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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/49-3

2:30 p.m., June 12, 2019

3. Grenada—2019 Article IV Consultation

Documents: SM/19/123 and Correction 1; and Correction 2; and Supplement 1; and Supplement 2; SM/19/130; and Correction 1

Staff: Lissovolik, WHD; Srinivasan, WHD; Gemayel, SPR

Length: 40 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
	K. Obiora (AE)
	M. Bangrim Kibassim (AF), Temporary
	J. Di Tata (AG)
	J. Shin (AP), Temporary
	P. Fachada (BR)
	Y. Zhao (CC), Temporary
	J. Rojas (CE), Temporary
L. Levonian (CO)	
	O. Bayar (EC), Temporary
	A. Castets (FF)
	S. Buetzer (GR), Temporary
	M. Siriwardana (IN)
	P. Di Lorenzo (IT), Temporary
	N. Komura (JA), Temporary
	S. Alavi (MD), Temporary
	F. Al-Kohlany (MI), Temporary
	V. Rashkovan (NE)
	T. Gade (NO), Temporary
	A. Tolstikov (RU), Temporary
	R. Alkhareif (SA)
	K.Tan (ST)
	P. Trabinski (SZ)
	D. Ronicle (UK)
	S. Vitvitsky (US), Temporary

G. Tsibouris, Acting Secretary
J. Morco, Summing Up Officer
B. Zhao, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Legal Department: J. Ams. Strategy, Policy, and Review Department: E. Gemayel. Statistics Department: K. Lee. World Bank Group: T. Christie. Western Hemisphere Department: K. Ishi, T. Komatsuzaki, B. Lissovolik, A. Mitchell, K. Srinivasan. Executive Director: A. Mahasandana (ST). Alternate Executive Director: A. McKiernan (CO). Senior Advisors to Executive Directors: N. Jost (NE), Z.Mahyuddin (ST), G. Vasishtha (CO), J.Weil (CO).

Advisors to Executive Directors: M. Albert (FF), G. Kim (AP), M. Merhi (MI), P. Mooney (CO), M. Sylvester (CO), C. Wehrle (SZ), A. Clark (UK).

3. GRENADA—2019 ARTICLE IV CONSULTATION

Ms. Levonian and Mr. Sylvester submitted the following statement:

Our Grenadian authorities are committed to delivering robust, inclusive, and sustained growth. They welcome the assessment of recent economic developments within the context of the 2019 Article IV Consultation, which showed further progress toward realizing this goal. They remain cognizant of the many development challenges confronting Grenada related to its small size, openness, narrow economic base, and high susceptibility to natural disasters and climate change. In this context, our authorities reiterate their commitment to implement prudent macroeconomic policies and reforms to further advance their development agenda. They highly value the Fund's continued engagement and technical assistance and look forward to their constructive engagement in the future.

Recent Developments, Outlook, and Policies

Real GDP and Inflation

Economic activity in Grenada accelerated in 2018 and unemployment declined further. Real GDP expanded by almost 5 percent last year on the back of strong tourism and construction activities, buttressed by favorable external conditions and dividends from past reforms. This latest growth performance means that Grenada's economy has grown robustly at an average of 5 ½ percent since 2014 and remains one of the fastest growing economies in the Caribbean region. There was further progress in reducing unemployment, with the rate falling from 23 ½ percent in 2017 to 21 ¾ percent by mid-2018.

Our authorities broadly share staff's growth outlook but are slightly more optimistic. Staff projects growth to moderate toward potential over the medium term, with risks, on balance, tilted to the downside. While our authorities anticipate some moderation in growth over the medium term, they are slightly more optimistic than staff and foresee a higher growth trajectory on the basis of ongoing and planned public and private sector investments.

Inflation is expected to remain low and stable. For the second year in a row, the overall change in the consumer price index (period average) remained under 1.0 percent following a pickup in 2016. Going forward, inflation is expected to average around 1.9 percent per annum.

To further support growth and reduce unemployment, our authorities remain committed to accelerating structural reforms. In this regard, they will intensify efforts to further improve the business climate, boost labor market productivity, and support diversification and rural development. Our authorities' reform agenda will be further informed by the forthcoming 2020-35 Development Plan, which is being developed with broad stakeholder involvement.

Fiscal and Debt

Grenada's fiscal position has further strengthened under its fiscal responsibility framework. The overall surplus rose from 3.0 of GDP in 2017 to 4.8 percent of GDP in 2018, reflecting a combination of strong revenue performance and expenditure restraint. The strengthened fiscal position further helped to reduce debt vulnerabilities. Public sector debt, excluding non-guaranteed debt of SOEs and the debt of Petrocaribe, fell from 70 to 63 ½ percent of GDP in 2018 and is on track to reach the FRL debt target of 55 percent of GDP by 2020 and the Eastern Caribbean Currency Union (ECCU) debt target of 60 percent of GDP this year, well ahead of the 2030 deadline. Our authorities will continue to reach out to the three bilateral creditors with a view to regularizing the remaining 1.6 percent of GDP in outstanding debt arrears.

Our authorities are committed to fiscal and debt sustainability and underscore the importance of the Fiscal Responsibility Law (FRL) in continuing to guide fiscal policy. Grenada's rules-based fiscal framework provides an important anchor for sound fiscal policy and has contributed to sustained debt reduction. Our authorities will continue to evaluate all spending decisions, including those related to pension and health care reform, within this framework. Having said that, our authorities recognize the need to strengthen the FRL to support the closing of critical infrastructure and resilience gaps, while at the same time, reinforcing fiscal sustainability. In this context, they are highly appreciative of the Fund's recent TA on strengthening the FRL, which should help inform modifications to the current framework.

Our authorities concur with staff's assessment on the need for further fiscal reforms to anchor improvements in government efficiency, implementation capacity, and policy inclusiveness. This is critical to ensure that available fiscal space is efficiently utilized to support growth and resilience building. Accordingly, our authorities will redouble their efforts to implement the Public Sector Modernization Strategy, strengthen institutional capacity to implement projects, further improve the oversight and

management of SOEs, and better target social assistance, among other key areas.

Financial Sector

The financial sector has seen further strengthening but warrants close monitoring. Our authorities take positive note of staff's assessment that financial soundness indicators, such as capital adequacy, asset quality, and provisioning, continue to improve. Also, they welcome the positive turnaround in private sector credit, which is essential to support growth. At the same time, they are aware that further strengthening of the regulatory and supervisory framework is necessary to safeguard financial sector stability. They concur with staff on the need to closely monitor potential risks associated with the growing property market and the rapid expansion of credit union lending as well as concentration risks from Scotiabank's decision to sell some its banking operations across the Caribbean.

Our authorities welcome the Fund's continued support in helping its members address the risk of the withdrawal of correspondent banking relationships (CBRs). Loss of CBRs remains a major concern as the realization of this risk could be very disruptive and damaging to trade and financial flows. Our authorities continue to collaborate with the Eastern Caribbean Central Bank (ECCB) and other institutions to further strengthen their supervisory and regulatory frameworks, including the AML/CFT regime, to help mitigate this risk. They urge the Fund to remain engaged on this important issue. Relatedly, our authorities welcome the removal of Grenada from the EU's gray list as a non-cooperative tax jurisdiction and remain committed to complying with all international standards on taxation. However, they expressed concerns that the recurring and incremental nature of such requirements are burdensome and serve to divert scarce financial and human resources from other critical priorities.

Building Resilience

Building resilience to natural disasters and climate change is a top priority for our authorities. Alongside efforts to create fiscal space, they currently save a portion of their Citizenship-By-Investment (CBI) proceeds for disaster-related impacts and have drafted regulations for the operationalization of a contingency fund for natural disasters. Also, they have been successful in incorporating disaster relief provisions ("hurricane clauses") in some of their loan instruments and have continuously purchased coverage under the regional catastrophic insurance pool facility, CCRIF SPC.

Furthermore, our authorities have been upscaling investments in climate-resilient infrastructure with support from donors. Additionally, to coordinate efforts around building resilience, they have established a dedicated Ministry of Climate Resilience.

Greater donor support is essential for bolstering resilience efforts. Our authorities broadly support the assessment and recommendations of the Climate Change Policy Assessment (CCPA). They particularly welcome the conclusion that they have been making significant strides to counter climate change but meeting the daunting challenges will require domestic policy actions and sustained international support. Significant donor support is needed to complement domestic efforts, given Grenada's small size and limited resources. Our authorities have been making deliberate efforts to mobilize resources, including climate funds, but continue to face significant hurdles. They continue to call on the international community for support in unlocking grants, concessionary loans, and technical support, to scale up ex-ante resilience building.

Going forward, our authorities will continue to press ahead with efforts to realize the benefits of a more resilient economy. To support their efforts, they welcome the increased focus by the Fund, including staff's recent analytical work on building ex-ante resilience in the ECCU. They further welcome the recent Staff Paper on building resilience in developing countries vulnerable to large natural disasters, which recommended the development of a three-pillar disaster resilience strategy (DRS) covering structural resilience, financial resilience, and ex-post disaster/social resilience. They are highly appreciative of the tremendous effort of the Fund and the Bank in undertaking Grenada's CCPA. They are also pleased to be selected as one of the pilots for the DRS and look forward to the next steps. They look forward to greater collaboration between the Fund and other institutions to support resilience building efforts in members states vulnerable to natural disasters.

Conclusion

Our authorities are determined to build on the current momentum of strong economic growth and fiscal prudence. They are committed to sound macroeconomic management and structural reforms. They will continue to highly value the support of the Fund and other partners in supporting their development priorities.

Mr. Heo, Mr. Shin and Mr. Kim submitted the following statement:

We thank staff for their comprehensive report on Grenada, Ms. Levonian and Mr. Sylvester for their informative buff statement. Grenada's economy is performing well to the extent that the staff report focuses mainly on more sustainable, resilient, and inclusive growth. We welcome that Grenada has achieved both high growth and declining public debt after graduating the ECF arrangement. However, we also note that it continues to face vulnerabilities from large current account deficits and high unemployment, with risks from natural disasters and climate change. We agree with the thrust of the staff's appraisal and add some comments for emphasis.

While safeguarding debt sustainability, fiscal policy should facilitate more productive spending on priority areas. Comprehensive pension reform and public service management strategy can free up resources for needed capital expenditures, especially to address the infrastructure and climate-resilience gap. Given significantly large financing needs and Grenada's still elevated debt level, we share the view that it would be critical to maximize grant supports. Could staff elaborate specific efforts needed for more grants and better coordination among donors, and the Fund's role in this process? We have misgivings that the suggested pro-active approach in Figure 1 might negatively impact on a hard-won credibility from overseas investors. Does staff expect the current high level of FDI, including investments through the CBI programs, could be sustained even in the pro-active scenario?

Double digit current account deficits with high external debts remain a concern. We wonder what factors in recent statistical revision of the BOP data resulted in a widening of the external deficits. Given the export and import volumes of goods and services are broadly balanced, we are also curious about the main factors that caused the large deficits. Staff's comments would be welcome.

More focus needs to be placed to tackle high unemployment and enhance inclusive growth. While acknowledging that employment can be underestimated in the informal sector such as agriculture, we believe addressing high unemployment, particularly concentrated among the unskilled and the young, is a priority. As the World Bank Doing Business indicators suggest, we urge the authorities to improve the business environment to boost private sector job creation. Moreover, the Country Poverty Assessment should be completed as soon as possible and lay a good groundwork to improve inclusive growth.

We commend the staff for their analysis of the island's specific issues such as correspondent banking relationships (CBRs), natural disaster and climate change. We hope the pilot initiative of climate change policy assessment (CCPA) will extensively be applied to other island countries as well and ultimately contribute to facilitate a necessary global climate financing. Although Grenada has not experienced a significant loss in CBRs in the process of merge of domestic banks, we agree with staff that strict compliance with AML/CFT standard will help maintain the CBRs.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the reports. We also thank Ms. Levonian and Mr. Sylvester for their insightful statement. The Grenadian economy continues to experience robust growth, and significant progress has been made in restoring fiscal and public debt sustainability. We commend the authorities on their efforts and encourage them to continue to build on the progress they have already made to ensure more inclusive growth and macro-financial stability.

We commend the authorities on their commitment to the Fiscal Responsibility Law (FRL). The strengthening of the FRL to support the closing of infrastructure and resilience gaps, while reinforcing fiscal responsibility and sustaining transparency and accountability, is a step in the right direction. We take positive note from Ms. Levonian and Mr. Sylvester's statement that the public sector debt is on track to reach the Eastern Caribbean Currency Union (ECCU) target of 60 percent of GDP this year—well ahead of the 2030 deadline—and the FRL target of 55 percent of GDP next year. The efforts of the authorities are commendable, and we encourage them to reduce the public debt ratio further to strengthen buffers, improve the economy's resilience to natural disasters and macroeconomic shocks, and compensate for the non-guaranteed debt of public enterprises and limited liability companies that are not currently included in the perimeter of the public sector debt.

We take note of staff's assessment that Grenada remains in external public debt distress even though debt appears sustainable. We acknowledge the authorities' commitment to addressing the remaining bilateral arrears and welcome the ongoing negotiations with creditors. We encourage them to double efforts to conclude negotiations as soon as possible.

Enhanced regulation and supervision are necessary to bolster financial stability. We are concerned with the growing property markets and the proliferation of non-bank financial intermediaries and agree that contingency

planning and monitoring of systemic risks are necessary. The rapid growth of lending by credit unions also calls for close monitoring and strengthening of data and capital of these institutions. We take positive note of the removal of Grenada from the EU's grey list as a non-cooperative tax jurisdiction and encourage the authorities to continue their efforts in strengthening their due diligence under its citizenship-by-investment (CBI) program.
Also, compliance with AML/CFT standards should help maintain correspondent banking relationships (CBRs) and pre-empt any financial integrity concerns. In this regard, we support the authorities call for the Fund to remain engaged in addressing the threat of withdrawal of CBRs. Further, we sympathize with the authorities in their view that they were forcefully complying with financial integrity requirements, which are recurrent, incremental in nature and burdensome, especially in view of limited financial and human resources.

Addressing the impediments to the business climate and undertaking supply side reforms are important to improve productivity and resilient growth. We are encouraged by the authorities' reform agenda and look forward to the 2020-35 Development Plan. Improving the business environment through digitalization of procedures together with strides to boost labor market productivity and diversification are welcome. We take note that significant renewable energy projects have been put on hold pending the operationalization of regulations to the 2016 electricity supply act. Can staff provide more details on the delay in the operationalization of this act?

We broadly support the assessment and recommendations of the Climate Change Policy Assessment (CCPA). Grenada has made significant progress in climate planning, but implementation remains challenging. We welcome measures taken in recent years, including establishing contingency funds, participating in regional parametric insurance schemes and including a hurricane clause in debt restructuring agreements. Given the constrained fiscal space, mobilization of grants is vital to meet climate adaptation goals while preserving fiscal sustainability. We support the authorities' call for continued assistance from the international community regarding the unlocking of grants, concessional loans and technical support, to scale up ex-ante resilience building. Also, there is merit in further developing the public financial management system to facilitate implementation of the climate resilience strategy and putting in place a natural disaster risk financing strategy. The implementation of guidelines for the use of the National Transformation Fund (NTF) should be adopted as soon as possible to ensure transparent and smooth application after natural disasters.

Mr. Geadah and Ms. Merhi submitted the following statement:

We commend the Grenadian authorities for their prudent macroeconomic policies which resulted in robust growth and a strong fiscal performance. We agree with the thrust of the staff's appraisal and limit our comments to two issues:

We broadly support the assessment and recommendations of the Climate Change Policy Assessment (CCPA), which notes that despite progress, Grenada still has sizable infrastructure and resilience gaps to mitigate the effects of climate change. We welcome the establishment of the Ministry of Climate Resilience and the development of a detailed and costed National Adaptation Plan. The assessment identified the need for resilience-related public investment of up to 3 percent of GDP annually over the next 10 years. As mentioned by Ms. Levonian and Mr. Sylvester in their insightful buff, significant donor support will be needed to complement domestic revenue mobilization efforts given Grenada's small size and limited resources. Capacity building will also be crucial to assist the Grenadian authorities turn their impressive resilience plans into action, including for public investment management and to help complete the DRS, move toward carbon taxation, and enhance implementation of sectoral adaptation plans.

We share the authorities' concern about the loss of corresponding banking relationships which can be very disruptive and damaging to trade and financial flows. We welcome that the authorities will continue to collaborate with the Eastern Caribbean Central Bank (ECCB) and other institutions to further strengthen their supervisory and regulatory frameworks, including the AML/CFT regime, to help mitigate this risk. However, we would urge the Fund to remain engaged on this important issue, which is also echoed in the buff. This major concern is not only relevant to the Caribbean but also to other regions.

Mr. Obiora and Mr. Odonye submitted the following statement:

We broadly agree with staff's assessment. Reflecting effective domestic policies and a benign external environment, the Grenadian economy expanded rapidly in recent years. Nevertheless, the country still faces heightened risks emanating from high youth unemployment and vulnerability to natural disasters and climate change. These contexts make achieving sustainable and inclusive growth ever more pressing. That said, we would appreciate staff elaboration on the slight differentiation from the authorities'

growth outlook, which is predicated on ongoing and planned public and private sector investments?

Adherence to the fiscal responsibility law (FRL) has served the country well. Consistent with Grenada's expenditure rule, we favor adopting improved procedures and classification that clearly prioritizes efficient spending and differentiates between current and capital spending. We also support enhancing the fiscal framework to facilitate debt sustainability. As highlighted in the buff Statement by Ms. Levonian and Mr. Sylvester, we are gratified that the authorities' strong revenue performance and prudent expenditures have already led to considerable debt reduction. But it is now critical that these gains are protected especially as the country grapples with building resilience to natural disasters.

Meeting Grenada's climate-related challenges require both domestic policy actions and sustained international support. We are encouraged that the assessment and recommendations of the Climate Change Policy Assessment (CCPA) further underlines the authorities' commendable efforts to counter climate change. But we believe that more donor support is needed to complement their efforts and bolster resilience, a point amplified in the buff Statement. We welcome staff's specific comments and assessment of Grenada's performance relative to the three-pillar Disaster Resilience Strategy (DRS), namely structural resilience, financial resilience and ex-poste disaster/resilience?

Given sizeable current account deficits, which reflect deficiencies in the business environment, staff's call to address related structural and regulatory impediments are appropriate. We urge the authorities to accelerate their efforts to close gaps in the business environment, particularly through digitalization of procedures. At the same time, sectoral reforms to enhance the penetration of tourism and unlock investment in renewable energy should continue, alongside targeted improvements in labor market institutions, education, and training programs for the country's labor force.

Mr. Meyer, Mr. Psalidopoulos and Mr. Rashkovan submitted the following joint statement:

We thank staff for the comprehensive set of papers and Ms. Levonian and Mr. Sylvester for their informative buff statement. We welcome the positive economic developments in Grenada and commend the authorities for their policy efforts despite a challenging external environment, not least due to increasing risks from weather-related shocks. We broadly share staff's

assessment and recommendations. In particular, we support calls to promote investments into resilience-building and the continuation of policy efforts aimed at improving the business climate and increasing human capital. We agree with staff that structural reform efforts remain necessary, including in the public sector and regarding fiscal governance. This will allow the best possible use of available public funds. Overall, we welcome staff's clear and comprehensive explanations on possible reforms and would like to encourage the authorities to ensure that reforms efforts will take due consideration of inequality and poverty concerns.

We welcome the in-depth climate change policy assessment (CCPA), and broadly concur with the detailed list of recommendations contained therein. We take note that the assessment finds that the country faces "intense challenges from climate change", and inter alia refers to significant risks to GDP, debt developments and other key economic variables. We commend staff for clearly spelling out these risks, which are of concern. Similarly, we welcome staff's efforts to quantify the costs of weather-related events and the fact that staff categorizes them as exogenous. We commend the authorities for the past efforts with improving climate planning and recognize that the set of 30 recommendations will require pronounced efforts and entail important fiscal pressures. In this context, and given that international financial aid remains critical, we continue to fully support capacity development efforts in the Caribbean region.

We welcome the authorities' efforts to reduce fiscal risks in recent years. The reduction of debt levels from 108 percent of GDP in 2013 to 63.5 percent in 2018 illustrates the commendable efforts by the authorities. At the same time and given a broad set of non-negligible risks –many of which are external– we encourage the authorities to maintain a prudent fiscal policy stance and withstand pressures to prematurely abandon cautious policy-making and reform efforts. While we acknowledge the budgetary pressures arising from adaption and mitigation costs, linked to i.a. implementing the recommendations contained in the CCPA, we believe that fiscal room for maneuver remains necessary to allow absorbing possible future shocks. In this sense, we agree that investment policies aimed at upgrading the infrastructure more broadly, and building up resilience to climate events more specifically, remain necessary, but would like to caution against using the more favorable economic environment to increase ineffective current spending, such as increasing pension expenditures. In this context, we welcome the authorities' commitment to the Fiscal Responsibility Law, which appears to have served the country well. We also welcome their commitment to enhance the institutional capacity to effectively implement infrastructure projects.

While we remain concerned that the Debt Sustainability Analysis (DSA) finds that risks of debt distress continue to exist, we appreciate staff's explanations on the perimeter of the DSA. For instance, staff clearly explains that some elements are not covered because they need to be "firmed up" in the context of developing a comprehensive presentation of consolidated non-financial public sector debt. Does staff have an estimate of what the most relevant elements are in this context, i.e. elements not yet covered in the DSA? Here, it remains important to monitor fiscal risks, including those linked to extra-budgetary funds, PPPs and SOE debt. Finally, we encourage the authorities to further engage with creditors towards finding a solution for the issue of bilateral arrears, which will likely improve debt sustainability.

Mr. Villar and Mr. Rojas Ramirez submitted the following statement:

We thank staff for its comprehensive report, and Ms. Levonian and Mr. Sylvester for their buff statement. We agree with the thrust of the staff report

Grenada is a success story. The economy has been growing over the last five years at high rates. External debt has been significantly reduced within a good fiscal standing and low inflation. The external current account deficit narrowed by 11 percent in 2018 but Grenada's external position is weaker than implied in the medium-term fundamentals. International reserves are at 250 percent of the IMF's adequacy metric for credit-constrained economies. Grenada still faces vulnerabilities that need to be addressed.

Implementation of sound fiscal measures and strengthening tax administration along the Fiscal Responsibility Law (FRL) has led to a sound fiscal position with high primary surplus and significative debt reduction. Authorities stand on implementing the three- year fiscal plan through 2021, operationalizing a contingency fund for shocks and natural disasters and generating important fiscal space. We also welcome the authorities' commitment to continue reaching out to the three bilateral creditors with a view to regularizing the remaining 1.6 percent of GDP in outstanding debt arrears, as mentioned in the buff statement.

On this backdrop, we see Grenada experiencing infrastructure and climate-resilient gaps that require a financing envelope to underpin sustained growth. We concur with staff in the need of adopting prudent financing policy measures and agree on the recommendation for supporting resilience-building and reinforcing fiscal sustainability for the next FRL reform phase. We further support staff's advice on the preparation of the FRL changes as well as on the

participation of the fiscal responsibility oversight committee (FROC) for the sake of public confidence and transparency. Fiscal structural reforms in civil service, public enterprise, pension system investment execution, and tax administration are essential for securing policy achievements in Grenada. We encourage authorities to keep on their commitment of pursuing the proposed "second generation of reforms."

The financial and banking sector needs improvements on its regulation and supervision framework and the capacities of the local regulator in coordination with ECCB for preserving stability and integrity chiefly with credit unions and non-banking financial institutions. Banks present a solid position on capital and the NPL ratio was below 2½ percent in 2018. Further actions are necessary for compliance with AML/CFT standards and requirements. We commend authorities for their cooperation with the local regulator (GARFIN), Grenada's Financial Intelligence Unit, and the ECCB on AML/CFT.

Improvements on Grenada's business environment and competitiveness are essential for sustainable inclusive growth. It is crucial to work towards energy sources diversification, which requires operationalization of regulations to the 2016 electricity supply act to kick-start progress in wind, geothermal, and photovoltaic energy projects that have been put on hold. Reform acceleration is also needed to continue reducing the still extremely high unemployment rate (specially among the unskilled and the young) and to enhance trade facilitation and overcome barriers to the business environment such as high import/exports cost, construction permits, and property registration, among others.

Mr. Tan and Mr. Mahyuddin submitted the following statement:

We thank staff for the comprehensive set of papers and Ms. Levonian and Mr. Sylvester for the helpful buff statement. The Grenadian economic growth has remained strong, driven by the tourism-related industries. Compliance with the fiscal responsibility law (FRL) has strengthened the fiscal position and reduced government debt without limiting the economic growth performance. However, growth is set to moderate going forward, with risks to the outlook tilted to the downside. As such, we agree with the broad thrust of the staff appraisal and offer the following comments for emphasis.

An effective and prudent use of fiscal space to support sustainable growth need to be supported by improvement in government efficiency and implementation capability. We welcome the comprehensive analysis by staff

on the policy trade-offs in the next phase of FRL and the recommended measures to improve government efficiency, implementation capacity and policy inclusiveness. We agree on the gradual pace of improvement given the need for careful sequencing to account for the country's absorptive capacity. To this end, we take positive note on the authorities' firm commitment to undertake these reforms through the Public Sector Modernization Strategy, which focuses on strengthening institutional capacity to implement projects, further improving the oversight and management of SOEs, and better targeting of social assistance. Given Grenada's general infrastructure and resilience gaps, we support leveraging the increased resource envelope to address these gaps, including the optimal use of grants or concessional loans to finance the climate-resilience projects where possible.

Further strengthening of the regulatory and supervisory framework is necessary to safeguard financial sector stability. We agree with staff on the importance of contingency planning and monitoring of systemic risks, given the growing property markets and proliferation of non-bank financial intermediaries. In addition, effective compliance with AML/CFT standards and strict enforcement of due diligence requirements remain critical. We take positive note on the removal of Grenada from the EU's gray list as a non-cooperative tax jurisdiction and welcome the authorities' continuous collaboration with the Eastern Caribbean Central Bank and other institutions on AML/CFT and other aspects of the supervisory and regulatory frameworks. In light of the authorities' concerns over recurrence and incremental nature of financial integrity requirements, we welcome staff's comments including the sharing of relevant country experiences in addressing similar concerns.

We encourage the authorities to intensify efforts on structural reforms to boost competitiveness and build resilience. Further improvement in labor market institutions, education and training are critical to address high unemployment and unskilled young labor force. Improvement in business environment, trade facilitation and infrastructure for tourism and energy sectors are other critical structural reforms to boost long term resilience. Moreover, we welcome the comprehensive report on Grenada's Climate Change and Policy Assessment (CCPA) by the IMF and World Bank. Drawing from the CCPA, we found the adaptation of the three-pillar approach of structural resilience, financial resilience, and ex-post disaster resilience into the disaster resilience strategy (DRS) to be an informative exercise in particular. We agree with staff that country-led and country-owned DRS could integrate existing plans and transformed them into a fully-fledged disaster risk management framework. Can staff elaborate on how the DRS can facilitate

the integrated framework and the next steps for the authorities? We take positive note that Grenada has made significant strides in climate change preparedness and welcome the authorities' efforts to make building resilience against natural disasters and climate change a top priority. Lastly, we support the authorities' call for greater collaboration between the Fund and other institutions to scale up resilience building in members states vulnerable to natural disasters.

With these remarks, we wish the authorities well in their endeavors.

Mr. Di Tata and Mr. Morales submitted the following statement:

We thank staff for the comprehensive set of papers and Ms. Levonian and Mr. Sylvester for their insightful buff statement.

Grenada has been one of the fastest growing economies in the Caribbean, with real GDP growth averaging 5 ½ percent since 2014. This strong performance has been supported by fiscal and structural reforms and prudent macroeconomic policies. The economy grew by almost 5 percent in 2018 owing to strong activity in the tourism and construction sectors. Although unemployment declined, it remained elevated at 21.7 percent in 2018. Could staff elaborate further on the main reasons behind the high rate of unemployment? Inflation remains subdued and international reserves are adequate, but the external current account position is weaker than implied by fundamentals and desirable policies. Staff envisages growth to moderate over the medium term, but the authorities expect somewhat higher growth based on ongoing and planned investments. Main risks to the outlook include the prospects for US growth, tighter financial conditions, natural disasters, possible spending pressures, and difficulties in maintaining correspondent banking relationships. Moreover, an adverse court judgement related to a power company could lead to a one-off shift in the public debt path.

Against this backdrop, we welcome the authorities' commitment to maintain prudent macroeconomic policies and accelerate structural reforms to make growth more sustainable, resilient, and inclusive. The main areas to be addressed include gaps in infrastructure, public sector efficiency, human development, and the country's preparedness to deal with natural disasters.

On the fiscal side, the Fiscal Responsibility Law (FRL) has been instrumental in achieving record budget surpluses and reducing the public debt. The primary surplus increased to 6 ¾ percent of GDP in 2018 as a result of strong revenues and rule-based expenditure restraint, while the public debt

declined from 70 to 63 ½ percent of GDP. The government's medium-term fiscal plan envisages large primary surpluses through 2021, but the FRL allows for reducing the primary balance target once the debt ratio reaches 55 percent of GDP. We concur with staff that the main challenge is to make prudent and efficient use of fiscal space to maximize the economy's potential and resilience to shocks and address pressing social issues. We welcome the staff's simulations showing the higher growth dividends of a pro-active scenario allowing for fiscal reforms aimed at improving the quality of capital spending, better targeting social protection programs, and enhancing revenue and spending efficiency. Could staff comment on the recent evolution of poverty and possible ways to improve the effectiveness and efficiency of social spending?

We see merit in amending the FRL to support resilient investment while reinforcing fiscal prudence, including by reframing the primary spending rule. In this regard, we welcome the authorities' intention for a prudent approach that recognizes the need for improving capacity before making substantial changes and agree with staff that this process should pay due attention to fiscal risks, including contingent liabilities. Further efforts are also necessary to move ahead with the implementation of the Public Sector Management Reform Strategy, which is delayed; improve public investment management; complete the second phase of reforms for the public enterprises and proceed with the restructuring/resolution of some entities; finalize the Country Poverty Assessment; and address the costs of future pension liabilities, which depend on the outcome of the arbitration process regarding possible additional obligations on public pensions. Moreover, we encourage the authorities to broaden the coverage of the public debt figures by including the non-guaranteed debt of public enterprises as well as the debt of PDV Grenada to Petrocaribe.

We commend staff for the preparation of the Climate Change Policy Assessment (CCPA) with the World Bank and fully agree on the need to develop a comprehensive disaster resilience strategy (DRS) as a key input to address climate-resilience gaps. In this regard, we encourage the authorities to work closely with development partners. We take note that total infrastructure needs are estimated at about 5 percent of GDP annually and that climate-related investment projects would require an additional 3 percent of GDP annually over the next 10 years. We concur with the authorities and staff on the need to rely on additional grants and external concessional assistance to finance climate-related projects. The planned operationalization of a contingency fund for natural disasters and the establishment of a Ministry of Climate Resilience are welcome steps.

Regarding the financial sector, we take positive note of the fact that banks have solid capital buffers and that the NPL ratio fell below 2 ½ percent in 2018. At the same time, we encourage the authorities to monitor closely the rapid growth of lending by the credit unions and enhance the oversight, data, and capital ratio of these entities while tightening its definition in line with international standards through a phased approach. A comprehensive assessment of systemic risks is also necessary given buoyant property markets and the expansion of other nonbank financial intermediaries. Further decisive efforts are also needed to address correspondent banking relationship concerns, as well as to ensure compliance with AML/CFT standards and enforce due diligence requirements.

Achieving more broad-based and resilient growth requires several reforms on the supply side. These include improving the business environment, simplifying trading and registration procedures, and developing better labor market institutions while enhancing education and training for the young. The Digital for Resilience Governance Project currently being appraised by the World bank is a welcome step. Further efforts are also needed to improve fiscal governance and the rule of law and produce more reliable and timely statistics, including by broadening the coverage of the public sector and updating income distribution data.

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

Mr. Gokarn and Mr. Siriwardana submitted the following statement:

We thank staff for their well-written set of reports and Ms. Levonian and Mr. Sylvester for their informative buff statement. Grenada's macroeconomic performance has improved significantly in the recent past, benefiting from the strong structural reform agenda. The growth has been solid, driven by robust activity in construction and tourism. Inflation remains subdued and the current account deficit has narrowed, although it remains elevated. The debt to GDP ratio has declined steadily from 108 percent in 2013 to 63½ percent in 2018 with significantly improved fiscal performance, underpinned by the rules-based fiscal policy of the FRL framework. We commend the authorities for these notable achievements.

However, key challenges remain; the narrow economic base, chronically high unemployment, high poverty and inequality, and susceptibility to natural disasters and climate change. Risks are assessed to be tilted to the downside. The staff report recommends intensification of the

well-tailored second-generation reforms, using the positive economic momentum by continuing the sound macroeconomic policies and reforms with fiscal prudence to sustain a more inclusive growth, strengthen the resilience and better face natural disasters. We broadly concur with the thrust of the staff's appraisal and wish to make following remarks for emphasis.

On fiscal policy, we echo the staff's call to use the well-earned fiscal space to improve general infrastructure and resilience gaps while refraining from weakening fiscal discipline. Although the fiscal surpluses have been increased, public capital spending has been subdued despite substantial maintenance gaps and under investment. Hence, the need for striking a good and proper balance between fiscal prudence and enhancing productive spending is emphasized in the next phase of FRL. It will help ensure the effective use of the fiscal space to enhance potential growth of the economy. Staff's comments are welcome on the plans to achieve this important balance in the future. Going forward, a pro-active scenario (Figure 1 in p. 13 and ¶16), would be the more appropriate direction as it assumes a gradual 5-year transition to the next FRL phase. Could staff comment on the substantial risks to the pace of capacity improvements in this process?

The financial system remains sound in terms of capital adequacy, asset quality, and provisioning. NPLs have declined steadily. We noted the turnaround in the credit to the private sector, particularly by the credit unions, which will support the growth but will need strengthening oversight. Staff has also highlighted the growing property markets and proliferation of non-bank financial intermediaries, which would require close monitoring for systemic risks and upgrading the financial oversight. We welcome the ongoing work in harmonizing regulations of the non-bank financial sector under a single regional non-bank supervisor. Continued efforts are important to ensure compliance with AML/CFT regulations at all levels. In this regard, we welcome Grenada's removal from the EU's grey list of tax havens in March 2019 and encourage the authorities to forcefully comply with AML/CFT requirements to pre-empt any concerns while addressing the concerns related to the loss of CBRs.

Multi-pronged structural reforms are essential to addressing impediments to competitiveness and growth. Improving the business climate, improving public sector efficiency, addressing project implementation bottlenecks and boosting labor market productivity while strengthening targeted education to remove skill gaps, are key in this regard. We welcome the forthcoming 2020-35 Development Plan and urge the authorities to incorporate these concerns therein with realistic medium-term plans.

We commend the authorities for the progress in strengthening natural disaster resilience and participating in the IMF/WB Climate Change Policy Assessment (CCPA). The assessment includes a comprehensive approach to address climate risks along with important recommendations that will help addressing existing concerns and unlocking further climate change financing, which is crucial. While commending the measures implemented in the recent past, we encourage the authorities for steadfast implementation of these recommendations. Could staff comment on the next steps in sustaining the international financial support to complement domestic efforts in implementing the CCPA recommendations? We strongly support the authorities' call for greater collaboration between the Fund and other institutions to support resilience building efforts in member states vulnerable to natural disasters, indicated in the buff statement.

With these remarks, we wish all the very best to Grenadian authorities in their future endeavors.

Mr. Benk and Mr. Bayar submitted the following statement:

We thank staff for the comprehensive set of papers and Ms. Levonian, and Mr. Sylvester for their helpful buff statement. Grenada's economy has improved significantly with solid growth, improved fiscal position, continued price stability, and reduced financial vulnerabilities thanks to the authorities' prudent policy track record through and beyond their ECF-supported program as well as a favorable external environment. Going forward, the challenge is to lock-in the stability gains, address the supply-side bottlenecks and raise the economy's potential, and to enhance resilience against macroeconomic and climate-related shocks. On that note, we concur with the thrust of the staff's appraisal and would like to add the following comments for emphasis.

The rules-based fiscal framework has served the economy well as the debt-to-GDP ratio is firmly on a downward path. We commend the authorities' significant fiscal effort that delivered a primary surplus of 6.8 percent of GDP in FY18 as well as their commitment in the medium-term fiscal plan to retain sizable primary surpluses through 2021. This should be sufficient for the authorities to reach the Fiscal Responsibility Law (FRL) debt target of 55 percent of GDP within the planning horizon. We note that the domestic policy debate recently shifted toward the use of the potential fiscal space, including for pressing infrastructure needs. In this regard, we agree with staff that a careful calibration of the FRL could be considered to allow for a gradual fiscal expansion provided that the additional spending is kept in synch with the improvements in absorptive capacity and is channeled toward

priority infrastructure and climate-resilience programs. We are encouraged by the authorities' efforts to regularize the remaining bilateral arrears, which is a key impediment to improving Grenada's debt sustainability assessment.

Further strengthening the legal and institutional framework for financial supervision is essential. We welcome the improvements in the banking sector balance sheet as exemplified by adequate capital buffers, low NPL figures, and recovering credit intermediation. Nevertheless, the rapid expansion of lending by non-bank financial institutions, the growing property market, as well as the changes in the ownership structures warrant closer supervisory attention. In that vein, we take positive note of the authorities' intention to closely monitor the evolving risks as well as to increase the capital adequacy requirements for credit unions. We highlight the importance of continued compliance with the AML/CFT standards and strict enforcement of the due diligence requirements, and encourage the authorities to augment their institutional capacity in this area. We welcome the removal of Grenada from the EU's gray list as a non-cooperative tax jurisdiction.

We welcome the joint IMF–World Bank Climate Change Policy Assessment and encourage the authorities to consider and implement - as deemed appropriate - the policy recommendations, particularly those pertaining to the development of a comprehensive Disaster Resilience Strategy as well as to the preparation of a national disaster risk financing strategy focusing on building a comprehensive risk buffer.

We call on the authorities to address statistical weaknesses and improve data provisioning.

Mr. Castets and Ms. Albert submitted the following statement:

We thank staff for their useful set of papers, including the CCPA, as well as Ms. Levonian and Mr. Sylvester for their informative buff statement. We commend the authorities for the impressive progress made on the fiscal consolidation path and the design of a strategy against natural disasters. On this last aspect, the country could be used as a reference for the other Caribbean islands exposed to this macro critical risk. Going forward, we see room to improve further the capacity building within the administration to boost implementation of reforms and infrastructures expenditures. The monitoring of the risks associated to the property market, the reduction of the high unemployment rate and developing a more inclusive growth model are important priorities. We agree with the thrust of staff's appraisal and would like to add few comments:

Fiscal policy

We applaud the impressive reduction of the debt. The public debt to GDP ratio should be divided by two between 2013 and this year and now below the 60 percent of GDP ECCU debt target recommended for 2030. We welcome the integration of the cost of natural disasters (about 0.5 percent of GDP) in the baseline. We share staff's recommendations to allow a recalibration of the primary balance target to stabilize debt at 55 percent of GDP. The fiscal space created by such a recalibration would allow to increase the expenditures aiming at enhancing resilience of infrastructures, transportation and tourism. The improvement of the implementation capacity appears also as a key priority, notably by reducing the shortages of skilled staff. Against this background, we encourage the authorities to implement the 2017-2019 public services reform without further delay. On the revenue side, we regret the absence of measures aiming at broadening the tax base as recommended in the last Article IV consultation and see the adoption of a comprehensive pension reform as essential to deal with the challenge of the population aging.

The external debt remains in distress but appears sustainable according to the DSA. Consequently, we urge the authorities to pursue their efforts to solve the arrears to official bilateral creditors to upgrade the risk rating. Despite the significant budgetary improvement, we remain concerned by the size of the debt of PDV Grenada to Petrocaribe (11.5 percent of GDP on a total of 15 percent of non-guaranteed debt) in a context where U.S. sanctions on Venezuela blocked payments, and fully agree that a careful assessment of the liabilities is needed. Could staff provide some details about how it could be dealt with this debt going forward?

Financial sector

Progress has been made to enhance financial resilience and transparency, but close monitoring and further efforts are needed. The removal of Grenada from the EU's gray list in March 2019 is a positive step but vigilance is needed, notably regarding the high risk attached to the citizenship by investment. As the buff insists on the disruptive risk that would materialize in a scenario of loss of the CBRs, we support the request that the Fund remains engaged on this issue and we encourage the authorities to pursue their efforts to comply strictly to the highest AML/CFT standards.

We concur with staff that monitoring the credit union lending and the risks associated with the property market, as well as an appropriate regulation

of the non-bank financial sector are important to limit systemic risks. Could staff detail its diagnosis regarding the property market?

Climate change and resilience strategy

We thank staff for the detailed and candid CCPA. We commend the authorities for their active involvement to build a resilience strategy against natural disasters and hope it will become a model for the Caribbean islands which have to face the same issues. The CCPA provides useful guidelines for the authorities facing climate-related shocks. Building a relevant and comprehensive DRS including a national natural disaster risk financing strategy will be a useful roadmap. Indeed, the hurricane clause is for example a useful tool for risk management but should be included with others in a comprehensive manner. Could staff indicate what the next steps are? We understand that implementation capacity is a key challenge to meet the National Adaptation Plan goals and would insist on the need to focus on the improvement of project execution. As financing needs to implement the climate change policy are elevated (about 40 percent of 2018 GDP according to the authorities), we see encouragements to the private sector's participation through appropriate incentives as key.

Other structural policies

Reforms to reduce unemployment and adopt a more inclusive growth model should be pursued. As unemployment is still very high at almost 22 percent and affects particularly the young population, we see vocational and ICT, but also training with more appropriate labor policies as priorities to boost skilled human capital and thus potential growth. Could indicate the magnitude of the emigration phenomenon? As the poverty headcount index reached 38 percent in 2008, we would have appreciated more details about the dynamics of poverty and inequality. Could staff indicate whether more recent data are available? Relatedly, we encourage the authorities to improve social data collection, as it is a pre-requisite to design inclusive growth policies, and to complete quickly the country poverty assessment. Finally, we note that the external position remains weaker than implied by medium-term fundamentals and desirable policies, and we share the staff recommendations to fill the infrastructures gaps and remove barriers to improve competitiveness.

Mr. Ronicle and Mr. Clark submitted the following statement:

We thank Staff for the informative papers, especially the Climate Change Policy Assessment (CCPA), and Ms. Levonian and Mr. Sylvester for their comprehensive buff statement.

We share Staff's assessment on the outlook for the economy of Grenada. The economy has been growing rapidly and economic performance coupled with fiscal prudence has led to fiscal surpluses and significant debt reduction. Going forward we agree that maintaining similar levels of growth, and managing the downside risks, will be determined by continued fiscal prudence, pursuing structural reforms, building resilience to natural disasters and managing the impact of climate change.

On fiscal policy we commend the authorities' strong compliance with the Fiscal Responsibility Law (FRL), which has led to strong fiscal performance and a reduction in debt levels. As the FRL moves into it's third phase, we recognize the challenge faced by the authorities to address sizable infrastructure and climate resilience gaps in the face of capacity constraints. We note from the staff report that capacity constraints have already acted to slow reforms in some areas: could staff elaborate on what ameliorating actions the authorities might take?

We welcome the authorities' interest in pursuing an integrated Disaster Resilience Strategy (DRS) covering structural, financial and ex-post social resilience. We recommend putting in place a robust multi-layered disaster risk finance strategy, which is best practice in this area, plus ensuring an adequately resourced National Disaster Management Agency. In addition, we strongly welcome the joint IMF and World Bank climate change policy assessment (CPPA) and encourage authorities to closely review its recommendations. We agree with the authorities that climate change should remain a top priority, and they should consider cost-effectively expanding renewable energy, examine tax opportunities to help mitigation, scale up adaption efforts and intensify efforts to access international climate finance.

Finally, to ensure growth levels are maintained and to become more resilient, inclusive and sustainable we agree that addressing impediments to the business climate will be essential for long-term competitiveness and growth. These reforms should focus on the gaps identified in the Doing Business Index, especially those focused on streamlining registration procedures and those that target high trading costs as well as action to facilitate domestic renewable energy. We also encourage the forceful compliance with AML/CFT standards not least to mitigate risks to correspondent banking relationships.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the well-written report and Ms. Levonian and Mr. Sylvester for their helpful buff statement. We commend the authorities for their steadfast reform efforts that have helped to improve economic and fiscal performance. While the economic outlook is promising, various risks could weigh on macroeconomic growth and stability. We concur with the thrust of staff's appraisal and would like to offer the following points for emphasis.

Thanks to the fiscal responsibility law (FRL), fiscal performance has been strong. We welcome the authorities' prudent expenditures and impressive debt reduction, and take positive note that the public sector debt is on track to reach the Eastern Caribbean Currency Union (ECCU) target of 60 percent of GDP this year and the FRL target of 55 percent of GDP next year. Going forward, it is crucial to strike a proper balance between fiscal prudence and much-needed increases in productive spending. On this front, an effective and prudent use of the fiscal space would be crucial to maximize the economy's potential and resilience in the face of mounting spending pressures.

More efforts are needed to strengthen the oversight of non-bank financial institutions. Rapid lending growth of credit unions amid the ongoing changes in the financial sector's ownership and regulation warrant close monitoring. We share the authorities' concern about the loss of corresponding banking relationships (CBR) and encourage the authorities to strengthen their supervisory and regulatory frameworks, including the AML/CFT regime, to help mitigate potential risks associated with the withdrawal of CBR. We encourage the Fund to remain closely engaged with country authorities on this important issue.

Multi-pronged structural reforms are needed to improve productivity. Filling the infrastructure and resilience gaps can have a considerable payoff in terms of sustained growth and economic and fiscal resilience. Ongoing sectoral reforms should be advanced to enhance penetration of tourism and unlock investments in renewable energy sector. High structural unemployment calls for upgrading education opportunities and active labor market policies. Improved operational planning, governance, and statistics would also help build resilience and increase competitiveness.

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

The Acting Chair (Mr. Furusawa) made the following statement:

As Directors pointed out in their gray statements, we have seen strong growth and a significant decline in public debt in Grenada in recent years as a result of the reform efforts and improved policy frameworks. Nonetheless, the economy remains susceptible to economic shocks and natural disasters, and longstanding structural weaknesses remain.

Directors have called for judicious use of fiscal space to address infrastructure and climate resilience gaps while pursuing fiscal and structural reforms. Directors have also highlighted the need for further strengthening financial stability.

Mr. Trabinski made the following statement:

We thank the staff for a very good set of reports, including the informative and well-drafted Climate Change Policy Assessment (CCPA). We also thank Ms. Levonian and Mr. Sylvester for their effort in preparing the insightful buff statement. We have not issued a gray, but we would nevertheless like to commend the authorities for progress achieved so far in strong policy and reform implementation.

Going into specifics, on the fiscal front, Grenada's case clearly shows that fiscal consolidation does not necessarily have to depress growth. In fact, fiscal restraint in the form of compliance with the fiscal responsibility law and good policy implementation can help catalyze donor support and FDI, especially in the context of building further climate resilience. In this regard, we encourage the authorities to continue to strengthen their fiscal framework. This includes ensuring adequate capacity and efficiency in public investment management, advancing the implementation of the public service management reform, and improving tax administration.

We also stress the need to pay greater attention to improving and maintaining existing infrastructure rather than embarking on projects with lower value added or those that are subject to capacity bottlenecks. We welcome and support the recommendations of the CCPA and encourage the authorities to develop a more comprehensive disaster resilience strategy. We also welcome and support the increased use of parametric insurance policies and hurricane clauses to improve risk sharing with creditors in the case of natural disasters.

Lastly, we take note of the issue of immigration brain drain, which poses significant pressure on the future of Grenada's growth. The still-high unemployment rate of over 20 percent calls for a more comprehensive labor market and educational reform. Therefore, we encourage the staff and the authorities to focus more closely on this issue, including by providing more detailed assessment. This issue, if unaddressed, could have significant structural implications. With this, we wish the authorities success in their future endeavors.

Mr. Vitvitsky made the following statement:

We commend the authorities for the progress they have made toward restoring macroeconomic stability and for the impressive growth record. We broadly agree with the staff's appraisal in the Article IV report and emphasize the need to boost potential growth, strengthen the fiscal framework, and improve financial regulation and supervision. We also support efforts to improve the business environment to promote more dynamic growth, in particular, high import and export costs limit opportunities for further growth in sectors such as construction and tourism.

Separately, we thank the staff for addressing data issues in the staff report and agree that more reliable and timely statistics are needed to help inform inclusive growth policies.

Finally, we encourage the authorities to consent to publish the Article IV report.

Mr. Buetzer made the following statement:

We thank the staff for an informative report and Ms. Levonian and Mr. Sylvester for their helpful buff statement. We have issued a gray statement together with Mr. Psalidopoulos and Mr. Rashkovan, and would therefore restrict ourselves to the following three points.

We commend the authorities for their determined fiscal consolidation efforts, which have contributed to bring down debt at an impressive speed over the past years while safeguarding growth, as also alluded to by Mr. Trabinski. These efforts need to continue in order to address remaining risks of debt distress. It would also help to create fiscal space, which is needed to strengthen both public finances and resilience against natural disasters through well-targeted investments, as also outlined in the CCPA, which was very welcome.

As regards the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework, we fully agree with the staff that compliance with AML/CFT standards and strict enforcement of the due diligence requirements need to be assured.

Lastly, we would like to underscore that in view of still very high unemployment, especially among the young and unskilled, efforts need to be intensified to tackle this problem, including through improving education and job-matching services. With this, we wish the authorities the best.

Mr. Tan made the following statement:

I was not planning to make much of an intervention following our gray statement, but on second thought, I would like to go on record to thank the staff for the good work done on the CCPA recommendations for Grenada, and we look forward to the staff's further clarification to our technical question on the disaster resilience strategy (DRS).

Strengthening resilience to climate change and natural disasters is an important topic for a number of countries in our constituency. Hence, this is an area of keen interest for us, and we find it useful going through the main staff report and the separate CCPA paper that took stock of Grenada's preparedness for climate change. The staff's reply that the CCPA mission took place well before the three-pillar DRS framework was endorsed by the Board is well noted, and as we look forward to the two upcoming DRS pilots in the coming months. We would like to call on the staff and the Fund more broadly to look into doing more to promote greater mind share and closer exchange of country experiences among like-minded countries within the membership on this key area of work. This is of particular relevance given the resource constraints of the Fund, as well as the capacity constraints facing many countries that will undertake a similar exercise in the near future.

On that note, we wish both the authorities and staff continuous success and good work in the months ahead.

Mr. Rashkovan made the following statement:

We explicitly welcome the efforts made by the staff in the context of the CCPA, and I thank Mr. Lissovolik and his team for that. The document is thorough, clear, and outspoken, just like the report itself, and we believe it could serve as a good guidance to continue increasing resilience to weather-

related shocks, and we welcome the efforts by the staff to quantify related costs.

We commend the authorities for their past and ongoing efforts in adjusting Grenada's economy to the external climate challenges it faces, including upgrading infrastructure. As the CCPA lays out, important economic and financial risks continue to exist in this context, and we acknowledge the fiscal pressure stemming from further implementing recommendations. In this sense, we believe that prudent fiscal policies will continue to help the authorities manage risks going forward.

Finally, as stated in our joint gray statement, we continue to fully support capacity development efforts in the region.

The staff representative from the Western Hemisphere Department (Mr. Lissovolik), in response to questions and comments from Executive Directors, made the following statement:[1]

We have submitted written responses to Directors' technical questions, and my remarks will dwell on two broad themes that transpired through the gray statements. First, I will comment on a few fiscal issues, and second, I will outline the steps as we see them in terms of the DRS.

With respect to the fiscal issues, the key point that Directors have made in the gray statements was that it is important to strike a balance between fiscal prudence and enhancing productive spending. In this regard, I would like to emphasize that cooperation with the Fiscal Affairs Department (FAD) was particularly fruitful, and we are very grateful.

On the one hand, the FAD team led the CCPA report. The same FAD team came with a separate technical assistance (TA) mission, meaning that there was a big overlap in terms of staff, and they took the issue of fiscal prudence and looked at these issues in terms of how to promote more resilience in investment given that the country has fiscal rules, and how to do it while safeguarding debt sustainability. That was a useful example of collaboration between the departments and the integration between surveillance and capacity development. For Grenada, the key insight of this work was the overriding role of the country's capacity as the main constraint for productive use of the fiscal space. That was a big theme that our consensus on the mission settled on.

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

The second fiscal issue that elicited interest as reflected in the joint statement was whether our Debt Sustainability Analysis (DSA) fully covered the perimeter of the public debt, particularly because there was a reference that some elements of the public debt needed to be firmed up. I would like to clarify that whatever we knew about debt-increasing elements, all pieces of information were included in the DSA. This was more of a general caveat just to highlight the fact that Grenada does not have a general government account presentation. It has central government account presentation. But I would like to add that if we were to guess where the debt will go in terms of presenting general government accounts, it will probably be lower and not higher because of the consolidation element. The social security fund, the national insurance scheme, will be consolidated because they hold some government debt. Actually, the risks of debt are not to the upside. We do not want to prejudge it until the whole consolidation process could be performed.

Now I would like to outline the key steps in terms of the DRS. As was highlighted, the process is at an early stage, and I would like to say what the staff thinks about it in terms of analytics and operational work, because this process has to be synchronized with the other pilot that is coming later for Dominica, and at this point we did not discuss many of the issues with the authorities.

We have already started collaborating on some of the aspects that will feed into the DRS. During the Article IV mission, we kick-started work on refining estimates of the total infrastructure gap, not just the general estimates, but operational and granular estimates that could be included in the budget process. This work has already started. We hope that this would be completed in the next few weeks.

The second piece that we started collaborating on is the authorities' long-term development plan. The authorities are working on it. We have not yet seen the full draft, but we know that the key pillar of the development plan would be disaster resilience, so we have an understanding with the authorities that we will get a draft of the plan by the end of the month. It would be important as a key gauge of ownership and the priorities that they have in this area.

As regards the next steps as we see them, we will then look at what template would work for the DRS in terms of the CCPA report. We will analyze carefully the CCPA report in terms of what has already been achieved but also what needs to be done as a critical priority while avoiding duplication. Those are the steps we hope to take in the next few months.

As part of the process, we see the following benchmarks. One is that the 2020 budget that will start in the month of September, and we would like to mainstream some key elements of climate resilience initiatives. For example, the CCPA has various recommendations on those budget policies. The budget could clearly identify resilience-related spending. It could elaborate operational scenarios. The medium-term debt management strategy could be augmented as an asset liability management strategy that will target not only liabilities but also buffers that are needed. In addition, the key steps that will have to be taken are institutional steps in terms of public financial management (PFM) reform, proposed revisions to the fiscal responsibility law based on the FAD recommendations. We envision that a first draft of this DRS would be prepared after going through this process. Then a conference with the key stakeholders could take place so that we would elicit their views on all elements, and the stakeholders will include other international financial institutions (IFIs), domestic stakeholders from the government but also the private sector, such as insurance companies, donor funds, climate funds, et cetera.

Finally, after the conference, a final DRS document would be done so that it would inform more fully the 2021 budget. This is our thinking at the moment. I thank Directors for your comments regarding the CCPA report.

Mr. Fachada made the following statement:

I am now a bit confused about the perimeter of public debt in the DSA. I understood from the mission chief comments that if we consider the assets of the public pension fund, then consolidated debt—including the non-guaranteed debt of state companies and other entities—would be lower than the one presented in the staff report for the more restricted central government. Is that what the staff has explained?

I have an additional question related to the DSA. The dynamics of debt sustainability in Grenada is relatively good. As we read in the DSA, the staff considers that debt is sustainable, but Grenada is in debt distress because of non-payment of debt to three sovereign creditors. There are other cases of countries that have arrears to creditors, but they are classified as moderate or low risk of debt distress. What is the trigger point to move from in debt distress to moderate risk? In this specific case, perhaps moderate risk of debt distress would be the appropriate classification for Grenada.

Mr. Ronicle remarked that the conference on the DRS was an interesting idea.

The staff representative from the Western Hemisphere Department (Mr. Lissovolik), in response to further questions and comments from Executive Directors, made the following additional statement:

> Indeed, there are countries that have arrears and at the same time could be classified better than in debt distress. The issue here and the threshold here is the level and the size of arrears. The guidance note does not give discretion as long as arrears are more than 1 percent of GDP. If there are arrears that are less than 1 percent of GDP, then those other issues will kick in. We estimate that the debt arrears in Grenada are more than 1 percent of GDP, about 1.4 percent of GDP. Unless they are resolved or reduced below this 1 percent of GDP threshold, that would be the situation.
>
> Regarding the question on the debt and the point that I was making was with respect to the general government debt, I was not yet considering the debt of public enterprises. The DSA has various tables, and Grenada only compiles central government debt. It does not compile general government debt. The debt of general government plus public enterprise debt would be called non-financial public sector debt. The point I was making was that if we were to compile the general government debt, then this debt would be somewhat lower because of this consolidation issue. Essentially what happens is the national insurance scheme holds government bonds, and these government bonds currently are regarded as central government debt. Once the consolidation is performed, this debt would be netted out and not counted as part of the debt. I would not prejudge the effect of this on the total debt of non-financial public sector, because if one adds public enterprises, that would increase debt, other things equal. Actually it depends on the quantity, but I would like to highlight that all elements of the debt that we know of were transparently reflected in the DSA.

Ms. Levonian made the following concluding statement:

> Let me start by thanking Mr. Lissovolik and his team for the diligent work in preparing the report and for the constructive engagement with my authorities. I also thank the World Bank staff who collaborated with the Fund on the preparation of the highly valued CCPA. Finally, let me thank Directors for their candid and insightful feedback.
>
> It is clear that Grenada has some way to go in building a more resilient economy that can deliver robust, job-rich, and sustained growth, and that the road ahead remains difficult with significant risks and challenges. With that in mind, allow me to touch on several points raised by Directors.

We welcomed Directors' broad support regarding the need for the international community to scale up its assistance to complement Grenada's resilience-building efforts. Directors have rightly pointed to the need for greater financing and capacity development to address significant gaps. My authorities view this support, together with greater coordination between the Fund and other partners, as critical in advancing toward the integrated DRS, drawing on the results of the CCPA.

We thank Directors for their supportive comments regarding the strengthening of the fiscal responsibility law to support the closing of critical infrastructure and resilience gaps while reinforcing fiscal sustainability. The need to reinforce transparency and accountability is also critical, and we welcome comments to that effect.

We have taken note of Directors' comments about the need to reduce the public debt ratio, among other objectives, further strengthen buffers, and improve the economy's resilience to natural disasters and macroeconomic shocks. As my authorities have noted, care will be taken to strike the right balance between further debt reduction and resilience building, a point supported by many Directors.

More broadly, my authorities will continue to prioritize debt management, including to resolve remaining debt arrears. We welcome Directors' support for the Fund to remain engaged on the important challenge of withdrawal of correspondent banking relationships (CBRs). As indicated by my authorities and encouraged by many Directors, my authorities will continue to pursue reforms to strengthen the regulatory and supervisory framework, including the AML/CFT regime, to reduce vulnerabilities and mitigate risk in the financial sector, including loss of CBRs.

Finally, we note Directors' call to address critical structural reforms to improve competitiveness and build resilience. Our authorities are committed to accelerating reforms in key areas to improve the business environment, diversify the economy, boost labor market productivity, and increase public sector efficiency among others. As indicated in the buff statement, the full range of reforms will be articulated in the forthcoming 2020-35 Development Plan.

On the implementation of the public service reform modernization strategy, my authorities note that while progress thus far has been slow and significant constraints remain, their recent efforts, including the strengthening

of the reform management unit, will go a long way toward speeding up reforms in this critical area.

In closing, I wish to assure Directors that my authorities recognize the challenging road ahead despite the recent strong economic and fiscal performance. They will continue to implement prudent policies and reforms to build on recent success to further advance economic transformation and social development, and they look forward to the continued support of the Fund and other development partners. I will faithfully convey Directors' advice to my authorities.

The Acting Chair (Mr. Furusawa) noted that Grenada is an Article VIII member and no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Grenada's continued strong economic and fiscal performance and sustained debt reduction, underpinned by sound policies. They emphasized that further policy improvements and public support for reforms are critical to achieve higher and broad-based medium-term growth, further reduce unemployment, entrench debt sustainability, and strengthen financial stability.

Directors underscored the importance of focusing policy efforts on making growth more resilient, sustainable, and inclusive. They noted that Grenada's growth potential is held back by susceptibility to economic shocks and natural disasters in addition to long-standing structural weaknesses such as high unemployment and an external competitiveness gap. In this context, Directors supported making prudent and efficient use of Grenada's hard-earned fiscal space to address the country's infrastructure and resilience gaps. They highlighted the need to enhance the business climate and competitiveness, including through improvements in labor market institutions. They noted that education and training programs to match job opportunities with the labor force are also needed.

Directors commended the authorities' steadfast compliance with the Fiscal Responsibility Law (FRL). They agreed that the FRL could be enhanced, with a consistent and well-sequenced implementation, to facilitate more productive spending while safeguarding debt sustainability. In particular, they emphasized the need to improve the procedures for expenditure planning and classification. Directors welcomed the authorities'

intention to implement initiatives on pension reform and healthcare coverage in a manner that is consistent with the FRL and fiscal sustainability.

Directors encouraged the authorities to move ahead with fiscal structural reforms to improve spending quality and mitigate fiscal risks. They stressed the importance of implementing the public-sector management reform strategy to improve public sector productivity and service delivery. They recommended further strengthening social assistance programs and continuing public investment management and public enterprise reforms, while regularizing bilateral arrears. Directors welcomed the climate change policy assessment and the authorities' intention to elaborate a comprehensive disaster resilience strategy with inputs from key stakeholders. This should help catalyze concessional financing to address the infrastructure and resilience gaps.

Directors welcomed steady improvements in bank credit growth and banking soundness indicators. At the same time, they noted that the continued fast growth in lending by credit unions and the rising property markets warrant close monitoring. They called for a proactive approach to strengthening the supervision and regulation of the non-bank financial sector by the local regulator and the need for coordination with the ECCB and the ECCU's peer regulators. Directors highlighted the importance of continued efforts to ensure compliance with AML/CFT regulations in all areas to support correspondent banking relationships and preempt any financial integrity concerns.

It is expected that the next Article IV consultation with Grenada will be held on the standard 12-month cycle.

APPROVAL: April 23, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Macroeconomy and Outlook

1. ***We would appreciate staff elaboration on the slight differentiation from the authorities' growth outlook, which is predicated on ongoing and planned public and private sector investments?***

- While the authorities agree with staff that the robust growth of the last few years will not continue at the same pace, they project a slightly higher growth than staff given the list of FDI projects in the pipeline and planned public and private investments. Staff projection is on the conservative side because the uncertainty inherent in investment in general and the capacity constraints could delay the implementation of the envisaged investment projects. During the mission, the authorities' preliminary 2019 real GDP growth projection was 3.5-4 percent, with staff's projection being on the lower end of the same range. For 2020-21, they indicated that they were planning to revise down the prior projection of 3.9 percent but were not yet sure by how much.

- Staff would like to emphasize, however, that there is no fundamental difference between the authorities and staff.

2. ***Could staff elaborate further on the main reasons behind the high rate of unemployment?***

- Grenada's high unemployment rate reflects a combination of country-specific and regional factors. Historically, the unemployment rate surged after the devastating hurricanes of 2004-05, which particularly damaged employment in the agriculture sector. The subsequent expansion of tourism did not fully offset those losses as so far, partly as it had relatively minor positive spillovers on agriculture.

- Grenada's current unemployment rate, at over 20 percent, remains high among the peers despite several years of robust growth, along with Dominica, St.Lucia, and St. Vincent and the Grenadines, which also have unemployment of over 20 percent. Staff believes that this reflects structural unemployment at least partially.

- A recent ECCU-wide analysis suggests that high Unit Labor Costs (ULC) may be an important factor behind the high structural unemployment rates. In the case of ECCU

economies, the high ULC appears to be associated with strong labor union activities and demonstration effect of public sector wage setting.

- Unemployment is particularly concentrated among the unskilled and the young. It is important to improve matching in the labor market by upgrading education opportunities and active labor market policies.

- The authorities started to collect quarterly labor statistics recently. The statistical improvement will enhance the understanding of the nature of unemployment.

3. ***Could [staff] indicate the magnitude of the emigration phenomenon?***

- Grenada has experienced a large emigration historically. According to the UN population data, its net emigration rate between 1990 and 2015 was 20 percent of own population. This outflow as a proportion of its own population was among the highest of all Latin America and Caribbean countries, but was comparable to other ECCU countries.

- In addition to the absolute size of emigration, brain drain is an additional problem for Grenada and the broader Caribbean region. Among the Caribbean population residing in the U.S., 47 percent has college education, while only 25 percent does among rest of Latin American population residing in the U.S. (Beaton and others (2017), IMF Working Paper 17/144.

External sector

4. ***Given the export and import volumes of goods and services are broadly balanced, we are also curious about the main factors that caused the large deficits. Staff's comments would be welcome.***

- The widening of the external deficit after the statistical revision is related to the improvement in data related to St. George's University: (i) the downward revision of the expenditure by students of the St. George's University, which reduces in the travel services exports; and (ii) upward revision of compensation of (non-resident) employees, which contributes to the increase in the deficit of net income.

- As regards the level of the external deficit, the goods and services trade is indeed broadly balanced after the recent statistical revision. However, net income is consistently in deficit. The bulk of this deficit is accounted for by the repatriation of return to FDI, and compensation to employees in St. George's University, with a minor contribution from the repatriation of portfolio investment. This reflects the economic structure of Grenada in which (i) current account deficit is mostly financed

by FDI inflows (similar to other ECCU countries); and (ii) St. George's University has a very large presence in the aggregate economy (specific to Grenada). As highlighted in the staff report the bulk of the external deficit is explained by the current account norm.

Fiscal Policy

5. ***We note from the staff report that capacity constraints have already acted to slow reforms in some areas: could staff elaborate on what ameliorating actions the authorities might take?***

- The authorities reaffirmed their commitment to addressing shortcomings, including:

- Restructuring the operations at the Ministry of Finance and the Ministry of Infrastructure and hired staff to improve project planning, allocation and implementation. This should increase the quality and execution of infrastructure investment.

- Advancing the implementation of the Public Service Management Reform Strategy which is critical to advancing initiatives to properly equip the public service, improve service delivery and efficiency.

- Stronger effort is needed to improve tax administration and other steps to increase domestic resource mobilization for the many initiatives. To this end staff have advocated expediting the effort to determine the amounts of tax arrears outstanding that are collectible and establishing a time bound period (3 years) for collections. The tools provided in the 2016 Tax Administration and Procedures Act should facilitate this.

6. ***We have misgivings that the suggested pro-active approach in Figure 1 might negatively impact on a hard-won credibility from overseas investors. Does staff expect the current high level of FDI, including investments through the CBI programs, could be sustained even in the pro-active scenario***

- Maintenance of the high level of FDI, including investments through the CBI program crucially depends on the confidence that overseas investors have in the authorities' policies. From 2020, debt levels in the pro-active scenario are below 55 percent of GDP, the target level in the FRL, and should instill confidence in Grenada's fiscal policy.

- It is important to demonstrate that the initiative to address infrastructure and resilience-building is accompanied by capacity development to efficiently plan,

budget, and implement envisaged expenditures. Otherwise, there are risks to the loss of the overseas investors. In this case, as noted in the staff report, we would not recommend the scenario and instead recommend that the authorities save financial resources until the capacity can be fully upgraded.

7. ***Despite the significant budgetary improvement, we remain concerned by the size of the debt of PDV Grenada to Petrocaribe (11.5 percent of GDP on a total of 15 percent of non-guaranteed debt) in a context where U.S. sanctions on Venezuela blocked payments, and fully agree that a careful assessment of the liabilities is needed. Could staff provide some details about how it could be dealt with this debt going forward?***

- As a first step, the legal status of the debt to Petrocaribe should be clarified in light of evolving circumstances. To this effect, the government has sought legal advice on the debt's status, and an opinion is expected shortly. After the clarification of status, the valuation of PDV Grenada debt would be an important issue. An accurate valuation would be difficult until the uncertainty regarding Venezuela (including sanctions) is resolved. In addition, a recent 50 percent "haircut" on Petrocaribe-related debt that was granted to St. Vincent and the Grenadines constitutes a precedent that may impact the valuation of this debt for Grenada.

8. ***While we remain concerned that the Debt Sustainability Analysis (DSA) finds that risks of debt distress continue to exist, we appreciate staff's explanations on the perimeter of the DSA. For instance, staff clearly explains that some elements are not covered because they need to be "firmed up" in the context of developing a comprehensive presentation of consolidated non-financial public sector debt. Does staff have an estimate of what the most relevant elements are in this context, i.e. elements not yet covered in the DSA?***

- Public debt in the DSA is defined as the sum of central government debt (including arrears on principal and interest), overdue membership fees to international organizations, and government-guaranteed debt. This was the same definition that was followed during the ECF supported program.

- As explained, the DSA does not include non-guaranteed debt of public enterprises and limited liability companies, notably PDV Grenada's debt on account the Petrocaribe arrangement. The non-guaranteed debt is estimated at around 15 percent of GDP, including 11½ percent of GDP for the Petrocaribe arrangement, but as explained above the valuation of the latter is highly uncertain. Grenada does not have subnational government debt and central bank debt (borrowed on behalf of the government). As for the public-private partnership (PPP), the DSA assumes the amount to be 3 percent of GDP, based on the World Bank Private Participation in

Infrastructure (PPI) database. However, according to the authorities' data on PPPs, the maximum risk from the PPPs would be much smaller (at most 1 percent of GDP).

9. ***Could staff comment on the recent evolution of poverty and possible ways to improve the effectiveness and efficiency of social spending?***

- The last poverty assessment for Grenada was done in 2008. Since then there were no assessments of poverty levels or poverty distribution across the country. Updating the Country Poverty Assessment, will provide the basis for assessing the extent and levels of poverty and vulnerability of the population. The information could be used to update the living conditions index, the MIS database and the tool for proxy means testing. In turn, these can be used to ensure that the targeting, coverage and level of assistance provided for the Support for Education, Employment and Development (SEED) and other social assistance programs is adequate.

10. ***As the poverty headcount index reached 38 percent in 2008, we would have appreciated more details about the dynamics of poverty and inequality. Could staff indicate whether more recent data are available?***

- More recent data are unfortunately not available. This is why staff highlighted the data collection issue as a key priority. The country poverty assessment is underway, and the authorities indicated that its results are expected to be known by 2020.

11. ***Hence the need for striking a good and proper balance between fiscal prudence and enhancing productive spending is emphasized in the next phase of FRL. It will help ensure the effective use of the fiscal space to enhance potential growth of the economy. Staff's comments are welcome on the plans to achieve this important balance in the future***.

- The authorities have identified several initiatives that could facilitate this balance.

- They have reviewed their institutional arrangements and staffing that has adversely affected their implementation capacity for productive capital expenditures. The restructuring of the operations for Public Investment Management (PIM) at the Ministry of Finance and the Ministry of Infrastructure and the hiring of staff reflects the attempts to address weaknesses identified in project planning, allocation and implementation.

- The 2035 Development Plan aims at establishing the key objectives and priorities for Grenada's development growth over the long term. The plan should be completed before end-2019 and implementation is expected to commence in 2020. Fiscal sustainability, climate change adaptation and building disaster resilience as well as

poverty alleviation are among the issues that the Development Plan will address. The authorities also intend for this plan to be operationalized by 5-year Medium Term Plans that will be integrated with Medium Term Fiscal Frameworks and budget.

- Implementation of the Public Service Management Reform Strategy (PSMRS) is also a key part in equipping the public service to positively contribute towards these efforts.

12. ***Going forward, a proactive scenario (Figure 1 in p. 13 and ¶16), would be the more appropriate direction as it assumes a gradual 5-year transition to the next FRL phase. Could staff comment on the substantial risks to the pace of capacity improvements in this process?***

- The pace of capacity improvements will depend on the authorities' commitment to the reforms of public investment management, public service modernization strategy, and tax administration, including the provision of adequate staffing and financial resources. Technical assistance will be instrumental to these initiatives. The authorities have indicated their strong commitment to undertaking reforms.

Financial sector

13. ***In light of the authorities' concerns over recurrence and incremental nature of financial integrity requirements, we welcome staff's comments including the sharing of relevant country experiences in addressing similar concerns.***

- Staff reiterates the call for strict compliance with AML/CFT standards and strict enforcement of due diligence requirements to help maintain Correspondent Banking Relationships and pre-empt any financial integrity concerns and welcomes the removal of Grenada from EU's gray list of non-cooperative tax jurisdiction.

- Other countries in the region have also voiced concerns on the incremental nature of financial integrity requirements. The Fund can assist in supporting compliance by members with financial integrity requirements in a number of ways. An example of the way the Fund can be supportive has been to address the loss of corresponding banking relationships, or so-called de-risking. The Fund helps facilitate communication among all parties involved, identify problems and possible solutions, and build capacity. Fund staff also plays a "good offices" role with relevant international bodies like the Financial Action Task Force that have listing mechanisms in place for jurisdictions with strategic AML/CFT deficiencies, and provides relevant information on member countries under review with the consent of the relevant members.

14. ***Could staff detail its diagnosis regarding the property market?***

- We would like to emphasize that there is no real estate index in Grenada (same as other ECCU countries), and thus our analysis is based on anecdotal evidence.

- Discussions during the mission suggest a mixed picture. The capital city of St. Georges and its surrounding region dominates the value of real estate transactions, but those transactions are considered sustainable, backed by real demand for housing. Lending standards for the housing warrant close monitoring, however. The neighborhood surrounding the St. George's University has seen an active construction of buildings, and there is a risk of glut of supply if the demand from University students weakens. Real estate transactions are sparse in the rest of the country.

Structural reforms

15. ***We take note that significant renewable energy projects have been put on hold pending the operationalization of regulations to the 2016 electricity supply act. Can staff provide more details on the delay in the operationalization of this act?***

- The key problem was a delay in the operationalization of the Public Utilities Regulatory Commission (PURC), which will regulate the conduct and affairs of public utilities in Grenada including electricity supply. More recently there has been good progress. A Chief Executive Officer was appointed earlier in 2019. The appointment of the 3-member commission was announced in April. Operations of the PURC are expected to commence in 2019.

Climate change and resilience strategy

16. ***We agree with staff that country-led and country-owned DRS could integrate existing plans and transformed them into a fully-fledged disaster risk management framework. Can staff elaborate on how the DRS can facilitate the integrated framework and the next steps for the authorities?***

17. ***Building a relevant and comprehensive DRS including a national natural disaster risk financing strategy will be a useful roadmap. Indeed, the hurricane clause is for example a useful tool for risk management but should be included with others in a comprehensive manner. Could staff indicate what the next steps are?***

- The discussions on the DRS at an early stage as the concept has just been endorsed by the Board as the Article IV mission was in the field. It is important that the authorities during the mission have expressed a strong interest in collaborating on such a

strategy. The Ministry of Climate Resilience took interest in taking the lead of this work, with support from the Ministry of Finance.

- The enumeration of key specific steps that staff envisions under the DRS will be done during staff's verbal intervention at the Board meeting.

18. ***Given significantly large financing needs and Grenada's still elevated debt level, we share the view that it would be critical to maximize grant supports. Could staff elaborate specific efforts needed for more grants and better coordination among donors, and the Fund's role in this process?***

19. ***Could staff comment on the next steps in sustaining the international financial support to complement domestic efforts in implementing the CCPA recommendations?***

- Consistent with the May 2019 Board Paper "Building Resilience in Developing Countries Vulnerable to Large Natural Disasters" staff have advocated the need to:

- Prepare a Disaster Resilience Strategy (DRS) that would credibly identify the country's resilience-related needs and be a critical building block for coordinated support from donors. The DRS should provide a diagnostic of the country's vulnerability to natural disasters, the adequacy of existing preparedness, identify the key projects for inclusion in the investment plan to build resilience, flag constraints in financing, and review the adequacy of the existing systems for post-disaster response.

- Engage donors in strategic alliances and coordination in providing assistance for the development and implementation of the DRS. Collaboration on the recent Climate Change Policy Assessment for Grenada by IMF and World Bank staff and their consultation with GIZ and CDB staff working directly with country authorities in identifying and costing key projects is a case in point. There is also a need establish a framework for a division of labor across donors to create synergies, avoid duplication and expedite TA and financial support

- The Fund can support this process by assessing the risks from and fiscal and economic implications of natural disasters and integrating the needs and costs for resilience building in its surveillance toolkit costs, including DSA. The 2019 DSA for Grenada reflects this. It would help identify the financing strategies to maintain debt sustainability. The Fund can also support Grenada's capacity development directly and in collaboration with others on (i) establishing macro fiscal frameworks that integrate structural resilience building and (ii) building the financial resilience infrastructure and (iii) coordinating the TA needs.

20. ***We welcome staff's specific comments and assessment of Grenada's performance relative to the three-pillar Disaster Resilience Strategy (DRS), namely structural resilience, financial resilience and ex-poste disaster/resilience?***

- The CCPA mission was held in February, well before the 3-pillar framework for the DRS was endorsed by the Board. The CCPA mission therefore was primarily based on a framework that was conceived and enhanced over the past 3 years, which is not inconsistent with the DRS, but follows a different structure. A more operational DRS-type framework focusing on and benchmarking the 3 pillars would be a key task of the forthcoming two DRS pilots (Grenada and Dominica) in the coming months. Still, the CCPA analysis covers elements of the 3-pillar strategy and identified Grenada's relative strengths and gaps.

- With respect to the "structural" resilience Grenada is more advanced than other countries (regional peers and CCPA countries) in the identification and costing of the needed projects but its implementation capacity for executing public investment projects is not yet up to the country's challenges.

- With respect to "financial resilience," Grenada is making good progress and is more advanced than peers in such areas as securing fiscal sustainability, getting at least some grant financing from climate funds, and achieving cash-flow protection by hurricane clauses. However, it is not as advanced in several aspects of insurance and self-insurance layering. A key bottleneck for financial resilience for Grenada would be the cost-efficiency of stepped-up investment spending.

- With respect to post-disaster resilience, Grenada has made relatively good progress in articulating disaster response plans, but this has not been matched by allocating financing to these activities. Key bottlenecks for this are budget procedures and accounting practices that for now do not allow to track resilience-related spending as well as a lack of a proper inventory of public assets. Measures on "social resilience" are hampered by the lack of updated data on poverty and income distribution.