



Grenada: Staff Concluding Statement of the 2023 Article IV Mission

FOR IMMEDIATE RELEASE

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

Washington, DC – [May 26, 2023]: *Grenada is navigating the recovery from the twin shocks of the pandemic and a rise in energy and food prices. The authorities' decisive policy response—supported by the policy space that was created from past fiscal prudence—provided space to cushion the impact of these shocks. As the recovery takes hold, the immediate policy priorities are to return to the fiscal rules to preserve credibility and to deepen structural reforms to promote robust, inclusive, and sustainable growth. Enhancing the fiscal framework and increasing public expenditure efficiency will help create fiscal buffers against future shocks and make space for the country's development and resilience building needs. Measures to increase competitiveness, such as promoting gender equality, investing in skills development, and expanding digitalization, would help boost economic growth.*

The economic recovery is taking hold. Real GDP is estimated to have expanded by 6.4 percent in 2022. Tourism activity has rebounded strongly, with stay-over tourist arrivals reaching 80 percent of their pre-crisis levels, and private and public construction projects also contributed to the growth. There was a sharp fall in agricultural production, however, largely due to adverse weather. Inflation rose modestly to 2.6 percent on average in 2022 despite the surge in global food and energy prices, as the authorities' policy response, such as the temporary removal of the petrol tax and of the VAT on basic food items, helped dampen the inflation pressure from higher global prices. The fiscal balance excluding interest payments is estimated to have maintained a surplus of 2.6 percent of GDP, while central government and government guaranteed debt declined to 64.6 percent of GDP in 2022. The real economy is projected to continue expanding in 2023, but at a slower pace of 3.9 percent as the tourism recovery matures and public investment scales back from a very high level.

Important near-term downside risks remain. A key downside risk to the outlook is an economic slowdown of key tourist source markets such as the U.S. and the U.K., especially if global inflation remains high and global financial conditions continue tightening. High import costs for construction materials could weigh on activity in the sector, while a renewed upswing in commodity prices would drag on growth and weaken the fiscal position. Grenada also remains highly vulnerable to natural disasters. Upside risks include stronger-than-expected tourism

activity, larger domestic spillovers from public investment projects, the implementation of reforms to improve competitiveness, and an accelerated transition to renewable energy.

Enhancing the Fiscal Framework

Supporting the vulnerable more effectively and efficiently. Fiscal relief measures have helped mitigate the impact of rising living costs on households. As the initial food and fuel price spike dissipates and the economy continues to recover, price controls on petroleum products and the reduction in the petroleum tax should be rolled back gradually. Continued focus must be on improving the effectiveness and targeting of social assistance programs. This can include improving the determination of eligibility, strengthening the central beneficiary management system, and moving to cashless payments. Any saving as a result should be used to increase transfers to the vulnerable.

Upgrading the fiscal framework. The 2023 budget appropriately commits to returning to the fiscal rules to preserve the hard-earned credibility. Maintaining the framework's current focus on debt reduction will continue to underpin debt sustainability. The planned amendment of the Fiscal Responsibility Framework should simplify the fiscal rules and make the medium-term fiscal framework more effective as a forward guidance to the annual budget exercises. To enhance the oversight of the government's fiscal management, the Fiscal Responsibility Oversight Committee can carry out additional tasks such as evaluating the government's macroeconomic assumptions and providing assessments of fiscal risks. Greater clarity is needed for how fast debt should return to the medium-term path following a shock.

Making the government more efficient. The efficiency of the tax system can be improved through an update to the tax incentive framework and increased risk-based internal auditing of the customs administration. Public investment management should be strengthened to increase the efficiency of public spending. The focus should be on improving the implementation rate of projects, increasing project oversight, and strengthening the transparency and accountability of the procurement system.

Improving the sustainability of public finances. Reforms to the National Insurance Scheme through phased increases in the contributory rate and pensionable age will help improve its financial position and should be implemented robustly. There is an urgent need to establish one new pension scheme—that ensures the sustainability of the pension system—for new entrants to the public service. The ongoing regularization of public sector workers should be guided by a thorough review of job functionality. A comprehensive wage review is needed to ensure the wage grid reflects current labor market conditions.

Safeguarding Financial Stability

Financial stability risks are moderate amid the tightening of global financial conditions. Bank loans remain sluggish, due to the scarcity of profitable projects and lingering economic uncertainty. Asset quality has deteriorated because of the hardship from the pandemic, notably in credit unions whose nonperforming loans have risen to 8.4 percent of total loans. While banks have recognized more than 60 percent of their nonperforming loans, credit unions have done much less. The level of liquid assets (relative to total assets) remains high in banks but has declined somewhat among credit unions.

The regulation and supervision of credit unions should be strengthened. Despite being smaller than banks in asset size, credit unions have grown rapidly and are critical to financial inclusion. The recent increase in nonperforming loans necessitates credit unions to recognize loan losses, devise a strategy to reduce legacy nonperforming loans, and bolster their risk management practices. Achieving an effective risk-based and forward-looking supervisory

approach by GARFIN, the regulator for nonbank financial institutions, would boost confidence in the soundness of credit unions and allow for risks to be detected and addressed at an early stage. Such an approach requires more granular information, better analytical capacity, and well-designed stress testing.

Efforts are needed to improve the financial intermediation. The financial literacy of the public can be increased through school curricula and community outreach. Financial institutions should be encouraged to leverage the regional credit bureau, once it comes into operation, that will help them know better the credit history of their borrowers. To facilitate smaller firms' access to finance, training can be provided on developing a business plan and preparing financial statements. The authorities should continue strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) framework and the vetting and approval process used for the Citizenship-by-Investment program.

Enhancing Competitiveness and Building Resilience

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. Efforts are needed to expand digitalization, address the 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, as well as facilitating the transition to employment.

The resolute implementation of Grenada's Disaster Resilience Strategy should remain a key priority. The government has made progress in the implementation of the Strategy. Regulations should be updated following the recent approval of the National Disaster Management Bill (2023), which can improve policy response to disasters and strengthen the technical and operational capacity of the National Disaster Management Agency.

Grenada can reduce its carbon emissions and strengthen its external position by transitioning to renewables and investing in energy conservation. The smooth absorption of renewable energy can be assisted by the recently approved National Energy Policy and Grenada Electricity Sector Grid Code. Continued improvement of the regulatory environment will help incentivize and accelerate investments in renewables and climate adaptation. Concessional financing from multilaterals and climate funds can help catalyze private financing for these investments. Greater awareness building about the environmental impact of drilling for geothermal generation would help foster public support and attract private capital.

Data Issues

Continued improvement of data collection would support evidence-based policymaking. The publication of the 2022 census and the resumption of the labor force survey will help the assessment of social and economic development. Transparency should be enhanced by the timely publication of public sector and SOE audited financial statements as well as CBI flows and their usage. The collection and dissemination of high frequency indicators would improve the accurate recording of data. Institutional strengthening of the Central Statistics Office (including appointing a new Director) should be a priority.

The IMF mission team thanks the Grenadian authorities and other counterparts for their warm hospitality and constructive discussions.