INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/261

GRENADA

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

July 2023

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Grenada, 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 a lapse-of-time basis, following discussions that ended on May 26, 2023, with the officials of Grenada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 28, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation with Grenada

FOR IMMEDIATE RELEASE

Washington, DC – July 19, 2023: On July 17, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation[1] with Grenada and considered and endorsed the staff appraisal without a meeting.[2]

Grenada' tourism-dependent economy continued to recover from the pandemic amidst rising energy and food prices. Growth is estimated to have reached 6.4 percent in 2022, driven by a tourism rebound and construction activity. Inflation rose moderately to 2.9 percent by end-2022, as the authorities' policy response dampened the pass through from rising global food and fuel prices. Public debt is now back on a downward trend. The financial sector is well-capitalized and liquid although non-performing loans (NPLs) of credit unions have risen.

Economic growth is expected to continue in 2023, although at a slower pace of 3.9 percent, led by activity in tourism-related sectors. Inflation is expected to peak at 3.2 percent toward the end of this year. An economic slowdown of key tourist source markets, renewed increases in food and fuel prices, a natural disaster, or an abrupt decline in revenues from the Citizenship-by-Investment (CBI) program could weaken growth, worsen the fiscal position, and threaten debt sustainability. On the upside, shifting demand for services in advanced economies could make for even stronger tourism demand and investment projects may prove to have a more front-loaded impact on the economy.

The government is committed to a return to the fiscal rules in 2023, after triggering the escape clause in 2020–22 to address the fallout of the pandemic. It planned to amend the Fiscal Responsibility Law this year to best support the country's sustainable development. The government is seeking international support to facilitate the implementation of its Disaster Resilience Strategy and a transition towards renewable energy, critical for enhancing resilience to natural disasters and economic competitiveness.

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

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment

Fiscal buffers built up over the past decade have allowed the authorities to respond swiftly both to the pandemic and to higher energy and food prices. The government's relief measures in 2022 helped protect the population from rising global food and fuel prices. However, more could have been done to target this support and preserve fiscal resources.

The economic recovery is taking hold, but important near-term downside risks remain. Real GDP is projected to expand by 3.9 percent in 2023. An economic slowdown of key tourist source markets, renewed increases in food and fuel prices, a natural disaster, or an abrupt decline in revenues from the CBI program could weaken growth, worsen the fiscal position, and threaten debt sustainability. On the upside, shifting demand for services in advanced economies could make for even stronger tourism demand and investment projects may prove to have a more front-loaded impact on the economy.

The external position is assessed to be weaker than the level implied by fundamentals and desirable policies. Estimated imputed reserves are assessed as adequate.

Public debt is now back to a downward path and debt is assessed to be sustainable. However, Grenada is found to remain "in debt distress" due to its outstanding arrears of about US$37.6 million to official bilateral creditors, including Trinidad and Tobago and Algeria.

The immediate policy priority is to return to the fiscal rules to preserve credibility. Spending on relief measures should decline as the initial food and fuel price spike dissipates. The focus should be on structurally improving the effectiveness and targeting of social assistance programs (including through improvements in the determination of eligibility) and moving away from broad-based support.

The planned amendment of the Fiscal Responsibility Framework should be used to simplify the fiscal rules, institute a more effective medium-term fiscal framework, and enhance accountability and oversight. Maintaining the framework's current focus on debt reduction will continue to underpin debt sustainability. There is also a need for greater clarity on how fast debt should return to its medium-term path following a shock. A fully operationalized contingency fund will help smooth government expenditure and provide insurance for major shocks. Transparency should be enhanced by publishing public sector and SOE audited financial statements and improving data on CBI flows and their usage.

To make space for critical spending will require increasing the efficiency of both the tax system and public spending. The tax incentive framework should be updated based on a reassessment of the rationales, costs, and benefits of various incentives. Public investment management should be strengthened to address major bottlenecks in project implementation, improve project oversight, and strengthen the transparency and accountability of the procurement process.

The sustainability of public finances should be improved. Reforms to the National Insurance Scheme (NIS) through a phased increase in the contributory rate and pensionable age will help improve the financial position of the NIS and should be quickly implemented. The new pension system for new entrants to public service should be designed to be actuarially sound. The ongoing regularization of public sector workers should be guided by a thorough review of job functions that assesses the allocation of resources and help retrain public sector workers. A comprehensive wage review and payroll audits are needed to ensure the wage grid reflects the current labor market conditions.

The financial sector is stable, liquid, and resilient to shocks amid tightening global financial conditions, but NPLs at credit unions are at elevated levels. Lending standards and provisioning requirements should be tightened for credit unions while continuing to enforce corrective actions for those institutions that do not meet prudential requirements. Credit unions should strengthen their own debt collection efforts and bolster their internal governance and risk management practices. Achieving an effective risk-based and forward-looking supervisory approach will require more granular information, better analytical capacity, and well-designed stress testing. The authorities should find ways to improve financial literacy and should encourage financial institutions to leverage the ECCU regional credit bureau when it comes into operation.

To enhance competitiveness, Grenada should increase the domestic value-added of tourism, promote gender equality, and improve labor skills. Strengthening linkages with agriculture and fisheries will help increase the domestic value-added of tourism. Measures to boost agricultural productivity and build resilience to adverse weather events will be critical to securing future production. Policy efforts are needed to address identified gender gaps and incentivize female labor force participation. Training and apprenticeship programs should focus on increasing technical and entrepreneurial skills, better integrating academic institutions and employers, and facilitating the transition to employment.

Building resilience requires the government’s resolute implementation of its Disaster Resilience Strategy and an expeditious transition to renewable energy. Continued improvement in the regulatory framework can help incentivize the adoption of renewable energy. Concessional financing from multilaterals and climate funds can help catalyze private financing for investments in renewables and climate adaptation. Communication about the environmental impact of renewable energy projects would help foster public support and incentivize private financing of such projects.

Grenada: Selected Social and Economic Indicators, 2020-2028

Rank in UNDP Human Development Index out of 189 countries (2021)	68	Infant mortality rate per '000 births (2021)	14.4
		Adult illiteracy rate in percent (2014)	1
Life expectancy at birth in years (2021)	75	Poverty rate in percent of population (2019)	25
GDP per capita in US$ (2021)	9010	Unemployment rate (2021 Q2)	16.6
Population in millions (2021)	0.12		

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est.			Proj.			
	(Annual percentage change, unless otherwise specified)								
National income and prices									
GDP at constant prices	-13.8	4.7	6.4	3.9	3.8	3.5	3.2	2.7	2.7
GDP deflator	-0.3	1.2	1.8	3.0	2.8	2.0	2.2	2.2	2.2
Consumer prices, end of period	-0.8	1.9	2.9	3.2	2.8	2.0	2.0	2.0	2.0
Money and credit, end of period									
Credit to private sector	3.1	3.8	2.1	5.2	4.8	4.6	4.2	3.8	3.5
Broad money (M2)	9.1	8.5	9.9	5.7	4.3	3.3	3.2	2.8	2.8
	(In percent of GDP, unless otherwise specified)								
Central government balances (accrual)									
Revenue and grants	28.1	32.1	33.7	30.5	29.9	29.6	28.8	28.5	28.4
Expenditure	32.7	31.7	32.7	28.4	28.0	27.6	28.5	28.5	28.6
o.w. Capital expenditure	9.6	8.7	10.5	7.3	6.9	6.7	7.3	7.1	7.0
Primary balance	-2.6	2.1	2.6	3.6	3.6	3.6	1.6	1.3	1.0
Overall balance	-4.5	0.3	1.0	2.1	1.9	2.0	0.2	0.0	-0.2
Public debt (incl. guaranteed) 1/	71.4	71.0	64.6	61.1	58.3	55.0	51.9	49.3	47.1
Domestic	16.2	15.6	13.1	9.3	8.0	7.3	6.3	5.7	5.1
External	55.2	55.4	51.4	51.9	50.3	47.7	45.6	43.6	42.0
Savings-Investment balance	-16.4	-13.2	-17.3	-14.8	-13.2	-12.2	-12.3	-11.8	-11.5
Savings	15.2	15.4	14.4	10.7	12.4	13.7	14.7	15.5	16.2
Investment	31.6	28.7	31.7	25.5	25.6	25.9	27.0	27.3	27.7
External Sector									
Gross international reserves (millions of dollars)	290.9	324.2	352.6	384.6	412.6	414.6	422.6	430.1	451.7
(in months of imports)	5.6	5.2	5.2	5.5	5.8	5.6	5.5	5.4	5.5
Current account balance, o/w:	-16.4	-13.2	-17.3	-14.8	-13.2	-12.2	-12.3	-11.8	-11.5
Exports of goods and services	41.1	48.4	52.9	58.6	58.2	57.2	56.4	55.9	55.4
Imports of goods and services	52.2	56.3	62.8	63.3	61.2	59.1	58.3	57.3	56.6
External debt (gross)	92.9	95.5	92.7	88.2	83.6	79.5	76.0	72.8	70.2

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report; World Bank WDI; and IMF staff estimates and projections.
1/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

INTERNATIONAL MONETARY FUND

GRENADA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

June 28, 2023

KEY ISSUES

Context. Grenada is simultaneously navigating the recovery from the pandemic and a rise in energy and food prices. Growth is estimated to have reached 6.4 percent in 2022, driven by a tourism rebound and private and public construction projects. Inflation rose from 1.9 percent at end-2021 to 2.9 percent by end-2022. The authorities' policy response—facilitated by the build-up of fiscal buffers over the past decade—dampened the pass through from rising global food and fuel prices. Public debt is now back on a downward trend. The financial sector is well-capitalized and liquid although non-performing loans of credit unions have risen.

Outlook and Risks. The economy is projected to grow by 3.9 percent in 2023, led by activity in tourism-related sectors. Inflation is expected to reach 3.2 percent by end-2023. Downside risks include an economic slowdown of key tourist source markets, renewed increases in global food and fuel prices, a natural disaster, or an abrupt decline in revenues from the Citizenship-by-Investment (CBI) program. On the upside, strong demand for services in advanced economies could make for even stronger tourism inflows and investment projects may have a more frontloaded impact on the economy.

Policy Advice. To preserve fiscal credibility, the 2023 budget appropriately commits to returning to the fiscal rules. Spending on untargeted relief measures should decline as the initial food and fuel price spike dissipates. Steps should be taken to structurally improve the effectiveness and targeting of social assistance programs. To support the need for critical spending, particularly on building climate resilience, public financial management should aim to increase public expenditure efficiency. The planned amendment of the Fiscal Responsibility Framework should simplify the rules, make the medium-term fiscal framework more effective in providing forward guidance on fiscal policy, and enhance accountability and oversight. Regulation and supervision of credit unions need strengthening, and the vetting and approval process used for the CBI program should continue to be improved. A deeper focus on addressing structural challenges (which reflect, in part, longstanding capacity constraints) is needed to raise competitiveness, improve gender equality, accelerate the transition towards renewable energy, and build disaster resilience.

Approved By
Nigel Chalk (WHD) and Jarkko Turunen (SPR)

The mission team comprised Huidan Lin (head), Weicheng Lian, Li Lin, and Peter Nagle, with assistance from Huilin Wang and Millena Machado Damasio (all WHD). Discussions were held during May 15–26, 2023, in Saint George's, Grenada. The team met with Prime Minister, Honorable Dickon Mitchell, Minister of Finance Dennis Cornwall, Permanent Secretary of Ministry of Finance Mike Sylvester, other senior government officials, the Leader of His Majesty's Opposition, as well as private sector, labor union, and civil society representatives. Latoya Smith (OED), as well as Donna Kaidou-Jeffrey (Caribbean Development Bank), Leon Bullen (Eastern Caribbean Central Bank), and Vasilis Tsiropoulos (World Bank) joined some of the meetings. Feargal O'Brolchain (OED) attended the concluding meetings. In addition to the mission team, Camila Perez Marulanda (WHD) contributed to the Staff Report.

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TABLES

ANNEXES

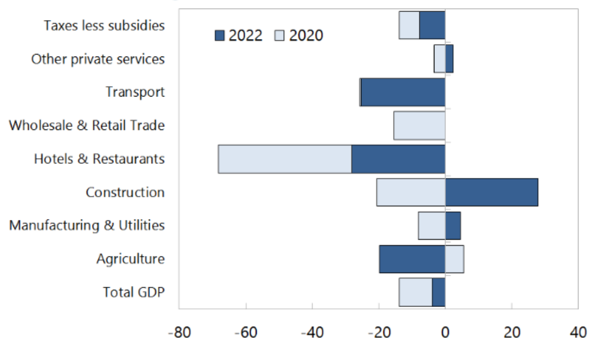
RECENT DEVELOPMENTS

1. Grenada is navigating the recovery from the pandemic and a rise in global energy and food prices. After contracting by 13.8 percent in 2020, the economy recovered in 2021 and 2022. The recovery has been supported by a strong rebound of tourism (especially in 2022) and construction activity. Agricultural production, though, fell by nearly one-quarter in 2022. Public debt has returned to a downward trend.[1]

2. An upswing in inflation has been dampened by price caps and reductions in indirect taxes. Inflation rose to 2.9 percent by end-2022 but the pass through from global food and fuel prices was lessened by a cap on fuel prices and reductions in the VAT rates on electricity and some food items. Nevertheless, a strong increase in food prices suggests that inflation faced by poorer households may be somewhat higher than the headline inflation. Real wages are below 2019 levels in most sectors.

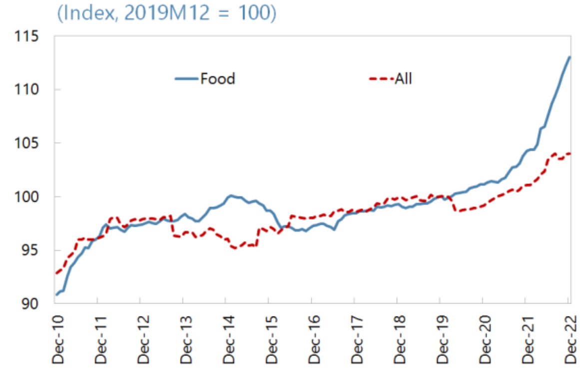
Grenada: Growth and Inflation

GDP by Major Sector
(In Percent Change Since 2019)



Sources: Country authorities and IMF staff calculations.

Domestic Food Prices
(Index, 2019M12 = 100)



Sources: Country authorities and IMF staff calculations.

3. Fiscal buffers have allowed the authorities to respond swiftly to the COVID and commodity price shocks. Public debt fell from nearly 100 percent of GDP in 2014 to below 60 percent of GDP in 2019. This provided the fiscal space needed to cushion the impact of the pandemic and respond to higher food and fuel prices. Buffers now need to be restored to insulate against potential future shocks, including those arising from the impact of climate change.

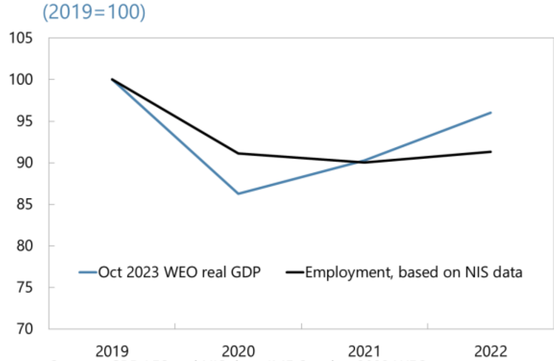
4. A new administration which took office in June 2022 is focusing on creating a sustainable, equitable, and prosperous society. This involves an ambitious social agenda that encompasses food security, healthcare, education, employment, and the environment alongside a commitment to fiscal prudence and improved accountability.

[1] Public debt refers to central government and government guaranteed debt in this report, unless otherwise stated.

5. Stayover tourist arrivals averaged 87 percent of their 2019 level in 2022. Tourism activity is expected to fully return to pre-pandemic levels during 2023, but cruise ship arrivals are expected to underperform (most recently they have been around 55 percent of their 2019 level). Employment remains 9 percent below its level prior to the pandemic, with youth and female workers hardest hit.

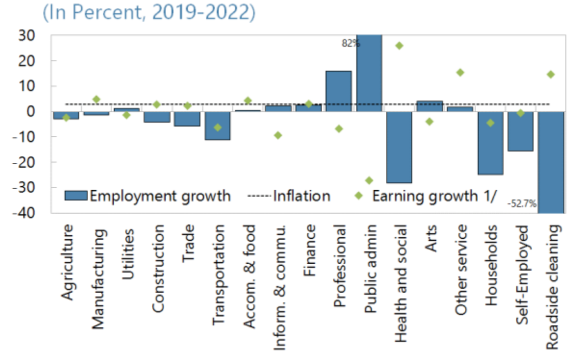
Grenada: Labor Market Developments

Real GDP and Employment
(2019=100)



Sources: GRD LFS and NIS data, IMF October 2023 WEO.

Employment and Earning Growth, by Sector
(In Percent, 2019-2022)



Sources: NIS and IMF staff calculations.
1/ Average monthly nominal earning.

6. The external position in 2022 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. The current account deficit is estimated to have widened to 17.3 percent of GDP in 2022 (from 13.2 percent in 2021), as higher import bills more than offset the stronger services balance from the tourism rebound.[2] The capital account saw a slight drag from smaller Citizenship-by-Investment (CBI) flows to the National Transformation Fund (NTF) but this was more-than-offset by a stronger financial account from CBI flows to private investment (reflecting a lower threshold for the investment program). The REER depreciated by 3.5 percent in 2022, reflecting the faster upswing in trading partners' inflation. The currency remains modestly overvalued. The EBA-Lite-based current account gap of 3.4 percent of GDP underpins the assessment. International reserves are at adequate levels (Annex II).

7. The fiscal balance improved in 2022, supported by one-off revenues, leaving Grenada with some fiscal space. There was a 2.6 percent of GDP primary surplus in 2022 and public debt fell to 64.6 percent of GDP.

- *Expenditure*. A high court ruling in March resulted in retroactive pension payments of 2.3 percent of GDP. In addition, the government maintained several measures to limit the pass through from global food and fuel prices, although did raise the cap on fuel prices (the total cost of the relief

[2] The 2021 current account deficit (of 13.2 percent of GDP) is estimated to be smaller than envisaged in the 2022 Article IV (24.5 percent of GDP) due mainly to historical revisions that corrected personal services credits (e.g., online educational services) and financial services debits, following a CARTAC external sector statistics mission.

measures, including tax expenditures, was 2.6 percent of GDP). There was restraint, however, on other current expenditures.

- *Revenue*. Tax revenues rose with the economic recovery. SOE dividends and CBI revenues were both strong.

- *Debt*. The authorities' medium-term debt strategy has been to obtain concessional financing from existing external creditors and extend the maturity of domestic debt.[3] Based on the government's medium-term targets for the fiscal path, public debt is sustainable although Grenada is found to remain "in debt distress" due to its outstanding arrears (of 3.1 percent of GDP) to official bilateral creditors.[4]

8. **Financial stability risks are moderate even with the tightening of global financial conditions and worsening credit quality.** Private sector credit growth (especially bank loans) remains sluggish, due to the scarcity of profitable projects and lingering economic uncertainty. Loan moratoria introduced during COVID have been withdrawn. As regulatory forbearance was removed, credit union non-performing loans (NPLs) rose to 9.7 percent of total loans in 2022Q3 (before falling to 8.4 percent in 2022Q4). Bank NPLs edged up to 3.6 percent of loans in 2022Q4. Loan loss provisioning in the banks meets the ECCB's 60 percent requirement but is insufficient in credit unions. Capital adequacy ratios remain above the regulatory minimum (except for one credit union). Liquidity levels remain ample among banks but have deteriorated somewhat among credit unions. DCash (the pilot CBDC project launched in March 2021) has had a low uptake, in part due to challenges in building trust with the new technology and limited adoption by merchants and financial institutions.

Grenada: Financial Soundness Indicators
(In Percent)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Credit Growth (year-on-year change)										
Banks	-5.7	-5.1	-3.8	-0.2	0.6	2.8	1.4	1.4	3.8	2.1
Credit Unions	11.3	9.8	16.5	13.8	19.8	11.6	12.1	8.5	7.9	5.8
Balance Sheet Structural Risk										
Deposit-to-loan ratio, Banks	130.6	145.8	163.5	170.0	167.8	170.5	177.0	181.6	182.1	182.6
Deposit-to-loan ratio, Credit Unions	104.1	114.9	115.9	116.0	112.5	112.2	114.6	114.0	114.9	120.1
FX liabilities / Total liabilities, Banks	7.0	7.2	8.8	8.7	11.1	12.4	14.2	13.7	15.6	16.4
FX loans / Total loans, Banks	4.2	4.4	5.3	4.8	4.9	8.8	10.9	11.5	11.3	14.5
Profitability, Return on Assets										
Banks	-1.9	-0.1	1.5	1.5	1.1	1.0	1.4	0.4	0.3	0.3
Credit Unions	1.8	1.8	1.6	1.8	1.4	2.1	2.4	1.4	1.5	1.2

[3] This strategy is in line with commitments from development partners.

[4] The authorities are making efforts to settle outstanding arrears to official bilateral creditors. In October 2022, the Government of Grenada reached a repayment agreement with the State of Libya on the US$5 million in debt arrears. As of May 2023, the arrears to Algeria and Trinidad and Tobago amounted to US$1.9 million and US$35.7 million, respectively.

Grenada: Financial Soundness Indicators (Concluded)
(In Percent)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset quality, Non-performing Loan Ratio										
Banks	13.8	14.6	10.0	6.7	3.9	2.4	2.2	2.2	2.9	3.6
Credit Unions	7.8	5.3	4.6	5.5	5.8	5.2	5.2	5.2	7.2	8.4
Provisions for Loan Losses to NPLs										
Banks	35.8	39.3	42.9	49.9	63.9	77.0	82.8	112.5	67.8	84.1
Credit Unions 1/	34.5	25.0	34.0	25.0	26.5	16.0	23.5	28.5	27.4	36.5
Liquidity Assets / Total Assets										
Banks	27.6	32.7	37.8	41.4	42.1	44.9	43.5	46.8	44.9	49.1
Credit Unions	10.3	14.2	16.6	14.2	13.2	16.5	19.3	18.1	17.5	16.9
Capital Adequacy Ratio 2/										
Banks	14.1	13.7	12.6	14.2	13.8	13.2	11.9	15.1	15.8	14.1
Credit Unions	11.4	10.8	11.0	11.3	11.5	11.6	11.6	12.3	12.9	12.0

Sources: ECCB and IMF Staff Calculations.
1/ Credit unions set provisioning according to IFRS 9 since 2018.
2/ For banks, capital adequacy ratio = regulatory capital / risk-weighted assets; for credit unions, regulatory capital/total assets.

OUTLOOK AND RISKS

9. The real economy is projected to expand at a slower pace of 3.9 percent in 2023. This reflects a moderation in activity of both tourism (following the strong rebound in 2022) and construction (as public investment scales back from a historic high level as fiscal rules become binding). Inflation is projected to reach 3.2 percent by end-2023. Inflation dynamics are underpinned by a slow pass-through of global prices to domestic prices as temporary relief measures are scaled back. The current account balance is expected to improve modestly to -14.8 percent of GDP reflecting rising tourism receipts. The primary fiscal balance will rise to 3.6 percent of GDP, putting public debt on a firm downward path to 55 percent of GDP by 2025.

10. The medium-term outlook is favorable. Tourism and public investment will remain key drivers for growth allowing output to gradually converge to potential by 2028 and remain around that level thereafter. CBI inflows are projected to taper off following the strong increases in 2022–23.[5] The external position is projected to strengthen due to an ongoing growth of tourism, a terms-of-trade improvement, and implementation of structural reforms to enhance competitiveness.

11. There are important near-term downside risks. Risks primarily stem from an economic slowdown of key tourist source markets (the U.S. and U.K.). High import costs for construction materials could weigh on activity in the sector. A renewed upswing in commodity prices would also drag on growth, weaken the fiscal position, and threaten debt sustainability. A larger-than-expected

[5] In February 2023, the U.S. passed legislation that requires people who earned Grenada citizenship through the CBI program to live in Grenada for three years before being eligible to apply for access to the U.S. through the E-2 investment visa. In March 2023, Grenada suspended processing new Russian and Belarusian applications. These developments are expected to negatively impact Grenada's CBI revenues in the coming years.

decline in CBI inflows would have similar effects. Were any of these risks to materialize, policy responses should include targeted transfers to the vulnerable, reductions of lower priority spending, and more intense financial sector oversight. Grenada remains subject to more frequent and severe natural disasters, whose impact can be mitigated by the government's implementation of its Disaster Resilience Strategy (Annex III). An unfavorable result from the pending arbitration from the International Center for Settlement of Investment Disputes (ICSID) could negatively affect the fiscal position.[6] Managing risks to debt sustainability will require a strong commitment to the fiscal responsibility framework (even as amendments to the framework proceed), further improvements in debt management, and implementing pension and national insurance scheme reforms. Upside risks include a stronger-than-expected tourism recovery, larger domestic spillovers from capital expenditures, a rapid implementation of reforms to improve competitiveness, and accelerating the move to renewable energy.

Authorities' Views

12. The authorities broadly agreed with staff's assessment about the outlook and risks. As the recovery matures, they expected growth to moderate but remain robust, with construction and tourism continuing to be the main drivers. They noted supply chain disruptions continue to weigh on activity in some sectors, and the high airfares pose a headwind to tourism. The authorities expect energy price increases to be persistent. They saw a slowdown in growth in key tourist source markets, notably the U.S. and U.K. as a key risk to the outlook.

POLICY DISCUSSIONS

A. Enhancing the Fiscal Framework

13. Fiscal rules will again provide a restraint on policy in 2023, implying a tightening of the fiscal stance. While a still-negative output gap could justify a slightly more accommodative fiscal stance, the return to the existing fiscal rules should be prioritized as a means to preserve fiscal credibility (after the application of the escape clause in 2020–22). The authorities' plans to raise the primary balance to 3.6 percent of GDP in 2023 is underpinned by modest reductions in public investment (from historically high levels), phasing out subsidies to food and fuel, and lower pension payments. Tax changes are aimed at improving health and protecting the environment by raising excise taxes and increasing the price of electricity and water.[7] The authorities' medium-term fiscal

[6] In 2021, the ICSID accepted True Blue Development's request for arbitration with the government of Grenada over the construction of the Kimpton Kawana Bay Resort, which is a CBI approved project. The project remains unfinished.

[7] Effective February 1, 2023, (i) increase the excise tax on alcohol from EC$1.10 and EC$4.40 per liter to EC$1.50 and EC$5.00 per liter, and the excise tax on cigarettes from 105 to 200 percent; (ii) increase the VAT on carbonated beverages, soft drinks/sodas, and drinks with high sugar content from 15 to 20 percent; (iii) reinstate the Environmental Levy (EVL) rate of EC$5 and EC$10 on electricity consumption of 100–150 kWh and over 150 kWh, respectively; (iv) apply an EVL of EC$5 and EC$10 on water use of 2801–5500 gallons and over 5500 gallons, respectively; (v) institute a "no-printing of more than 5 pages policy" across the Public Service.

framework (MTFF) projects tax revenues to grow slightly less than GDP but, compared to staff's projections, envisages higher CBI revenues that will be used to finance more capital spending.[8]

Grenada: Fiscal Projections
(Percent of GDP)

	2020	2021	2022	2023		2024		2025	
			Est.	Budget	IMF staff	MTFF	IMF staff	MTFF	IMF staff
Total revenue and grants	28.1	32.1	33.8	32.1	30.5	31.8	29.9	32.8	29.6
Tax revenues	22.1	21.0	22.2	21.2	22.4	21.2	22.0	21.2	21.9
Non-tax revenues 1/	2.4	3.4	4.6	8.9	6.1	8.6	5.9	9.6	5.7
Grants 1/	3.7	7.7	7.0	1.9	2.0	1.9	1.9	1.9	1.9
Total expenditure and net lending	26.9	31.7	32.8	30.3	28.4	29.7	28.0	29.0	27.6
Wages, salaries and allowances	9.3	9.8	8.2	8.9	9.0	8.7	8.7	8.4	8.4
Goods and services	4.7	5.2	4.0	4.5	4.0	4.4	4.0	4.3	4.0
Transfers and contribution to NIS	7.1	6.3	8.5	6.1	6.6	6.0	6.7	6.1	6.9
Capital expenditure	3.8	8.7	10.6	9.0	7.3	9.0	6.9	9.0	6.7
Interest payments	2.0	1.8	1.7	1.8	1.5	1.6	1.6	1.3	1.6
Primary balance	3.2	2.1	2.6	3.6	3.6	3.6	3.6	5.1	3.6
Overall balance	1.2	0.3	1.0	1.8	2.1	2.1	1.9	3.7	2.0

Sources: Grenadian authorities and IMF staff projections.
1/ Nonrefundable contributions under the CBI program that were used to finance investment projects are recorded under grants before 2023 but recorded under non-tax revenue starting 2023.

14. **Social spending should be better targeted.** The cap on freight costs has been rolled back, and VAT exemptions on electricity consumption have been reduced. Broad-based price controls on petroleum products and the reduction in the petroleum tax should be rolled back. Instead, these measures should be replaced with targeted transfers both to more efficiently use public resources and to ensure that demand responds to changes in relative prices. There is scope to improve the targeting and effectiveness of the Support for Education, Empowerment and Development (SEED) program as well as other social programs by improving the determination of eligibility, updating the poverty data with the results of the census and labor force surveys, strengthening the central beneficiary management system, and moving to cashless payments. Savings from better targeting of social programs should be used to increase the size of transfers to the vulnerable. The recently established permanent unemployment insurance program will also help improve the safety net and the program's design should be periodically reviewed as more information becomes available to ensure it does not discourage labor force participation or incentivize informality.

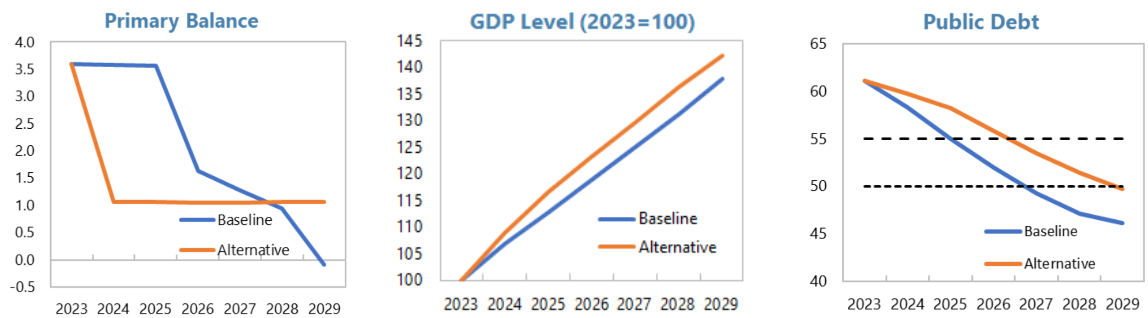
15. **To better serve the country's development needs, the institutional framework for fiscal policies should be enhanced.**[9] A medium-term debt anchor should be included in the

[8] To improve the transparency of the CBI program and align with the view of The IMF's Committee on Balance of Payments Statistics, the nonrefundable contribution to the CBI program is recorded as non-tax revenues, instead of grants, starting 2023.

[9] Based on the IMF FAD TA report on amending Grenada's Fiscal Responsibility Act, 2023. Also see 2022 Article IV Staff Report (IMF Country Report No. 22/134) that explored options to amend the Fiscal Responsibility Act.

revised Fiscal Responsibility Act (FRA) to underpin debt sustainability. This should be combined with an operational rule—i.e., a primary balance floor—that is established in the MTFF with stronger provisions for accountability and oversight. The date at which the debt target should be attained should be specified in the revised FRA and the coverage of public debt should be broadened to include the debt of all state-owned enterprises (SOEs) and statutory bodies, as well as PPP-related contingent liabilities. Under this broader definition, a debt anchor of 65 percent of GDP (or 50 percent of GDP for the central government and government guaranteed debt) seems reasonable with the target to be reached by 2030.[10] This would imply a primary balance floor of 1.1 percent of GDP that would provide some space to increase capital expenditures. To build further buffers against severe natural disasters, the debt target could be set at a lower level (e.g., 60 percent of GDP) but reached a few years later (e.g., by 2032).[11] Beyond the debt target, the fiscal framework would benefit from:

Grenada: An Alternative Debt Anchor
(In Percent of GDP)



Sources: IMF staff estimates.
Note: The additional fiscal space in the alternative scenario is used to increase capital expenditure, with a medium-term fiscal multiplier of 0.6.

- *A simpler set of fiscal rules.* Rules limiting primary expenditures and wage spending could be removed from the FRA to provide flexibility in spending and an incentive to mobilize revenues for more spending in key areas (including on public investment and social protection). The circumstances under which the escape clause can be applied could be more tightly circumscribed. Also, the framework could usefully provide some requirements on how fast debt should return to its medium-term path after a shock.

- *A more effective MTFF.* The three-year MTFF should play a central role in a more simplified fiscal framework as a way to provide clear forward guidance for future fiscal policy. The MTFF should: (i) set a primary balance floor for the current annual budget and for the two subsequent years that is consistent with reducing debt to the debt target, (ii) lay out multiyear revenue projections

[10] This assumes the stock of SOE and statutory body debt plus PPP-related contingent liabilities remain at the end-2022 level of 15 percent of GDP, as estimated by the authorities.

[11] This would imply an earlier achievement of the ECCU's public debt (central government and government guaranteed debt) target of reaching 60 percent of GDP by 2035.

and expenditure ceilings that are consistent with the targeted primary balance, and (iii) provide an ex-post analysis of budgetary outcomes. A timeline for approval by the Cabinet, submission to Parliament, and publication of the MTFF (including publishing a draft MTFF by end-June) should be required by the revised FRA.[12]

- *Strengthened accountability*. The revised FRA should explicitly make the Minister of Finance accountable for observing the procedural requirement to meet the primary balance floor in the MTFF under a "comply or explain" provision. In the event the primary balance floor is not met, the FRA should require that the Minister of Finance identify corrective revenue and expenditure policies for the following year's MTFF.

- *Enhanced oversight*. The Fiscal Responsibility Oversight Committee (FROC) should validate the macroeconomic assumptions underpinning the MTFF and provide assessments of fiscal risks. The council should provide a view on when/whether to trigger the escape clause and assess the realism of the associated recovery plan. Over the medium term, as capacity is built, the FROC could be given additional mandates such as providing independent macroeconomic forecasts and independently costing policy initiatives. The government should facilitate the council's access to timely information. The FROC's accountability could be improved by asking it to regularly report to Parliament and attend regular hearings. Also, periodic assessments of the FROC's performance by the Auditor General could be valuable.

- *Contingency fund*. Strictly implementing the authorities' plan to save 10 percent of the CBI inflows into the contingency fund would help smooth government expenditures and provide resources for future generations. A fully operationalized contingency fund—that is capitalized by the government's undrawn SDR holdings—would provide insurance for major shocks.

- *Improved fiscal transparency*. A summary of COVID-related expenditure was published in May 2023.[13] The government should further improve fiscal transparency by clarifying the definition of the central government as well as publishing audited financial statements of the government and SOEs, aggregate debt statistics, and improved data on CBI flows and their usage. Over the medium term, adopting GFSM2014 would be a further step forward.

16. The efficiency of the tax system can be improved to increase fiscal space. There is scope to do more risk-based internal auditing for customs administration. Greater investments can be made in retraining and retooling staff at both customs and domestic revenue administrations. Efforts to better measure tax gap, increase digitalization, and generally improve compliance can benefit from a TADAT assessment that helps identify priorities. The tax incentive framework needs an update based on a re-assessment of the rationales, costs, and benefits of various incentives. Tax holidays should be converted to accelerating depreciation or possibly allowing the full expensing of

[12] As a transition measure, the submission to Parliament and publication of the end-June MTFF could be delayed for a few years to allow for some time to gain experience with the new procedures.

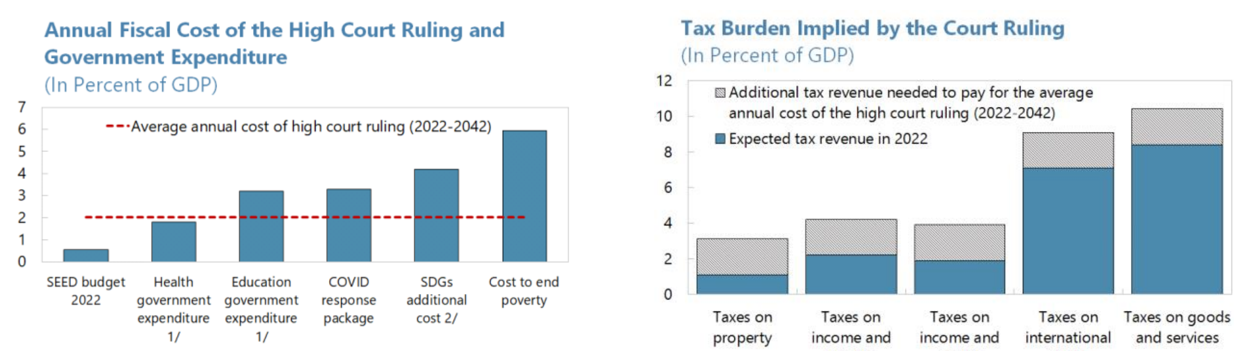
[13] See "Summary of COVID-19-Related Expenditure for 2020 and 2021, Government of Grenada, May 2023".

capital spending. Any amnesty for tax arears should be accompanied by efforts to reinforce compliance and prevent the recurrence of arrears.

17. There is scope to improve public investment management and increase the efficiency of public spending. The newly established Ministry of Mobilization, Implementation, and Transformation should address major bottlenecks in project implementation and increase oversight. Implementing PIMA/C-PIMA high-priority recommendations—notably to strengthen project appraisal and determine minimum maintenance requirements and costs for key infrastructure assets—would improve efficiency. The planned review of the procurement process should lead to concrete plans that will increase transparency and accountability. A framework for public-private partnership should be developed and include clear guardrails to manage fiscal risks.[14]

18. Parametric changes are needed to ensure the sustainability of the pension system (Box 1). A high court ruling reinstated the public pension scheme that was closed in 1985 and created large, retroactive, and prospective pension liabilities for the government. Paying for these additional liabilities (at an annual average cost of 1¼ percent of GDP over the next 20 years) risks raising the debt level, crowding out critical spending, or adding to the tax burden. Starting in 2024, a single pension scheme—that ensures the sustainability of the pension system—should be established for new entrants. Without major reforms, the National Insurance Scheme (NIS) is not financially sustainable and represents a large contingent liability for the public sector. The authorities' plans—to raise the pensionable age from 60 to 65 and the contribution rate from 11 to 16 percent (both by 2031)—will help reduce the NIS financing gap but will be insufficient to restore actuarial balance to the system. Further reforms could include gradually extending the reference wage years (from the current best 5 years to at least 20 years), replacing ad hoc benefit adjustments with a predictable price indexation formula, and applying uniform accrual rates that incentivize a longer contribution history. There is scope also to reduce administrative costs and provide incentives for self-employed workers to participate.

Grenada: Annual Fiscal Cost of the High Court Ruling Absent Reforms



Source: IMF staff calculations.
1/ This value correspond to 2018.
2/ This value correspond to the addtional spending by 2030, with 2018 as baseline.

Source: IMF staff calculations.

[14] "Mastering the Risky Business of Public-Private Partnerships in Infrastructure", 2021, Fiscal Affair Department, International Monetary Fund.

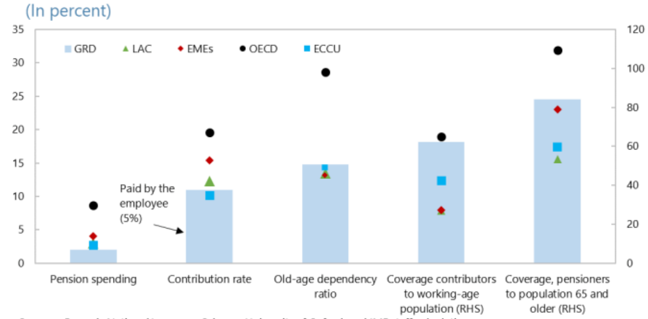
19. Efforts to improve public service provision should be stepped up. The ongoing review of public services should critically assess the allocation of resources and help retrain public workers. A plan should be developed to eliminate the differential treatment of public sector workers depending on the nature of their labor contract. A comprehensive wage review and payroll audits are needed to ensure the wage grid reflects the current labor market conditions, laying the foundation for a sustainable compensation management.

Box 1. Grenada: Social Insurance System[1/]

Before March 2022, the National Insurance Scheme (NIS) acted as a uniform, unified social insurance scheme in Grenada, covering both public and private sector employees. This followed the 1983 reform that closed all public sector pension schemes to newly hired public employees through the Pension Disqualification Act (PDA). Covering approximately 8,900 beneficiaries, the NIS provides protection for old age, disability, death, employment injury, maternity, and sickness benefits.

Pension benefits are determined by a generous accrual schedule, with a 11 percent contribution rate. The accrual schedule is frontloaded: the first ten years (500 weeks) earn a 30 percent replacement rate, with a 1 percent accrual for every 50 weeks thereafter, up to a ceiling of 60 percent. While not uncommon in the region, accrual rates for the first 10 years are very high, and the contribution rate is relatively low compared with non-ECCU countries.

Pension System Indicators
(In percent)



Sources: Grenada National Insurance Scheme, University of Oxford, and IMF staff calculations.

Without major reforms, the NIS is not financially sustainable, representing a large contingent liability for the public sector. The combination of high accrual and low contribution leads to growing deficits despite a relatively young population. Investment incomes have recently been used to pay for benefits, as contributions are no longer sufficient to pay for expenditures on an annual basis. In 2018, the NIS sold assets for the first time to pay benefits. The reserve is estimated to be exhausted between 2032 and 2034.

In March 2022, a high court ruling reinstated the public pension scheme, creating a two-tier system. The high court ruling declared the PDA unconstitutional, on the ground that the reform failed to make provisions (granted by the Constitution) for early retirement by special job categories and canceled positions. The ruling established 38 years of pension entitlements with retroactive effectiveness.

The court decision on public pension implies significant, new pension liabilities for the government. Without a reform, the new prospective payment is projected to rise steadily in the next few decades, from about 0.8 percent of GDP annually through 2025 to about 3.4 percent of GDP by 2060. This could crowd out substantial fiscal space for capital investment and social spending, undermining the efforts to achieve Sustainable Development Goals.

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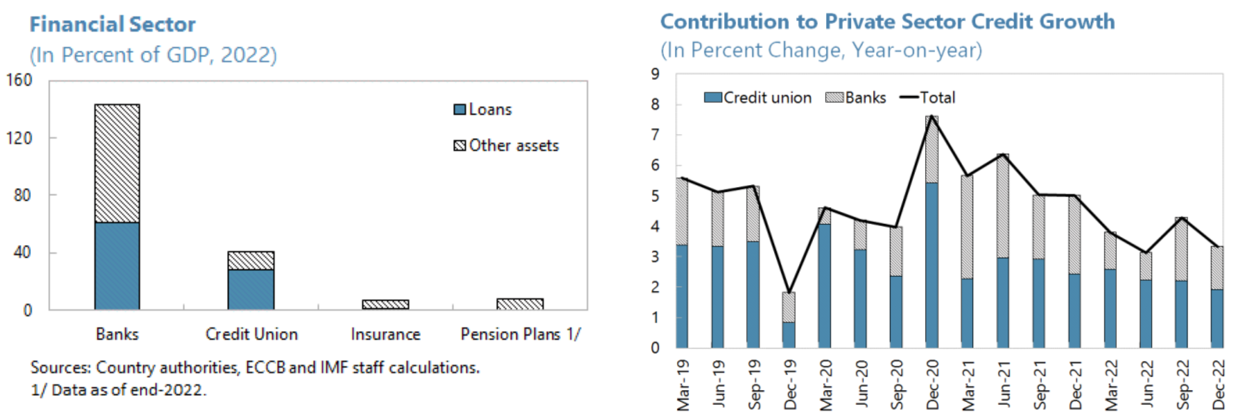
[1] Based on IMF FAD TA report on Grenada public pensions, 2022.

Authorities' Views

20. The authorities broadly agreed with staff's advice on preserving fiscal credibility and sustainability. They committed to an increase of the primary fiscal balance this year to meet the fiscal rule constraints. Given the persistence of the increases in food and energy prices, the existing fiscal relief measures will be kept in place, along with continued efforts to enhance the social protection programs. The authorities agreed with the technical aspects of staff's recommendations on amending the FRA, but preferred a phased approach. Key planned amendments include broadening the coverage of public debt, removing the rule limiting primary expenditures, and enhancing the oversight by the fiscal council. The authorities prefer to keep a primary balance floor—calibrated to meet the debt anchor—and a wage bill ceiling in the FRA with the aim to incentivizing additional fiscal prudence. The authorities stressed the importance of making the pension system sustainable and agreed that the regularization of public sector workers must go together with the pension reform and be based on a thorough review of job functionality.

B. Safeguarding Financial Stability and Improving Intermediation

Grenada: Financial Sector Assets and Credit Growth



Sources: Country authorities, ECCB and IMF staff calculations.
1/ Data as of end-2022.

Sources: Country authorities and IMF staff calculations.

21. The regulation and supervision of credit unions need to be strengthened. Credit unions account for one-fifth of deposits and one-third of loans. They support financial inclusion (with 84,000 members) and increase access to consumer credit and mortgages (Box 2). However, their rising systemic importance calls for better oversight:

- *Regulations.* The Grenada Authority for the Regulation of Financial Institutions (GARFIN) should tighten lending standards and provisioning requirements and provide a tighter definition of capital (aligned with that for banks with capital requirements based on risk weights for broad categories of loan exposures). Clearer regulatory guidelines, periodic stress testing, and better enforcement of corrective actions would help mitigate risks in the sector.

- *NPL.* GARFIN has appropriately intensified the monitoring of NPL management, workout, and provisioning (e.g., through more frequent and targeted on-site examinations) and should continue such efforts. Credit unions should be required to improve their internal risk management practices and debt collection efforts, recognizing the difficulty of repossessing and liquidating collateral, the uncertainty in collateral valuation, and the lack of consistent information on borrowers' credit history. There is a need for credit unions to more quickly recognize loan losses and devise a strategy to reduce their legacy NPLs.

- *Supervision.* An effective risk-based and forward-looking supervisory approach would boost confidence in the soundness of credit unions and allow risks to be detected and addressed at an early stage. To achieve this will require (i) more granular information, (ii) better analytical capacity, and (iii) well-designed stress testing. GARFIN should implement the risk-based supervisory templates (that have been updated recently with CARTAC support) and require an improvement in the governance and risk management of credit unions.

- *Data.* GARFIN should consider publishing more details on prudential ratios, provisioning, and the composition of loans by sector and by type of credit.

Box 2. Grenada: Credit Unions

Grenada saw a rapid expansion of credit unions in the past decade. Their total assets grew by 13.4 percent annually during 2013–19, outpacing banks (at 4.9 percent annually). During the pandemic, credit unions continued growing faster than banks, though the growth difference narrowed.

The sector is highly concentrated in three largest credit unions (out of ten). They jointly accounted for 88 percent of total loans in 2022Q4. Most borrowing was for houses, home furnishing, and land and vehicle purchase.

Loan Composition of Top 3 Credit Unions
(In Percent of Total Loans)

	2021	2020
Business	4.7	6.3
Housing, home furnishing, land purchase	48.7	45.9
Vehicle	6.1	6.7
Other 1/	40.5	41.1

Sources: Annual reports of credit unions.
1/ This category includes debt consolidation, personal expenses, and education.

Credit union NPLs rose significantly during the pandemic, before stabilizing in recent quarters. NPLs delinquent for more than 90 days rose from 4.5 percent in 2019Q4 to 9.7 percent in 2022Q3, before falling to 8.4 percent in 2022Q4.

These increases were driven by largest credit unions and occurred mainly after the expiration of loan moratorium programs at end-2021, while smaller credit unions had elevated NPLs even before the pandemic.

Credit unions in Grenada face other challenges, which can increase vulnerabilities during a downturn.

- *Profitability*. Profitability had been through a secular decline, which was exacerbated by the pandemic. Beyond the saturated domestic loan markets, credit unions have limited business opportunities—investment in securities outside the ECCU needs permission from GARFIN on a case-by-case basis. The mandate of credit unions limits their ability to charge fees from members to boost profitability.

- *Risk management*. Utilizing the regional partial credit guarantee scheme to help manage risks remains a challenge. Moreover, credit unions do not have access to central bank operations or deposit insurance, making them vulnerable to liquidity shocks.

22. **GARFIN should strengthen crisis preparedness and incentivize greater resilience of financial institutions to climate-related shocks.** Enhanced collaboration with the ECCB is needed to accelerate the formulation of a national crisis management plan to contain potential system-wide

risk in both banks and non-banks. Efforts to incentivize greater financial resilience to climate-related shocks should incorporate (i) a reporting structure for granular monitoring of physical climate risks and relevant transmission channels; (ii) regular risk assessments and stress tests on major climate events; and (iii) drawing on ECCB initiatives to incorporate climate risks into reporting, regulatory, and supervisory frameworks.

23. The authorities should encourage financial institutions to leverage the ECCU regional credit bureau when it becomes operational and to improve financial literacy (including through school curricula and community outreach). Smaller firms' access to credit could be improved by drawing more on the regional partial credit guarantees scheme, providing training on developing a business plan and preparing financial statements, and streamlining business loan applications.

24. A strengthened AML/CFT framework would mitigate risks associated with the CBI program and potential threats to correspondent banking relationships. The CFATF's mutual evaluation report (published in July 2022) highlighted weaknesses in Grenada's understanding of the ML/TF risk associated with legal persons and the CBI program. The report also highlighted deficiencies related to the verification of basic and beneficial ownership information. The authorities recently staffed the AML/CFT committee and should: (i) strengthen measures to mitigate the misuse of legal persons, (ii) enhance arrangements for the verification of basic and beneficial ownership information, (iii) improve the vetting and approval process used for the CBI program, and (iv) continue to engage with counterparts in Europe and the U.S. to address their national security concerns arising from Grenada's CBI program.

25. Safeguards assessment. An updated safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of DCash introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Authorities' Views

26. The authorities agreed that regulation and supervision of credit unions should be stepped up. The financial system remains liquid, while limited availability of bankable projects constrained bank credit growth. GARFIN has strengthened the enforcement of corrective actions, which helped reduce NPLs from the peak level in 2022Q3. They stressed the need to raise loan loss provisioning requirements for credit unions and is working with non-bank regulators in the region in this regard. The authorities continued to develop the capacity to assess climate risks and appreciated the support from CARTAC in enhancing the risk-based supervisory approach and assessing macro-financial risks.

C. Enhancing Competitiveness

27. Efforts to increase airlift and expedite the border process have led to a notable increase in the number of flights, diversifying the source countries of tourists. There is scope to promote Grenada as a destination for sports, nautical, eco-advendure, health and wellness, and community-based tourism. Developing the linkages with domestic agriculture and fisheries would increase the domestic value added of tourism. Measures to boost agricultural productivity and build resilience to adverse weather events will be critical to securing future production.

28. There is scope to better promote gender equality, boost labor participation, and improve skills. There is evidence of a gender pay gap and a female participation gap (Box 3). Incentivizing female labor force participation—including by promoting transparent pay practices and investing in care facilities to reduce the burden of family duties—could boost labor supply and potential growth.[15] The authorities' Gender Equality Policy and Action Plan has piloted gender budgeting and a gender budget statement has been incorporated into the budget in 2023 that lays out the government's objectives and provides gender-focused outcome indicators to judge performance. Training and apprenticeship programs (including a reformulated *Imani* program) should focus on increasing technical and entrepreneurial skills, better connecting academic institutions with employers, and facilitating the transition to employment. Finally, planned adjustments in the minimum wage should be consistent with identified productivity gains and be supported by efforts to facilitate job searching.

Authorities' Views

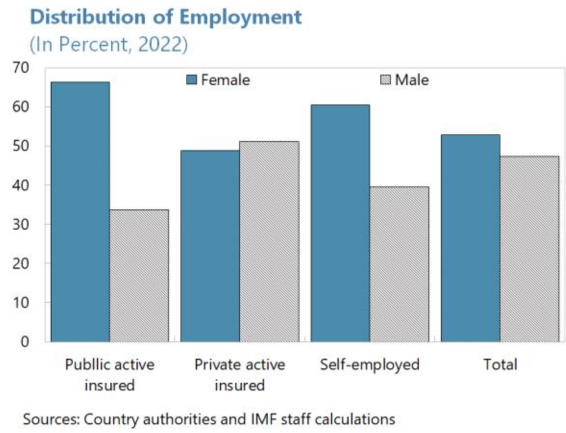
29. The authorities concurred with the need to increase the value added of the tourism sector, including through deepening linkages with other sectors such as agriculture. Ongoing initiatives in the agricultural sector will also help improve efficiency and increase agricultural security and resilience. Training programs provided by both the public and private sectors will help develop skills and boost employment, including for the youth, and address potential labor shortages in some sectors.

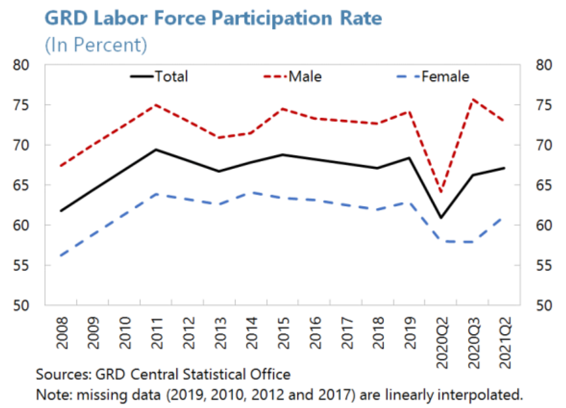
Box 3. Grenada: Gender Gap in Labor Markets

Average income and labor market participation for women are lower than for men, despite women's higher education attainment on average. In the sample of employment registered with the NIS, women dominate in the public and self-employed sectors. Men on average earn more than women across all major types of employment. Female labor force participation, as reported in the labor force survey, was persistently below male participation by 10–11 percentage points during 2010–19.

[15] Closing the gender gap in labor force could boost labor force participation by about 3½ percentage points from around 67 percent in 2021 (latest available data).

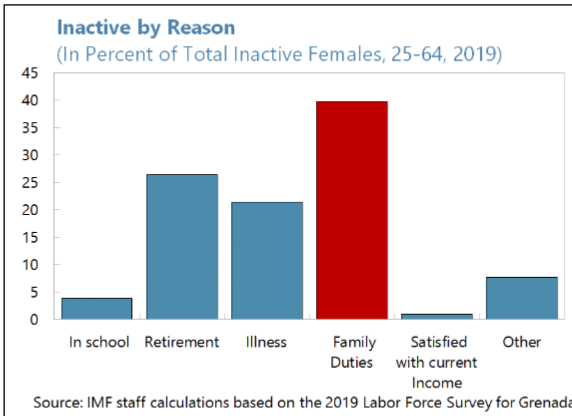
Box 3. Grenada: Gender Gap in Labor Markets (Concluded)





Using microdata from the Labor Force Survey, a Mincer "human capital earnings function" analysis points to a gender pay gap—that is, women tend to receive less income than men with the same observable characteristics. Individuals with a higher level of education or longer work experience earn higher pay. Individuals working in construction, information and communication, and financial and insurance activities also tend to earn higher pay. However, controlling for the variations in education attainment, experience, industry/occupation affiliation, region and time dummies, the coefficient on the gender variable is negative and statistically significant.

Results from an estimated *Probit* model suggest that women are 12 percent less likely than men to participate in the labor force. This holds when a few observable characteristics are accounted for, including age, education attainment, size of the household, and whether living with young children. Prime-age workers participate more and individuals with a higher level of education are more likely to join the labor force, especially those who have obtained post-secondary education. Contrary to expectations that childcare burden reduces labor force participation, the evidence suggests that individuals who live with children are more likely to participate in the labor force. The estimated gender difference in participation rate could reflect broader family responsibility borne by women beyond childcare, including possibly elderly care.

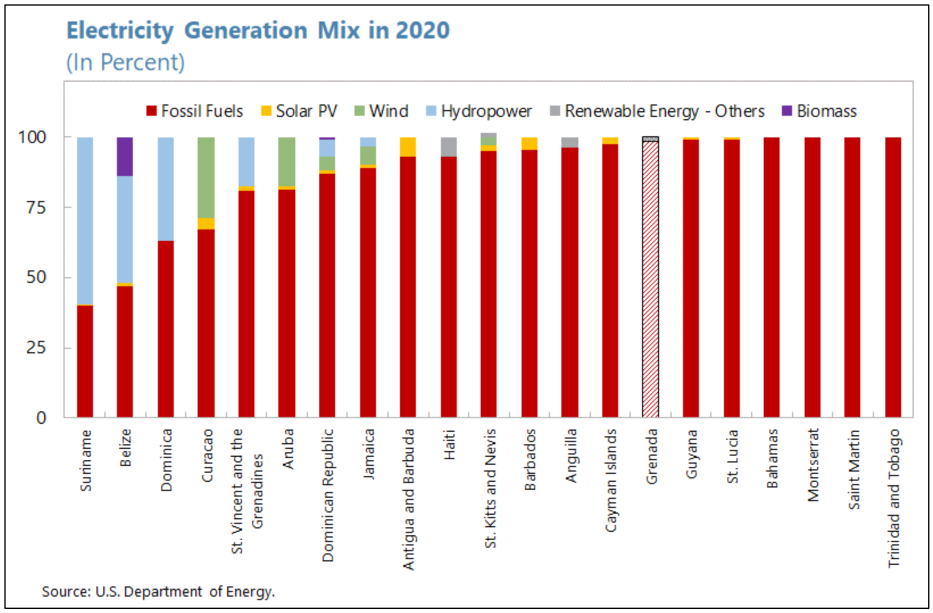


D. Building Resilience

30. The transition to renewable energy is being accelerated.[16] Enhancing the regulatory framework—including through the newly approved National Energy Policy and the Grenada

[16] See 2022 Article IV Staff Report (IMF Country Report No. 22/134) for detailed discussion on potential improvement in economic competitiveness and longer-term balance-of-payments position from a transition to renewable energy.

Electricity Sector Grid Code—would help ensure a smooth absorption of renewable energy generation in the existing grid and reduce permitting and connection delays. Concessional financing from multilaterals and climate funds would help catalyze private capital for investments in renewables. Better communication about the environmental impact of drilling for geothermal generation would help foster public support and incentivize private capital.



31. The authorities are advancing the implementation of their Disaster Resilience Strategy. The 2023 budget included a Climate Budget Tagging pilot (with World Bank support) to categorize, measure, and monitor climate-relevant public policies. This has resulted in the identification of around 2 percent of GDP in climate-rated projects. Coverage has been renewed for both the Caribbean Catastrophe Risk Insurance Facility and a World Bank Catastrophe Deferred Drawdown Option facility. Regulations should, though, be updated following the recent approval of the Disaster Management Bill to strengthen the technical and operational capacity of the National Disaster Management Agency and improve the policy response to climate risks.

Authorities' Views

32. The authorities agreed on the importance of accelerating energy transition and building resilience. The National Energy Policy prioritizes the development of geothermal, solar, and wind resources, which can be facilitated by affordable financing and regulatory reforms that speed up the approval and connection of projects. The authorities noted that concessional financing and grants are critical for increasing spending on disaster management and resilience.

E. Data Issues

33. Continued improvement of data collection would support evidence-based policymaking. Data provision is broadly adequate for surveillance but has important weaknesses that hamper economic analysis. The expected resumption of the labor force survey, as well as the publication of the 2022 Census, will help facilitate improved analysis of social and economic development (especially, employment, poverty, and gender equality). An update of the CPI weights is needed to ensure headline inflation rates are an accurate reflection of inflation faced by households. CBI statistics should be improved (through publishing the flows and usage of resources). The collection and dissemination of high frequency indicators would improve the accurate recording of data. A timely appointment of a new Central Statistics Office director should be a priority.

Authorities' Views

34. The authorities agreed that further progress is needed to improve data availability and quality to support policy analyses. They noted that progress had been made on this front, although the auditing of government financial statements was delayed due to capacity constraints. They agreed with the urgent need to update the CPI basket, resume the labor force survey, publish data from the 2022 Census, and improve the quality of CBI statistics.

STAFF APPRAISAL

35. Fiscal buffers built up over the past decade have allowed the authorities to respond swiftly both to the pandemic and to higher energy and food prices. The government's relief measures in 2022 helped protect the population from rising global food and fuel prices. However, more could have been done to target this support and preserve fiscal resources.

36. The economic recovery is taking hold, but important near-term downside risks remain. Real GDP is projected to expand by 3.9 percent in 2023. An economic slowdown of key tourist source markets, renewed increases in food and fuel prices, a natural disaster, or an abrupt decline in revenues from the CBI program could weaken growth, worsen the fiscal position, and threaten debt sustainability. On the upside, shifting demand for services in advanced economies could make for even stronger tourism demand and investment projects may prove to have a more front-loaded impact on the economy.

37. The external position is assessed to be weaker than the level implied by fundamentals and desirable policies. Estimated imputed reserves are assessed as adequate.

38. Public debt is now back to a downward path and debt is assessed to be sustainable. However, Grenada is found to remain "in debt distress" due to its outstanding arrears of about US$37.6 million to official bilateral creditors, including Trinidad and Tobago and Algeria.

39. The immediate policy priority is to return to the fiscal rules to preserve credibility. Spending on relief measures should decline as the initial food and fuel price spike dissipates. The focus should be on structurally improving the effectiveness and targeting of social assistance programs (including through improvements in the determination of eligibility) and moving away from broad-based support.

40. The planned amendment of the Fiscal Responsibility Framework should be used to simplify the fiscal rules, institute a more effective MTFF, and enhance accountability and

oversight. Maintaining the framework's current focus on debt reduction will continue to underpin debt sustainability. There is also a need for greater clarity on how fast debt should return to its medium-term path following a shock. A fully operationalized contingency fund will help smooth government expenditure and provide insurance for major shocks. Transparency should be enhanced by publishing public sector and SOE audited financial statements and improving data on CBI flows and their usage.

41. To make space for critical spending will require increasing the efficiency of both the tax system and public spending. The tax incentive framework should be updated based on a reassessment of the rationales, costs, and benefits of various incentives. Public investment management should be strengthened to address major bottlenecks in project implementation, improve project oversight, and strengthen the transparency and accountability of the procurement process.

42. The sustainability of public finances should be improved. Reforms to the NIS through a phased increase in the contributory rate and pensionable age will help improve the financial position of the NIS and should be quickly implemented. The new pension system for new entrants to public service should be designed to be actuarially sound. The ongoing regularization of public sector workers should be guided by a thorough review of job functions that assesses the allocation of resources and help retrain public sector workers. A comprehensive wage review and payroll audits are needed to ensure the wage grid reflects the current labor market conditions.

43. The financial sector is stable, liquid, and resilient to shocks amid tightening global financial conditions, but NPLs at credit unions are at elevated levels. Lending standards and provisioning requirements should be tightened for credit unions while continuing to enforce corrective actions for those institutions that do not meet prudential requirements. Credit unions should strengthen their own debt collection efforts and bolster their internal governance and risk management practices. Achieving an effective risk-based and forward-looking supervisory approach will require more granular information, better analytical capacity, and well-designed stress testing. The authorities should find ways to improve financial literacy and should encourage financial institutions to leverage the ECCU regional credit bureau when it comes into operation.

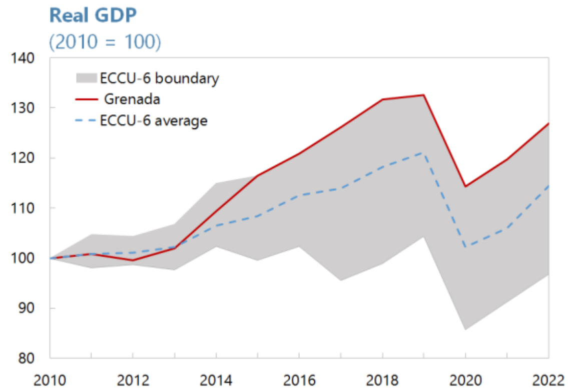
44. To enhance competitiveness, Grenada should increase the domestic value-added of tourism, promote gender equality, and improve labor skills. Strengthening linkages with agriculture and fisheries will help increase the domestic value-added of tourism. Measures to boost agricultural productivity and build resilience to adverse weather events will be critical to securing future production. Policy efforts are needed to address identified gender gaps and incentivize female labor force participation. Training and apprenticeship programs should focus on increasing technical and entrepreneurial skills, better integrating academic institutions and employers, and facilitating the transition to employment.

45. Building resilience requires the government's resolute implementation of its Disaster Resilience Strategy and an expeditious transition to renewable energy. Continued improvement in the regulatory framework can help incentivize the adoption of renewable energy. Concessional financing from multilaterals and climate funds can help catalyze private financing for investments in renewables and climate adaptation. Communication about the environmental impact of renewable energy projects would help foster public support and incentivize private financing of such projects.

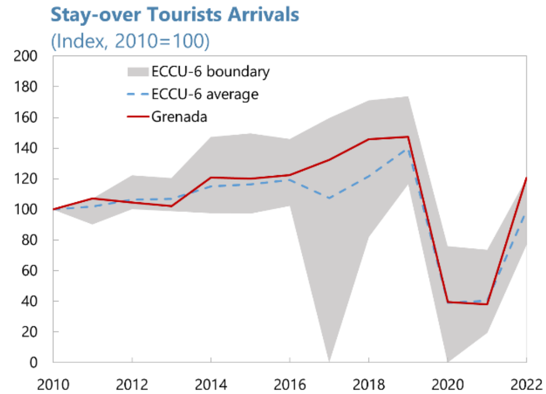
46. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Grenada: Key Macroeconomic Indicators

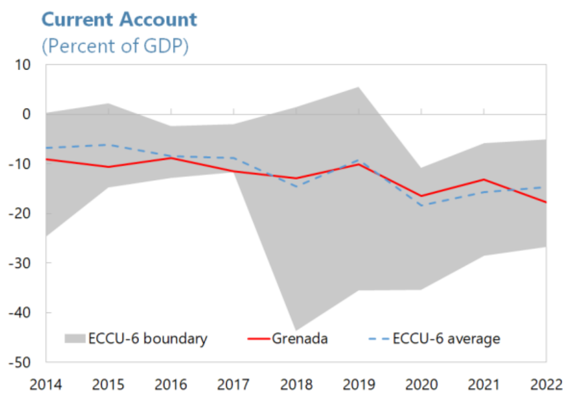
Real GDP level continues staying above the ECCU average.



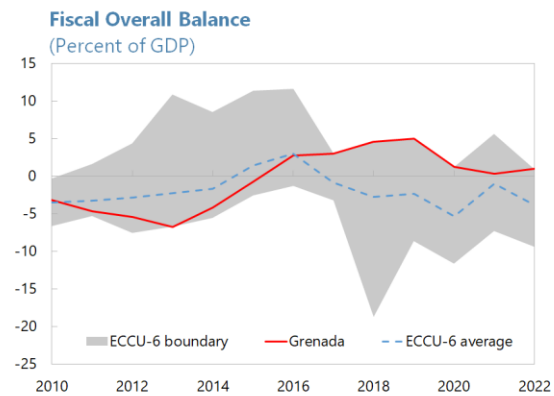
Tourist arrivals have been catching up and exceeded the ECCU average, following a collapse in 2020.



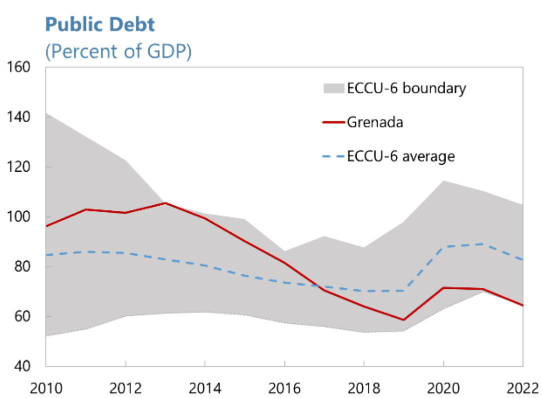
The current account deficit has been broadly in line with the ECCU average,...



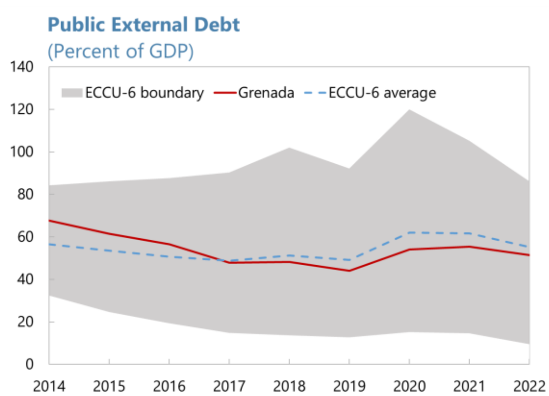
...though fiscal position stays stronger than the ECCU average.



Public debt developments since the onset of the pandemic have been in line with the regional average,...



...financed largely by external creditors.

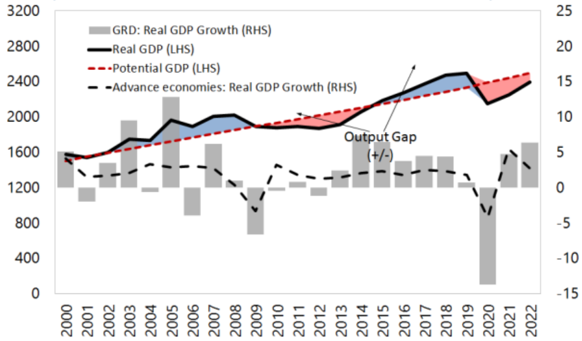


Sources: ECCB, country authorities and IMF staff calculations.

Figure 2. Grenada: Real Sector Developments

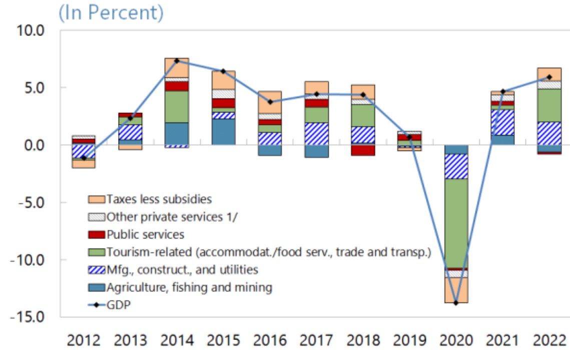
The economy continued to rebound in 2022, with a narrowing output gap,…

Actual and Potential Real GDP
(Levels in Millions of 2006 EC$; Growth in Percent)



…driven by construction and tourism-related sectors.

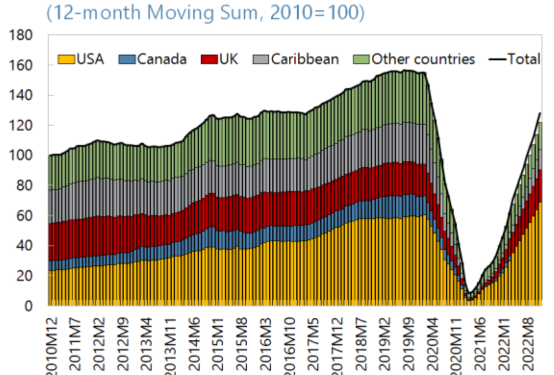
Contribution to Growth by Sector
(In Percent)



1/ Others include Information and Communication; Financial and Insurance; Real Estate; Professional, Scientific and Technical Activities; Administrative and Support Services; Private Education and Health Services; Arts, Entertainment and recreation; and Other service activities.

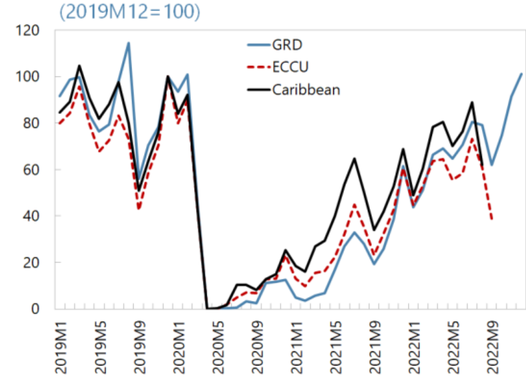
Stay-over arrivals rebounded strongly, especially from the U.S., and, to a lesser extent, U.K.

Stay-over Arrival Index by Source Country
(12-month Moving Sum, 2010=100)



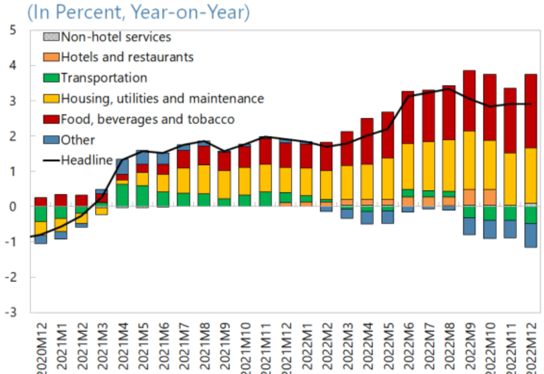
Tourist arrivals are back to pre-pandemic levels and above the regional averages.

Tourist Arrival Index
(2019M12=100)



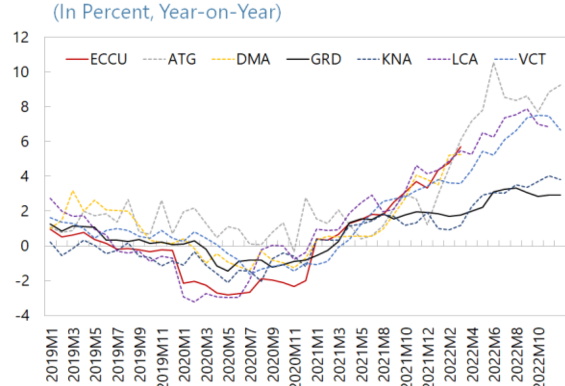
Inflation picked up, driven by fuel and food prices…

Contributions to Headline Inflation
(In Percent, Year-on-Year)



…in line with most ECCU countries.

ECCU: Inflation
(In Percent, Year-on-Year)

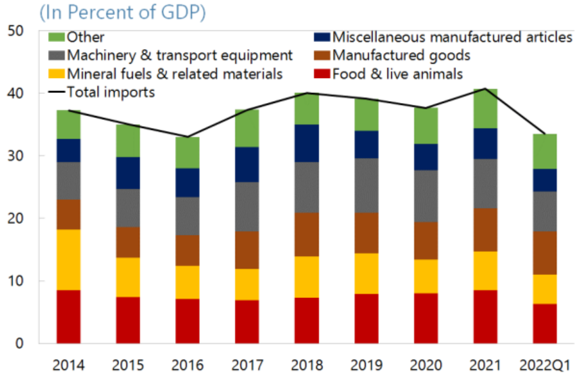


Sources: ECCB, country authorities and IMF staff calculations.

Figure 3. Grenada: External Sector Developments

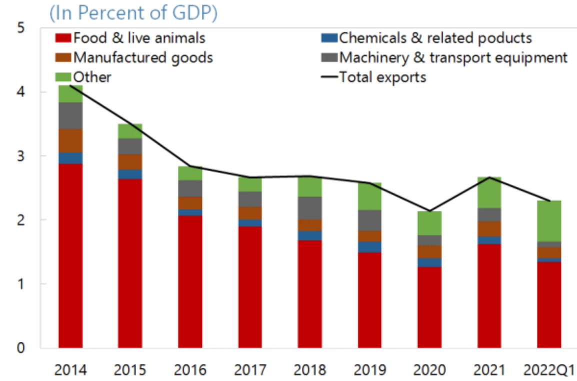
Imports edged down in early 2022,…

Imports by Major Components
(In Percent of GDP)



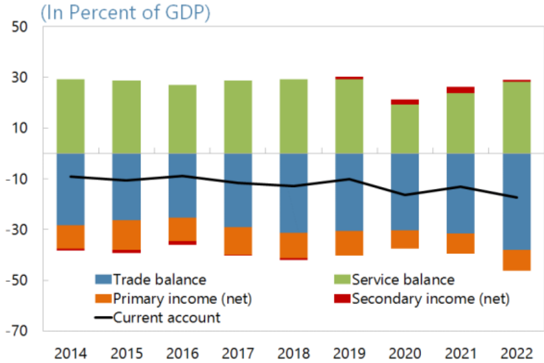
… so did exports.

Exports by Major Components
(In Percent of GDP)



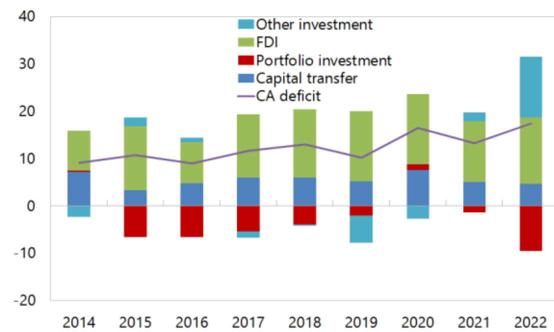
The current account deficit widened in 2022 due to a larger trade balance deficit,…

Current Account Balance
(In Percent of GDP)



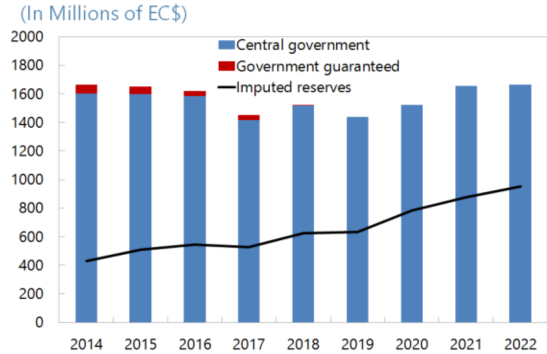
… financed by FDI, capital transfer and other investment (mainly official loans).

Current Account Financing
(In Percent of GDP)



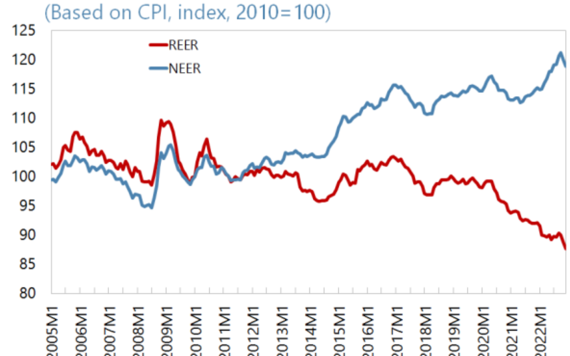
Reserves remain adequate relative to the size of external debt.

External Debt and Imputed Reserves
(In Millions of EC$)



The REER is depreciating, in contrast to NEER, reflecting widening inflation differentials with trading partners.

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

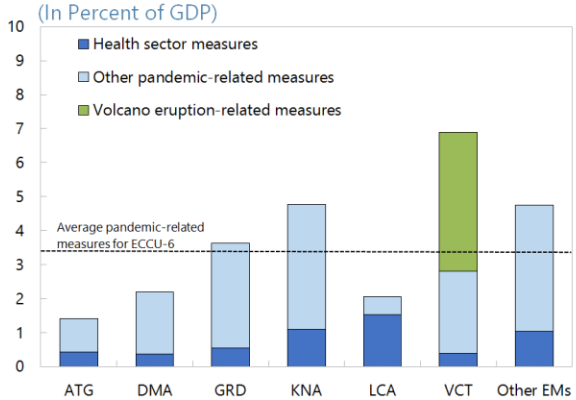


Sources: ECCB, country authorities and IMF staff calculations.

Figure 4. Grenada: Fiscal Sector Developments

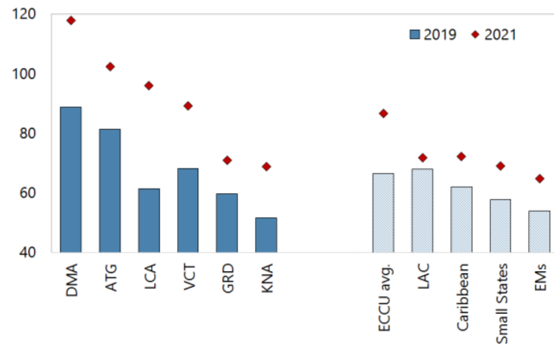
Decisive and bold fiscal actions were taken to address the fallout of the pandemic,...

Discretionary Fiscal Measures: 2020-2021
(In Percent of GDP)



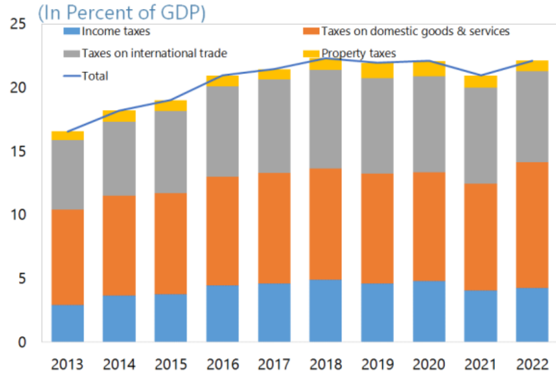
...which, along with the decline in output, resulted in substantial increases in public debt across the region.

ECCU: Public Debt
(In Percent of GDP)



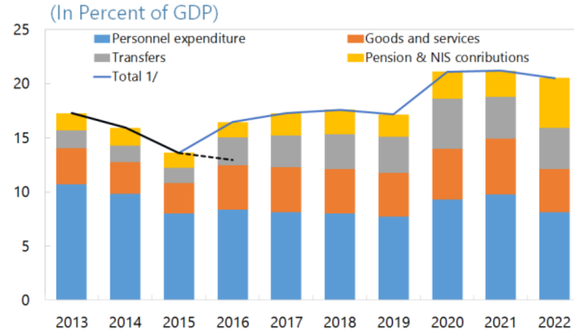
Tax revenue picked up in 2022 thanks to the robust economic recovery and higher import values.

Total Tax Revenue
(In Percent of GDP)



Extra spending on court-ordered pension payout was offset by a lower wage bill due to difficulties to fill vacancies.

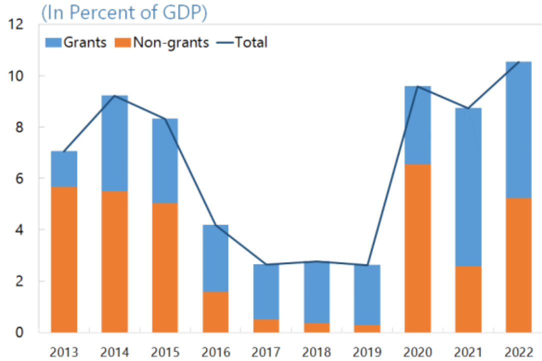
Current Primary Expenditure
(In Percent of GDP)



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.

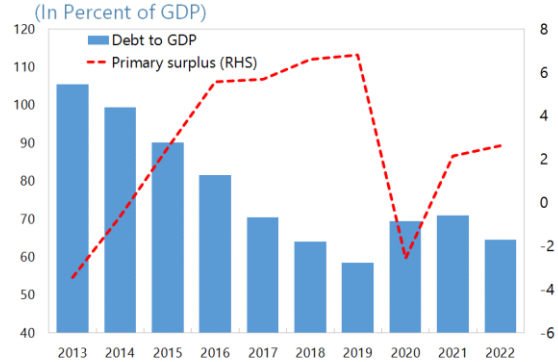
Strong CBI revenues and grant contributed to an upswing in capital spending,...

Capital Expenditure
(In Percent of GDP)



...which, together with stronger growth and tax revenues, helped improve the fiscal balance and public debt.

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

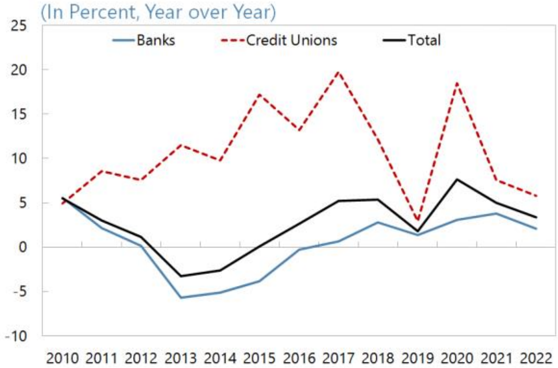


Sources: ECCB, country authorities and IMF staff calculations.

Figure 5. Grenada: Monetary Sector Developments

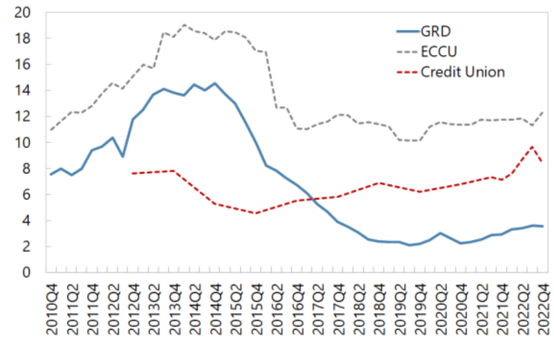
Credit growth continued to be modest, with credit unions outpacing commercial banks…

Private Credit Growth
(In Percent, Year over Year)



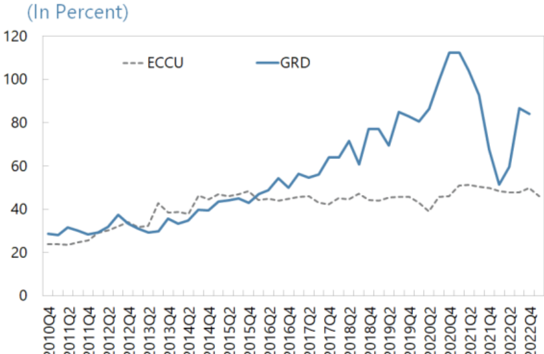
…NPLs rose during the pandemic, especially for credit unions.

Commerical Banks' Nonperforming Loans
(In Percent of Total Loans)



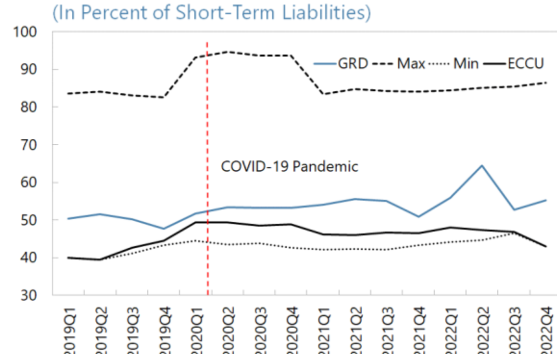
Banks prudently kept a high level of provisioning…

Commerical Banks' Provisions to Nonperforming Loans
(In Percent)



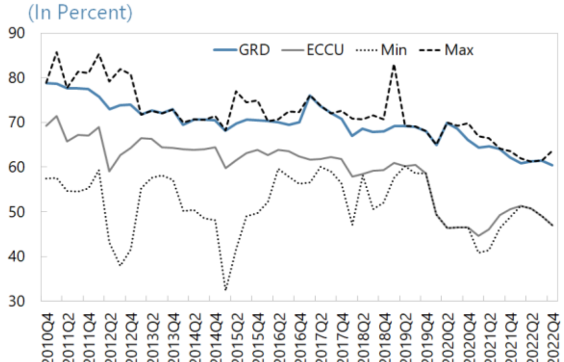
…the financial system maintained ample liquidity.

Liquid Assets
(In Percent of Short-Term Liabilities)



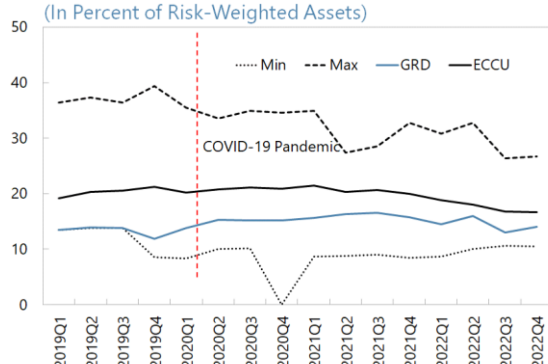
After a gradual decline, interest income as a share of gross income was still high…

Interest Margin/Gross Income
(In Percent)



…capital remained adequate but had been persistently lower than the regional average.

Capital Adequacy Ratios
(In Percent of Risk-Weighted Assets)



Sources: ECCB, country authorities and IMF staff calculations.

Table 1. Grenada: Selected Economic and Financial Indicators, 2018–28

Rank in UNDP Human Development Index	68	Infant mortality rate per '000 births (2021)	14.4
out of 189 countries (2021)		Adult illiteracy rate in percent (2014)	1
Life expectancy at birth in years (2021)	75	Poverty rate in percent of population (2019)	25
GDP per capita in US$ (2021)	9,010	Unemployment rate (2021 Q2)	16.6
Population in millions (2021)	0.12		

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.			Proj.			
	(Annual percentage change, unless otherwise specified)										
Output and prices											
Real GDP	4.4	0.7	-13.8	4.7	6.4	3.9	3.8	3.5	3.2	2.7	2.7
Nominal GDP	3.6	4.0	-14.0	6.0	8.3	7.0	6.7	5.6	5.5	5.0	5.0
Consumer prices, end of period	1.4	0.1	-0.8	1.9	2.9	3.2	2.8	2.0	2.0	2.0	2.0
Consumer prices, period average	0.8	0.6	-0.7	1.2	2.6	3.2	2.8	2.0	2.0	2.0	2.0
Output gap (percent of potential GDP)	8.3	6.7	-10.0	-7.9	-4.3	-2.9	-1.7	-0.7	-0.1	-0.1	0.0
Real effective exchange rate	-2.2	0.8	-1.9	-4.7	-3.5	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)										
Revenue and Grants	27.0	26.6	28.1	32.1	33.7	30.5	29.9	29.6	28.8	28.5	28.4
Taxes	22.3	21.9	22.1	21.0	22.1	22.4	22.0	21.9	22.0	22.1	22.1
Non-tax revenue 1/	1.6	1.8	2.4	3.4	4.6	6.1	5.9	5.7	4.9	4.5	4.4
Grants 1/	3.0	2.9	3.7	7.7	6.9	2.0	1.9	1.9	1.9	1.9	1.9
Expenditure	22.4	21.6	32.7	31.7	32.7	28.4	28.0	27.6	28.5	28.5	28.6
Current primary expenditure	17.6	17.2	21.1	21.2	20.5	19.6	19.4	19.3	19.8	20.1	20.4
Interest payments	2.0	1.9	2.0	1.8	1.7	1.5	1.6	1.6	1.4	1.3	1.2
Capital expenditure	2.8	2.6	9.6	8.7	10.5	7.3	6.9	6.7	7.3	7.1	7.0
Primary balance	6.6	6.8	-2.6	2.1	2.6	3.6	3.6	3.6	1.6	1.3	1.0
Overall balance	4.6	5.0	-4.5	0.3	1.0	2.1	1.9	2.0	0.2	0.0	-0.2
Public debt (incl. guaranteed) 2/	64.0	58.5	71.4	71.0	64.6	61.1	58.3	55.0	51.9	49.3	47.1
Domestic	15.7	14.6	16.2	15.6	13.1	9.3	8.0	7.3	6.3	5.7	5.1
External	48.3	44.0	55.2	55.4	51.4	51.9	50.3	47.7	45.6	43.6	42.0
Money and credit, end of period (annual percent change)											
Broad money (M2)	5.9	2.9	9.1	8.5	9.9	5.7	4.3	3.3	3.2	2.8	2.8
Credit to private sector	2.8	1.4	3.1	3.8	2.1	5.2	4.8	4.6	4.2	3.8	3.5
Balance of payments											
Current account balance, o/w:	-12.9	-10.1	-16.4	-13.2	-17.3	-14.8	-13.2	-12.2	-12.3	-11.8	-11.5
Exports of goods and services	53.3	54.6	41.1	48.4	52.9	58.6	58.2	57.2	56.4	55.9	55.4
Imports of goods and services	55.4	55.8	52.2	56.3	62.8	63.3	61.2	59.1	58.3	57.3	56.6
Capital account balance	5.9	5.1	7.5	5.0	4.6	6.0	5.5	4.2	4.2	4.2	4.2
Financial account balance	-7.2	-6.8	-7.8	-8.5	-10.6	-8.8	-7.7	-7.9	-8.0	-7.5	-7.3
Errors and omissions	-0.2	-1.8	1.1	-0.4	2.1	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross)	89.3	81.8	92.9	95.5	92.7	88.2	83.6	79.5	76.0	72.8	70.2
Savings-Investment balance	-12.9	-10.1	-16.4	-13.2	-17.3	-14.8	-13.2	-12.2	-12.3	-11.8	-11.5
Savings	11.4	14.4	15.2	15.4	14.4	10.7	12.4	13.7	14.7	15.5	16.2
Investment	24.3	24.5	31.6	28.7	31.7	25.5	25.6	25.9	27.0	27.3	27.7
Memorandum items:											
Nominal GDP (millions of EC$)	3,150	3,276	2,817	2,985	3,232	3,460	3,693	3,900	4,115	4,321	4,538
Net imputed international reserves											
Months of imports of goods and services	4.1	5.2	5.6	5.2	5.2	5.5	5.8	5.6	5.5	5.4	5.5

Sources: Country authorities; Eastern Caribbean Central Bank; United Nations, Human Development Report; World Bank WDI; and IMF staff estimates and projections.

1/ Nonrefundable contributions under the Citizenship-by-Investment (CBI) program that were used to finance investment projects are recorded under grants before 2023 but recorded under non-tax revenue starting 2023.

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

Table 2. Grenada: Balance of Payments Summary, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.			Proj.			
					(In millions of US dollars)						
Current account	**-150.5**	**-123.1**	**-171.4**	**-146.2**	**-207.2**	**-189.1**	**-180.5**	**-175.9**	**-186.9**	**-188.1**	**-193.9**
Trade balance for goods and services	-25.5	-14.9	-116.1	-87.4	-118.6	-60.4	-41.2	-27.7	-29.6	-22.2	-19.0
Exports of goods and services	621.3	662.0	428.6	534.9	633.7	750.4	796.5	826.6	858.8	894.5	931.8
o/w Tourism	521.9	560.3	185.5	232.4	502.0	605.9	645.4	669.3	694.6	720.8	748.0
Imports of goods and services	646.7	676.9	544.7	622.3	752.3	810.7	837.7	854.4	888.4	916.7	950.7
o/w Mineral fuels	68.6	68.7	49.3	59.6	100.2	86.8	81.5	80.3	79.5	81.8	85.9
Services	235.8	259.2	198.9	229.5	255.8	267.0	271.6	281.8	277.7	273.6	270.4
Net Income	-115.1	-119.0	-74.6	-88.3	-98.9	-124.3	-132.7	-140.1	-147.9	-155.3	-163.1
Current transfers	-9.9	10.7	19.3	29.6	10.3	-4.4	-6.6	-8.0	-9.5	-10.6	-11.9
Capital account	**69.0**	**62.0**	**78.7**	**55.7**	**55.1**	**76.8**	**75.5**	**61.3**	**64.7**	**67.9**	**71.3**
Financial account	**-84.3**	**-82.4**	**-81.5**	**-94.5**	**-126.6**	**-112.2**	**-105.0**	**-114.6**	**-122.2**	**-120.3**	**-122.7**
Foreign direct investment	-168.0	-179.6	-155.4	-141.7	-168.5	-141.3	-157.7	-173.8	-191.0	-208.5	-227.4
Portfolio investment (net)	45.5	25.5	-11.9	15.5	113.7	18.2	19.1	20.0	21.0	21.9	22.9
Other investment (net)	3.4	69.2	28.9	-23.6	-88.9	-21.1	5.6	37.2	39.8	58.9	60.2
Change in imputed reserves	34.8	2.5	56.9	55.3	17.1	32.0	28.0	2.0	8.0	7.5	21.6
Errors and omissions	**-2.7**	**-21.3**	**11.2**	**-4.0**	**25.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
					(In percent of GDP, unless otherwise specified)						
Current account	**-12.9**	**-10.1**	**-16.4**	**-13.2**	**-17.3**	**-14.8**	**-13.2**	**-12.2**	**-12.3**	**-11.8**	**-11.5**
Trade balance for goods and services	-2.2	-1.2	-11.1	-7.9	-9.9	-4.7	-3.0	-1.9	-1.9	-1.4	-1.1
Exports of goods and services	53.3	54.6	41.1	48.4	52.9	58.6	58.2	57.2	56.4	55.9	55.4
Tourism	44.7	46.2	17.8	21.0	41.9	47.3	47.2	46.3	45.6	45.0	44.5
Imports of goods and services	55.4	55.8	52.2	56.3	62.8	63.3	61.2	59.1	58.3	57.3	56.6
o/w Mineral fuels	5.9	5.7	4.7	5.4	8.4	6.8	6.0	5.6	5.2	5.1	5.1
Services	20.2	21.4	19.1	20.8	21.4	20.8	19.9	19.5	18.2	17.1	16.1
Net income	-9.9	-9.8	-7.1	-8.0	-8.3	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7
Net current transfers	-0.9	0.9	1.8	2.7	0.9	-0.3	-0.5	-0.6	-0.6	-0.7	-0.7
Capital account	**5.9**	**5.1**	**7.5**	**5.0**	**4.6**	**6.0**	**5.5**	**4.2**	**4.2**	**4.2**	**4.2**
Financial account	**-7.2**	**-6.8**	**-7.8**	**-8.5**	**-10.6**	**-8.8**	**-7.7**	**-7.9**	**-8.0**	**-7.5**	**-7.3**
Foreign direct investment	-14.4	-14.8	-14.9	-12.8	-14.1	-11.0	-11.5	-12.0	-12.5	-13.0	-13.5
Portfolio investment (net)	3.9	2.1	-1.1	1.4	9.5	1.4	1.4	1.4	1.4	1.4	1.4
Other investment (net)	0.3	5.7	2.8	-2.1	-7.4	-1.6	0.4	2.6	2.6	3.7	3.6
Change in imputed reseves	3.0	0.2	5.5	5.0	1.4	2.5	2.0	0.1	0.5	0.5	1.3
Errors and omissions	**-0.2**	**-1.8**	**1.1**	**-0.4**	**2.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:											
Gross external debt	89.3	81.8	92.9	95.5	92.7	88.2	83.6	79.5	76.0	72.8	70.2
External public and publicly guaranteed debt	48.3	44.0	54.1	55.4	51.4	51.9	50.3	47.7	45.6	43.6	42.0
Foreign liabilities of private sector 1/	41.0	37.8	38.8	40.1	41.3	36.4	33.3	31.8	30.4	29.3	28.2
External financing gap (millions of USD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (millions of USD)	1166.5	1213.5	1043.4	1105.7	1197.2	1281.4	1367.8	1444.4	1524.0	1600.5	1680.8

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

1/ Comprises foreign liabilities of commercial banks and other liabilities under the "Other investment" item of financial account.

Table 3a. Grenada: Operations of the Central Government, 2018–28
(In Millions of EC Dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.			Proj.			
Total revenue and grants	**849.1**	**871.9**	**792.7**	**957.1**	**1,088.4**	**1,053.9**	**1,103.8**	**1,153.1**	**1,184.2**	**1,230.2**	**1,288.6**
Revenue	754.8	778.4	689.6	727.1	863.9	986.1	1,032.5	1,077.3	1,104.3	1,146.2	1,200.4
Tax revenue	703.0	718.7	622.8	625.4	714.9	773.4	814.3	854.2	903.9	953.4	1,002.5
Taxes on income and profits	153.9	151.4	135.0	121.5	138.0	138.4	147.7	156.0	167.7	179.3	191.7
Taxes on property	29.2	39.7	34.8	29.1	27.2	31.1	33.2	35.1	38.1	41.1	44.2
Taxes on goods and services	276.4	282.2	241.5	250.3	318.8	324.2	336.8	357.5	378.1	394.7	415.1
Taxes on international trade	243.4	245.4	211.5	224.6	231.0	279.7	296.5	305.6	320.0	338.3	351.5
Nontax revenue 1/	51.8	59.7	66.8	101.7	149.0	212.7	218.2	223.0	200.4	192.8	197.9
Grants 1/	94.3	93.5	103.1	230.0	224.5	67.8	71.3	75.8	80.0	84.0	88.2
Total expenditure and net lending	**704.5**	**709.1**	**920.7**	**947.2**	**1,057.6**	**981.0**	**1,032.5**	**1,075.2**	**1,174.4**	**1,231.4**	**1,299.1**
Current expenditure	617.7	623.4	650.8	686.8	717.4	728.5	777.7	812.3	872.9	923.2	980.0
Wages and salaries	251.6	253.3	261.6	291.7	263.5	311.4	321.3	327.6	362.1	384.6	408.4
NIS contributions	18.9	13.4	14.8	16.0	16.2	17.3	18.5	19.5	20.6	21.6	22.7
Goods and services	130.7	132.8	132.9	154.0	128.0	138.4	147.7	156.0	164.6	172.9	181.5
Transfers	153.3	163.3	185.6	171.0	256.1	209.7	229.4	248.1	268.0	287.9	313.7
Interest payments	63.2	60.6	55.9	54.2	53.7	51.7	60.7	61.1	57.7	56.2	53.6
Capital expenditure and net lending	86.8	85.7	269.9	260.4	340.2	252.6	254.8	262.9	301.5	308.2	319.2
Grant-financed	74.9	75.7	84.8	182.9	170.2	67.8	71.3	75.8	78.2	82.1	86.2
Non-grant financed	11.9	10.0	185.1	77.5	170.0	184.8	183.5	187.1	223.3	226.1	232.9
Primary balance	**207.8**	**223.5**	**-72.1**	**64.1**	**84.5**	**124.6**	**132.0**	**138.9**	**67.5**	**55.1**	**43.1**
Overall balance	**144.5**	**162.8**	**-128.0**	**9.9**	**30.8**	**72.9**	**71.3**	**77.9**	**9.8**	**-1.1**	**-10.5**
Public Debt 2/	**2,016**	**1,918**	**2,012**	**2,119**	**2,087**	**2,115**	**2,153**	**2,146**	**2,137**	**2,129**	**2,139**
Memorandum items:											
Nominal GDP (millions of EC$)	3,150	3,276	2,817	2,985	3,232	3,460	3,693	3,900	4,115	4,321	4,538

Sources: Ministry of Finance and IMF staff estimates.

1/ Nonrefundable contributions under the Citizenship-by-Investment (CBI) program that were used to finance investment projects are recorded under grants before 2023 but recorded under non-tax revenue starting 2023.

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

Table 3b. Grenada: Operations of the Central Government, 2018–28
(In Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.			Proj.			
Total revenue and grants	**27.0**	**26.6**	**28.1**	**32.1**	**33.7**	**30.5**	**29.9**	**29.6**	**28.8**	**28.5**	**28.4**
Revenue	24.0	23.8	24.5	24.4	26.7	28.5	28.0	27.6	26.8	26.5	26.5
Tax revenue	22.3	21.9	22.1	21.0	22.1	22.4	22.0	21.9	22.0	22.1	22.1
Taxes on income and profits	4.9	4.6	4.8	4.1	4.3	4.0	4.0	4.0	4.1	4.2	4.2
Taxes on property	0.9	1.2	1.2	1.0	0.8	0.9	0.9	0.9	0.9	1.0	1.0
Taxes on goods and services	8.8	8.6	8.6	8.4	9.9	9.4	9.1	9.2	9.2	9.1	9.1
Taxes on international trade	7.7	7.5	7.5	7.5	7.1	8.1	8.0	7.8	7.8	7.8	7.7
Nontax revenue 1/	1.6	1.8	2.4	3.4	4.6	6.1	5.9	5.7	4.9	4.5	4.4
Grants 1/	3.0	2.9	3.7	7.7	6.9	2.0	1.9	1.9	1.9	1.9	1.9
Total expenditure and net lending	**22.4**	**21.6**	**32.7**	**31.7**	**32.7**	**28.4**	**28.0**	**27.6**	**28.5**	**28.5**	**28.6**
Current expenditure	19.6	19.0	23.1	23.0	22.2	21.1	21.1	20.8	21.2	21.4	21.6
Wages and salaries	8.0	7.7	9.3	9.8	8.2	9.0	8.7	8.4	8.8	8.9	9.0
NIS contributions	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Goods and services	4.1	4.1	4.7	5.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Transfers	4.9	5.0	6.6	5.7	7.9	6.1	6.2	6.4	6.5	6.7	6.9
Interest payments	2.0	1.9	2.0	1.8	1.7	1.5	1.6	1.6	1.4	1.3	1.2
Capital expenditure and net lending	2.8	2.6	9.6	8.7	10.5	7.3	6.9	6.7	7.3	7.1	7.0
Grant-financed	2.4	2.3	3.0	6.1	5.3	2.0	1.9	1.9	1.9	1.9	1.9
Non-grant financed	0.4	0.3	6.6	2.6	5.3	5.3	5.0	4.8	5.4	5.2	5.1
Primary balance	**6.6**	**6.8**	**-2.6**	**2.1**	**2.6**	**3.6**	**3.6**	**3.6**	**1.6**	**1.3**	**1.0**
Overall balance	**4.6**	**5.0**	**-4.5**	**0.3**	**1.0**	**2.1**	**1.9**	**2.0**	**0.2**	**0.0**	**-0.2**
Public Debt 2/	**64.0**	**58.5**	**71.4**	**71.0**	**64.6**	**61.1**	**58.3**	**55.0**	**51.9**	**49.3**	**47.1**
Memorandum items:											
Nominal GDP (millions of EC$)	3,150	3,276	2,817	2,985	3,232	3,460	3,693	3,900	4,115	4,321	4,538

Sources: Ministry of Finance and IMF staff estimates.

1/ Nonrefundable contributions under the Citizenship-by-Investment (CBI) program that were used to finance investment projects are recorded under grants before 2023 but recorded under non-tax revenue starting 2023.

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

Table 4. Grenada: Summary Accounts of the Monetary Sector, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.			Proj.			
	(In millions of EC dollars; end of period)										
Net foreign assets	1,315.0	1,400.2	1,720.7	1,919.1	2,212.0	2,322.9	2,451.0	2,510.3	2,577.3	2,636.5	2,727.2
ECCB	623.2	632.1	785.5	875.3	952.0	1,038.4	1,114.0	1,119.4	1,141.0	1,161.3	1,219.5
Commercial banks (net)	691.8	768.1	935.2	1,043.8	1,260.0	1,284.5	1,337.0	1,390.9	1,436.3	1,475.3	1,507.7
Assets	1,246.7	1,273.6	1,302.4	1,492.4	1,815.0	1,761.5	1,785.9	1,828.4	1,877.2	1,930.1	1,959.4
Liabilities	555.0	505.5	367.2	448.5	555.0	477.0	448.9	437.4	440.9	454.8	451.7
Net domestic assets	1,053.9	1,036.8	938.1	965.5	958.0	1,029.1	1,046.0	1,100.4	1,149.6	1,194.1	1,211.8
Public sector credit (net)	-500.2	-552.1	-430.6	-389.5	-311.0	-396.5	-358.7	-331.4	-304.3	-309.1	-313.0
Central government	-201.3	-222.6	-219.6	-308.2	-249.0	-316.6	-310.4	-324.8	-333.4	-348.9	-359.5
ECCB	-109.7	-110.7	-36.7	-93.8	-42.0	-51.6	-51.2	-53.7	-55.0	-57.1	-58.4
Commercial banks	-91.6	-111.9	-183.0	-214.3	-207.0	-265.0	-259.2	-271.2	-278.3	-291.8	-301.1
Net credit to rest of public sector	-298.9	-329.5	-211.0	-81.3	-62.0	-79.9	-48.3	-6.6	29.1	39.8	46.5
National Insurance Scheme	-106.7	-111.4	-116.6	-122.3	-128.3	-134.5	-141.0	-147.9	-155.1	-162.7	-170.6
Credit to private sector	1,602.0	1,624.1	1,674.5	1,738.2	1,775.0	1,867.2	1,956.1	2,047.0	2,133.1	2,214.4	2,291.8
Other items (net)	-47.9	-35.2	-305.9	-383.1	-506.0	-441.6	-551.4	-615.3	-679.2	-711.2	-766.9
Broad money	2,368.9	2,437.0	2,658.8	2,884.7	3,170.0	3,352.0	3,497.0	3,610.7	3,726.9	3,830.6	3,939.0
Money	702.3	762.9	825.3	1,026.0	1,436.0	1,401.8	1,509.1	1,632.0	1,761.9	1,880.5	1,981.2
Currency in circulation	143.9	138.6	160.8	188.1	207.0	202.1	217.5	235.3	254.0	271.1	285.6
Cash in commercial banks	558.4	624.3	664.5	837.9	1,230.0	1,199.8	1,291.6	1,396.7	1,507.9	1,609.4	1,695.6
Quasi-money	1,666.6	1,674.1	1,833.5	1,858.6	1,734.0	1,950.2	1,987.8	1,978.7	1,965.0	1,950.1	1,957.8
Time deposits	191.0	170.1	171.2	162.4	137.0	154.1	157.1	156.3	155.2	154.1	154.7
Savings deposits	1,265.3	1,297.3	1,371.0	1,378.1	1,169.0	1,314.8	1,340.1	1,334.0	1,324.7	1,314.7	1,319.9
Foreign currency deposits	210.3	206.8	291.2	318.1	428.0	481.4	490.7	488.4	485.0	481.3	483.2
	(Annual percentage change, unless otherwise specified)										
Net foreign assets	24.8	6.5	22.9	11.5	15.3	5.0	5.5	2.4	2.7	2.3	3.4
Net domestic assets	-10.9	-1.6	-9.5	2.9	-0.8	7.4	1.6	5.2	4.5	3.9	1.5
Public sector credit, net	42.2	10.4	-22.0	-9.5	-20.2	27.5	-9.5	-7.6	-8.2	1.6	1.3
Credit to private sector	2.8	1.4	3.1	3.8	2.1	5.2	4.8	4.6	4.2	3.8	3.5
Broad money	5.9	2.9	9.1	8.5	9.9	5.7	4.3	3.3	3.2	2.8	2.8
NFA contribution	11.7	3.6	13.2	7.5	10.2	3.5	3.8	1.7	1.9	1.6	2.4
NDA contribution	-5.8	-0.7	-4.1	1.0	-0.3	2.2	0.5	1.6	1.4	1.2	0.5
Money	12.4	8.6	8.2	24.3	40.0	-2.4	7.7	8.1	8.0	6.7	5.4
Quasi-money	3.4	0.5	9.5	1.4	-6.7	12.5	1.9	-0.5	-0.7	-0.8	0.4
	(In percent of GDP, unless otherwise specified)										
Net foreign assets	41.8	42.7	61.1	64.3	68.4	67.1	66.4	64.4	62.6	61.0	60.1
Net domestic assets, o/w	33.5	31.6	33.3	32.3	29.6	29.7	28.3	28.2	27.9	27.6	26.7
Public sector credit, net	-15.9	-16.9	-15.3	-13.0	-9.6	-11.5	-9.7	-8.5	-7.4	-7.2	-6.9
Private sector credit, net	50.9	49.6	59.4	58.2	54.9	54.0	53.0	52.5	51.8	51.2	50.5
Broad money (M2)	75.2	74.4	94.4	96.6	98.1	96.9	94.7	92.6	90.6	88.6	86.8
Money	22.3	23.3	29.3	34.4	44.4	40.5	40.9	41.8	42.8	43.5	43.7
Quasi-money	52.9	51.1	65.1	62.3	53.6	56.4	53.8	50.7	47.8	45.1	43.1

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

Annex I. Implementation of Past Staff Advice

2022 Article IV Recommendations	Policy Actions
Growth Agenda	
Increase domestic value-added in the **tourism** sector.	**Ongoing.** The government has streamlined entry and exiting process and is working on product enhancement, including promoting sporting and sustainable tourism.
Accelerate the **shift to renewable energy.**	**Ongoing.** The authorities approved the National Energy Policy 2023–35 to guide the country's sustainable energy development and are in the process of initiating an exploratory geothermal drilling project.
Provide training programs and improve their effectiveness to **address skills mismatch.**	**Ongoing.** The government is transforming the IMANI program into full-fledged skills training and apprenticeship program. National Skills Development Program continues to help in developing skills in various areas and business support for youth entrepreneurs.
Implement **Disaster Resilience Strategy.**	**Ongoing.** The Disaster Risk Management Bill is approved by the parliament. CCRIF has been renewed.
Fiscal Policy	
Increase targeted transfer to cushion the impact of price increases. Allowing the **pass-through of international food and energy costs** to domestic prices. **Sustain the higher level of social spending** achieved during the pandemic.	**Ongoing.** A scaled-down package of relief measures was introduced in 2023. The higher level of social spending achieved during the pandemic was sustained in 2022. Temporary freight cap was rolled back as transportation disruptions eased.
Review the **Fiscal Responsibility Act** in the post-pandemic context, supported by IMF TA.	**Ongoing.** An IMF TA on amending the FRA was conducted in April. A revised FRA is expected approved by the cabinet and the parliament in the second half of 2023.
Mobilizing resources (enhance compliance, reduce tax arrears, boost digitalization, and increase the equity of the tax system).	**Ongoing.** The authorities have strengthened the large and medium taxpayer program through better intelligence, expanded capacity to analyze risk and anomalies, and timely reviewed arrears and followed up with non-compliance, supported by legal action if necessary.
Improve **public investment management**; systematically **identify resilience investment** that could be financed through donor grant and concessional funding.	**Ongoing.** The 2023 budget included the first Climate Budget Tagging pilot exercise (with WB support) to categorize, measure, and monitor climate-relevant public policies.
Expedite the publication of **audited financial statements.** Publish **SOE financial performance.**	**Ongoing.** Audited financial statements of the government for 2017–22 and SOE financial performance reports are pending.

2022 Article IV Recommendations	Policy Actions
A comprehensive **reform to the National Insurance Scheme (NIS).** Develop a contingency plan to address the outcomes of the **court ruling on public pension claims.**	**Ongoing.** The retroactive payment of the public pension liabilities was made in November 2022. A Pension Reform Committee was set up for assessing reform options. Phased-in increases in the pensionable age and contribution under the NIS were announced.
Financial Sector	
Strengthen the oversight of **credit unions.**	**Mixed.** GARFIN is improving the risk-based supervisory framework and its implementation, with CARTAC support. The development of a national crisis management plan is delayed.
Ensure compliance with **AML/CFT** regulations.	**Ongoing.** AML/CFT regulations are being enhanced to minimize risks to the CBI program. The Financial Intelligence Unit has continued to strengthen monitoring.

Annex II. External Sector Assessment

Overall Assessment: *Grenada's external position in 2022 was preliminarily assessed as weaker than the level consistent with medium-term fundamentals and desirable policies. The increase in import values was only partially compensated for by the tourism rebound, leading to a widening of the current account deficit.*

Potential Policy Responses: *It is important to return to the fiscal rules to restore buffers. Protecting the most vulnerable from the burden of higher inflation should focus on improving efficiency and targeting of social protection programs. External rebalancing can be supported by structural reforms to unleash growth potential and enhance competitiveness, such as increasing value added of tourism, improving gender equality, addressing skills mismatch, accelerating renewable energy, and building resilience.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (IIP) deficit, which averaged about -126 percent during 2015–19, edged down from -154.6 percent of GDP in 2021 to -151.5 percent of GDP in 2022.[1] In 2022, most assets were held in the form of currency and deposits (22 percent of total assets) or portfolio investment (33 percent of total assets). Reserve assets constitute 27 percent of total assets. On the liability side, FDI (167 percent of GDP) and other investment (85 percent of GDP, mostly loans) were the largest liabilities (jointly accounting for 96 percent of total liabilities). Long-term general government loans constitute nearly half of other investment.

Assessment. The level of the NIIP in 2022 does not constitute a significant concern for external debt sustainability. The projected narrowing of the current account deficit will help improve the NIIP in the medium term. The large share of FDI and general government loans in total liabilities mitigates potential risks and is expected to persist.

2022 (% GDP)	NIIP: -151.5	Gross Assets: 111.1	Debt Assets: 80.7	Gross Liabilities: 262.6	Debt Liabilities: 85.2

Current Account

Background. The current account deficit, which averaged around 10.8 percent of GDP during 2015–19, is estimated to have increased to 17.3 percent of GDP in 2022 from 13.2 percent of GDP in 2021.[2] The main driver was an increase in imports of 9 percentage points of GDP, driven by higher international prices (particularly food and fuel) and import volumes (along with the demand recovery and large public investment), that was only partially offset by higher tourism receipts.

[1] Based on preliminary estimates by the ECCB that revised NIIP in 2021 from -172 percent of GDP to -154.6 percent of GDP.

[2] The 2021 current account deficit was revised downwards due to corrected personal services credits—which includes online educational services— (from 7 percent of GDP to 18 percent of GDP) and financial services debits (from 3.7 percent of GDP to 0.6 percent of GDP).

Assessment. The external position in 2022 was weaker than the level consistent with medium-term fundamentals and desirable policies. The deterioration of the current account balance in Grenada is mainly explained by the impact of COVID on tourism and higher import bills.[3] There were no exchange rate movements or significant changes in the structural fundamentals. As the economic recovery takes hold, the external position is expected to improve in line with the continued recovery of tourism, improvement in terms of trade, and, in the medium term, increased competitiveness yielded from structural reforms.

EBA-lite Model Results, 2022

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-17.3**	
Cyclical contributions (from model) (-)	0.5	
COVID-19 adjustors (-) 2/	-3.5	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**-13.8**	
CA Norm (from model) 3/	**-10.3**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-10.3**	
CA Gap	**-3.4**	**7.5**
o/w Relative policy gap	2.4	
Elasticity	-0.4	
REER Gap (in percent)	**8.8**	**-19.0**

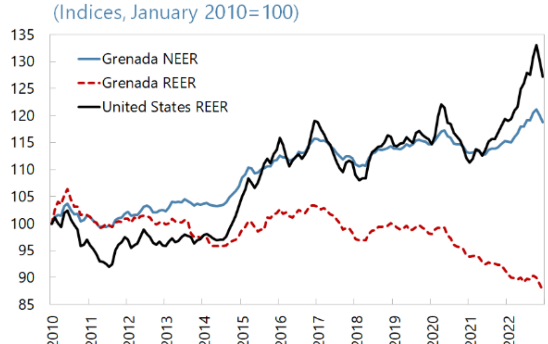
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (3.5 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. In 2022, the real effective exchange rate (REER) depreciated by 3.5 percent, continuing the trend since 2019.[4] The decline in the REER was driven by significant inflation differentials with Grenada's main trading partners, as the NEER appreciated by 3.9 percent.

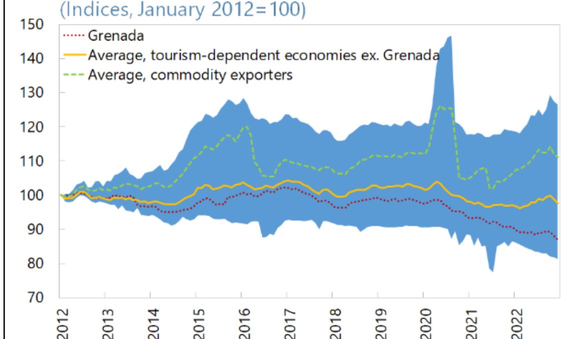
Assessment. The REER gap was 8.8 percent, derived from the EBA-Lite CA model with an elasticity of -0.4. Results of EBA-Lite REER model point to a gap of -19 percent.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



Sources: INS and IMF staff calculations.

Real Effective Exchange Rates
(Indices, January 2012=100)



Sources: INS and IMF staff calculations.

[3] The ESA model includes a Covid-19 cyclical adjustor to account for the temporary impact of the pandemic on a country's external position. In the case of Grenada, only the Covid-19 adjustor for tourism was used, yielding a total adjustment of 3.5 percent of GDP.

[4] The Eastern Caribbean dollar, the currency of Grenada, is pegged to the U.S. dollar.

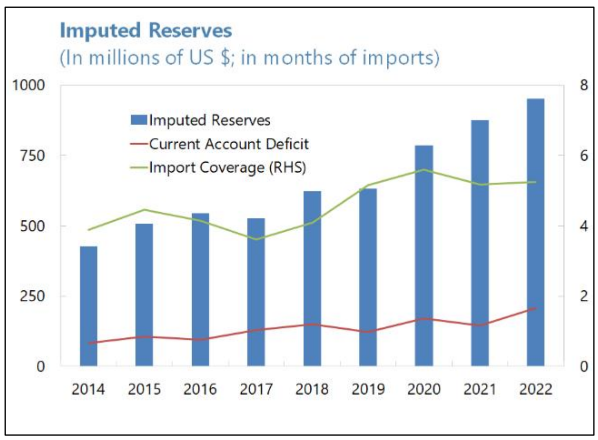
Capital and Financial Accounts: Flows and Policy Measures

Background. Grenada relies on FDI (averaged 14 percent of GDP between 2017 and 2021) to finance the saving-investment imbalance. FDI is primarily accounted for by equity investment, which has been volatile and averaged about 85 percent of FDI inflows since 2015 (with the remainder by land sales). Citizenship-by-Investment (CBI) revenues have averaged about 5 percent of GDP since the launch of the program in 2014. In 2022, FDI rose to 14.1 percent of GDP, in part due to an increase in CBI investment, but is expected to moderate in 2023. The government's concessional loans have been a stable source for the financing of the country's development.

Assessment. FDI is projected to remain stable (averaging 12.3 percent over the medium term), while the CBI inflows could prove volatile. To the extent that the CBI inflows are mostly to finance investment (which has a large import component), the impact of declines in CBI on the current account would be partially mitigated by resulting lower imports. Key downside risks include continued tightening of global financial conditions (which could reduce liquidity and drive savings out of the region in search for yield) and natural disasters (which could deter private capital inflows). On the upside, a faster implementation of structural reforms to improve business environment and competitiveness will help attract higher FDI.

FX Intervention and Reserves Level

Background. Grenada's reserve position improved in 2022. As a member of the Eastern Caribbean Currency Union, Grenada is under a quasi-currency board arrangement. Foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[5, 6] Estimated imputed reserves increased by 9 percent from 2021 to 2022. Imputed reserves covered 5 months of imports and 30 percent of broad money, unchanged from 2021.



Assessment. Imputed reserves exceed the typical benchmark of three months of imports and are above the 20 percent of broad money benchmark.[6] In 2021, with general SDR allocation (which has been kept in reserves), Grenada received 16.4 million SDRs (about US$22.8 million).

[5] According to the ECCB by-laws, the imputed reserves of each ECCB member are calculated as the difference between the member's reserve money and net domestic assets. The ECCB has the mandate to maintain a foreign exchange cover of 60 percent of total demand liabilities.

[6] IMF 2015, *Assessing Reserve Adequacy–Specific Proposals.* Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level. This should be supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial architecture and supportive institutions, and the correlation of shocks faced by union members.

Annex III. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Impact and Channel	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	Medium. **ST/MT.** Sticky inflation, eroding income, and dampening demand.	Provide targeted transfers to the vulnerable. Increase value-added of the tourism. Vigilantly monitor the financial sector development in coordination with ECCB.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	Medium	High. **ST/MT.** Slower economic recovery, worsening fiscal and external positions.	Accelerate structural reforms to improve competitiveness. Increase value-added of the tourism. Vigilantly monitor the financial sector development in coordination with ECCB.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	Medium. **ST/MT.** Eroding income, dampening demand, and widening fiscal and trade deficits.	Provide targeted support to the vulnerable. Accelerate shift to renewables and improve the pass-through of price signals.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	Medium. **ST/MT.** Tighter domestic financial conditions.	Intensify monitoring of asset quality, ensure adequate loan loss provisioning, conduct regular stress testing. Vigilantly monitor the financial sector development in coordination with ECCB.
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium. **ST/MT.** Higher inflation, lower FDI, and more volatile CBI revenues.	Accelerate structural reforms to improve competitiveness. Gradually reduce reliance on CBI for capital expenditures. Enhance international and regional cooperation to support growth and cross-border collaboration.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	High. **ST/MT.** Reduce capital stock, create scarring effects, and discourage FDI.	Continue implementing the Disaster Resilience Strategy, improve infrastructure, build more financial buffers, enhance post-disaster response, and accelerate shift to renewables.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	Medium	Low. **ST/MT.** Payment and financial system is disrupted.	Enhance digital security in public and private platforms, raise the public awareness, and prepare a contingency plan.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Domestic Risks			
CBI revenues decline due to lower attractiveness of the programs.	**Medium**	**Medium. ST/MT.** Weaker public investment and growth.	Continue improving the AML/CFT framework and its implementation. Communicate closely with EU and US regulators regarding CBI regulations.
Persistently **high NPLs of credit unions** impair credit intermediation and dampen growth.	**Medium**	**Medium. ST/MT.** Weaker growth and lower financial inclusiveness.	Accelerate reforms to resolve NPLs and improve credit access of households and firms.

GRENADA

June 28, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of May 31, 2023)

Membership Status		Joined August 27, 1975; Article VIII
General Resources Account	**SDR Million**	**Percent of Quota**
Quota	16.40	100.00
Fund Holdings of Currency	15.23	92.84
Reserve Tranche Position	1.18	7.16
SDR Department	**SDR Million**	**Percent of Allocation**
Net Cumulative Allocation	26.88	100.00
Holdings	12.29	45.70
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	16.40	100.00
ECF Arrangements	8.01	48.85

Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	06/26/14	05/26/17	14.04	14.04
ECF	04/18/10	04/17/13	8.78	2.53
ECF[1]	04/17/06	04/13/10	16.38	16.38

Outright Loans:

Type	**Date of Commitment**	**Date Approved**	**Amount Drawn/Expired (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	04/28/20	04/30/20	16.40	16.40

Overdue Obligations and Projected Payments to the Fund (SDR Million):[2]

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	2.0	2.81	3.64	4.28	3.48
Charges/Interest	0.28	0.56	0.56	0.56	0.56
Total	**2.28**	**3.37**	**4.20**	**4.84**	**4.04**

Implementation of HIPC Initiatives: Not Applicable

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

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

[1] Formerly PRFG.

[2] Based on existing use of resources and present holdings of SDRs.

Exchange Rate Arrangement: The exchange rate arrangement is a currency board. Grenada participates in a currency union with seven other members of the Eastern Caribbean Currency Union (ECCU) and has no separate legal tender. The common currency, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. Grenada has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards. Legal reforms were recommended to further strengthen operational autonomy of the ECCB, in addition to recommendations to enhance the controls and oversight on the DCash project.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on May 4, 2022. Grenada is on a 12-month cycle.

Technical Assistance: Grenada has received significant technical assistance from Caribbean Regional Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on:

- **Public Financial Management (PFM).** CARTAC TA in PFM has focused on reform of SOEs and statutory bodies (SBs), cash forecasting and commitment control, development, and transition to a new chart of accounts consistent with the *Government Finance Statistics Manual 2014 (GFSM 2014)*, and the Public Expenditure and Financial Accountability (PEFA) assessment. Assistance was also provided on strategic budget reform to modernize the budget preparation process. Regarding the SOE/SB reforms, the 2016 CARTAC mission provided some limited assistance on Public Service Pension Reform. In 2017, CARTAC provided assistance with a one-week training mission for the Grenada Fiscal Responsibility Committee and conducted a risk assessment on the SOEs. In April 2018, a mission was completed on assisting with moving to International Public Sector Accounting Standards (IPSAS) cash-based accounting and to bring their public accounts up to date. A roadmap on reforms to move Grenada to IPSAS Accruals was provided. Later in the year, Grenada participated in regional workshops geared at improving capacities for Internal Audit, Cash Management and SOE Oversight as well as assessing Fiscal Risks. In February 2019, a TA mission from Fiscal Affairs Department reviewed the Fiscal Responsibility Law with the aim of strengthening it by removing inconsistencies and ambiguities and reframing the expenditure rule. In April 2022, the Fiscal Affairs Department (FAD) provided a Public Investment Management Assessment (with a climate module) to identify strengths and weaknesses in public investment management practice and procedures and provide recommendations for further enhancement. In May 2022, a TA mission from the FAD provided guidance on the fiscal consequences of the March 2022 high court ruling reinstating pension entitlements to public sector employees and discussed options for improving the pension system’s long-term sustainability, with a special focus on public sector pensions. In April 2023, a

TA mission from the Fiscal Affairs Department provided advice on revising the Fiscal Responsibility Act to enhance its rules-based fiscal framework.

- **Tax Administration.** TA was provided to strengthen tax administration at both the Inland Revenue and Customs Departments. For IRD, the support included establishing a Large and Medium Taxpayer Unit and a Design, Planning and Monitoring Section. In 2020, they received TA to prepare a new business model with processes enabled by a new information technology (IT) system. A follow up mission on the advancement of the basic compliance risk management strategy for the Large and Medium Taxpayer unit took place in 2021. For Customs, TA was provided in 2020 to strengthen analytical capacity and risk management, while in 2022 TA was provided to help strengthen the customs control of petroleum imports.

- **Financial Stability Supervision and Regulation.** Significant TA has been provided to the Grenada Authority for the Regulation of Financial Institutions (GARFIN) to implement risk-based supervision across the non-banking sector, including capacity building to review reinsurance contracts, contingency planning for crisis preparedness and management, and conduct review of retail lending portfolios at credit unions. TA was also provided, as part of the broader ECCU-wide initiative, to develop financial health and stability indicators for the insurance sectors. In 2021 (GARFIN) received TA to enhance its stress testing framework for credit union.

- **Macroeconomic Framework and Statistics.** To support the authorities' efforts to establish an annual medium-term economic framework and promote informed policy making, CARTAC provided TA to strengthen medium-term macroeconomic projections and improve macroeconomic statistics. TA was provided during 2013 to 2015 to assist with compiling GDP by expenditure estimates; and during 2016, 2017, and 2019 to develop quarterly GDP by economic activity at current and constant prices and improve them further. In 2020, CARTAC provided TA for rebasing annual and quarterly estimates of GDP by economic activity to 2018 prices and assisted with the compilation of supply and use tables. In addition, CARTAC conducted TA in 2017 to develop the Producer Price Index and in 2021 to update the CPI basket. TA was also provided in 2014–21 to produce balance of payments (BOP) statistics according to the *Balance of Payments and International Investment Position Manual (BPM6)* and to initiate the production of international investment position (IIP) statistics, and review and improve upon the BPM6-compliant BOP and IIP statistics first released in July 2017.

Other Technical Assistance (Since 2016): FAD and LEG have provided extensive assistance on tax policy and administration, public financial management, and public expenditure rationalization. In particular, TA was provided in the design and drafting of the PFM legislation and the Tax Administration legislation, reforms of the tax incentives system, and reform of the following Acts: income tax, property, VAT, excise tax. FAD provided TA on the public wage bill reform. FAD/LEG also provided comprehensive TA to draft the Fiscal Responsibility Act of 2015. FAD also provided TA in 2019 to further strengthen the Fiscal Responsibility Act. MCM provided TA on formulating a medium-term debt management strategy and implementing institutional changes to strengthen debt management and, together with LEG, provided TA to draft the Public Debt Management Act of 2015.

Start Date	End Date	Mission Description
01/11/2016	01/15/2016	Public Financial Management
03/21/2016	03/25/2016	Improving Balance of Payments Statistics
04/18/2016	04/22/2016	Tax Administration
06/09/2016	06/17/2016	Improving External Sector Statistics
06/09/2016	06/17/2016	Medium-Term Debt Management Strategy
07/06/2016	07/19/2016	Managing the Public Wage Bill
08/15/2016	08/26/2016	Improving GDP Estimates by Expenditure
4/24/2017	4/28/2017	Developing Methodology for New Producer Price Index
7/24/2017	7/28/2017	Balance of Payments Statistics
9/18/2017	9/22/2017	Review and Assessment of the Adequacy of Reinsurance Contracts/Treaties
10/23/2017	10/27/2017	Developing a Stress Testing Framework for Credit Union Sector
11/13/2017	11/24/2017	Improving Annual & Quarterly GDP Methodology
11/27/2017	12/1/2017	Risk-Focused Examinations of Retail Lending Portfolios at Credit Union
4/16/2018	4/20/2018	Strengthening BOP & New IIP
4/23/2018	4/27/2018	Developing Financial Health and Stability Indicators for the Insurance Sector
4/24/2018	5/2/2018	Revenue Administration Diagnostic Mission
5/29/2018	5/30/2018	Review of Tax Administration Reform Priorities and FAD Recommendations
10/8/2018	10/12/2018	Contingency Planning for Crisis Preparedness and Management
1/30/2019	2/11/2019	Strengthening the Fiscal Responsibility Law
2/11/2019	2/15/2019	Improving External Sector Statistics
4/1/2019	4/12/2019	Improving the Source Data and Compilation Methodologies Used for GDP Estimates
2/17/2020	2/28/2020	Compilation of Supply and Use Tables
2/24/2020	2/28/2020	Strengthening Risk Management in Customs
4/20/2020	4/24/2020	Strengthening Annual Balance of Payments Statistics
6/22/2020	6/26/2020	Strengthening Program Development and Compliance Risk Management Framework

Start Date	End Date	Mission Description
2/8/2021	2/12/2021	Strengthening Balance of Payments/IIP Data
3/22/2021	4/1/2021	Price Statistics (Consumer Prices)
4/11/2021	4/24/2021	Compliance Risk Management Strategy for the Inland Revenue Division
6/14/2021	6/18/2021	Developing Performance Targets and KPI
7/19/2021	7/23/2021	Follow Up on Stress Test for Credit Unions
2/7/2022	2/11/2022	Developing Quarterly Balance of Payments Data
2/21/2022	3/4/2022	Rebasing Annual and Quarterly GDP by Economic Activity to 2018 Prices
4/1/2022	4/29/2022	Enhancing Compliance Risk Management
4/18/2022	4/29/2022	Public Investment Management – PIMA and Climate PIMA
5/17/2022	5/31/2022	Public Sector Pensions
9/26/2022	10/7/2022	Review of Workload and Resource Allocation
10/3/2022	10/7/2022	Improving Balance of Payments Source Data
4/10/2023	4/25/2023	Fiscal Responsibility Law
5/2/2023	5/5/2023	CARTAC Systemic Risk and Financial Stability Report

Source: Based on available TA reports and consultations with CARTAC.

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

(As of May 31, 2023)

- **World Bank (WB)**

  WBG Finances - Country Details - Grenada (worldbank.org)

- **Caribbean Development Bank (CDB)**

  Grenada | Caribbean Development Bank (caribank.org)

STATISTICAL ISSUES

(As of May 31, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is adequate for surveillance.
National Accounts: There are significant delays related to both receiving and processing survey data for GDP compilation. Supported by the CARTAC mission, estimates of quarterly GDP by production approach have been developed but compiled with a lag. The CSO is working to rebase the annual and quarterly GDP by economic activity to 2018 prices. There are currently no GDP estimates by expenditure.
Prices and High Frequency Statistics: The authorities compile regular data on consumer prices, retail sales; agricultural production and purchases; motor vehicle registrations; total cargo handled; fish production and exports; industrial production; imports of construction material; and water and electricity production. The 2010 update of the CPI brought methodology in line with international standards. The CPI basket is being updated based on the 2018/19 Household Budget Survey HBS, and a new CPI calculation system called CPI+ will be implemented, to replace the Price Index Processor System (PIPS) which is obsolete and not supported. A producer price index (PPI) and export and import price indices are not yet available, but the CSO intends to develop a PPI for certain sectors.
Labor Statistics: Labor statistics are improving. The authorities introduced an annual Labor Force Survey in 2013, which was completed again in 2014 and 2015. They started a quarterly Labor Force Survey in 2018. After delays arising from the pandemic, publication should resume in 2023. A population census is being conducted and will be published in 2023. Regular wage data are not available with the exception of partial data available from the National Insurance Scheme. The CSO conducted a Country Poverty Assessment in 2008, with assistance from the Caribbean Development Bank, and is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics.
Government Finance Statistics: The reporting of central government data has improved in recent years, with monthly data being provided to the ECCB, IMF, and other users in Fund economic classification format with lags of about 4–6 weeks. However, some challenges remain with the availability of fiscal data. Some donor-financed capital spending data are often not available until the end of the year, as they are not reported to or do not pass through the accounts of the central government. The new Chart of Accounts introduced in 2016 has improved the classification of public expenditure. The coverage of the rest of the public sector has improved, but remains limited, and there are no consolidated public-sector accounts. This is consistent with the requirement in the PFM Act of 2015 that the Minister of Finance present a statement of the overall performance of all enterprises to Parliament alongside the budget proposals. The PFM Act also requires public enterprises to submit annual financial statements no later than three months from the end of the fiscal year to the Director of Audit and the Minister of Finance.

Monetary Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended by the Monetary and Financial Statistics Manual and Compilation Guide. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. Grenada reports some data and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: The ECCB reports quarterly all Grenada's core and additional FSIs for deposit takers, covering commercial banks only.
External Sector Statistics: BOP statistics are improving, but there is uncertainty about the stability of the data series. BPM6-compliant BOP and IIP were released in July 2017 for 2014–16 and 2013–16, respectively for the first time, as part of the ECCU-wide initiative. Subsequent data releases in September 2018 and April 2019 added preliminary and estimated data for 2017 and 2018, and also reviewed and revised the entire data series by improving data sources. Ongoing work continues to improve estimates of tourism expenditure, including using alternative estimates for the pandemic year. The CSO is working to release consistent historical data series for 2000–13 that are BPM6 compliant, improve data timeliness, and produce comprehensive public and private sector external debt statistics in line with international standards. Actions are undertaken in collaboration with the ECCB, which coordinates the compilation of external sector statistics of the ECCU economies.
External and Domestic Debt Statistics: The database for central government external debt is comprehensive and can be used to provide detailed and reasonably up-to-date breakdowns of disbursements and debt service, including future projections. Capacity upgrades are however needed to improve reliability of the data and fully eliminate the possibility of errors. There is also a detailed database on domestic government securities maintained by the Regional Governments Securities Market (RGSM) that provides data on auction results, and outstanding securities of the central government. Although the stock information on privately placed domestic T-bills, loans, bonds, and overdraft facilities are available on a monthly basis, there is no reliable data on future projections. Data availability on government-guaranteed debt and debt of public enterprises has been improved, and there is data on private sector external debt, other than from the monetary survey, in the case of the commercial banks.

II. Data Standards and Quality
While Grenada has participated in the Fund's General Data Dissemination System since March 2001, most of the metadata have not been updated since late 2002. Grenada has not fully implemented the e-GDDS as it does not yet have a National Summary Data Page (NSDP).
III. Reporting to STA
The International Financial Statistics page includes data on exchange rates, international liquidity, monetary statistics, prices, balance of payments, national accounts, and population. The authorities do not report fiscal data for publication in *International Financial Statistics (IFS)*. The ECCB provides data to the IMF for publication in the *Balance of Payments Yearbook*. Grenada has not provided any fiscal data, either on a GFSM 2001 basis, or a cash basis, for presentation in the *GFS Yearbook*. The ECCB disseminates Grenada's quarterly GFS data in its Economic and Financial Review.

Grenada: Table of Common Indicators Required for Surveillance
(As of April 30, 2023)

	Data of Latest Observation	Date Received[6]	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1,2]	02/2023	04/2023	M	M	M
Reserve/Base Money	02/2023	04/2023	M	M	M
Broad Money	02/2023	04/2023	M	M	M
Central Bank Balance Sheet	02/2023	04/2023	M	M	M
Consolidated Balance Sheet of the Banking System	02/2023	04/2023	M	M	M
Interest Rates[3]	02/2023	04/2023	M	M	M
Consumer Price Index	12/2022	03/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing–Central Government[4]	04/2023	05/2023	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	03/2023	05/2023	Q	Q	Q
External Current Account Balance	2021	03/2023	A	A	A
Exports and Imports of Goods and Services	2021	03/2023	M	A	A
GDP/GNP	2021	08/2022	A	A	A
Gross External Debt	10/2022	11/2022	M	Q	A
International Investment Position	2021	03/2023	A	A	A

1 Grenada is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1 = EC$2.70.
2 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
3 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
4 Foreign, domestic banks, and domestic nonbank financing.
5 Currency and maturity composition are provided annually.
6 Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA); Not Applicable (n.a.).

INTERNATIONAL MONETARY FUND

GRENADA

June 28, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Nigel Chalk and Jarkko Turunen (IMF); Manuela Francisco and Robert R. Taliercio (IDA)

Prepared by the Staffs of the International Monetary Fund and the International Development Association.

Grenada: Joint Bank-Fund Debt Sustainability Analysis[1,2]	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

Grenada remains in public debt distress solely due to longstanding unresolved arrears to official bilateral creditors of about US$37.6 million (3.1 percent of GDP) as of end 2022. However, public debt is assessed as sustainable reflecting favorable projected debt dynamics from substantial fiscal surpluses that are supported by the return to the fiscal rule in 2023. Public debt rose to 71.4 percent of GDP in 2020 from 58.5 percent in 2019, due to the pandemic-induced collapse in GDP. As tourism and offshore education sectors, as well as construction activity rebound, public debt resumed its pre-pandemic downward trend in 2021 and reached an estimated 64.6 percent of GDP in 2022, with a further decline expected in 2023. Going forward, continued adherence to the fiscal responsibility framework and regularization of arrears will be needed to maintain a sustainable debt trajectory and upgrade the risk rating. Even though the public debt-to-GDP ratio does not breach its threshold under the baseline scenario, the present value of the external debt-to-GDP ratio and the external debt service-to-revenue ratio marginally breach the thresholds. Public debt should be further reduced to create a buffer that will allow Grenada to better weather the extensive external shocks and natural disasters, as underscored by the stress test scenarios.

[1] The last published DSA for Grenada can be accessed here.

[2] The composite index (CI), estimated at 2.96 and based on the April 2023 World Economic Outlook (WEO) and 2021 World Bank Country Policy and Institutional Assessment (CPIA) data, indicate a medium debt carrying capacity for Grenada.

PUBLIC DEBT COVERAGE

1. **Public debt in this DSA is defined as the sum of central government debt (including arrears on principal and interest and overdue membership fees to international organizations) and government-guaranteed debt.** It does not include non-guaranteed debt of state-owned enterprises (SOEs) and limited liability companies, notably PDV Grenada's debt on account of the Petrocaribe arrangement. Based on the determination that the Government of Grenada is not responsible for the debt but only for its shares in the company, the Petrocaribe debt has not been included in the stock of central government debt.[3] Until recently, gaps and time lags in the public enterprises' reporting hampered the complete coverage of public sector debt. Substantial improvement in the comprehensiveness and timeliness of SOE debt data has been made recently, but an expansion of the perimeter to the public sector is still unfeasible because of the lack of consolidated debt data in the public sector. The authorities plan to amend the Fiscal Responsibility Act (FRA) in the second half of 2023, which will broaden the coverage of public debt to include debt of all state-owned enterprises (SOEs) and statutory bodies as well as public private partnership related liabilities (PPP).

Text Table 1. Grenada: Coverage of Public Sector Debt

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

2. **The contingent liability stress test accounts for the risks from the estimated stock of non-guaranteed SOE debt as well as ongoing PPPs and financial markets.** The stock of non-guaranteed SOE debt is substantial, estimated at 16.2 percent of GDP in 2022, and is reflected in the contingent liability stress test. The bulk of this stock (10.8 percent of GDP) is accounted for by PDV Grenada's total debt.[4] The current stock of PPP capital remains zero, and thus the related contingent liability shock is set to zero. The FRA puts a cap on PPP-related government liabilities at 5 percent of GDP.[5] Contingent liabilities from financial markets are set at the minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in low-income

[3] As reported in the 2014 staff report for the approval of the ECF arrangement, PDV Grenada is a limited liability company with the government's share of 45 percent and Venezuela's PDVSA's share of 55 percent.

[4] The DSA takes a conservative approach towards the public enterprise debt. For example, a substantial "haircut" on Petrocaribe debt was granted to St. Vincent and the Grenadines in 2018. Moreover, existing debt of the central government to PDV Grenada of 2.9 percent of GDP is not subtracted from the possible contingent liability (see Text Table 3).

[5] Besides the cap on PPP-related liabilities, the FRA includes a target (at or below 55 percent of GDP) and three operational rules (i.e., primary balance at or above 3.5 percent of GDP, real primary expenditure growth at or below 2 percent per year, and wage bill at or below 9 percent of GDP), among other requirements.

countries since 1980.[6] Estimates for other elements not covered are either zero (there is no central bank debt borrowed on behalf of the government) or need to be firmed up in the context of developing a comprehensive presentation of consolidated non-financial public sector debt, which is planned to be developed by the authorities.

Text Table 2. Grenada: Contingency Liability Calibration

1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	16.2	Non-guaranteed debt stock at end-2022.
4	PPP	35 percent of PPP stock	0	PPP capital stock is zero.
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		21.2	

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

BACKGROUND ON DEBT

3. **External and total public debt rose sharply in 2020 but have since declined.** Prior to the pandemic, Grenada's public debt declined significantly from 94.3 percent of GDP in 2014 to 58.5 percent of GDP in 2019, on the back of solid growth averaging 4.5 percent and robust primary surpluses averaging 4.7 percent of GDP in the same period. Total external debt rose in 2020–21 driven by external public debt dynamics[7]. Public debt rose in 2020 to 71.4 percent of GDP due to the collapse in GDP but also to a smaller primary balance surplus. Public debt resumed its earlier downward trend in 2021 and reached an estimated 64.6 percent of GDP at end-2022. At the same time, the composition of debt shifted further towards external sources reflecting continued support from multilateral organizations. There were no significant changes in the average maturity of either external or domestic debt. In 2020, Grenada benefited from a deferral of debt service of US$1.4 million or 0.1 percent of GDP under the G20 Debt Service Suspension Initiative.

[6] The assumed 5 percent of GDP of liabilities is expected to cover potential cost to the state if credit risks in credit unions continue to worsen (latest numbers suggest that credit union NPLs were 1.1 percent of GDP in 2022).

[7] The external debt is defined based on a residency criterion. The share of external debt using currency criteria is about 5 percentage points lower, as a large portion of the debt held by nonresidents is in Eastern Caribbean Dollar.

Text Table 3. Grenada: Public Sector Debt, 2019–22

(Year End, in Millions of EC Dollars)

	2019			2020			2021			2022		
		Percent of			Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt 1/	2054.3	100.0	62.7	2149.1	100.0	76.3	2290.2	100.0	76.7	2262.5	98.8	70.0
Central government debt	1918.3	93.4	58.5	2011.8	93.6	71.4	2124.3	92.8	71.2	2086.8	91.1	64.6
Central-government guaranteed debt	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.8	0.0	0.0
Other public sector debt	136.0	6.6	4.2	137.3	6.4	4.9	164.9	7.2	5.5	174.9	7.6	5.4
External debt (A+B+C)	1476.8	71.9	45.1	1591.8	74.1	56.5	1724.8	75.3	57.8	1713.3	74.8	53.0
A. Central Government	1440.4	70.1	44.0	1554.7	72.3	55.2	1660.6	72.5	55.6	1662.6	72.6	51.4
1. Multilateral	832.8	40.5	25.4	987.8	46.0	35.1	1064.3	46.5	35.7	1111.5	48.5	34.4
2. Official bilateral	209.0	10.2	6.4	195.7	9.1	6.9	246.9	10.8	8.3	236.2	10.3	7.3
of which Paris Club	16.0	0.8	0.5	16.3	0.8	0.6	16.4	0.7	0.5	14.7	0.6	0.5
3. Commercial debt	369.1	18.0	11.3	347.8	16.2	12.3	332.1	14.5	11.1	302.4	13.2	9.4
4. Overdue membership fees	29.5	1.4	0.9	23.4	1.1	0.8	17.2	0.8	0.6	12.5	0.5	0.4
B. Central-government guaranteed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. SOE non-guaranteed debt 2/	36.4	1.8	1.1	37.1	1.7	1.3	64.2	2.8	2.2	50.7	2.2	1.6
Domestic debt (A+B+C)	577.5	28.1	17.6	557.3	25.9	19.8	565.4	24.7	18.9	549.2	24.0	17.0
A. Central Government	477.9	23.3	14.6	457.1	21.3	16.2	463.7	20.2	15.5	424.2	18.5	13.1
B. Central-Government guaranteed	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.8	0.0	0.0
C. SOE non-guaranteed debt 2/	99.6	4.8	3.0	100.2	4.7	3.6	100.7	4.4	3.4	124.2	5.4	3.8
Memorandum items:												
Nominal GDP	3276.4			2817.2			2985.3			3232.4		

Sources: Grenadian authorities and Fund staff estimates.
1/ Include SOE non-guaranteed debt but does not include debt of PDV Grenada.
2/ On-lent loans to public bodies are not counted as SOE debt since they are part of central government debt.

4. **The authorities continue to make efforts to resolve the remaining external arrears.** These arrears are a legacy from the 2014 debt restructuring, reflecting arrears to non-Paris Club holdouts, commercial creditors, and international organizations. In October 2022, the Government of Grenada reached a repayment agreement with the State of Libya on the US$5 million in debt arrears owed. Arrears of about US$37.6 million owed to non-Paris Club official bilateral creditors including Trinidad and Tobago and Algeria remain to be regularized.[8] The authorities reported progress in advancing negotiations with Trinidad and Tobago, for which high-level discussions have taken place and an escrow account was opened to deposit payments. Limited progress has been made on clearing the arrears with Algeria. Commercial arrears purport overwhelmingly to holdouts of the 2012 USD restructured bonds. The authorities continue to engage commercial creditors to reach a resolution.

[8] Arrears have increased due to the accrual of interest.

Text Table 4. Grenada: External and Domestic Arrears, 2020–22
(Year End, in Millions of U.S. Dollars, Unless Otherwise Indicated)

	2020		2021		2022	
	US$mln	% of GDP	US$mln	% of GDP	US$mln	% of GDP
Total arrears	**41.6**	**4.0**	**41.2**	**3.7**	**52.1**	**4.3**
External arrears	**41.6**	**4.0**	**41.2**	**3.7**	**52.1**	**4.3**
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	22.8	2.2	24.5	2.2	37.6	3.1
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	22.8	2.2	24.5	2.2	37.6	3.1
Algeria	1.8	0.2	1.9	0.2	1.9	0.2
Libya	5.0	0.5	5.0	0.5	0.0	0.0
Trinidad and Tobago	16.0	1.5	17.6	1.6	35.7	3.0
Commercial	10.1	1.0	10.3	0.9	9.9	0.8
Unpaid contribution to organizations	8.7	0.8	6.4	0.6	4.6	0.4
Budget expenditure arrears	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic debt	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Grenadian authorities and staff estimates.

5. **Most portfolio characteristics of Grenada's debt continued to improve.**[9] Consistent with their debt strategy and in line with commitments from development partners, the authorities are seeking to shift towards largely concessional external debt. The average time to maturity has been stable at around 10 years for external debt. Average time to re-fixing of the external debt portfolio increases marginally to 9.9 years, and the average effective interest rate on all central government debt declined from 2.8 to 2.5 percent in 2022. As expected from the financing structure, the share of external debt held by multilateral creditors increased to 67.3 percent in 2022 from 64.7 percent in 2021. Furthermore, the government of Grenada is committed to a non-concessional borrowing ceiling, of US$80 million, between July 1, 2022–June 30, 2023.

6. **Portfolio risks, while declining, remain.** The interest rate is subject to a moderate risk with an average time to re-fixing of 9.2 years for the entire portfolio in which 24 percent of the portfolio is subject to a change in interest rates in one year. This risk resides predominantly in the domestic portfolio in which 30.5 percent of this debt is subject to re-fixing in one year, which could lead to higher interest cost given the higher interest rate environment. Nevertheless, the re-fixing risk from the domestic portfolio is likely small given the strategy to shift to concessional financing in the next few years. The current portfolio is subject to only moderate foreign exchange risk as most of foreign currency debt is denominated in U.S. dollars to which the EC dollar is pegged.

BACKGROUND ON MACRO FORECASTS

7. **Data for 2022 came out stronger than anticipated in the 2022 Article IV.**[10] Robust construction activity and a sharper recovery in tourism led to higher-than-expected growth in

[9] The metrics provided in this paragraph purport exclusively to central government debt.

[10] Grenada: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Grenada.

2022. Inflation surprised to the downside, as fiscal measures helped contain domestic prices. Fiscal outturns were also favorable, with stronger-than-expected revenues (import tax,[11] non-tax revenues, and grants) more than offsetting the larger spending.

Text Table 5. Grenada: Macroeconomic Assumptions
(In Percent of GDP, Unless Otherwise Indicated)

	Histrorical		Projections					
	avg. 2013-21	2022	2023	2024	2025	2026	2027	avg. 2028-42
Real GDP growth (in percent)								
2023 AIV - Current	2.3	6.4	3.9	3.8	3.5	3.2	2.7	2.8
2022 AIV - Previous			3.6	3.9	3.5	3.2	2.8	2.8
Inflation rate (GDP deflator, in percent)								
2023 AIV - Current	1.6	1.8	3.0	2.8	2.0	2.2	2.2	2.2
2022 AIV - Previous			3.3	1.8	2.0	2.2	2.2	2.2
Non-interest current account deficit /1								
2023 AIV - Current	11.1	16.0	13.5	11.7	10.8	11.0	10.6	10.9
2022 AIV - Previous			18.9	13.7	11.9	11.3	10.8	11.2
Growth of exports of G & S (USD terms, in percent)								
2023 AIV - Current	14.0	18.5	18.4	6.1	3.8	3.9	4.2	4.0
2022 AIV - Previous			22.4	16.7	8.7	4.7	5.0	4.8
Primary Balance								
2023 AIV - Current	2.5	2.6	3.6	3.6	3.6	1.6	1.3	-0.7
2022 AIV - Previous			3.5	3.8	4.2	4.3	4.2	0.0

Sources: Grenadian authorities, WB and IMF staff projections
/1 The numbers under 2023AIV incorporate a historical upward revision to the services balance.

8. **A continued recovery is projected for 2023, although at a slower pace amid lower global growth.** The economy is expected to continue growing into the medium term, and output is expected to almost return to its pre-pandemic level in 2023 and its potential level by 2028 (Box 1).

Box 1. Grenada: Macroeconomic Assumptions for 2023–43

Real GDP growth is projected to expand by 3.9 percent in 2023 (following a strong rebound in 2022), underpinned by a slower-paced recovery in construction and tourism. Public investment is expected to boost longer-term potential GDP and mitigate risks from natural disasters and climate change. For example, the WB regional tourism competitiveness project and the international airport expansion will increase flight capacity and contribute to the ongoing recovery of tourism. Projects such as the climate resilience water sector, smart agriculture, climate resilient cities, and those supporting an expansion of solar power generation and battery storage, are critical components of climate adaptation and mitigation. The war in Ukraine, and the resulting increases in global commodity prices, are already posing headwinds to growth but could still create further strains, crucially depending on its length. The primary surplus is expected to rise further in 2023 to 3.6 percent of GDP (under the FRA), as public investment scales back and the recovery takes hold, sustaining revenues. Still, the economy is only expected to reach the pre-pandemic output level by 2024, supported by post-pandemic pent-up demand, a recovery of tourism related activities, and robust private investment that takes the mantle from public investment. Output is expected to gradually converge to potential by 2028 and remain around that level thereafter. The baseline includes estimated average costs of natural disasters.[1] Over the long term, potential growth is assumed at 2.8 percent. This incorporates the potential adverse impacts of natural disasters and climate change, as well as the positive impact of implementing the Disaster Resilience Strategy (DRS).[2] The DRS provides a platform for robustly identifying financing and capacity building needs and a framework for coordinated support from development partners. Increased access to donor financing is crucial for its implementation.

[11] Higher import prices contributed to stronger import tax revenues.

Box 1. Grenada: Macroeconomic Assumptions for 2023–43 (Concluded)

Inflation is expected to peak at 3.2 percent by end-2023, reflecting a slow pass-through of international prices to domestic prices following the scale-back of temporary relief measures. A few relief measures remain in place in 2023, including an exemption of VAT on selected food items and small electricity consumption, a reduction of VAT on electricity consumption from 15.0 to 7.5 percent for all consumers, a petrol tax reduction to $3.50 per gallon and a cap on liquid petroleum prices. Inflation is expected to converge back to 2 percent over the long term, anchored by the currency board arrangement under the Eastern Caribbean Central Bank (ECCB). The GDP deflator is expected to rise also by 3.0 percent in 2023.

Fiscal policy. Anchored by the FRA, Grenada's primary surplus averaged 4.7 percent of GDP between 2014–19. In the same period, solid growth and cumulated primary surpluses drove down public debt as defined in this DSA from 94.3 percent to 58.5 percent of GDP. The sharp GDP contraction in 2020 and additional spending needs reversed this trend, sending public debt to 71.4 percent of GDP in 2020. Since then, strong recovery in GDP growth in 2021–22 and the authorities' restraint on non-priority spending helped put the public debt back to the downward trend, which ended at 64.6 percent of GDP in 2022. Projections for 2023 follow roughly the Budget and thus assume a returning to the FRA, supported by the continued recovery of the tourism sector, the inflow of grant and CBI revenues[3] to finance capital expenditure, as well as tax administration and spending containment measures. The projections also incorporate the revenue impact (estimated at EC$5.5 million, annually) from the announced increase in excise on alcohol and cigarettes and higher VAT on beverages with high sugar content. These measures are expected to have insignificant contractionary impacts on growth, while bringing long-term revenue gains. Primary fiscal surpluses are expected to continue to slightly overperform the FRA's 3.5 percent of GDP floor on average through 2025 but then turn into small primary deficits as permitted by the fiscal rule and needed to fill the investment gap. The looser fiscal policy assumed after 2027 is in line with keeping a roughly stable debt-to-GDP ratio at 47 percent (well below the medium-term debt anchor).

The non-interest current account deficit is currently projected at 16.0 percent in 2022 amid strong imports and a still-recovering tourism sector. The current account deficit is expected to improve from 2023, as tourism regains its pre-pandemic levels. Over the long term, the current account deficit is likely to return to closer to its long-term historical average.

Gross reserves are expected to hover around 5 months of imports after a boost in 2021 from the SDR allocation.

Risks are tilted to the downside and uncertainty is especially high. Key risks arise from a slowdown in the global economy, especially Grenada's major source of tourists (the U.S. and U.K.). A sharp rise in import costs of construction materials could weigh on this sector, which is a key driver of economic activity. Global inflationary pressures, if persistent, could drive up borrowing costs—through their impact on advanced economies' monetary policy and further tightening of global financial conditions—and erode incomes and real growth. High inflation could also feed into higher goods and services spending and public wage bill as well as higher-than-expected VAT exemption costs, which may weaken fiscal performance. At the same time, tax collection on pricier imports could overperform. Ongoing reforms to promote renewable energy and energy efficiency can reduce Grenada's exposure to future energy price swings, while also strengthening economic competitiveness, improving the long-term balance of payments position, and reducing emissions. The prospective monetary tightening in major economies could revert the recovering trend of FDI and threaten the sustainable financing of development projects, including the DRS.

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

[2] The government's published document is available here.

[3] The inflow of CBI revenues is projected to decline from current high levels going forward, as Grenada stopped accepting Russian applications and other countries may tighten scrutiny on the entrance by CBI citizens.

9. Financing assumptions have been updated based on most recent data. The latest financing projections from the World Bank's International Development Association (IDA) program and existing Caribbean Development Bank (CDB) projects[12] have been incorporated, which are sufficient to cover the gross financing needs. In addition, remaining disbursements from the loan extended by the Export-Import Bank of China will take place in 2023.[13] In the long run, the government is assumed to mainly rely on concessional loans from the World Bank and CDB for external financing, with no plan to return to external bond markets in the projection period. Domestic and Regional Governments' Securities Market (RGSM) financing sources fill the financing needs that are not covered externally and are assumed to play a larger role as the market develops.[14] More specifically, DSA assumes that domestic and RGSM provide financing with short-term maturities in the near-term projection period, which gradually turn to longer-term maturities in the outer projection period.

10. Realism tools indicate that short-term growth is conservatively forecasted (Figure 4). The projected fiscal path incorporates the authorities' commitment to return to the FRA. As such, the fiscal projection lies close to the top quartile of the distribution of past adjustments of the primary fiscal deficit. The baseline growth stays below levels consistent with recent growth momentum and the impact of the fiscal adjustment. The improved fiscal outturns and growth in 2022 result in lower projected public debt to GDP ratios relative to the previous DSA in the short and medium term (Figure 3).

COUNTRY CLASSIFICATION AND DETERMINANTS OF SCENARIO STRESS TESTS

11. Grenada continues to be assessed at medium debt-carrying capacity.[15] The rating is based on the CI score, which captures the impact of the different factors through a weighted sum of the 2021 World Bank's CPIA score, the country's real GDP growth, remittances, international reserves, and world growth. Under the CI, Grenada continues to be rated as a medium performer.

[12] CDB provides both credit and grant financing, and for 2024 and 2025 grants increase to about US$8 million.

[13] The loan, which is for financing infrastructure projects (such as airport and road network constructions), amounts to US$69 million, with US$36.2 million to be disbursed in 2023.

[14] See the 2021 Article IV consultation with the ECCU here.

[15] The composite index (CI), estimated at 2.96 and based on the April 2023 WEO and 2021 World Bank CPIA data, indicate a medium debt carrying capacity for Grenada.

Text Table 6. Grenada: Composite Indicator

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.623	1.39	47%
Real growth rate (in percent)	2.719	2.683	0.07	2%
Import coverage of reserves (in percent)	4.052	44.412	1.80	61%
Import coverage of reserves^2 (in percent)	-3.990	19.724	-0.79	-27%
Remittances (in percent)	2.022	4.667	0.09	3%
World economic growth (in percent)	13.520	2.856	0.39	13%
CI Score			2.96	100%
CI rating			Medium	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.96	Medium 2.97	Medium 2.98

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

12. **Both external and public debt analyses consider standard-DSA alternative scenarios to this baseline as well as three tailored scenarios.** A "contingency liability" shock captures risks from SOE and PDV debt. An extreme "natural disaster" scenario is calibrated based on the estimated growth impact that the 2017 hurricane Maria had on Dominica (the total damage from Maria for Dominica is similar to that of hurricane Ivan for Grenada in 2004). The fiscal response assumes an increase of expenditures by a total of 5 percent of GDP in the two years following a hurricane or 2.5 percentage points in the first two years to cover reconstruction costs.

EXTERNAL DSA

13. **External PPG debt-to-GDP ratio is projected to trace a downward path in the baseline scenario.** The present value of debt-to-GDP and debt service-to-revenue ratios marginally exceeds the threshold in 2023 under the baseline scenario (Figure 1). However, these breaches are short-lived, for the year of 2023 only, and hence discounted. The downward trajectory under the baseline is predicated on the assumptions of returning to the fiscal rule constraints in 2023 and adhering to a path of debt reduction going forward. This is to be supported by improving spending efficiency and mobilizing domestic resources. For example, by enhancing tax compliance, reducing tax arrears, boosting digitalization, broadening the tax base, and increasing the equity and efficiency of the tax system.

14. **Under stress tests, thresholds are breached for all key indicators of PPG external debt under an export shock.** The present value of debt-to-GDP breaches its threshold under all stress tests (Table 3). The most severe shock is the "exports" shock, due to high exposure to tourism

exports. For the present value of debt-to-exports ratio, debt service-to-exports ratio, and debt service-to-revenue ratio, the exports shock is the most extreme shock as well. A large natural disaster and a contingent liabilities shock have significant effects on the debt path. A natural disaster has a protracted effect on the debt path in part due to its interaction with the growth shock (e.g., due to a high likelihood of the infrastructure damage).

15. **External debt is vulnerable to risks but is assessed as sustainable.** Under the exports shock all thresholds are breached. The shock is applied on top of a strong export level that has recovered from the COVID-19 shock and substantially exceeded the pre-pandemic level due to higher export prices. Therefore, staff viewed the risks to external debt sustainability as high, but sustainable given the downward path under all external debt indicators.

OVERALL RISK OF PUBLIC DEBT DISTRESS

16. **The total PPG Debt-to-GDP ratio does not breach its benchmark and it is projected to gradually decline until 2029 and broadly stabilize thereafter.** Nevertheless, due to the remaining unresolved arrears to official bilateral creditors, Grenada's DSA rating remains unchanged at "in debt distress." The key drivers of the projected decline in PPG debt-to-GDP in the next few years are sizable primary surpluses and GDP growth, as reflected in the updated macroeconomic assumptions. The PV of debt-to-GDP ratio would be below benchmark in the baseline scenario, reflecting the government's continued improvement in saving and access to concessional financing (Figure 2). Debt is projected to stabilize below the FRA medium-term anchor of 55 percent of GDP as a cushion against large shocks, including natural disasters. Under the most extreme scenario, as implied by the growth shock, the benchmark thresholds for the PV of debt-to-GDP ratio is breached throughout the projection period. Staff notes that the design of this shock in the template is overly onerous and conservative since the collapse in tourism during 2020 had an exceptional and sizable temporary element which is not appropriately considered by the default template. The debt service-to-revenue ratio is on a downward trajectory until 2025 and stabilizes thereafter, indicating low risks for Grenada with no concerns about servicing the debt.

RISK RATING, VULNERABILITY AND RECOMMENDATIONS

17. **Grenada remains in debt distress, but its public and external debt is assessed as sustainable even though risks are high.** The assessment that debt is sustainable is predicated on the authorities' strong commitment to the FRA, fiscal structural reforms, and further improvement in debt management. This is also supported by the authorities' strong past record of debt reduction and the availability of liquid financial assets (e.g., SDR allocation and government deposits). The debt-to-GDP ratio rose in 2020 after a significant decline through years of fiscal consolidation anchored by the FRA, robust economic growth, and a restructuring of Grenada's public debt. Fully regularizing external arrears would help tangibly improve the DSA rating, so would a continued

progress in reducing public debt, including through maintaining the FRA's rules-based framework, pursuing fiscal structural reforms, and further improving debt management capacity.

18. Risks to debt sustainability remain substantial. Grenada's debt sustainability is subject to two-sided risks. The tourism recovery is highly uncertain and could either over- or under-perform expectations. Shocks to fuel prices are an added risk to the medium-term outlook. Domestically, higher-than-expected pensions, health care-related liabilities, and the new unemployment insurance scheme (if not adequately funded) can put additional stress on public finances and a possibility of particularly large natural disasters are an ever-present risk, which can also have adverse spillovers on the tourism sector. Continued strong commitment to the fiscal responsibility framework (including through the ongoing amendment to make it simpler and more flexible), implementing pension and national insurance scheme reforms, and advancing the transition to renewable energy are needed to manage those risks. The debt dynamics are highly susceptible to growth underperformance, which could be intensified by climate change (Table 3). The risks, including those associated with the Petrocaribe contingent debt, are mitigated by continued improvement of debt reporting and monitoring. The climate-related risks are mitigated by the implementation of the DRS, as supported by the IMF, WB, and other development partners.

19. To cushion the fiscal risks from natural disasters, Grenada has significantly advanced climate resilience building and responses to other emergencies. The Government has a long history developing the legal and institutional framework for disaster risk management (DRM), which was supported by the WB's TA. Furthermore, the WB's Second Recovery and Resilience DPC, which is currently under preparation, will help Grenada build resilience to external shocks and climate change, by supporting a comprehensive DRM legislation, the accountable and efficient use of energy, and the incentives to preserve resources. Disaster risk reduction has been included in the national development planning process (e.g., National Hazard Mitigation Policy 2003 and Plan 2006), and expanded across various line ministries and sectors under a multifaceted approach (e.g., Grenada Blue Growth Coastal Master Plan, and National Adaptation Plan 2017–21). Resilience building was built into all infrastructure sectors, land, agroforestry, agriculture, fishing, food security, water, mangrove, marine, coral, health, and zone management, to mitigate the potential damages. Surveillance and evaluation procedures have also been established to detect and manage outbreaks and response mechanisms for public emergency events, including health-related shocks. However, implementation capacity remains a significant impediment. Development partners have been providing important technical and capacity assistance to Grenada to further advance this area.

20. The government is also shifting to a more proactive and layered financial response planning to disaster risk. A variety of instruments are in place to meet different liquidity and funding needs for disasters of different severity and frequency. As part of its 2015 debt restructuring, some Grenada bonds included hurricane clauses, whereby debt service on the restructured debt (mainly to 2025 private bondholders, but also to Paris Club) would be automatically re-profiled following a hurricane and in some cases other types of natural disaster. This clause could release up to EC$45 million in funds in the event of a major natural disaster (the amounts would be lower for smaller events, depending on the triggers). The World Bank Deferred

Drawdown Option for Catastrophe Risks (CAT DDO) renewed in 2023 provided another layer of contingent financing in case of natural disasters. Insurance from CCRIF, the contingency fund under the National Transformation Fund, and other savings would provide additional layers of protection. Although various instruments are in place, they are not used efficiently and need to be optimized to ensure the complementarity between the various risk retention and risk transfer instruments. The Disaster Resilience Strategy and the DRM Act will help consolidate the different resources and provide the most efficient cushions against natural disasters.

21. Debt management and debt data coverage need to be further enhanced. The authorities' debt management capacity would benefit from further reform in data management and IT system enhancements and building on the Debt Management Performance Assessment (DeMPA) undertaken with the World Bank in 2018. The Ministry of Finance (MoF) plans to amend the Fiscal Responsibility Act (FRA), in the second half of 2023, to better monitor all SOEs, statutory bodies, and PPP related liabilities. Such monitoring and the quality of information has improved considerably in recent years but can further improve. For example, by improving the timeliness of SOEs' debt coverage including information on their above-the-line operations and better assessing PDV's liabilities. Furthermore, transparency around the Citizenship-by-Investment (CBI) program should be strengthened to enhance the reporting and efficiency of asset management and the capacity for asset/liability operations.

Authorities' Views

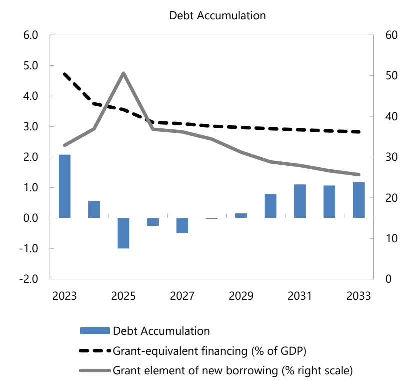
22. The authorities agreed with staff's debt sustainability assessment. They reached a repayment agreement with the State of Libya on the US$5 million in debt arrears owed. Regarding arrears to Trinidad & Tobago, they are making payments consistent with 2015 Paris Club agreement into an escrow account. The authorities underscore their commitment to regularize the remaining arrears to Trinidad and Tobago and Algeria. They committed to a return to the fiscal rules and to continue the debt reduction path. They indicated that the near-term financing needs are well covered by external funding that are already contracted and staff's financing assumptions are broadly in line with the government's Medium Term Debt Strategy.

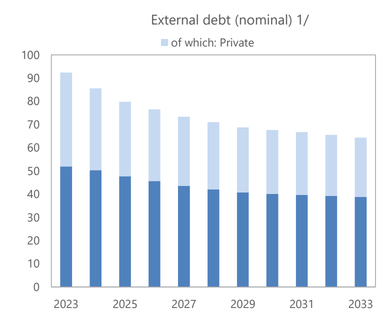
Table 1. Grenada: External Debt Sustainability Framework—Baseline Scenario, 2020–43

(In Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 9/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	92.9	95.5	92.7	92.4	85.6	79.8	76.5	73.3	71.0	64.3	54.4	100.8	73.8
of which: public and publicly guaranteed (PPG)	55.2	55.4	51.4	51.9	50.3	47.7	45.6	43.6	42.0	38.8	33.2	54.8	43.6
Change in external debt	11.1	2.6	-2.8	-0.3	-6.8	-5.7	-3.3	-3.2	-2.3	-1.2	0.4		
Identified net debt-creating flows	14.9	-4.8	-4.1	0.4	-1.6	-2.7	-2.7	-3.3	-3.9	-4.2	-2.3	-4.1	-3.4
Non-interest current account deficit	14.9	11.8	16.0	13.5	11.7	10.8	11.0	10.6	10.4	10.2	13.1	11.6	10.6
Deficit in balance of goods and services	11.1	7.9	9.9	4.7	3.0	1.9	1.9	1.4	1.1	1.9	4.4	5.0	1.9
Exports	41.1	48.4	52.9	58.6	58.2	57.2	56.4	55.9	55.4	52.8	47.8		
Imports	52.2	56.3	62.8	63.3	61.2	59.1	58.3	57.3	56.6	54.6	52.2		
Net current transfers (negative = inflow)	-1.8	-2.7	-0.9	0.3	0.5	0.6	0.6	0.7	0.7	0.9	1.3	-0.4	0.7
of which: official	0.2	-1.2	-0.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7		
Other current account flows (negative = net inflow)	5.6	6.6	7.0	8.5	8.3	8.3	8.4	8.5	8.6	7.4	7.4	7.0	7.9
Net FDI (negative = inflow)	-14.9	-12.8	-14.1	-11.0	-11.5	-12.0	-12.5	-13.0	-13.5	-13.5	-14.8	-12.8	-12.8
Endogenous debt dynamics 2/	14.9	-3.8	-6.0	-2.2	-1.8	-1.5	-1.2	-0.8	-0.8	-0.9	-0.6		
Contribution from nominal interest rate	1.5	1.4	1.3	1.2	1.4	1.4	1.3	1.2	1.1	0.9	0.8		
Contribution from real GDP growth	13.1	-4.1	-5.6	-3.4	-3.3	-2.8	-2.4	-2.0	-1.9	-1.8	-1.4		
Contribution from price and exchange rate changes	0.2	-1.1	-1.7	...	...	...	...	...	...	...	...		
Residual 3/	-3.7	7.4	1.3	-0.7	-5.2	-3.1	-0.6	0.1	1.6	3.1	2.7	-0.7	0.8
of which: exceptional financing 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	42.4	41.5	39.4	36.4	34.2	32.1	30.6	27.7	24.0		
PV of PPG external debt-to-exports ratio	...	...	80.0	70.9	67.7	63.6	60.7	57.5	55.1	52.4	50.1		
PPG debt service-to-exports ratio	16.1	12.8	6.1	9.1	7.8	7.7	7.3	7.2	6.6	5.9	8.4		
PPG debt service-to-revenue ratio	27.0	25.3	12.1	18.7	16.3	15.9	15.4	15.1	13.8	12.1	16.4		
Gross external financing need (Million of U.S. dollars)	69.8	58.2	63.1	101.4	66.3	46.2	40.0	27.0	11.1	1.5	108.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-13.8	4.7	6.4	3.9	3.8	3.5	3.2	2.7	2.7	2.8	2.8	2.7	3.1
GDP deflator in US dollar terms (change in percent)	-0.3	1.2	1.8	3.0	2.8	2.0	2.2	2.2	2.2	2.2	2.2	1.6	2.3
Effective interest rate (percent) 5/	1.6	1.6	1.4	1.4	1.7	1.7	1.7	1.6	1.6	1.4	1.6	1.7	1.6
Growth of exports of G&S (US dollar terms, in percent)	-35.3	24.8	18.5	18.4	6.1	3.8	3.9	4.2	4.2	4.3	5.1	14.5	5.5
Growth of imports of G&S (US dollar terms, in percent)	-19.5	14.2	20.9	7.8	3.3	2.0	4.0	3.2	3.7	4.6	5.1	7.2	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	32.9	36.9	50.6	36.8	36.2	34.4	25.7	16.3	...	33.4
Government revenues (excluding grants, in percent of GDP)	24.5	24.4	26.7	28.5	28.0	27.6	26.8	26.5	26.5	25.6	24.5	23.0	26.7
Aid flows (in Million of US dollars) 6/	38.2	85.2	83.1	69.6	58.3	63.5	53.6	55.1	55.4	64.5	91.4		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	4.7	3.7	3.6	3.1	3.1	3.0	2.8	2.5	...	3.2
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	45.6	54.7	69.3	60.5	60.4	59.7	52.6	45.2	...	56.5
Nominal GDP (Million of US dollars)	1,043	1,106	1,197	1,281	1,368	1,444	1,524	1,601	1,681	2,152	3,537		
Nominal dollar GDP growth	-14.0	6.0	8.3	7.0	6.7	5.6	5.5	5.0	5.0	5.1	5.1	4.3	5.5
Memorandum items:													
PV of external debt 8/	...	...	83.6	82.0	74.7	68.5	65.1	61.9	59.6	53.2	45.2		
In percent of exports	...	...	158.0	140.1	128.2	119.7	115.6	110.8	107.5	100.7	94.6		
Total external debt service-to-exports ratio	16.3	12.9	6.2	9.2	8.0	7.8	7.4	7.3	6.7	6.0	8.4		
PV of PPG external debt (in Million of US dollars)			507.1	532.0	539.1	525.4	521.7	514.2	513.8	595.5	848.6		
(PVt-PVt-1)/GDPt-1 (in percent)				2.1	0.6	-1.0	-0.3	-0.5	0.0	1.2	0.3		
Non-interest current account deficit that stabilizes debt ratio	3.8	9.3	18.8	13.9	18.6	16.5	14.3	13.7	12.8	11.3	12.7		

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, the former being unusually negative in 2022-23 and thus contributing to the negative residuals.

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.

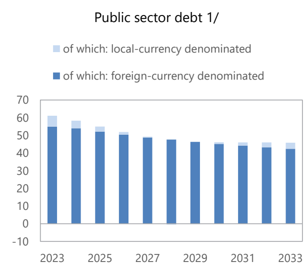
9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

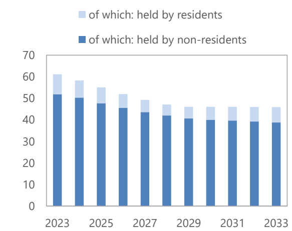
Table 2. Grenada: Public Sector Debt Sustainability Framework—Baseline Scenario, 2020–43

(In percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**71.4**	**71.0**	**64.6**	**61.1**	**58.3**	**55.0**	**51.9**	**49.3**	**47.1**	**45.9**	**45.2**	**75.6**	**50.3**
of which: external debt	**55.2**	**55.4**	**51.4**	**51.9**	**50.3**	**47.7**	**45.6**	**43.6**	**42.0**	**38.8**	**33.2**	**54.8**	**43.6**
Change in public sector debt	12.9	-0.4	-6.4	-3.4	-2.8	-3.3	-3.1	-2.7	-2.1	-0.1	-0.8		
Identified debt-creating flows	**14.1**	**-4.4**	**-6.4**	**-5.7**	**-5.5**	**-5.2**	**-3.1**	**-2.5**	**-2.1**	**-0.2**	**0.0**	**-3.5**	**-2.3**
Primary deficit	**2.6**	**-2.1**	**-2.6**	**-3.6**	**-3.6**	**-3.6**	**-1.6**	**-1.3**	**-1.0**	**1.0**	**0.6**	**-2.5**	**-0.9**
Revenue and grants	28.1	32.1	33.7	30.5	29.9	29.6	28.8	28.5	28.4	27.6	26.5	**26.9**	**28.6**
of which: grants	3.7	7.7	6.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9		
Primary (noninterest) expenditure	30.7	29.9	31.1	26.9	26.3	26.0	27.1	27.2	27.4	28.5	27.0	**24.4**	**27.7**
Automatic debt dynamics	**11.5**	**-2.2**	**-3.8**	**-2.1**	**-1.9**	**-1.7**	**-1.5**	**-1.2**	**-1.2**	**-1.2**	**-0.6**		
Contribution from interest rate/growth differential	10.3	-2.8	-3.8	-2.1	-1.9	-1.7	-1.5	-1.2	-1.2	-1.2	-0.6		
of which: contribution from average real interest rate	0.9	0.4	0.5	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.6		
of which: contribution from real GDP growth	9.3	-3.2	-4.2	-2.4	-2.2	-2.0	-1.7	-1.4	-1.3	-1.3	-1.3		
Contribution from real exchange rate depreciation	1.3	0.6	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 3/	**-1.2**	**3.9**	**0.0**	**2.3**	**2.6**	**2.0**	**0.0**	**-0.2**	**0.0**	**0.1**	**-0.8**	**0.5**	**0.7**
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	**...**	**...**	**55.5**	**50.8**	**47.4**	**43.7**	**40.6**	**37.8**	**35.7**	**34.7**	**36.0**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**164.8**	**166.7**	**158.6**	**147.9**	**140.9**	**132.9**	**125.7**	**126.1**	**136.3**		
Debt service-to-revenue and grants ratio 5/	**45.1**	**37.7**	**27.8**	**28.4**	**18.3**	**16.1**	**17.9**	**16.1**	**14.9**	**18.6**	**34.9**		
Gross financing need 6/	15.3	10.0	6.8	5.1	1.9	1.2	3.5	3.3	3.3	6.1	9.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-13.8	4.7	6.4	3.9	3.8	3.5	3.2	2.7	2.7	2.8	2.8	**2.7**	**3.1**
Average nominal interest rate on external debt (in percent)	2.8	2.5	2.3	2.4	2.8	2.8	2.7	2.6	2.5	2.2	2.6	**3.1**	**2.5**
Average real interest rate on domestic debt (in percent)	3.5	2.0	1.5	-0.2	0.2	0.9	0.6	0.4	0.4	2.5	4.4	**2.1**	**0.9**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.4	1.2	0.0	...	...	...	...	...	...	...	...	**0.2**	**...**
Inflation rate (GDP deflator, in percent)	-0.3	1.2	1.8	3.0	2.8	2.0	2.2	2.2	2.2	2.2	2.2	**1.6**	**2.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	33.8	2.0	10.4	-10.1	1.7	2.3	7.7	2.9	3.7	2.2	2.2	**6.2**	**2.4**
Primary deficit that stabilizes the debt-to-GDP ratio 7/	-10.3	-1.7	3.8	-0.2	-0.7	-0.3	1.5	1.4	1.2	1.1	1.4	**-2.7**	**0.8**
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		

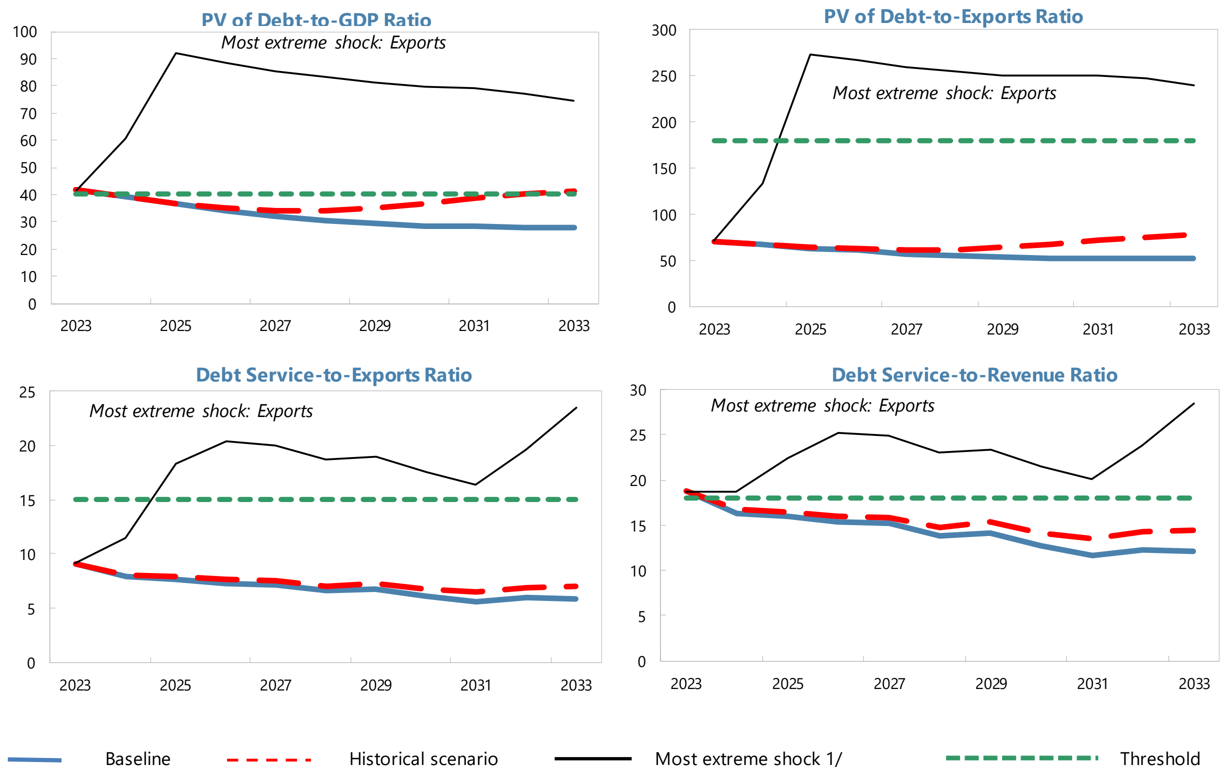
Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central, state, and local governments, central bank, 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, 2023–33



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

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

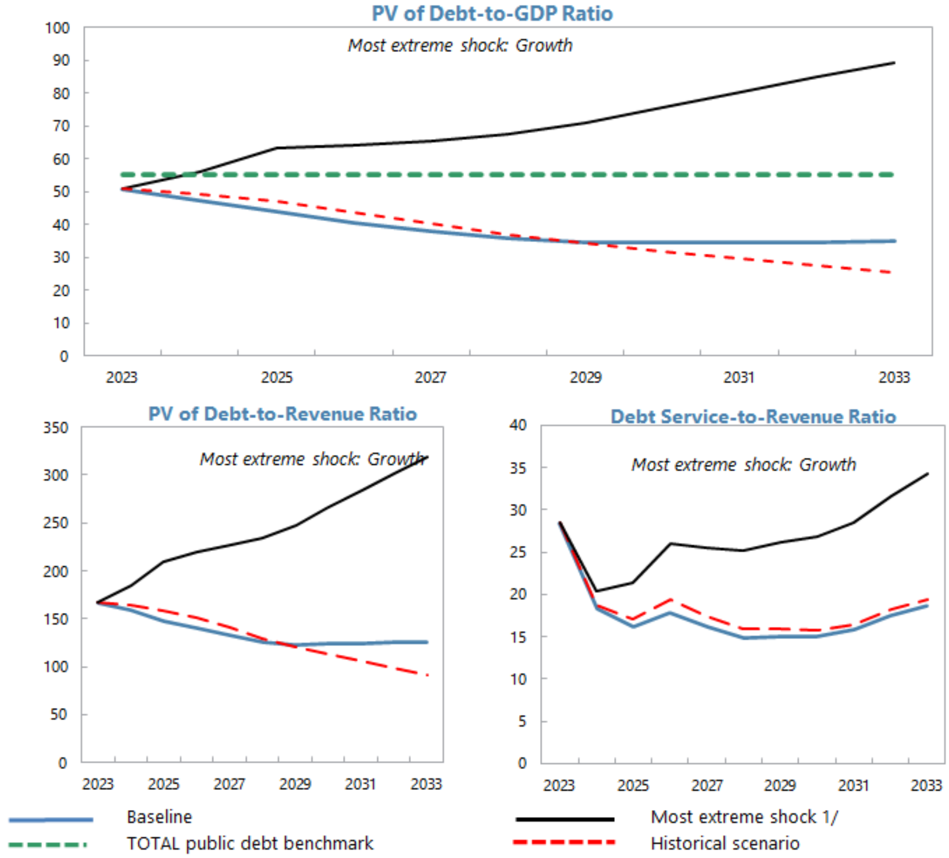
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	7	7

* 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 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Grenada: Indicators of Public Sector Debt under Alternative Scenarios, 2023–33



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	82%	82%
Domestic medium and long-term	12%	12%
Domestic short-term	3%	6%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.6%	4.6%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	2.5%	2.5%

* 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 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–33

(In Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	**42**	39	36	34	32	31	29	29	28	28	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**42**	39	37	35	34	34	35	37	38	**40**	**41**
B. Bound Tests											
B1. Real GDP growth	**42**	**44**	**46**	**43**	**40**	38	37	36	35	35	35
B2. Primary balance	**42**	**42**	**42**	**41**	39	37	36	35	35	34	34
B3. Exports	**42**	**60**	**92**	**89**	**85**	**83**	**81**	**80**	**79**	**77**	**74**
B4. Other flows 3/	**42**	**42**	**42**	40	38	36	35	34	33	33	32
B5. Depreciation	**42**	**48**	**42**	39	36	35	33	32	32	31	31
B6. Combination of B1-B5	**42**	**53**	**54**	**51**	**49**	**47**	**45**	**44**	**44**	**43**	**42**
C. Tailored Tests											
C1. Combined contingent liabilities	**42**	**52**	**50**	**48**	**47**	**45**	**44**	**43**	**43**	**42**	**42**
C2. Natural disaster	**42**	**55**	**55**	**56**	**56**	**58**	**59**	**61**	**64**	**66**	**69**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	71	68	64	61	57	55	53	53	53	52	52
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	71	68	64	62	61	61	64	68	72	75	79
B. Bound Tests											
B1. Real GDP growth	71	68	64	61	57	55	53	53	53	52	52
B2. Primary balance	71	73	74	72	69	67	65	65	65	65	64
B3. Exports	71	133	**273**	**267**	**260**	**255**	**251**	**250**	**250**	**247**	**240**
B4. Other flows 3/	71	72	73	70	67	65	63	62	62	62	61
B5. Depreciation	71	65	58	55	52	50	48	47	47	47	47
B6. Combination of B1-B5	71	97	80	109	104	101	99	98	98	96	95
C. Tailored Tests											
C1. Combined contingent liabilities	71	89	88	86	84	81	80	79	79	79	79
C2. Natural disaster	71	105	107	110	113	116	121	127	133	140	146
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	9	8	8	7	7	7	7	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	8	8	8	8	7	7	7	6	7	7
B. Bound Tests											
B1. Real GDP growth	9	8	8	7	7	7	7	6	6	6	6
B2. Primary balance	9	8	8	8	8	7	7	6	6	7	7
B3. Exports	9	12	**18**	**20**	**20**	**19**	**19**	**18**	**16**	**20**	**24**
B4. Other flows 3/	9	8	8	8	8	7	7	6	6	6	7
B5. Depreciation	9	8	8	7	7	6	7	6	5	6	5
B6. Combination of B1-B5	9	9	12	11	11	10	10	9	9	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	9	8	8	8	8	7	8	7	6	7	7
C2. Natural disaster	9	10	11	10	10	10	10	10	9	10	10
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**19**	16	16	15	15	14	14	13	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**19**	17	16	16	16	15	15	14	13	14	14
B. Bound Tests											
B1. Real GDP growth	**19**	**18**	**20**	**19**	**19**	17	18	16	15	15	15
B2. Primary balance	**19**	16	16	16	16	15	15	14	12	14	14
B3. Exports	**19**	**19**	**22**	**25**	**25**	**23**	**23**	**21**	**20**	**24**	**28**
B4. Other flows 3/	**19**	16	16	16	16	14	15	13	12	13	14
B5. Depreciation	**19**	**21**	**20**	**19**	**19**	17	17	16	14	15	14
B6. Combination of B1-B5	**19**	**18**	**20**	**20**	**19**	18	**18**	16	15	18	17
C. Tailored Tests											
C1. Combined contingent liabilities	**19**	16	17	17	17	16	16	14	13	14	14
C2. Natural disaster	**19**	16	17	17	17	16	16	15	15	15	16
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

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

Table 4. Grenada: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33

(In Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	51	47	44	41	38	36	35	35	35	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	51	49	47	44	40	37	34	32	30	27	25
B. Bound Tests											
B1. Real GDP growth	51	**56**	**63**	**64**	**66**	**68**	**71**	**76**	**80**	**85**	**89**
B2. Primary balance	51	51	51	48	45	43	41	41	41	41	41
B3. Exports	51	**61**	**79**	**76**	**73**	**70**	**69**	**69**	**68**	**67**	**65**
B4. Other flows 3/	51	50	49	46	43	41	40	40	40	40	39
B5. Depreciation	51	**58**	51	46	42	37	34	33	31	29	28
B6. Combination of B1-B5	51	50	48	44	41	38	37	37	37	38	38
C. Tailored Tests											
C1. Combined contingent liabilities	51	**64**	**59**	**56**	53	51	49	49	49	49	49
C2. Natural disaster	51	**67**	**66**	**65**	**65**	**66**	**67**	**70**	**73**	**76**	**79**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	167	159	148	141	133	126	123	124	124	125	126
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	167	165	159	151	141	130	121	113	106	98	91
B. Bound Tests											
B1. Real GDP growth	167	185	210	219	227	234	248	266	284	301	319
B2. Primary balance	167	171	172	165	157	150	147	148	149	149	150
B3. Exports	167	204	268	263	255	247	244	245	245	243	237
B4. Other flows 3/	167	168	167	160	152	145	142	143	143	143	143
B5. Depreciation	167	194	175	162	147	133	123	117	112	106	101
B6. Combination of B1-B5	167	168	163	151	143	135	132	133	134	135	136
C. Tailored Tests											
C1. Combined contingent liabilities	167	214	201	194	186	178	175	176	177	178	179
C2. Natural disaster	167	221	220	224	226	228	236	249	261	273	285
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	28	18	16	18	16	15	15	15	16	18	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	28	19	17	19	17	16	16	16	16	18	19
B. Bound Tests											
B1. Real GDP growth	28	20	21	26	25	25	26	27	28	32	34
B2. Primary balance	28	18	18	21	19	17	16	16	17	19	21
B3. Exports	28	18	18	22	20	19	19	19	20	23	28
B4. Other flows 3/	28	18	16	19	17	16	16	16	16	19	20
B5. Depreciation	28	20	20	22	20	18	19	18	18	20	21
B6. Combination of B1-B5	28	18	17	20	18	16	16	16	17	19	20
C. Tailored Tests											
C1. Combined contingent liabilities	28	18	25	23	21	18	17	17	18	19	21
C2. Natural disaster	28	21	25	26	25	23	24	24	25	28	29
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-GDP Ratio											
Baseline	8.7	5.5	4.8	5.1	4.6	4.2	4.2	4.2	4.4	4.9	5.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	6	5	6	5	5	5	4	5	5	5
B. Bound Tests											
B1. Real GDP growth	9	6	6	8	7	7	8	8	8	9	10
B2. Primary balance	9	5	5	6	5	5	5	4	5	5	6
B3. Exports	9	5	5	6	6	5	5	5	5	6	8
B4. Other flows 3/	9	5	5	5	5	4	4	4	5	5	6
B5. Depreciation	9	6	6	6	6	5	5	5	5	5	6
B6. Combination of B1-B5	9	5	5	6	5	5	5	5	5	5	6
C. Tailored Tests											
C1. Combined contingent liabilities	9	5	7	7	6	5	5	5	5	5	6
C2. Natural disaster	9	6	7	8	7	7	7	7	7	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

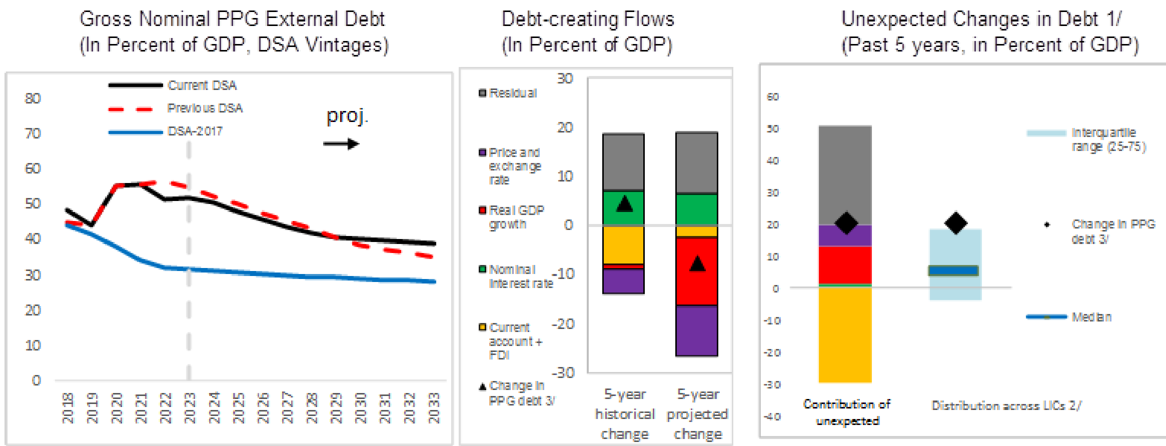
1/ A bold value indicates a breach of the benchmark.

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

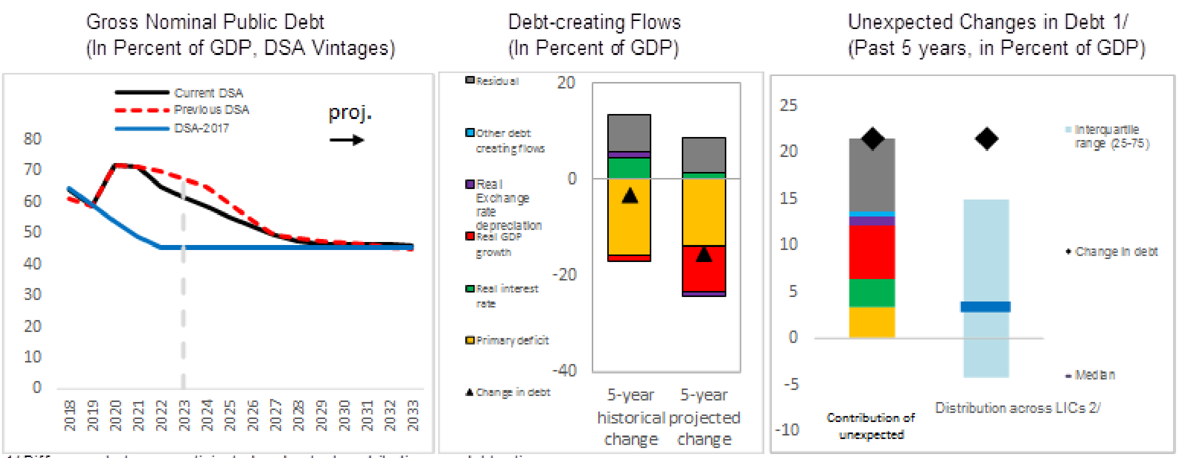
3/ Includes official and private transfers and FDI.

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

External Debt



Public Debt



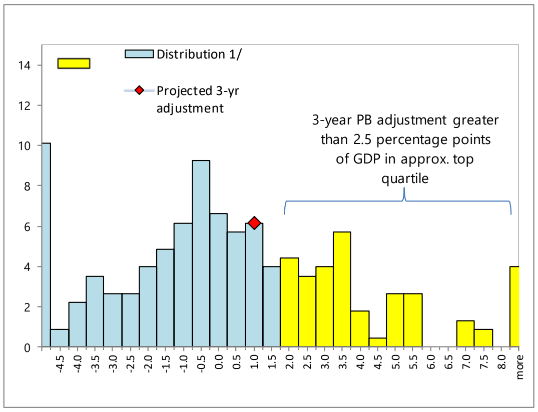
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

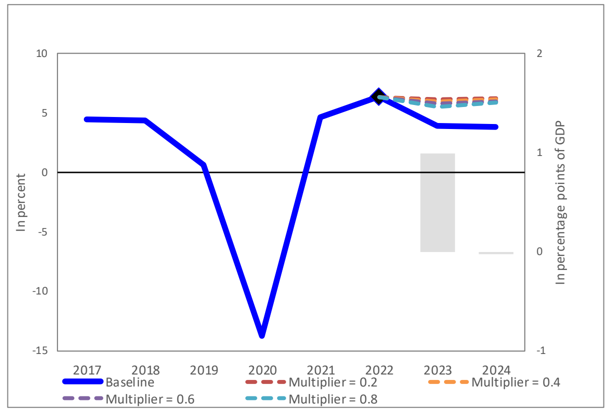
Figure 4. Grenada: Realism Tools

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



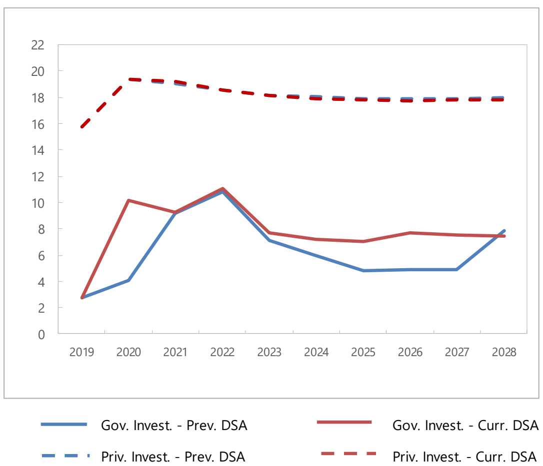
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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
(In Percent of GDP)



Contribution to Real GDP growth
(In Percnet, 5-year Average)