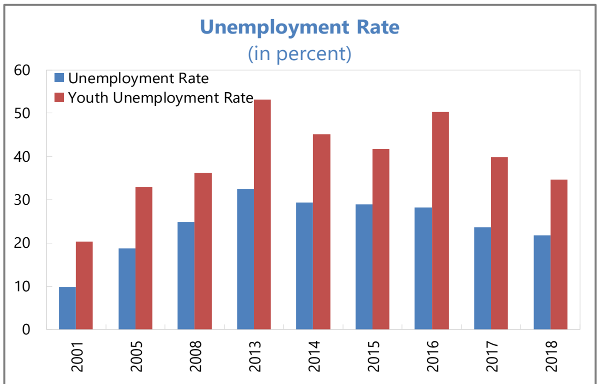


Sources: World Travel and Tourist Council estimates.

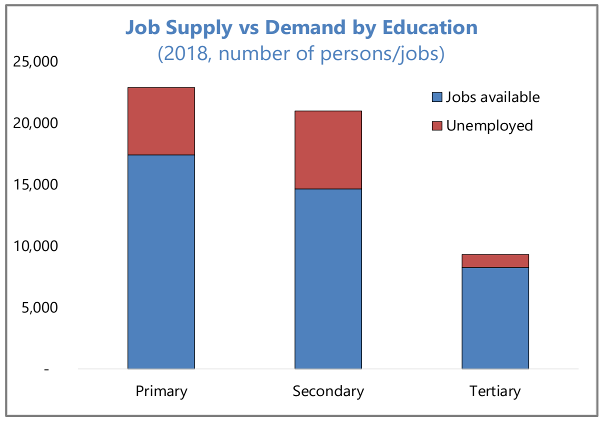
- **Energy**. Nearly 99 percent of Grenada's energy is sourced from imported fuel. Significant projects in wind, geothermal, and photovoltaic energy have been put on hold pending operationalization of regulations to the 2016 electricity supply act, which is critically important to kick-start progress.

- **Trade facilitation.** Ongoing efforts to simplify trading and registration procedures should be accelerated. The customs administration should take the lead in implementing the WTO's Trade Facilitation Agreement, increasing communication with importers, and fully deploying the automated system for customs data.

- **Labor Markets.** Unemployment is particularly concentrated among the unskilled and the young. Upgrading education opportunities and active labor market policies, including better vocational and ICT training (through a review of educational curriculum and of the effectiveness of existing government programs) and employment matching services (through well-functioning central depository of labor market data), would help tap the labor force's potential.



Source: Central Statistical Office



Authorities' Views

27. The authorities confirmed plans to intensify efforts to address gaps in doing business. In this regard, they indicated that a Digital for Resilience Governance Project is currently being appraised by the World Bank. The authorities shared plans to expand CBI tourism-related projects to the North of the island, which will help reduce unemployment in the rural areas. They elaborated on plans to boost training opportunities, upscale employment programs for the young, and create a usable employment-matching database.

OTHER ISSUES

28. Governance. The authorities should continue improving fiscal governance (revenue institutions, spending outcomes, PFM controls), the regulatory framework (ease of doing business, state import/export monopoly for certain products), and the rule of law.

29. Statistics. More reliable and timely statistics are needed to inform inclusive growth policies. Priorities include: (i) extended coverage of the public sector; (ii) compiling pre-2014 BOP data under BPM6; (iii) updating data on the income distribution (not available since 2008), and (iv) compiling timely quarterly GDP. Better coordination and data sharing should be promoted among the statistics office, survey respondents, and the ECCB.

30. Long-term planning. Grenada's forthcoming 2020-35 development plan should be supported by realistic medium-term plans to operationalize progress and costing estimates.

Authorities' Views

31. **The authorities agreed with the need to bolster statistics, as well as monitoring and evaluation systems to better support evidence-based decision making.** They pointed to recent initiatives to improve governance, including for project implementation procedures.

STAFF APPRAISAL

32. **The Grenadian economy continues to grow robustly, helped by external tailwinds and the fruits of reforms.** Vigorous activity in tourism and construction has sustained solid GDP growth. However, unemployment remains high, particularly among the young. Going forward, efforts should focus on making growth more sustainable, resilient, and inclusive. While the outlook is promising, various risks could weigh on growth and stability.

33. **Adherence to the fiscal responsibility law (FRL) has served Grenada well**. The FRL has incentivized prudent expenditures and impressive debt reduction. Contrary to conventional wisdom, the fiscal prudence has not impaired high growth. Improved debt situation has facilitated access to concessional financing and helped lower borrowing costs. Existing FRL provisions allow for reducing the fiscal balance substantially upon attaining the 55 percent of GDP debt trigger. An effective and prudent use of the fiscal space would be crucial to maximize the economy's potential and resilience in the face of proliferating pressures for other spending.

34. **Grenada's infrastructure and resilience gaps are key priorities that need to be addressed with the increased resource envelope.** Based on the authorities' national adaptation plan, the recent climate change policy assessment has identified the need for resilience-related public investment of up to 3 percent of GDP annually over the next 10 years. In addition, Grenada has sizable general infrastructure and maintenance gaps. Fixing these gaps will have a considerable payoff in terms of sustained growth and economic and fiscal resilience. Concessional external financing should be maximized to address these gaps, and domestic resource mobilization can usefully back-stop this progress.

35. **The fiscal framework could be further enhanced to facilitate more productive spending while safeguarding debt sustainability.** There are options to reframe the primary expenditure rule to create space for resilient investment. To safeguard against risks of the rule being circumvented, improved procedures and classification criteria robustly prioritizing efficient spending and distinguishing current from capital spending should precede the reframing of the rule. Debt-financed investment projects not meeting key efficiency and cost-benefit criteria should await improvements in implementation capacity. Given that the latter would increase gradually, targeting safer debt levels below the FRL's ceiling would usefully protect Grenada's fiscal position from shocks. Any changes to the FRL should be carefully prepared to allocate enough time for consistent and well-sequenced implementation.

36. Ambitious fiscal structural reforms should underpin improvements in the spending quality, implementation capacity, and mitigation of fiscal risks. The implementation capacities and accountability systems in the public service should be substantially strengthened. To this effect, ongoing delays in the implementation of the 2017-19 public service reform need to be forcefully addressed. The key pillars of this reform, combined with using the fiscal space to improve service delivery and address infrastructure and resilience gaps, would catalyze productive spending. At the same time, to safeguard these gains from being crowded out by other spending pressures, sectoral structural reforms, including in the areas of aging-related spending, tax administration, public enterprise efficiency, and asset/liability operations are needed. Continued improvements in public financial management would maximize gains from these reforms.

37. Financial sector policies need to monitor potential imbalances to solidify the sector's contribution to growth. Growing property markets and proliferation of non-bank financial intermediaries raise the need for contingency planning and monitoring of systemic risks. The capacity of local regulator and its coordination with ECCB and ECCU's peer regulators should be further strengthened, with a view to continually harmonizing oversight of non-banks. The rapid expansion of lending by credit unions should be matched by strengthening their oversight, data, and capital. Strict compliance with AML/CFT standards should help maintain Corresponding Banking relationships and pre-empt any financial integrity concerns.

38. Addressing impediments to business climate is essential for better competitiveness and growth. Sizable current account deficits highlight the need for structural reforms to boost competitiveness. Longstanding efforts to close gaps in the business environment through digitalization of procedures should be accelerated in tandem with steps to reduce export/import costs. Ongoing sectoral reforms should be advanced to enhance penetration of tourism and unlock investment in renewable energy. Further improvements in labor market institutions and education and training programs are needed to match job opportunities with Grenada's still-young labor force.

39. Grenada could benefit from integrated strategies that leverage improved operational planning, governance, and statistics. Grenada's strategy documents, including the forthcoming 2020-35 Development Plan, should aim to build resilience and be supported by realistic short-to-medium-term plans to operationalize progress. In this context, a national Disaster Resilience Strategy could target comprehensive improvements in resilient infrastructure, financial protection, and post-disaster response. The strategy could act as a platform for coordinated action and support from development partners. These strategies should rely on improved statistics, with the overdue update of social data being essential to the design of inclusive growth policies. All these steps require improved economic governance and better coordination between government agencies.

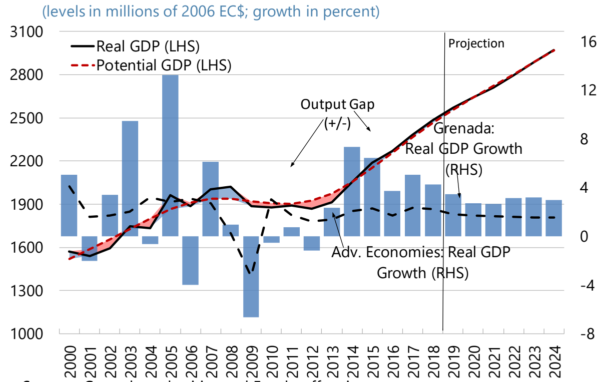
40. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 2. Grenada: Recent Economic Developments

The growth momentum is still above its estimated potential…

Actual and Potential Real GDP

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

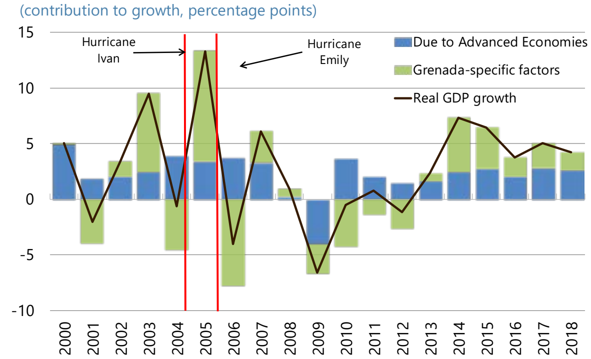


Sources: Grenada authorities and Fund staff estimates.

…helped by external tailwinds…

Economic Growth

(contribution to growth, percentage points)

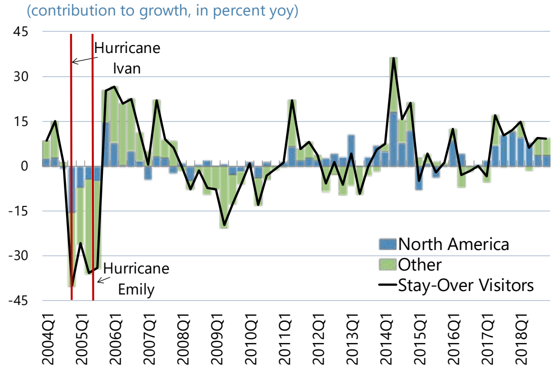


Source: Grenada authorities and Fund staff calculations.

…with strength in tourism demand and related activity in construction…

Tourist Arrival Growth by Country

(contribution to growth, in percent yoy)

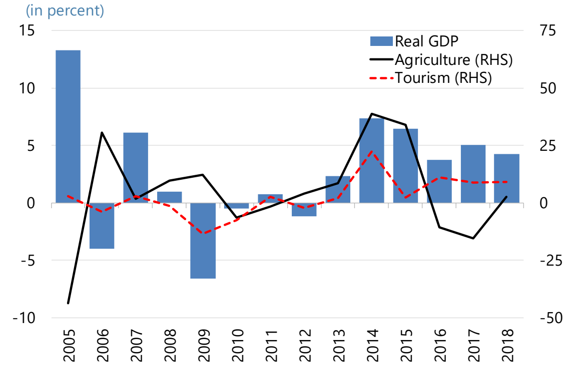


Source: Caribbean Tourism Organization.

…as agriculture resumed moderate growth.

Economic Growth

(in percent)

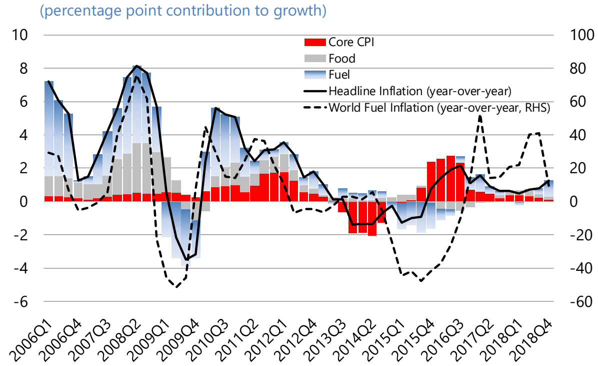


Sources: Grenada authorities and Fund staff estimates.

After a pick-up from a jump in telecom prices in 2016, inflation moderated in 2017-18…

Inflation

(percentage point contribution to growth)

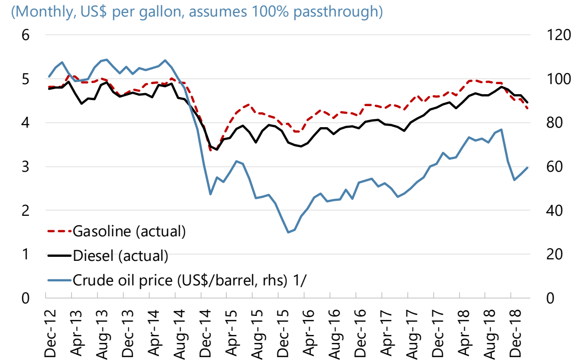


Sources: Grenada authorities, Fund staff estimates and WEO.

…while fuel price adjustments continue to reflect world oil price trends.

Retail Petroleum Product Prices

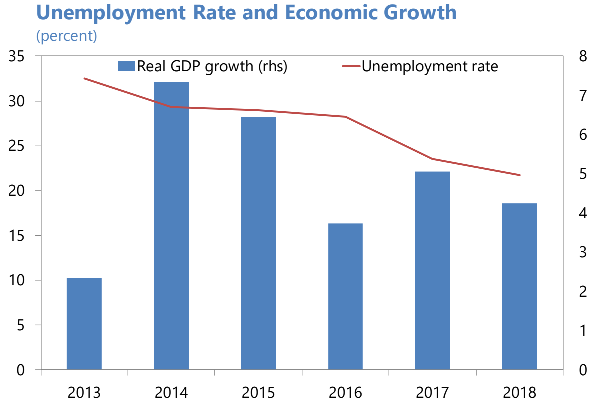
(Monthly, US$ per gallon, assumes 100% passthrough)



1/ From WEO, simple average of Brent, WTI and Dubai Fateh spot prices.

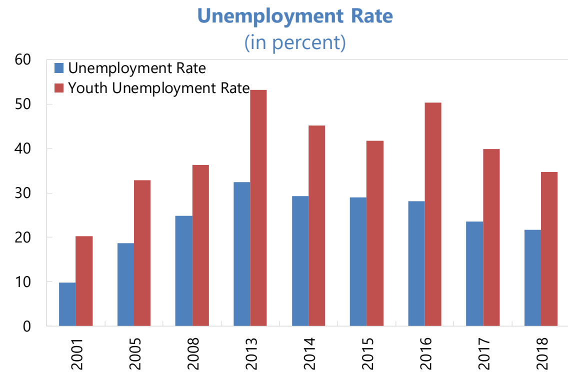
Figure 3. Grenada: Unemployment and the Labor Market

Unemployment has been declining but remains high.



Source: CSO and IMF staff estimates.

Youth unemployment has been well above average, but it also fell substantially in 2017-18.

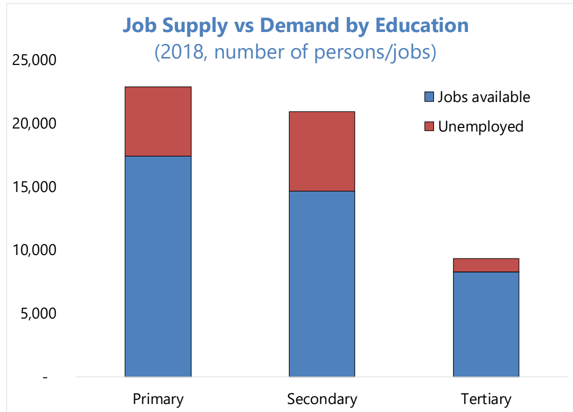


Source: Central Statistical Office

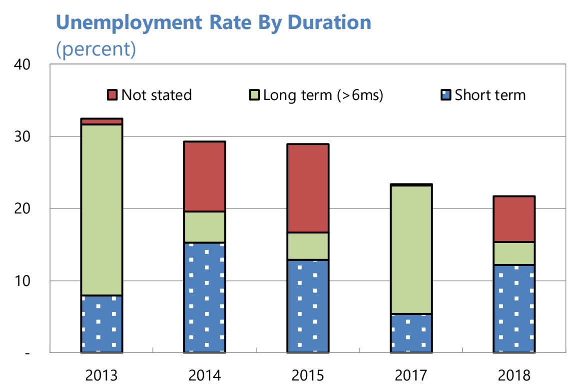
Labor force participation has been increasing slightly, …

Source: Central Statistical Office, Various Surveys

…employment rate depends on the level of education…

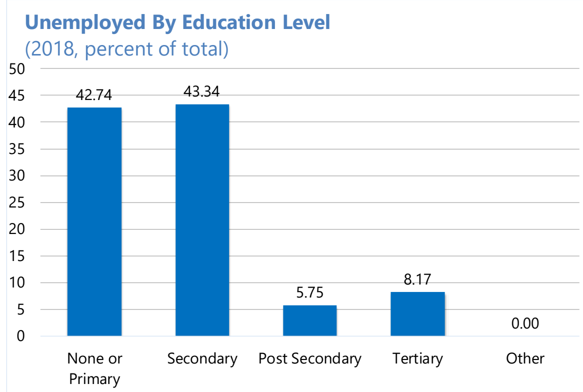


…but the duration of unemployment has reflected weaknesses in survey data.



Source: Central Statistical Office, Labour Force Surveys

High unemployment among the less-educated suggests a need of skill upgrading.

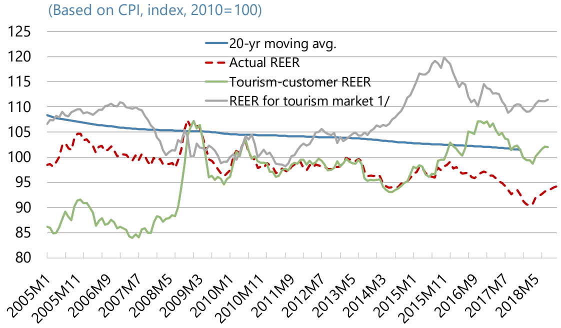


Source: Central Statistical Office, Labour Force Survey

Figure 4. Grenada: External Developments

The real effective exchange rate appreciated in 2018….

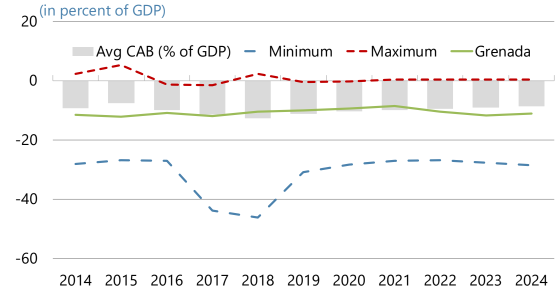
Real Effective Exchange Rate
(Based on CPI, index, 2010=100)



1/Tourism market destination include US, UK, Canada and Trinidad and Tobago, weighted by share of total tourism arrival
Sources: INS and IMF staff calculation

While the current account deficit is projected to remain close to comparator average….

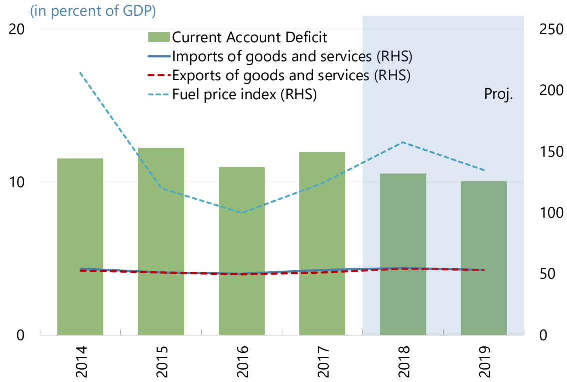
Current Account Balances of Small Tourism-Dependent Countries[1]
(in percent of GDP)



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

The current account deficit in 2018-19 is expected to be lower than in 2017….

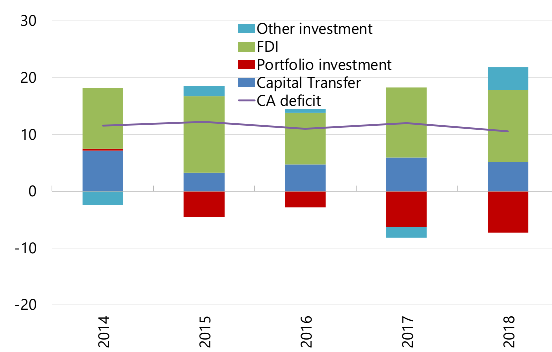
Trade and Current Account Deficit
(in percent of GDP)



marina

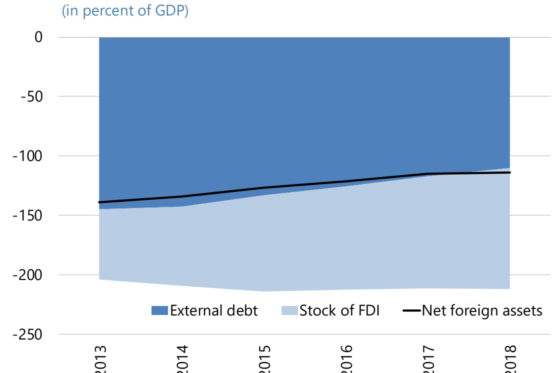
The current account deficit is more than fully financed by FDI and capital transfers….

Current Account Financing
(in percent of GDP)



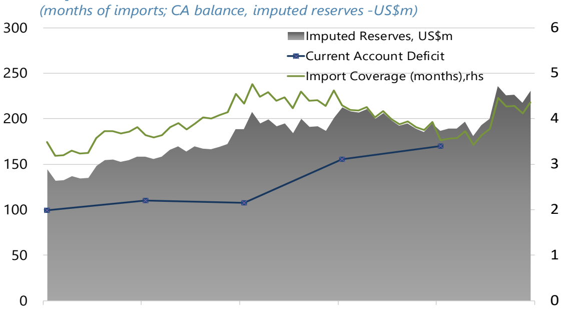
The net foreign asset position is improving…

Grenada: Net Foreign Assets
(in percent of GDP)



….and imputed reserves are now above 4 months of imports

Imputed Reserves
(months of imports; CA balance, imputed reserves -US$m)

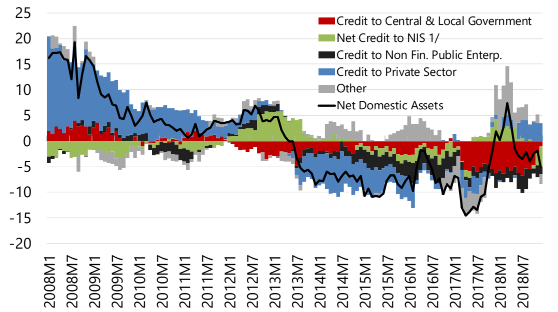


Sources: ECCB and IMF staff estimates.

Figure 5. Grenada: Monetary Developments

Banks' domestic deleveraging is petering out....

Commercial Banks' Net Domestic Assets
(contribution to growth, y-o-y)

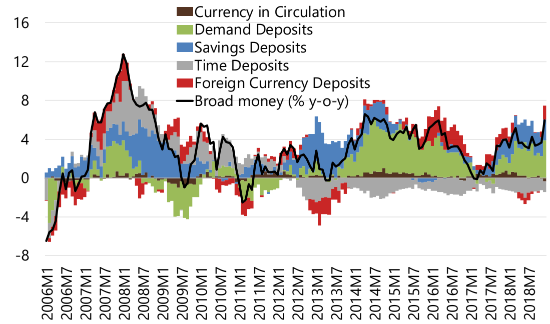


Sources: ECCB

1/ Net credit to NIS is negative in levels meaning that the NIS is holding deposits, so if this item is growing it means that the NIS is depleting its deposits.

....while liquidity remains ample

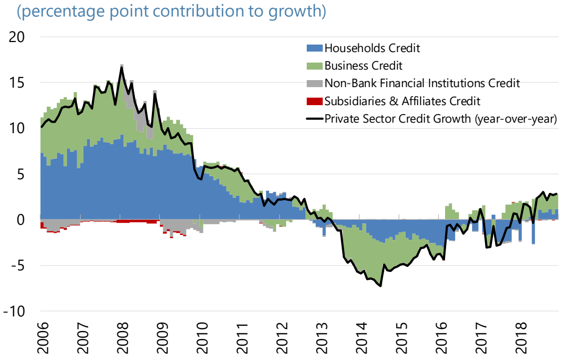
Components of Broad Money Growth (M2)
(contribution to growth, y-o-y)



Sources: ECCB and Fund staff estimates.

Bank credit to the private sector has turned positive....

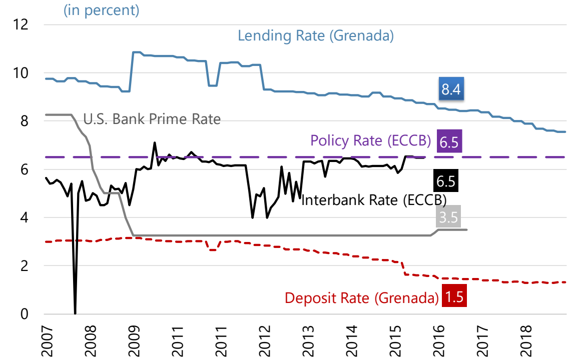
Credit growth
(percentage point contribution to growth)



Sources: Grenada authorities and Fund staff estimates.

....in the context of a steady decline in loan and deposit rates

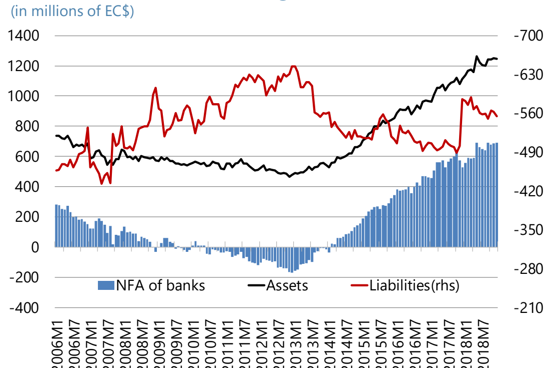
Interest Rates
(in percent)



Sources: ECCB and Haver Analytics.

In the meantime, excess liquidity continues to be placed abroad...

Commercial Banks Net Foreign Assets
(in millions of EC$)



....and in unremunerated excess reserves at the central bank

Deposits and Bank Excess Reserves
(Deposit: indices, 100=sample average for each deposit type; Excess Reserves: percent of total deposits)

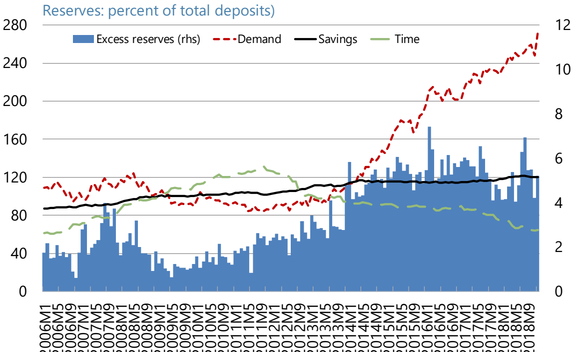
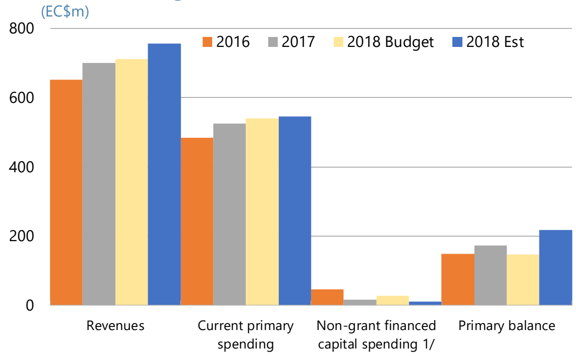


Figure 6. Grenada: Fiscal Developments

Fiscal deficit reduction in 2018 was larger than envisaged…

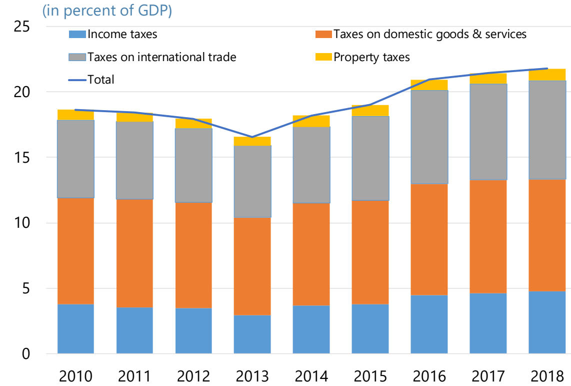
Grenada: Budget Execution and Outcomes
(EC$m)



1/ Higher than budget non-grant financed capital spending is allowed by the program in the case of revenue overperformance.

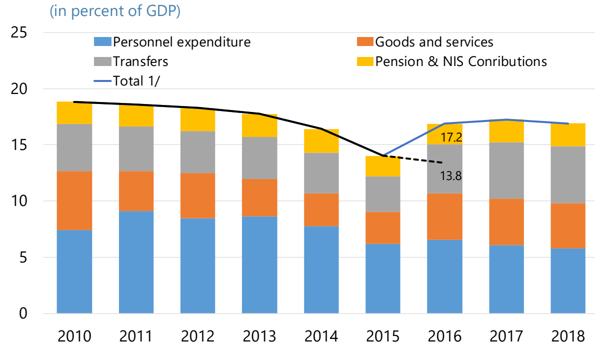
… as tax revenue over performed partially because of robust economic growth …

Total Tax Revenue
(in percent of GDP)



… and spending was kept under control …

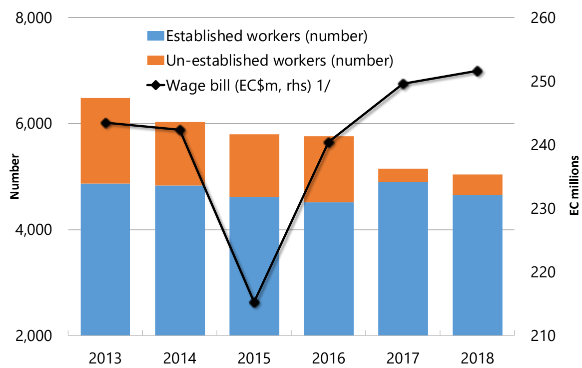
Current Primary Expenditure
(in percent of GDP)



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.

… in part due to government's attrition policy that helped lower wage spending 1/.

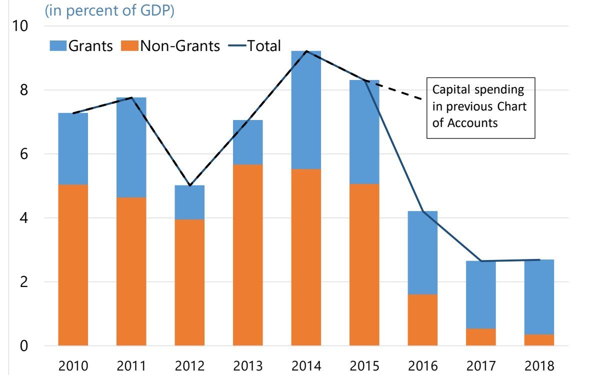
Grenada: Public Employment and Wage Bill



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

…Capital expenditure, though stable in 2018, under performed largely because of implementation capacity…

Capital Expenditure
(in percent of GDP)



…while the stronger fiscal position together with high GDP growth and debt restructuring, further reduced public debt.

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

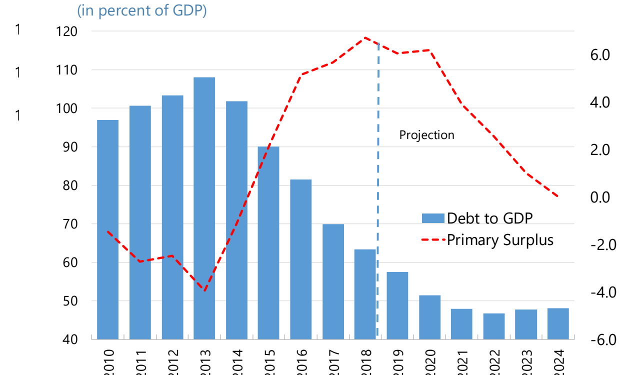
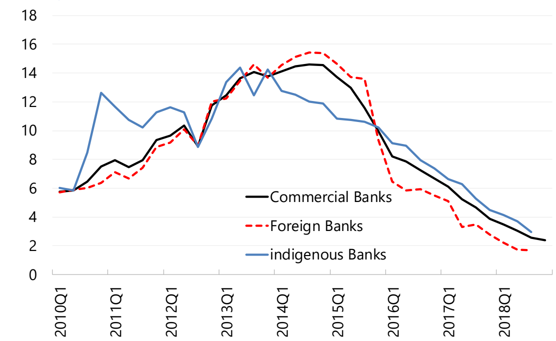


Figure 7. Grenada: Financial Sector Developments

Banks continue to strengthen balance sheets....

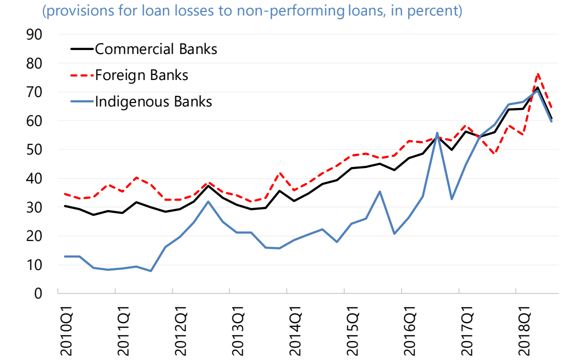
Nonperforming Loans
(in percent of total loans)



Sources: ECCB.

....and build up provisioning levels

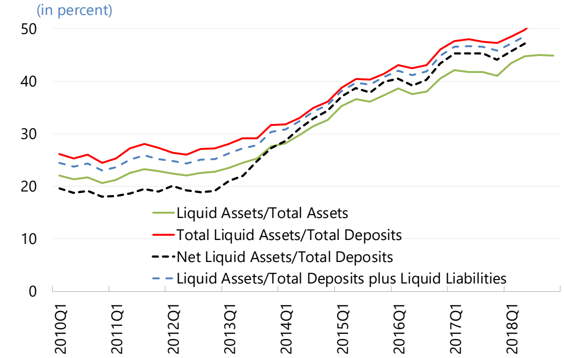
Provisions to Nonperforming Loans
(provisions for loan losses to non-performing loans, in percent)



Sources: ECCB.

High liquidity continues to be maintained....

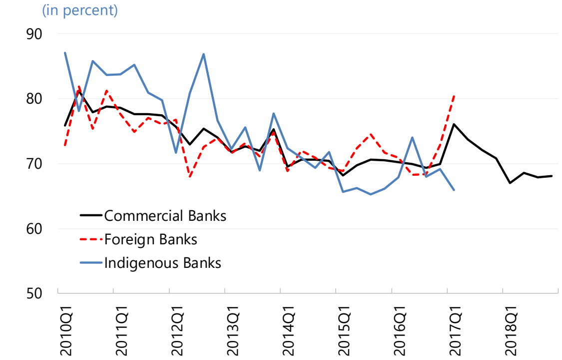
Commercial Banks' Liquidity
(in percent)



Sources: ECCB.

....but further placed in low yielding assets

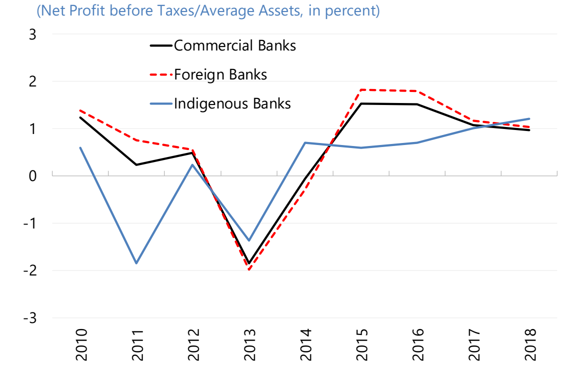
Interest Margin/Gross Income
(in percent)



Sources: ECCB.

Profitability declined moderately in 2017-18...

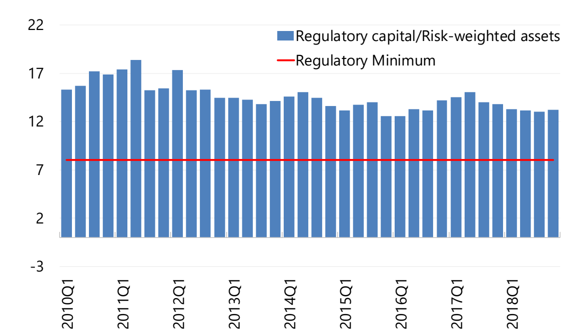
Return on Average Assets
(Net Profit before Taxes/Average Assets, in percent)



Sources: ECCB.

Capital remains well above the regulatory minimum.

Commercial Banks' Capital Adequacy
(Regulatory Capital/Risk Weighted Assets, in percent)



Sources: ECCB.

Table 1. Grenada: Selected Economic and Financial Indicators, 2014–24

Rank in UNDP Human Development Index	79	Infant mortality rate per '000 births (2016)	9.9
out of 179 countries (2016)		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2014)	73	Poverty headcount index (2008)	38
GDP per capita in US$ (2018)	10,950	Unemployment rate (2018)	21.7
Population in millions (2018)	0.11		

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Projections						
	(Annual percentage change, unless otherwise specified)										
Output and prices											
Real GDP	7.3	6.4	3.7	5.1	4.2	3.5	2.7	2.7	3.2	3.2	3.0
Nominal GDP	8.2	9.4	6.5	6.1	5.2	4.7	4.6	4.8	5.3	5.3	5.1
Consumer prices, end of period	-0.6	1.1	0.9	0.5	1.4	0.9	1.9	1.9	1.9	1.9	1.9
Consumer prices, period average	-1.0	-0.6	1.7	0.9	0.8	0.8	1.7	1.9	1.9	1.9	1.9
Output gap (percent of potential GDP) 1/	-0.1	1.5	0.4	0.8	0.8	0.6	0.0	-0.4	-0.3	0.0	0.1
Real effective exchange rate	-3.5	2.5	-0.2	-2.6	-2.4	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)										
Revenue	24.5	24.5	26.2	25.6	26.5	25.6	25.5	25.3	25.3	25.1	24.8
Taxes	18.2	19.0	20.9	21.4	22.0	21.5	21.5	21.4	21.4	21.4	21.4
Non-tax revenue 2/	2.2	2.2	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Grants	4.1	3.2	3.5	2.6	2.9	2.4	2.4	2.3	2.2	2.1	1.8
Expenditure 3/	29.2	25.7	23.9	22.6	21.7	21.5	20.9	20.5	22.4	24.2	26.3
Current primary expenditure	16.4	14.0	16.9	17.3	17.0	16.5	16.5	16.4	16.7	17.2	17.7
Interest payments	3.5	3.3	2.9	2.7	2.0	2.1	1.9	1.8	1.7	1.6	1.5
Capital expenditure	9.2	8.3	4.2	2.6	2.7	2.8	2.5	2.4	4.0	5.4	7.1
Primary balance 2/	-1.1	2.1	5.2	5.7	6.8	6.2	6.5	6.6	4.5	2.5	0.0
Overall balance	-4.7	-1.2	2.3	3.0	4.8	4.1	4.6	4.8	2.8	0.9	-1.4
Public debt (incl. guaranteed) 4/	101.8	90.1	81.6	70.0	63.4	58.7	53.7	50.6	48.3	44.9	44.2
Domestic	34.1	28.7	25.0	22.6	19.0	16.7	14.3	12.0	10.4	9.5	9.8
External	67.7	61.4	56.6	47.4	44.5	42.0	39.4	38.6	37.9	35.4	34.4
Money and credit, end of period (annual percent change)											
Broad money (M2)	4.1	5.2	1.3	4.0	5.9	4.7	4.6	4.8	5.3	5.3	4.8
Credit to private sector	-5.1	-3.8	-0.2	0.6	2.8	5.2	4.7	3.6	3.7	2.2	2.7
Balance of payments											
Current account balance, o/w:	-11.6	-12.2	-11.0	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1	-10.0	-9.9
Exports of goods and services	52.5	51.2	49.3	51.3	54.2	54.0	54.1	54.1	53.9	53.6	53.4
Imports of goods and services	54.1	50.9	49.8	53.1	55.2	54.9	54.1	52.5	52.8	53.3	52.9
Capital account balance	7.1	3.3	4.7	5.9	5.2	5.2	5.1	5.0	4.9	4.8	4.5
Financial account balance	-6.2	-5.8	-2.2	-5.8	-5.8	-6.0	-5.1	-3.6	-4.2	-5.2	-5.4
Errors and omissions	-1.8	3.2	4.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross)	143.0	133.2	125.7	117.4	108.0	106.6	101.7	98.9	96.0	91.3	88.2
Savings-Investment balance	-11.6	-12.2	-11.0	-12.0	-11.2	-11.2	-10.2	-8.6	-9.1	-10.0	-9.9
Savings	6.7	5.5	9.1	9.0	11.0	9.0	9.1	10.1	10.8	11.2	13.1
Investment	18.3	17.7	20.1	20.9	22.2	20.2	19.3	18.7	19.9	21.2	22.9
Memorandum items:											
Nominal GDP (EC$ million)	2,461	2,692	2,866	3,043	3,202	3,352	3,508	3,677	3,873	4,080	4,289
Net imputed international reserves											
Months of imports of goods and services	3.7	4.3	4.0	3.6	4.1	4.1	4.0	3.8	3.6	3.6	3.6

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.

1/ The output gap is based on an HP-filter decomposition of actual and projected real GDP into cycle and trend (with lamda equal to 6.25) and end-of-period trend growth assumed at 2.7 percent. In some periods, including 2016, trend growth is higher than actual growth, causing the output gap to shrink even when the actual growth is above long-term trend growth.

2/ Includes Citizenship-by-Invesetment (CBI) related non-tax revenue.

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

4/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

Table 2a. Grenada: Operations of the Central Government, 2014–2024

(In EC$ million)

	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
					Est.	Budget	Proj.					
Total revenue and grants	**602.8**	**658.5**	**751.6**	**778.2**	**849.1**	**964.1**	**857.3**	**894.6**	**931.8**	**978.0**	**1,023.6**	**1,064.9**
Revenue	502.3	571.3	651.6	700.1	754.8	780.4	775.9	811.9	847.8	892.9	937.3	985.7
Tax revenue	448.1	511.8	600.5	651.9	703.0	726.5	721.7	755.2	788.4	830.3	871.4	916.3
Taxes on income and profits	89.9	101.7	127.3	140.6	153.9	157.4	153.2	160.3	168.0	177.0	186.4	196.0
Taxes on property	21.3	23.3	23.9	24.3	29.2	28.0	23.9	25.0	26.2	27.6	29.0	30.5
Taxes on goods and services	193.4	214.0	244.8	263.7	276.4	287.3	288.9	302.3	316.8	333.6	351.4	369.7
Taxes on international trade	143.5	172.8	204.5	223.3	243.4	253.8	255.8	267.7	277.5	292.1	304.5	320.1
Nontax revenue	54.2	59.5	51.1	48.2	51.8	53.9	54.2	56.7	59.4	62.6	66.0	69.3
Citizenship by Investment Program	0.3	16.3	3.4	4.9	3.3	3.1	3.4	3.5	3.7	3.9	4.1	4.3
Fees, fines and sales	19.0	18.5	23.1	22.8	25.4	17.7	…	…	…	…	…	…
Licenses	30.0	18.4	16.6	18.2	19.0	19.7	…	…	…	…	…	…
Grants	100.5	87.2	100.0	78.1	94.3	183.7	81.5	82.7	83.9	85.1	86.2	79.2
Total expenditure and net lending 1/	**717.6**	**690.6**	**685.6**	**686.6**	**695.3**	**834.3**	**719.1**	**734.6**	**754.7**	**867.7**	**985.9**	**1,126.0**
Current expenditure	490.9	467.0	565.5	605.9	608.5	637.9	624.3	646.7	667.1	711.0	766.9	821.3
Wages and salaries	242.4	215.3	240.4	246.9	251.6	275.4	260.6	272.2	284.7	306.7	331.3	357.9
NIS contributions	11.4	10.6	11.2	18.4	12.7	13.5	13.2	13.8	14.5	15.7	17.0	18.4
Goods and services	72.2	75.9	117.6	126.5	130.7	124.8	129.8	135.8	137.8	148.8	165.2	178.0
Transfers	77.7	75.3	113.9	133.2	150.3	152.2	151.0	157.2	165.4	175.9	189.1	203.9
Transfers Abroad (Contributions)	13.1	13.8	14.3	20.8	19.6	…	…	…	…	…	…	…
Grants & Subventions (other private sector)	24.2	23.7	41.4	48.1	56.5	…	…	…	…	…	…	…
Public Assistance	0.0	0.0	16.9	20.6	21.5	…	…	…	…	…	…	…
Pensions	40.3	37.8	41.4	43.7	52.6	55.6	51.1	52.1	55.4	59.4	64.0	68.8
Interest payments	87.2	89.9	82.3	81.0	63.2	72.0	69.8	67.6	64.8	63.9	64.3	63.1
Capital expenditure and net lending	226.7	223.6	120.1	80.6	86.8	196.4	94.8	87.9	87.6	156.6	219.0	304.7
o/w natural disaster							*16.8*	*17.5*	*18.4*	*19.4*	*20.4*	*21.4*
Grant-financed	90.6	87.2	74.0	64.2	74.9	178.5	76.3	77.4	78.6	79.6	80.7	73.7
Non-grant financed	136.1	136.5	46.1	16.4	11.9	17.9	18.5	10.5	9.0	77.0	138.3	231.0
Primary balance 2/	**-27.6**	**57.8**	**148.3**	**172.6**	**217.0**	**201.8**	**208.0**	**227.6**	**241.9**	**174.3**	**102.0**	**2.0**
Overall balance	**-114.8**	**-32.2**	**66.0**	**91.6**	**153.8**	**129.8**	**138.3**	**160.0**	**177.1**	**110.3**	**37.6**	**-61.1**
Public Debt	**2,504.5**	**2,425.4**	**2,338.1**	**2,130.9**	**2,030.8**	**1,983.8**	**1,968.1**	**1,884.8**	**1,860.0**	**1,871.1**	**1,833.5**	**1,894.6**
Memo items:												
Nominal GDP (EC$ millions)	2,461	2,692	2,866	3,043	3,202	3,352	3,352	3,508	3,677	3,873	4,080	4,289

Sources: Country authorities and Fund 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 2b. Grenada: Operations of the Central Government, 2014–2024

(In percent of GDP)

	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
						Budget	Proj.					
Total revenue and grants	**24.5**	**24.5**	**26.2**	**25.6**	**26.5**	**28.8**	**25.6**	**25.5**	**25.3**	**25.3**	**25.1**	**24.8**
Revenue	20.4	21.2	22.7	23.0	23.6	23.3	23.1	23.1	23.1	23.1	23.0	23.0
Tax revenue	18.2	19.0	20.9	21.4	22.0	21.7	21.5	21.5	21.4	21.4	21.4	21.4
Taxes on income and profits	3.7	3.8	4.4	4.6	4.8	4.7	4.6	4.6	4.6	4.6	4.6	4.6
Taxes on property	0.9	0.9	0.8	0.8	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on goods and services	7.9	8.0	8.5	8.7	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Taxes on international trade	5.8	6.4	7.1	7.3	7.6	7.6	7.6	7.6	7.5	7.5	7.5	7.5
Nontax revenue	2.2	2.2	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Grants	4.1	3.2	3.5	2.6	2.9	5.5	2.4	2.4	2.3	2.2	2.1	1.8
Total expenditure and net lending 1/	**29.2**	**25.7**	**23.9**	**22.6**	**21.7**	**24.9**	**21.5**	**20.9**	**20.5**	**22.4**	**24.2**	**26.3**
Current expenditure	19.9	17.3	19.7	19.9	19.0	19.0	18.6	18.4	18.1	18.4	18.8	19.1
Wages and salaries	9.9	8.0	8.4	8.1	7.9	8.2	7.8	7.8	7.7	7.9	8.1	8.3
NIS contributions	0.5	0.4	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Goods and services	2.9	2.8	4.1	4.2	4.1	3.7	3.9	3.9	3.7	3.8	4.0	4.2
Transfers	3.2	2.8	4.0	4.4	4.7	4.5	4.5	4.5	4.5	4.5	4.6	4.8
Transfers Abroad (Contributions)	0.5	0.5	0.5	0.7	0.6	...	...	...	...	...	...	...
Grants & Subventions (other private sector)	1.0	0.9	1.4	1.6	1.8	...	...	...	...	...	...	...
Public Assistance	0.0	0.0	0.6	0.7	0.7	...	...	...	...	...	...	...
Pensions and Gratuities	1.6	1.4	1.4	1.4	1.6	...	1.5	1.5	1.5	1.5	1.6	1.6
Interest payments	3.5	3.3	2.9	2.7	2.0	2.1	2.1	1.9	1.8	1.7	1.6	1.5
Capital expenditure and net lending	9.2	8.3	4.2	2.6	2.7	5.9	2.8	2.5	2.4	4.0	5.4	7.1
Grant-financed	3.7	3.2	2.6	2.1	2.3	5.3	2.3	2.2	2.1	2.1	2.0	1.7
Non-grant financed	5.5	5.1	1.6	0.5	0.4	0.5	0.6	0.3	0.2	2.0	3.4	5.4
Primary balance 2/	**-1.1**	**2.1**	**5.2**	**5.7**	**6.8**	**6.0**	**6.2**	**6.5**	**6.6**	**4.5**	**2.5**	**0.0**
Overall balance	**-4.7**	**-1.2**	**2.3**	**3.0**	**4.8**	**3.9**	**4.1**	**4.6**	**4.8**	**2.8**	**0.9**	**-1.4**
Public Debt	**101.8**	**90.1**	**81.6**	**70.0**	**63.4**	**59.2**	**58.7**	**53.7**	**50.6**	**48.3**	**44.9**	**44.2**
Memo item:												
Nominal GDP (EC$ millions)	2,461	2,692	2,866	3,043	3,202	3,352	3,352	3,508	3,677	3,873	4,080	4,289

Sources: Country authorities and Fund 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 3. Grenada: Public Sector Debt, 2015–2018

(Year end, in millions of U.S. dollars)

	2015			2016			2017			2018 (prel.)		
		Percent of			Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	898.3	100.0	90.1	866.2	100.0	81.6	789.2	100.0	70.0	752.2	100.0	63.4
Central government debt	857.9	95.5	86.0	837.1	96.6	78.8	762.5	96.6	67.7	752.1	100.0	63.4
Central-government guaranteed debt	40.4	4.5	4.1	29.1	3.4	2.7	26.7	3.4	2.4	0.1	0.0	0.0
Other public sector debt												
External debt	611.9	68.1	61.4	600.8	69.4	56.6	534.7	67.7	47.4	527.2	70.1	44.5
A. Central Government	591.3	65.8	59.3	586.7	67.7	55.3	521.3	66.1	46.3	527.1	70.1	44.4
1. Multilateral	280.0	31.2	28.1	288.2	33.3	27.1	293.9	37.2	26.1	314.4	41.8	26.5
CDB	134.7	15.0	13.5	141.3	16.3	13.3	136.3	17.3	12.1	132.5	17.6	11.2
IDA	77.7	8.6	7.8	78.5	9.1	7.4	92.1	11.7	8.2	122.0	16.2	10.3
IBRD	14.9	1.7	1.5	13.8	1.6	1.3	12.7	1.6	1.1	14.8	2.0	1.3
IMF	29.3	3.3	2.9	28.9	3.3	2.7	28.6	3.6	2.5	23.1	3.1	1.9
Other Multilateral	23.4	2.6	2.3	25.6	3.0	2.4	24.2	3.1	2.1	22.0	2.9	1.9
2. Official bilateral	97.0	10.8	9.7	94.3	10.9	8.9	88.7	11.2	7.9	84.8	11.3	7.2
Paris Club 1/	10.8	1.2	1.1	8.9	1.0	0.8	8.2	1.0	0.7	7.2	1.0	0.6
Belgium		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0
France	4.5	0.5	0.4	4.0	0.5	0.4	3.8	0.5	0.3	3.5	0.5	0.3
Russian Federation	0.2	0.0	0.0	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
U.S.	3.0	0.3	0.3	2.7	0.3	0.3	2.5	0.3	0.2	2.0	0.3	0.2
U.K.	3.2	0.4	0.3	2.0	0.2	0.2	1.9	0.2	0.2	1.6	0.2	0.1
Other	86.2	9.6	8.7	85.4	9.9	8.0	80.5	10.2	7.1	77.6	10.3	6.5
Kuwait	17.0	1.9	1.7	16.2	1.9	1.5	15.6	2.0	1.4	14.0	1.9	1.2
Taiwan Province of China 2/	19.4	2.2	1.9	19.4	2.2	1.8	18.3	2.3	1.6	16.8	2.2	1.4
Trinidad and Tobago	32.9	3.7	3.3	32.9	3.8	3.1	32.9	4.2	2.9	32.9	4.4	2.8
Venezuela	10.0	1.1	1.0	10.0	1.2	0.9	7.7	1.0	0.7	6.5	0.9	0.6
Other Bilateral	6.9	0.8	0.7	6.9	0.8	0.7	5.9	0.8	0.5	7.4	1.0	0.6
3. Commercial debt	188.1	20.9	18.9	178.5	20.6	16.8	117.3	14.9	10.4	108.3	14.4	9.1
US$ 2040 Bonds 5/	179.2	19.9	18.0	170.2	19.6	16.0	112.3	14.2	10.0	103.3	13.7	8.7
Other Bonds	8.9	1.0	0.9	8.3	1.0	0.8	5.0	0.6	0.4	5.0	0.7	0.4
Others		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0
4. External arrears on interests	3.4	0.4	0.3	3.9	0.4	0.4	4.8	0.6	0.4	5.4	0.7	0.5
5. Overdue membership fees	22.8	2.5	2.3	21.8	2.5	2.1	16.7	2.1	1.5	14.2	1.9	1.2
B. Central-government guaranteed	20.6	2.3	2.1	14.1	1.6	1.3	13.3	1.7	1.2	0.1	0.0	0.0
of which:		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0
Paris Club		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0
Domestic debt	286.4	31.9	28.7	265.5	30.6	25.0	254.5	32.3	22.6	225.0	29.9	19.0
A. Central Government	266.6	29.7	26.7	250.4	28.9	23.6	241.1	30.6	21.4	225.0	29.9	19.0
1. Treasury bills	117.9	13.1	11.8	113.3	13.1	10.7	76.6	9.7	6.8	59.7	7.9	5.0
RGSM 3/	35.9	4.0	3.6	34.6	4.0	3.3	33.5	4.2	3.0	23.6	3.1	2.0
3 month initial maturity	13.0	1.4	1.3	13.0	1.5	1.2	12.0	1.5	1.1	5.6	0.7	0.5
1 year initial maturity	23.0	2.6	2.3	21.6	2.5	2.0	21.4	2.7	1.9	18.1	2.4	1.5
Private placements	82.0	9.1	8.2	78.7	9.1	7.4	43.1	5.5	3.8	36.0	4.8	3.0
National Insurance Scheme	14.8	1.6	1.5	14.8	1.7	1.4	14.8	1.9	1.3	14.8	2.0	1.2
Petrocaribe Grenada	34.8	3.9	3.5	34.8	4.0	3.3	15.8	2.0	1.4	0.0	0.0	0.0
Other private placements	32.4	3.6	3.2	29.0	3.4	2.7	12.5	1.6	1.1	21.2	2.8	1.8
2. Treasury Notes	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.2	0.1	10.5	1.4	0.9
3. Bonds	111.4	12.4	11.2	115.7	13.4	10.9	138.8	17.6	12.3	132.2	17.6	11.2
EC$ 2040 Bonds 5/	68.9	7.7	6.9	67.3	7.8	6.3	57.1	7.2	5.1	55.5	7.4	4.7
RGSM 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	37.9	4.2	3.8	43.5	5.0	4.1	79.3	10.0	7.0	75.2	10.0	6.3
Other Bonds	4.6	0.5	0.5	4.9	0.6	0.5	2.5	0.3	0.2	1.5	0.2	0.1
4. Domestic arrears on interests	4.4	0.5	0.4	1.6	0.2	0.1	1.3	0.2	0.1	0.0	0.0	0.0
5. Compensation claims	14.8	1.6	1.5	14.8	1.7	1.4	21.5	2.7	1.9	21.2	2.8	1.8
6. Commercial Bank Loans	7.0	0.8	0.7	5.0	0.6	0.5	1.4	0.2	0.1	1.3	0.2	0.1
7. Overdraft	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Supplier arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Other 4/	11.1	1.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Central-Government Guaranteed	19.8	2.2	2.0	15.1	1.7	1.4	13.4	1.7	1.2	0.0	0.0	0.0
Memorandum items:												
Nominal GDP	997.0			1061.6			1126.9			1185.9		
Other Public Debt 6/	140.1		14.1	162.3		15.3	168.8		15.0	178.3		15.0

Sources: Grenadian authorities and Fund staff estimates.

1/ Debt service obligations to the Paris Club were rescheduled in May 2006.

2/ New debt issued after restructuring in December 2014

3/ Regional Government Securities Market placements.

4/ Includes unpaid claims < 60 days, and ECCB temporary advance

5/ Prior to the restructuring that took place in November 2015 was the US$ 2025 bonds.

6/ Non-guaranteed public debt (available from 2016 onwards) and PetroCaribe debt. Legal nature of the PetroCaribe debt is uncertain.

Table 4. Grenada: Medium-Term Central Government Financing, 2015–2018

(In EC$ million)

	2015	2016	2017	2018
Stock of deposits at beginning of the period 4/	**82.7**	**134.7**	**131.5**	**184.1**
Inflows	**1392.7**	**496.2**	**577.2**	**463.2**
Primary surplus	57.8	148.3	172.6	217.0
Debt placement	336.9	280.1	246.3	231.1
External	134.9	76.2	45.5	112.3
o/w Exceptional financing	82.6	42.1	12.4	
Domestic	202.0	203.9	200.8	118.8
Arrears accumulation	55.9	38.1		
Debt stock reduction from restructuring 1/	153.6	14.6	158.3	15.1
New debt issued under restructuring 2/	788.6	15.1		
Outflows	**1,340.7**	**499.4**	**524.6**	**401.7**
Primary deficit				
Interest bill	89.9	82.3	81.0	63.2
Scheduled Amortization	264.7	332.1	300.7	244.3
External	50.7	87.1	90.3	91.4
Domestic	214.0	245.0	210.4	152.9
Arrears clearance 3/	169.6			
Debt restructuring	775.3	29.7	158.3	15.1
Acquisition of financial assets		12.2		81.0
Other 5/	41.2	43.1	-15.4	-1.9
Net cash flow (+surplus/-deficit)	**52.1**	**-3.3**	**52.6**	**61.5**
Stock of deposits at the end of the period 4/	**134.7**	**131.5**	**184.1**	**245.6**
Memorandum:				
Stock of deposits at the end of the period (in percent of GDP)	5.0	4.6	6.0	7.7
Overall fiscal balance	-32.2	66.0	91.6	153.8
Public Debt	2,425.4	2,338.1	2,130.9	2,030.8
(in percent of GDP)	90.1	81.6	70.0	63.4
Domestic	773.4	716.1	687.2	607.5
External	1,652.1	1,622.0	1,443.6	1,423.4

1/ Includes debt stock reduction from the debt exchange for the 2025 bonds, the Export-Import Bank of Taiwan Province, other external commercial debt and restructured domestic debt. Under inflows, the total restructured amount is the sum of debt restructuring and debt forgiveness. Under outflows, the counterpart is debt restructuring and regularization of arrears.
2/ Includes new debt issued under restructuring agreements executed with the Export-Import Bank of Taiwan Provice of China, holders of Grenada's 2025 international bonds, Paris Club creditors, the National Insurance Scheme, and other domestic creditors.
3/ Remaining stock of arrears in 2016 is comprised of debts and overdue payments on which a restructuring agreement has not been reached, including overdue contributions to organizations.
4/ Net of advances in the ECCB government operations account.
5/ Includes changes in unpaid invoices < 60 days, unpresented cheques, and in the stock of capital grants received but not spent.

Table 5. Grenada: Balance of Payments Summary, 2014–2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
					(In millions of US dollars)						
Current account	**-105.3**	**-122.0**	**-116.5**	**-134.8**	**-132.8**	**-138.8**	**-132.6**	**-117.5**	**-129.9**	**-151.3**	**-157.0**
Trade balance for goods and services	-14.4	3.7	-5.1	-20.5	-11.4	-10.7	0.7	21.6	16.5	3.9	7.0
Exports of goods and services	478.6	510.8	523.5	578.2	642.9	670.4	702.9	736.9	773.3	809.8	847.6
Nutmeg	6.1	4.9	4.6	3.8	4.1	4.2	4.3	4.4	4.6	4.7	4.8
Tourism	388.1	421.6	437.4	482.0	541.0	566.5	592.8	620.5	649.6	680.2	707.4
Imports of goods and services	492.9	507.1	528.7	598.7	654.3	681.1	702.2	715.2	756.8	805.9	840.5
Mineral fuels	79.3	55.4	49.7	48.7	66.2	58.1	60.6	62.4	64.8	67.8	77.7
Foodstuffs	79.2	77.9	79.7	91.1	101.0	102.0	106.6	109.5	113.0	116.6	127.7
Other goods	147.3	173.7	178.3	230.0	243.7	269.3	275.2	274.4	299.3	326.5	324.6
Services	187.2	200.0	221.0	228.9	243.4	251.5	259.9	268.9	279.7	295.0	310.6
Net Income	-82.8	-114.2	-97.1	-104.5	-111.2	-116.4	-121.8	-127.7	-134.5	-141.7	-149.0
Current transfers	-8.1	-11.5	-14.3	-9.8	-10.2	-11.6	-11.5	-11.5	-11.9	-13.5	-15.1
Capital account	**65.1**	**32.4**	**49.7**	**66.9**	**61.7**	**64.7**	**66.5**	**68.3**	**70.3**	**72.5**	**71.6**
Capital transfers	65.1	32.4	49.7	66.9	61.7	64.7	66.5	68.3	70.3	72.5	71.6
o.w. debt forgiveness 1/	17.2	48.4	4.5	49.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-56.6**	**-57.6**	**-23.7**	**-65.7**	**-68.8**	**-74.0**	**-66.1**	**-49.2**	**-59.6**	**-78.8**	**-85.4**
Foreign direct investment	-97.2	-134.3	-96.9	-139.3	-151.6	-131.5	-131.1	-130.6	-130.4	-137.4	-144.5
Portfolio investment (net)	-2.9	66.0	70.2	61.7	86.1	89.7	93.5	97.6	102.1	106.8	111.7
Other investment (net)	21.5	-17.9	-7.1	20.9	-38.1	-38.6	-32.4	-17.8	-33.3	-57.4	-62.2
Change in imputed reserves	21.9	28.5	10.1	-8.9	34.8	6.4	3.9	1.6	2.0	9.1	9.5
Errors and omissions	-16.4	32.0	43.1	2.2	2.3	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	**-11.6**	**-12.2**	**-11.0**	**-12.0**	**-11.2**	**-11.2**	**-10.2**	**-8.6**	**-9.1**	**-10.0**	**-9.9**
Trade balance for goods and services	-1.6	0.4	-0.5	-1.8	-1.0	-0.9	0.1	1.6	1.1	0.3	0.4
Exports of goods and services	52.5	51.2	49.3	51.3	54.2	54.0	54.1	54.1	53.9	53.6	53.4
Tourism	42.6	42.3	41.2	42.8	45.6	45.6	45.6	45.6	45.3	45.0	44.5
o.w. Student receipts 2/	2.9	2.7	5.7	5.4	5.2	5.1	5.0	4.9	4.7	4.6	4.5
Imports of goods and services	54.1	50.9	49.8	53.1	55.2	54.9	54.1	52.5	52.8	53.3	52.9
o.w. Mineral fuels	8.7	5.6	4.7	4.3	5.6	4.7	4.7	4.6	4.5	4.5	4.9
Net income	-9.1	-11.5	-9.1	-9.3	-9.4	-9.4	-9.4	-9.4	-9.4	-9.4	-9.4
o.w. Public interest payment	-2.4	-2.3	-2.1	-2.0	-1.5	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2
Net current transfers	-0.9	-1.1	-1.3	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9	-0.9
Capital account	**7.1**	**3.3**	**4.7**	**5.9**	**5.2**	**5.2**	**5.1**	**5.0**	**4.9**	**4.8**	**4.5**
Capital transfers	7.1	3.3	4.7	5.9	5.2	5.2	5.1	5.0	4.9	4.8	4.5
o.w. debt forgiveness 1/	1.9	4.9	0.4	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-6.2**	**-5.8**	**-2.2**	**-5.8**	**-5.8**	**-6.0**	**-5.1**	**-3.6**	**-4.2**	**-5.2**	**-5.4**
Foreign direct investment	-10.7	-13.5	-9.1	-12.4	-12.8	-10.6	-10.1	-9.6	-9.1	-9.1	-9.1
Portfolio investment (net)	-0.3	6.6	6.6	5.5	7.3	7.2	7.2	7.2	7.1	7.1	7.0
Other investment (net)	2.4	-1.8	-0.7	1.9	-3.2	-3.1	-2.5	-1.3	-2.3	-3.8	-3.9
Change in imputed reseves	2.4	2.9	0.9	-0.8	2.9	0.5	0.3	0.1	0.1	0.6	0.6
Error and Omission	**-1.8**	**3.2**	**4.1**	**0.2**	**0.2**	**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 (in percent of GDP)	**143.0**	**133.2**	**125.7**	**117.4**	**108.0**	**106.6**	**101.7**	**98.9**	**98.2**	**95.7**	**94.7**
External public and publicly guaranteed d	67.7	61.4	56.6	47.4	44.5	42.0	39.4	38.6	37.9	35.4	34.4
Foreign liabilities of private sector 3/	75.3	71.8	69.1	70.0	63.5	64.5	62.3	60.3	60.3	60.3	60.3
Nominal GDP	911.5	997.0	1061.6	1126.9	1185.9	1241.4	1299.1	1361.7	1434.4	1511.0	1588.5

Sources: Ministry of Finance and Planning; ECCB; and Fund staff estimates and projections.
1/ Debt forgiveness as a result of debt restructuring.
2/ Living expenses of international students at St Georges University. Increase in 2016 represents upward revision.
3/ Comprises foreign liabilities of commercial banks and other liabilities under the "Other investment" item of financial account.

Table 6. Grenada: Summary Accounts of the Monetary Sector, 2014–2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
	(In millions of EC dollars; end of period)										
Net foreign assets	582.2	852.5	1,003.2	1,053.5	1,315.0	1,378.5	1,455.5	1,516.0	1,564.5	1,623.2	1,675.8
ECCB	427.3	509.0	543.7	526.1	623.2	640.5	651.1	655.4	660.8	685.4	711.1
Of which: Net imputed reserves	427.3	509.0	543.7	526.1	623.2	640.5	651.1	655.4	660.8	685.4	711.1
Commercial banks (net)	154.8	343.5	459.5	527.4	691.8	738.0	804.4	860.6	903.7	937.8	964.8
Assets	672.7	855.9	966.8	1,112.5	1,246.7	1,255.8	1,325.4	1,392.3	1,440.7	1,477.9	1,504.6
Liabilities	517.9	512.4	507.3	585.0	555.0	517.8	521.0	531.7	537.0	540.1	539.9
Net domestic assets	1,435.8	1,269.9	1,147.8	1,182.7	1,053.9	1,101.3	1,139.5	1,204.0	1,300.7	1,395.1	1,497.2
Public sector credit (net)	-86.9	-232.3	-307.7	-351.8	-500.2	-534.1	-572.6	-568.3	-535.8	-479.4	-426.6
Central government	17.6	-65.6	-58.8	-120.6	-201.3	-239.5	-248.2	-219.9	-171.2	-101.2	-31.6
ECCB	-9.8	-55.8	-56.5	-42.0	-109.7	-167.7	-213.8	-287.9	-352.7	-363.4	-374.5
Commercial banks	27.4	-9.8	-2.3	-78.6	-91.6	-171.8	-234.5	-332.0	-418.5	-437.9	-457.1
Net credit to rest of public sector	-104.3	-166.4	-201.5	-206.5	-211.2	-215.9	-221.1	-226.8	-232.7	-238.9	-245.4
National Insurance Scheme	-74.7	-92.0	-97.0	-102.1	-106.7	-111.4	-116.6	-122.3	-128.3	-134.5	-141.0
Credit to private sector	1,613.9	1,552.4	1,548.6	1,558.5	1,602.0	1,685.5	1,764.6	1,827.4	1,894.4	1,935.6	1,988.0
Other items (net)	-91.1	-50.2	-93.1	-24.1	-47.9	-50.2	-52.5	-55.0	-58.0	-61.1	-64.2
Broad money	2,018.0	2,122.4	2,151.0	2,236.2	2,368.9	2,479.8	2,595.0	2,720.0	2,865.2	3,018.3	3,173.1
Money	466.5	543.0	577.9	625.1	702.3	766.1	834.5	897.2	966.0	1,043.0	1,122.9
Currency in circulation	124.1	131.5	135.7	151.4	143.9	156.9	170.9	183.8	197.9	213.6	230.0
Cash in commercial banks	342.4	411.4	442.2	473.7	558.4	609.2	663.6	713.4	768.2	829.3	892.9
Quasi-money	1,551.5	1,579.4	1,573.1	1,611.2	1,666.6	1,713.7	1,760.5	1,822.8	1,899.2	1,975.4	2,050.1
Time deposits	287.1	271.4	242.6	215.6	191.0	196.4	201.7	208.9	217.6	226.3	234.9
Savings deposits	1,167.9	1,160.5	1,174.7	1,216.3	1,265.3	1,301.0	1,336.6	1,383.9	1,441.9	1,499.7	1,556.5
Foreign currency deposits	96.4	147.4	155.9	179.3	210.3	216.3	222.2	230.1	239.7	249.3	258.7
	(Annual percentage change, unless otherwise specified)										
Net foreign assets	65.2	46.4	17.7	5.0	24.8	4.8	5.6	4.2	3.2	3.7	3.2
Net domestic assets	-9.5	-11.6	-9.6	3.0	-10.9	4.5	3.5	5.7	8.0	7.3	7.3
Public sector credit, net	51.8	167.2	32.4	14.3	42.2	6.8	7.2	-0.7	-5.7	-10.5	-11.0
Credit to private sector	-5.1	-3.8	-0.2	0.6	2.8	5.2	4.7	3.6	3.7	2.2	2.7
Broad money	4.1	5.2	1.3	4.0	5.9	4.7	4.6	4.8	5.3	5.3	5.1
NFA contribution	11.9	13.4	7.1	2.3	11.7	2.7	3.1	2.3	1.8	2.0	1.7
NDA contribution	-7.8	-8.2	-5.8	1.6	-5.8	2.0	1.5	2.5	3.6	3.3	3.4
Money	22.4	16.4	6.4	8.2	12.4	9.1	8.9	7.5	7.7	8.0	7.7
Quasi-money	-0.4	1.8	-0.4	2.4	3.4	2.8	2.7	3.5	4.2	4.0	3.8
	(In percent of GDP)										
Net foreign assets	23.7	31.7	35.0	34.6	41.1	41.1	41.5	41.2	40.4	39.8	39.1
Net domestic assets, o.w.	58.3	47.2	40.0	38.9	32.9	32.9	32.5	32.7	33.6	34.2	34.9
Public sector credit, net	-3.5	-8.6	-10.7	-11.6	-15.6	-15.9	-16.3	-15.5	-13.8	-11.8	-9.9
Private sector credit, net	65.6	57.7	54.0	51.2	50.0	50.3	50.3	49.7	48.9	47.4	46.4
Broad money (M2)	82.0	78.8	75.0	73.5	74.0	74.0	74.0	74.0	74.0	74.0	74.0
Money	19.0	20.2	20.2	20.5	21.9	22.9	23.8	24.4	24.9	25.6	26.2
Quasi-money	63.0	58.7	54.9	53.0	52.0	51.1	50.2	49.6	49.0	48.4	47.8
Interest rates (percent per year)											
ECCB policy rate	6.5	6.5	6.5	6.5	6.5	...	...	...	...	...	...
US policy rate	0.1	0.1	0.4	1.0	1.8	...	...	...	...	...	...
Time deposit rate	2.0	1.6	1.3	0.9	1.2	...	...	...	...	...	...
Demand deposit rate	0.3	0.3	0.1	0.1	0.1	...	...	...	...	...	...
Weighted average lending rate	9.0	8.7	8.4	8.0	7.6	...	...	...	...	...	...

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

Table 7. Grenada: Indicators of Capacity to Repay the Fund, 2014–2024

(In millions of SDRs, unless otherwise indicated)

						Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Existing Fund credit (stock)											
In percent of quota	174.3	180.8	131.3	122.3	101.2	89.0	80.7	69.6	53.8	36.6	19.5
In millions of SDRs	20.4	21.2	21.5	20.1	16.6	14.6	13.2	11.4	8.8	6.0	3.2
In millions of US$	29.7	29.3	29.0	27.0	22.3	19.7	17.8	15.4	11.9	8.1	4.3
In percent of GDP	3.3	2.9	2.7	2.4	1.9	1.6	1.4	1.1	0.8	0.5	0.3
Proposed Extended Credit Facility (stock)											
In percent of quota	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In millions of US$	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding Fund credit (end of period)											
In percent of quota	174.3	180.8	131.3	122.3	101.2	89.0	80.7	69.6	53.8	36.6	19.5
In millions of SDRs	20.4	21.2	21.5	20.1	16.6	14.6	13.2	11.4	8.8	6.0	3.2
In millions of US$	29.7	29.3	29.0	27.0	22.3	19.7	17.8	15.4	11.9	8.1	4.3
In percent of exports of goods and services	6.2	5.7	5.5	4.7	3.5	2.9	2.5	2.1	1.5	1.0	0.5
In percent of debt service	24.5	27.2	53.1	48.2	42.2	43.2	36.2	31.9	24.8	17.4	9.8
In percent of GDP	3.3	2.9	2.7	2.4	1.9	1.6	1.4	1.1	0.8	0.5	0.3
In percent of Imputed Net International Reserves	18.8	15.5	14.4	13.9	9.7	8.3	7.4	6.3	4.9	3.2	1.6
Fund obligations based on existing and prospective	1.8	3.2	3.6	3.5	3.5	1.8	1.5	1.9	2.7	2.9	2.9
Repurchases and repayments	1.8	3.2	3.6	3.5	3.5	1.7	1.4	1.8	2.6	2.8	2.8
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit											
In millions of US$	2.7	4.5	5.0	4.8	4.9	2.5	2.1	2.7	3.9	4.1	4.1
In percent of exports of goods and services	0.6	0.9	1.0	0.8	0.8	0.4	0.3	0.4	0.5	0.5	0.5
In percent of debt service	2.2	4.2	9.2	8.6	9.3	5.6	4.2	5.7	8.1	8.9	9.4
In percent of GDP	0.3	0.5	0.5	0.4	0.4	0.2	0.2	0.2	0.3	0.3	0.3
In percent of Imputed Net International Reserves	1.7	2.4	2.5	2.5	2.1	1.1	0.9	1.1	1.6	1.6	1.6
In percent of quota	15.2	27.7	22.1	21.2	21.2	11.0	9.0	11.8	16.6	17.9	17.9
Net use of Fund credit	2.3	0.8	0.4	-1.5	-3.5	-1.7	-1.4	-1.8	-2.6	-2.8	-2.8
Disbursements	4.0	4.0	4.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.8	3.2	3.6	3.5	3.5	1.7	1.4	1.8	2.6	2.8	2.8
Memorandum items:											
Exports of goods and services (in millions of US$)	478.6	510.8	523.5	578.2	642.9	670.4	702.9	736.9	773.3	809.8	847.6
Debt service (in millions of US$)	121.3	107.7	54.6	56.1	52.9	45.5	49.2	48.2	48.0	46.5	44.0
GDP (in millions of US$)	911.5	997.0	1061.6	1126.9	1185.9	1241.4	1299.1	1361.7	1434.4	1511.0	1588.5
Imputed Net International Reserves (in millions of US$)	158.3	188.5	201.4	194.9	230.8	237.2	241.2	242.7	244.7	253.8	263.4
Quota (in millions of SDR)	11.7	11.7	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4

Source: Staff estimates and projections.

Table 8. Grenada: Financial Sector Indicators, 2010–2018 1/

	2010	2011	2012	2013	2014	2015	2016	2017	2018
					(Percent of GDP)				
Balance Sheet									
Total Assets	136.0	137.2	128.8	122.4	114.8	111.7	109.7	110.5	110.4
Gross Loans	96.2	95.8	91.6	82.0	71.4	61.8	57.0	53.7	52.8
o/w NPLs	7.3	9.0	10.8	11.3	10.4	6.2	3.8	2.1	...
Provisions for NPLs	2.1	2.5	3.6	4.0	4.1	2.6	1.9	1.3	1.0
Total Liabilities	133.6	134.8	126.4	120.2	112.8	109.8	107.9	108.3	108.3
Deposits	115.1	114.9	108.5	107.1	104.1	101.1	97.0	95.5	96.0
Capital	2.4	2.4	2.4	2.2	2.1	1.9	1.8	2.2	2.0
					(Percent)				
Profitability									
Interest Income/Total Income	87.8	84.6	82.3	82.1	77.9	75.6	77.2	...	...
Interest Exp./Total Income	33.7	34.0	30.8	27.6	26.4	17.6	18.5	...	...
Net Interest Income/Total Income	54.1	50.6	51.5	54.5	51.4	58.0	58.6	...	...
Net Non-Interest Income/Total Income /5	0.3	3.0	5.6	-12.9	-18.9	-10.8	-18.0	...	...
Operating Expenses/Total Income	45.6	46.4	43.0	58.5	67.4	52.8	59.3	...	...
Gross Profits/Total Income	7.2	16.8	-3.6	-15.1	-8.0	46.8	33.0	...	...
Interest Spread 2/	1.1	1.1	1.1	1.2	1.1	1.2	1.1	...	...
ROAE 6/	16.5	3.2	6.9	-28.7	-1.0	31.3	28.4	17.2	15.8
ROAA	1.2	0.2	0.5	-1.9	-0.1	1.5	1.5	1.1	1.0
Capital Adequacy									
CAR 6/	16.9	15.4	14.5	14.1	13.6	12.6	14.2	13.8	13.2
T1R	15.0	13.6	13.2	12.2	11.7	10.2	11.4	...	...
RWA/Assets	66.2	67.5	70.8	70.2	68.4	69.2	65.9	...	...
Asset Quality									
NPL Ratio	7.5	9.4	11.8	13.8	14.6	10.0	6.7	3.9	2.4
Provisions/NPL	28.6	28.4	33.2	35.8	39.3	42.9	49.9	63.9	...
Past Due/Gross Loans	3.3	2.9	2.1	2.0	2.9	2.0	1.9	...	...
Net NPL/Capital	49.4	70.4	85.8	109.0	112.2	68.0	36.3	17.4	10.9
FX Risk									
FX Assets/Assets	8.0	7.4	7.7	7.7	8.6	9.7	10.1	9.8	11.6
FX Liabilities/Liabilities	8.8	9.1	8.7	7.1	7.4	8.9	8.7	11.1	12.6
NOP/Capital	34.7	24.6	37.7	65.2	102.7	172.2	209.7	...	...
Liquidity Risk									
Liquid Assets/Total Assets	20.7	22.9	22.9	27.7	32.8	37.5	40.8	42.3	45.0
Liquidity Coverage Ratio 3/	23.0	25.2	25.2	30.4	35.5	40.8	44.9	46.4	49.1
Liquid Assets/Total Deposits	24.4	27.4	27.2	31.7	36.2	41.4	46.1	48.9	51.8
Funding Risk									
Core/Non-Core Liabilities 7/	635.3	589.7	619.3	831.8	1,222.6	1,186.9	901.9	766.9	796.8
Core/Non-Core Liabilities (ECD) 7/	796.0	729.8	821.6	978.3	1,545.8	1,463.8	1,020.2	797.4	796.2
Core/Non-Core Liabilities (FX) 7/	153.9	153.7	115.2	229.7	275.5	352.1	372.4	578.0	801.4
Costs of Funds 4/	0.7	0.7	0.6	0.6	0.5	0.3	0.3	...	...
Leverage and Concentration Risk									
LD Ratio	83.6	83.4	84.5	76.6	68.6	61.2	58.8	56.2	55.0
LD Ratio (ECD)	83.7	83.7	83.6	77.3	69.4	62.4	60.4	59.5	57.0
LD Ratio (FX)	82.9	78.6	101.2	62.7	54.7	45.3	38.7	27.4	40.2
C1 Borrower Loan/Capital Ratio	15.8	17.4	18.4	22.4	21.4	19.2	17.0	...	...
C1 Sector Loan/Capital Ratio	399.2	435.6	459.1	453.5	439.8	409.2	337.4	...	...
Government Assets/Assets	9.5	9.2	5.6	6.5	7.7	9.7	11.6	...	...
Government Liabilities/Liabilities	9.7	9.4	5.7	6.6	7.9	9.8	11.8	...	...

Sources: ECCB and Staff Estimations.

1/ ECCB stopped reporting some of the indicators after 2017Q1.
2/ Yield on Average Earning Assets less Average Cost of Funds
3/ Liquid Assets/Current Liabilities (Short-term liabilities).
4/ Interest Expense/Average Interest Bearing Liabilities.
5/ Excluding provisions for loan losses.
6/ Data on foreign banks not available.
7/ Core = Deposits + Equity.

Annex I. Implementation of IMF Policy Recommendations of the 2018 Article IV Consultation

Recommendations	Implementation Status
Fiscal Policy	
Identify and address ambiguities in the FRL to address operational issues. Undertake a comprehensive review of the FRL with technical assistance from the IMF.	**Partial implementation.** Amendments to the FRL are pending a review of the recommendations of the recent IMF technical assistance and approval by Cabinet.
Broaden the tax base to include investment income and promote equity by lowering the PIT income threshold.	**Partial implementation.** Income tax rates on the top tax category was reduced from 30 to 28 percent in January 2019. Elements to broaden the tax base have not been implemented.
Broaden the **corporate income tax base** by restricting deductions and taxing foreign-source interests, rents, royalties, and fees. Reduce the tax burden by lowering rates to 25%.	**Partial implementation.** Corporate income tax rates were reduced from 30 to 28 percent in January 2019.
Strengthen management of **the public wage bill**.	**Ongoing**. An earlier attrition rule established in 2014 is ongoing. Functional reviews have been conducted for one ministry, but implementation of recommendations has not proceeded. Implementation of other core elements of the strategy is proceeding with delays.
Establishing and monitoring a physical asset registry to facilitate management of the physical capital stock.	**Ongoing**. Treasury department has solicited bids for software for asset registry.
Strengthen the effectiveness social assistance programs by using the framework of the **SEED beneficiary system.**	**Pending**.
Parametric reforms of the National Insurance Scheme.	**Ongoing.**
Commence (i) annual risk assessments of SOEs and (ii) second phase of **SOE reforms** for tariff adjustments and reforms for cost recovery and investment. .	**Partial implementation.** Annual risk assessments were conducted for 2019 budget exercise based on financial statements received on most SOE's. The second phase of reforms tariff adjustments is commencing in the water sector.
Improving transparency in the recording of **CBI inflows and establishing** a **natural disaster fund** from a portion of the savings of the National Transformation Fund	**Ongoing**. Inflows of all CBI receipts are not recorded in the budget. Resource allocations to the savings fund were made in August 2018 and the regulations for its usage are under review.
Financial Sector	
Ensure compliance with **AML/CFT** regulations at all levels, including strict enforcement of risk-mitigating measures of the CBI program, to ensure continued access to stable cross-border payments.	**Ongoing.** National authorities' and the ECCB's joint audits of banks commenced. FIU received additional staff to focus on due diligence process of the CBI program. Grenada was removed from the EU's grey list of tax havens in March 2019.
Strengthen the regulation and oversight of non-bank financial sector and take steps toward a single regional non-bank supervisor.	**Ongoing.** The Grenada Authority for the Regulation of Financial Institutions (GARFIN) improved its capacity for credit quality review and stress testing of credit unions. Work is ongoing for the development of a national crisis management plan. Work also continues on the draft ECCU uniform insurance bill and envisaged Eastern Caribbean Financial Services Commission (ECFSC).

Growth Policy	
Recommendations	**Implementation Status**
Accelerate structural reforms reinforcing corporate governance, simplifying customs procedures and reducing port charges, strengthening building quality control and supervision, and collaborating more with regional partners on joint solutions, such as a regional credit registry.	**Ongoing**. Efforts to address delays in the judicial system include promotion of the case management system, additional hiring, and development of a commercial division of the court. The regional credit registry system has been approved by the ECCB's monetary council but has not been established.
Revise and align the **education curriculum** with the needs of the labor market. Provide technical and vocational training opportunities in collaboration with the private sector to address the skills gap.	**Ongoing**. The youth skills training and apprenticeship program has been revamped and there is greater collaboration with the private sector. Digitalization to help simplify ease of doing business procedures is ongoing, but the results have not yet been achieved. Grenada is working to establish a labor market information system, but progress is slow.

Annex II. External Sector and Competitiveness Assessment

Grenada's external position is weaker than implied by medium-term fundamentals and desirable policies. EBA-lite current account model estimates point to a current account deficit that is around 2¾ percent of GDP larger than the norm and the need for a 7 percent real depreciation to close the gap, while the external sustainability approach suggests a need for a 22 percent real depreciation to stabilize net international asset at the present level of -115 percent of GDP. Continued fiscal restraint, containing the growth in nominal wages, and efforts to raise productivity will help address this current account gap. While the EBA-lite exchange rate model points to an undervaluation of 30 percent, short length of some data series makes the estimate unreliable. The tourism sector appears to be cost competitive relative to other countries in the Caribbean. The level of international reserves is adequate.

A. Current Account Position

1. Grenada's current account deficit remained high in 2018 and projected to stay at a relatively high level over the medium term. Estimated current account deficit is around 11 percent of GDP, slightly lower than in 2014-17, as private sector-led import increase was more than offset by services export growth. Going forward, the tapering construction boom will put a downward pressure on the current account deficit, which will be offset by the effects of the rise in public sector spending on the current account deficit.

2. The EBA-lite current account model finds Grenada's cyclically adjusted current account to be substantially weaker than the estimated "norm" of -7.3 percent of GDP by 2¾ percentage points. Meanwhile the external sustainability approach suggests that given (i) an NIIP of -115 percent of GDP; (ii) trade deficit projections (inclusive of secondary transfers) projected in the medium-term; (iii) a foreign currency share of foreign assets (foreign liabilities) of about 99 percent (46 percent); and (iv) a trade elasticity of -0.40, a real effective exchange rate depreciation of 22 percent is required to stabilize the NIIP at -115 percent of GDP. While the real effective exchange rate model shows Grenada to be around 30 percent undervalued, results from this approach is less reliable due to short data series for certain variables.

3. The current account deficit is more than fully financed by FDI and capital transfers, despite sizable portfolio outflows. FDI to GDP ratio average 11.7 percent in 2014-18.

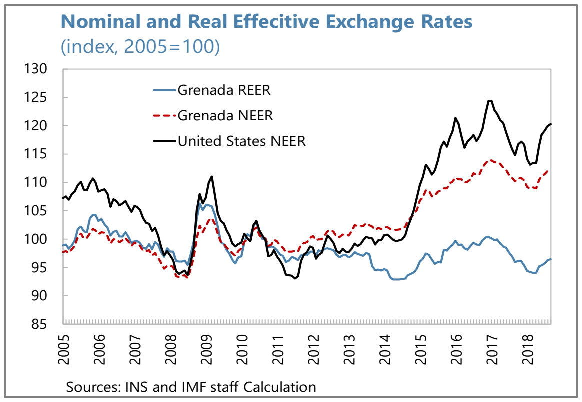
Grenada: External Balance Assessment (EBA) Estimates
(2018, in percent of GDP unless otherwise noted)

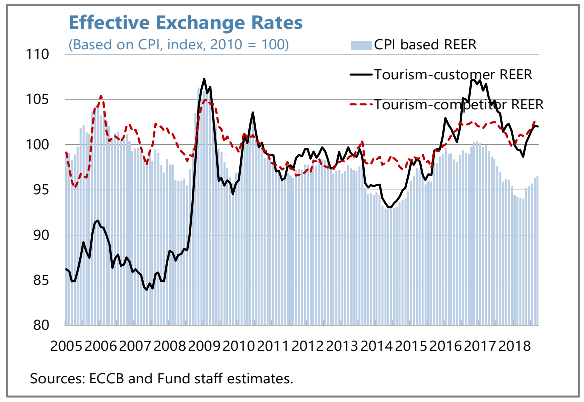
	Multilaterally Consistent Cyclically adjusted Current Account Norm	Cyclically adjusted Current Account Baseline	Current Account Gap	Elasticity	REER gap 1/2/
Current Account Regression	-7.3	-10.1	-2.8	-0.40	7.1
External Sustainability Approach					22.0
REER Regression	...	...	...	...	-30.0

1/ Positive number suggests overvaluation.
2/ In percent.

B. Nominal and Real Effective Exchange Rates

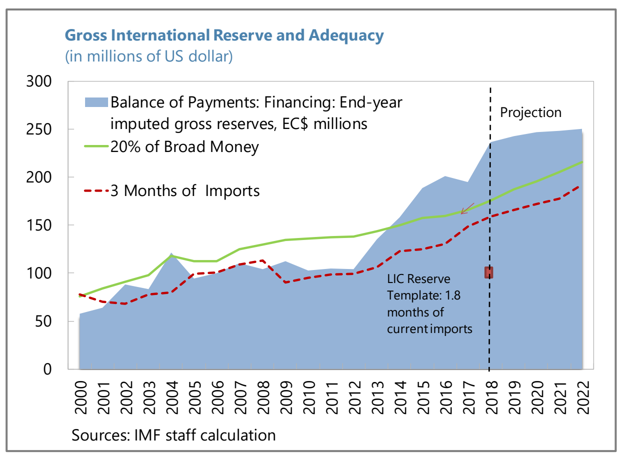
4. Grenada experienced a real appreciation in 2018 in line with strengthening of the U.S. dollar. Grenada's nominal effective exchange rate (NEER) appreciated in the second half of 2018, reversing the trend since early 2017, and was approaching the end-2016 peak by end-2018. The underlying driving force for the 2018 real and nominal appreciation is the appreciation of the U.S. dollar, to which the regional currency is pegged. The divergence of NEER and REER since 2014 largely reflects inflation undershooting that of trading partners.





C. Reserve Adequacy

5. Grenada's reserves remain adequate. Imputed reserves stood at US$236 million at end-2018, covering 4.5 months of imports or 27 percent of broad money, and appeared to be adequate for cushioning external shocks and preventing disorderly market conditions. The imputed reserve position is 250 percent of ARA metric for credit-constrained economies, which suggests 1.8 month of imports as optimal level using a risk-based model tailored to low-income economies.[1,2]

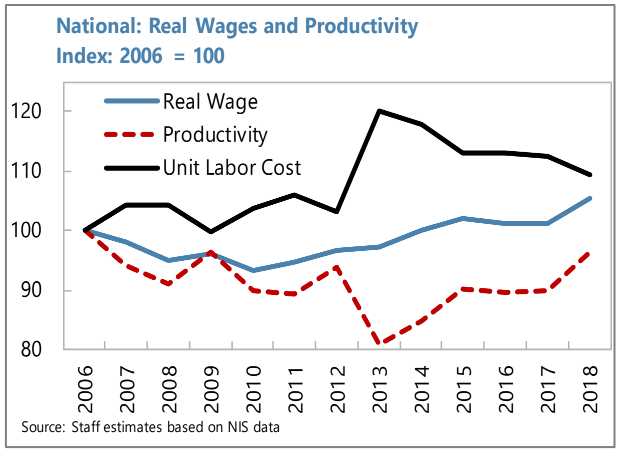


D. Labor Costs and Productivity

6. Grenada's labor costs have been stable in recent years. Labor productivity fell sharply during the global financial crisis resulting in an increase in unit labor costs. As the economy exited a

[1] International Monetary Fund, 2015, *Assessing Reserve Adequacy—Specific Proposals*,

[2] This assessment does not take into consideration the need for cushions to deal with natural disasters.

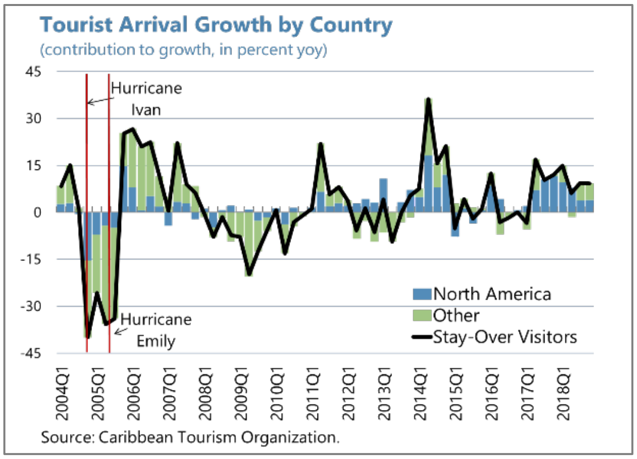


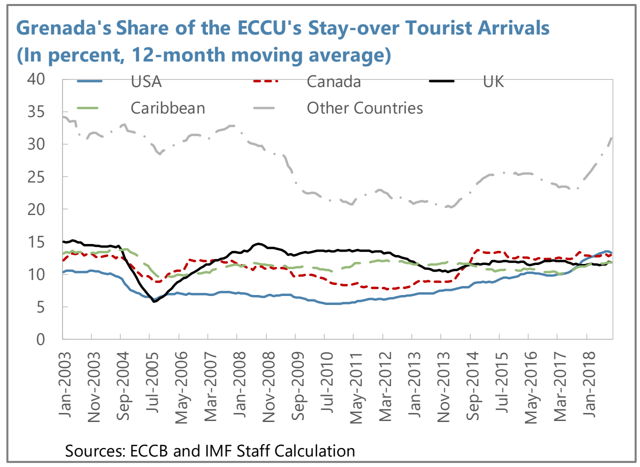
four-year long recession, labor productivity started to recover, reducing unit labor costs, but since 2015 labor costs have leveled out at levels above that prior to the global financial crisis. Labor market reforms and a modernization of the public sector are essential to improve flexibility, so that labor can be allocated to its best use and strong performance rewarded. Additional reforms are needed to match human capital to the needs of the economy. Active labor market policies should be upgraded, including better vocational training, to support long run productivity growth and reduce relative labor costs. There is a strong need to make the public service more flexible, so that staff can be allocated to their best uses and so that strong performance is rewarded.

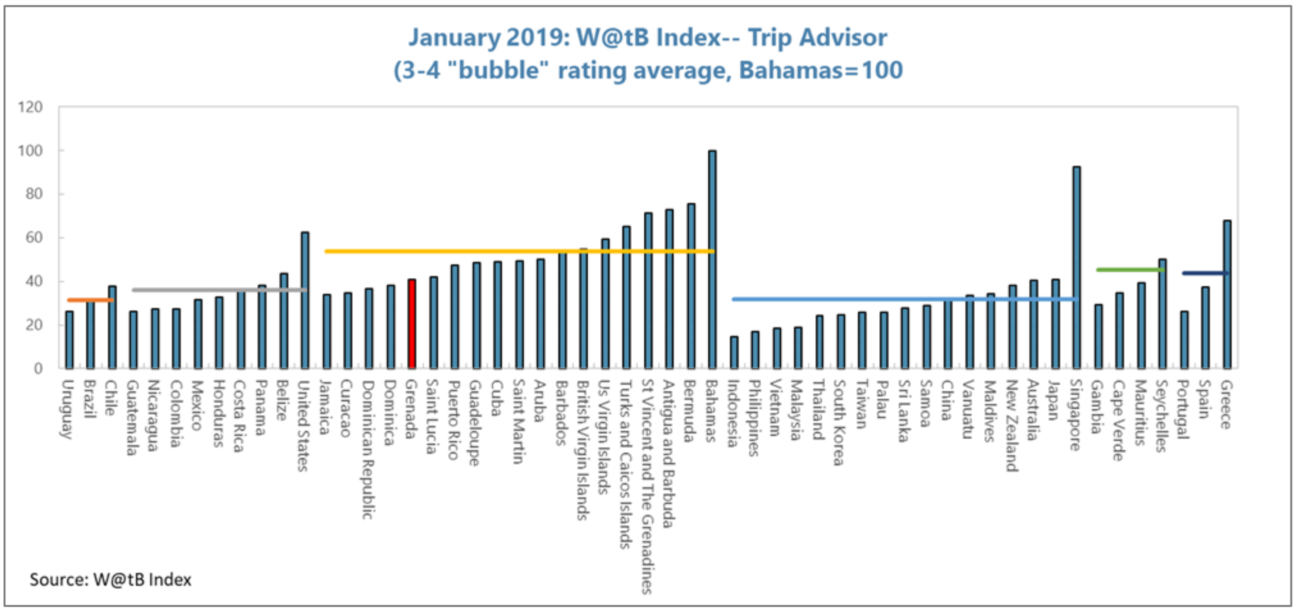
7. **Supply-side reforms are needed to further spur growth and job creation.** Prioritizing rural infrastructure investments and reducing export and import costs, improving air cargo logistics and storage, improving technology and research, clarifying land ownership rights, and promoting crop insurance would enhance the production and export capacity of the agricultural sector. Energy markets need to be re-examined to facilitate competition, particularly the entry of renewable energy, and to ensure pricing practices are not generating unwarranted monopoly rents. Continuing the efforts on climate change mitigation, adaptation, resilience planning, and disaster preparedness by upgrading legal and institutional frameworks and targeted public infrastructure investments would increase Grenada's resilience to natural disasters.

E. Tourism: Arrivals, Market Share, and Price

8. **Grenada's tourism market share is gradually growing.** After the devastating hurricanes in 2004 and 2005, Grenada suffered a 30 percent drop in its share of total stay-over visitors in the ECCU. The tourism industry was hit hard again during the global financial crisis in 2008-09. Grenada has started to regain its market share in 2014 helped by intensified marketing, the establishment of a new Grenada Tourism Authority, and the opening of a large brand-name luxury resort. While tourism costs in the Caribbean are high relative to other global beach destinations, comparisons against other Caribbean destinations suggest prices in Grenada are competitive.


Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)
Hurricane Ivan
Hurricane Emily
North America
Other
Stay-Over Visitors
Source: Caribbean Tourism Organization.


Grenada's Share of the ECCU's Stay-over Tourist Arrivals
(In percent, 12-month moving average)
USA
Canada
UK
Caribbean
Other Countries
Sources: ECCB and IMF Staff Calculation


January 2019: W@tB Index-- Trip Advisor
(3-4 "bubble" rating average, Bahamas=100
Source: W@tB Index

Annex III. Risk Assessment Matrix[1]

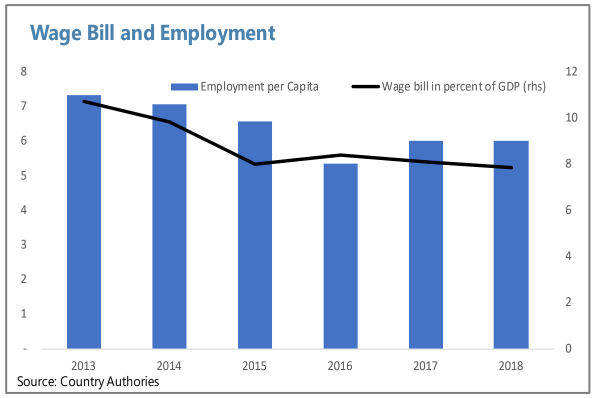
Source of Risks	Relative Likelihood	Impact/Time Horizon	Channel	Recommended Policy
Rising protectionism and retreat from multilateralism	High	**Medium/Short to Medium Term**	Lower tourist arrivals and FDI	Carry through with responsible fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Weaker-than-expected global growth	Medium	**High/Short to Medium Term**	Lower growth and worsening of fiscal and external balances	Carry through with responsible fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Sharp tightening of global financial conditions Market expectation of tighter U.S. monetary policy Sustained rise in risk premium	 Low Medium	 **Medium/Short term** **Medium/Short term**	Lower growth and worsening of fiscal and external balances	Carry through with responsible fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Spillovers from Venezuela crisis	High	**Medium/Short Term**	Worsening of fiscal balances	Carry through with responsible fiscal policies anchored by the FRL.

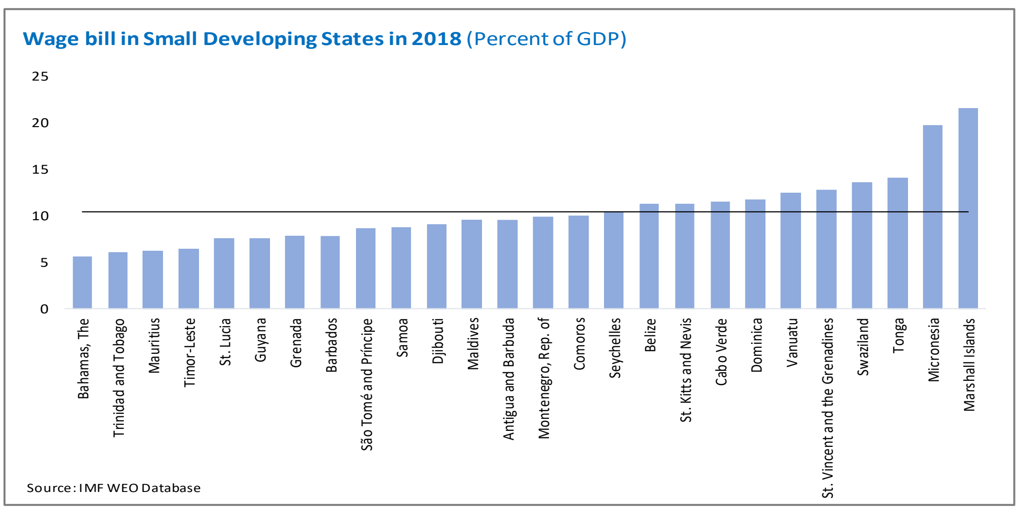
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Relative Likelihood	Impact/Time Horizon	Channel	Recommended Policy
Higher than expected increase in public investment	**Medium**	**Medium/Short to Medium Term**	Higher growth, worsening of fiscal balances	Improvement in public investment management capacity.
Higher than expected construction and real estate sector growth	**Medium**	**Medium/Short to Medium Term**	Higher growth, worsening of financial sector soundness	Strengthening financial supervision and monitoring of real estate markets
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 FRL-mandated expenditure-growth ceiling.	**Medium**	**Medium/Short to Medium Term**	Worsening fiscal balances	Internalize future aging costs in the FRL based on robust costing assessments. Adopt parametric reforms of the pension system. Carry through with prudent fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Hurricanes could cause severe damage to infrastructure and disrupt tourism flows.	**Medium**	**High/Short to Medium Term**	Lower growth and worsening of fiscal and external balances	Enact an integrated disaster resilience strategy (DRS). Build buffers by saving receipts from the citizenship by investment program; adhere to the fiscal rules in the FRL. Over the long-term, work with the World Bank and donors to build resilience to climate change.

Annex IV. Public Service Management Reform[1]

1. Grenada has reduced its wage bill to levels below that of many comparator countries.[2] Grenada's civil service wage bill was high and unsustainable and reached 10.7 percent of GDP (55 percent of domestic revenue) in 2013 (Figure 1). This was higher than the wage bill in other ECCU governments and comparable to the average in other Small Island Developing States (SIDS).[3, 4] During the three-year Home Grown Adjustment Program, the government tackled the wage bill problem with a combination of temporary wage freezes agreed with labor unions and manpower control measures such as the implementation of a temporary attrition policy (filling 3 of 10 vacancies except for several priority sectors). In 2016, a revision of the government's Chart of Accounts consistent with methodologies in the 2014 Government Financial Statistics led to the reclassification of expenditure on temporary employees from the wage bill. Reflecting the expenditure-curbing measures, accounting changes, and Grenada's vigorous GDP growth in recent years the wage bill fell to 7.8 percent of GDP in 2018, below the average of comparator countries including the ECCU peers.[5]





[1] Prepared by Wayne Mitchell

[2] The government wage bill refers to outlays of the central government, government agencies and local governments that are reflected in the government's budget but excludes state-owned enterprises.

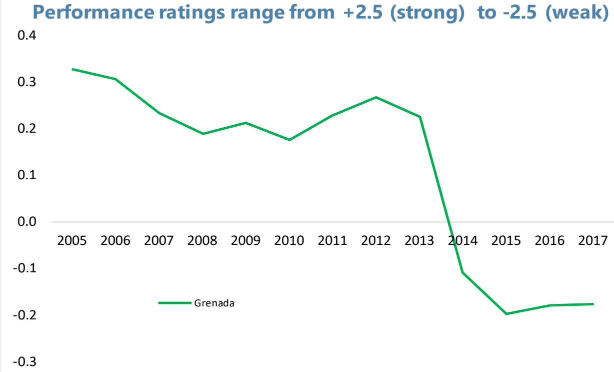
[3] The ECCU comprises the six sovereign countries: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and excludes the two British Overseas Territories of Anguilla and Montserrat.

[4] Small states are defined as sovereign states that are Fund members with populations less than 1.5 million as of 2011.

[5] The wage freeze ended in 2016 and the attrition policy was modified in 2018 allowing refilling of vacancies in several ministries and departments.

2. The distribution of employees is sub-optimal and needs to be right-sized. Senior civil servants in many ministries, departments and agencies indicate critical shortages of skilled staff at the technical, professional and middle management levels while there are excess numbers of unskilled and semi-skilled staff. Consequently, the quality and effectiveness of institutions in the public service are adversely affected. IMF Working Paper 19/110 indicate that across the ECCU, the composition and quality of employees in the education and health sectors is inadequate and could be contributing to sub-optimal outcomes – as reflected in low pass rates at the secondary school level and an increasing prevalence of non-communicable diseases. Comparisons with OECD and other peer countries indicate above average teacher/student and health worker per population ratios but significantly lower corresponding ratios for trained teachers, nurses and medical specialists.

Government Effectiveness Indicator
Performance ratings range from +2.5 (strong) to -2.5 (weak)



Source: World Bank - Worldwide Governance Indicators
N.B .Changes in methodology and data sources in 2014 negatively affected the country score.

3. Inadequate compensation and poor opportunities for career advancement contribute to the difficulty in attracting and retaining skilled staff. Government employees in semi and unskilled skilled jobs in the public sector are equally or better paid than their private sector counterparts. This situation, when combined with job security in the public sector, likely explains the preponderance of unskilled and semi-skilled workers. However, the remuneration of higher skilled civil servants at the managerial, professional, and technical levels is lower in comparison to those employed in medium to large entities in the private sector, particularly in financial intermediation and utility companies. This could reflect an outdated compensations system – the last pay and grade reform of the civil service took place in 1994. Opportunities for career advancement are largely based on seniority rather than merit. Performance evaluation-based systems that are linked to career paths or promotion systems are not rigidly applied. Consequently, younger, mid-level civil servants and nurses tend to get frustrated and leave for the private sector or emigrate, particularly upon utilizing training opportunities.

4. The government adopted the Public Service Management Reform Strategy (PSMRS) to overhaul and modernize the public service.[6] It was recognized that the wage bill measures, while necessary, were insufficient for sustainable expenditure management (Table 1). The PSMRS intended to build on the reform momentum under the Home-Grown Adjustment Program, engaging key stakeholders in its formulation. Importantly, the wage bill rule and the primary expenditure rule of the 2015 Fiscal Responsibility Law (FRL) would provide specific controls on compensation and expenditure. The PSMRS aims to make the public service affordable and responsive to the needs of citizens, facilitate national development, and enhance Grenada's competitiveness and growth. The PSMRS identifies targeted institutional and organizational reforms for implementation during 2017-

[6] There were earlier attempts at public service reforms. The implementation of the 2006-10 public-sector modernization plan was limited to the introduction of corporate planning and Disclosure of Information Policy. A Public Service Management Bill was then drafted but not enacted.

2019 across four pillars: (i) re-engineering the public service, (ii) human resource management, (iii) compensation management; and (iv) integrating of information communications technology (Figure 1).

Table 1. PESTEL Analysis of the Operation Environment for Public Service Reform

Political	□□Strong political will and commitment □□Strong public sector unions
Economic	□□Demonstrated results of the Homegrown Structural Adjustment Programme □□Strong initial economic recovery with evidence of a moderate growth path □□Positive medium-term outlook □□Significant growth in foreign direct investment □□High rate of unemployment particularly among the youth sector □□High correlation between unemployment and education levels
Social	□□Strong and vocal civil society groups □□Disproportionate income distribution levels
Technological	□□Inadequate use of technology to facilitate human resource management □□Weak technological infrastructure in the Public Service □□Moderate level of donor technical and funding assistance available
Legal	□□The Fiscal Responsibility Law and other legislative provisions provide a framework that requires strict adherence to fiscal discipline on the part of Government □□Outdated legal and regulatory provisions for the management of the Public Service □□Weak performance management system

□ Factors that are strengths or opportunities that can be readily leveraged;

□ Factors that are clear constraints or threats to reform; and

□ Factors that can either support or hinder the reform process (depending on how they are approached and managed).

Source: Grenada – Public Service Management Reform Strategy 2017-19

5. **PSMRS' implementation has been slow, and while the reform agenda for 2019 is ambitious, key reforms are not expected to be completed before 2021.** Inadequate financial and human resource capacity are the main factors behind the disappointing outcomes. The following is the status of implementation:

- **Re-Engineering the Public Service** – a white paper on the new vision for the public service was launched and a functional review for the Ministry of Climate Resilience was completed.[7]

[7] The full title is the Ministry of Climate Resilience, the Environment, Forestry, Fisheries, Disaster Management & Information.

There has not been any implementation of the recommendations identified in the functional review. The government plans to start the second phase of functional reviews for the remaining 13 ministries in 2019. Work has not commenced on the (i) delineation of roles and responsibilities of centers of government, and (ii) strengthening the legislation, regulations and policy instruments for governance and accountability arrangements.

- **Strategic Human Resource Management** – data collection for the human resource management information systems is completed and it is about 40% operational. A needs assessment for the public service was completed and four learning development programs have been established for training and capacity development. The government anticipates drafting the Training & Development Plan this year with implementation to start in 2020. However critical work on (i) performance management systems, and (ii) manpower management function for the medium to long-term, which would facilitate central personnel management has not commenced.

- **Strategic Compensation Management** – a compensation management policy framework for public pensions was developed. Still outstanding are (i) the revision of the architecture for compensation across employment categories to develop competitive and performance-based remuneration, (ii) completion of job evaluations and analysis and (iii) systems for regular payroll audits. These are critical inputs into the wage negotiation framework and will not be incorporated in time for the 2020/22 agreement with public unions which should be completed by November.

- **Integrated Information & Communication Technology** (ICT) – to improve the ease and cost of doing business by leveraging ICT particularly in enhancing service delivery and creating efficiencies in various government operations is currently under consideration under a 3-year financing arrangement with the World Bank.

6. A well-functioning public service is critical to Grenada's ambitions for sustainable development and improved living standards. This requires a deeper commitment of financial and human resources to accelerate reform implementation. Success of the reforms will also require active participation of senior members of government and the legislature as well as the establishment of a highly consultative process to encourage domestic ownership. The timing is important, the current period of good economic times should provide a better opportunity to get traction from stake holders for the implementation of civil service reforms than in crises situations. Additionally, the forthcoming phase of implementation of the FRL is set to provide more fiscal space. Strengthening the public service and making it affordable, increases the likelihood that the fiscal space is used wisely for Grenada's development.

Figure 1. Public Service Management Reform Logical Framework

IMPACT	**Improved productivity for economic growth and development**			
PILLARS	Re-engineering the public service	Strategic human resource management	Strategic compensation management	Integrated ICT
GOALS	Improved governance	Improved employee well-being and productivity	Fiscal sustainability	Improved ease of doing business
OUTCOMES	Enhanced machinery of government	Effective human resource management and development	Fiscally sustainable compensation management	Improved service delivery
OUTPUTS	Vision concept of the new Public Service articulated Public Service architecture revised Policy, legislation and regulations updated	Manpower management function institutionalized Human resource management architecture revised Integrated performance management system revised Human resource management information system operational Employee development strategy implemented Public Service Training Center commissioned	Wage negotiation framework established Compensation Architecture restructured Sustainable pension scheme implemented Payroll system regulated	ICT governance strengthened Electronic Transaction Architecture created Government ICT infrastructure developed Capacity developed Government as an omni-channel service delivery agent
ACTIONS	Audit Functional review Job evaluation Job analysis	Organizational development Capacity building Human resource Management reform	Job evaluation & analysis Payroll audit Increment reform Performance Pay & Grade review	Governance assessment Organizational development Capacity building
ENABLING FACTORS	Business Process Reengineering and Change Management			
	Information and Knowledge Management			
	Enabling Legislation			
	Consultation and Collaboration			
	Leadership, Capacity Development & Organizational Management			

Annex V. Risks of Additional Obligations on Public Pensions[1]

1. Background. Until recently, and in line with the 1958 law, all public retirees received non-contributory pension benefits with guaranteed replacement rates of 67 percent after less than 27 years of service that were summed up to additional benefits earned within the contributory National Insurance Scheme (NIS), which operates on a pay-as-you-go basis. These benefits were being sharply reduced to a system whereby a new cohort of public workers that were hired after mid-1980s and are now beginning to retire would have been entitled to NIS-only benefits (a maximum of 60 percent with 40 years of service). Pressures have been building to reduce the drop-off in their benefits.

2. Recent developments. A Memorandum of Understanding (MoU) between the government and unions has been signed guaranteeing replacement rates of 70 percent after 26.7 years of service to "established" public workers hired between 1985 and 2018. The government committed to do so by topping-up NIS pensions, which otherwise would earn a replacement rate of a little below 50 percent for the same number of years. An impasse occurred when the unions pushed for large lump-sum withdrawal benefits that were afforded by the 1958 law and for waiving the retirement age of 60 for this cohort, with which the government disagreed arguing that both moves were fiscally unaffordable. After several failed attempts at negotiation these matters are now awaiting Court arbitration.

3. Impact. The fiscal impact of the MoU hinges on several scenarios that are still being fully quantified by the authorities. *Short-to-medium term* impact would crucially depend on the ruling. Should the government's position prevail, the extra fiscal costs would be around ¼ percent of GDP in the initial few years. If the unions have their way, the extra annual costs could quickly approach 1 percent of GDP or even top that amount if the retirement age of 60 is not adhered to. *Long-term* projections calculated by staff suggest that the cumulative cost of the MoU's additional benefits (relative to the pre-2018 situation) could be around 20 percent of GDP spread over some 50 years. In the unions' scenario of waiving the retirement age of 60, this cumulative cost would be augmented by up to 10 percentage points of GDP, even without accounting for the knock-on effects on lowering funding from reduced contributory periods.

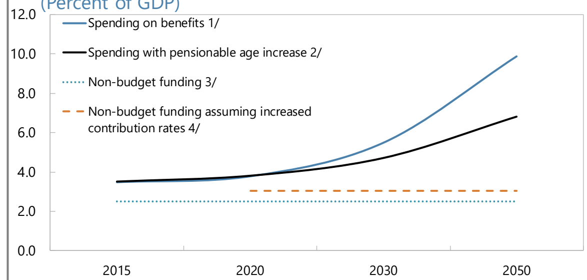
4. Knock-on policy risks. In light of the recent developments, further policy pressures could be triggered for: (i) unestablished workers (some 30 percent of public workers); (ii) post-2018 hires; (iii) NIS benefit pressures (with private sector participants potentially asking for higher pensions); (iv) various types of legal risks, including from the outstanding Court cases; and (v) potential need for budget support for NIS due to its deteriorating financial situation (with the scheme already losing reserves, which are projected to run out in 2035).

[1] Prepared by Bogdan Lissovolik and Wayne Mitchell

5. Assessment. Grenada's population aging trends imply that total old-age pension benefits in the public and private sectors could almost triple in terms of GDP by the year 2050 if the level of individual benefits per retiree is not contained relative to current levels. (These purely demographic effects form the basis of an illustrative scenario calculated by staff). At the same time, the (non-budget) funding of these obligations is unlikely to increase as a share of GDP without further reforms. A comprehensive pension reform based on full costing of the implications and fair burden-sharing across cohorts is needed to reduce those pressures on the fiscal position. At the same time, the duality of the pension system needs to be addressed due to adverse incentives for private sector employment. Further technical assistance could help map out these reform options.

Grenada: Illustrative Scenario of Pension System Flows, Combined Public and Private, 2015-2050

(Percent of GDP)



Source: National Insurance Scheme, United Nations, and IMF Staff Estimates and Projections.

1/ The scenario is illustrative and assumes that increases in total spending on benefits are entirely driven by demographic projections. As such, it implicitly assumes that any initiatives to contain the level of current pension benefits are defeated or reversed.

2/ Assumes that pensionable age increases from 60 to 65 in gradual steps to be completed by 2030.

3/ Assumes that contribution-based revenue remains constant in terms of GDP at the 2015 level.

4/ Assumes that the contribution rate is increased from 9 to 11 percent of wages starting from 2020.

Annex VI. Growth at Risk[1]

Staff finds that favorable external real conditions forecast favorable real GDP growth and high credit growth forecasts negative real GDP growth in the short and medium term, while the forecasting power of global financial conditions is limited. A deterioration in financial soundness indicators forecasts somewhat higher growth in the short term with no effect in the medium term. The forecasting power of natural disasters is limited. Credit union data should be added to the analysis once longer data series become available. Credit growth of both banks and credit unions should be monitored carefully.

1. Methodology. Growth at Risk (GaR) framework (Prasad and others (2019)).[2]

2. Data. 2001-17 quarterly data are used for estimation, limited by the availability of bank financial soundness indicators. Predictors of real GDP growth are partitioned into the following categories: (i) credit aggregates; (ii) financial soundness of domestic banks; (iii) external real conditions; (iv) global financial conditions; (v) lag of real GDP growth; and (vi) incidence of natural disasters (Figure 1).

Quarterly GDP data are available only from 2006 for Grenada. Where quarterly GDP data are not available, they are estimated using the method of Chow and Lin (1971).[3]

Figure 1: RHS Variables and Partition

Credit growth	FSI	External Real	Global Financial	Persistence	Natural Disasters
credit_growth	npl	US_growth	global_fci	lag_gdp_g	nd_gdp
	capital	oil_price			
	tier_capital				
	roe				
	roa				

3. Interpretation of the partitioned variables and their dynamics. An analysis of the correlation between the index and its component variables and matching each partition with historical events makes it clear that an increase in financial indicators index represents a worsening of financial soundness; an increase in the external real condition represents a worsening of external real condition; an increase in financial indicators represents a worsening of global financial conditions; and an increase in financial indicators represents a worsening in soundness of domestic banks (Figure 2-3).

1 Prepared by Takuji Komatsuzaki

2 Prasad, Elekdag, Jeasakul, Lafarguette, Alter, Feng, and Wang (2019), "Growth at Risk: Concept and Application in IMF Country Surveillance", IMF Working Paper 19/36

3 Chow and Lin (1971), "Best Linear Unbiased Interpolation, Distribution, and Extrapolation of Time Series by Related Series", Review of Economics and Statistics vol. 53, pp. 372-75

Figure 2. Time Series of Partitioned Variables

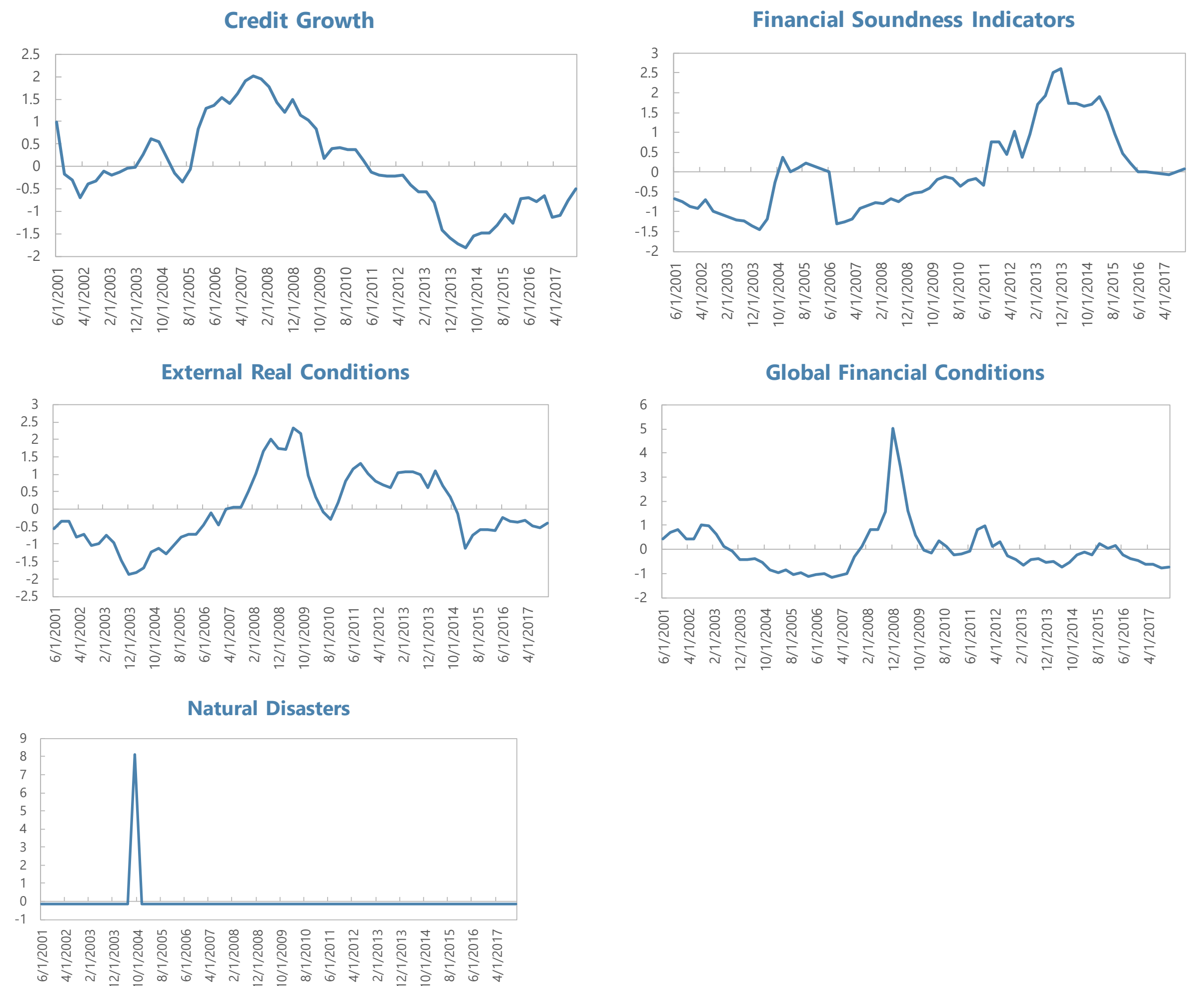
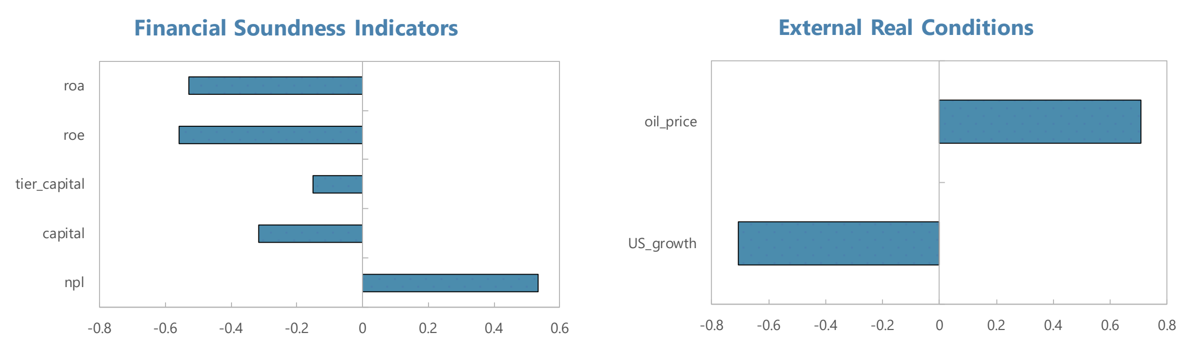


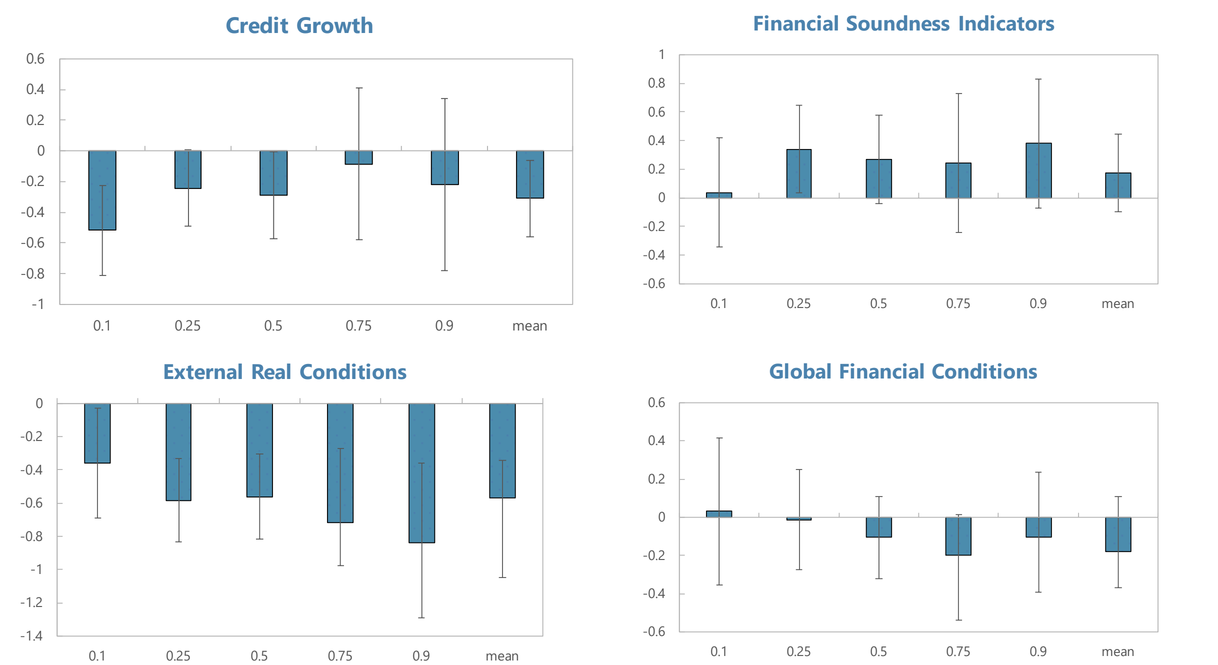
Figure 3. Correlation between Selected Partitions and their Components



4. Regression Results (Figure 4-5)

- Favorable external real conditions forecast favorable real GDP growth, while high credit growth forecasts negative real GDP growth in the short and medium term,[4]
- Forecasting power of global financial conditions is limited.
- A deterioration in financial soundness indicators forecasts somewhat higher growth in the short term, while no effect is observed in the medium term.
- Natural disasters predict somewhat higher real GDP growth in the short term, but the effects are small and not statistically significant.[5]
- External real conditions have the largest effect in the short term, while credit growth has the largest effect in the medium term.

Figure 4. 1-year Ahead Forecast



[4] The negative effect of credit growth on real GDP growth forecast disappears in an even shorter term forecast (one-quarter ahead forecast).

[5] This result is intuitive once one notices that the bulk of the growth effect of natural disasters falls on the period in which the natural disasters occur, and its effect on future output growth is not very clear. This result is also consistent with existing literature.

Figure 4. 1-year Ahead Forecast (Concluded)

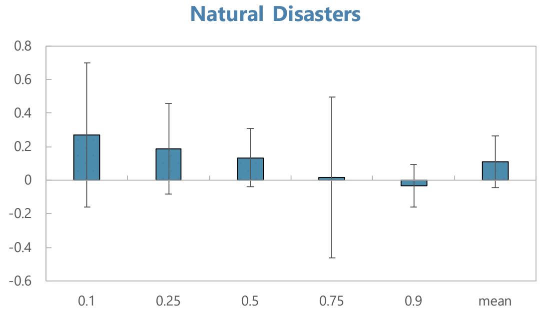
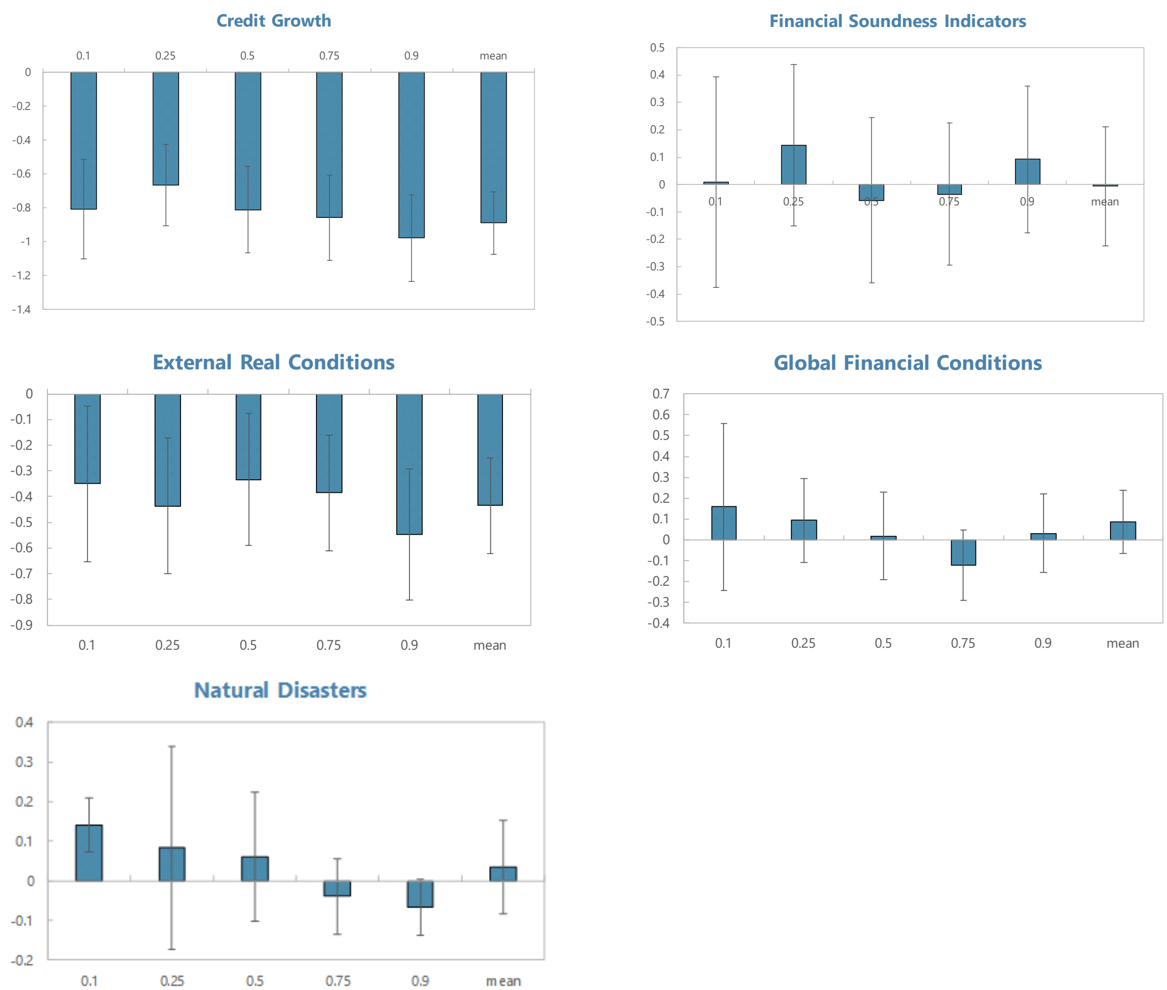


Figure 5. 3-year Ahead Forecast



5. Monitoring of credit unions. This study includes credit growth data only for banks, given that data for credit unions are not sufficiently long. However, it is likely that credit growth of credit unions affects future growth in a similar mechanism as bank credit growth (vulnerabilities accumulated during credit booms materializing over time). Therefore, credit growth of both banks and credit unions need to be carefully monitored, and credit union data should be added to the analysis once longer data series become available.

INTERNATIONAL MONETARY FUND

GRENADA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

May 29, 2019

Prepared By	Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of April 30, 2019)

Membership Status: Joined: August 27, 1975; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	16.40	100.00
Fund Holdings of Currency	15.23	92.84
Reserve Position	1.18	7.16

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	11.17	100.00
Holdings	0.65	5.84

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
ECF Arrangements	16.29	99.35

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	June 26, 2014	May 26, 2017	14.04	14.04
ECF	Apr 18, 2010	Apr 17, 2013	8.78	2.53
ECF[1/]	Apr 17, 2006	Apr 13, 2010	16.38	16.38

[1/] Formerly PRGF.

Projected Obligations to Fund[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	1.71	1.35	1.81	2.61	2.81
Charges/Interest	0.09	0.12	0.12	0.12	0.12
Total	1.80	1.47	1.93	2.73	2.93

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiatives: Not Applicable

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

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

Safeguards Assessment: The 2016 update safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. The ECCB has restructured the internal audit function and established an independent risk management unit in line with leading international practice.

Exchange Arrangement: Grenada is a member of the ECCB, which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. In practice, the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. Grenada accepted the obligations of Article VIII, Sections 2, 3, and 4 in January 1994. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation: Grenada is on a 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on July 13, 2018 (IMF Country Report No. 18/236).

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

Technical Assistance:

Caribbean Regional Technical Assistance Centre (CARTAC)

CARTAC has provided wide-ranging technical assistance (TA) to Grenada.

- **Public Finance Management (PFM)**. CARTAC TA in PFM has focused on reform of SOEs and statutory bodies (SBs), cash forecasting and commitment control, development and transition to a new chart of accounts consistent with the *Government Finance Statistics Manual 2014 (GFSM 2014)*, and the Public Expenditure and Financial Accountability (PEFA) assessment. Assistance was also provided on strategic budget reform to modernize the budget preparation process. Regarding the SOE/SB reforms, the 2016 CARTAC mission provided some limited assistance on Public Service Pension Reform. In 2017, CARTAC provided assistance with a one-week training mission for the Grenada Fiscal Responsibility Committee and conducted a risk assessment on the SOEs. In April 2018, a mission was completed on assisting with moving to International Public Sector Accounting Standards (IPSAS) cash-based accounting and to bring their public accounts up to date. A roadmap on reforms to move Grenada to IPSAS Accruals was provided. Later in the year, Grenada participated in regional workshops geared at improving capacities for Internal Audit, Cash Management and SOE Oversight as well as assessing Fiscal Risks. In February 2019, a TA mission from Fiscal Affairs Department reviewed the Fiscal Responsibility Law with the aim of strengthening it by removing inconsistencies and ambiguities and reframing the expenditure rule.

- **Tax Administration**. TA was provided to strengthen tax administration at both the Inland Revenue and Customs Departments. For IRD, the support included establishing a Large and Medium Taxpayer Unit and a Design, Planning and Monitoring Section.

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

- **Macroeconomic framework and statistics**. To support the authorities' efforts to establish an annual medium-term economic framework and promote informed policy making, CARTAC provided TA to strengthen medium-term macroeconomic projections and improve macroeconomic statistics. TA was provided during 2013 to 2015 to assist with compiling GDP by expenditure estimates; and during 2016, 2017, and 2019 to develop quarterly GDP by economic activity at current and constant prices and improve them further. In addition, CARTAC conducted TA in 2017 to develop the Producer Price Index. TA was also provided in 2014-19 to produce balance of payments (BOP) statistics according to the *Balance of Payments and International Investment Position Manual (BPM6)* and to initiate the production of international investment position (IIP) statistics, and review and improve upon the BPM6-compliant BOP and IIP statistics first released in July 2017.

Other Technical Assistance (Since 2014)

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

Grenada: IMF Technical Assistance: 2016–present

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

Source: Based on available TA reports and consultations with CARTAC

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://financesapp.worldbank.org/en/countries/Grenada/
- Caribbean Development Bank: http://www.caribank.org/about-cdb/member-countries/regional-members/grenada

STATISTICAL ISSUES

(As of May 13, 2019)

I. Assessment of Data Adequacy for Surveillance

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

National Accounts: The base year of GDP series, 2006, is outdated. Current price GDP estimates by expenditure require improvements to gross capital formation and private final consumption expenditure components to be reliable. There are significant delays related to both receiving and processing survey data for GDP compilation, for example with respect St. George's University's data provision to the Central Statistical Office (CSO). Supported by the CARTAC mission, estimates of quarterly GDP by production approach have been developed but compiled with a lag.

Prices and high frequency statistics: The authorities compile regular data on consumer prices, retail sales; agricultural production and purchases; motor vehicle registrations; total cargo handled; fish production and exports; industrial production; imports of construction material; and water and electricity production. The 2010 update of the CPI brought methodology in line with international standards. The CPI basket is based on the 2007/08 Household Budget Survey (HBS). The 2018/19 HBS is being conducted from July 2018 to June 2019. A producer price index (PPI) and export and import price indices are not yet available, but the CSO intends to develop a PPI for certain sectors.

Labor statistics: Labor statistics are improving. The authorities introduced an annual Labor Force Survey in 2013, which was completed again in 2014 and 2015. They started a quarterly Labor Force Survey in 2018. A population census was completed in 2011. Regular wage data are not available with the exception of partial data available from the National Insurance Scheme. The CSO conducted a Country Poverty Assessment in 2008, with assistance from the Caribbean Development Bank, and is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics.

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

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

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

External Sector Statistics: BOP statistics are improving, but there is uncertainty on the stability of the data series. BPM6-compliant BOP and IIP were released in July 2017 for 2014-16 and 2013-16, respectively for the first time, as part of the ECCU-wide initiative. Subsequent data releases in September 2018 and April 2019 added preliminary and estimated data for 2017 and 2018, and also reviewed and revised the entire data series by improving data sources.
Ongoing work continues to strengthen estimates of travel services exports and direct investment flows. Further work is required to release consistent historical data series prior to 2014, improve data timeliness, and produce comprehensive public and private sector external debt statistics in line with international standards. Actions are undertaken in collaboration with the ECCB, which coordinates the compilation of external sector statistics of the ECCU economies.

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

II. Data Standards and Quality

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

III. Reporting to STA

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

Table of Common Indicators Required for Surveillance

As of May 13, 2019

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication[1]
Exchange Rates[2]	NA	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[3]	Feb 2019	April 2019	M	M, with 1- to 2-month lag	A/Q
Reserve/Base Money	Feb 2019	April 2019	M	M, with 1- to 2-month lag	A/Q
Broad Money	Feb 2019	April 2019	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Feb 2019	April 2019	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Feb 2019	April 2019	M	M, with 1- to 2-month lag	A/Q
Interest rates[4]	Feb 2019	April 2019	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Dec 2018	Mar 2019	M	M, with 2- to 3-month lag	A/Q
Revenue, Expenditure, Balance and Composition of Financing[5]- Central Govt.	Dec 2018	February 2019	M	M, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec 2018	April 2019	M	M, with 2- to 3-month lag	A/Q
External Current Account Balance	Dec 2017	April 2019	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2017	April 2019	A	A	A
GDP/GNP	Dec 2017	Sep 2018	Q	Q (planned)	A
Gross External Debt[7]	Dec 2018	April 2019	M	M, with 2- to 3-month lag	A/Q
International Investment Position	Dec 2017	April 2019	A	A, with long lag	A

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[2] Grenada is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (EC dollar) is pegged to the U.S. dollar.
[3] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[4] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[5] Foreign, domestic bank and domestic nonbank financing.
[6] Including currency and maturity composition.
[7] Public external debt only.

GRENADA

May 29, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— DEBT SUSTAINABILITY ANALYSIS

Approved By
Edward Gemayel (IMF) and Marcello Estevao (IDA)

Prepared by the staff of the International Monetary Fund in consultation with the International Development Association Staff.

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

With some US$19 million (1.6 percent of GDP) in unresolved arrears to official bilateral creditors, Grenada remains in external public debt distress. However, debt appears sustainable reflecting favorable projected debt dynamics from substantial fiscal surpluses that are supported by the Fiscal Responsibility Law (FRL). Total public debt has declined from 108 percent of GDP in 2013 to 63½ percent of GDP in 2018, with external public debt amounting to 44.5 percent of GDP. This reduction was made possible through fiscal consolidation that has been anchored by the FRL, robust economic growth, and a restructuring of Grenada's public debt. Going forward, continued adherence to the FRL and regularization of arrears will be needed to upgrade the risk rating. Debt should be further reduced and kept at levels needed to withstand the existing vulnerabilities to external shocks and natural disasters.

DEBT COVERAGE

1. **Public debt in this DSA is defined as the sum of central government debt (including arrears on principal and interest), overdue membership fees to international organizations, and government-guaranteed debt.** It does not include non-guaranteed debt of public enterprises and limited liability companies, notably PDV Grenada's debt on account the Petrocaribe arrangement. [1] Until recently, gaps and time lags in the public enterprises' reporting hampered complete coverage of public sector debt. Substantial improvement in the comprehensiveness and timeliness of the non-guaranteed debt data has been made more recently, which could enable to expand the coverage. Non-guaranteed debt is estimated at around 15 percent of GDP, including 11½ percent of GDP for the Petrocaribe arrangement. Grenada does not have subnational government debt.

2. **The contingent liability stress test accounts for the risks from the estimated stock of SOE debt as well as ongoing PPPs and financial markets.** The stock of enterprise-related debt is substantial and is reflected in the contingent liability stress test.[2] The weight of the PPP shock is based on default settings, with information taken from the World Bank's database. (Grenada's fiscal responsibility law puts a cap on PPP-related government liabilities at 5 percent of GDP). Contingent liabilities from financial markets are set at the minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in LICs since 1980. Estimates for other elements not covered are either zero (there is no central bank debt borrowed on behalf of the government) or need to be firmed up in the context of developing a comprehensive presentation of consolidated non-financial public sector debt, which is planned to be developed by the authorities.

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

1	The country's coverage of public debt	The central government, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	15.0	
4	PPP	35	percent of PPP stock	3.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			23.0	

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

[1] As reported in the 2014 staff report for the approval of the ECF arrangement, PDV Grenada is a limited liability company with the government's share of 45 percent and Venezuela's PDVSA's share of 55 percent. Based on determination that the government of Grenada is not responsible for the debt but only for its shares in the company, the Petrocaribe debt has not been included in the stock of central government debt.

[2] If anything, the approach taken toward public enterprise debt is conservative. For example, a substantial "haircut" on Petrocaribe debt was granted to St. Vincent and the Grenadines in 2018.

RECENT DEVELOPMENTS

3. **Debt reduction and regularization has progressed, but arrears remain with a few bilateral creditors**. Debt restructuring in the context of the 2014-17 ECF-supported program contributed around 12 percentage points to the reduction of public debt, which fell from 108 percent of GDP in 2013 to 63½ percent of GDP in 2018, largely reflecting high economic growth and fiscal adjustment. However, arrears of some US$19 million owed to non-Paris Club official bilateral creditors including Trinidad and Tobago, Algeria, and Libya remain to be regularized. [3] The authorities report progress in advancing negotiations as of early 2019, particularly with Algeria (9.2 percent of the total bilateral arrears). The authorities have continued to make payments on overdue membership fees in line with the revised schedule published in mid-2017, settling the overdue fees of US$ 2½ million for the Caribbean Community Secretariat, Eastern Caribbean Supreme Court, University of West Indies, and others in 2018. Recent U.S. sanctions on Venezuela blocked payments on Grenada's Petrocaribe debt at the turn of 2018-19. And most of government-guaranteed debt of some 2½ percent of GDP at end-2017 was converted into non-guaranteed debt through a refinancing operation.

4. **Most portfolio characteristics of Grenada's debt continued to improve in 2018.** Consistent with their debt strategy, the authorities sought to extend maturities of domestic short-term debt and refrained from borrowing in the regional securities market (RGSM) in 2018. The authorities received substantial external concessional financing, notably from the World Bank but also from other multilaterals. The combination of extension of domestic maturities and long-term concessional financing resulted in an increase in the average time to maturity from 8.2 to 9.0 years in 2018. Average time to re-fixing of the debt portfolio similarly increased from 7.8 to 8.6 years, and the average effective interest rate on public debt declined from 3.5 to 3.0 percent last year. As expected from the financing structure and because of the successful restructuring, the share of multilateral debt increased further by 4.6 percentage points during 2018 (Figure 3). The composition of domestic debt showed a further shift towards longer maturity bonds and treasury notes, and away from short-term T-bills. The shares of bonds and treasury notes climbed by 4.0 and 4.1 percentage points respectively, but that of T-bills declined by 3.7 percentage points in 2018 (Figure 2).

5. **Debt management and debt data coverage need to be further enhanced.** The Fiscal Responsibility Law's (FRL) medium-term public debt target of 55 percent of GDP is a key fiscal anchor that is supported by the FRL's operational targets on the primary balance and spending growth, as well as institutional reforms. The authorities' debt management capacity would benefit from further reform efforts, including in data management and IT system enhancements, building on the Debt Management Performance Assessment (DeMPA) undertaken with the World Bank in 2018. The Ministry of Finance (MoF) is monitoring non-guaranteed debt of SOEs, which is important in the context of FRL's debt targets. Such monitoring and the quality of information, especially for the debt of SOEs converted from the guaranteed debt, needs to be further enhanced, formalized, and reported publicly, particularly as debt approaches the 55 percent of GDP 'fiscal' threshold. In this regard, it is recommended that a broader coverage of the debt that includes non-guaranteed debt of public enterprises be used. At the same time, the exact definition of

[3] The amount of the arrears has increased since the end of 2017 (US$ 15.7 million), due to accrual of interest arrears and the portion of debt to Trinidad and Tobago that was not yet technically in arrears previously becoming overdue.

PPPs is being discussed between government and the fiscal responsibility oversight committee created in the context of the FRL.

6. The situation and status of Petrocaribe debt should be reviewed to improve analysis of risks to Grenada's debt profile in the context of the country's medium-term debt strategy. Given recent developments regarding Venezuela (including sanctions), the deteriorating financial situation and changes in management of PDV Grenada, and the fact that most other ECCU countries are including such arrangements in the stock of government debt, a careful assessment of Grenada's Petrocaribe liabilities is needed. This would further help to inform the government's medium-term debt management strategy (revised in late 2018) incorporating increased availability of highly concessional external financing, including from the World Bank. Such financing and substantial receipts under the Citizenship-by-Investment (CBI) program have put into sharper relief the need to enhance efficiency of asset management, comprehensive reporting, and the capacity for asset/liability operations. Recent steps toward operationalizing a contingency fund to address the consequences of shocks including natural disasters are welcome and should be followed up with the fund's full operationalization and adequate financing. Implementation of an integrated disaster resilience (or risk management) strategy would further support debt sustainability and resistance to shocks.

MACROECONOMIC ASSUMPTIONS

7. The macroeconomic assumptions are based on a slightly improved outlook relative to the last Article IV Consultation in 2018. Real GDP growth for 2018-23 is higher that under the 2018 Article IV consultation by 0.2 percentage points reflecting construction in tourism-related projects and the expansionary effects of an eventual weakening of strong primary surpluses toward the end of the forecast horizon. Long-term potential growth is projected to remain around 2¾ percent as previously assessed. Continued compliance with the FRL is assumed. Primary fiscal surpluses are expected to continue to significantly overperform the FRL's 3.5 percent of GDP floor through 2020 but then decline to become small primary deficits as permitted by the fiscal rule. Revisions to the services trade and primary income accounts due to improved quality of the source data have resulted in an increase in the external current account deficit by about 3-8 percent of GDP each year relative to that estimated during the 2018 Article IV consultation. The current account deficit would average around 10 percent of GDP in the medium term. Given that the estimated and projected current account deficit is higher than previously projected due to statistical revisions, it is important that Grenada continues to attract sufficient FDI, which was also adjusted upward by the statistical revisions, to ensure external debt sustainability. The baseline includes estimated average costs of natural disasters. [4]

8. Financing assumptions have been updated based on most recent data. The latest financing projections from the World Bank's international development association (IDA) program and existing

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

Caribbean Development Bank (CDB) projects have been incorporated. Also, it is assumed that the pending disbursement from the China loan[5] will be committed from 2019 onwards. As a result, external financing is projected to increase in the short term. In the long run, the government is assumed to mainly rely on concessional loans from the World Bank[6] and CDB for external financing. As for domestic financing projections, the extension of the maturity of the domestic portfolio by gradually introducing longer-dated securities, highlighted in the government's Medium-Term Debt Management Strategy, is assumed to be implemented.

9. Newly-added realism tools indicates that short-term growth is conservatively forecasted, given the projected fiscal adjustment (Figure 7). The potential natural disaster shock and a weak financial system could form the background for this outturn. It should be noted that Grenada does not envision policy-based fiscal adjustment during the projection period. Also, the projected fiscal adjustment lies in the lower quartile of the distribution of past adjustments of the primary fiscal deficit, indicating that the projection is modest. The improved outlook on the macroeconomic indicators, such as stronger primary surpluses lowering public gross financing needs, enhanced the projected external debt to GDP and public debt to GDP ratios relative to the previous DSA as shown in Figure 6.

DSA Update: Macroeconomic Assumptions

(In percent of GDP, unless otherwise specified)

	Historical Average	Projections 2018-23 2018 DSA	2018-23 2019 DSA	2024-38 2018 DSA	2024-38 2019 DSA
Non-interest external current account balance 1/	-18.7	-5.2	-8.8	-9.2	-11.8
Real GDP growth (in percent)	2.7	3.0	3.2	2.7	2.8
Growth of exports of G & S (USD terms, in percent)	6.3	5.2	5.8	4.5	4.6
Current official transfer	-3.1	1.2	0.9	1.5	1.2
Net FDI	-8.3	-9.0	-10.2	-9.0	-9.0
Primary balance	-0.9	3.9	5.5	-0.9	-0.6
Revenue and grants	23.6	25.1	25.5	23.9	24.5
of which: grants	3.0	2.7	2.4	1.7	1.5
Primary (non-interest) expenditure	24.9	21.1	20.0	24.8	25.1
Inflation rate (GDP deflator, in percent)	1.6	2.3	1.7	2.2	2.2
Memorandum item		2018 DSA	2019 DSA		
2018 Nominal GDP (in million USD)		1113.3	1185.9		

Source: Grenadian authorities and IMF staff projections

1/ 2018 Article IV current account figures include revisions from BPM5 to BPM6.

10. Grenada continues to be assessed at medium debt-carrying capacity. The rating is based on the CI score, which captures the impact of the different factors through a weighted sum of the 2017 World Bank's Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and world growth.[7] Under the CPIA, Grenada continues to be rated as a medium performer, with the average rating of 3.48 for 2015-17.

[5] The loan, which is for financing infrastructure projects, such as airport and road network constructions, amounts to US$ 69 million.

[6] The loan is assumed to be less concessional than the IDA loan, given that Grenada is classified as an upper middle-income country in per capita terms.

[7] Based on the *IMF World Economic Outlook, April 2019*.

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.517	1.35	45%
Real growth rate (in percent)	2.719	4.214	0.11	4%
Import coverage of reserves (in percent)	4.052	45.841	1.86	61%
Import coverage of reserves^2 (in percent)	-3.990	21.014	-0.84	-28%
Remittances (in percent)	2.022	3.242	0.07	2%
World economic growth (in percent)	13.520	3.559	0.48	16%
CI Score			3.03	100%
CI rating			Medium	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 3.03	Medium 2.99	Medium 3.04

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

PUBLIC AND EXTERNAL DSA

11. The total (external plus domestic) PPG-to-GDP ratio is projected to gradually decline up to 2024 and broadly stabilize thereafter. The key drivers of the projected decline in PPG debt-to-GDP in the next few years are sizable primary surpluses and GDP growth as reflected in the updated macroeconomic assumptions. The PV of debt-to-GDP ratio remains well below benchmark in the baseline scenario, reflecting continued access to concessional financing, including a large disbursement from the World Bank on IDA terms in mid-2018 (Figure 5).

12. External PPG debt-to-GDP ratio is also projected to trace a downward path. The thresholds under the baseline scenario are not breached, in line with the DSA published under the 2018 Article IV Consultation. Nevertheless, due to the remaining unresolved arrears to official bilateral creditors, Grenada's DSA rating stands unchanged at "in debt distress" from the last assessment of July 2018.

13. Under stress tests thresholds are breached for all key indicators of PPG external debt under an export shock. The present value of debt-to-GDP remains above its threshold under all stress tests except shocks to real GDP growth, primary balance, and other flows[8] (Table 3). It reaches its highest value

[8] Includes official and private transfers and FDI.

under the exports shock in 2021 (i.e., 73.5 percent or 33.5 percentage points above its threshold), due to the tourism (exports) driven economy. The natural disaster shock, assuming a 10 percent of GDP impact and follow-on interactions in real GDP growth and exports growth shocks[9], raises the ratio to 53.7 percent in 2029. For the present value of debt-to-exports, debt service-to-exports ratio, and debt service-to-revenue ratio, the exports shock is the most extreme shock as well.

14. Though risks to debt sustainability have eased, they remain substantial. Grenada's debt sustainability is subject to downside risks. Mainly a tourism-based economy, Grenada is susceptible to external macroeconomic shocks. Potential declines in major tourist source markets in the United States, Canada or the United Kingdom due to weaker than expected global growth, rising protectionism and retreat from multilateralism will significantly impact Grenada's growth prospects. Shocks to oil prices are an added risk to the medium-term outlook. Domestically, higher-than-expected pension and health care-related liabilities can put additional stress on public finances and a possibility of particularly large natural disasters are an ever-present risk, which can also have adverse spill-overs on the tourism sector. Potential spillovers from the Venezuelan crisis could put a burden on the economy and the fiscal balance. Continued strong commitment to the FRL is needed to manage those risks.

15. The results of the shock scenarios indicate Grenada's vulnerability to natural disasters, exports (tourism sector), and contingent liabilities. All external DSA shock scenarios indicate a higher vulnerability to export/tourism industry shocks. Similar to the previous DSA, there are large breaches under stress tests for the present value of debt-to-GDP and debt service-to-revenue ratio thresholds. A large natural disaster and a contingent liabilities shock have significant effects on the debt path. The effect of a natural disaster has a protracted effect on the debt path in part due to its interaction with the export shock (e.g., due to the likelihood of the tourism infrastructure being damaged by a natural disaster). The debt dynamics are also highly susceptible to growth underperformance, which could intensify with climate change (Figure 5).

16. Grenada has also negotiated a reduction in its debt service in the event of natural disasters, which will help mitigate some of these risks. As part of its 2015 debt restructuring, Grenada agreed upon hurricane clauses with its creditors, whereby debt service on the restructured debt (mainly to 2025 private bondholders, but also to Taiwan Province of China and the Paris Club) would be automatically re-profiled following a hurricane and in some cases other types of natural disaster. The agreed period of a pause in debt service is up to one year, depending on the severity of the event. The key trigger was established as parametric and tied to a verification by an independent insurance body (CCRIF), whose payout for modelled losses had to exceed US$15 million.[10] This clause could release up to EC$45 million in funds in the event of a major natural disaster (the amounts would be smaller for smaller events, depending on the triggers).

[9] Applies a shock to output and export of magnitude similar to Hurricane Ivan in 2004. The susceptibility of tourism assests in Grenada is also considered.

[10] Grenada's CCRIF coverage envisions a payout of up to US$29 million, or almost 3 percent of GDP, in the event of a major hurricane."

17. Portfolio risks, while declining, continue to be present. The interest rate is subject to a moderate risk with an average time to re-fixing of 8.6 years in which 21 percent of the portfolio is subject to a change in interest rates in one year. This risk resides predominantly in the domestic portfolio in which 31 percent of this debt is subject to re-fixing in one year. The refinancing risk profile of the portfolio has an average time to maturity of 9 years which exceeds the set target of greater than 8 years. The current portfolio is subject to only a moderate foreign exchange risk as most of foreign currency debt is denominated in U.S. dollars to which the EC dollar is pegged

CONCLUSION

18. Grenada remains in external debt distress, but its debt appears sustainable. The debt to GDP ratio has decreased through fiscal consolidation that has been anchored by the Fiscal Responsibility Law (FRL), robust economic growth, and a restructuring of Grenada's public debt. Fully regularizing external arrears would help tangibly improve the country's DSA rating. Further progress in public debt reduction would also be essential, including through maintaining the FRL's rules-based framework and pursuing structural fiscal reforms, including further improving debt management capacity.

Authorities' Views

19. The authorities agreed with staff's debt sustainability assessment. As for unresolved arrears, they informed that an effort to regularize the arrears is continuing, highlighting progress in the negotiation with Algeria and the determination to regularize arrears with other two creditors with which negotiations are ongoing. They indicated that the staff's financing assumptions are broadly in line with government's Medium-Term Debt Strategy, which aims to use of longer-term domestic instruments to fill funding gap while extending maturities of existing treasury bills. They reiterated that a steadfast commitment to the Fiscal Responsibility Law would further strengthen the debt sustainability outlook.

Figure 1. Grenada: Composition of Central Government Debt

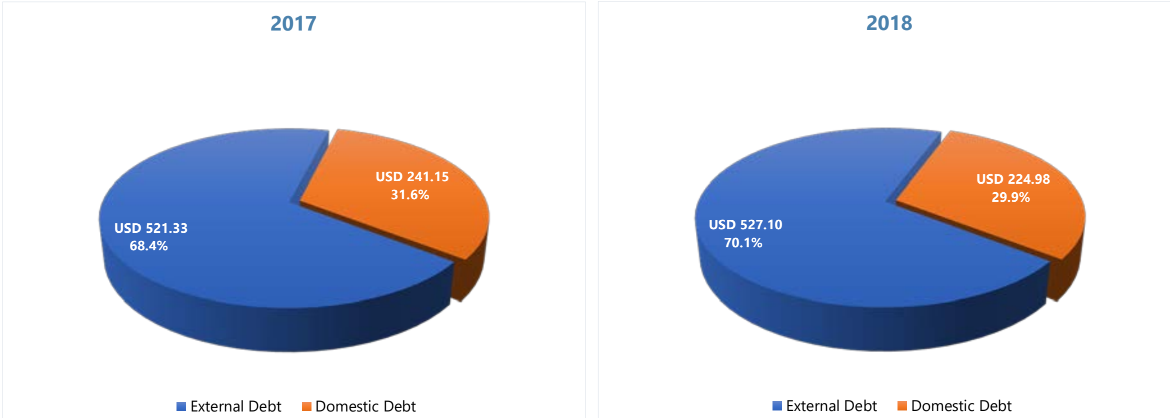


Figure 2. Grenada: Domestic Debt by Instrument Type

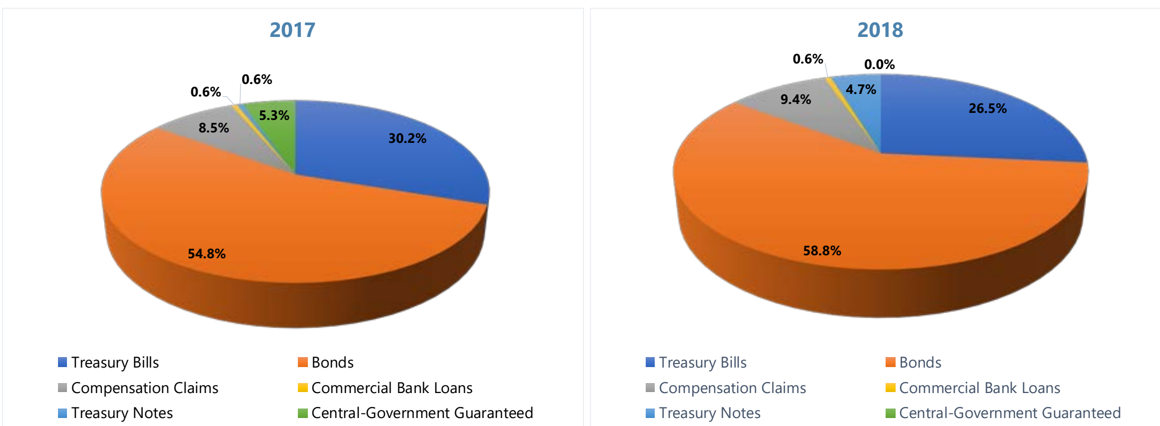


Figure 3. Grenada: Foreign Debt by Creditor Category

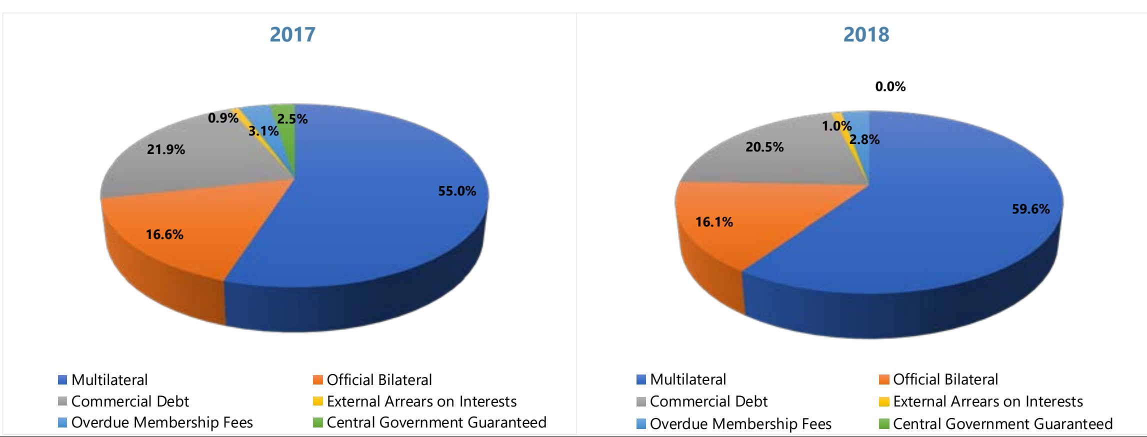
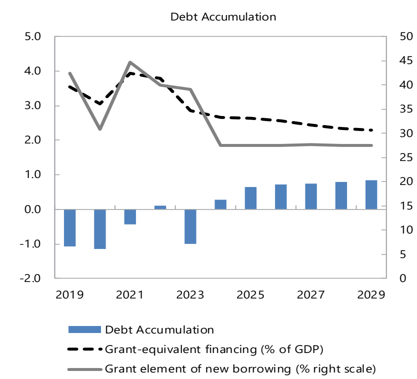


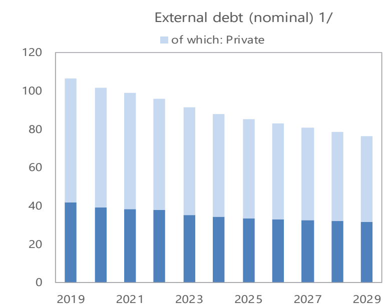
Table 1. Grenada: External Debt Sustainability Framework Baseline Scenario 2016–2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	125.7	117.4	108.0	106.6	101.8	98.8	96.0	91.3	88.2	76.5	58.8	128.6	89.7
of which: public and publicly guaranteed (PPG)	56.6	47.4	44.5	42.1	39.4	38.5	37.9	35.4	34.3	31.7	27.9	61.8	35.6
Change in external debt	-7.5	-8.2	-9.4	-1.4	-4.8	-2.9	-2.8	-4.7	-3.1	-2.1	-1.9		
Identified net debt-creating flows	-6.3	-7.7	-7.4	-3.0	-2.7	-3.5	-3.0	-2.0	-1.8	0.8	4.6	2.2	-1.5
Non-interest current account deficit	8.8	9.9	9.7	9.9	8.9	7.4	8.0	9.0	9.0	11.2	13.7	15.6	9.5
Deficit in balance of goods and services	0.5	1.8	1.0	0.9	-0.1	-1.6	-1.1	-0.3	-0.4	1.3	3.9	11.3	0.1
Exports	49.3	51.3	54.2	54.0	54.1	54.1	53.9	53.6	53.4	51.9	50.1		
Imports	49.8	53.1	55.2	54.9	54.1	52.5	52.8	53.3	52.9	53.3	54.0		
Net current transfers (negative = inflow)	1.3	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	1.2	0.9	-1.3	1.0
of which: official	0.7	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Other current account flows (negative = net inflow)	7.0	7.2	7.9	8.1	8.1	8.2	8.3	8.4	8.5	8.7	8.8	5.6	8.4
Net FDI (negative = inflow)	-9.1	-12.4	-12.8	-10.6	-10.1	-9.6	-9.1	-9.1	-9.1	-9.1	-8.1	-10.2	-9.4
Endogenous debt dynamics 2/	-6.0	-5.3	-4.3	-2.3	-1.5	-1.4	-1.9	-1.9	-1.7	-1.4	-0.9		
Contribution from nominal interest rate	2.1	2.0	1.5	1.3	1.3	1.2	1.1	1.0	0.9	0.7	0.6		
Contribution from real GDP growth	-4.7	-6.0	-4.7	-3.6	-2.8	-2.6	-3.0	-2.9	-2.6	-2.0	-1.6		
Contribution from price and exchange rate changes	-3.4	-1.3	-1.1	...	...	...	...	...	...	...	...		
Residual 3/	-1.3	-0.6	-2.0	1.6	-2.1	0.6	0.2	-2.7	-1.4	-2.9	-6.5	-1.8	-1.4
of which: exceptional financing	-2.2	-5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	38.1	35.4	32.7	30.8	29.4	26.9	25.9	23.5	21.8		
PV of PPG external debt-to-exports ratio	...	...	70.3	65.6	60.5	57.0	54.4	50.2	48.5	45.3	43.4		
PPG debt service-to-exports ratio	10.6	11.1	10.6	6.8	7.1	6.7	6.5	6.1	5.6	4.3	3.6		
PPG debt service-to-revenue ratio	23.0	24.8	24.5	15.8	16.6	15.7	15.1	14.2	13.0	9.6	7.8		
Gross external financing need (Million of U.S. dollars)	247.0	316.5	335.9	300.8	297.5	281.8	295.3	323.7	335.5	458.2	778.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.7	5.1	4.2	3.5	2.7	2.7	3.2	3.2	3.0	2.7	2.7	2.2	2.9
GDP deflator in US dollar terms (change in percent)	2.6	1.0	1.0	1.2	1.9	2.1	2.1	2.1	2.1	2.2	2.2	1.6	2.0
Effective interest rate (percent) 4/	1.7	1.7	1.3	1.2	1.3	1.3	1.2	1.1	1.0	0.9	1.1	1.4	1.1
Growth of exports of G&S (US dollar terms, in percent)	2.5	10.4	11.2	4.3	4.9	4.8	4.9	4.7	4.7	4.5	4.7	14.0	4.6
Growth of imports of G&S (US dollar terms, in percent)	4.3	13.2	9.3	4.1	3.1	1.9	5.8	6.5	4.3	5.1	5.1	4.2	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	42.3	30.9	44.7	40.0	39.1	27.5	27.5	27.7	...	32.9
Government revenues (excluding grants, in percent of GDP)	22.7	23.0	23.6	23.1	23.1	23.1	23.1	23.0	23.0	23.0	23.1	21.0	23.0
Aid flows (in Million of US dollars) 5/	122.2	116.4	131.6	50.2	34.0	67.5	61.7	45.3	29.4	31.4	36.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.5	3.1	3.9	3.8	2.8	2.7	2.3	1.7	...	2.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	70.1	66.2	65.8	61.2	71.3	55.4	54.2	51.8	...	60.1
Nominal GDP (Million of US dollars)	1,062	1,127	1,186	1,241	1,299	1,362	1,434	1,511	1,588	2,029	3,304		
Nominal dollar GDP growth	6.5	6.1	5.2	4.7	4.6	4.8	5.3	5.3	5.1	5.0	5.0	3.8	5.0
Memorandum items:													
PV of external debt 7/	...	...	101.7	99.9	95.1	91.1	87.4	82.8	79.7	68.3	52.7		
In percent of exports	...	...	187.5	185.0	175.7	168.4	162.2	154.6	149.3	131.5	105.0		
Total external debt service-to-exports ratio	10.8	11.3	10.8	6.9	7.2	6.8	6.6	6.2	5.7	4.3	3.6		
PV of PPG external debt (in Million of US dollars)			452.1	439.5	425.2	419.7	421.0	406.6	410.8	477.8	719.4		
(PVt-PVt-1)/GDPt-1 (in percent)				-1.1	-1.2	-0.4	0.1	-1.0	0.3	0.9	0.9		
Non-interest current account deficit that stabilizes debt ratio	16.4	18.2	19.1	11.3	13.7	10.4	10.8	13.7	12.1	13.4	15.5		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

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

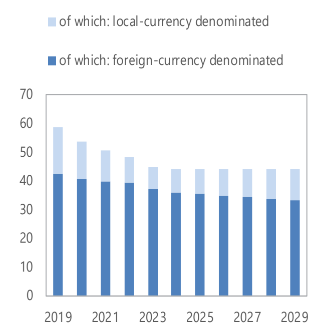
Table 2. Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039

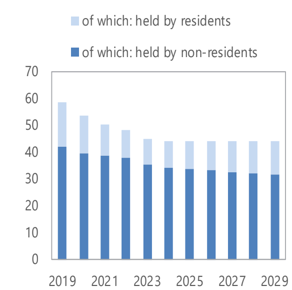
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	81.6	70.0	63.4	58.8	53.8	50.5	48.3	44.9	44.1	44.2	44.2	90.7	47.4
of which: external debt	56.6	47.4	44.5	42.1	39.4	38.5	37.9	35.4	34.3	31.7	27.9	61.8	35.6
Change in public sector debt	-8.5	-11.5	-6.6	-4.7	-5.0	-3.2	-2.2	-3.4	-0.8	0.0	0.1		
Identified debt-creating flows	-7.8	-7.7	-8.3	-7.8	-7.3	-7.3	-5.5	-3.5	-1.0	-0.2	0.1	-1.3	-3.0
Primary deficit	-5.2	-5.7	-6.8	-6.2	-6.5	-6.6	-4.5	-2.5	0.0	0.6	0.6	-0.5	-2.1
Revenue and grants	26.2	25.6	26.5	25.6	25.5	25.3	25.3	25.1	24.8	24.6	24.2	24.0	25.0
of which: grants	3.5	2.6	2.9	2.4	2.4	2.3	2.2	2.1	1.8	1.5	1.1		
Primary (noninterest) expenditure	21.0	19.9	19.7	19.4	19.0	18.8	20.8	22.6	24.8	25.2	24.8	23.5	22.9
Automatic debt dynamics	-2.6	-2.1	-1.5	-1.6	-0.9	-0.7	-1.0	-1.0	-0.9	-0.9	-0.5		
Contribution from interest rate/growth differential	-1.7	-2.5	-2.1	-1.8	-0.9	-0.7	-1.0	-1.0	-0.9	-0.8	-0.5		
of which: contribution from average real interest rate	1.5	1.4	0.8	0.3	0.6	0.7	0.6	0.5	0.4	0.4	0.7		
of which: contribution from real GDP growth	-3.2	-3.9	-2.8	-2.1	-1.6	-1.4	-1.6	-1.5	-1.3	-1.2	-1.2		
Contribution from real exchange rate depreciation	-0.9	0.5	0.6	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.7	-3.8	1.7	3.4	2.4	4.0	3.3	0.2	0.2	0.2	0.0	-0.7	1.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	57.1	52.1	47.1	42.8	39.7	36.5	35.7	36.0	38.1		
PV of public debt-to-revenue and grants ratio	...	...	215.3	203.7	184.5	168.9	157.4	145.3	143.6	146.6	157.7		
Debt service-to-revenue and grants ratio 3/	51.2	59.3	56.4	31.6	39.9	30.4	24.5	20.8	19.9	24.5	33.4		
Gross financing need 4/	8.3	9.5	8.2	1.9	3.7	1.1	1.7	2.7	4.9	6.7	8.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.7	5.1	4.2	3.5	2.7	2.7	3.2	3.2	3.0	2.7	2.7	2.2	2.9
Average nominal interest rate on external debt (in percent)	3.6	3.7	3.2	2.8	3.1	3.1	2.9	2.7	2.5	2.1	2.3	2.8	2.6
Average real interest rate on domestic debt (in percent)	0.3	2.0	1.7	-0.8	1.5	2.4	2.6	2.7	2.8	3.5	4.4	2.3	2.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.5	0.9	1.3	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	2.6	1.0	1.0	1.2	1.9	2.1	2.1	2.1	2.1	2.2	2.2	1.6	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.2	-0.7	3.4	1.5	0.8	1.3	14.1	12.3	13.0	2.5	2.6	-0.7	5.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.4	5.9	-0.2	-1.5	-1.5	-3.3	-2.3	0.9	0.8	0.7	0.5	3.0	-0.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

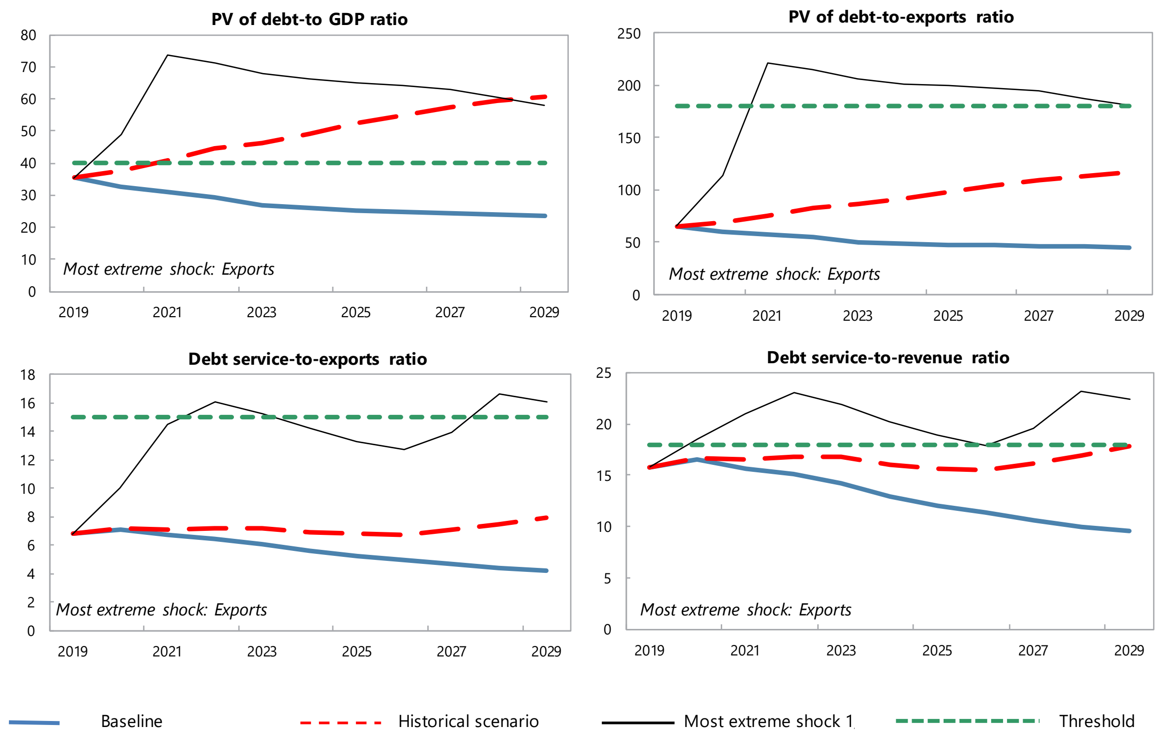
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

Figure 4. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019–2029 1/



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

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

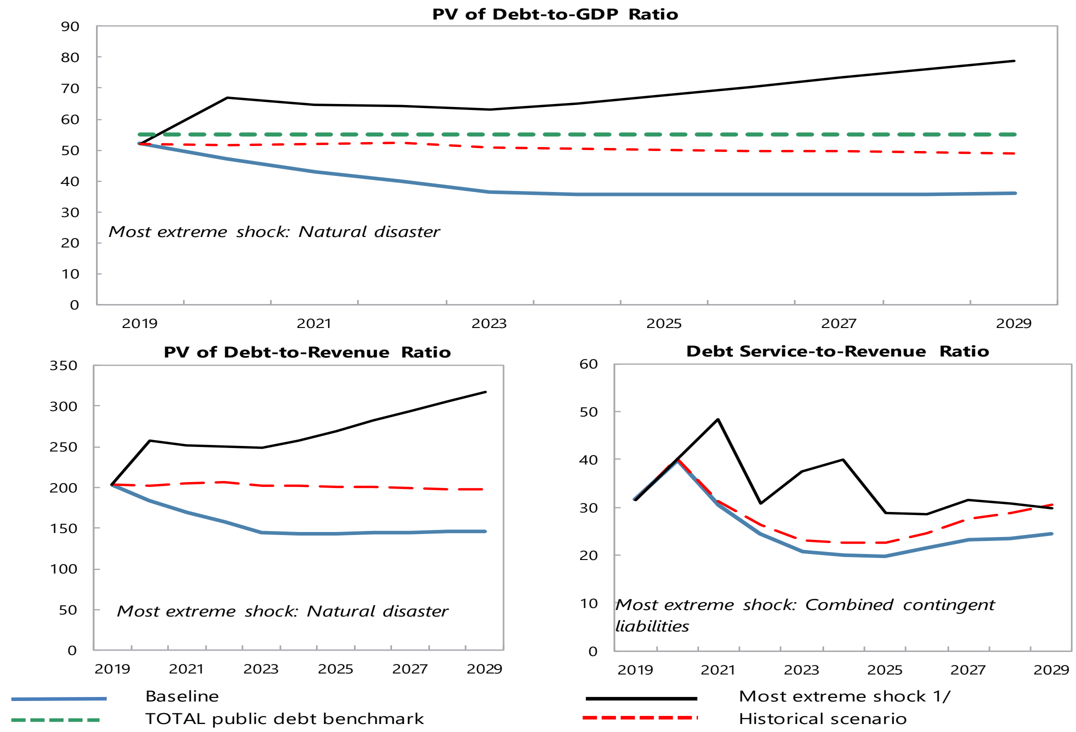
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 5. Grenada: Indicators of Public Sector Debt Under Alternative Scenarios 2019–2029



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	52%	52%
Domestic medium and long-term	31%	31%
Domestic short-term	17%	17%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.5%	4.5%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	3.0%	3.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	35	33	31	29	27	26	25	25	24	24	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	35	37	**41**	**44**	**46**	**49**	**52**	**55**	**57**	**59**	**61**
B. Bound Tests											
B1. Real GDP growth	35	35	36	34	31	30	29	29	28	28	27
B2. Primary balance	35	36	39	38	36	36	37	36	36	36	35
B3. Exports	35	**49**	**73.5**	**71**	**68**	**66**	**65**	**64**	**63**	**60**	**58**
B4. Other flows 3/	35	37	39	38	35	34	33	33	32	31	30
B5. Depreciation	35	**41**	37	35	32	31	30	29	29	29	28
B6. Combination of B1-B5	35	**44**	**45**	**44**	**41**	39	39	38	37	36	35
C. Tailored Tests											
C1. Combined contingent liabilities	35	**41**	**40**	39	38	38	38	38	38	38	37
C2. Natural disaster	35	**43**	**43**	**43**	**43**	**44**	**46**	**48**	**50**	**52**	**53.7**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	66	60	57	54	50	48	48	47	46	46	45
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	66	69	76	82	86	92	98	104	109	114	117
B. Bound Tests											
B1. Real GDP growth	66	60	57	54	50	48	48	47	46	46	45
B2. Primary balance	66	67	71	70	67	68	69	69	69	69	68
B3. Exports	66	114	**221**	**215**	**206**	**202**	**199**	**198**	**194**	**188**	**181**
B4. Other flows 3/	66	68	72	70	65	63	62	62	61	59	58
B5. Depreciation	66	60	54	52	48	46	45	44	44	43	43
B6. Combination of B1-B5	66	88	74	98	92	90	88	87	85	83	82
C. Tailored Tests											
C1. Combined contingent liabilities	66	75	75	73	71	72	72	72	72	72	72
C2. Natural disaster	66	90	90	90	90	93	97	101	106	111	116
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7	7	7	6	6	6	5	5	5	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	7	7	7	7	7	7	7	7	7	7	8
B. Bound Tests											
B1. Real GDP growth	7	7	7	6	6	6	5	5	5	4	4
B2. Primary balance	7	7	7	7	7	6	6	6	6	6	6
B3. Exports	7	10	15	**16**	**15**	14	13	13	14	**17**	**16**
B4. Other flows 3/	7	7	7	7	7	6	6	5	5	6	5
B5. Depreciation	7	7	7	6	6	6	5	5	5	4	4
B6. Combination of B1-B5	7	8	10	10	9	8	8	7	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	7	7	7	7	7	6	6	6	5	5	5
C2. Natural disaster	7	9	9	9	9	8	8	7	7	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	16	17	16	15	14	13	12	11	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	16	17	17	17	17	16	16	15	16	17	18
B. Bound Tests											
B1. Real GDP growth	16	18	**18**	18	17	15	14	13	12	12	11
B2. Primary balance	16	17	16	16	15	14	13	13	13	13	13
B3. Exports	16	**19**	**21**	**23**	**22**	**20**	**19**	18	**20**	**23**	**22**
B4. Other flows 3/	16	17	16	16	15	14	13	12	12	12	12
B5. Depreciation	16	**21**	**20**	**19**	18	16	15	14	13	12	12
B6. Combination of B1-B5	16	**18**	**19**	**18**	17	16	15	14	15	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	16	17	17	16	15	14	14	13	12	12	11
C2. Natural disaster	16	17	16	16	15	14	13	13	13	12	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

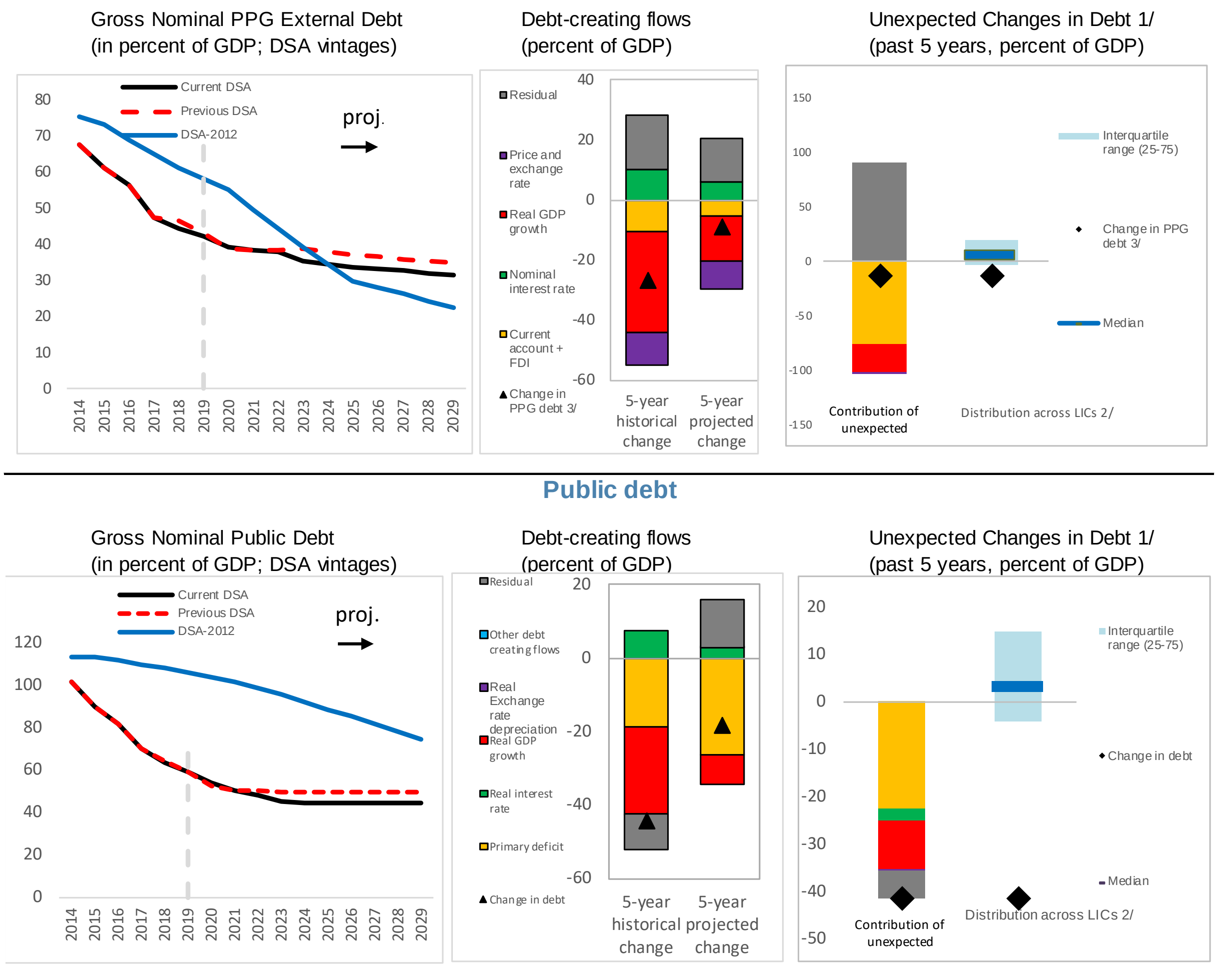
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Grenada: Sensitivity Analysis for Key Indicators of Public Debt 2019–2029
(In Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	52	47	43	40	36	36	36	36	36	36	36
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	52	52	52	52	51	50	50	50	50	49	49
B. Bound Tests											
B1. Real GDP growth	52	52	54	54	53	55	**58**	**61**	**63**	**66**	**69**
B2. Primary balance	52	**55**	**60**	**56**	53	52	51	51	51	51	51
B3. Exports	52	**58**	**72**	**68**	**65**	**64**	**63**	**63**	**63**	**61**	**60**
B4. Other flows 3/	52	51	51	48	45	44	44	44	43	43	43
B5. Depreciation	52	**56**	50	44	40	37	36	34	33	31	30
B6. Combination of B1-B5	52	54	51	44	40	40	39	38	38	38	38
C. Tailored Tests											
C1. Combined contingent liabilities	52	**66**	**61**	**58**	54	53	52	52	52	52	52
C2. Natural disaster	52	**67**	**65**	**64**	**63**	**65**	**68**	**70**	**73**	**76**	**79**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	204	185	169	157	145	144	144	144	145	146	147
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	204	202	205	207	202	202	201	200	199	199	198
B. Bound Tests											
B1. Real GDP growth	204	204	212	211	209	219	230	242	254	266	278
B2. Primary balance	204	217	235	223	210	207	206	206	206	206	206
B3. Exports	204	227	284	271	258	257	256	256	254	248	243
B4. Other flows 3/	204	201	202	190	177	176	176	176	176	175	174
B5. Depreciation	204	221	197	177	159	151	144	138	133	128	123
B6. Combination of B1-B5	204	213	202	176	161	159	157	155	154	155	155
C. Tailored Tests											
C1. Combined contingent liabilities	204	260	242	230	216	213	212	212	212	212	212
C2. Natural disaster	204	258	252	251	248	258	270	282	294	306	318
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	32	40	30	25	21	20	20	22	23	24	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	32	40	31	26	23	23	23	25	28	29	31
B. Bound Tests											
B1. Real GDP growth	32	43	36	32	29	31	34	37	40	42	45
B2. Primary balance	32	40	39	36	32	37	33	29	31	32	32
B3. Exports	32	40	32	28	24	23	23	25	28	32	33
B4. Other flows 3/	32	40	31	25	22	21	21	22	25	26	27
B5. Depreciation	32	40	34	28	24	23	22	24	25	25	25
B6. Combination of B1-B5	32	39	31	31	23	26	27	25	26	27	27
C. Tailored Tests											
C1. Combined contingent liabilities	32	40	48	31	37	40	29	29	32	31	30
C2. Natural disaster	32	46	46	35	38	42	39	41	45	46	48
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 6. Grenada: Drivers of Debt Dynamics—Baseline Scenario External Debt



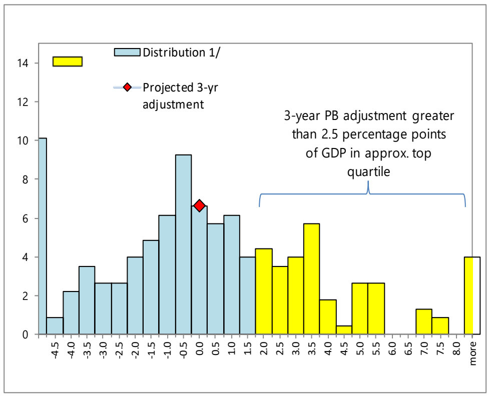
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

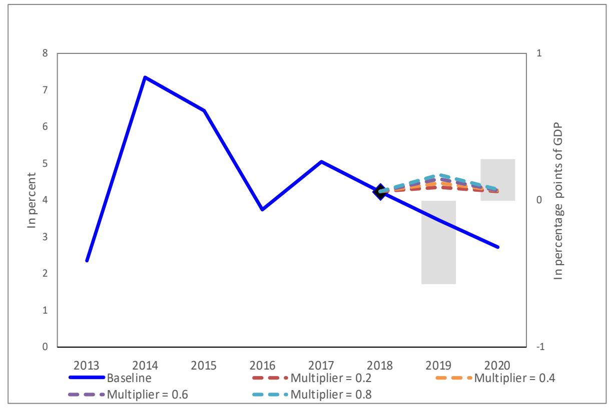
Figure 7. Grenada: Realism Tools

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



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

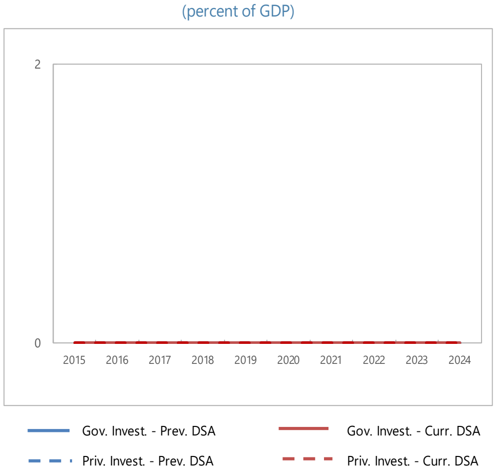
Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates 1/

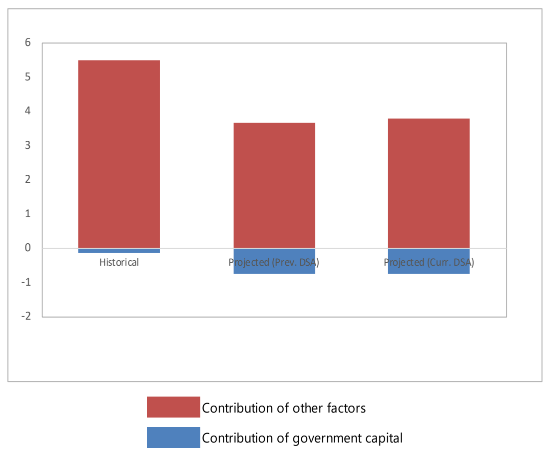
(percent of GDP)



1/ Not applicable to Grenada because of absence of relevant data.

Contribution to Real GDP growth

(percent, 5-year average)



Statement by Ms. Louise Levonian, Executive Director
and Mr. Mike Sylvester, Advisor
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Our Grenadian authorities are committed to delivering robust, inclusive, and sustained growth. They welcome the assessment of recent economic developments within the context of the 2019 Article IV Consultation, which showed further progress toward realizing this goal. They remain cognizant of the many development challenges confronting Grenada related to its small size, openness, narrow economic base, and high susceptibility to natural disasters and climate change. In this context, our authorities reiterate their commitment to implement prudent macroeconomic policies and reforms to further advance their development agenda. They highly value the Fund's continued engagement and technical assistance and look forward to their constructive engagement in the future.

Recent Developments, Outlook, and Policies

Real GDP and Inflation

Economic activity in Grenada accelerated in 2018 and unemployment declined further. Real GDP expanded by almost 5 percent last year on the back of strong tourism and construction activities, buttressed by favorable external conditions and dividends from past reforms. This latest growth performance means that Grenada's economy has grown robustly at an average of 5 ½ percent since 2014 and remains one of the fastest growing economies in the Caribbean region. There was further progress in reducing unemployment, with the rate falling from 23 ½ percent in 2017 to 21 ¾ percent by mid-2018.

Our authorities broadly share staff's growth outlook but are slightly more optimistic. Staff projects growth to moderate toward potential over the medium term, with risks, on balance, tilted to the downside. While our authorities anticipate some moderation in growth over the medium term, they are slightly more optimistic than staff and foresee a higher growth trajectory on the basis of ongoing and planned public and private sector investments.

Inflation is expected to remain low and stable. For the second year in a row, the overall change in the consumer price index (period average) remained under 1.0 percent following a pickup in 2016. Going forward, inflation is expected to average around 1.9 percent per annum.

To further support growth and reduce unemployment, our authorities remain committed to accelerating structural reforms. In this regard, they will intensify efforts to further improve the business climate, boost labor market productivity, and support diversification and rural development. Our authorities' reform agenda will be further informed by the forthcoming *2020-35 Development Plan*, which is being developed with broad stakeholder involvement.

Fiscal and Debt

Grenada's fiscal position has further strengthened under its fiscal responsibility framework. The overall surplus rose from 3.0 of GDP in 2017 to 4.8 percent of GDP in 2018, reflecting a combination of strong revenue performance and expenditure restraint. The strengthened fiscal position further helped to reduce debt vulnerabilities. Public sector debt, excluding non-guaranteed debt of SOEs and the debt of Petrocaribe, fell from 70 to 63 ½ percent of GDP in 2018 and is on track to reach the FRL debt target of 55 percent of GDP by 2020 and the Eastern Caribbean Currency Union (ECCU) debt target of 60 percent of GDP this year, well ahead of the 2030 deadline. Our authorities will continue to reach out to the three bilateral creditors with a view to regularizing the remaining 1.6 percent of GDP in outstanding debt arrears.

Our authorities are committed to fiscal and debt sustainability and underscore the importance of the Fiscal Responsibility Law (FRL) in continuing to guide fiscal policy. Grenada's rules-based fiscal framework provides an important anchor for sound fiscal policy and has contributed to sustained debt reduction. Our authorities will continue to evaluate all spending decisions, including those related to pension and health care reform, within this framework. Having said that, our authorities recognize the need to strengthen the FRL to support the closing of critical infrastructure and resilience gaps, while at the same time, reinforcing fiscal sustainability. In this context, they are highly appreciative of the Fund's recent TA on strengthening the FRL, which should help inform modifications to the current framework.

Our authorities concur with staff's assessment on the need for further fiscal reforms to anchor improvements in government efficiency, implementation capacity, and policy inclusiveness. This is critical to ensure that available fiscal space is efficiently utilized to support growth and resilience building. Accordingly, our authorities will redouble their efforts to implement the Public Sector Modernization Strategy, strengthen institutional capacity to implement projects, further improve the oversight and management of SOEs, and better target social assistance, among other key areas.

Financial Sector

The financial sector has seen further strengthening but warrants close monitoring. Our authorities take positive note of staff's assessment that financial soundness indicators, such as capital adequacy, asset quality, and provisioning, continue to improve. Also, they welcome the positive turnaround in private sector credit, which is essential to support growth. At the same time, they are aware that further strengthening of the regulatory and supervisory framework is necessary to safeguard financial sector stability. They concur with staff on the need to closely monitor potential risks associated with the growing property market and the rapid expansion of credit union lending as well as concentration risks from Scotiabank's decision to sell some its banking operations across the Caribbean.

Our authorities welcome the Fund's continued support in helping its members address the risk of the withdrawal of correspondent banking relationships (CBRs). Loss of CBRs remains a major concern as the realization of this risk could be very disruptive and damaging to trade and financial flows. Our authorities continue to collaborate with the Eastern Caribbean Central Bank (ECCB) and other institutions to further strengthen their supervisory and regulatory frameworks, including the AML/CFT regime, to help mitigate this risk. They urge the Fund to remain engaged on this important issue. Relatedly, our authorities welcome the removal of Grenada from the EU's gray list as a non-cooperative tax jurisdiction and remain committed to complying with all international standards on taxation. However, they expressed concerns that the recurring and incremental nature of such requirements are burdensome and serve to divert scarce financial and human resources from other critical priorities.

Building Resilience

Building resilience to natural disasters and climate change is a top priority for our authorities. Alongside efforts to create fiscal space, they currently save a portion of their Citizenship-By-Investment (CBI) proceeds for disaster-related impacts and have drafted regulations for the operationalization of a contingency fund for natural disasters. Also, they have been successful in incorporating disaster relief provisions ("hurricane clauses") in some of their loan instruments and have continuously purchased coverage under the regional catastrophic insurance pool facility, CCRIF SPC. Furthermore, our authorities have been upscaling investments in climate-resilient infrastructure with support from donors. Additionally, to coordinate efforts around building resilience, they have established a dedicated Ministry of Climate Resilience.

Greater donor support is essential for bolstering resilience efforts. Our authorities broadly support the assessment and recommendations of the Climate Change Policy Assessment (CCPA)**.** They particularly welcome the conclusion that they have been making significant strides to counter climate change but meeting the daunting challenges will require domestic policy actions and sustained international support. Significant donor support is needed to complement domestic efforts, given Grenada's small size and limited resources. Our authorities have been making deliberate efforts to mobilize resources, including climate funds, but continue to face significant hurdles. They continue to call on the international community for support in unlocking grants, concessionary loans, and technical support, to scale up ex-ante resilience building.

Going forward, our authorities will continue to press ahead with efforts to realize the benefits of a more resilient economy. To support their efforts, they welcome the increased focus by the Fund, including staff's recent analytical work on building ex-ante resilience in the ECCU. They further welcome the recent Staff Paper on building resilience in developing countries vulnerable to large natural disasters, which recommended the development of a three-pillar disaster resilience strategy (DRS) covering structural resilience, financial resilience, and ex-post disaster/social resilience. They are highly appreciative of the tremendous effort of the Fund and the Bank in undertaking Grenada's CCPA. They are also pleased to be selected as one of the pilots for the DRS and look forward to the next steps. They look forward to greater collaboration between the Fund and other institutions to support resilience building efforts in members states vulnerable to natural disasters.

Conclusion

Our authorities are determined to build on the current momentum of strong economic growth and fiscal prudence. They are committed to sound macroeconomic management and structural reforms. They will continue to highly value the support of the Fund and other partners in supporting their development priorities.