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May 2, 2022

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

We thank staff for the informative report and Mr. Jennings and Ms. Smith for their helpful buff statement.

After being severely hit by the COVID-19 pandemic in 2020, the tourism-dependent economy partly recovered in 2021 and is projected to continue growing in 2022 though at a slower pace. Nonetheless, a further rise in global commodity prices and supply-chain disruptions could place upward pressure on inflation and create fiscal pressures and a prolonged pandemic could affect the recovery of the tourism sector. Against this background, we encourage the authorities to continue implementing prudent fiscal policies and further address vaccine hesitancy. We underscore that making growth more sustainable, resilient, and inclusive should remain a priority.

We congratulate the authorities for their decisive and comprehensive policy response to the pandemic. Supported by fiscal buffers created from years of fiscal prudence before the onset of the pandemic and with the support from the Rapid Credit Facility and other multilateral partners, the authorities' countercyclical fiscal measures mitigated the social and economic effects of the pandemic. After triggering the escape clause in 2020-22 to allow the fiscal response, the authorities plan to return to better calibrated fiscal rules in 2024. They also remain committed to fiscal responsibility but will reassess the fiscal responsibility law to better support the objectives of improving infrastructure and building resilience. A key challenge will be how to modify the rules-based framework after deviations. We believe it is essential to strike the right balance between the credibility of a rules-based fiscal framework and how to better support economic development. To this end, we appreciate staff's analysis of options for enhancing Grenada's Fiscal Responsibility Framework and welcome the authorities' request of technical assistance from the Fund. On the public sector pension benefits, we note the authorities' decision not to appeal the recent pension ruling of the high court, which creates large additional pension obligations. *Staff's comments are welcome.*

The financial sector has remained stable. We take positive note that banks have increased their loss provisioning to meet the ECCB's guidance. We concur with staff on the need to increase provisioning in the credit union sector and improve supervisory oversight. To this end, we welcome

the ongoing efforts by the local regulator (GARFIN) to standardize regulations for credit unions, jointly with regional work to strengthen the regulatory framework. Moreover, we commend the authorities for their efforts to strengthen financial integrity and for compliance with AML/CFT standards and requirements.

We welcome the authorities' commitment to foster sustainable growth. Diversification of the economic base and improvements in economic resilience are essential to reduce the country's high vulnerability to external shocks, including weather- and climate-change related events. We welcome the authorities' efforts to support the tourism industry. Enhancing the domestic value added of tourism would improve prospects for growth and job creation. We also commend the authorities' commitment to building resilience to shocks and protecting the environment, including working towards the implementation of the Disaster Resilience Strategy (DRS). We believe that increased progress and full execution of the DRS will require additional concessional resources, as highlighted in the Buff Statement. *Staff's comments on Grenada's potential participation in the Resilience and Sustainability Fund are welcome.*

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