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May 2, 2022

**Statement by Mr. Zhang and Ms. Qi on Grenada
(Preliminary)
Executive Board Meeting
May 4, 2022**

We thank staff for the well-written report and Mr. Jennings and Ms. Smith for their helpful Buff statement. We commend the authorities for their sound fiscal and macroeconomic policies to weather the pandemic and climate challenges. We broadly concur with the thrust of staff's appraisal and would like to offer the following points for emphasis.

We agree with staff that triggering the escape clause under the Fiscal Responsibility Law (FRL) is appropriate to respond to the lingering pandemic. Time-bound fiscal support is critical for the vulnerable and SMEs, which are mostly affected by the pandemic and rising energy prices. We are concerned about the rising public debt level and worsened fiscal position. Therefore, we concur with staff's appraisal that fiscal rules should come back into force in 2023. In the medium term, it is important to restore and create fiscal space through mobilizing domestic and international resources and improving spending efficiency. To this end, we welcome the technical assistance from the Fund to assist the authorities with strengthening the FRL, recalibrating fiscal rules, and assessing the tax gap.

We share staff's appraisal that more efforts are needed to strengthen the oversight of credit unions. The growth of lending and nonperforming loans in the credit union sector amid ongoing uncertainties warrant close monitoring. We take positive note that banks, and most credit unions, have maintained capital adequacy indicators, above the regulatory minimum. We encourage the authorities to strengthen the supervisory and regulatory framework on credit unions, including the phased increase of the institutional capital ratio for credit unions and more granular data collection on loans.

We welcome the authorities' efforts on achieving sustainable growth. We commend the authorities' continued efforts on implementing the Disaster Resilience Strategy through the perspective of structural resilience, financial resilience, as well as post-disaster and social

resilience. Given the increasing vulnerability of Grenada to natural disasters, we welcome the established the risk-layering framework on natural disasters, including a contingency fund under the National Transformation Fund, a Catastrophe Risk Insurance Facility policy, and private sector insurance mechanisms. *Could staff provide more details on the scale of loss that the above-mentioned risk-layering facilities could withstand? Staff's comments on Grenada's intention on the Resilience and Sustainability Trust are also appreciated.*

With these remarks, we wish the authorities every success in their policy endeavors.