INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/236

GRENADA

July 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GRENADA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with Grenada, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Director as expressed during its July 13, 2018 consideration of the staff report that concluded the Article IV consultation with Grenada.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 13, 2018, following discussions that ended on May 15, 2018 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 July 2, 2018.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- An **Informational Annex** prepared by the IMF Staff.
- A Statement by the **Executive Director** for Grenada.

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

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July 25, 2018

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IMF Executive Board Concludes 2018 Article IV Consultation with Grenada

On July 13, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Grenada.

The Grenadian economy grew by an estimated 4½ percent in 2017, driven by strong activity in construction, tourism, and education sectors. Weather-related weakness in agriculture has, however, been a headwind. Unemployment fell from 28 percent in 2016 to 23.6 percent in 2017. Inflation is low, falling below 1 percent, supported by the peg to the US dollar. The 2017 current account deficit increased by 3½ percentage points of GDP to 6¾ percent of GDP, reflecting rapid import growth. The fiscal situation improved further in 2017, with the government overperforming the targets of the Fiscal Responsibility Law (FRL). The primary surplus increased to 5¾ percent of GDP while public debt fell below 71 percent of GDP at end-2017 from 82 percent of GDP in 2016.

In 2018 and 2019, the economy is projected to grow by 3½ percent benefiting from supportive global economic conditions and continued strength in construction and tourism. Thereafter, growth is expected to ease to the long-term potential rate of 2¾ percent. Inflation is expected to edge up in 2018 reflecting recent global energy price increases, but stabilize at 2 percent in the medium term. The primary fiscal surplus is expected to remain high in the near term, supporting rapid debt reduction. Once the public debt ratio falls below 55 percent of GDP (projected for 2020), the fiscal surpluses and the pace of debt reduction are expected to moderate. The external current account deficit is projected to increase to 7½ percent of GDP in 2018 mostly from recent increases in energy costs, but would decline thereafter as the construction-related imports and energy prices are expected to ease.

[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.

Executive Board Assessment[2]

Executive Directors commended the authorities for implementing sound policies leading to a strong economic and fiscal performance and sustained debt reduction. While the outlook remains positive, Directors stressed that continued policy resolve and public support for reforms are critical to restoring debt sustainability, improving medium-term growth prospects, and strengthening the financial sector.

Directors welcomed the continued fiscal adjustment in compliance with the framework of the Fiscal Responsibility Law (FRL), which has supported policy credibility. They noted that while there is scope to improve the FRL's operational aspects, more substantive changes to the framework should be approached as part of a comprehensive plan that balances debt reduction with the need to create fiscal space for high-quality infrastructure spending. Directors welcomed the authorities' intention to implement the recent initiatives on pensions and health care in a way that is consistent with the FRL's targets.

Directors encouraged the authorities to support the FRL through continued reforms to improve public financial management, expenditure efficiency, and fiscal transparency. They saw scope to further strengthen social assistance programs to protect the most vulnerable and to strengthen the productivity of state-owned enterprises. Directors emphasized the need to continue tax administration reforms and resolve remaining bilateral arrears. They welcomed advances in fiscal transparency, including the establishment of the Fiscal Responsibility Oversight Committee, and encouraged further progress in this area.

Directors welcomed indications of a strengthened banking system and considered that banks are better poised to contribute to private sector investment and growth. They noted the rapid increase in lending by credit unions and called for strengthening the supervision of the sector by the local regulator to reduce potential financial stability risks. Going forward, they encouraged the authorities to support steps taken at the ECCU level toward a regional approach to regulation and supervision of the non-bank financial sector. Directors emphasized the importance of complying with AML/CFT regulations, including enforcement of the due diligence process of the Citizenship-by-Investment program, noting that this was critical for Grenada's continued access to stable cross-border payments.

Directors underscored the importance of implementing structural reforms to boost potential growth, noting Grenada's susceptibility to natural disasters in addition to structural weaknesses such as high unemployment and the external competitiveness gap. They emphasized the need for measures to improve the business environment and labor market, address weaknesses in the

[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.

implementation of public infrastructure spending, and reduce skill mismatches. Directors also encouraged the authorities to continue building on their efforts to strengthen resilience to natural disasters.

Grenada: Selected Economic and Financial Indicators, 2015–2023

Rank in UNDP Human Development Index out of 188 countries (2016)	79	Infant mortality rate per '000 births (2016)	9.9
Life expectancy at birth in years (2014)	73	Adult illiteracy rate in percent (2004)	4
GNI per capita in US$ (2017)	10,390	Poverty headcount index (2008)	38
Population in millions (2016)	0.11	Unemployment rate (2017)	23.6

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Proj.					
	(Annual percentage change, unless otherwise specified)								
National income and prices									
GDP at constant prices	6.4	3.7	4.5	3.6	3.6	2.9	2.7	2.7	2.7
GDP deflator	2.8	2.2	0.9	2.7	2.2	2.2	2.2	2.2	2.2
Consumer prices, end of period	1.1	0.9	0.5	3.0	2.0	2.0	2.0	2.0	2.0
Exchange Rate									
Real effective exchange rate (annual average, depreciation)	2.6	-0.2	-4.2	…	…	…	…	…	…
Money and credit, end of period									
Credit to private sector	-3.8	-0.2	0.6	5.6	8.0	6.8	6.6	6.4	5.6
Broad money (M2)	5.2	1.3	4.0	6.4	5.8	5.2	5.0	5.0	5.0
Lending rate (in percent)	8.7	8.4	…	…	…	…	…	…	…
Deposit rate (in percent)	1.6	1.3	…	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)								
Revenue	24.5	26.4	25.9	25.8	25.2	25.1	24.9	24.8	24.6
Expenditure	25.7	24.0	22.8	22.4	21.9	21.4	23.0	24.3	24.6
o.w. Capital expenditure	8.3	4.2	2.7	3.3	3.3	3.0	4.8	6.2	6.5
Primary balance 1/	2.1	5.2	5.7	5.6	5.3	5.5	3.6	2.1	1.6
Overall balance	-1.2	2.3	3.0	3.4	3.3	3.6	1.9	0.5	0.0
Public debt (incl. guaranteed) 2/	90.1	82.0	70.8	65.0	59.6	52.9	51.3	50.7	50.3
Domestic	28.7	25.1	22.7	17.9	15.8	13.7	12.4	11.7	11.1
External	61.4	56.9	48.0	47.1	43.8	39.2	38.9	39.0	39.2
Savings-Investment balance	-3.8	-3.2	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Savings	13.9	17.0	11.9	11.8	12.3	12.9	14.8	15.9	16.3
Investment	17.7	20.2	18.6	19.2	19.8	19.4	21.2	22.6	22.9
External Sector									
Gross international reserves (millions of dollars)	188.5	201.4	194.9	202.4	208.8	212.7	214.3	216.3	225.4
GIR (in months of imports)	4.1	3.9	3.5	3.4	3.4	3.3	3.2	3.1	3.0
Current account balance, o/w:	-3.8	-3.2	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Exports of goods and services	58.0	56.1	56.3	56.3	56.2	56.0	55.9	55.9	55.8
Imports of goods and services	56.7	52.4	56.2	56.6	56.6	55.6	55.4	55.6	55.3
External debt (gross)	133.2	126.3	116.4	108.4	107.2	100.8	98.9	97.4	95.9

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/ Includes 0.7% of GDP CBI-related non-tax revenue in 2015.
2/ Includes the impact of the in principle debt restructuring agreement reached with the creditor committee for the 2025 bonds.

INTERNATIONAL MONETARY FUND

GRENADA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

July 2, 2018

KEY ISSUES

Context. Grenada made important strides under the 2014-17 ECF-supported program, achieving an impressive debt reduction by 37 percent of GDP since 2013, upgrading the framework for fiscal policy, strengthening the financial system, improving governance, and creating a better business environment. Nonetheless, public debt is still relatively high, job creation has been insufficient, and the institutional capacity for policy implementation needs strengthening.

Key Policy Issues.

- ***Boost potential growth*** including by further improving the business climate and active labor market policies, upgrading education and training, increasing resilience to natural disasters, maximizing the potential of a competitive tourism economy, and internalizing the opportunities from the recently announced oil and gas discovery if commercially viable.
- ***Further strengthen the rule-based fiscal framework***. This would necessitate monitoring the 2018 budget implementation to make sure that real primary expenditure growth is consistent with the fiscal responsibility law (FRL). There is scope to clarify various operational aspects of the fiscal rules and improve fiscal transparency. While the FRL has performed well, it is worthwhile, as debt levels have come down, re-examining some of its provisions with a view to facilitating high-quality capital spending and ensuring a continuation of prudent fiscal policies. Project implementation capacity needs to be improved to increase the quality of projects and access to grant financing. The new initiatives on pension and health care ought to be imbedded in the rules-based framework.
- ***Tackle the unfinished structural fiscal reform agenda***. The government should accelerate reform of the public service, proceed with parametric reforms of the pension system, restructure state-owned enterprises, increase the effectiveness of revenue administration and public investment, and fully regularize debt arrears.
- ***Further improve financial regulation and supervision***, with stronger oversight of credit unions and the insurance sector and improving compliance and transparency.

Approved By
Nigel Chalk (WHD) and Mary Goodman (SPR)

Discussions took place in Grenada during May 2-15, 2018. The staff team comprised B. Lissovolik (head), M. Ghazanchyan, T. Komatsuzaki, and W. Mitchell (all WHD). Mr. Sylvester (OED) also participated in the meetings. The mission met with the Prime Minister and Minister of Finance, Planning, Economic and Physical Development, Dr. The Rt. Hon. Keith C. Mitchell; the Minister of Infrastructure Development, Public Utilities, Energy, Transport and Implementation Hon. Gregory Bowen; the Minister for the Climate Resilience, the Environment, Forestry, Fisheries, and Information Hon. Simon Stiell, the Acting Permanent Secretary of the Ministry of Finance, Ophelia Wells-Cornwall; other officials, representatives of the private sector, and labor. A representative from the Eastern Caribbean Central Bank and the Caribbean Development Bank accompanied the team during the visit.

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ECONOMIC AND POLITICAL CONTEXT

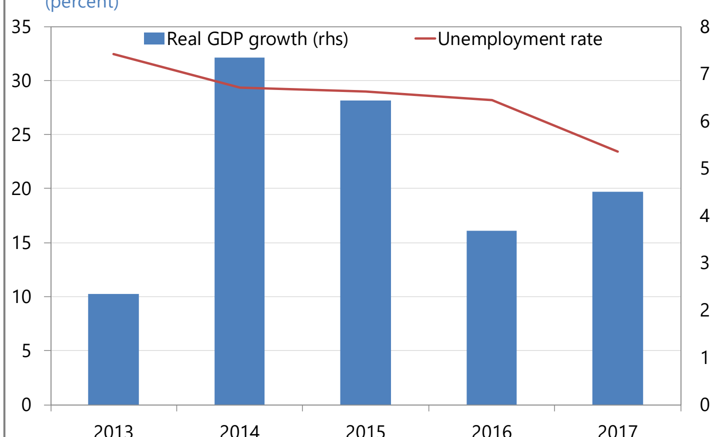
1. **The government's economic program, supported by the ECF arrangement, has helped improve debt sustainability and unlock economic growth.** An impressive fiscal adjustment (of 9½ percent of GDP) was achieved under the program and debt was restructured, lowering the debt-to-GDP ratio from 108 to below 71 percent in just four years. Despite the fiscal adjustment, growth averaged 5½ percent since 2014. The government's efforts received broad-based backing from domestic stakeholders through a negotiated Social Compact.

2. **The focus now should turn toward raising potential growth**. Growth potential is estimated at below 3 percent and is held back by Grenada's susceptibility to economic and natural disaster shocks, insufficient labor skills, high costs of labor, energy and intermediate inputs, a relatively undiversified economy, red tape, and an inefficient public sector. Unemployment is chronically high and poverty remains an important social concern.

3. **The political window for advancing reforms looks favorable.** The government headed by PM Mitchell was returned to office in March 2018 with full control of the legislature, having won the election on the strength of the recent economic performance. However, during the campaign several electoral promises were made to advance ongoing work (on public pensions, instituting universal health care, and cutting taxes). Also, a surge in available external financing and citizenship-by-investment (CBI) revenues may test the government's resolve to undertake far-reaching structural reforms and maintain fiscal prudence.

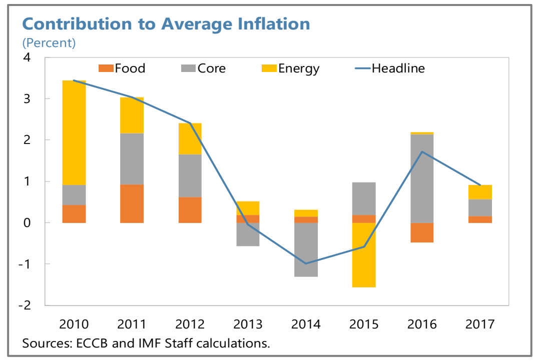
4. **Growth surprised on the upside in 2017 at an estimated 4½ percent**. Construction-related imports indicate a boom in the sector and tourism expanded by over 8 percent, supported by a continued expansion in the U.S. Private education has been also a solid contributor to growth as enrollment continued to expand. Weather-related weakness in agriculture has, however, been a headwind. Unemployment, while falling, remains high at 23.6 percent in 2017. High-frequency indicators suggest that a strong economic momentum has largely carried over to the first few months of 2018.

Unemployment Rate and Economic Growth
(percent)



Source: CSO and IMF staff estimates.

5. Inflation has been low, falling below 1 percent in 2017, supported by the peg to the US dollar. The impact of higher oil prices in transportation and energy sectors has so far been modest and offset by lower costs of certain non-food items (e.g., clothing and furniture) and low food price inflation.



6. The external current account deficit has widened. A switch to BPM6 led to a 10 percent of GDP reduction in the deficit (largely reflecting unrecorded receipts from non-resident students) (Box 1). Exports have been flat overall (the decline in agriculture exports was offset by strong tourism receipts) and imports have increased rapidly, reflecting the construction boom but also consumer goods and particularly motor vehicle imports. As a result, the current account deficit rose by 3½ percent of GDP in 2017, with some of the increase being financed by growing inflows to CBI programs (some 4½ percent of GDP in 2017).[1]

Box 1. ECCU Balance of Payment Data Revision

The ECCB published the revised estimate of member countries' BOP data in July 2017. Data collection was enhanced by improved tourism surveys, wider coverage, and transition to BPM6 methodology. The data were revised for 2014-16.

The 2014-16 current account improved strongly due to a better services balance, partially offset by a deteriorating income account. The balance on goods trade was barely affected. The main reason for the improvement in the services balance are higher travel services exports due to the inclusion of expenditure by nonresident students enrolled in the off-shore medical school. The deterioration in the income account reflected higher estimated business services imports and dividends paid to foreign direct investors. Overall, the current account was revised upward by more than 10 percent of GDP for 2014-16.

Current Account: April 2017 WEO vs. July 2017 ECCU Revision

	2016 (Percent of GDP)	
	April 2017 WEO	July 2017 ECCU 1/
Current Account	-14.6	-3.2
Trade	-12.4	3.7
Primary Income	-4.8	-5.8
Secondary Income	2.6	-1.2
Capital Account	7.2	3.5
Financial Account	7.1	0.9
Net Errors and Omissions	0.0	1.4

Source: ECCB and IMF staff estimates

1/ Figures are first estimates that are likely to be revised.

Uncertainty remains as the data continue to be refined. A technical assistance mission in April 2018 concluded that nonresident students' expenditure may have been overestimated and a future revision could worsen the current account.

[1] Based on officially-published data on the CBI inflows, which are reported on the committed-amount basis.

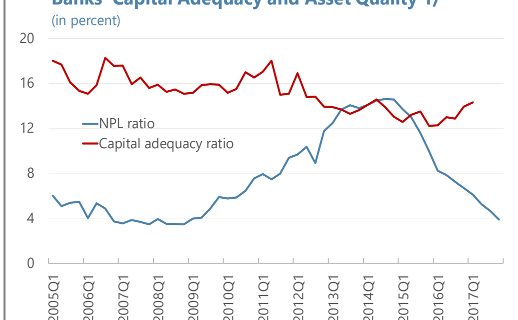
7. The primary fiscal surplus rose to 5¾ percent of GDP in 2017 supported by buoyant revenues and expenditure restraint. Robust economic growth and improved tax administration bolstered revenues. Current spending has been contained by the fiscal rules and continuation of the government's attrition policy. However, shortfalls in grant financing and institutional bottlenecks in project execution combined to constrain capital outlays to 50 percent of budget projections. The public debt fell to below 71 percent of GDP at end-2017 as the final phase of bond restructuring was completed. Progress has been made in reducing arrears, but some arrears to bilateral creditors (e.g., Algeria, Libya, and Trinidad and Tobago) have yet to be regularized. The 2018Q1 fiscal balance was 1.4 percent of GDP, slightly lower than in the same period of 2017. In March 2018 public sector employees received a one-time payment (0.07 percent of GDP) as part restoration of earnings foregone during the 2014-16 wage freeze.

Grenada's Fiscal Performance in 2017

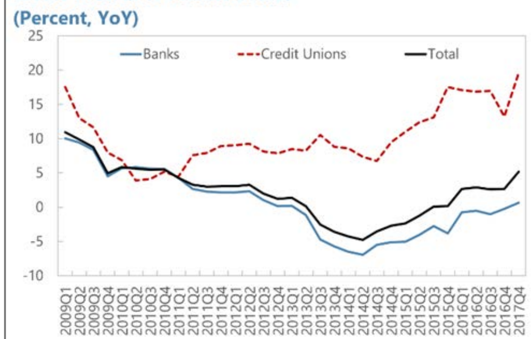
	Phase II Fiscal Rule	2017 Target	2017 Outcome
Period/Milestone	**2017 until Debt/GDP reaches 55%**		
Primary Balance Rule	3.5% of GDP surplus	4.3	5.7
Primary Expenditure Rule [1]	2% real growth cap	2.0	0.6
Wage Bill/GDP	9% of GDP ceiling	8.6	8.2
Public Debt/GDP			70.8

[1] Excludes grants and NTF funded capital spending. The expenditure rule of 2 percent was based on potential output growth estimated in 2014. Under the FRL, upon reaching phase III and every 5 years thereafter, potential growth and the debt stabilizing primary balance are to be re-estimated or recalibrated.

8. Bank credit has stagnated but credit union lending is growing rapidly. Despite solid capital buffers, improving asset quality, robust deposit expansion, ample liquidity, and falling interest rates, bank credit growth was only marginally positive in 2017. Banks have started to see better business opportunities recently, however, and some of them are moving to increase lending. Credit union lending (which now makes up a quarter of total credit) grew by almost 20 percent in 2017.



1/ Capital adequacy ratio is only for domestic banks.
Sources: ECCB



Sources: ECCB and IMF Staff claculations.

Grenada: Heatmap of Banking Sector Soundness 1/

Grenada	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
Overall Banking Sector Rating	M	M	M	M	M	L	L	L	L	L	L	L	L	L	L	L
Credit cycle	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	(10.7)	(11.0)	(9.6)	(9.2)	(10.2)	(8.6)	(7.0)	(6.9)	(3.9)	(3.7)	(3.8)	(3.2)	(4.5)	(4.4)	(3.4)	(2.5)
Growth of credit / GDP (%, annual)	(13.2)	(13.9)	(12.8)	(12.6)	(14.3)	(12.6)	(10.7)	(10.9)	(6.4)	(6.1)	(6.5)	(5.7)	(8.0)	(7.9)	(6.1)	(4.7)
Balance Sheet Soundness	M	M	M	M	M	L	L	L	L	L	L	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Deposit-to-loan ratio	134.7	139.1	143.1	145.8	152.1	155.2	156.7	163.5	166.0	162.0	166.8	170.0	176.3	-	-	-
FX liabilities % (of total liabilities)	7.5	7.5	7.7	7.2	7.7	8.7	9.6	8.9	8.8	8.8	9.0	8.7	9.6	9.7	10.3	11.1
FX loans % (of total loans)	4.3	4.2	4.2	4.4	4.5	4.7	4.9	5.3	5.6	5.7	5.5	4.8	4.7	4.7	5.0	4.9
Balance Sheet Buffers	M	M	M	M	M	L	L	L	L	L	L	L	L	L	L	L
Leverage	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M
Leverage ratio (%)	5.9	5.8	5.5	5.1	4.6	4.9	5.1	5.1	5.0	5.4	5.6	5.7	6.0	6.5	6.5	6.7
Profitability	H	H	H	H	H	L	L	L	L	L	L	L	L	L	L	L
ROA	(0.4)	(0.5)	(0.2)	(0.1)	(0.3)	0.1	0.6	1.5	1.7	1.8	1.8	1.5	1.4	1.3	1.3	1.1
ROE	(7.1)	(7.7)	(3.5)	(1.0)	(6.3)	1.0	12.9	31.3	34.3	35.8	34.2	28.4	25.6	22.4	20.5	17.2
Asset quality	M	M	M	M	L	L	L	L	L	L	L	L	L	L	L	L
NPL ratio	14.1	14.5	14.6	14.6	13.7	13.0	11.6	10.0	8.2	7.9	7.3	6.7	6.1	5.3	4.7	3.9
NPL ratio change (%, annual)	13.2	5.9	3.9	5.5	(2.8)	(10.2)	(20.8)	(31.6)	(40.1)	(39.5)	(37.4)	(32.7)	(25.6)	(33.2)	(35.6)	(41.8)

1/ The indicators do not reflect the forthcoming prudential regulations or the introduction of IFRS9 and thus the map can potentially understate the provisioning needs and related risks.

9. **Grenada's external position in 2017 was weaker than implied by medium-term fundamentals and desirable policies** (Annex III). The current account deficit has grown as a result of a mostly private sector-led construction boom. The EBA-lite current account model suggests the cyclically adjusted current account is 4¾ percent of GDP below the current account norm. However, external debt is on a decreasing trend as the current account deficit is amply covered by FDI and capital transfers, which reduces staff's estimated current account gap to 2.5 percent of GDP. The other two approaches (external sustainability approach, real exchange rate model) also have useful complementary information that attenuates competitiveness concerns. The external sustainability approach suggests a current account that is about 2 percent of GDP below the level needed to bring Grenada's NIIP to -60 percent of GDP within 20 years, while the real effective exchange rate model shows Grenada to be around 8 percent undervalued. In any case, remaining data gaps inject uncertainty around the assessment (Box 1). The level of international reserves is at 180 percent of the IMF's reserve adequacy metric for credit-constrained economies. To resolve the remaining competitiveness gap, policies need to ensure a continued prudent fiscal position and contained nominal wage growth.

Grenada: External Balance Assessment (EBA) Estimates

(2017, in percent/percent of GDP)

	Current Account Norm	Current Account Baseline 1/	Current Account Gap 2/	Elasticity	REER gap 3/
Current Account Regression	-2.0	-6.7	-2.5	-0.41	6.0
External Sustainability Approach 4/	-4.5	-6.4	-1.9	-0.39	5.0
REER Regression	…	…	…	…	-8.2

1/ Baseline is 2017 for Current Account Regression approach and 2021 for External Sustainability Approach.

2/ Current account norm was adjusted to reflect strong FDI and capital transfers.

3/ Positive number suggests overvaluation.

4/ The underlying scenario is reduction of net foreign liability to 60 percent of GDP in 20 years.

OUTLOOK AND RISKS

10. The economy is expected to grow moderately faster than the long-term potential rate of 2¾ percent in the coming years, benefiting from a continuing U.S. expansion. The outlook assumes continued compliance with the FRL and further progress on supply-side and structural fiscal reforms. It also assumes that the authorities use forthcoming new inflows of financing to reduce public debt, through clearance of arrears or active debt management operations. The government's electoral promises on pensions and health care benefits are not explicitly incorporated into the baseline forecasts since they have yet to be costed (and, in any case, the authorities intend to honor the FRL expenditure rule).

- In 2018-19, the economy is projected to grow by 3½ percent benefiting from supportive global economic conditions, continued strength in construction, and a tourism sector that has shown itself to be competitive within the ECCU.

- Inflation should edge up in 2018 reflecting recent global energy price increases but stabilize at 2 percent thereafter.

Grenada: Medium-Term Scenario
(In percent of GDP, unless otherwise noted)

	Projections						
	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (percent)	4.5	3.6	3.6	2.9	2.7	2.7	2.7
Inflation (percent, average)	0.9	2.6	1.8	2.0	2.0	2.0	2.0
Primary fiscal balance	5.7	5.6	5.3	5.5	3.6	2.1	1.6
Public sector gross debt	70.8	65.0	59.6	52.9	51.3	50.7	50.3
External current account balance	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Credit to GDP ratio	51.9	51.5	52.5	53.3	54.1	54.9	55.2

Sources: Grenada's authorities, ECCB, and Fund staff estimates.

- The primary fiscal surplus would remain at around 5½ percent of GDP through 2020 supporting continued rapid debt reduction.

- The current account deficit would rise moderately in 2018, reflecting higher energy costs, but then decline as imports linked to construction activity and energy prices moderate. After a protracted weakness, bank credit is expected to grow in 2018.

- In 2020-23 growth is expected to ease to 2¾ percent. Once the public debt ratio falls below 55 percent of GDP (projected for 2020) the FRL would allow for lower primary surpluses and the pace of public debt reduction would slow. The reduced fiscal surpluses are forecast to slightly add to the current account deficit in the outer years.

11. There are two-sided risks to the outlook. Risks linked to uncertainty about U.S. growth, prospects for global financial conditions (including the level of the U.S. dollar), the cost of external financing, and the strength of CBI inflows could push growth in either direction. On the downside, pressures on correspondent banking relationships could affect financial intermediation and natural disasters are an ever-present risk for Grenada. On the upside, a possibility of continued strength in attracting investment in tourism and education-related projects and a recently-announced oil and natural gas discovery could bolster the outlook. For the fiscal position, an adverse court judgment in the case of the Grenlec power company, a realization of fiscal risks from the Petrocaribe arrangement, or new initiatives on health care and pensions, if not well-managed, could call into question the FRL's spending growth rule, increase the debt-to-GDP path, and add to the current account deficit.

Authorities' Views

12. The authorities broadly shared the main elements of staff's outlook. They were of the view that the staff's estimates of potential growth could be revised further upward in light of their previous and ongoing reforms. They were cautiously optimistic about a strengthening in bank lending, especially because of the pipeline of non-FDI private sector construction projects. They noted that gross public debt would remain on a downward trajectory despite increases in external financing, some of which may go towards debt refinancing. On risks, they indicated that those arising from the new fiscal initiatives, including on pensions and health care, would be managed within the envelope defined by the FRL's parameters.

POLICY DISCUSSIONS

A. Fiscal Policy

13. The FRL's framework has usefully anchored fiscal performance and bolstered economic confidence. Compliance with the FRL has kept the public debt on a downward path, which has strengthened the credibility of the framework. The FRL has also underpinned advances in accountability and transparency including the recent creation of the Fiscal Responsibility Oversight Committee (FROC), an improved 2018 budget presentation, and the publication of a statement of fiscal risks and a fiscal compliance report. The authorities are committed to the FRL's limit on the growth in real primary spending and intend to monitor, and adjust downward if needed, the 2018 monthly budget allocations to adhere to this rule.[2] The government's 2018-2020 fiscal plan aims at maintaining a large primary surplus for this period.

14. There is scope to further strengthen the implementation of the FRL and its supporting elements. The authorities and the FROC highlighted the need for some adjustments to clarify the FRL's operational issues, including:

[2] The reduction primarily impacts the allocation for public sector investment program (PSIP) and related recurrent expenditures.

- *Clarifying parameters and targets* (e.g., real primary spending calculations should be based on average CPI; the adjustment requirement to reach the 55 percent debt-to-GDP target within 3 years should kick in only after the threshold is reached for the first time; and the relationship between the two envisioned debt thresholds, of 55 and 60 percent of GDP, should be clarified).

- *Ensuring consistency with other laws and regulations* including: (i) the National Transformation Fund regulations (on the operations of the Contingency Fund), (ii) the Public Financial Management Act (on the definition of PPPs), and (iii) the Constitutional and Parliamentary procedures (on the timing of statement of progress toward compliance with fiscal rules).

- *Removing other ambiguities (*e.g., the tenure of FROC members and a more precise definition of public wage payments).

Staff agreed with the proposals to address ambiguities or gaps in the FRL's operational framework and ensure consistency with other legislation such as the PFM and Public Debt Management Laws. At the same time staff cautioned about the need to avoid material changes to the core FRL rules, notably the primary expenditure rule, so early in the implementation of the FRL.

15. Going forward, a more comprehensive review and revision of the FRL would be in order. Once the 55 percent of GDP debt ratio is achieved, the FRL envisions a recalibration of certain parameters that would significantly loosen the fiscal position. This increase in the available fiscal space would need to be well-managed to (i) create scope for high-quality spending on growth- and resilience-enhancing public infrastructure; (ii) tie the spending path to realistic improvements in the authorities' absorptive capacity; (iii) find the right balance between revenue and expenditure policy adjustments, and (iv) incentivize continued fiscal prudence even after the 55 percent of GDP limit is achieved in light of Grenada's inherent debt-sustainability risks. Staff recommended pursuing a comprehensive approach and engaging technical assistance from the IMF's fiscal affairs department to map out options in recalibrating the FRL. A comprehensive solution could give more fiscal space in the near-term to undertake high-quality infrastructure spending while containing the deficit in the outer years.

Grenada's Fiscal Responsibility Law

	Phase I	Phase II	Phase III
Period/Milestone	**2015-2016**	**2017 until Debt/GDP reaches 55%**	**After Debt/GDP reached 55%**
Primary Balance Rule	ECF-supported program targets	3.5% of GDP surplus	Debt-stabilizing primary balance [1/]
Primary Expenditure Rule [2/]	2% real growth cap	2% real growth cap	Revised real potential growth cap
Wage Bill/GDP	9% of GDP ceiling	9% of GDP ceiling	9% of GDP ceiling

1/ Estimated at 1 percent of GDP until the public debt-to-GDP target of 55 percent is reached

2/ Excludes grants and NTF funded capital spending. The expenditure rule of 2 percent was based on potential output growth estimated in 2014. Under the FRL, upon reaching phase III and every 5 years thereafter, potential growth and the debt stabilizing primary balance are to be re-estimated or recalibrated.

16. There is scope to improve the fiscal financing strategy and project implementation to lessen undue constraints on capital spending. The combination of bottlenecks to grant financing and limited external borrowing in the public debt strategy imply that public investment may be kept at relatively low levels in 2018-20. Greater grant-financing, including access to climate funds, would relieve restrictions on capital spending while still adhering to the FRL.[3] Also, improving expenditure efficiency, including for project- and grant-mobilizing efforts, would lessen constraints on productive capital spending. PIMA-based analysis (Annex IV) points to significant scope to improve project planning, allocation, and implementation. Project implementation can also be facilitated by removing institutional obstacles such as securing land titles and ensuring adequate support by technical and engineering services and personnel.

17. Structural fiscal reforms are essential to support fiscal policy and facilitate more vibrant and inclusive growth and build resilience to shocks. Priorities include:

- *Improving the efficiency and right-sizing the public service.* The FRL's 9 percent of GDP wage bill ceiling should be supported by the implementation of the public sector's management reform strategy that was approved in early-2017. Progress has been made towards (i) establishing a framework for wage negotiations and (ii) facilitating capacity development through training. Broadening the use of quantitative performance targets and output indicators of ministries would improve transparency, accountability, and efficiency. The envisioned functional review and job analysis and evaluation should be used to underpin strategic staffing needs assessments.

- *Addressing aging-related spending.* The authorities are considering initiatives to top-up pensions to public servants and provide national health care. While costs are yet to be determined, they secured a commitment from labor unions that the FRL's rules would be honored. The National Insurance Scheme (NIS), the current provider of social security to both public and private employees, will administer both initiatives. The 2012 actuarial review of the NIS pension scheme found an actuarial imbalance of 117 percent of GDP in present value terms, suggesting the need for urgent parametric reforms. These should include raising the retirement age from 60 to 65 and increasing the payroll contribution rate from 9 to 11 percent of wages. Staff advised addressing the existing imbalances in the NIS through parametric reforms and, for the new initiatives, applying the FRL's provision in Article 6 that requires the government to identify the fiscal cost and find revenue or spending offsets to finance these new programs.

- *Strengthening the existing social assistance programs.* The core assistance program, Support for Education, Employment and Development (SEED), achieved its benchmark coverage in 2017 following the improvements in administration and the IT system. This framework should be deployed to enhance the targeting of other social assistance programs to the poor and vulnerable drawing on the Grenada Living Conditions Index, which can be updated with the results of the Country Poverty Assessment expected later this year.

[3] Grant-financed capital spending is excluded from the primary expenditure growth rule.

- *Further reforming State-Owned Enterprises (SOEs) to strengthen productivity and minimize fiscal risks*. The monitoring of SOEs continued in 2017 with all 24 entities except the Grenada Postal Corporation (GPC) providing timely financial reports. Three entities had marginal losses (0.05 percent of GDP). The authorities' efforts to establish key SOE performance indicators are commendable and should be complemented by re-activating the oversight committee that would provide advice on SOE operations and investment needs. The second phase of reform—to review the tariffs to reflect cost recovery and investment needs — is overdue and should proceed expeditiously. The restructuring of the Concrete & Emulsion Production Corporation (GCEPC) and the GPC has not been completed as strategic partners are still being sought; greater transparency about the process is needed. PDV Grenada Ltd., a joint venture between entities controlled by Venezuela's PDVSA and Grenada's government is insolvent.[4] The operationalization of the Public Utilities Regulatory Commission to enable competition and transparency is now expected by end-2018. Staff recommended, in line with recent TA from CARTAC, the elaboration of annual fiscal risk assessments of all SOEs based on audited financial statements.

- *Pursuing further public financial management (PFM) reforms.* Efforts by the Treasury Department to restructure its operations and enhance its capacity to enable compliance with the PFM law and regulations are underway and planned to be completed in 2019. As highlighted by the 2015 Public Expenditure and Financial Accountability assessment, enhancing the internal audit function for value-for-money audits of risky projects and improving IT systems audits are critical priorities. Establishing and monitoring a physical asset registry would facilitate management of the public capital stock and the assessment of losses following natural disasters.

- *Improving tax administration.* Revenue mobilization and administrative efficiency of the Inland Revenue Division (IRD) and Customs and Excise Division (CED) could be strengthened by addressing staffing shortages and improving human resource and risk management, compliance, and enforcement systems. Reducing the stock of outstanding tax arrears within a timebound period and replacing outdated technologies are key tasks. The CED should take the lead in implementing the WTO's Trade Facilitation Agreement, increasing communication with importers, and fully deploying the automated system for customs data.

- *Implementing base-broadening, equitable, and growth-friendly tax policy changes.* The authorities are considering the reduction in the rates on PIT and CIT by 5 percentage points (announced in the 2018 budget speech). Staff estimated an annual loss of around 0.6-0.7 percent of GDP and agreed that these measures would reduce the burden on households and the corporate sector. Staff also indicated, consistent with earlier FAD advice, the need for complementary measures to facilitate base-broadening and inclusive growth. These

[4] See IMF Country Report No. 14/196 for background information on PDV Grenada.

could include taxing foreign earned income and capital incomes or providing personal or child tax credits.

- *Improving transparency to underpin efficient and responsible fiscal policy*. It would be essential to (i) strengthen the FROC's capacity, including in the context of the envisioned memorandum of understanding between it and the Ministry of Finance; (ii) better account for public debt and contingent liabilities (including those from SOEs and PDV Grenada); and (iii) further improve mechanisms for monitoring the proceeds of CBI inflows and recording all flows through the Consolidated Fund on budget to improve fiscal management and reporting. Lastly, the envisioned saving of a portion of the receipts from the National Transformation Fund into a dedicated natural disaster savings fund should be fully operationalized to complement other financing options for relief, rebuilding, and resilience-enhancing efforts.

18. **Grenada should urgently work to resolve its remaining bilateral arrears.** Grenada's debt situation has greatly improved, but upgrading its current "in distress" classification requires that bilateral arrears be regularized. Staff was encouraged by the authorities' commitment to continue to adhere to the payment schedule for the arrears that have been regularized and advised that the government should redouble its negotiating efforts with the three creditors with which it has arrears and more actively pursue asset-liability operations given the substantial expected external financing inflows in the near term.

Authorities' views

19. **The authorities agreed that the FRL was key to their strong fiscal performance and they underlined their commitment to its rules.** They reiterated however that a review of the fiscal responsibility legislation was necessary to ensure that the fiscal parameters are not inhibitors to economic growth and it is consistent with other laws and government policies. They welcomed the possibility of technical assistance on this from the Fund. The authorities noted that the planned pensions and health care expansions were critical to the long-standing dialogue with social partners to address social problems and inequities. There was agreement among the key domestic stakeholders that their costs needed to fit within the framework of the FRL and of fiscal sustainability more generally. The authorities indicated that the PIT and CIT cuts were the only tax policy changes they were considering, with implementation expected in 2019 provided that the FRL's primary balance target is secured as the impact of the expenditure initiatives is internalized. They further indicated that they were actively working to regularize arrears with the three remaining bilateral creditors, but were encountering difficulties, including being unable to establish sustained communication with one of the creditor countries due to political circumstances. They were committed to fully honoring their rescheduled debt obligations and exploring options for more active asset/liability operations and other steps to further improve their debt management capacity.

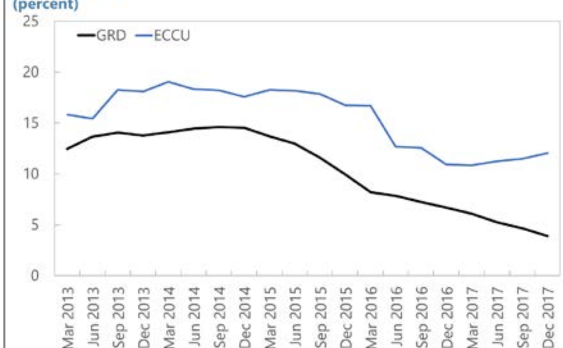
20. **On structural fiscal reforms, the authorities reaffirmed their intention to continue making progress with support from technical assistance.** They agreed that public sector modernization was critical but noted that progress was hampered by capacity constraints. They

noted that the World Bank would provide support for functional reviews and wage setting processes slated to be completed in 2020. On public investment, they indicated that the ongoing restructuring of the Ministry of Works would improve project implementation and coordination with executing agencies, while refocusing project planning at the Ministry of Finance would address the shortcomings in public investment management. The authorities highlighted successes in SOE management and surveillance and intended to build on the reforms. They acknowledged that the second phase of the SOE reforms (which primarily involves tariff review) was progressing slowly and were committed to advancing the process. They believed that the fiscal risks from the operations of PDV Grenada Ltd. would be limited. The authorities highlighted plans to address the leakages in revenue mobilization at the IRD and CED and strengthen compliance to substantially improve the tax take and its fairness. They also thought that a broad stock-taking of the design of the tax system by FAD experts was needed.

B. Financial Stability

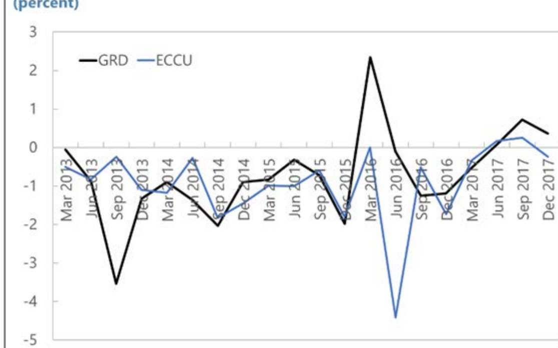
21. The rapid shift in credit provision from banks to credit unions should be matched by timely actions to control risks to financial stability and growth. Banks have undergone a multi-year restructuring and deleveraging with the process of NPL disposal being facilitated by economic growth, an improved insolvency framework, and rising property values. Banks are now well-placed to exploit new business opportunities but have been moving gradually to expand. In the meantime, credit unions have moved to fill the gap in the provision of mortgage and personal loans. This shift in lending activity gives rise to financial stability concerns, including regulatory arbitrage, as the oversight and availability of data on credit union activities is weaker. Furthermore, regional prudential regulations on valuation and provisioning and the introduction of IFRS9, expected later this year, will likely raise provisioning requirements for domestic financial institutions. Thus, there is a need to continually re-assess the regulatory and supervisory framework for the entire financial system. The ECCU is taking steps toward the regional harmonization of regulations and oversight of the non-bank financial sector. An acceleration of this process would help reduce potential financial stability risks in Grenada.

NPL Ratio, ECCU
(percent)

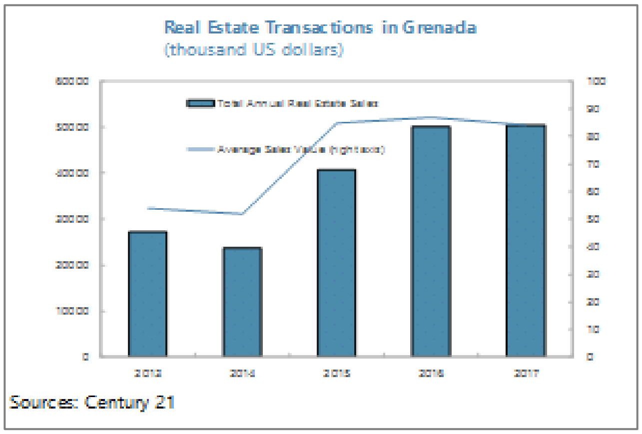


Sources: ECCB

Credit Growth, ECCU
(percent)



Sources: ECCU



Sources: Century 21

22. There is scope to upgrade the system's oversight, especially of non-bank financial institutions, which are under the purview of the local regulator:

- **Banks.** With banking supervision and regulation being conducted at the ECCU level, the authorities' priority is to better understand the links between banks, credit unions and insurance companies, particularly through deposits, and closely cooperate with the ECCB on AML/CFT aspects of bank supervision (a Memorandum of Understanding has been agreed between the ECCB and GARFIN).

- **Non-bank institutions.** The local regulator should be further strengthened to better monitor risks. This entails intensified regulation and supervision of credit unions including proactively enforcing the 10 percent capital requirement, revamping reporting to collect more granular loan data, enhancing asset quality reviews, and conducting stress tests of all credit unions and insurance companies. These efforts are being supported by ongoing technical assistance from CARTAC.

- **Correspondent banking relationships (CBRs) and AML/CFT.** Grenadian banks have not had a meaningful loss of CBRs but there are risks that non-bank financial institutions may lose access to banks based on AML/CFT concerns. Ensuring compliance with AML/CFT regulations at all levels and strict enforcement of the due diligence process of the CBI program are critical for Grenada's continued stable access to cross-border bank payments.

Authorities' views

23. The authorities agreed that the rapid lending growth in credit unions warranted close monitoring. They are aware of the challenges in enhancing regulation and supervision of non-bank financial institutions and are taking steps to improve data collection and dissemination, update financial stability indicators, and start regular stress testing. The authorities expressed confidence in their ongoing efforts on AML/CFT, including information exchange and joint inspections with the ECCB. They were also committed to maintaining the integrity of the CBI program. They hoped that legislation to formalize the annual registration of entities for AML/CFT purposes would be passed soon (which would help identify AML/CFT risks at an early stage).

C. Supply Side Reforms

24. Raising potential growth hinges on improving productivity and increasing resilience to shocks. The continued strength in growth and investment is encouraging but it has been driven in significant measure by temporary factors (e.g., increases in construction of several resorts). However, as documented in the 2016 Article IV Consultation report, long-term productivity growth has been weak. Productivity should be enhanced through improving the business environment and product market regulation and implementing well-designed sectoral strategies. Close attention to competitiveness is needed to avoid FDI and CBI inflows overheating the economy and accelerating wage growth beyond productivity gains. There is significant potential for further employment gains which would spread the benefits of growth to a larger share of the population. Finally, greater resilience to natural disasters would cushion the detrimental impact of shocks on output.

25. Staff Stressed Policy Priorities in the Following Areas:

- **Business environment and productivity.** Despite recent progress, notably on investment promotion and strengthening insolvency processes, there remain gaps in the business environment, including property registration, ease of paying taxes, and investor protection. Enhancing corporate governance and transparency, facilitating business-friendly tax and customs procedures, developing a credit registry, and improving property rights and registration (e.g., land bank) would help catalyze progress.

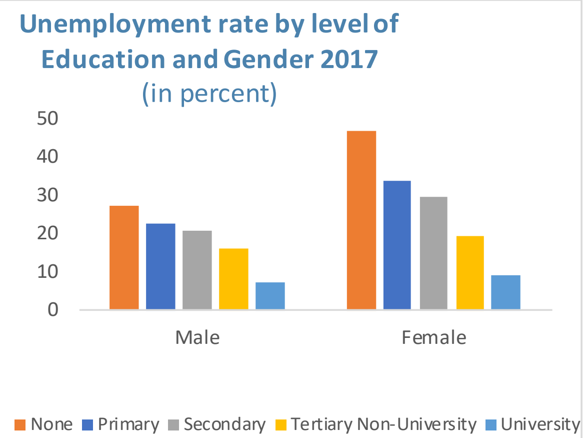
- **Labor market.** Addressing the key problem of skills mismatches (Box 2) will require upgrading education and training, through (i) focusing school-level education to improve math and English scores; (ii) putting greater priority to vocational education; (iii) maximizing the opportunities offered by St. George's university, and (iv) developing flexible training programs to better mirror the dynamic employment structure of the economy.

Box. 2. Labor Market Developments

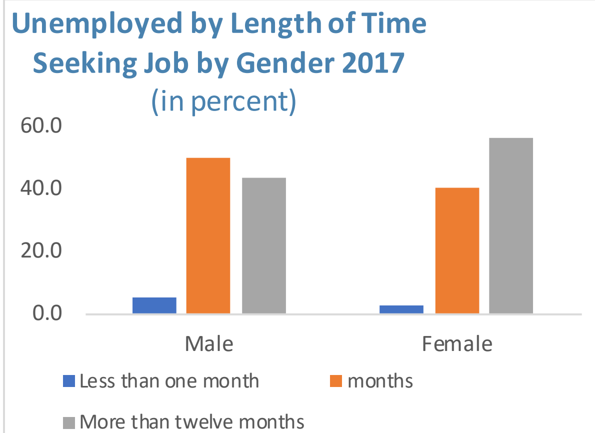
Grenada's unemployment rate has declined from 32½ percent in 2013 to 23½ percent in 2017 but it remains high. Employment grew briskly in 2017, though temporary factors, such as increased use of seasonal public sector-related jobs, contributed. Unemployment is particularly high among the young (40 percent) and women (27 percent).

The high unemployment is primarily structural and related to skill mismatches. The unemployed are largely long-term (50 percent are out of work for over 12-months) and concentrated among less-skilled workers (secondary or lesser-educated account for 90 percent of the unemployed). Employers' surveys report significant skill deficiencies, and lack of qualified applicants for jobs requiring technical proficiency (e.g., engineering) and managerial skills.

Enhancing education attainment and training should dent unemployment across the board. Data and evidence on vacancies suggest that more skilled applicants would be more successful in finding jobs. Greater education should also help boost female employment, thereby addressing the gender gap in the labor market.



Source: Labor force survey (Grenada, 2017)



Source: Labor force survey (Grenada, 2017)

- **Sectoral policies.** There is scope to better capitalize on Grenada's comparative advantage in several sectors:

  (i) *Tourism*, by further enhancing its links with other sectors (medical tourism, agri-tourism, and sports and maritime tourism);

  (ii) *Agriculture*, by introducing better land use policies, investing in infrastructure and logistics, and enhancing market access (including to hotels and ports);

  (iii) *Energy*: the recent oil and natural gas discovery, if significant, would require a suitable framework to manage these resources. Renewable energy projects (particularly wind, geothermal, and solar) should be accelerated and incentivized through facilitating entry and suitable regulation.

- **Inclusive growth.** The 2014-18 Growth and Poverty Reduction Strategy is set to expire. The strategy should be followed by a successor medium-term plan to operationalize progress toward the long-term 2030 Development Plan. The plans should provide strategic direction and specific time-bound deliverables to tackle growth and poverty challenges.

- **Climate resilience.** Staff commended the authorities for pro-active steps on this issue, including at the regional level (Box 3). The recent creation of a new Ministry dedicated to climate resilience, adoption of several key policy documents, recent success in securing financing from the Green Climate Fund, and Grenada's planned participation in the IMF's Climate Change Policy Assessment initiative reflect the authorities' commitment to progress in this area.

Box 3. Climate Change Preparedness and Resilience to Natural Disasters

Grenada is advancing plans and strengthening institutions to address climate change. The National Climate Change Policy (NCCP 2017) builds on the prior 2007 long-term action plan. It identifies (i) updated objectives and remaining institutional gaps and (ii) priority investments for critical infrastructure, land use, and food security. The policy accommodates Grenada's commitment to the UN's Framework Convention on Climate Change (UNFCCC 2011) and CARICOM's framework for resilience to climate change (2009). In 2018 a Ministry of Climate Resilience, the Environment, Forestry, Fisheries, Disaster Management & Information was established to improve planning, coordination, and implementation.

Adoption of supportive policies is underway. The NCCCP will be aligned with other policies and plans. A National Climate Change Adaptation Plan (draft NCCAP 2017) provides a framework for building climate resilience with guidance on managing risks and responses and costing of actions that complement Grenada's Intended Nationally Determined Contributions (INDC 2015) report to the UNFCCC. A National Land Use Policy and Natural Resource Management Bill were drafted in 2017. Building codes were updated in 2016and are being implemented. Physical Development Plans (2003), the Land Acquisition Act, Land Development Regulations, and the draft Environmental Management Legislation and Regulations still need to be reviewed and updated. The recent introduction of systematic screenings of public investment projects at the design phase for climate change risks is welcome.

Access to financing remains a critical bottleneck. The high debt and limited capacity to plan and implement projects hamper financing. Encouragingly, Grenada has recently been able to access the Green Climate Fund grants for pilot projects (about 1 percent of GDP) aimed at strengthening water resource management. Grenada has also applied for financing to build capacity at the National Designated Authority for climate change adaptation. It is also developing a funding instrument to bundle small-scale community adaptation projects. Grenada's PPP policy framework could be leveraged for well-designed adaptation projects. Finally, receipts of the CBI's National Transformation Fund could also be allocated towards adaptation projects and building up a public disaster fund.

Authorities' views

26. **The authorities agreed that raising potential growth was a key priority and stressed the need to boost pro-growth reforms and public sector efficiency while re-examining fiscal and other constraints that can hold back investment.** They highlighted continuing successes of social partnership in Grenada and thought these could be leveraged through a greater focus on

growth-related issues and inclusive growth. The authorities explained plans to further improve the business environment, including through more efficient and business-friendly tax and customs procedures. On the labor market, they underscored the need and ongoing efforts to boost youth employment, agreeing with the focus on results-based education and training, particularly in vocational areas. They re-affirmed the need to boost infrastructure and resilience-related investment, including through exploring options for new projects financed by grants and concessional loans and looked forward to the planned climate change policy assessment in helping them to further prioritize and catalyze this work.

D. Other Issues

27. Statistics. Upgraded economic statistics are essential for better identifying policy priorities and giving confidence to investors. Tasks include: (i) improving fiscal and public debt statistics (based on extended coverage of the public sector, including of "covered public entities" as envisioned in the FRL); (ii) completing the compilation of pre-2014 BOP data under BPM6; (iii) updating data on poverty and the income distribution (envisioned to be completed by end-2019); and (iv) publishing GDP on a quarterly basis (the time series has already been elaborated and could improve timely decision-making).

Authorities' Views

28. The authorities agreed with these priorities and indicated plans to address them in the near term.

29. The 2016 update safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. The ECCB has restructured the internal audit function and established an independent risk management unit in line with leading international practices.

STAFF APPRAISAL

30. Economic and fiscal performance has continued to exceed expectations. The Grenadian economy has been growing robustly with strong performance of construction, tourism and private education. The fiscal situation improved further in 2017, and the government continues to overperform the FRL targets. The public debt ratio fell by around 11 percentage points of GDP in 2017 reflecting the strong growth and fiscal position, as well as the completion of the final phase of bond restructuring. FDI was 8½ percent of GDP in 2017. As such, the authorities are to be commended for the policies and reforms that underpin these gains.

31. Potential growth needs strengthening. Growth potential is held back by Grenada's susceptibility to economic shocks and natural disasters, insufficient labor skills, high energy and other input costs, a relatively undiversified economy, red tape, and an inefficient public sector. Unemployment at 23½ percent is still high and poverty remains an important social issue. The elevated external deficits highlight lingering concerns linked to productivity and competitiveness, as external position in 2017 was weaker than implied by medium-term fundamentals and desirable policies. Action is needed to reduce red-tape and bureaucracy, address weaknesses in planning, execution and monitoring of public infrastructure spending, ensure contained wage growth, and reduce the skills gaps.

32. Careful planning is needed to improve the FRL while ensuring that the fiscal rules continue to be both credible and beneficial for the economy. Maintaining the FRL's rules-based framework is essential to support policy credibility. There is scope to quickly improve the FRL's operational aspects but more substantive changes to the framework should be approached as part of a comprehensive plan that balances debt reduction with the need to create fiscal space for high-quality infrastructure spending. The recent initiatives on pensions and health care should be implemented in a way that is consistent with the FRL's deficit and expenditure rules.

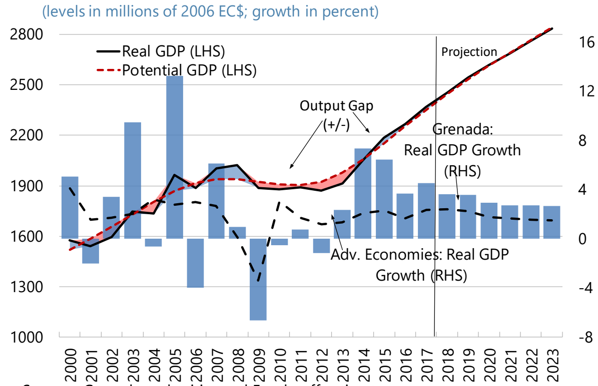
33. Oversight of non-bank financial institutions should be strengthened. Supervision of credit unions and insurance companies should be further improved and steps should be taken toward a single regional non-bank supervisor. Ensuring compliance with AML/CFT regulations at all levels, including strict enforcement of the due diligence process of the Citizenship-by-Investment program, is key for Grenada's continued access to stable cross-border payments.

34. Staff recommends that the next Article IV Consultation with Grenada be held on the standard 12-month cycle.

Figure 1. Grenada: Recent Economic Developments

The growth momentum in 2017 was strong and above its estimated potential…

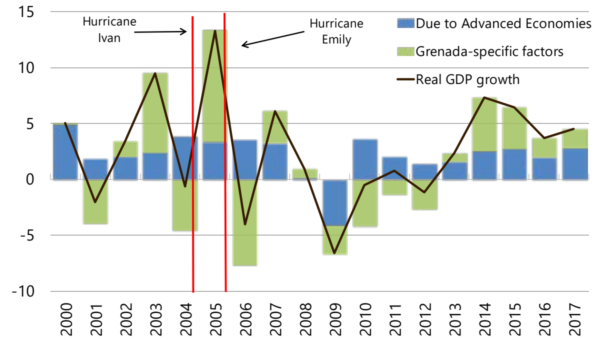
Actual and Potential Real GDP
(levels in millions of 2006 EC$; growth in percent)



Sources: Grenada authorities and Fund staff estimates.

…increasingly helped by external tailwinds

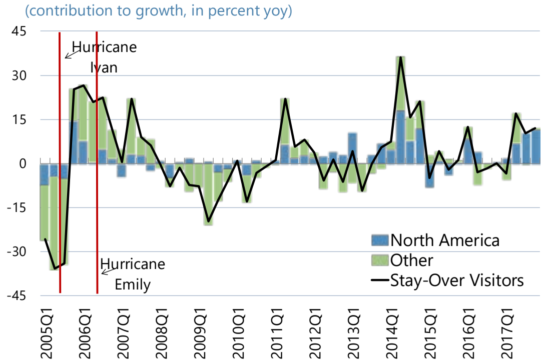
Economic Growth
(contribution to growth, percentage points)



Source: Grenada authorities and Fund staff calculations.

…with a pick-up in tourism demand and related activity in construction

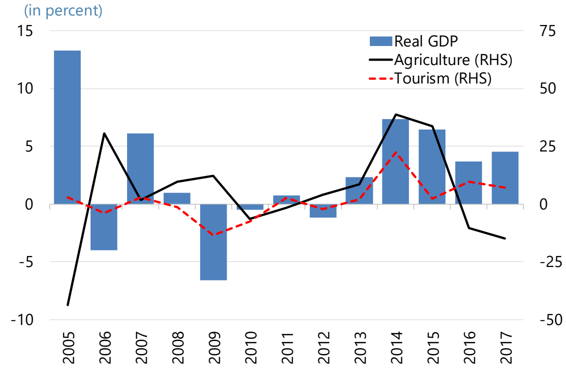
Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)



Source: Caribbean Tourism Organization.

…but offset by continued weather-related weakness in agriculture.

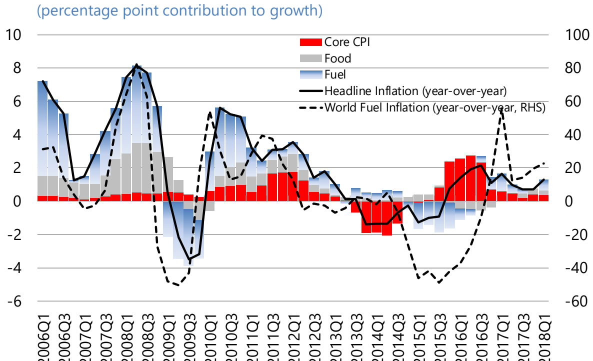
Economic Growth
(in percent)



Sources: Grenada authorities and Fund staff estimates.

After a pick-up from a jump in telecom prices in 2016, inflation moderated in 2017….

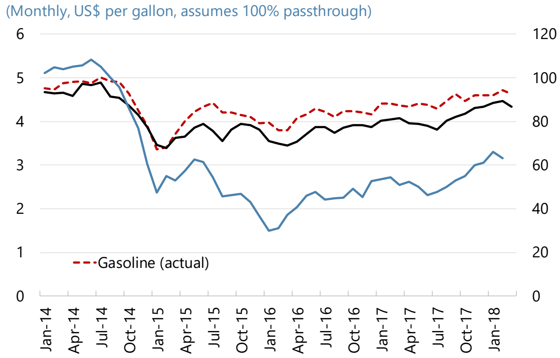
Inflation
(percentage point contribution to growth)



Sources: Grenada authorities, Fund staff estimates and WEO.

…while fuel price adjustments continue to reflect world oil price trends

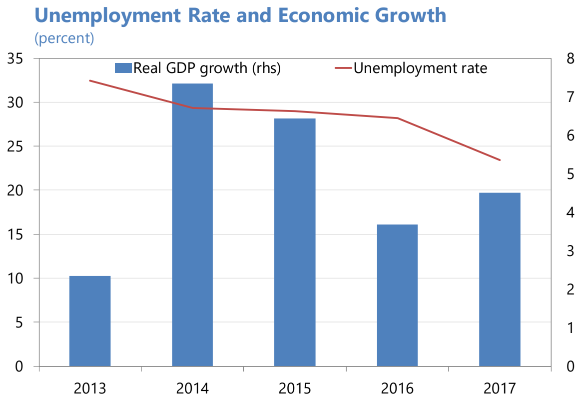
Retail Petroleum Product Prices
(Monthly, US$ per gallon, assumes 100% passthrough)



1/ From WEO, simple average of Brent, WTI and Dubai Fateh spot

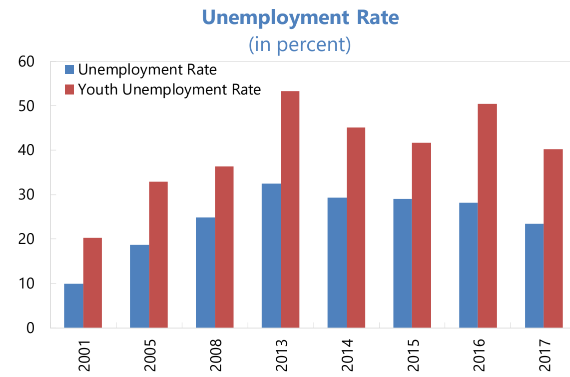
Figure 2. Grenada: Unemployment and the Labor Market

Unemployment has been declining but remains high.



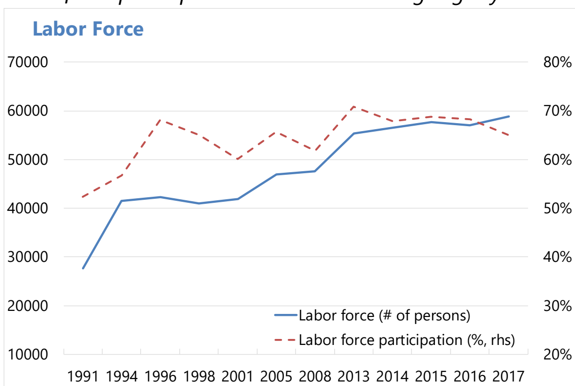
Source: CSO and IMF staff estimates.

Youth unemployment has been well above average, but it also fell substantially in 2017.



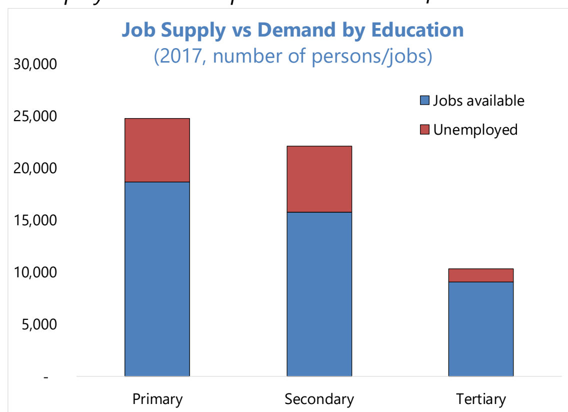
Source: Central Statistical Office

Labor force participation has been receding slightly….

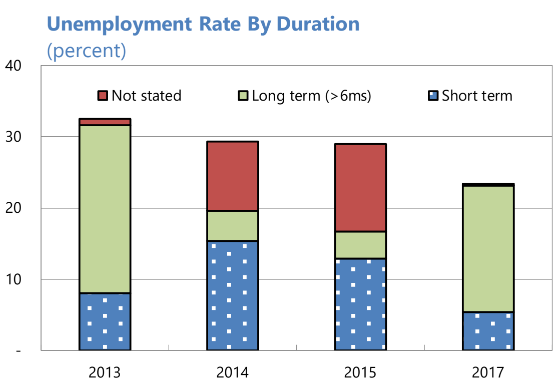


Source: Central Statistical Office, Various Surveys

…. employment rate depends on the level of education…

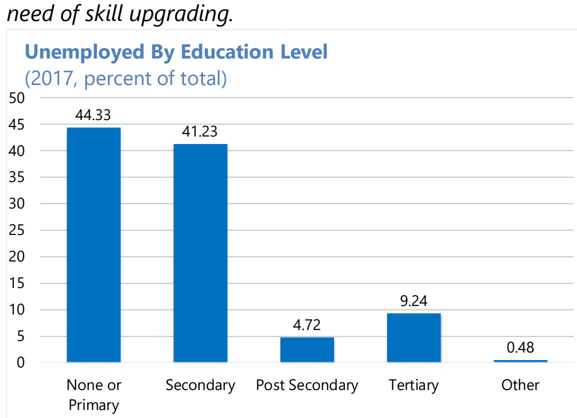


… but the duration unemployment is predominantly long-term.



Source: Central Statistical Office, Labour Force Surveys

High unemployment among the less-educated suggests a need of skill upgrading.

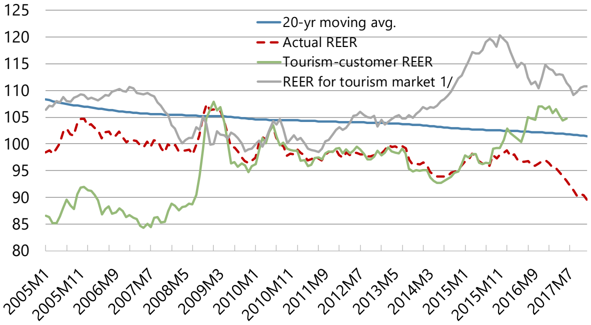


Source: Central Statistical Office, Labour Force Survey

Figure 3. Grenada: External Developments

The real effective exchange rate has been declining ….

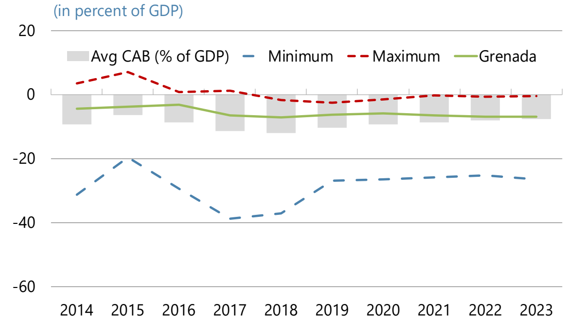
Real Effective Exchange Rate
(Based on CPI, index, 2010=100)



1/Tourism market destination include US, UK, Canada and Trinidad and Tobago, weighted by share of total tourism arrival
Sources: INS and IMF staff calculation

While the current account deficit is projected to remain close to comparator average ….

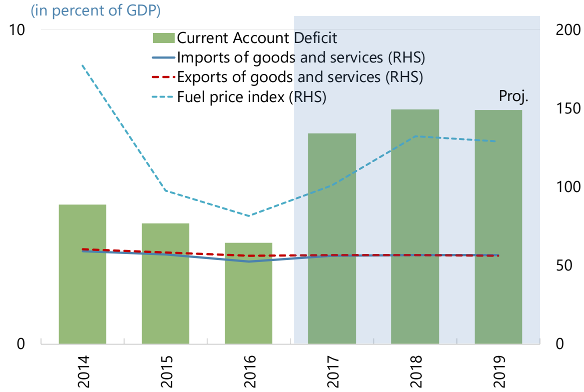
Current Account Balances of Small Tourism-Dependent Countries[1]
(in percent of GDP)



Sources: WEO
1/Countries include Anguilla, Antigua&Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanen,Maldives, Mauritius, Montserrat, Samoa, Seychelles, St. Kitts & Nevis, St. Lucia, St. Vincent & Gren. Vanuatu

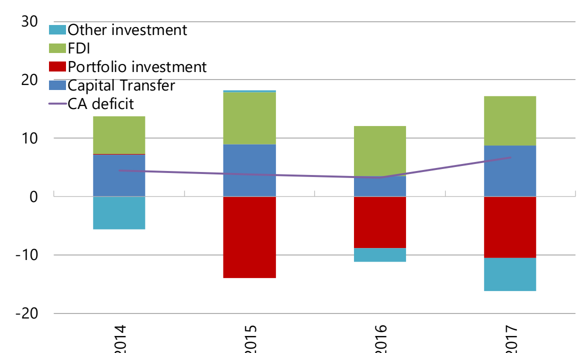
The current account deficit in 2018-19 is expected to stay at the higher level observed in 2017….

Trade and Current Account Deficit
(in percent of GDP)



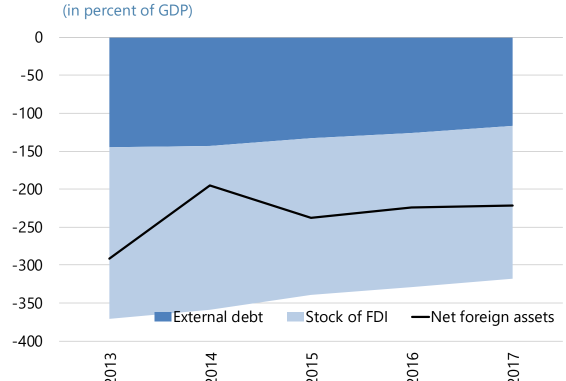
The current account deficit is more than fully financed by FDI and capital transfers, despite sizable portfolio outflows ….

Current Account Financing
(in percent of GDP)



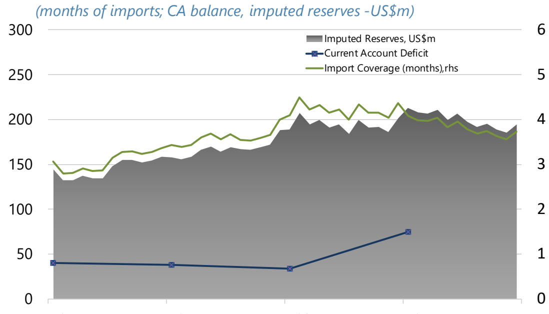
The net foreign asset position is gradually improving …

Grenada: Net Foreign Assets
(in percent of GDP)



…. and imputed reserves remain at around 4 months of imports

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

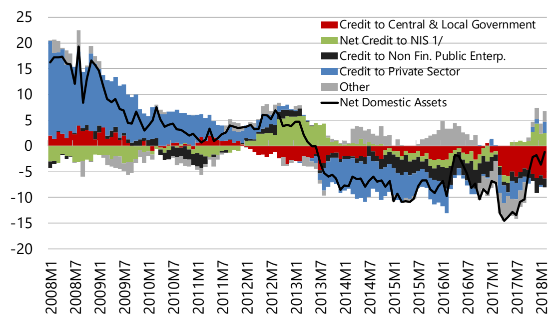


Sources: ECCB and IMF staff estimates.

Figure 4. Grenada: Monetary Developments

Bank's deleveraging cycle is ending ....

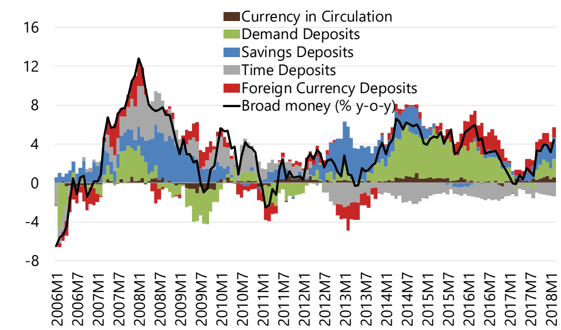
Commercial Banks' Net Domestic Assets
(contribution to growth, y-o-y)



Sources: ECCB
1/ Net credit to NIS is negative in levels meaning that the NIS is holding deposits, so if this item is growing it means that the NIS is depleting its deposits.

.... In a context of ample liquidity

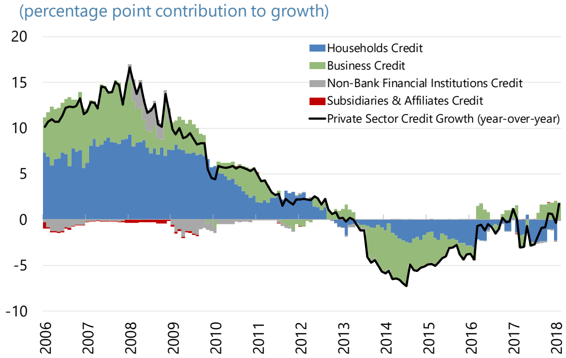
Components of Broad Money Growth (M2)
(contribution to growth, y-o-y)



Sources: ECCB and Fund staff estimates.

Bank credit to the private sector has so far been weak ....

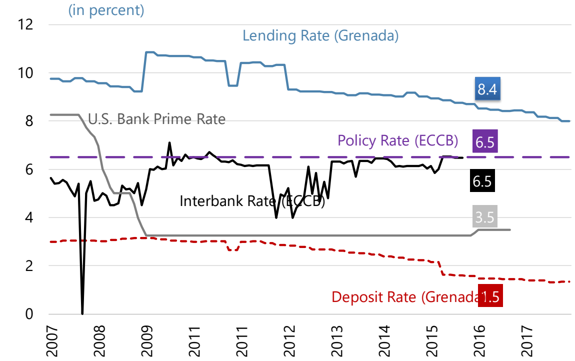
Credit growth
(percentage point contribution to growth)



Sources: Grenada authorities and Fund staff estimates.

.... while loan and deposit rates have steadily declined

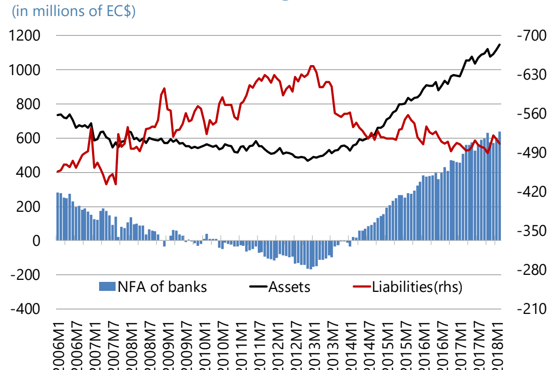
Interest Rates
(in percent)



Sources: ECCB and Haver Analytics.

In the meantime, excess liquidity continues to be placed abroad ...

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



... and in unremunerated excess reserves at the central bank.

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

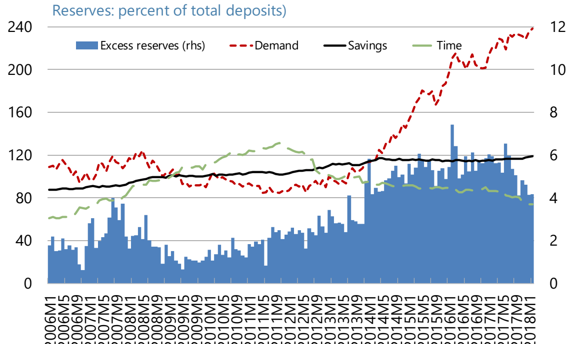
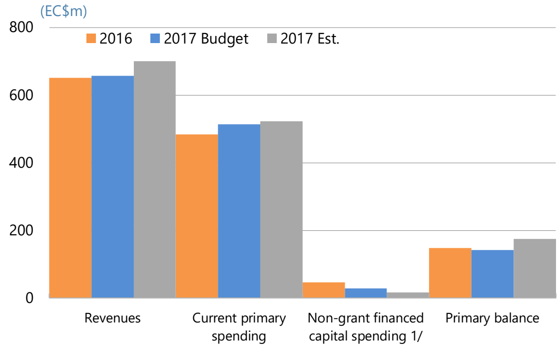


Figure 5. Grenada: Fiscal Developments

Fiscal deficit reduction in 2017 was larger than envisaged ….

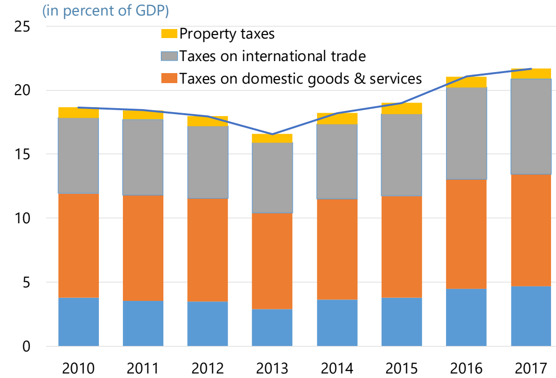
Grenada: Budget Execution and Outcomes
(EC$m)



1/ Higher than budget non-grant financed capital spending is allowed by the program in the case of revenue overperformance.

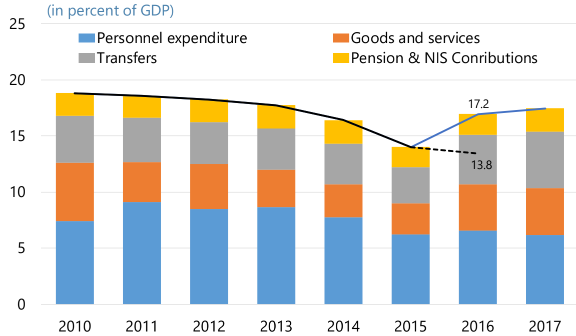
…. as tax revenue over performed partially because of robust economic growth …

Total Tax Revenue
(in percent of GDP)



…. and spending was kept under control …

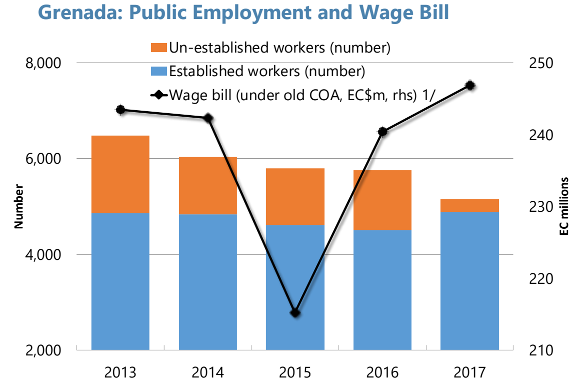
Current Primary Expenditure
(in percent of GDP)



1/ In 2016 spending estimated at 3.5 percent of GDP was reclassified from capital expenditure to current expenditure in the new chart of accounts (GFSM 2001). Dotted line shows old chart of accounts classification.

…. in part due to government's attrition policy that helped keep wage spending in check 1/.

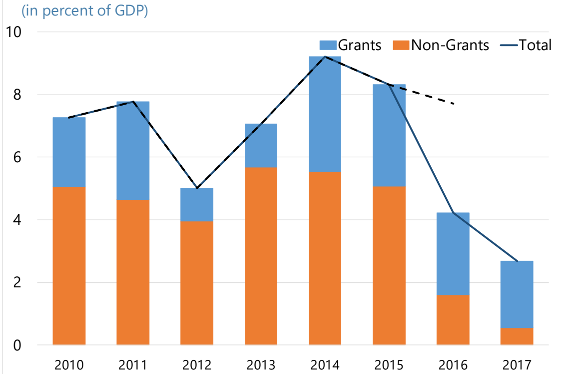
Grenada: Public Employment and Wage Bill



1/ 2016 and 2017 includes retroactive payment of wage increments.

… Capital expenditure declined significantly…

Capital Expenditure
(in percent of GDP)



…while the stronger fiscal position together with high GDP growth and debt restructuring, reduced public debt.

Public Sector Debt and Fiscal Balance
(in percent of GDP)

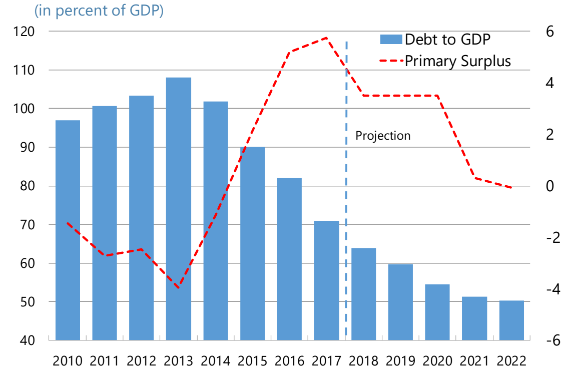
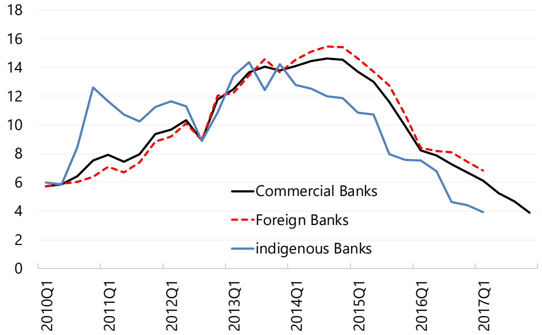


Figure 6. Grenada: Financial Sector Developments

Banks continue to strengthen balance sheets........

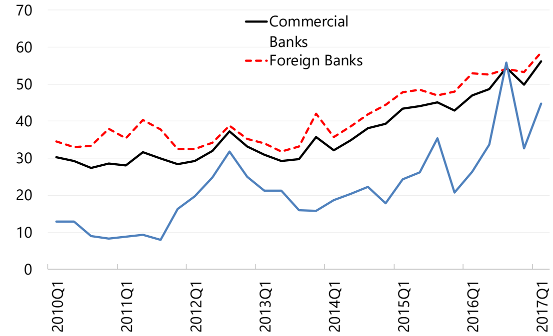
Nonperforming Loans
(in percent of total loans)



Sources: ECCB.

.... and build up provisioning levels

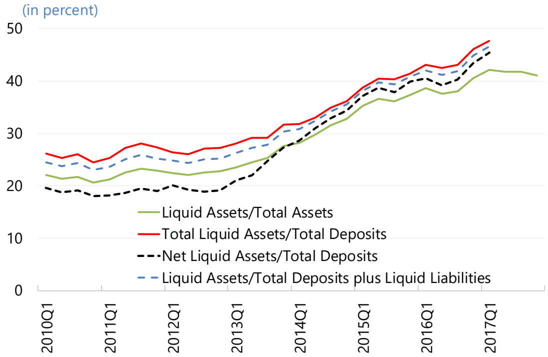
Provisions to Nonperforming Loans
(provisions for loan losses to non-performing loans, in percent)



Sources: ECCB.

Ample liquidity continues to be maintained ....

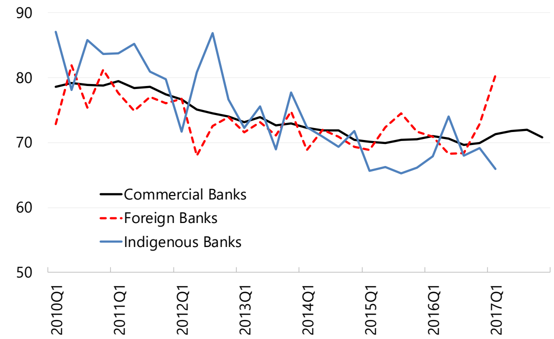
Commercial Banks' Liquidity
(in percent)



Sources: ECCB.

....but further placed in low yielding assets

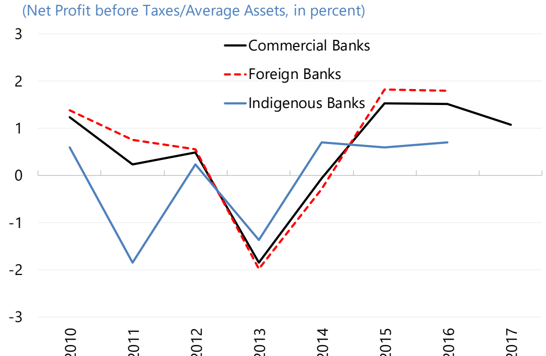
Interest Margin/Gross Income
(in percent)



Sources: ECCB.

Profitability declined moderately in 2017...

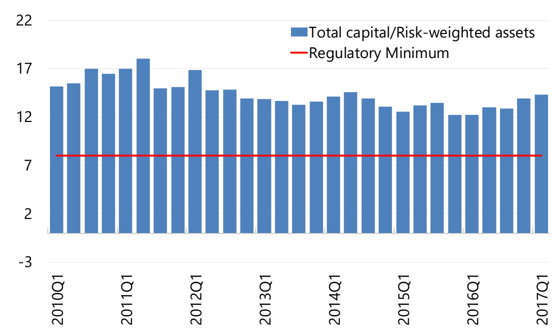
Return on Average Assets
(Net Profit before Taxes/Average Assets, in percent)



Sources: ECCB.

Capital remains well above the regulatory minimum.

Commercial Banks' Capital Adequacy
(Total Capital/Risk Weighted Assets, in percent)



Sources: ECCB.

Table 1. Grenada: Economic and Financial Indicators 2014–2023

Rank in UNDP Human Development Index out of 179 countries (2016)	79	Infant mortality rate per '000 births (2016)	9.9
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2014)	73	Poverty headcount index (2008)	38
GDP per capita in US$ (2017)	10,390	Unemployment rate (2017)	23.6
Population in millions (2016)	0.11		

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP	7.3	6.4	3.7	4.5	3.6	3.6	2.9	2.7	2.7	2.7
Nominal GDP	8.2	9.4	5.9	5.4	6.4	5.8	5.2	5.0	5.0	5.0
Consumer prices, end of period	-0.6	1.1	0.9	0.5	3.0	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	-1.0	-0.6	1.7	0.9	2.6	1.8	2.0	2.0	2.0	2.0
Output gap (percent of potential GDP) 1/	-0.1	1.6	0.7	0.7	0.4	0.4	0.1	-0.1	-0.1	-0.1
Real effective exchange rate	-3.5	2.6	-0.2	-4.2	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)									
Revenue	24.5	24.5	26.4	25.9	25.8	25.2	25.1	24.9	24.8	24.6
Taxes	18.2	19.0	21.1	21.7	21.3	20.8	20.8	20.7	20.7	20.6
Non-tax revenue 2/	2.2	2.2	1.8	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Grants	4.1	3.2	3.5	2.6	2.9	2.8	2.7	2.6	2.5	2.4
Expenditure 3/	29.2	25.7	24.0	22.8	22.4	21.9	21.4	23.0	24.3	24.6
Current primary expenditure	16.4	14.0	16.9	17.5	16.9	16.5	16.6	16.5	16.5	16.5
Interest payments	3.5	3.3	2.9	2.7	2.2	2.0	1.9	1.7	1.6	1.6
Capital expenditure	9.2	8.3	4.2	2.7	3.3	3.3	3.0	4.8	6.2	6.5
Primary balance 2/	-1.1	2.1	5.2	5.7	5.6	5.3	5.5	3.6	2.1	1.6
Overall balance	-4.7	-1.2	2.3	3.0	3.4	3.3	3.6	1.9	0.5	0.0
Public debt (incl. guaranteed) 4/	101.8	90.1	82.0	70.8	65.0	59.6	52.9	51.3	50.7	50.3
Domestic	34.1	28.7	25.1	22.7	17.9	15.8	13.7	12.4	11.7	11.1
External	67.7	61.4	56.9	48.0	47.1	43.8	39.2	38.9	39.0	39.2
Money and credit, end of period (annual percent change)										
Broad money (M2)	4.1	5.2	1.3	4.0	6.4	5.8	5.2	5.0	5.0	5.0
Credit to private sector	-5.1	-3.8	-0.2	0.6	5.6	8.0	6.8	6.6	6.4	5.6
Balance of payments										
Current account balance, o/w:	-4.4	-3.8	-3.2	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Exports of goods and services	60.2	58.0	56.1	56.3	56.3	56.2	56.0	55.9	55.9	55.8
Imports of goods and services	58.9	56.7	52.4	56.2	56.6	56.6	55.6	55.4	55.6	55.3
Capital and financial account balances	7.1	9.0	3.5	8.7	5.0	4.9	4.9	4.8	4.7	4.6
Overall balance	3.9	2.2	0.3	-1.3	1.1	0.7	0.4	0.3	0.4	0.8
External debt (gross)	143.0	133.2	126.3	116.4	108.4	107.2	100.8	98.9	97.4	95.9
Savings-Investment balance	-4.4	-3.8	-3.2	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Savings	13.8	13.9	17.0	11.9	11.8	12.3	12.9	14.8	15.9	16.3
Investment	18.3	17.7	20.2	18.6	19.2	19.8	19.4	21.2	22.6	22.9
Memorandum items:										
Nominal GDP (EC$ million)	2,461	2,692	2,852	3,006	3,200	3,387	3,562	3,741	3,928	4,124
Net imputed international reserves										
Months of imports of goods and services	3.4	4.1	3.9	3.5	3.4	3.4	3.3	3.2	3.1	3.0

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/ The output gap is based on an HP-filter decomposition of actual and projected real GDP into cycle and trend (with lamda equal to 6.25) and end-of-period trend growth assumed at 2.7 percent. In some periods, including 2016-17, trend growth is higher than actual growth, causing the output gap to shrink even when the actual growth is above long-term trend growth.

2/ Includes CBI-related non-tax revenue.

3/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2001 format.

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

Table 2a. Grenada: Operations of the Central Government, 2014–2023

(In EC$ million)

	2014	2015	2016	2017	2018	2018	2019	2020	2021	2022	2023
					Budget	Projections					
Total revenue and grants	**602.8**	**658.5**	**751.6**	**778.2**	**858.4**	**824.9**	**852.5**	**893.0**	**931.0**	**973.9**	**1,015.5**
Revenue	502.3	571.3	651.6	700.1	710.4	732.0	757.6	796.7	833.2	874.8	915.1
Tax revenue	448.1	511.8	600.5	651.9	658.1	682.6	705.3	741.7	775.5	814.2	851.4
Taxes on income and profits	89.9	101.7	127.3	140.6	136.6	135.8	125.6	132.1	138.8	145.7	153.0
Taxes on property	21.3	23.3	23.9	24.3	24.8	25.3	26.8	28.2	29.6	31.1	32.6
Taxes on goods and services	193.4	214.0	244.8	263.7	269.0	282.6	299.0	314.4	330.2	346.6	363.8
Taxes on international trade	143.5	172.8	204.5	223.3	227.7	238.9	253.8	266.9	276.9	290.8	302.0
Nontax revenue	54.2	59.5	51.1	48.2	52.4	49.4	52.3	55.0	57.8	60.7	63.7
Citizenship by Investment Program	0.3	16.3	3.4	4.9	5.4	3.2	3.4	3.6	3.8	4.0	4.2
Fees, fines and sales	19.0	18.5	23.1	22.8	13.9	…	…	…	…	…	…
Licenses	30.0	18.4	16.6	18.2	18.2	…	…	…	…	…	…
Grants	100.5	87.2	100.0	78.1	148.0	92.8	94.8	96.3	97.8	99.1	100.4
Total expenditure and net lending 1/	**717.6**	**690.6**	**685.6**	**686.6**	**778.4**	**715.4**	**741.7**	**763.6**	**860.1**	**955.6**	**1,015.2**
Current expenditure	490.9	467.0	565.5	605.9	607.1	611.0	629.5	657.4	681.8	713.9	748.9
Wages and salaries	242.4	215.3	240.4	246.9	265.6	267.7	272.9	287.7	301.3	316.2	331.8
Pensions and NIS contributions	51.6	48.5	52.6	62.1	56.4	63.2	66.0	69.6	73.1	76.8	80.7
Goods and services	72.2	75.9	117.6	126.5	117.8	109.7	116.1	122.1	128.2	134.6	141.3
Transfers	37.4	37.5	72.5	89.5	99.5	99.9	105.4	110.9	116.4	122.2	128.2
Transfers Abroad (Contributions)	13.1	13.8	14.3	…	…	…	…	…	…	…	…
Grants & Subventions (other private sector)	24.2	23.7	41.4	…	…	…	…	…	…	…	…
Transfers to Statutory Boards	0.1	0.0	0.0	…	…	…	…	…	…	…	…
Public Assistance	0.0	0.0	16.9	…	…	…	…	…	…	…	…
Interest payments	87.2	89.9	82.3	81.0	67.8	70.6	69.1	67.2	62.7	64.1	66.7
Capital expenditure and net lending	226.7	223.6	120.1	80.6	171.3	104.4	112.2	106.2	178.3	241.7	266.4
Grant-financed	90.6	87.2	74.0	64.2	143.0	87.9	89.7	91.2	92.5	93.8	95.0
Non-grant financed	136.1	136.5	46.1	16.4	28.3	16.5	22.5	15.0	85.8	147.9	171.4
Primary balance 2/	**-27.6**	**57.8**	**148.3**	**172.6**	**147.8**	**180.0**	**179.9**	**196.6**	**133.7**	**82.5**	**67.0**
Underlying primary balance (excl. one-off rev. and exp.)	**-28.5**	**46.1**	**154.6**								
Overall balance	**-114.8**	**-32.2**	**66.0**	**91.6**	**80.0**	**109.5**	**110.8**	**129.4**	**71.0**	**18.4**	**0.3**
Public Debt	**2,504.5**	**2,425.4**	**2,338.1**	**2,126.9**	**2,082.0**	**2,079.4**	**2,018.5**	**1,884.8**	**1,919.3**	**1,991.2**	**2,072.9**
Memo items:											
Nominal GDP (EC$ millions)	2,461	2,692	2,852	3,006	3,200	3,200	3,387	3,562	3,741	3,928	4,124
Underlying primary balance, including CBI revenues (EC$ millions) 3/	-28.5	46.1	154.6	178.0							
Adjustment relative to the previous year (EC$ millions)	*74.7*	*74.7*	*108.5*	*23.4*	…	…	…	…	…	…	

Sources: Country authorities and Fund staff estimates.

1/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2001 format.

2/ The primary surpluses for 2017-23 include revenue from the Citizenship by Investment program.

3/ Excluding one-off items (windfall revenues and retroactive wage and pension payments), incomplete data for 2017.

Table 2b. Grenada: Operations of the Central Government, 2014–2023
(In percent of GDP)

	2014	2015	2016	2017	2018	2018	2019	2020	2021	2022	2023
					Budget	Projections					
Total revenue and grants	**24.5**	**24.5**	**26.4**	**25.9**	**26.8**	**25.8**	**25.2**	**25.1**	**24.9**	**24.8**	**24.6**
Revenue	20.4	21.2	22.8	23.3	22.2	22.9	22.4	22.4	22.3	22.3	22.2
Tax revenue	18.2	19.0	21.1	21.7	20.6	21.3	20.8	20.8	20.7	20.7	20.6
Taxes on income and profits	3.7	3.8	4.5	4.7	4.3	4.2	3.7	3.7	3.7	3.7	3.7
Taxes on property	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on goods and services	7.9	8.0	8.6	8.8	8.4	8.8	8.8	8.8	8.8	8.8	8.8
Taxes on international trade	5.8	6.4	7.2	7.4	7.1	7.5	7.5	7.5	7.4	7.4	7.3
Nontax revenue	2.2	2.2	1.8	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Grants	4.1	3.2	3.5	2.6	4.6	2.9	2.8	2.7	2.6	2.5	2.4
Total expenditure and net lending 1/	**29.2**	**25.7**	**24.0**	**22.8**	**24.3**	**22.4**	**21.9**	**21.4**	**23.0**	**24.3**	**24.6**
Current expenditure	19.9	17.3	19.8	20.2	19.0	19.1	18.6	18.5	18.2	18.2	18.2
Wages and salaries	9.9	8.0	8.4	8.2	8.3	8.4	8.1	8.1	8.1	8.0	8.0
Pensions and NIS contributions	2.1	1.8	1.8	2.1	1.8	2.0	1.9	2.0	2.0	2.0	2.0
Goods and services	2.9	2.8	4.1	4.2	3.7	3.4	3.4	3.4	3.4	3.4	3.4
Transfers	1.5	1.4	2.5	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Interest payments	3.5	3.3	2.9	2.7	2.1	2.2	2.0	1.9	1.7	1.6	1.6
Capital expenditure and net lending	9.2	8.3	4.2	2.7	5.4	3.3	3.3	3.0	4.8	6.2	6.5
Grant-financed	3.7	3.2	2.6	2.1	4.5	2.7	2.6	2.6	2.5	2.4	2.3
Non-grant financed	5.5	5.1	1.6	0.5	0.9	0.5	0.7	0.4	2.3	3.8	4.2
Primary balance 2/	**-1.1**	**2.1**	**5.2**	**5.7**	**4.6**	**5.6**	**5.3**	**5.5**	**3.6**	**2.1**	**1.6**
Underlying primary balance (excl. one-off rev. and exp.)	**-1.2**	**1.7**	**5.6**	**5.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-4.7**	**-1.2**	**2.3**	**3.0**	**2.5**	**3.4**	**3.3**	**3.6**	**1.9**	**0.5**	**0.0**
Public Debt	**101.8**	**90.1**	**82.0**	**70.8**	**65.1**	**65.0**	**59.6**	**52.9**	**51.3**	**50.7**	**50.3**
Memo item:											
Nominal GDP (EC$ millions)	2,461	2,692	2,852	3,006	3,200	3,200	3,387	3,562	3,741	3,928	4,124
Underlying primary balance, including CBI revenues (% of GDP) 3/	-1.2	1.7	5.6	*5.9*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Adjustment relative to the previous year (% of GDP)	*3.4*	*2.9*	*3.9*	*0.3*	…	…	…	…	…	…	…

Sources: Country authorities and Fund staff estimates.

1/ The Chart of Accounts for expenditure classification was revised in 2016 from GFSM 1986 format to GFSM 2001 format.

2/ The primary surpluses for 2017-23 include revenue from the Citizenship by Investment program.

3/ Excluding one-off items (windfall revenues and retroactive wage and pension payments), incomplete data for 2017.

Table 3. Grenada: Public Sector Debt, 2015–2017
(Year end, in millions of U.S. dollars)

	2015			2016			2017 (prel.)		
		Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	898.3	100.0	90.1	866.2	100.0	82.0	787.7	100.0	70.8
Central government debt	857.9	95.5	86.0	837.1	96.6	79.3	761.0	96.6	68.4
Central-government guaranteed debt	40.4	4.5	4.1	29.1	3.4	2.8	26.7	3.4	2.4
External debt	611.9	68.1	61.4	600.8	69.4	56.9	534.7	67.9	48.0
A. Central Government	591.3	65.8	59.3	586.7	67.7	55.5	521.3	66.2	46.8
1. Multilateral	280.0	31.2	28.1	288.2	33.3	27.3	293.9	37.3	26.4
CDB	134.7	15.0	13.5	141.3	16.3	13.4	136.3	17.3	12.2
IDA	77.7	8.6	7.8	78.5	9.1	7.4	92.1	11.7	8.3
IBRD	14.9	1.7	1.5	13.8	1.6	1.3	12.7	1.6	1.1
IMF	29.3	3.3	2.9	28.9	3.3	2.7	28.6	3.6	2.6
Other Multilateral	23.4	2.6	2.3	25.6	3.0	2.4	24.2	3.1	2.2
2. Official bilateral	97.0	10.8	9.7	94.3	10.9	8.9	88.7	11.3	8.0
Paris Club 1/	10.8	1.2	1.1	8.9	1.0	0.8	8.2	1.0	0.7
France	4.5	0.5	0.4	4.0	0.5	0.4	3.8	0.5	0.3
Russian Federation	0.2	0.0	0.0	0.2	0.0	0.0	0.1	0.0	0.0
U.S.	3.0	0.3	0.3	2.7	0.3	0.3	2.5	0.3	0.2
U.K.	3.2	0.4	0.3	2.0	0.2	0.2	1.9	0.2	0.2
Other	86.2	9.6	8.7	85.4	9.9	8.1	80.5	10.2	7.2
Kuwait	17.0	1.9	1.7	16.2	1.9	1.5	15.6	2.0	1.4
Taiwan Province of China 2/	19.4	2.2	1.9	19.4	2.2	1.8	18.3	2.3	1.6
Trinidad and Tobago	32.9	3.7	3.3	32.9	3.8	3.1	32.9	4.2	3.0
Venezuela	10.0	1.1	1.0	10.0	1.2	0.9	7.7	1.0	0.7
Other Bilateral	6.9	0.8	0.7	6.9	0.8	0.7	5.9	0.8	0.5
3. Commercial debt	188.1	20.9	18.9	178.5	20.6	16.9	117.3	14.9	10.5
US$ 2040 Bonds 5/	179.2	19.9	18.0	170.2	19.6	16.1	112.3	14.3	10.1
Other Bonds	8.9	1.0	0.9	8.3	1.0	0.8	5.0	0.6	0.5
4. External arrears on interests	3.4	0.4	0.3	3.9	0.4	0.4	4.8	0.6	0.4
5. Overdue membership fees	22.8	2.5	2.3	21.8	2.5	2.1	16.7	2.1	1.5
B. Central-government guaranteed	20.6	2.3	2.1	14.1	1.6	1.3	13.3	1.7	1.2
Domestic debt	286.4	31.9	28.7	265.5	30.6	25.1	253.1	32.1	22.7
A. Central Government	266.6	29.7	26.7	250.4	28.9	23.7	239.7	30.4	21.5
1. Treasury bills	117.9	13.1	11.8	113.3	13.1	10.7	76.6	9.7	6.9
RGSM 3/	35.9	4.0	3.6	34.6	4.0	3.3	33.5	4.2	3.0
3 month initial maturity	13.0	1.4	1.3	13.0	1.5	1.2	12.0	1.5	1.1
1 year initial maturity	23.0	2.6	2.3	21.6	2.5	2.0	21.4	2.7	1.9
Private placements	82.0	9.1	8.2	78.7	9.1	7.4	43.1	5.5	3.9
National Insurance Scheme	14.8	1.6	1.5	14.8	1.7	1.4	14.8	1.9	1.3
Petrocaribe Grenada	34.8	3.9	3.5	34.8	4.0	3.3	15.8	2.0	1.4
Other private placements	32.4	3.6	3.2	29.0	3.4	2.7	12.5	1.6	1.1
2. Bonds	111.4	12.4	11.2	115.7	13.4	11.0	138.8	17.6	12.5
EC$ 2040 Bonds 5/	68.9	7.7	6.9	67.3	7.8	6.4	57.1	7.2	5.1
RGSM 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	37.9	4.2	3.8	43.5	5.0	4.1	79.3	10.1	7.1
Other Bonds	4.6	0.5	0.5	4.9	0.6	0.5	2.5	0.3	0.2
3. Domestic arrears on interests	4.4	0.5	0.4	1.6	0.2	0.1	1.3	0.2	0.1
4. Compensation claims	14.8	1.6	1.5	14.8	1.7	1.4	21.5	2.7	1.9
5. Commercial Bank Loans	7.0	0.8	0.7	5.0	0.6	0.5	1.4	0.2	0.1
6. Overdraft	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Supplier arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Other 4/	11.1	1.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0
B. Central-Government Guaranteed	19.8	2.2	2.0	15.1	1.7	1.4	13.4	1.7	1.2
Memorandum items:									
Nominal GDP	997.0			1056.2			1113.3		

Sources: Grenadian authorities and Fund staff estimates.

1/ Debt service obligations to the Paris Club were rescheduled in May 2006.
2/ New debt issued after restructuring in December 2014.
3/ Regional Government Securities Market placements.
4/ Includes unpaid claims < 60 days, and ECCB temporary advance
5/ Prior to the restructuring that took place in November 2015 was the US$ 2025 bonds.

Table 4. Grenada: External and Domestic Arrears, 2016–2017

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

	2016				Q1 2017				Q4 2017 (prel.)			
	Principal	Interest	US$mln	% of GDP	Principal	Interest	US$mln	% of GDP	Principal	Interest	US$mln	% of GDP
Total arrears	**50.7**	**5.4**	**56.2**	**5.6**	**45.4**	**4.5**	**49.9**	**5.0**	**33.3**	**4.9**	**38.1**	**3.8**
External arrears	**37.0**	**3.9**	**40.9**	**4.1**	**33.9**	**3.2**	**37.1**	**3.7**	**29.8**	**3.6**	**33.4**	**3.3**
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	14.0	3.4	17.4	1.7	11.9	2.7	14.6	1.5	12.5	3.2	15.7	1.6
Paris Club	1.4	0.5	1.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK	1.3	0.5	1.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	12.6	2.9	15.5	1.5	11.9	2.7	14.6	1.4	12.5	3.2	15.7	1.5
Algeria 3/	1.9	0.0	1.9	0.2	1.9	0.0	1.9	0.2	2.1	0.0	2.1	0.2
Libya	5.0	0.0	5.0	0.5	5.0	0.0	5.0	0.5	5.0	0.0	5.0	0.5
Trinidad and Tobago	4.6	2.6	7.1	0.7	5.0	2.7	7.7	0.7	5.5	3.2	8.7	0.8
Venezuela	1.1	0.3	1.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial	6.9	0.5	7.4	0.7	6.9	0.5	7.4	0.7	0.5	0.4	0.8	0.1
Unpaid contribution to organizations	16.1	0.0	16.1	1.5	15.1	0.0	15.1	1.4	16.8	0.0	16.8	1.6
Budget expenditure arrears	**13.7**	**1.6**	**15.3**	**1.5**	**11.5**	**1.3**	**12.8**	**1.3**	**3.5**	**1.3**	**4.8**	**0.5**
Domestic debt 1/	13.7	1.6	15.3	1.5	11.5	1.3	12.8	1.3	3.5	1.3	4.8	0.5
Domestic debt under restructuring 2/	13.7	1.6	15.3	1.4	11.5	1.3	12.8	1.1	3.5	1.3	4.8	0.4
ECCB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplier arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Grenadian authorities and staff estimates.

1/ The increase in 2014 in domestic debt under restructuring is a result of suspension of interest payment on T-bills, bonds, and commercial

2/ Includes US$ 1.3 million in matured but unclaimed bonds and debentures.

3/ Principal amount includes capitalized interest.

Table 5. Grenada: Balance of Payments Summary, 2014–2023

	2014	2015	2016	2017	Projections 2018	2019	2020	2021	2022	2023
	(In millions of US dollars, unless otherwise specified)									
Current account	**-40.4**	**-38.3**	**-33.9**	**-74.7**	**-88.1**	**-93.6**	**-86.7**	**-89.2**	**-97.0**	**-100.4**
Trade balance for goods and services	11.4	12.9	39.5	1.2	-3.6	-5.0	5.8	7.4	3.9	6.2
Exports of goods and services	548.3	578.3	592.6	627.1	667.3	705.3	739.1	774.6	812.9	851.5
Nutmeg	6.1	4.9	4.6	3.8	4.3	4.4	4.5	4.6	4.7	0.0
Tourism	466.2	493.0	510.0	545.5	579.6	612.3	641.4	671.9	703.9	737.7
Imports of goods and services	536.9	565.5	553.0	625.9	670.9	710.3	733.3	767.1	809.0	845.3
Mineral fuels	79.3	59.1	50.8	49.8	65.0	67.2	66.8	67.2	68.3	70.0
Foodstuffs	79.2	83.0	81.5	93.2	100.5	105.2	106.7	108.1	111.1	114.1
Other goods	147.3	185.2	182.3	235.2	245.3	266.4	278.2	300.1	327.5	343.6
Services	231.2	238.1	238.4	247.7	260.0	271.4	281.5	291.7	302.1	317.6
Net Income	-56.3	-58.2	-61.2	-64.5	-68.7	-72.7	-76.5	-80.3	-84.3	-88.5
Current transfers	4.6	7.1	-12.2	-11.3	-15.8	-15.8	-16.1	-16.3	-16.6	-18.1
Capital account	**65.1**	**89.4**	**36.9**	**96.8**	**59.8**	**62.1**	**64.0**	**66.1**	**68.1**	**70.2**
Capital transfers	65.1	89.4	36.9	96.8	59.8	62.1	64.0	66.1	68.1	70.2
o.w. debt forgiveness 1/	17.2	48.4	4.5	49.5	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-9.4**	**30.4**	**-1.0**	**30.8**	**-48.4**	**-47.2**	**-32.5**	**-28.9**	**-36.4**	**-51.9**
Foreign direct investment	-58.4	-88.6	-90.8	-95.1	-101.8	-114.1	-120.0	-126.0	-132.3	-138.9
Portfolio investment (net)	-1.7	123.1	66.1	69.3	73.3	77.2	80.6	84.2	87.9	91.7
Other investment (net)	50.7	-4.1	23.6	50.1	-12.2	-3.9	10.8	14.5	10.0	4.4
o/w Petrocaribe	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7
Errors and omissions	1.1	1.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Overall balance	**35.3**	**21.8**	**3.1**	**-14.9**	**12.5**	**9.3**	**5.9**	**4.2**	**5.5**	**12.6**
Overall financing	**35.3**	**52.4**	**18.7**	**-2.1**	**12.5**	**9.3**	**5.9**	**4.2**	**5.5**	**12.6**
Change in ECCB NFA	21.9	28.5	10.1	-6.5	7.5	6.4	3.9	1.6	2.0	9.1
Change in Reserve Position with the IMF	-3.4	4.5	5.0	4.4	5.0	2.9	1.9	2.6	3.5	3.5
Change in existing external arrears	16.8	19.3	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap:	**0.0**	**30.6**	**15.6**	**12.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Exceptional financing:	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund resources	6.1	5.6	5.6	2.8	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	15.0	15.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
CDB	10.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP, unless otherwise specified)									
Current account	**-4.4**	**-3.8**	**-3.2**	**-6.7**	**-7.4**	**-7.5**	**-6.6**	**-6.4**	**-6.7**	**-6.6**
Trade balance for goods and services	1.2	1.3	3.7	0.1	-0.3	-0.4	0.4	0.5	0.3	0.4
Exports of goods and services	60.2	58.0	56.1	56.3	56.3	56.2	56.0	55.9	55.9	55.8
Tourism	51.2	49.4	48.3	49.0	48.9	48.8	48.6	48.5	48.4	48.3
Imports of goods and services	58.9	56.7	52.4	56.2	56.6	56.6	55.6	55.4	55.6	55.3
o.w. Mineral fuels	8.7	5.9	4.8	4.5	5.5	5.4	5.1	4.9	4.7	4.6
Net income	-6.2	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8
o.w. Public interest payment	-2.4	-2.3	-2.1	-2.0	-1.6	-1.6	-1.5	-1.3	-1.3	-1.3
Net current transfers	0.5	0.7	-1.2	-1.0	-1.3	-1.3	-1.2	-1.2	-1.1	-1.2
Capital account	**7.1**	**9.0**	**3.5**	**8.7**	**5.0**	**4.9**	**4.9**	**4.8**	**4.7**	**4.6**
Capital transfers	7.1	9.0	3.5	8.7	5.0	4.9	4.9	4.8	4.7	4.6
o.w. debt forgiveness 1/	1.9	4.9	0.4	4.4	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-1.0**	**3.1**	**-0.1**	**2.8**	**-4.1**	**-3.8**	**-2.5**	**-2.1**	**-2.5**	**-3.4**
Foreign direct investment	-6.4	-8.9	-8.6	-8.5	-8.6	-9.1	-9.1	-9.1	-9.1	-9.1
Portfolio investment (net)	-0.2	12.4	6.3	6.2	6.2	6.2	6.1	6.1	6.0	6.0
Other investment (net)	5.6	-0.4	2.2	4.5	-1.0	-0.3	0.8	1.0	0.7	0.3
Error and Omission	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Overall balance	3.9	2.2	0.3	-1.3	1.1	0.7	0.4	0.3	0.4	0.8
Overall financing	**3.9**	**5.3**	**1.8**	**-0.2**	**1.1**	**0.7**	**0.4**	**0.3**	**0.4**	**0.8**
Change in ECCB NFA	2.4	2.9	1.0	-0.6	0.6	0.5	0.3	0.1	0.1	0.6
Change in imputed reserves (increase -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in NTF reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in govt. foreign assets	6.8	7.0	-4.1	-3.7	-0.7	-2.0	-1.9	-1.3	-0.8	-0.6
Change in Reserve Position with the IMF	-0.4	0.5	0.5	0.4	0.4	0.2	0.1	0.2	0.2	0.2
Change in existing external arrears	1.8	1.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap:	**0.0**	**3.1**	**1.5**	**1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Exceptional financing:	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund resources	0.7	0.6	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	1.6	1.5	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
CDB	1.1	1.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Gross external debt	143.0	133.2	126.3	116.4	108.4	107.2	100.8	98.9	97.4	95.9
External public and publicly guaranteed debt	67.7	61.4	56.9	48.0	47.1	43.8	39.2	38.9	39.0	39.2
Foreign liabilities of private sector 2/	75.3	71.8	69.4	68.4	61.3	63.4	61.7	60.1	58.4	56.8
Nominal GDP	911.5	997.0	1056.2	1113.3	1185.0	1254.3	1319.1	1385.6	1454.8	1527.3

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

1/ Debt forgiveness as a result of debt restructuring.

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

Table 6. Grenada: Summary Accounts of the Monetary Sector, 2014–2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(In millions of EC dollars; end of period)									
Net foreign assets	582.2	852.5	1,003.2	1,097.9	1,140.2	1,225.6	1,302.5	1,354.8	1,393.1	1,442.2
ECCB	427.3	509.0	543.7	526.1	546.5	563.8	574.4	578.7	584.1	608.6
Of which: Net imputed reserves	427.3	509.0	543.7	526.1	546.5	563.8	574.4	578.7	584.1	608.6
Commercial banks (net)	154.8	343.5	459.5	571.8	593.7	661.9	728.1	776.1	809.0	833.6
Assets	672.7	855.9	966.8	1,092.6	1,083.7	1,137.3	1,198.2	1,244.7	1,271.4	1,290.0
Liabilities	517.9	512.4	507.3	520.8	490.1	475.5	470.1	468.6	462.4	456.4
Net domestic assets	1,435.8	1,269.9	1,147.8	1,138.3	1,240.1	1,293.9	1,347.3	1,428.5	1,529.1	1,625.7
Public sector credit (net)	-104.3	-166.4	-248.9	-231.1	-222.3	-250.7	-279.1	-295.1	-302.3	-307.9
Central government	17.6	-65.6	-58.8	-120.6	-111.3	-167.7	-215.6	-251.1	-281.5	-307.9
ECCB	25.1	8.3	0.0	0.0	0.7	-12.0	-24.0	-36.0	-48.0	-60.0
Commercial banks	86.2	67.9	72.6	63.4	45.7	36.8	31.2	25.6	19.6	13.7
Net credit to rest of public sector	-104.3	-166.4	-201.5	-206.5	-211.2	-215.9	-221.1	-226.8	-232.7	-238.9
National Insurance Scheme	-74.7	-92.0	-97.0	-102.1	-106.7	-111.4	-116.6	-122.3	-128.3	-134.5
Credit to private sector	1,613.9	1,552.4	1,548.6	1,558.5	1,646.6	1,777.5	1,899.1	2,024.0	2,154.5	2,275.5
Other items (net)	-91.1	-50.2	-93.1	-68.5	-72.9	-77.2	-81.1	-85.2	-89.5	-94.0
Broad money	2,018.0	2,122.4	2,151.0	2,236.2	2,380.3	2,519.5	2,649.8	2,783.3	2,922.2	3,067.9
Money	466.5	543.0	577.9	625.1	683.6	762.1	833.4	894.9	957.0	1,027.1
Currency in circulation	124.1	131.5	135.7	151.4	165.5	184.6	201.8	216.7	231.8	248.7
Cash in commercial banks	342.4	411.4	442.2	473.7	518.0	577.6	631.5	678.2	725.3	778.4
Quasi-money	1,551.5	1,579.4	1,573.1	1,611.2	1,696.7	1,757.4	1,816.4	1,888.4	1,965.1	2,040.8
Time deposits	287.1	271.4	242.6	215.6	227.0	235.1	243.0	252.7	262.9	273.1
Savings deposits	1,167.9	1,160.5	1,174.7	1,216.3	1,280.9	1,326.7	1,371.2	1,425.6	1,483.5	1,540.7
Foreign currency deposits	96.4	147.4	155.9	179.3	188.8	195.6	202.1	210.2	218.7	227.1
	(Annual percentage change, unless otherwise specified)									
Net foreign assets	65.2	46.4	17.7	9.4	3.8	7.5	6.3	4.0	2.8	3.5
Net domestic assets	-9.5	-11.6	-9.6	-0.8	8.9	4.3	4.1	6.0	7.0	6.3
Public sector credit, net	82.1	59.6	49.5	-7.1	-3.8	12.8	11.3	5.7	2.5	1.9
Credit to private sector	-5.1	-3.8	-0.2	0.6	5.6	8.0	6.8	6.6	6.4	5.6
Broad money	4.1	5.2	1.3	4.0	6.4	5.8	5.2	5.0	5.0	5.0
NFA contribution	11.9	13.4	7.1	4.4	1.9	3.6	3.1	2.0	1.4	1.7
NDA contribution	-7.8	-8.2	-5.8	-0.4	4.6	2.3	2.1	3.1	3.6	3.3
Money	22.4	16.4	6.4	8.2	9.4	11.5	9.3	7.4	6.9	7.3
Quasi-money	-0.4	1.8	-0.4	2.4	5.3	3.6	3.4	4.0	4.1	3.9
	(In percent of GDP)									
Net foreign assets	23.7	31.7	35.2	36.5	35.6	36.2	36.6	36.2	35.5	35.0
Net domestic assets, o.w.	58.3	47.2	40.3	37.9	38.8	38.2	37.8	38.2	38.9	39.4
Public sector credit, net	-4.2	-6.2	-8.7	-7.7	-6.9	-7.4	-7.8	-7.9	-7.7	-7.5
Private sector credit, net	65.6	57.7	54.3	51.9	51.5	52.5	53.3	54.1	54.9	55.2
Broad money (M2)	82.0	78.8	75.4	74.4	74.4	74.4	74.4	74.4	74.4	74.4
Money	19.0	20.2	20.3	20.8	21.4	22.5	23.4	23.9	24.4	24.9
Quasi-money	63.0	58.7	55.2	53.6	53.0	51.9	51.0	50.5	50.0	49.5
Interest rates (percent per year)										
ECCB policy rate	6.5	6.5	6.5	…	…	…	…	…	…	…
US policy rate	0.1	0.1	0.4	…	…	…	…	…	…	…
Interbank market rate	6.0	N.A.	N.A.	…	…	…	…	…	…	…
Time deposit rate	2.0	1.6	1.3	…	…	…	…	…	…	…
Demand deposit rate	0.3	0.3	0.1	…	…	…	…	…	…	…
Weighted average lending rate	9.0	8.7	8.4	…	…	…	…	…	…	…

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

Table 7. Grenada: Indicators of Capacity to Repay the Fund, 2014–2023

(In millions of SDR, unless otherwise indicated)

				Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Existing Fund credit (stock)										
In percent of quota	174.3	180.8	131.3	110.1	101.2	89.0	80.7	69.6	53.8	36.6
In millions of SDRs	20.4	21.2	21.5	18.1	16.6	14.6	13.2	11.4	8.8	6.0
In millions of US$	29.7	29.3	29.0	24.3	22.3	19.7	17.8	15.4	11.9	8.1
In percent of GDP	3.3	2.9	2.7	2.2	1.9	1.6	1.4	1.1	0.8	0.5
Extended Credit Facility (stock)										
In percent of quota	0.0	0.0	0.0	12.2	0.0	0.0	0.0	0.0	0.0	0.0
In millions of SDRs	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
In millions of US$	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
In percent of GDP	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding Fund credit (end of period)										
In percent of quota	174.3	180.8	131.3	122.3	101.2	89.0	80.7	69.6	53.8	36.6
In millions of SDRs	20.4	21.2	21.5	20.1	16.6	14.6	13.2	11.4	8.8	6.0
In millions of US$	29.7	29.3	29.0	27.0	22.3	19.7	17.8	15.4	11.9	8.1
In percent of exports of goods and services	5.4	5.1	4.9	4.3	3.3	2.8	2.4	2.0	1.5	1.0
In percent of debt service	24.5	27.2	53.1	48.1	46.3	41.1	38.9	33.3	24.7	15.6
In percent of GDP	3.3	2.9	2.7	2.4	1.9	1.6	1.4	1.1	0.8	0.5
In percent of Imputed Net International Reserves	18.8	15.5	14.4	13.9	11.0	9.4	8.4	7.2	5.5	3.6
Fund obligations based on existing and prospective	1.8	3.2	3.6	3.2	3.2	2.1	1.4	1.9	2.7	2.9
Repurchases and repayments	1.8	3.2	3.6	3.2	3.2	2.0	1.4	1.8	2.6	2.8
Charges and interest	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit										
In millions of US$	2.7	4.5	5.0	4.4	4.7	3.0	2.1	2.7	3.9	4.2
In percent of exports of goods and services	0.5	0.8	0.9	0.7	0.7	0.4	0.3	0.4	0.5	0.5
In percent of debt service	2.2	4.2	9.2	7.9	9.7	6.3	4.5	6.0	8.1	8.1
In percent of GDP	0.3	0.5	0.5	0.4	0.4	0.2	0.2	0.2	0.3	0.3
In percent of Imputed Net International Reserves	1.7	2.4	2.5	2.3	2.3	1.4	1.0	1.3	1.8	1.9
In percent of quota	15.2	27.7	22.1	19.5	19.7	12.7	8.7	11.5	16.4	17.6
Net use of Fund credit	2.3	0.8	0.4	-1.2	-3.2	-2.0	-1.4	-1.8	-2.6	-2.8
Disbursements	4.0	4.0	4.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.8	3.2	3.6	3.2	3.2	2.0	1.4	1.8	2.6	2.8
Memorandum items:										
Exports of goods and services (in millions of US$)	548.3	578.3	592.6	627.1	667.3	705.3	739.1	774.6	812.9	851.5
Debt service (in millions of US$)	121.3	107.7	54.6	56.1	48.3	47.8	45.8	46.2	48.1	51.8
GDP (in millions of US$)	911.5	997.0	1056.2	1113.3	1185.0	1254.3	1319.1	1385.6	1454.8	1527.3
Imputed Net International Reserves (in millions of US$)	158.3	188.5	201.4	194.9	202.4	208.8	212.7	214.3	216.3	225.4
Quota (in millions of SDR)	11.7	11.7	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4

Source: Staff estimates and projections.

Table 8. Grenada: Financial Sector Indicators 2010–2017

	2010	2011	2012	2013	2014	2015	2016	2017
				(Percent of GDP)				
Balance Sheet								
Total Assets	136.0	137.2	128.8	122.4	114.8	111.7	110.3	112.2
Gross Loans	96.2	95.8	91.6	82.0	71.4	61.8	57.3	54.9
o/w NPLs	7.3	9.0	10.8	11.3	10.4	6.2	3.8	2.6
Provisions for NPLs	2.1	2.5	3.6	4.0	4.1	2.6	1.9	1.4
Total Liabilities	133.6	134.8	126.4	120.2	112.8	109.8	108.5	110.0
Deposits	115.1	114.9	108.5	107.1	104.1	101.1	97.5	97.7
Capital	2.4	2.4	2.4	2.2	2.1	1.9	1.8	2.2
				(Percent)				
Profitability								
Interest Income/Total Income	87.8	84.6	82.3	82.1	77.9	75.6	77.2	
Interest Exp./Total Income	33.7	34.0	30.8	27.6	26.4	17.6	18.5	
Net Interest Income/Total Income	54.1	50.6	51.5	54.5	51.4	58.0	58.6	
Net Non-Interest Income/Total Income /4	0.3	3.0	5.6	-12.9	-18.9	-10.8	-18.0	
Operating Expenses/Total Income	45.6	46.4	43.0	58.5	67.4	52.8	59.3	
Gross Profits/Total Income	7.2	16.8	-3.6	-15.1	-8.0	46.8	33.0	
Interest Spread 1/	1.1	1.1	1.1	1.2	1.1	1.2	1.1	
ROAE 5/	16.5	3.2	6.9	-28.7	-1.0	31.3	28.4	17.2
ROAA	1.2	0.2	0.5	-1.9	-0.1	1.5	1.5	1.1
Capital Adequacy								
CAR 5/	16.5	15.1	13.9	13.6	13.0	12.2	13.9	
T1R	15.0	13.6	13.2	12.2	11.7	10.2	11.4	
RWA/Assets	66.2	67.5	70.8	70.2	68.4	69.2	65.9	
Asset Quality								
NPL Ratio	7.5	9.4	11.8	13.8	14.6	10.0	6.7	3.9
Provisions/NPL	28.6	28.4	33.2	35.8	39.3	42.9	49.9	
Past Due/Gross Loans	3.3	2.9	2.1	2.0	2.9	2.0	1.9	
Net NPL/Capital	49.4	70.4	85.8	109.1	112.2	68.0	36.3	17.4
FX Risk								
FX Assets/Assets	8.0	7.4	7.7	7.7	8.6	9.7	10.1	10.6
FX Liabilities/Liabilities	8.8	9.1	8.7	7.1	7.4	8.9	8.7	11.2
NOP/Capital	34.7	24.6	37.7	65.2	102.7	172.2	209.7	
Liquidity Risk								
Liquid Assets/Total Assets	20.7	22.9	22.9	27.7	32.8	37.5	40.8	41.2
Liquidity Coverage Ratio 2/	23.0	25.2	25.2	30.4	35.5	40.8	44.9	45.9
Liquid Assets/Total Deposits	24.4	27.4	27.2	31.7	36.2	41.4	46.1	47.3
Funding Risk								
Core/Non-Core Liabilities 6/	635.3	589.7	619.3	831.8	1,222.6	1,186.9	901.9	812.0
Core/Non-Core Liabilities (ECD) 6/	796.0	729.8	821.6	978.3	1,545.8	1,463.8	1,020.2	852.7
Core/Non-Core Liabilities (FX) 6/	153.9	153.7	115.2	229.7	275.5	352.1	372.4	576.7
Costs of Funds 3/	0.7	0.7	0.6	0.6	0.5	0.3	0.3	
Leverage and Concentration Risk								
LD Ratio	83.6	83.4	84.5	76.6	68.6	61.2	58.8	56.2
LD Ratio (ECD)	83.7	83.7	83.6	77.3	69.4	62.4	60.4	59.5
LD Ratio (FX)	82.9	78.6	101.2	62.7	54.7	45.3	38.7	27.4
C1 Borrower Loan/Capital Ratio	15.8	17.4	18.4	22.4	21.4	19.2	17.0	
C1 Sector Loan/Capital Ratio	399.2	435.6	459.1	453.5	439.8	409.2	337.4	
Government Assets/Assets	9.5	9.2	5.6	6.5	7.7	9.7	11.6	
Government Liabilities/Liabilities	9.7	9.4	5.7	6.6	7.9	9.8	11.8	

Sources: ECCB and Staff Estimations.
1/ Yield on Average Earning Assets less Average Cost of Funds
2/ Liquid Assets/Current Liabilities (Short-term liabilities).
3/ Interest Expense/Average Interest Bearing Liabilities.
4/ Excluding provisions for loan losses.
5/ Data on foreign banks not available.
6/ Core = Deposits + Equity.

Annex I. Implementation of IMF Policy Recommendations of the 2016 Article IV Consultation

Recommendations	Implementation Status
Fiscal Policy	
Implement **tax administration act.**	**Implemented**.
Broaden the tax base to include investment income and promote equity by lowering the PIT income threshold.	**Partial implementation.** Income tax rates on the bottom tax category was reduced from 15 to 10 percent while income tax on pensions were removed in 2017. Elements to broaden the tax base have not been implemented.
Broaden the **corporate income tax base** by restricting deductions and taxing foreign-source interests, rents, royalties, and fees.	**No progress yet made.**
Strengthen management of **the public wage bill**.	**Ongoing**. Cabinet approved a comprehensive public wage bill management reform strategy in March 2017. While an earlier attrition rule established in 2014 is ongoing implementation of other core elements of the strategy is proceeding with delays.
Implement the **regulations for the debt management act**, finalize the **medium-term debt strategy**, and restructure the **debt management unit**.	**Implemented**. Regulations were passed in Q3 2016 and the medium-term debt strategy was included as a supportive document for the 2017 budget. The debt management unit was restructured and full staffed in 2017.
Redouble efforts to launch the **SEED beneficiary system** to strengthen the effectiveness of social spending.	**Implemented**. The new beneficiary information system has been operational since the third quarter of 2016 and new participants are being added while those no longer eligible are being phased out.
Provide staffing for **SOE monitoring and oversight** and outreach to boost compliance on reporting, dividend policy and salary guidance. In a second phase, examine the possibilities for tariff reforms and broader private sector participation in service delivery.	**Ongoing.** Individuals have been identified within the Macro Policy Unit to undertake SOE oversight and monitoring. The second phase of reforms tariff adjustments is pending.
Financial Sector	
Strengthen **AML/CFT** framework and financial sector supervision to minimize CBR withdrawals.	**Ongoing.** ECCB has responsibility for AML/CFT supervision and regulation of all institutions licensed under the Banking Act. The government has executed the Intergovernmental Agreement with the United States and will soon enact the related FATCA legislation to ensure full compliance with the reporting requirements under the FATCA.
Strengthen the regulation and oversight of non-bank financial sector.	**Ongoing.** The Cooperative Societies Amendment Act which strengthens the legislative and oversight framework for credit unions was passed in October 2017. The Grenada Authority for the Regulation of Financial Institutions (GARFIN) has improved its capacity for credit quality review and stress testing of credit unions and for the off-site supervision of insurance companies. Work is ongoing for the development of a national crisis management plan.
Growth Policy	
Strengthen investment processes through a new Act for the Grenada Investment Development Corporation (GIDC) and improve labor relations	**Implemented**. Achieved in November 2016.

and labor market flexibility by revising the Labor Code.	
Recommendations	**Implementation Status**
Accelerate structural reforms to improve business climate by streamlining property registration, reinforcing corporate governance, simplifying customs procedures and reducing port charges, strengthening building quality control and supervision, and collaborating more with regional partners on joint solutions, such as a regional credit registry.	**Ongoing**. Property records are now automated, and E-Systems with payment facilities to streamline construction permit approvals and registration of businesses and property have been established. Efforts to address delays in the judicial system include promotion of the case management system, additional hiring, and development of a commercial division of the court. The regional credit registry system has been approved by the ECCB's monetary council but has not been established.
Revise and align the **education curriculum** with the needs of the labor market. Provide technical and vocational training opportunities in collaboration with the private sector to address the skills gap.	**Ongoing**. The youth skills training and apprenticeship program has been revamped and there is greater collaboration with the private sector. Additionally, Grenada has established a labor market information system.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact/Time Horizon	Channel	Recommended Policy
Retreat from cross-border integration.	**Medium**	**Medium/Short to Medium Term**	Lower tourist arrivals and FDI	Carry through with prudent fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Weaker-than-expected global growth	**Medium**	**High/Short to Medium Term**	Lower growth and worsening of fiscal and external balances	Carry through with prudent fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Policy and geopolitical uncertainties.	**Medium**	**High/Short to Medium Term**	Lower consumption and investment	Carry through with the with prudent fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
Loss of Petrocaribe financing	**High**	**High/Short Term**	Worsening of fiscal and external balances	Carry through with the with prudent fiscal policies anchored by the FRL and structural reforms to build buffers and improve productivity and competitiveness.
New initiatives on pension and health care, higher than expected public sector wage increase and delays in public sector wage bill reforms could push the expenditure above the FRA-mandated expenditure-growth ceiling.	**Medium**	**Medium/Short to Medium Term**	Worsening fiscal balances	Internalize future aging costs in the FRL based on robust costing assessments. Examine parametric reform of the pension system. Carry through with prudent fiscal policies anchored by the FRL and structural reforms to build buffers and improve

[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 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 between 30 and 50 percent). 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Relative Likelihood	Impact/Time Horizon	Channel	Recommended Policy
				productivity and competitiveness.
Hurricanes, could cause severe damage to infrastructure and disrupt tourism flows.	**Medium**	**High/Short to Medium Term**	Lower growth and worsening of fiscal and external balances	Build buffers by saving receipts from the citizenship by investment program; increase coverage of natural disaster insurance with donor assistance; adhere to the fiscal rules in the FRL. Over the long-term, work with World Bank and donors to build resilience to climate change.

Annex III. External Sector and Competitiveness Assessment

Grenada's external position is weaker than implied by medium-term fundamentals and desirable policies. EBA-lite current account model estimates point to a current account deficit that is around 4¾ percent of GDP larger than the norm. However, external debt is on a decreasing trend as the current account deficit is amply covered by FDI and capital transfers, which reduces staff's estimated current account gap to 2.5 percent of GDP. The external sustainability approach suggests a current account that is 1.9 percent of GDP below the level needed to bring Grenada's NIIP to -60 percent of GDP within 20 years. However, there is significant uncertainty in the assessment linked to recent substantial revisions and continuing refinement to balance of payments data. Overall current account gap is estimated to be 2.5 percent of GDP. Continued fiscal restraint, containing the growth in nominal wages, and efforts to raise productivity will help address this current account gap. In contrast, the EBA-lite exchange rate model points to an undervaluation of 8 percent while the tourism sector appears to be cost competitive relative to other countries in the Caribbean. The level of international reserves is adequate.

A. Current Account Position

1. **Grenada's current account deficit increased in 2017 and projected to stay at a relatively high level over the medium term.** While it was low in 2014-16 at around 3.2-4.4 percent of GDP after the introduction of BPM6 improved it by over 10 percent of GDP, it increased to 6.7 percent of GDP in 2017, due to a rapid import growth fueled by a mostly private sector-led construction boom. Going forward, the tapering construction boom will help decrease the current account deficit temporarily, before the rise in public sector spending will modestly raise the current account deficit in 2021-23.

2. **The EBA-lite current account model finds Grenada's cyclically adjusted current account to be weaker than the estimated "norm" of -2.0 percent of GDP by 2.5 percentage points.** While a straightforward application of the model would lead to 4¾ of GDP gap, *external debt is on a decreasing trend as the current account deficit is amply covered by FDI and capital transfers. Taking this into consideration reduces staff's estimated current account gap to 2.5 percent of GDP*. Meanwhile the external sustainability approach suggests that the medium-term current account is around 2 percentage points weaker than a current account of -4.5 percent of GDP, which would be needed to reduce Grenada's net foreign liabilities to 60 percent of GDP over 20 years.

B. Nominal and real effective exchange rates

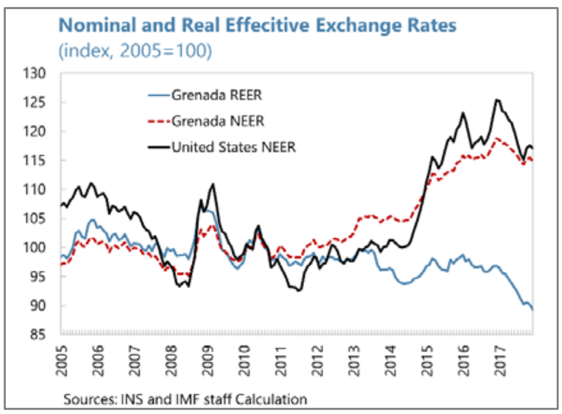
3. **Grenada experienced a sizable real depreciation in 2017 in line with weakness in the U.S. dollar.** Grenada's nominal effective exchange rate (NEER) was at virtually at the same level by end-2017 as at end-2015, as the three percent appreciation in 2016 was reversed in 2017 by the same amount, while the real effective exchange rate depreciated by 9 percent in 2017. The underlying driving force for the 2017 real and nominal depreciation is the depreciation of the U.S.

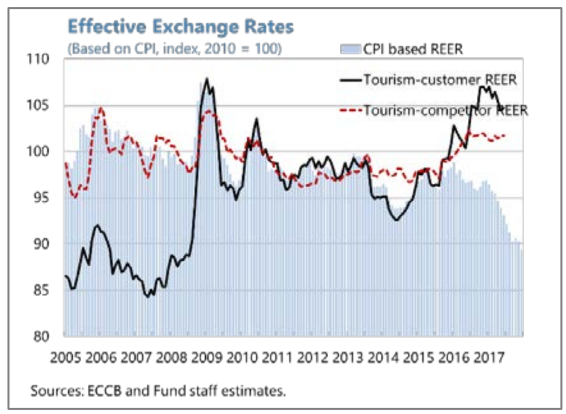
dollar, to which the regional currency is pegged. The divergence of NEER and REER since 2014 largely reflects inflation undershooting that of trading partners. The 2017 real depreciation is also the cause of the EBA-lite REER model result which suggests that Grenada's real effective exchange rate (REER) is modestly undervalued (by 8 percent). This result contrasts with current account gap results from the current account model and sustainability approach, which translate into 5-6 percent overvaluation using elasticity of -0.4.

Grenada: External Balance Assessment (EBA) Estimates
(2017, in percent/percent of GDP)

	Current Account Norm	Current Account Baseline 1/	Current Account Gap 2/	Elasticity	REER gap 3/
Current Account Regression	-2.0	-6.7	-2.5	-0.41	6.0
External Sustainability Approach 4/	-4.5	-6.4	-1.9	-0.39	5.0
REER Regression	…	…	…	…	-8.2

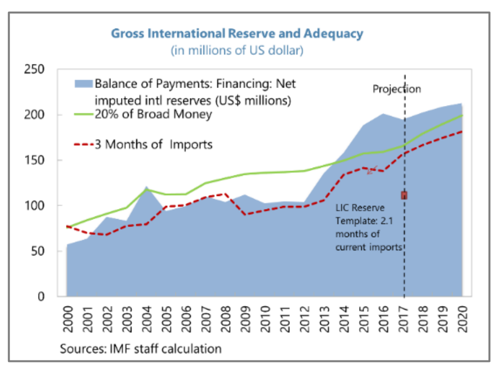
1/ Baseline is 2017 for Current Account Regression approach and 2021 for External Sustainability Approach.
2/ Current account norm was adjusted to reflect strong FDI and capital transfers.
3/ Positive number suggests overvaluation.
4/ The underlying scenario is reduction of net foreign liability to 60 percent of GDP in 20 years.





C. Reserve Adequacy

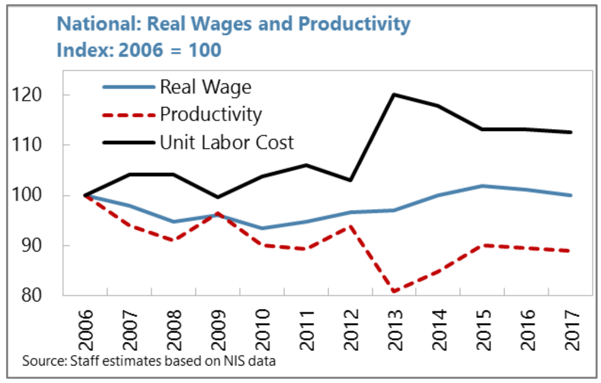
4. Grenada's reserves remain adequate. Imputed reserves stood at US$195 million at end-2017, covering 3.7 months of imports or 24 percent of broad money, and appeared to be adequate for cushioning external shocks and preventing disorderly market conditions. The imputed reserve position is 180 percent of ARA metric for credit-constrained economies, which suggests 2.1 month of imports as optimal level using a risk-based model tailored to low-income economies.[1,2]



[1] International Monetary Fund, 2015, *Assessing Reserve Adequacy—Specific Proposals*,
[2] This assessment does not take into consideration the need for cushions to deal with natural disasters.

D. Labor Costs and Productivity

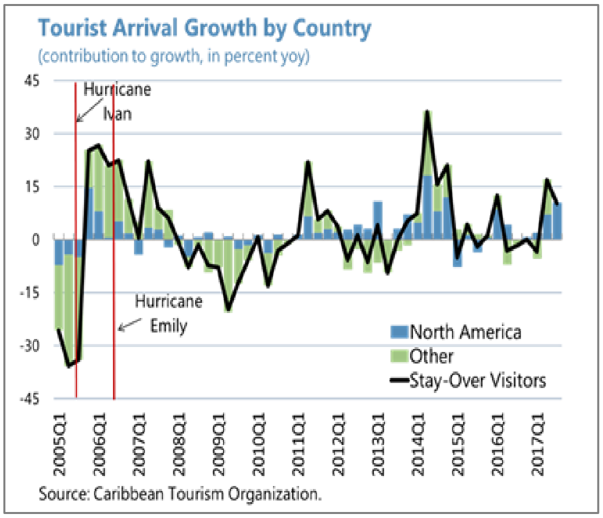
5. Grenada's labor costs have been stable in recent years. Labor productivity fell sharply during the global financial crisis resulting in an increase in unit labor costs. As the economy exited a four-year long recession, labor productivity started to recover, reducing unit labor costs, but since 2015 labor costs have leveled out at levels above that prior to the global financial crisis. Labor market reforms and a modernization of the public sector to improve flexibility, so that labor can be allocated to its best use and strong performance rewarded. Additional reforms are needed to match human capital to the needs of the economy. We welcome the government's intention to improve education and training and reform the skills training and apprenticeship programs to upgrade worker skills, support long run productivity growth and reduce relative labor costs. There is a strong need to make the public service more flexible, so that staff can be allocated to their best uses and so that strong performance is rewarded.

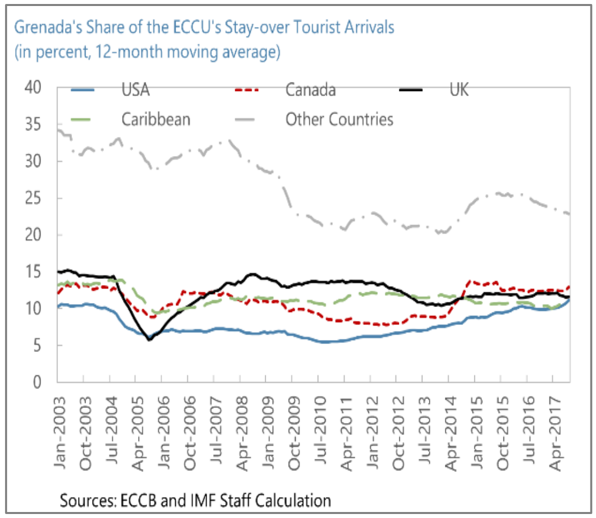


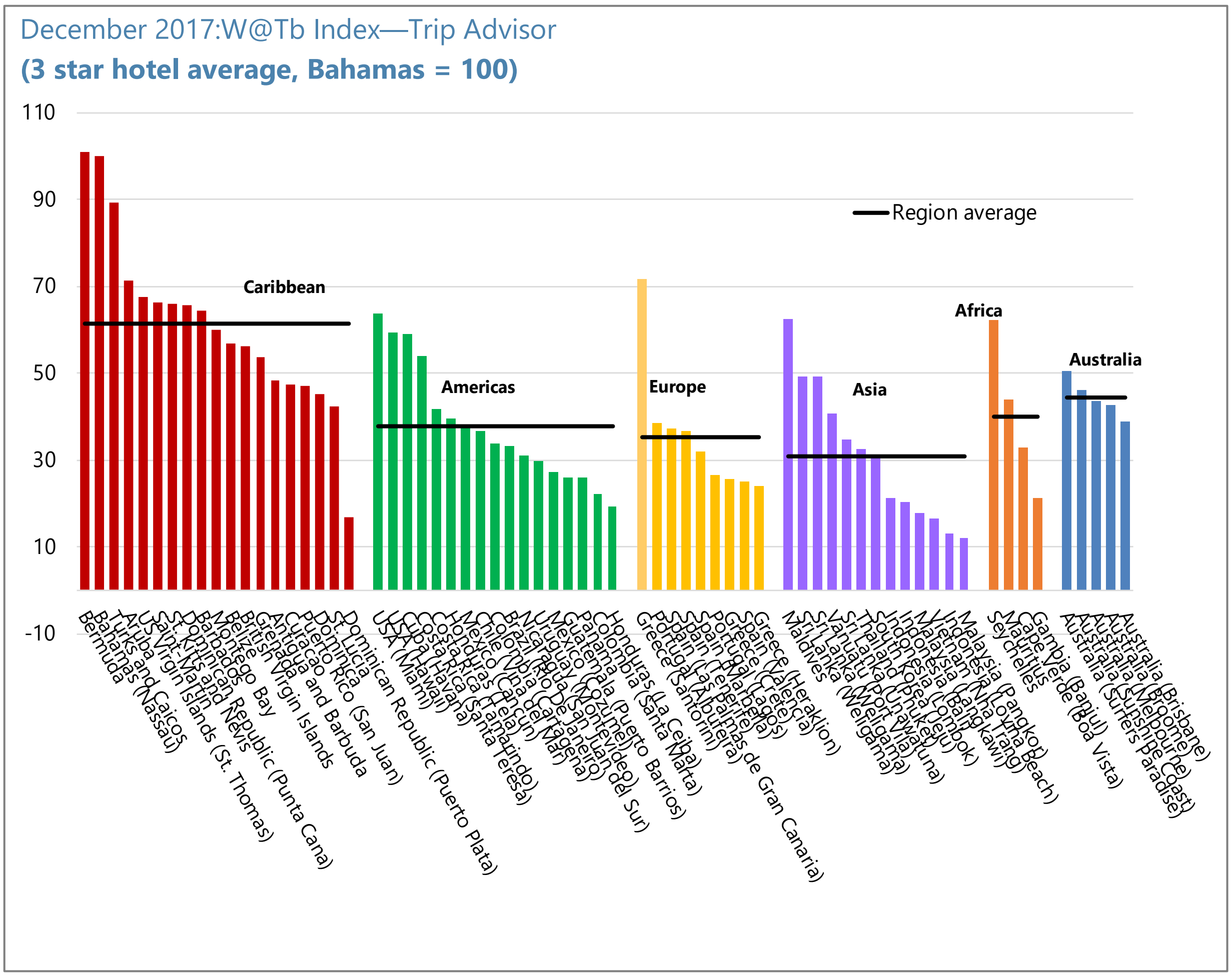
6. Supply-side reforms would further spur growth and job creation. Prioritizing rural infrastructure investments, improving air cargo logistics and storage, improving technology and research and finalizing a land use policy would enhance the production and export capacity of the agricultural sector. Energy markets need to be re-examined to facilitate competition, particularly the entry of renewable energy, and to ensure pricing practices are not generating unwarranted monopoly rents. Supporting legal and institutional frameworks and targeted public infrastructure investments would increase Grenada's resilience to natural disasters.

E. Tourism: arrivals, market share, and price

7. Grenada's tourism market share is gradually growing. After the devastating hurricanes in 2004 and 2005, Grenada suffered a 30 percent drop in its share of total stay-over visitors in the ECCU. The tourism industry was hit hard again during the global financial crisis in 2008-09. Grenada has started to regain its market share in 2014 helped by intensified marketing, the establishment of a new Grenada Tourism Authority, and the opening of a large brand-name luxury resort. While tourism costs in the Caribbean are high relative to other global beach destinations, comparisons against other Caribbean destinations suggest prices in Grenada are competitive.


Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)
45
30
15
0
-15
-30
-45
Hurricane Ivan
Hurricane Emily
North America
Other
Stay-Over Visitors
2005Q1
2006Q1
2007Q1
2008Q1
2009Q1
2010Q1
2011Q1
2012Q1
2013Q1
2014Q1
2015Q1
2016Q1
2017Q1
Source: Caribbean Tourism Organization.


Grenada's Share of the ECCU's Stay-over Tourist Arrivals
(in percent, 12-month moving average)
40
35
30
25
20
15
10
5
0
USA
Canada
UK
Caribbean
Other Countries
Jan-2003
Oct-2003
Jul-2004
Apr-2005
Jan-2006
Oct-2006
Jul-2007
Apr-2008
Jan-2009
Oct-2009
Jul-2010
Apr-2011
Jan-2012
Oct-2012
Jul-2013
Apr-2014
Jan-2015
Oct-2015
Jul-2016
Apr-2017
Sources: ECCB and IMF Staff Calculation


December 2017:W@Tb Index—Trip Advisor
(3 star hotel average, Bahamas = 100)
110
90
70
50
30
10
-10
Region average
Caribbean
Americas
Europe
Asia
Africa
Australia
Bermuda
Bahamas (Nassau)
Turks and Caicos
USA Virgin Islands (St. Thomas)
St. Kitts and Nevis
Dominican Republic (Punta Cana)
Montego Bay
British Virgin Islands
Antigua and Barbuda
Puerto Rico (San Juan)
Dominican Republic (Puerto Plata)
Spain (Las Palmas de Gran Canaria)
Greece (Heraklion)
Seychelles
Cape Verde (Boa Vista)
Australia (Brisbane)

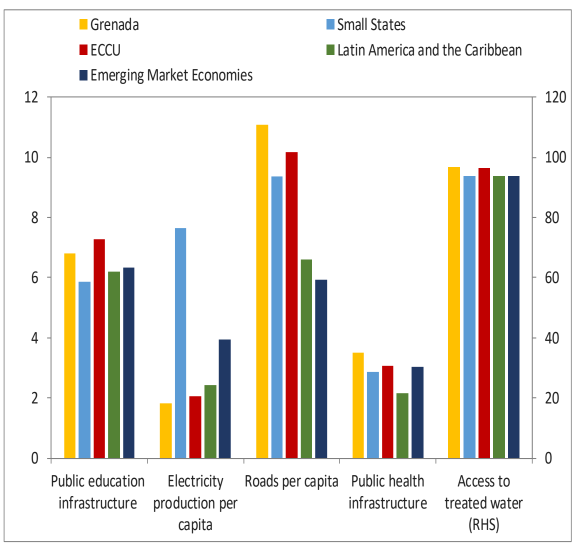
Annex IV. Public Investment Management

Reforming the management of its public investment— including its planning, allocation and implementation— would help Grenada address its public infrastructure needs with fewer budgetary resources.

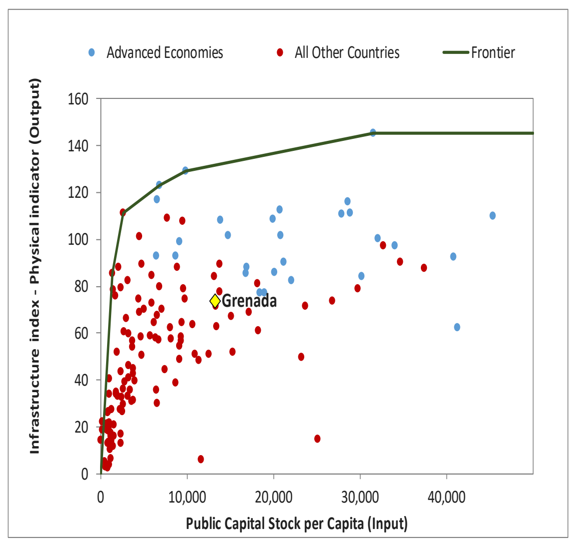
1. **The public sector dominates the provision of infrastructure in Grenada and other ECCU member countries.** The public sector is still the main provider of physical and social infrastructure in Grenada particularly in the areas of transport (roads, sea and airports), water supply, education and health. The private sector provides communication and energy infrastructure services. Public physical and social infrastructure (measured by length of road network, electricity production, and access to water, public health and education) in Grenada and the ECCU countries is higher than the average for small states and Latin American and Caribbean Countries (LATAM).[1] An assessment of the efficiency of physical infrastructure which combines the volume of physical and social infrastructure also suggests that the coverage of Grenada's infrastructure is high (0.73) relative to peer best performers on the frontier. These indicators do not measure the quality of the infrastructure.

Physical Infrastructure Efficiency and Access

Measures of Infrastructure Access (Most Recent Year)



Physical Infrastructure Efficiency



Source: IMF Fiscal Affairs Department - Investment and Capital Stock Template

[1] Small states are defined by the Commonwealth Secretariat and the World Bank as countries with a population ceiling of 1.5 million. However, this definition includes Jamaica, Lesotho, Namibia and Papua New Guinea, who share similar characteristics with small states.

2. Public investment is required to address significant infrastructure needs. A recent study by the CDB (2014) suggests that the quality of infrastructure in the Caribbean might be lower than implied by the physical scores. [2] As an example, 61% of the roads in Grenada are paved and 23% of the population accesses water through public standpipes while another 23% have access to rain water catchments, private springs, streams or ponds. Much of the infrastructure is aging and the poor quality of construction, together with under-investments and poor maintenance, means that infrastructure rehabilitation and upgrading is required so that countries can be provide higher service standards, be more competitive and productive. [3] Assessments of recent hurricane damage to infrastructure in Antigua and Barbuda, Dominica and other Caribbean countries highlighted the low quality infrastructure and the need for infrastructure that is more resilient to natural disasters. In 2014 the CDB estimated that about US$157m (14% of GDP) was needed in new infrastructure investment to close Grenada's infrastructure gaps in electricity, transport and water and sanitation between 2015 and 2025.[4] These costs exclude road rehabilitation, capital investments in sewerage treatment plants and water networks, and sewerage treatment plant upgrades as well as the costs of other social public investment such as education and health. Recent estimates for a National Climate Change Adaptation Plan (2017-21) to build resilience to climate change inclusive of infrastructure and water is US$258m (23% of GDP).

3. Given its high indebtedness and limited fiscal space Grenada is exploring options of financing investment but it should also consider means for improving the efficiency of investment. There are concerns about the country's ability to finance such expenditures while maintaining fiscal and debt sustainability. Grenada is considering Public-Private Partnerships (PPP's) as a source of financing and has pushed to secure grant financing from Climate Funds. Infrastructure investment can spur growth and pay for itself when well executed, and lead to inefficiency and waste when not. Grenada's capital expenditure execution relative to budget intentions equivalent to 10.6% and 4.2% of GDP in 2016 and 2017, was 41% and 52%, respectively. Execution of ongoing projects were reasonable but shortcomings in the government's institutional and legal environment and inadequate technical capacity were major contributory factors to delays in project starts.

4. An assessment of the government's public investment management identifies several areas where improvements can be made. The IMF's (2015) Public Investment Management Assessment (PIMA) evaluation tool, seeks to identify the institutional features that minimize major risks and provide an effective process for managing public physical investments. It examines 15 key institutions that shape the three main stages of public investments. *Planning* sustainable levels of investment across the public sector; *Allocation* of investment to the right projects, the use of

[2] Public-Private Partnerships in the Caribbean: Building on Early Lessons, 2014, Caribbean Development Bank

[3] ECCU countries are not covered in the World Economic Forum survey of public perceptions on the quality of infrastructure.

[4] These are indicative costs of investment needs that are based on an estimation methodology that identifies gaps in infrastructure services, estimates the unit costs of providing the required services, and quantifies the investment needed by sector and country.

multiyear budgeting, and project appraisal and selection; and *Implementing* projects on time and on budget through appropriate funding, monitoring and execution as well as protecting investment through adequate maintenance. The PIMA results are compiled from responses of officials in Grenada with knowledge of specific elements of the public investment management process.[5] The results of the 2016 national Public Expenditure and Financial Accountability (PEFA) assessment was also used to assess and corroborate public investment management systems and functions across different stages of the investment cycle as well.[6] The findings shows an overall score of 3.44 compared to the ECCU average of 3.9 and a top score of 10 and indicates that there is considerable scope for improving public investment management.

Table 1. Grenada: Public Investment Management Cycle

	Dominica	Grenada	Jamaica	ECCU
Planning	2.5	3.3	6.6	3.4
Allocating	4.8	4.0	6.0	4.8
Implementing	3.7	3.0	3.7	3.5
TOTAL	3.7	3.4	5.4	3.9

Source: IMF Staff and Grenada Authorities Assessment

5. A targeted program to address these shortcomings, particularly in implementation, can improve quality and focus of public investment and increase its return.

- Grenada's public financial management (PFM) and medium term fiscal framework benefits from the recently strengthened PFM Act (2014), Public Procurement and Disposal of Public Property Act (2014), a Fiscal Rules Act (2015) with targets on debt, wage spending and real primary expenditure, and a revised Chart of Accounts which since 2016 eliminated recurrent spending from capital spending. Notwithstanding the significant fiscal consolidation that occurred during 2014/16 the respective budgets facilitated *planning* for adequate levels of capital spending. The Growth and Poverty Reduction Strategy (GPRS 2014/18), a national plan, though limited in providing measurable targets for outputs and costings, identifies national investment priorities which are incorporated in the plans and financing of donor agencies that fund most investment expenditure.[7] Only one sectoral plan was published but it did not include measurable targets for outputs and outcomes. The government established a policy framework and a strategy for Public Private Partnerships (PPPs) in 2014. A legal and regulatory framework to support competition and private sector involvement in

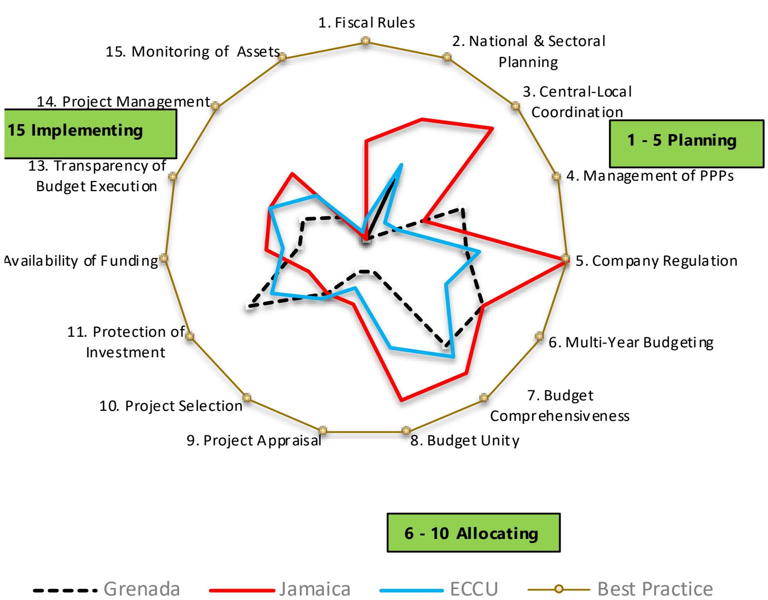
[5] These include representatives of the Ministry of Finance including the Treasury Department.

[6] The PEFA uses a scoring methodology for each subcomponent of the Public Financial Management system allowing monitoring and evaluation over time and comparisons across countries.

[7] In 2017 a Nationally Determined Contributions report was provided to the United Nations Framework Convention on Climate Change and a draft National Climate Change Adaptation Plan was also prepared.

electricity and telecommunications and should be operationalized by the Public Utilities Regulatory Commission (PURC) and the National Telecommunications Regulatory Commission (NTRC), respectively. In general, regulators do not have price-setting autonomy or do not have full organizational, financial and managerial autonomy. The government monitors the financial performance of infrastructure SOEs and reviews their investment plans but does not publish a consolidated report. The below average score reflects the inability to assess the effectiveness of the legal and regulatory frameworks since many have been in effect for less than three years, prices for infrastructure services are generally set by the government, and a PPP Unit has not been established.

Grenada: 2017 Public Investment Management Assessment



Source: Country Authorities except Grenada and IMF Staff Estimates (2016); Grenada authorities 2018

- The use of three-year budgeting systems has been useful in providing transparency in budget *allocations* for capital expenditure including the sources of financing. However, the projected ceilings on capital expenditure are indicative. Most capital expenditure including externally-funded projects is undertaken through the budget and appropriately reflected in budget documentation. Budget systems need to be further strengthened to reflect longer project cycles and to project the recurrent costs associated with capital investments. The Chart of Accounts was upgraded in 2016 and the distinction between recurrent and capital expenditure became operational in the 2017 budget. Cost-benefit analyses are conducted for major projects, usually in line with appraisals processes used by the donors involved but are not published. Major projects are reviewed by the staff of the Ministry of Finance and since 2017 have been vetted by the Priorities Planning Consultative Committee (PPPC) before submission to the Cabinet. This has facilitated the maintenance of a pipeline of approved projects for implementation although sometimes other projects may be selected for financing. The PFM Act (2014) provides for the establishment of project selection criteria however the methodology for project appraisals inclusive of risk assessments and the criteria and procedures for project selection have yet to be published.[8,9] The below average score reflects shortcomings in the budget process for capital and current spending as well as in appraisals of project proposals and in project selection. Initiatives have been implemented to address some of these shortcomings but they have only been in effect for a year.

- The institutional framework for *implementation* needs significant strengthening. The budget system is relatively disciplined and transparent but needs to establish safeguards more explicitly. Total project costs are identified in the annual budget and financing is often timely released with ongoing projects given priority in annual allocations. Financing for investment projects is protected since unspent appropriations for capital outlays can be carried over to subsequent years and the PFM Act prohibits the shifting of financing to current spending. Donor funds appear to be reasonably well-protected, although a few are outside of the Single Treasury Account (TSA). Most major projects are tendered competitively but information on procurement is not often made available to the public. Project costs and physical progress are centrally monitored during implementation but project management arrangements including inadequate staffing in line ministries and executing agencies has contributed to the government's inability to meet conditions precedent to donor disbursements in a timely manner and causes realized investment to fall short of estimates. Rules and procedures for project adjustments or reviews of the rationale, costs and expected outputs are not standardized. Lastly, ex-post audits are rare unless required by donors, and except for some equipment, there is no monitoring and management of public physical assets.

6. The reform momentum must continue to ensure that public investment is efficient, provides growth dividends and ensures Grenada's resilience to natural disasters. The authorities have embarked on many initiatives to improve the institutional and legal framework for PIM. Many are in the early stages of implementation and will likely improve future assessments and scores. Establishing a successor to the GPRS (2014/18) with costings and measurable targets for outputs and outcomes, that harmonizes the policy direction and implementation, including the NAP, in the medium term, and is anchored by the National Sustainable Development Plan 2030 is needed. Plans to restructure the functions and operations at the Ministry of Finance and the Ministry of Infrastructure Development to improve the planning, coordination and implementation capacities for projects are welcomed. So too is the intention to establish an asset registry to facilitate the management and disposal of physical assets and the assessment of loss following natural disasters.

[8] A draft procedures manual has been prepared and should be finalized in 2018.

[9] From 2017, line ministries are explicitly required to consider the climate adaptation impacts of their proposed major capital projects.

Grenada: Selected Economic and Financial Indicators, 2015–2023

Rank in UNDP Human Development Index out of 188 countries (2016)	79	Infant mortality rate per '000 births (2016)	9.9
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2014)	73	Poverty headcount index (2008)	38
GNI per capita in US$ (2017)	10,390	Unemployment rate (2017)	23.6
Population in millions (2016)	0.11		

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Proj.					
	(Annual percentage change, unless otherwise specified)								
National income and prices									
GDP at constant prices	6.4	3.7	4.5	3.6	3.6	2.9	2.7	2.7	2.7
GDP deflator	2.8	2.2	0.9	2.7	2.2	2.2	2.2	2.2	2.2

Consumer prices, end of period	1.1	0.9	0.5	3.0	2.0	2.0	2.0	2.0	2.0
Exchange Rate									
Real effective exchange rate (annual average, depreciation)	2.6	-0.2	-4.2	…	…	…	…	…	…
Money and credit, end of period									
Credit to private sector	-3.8	-0.2	0.6	5.6	8.0	6.8	6.6	6.4	5.6
Broad money (M2)	5.2	1.3	4.0	6.4	5.8	5.2	5.0	5.0	5.0
Lending rate (in percent)	8.7	8.4	…	…	…	…	…	…	…
Deposit rate (in percent)	1.6	1.3	…	…	…	…	…	…	…
Central government balances (accrual)	(In percent of GDP, unless otherwise specified)								
Revenue	24.5	26.4	25.9	25.8	25.2	25.1	24.9	24.8	24.6
Expenditure	25.7	24.0	22.8	22.4	21.9	21.4	23.0	24.3	24.6
o.w. Capital expenditure	8.3	4.2	2.7	3.3	3.3	3.0	4.8	6.2	6.5
Primary balance 1/	2.1	5.2	5.7	5.6	5.3	5.5	3.6	2.1	1.6
Overall balance	-1.2	2.3	3.0	3.4	3.3	3.6	1.9	0.5	0.0
Public debt (incl. guaranteed) 2/	90.1	82.0	70.8	65.0	59.6	52.9	51.3	50.7	50.3
Domestic	28.7	25.1	22.7	17.9	15.8	13.7	12.4	11.7	11.1
External	61.4	56.9	48.0	47.1	43.8	39.2	38.9	39.0	39.2
Savings-Investment balance	-3.8	-3.2	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Savings	13.9	17.0	11.9	11.8	12.3	12.9	14.8	15.9	16.3
Investment	17.7	20.2	18.6	19.2	19.8	19.4	21.2	22.6	22.9
External Sector									
Gross international reserves (millions of dollars)	188.5	201.4	194.9	202.4	208.8	212.7	214.3	216.3	225.4
GIR (in months of imports)	4.1	3.9	3.5	3.4	3.4	3.3	3.2	3.1	3.0
Current account balance, o/w:	-3.8	-3.2	-6.7	-7.4	-7.5	-6.6	-6.4	-6.7	-6.6
Exports of goods and services	58.0	56.1	56.3	56.3	56.2	56.0	55.9	55.9	55.8
Imports of goods and services	56.7	52.4	56.2	56.6	56.6	55.6	55.4	55.6	55.3
External debt (gross)	133.2	126.3	116.4	108.4	107.2	100.8	98.9	97.4	95.9

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/ Includes 0.7% of GDP CBI-related non-tax revenue in 2015.
2/ Includes the impact of the in principle debt restructuring agreement reached with the creditor committee for the 2025 bonds.

INTERNATIONAL MONETARY FUND

GRENADA

July 2, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By	Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2018)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	16.40	100.00
Fund Holdings of Currency	15.23	92.84
Reserve Position	1.18	7.16

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	11.17	100.00
Holdings	1.21	10.84

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
ECF Arrangements	19.46	118.69

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	June 26, 2014	May 26, 2017	14.04	14.04
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[1/]

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

	Forthcoming				
	2018	2019	2020	2021	2022
Principal	2.88	2.00	1.35	1.81	2.61
Charges/Interest	0.06	0.09	0.09	0.09	0.09
Total	2.94	2.09	1.44	1.90	2.70

[1/] 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: **The 2016 update safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. The ECCB has restructured the internal audit function and established an independent risk management unit in line with leading international practice.**

Exchange Arrangement: Grenada is a member of 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 is on a 12-month consultation cycle (since mid-2017). The last Article IV consultation was concluded by the Executive Board on May 19, 2016 (IMF Country Report No. 16/133), Grenada's current consultation was delayed due to elections in March 2018.

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 technical assistance (TA) to Grenada, the highest user of CARTAC TA over the FY15-16 period to date (100.7 weeks).

- **Public Finance Management**. CARTAC TA in PFM has focused on reform of state-owned enterprises and statutory bodies, cash forecasting and commitment control, development and transition to a new chart of accounts consistent with GFSM2014, and a PEFA assessment. Assistance was also provided on strategic budget reform to modernize the budget preparation process. In SOE/SB reforms, in 2016 CARTAC provided some limited assistance on Public Service Pension Reform. In 2017 CARTAC provided assistance with a one-week training mission for the Grenada Fiscal Responsibility Committee and conducted a risk assessment of the their SOE's. In April 2018, a mission was completed on assisting the AG on moving to IPSASA cash-based accounting and to bring their public accounts up to date. A roadmap on reforms to move Grenada to IPSAS Accruals was provided.

- **Tax Administration**. TA has been provided to strengthen tax administration at both the Inland Revenue and Customs Departments. At IRD, support included establishing a Large and Medium Taxpayer Unit and a Design, Planning and Monitoring Section.

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

- **Macroeconomic framework and statistics**. To support the authorities' efforts to put in place an annual medium-term economic framework to guide the annual Budget, CARTAC provided TA to strengthen medium-term macroeconomic projections. TA was provided during 2013 to 2015 to support dissemination of improved GDP by expenditure estimates; and during 2016 and 2017 to compile and disseminate quarterly GDP by economic activity at current and constant prices. In addition, TA is being provided to develop the Producer Price Index. TA was also provided to produce balance of payments statistics according to BPM6 and to initiate the production of IIP statistics, and review and improve upon the BOP and IIP statistics released in July 2017.

Other Technical Assistance (2014–17)

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

Grenada: IMF Technical Assistance: 2016–present

Start Date	End Date	Mission Description
01/11/2016	01/15/2016	Public Financial Management
03/21/2016	03/25/2016	Balance of Payments Statistics
04/18/2016	04/22/2016	Tax Administration
06/09/2016	06/17/2016	External Sector Statistics
06/09/2016	06/17/2016	Medium-Term Debt Management Strategy
07/06/2016	07/19/2016	Managing the Public Wage Bill
08/15/2016	08/26/2016	National Accounts Mission
08/15/2016	08/26/2016	National Accounts Statistics Mission
4/24/2017	4/28/2017	Developing Methodology for new Producer Price Index
7/24/2017	7/28/2017	Balance of Payments Statistics
9/18/2017	9/22/2017	Review and Assessment of the Adequacy of Reinsurance Contracts/Treaties
10/23/2017	10/27/2017	Developing a Stress Testing Framework for Credit Union Sector
11/13/2017	11/24/2017	National Accounts: Improve Annual & Quarterly GDP Methodology
11/27/2017	12/1/2017	Risk-focused Examinations of Retail Lending Portfolios at Credit Union
4/16/2018	4/20/2018	Strengthening BOP & New IIP
4/24/2018	5/2/2018	Revenue Administration Diagnostic Mission
5/29/2018	5/30/2018	Review of Tax Administration Reform Priorities and FAD Mission Recommendations

Source: Based on available TA reports and consultations with CARTAC: to be completed using the ICD RAP database

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://financesapp.worldbank.org/en/countries/Grenada/
- Caribbean Development Bank: http://www.caribank.org/about-cdb/member-countries/regional-members/grenada

STATISTICAL ISSUES

(As of May 31, 2018)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is 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. However, some weaknesses still 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. There are significant delays related to both receiving and processing survey data for GDP series complication, for example with respect St. George's University's data provision to the CSO. Supported by the CARTAC mission, estimates of quarterly GDP by production approach has improved.

Prices and high frequency statistics: The authorities provide regular data on consumer prices, retail sales, agricultural production and purchases, motor vehicles registration, total cargo handled, fish production and exports, industrial production, 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 timelier 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 yet available but CSO intends to develop a PPI for certain sectors.

Labor statistics: Labor statistics are improving. The authorities introduced an annual Labor Force Survey in 2013, which was completed again in 2014 and 2015. The latest labor force survey was completed in 2017. The first labor demand survey was conducted in 2015, the Job Opening and Labor Turnover Survey, but these results have not been finalized or released, pending processing and verification. A population census was completed in 2011. Regular wage 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 from 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 availability of fiscal data: (i) receipts from the CBI program to the central government are not comprehensively reported in the fiscal accounts (ii) some 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 new Chart of Accounts introduced in 2016 has improved the classification of public expenditure. The coverage of the rest of the public sector has improved, but remains limited, and there are no consolidated public-sector accounts. Financial information on selected public enterprises has been included in the budget documents since 2016. This is consistent with the requirement in the Public Finance Management (PFM) Act of 2015 that the Minister of Finance present a statement of the overall performance of all enterprises to Parliament alongside the budget proposals. The PFM Act also requires public enterprises to submit annual financial statements no later than three months from the end of the fiscal year to the Director of Audit and the Minister of Finance.

Monetary statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund. Specifically, on Grenada, the institutional coverage of other depository corporations is incomplete and valuation of interest-bearing assets and liabilities does not incorporate accrued interest. Also, source data for the commercial banks do not provide disaggregated information recommended by the MFS manual (ECCB is currently working on this issue).

Balance of payments: Balance of Payment (BOP) statistics are improving, but there is uncertainty on the stability of the data series. BPM6-compliant BOP and International Investment Position (IIP) were released in July 2017 for 2014-16 and 2013-16, respectively, as part of the ECCU-wide initiative. Efforts are being made to compile the 2017 statistics and review and revise the entire data series by improving data sources.

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. Capacity upgrades are however needed to improve reliability of the data and fully eliminate the possibility of errors. 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 May 31, 2018

	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]	Feb 2018	April 2018	M	M, with 1- to 2-month lag	A/Q
Reserve/Base Money	Feb 2018	April 2018	M	M, with 1- to 2-month lag	A/Q
Broad Money	Feb 2018	April 2018	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Feb 2018	April 2018	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Feb 2018	April 2018	M	M, with 1- to 2-month lag	A/Q
Interest rates[4]	Feb 2018	April 2018	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Feb 2018	Feb 2018	M	M, with 2- to 3-month lag	A/Q
Revenue, Expenditure, Balance and Composition of Financing[5]- Central Govt.	Apr 2018	May 2018	M	M, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Mar 2018	May 2018	M	M, with 2- to 3-month lag	A/Q
External Current Account Balance	Dec 2016	July 2017	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2016	July 2017	A	A	A
GDP/GNP	Dec 2016	July 2017	A (Q planned)	A (Q planned)	A
Gross External Debt[7]	Mar 2018	May 2018	M	M, with 2- to 3-month lag	A
International Investment Position	Dec 2016	Jul 2017	A	A, with long lag	A

[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.

INTERNATIONAL MONETARY FUND

GRENADA

July 5, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Mary Goodman (IMF) and Paloma Anos Casero (IDA)

Prepared by the staff of the International Monetary Fund in consultation with the International Development Association Staff.

External Debt Risk Rating: In Debt Distress

This annex provides a Debt Sustainability Analysis (LIC-DSA) of Grenada's public and publicly guaranteed (PPG) external and total debt. The macro-framework incorporates all previous debt restructurings, including the November 2017 haircut on commercial debt. Total public debt has declined from 108 percent of GDP in 2013 to below 71 percent of GDP in 2017 with external public debt declining to 48 percent of GDP. This reduction was made possible through a comprehensive restructuring of Grenada's public debt, fiscal consolidation, and robust economic growth. Nevertheless, with some US$15.7 million (1.4 percent of GDP) in unresolved arrears to official bilateral creditors, Grenada's external debt risk rating remains "in debt distress".[1] Going forward full regularization of arrears and continued fiscal discipline will be needed to keep the debt on a downward path and withstand the existing vulnerabilities to external shocks and natural disasters.

[1] The CPIA ranks Grenada as a medium performer, with the average CPIA rating of 3.53 for 2014–16.

BACKGROUND

1. **Debt regularization has progressed but arrears remain with a few bilateral creditors**. Over 2013-17, the Government of Grenada undertook a comprehensive and collaborative debt restructuring in the context of the concurrent ECF-supported program. The restructuring took the form of face value reduction (50 percent) where applicable, interest rate adjustments, and maturity extensions. The restructuring contributed to a significant reduction of public debt, from 108 percent of GDP in 2013 to 70.8 percent of GDP in 2017.[2] In PV terms, public debt to GDP declined from 104 in 2013 to around 63 percent in 2017. In 2017, further progress on debt restructurings was made, including the completion of the restructuring with Russia and United Kingdom. However, official debt of US$15.7 million owed to non-Paris Club official bilateral creditors including Trinidad and Tobago, Algeria and Libya remain to be regularized.[3] The authorities are making payments on overdue membership fees in line with the revised schedule published in mid-2017. And in late-2017, Grenada received a 25 percent haircut on two international bonds. Domestic debt refinancing has included a conversion of short-term T-bills into longer-term bonds.

2. **The composition of Grenada's debt is now relatively favorable.** There was a slight shift towards domestic debt financing in 2017 compared to 2016. The share of external debt in central government debt has declined to below 70 percent while the share of domestic debt has increased to over 30 percent (Text Figures 1-3). As expected and because of the successful restructuring, the shares of multilateral and bilateral debt increased during 2017, while the share of commercial debt has declined. The impact of restructuring has also impacted the composition of domestic debt with a significant shift towards longer maturity bonds away from short term treasury bills. Central government guaranteed debt has declined significantly during the last few years; it accounts for about 2.5 percent of total external debt. Overdue payments of membership fees to international organizations were also reduced last year, while payments have been regularly made in accordance with the schedule published in the sixth review of the ECF arrangement of May 2017.

3. **Debt management, SOE data coverage, and the borrowing strategy need to be further upgraded.** The Fiscal Responsibility Law's (FRL) medium-term public debt target of 55 percent of GDP is a key fiscal anchor that is supported by the FRL's operational targets on the primary balance and spending growth, as well as ongoing institutional reforms. The authorities' debt management capacity would benefit from further reform efforts, including in data management and IT system enhancements. The MoF is monitoring non-guaranteed debt of SOEs, which is important in the context of meeting FRL's debt target. Such monitoring and the quality of information need to be further enhanced, formalized, and reported publicly. The government's medium-term debt management strategy targets the proportions of external (up to 35 percent) and domestic debt in new issuances. The strategy could be reviewed in light of increased availability of highly

[2] Public debt in this DSA is defined as the sum of central government debt, government-guaranteed debt, overdue membership fees, and interest arrears.

[3] Additionally, there is overdue debt to a private creditor of around USD 2 million at end-2017, some of which is pending court judgment. The authorities made significant (but partial) payments to this creditor in late-2017.

concessional external financing, including the US$30 million program loan from the World Bank that was approved in June 2018. Such financing and substantial receipts under the Citizenship-by-Investment (CBI) program have put into sharper relief the need to enhance efficiency of asset management and capacity for asset/liability operations. The authorities would also have to undertake a payment to 2025 bond holders, due in 2018, of a portion of CBI receipts, since the latter are estimated to have overperformed the key US$25 million threshold.

MACROECONOMIC ASSUMPTIONS

4. The macroeconomic environment and outlook have improved since the last Article IV Consultation in 2016 and the 6th review of the ECF arrangement in 2017. Real GDP growth projections for 2018-23 are higher by about ½ percentage point due to vibrant construction and good tourism performance, but long-term growth is projected to remain at 2¾ percent as previously assessed. Compliance with the FRL has strengthened the credibility of the fiscal framework. Going forward, primary surpluses are expected to continue to overperform the FRL's 3.5 percent of GDP floor through 2020. Thereafter, the FRL would allow for lower primary surpluses. A switch to the IMF's Balance of Payments Manual version 6 (BPM6) led to a 10 percent of GDP reduction in the current account deficit, thereby invalidating historical comparisons of the current account deficit (the new data are only available from 2014). The current account deficit would average around 7 percent of GDP in the medium term (through 2023), but would rise longer-term, in part reflecting higher public investment.

DSA Update: Macroeconomic Assumptions
(In percent of GDP, unless otherwise specified)

	Historical Average	Projections 2018-23			Projections 2024-36 1/		
		2016 Article IV	6th Review	2018 Article IV	2016 Article IV	6th Review	2018 Article IV
Non-interest external current account balance 2/	-18.7	-14.0	-13.6	-5.2	14.2	-14.0	-9.2
Real GDP growth (in percent)	2.7	2.7	2.5	3.0	2.7	2.7	2.7
Growth of exports of G & S (USD terms, in percent)	6.3	5.6	5.5	5.2	5.8	5.4	4.5
Current official transfer	-3.1	-2.3	-2.2	1.2	-1.9	-1.8	1.5
Net FDI	-8.3	-8.6	-9.1	-9.0	-8.7	-9.2	-9.0
Primary balance	-0.9	2.8	3.1	3.9	-1.0	-1.0	-0.9
Revenue and grants	23.6	25.5	25.5	25.1	25.5	24.5	23.9
of which: grants	3.0	3.1	3.0	2.7	3.1	2.0	1.7
Primary (non-interest) expenditure	24.9	22.8	22.4	21.1	26.5	25.5	24.8
Inflation rate (GDP deflator, in percent)	1.6	2.4	2.1	2.3	2.3	2.1	2.2
Memorandum item		2016 Article IV	6th Review	2018 Article IV			
2017 Nominal GDP (in million USD)		1048.4	1091.9	1113.3			

Source: Grenadian authorities and IMF staff projections
1/ 2018 Article IV average includes 2024-2038.
2/ 2018 Article IV current account figures include revisions from BPM5 to BPM6.

PUBLIC AND EXTERNAL DSA

5. The total (external plus domestic) PPG trajectory is on track to reach the 55 percent threshold in about 3 years. As noted, total public debt declined to below 71 percent of GDP at the end of 2017—a reduction of about 11 percentage points compared to 2016. A little less than one-half of the decline reflected principal reductions from successful debt restructuring. The primary drivers of the projected decline in PPG debt-to-GDP over the medium term are projected to be improvements in primary balances and GDP growth as reflected in the updated macroeconomic assumptions. The contribution of the average effective interest rate to the reduction in the debt to GDP ratio is also projected to moderate steadily over the medium term (Table 2). The projections assume continuing positive residuals in PPG debt dynamics, which have been observed historically. These residuals partly reflect broader coverage of public debt than that required to finance central government operations, and includes contraction of debt for on-lending to SOEs as well as government-guaranteed debt of SOEs. The projection is conservative in the medium term in that the residuals are expected to be higher than the historical average, which would be consistent with more ambitious SOE-related investment plans, if these are implemented.

6. External PPG debt is also projected to trace a downward path and is lower than in previous DSA assessments. The thresholds for the present value of PPG debt-to-GDP and the debt-to-exports ratio under the baseline scenario are no longer breached, in contrast to the DSA published under the 2016 Article IV Consultation.[4] Nevertheless, due to the remaining unresolved arrears to official bilateral creditors, Grenada's DSA rating stands unchanged at "in debt distress" from the last assessment of May 2017.

7. Though risks to external debt sustainability have declined, they remain substantial. Grenada's debt sustainability is subject to downside risks. Mainly a tourism-based economy, Grenada is susceptible to external macroeconomic shocks. Potential declines in major tourist source markets in the United States, Canada or the United Kingdom will significantly impact Grenada's growth prospects. Shocks to oil prices are an added risk to the medium-term outlook. Domestically, higher-than-expected pension and health care-related liabilities can put an additional stress on public finances and natural disasters are an ever-present risk. Continued strong commitment to the FRL is needed to manage those risks. Efforts are ongoing to improve external statistics, which would permit a better assessment of risks emanating from private external debt.

8. The results of the shock scenarios indicate Grenada's vulnerability to exports (tourism sector) and natural disasters. All shock scenarios indicate a higher vulnerability to export/tourism industry shocks. The breaches under stress tests for the present value of debt-to-GDP and debt service-to-revenue ratio thresholds are similar to those of the previous DSA, while for debt service-to-exports the performance is better, partly reflecting higher measured exports under the BPM6 methodology. A natural disaster shock was calibrated based on the estimated growth effects that the 2017 hurricane Maria had on Dominica (the total damage from Maria in terms of country GDP is similar to those of hurricane Ivan for Grenada in 2004). The fiscal response assumes an increase of expenditures by a total of 5 percent in the two years following a hurricane or 2.5 percentage points in each year 2018-2019 to cover reconstruction costs.

[4] Given that there is no breach of threshold for PPG external debt to GDP under baseline conditions, on technical grounds the 'probability approach' has been applied to risk assessment (Figure 2). This method points to "high risk" of external debt distress, though the breach of threshold for debt/GDP is not large.

9. Portfolio risks are also present. The interest rate is subject to a moderate risk with an average time to re-fixing of 7.8 years in which 24.1 percent of the portfolio is subject to a change in interest rates in one year. This risk resides predominantly in the domestic portfolio in which 35.9 percent of this debt is subject to re-fixing in one year due to substantial short-term treasury bills in the portfolio. The refinancing risk profile of the portfolio has an average time to maturity of 8.2 years which slightly exceeds the set target of greater than 8 years. The current portfolio is subject to only a moderate foreign exchange risk as most of foreign currency debt is denominated in US dollars to which the EC dollar is pegged.

CONCLUSION

10. Grenada's debt sustainability outlook has continued to improve, but the external risk rating remains "in debt distress." Fully regularizing external arrears would help tangibly improve the country's DSA rating. Further progress in public debt reduction would also be essential, including through maintaining the FRL's rules-based framework and pursuing structural fiscal reforms, including further improving debt management capacity.

11. The authorities agreed that gross public debt would remain on a downward trajectory. They underscored their commitment to the FRL and indicated that risks arising from new fiscal initiatives, including on pensions and health care, would be managed within the envelope defined by the FRL's parameters. In the context of the "debt distress" rating, they indicated that they were actively working to regularize arrears with the three remaining bilateral creditors, but were encountering difficulties, including being unable to establish sustained communication with one of the creditor countries due to political circumstances. They were committed to fully honoring their rescheduled debt obligations and exploring options for more active asset/liability operations and other steps to further improve their debt management capacity.

Figure 1. Composition of Central Government Debt

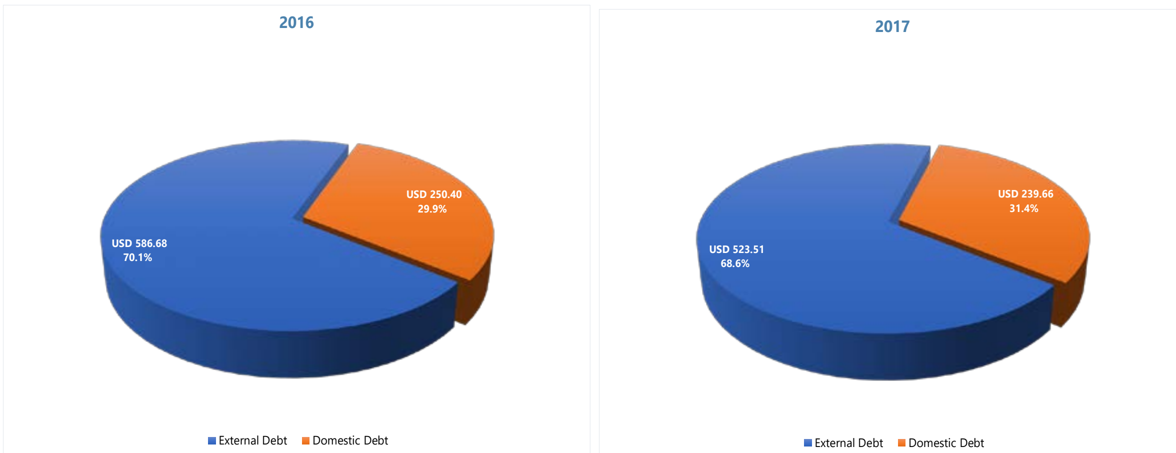


Figure 2. Domestic Debt by Instrument Type

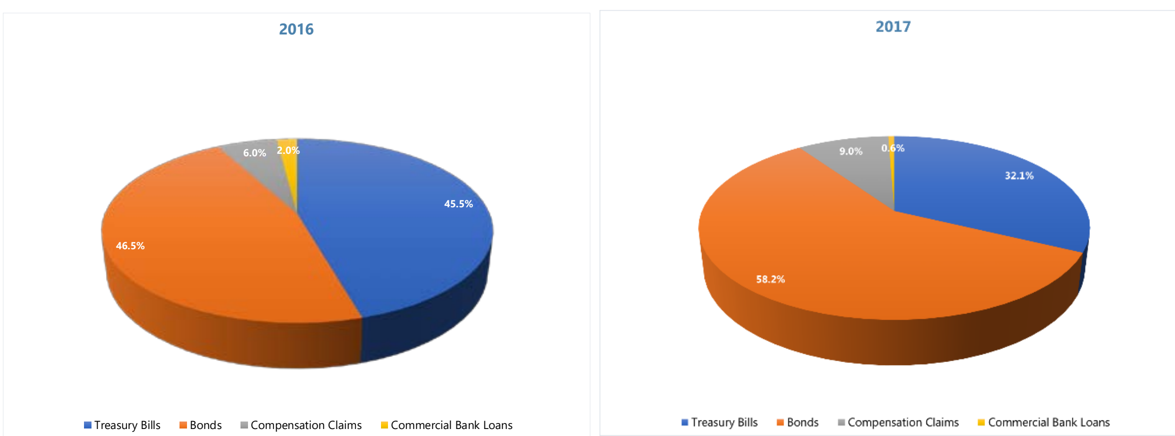


Figure 3. Foreign Debt by Creditor Category

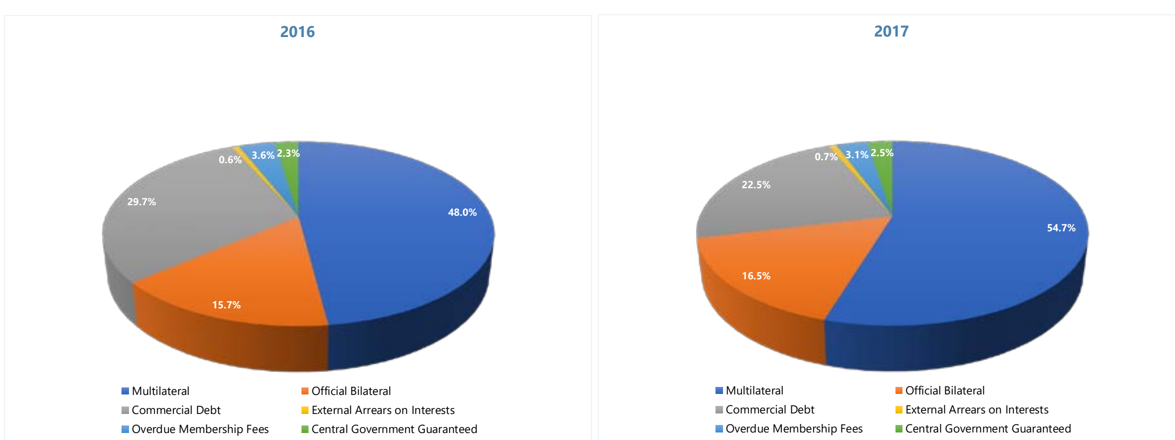


Table 1. Grenada: External Debt Sustainability Framework, Baseline Scenario, 2015–2038 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 7/	Standard Deviation 7/	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**133.2**	**126.3**	**116.4**			**108.4**	**107.2**	**100.8**	**98.9**	**97.4**	**95.9**		**85.2**	**63.2**	
of which: public and publicly guaranteed (PPG)	61.4	56.9	48.0			47.1	43.8	39.2	38.9	39.0	39.2		35.8	33.1	
Change in external debt	-9.8	-6.9	-9.8			-8.1	-1.2	-6.4	-1.9	-1.5	-1.5		-1.9	-1.9	
Identified net debt-creating flows	-17.3	-12.8	-8.3			-5.1	-5.3	-5.5	-5.3	-5.0	-5.0		-2.5	2.0	
Non-interest current account deficit 2/	**1.4**	**0.9**	**4.5**	**11.8**	**10.3**	**5.8**	**6.1**	**5.4**	**5.3**	**5.6**	**5.6**		**8.0**	**11.1**	8.9
Deficit in balance of goods and services	-1.3	-3.7	-0.1			0.3	0.4	-0.4	-0.5	-0.3	-0.4		1.7	4.5	
Exports	58.0	56.1	56.3			56.3	56.2	56.0	55.9	55.9	55.8		54.4	52.3	
Imports	56.7	52.4	56.2			56.6	56.6	55.6	55.4	55.6	55.3		56.1	56.8	
Net current transfers (negative = inflow)	-0.7	1.2	1.0	-1.7	2.3	1.3	1.3	1.2	1.2	1.1	1.2		1.4	1.4	1.5
of which: official	0.8	1.4	1.2			1.5	1.5	1.5	1.5	1.5	1.5		1.5	1.5	
Other current account flows (negative = net inflow)	3.4	3.5	3.6			4.2	4.5	4.6	4.6	4.7	4.8		4.9	5.1	
Net FDI (negative = inflow)	**-8.9**	**-8.6**	**-8.5**	**-8.6**	**3.4**	**-8.6**	**-9.1**	**-9.1**	**-9.1**	**-9.1**	**-9.1**		**-9.1**	**-8.2**	-9.0
Endogenous debt dynamics 3/	**-9.8**	**-5.2**	**-4.3**			**-2.3**	**-2.3**	**-1.8**	**-1.5**	**-1.5**	**-1.5**		**-1.4**	**-0.9**	
Contribution from nominal interest rate	2.5	2.3	2.2			1.6	1.3	1.2	1.2	1.0	1.0		0.9	0.8	
Contribution from real GDP growth	-8.4	-4.6	-5.4			-3.9	-3.7	-3.0	-2.6	-2.6	-2.5		-2.3	-1.7	
Contribution from price and exchange rate changes	-3.8	-2.8	-1.1			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**7.5**	**5.9**	**-1.5**			**-3.0**	**4.1**	**-0.9**	**3.4**	**3.5**	**3.5**		**0.6**	**-3.9**	
of which: exceptional financing	-3.1	-1.5	-1.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	108.6			99.1	98.0	92.8	90.7	88.9	87.2		77.0	55.3	
In percent of exports	...	...	192.7			175.9	174.4	165.6	162.2	159.1	156.4		141.5	105.8	
PV of PPG external debt	**...**	**...**	**40.1**			**37.8**	**34.7**	**31.1**	**30.6**	**30.5**	**30.4**		**27.5**	**25.3**	
In percent of exports	**...**	**...**	**71.3**			**67.0**	**61.6**	**55.6**	**54.8**	**54.6**	**54.6**		**50.6**	**48.3**	
In percent of government revenues	**...**	**...**	**172.3**			**165.0**	**154.9**	**139.2**	**137.4**	**137.0**	**137.2**		**123.9**	**113.4**	
Debt service-to-exports ratio (in percent)	**7.8**	**9.7**	**10.6**			**8.1**	**7.1**	**6.5**	**6.3**	**6.2**	**6.4**		**5.4**	**5.0**	
PPG debt service-to-exports ratio (in percent)	**7.4**	**9.4**	**10.3**			**7.8**	**6.8**	**6.2**	**6.0**	**5.9**	**6.1**		**5.2**	**4.9**	
PPG debt service-to-revenue ratio (in percent)	**20.3**	**23.0**	**24.8**			**19.1**	**17.0**	**15.5**	**15.0**	**14.9**	**15.3**		**12.8**	**11.4**	
Total gross financing need (Millions of U.S. dollars)	-30.0	-23.3	21.9			21.3	13.1	-0.5	-4.3	0.1	0.5		35.6	175.7	
Non-interest current account deficit that stabilizes debt ratio	11.2	7.9	14.4			13.9	7.3	11.8	7.2	7.1	7.1		9.8	13.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.4	3.7	4.5	2.9	3.1	3.6	3.6	2.9	2.7	2.7	2.7	3.0	2.7	2.7	2.7
GDP deflator in US dollar terms (change in percent)	2.8	2.2	0.9	1.8	1.4	2.7	2.2	2.2	2.2	2.2	2.2	2.3	2.2	2.2	2.2
Effective interest rate (percent) 6/	1.9	1.8	1.8	1.6	0.2	1.5	1.3	1.2	1.2	1.1	1.1	1.2	1.1	1.3	1.1
Growth of exports of G&S (US dollar terms, in percent)	5.5	2.5	5.8	23.2	46.5	6.4	5.7	4.8	4.8	5.0	4.7	5.2	4.5	4.7	4.6
Growth of imports of G&S (US dollar terms, in percent)	5.3	-2.2	13.2	8.5	9.5	7.2	5.9	3.2	4.6	5.5	4.5	5.1	5.1	5.1	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	34.0	49.8	22.8	28.2	27.4	27.0	31.5	27.3	25.8	27.0
Government revenues (excluding grants, in percent of GDP)	21.2	22.8	23.3			22.9	22.4	22.4	22.3	22.3	22.2		22.2	22.3	22.2
Aid flows (in Millions of US dollars) 8/	32.3	37.0	28.9			64.4	54.1	35.7	43.8	44.3	44.8		43.6	48.7	
of which: Grants	32.3	37.0	28.9			34.4	35.1	35.7	36.2	36.7	37.2		36.0	41.0	
of which: Concessional loans	0.0	0.0	0.0			30.0	19.0	0.0	7.6	7.6	7.6		7.6	7.6	
Grant-equivalent financing (in percent of GDP) 9/	...	...	...			5.7	3.8	2.7	3.7	3.7	3.7		2.8	2.1	2.5
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			51.3	78.9	100.0	56.8	53.7	52.5		53.2	47.9	52.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	997.0	1056.2	1113.3			1185.0	1254.3	1319.1	1385.6	1454.8	1527.3		1948.7	3173.0	
Nominal dollar GDP growth	9.4	5.9	5.4			6.4	5.8	5.2	5.0	5.0	5.0	5.4	5.0	5.0	5.0
PV of PPG external debt (in Millions of US dollars)			446.9			447.3	434.7	410.6	424.2	444.0	464.9		536.7	802.0	
(PVt-PVt-1)/GDPt-1 (in percent)						0.0	-1.1	-1.9	1.0	1.4	1.4	0.2	1.0	1.0	1.0
Gross workers' remittances (Millions of US dollars)	28.8	29.0	30.3			31.8	36.1	40.2	44.5	48.9	50.8		61.2	88.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	39.1			36.8	33.7	30.2	29.7	29.5	29.5		26.7	24.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	68.0			64.0	58.6	52.7	51.8	51.5	51.5		47.9	45.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.8			7.4	6.4	5.9	5.6	5.6	5.7		4.9	4.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ The significant decline in projections for the non-interest CA balance relative to the previous DSA (Annex II, ECF Sixth Review, May 2017), is a result of the transition from BPM5 to BPM6 methodology.

3/ 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.

4/ 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.

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

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

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

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

9/ 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 2. Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–2038

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate												Projections						
														hide	hide	hide	hide	hide	hide	hide	hide	hide		
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2024-38 Average
Public sector debt 1/	90.1	82.0	70.8			65.0	59.6	52.9	51.3	50.7	50.3		50.2	50.5	50.7	50.9	51.1	51.3	51.1	52.5	52.5	52.4	52.4	
of which: foreign-currency denominated	61.4	56.9	48.0			47.1	43.8	39.2	38.9	39.0	39.2		35.8	35.4	34.9	34.5	34.1	33.7	33.2	34.2	33.8	33.5	33.1	
Change in public sector debt	-11.7	-8.1	-11.2			-5.8	-5.4	-6.7	-1.6	-0.6	-0.4		0.3	0.2	0.2	0.2	0.2	0.2	-0.1	1.4	0.0	0.0	0.0	
Identified debt-creating flows	-13.2	-8.9	-12.4			-8.3	-7.2	-7.0	-4.7	-3.3	-2.8		-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.4	-0.3	-0.4	-0.4	-0.4	
Primary deficit	-2.1	-5.2	-5.7	0.2	3.6	-5.6	-5.3	-5.5	-3.6	-2.1	-1.6	-4.0	1.1	1.1	1.1	1.1	1.1	1.1	0.8	0.8	0.8	0.8	0.8	0.9
Revenue and grants	24.5	26.4	25.9			25.8	25.2	25.1	24.9	24.8	24.6		24.1	24.0	24.0	23.9	23.8	23.8	23.8	23.7	23.7	23.6	23.6	
of which: grants	3.2	3.5	2.6			2.9	2.8	2.7	2.6	2.5	2.4		1.8	1.8	1.7	1.7	1.6	1.5	1.5	1.4	1.4	1.3	1.3	
Primary (noninterest) expenditure	22.3	21.2	20.1			20.2	19.9	19.6	21.3	22.7	23.0		25.2	25.1	25.1	25.0	24.9	24.9	24.5	24.5	24.4	24.4	24.3	
Automatic debt dynamics	-5.4	-2.2	-1.5			-2.2	-1.9	-1.5	-1.1	-1.2	-1.2		-1.2	-1.2	-1.1	-1.2	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2	-1.2	
Contribution from interest rate/growth differential	-4.3	-1.6	-2.0			-2.0	-2.2	-1.4	-1.1	-1.2	-1.2		-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	
of which: contribution from average real interest rate	1.8	1.6	1.5			0.4	0.1	0.3	0.3	0.2	0.2		0.9	0.9	1.0	0.9	0.9	0.9	1.0	1.0	1.0	0.9	0.9	
of which: contribution from real GDP growth	-6.2	-3.2	-3.5			-2.5	-2.2	-1.7	-1.4	-1.4	-1.3		-1.3	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	
Contribution from real exchange rate depreciation	-1.1	-0.5	0.5			-0.1	0.3	-0.1	-0.1	0.0	0.0		...	...	...	...	...	...	...	...	...	...	...	
Other identified debt-creating flows	-5.7	-1.6	-5.2			-0.5	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	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debt relief (HIPC and other)	-5.7	-1.0	-5.2			-0.5	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	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	-0.6	0.1			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	0.0	0.0	0.0	
Residual, including asset changes	1.6	0.8	1.2			2.5	1.8	0.3	3.1	2.7	2.4		0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.7	0.3	0.4	0.4	
Other Sustainability Indicators																								
PV of public sector debt	...	...	62.9			55.7	50.5	44.9	43.0	42.2	41.6		41.9	42.2	42.5	42.8	43.1	43.4	43.3	44.4	44.5	44.5	44.6	
of which: foreign-currency denominated	...	...	40.1			37.8	34.7	31.1	30.6	30.5	30.4		27.5	27.1	26.7	26.4	26.1	25.9	25.4	26.2	25.8	25.6	25.3	
of which: external	...	...	40.1			37.8	34.7	31.1	30.6	30.5	30.4		27.5	27.1	26.7	26.4	26.1	25.9	25.4	26.2	25.8	25.6	25.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	...	...	...	...	...	...	...	...	...	
Gross financing need 2/	17.0	15.5	7.8			6.0	6.5	5.5	7.0	8.1	8.3		9.3	9.1	8.6	8.1	8.0	7.8	7.4	7.3	7.2	7.0	6.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	242.9			216.0	200.4	179.0	172.9	170.2	168.7		174.2	175.7	177.3	179.1	180.7	182.2	182.5	187.4	188.0	188.5	189.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	269.9			243.4	225.5	200.6	193.2	189.4	187.3		188.7	189.8	191.0	192.4	193.7	194.9	194.7	199.5	199.7	199.9	200.0	
of which: external 3/	...	...	172.3			165.0	154.9	139.2	137.4	137.0	137.2		123.9	121.9	120.2	118.8	117.5	116.2	114.3	117.5	116.0	114.7	113.4	
Debt service-to-revenue and grants ratio (in percent) 4/	78.5	78.6	52.1			45.1	46.8	43.8	42.6	41.1	40.4		33.7	33.2	31.4	29.4	28.9	28.4	28.0	27.5	27.0	26.5	26.0	
Debt service-to-revenue ratio (in percent) 4/	90.4	90.7	58.0			50.8	52.7	49.1	47.5	45.8	44.8		36.5	35.9	33.8	31.6	30.9	30.4	29.9	29.3	28.6	28.1	27.5	
Primary deficit that stabilizes the debt-to-GDP ratio	9.5	2.9	5.5			0.1	0.1	1.2	-2.0	-1.5	-1.2		0.9	0.9	0.9	0.9	0.9	0.9	0.9	-0.6	0.8	0.8	0.8	
Key macroeconomic and fiscal assumptions																								
Real GDP growth (in percent)	6.4	3.7	4.5	2.9	3.1	3.6	3.6	2.9	2.7	2.7	2.7	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Average nominal interest rate on forex debt (in percent)	3.7	3.6	3.7	2.9	0.8	3.1	2.5	2.4	2.6	2.4	2.3	2.6	2.2	2.3	2.3	2.3	2.3	2.3	2.4	2.5	2.3	2.3	2.3	2.3
Average real interest rate on domestic debt (in percent)	0.6	0.8	2.1	2.2	1.4	0.5	1.0	1.0	0.9	0.9	0.9	0.8	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.6	-0.9	0.9	-0.2	1.4	-0.3	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.8	2.2	0.9	1.8	1.4	2.7	2.2	2.2	2.2	2.2	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.3	-1.7	-0.5	-1.2	2.5	3.6	2.1	1.3	12.0	9.4	4.1	5.4	4.0	2.4	2.4	2.4	2.5	2.5	1.3	2.5	2.6	2.6	2.5	3.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	34.0	49.8	22.8	28.2	27.4	27.0	31.5	27.3	27.1	27.2	27.4	27.1	26.8	26.8	25.3	26.2	26.0	25.8	27.0

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

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

Table 3. Grenada: Sensitivity Analysis for Key Indicators of Publicly Guaranteed External Debt, 2018–2038

(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	38	35	31	31	31	30	**28**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	38	40	41	46	51	56	**67**	58
A2. New public sector loans on less favorable terms in 2018-2038 2	38	35	32	32	33	34	**34**	38
A3. Alternative Scenario: Natural Disaster	38	41	35	35	35	35	**31**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	38	36	33	33	33	33	**29**	27
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	38	46	62	61	61	61	**49**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	38	35	32	32	32	32	**29**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	38	37	36	35	35	35	**31**	26
B5. Combination of B1-B4 using one-half standard deviation shocks	38	39	41	40	40	40	**35**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	38	49	44	43	43	43	**39**	36
PV of debt-to-exports ratio								
Baseline	67	62	56	55	55	55	**51**	48
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	67	70	74	82	91	100	**124**	111
A2. New public sector loans on less favorable terms in 2018-2038 2	67	63	57	57	59	61	**63**	73
A3. Alternative Scenario: Natural Disaster	67	73	62	62	62	63	**57**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	67	62	56	55	55	55	**51**	48
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	67	113	208	206	205	204	**170**	115
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	67	62	56	55	55	55	**51**	48
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	67	66	64	64	63	63	**57**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	67	70	76	75	75	75	**67**	57
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	67	62	56	55	55	55	**51**	48
PV of debt-to-revenue ratio								
Baseline	165	155	139	137	137	137	**124**	113
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	165	177	185	207	228	251	**303**	261
A2. New public sector loans on less favorable terms in 2018-2038 2	165	158	142	144	148	152	**155**	172
A3. Alternative Scenario: Natural Disaster	165	184	155	155	157	159	**140**	129
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	165	161	149	147	147	147	**133**	121
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	165	206	277	275	273	273	**222**	143
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	165	158	144	142	142	142	**128**	117
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	165	166	161	159	159	159	**139**	118
B5. Combination of B1-B4 using one-half standard deviation shocks	165	173	183	181	180	180	**156**	128
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	165	219	197	195	194	194	**175**	161

Table 3. Grenada: Sensitivity Analysis for Key Indicators of Publicly Guaranteed External Debt, 2018–2038 (concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	8	7	6	6	6	6	**5**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	8	7	7	7	7	7	**10**	12
A2. New public sector loans on less favorable terms in 2018-2038 2	8	7	6	6	6	6	**6**	6
A3. Alternative Scenario: Natural Disaster	8	8	7	7	7	7	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	8	7	6	6	6	6	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	8	9	13	14	14	14	**18**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	8	7	6	6	6	6	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	8	7	6	6	6	6	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	8	7	7	7	7	7	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	8	7	6	6	6	6	**5**	5
Debt service-to-revenue ratio								
Baseline	19	17	16	15	15	15	**13**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	19	17	16	16	17	18	**24**	28
A2. New public sector loans on less favorable terms in 2018-2038 2	19	17	15	14	14	14	**14**	15
A3. Alternative Scenario: Natural Disaster	19	20	17	17	17	18	**15**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	19	18	17	16	16	16	**14**	12
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	19	17	17	19	19	19	**23**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	19	17	16	15	15	16	**13**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	19	17	16	16	15	16	**14**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	19	18	17	17	17	17	**16**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	19	24	22	21	21	22	**18**	16
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

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.

Table 4. Grenada: Sensitivity Analysis for Key Indicators of Public Debt 2018–2038

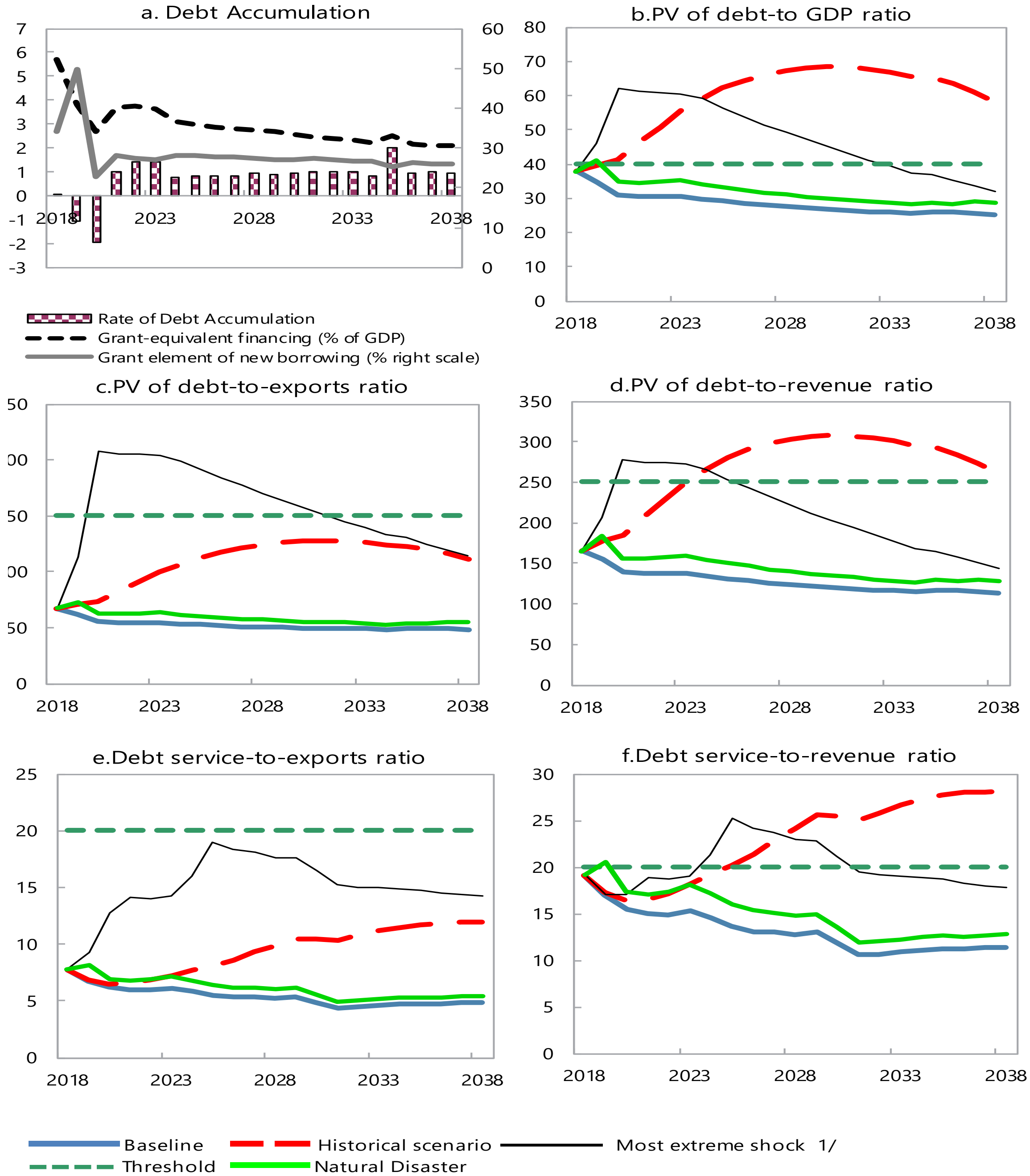
	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	56	50	45	43	42	42	42	45
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	56	55	53	54	55	55	52	46
A2. Primary balance is unchanged from 2018	56	50	45	41	38	34	12	-26
A3. Permanently lower GDP growth 1/	56	51	46	45	44	45	51	74
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	56	53	50	49	49	50	55	67
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	56	57	58	56	55	55	54	54
B3. Combination of B1-B2 using one half standard deviation shocks	56	57	58	56	56	56	58	64
B4. One-time 30 percent real depreciation in 2019	56	66	60	57	56	54	52	53
B5. 10 percent of GDP increase in other debt-creating flows in 2019	56	58	52	50	49	49	48	50
PV of Debt-to-Revenue Ratio 2/								
Baseline	216	200	179	173	170	169	174	189
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	216	218	213	217	221	224	214	195
A2. Primary balance is unchanged from 2018	216	200	178	166	152	139	48	-110
A3. Permanently lower GDP growth 1/	216	202	182	179	179	181	210	310
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	216	210	197	195	197	200	229	283
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	216	227	233	227	223	222	224	229
B3. Combination of B1-B2 using one half standard deviation shocks	216	226	229	225	225	226	241	269
B4. One-time 30 percent real depreciation in 2019	216	263	240	231	225	221	218	225
B5. 10 percent of GDP increase in other debt-creating flows in 2019	216	230	208	202	199	197	201	210
Debt Service-to-Revenue Ratio 2/								
Baseline	45	47	44	43	41	40	34	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	45	47	45	44	43	42	37	28
A2. Primary balance is unchanged from 2018	45	47	44	43	41	40	29	7
A3. Permanently lower GDP growth 1/	45	47	44	43	42	42	37	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	45	48	47	45	44	43	38	33
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	45	47	45	44	43	42	38	30
B3. Combination of B1-B2 using one half standard deviation shocks	45	48	46	46	44	43	39	33
B4. One-time 30 percent real depreciation in 2019	45	50	50	49	47	47	41	35
B5. 10 percent of GDP increase in other debt-creating flows in 2019	45	47	45	44	42	41	36	28

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

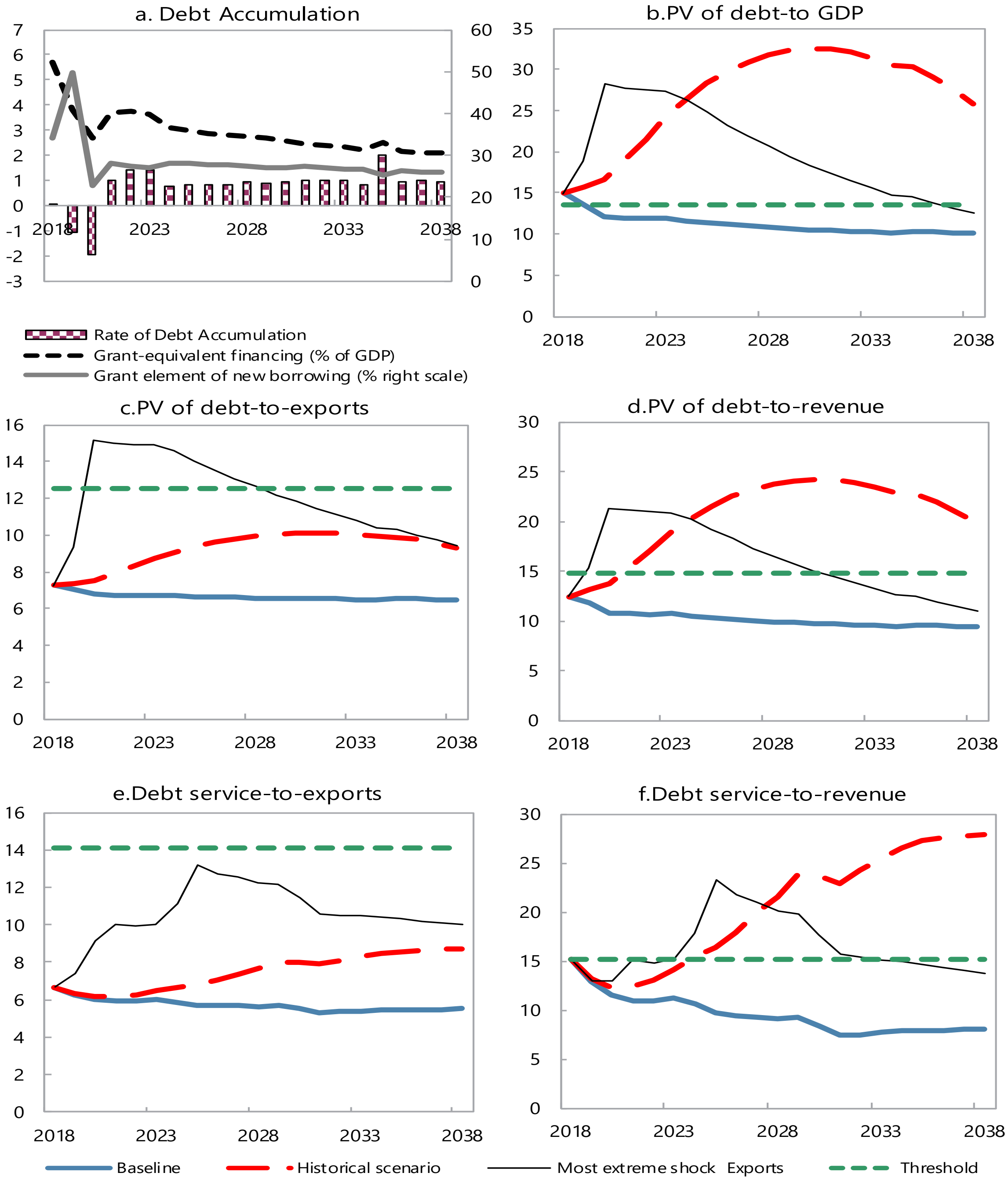
Figure 1. Grenada: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018–2038 1/



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 2028. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

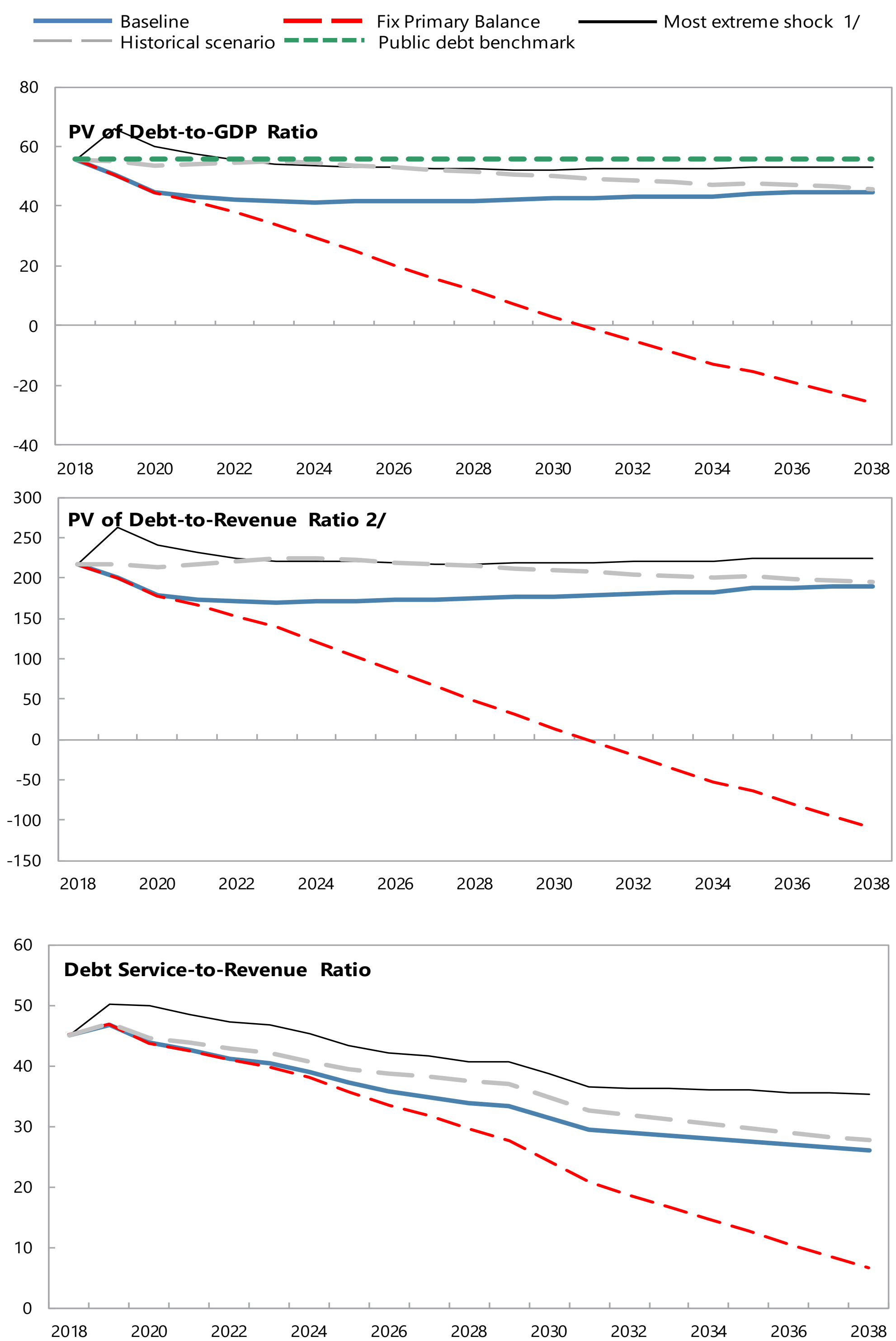
Figure 2. Grenada: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018–2038 1/



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 2028. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

Figure 3. Grenada: Indicators of Public Debt Under Alternative Scenarios, 2018–2038 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 2028.
2/ Revenues are defined inclusive of grants.

Statement by Ms. Horsman, Executive Director and
Mike Sylvester, Advisor
July 13, 2018

Our Grenadian authorities would like to thank staff for the constructive dialogue within the context of the 2018 Article IV Consultation and for their balanced assessment and policy advice. Grenada continues to face many challenges related to its small size, openness, narrow economic base, and high susceptibility to climate change and natural disasters, amongst other delimiting factors. On account of these challenges, as well as policy slippages, Grenada has experienced a secular slowdown in potential growth, high output volatility, unsustainable fiscal and debt dynamics, and protracted high unemployment and poverty levels over many years. More recently, our Grenadian authorities have charted a new course. They believe that the successful completion of the Fund-supported homegrown structural adjustment (HGSAP) 2014-17, which saw significant improvement in macroeconomic fundamentals, has provided a relatively strong foundation on which they can continue to build. Within this context, our authorities remain committed to implementing sound macroeconomic policies and structural reforms aimed at transforming Grenada into an economic success story, delivering robust, inclusive, job-rich and sustained growth, and improved living standards for all its citizens. They look forward to the continued support of their regional and international partners.

Recent Economic Developments and Outlook

Grenada's economy is currently in an expansionary phase that will likely be sustained into the medium term. Real GDP growth picked up in 2017 driven by strong activity in the tourism, construction, and education sectors. This means that real GDP growth has expanded robustly at an average of 5.6 percent since 2014. Our authorities share staff's positive outlook going forward, despite continued risks and vulnerabilities, with growth expected to remain well above potential over the medium term. Inflation remained subdued in 2017, but is estimated to edge up in 2018 due to rising oil prices and moderate over the medium term as global oil production increases.

Potential output is trending upwards. Since 2014, the estimate of potential output has been inching upward and is now estimated at around 2.7 percent. Our authorities believe that this reflects dividends from their previous and ongoing ambitious reform program. They are determined to further boost potential growth through sustained productivity and competitiveness reforms.

Grenada's fiscal position was further bolstered in 2017, and the new and improved fiscal framework has remained intact. Our authorities continued to outperform the targets under their Fiscal Responsibility Law (FRL). During 2017, the primary surplus reached 5 ¾ percent of GDP as against the target of 3.5 percent, supported by strong economic activity, buoyant revenues, and recurrent expenditure restraint. With support from the World Bank, Grenada's flagship social safety net program was revamped and is now better structured and targeted. In 2017, spending on this program was appropriately increased. Further, our authorities have made progress in improving the fiscal framework, including through strengthening fiscal oversight and transparency.

Further progress was made in reducing debt vulnerabilities. Public debt fell sharply to just below 71 percent of GDP at end-2017, a 37-percentage point reduction since 2013, reflecting robust economic growth, fiscal consolidation, and the completion of the final phase of the commercial bond restructuring. As it stands, Grenada is on track to reach its FRL debt target of 55 percent of GDP by 2020, as well as the Eastern Caribbean Currency Union (ECCU) debt target of 60 percent of GDP, ten years ahead of the 2030 deadline.

The current account deficit widened, but remained amply financed by FDI and capital transfers. In 2017, the current account deficit increased by 3 ½ percentage points of GDP, to 6.7 percent of GDP, driven largely by construction-related imports. Reserves of 3.7 months of import are assessed as adequate for cushioning shocks and preventing disorderly market conditions.

Financial sector improvements continued during 2017, but emerging issues require close monitoring. Our authorities share staff's assessment that the financial sector is relatively sound in terms of capital adequacy, asset quality, liquidity, and profitability. They are heartened that bank credit is picking up after years of stagnation and, while welcoming the strong growth in credit union lending, acknowledge that associated risks need close monitoring.

Policy Continuity

The current environment supports policy continuity. Our authorities were recently re-elected on a platform of building on the progress made through a Fund-supported program. They are committed to building on the lessons learned during those critical years, including strengthening social cohesion. Alongside other programs to build social cohesion, our authorities have moved to strengthen the Committee of Social Partners, including through youth participation.

Fiscal and Debt Management

Maintaining Fiscal Discipline remains a top priority for our authorities. The Fiscal Responsibility Law (FRL) has provided an important anchor for sound fiscal policy and has contributed to a much stronger fiscal and debt position. Our authorities remain committed to the new framework and will continue to evaluate all spending decisions, including those related to pension and health care reform, within the context of the FRL. That said, our authorities are of the view that the new fiscal framework should complement their integrated resilience-building approach. In this regard, they believe that a review of the framework, including the FRL, is necessary at this stage to ensure that the parameters are not constraining this key objective, including allowing for critical climate-resilient investments. They are looking forward to the Fund for technical assistance to support this important review process.

Our authorities commend staff for the additional analysis and policy advice relating to Public Expenditure Management, as detailed in Annex IV of the Report. They concur that sustained reforms in this area are necessary to ensure that public investment is efficient, provides growth dividends, and ensures Grenada's resilience to natural disasters.

Tackling remaining debt arrears remains a priority. Our authorities are committed to restoring full creditworthiness and, despite ongoing difficulties, will press ahead to regularize arrears with the three remaining creditors.

Safeguarding Financial Sector Soundness

Our authorities have made important progress in reducing financial sector vulnerabilities and will continue to advance reforms in this regard. In this context, they agree with staff that the recent rapid growth in lending by credit unions warrants close monitoring. Our authorities also recognize the increasingly important role that credit unions and other non-bank financial institutions are playing in deepening financial intermediation and will continue to encourage their growth and development. That said, they are working with the Eastern Caribbean Central Bank (ECCB) to enhance the regulation and supervision of the non-bank financial institutions in Grenada and across the ECCU.

Our authorities wish to record their ongoing concern regarding the risk of loss of correspondent banking relationships (CBRs). They note that the realization of this risk can be very disruptive and damaging to the economy. They will sustain efforts to mitigate this threat through national and regional initiatives, including strengthening their AML/CFT framework, but encourage the Fund to continue to bring stakeholders together to identify concrete solutions. Our authorities are aware of the concerns surrounding CBI programs in the region, and possible implications for loss of CBRs and financial sector stability more broadly. Our authorities maintain that its CBI program is an important source of revenues to help bolster resilience and support economic growth. Accordingly, they will continue to make best efforts to mitigate all risks associated with this program.

Building Resilience

Grenada is at the frontier of building resilience to climate change and natural disaster in the region. Our authorities currently save 40 percent of the CBI proceeds to help respond to natural disasters. Also, our authorities have been successful in incorporating disaster relief provisions ("hurricane clauses") in some of its loan instruments. Furthermore, they have been successful in securing a loan of US$30 million from the World Bank to support climate and fiscal resilience. These are just some of the initiatives currently underway. Going forward, our authorities will continue to accelerate climate-smart development policies and programs, including upscaling investments in climate-resilient infrastructure. The recent establishment of a dedicated Ministry with responsibility for building climate resilience is testimony to this commitment. Accordingly, they look forward to receiving support from the Fund in conducting a Climate Change Policy Assessment (CCPA). They believe that the CCPA will crystalize their resilience framework, as well as act as a catalyst in mobilizing donor support.

Supporting Sustainable and Inclusive Growth

Continued implementation of structural reforms is indispensable for fostering more robust, inclusive, and job-rich growth. This will contribute towards developing a vibrant private sector and further diversifying the country's narrow economic base – key elements of a more resilient economy. In this regard, our authorities will accelerate growth-friendly reforms to further improve the business climate, reduce fiscal risks arising from SOEs and PPPs, boost productivity in the labor market, and implement targeted sectoral policies, including in tourism, agriculture, and energy. To further promote diversification, our authorities are pursuing several initiatives, including efforts to sustainably exploit the country's vast marine space. They are working with the World Bank and other partners to explore opportunities in the area. A medium-term agenda is being prepared, with TA from the World Bank, with the objective of anchoring medium-term planning and strategic interventions to accelerate growth and poverty reduction.

Conclusion

Our authorities believe that the Grenadian economy is at an important juncture in its economic history. While there are no doubts of significant existing and potential challenges, our authorities view this period as an unprecedented opportunity to continue to sow the seeds of economic transformation. They are committed to sound macroeconomic management and structural reforms. They will continue to highly value the support of the Fund and other partners in supporting this paradigm shift.