INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/xx

GRENADA

July 10, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED CREDIT FACILITY ARRANGEMENT; PRESS RELEASE

In the context of the 2014 Article IV Consultation with Grenada and Request for An Extended Credit Facility Arrangement (ECF), the following documents have been released and are included in this package:

- The **Staff Report** for the 2014 Article IV Consultation with Grenada and Request for An Extended Credit Facility Arrangement, prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2014, following discussions that ended on May 16, 2014 , 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 June 12, 2014.
- **An Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 26, 2014 consideration of the staff report that combined the Article IV Consultation and approved the ECF arrangement.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Grenada*
Memorandum of Economic and Financial Policies by the authorities of Grenada*
Technical Memorandum of Understanding*
Supplementary Letter of Intent*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

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June 12, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED CREDIT FACILITY ARRANGEMENT

KEY ISSUES

Background. Grenada is in the midst of a deep fiscal crisis. Public debt reached about 110 percent of GDP at end-2013, in part reflecting attempts to run countercyclical fiscal policies since the outset of the global crisis. The government that took office in March 2013 found that it was unable to meet its financial obligations and immediately announced that it would seek a "comprehensive and collaborative" debt restructuring. The economy is meanwhile recovering slowly after a long period of negative growth.

Article IV Discussions. The discussions focused on the main challenges facing the economy: the fiscal crisis and the debt overhang, weak competiveness and a weakened financial system. These challenges must be fundamentally addressed to unlock sustainable high quality growth in Grenada.

The Proposed Program. To address these challenges, the authorities have designed a comprehensive adjustment program focused on:

- *Strengthening competiveness to improve medium-term growth prospects* by tightening income policies, removing constraints to growth through reforms in the energy and other sectors, improving the investment environment, and putting in place the legal infrastructure for public private partnerships.
- *Restoring fiscal sustainability* through a comprehensive three pillar approach consisting of: (i) a significant and frontloaded fiscal adjustment to address flow imbalances, (ii) a comprehensive debt restructuring to address stock imbalances, and (iii) ambitious fiscal structural reforms to support fiscal sustainability.
- *Strengthening the financial sector*. Grenada is participating in the ongoing regional strategy to strengthen financial regulation and supervision in the ECCU and will undertake additional reforms to further strengthen financial institutions in Grenada.

Request for an Extended Credit Facility Arrangement. In support of their comprehensive adjustment program, the authorities have requested a three year Extended Credit Facility (ECF) in the amount of SDR14.04 million (120 percent of quota, about US$21.9 million). SDR2.04 million will be available upon Board approval of the ECF and the remainder in six subsequent installments of SDR 2 million upon successful completion of semiannual reviews.

Approved By
Robert Rennhack (WHD) and Bob Traa (SPR)

Article IV discussions were held over May 12-16, 2014 in St. George's, and built upon previous program discussions during September 2-13, October 3-13, 2013, and January 8-10, 2014. The staff team comprised Aliona Cebotari (head), Saji Thomas, Jana Gieck, Xin Li and Kimberly Beaton (WHD), Lucy Liu and Nujin Suphaphiphat (SPR), and Eriko Togo (MCM), over different periods. Wayne Mitchell (regional resident representative), Kelvin Darlymple and Kevin Silston (OED), as well as representatives from the World Bank, the Caribbean Development Bank, and the Eastern Caribbean Central Bank attended some of the meetings. The missions met with Prime Minister and Minister of Finance Keith Mitchell, Permanent Secretary of Finance Timothy Antoine, and other officials. The missions also met with a wide spectrum of civil society representatives, including NGOs, the Council of Trade Unions, and the Council of Churches.

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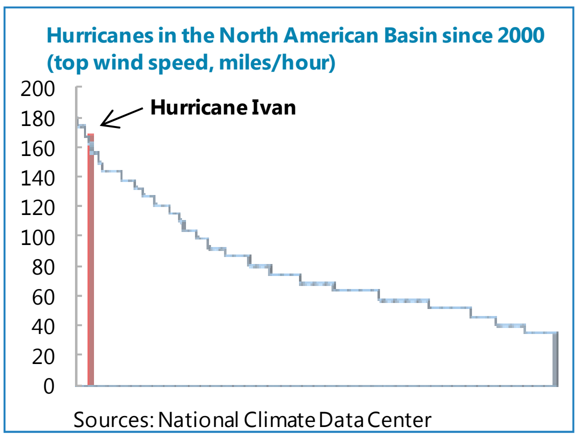
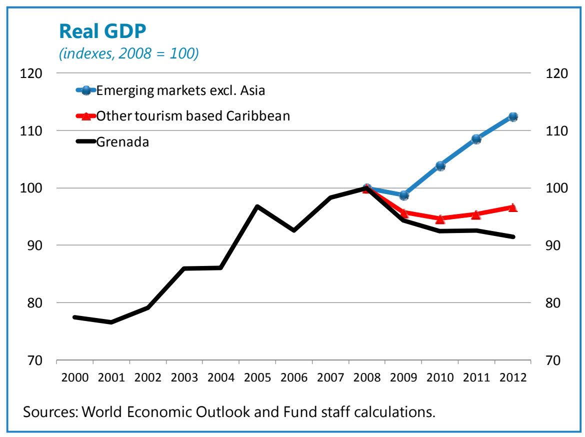
BACKGROUND

1. **A decade of natural disasters and economic shocks coalesced into a deep economic crisis by 2011-12.** In 2004, Grenada was hit by one of the strongest hurricanes ever recorded in the North American Basin, which was followed by a protracted and costly recovery (Figure 1).[1] Before the economy was able to fully recover from the hurricane, Grenada was severely affected by the global financial crisis. Economic activity declined by over 8 percent of GDP from peak to trough (2008-12) as tourism and construction collapsed. This compares to a 1⅓ percent decline in emerging markets and a 5⅓ percent decline in the tourism-based Caribbean over the same period. As a member of the Eastern Caribbean Currency Union (ECCU), a regional quasi-currency-board arrangement with a common currency pegged to the U.S. dollar, Grenada lacks an independent monetary policy, and therefore resorted to fiscal policy to try to counteract the effects of the global financial crisis.[2] However, the impact of the fiscal expansion on growth was constrained by Grenada's long-standing competitiveness challenges and small fiscal multipliers due to the openness of the economy. As a result, fiscal imbalances widened without a commensurate increase in growth.





2. **Two consecutive Fund arrangements during 2006–13 supported the authorities' efforts to maintain macroeconomic stability following these shocks, while also addressing Grenada's underlying fiscal and macroeconomic imbalances**.[3] The first arrangement during

[1] Hurricane Ivan (September 2004) caused catastrophic damage in Grenada (at about 150 percent of GDP). The remainder of the ECCU and the wider Caribbean were much less affected. In terms of damages and affected population, this was the largest storm in the Caribbean region in the last decade. Another hurricane, Emily, struck the island in 2005.

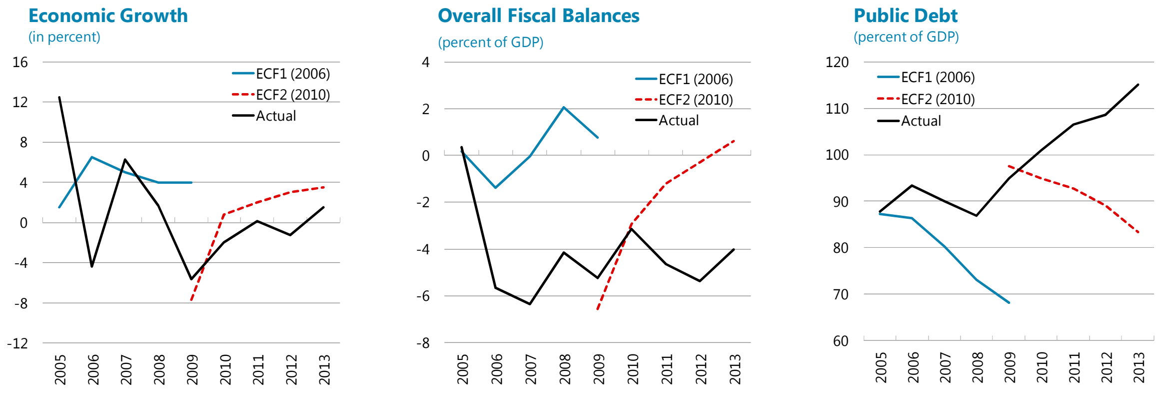
[2] The ECCU includes six independent countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) and two dependent territories of the United Kingdom (Anguilla and Montserrat). The EC dollar has been pegged at EC$2.7 to US$1 since 1976.

[3] The first arrangement during 2006-10 was under the Poverty Reduction and Growth Facility (now Extended Credit Facility (ECF)), originally approved for US$15.2 million (SDR 10.53 million), and later augmented twice to help mitigate the impact of commodity price shocks and the global downturn to US$24.9 million (SDR 16.4

(continued)

2006–10 was successfully completed after several revisions to deal with unanticipated shocks related to hurricanes, commodity price increases, and the global crisis. The second arrangement went off-track soon after its first review in November 2010, as the authorities considered initiating a debt restructuring and as approaching elections and a faltering economy led to notable policy loosening. The second arrangement expired in April 2013.

Grenada: Programs vs. Actual Performance



Note: Differences between the starting points of the program and actual data reflect data revisions.

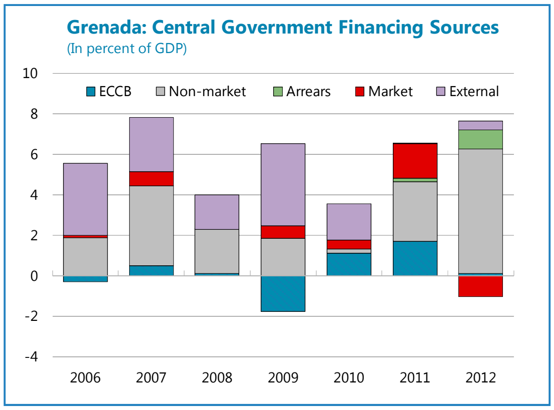
3. **By 2011–12, with the Fund-supported program off-track, Grenada faced a perfect storm of low growth, large fiscal and current account deficits, high debt, and increasing financing pressures**.

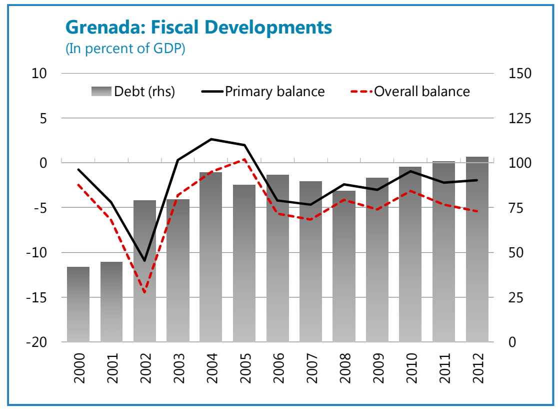
- *Widening fiscal imbalances*. Following the hiatus in the IMF-supported program, the fiscal situation deteriorated rapidly with a sharp cutback in grants, a fiscal stimulus that involved tax breaks for the manufacturing sector and temporary employment schemes, and an overall weakening of revenues.[4] The overall central government deficit widened to 5½ percent of GDP by 2012, and public debt increased to 103 percent by end-2012.[5]
- *Growing financing constraints*. The government's cash flows came under severe pressure as the deteriorating fiscal position dried up multilateral financing and domestic banks limited their exposure to the government. During 2011–12, most of the financing needs were met through nonmarket placement of government paper with the national insurance scheme and PetroCaribe, borrowing from the Eastern Caribbean Central Bank (ECCB), sale of assets, and accumulation of arrears.

million or 140 percent of quota). The second arrangement was under the ECF, approved in 2010 for US$13.3 million (SDR 8.8 million, or 75 percent of quota). See also the Ex-Post Assessment of Longer-Term Program Engagement for Grenada (Press Release No. 14/29).

[4] Budget support from donors declined once the ECF-supported program went off-track.

[5] In this report, public debt refers to central government contracted and guaranteed debt.





- *External imbalances.* Weak domestic demand narrowed the current account deficit to 19.2 percent of GDP in 2012, from an average of about 25 percent of GDP over the previous five years. With the drying up of FDI inflows, the large current account deficits had been increasingly financed by debt inflows, especially as banks accumulated foreign liabilities through inflows of nonresident deposits and borrowing by foreign banks from their headquarters.[6] This increased Grenada's external debt to 144½ percent of GDP in 2012, up by about 40 percent of GDP since 2007, and kept reserves broadly stable at about 3 months of imports.

4. **Most recent Article IV consultations.** The most recent Article IV consultation was concluded in July 2012, with Directors emphasizing the need for a vigorous domestic policy response to improve weakening competitiveness and foster private-sector-led growth, while undertaking the needed consolidation to ensure fiscal sustainability. Directors acknowledged the challenge of achieving lasting fiscal consolidation while protecting the fragile recovery, and stressed the need to protect social spending and public investment, while focusing the adjustment efforts on widening the revenue base and streamlining current spending. Since the last Article IV consultation, the authorities continued efforts to strengthen public finances, including through improvements at customs and tax administration, but more meaningful reforms were hindered by the difficult political and economic landscape. Under the proposed new program, however, the authorities aim to address the recommendations from the last Article IV consultations (discussed below).

[6] ECCU regulations maintain a floor on saving deposit interest rates of 3 percent. The floor has increasingly widened interest rate differentials with deposit rates offered outside the ECCU region. This has led to a gradual inflow of nonresident deposits into the banking system, which reached 20 percent of GDP by March 2014, up about 2 percentage points of GDP since the onset of the global crisis.

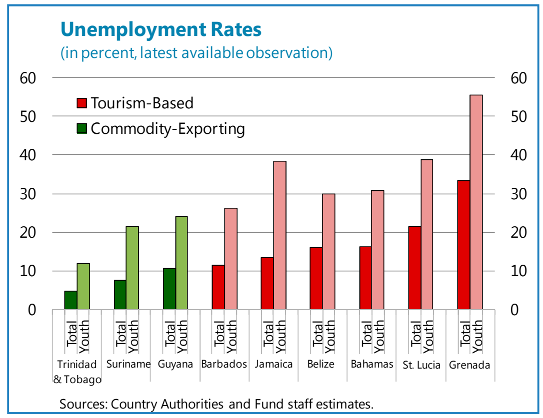
Grenada: Main Recommendations of the 2012 Article IV Consultation

Main Recommendations of the 2012 Article IV Consultation	Status
Enhance growth and competitiveness	
● Improve tourism competitiveness, through strict wage discipline, infrastructure enhancements and linkages between the agricultural and tourism sectors	Implementation of the country's tourism strategy has started, with focus on better management of tourist attractions and stronger backward linkages to the economy, including agriculture; strict wage discipline is to be addressed during the program
● Raise productivity by improving labor skills and increased labor market flexibility	The government introduced vocational training at domestic universities to address the skills mismatch problem; labor market flexibility is to be addressed during the program
● Focus on pro-growth spending	Addressed in the program
● Improve the investment climate through measures to modernize customs clearance procedures, harmonization of company registration, improvements in contract enforcement, and streamlining procedures for starting and closing a business	To be addressed during the program
● Promote SME development by strengthening support services, increasing labor market flexibility and clearing public sector arrears to SMEs	Grenada Development Bank has been tasked to provide project finance to small industries
● Expedite the process of exploring alternative energy, with World Bank assistance	The World Bank is currently assisting Grenada with reforms in the energy sector, and further assistance is expected during the program
● Systematize the monitoring and financial reporting of SOEs	Work is already underway to reforms the SOEs, and reforms will be undertaken during the program
Pursue fiscal consolidation and reduce debt	
● Allow the manufacturer's rebate to expire by September this year	As part of the prior actions for the program, the rebate was significantly limitted in scope and set to expire at end-2016
● Limit ad hoc tax exemptions	As part of the prior actions, legislation was passed to halve tax exemptions to GRENLEC, statutory bodies and returning nationals; and to eliminate some VAT-exempt goods
● Contain the wage bill	Agreement has been reached with trade unions to cap the nominal wage bill during 2014-16
● Enhance efforts to streamline spending on goods and services	Spending on goods and services has been reduced by savings on utilities bill and communication costs
● Protect priority capital expenditures, including co-financing for donor financed projects	Addressed in the program
● Remain current on both domestic and external obligations	Addressed in the program
● Put in place a strong credible fiscal framework for the medium-term, through a combination of revenue and expenditure measures	Will be done during the program
Reduce financial sector vulnerabilities	
● Seek and implement the recommendations of the Financial Sector Task Force at the regional level for the banking sector	Grenada is participating in a regional strategy to strengthen the financial system that includes: i) banking sector diagnostics, ii) legal and institutional reforms to strengthen the regulatory framework, and iii) bank restructuring and recapitalization
● Ensure the non-bank institutions meet all prudential requirements and follow closely the developments at the weak institutions	The authorities have supervised non-banks closerly with a view to ensuring they meet prudential requirements and have taken measures to strengthen the weak institutions

RECENT DEVELOPMENTS

5. **After almost four years of decline, real GDP is estimated to have grown by 1.5 percent in 2013** (Table 1). The recovery was largely driven by a large resort construction project and increased enrollment at Grenada's off-shore medical school, the second largest

employer on the island.[7] Except for the small, but rapidly growing fishing sector, growth in other sectors remains anemic. Tourism arrivals are suppressed relative to Grenada's Caribbean peers, in part because of a heavier reliance on arrivals from the UK, which were affected by an increase in the UK's air passenger duty (Figure 2).[8] Staff estimates that output was at about 3 percent below potential in 2013. Unemployment was recorded at 33.5 percent in the same year, with youth unemployment as high as 55.6 percent.



6. **The external position worsened considerably in 2013 due to a one-time surge in FDI-related imports and weak tourism receipts.** In 2013, the current account deficit is estimated to have widened to 27.1 percent of GDP from 19.2 percent in 2012 (Figure 3 and Table 6). The deterioration was primarily driven by a sharp increase in imports related to the resort construction project, estimated at about 6½ percent of GDP. Tourism receipts remained weak, but exports of goods improved slightly on the back of the continued recovery in nutmeg production after the 2004-05 hurricanes and the strong performance in the fishing industry.[9] In the financial account, while the resort construction project boosted FDI inflows in 2013, but the large current account deficit continued to be financed by debt-related inflows and accumulation of external arrears in the public sector. The overall balance of payments was in a surplus of 2 percent of GDP in 2013, pushing up reserves to 3½ months of imports from about 2½ months of imports in 2012.

7. **Economic slack and tight monetary conditions brought the economy into deflationary territory.** On average, consumer prices declined marginally in 2013, held down by declines in telecommunications and clothing prices in the first six months of the year (Table 7). In the last four months of the year, prices fell for goods that account for about a quarter of the CPI basket. The downward drift in inflation reflects in part weak demand and tight credit conditions: the central bank's discount rate has not changed over the past nine years and lending rates have declined only marginally despite ample liquidity in the banking system, held up by high delinquencies in existing portfolios and by the 3 percent interest floor on saving deposits.

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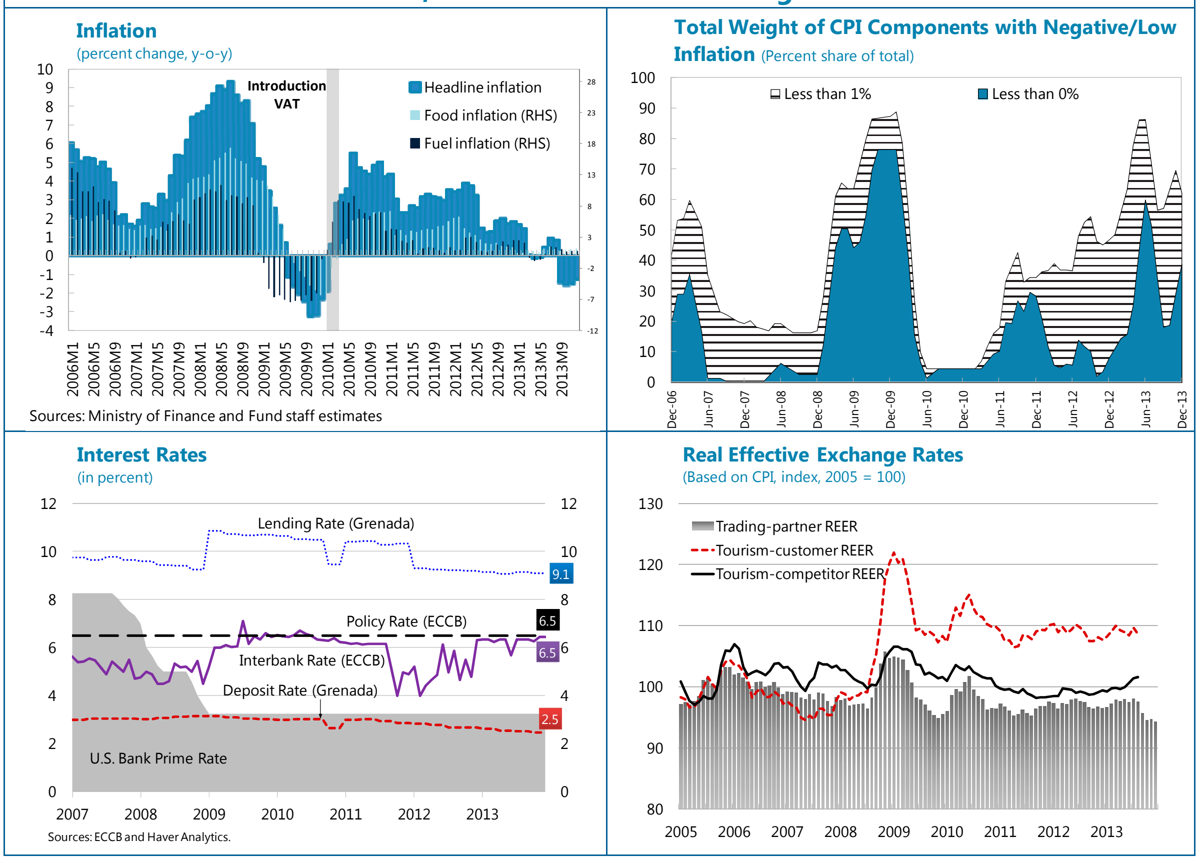
[7] The new Sandals Resort International project has undertaken works estimated at US$80 million (10 percent of GDP) during 2013, reviving Grenada's construction sector after a seven-year slump.

[8] An excise duty charged on passengers flying from the U.K. The U.K. government has recently announced reforms of the air passenger duty that will come into effect in 2015, which will reduce rates for "long-haul" flights, including the ones to most of the Caribbean destinations.

[9] It takes 7-10 years for nutmeg trees to reach the harvest level and 13 years to reach peak production. Most trees were wiped out in the 2004 hurricane and, as a result, production remains at about 15 percent of pre-hurricane levels.

Constraints on both the demand and supply side of the credit market led to a 5 percent decline in private credit in 2013, which continued in early 2014 (Figure 4). The real effective exchange rate has depreciated slightly since mid-2013, reflecting low inflation and the depreciation of the U.S. dollar against major currencies.

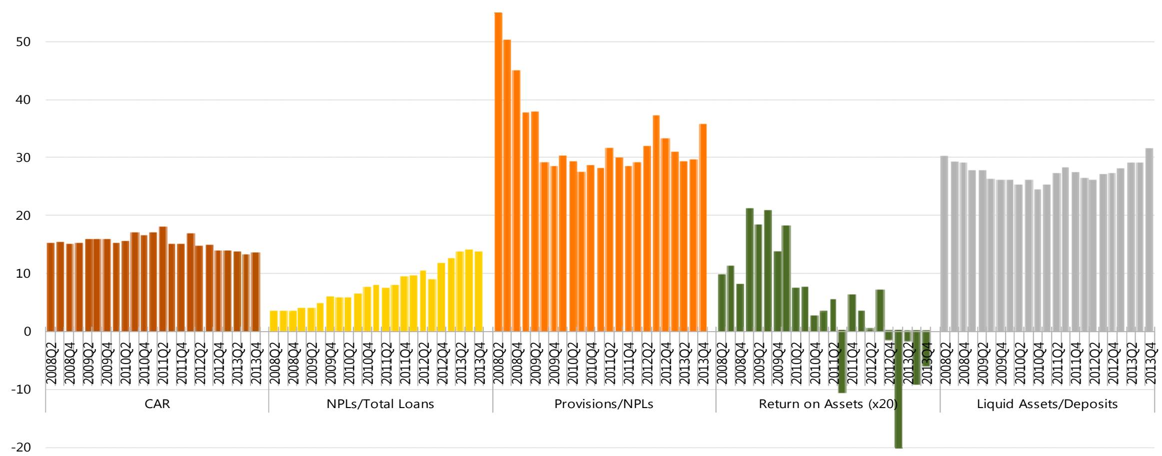
Inflation, Interest Rates and Exchange Rates



8. **Financial sector balance sheets have been increasingly strained.** Impaired assets continued to increase with weak economic activity and are estimated at 13.8 percent of total bank loans in December 2013 under existing loan classifications; however, the level of impairments may be significantly higher under stricter international norms (Table 8). The related increase in provisioning and decline in profitability weakened capital adequacy to a reported 13.6 percent of risk-weighted assets in December 2013, but capital adequacy would be lower under stricter loan classification and provisioning rules. The erosion of capital over the past few years also reflects provisioning against financial institutions' exposures to the failed regional insurance company, the CL Financial Group, which was fully written off by end-2012 by banks, credit.

unions, and insurance companies.[10] In the non-bank financial sector, the consolidation in the sector continued and the financial position of credit unions has improved marginally from 2012 in terms of the capital position, liquidity and non-performing assets.

Grenada: Selected Banking Indicators, 2008Q4-13Q4



9. **Subdued activity also weakened the 2013 fiscal position, despite efforts to rein in current spending.** Tax revenues weakened across the board reflecting sluggish activity outside growth sectors and, to a lesser extent, fiscal stimulus to the manufacturing sector since 2010.[11,12] Overall revenues held up, however, due to the receipt of a one-off licensing fee. On the spending side, the need to make large retroactive wage settlements agreed by the previous government for the period 2009-12 put pressures on government spending.[13] By mid-2013, to alleviate the mounting pressures on the fiscal accounts, the government stepped up tax administration efforts

[10] Grenada's exposure to the CL Group — which includes British American Insurance Company (BAICO) and the Colonial Life Insurance Company (CLICO) — was estimated at 3.9 percent of GDP. Of this, banks' had investments of 0.7 percent of GDP, credit unions of 1.3 percent, insurance companies of 0.05 percent and individuals of 1.2 percent. The resolution of BAICO's ECCU operations is almost complete, with the sale of its traditional insurance portfolio to a large regional insurance company completed in March 2013, and planned full repayment of its deposit-like liabilities underway – both with financial assistance from the government of Trinidad and Tobago. However, progress on the resolution of CLICO remains slow.

[11] Important growth drivers in 2013 (construction, education and fishing) have not contributed to an improvement in tax revenues due to significant tax exemptions received by these sectors.

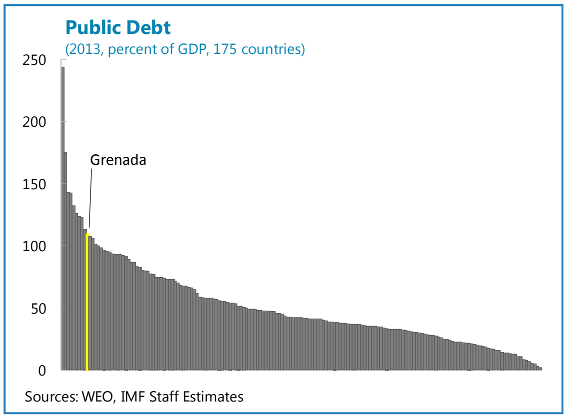
[12] The main pillars of the stimulus (the manufacturer's rebate program) included a halving of VAT rates on selected construction materials and a reduction in non-VAT tax liabilities equivalent to 10 percent of manufacturers' gross annual sales. The revenue loss to date was limited (0.3 percent of GDP) due to the low non-VAT tax liabilities, but the manufacturers have accumulated unused "rebate" balances of about 1.3 percent of GDP.

[13] The triennial wage negotiations between the government and the unions for 2009–12 were completed by the previous government in December 2012. The agreement involved a 6 percent wage increase (4 percent for 2009 and another 2 percent for 2012) and some one-off payments, which will translate into a 0.5 percent of GDP permanent increase in wages and a 1.7 percent of GDP retroactive (one-off) payment. Half of the retroactive cost was settled in 2013 (0.8 percent of GDP), with the remaining half to be settled in 2014.

and took action to contain spending on goods and services. It succeeded in containing the primary deficit to 3⅔ percent of GDP, within the budgeted targets although still significantly wider than the previous year. A step up in the coupon on the 2025 bond (issued in the 2005 restructuring) and the high cost of the bank overdraft to which the government had to resort, have pushed the interest bill to 3½ percent of GDP, with the overall 2013 deficit widening to 7 percent of GDP (on an accrual basis) from 5½ percent in 2012.

10. **The weak fiscal position has continued to stoke financing pressures.** Overall public debt increased to about 110 percent of GDP by end-2013, among the highest debt ratios in the world. Gross financing needs totaled 33.8 percent of GDP in 2013, which the government was unable to meet in full (Figure 5):

- Unable to secure financing for an upcoming coupon payment, the newly elected government announced on March 8, 2013 that it would undertake a "comprehensive and collaborative" restructuring of its public debt. The restructuring is to exclude treasury bills issued in the Regional Government Securities Market (RGSM) to avoid contagion to other ECCU sovereigns that tap that market, as well as debt to multilateral institutions. Together, these account for 31.3 percent of GDP (29 percent of public debt). Thus, about US$638.5 million (78.5 percent of GDP) in debt outstanding at end-2013 would be eligible for restructuring, affecting a diverse group of creditors, including bilateral official creditors, private commercial creditors holding the bonds issued in the 2005 restructuring and maturing in 2025 (US$2025 and EC$2025 bonds), as well as private creditors holding Treasury bills, bonds and loans.



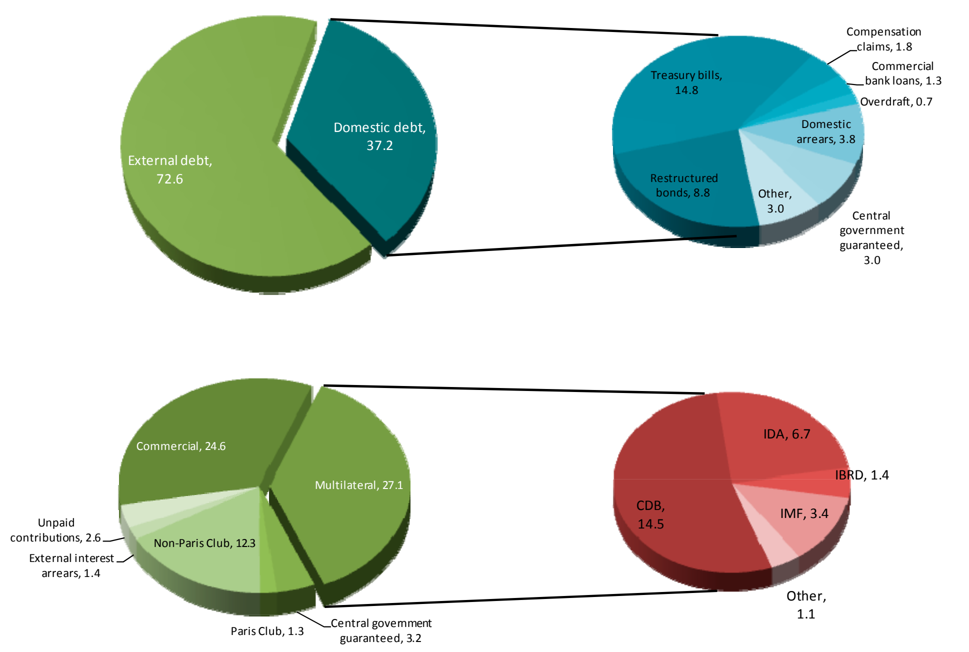
- Following the restructuring announcement, the country credit rating was downgraded by both Standard and Poor's (to selective default) and Moody's (to credit negative) and Grenada's bonds are currently trading at less than 35 percent of their face value. The government has hired financial and legal advisors (White Oak Advisory and Cleary Gottlieb, respectively) and initiated discussions with creditor groups, including through a creditor representative committee. The government has also requested support from the Fund and other international financial institutions for their efforts to restore fiscal sustainability and restart growth.

Outstanding arrears as of end-December 2013

	US$ mn	% of GDP
Total Arears	**124.3**	**15.3**
External Arrears	**86.8**	**10.7**
Multilateral	1.3	0.2
Official bilateral	49.3	6.1
Paris Club	2.9	0.4
Non-Paris Club	46.3	5.7
Commercial creditors	15.0	1.8
Unpaid contributions	21.3	2.6
Domestic Arrears	**37.5**	**4.6**
Domestic Debt	5.4	0.7
ECCB	1.5	0.2
Domestic suppliers	30.6	3.8

- The standstill on debt service since the debt restructuring announcement alleviated some of the financing pressures, with the remaining needs met largely through bilateral borrowing (Trinidad and Tobago, Venezuela, and Kuwait), the rollover of Treasury bills in the regional securities markets, overdraft facilities, and build-up of arrears. By end-2013, overall arrears have increased to 15.3 percent of GDP, of which 10.7 percentage points were on external obligations and about 4.6 percentage points on domestic obligations.

Grenada: Public Sector Debt, end-2013
(In percent of GDP)



POLICY DISCUSSIONS AND THE PROPOSED PROGRAM

11. **The authorities and staff agree on the importance of restoring fiscal sustainability, while creating supportive conditions for high-quality growth**. The authorities have developed a comprehensive policy agenda that seeks to: (i) enhance competitiveness to promote private sector growth and employment, through the implementation of structural reform; (ii) resolve the fiscal crisis through fiscal adjustment and debt restructuring, while protecting social safety nets; and (iii) strengthen financial sector stability by enhancing regulation and supervision.

12. **The authorities' policy framework draws on the lessons learned from the recent ex-post assessment (EPA) of Fund engagement with Grenada**.[14] The EPA found that performance under the two latest Fund-supported programs was affected by the difficulties of tackling major natural and economic shocks, while facing institutional challenges characteristic of small countries. The main lessons pointed to overoptimistic growth projections, a large number of structural reform measures that exceeded Grenada's capacity constraints, and weak program ownership. The EPA concluded that new Fund engagement would benefit from (i) a clear ownership and track record demonstrated through prior actions and indicative targets; (ii) a focus on only few macro-critical reforms, with greater emphasis on growth with assistance by the World Bank and Caribbean Development Bank; (iii) a significant fiscal adjustment, with reductions in the wage bill and efforts to scale back tax incentives; (iv) policy buffers and built-in flexibility to deal with likely shocks, as well as (v) realistic growth projections.

A. Outlook, Risks and the Macroeconomic Framework

The recovery is expected to be modest in the near term and inflation to remain subdued. Downside risks dominate for now and stem from the uncertain impact of the fiscal consolidation on growth, faltering confidence, and a continued weak global recovery.

13. **The pace of economic recovery is expected to be modest over the program period.** Staff projects growth to average 1½ percent during 2014-17, supported by a broadening of the recovery as the new resort boosts tourist arrivals (Table 1). The recovery is also expected to be supported by an easing of government financing constraints as the fiscal crisis is gradually resolved with the implementation of a comprehensive fiscal adjustment and the completion of the debt restructuring. Nevertheless, a faster recovery is expected to be held back by the drag of the fiscal adjustment and the weak credit growth as banks repair their balance sheets. The unemployment rate is expected to remain high over the medium-term, reflecting a significant structural component. Over the longer-term, growth is projected to recover steadily to about 2½ percent as domestic and external conditions normalize.

14. **Inflation is projected to remain subdued in the face of weak demand and moderate commodity inflation.** Staff projects that inflation would average 1½ to 2 percent a year over the program period as spare capacity persists and the external price pressures remain modest. Over the medium-term, inflation is projected to remain around 2 percent, in line with imported inflation.

15. **The external current account deficit is expected to improve gradually with the fiscal consolidation and a recovery in exports.** Exports are projected to rebound steadily, as nutmeg production recovers from hurricane-related damage and as global tourism demand improves. A

[14] See Grenada Country Report 14/19.

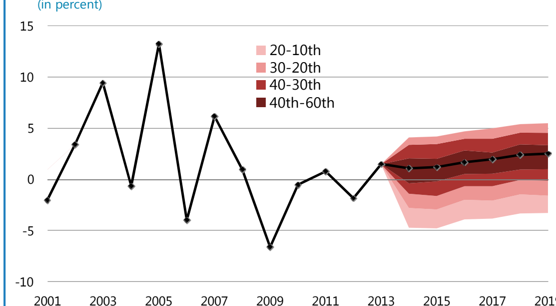
compression of public sector imports due to the envisaged fiscal consolidation is expected to more than offset a projected pickup in private sector imports as the economy recovers. As a result, the current account deficit is projected to narrow during the program period, from 27.1 percent in 2013 to about 18.9 percent of GDP by 2017. Nevertheless, without a significant pickup in private capital inflows, and in the absence of debt restructuring, external financing requirements are expected to remain high, with an external financing gap estimated to average of US$58.3 million (6¾ percent of GDP) per year during 2014–17.

Grenada: Macroeconomic Outlook

			Est.	Proj.					
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (%)	0.8	-1.8	1.5	1.1	1.2	1.7	2.0	2.4	2.5
CPI inflation, period average (%)	3.0	2.4	0.0	1.6	1.7	2.1	2.2	2.3	2.3
				(Percent of GDP)					
Primary balance	-2.2	-2.0	-3.7	-2.4	1.3	3.5	3.5	3.5	3.5
Current account balance	-21.8	-19.2	-27.1	-23.8	-20.6	-19.2	-18.9	-18.0	-17.2
Savings	-1.3	-1.9	2.5	2.0	2.3	2.9	6.3	8.6	11.9
Investment	20.5	17.3	29.6	25.8	22.9	22.1	25.1	26.6	29.1

16. **Downside risks to the macroeconomic outlook are high for the time being (Annex I)**. The economy may be slower to recover or the drag of the fiscal adjustment may have a higher impact than projected by staff. The main risks to the outlook stem from faltering confidence if progress is not made soon in addressing the fiscal crisis, from a continued weak global recovery (on which Grenada depends for tourism) and from potential natural disasters. The impact of potential spillovers from the international financial markets (including changes in the U.S. monetary policy) is likely to be low, given the relative insulation from traditional capital flows, although some nonresident deposit outflows in case of narrowing interest differentials could put pressure on the balance of payments. At the same time, risks from unfavorable developments in the fragile regional markets could have large disruptive effects on Grenada's economy if they materialize. Based on the historical variance of growth outcomes, staff estimates that the probability of negative growth during the next three years is about 40 percent.

Grenada: Growth Outlook[1]
(in percent)



Source: Fund staff estimates.
[1]The distribution is based on Monte Carlo simulations (1000 draws each year) using a normal distribution with Grenada's historical variance. The shocks are capped at 3%.

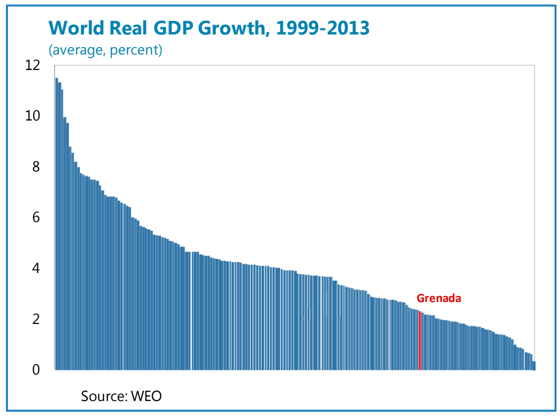
17. **The authorities agree with staff's views on the macroeconomic outlook and share staff's concerns regarding downside risks to growth.** While committed to undertaking the necessary consolidation to restore fiscal sustainability, the authorities are particularly concerned

that the sizeable fiscal consolidation may thwart the fragile recovery. Therefore, the authorities stressed the importance of unlocking concrete gains in Grenada's competitiveness and growth through structural reform to attract more private investment and grants.

B. Improving Competitiveness and Setting the Stage for Higher Sustainable Growth

The program aims to strengthen competitiveness and improve medium-term growth prospects by tightening income policies, removing constraints to growth through reforms in the energy and other sectors, improving the investment environment, and putting in place the legal infrastructure for public private partnerships (PPPs).

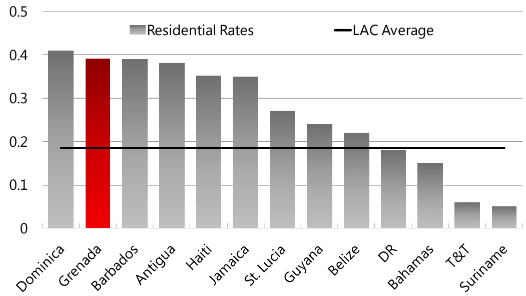
18. **Stronger and more sustainable growth is needed to address the economy's pressing social challenges.** At 2¼ percent a year over the past fifteen years, Grenada's growth lagged behind that of emerging markets (5.9 percent) and other small states (3.2 percent), and one in three Grenadians is currently unemployed. The public sector has traditionally picked up the slack in terms of supporting growth and providing employment, but the strategy has not been sustainable in light of the deep-seated cost and structural competitiveness challenges. In particular:



- Costs are high throughout the economy, reflecting both scale disadvantages and policy-induced costs: (i) electricity tariffs are among the highest in the world, reflecting the small scale of production and the monopoly position of the electricity provider, including in the market for renewable electricity generation;[15] (ii) institutional and labor arrangements in the public sector have made it difficult to pursue predictable and macro-consistent incomes policies and contributed to high port charges, resulting in import costs that are among the highest in the region; (iii) financing costs are high—with real lending rates at about 9 percent in 2013; and (iv) staff estimates suggest that the real effective exchange rate could be overvalued by more than 30 percent (Annex III).

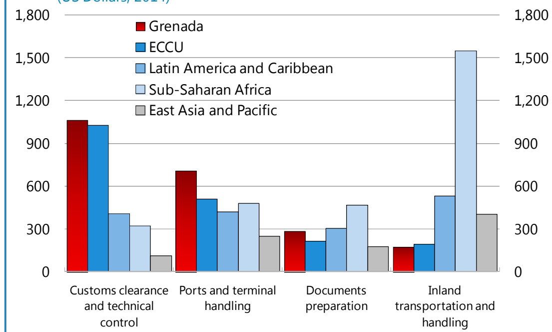
[15] The electricity provider (GRENLEC) has monopoly over electricity generation, transmission and distribution until 2073. In addition to some deficiencies in the tariff-setting mechanism, the monopoly over electricity generation has thwarted entrance into the renewable electricity market.

Average Electricity Tariffs in Selected Caribbean Islands
(US$/kWh, 2013 or latest available)



Sources: Annual Reports; Caribbean Electric Utility Service Corporation (CARILEC); and SIEE-OLADE.

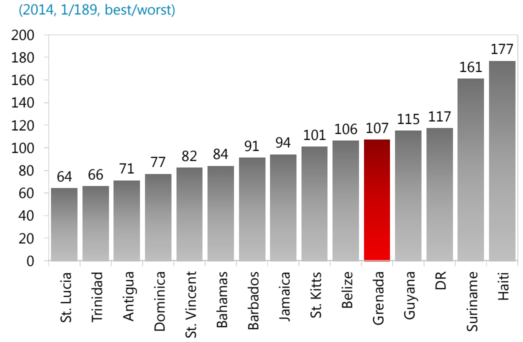
Costs to Import
(US Dollars, 2014)



Source: World Bank, Doing Business.

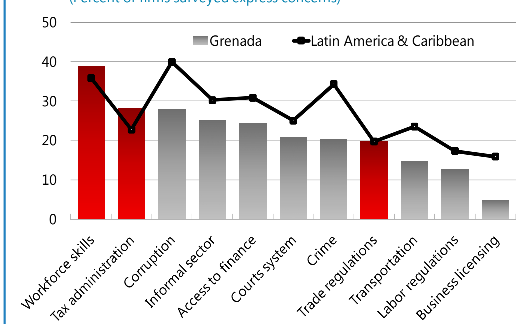
- Structural impediments have also contributed to weak competitiveness. Impediments to higher growth and investment include closed distribution markets in Grenada's main agricultural products (cocoa and nutmeg), red tape throughout the investment process, and inefficient public services. Natural disasters have further exacerbated the challenges. Further, enterprise surveys conducted by the World Bank show companies are particularly concerned about the unskilled workforce, ineffective tax administration, and to a lesser extent, trade regulations as impediments to doing business.

Doing Business Overall Rankings
(2014, 1/189, best/worst)



Source: World Bank *Doing Business*, 2014.

Obstacles to Business
(Percent of firms surveyed express concerns)



Sources: World Bank *Enterprise Surveys*, 2010.

- Policy space to adjust to external shocks and to provide support to growth has also been limited, if not exhausted. As part of the currency union, Grenada cannot use the nominal exchange rate as an adjustment tool, and its fiscal space has been exhausted.

19. **In light of Grenada's competitiveness challenges, a key objective of the authorities' program is to create a propitious environment for the private sector to take over as the main growth driver.**

- The fiscal consolidation and tight income policies in the public sector (see below) should help boost the country's competitiveness and external sustainability. Given the strong linkages between public and private sector wages, restraint in public wages is expected to be transmitted to private wages and contribute to a lowering of unit labor costs.[16]

- As part of the strategy to promote internal devaluation, the authorities will pursue other avenues to improve cost efficiency including, most importantly, a reduction in energy costs. Complementing wage moderation, the government will focus its efforts on policies aimed to reduce markups through liberalization of some sectors and improving the investment environment to attract new capital inflows (MEFP ¶9). In particular, it will liberalize key sectors in the economy (renewable energy, nutmeg and cocoa trade) and aim at lowering electricity costs by operationalizing, with assistance from the World Bank, an independent regulatory authority for a more efficient pricing of electricity (MEFP ¶12-13). The authorities also aim to improve the business environment to address bottlenecks in the investment process, transform the Industrial Development Corporation into a functioning one-stop shop for investors, and codify all the tax incentives that could benefit investments. The government will also explore PPPs, first by putting in place a comprehensive framework to safeguard against associated risks (MEFP ¶10). The government will review the labor agreements with the port authority and, more generally, will revise the Labor Code to introduce a shift system to help reduce costs and increase efficiency (MEFP ¶14).

- To ensure broad ownership of reforms to support growth and reach a consensus on economy-wide wage restraint, the authorities have undertaken national consultations with trade unions, private businesses and other social partners (MEFP ¶14). As a result of these consultations, the stakeholders have recently finalized a Social Compact with the government on a framework for fostering sustainable development, which includes improved competitiveness and wage moderation.

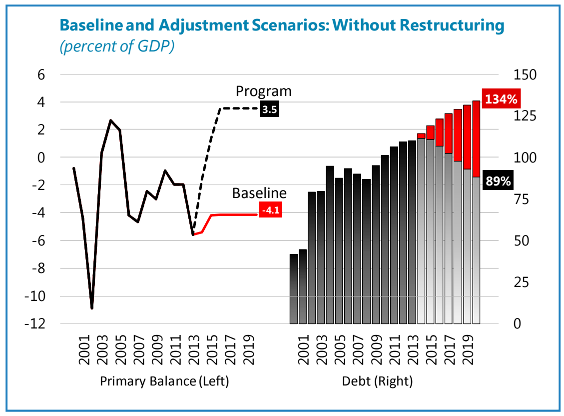
C. Restoring Fiscal Sustainability

The program envisages a primary fiscal consolidation of 7¾ percent of GDP over three years, with upfront legislated measures. Together with debt restructuring and fiscal structural reforms, this should set public debt on a firm downward path to the regional target of 60 percent of GDP.

[16] Evidence from available wage data for St. Lucia (which is often used as a proxy for the ECCU region) points to public wage growth leading private wage growth.

Fiscal Consolidation

20. **The authorities and staff agreed that significant fiscal consolidation is needed to address Grenada's fiscal imbalances**. In the absence of debt restructuring and consolidation measures, the overall deficit would remain in the range of 8–9 percent of GDP as debt servicing costs would continue to rise. As a result, public debt would increase from about 110 percent of GDP at end-2013 to over 134 percent of GDP by 2020, more than twice the regional target. The authorities' program targets a sizeable fiscal consolidation of 7¾ percentage points of GDP, aimed at reaching a primary surplus of 3½ percent of GDP by 2016 (Box 1; MEFP ¶17). This consolidation effort would put debt on a firmly downward path, and, in staff's view, would strike the right balance between short-term growth and long-term fiscal sustainability considerations. Despite the significant fiscal consolidation, in the absence of a complementary debt restructuring, debt would remain high at around 89 percent of GDP by 2020 and the fiscal financing gaps would not be covered by marketable instruments.

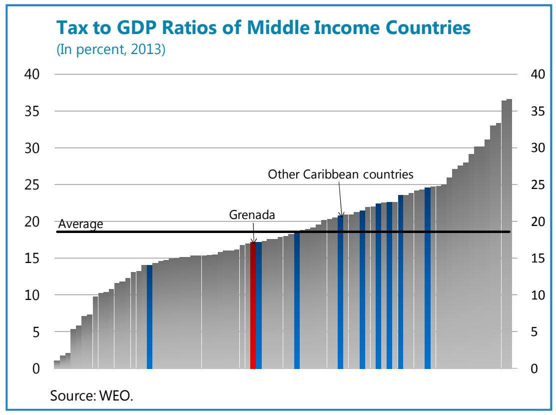


21. **The authorities envisage substantially front-loaded measures to turn around the fiscal position, but the impact on growth is expected to be moderate.** Three quarters of the fiscal consolidation effort will be undertaken in the first two years of the proposed program, with most revenue measures needed for the entire adjustment already approved (Tables 2a and 2b; MEFP ¶18-19). The adjustment will focus on curtailing current spending and widening the tax base. To minimize the impact of the fiscal adjustment on growth, staff and the authorities agreed that the fiscal consolidation should protect social spending and growth-enhancing capital investments and this has been reflected in the design of the authorities' proposed program:

- Half of the adjustment effort will focus on boosting the revenue base, since—with a tax revenue-to-GDP ratio of less than 20 percent—Grenada's tax intake is low compared to the both the region and many countries at similar income levels. An essential revenue measure is the reduction in the minimum threshold for paying the personal income tax, which—at three times per capita income—was the highest in the region. The authorities have nearly halved the threshold as of January 1, 2014, increasing the coverage of income tax from 5 percent of income earners to an estimated 19 percent.[17] Other revenue measures include: increases in property tax rates and a revaluation of assessed property values; an increase in the custom

[17] The personal income tax threshold was lowered from EC$60,000 to EC$36,000 as of January 2014. The marginal tax rate will be 0 percent up to EC$36,000, 15 percent between EC$36,000 and EC$60,000, and 30 percent above this threshold.

services charge; a broadening of the base of income, VAT and other taxes through a reduction in exemptions; and the introduction of new taxes, such as a financial activities tax and a small business tax. The tax incentive regime will also be reformed as part of the structural reform agenda to ensure the integrity of the tax base going forward.



- On the expenditure front, restraint in current spending will contribute more than a quarter of the total fiscal savings. With about two thirds of revenues financing the cost of the civil service (wages and pensions), the authorities' expenditure measures going forward will focus on tackling the large wage bill. The program envisages a freeze of the nominal wage bill at current levels and its further reduction to historical levels through attrition, elimination of vacancies, and structural reforms of civil service employment and pay. The government has already reached agreement with the trade unions to defer all wage negotiations for the duration of the program to avoid disruptive retroactive payments in 2015-16, and will cap the growth of the wage bill from 2015 to a level that can be sustained by tax inflows in the forthcoming fiscal responsibility legislation. Other expenditure measures include: a reduction in spending on goods and services through savings in the utilities bill, rental and communication costs, as well as a nominal freeze in most other categories of current spending. While restraint in capital spending appears to contribute significantly to the adjustment effort (about a quarter), it does so only when compared to the 2013 level, when non-grant-financed capital spending was high by historical standards due to an increase in spending on social programs.[18]

22. **Tax administration reforms will be critical in supporting the fiscal adjustment effort**. The authorities will focus on implementing the reform agenda already put together with extensive support from the regional technical assistance center CARTAC over the past several years. This agenda includes increased focus on risk management and large taxpayers; improving incentives for tax collections by appropriately designing the compensation structure for tax collectors; connecting the customs and inland revenue information systems and ensuring exchange of information between the two departments; enactment of the newly drafted Customs Bill that will modernize the existing legislation and introduce penalties for noncompliance, among other things; and the creation of an internal audit unit at customs (MEFP ¶18 & ¶25).

[18] Many social projects are classified under capital spending, a statistical issue that will need to be addressed in future reform efforts.

Grenada: Adjustment Measures

(In percent of GDP, full impact by end of program)

Measures	Start in	Full yield
Revenue measures	...	**3.7**
Personal income tax	...	**0.5**
Reduce threshold to EC$36,000, with a marginal rate of 15 percent on income up to EC$60,000	2014	0.5
Widen the income and withholding tax base to winnings from lotteries and games of chance	2015	0.0
Property tax	...	**1.0**
Increase rate on both buildings and land to 0.25 percent in 2014 and to 0.5 percent in 2016	2014	0.8
Revise valuations to market value	2015	0.3
Value-added tax	...	**0.5**
Reduce the list of exempt items (nonbasic foods, private accommodations)	2015	0.4
Restore 15 percent rate on construction materials	2014	0.1
Increase VAT paid by St. George's University from 5 to 15 percent	2016	0.1
Excises	...	**0.1**
Excise tax of 5 percent on motor vehicle parts, tires, batteries, motor oil, and luxury goods	2015	0.1
Increase excises on tobacco and alcohol (at least 10 percent)	2015	0.1
Customs exemptions	...	**0.7**
Halve customs exemptions to GRENLEC, statutory bodies, St. George's University and returning nationals	2014	0.7
Other	...	**0.7**
Increase in customs service charge from 5% to 6%	2014	0.3
Introduce a 10% tax on financial activities	2015	0.3
Introduce a small business taxation regime	2016	0.1
Increase fees for motor vehicle license, professional licenses, and gun license	2014	0.1
Current expenditure measures	...	**2.1**
Wage and pension bill	...	**1.5**
Freeze wage bill (including allowances) for 2014-2016 at May-December 2013 levels	2014	0.9
Reduce wage bill by another 0.4pp of GDP after freeze (attrition, reform)	2015	0.4
Freeze personal allowances for 2014-16 at 2013 levels	2014	0.1
Goods and services	...	**0.5**
Goods and services spending fixed in nominal terms at 2013 levels for 2014-2016	2014	0.4
Additional measures from efficiency savings (LED lights, air conditioners, rental bill agreements, reduced mobile and land telephone bills)	2015	0.2
Transfers and subsidies	...	**0.1**
Freeze in nominal terms at 2013 levels for 2014-2016	2014	0.1
Total revenue and current expenditure measures	...	**5.8**
Streamline non-grant-financed capital spending	2014	2.0
Total fiscal adjustment effort	...	**7.8**

Box 1. Fiscal Adjustment Effort and the Fiscal Impulse

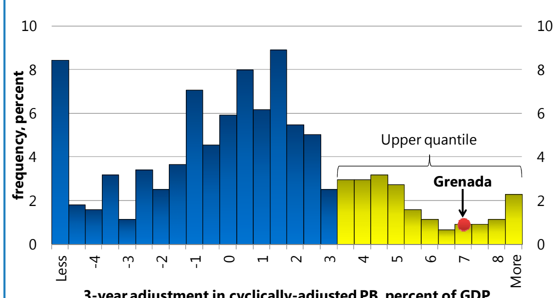
In the case of Grenada's program, the fiscal measures are more frontloaded and larger than suggested by the headline fiscal numbers. The headline primary balance is programmed to improve by 7.2 percentage points of GDP between 2013 and 2016, but the underlying adjustment effort amounts to 7¾ percent of GDP. Also, the headline numbers suggest the adjustment is focused on the last two years of the program, whereas the underlying effort is much more front-loaded at 3.0, 2.6 and 2.2 percent of GDP respectively during 2014-16. This difference between the headline numbers and the fiscal effort is explained by one-off factors that affect the outcomes in 2013 and 2014, such as (i) the 1.4 percent of GDP license fee received as non-tax revenue in 2013; and (ii) retroactive wage payments for the 2009-2012 period, with payments of 0.8 percent of GDP in 2013 and 1.2 percent expected in 2014 (table below).[1]

Grenada: Underlying Fiscal Adjustment Effort
(In percent of GDP)

	2013 Est.	ECF 2014 Prog.	2015 Proj.	2016 Proj.
Headline primary balance	**-3.7**	**-2.4**	**1.3**	**3.5**
Cumulative fiscal adjustment	...	*1.2*	*5.0*	*7.2*
One-off items, o.w.	-0.6	1.2	...	...
Windfall revenue	-1.4	...	...	...
Retroactive wage/pension payments	0.8	1.2	...	...
Underlying primary balance	**-4.3**	**-1.3**	**1.3**	**3.5**
Cumulative fiscal adjustment	...	*3.0*	*5.6*	*7.8*

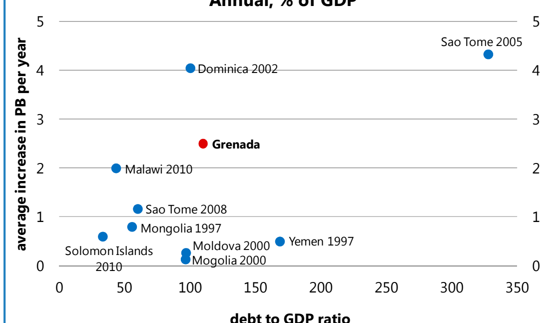
The planned fiscal adjustment effort envisaged in the program is ambitious. At 7¾ percent of GDP, the planned adjustment is at the 97th percentile of all fiscal consolidations recorded during the past two decades for the advanced and developing countries with debt ratios larger than 60 percent of GDP. The average annual adjustment (in percent of GDP) in Grenada's program is also large compared to other PRGT-supported programs.[2]

Grenada Adjustment in Context [1]



Source: Data on historical adjustments included in the recently introduced realism-check feature of the MAC-DSA template.
[1] Distribution of all advanced and emerging economies with debt greater than 60 percent of GDP for the period of 1990 to 2011.

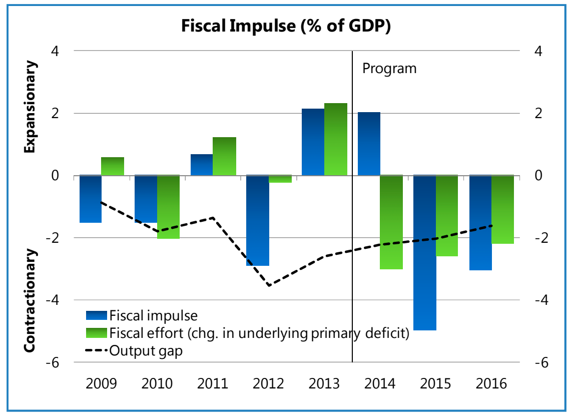
Planned Fiscal Adjustment Under Fund Programs, Annual, % of GDP



Sources: WEO, program staff report, and IMF staff estimates.

Box 1. Fiscal Adjustment Effort and the Fiscal Impulse (Concluded)

The contractionary effect of the adjustment effort, especially in the first years of the program, will be mitigated by grant inflows and payment of the retroactive wages in 2014. The fiscal impulse, measured as the change in the cyclically-adjusted overall balance excluding grant revenues[3], is expansionary in the first year of the program despite the strong consolidation effort of the authorities, because the impact on the domestic demand is offset in part by the 1.2 percent of GDP in retroactive wage payments and about 4½ percent of GDP in expected investment spending financed by external grant inflows from China and PetroCaribe, among other. The mitigation of the contractionary effect of the adjustment in the first year of the program will provide the needed respite for the economy to pick up some momentum before the full effect of the adjustment is felt later in the program.



[1] The permanent component of the wage increase is not counted as a one-off factor.

[2] The program sample includes only the PRGT programs that had a fiscal adjustment of at least 6 percentage points of GDP planned at the outset of a Fund-supported program.

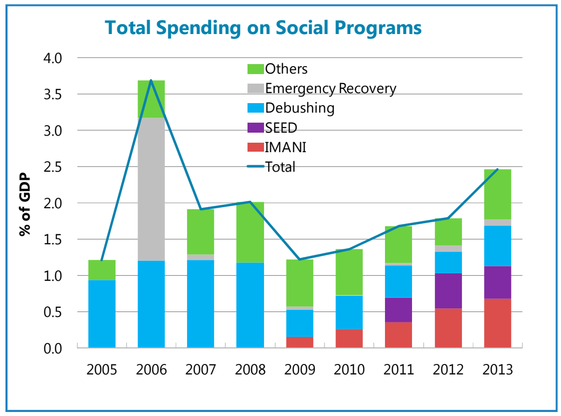
[3] Grant revenues but not expenditures are excluded to better capture the impact of fiscal policies on domestic demand. The overall balance excluding grants has been adjusted for the cycle by assuring a unit elasticity of the revenues to the output gap and a zero elasticity of the spending

23. **The authorities and staff agreed on the need to accommodate increased social spending for the most vulnerable groups during the period of fiscal adjustment.** With assistance from the World Bank, the authorities are strengthening their flagship social assistance program SEED (Support for Education, Employment, Empowerment and Development) —an amalgamation of several smaller programs that now accounts for 18 percent of total social spending—through the establishment of a beneficiary registry and the introduction of proxy means testing as the eligibility criterion. During the program period, cash transfers under the SEED program will be increased by an estimated 0.3 percent of GDP, a floor on spending under the program will ensure the adjustment is not achieved by a retrenchment in targeted transfers, and further assistance to support social safety nets will be sought from the donor community (MEFP ¶15). To further rationalize social programs going forward, the government has approved at end-March 2014 a Social Protection Strategy (Box 2). The major objectives of the new social development strategy are to: (i) strengthen the production and use of household poverty data for better policy design of social programs; (ii) increase the poverty reduction focus of social safety net programs though consolidation of social programs; (iii) undertake social and legal reforms to improve access to services for the poor and vulnerable by rationalizing the social programs; (iv) help families make the transition from welfare dependence to economic self-sufficiency; (v) ensure an efficient, effective, transparent and accountable social protection service delivery by using the proxy means test to develop a common targeting mechanism for all major safety net and social protection interventions, and harmonize the eligibility criteria and

application processes. This strategy will serve as a basis for government's Poverty Reduction Strategy Paper that will be finalized by June 2014 and will ensure that poverty reduction remains a priority.

Box 2. Social Safety Nets

Social protection spending has increased significantly during the crisis, from 1⅓ percent of GDP in 2009 to 2½ percent of GDP in 2013. There are about 25 social protection programs in Grenada, covering both social safety nets for the most vulnerable groups and employment support programs, and largely financed by donor funds. The three main social programs, which currently account for over two thirds of the social spending, are SEED (consolidated cash transfer program encompassing public assistance, student support and school feeding), IMANI (youth training) and De-Bushing (employment program, clearing up of road sides). Overall, the social programs have been developed without a coherent strategy, many programs are poorly targeted, duplication of benefits and beneficiaries are very likely given lack of a beneficiary database and uniform eligibility criteria, and the programs are poorly monitored.



Within this context, the Government has launched a two-pronged approach to strengthening the delivery of social protection programs. With assistance from the World Bank, in 2010, the Government designed and created a pilot program to consolidate its three top safety net programs (giving rise to SEED) and set out to improve its targeting. For this purpose, the government is currently developing a database with full demographic and economic background of the existing beneficiary households of the SEED program (about 3,500 households) and is developing criteria for a proxy means test. Once tested, these criteria will be applied to the existing SEED beneficiary households to determine eligibility, likely before end-2014. At the same time, the Government has developed—with assistance from UNICEF and UN Women— a coherent social protection strategy aimed at strengthening the social safety nets more broadly through the consolidation and rationalization of the social programs, increasing the poverty reduction focus of social safety net, rolling out the proxy means testing to other social programs to ensure an effective, transparent and accountable social protection service delivery, and harmonizing the eligibility criteria and application processes across programs. There is a need to strengthen and rationalize existing programs to ensure that they better address priority groups.

24. **Risks to the fiscal outlook are significant.** The main risks stem from underperformance in revenues due to weaker-than-expected growth or a lower than expected yield of the new revenue measures. Risks on the expenditure side stem from potential difficulties in controlling expenditure commitments of line ministries before the programmed structural reforms come into effect and from potential disaster-related spending hikes. To deal with these risks, the program has identified contingency measures on both revenues and expenditures to bring the fiscal flows on track with program targets (gradual release of spending appropriations and the expansion of the income tax base), as well as contingency financing. On the latter, the authorities will save the budgetary receipts from the recently established citizenship-by-investment program (CBI)

—which could yield revenues, as it currently does in other ECCU countries— for contingency financing during the program period (Technical Memorandum of Understanding (TMU) ¶5).[19] The government is also seeking donor assistance to support the program by purchasing additional natural disaster insurance for the duration of the program to ensure that government policies are not derailed by natural disaster shocks (MEFP ¶20).

Debt Restructuring and Regularization of Arrears

25. **The authorities and staff agreed that comprehensive debt restructuring is essential to bring the overall public debt to sustainable levels**. While the planned fiscal adjustment would reverse the upward debt dynamics and put debt on a downward path, public debt would remain at a high level over the medium-term in the absence of debt restructuring. As shown in the debt sustainability analysis (Annex II), the risk of debt distress would continue to remain high as all debt and debt service thresholds would be breached even in the absence of unanticipated shocks. The comprehensive debt restructuring being pursued by the authorities is critical to reducing debt to sustainable levels, lowering the risk of debt distress, and putting the ECCU debt target of 60 percent of GDP by 2020 within reach (Annex II, MEFP ¶22).

26. **With assistance from financial and legal advisors, the authorities have initiated debt restructuring negotiations to address the debt overhang**. The authorities have reached out to all affected creditors to achieve a comprehensive and collaborative debt restructuring (MEFP ¶23). Because of the diversity of the affected creditors, the pace of negotiations with various groups of creditors will differ:

- Formal discussions with creditors holding the US$ 2025 bond (30 percent of the eligible debt) started in March 2014 with consultations on the economic program and the underlying macroeconomic framework, and have continued through scheduled weekly conference calls.
- On April 9, 2014, the government published restructuring scenarios for the holders of EC$ 2025 bond (11 percent of the eligible debt), which are indicative of the restructuring terms that the government is seeking in order to bridge its multi-year financing gaps and achieve meaningful debt reduction. The initial offer from the government included two bond options that would be issued in exchange for tendered debt: a 60 percent and a 50 percent principal haircut, maturity extensions, and coupon reductions (Box 3). Some creditors have already indicated their willingness to accept the 60 percent haircut option. After further discussions, a formal offer is expected to be launched for these creditors. Negotiations have also expanded to domestic financial institutions, including the National Insurance Scheme (NIS

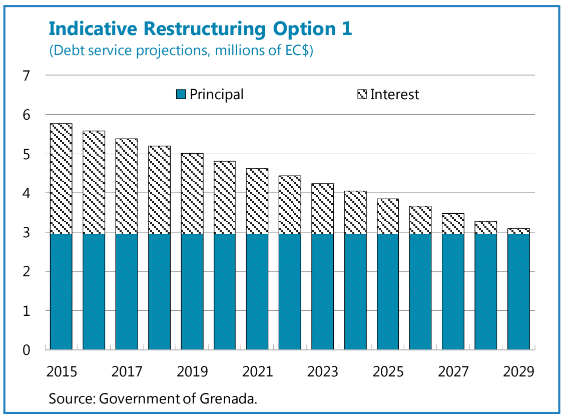
[19] The program does not yet include these receipts as a financing item given the uncertainty surrounding their magnitude.

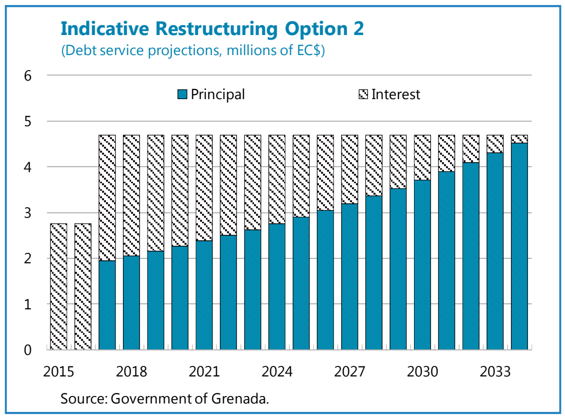
Box 3. The Published Debt Restructuring Scenarios

In the context of its ongoing consultation with affected creditors, the government offered two indicative restructuring options to the holders of its EC$ 2025 bond and to the Taiwanese bank Export-Import Bank of the Republic of China. The first option entails a 60 percent principal nominal haircut, extends maturity to 15 years with equal installments of principal payments, and sets interest at 6.5 percent throughout. The second option entails 50 percent principal nominal haircut, extends maturity to 20 years with 2 years of grace period followed by increasing installments of principal payments, and sets interest rate at 5 percent throughout (table and figures). Both options, albeit with different terms, imply the creditors would receive around 33-43 cents on the dollar, for discount rates ranging between 8 and 12 percent, levels at or above which the bond is currently trading in the secondary market.

Indicative Restructuring Options

	Haircut	Principal payments	Maturity	Grace period	Interest rate	Interest arrears
Option 1	60%	Equal installments	15 years	0	6.5%	60% reduction, 40% capitalized
Option 2	50%	Increasing installments	20 years	2	5%	50% reduction, 50% capitalized





- The Export-Import Bank of the Republic of China (5.4 percent of eligible debt), whose litigation in the U.S. courts to recover their outstanding claims on Grenada is still ongoing, have indicated a willingness in principle to participate in the restructuring.[20] The indicative scenarios presented for the EC$ 2025 bond were also presented to the Export-Import Bank of the Republic of China, along with a proposal on the treatment of outstanding arrears.
- With regard to other bilateral creditors, the government will request financing assurances from Paris Club creditors (1.7 percent of eligible debt) prior to the IMF Executive Board meeting and will seek agreement on a date to discuss the treatment of its debt (including outstanding arrears) following the approval of the proposed ECF arrangement. The

[20] On March 4, 2013, the Export-Import Bank of the Republic of China filed a lawsuit in New York court to recover payments outstanding on their claims since the 2005 debt restructuring on the basis of the *pari passu* arguments used by creditors against Argentina.

government of Trinidad and Tobago has also been contacted to initiate discussions on debt restructuring. An agreement was reached with the Kuwait Fund in March 2013 to clear the outstanding arrears by end-2015. The Kuwait Fund resumed new disbursements in 2013 and will continue to provide further financing during the program period.

27. **The published debt restructuring scenarios are consistent with achieving debt sustainability and reducing near-term debt servicing obligations**.[21] If all debts other than (i) multilateral debt, (ii) treasury bills issued in the RGSM, and (iii) loan facilities extended by the ECCB were to receive a haircut on the nominal value of the claims, a haircut of 50-60 percent, as pursued by the authorities, would put debt on a firm downward path towards the regional target of 60 percent of GDP by 2020. Given the scope of the restructuring and the diversity of the creditor base (see Table 4 for the breakdown of debt by creditor), the range of instruments to be offered will likely comprise combinations of principal haircuts and maturity extensions, all aimed at yielding equivalent NPV terms. Therefore, the likely outcome of the debt restructuring will be a combination of scenarios on equivalent NPV terms, resulting in a range of possible outcomes for reductions in nominal debt. Under any scenarios that fall within the range presented by the 50-60 percent nominal haircut being pursued by the authorities and their NPV-equivalent terms, the fiscal financing gaps for the near and medium term would be covered (see section "Program Modalities").

Structural reforms for fiscal sustainability

Fiscal structural reforms aim to address the root causes of fiscal imbalances and will focus on overhauling public financial management (PFM) practices and introducing a rule-based fiscal policy framework.

28. **In the near term, the authorities will focus the fiscal structural reforms on strengthening their ability to achieve the targeted fiscal outcomes through reforms to public financial management** (MEFP ¶25). With ongoing technical assistance from the IMF, the authorities will revise the PFM legislation before end-August 2014 to strengthen budgetary discipline. The new legislation would mandate strict commitment controls, require all spending in excess of the originally approved budget to be appropriated by parliament ex-ante through a supplementary budget, establish clear rules for accessing any contingency appropriations or the contingency fund, limit extra-budgetary funds held outside the Consolidated Fund, and impose meaningful enforcement mechanisms. The new legislation would also prohibit changes to the tax system without parliamentary approval, strengthen within-year budget reviews and multiyear budgeting, and improve the capital budgeting process. In addition, to identify other reform priorities across the spectrum of PFM functions, the authorities have requested the IMF to carry

[21] The existing stock of debt arrears will be regularized as part of the debt restructuring negotiations, while the supplier arrears will be fully cleared by end 2015, under the agreed schedule (see TMU ¶8-9).

out a Public Expenditure and Financial Accountability (PEFA) assessment during the coming twelve to eighteen months.

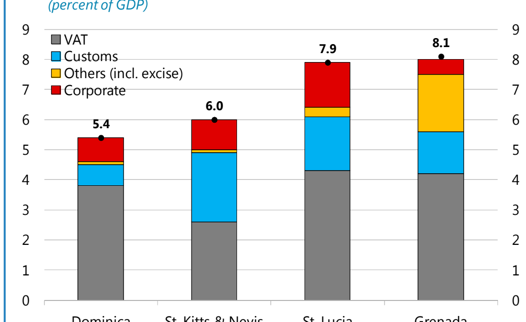
29. **Subsequently, the fiscal policy framework will be strengthened to better anchor fiscal policy decision-making** (MEFP ¶25). The existing framework does not impose meaningful constraints on the conduct of fiscal policies and does not provide a fiscal anchor to guide policy decisions. It also limits government's control over its income policies, as wage negotiations with the trade unions are retroactive and not constrained by economic or fiscal considerations (Box 3). The authorities will introduce fiscal responsibility legislation before end-2014, with technical assistance from the IMF, to transition to a rule-based framework that would anchor fiscal policies during the annual budget cycle and would steer them towards the achievement of the regional debt target. Following the achievement of the desired fiscal balance, the authorities envisage capping real spending growth at potential GDP growth (2-2½ percent), while allowing revenues to absorb cyclical fluctuations; this will ensure that the desired fiscal balance is broadly maintained over the cycle. The legislation would also establish a more systematic approach to wage setting by capping personnel spending as a share of tax revenues to secure their sustainability and by requiring forward-looking rather than retroactive wage negotiations.

30. **The need to reduce personnel spending will require broader reforms to rationalize employment and the wage structure in the public sector** (Box 3, MEFP ¶25). In addition to the planned reduction in public sector employment through attrition, the government will undertake a strategic review of the public sector structure, employment and wages, to eliminate inefficiencies and right-size the public sector. The review will cover government functions, human resource management, as well as civil service size, composition and remuneration structure. The reforms will be undertaken in the first half of 2015 with grant support from the European Union. Targeted reviews, focused on functions and employment in selected ministries, are currently being undertaken with assistance from the World Bank.

31. **The authorities will also tackle the ubiquitous tax incentives, which have weakened the tax base in many countries throughout the region** (MEFP ¶25). In line with the recommendations of an ongoing regional technical assistance from the IMF's fiscal affairs department, the authorities will make the process for granting incentives more transparent, predictable and aligned to government's policy priorities. This will be done through the elimination of discretionary exemptions and the codification of all exemptions in the legislation with clear qualification criteria aligned with government policy priorities. Legislation to this effect will be prepared before end-November 2014, and will include requirements for regular reporting to parliament on revenues foregone and for periodic

Revenues Foregone, 2012

(percent of GDP)



Sources: Norregard, Crivelli, Franzsen, & Krelove, 2013 and Krelove, Crivelli, Franzsen, & Świstak (2014).

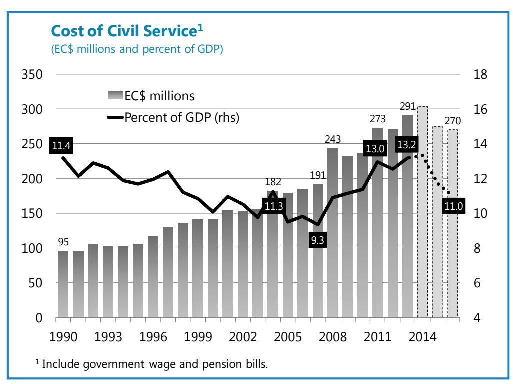
review of the existing exemptions in terms of their rationale, cost and benefits.

32. **To minimize risks to the fiscal position, vulnerabilities in a number of other areas will also be addressed** (MEFP ¶25)**.** The statutory bodies are on a weak financial footing, poorly monitored and controlled, and present an important source of contingent liability for the central government (Annex V). With technical assistance from CARTAC, the government will undertake a strategic review of statutory bodies' functions and rationale, and will develop a plan for their liquidation, privatization, or retention before end-October 2014. The revised PFM legislation will strengthen control over the finances of the statutory bodies, especially in cases where central government financing is required to support them. As the government is considering PPPs to bridge the infrastructure gaps, it will safeguard against potential risks by introducing a comprehensive PPP framework before entering into PPP arrangement (technical assistance will be provided by the World Bank). To strengthen its capacity to monitor the fiscal risks associated with parastatal entities and PPPs in particular, the government will create a fiscal risk unit to monitor and manage these risks. Other fiscal structural reforms under the program will focus on strengthening debt management (with technical assistance from the IMF and the World Bank), strengthening cash management through a transition to a more comprehensive Treasury Single Account and more effective cash flow forecasting, and reforming the public pension system to make it more equitable and streamlined (the latter two with assistance from CARTAC).

Box 4. The Cost of the Civil Service

At about 12 percent of GDP or two thirds of government revenue (excluding one-off costs), the cost of the civil service in Grenada consumes a significant share of public resources. The compensation of current civil servants accounts for about half of total government revenue or 10 percent of GDP, somewhat higher than the 9 percent of GDP on average in small states. Public pensions consume another 10 percent of revenues or 2 percent of GDP. This leaves little room for high-priority public investment, and reduces the ability of the government to respond to shocks. Significant rigidities in the public wage setting and in public hiring/firing decisions has made the management of the wage bill, including its reduction, quite difficult:

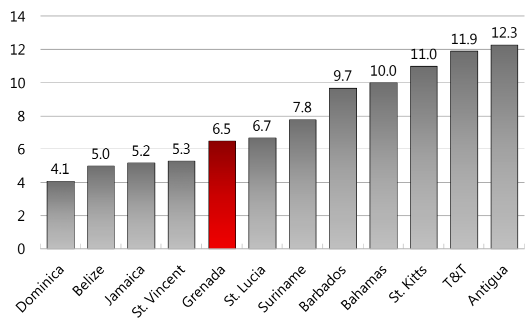
- ***Employment.*** The procedures for disciplining or firing public servants are very cumbersome, resulting in de facto life-long employment. As a result, the overall government and the individual ministries have little latitude in managing their human resources. For this reason, ministries often rely on contractual (un-established) employees that can be hired outside the Public Service Commission[1] and the public wage scale, and these kinds of employees now account for about a quarter of total public employment. Total public sector employment has increased by about 12 percent over the past six years, to about 6½ percent of population (relatively modest by regional standards).



- ***Wages***. The wage setting mechanism is also not conducive to government's ability to control its income policies. Wages are negotiated with public sector trade unions, which yield significant power given their ability

Box 4. The Cost of the Civil Service (Concluded)

Public Sector Employment in Comparison
(percent of population)



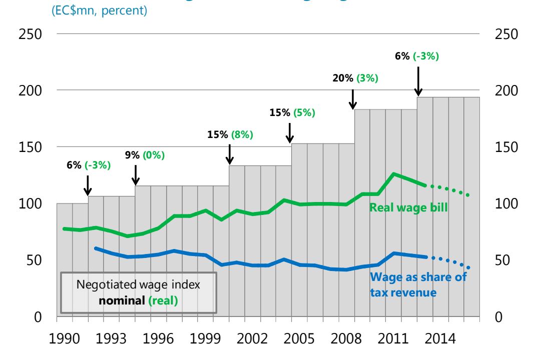
Sources: ECCB; national authorities; ILO; and staff estimates.

Public Sector Employment
(Persons)

Note: 2012 and 2013 numbers are provisional.

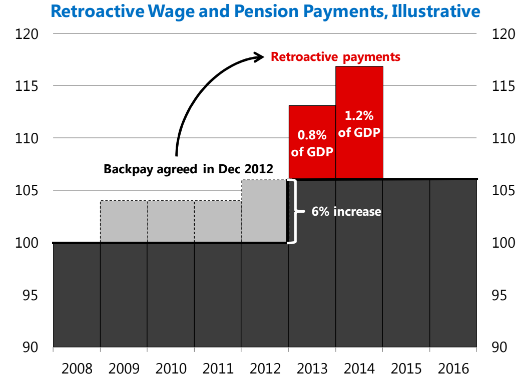
to boycott key institutions in the country, such as customs and ports. The negotiations cover periods of three years, but are retroactive, and the need to make large retroactive payments soon after the negotiation imparts significant uncertainty to fiscal policies and creates financing pressures. In addition, the wage negotiations are not framed by macroeconomic developments or productivity increases in the public sector. Over the past fifteen years, wage increases averaged 1.9 percent a year in real terms. In the last negotiations—which were concluded in 2013 and covered the period 2009-12—the previous government agreed to a 6 percent nominal increase in wages or a 3 percent wage decline in real terms. The cost of this agreement was 2 percent of GDP in retroactive one-off payments that pushed up the government's wage and pension bill in 2013 and 2014.

Government Wage Bill and Wage Agreements
(EC$mn, percent)



Note: Numbers in data labels represent **nominal wage increase** (real wage increase) from the wage agreements.

Retroactive Wage and Pension Payments, Illustrative



- ***Pensions***. The public pension scheme is non-contributory and covers only the civil servants who joined the public sector before 1983 (those who joined later receive pensions through the national insurance scheme (NIS). The civil servants covered under the scheme receive both an NIS and a public pension, introducing inequities among various cohorts of public retirees. Although not required by law, public pensions are traditionally indexed to wages. A significant rigidity associated with the pension scheme, however, is the constitutional requirement that anyone who is "required to retire on abolition of his office or for the purpose of reorganization" is entitled to a full pension, regardless of the time in service.

1/ Hiring and firing decisions are delegated by the Constitution to a five-member Public Service Commission operating outside the government, although three members represent the government and two members are from the trade unions.

D. Strengthening Financial Stability

Grenada is participating in the ongoing regional strategy to strengthen financial stability in the ECCU and will undertake additional reforms to further strengthen Grenadian financial institutions.

33. **The financial sector remains vulnerable, not least to a deterioration in the economic environment and spillovers from the regional financial system.** Weak economic activity could result in a further deterioration of banks' asset quality and erode their capital base. With banks in the region facing notable financial challenges, Grenada is exposed to potential cross-country contagion risks, including through confidence channels and interconnections between banks in the ECCU. Thus far these have been contained in light of the confidence in the regional authorities' ability to provide full depositor and creditor protection, but a proactive strengthening of banks' balance sheets would be important to safeguard financial stability and avoid materialization of potential contingent liabilities from weaknesses in the financial sector.[22] Private sector solutions should be sought to address problem banks and to safeguard fiscal sustainability. Stronger balance sheets would also help to limit the impact of the debt restructuring.

34. **The impact of the debt restructuring on the financial sector is expected to be manageable:**

- Banks have relatively limited exposure to the central government. Excluding non-restructurable debt, their exposure accounts for 5⅓ percent of assets (about 7 percent of GDP as of September 2013). Some banks are also exposed to statutory bodies, however, and could be affected if the debts of these institutions (some not guaranteed by the central government) are restructured as well. The authorities have requested the ECCB to undertake a stress test of the potential impact of the debt restructuring on banks' income and capitalization.
- In the nonbank financial sector, credit union exposure to the central government is modest, concentrated in only two of the ten credit unions and largely in non-restructurable short-term bills. Insurance companies are more exposed, with a tenth of their assets in government paper, although a fifth of this exposure is holdings of T-bills. The national pension scheme has the highest exposure to the central government: about one-fourth of its portfolio (about 9 percent of GDP as of September 2013) is invested in government paper. Therefore, the debt restructuring would curtail its income stream and accelerate its loss in reserves (Annex V).

[22] This is particularly true in the context of the ECCU's quasi-currency board arrangement, which limits the central bank's ability to provide liquidity support.

Grenada: Financial Sector							
	Assets		Government Exposure			Capital Adequacy Ratio 1/	NPLs (% of loans)
	US$m	% GDP	US$m	% GDP	% Assets		
Financial System	1,544.0	192.6	142.1	17.7	9.2	…	…
Banks (Sept-2013)	1024.7	127.8	62.2	7.8	6.1	14.4	14.1
Restructurable debt			54.6	6.7	5.3		
Credit Unions (March-2013)	144.3	18.0	1.5	0.2	1.0	13.8	10.6
Insurance Com. (end-2012)	93	11.6	9.2	1.2	9.9	…	…
NIS (September-2013)	282	35.2	69.2	8.6	24.5	…	…

Sources: Grenada authorities, ECCB, World Council of Credit Unions

1/ The captial adequacy ratio for credit unions is an approximation, where capital was devided by total assets minus cash deposits.

- Spillovers to the regional financial sector from the debt restructuring are expected to be limited. The regional financial sector's direct exposure to Grenadian government debt is primarily concentrated in treasury bills issued in the Regional Government Securities Market (RGSM), which are being excluded from the debt restructuring for the explicit purpose of avoiding contagion to other ECCU sovereigns that tap that market.

35. **The authorities are participating in regional efforts to strengthen the banking system, supported by the Caribbean Development Bank, the World Bank, and the IMF** (MEFP ¶26). The regional strategy consists of three key pillars: (i) banking sector diagnostics to assess banks' capital needs and viability; (ii) legal and institutional reforms to strengthen the banking system and bring the regulatory framework in line with international standards; and (iii) bank restructuring and recapitalization based on the results of the banking sector diagnostics. As part of the program, should the regional banking sector diagnostics not be initiated before September 2014, Grenada will undertake a comprehensive and independent valuation of Grenadian bank assets. Subsequent to the valuation exercise, the government will reach understandings with the ECCB, the regional bank supervisor, to strengthen the financial position of commercial banks in Grenada and address the results of the valuation exercise by implementing restructuring and recapitalization strategies. The government will seek private sector solutions to strengthen the financial position of commercial banks in Grenada and will seek to limit fiscal costs.

36. **In the nonbanking sector, Grenada has been at the forefront of regional efforts to revamp insurance regulation and supervision, and proactively addressed weaknesses in the sector** (MEFP ¶26). The authorities support regional efforts to integrate nonbank supervisory authorities−including through the creation of the Eastern Caribbean Financial Services Regulatory Commission, which will be responsible for regulating insurance companies throughout the ECCU−and improve the regulatory framework for nonbanks. With respect to

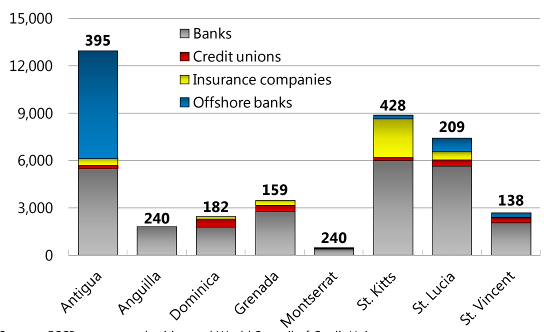
credit unions, the government continues to promote the consolidation of the credit union sector as a means of strengthening the financial safety net. Meanwhile, to further strengthen credit union regulation, the authorities will: (i) develop, together with the ECCB, options for providing liquidity support to solvent nonbank institutions; (ii) strengthen the requirements for retaining profits in the context of the new regional regulations; and (iii) require credit unions to increase capital to assure adequate capitalization over the next three years. They will also complete the move to a full risk-based supervision model for credit unions before end-2014.

Box 5. Structure of the Financial Sector

Grenada has a mid-sized financial sector compared to its peers in the region, which is dominated by banks. Financial sector assets amount to 159 percent of GDP (about 193 percent of GDP including the national pension fund).

ECCU: Financial Sector Structure [1]

(Total assets, latest available, in millions of EC$)

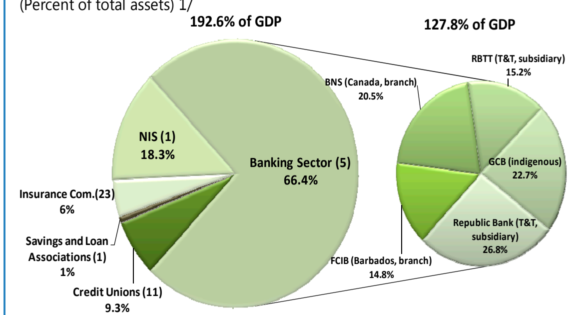


Sources: ECCB, country authorities, and World Council of Credit Unions.

[1] Numbers above the bars represent total assets of financial sector as percent of 2013 GDP.

Grenada: Structure of Financial Sector

(Percent of total assets) 1/



Sources: Grenada authorities, ECCB, World Council of Credit Unions

1/ Number of instituions is given in parantheses. Note that there are also 40 Pension Plans and 2 Money Service Providers.

- ***Banks***. There are five banks in Grenada: (i) the only indigenous bank (Grenada Cooperative Bank) accounts for about a quarter of total bank assets, and is the second largest bank; (ii) two foreign-owned but locally incorporated banks —RBTT Grenada and Republic Bank Grenada— account for another 42 percent of banking system assets; and (iii) two foreign banks branches, with headquarters in Canada and Barbados —Scotiabank and FirstCaribbean International Bank (branch of a Barbados subsidiary of the Canadian bank CIBC)— account for the rest of the assets. The banks are supervised by the Eastern Caribbean Central Bank. Offshore banks are not permitted in Grenada.

- ***Credit unions.*** There are 11 credit unions, with assets of about 18 percent of GDP and a relatively high penetration of 62 percent of the population.[1]. Credit unions provide mostly mortgage and consumption loans by mobilizing member deposits and shares. Credit unions have been supervised by Grenada Authority for the Regulation of Financial Institutions (GARFIN) since March 2007.

- ***Insurance companies***. There are 23 insurance companies, with total assets of about 12 percent of GDP. Insurance companies are also supervised by GARFIN.

- ***National Insurance Scheme***. In addition to these financial institutions, an important financial player is the national insurance scheme (NIS), which provides a defined benefit plan to the entire population. The NIS holds total assets of around 35 percent of GDP, with a relatively large share of its investment portfolio allocated to Grenadian government securities. NIS is also regulated by GARFIN.

[1] The penetration rates are from World Council of Credit Unions, with data covering 101 member countries in 2012.

PROGRAM MODALITIES

A. Access and Conditionality

37. **The authorities have requested a three-year arrangement under the ECF with access of 120 percent of quota (US$21.9 million, or SDR 14.04 million).** The ECF-supported program is expected to catalyze significant IFI and donor assistance, helping to meet balance of payment needs and provide space for the country to undertake the needed fiscal and structural adjustment. Given Grenada's current credit outstanding with the Fund (152.4 percent of quota as of March 2014), the proposed arrangement would imply high access, as it is above the norm of 75 percent of quota for a country that already has outstanding concessional credit of 100-200 percent of quota. Nevertheless, staff considers that high access is justified by the strength of the proposed adjustment program, a protracted current account deficit, and the large financing gap. A Fund program would also play a catalytic role by unlocking needed financing for Grenada:

- ***Financing needs***. Based on the programmed fiscal adjustment, total balance of payments financing needs —generated by the fiscal financing gaps— could reach about US$233.4 million (about 27 percent of GDP) during 2014–17 (Table 6). About 65 percent of this gap is to be filled by savings from the debt restructuring and regularization of arrears, and the rest (US$82 million) by exceptional IFI financing. Fund support would account for a quarter of the IFI support, and would be used for direct budget financing.[23] The World Bank and the Caribbean Development Bank (CDB) are preparing new lending arrangements for Grenada, each for disbursements of US$30 million during the three years of the program. The European Union will resume its support for Grenada (expected at €12.4 million over the next five years) once a Fund supported arrangement is in place.

- ***Strong adjustment program***. The authorities' economic program is ambitious and they have already undertaken numerous bold policy actions upfront, including obtaining legislative approval of most of the measures required to support the adjustment program.

38. **Given Grenada's weak track record of past program implementation, program disbursements will be broadly evenly phased over each review to avoid front-loading.** The first disbursement available upon Board approval of the program will be SDR 2.04 million, with the remaining disbursements of SDR 2.0 million each contingent on completions of reviews, including the financing assurances reviews (Table 10). Given the catalytic role of the Fund, financing support from other donors is expected to become available only after the Fund arrangement is in place.

[23] The quasi-currency board arrangement restricts the central banks' ability to provide budgetary support.

39. **Program conditionality is focused on monitoring fiscal targets and implementation of structural reforms.** Prior actions included meeting the 2013 budget targets, demonstrating satisfactory progress in the debt restructuring discussions, obtaining Cabinet approval of the draft 2014 budget consistent with the program, and securing parliamentary approval of the relevant adjustment measures needed for the programmed consolidation. The program will be monitored through compliance with program conditionality in the context of semi-annual reviews:

- *Quantitative performance criteria* (PCs) include a floor on central government primary balance, a ceiling on central government primary spending, and a ceiling on the stock of central government domestic arrears. There are also continuous PCs on the non-accumulation of external debt arrears and the contracting of non-concessional external debt.
- *Indicative targets* include a ceiling on central government direct and indirect (guaranteed) borrowing and a floor on social spending.
- *Memorandum items*. The wage bill and the public employment will also be monitored relative to the agreed targets.
- *Structural benchmarks* focus on supporting the achievement of fiscal targets, improving public financial management, and removing obstacles to growth.

40. **Staff concludes that the authorities are in compliance with the Fund's policies, based on satisfactory progress on the debt restructuring process, and that the program is fully financed for the next 12 months, with good prospects to fill the financing gap subsequently.** The authorities have initiated collaborative discussions with all creditor groups in a transparent and equitable manner; discussions with commercial creditors are proceeding through weekly scheduled conference calls; and the authorities have made initial offers to some groups of creditors that are consistent with the debt sustainability and financing objectives underlying the program. Staff believes that it has adequate assurances that a debt restructuring will be successfully completed that will fundamentally address Grenada's fiscal imbalances and restore debt sustainability. As such, staff believes that the proposed program financing is adequate as required under Fund policies:

- ***A sustainable debt position***. Successful implementation of the program will set debt on a downward path over the medium-term (Table 4). In addition, staff has adequate assurances that debt restructuring, which assures debt stock sustainability over the medium-term and the financeability of the programmed fiscal position (and hence capacity to repay) is likely to be concluded. The authorities aim to make significant headway in the debt restructuring by end-2014.
- ***Financing assurances***. In line with the Fund's policy on obtaining financing assurances in programs involving debt restructuring policies, the authorities have engaged with the creditors and are pursuing a credible debt restructuring that will ensure that the financing gaps for 2014-15 are closed, with good prospects for adequate financing during the

remaining arrangement period. For the purposes of the program, staff and the authorities agreed that satisfactory progress in the negotiations with the creditors would require: (i) initiating the negotiation phase of the restructuring with private and bilateral official creditors; (ii) seeking agreement on a debt restructuring consistent with closing the financing gap under the program and reducing debt to 60 percent of GDP by 2020; (iii) obtaining financing assurances from the Paris Club; and (iv) developing a credible timetable for advancing the restructuring discussions with private creditors through mid-2014 (MEFP ¶24) that provides adequate assurances the restructuring will be successful. As discussed above, the authorities have already complied with steps (i), (ii) and (iv), and will request financing assurances from the Paris Club (step (iii)) prior to arrangement's approval. With regard to the financing gaps, they are projected at about US$350 million during 2014-17, of which US$230.5 million is generated by overdue payments accumulated through end-2014 (Tables 3a and 3b). If all eligible debt is restructured through a 50-60 percent nominal principal haircut as pursued by the authorities, the cash flow savings could range between US$354-410 million, sufficient to cover the projected gaps.

- ***Arrears***. In compliance with the Fund's arrears policy for official creditors, the authorities are taking steps to regularize arrears with official creditors during the program period (Table 5). With regard to multilateral creditors, arrears are owed only to the OPEC Fund and they have been recently regularized through an agreement to repay in full by the end of the third quarter of 2014. On bilateral official debt, the authorities will request financing assurances from the Paris Club prior to the IMF Board approval of the arrangement, and arrears to the Paris Club creditors will also be discussed in the context of the debt treatment negotiations following program approval. Arrears to the Kuwait Fund have been rescheduled and will be repaid in installments through 2015. Consistent with the Fund's lending into arrears policy: (i) prompt Fund support is considered essential for the successful implementation of Grenada's adjustment program; and (ii) with respect to arrears to external private creditors—comprising missed coupon payments on the US$ and EC$ 2025 bonds — Grenada is making a good faith efforts to reach a collaborative agreement in the context of the debt restructuring negotiations.

B. Capacity to Repay the Fund and Risks to the Program

41. **Grenada's capacity to repay the Fund is adequate (Table 9).** Combined with the use of Fund resources from two previous ECF arrangements, Fund credit outstanding would reach a maximum of 3.8 percent of GDP and about 24½ percent of net imputed reserves in 2016. Debt service to the Fund would peak at 0.6 percent of GDP and 1.9 percent of exports of goods and services during the repayment period. The debt restructuring, along with the envisaged fiscal adjustment and structural reforms under the program, will help put Grenada's debt firmly on a downward trajectory, which should facilitate timely Fund repayment.

42. **Program implementation risks are high, but will be in part mitigated by strong ownership of the reforms.** Risks to the program include:

- *Growth may be weaker than projected*. The economy may be slower to recover or the drag of the fiscal adjustment may be higher than projected by staff. This has informed the design of the fiscal program and the contingency measures to deal with potential deviations from the programmed growth path.
- *Capacity constraints and difficulties in undertaking a large adjustment in a weak economic environment*. These constraints may result in delays in implementing policy reforms, in weaker-than-anticipated fiscal outcomes, and potentially larger financing gaps. Some of the implementation risks were mitigated by critical upfront actions taken by the government, a relatively flat phasing of disbursements, and the strong electoral mandate of the current government, which controls all seats in parliament. To address capacity constraints, the authorities intend to hire a number of donor-financed macroeconomic and tax policy advisors.
- *Natural disasters and other external shocks*. Grenada is also highly exposed to external risks, including from natural disasters. Therefore, the proposed program includes contingency measures and contingency financing that could be used to offset or finance some of the associated costs.

These risks will be mitigated by strong ownership of the program both on part of the authorities and their social partners. The social dialogue over the past year has built significant consensus among the stakeholders for the urgency of fundamental reforms and for the need to share in the adjustment effort.

43. **Under the Funds safeguards assessment policy, the Eastern Caribbean Central Bank is subject to a full safeguard assessment under a four year cycle.** The most recent assessment was completed in April 2012, and no major risks were identified. Recommendations were made to sustain the ECCB's autonomy going forward, and to ensure that member governments maintain all foreign exchange balances at the ECCB in accordance with safeguards policy requirements in cases of budget financing. The next assessment will take place in 2015.

STAFF APPRAISAL

44. **Grenada is facing a confluence of formidable challenges**. First, the economy is still weak after a long period of negative growth. While the incipient recovery provides some relief, it remains dependent on a few sectors and a broader-based recovery may take time to come about. Unemployment has long settled at high levels. Reflecting economic slack, inflation has been on a declining trend over the past two years and is now hovering in deflation territory. Second, the financial strains of a large public debt overhang and deteriorating fiscal flows have led to a large financing gap for the government over the past couple of years and, subsequently, to the decision to restructure its debt in March 2013. Third, Grenada's competitiveness is weak, both in terms of costs and the overall business environment, which will hamper growth prospects going forward. Finally, the health of the financial system has been compromised by the frail economy and weak credit risk management practices, making it difficult for the financial sector to support a sustainable recovery. These challenges must be fundamentally addressed to unlock sustainable high quality growth in Grenada.

45. **The economic program put together by the authorities is appropriately ambitious to steer the economy through these challenges**. The program focuses on strengthening the economy's competitiveness and growth prospects through structural reforms. It also focuses on addressing the fiscal imbalances through a large fiscal adjustment and debt restructuring, as well as on tackling the problems that led to these fiscal imbalances at their root through public financial management and fiscal responsibility reforms. In the near term, therefore, the program will face the difficult challenge of undertaking a strong fiscal adjustment at a time when the economy is still weak and—in the context of the exchange rate peg—when monetary policy's ability to provide support to growth is limited.

46. **The government recognizes the need for a permanent fiscal correction that would reverse decades of unsustainable policies.** The fiscal targets under the program are ambitious and commensurate with the need for deep reductions in the public debt levels. The planned adjustment emphasizes both revenue mobilization, especially through a broadening of the tax base, and current expenditure restraint, and has garnered strong political and social support. The success and durability of the adjustment will hinge in significant part on the authorities' ability to bring down the cost of the civil service; for that, carrying through the related structural reforms will be crucial. An equitable burden-sharing in the adjustment effort will also require efforts to curb tax evasion, especially pronounced in sectors with a large share of self-employed. Social programs are being strengthened to protect the most vulnerable.

47. **The debt restructuring negotiations are progressing satisfactorily.** The authorities have taken credible steps to correct the stock imbalances, by elaborating a comprehensive public debt restructuring strategy and initiating negotiations with the external and domestic creditors. Staff supports the authorities' intention to seek a substantial nominal principal reduction in the

face value of public debt, to deal once-and-for-all with the debt overhang and set the country on a path to sustainable growth. Staff concludes that the authorities are in compliance with the Fund's financing assurances and arrears policies, based on its judgment that the arrangement is fully financed for the next 12 months, with good prospects to fill the gap during and after the arrangement; on their plan to request financing assurances from the Paris Club prior to the approval of the arrangement and regularize arrears to official creditors during the period of the arrangement; as well as on their good faith efforts to reach collaborative agreement with their private creditors.

48. **In addition to the policy correction, the program envisages structural changes to strengthen the fiscal policy-making framework and institutions.** The authorities will introduce fiscal responsibility legislation to promote fiscal accountability, transparency and macro-fiscal stability, including through the introduction of spending and wage-cap rules. While fiscal responsibility legislation will not be a substitute for commitment to prudent fiscal policy, it will focus government attention and efforts on building strong fiscal institutions. Public financial management will also be strengthened, especially to make the budgeting process more meaningful, curtail discretion to spend above budget, and strengthen the government's ability to control expenditure commitments.

49. **While the fiscal adjustment could ease competitiveness pressures, bold structural reforms are needed to improve Grenada's potential growth and competitiveness**. These reforms will focus on reducing electricity costs through regulatory reforms and opening the market for renewable electricity generation, wage cost moderation, and reduction in markups. Structural impediments to higher growth and investment will also be tackled through the liberalization of key agricultural markets and improvements in the investment environment. While these reforms are not expected to yield short-term results, they will firmly turn the economy towards a path of a higher potential growth and employment.

50. **Proactive engagement with the ECCB is needed to secure the stability and health of Grenada's financial system**. The authorities support and are participating in the regional strategy to strengthen the regional banking system and improve its regulation and supervision. At the same time, if consensus on the pace of regional reforms stalls, the program envisages that—with help from the ECCB— Grenada will move ahead with an independent assessment of the asset quality of its banking system. The results of the assessment will be used to design a comprehensive strategy to strengthen the financial position of banks in Grenada. In the non-banking sector, the authorities have made significant progress in overhauling the regulation and supervision of credit unions and insurance companies, and will continue with reforms during the program period.

51. **The authorities have shown strong ownership of the reform effort**, **demonstrated by the important policy measures they have already undertaken since late 2013**. Their readiness to address the difficult challenges facing the country, the ambitious reforms they

intend to undertake and the substantial assistance from Grenada's international partners, bode well for the chances of addressing the country's debt overhang.

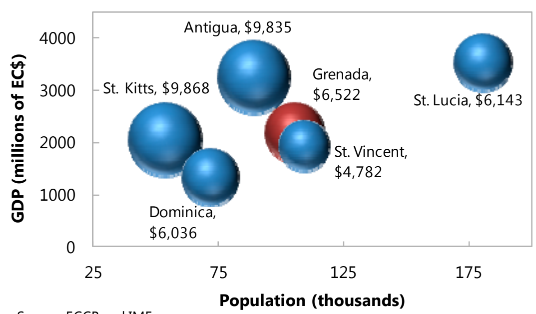
52. **Nevertheless, program implementation will be challenging.** Risks to the program are largely driven by the potential for a slower-than-expected economic recovery and by severe capacity constraints. To deal with these, the program envisages contingency adjustment and financing measures to ensure that unanticipated developments do not derail the program, and will also seek to identify technical assistance and donor support for all major reforms in the program. In light of Grenada's balance of payment financing needs and the strength of their proposed reforms to restore macroeconomic imbalances, staff supports the authorities' request for a three-year Extended Credit Facility arrangement amounting to SDR 14.04 million.

53. **The staff recommends that the next Article IV consultation be held on the 24-month consultation cycle in accordance with the provisions of Decision No. 14747, as amended, on consultation cycles.**

Figure 1. Grenada in Context

Grenada is middle sized compared to its peers in the ECCU, both in terms of population and size of economy.

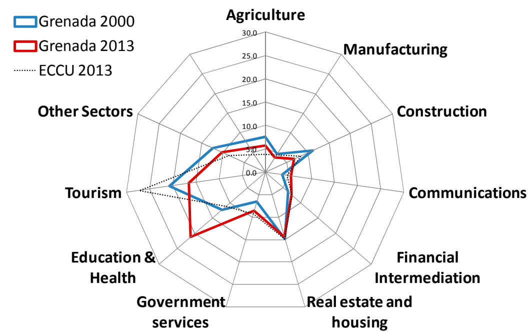
ECCU-6: GDP, Population and Real GDP per capita
(2013; bubble size is proportional to GDP per capita in USD)



Source: ECCB and IMF

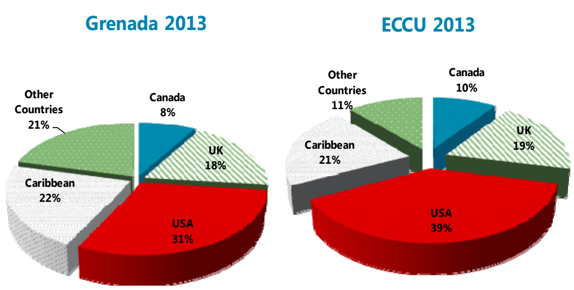
Following the collapse of the banana trade, its education system expanded significantly with the success of its offshore medical school, but tourism is somewhat less developed than in other ECCU countries.

Structure of the Economy
(in percent of GDP)



Grenada is less reliant on tourism from North America than its ECCU peers, …

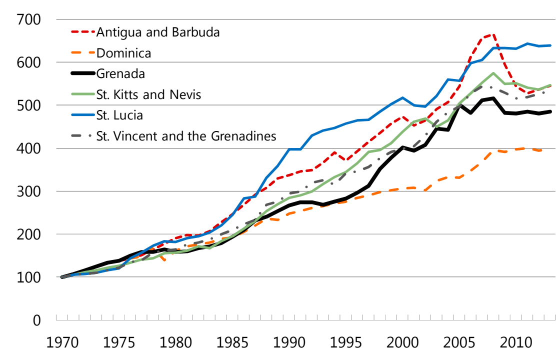
Geographic Origin of Visitors
(In percent of total Stay-over Visitors)



Source: ECCB

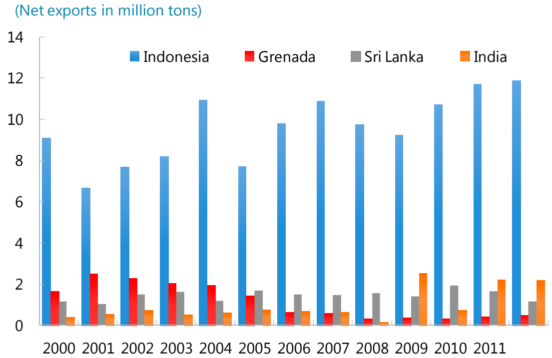
…which in part explains a slower recovery of Grenada's economy during the latest crisis.

Real GDP in the ECCU
(1970–2013, 1970=100)



Grenada was the second largest exporter of nutmeg in the world until 2004, when Hurricane Ivan destroyed the crops (which need 7-10 years to recover).

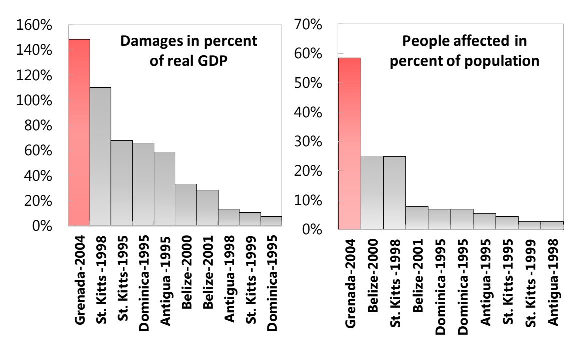
The 4 major Nutmeg Exporters in the World
(Net exports in million tons)



Sources: UN Comtrade, Grenada authorities, and Fund staff estimates.

The damages caused by Hurricane Ivan in 2004 were the highest in the history of Caribbean storms, and are still being felt today.

The 10 most severe natural disasters in the Caribbean



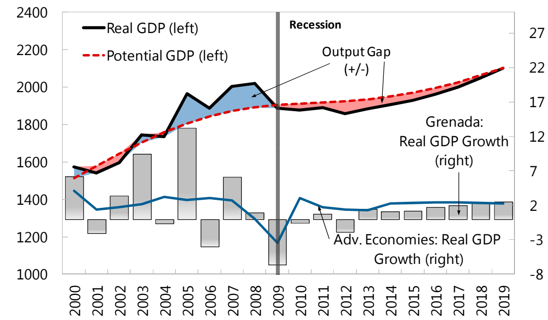
Sources: Data found in Acevedo Mejia, Sebastian "Debt, Growth, and Natural Disasters: A Caribbean Trilogy" referring to EM-DAT: The OFDA/CRED International Disaster Database - www.emdat.be

Figure 2. Grenada: Recent Economic Developments

Economic activity fell sharply in 2009 and has remained depressed since. After an initial rebound in 2013, the economy is expected to recover slowly with global growth.

Grenada: Actual and Potential Real GDP

(levels in millions of 2006 EC$; growth in percent)

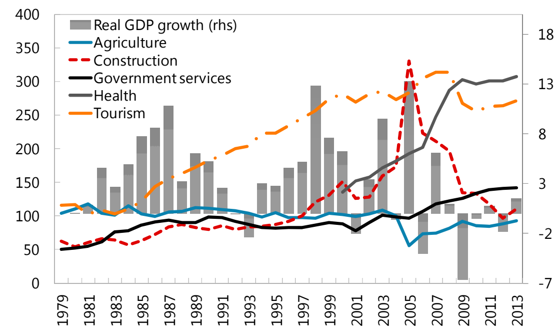


Sources: Grenada authorities and Fund staff estimates.

Tourism and construction sectors were particularly affected by the global recession, …

GDP by sector

(in million EC$ and percent)

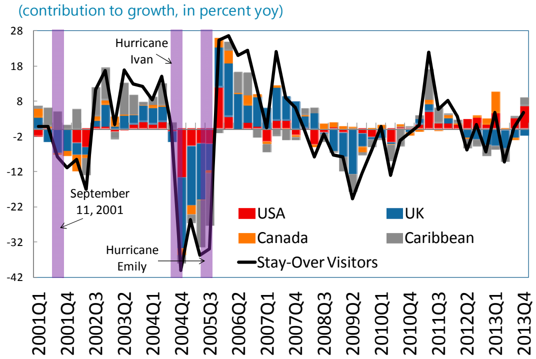


Sources: Grenada authorities.

…and the number of stay-over visitors failed to pick up despite a global recovery, dragged down by lower arrivals particularly from the UK and other Caribbean countries.

Tourist Arrival Growth by Country

(contribution to growth, in percent yoy)

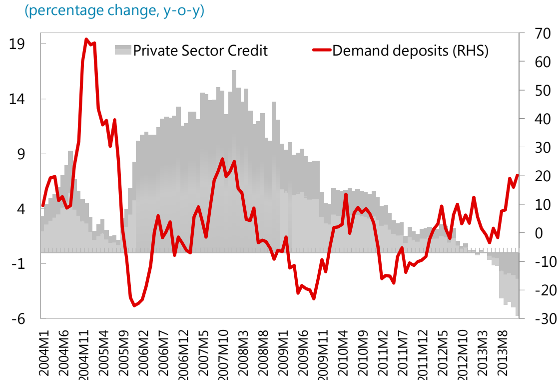


Source: Caribbean Tourism Organization.

Despite a recent recovery in demand deposits, private credit has been declining throughout 2013.

Private Sector Credit and Demand Deposit Growth

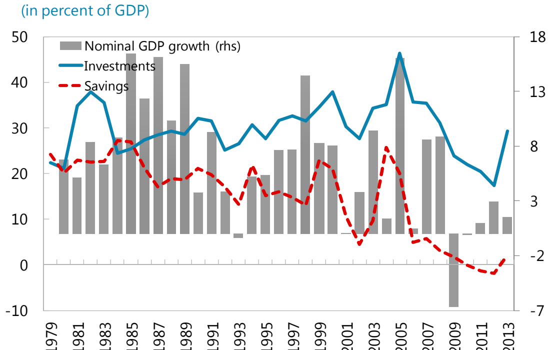
(percentage change, y-o-y)



…and investment (along with savings) is estimated to have fallen to its lowest levels in recent history, and was only temporarily boosted by the construction of the Sandals resort in 2013.

Investments and Savings

(in percent of GDP)

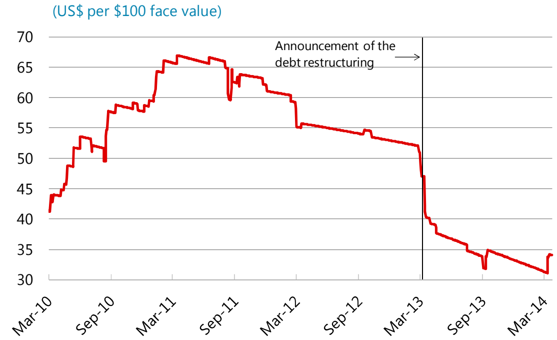


Sources: Grenada authorities and IMF staff estimates.

Following the March 2013 debt restructuring announcement, the price of the 2025 bond has collapsed, and the bond is currently trading at below 35% of its face value.

Grenada USD Bond: Net Present Values Estimates [1]

(US$ per $100 face value)



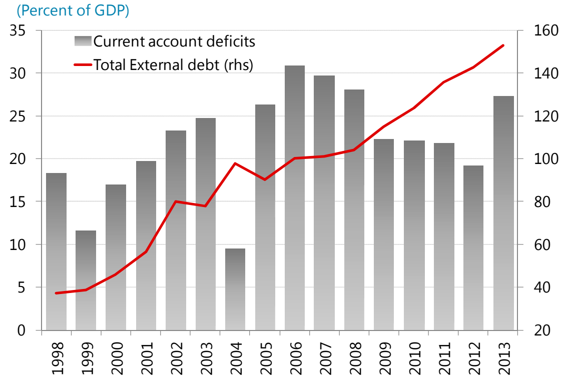
Sources: Bloomberg and IMF staff estimates.

[1] Derived from yield index, without adjusting for accrued interest.

Figure 3. Grenada: External Developments

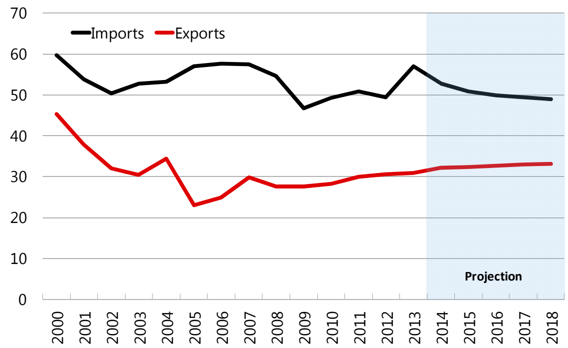
The current account deficit has narrowed significantly since 2006, although remained above 20 percent of GDP over the past few years and widened in 2013 due to a large-scale resort construction.

Current Account and External Debt
(Percent of GDP)



Both imports and exports have been subdued at relatively low levels over the past few years.

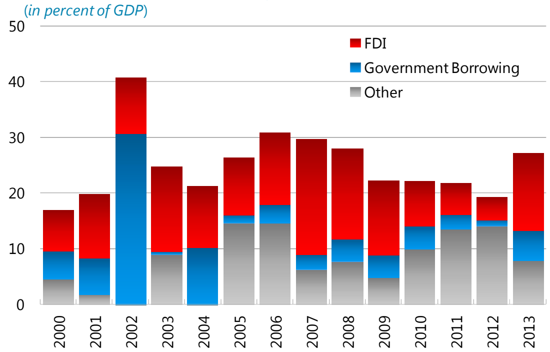
Grenada: Exports and Imports
(Percent of GDP; Goods and Services)



Sources: Authorities and IMF staff estimates

FDI declined in recent years, except in 2013 when they surged with the construction of the Sandals resort.

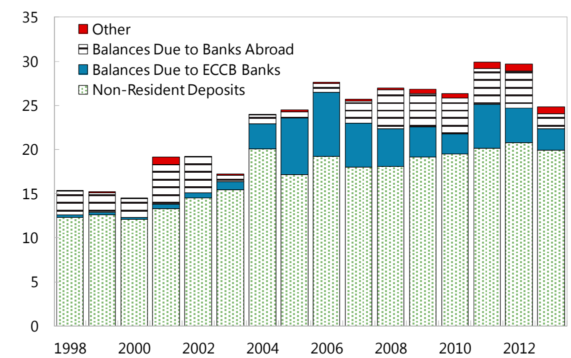
Current Account Financing
(in percent of GDP)



Source: ECCB.

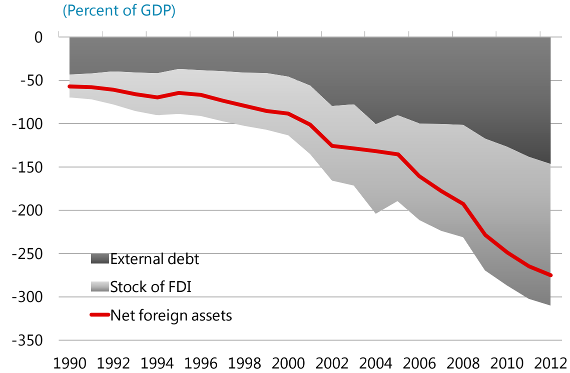
Until 2013, the external deficits were increasingly financed through debt flows, as banks accumulated foreign liabilities through inflows of nonresident deposits and borrowing from headquarters by foreign banks. The latter flows reversed in 2013.

Commercial Banks Foreign Liabilities
(In percent of GDP)



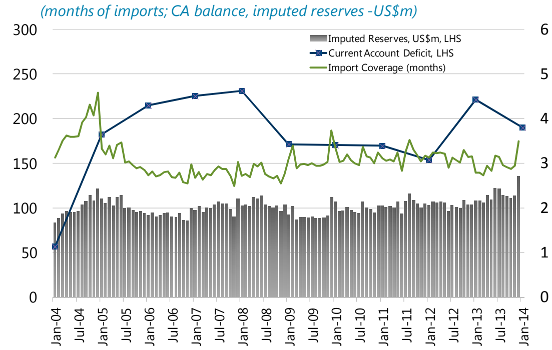
Grenada's indebtedness to the rest of the world has increased through the years to about 150 percent of GDP by 2013 (or over 300 percent including potential FDI liabilities).

Grenada: Net Foreign Assets
(Percent of GDP)



Nonetheless, reserves remained stable in the face of the large current account deficits, as ample liquidity in the regional markets provided the needed financing.

Imputed Reserves
(months of imports; CA balance, imputed reserves -US$m)

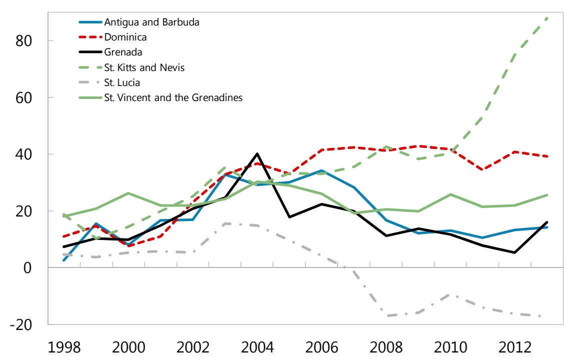


Sources: ECCB and IMF staff estimates.

Figure 4. Grenada: Monetary Developments

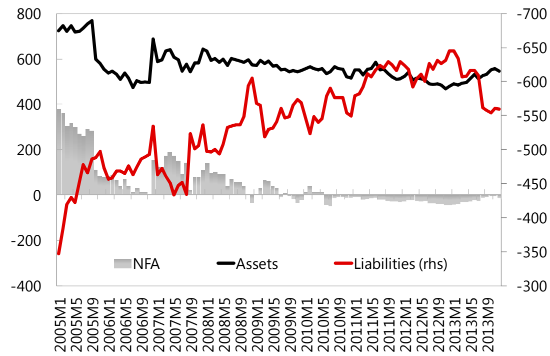
Banks' net foreign assets position improved in 2013, reversing the deteriorating trend of the previous ten years, …

Net Foreign Assets
(Percent of GDP)



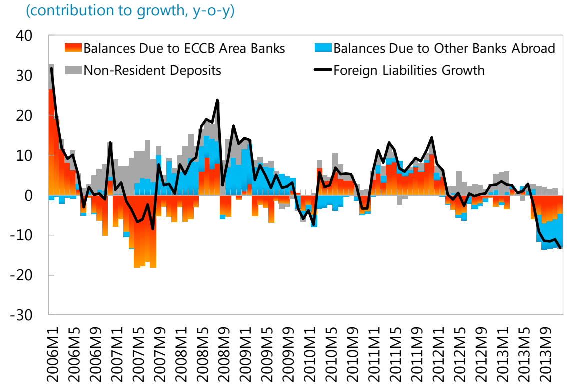
… mostly as a result of a decline in bank foreign liabilities, …

Commerical Banks Net Foreign Assets
(in millions of EC$)



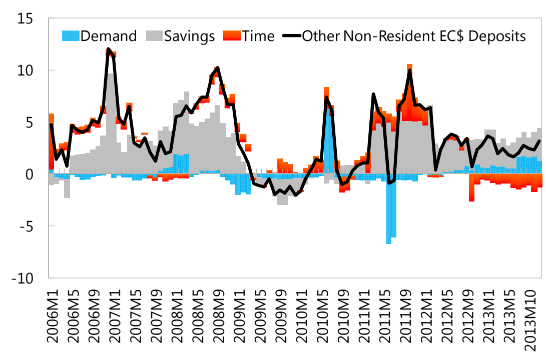
… which in turn reflected repayments of obligations to foreign banks.

Components of Foreign Liabilities Growth
(contribution to growth, y-o-y)



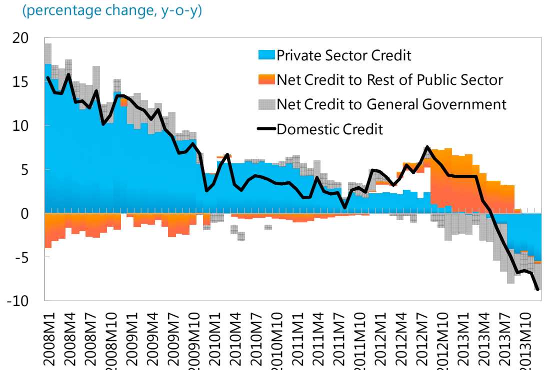
Non-resident deposits continued to grow, especially into savings deposits that are subject to the 3 percent interest floor, and accounted for 20 percent of GDP at end-2013.

Composition of Growth in Other Non-Resident Deposits
(contribution to growth, y-o-y)



The sovereign default and limited opportunities for profitable lending to the private sector led to a precipitous slowdown in credit growth, which was negative throughout 2013.

Components of Domestic Credit Growth
(percentage change, y-o-y)



This, along with overall deposit stability, has kept bank excess reserves at historical highs.

Deposits and Bank Excess Reserves
(Depostis: indices, 100=sample average for each deposit type; Excess Reserves: percent of total deposits)

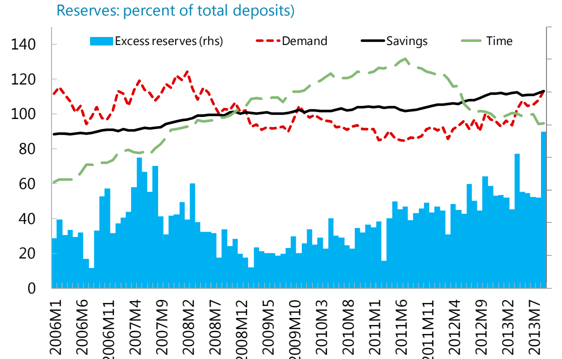
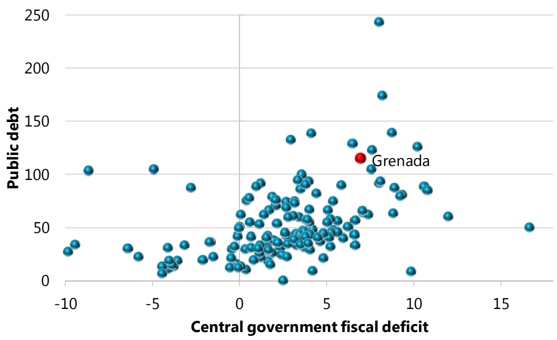


Figure 5. Grenada: Fiscal Developments

Grenada is among the most indebted countries in the world, …

World: Debt and Deficit

(2013, in percent of GDP)

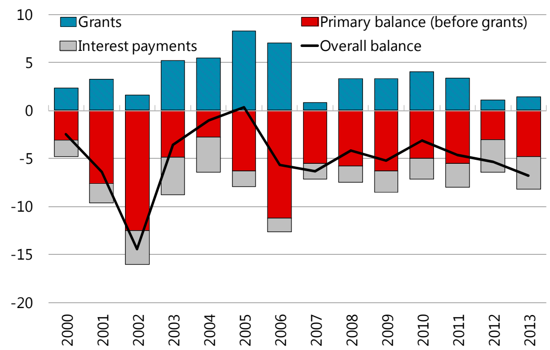


Source: IMF World Economic Outlook.

… with widening deficits …

Government Fiscal Balance

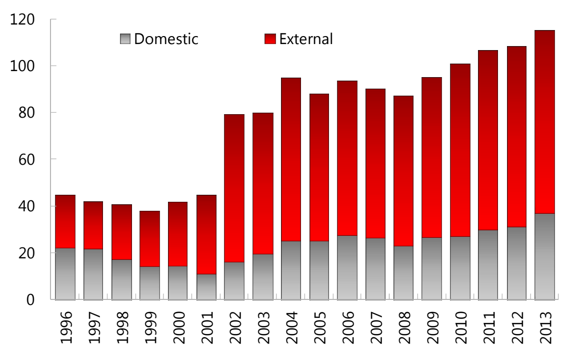
(In percent of GDP)



… and low growth among the main factors behind the recent rise in the debt ratio.

Evolution of Government Debt

(Percent of GDP)

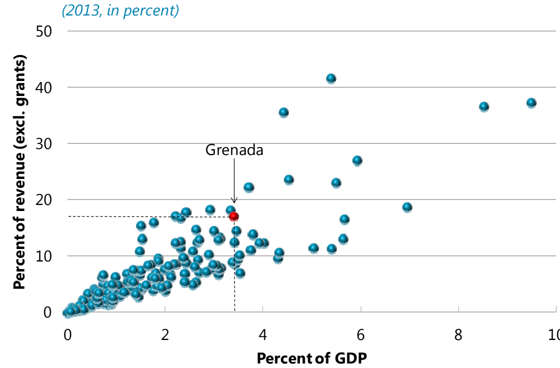


Sources: IMF Staff Estimates

The debt servicing burden is relatively large, especially compared to Grenada's revenue collections, …

World: Central Government Interest Payments

(2013, in percent)

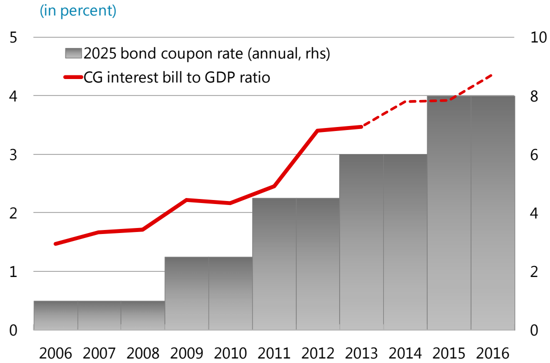


Source: IMF World Economic Outlook.

The stepped-up coupon on the 2025 bond has been putting pressures on the central government's fiscal accounts.

CG Interest Bill and 2025 Bond Step-up Coupon

(in percent)



Gross fiscal financing needs are very large, and have triggered the recent debt restructuring announcement.

Financing Needs

(In percent of GDP)

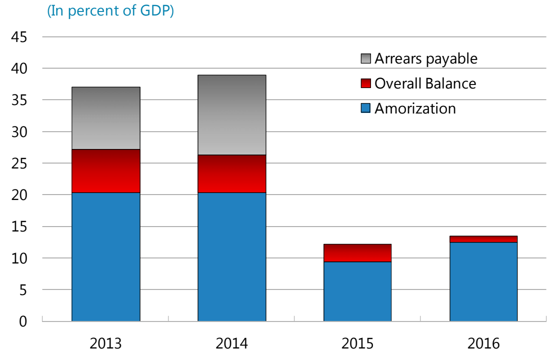


Table 1. Grenada: Selected Economic and Financial Indicators, 2008–19

Rank in UNDP Human Development Index	63	Infant mortality rate per '000 births (2011)	10.3
out of 179 countries (2012)		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2011)	76	Poverty headcount index (2008)	38
GDP per capita in US$ (2011)	7,378	Unemployment rate (2013)	33.5
Population in millions (2011)	0.11		

	2008	2009	2010	2011	2012 Est.	2013 Prel.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
	(Annual percentage change, unless otherwise specified)											
Output and prices												
Real GDP	0.9	-6.6	-0.5	0.8	-1.8	1.5	1.1	1.2	1.7	2.0	2.4	2.5
Nominal GDP	8.9	-6.6	0.0	1.0	2.9	1.5	3.1	3.2	4.2	4.6	5.2	5.3
Consumer prices, end of period	5.2	-2.3	4.2	3.5	1.8	-1.2	1.7	1.6	2.0	1.9	1.9	1.9
Consumer prices, period average	8.0	-0.3	3.4	3.0	2.4	0.0	1.6	1.7	2.1	2.2	2.3	2.3
Output gap (percent of potential GDP)	6.8	-0.9	-1.8	-1.4	-3.5	-2.6	-2.2	-2.0	-1.6	-1.2	-0.6	0.0
Real effective exchange rate	6.4	-8.8	3.1	-0.9	-1.0	-2.3	...	...	...	...	...	...
(annual average, depreciation -)												
	(In percent of GDP, unless otherwise specified)											
Central government balances (accrual) 1/												
Revenue	24.2	22.8	24.6	23.6	20.8	21.5	24.9	24.9	24.8	24.8	24.8	24.8
Taxes	18.7	17.5	18.7	18.4	17.9	17.2	18.7	19.9	20.8	20.8	20.8	20.8
Non-tax revenue	2.1	2.0	1.9	1.8	1.7	2.9	1.6	1.6	1.6	1.6	1.6	1.6
Grants	3.3	3.3	4.0	3.4	1.1	1.4	4.6	3.3	2.3	2.3	2.3	2.3
Expenditure	28.3	28.0	27.8	28.3	26.1	28.5	31.0	27.9	26.0	25.8	25.7	25.6
Current primary expenditure	17.0	18.2	18.3	18.1	17.7	17.8	17.9	16.0	15.0	15.0	15.0	15.0
Interest payments	1.7	2.2	2.2	2.5	3.4	3.4	3.6	4.3	4.8	4.5	4.5	4.4
Capital expenditure	9.6	7.6	7.3	7.8	5.0	7.3	9.5	7.5	6.2	6.2	6.2	6.2
Grant-financed	1.9	1.1	2.2	3.1	1.1	1.4	4.6	3.3	2.3	2.3	2.3	2.3
Non-grant financed	7.7	6.5	5.1	4.6	3.9	5.9	4.9	4.3	3.9	3.9	3.9	3.9
Primary balance	-2.4	-3.0	-1.0	-2.2	-2.0	-3.7	-2.4	1.3	3.5	3.5	3.5	3.5
Overall balance	-4.1	-5.2	-3.1	-4.7	-5.4	-7.1	-6.0	-3.0	-1.2	-1.0	-0.9	-0.9
Public debt (incl. guaranteed)	84.4	91.7	97.6	100.9	103.1	109.8	111.3	110.2	106.4	102.1	97.5	93.0
Domestic	22.8	27.2	28.0	31.7	34.8	37.2	42.1	39.4	36.5	33.7	30.9	28.2
External	61.6	64.5	69.5	69.2	68.3	72.6	69.2	70.8	69.8	68.4	66.6	64.8
Money and credit, end of period (annual percent change)												
Broad money (M2)	4.1	3.3	0.4	1.0	0.9	4.0	1.4	...	...	...	...	...
Credit to private sector	12.0	4.5	5.6	2.2	0.2	-5.7	1.1	...	...	...	...	...
Balance of payments												
Current account balance, o/w:	-28.0	-22.2	-22.1	-21.8	-19.2	-27.1	-23.8	-20.6	-19.2	-18.9	-18.0	-17.2
Exports of goods and services	27.7	27.6	28.2	30.0	30.7	31.5	32.9	33.1	33.4	33.7	34.0	34.3
Imports of goods and services	54.7	46.8	49.2	50.8	49.4	57.3	54.7	50.8	49.1	48.9	48.1	47.6
Capital and financial account balances	30.6	29.7	24.1	25.0	19.8	29.2	9.0	17.0	15.3	17.0	16.1	15.3
FDI	16.3	13.3	7.8	5.5	3.9	13.9	7.9	7.0	7.5	8.5	9.0	9.5
Public sector borrowing (identified financing only)	1.8	3.5	4.2	0.3	1.1	5.4	-16.3	0.0	-2.1	-0.3	-0.5	-0.4
Banking system	6.3	-0.6	0.7	3.9	2.3	-7.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other (incl. errors and omissions)	6.2	13.6	11.3	15.3	12.4	16.9	17.6	10.2	10.1	9.0	7.8	6.5
Overall balance	-1.6	2.1	-2.1	-1.5	-1.7	2.1	-14.9	-3.7	-3.9	-1.8	-1.9	-1.9
Overall financing	1.6	-2.1	2.1	1.5	1.7	-2.1	-0.6	-0.7	-0.8	-0.7	-0.7	-0.4
Financing gap 2/	...	...	...	...	...	...	15.5	4.3	4.6	2.6	2.6	2.2
External debt (gross)	104.2	114.8	124.7	137.4	144.6	155.5	160.0	163.2	163.7	162.3	158.9	154.1
Savings-Investment balance	-28.0	-22.2	-22.1	-21.8	-19.2	-27.1	-23.8	-20.6	-19.2	-18.9	-18.0	-17.2
Savings	3.1	1.7	-0.1	-1.3	-1.9	2.5	2.0	2.3	2.9	6.3	8.6	10.9
Public	3.0	0.5	0.4	-1.0	-2.4	-2.5	-0.4	0.7	1.0	1.1	1.2	1.5
Private	0.1	1.1	-0.4	-0.3	0.6	4.9	2.3	1.6	1.9	5.2	7.4	9.4
Investment	31.1	23.9	22.0	20.5	17.3	29.6	25.8	22.9	22.1	25.1	26.6	28.1
Public	9.6	7.6	7.3	7.8	5.0	7.3	9.5	7.5	6.2	6.2	6.2	6.2
Private	21.4	16.3	14.7	12.7	12.3	22.3	16.3	15.4	15.9	18.9	20.4	21.9
Memorandum items:												
Underlying primary balance 3/	-2.4	-3.0	-1.0	-2.2	-2.0	-4.0	-1.3	1.3	3.5	3.5	3.5	3.5
Nominal GDP (EC$ million)	2,230	2,082	2,082	2,102	2,164	2,197	2,265	2,338	2,437	2,550	2,682	2,824
Nominal GDP (US$ million)	826	771	771	779	802	814	839	866	903	944	993	1,046
Net imputed international reserves												
Months of imports of goods and services	3.5	3.6	3.1	3.2	2.6	3.5	3.7	3.7	3.6	3.5	3.4	3.4

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.

1/ Assumes an adjustment of 7.5 percent of GDP during 2014-16 but no debt restructuring.

2/ To be closed through IMF and other IFIs financing and debt restructuring.

3/ Excluding one-off items (windfall license fees in 2013 and retroactive wage and pension payments in 2013 and 2014).

Table 2a. Grenada: Operations of the Central Government

(In EC$ million)

	2008	2009	2010	2011	2012	2013		2014		2015	2016	2017	2018	2019
						Budget	Est.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**539.3**	**473.9**	**512.8**	**496.4**	**449.3**	**552.0**	**471.6**	**609.6**	**564.9**	**581.5**	**603.3**	**631.3**	**664.0**	**699.0**
Revenues	465.0	405.6	428.9	425.9	425.6	477.0	440.3	471.1	459.9	504.4	547.4	572.8	602.5	634.3
Tax revenue	418.1	363.6	388.3	387.4	387.9	403.2	376.8	430.5	423.1	466.4	507.9	531.5	559.0	588.5
Taxes on income and profits	94.6	87.2	78.5	73.9	75.5	80.0	66.1	88.1	77.9	84.7	90.4	94.6	99.5	104.7
Taxes on property	26.0	18.8	16.8	14.9	16.4	16.9	15.1	22.3	21.7	25.6	42.3	44.2	46.5	49.0
Taxes on goods and services	171.0	144.2	169.7	174.4	174.5	176.1	170.5	183.0	185.6	207.2	217.4	227.5	239.3	251.9
Consumption taxes	148.9	122.1	155.6	161.7	153.2	163.3	157.5	167.7	172.2	193.3	203.0	212.4	223.4	235.2
Excises (domestic)	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other	22.1	22.1	14.0	12.6	21.0	12.6	12.6	15.0	13.0	13.5	14.0	14.7	15.4	16.3
Taxes on international trade	126.5	113.3	123.3	124.2	121.5	130.3	125.1	137.1	137.9	149.0	157.8	165.1	173.7	182.8
Nontax revenue	46.8	41.8	40.4	38.5	37.6	73.8	63.5	40.5	36.8	37.9	39.5	41.4	43.5	45.8
Grants	74.3	68.3	83.9	70.5	23.7	75.0	31.3	138.5	105.0	77.1	55.9	58.5	61.5	64.7
Total expenditure and net lending	**631.7**	**582.7**	**578.1**	**594.3**	**565.6**	**706.5**	**626.6**	**749.0**	**701.2**	**652.1**	**633.6**	**657.6**	**689.4**	**723.6**
Current expenditure	416.8	424.9	426.8	431.1	457.2	444.1	466.1	487.0	485.7	475.5	482.6	499.6	523.2	548.6
Wages and salaries	200.8	191.2	195.3	231.9	227.2	238.0	243.5	246.9	250.5	226.6	220.1	230.3	242.3	255.0
Pensions and NIS contributions	42.4	40.8	41.5	40.7	44.0	48.4	46.9	51.4	52.9	48.4	49.9	52.1	54.8	57.6
Goods and services	84.7	86.0	109.2	75.1	86.4	67.3	75.9	64.2	75.9	73.7	71.4	74.7	78.5	82.7
Transfers	50.9	60.7	35.8	31.8	26.0	30.1	25.3	29.1	25.3	25.3	25.3	26.5	27.8	29.3
Interest payments	38.2	46.3	45.0	51.6	73.6	60.2	74.5	95.4	81.0	101.6	115.9	115.9	119.8	124.0
Capital expenditure and net lending	214.9	157.8	151.3	163.2	108.4	262.4	160.5	262.0	215.6	176.5	151.0	158.0	166.2	175.0
Grant-financed	42.5	23.4	46.1	65.6	23.0	66.5	31.3	130.0	105.0	77.1	55.9	58.5	61.5	64.7
Non-grant financed	172.4	134.4	105.2	97.6	85.4	195.9	129.2	132.0	110.6	99.4	95.1	99.6	104.7	110.2
Primary balance 1/	**-54.3**	**-62.6**	**-20.3**	**-46.3**	**-42.7**	**-94.3**	**-80.5**	**-44.0**	**-55.3**	**31.0**	**85.6**	**89.7**	**94.4**	**99.4**
Overall balance	**-92.5**	**-108.9**	**-65.3**	**-97.9**	**-116.3**	**-154.5**	**-155.0**	**-139.4**	**-136.4**	**-70.6**	**-30.3**	**-26.3**	**-25.5**	**-24.6**
Public Debt 2/	**1,882.1**	**1,908.8**	**2,031.0**	**2,120.3**	**2,230.6**	**2,385.1**	**2,412.1**	**-**	**2,521.2**	**2,577.1**	**2,592.7**	**2,604.3**	**2,615.0**	**2,627.2**
Memo items:														
Nominal GDP (EC$ millions)	2,230	2,082	2,082	2,102	2,164	2,230	2,197	2,331	2,265	2,338	2,437	2,550	2,682	2,824
Underlying primary balance (EC$ millions) 3/	...	...	-20.3	-46.3	-42.7	-94.3	-94.1	...	-28.9	31.0	85.6	89.7	94.4	99.4
Adjustment relative to the previous year (EC$ millions)	...	...	...	*-26.0*	*3.6*	*-51.6*	*-51.5*	...	*65.3*	*59.8*	*54.6*	...	...	...

Sources: Country authorities and Fund staff estimates.

1/ The primary surpluses for 2017-18 would include revenue from the future Citizenship by Investment programme.

2/ Assumes no debt restructuring.

3/ Excluding one-off items (license fees in 2013 and retroactive wage and pension payments in 2013 and 2014).

Table 2b. Grenada: Operations of the Central Government

(In percent of GDP)

	2008	2009	2010	2011	2012	2013		2014		2015	2016	2017	2018	2019
						Budget	Est.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**24.2**	**22.8**	**24.6**	**23.6**	**20.8**	**24.8**	**21.5**	**26.2**	**24.9**	**24.9**	**24.8**	**24.8**	**24.8**	**24.8**
Revenues	20.8	19.5	20.6	20.3	19.7	21.4	20.0	20.2	20.3	21.6	22.5	22.5	22.5	22.5
Tax revenue	18.7	17.5	18.7	18.4	17.9	18.1	17.2	18.5	18.7	19.9	20.8	20.8	20.8	20.8
Taxes on income and profits	4.2	4.2	3.8	3.5	3.5	3.6	3.0	3.8	3.4	3.6	3.7	3.7	3.7	3.7
Taxes on property	1.2	0.9	0.8	0.7	0.8	0.8	0.7	1.0	1.0	1.1	1.7	1.7	1.7	1.7
Taxes on goods and services	7.7	6.9	8.2	8.3	8.1	7.9	7.8	7.9	8.2	8.9	8.9	8.9	8.9	8.9
Consumption taxes	6.7	5.9	7.5	7.7	7.1	7.3	7.2	7.2	7.6	8.3	8.3	8.3	8.3	8.3
Excises (domestic)	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	0.0
Other	1.0	1.1	0.7	0.6	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Taxes on international trade	5.7	5.4	5.9	5.9	5.6	5.8	5.7	5.9	6.1	6.4	6.5	6.5	6.5	6.5
Nontax revenue	2.1	2.0	1.9	1.8	1.7	3.3	2.9	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Grants	3.3	3.3	4.0	3.4	1.1	3.4	1.4	5.9	4.6	3.3	2.3	2.3	2.3	2.3
Total expenditure and net lending	**28.3**	**28.0**	**27.8**	**28.3**	**26.1**	**31.7**	**28.5**	**32.1**	**31.0**	**27.9**	**26.0**	**25.8**	**25.7**	**25.6**
Current expenditure	18.7	20.4	20.5	20.5	21.1	19.9	21.2	20.9	21.4	20.3	19.8	19.6	19.5	19.4
Wages and salaries	9.0	9.2	9.4	11.0	10.5	10.7	11.1	10.6	11.1	9.7	9.0	9.0	9.0	9.0
Pensions and NIS contributions	1.9	2.0	2.0	1.9	2.0	2.2	2.1	2.2	2.3	2.1	2.0	2.0	2.0	2.0
Goods and services	3.8	4.1	5.2	3.6	4.0	3.0	3.5	2.8	3.3	3.2	2.9	2.9	2.9	2.9
Transfers	2.3	2.9	1.7	1.5	1.2	1.3	1.2	1.2	1.1	1.1	1.0	1.0	1.0	1.0
Interest payments	1.7	2.2	2.2	2.5	3.4	2.7	3.4	4.1	3.6	4.3	4.8	4.5	4.5	4.4
Capital expenditure and net lending	9.6	7.6	7.3	7.8	5.0	11.8	7.3	11.2	9.5	7.5	6.2	6.2	6.2	6.2
Grant-financed	1.9	1.1	2.2	3.1	1.1	3.0	1.4	5.6	4.6	3.3	2.3	2.3	2.3	2.3
Non-grant financed	7.7	6.5	5.1	4.6	3.9	8.8	5.9	5.7	4.9	4.3	3.9	3.9	3.9	3.9
Primary balance 1/	**-2.4**	**-3.0**	**-1.0**	**-2.2**	**-2.0**	**-4.2**	**-3.7**	**-1.9**	**-2.4**	**1.3**	**3.5**	**3.5**	**3.5**	**3.5**
Overall balance	**-4.1**	**-5.2**	**-3.1**	**-4.7**	**-5.4**	**-6.9**	**-7.1**	**-6.0**	**-6.0**	**-3.0**	**-1.2**	**-1.0**	**-0.9**	**-0.9**
Public Debt 2/	**84.4**	**91.7**	**97.6**	**100.9**	**103.1**	**107.0**	**109.8**	**-**	**111.3**	**110.2**	**106.4**	**102.1**	**97.5**	**93.0**
Memo item:														
Nominal GDP (EC$ millions)	2,230.1	2,082.5	2,081.7	2,102.4	2,164.1	2,230.0	2,196.9	2,330.6	2,265.5	2,338.4	2,437.0	2,550.1	2,682.1	2,823.6
Underlying primary balance (% of GDP) 3/	...	...	*-1.0*	*-2.2*	*-2.0*	-4.2	-4.3	...	-1.3	1.3	3.5	*3.5*	*3.5*	*3.5*
Adjustment relative to the previous year (% of GDP)	...	...	...	*-1.2*	*0.2*	*-2.3*	*-2.3*	...	*3.0*	*2.6*	*2.2*	...	...	...

Sources: Country authorities and Fund staff estimates.

1/ The primary surpluses for 2017-18 would include revenue from the future Citizenship by Investment programme.

2/ Assumes no debt restructuring.

3/ Excluding one-off items (license fees in 2013 and retroactive wage and pension payments in 2013 and 2014).

Table 3a. Grenada: Medium-Term Central Government Financing Projections
(In millions of U.S. Dollars)

	2013	2014	2015	2016	2017	2018	2019	2020
Financing requirement	**274.7**	**330.6**	**108.4**	**124.2**	**119.8**	**132.1**	**141.5**	**146.7**
Primary balance 1/	-29.8	-20.5	11.5	31.7	33.2	35.0	36.8	38.8
Total interest	27.9	30.0	37.6	42.9	42.9	44.4	45.9	45.9
Existing debt at end-2013	27.9	30.0	23.0	27.7	26.1	27.1	28.1	27.5
Official	5.2	5.6	5.3	5.0	4.7	4.5	4.3	3.9
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank and CDB	3.7	3.6	3.5	3.3	3.2	3.2	3.2	2.9
Other multilateral	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Bilateral	1.1	1.6	1.4	1.3	1.2	1.1	1.0	0.8
External commercial	8.9	11.6	11.6	15.5	15.5	16.5	17.4	17.4
Domestic 2/	13.8	12.8	6.1	7.2	5.9	6.1	6.3	6.3
New debt incurred after 2013			14.7	15.3	16.8	17.3	17.8	18.3
Amortizations	122.6	155.9	82.2	113.0	110.1	122.6	132.4	139.7
Existing debt at end-2013	122.6	155.9	20.3	39.1	21.4	21.9	19.6	14.9
Official	17.6	16.8	17.9	18.9	19.0	20.8	18.6	13.9
IMF	0.5	2.7	5.0	5.6	5.3	5.3	3.1	0.9
World Bank and CDB	7.5	7.0	8.3	8.6	9.1	8.9	8.8	8.2
Other multilateral	1.5	2.1	0.9	0.8	0.8	0.8	0.8	0.8
Bilateral	8.0	5.0	3.8	3.9	3.7	5.8	5.9	4.0
External commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 2/	105.0	139.1	2.5	20.2	2.4	1.1	1.0	1.0
New debt incurred after 2013, of which			61.9	73.9	88.7	100.7	112.7	124.7
Imputed repayment of arrears before restructuring 3/			21.5	21.5	24.3	24.3	24.4	24.3
Arrears payable from previous years, o/w:	94.3	124.3						
Domestic suppliers & statutory bodies	28.3	30.6						
Financing sources	**274.7**	**73.7**	**88.5**	**90.9**	**79.8**	**88.4**	**100.1**	**110.8**
Official (existing pipeline)	39.5	7.2	9.8	0.2	0.2			
World Bank	6.7	2.3	9.8	0.2	0.2			
CDB	7.3	1.8	0.0	0.0	0.0			
Other multilaterals	0.4	0.5	0.0	0.0	0.0			
Bilateral	25.0	2.5	0.0	0.0	0.0			
Official program		26.2	26.2	26.3	3.1	0.0	-0.3	-1.6
IMF		6.2	6.2	6.3	3.1	0.0	-0.3	-1.6
World Bank		10.0	10.0	10.0	0.0	0.0	0.0	0.0
CDB		10.0	10.0	10.0	0.0	0.0	0.0	0.0
Domestic	110.9	40.4	52.4	64.4	76.4	88.4	100.4	112.4
Accumulation of arrears	124.3							
Financing gap expected to be filled by:	**0.0**	**256.9**	**19.9**	**33.3**	**40.1**	**43.7**	**41.4**	**35.9**
Regularization of arrears		230.5						
Debt restructuring		26.4	19.9	33.3	40.1	43.7	41.4	35.9
Memorandum item:		**2014**	**2015**	**2016**	**2017**	**Total**		
Net disbursements from IFIs		**20.6**	**22.8**	**12.3**	**-11.0**	**44.7**		
IMF		3.4	1.3	0.7	-2.2	3.2		
World Bank		10.2	17.5	8.0	-1.9	33.8		
CDB		6.9	4.1	3.6	-6.9	7.7		

Source: Country authorities and Fund staff estimates.
1/ The primary surpluses for 2017-20 would record revenue from the future Citizenship by Investment Programme.
2/ Includes EC$ portion of the 2025 bond.
3/ For illustrative purposes, imputes a repayment of arrears accumulated through Q4 2014. The arrears include debt service owed to external and domestic creditors and arrears to domestic suppliers and statutory bodies.

Table 3b. Grenada: Medium-Term Central Government Financing Projections

(In percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
Financing requirement	**33.8**	**39.4**	**12.5**	**13.8**	**12.7**	**13.3**	**13.5**	**13.3**
Primary balance 1/	-3.7	-2.4	1.3	3.5	3.5	3.5	3.5	3.5
Total interest	3.4	3.6	4.3	4.8	4.5	4.5	4.4	4.2
Existing debt at end-2013	3.4	3.6	2.7	3.1	2.8	2.7	2.7	2.5
Official	0.6	0.7	0.6	0.6	0.5	0.5	0.4	0.4
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank and CDB	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Other multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
External commercial	1.1	1.4	1.3	1.7	1.6	1.7	1.7	1.6
Domestic 2/	1.7	1.5	0.7	0.8	0.6	0.6	0.6	0.6
New debt incurred after 2013			1.7	1.7	1.8	1.7	1.7	1.7
Amortizations	15.1	18.6	9.5	12.5	11.7	12.3	12.7	12.7
Existing debt at end-2013	15.1	18.6	2.3	4.3	2.3	2.2	1.9	1.4
Official	2.2	2.0	2.1	2.1	2.0	2.1	1.8	1.3
IMF	0.1	0.3	0.6	0.6	0.6	0.5	0.3	0.1
World Bank and CDB	0.9	0.8	1.0	1.0	1.0	0.9	0.8	0.7
Other multilateral	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Bilateral	1.0	0.6	0.4	0.4	0.4	0.6	0.6	0.4
External commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 2/	12.9	16.6	0.3	2.2	0.3	0.1	0.1	0.1
New debt incurred after 2013, of which			7.1	8.2	9.4	10.1	10.8	11.3
Imputed repayment of arrears before restructuring 3/			2.5	2.4	2.6	2.5	2.3	2.2
Arrears payable from previous years, *o/w* :	11.6	14.8						
Domestic suppliers & statutory bodies	3.5	3.6						
Financing sources	**33.8**	**8.8**	**10.2**	**10.1**	**8.4**	**8.9**	**9.6**	**10.1**
Official (existing pipeline)	4.9	0.9	1.1	0.0	0.0			
World Bank	0.8	0.3	1.1	0.0	0.0			
CDB	0.9	0.2	0.0	0.0	0.0			
Other multilaterals	0.1	0.1	0.0	0.0	0.0			
Bilateral	3.1	0.3	0.0	0.0	0.0			
Official program		3.1	3.0	2.9	0.3	0.0	0.0	-0.1
IMF		0.7	0.7	0.7	0.3	0.0	0.0	-0.1
World Bank		1.2	1.2	1.1	0.0	0.0	0.0	0.0
CDB		1.2	1.2	1.1	0.0	0.0	0.0	0.0
Domestic	13.6	4.8	6.1	7.1	8.1	8.9	9.6	10.2
Accumulation of arrears	15.3							
Financing gap expected to be filled by:	**0.0**	**30.6**	**2.3**	**3.7**	**4.2**	**4.4**	**4.0**	**3.3**
Regularization of arrears		27.5						
Debt restructuring		3.2	2.3	3.7	4.2	4.4	4.0	3.3
Memorandum item:		**2014**	**2015**	**2016**	**2017**	**Total**		
Net disbursements from IFIs		**2.4**	**2.6**	**1.4**	**-1.2**	**4.7**		
IMF		0.4	0.1	0.1	-0.2	0.3		
World Bank		1.2	2.0	0.9	-0.2	3.6		
CDB		0.8	0.5	0.4	-0.7	0.8		

Source: Country authorities and Fund staff estimates.

1/ The primary surpluses for 2017-20 would record revenue from the future Citizenship by Investment Programme.

2/ Includes EC$ portion of the 2025 bond.

3/ For illustrative purposes, imputes a repayment of arrears accumulated through Q4 2014. The arrears include debt service owed to external and domestic creditors and arrears to domestic suppliers and statutory bodies.

Table 4. Grenada: Public Sector Debt, 2011-13

(Year end, in millions of U.S. Dollars, unless otherwise indicated)[1]

	2011			2012			2013		
		Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	785.3	100.0	100.9	826.1	100.0	103.1	893.4	100.0	109.8
Central government debt	733.4	93.4	94.2	771.7	93.4	96.3	842.8	94.3	103.6
Central-government guaranteed debt	51.9	6.6	6.7	54.5	6.6	6.8	50.6	5.7	6.2
External debt	538.6	68.6	69.2	547.1	66.2	68.3	590.9	66.1	72.6
A. Central Government	507.0	64.6	65.1	517.0	62.6	64.5	564.5	63.2	69.4
1. Multilateral	211.1	26.9	27.1	214.7	26.0	26.8	220.8	24.7	27.1
CDB	115.0	14.6	14.8	116.7	14.1	14.6	118.1	13.2	14.5
IDA	45.2	5.8	5.8	48.6	5.9	6.1	54.2	6.1	6.7
IBRD	12.5	1.6	1.6	11.6	1.4	1.4	11.3	1.3	1.4
IMF	28.8	3.7	3.7	28.3	3.4	3.5	27.9	3.1	3.4
Other Multilateral	9.6	1.2	1.2	9.5	1.1	1.2	9.3	1.0	1.1
2. Official bilateral	82.5	10.5	10.6	82.3	10.0	10.3	110.9	12.4	13.6
Paris Club 2/	8.6	1.1	1.1	8.6	1.0	1.1	10.9	1.2	1.3
France	2.7	0.3	0.3	2.7	0.3	0.3	4.7	0.5	0.6
Russian Federation	0.2	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0
U.S.	2.9	0.4	0.4	2.9	0.4	0.4	3.0	0.3	0.4
U.K.	2.8	0.4	0.4	2.8	0.3	0.4	3.0	0.3	0.4
Other	73.9	9.4	9.5	73.7	8.9	9.2	100.0	11.2	12.3
Kuwait	19.9	2.5	2.6	19.8	2.4	2.5	16.5	1.8	2.0
Taiwan Province of China	30.5	3.9	3.9	30.5	3.7	3.8	35.0	3.9	4.3
Trinidad and Tobago	17.9	2.3	2.3	17.9	2.2	2.2	32.9	3.7	4.0
Venezuela	0.0	0.0	0.0	0.0	0.0	0.0	10.0	1.1	1.2
Other Bilateral	5.6	0.7	0.7	5.6	0.7	0.7	5.6	0.6	0.7
3. Commercial debt 3/	200.5	25.5	25.7	200.5	24.3	25.0	200.5	22.4	24.6
Restructured Bonds	193.5	24.6	24.9	193.5	23.4	24.1	193.5	21.7	23.8
Unrestructured Bonds	5.6	0.7	0.7	5.6	0.7	0.7	5.6	0.6	0.7
Others	1.3	0.2	0.2	1.3	0.2	0.2	1.3	0.2	0.2
4. External arrears on interests	0.3	0.0	0.0	2.8	0.3	0.3	11.0	1.2	1.4
5. Unpaid contribution	12.7	1.6	1.6	16.8	2.0	2.1	21.3	2.4	2.6
B. Central-government guaranteed	29.8	3.8	3.8	28.2	3.4	3.5	26.4	3.0	3.2
Domestic debt	246.7	31.4	31.7	279.1	33.8	34.8	302.4	33.9	37.2
A. Central Government	226.4	28.8	29.1	254.6	30.8	31.8	278.3	31.1	34.2
1. Treasury bills	81.6	10.4	10.5	96.1	11.6	12.0	120.1	13.4	14.8
RGSM 4/	34.8	4.5	4.5	27.5	3.4	3.4	34.2	4.2	4.2
3 month initial maturity	13.0	1.7	1.7	9.1	1.1	1.1	18.6	2.3	2.3
1 year initial maturity	21.9	2.8	2.8	18.3	2.3	2.3	15.6	1.9	1.9
Private placements	46.8	6.0	6.0	68.6	8.3	8.6	85.9	9.6	10.6
National Insurance Scheme	5.6	0.7	0.7	14.7	1.8	1.8	22.1	2.5	2.7
Petrocaribe Grenada	14.1	1.8	1.8	25.6	3.1	3.2	34.8	3.9	4.3
Other private placements	27.1	3.5	3.5	28.4	3.4	3.5	29.0	3.2	3.6
2. Bonds	76.5	9.7	9.8	89.7	10.9	11.2	93.7	10.5	11.5
Restructured Bonds 3/	68.1	8.7	8.8	68.1	8.2	8.5	71.2	8.0	8.8
RGSM 4/	1.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	4.2	0.5	0.5	16.9	2.0	2.1	17.9	2.0	2.2
Other Bonds	3.1	0.4	0.4	4.6	0.6	0.6	4.6	0.5	0.6
3. Compensation claims	14.8	1.9	1.9	14.8	1.8	1.8	14.8	1.7	1.8
4. Commercial Bank Loans	20.6	2.6	2.6	13.9	1.7	1.7	10.7	1.2	1.3
5. Overdraft 5/	7.8	1.0	1.0	4.9	0.6	0.6	6.1	0.7	0.7
6. Arrears to domestic suppliers and statutory bodies	18.6	2.4	2.4	28.7	3.5	3.6	30.6	3.4	3.8
7. Other	6.6	0.8	0.8	6.6	0.8	0.8	2.2	0.2	0.3
B. Central-Government Guaranteed	20.2	2.6	2.6	24.4	3.0	3.0	24.2	2.7	3.0
Memorandum items:									
Nominal GDP	778.6			801.5			813.7		

Sources: Grenadian authorities and Fund staff estimates.

1/ Assumes only fiscal adjustment but no debt restructuring.
2/ Debt service obligations to the Paris Club were rescheduled in May 2006.
3/ Resulting from commercial debt restructuring in 2005.
4/ Regional Government Securities Market placements.
5/ Overdraft facility creditors include First Caribbean International Bank, Bank of Nova Scotia, RBTT, Grenada Cooperativebank and RBL.

Table 5. Grenada: External and Domestic Arrears, 2012-13
(Year end, in millions of U.S. Dollars, unless otherwise indicated)

	2012				2013			
	Principal	Interest	Total		Principal	Interest	Total	
			US$mln	% of GDP			US$mln	% of GDP
Total arrears	**79.0**	**2.8**	**81.8**	**10.2**	**110.1**	**14.1**	**124.3**	**15.3**
External arrears	**48.0**	**2.8**	**50.8**	**6.3**	**75.7**	**11.0**	**86.8**	**10.7**
Multilateral	1.6	1.2	2.7	0.3	0.8	0.5	1.3	0.2
CDB	1.1	0.9	2.0	0.2	0.0	0.0	0.0	0.0
IDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IBRD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPEC 1/	0.4	0.3	0.7	0.1	0.6	0.5	1.1	0.1
EIB 2/	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
IFAD 2/	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Bilateral	40.8	1.6	42.5	5.3	47.6	1.7	49.3	6.1
Paris Club	1.1	0.3	1.5	0.2	2.6	0.4	2.9	0.4
France	0.5	0.1	0.6	0.1	1.1	0.3	1.4	0.2
Russia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
UK	0.4	0.2	0.6	0.1	0.8	0.1	0.9	0.1
US	0.1	0.0	0.1	0.0	0.5	0.0	0.5	0.1
Non-Paris Club	39.7	1.3	41.0	5.1	45.0	1.3	46.3	5.7
Algeria	0.6	0.0	0.6	0.1	0.6	0.0	0.6	0.1
Kuwait	2.7	0.9	3.6	0.5	2.6	0.7	3.2	0.4
Libya	5.0	0.0	5.0	0.6	5.0	0.0	5.0	0.6
Taiwan Province of China	30.5	0.0	30.5	3.8	35.0	0.0	35.0	4.3
Trinidad	0.9	0.3	1.3	0.2	1.8	0.7	2.5	0.3
Commercial	5.6	0.0	5.6	0.7	6.1	8.9	15.0	1.8
Unpaid contribution to organizations	16.8	0.0	16.8	2.1	21.3	0.0	21.3	2.6
Domestic arrears	**31.0**	**0.0**	**31.0**	**3.9**	**34.4**	**3.1**	**37.5**	**4.6**
Domestic debt	2.3	0.0	2.3	0.3	2.3	3.1	5.3	0.7
ECCB	0.0	0.0	0.0	0.0	1.5	0.0	1.5	0.2
Domestic suppliers & statutory bodies	28.7	0.0	28.7	3.6	30.6	0.0	30.6	3.8

Sources: Grenadian authorities and staff estimates.

1/ Payment plan to OPEC has been agreed and the arrears will be clared by Q3 2014.

2/ EIB and IFAD arrears have been cleared in March, 2014

Table 6. Grenada: Balance of Payments Summary, 2008–19 [1]

					Est.	Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					(In millions of US Dollars)							
Current account	**-231.3**	**-171.6**	**-170.4**	**-169.6**	**-153.9**	**-220.5**	**-200.1**	**-178.6**	**-173.1**	**-178.1**	**-179.0**	**-180.0**
Trade balance for goods and services	-223.3	-148.1	-162.3	-161.9	-149.9	-210.1	-182.8	-153.8	-141.6	-143.6	-139.7	-138.7
Exports of goods and services:	228.4	212.8	217.3	233.6	245.7	255.9	275.9	286.5	301.8	318.6	338.0	358.7
Imports of goods and services	451.7	361.0	379.6	395.5	395.7	466.0	458.6	440.4	443.4	462.1	477.8	497.4
Net Income	-42.7	-63.0	-39.9	-31.8	-34.3	-38.3	-46.1	-54.8	-62.6	-66.8	-72.7	-75.8
Current transfers	34.7	39.6	31.8	24.1	30.3	27.9	28.9	30.0	31.1	32.3	33.4	34.6
Capital and financial account	**252.9**	**229.2**	**185.8**	**194.5**	**158.7**	**237.2**	**75.3**	**147.0**	**138.0**	**160.7**	**160.1**	**160.4**
Capital transfers	40.0	32.3	40.2	47.8	31.5	35.2	63.4	54.1	47.3	49.4	51.7	54.2
Foreign direct investment	134.8	102.6	60.4	42.6	31.5	112.8	66.4	60.4	67.9	80.5	89.7	99.6
Public sector borrowing (net)	14.9	26.6	32.5	2.7	8.9	44.3	-137.1	-0.2	-18.9	-2.9	-4.7	-4.5
Banking system	51.7	-4.6	5.7	30.3	18.5	-57.0	-2.0	-2.0	-2.1	-2.2	-2.2	-2.3
Other private flows	11.6	72.3	47.0	71.1	68.2	101.9	84.6	34.7	43.7	35.9	25.7	13.4
o/w Petrocaribe	17.2	8.3	13.2	21.8	22.1	16.4	13.0	11.6	10.7	9.9	9.7	10.0
Errors and omissions	-35.2	-41.5	-31.4	-36.7	-18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-13.5**	**16.1**	**-16.0**	**-11.7**	**-13.3**	**16.7**	**-124.8**	**-31.6**	**-35.0**	**-17.3**	**-18.9**	**-19.6**
Overall financing	**13.5**	**-16.1**	**16.0**	**11.7**	**13.3**	**-16.7**	**-4.9**	**-5.9**	**-6.9**	**-6.9**	**-6.8**	**-3.9**
Change in ECCB NFA	7.9	-25.8	9.6	-2.0	2.0	-30.9	-2.2	-0.9	-1.2	-1.4	-1.4	-1.1
Change in Reserve Position with the IMF	5.7	9.7	6.4	-0.3	-0.5	-0.5	-2.7	-5.0	-5.7	-5.4	-5.4	-3.2
Change in existing external arrears	0.0	0.0	0.0	14.0	11.8	14.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**...**	**...**	**...**	**...**	**...**	**...**	**129.7**	**37.5**	**41.9**	**24.2**	**25.7**	**23.5**
Exceptional financing:	...	...	...	...	...	...	26.2	26.2	26.3	3.1	0.0	-0.3
Net use of Fund resources	...	...	...	...	...	...	6.2	6.2	6.3	3.1	0.0	-0.3
World Bank	...	...	...	...	...	...	10.0	10.0	10.0	0.0	0.0	0.0
CDB	...	...	...	...	...	...	10.0	10.0	10.0	0.0	0.0	0.0
Saving from possible restructuring	...	...	...	...	...	...	103.5	11.3	15.7	21.1	25.7	23.8
						(In percent of GDP) 2/						
Current account	**-28.0**	**-22.2**	**-22.1**	**-21.8**	**-19.2**	**-27.1**	**-23.8**	**-20.6**	**-19.2**	**-18.9**	**-18.0**	**-17.2**
Trade balance for goods and services	-27.0	-19.2	-21.0	-20.8	-18.7	-25.8	-21.8	-17.8	-15.7	-15.2	-14.1	-13.3
Exports of goods and services, o/w:	27.7	27.6	28.2	30.0	30.7	31.5	32.9	33.1	33.4	33.7	34.0	34.3
Nutmeg	0.3	0.3	0.4	0.8	0.9	1.2	1.2	1.2	1.2	1.3	1.3	0.0
Tourism 2/	17.8	17.8	18.8	19.8	20.1	20.0	20.7	20.9	21.0	21.0	21.1	21.2
Imports of goods and services	54.7	46.8	49.2	50.8	49.4	57.3	54.7	50.8	49.1	48.9	48.1	47.6
Mineral fuels	7.9	4.9	6.7	8.5	9.7	11.3	10.5	9.7	9.2	8.9	8.7	8.5
Foodstuffs	8.6	8.2	9.0	10.1	9.4	9.9	9.4	8.9	8.8	8.7	8.5	8.2
Other goods	24.5	20.9	21.3	19.4	18.4	24.1	22.7	20.3	19.1	19.3	19.0	18.9
Services	13.7	12.7	12.2	12.9	11.9	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Net income	-5.2	-8.2	-5.2	-4.1	-4.3	-4.7	-5.5	-6.3	-6.9	-7.1	-7.3	-7.2
Public interest payment	-1.2	-1.5	-1.7	-1.6	-2.3	-2.2	-2.3	-2.6	-2.9	-2.8	-2.8	-2.8
Other factor services	-4.0	-6.7	-3.5	-2.4	-1.9	-2.5	-3.2	-3.8	-4.0	-4.3	-4.5	-4.5
Net current transfers	4.2	5.1	4.1	3.1	3.8	3.4	3.4	3.5	3.5	3.4	3.4	3.3
Net private transfers	2.2	2.2	2.2	2.2	2.4	2.4	2.5	2.5	2.5	2.5	2.4	2.4
Net official transfers	2.0	3.0	1.9	0.9	1.4	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Capital and financial account	**30.6**	**29.7**	**24.1**	**25.0**	**19.8**	**29.2**	**9.0**	**17.0**	**15.3**	**17.0**	**16.1**	**15.3**
Capital transfers	4.8	4.2	5.2	6.1	3.9	4.3	7.6	6.2	5.2	5.2	5.2	5.2
Foreign direct investment	16.3	13.3	7.8	5.5	3.9	13.9	7.9	7.0	7.5	8.5	9.0	9.5
Public sector flows	1.8	3.5	4.2	0.3	1.1	5.4	-16.3	0.0	-2.1	-0.3	-0.5	-0.4
Banking system	6.3	-0.6	0.7	3.9	2.3	-7.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other private flows	1.4	9.4	6.1	9.1	8.5	12.5	10.1	4.0	4.8	3.8	2.6	1.3
o/w Petrocaribe	2.1	1.1	1.7	2.8	2.8	2.0	1.5	1.3	1.2	1.1	1.0	1.0
Overall balance	**-1.6**	**2.1**	**-2.1**	**-1.5**	**-1.7**	**2.1**	**-14.9**	**-3.7**	**-3.9**	**-1.8**	**-1.9**	**-1.9**
Overall financing	**1.6**	**-2.1**	**2.1**	**1.5**	**1.7**	**-2.1**	**-0.6**	**-0.7**	**-0.8**	**-0.7**	**-0.7**	**-0.4**
Change in ECCB NFA	1.0	-3.3	1.2	-0.3	0.2	-3.8	-0.3	-0.1	-0.1	-0.2	-0.1	-0.1
Change in reserve position with the IMF	0.7	1.3	0.8	0.0	-0.1	-0.1	-0.3	-0.6	-0.6	-0.6	-0.5	-0.3
Change in existing external arrears	0.0	0.0	0.0	1.8	1.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**...**	**...**	**...**	**...**	**...**	**...**	**15.5**	**4.3**	**4.6**	**2.6**	**2.6**	**2.2**
Exceptional financing:	...	...	...	...	...	...	3.1	3.0	2.9	0.3	0.0	0.0
Net use of Fund resources	...	...	...	...	...	...	0.7	0.7	0.7	0.3	0.0	0.0
World Bank	...	...	...	...	...	...	1.2	1.2	1.1	0.0	0.0	0.0
CDB	...	...	...	...	...	...	1.2	1.2	1.1	0.0	0.0	0.0
Saving from possible restructuring	...	...	...	...	...	...	12.3	1.3	1.7	2.2	2.6	2.3
Memorandum Items:												
Gross external debt	**104.2**	**114.8**	**124.7**	**137.4**	**144.6**	**155.5**	**160.0**	**163.2**	**163.7**	**162.3**	**158.9**	**154.1**
External public and publicly guaranteed debt 3/	61.6	64.5	69.5	69.2	68.3	72.6	69.2	70.8	69.8	68.4	66.6	64.8
Foreign liabilities of private sector 3/	42.6	50.3	55.2	68.2	76.3	82.8	90.8	92.4	93.9	93.9	92.3	89.3
Terms of trade for GNFS (percentage change)	-7.3	-1.7	-2.9	3.8	16.2	8.9	3.5	3.0	2.2	1.7	1.1	1.0
Excluding tourism (percentage change)	0.2	7.2	-3.0	8.8	-2.3	0.3	0.5	-0.1	0.6	0.4	0.0	-0.1
Nominal GDP in US$	826	771	771	779	802	814	839	866	903	944	993	1046

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

1/ Assumes fiscal adjustment but no debt restructuring.

2/ ECCB historical data adjusted upwards to account for impact of St. George's University students +US$ 21.0m in 2010.

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

Table 7. Grenada: Summary Accounts of the Banking System, 2008–15 [1]

	2008	2009	2010	2011	2012	2013	Proj. 2014	Proj. 2015
	(In millions of EC dollars; end of period)							
Net foreign assets	**248.8**	**283.7**	**242.3**	**165.8**	**110.4**	**347.8**	**359.0**	**366.8**
ECCB	281.0	303.4	277.5	282.9	277.5	361.0	366.9	369.2
Of which: Net imputed reserves	281.0	303.4	277.5	282.9	277.5	361.0	366.9	369.2
Commercial banks	-32.2	-19.8	-35.2	-117.0	-167.0	-13.2	-7.9	-2.4
Net domestic assets	**1,504.9**	**1,528.4**	**1,577.3**	**1,671.4**	**1,742.5**	**1,579.2**	**1,594.7**	**1,649.8**
Public sector credit (net)	4.4	-27.0	-63.1	-17.8	54.2	-4.9	-5.9	-6.9
Central government	122.9	98.8	110.0	150.4	107.5	52.4	52.4	52.4
ECCB	6.4	-30.5	-7.7	27.9	30.1	17.8	17.8	17.8
Commercial banks	116.4	129.3	117.7	122.5	77.4	34.5	34.5	34.5
Net credit to rest of public sector	-118.5	-125.8	-173.1	-168.2	-53.3	-57.3	-58.3	-59.3
National Insurance Scheme	-135.1	-152.4	-165.4	-164.3	-71.1	-63.8	-64.7	-65.8
Other	16.6	26.6	-7.8	-3.9	17.8	6.5	6.5	6.5
Credit to private sector	1,596.7	1,668.8	1,762.2	1,800.3	1,803.2	1,700.4	1,719.5	1,757.6
Other items (net)	-96.2	-113.4	-121.7	-111.1	-114.9	-116.3	-118.9	-100.9
Broad money	**1,753.7**	**1,812.1**	**1,819.6**	**1,837.2**	**1,852.9**	**1,927.0**	**1,953.6**	**2,016.6**
Money	355.5	324.3	324.5	312.7	324.0	369.4	380.9	393.2
Currency in circulation	103.4	106.7	98.8	108.7	112.9	115.7	119.3	123.1
Demand deposits	252.1	217.7	225.7	204.1	211.1	253.7	261.6	270.1
Quasi-money	1,398.1	1,487.8	1,495.1	1,524.5	1,528.9	1,557.6	1,572.7	1,623.4
Time deposits	291.6	339.2	371.2	381.4	339.9	318.2	319.1	326.5
Savings deposits	980.6	1,014.4	1,011.6	1,023.1	1,095.9	1,143.1	1,188.8	1,216.3
Foreign currency deposits	125.9	134.2	112.3	120.0	93.1	96.2	64.7	80.6
	(Annual percentage change)							
Net foreign assets	-38.7	14.0	-14.6	-31.6	-33.4	214.9	3.2	2.2
Net domestic assets	17.6	1.6	3.2	6.0	4.3	-9.4	1.0	3.5
Credit to private sector	12.0	4.5	5.6	2.2	0.2	-5.7	1.1	2.2
Broad money	4.1	3.3	0.4	1.0	0.9	4.0	1.4	3.2
Money	-5.5	-8.8	0.1	-3.6	3.6	14.0	3.1	3.2
Quasi-money	6.8	6.4	0.5	2.0	0.3	1.9	1.0	3.2
	(Percent contribution compared to M2 at the beginning of the year)							
Net foreign assets	-9.3	2.0	-2.3	-4.2	-3.0	12.8	0.6	0.4
Net domestic assets	13.4	1.3	2.7	5.2	3.9	-8.8	0.8	2.8
Public sector credit (net)	1.0	-1.8	-2.0	2.5	3.9	-3.2	-0.1	-0.1
Of which: Central government	1.1	-1.4	0.6	2.2	-2.3	-3.0	0.0	0.0
Credit to private sector	10.2	4.1	5.2	2.1	0.2	-5.5	1.0	2.0
Net credit to nonbank financial inst.								
Other items (net)	2.2	-1.0	-0.5	0.6	-0.2	-0.1	-0.1	0.9

Sources: Eastern Caribbean Central Bank; Ministry of Finance; and Fund staff estimates.

1/ Assumes fiscal adjustment but no debt restructuring.

Table 8. Grenada: Financial Sector Indicators, 2008–13

	2008	2009	2010	2011	2012	2013	Latest Available
Financial sector indicators							
Regulatory capital to risk-weighted assets	15.1	15.9	16.5	15.1	13.9	13.6	Dec-13
Regulatory Tier 1 capital to risk-weighted assets	13.0	13.8	15.0	13.6	13.2	12.2	Dec-13
Nonperforming loans net of provisions to capital	15.1	25.2	33.8	50.2	49.7	61.6	Dec-13
Nonperforming loans to total gross loans	3.5	5.9	7.6	9.4	11.8	13.8	Dec-13
Foreign banks	3.1	5.8	6.4	8.9	12.0	13.7	Dec-13
Sectoral distribution of loans to total loans							
Residents	93.9	94.4	95.0	95.9	96.2	96.0	Dec-13
Other financial corporations 1/	0.6	0.6	0.4	0.5	0.5	0.3	Dec-13
General government 2/	8.6	9.0	7.6	7.0	5.5	5.3	Dec-13
Nonfinancial corporations 3/	30.0	28.9	30.6	30.0	31.4	28.9	Dec-13
Nonresidents	6.1	5.6	5.0	4.1	3.8	4.0	Dec-13
Return on assets	1.9	1.3	1.2	0.2	0.5	-0.3	Dec-13
Return on equity	17.3	12.1	9.2	-2.8	3.1	0.8	Dec-13
Net interest income to Total income	50.4	52.7	53.0	50.9	51.9	54.5	Dec-13
Noninterest expenses to gross income	64.6	69.2	68.2	85.6	70.0	80.8	Dec-13
Liquid assets to total assets	24.1	21.7	20.7	22.9	22.9	27.7	Dec-13
Liquid assets to short-term liabilities	26.8	24.1	23.3	25.4	25.0	29.8	Dec-13
Net foreign currency exposure to total capital	47.1	37.8	34.7	24.6	37.7	65.2	Dec-13
U.S. treasury bill rate (percent per annum)	1.5	0.2	0.1	0.1	0.1	0.1	Dec-13
Treasury bill rate (percent per annum) 4/	6.3	6.5	6.0	6.0	6.0	6.0	Dec-13
External sector indicators							
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7	Dec-13
REER appreciation (percent change on 12-month basis, end of period)	6.4	-8.8	3.1	-0.9	-1.0	-2.3	Dec-13
Gross international reserves of the ECCB (in US$ millions)	763.7	898.4	991.8	1,069.2	1,181.1	1188.8	Nov-13
Gross international reserves to broad money in ECCU countries (percent)	14.6	17.4	18.8	19.7	20.5	20.0	Nov-13
Public gross external debt (in US$ million)	529.7	525.9	568.8	596.9	616.3	590.9	Dec-13
Public gross external interest payments to fiscal revenue (percent)	3.9	5.5	4.7	5.2	8.9	8.8	Dec-13
Public gross external amortization payments to fiscal revenue (percent)	4.7	5.7	7.7	6.0	4.2	7.4	Dec-13
Public sector indicators		(in percent of GDP)					
Central government overall balance (after grants)	-4.1	-5.2	-3.1	-4.7	-5.4	-7.1	Dec-13
Public and publicly-guaranteed gross external debt	84.4	91.7	97.6	100.9	103.1	109.8	Dec-13

Sources: Ministry of Finance; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Includes Non-Bank Financial Institutions
2/ Includes Subsidiaries and Affiliates and Private Businesses
3/ Includes Households
4/ Rate on 365-day treasury bills.

Table 9. Grenada: Indicators of Capacity to Repay the Fund, 2012–20

(In millions of SDRs unless otherwise indicated)

	Actual		Projections						
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Existing Fund credit (stock)									
In percent of quota	157.6	155.0	139.7	112.1	81.1	51.5	21.8	4.7	0.0
In millions of SDRs	18.4	18.1	16.4	13.1	9.5	6.0	2.6	0.6	0.0
In millions of US$	28.4	27.9	25.3	20.5	14.9	9.5	4.0	0.9	0.0
In percent of GDP	3.5	3.4	3.0	2.4	1.7	1.0	0.4	0.1	0.0
Proposed Extended Credit Facility (stock)									
In percent of quota	0.0	0.0	34.5	68.7	102.8	119.9	119.9	118.1	109.6
In millions of SDRs	0.0	0.0	4.0	8.0	12.0	14.0	14.0	13.8	12.8
In millions of US$	0.0	0.0	6.3	12.6	18.9	22.1	22.1	21.8	20.2
In percent of GDP	0.0	0.0	0.7	1.4	2.1	2.3	2.2	2.1	1.8
Outstanding Fund credit (end of period)									
In percent of quota	157.6	154.9	174.3	180.7	183.9	171.3	141.7	122.8	109.6
In millions of SDRs	18.4	18.1	20.4	21.1	21.5	20.0	16.6	14.4	12.8
In millions of US$	28.4	27.9	31.6	33.0	33.9	31.6	26.1	22.6	20.2
In percent of exports of goods and services	11.5	10.9	11.4	11.5	11.2	9.9	7.7	6.3	5.3
In percent of debt service	77.6	60.3	88.5	69.6	65.9	62.1	51.0	44.5	44.6
In percent of GDP	3.5	3.4	3.8	3.8	3.8	3.3	2.6	2.2	1.8
In percent of Imputed Net International Reserves	27.6	20.9	23.2	24.2	24.6	22.6	18.5	15.8	13.9
Fund obligations based on existing credit	0.3	0.3	1.8	3.3	3.7	3.5	3.5	2.0	0.6
Repurchases and repayments	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.0	0.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit	0.3	0.3	1.8	3.3	3.7	3.5	3.5	2.3	1.6
Repurchases and repayments	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.2	1.6
Charges and interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit									
In millions of US$	0.5	0.5	2.7	5.1	5.8	5.6	5.6	3.6	2.5
In percent of exports of goods and services	0.2	0.2	1.0	1.8	1.9	1.8	1.7	1.0	0.7
In percent of debt service	1.3	1.0	7.7	10.8	11.3	11.0	11.0	7.0	5.6
In percent of GDP	0.1	0.1	0.3	0.6	0.6	0.6	0.6	0.3	0.2
In percent of Imputed Net International Reserves	0.5	0.4	2.0	3.8	4.2	4.0	4.0	2.5	1.7
In percent of quota	2.6	2.6	15.2	28.2	31.5	30.2	30.1	19.2	13.6
Net use of Fund credit	-0.3	-0.3	2.3	0.8	0.4	-1.5	-3.5	-2.2	-1.6
Disbursements	0.0	0.0	4.0	4.0	4.0	2.0	0.0	0.0	0.0
Repayments and Repurchases	0.3	0.3	1.8	3.2	3.6	3.5	3.5	2.2	1.6
Memorandum items:									
Exports of goods and services (in millions of US$)	245.7	255.9	275.9	286.6	302.1	319.0	338.7	359.7	378.3
Debt service (in millions of US$)	36.5	46.3	35.7	47.5	51.4	50.8	51.1	50.9	45.2
GDP (in millions of US$)	801.5	813.7	839.1	866.1	902.6	944.5	993.4	1045.8	1100.9
Imputed Net International Reserves (in millions of US$)	102.8	133.7	135.9	136.7	138.0	139.4	141.2	143.0	144.9
Quota (in millions of SDR)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: Staff estimates and projections.

Table 10. Grenada: Proposed Schedule of Disbursement Under the Extended Credit Facility

Availability date	Amount of Disbursement		Conditions
	SDR million	Percent of quota 1/	
June 26, 2014	2.040	17.436	Executive Board approval of the arrangement (tentative)
September 30, 2014	2.000	17.094	Observance of continuous and end-June 2014 performance criteria and completion of the first review
March 31, 2015	2.000	17.094	Observance of continuous and end-December 2014 performance criteria and completion of the second review
September 30, 2015	2.000	17.094	Observance of continuous and end-June 2015 performance criteria and completion of the third review
March 31, 2016	2.000	17.094	Observance of continuous and end-December 2015 performance criteria and completion of the fourth review
September 30, 2016	2.000	17.094	Observance of continuous and end-June 2016 performance criteria and completion of the fifth review
March 31, 2017	2.000	17.094	Observance of continuous and end-December 2016 performance criteria and completion of the sixth review
Total	14.04	120	

Source: Fund staff estimates

1/ Quota is SDR 11.7 million.

Annex I. Grenada: Risk Assessment Matrix

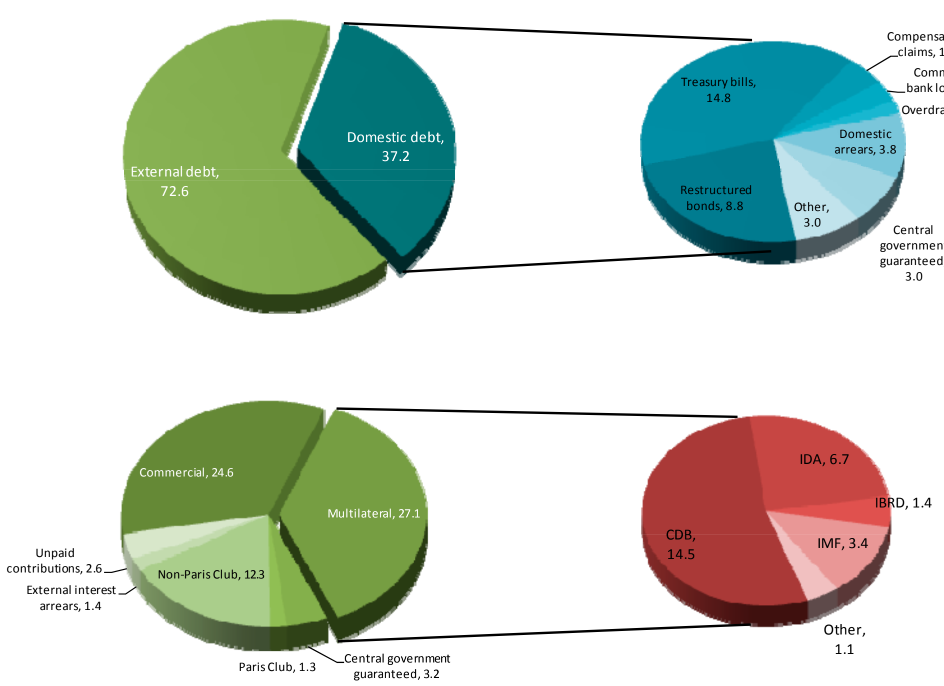
Grenada: Risk Assessment Matrix 1/			
Nature/Source of Main Risks	***Relative Likelihood***	***Expected Impact***	***Recommended Policy Response***
1. Protracted period of slower growth in advanced and emerging economies.	**High**	**High** Slower growth elsewhere could directly dampen Grenada's growth through lower tourism arrivals, remittances, and FDI. The fiscal position could also worsen with weaker revenues.	Carry through with the programmed fiscal adjustment and structural reforms, which would increase the probability of continued FDI and donor flows.
2. Escalation of financial sector stress in the ECCU. Lack of a lender of last resort, deposit insurance, and fiscal space, make the weak regional banking systems vulnerable to liquidity stress.	**Medium**	**High** Lack of a financial backstop could lead to a disorderly adjustment to deposit withdrawals, credit retrenchment and lower growth. The potential need to eventually bail out depositors could further increase the unsustainable debt.	Accelerate banking sector reforms at the regional level, and agree on a backstopping mechanism in the context of the regional reforms before banks are resolved.
3. Natural disasters, mainly hurricanes, could cause severe damage to infrastructure and disrupt tourism flows.	**Medium**	**High** The cost of infrastructure rehabilitation would put further pressures on the fiscal position. The disruption to the hotel plant would slow tourism inflows, reduce growth and widen the current account deficit.	Build financing buffers by saving receipts from the recently introduced citizenship-by-investment program and obtaining supplementary natural disaster insurance with donor assistance. In the long-term, work with the World Bank to build resilience to climate change.
4. Sustained decline in commodity prices triggered by deceleration of global demand and coming-on-stream of excess capacity (medium-term)	**Medium**	**Medium** A decline in oil prices could tighten liquidity in the regional financial markets that largely stems from the oil-producing Trinidad and Tobago. This could increase rollover risks for the sovereign T-bills and lead to some withdrawal of nonresident deposits in banks. At the same time, the external current account would benefit from a reduced fuel import bill.	Build fiscal and financing buffers by carrying through the fiscal adjustment and saving receipts from the recently introduced citizenship-by-investment program. Support regional reforms to build capital cushions in banks.
5. Disruption in the PetroCaribe Arrangement with Venezuela (Annex VII)	**High**	**Medium** Pressures on the balance of payment and fiscal financing available through the arrangement could result is some decline in reserves and a tighter financing envelope for the government.	Same as in risks 1-4.
6. Side-effects from global financial conditions: surges in global financial market volatility (related to UMP exit), leading to economic and fiscal stress, and constraints on country policy settings.	**High**	**Low** Spillovers from the international (as opposed to regional) financial markets are low, given the relative insulation from traditional capital flows. At the same time, some outflow of nonresident deposits when interest differentials narrow could put pressures on the balance of payments.	Same as in risks 1-4.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent of more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. Grenada: Debt Sustainability Analysis

Grenada's public debt is in distress. The country defaulted on debt payments in March 2013 and a debt service moratorium is in effect while debt restructuring negotiations are underway. Public debt is estimated at around 110 percent of GDP at end-2013, one of the highest in the world. In the absence of consolidation and debt restructuring, public debt would increase to over 134 percent of GDP by 2020, more than twice the regional target (60 percent of GDP by 2020). The authorities' planned fiscal adjustment, if maintained over the medium-term, will reverse the debt dynamics and put debt on a firmly downward path. However, in the absence of a debt restructuring and only with non-market financing, debt would fall to only 89 percent of GDP by 2020, a high level given the country's growth prospects and capacity. The risk of debt distress will continue to remain high as all debt and debt service thresholds would be breached even in the absence of shocks. The comprehensive debt restructuring currently being pursued by the authorities will be critical to reducing debt to sustainable levels, lowering the risk of debt distress, and putting the ECCU target within reach.

Grenada: Public Sector Debt, end-2013
(In percent of GDP)



Grenada has one of the highest public debt-to-GDP ratios in the world. As of end-2013, the stock of central government's direct and guaranteed debt (henceforth public debt) is estimated at around 110 percent of GDP. Over a third of the debt is held domestically (37 percent of GDP), mostly by commercial banks, other financial institutions and statutory bodies. External debt is owed to multilateral creditors (27 percent of GDP), especially the Caribbean Development Bank

(15 percent of GDP); commercial creditors (24½ percent of GDP); Paris Club members (1.3 percent of GDP); and other bilateral creditors beside Paris Club (12.3 percent of GDP). At end-2013, the total outstanding borrowing from the Eastern Caribbean Central Bank was about 1.4 percent of GDP.

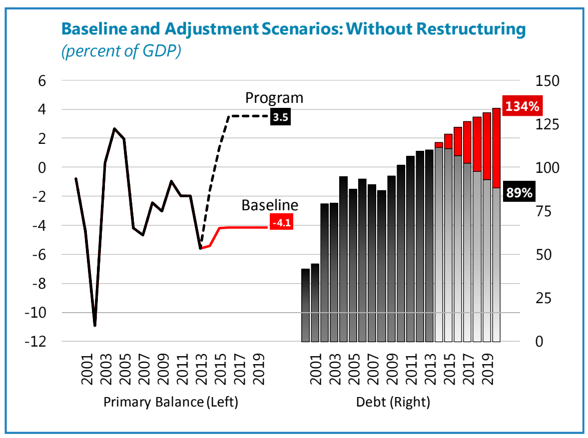
The outlook for public debt is expected to improve notably under the program, but debt will remain high and unsustainable without a restructuring. In the absence of debt restructuring and fiscal adjustment, public debt would increase to over 134 percent of GDP by 2020, more than twice the regional target for that year. The fiscal adjustment targeted under the program would put debt on a firmly downward path, but in the absence of a debt restructuring, debt would still be high at around 89 percent of GDP by 2020 and potentially higher if exogenous shocks occur during this period 2020 and the fiscal financing gaps would not be covered by marketable instruments.

Debt burden Thresholds under the Debt Sustainability Framework
(Applying to external public debt)

	PV of debt (percent of)			Debt service (percent of)	
	Exports	GDP	Revenue	Exports	Revenue
Thresholds	150	40	250	20	30
Grenada Projs. (in 2015)	190	62	307	18	28

Source: SM/12/10. Revisiting the Debt sustainability Framework for Low income countries.

The outlook for external public debt improves slightly over the medium-term. External public debt would decline to about 62.7 percent of GDP by 2020, as the authorities rely increasingly on external concessional sources to meet their financing needs, while paying down domestic non-concessional debt. For the purposes of assessing public external debt vulnerabilities, Grenada is rated as a medium performer according to the World Bank's Country Policy and Institutional Assessment rating (CPIA).[1] The applicable prudential thresholds on various public external debt indicators for medium performers are reported in the table. With all the debt and debt service thresholds breached in the baseline scenario (as well as under the stress-test scenarios), Grenada's risk of public external debt distress remains high and unchanged from the assessment under previous DSAs (Figure A1, Tables 3a-b). The breach of two of these thresholds (related to the debt service ratios) would occur only in the medium-term, with the upcoming debt restructuring likely staving off these vulnerabilities. In the case of the private external debt, it remains on an upward path in the medium-term as it finances large current account deficits and will continue to present an important risk given the already high levels.



[1] Grenada scored 3.72 during 2010-12, but its score has declined consistently since 2010 (3.78) and has remained below the threshold for strong performers of 3.75.

The outlook for the public debt is based on the program's macroeconomic framework. In particular:

- *Real GDP Growth*. Growth is projected to recover from 1½ percent estimated for 2013 to about 2½ percent, with a continued recovery in the tourism and FDI source markets. While the fiscal adjustment will have some dampening effect on growth over the next three years, the drag is expected to be limited by the high openness of the economy, the resumption of financing flows and the resolution of lingering uncertainty associated with the current crisis.
- *Inflation*. Inflation is projected to pick up gradually to about 2 percent over the medium-term in line with higher imported U.S. inflation.
- *Fiscal Balance*. The primary balance of the central government is programmed to turn from a deficit of 3⅔ percent of GDP in 2013 to a surplus of 3½ percent by 2016, reflecting the significant and front-loaded fiscal adjustment effort during the three years of the program. The adjustment relies on both revenue and expenditure measures, including increasing the personal income tax thresholds, freezing the public wage bill and other measures. The baseline scenario does not assume the materialization of any contingent liabilities, including in the financial sector, although the risks are present.
- *Proposed ECF arrangement*. Public debt developments are considered in the context of a three-year ECF arrangement with access of SDR14.04 million (120 percent of quota). The disbursements are programmed to become available on a semiannual basis following the Board's approval of reviews. Grenada's proposed access is high, above the 75 percent of quota norm for a country with outstanding concessional credit of 100-200 percent of quota.
- *Debt Restructuring*. This DSA's baseline scenario assumes fiscal adjustment but does not include debt restructuring.
- *Financing*. Financing gaps in the DSA are assumed to be filled by exceptional IFI financing during the 2014-17 program period (expected at US$81.9 million, or about 9.4 percent of GDP, from IMF, World Bank and CDB) and by borrowing on terms similar to official bilateral debt (2 percent interest, 7 years grace and 20 years maturity).

The comprehensive debt restructuring, on which the authorities have embarked, will help address the fiscal imbalances. The restructuring will exclude the treasury bills issued in the regional securities markets (to avoid contagion to other ECCU sovereigns that tap that market) and loans from multilateral institutions (together accounting for 29 percent of public debt). With assistance from financial and legal advisors, the authorities have initiated debt restructuring negotiations. Discussions have now extended to all creditor groups, and those with external private creditors have continued through scheduled weekly calls. The authorities will approach the Paris Club creditors before the Board approval of the arrangement to request financing assurances and seek agreement on a date to discuss the treatment of its debt, including outstanding arrears. In future reviews, staff will provide updates on the status of the debt negotiations and will assess the outcomes at their conclusion.

Table A1. Grenada: Public Sector Debt Sustainability Framework, Adjustment Scenario, 2011-2034

(In percent of GDP, before debt restructuring)

	Actual						Estimate	Projections									
	2010	2011	2012	2013	Average 6/	Standard Deviation 6/	2014	2015	2016	2017	2018	2019	2020	2014-20 Average	2024	2034	2020-34 Average
Public sector debt 1/	**97.6**	**100.9**	**103.1**	**109.8**			**111.3**	**110.3**	**106.5**	**102.1**	**97.4**	**93.0**	**88.5**		**78.0**	**70.2**	
of which: foreign-currency denominated	69.5	69.2	68.3	72.6			69.2	70.9	69.9	68.4	66.5	64.7	62.7		57.3	57.8	
Change in public sector debt	5.9	3.3	2.2	6.7			1.5	-1.0	-3.8	-4.4	-4.7	-4.4	-4.4		-0.5	-0.6	
Identified debt-creating flows	3.2	3.7	0.3	3.6			2.4	-0.5	-3.2	-3.7	-4.1	-4.0	-4.0		-1.2	-0.7	
Primary deficit	1.0	2.2	2.0	3.7	1.9	2.5	2.4	-1.3	-3.5	-3.5	-3.5	-3.5	-3.5	-2.4	-1.1	-0.2	-1.0
Revenue and grants	24.6	23.6	20.8	21.5			24.9	24.9	24.8	24.8	24.8	24.8	24.8		24.6	24.4	
of which: grants	4.0	3.4	1.1	1.4			4.6	3.3	2.3	2.3	2.3	2.3	2.3		2.3	2.3	
Primary (noninterest) expenditure	25.6	25.8	22.7	25.1			27.4	23.5	21.2	21.2	21.2	21.2	21.2		23.6	24.2	
Automatic debt dynamics	2.2	1.5	0.5	2.1			-0.1	0.9	0.3	-0.2	-0.6	-0.5	-0.5		-0.1	-0.5	
Contribution from interest rate/growth differential	1.7	0.3	2.6	1.0			0.4	0.8	0.6	0.2	-0.1	-0.1	-0.1		0.1	-0.1	
of which: contribution from average real interest rate	1.3	1.0	0.8	2.6			1.6	2.2	2.4	2.3	2.3	2.3	2.2		2.0	1.6	
of which: contribution from real GDP growth	0.5	-0.7	1.9	-1.5			-1.2	-1.3	-1.8	-2.1	-2.4	-2.4	-2.3		-1.9	-1.7	
Contribution from real exchange rate depreciation	0.5	1.2	-2.1	1.1			-0.5	0.0	-0.3	-0.4	-0.4	-0.4	-0.4		-0.2	-0.4	
Other identified debt-creating flows	0.0	0.0	-2.2	-2.2			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	-2.2	-2.2			0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	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	
Debt restructuring	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	
Other	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	
Residual, including asset changes	2.7	-0.4	1.9	3.1			-0.9	-0.5	-0.6	-0.7	-0.6	-0.4	-0.4		0.7	0.1	
Other Sustainability Indicators																	
PV of public sector debt	**...**	**...**	**...**	**103.8**			**104.4**	**103.1**	**98.8**	**94.1**	**89.3**	**84.5**	**79.8**		**65.4**	**57.5**	
of which: foreign-currency denominated	...	...	...	66.7			62.3	63.6	62.3	60.4	58.4	56.2	54.0		44.8	45.1	
of which: external	...	...	...	66.7			62.3	63.6	62.3	60.4	58.4	56.2	54.0		44.8	45.1	
PV of contingent liabilities (not included in public sector debt) 2/	0.0	0.0	0.0	0.0			0.0	4.6	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 3/	16.4	21.8	21.5	22.5			18.6	16.7	13.8	14.8	13.9	13.4	12.7		8.8	5.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	...	483.8			418.8	414.5	399.3	380.3	360.7	341.2	322.4		265.7	235.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	...	518.1			514.4	477.9	440.0	419.1	397.5	376.0	355.3		292.9	260.1	
of which: external 4/	...	...	...	332.7			307.1	295.1	277.3	269.1	260.0	250.3	240.4		200.4	204.2	
Debt service-to-revenue and grants ratio (in percent) 5/	62.6	83.1	93.8	87.6			64.8	72.4	69.8	74.0	70.3	68.4	65.6		40.2	24.8	
Debt service-to-revenue ratio (in percent) 5/	74.8	96.8	99.1	93.8			79.5	83.5	76.9	81.5	77.5	75.4	72.3		44.3	27.4	
Primary deficit that stabilizes the debt-to-GDP ratio		-1.1	-0.2	-3.1			1.0	-0.4	0.3	0.9	1.2	0.9	0.9		-0.6	0.4	
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	-0.5	0.8	-1.8	1.5	0.9	5.5	1.1	1.2	1.7	2.0	2.4	2.5	2.5	1.9	2.5	2.5	2.5
Average nominal interest rate on forex debt (in percent)	1.2	1.4	2.6	2.8	1.1	1.1	2.9	3.5	4.0	4.0	4.1	4.2	4.2	3.9	4.3	4.2	4.2
Average nominal interest rate on domestic debt (in percent)	5.1	5.3	5.5	4.3	6.7	3.1	4.2	4.8	5.3	5.4	5.6	5.9	6.0	5.3	6.1	6.2	6.1
Average real interest rate on domestic debt (in percent)	4.6	5.1	0.6	4.6	4.2	3.9	1.9	2.8	2.8	2.8	2.8	3.1	3.2	2.8	3.6	3.4	3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	0.7	1.7	-3.0	1.6	-0.3	2.3	-0.6	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.5	0.2	4.8	-0.3	2.5	2.6	2.3	2.0	2.5	2.6	2.7	2.7	2.7	2.5	2.4	2.7	2.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.1	1.6	-13.5	12.5	1.7	16.0	9.8	-13.0	-8.2	2.0	2.4	2.5	2.5	-0.3	5.2	2.5	3.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	29.7	34.8	36.7	37.3	29.8	29.7	29.7	32.5	29.7	29.7	29.7

Sources: Country authorities; and staff estimates and projections.
1/ Central government and central government guaranteed debt only.
2/ Includes contingent liabilities for BAICO/CLICO settlements and bank restructuring costs.
3/ 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.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A2 .Grenada: External Debt Sustainability Framework, Adjustment Scenario, 2011-2034 1/

(In percent of GDP, before debt restructuring)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections										
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2020	2014-2020 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**137.4**	**144.6**	**155.5**			**160.0**	**163.3**	**163.9**	**162.3**	**158.8**	**154.0**	**148.7**		**136.1**	**98.1**	
of which: public and publicly guaranteed (PPG)	69.2	68.3	72.6			69.2	70.9	69.9	68.4	66.5	64.7	62.7		57.3	57.8	
Change in external debt	12.6	7.2	10.9			4.5	3.3	0.6	-1.6	-3.5	-4.7	-5.3		-1.8	-6.0	
Identified net debt-creating flows	15.1	11.4	11.1			14.3	11.8	9.0	7.2	5.3	3.9	4.6		5.3	0.7	
Non-interest current account deficit	**19.6**	**15.4**	**22.9**	**21.6**	**6.9**	**19.1**	**15.0**	**12.6**	**12.5**	**11.6**	**10.8**	**9.2**		**9.9**	**6.2**	9.0
Deficit in balance of goods and services	20.8	18.7	25.8			21.8	17.8	15.7	15.2	14.1	13.3	11.6		11.6	5.8	
Exports	30.0	30.7	31.5			32.9	33.1	33.4	33.7	34.0	34.3	34.3		35.1	37.1	
Imports	50.8	49.4	57.3			54.7	50.8	49.1	48.9	48.1	47.6	45.9		46.8	42.9	
Net current transfers (negative = inflow)	-3.1	-3.8	-3.4	-6.5	5.4	-3.4	-3.5	-3.5	-3.4	-3.4	-3.3	-3.2		-3.0	-2.6	-2.9
of which: official	-0.9	-1.4	-1.0			-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9		-0.8	-0.6	
Other current account flows (negative = net inflow)	1.9	0.5	0.5			0.8	0.7	0.4	0.7	0.9	0.8	0.8		1.3	3.0	
Net FDI (negative = inflow)	**-5.5**	**-3.9**	**-13.9**	**-11.5**	**5.0**	**-7.9**	**-7.0**	**-7.5**	**-8.5**	**-9.0**	**-9.5**	**-7.0**		**-7.0**	**-7.0**	-7.0
Endogenous debt dynamics 2/	**1.0**	**-0.1**	**2.1**			**3.0**	**3.8**	**3.9**	**3.2**	**2.7**	**2.7**	**2.5**		**2.4**	**1.5**	
Contribution from nominal interest rate	2.2	3.8	4.2			4.7	5.6	6.5	6.4	6.4	6.5	6.1		5.7	4.0	
Contribution from real GDP growth	-0.9	2.4	-2.1			-1.7	-1.9	-2.7	-3.1	-3.7	-3.8	-3.7		-3.3	-2.5	
Contribution from price and exchange rate changes	-0.3	-6.4	0.0			...	...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-2.5**	**-4.1**	**-0.2**			**-9.7**	**-8.5**	**-8.4**	**-8.8**	**-8.8**	**-8.7**	**-9.9**		**-7.1**	**-6.7**	
of which: exceptional financing	-1.8	-1.5	-1.8			-15.5	-4.3	-4.6	-2.6	-2.6	-2.2	-1.6		0.0	0.0	
PV of external debt 4/	...	...	149.5			153.2	156.0	156.2	154.4	150.7	145.5	140.0		123.6	85.4	
In percent of exports	...	...	475.4			465.9	471.7	467.2	457.7	442.8	424.2	407.8		351.7	229.9	
PV of PPG external debt	**...**	**...**	**66.7**			**62.3**	**63.6**	**62.3**	**60.4**	**58.4**	**56.2**	**54.0**		**44.8**	**45.1**	
In percent of exports	**...**	**...**	**212.0**			**189.6**	**192.4**	**186.3**	**179.2**	**171.7**	**163.9**	**157.3**		**127.5**	**121.5**	
In percent of government revenues	**...**	**...**	**332.7**			**307.1**	**295.1**	**277.3**	**269.1**	**260.0**	**250.3**	**240.4**		**200.4**	**204.2**	
Debt service-to-exports ratio (in percent)	**23.4**	**33.9**	**35.0**			**22.4**	**24.3**	**26.7**	**25.7**	**25.9**	**24.6**	**22.1**		**31.0**	**18.8**	
PPG debt service-to-exports ratio (in percent)	**20.2**	**27.5**	**27.5**			**14.4**	**14.4**	**15.4**	**14.7**	**14.8**	**13.6**	**11.7**		**21.4**	**14.2**	
PPG debt service-to-revenue ratio (in percent)	**29.9**	**42.9**	**43.2**			**23.2**	**22.0**	**22.9**	**22.1**	**22.4**	**20.8**	**17.9**		**33.6**	**23.9**	
Total gross financing need (millions of U.S. dollars)	164.5	175.3	162.7			156.1	138.9	126.8	119.3	113.0	101.2	107.1		185.8	139.6	
Non-interest current account deficit that stabilizes debt ratio	6.9	8.2	12.0			14.6	11.7	12.1	14.0	15.1	15.5	14.5		11.7	12.2	
Key macroeconomic assumptions																
Real GDP growth (in percent)	0.8	-1.8	1.5	0.9	5.5	1.1	1.2	1.7	2.0	2.4	2.5	2.5	1.9	2.5	2.5	2.5
GDP deflator in US dollar terms (change in percent)	0.2	4.8	0.0	2.5	2.6	2.0	2.0	2.5	2.6	2.7	2.7	2.7	2.5	2.7	2.7	2.7
Effective interest rate (percent) 5/	1.8	2.8	3.0	1.9	0.9	3.1	3.6	4.2	4.1	4.2	4.3	4.2	3.9	4.3	4.0	4.2
Growth of exports of G&S (US dollar terms, in percent)	7.5	5.2	4.1	4.4	13.6	7.8	3.9	5.3	5.6	6.1	6.1	5.4	5.7	5.9	5.8	5.8
Growth of imports of G&S (US dollar terms, in percent)	4.2	0.0	17.8	4.7	11.6	-1.6	-4.0	0.7	4.2	3.4	4.1	1.7	1.2	5.7	2.2	4.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.7	34.8	36.7	37.3	29.8	29.7	29.7	32.5	29.7	29.7	29.7
Government revenues (excluding grants, in percent of GDP)	20.3	19.7	20.0			20.3	21.6	22.5	22.5	22.5	22.5	22.5		22.3	22.1	22.3
Aid flows (in millions of US dollars) 7/	26.1	8.8	11.6			38.9	28.6	20.7	21.6	22.8	24.0	25.2		31.0	51.8	
of which: Grants	26.1	8.8	11.6			38.9	28.6	20.7	21.6	22.8	24.0	25.2		31.0	51.8	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.5	5.5	3.9	3.7	3.4	3.3	3.1		4.9	4.0	4.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			48.3	57.3	58.6	60.7	56.0	57.3	62.0		44.4	49.4	50.2
Memorandum items:																
Nominal GDP (millions of US dollars)	778.6	801.5	813.7			839.1	866.1	902.6	944.5	993.4	1045.8	1100.9		1352.3	2261.4	
Nominal dollar GDP growth	1.0	2.9	1.5			3.1	3.2	4.2	4.6	5.2	5.3	5.3	4.4	5.3	5.3	5.3
PV of PPG external debt (in millions of US dollars)			542.5			523.1	551.2	562.3	570.9	580.3	587.9	594.6		605.7	1022.1	
(PVt-PVt-1)/GDPt-1 (in percent)						-2.4	3.4	1.3	0.9	1.0	0.8	0.6	0.8	1.6	2.3	1.7
Gross workers' remittances (millions of US dollars)	29.0	29.7	30.6			31.7	32.9	34.4	35.8	37.4	39.0	...		48.1	73.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	64.3			60.1	61.3	60.0	58.2	56.3	54.2	52.1		43.2	43.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	189.4			170.1	172.6	167.3	161.1	154.6	147.8	142.0		115.8	111.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	24.6			12.9	12.9	13.8	13.2	13.3	12.3	10.6		19.4	13.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes public sector external debt only.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ 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.
The large residuals in external DSA reflect the fact that the template does not capture capital grants.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table A3a. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2033 (in percent, before debt restructuring)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	62	64	62	60	58	56	**45**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	62	65	68	71	75	80	**101**	153
A2. New public sector loans on less favorable terms in 2014-2034 2	62	65	65	64	62	61	**56**	67
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	62	68	70	68	66	64	**51**	51
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	62	67	71	69	67	65	**52**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	62	65	65	63	61	59	**47**	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	62	66	67	65	63	60	**48**	46
B5. Combination of B1-B4 using one-half standard deviation shocks	62	66	71	69	66	64	**51**	50
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	62	90	88	86	83	80	**63**	64
PV of debt-to-exports ratio								
Baseline	190	192	186	179	172	164	**127**	121
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	190	196	202	210	221	234	**287**	411
A2. New public sector loans on less favorable terms in 2014-2034 2	190	197	194	190	184	178	**158**	179
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	190	192	186	179	172	164	**127**	122
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	190	230	281	272	261	250	**196**	167
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	190	192	186	179	172	164	**127**	122
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	190	198	199	192	184	176	**138**	124
B5. Combination of B1-B4 using one-half standard deviation shocks	190	205	223	214	205	196	**153**	141
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	190	192	186	179	172	164	**127**	122
PV of debt-to-revenue ratio								
Baseline	307	295	277	269	260	250	**200**	204
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	307	301	301	315	334	358	**451**	691
A2. New public sector loans on less favorable terms in 2014-2034 2	307	303	289	285	278	271	**249**	301
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	307	313	314	304	294	283	**227**	231
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	307	309	316	307	298	288	**233**	212
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	307	301	291	282	272	262	**210**	214
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	307	304	297	288	279	269	**217**	208
B5. Combination of B1-B4 using one-half standard deviation shocks	307	307	315	306	296	285	**229**	226
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	307	418	393	381	368	355	**284**	290

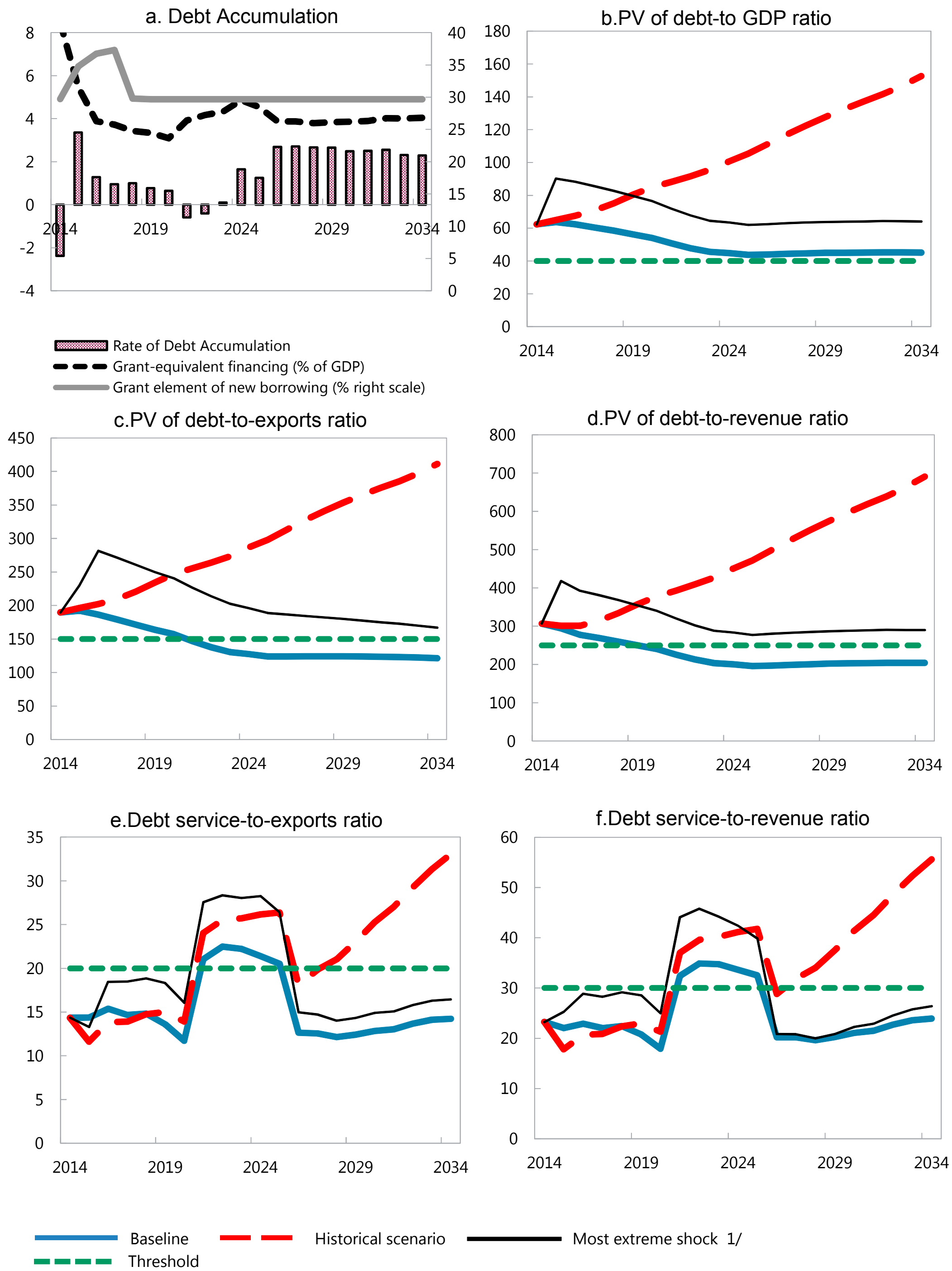
Table A3b. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-203 (Concluded) (in percent, before debt restructuring)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
Debt service-to-exports ratio								
Baseline	14	14	15	15	15	14	**21**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	14	12	14	14	15	15	**26**	33
A2. New public sector loans on less favorable terms in 2014-2034 2	14	12	13	13	14	13	**18**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	14	12	14	13	14	13	**19**	11
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	14	13	18	18	19	18	**28**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	14	12	14	13	14	13	**19**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	14	12	14	14	14	14	**20**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	14	12	16	15	16	15	**23**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	14	12	14	13	14	13	**19**	11
Debt service-to-revenue ratio								
Baseline	23	22	23	22	22	21	**34**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	23	18	21	21	22	23	**41**	56
A2. New public sector loans on less favorable terms in 2014-2034 2	23	18	20	20	21	21	**28**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	23	19	23	23	23	23	**34**	21
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	23	18	21	21	22	21	**34**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	23	18	21	21	22	21	**31**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	23	18	21	20	21	21	**32**	20
B5. Combination of B1-B4 using one-half standard deviation shocks	23	19	22	22	23	22	**34**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	23	25	29	28	29	29	**42**	26
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	30	30	30	30	30	30	**30**	30

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

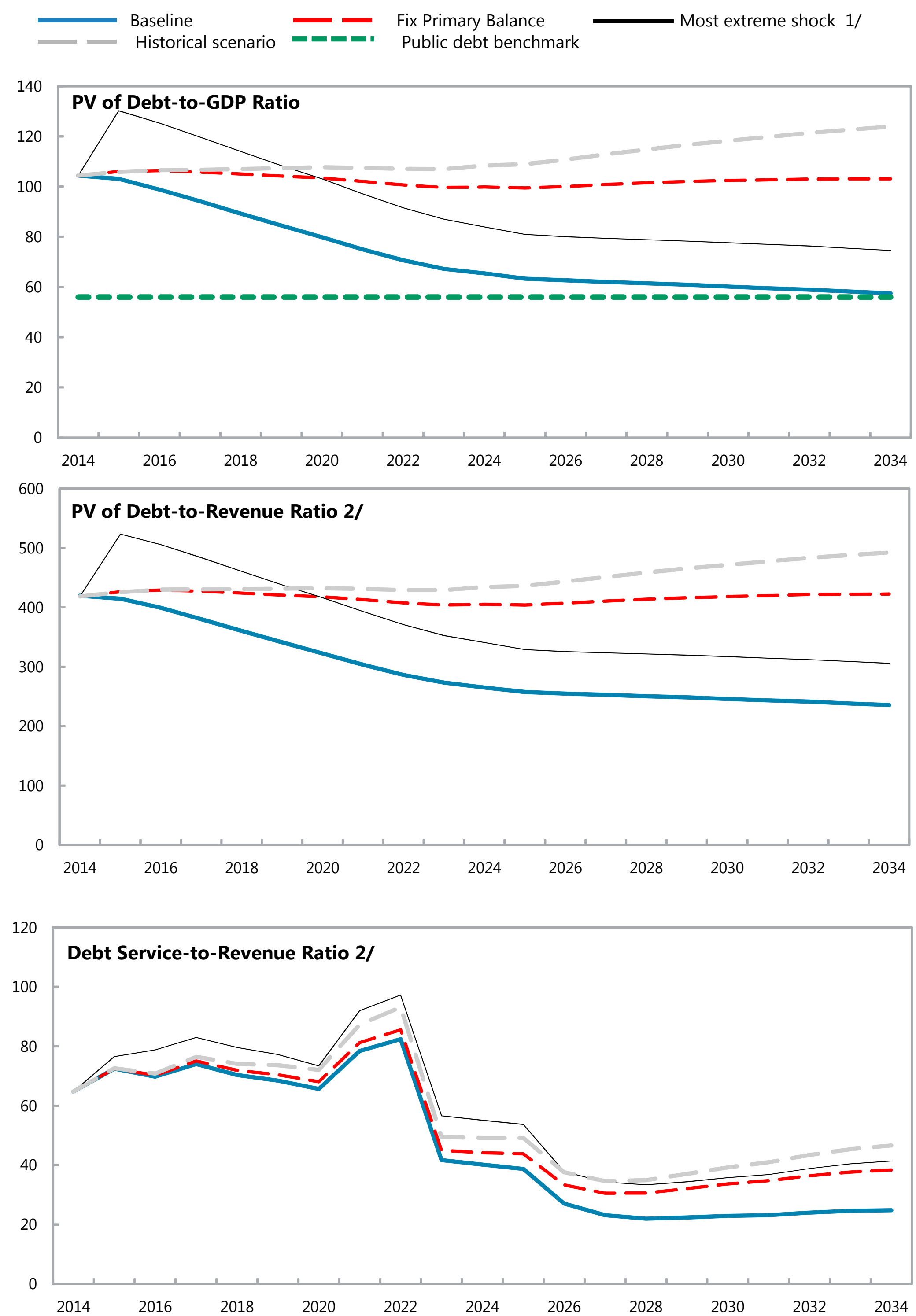
Figure A1. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 (before debt restructuring) 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure A2. Grenada: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/ (before debt restructuring)

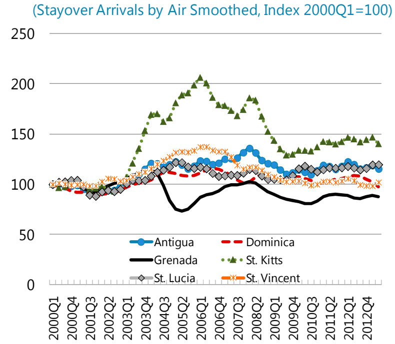


Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Annex III. Grenada: Competitiveness Issues and Exchange Rate Assessment

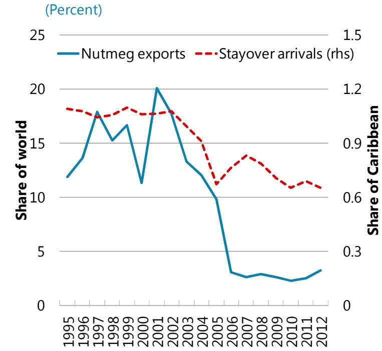
The long-standing competitiveness challenges facing Grenada have only increased since the global financial crisis. The country's share in the Caribbean tourism market has declined notably since 2007, as the recovery after the 2004-05 hurricanes was thwarted by the global financial crisis and is now 66 percent of its pre-hurricane shares. On the goods side, Grenada's market share of nutmeg, a major agriculture export, plunged from about a fifth of world nutmeg trade in early 2000's to about 3 percent after the hurricanes destroyed almost all of the crops in 2004-05. Grenada's real exchange rate, measured against its tourist origin markets, appreciated significantly following the global financial crisis and has since remained 13 percent more appreciated relative to the pre-crisis period. This partly reflects the rapid depreciation of the U.K. Pound Sterling during 2008 as well as the low inflation in most of Grenada's tourist origin markets.[1] Measured against tourism competitor markets, the exchange rate has also appreciated during 2013, as inflation in Grenada is much lower than most of its competitors.

Tourism Arrivals
(Stayover Arrivals by Air Smoothed, Index 2000Q1=100)

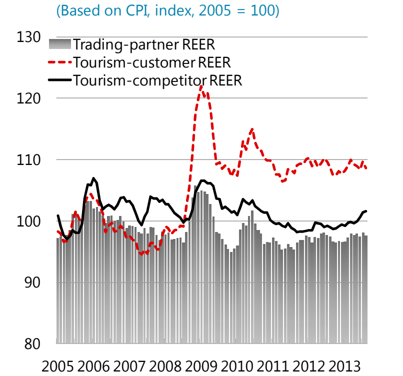


Sources: ECCB and Fund staff estimates.

Grenada: Market Shares
(Percent)



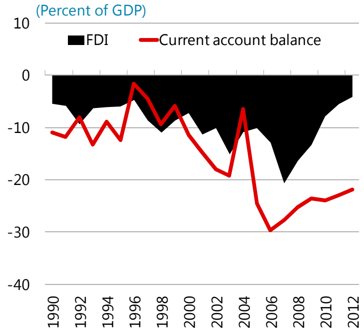
Real Effective Exchange Rates
(Based on CPI, index, 2005 = 100)



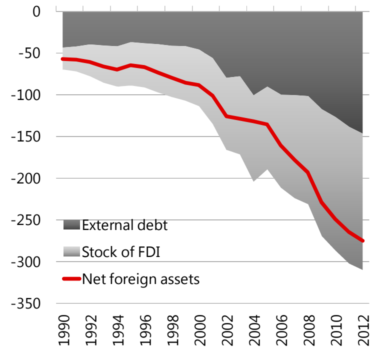
As a result, Grenada's external position failed to recover meaningfully in the post-hurricane period. The current account deficits have settled around 20 percent of GDP, compared to 8½ percent of GDP during the 1990s. With receding foreign direct investment, the deficits have been increasingly financed by debt, deteriorating Grenada's net foreign liability position to more than 270 percent of GDP in 2012, among the highest in the world.

[1] U.K. was Grenada's largest stay-over market until 2010.

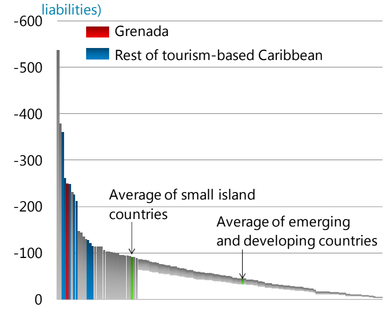
Grenada: Current Account Balance and FDI
(Percent of GDP)



Grenada: Net Foreign Assets
(Percent of GDP)



World: Net Foreign Asset Positions
(2011, percent of GDP, 139 countries with net liabilities)



Source: External Wealth of Nations database, 2011.

Formal exchange rate assessments point to a likely overvaluation of the exchange rate. Two of the methods under IMF's CGER-type assessments (macro balance and external sustainability) suggest an overvaluation in the range of 12½–34¼ percent, while the third one (equilibrium real exchange rate) suggests the exchange rate is broadly in line with its equilibrium levels.

- The *macro balance* approach (which relies on the gap between the underlying current account balance and the fundamentals-driven savings-investment norm) implies a potential real exchange rate overvaluation of 34¼ percent, since the projected gap between the two current account measures remains at about 7 percent of GDP over the medium-term despite the large fiscal consolidation.[2]
- The *external sustainability* approach suggests a current account balance adjustment of 2½ percent of GDP is required to stabilize Grenada' net foreign liability position. This would imply a potential exchange rate overvaluation of about 12½ percent.[3]
- And finally, the *equilibrium real exchange rate* approach shows broadly no misalignment of the exchange rate,

Grenada: CGER-type Exchange Rate Assessment Results

	Methods		
	Macro Balance	External Sustainability	Equilibrium Real Exchange Rate
CA norm [1]	-10.1	-14.6	...
Misalignment (%) [2]	34.2	12.5	0.9
Memorandum:			
Underlying CA [1]	-17.2	-17.2	...
CA gap	7.1	2.6	...
CAB/RER elasticity	-0.21	-0.21	...

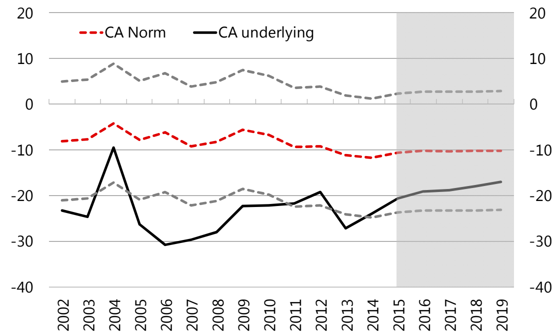
[1] In percent of GDP; medium term.
[2] "–" indicates undervaluation.

[2] The potential overvaluation is calculated as the REER adjustment required to close the current account balance gap in the medium term, based on elasticity of the current account balance to real exchange rate (-0.21 in the case of Grenada). Same calculation applies to the potential overvaluation yielded by the External Stability approach.

[3] Unlike the CGER methodology, staff does not assume the capital account grants to be zero, since these are an important financing source for Grenada's public sector.

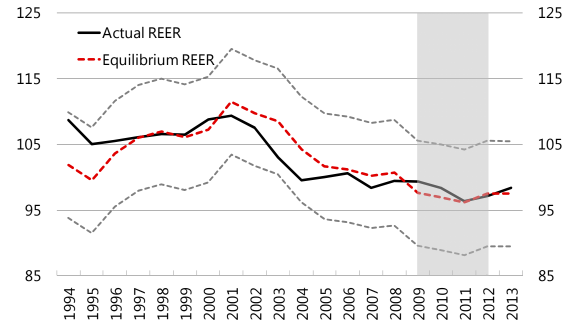
although the real effective exchange rate may not be the most relevant measure of the country's competitiveness given the nominal peg to the U.S. dollar and the largely imported inflation.[4]

Grenada: CGER-type Macro Balance Approach
(In percent of GDP)



Note: Grey dotted lines represent the 90 percent confidence interval.

Grenada: CGER-type ERER Approach
(Index 2005 = 100)



Note: Grey dotted lines represent the 90 percent confidence interval.

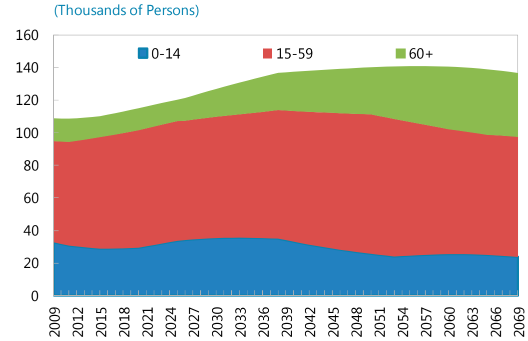
[4] The appreciation of the equilibrium real exchange rate during the 2009–12 period, opposing the depreciation trend of the actual REER that generally tracked the U.S. Dollar, is due to the relative (to its trading partners, most of whom have undergone strong fiscal consolidation) higher government consumptions in Grenada. The model interprets that such higher government consumption may lead to higher non-tradable prices and subsequently REER appreciation in Grenada.

Annex IV. Grenada: Impact of the Debt Restructuring on the National Insurance Scheme

Background

The National Insurance Scheme (NIS) in Grenada is a defined benefit plan created in 1983, to which employees contribute 4 percent and the employer 5 percent. Self-employed pay the employer contribution as well. The mandatory retirement age is 60 years and the maximum replacement value under NIS is 60 percent of the five highest years of earnings. The NIS covered about 43,096 workers in 2012 or about 85 percent of the employed population. The NIS provided protection for several benefits: old-age, disability, death, employment injury, maternity and sickness. The NIS' operations are overseen by the National Insurance Board (NIB) which is a corporate body, consisting of members appointed from government, the local workers' organization and the private sector. Actuarial reviews are done every three years. The last review was done in 2009 and next review is expected to be completed by June 2014. While Grenada's population is still relatively young, the population dynamics of Grenada has been changing over time. Fertility rates have been declining, but life expectancy has been increasing and migration of working age population to other ECCU countries, US and Canada is also on the rise. If the current trend continues, the current dependency ratios (number of persons in the working age divided by the number of retired persons) is expected to fall from 4.5 in 2009 to 1.8 in 2069 (chart). The shifting population dynamics and weak economic prospects will have a negative impact on the future income and expenditure flows and the long-run sustainability of the NIS.

Grenada: Population Profile, by age groups
(Thousands of Persons)

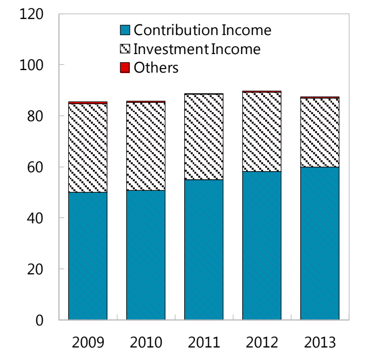


Sources: 9th Actuarial Review and IMF Staff Estimates

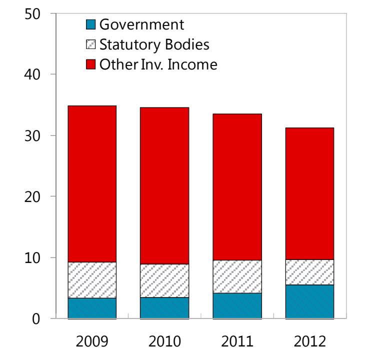
NIS Financial Position

Income and Assets. Almost two-thirds of the NIS annual income comes from contributions, while the remaining third derives from NIS investments, largely in non-financial assets such as real estate. Income derived from government paper is relatively small, but increased from less than EC$2 million in 2008 to almost EC$5 million in 2013 (18 percent of total income). On the asset side, NIS exposure to central government papers stood at EC$186.8 million (8.5 percent of GDP or 25 percent of assets) at end-2012, of which EC$92 million were holdings of the EC$ 2025 bond issued in the 2005 restructuring. Excluding RGSM T-bills that will not be restructured, the total exposure to the central government is EC$175 million (8 percent of GDP or 23 percent of assets). In addition, NIS has exposure to various statutory bodies totaling EC$58.5 million (2.7% of GDP).

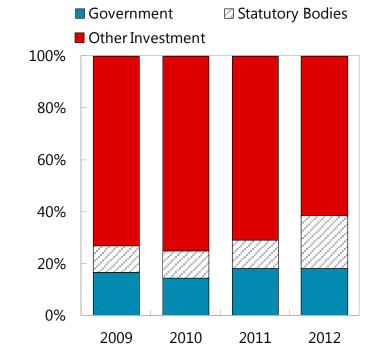
NIS Income by Component
(In millions of EC$)



NIS Investment Income
(In millions of EC$)

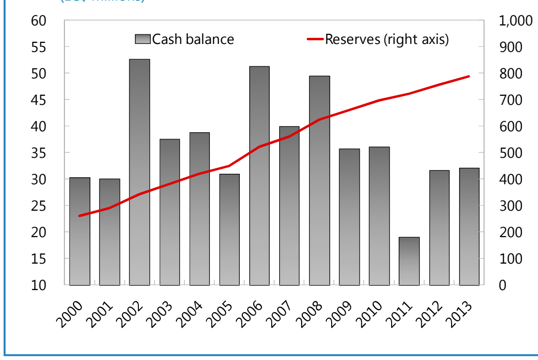


NIS Asset Allocation
(Share of total)



Cash position. The NIS has been running an operational surplus, which narrowed during the downturn of 2009-11, as unemployment increased and the contribution base shrunk. Since the crisis, the revenue growth slowed from an average of 10 percent per year during 2000-08 to about zero thereafter. The impact of these weaker earnings was also compounded by higher levels of expenditure as NIS had to provision due to losses stemming from its investment stake in BAICO and CLICO.

Grenada: NIS Cash Flow Position, 2000-2013
(EC$ millions)



The 2009 actuarial review. The last actuarial review of the NIS in 2009 estimated that expenditures will exceed contributions by 2017 and total income by 2029. After 2029, the operational deficit will continue to grow and the reserve is expected to begin to decrease in the next decade, to be completely depleted by 2042. Based on the findings, the review made recommendation for parametric changes to sustain the NIS. The main recommendations of the actuarial review were to (i) increase the retirement age from 60 to 65; (ii) increase the contribution rates to 11 percent (5 percent employee + 6 percent employer) from the current rate of 9 percent (4 percent employee + 5 percent employer); (iii) increase the insurable limit gradually, since current limits were very small for high income brackets.[1] The government is evaluating reform options and waiting for the outcome of the 2013 actuarial review (expected in June) before making the final decision.

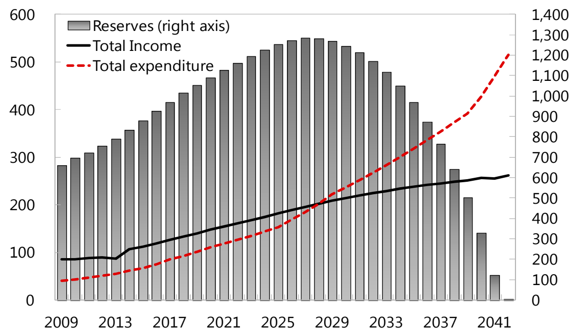
Impact of debt restructuring on the NIS position

Under the program's macro-framework and assuming no debt restructuring, the projected cash flow position for 2014-2042 remains broadly similar to the one projected by the 2009 actuarial

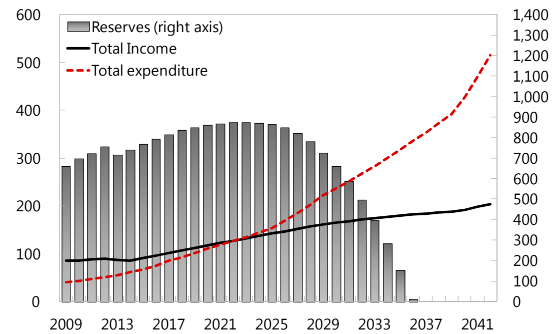
[1] It has been increased from EC$3000 per month in 2012 to EC$4250 per month in 2013 and will be increased further to EC$5000 per month in 2014.

review: NIS begins running deficits in 2028 and the reserves get depleted by 2042.[2] The debt restructuring will have a negative impact on the financial position of the NIS, although for the public sector as a whole this loss will be fully offset by the gain in the central government's position. As an illustration, assuming that NIS takes a 50/60 percent haircut on restructurable government papers, the onset of the operational deficits and reserve depletion will be accelerated by five/six years, to 2022/23 and 2036/37, respectively. Over the medium term, NIS will therefore continue to run operational surpluses and can address the longer-term challenges through parametric reforms.

Grenada: NIS Financial Position
(Baseline case)



Grenada: NIS Financial Position
(Debt restructuring case)



[2] The demographics data (population growth, fertility, mortality, migration, and labor force participation rates) are assumed to be unchanged from the 2009 actuarial review.

Annex V. Grenada: Statutory Bodies

`Grenada has 24 statutory bodies, of which nine operate as commercial entities and one is the National Insurance Board that manages the pension fund.[1] The financial performance and service provision of many of the statutory bodies (SBs) has been poor, but data are scarce. Most of the SBs for which data are available reported a loss in 2012, except for NIS which is running operational profits. Furthermore, none of the SBs made any dividend payments. The debt levels across the commercial SBs are unsustainable at present levels, and four SBs are either in default or in significant arrears. The recorded debts of these SBs amounted to about 6 percent of GDP at end-2012, while the total contingent liability of SBs guaranteed by the government stood at EC$62.3 million (2.9% of GDP), and are included in the official debt statistics. Some SBs have debts that are not guaranteed, but information on these is not reliable.

Financial summary of statutory bodies[1]
(percent of GDP, 2012 or latest available)

		Profit/Loss	Total Debt	Govt. guaranteed debt
1	Airports Authority	-0.1	2.6	2.0
2	Development Bank	0.0	0.7	0.6
3	Gravel Concrete and Emulsion	-0.1	0.2	0.2
4	Industrial Development Corp.	0.0	0.1	0.1
5	Marketing Board	0.0	0.0	0.0
6	National Water and Sewerage	-0.2	0.0	0.0
7	Ports Authority	0.0	2.2	0.0
8	Postal Corporation	0.0	0.0	0.0
9	GARFIN	0.0	0.0	0.0
10	Bureau of Standards	0.0	0.0	0.0
11	Food and Nutrition Council	0.0	0.0	0.0
12	National Stadium Authority	0.0	0.0	0.0
13	Board of Tourism	0.1	0.0	0.0
	Total	-0.3	5.9	2.9

1/ Excludes Grenlec and SBs for which data are not available.

Relations with the budget. SBs do not make significant payments to the budget and have not paid dividends for a number of years. Even though the government has contributed minimal equity to SBs, they have made significant contribution to SBs assets in terms provision of land and buildings. Three SBs (Development Bank, Industrial Development Corporation and Gravel Concrete and Emulsion Corporation) have defaulted on some of their debt in recent times which has been taken over by the government). On the other hand, the government has accumulated significant arrears to SBs, including the National Insurance Board (EC$30 million), the Solid Waste Management Authority (EC$19million) and the Water and Sewerage Authority (EC$10.5million). These arrears have also negatively impacted the daily operations of the SBs. Moreover, with the exception of the Gravel Concrete and Emulsion Corporation and the Marketing and National Importing Board, all SBs benefit from exemptions VAT and customs exemptions (currently being reformed). The government transfers to SBs were relatively small in 2012 (only EC$2 million or 0.1% of GDP).

[1] These statutory bodies are the Airports Authority; Grenada Development Bank; Gravel Concrete and Emulsion Production Corporation; Grenada Industrial Development Corporation; Marketing and National Importing Board; National Water and Sewerage Authority; Ports Authority; Postal Corporation and Solid Waste Management Authority.

The financial results and position of several SBs have been impacted by government decisions to approve substantial wage increases and unsustainable pension schemes, as well as by the collapse of regional insurance companies BAICO and CLICO. In general, SBs remuneration and employee benefits are substantially higher than those in the rest of the public service. Despite the small numbers of employees and the high administrative costs, many SBs have separate pension schemes. Many of these schemes are overly generous and there are significant unfunded pension liabilities. Grenada's SB finances have also been significantly impacted by the financial collapse of the regional insurance company BAICO/ CLICO. The Ports Authority, Development Bank, Water and Sewerage Authority and National Insurance Board had to write off significant amounts for asset impairment reflecting their investment in these companies.

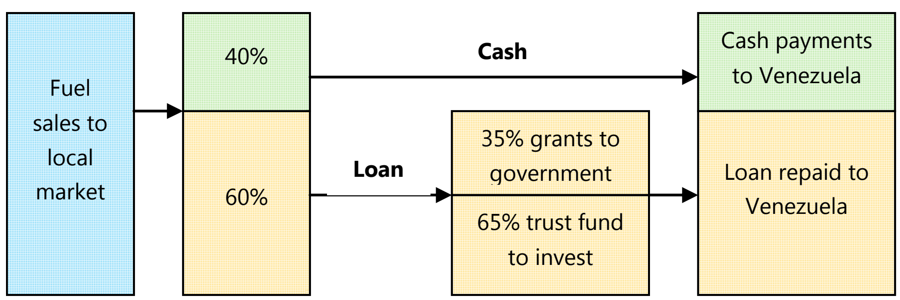
The monitoring of the statutory bodies is weak due to lack of financial information and lack of capacity. SBs are required by the legislation to submit their audited financial statements to the Parliament, but most SBs don't report their financial statements on a regular basis, making it difficult to assess their financial situation and viability. In 2012, more than half of SBs reported their financial statements six months after the end of the calendar year. While officials of the Ministry of Finance (MoF) are Board members of SBs, which provides a forum for SB monitoring, there is no unit at the MoF that monitors the statutory bodies on a regular basis and the MoF also yields little control over the financials of the SBs.

Annex VI. Grenada: Petrocaribe Arrangement

The Petrocaribe arrangement in Grenada is operated by PDV Grenada Ltd., a joint venture between the governments of Venezuela and Grenada since 2007. PDV Grenada imports diesel fuel from Venezuela at international prices, usually about one shipment per month with an average of 18 thousand barrels per shipment. It then sells the fuel in the local market at market prices plus a certain markup to cover its operational costs. If the oil price exceeds US$100 per barrel, then 40 percent of the import invoice is repaid to Venezuela, otherwise 50 percent is repaid. The rest of the invoice is converted into a long-term concessional loan, repayable over 25 years, with 2 years of grace period and an annual interest rate of 1 percent.

The resources from the concessional loan have to be used for social projects and financial investments. In particular, 35 percent of the loan is allocated to a social fund to be spent on social projects, and the remaining 65 percent goes to a trust fund that makes financial investments. The purpose of the investments is to generate sufficient returns to offset the cost of the social projects, thereby generating the resources needed to service the long-term loan. At present, the trust fund has mainly invested in securities issued by Grenada and other governments in the region. Meanwhile, the money from the social fund is transferred to the central government as "grant" from the rest of the public sector and has averaged 0.8 percent of GDP over the past five years, financing investment and social programs.

Financial Flows of the Petrocaribe Arrangement

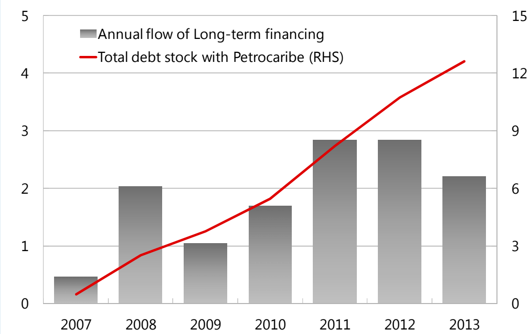


The stock of the long-term debt of PDV Grenada to Venezuela has reached US$102.4 million or 12.6 percent of GDP at end-2013.[1] The annual financing under the arrangement averaged US$21 million or 2.6 percent of GDP over the past three years, which provided a notable relief in financing the large current account deficit. Despite recent fiscal financing pressures, the loans have been serviced on time as Grenada depends on the continued flow of financing.

[1] Because PDV Grenada is incorporated under the Companies Act 1994 as a limited liability company, the government's liability is limited only to the unpaid amounts (if any) on shares it holds in the company (i.e. the government is not liable for the debts of the company). Therefore this debt is excluded from the stocks of central government contracted or guaranteed debt.

In the event of disruptions in the Petrocaribe arrangement, Grenada could face cutbacks in social spending and notable balance of payment pressures. Grants from the social fund have financed about 40½ percent of the total social spending in 2013, particularly in the areas of education, employment support, and infrastructure and housing. An abrupt withdrawal of this funding could potentially derail these social projects unless the government could effectively mobilize additional resources for the capital budget. For the rest of the economy the impact will be moderate assuming fuel imports could be quickly redirected from other countries. However, balance of payment pressures could emerge if the annual financing inflows cannot be easily replaced with other external financing.

Grenada: Petrocaribe Long-term Financing
(In percent of GDP)



Appendix I. Letter of Intent

June 12, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde,

The Grenadian economy has faced unprecedented challenges over the past decade. In addition to the long-standing problems of low growth and high unemployment, the country has faced its largest natural disaster and the most prolonged recession since independence. This in turn exacerbated its already weak fiscal position, despite our attempts to strengthen it in the context of the previous two IMF-supported programmes. These challenges have been feeding each other in a vicious circle, coming to a head in 2012-13 in a full-blown fiscal crisis. Public debt reached about 110 percent of GDP at end 2013, and the inability to meet financial obligations led to the announcement of a debt restructuring in early 2013.

In the February 2013 elections, the New National Party government took office with a very strong mandate to govern. The Government sees this mandate as an opportunity to fundamentally tackle the challenges facing the Grenadian economy. With this in mind, it has developed a comprehensive home-grown reform programme for 2014-17, as described in the attached Memorandum of Economic and Financial Policies (MEFP). The programme aims to restore macroeconomic stability in the short term and promote strong, sustainable, and inclusive growth in the medium term. The main pillars of the programme include an ambitious fiscal adjustment supported by public financial management reforms and debt restructuring; structural reforms to promote a business-friendly environment, growth and job creation; and measures to strengthen financial system safety and stability.

In support of our economic programme, the Government requests a 36-month arrangement under the Extended Credit Facility from the International Monetary Fund in an amount equivalent to SDR 14.04 million (120 percent of Grenada's quota, about US$21.9 million at current exchange rates). The ECF arrangement will provide needed financing during the adjustment period and signal our determination to implement sound policies, catalyze additional financial and technical assistance from other international donors, and boost investor and business confidence. Progress in the implementation of our programme will be assessed through semi-annual reviews, quantitative performance criteria, indicative targets, and agreed structural benchmarks as described in the attached memorandum.

We are confident that the policies set forth in the memorandum are adequate to meet the objectives of the programme. We stand ready to take any additional measures that may become appropriate for this purpose as circumstances change. As is customary under Fund-supported programmes, we will consult with the Fund on the adoption of such measures in advance of necessary policy revisions. We will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance.

We consent to the publication of this letter, the attached MEFP and Technical Memorandum of Understanding, and the related staff report.

Sincerely,

/s/
Hon. Keith Mitchell
Prime Minister, Minister of Finance and Energy
Grenada

Attachment I. Memorandum of Economic and Financial Policies for 2014-17

1. In response to significant macroeconomic challenges faced by Grenada over the past several years, the Government has put together a comprehensive programme to restore fiscal sustainability and boost inclusive growth through macroeconomic stabilization and structural reforms. This memorandum sets out Grenada's economic and financial policies for 2014-17, to be supported by the International Monetary Fund (IMF) under a 36-month Extended Credit Facility (ECF) arrangement.

I. ECONOMIC CONTEXT

2. **Grenada faced numerous challenges over the past years and was particularly hard hit by the global recession.** During 2004–05, Grenada suffered severe damage in the wake of two hurricanes (estimated at around 150 percent of GDP, compared to about 20 percent on average for the three most affected countries in the aftermath of the 2004 Asian tsunami), whose economic and fiscal impact triggered a debt restructuring in 2005. Before recovery from these natural disasters could gain ground, the country was hit hard by the global recession. Real activity declined by 8.2 percent from its pre-crisis peak during 2009–12. The unemployment rate stood at 33½ percent in September 2013, with youth unemployment as high as 55.6 percent.

3. **To cushion the effects of the natural disasters and the global crisis, Grenada obtained support from the IMF through two ECF arrangements during 2006-12**. The first arrangement (2006-10)—undertaken by the current Government—was successfully completed, but the second arrangement (2010-12) went off-track after the first review. The hiatus in the programme was caused in part by the very difficult political and economic situation, with a minority government facing a severe economic downturn and general elections. Nevertheless, successive Governments have persevered with several reforms contemplated in the programme, including modernizing customs and tax administration, reinforcing the supervision of the nonbank institutions, and strengthening social safety nets

4. **The protracted recession has exacerbated the macroeconomic imbalances**. Large fiscal financing needs – reflecting high debt and fiscal deficits averaging 5 percent of GDP over the past decade (recently due to a significant decline in revenues) – led to acute financing difficulties during the past few years, culminating in a default in March 2013 and bringing forth the need to restructure existing public debt obligations, which reached about 110 percent of GDP by end-2013. The external current account deficit remains large and has been increasingly financed by debt as FDI flows have receded.

5. **Grenada's economic potential has not been fully realized in the face of weak price and structural competitiveness, a high debt overhang, and vulnerability to external shocks**. Over the past two decades, growth has been too weak to make a meaningful dent in

unemployment. Higher and more sustainable growth remains critical to making the country's development more inclusive.

II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

6. **Against this background, the Government's economic programme aims to restore macroeconomic stability, strengthen the fiscal position, and most importantly boost economic growth**. During the programme period, we expect that the resolution of the fiscal crisis will bolster confidence in the country's economic prospects. There are already encouraging signs that growth has resumed after an almost four-year decline, and is estimated to have picked up to at least 1½ percent (market prices) in 2013. With a continued recovery in the tourism and FDI inflows, growth is expected to pick up steadily over the medium-term to about 2½ percent, in line with historical growth over the past twenty years. While the fiscal adjustment effort targeted under the programme (7¾ percent of GDP during three years) will have some dampening effect on growth in the short run, the drag is expected to be limited by the high openness of the economy and is expected to be offset by the resumption of financing flows and the resolution of lingering uncertainty associated with the current crisis. Inflation is projected to remain subdued in the face of a negative output gap and moderate commodity price inflation, and the external imbalances are expected to narrow gradually during the programme period, reflecting the improvement in the fiscal balance and a recovery in exports.

III. ECONOMIC AND FINANCIAL PROGRAMME

7. **The main objective of Government's economic programme is to create conditions for higher economic growth that is sustainable, job-creating and inclusive.** This will require strong policy action to: (i) create conditions for an expansion in private sector activity and employment through the implementation of deep structural reforms, while strengthening the social safety nets to protect the most vulnerable; (ii) return the public sector to solvency, which will support growth prospects through the resolution of the fiscal crisis and the debt overhang; and (iii) ensure the continued stability of the financial sector in the face of a difficult economic environment.

A. Reforms to Boost Growth and Social Protection

8. **Boosting the economy's growth, while strengthening the social safety net, is the main priority of the Government's economic programme**. Raising Grenada's growth potential will require tackling weaknesses in both price and structural competitiveness. Structural reforms will therefore focus on improvements in the business climate, on reducing the cost of doing business (especially relating to electricity and import costs), and on other measures to support activity during the fiscal adjustment process.

9. **Moving the economy to a path of higher and more sustainable growth requires a propitious operating environment for the private sector**. In this context, the Government will move speedily to strengthen the Investment Promotion Act of 2009 and to have the Act acceded to law. The aim is to improve the business environment and enhance Grenada's attractiveness as an investment destination through: (i) streamlining investment procedures, cutting excess "red tape" and addressing other bottlenecks such as land acquisitions and planning approval; (ii) codifying all the requirements for investment or for opening a business in the legislation; (iii) codifying all tax incentives and the associated qualifying criteria in the law; and (iv) transforming the Grenada Industrial Development Corporation into a functioning one-stop shop for investors to reduce the time and cost of obtaining investment approval. Parliamentary approval of the revised Investment Act in line with these reforms will be a structural benchmark for end-November 2014.

10. **The Government will seek to harness the benefits of Private Public Partnerships (PPPs) in promoting infrastructure development, while protecting the public funds from inherent risks**. The Government is considering PPP-based investments in several areas, such as healthcare, energy and infrastructure, but will engage in them only after ensuring that PPPs bring value for money, have adequate risk transfer and do not undermine the fiscal position. To this effect, the Government will first adopt a PPP policy, followed by a comprehensive PPP legislation to establish the principles and the institutions for assuming and managing contingent liabilities associated with these arrangements (parliamentary approval of this legislation will be sought for end-2014). Technical assistance and advisory support on this will be sought from the World Bank and other donors.

11. **The Government will move to liberalize certain sectors to boost private sector participation and expand capacity.** Opportunities for renewable energy will be created as described below to encourage the transition towards more sustainable and less expensive inputs into electricity production. The Government will support the liberalization of the nutmeg and cocoa sectors, so as to encourage increased efficiency, and boost farmers' incomes.

12. **High electricity costs (among the highest in the world) pose a significant challenge to the country's price competitiveness**. They reflect lack of economies of scale in the diesel-based generation, high fuel costs, and monopoly rents of Grenada's only electricity company, GRENLEC. The Government's strategy in addressing the electricity costs—supported by technical advice from the World Bank— is therefore two-pronged: (i) setting out the path for a transition from fuel-based generation to one based on renewable energy (geothermal, solar and wind) through policy and regulatory changes for renewable energy; and (ii) supporting the establishment of an independent regulatory authority for a more efficient pricing of electricity. To this effect, the Government will amend the Electricity Supply Act and revisit the agreement with GRENLEC by end-December 2014 to (a) enable an effective regulation of the electricity sector by the Eastern Caribbean Energy Regulatory Authority (ECERA); (b) address any cost inefficiencies in GRENLEC through revised tariff-setting mechanisms; (c) set out the roadmap for

transitioning electricity generation to renewable energy through necessary regulatory and policy measures for the renewable energy market; and (d) streamline the tax exemptions granted to GRENLEC. The Government is also supporting efforts to explore the country's geothermal potential, and will seek donor assistance in taking these efforts to fruition.

13. **The Government's recent bid to acquire the majority shares on sale in GRENLEC —in response to the exclusive offer made by the seller to the Government and aimed at facilitating the removal of the very onerous terms of the existing agreement – was deemed too low by the seller**. This bid was made under a contractual arrangement with an interested buyer for the shares from Government. After the expiration of the Government's offer, other investors have expressed interest in purchasing GRENLEC. Under these circumstances, the government is committed not to participate in the bidding moving forward, but will undertake the required reforms in the electricity sector with the private owners.

14. **Pressures on labor costs frequently pose challenges to the economy's competitiveness and policy sustainability.** The main pressures are in the public sector, where wage increases frequently outstrip the Government's capacity to make the payments and drive wage increases elsewhere in the economy, and on labor costs at the main port. On wages, the Government has initiated tripartite discussions under Social Partnership Agreements—with participation of private sector, trade unions and the civil society—to reach understanding on the macroeconomic fundamentals that would underlie collective bargaining agreements, especially during times of weak economic growth. The short-term objective is to reach understandings on the need to set wages in line with macroeconomic fundamentals and in advance of the negotiated triennium (rather than ex-post, as has been the case to date). With regard to port charges, the Government will review the existing labor agreements in ports by end-June 2015, with a view to streamlining labor charges as warranted. The government will also seek to revise the Labor Code, in consultation with its Social Partners, with a view to improving the competitiveness of the overall labor market.

15. **To protect the most vulnerable groups during the period of fiscal adjustment, Government will increase and better target assistance to poor households.** For fiscal year 2014, the Government will increase allocations to the largest targeted social assistance programme Support for Education, Employment, Empowerment and Development (SEED) by 40 percent to EC$13⅔ million (0.6 percent of GDP), reaching 5,690 households (about a sixth of all households), and will establish a floor on spending on this programme so that any pressure to reduce spending does not affect the targeted social safety nets. The Government will also explore with donors potential support to further expand targeted assistance schemes during the period of fiscal adjustment. In addition, it will improve the targeting and coverage of social assistance programmes*,* which are currently fragmented across ministries, by compiling an inventory of all social assistance programmes, establishing a registry of beneficiaries of these programmes and introducing proxy means testing as the eligibility criterion for the flagship SEED programme before end-2014, to be subsequently rolled out to other social programmes. The

Government will seek technical assistance from the World Bank for these reforms, with a view to developing a coherent social protection strategy, including establishing links between social assistance programmes and actions that promote human capital. This strategy will serve as the basis for the Poverty Reduction Strategy Paper that the Government intends to finalize in 2014.

B. Restoring Fiscal Sustainability

16. **A lasting reduction in the debt level is needed to restore fiscal sustainability and create a stable macroeconomic environment for growth.** The Government aims to reduce debt from the current about 110 percent of GDP to the ECCU-wide target of 60 percent of GDP by 2020, which would require a combination of fiscal adjustment, debt restructuring, and fiscal structural reforms to ensure durable fiscal discipline going forward.

Fiscal Consolidation

17. **The first pillar of the Government's fiscal programme is a strong fiscal consolidation effort aimed at putting debt on a downward path**. The Government has taken measures already in 2013 to stem the rapid deterioration of the fiscal position, limiting the primary deficit in that year to 3⅔ percent of GDP, notably below its budgeted target of 4.2 percent of GDP **(**outcomes consistent with the budget was a prior action). Going forward, a fiscal adjustment effort of 7¾ percent of GDP will bring the primary balance into a surplus of 3½ percent of GDP by 2016, which will put debt on a declining path even under reasonable shocks. The adjustment will be frontloaded, to help meet the higher financing requirements early in the programme, with 5.6 percentage points of GDP undertaken during the first two years. To mitigate the impact of this adjustment on the nascent economic recovery and the most vulnerable, the Government will establish a floor on social spending for targeted programmes and will safeguard critical infrastructure programmes by allocating, fiscal space permitting, at least 7 percent of GDP to the public sector investment programme on average during the next three years. For the medium term, our objective is to achieve the ECCU-wide target of 60 percent of debt-GDP ratio by 2020.

18. **The fiscal consolidation will rely on measures that ensure a broader and a more equitable participation in the tax effort, as well as reductions in less productive spending**. These will include:

- A reduction in the personal income tax threshold−which is among the highest in the world and excludes most income earners from the tax net− from the current EC$60,000 to EC$36,000 in 2014. A lower rate of 15 percent will apply to income below EC$60,000, while the rate for income above EC$60,000 will remain unchanged at 30 percent.
- Boosting income and withholding tax collection by extending the income tax base to winnings from lotteries and games of chance, to come into effect in 2014.
- An increase in property tax collections through an increase in the property tax rate on buildings and land from 0.1-0.15 percent to double those amounts in 2014, and to an

average of 0.5 percent in 2016, as well as through a revaluation of assessed property values to reflect market valuations. Once the primary balance targeted under the programme (3½ percent) has been achieved, the Government intends to reduce the currently high property transfer taxes to encourage the development of a more vibrant real estate market.

- Streamlining tax exemptions to ensure equitable burden-sharing through: (i) a 50 percent reduction in tax exemptions to GRENLEC, the largest beneficiary of exemptions, statutory bodies, St. George's University and the returning nationals; (ii) reducing the tax rebate to manufacturers by eliminating credits accumulated during 2010-13; allowing the use of the rebate against non-VAT liabilities only; capping the annual fiscal loss to EC$2.5 million; and discontinue the program fully after 2016; and (iii) reforming the tax incentive regime to ensure the integrity of the tax base going forward (detailed below). The first two measures will be effective from 2014 (excluding St. George's University, which will be effective in 2016).
- The base of the VAT will be expanded by (i) applying VAT to select exempt items (non-basic food, private accommodations); and (ii) applying the full 15 percent rate to construction inputs (from 2014) and utilities provided to St. George's University (from 2016).
- Broadening the base and yield of excises by: (i) introducing a 5 percent excise on luxury goods and on vehicle parts, tires, batteries, and motor oil; and (ii) increasing the excise tax on alcohol and tobacco products by at least 10 percent.
- Other revenue-enhancing measures will include: (i) the introduction of a small business tax regime for firms with sales between EC$30,000 and the VAT threshold (EC$120,000), charging a flat rate of 5 percent on gross sales; (ii) the introduction of a 10 percent tax on financial activities (wages and profits of financial institutions); (iii) increased fees on motor vehicle, professional and gun licenses; (iv) fees for new government guarantees on the debt of statutory bodies; and (v) an increase in the customs service charge from 5 to 6 percent.
- The Government also intends to undertake a revenue-neutral simplification of the tax system by way of overcoming resource constraints and improving compliance. Technical assistance on this, and on the introduction of the small business tax regime, was requested from the IMF.
- Increased efforts to collect taxes that are due will also be critical in supporting the fiscal consolidation. The parliament has recently passed a revised Integrity in Public Life law intended to strengthen governance and facilitate higher levels of integrity throughout the government, including in revenue collecting agencies. Going forward, efforts will focus on fully implementing the reform agenda that has already been developed with support from CARTAC that includes: (i) completing institutional reforms to focus on risk management and large tax payers; (ii) eliminating the bonus for tax collectors on interest from tax arrears, with a view to correcting the disincentives to collect on the large stock

of existing arrears (prior action); (iii) introducing a strict sanction regime for late payment of taxes due (the relevant tax laws will be revised before end-November 2014); (iv) connecting the customs and inland revenue information systems and ensuring exchange of information between the two departments; (v) enacting the newly drafted Customs Bill that will modernize the existing legislation and introduce penalties for noncompliance, among other things (by end-June 2014); (vi) establishing an Internal Audit Unit at Customs; and (vii) improving controls and monitoring of customs bonding warehouse, by increasing audits and closing repeated non-compliant warehouses.

- A reduction in central government's nominal wage bill to 9 percent of GDP by 2016, from a projected 10.3 percent in 2013 (excluding retroactive payments). This will be achieved, at the minimum, by capping the nominal wage bill during 2014-16 (including allowances) at May-December 2013 levels (this will bring the wage bill to a projected 9½ percent of GDP by 2016). A further reduction in the wage bill will be achieved through attrition, with only 3 out of 10 departing employees replaced; and through the streamlining in the public sector following the planned public service review (see below). To facilitate the achievement of the wage targets, we will: (a) eliminate at least 100 vacancies a year during 2014-16 (previously used to grant higher salaries to existing staff); and (b) not award performance increments for 2013-16 period, while improving the performance appraisal system. These measures will also be supported by fiscal structural reforms that would restrain public wage growth on a more sustainable basis (see below).
- A 20 percent reduction in spending on goods and services relative to 2012, focused especially on savings in the utilities bill, rental costs, and communication costs, through renegotiation of telephone contracts, switching to energy-saving LED lights and the consolidation of public offices. Other spending on goods and services will be frozen at 2013 levels. Other spending will also be streamlined, including investments of lower social return and reforms of statutory bodies to reduce their drag on public finances (see below).

19. **Most measures required for the consolidation will be secured upfront in order to impart additional credibility to the adjustment effort.**

- The Government will obtain parliamentary approval of all the fiscal adjustment measures listed in paragraph 18 that require legislative amendments as a prior action, although the implementation of the measures will be staggered in line with the agreed pace of consolidation. The only four exceptions to the ex-ante legislation of measures will be: (i) the new taxes to be introduced in 2015 (financial activities tax and small business tax) will be legislated during 2014 to allow adequate time for their proper design, technical assistance for which will be sought from the IMF; (ii) the second round of property tax increases for 2016 will be legislated after we assess the implementation of the first round of increases; (iii) the fees for the new government guarantees will be enacted soon after the post-restructuring technical assistance on public debt management, which we requested from our international partners; and (iv) the measures associated with the

St. George's University will be enacted before mid-2015, after the conclusion of our ongoing renegotiations of the existing arrangements with the university.

- Finally, the parliament approved the 2014 budget in line with the programmed primary deficit target of 2½ percent of GDP. To ensure that primary spending is consistent with the program if budgeted revenues do not materialize, the Government will take additional safeguards to secure execution in line with the program, including: (i) issuing a cabinet conclusion allowing spending commitments only up to the programmed, rather than budgeted, spending; (ii) issuing spending authorizations in line with the programmed spending targets, and only one quarter ahead, to strengthen our ability to control spending commitments; and (iii) revising the Public Finance Management Act, ahead of the planned overhaul of the public financial management legislation, to introduce personal financial penalties for responsible officers committing to spending above budgetary ceilings (items (i) and (ii) are a prior action for the program).

20. **To ensure that our consolidation efforts remain on track in the face of unanticipated events, such as natural disasters, the Government will put in place a number of measures.** In particular:

- It will seek donor assistance to purchase additional natural disaster insurance for the duration of the programme to ensure that Government policies are not derailed by natural disaster shocks. The Government estimates that the cost of this supplementary insurance would be US$3-5 million per year (0.4-0.6 percent of GDP), providing a substantial level of coverage for Grenada and representing 20 to 30 percent of the estimated average annualized loss for the covered perils.
- The Government has also identified contingent measures for up to 0.7 percent of GDP in 2014 that will be implemented to ensure that the fiscal consolidation does not fall short of the target. These include: (i) reduced (only one-quarter-ahead) expenditure authorizations in the first three quarters of the year compared to the program, with the remaining allocations released once there is evidence that the fiscal programme is on track; and (ii) a further widening of the income tax base to capital gains, dividends, and interest.

21. **The Government plans to clear its existing domestic and external arrears during the programme period**. A clearance framework for the existing stock of Government debt arrears will be agreed on as part of the ongoing debt restructuring, and the Government will not incur additional debt arrears during the duration of the programme outside the restructuring process. Existing supplier arrears will be repaid through a combination of Government paper and cash during the first two years of the program. The Government will not incur additional arrears on membership fees to regional and international organizations from the start of the program, and will seek to regularize these delayed payments in the course of 2015. In the context of public financial management reforms, the Government will also strengthen the monitoring of expenditure commitments to prevent future accumulation of arrears.

Debt Restructuring and Financing Assurances

22. **The second pillar of the fiscal programme is addressing the debt overhang through a comprehensive debt restructuring.** While the fiscal consolidation outlined above would set debt on a firmly downward path, it will not be sufficient to bring a lasting solution to the negative effects of the debt overhang that continue to stifle government finances and the economy. Accordingly, the Government announced on March 8, 2013 that it will undertake a "comprehensive and collaborative" restructuring of the public debt; this will supplement the fiscal consolidation in reducing debt to reach the ECCU-wide debt target of 60 percent of GDP by 2020. The scope of the anticipated debt restructuring will be comprehensive, covering all public and publicly guaranteed debt with the exception of loans from multilateral institutions and Treasury bills issued on the regional government securities market (RGSM) in order to limit the impact on the regional economy. The Government has contracted financial and legal advisors and is working with them and creditors to advance the debt restructuring process.

23. **With the assistance from financial advisors, the Government has developed a strategy for engaging with private and bilateral official creditors to achieve both cash flow relief and materially reduce the overall stock of debt**. The Government has met with the commercial bondholders to begin discussing Grenada's payment capacity and provide detailed macroeconomic and debt information. The economic program outlined in this memorandum will be the basis for discussions over appropriate restructuring terms, which got underway in March 2014. The Government also plans to request financing assurances from the Paris Club before the IMF's Executive Board meeting on the program request. We will also continue to engage our bilateral non-Paris Club creditors to regularize existing arrears and restructure debt. In this regard, agreements to reschedule arrears have already been reached with the OPEC Fund and with Kuwait, which enabled them to make new disbursements to finance existing infrastructure projects.

24. **Multilateral creditors will also contribute to support our adjustment program.** In addition to the assistance we are seeking from the IMF, both the World Bank and the Caribbean Development Bank (CDB) are preparing new lending programs for Grenada, with expected cumulative disbursements of US$30 million each during the three years of the arrangement. The European Union also plans to resume its grant support for Grenada once an IMF program is in place. After accounting for expected financial support from our official creditors, the remaining financing gap is estimated at about US$350 million in 2014-17. About two thirds of this residual financing gap will be closed through the regularization of existing arrears during the upcoming debt negotiations, with the remaining one third closed through the restructuring of future maturities. Consistent with the financing envelope of the programme, making satisfactory progress in the negotiations with the creditors will be a prior action through: (i) initiating the negotiation phase of the restructuring with private and bilateral official creditors, (ii) seeking agreement on a debt restructuring consistent with closing the financing gap under the program and reducing debt to 60 percent of GDP by 2020; (iii) obtaining financing assurances from the

Paris Club; and (iv) developing a credible timetable for advancing the restructuring discussions with private creditors through mid-2014. Before the Board discussion of the program request, we will also issue a supplementary Letter of Intent with an update on the progress made in the debt restructuring negotiations and will provide adequate financing assurances.

Fiscal Structural Reforms

25. **The third pillar of the fiscal programme will focus on structural fiscal reforms to ensure fiscal discipline going forward.** They will be aimed at imposing meaningful constraints on the conduct of fiscal policies and providing a fiscal anchor to guide policy decisions. Reforms will focus on strengthening five areas: (i) the fiscal policy framework, through the introduction of a rule-based framework and stronger fiscal risk management; (ii) public financial management; (iii) improved management of parastatal entities; (iv) pension reform; and (v) debt management:

- **Fiscal policy framework.** The Government intends to transition to a rule-based fiscal framework that will provide guidance on how fiscal policies would be steered to the medium-term debt target, as well as after its achievement:
    - The rules will cap real spending growth at trend GDP growth (2-2½ percent), while allowing revenues to absorb cyclical fluctuations; this will ensure that—once the desired fiscal target is achieved—it is broadly maintained over the cycle. The fiscal framework will require a decision on the fiscal balance that will be maintained over the medium-term after the programme, consistent with the achievement of the desired debt objectives.
    - The rules will also set caps on personnel spending as a share of tax revenues to ensure the sustainability of the wage outlays; these caps will be consistent with the program targets and will be detailed during the first review, following related technical assistance.
- The fiscal policy framework will also be amended to improve the analysis and management of fiscal risks through: (i) strengthening control over the finances of the rest of the public sector; (ii) widening the scope of public financial management legislation to the general government and producing consolidated public sector accounts; and (iii) strengthening capacity to monitor fiscal risks by creating a Public Investment Unit to monitor and manage risks associated with parastatal entities, PPPs, and other risks. The introduction of umbrella legislation for the fiscal framework in line with these reforms will be a structural benchmark for end-December 2014. To implement this framework, the Government will approve relevant regulations by end-June 2015.
- **Public financial management (PFM) legislation.** To strengthen the budget process, financial discipline, and accountability, the Government will revise the public financial management legislation to: (i) limit the use of executive orders to spend above budget; (ii) require all spending in excess of the originally approved budget for the fiscal year to be appropriated by parliament ex ante through a supplementary budget; (iii) introduce

meaningful contingency funds and contingency appropriations within the budget; (iv) strengthen control over expenditure commitments, including through the introduction of strict personal and institutional penalties; and (v) prohibit implementation of changes to the tax system without parliamentary approval. The revised legislation will also strengthen the capital budgeting process, including through institutional reforms, value-for-money and sustainability criteria in the selection of investment projects, move to multiyear budgeting process and the development of a medium-term strategy plan that will help prioritize government investment projects and guide the multiyear budgeting process. The Government is receiving IMF technical assistance on the revision of the PFM legislation, and intends to obtain parliamentary approval of the revised legislation by end-August 2014 (structural benchmark), with relevant regulations to be approved by end-March 2015. In addition, to identify other reform priorities across the spectrum of PFM functions, the authorities have requested the IMF to carry out a Public Expenditure and Financial Accountability (PEFA) assessment during the coming 12 to 18 months.

- **Statutory Bodies.** Improving the financial performance of the statutory bodies will be an integral part of reforms to secure lasting fiscal discipline, as they represent an important source of contingent liabilities for the Government. After initial diagnosis of the financial situation in the statutory bodies undertaken with technical assistance from CARTAC, the Government will undertake a strategic review of the functions and the rationale of the existing statutory bodies, as well as new statutory bodies being considered (the Printery, the Government Information Service, and Statistics Grenada), and develop a strategic plan for the sector. The plan will: (i) provide up-to-date information on the financial viability of each statutory body, including the sustainability of any long-term pension arrangements; (ii) classify each as being in line for liquidation, privatization, or retention, and provide a time schedule for such action; and (iii) lay out concrete plans to restructure financially weak statutory bodies that have been retained. We will receive technical assistance for this review from CARTAC and the approval of the strategic plan by the Cabinet will be a structural benchmark for end-October 2014. Financial control over the statutory bodies, including strengthened reporting requirements and a unit to monitor their performance, will be dealt with in the context of the revised PFM legislation.

- **Public sector modernization**. In addition to the planned reduction in public sector employment through attrition, the Government will undertake a strategic review of the public sector with a view to ultimately reducing the size of the public sector and making it more efficient. This review will include government functions, public hiring (with a particular attention on refocusing the Department of Public Administration and reforming the Public Service Commission), as well as that of civil service size, composition and remuneration structure. We will seek assistance from our international partners in undertaking such a review, and will develop a strategic action plan on its basis by end-March 2015, conditional on availability of technical assistance resources. Parliamentary approval of revised legislation on government functions, civil service, and public compensation (including the 1969 Public Service Law) is expected within the subsequent six months.

- **Tax incentive regime**. The Government plans to overhaul its process for granting tax incentives in order to prevent the erosion of the tax base and maximize the economic impact of incentives granted. The reforms will aim at revising the relevant legislation to require that all new tax exemptions are codified in legislation, no discretionary exemptions are permitted, and that the beneficiaries of all exemptions file appropriate tax returns and are tax compliant (structural benchmark for end-November 2014); technical assistance for these reforms was provided by the IMF in February 2014 and further assistance will be received in July 2014. Information on the amount of revenue foregone under all tax exemptions will be published annually in the budget presentation to parliament, and reviews of the rationale, cost, and benefits of the existing tax exemptions will be conducted periodically.

- **Pension reform**. The Government intends to reform the current public pension system with a view to consolidating the two different schemes, ensuring more equitable outcomes among different types of beneficiaries, and providing a competitive return to allow the public sector to retain qualify staff. The Government has already formed a working group on pension reform and will also seek technical assistance from CARTAC to assess the fiscal implications of the various pension reform proposals. The Government aims at submitting reform legislation to parliament by March 2016.

- **Treasury Single Account**. To ensure an adequate management of its financial resources and save on interest costs, the Government will aim to transition to an effective treasury single account. We are receiving technical assistance from CARTAC to undertake an assessment of the cost effectiveness of the Government's banking arrangements, facilitate a full audit of the bank accounts, and to develop a strategy for closing bank accounts and moving to a treasury single account (either within the commercial banking system or at the ECCB). We will seek cabinet approval of the strategy by end-July 2014 and aim to fully implement it by end-October 2014.

- **Strengthening debt management** will also be important in managing and monitoring portfolio risks, as well as in ensuring that future financing needs are met at reasonable cost. The Government will seek technical assistance on strengthening debt management, including on guarantee fees, from the IMF and the World Bank.

- **Strengthening public procurement**. The Government will also seek parliamentary approval by end-June 2014 for revised public procurement legislation, aimed at making public procurement more efficient and more transparent.

- **Governance of the National Transformation Fund (NTF)**. The Government will ensure a strong and transparent governance of the NTF that will manage the receipts of the recently legislated citizenship-by-investment (CBI) programme. Starting from 2014, the accounts of the NTF will be audited annually by the Director of Audit. The audit report will be submitted to the parliament and will be accessible to the public. To avoid abuse of the programme and ensure its sustainability, the Government will take steps to ensure that: (i) applications are subject to adequate criminal background checks; and (ii) appropriate AML/CFT measures and oversight are targeted to the new citizens.

C. Financial Sector Policies

26. **The Government will take a proactive approach to ensuring the continued stability of the financial system and will support ongoing regional efforts to strengthen financial regulation and supervision.** It will focus on assessing the impact of the debt restructuring on the financial sector capitalization needs and on strengthening the nonbanking sector regulatory frameworks and financial position, in keeping with points 6-8 of the ECCU's eight-point stabilization and growth program:

- The Government will work with the ECCB to gauge—through stress tests—the potential impact of the debt restructuring on income and capitalization of financial institutions. We will also assess the potential impact of the debt restructuring on the long run solvency of the NIS.
- The Government has been at the forefront of regional efforts to revamp insurance regulation and supervision, and has worked proactively to identify and address weaknesses in the non-bank sector. The Government will continue to promote the consolidation of the credit union sector as a means of strengthening the financial safety net, will support the establishment of the proposed Eastern Caribbean Financial Services Regulatory Commission, and will enact the new uniform ECCU Credit Union Regulations currently being finalized. To further strengthen the regulatory framework for the credit unions, we intend to enhance the supervisor's toolkit by developing, in consultation with the ECCB, options for providing liquidity support to solvent institutions; strengthening the requirements for retaining profits in the context of the new regional regulations; and requiring credit unions to increase capital to assure adequate capitalization over the next three years, based on the stress tests for the debt exchange impact. We will also complete, by end-2014, the move to a full risk-based supervision model for credit unions which was started in 2013.
- In the banking sector, the Government will support regional efforts to strengthen banking regulation and supervision to bolster the ECCB's resolution powers and strengthen the loan classification and provisioning requirements. The authorities will commit to promptly present to Parliament the revised Banking Act and the ECCB agreement once these are approved by the Monetary Council. The Government will also reach understandings with the ECCB on strengthening the financial position of the commercial banks in Grenada, which would include: (i) requirements for retaining profits until the capital and liquidity position of banks meets prudential requirements; (ii) undertaking a comprehensive and independent valuation of the assets of the weak banks before end-December 2014, subject

to the loan classification and provisioning requirements to be agreed with the IMF staff and the World Bank, unless such a valuation had already been initiated in the context of the regional efforts before end-September; and (iii) based on the findings of the valuation, the government will discuss with the ECCB how to address its results within recapitalization or resolution plans.

D. Program Issues

27. **Program monitoring.** The programme will be subject to semiannual reviews and semiannual performance criteria, indicative targets and structural benchmarks, as set out in Tables 1-2 and in the attached Technical Memorandum of Understanding (TMU). In addition to the quantitative targets set therein, a quantitative performance criterion on the wage bill for the period 2015-16 will be set in line with the programmed levels, if the wage objectives for this period are not safeguarded through agreement with the trade unions or the fiscal responsibility legislation before end-2014. We anticipate that the first two reviews would take place September 30, 2014 and March 31, 2015, and will require observance of the continuous performance criteria and of the conditionality for end-June 2014 and end-December 2014, respectively. To facilitate program monitoring, we are committed to providing detailed statistical information as specified in the TMU. Progress in the implementation of the policies under the programme will also be monitored on a quarterly basis through staff visits.

28. **Safeguards.** We will adhere to the safeguards policy in case of Fund budget financing. In accordance with the recommendations of the 2012 safeguards assessment of the ECCB, we will maintain our foreign exchange balances only with the ECCB.

29. **Publication**. The government authorizes the IMF to publish the Letter of Intent, its attachments, and the related staff report.

Table 1. Grenada: Quantitative Program Targets

	2013	2014		2015		2016
	Dec.	Jun.	Dec.	Jun.	Dec.	Dec.
	Act.			Ind.	Ind.	Ind.
Performance criteria						
A. Cumulative floor on central government primary balance (EC$ mln) 1/	-80	-50	-57	9	31	86
B. Cumulative ceiling on central government primary spending (EC$ mln) 1/	552	318	622	281	550	518
C. Ceiling on stock of central government domestic arrears (EC$ mln)	95	109	86	43	0	0
D. Ceiling on accumulation of external debt arrears (continuous)		0	0	0	0	0
E. Ceiling on non-concessional external borrowing by the central government (continuous)		0	0	0	0	0
Indicative targets						
F. Cumulative ceiling on net increase in debt contracted or guaranteed by the central government (EC$ mln) 1/		90	149	39	66	25
G. Floor on social spending by central government (EC$ mln)		6.5	13.0	6.7	13.4	14.0
Monitoring						
H. Wage bill target (excluding retroactive payments) 2/	227	115	230	113	227	220
I. Public employment, o.w.: 3/	6408	6358	6308	6258	6208	6108
Established workers	4866	4828	4790	4752	4714	4638
Unestablished workers	1542	1530	1518	1506	1494	1470

1/ From end-December of the previous year.
2/ Wages, salaries, and personnel allowances.
3/ Excludes workers under the IMANI program, which employed 2,205 people at the end of 2013.

Table 2. Structural Conditionality for the Program, 2014-17

Measure	Timing
Prior Actions	
Fiscal outcomes for 2013 (primary balance) in line with the 2013 budget (MEFP ¶17)	Completed
Safeguarding program-consistent budget execution in 2014 through (i) cabinet conclusion on committing only up to the programmed ceilings; and (ii) reduced one-quarter ahead appropriation. (MEFP ¶19)	Completed
Parliamentary approval of fiscal adjustment measures for the program (MEFP ¶19)	Completed
Consistent with the financing envelope of the program, satisfactory progress in negotiations with the creditors (MEFP ¶24)	Completed
Cabinet decision to eliminate the tax collector's bonus on interest from tax arrears (MEFP ¶18)	Completed
Structural Benchmarks	
Parliamentary approval of the revised PFM legislation (MEFP ¶25)	August 31, 2014
Cabinet approval of a strategic plan for the statutory bodies (MEFP ¶25)	October 31, 2014
Parliamentary approval of the revised Investment Promotion Act (MEFP ¶9)	November 30, 2014
Parliamentary approval of the revised legislation on tax incentive regime (MEFP ¶25)	November 30, 2014
Parliamentary approval of the legislation for the fiscal policy framework (MEFP ¶25)	December 31, 2014

Table 3. Adjustment Measures

(In percent of GDP, marginal impact from previous year)

Measures	2014	2015	2016	Full yield
Revenue measures	**1.6**	**1.2**	**0.9**	**3.7**
Personal income tax	**0.4**	**0.1**	**...**	**0.5**
Reduce threshold to EC$36,000, with a marginal rate of 15 percent on income up to EC$60,000	0.4	0.1	...	0.5
Widen the income and withholding tax base to winnings from lotteries and games of chance	...	0.0	...	0.0
Property tax	**0.3**	**0.1**	**0.6**	**1.0**
Increase rate on both buildings and land to 0.25 percent in 2014 and to 0.5 percent in 2016	0.3	...	0.5	0.8
Revise valuations to market value	...	0.1	0.1	0.3
Value-added tax	**0.1**	**0.4**	**0.1**	**0.5**
Reduce the list of exempt items (nonbasic foods, private accommodations)	...	0.4	...	0.4
Restore 15 percent rate on construction materials	0.1	...	...	0.1
Increase VAT paid by St. George's University from 5 to 15 percent	...	...	0.1	0.1
Excises	**...**	**0.1**	**...**	**0.1**
Excise tax of 5 percent on motor vehicle parts, tires, batteries, motor oil, and luxury goods	...	0.1	...	0.1
Increase excises on tobacco and alcohol (at least 10 percent)	...	0.1	...	0.1
Customs exemptions	**0.4**	**0.2**	**0.1**	**0.7**
Halve customs exemptions to GRENLEC, statutory bodies, St. George's University and returning nationals	0.4	0.2	0.1	0.7
Other	**0.4**	**0.3**	**0.1**	**0.7**
Increase in customs service charge from 5% to 6%	0.3	...	...	0.3
Introduce a 10% tax on financial activities	...	0.3	...	0.3
Introduce a small business taxation regime	...	...	0.1	0.1
Increase fees for motor vehicle license, professional licenses, and gun license	0.1	...	...	0.1
Current expenditure measures	**0.5**	**0.7**	**1.0**	**2.1**
Wage and pension bill	**0.3**	**0.5**	**0.7**	**1.5**
Freeze wage bill (including allowances) for 2014-2016 at May-December 2013 levels	0.3	0.3	0.4	0.9
Reduce wage bill by another 0.4pp of GDP after freeze (attrition, reform)	...	0.1	0.3	0.4
Freeze personal allowances for 2014-16 at 2013 levels	0.0	0.0	0.0	0.1
Goods and services	**0.1**	**0.2**	**0.2**	**0.5**
Goods and services spending fixed in nominal terms at 2013 levels for 2014-2016	0.1	0.1	0.1	0.4
Additional measures from efficiency savings (LED lights, air conditioners, rental bill agreements, reduced mobile and land telephone bills)	...	0.1	0.1	0.2
Transfers and subsidies	**0.0**	**0.0**	**0.0**	**0.1**
Freeze in nominal terms at 2013 levels for 2014-2016	0.0	0.0	0.0	0.1
Total revenue and current expenditure measures	**2.0**	**1.9**	**1.8**	**5.8**
Streamline non-grant-financed capital spending	0.9	0.7	0.4	2.0
Total fiscal adjustment effort	**3.0**	**2.6**	**2.2**	**7.8**

Attachment II. Technical Memorandum of Understanding

1. Grenada's performance under the Extended Credit Facility (ECF arrangement), described in the above Memorandum of Economic and Financial Policies, will be assessed on the basis of observance of quantitative performance criteria, indicative targets, as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the performance criteria and indicative targets for the arrangement under the ECF. It also describes the modalities for assessing performance under the programme and the information requirements for monitoring this performance.

Definitions. For the purpose of the program, *central government* will cover all items included in the government budget. The definition of debt is set out in the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement Executive Board Decision No. 6230-(79/140), as subsequently amended. *External debt* is defined as central government contracted or guaranteed debt owed to creditors residing outside of Grenada, while *domestic debt* covers central government contracted or guaranteed debt owed to residents of Grenada. For ease of monitoring, all securities issued at the Regional Government Securities Market (RGSM) will be regarded as domestic debt.

I. PERFORMANCE CRITERIA

A. Cumulative Floor on the Central Government Primary Balance

2. The central government primary balance will be measured from above the line, as: (a) total revenue and grants of the central government, less (b) total non-interest expenditure of the central government:

- Total revenues and grants will record project grants only to the extent that they have been spent.
- Expenditures will be recorded on an accrual basis, with: (a) budget execution data as reported by the Ministry of Finance (MOF); supplemented by (b) data on unprocessed claims to be collected and reported by the MOF.

3. The central government primary balance will also be monitored from below the line, as the negative sum of:

i. *Net domestic bank financing,* which will be measured by the change in the domestic banking system credit to the central government minus government deposits in the banking system, as reported in the monetary survey. Domestic banking system credit to the central government is defined as the sum of ECCB and commercial banks' financing to the central government.

ii. *Net nonbank financing,* which will be measured by the: (a) net changes in holdings of government securities by nonbanks; and (b) net borrowing from nonbank institutions. Items (a) and (b) will be reported by the MOF and GARFIN respectively.

iii. *Net government issuance of securities in the Regional Government Securities Market (RGSM)* excluding holdings by the domestic banking and nonbanking system as captured in point (i) and (ii) above.

iv. *Net external financing of the central government,* defined as the sum of: (a) net disbursements of project and non-project loans, including securitization; (b) net proceeds from issuance of external debt; and (c) reduction in cash deposits held outside the domestic financial system. The data will be reported by the MOF on a monthly basis.

v. *The change in the stock of arrears of the central government*, measured as the net change in (a) unpaid checks issued, (b) unprocessed claims, (c) pending invoices, (d) interest payments past due, and (e) other forms of expenditures recorded above the line but not paid, such as contributions to the National Insurance Scheme (NIS). The data will be reported by Ministry of Finance on a monthly basis.

vi. *Gross receipts from divestment,* defined as proceeds received from any privatization/divestment and sale of assets; and

vii. *Any exceptional financing* (including rescheduled principal and interest).

viii. *Less* domestic and external interest payments on a due basis.

ix. *Less* grants received but unutilized.

If the difference between the primary balance measured from above the line and from below the line is larger than EC$10 million in 2014, EC$6 million in 2015 and EC$3 million in 2016 the MOF will consult with IMF staff.

4. The floor on the central government primary balance will be adjusted as follows:

i. Downward (larger deficit)/upward (smaller deficit) by the amount of retroactive wage and pension payments for the 2009-2012 period in excess/shortfall relative to the programmed amounts, as detailed in the table below, with cumulative payment during the programme period not exceeding EC$26.5 million.

Grenada: Retroactive wage and pension payouts programmed, 2013-16

	2013	2014 [1]		2015	2016
	Dec.	Jun.	Dec.	Dec.	Dec.
(EC$ millions)					
Programmed retroactive wage and pension payments	17.4	26.5	26.5	0	0

[1] Cummulative from end-2013

ii. Upward by the amount of fees received (non-tax revenues in the budget) from the recently legislated citizenship-by-investment (CBI) programme.

iii. In the event that revenues (excluding the fees from the CBI programme) and budgetary grants (grant receipts that are not earmarked for capital outlays) exceed those projected under the programme, the primary balance target will be adjusted upward by one half of the excess during January-June, to allow for additional capital spending while safeguarding compliance with the annual fiscal targets. The following table shows the accumulated projected revenue and budgetary grants for 2014, as well as capital spending, to which the actual outcomes will be compared.

Grenada: Programmed revenues and budgetary grants, 2013-16

	2013	2014 [1]		2015	2016
	Dec.	Jun.	Dec.	Dec.	Dec.
(EC$ millions)					
Non grant revenue	440.3	231.1	459.9	504.4	547.4
Budgetary grants	0	0	0	0	0
Capital spending	160.5	97.0	215.6	176.5	151.0

[1] Cummulative from end-2013

iv. Upward for any shortfall in the targeted cash transfers (SEED) from their indicative target.

5. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing. In addition, any funds from the recently legislated citizenship-by-investment programme received by the National Transformation Fund will be saved for contingency financing until a sufficient cushion is built, with the future use of the funds to be addressed during subsequent programme reviews.

6. To operationalize the contingency measures for 2014, the authorities will reduce budget allocations to ministries, relative to the program's primary spending targets, by EC$9.3 million for the first and second quarter combined, and EC$14 million for the first, second and third quarter combined, with the withheld allocations being released in the fourth quarter if the programme targets are on track.

B. Cumulative Ceiling on Central Government Primary Spending

7. The primary spending of the central government will be calculated as the sum of revenues and grants that have been utilized minus the primary balance of the central government as measured above in section A. The performance criterion on primary spending will be subject to the same adjustors as applied to the primary balance target as applicable. An additional adjustor would apply to the primary spending target to allow for the full use of available capital grants: the target will be adjusted upward by the full amount of additional capital grants received and spent in excess of programmed levels and will be adjusted downward by half of the shortfall in capital grants compared to the programmed levels to safeguard the fiscal targets (table above).

C. Ceiling on the Stock of Central Government Domestic Arrears

8. Domestic arrears are defined as the sum of: (i) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractual agreed period, or in the absence of a grace period, within 60 days; (ii) unpaid wages, pensions, or transfers (excluding membership fees to regional and international organizations), pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the liability; and (iii) pending interest and amortization payments on domestic debt beyond the grace period set in the respective loan or debt contracts. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition. The data will be reported by the Accountant General's office.

D. Non-Accumulation of External Debt Arrears (Continuous)

9. The central government will not incur new arrears in the payment of their external obligations (contracted or guaranteed) at any time during the programme. Arrears are defined as a delay in the payment of contractual obligations beyond the grace period set in the respective loan or debt contracts. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or for which the government is actively and in good faith pursuing a debt restructuring are excluded from this definition. The performance criterion will be applied on a continuous basis under the programme.

E. Ceiling on Non-Concessional External Borrowing by the Central Government (Continuous)

10. The ceiling on non-concessional borrowing will be applied to the contracting or guaranteeing by the central government of medium and long-term external debt (maturity greater than one year). Excluded from the ceiling is borrowing from regional financial institutions or markets (Caribbean Development Bank and the RGSM). The contracting and guaranteeing of non-concessional external debt will be monitored and reported to the Fund staff by the DMU, after reconciliation with the Accountant General's office, on a monthly basis. The performance criterion will be applied on a continuous basis under the programme.

11. A debt is non-concessional if the grant element (in net present value relative to face value) is less than 35 percent. The discount rate used for this purpose is 5 percent.

II. INDICATIVE TARGETS

F. Cumulative Ceiling on Net Increase in Debt Contracted or Guaranteed by the Central Government

12. Net increase in debt contracted or guaranteed by the central government is defined as issuance minus repayments of debt contracted or guaranteed by the central government and approved by Parliament by each relevant date. For the purposes of the programme, such debt will be considered to have been contracted as of the date when both: (1) an agreement to provide such a lending facility or guarantee has been concluded and signed; and (2) the proposed borrowing or guarantee has been approved by Parliament, in the case of external debt. The ceiling excludes debt instruments to be issued as part of the process of debt restructuring.

13. In cases where the government facilitates the financing of Public-Private Partnership (PPP) projects by concessionaires, the debt of the central government will be increased by the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

14. The ceiling on the debt contracted or guaranteed by the central government will be adjusted as follows**:**

- Upward by the amount paid by the government to reimburse the policy holders of the failed regional insurance companies BAICO and CLICO, less the grant-financed share of these payments.
- Upward to a maximum amount of 5 percent of GDP to accommodate PPP related expenditures.

15. The data used to monitor debt contracting will be provided by the DMU, after reconciliation with the Accountant General's office, on a monthly basis.

G. Floor on the Social Spending by the Central Government

16. The social spending of the central government will only include the expenditures incurred by central government towards the SEED programme (support for education empowerment and development). This will be reported by the Ministry of finance on a quarterly basis.

H. Memorandum Item: Wage Bill Target

17. The wage bill of the central government will include the expenditures incurred by the central government towards the payment of wages, salaries and personnel allowances and

excludes one-off retroactive wage payments. This will be reported by the ministry of finance on a quarterly basis.

I. Memorandum Item: Public Employment

18. The public employment of the central government will include the established (permanent) and unestablished (temporary) workers. This will be reported by the ministry of finance on a quarterly basis.

III. EXECUTION OF PRIOR ACTION

19. All the fiscal adjustment measures that need to be approved as part of the prior action will be approved through the legal instruments specified in the table below:

Table 4. Execution of Prior Actions

Measures	Approved Through
Personal income tax	
Reduce threshold to EC$36,000, with a marginal rate of 15 percent on income up to EC$60,000	Ministerial order
Widen the income and withholding tax base to winnings from lotteries and games of chance	Act of Parliament
Corporate income tax	
Reduce tax rebate to manufacturers from 10% to 5% of gross sales, creditable against non-VAT liabilities only	Act of Parliament
Property tax	
Increase rate on both buildings and land to 0.25 percent in 2014 and to 0.5 percent in 2016	Ministerial order
Value-added tax	
Reduce the list of exempt items (non-basic foods, private accommodations)	Act of Parliament
Restore 15 percent rate on construction materials	Ministerial order
Increase VAT paid by St. George's University from 5 to 15 percent	Act of Parliament
Excises	
Excise tax of 5 percent on:	
motor vehicle parts	Act of Parliament
Tires	Act of Parliament
Batteries	Act of Parliament
motor oil	Act of Parliament
luxury goods	Act of Parliament
Increase the excise tax on alcohol and tobacco products (10 percent)	Act of Parliament
Customs exemptions	
Halve customs exemptions to:	
GRENLEC	Act of Parliament
statutory bodies	Act of Parliament
St. George's University	Act of Parliament
returning nationals	Act of Parliament
Other	
Increase in customs service charge from 5% to 6%	Act of Parliament
Increase fees for motor vehicle license, professional licenses, and gun license	Ministerial order
Budget appropriation	
Issue a cabinet conclusion on committing spending only up to the programmed ceilings	Cabinet decision
Issue budgetary ceilings in line with the programmed spending targets and only one quarter ahead	Cabinet decision

IV. PROGRAMME REPORTING REQUIREMENTS

20. Performance under the programme will be monitored from data supplied to the IMF by the Ministry of Finance and the Central Statistics Office as outlined in the table below. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 5: Summary of Data to be Reported

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outturn	Monthly	30 days after the end of month	AG [1]/Budget Office
Grants	Monthly	Same as above	AG
Budgetary grants	Monthly	Same as above	AG
Project grants	Monthly	Same as above	AG
Spending on SEED program	Monthly	Same as above	AG
Employment data for established and un-established workers	Quarterly	30 days after the end of quarter	AG
Financial statements of all statutory bodies	Annually	Within 12 months after year end	AG
Change in the stock of domestic arrears	Monthly	30 days after the end of month	AG
Unpaid claims	Monthly	Same as above	AG
Interest arrears	Monthly	Same as above	AG
Financial Sector			
Consolidated balance sheet for all credit unions	Monthly	30 days after the end of quarter	GARFIN [2]
Consolidated balance sheet for all insurance companies	Quarterly	By the end of subsequent quarter	GARFIN
Real and External Sector			
Updates on annual National Accounts: by sector	Annually	Within 6 weeks after availability	CSO/MOF [3]
Tier 1 high frequency indicators [4]	Monthly	60 days after the end of month	CSO/MOF
Tier 2 high frequency indicators [5]	Monthly	6 weeks after the end of quarter	CSO/MOF
Balance of Payments data	Annually	Within 3 months after year end	CSO/MOF
Details of exports breakdown	Quarterly	By the end of subsequent quarter	Customs Dept.
Details of imports breakdown	Quarterly	Same as above	Customs Dept.
Details of tourism data	Quarterly	Same as above	CSO
Customs revenue foregone	Monthly	30 days after the end of month	Customs Dept.
CPI	Monthly	Same as above	CSO
Debt			
External and domestic debt and guaranteed debt (by creditor) [6]	Monthly	30 days after the end of month	DMU [7]
Disbursements	Monthly	Same as above	DMU
Amortization	Monthly	Same as above	DMU
Interest payments	Monthly	Same as above	DMU
Stock of external debt	Monthly	Same as above	DMU
Stock of domestic debt	Monthly	Same as above	DMU
Arrears on interest and principal	Monthly	Same as above	DMU
Financial statement of Petrocaribe Grenada	Monthly	Same as above	DMU/AG
Gross receipts from divestment	Monthly	Same as above	Budget Office
Exceptional domestic financing	Monthly	Same as above	DMU
Proceeds from bonds issued abroad	Monthly	Same as above	DMU
Copies of any new loan agreements	As occurring		DMU

1/ Accountant General's Office.
2/ Grenada Authority for the Regulation of Financial Institutions.
3/ Central Statistics Office/Ministry of Finance.
4/ The following are defined as Tier 1 high frequency indicators: retail sales; imports of construction materials; agricultural production; manufactured production; production of water and electricity.
5/ The following are defined as Tier 2 high frequency indicators: building permits; registration of vehicles; cargo and aircraft statistics.
6/ For Central Government and Public Sector Enterprises.
7/ Debt Management Unit.

Appendix II. Supplementary Letter of Intent

June 12, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde,

The Government continues to make steady progress with its debt restructuring process.

In early March 2014, the Government and its advisors met in Miami with a committee comprising holders of a majority of the US dollar bonds due 2025. The discussions centered around the medium-term macroeconomic framework that lies at the heart of the proposed programme, as well as on the measures that the Government intends to implement in order to address current macroeconomic imbalances. The discussions were productive in clarifying aspects of Grenada's expected payment capacity during the life of the programme and beyond, and since the Miami meetings weekly calls have been held with the committee and its advisors to further discuss technical matters relating to the restructuring.

The Government believes that it has now largely satisfied the committee's data and information requests, and has executed a non-disclosure agreement (NDA) with the committee's advisors to facilitate the exchange of detailed information. The Government has articulated its debt reduction objectives to the committee and its advisors, and in turn the committee has indicated it will soon be in a position to begin discussing the precise terms of the proposed restructuring. To this effect, it is expected that the committee will shortly execute its own NDA with the Government.

In parallel, and in response to bondholder requests, the Government has published indicative restructuring options for its EC dollar bond due 2025, involving face value reductions of 50-60 percent. The feedback received so far by the Government clearly indicates that bondholders – by and large – understand that Grenada's projected payment capacity will not permit the Government to offer softer restructuring terms for its indebtedness. Negotiations over the details of the restructuring package are continuing with increased momentum, and the government has already received indications from some creditors that they would accept the 60 percent haircut option once the offer is formally launched, which we aim to do in the third quarter of 2014.

With regards to the official bilateral debt, the Government has written to the Paris Club in advance of the formal request for financing assurances, and has indicated that Grenada stands ready to approach the Club to negotiate the treatment of its arrears and future maturities as soon as it is invited to do so by the Club following the approval of the proposed programme by the IMF's Executive Board.

The Government has also written to its non-Paris Club official bilateral creditors, updating them on the objectives of the programme and requesting their support through a comprehensive restructuring of their claims. In the specific case of Taiwan, the Government has submitted a restructuring proposal closely mirroring the options for the EC dollar bond due 2025, and is actively discussing the details of the proposed restructuring package with this creditor and its advisors. Both sides remain focused on reaching an amicable and sustainable agreement outside legal channels, though for now the legal process is ongoing.

Separately, the Government has embarked on negotiations with its key domestic creditors, including commercial bank lenders and large holders of Treasury Bills not listed on the Regional Government Securities Market (RGSM). The Government has communicated its intention to apply restructuring terms similar to those proposed for the EC dollar bonds due 2025 to all its domestic obligations other than the overdrafts, RGSM-listed Treasury Bills, and some categories of domestic arrears.

Overall, this progress demonstrates the government's commitment to achieving a comprehensive and collaborative debt restructuring that would help to restore fiscal sustainability and secure needed financing going forward. It also demonstrates its commitment to the principles of good faith negotiations with our creditors and equitable treatment among diverse groups of creditors. We will continue to adhere to these principles to achieve a satisfactory outcome. With the current progress, the government envisages to make significant headway in the debt restructuring by end-2014.

Sincerely,

/s/

Hon. Keith Mitchell
Prime Minister, Minister of Finance and Energy
Grenada

Appendix III. Draft Press Release

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No.

FOR IMMEDIATE RELEASE

International Monetary Fund

Washington, D.C. 20431 USA

IMF Executive Board Approves New Extended Credit Facility Arrangement for Grenada and US$3.1 Million Disbursement and Concludes 2014 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) today approved a new arrangement under the Extended Credit Facility (ECF) for Grenada for the period 2014–17, and concluded the 2014 Article IV consultation. [33] The ECF arrangement was approved in an amount equivalent to SDR 14.04 million (120 percent of quota or about US$21.9 million). The approval enables the immediate disbursement of an amount equivalent to SDR 2.04 million (about US$3.1 million).

The main objectives of the authorities' ECF supported economic program aim at improving competitiveness and medium-term growth prospects, addressing the country's fiscal and debt overhang challenges by restoring fiscal and debt sustainability, and strengthening financial stability. The cornerstone of the program is a comprehensive three pillar approach consisting of i) fiscal consolidation, ii) debt restructuring, and iii) fiscal structural reforms to strengthen public financial management. Reforms to raise Grenada's competitiveness and growth prospects will focus on an internal devaluation to improve price competitiveness and improvements to the business environment. Financial sector reforms will ensure the solvency of the system and strengthen regulation and supervision. To minimize the social impact of

[33] 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.

reforms the authorities' program includes an increase in spending on social support programs supported by a floor on social spending.

Following the Executive Board's discussion on Grenada, the Acting Chair, said: < >

Background

Grenada's economy continues to face significant headwinds as a decade of natural disasters and economic shocks coalesced into a deep economic crisis by 2011-12. Economic activity declined by over 8 percent of GDP from peak to trough (2008-12) as tourism and construction collapsed. After almost four years of decline, real GDP grew by 1.5 percent in 2013. Economic slack and tight monetary conditions brought the economy into deflationary territory, with CPI declining by 1.2 percent in 2013. The current account deficit widened to 27.1 percent of GDP in 2013 from 19.2 percent in 2012 due to a sharp increase in imports related to a resort construction project.

The economic recovery continues to be held back by a deep fiscal crisis and weak financial balance sheets. Public debt reached about 110 percent of GDP at end-2013, in part reflecting attempts to run countercyclical fiscal policies since the outset of the global crisis. The weak fiscal position stoked financing pressures and, unable to secure financing, the government announced on March 8, 2013 that it would undertake a "comprehensive and collaborative" restructuring of its public debt. Financial sector balance sheets have also been increasingly strained by impaired assets, constraining the supply of credit and contributing to the weak economic recovery. Private credit declined by 5 percent in 2013.

To address the fiscal crisis, the authorities have initiated the fiscal adjustment as part of their 2014 budget, and have subsequently approved a large package of revenue measures needed for the targeted consolidation. Debt restructuring negotiations are currently underway with many creditor groups, with significant headway in restructuring expected before end-2014.

The pace of economic recovery is expected to be modest over the near term, at about 1½ percent a year during 2014-17, supported in part by an easing of government financing constraints as the fiscal crisis is gradually resolved. Nevertheless, a faster recovery is expected to be held back by the drag of the fiscal adjustment and the weak credit growth as banks repair their balance sheets. In line with weak demand, inflation is expected to remain subdued. Risks to the outlook are high, stemming in particular from faltering confidence if progress is not made soon in addressing the fiscal crisis, from a continued weak global recovery (on which Grenada depends for tourism) and from potential natural disasters.

Executive Board Assessment[34]

[34] 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.

Table 1. Grenada: Selected Economic and Financial Indicators, 2008–19

Rank in UNDP Human Development Index out of 179 countries (2012)	63	Infant mortality rate per '000 births (2011)	10.3
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2011)	76	Poverty headcount index (2008)	38
GDP per capita in US$ (2011)	7,378	Unemployment rate (2013)	33.5
Population in millions (2011)	0.11		

	2008	2009	2010	2011	2012 Est.	2013 Prel.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
	(Annual percentage change, unless otherwise specified)											
Output and prices												
Real GDP	0.9	-6.6	-0.5	0.8	-1.8	1.5	1.1	1.2	1.7	2.0	2.4	2.5
Nominal GDP	8.9	-6.6	0.0	1.0	2.9	1.5	3.1	3.2	4.2	4.6	5.2	5.3
Consumer prices, end of period	5.2	-2.3	4.2	3.5	1.8	-1.2	1.7	1.6	2.0	1.9	1.9	1.9
Consumer prices, period average	8.0	-0.3	3.4	3.0	2.4	0.0	1.6	1.7	2.1	2.2	2.3	2.3
Output gap (percent of potential GDP)	6.8	-0.9	-1.8	-1.4	-3.5	-2.6	-2.2	-2.0	-1.6	-1.2	-0.6	0.0
Real effective exchange rate (annual average, depreciation -)	6.4	-8.8	3.1	-0.9	-1.0	-2.3	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)											
Central government balances (accrual) 1/												
Revenue	24.2	22.8	24.6	23.6	20.8	21.5	24.9	24.9	24.8	24.8	24.8	24.8
Taxes	18.7	17.5	18.7	18.4	17.9	17.2	18.7	19.9	20.8	20.8	20.8	20.8
Non-tax revenue	2.1	2.0	1.9	1.8	1.7	2.9	1.6	1.6	1.6	1.6	1.6	1.6
Grants	3.3	3.3	4.0	3.4	1.1	1.4	4.6	3.3	2.3	2.3	2.3	2.3
Expenditure	28.3	28.0	27.8	28.3	26.1	28.5	31.0	27.9	26.0	25.8	25.7	25.6
Current primary expenditure	17.0	18.2	18.3	18.1	17.7	17.8	17.9	16.0	15.0	15.0	15.0	15.0
Interest payments	1.7	2.2	2.2	2.5	3.4	3.4	3.6	4.3	4.8	4.5	4.5	4.4
Capital expenditure	9.6	7.6	7.3	7.8	5.0	7.3	9.5	7.5	6.2	6.2	6.2	6.2
Grant-financed	1.9	1.1	2.2	3.1	1.1	1.4	4.6	3.3	2.3	2.3	2.3	2.3
Non-grant financed	7.7	6.5	5.1	4.6	3.9	5.9	4.9	4.3	3.9	3.9	3.9	3.9
Primary balance	-2.4	-3.0	-1.0	-2.2	-2.0	-3.7	-2.4	1.3	3.5	3.5	3.5	3.5
Overall balance	-4.1	-5.2	-3.1	-4.7	-5.4	-7.1	-6.0	-3.0	-1.2	-1.0	-0.9	-0.9
Public debt (incl. guaranteed)	84.4	91.7	97.6	100.9	103.1	109.8	111.3	110.2	106.4	102.1	97.5	93.0
Domestic	22.8	27.2	28.0	31.7	34.8	37.2	42.1	39.4	36.5	33.7	30.9	28.2
External	61.6	64.5	69.5	69.2	68.3	72.6	69.2	70.8	69.8	68.4	66.6	64.8
Money and credit, end of period (annual percent change)												
Broad money (M2)	4.1	3.3	0.4	1.0	0.9	4.0	1.4	...	...	...	...	...
Credit to private sector	12.0	4.5	5.6	2.2	0.2	-5.7	1.1	...	...	...	...	...
Balance of payments												
Current account balance, o/w:	-28.0	-22.2	-22.1	-21.8	-19.2	-27.1	-23.8	-20.6	-19.2	-18.9	-18.0	-17.2
Exports of goods and services	27.7	27.6	28.2	30.0	30.7	31.5	32.9	33.1	33.4	33.7	34.0	34.3
Imports of goods and services	54.7	46.8	49.2	50.8	49.4	57.3	54.7	50.8	49.1	48.9	48.1	47.6
Capital and financial account balances	30.6	29.7	24.1	25.0	19.8	29.2	9.0	17.0	15.3	17.0	16.1	15.3
FDI	16.3	13.3	7.8	5.5	3.9	13.9	7.9	7.0	7.5	8.5	9.0	9.5
Public sector borrowing (identified financing only)	1.8	3.5	4.2	0.3	1.1	5.4	-16.3	0.0	-2.1	-0.3	-0.5	-0.4
Banking system	6.3	-0.6	0.7	3.9	2.3	-7.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other (incl. errors and omissions)	6.2	13.6	11.3	15.3	12.4	16.9	17.6	10.2	10.1	9.0	7.8	6.5
Overall balance	-1.6	2.1	-2.1	-1.5	-1.7	2.1	-14.9	-3.7	-3.9	-1.8	-1.9	-1.9
Overall financing	1.6	-2.1	2.1	1.5	1.7	-2.1	-0.6	-0.7	-0.8	-0.7	-0.7	-0.4
Financing gap 2/	...	...	...	...	...	...	15.5	4.3	4.6	2.6	2.6	2.2
External debt (gross)	104.2	114.8	124.7	137.4	144.6	155.5	160.0	163.2	163.7	162.3	158.9	154.1
Savings-Investment balance	-28.0	-22.2	-22.1	-21.8	-19.2	-27.1	-23.8	-20.6	-19.2	-18.9	-18.0	-17.2
Savings	3.1	1.7	-0.1	-1.3	-1.9	2.5	2.0	2.3	2.9	6.3	8.6	10.9
Public	3.0	0.5	0.4	-1.0	-2.4	-2.5	-0.4	0.7	1.0	1.1	1.2	1.5
Private	0.1	1.1	-0.4	-0.3	0.6	4.9	2.3	1.6	1.9	5.2	7.4	9.4
Investment	31.1	23.9	22.0	20.5	17.3	29.6	25.8	22.9	22.1	25.1	26.6	28.1
Public	9.6	7.6	7.3	7.8	5.0	7.3	9.5	7.5	6.2	6.2	6.2	6.2
Private	21.4	16.3	14.7	12.7	12.3	22.3	16.3	15.4	15.9	18.9	20.4	21.9
Memorandum items:												
Underlying primary balance 3/	-2.4	-3.0	-1.0	-2.2	-2.0	-4.0	-1.3	1.3	3.5	3.5	3.5	3.5
Nominal GDP (EC$ million)	2,230	2,082	2,082	2,102	2,164	2,197	2,265	2,338	2,437	2,550	2,682	2,824
Nominal GDP (US$ million)	826	771	771	779	802	814	839	866	903	944	993	1,046
Net imputed international reserves												
Months of imports of goods and services	3.5	3.6	3.1	3.2	2.6	3.5	3.7	3.7	3.6	3.5	3.4	3.4

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and Fund staff estimates and projections.

1/ Assumes an adjustment of 7.5 percent of GDP during 2014-16 but no debt restructuring.

2/ To be closed through IMF and other IFIs financing and debt restructuring.

3/ Excluding one-off items (windfall license fees in 2013 and retroactive wage and pension payments in 2013 and 2014).

INTERNATIONAL MONETARY FUND

GRENADA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

June 12, 2014

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of March 31, 2014)

Membership Status: Joined: August 27, 1975; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	11.70	100.00
Fund Holdings of Currency	11.70	100.00
Reserve Position	0.00	0.00

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	11.17	100.00
Holdings	9.55	85.51

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
ECF Arrangements	17.83	152.37

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr 18, 2010	Apr 17, 2013	8.78	2.53
ECF[1/]	Apr 17, 2006	Apr 13, 2010	16.38	16.38

[1/] Formerly PRGF.

Projected Obligations to Fund[2/]

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	1.48	3.24	3.63	3.47	3.47
Charges/Interest	0.00	0.04	0.03	0.02	0.01
Total	1.48	3.28	3.66	3.49	3.48

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiatives: Not Applicable

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

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four year cycle. The most recent assessment was completed on April 16, 2012 and did not identify any significant safeguards risks. The assessment made some recommendations to sustain and advance the ECCB's safeguards framework going forward. The authorities broadly agreed with the recommendations and have commenced implementation.

Exchange Arrangement: Grenada is a member for the ECCB, which manages monetary policy and the exchange system for its eight members. 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. In practice, the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. Grenada accepted the obligations of Article VIII, Sections 2, 3, and 4 in January 1994. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation: Grenada was on the 12-month consultation cycle but a 24-month consultation cycle is proposed. The last Article IV consultation was concluded by the Executive Board on July 13, 2012 (SM/12/159).

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.

Technical Assistance:

Caribbean Regional Technical Assistance Centre (CARTAC)

CARTAC has provided wide-ranging assistance in developing a Medium-Term Macroeconomic Framework; implementing VAT; assisting customs with ASYCUDA and with the exchange of information with inland revenue; strengthening customs enforcement and risk management; financial monitoring of statutory bodies; drafting legislation to establish the single supervisory agency, Grenada Authority for the Regulation of the Financial Institutions (GARFIN) and supporting the newly established agency; and training for nonbank supervisors. CARTAC has also provided substantial assistance in improving the production and dissemination of macroeconomic statistics, including national accounts compilation; rebasing of the consumer price index and GDP constant prices series and developing new consumption price basket; initiating work to prepare export-import price indices; training in the processing of trade data; and improving external sector statistics as part of a major CARTAC/ECCB project.

Other Technical Assistance (2007–14)

FAD and LEG have provided extensive assistance in tax policy and administration, public financial management and on public expenditure rationalization. In particular, technical assistance was provided in the design and drafting of the PFM legislation, reforms of the tax incentives system and of the income tax, property, VAT, and excise reforms. In May 2010, MCM conducted a mission on formulating a medium-term debt management strategy, and implementing institutional changes to strengthen debt management and will carry out a follow-up TA in 2014.

Grenada: IMF Technical assistance, 2011-present

Start Date	End Date	Area of TA
5/30/2011	6/10/2011	Public Financial Management
6/6/2011	6/10/2011	Public Financial Management
6/27/2011	7/8/2011	Tax and Customs Administration
6/28/2011	6/30/2011	National Accounts Statistics
9/5/2011	9/6/2011	Tax Administration
9/26/2011	10/14/2011	Tax and Customs Administration
9/27/2011	9/30/2011	Public Financial Management
10/31/2011	11/3/2011	Public Financial Management
11/14/2011	11/25/2011	Tax and Customs Administration
11/22/2011	11/24/2011	National Accounts Statistics
1/9/2012	1/20/2012	Tax and Customs Administration
1/10/2012	1/14/2012	Bank Supervision & Regulations
1/12/2012	1/25/2012	Tax Administration
1/17/2012	1/18/2012	Bank Supervision & Regulations
1/18/2012	1/31/2012	Tax and Customs Administration
1/23/2012	2/8/2012	Tax Administration
4/16/2012	4/20/2012	Tax Administration
5/7/2012	5/18/2012	Tax and Customs Administration
5/27/2012	6/1/2012	Public Financial Management
6/7/2012	6/9/2012	Macro-fiscal
6/18/2012	6/29/2012	Tax and Customs Administration
7/16/2012	7/20/2012	Public Financial Management
7/17/2012	7/20/2012	Tax Administration
7/30/2012	8/3/2012	National Accounts Statistics
8/20/2012	8/31/2012	Tax Administration
9/1/2012	9/14/2012	Public Financial Management
9/3/2012	9/27/2012	Tax and Customs Administration
10/1/2012	10/5/2012	Public Financial Management
10/7/2012	10/9/2012	Tax Administration
10/8/2012	10/12/2012	National Accounts Statistics
11/11/2012	12/14/2012	Tax and Customs Administration
12/10/2012	12/13/2012	Public Financial Management
1/1/2013	1/14/2013	Tax Administration
1/14/2013	1/18/2013	National Accounts Statistics
1/21/2013	1/21/2013	Public Financial Management
1/28/2013	2/15/2013	Tax and Customs Administration
3/4/2013	3/28/2013	National Accounts Statistics
3/24/2013	3/30/2013	Public Financial Management
4/8/2013	4/26/2013	Tax and Customs Administration
1/9/2014	1/17/2014	State owned enterprises monitoring
3/3/2014	3/10/2014	Revenue administration
3/21/2014	4/4/2014	Public Financial Management

Source: ICD RAP database for FY 12-14

RELATIONS WITH THE WORLD BANK GROUP

(As of March 31, 2014)

The World Bank Group's Board discussed the Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) on June 8, 2010. The RPS provides the strategic framework for assisting the six independent countries of the Organization of Eastern Caribbean States (OECS)[1] for the period 2010-14. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the Eastern Caribbean, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term. On May 15, 2012 the World Bank Group's Board considered the Progress Report, assessing implementation of the RPS at mid-term. While the RPS remains relevant, going forward, increasing vulnerabilities and global economic conditions call for flexibility to permit the Bank to be responsive to client demands.

Under the current strategy, the Bank's activities help build resilience and support interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening disaster risk management and climate resilience. To help enhance competitiveness and stimulate sustainable growth, the Bank focuses its support on two critical areas: Strengthening the countries' domestic financial sectors, and improving access to quality services to create more competitive business environments.

The ongoing program of support is allowing the OECS to borrow up to US$120 million (up to US$20 million per country) on IBRD terms and up to SDR 50.3 million (roughly US$75 million) IDA concessional resources - under the IDA-16 (FY12-14) replenishment - for the six OECS. The specific IDA-16 (FY12-14) allocation for Grenada has been equal to SDR 11.6 million (roughly US$17 million), of which the remaining US$10 million are planned to be used by FY14 for a Development Policy Operation to support the upcoming IMF program. Because of their high level of debt, the OECS have made full use of the IDA available resources, but borrow little form the IBRD envelope (e.g. Dominica, St. Kitts and Nevis, and St. Vincent and the Grenadines have not used any IBRD resource during this period). The IDA-17 (FY15-17) negotiation has been concluded in December 2013; however, the level of individual national allocation has not yet been disclosed.
The WBG is now in the process to finalize the new OECS Regional Partnership Strategy covering the period FY15-19, which is expected to be discussed at the Board by FY14. The consultation process,

[1] The OECS was created in 1981 and comprises six independent countries and three British Overseas Territories. This RPS covers only the six independent countries, namely: Antigua and Barbuda; Dominica; Grenada; St. Kitts and Nevis; Saint Lucia; and, St. Vincent and the Grenadines. Apart from St. Vincent and the Grenadines, which has not yet joined the IFC, all are members of the World Bank Group. Antigua and Barbuda and St. Kitts and Nevis are the only OECS countries to be eligible to IBRD resources, due to their high-income status.

with Governments, multilateral and bilateral partners, and other stakeholders, including representatives of the private sector and Civil Society Organizations (CSO), has been very extensive and involved the six OECS Governments and the relevant regional institutions, such as the Eastern Caribbean Central Bank (ECCB) and the OECS Secretariat. The overall high-level objective of the new regional strategy will be to help the countries to lay the foundations for sustainable inclusive growth. In particular, the two main pillars will be: (i) revitalizing sources of growth; and (ii) building resilience. Under this framework, the WBG will be very selective in identifying focus areas and addressing clients' needs, in line with its twin corporate goals of eliminating extreme poverty and boosting shared prosperity.

A. Projects

There are five active World Bank projects in Grenada for a net commitment of approximately US$28.4 million of which US$8.2 million has been disbursed.

The OECS E-Government for Regional Integration Program was approved by the Board on May 2008. This project consists of a US$2.4 million IDA Credit to Grenada and is designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, education, agriculture, tourism, postal, among others that may emerge during the early stages of implementation of Phase 1.

The Eastern Caribbean Energy Regulatory Authority (ECERA) Project was approved in June 2011 for US$2.8 million. It aims to establish and operationalize a regional approach to the development of the electricity sector in participating countries by supporting the establishment of the ECERA. The project has two components. Component A will facilitate the creation and launching of the ECERA, including carrying out the legal and consultative process leading to the formulation and ratification of the ECERA treaty, and defining the options for the ECERA self-financing mechanism, reviewing tariffs and examining incentive mechanisms to promote renewable energy. Component B will facilitate the initial three years of ECERA's operations, including the day-to-day operations and execution of core regulatory tasks including: (i) tariff and investment plan reviews; and (ii) defining a regional licensing framework for electricity market participants with a particular focus on facilitating the integration of electricity production from renewable sources into the supply mix.

The OECS Disaster Vulnerability Reduction Project was approved in June 2011. Grenada will receive a total of US$26.2 million, including a US$10 million zero-interest credit from IDA repayable in 35 years with a 10-year grace period; a US$8 million grant from the Caribbean Regional Pilot Program for Climate Resilience (PPCR); and an US$8.2 million zero-interest loan from PPCR repayable in 40 years with a 10-year grace period. The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure, which will complement the work and goals of the Pilot Program for Climate Resilience. Component 1 will implement a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 will support regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 will re-categorize financing or provide additional financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Component 4 will strengthen and develop the institutional capacity for project management and implementation.

The Grenada Safety Net Advancement Project was approved in June 2011 for US$5 million. The project aims to (i) strengthen the basic architecture of the consolidated Conditional Cash Transfer (CCT) Program and the capacity of the Ministry of Social Development to implement it; (ii) improve coverage of poor households receiving cash transfers; and (iii) improve education outcomes of poor children and health monitoring of vulnerable households. Component 1 will finance cash transfers to beneficiaries. Disbursements will be made against meeting performance milestones aimed at the gradual adoption of an overhauled business model in results areas including institutions; budget and coverage; beneficiary outreach and targeting; management information systems and making payments against co-responsibilities; communication; and monitoring and evaluation. Component 2 will provide technical assistance to the Ministry of Social Development (MOSD) for improving its management, coordination, supervision, monitoring, and evaluation of the newly consolidated conditional cash transfer (CCT) program, including the design of a PMT, a MIS, and an impact evaluation.

The Caribbean Regional Communications Infrastructure Program was approved in May 2012. The program aims to increase access to regional broadband networks and advance the development of Information and Communication Technologies (ICT) enabled services industry in the Caribbean Region. The project has four components.

1. Regional connectivity infrastructure component will address the: (i) physical connectivity infrastructure including submarine cable infrastructure, terrestrial broadband backbone fiber networks and terrestrial or submarine cross-border links, leveraging government networks as needed, and national and regional Internet Exchange Points (IXPs), and (ii) enabling environment that would ensure Public Private Partnership in the ownership, management and competitive access to the infrastructure.
2. ICT-led innovation component will support activities that will leverage the regional broadband infrastructure to foster growth of the regional IT/IT Enabled Services (ITES) industry.
3. Implementation support component will support implementation, institutional and capacity building as well as monitoring and evaluation.

4. A fourth component is included in the overall program design. This component will be aimed at improving government and private sector efficiency and transparency by leveraging the regional broadband infrastructure towards the delivery of a wide variety of e-services.

B. Non-Lending Activities

Caribbean Growth Forum (CGF). On December 11, 2012, the Government of Grenada launched the national chapter of the Caribbean Growth Forum (CGF). The CGF is an initiative led by the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank, in collaboration with the United Kingdom Agency for International Development (DFID) and the Canadian International Development Agency (CIDA), to identify policies and initiatives aimed at inducing growth and creating jobs in the Caribbean region through analytical work, knowledge exchange and inclusive dialogue. The CGF can contribute to an enhanced and participatory policy dialogue (involving private sector, CSOs, and other non-traditional stakeholders, such as youth and Diaspora) on key challenges that affect economic growth, in a situation where fiscal space is limited and the need to promote a more diversified knowledge-based economy is pressing. The CGF national chapters have already been launched in 12 Caribbean countries, including all the six OECS countries. During the CGF process in Grenada, participants discussed issues and measures to strengthen the investment climate, logistics and connectivity, and skills and productivity. Key actions addressed under the initiatives are summarized at the end of this brief.

Economic and Sector Work. Grenada benefits from a comprehensive series of completed, ongoing and planned analytical and advisory activities to support the RPS' two main pillars including: "Towards a New Agenda for Growth" – OECS growth and competitiveness study (2005); a OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011); and "The Growing Burden of Non-Communicable Diseases in the Eastern Caribbean" (2011).

C. Financial Relations

Operation	Original Principal	Undisbursed Balance*	Disbursed*
OECS E-Government for Regional Integration Program			
IDA 44520	2,400,000.00	843.98	2,316,596.02
Eastern Caribbean Energy Regulatory Authority (ECERA) Project			
IDA 49350	2,800,000.00	2,278,034.25	502893.75
OECS Disaster Vulnerability Reduction Project			
IDA 49850	10,000,000.00	7,541,923.90	2036828.1
TF 11131	8,200,000.00	6,803,997.68	1396002.32
Grenada Safety Net Advancement Project			
IDA 49930	5,000,000.00	2,984,109.91	1,959,762.09
Caribbean Regional Communications Infrastructure Program			
IDA 51190	10,000,000.00	9,837,473.92	204,766.08
TOTAL	**28,400,000.00**	**19,608,909.72**	**8,212,082.28**

**Amounts may not add up to Original Principal due to changes in the SDR/USD exchange rate since signing*

Disbursements and Debt Service (Calendar Year, in millions of U.S. dollars)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014**
Disb. Amt.	3.79	2.91	6.38	3.99	10.24	3.36	3.62	10.67	1.67	3.88	6.27
Repay Amt.	0.10	0.39	0.77	1.45	1.57	1.71	1.81	2.03	2.02	1.97	2.09
Net Amt.	3.69	2.52	5.61	2.54	8.67	1.65	1.81	8.64	-0.35	1.91	4.18
Charges	0.37	0.42	0.50	0.66	0.71	0.56	0.46	0.36	0.36	0.33	0.29
Fees	0.06	0.06	0.10	0.07	0.05	0.29	0.28	0.31	0.35	0.34	0.37

**Data as of March 6, 2014.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of March 1, 2014)

Since the commencement of operations, the Caribbean Development Bank (CDB) has approved US$176.8 million (net) in loans, contingent loans, equity and grants to the Government of Grenada; representing 6.6% of total approvals to CDB's borrowing member countries. CDB's lending has mainly been in the area of social and economic infrastructure, aimed at improving the country's growth potential in order to reduce poverty.

CDB is currently developing a new framework of assistance to Grenada for the period 2014–18, largely based on a number of key development challenges facing the country. Among the challenges identified were: (a) fiscal and debt sustainability; (b) low productivity and competitiveness; (c) the need to increase social inclusion and enhance citizen security; (d) high economic, social and environmental vulnerability; and (e) the need to boost growth and competitiveness of the private sector, especially micro, small and medium-sized enterprises; (f) the need to strengthen resilience to climate change and disaster risk management; and (g) improving quality/access to education and training.

CDB's strategy will support the critical priorities identified by the Government of Grenada as it seeks to accelerated growth, create jobs, and achieve fiscal and debt sustainability. Some of the outcomes being pursued in the current strategy result from the continuation of programs which started during implementation of the previous strategy. The priority sector outcomes are:

(i) **Improved macroeconomic management**. In an environment of macroeconomic instability and low growth, a Policy-Based Loan (PBL) of US$30 million in budget support has been requested by Government to help restore macroeconomic stability and continue its policy reform agenda.

(ii) **Increased access to high quality education and training**. Continued support for the education sector development strategy with components relating to: ongoing restoration of school infrastructure; a heightened focus on quality and relevance to improve student outcomes; alignment of education and training with the needs of the economy; policy development; and strengthening strategic leadership and planning capacity.

(iii) **Improved access by the poor to basic infrastructure and services through community-driven development**. The Basic Needs Trust Fund (BNTF) Seventh program will be providing community-driven grant resources for education and human resource development, water and sanitation, and community infrastructure.

(iv) **Enhanced social policy/social protection and research**. The Bank recently assisted with the development of a Gender Policy and will seek to facilitate its implementation. Additionally, the Bank will assist in the conduct of a new poverty assessment to help the Government in poverty monitoring and evidence-based decision-making.

(v) **Improved environmental sustainability and land use management**. In light of the challenges of environmental degradation and the need to build a sustainable solid waste system, the Bank has identified interventions to assist in the development of a land use policy; help implement adaptation measures for select communities affected by climate change; and assist in the development of environmentally sound solid waste options.

(vi) **Enhanced energy efficiency and renewable energy development**. CDB will help remove the binding constraints to the achievement of policy targets with respect to energy efficiency and the development of renewable energy options**.**

(vii) **Improved economic infrastructure**. CDB will assist in financing outstanding work that contributes to the redevelopment of the town of Grenville through improvements in key urban infrastructure. Three of four sub-components are already complete.

Major projects under implementation include:

1. **Grenville Market Square Development**—this project was designed to address issues of poor quality infrastructure in the market square, unhygienic practices in relation to the slaughter of animals and issues of vehicular and pedestrian congestion as a result of a bus terminal within the environs of the market.

2. **Schools Rehabilitation and Reconstruction Project II**—the major issues addressed by this project are the inadequacy of the physical learning environment, the need for curricula refocusing and the enhancement of instructional modalities in the school system.

3. **Market Access and Rural Enterprise Development—**Jointly funded with the International Fund for Agricultural Development, this project seeks to enhance the livelihood of rural communities through the strengthening and establishment of rural businesses/clusters, the upgrading of technical and business skills and the provision of affordable credit.

Grenada: Loan Disbursement

(In millions of U.S. dollars)

	2009	2010	2011	2012	2013
Net Disbursement	7.83	5.52	0.41	0.83	(0.22)
Disbursement	11.51	9.65	5.00	4.70	6.70
Amortization	3.68	4.13	4.59	3.87	6.92
Interest and charges	3.29	3.23	3.11	2.38	4.39
Net resource flow	4.54	2.29	(2.70)	(1.55)	(4.61)

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STATISTICAL ISSUES

(As of May 31, 2014)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance.

National Accounts: A rebased GDP series (using 2006 as the base year) was released in October 2010 with assistance from CARTAC. The new series improved coverage, data sources, and methodology. Administrative data from revenue agencies are used to supplement the coverage of survey-based results for industries such as hotels and restaurants, manufacturing, and wholesale and retail trade. Education, health and social work are now identified as separate industries, and public components of these services, formerly included under government, have now been reclassified. However, some weakness remain; data on GDP broken down by expenditure is not available at constant prices, while data at current prices is not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual.

Prices and high frequency statistics: The authorities provide regular data on consumer prices, retail sales, imports of construction material, water and electricity production. The 2010 revisions of the CPI series assured that the new series met international standards. A new CPI basket, including several additional items, has been developed using data from the 2007/08 Household Income and Expenditure Survey (HIES), with a strong recommendation to conduct the HIES on a five-year cycle to ensure more timely future updates than the current ten-year period. The new series are re-referenced to January 2010 and historical CPI series back to 2001 have been recalculated based on the new structure. Producer prices, export and import price indices are not available.

Labor statistics: Labor statistics are scarce. A Labor Force Survey was completed recently in 2013 and a population census was completed in 2011. Regular wage and unemployment data are not available with the exception of partial data available from the National Insurance Scheme. The Central Statistical Office (CSO) conducted a Country Poverty Assessment in 2008, with assistance of the Caribbean Development Bank, and is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics.

Government finance statistics: The reporting of central government data has improved in recent years, with monthly data being provided to the ECCB, IMF, and other users in Fund economic classification format with lags of about 4–6 weeks. However, some challenges remain with the accuracy and timeliness of the capital expenditure data: (i) the composition of public expenditure appears to be inaccurate as many current spending items are classified as capital spending; and (ii) donor-financed capital spending data are often not available until the end of the year, as they are not reported to or do not pass through the accounts of the central government. The coverage of the rest of the public sector is limited, and there are no consolidated public sector accounts. Financial information on selected public enterprises is available, but is not reported to the Ministry of Finance, although the new Public Finance Management Act of 2007 requires public enterprises to submit audited financial statements within four months after the close of the financial year.

Monetary statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund, and is broadly adequate for surveillance.

Balance of payments: The ECCB compiles balance of payments statistics on an annual basis, using information collected by the CSO. The data are reported to the IMF for publication in the IFS and Balance of Payments Yearbook. The statistics are based primarily on information collected from surveys of establishments; however, these surveys are not comprehensive and the response rates are usually poor. Merchandise trade statistics have traditionally been more reliable and are available by SITC classification on a quarterly basis. The reliability and comprehensiveness of the merchandise trade statistics have suffered considerably in the aftermath of Hurricane Ivan (September 2004) and reporting is mostly fully back on track. Enhanced data sources and better compilation procedures are needed to improve the accuracy of the balance of payments statistics, especially with regard to remittances, tourism spending and FDI. Moreover, efforts should be undertaken to compile quarterly balance of payments statistics and the annual international investment position statement.

External and domestic debt statistics: The database for central government external debt is comprehensive, and can be used to provide detailed and reasonably up-to-date breakdowns of disbursements and debt service, including future projections. There is also a detailed database on domestic government securities maintained by the Regional Governments Securities Market (RGSM) that provides data on auction results, and outstanding securities of the central government. Although the stock information on privately placed domestic T-bills, loans, bonds, and overdraft facilities are available on a monthly basis, there is no reliable data on future projections. Data availability on government-guaranteed debt and debt of public enterprises is limited, and there is no data on private external debt.

II. Data Standards and Quality

While Grenada has participated in the Fund's General Data Dissemination System since March 2001, most of the metadata have not been updated since late 2002.

III. Reporting to STA

The International Financial Statistics page includes data on exchange rates, international liquidity, monetary statistics, prices, balance of payments, national accounts, and population. The authorities do not report fiscal data for publication in IFS. The ECCB provides data to the IMF for publication in the Balance of Payments Yearbook. Grenada has not provided any fiscal data, either on a GFSM 2001 basis, or a cash basis, for presentation in the GFS Yearbook. The ECCB disseminates Grenada's quarterly GFS data in its Economic and Financial Review.

Table of Common Indicators Required for Surveillance

As of March 31, 2014

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication[1]
Exchange Rates[2]	NA	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[3]	Dec 2013	Feb 2014	M	M, with 1- to 2-month lag	A/Q
Reserve/Base Money	Dec 2013	Feb 2014	M	M, with 1- to 2-month lag	A/Q
Broad Money	Dec 2013	Feb 2014	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Dec 2013	Feb 2014	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Dec 2013	Feb 2014	M	M, with 1- to 2-month lag	A/Q
Interest rates[4]	Dec 2013	Feb 2014	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Dec 2013	Feb 2014	M	M, with 2- to 3-month lag	A/Q
Revenue, Expenditure, Balance and Composition of Financing[5]- Central Govt.	Mar 2014	May 2014	M	M, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Mar 2014	May 2014	M	M, with 2- to 3-month lag	A
External Current Account Balance	Dec 2012	Sep 2011	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2012	Sep 2011	A	A, with long lag	A
GDP/GNP	Dec 2012	Sep 2013	A	Staff mission	A
Gross External Debt[7]	Dec 2013	Mar 2014	M	M, with 2- to 3-month lag	A
International Investment Position	NA	NA	NA	NA	NA

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[2] Grenada is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (EC dollar) is pegged to the U.S. dollar.
[3] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[4] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[5] Foreign, domestic bank, and domestic nonbank financing.
[6] Including currency and maturity composition.
[7] Public external debt only.

Press Release No. 14/310
FOR IMMEDIATE RELEASE
June 26, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves 3-Year US$21.7 Million Extended Credit Facility Arrangement for Grenada and Concludes 2014 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) today approved a three-year SDR 14.04 million (about US$21.7 million, 120 percent of quota) arrangement under the Extended Credit Facility (ECF) for Grenada and concluded the 2014 Article IV consultation.[1] The approval enables the immediate disbursement of an amount equivalent to SDR 2.04 million (about US$3.2 million).

The main objectives of the authorities' ECF-supported economic program are to improve competitiveness and medium-term growth prospects, restore fiscal and debt sustainability and strengthen financial stability. Reforms to raise Grenada's growth prospects will focus on improving price competitiveness and the business environment. To put public debt on a firm downward path, a comprehensive strategy consisting of fiscal consolidation, debt restructuring and fiscal structural reforms is being implemented. Planned reforms to the financial sector will ensure the system's solvency and strengthen regulation and supervision. The authorities' program also envisions an increase in spending on social support programs, supported by minimum spending levels to protect those most vulnerable to the changes.

Following the Executive Board's discussion on Grenada, Mr. David Lipton, Deputy Managing Director and Acting Chair, made the following statement:

"Grenada has made important progress in addressing its fiscal crisis, following a protracted economic recession and a difficult social environment. The authorities have taken wide-ranging measures to reduce the fiscal deficit and are negotiating in good faith with creditors to restructure the public debt. The challenges ahead remain significant, with a vulnerable growth outlook, high debt levels and financing needs, and a weakened financial system.
"The authorities' ambitious economic program, supported by the Fund, focuses on restoring fiscal sustainability as an immediate priority, strengthening competitiveness and growth prospects, and securing financial stability. The success of the program hinges critically on

[1] 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.

full implementation of the reforms by the authorities, broad social support, and assistance from Grenada's development partners.

"A significant fiscal adjustment is needed to strengthen confidence and put public indebtedness on a sustainable path. Achieving the targeted primary surplus requires a carefully calibrated combination of revenue increases and expenditure cuts. The authorities are committed to strengthening revenue mobilization and enhancing the social safety net to protect the most vulnerable.

"Consolidation efforts to reduce public debt to sustainable levels need to be complemented by a comprehensive debt restructuring. Upgrading the institutional framework for fiscal policy will be important to lock in the gains from these combined efforts.

"Improving Grenada's competitiveness and the employment outlook is key to growth and prosperity. Structural reforms focus on improving the business environment, reducing electricity costs, and removing other obstacles to growth.

"The authorities are committed to participating in the comprehensive regional strategy to strengthen the financial system, coordinated by the Eastern Caribbean Central Bank. Accelerated efforts are necessary to ensure that banks can provide credit needed for the Grenadian economy."

The Executive Board also completed the 2014 Article IV consultation with Grenada.

Grenada's economy continues to face significant headwinds after a decade of natural disasters and economic shocks coalesced into a deep economic crisis by 2011-12. Economic activity declined by over 8 percent of GDP from peak to trough (2008-12) as tourism and construction collapsed. After almost four years of decline, real GDP grew by 1.5 percent in 2013. Economic slack and tight monetary conditions have driven the economy into deflationary territory, with the consumer price index (CPI) declining by 1.2 percent in 2013. The current account deficit widened to 27.1 percent of GDP in 2013 from 19.2 percent in 2012 due to a sharp increase in imports related to a resort construction project.

The economic recovery continues to be held back by a deep fiscal crisis and weak financial balance sheets. Public debt reached about 110 percent of GDP at end-2013, in part reflecting attempts to run countercyclical fiscal policies since the outset of the global crisis. The weak fiscal position stoked financing pressures and, unable to secure financing, the government announced on March 8, 2013 that it would undertake a "comprehensive and collaborative" restructuring of its public debt. Financial sector balance sheets have also been increasingly strained by impaired assets, curtailing the supply of credit and slowing the already weak economic recovery. Private credit declined by 5 percent in 2013.

To address the fiscal crisis, the authorities have initiated fiscal adjustment as part of their 2014 budget, and have subsequently approved a large package of revenue measures needed for the targeted consolidation. Debt restructuring negotiations are currently underway with many creditor groups, with significant headway in restructuring expected before end-2014.

The pace of economic recovery is expected to be modest over the near term, at about 1½ percent a year during 2014-17, supported in part by an easing of government financing constraints as the fiscal crisis is gradually resolved. Nevertheless, a faster recovery will likely be held back by the drag of the fiscal adjustment and the weak credit growth as banks repair their balance sheets. In line with weak demand, inflation is expected to remain subdued. Risks to the outlook are high, stemming in particular from faltering confidence if progress is not made soon in addressing the fiscal crisis, from a continued weak global recovery (on which Grenada depends for tourism) and from potential natural disasters.

Executive Board Assessment[2]

Executive Directors observed that Grenada's economic recovery remains fragile and continues to face serious headwinds, while policy space is limited. Unemployment is elevated, debt levels are high, and financing needs are large. Directors also noted that weak competitiveness is hampering growth and the financial sector is burdened by nonperforming assets.

Against this backdrop and given significant downside risks, Directors underscored the importance of strong commitment and full implementation of the Fund-supported economic program, which aims to restore fiscal sustainability, boost competitiveness, jobs and growth, and strengthen the financial sector. Financial and technical assistance from Grenada's development partners, as well as social consensus on reform priorities, is critical to achieving macroeconomic stability and development goals.

Directors stressed the urgency of placing the public-debt-to-GDP ratio on a firm downward path toward the regional target, through front-loaded budgetary consolidation, ambitious fiscal reforms, and a comprehensive debt restructuring. They agreed that the targeted strengthening of the primary fiscal balance appropriately balances the need to reduce debt pressures with managing the drag on the economy. Directors welcomed measures recently taken to reduce the personal income tax threshold and broaden the tax base. They stressed that further efforts are needed to reduce the public wage bill, curb tax evasion, and strengthen social safety nets, while protecting growth-enhancing capital investments.

Directors emphasized that a strengthened fiscal framework will be important to sustain consolidation gains and enhance fiscal discipline. The adoption of fiscal responsibility legislation will better anchor policy decisions, and promote transparency and accountability. Directors also highlighted as priority areas reforms to public financial management to improve overall budgetary control, rationalization of the civil service to increase its efficiency, improvements to debt management, and tax administration reforms.

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[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.

Directors agreed that a lasting solution to the public debt overhang requires a debt restructuring. They supported the authorities' comprehensive and collaborative approach, and welcomed progress in negotiations thus far. Directors urged the authorities to continue to engage with creditors in good faith and complete the restructuring and regularize arrears to official creditors in a timely manner.

Directors welcomed the authorities' active participation in the regional strategy to strengthen financial stability. They looked forward to the asset quality review of Grenada's banking system, supported by proactive resolution and recapitalization plans that would limit contingent fiscal costs. Directors stressed the need to continue to address weaknesses in the nonbank sector, including through improvements to the regulatory framework.

Directors supported the structural reform agenda aimed at enhancing competitiveness and the business climate, which would facilitate internal devaluation. They considered that priority should be given to reforms to reduce energy costs, streamline tax incentives, and liberalize key sectors.

Grenada: Selected Economic and Financial Indicators, 2010–15

	2010	2011	2012 Est.	2013 Prel.	2014 Proj.	2015 Proj.
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP	-0.5	0.8	-1.8	1.5	1.1	1.2
Nominal GDP	0.0	1.0	2.9	1.5	3.1	3.2
Consumer prices, end of period	4.2	3.5	1.8	-1.2	1.7	1.6
Consumer prices, period average	3.4	3.0	2.4	0.0	1.6	1.7
Output gap (percent of potential GDP)	-1.8	-1.4	-3.5	-2.6	-2.2	-2.0
Real effective exchange rate	3.1	-0.9	-1.0	-2.3	…	…
(annual average, depreciation -)						
Central government balances (accrual) 1/						
Revenue	24.6	23.6	20.8	21.5	24.9	24.9
Taxes	18.7	18.4	17.9	17.2	18.7	19.9
Non-tax revenue	1.9	1.8	1.7	2.9	1.6	1.6
Grants	4.0	3.4	1.1	1.4	4.6	3.3
Expenditure	27.8	28.3	26.1	28.5	31.0	27.9
Current primary expenditure	18.3	18.1	17.7	17.8	17.9	16.0
Interest payments	2.2	2.5	3.4	3.4	3.6	4.3
Capital expenditure	7.3	7.8	5.0	7.3	9.5	7.5
Grant-financed	2.2	3.1	1.1	1.4	4.6	3.3
Non-grant financed	5.1	4.6	3.9	5.9	4.9	4.3
Primary balance	-1.0	-2.2	-2.0	-3.7	-2.4	1.3
Overall balance	-3.1	-4.7	-5.4	-7.1	-6.0	-3.0
Public debt (incl. guaranteed)	97.6	100.9	103.1	109.8	111.3	110.2
Domestic	28.0	31.7	34.8	37.2	42.1	39.4
External	69.5	69.2	68.3	72.6	69.2	70.8
Money and credit, end of period (annual percent change)						
Broad money (M2)	0.4	1.0	0.9	4.0	1.4	…
Credit to private sector	5.6	2.2	0.2	-5.7	1.1	…
Balance of payments						
Current account balance, o/w:	-22.1	-21.8	-19.2	-27.1	-23.8	-20.6
Exports of goods and services	28.2	30.0	30.7	31.5	32.9	33.1
Imports of goods and services	49.2	50.8	49.4	57.3	54.7	50.8
Capital and financial account balances	24.1	25.0	19.8	29.2	9.0	17.0
Overall balance	-2.1	-1.5	-1.7	2.1	-14.9	-3.7
Overall financing	2.1	1.5	1.7	-2.1	-0.6	-0.7
Financing gap 2/	…	…	…	…	15.5	4.3
External debt (gross)	124.7	137.4	144.6	155.5	160.0	163.2
Savings-Investment balance	-22.1	-21.8	-19.2	-27.1	-23.8	-20.6
Savings	-0.1	-1.3	-1.9	2.5	2.0	2.3
Investment	22.0	20.5	17.3	29.6	25.8	22.9
Memorandum items:						
Nominal GDP (EC$ million)	2,082	2,102	2,164	2,197	2,265	2,338
Nominal GDP (US$ million)	771	779	802	814	839	866

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2008; World Bank WDI 2007; and IMF staff estimates and projections.

1/ Assumes an adjustment of 7.5 percent of GDP during 2014-16 but no debt restructuring.

2/ To be closed through IMF and other IFIs financing and debt restructuring.