INTERNATIONAL MONETARY FUND

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GRENADA

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GRENADA

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 28, 2020, following discussions that ended on April 17, with the officials of Grenada on economic developments and policies underpinning the IMF disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 21, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Staff Statement**.
- A **Statement by the Executive Director** for Grenada.

The documents listed below will be released.

Letter of Intent sent to the IMF by the authorities of 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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PRESS RELEASE

PR20/192

IMF Executive Board Approves US$65.6 Million in Disbursements to Dominica, Grenada, and St. Lucia to Address COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approves three requests from Dominica, Grenada, and St. Lucia for emergency financial assistance to help address the challenges posed by COVID-19.
- The approval of the Board will make available a combined SDR 48 million (US$65.6 million) in emergency financing to help these three countries deal with the challenges posed by COVID-19.
- IMF financing support provides resources to the countries' authorities for essential health-related expenditures and income support to ease the impact of COVID-19 on the population.
- To address the pandemic, the authorities announced measures to help employees and households, including income support to the unemployed, tax relief, and providing cash transfers to the most vulnerable and affected.
- Dominica, Grenada, and St. Lucia are members of the Eastern Caribbean Currency Union (ECCU), and the disbursements would support macroeconomic stability and facilitate the subsequent economic recovery of the region.

Washington, DC – April 28, 2020 The Executive Board of the International Monetary Fund (IMF) approved disbursements to Dominica, Grenada, and St. Lucia following their requests under the Rapid Credit Facility (RCF) mechanism, with a combined SDR 48 million (US$65.6 million), to help cover their balance of payment needs stemming from the outbreak of the COVID-19 pandemic. Disbursements to all three countries are set at the maximum available access under the RCF instrument of 100 percent of quota for Grenada (SDR 16.4 million or US$ 22.4 million) and St. Lucia (SDR 21.4 million or US$ 29.2 million), and 89.4 percent of quota for Dominica (SDR 10.3 million or US$14 million). These countries are small states that are very vulnerable to shocks, including large natural disasters, with Dominica in particular still recovering from the devastation of Hurricane Maria in 2017.

The pandemic has hit these largely tourism-dependent countries very hard. Tourism inflows essentially came to a halt in mid-March, 2020, with ripple effects across other sectors. The closure of the borders, coupled with the curtailment of commercial activity, has had a debilitating impact on these economies. A drop in fiscal revenues, combined with additional direct health and social expenditures will temporarily increase the fiscal deficit and financing needs. IMF support will help cover some of these needs and allow the governments to ease the impact on the population, such as upgrading public health facilities and providing social assistance to the vulnerable and adversely affected sectors.

Following the Executive Board discussion of the requests, Mr. Tao Zhang, Deputy Managing Director and acting Chair, made the following statement:

"The COVID-19 pandemic poses a major challenge to Dominica, Grenada, and St. Lucia. Their key tourism sectors have been hit hard by the shock. The contraction in tourism is expected to have a major impact on their economies, by causing ripple effects across all economic sectors, eroding fiscal revenues, and creating urgent balance of payments pressures. In addition, these three small states are also highly vulnerable to natural disasters.

"The countries' governments have responded to the pandemic by swiftly implementing containment measures, allocating scarce budgetary resources to critical health care spending, and introducing income support to the most affected sectors and households. Protection of the financial system will help cushion the economic impact of the pandemic. Measures have also been taken by the Eastern Caribbean Central Bank to facilitate the provision of credit and safeguard financial stability.

"The authorities have expressed commitment to meeting the regional debt target of 60 percent of GDP by 2030. To this end, they plan to implement necessary adjustment measures to rebuild policy space once the crisis has abated, building on the progress achieved in recent years. Looking forward, the authorities are also committed to implementing policies that support durable economic growth and poverty reduction within a balanced development strategy that includes comprehensive measures to boost resilience to natural disasters.

"IMF emergency support under the Rapid Credit Facility will help fill the three countries' balance of payments needs and create fiscal space for essential health expenditures, income support to workers, and cash transfers to households. Fund financing will also help catalyze further donor support to close the remaining balance of payments needs.

"The IMF will continue to be engaged with Dominica, Grenada, and St. Lucia, and stands ready to provide policy advice and further support as needed."

Grenada: Selected Economic Indicators-2016-2025

Rank in UNDP Human Development Index	75	Infant mortality rate per '000 births (2018)	13.7
out of 189 countries (2017)		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2017)	72	Poverty headcount index (2008)	38
GDP per capita in US$ (2018)	10,791	Unemployment rate (2019 Q1)	15.2
Population in millions (2018)	0.11		

Projections	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP	3.7	4.4	4.1	3.0	-9.2	6.3	5.3	3.9	3.0	2.7
Nominal GDP	6.5	6.0	3.8	4.2	-8.8	7.8	7.3	6.1	5.1	4.9
Consumer prices, end of period	0.9	0.5	1.4	0.1	0.3	1.3	1.7	1.9	1.9	1.9
Consumer prices, period average	1.7	0.9	0.8	0.6	0.2	1.2	1.7	1.9	1.9	1.9
Output gap (percent of potential GDP) 1/	0.8	1.6	3.1	4.4	-6.4	-2.4	0.0	0.8	0.6	0.3
Real effective exchange rate	2.2	-1.4	-2.4	...	...	...	...	...	...	...
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)									
Revenue	26.2	25.6	26.9	26.5	25.9	25.7	26.2	26.5	26.1	26.1
Taxes	20.9	21.4	22.3	21.9	20.2	20.9	21.6	21.9	21.9	21.9
Non-tax revenue 2/	1.8	1.8	1.6	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Grants	3.5	2.6	3.0	2.8	3.9	3.2	3.0	2.9	2.6	2.5
Expenditure 3/	23.9	22.6	22.3	21.6	28.8	23.3	22.4	21.8	21.2	24.7
Current primary expenditure	16.9	17.3	17.6	17.1	22.4	18.3	17.8	17.3	17.1	17.4
Interest payments	2.9	2.7	2.0	1.8	2.2	2.2	2.1	2.1	1.9	1.6
Capital expenditure	4.2	2.7	2.8	2.6	4.2	2.8	2.5	2.5	2.2	5.7
Primary balance 2/	5.2	5.7	6.6	6.8	-0.7	4.6	6.0	6.7	6.9	3.0
Overall balance	2.3	3.0	4.6	5.0	-2.9	2.5	3.8	4.6	5.0	1.4
Public debt (incl. guaranteed) 4/	81.6	70.4	64.6	59.4	69.0	67.5	64.0	57.5	49.8	46.1
Domestic	25.0	22.6	19.3	17.5	17.6	15.5	13.1	10.7	8.5	7.4
External	56.6	47.8	45.4	41.8	51.4	52.0	50.9	46.8	41.3	38.6
Money and credit, end of period (annual percent change)										
Broad money (M2)	1.3	4.0	5.9	2.9	-8.8	7.8	7.3	6.1	4.8	4.9
Credit to private sector	-0.2	0.6	2.8	1.4	-11.7	4.0	2.8	0.6	3.6	5.9
Balance of payments										
Current account balance, o/w:	-11.0	-14.4	-15.9	-15.8	-27.4	-17.2	-14.3	-12.8	-11.6	-11.0
Exports of goods and services	49.4	51.4	53.2	51.9	29.0	43.2	47.2	49.0	50.2	50.9
Imports of goods and services	49.9	54.7	58.6	57.6	46.1	50.0	51.0	51.2	51.1	51.2
Capital account balance	4.7	5.9	5.9	5.1	6.3	5.5	5.3	5.1	4.8	4.2
Financial account balance	-2.2	-7.2	-7.5	-10.7	-21.1	-11.7	-9.0	-7.7	-6.8	-6.8
Errors and omissions	4.2	1.3	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross)	98.7	88.9	86.3	83.1	102.2	102.5	98.4	92.1	84.8	80.4
Savings-Investment balance	-11.0	-14.4	-15.9	-15.8	-27.4	-17.2	-14.3	-12.8	-11.6	-11.0
Savings	9.0	6.5	8.1	4.5	-9.0	3.3	6.9	9.3	11.8	15.9
Investment	20.1	20.9	24.0	20.3	18.4	20.5	21.2	22.1	23.4	26.9
Memorandum items:										
Nominal GDP (EC$ million)	2,866	3,039	3,155	3,288	2,999	3,233	3,468	3,679	3,866	4,054
Net imputed international reserves										
Months of imports of goods and services	3.9	3.4	3.9	5.5	3.5	3.6	3.7	3.8	4.0	4.1

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.

INTERNATIONAL MONETARY FUND

GRENADA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

April 21, 2020

EXECUTIVE SUMMARY

Context. Grenada is a tourism-dependent economy that has been severely affected by the global COVID-19 pandemic. Tourism, which accounts for over 80 percent of Grenada's total exports, has essentially come to a halt in March with ripple effects on other sectors of the economy. The economy is now projected to contract by over 9 percent in 2020. Local outbreaks of COVID-19 (with 14 reported cases) could cause yet deeper and more prolonged contraction in activity. Grenada's solid fiscal position and strong macroeconomic performance prior to the COVID-19 crisis are key mitigants.

Request for Fund support. Due to the large financing gap arising from the sharp contraction of exports and the need to bolster spending to contain the pandemic and support the economy, the authorities are seeking financial assistance under the Rapid Credit Facility (RCF) exogenous shock window. Grenada is requesting a disbursement of SDR 16.4 million, equivalent to 100 percent of quota. Staff supports this request.

Macroeconomic policies. In March, the authorities announced measures to support the economy at a fiscal cost of 2 percent of GDP. They are considering further steps to address the shock and plan to invoke an escape clause under the Fiscal Responsibility Law (FRL). Going forward, and once the current crisis dissipates, the authorities intend to push ahead with a comprehensive Disaster Resilience Strategy (DRS) aimed at building resilience to natural disasters. They are also committed to further strengthening financial sector oversight to safeguard macro-financial stability.

Policy advice. Support measures should be effective, targeted, and temporary. They need to be embedded in a comprehensive fiscal plan with a robust financing strategy. Enhanced monitoring of financial sector vulnerabilities, including for AML/CFT to preserve correspondent banking relationships (CBRs), and capacity for prompt action to ameliorate the effects of the crisis is needed. The authorities should follow through on their plans to return to the FRL's core parameters after the economy recovers and pursue a comprehensive strategy to build resilience to natural disasters (DRS) and other shocks.

Approved By
Krishna Srinivasan (WHD) and Craig Beaumont (SPR)

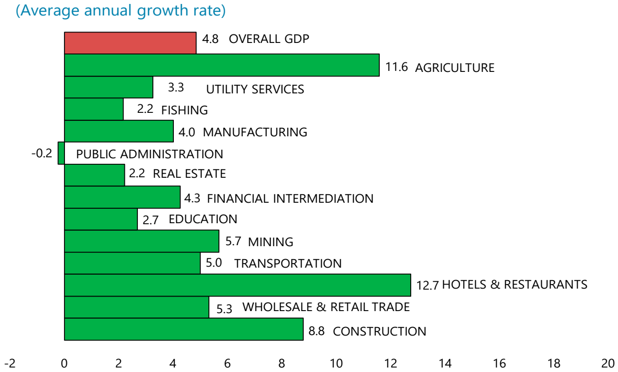
Discussions took place via conference calls on April 16-17, 2020. The team comprised Messrs. Lissovolik (head), Mitchell, and Salinas, and Ms. Perez Marulanda (all WHD) and Ms. Lariau (ICD). Mr. Sylvester (OED) joined the meetings. The IMF team held meetings with Minister for Public Utilities, Transport, Works, Infrastructure, and Implementation Hon. Gregory Bowen, Permanent Secretary of the Ministry of Finance Ms. Quinta Charles, Permanent Secretary of the Ministry of Health Mr. Charlton Henry, and other senior government officials. Mr. Landeta and Ms. Vishvesh supported the preparation of the staff report.

CONTENTS

RECENT DEVELOPMENTS

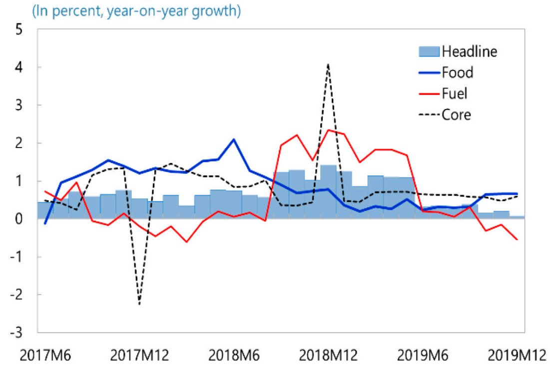
1. The Grenadian economy enjoyed a favorable multi-year macroeconomic performance prior to the COVID-19 outbreak. Growth averaged almost 5 percent in 2014-19, well above the 20-year historical average of 2¾ percent. Economic activity was supported by robust tourism inflows and solid expansion in construction and agriculture, though the latter was subject to high weather-related volatility. Employment creation picked up, although the unemployment rate (15 percent in Q1 2019) remained unacceptably high. An impressive fiscal adjustment of 9½ percent of GDP during 2014-17 anchored public debt sustainability, lowering the central government debt-to-GDP ratio from 108 percent in 2013 to 59 percent in 2019. The DSA in the 2019 Article IV report concluded that – if not for the remaining arrears to three official bilateral creditors – Grenada's debt was sustainable. The emerging fiscal space under the FRL provided scope for a well-balanced scale up of public investment to build resilience to natural disasters and climate change within a comprehensive disaster resilience strategy.

Real growth per sector, 2014-19
(Average annual growth rate)



Source: ECCB and IMF Staff estimates.

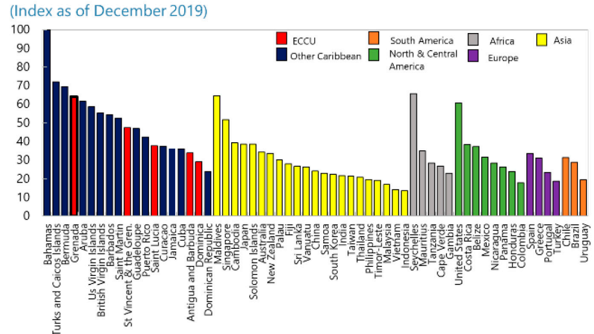
CPI and Components
(In percent, year-on-year growth)



Source: ECCB.

2. The external current account is estimated to have recorded a deficit of 15¾ percent of GDP in 2019. While the current account deficit significantly reflects the recent, mostly FDI-financed, construction boom and the presence of an offshore (St. George's) university, there remains a competitiveness gap. Grenada's tourism costs are competitive within the Caribbean, but the World Bank's Doing Business Ranking suggests extensive non-price competitiveness challenges, particularly in the non-tourism sector. Grenada's fiscal reserves were around 8½ percent of GDP at the end of 2019 and remained broadly at these levels during Q1 2020.

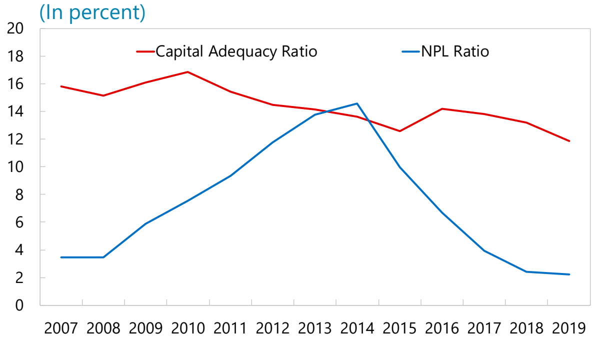
Week at the Beach Index [1/]
(Index as of December 2019)



Source: IMF Staff Estimates
1/ Measures average cost of a 7-day-trip in a country's beach destinations. Index is a composition of average hotel price (3-4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee and beer. The database covers 155 beach destinations from 56 countries.

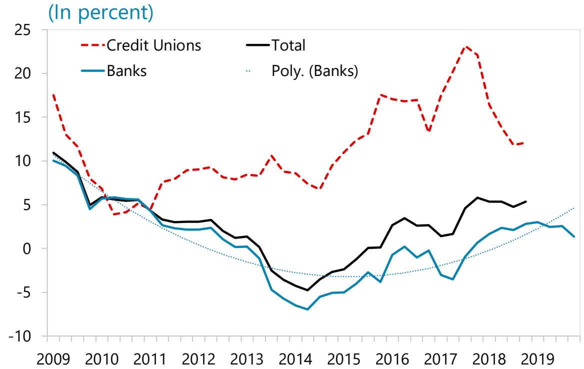
3. The domestic financial sector entered the COVID-19 outbreak with sizable buffers. In 2019, banks, which are regulated and supervised at the regional level, reported capital and liquidity that are significantly above regulatory norms and NPLs (2.2 percent of loans) that are the lowest in the ECCU region. Private sector bank credit growth has resumed since 2017 after a protracted deleveraging following the global financial crisis. There are, however, concerns that the domestically regulated credit union sector has been expanding excessively rapidly and that all financial intermediaries have significant and rising exposure to the real estate and construction sectors. In 2019, deposits and assets of credit unions increased by 14 percent and 15 percent respectively, while their NPLs remained steady at 5¼ percent of loans.

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
(In percent)



Sources: ECCB and IMF Staff calculations.

IMPACT OF COVID-19

4. The COVID-19 pandemic has severely affected the Grenadian economy despite pro-active steps taken by the government aimed at containment and mitigation. Grenada has witnessed 14 confirmed coronavirus infections in the country, but thankfully no fatalities until now. Even before the first confirmed case, the government had ordered a closure of all educational institutions and cessation of non-essential economic and social activities, alongside measures focused on improving hygiene and social distancing. Broad-based consultations with key sectoral stakeholders in mid-March revealed plummeting hotel occupancy rates, mounting requests for moratoria on debt servicing, dwindling construction and investment activity, and other sharp adverse ripple effects of the outbreak across all economic sectors.

5. The economic outlook is challenging in the short term. Prior to the COVID-19 crisis Grenada's key macroeconomic indicators were expected to remain broadly at 2019 levels. However, updated projections suggest that tourism exports could decline by around 50 percent year-on-year in 2020, with a near cessation of arrivals in Q2 and Q3. Most of the students at the St. George's University have left the country and, even though the fees for the first semester were already paid and some courses continued to be delivered online, a resumption of classes is not expected for some time. While uncertainties are very large, growth is now projected to decline sharply to -9.2

percent in 2020. The projections assume a modest recovery beginning in Q4 2020 leading to a perceptible rebound in 2021, when the economy is projected to grow by about 6¼ percent.

6. **The pandemic has resulted in a significant actual short-term BOP need.** The sharp decline in tourism exports will be partially offset by a fall in imported inputs, particularly food and tourism-related services, and terms-of-trade gains from lower commodity prices. Additional BOP needs stem from an expected decline in FDI and remittances. Grenada's projected BOP need in 2020, is around US$110 million, or 10 percent of GDP.

Grenada: Balance of Payments Financing Gap

	2019	2020	
	Million USD	Million USD	Percent of GDP
Current Account Balance	**-192.5**	**-304.0**	**-27.4**
of which: Tourism exports	534.7	232.1	20.9
of which: Imports of goods and services	-701.8	-512.1	-46.1
of which: Oil imports	-59.8	-36.0	-3.2
of which: Remittances inflows	50.0	44.5	4.0
Capital and Financial Accounts	**192.5**	**193.9**	**17.5**
of which: Capital transfers (net)	62.3	69.5	6.3
of which: FDI (net)	129.1	78.9	7.1
of which: Other inflows (net)	4.4	45.5	4.1
BOP Need		**110.0**	**9.9**

Source: MoF, ECCB, and Fund staff estimates.

7. **Given the strong prior fiscal position, the government financing situation looks manageable if the fiscal liquidity is well-protected and extreme shock scenarios do not materialize.** The primary fiscal balance is expected to decline to -0.7 percent of GDP in 2020 (from a surplus of 6.8 percent in 2019). Total revenue and grants are projected to fall by ½ percent of GDP, with a particularly sharp decline in import tax inflows, which would be partially offset by increased grants. Primary spending is projected to increase by around 7 percent of GDP due to enhanced support to the health sector and the broader economy. Reflecting these trends, the gross public financing need is expected to surge to around

Grenada: Gross Financing of the Central Government

(In percent of GDP)

	2019	2020
	Est.	Proj.
Financing Requirements	**28.4**	**38.2**
Primary expenditure	19.7	26.6
Interest payments	1.8	2.2
Amortization	6.8	9.5
Identified Financing	**30.7**	**39.2**
Revenue and grants	26.5	25.9
Disbursements	4.2	13.4
External	1.0	8.7
Domestic	3.2	4.7
Financing Surplus/Gap	**2.3**	**1.0**
Deposits (end of period)	8.5	10.0
Deposits (w/o post-Q1 external financing	8.5	5.5
Memo items:		
Gross financing need 1/	1.9	12.4
Primary Surplus	6.8	-0.7

Sources: Country authorities and Fund staff estimates.

1/ Defined as the sum of the primary deficit and debt service (there are some methodological differences with the definition in the DSA .

12½ percent of GDP in 2020.[1] Still, in this scenario, the government's financing needs are well covered by (i) end-2019 government deposits of 8½ percent of GDP and (ii) expected 2020 disbursements, with some 3½ percent of GDP of external inflows and a part of domestic financing having been already secured as of early April.[2] The assessment crucially hinges on that the more adverse risks from COVID-19 (as explained below) do not materialize and fiscal liquidity remains well-managed.

RISKS

8. Risks center around the possibility of a greater-than-expected depth and duration of the pandemic putting further pressure on economic activity. The outlook is subject to a large degree of uncertainty, with significant downside risks. The COVID-19 spread, both globally and locally, could evolve along a more negative trajectory than assumed by staff. A larger-than-expected global contraction and lingering weakness in leisure travel may create a more protracted halt in tourism. Also, an increase in domestic infection rates could extend supply- and demand-side disruptions across the domestic economy. In this light, staff's projection of a solid economic recovery in 2021-22 is subject to significant downside risks. An additional major risk is Grenada's vulnerability to natural disasters, whose interaction with the COVID-19 shock could be particularly challenging to address.

9. A more adverse economic scenario would accentuate Grenada's financing vulnerabilities. The external and fiscal financing needs may be higher than expected, due to an underestimation of the impact of COVID-19, but also due to uncertainty over trade and tax elasticities, which may be different from those that apply in normal times and amplify fiscal and external liquidity risks. Furthermore, a greater contraction in imports could further undercut tax revenues. On the expenditure side, a weaker economy may increase the need to support the private sector, including support to the financial sector to address potential liquidity and solvency issues. Additional pressures would emerge should there be a sudden stop in government and/or private sector financing flows. The fiscal financing outlook could significantly deteriorate should a recent judgment over the government's dispute with a foreign equity investor in the Grenlec electricity company result in a significant outflow of liquidity in the near term.[3] Furthermore, AML/CFT vulnerabilities could put additional pressure on CBRs and affect remittances.

[1] Within the year, the fiscal financing needs are tilted toward Q2, which concentrates some 40 percent of full-year external amortization payments, but the end-2019 fiscal reserves provide a sufficient cushion.

[2] The World Bank's DPC was disbursed in February 2020 and the CAT DDO was approved in January 2020, though it remains to be triggered by the authorities in line with their emergency-related protocols.

[3] The recently announced judgment by the World Bank's International Center for Settlement of Investment Disputes requires the government to pay a foreign investor US$71.5 million or 6 percent of GDP for a 50 percent stake in Grenlec, although the timeframe and modality of payments would depend on several factors, including possible appeals, agreement between the parties, or any eventual enforcement proceedings.

AUTHORITIES' POLICIES TO ADDRESS THE CRISIS

10. The government has announced fiscal support to the economy and is seeking to deploy its fiscal buffers for an effective response to the crisis. On March 20, 2020, the authorities announced a package of mostly fiscal measures to mitigate the impact of COVID-19, which envisions: (i) increased health care spending (with the initial increase in health spending estimated at 0.2 percent of GDP);[4] (ii) government payroll support to the affected sectors and individuals; (iii) expansion of government employment programs and unemployment benefits; and (iv) reduced or deferred payment of some taxes and social contributions. The package's cost is estimated at 2 percent of GDP, assuming that the measures are in place for 3 months, as announced by the authorities.[5] The broader fiscal policy stance is reflected in the supplementary budget that was approved on April 17. In addition to internalizing the above package, the budget includes 2.2 percent of GDP in contingencies for health and related spending as well as social protection to address the fall-out from a possible worsening of the pandemic. Concurrently, the fiscal stance also includes a smaller but more realistic capital expenditure allocation that prioritizes numerous small projects geared at supporting employment at the community level for which funding was secured pre-2020.[6] In this context, the authorities have temporarily invoked the FRL's "public health epidemic" escape clause to accommodate the fiscal effects of the crisis, which would pave the way for additional measures should these be necessary. The substantial fiscal liquidity buffers will be key to backstopping a response should the shock be more prolonged and funding additional health care spending that will likely be needed.

Grenada: Estimates of health-related COVID-19 spending
(In million of EC$)

Component	Value
Isolation Facilities	0.5
Equipment and Supplies	2.9
Health Facility and Laboratory Upgrades	0.7
Disaster Preparedness and Response	2.1
Total	**6.1**

Source: Grenada authorities and Fund staff calculations.

11. Financial sector measures to mitigate the COVID-19 crisis have been rolled out by both the ECCB and the government. The ECCB announced a program of relief available for commercial bank customers through: (i) loan moratoria for 6 months, extendable upon review; and (ii) a waiver of late fees and charges to eligible customers during this period. Several other measures are being considered by the ECCB. Given social distancing and possible changes in banking hall services without prior notice, the ECCB has also strongly encouraged banks to ensure the availability of all

[4] The initial measures were to be allocated for the purchase of medical equipment and materials, including for testing, personal protective gear for hospitals, and securing suitable premises for quarantine and isolation. Additional, much more substantial, estimates for medical expenses are being worked out, such as for the need to increase Grenada's limited Intensive Care Unit capacity.

[5] A smaller part of the package involves temporary measures such as tax deferrals for Q2 of about 0.4 percent of GDP.

[6] The higher capital expenditure relative to the 2019 outcome reflects improvements in capacity and staffing in late 2019, which has been removed due to constraints to implementation.

alternative banking services delivery channels and to reduce disincentives (e.g., fees) to customers using them. The government mirrored those measures by negotiating a conditional moratorium on principal and interest payments with financial institutions, initially for a 3-month period. The above measures are largely consistent with good practices on regulatory measures in a crisis.

STAFF RECOMMENDATIONS

12. The government's steps need to be well-targeted and temporary and embedded in a comprehensive fiscal plan with an effective financing strategy. The authorities' announced plan is a step in the right direction, but additional fiscal support to the economy may be needed. Increased health spending needs to be allocated to areas that are most effective at containing the outbreak. Policy support measures and employment programs should ensure compatibility with the principle of social distancing. All the above-mentioned economic support measures need to be fully costed, minimizing off-budget fiscal operations. The Ministry of Finance should act as an effective gatekeeper for a centralized assessment of fiscal costs with accountability for monitoring, managing, and reporting actual and contingent liabilities. The fiscal response needs to rely on efficient cash flow and liquidity management. Contingency plans should be put in place should the crisis become more severe than currently projected, with prompt activation based on high-frequency monitoring of fiscal and financial data. The authorities' fiscal liquidity buffers should be deployed to enhance social protection, particularly for the most vulnerable, including in the informal economy.

13. The prior action on the announcement of a robust liquidity strategy has been satisfied. Such a strategy is critical to backstopping risks from the COVID-19 outbreak. The liquidity strategy involves the following elements: (i) the government invokes the FRL's escape clause, announces a costing of the March 20 measures in the supplementary budget, and outlines follow-up contingency steps for the COVID-19 emergency; (ii) in parallel, the Cabinet adopts a conclusion that outlines principles of management of fiscal liquidity until end-2020 or until the medical emergency is lifted (whichever is later); (iii) such principles would state that government liquidity would be used primarily to finance outlays envisioned under the 2020 budget, further steps on COVID-related emergency spending, or spending on additional significant adverse shocks (e.g., a natural disaster), deferring less urgent spending for a post-emergency period. The Prime Minister, who is also the Minister of Finance, announced a plan committing to these elements on April 17, in the context of his presentation of the supplementary budget to parliament.

14. The authorities need to intensify efforts to secure financial stability. In parallel with the ECCB's measures to safeguard stability of the banking system, GARFIN, the national supervisor for non-banking institutions, should step up monitoring, identify risks, conduct stress testing, and develop contingency plans. GARFIN should also require high-frequency reporting, review the institutions' plans for business continuity, and provide guidance on supervisory expectations. If the shock persists or risks materialize, GARFIN, while refraining from generalized forbearance measures, could provide temporary adjustments to capital and liquidity requirements and encourage financial institutions to reach out to distressed borrowers to offer temporary relief. Collaboration with the ECCB and national supervisors should be deepened to inform the monitoring and coordinated response. In tandem with the ECCB's toolkit and resources, the government should be ready to use its fiscal buffers to backstop financial sector stability. Risk-based AML/CFT supervision should be enhanced to reduce pressure on CBRs and remittances.

15. Once the COVID-19 crisis dissipates, the government should return to the FRL core parameters and re-build its buffers. As economic recovery takes hold, the FRL's escape clause should be withdrawn (with the timing of the withdrawal dependent on the duration of the shock), requiring that the primary surpluses return to, or rise above, the 3½ percent of GDP floor. This would permit a sustained debt reduction toward the 55 percent of GDP debt threshold. This strategy should be supported by fiscal adjustment measures, if needed, and a recalibration of the spending growth rule to internalize a withdrawal of the temporary outlays that were used to address the COVID-19 pandemic. Continued PFM improvements and efficient asset/liability management are needed to support budget processes and improved control of contingent liabilities, including through an operationalization of a broader definition of public debt under the FRL.

16. In parallel, the authorities should pursue a comprehensive strategy to build resilience to natural disasters and other emergencies. The draft Disaster Resilience Strategy (DRS)[7] of March 2020, prepared with input from Fund staff and other stakeholders, envisions a 15-year plan around 3 main pillars: (i) a scale up of public investment in resilient infrastructure; (ii) adequate saving funds and insurance mechanisms within a layered framework to protect against natural disasters; and (iii) contingency plans and social protection programs to manage the post-disaster response. The three pillars would be imbedded in a sustainable macro-fiscal framework and underpinned by increased donor support. The DRS could be potentially augmented and re-balanced to deal with other types of major shocks such as medical emergencies.

DEBT SUSTAINABILITY

17. The Debt Sustainability Analysis (DSA) suggests that Grenada's public debt is sustainable, despite the DSA's "in debt distress" rating (see DSA). The latter rating results from the remaining unresolved arrears to official bilateral creditors of some 1.8 percent of GDP and is unrelated to the underlying debt dynamics, which are expected to be on a downward path. While the large contraction in output and the deterioration of the fiscal balance would cause an uptick in the debt ratio from 59 to 68¾ percent of GDP this year, the subsequent economic recovery should reverse this rise. The primary fiscal surplus is projected to increase above the FRL's 3.5 percent of GDP floor as the economy normalizes, anchoring debt sustainability. On current projections, the FRL's key 55 percent of GDP debt threshold would be reached by 2024. Risks to these debt dynamics include natural disasters, the possibility of a more prolonged impact of COVID-19, a one-off increase in debt from the Grenlec-related payment in case it is debt-financed. The authorities are working to strengthen resilience to natural disasters within an integrated DRS that should

[7] Grenada is a pilot case for preparing a Disaster Resilience Strategy, approved as part of the Board discussion on May 1, 2019 on Building Resilience in Countries Vulnerable to Natural Disasters.

bolster Grenada's economic performance and reduce the risks around the long-term path for the debt-to-GDP ratio.

MODALITIES OF SUPPORT

18. Grenada authorities request financial support to Grenada of 100 percent of quota (SDR 16.4 million) under the RCF. Grenada meets the eligibility requirements for support under the RCF. It has an urgent balance of payments need which, if not addressed, will result in immediate and severe economic disruption. It is also not feasible at this stage to put in place an upper-credit-tranche Fund program due to the urgent needs facing the country as well as the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic. Grenada is assessed as having sustainable debt and capacity to repay the Fund (see Table 4). The authorities have indicated their intention to cooperate with the Fund and pursue economic policies that are appropriate for addressing the impact of COVID-19. Grenada owes arrears to Algeria, Libya, and Trinidad and Tobago. Algeria and Libya have requested more time to consent to the IMF financing notwithstanding these arrears. An update will be circulated to the Executive Board prior to the scheduled Board consideration.

19. The RCF access is motivated by Grenada's actual and urgent BoP need of US$110 million. Staff considers access of 100 percent of quota under the RCF to be appropriate. Grenada does not currently have an IMF arrangement. Access of 100 percent of quota is within the applicable access limits under the PRGT. The proposed access of 100 percent of quota is 20 percent of the estimated BOP need (after accounting for the already disbursed World Bank's Development Policy Credit operation of US$20 million of early-2020). It is expected to be filled by drawing on the authorities' international reserves and support from donors. The latter would include World Bank's emergency financing of $2.5 million for COVID-19-related spending. Additional support from the Caribbean Development Bank (CDB), the ECCB, the World Bank, and several other donors, whose extent and modalities are yet to be fully determined, is also expected.[8]

Grenada: Financing of Balance of Payments Need

	2020	
	Million USD	Percent of GDP
BOP Need	**110.0**	**9.9**
Available financing	***59.4***	***5.3***
Drawdown of FX reserves	59.4	5.3
Additional financing	***50.6***	***4.6***
RCF	22.3	2.0
World Bank COVID-19 Support	2.5	0.2
CDB (assumed)	7.1	0.6
Other (World Bank, other donors, ECCB)	18.7	1.7

Source: MoF, ECCB, and Fund staff estimates.

[8] The authorities indicated a preference to retain the buffer provided by the World Bank's CAT-DDO operation for the event of a natural disaster shock, but they will continue to assess the situation during the year.

20. RCF disbursements will be made to the ECCB and transferred to the Grenadian government to provide for fiscal financing and support COVID-19 emergency spending.

21. The authorities are committed to collaborating with IMF staff in undertaking a safeguards assessment. The ECCB is subject to a safeguards assessment every four years. The most recent assessment was completed in 2016. The ECCB will provide Fund staff with the necessary central bank audit reports and has authorized the external auditors to hold discussions with staff. The authorities commit to holding all foreign exchange from the IMF disbursement at the ECCB, pending use.

22. Risks to Grenada's capacity to repay the Fund are mitigated by the authorities' good track record of policy implementation, firm resolve to adhere to the FRL, and a commitment to a continued close dialogue with the Fund. The government's liquidity plan would be a key component of COVID-19 crisis containment that would mitigate the risks of a yet-more significant economic disruption creating fiscal sustainability concerns. The most recent DSA indicates that Grenada's debt trajectory is sustainable. Including the proposed disbursement under the RCF, the total amount of outstanding credit from the Fund as of April 27 would amount to SDR 30½ million, equivalent to 186 percent of quota. Repayment obligations to the Fund would remain below 0.6 percent of exports of goods and services, and less than 2 percent of net international reserves. The authorities are committed to a proper targeting and management of the funds received from the IMF, including through providing accurate and timely information to the public on its use.

AUTHORITIES' VIEWS

23. The authorities emphasized the severity of the shock and the urgency of the BoP need facing Grenada. While broadly sharing staff's views on the outlook, they thought that the decline in tourism in 2020 could be yet more pronounced and the subsequent recovery more gradual than that assumed by staff. They considered prudent fiscal management and adherence to fundamental rules as key factors that enabled Grenada to ease its policy stance in line with the FRL's escape clause provisions, thereby assisting the people in times of greatest need. To this effect, a supplementary budget for 2020 was approved on April 17. In the context of presenting the supplementary budget, the authorities announced plans to use aid from development partners for essential spending related to the COVID-19 impact. They also committed to managing government liquidity tightly, maintaining adequate buffers for further shocks, and refraining from non-emergency spending in the remainder of 2020.

24. The authorities plan to comply with and further upgrade policy frameworks and support growth, while safeguarding macroeconomic stability. They highlighted recent progress in improving capacity to execute public investment, which would usefully underpin higher public investment during the 2020 economic contraction. They indicated that their significant fiscal reserve buffers would be used to backstop macroeconomic and financial stability. Once there is a significant economic recovery, the authorities envision a return to the core parameters of the FRL in line with the provisions that govern its escape clause, thereby rebuilding any used buffers. In the longer term, they pointed to the new 2020-35 national sustainable development plan as a strategic document laying the basis for sustained, resilient, and inclusive growth. They also planned to continue progress in elaborating a comprehensive disaster resilience strategy.

STAFF APPRAISAL

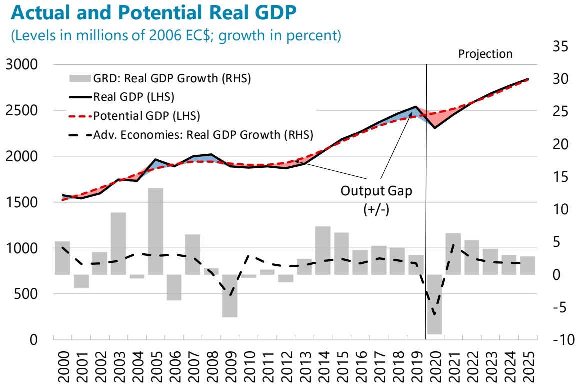
25. Grenada faces significant policy challenges due to the COVID-19 outbreak. The pandemic has interrupted a positive economic trajectory. The financing need is urgent while the duration of the shock remains uncertain. Even after the pandemic recedes, there is a risk that tourism, education, and other sectors would take a long time to recover to the pre-pandemic levels. Grenada may also be negatively affected by the drying up of external financing sources given the ongoing disruption to global financial markets. The country's high vulnerability to natural disasters adds to the growth, fiscal, and liquidity risks. At the same time, Grenada's strong fiscal and macroeconomic position prior to the COVID-19 emergency significantly mitigates these risks.

26. The authorities are committed to maintaining macroeconomic stability and adhering to their rule-based fiscal framework. They stand ready to act, once the immediate health crisis moderates and the economy recovers, to take measures as needed to return to the parameters of the FRL. The government is also working to mobilize donor grants to fund investments in climate resilience and to address institutional and capacity gaps in its draft pilot Disaster Resilience Strategy.

27. Staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 16.4 million (100 percent of quota). The request for a disbursement in the amount of 100 percent of quota is justified by the depth and severity of the COVID-19 shock that has created an urgent BOP need. Utilizing this disbursement as direct budget support is motivated by the pressing healthcare and social needs faced by the country. The proposed disbursement is consistent with Grenada's debt sustainability and capacity to repay the Fund.

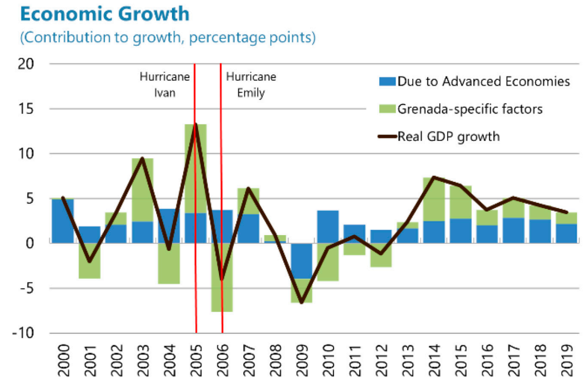
Figure 1. Grenada: Real Sector Developments

After 5 years of above-average growth, the economy is set to contract sharply in 2020 as a result of COVID-19.



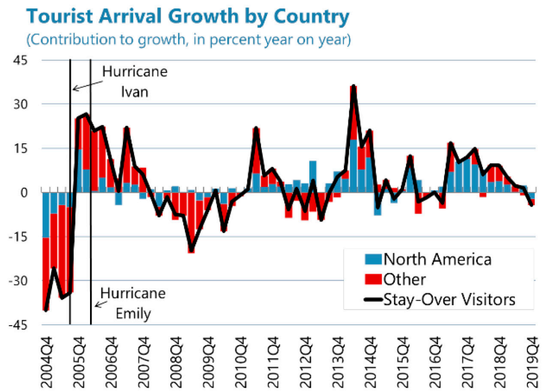
Sources: Grenada authorities and Fund staff estimates.

The strong performance in 2014-19 was helped by both external tailwinds and domestic factors…



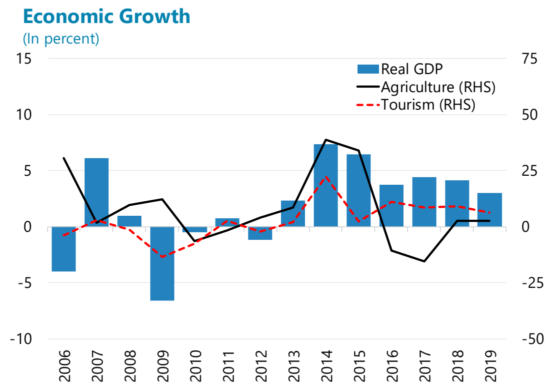
Source: Grenada authorities and Fund staff calculations.

…with tourism inflows, until recently, providing support…



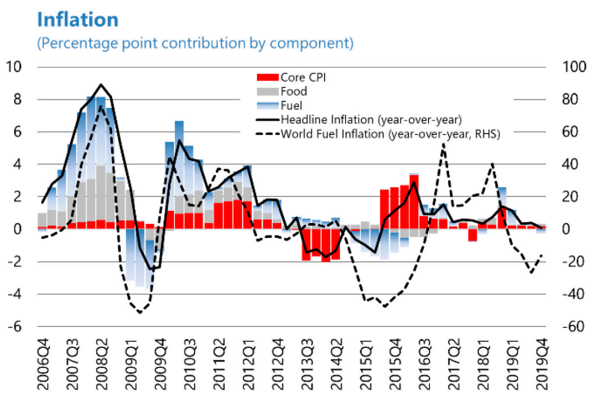
Source: Caribbean Tourism Organization.

…while the weather-dependent agriculture sector performance has been volatile.



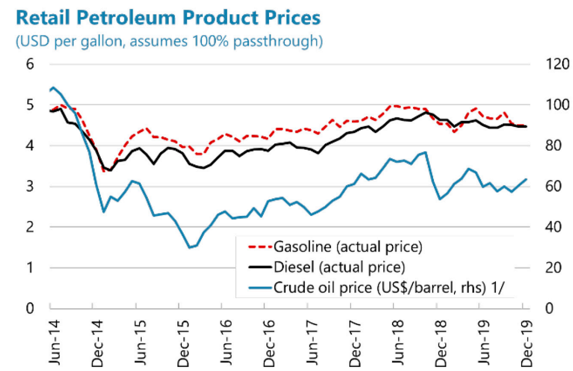
Sources: Grenada authorities and Fund staff estimates.

Inflation remained subdued in 2018-19, including due to slower growth of fuel prices, …



Sources: Grenada authorities, Fund staff estimates and WEO.

…which continue to reflect world oil price trends.



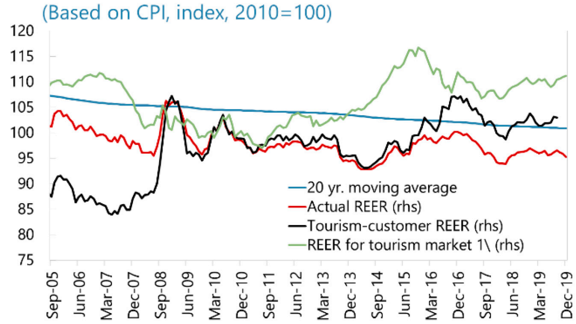
Source: Grenada authorities, WEO and Fund staff calculations.
1/ From WEO, simple average of Brent, WTI and Dubai Fateh spot prices.

Sources: Country authorities and IMF Staff estimates.

Figure 2. Grenada: External Sector Developments

The real effective exchange rate continued to appreciate…

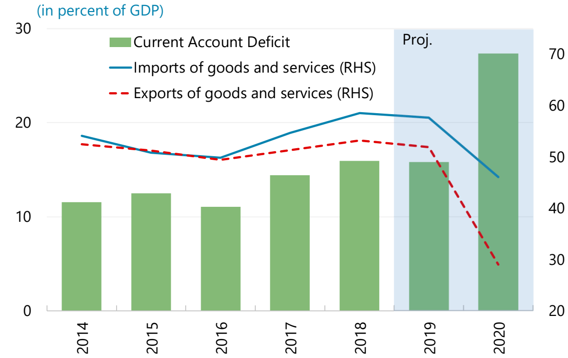
Real Effective Exchange Rate
(Based on CPI, index, 2010=100)



1/Tourism market destinations include U.S., U.K., Canada, and Trinidad and Tobago, weighted by the share of total tourism arrivals.
Sources: INS and IMF staff calculations.

…while the current account deficit is projected to deteriorate due to the COVID-19 shock…

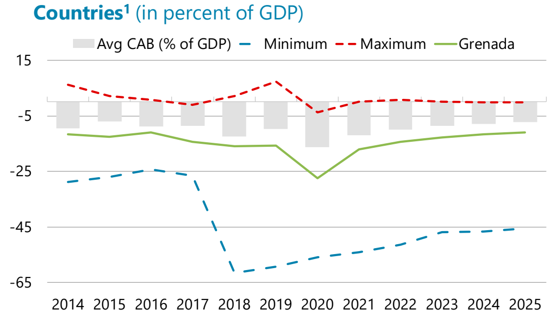
Trade and Current Account Deficit
(in percent of GDP)



Source: ECCB, WEO and IMF staff calculations.

…and its evolution is expected to be similar to that of other countries in the region.

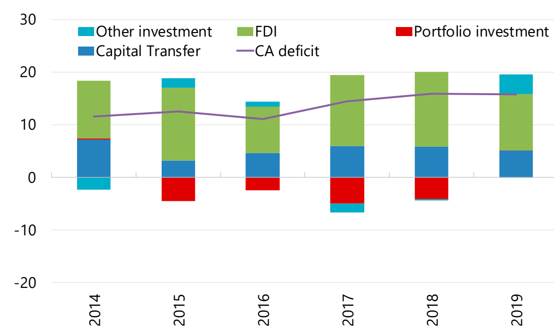
Current Account Balances of Small Tourism-Dependent Countries[1] (in percent of GDP)



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

The current account deficit has so far been fully financed by FDI and capital transfers…

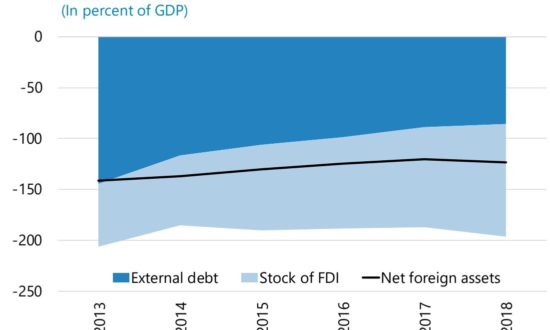
Current Account Financing
(In percent of GDP)



Source: ECCB and IMF staff calculations.

…and rebalancing from external debt toward FDI inflows helped keep the net foreign asset position stable…

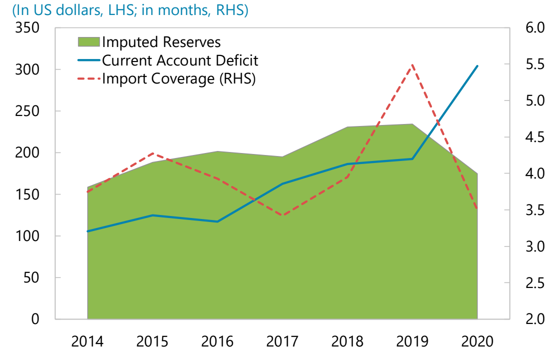
Grenada: Net Foreign Assets [1/]
(In percent of GDP)



1/ Reflects latest IIP data released by the ECCB in January 2020.
Source: ECCB

…. but the imputed reserves are expected to decline and be slightly above 3 months of imports by end-2020.

Imputed Reserves
(In US dollars, LHS; in months, RHS)



Sources: Country authorities and IMF Staff Calculations.

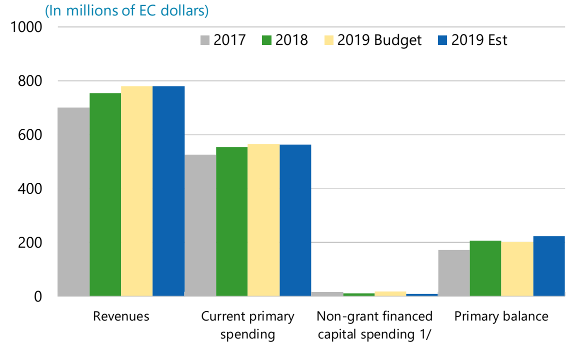
Sources: Country authorities and IMF Staff Estimates and Calculations.

Figure 3. Grenada: Fiscal Developments

The fiscal surplus in 2019 was larger than envisaged…

Grenada: Budget Execution and Outcomes

(In millions of EC dollars)

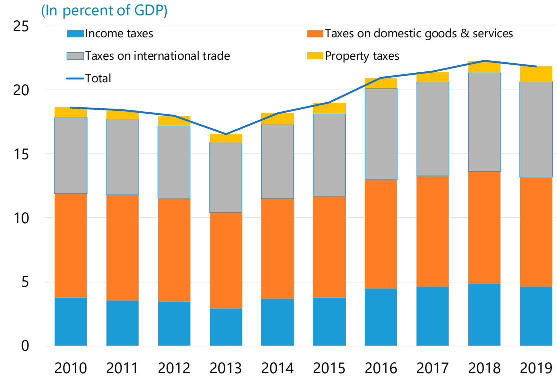


1/ Higher than budget non-grant financed capital spending is allowed by the program in the case of revenue overperformance.

… notwithstanding the decline in the tax revenue ratio because of the reduction in income tax rates …

Total Tax Revenue

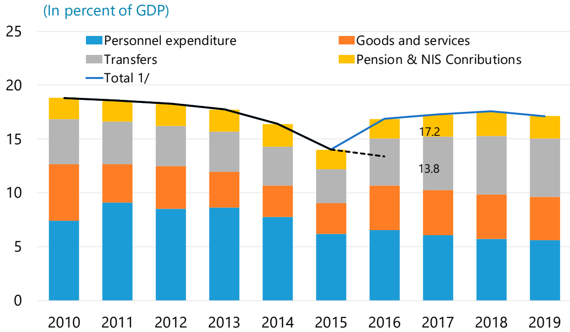
(In percent of GDP)



… spending was kept under control …

Current Primary Expenditure

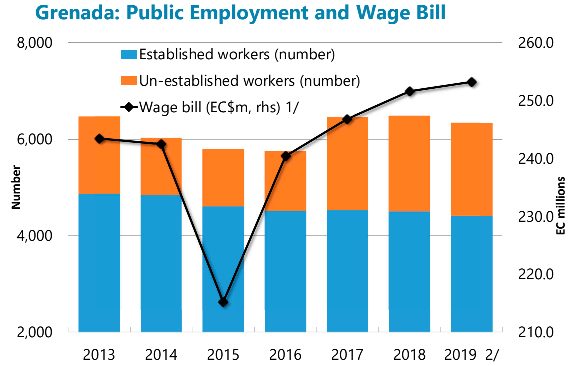
(In percent of GDP)



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

Grenada: Public Employment and Wage Bill

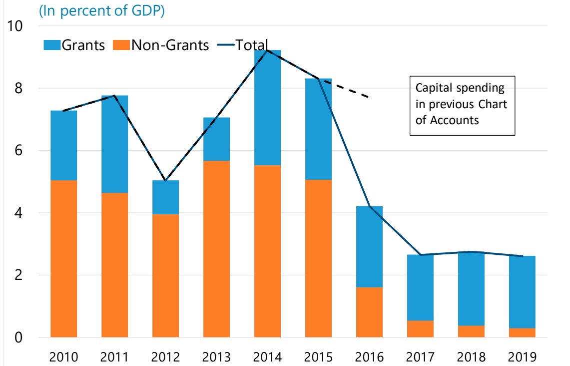


1/ 2016 and 2017 includes retroactive payment of wage increments.
2/ 2019 numbers as of September 2019.

…Capital expenditure, though stable, remained low largely because of implementation capacity…

Capital Expenditure

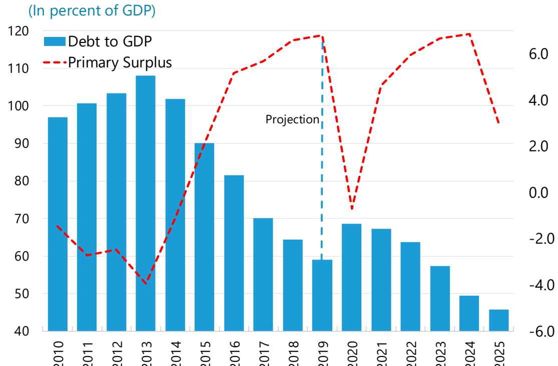
(In percent of GDP)



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

Public Sector Debt and Fiscal Balance

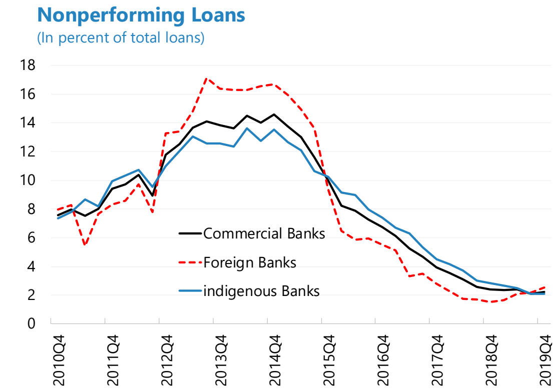
(In percent of GDP)



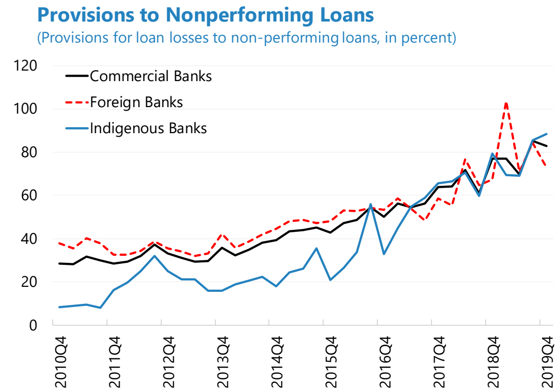
Sources: Country authorities and IMF Staff Estimates.

Figure 4. Grenada: Financial Sector Developments

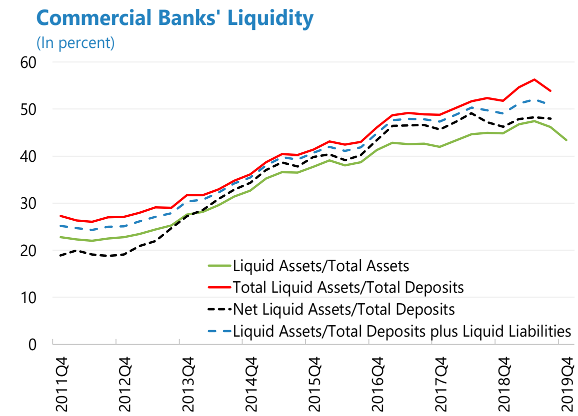
Banks' asset quality has remained strong with low NPLs….



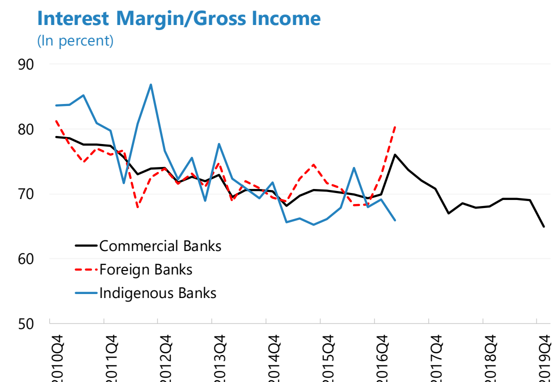
…with provisioning continuing to increase



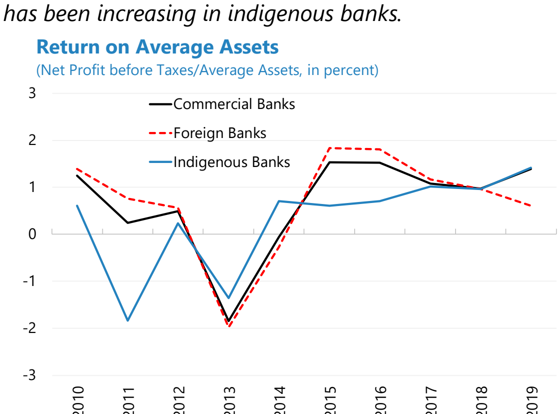
Liquidity has been increasing and reached high levels….



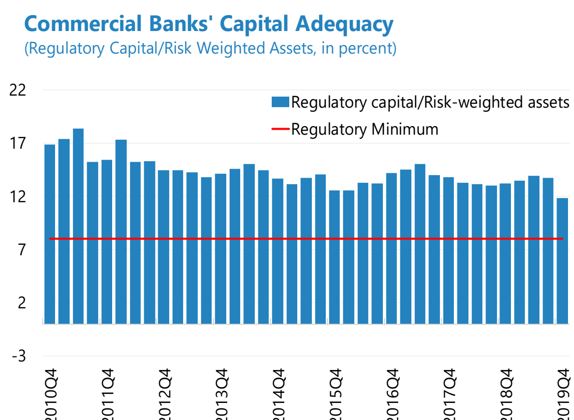
…and reflected in the low yield of assets.



Profitability has continued to decline in foreign banks but has been increasing in indigenous banks.



Capital buffers have slightly declined though they remain considerably above the regulatory minimum.



Sources: Country authorities and IMF Staff Estimates.

Table 1. Grenada: Selected Economic Indicators and Financial Indicators, 2016-2025

Rank in UNDP Human Development Index out of 189 countries (2017)	75	Infant mortality rate per '000 births (2018)	13.7
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2017)	72	Poverty headcount index (2008)	38
GDP per capita in US$ (2018)	10,791	Unemployment rate (2019 Q1)	15.2
Population in millions (2018)	0.11		

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections						
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP	3.7	4.4	4.1	3.0	-9.2	6.3	5.3	3.9	3.0	2.7
Nominal GDP	6.5	6.0	3.8	4.2	-8.8	7.8	7.3	6.1	5.1	4.9
Consumer prices, end of period	0.9	0.5	1.4	0.1	0.3	1.3	1.7	1.9	1.9	1.9
Consumer prices, period average	1.7	0.9	0.8	0.6	0.2	1.2	1.7	1.9	1.9	1.9
Output gap (percent of potential GDP) 1/	0.8	1.6	3.1	4.4	-6.4	-2.4	0.0	0.8	0.6	0.3
Real effective exchange rate	2.2	-1.4	-2.4	…	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)									
Revenue	26.2	25.6	26.9	26.5	25.9	25.7	26.2	26.5	26.1	26.1
Taxes	20.9	21.4	22.3	21.9	20.2	20.9	21.6	21.9	21.9	21.9
Non-tax revenue 2/	1.8	1.8	1.6	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Grants	3.5	2.6	3.0	2.8	3.9	3.2	3.0	2.9	2.6	2.5
Expenditure 3/	23.9	22.6	22.3	21.6	28.7	23.2	22.4	21.8	21.2	24.7
Current primary expenditure	16.9	17.3	17.6	17.1	22.4	18.3	17.8	17.3	17.1	17.4
Interest payments	2.9	2.7	2.0	1.8	2.2	2.2	2.1	2.0	1.9	1.6
Capital expenditure	4.2	2.7	2.8	2.6	4.2	2.8	2.5	2.5	2.2	5.7
Primary balance 2/	5.2	5.7	6.6	6.8	-0.7	4.6	6.0	6.7	6.9	3.0
Overall balance	2.3	3.0	4.6	5.0	-2.9	2.5	3.8	4.6	5.0	1.4
Public debt (incl. guaranteed) 4/	81.6	70.1	64.4	59.1	68.7	67.2	63.7	57.3	49.5	45.8
Domestic	25.0	22.6	19.3	17.5	17.6	15.5	13.1	10.7	8.4	7.4
External	56.6	47.5	45.1	41.6	51.1	51.8	50.6	46.6	41.1	38.4
Money and credit, end of period (annual percent change)										
Broad money (M2)	1.3	4.0	5.9	2.9	-8.8	7.8	7.3	6.1	4.8	4.9
Credit to private sector	-0.2	0.6	2.8	1.4	-11.7	4.0	2.8	0.6	3.6	5.9
Balance of payments										
Current account balance, o/w:	-11.0	-14.4	-15.9	-15.8	-27.4	-17.2	-14.3	-12.8	-11.6	-11.0
Exports of goods and services	49.4	51.4	53.2	51.9	29.0	43.2	47.2	49.0	50.2	50.9
Imports of goods and services	49.9	54.7	58.6	57.6	46.1	50.0	51.0	51.2	51.1	51.2
Capital account balance	4.7	5.9	5.9	5.1	6.3	5.5	5.3	5.1	4.8	4.2
Financial account balance	-2.2	-7.2	-7.5	-10.7	-21.1	-11.7	-9.0	-7.7	-6.8	-6.8
Errors and omissions	4.2	1.3	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross)	98.7	88.6	86.0	82.8	101.9	102.2	98.2	91.9	84.5	80.2
Savings-Investment balance	-11.0	-14.4	-15.9	-15.8	-27.4	-17.2	-14.3	-12.8	-11.6	-11.0
Savings	9.0	6.5	8.1	4.5	-9.0	3.3	6.9	9.3	11.8	15.9
Investment	20.1	20.9	24.0	20.3	18.4	20.5	21.2	22.1	23.4	26.9
Memorandum items:										
Nominal GDP (EC$ million)	2,866	3,039	3,155	3,288	2,999	3,233	3,468	3,679	3,866	4,054
Net imputed international reserves										
Months of imports of goods and services	3.9	3.4	3.9	5.5	3.5	3.6	3.7	3.8	4.0	4.1

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

(In millions of EC dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.				Proj.			
Total revenue and grants	**751.6**	**778.2**	**849.1**	**871.9**	**775.4**	**831.5**	**910.0**	**973.3**	**1,011.0**	**1,057.8**
Revenue	651.6	700.1	754.8	778.4	657.0	729.4	805.7	866.5	910.9	955.5
Tax revenue	600.5	651.9	703.0	718.7	606.8	675.3	747.6	804.9	846.2	887.6
Taxes on income and profits	127.3	140.6	153.9	151.4	128.0	139.8	154.5	166.2	174.6	183.1
Taxes on property	23.9	24.3	29.2	39.7	34.4	37.1	39.8	42.2	44.3	46.5
Taxes on goods and services	244.8	263.7	276.4	282.2	232.5	261.8	293.3	316.7	333.1	349.6
Taxes on international trade	204.5	223.3	243.4	245.4	211.9	236.6	260.1	279.9	294.1	308.5
Nontax revenue	51.1	48.2	51.8	59.7	50.2	54.1	58.0	61.6	64.7	67.9
Citizenship by Investment Program	3.4	4.9	3.3	8.0	3.1	3.3	3.6	3.8	4.0	4.2
Fees, fines and sales	23.1	22.8	25.4	28.7	…	…	…	…	…	…
Licenses	16.6	18.2	19.0	18.9	…	…	…	…	…	…
Grants	100.0	78.1	94.3	93.5	118.4	102.1	104.4	106.7	100.0	102.3
Total expenditure and net lending 1/	**685.6**	**686.6**	**704.5**	**709.1**	**862.2**	**751.5**	**776.9**	**803.4**	**817.8**	**1,001.4**
Current expenditure	565.5	605.9	617.7	623.4	736.1	662.2	689.6	713.1	732.6	769.1
Wages and salaries	240.4	246.9	251.6	253.3	265.5	277.7	292.2	307.3	323.4	342.4
NIS contributions	11.2	18.4	18.9	13.4	14.0	14.7	15.4	16.2	17.1	97.1
Goods and services	117.6	126.5	130.7	132.8	150.2	132.7	134.9	135.3	136.8	149.9
Transfers	113.9	133.2	153.3	163.3	240.9	167.4	173.3	179.2	183.6	114.5
Transfers Abroad (Contributions)	14.3	20.8	19.6	…	…	…	…	…	…	…
Grants & Subventions (other private sector)	41.4	48.1	59.5	…	…	…	…	…	…	…
Public Assistance	16.9	20.6	21.5	…	…	…	…	…	…	…
Pensions	41.4	43.7	52.6	55.6	59.7	63.4	66.9	70.7	74.4	
Interest payments	82.3	81.0	63.2	60.6	65.6	69.7	73.7	75.1	71.7	65.2
Capital expenditure and net lending	120.1	80.6	86.8	85.7	126.1	89.3	87.3	90.2	85.2	232.3
o/w natural disaster				*0.0*	*15.0*	*16.2*	*17.3*	*18.4*	*19.3*	*20.3*
Grant-financed	74.0	64.2	74.9	75.7	101.1	85.3	87.3	89.2	82.1	84.0
Non-grant financed	46.1	16.4	11.9	10.0	25.0	4.0	0.0	1.0	3.1	148.3
Primary balance 2/	**148.3**	**172.6**	**207.8**	**223.5**	**-21.2**	**149.7**	**206.9**	**245.0**	**264.9**	**121.6**
Overall balance	**66.0**	**91.6**	**144.5**	**162.8**	**-86.8**	**79.9**	**133.1**	**169.9**	**193.2**	**56.4**
Public Debt	**2,338.1**	**2,130.9**	**2,030.8**	**1,942.5**	**2,059.4**	**2,173.5**	**2,209.7**	**2,107.2**	**1,914.0**	**1,857.6**
Memo items:										
Nominal GDP (EC$ millions)	2,866	3,039	3,155	3,288	2,999	3,233	3,468	3,679	3,866	4,054

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

2/ The primary balances include non-tax revenue from the Citizenship by Investment program.

Table 2b. Grenada: Operations of Central Government
(In percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.			
Total revenue and grants	**26.2**	**25.6**	**26.9**	**26.5**	**25.9**	**25.7**	**26.2**	**26.5**	**26.1**	**26.1**
Revenue	22.7	23.0	23.9	23.7	21.9	22.6	23.2	23.6	23.6	23.6
Tax revenue	20.9	21.4	22.3	21.9	20.2	20.9	21.6	21.9	21.9	21.9
Taxes on income and profits	4.4	4.6	4.9	4.6	4.3	4.3	4.5	4.5	4.5	4.5
Taxes on property	0.8	0.8	0.9	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	8.5	8.7	8.8	8.6	7.8	8.1	8.5	8.6	8.6	8.6
Taxes on international trade	7.1	7.3	7.7	7.5	7.1	7.3	7.5	7.6	7.6	7.6
Nontax revenue	1.8	1.6	1.6	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Grants	3.5	2.6	3.0	2.8	3.9	3.2	3.0	2.9	2.6	2.5
Total expenditure and net lending 1/	**23.9**	**22.6**	**22.3**	**21.6**	**28.7**	**23.2**	**22.4**	**21.8**	**21.2**	**24.7**
Current expenditure	19.7	19.9	19.6	19.0	24.5	20.5	19.9	19.4	18.9	19.0
Wages and salaries	8.4	8.1	8.0	7.7	8.9	8.6	8.4	8.4	8.4	8.4
NIS contributions	0.4	0.6	0.6	0.4	0.5	0.5	0.4	0.4	0.4	2.4
Goods and services	4.1	4.2	4.1	4.0	5.0	4.1	3.9	3.7	3.5	3.7
Transfers	4.0	4.4	4.9	5.0	8.0	5.2	5.0	4.9	4.7	2.8
Transfers Abroad (Contributions)	0.5	0.7	0.6	…	…	…	…	…	…	…
Grants & Subventions (other private sector)	1.4	1.6	1.9	…	…	…	…	…	…	…
Public Assistance	0.6	0.7	0.7	…	…	…	…	…	…	…
Pensions and Gratuities	1.4	1.4	1.7	1.7	2.0	2.0	1.9	1.9	1.9	0.0
Interest payments	2.9	2.7	2.0	1.8	2.2	2.2	2.1	2.0	1.9	1.6
Capital expenditure and net lending	4.2	2.7	2.8	2.6	4.2	2.8	2.5	2.5	2.2	5.7
Grant-financed	2.6	2.1	2.4	2.3	3.4	2.6	2.5	2.4	2.1	2.1
Non-grant financed	1.6	0.5	0.4	0.3	0.8	0.1	0.0	0.0	0.1	3.7
Primary balance 2/	**5.2**	**5.7**	**6.6**	**6.8**	**-0.7**	**4.6**	**6.0**	**6.7**	**6.9**	**3.0**
Overall balance	**2.3**	**3.0**	**4.6**	**5.0**	**-2.9**	**2.5**	**3.8**	**4.6**	**5.0**	**1.4**
Public Debt	**81.6**	**70.1**	**64.4**	**59.1**	**68.7**	**67.2**	**63.7**	**57.3**	**49.5**	**45.8**
Memo item:										
Nominal GDP (EC$ millions)	2,866	3,039	3,155	3,288	2,999	3,233	3,468	3,679	3,866	4,054

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: Balance of Payments Summary, 2016-2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections			
					(In millions of US dollars)					
Current account	**-117.3**	**-162.5**	**-186.1**	**-192.5**	**-304.0**	**-205.7**	**-183.8**	**-174.3**	**-166.2**	**-165.1**
Trade balance for goods and services	-4.7	-37.6	-62.8	-69.7	-190.0	-81.6	-49.1	-30.2	-13.9	-4.6
Exports of goods and services	524.8	578.1	621.7	632.0	322.1	517.5	605.8	667.1	718.3	763.9
Nutmeg	4.6	3.8	4.2	4.2	4.3	4.4	4.5	4.6	4.7	0.0
Tourism	437.4	482.0	521.9	534.7	232.1	424.8	509.6	568.3	611.4	651.3
Imports of goods and services	529.5	615.7	684.5	701.8	512.1	599.1	654.9	697.3	732.1	768.5
Mineral fuels	49.7	48.7	66.2	59.8	36.0	39.0	42.6	45.3	47.6	49.4
Foodstuffs	79.7	91.1	95.9	96.3	76.8	81.9	86.4	89.7	97.9	102.7
Other goods	178.3	230.0	248.8	261.6	188.3	228.1	250.9	270.0	279.5	294.3
Services	221.8	245.9	273.6	284.1	211.1	250.1	275.0	292.3	307.2	322.1
Net Income	-97.0	-121.6	-113.6	-118.4	-108.0	-116.4	-124.9	-132.5	-139.2	-146.0
Current transfers	-15.6	-3.3	-9.7	-4.4	-6.0	-7.7	-9.8	-11.7	-13.1	-14.5
o.w. Workers' Remittances Inflows	42.7	45.0	45.7	50.0	44.5	47.2	49.3	51.2	53.1	55.1
Capital account	**49.7**	**66.9**	**69.0**	**62.3**	**69.5**	**65.3**	**67.6**	**69.8**	**68.5**	**62.5**
Capital transfers	49.7	66.9	69.0	62.3	69.5	65.3	67.6	69.8	68.5	62.5
o.w. debt forgiveness 1/	4.5	49.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-23.4**	**-80.9**	**-87.8**	**-130.2**	**-234.4**	**-140.4**	**-116.1**	**-104.5**	**-97.7**	**-102.6**
Foreign direct investment	-93.2	-152.2	-165.7	-129.1	-78.9	-127.0	-149.0	-171.7	-202.0	-211.8
Portfolio investment (net)	70.2	61.7	40.0	41.5	38.6	41.2	43.6	45.8	47.8	49.8
Other investment (net)	-10.5	18.5	3.0	-45.9	-134.7	-74.4	-30.5	1.7	36.7	39.5
Change in imputed reserves	10.1	-8.9	34.8	3.3	-59.4	19.8	19.8	19.8	19.8	19.8
Errors and omissions	44.2	14.7	29.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
					(In percent of GDP, unless otherwise specified)					
Current account	**-11.0**	**-14.4**	**-15.9**	**-15.8**	**-27.4**	**-17.2**	**-14.3**	**-12.8**	**-11.6**	**-11.0**
Trade balance for goods and services	-0.4	-3.3	-5.4	-5.7	-17.1	-6.8	-3.8	-2.2	-1.0	-0.3
Exports of goods and services	49.4	51.4	53.2	51.9	29.0	43.2	47.2	49.0	50.2	50.9
Tourism	41.2	42.8	44.7	43.9	20.9	35.5	39.7	41.7	42.7	43.4
o.w. Student receipts 2/	5.7	5.4	5.3	5.1	3.4	5.5	6.2	6.5	6.7	6.8
Imports of goods and services	49.9	54.7	58.6	57.6	46.1	50.0	51.0	51.2	51.1	51.2
o.w. Mineral fuels	4.7	4.3	5.7	4.9	3.2	3.3	3.3	3.3	3.3	3.3
Net income	-9.1	-10.8	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7
o.w. Public interest payment	-2.1	-2.0	-1.5	-1.4	-1.6	-1.7	-1.7	-1.7	-1.6	-1.4
Net current transfers	-1.5	-0.3	-0.8	-0.4	-0.5	-0.6	-0.8	-0.9	-0.9	-1.0
o.w. Workers' Remittances Inflows	4.0	4.0	3.9	4.1	4.0	3.9	3.8	3.8	3.7	3.7
Capital account	**4.7**	**5.9**	**5.9**	**5.1**	**6.3**	**5.5**	**5.3**	**5.1**	**4.8**	**4.2**
Capital transfers	4.7	5.9	5.9	5.1	6.3	5.5	5.3	5.1	4.8	4.2
o.w. debt forgiveness 1/	0.4	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-2.2**	**-7.2**	**-7.5**	**-10.7**	**-21.1**	**-11.7**	**-9.0**	**-7.7**	**-6.8**	**-6.8**
Foreign direct investment	-8.8	-13.5	-14.2	-10.6	-7.1	-10.6	-11.6	-12.6	-14.1	-14.1
Portfolio investment (net)	6.6	5.5	3.4	3.4	3.5	3.4	3.4	3.4	3.3	3.3
Other investment (net)	-1.0	1.6	0.3	-3.8	-12.1	-6.2	-2.4	0.1	2.6	2.6
Change in imputed reseves	0.9	-0.8	3.0	0.3	-5.3	1.7	1.5	1.5	1.4	1.3
Error and Omission	**4.2**	**1.3**	**2.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:										
Gross external debt (in percent of GDP)	**98.7**	**88.6**	**86.0**	**82.8**	**101.9**	**102.2**	**98.2**	**91.9**	**84.5**	**80.2**
External public and publicly guaranteed debt	56.6	47.5	45.1	41.6	51.1	51.8	50.6	46.6	41.1	38.4
Foreign liabilities of private sector 3/	42.1	41.1	40.9	41.3	50.9	50.4	47.5	45.3	43.5	41.8
Nominal GDP	1061.6	1125.7	1168.7	1217.7	1110.8	1197.3	1284.3	1362.5	1432.0	1501.6

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 4. Grenada: Indicators of Capacity to Repay the Fund 2016-2025

(In millions of SDRs, year-end, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections				
Existing Fund credit (stock)										
In percent of quota	131.3	122.3	101.2	89.0	80.7	69.6	53.8	36.6	19.5	7.3
In millions of SDRs	21.5	20.1	16.6	14.6	13.2	11.4	8.8	6.0	3.2	1.2
In millions of US$	29.0	28.4	23.0	20.1	18.3	15.8	12.3	8.4	4.5	1.7
In percent of GDP	2.7	2.5	2.0	1.7	1.6	1.3	1.0	0.6	0.3	0.1
Proposed Rapid Credit Facility (stock)										
In percent of quota	0.0	0.0	0.0	0.0	100.0	100.0	100.0	100.0	100.0	90.0
In millions of SDRs	0.0	0.0	0.0	0.0	16.4	16.4	16.4	16.4	16.4	14.8
In millions of US$	0.0	0.0	0.0	0.0	22.4	22.8	22.9	22.9	23.0	20.8
In percent of GDP	0.0	0.0	0.0	0.0	2.0	1.9	1.8	1.7	1.6	1.4
Outstanding Fund credit (end of period)										
In percent of quota	131.3	122.3	101.2	89.0	180.7	169.6	153.8	136.6	119.5	97.3
In millions of SDRs	21.5	20.1	16.6	14.6	29.6	27.8	25.2	22.4	19.6	16.0
In millions of US$	29.0	28.4	23.0	20.1	41.0	38.6	35.1	31.3	27.4	22.4
In percent of exports of goods and services	5.5	4.9	3.7	3.2	12.7	7.5	5.8	4.7	3.8	2.9
In percent of debt service	53.1	50.6	43.4	44.2	83.3	80.2	73.2	67.3	62.3	55.0
In percent of GDP	2.7	2.5	2.0	1.7	3.7	3.2	2.7	2.3	1.9	1.5
In percent of Imputed Net International Reserves	14.4	14.6	10.0	8.6	23.5	19.8	16.4	13.4	10.8	8.2
Fund obligations based on existing and prospective credit	3.6	3.5	3.5	2.1	1.4	1.8	2.6	2.8	2.8	3.7
Repurchases and repayments	3.6	3.5	3.5	2.0	1.4	1.8	2.6	2.8	2.8	3.6
Charges and interest	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit										
In millions of US$	5.0	4.8	4.9	2.9	1.9	2.5	3.6	3.9	3.9	5.1
In percent of exports of goods and services	1.0	0.8	0.8	0.5	0.6	0.5	0.6	0.6	0.5	0.7
In percent of debt service	9.2	8.6	9.3	6.4	3.8	5.2	7.6	8.5	9.0	12.6
In percent of GDP	0.5	0.4	0.4	0.2	0.2	0.2	0.3	0.3	0.3	0.3
In percent of Imputed Net International Reserves	2.5	2.5	2.1	1.2	1.1	1.3	1.7	1.7	1.6	1.9
In percent of quota	22.1	21.2	21.2	12.8	8.4	11.0	15.9	17.1	17.1	22.3
Net use of Fund credit	0.4	-1.5	-3.5	-2.0	15.0	-1.8	-2.6	-2.8	-2.8	-3.6
Disbursements	4.0	2.0	0.0	0.0	16.4	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	3.6	3.5	3.5	2.0	1.4	1.8	2.6	2.8	2.8	3.6
Memorandum items:										
Exports of goods and services (in millions of US$)	524.8	578.1	621.7	632.0	322.1	517.5	605.8	667.1	718.3	763.9
Debt service (in millions of US$)	54.6	56.1	52.9	45.5	49.2	48.2	48.0	46.5	44.0	40.8
GDP (in millions of US$)	1061.6	1125.7	1168.7	1217.7	1110.8	1197.3	1284.3	1362.5	1432.0	1501.6
Imputed Net International Reserves (in millions of US$)	201.4	194.9	230.8	234.1	174.7	194.5	214.3	234.1	253.9	273.7
Quota (in millions of SDR)	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4

Source: Staff estimates and projections.

INTERNATIONAL MONETARY FUND

GRENADA

April 21, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY —DEBT SUSTAINABILIT ANALYSIS

Approved By
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Prepared by the staffs of the International Monetary Fund and the International Development Association.

Risk of external debt distress:	In debt distress[1]
Overall risk of debt distress	In debt distress
Granularity in the risk rating	Sustainable
Application of judgment	No.
Macroeconomic projections	Compared to the previous DSA, there is a temporary jump in 2020 public debt ratios (to 68.7 vs. 53.7 percent of GDP) driven by lower growth (-9.2 vs. 2.7 percent), larger fiscal deficit (2.9 vs. a surplus of 4.6 percent of GDP) and a larger current account deficit (27.4 vs. 10.2 percent of GDP).
Financing strategy	The government's medium-term debt strategy prioritizes concessional external financing. The new near-term needs of COVID-19 are being met through a combination of budget reallocations, deposits and financing from development partners.
Realism tools flagged	None
Mechanical risk rating under the external DSA	High
Mechanical risk rating under the public DSA	High
[1]Grenada's debt definition in the current DSA is unchanged from the previous DSA of 2019. Grenada's Composite Indicator score is 3.03 and its debt-carrying capacity is moderate.	

Grenada's external public debt is classified as "in debt distress" due to remaining unresolved arrears to official bilateral creditors of some 1.8 percent of GDP, but its debt remains sustainable, a conclusion that is unchanged from the previous DSA of 2019. The risk rating for external debt was "moderate" in the May 2019 DSA and is now "high" due to threshold breaches of the debt-services-to-exports ratio for 2020-2023, essentially due to the COVID-19 shock. The large COVID-19 related contraction in output, decline in tax revenues, and increase in health and social expenditures would cause an uptick in the debt ratio to 68¾ percent of GDP in 2020, but the subsequent economic recovery should help reverse this rise. The underlying medium-term dynamics, being anchored by the Fiscal Responsibility Law (FRL), follow a downward path. The primary fiscal surplus is projected to increase above the FRL's 3.5 percent of GDP floor after 2020 as the economy normalizes, anchoring debt sustainability. Medium-term financing needs are moderate and are expected to be covered by external borrowing with a substantial concessional component. Risks to these debt dynamics include the possibility of a more prolonged impact of COVID-19, possible delays in the return to the FRL's core parameters, natural disasters, and a one-off increase in debt if Grenlec-related payment obligations are met by debt issuance.

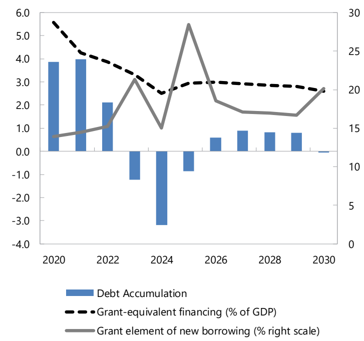
Fully regularizing external arrears would help tangibly improve the country's DSA rating. Arrears of 1.8 percent of GDP remain with three official bilateral creditors: Algeria, Libya, and Trinidad and Tobago. In mid-2019, Grenada signed the protocols on the consolidation of its debt to Algeria and reported submitting those documents to Algeria's UN mission. Grenada continued making payments on outstanding fees owed to international organizations as per schedule agreed in 2017, with some EC$13.3 million in such payments made during 2019. Ongoing improvements in monitoring SOE debt, which is estimated at around 5 percent of GDP at end-2019 (excluding Petrocaribe-related obligations), should permit a broadening of the coverage of public debt, which is under consideration by the authorities. With Grenada's Petrocaribe arrangement essentially having ceased operations since the turn of 2017-18, we are in discussions with the authorities on the status of their obligations (which in the current DSA are included in external non-public debt).

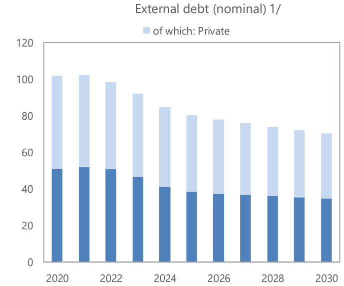
Table 1. Grenada: External Debt Sustainability Framework, Baseline Scenario 2017 – 2038

(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2038	Historical	Projections
External debt (nominal) 1/	**88.6**	**86.0**	**82.8**	**101.9**	**102.2**	**98.2**	**91.9**	**84.5**	**80.2**	**70.2**	**58.7**	**112.5**	**84.4**
of which: public and publicly guaranteed (PPG)	**47.5**	**45.1**	**41.6**	**51.1**	**51.8**	**50.6**	**46.6**	**41.1**	**38.4**	**34.8**	**31.0**	**59.6**	**41.8**
Change in external debt	-10.1	-2.5	-3.2	19.1	0.3	-4.0	-6.3	-7.3	-4.3	-1.8	-1.7		
Identified net debt-creating flows	**-4.7**	**-1.5**	**1.7**	**28.6**	**0.6**	**-2.3**	**-3.5**	**-5.1**	**-5.3**	**-3.8**	**-2.7**	**1.9**	**-0.6**
Non-interest current account deficit	**12.4**	**14.4**	**14.4**	**26.2**	**15.8**	**12.9**	**11.4**	**10.4**	**9.9**	**9.2**	**10.2**	**15.5**	**12.4**
Deficit in balance of goods and services	3.3	5.4	5.7	17.1	6.8	3.8	2.2	1.0	0.3	0.2	0.0	**10.4**	**3.0**
Exports	51.4	53.2	51.9	29.0	43.2	47.2	49.0	50.2	50.9	51.2	51.8		
Imports	54.7	58.6	57.6	46.1	50.0	51.0	51.2	51.1	51.2	51.4	51.8		
Net current transfers (negative = inflow)	0.3	0.8	0.4	0.5	0.6	0.8	0.9	0.9	1.0	1.2	1.2	**-0.8**	**0.9**
of which: official	0.4	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4		
Other current account flows (negative = net inflow)	8.8	8.2	8.3	8.6	8.4	8.3	8.3	8.5	8.7	7.8	9.0	**5.9**	**8.5**
Net FDI (negative = inflow)	**-13.5**	**-14.2**	**-10.6**	**-7.1**	**-10.6**	**-11.6**	**-12.6**	**-14.1**	**-14.1**	**-13.1**	**-12.2**	**-10.2**	**-12.3**
Endogenous debt dynamics 2/	**-3.6**	**-1.8**	**-2.0**	**9.5**	**-4.6**	**-3.6**	**-2.3**	**-1.3**	**-1.1**	**0.1**	**-0.7**		
Contribution from nominal interest rate	2.0	1.5	1.4	1.2	1.4	1.4	1.4	1.2	1.1	2.0	0.9		
Contribution from real GDP growth	-4.1	-3.5	-2.5	8.3	-5.9	-5.0	-3.6	-2.6	-2.2	-1.9	-1.6		
Contribution from price and exchange rate changes	-1.5	0.3	-1.0	...	...	...	...	...	...	...	...		
Residual 3/	**-5.4**	**-1.0**	**-4.9**	**-9.5**	**-0.3**	**-1.7**	**-2.9**	**-2.2**	**1.0**	**2.1**	**0.9**	**-4.9**	**-0.5**
of which: exceptional financing 4/	-5.5	0.0	0.0	-9.5	-2.4	-1.5	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**29.1**	**36.2**	**37.2**	**36.7**	**33.4**	**28.8**	**26.6**	**23.6**	**21.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**56.1**	**124.7**	**86.2**	**77.8**	**68.3**	**57.4**	**52.3**	**46.1**	**42.2**		
PPG debt service-to-exports ratio	**11.1**	**11.0**	**8.1**	**14.4**	**10.4**	**9.5**	**9.0**	**7.8**	**6.4**	**5.2**	**2.8**		
PPG debt service-to-revenue ratio	**24.8**	**24.4**	**17.8**	**19.0**	**19.8**	**19.3**	**18.6**	**16.6**	**13.8**	**11.3**	**6.1**		
Gross external financing need (Million of U.S. dollars)	52.7	71.9	98.1	259.2	117.1	75.5	44.5	3.3	-13.1	-22.6	-13.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.4	4.1	3.0	-9.2	6.3	5.3	3.9	3.0	2.7	2.7	2.7	**3.1**	**2.3**
GDP deflator in US dollar terms (change in percent)	1.5	-0.3	1.2	0.4	1.4	1.9	2.1	2.1	2.1	2.1	2.1	**1.6**	**1.8**
Effective interest rate (percent) 5/	2.2	1.8	1.7	1.3	1.4	1.5	1.5	1.4	1.3	2.9	1.5	**1.7**	**1.5**
Growth of exports of G&S (US dollar terms, in percent)	10.2	7.5	1.7	-49.0	60.7	17.0	10.1	7.7	6.4	5.0	4.8	**14.8**	**7.1**
Growth of imports of G&S (US dollar terms, in percent)	16.3	11.2	2.5	-27.0	17.0	9.3	6.5	5.0	5.0	5.0	5.0	**7.0**	**3.7**
Grant element of new public sector borrowing (in percent)	...	...	...	13.9	14.5	15.3	21.3	15.0	28.4	20.2	20.7	**...**	**18.0**
Government revenues (excluding grants, in percent of GDP)	23.0	23.9	23.7	21.9	22.6	23.2	23.6	23.6	23.6	23.6	23.7	**21.5**	**23.3**
Aid flows (in Million of US dollars) 6/	28.9	34.9	34.6	43.8	37.8	38.7	39.5	37.0	37.9	42.4	50.7		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	5.6	4.3	3.9	3.3	2.5	2.9	2.6	2.2	**...**	**3.3**
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	35.8	39.6	45.0	68.8	121.1	73.6	64.1	62.2	**...**	**60.2**
Nominal GDP (Million of US dollars)	1,126	1,169	1,218	1,111	1,197	1,284	1,363	1,432	1,502	1,904	2,785		
Nominal dollar GDP growth	6.0	3.8	4.2	-8.8	7.8	7.3	6.1	5.1	4.9	4.9	4.9	**4.7**	**4.2**
Memorandum items:													
PV of external debt 8/	...	...	70.4	87.0	87.7	84.2	78.7	72.2	68.4	59.0	49.5		
In percent of exports	...	...	135.6	300.0	202.9	178.5	160.8	144.0	134.5	115.3	95.7		
Total external debt service-to-exports ratio	11.3	11.1	8.2	14.6	10.5	9.7	9.1	7.9	6.5	5.3	2.8		
PV of PPG external debt (in Million of US dollars)			354.5	401.6	445.9	471.1	455.3	412.0	399.7	449.7	608.4		
(PVt-PVt-1)/GDPt-1 (in percent)				3.9	4.0	2.1	-1.2	-3.2	-0.9	0.0	1.0		
Non-interest current account deficit that stabilizes debt ratio	22.5	16.9	17.6	7.1	15.5	17.0	17.7	17.7	14.3	11.0	11.9		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes





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/ For 2020 it includes all sources of exceptional financing under the RCF. For 2021 and beyond it includes Eximbank China lending to an SOE.

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

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

7/ 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).

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

9/ 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.

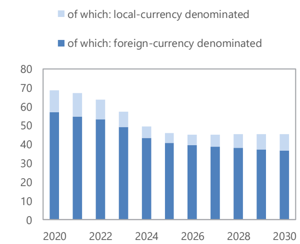
Table 2. Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario 2017 – 2038

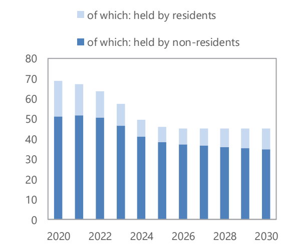
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2038	Historical	Projections
Public sector debt 1/	**70.1**	**64.4**	**59.1**	**68.7**	**67.2**	**63.7**	**57.3**	**49.5**	**45.8**	**45.2**	**45.3**	**87.6**	**52.6**
of which: external debt	**47.5**	**45.1**	**41.6**	**51.1**	**51.8**	**50.6**	**46.6**	**41.1**	**38.4**	**34.8**	**31.0**	**59.6**	**41.8**
Change in public sector debt	-11.5	-5.8	-5.3	9.6	-1.4	-3.5	-6.4	-7.8	-3.7	0.0	0.0		
Identified debt-creating flows	**-7.7**	**-7.2**	**-7.5**	**9.8**	**-6.6**	**-7.7**	**-8.7**	**-8.2**	**-4.2**	**0.8**	**0.0**	**-3.0**	**-2.5**
Primary deficit	**-5.7**	**-6.6**	**-6.8**	**0.7**	**-4.6**	**-6.0**	**-6.7**	**-6.9**	**-3.0**	**0.6**	**0.7**	**-1.5**	**-2.2**
Revenue and grants	25.6	26.9	26.5	25.9	25.7	26.2	26.5	26.1	26.1	25.8	25.5	**24.4**	**26.0**
of which: grants	2.6	3.0	2.8	3.9	3.2	3.0	2.9	2.6	2.5	2.2	1.8		
Primary (noninterest) expenditure	19.9	20.3	19.7	26.6	21.1	20.3	19.8	19.3	23.1	26.5	26.1	**22.9**	**23.8**
Automatic debt dynamics	**-2.0**	**-0.6**	**-0.7**	**6.8**	**-3.6**	**-3.0**	**-2.0**	**-1.4**	**-1.2**	**0.2**	**-0.6**		
Contribution from interest rate/growth differential	-2.3	-1.8	-1.0	6.8	-3.6	-3.0	-2.0	-1.4	-1.2	0.2	-0.6		
of which: contribution from average real interest rate	1.2	0.9	0.8	0.8	0.4	0.4	0.4	0.3	0.2	1.4	0.6		
of which: contribution from real GDP growth	-3.5	-2.8	-1.9	6.0	-4.1	-3.4	-2.4	-1.6	-1.3	-1.2	-1.2		
Contribution from real exchange rate depreciation	0.3	1.3	0.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**2.3**	**1.7**	**1.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**0.5**
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 2/	0.0	0.0	0.0	2.3	1.7	1.2	0.0	0.0	0.0	0.0	0.0		
Residual 3/	**-3.8**	**1.4**	**2.3**	**-0.2**	**5.2**	**4.2**	**2.3**	**0.5**	**0.5**	**-0.8**	**0.0**	**-0.2**	**1.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	**...**	**...**	**46.6**	**53.8**	**52.7**	**49.8**	**44.1**	**37.2**	**34.0**	**34.0**	**36.2**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**175.9**	**208.0**	**205.0**	**189.6**	**166.8**	**142.3**	**130.5**	**131.7**	**141.9**		
Debt service-to-revenue and grants ratio 5/	**59.3**	**56.4**	**34.5**	**19.2**	**30.4**	**24.3**	**20.9**	**15.9**	**10.6**	**15.3**	**20.7**		
Gross financing need 6/	9.5	8.6	2.3	7.9	4.9	1.6	-1.1	-2.7	-0.2	4.6	5.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.4	4.1	3.0	-9.2	6.3	5.3	3.9	3.0	2.7	2.7	2.7	**3.1**	**2.3**
Average nominal interest rate on external debt (in percent)	3.7	3.1	3.1	2.4	2.7	2.7	2.8	2.7	2.6	5.7	2.8	**2.9**	**2.9**
Average real interest rate on domestic debt (in percent)	1.5	2.9	1.5	2.8	1.5	1.5	1.3	0.9	0.3	1.9	3.2	**2.1**	**1.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.6	2.8	0.6	...	...	...	...	...	...	...	...	**0.2**	**...**
Inflation rate (GDP deflator, in percent)	1.5	-0.3	1.2	0.4	1.4	1.9	2.1	2.1	2.1	2.1	2.1	**1.6**	**1.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.1	6.2	-0.1	22.3	-15.6	1.2	1.5	0.4	22.9	2.5	2.6	**0.5**	**5.6**
Primary deficit that stabilizes the debt-to-GDP ratio 7/	5.8	-0.8	-1.5	-8.9	-3.2	-2.5	-0.2	0.9	0.7	0.6	0.6	**1.1**	**-0.9**
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?	**Yes**

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/ Reflects financing to SOEs from Exim Bank China and World Bank.

3/ Includes fluctuations of government bank deposits.

4/ 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.

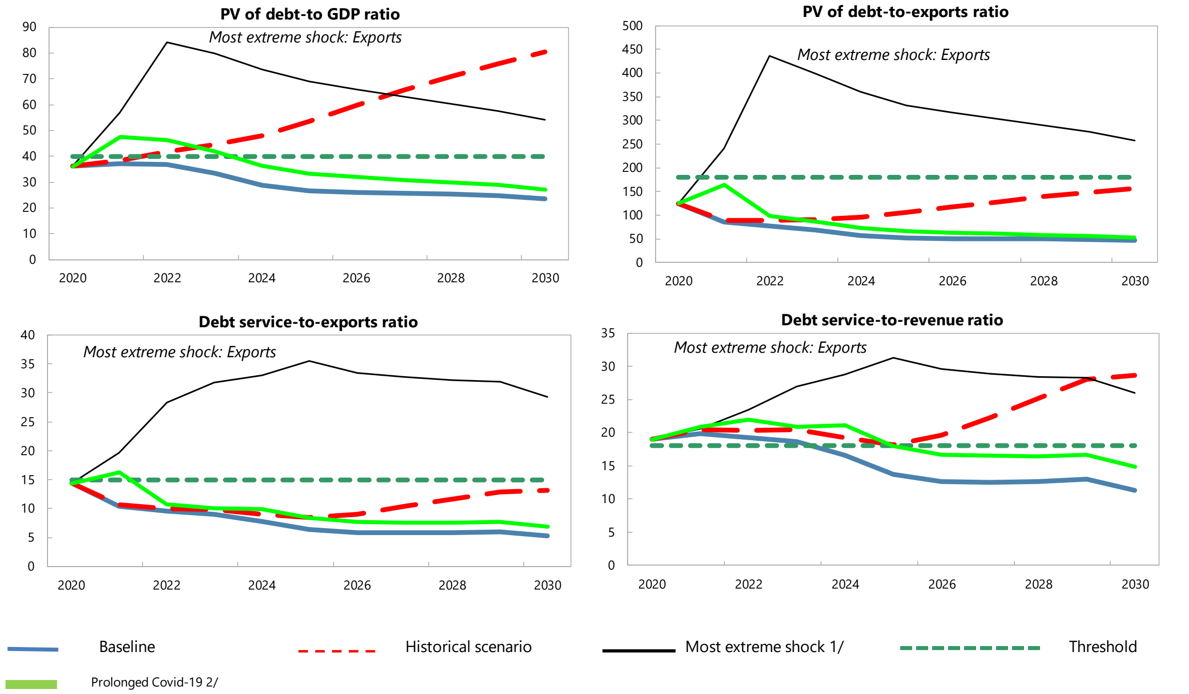
5/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

6/ 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.

7/ 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.

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.

Figure 1. Grenada: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020-2030



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	No	No
Commodity price	No	Yes
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	3.5%	3.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	2	2

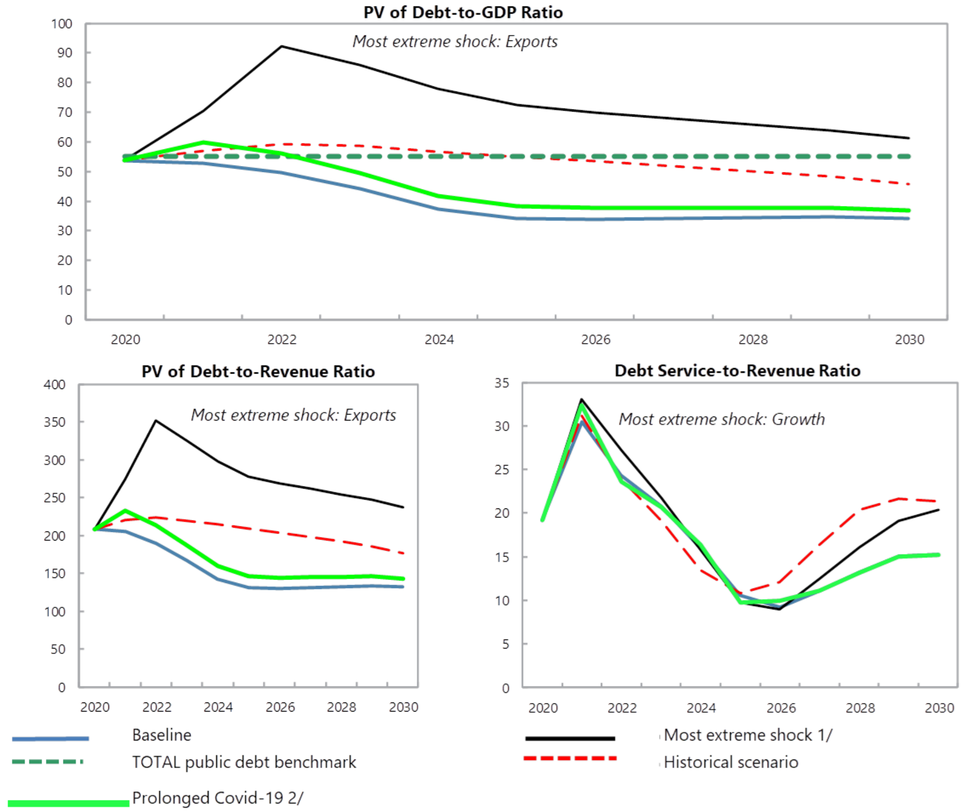
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2030. 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.

2/ This scenario assumes that the currently projected effects of Covid-19 for 2020 remain similarly strong throghout 2021. Especifically, it assumes 5 percentage points lower real GDP growth in 2021 compared to the baseline and a one year delay in recovery afterwards, while exports, imports and FDI as a share of GDP remain at their 2020 level.

Figure 2. Grenada: Indicators of Public Debt under Alternative Scenarios, 2020-2030



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	152%	152%
Domestic medium and long-term	-47%	-47%
Domestic short-term	-5%	-5%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.5%	3.5%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	2	2
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.6%	1.6%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1.6%	1.6%

* 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 2030. 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.

2/ This scenario assumes that the currently projected effects of Covid-19 for 2020 remain similarly strong throghout 2021. Specifically, it assumes 5 percentage points lower real GDP growth in 2021 compared to the baseline and a one year delay in recovery afterwards, while total public expenditure-to-GDP in 2021 remains equal to its 2020 value.

Table 3. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-2030

(in percent, unless otherwise indicated)

	Projections 1/										
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
PV of debt-to GDP ratio											
Baseline	36	37	37	33	29	27	26	26	25	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	36	38	**42**	**45**	**48**	**54**	**60**	**65**	**71**	**76**	**80**
A2. Prolonged Covid-19	36	**48**	**46**	**42**	36	33	32	31	30	29	27
B. Bound Tests											
B1. Real GDP growth	36	**41**	**44**	40	34	32	31	30	30	29	28
B2. Primary balance	36	**47**	**56**	**50**	**44**	**40**	39	39	39	38	37
B3. Exports	36	**57**	**84**	**80**	**74**	**69**	**66**	**63**	**60**	**58**	**54**
B4. Other flows 3/	36	**43**	**48**	**45**	40	37	36	35	34	33	31
B5. Depreciation	36	**47**	**43**	39	33	30	30	29	29	29	27
B6. Combination of B1-B5	36	**62**	**67**	**63**	**56**	**52**	**50**	**49**	**47**	**45**	**43**
C. Tailored Tests											
C1. Combined contingent liabilities	36	**64**	**59**	**53**	**46**	**43**	**43**	**43**	**43**	**42**	**41**
C2. Natural disaster	36	**51**	**49**	**45**	39	37	37	37	37	37	36
C3. Commodity price	36	37	37	33	29	27	26	26	25	25	24
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	125	86	78	68	57	52	51	50	49	49	46
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	125	88	89	91	95	105	117	128	139	148	157
A2. Prolonged Covid-19	125	164	98	86	72	65	63	61	58	56	53
B. Bound Tests											
B1. Real GDP growth	125	86	78	68	57	52	51	50	49	49	46
B2. Primary balance	125	109	119	102	87	79	77	77	76	75	72
B3. Exports	125	**240**	**436**	**399**	**360**	**332**	**317**	**303**	**289**	**276**	**258**
B4. Other flows 3/	125	99	102	91	79	73	70	68	66	64	61
B5. Depreciation	125	86	72	63	52	47	46	46	45	45	43
B6. Combination of B1-B5	125	**204**	120	**204**	177	163	156	151	146	140	132
C. Tailored Tests											
C1. Combined contingent liabilities	125	149	125	108	93	84	84	84	84	83	80
C2. Natural disaster	125	120	104	92	79	72	73	73	72	72	70
C3. Commodity price	125	86	78	68	57	52	51	50	49	49	46
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	14	10	10	9	8	6	6	6	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	14	11	10	10	9	8	9	10	12	13	13
A2. Prolonged Covid-19	14	**16**	11	10	10	8	8	8	8	8	7
B. Bound Tests											
B1. Real GDP growth	14	10	10	9	8	6	6	6	6	6	5
B2. Primary balance	14	10	10	10	10	9	9	8	8	8	8
B3. Exports	14	**20**	**28**	**32**	**33**	**35**	**33**	**33**	**32**	**32**	**29**
B4. Other flows 3/	14	10	10	10	9	8	8	8	8	8	7
B5. Depreciation	14	10	10	9	8	6	5	5	5	6	5
B6. Combination of B1-B5	14	**17**	**21**	**20**	**21**	**18**	**17**	**17**	**17**	**17**	**15**
C. Tailored Tests											
C1. Combined contingent liabilities	14	10	12	11	9	8	7	7	7	7	6
C2. Natural disaster	14	11	11	10	9	7	7	7	7	7	6
C3. Commodity price	14	10	10	9	8	6	6	6	6	6	5
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**19**	**20**	**19**	**19**	17	14	13	13	13	13	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**19**	**20**	**20**	**20**	**19**	**18**	**20**	**22**	**25**	**28**	**29**
A2. Prolonged Covid-19	**19**	**21**	**22**	**21**	**21**	18	17	16	16	17	15
B. Bound Tests	**19**	**21**	**22**	**21**	**21**	18	17	16	16	17	15
B1. Real GDP growth	**19**	**22**	**23**	**22**	**20**	16	15	15	15	15	13
B2. Primary balance	**19**	**20**	**21**	**22**	**21**	**20**	**18**	18	18	**18**	17
B3. Exports	**19**	**21**	**23**	**27**	**29**	**31**	**30**	**29**	**28**	**28**	**26**
B4. Other flows 3/	**19**	**20**	**20**	**20**	**20**	**18**	17	17	16	17	15
B5. Depreciation	**19**	**25**	**24**	**23**	**20**	16	15	15	15	15	13
B6. Combination of B1-B5	**19**	**22**	**26**	**26**	**28**	**25**	**23**	**23**	**23**	**23**	**21**
C. Tailored Tests											
C1. Combined contingent liabilities	**19**	**20**	**24**	**22**	**20**	16	15	15	15	16	14
C2. Natural disaster	**19**	**20**	**21**	**20**	**18**	15	14	14	14	15	13
C3. Commodity price	**19**	**20**	**19**	**19**	17	14	13	13	13	13	11
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. The Prolonged Covid-19 scenario assumes that the currently projected effects of the pandemic for 2020 remain similarly strong throghout 2021.
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, 2020-2030

(in percent, unless otherwise indicated)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of Debt-to-GDP Ratio										
Baseline	54	53	50	44	37	34	34	34	34	35	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	54	**57**	**59**	**59**	**57**	55	53	52	50	48	46
A2. Prolonged Covid-19	54	**60**	**56**	49	42	38	38	38	38	38	37
B. Bound Tests											
B1. Real GDP growth	54	**60**	**65**	**62**	**57**	**57**	**61**	**65**	**69**	**72**	**75**
B2. Primary balance	54	**59**	**63**	**57**	50	47	47	47	47	47	46
B3. Exports	54	**70**	**92**	**86**	**78**	**72**	**70**	**68**	**66**	**64**	**61**
B4. Other flows 3/	54	**58**	**61**	**55**	48	44	44	43	43	43	41
B5. Depreciation	54	**61**	**55**	48	40	36	34	32	31	29	27
B6. Combination of B1-B5	54	**58**	**58**	43	37	35	35	36	36	36	35
C. Tailored Tests											
C1. Combined contingent liabilities	54	**69**	**67**	**61**	54	51	51	51	51	51	51
C2. Natural disaster	54	**62**	**59**	54	47	44	44	45	45	46	46
C3. Commodity price	54	54	55	52	49	49	53	**58**	**62**	**66**	**70**
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	208	205	190	167	142	131	130	131	133	134	132
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	208	220	224	220	215	209	204	198	192	186	176
A2. Prolonged Covid-19	19	32	24	21	16	10	10	11	13	15	15
B. Bound Tests											
B1. Real GDP growth	208	229	241	228	215	215	229	245	260	276	287
B2. Primary balance	208	228	239	217	193	181	180	181	181	182	180
B3. Exports	208	274	351	325	298	277	268	261	254	247	237
B4. Other flows 3/	208	226	234	210	184	170	167	167	166	164	160
B5. Depreciation	208	238	213	184	155	137	130	124	119	114	105
B6. Combination of B1-B5	208	226	222	162	142	133	135	139	139	139	137
C. Tailored Tests											
C1. Combined contingent liabilities	208	269	253	231	208	197	195	196	198	199	197
C2. Natural disaster	208	240	225	203	180	170	170	172	175	177	176
C3. Commodity price	208	212	209	198	186	188	203	221	238	255	269
	Debt Service-to-Revenue Ratio										
Baseline	19	30	24	21	16	11	9	11	13	15	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	19	31	24	19	13	11	12	16	20	22	21
A2. Prolonged Covid-19	19	32	24	21	16	10	10	11	13	15	15
B. Bound Tests											
B1. Real GDP growth	19	33	27	22	16	10	9	12	16	19	20
B2. Primary balance	19	30	20	15	15	11	12	16	17	18	19
B3. Exports	19	30	27	27	25	25	23	24	26	28	27
B4. Other flows 3/	19	30	25	22	19	14	13	15	17	18	19
B5. Depreciation	19	32	29	26	20	14	12	14	16	17	16
B6. Combination of B1-B5	19	30	25	17	13	8	7	11	13	15	15
C. Tailored Tests											
C1. Combined contingent liabilities	19	30	15	17	12	8	14	14	15	17	16
C2. Natural disaster	19	31	20	19	14	9	11	12	14	16	16
C3. Commodity price	19	30	23	19	14	8	8	10	13	16	17
	Debt Service-to-GDP Ratio										
Baseline	**5.0**	**7.8**	**6.4**	**5.5**	**4.2**	**2.8**	**2.4**	**2.9**	**3.4**	**3.9**	**3.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	8	6	5	4	3	3	4	5	6	6
A2. Prolonged Covid-19											
B. Bound Tests											
B1. Real GDP growth	5	9	7	6	4	3	2	3	4	5	5
B2. Primary balance	5	8	5	4	4	3	3	4	4	5	5
B3. Exports	5	8	7	7	7	6	6	6	7	7	7
B4. Other flows 3/	5	8	7	6	5	4	3	4	4	5	5
B5. Depreciation	5	8	8	7	5	4	3	4	4	4	4
B6. Combination of B1-B5	5	8	7	4	3	2	2	3	3	4	4
C. Tailored Tests											
C1. Combined contingent liabilities	5	8	4	4	3	2	4	4	4	4	4
C2. Natural disaster	5	8	5	5	4	2	3	3	4	4	4
C3. Commodity price	5	8	6	5	4	2	2	3	3	4	4

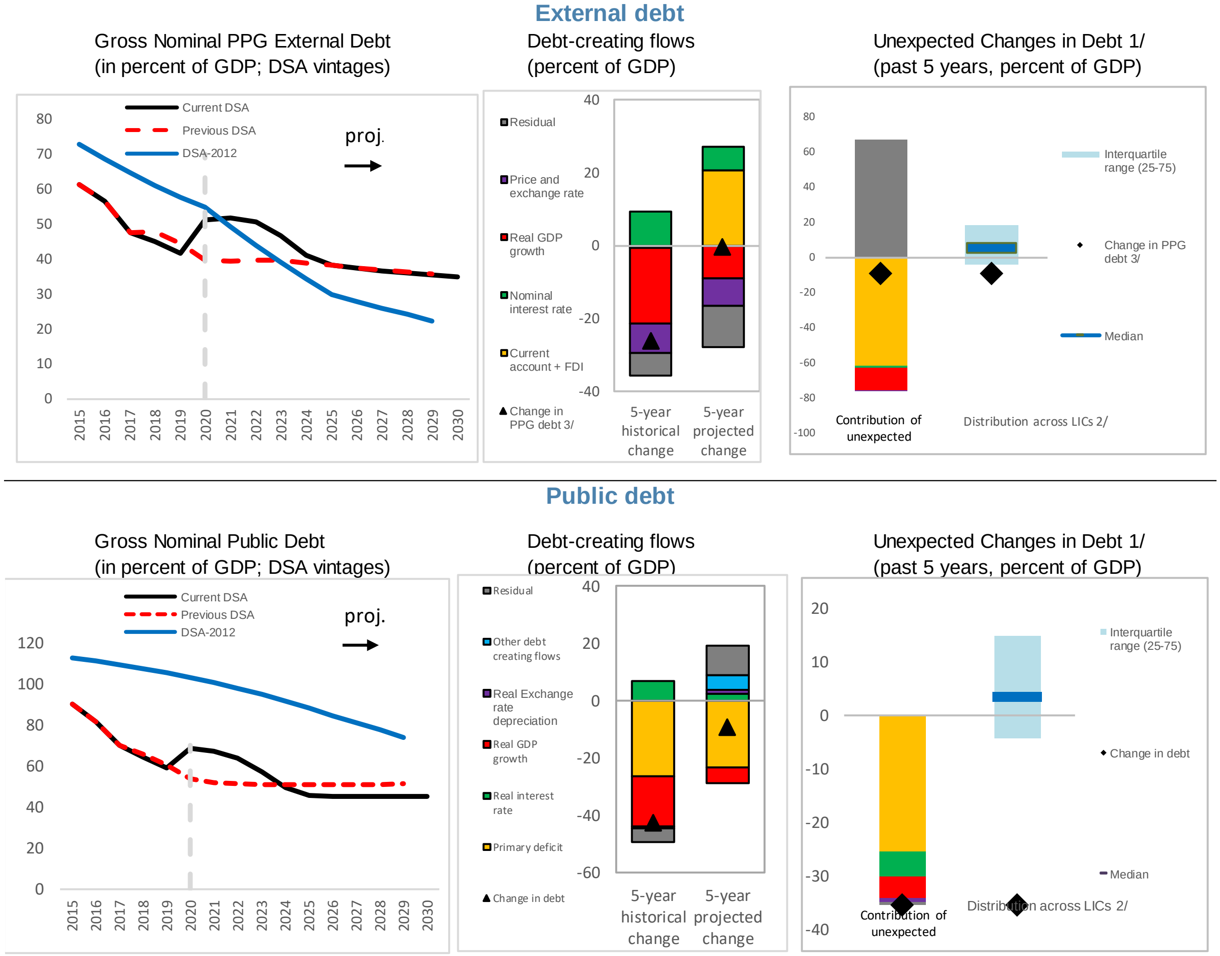
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark. The Prolonged Covid-19 scenarios assume that the currently projected effects of the pandemic for 2020 remain similarly strong throghout 2021.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Grenada: Drivers of Debt Dynamics – Baseline Scenario



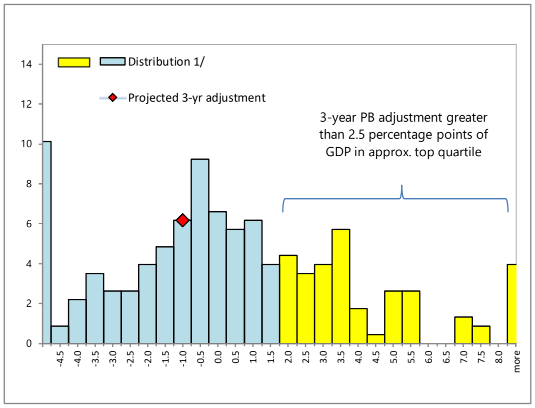
1/ Difference between anticipated and actual contributions on debt ratios.

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.

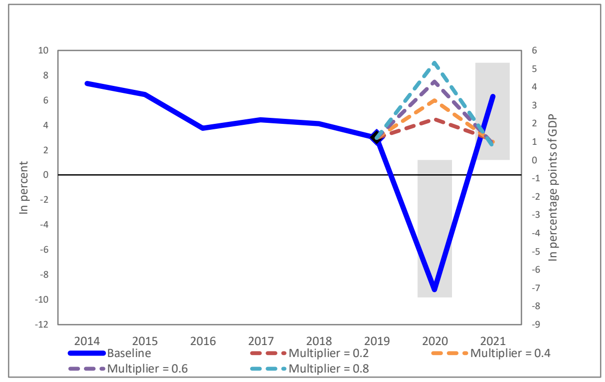
Figure 4. Grenada: Realism Tools

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



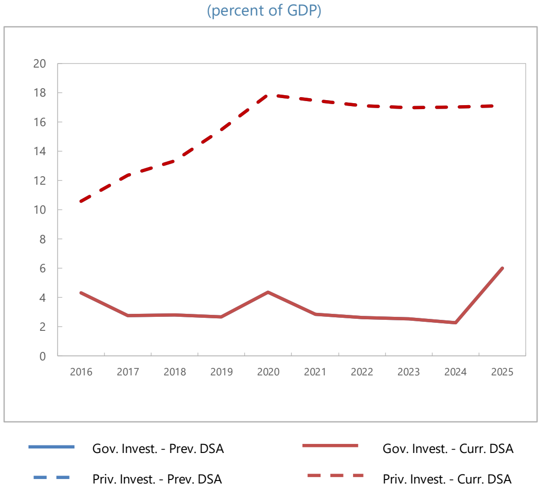
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

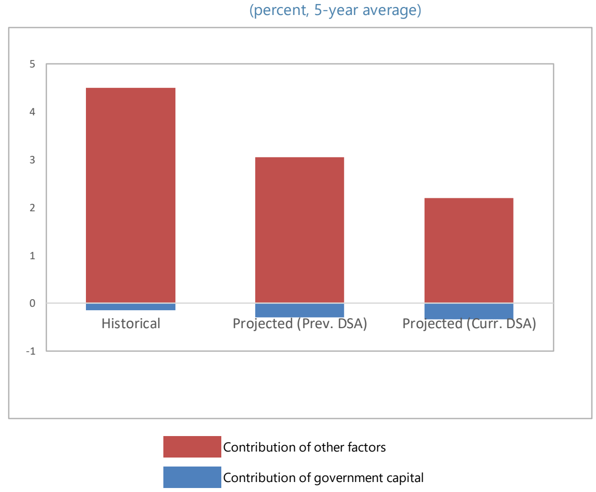


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



Statement by the Staff Representative on Grenada
April 28, 2020

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

Debt moratorium. Staff informed the authorities about the key aspects of the G20's COVID-19 Debt Service Relief Initiative that was announced on April 15, 2020. Accordingly, the authorities have begun to consider their participation in the initiative. The amount of resources that the initiative could generate depends on the eligible debt service due between May 1 and December 31, 2020 and remains to be fully quantified, but it appears to be relatively small. In case Grenada's request proceeds and is approved, the authorities indicated that Grenada would use the liquidity to support economic recovery, including support for households and businesses to help minimize the permanent damage to Grenada's economy. In this regard, the authorities have recently established a Task Force for rebuilding the Grenadian economy with key stakeholders across the business, political and governmental spectrum, with the objective of building a more resilient economy. The authorities pledged to meet their transparency obligations though the established reporting mechanisms under their Public Debt Management Act 28 of 2015, Public Finance Management Act 17 of 2015, and the Fiscal Responsibility Act 29 of 2015, which had been put in place during their 2014-17 Homegrown Program that was supported by the ECF arrangement. Staff will provide further information on the initiative as is becomes available and any support the authorities need if they proceed with a request to creditors.

Statement by Ms. Levonian and Mr. Sylvester on Dominica, Grenada, & St. Lucia - Requests for Disbursement Under the Rapid Credit Facility
April 28, 2020

GRENADA

Our Grenadian authorities would like to thank management and staff for the timely response to their request for emergency support under the Rapid Credit Facility (RCF). They would also like to thank Executive Directors for their recent decision to enhance the emergency financing toolkit in response to the COVID-19 pandemic, which has enabled Grenada to access 100 percent of quota (about US$22.3 million). Our authorities view the decision to augment access under the emergency financing facilities as both timely and appropriate considering the unprecedented nature of this crisis. They urge strong support from the Fund and other development partners in helping its membership address the significant social and economic fallout from the unfolding COVID-19 crisis.

Impact of the COVID-19 Pandemic on Grenada

Prior to the onset of the COVID-19 global pandemic, the Grenadian economy was performing strongly. During 2014-19, real GDP growth has averaged almost 5 percent and the outlook for 2020 was broadly favorable, with growth estimated to settle around 3 percent. During the same period, inflation remained low and stable and the unemployment rate declined by almost 50 percent from 28.9 percent to 15.2 percent. Alongside the strong growth performance, Grenada's fiscal position strengthened considerably, backed by its rules-based fiscal responsibility framework. Public debt as a percentage of GDP declined by some 49 percentage points to 59 percent of GDP by the end of 2019, achieving the target of 60 percent of GDP established by the Monetary Council of the ECCU, 11 years ahead of the 2030 deadline. Our Grenadian authorities were also making good progress in building up the country's resilience to natural disasters and climate change shocks. On the external account, while the current account deficit remained large at around 16 percent of GDP during the period, it was adequately financed from external sources. Furthermore, Grenada's reserves have remained adequate (above the benchmark of 3 months of import cover).

As a small, vulnerable, tourism-dependent state, the COVID-19 pandemic has dealt a serious blow to the economy of Grenada. The tourism and offshore education sectors, which account for over 50 percent of the country's GDP and the lion share of employment, have altogether halted with the shutdown of borders and other containment measures. Further, foreign direct investment (FDI) and remittances are expected to be severely impacted. As a result, Grenada is expected to see a large chunk of its GDP wiped out as well as a worsening of its external position. For the month of April, so far, our authorities have seen a precipitous decline in revenues while spending pressures continue to mount. Staff projects that GDP will decline by some 9.2 percent in 2020 and the subsequent recovery to be quick and robust. Staff is also projecting large fiscal financing and BOP needs. While our authorities broadly share staff's assessment, they are more pessimistic than staff about the scale and magnitude of the fallout from the pandemic. In their view, current estimates may grossly understate the full magnitude of the impact considering the significant uncertainty around the unfolding catastrophe. Our authorities are also projecting a more gradual recovery. In this context, additional emergency support may be critical.

Policy Response to the COVID-19 Pandemic

Our authorities' response to limit the health impact of the COVID-19 pandemic has been swift. Even before the first COVID-19 case was confirmed on the island, our authorities moved aggressively to prevent the virus from reaching Grenada's shores, including by instituting travel restrictions on selected destinations, implementing detection protocols at ports of entry, and launching a COVID-19 awareness campaign. To prepare for a possible outbreak, our authorities reallocated resources to facilitate emergency health spending and closed all educational institutions. After the first case was confirmed on March 22, 2020, our authorities intensified measures to contain the spread of the virus, including issuing emergency orders restricting movement on non-essential travel within the country. Subsequently, our authorities instituted a 21-day lockdown (currently underway) aimed at reducing community spread of the virus.

In addition, after wide-ranging consultations with key stakeholders, our authorities launched an economic stimulus package to help cushion the impact of the crisis on households and businesses. The support is expected to be temporary and is targeted at those most affected by the fallout from the crisis. Furthermore, our authorities have reprioritized the 2020 budget to boost social programs and capital spending to mitigate the impact of COVID-19 on the economy.

To accommodate the additional spending in the face of the precipitous decline in revenues, our authorities invoked the Escape Clause pursuant to Article 10 of the Fiscal Responsibility Law (FRL) to allow for a relaxation of the fiscal stance for the fiscal year 2020 in the first instance. Accordingly, the primary balance is expected to move from a surplus of 6.8 percent of GDP in 2019 to a deficit of -0.7 percent of GDP in 2020. Public debt as a percentage of GDP is expected to rise by approximately 10 percentage points to around 69 percent of GDP.

Prudent management of scare resources is critical during this unprecedented period. Our authorities intend to drawdown some of their fiscal buffers to close a portion of the financing gap. Our authorities are hopeful that their regional and international partners will help meet the additional financing needs in the form of grants, concessional loans, and debt relief. Our authorities wish to reiterate their liquidity management strategy, which focuses on prioritizing government's liquidity up until end-2020 to finance outlays envisioned under the 2020 budget, the additional spending needs related to COVID, spending on additional significant adverse shocks (e.g., a natural disaster), and to defer less urgent spending for the post-emergency period.

Medium-term Policies

Our authorities are fully committed to pursuing sound macroeconomic policies and reforms to promote robust, sustained, and inclusive growth; create fiscal space and build buffers against external shocks; and strengthen financial sector stability and resilience. In this regard, fiscal prudence will remain a top priority for our authorities. Once the pandemic abates and there is a significant economic recovery, the suspension of the fiscal rules will be lifted, and our authorities will resume policies to put debt back on a downward trajectory and to rebuild and expand fiscal buffers. Moreover, our authorities will continue to build on the progress made in regularizing outstanding arrears to official bilateral creditors. Our authorities are eager to resume work on the development of their disaster resilience strategy (DRS) with staff's support. They believe that the proposed DRS should be expanded in its scope to include medical emergencies, such as COVID-19.

Conclusion

The COVID-19 pandemic is eroding the hard-won gains achieved by the Grenadian authorities in the recent past. Our authorities have deployed the limited tools at their disposal, but these tools are clearly insufficient. To mount a decisive and comprehensive response, they need a level of support that far exceeds what is currently available from domestic sources. In this context, our authorities would highly value the support of the Fund, in particular, a disbursement under the RCF, and other development partners. Financing from the Fund would also play a catalytic role in mobilizing the much-needed support from other donors.

INTERNATIONAL MONETARY FUND

GRENADA

REQUEST FOR DISBURSMENT UNDER THE RAPID CREDIT FACILITY—SUPPLEMENTARY INFORMATION

April 27, 2020

Prepared By	Western Hemisphere Department

Lending into Arrears. As noted in the staff report, Algeria and Libya requested more time to consent to the IMF financing notwithstanding Grenada's arrears owed to them. Since then, consent was received from Algeria on April 22, 2020. Having not received such consent from Libya, staff has examined the application of the three criteria under the Lending into Arrears policy (see BUFF/15/113) with respect to the provision of Fund financing for Grenada in view of Libya's claims. Based on staff's assessment (see Annex I attached to this supplement) all three criteria are satisfied.

Annex I. Lending into Arrears to Official Bilateral Creditors – Staff's Assessment of Three Criteria

1. Prompt financial support from the Fund is considered essential and the member is pursuing appropriate policies.

- The Fund's prompt financial support is considered essential to address Grenada's balance of payments problems arising from the sharp contraction of exports and the need to bolster spending to contain the pandemic and support the economy. Regarding the pursuit of appropriate policies, once the current crisis dissipates, the Grenadian authorities will unwind the temporary measures to cushion the pandemic impact and return the focus of policies to building resilience to natural disasters and safeguarding macro-financial stability.

2. The debtor is making 'good faith' efforts to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program.

- In terms of process, the Grenadian authorities, during the 2014-17 ECF arrangement reached out bilaterally to the Libyan authorities to restructure the debt owed and to regularize arrears, and they offered to engage in a substantive dialogue and have sought a collaborative process with Libya to reach an agreement. The Grenadian authorities repeatedly (i) sent direct letters to the Libyan authorities, (ii) approached the office of Libya's Executive Director at the IMF, and (iii) provided the relevant information on a timely basis. The Grenadian authorities are committed to continue making their good faith efforts until all the remaining arrears are resolved.

- The terms the Grenadian authorities have consistently offered to the Libyan authorities are terms comparable to the Paris Club rescheduling negotiated in November 2015. Accordingly, these terms do not imply a contribution that is disproportionate relative to contributions provided by other official bilateral creditors.

3. The decision to provide financing despite these arrears is not expected to have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases.

- The contribution sought from Libya does not account for the majority of financing contributions required from official bilateral creditors. Libya does not appear to have a strong track record of providing contributions in the context of Fund-supported programs, having undertaken only 5 HIPC restructurings out of its total 18 Completion-Point debtors. Therefore, in staff's view, providing financing to Grenada despite the arrears is not expected to have an undue negative effect on the Fund's ability to mobilize future financing packages, given strong support from the international community in the context of the Fund-supported program for Grenada and the Grenadian authorities' efforts to resolve this in a timely manner.