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May 2, 2022

**Statement by Mr. Hosseini and Mr. Belhaj 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 helpful Buff statement. Grenada's tourism-dependent economy has been hit hard by the pandemic, exacerbating pre-pandemic vulnerabilities, and worsening the debt ratio and external position. Rising commodity prices are exacerbating fiscal and external pressures, competing with other critical public spending needs, including building resilience to climate change. **We agree with the thrust of the staff's appraisal** and would like to offer the following comments.

**On fiscal policy, we welcome the 2022 budget and agree with triggering the Fiscal Responsibility Framework (FRF) escape clause for the third year.** Countercyclical fiscal measures have been essential to deal with the fallout of the pandemic and have been facilitated by the temporary relaxation of fiscal rules. We see merit in continuing to provide targeted support to vulnerable households and businesses, after the temporary general relief measures are lifted, to cushion the impact of higher commodity prices. **In the medium term, reverting to the FRF will be necessary to keep the debt on a sustainable path,** but could be challenging given the social and capital expenditure needs to shield the population and put the economy back on a sustainable growth track. We note the shortcomings in the FRF and welcome the convergence of views between the authorities and staff on the need to address them, including measures to enhance transparency. We encourage the authorities to improve resource mobilization and enhance spending efficiency to create the fiscal space needed to meet spending in priority areas, while resuming fiscal discipline. To this end, we encourage continued reforms to strengthen public investment management, improve public service

delivery, and better target social assistance programs. Strengthening the capacity of the tax and customs administrations and accelerating digitalization will be critical.

**Staff proposes interesting avenues for sustainable and job-creating growth, including a review of the tourism model and continued efforts to build workers' skills and tackle the multifaceted issue of climate change.** We welcome the authorities' efforts to strengthen the resilience of the economy to climate change and encourage them to further progress in implementing Grenada's Disaster Resilience Strategy and engage in an active energy transition policy to reduce the country's carbon footprint, as well as its fiscal vulnerability to oil price volatility. Given Grenada's vulnerability to climate-related disasters that are increasing in frequency, we underline the need to further strengthen the capacity of and coordination among stakeholders to address climate risks, including the planning and management of their financial impacts. Support from development partners and international donors will be crucial to build capacity and face the elevated financing needs related to the country's climate change strategy. *Could staff comment on whether the Caribbean islands economies, which are exposed to the same natural disasters, have coordinated their climate strategies? And what are the opportunities for closer cooperation?*

**We note with satisfaction the stability and strength of the financial sector but underline the vulnerabilities of credit unions that merit close monitoring.** We welcome the strengthening of supervisory oversight and the planned increase in the capital adequacy ratio of credit unions.

With these remarks, we wish Grenada and its people every success in their future endeavors.