INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/39

# GRENADA

February 2025

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GRENADA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Grenada the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 24, 2025, consideration of the staff report that concluded the Article IV consultation with Grenada.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 24, 2025, following mission discussions that ended on June 14, 2024, and subsequent update discussions that ended on December 6, 2024, with the officials of Grenada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 6, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Grenada.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**
**Washington, D.C.**

# IMF Executive Board Concludes 2024 Article IV Consultation with Grenada

**FOR IMMEDIATE RELEASE**

**Washington, DC** – **February 4, 2025:** On January 24, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Grenada.

Through end-June 2024, Grenada's economy was experiencing sustained strong growth supported by buoyant tourism, moderating inflation, and a narrowing current account deficit. A surge in Citizenship-by-Investment (CBI) revenue supported a strong improvement in the fiscal position and reduction in public debt. The financial system remained stable. On July 1, Hurricane Beryl caused damage in excess of 16 percent of GDP on the Grenadian islands of Carriacou and Petite Martinique, as well as in the northern parishes of the main island. The authorities responded swiftly with a package of fiscal measures, including suspension of fiscal rules to permit temporary deficit spending in support of the recovery and reconstruction.

Grenada's near-term economic growth is projected to remain resilient at 3.9 percent in 2025, buoyed by limited hurricane damages to tourism infrastructure and the authorities' large recovery and reconstruction spending. Sizable government savings and triggering of disaster-contingent instruments create fiscal space for these spending needs. Assuming a subsequent timely return to the fiscal rules, public debt is projected to continue falling and reach the debt target of 60 percent of GDP by 2030.

Over the medium-term GDP growth is projected to slow given the tourism sector operates near its peak-season capacity. Key downside risks include the threat of further natural disasters, potential shocks to tourism demand, and the uncertain scale of future CBI inflows, while the domestic non-bank financial system faces rising vulnerabilities from the continued rapid expansion of credit unions and the rising costs of property insurance. Prospective hotel developments and public investment projects represent upside risks to the medium-term growth outlook.

**Executive Board Assessment[2]**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Grenada's robust economic performance in 2023 and the first half of 2024, buoyed by strong tourism. Directors also commended the authorities' swift and prudently tailored response to Hurricane Beryl, which supported disaster-relief and helped mitigate the impact on economic growth. Noting that the medium-term outlook remains subject to risks from natural disasters, uncertain Citizenship-by-Investment (CBI) flows, and other external shocks, they encouraged the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

authorities to exercise continued fiscal prudence and to pursue structural reforms to boost long-term growth and enhance resilience, while leveraging Fund technical assistance.

Directors welcomed Grenada's commitment to fiscal prudence and debt sustainability and emphasized the importance of a timely return to the suspended fiscal rules. In that context, they noted the need for continued expenditure prioritization and revenue mobilization to create fiscal space for future investment needs, including for climate resilience. Further strengthening public investment management and budget planning processes would also be important. Directors also saw merit in developing a more uniform framework for managing all CBI resources and encouraged continued progress in resolving outstanding official arrears.

Directors welcomed the banking system's resilience despite repeated shocks. They emphasized the need for vigilance and strengthened oversight in the rapidly expanding credit union sector. Directors encouraged strengthening data collection and regional collaboration in the property insurance sector, given rising premiums. They also agreed that further enhancements in the AML/CFT frameworks are essential, including to safeguard correspondent banking relationships.

Directors commended the authorities' implementation of Grenada's Disaster Resilience Strategy including investments in a risk-layering framework of disaster-contingency insurance and financing instruments. Moving forward and noting the risk of future natural disasters, they emphasized the importance of further advancing the energy transition and investment in disaster resilient infrastructure, with support from private financing.

Directors also encouraged sustained structural reform efforts to foster long-term growth, including investing in active labor market policies and continuing efforts to support off-season and niche tourism. Addressing data gaps is also important.

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

### Table 1. Grenada: Selected Social and Economic Indicators, 2019–29

| | | | |
|---|---|---|---|
| Rank in UNDP Human Development Index out of 189 countries (2021) | 73 | Infant mortality rate per '000 births (2021) | 14.4 |
| | | Adult illiteracy rate in percent (2014) | 1 |
| Life expectancy at birth in years (2021) | 75 | Poverty rate in percent of population (2019) | 25 |
| GDP per capita in US$ (2021) | 10,449 | | |
| Population in millions (2021) | 0.13 | Unemployment rate (2021 Q2) | 11.1 |

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | Proj. | | | | | |
| **National income and prices** | | | | | | | | | | | |
| GDP at constant prices | 0.7 | -13.8 | 4.7 | 7.3 | 4.7 | 3.6 | 3.9 | 3.3 | 2.7 | 2.7 | 2.7 |
| GDP deflator | 3.3 | -0.3 | 2.8 | 2.2 | 2.7 | 1.4 | 1.4 | 2.0 | 2.0 | 2.0 | 2.0 |
| Consumer prices, end of period | 0.1 | -0.8 | 1.9 | 2.9 | 2.2 | 1.2 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| **Money and credit, end of period** | | | | | | | | | | | |
| Credit to private sector | 1.4 | 3.1 | 3.8 | 2.1 | 3.8 | 3.8 | 4.2 | 4.4 | 4.6 | 4.5 | 4.5 |
| Broad money (M2) | 2.9 | 9.1 | 8.5 | 9.9 | 1.4 | 3.7 | 5.2 | 5.4 | 4.8 | 4.8 | 4.8 |
| **Central government balances (accrual)** | | | | | | | | | | | |
| Revenue and grants | 26.6 | 28.1 | 31.5 | 32.7 | 36.9 | 44.1 | 30.5 | 29.3 | 29.2 | 28.9 | 28.8 |
| Expenditure | 21.6 | 32.7 | 31.2 | 31.8 | 28.9 | 39.5 | 39.4 | 33.1 | 29.6 | 29.2 | 28.9 |
| o.w. Capital expenditure | 2.6 | 9.6 | 8.6 | 10.2 | 9.3 | 11.7 | 12.2 | 8.7 | 6.2 | 5.8 | 5.6 |
| Primary balance | 6.8 | -2.6 | 2.1 | 2.6 | 9.5 | 8.0 | -5.1 | -1.2 | 1.5 | 1.5 | 1.5 |
| **Overall balance** | 5.0 | -4.5 | 0.3 | 1.0 | 8.0 | 4.7 | -8.9 | -3.8 | -0.4 | -0.3 | -0.1 |
| **Central government debt (incl. guaranteed) 1/** | 58.5 | 71.4 | 70.0 | 62.8 | 60.5 | 59.3 | 58.1 | 53.9 | 53.2 | 51.4 | 49.6 |
| Domestic | 14.6 | 16.2 | 15.3 | 12.8 | 11.3 | 11.1 | 9.7 | 7.8 | 7.1 | 6.9 | 7.0 |
| External | 44.0 | 55.2 | 54.7 | 50.0 | 49.2 | 48.2 | 48.5 | 46.1 | 46.0 | 44.5 | 42.6 |
| **Public debt (incl. debt of SOEs and SBs)** | 62.7 | 89.5 | 86.6 | 78.8 | 75.2 | 73.3 | 71.4 | 66.5 | 65.2 | 62.9 | 60.6 |
| **Savings-Investment balance** | -10.4 | -16.1 | -14.5 | -11.0 | -9.1 | -13.1 | -13.8 | -10.6 | -9.9 | -9.1 | -9.1 |
| Savings | 14.6 | 16.3 | 15.6 | 18.0 | 30.8 | 28.3 | 18.1 | 17.8 | 15.8 | 15.3 | 14.9 |
| Investment | 24.9 | 32.4 | 30.1 | 29.1 | 39.9 | 41.5 | 31.9 | 28.4 | 25.7 | 24.5 | 24.0 |
| **External Sector** | | | | | | | | | | | |
| Gross international reserves (millions of dollars) | 234.1 | 290.9 | 324.2 | 352.6 | 389.1 | 435.1 | 364.5 | 364.8 | 390.3 | 405.6 | 424.6 |
| (in months of imports) | 5.2 | 5.6 | 4.9 | 5.0 | 4.8 | 5.2 | 4.3 | 4.2 | 4.3 | 4.3 | 4.3 |
| Current account balance, o/w: | -10.4 | -16.1 | -14.5 | -11.0 | -9.1 | -13.1 | -13.8 | -10.6 | -9.9 | -9.1 | -9.1 |
| Exports of goods and services | 54.6 | 41.1 | 47.9 | 57.8 | 62.8 | 63.8 | 62.5 | 62.8 | 63.0 | 62.6 | 62.3 |
| Imports of goods and services | 55.8 | 52.2 | 55.4 | 64.3 | 63.7 | 69.9 | 68.5 | 65.6 | 65.0 | 63.8 | 63.4 |
| External debt (gross) | 64.7 | 92.5 | 94.8 | 90.0 | 86.9 | 85.4 | 85.4 | 82.6 | 82.3 | 80.5 | 78.4 |

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report; World Bank WDI; and IMF staff estimates and projections.
1/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

INTERNATIONAL MONETARY FUND

# GRENADA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

January 6, 2025

## KEY ISSUES

**Context.** Through end-June 2024, Grenada's economy was experiencing sustained strong growth supported by buoyant tourism, moderating inflation, and a narrowing current account deficit. A surge in Citizenship-by-Investment (CBI) revenue supported a strong improvement in budget balances, a build-up of government deposits, and a reduction in public debt. On July 1, Hurricane Beryl caused damage in excess of 16 percent of GDP on the Grenadian islands of Carriacou and Petite Martinique, as well as in the northern parishes of the main island, affecting around 15 percent of the population. In response, the authorities triggered the suspension of fiscal rules to permit temporary deficit spending in support of the recovery and reconstruction.

**Outlook and risks.** With tourism infrastructure largely unscathed by the hurricane, near-term growth should be resilient, buoyed also by large recovery and reconstruction spending. Sizable government savings and triggering of disaster-contingent instruments create fiscal space for these spending needs while keeping public debt on a downward path. Key downside risks include the threat of further natural disasters, potential shocks to tourism demand, and the uncertain scale of future CBI inflows. The domestic non-bank financial system faces rising vulnerabilities from the continued rapid expansion of credit unions and the rising costs of property insurance.

**Policy priorities.** Grenada's strong fiscal position provides policy space to support the economic recovery and reconstruction. Spending prioritization and supporting revenue measures are nonetheless important to ensure a timely return to the fiscal rules and protect fiscal space for future investment needs. The scaled-up capital expenditure plans should be supported by public investment and financial management reforms, including developing a more coherent framework to manage CBI resources upon resumption of the fiscal rules. Risks in the credit union and property insurance sectors call for strengthened data collection, oversight, and regional supervisory cooperation. Increasing long-term growth will require boosting competitiveness, reducing Grenada's dependence on imported fossil fuels, and investing in climate resilience.

Approved By
**Koshy Mathai (WHD) and Jarkko Turunen (SPR)**

Discussions took place in St. George during June 5-14, 2024, shortly before Hurricane Beryl hit Grenada. Staff and the authorities were in regular contact thereafter, including during a virtual mission meeting on December 6. The team comprised of Janne Hukka (head), Jaebin Ahn, Weicheng Lian, Peter Nagle, and Jonas Nauerz, supported by Huilin Wang, Yishun Cao, and Brett Smith (all WHD). Mr. Jennings and Ms. Wickham (OED) joined some of the meetings. The team met with Prime Minister, Honorable Dickon Mitchell, Minister of Finance Denis Cornwall, and other senior public sector officials, as well as representatives from the private sector, civil society and development partner community.

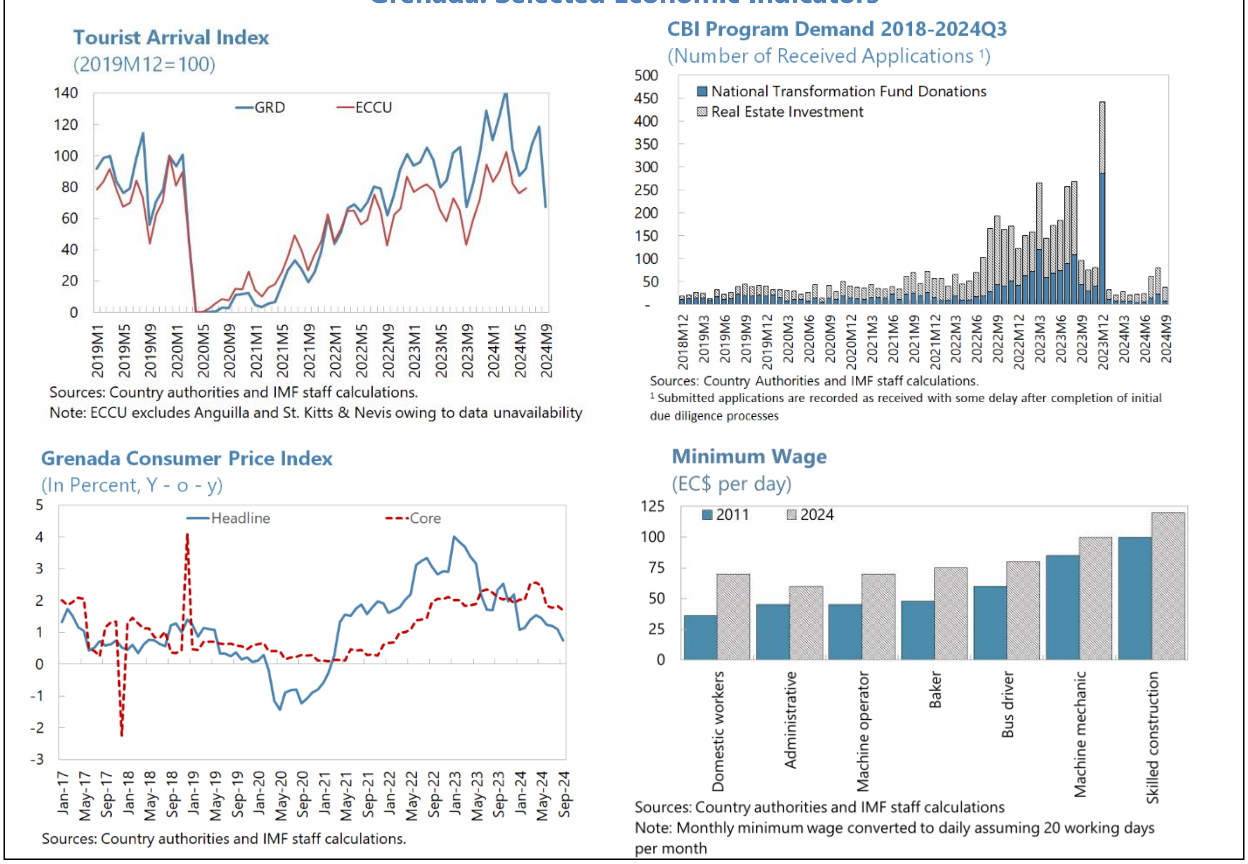
## CONTENTS

## ANNEXES

# PRE-HURRICANE CONTEXT

**1. The economy grew by an estimated 4.7 percent in 2023 and continued to grow strongly in early 2024, driven by tourism.** Grenada's 2023 stayover arrival growth outpaced that in the rest of the ECCU and remained strong in the first half of 2024. CBI investor demand surged in early 2023 ahead of a ban on applications from Russia (Box 1).[1] The record-high investment inflows carried into 2024 on account of processing delays that resulted in a large application backlog. Construction activity nonetheless moderated, reflecting completion of major capital projects and slow execution of new public and private investment, while the CBI investment surge resulted instead in an accumulation of government deposits and escrow balances for new hotel developments.

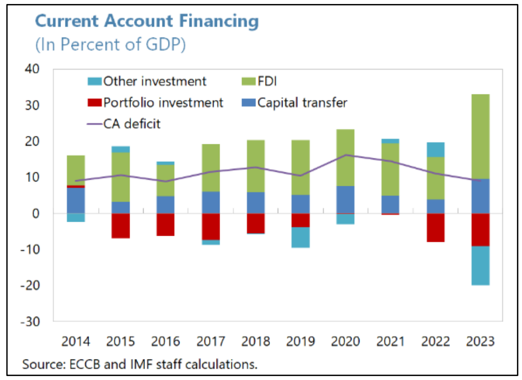
**Grenada: Selected Economic Indicators**




**2. Headline inflation moderated with receding global food and fuel price pressures.** Inflation fell to 2.2 percent by end-2023 and further softened in 2024. This was driven by lower import prices that more than offset price pressures from sizable minimum wage increases in several sectors at the start of 2024.

[1] The Grenada Citizenship by Investment Unit was rebranded to the Investment Migration Agency (IMA) in March 2024. In this report, references to CBI revenue refer to revenues collected through the IMA program.

**3. The current account deficit is estimated to have narrowed to 9.1 percent of GDP in 2023.** Services exports were boosted by buoyant tourism revenues, while import growth was suppressed by lower global commodity and construction material prices. Grenada's imputed reserves at the Eastern Caribbean Central Bank (ECCB) increased with large CBI-driven FDI and capital transfers even as additional bank liquidity from government deposits was partly invested overseas.[2]




**4. Strong CBI revenues resulted in large budget surpluses.** CBI revenues of 10½ percent of GDP in 2023, combined with a fall in public pension spending after a one-off increase the year before, resulted in a primary surplus of 9½ percent of GDP. This well exceeded the primary balance floor under the fiscal rules framework revised in 2023 (text table). Continued strong CBI revenue and slow expenditure execution saw continued overperformance of the budget in the first six months of 2024, notwithstanding an increase in the wage bill from an ongoing realignment of non-established workers' salaries to those of their established peers (part of a functional review ahead of regularization of these workers over 2024-25)[3]. As of end-June 2024, government deposits had risen to 22 percent of GDP, and public debt had fallen to 70 percent of GDP (including 14 percent of GDP in non-guaranteed SOE debt).[4]

**Grenada: Key Changes to the Fiscal Framework**

| | 2015 Fiscal Responsibility Act | 2023 Fiscal Resilience Act |
|---|---|---|
| Debt target | 55% of GDP (excl. SOEs) | 60% of GDP (incl. SOEs) |
| Primary balance rule | 3.5% of GDP floor | 1.5% of GDP floor |
| Wage bill rule | 9% of GDP ceiling | 13% of GDP ceiling |
| Primary expenditure rule | 2% annual real growth ceiling. | n/a |
| Contingent PPP liabilities | 5% of GDP ceiling | n/a |
| Medium-term Fiscal Framework (MTFF) | No provisions. | Explicit provisions. |
| Role of Fiscal Oversight Committee (FROC) | Ex-post assessment only. | Ex-ante and ex-post assessments. |
| Escape clauses | Yes. | Yes (clarified activation guidelines). |

Sources: Country authorities and IMF staff.

**5. Labor market conditions continued to improve.** The unemployment rate fell to 11 percent in 2023Q4, the lowest in recent history. Youth unemployment also fell to a historical low but nonetheless remains high at 23 percent, while labor force participation has yet to recover to pre-

[2] CBI inflows contribute to FDI inflows or capital transfers depending on the investment option (real estate investment or government donations respectively), while application fees contribute to services exports.

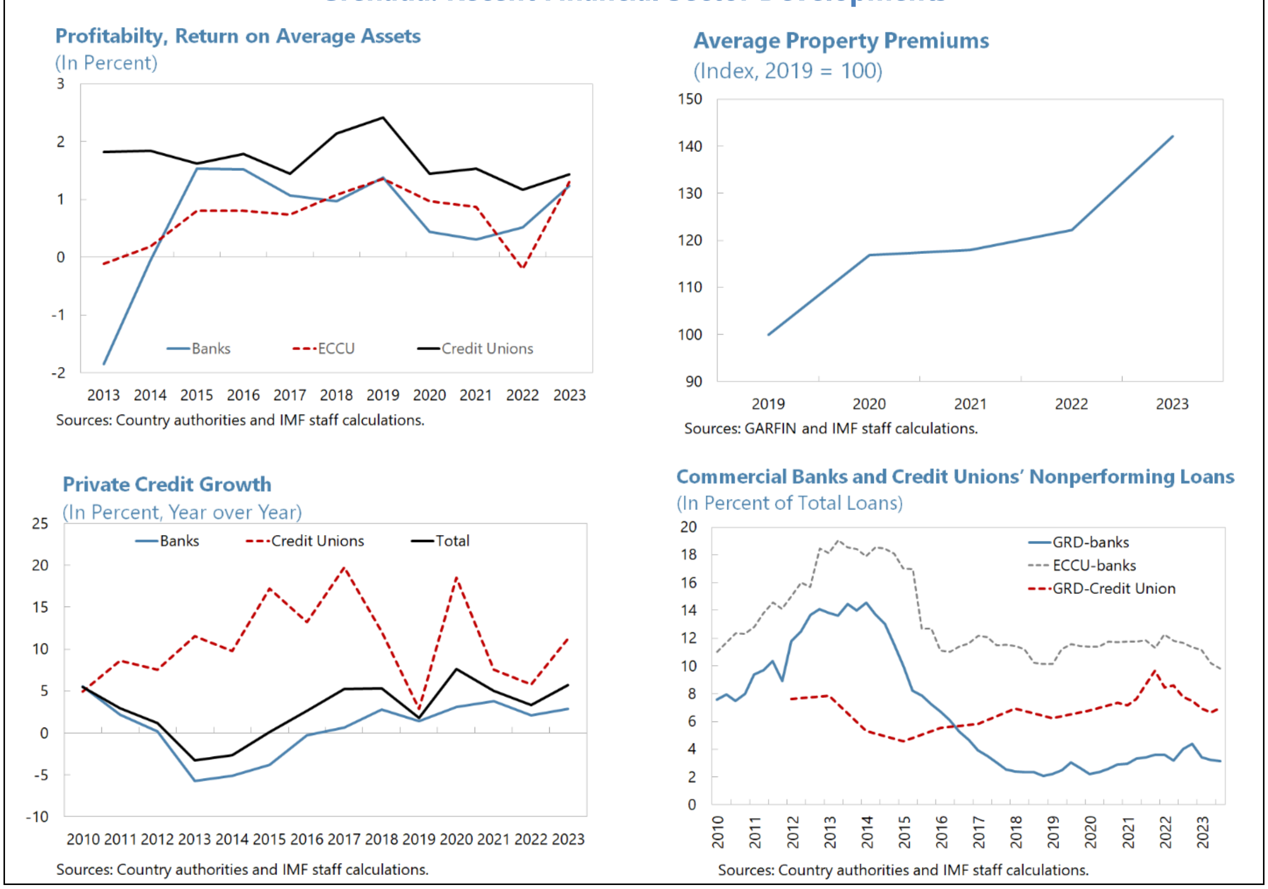
[3] The wage realignment is estimated to add about 1 percent of GDP to government wages and salaries from 2024.

[4] Inclusion of non-guaranteed SOE debt in the total public debt perimeter is in line with the revised debt definition in the 2023 FRA.

pandemic levels, largely on account of the effects of population aging. Grenada introduced a funded unemployment insurance scheme in June 2023—a first among ECCU countries.

**6. Financial sector conditions remained stable.** Bank profitability improved and NPLs remained among the lowest in the ECCU. Local credit growth remained modest, notwithstanding resumed rapid lending growth at credit unions, which also had more elevated NPLs. Banks' overseas investments of high system liquidity picked up, in part driven by higher government deposits. The insurance sector has been stable and liquid, but higher reinsurance costs increased property insurance premiums, exacerbating the already weak insurance affordability and protection gaps.

**Grenada: Recent Financial Sector Developments**




# IMPACT OF HURRICANE BERYL: OUTLOOK AND RISKS

**7. The authorities' prudent preparation and swift action helped limit the impact of the hurricane.** Beryl made landfall as Category 4 hurricane on the Grenadian islands of Carriacou and Petite Martinique on July 1, 2024. Pre-disaster communications, preparedness and post-disaster responses helped limit casualties and facilitated speedy mobilization of humanitarian relief. Existing fiscal buffers and substantial disaster-contingent insurance and financing instruments, including swift disbursement of a historically large parametric insurance payment by the Caribbean Catastrophe Risk Insurance Facility (CCRIF), semi-automatic deferral of international bond payments under a disaster clause, and drawdown of the World-Bank's Catastrophe Drawdown Option, provided financing space for speedy relief and recovery efforts.

| Grenada: Summary of Triggered Disaster-Contingent Instruments | | |
|---|---|---|
| **Instrument** | **US$ millions** | **Percent of GDP (2024)** |
| Parametric insurance | | |
| Caribbean Catastrophe Risk Insurance Facility (CCRIF) | 55.5 | 4.0 |
| Central government | 44 | 3.2 |
| State-owned water and electricity companies | 11.5 | 0.8 |
| Contingent debt instruments | | |
| World Bank Catastrophe Drawdown Option | 20 | 1.4 |
| Disaster clause in restructured international bonds 1/ | 12 | 0.9 |

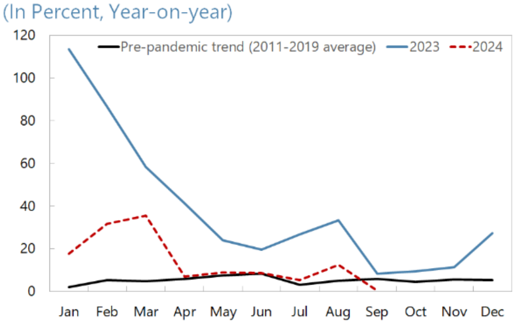
Source: IMF staff calculations

1/ The bond's two scheduled payments due on November 2024 and May 2025 have been deferred and added to the bond's lump sum "principal" payments due pro rata at the bond's maturity in 2030.

8. **Physical damage in the most affected areas was substantial.** The Global Rapid Post Disaster Damage Estimation (GRADE) report, conducted by the authorities and the World Bank, estimates total damages and losses at above 16 percent of GDP. Carriacou and Petite Martinique saw damages to about 80 percent of their housing, as well as to power, water, and transport infrastructure. Significant damages to crops, fisheries, and livestock (including on the main island) increased food import needs and affected agriculture exports.[5] Notwithstanding damages to around 10 percent of Grenada's total tourism room stock, core tourism infrastructure on the main island remained operational.

**Growth in Monthly Tourist Arrival**

(In Percent, Year-on-year)




Sources: Country authorities and IMF staff calculations

| Estimated Economic Impact of Hurricane Beryl (selected sectors) | 2024 | | | 2025 | | |
|---|---|---|---|---|---|---|
| | **Pre-Beryl** | **Post-Beryl** | **Change** | **Pre-Beryl** | **Post-Beryl** | **Change** |
| **Output by selected sectors** | | | | | | |
| *Real GDP growth (percent)* | 3.9 | 3.6 | -0.3 | 3.6 | 3.9 | 0.3 |
| Of which: | | | | | | |
| Agriculture, Livestock and Forestry | 2.0 | -14.0 | -16.0 | 2.7 | 0.0 | -2.7 |
| Fishing | 2.7 | -10.0 | -12.7 | 2.7 | 0.0 | -2.7 |
| Construction | 0.0 | 5.0 | 5.0 | 8.0 | 15.0 | 7.0 |
| Hotels & Restaurants | 20.0 | 16.4 | -3.6 | 7.6 | 1.7 | -5.9 |
| *Contribution to GDP growth (percent, approx.)* | | | | | | |
| Agriculture, Livestock and Forestry | 0.1 | -0.3 | -0.4 | 0.1 | 0.0 | -0.1 |
| Fishing | 0.0 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 |
| Construction | 0.0 | 0.4 | 0.4 | 0.7 | 1.3 | 0.6 |
| Hotels & Restaurants | 0.9 | 0.7 | -0.2 | 0.4 | 0.1 | -0.3 |

Source: IMF staff calculations.

9. **The hurricane's GDP growth impact is, however, assessed as relatively modest at -0.3 percent of GDP in 2024 given the limited damage to high population areas and tourism.** The

[5] Upwards of 45 percent of trees (such as nutmeg and cocoa,) were damaged or destroyed, with long-term impacts on production and exports (for example, nutmeg trees can take 7 years to reach maturity).

negative impact is primarily driven by a sharp decline in the output of the comparatively small agricultural sector. Tourism performance is projected to remain robust in 2024, with continued post-disaster growth in stayover arrivals, albeit slowing to pre-pandemic trends. However, with the industry currently operating near its peak-season capacity, growth in the sector is projected to slow until new hotel projects come onstream.[6] Large recovery and reconstruction efforts—somewhat dampened by the high import content of construction—are expected to sustain temporarily higher growth into 2025-26, before gradually converging back to its potential growth rate of around 2.7 percent. Inflationary pressures from the hurricane impact have remained largely contained, in part owing to the authorities' policy response measures and lower international prices of fuel and other commodities. The scheduled withdrawal of support measures and the normalization of commodity prices are expected to bring inflation back to around 2 percent from 2026.

**Grenada: Summary of Estimated Economic Damage from Hurricane Beryl 1/**

| **Damage type / Region** | **Value (million USD)** | **Percent of GDP (2023)** |
|---|---|---|
| Total economic damages 2/ | 218.0 | 16.5 |
| Residential building | 58.5 | 4.4 |
| Carriacou | 45.6 | 3.4 |
| Petite Martinique | 5.0 | 0.4 |
| Other areas | 7.9 | 0.6 |
| Non-residential building | 53.0 | 4.0 |
| Carriacou | 45.4 | 3.4 |
| Petite Martinique | 1.1 | 0.1 |
| Other areas | 6.5 | 0.5 |
| Infrastructure | 63.4 | 4.8 |
| Carriacou | 43.4 | 3.3 |
| Petite Martinique | 3.5 | 0.3 |
| Other areas | 16.5 | 1.2 |
| Agriculture | 43.1 | 3.3 |
| | | |
| **Memorandum** | Numbers | Percent of total |
| Population by region (as of 2021) | | |
| Northern parts of Grenada (St. Patrick and St. Mark) | 11,784 | 10.8 |
| Carriacou and Petite Martinique | 4,747 | 4.4 |
| Tourism room stock by region | | |
| Northern parts of Grenada (St. Patrick and St. Mark) | 50 | 2.0 |
| Carriacou and Petite Martinique | 211 | 8.4 |

1/ As a comparison, the damage caused by Hurricane Ivan in 2004 amounted nearly 130 percent of GDP, as it hit the more populated areas.
2/ The estimated damage is from the GRADE Report issued in August 2024. As the GRADE Report aims to address damage information needs in the first few weeks after a major disaster, it is subject to errors and revisions.
Sources: Global RApid Post-Disaster Damage Estimation (GRADE) Report; Mid-year report by the Ministry of Finance;

[6] While some major private sector construction projects are either approaching completion or have been completed, several projects remain in the early stages of development. Over the medium-term, the projections assume some delayed uptick in construction activity from the recent surge in CBI real estate investment inflows.

**10. In response to the hurricane the Government suspended the primary balance floor under the Fiscal Resilience Act escape clause and introduced a package of fiscal measures to support post-disaster relief and recovery.** These included time-bound tax and import duty waivers for affected households and businesses.[7] A supplementary 2024 budget also contained a significant increase in planned capital expenditure for reconstruction, support to some households and farmers via transfer payments, and a transfer to the Grenada Development Bank to provide concessional financing to affected businesses. Staff estimates the cumulative cost of these measures at 13.5 percent of GDP over 2024-26, with most of the reconstruction investment expected to be carried over into 2025-26.

**Government Support in Response to Hurricane Beryl (in percent of GDP)**

| | |
|---|---|
| **Tax relief measures** | **0.7** |
| Income & profit | 0.1 |
| Property | 0.1 |
| Goods and services | 0.3 |
| International trade | 0.2 |
| **Expenditure measures** | **12.8** |
| Transfers - households | 0.5 |
| Transfers - other | 2.1 |
| CAPEX (reconstruction) | 10.2 |
| **Total support** | 13.5 |

Source: National authorities and IMF staff estimates

Note: shows sum of estimates of support in 2024-26

**11. Grenada's sizable reconstruction costs will likely require temporary deficit financing once recent exceptional revenues subside.** Record-high CBI revenue, the CCRIF payout and expenditure execution delays are projected to result in a 2024 primary surplus of 8 percent of GDP and further accumulation of government deposits to nearly 23 percent of GDP.[8] However, with normalization of CBI revenues to historical levels from 2025 as the application backlog is cleared, reconstruction spending needs are projected to result in primary deficits in 2025-26 averaging 3 percent of GDP. The deficits are expected to be financed primarily by deposit drawdowns, including from the recent post-disaster financing. The fiscal outlook from 2027 is underpinned by an expected return to the 1.5 percent of GDP primary balance rule, anchoring a continued downward path in public debt, which is projected to fall below 60 percent by 2030.

**Grenada: External Accounts 2024-25**

| | Millions of EC$ | | Percent of GDP | |
|---|---|---|---|---|
| | 2024 | 2025 | 2024 | 2025 |
| **Current account** | **-493** | **-546** | **-13.1** | **-13.8** |
| Trade | -1569 | -1592 | -41.8 | -40.2 |
| Services | 1338 | 1354 | 35.6 | 34.2 |
| Of which: tourism receipts | 2031 | 2101 | 54.1 | 53.1 |
| Primary income | -365 | -384 | -9.7 | -9.7 |
| Secondary income | 103 | 77 | 2.7 | 1.9 |
| **Capital account** | **569** | **144** | **15.1** | **3.6** |
| **Financial account 1/** | **-49** | **-212** | **-1.3** | **-5.4** |
| Direct investment | -851 | -499 | -22.7 | -12.6 |
| Portfolio investment | 342 | 308 | 9.1 | 7.8 |
| Other investment | 460 | -21 | 12.2 | -0.5 |
| **Net errors and omissions** | **0** | **0** | **0.0** | **0.0** |
| **Overall balance (deficit -)** | **124** | **-191** | **3.3** | **-4.8** |

Source: IMF staff calculations.

1/ Financial account excludes changes in imputed reserves.

**12. The post-disaster recovery will temporarily disrupt the underlying narrowing of the current account deficit.** The deficit is projected to widen to 13-14 percent of GDP in 2024-25, reflecting higher food, relief and construction material imports and lower exports (primarily agriculture). The impact on (imputed) reserves is nonetheless partially offset by the large 2024 post-disaster financing and CBI inflows. Grenada's external position in 2024, after accounting for the temporary

[7] In general, tax relief measures are automatically applied to Carriacou and Petite Martinique, while affected households and businesses on the mainland need to seek approval to receive tax relief.

[8] The budget impact of high CBI revenue is partly offset by increased application processing costs. Also, under the terms of the 2014 restructuring, Grenada's international bondholders are entitled to some of the previous year's CBI revenue. This is projected to temporarily raise debt service costs in 2024-25.

effects of Hurricane Beryl, is broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex II).

**13. Hurricane Beryl's impact on the financial system is expected to be modest.** The disaster took place in context of a highly liquid and well-capitalized banking sector with low NPLs and improving profitability. Carriacou and Petite Martinique saw the most extensive property damages but account for only 2 percent of total bank credit stock and outstanding mortgage values are fully covered by insurance.[9] The national supervisor (GARFIN) is monitoring the impact on the non-bank financial system, which to date is assessed as manageable.

**Post Hurricane Beryl Fiscal Incentives Package**

| Category | Relief Measure | Details | Eligibility/Limitations | Reviewer | Time Limitation |
|---|---|---|---|---|---|
| **Personal Relief** | Essential Items Tax Exemption | 100% duty and tax exemptions on essential items | 2 barrels per household. Not for commercial use/resale. | Beryl Economic Support Secretariat (BESS) | July-December 2024 |
| **Household Items** | Local & Imported Items | 100% waiver of taxes (VAT, and other applicable taxes on imports) on large household appliances/furnishings | One of each appliance per household; only for properties affected by Beryl. Not for resale. | BESS | July 2024 - June 2025 |
| **Building Materials** | Local Purchases | 100% VAT waiver on local purchases. 100% waiver of CET, VAT, and CSC on imports. | For reconstruction of homes/businesses directly affected by Beryl. Not for resale. | BESS | July 2024 - June 2025 |
| **Business Support** | Equipment Relief | 100% waiver of CET, VAT, CSC, Excise tax and EVL | For replacement of equipment damaged or destroyed by Beryl. | BESS | July 2024 - June 2025 |
| **Tax Relief Incentives** | VAT and property tax waivers | Waiver of VAT and CIT requirements. Full waiver of property tax on properties damaged or destroyed by Beryl. | Automatic for Carriacou/Petite Martinique. Mainland businesses must apply. | Inland Revenue Division (IRD) | June-Dec 2024 for VAT/CIT; 2025 for property tax |
| **Tax Extensions** | Various tax deadline extensions | Extended deadlines for: Stamp Tax, PAYE, Withholding Tax | Automatic for Carriacou/Petite Martinique. Mainland businesses must apply. | IRD | Deadline extended to December 31, 2024 |
| **Financial Support** | Income support | Direct income support and/or material support for farmers and fishers. | One-off payments to affected registered farmers of EC$4,500 for farms less than five acres, and EC$9,000 for farms larger than five acres. | Ministry of Agriculture and Lands Forestry and Marine Resources; Ministry of Finance | August 2024 to November 2024 |
| **Financial Support** | Development Bank Fund | EC$25 million fund with part loan, part grant. Concessional interest rates. | Available to Medium, Small and Micro Enterprises including hotels, agriculture and fishing. | Grenada Development Bank | From September 2024 |

Source: National authorities

Note: VAT = value added tax; CET = common external tariff; CSC = customs service chage; EVL = environmental levy; CIT = corporate income tax; PAYE = pay as you earn (income tax)

**14. Risks around the baseline are tilted to the downside.** Grenada remains highly exposed to further risks of natural disasters, demand shocks in tourism source markets, commodity price volatility and deepening geo-economic fragmentation which could disrupt global trade and increase import costs (Annex I). The uncertain outlook for CBI inflows amidst increased international scrutiny of such programs can weigh on future government revenue and tourism investment (Box 1). These shocks could be amplified by materialization of risks in the non-bank financial sector (notably credit

[9] A few banks granted loan moratoria to affected customers through end-2024, but the volumes were modest.

unions). The projected level of unused government deposits, however, provides an important buffer against such unanticipated shocks. Prospective hotel developments and public investment projects provide an upside risk to the medium-term growth outlook.[10]

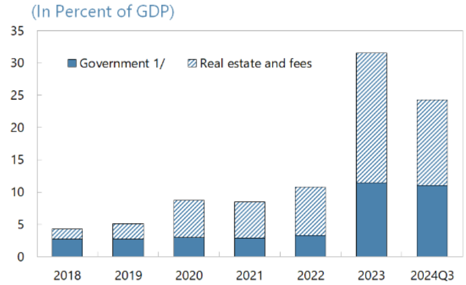
### *Authorities' Views*

**15. The authorities broadly agreed with staff's assessment of the economic outlook and risks but are more optimistic about growth prospects.** They concur that the near-term growth impact of the hurricane would be relatively modest and short-lived. Strong performance in the tourism sector, supported by new hotel construction projects, improved flight connections, and the expansion of the vacation home rental market is expected to alleviate tourism capacity constraints over time. The authorities also noted growth potential in Grenada's emerging creative industry and the ongoing efforts to support digitalization of the economy. They agreed that post-disaster reconstruction and other public investment needs will temporarily weaken fiscal balances. However, they expect the longer-term outlook and the public debt reduction path to be supported by a subsequent return to the fiscal rules and the government's existing fiscal space. While recognizing the potential risks to future CBI revenues, they emphasized their strong focus and commitment to the integrity of the CBI program. The authorities concurred that the financial system had remained stable after the hurricane.

## Box 1. CBI Program: Recent Developments and Scenario Analysis

**Grenada's CBI program has grown in importance since its establishment in 2013.** CBI investors may donate US$235,000 to the government National Transformation Fund (NTF) or invest a minimum of US$270,000 in pre-approved real estate projects with a five-year minimum holding period (and a government contribution of US$50,000). CBI inflows spiked in 2023 with a surge in applications by Russian citizens. The February 2023 US-Caribbean roundtable agreement prompted the five ECCU countries with CBI programs to strengthen the programs' risk management and integrity and ban new applications from Russia or Belarus. In March 2024, following consultations with the EU, Grenada was among the signatories of a regional Memorandum of Agreement to establish, *inter alia,* common standards for minimum CBI pricing and a regional CBI regulator.

**CBI Revenues**
(In Percent of GDP)



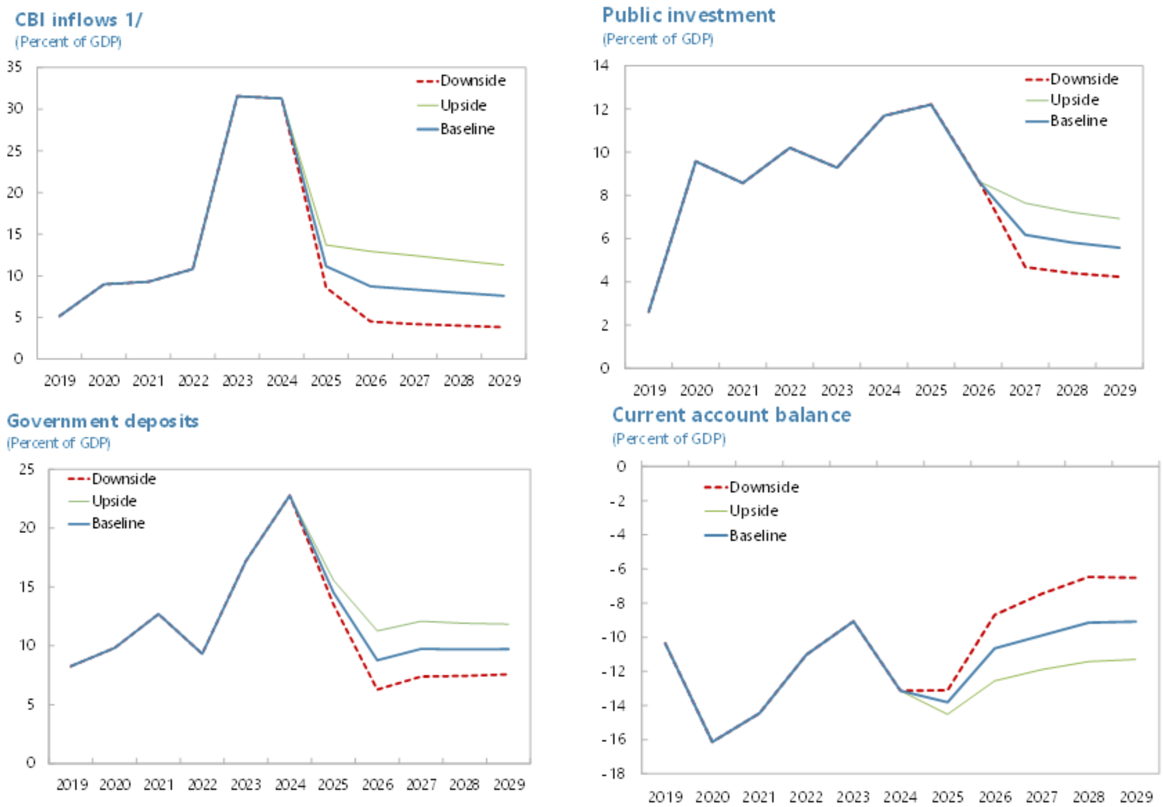

Sources: Country authorities and IMF staff calculations.
1/ Donations to National Transformation Fund and Government Contributions

**Staff projects CBI investment to decline to pre-surge levels from 2025** (consistent with recent investor demand). Although this will reduce government CBI revenue, the financing model of the real-estate CBI investment partially smooths the impact to the extent that the recent accumulation of escrowed investment is drawn down over time as CBI projects progress.

**A scenario analysis simulates the impact of high CBI uncertainty on fiscal and external balances.** Scenarios assume annual inflows 50 percent above (upside) and below (downside) the baseline from 2025. In 2025-26, the simulations assume the change in government CBI revenue only affects government deposits since the primary balance rule is not binding. With an expected return to the fiscal rules from 2027, the scale of CBI revenues would determine the government's public investment envelope. The simulated current account impact reflects the scale of public and private (construction) investment – higher CBI-driven FDI and public investment would result in slower narrowing of the post-disaster deficit.

[10] Beyond support for post-disaster reconstruction, the government's investment plans include construction of a new teaching hospital and disaster-resilient affordable housing.

### Box 1. CBI Program: Recent Developments and Scenario Analysis (concluded)




Source: National authorities and IMF staff calculations

1/ CBI inflows include government fees, NTF contributions, and investment in pre-approved projects

# POLICY DISCUSSIONS

## A. Strengthening Public Finances and Fiscal Institutions

**16. The government's immediate disaster response was appropriate.** The decision to invoke the escape clause in the fiscal rules framework ensured policy space for timely support of the recovery.[11] The government also prudently tailored its recovery support measures to the most affected households and businesses.

**17. Continued budget prudence is needed to ensure a timely return to fiscal rules.** Staff currently estimates the public investment needs for reconstruction of infrastructure and other

[11] Grenada's Fiscal Resilience Act 2023 allows for the suspension of the public debt target and primary balance rule under certain conditions, including a major economic shock resulting from a natural disaster.

buildings in the most affected areas at about 10 percent of GDP over 2024-26. The authorities' yet-to-be-released reconstruction plans should nonetheless be carefully calibrated, accounting for the final assessment of damages, high uncertainty over future CBI revenue and the risk of further weather-related disasters.[12] The sizable deposit savings from CBI revenue and post-disaster financing limit new borrowing needed to cover the projected 2025-26 deficits. Public debt is expected to continue falling and reach the debt target of 60 percent of GDP by 2030. Debt is assessed as sustainable, yet classified as "in debt distress" on account of outstanding arrears to official non-Paris Club bilateral creditors, notwithstanding progress in ongoing negotiations (see Debt Sustainability Analysis).[13]

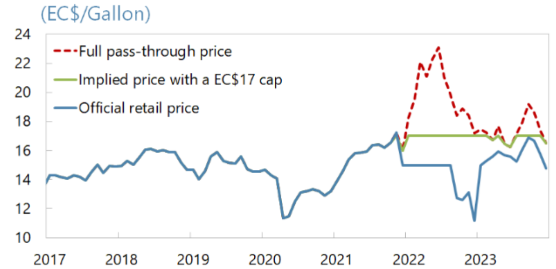
**18. Preserving fiscal space for future investment needs can be achieved through continued careful expenditure prioritization and efforts to strengthen and safeguard revenue.** This includes:

- adhering to the announced time limits on the government's tax incentives to contain their fiscal costs. Efforts should also continue to improve targeting and efficiency of social transfers, including through the establishment of a central beneficiary registry and the planned introduction of cashless payments. This, would create scope for new policies to gradually phase out existing untargeted subsidies, such as for cooking gas.

- closely coordinating the ongoing functional review and phased regularization of public sector workers with the establishment of the new defined-contribution public sector pension scheme in 2025 for *new* hires is important to avoid adding to the fiscal liability from the existing unfunded defined benefit plan.

- containing rising foregone revenue from recently introduced untargeted import tax incentives for electric and hybrid vehicles by exploring alternative, more efficient policies to decarbonize the transportation sector.[14] A more symmetric rules-based pass-through formula for gasoline retail prices would limit

**Gasoline Retail Prices**
(EC$/Gallon)




Sources: Grenada's national authorities and IMF staff calculations
Note: Figure shows the official retail price and two scenarios. The dashed red line estimates the gasoline price in the absence of the price cap of EC$15/gallon in 2022 and reduction in the gasoline tax in 2022-23. The green line estimates the gasoline price assuming a price cap of EC$17 and unchanged taxes.

[12] Staff's assessment of reconstruction costs is based on the damages reported in the GRADE report. The exact reconstruction needs remain subject to a more comprehensive assessment from the authorities' Post-Disaster Needs Assessment.

[13] The authorities are making progress toward clearing outstanding arrears to Algeria and have established an escrow account for servicing arrears to Trinidad and Tobago, but negotiations regarding the latter are ongoing.

[14] An October IMF FAD Technical Assistance report proposed feebates and carbon pricing as more efficient options to reduce emissions and be revenue neutral or revenue enhancing.

the risk of foregone tax revenue from global price volatility.[15]

- improving tax collection through continued digitalization of tax administration services and strengthened risk-based auditing. Strengthening the coherence of the Income Tax Act and broadening the domestic tax base would help reduce reliance on taxes on international trade and VAT.

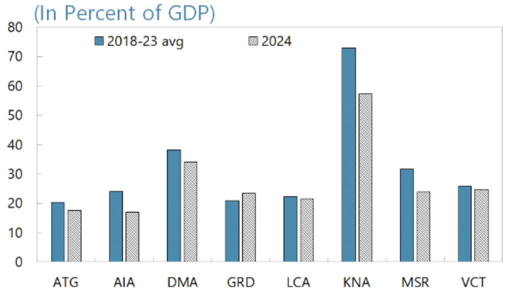
- maintaining focus and commitment to the CBI program integrity and implementation of Grenada's related regional commitments to mitigate non-tax revenue risks.

**19. Reforms are needed to improve public investment management and the budget planning processes.** This is particularly urgent given the large reconstruction and other planned public investment. Key reforms include enhancing the procurement process and expediting the other 2022 PIMA/C-PIMA high-priority recommendations, including upgrading the public-private partnerships framework and determining minimum maintenance requirements. Strengthening project planning, selection and management capacity would ease persistent execution constraints and support close monitoring of project costs in context of potential pressures on to material and labor costs. Continued improvements to the MTFF projections and contingency plans would enhance top-down guidance for the budget process. Public audits of the government accounts should be brought up-to-date swiftly.

**ECCU: Current Expenditure and Retail Gasoline Prices**

**Current Expenditure**

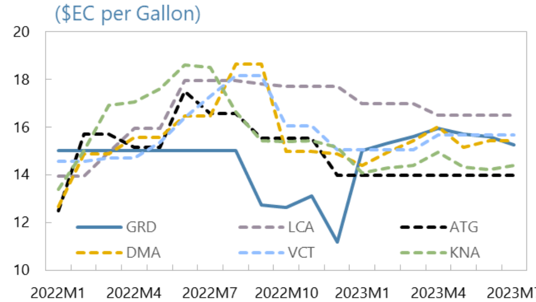
(In Percent of GDP)




Sources: Country authorities and IMF staff calculations.
Note: DMA and KNA's higher current expenditures are supported by large CBI revenues.

**ECCU Retail Gasoline Price**

($EC per Gallon)




Source: ECCB and IMF staff calculations.

**20. Stronger management of CBI revenues would support budget and investment planning.** Upon resumption of the fiscal rules, the difficult-to-predict CBI revenue creates uncertainty over the budget constraint implied by the primary balance rule, including potential procyclical spending cuts in the event of lower-than-budgeted CBI revenue. Clarity over available

[15] Gasoline retail prices currently have a discretionary cap of EC$17/gallon. From 2022-23, the estimated fiscal cost of the previous price cap of EC$15/gallon, the temporary suspension of the EC$5.5/gallon petrol tax in late 2022 and its reinstatement at EC$3.5 /gallon in early 2023 amounted to about 2.3 percent of GDP relative to a scenario of full global price pass through without these changes. If the current EC$17/gallon cap had been in place, this cost would have halved to 1.1 percent of GDP. A more symmetric formula would help recover part of the fiscal cost over time as global prices change, limiting the longer-term fiscal impact of these measures.

resources is further complicated by off-budget obligations tied to the level of CBI revenue.[16]— The Broad principles of the reform include:

- *Managing all CBI resources under a more uniform framework.* This could entail transferring all future CBI revenue (including government contributions from real estate revenue) and past savings to a single fund (the National Transformation Fund).[17]

- *Establishing clear rules for annual budget drawdowns from the NTF and incorporating these in the fiscal framework*. Applying the primary balance rule to more predictable drawdowns from the NTF would smooth out the potential budget volatility from uncertain CBI revenues and facilitate medium-term fiscal and investment planning. The calibration of the drawdowns should determine objectives for use of the funds (including the degree of future savings and investment needs) and consider the appropriate oversight processes.

- *Establishing a clear asset management framework for NTF assets.* This could follow the current practice for contingency fund assets, which are managed by the ECCB.[18] NTF operations should adhere to a strong transparency and accountability framework, including regular reporting on the fund's size, asset allocation, and performance.

**21. Further parametric reforms would improve the national pension system sustainability.** The 2023 reforms to the National Insurance Scheme gradually increase the pensionable age from 60 to 65 years by 2029, while increasing contribution rates from 12 to 16 percent by 2033. This helps reduce the system's actuarial imbalances, but more is needed, including—for example—incentivizing longer periods of contributions, increasing participation of self-employed workers, and ensuring that benefits are based on career-average wages.

***Authorities' Views***

**22. The authorities broadly concurred with staff's advice and remain committed to debt sustainability underpinned by the recently amended fiscal rules framework.** They agreed that this calls for continued careful management of budget expenditures, including containing non-essential outlays and careful sequencing of public service reforms, to protect the policy space for the large near-term reconstruction and investment. The exact scale and financing options will be clarified in the context of the 2025 budget (delayed to Q1/2025 following the impact of Hurricane Beryl). Any new government borrowing is anticipated to rely as far as possible on concessional resources. The authorities are also committed to improving tax revenue performance, noting recent

[16] While all CBI revenue is recorded in the budget, a portion is encumbered by regulated transfers to a contingency fund and payments to holders of restructured international bonds.

[17] The NTF structure could retain the existing contingency fund subaccount for self-insurance purposes and part of the deposit transfer can support its resourcing. The reform should allow for retaining a smaller government deposit balance for cash management purposes.

[18] Assets are invested outside the ECCU in non-EC$ currencies, guided by annual investment plans from the NTF Board and a return and risk tolerance mandate from the Minister of Finance.

progress in digitalization of related services, and continued strengthening of public financial and investment management. They noted, however, that the appropriate pacing and resource capacity implications of some of these reforms must be carefully considered. The authorities also welcomed the proposal to strengthen management of CBI revenue and look forward to reviewing the existing framework with future technical assistance. They also noted continued attention to managing contingent liability risks to public finances, including strengthening Statutory Bodies (SBs) and State-Owned Enterprises (SOEs) governance and the imminent passing of public sector pension reform legislation to support the sustainability of the national pension system.

## B. Addressing Non-Bank Vulnerabilities

**Grenada: Financial Soundness Indicator**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| **Credit Growth (year-on-year change)** | | | | | | | | | |
| Banks | -3.8 | -0.2 | 0.6 | 2.8 | 1.4 | 1.4 | 3.8 | 2.1 | 2.9 |
| Credit Unions | 16.5 | 13.8 | 19.8 | 11.6 | 12.1 | 8.5 | 7.9 | 5.8 | 11.2 |
| **Balance Sheet Structural Risk** | | | | | | | | | |
| Deposit-to-loan ratio, Banks | 163.5 | 170.0 | 167.8 | 170.5 | 177.0 | 181.6 | 182.1 | 182.6 | 186.9 |
| Deposit-to-loan ratio, Credit Unions | 115.9 | 116.0 | 112.5 | 112.2 | 114.6 | 114.0 | 114.9 | 120.1 | 114.8 |
| FX liabilities / Total liabilities, Banks | 8.8 | 8.7 | 11.1 | 12.4 | 14.2 | 13.7 | 15.6 | 16.4 | 17.2 |
| FX loans / Total loans, Banks | 5.3 | 4.8 | 4.9 | 8.8 | 10.9 | 11.5 | 11.3 | 14.5 | 16.1 |
| **Profitability, Return on Assets** | | | | | | | | | |
| Banks | 1.5 | 1.5 | 1.1 | 1.0 | 1.4 | 0.4 | 0.3 | 0.5 | 1.2 |
| Credit Unions | 1.6 | 1.8 | 1.4 | 2.1 | 2.4 | 1.4 | 1.5 | 1.2 | 1.4 |
| **Asset quality, Non-performing Loan Ratio** | | | | | | | | | |
| Banks | 10.0 | 6.7 | 3.9 | 2.4 | 2.2 | 2.2 | 2.9 | 3.6 | 3.4 |
| Credit Unions | 4.6 | 5.5 | 5.8 | 5.2 | 5.2 | 5.2 | 7.2 | 8.4 | 6.9 |
| **Provisions for Loan Losses to NPLs** | | | | | | | | | |
| Banks | 42.9 | 49.9 | 63.9 | 77.0 | 82.8 | 112.5 | 67.8 | 84.1 | 77.9 |
| Credit Unions 1/ | 34.0 | 25.0 | 26.5 | 16.0 | 23.5 | 28.5 | 27.4 | 36.5 | 48.2 |
| **Liquidity Assets / Total Assets** | | | | | | | | | |
| Banks | 37.8 | 41.4 | 42.1 | 44.9 | 43.5 | 46.8 | 44.9 | 49.1 | 49.8 |
| Credit Unions | 16.6 | 14.2 | 13.2 | 16.5 | 19.3 | 18.1 | 17.5 | 16.9 | 22.3 |
| **Capital Adequacy Ratio 2/** | | | | | | | | | |
| Banks | 12.6 | 14.2 | 13.8 | 13.2 | 11.9 | 15.1 | 15.8 | 14.1 | 15.8 |
| Credit Unions | 11.0 | 11.3 | 11.5 | 11.6 | 11.6 | 12.3 | 12.9 | 12.0 | 13.0 |

1/ Credit unions set provisioning according to IFRS 9 sine 2018.

2/ For banks, capital adequacy ratio = regulatory capital / risk-weighted assets; for credit unions, regulatory capital / total assets.

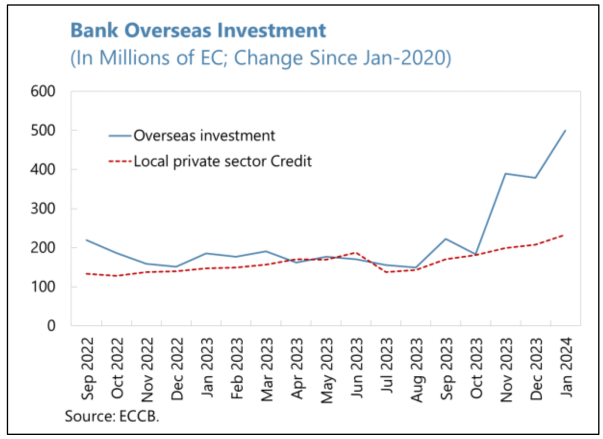
23. **The banking system is sound and liquid, but rising risks in the non-bank financial system are an area of potential vulnerability.** GARFIN's targeted measures have helped improve credit unions' provisioning for still-elevated NPLs.[19] However, the sector's relatively higher risk tolerance and prevalence of forbearance practices in the context of rapid lending growth calls for close monitoring of lending standards and risk management. Supervisory reporting requirements should strengthen monitoring of underlying asset quality while impaired asset treatment and provisioning requirements need to be more closely aligned with those of banks.[20] Early adoption

[19] Credit union NPLs rose by more than half after the removal of loan moratoria instated during the COVID-19 pandemic. GARFIN is requiring selected credit unions to implement time-bound action plans to strengthen provisioning and reduce NPLs toward a benchmark ceiling of 5 percent of total loans.

[20] Supervisory reporting should indicate the accumulated impairments by stages, forbearance exposures and breakdowns on past due dates. The planned adoption of model-based IFRS9 provisioning requirements should be backstopped by calendar-based requirements for long-overdue loans while ensuring restructured loans are prudently classified. Provisioning requirements should also avoid netting of loan collateral given limited property market liquidity.

and enforcement of such standards would also prepare Grenada's credit union sector for the planned common regional minimum standards and support timely and consistently applied corrective actions, where needed, to mitigate financial stability risks.[21] GARFIN's on- and off-site resources should be strengthened to support continued development of supervisory capacity.

**24. Enhancing support services to small businesses could increase their access to bank credit and help rebalance credit provision to the economy.** The recently established credit reporting bureau will reduce information asymmetries and the cost of due diligence for smaller borrowers, but its positive impact will take time and its coverage should be extended to all lenders. Other initiatives to bolster local bank credit, such as the Eastern Caribbean Partial Credit Guarantee Scheme, have so far had limited uptake. Increased outreach and assistance for small enterprises in formulating business strategies, maintaining accounts and other records, and fulfilling other loan requirements could support lending to this sector and enhance local investment alternatives to banks' rising overseas exposures.




**25. Risks associated with rising property insurance premiums call for strengthening supervisory data collection and collaboration (Annex IV).** Higher premiums are being driven by a re-evaluation of the potential costs of climate risks in global reinsurance markets and a reallocation of reinsurance capital to markets with a better risk-return profile. This trend, likely accelerated by the active 2024 hurricane season, exacerbates under-insurance and potential fiscal contingent liability risks from future natural disasters. It also raises credit risks to lenders. The immediate policy priority is to strengthen supervisory data collection and risk monitoring. The prevalence of cross-jurisdictional insurance companies also calls for closer regional supervisory cooperation, including to facilitate better assessment of risk retention at the local level and inform the adequacy of existing regulatory and supervisory standards. GARFIN should maintain ongoing engagement with general insurance companies to closely monitor the post-disaster developments, ensuring timely and efficient resolution of policyholders' claims.

**26. Maintaining a strong AML/CFT regime is critical for preserving correspondent banking relationships.** While Grenada has made progress in addressing gaps by approving recommended legislation[22], greater progress is needed to address issues identified in 2022 CFATF Mutual Evaluation Report and the November 2023 follow-up. This includes implementing the authorities' commitment to facilitate the verification of beneficial ownership information, mitigating the misuse

[21] The ECCB Monetary Council has approved establishment of the Eastern Caribbean Financial Stability Board (ECFSB) with a mandate to set common regional minimum standards on the NBFS. ECCU 2024 Regional Consultations (IMF Country Report No. 24/93) discusses the status of credit union supervision and regulation in the ECCU.

[22] These include the amendments to the Customs Act, Friendly Societies Act, Co-operative Societies Act, and the Exchange of Control Act.

of legal persons, updating the National Risk Assessment to include the CBI program, and training of money laundering reporting and compliance officers.

***Authorities' Views***

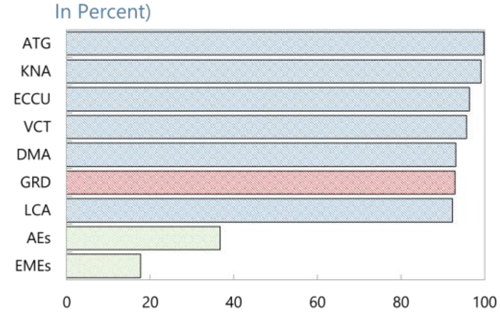
**27. The authorities agreed that sustainability of credit union lending practices and property reinsurance risks warrant close monitoring.** They considered the provisioning requirements under international accounting standards to provide sufficient guidance to strengthened treatment of impaired assets at this time. The authorities acknowledged that strengthening data collection, local staffing resources and regional cooperation among supervisors are essential for improving assessment and monitoring of insurance sector risks. They also noted the intent to continue developing broader macro-financial and systemic risk assessment capacity, appreciating recent support by CARTAC in this area.

## C. Supply Side Reforms

**28. Accelerating the transition to renewable energy would reduce fuel imports, lower greenhouse gas emissions, and insulate the economy from terms of trade shocks (Annex V).** Grenada depends on imported oil for over 90 percent of its energy. Shifting 30 percent of electricity production to renewables could cut oil imports by 15 percent. This transition could be facilitated by upgrading the National Energy Policy to a comprehensive Integrated Resource Plan (IRP) to ensure alignment between ambitious renewable energy targets, projected electricity demand, and planned renewable projects.[23] While incentivizing electric vehicles can help the greening of transport, prioritizing renewable electricity generation would more directly reduce oil imports. This will require innovative multi-stakeholder financing approaches such as Grenada's participation in the World Bank's *Caribbean Renewable Energy Infrastructure Investment Facility*.

**Energy Dependency Ratio**

(Net Energy Imports as a Share of Total Energy Supply, In Percent)




Sources: Country authorities and IMF staff calculations.

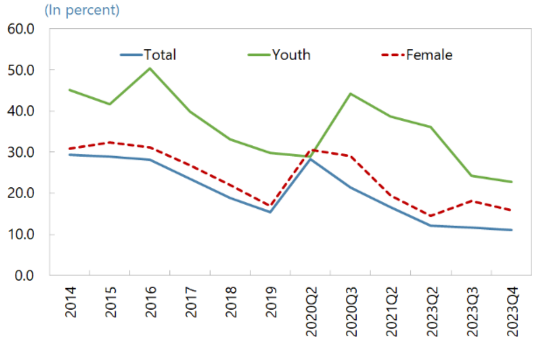
**29. Active labor market policies can improve labor market outcomes (Annex VI).** This includes expanding investments in youth training and developing digital tools for employer-employee matching. The introduction of unemployment insurance provides an opportunity to review Grenada's Employment Protection Legislation, where reducing the above-Caribbean-average notice periods could enhance labor market flexibility and encourage hiring. The large 2024 minimum wage increase has the potential to negatively affect employment and weaken competitiveness,

[23] An IRP is a roadmap to meet forecasted energy demand using supply and demand side resources to provide reliable, cost-effective energy supply to customers.

although Grenada remains a relatively competitive tourism destination.[24] Minimum wages should be reviewed every three years, as legislated, to avoid these issues. Policies to incentivize participation are needed to offset the impact of population aging. These include promoting transparent pay, investing in care facilities and childcare, and changes to compulsory retirement ages for older workers.

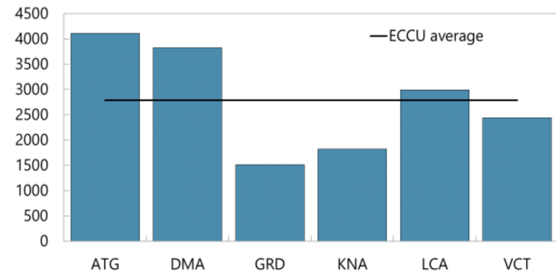
**Grenada: Unemployment and Tourism Price Competitiveness**

**Unemployment Rate**
(In percent)




Sources: Grenada national authorities and IMF staff calculations.

**Week at the Beach**
(Index, 2023Q1)




Sources: IMF Staff Calculations
Note: "Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations. The index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee, and beer.

**30. Ongoing successful policies to boost off-season stayovers can help limit the drag from hotel capacity constraints in the high season**. This could include attracting conference business, fishing, or eco-tourism. Expanding tourism products would improve revenue flows from cruises (which currently have a relatively small local economic footprint). Boosting agricultural productivity, marketing and resilience to adverse weather events can also help the domestic value-added contribution of tourism. Efforts to diversify flight connections to broader range of source countries would reduce dependence on few key markets like the U.S.

**31. Efforts to access concessional financing, including a US$100 million loan from the Saudi Fund for Development, support building resilience against climate risks.** Investments should be implemented through the government's Disaster Resilience Strategy, National Adaptation Plan, in conjunction with climate budget tagging projects. Accelerating progress in this area will require efforts to address staffing shortages and implementation capacity constraints.

***Authorities' Views***

**32. The authorities agreed on the importance of supply-side reforms to boost medium-term growth.** On the green energy transition, the authorities noted progress on several solar energy initiatives and new financing for the next phase of the geothermal pilot project. While supporting the gradual adoption of low-emission vehicles alongside greening the electricity sector, they intend to review alternative options for the implemented tariff reductions. They noted that the

[24] The implied average annual increase in the minimum wage (since the 2011 increase) is comparable with the increase in private wages over that period.

National Energy Policy needs further updating to clarify which stakeholders are responsible for its implementation. The authorities concurred with the importance of continued efforts to improve critical labor market outcomes, including strengthening job-search matching, training aimed at re-skilling and re-tooling employees, and reforms to the education system with greater emphasis on a skills-based curricula, including in the digital space. They also highlighted recent successes in boosting off-season tourism, and new attractions and services to strengthen its value-added to the economy. The authorities noted continued emphasis on resilience investment against natural hazards, including through the "building-back-better" initiatives in the context of post-Beryl reconstruction.

## D. Data Adequacy, Safeguards and Capacity Support

**33. Data provided to the IMF have some shortcomings that somewhat hamper surveillance (Annex VII).** Adequately resourcing the Central Statistics Office (CSO) should be a priority to improve the timeliness and consistency of national accounts and external sector statistics. Grenada stands out among its peers on available Labor Force Survey and granular CBI data, and recently completed an updated Census, but several projects have seen repeated delays, including an update of the CPI weights and a revamp of the CSO website. Improving the quality of high frequency indicators and ensuring timely dissemination would improve economic assessments. Enhancing data granularity in the non-bank financial system would improve financial risk analysis.

**34. The ECCB has addressed most of the 2021 safeguards recommendations.** The pending recommendation is on legal reforms to further strengthen the operational autonomy of the ECCB and align its Agreement Act with leading practices. Staff continues to follow up with the authorities.

**35. Persistent capacity constraints underscore the need for close development partner support.** Fund capacity assistance continues to play an important role in strengthening public financial management, revenue administration, financial system supervision and data adequacy.[25] Adequate staffing resources are critical for effective absorption of technical assistance.

***Authorities' Views***

**36. The authorities recognized that further progress is needed to improve data quality and availability to support policy analysis.** They acknowledged the issues caused by capacity constraints and staffing shortages but noted that the regularization of employees could help with staff retention. They highlighted that several delayed projects are expected to be completed in coming months, including the update of the CSO website, and the publication of the updated CPI basket and the 2022 Census.

[25] Informational annex provides an outline of recent Fund capacity development activities.

# STAFF APPRAISAL

**37. Until July 2024, Grenada's economy experienced strong, sustained growth, primarily driven by a robust recovery in tourism.** Construction activity had slowed after major projects were completed and activity in new CBI and FDI driven projects were yet to fully commence. Inflation decreased in tandem with global price pressures and the current account deficit and labor market conditions improved, notwithstanding high youth unemployment. The recent surge in CBI revenue supported a strengthening of Grenada's fiscal position.

**38. Hurricane Beryl caused extensive destruction across Carriacou, Petite Martinique, and the northern main island**. Notwithstanding the support from disaster preparedness frameworks, the economic damages and losses are assessed to exceed 16 percent of GDP, affecting housing, infrastructure, crops, and fishing. Localization of the most severe damages and continued strong tourism performance contain the hurricane's impact on economic output, although increased import needs pose a temporary current account impact. Adjusting for the temporary impact of the hurricane, Grenada's projected external position in 2024 is assessed as broadly in line with the medium-term fundamentals and desirable policies. The financial system impact appears contained given limited exposures to the most affected areas.

**39. Substantial reconstruction efforts are projected to help sustain strong near-term growth as capacity limits start to constrain tourism growth.** GDP growth is projected to normalize to historical levels over the medium term. Key risks to the outlook include a high risk of further natural disasters, potential tourism and commodity price shocks, and the uncertain CBI outlook amidst increased international scrutiny. Risks in the local non-bank financial system can amplify these risks. Large CBI savings offer important policy space to respond to shocks.

**40. Grenada's strong fiscal position and post-disaster financing provide policy space to support the recovery and reconstruction.** A budget surplus is projected for 2024, driven by record-high CBI revenue, the parametric insurance payment and delays in capital spending execution. A drawdown of government deposits will help finance projected 2025-26 deficits as exceptional revenue inflows wane, limiting government borrowing needs. Assuming a timely resumption of the suspended fiscal rules, public debt is projected to remain well-anchored on a downward path. Public debt sustainability is nonetheless assessed as in "debt distress" on account of outstanding official arrears.

**41. The elevated risks to the outlook call for continued budget prudence to ensure timely return to fiscal rules and protect fiscal space for future investment needs.** This includes adherence to the time bounds of the post-disaster recovery incentives and close coordination of ongoing public service reforms to contain the associated fiscal liabilities. These can be supported by measures to strengthen tax collection and efficiency and the CBI program integrity.

**42. The scaling up of public investment underscores the need to strengthen public financial management.** This includes expediting implementation of the PIMA priority recommendations and continued strengthening of the MTFF as a top-down anchor for the budget process. Enhancing management of CBI resources under a more unified framework would support medium-term budget planning and prudent management of the government's CBI savings.

**43. Risks in the non-bank financial system call for strengthened oversight, data collection, and regional supervisory cooperation.** This includes rigorous surveillance of credit union lending and asset quality, more granular supervisory reporting and alignment of impairment treatment with banking standards. Supporting small business access to credit can realign credit provision to the economy with lenders' risk-absorption capacity. Strengthening data and risk monitoring of property reinsurance risks is an essential step to build policy response preparedness to weakening insurance affordability. A stronger AML/CFT framework would safeguard correspondent banking relationships and help manage CBI program risks.

**44. Sustained structural reforms would boost long-term growth and build resilience to shocks.** Addressing implementation capacity constraints and unlocking private finance can help accelerate the energy transition and investment in disaster resilient infrastructure. Active labor market policies, including investment in youth training, digital matching services, and a review of employment legislation can boost growth. Policies supporting off-season and niche tourism and enhancing the sector's value added can help sustain its vital contribution to the economy.

**45. Strengthening staffing resources would support addressing persistent economic data gaps and support absorption of critical capacity development.** Progress in these areas is critical to support design and implementation of economic policies and management of risks.

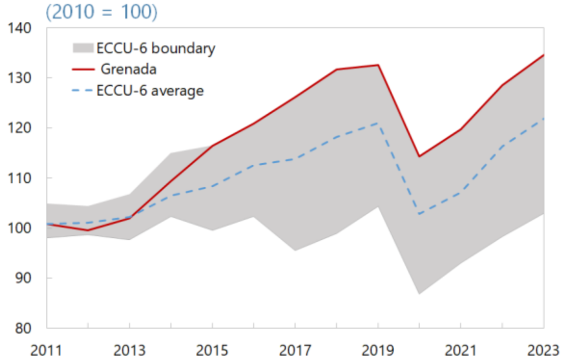
**46. It is recommended that the next Article IV consultation with Grenada takes place on the standard 12-month cycle.**

## Figure 1. Grenada Key Macroeconomic Indicators

*GDP growth has been among the strongest in the ECCU in the past decade.*

**Real GDP**

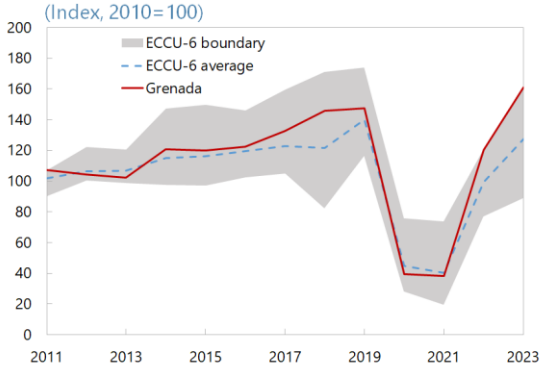
(2010 = 100)




*Tourism rebounded from the pandemic and also outperformed peers.*

**Stay-over Tourists Arrivals**

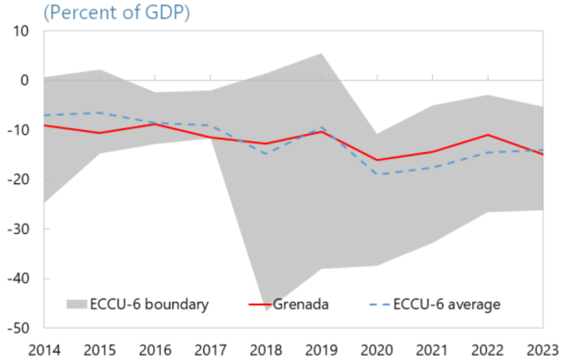
(Index, 2010=100)




*The current account deficit is large and in line with the ECCU average, reflecting strong construction imports.*

**Current Account**

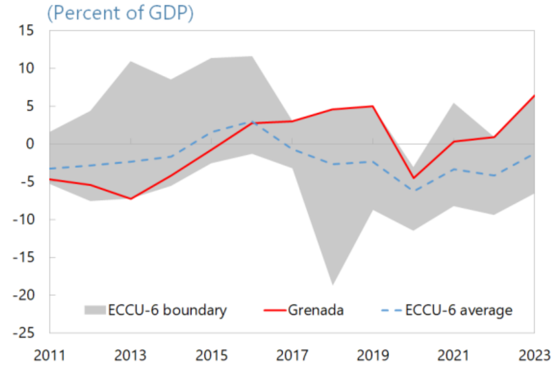
(Percent of GDP)




*Fiscal policy has been more prudent than most ECCU countries…*

**Fiscal Overall Balance**

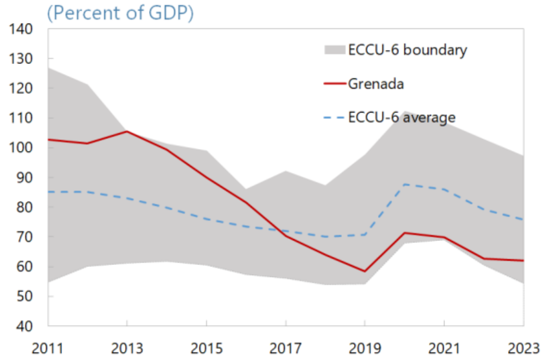
(Percent of GDP)




*… which supported a more rapid debt reduction.*

**Public Debt**

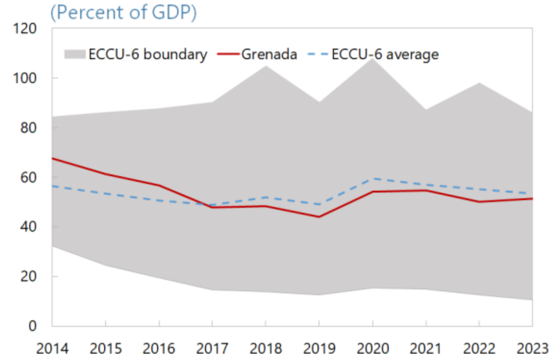
(Percent of GDP)




*The external debt is stable, reflecting concessional access.*

**Public External Debt**

(Percent of GDP)



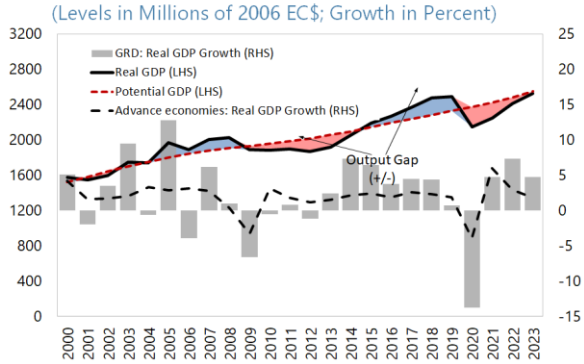

Sources: ECCB, country authorities and IMF staff calculations.

## Figure 2. Grenada: Real Sector Developments

*Grenada is experiencing income convergence, especially during the rebound from the pandemic.*

**Actual and Potential Real GDP**

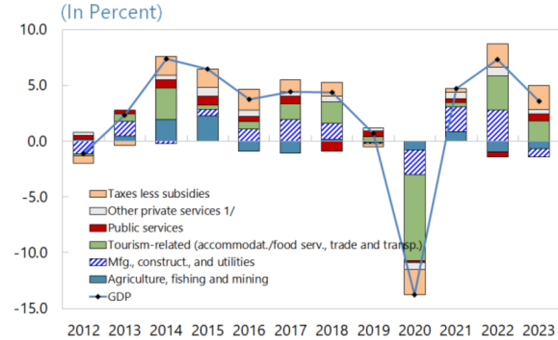
(Levels in Millions of 2006 EC$; Growth in Percent)




*Tourism remains the key engine of growth.*

**Contribution to Growth by Sector**

(In Percent)

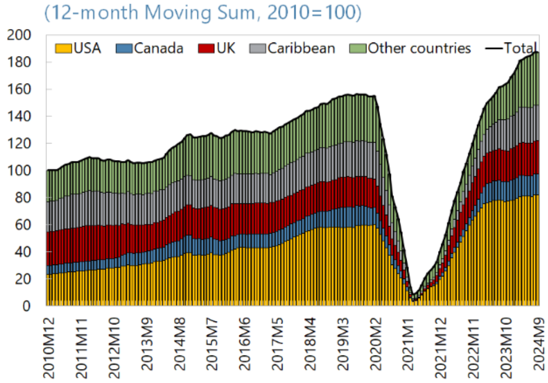



1/ Others include Information and Communication; Financial and Insurance; Real Estate; Professional, Scientific and Technical Activities; Administrative and Support Services; Private Education and Health Services; Arts, Entertainment and recreation; and Other service activities.

*The majority of tourists come from the U.S. and U.K.*

**Stay-over Arrival Index by Source Country**

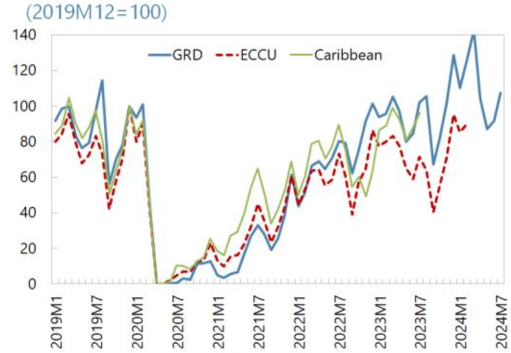
(12-month Moving Sum, 2010=100)




*Tourist arrivals are well above their pre-pandemic levels and the regional average..*

**Tourist Arrival Index**

(2019M12=100)

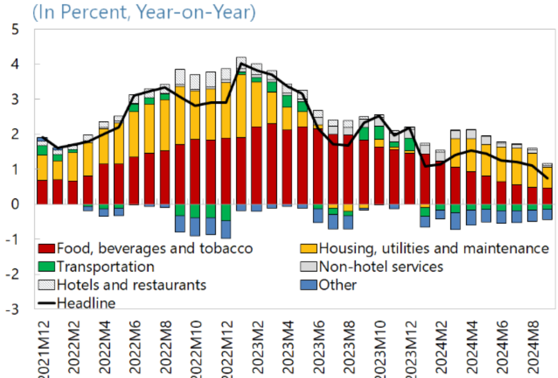



Sources: Country authorities and IMF staff calculations.

*Inflation moderated as fuel and food prices eased…*

**Contributions to Headline Inflation**

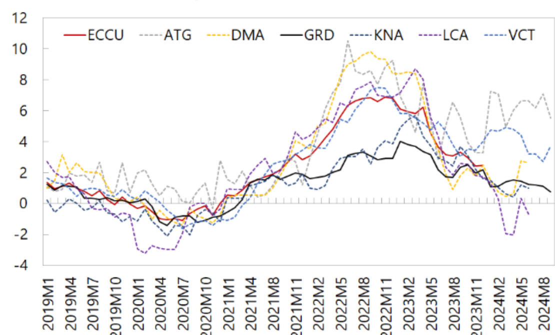
(In Percent, Year-on-Year)




*… and has been among the weakest in the ECCU.*

**ECCU Inflation**

(In Percent, Y-o-y)



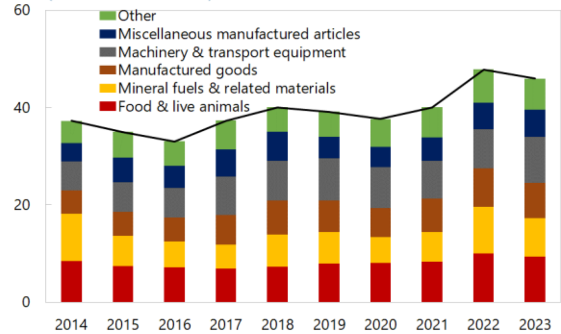

Source: ECCB.

Sources: ECCB, country authorities and IMF staff calculations.

## Figure 3. Grenada: External Sector Developments

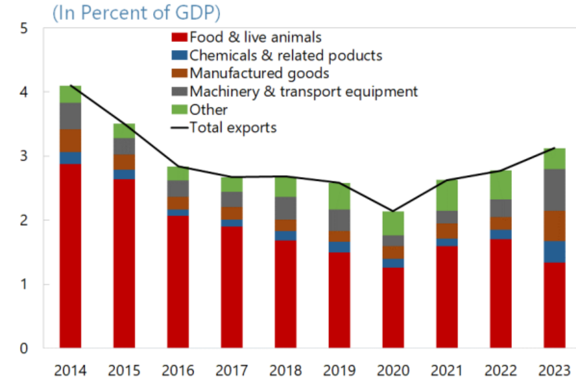
*Imports saw a modest decline, as fuel prices fell.*

**Imports by Major Components**
(In Percent of GDP)



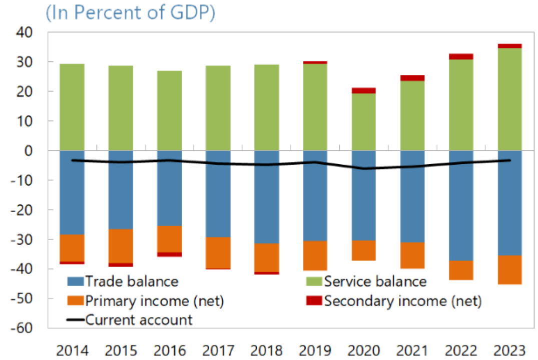

*Exports rose, driven by manufactured goods and machinery and transport equipment.*

**Exports by Major Components**
(In Percent of GDP)




*The current account deficit narrowed in 2023 as service exports rose...*

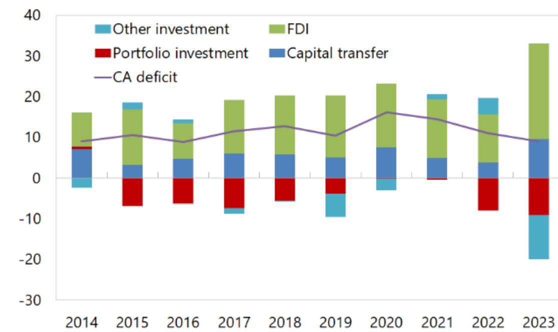
**Current Account Balance**
(In Percent of GDP)




Source: ECCB, country authorities and IMF Staff calculations.

*... financed with FDI and capital transfers which surged due to CBI inflows.*

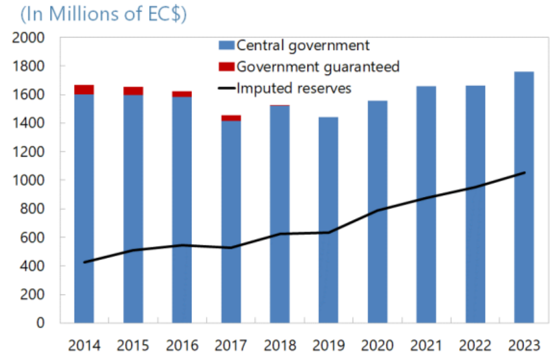
**Current Account Financing**
(In Percent of GDP)




Source: ECCB and IMF staff calculations.

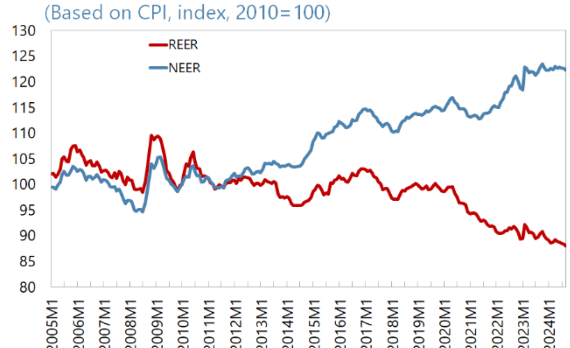
*Over-financing from external private inflows has contributed to rising reserves.*

**External Debt and Imputed Reserves**
(In Millions of EC$)




*The real effective exchange rate continued to depreciate..*

**Effective Exchange Rate**
(Based on CPI, index, 2010=100)



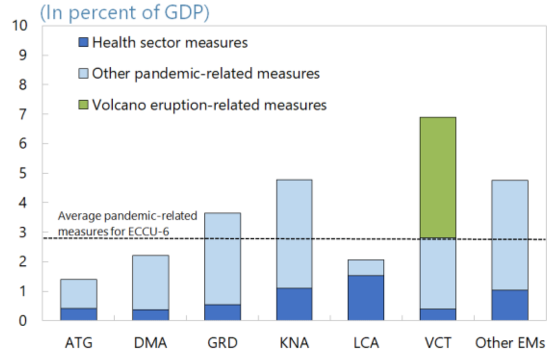

Sources: INS and IMF staff calculations.

Sources: ECCB, country authorities and IMF staff calculations.

## Figure 4. Grenada: Fiscal Sector Developments

*Decisive and bold fiscal actions were taken to address the fallout of the pandemic.*

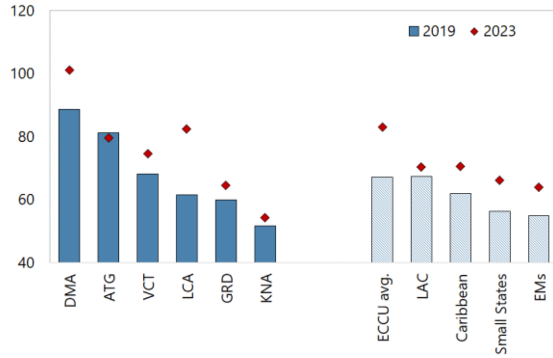
**Discretionary Fiscal Measures: 2020-2021**
(In percent of GDP)




Sources: Country authorities and IMF staff calculations.

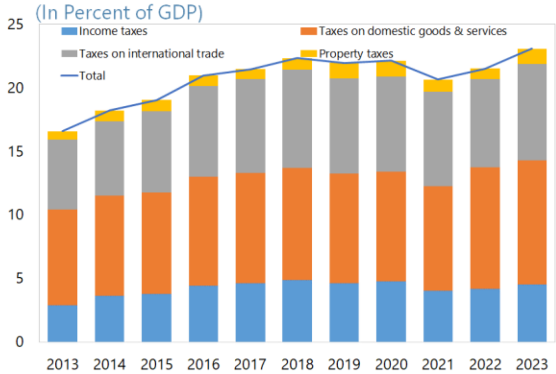
*Grenada has seen its debt returning to the pre-pandemic level, ahead of the average in the region.*

**ECCU: Public Debt**
(In Percent of GDP)



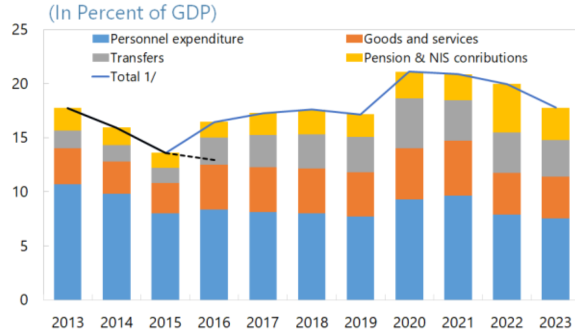

*Tax buoyancy has been positive in recent years…*

**Total Tax Revenue**
(In Percent of GDP)




*The pension payout due to the 2022 high court ruling stabilized, contributing to lower expenditures.*

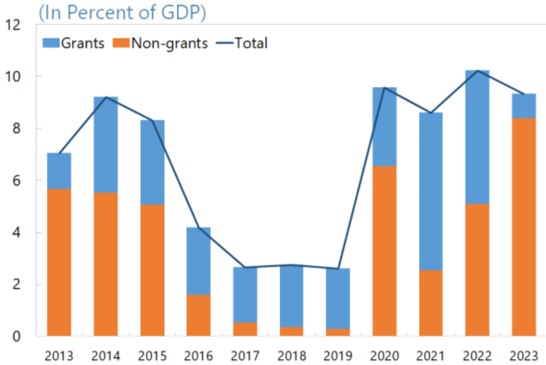
**Current Primary Expenditure**
(In Percent of GDP)




1/ In 2016 spending estimated at 3.5 percent of GDP was reclassified from capital expenditure to current expenditure in the new chart of accounts (GFSM 2014). Dotted line shows old chart of accounts classification.

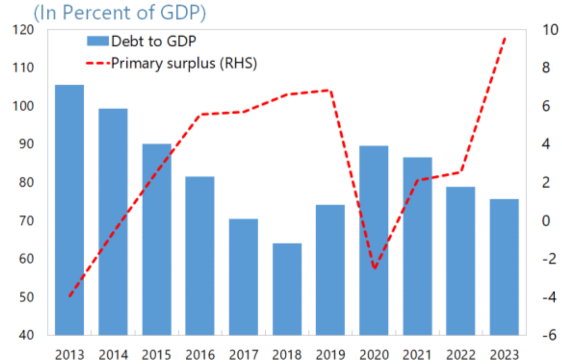
*Capital spending remained robust in 2023, on the back of the CBI revenue surge…*

**Capital Expenditure**
(In Percent of GDP)




*… which also contributed to the large fiscal balance.*

**Public Sector Debt and Fiscal Balance**
(In Percent of GDP)



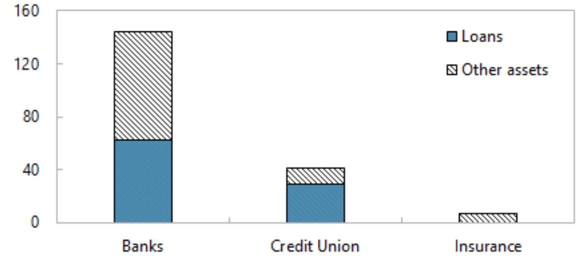

Sources: ECCB, country authorities and IMF staff calculations.

## Figure 5. Grenada: Monetary Sector Developments

*Credit unions, though smaller than banks, …*

**Financial Sector**

(In Percent of GDP, 2024Q2)

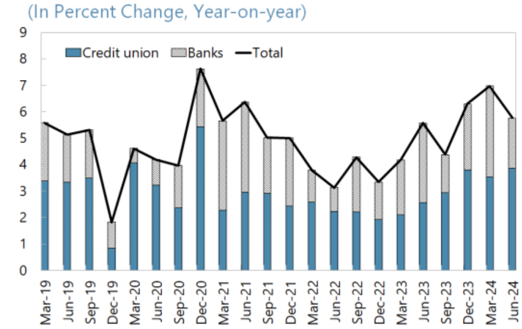



Sources: Country authorities, ECCB and IMF staff calculations.

*… significantly broadened credit for households and small businesses, while bank credit growth remained subdued.*

**Contribution to Private Sector Credit Growth**

(In Percent Change, Year-on-year)

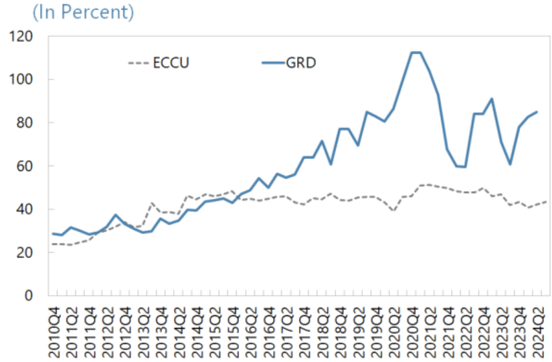



Sources: Country authorities and IMF staff calculations.

*Banks prudently kept a high level of provisioning…*

**Commerical Banks' Provisions to Nonperforming Loans**

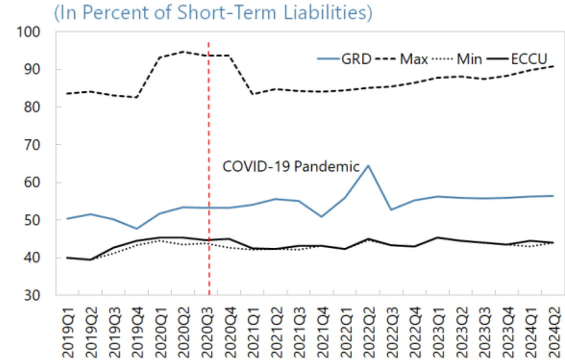
(In Percent)




*…and the financial system maintained ample liquidity.*

**Liquid Assets**

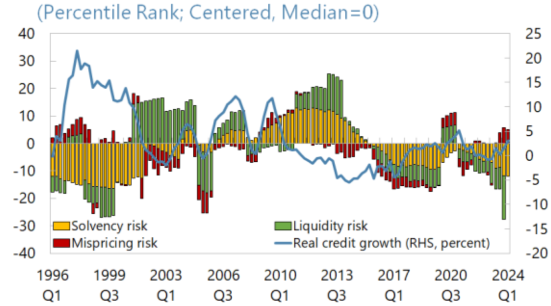
(In Percent of Short-Term Liabilities)




*Systemic risks in the banking system are limited …*

**Contributions of Underlying Risks to Average Systemic Risk Index**

(Percentile Rank; Centered, Median=0)



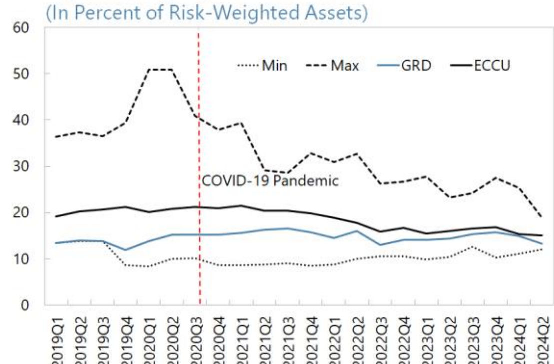

Source: IMF SPR Systemic Risk Tracker.

Note: The economy-wide indices of underlying risks are constructed as averages of their values across different sectors and markets, constructed by weighting each one of them equally.

*… and banks remain adequately capitalized broadly in line with the regional average.*

**Capital Adequacy Ratios**

(In Percent of Risk-Weighted Assets)




Sources: ECCB, country authorities and IMF staff calculations.

## Table 1. Grenada: Selected Economic and Financial Indicators, 2019–29

| | | | |
|---|---|---|---|
| Rank in UNDP Human Development Index | 73 | Infant mortality rate per '000 births (202 | 14.4 |
| out of 189 countries (2023) | | Adult illiteracy rate in percent (2014) | 1 |
| Life expectancy at birth in years (2021) | 75 | Poverty rate in percent of population (2( | 25 |
| GDP per capita in US$ (2023) | 10,449 | Unemployment rate (2023 Q4) | 11.1 |
| Population in millions (2023) | 0.13 | | |

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | | | Proj. | | | |
| | | | (Annual percentage change, unless otherwise specified) | | | | | | | | |
| **Output and prices** | | | | | | | | | | | |
| Real GDP | 0.7 | -13.8 | 4.7 | 7.3 | 4.7 | 3.6 | 3.9 | 3.3 | 2.7 | 2.7 | 2.7 |
| Nominal GDP | 4.0 | -14.0 | 7.6 | 9.7 | 7.6 | 5.0 | 5.3 | 5.4 | 4.8 | 4.8 | 4.8 |
| Consumer prices, end of period | 0.1 | -0.8 | 1.9 | 2.9 | 2.2 | 1.2 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| Consumer prices, period average | 0.6 | -0.7 | 1.2 | 2.6 | 2.7 | 1.4 | 1.4 | 2.0 | 2.0 | 2.0 | 2.0 |
| Output gap (percent of potential GDP) | 7.1 | -9.5 | -7.2 | -2.8 | -0.8 | -0.6 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |
| Real effective exchange rate | 0.9 | -1.8 | -4.7 | -2.4 | -0.5 | … | … | … | … | … | … |
| **Central government balances (accrual)** | | | | (In percent of GDP, unless otherwise specified) | | | | | | | |
| Revenue and Grants | 26.6 | 28.1 | 31.5 | 32.7 | 36.9 | 44.1 | 30.5 | 29.3 | 29.2 | 28.9 | 28.8 |
| Taxes | 21.9 | 22.1 | 20.6 | 21.5 | 23.7 | 23.1 | 22.7 | 22.7 | 22.7 | 22.6 | 22.6 |
| Non-tax revenue 1/ | 1.8 | 2.4 | 3.3 | 4.5 | 12.7 | 19.8 | 6.6 | 5.5 | 5.3 | 5.1 | 5.0 |
| Grants 1/ | 2.9 | 3.7 | 7.6 | 6.8 | 0.5 | 1.2 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Expenditure | 21.6 | 32.7 | 31.2 | 31.8 | 28.9 | 39.5 | 39.4 | 33.1 | 29.6 | 29.2 | 28.9 |
| Current primary expenditure | 17.2 | 21.1 | 20.9 | 20.0 | 18.1 | 24.4 | 23.4 | 21.8 | 21.5 | 21.6 | 21.7 |
| Interest payments | 1.9 | 2.0 | 1.8 | 1.6 | 1.5 | 3.4 | 3.8 | 2.6 | 1.9 | 1.8 | 1.6 |
| Capital expenditure | 2.6 | 9.6 | 8.6 | 10.2 | 9.3 | 11.7 | 12.2 | 8.7 | 6.2 | 5.8 | 5.6 |
| Primary balance | 6.8 | -2.6 | 2.1 | 2.6 | 9.5 | 8.0 | -5.1 | -1.2 | 1.5 | 1.5 | 1.5 |
| Overall balance | 5.0 | -4.5 | 0.3 | 1.0 | 8.0 | 4.7 | -8.9 | -3.8 | -0.4 | -0.3 | -0.1 |
| Central government debt (incl. guaranteed) | 58.5 | 71.4 | 70.0 | 62.8 | 60.5 | 59.3 | 58.1 | 53.9 | 53.2 | 51.4 | 49.6 |
| Domestic | 14.6 | 16.2 | 15.3 | 12.8 | 11.3 | 11.1 | 9.7 | 7.8 | 7.1 | 6.9 | 7.0 |
| External | 44.0 | 55.2 | 54.7 | 50.0 | 49.2 | 48.2 | 48.5 | 46.1 | 46.0 | 44.5 | 42.6 |
| Public debt (incl. debt of SOEs and SBs) | 62.7 | 89.5 | 86.6 | 78.8 | 75.2 | 73.3 | 71.4 | 66.5 | 65.2 | 62.9 | 60.6 |
| **Money and credit, end of period** (annual percent change) | | | | | | | | | | | |
| Broad money (M2) | 2.9 | 9.1 | 8.5 | 9.9 | 1.4 | 3.7 | 5.2 | 5.4 | 4.8 | 4.8 | 4.8 |
| Credit to private sector | 1.4 | 3.1 | 3.8 | 2.1 | 3.8 | 3.8 | 4.2 | 4.4 | 4.6 | 4.5 | 4.5 |
| **Balance of payments** | | | | | | | | | | | |
| Current account balance, o/w: | -10.4 | -16.1 | -14.5 | -11.0 | -9.1 | -13.1 | -13.8 | -10.6 | -9.9 | -9.1 | -9.1 |
| Exports of goods and services | 54.6 | 41.1 | 47.9 | 57.8 | 62.8 | 63.8 | 62.5 | 62.8 | 63.0 | 62.6 | 62.3 |
| Imports of goods and services | 55.8 | 52.2 | 55.4 | 64.3 | 63.7 | 69.9 | 68.5 | 65.6 | 65.0 | 63.8 | 63.4 |
| Capital account balance | 5.1 | 7.5 | 5.0 | 3.9 | 9.5 | 15.1 | 3.6 | 2.8 | 2.7 | 2.6 | 2.8 |
| Financial account balance | -5.4 | -7.2 | -10.4 | -5.7 | -1.0 | 2.0 | -10.2 | -7.9 | -7.2 | -6.5 | -7.8 |
| Errors and omissions | -0.1 | 1.4 | -0.9 | 1.5 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External debt (gross) | 64.7 | 92.5 | 94.8 | 90.0 | 86.9 | 85.4 | 85.4 | 82.6 | 82.3 | 80.5 | 78.4 |
| **Savings-Investment balance** | -10.4 | -16.1 | -14.5 | -11.0 | -9.1 | -13.1 | -13.8 | -10.6 | -9.9 | -9.1 | -9.1 |
| Savings | 14.6 | 16.3 | 15.6 | 18.0 | 30.8 | 28.3 | 18.1 | 17.8 | 15.8 | 15.3 | 14.9 |
| Investment | 24.9 | 32.4 | 30.1 | 29.1 | 39.9 | 41.5 | 31.9 | 28.4 | 25.7 | 24.5 | 24.0 |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (millions of EC$) | 3,276 | 2,817 | 3,032 | 3,325 | 3,576 | 3,756 | 3,957 | 4,171 | 4,372 | 4,581 | 4,803 |
| Citizenship-by-Investment (CBI) inflows (percent of GDP) | 5.2 | 9.0 | 9.3 | 10.8 | 31.6 | 31.2 | 11.1 | 8.7 | 8.3 | 7.9 | 7.5 |
| Government CBI revenue (Percent of GDP) | 0.2 | 0.6 | 1.1 | 2.2 | 10.7 | 12.0 | 5.8 | 3.1 | 3.1 | 2.9 | 2.8 |
| Government deposits (Percent of GDP) | … | 9.8 | 12.7 | 9.3 | 17.2 | 22.8 | 14.5 | 8.8 | 9.7 | 9.7 | 9.7 |
| Net imputed international reserves | | | | | | | | | | | |
| Months of imports of goods and services | 5.2 | 5.6 | 4.9 | 5.0 | 4.8 | 5.2 | 4.3 | 4.2 | 4.3 | 4.3 | 4.3 |

Sources: Country authorities; ECCB; United Nations, Human Development Report; World Bank WDI; and IMF staff estimates and projections.

1/ Investor donations to the National Transformation Fund (NTF) under the Citizenship-by-Investment (CBI) program that were used to finance public investment projects are recorded under grants until 2022 and subsequently under non-tax revenue starting from 2023.

## Table 2. Grenada: Balance of Payments Summary, 2019-29

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | | | Proj. | | | |
| | | | | | *(In millions of US dollars)* | | | | | | |
| **Current account** | **-125.7** | **-168.3** | **-162.3** | **-135.7** | **-120.2** | **-182.7** | **-202.4** | **-164.5** | **-160.3** | **-155.2** | **-161.6** |
| Trade balance for goods and services | -15.1 | -116.1 | -84.0 | -79.0 | -11.6 | -85.6 | -88.4 | -43.0 | -32.2 | -20.2 | -19.3 |
| Exports of goods and services | 662.0 | 428.6 | 537.9 | 712.3 | 832.4 | 887.0 | 915.3 | 969.9 | 1019.8 | 1062.7 | 1108.0 |
| o/w Tourism | 560.3 | 185.5 | 232.4 | 455.8 | 692.1 | 752.3 | 778.1 | 820.0 | 864.6 | 902.0 | 941.5 |
| Imports of goods and services | 677.1 | 544.7 | 621.9 | 791.2 | 844.1 | 972.6 | 1003.6 | 1012.9 | 1052.0 | 1082.9 | 1127.3 |
| (percentage change) | 4.7 | -19.5 | 14.2 | 27.2 | 6.7 | 15.2 | 3.2 | 0.9 | 3.9 | 2.9 | 4.1 |
| o/w Mineral fuels | 68.7 | 49.3 | 59.6 | 104.6 | 91.8 | 96.6 | 92.5 | 94.1 | 96.3 | 99.2 | 102.5 |
| Foodstuffs | 98.0 | 85.2 | 93.5 | 126.1 | 125.7 | 148.9 | 156.8 | 146.8 | 153.8 | 161.2 | 169.0 |
| Other goods | 251.0 | 211.3 | 239.7 | 287.5 | 313.0 | 392.3 | 395.7 | 404.0 | 420.0 | 422.4 | 436.3 |
| Services | 259.4 | 198.9 | 229.1 | 273.1 | 313.5 | 334.7 | 358.6 | 368.1 | 381.9 | 400.2 | 419.5 |
| Net Income | -121.4 | -71.5 | -98.7 | -81.0 | -128.7 | -135.2 | -142.4 | -150.1 | -157.3 | -164.8 | -172.8 |
| Current transfers | 10.7 | 19.3 | 20.4 | 24.2 | 20.1 | 38.1 | 28.3 | 28.6 | 29.2 | 29.9 | 30.5 |
| **Capital account** | **62.0** | **78.7** | **55.7** | **47.6** | **126.4** | **210.7** | **53.4** | **42.8** | **43.5** | **44.1** | **44.8** |
| **Financial account** | **-65.0** | **-74.8** | **-116.8** | **-69.9** | **-12.7** | **28.0** | **-149.0** | **-121.7** | **-116.8** | **-111.0** | **-116.8** |
| Foreign direct investment | -184.2 | -163.9 | -161.6 | -144.4 | -310.6 | -315.1 | -184.9 | -194.7 | -200.3 | -195.3 | -200.9 |
| Portfolio investment (net) | 46.6 | 1.9 | 3.7 | 98.0 | 120.6 | 126.8 | 114.1 | 101.0 | 86.9 | 72.3 | 57.0 |
| Other investment (net) | 70.1 | 30.4 | -14.3 | -50.0 | 143.4 | 170.4 | -7.7 | -28.4 | -28.9 | -3.2 | 8.2 |
| Change in imputed reserves | 2.5 | 56.9 | 55.3 | 26.5 | 33.9 | 46.0 | -70.6 | 0.3 | 25.5 | 15.2 | 19.0 |
| **Errors and omissions** | **-1.3** | **14.8** | **-10.2** | **18.3** | **-19.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Overall balance** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| | | | | | *(In percent of GDP, unless otherwise specified)* | | | | | | |
| **Current account** | **-10.4** | **-16.1** | **-14.5** | **-11.0** | **-9.1** | **-13.1** | **-13.8** | **-10.6** | **-9.9** | **-9.1** | **-9.1** |
| Trade balance for goods and services | -1.2 | -11.1 | -7.5 | -6.4 | -0.9 | -6.2 | -6.0 | -2.8 | -2.0 | -1.2 | -1.1 |
| Exports of goods and services | 54.6 | 41.1 | 47.9 | 57.8 | 62.8 | 63.8 | 62.5 | 62.8 | 63.0 | 62.6 | 62.3 |
| Tourism | 46.2 | 17.8 | 20.7 | 37.0 | 52.3 | 54.1 | 53.1 | 53.1 | 53.4 | 53.2 | 52.9 |
| Imports of goods and services | 55.8 | 52.2 | 55.4 | 64.3 | 63.7 | 69.9 | 68.5 | 65.6 | 65.0 | 63.8 | 63.4 |
| o/w Mineral fuels | 5.7 | 4.7 | 5.3 | 8.5 | 6.9 | 6.9 | 6.3 | 6.1 | 5.9 | 5.8 | 5.8 |
| Food | 8.1 | 8.2 | 8.3 | 10.2 | 9.5 | 10.7 | 10.7 | 9.5 | 9.5 | 9.5 | 9.5 |
| Other goods | 20.7 | 20.3 | 21.3 | 23.3 | 23.6 | 28.2 | 27.0 | 26.1 | 25.9 | 24.9 | 24.5 |
| Services | 21.4 | 19.1 | 20.4 | 22.2 | 23.7 | 24.1 | 24.5 | 23.8 | 23.6 | 23.6 | 23.6 |
| Net income | -10.0 | -6.8 | -8.8 | -6.6 | -9.7 | -9.7 | -9.7 | -9.7 | -9.7 | -9.7 | -9.7 |
| Net current transfers | 0.9 | 1.8 | 1.8 | 2.0 | 1.5 | 2.7 | 1.9 | 1.8 | 1.8 | 1.8 | 1.7 |
| **Capital account** | **5.1** | **7.5** | **5.0** | **3.9** | **9.5** | **15.1** | **3.6** | **2.8** | **2.7** | **2.6** | **2.5** |
| **Financial account** | **-5.4** | **-7.2** | **-10.4** | **-5.7** | **-1.0** | **2.0** | **-10.2** | **-7.9** | **-7.2** | **-6.5** | **-6.6** |
| Foreign direct investment | -15.2 | -15.7 | -14.4 | -11.7 | -23.4 | -22.7 | -12.6 | -12.6 | -12.4 | -11.5 | -11.3 |
| Portfolio investment (net) | 3.8 | 0.2 | 0.3 | 8.0 | 9.1 | 9.1 | 7.8 | 6.5 | 5.4 | 4.3 | 3.2 |
| Other investment (net) | 5.8 | 2.9 | -1.3 | -4.1 | 10.8 | 12.2 | -0.5 | -1.8 | -1.8 | -0.2 | 0.5 |
| Change in imputed reseves | 0.2 | 5.5 | 4.9 | 2.2 | 2.6 | 3.3 | -4.8 | 0.0 | 1.6 | 0.9 | 1.1 |
| **Errors and omissions** | **-0.1** | **1.4** | **-0.9** | **1.5** | **-1.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Overall balance** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| *Memorandum Items:* | | | | | | | | | | | |
| Government CBI revenue (percent of GDP) | 0.2 | 0.6 | 1.1 | 2.2 | 10.7 | 12.0 | 5.8 | 3.1 | 3.1 | 2.9 | 2.8 |
| CBI inflows (percent of GDP) | 5.2 | 9.0 | 9.3 | 10.8 | 31.6 | 31.2 | 11.1 | 8.7 | 8.3 | 7.9 | 7.5 |
| Gross external debt | 64.7 | 92.5 | 94.8 | 90.0 | 86.9 | 85.4 | 85.4 | 82.6 | 82.3 | 80.5 | 78.4 |
| External public and publicly guaranteed debt | 45.1 | 69.7 | 67.5 | 62.4 | 60.6 | 59.1 | 58.8 | 55.9 | 55.4 | 53.4 | 51.1 |
| Foreign liabilities of private sector 1/ | 19.6 | 22.8 | 27.3 | 27.6 | 26.3 | 26.4 | 26.6 | 26.8 | 27.0 | 27.1 | 27.2 |
| ECCB imputed reserves (millions of USD) | 234.1 | 290.9 | 324.2 | 352.6 | 389.1 | 435.1 | 364.5 | 364.8 | 390.3 | 405.6 | 424.6 |
| ECCB imputed reserves (in months of imports of goods and services) | 5.2 | 5.6 | 4.9 | 5.0 | 4.8 | 5.2 | 4.3 | 4.2 | 4.3 | 4.3 | 4.3 |
| Nominal GDP (millions of USD) | 1213.5 | 1043.4 | 1122.8 | 1231.5 | 1324.5 | 1391.3 | 1465.4 | 1545.0 | 1619.2 | 1696.8 | 1778.7 |

Sources: Ministry of Finance; ECCB; and IMF staff estimates and projections.

1/ Comprises foreign liabilities of commercial banks and other liabilities under the "Other investment" item of financial account.

## Table 3a. Grenada: Operations of the Central Government, 2019-29
(In millions of EC dollars)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Proj. | | | |
| **Total revenue and grants** | **871.9** | **792.7** | **956.2** | **1,088.3** | **1,320.9** | **1,658.1** | **1,207.7** | **1,222.7** | **1,276.5** | **1,325.1** | **1,381.9** |
| Revenue | 778.4 | 689.6 | 726.2 | 863.9 | 1,302.7 | 1,612.8 | 1,157.2 | 1,173.7 | 1,225.2 | 1,271.3 | 1,325.5 |
| Tax revenue | 718.7 | 622.8 | 625.4 | 714.9 | 848.0 | 867.6 | 896.8 | 945.9 | 993.7 | 1,035.9 | 1,085.9 |
| Taxes on income and profits | 151.4 | 135.0 | 121.5 | 138.0 | 165.1 | 166.6 | 176.4 | 188.0 | 197.2 | 206.6 | 216.6 |
| Taxes on property | 39.7 | 34.8 | 29.1 | 27.2 | 41.5 | 45.0 | 39.8 | 44.1 | 46.2 | 48.4 | 50.7 |
| Taxes on goods and services | 282.2 | 241.5 | 250.3 | 318.8 | 358.8 | 369.5 | 381.5 | 395.6 | 417.1 | 431.6 | 452.4 |
| Taxes on international trade | 245.4 | 211.5 | 224.6 | 231.0 | 282.6 | 286.5 | 299.0 | 318.2 | 333.3 | 349.3 | 366.1 |
| Nontax revenue 1/ | 59.7 | 66.8 | 100.8 | 149.0 | 454.7 | 745.2 | 260.4 | 227.8 | 231.4 | 235.4 | 239.6 |
| Citizenship by Investment Program | 96.1 | 101.5 | 120.3 | 135.4 | 457.3 | 555.8 | 185.5 | 147.9 | 148.1 | 148.1 | 148.1 |
| CRIF payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 118.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital revenue (land sales etc) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Grants 1/ | 93.5 | 103.1 | 230.0 | 224.4 | 18.2 | 45.3 | 50.5 | 49.0 | 51.4 | 53.8 | 56.4 |
| **Total expenditure and net lending** | **709.1** | **920.7** | **946.7** | **1,056.7** | **1,034.4** | **1,482.5** | **1,559.9** | **1,380.4** | **1,292.0** | **1,337.5** | **1,388.6** |
| Current expenditure | 623.4 | 650.8 | 686.8 | 717.4 | 702.2 | 1,043.4 | 1,077.0 | 1,017.8 | 1,022.0 | 1,071.0 | 1,120.6 |
| Wages and salaries | 253.3 | 261.6 | 291.7 | 263.5 | 274.8 | 308.6 | 381.8 | 444.2 | 465.6 | 487.9 | 511.4 |
| NIS contributions | 13.4 | 14.8 | 16.0 | 16.2 | 16.8 | 17.2 | 18.1 | 19.1 | 20.0 | 21.0 | 22.0 |
| Goods and services | 132.8 | 132.9 | 154.0 | 128.0 | 141.7 | 271.0 | 231.0 | 166.8 | 163.5 | 170.6 | 178.0 |
| Transfers | 163.3 | 185.6 | 171.0 | 256.1 | 215.6 | 320.7 | 293.9 | 278.5 | 291.9 | 310.5 | 330.3 |
| Interest payments | 60.6 | 55.9 | 54.2 | 53.7 | 53.3 | 126.0 | 152.2 | 109.1 | 81.0 | 81.1 | 78.9 |
| Bondholder CBI-related payments | 14.5 | 13.2 | 12.2 | 13.2 | 7.2 | 78.1 | 117.8 | 17.2 | 9.2 | 9.2 | 9.2 |
| Capital expenditure and net lending | 85.7 | 269.9 | 259.9 | 339.3 | 332.2 | 439.0 | 482.9 | 362.6 | 270.0 | 266.5 | 268.0 |
| **Primary balance** | **223.5** | **-72.1** | **63.6** | **85.3** | **339.9** | **301.5** | **-199.9** | **-48.6** | **65.5** | **68.7** | **72.3** |
| **Overall balance** | **162.8** | **-128.0** | **9.5** | **31.6** | **286.5** | **175.6** | **-352.2** | **-157.7** | **-15.5** | **-12.4** | **-6.7** |
| **Public Debt 2/** | **2,054** | **2,521** | **2,625** | **2,621** | **2,690** | **2,754** | **2,826** | **2,775** | **2,850** | **2,880** | **2,910** |
| *Memorandum items:* | | | | | | | | | | | |
| Government CBI revenue (millions of EC$) | 8.0 | 17.3 | 32.3 | 73.1 | 381.6 | 451.3 | 231.3 | 131.1 | 133.6 | 133.6 | 133.6 |
| Nominal GDP (millions of EC$) | 3,276 | 2,817 | 3,032 | 3,325 | 3,576 | 3,756 | 3,957 | 4,171 | 4,372 | 4,581 | 4,803 |

Sources: Ministry of Finance and IMF staff estimates.

1/ Nonrefundable contributions under the Citizenship-by-Investment (CBI) program that were used to finance investment projects are recorded under grants before but recorded under non-tax revenue starting 2023.

2/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

## Table 3b. Grenada: Operations of the Central Government, 2019-29

(In percent of GDP)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | | | Proj. | | | |
| **Total revenue and grants** | **26.6** | **28.1** | **31.5** | **32.7** | **36.9** | **44.1** | **30.5** | **29.3** | **29.2** | **28.9** | **28.8** |
| Revenue | 23.8 | 24.5 | 24.0 | 26.0 | 36.4 | 42.9 | 29.2 | 28.1 | 28.0 | 27.7 | 27.6 |
| Tax revenue | 21.9 | 22.1 | 20.6 | 21.5 | 23.7 | 23.1 | 22.7 | 22.7 | 22.7 | 22.6 | 22.6 |
| Taxes on income and profits | 4.6 | 4.8 | 4.0 | 4.2 | 4.6 | 4.4 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |
| Taxes on property | 1.2 | 1.2 | 1.0 | 0.8 | 1.2 | 1.2 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 |
| Taxes on goods and services | 8.6 | 8.6 | 8.3 | 9.6 | 10.0 | 9.8 | 9.6 | 9.5 | 9.5 | 9.4 | 9.4 |
| Taxes on international trade | 7.5 | 7.5 | 7.4 | 6.9 | 7.9 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| Nontax revenue 1/ | 1.8 | 2.4 | 3.3 | 4.5 | 12.7 | 19.8 | 6.6 | 5.5 | 5.3 | 5.1 | 5.0 |
| Citizenship by Investment Program | 2.9 | 3.6 | 4.0 | 4.1 | 12.8 | 14.8 | 4.7 | 3.5 | 3.4 | 3.2 | 3.1 |
| CRIF payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants 1/ | 2.9 | 3.7 | 7.6 | 6.8 | 0.5 | 1.2 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| **Total expenditure and net lending** | **21.6** | **32.7** | **31.2** | **31.8** | **28.9** | **39.5** | **39.4** | **33.1** | **29.6** | **29.2** | **28.9** |
| Current expenditure | 19.0 | 23.1 | 22.7 | 21.6 | 19.6 | 27.8 | 27.2 | 24.4 | 23.4 | 23.4 | 23.3 |
| Wages and salaries | 7.7 | 9.3 | 9.6 | 7.9 | 7.7 | 8.2 | 9.6 | 10.6 | 10.6 | 10.6 | 10.6 |
| NIS contributions | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Goods and services | 4.1 | 4.7 | 5.1 | 3.8 | 4.0 | 7.2 | 5.8 | 4.0 | 3.7 | 3.7 | 3.7 |
| Transfers | 5.0 | 6.6 | 5.6 | 7.7 | 6.0 | 8.5 | 7.4 | 6.7 | 6.7 | 6.8 | 6.9 |
| Interest payments | 1.9 | 2.0 | 1.8 | 1.6 | 1.5 | 3.4 | 3.8 | 2.6 | 1.9 | 1.8 | 1.6 |
| Bondholder CBI-related payments | 0.4 | 0.5 | 0.4 | 0.4 | 0.2 | 2.1 | 3.0 | 0.4 | 0.2 | 0.2 | 0.2 |
| Capital expenditure and net lending | 2.6 | 9.6 | 8.6 | 10.2 | 9.3 | 11.7 | 12.2 | 8.7 | 6.2 | 5.8 | 5.6 |
| **Primary balance** | **6.8** | **-2.6** | **2.1** | **2.6** | **9.5** | **8.0** | **-5.1** | **-1.2** | **1.5** | **1.5** | **1.5** |
| **Overall balance** | **5.0** | **-4.5** | **0.3** | **1.0** | **8.0** | **4.7** | **-8.9** | **-3.8** | **-0.4** | **-0.3** | **-0.1** |
| **Public Debt 2/** | **62.7** | **89.5** | **86.6** | **78.8** | **75.2** | **73.3** | **71.4** | **66.5** | **65.2** | **62.9** | **60.6** |
| *Memorandum items:* | | | | | | | | | | | |
| Government CBI revenue (Percent of GDP) | 0.2 | 0.6 | 1.1 | 2.2 | 10.7 | 12.0 | 5.8 | 3.1 | 3.1 | 2.9 | 2.8 |
| Nominal GDP (millions of EC$) | 3,276 | 2,817 | 3,032 | 3,325 | 3,576 | 3,756 | 3,957 | 4,171 | 4,372 | 4,581 | 4,803 |

Sources: Ministry of Finance and IMF staff estimates.

1/ Nonrefundable contributions under the Citizenship-by-Investment (CBI) program that were used to finance investment projects are recorded under grants before 2023 but recorded under non-tax revenue starting 2023.

2/ Includes the impact of the debt restructuring agreement for the 2025 bonds.

## Table 4. Grenada: Summary Accounts of the Monetary Sector, 2019-29

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | Proj. | | | | | |
| | (In millions of EC dollars; end of period) | | | | | | | | | | |
| **Net foreign assets** | 1,400.2 | 1,720.7 | 1,919.1 | 2,212.0 | 2,405.0 | 2,874.1 | 2,846.3 | 2,941.2 | 3,087.2 | 3,219.1 | 3,354.9 |
| ECCB | 632.1 | 785.5 | 875.3 | 952.0 | 1,050.6 | 1,174.7 | 984.2 | 985.1 | 1,053.9 | 1,095.0 | 1,146.5 |
| Commercial banks (net) | 768.1 | 935.2 | 1,043.8 | 1,260.0 | 1,354.4 | 1,699.5 | 1,862.1 | 1,956.1 | 2,033.3 | 2,124.0 | 2,208.3 |
| Assets | 1,273.6 | 1,302.4 | 1,492.4 | 1,815.0 | 1,946.3 | 2,321.8 | 2,528.4 | 2,664.2 | 2,784.8 | 2,918.2 | 3,046.4 |
| Liabilities | 505.5 | 367.2 | 448.5 | 555.0 | 591.8 | 622.3 | 666.3 | 708.1 | 751.4 | 794.2 | 838.1 |
| **Net domestic assets** | 1,036.8 | 938.1 | 965.5 | 958.0 | 808.0 | 458.5 | 795.4 | 948.3 | 972.4 | 1,049.5 | 1,147.8 |
| Public sector credit (net) | -552.1 | -430.6 | -389.5 | -318.0 | -535.8 | -778.6 | -493.2 | -278.5 | -333.6 | -346.3 | -363.8 |
| Central government | -222.6 | -219.6 | -308.2 | -249.0 | -561.1 | -799.3 | -519.0 | -309.6 | -369.6 | -387.6 | -410.8 |
| ECCB | -110.7 | -36.7 | -93.8 | -42.0 | -68.0 | -94.0 | -63.3 | -40.4 | -46.9 | -48.9 | -51.4 |
| Commercial banks | -111.9 | -183.0 | -214.3 | -207.0 | -493.1 | -705.4 | -455.7 | -269.3 | -322.7 | -338.7 | -359.4 |
| Net credit to rest of public sector | -329.5 | -211.0 | -81.3 | -69.0 | 25.3 | 20.7 | 25.8 | 31.1 | 36.0 | 41.3 | 47.0 |
| Credit to private sector | 1,624.1 | 1,674.5 | 1,738.2 | 1,775.0 | 1,842.3 | 1,911.7 | 1,992.1 | 2,079.7 | 2,174.7 | 2,272.3 | 2,375.7 |
| Other items (net) | -35.2 | -305.9 | -383.1 | -506.0 | -498.4 | -676.5 | -841.1 | -1,048.5 | -1,057.0 | -1,088.9 | -1,115.5 |
| **Broad money** | 2,437.0 | 2,658.8 | 2,884.7 | 3,170.0 | 3,213.0 | 3,331.3 | 3,504.5 | 3,694.4 | 3,871.8 | 4,057.4 | 4,253.4 |
| Money | 762.9 | 825.3 | 1,026.0 | 1,436.0 | 1,564.5 | 1,601.8 | 1,683.9 | 1,775.2 | 1,860.4 | 1,949.6 | 2,043.8 |
| Currency in circulation | 138.6 | 160.8 | 188.1 | 207.0 | 211.6 | 213.6 | 224.5 | 236.7 | 248.0 | 259.9 | 272.5 |
| Cash in commercial banks | 624.3 | 664.5 | 837.9 | 1,230.0 | 1,352.9 | 1,388.3 | 1,459.4 | 1,538.5 | 1,612.4 | 1,689.7 | 1,771.3 |
| Quasi-money | 1,674.1 | 1,833.5 | 1,858.6 | 1,734.0 | 1,648.5 | 1,729.5 | 1,820.7 | 1,919.3 | 2,011.4 | 2,107.8 | 2,209.6 |
| Time deposits | 170.1 | 171.2 | 162.4 | 137.0 | 105.6 | 120.9 | 127.3 | 134.2 | 140.6 | 147.4 | 154.5 |
| Savings deposits | 1,297.3 | 1,371.0 | 1,378.1 | 1,169.0 | 1,223.8 | 1,280.8 | 1,348.3 | 1,421.3 | 1,489.6 | 1,561.0 | 1,636.4 |
| Foreign currency deposits | 206.8 | 291.2 | 318.1 | 428.0 | 319.1 | 327.8 | 345.0 | 363.7 | 381.2 | 399.5 | 418.7 |
| | (Annual percentage change, unless otherwise specified) | | | | | | | | | | |
| **Net foreign assets** | 6.5 | 22.9 | 11.5 | 15.3 | 8.7 | 19.5 | -1.0 | 3.3 | 5.0 | 4.3 | 4.2 |
| **Net domestic assets** | -1.6 | -9.5 | 2.9 | -0.8 | -15.7 | -43.3 | 73.5 | 19.2 | 2.5 | 7.9 | 9.4 |
| Public sector credit, net | 10.4 | -22.0 | -9.5 | -18.4 | 68.5 | 45.3 | -36.7 | -43.5 | 19.8 | 3.8 | 5.0 |
| Credit to private sector | 1.4 | 3.1 | 3.8 | 2.1 | 3.8 | 3.8 | 4.2 | 4.4 | 4.6 | 4.5 | 4.5 |
| **Broad money** | 2.9 | 9.1 | 8.5 | 9.9 | 1.4 | 3.7 | 5.2 | 5.4 | 4.8 | 4.8 | 4.8 |
| NFA contribution | 0.0 | 70.5 | 7.5 | 10.2 | 6.1 | 14.6 | -0.8 | 2.7 | 4.0 | 3.4 | 3.3 |
| NDA contribution | 0.0 | 38.4 | 1.0 | -0.3 | -4.7 | -10.9 | 10.1 | 4.4 | 0.7 | 2.0 | 2.4 |
| Money | 8.6 | 8.2 | 24.3 | 40.0 | 9.0 | 2.4 | 5.1 | 5.4 | 4.8 | 4.8 | 4.8 |
| Quasi-money | 0.5 | 9.5 | 1.4 | -6.7 | -4.9 | 4.9 | 5.3 | 5.4 | 4.8 | 4.8 | 4.8 |
| | (In percent of GDP, unless otherwise specified) | | | | | | | | | | |
| **Net foreign assets** | 42.7 | 61.1 | 63.3 | 66.5 | 67.3 | 76.5 | 71.9 | 70.5 | 70.6 | 70.3 | 69.9 |
| **Net domestic assets, o/w** | 31.6 | 33.3 | 31.8 | 28.8 | 22.6 | 12.2 | 20.1 | 22.7 | 22.2 | 22.9 | 23.9 |
| Public sector credit, net | -16.9 | -15.3 | -12.8 | -9.6 | -15.0 | -20.7 | -12.5 | -6.7 | -7.6 | -7.6 | -7.6 |
| Private sector credit | 49.6 | 59.4 | 57.3 | 53.4 | 51.5 | 50.9 | 50.3 | 49.9 | 49.7 | 49.6 | 49.5 |
| **Broad money (M2)** | 74.4 | 94.4 | 95.2 | 95.3 | 89.8 | 88.7 | 88.6 | 88.6 | 88.6 | 88.6 | 88.6 |
| Money | 23.3 | 29.3 | 33.8 | 43.2 | 43.7 | 42.6 | 42.6 | 42.6 | 42.6 | 42.6 | 42.6 |
| Quasi-money | 51.1 | 65.1 | 61.3 | 52.2 | 46.1 | 46.0 | 46.0 | 46.0 | 46.0 | 46.0 | 46.0 |

Sources: ECCB; Ministry of Finance; and IMF staff estimates.

# Annex I. Risk Assessment Matrix

| Source/Nature of Risk (Likelihood /Time Horizon) | Expected Impact and Recommended Response |
|---|---|
| **Conjunctural Risks** | |
| **Intensification of regional conflict(s).** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. (**High / ST**) | Medium. **Sticky inflation, eroding income, and dampening demand.** Markets for energy, food, tourism, and financial markets might see unexpected volatility. Provide targeted transfers to the vulnerable. Increase value-added of the tourism. Vigilantly monitor the financial sector development in coordination with ECCB. |
| **Commodity price volatility.** Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability. (**High / ST**) | Medium. **Eroding income, dampening demand, and widening fiscal and trade deficits.** Provide targeted support to the vulnerable. Accelerate shift to renewables and improve the pass-through of price signals. |
| **Global growth surprises:**<br>• **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. (**Medium** / **ST**)<br>• **Acceleration.** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions**. (Low / ST)** | Slowdown, **High. Worsening fiscal and external positions.** Accelerate structural reforms to improve competitiveness. Increase value-added of the tourism. Vigilantly monitor the financial sector development in coordination with ECCB.<br><br>**Acceleration,** Medium. Continue prudent fiscal policy backed by structural reforms to maintain fiscal sustainability, while building buffers and resilience against the risk of further natural disasters or other external shocks. |
| **Systemic financial instability.** High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. (**Medium / ST**) | Medium. **Adverse financial conditions may trigger insolvencies, causing market dislocations.** Tighten supervision efforts and continue enhancing financial system supervision in coordination with ECCB. |
| **Social discontent.** High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing. (**High / ST, MT**). | Medium. **Exacerbate imbalances, slow growth, and trigger market repricing.** Social policies need to continue supporting the most vulnerable population. |
| **Structural Risks** | |
| **Extreme climate events.** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. (**Medium / ST**) | High. **Reduce capital stock, create scarring effects, and diminish financial sector's capital base.** Continue implementing the Disaster Resilience Strategy, improve infrastructure and post-disaster response, and strengthen oversight and data collection to support assessment of systemic financial implications from the insurance sector. |
| **Deepening geoeconomic fragmentation**. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising | High. **Higher inflation, lower FDI, more volatile CBI revenues and reduced availability of imports**. Accelerate structural reforms to improve competitiveness. Gradually reduce reliance on CBI for capital expenditures. Enhance international and regional cooperation to support growth and cross-border collaboration. |

| Source/Nature of Risk (Likelihood /Time Horizon) | Expected Impact and Recommended Response |
|---|---|
| shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. (**High**/**ST**) | |
| **Cyberthreats.** Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability. (**Medium / ST, MT**). | **Low**. **Payment and financial system may be disrupted**. Enhance digital security in public and private platforms, raise the public awareness, and prepare a contingency plan. |
| **Domestic Risks** | |
| **Fiscal underperformance, reduced/mismanaged CBI revenues, and reputational risks** could threaten the completion of transformational capital projects, compromise the realization of economic benefits, and entail protective steps from concerned jurisdictions that compromise growth prospects and, in turn, exacerbate debt vulnerabilities. | **High**. **Lower investor confidence and growth performance and raised financing costs.** Improve the CBI management framework to minimize the impact of CBI flow uncertainty on budget planning. Rationalize spending and broaden the revenue base from non-CBI sources. Strengthen governance frameworks to enhance the transparency and integrity of the CBI program, including via the management of resources. |
| **A deterioration in CU asset quality, rising costs of property insurance and/or disruption of correspondent bank relationships** could reduce growth. | **Medium**. **Weaker growth and lower financial inclusiveness.** Enhance CU balance sheets by accelerate reforms to resolve NPLs and improve credit access of households and firms. Monitor asset quality and ensure adequate loan loss provisioning. Strengthen supervisory data collection, analysis, and regional cooperation to facilitate the assessment of insurance sector risks and the potential contingent fiscal obligations. |

# Annex II. External Sector Assessment

***Overall Assessment:*** *Grenada's projected external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The current account deficit is projected to have widened primarily due to the temporary impact of Hurricane Beryl. The results are subject, however, to uncertainties and data revisions.*

***Potential Policy Responses:*** *In the near term, it is important to carefully manage the public resource windfall arising from CBI inflows to create buffers against uncertain events. This includes fiscal prudence and containing growth in current spending. Structural reforms to unleash growth potential and create job opportunities (such as accelerating renewable energy generation, addressing labor market rigidities, increasing value added of the tourism sector and building resilience to natural disasters) can support external rebalancing.*

**Foreign Assets and Liabilities: Position and Trajectory**

**Background.** The net international investment position (IIP) is estimated to have increased from -139.3 percent of GDP in 2022 to -129.3 percent of GDP in 2023.[1] Gross assets decreased by 5.2 percent, while gross liabilities saw a larger decline of 15.2 percent. In 2023, most assets were held in the form of portfolio investment (38 percent of total assets), or currency and deposits (17 percent of total assets). Reserve assets constitute 26 percent of total assets. On the liability side, liabilities were chiefly accounted for by FDI (64 percent of liabilities) and other investment (33 percent of liabilities, mostly loans). Long-term general government loans constitute nearly half of other investment.

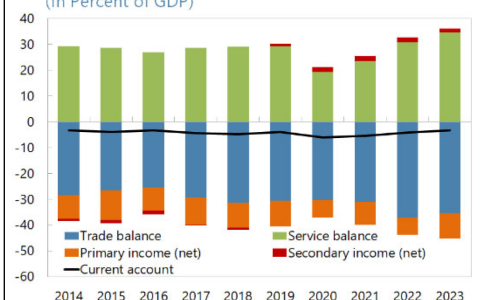
**Assessment.** The level of the NIIP in 2023 does not constitute a significant concern for external debt sustainability. The projected narrowing of the current account deficit in the medium term will help improve the NIIP over time. The large share of FDI and general government loans in total liabilities mitigates potential risks and is expected to persist.

| | | | | | |
|---|---|---|---|---|---|
| 2023 (% GDP) | NIIP: -129.3 | Gross Assets: 112.3 | Debt Assets: 68.5 | Gross Liabilities 241.7 | Debt Liabilities: 94.1 |

**Current Account**

**Background.** The current account deficit is projected to have widened to 13.1 percent of GDP in 2024 from 9.1 percent of GDP in 2023 after narrowing by 2 percent of GDP in 2023 from the previous year. The deterioration is largely due to the temporary impact of Hurricane Beryl, including higher import needs for food, relief supplies and construction materials, lower agricultural exports, and slightly weaker tourism exports. Secondary income flows are estimated to have improved, as foreign aid transfers in kind following Hurricane Beryl.

Current Account Balance
(In Percent of GDP)




Source: ECCB, country authorities and IMF Staff calculations.

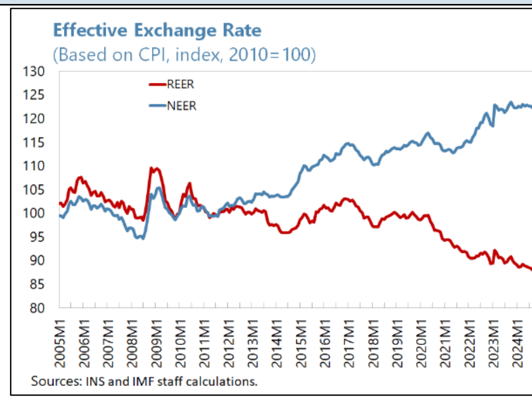
**Assessment.** Grenada's cyclically adjusted CA is estimated at -10.6 percent of GDP after accounting for cyclical contributions as well as the temporary impact of Hurricane Beryl. The 2024 EBA-lite estimates a CA norm of -10.4 percent of GDP, which, when compared to the cyclically adjusted CA, results in an estimated CA gap of -0.2 percent of GDP. Thus, staff concludes that Grenada's external position is broadly in line with the level implied by medium-term fundamentals and desirable policies. The large negative current account norm chiefly reflects Grenada's ratio of the stock of outward migrants relative to the domestic population, as well as its level of GDP per capita relative to the world average. The sizeable relative policy gap in the EBA-lite model is largely due to Grenada's significant primary fiscal surplus in 2023, particularly in comparison with the rest of the world. There were no exchange rate movements or significant changes in the structural fundamentals. The external position is expected to remain broadly in line with fundamentals as CBI revenues normalize, supported by the robust tourism sector, and, in the medium term, increased competitiveness arising from structural reforms.

**Grenada: EBA-lite Model Results, 2024 (in percent of GDP)**

| | CA model 1/ | REER model 1/ |
|---|---|---|
| | (in percent of GDP) | |
| **CA-Actual (proj.)** | **-13.1** | |
| Cyclical contributions (from model) (-) | 0.0 | |
| Additional temporary/statistical factors (-) 2/ | -3.7 | |
| Natural disasters and conflicts (-) | 1.3 | |
| **Adjusted CA** | **-10.6** | |
| | | |
| **CA Norm** (from model) 3/ | **-10.4** | |
| **Adjusted CA Norm** | **-10.4** | |
| | | |
| **CA Gap** | **-0.2** | **5.3** |
| o/w Relative policy gap | 3.7 | |
| | | |
| Elasticity | -0.38 | |
| | | |
| **REER Gap** (in percent) | **0.6** | **-13.6** |

Source: IMF Staff calculations
1/ Based on the EBA-lite 3.0 methodology.
2/ Additional adjustment to account for the temporary impact of Hurricane on tourism, agricultural exports, and imports of construction materials.
3/ Cyclically adjusted, including multilateral consistency adjustments.

**Real Exchange Rate**

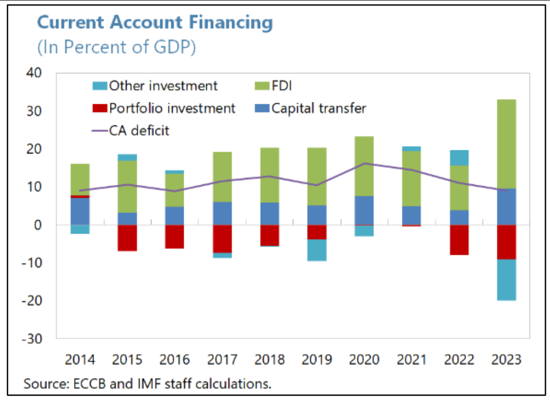



**Background.** In 2024, the real effective exchange rate (REER) is projected to have depreciated by 1.4 percent, continuing the trend since 2019; in contrast, the nominal effective exchange rate (NEER) is projected to have appreciated by 0.5 percent over the same period.[2] This divergence largely reflects the continued lower level of inflation in Grenada compared to its main trading partners.

**Assessment.** The REER gap was 0.3 percent, derived from the EBA-Lite CA model with an elasticity of -0.38. This points to a modest overvaluation of the EC$ for Grenada, broadly consistent with the assessment on the external position. The results of EBA-Lite REER model point to a larger gap of -13.6 percent.

**Capital and Financial Accounts: Flows and Policy Measures**

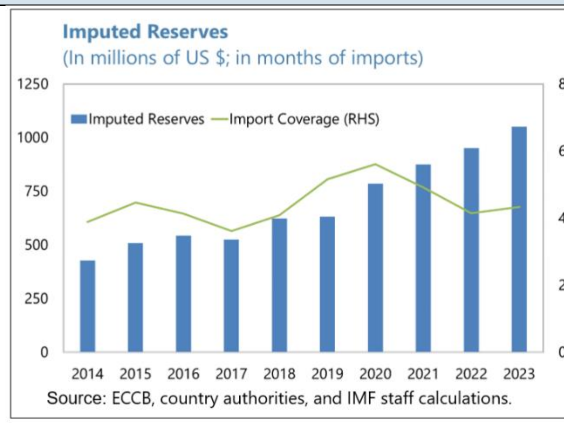
**Background.** Grenada has historically relied on FDI to finance the saving-investment imbalance, with net FDI averaging -15.8 percent of GDP between 2018-23, while the capital account has averaged about 6 percent over the same period. In 2023, Grenada's capital and financial account have been heavily impacted by CBI inflows. Inflows to the capital account surged to an estimated 9.5 percent of GDP in 2023 and are projected to reach 15 percent of GDP in 2024, largely due to the NTF component of CBI which is recorded as a capital transfer to the government. FDI inflows are estimated to have surged to 24.4 percent of GDP in 2023. The surge in CBI inflows was offset by a sharp increase in portfolio investment and other investment outflows, reflecting higher bank overseas investments in part due to increased liquidity from government CBI deposits. As a result, gross capital inflows and outflows were stable at around 24 percent of GDP and 21 percent of GDP, respectively, during the period between 2023 and 2024, resulting in a limited change in net capital flows of around 2 percent of GDP.




**Assessment.** The capital and financial account will remain heavily impacted by CBI inflows. While CBI inflows are projected to reach a historical peak in 2024, they should materially taper thereafter, with the capital account and FDI returning to their long-run average. To the extent that the CBI revenues are mostly to finance investment (which has a large import component), the impact of a larger-than-anticipated decline in CBI inflows would be partly mitigated by lower imports. Key downside risks include a tightening of global financial conditions (which could incentivize further outward investment of banking system liquidity) and natural disasters (which could deter private capital inflows). On the upside, a faster implementation of structural reforms to improve the business environment and competitiveness will help attract more FDI.

**FX Intervention and Reserves Level**

**Background.** Grenada's reserve position improved in 2023. As a member of the Eastern Caribbean Currency Union, Grenada is under a quasi-currency board arrangement. Foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[3,4] Estimated imputed reserves increased by 10 percent from 2022 to 2023, covering 4.8 months of imports. Estimated imputed reserves are projected to increase temporarily by 12 percent in 2024, reflecting post-disaster external financing, including a drawdown from Catastrophe Deferred Drawdown Option (CAT DDO) with the World Bank and an insurance payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF).




**Assessment.** Imputed reserves exceed the typical benchmark of three months of imports and are above the 20 percent of broad money benchmark.

[1] Based on preliminary estimates by the ECCB.

[2] The Eastern Caribbean dollar, the currency of Grenada, is pegged to the U.S. dollar.

[3] According to the ECCB by-laws, the imputed reserves of each ECCB member are calculated as the difference between the member's reserve money and net domestic assets. The ECCB has the mandate to maintain a foreign exchange cover of 60 percent of total demand liabilities. The reserve backing ratio as of April 2024 was 95.7 percent.

[4] IMF 2015, *Assessing Reserve Adequacy–Specific Proposals*. Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level. This should be supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial architecture and supportive institutions, and the correlation of shocks faced by union members.

# Annex III. Progress on 2023 Article IV Policy Recommendations

| Recommendations | Policy Actions |
|---|---|
| **Fiscal Sector** | |
| Return to the fiscal rules following their suspension in 2020-22. | Pending. The escape clause was no longer triggered in 2023, supported by large CBI-driven primary surplus. However, in July 2024, the government suspended the primary balance floor under the Fiscal Resilience Act, allowing for temporary deficit spending as necessary. Additionally, it introduced a post-disaster fiscal incentives package, which includes full tax and import duty exemptions on personal relief supplies until the end of 2024. |
| Improve targeting of social spending. | Pending. The 2024 budget retains some cost-of-living relief measures, and the gasoline tax remains below its pre-2022 levels. Better targeting of social assistance programs is in part held back by the yet-to-be released 2022 census. |
| Amend the 2015 Fiscal Responsibility Act to enhance the institutional fiscal framework. | Completed. The 2023 Fiscal Resilience Act simplifies the set of fiscal rules, enhances the role of MTFF in budget planning, expands the coverage of public debt and strengthens accountability and oversight. |
| Improve efficiency of the tax system and improve public investment management. | Mixed. The "Grenada Tax" digital platform for filing and payment of selected taxes was launched in 2024, and the IRD has made some progress in working through a stock of tax arrears. A TADAT assessment is planned for late 2024. Key PIMA/C-PIMA recommendations remain pending. |
| Establish a new public sector pension scheme. | Work in progress. A special committee submitted its recommendations for a new defined-contribution based scheme at end-2023. The Cabinet proposed a pension plan for unestablished government workers in October 2024 and is expected to seek parliament approval. |
| Undertake NIS pension reforms to restore its actuarial balance. | Work in progress. The phased increases in retirement age and contribution rates are being implemented from 2023 following their approval in Summer 2023. |

| Recommendations | Policy Actions |
|---|---|
| Develop a plan to eliminate differential contract-based treatment of public sector workers to improve public service delivery. | Work in progress. A framework for phased regularization of non-established workers over 2023-25 was approved by the Cabinet in Summer 2023. |
| **Financial Sector** | |
| Strengthen regulation and supervision of credit unions. | Work in progress. GARFIN has intensified asset quality monitoring and taken targeted measures to reduce credit union NPLs and increase provisioning. Implementation of risk-based supervision is proceeding with support of ongoing CARTAC technical assistance. |
| Strengthen crisis preparedness and financial system resilience to climate-related shocks. | Work in progress. Formulation of a national financial sector crisis management plan and strengthening climate risk resilience by incorporating climate risks in supervisory frameworks is in part hampered by capacity constraints. GARFIN has implemented a new reporting requirement to enhance monitoring of the increasing impact of rising property insurance premiums. |
| Strengthen the AML/CFT framework. | Work in progress. The CBI program due diligence processes and engagement with key international counterparts are being enhanced, including through the recently signed regional MoU among the Caribbean CBI countries. |
| **Structural Reforms** | |
| Strengthen tourism promotion and develop linkages with domestic agriculture to improve value added. | Work in progress. Tourism promotion efforts, notably increased airlift, have supported stronger-than-expected tourism performance. |
| Promote gender equality and enhance labor participation and skills. | Mixed. The 2024 budget includes a gender budget statement with gender-focused outcome indicators. The 2024 minimum wage increases took a step toward reducing gender pay gaps by equalizing the minimum wage across gender. Enhanced training and job matching remain work in progress. The authorities are seeking technical support from ILO. |
| Accelerate transition to renewable energy. | Work in progress. The authorities have introduced incentives for adoption of electric vehicles and are working to expand solar energy production, but the share of electricity from renewables remain very low. |

| Recommendations | Policy Actions |
|---|---|
| Advance implementation of the Disaster Resilience Strategy | Work in progress. The climate budget tagging program is ongoing. The US$100 million concessional loan from the Saudi Fund for Development may help address some financing constraints for resilience investment. |
| Improve data collection | Mixed. The labor force survey was resumed, but the 2022 census and updated CPI weights are yet to be released. Capacity constraints delay progress in enhancing frequency, quality, and timeliness of data. |

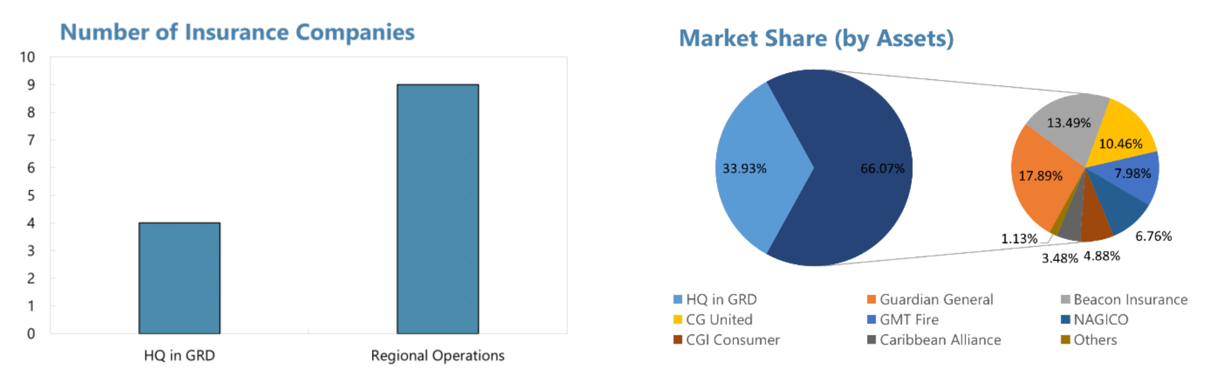
# Annex IV. Challenges to Property Insurance Affordability in Grenada

*The Grenadian property insurance market confronts significant affordability and risk management challenges. Its limited scale makes it highly reliant on international reinsurance, where recent tightening has led to steep increases in local retail premiums even before the damages caused by Hurricane Beryl. The insurance affordability pressures likely continue to rise post-disaster alongside evolving re-evaluation of climate risks and a reallocation of reinsurance capital, which can dampen economic activity, increase financial system vulnerabilities, and exacerbate risks from already persistent underinsurance. These risks underscore enhancing insurance data compilation and analysis and regional supervisory cooperation to fill in existing gaps, monitor arising pressure points, and inform possible policy intervention options.*

## A. Context

1. **Climate-risk-driven insurance affordability challenges are particularly acute for disaster-susceptible small island states like Grenada (Box.1).** The small scale of these economies limits the effectiveness of local and regional insurance pooling. While Grenada's insurance sector has been stable in recent years[1], large claims from extreme events can substantially diminish an insurer's capital base, amplified by a relatively fragmented market.[2] The local insurers' limited liability absorption capacity makes them reliant on the global reinsurance market, particularly for high-exposure product lines like property. As of end-2022, the average retention ratio (portion of gross premiums not ceded to reinsurance) for property insurance was only 14 percent.

**Annex IV. Figure 1. Grenada's Insurance Market Indicators**

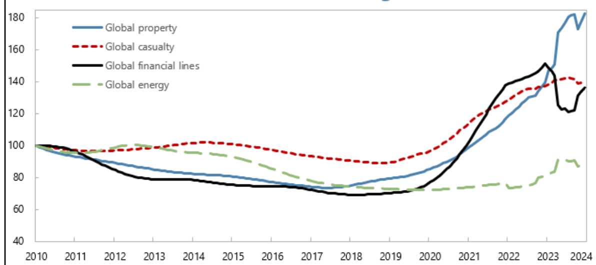



Source: GARFIN and IMF staff calculations

[2] In 2022, Grenada had 26 insurance companies, half of which offered general insurance. The general insurance market is characterized by low concentration (the HHI index for assets and gross premium income of general insurers has remained below 0.15 since 2012) yet comprising of several regional insurer operating in multiple jurisdictions.

## Annex IV. Box 1. Climate Change and Property Insurance

**Global Commercial Insurance Pricing Indices**




Sources: Howden Nova/1 and IMF staff calculations
/1 Howden Group, one of Europe's largest insurance brokers, offers NOVA, a market insight platform that combines data from 300+ sources, including placement and financials.

**More frequent and severe natural disasters are testing the limits of property insurability in many coastal areas**. Insurance companies in high-risk regions often rely on reinsurance as a risk transfer mechanism when risks are too correlated or exceed their tolerance. In recent years, reinsurance markets have markedly stiffened, driven by unprecedented global losses, a re-pricing of climate risks and a reallocation of reinsurance capital to markets with more attractive risk-return profiles. Reinsurance rate hikes, contractual exclusions, and higher loss levels required to activate coverage have compelled primary insurers to increase their premiums and retain a higher share of risks on their balance sheets while purchasing additional costly excess of loss reinsurance to protect their net retained risk. In 2023, home insurance premiums increased significantly globally, and some insurers have stopped issuing new policies in certain regions, prompting concerns over a 'tipping point' at which insurers opt to withdraw from vulnerable markets entirely.[1]

**Insurance affordability challenges can be more acute in Small Island Developing States (SIDS).** Underinsurance is a persistent problem in many SIDS, and limited options to relocate from vulnerable coastal areas sharpen the pressures for affordable coverage. SIDS' small scale constrains risk-retainment capacity and the ability to keep up with the growth in premiums in more mature markets to attract additional reinsurance capital. Additionally, a lack of mature capital markets or international market access typically hinders the development of alternative risk diversification and transfer mechanisms to reinsurance (such as catastrophe bonds or insurance-linked securities). In many SIDS public balance sheet vulnerabilities further constrain risk mitigation options.

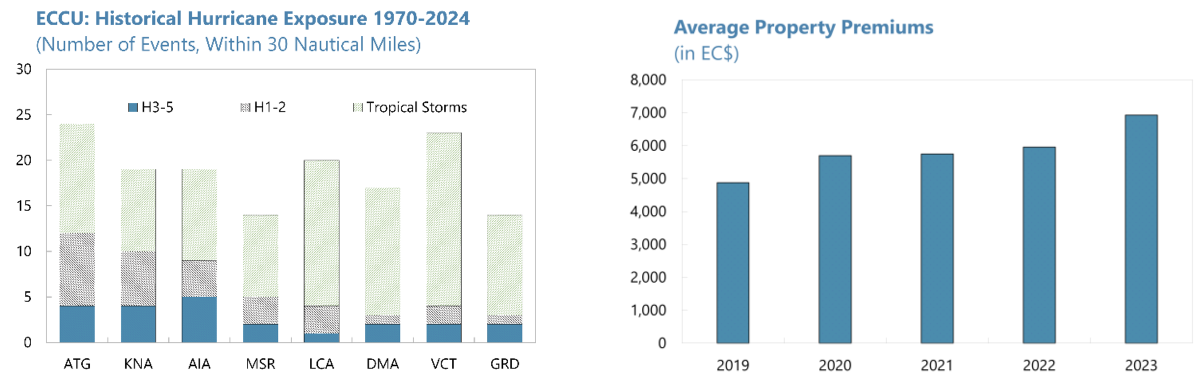
1 See BIS (2023): FSI Insights on policy implementation: Too hot to insure – avoiding the insurability tipping point. In 2023, the average US home insurance premium rose by over 20% and by up to 50% in Australia. In the ECCU insurance premiums anecdotally surged between 15-25 percent, but effects may vary locally and depend also on company-specific traits. Beyond pricing, reinsurance pressures may also manifest in tighter contract terms and conditions.

## B. Implications of Tighter Global Reinsurance Markets in Grenada

**2. Insurance costs have recently surged.** In 2023, average premiums per policy for property insurance increased by roughly 16 percent, according to data from the regulator.[3] The increases are predominantly driven by increased global reinsurance costs, where the withdrawal and reallocation of reinsurance capital and the evolving re-evaluation of climate change costs has rendered the market increasingly tight both globally and in the Caribbean region. While the recent premium hikes are not new, it is notable that they have been taking place without any major disaster (prior to Hurricane Beryl) in the region since 2017. Premiums are likely to rise further post-hurricane due to heightened risk assessments, surge in claims, and rising reinsurance costs.

[3] Such an increase would be broadly commensurate to the cumulative average increase in premiums over 2019-2022.

**Annex IV. Figure 2. Grenada's Property Insurance and Hurricane Exposure**




Sources: GARFIN, NOAA, and IMF Staff calculations.

**3. Surging property insurance premiums can give rise to adverse macro-financial impacts through multiple channels.**

- *Dampening impact on economic activity:* Higher premiums directly increase the financial burden of insured households and also weaken mortgage affordability, softening household credit and housing market activity.[4]

- *Financial system vulnerabilities:* The higher premiums can weaken borrower repayment (amidst already elevated levels of credit union non-performing loans) and amplify uncertainty over collateral values.[5]

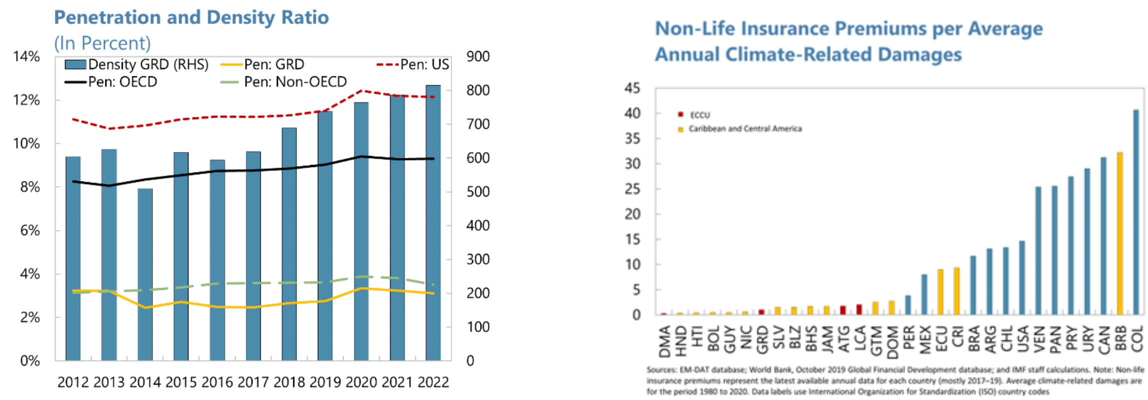
- *Amplified natural disaster impact:* The premium increases can perpetuate the already high degree of private sector underinsurance, which increases the potential fiscal contingent liability from natural disasters.[6]

[4] In 2022, annual premiums accounted for around 0.75% of property values, and Grenada's insurance density (gross premium income per capita) amounted to about 5% of the average yearly earnings.

[5] Prohibitive costs and challenges to obtaining insurance coverage for higher-risk areas can substantially erode property valuations. For instance, PRA (2015) noted that in the Bahamas, insurers stopped offering flood coverage for low-lying properties after hurricanes, leading to a halt in mortgage lending, a drop in property values, and ultimately, property abandonment.

[6] In 2022, Grenada's insurance penetration (gross premium income relative to GDP) stood at about 3 percent, broadly in line with non-OECD economies but well below the US and other OECD countries, notwithstanding higher susceptibility to natural disasters.

**Annex IV. Figure 3. Grenada's Insurance Penetration**




Sources: GARFIN, OECD, ED-DAT, and staff calculations.
Note: Density Ratio = Gross Premium Income / Population, Penetration Ratio = Gross Premium Income / GDP, Average climate related damages (as percent of GDP for 1980-2020)

4. **In light of the prevailing market dynamics, initial indications of strain have begun to emerge.** Recent observations suggest that certain reinsurers have limited their engagement with specific enterprises or geographical areas or completely retracted their participation. Concurrently, the evolving landscape is prompting primary insurers to reevaluate their strategic orientations. Some are progressively reducing their dependence on reinsurance solutions to mitigate risk by shifting focus to the motor, health, and life insurance sectors. On the consumer side, there is an uptick in payment delinquencies reported by some primary insurers, attributed to the financial challenges several policyholders face in fulfilling their premium obligations. Anecdotally, some consumers also seek to reduce the valuation of their property sum insured (below the current market value) to only cover the balance on the mortgage amounts.

## C. Policy Considerations

5. **The immediate policy priority is to strengthen insurance data compilation and analysis.** Supervisory data and monitoring of reinsurance risks is currently largely limited to the portion of retained risk.[7] Information on the number of reinsurance providers, the prevalence of proportional versus non-proportional reinsurance contracts, and data on the rate on line and limits for treaty, facultative, and excess-of-loss reinsurance contracts can help to understand the level and cost of risks that insurers have agreed to take on.[8] The data would support strengthening the assessment of the general insurance sector's resilience to climate risks, including the development of stress tests against reinsurance risks, and ensuring climate-related risks are appropriately incorporated into pricing and underwriting processes. It would also help inform the potential impact of tighter reinsurance market conditions on the rest of the financial system and the broader

[7] GARFIN has, however, introduced a new quarterly reporting requirement facilitating monitoring of accounts receivables and insurance policy cancellations, shedding light on the evolving impact of increased retail insurance premiums.

[8] In addition to asset coverage ratios, data on liquidity metrics, loss ratios, and reinsurance commissions would aid in evaluating insurance companies' financial health and profitability.

economy. Maintaining active cooperation with general insurance firms to rigorously oversee the sector's post-disaster status, guaranteeing the prompt, effective, and thorough handling of policyholders' claims, is crucial to ensuring public confidence in and the integrity of the insurance sector.

6. **The regional nature of the market necessitates a regional policy approach.** The prevalence of cross-border insurance companies in Grenada's market calls for a consolidated assessment of their disaster-risk resilience and reinsurance risks, including the sufficiency of risk retention levels and their management. This would be facilitated by common regional supervisory and regulatory standards. Strengthening regional supervisory cooperation and data exchange would also support monitoring of evolving reinsurance market conditions, facilitate timely identification of pressure points, and inform development of policy contingency strategies.

*7.* **Complementary government policies can help mitigate insurance affordability risks.** Over time, measures to lessen the impact of natural disasters, such as public risk assessments, capacity-building initiatives, and early warning systems, stringent land use, zoning, and building regulations, and investment in disaster-resilient infrastructure, can help improve Grenada's insurance risk profile. Any consideration of public insurance rate subsidies or public-private partnership models would need to carefully consider the public sector's own climate-risk-bearing capacity, be predicated on strong insurance sector regulations and supervision, maintain risk signals in insurance pricing, limit the retained fiscal contingent liability risks, and assess the appropriate regional scope given the prevalence of cross-jurisdictional operations.[9]

[9] Examples of public-private partnership models include Flood Re, a UK joint industry-government flood reinsurance scheme designed to ensure affordable flood insurance for high-risk homes and facilitate the shift to risk-based pricing, which is funded by an annual insurer levy and set to conclude in 2039 to reintegrate flood risks into the private market. Furthermore, Flood Re's Build Back Better scheme, offers additional payments to policyholders (beyond repair costs) for flood resilience measures. The US National Flood Insurance Program (NFIP) is a public-private partnership aimed at mitigating the socio-economic impacts of floods through standardized insurance policies, protecting over $1.28 trillion in assets across nearly five million policies.

# Annex V. Energy Dependence and the Energy Transition in Grenada

*Grenada is among the most energy dependent countries in the world, relying on imported oil for almost all its energy. A transition to renewable energy has the potential to unlock significant benefits for the country. This Annex takes stock of the current supply and use of energy in Grenada.[1] This allows a deeper understanding of the macroeconomic benefits, costs, and challenges posed by the energy transition. It also provides insights into the best policy tools and pathways to achieve the transition.*

## A. Context

**1. Grenada's dependence on oil imports is a significant macroeconomic vulnerability.** Imported oil is a costly source of energy, constraining Grenada's competitiveness and longer-term growth. Moreover, volatility in global oil prices can adversely impact inflation as well as external and fiscal balances. During the 2022 oil price spike, Grenada's oil imports rose by 74 percent, which in turn caused the current account deficit to widen by nearly 4 percentage points of GDP.[2] The government's energy price controls reduced the impact of price rises on the population but at a fiscal cost of more than 2 percent of GDP.

**2. High energy dependence underscores the potential benefits of a transition to renewable energy sources.** Substituting imported oil with increased domestic production of renewable energy would reduce Grenada's susceptibility to global oil price volatility. It could also boost competitiveness and productivity if it led to a reduction in energy costs. The transition would also support Grenada's efforts to reach its commitment under the United Nations Framework Convention on Climate Change to reduce greenhouse gas emissions by 40 percent relative to their 2010 levels. Drawing on how energy is currently supplied and used in Grenada, this annex considers potential pathways to the transition and policy tools to help accelerate the process.

## B. Supply and Use of Energy

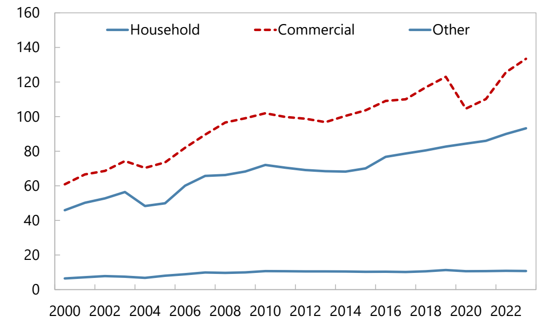
**3. Imported oil products (such as gasoline, diesel, and liquefied petroleum gas) accounted for 93 percent of Grenada's energy supply, on average, in 2017-21**. The remaining 7 percent was from domestically produced biofuels (e.g., charcoal), and a small, but growing amount from solar energy. The composition of Grenada's energy supply is similar to the rest of the ECCU, but very different to the typically more diversified energy supply in other EMEs.

[1] *Supply* refers to the production, import and export of energy (e.g., oil products). *Transformation* refers to the generation of electricity from other source of energy such as oil or renewables. *Use* refers to the domestic use of energy, chiefly direct *end-consumption* for transport, and by industry and households.

[2] Brent crude oil prices rose 40 percent in 2022 to an average of $100/bbl. Part of the rise in Grenada's oil imports reflected an increase in volumes of 26 percent in 2022 as the economy recovered from the COVID-19 pandemic.

**4. Almost half of oil imports are used to generate electricity, with the rest consumed directly by end-users (e.g., transport and industry).** Grenada's electricity is mainly generated from diesel, one of the most expensive sources of energy. Roughly two-thirds of its energy content is lost when it is converted to electricity. As a result, electricity costs in Grenada (like the rest of the ECCU) are substantially higher than other countries, averaging US$0.33/KWh in 2021 (and US$0.38 in 2023), compared to US$0.14/KWh in the United States. Grenada's electricity demand has grown steadily over the past decade, rising by more than a third in the decade up to 2023, and future growth will require an increase in electricity generation capacity. Most of the diesel generators are also very old and will need to be replaced in coming years.

**Electricity Consumption**
(Gigawatt Hours)



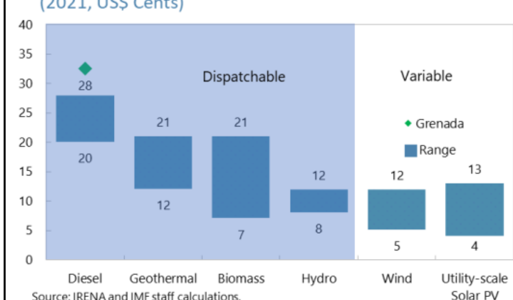

Sources: Country authorities and IMF staff calculations

**5. Patterns of final energy use by sector vary significantly**. Transport is the largest use of energy and is supplied by oil products. Households are the next largest sector, with energy consumption supplied by oil products (mainly LPG), electricity (derived from oil products), and biofuels. Oil products and biofuels are used for cooking, while electricity is used for lighting and air conditioning, among other uses. Industry (including agriculture) is primarily supplied by oil products, while commerce (e.g., hotels), is almost entirely supplied by electricity for uses such as air conditioning. The smaller overall share of electricity in final energy use relative to the share of oil used to generate it reflects the fact that two-thirds of the energy content of oil is lost in generation.

## C. Pathways for the Transition and Economic Impacts

**6. Grenada's energy transition will require replacing existing diesel-powered generation capacity with renewable sources.** Grenada has significant solar, wind, and geothermal power potential. Several solar projects are in the pipeline, most notably a 15.1MW project at St Georges, and a pilot geothermal project is planned, although it will take several years for this to start generating electricity. There has been a sharp reduction in the cost of solar power over the past decade thanks to technological developments, and as a result, renewable electricity can now be cheaper than diesel generators, although the exact comparison would depend on the cost of storage for variable sources of energy and the cost of capital.

**Electricity Price Ranges for Various Energy Sources**
(2021, US$ Cents)

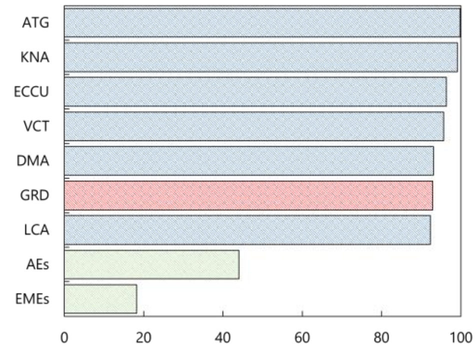



Source: IRENA and IMF staff calculations.
Note: Variable power prices do not include the cost of storage. Ranges represent interquartile ranges of available country-level data. IRENA aggregates data from different sources, including member states, international organisations, local and regional organisations, and specialized data providers, or makes informed estimates based on analysis.

## Annex V. Figure 1. Grenada's Supply and Use of Energy

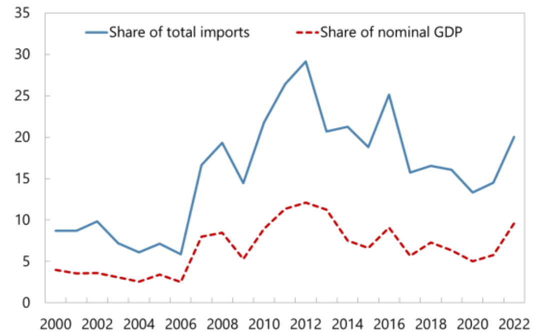
*Grenada is one of the most energy dependent countries in the world, relying on imports for 93 percent of its energy.*

**Energy Dependency Ratio**
(In Percent, 2010-2021)



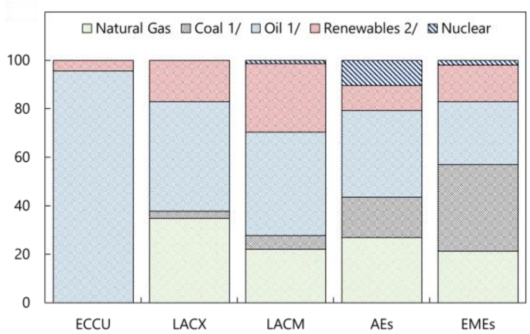

*Oil imports account for a significant but volatile share of total imports, reflecting global oil price fluctuations.*

**Imports of Oil Products**
(Percent)



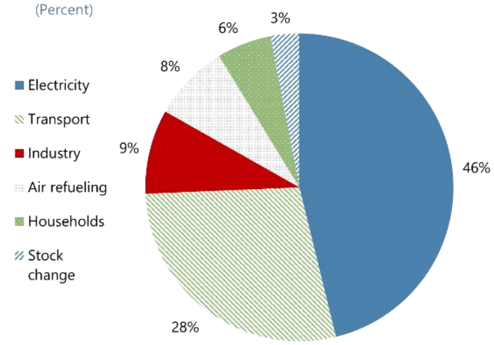

*Energy supply in Grenada is dominated by imported oil, similar to the ECCU, but in contrast to other EMEs.*

**Total Energy Supply**
(In Percent of Total, Average 2010-2021)



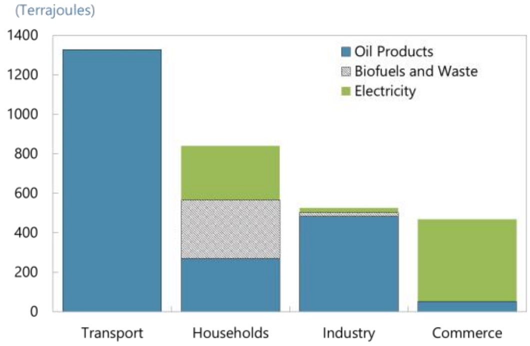

*Most of the imported oil is used to generate electricity, followed by road transport.*

**Grenada Oil Use, by Sector**
(Percent)




*Transport accounts for the largest share of final energy consumption, followed by households.*

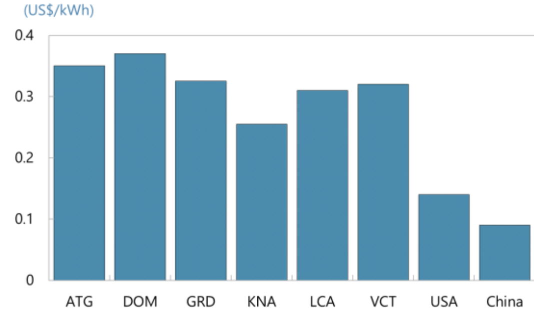
**Final Consumption of Energy, by Sector**
(Terrajoules)




Sources: IMF Staff Calculations

*Electricity prices in Grenada are very high.*

**Average Electricity Prices**
(US$/kWh)




Sources: ECCB; ECCU utility companies; and IMF staff calculation
Note: Average of household and commercial electricity prices in 2021

Sources: Country authorities; UN Comtrade; UN Energy Statistics Database; and IMF staff estimates.

1/ Oil use by households includes both kerosene and LPG.

2/ Renewables includes biomass.

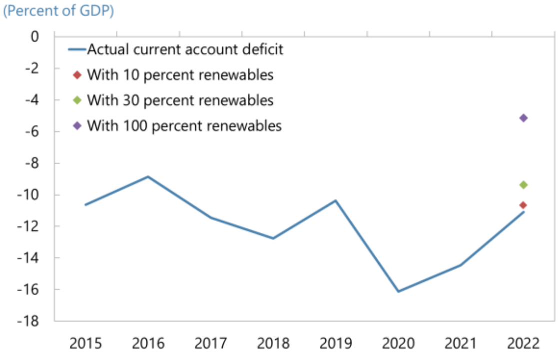
**7. Renewable energy from solar will need to be carefully integrated into the grid and will require batteries for storage.** Given its intermittent nature, solar generation will need to be paired with batteries to smooth its production and provide power during the night. The grid will also likely require upgrading to accommodate small producers. Other challenges for solar include a lack of availability of land, and potentially vulnerability to extreme weather.[3] Geothermal has notable advantages in this regard, as it can provide a reliable base load of electricity, has a small land requirement, and can be designed to withstand extreme weather.

**8. Replacing oil imports in other uses, such as road transport, is more complex.** Reducing the use of oil in transport by switching from internal combustion engine vehicles to electric vehicles (EVs) would also lead to an increase in electricity consumption, requiring a corresponding increase in electricity generation capacity. If this is from diesel generators, it would simply be switching methods of consuming oil, limiting the transition's economic and environmental benefits. A substantial increase in electricity demand arising from EVs would also require investment in the grid to handle increased load, and EV charging stations. As such, reducing use of oil by increasing the number of EVs would be more expensive than increasing renewable generation.

**9. Measures to boost energy efficiency or reduce energy demand can also lower oil imports and reduce the cost of the transition.** For example, the government's project to improve the efficiency of street lighting reduced electricity consumption for lighting by 21 percent between 2018-23. Improving public transport options, such as increasing the number and reliability of public buses or using fiscal incentives to reduce the number of car journeys, could be a simpler way to reduce the use of oil in transport while also easing congestion.

**10. The optimal transition pathway would in the near-term prioritize renewable energy generation and energy efficiency before switching to EVs.** Focusing on renewable energy generation would have immediate benefits from reduced oil dependency. Increasing the share of electricity from renewables is also a prerequisite for realizing the benefits of a transition to EVs. Once Grenada has achieved a high level of renewables in electricity generation, it could start gradually increasing support for EVs. There could be some synergies between the two, for example, the batteries in EVs could be used to help balance the intermittent output from solar.

**Current Account Under Different Renewable Scenarios**
(Percent of GDP)




Source: IMF staff calculations.

**11. The macroeconomic impacts of the transition could be large.** A simple scenario analysis shows the benefits from increasing the share of electricity from renewable energy. For every 10-percentage point increase in the share of renewables in electricity generation, oil imports would decline by just over 0.4 percentage points of

[3] A preliminary assessment of Carriacou's new Limlair Solar Farm, post-hurricane, reveals significant damage, impeding the expected reduction of fuel consumption by approximately 30,000 gallons annually.

GDP. Achieving the authorities' ambitious goal of generating 100 percent of electricity from renewables would result in the current account deficit falling by almost one-half. The actual benefits would be smaller than this, at least in the near term, however, since the renewable equipment would need to be imported. Beyond the impact on the current account, the reduced reliance on oil imports could reduce the volatility of inflation. If the transition also reduces overall energy costs, it can help improve Grenada's long-term growth potential by increasing competitiveness, promoting investment, and boosting diversification.

## D. Policy Options and Challenges

**12. Grenada has a robust energy strategy in the updated National Energy Policy 2023-2035.** The strategy recognizes the importance of transforming the electricity sector and sharply accelerating renewables while boosting energy efficiency. Recent updates to the regulatory framework have been encouraging, with the approval of the Electricity Sector Grid Code. However, further progress is needed to ensure the regulatory framework is aligned with the authorities' ambitious targets and overcome the challenges posed by the transition.

**13. Finalization of the regulatory framework, including developing an Integrated Resource Plan (IRP), can make Grenada a more attractive investment destination.** Enhancing the National Energy Policy into a more comprehensive IRP will help ensure the reliable provision of electricity in the most cost-effective way. It should incorporate projections of future supply and demand for electricity to avoid the risk that supply is insufficient to meet demand, especially as the stock of existing diesel generators are near the end of their lifespan. It will also need to balance incentives for independent power producers with the cost of providing energy storage by the utility company. Dynamic pricing could be explored to help with the solar intermittency issue by incentivizing customers to shift their electricity demand to better match generation patterns.

**14. Unlocking additional financing will be critical to achieving large scale projects, including the geothermal pilot project.** Grenada will need to utilize many different sources of financing, public, private, and multilateral, to finance the transition. For solar energy and battery storage, private sector investment can be encouraged by simplifying the approvals process, reducing permitting delays, and negotiating transparent power purchase agreements. Public sector funds may be required alongside donor funding for the geothermal pilot project, and broader grid investment. Engagement with green funds and donors, including ongoing efforts to achieve Green Climate Fund accreditation, could help in this regard. Utilizing external concessional finance could also help avoid any potential crowding out effects from government investment. Grenada's active participation in the World Bank's *Caribbean Renewable Energy Infrastructure Investment Facility* is an excellent example of this multi-stakeholder approach to help increase investment in both renewable energy and energy efficiency.

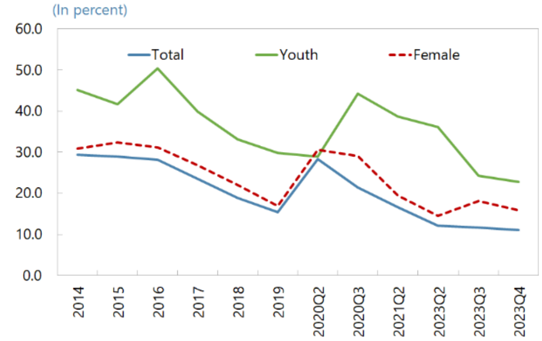
**15. The equitable distribution of any windfall gains from the energy transition is vital.** If the transition results in lower electricity costs, the government must decide who these gains accrue to. Passing the benefits to households and businesses could result in a positive income shock, boost competitiveness, and encourage investment in the economy. Alternatively, the government could allocate some of the benefits to the utility company, GRENLEC, to pay for additional costs associated with the energy transition, such as grid investment. The government could also have the utility company pay a dividend which could be used for investment or to lower other taxes.

# Annex VI. Labor Market Developments and Institutional Changes[1]

*Grenada's labor market made a robust recovery alongside the economic rebound from the pandemic, with unemployment at a multi-year low. Youth and long-term unemployment remain high, while the aging population increasingly drags on workforce participation, underlining the need for strong labor market institutions. The recently introduced unemployment insurance scheme offers an opportunity to recalibrate labor market protections, while active labor market policies can help mitigate potential adverse impacts from the recent minimum wage increase on labor market efficiency.*

**1. Unemployment has declined below pre-pandemic levels.** At 11.1 percent in 2023 Q4, unemployment was at its lowest level since at least 2008, a steep fall from its pandemic peak of 28 percent.[2] Youth unemployment has also fallen, but remains more than double the headline rate, while female unemployment has consistently remained above that of male workers with the gap widening recently. However, the impact of Hurricane Beryl has introduced significant uncertainty regarding the future trajectory of the unemployment rate.

Unemployment Rate
(In percent)



Sources: Grenada national authorities and IMF staff calculations.

**2. Part of the unemployment decline reflects weaker labor force participation.** At 65.7 percent in 2023, on average, participation was more than 2½ percentage points below its pre-pandemic level.[3] A decomposition of the decline suggests some offsetting dynamics:

- The majority of the decline was due to population aging and retirement. Between 2019 and 2023, the share of the population over the age of 65 rose by more than 4 percentage points (now exceeding the share of youth population) with a broadly corresponding decline in the prime age cohort of 25-64. Given the much lower participation rate among older workers, this trend lowered overall participation rates, with many of these workers exiting the workforce through retirement.

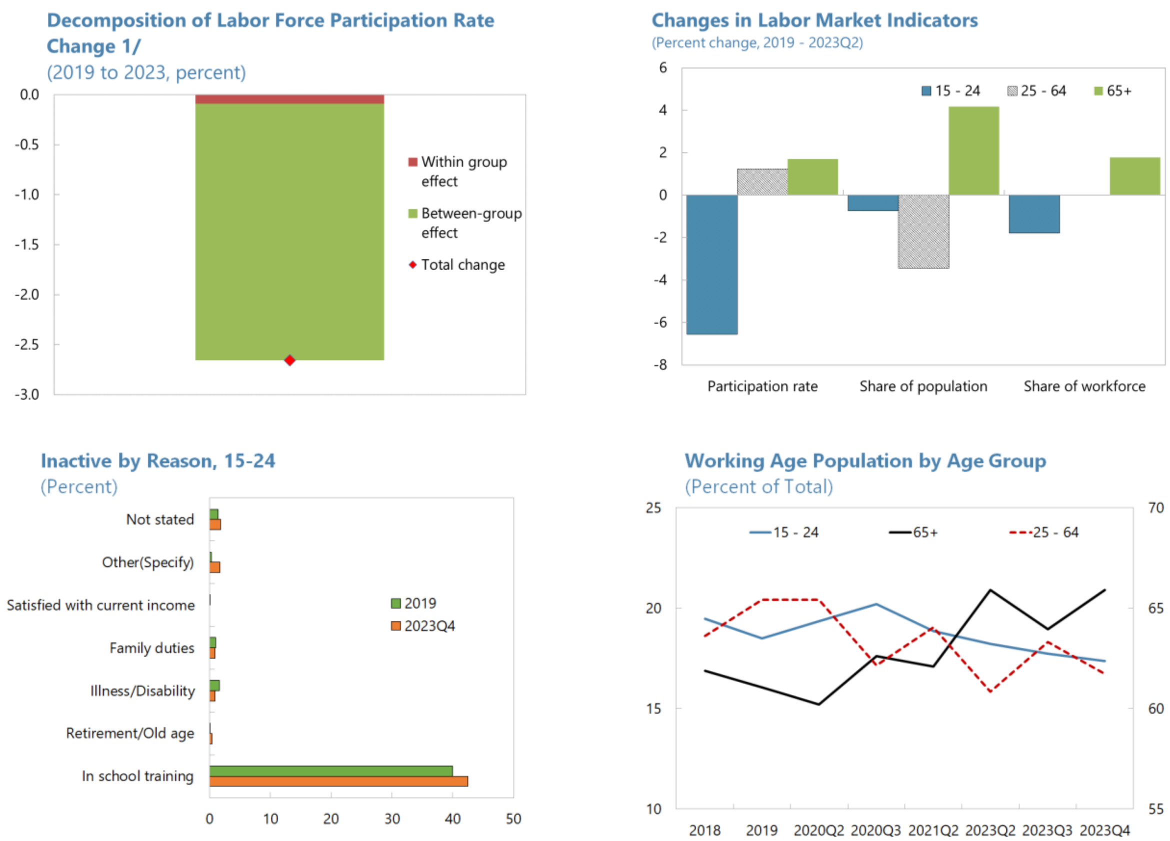
- Participation rates within prime age (25-64) and older worker (65+) cohorts rose modestly reflecting the economic recovery, with the latter also reflecting more workers of retirement age choosing to delay retirement. These developments were more than offset, however, by a sharp fall in youth participation rate (15-24), which declined from 55 percent in 2019 to 49 percent in 2023. However, this decline largely reflected an increase in the number of youths in education or training, which could provide a boost to productivity and reduce skills mismatches in the future.

[1] Prepared by Peter Nagle (WHD)

[2] Grenada resumed publishing its labor force survey in 2023Q2 for the first time since 2021Q2.

[3] This section considers the average participation rate in 2023 to abstract from quarterly volatility and seasonality.

## Annex VI. Figure 1. Recent Labor Market Developments




Source: Grenada national authorities and IMF Staff calculations
1/ Within group effect refers to changes in participation rates within age groups; between group effect refers to changes in the number of workers in age groups

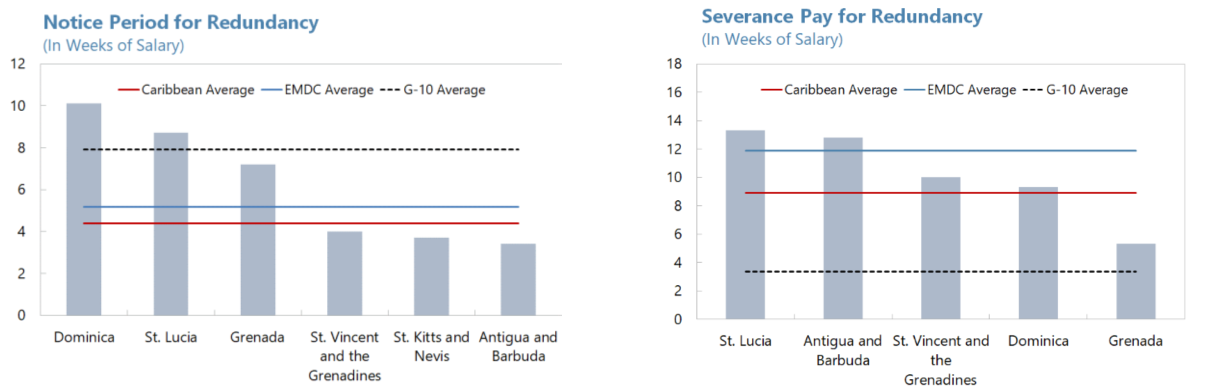
**3. Structural obstacles pose challenges to reducing unemployment or boosting participation.** Long-term unemployed (more than 12 months) comprised nearly 60 percent of total unemployment in 2023Q4, while 45 percent of the unemployed report that they have never worked. Atrophy or absence of suitable skills could pose a key headwind to further gains in employment. Around 43 percent of the unemployed have primary or lower secondary education, which may exacerbate the skills mismatch. Regarding labor force participation, roughly two-thirds of the current inactive population is due to retirement, disability, or illness, and this group will remain a significant headwind to labor supply as the population continues to age rapidly.[4]

**4. The structural headwinds underscore the importance of strong labor market institutions that effectively balance competing efficiency and equity objectives.** *Unemployment protections:* The 2023 introduction of the unemployment insurance (UI) scheme can help lead to a

[4] The old age dependency ratio is projected to increase from 16.2 percent in 2019 to 27.9 percent in 2050 (United Nations World Population Aging 2019).

more efficient yet equitable labor market in Grenada, especially if accompanied by a streamlined employment protection legislation (EPL).[5] However, the devastation caused by Hurricane Beryl, leaving many jobless, could strain the new unemployment scheme, highlighting the necessity of strong mechanisms to manage sudden unemployment spikes, and ensuring support for disaster-affected individuals. Current severance pay in Grenada is the lowest among its ECCU peers yet notice periods for redundancy remain above the regional average. The UI can create space to further reduce costs of hiring from legal protections while retaining employee protection against redundancy. It can also improve job-search matching, as the worker can spend more time finding a job which suits their skills and consider taking a higher-paying job with a greater risk of unemployment. The benefit levels and duration of UI need to maintain a careful balance between replacing lost income and maintaining incentives to actively search for a new job (Box 1).

**Grenada: Employment Protection**




Sources: World Bank Employing Workers Database and IMF Staff Calculations.

- *Minimum wages:* Grenada raised its minimum wage in 2024 for the first time since 2011. Adequate minimum pay can help reduce poverty and improve labor market equity, but must be carefully calibrated in the context of Grenada's high youth and long-term unemployment. High minimum wages can discourage hiring, often disproportionately affecting less skilled and experienced workers, such as youth. High minimum wages can also lead to a rise in informal employment.[6]

- *Active Labor Market Policies (ALMPs):* Targeted ALMPs, such as training and enhanced job-matching services, can be critical to overcome skill-based impediments to employment and mitigate the impact of higher minimum wages. They can also improve the efficiency of the UI scheme by improving laid-off workers' ability to quickly find new employment.[7] The increase in

[5] In general, EPL is a more common tool than UI in emerging market economies, as there are no direct fiscal costs, and it requires less administrative capacity while still offering workers some protection.

[6] The level of informality has been estimated at around 25 percent of the workforce (Vuletin 2008).

[7] Requiring unemployed workers to participate in training can also partly act as a substitute for active job-search monitoring to reduce the likelihood that they work in the informal sector while receiving UI benefits.

the number of youths in training and education since 2019 is encouraging, as higher education levels are associated with increased participation, particularly among women.

5. **Longer term policies can help address structural issues.** Utilizing development partner assistance can help to further improve education attainment, including vocational education and training. Improving access to education can also help to reduce informality. Training and apprenticeship programs should also focus on increasing technical and entrepreneurial skills and facilitating the transition to employment. The downward drag on the labor supply from population aging calls for longer-term policies to incentivize labor force participation, especially women and potentially for older workers as well. This could include promoting transparent pay practices and investing in care facilities and childcare options to reduce the burden of family duties for women, and changes to compulsory retirement ages for older workers (IMF 2023). Reducing the gender gap in tertiary education enrollment rates could also help boost human capital (Table 1).

## Annex VI. Table 1. Grenada: Selected Macro-critical Gender-related Indicators, 2017-2022

| | | | | | | | WHD Countries 1 / | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Latest year available | 25th Percentile | 75th Percentile | Median | Average |
| **Composite Gender Indices** | | | | | | | | | | | |
| Female Human Capital Index (HCI) 2/ | ... | 0.58 | ... | 0.60 | ... | ... | 2020 | 0.53 | 0.63 | 0.60 | 0.59 |
| Gender Development Index (GDI) | 0.98 | 1.00 | 1.00 | 1.00 | 0.98 | 0.98 | 2022 | 0.97 | 1.01 | 0.99 | 0.99 |
| Gender Inequality Index (GII) 3/ | ... | ... | ... | ... | ... | ... | 2022 | 0.29 | 0.42 | 0.37 | 0.36 |
| Global Gender Gap Index 2/ | ... | ... | ... | ... | ... | ... | 2022 | 0.71 | 0.76 | 0.74 | 0.74 |
| Women Business and the Law Index (WBL) 4/ | 77.50 | 77.50 | 80.63 | 80.63 | 80.63 | 80.63 | 2022 | 75.00 | 88.75 | 82.50 | 81.43 |
| **Leadership and Social** | | | | | | | | | | | |
| Proportion of Seats Held By Women in National Parliaments | 33.33 | 46.67 | 46.67 | 46.67 | 46.67 | 31.25 | 2022 | 20.96 | 35.43 | 28.64 | 29.41 |
| Proportion of Women in Managerial Positions | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Prevalence of Intimate Partner Violence among Ever-partnered Women (in percent) 3/ | ... | 28.00 | ... | ... | ... | ... | 2018 | 21.00 | 28.00 | 24.00 | 25.23 |
| **Education** | | | | | | | | | | | |
| Gender Gap (F-M) in Adult Literacy Rate | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Gender Gap (F-M) in Mean Years of Schooling | -0.21 | -0.18 | -0.16 | -0.13 | -0.13 | -0.13 | ... | ... | ... | ... | ... |
| Gender Gap (F-M) in Primary Gross Enrollment Rate | -6.33 | -2.95 | ... | ... | -6.15 | ... | 2021 | -1.04 | -2.39 | -1.10 | -1.06 |
| Gender Gap (F-M) in Secondary Gross Enrollment Rate | 4.16 | 2.67 | ... | 1.63 | ... | ... | 2021 | 1.66 | 2.00 | 2.65 | 4.46 |
| Gender Gap (F-M) in Tertiary Gross Enrollment Rate | 20.82 | 23.12 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Health** | | | | | | | | | | | |
| Gender Gap (F-M) in Adult Mortality Rate per 1,000 Adults | -69.14 | -67.93 | -66.58 | -65.08 | -63.77 | ... | 2021 | -76.56 | -104.49 | -96.55 | -92.54 |
| Gender Gap (F-M) in Life Expectancy at Birth | 5.77 | 5.74 | 5.71 | 5.66 | 5.69 | ... | 2021 | 6.34 | 6.47 | 6.61 | 6.24 |
| Maternal Mortality Ratio per 100,000 Live Births, Modeled Estimate (15-49 yrs) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total Fertility Rate (Births Per Woman) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

Source: GenderDataHub /5

1/ Group aggregates are calculated where data are available for at least 50 percent of countries for a given indicator, and for weighted averages, where the relevant weights are also available. Data are

2/ This index is scored on a scale of 0-1, with a higher score corresponding to better outcomes for women.

3/ A higher value on this indicator corresponds to worse outcomes for women. For example, the Gender Inequality Index is scored on a scale of 0-1, where a higher score indicates higher inequality.

4/ The Women, Business, and the Law Index is reported on a scale of 0-100, with a higher score corresponding to better outcomes for women.

5/ See Gender Data Hub metadata for original data sources and definitions.

## Annex VI. Box 1. Grenada: Recent Institutional Labor Market Reforms

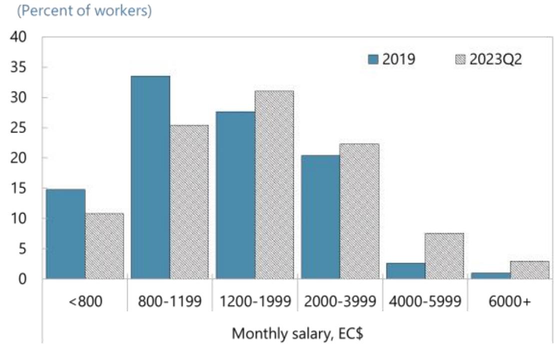
**Grenada's UI scheme is the first in the ECCU.** Operated under the NIS, the scheme covers 50 percent of a worker's salary for up to three months, provided the worker has made at least 52 weeks of contributions. The scheme is funded by an additional national insurance contribution of one percent. After claiming UI, the worker must wait one year before becoming eligible again.

**Grenada updated its minimum wage framework in January 2024 for the first time since 2011.** The new minimum wage is at least EC$60/day or EC$1200/month and represents a significant increase of between 18-56 percent (the minimum wage varies by sector).[1] The increase is intended to compensate for erosion relative to market wages (the last update was in 2011). Coverage has also been expanded to more industries, including media, call centers, sanitization, and construction site helpers, and is intended to reducing gender pay gaps by equalizing the minimum wage across genders.

**The size of the increase raises a risk of employment losses or a shift to the informal sector.** However, while the year-on-year increase is high, the equivalent annual increase over 2011-23 is about 1.3 – 3.5 percent, which is comparable to the increase in private sector pay over that period. In terms of the number of workers affected, about 21 percent of workers in Grenada currently earn less than $1200/month, with a higher proportion of female workers (27 percent) relative to male workers (16 percent). However, the number affected by the new legislation will be smaller than this as some of these workers will be part-time, or their jobs may not be covered by the minimum wage.

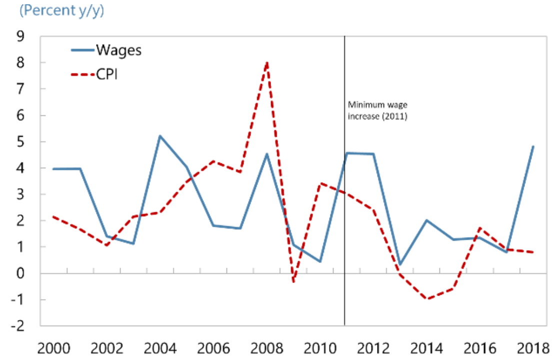
**The macroeconomic impacts may be limited, based on prior experience**. The minimum wage increase in 2011 was associated with higher private sector wages in 2011 and 2012. However, there was little noticeable impact on inflation, which may reflect the dominance of imported inflation (such as food and energy) in Grenada's inflation basket.

**Employed workers, by gross salary**
(Percent of workers)




Sources: Grenada national authorities and IMF staff calculations
Note: Figure excludes workers who did not report their monthly salary.

**Grenada wage and inflation growth**
(Percent y/y)




Sources: Grenada national authorities and IMF staff calculations

[1] Domestic workers received a larger increase of 93 percent, reflecting a much lower existing minimum wage than other sectors.

# Annex VII. Data Issues

**Table 1. Grenada: Data Adequacy Assessment for Surveillance**

**Data Adequacy Assessment Rating 1/**

C

Questionnaire Results 2/

| **Assessment** | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
|---|---|---|---|---|---|---|---|
| | C | C | B | C | B | B | C |
| Detailed Questionnaire Results | | | | | | | |
| **Data Quality Characteristics** | | | | | | | |
| Coverage | B | C | B | B | C | | |
| Granularity 3/ | C | | B | C | A | | |
| | | | B | | B | | |
| Consistency | | | A | C | | B | |
| Frequency and Timeliness | C | B | A | C | B | | |

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

| | |
|---|---|
| A | The data provided to the Fund is adequate for surveillance. |
| B | The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. |
| C | The data provided to the Fund has some shortcomings that somewhat hamper surveillance. |
| D | The data provided to the Fund has serious shortcomings that significantly hamper surveillance. |

| |
|---|
| **Rationale for staff assessment**. Data has some shortcomings that somewhat hamper surveillance. Gaps are mainly in the areas of national accounts, prices, and external sector statistics. These shortcomings are partly mitigated by additional supporting data for surveillance. These include the labor force survey, detailed CBI revenue data (which are notable among peers in the ECCU), high frequency indicators of economic activity and the Survey of Living Conditions and Household Budget Survey.<br><br>**Real:** GDP output data are available at a granular level at annual frequency, although they are subject to significant delays, and the weights were last updated in 2006. GDP expenditure data is not available. Staff receive high-frequency indicators which help provide a timelier assessment of economic activity. The labor force survey has been resumed which enables a more comprehensive analysis of potential growth and the output gap. Monthly CPI data is published via the ECCB in a timely manner, however, the basket/weights are outdated. Grenada published a Survey of Living Conditions and Household Budget Survey in 2018/19.<br>**External:** Annual external sector statistics are subject to significant delays and errors and omissions in initial releases can be large, which impairs the team's ability to assess the external sector and forecast the balance of payments. The recording of travel exports is based on a small survey of tourists which may not be representative of the sector, while methodological issues affecting goods import data are yet to be resolved. Challenges also remain in reconciling FDI inflows with CBI investment data which obscures underlying financing dynamics.<br>**Fiscal and monetary/banking**: Coverage of fiscal and monetary and banking sector data is broadly adequate. Public debt coverage has been expanded to include non-guaranteed SOE liabilities and PPPs, while ongoing CD is strengthening the timeliness and quality of SOE financial reporting. The publication of detailed CBI revenue and application data is notable among Grenada's ECCU peers. Monetary surveys do not include non-bank depository institutions, but data necessary for surveillance is received from the local supervisor (GARFIN). Granularity of non-bank financial soundness data is an area for improvement given these institutions' significance to the financial system. |
| |
| **Changes since the last Article IV consultation**. The labor force survey has been resumed after a temporary gap during the pandemic. The 2022 Census has been completed. The CPI weights have been updated to 2018 and a new software is being used to collect the data (CPI+), however the new series have not been released. The BPM6-based balance of payments statistics were extended back to 2000, and the data was also revised (with assistance from CARTAC), which reduced errors and omissions for some years. CARTAC continues to assist ECCU countries in strengthening their compilation framework, including technical assistance to improve the accuracy of the business and visitor expenditure surveys. |
| **Corrective actions and capacity development priorities**. Releasing the Census and updated CPI weights should be a priority, as should updating the CSO's website to enable the dissemination of statistics. Additional TA support on the ESS may be needed to address issues regarding trade data highlighted in previous missions. CD priorities include operational support to implement BoP TA recommendations and strengthening non-banking system data collection in line with recommendations of recent CARTAC technical assistance on implementation of risk-based supervision. Addressing staffing constraints and staff turnover at the CSO are a priority and would support improving the quality, timeliness, and frequency of existing statistics. |
| |
| **Use of data and/or estimates different from official statistics in the Article IV consultation**. Staff do not use data and/or estimates different from official statistics. |
| **Other data gaps**. Data on the capital stock, particularly real estate market data, would help in the assessment of climate-change related risks. The quality of high frequency agricultural production indicators could be improved. Enhanced supervisory data on reinsurance and other soundness indicators would strengthen assessment of risks (including from climate) in the private insurance sector. |

## Table 2. Grenada: Data Standards Initiatives

Grenada participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in March 2001 but is yet to disseminate the data recommended under the e-GDDS.

## Table 3. Grenada: Table of Common Indicators Required for Surveillance

As of January 1, 2024

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Expected Frequency[6,7] | Grenada[8] | Expected Timeliness[6,7] | Grenada[8] |
| Exchange Rates | Fixed Rate | NA | NA | NA | D | D | ... | 1D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Sep-24 | Nov-24 | M | M | M | Q | 1M | 6W |
| Reserve/Base Money | Sep-24 | Nov-24 | M | M | M | M | 2M | 6W |
| Broad Money | Sep-24 | Nov-24 | M | M | M | M | 1Q | 6W |
| Central Bank Balance Sheet | Sep-24 | Nov-24 | M | M | M | M | 2M | 6W |
| Consolidated Balance Sheet of the Banking System | Sep-24 | Nov-24 | M | M | M | M | 1Q | 6W |
| Interest Rates[2] | Sep-24 | Nov-24 | M | M | M | M | ... | 6W |
| Consumer Price Index | Sep-24 | Dec-24 | M | M | M | M | 2M | 15D |
| Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4] | NA | NA | NA | NA | A | ... | 3Q | ... |
| Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government | Oct-24 | Nov-24 | M | M | Q | Q | 1Q | 1Q |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | Jun-24 | Nov-24 | Q | Q | Q | A | 2Q | 10M |
| External Current Account Balance | 2023 | Dec-24 | A | A | Q | A | 1Q | 11M |
| Exports and Imports of Goods and Services | 2023 | Dec-24 | A | Q | M | M | 12W | 4W |
| GDP/GNP | 2023 | Sep-24 | A | A | Q | A | 1Q | 4M |
| Gross External Debt | Nov-24 | Dec-24 | M | Q | Q | A | 2Q | 10M |
| International Investment Position | 2023 | Dec-24 | A | A | A | ... | 3Q | ... |

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

# GRENADA

January 6, 2025

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


Prepared By | Western Hemisphere Department (in consultation with other departments)


## CONTENTS

# FUND RELATIONS

(As of November 30, 2024)

| **Membership Status** | | Joined August 27, 1975; Article VIII |
|---|---|---|
| **General Resources Account** | **SDR Million** | **Percent of Quota** |
| Quota | 16.40 | 100.00 |
| Fund Holdings of Currency | 15.23 | 92.84 |
| Reserve Tranche Position | 1.18 | 7.16 |
| **SDR Department** | **SDR Million** | **Percent of Allocation** |
| Net Cumulative Allocation | 26.88 | 100.00 |
| Holdings | 7.09 | 26.37 |
| **Outstanding Purchases and Loans:** | **SDR Million** | **Percent of Quota** |
| RCF Loans | 16.40 | 100.00 |
| ECF Arrangements | 3.80 | 23.17 |

**Latest Financial Arrangements:**

| **Type** | **Approval Date** | **Expiration Date** | **Amount Approved (SDR Million)** | **Amount Drawn (SDR Million)** |
|---|---|---|---|---|
| ECF | 06/26/14 | 05/26/17 | 14.04 | 14.04 |
| ECF | 04/18/10 | 04/17/13 | 8.78 | 2.53 |
| ECF[1] | 04/17/06 | 04/13/10 | 16.38 | 16.38 |

**Outright Loans:**

| **Type** | **Date of Commitment** | **Date Approved** | **Amount Drawn/Expired (SDR Million)** | **Amount Drawn (SDR Million)** |
|---|---|---|---|---|
| RCF | 04/28/20 | 04/30/20 | 16.40 | 16.40 |

**Overdue Obligations and Projected Payments to the Fund (SDR Million)[2]:**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| Principal | 0.60 | 3.64 | 4.28 | 3.48 | 3.28 |
| Charges/Interest | | 0.67 | 0.67 | 0.67 | 0.67 |
| **Total** | **0.60** | **4.31** | **4.95** | **4.15** | **3.95** |

**Implementation of HIPC Initiatives:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

[1] Formerly PRFG.

[2] Based on existing use of resources and present holdings of SDRs.

**Exchange Rate Arrangement:** The de jure and de facto exchange rate arrangement is a currency board. Grenada participates in a currency union with seven other members of the Eastern Caribbean Currency Union (ECCU) and has no separate legal tender. The common currency, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. Grenada accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

**Safeguards Assessment:** Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvement in the capacity of the internal audit function. All but one safeguards recommendation have been implemented, including on further improvements in the capacity of the internal audit function and risk management. The outstanding recommendation on legal reforms to align the Agreement Act with leading practices is a work in progress.

**Article IV Consultation:** The last Article IV consultation was concluded by the Executive Board on May 26, 2023. Grenada is on a 12-month cycle.

**Technical Assistance:** Grenada has received significant technical assistance from Caribbean Regional Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on:

- **Public Financial Management (PFM).** CARTAC TA in PFM has focused on reform of SOEs and statutory bodies (SBs), cash forecasting and commitment control, development, and transition to a new chart of accounts consistent with the *Government Finance Statistics Manual 2014 (GFSM 2014)*, and the Public Expenditure and Financial Accountability (PEFA) assessment. Assistance was also provided on strategic budget reform to modernize the budget preparation process. Regarding the SOE/SB reforms, the 2016 CARTAC mission provided some limited assistance on Public Service Pension Reform. In 2017, CARTAC provided assistance with a one-week training mission for the Grenada Fiscal Responsibility Committee and conducted a risk assessment on the SOEs. In April 2018, a mission was completed on assisting with moving to International Public Sector Accounting Standards (IPSAS) cash-based accounting and to bring their public accounts up to date. A roadmap on reforms to move Grenada to IPSAS Accruals was provided. Later in the year, Grenada participated in regional workshops geared at improving capacities for Internal Audit, Cash Management and SOE Oversight as well as assessing Fiscal Risks. In February 2019, a TA mission from Fiscal Affairs Department reviewed the Fiscal Responsibility Law with the aim of strengthening it by removing inconsistencies and ambiguities and reframing the expenditure rule. In April 2022, the Fiscal Affairs Department (FAD) provided a Public Investment Management Assessment (with a climate module) to identify strengths and weaknesses in public investment management practice and procedures and provide recommendations for further enhancement. In May 2022, a TA mission from the FAD provided guidance on the fiscal consequences of the March 2022 high court ruling reinstating pension entitlements to public sector employees and discussed options for improving the pension system's long-term sustainability, with a special focus on public sector pensions. In April 2023, a TA mission from the Fiscal Affairs Department provided advice on revising the Fiscal Responsibility Act to enhance its rules-based fiscal framework.

- **Tax Administration.** TA was provided to strengthen tax administration at both the Inland Revenue and Customs Departments. For IRD, the support included establishing a Large and Medium Taxpayer Unit and a Design, Planning and Monitoring Section. In 2020, they received TA to prepare a new business model with processes enabled by a new information technology (IT) system. A follow up mission on the advancement of the basic compliance risk management strategy for the Large and Medium Taxpayer unit took place in 2021. For Customs, TA was provided in 2020 to strengthen analytical capacity and risk management, while in 2022 and 2023 TA was provided to help strengthen the customs control of petroleum imports. In August 2024, the Fiscal Affairs Department provided capacity development to assist *in the evaluation of the current income tax regime and environmental taxation of vehicles*.

- **Financial Stability Supervision and Regulation.** Significant TA has been provided to the Grenada Authority for the Regulation of Financial Institutions (GARFIN) to implement risk-based supervision across the non-banking sector, including capacity building to review reinsurance contracts, contingency planning for crisis preparedness and management, and conduct review of retail lending portfolios at credit unions. TA was also provided, as part of the broader ECCU-wide initiative, to develop financial health and stability indicators for the insurance sectors. In 2021-24 (GARFIN) received TA to enhance its stress testing and risk-based supervision framework for credit union.

- **Macroeconomic Framework and Statistics.** To support the authorities' efforts to establish an annual medium-term economic framework and promote informed policy making, CARTAC provided TA to strengthen medium-term macroeconomic projections and improve macroeconomic statistics. TA was provided during 2013 to 2015 to assist with compiling GDP by expenditure estimates; and during 2016, 2017, and 2019 to develop quarterly GDP by economic activity at current and constant prices and improve them further. In 2020, CARTAC provided TA for rebasing annual and quarterly estimates of GDP by economic activity to 2018 prices and assisted with the compilation of supply and use tables. In addition, CARTAC conducted TA in 2017 to develop the Producer Price Index and in 2021 to update the CPI basket. TA was also provided in 2014–24 to produce balance of payments (BOP) statistics according to the *Balance of Payments and International Investment Position Manual (BPM6)* and to initiate the production of international investment position (IIP) statistics, and review and improve upon the BPM6-compliant BOP and IIP statistics first released in July 2017.

**Other Technical Assistance (Since 2016):** FAD and LEG have provided extensive assistance on tax policy and administration, public financial management, and public expenditure rationalization. In particular, TA was provided in the design and drafting of the PFM legislation and the Tax Administration legislation, reforms of the tax incentives system, and reform of the following Acts: income tax, property, VAT, excise tax. FAD provided TA on the public wage bill reform. FAD/LEG also provided comprehensive TA to draft the Fiscal Responsibility Act of 2015. FAD also provided TA in 2019 to further strengthen the Fiscal Responsibility Act. MCM provided TA on formulating a medium-term debt management strategy and implementing institutional changes to strengthen debt management and, together with LEG, provided TA to draft the Public Debt Management Act of 2015.

| Start Date | End Date | Mission Description |
|---|---|---|
| 01/11/2016 | 01/15/2016 | Public Financial Management |
| 03/21/2016 | 03/25/2016 | Improving Balance of Payments Statistics |
| 04/18/2016 | 04/22/2016 | Tax Administration |
| 06/09/2016 | 06/17/2016 | Improving External Sector Statistics |
| 06/09/2016 | 06/17/2016 | Medium-Term Debt Management Strategy |
| 07/06/2016 | 07/19/2016 | Managing the Public Wage Bill |
| 08/15/2016 | 08/26/2016 | Improving GDP Estimates by Expenditure |
| 4/24/2017 | 4/28/2017 | Developing Methodology for New Producer Price Index |
| 7/24/2017 | 7/28/2017 | Balance of Payments Statistics |
| 9/18/2017 | 9/22/2017 | Review and Assessment of the Adequacy of Reinsurance Contracts/Treaties |
| 10/23/2017 | 10/27/2017 | Developing a Stress Testing Framework for Credit Union Sector |
| 11/13/2017 | 11/24/2017 | Improving Annual & Quarterly GDP Methodology |
| 11/27/2017 | 12/1/2017 | Risk-Focused Examinations of Retail Lending Portfolios at Credit Union |
| 4/16/2018 | 4/20/2018 | Strengthening BOP & New IIP |
| 4/23/2018 | 4/27/2018 | Developing Financial Health and Stability Indicators for the Insurance Sector |
| 4/24/2018 | 5/2/2018 | Revenue Administration Diagnostic Mission |
| 5/29/2018 | 5/30/2018 | Review of Tax Administration Reform Priorities and FAD Recommendations |
| 10/8/2018 | 10/12/2018 | Contingency Planning for Crisis Preparedness and Management |
| 1/30/2019 | 2/11/2019 | Strengthening the Fiscal Responsibility Law |
| 2/11/2019 | 2/15/2019 | Improving External Sector Statistics |
| 4/1/2019 | 4/12/2019 | Improving the Source Data and Compilation Methodologies Used for GDP Estimates |
| 2/17/2020 | 2/28/2020 | Compilation of Supply and Use Tables |

| Start Date | End Date | Mission Description |
|---|---|---|
| 2/24/2020 | 2/28/2020 | Strengthening Risk Management in Customs |
| 3/30/2020 | 4/24/2020 | Strengthening Annual Balance of Payments Statistics (Remote Mission) |
| 6/22/2020 | 6/26/2020 | Strengthening Program Development and Compliance Risk Management Framework |
| 2/8/2021 | 2/12/2021 | Strengthening Balance of Payments/IIP Data (Remote Mission) |
| 3/22/2021 | 4/1/2021 | Price Statistics (Consumer Prices) |
| 4/11/2021 | 4/24/2021 | Compliance Risk Management Strategy for the Inland Revenue Division |
| 6/14/2021 | 6/18/2021 | Developing Performance Targets and KPI |
| 7/19/2021 | 7/23/2021 | Follow Up on Stress Test for Credit Unions |
| 1/31/2022 | 2/15/2022 | Developing Performance Targets and KPI |
| 2/7/2022 | 2/11/2022 | Developing Quarterly Balance of Payments Data (Remote Mission) |
| 4/6/2022 | 4/15/2022 | Risk-based Supervision (Follow-up) |
| 2/21/2022 | 3/4/2022 | Rebasing Annual and Quarterly GDP by Economic Activity to 2018 Prices |
| 4/1/2022 | 4/29/2022 | Enhancing Compliance Risk Management |
| 4/18/2022 | 4/29/2022 | Public Investment Management – PIMA and Climate PIMA |
| 5/17/2022 | 5/31/2022 | Public Sector Pensions |
| 9/26/2022 | 10/7/2022 | Review of Workload and Resource Allocation |
| 10/3/2022 | 10/7/2022 | Improving Balance of Payments Source Data |
| 2/13/2023 | 2/17/2023 | Risk-based Supervision (Follow-up) - LTX |
| 3/15/2023 | 3/19/2023 | Risk-based Supervision and Credit Risk Management |
| 4/10/2023 | 4/25/2023 | Fiscal Responsibility Law |
| 4/17/2023 | 4/28/2023 | Strengthening Customs Control of Petroleum Imports |
| 5/2/2023 | 5/5/2023 | CARTAC Systemic Risk Monitoring |
| 6/3/2023 | 6/14/2023 | SIGTAS Data Diagnostic – Informing Data Migration Strategy |
| 6/14/2023 | 6/15/2023 | Scoping Mission on Building Capacity in Macro-fiscal Forecasting |
| 9/4/2023 | 9/8/2023 | External Sector Statistics |
| 10/2/2023 | 10/13/2023 | Enhancing Data Integrity – Data Cleansing and Migration process |
| 1/15/2024 | 1/26/2024 | Strengthen Oversight of State-owned Enterprises (SOEs) |

| Start Date | End Date | Mission Description |
|---|---|---|
| 3/4/2024 | 3/8/2024 | First Mission on Building Capacity in Macro-fiscal Forecasting |
| 4/1/2024 | 4/15/2024 | Support Measuring the VAT gap |
| 6/16/2024 | 8/31/2024 | Strengthening management / governance arrangements - SIGTAS |
| 8/26/2024 | 9/06/2024 | Income tax and environmental excise reform |
| 9/23/2024 | 9/27/2024 | Enhancing BOP/IIP source data |
| Source: Based on available TA reports and consultations with CARTAC. | | |

**FSAP Participation:** Grenada participated in the regional Eastern Caribbean Currency Union FSAP conducted in September and October 2003. The Financial System Stability Assessment is IMF Country Report No. 04/293.

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

(As of November 30, 2024)

- **World Bank (WB)**

  WBG Finances - Country Details - Grenada (worldbank.org)

- **Caribbean Development Bank (CDB)**

  Grenada | Caribbean Development Bank (caribank.org)

INTERNATIONAL MONETARY FUND

# GRENADA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 6, 2025

Approved By
**Koshy Mathai and Jarkko Turunen (IMF); Manuela Francisco and Oscar Calvo-Gonzalez (IDA)**

Prepared by the Staffs of the International Monetary Fund and the International Development Association.

| Grenada: Joint Bank-Fund Debt Sustainability Analysis[1,2] | |
|---|---|
| **Risk of external debt distress** | *In debt distress* |
| **Overall risk of debt distress** | *In debt distress* |
| **Granularity in the risk rating** | *Sustainable* |
| **Application of judgement** | *No* |

*Grenada remains in public debt distress on account of large and longstanding unresolved arrears to official bilateral creditors of about US$38.0 million (2.9 percent of GDP) as of end-2023. External and public debt, however, are assessed as sustainable, despite the near-term breaches, as capacity to meet its current and future debt service obligations without requiring debt relief or accumulating additional arrears remains available. Both remain firmly on a downward path in the baseline scenario, supported by economic growth, limited financing needs, and a declining debt service burden from greater reliance on concessional financing. The impact of Hurricane Beryl on debt sustainability is modest, as high Citizenship-by-Investment (CBI) revenue and the triggering of disaster contingent instruments, including concessional financing from the World Bank's CAT-DDO, help cover Grenada's post-disaster financing needs. While gross public debt can rise significantly and persistently in more than one shock scenario, large government deposits from the recent CBI revenue surge mitigate the risks. Upgrading Grenada's risk rating would require a regularization of the arrears.*

[1] The last published DSA for Grenada can be accessed here.

[2] The composite index (CI), estimated at 3.00 and based on the October 2024 World Economic Outlook (WEO) and 2024 World Bank Country Policy and Institutional Assessment (CPIA) data, indicate a medium debt carrying capacity for Grenada.

# PUBLIC DEBT COVERAGE

1. **Public debt in this DSA is defined as the sum of central government debt (including external debt arrears), government-guaranteed debt, and the non-guaranteed debt of state-owned enterprises (SOEs).**[3] The non-guaranteed debt is estimated to be 14.7 percent of GDP at end-2023, including notably 10.4 percent of GDP on account of the Petrocaribe arrangement.[4] The complete coverage of public sector debt in the DSA is consistent with the 2023 Fiscal Resilience Act (FRA).[5,6] The authorities should continue with ongoing efforts to improve the comprehensiveness and timeliness of SOE debt data to improve the quality of debt statistics at the granular level.

**Text Table 1. Grenada: Coverage of Public Sector Debt**

| | Subsectors of the public sector | Check box |
|---|---|---|
| 1 | Central government | X |
| 2 | State and local government | X |
| 3 | Other elements in the general government | |
| 4 | o/w: Social security fund | |
| 5 | o/w: Extra budgetary funds (EBFs) | |
| 6 | Guarantees (to other entities in the public and private sector, including to SOEs) | X |
| 7 | Central bank (borrowed on behalf of the government) | X |
| 8 | Non-guaranteed SOE debt | X |

**Text Table 2. Grenada: Contingency Liability Calibration**

| | | | | |
|---|---|---|---|---|
| 1 | The country's coverage of public debt | The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt | | |
| | | Default | Used for the analysis | Reasons for deviations from the default settings |
| 2 | Other elements of the general government not captured in 1. | 0 percent of GDP | 0 | |
| 3 | SoE's debt (guaranteed and not guaranteed by the government) 1/ | 0 percent of GDP | 0 | SoE debt is included under central government |
| 4 | PPP | 35 percent of PPP stock | 0.00 | PPP capital stock is zero |
| 5 | Financial market (the default value of 5 percent of GDP is the minimum value) | 5 percent of GDP | 5 | |
| | Total (2+3+4+5) (in percent of GDP) | | 5.0 | |

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. **The contingent liability stress test accounts for risks from the potential contingent liabilities from the domestic financial system.** The current stock of PPP capital and central bank debt borrowed on behalf of the government remain zero, and thus the related contingent liability

[3] The stock of guaranteed SOE debt at end-2023 was zero following the November 2023 restructuring of the Marketing and National Importing Board (MNIB), the only SOE with central government guaranteed debt in 2022.

[4] The 2005 PetroCaribe arrangement allowed Grenada to buy oil at a discounted rate with limited upfront cost, with the balance to be paid through a 17–25-year financing agreement. The agreement ended in 2019. A bullet repayment structure with zero amortization or interest payments is chosen in the DSA analysis to project the PetroCaribe debt, given the following considerations: (i) the authorities have in recent years kept the nominal debt constant, without amortization or interest payments; (ii) PetroCaribe has no ongoing business operations, no employees, holding liquid financial assets and physical assets leased to local companies; and (iii) the authorities remain in discussions with Venezuela on a mechanism for resolving the outstanding debt stock. In case of St. Vincent and Grenadines, a substantial "haircut" on Petrocaribe debt was granted in 2018. The other SOE debt stock is based on unaudited reporting and comprise of long-term loans and the major creditor is a local commercial bank.

[5] The authorities' medium-term fiscal reports have significantly expanded the discussion on SOE financial situation and balance sheets, but compilation of comprehensive coverage of SOE debt schedules remains pending. Based on available reporting, on consolidated basis the currently reporting SOEs operate under a net surplus and a strong equity position. Entities with existing loans are reported being timely in their debt service.

[6] The approval of the amended 2023 FRA was supported by Sustainable Development Finance Policy (SDFP), as a FY24 Performance and Policy Action (PPA).

shock is set to zero. Contingent liabilities from the domestic financial system are set at the minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in low-income countries since 1980.[7]

## BACKGROUND ON DEBT

3. **External and total public debt have continued their decline.**[8] Prior to the Covid-19 pandemic, Grenada's central government debt declined significantly from 94.3 percent of GDP in 2014 to 58.5 percent of GDP in 2019, on the back of solid growth averaging 4.5 percent and robust primary surpluses averaging 4.7 percent of GDP in the same period. After a temporary rise during the pandemic, central government debt resumed its earlier downward trend in 2021 and reached an estimated 60.5 percent of GDP at end-2023. Debt of SOEs and statutory bodies rose from 15.5 percent of GDP in 2019 to 18.1 percent in 2020 before falling to 14.7 percent in 2023. The composition of debt also shifted further towards external concessional sources reflecting continued support from multilateral organizations and the authorities' debt management strategy.

**Text Table 3. Grenada: Public Sector Debt, 2020 - 2023**

(Year end, in millions of U.S. dollars, unless otherwise indicated)

| | 2020 | | | 2021 | | | 2022 | | | 2023 (prel.) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Percent of | | | Percent of | | | Percent of | | | Percent of | |
| | Stock | Total Debt | GDP | Stock | Total Debt | GDP | Stock | Total Debt | GDP | Stock | Total Debt | GDP |
| **Total Public Sector debt (incl. non-guaranteed SOE debt, A + B)** | 2521.2 | 100.0 | 89.5 | 2625.0 | 100.0 | 86.6 | 2620.7 | 100.0 | 78.8 | 2690.0 | 100.0 | 75.2 |
| A. Public sector debt (excl. non-guaranteed SOE debt) | 2011.8 | 79.8 | 71.4 | 2121.8 | 80.8 | 70.0 | 2088.7 | 79.7 | 62.8 | 2163.7 | 80.4 | 60.5 |
| 1. Central government debt | 2011.8 | 79.8 | 71.4 | 2120.8 | 80.8 | 70.0 | 2087.9 | 79.7 | 62.8 | 2163.7 | 80.4 | 60.5 |
| 2. Central-government guaranteed debt | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| B. SOE non-guaranteed debt | 509.4 | 20.2 | 18.1 | 503.2 | 19.2 | 16.6 | 532.0 | 20.3 | 16.0 | 526.3 | 19.6 | 14.7 |
| 1. PetroCaribe Grenada | 372.1 | 14.8 | 13.2 | 372.1 | 14.2 | 12.3 | 372.1 | 14.2 | 11.2 | 372.1 | 13.8 | 10.4 |
| 2. Other SOE non-guaranteed debt | 137.3 | 5.4 | 4.9 | 131.1 | 5.0 | 4.3 | 159.9 | 6.1 | 4.8 | 154.2 | 5.7 | 4.3 |
| **External debt (A+B+C)** | 1963.9 | 77.9 | 69.7 | 2047.3 | 78.0 | 67.5 | 2074.0 | 79.1 | 62.4 | 2167.6 | 80.6 | 60.6 |
| A. Central Government | 1554.7 | 61.7 | 55.2 | 1657.1 | 63.1 | 54.7 | 1663.4 | 63.5 | 50.0 | 1759.1 | 65.4 | 49.2 |
| 1. Multilateral | 987.8 | 39.2 | 35.1 | 1060.8 | 40.4 | 35.0 | 1111.5 | 42.4 | 33.4 | 1179.8 | 43.9 | 33.0 |
| 2. Official bilateral | 195.7 | 7.8 | 6.9 | 246.9 | 9.4 | 8.1 | 236.2 | 9.0 | 7.1 | 294.0 | 10.9 | 8.2 |
| of which Paris Club | 16.3 | 0.6 | 0.6 | 16.4 | 0.6 | 0.5 | 14.7 | 0.6 | 0.4 | 13.1 | 0.5 | 0.4 |
| 3. Commercial debt | 347.8 | 13.8 | 12.3 | 332.1 | 12.7 | 11.0 | 302.4 | 11.5 | 9.1 | 277.3 | 10.3 | 7.8 |
| 4. Overdue membership fees | 23.4 | 0.9 | 0.8 | 17.2 | 0.7 | 0.6 | 13.3 | 0.5 | 0.4 | 8.1 | 0.3 | 0.2 |
| B. Central-government guaranteed | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| C. SOE non-guaranteed debt | 409.2 | 16.2 | 14.5 | 390.2 | 14.9 | 12.9 | 410.6 | 15.7 | 12.3 | 408.5 | 15.2 | 11.4 |
| 1. PetroCaribe Grenada | 372.1 | 14.8 | 13.2 | 372.1 | 14.2 | 12.3 | 372.1 | 14.2 | 11.2 | 372.1 | 13.8 | 10.4 |
| 2. Other SOE non-guaranteed debt | 37.1 | 1.5 | 1.3 | 18.1 | 0.7 | 0.6 | 38.5 | 1.5 | 1.2 | 36.4 | 1.4 | 1.0 |
| **Domestic debt (A+B+C)** | 557.3 | 22.1 | 19.8 | 577.7 | 22.0 | 19.1 | 546.7 | 20.9 | 16.4 | 522.4 | 19.4 | 14.6 |
| A. Central Government | 457.1 | 18.1 | 16.2 | 463.7 | 17.7 | 15.3 | 424.5 | 16.2 | 12.8 | 404.6 | 15.0 | 11.3 |
| B. Central-Government Guaranteed | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| C. SOE non-guaranteed debt | 100.2 | 4.0 | 3.6 | 113.0 | 4.3 | 3.7 | 121.4 | 4.6 | 3.7 | 117.8 | 4.4 | 3.3 |
| **Memorandum items:** | | | | | | | | | | | | |
| On-Lent Loans to Public Bodies 1/ | | | | | | | | | | | | |
| External | 34.2 | | 1.2 | 102.7 | | 3.4 | 110.3 | | 3.3 | 181.2 | | 5.1 |
| Domestic | 3.3 | | 0.1 | 3.0 | | 0.1 | 2.7 | | 0.1 | 2.7 | | 0.1 |
| PetroCaribe Grenada | | | | | | | | | | | | |
| Debt to Venezuela | 372.1 | | 13.2 | 372.1 | | 12.3 | 372.1 | | 11.2 | 372.1 | | 10.4 |
| Loan to Grenada's Central Government | 111.9 | | 4.0 | 106.4 | | 3.5 | 99.8 | | 3.0 | 94.3 | | 2.6 |
| Loan to Public Bodies | 67.5 | | 2.4 | 93.3 | | 3.1 | 93.3 | | 2.8 | 93.3 | | 2.6 |
| Nominal GDP | 2817.2 | | | 3031.6 | | | 3324.9 | | 100.0 | 3576.1 | | 100.0 |

Sources: Grenadian authorities and Fund staff estimates.

1/ On-lent loans to public bodies are not counted as SOE debt since they are part of central government debt.

[7] Current contingent liability risks from the banking system are assessed as low due to low NPLs and high system liquidity (with Q2-2024 total assets and NPLs at 50.5 and 3.1 percent of GDP, respectively). The assumed 5 percent of GDP contingent state liabilities provide coverage against the risk of a systemic shock to the credit union sector (with end-2023 deposits and NPLs at 32.5 and 2.0 percent of GDP respectively).

[8] The external debt is defined based on a residency criterion. The share of external debt using currency criteria is about 7.9 percentage points lower, as a large portion of the debt held by nonresidents is in Eastern Caribbean Dollar.

**4. The authorities have not yet resolved their large remaining external arrears with non-Paris Club official bilateral creditors.** These arrears are a legacy from the 2014 debt restructuring, reflecting arrears to non-Paris Club holdouts, commercial creditors, and international organizations. Arrears of about US$38.0 million owed to non-Paris Club official bilateral creditors (Trinidad and Tobago and Algeria) have not yet been regularized and have increased since 2022 with the accrual of interest (Text Table 4). The authorities are finalizing an agreement with Algeria to settle arrears and have set up an escrow account for deposit payments to advance negotiations with Trinidad and Tobago, including through technical-level discussions, but final agreement is yet to be reached.[9] Modest arrears to commercial creditors—reflecting payment confirmation processes—and unpaid contributions to international organizations totaled 0.4 percent of GDP at end-2023.

**Text Table 4. Grenada: External and Domestic Arrears 2020–23**
(Year end, in millions of U.S. dollars, unless otherwise indicated)

| | 2020 | | 2021 | | 2022 | | 2023 (est) | |
|---|---|---|---|---|---|---|---|---|
| | US$mln | % of GDP | US$mln | % of GDP | US$mln | % of GDP | US$mln | % of GDP |
| **Total arrears** | **33.9** | **3.2** | **32.1** | **2.9** | **42.7** | **3.5** | **43.3** | **3.3** |
| **External arrears** | **33.9** | **3.2** | **32.1** | **2.9** | **42.7** | **3.5** | **43.3** | **3.3** |
| Multilateral | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bilateral | 22.8 | 2.2 | 24.5 | 2.2 | 37.6 | 3.1 | 38.0 | 2.9 |
| Paris Club | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-Paris Club | 22.8 | 2.2 | 24.5 | 2.2 | 37.6 | 3.1 | 38.0 | 2.9 |
| Algeria | 1.8 | 0.2 | 1.9 | 0.2 | 1.9 | 0.2 | 2.3 | 0.2 |
| Libya | 5.0 | 0.5 | 5.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trinidad | 16.0 | 1.5 | 17.6 | 1.6 | 35.7 | 2.9 | 35.7 | 2.7 |
| Commercial | 2.4 | 0.2 | 1.2 | 0.1 | 0.2 | 0.0 | 2.2 | 0.2 |
| Unpaid contribution to organizations | 8.7 | 0.8 | 6.4 | 0.6 | 4.9 | 0.4 | 3.0 | 0.2 |
| **Budget expenditure arrears** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Domestic debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Grenadian authorities and staff estimates.

**5. Most portfolio characteristics of central government debt continued to improve.** Consistent with the government's debt strategy and in line with commitments from development partners, borrowing in 2023 comprised committed undisbursed balances and concessional funding from external official creditors. The share of external debt rose to 82.8 percent in 2023 (from 81.8 percent the year before), with the domestic (commercial) debt stock continuing to decline. The average time to maturity (ATM) for the total portfolio increased by 1.2 years to around 10.4 years. The average effective interest rate on all central government debt declined marginally from 2.5 percent in 2022 to 2.4 percent in 2023.

**6. Portfolio risks are moderate and declining.** Some 93 percent of the external debt portfolio is contracted at fixed interest rates. The average time to re-fixing for the entire portfolio increased by 1.1 years to 9.9 years. A fifth of the portfolio is subject to a change in interest rates in one year, primarily reflecting the short life of domestically issued instruments of which 30 percent are T-bills. The domestic re-fixing risk is substantially mitigated by the ECCU region's relatively stable and insulated interest rate environment and the authorities' strategy to rely mostly on

[9] Based on the 2024 Supplement of the LIC DSF Guidance Note, the DSA baseline will include the clearance of arrears after the bilateral agreements with the official bilateral creditors are concluded.

concessional external sources for new financing.[10] The debt portfolio's foreign exchange risk exposure is modest as about 70 percent of foreign currency debt is denominated in U.S. dollars to which the EC dollar is pegged.

# IMPACT OF HURRICANE BERYL

**7. In the aftermath of the hurricane Grenada triggered a disaster clause in its 2015 restructured bond, and utilized its Catastrophe Deferred Drawdown Option (CAT-DDO) with the World Bank.[11]** The hurricane caused large physical damage estimated at around 16.5 percent of GDP, including extensive destruction to housing, infrastructure, crops and fishing in the most affected areas of Carriacou, Petite Martinique and the Northern main island. The restructured bond's two scheduled payments on November 2024 and May 2025 have been deferred and are added to the bond's lump sum "principal" payments due pro rata at the bond's maturity in 2030. The CAT-DDO provides US$20 million in concessional funding under IDA terms. Alongside the large US$55.5 million parametric insurance payouts by the Caribbean Catastrophe Risk Insurance Facility (CCRIF), these measures provided immediate liquidity support to the government and help contain the hurricane's impact on the debt level, dynamics, and portfolio risks.

# BACKGROUND ON MACRO FORECASTS

**8. Economic performance has been better than anticipated in the 2023 Article IV.[12]** Continued strength of the tourism sector supported higher-than-expected growth in 2023. A surge in CBI revenue also resulted in a large 2023 fiscal surplus and accumulation of government deposits to 17 percent of GDP, while strong tourism exports and moderation in import-intensive construction prices narrowed the current account deficit. Inflation remained moderate.

**9. Hurricane Beryl caused large physical damage (some 16.5 percent of GDP) in certain areas, but the GDP impact was contained as heavily populated areas and tourism were largely spared.** The cumulative impact of the hurricane on GDP growth is estimated to be relatively modest during 2024-25, on account of robust tourism performance as well as large recovery and reconstruction efforts. Inflation is projected to average around 1.4 percent in 2024-25 before recovering to 2 percent from 2026 onward. The import-intensive reconstruction and post-disaster food import needs are projected to result in a temporary widening of the current account deficit.

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[10] The Regional Government Securities Market (RGSM) has limited secondary trading and the interest rates for issuances in the recent past have been relatively insensitive to global interest rate cycles.

[11] The triggering of the disaster clause in the restructured bond was based on modeled losses as a result of the event exceeding predefined thresholds (US$30 million for deferral of next two semi-annual principal and interest payment dates). The determination of losses was tied to Grenada's parametric insurance policy with the Caribbean Catastrophe Risk Insurance Facility (CCRIF). The CAT-DDO drawdown trigger was based on the authorities' declaration of emergency in the aftermath of the event.

[12] Grenada: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Grenada.

**10. Sizeable reconstruction costs are projected to necessitate temporary deficit financing.** To provide policy space to support the post-disaster recovery, the authorities activated the suspension of primary balance rule under the Fiscal Resilience Act (FRA). Exceptional non-tax revenue (from continued strong CBI performance and the post-disaster parametric insurance payout from CCRIF) and delays in spending execution are projected to result in a sizeable 2024 primary surplus. However, the expected normalization of CBI revenues and large reconstruction and recovery spending needs are projected to result in primary deficits in 2025-26, financed primarily by deposit drawdowns, including from the recent post-disaster financing.

**11. Over the medium term, growth is projected to gradually converge to its long-term average of 2.7 percent.** Tourism growth is anticipated to slow due to narrowing capacity but is partly offset by stronger anticipated construction activity from delayed CBI and other investment.[13] The gradual reduction of current account deficit is projected to resume following the post-reconstruction normalization of investment. The fiscal outlook is underpinned by a return to the fiscal rules with a debt ceiling of 60 percent of GDP.

**Text Table 5. Grenada: Macroeconomic Assumptions**
(In percent of GDP, unless otherwise specified)

| | Historical | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|
| | avg. 2014-22 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | avg. 2029-44 |
| Real GDP growth (in percent) | | | | | | | | |
| 2024 AIV - Current | 2.8 | 4.7 | 3.6 | 3.9 | 3.3 | 2.7 | 2.7 | 2.7 |
| 2023 AIV - Current | | | 3.8 | 3.5 | 3.2 | 2.7 | 2.7 | 2.8 |
| Inflation rate, period average (GDP deflator, in percent) | | | | | | | | |
| 2024 AIV - Current | 1.7 | 2.7 | 1.4 | 1.4 | 2.0 | 2.0 | 2.0 | 2.0 |
| 2023 AIV - Current | | | 2.8 | 2.0 | 2.2 | 2.2 | 2.2 | 2.2 |
| Non-interest current account deficit | | | | | | | | |
| 2024 AIV - Current | 11.6 | 9.1 | 13.0 | 14.0 | 10.8 | 9.8 | 9.1 | 4.1 |
| 2023 AIV - Current | | | 11.7 | 10.8 | 11.0 | 10.6 | 10.4 | 10.9 |
| Growth of exports of G & S (USD terms, in percent) | | | | | | | | |
| 2024 AIV - Current | 7.0 | 16.9 | 6.6 | 3.2 | 6.0 | 5.1 | 4.2 | 4.4 |
| 2023 AIV - Current | | | 6.1 | 3.8 | 3.9 | 4.2 | 4.2 | 4.1 |
| Primary balance | | | | | | | | |
| 2024 AIV - Current | 3.2 | 9.5 | 8.0 | -5.1 | -1.2 | 1.5 | 1.5 | 0.6 |
| 2023 AIV - Current | | | 3.6 | 3.6 | 1.6 | 1.3 | 1.0 | -0.8 |

Source: Grenadian authorities and IMF staff projections

**12. Financing assumptions draw on the authorities' 2024-26 medium-term debt strategy.** New financing relies only on external concessional sources and utilization of undrawn commitments, incorporating the latest financing projections from the World Bank's International Development Association (IDA) program (including the US$20 million CAT-DDO), existing Caribbean Development Bank (CDB) projects, and anticipated disbursements over the medium-term under a

[13] Recent FDI inflows from CBI under the real estate option (to pre-approved tourism projects) are accumulated in developer escrow accounts, which are expected to be drawn over time as the underlying CBI projects progress.

US$100 million concessional loan from the Saudi Fund for Development (SFD) agreed in 2023.[14] The debt strategy includes no new domestic or regional commercial borrowing in the near-term, while rolling over maturing short-term instruments. In the long run, government financing is assumed to continue to rely on external official loans, with no plan to return to external bond markets in the projection period. Domestic and Regional Governments' Securities Market (RGSM) financing sources fill the financing needs not covered by external funding, in line with the authorities' strategy to maintain a presence and help develop these markets. The DSA assumes that domestic and RGSM borrowing gradually turn to longer-term maturities in the outer projection period.

### Box 1. Grenada: Macroeconomic Assumptions for 2024–43

***Real GDP growth*** is projected at 3.6 percent in 2024 (following growth of 4.7 percent in 2023), underpinned by a still-rapid growth in tourism, buoyed in part by the surge in CBI inflows and improved flight capacity respectively. After substantial reconstruction investment in 2025-26, public investment is projected to moderate over the medium-term, while private investment will see support from delayed CBI projects.[1] Increasing output capacity constraints are projected to weigh on GDP growth, which is projected to converge toward the pre-pandemic average of 2.7 percent on the back of population and capital growth. Implementation of the Disaster Resilience Strategy (DRS) and stronger investment present upside risks.

***Inflation*** has moderated reflecting global disinflation and Grenada's high import dependency. The period average is projected to be around 1.4 percent in 2024, amid lower global food and fuel prices. Inflation is expected to remain at 2 percent over the long term, anchored by the currency board arrangement under the Eastern Caribbean Central Bank (ECCB).

***Fiscal policy.*** After substantial recovery and reconstruction spending in 2024-26, government current and capital spending are anticipated to normalize from 2027 onwards. The envelope of capital spending from 2027 is determined by adherence to the primary balance rule of a 1.5 percent of GDP primary surplus until the new debt target of 60 percent of GDP is met. Despite the impact of the hurricane, debt is expected to continue to fall and reach the target by 2030, well ahead of the regional target date of 2035, thanks to the high CBI revenues, accumulated government deposits, and primary surpluses from 2027 onwards.

***The non-interest current account deficit*** is currently projected to widen to 13.0 percent in 2024 and 14.0 percent in 2025 due to higher food and construction-related imports. Over the medium term, the current account deficit is projected to return to around its long-term average as these temporary factors wane.

***Gross (imputed) reserves*** are expected to see a small rise in 2024 before declining in 2025-26 amid the projected current account outflows. In the medium-term reserves are projected at around 4.3 months of imports of goods and services.

***Risks*** are tilted to the downside. Grenada remains highly exposed to further risks of natural disasters, slowdown in tourism source markets and commodity price volatility. The uncertain outlook for CBI inflows amidst increased international scrutiny of such programs can weigh on future government revenue and tourism investment. These shocks could be amplified by materialization of risks in the non-bank financial sector (notably credit unions). The large stock of government deposits, however, provides an important buffer against such unanticipated shocks.

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[1] The inflow of CBI revenues is projected to decline from current high levels going forward given softening in new demand and clearing of a backlog of applications from the recent surge.

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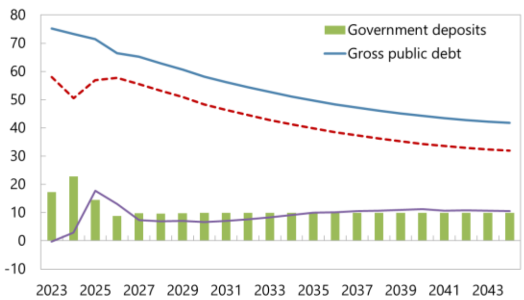
[14] The SFD loan is a concessional fixed interest rate loan for a Climate Smart Infrastructure Project with a 25-year maturity with a 5-year grace period. The loan amount is assumed to be gradually disbursed over 2025-29.

**13. The authorities' debt strategy assumes no new borrowing and the large gross financing needs in 2025-26 are thus assumed to be met by a drawdown in government deposits.** Government deposits are projected to reach 23 percent of GDP by end-2024 (implying net debt would already be well below the 60 percent ceiling under the FRA), due to the large CBI revenues. Gross financing needs (GFNs) in 2025-26 are projected to be substantial, primarily driven by a primary deficit resulting from significant reconstruction spending, but also temporarily higher debt service reflecting exceptional payments to holders of the restructured international bonds from the recent surge in CBI revenue under the terms of the restructuring agreement.[15] With no new borrowing, the GFN is met by a drawdown of deposits, which are projected to decline to just under 10 percent of GDP by 2027. The expected resumption of fiscal rules would anchor a continued decline in gross government debt to below 60 percent of GDP by 2030, alongside a stabilization of deposits.

**Gross and Net Public Debt and Government Deposits**

(Percent of GDP)

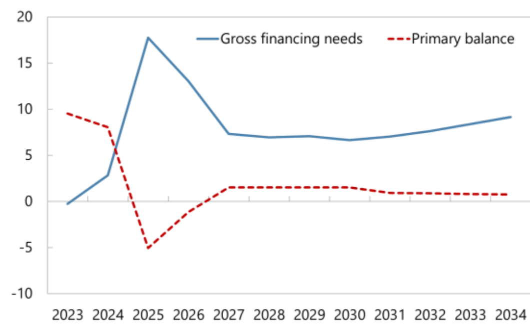



Sources: Country authorities and IMF staff calculations

Note: Net debt is calculated as total public debt minus deposits.

**Gross Financing Needs and Fiscal Primary Balance**

(Percent of GDP)




Sources: National authorities and IMF staff calculations

**14. Realism tools indicate that short-term growth is conservatively forecasted (Figure 3).** The deterioration of the primary balance is large compared with the historical distribution but reflects the normalization of the recent surge in CBI revenues and the large reconstruction outlays. The implied low multiplier on government investment reflects the large import content of (construction) investment in Grenada, and the broader need for structural reforms to boost potential growth. The drivers of debt dynamics (Figure 2) include high residuals that reflect the expansion of the baseline debt coverage to include SOE debt (consistent with the 2023 FRA). High residuals in Table 2 are due to the substantial accumulation of government deposits from the 2023-24 CBI revenue surge, which are projected to partially unwind in 2025-26.

[15] The restructuring terms entitle bondholder to a defined portion of the previous calendar year's CBI revenue. With a projected normalization of the recently elevated CBI revenue from 2025, these bondholder payments will also substantially decline. The payments are incorporated in baseline fiscal and government deposit projections.

# COUNTRY CLASSIFICATION AND DETERMINANTS OF SCENARIO STRESS TESTS

**15. Grenada continues to be assessed at medium debt-carrying capacity.** The rating is based on the CI score, which captures the impact of the different factors through a weighted sum of the 2024 World Bank's CPIA score, the country's real GDP growth, remittances, international reserves, and world growth. Under the CI, Grenada continues to be rated as a medium performer.

**16. Both external and public debt analyses consider standard-DSA alternative scenarios to this baseline as well as a "natural disaster" tailored scenario.** Specifically, the "natural disaster" scenario, is tailored by a 5 percent of GDP, or 2.5 percentage points (whichever is higher), rise in debt in the first two years following a hurricane. This tailored scenario is calibrated based on the estimated growth impact that the 2017 hurricane Maria had on Dominica (the total damage from Maria for Dominica is similar to that of hurricane Ivan for Grenada in 2004).

### Text Table 6. Grenada: Composite Indicator

**Calculation of the CI Index**

| Components | Coefficients (A) | 10-year average values (B) | CI Score components (A*B) = (C) | Contribution of components |
|---|---|---|---|---|
| CPIA | 0.385 | 3.695 | 1.42 | 47% |
| Real growth rate (in percent) | 2.719 | 2.661 | 0.07 | 2% |
| Import coverage of reserves (in percent) | 4.052 | 41.233 | 1.67 | 56% |
| Import coverage of reserves^2 (in percent) | -3.990 | 17.002 | -0.68 | -23% |
| Remittances (in percent) | 2.022 | 5.671 | 0.11 | 4% |
| World economic growth (in percent) | 13.520 | 2.967 | 0.40 | 13% |
| CI Score | | | 3.00 | 100% |
| | | | | |
| CI rating | | | Medium | |

| EXTERNAL debt burden thresholds | Weak | Medium | Strong |
|---|---|---|---|
| PV of debt in % of | | | |
| Exports | 140 | 180 | 240 |
| GDP | 30 | 40 | 55 |
| Debt service in % of | | | |
| Exports | 10 | 15 | 21 |
| Revenue | 14 | 18 | 23 |
| Final | Classification based on current vintage | Classification based on the previous vintage | Classification based on the two previous vintage |
| Medium | Medium<br>3.00 | Medium<br>2.97 | Medium<br>2.98 |

# EXTERNAL DSA

**17. The external public and publicly guaranteed PPG debt-to-GDP ratio is projected to decline in the baseline scenario.** The present value of near-term debt-to-GDP and debt service-to-revenue ratios exceeds the threshold under the baseline scenario (Figure 1). These breaches are transitory – the external debt is projected to decline over the medium-term reflecting continued adherence to the primary balance rule of 1.5 percent of GDP surplus after its resumption until the public debt target of 60 percent of GDP is met in 2030. The jump in debt service-to-revenue ratio reflects the temporarily high CBI-related payments to holders of the restructured international bonds. The risks to debt service are mitigated by the structure of these payments being directly tied to the performance of the CBI program, and they are projected to normalize with the lower future CBI revenue.[16]

**18. Stress tests show that PV debt-to-GDP and debt-service-to-revenue thresholds are breached.** The high tourism dependency of Grenada implies that across all solvency and liquidity indicators, "exports" is one of the most severe shocks (Table 3).[17] A large natural disaster and a shock on contingent liabilities also have significant potential effects on the debt path. A natural disaster tailored shock has a protracted effect on the debt path in part due to its interaction with the growth shock (e.g., due to a high likelihood of infrastructure damage, as occurred from Hurricane Beryl). Although the debt-service-to-revenue ratio saw the most extreme shock from a one-time depreciation, this risk is mitigated by the peg to the U.S. dollar and the strength of the ECCU's quasi-currency board (in addition to the high near-term payments being linked to the CBI revenue).

**19. External debt is vulnerable to risks but is assessed as <u>sustainable as capacity to meet its current and future debt service obligations without requiring debt relief or accumulating additional arrears remains available</u>.** While exports is one of the most severe shocks for all indicators, the recent experience with the Covid-19 pandemic demonstrated external debt resilience to a sharp contraction in services exports. This in part reflects the high share of official creditors in government external debt, absence of extra-regional international market borrowing and the shortage of alternative regional investment options, which underpins the resilience of the regional sovereign debt market.[18] Grenada also showed significant resilience to Hurricane Beryl supported by its multi-layered disaster resilience framework, which provided substantial quasi-automatic financing relief in the immediate aftermath of the disaster. The high government savings from past CBI inflows continue to provide a further substantial buffer against external shocks, despite the expected reduction in 2025-26. The replenishment capacity of these buffers is nonetheless linked to the uncertain outlook for future CBI revenue.

[16] The bondholder payments are fully incorporated in staff's baseline projections. As they are tied to the previous year's CBI revenue,

[17] The export shock results in a decline in export of goods and services by 16 percent of GDP in 2025 and another 12.5 percent of GDP in 2026.

[18] The support of the official creditors may even be strengthened during an economic downturn.

**20. Private external debt presents limited risks to the government.** This debt comprises mostly of non-resident deposits of Grenadian nationals abroad, intra-group bank liabilities of international hotel groups, and FDI debt. The stability and nature of these exposures limits any contingent liability risks. The local Grenadian companies do not have international market access, and the regional capital markets are underdeveloped with no securitized debt financing.

# OVERALL RISK OF PUBLIC DEBT DISTRESS

**21. Public debt is assessed to be "in debt distress" solely on account of unresolved official arrears.** The public debt-to-GDP ratio breaches the threshold for two years before remaining below it under the baseline scenario, partly reflecting the large share of public debt having concessional terms (Figure 1b). Under the assumptions for non-guaranteed SOE debt (constant PetroCaribe debt and stable other external SOE debt as a percent of GDP), the total public debt path is primarily driven by the projected decline in central government debt. This path is underpinned by the return to the currently suspended primary balance rule. The medium-term total public debt target of 60 percent of GDP is projected to be reached in 2030, significantly ahead of the target year of 2035 specified in the Fiscal Resilience Act 2023. After 2030, the public debt is projected to further decline, supporting the residual large Government deposits as a cushion against further natural disasters or other external shocks. Nevertheless, due to the remaining unresolved arrears to official bilateral creditors, Grenada's DSA rating remains unchanged at "in debt distress."

**22. The underlying public debt dynamics are assessed as sustainable notwithstanding shock-sensitivity of the gross debt path.** Under the most extreme growth-shock scenario, the benchmark threshold for the PV of debt-to-GDP ratio is breached for more than a decade (Table 4). Again, Grenada's debt resilience during the Covid-19 pandemic which led to a sharp drop in tourism (a key source of economic activity), as well as the sizeable government savings from past CBI revenues substantially mitigate such shocks' debt sustainability risks. Moreover, the resiliency of public debt is anchored in adherence to well-established fiscal rules and a strong track-record of fiscal prudence.

# RISK RATING, VULNERABILITY AND RECOMMENDATIONS

**23. Grenada remains in debt distress, but its public and external debt is assessed as sustainable.** The sustainability assessment is predicated on the authorities' strong commitment to the Fiscal Resilience Act (FRA), well-established track-record of fiscal prudence, and continued efforts to undertake fiscal structural reforms and strengthen debt management. Fully regularizing external arrears would help tangibly improve the DSA rating.

**24. Sizeable savings from past CBI revenues provide a buffer against external shocks.** Grenada's debt sustainability is subject to downside risks, including susceptibility to global shocks on tourism and commodity prices, highly uncertain CBI inflows amidst intensified international scrutiny, and the ever-present risk of natural disasters. Fiscal policy prudence underpinned by the fiscal rules, a stronger CBI management framework, and structural reforms to improve competitiveness are key to managing these risks. The climate-related natural disaster risks can also be mitigated by continued implementation of the Disaster Resilience Strategy (DRS), as supported by the IMF, World Bank, and other development partners.[19] Sizeable savings accumulated from the recent CBI revenue surge, in addition to the now-tested parametric insurance facilities (CCRIF), other disaster contingent debt instruments (CAT-DDO and disaster-clauses) and the availability of other liquid financial assets (SDR allocation) provide a substantial buffer against external shocks.

**25. To cushion the fiscal position from disaster-related risks, Grenada is advancing climate resilience building.** Grenada has received continued strong support from development partners in building climate resilience, including the World Bank, the Caribbean Development Bank, and more recently financing from the Saudi Fund for Development. The process of mainstreaming resilience building is on-going, and the 2023 amendment of fiscal rules implies that grant-financed resilience building projects and transformative projects supporting growth will be subject to the same fiscal rule constraints. This requires better planning to coordinate public investment projects. Additionally, continued efforts are needed to improve efficiency of public investment and address persistent capacity constraints in public administration that also hamper public project implementation. Development partners have been providing important technical and capacity assistance to Grenada to further advance this area. Furthermore, timely publication of climate fiscal risk statements could help the authorities to better prepare for climate events.

**26. Strong public financial management, including a more coherent CBI revenue management framework, would strengthen shock-contingency planning.** The government's financial buffers are expected to remain robust, but uncertain future CBI inflows weaken their replenishment capacity. This highlights the importance of CBI revenue management to ensure that the resources will be spent efficiently and maintaining sufficient liquid buffers against severe natural disasters and other external shocks. Strong buffers remain critical while Grenada continues to build structural disaster resilience. Continued efforts to strengthen the Medium-Term Fiscal Framework (MTFF) would strengthen its role in the budget process, especially as top-down guidance for the macro-fiscal path. Monitoring of SOEs and PPP related liabilities should also be enhanced with the development of relevant frameworks and regulations.

**27. Debt management and debt data coverage need to be further enhanced.** The authorities can improve debt management by enhancing data management, upgrading IT systems, revising the debt management procedure manual, and renewing the 2018 Debt Management Performance Assessment (DeMPA), which was undertaken with the World Bank. Coordinating the debt management strategy and the CBI revenue management framework would help optimize the

[19] The illustrative DGSE-based simulations in the 2022 Grenada Disaster Resilience Strategy (IMF Country report No. 22/80) suggest that, based on Grenada's historical costs of natural disasters, achieving a public capital stock that is 80 percent resilient would imply a steady state level of potential output that is 3 percent higher than without the investment in resilient infrastructure. In staff's baseline projections the growth benefits from DRS implementation are treated as an upside risk. The DRS implementation also involves a financial resilience pillar under which the dedicated financial protection against natural disasters amounted to 7¼ percent of GDP in 2020.

costs from the Government's net debt position. A timely publication of SOE financial statements is important for transparency of the government's fiscal position and operations.

### Authorities' Views

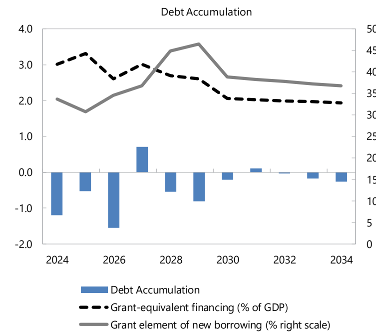
**28. The authorities agreed with staff's debt sustainability assessment.** They indicated the pending resolution of arrears to Algeria and Trinidad & Tobago is highly advanced. The authorities also noted their commitment to return to the fiscal rules once expenditures for reconstruction activities are completed. They indicated that the near-term reconstruction financing needs would be covered by already contracted external funding, as well as drawdown of deposits, and that staff's financing assumptions are broadly in line with the government's Medium Term Debt Management Strategy.

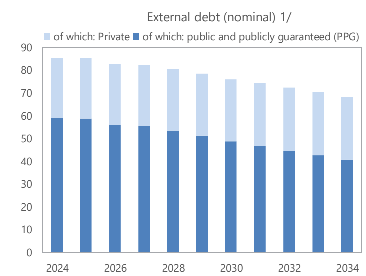
# Table 1. Grenada: External Debt Sustainability Framework Baseline Scenario 2021–44

## (In percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 8/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2034 | 2044 | Historical | Projections |
| **External debt (nominal) 1/** | 94.8 | 90.0 | 86.9 | 85.4 | 85.4 | 82.6 | 82.3 | 80.5 | 78.4 | 68.3 | 53.3 | **83.0** | **77.8** |
| ***of which: public and publicly guaranteed (PPG)*** | 67.5 | 62.4 | 60.6 | 59.1 | 58.8 | 55.9 | 55.4 | 53.4 | 51.1 | 40.5 | 31.0 | **58.8** | **50.6** |
| Change in external debt | 2.3 | -4.8 | -3.0 | -1.5 | 0.0 | -2.8 | -0.3 | -1.8 | -2.1 | -2.0 | -0.8 | | |
| **Identified net debt-creating flows** | -6.5 | -9.1 | -20.7 | -12.6 | -1.8 | -4.5 | -4.7 | -4.6 | -4.4 | -3.0 | -2.4 | **-6.8** | **-4.4** |
| **Non-interest current account deficit** | 13.1 | 9.2 | 7.8 | 9.9 | 10.6 | 8.6 | 8.3 | 7.5 | 7.6 | 8.7 | 8.0 | **9.6** | **8.7** |
| Deficit in balance of goods and services | 7.5 | 6.4 | 0.9 | 6.0 | 6.1 | 2.8 | 1.8 | 1.0 | 0.9 | 1.2 | 0.0 | **2.5** | **2.3** |
| Exports | 47.9 | 57.8 | 62.8 | 64.0 | 62.9 | 63.2 | 63.3 | 63.0 | 62.6 | 61.2 | 58.8 | | |
| Imports | 55.4 | 64.3 | 63.7 | 70.0 | 69.0 | 66.0 | 65.2 | 64.0 | 63.5 | 62.3 | 58.8 | | |
| Net current transfers (negative = inflow) | -1.8 | -2.0 | -1.5 | -2.7 | -1.9 | -1.8 | -1.8 | -1.8 | -1.7 | -1.5 | -1.0 | **-0.3** | **-1.8** |
| *of which: official* | -1.1 | -0.3 | 0.5 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | | |
| Other current account flows (negative = net inflow) | 7.4 | 4.8 | 8.5 | 6.7 | 6.4 | 7.6 | 8.3 | 8.3 | 8.4 | 9.0 | 9.0 | **7.5** | **8.2** |
| **Net FDI (negative = inflow)** | -14.4 | -11.7 | -23.4 | -22.7 | -12.6 | -12.6 | -12.4 | -11.5 | -11.3 | -10.7 | -9.6 | **-13.9** | **-12.5** |
| **Endogenous debt dynamics 2/** | -5.2 | -6.6 | -5.1 | 0.1 | 0.3 | -0.4 | -0.6 | -0.6 | -0.7 | -1.0 | -0.7 | | |
| Contribution from nominal interest rate | 1.4 | 1.8 | 1.2 | 3.1 | 3.5 | 2.3 | 1.6 | 1.5 | 1.4 | 0.8 | 0.7 | | |
| Contribution from real GDP growth | -4.0 | -6.3 | -3.9 | -3.0 | -3.2 | -2.7 | -2.1 | -2.1 | -2.1 | -1.8 | -1.4 | | |
| Contribution from price and exchange rate changes | -2.5 | -2.0 | -2.4 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Residual 3/** | 8.8 | 4.2 | 17.7 | 11.1 | 1.7 | 1.7 | 4.4 | 2.8 | 2.3 | 1.1 | 1.6 | **3.5** | **2.7** |
| *of which: exceptional financing* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of PPG external debt-to-GDP ratio** | **...** | **...** | **51.1** | **47.5** | **44.6** | **40.9** | **39.7** | **37.3** | **34.8** | **27.0** | **20.2** | | |
| **PV of PPG external debt-to-exports ratio** | **...** | **...** | **81.4** | **74.3** | **71.0** | **64.7** | **62.6** | **59.3** | **55.6** | **44.2** | **34.3** | | |
| **PPG debt service-to-exports ratio** | **12.9** | **11.5** | **8.9** | **11.1** | **11.7** | **10.0** | **7.1** | **6.9** | **6.8** | **4.8** | **3.7** | | |
| **PPG debt service-to-revenue ratio** | **25.7** | **25.5** | **15.4** | **16.5** | **25.1** | **22.5** | **16.0** | **15.6** | **15.4** | **10.7** | **7.9** | | |
| Gross external financing need (Million of U.S. dollars) | 54.4 | 50.9 | -132.3 | -78.5 | 77.4 | 35.3 | 6.4 | 6.4 | 10.1 | 21.6 | 19.1 | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.7 | 7.3 | 4.7 | 3.6 | 3.9 | 3.3 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | **3.0** | **3.0** |
| GDP deflator in US dollar terms (change in percent) | 2.8 | 2.2 | 2.7 | 1.4 | 1.4 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | **1.8** | **1.9** |
| Effective interest rate (percent) 4/ | 1.6 | 2.1 | 1.5 | 3.7 | 4.3 | 2.8 | 2.0 | 1.9 | 1.8 | 1.2 | 1.4 | **2.1** | **2.1** |
| Growth of exports of G&S (US dollar terms, in percent) | 25.5 | 32.4 | 16.9 | 6.9 | 3.5 | 5.9 | 5.1 | 4.2 | 4.2 | 4.4 | 4.3 | **8.0** | **4.7** |
| Growth of imports of G&S (US dollar terms, in percent) | 14.2 | 27.2 | 6.7 | 15.3 | 3.8 | 0.9 | 3.5 | 2.9 | 4.1 | 4.3 | 3.7 | **7.8** | **4.8** |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 33.7 | 30.8 | 34.5 | 36.8 | 44.9 | 46.4 | 36.8 | 24.1 | **...** | **37.8** |
| Government revenues (excluding grants, in percent of GDP) | 24.0 | 26.0 | 36.4 | 42.9 | 29.2 | 28.1 | 28.0 | 27.7 | 27.6 | 27.6 | 27.6 | **24.6** | **29.2** |
| Aid flows (in Million of US dollars) 5/ | 85.2 | 83.1 | 6.7 | 46.5 | 54.2 | 47.2 | 73.4 | 74.3 | 75.2 | 50.2 | 66.7 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | ... | ... | 3.0 | 3.3 | 2.6 | 3.0 | 2.7 | 2.6 | 1.9 | 1.8 | **...** | **2.5** |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | ... | ... | 45.8 | 42.0 | 49.0 | 48.9 | 59.1 | 61.3 | 59.8 | 47.2 | **...** | **54.9** |
| Nominal GDP (Million of US dollars) | 1,123 | 1,231 | 1,324 | ... | ... | ... | ... | ... | ... | ... ... | ... | | |
| Nominal dollar GDP growth | 7.6 | 9.7 | 7.6 | 5.0 | 5.3 | 5.4 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | **4.9** | **4.9** |
| **Memorandum items:** | | | | | | | | | | | | | |
| PV of external debt 7/ | ... | ... | 77.5 | 73.9 | 71.2 | 67.6 | 66.6 | 64.4 | 62.1 | 54.8 | 42.4 | | |
| In percent of exports | ... | ... | 123.3 | 115.5 | 113.4 | 107.1 | 105.2 | 102.3 | 99.1 | 89.6 | 72.2 | | |
| Total external debt service-to-exports ratio | 12.9 | 11.5 | 8.9 | 11.1 | 11.7 | 10.0 | 7.1 | 6.9 | 6.8 | 4.8 | 3.7 | | |
| PV of PPG external debt (in Million of US dollars) | | | 677.2 | 661.3 | 653.9 | 631.2 | 642.0 | 633.3 | 619.6 | 608.4 | 727.7 | | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | -1.2 | -0.5 | -1.6 | 0.7 | -0.5 | -0.8 | -0.3 | 0.9 | | |
| Non-interest current account deficit that stabilizes debt ratio | 10.8 | 14.1 | 10.9 | 11.4 | 10.6 | 11.4 | 8.6 | 9.4 | 9.8 | 10.7 | 8.7 | | |

| | |
|---|---|
| **Definition of external/domestic debt** | **Residency-based** |
| **Is there a material difference between the two criteria?** | **Yes** |




Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Residual largely reflects substantial fluctuations in government deposits due to CBI revenues. Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

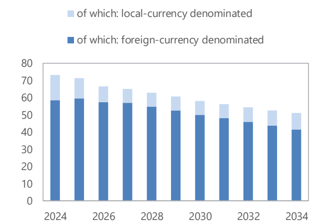
# Table 2. Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

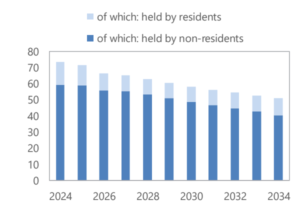
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 6/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2034 | 2044 | Historical | Projections |
| **Public sector debt 1/** | **86.6** | **78.8** | **75.2** | **73.3** | **71.4** | **66.5** | **65.2** | **62.9** | **60.6** | **51.1** | **41.8** | **80.3** | **61.1** |
| **of which: external debt** | **67.5** | **62.4** | **60.6** | **59.1** | **58.8** | **55.9** | **55.4** | **53.4** | **51.1** | **40.5** | **31.0** | **58.8** | **50.6** |
| Change in public sector debt | -2.9 | -7.8 | -3.6 | -1.9 | -1.9 | -4.9 | -1.3 | -2.3 | -2.3 | -1.6 | -0.5 | | |
| **Identified debt-creating flows** | **-6.6** | **-8.1** | **-13.5** | **-8.9** | **4.9** | **0.2** | **-2.6** | **-2.6** | **-2.7** | **-2.0** | **-0.9** | **-5.5** | **-2.1** |
| **Primary deficit** | **-2.1** | **-2.6** | **-9.5** | **-8.0** | **5.1** | **1.2** | **-1.5** | **-1.5** | **-1.5** | **-0.7** | **-0.1** | **-3.8** | **-1.0** |
| Revenue and grants | 31.5 | 32.7 | 36.9 | 44.1 | 30.5 | 29.3 | 29.2 | 28.9 | 28.8 | 28.8 | 28.8 | **28.4** | **30.4** |
| *of which: grants* | 7.6 | 6.8 | 0.5 | 1.2 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | | |
| Primary (noninterest) expenditure | 29.4 | 30.2 | 27.4 | 36.1 | 35.6 | 30.5 | 27.7 | 27.4 | 27.3 | 28.0 | 28.6 | **24.6** | **29.4** |
| **Automatic debt dynamics** | **-4.5** | **-5.6** | **-4.0** | **-0.9** | **-0.1** | **-0.9** | **-1.1** | **-1.1** | **-1.1** | **-1.2** | **-0.8** | | |
| Contribution from interest rate/growth differential | -5.7 | -8.5 | -4.5 | -0.9 | -0.1 | -0.9 | -1.1 | -1.1 | -1.1 | -1.2 | -0.8 | | |
| *of which: contribution from average real interest rate* | -1.7 | -2.6 | -1.0 | 1.7 | 2.6 | 1.3 | 0.7 | 0.6 | 0.5 | 0.2 | 0.4 | | |
| *of which: contribution from real GDP growth* | -4.0 | -5.9 | -3.5 | -2.6 | -2.7 | -2.3 | -1.8 | -1.7 | -1.7 | -1.4 | -1.1 | | |
| Contribution from real exchange rate depreciation | 1.1 | 2.9 | 0.5 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Other identified debt-creating flows** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Residual 2/** | **3.7** | **0.4** | **9.9** | **7.0** | **-6.8** | **-5.1** | **1.3** | **0.3** | **0.4** | **0.4** | **0.4** | **2.5** | **-0.1** |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of public debt-to-GDP ratio 3/** | **...** | **...** | **65.7** | **61.8** | **57.3** | **51.5** | **49.5** | **46.8** | **44.3** | **37.6** | **30.9** | | |
| **PV of public debt-to-revenue and grants ratio** | **...** | **...** | **178.0** | **139.9** | **187.6** | **175.8** | **169.5** | **161.9** | **154.0** | **130.8** | **107.5** | | |
| **Debt service-to-revenue and grants ratio 4/** | **37.8** | **37.8** | **25.0** | **24.6** | **41.6** | **40.5** | **30.2** | **29.2** | **29.8** | **34.4** | **37.0** | | |
| Gross financing need 5/ | 9.8 | 9.8 | -0.3 | 2.8 | 17.7 | 13.0 | 7.3 | 6.9 | 7.1 | 9.1 | 10.5 | | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.7 | 7.3 | 4.7 | 3.6 | 3.9 | 3.3 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | **3.0** | **3.0** |
| Average nominal interest rate on external debt (in percent) | 2.1 | 2.9 | 2.1 | 5.4 | 6.2 | 4.1 | 2.9 | 2.9 | 2.7 | 2.0 | 2.4 | **3.1** | **3.1** |
| Average real interest rate on domestic debt (in percent) | -0.6 | -0.6 | -0.9 | 0.5 | 1.5 | 0.9 | 0.8 | 0.8 | 0.8 | 1.5 | 2.1 | **1.1** | **1.0** |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 1.7 | 4.8 | 0.9 | ... | ... | ... | ... | ... | ... | ... | ... | **0.8** | **...** |
| Inflation rate (GDP deflator, in percent) | 2.8 | 2.2 | 2.7 | 1.4 | 1.4 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | **1.8** | **1.9** |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 0.4 | 10.0 | -4.8 | 36.4 | 2.4 | -11.5 | -6.6 | 1.7 | 2.2 | 3.0 | 3.0 | **4.4** | **3.7** |
| Primary deficit that stabilizes the debt-to-GDP ratio 6/ | 0.8 | 5.2 | -5.9 | -6.1 | 6.9 | 6.1 | -0.2 | 0.8 | 0.8 | 0.8 | 0.4 | **0.0** | **1.2** |
| PV of contingent liabilities (not included in public sector debt) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |

| | |
|---|---|
| **Definition of external/domestic debt** | **Residency-based** |
| **Is there a material difference between the two criteria?** | **Yes** |

Public sector debt 1/




Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ Residual largely reflects substantial fluctuations in government deposits due to CBI revenues.

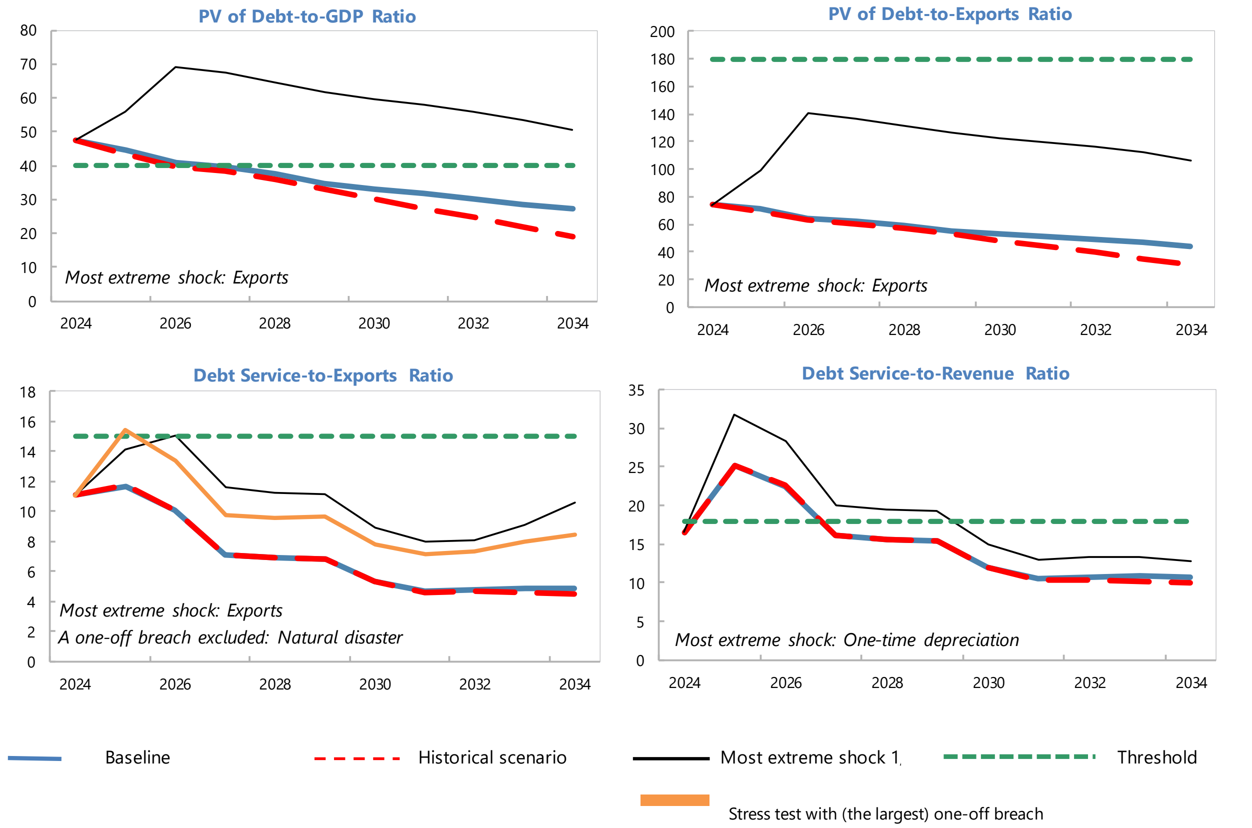
3/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

5/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

6/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilize the debt ratio only in the year in question.

## Figure 1a. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2024–34




**Customization of Default Settings**

| Tailored Stress | Size | Interactions |
|---|---|---|
| Combined CL | No | |
| Natural disaster | No | Yes |
| Commodity price | n.a. | n.a. |
| Market financing | n.a. | n.a. |

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

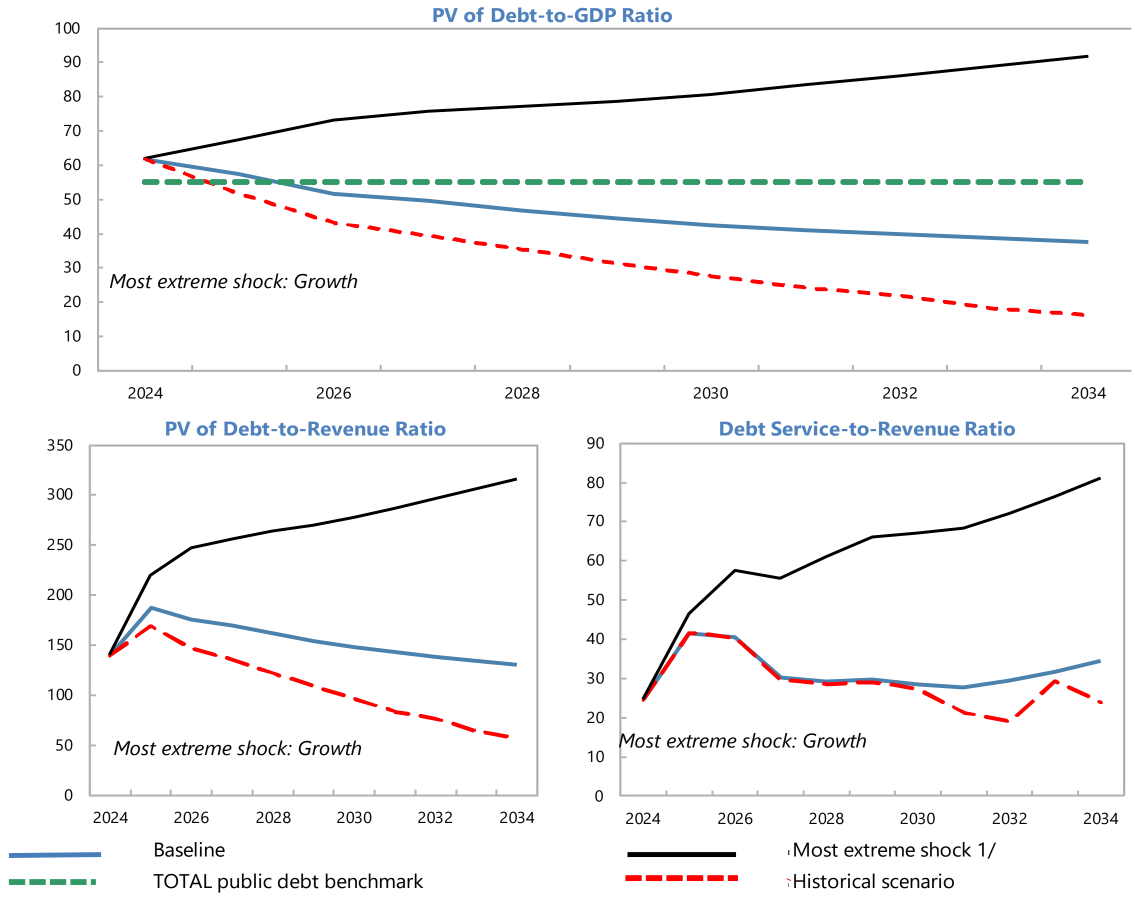
**Borrowing assumptions on additional financing needs resulting from the stress tests***

| | Default | User defined |
|---|---|---|
| Shares of marginal debt | | |
| External PPG MLT debt | 100% | |
| Terms of marginal debt | | |
| Avg. nominal interest rate on new borrowing in USD | 1.9% | 1.9% |
| USD Discount rate | 5.0% | 5.0% |
| Avg. maturity (incl. grace period) | 27 | 27 |
| Avg. grace period | 7 | 7 |

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 1b. Grenada: Indicators of Public Sector Debt Under Alternative Scenarios 2024–34**




| Borrowing assumptions on additional financing needs resulting from the stress tests* | Default | User defined |
|---|---|---|
| Shares of marginal debt | | |
| External PPG medium and long-term | 41% | 41% |
| Domestic medium and long-term | 3% | 3% |
| Domestic short-term | 56% | 56% |
| Terms of marginal debt | | |
| External MLT debt | | |
| Avg. nominal interest rate on new borrowing in USD | 1.9% | 1.9% |
| Avg. maturity (incl. grace period) | 27 | 27 |
| Avg. grace period | 7 | 7 |
| Domestic MLT debt | | |
| Avg. real interest rate on new borrowing | 3.0% | 3.0% |
| Avg. maturity (incl. grace period) | 2 | 2 |
| Avg. grace period | 0 | 0 |
| Domestic short-term debt | | |
| Avg. real interest rate | 2.4% | 2.4% |

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

## Table 3. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–34

(In Percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| **PV of debt-to GDP ratio** | | | | | | | | | | | |
| **Baseline** | **48** | **45** | **41** | 40 | 37 | 35 | 33 | 32 | 30 | 29 | 27 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | **48** | **43** | 40 | 38 | 36 | 33 | 30 | 27 | 25 | 22 | 19 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **48** | **50** | **51** | **49** | **46** | **43** | **41** | 39 | 37 | 36 | 34 |
| B2. Primary balance | **48** | **46** | **43** | **43** | **41** | 39 | 37 | 36 | 35 | 33 | 31 |
| B3. Exports | **48** | **56** | **69** | **68** | **65** | **62** | **59** | **58** | **56** | **54** | **50** |
| B4. Other flows 3/ | **48** | **49** | **50** | **49** | **46** | **44** | **42** | **41** | 39 | 37 | 35 |
| B5. Depreciation | **48** | **56** | **49** | **47** | **45** | **41** | 39 | 37 | 36 | 34 | 32 |
| B6. Combination of B1-B5 | **48** | **58** | **59** | **58** | **55** | **52** | **50** | **48** | **46** | **44** | **41** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **48** | **46** | **43** | **42** | **40** | 38 | 36 | 35 | 33 | 32 | 30 |
| C2. Natural disaster | **48** | **56** | **55** | **57** | **57** | **57** | **58** | **59** | **61** | **61** | **62** |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| **PV of debt-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | 74 | 71 | 65 | 63 | 59 | 56 | 53 | 51 | 49 | 47 | 44 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | 74 | 69 | 63 | 61 | 57 | 53 | 48 | 44 | 40 | 35 | 31 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 74 | 71 | 65 | 63 | 59 | 56 | 53 | 51 | 49 | 47 | 44 |
| B2. Primary balance | 74 | 73 | 69 | 68 | 65 | 62 | 60 | 58 | 56 | 54 | 51 |
| B3. Exports | 74 | 100 | 140 | 137 | 132 | 126 | 122 | 120 | 116 | 112 | 106 |
| B4. Other flows 3/ | 74 | 78 | 79 | 77 | 74 | 70 | 67 | 66 | 63 | 61 | 57 |
| B5. Depreciation | 74 | 71 | 61 | 59 | 56 | 52 | 50 | 48 | 46 | 43 | 41 |
| B6. Combination of B1-B5 | 74 | 90 | 80 | 93 | 88 | 84 | 81 | 79 | 76 | 72 | 69 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 74 | 73 | 68 | 67 | 64 | 60 | 58 | 56 | 54 | 51 | 49 |
| C2. Natural disaster | 74 | 101 | 99 | 102 | 103 | 104 | 106 | 108 | 111 | 113 | 115 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 |
| **Debt service-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | 11 | 12 | 10 | 7 | 7 | 7 | 5 | 5 | 5 | 5 | 5 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | 11 | 12 | 10 | 7 | 7 | 7 | 5 | 5 | 5 | 5 | 4 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 11 | 12 | 10 | 7 | 7 | 7 | 5 | 5 | 5 | 5 | 5 |
| B2. Primary balance | 11 | 12 | 10 | 7 | 7 | 7 | 6 | 5 | 5 | 5 | 5 |
| B3. Exports | 11 | 14 | **15** | 12 | 11 | 11 | 9 | 8 | 8 | 9 | 11 |
| B4. Other flows 3/ | 11 | 12 | 10 | 8 | 7 | 7 | 6 | 5 | 5 | 6 | 6 |
| B5. Depreciation | 11 | 12 | 10 | 7 | 7 | 7 | 5 | 5 | 5 | 5 | 5 |
| B6. Combination of B1-B5 | 11 | 13 | 12 | 9 | 9 | 9 | 7 | 6 | 6 | 7 | 7 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 11 | 12 | 10 | 7 | 7 | 7 | 5 | 5 | 5 | 5 | 5 |
| C2. Natural disaster | 11 | **15** | 13 | 10 | 10 | 10 | 8 | 7 | 7 | 8 | 8 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| **Debt service-to-revenue ratio** | | | | | | | | | | | |
| **Baseline** | 16 | **25** | **23** | 16 | 16 | 15 | 12 | 10 | 11 | 11 | 11 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | 16 | **25** | **23** | 16 | 16 | 15 | 12 | 10 | 10 | 10 | 10 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 16 | **28** | **28** | **20** | **19** | **19** | 15 | 13 | 13 | 13 | 13 |
| B2. Primary balance | 16 | **25** | **23** | 16 | 16 | 16 | 12 | 11 | 11 | 11 | 12 |
| B3. Exports | 16 | **27** | **26** | **20** | **20** | **20** | 16 | 14 | 14 | 16 | **18** |
| B4. Other flows 3/ | 16 | **25** | **23** | 17 | 17 | 16 | 13 | 11 | 11 | 12 | 13 |
| B5. Depreciation | 16 | **32** | **28** | **20** | **19** | **19** | 15 | 13 | 13 | 13 | 13 |
| B6. Combination of B1-B5 | 16 | **28** | **27** | **20** | **19** | **19** | 15 | 13 | 14 | 15 | 16 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 16 | **25** | **23** | 16 | 16 | 16 | 12 | 11 | 11 | 11 | 11 |
| C2. Natural disaster | 16 | **29** | **27** | **19** | **19** | **19** | 16 | 14 | 15 | 16 | 17 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

## Table 4. Grenada: Sensitivity Analysis for Key Indicators of Public Debt 2024–34

(In Percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| | | | | | | **PV of Debt-to-GDP Ratio** | | | | | |
| **Baseline** | **62** | **57** | 52 | 49 | 47 | 44 | 42 | 41 | 40 | 39 | 38 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | **62** | 52 | 43 | 40 | 35 | 31 | 28 | 24 | 22 | 18 | 16 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **62** | **67** | **73** | **76** | **77** | **78** | **81** | **83** | **86** | **89** | **92** |
| B2. Primary balance | **62** | **60** | **58** | **55** | 52 | 49 | 47 | 46 | 45 | 43 | 42 |
| B3. Exports | **62** | **64** | **71** | **69** | **66** | **64** | **62** | **60** | **59** | **57** | **55** |
| B4. Other flows 3/ | **62** | **62** | **61** | **59** | **56** | 53 | 51 | 50 | 49 | 47 | 46 |
| B5. Depreciation | **62** | **70** | **61** | **57** | 52 | 47 | 44 | 41 | 38 | 35 | 33 |
| B6. Combination of B1-B5 | **62** | **59** | 55 | 52 | 50 | 47 | 46 | 44 | 43 | 42 | 41 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **62** | **62** | **55** | 53 | 50 | 48 | 46 | 44 | 43 | 42 | 41 |
| C2. Natural disaster | **62** | **80** | **76** | **76** | **76** | **76** | **77** | **78** | **80** | **81** | **83** |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL public debt benchmark** | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| | | | | | | **PV of Debt-to-Revenue Ratio** | | | | | |
| **Baseline** | 140 | 188 | 176 | 170 | 162 | 154 | 148 | 143 | 139 | 135 | 131 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | 140 | 169 | 147 | 135 | 122 | 109 | 96 | 84 | 76 | 64 | 57 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 140 | 219 | 247 | 256 | 263 | 270 | 277 | 287 | 296 | 306 | 316 |
| B2. Primary balance | 140 | 198 | 196 | 189 | 180 | 172 | 165 | 160 | 155 | 151 | 147 |
| B3. Exports | 140 | 211 | 244 | 237 | 230 | 222 | 215 | 210 | 205 | 199 | 191 |
| B4. Other flows 3/ | 140 | 203 | 207 | 201 | 194 | 186 | 179 | 174 | 169 | 164 | 159 |
| B5. Depreciation | 140 | 229 | 210 | 195 | 180 | 165 | 153 | 142 | 133 | 123 | 114 |
| B6. Combination of B1-B5 | 140 | 193 | 187 | 177 | 171 | 164 | 158 | 154 | 149 | 145 | 142 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 140 | 202 | 189 | 182 | 174 | 166 | 159 | 154 | 150 | 146 | 142 |
| C2. Natural disaster | 140 | 259 | 257 | 260 | 261 | 263 | 265 | 270 | 275 | 280 | 286 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| | | | | | | **Debt Service-to-Revenue Ratio** | | | | | |
| **Baseline** | 25 | 42 | 41 | 30 | 29 | 30 | 28 | 28 | 30 | 32 | 34 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2024-2034 2/ | 25 | 42 | 40 | 30 | 28 | 29 | 27 | 21 | 19 | 29 | 24 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 25 | 46 | 57 | 55 | 61 | 66 | 67 | 68 | 72 | 76 | 81 |
| B2. Primary balance | 25 | 42 | 48 | 42 | 37 | 35 | 32 | 30 | 31 | 33 | 36 |
| B3. Exports | 25 | 42 | 41 | 32 | 31 | 32 | 30 | 29 | 31 | 35 | 40 |
| B4. Other flows 3/ | 25 | 42 | 41 | 31 | 30 | 31 | 29 | 28 | 30 | 33 | 37 |
| B5. Depreciation | 25 | 43 | 46 | 34 | 33 | 33 | 30 | 29 | 31 | 33 | 35 |
| B6. Combination of B1-B5 | 25 | 41 | 42 | 31 | 32 | 33 | 32 | 32 | 34 | 37 | 39 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 25 | 42 | 50 | 36 | 33 | 32 | 30 | 29 | 31 | 33 | 36 |
| C2. Natural disaster | 25 | 48 | 76 | 63 | 61 | 61 | 60 | 59 | 62 | 66 | 70 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

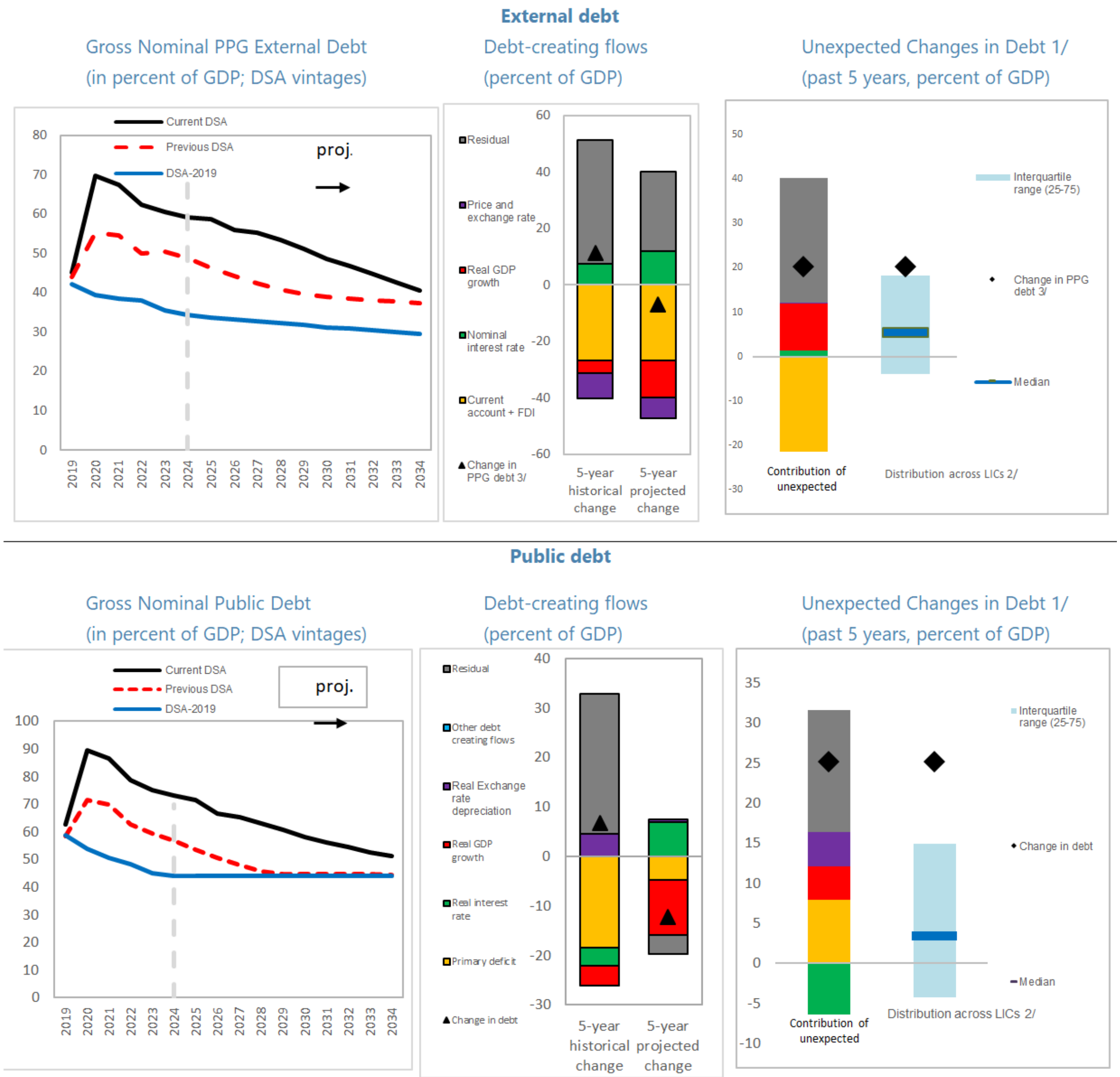
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

## Figure 2. Grenada: Drivers of Debt Dynamics—Baseline Scenario



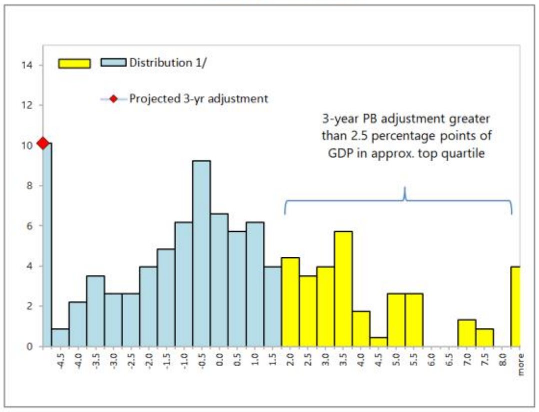

1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

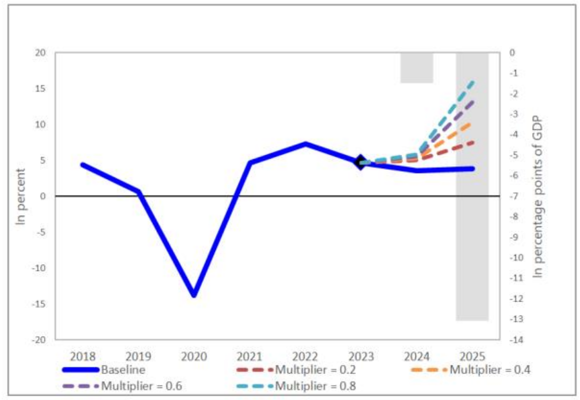
## Figure 3. Grenada: Realism Tools

**3-Year Adjustment in Primary Balance**
**(Percentage points of GDP)**



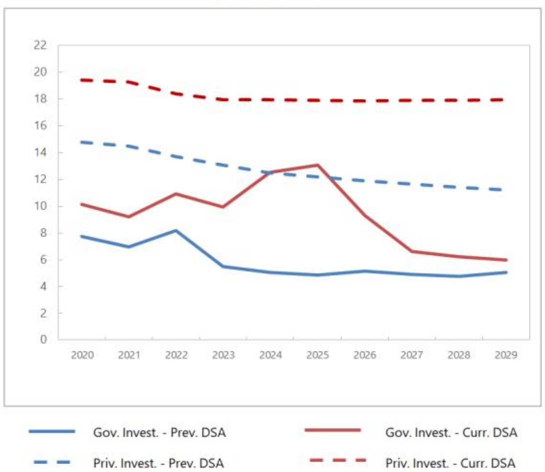

1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

**Fiscal Adjustment and Possible Growth Paths 1/**

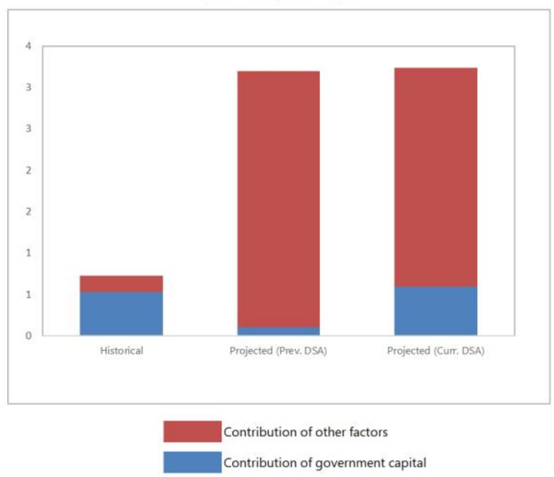



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates**
(percent of GDP)




**Contribution to Real GDP growth**
(percent, 5-year average)



**Statement by Ms. Gina Fitzgerald and Ms. Ann Marie Wickham on Grenada**
**January 24, 2025**

## I. Introduction

On behalf of our Grenadian authorities, we thank staff for the productive discussions and valuable recommendations during the 2024 Article IV consultation. Our authorities welcome staff's recognition of Grenada's strong fiscal position and sustained growth, reflecting their steadfast commitment to prudent fiscal policies and sound economic management. Despite the challenges of Hurricane Beryl, Grenada's proactive and swift response mitigated the hurricane's impact, demonstrating resilience and effective disaster response and recovery.

The authorities broadly agree with staff's analysis and remain committed to building on this strong foundation to further advance Grenada's economic development and long-term resilience.

## II. Effective Disaster Response and Climate Resilience

**Hurricane Beryl—a Category 4 storm—caused extensive damage equivalent to 16 percent of GDP,** primarily impacting Carriacou, Petite Martinique, and the northern parishes of the main island. Despite this significant devastation, Grenada's tourism infrastructure remained largely intact, preserving its critical economic sector. The government responded swiftly and effectively, activating the Fiscal Resilience Act's suspension clause to enable immediate recovery efforts. Targeted measures, such as tax and duty waivers for affected households and businesses, and direct support for farmers and fishers, helped mitigate the hurricane's economic and social impacts.

**In 2015, Grenada became the first country to adopt a natural disaster clause, and it recently made history again by being the first to activate the clause following Hurricane Beryl.** This groundbreaking move set a global precedent, demonstrating how climate-vulnerable nations can embed resilience into their financial frameworks. By deferring debt payments, this created essential fiscal space for post-disaster recovery efforts, showcasing an innovative approach to managing climate risks. In addition to the natural disaster clause, Grenada utilized disaster-contingent instruments such as payouts from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the World Bank's Catastrophe Drawdown Option. These tools provided essential fiscal relief, minimizing economic disruption and positioning the country for a robust recovery.

**Building resilience to natural disasters and climate change is a central priority for Grenada.** As a small island developing state (SIDS), Grenada faces significant climate vulnerabilities, and despite this has made notable strides in advancing climate resilience and sustainability. Key support for these efforts has come from the C-PIMA which has provided frameworks to integrate climate considerations into fiscal planning and public investment. Moreover, Grenada has implemented disaster risk reduction strategies, including improved infrastructure standards, coastal protection projects, and community-based adaptation programs, further strengthening its resilience and supporting sustainable development.

**A key cornerstone of Grenada's climate resilience strategy is the country's ambitious goal of achieving 100 percent renewable energy generation by 2030.** Significant investments in solar and geothermal energy projects are underway to diversify the country's energy mix, reduce reliance on imported fossil fuels, and enhance energy security. Our authorities recognize the importance of leveraging diverse financing sources—public, private, and multilateral—to achieve this ambitious target. Their active participation in the World Bank's Caribbean Efficient Green Building Project and the Caribbean Renewable Energy Infrastructure Investment Facility demonstrates a strong commitment to fostering collaborative, multi-stakeholder approaches to enhance investments in renewable energy and energy efficiency.

## III. Strong Economic Performance

**Grenada has demonstrated remarkable economic resilience, even in the face of climate challenges such as Hurricane Beryl.** Prior to the hurricane, which struck in July 2024, the economy grew robustly, with real GDP growth reaching 4.7 percent in 2023, driven by a strong recovery in tourism—outperforming peers in the ECCU region. Growth for 2024 is projected at 3.6 percent. Recovery and reconstruction efforts are expected to boost growth temporarily in 2025–26, before stabilizing at a potential rate of 2.7 percent.

**Inflationary pressures from the hurricane have been contained, aided by policy responses and lower international commodity prices.** Inflation moderated significantly, falling to 2.2 percent at the end of 2023 and continuing to decline further in 2024, as lower global food and fuel prices offset pressures from earlier minimum wage increases. Inflation is expected to stabilize around 2 percent by 2026 as recovery support measures are withdrawn and global prices normalize.

**Labor market conditions also improved significantly, with the unemployment rate dropping to 11 percent as at end Q3, 2023, the lowest in recent history.** The introduction of a funded unemployment insurance scheme—the first of its kind in the ECCU—further underscores Grenada's commitment to strengthening social protection and enhancing economic resilience.

**The external sector also strengthened, with the current account deficit narrowing in 2023.** This improvement was supported by robust tourism revenues and suppressed import growth due to declining global commodity and construction material prices. Reserves continued to increase, bolstered by significant Citizenship-by-Investment (CBI[1])-driven foreign direct investment and capital transfers.

## IV. Sound Fiscal Management and Debt Sustainability

**Grenada achieved an impressive primary surplus of 9½ percent of GDP in 2023—exceeding the fiscal rules primary balance floor.** This strong fiscal performance reflects strong CBI revenues of 10½ percent of GDP in 2023, combined with a fall in public pension spending. Record-

[1] The Citizenship-by-Investment (CBI) unit was rebranded as the Investment Migration Agency (IMA) in March 2024. Therefore, any reference to CBI revenues pertains to revenue collected through the IMA.

high CBI revenues in 2024, along with a payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and delayed expenditure execution, are expected to support a primary surplus of 8 percent of GDP in 2024. This surplus will increase government deposits to nearly 23 percent of GDP. As exceptional revenues from the CBI program normalize, adherence to fiscal rules will remain a cornerstone of Grenada's strategy to ensure continued debt sustainability.

**Grenada's debt remains sustainable and is on track to meet the debt-to-GDP target of 60 percent by 2030.** After a temporary rise during the pandemic, central government debt declined to an estimated 60.5 percent of GDP by the end of 2023, further demonstrating the authorities' commitment to sound fiscal management. Adherence to fiscal rules and prudent debt management will remain central to Grenada's strategy for ensuring long-term economic stability and resilience.

**Efforts to strengthen fiscal institutions have been pivotal to Grenada's economic resilience.** Reforms to public financial management (PFM), including the digitalization of tax administration, improved targeting of social transfers, and adherence to time limits on tax incentives, have enhanced revenue collection, reduced fiscal leakages, and optimized resource allocation. The government has also committed to consolidating CBI revenues under a unified framework, such as the National Transformation Fund (NTF), to facilitate predictable budget drawdowns and support long-term fiscal and investment planning.

**Planned public investments in reconstruction, estimated at 10 percent of GDP over 2024–26, are being carefully calibrated to balance fiscal sustainability with infrastructure needs.** Reforms to enhance procurement processes, project management, and public-private partnerships (PPPs) have strengthened Grenada's capacity to execute these investments effectively. These initiatives, combined with the authorities' focus on maintaining the integrity of the CBI program and aligning it with international best practices, demonstrate Grenada's commitment to building resilience and ensuring long-term fiscal stability.

## V. Financial Sector Resilience

**Grenada's financial sector remains stable with rising profitability, a highly liquid banking system, and low NPL levels— with some of the lowest NPL levels in the ECCU.** Credit growth in the banking sector has been modest which has been complemented by rapid lending growth within the credit union sector. High liquidity supported increased overseas investments by banks, driven by government deposits, reflecting sound financial management and diversification. Despite higher reinsurance costs raising property insurance premiums, the insurance sector remains stable and liquid. Grenada Authority for the Regulation of Financial Institutions (GARFIN) has been proactive in monitoring post-disaster developments and collaborating regionally to strengthen risk assessment and supervisory standards, ensuring timely resolution of policyholder claims and mitigating credit risks to lenders.

**Grenada is actively implementing initiatives to strengthen financial resilience and support the stability of its banking and non-bank financial institutions.** These include initiatives like the recently established credit reporting bureau and the Eastern Caribbean Partial Credit Guarantee Scheme to improve small business access to bank credit. Strengthened reporting requirements for credit unions and alignment of impaired asset treatment with banks are helping to mitigate financial stability risks, with early adoption of regional standards ensuring continued resilience in non-bank institutions.

**Grenada has made progress in addressing AML/CFT gaps through legislative reforms.** Our authorities agree that further actions are needed to implement remaining recommendations from the 2022 CFATF Mutual Evaluation Report, including verifying beneficial ownership information, updating the National Risk Assessment to include the CBI program, and enhancing training for compliance officers.

## VI. Structural Reforms for Sustainable Growth

**Grenada's structural reforms are central to its long-term growth and resilience strategy, targeting critical sectors to enhance sustainability and competitiveness.** Investments in renewable energy, including solar and geothermal projects, aim to reduce reliance on imported fossil fuels, strengthen energy security, and support the transition to a green economy. These efforts align with Grenada's commitment to climate adaptation and the broader goal of sustainable development. To fully realize the benefits of these reforms, addressing implementation capacity constraints and unlocking private financing are essential.

**Efforts to diversify and enhance the tourism sector are also key components of the reform agenda.** Initiatives to promote off-season activities, eco-tourism, and niche markets aim to increase the sector's competitiveness while enhancing local value-added contributions. By focusing on sustainable tourism, Grenada can maintain the sector's critical role in the economy while creating new opportunities for growth.

**Labor market reforms further support Grenada's structural transformation.** Active policies such as youth training programs, digital job-matching tools, and a review of employment legislation address demographic challenges, boost workforce participation, and enhance job creation.

## VII. Concluding Remarks

**Our authorities are committed to sustaining the momentum of strong economic growth and fiscal prudence through sound macroeconomic management.** They remain dedicated to maintaining debt sustainability while addressing critical development priorities.

**The authorities deeply appreciate the invaluable technical assistance provided by the Fund over the years,** which has significantly enhanced public financial management, revenue administration, public investment management, financial system supervision, and data adequacy. They look forward to the continued support of the Fund and other partners in advancing their development agenda.