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GRAY/22/1183

May 2, 2022

**Joint Statement by Mr. Pösö, Ms. Rieck, Mr. Spurga, and Mr. Boehme on Grenada
(Preliminary)
Executive Board Meeting
May 4, 2022**

We thank staff for the well-written reports and Mr. Jennings and Ms. Smith for their useful Buff statement. Grenada's economy grew strongly prior to the COVID-19 shock, while the successful implementation of the Fiscal Responsibility Framework (FRF) safeguarded an impressive reduction of public debt from 2013 to 2019. Sound macroeconomic policies and the accumulation of fiscal buffers, as well as the Fund's RCF approved in April 2020, allowed the authorities to provide the much-needed policy accommodation when the tourism-dependent economy was hit hard by the pandemic. While the economy is gradually recovering, the war in Ukraine and the rising global commodity prices, pandemic developments, and the potential rise in global risk premia pose risks to the outlook. These risks are compounded by Grenada's vulnerability to climate and natural disaster shocks that require measures on resilience building consistent with debt sustainability. In this context, we broadly agree with staff's appraisal and offer the following comments.

We agree that, given the remaining slack in the economy, triggering the escape clause under the FRF for the third year was appropriate. The output gap will remain negative, and the economic activity is expected to return to its pre-pandemic level only by 2024. This provides grounds for further fiscal accommodation this year to prevent hysteresis from the pandemic downturn.

At the same time, we would recommend a more targeted support to the most vulnerable to cushion the impact of rising local prices, while allowing a smoother passthrough of the higher international food and energy costs. We agree with staff that targeted transfers should be increased once the more broad-based temporary measures are lifted in end-May 2022.

It will be key to secure concessional financing and mobilize domestic resources from next year onwards to accommodate the spending needs while complying with the fiscal rules. We note that a sharp upswing in the primary balance from -1.5 percent to 3.5 percent of GDP (required under the fiscal rules) is expected next year. The return to the fiscal rules should be complemented with effective structural reforms, as well as revenue measures that could help sustain social spending and climate resilience building. *Has staff considered any possible short-term tax revenue measures,*

beyond enhanced compliance or reduced tax arrears, that could help return to the primary balance target in 2023?

We agree with staff that the current conjuncture provides an opportunity to carefully consider amendments of the FRL to allow better support of the recovery in the coming years. Under the framework, the pace of convergence towards the medium-term debt ceiling is required to be less than three years. We note that under the current rules, the primary expenditure rule would leave the primary balance exceeding the minimum of 3.5 percent of GDP from 2024 onwards, while the primary balance of 3.5 percent already puts Grenada firmly on a downward debt path towards the medium-term target as currently formulated. More robust strategies are warranted to facilitate the return to the targeted debt path following an unanticipated shock which results in significant increases in public debt.

Given the rapid growth of the credit unions over the last decade, oversight of this sector should be strengthened. We welcome the planned phased increase of the institutional capital ratio for credit unions. We also note that the liquidity ratio is considerably smaller in credit unions as opposed to banks. *Can staff comment on whether liquidity requirements should be strengthened in the credit union sector?*

We call on the authorities to expedite the publication of the audit of the COVID-19 expenditures. We note that in the Letter of Intent requesting disbursement under the RCF, the authorities committed to providing to the public accurate and timely information with regard to the use of the emergency funds received. Given the need to ensure transparency and accountability of Covid-19-related emergency spending, we would also encourage the disclosure and publication of the beneficial ownership of entities contracting with the government, and, more broadly, of companies registered in Grenada.

With these comments, we wish the Grenadian authorities all the success in their future policy endeavors.