July 2000
IMF Staff Country Report No. 00/85

Grenada: Staff Report for the 2000 Article IV Consultation

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Grenada, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **March 10, 2000,** with the officials of Grenada on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 12, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the July 5, 2000, Executive Board discussion** of the staff report that concluded the Article IV consultation.

- a Statistical Appendix prepared by IMF staff as background to the Article IV staff report.

Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports and PINS allows for the deletion of market-sensitive information.

The Article IV staff report is published—both in hard copy and on the IMF's website (http://www.imf.org)—as part of a pilot project. To assist the IMF in evaluating the pilot project for release of Article IV staff reports, reader comments are invited prior to October 5, 2000, and may be sent by e-mail to Pilotproject@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GRENADA

Staff Report for the 2000 Article IV Consultation

Prepared by the Staff Representatives for the
2000 Consultation with Grenada

Approved by Teresa Ter-Minassian and Mark Allen

June 9, 2000

Contents | Page

Tables

Appendices

Executive Summary

- Following a period of virtual stagnation during the late 1980s and early 1990s, the Grenadian economy began to recover in 1995 in response to generally prudent macroeconomic policies and progress in implementing reforms in the public sector and the trade system. Real GDP growth rose to an average of 3½ percent a year in 1995–97, and 7–8 percent in 1998–99, based on a pickup in the implementation of infrastructural projects, and an upturn in demand in the agriculture, manufacturing, and services sectors. The economic recovery was accompanied by declines in unemployment and inflation, and a marked increase in real incomes. However, social indicators remain among the least favorable in the Caribbean region.

- Imports associated with the above-mentioned projects led to a widening of the external current account deficit to 28 percent of GDP in 1999. The deficits were financed by inflows of foreign direct investment, official grants and loans, and commercial borrowing by the private sector. Also, banking system liquidity increased as the faster pace of economic activity contributed to a pickup in the rate of growth of private sector deposits, while the growth rate of net domestic assets slowed in line with an improvement in fiscal performance, and an easing of the rate of growth of credit to the private sector.

- The fiscal position had deteriorated during 1995–97, as the authorities embarked on an ambitious capital investment program, while at the same time reducing the income tax and raising civil servants' salaries. The deficit narrowed to 2½ percent of GDP in 1999, while central government savings rose sharply to 4½ percent of GDP, reflecting advances in revenue administration, increased fees from offshore financial companies, and efforts to limit the growth of current expenditure, particularly the wage bill. Capital expenditure rose from an average of 9 percent of GDP in 1996–98 to 10½ percent in 1999, reflecting work on infrastructural improvements, as well as repair and rehabilitation of roads and sea defenses in the wake of hurricane Lenny.

- The discussions focused on policies to sustain rates of economic growth that would be sufficient to alleviate the high rates of poverty and unemployment. There was a broad consensus that this would require (i) attracting increased private investment; (ii) generating an adequate level of fiscal savings to ensure improvements in education and skills training, social services, and safety nets for the poor; and (iii) making the public sector more efficient.

- In the fiscal area, discussions centered on the importance of strengthening revenue administration through measures including broadening the tax base, enforcing the tax laws more vigorously, and awarding financial incentives to tax collectors. Also, the authorities said that they would consider over the medium term a recommendation by the Fund staff to introduce a value-added tax. On expenditure, the main priority is to control the growth of the wage bill, while maintaining an adequate level of social spending.

- Staff and the authorities agreed that attracting additional flows of private investment and reforming the public sector would require upgrading the labor force through a broader range of education and training programs, and continuing to pursue reforms aimed at further privatization and civil service reform. In the financial sector, it is essential that the new supervisory authority strengthen its monitoring over the range of banking and other activities conducted offshore.

I. INTRODUCTION

1. **Discussions for the 2000 Article IV consultation were held in St. George's during the period February 22 through March 10, 2000.** The mission met with the prime minister, the minister of finance and planning, the permanent secretary in the ministry of finance and other senior government officials, staff of the Eastern Caribbean Central Bank (ECCB), and representatives of the private sector. Mr. Bernes, Executive Director for Grenada, and Mr. Fenton, Advisor (OED), participated in the final round of discussions.[1]

2. **The previous Article IV consultation was concluded on March 23, 1999 (EBM/99/30).** On that occasion, Directors observed that efforts during the 1990s to stabilize the economy, and carry out a range of reforms had helped restore private sector confidence and improve the economy's growth performance. They noted, however, that the deterioration in the public finances and the external current account deficit since 1996 raised concerns about the medium-term sustainability of output growth. Directors suggested that the authorities' growth strategy should focus on fiscal consolidation, combined with a deepening of structural reforms, including a reduction in tax exemptions, linking public sector wages more closely to performance, and improving the prioritization of investment projects. They also urged the authorities to push for further trade liberalization under the regional agreement, and for the removal of remaining controls on foreign exchange transactions.

3. **Grenada accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1994 and has no outstanding obligations to the Fund** (Appendix II). The country is a member of the Eastern Caribbean Currency Union, and the common currency of the union, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70=US$1 since July 1976. The exchange rate regime is administered by the ECCB.

4. **The authorities and the central bank publish on a regular and timely basis data on international trade, the financial sector, and the national accounts.** However, comprehensive information on the operations of the central government is available only on an annual basis, and there are weaknesses in the coverage and timeliness of estimates of public and publicly guaranteed debt, the current and capital accounts of the balance of payments, the finances of public enterprises and agencies, and the labor market. These weaknesses adversely affect the authorities' ability to monitor and analyze economic developments. Technical

---

[1] The mission comprised Messrs. DaCosta (Head), Bogetic, Matzen, and Shah, and Ms. Kelley (Assistant) (all WHD). Mr. Itam (WHD) joined the mission for the final meeting. Mr. Andrews and Ms. Hector of the ECCB participated in the mission, and there was close collaboration between the mission and staff from the Caribbean Development Bank (Ms. Melville) and the World Bank (Mr. Graham).

assistance in these areas is provided on a regular basis by the ECCB, and additional support will be made available through the proposed Caribbean Technical Assistance Center (CARTAC).

5. **At the last general election held in January 1999, the ruling New National Party led by Prime Minister Keith Mitchell was returned to power—winning all 15 seats in parliament.** The prime minister has indicated that the government's economic policies for the next four years will focus on reducing poverty by promoting private investment, modernizing the public sector, improving education, health, and other social services, and providing an adequate safety net for the poor.

II. Background and Recent Developments

6. **Grenada is a very small, open economy that is heavily dependent on tourism and exports of spices;**[2] however, in recent years manufacturing (paper products and electronic components), offshore financial services, and telephone- and internet-based marketing have become increasingly important.[3] Banana cultivation and exports, the main economic activity until the early 1990s, declined rapidly during the middle of the decade, and exports ceased altogether in 1997 as a result of the low productivity and fruit quality, disease, and the uncertainty concerning continued access to preferential markets in the European Community. With the assistance of the government, production was resumed on a modest scale in 1999.

7. **The country experienced a period of virtual stagnation during the late 1980s,** associated with political instability, strained relations with the U.S. and other donor countries, a sharp decline in private investment, and the weak performance of the banana and tourism sectors. The new administration that assumed office in 1990 undertook a number of reforms in the first half of the decade that included a reduction in the size of the civil service, privatization of the main public utilities, and trade liberalization in the context of the Caribbean Community (CARICOM).

8. **These reforms combined with generally prudent macroeconomic policies helped increase private sector confidence and boost economic activity in the mid-1990s** (Figure 1). Real GDP growth, which was negligible during 1991–93, rose to an average of 3½ percent in 1995–97, aided by a marked increase in construction and tourist arrivals. Real GDP growth accelerated to an estimated 7–8 percent in 1998–99, based mainly on the implementation of large road rehabilitation and construction projects (the national stadium, the government office complex, and port improvements), as well as sustained growth in new

---

[2] The three islands which comprise Grenada occupy a total land area of 334 square kilometers. In 1999 the population was estimated at about 100,000 and nominal GDP, at US$366 million.

[3] In 1998, agriculture accounted for about 9 percent of GDP, with manufacturing, construction, and tourism (hotels and restaurants) each representing about 8 percent.

residential housing. In addition, earnings from agricultural and manufactured exports and tourism increased, and demand for other services—particularly communications and financial services—rose sharply.

9. **Reflecting the rapid growth in activity, the average per capita income rose from about US$3,200 at end-1997 to an estimated US$3,600 at end-1999,** and the unemployment rate declined from 17 percent to about 14 percent over the same period.[4] Inflation has remained in the low single digits in recent years owing mainly to the fixed exchange rate peg to the U.S. dollar, the decline in import tariffs, and stable international commodity prices (Table 1). The real effective value of the Eastern Caribbean dollar calculated for Grenada has appreciated by about 3 percent over the past three years, reflecting the strengthening of the U.S. dollar vis-à-vis other major currencies (Figure 2).[5]

10. **The first phase of economic recovery was accompanied by a deterioration in the fiscal position.** The deficit of the central government (after grants) widened from less than 1 percent of GDP in 1995 to 6 percent in 1997 and government savings, which had averaged 2 percent of GDP in 1995–96 turned negative in 1997 as the authorities embarked on an ambitious capital investment program, while at the same time reducing the income tax and raising civil servants' salaries by an average of more than 8 percent in real terms a year in 1996–97. The deficit narrowed to 3 percent and 2½ percent of GDP, respectively, in 1998 and 1999, while central government savings rose sharply to 4½ percent of GDP in 1999, reflecting better revenue administration (mainly of the corporate income tax), increased fees from offshore financial companies,[6] and efforts to limit the growth of current expenditure (Table 2). In particular, the civil service wage bill rose by an average of less than 4 percent a year during 1998–99 (reflecting, in part, a freeze on hiring), and declined to just over 12 percent of GDP, from 13 percent of GDP in 1997. Capital expenditure rose from an average of 9 percent of GDP in 1996–98 to 10½ percent in 1999, reflecting improvements in infrastructure (roads, the port, and health and education facilities), as well as repair and rehabilitation work late in the year following the damage caused by hurricane Lenny.

11. **The upturn in economic activity contributed to a pickup in the rate of growth of broad money** from almost 12 percent a year in 1997–98 to 14 percent in 1999; and over the same period, the income velocity of money fell from 1.3 to 1.2. The growth rate of net domestic assets declined considerably in 1999, owing to the improved fiscal performance, as well as a slowdown in the growth of credit to the private sector following two years of very strong expansion in 1997–98 (Table 3). Consequently, banking system liquidity increased, and

---

[4] In 1991–93, the unemployment rate averaged 30 percent.

[5] Efforts to calculate an index of the real effective exchange rate based on relative unit labor costs have been stymied by data limitations.

[6] Receipts from these fees virtually doubled to EC$10 million (1 percent of GDP) in 1999.

the banks' net foreign asset position strengthened.[7] There was little discernible effect of these developments on most interest rates; however, some banks reported increased competition for good credit risks and large deposits.

12. **The external current account deficit (including current official transfers) increased from 7 percent of GDP in 1994–95 to an average of 18 percent in 1996–97,** reflecting a sharp growth in imports associated with the implementation of the above-mentioned infrastructure projects and a pickup in private investment in the tourism sector, as well as a decline in commodity exports, particularly banana. The deficit widened further to 28 percent of GDP in 1999, as imports rose in line with a construction boom that comprised mainly the completion of two large office complexes and the sports stadium leased to the government, and with the growth in private consumption (Table 4).[8] Exports have performed well over the past two years reflecting the windfall gains from the increased price of nutmeg[9] as well as output from a new manufacturing plant that exports electronic components to the U.S. market. Exports of tourism and other services also registered strong growth in recent years.[10] The deficits on current account were financed by inflows of foreign direct investment, capital transfers, (largely concessionary) loans, and commercial borrowing by the private sector (in part, to finance the large projects mentioned above). In recent years the overall balance of payments, as measured by the change in net imputed reserves at the ECCB, has registered small surpluses, which reached the equivalent of about 1 percent of GDP in 1998–99.

13. **In the area of structural reform, emphasis in the public sector has been placed on civil service reform and privatization,**[11] and more recently, on converting government agencies into autonomous bodies run on commercial lines. This latter process, known as "commercialization" has been completed for the post office. Restructuring the civil service and basing salaries on performance have proved to be much more difficult than envisaged, owing, in part, to opposition by labor unions, and the regulations governing transfers and

[7] The banking system comprises three locally incorporated banks, and two branches of foreign banks.

[8] The cost of these projects, which were constructed over the 1997–99 period, was equivalent to about 12 percent of GDP.

[9] This was associated with the recent political and economic uncertainty in Indonesia, Grenada's main competitor in the nutmeg market.

[10] Estimates of tourist expenditure are based on outdated survey data. A new survey has been conducted, and the results will begin to be incorporated into the estimates of tourist expenditure shortly.

[11] The electricity and telephone utilities and the national brewery were privatized during 1992 –95.

layoffs of civil servants. The government intends to discuss shortly new proposals in these areas with World Bank staff.

14. **Regarding other reforms, the Grenada International Financial Services Authority (GIFSA) commenced full operations in January 2000, and has started to monitor more closely the operations of the offshore companies.**[12] In addition, work on the legislative and regulatory framework for a regional capital market for ECCB member countries is being finalized, and a regional stock exchange is scheduled to begin operations in July 2000. It is expected that the capital market will promote the development of secondary markets in government paper in the region, and help provide additional and cheaper sources of financing for the private sector.

15. **In the external sector, limits on the amount of foreign exchange that may be purchased without explicit permission for travel and other services transactions have been raised, and import tariffs have been reduced** under the regional common external tariff agreement, with the final phase of reduction completed on January 1, 2000. Currently, tariff rates range from 5 percent (on capital and intermediate goods), to 15 percent (for consumer goods)—this compares with a range of 35 percent to 45 percent in 1991.[13] In addition to these tariffs, all imports are subject to a 5 percent customs service charge and a general consumption tax (GCT), with rates ranging from 10 percent to 25 percent.[14] The number of items subject to import licensing requirements was reduced from 14 to 8 in January 2000.

16. **Grenada is ranked 51 (of 175 countries) in the United Nations' Human Development Index.** Some of its social indicators compare well with those of other developing countries;[15] however, despite the recent upturn of the economy, these indicators are among the least favorable in the Caribbean region. A recent study by the Caribbean Development Bank (CDB) indicates that 32 percent of the population could be classified as living in poverty, and 15 percent were unable to meet daily minimum nutritional needs. Most of the poor and unemployed comprise women, the youth, and children who live in rural areas which have been affected seriously by the decline in the banana industry.

---

[12] It is estimated that at end-March 2000, the offshore sector comprised about 2,400 international business companies, 20 offshore banks, and about 5 trust companies.

[13] Tariffs on agricultural goods, cars, and clothing are subject to tariff rates of 40 percent, 25 percent, and 20 percent, respectively.

[14] GCT rates of 50 percent, 55 percent, and 75 percent, apply to imports of new cars, used cars, and cigarettes, respectively.

[15] For example, the literacy rate is 96 percent, and life expectancy is 71 years.

III. SUMMARY OF THE DISCUSSIONS

17. **The discussions focused on how to sustain rates of growth of economic activity that would be sufficient to alleviate the country's most pressing problem, i.e., the high incidence of poverty and unemployment.** The authorities' noted that their strategy for tackling this problem focused on (i) implementing policies to attract increased private investment; (ii) generating an adequate level of central government savings to provide for improvements in education and skills training, social services, and safety nets for the poor; and (iii) reforming the public sector to make it more effective in carrying out the above-mentioned objectives.

A. Policies to Promote Private Investment

18. **The government's efforts to promote private investment are taking place on two fronts:** first, helping achieve an upturn in the agricultural sector, which remains the mainstay of the economy; and second, attracting investment into the tourism, manufacturing, and information technology sectors to help diversify the economy and provide opportunities for reducing unemployment.

19. **A recovery in the agricultural sector is essential for sustained, broad-based growth of the economy,** and for maintaining the well-being of rural communities. The government's policy for the sector (which accounts for about one-tenth of GDP) emphasizes rehabilitating the banana sector, improving cultivation practices, and strengthening the links with the tourism sector. Prospects appear favorable for banana production and exports as a result of a government program that has channeled concessional loans to farmers to help increase yields through improved irrigation and pest control. Industry officials expect that production could recover to 15,000 tons (the 1992 level) by 2002, and that access to markets in the European Union will continue to be available for some time.

20. **In tourism, the government's policy is to promote Grenada as an unspoiled destination through more aggressive international marketing, and attracting new, upscale resorts.** Marketing efforts have been intensified in 2000, with an additional US$3 million in government grants for advertising in the main markets of the United States and Europe. The authorities are confident that work on a new 250-room resort will begin shortly; this, together with the expansion of existing hotels and the upgrading of the airport, would help increase Grenada's visibility as a tourism destination.

21. **The authorities were encouraged by the progress that had been made in diversifying the economy away from agriculture and tourism.** The manufacturing sector had expanded recently with the establishment of a plant that makes electronic components for export; there was increased demand—domestically and within the CARICOM region—for paper products; and joint ventures in agro-processing were being discussed with potential investors. In the services sector, telephone and internet marketing was becoming increasingly important, and employment in the offshore financial services sector had increased rapidly.

22. **The authorities and industry representatives recognized that sustained development of tourism, manufacturing, and other services required an adequately trained workforce.** In this context, the allocation for education and training was raised by about EC$27 million (3 percent of GDP) in the 2000 budget. In addition, strenuous efforts are being made to increase the number of secondary school places under a project financed by the World Bank. Also, a new skills training center had been established in one of the poorest regions in Grenada, and computers were being introduced in all schools.

B. Fiscal Policy

23. **The authorities indicated that fiscal policy was geared toward consolidating the gains made in 1998–99, and setting a firm basis for maintaining fiscal prudence over the medium term.** Specifically, the key elements of fiscal policy included limiting the central government deficit to contain the growth of nonconcessional debt, while providing sufficient resources to meet the country's infrastructural and social needs. Based on these objectives, the staff developed a summary fiscal scenario for 2000 and the medium term that contemplates:

- A further increase in savings in 2000 that would derive from continued efforts to improve revenue administration and collect tax arrears (especially in the areas of customs, and the company and property tax).[16] These improvements would be partly offset by higher current outlays related to the enlarged operations of the health and education departments and an increase in lease payments for government office buildings.

- A downturn in government savings from just under 5½ percent of GDP in 2000, to about 4½ percent of GDP in 2001–04 reflecting a slowdown in revenue growth as the effects of the tightening of tax administration begin to taper off, and revenue stabilizes at about 28 percent of GDP over that period. Current expenditure would decline slightly from 24 percent of GDP in 2001–02 to 23.7 percent in 2004 owing largely to lower interest costs due to the steady decline in financing requirements.

- Capital expenditure would fall from a peak of 11 percent of GDP in 2000 (associated with additional work on repairing roads and sea defenses damaged by the hurricane and a major project to upgrade airport facilities), to 9–9½ percent of GDP in 2003–04—a level broadly consistent with meeting the country's infrastructural and social needs, and its implementation capacity.

24. **The authorities acknowledged that maintaining revenue collections at about 28 percent of GDP would require strenuous efforts.** However, they felt confident that the target was attainable, and pointed to measures that had already been, or were about to be

[16] Preliminary indicators for the first three months of the year suggest that the revenue targets for 2000 are likely to be met.

introduced, particularly (i) the payment of a special bonus system for tax officers who had met or exceeded their collection targets;[17] (ii) the updating of tax registers; (iii) assessing penalties for delays in tax payments; (iv) requiring compulsory filing by all professionals; and (v) establishing an audit section within the tax department. Officials hoped that these measures would help raise the tax compliance rate from the current level of 50 percent. The mission recommended that these measures be accompanied by the identification of all tax concessions and beneficiaries, a thorough assessment of their continued justification, and the putting in place of a program for their gradual reduction. Also, it was important to complete promptly the ongoing revaluation of properties, and to base property tax assessments on these new valuations—perhaps phased in over 2–3 years. In the area of nontax revenues, officials referred to the marked growth in receipts (equivalent to about 1 percent of GDP) from license fees from offshore activities in 1999, and said that they anticipated continued strong growth of these receipts in 2000. Also, they noted that various rates of fees charged for services provided by government would be increased further during 2000. The mission urged caution in placing undue reliance on revenues from the offshore sector, given the short time span over which it has operated, and the need to tighten supervision over the sector.

25. **The authorities are reviewing the report of a technical assistance mission from the IMF** that examined the tax system in October 1999 and recommended the adoption of a VAT, together with the elimination of a number of indirect taxes, the phasing out of a wide range of tax concessions, and stronger enforcement of tax laws. Officials recognized that their reliance on import-based taxes would have to be reduced as the process of trade liberalization progressed, and that the adoption of a value-added tax (VAT) would be a key medium-term objective. However, they stressed that such a step would require careful preparation since tax compliance was low, small- and medium-sized businesses did not have a tradition of maintaining adequate financial records, and there was a need to increase public awareness and acceptance of such an important step.[18]

26. **The authorities placed emphasis on maintaining control over the growth of expenditure** over the 2000–2004 period. They shared the view that such control would require:

- limiting the wage bill to about 12 percent of GDP (the same level as in 1998–99). This appears feasible in light of the freeze on hiring in the civil service;

- tighter expenditure control (including procurement procedures) in the central administration as well in those agencies that depend on the government for operating subsidies;

[17] The first payment was made to customs officials for performance in 1999.

[18] Grenada first introduced a VAT in 1986, but the low threshold obliged many small firms to register and the subsequent numerous complaints caused the VAT, in effect, to be repealed.

- exploring options for refinancing the more expensive forms of government debt;

- limiting recourse to lease-to-own projects, and projects financed by commercial borrowing. This would help keep down interest/lease costs, which are expected to increase from about EC$25 million in 1999 to about EC$32 million in 2000; and

- ensuring that the public sector investment program contains only projects that are essential, and are consistent with the country's implementation capacity, and a sustainable path for debt.

Noting the importance which they attach to the social sectors, officials pointed out that spending in these areas had increased by about 5–6 percent a year in real terms in 1998–99, and was projected to rise further by 7–8 percent in 2000. By end-2000, total spending in these areas would be equivalent to about 9 percent of GDP, from 7–8 percent in 1995–96.

27. The authorities stressed the importance of making progress in all of the above-mentioned areas, but felt that this should be accompanied by a thorough assessment of the size and composition of expenditure, and recommendations to improve its efficiency. They hoped that such an assessment could be carried out promptly with the assistance of the World Bank.

28. **With respect to the rest of the public sector, the financial position of the National Insurance Scheme (NIS) remains strong,** reflecting its relatively recent establishment, and the demographics of its contributors.[19] Ensuring a sound financial position over the medium term will require measures to eliminate the accumulation of arrears on contributions and interest owned by the government, public sector agencies, and the private sector.[20] A new actuarial study of the scheme is scheduled to be completed by the end of this year, and issues to be considered may include the desirability of increasing the salary ceiling for NIS contributions, and of allowing the NIS to invest a proportion of its surplus in regional and international securities to diversify investment opportunities and reduce risk. The operations of the main public enterprises, the Port Authority and the Water Authority, have also registered overall surpluses—averaging 1 percent of GDP a year. However, monitoring of the corporations should be strengthened, especially through the reporting of financial information to the ministry of finance.

C. The Financial System

29. **Within the context of the common currency arrangement, the discussions centered on the soundness of Grenada's financial system** and the offshore sector, steps being taken to correct weaknesses, and possible technical assistance needs. Commercial bank

[19] The scheme generates annual surpluses equivalent to about 2 percent of GDP.

[20] The outstanding stock of arrears (on interest and contributions) stood at EC$10 million, or 1 percent of GDP, at end-1999.

representatives noted that in recent years there has been a marked increase in competition in the banking system, which helped exert downward pressure on lending rates and expand the range of instruments available to savers. The increased competition combined with higher incomes and economic activity have led also to a rapid increase in credit to the private sector for housing purchases and construction, as well as for consumer credit.

30. **The commercial banks which are supervised by the ECCB appear to be generally sound.** However, in view of the already heavy exposure of some banks to consumer/personal credit, and the vulnerability of the loan portfolio to a downturn in the economy, the staff emphasized the need for continued close attention to the quality of credit, particularly consumer credit. The staff also urged the authorities to normalize promptly (with the assistance of the ECCB) the position of a domestic bank that does not participate in the clearing arrangements conducted by the other banks.

31. **The government has been undertaking efforts to strengthen the state-owned Grenada Development Bank (GDB),**[21] which remains burdened with a large amount of nonperforming loans (equivalent to about 30 percent of its loan portfolio, and concentrated mainly in the small hotels sector). Progress has been made in reducing costs in the bank—mainly through a cutback in staffing, and the rate of recovery of nonperforming loans has been increasing. In addition, fresh resources for lending have been provided by the government, the CDB, and the NIS. The bank could play an important role in stimulating small-scale agricultural and manufacturing activity. However, there is a need to carry out—with the participation of the private sector—a full assessment of the future of the GDB, including a consideration of the option of merging the GDB with another agency.

32. **The recently established GIFSA** is concentrating its resources on enforcing existing regulations, especially those related to reporting of financial operations. Also, emphasis has been placed on reviewing the current legislation to ensure that it keeps pace with international standards and the growing sophistication of the industry. GIFSA officials acknowledged that comprehensive information on the size of the offshore banking sector and on the financial position of participating banks was not yet available. This reflected mainly the still short operating span of the authority (four months) and initial staffing constraints. However, they indicated that work on compiling this information was progressing well, and would be available by the end of this year. Also, GIFSA representatives said that they were taking steps to correct the weaknesses in monitoring changes in the ownership and management of offshore banks. Given the scarcity of GIFSA resources, the mission recommended that it seek the assistance of the ECCB, or contract recognized accounting firms to conduct the backlog of audits/reviews of offshore banks, with the costs of such audits met out of the offshore banks' license fees.

---

[21] The GDB is a development bank that on-lends funds borrowed from the CDB and other institutions to specific sectors such as agriculture, small hotels, and housing.

33. **GIFSA is currently reviewing the existing legislation on money laundering**, and is working closely with the ECCB to ensure that guidelines to banks on avoiding money-laundering (especially those relating to the importance of obtaining adequate information on new customers and the sources of customers' funds) are regularly updated and enforced.

D. External Policies

34. **The authorities reiterated that the marked widening of the external current account deficit since 1996–97 reflected mostly the sharp increase in imports related to the government's capital projects** and private investment in the tourism sector. The staff shared this assessment, but expressed concern with the large size of unexplained private capital inflows in recent years, and the magnitude of errors and omissions in 1999. Also, the mission expressed concern that comprehensive and timely data on the external debt were unavailable, and pointed out that there was an urgent need to reconcile debt stocks and flows of the public and private sectors, and to monitor government guarantees of private debt. The authorities agreed that additional resources should be devoted to addressing these concerns, with the assistance of staff from the central bank and other regional or multilateral agencies.

35. **Looking ahead, the mission developed a medium-term scenario** that contemplates (i) a rate of real GDP growth of 5 percent a year based on the prospects for agriculture and other sectors discussed above; (ii) continued low inflation; and (iii) a gradual lowering of the central government deficit from 3 percent of GDP a year in 2000–01 to 2 percent in 2004 on the strength of the policies for containing the growth of spending and improving revenue administration noted in Section B (Table 5). Within this framework, the external current account deficit is projected to narrow from 28–29 percent of GDP in 1999 to about 16 percent in 2003–04,[22] reflecting a moderate growth in merchandise exports (mainly banana, paper products, and electronic components) and tourism receipts, combined with a slowdown in the public sector investment program (Table 6). Deficits of this magnitude could reasonably be expected to be financed mainly by official and private capital transfers (about 7 percent of GDP a year), private direct investment, and concessional borrowing by the public sector. Under this scenario, the public external debt would increase from about 28 percent of GDP in 2000 to 33 percent in 2004, while the debt service ratio would likely increase somewhat but would remain below 10 percent. With the overall deficit registering a small surplus of close to 1 percent of GDP a year over the medium term, the (imputed) international reserves of Grenada in the ECCB would be maintained at about 2½ months of prospective imports of goods and services. The government appears firmly committed to maintaining sound fiscal policies and undertaking reforms aimed at promoting private investment. However, the main risk to this scenario would stem from Grenada's vulnerability to hurricanes, which could cause significant damage to agriculture, the tourism industry, and the country's physical infrastructure.

[22] Under the authorities' and the Fund staff's previous presentation, which included all transfers in the current account, these deficits would be equivalent to about 9 percent of GDP.

36. **Grenada, together with the other countries of Caribbean region, is participating in discussions relating to the creation of a Free Trade Area of the Americas (FTAA), and a single market within CARICOM.** Officials noted that the quantitative restrictions on eight items (which were imported mainly from the so-called more developed countries of CARICOM) were permitted under the provisions of the CARICOM agreement. However, it is expected that consensus will be reached within CARICOM to convert these QRs into tariffs before 2004.

E. Structural Policies

37. **The authorities indicated that structural changes in 2000–2001 would continue to focus on the reform of the public sector.** Emphasis would be placed on the completion of the divestment process through the sale of the sugar factory (which is wholly owned by the government) and the remaining (minority) shares in commercial enterprises, including two banks—in which the government's shareholding is 49 percent, and a 34 percent holding in Cable and Wireless, the telecommunications company. Also, efforts will continue to be made to convert a number of government departments and agencies (such as the government printery, hospitals, and vocational colleges) into independent bodies run on commercial lines.

38. **Government representatives said that they were committed to a pay system for the civil service that was based on performance.** They noted that earlier attempts to introduce such a system had not been successful, and that as a result, there was little differentiation among salaries, and that many civil servants' performance had been rated highly, causing a large increase in the wage bill without a corresponding upturn in efficiency. Discussions would continue with civil service labor unions on ways to achieve the government's objectives, and technical and financial assistance might be requested from regional or multilateral institutions to meet the likely costs of such an exercise.

39. **The mission observed that a more efficient public sector would require also regular and closer monitoring of macroeconomic developments** by the ministry of finance, especially in the areas of budget execution and reporting, the finances of public enterprises and agencies, and developments in the public sector debt.[23] Technical assistance needs in these areas could be discussed in the context of the assessments currently being carried out in preparation for the establishment of the Caribbean Technical Assistance Center.

F. Social Policies

40. **The authorities noted that they were taking steps to alleviate poverty directly in 2000** by (i) placing poverty reduction at the center of the development strategy by measures including an increase in the old-age pension, schooling and house repair assistance, micro-enterprise development, and the introduction of a skills development program; and

[23] Most of the key monitoring of fiscal and other developments is carried out by a small group of officials in the Ministry of Finance.

(ii) raising substantially the funding of these programs in the 2000 budget. Also, health facilities would be enhanced with the completion of a new general hospital which is under construction, and discussions were taking place on a proposal to develop a national health plan. Moreover, as noted, the authorities were convinced that the ongoing recovery in the banana sector would help revitalize the rural economy, and improve social conditions.

G. Statistical Issues and Technical Assistance

41. **Under current arrangements, the ECCB plays an important role in helping to compile monetary, balance of payments, and external debt data;** the Central Statistical Office (CSO) provides social and real sector data; and the ministry of finance manages the public finance data (including domestic debt). The CSO and the ECCB are currently working on a set of guidelines on balance of payments methodology, and the Tourism Board is about to complete an expenditure survey for the sector which was initiated in 1998. As noted above, while the core monetary data collected by the ECCB are of good quality and are available in a timely manner, improvement is needed in a number of other areas, particularly in comprehensive estimates of public and publicly guaranteed debt (external and domestic). The mission urged the authorities to seek external technical assistance for improvements in these areas, and to ensure that the CSO is adequately staffed to implement technical assistance recommendations.

IV. Staff Appraisal

42. **After years of virtual stagnation, the Grenadian economy began to recover in the mid-1990s** as progress in a number of reforms, combined with prudent macroeconomic policies helped boost private sector confidence. Real GDP growth was particularly robust and broad-based in 1998–99, encompassing a recovery in the agricultural sector—which remains the mainstay of the economy. As a result of this performance, real GDP per capita has risen significantly, and progress has been made in creating jobs and reducing unemployment. Near-term prospects are favorable for continued strong growth, based on private investment in tourism and other services, construction, and agriculture.

43. **Despite these major strides, indices of poverty and unemployment remain among the highest in the Caribbean region,** and the authorities' main challenge is how to alleviate these problems promptly and effectively. The staff welcomes the priority which the government attaches to this task, and endorses the strategy for tackling it that focuses on attracting additional private investment; generating an adequate level of fiscal savings to ensure improvements in education and skills training, social services, and safety nets for the poor; and reforming the public sector to make it more effective in carrying out the above-mentioned objectives.

44. **In view of the need to support the rural economy, revitalizing the agricultural sector is essential for a sustained recovery.** The government is to be commended for taking steps to promote increased agricultural production, including banana. These steps together with the prospective new investment in the tourism sector and the diversification of manufacturing, represent a solid basis for achieving satisfactory rates of growth in the future.

45. **Maintaining a sound fiscal stance through limiting the central government deficit to contain the growth of debt, while providing sufficient savings to meet the country's infrastructural and social needs is essential** for the country's future prosperity. In this connection, the staff welcomes the government's determination to strengthen revenue administration and raise the current low rate of tax compliance. These efforts should be accompanied by the phasing out of tax concessions and the prompt completion of the ongoing revaluation of properties. Over the medium term, as the process of trade liberalization progresses, the introduction a VAT could help ensure adequate revenues to meet the government's priorities. The staff recommends that the authorities begin to consider the modalities and a timetable for introducing such a tax.

46. **On the expenditure side, the key tasks would include limiting the size of the wage bill,** in part by maintaining the freeze on hiring in the civil service; tighter control over government procurement; limiting recourse to lease-to-own projects so as to keep down interest/lease costs; and ensuring that the public sector investment program contains only priority projects. Satisfactory progress in these areas would be facilitated through a thorough assessment of the size and composition of government expenditure, and should be carried out promptly with the assistance of the World Bank.

47. **While the domestic banking system appears sound, continued vigilance** over its activities is needed, in view of the increase in competition for lending, the marked growth in private sector credit, and the already heavy exposure of some banks to consumer credit. In the offshore sector, the staff welcomes the coming on stream of the GIFSA, and its efforts to enforce existing regulations and review the current legislation to ensure that it keeps pace with international standards. However, the staff urges that work be completed promptly on obtaining full information on the size of the offshore banking sector, and the financial position of participating banks. Also, prompt action is needed to strengthen the supervision over changes in ownership and management of offshore banks. Given the limited resources inside Grenada, the staff recommends that the authorities seek the assistance of the ECCB, or contract recognized accounting firms to conduct the backlog of reviews of offshore banks.

48. **The marked widening of the external current account deficit since 1996–97 reflected increased public and private investment.** However, in view of the large size of unidentified private capital inflows in recent years, and the inconsistencies in reconciling debt stocks and flows of the public and private sectors, the staff urges that additional resources be devoted to ascertaining the nature and origin of capital inflows, and their implications for the balance of payments and debt over the medium term.

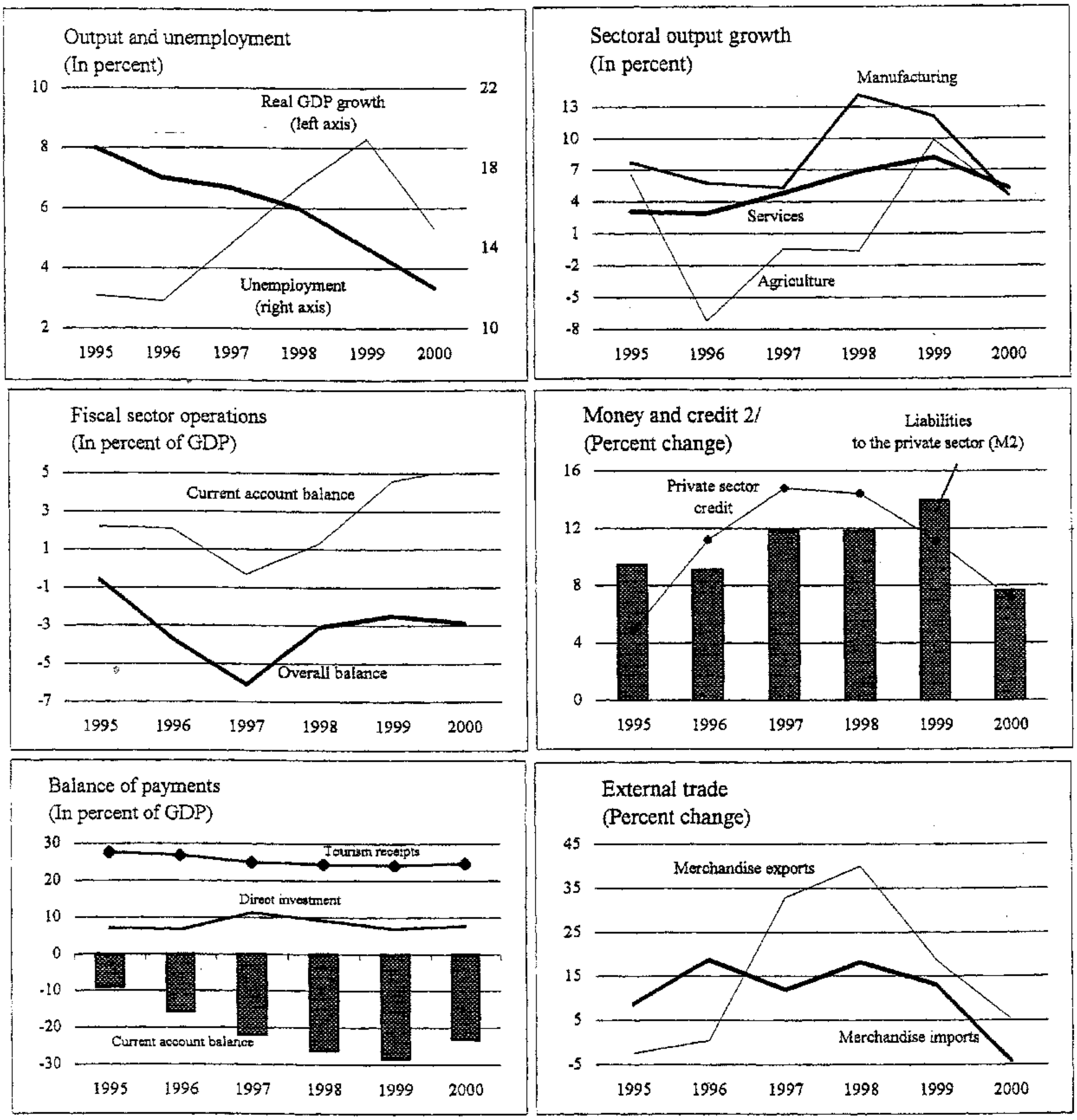
49. **The staff commends the authorities for maintaining an agenda of ambitious reforms** aimed at reducing further the size of the public sector and making it more efficient. It would be important that progress be made on the main elements of the agenda, which include (i) completing the sale of the sugar factory and the government's remaining shares in commercial enterprises, such as banks and the telecommunications company; (ii) converting a number of government departments and agencies into independent bodies run on commercial lines; (iii) exploring ways to introduce a pay system for the civil service based on performance;

and (iv) monitoring more closely macroeconomic developments, especially budget execution, the finances of public enterprises, and the external debt.

50. **While the statistical base has improved in recent years, weaknesses remain,** particularly in the estimates of public and publicly guaranteed debt, the capital account of the balance of payments, the finances of public enterprises and agencies, and wages and employment. The staff urges the authorities to seek external technical assistance in these areas, and ensure that the statistics office is adequately staffed. Resolving these matters will be important for improving the quality of economic analysis and effective surveillance.

51. The staff recommends that the next Article IV consultation be conducted on the standard 12-month cycle.

Figure 1. Grenada: Selected Macroeconomic Indicators, 1995 - 2000 1/

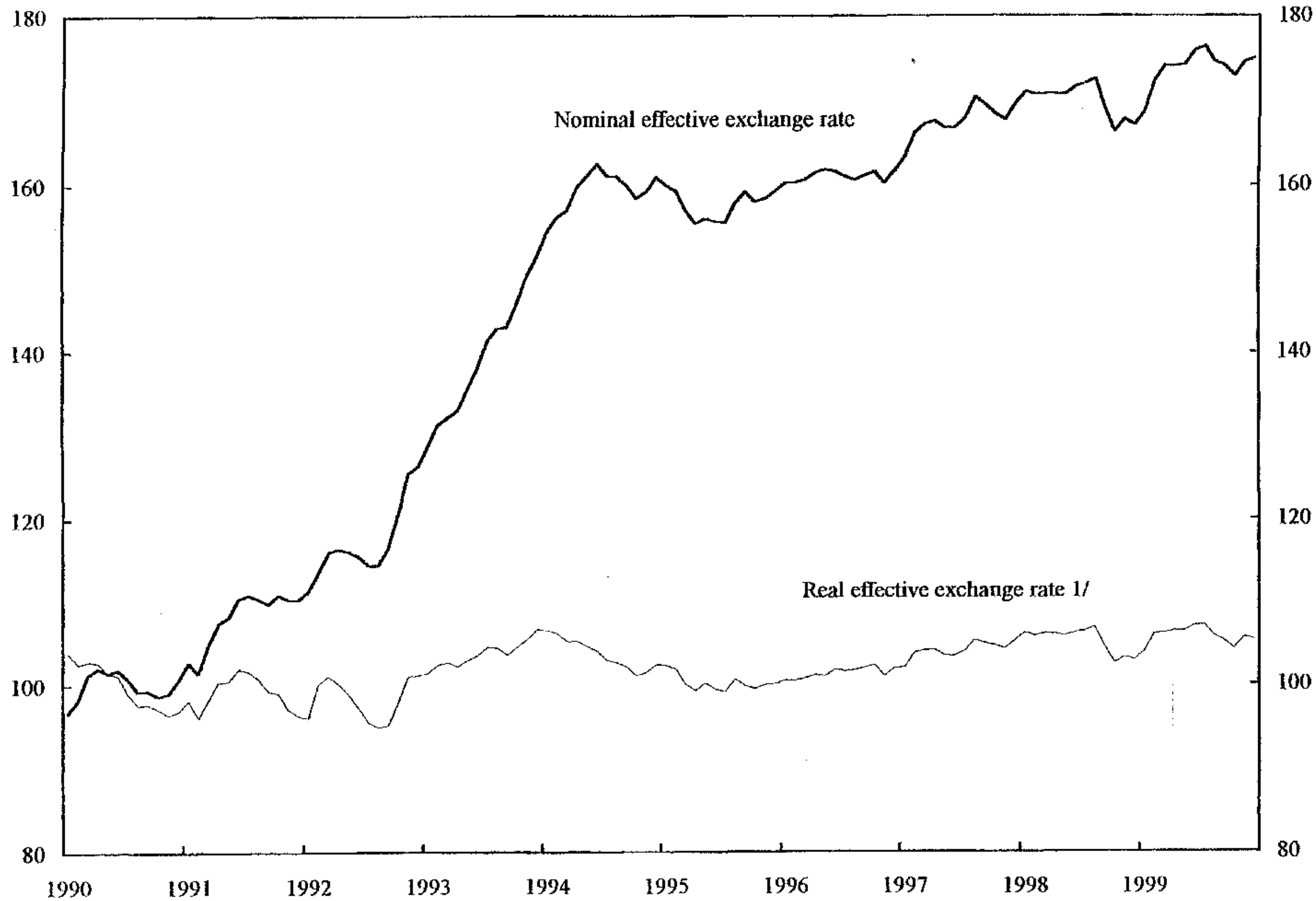


Sources: Ministry of Finance; Eastern Caribbean Central Bank; and Fund staff estimates.

1/ Estimated data for year 2000.

2/ As percent of private sector liabilities at the beginning of each year.

Figure 2. Grenada: Exchange Rate Developments
(1990=100)



Source: IMF Information Notice System.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase (decrease) indicates appreciation (depreciation).

Table 1. Grenada: Selected Economic and Financial Indicators

	1996	1997	1998	Est. 1999	Proj. 2000
(Annual percentage change, unless otherwise specified)					
Real GDP	3.0	4.8	6.8	8.2	5.3
GDP deflator	2.8	2.1	1.5	-0.8	-0.4
Consumer prices (annual average)	2.8	1.3	1.4	0.5	1.0
Consumer prices (end of period)	3.1	0.9	1.2	1.0	1.0
Unemployment rate	17.5	17.0	16.0	14.0	12.0
Net foreign assets of the financial system 1/	-4.8	-6.8	0.3	6.1	0.4
Money and quasi-money (M2)	9.1	11.8	11.8	13.9	8.1
Net domestic assets of the financial system 1/	13.9	18.6	11.4	7.8	7.8
Of which:					
Credit to the public sector (net)	2.5	3.2	-1.4	-5.0	-0.4
Credit to the private sector	10.5	15.4	14.4	11.1	7.6
Average interest rate on deposits (percent per annum)	5.0	5.4	5.5	5.5	5.5
Average prime rate (percent per annum)	10.0	10.0	9.8	10.0	10.0
External sector					
Merchandise exports, f.o.b. (in U.S. dollars)	0.4	32.8	39.9	18.7	5.3
Merchandise imports, c.i.f. (in U.S. dollars)	18.7	11.9	18.1	13.1	-4.2
Terms of trade	-1.6	6.5	30.9	49.8	-3.3
Real effective exchange rate	1.8	3.4	-2.2	2.4	....
(In percent of GDP)					
Central government finances					
Total revenue and grants	28.9	27.0	30.0	30.5	31.6
Current revenue	25.1	24.1	25.2	27.0	28.7
Capital revenue	0.0	0.2	0.2	0.4	0.0
Foreign grants	3.8	2.7	4.6	3.1	2.9
Total expenditure	32.7	33.1	33.1	33.0	34.5
Current expenditures	23.0	24.4	23.9	22.5	23.4
Of which:					
Wages	12.3	13.0	12.2	12.1	12.1
Capital expenditure	9.7	8.7	9.2	10.5	11.1
Current balance	**2.1**	**-0.3**	**1.3**	**4.6**	**5.3**
Overall balance	**-3.7**	**-6.1**	**-3.1**	**-2.5**	**-2.9**
Foreign financing	0.8	0.5	2.1	2.2	2.7
Domestic financing	2.9	5.6	1.0	0.3	0.2
External sector					
Current account deficit (including current official grants)	-15.7	-21.9	-26.3	-28.4	-23.2
Current account deficit (excluding current official grants)	-15.8	-22.0	-28.3	-29.0	-23.7
Total external public debt (end of period) 2/	26.3	25.7	25.9	26.3	27.8
(In percent of exports of goods and nonfactor services)					
Public external debt service	6.7	5.4	5.3	5.7	5.9
Interest payments	1.7	2.7	2.0	2.2	2.1
Amortization	5.0	2.7	3.3	3.5	3.7

Table 1. Grenada: Selected Economic and Financial Indicators

	1996	1997	1998	Est. 1999	Proj. 2000
(In millions of U.S. dollars)					
Official net imputed reserves (end of period)	35.7	42.7	46.8	50.9	54.3
Public external debt (end of period) 2/	77.5	80.9	88.2	96.2	106.6
Memorandum item:					
GDP at current market prices					
In EC$ millions	795.6	850.2	920.2	988.3	1,036.7
In US$ millions	294.7	314.9	340.8	366.0	384.0

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

1/ As a percent of money and quasi-money at the beginning of the year.

2/ Figures for 1998 through 2000 are staff estimates. Excludes debt obligations under the lease to purchase agreements.

3/ Includes errors and omissions.

Table 2. Grenada: Summary of Central Government Finances

	1995	1996	1997	1998	Est. 1999	Proj. 2000
	(In millions of Eastern Caribbean dollars)					
Revenue and grants	**210.5**	**230.3**	**229.0**	**275.8**	**301.7**	**327.6**
Revenue	190.9	199.9	206.1	333.5	270.6	297.5
Current revenue	187.8	199.6	204.8	232.0	266.9	297.5
Tax revenue	168.4	181.5	187.3	204.7	231.6	251.9
Nontax revenue	19.4	18.0	17.5	27.3	35.3	45.6
Capital revenue	3.1	0.3	1.3	1.5	3.7	0.0
Foreign grants	19.6	30.4	22.9	42.3	31.1	30.1
Expenditure	**214.7**	**260.1**	**281.3**	**304.6**	**326.0**	**357.9**
Current expenditure	171.4	182.7	207.1	219.9	221.2	242.9
Wages	89.9	97.9	110.6	112.3	119.6	125.4
Goods and services	28.9	32.8	30.7	34.4	27.5	37.7
Lease payments 1/	0.0	0.0	1.4	1.4	3.1	6.2
Interest	14.6	17.3	19.4	14.7	22.7	25.9
Transfers and subsidies	38.1	34.7	45.1	57.1	48.4	47.7
Capital expenditure	43.3	77.4	74.2	84.7	104.8	115.0
Current balance	**16.4**	**16.9**	**-2.3**	**12.1**	**45.7**	**54.6**
Overall balance (before grants)	**-23.8**	**-60.2**	**-75.2**	**-71.1**	**-55.4**	**-60.4**
Overall balance (after grants)	**-4.3**	**-29.8**	**-52.3**	**-28.8**	**-24.3**	**-30.3**
Financing (-)	4.3	29.8	52.3	28.8	24.3	30.3
Foreign (net)	-11.0	6.6	4.4	19.7	21.6	28.0
Domestic (net)	15.3	23.2	47.9	9.1	2.7	2.3
	(In percent of GDP)					
Revenue and grants	**28.2**	**28.9**	**26.9**	**30.0**	**30.5**	**31.6**
Revenue	25.6	25.1	24.2	25.4	27.4	28.7
Current revenue	25.2	25.1	24.1	25.2	27.0	28.7
Tax revenue	22.6	22.8	22.0	22.2	23.4	24.3
Nontax revenue	2.6	2.3	2.1	3.0	3.6	4.4
Capital revenue	0.4	0.0	0.2	0.2	0.4	0.0
Grants	2.6	3.8	2.7	4.6	3.1	2.9
Expenditure	**28.8**	**32.7**	**33.1**	**33.1**	**33.0**	**34.5**
Current expenditure	23.0	23.0	24.4	23.9	22.4	23.4
Wages	12.0	12.3	13.0	12.2	12.1	12.1
Goods and services	3.9	4.1	3.6	3.7	2.8	3.6
Lease payments 1/	0.0	0.0	0.2	0.2	0.3	0.6
Interest	2.0	2.2	2.3	1.6	2.3	2.5
Transfers and subsidies	5.1	4.4	5.3	6.2	4.9	4.6
Capital expenditure	5.8	9.7	8.7	9.2	10.6	11.1
Current balance	**2.2**	**2.1**	**-0.3**	**1.3**	**4.6**	**5.3**
Overall balance (before grants)	**-3.2**	**-7.6**	**-8.8**	**-7.7**	**-5.6**	**-5.8**
Overall balance (after grants)	**-0.6**	**-3.7**	**-6.1**	**-3.1**	**-2.5**	**-2.9**
Financing (-)	0.6	3.7	6.1	3.1	2.5	2.9
Foreign (net)	-1.5	0.8	0.5	2.1	2.2	2.7
Domestic (net)	2.0	2.9	5.6	1.0	0.3	0.2

Sources: Ministry of Finance; and Fund staff projections.

1/ This comprises payments due to lease agreements negotiated for the Financial Complex, Government Complex, and the National Stadium Project.

Table 3. Grenada: Summary Accounts of the Banking System

	1996	1997	1998	Prel. 1999	Proj. 2000
(In millions of Eastern Caribbean dollars)					
I. Consolidated Banking System					
Net foreign assets	**126.9**	**85.9**	**88.2**	**133.8**	**137.0**
Net domestic assets	**473.8**	**585.6**	**662.3**	**720.8**	**787.1**
Net credit to the public sector	36.4	55.5	46.4	8.6	5.0
Central government	61.0	76.2	71.2	43.5	45.5
Nonfinancial public enterprises 1/	-24.6	-20.7	-24.8	-34.9	-40.5
Credit to private sector	495.3	588.0	684.7	767.9	833.2
Other	-57.9	-57.9	-68.8	-55.7	-51.1
Liabilities to private sector (M2)	**600.7**	**671.5**	**750.4**	**854.6**	**924.1**
Money	131.4	144.5	159.4	175.1	193.3
Quasi-money	469.3	527.0	591.0	679.4	730.8
II. Operations of the Eastern Caribbean Central Bank in Grenada					
Imputed net international reserves	96.3	115.1	126.4	137.3	146.5
Net domestic assets	20.4	16.1	13.3	10.7	13.5
Base money	**116.7**	**131.2**	**139.6**	**148.1**	**160.0**
Currency held by the public	53.2	58.3	64.1	64.8	69.5
Commercial bank reserves	63.5	72.9	75.5	83.3	90.5
III. Commercial Banks					
Net foreign assets	30.6	-29.2	-38.2	-3.5	-9.5
Net claims on ECCB	59.3	73.4	73.4	92.3	91.7
Net domestic credit	**457.6**	**570.0**	**651.2**	**701.0**	**772.4**
Net credit to the public sector	16.0	38.4	55.7	30.1	12.7
Credit to private sector	495.3	588.0	684.7	767.9	833.2
Other	-53.7	-56.4	-89.2	-97.0	-73.5
Liabilities to the private sector	547.6	613.2	686.4	789.8	854.6
(12-month percentage change; unless otherwise indicated)					
Consolidated banking system					
Liabilities to private sector (M2)	9.1	11.8	11.8	13.9	8.1
Net foreign assets 2/	-4.8	-6.8	0.3	6.1	0.4
Net domestic assets2/	13.9	18.6	11.4	7.8	7.8
Net credit to the public sector 2/	2.5	3.2	-1.4	-5.0	-0.4
Credit to private sector 2/	10.5	15.4	14.4	11.1	7.6

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

1/ Includes the National Insurance Scheme.
2/ In relation to liabilities to private sector (M2) at the beginning of the period.

Table 4. Grenada: Summary Balance of Payments

	1996	1997	1998	Prel. 1999	Proj. 2000
	(In millions of U.S. dollars)				
Current account balance	**-46.2**	**-68.9**	**-89.5**	**-104.0**	**-89.2**
Exports (f.o.b.)	24.7	32.8	45.9	54.5	57.4
Imports (f.o.b.)	-135.6	-151.8	-179.3	-202.7	-194.1
Services (net)	60.9	47.1	40.7	47.2	55.0
Receipts	106.7	103.0	115.7	124.5	133.9
Of which:					
Travel 1/	78.7	78.4	83.1	88.1	94.3
Payments	-45.8	-55.9	-75.0	-77.3	-78.9
Income (net)	-15.1	-16.7	-23.6	-26.2	-30.5
Interest	-2.5	-1.8	-4.4	-5.8	-9.0
Other	-12.6	-14.9	-19.2	-20.5	-21.5
Transfers (net)	19.0	19.7	26.7	23.3	22.9
Private	19.3	20.1	19.8	21.0	21.0
Official	-0.4	-0.4	6.8	2.2	1.9
Capital and financial account	**60.5**	**99.5**	**99.1**	**78.3**	**92.6**
Capital account (transfers)	31.9	34.2	28.7	28.5	31.2
Public sector (net) 2/	11.6	16.0	10.1	9.6	11.3
Private sector (net) 3/	20.3	18.2	18.5	18.9	19.9
Financial account	28.6	65.3	70.5	49.8	61.4
Direct investment (net)	19.4	35.3	30.9	25.3	29.7
Portfolio investment (net)	0.0	0.0	-0.1	0.0	0.0
Other investments (net)	9.2	30.0	39.6	24.5	31.7
Of which:					
public sector net borrowing 4/	-0.3	5.7	35.0	22.1	13.0
Net errors and omissions	**-14.1**	**-29.2**	**-5.5**	**29.7**	**0.0**
Overall balance	**0.2**	**1.4**	**4.1**	**4.0**	**3.4**
Debt forgiveness	**0.0**	**5.6**	**0.0**	**0.0**	**0.0**
Changes in reserve assets (increase -)	**-0.2**	**-7.0**	**-4.1**	**-4.0**	**-3.4**
Change in government foreign assets	-1.3	0.0	0.0	0.0	0.0
Change in net imputed international reserves	1.0	-7.0	-4.1	-4.0	-3.4
Memorandum items:					
Net imputed international reserves (in million U.S. dollars)	35.7	42.7	46.8	50.9	54.3
(In months of imports of goods and nonfactor services)	2.4	2.5	2.2	2.2	2.4
External public debt outstanding (in million U.S. dollars)	77.5	80.9	82.2	96.2	106.6
	(In percent of GDP)				
Current account balance (including current official grants)	-15.7	-21.9	-26.3	-28.4	-23.2
Current account balance (excluding current official grants)	-15.8	-22.0	-28.3	-29.0	-23.7
Trade balance	-37.7	-37.8	-39.1	-40.5	-35.6
Exports of goods	8.4	10.4	13.5	14.9	15.0
Imports of goods	46.0	48.2	52.6	55.4	50.6
Public sector net borrowing 4/	-0.1	1.8	10.3	6.0	3.4
Direct investment	6.6	11.2	9.1	6.9	7.7
Overall balance	0.1	0.4	1.2	1.1	0.9

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

1/ Adjusted to account for underreporting.
2/ Transfers to the public sector comprise mainly capital grants.
3/ Private transfers consist of migrant transfers.
4/ Public sector net borrowing comprises borrowing by the central government and borrowing by the private sector guaranteed by the central government.

Table 5. Grenada: Summary Medium-Term Scenario 1/

	1998	Prel. 1999	Projections 2000	2001	2002	2003	2004
	(Annual percentage change)						
GDP and prices							
GDP at constant prices	7.3	8.2	5.3	5.0	5.0	5.0	5.0
Consumer prices (annual average)	1.4	0.5	1.0	1.5	1.5	1.5	1.5
	(In percent of GDP)						
Central government finances							
Revenue and grants	30.0	30.5	31.6	31.5	31.7	31.2	31.3
Revenue	25.4	27.4	28.7	29.0	29.2	29.2	29.3
Grants	4.6	3.1	2.9	2.5	2.5	2.0	2.0
Expenditure	33.1	33.0	34.5	34.5	34.0	33.5	33.4
Current expenditure	23.9	22.4	23.4	24.0	24.0	24.0	23.9
Wages and allowances	12.2	12.1	12.1	12.0	12.0	12.0	12.0
Interest	1.6	2.3	2.5	2.6	2.5	2.3	2.2
Other	10.1	8.0	8.8	9.4	9.5	9.7	9.7
Capital expenditure	9.2	10.6	11.1	10.5	10.0	9.5	9.5
Current balance	1.3	4.6	5.3	5.0	5.2	5.2	5.4
Overall balance	-3.1	-2.5	-2.9	-3.0	-2.3	-2.3	-2.1
External financing (net)	2.1	2.2	2.7	3.5	3.4	2.8	2.4
Domestic financing (net)	1.0	0.3	0.2	-0.5	-1.1	-0.5	-0.3
	(In millions of U.S. dollars)						
External sector							
Current account balance	-89.5	-104.0	-89.2	-78.1	-75.7	-76.8	-78.5
(In percent of GDP)	-26.3	-28.4	-23.2	-19.1	-17.4	-16.5	-15.9
Overall balance	4.1	4.0	3.4	3.3	3.6	3.9	4.1
Official net imputed international reserves	46.8	50.9	54.3	55.1	58.7	62.7	66.8
External public debt outstanding 2/	88.2	96.2	106.6	121.3	135.9	149.1	161.5
(In percent of GDP)	25.9	26.3	27.8	29.7	30.8	32.2	32.7

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

1/ Projections of savings and investment are not incorporated in the table because work is still ongoing on finalizing the estimates of the national accounts by expenditure categories.

2/ Excludes liabilities under lease-to-own arrangement projects.

Table 6. Grenada: Medium-Term Balance of Payments

	1998	Prel. 1999	Projections 2000	2001	2002	2003	2004
	(In millions of U.S. dollars)						
Current account balance	**-89.5**	**-104.0**	**-89.2**	**-78.1**	**-75.7**	**-76.8**	**-78.5**
Exports (f.o.b.)	45.9	54.5	57.4	62.2	68.3	74.2	82.3
Imports (f.o.b.)	-179.3	-202.7	-194.1	-199.3	-205.3	-216.8	-228.9
Services (net)	40.7	47.2	55.0	59.6	63.5	68.2	72.5
Receipts	115.7	124.5	133.9	143.6	153.0	163.8	174.3
Of which: Travel 1/	83.1	88.1	94.3	98.6	103.2	108.0	113.1
Payments	-75.0	-77.3	-78.9	-84.0	-89.5	-95.6	-101.8
Income (net)	-23.6	-26.2	-30.5	-31.6	-33.2	-34.9	-36.5
Interest	-4.4	-5.8	-9.0	-9.0	-9.5	-10.1	-10.3
Other	-19.2	-20.5	-21.5	-22.6	-23.7	-24.9	-26.1
Transfers (net)	26.7	23.3	22.9	31.0	31.0	32.5	32.0
Private	19.8	21.0	21.0	25.0	25.0	27.0	27.0
Official	6.8	2.2	1.9	6.0	6.0	5.5	5.0
Capital and financial account	**99.1**	**78.3**	**92.6**	**81.4**	**79.4**	**80.7**	**82.6**
Capital account (transfers)	28.7	28.5	31.2	31.2	33.0	35.2	37.1
Public sector (net) 2/	10.1	9.6	11.3	10.4	11.1	12.2	12.9
Private sector (net) 3/	18.5	18.9	19.9	20.9	21.9	23.0	24.1
Financial account	70.5	49.8	61.4	50.2	46.4	45.5	45.6
Direct investment (net)	30.9	25.3	31.9	31.8	29.9	28.4	27.3
Portfolio investment (net)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investments (net)	39.6	24.5	31.7	18.4	16.5	17.1	18.3
Net errors and omissions	**-5.5**	**29.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**4.1**	**4.0**	**3.4**	**3.3**	**3.6**	**3.9**	**4.1**
Changes in Reserve assets (increase -)	**-4.1**	**-4.0**	**-3.4**	**-3.3**	**-3.6**	**-3.9**	**-4.1**
Change in net imputed international reserves	-4.1	-4.0	-3.4	-3.3	-3.6	-3.9	-4.1
Memorandum items:							
Net imputed international reserves (end of period)	46.8	50.8	54.3	55.1	58.7	62.7	66.8
External public debt outstanding (end of period)	88.2	96.2	106.6	121.3	135.9	149.1	161.5
	(In percent of GDP)						
Current account balance (including current official grants)	**-26.3**	**-28.4**	**-23.2**	**-19.1**	**-17.4**	**-16.5**	**-15.9**
Current account balance (excluding current official grants)	-28.3	-29.0	-23.7	-20.6	-18.8	-17.7	-16.9
Trade balance	-39.1	-40.5	-35.6	-33.5	-31.5	-30.7	-29.7
Exports of goods	13.5	14.9	14.9	15.2	15.7	16.0	16.7
Imports of goods	-52.6	-55.4	-50.5	-48.7	-47.2	-46.7	-46.4
Overall balance	**1.2**	**1.1**	**0.9**	**0.8**	**0.8**	**0.8**	**0.8**

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

1/ Adjusted to account for underreporting.
2/ Comprise transfers to help finance capital projects.
3/ Consists of migrant transfers.

Grenada—Comparative Economic Performance

	Grenada	Caribbean 1/
Population ('000; 1998)	100	6,500
GDP per capita (US$; 1998)	3,400	3,684
Real GDP growth (percent; 1994-98)	4.2	3.6
Unemployment rate (percent)	16.0	17.5
Inflation (percent; 1994-98)	1.8	2.2
Interest rate (prime)	10.5	13.9
Central Government revenue and grants (percent of GDP; 1994-	28.4	27.9
Central Government expenditure (percent of GDP; 1994-98)	31.6	30.5
Central Government wage bill (percent of GDP; 1994-98)	12.3	11.2
Central Government balance (percent of GDP; 1994-98)	-3.2	-2.6
Tourism growth, stay-over (percent; 1994-98)	4.3	4.3
Export volume growth (percent, 1994-98)	5.8	4.8
External current account balance (percent of GDP; 1994-98) 2/	-9.5	-9.0
Public sector external debt (percent of GDP) 3/	29.3	34.1

Sources: Fund staff estimates.

1/ Comprises the ECCB member countries, Belize, Barbados, The Bahamas, Jamaica, and Trinidad and Tobago.

2/ Including migrant remittances.

3/ Regional average refers to the ECCB member countries only.

Grenada—Fund Relations
(As of April 30, 2000)

I. Membership Status: Joined: 08/27/75; Article VIII.

II. General Resources Account:	SDR Million	Percent of Quota
Quota	11.70	100.0
Fund Holdings of Currency	11.70	100.0

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	0.93	100.0
Holdings	0.00	0.0

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	08/24/83	01/23/84	13.50	1.13
Stand-by	05/11/81	05/10/82	3.43	2.90
Stand-by	11/06/79	12/31/80	0.65	0.65

VI. Projected Obligations to Fund: None

VII. Exchange Arrangement:

The currency of Grenada is the Eastern Caribbean dollar, which has been pegged to the U.S. dollar since July 1976 at the rate of EC$2.70 per U.S. dollar.

Grenada accepted the obligations of Article VIII, Sections 2, 3, and 4 in January 1994. There are no restrictions on the making of payments and transfers for current international transactions. There are exchange controls on payments for invisibles (i.e., indicative limit on travel allowances), but all bona fide transactions are approved.

VIII. Article IV Consultation:

The last Article IV consultation was concluded by the Executive Board on March 23, 1999. Grenada is on the standard 12-month consultation cycle.

XI. Technical Assistance:

A technical assistance mission from the Fiscal Affairs department visited Grenada in October 1999 to review the tax system and advise on the possibility of introducing a VAT.

Grenada—Statistical Issues

Outstanding statistical issues

Real sector

Except for the consumer price index, no other real sector data are provided between missions. Data on the national accounts (in constant and current prices) are available annually but there is a long lag with respect to aggregate domestic expenditure. Also, the methodologies used to estimate capital formation and sectoral price deflators need to be improved and documented. The Central Statistical Office (CSO) intends to finalize and publish the results of a labor market survey, which was initiated in 1994. Labor statistics are not available, nor is a producer price index.

Government finance

After interrupting data reporting for about two years, Grenada resumed reporting government finance data to STA for publication. However, data reported continues to cover only the budgetary central government, excluding the operations of the National Insurance Scheme, and no data on the financing of the central government operations are provided. The latest data published in the 1999 *GFS* refers to 1995.

Monetary accounts

Monthly data are submitted by the ECCB, normally with a two-month lag. ECCB accounts and monetary surveys follow standard presentation and data quality is very solid. More detailed breakdown of banking system accounts is available during Article IV missions. Data on non-performing loans of the banking system are available periodically.

Balance of payments

There are serious weaknesses in Grenada's balance of payments data, particularly as regards the services and capital accounts. Data on merchandise trade are available from the CSO on a quarterly basis, but are often subject to large revisions. Data on freight and insurance are estimated based on trade data, and tourism receipts are based on an outdated survey undertaken in 1986 and adjusted by the ECCB by a constant mark up factor. In the capital account, data on foreign investment are based on planned investment, rather than actual data, and the coverage of external debt data is incomplete since there is no central recording of foreign borrowing by public sector statutory bodies. Moreover, statistics on central government debt are provided by the ECCB and are based on commitments instead of actual data. There appears to be significant underreporting of both loan disbursements and repayments.

Balance of payments annual aggregates are current and are provided to the Fund for surveillance on a regular basis. However, annual detailed data are only reported to STA for publication with a long lag, and the latest data reported refer to 1996.

Grenada: Core Statistical Indicators

As of May 8, 2000

	Exchange Rates 1/	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	External Current Account Balance	Overall Government Balance	GDP/GNP	External Debt and Debt Service
Date of Latest Observation	n.a	Jan. 31, 2000	Jan. 31, 2000	Jan. 31, 2000	Jan. 31, 2000	Jan. 31, 2000	Dec. 1999	Oct-Dec. 1999	Dec. 1999	Dec. 1999	1999	Dec.1999
Date Received	n.a	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000	Mar. 2000
Frequency of Data	n.a	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Annual/ quarterly	Annual/ quarterly	Monthly	Annual	Annual
Frequency of Reporting	n.a	Monthly with one-to-two-month lag	Monthly with one-to-two-month lag	Monthly with two-to-three-month lag	Monthly with one-to-two-month lag	Quarterly with one-to-two-month lag	Monthly with one-month lag	Article IV Mission	Article IV Mission	Monthly with one-to-two-month lag	Article IV Mission	Article IV Mission
Source of Update	n.a	ECCB 2/	ECCB	ECCB	ECCB	ECCB	CSO 3/	CSO 3/	ECCB CSO	Ministry of Finance	CSO	Ministry of Finance
Mode of Reporting	n.a	Fax	Fax	Fax	Fax	Fax	Fax	Article IV Mission	Article IV Mission	Fax	Article IV Mission	Article IV Mission
Confidentiality	n.a	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Restricted	Unrestricted	Unrestricted
Frequency of Publication	n.a	Annual and quarterly	Annual and quarterly	Annual and quarterly	Annual and quarterly	Annual and quarterly	Annual and monthly	Annual	Annual	Semi-annual	Annual	Annual and semi-annual

1/ Grenada is a member of the Eastern Caribbean Monetary Union, in which the common currency of all member states (E.C. dollar) has been pegged to the U.S. dollar at US$1=EC$2.70 since July 1976.

2/ Eastern Caribbean Central Bank.

3/ Central Statistical Office.

Grenada: Relations with the World Bank Group
(As of March 31, 2000)

I. Projects

Grenada is a participant in the World Bank supported and supervised OECS Solid Waste /Ship-generated Waste Management Projects which were approved in FY95. The objective of these operations is to reduce public health risks and protect the environmental integrity of the Eastern Caribbean islands and their coastal and marine systems, by improving solid waste management facilities. The total regional financing for these projects is US$41 million. The Grenada component is US$5.4 million—US$2.2 from the European Investment Bank, US$1.7 from the Caribbean Development Bank, and US$1.4 from the World Bank.

In FY 1996, the World Bank approved a US$7.66 million loan for the Basic Education Reform Project. The Project is designed to improve the quality of basic education, expand access to secondary education, rehabilitate primary and secondary schools facilities, and help curriculum development for primary and secondary schools.

In FY98, the World Bank approved a US$6 million loan for an OECS Telecommunications Reform Project. Grenada's share of this project is US$1.2 million. The objective is to introduce pro-competition reforms in the telecommunications sector and increase the supply of informatics-related skills in the five OECS borrowing countries.

The Bank is currently preparing the Grenada component (US$10 million) of the OECS Emergency Recovery and Disaster Management Program.(ERDMP) The first phase of this program included three OECS countries (Dominica, St. Kitts and Nevis, and St. Lucia). The second phase will include Grenada and St. Vincent and the Grenadines. The program aims to support the physical and institutional efforts of the participating countries for disaster recovery and emergency preparedness and management.

II. FINANCIAL RELATIONS

(In millions of U.S. dollars)

Operations	Principal	Disbursed	Undisbursed
Telecommunication Reform	1.20	0.14	1.06
Basic Education Reform	7.70	3.48	4.22

Gross disbursements and debt service during fiscal year

	Actual							Projections	
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total disbursements	0.00	0.00	0.00	0.00	0.53	0.26	1.30	1.39	1.80
Repayments	0.00	0.00	0.04	0.07	0.07	0.07	0.07	0.03	0.06
Net disbursements	0.00	0.00	-0.04	-0.07	0.46	0.19	1.23	1.36	1.74
Interest and fees	0.05	0.05	0.05	0.06	0.06	0.06	0.07	0.04	0.08

III. ECONOMIC AND SECTOR WORK

The last OECS Country Assistance Strategy (CAS) paper was prepared in 1995. The World Bank is currently working on a new CAS, which is expected to be presented to the Board in October 2000. In addition, the World Bank is working on an institutional review of Eastern Caribbean States to identify areas where it is politically and technically feasible to develop cross-country agreements that reduce the unit costs of public services.

The Medium-Term Economic Strategy Paper for the period 2000-02 is being prepared by the Government of Grenada in cooperation with the World Bank and the Caribbean Development Bank and will be distributed and presented at the June 2000 meeting of the Caribbean Group for Cooperation in Economic Development (CGCED).

The Eastern Caribbean Regional Institutional Review aims to explore ways that would enhance the institutional capacity of the OECS and Barbados to provide good governance, deliver high quality public services, and meet emerging challenges, effectively and at the lowest cost.

Grenada: Financial Relations with the Caribbean Development Bank
(As of June 30, 1999)

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999
Cumulative total credit approved	50.76	51.35	68.92	68.16	71.86	76.28	77.01
Cumulative disbursements 1/	44.08	49.31	52.28	53.07	56.08	61.18	67.10
Disbursements 2/	**2.51**	**5.23**	**2.97**	**0.79**	**3.01**	**5.1**	**5.92**
Ordinary capital resources	1.08	0.36	0.09	0.65	1.86	2.85	4.59
Special development fund	1.43	4.75	2.46	0.14	0.48	0.36	0.82
Other special fund resources	0.00	0.12	0.42	0.00	0.67	1.89	0.51
Amortization 2/	**1.33**	**1.66**	**1.48**	**2.30**	**2.07**	**2.1**	**2.68**
Ordinary capital resources	0.09	0.13	0.11	0.35	0.54	0.52	0.63
Special development fund	0.98	1.25	1.07	1.56	1.21	1.24	1.72
Other special fund resources	0.26	0.28	0.30	0.39	0.32	0.34	0.33
Outstanding debt (end of period)	35.31	39.07	41.09	39.28	39.89	42.17	45.09
Interest and commitment fees 2/	**1.23**	**1.15**	**1.18**	**1.90**	**1.29**	**1.36**	**1.63**
Ordinary capital resources	0.44	0.23	0.44	0.81	0.59	0.59	0.83
Special development fund	0.68	0.84	0.65	1.01	0.64	0.71	0.73
Other special fund resources	0.11	0.08	0.09	0.08	0.06	0.06	0.07

Source: Caribbean Development Bank.

1/ Including valuation adjustments.

2/ Ordinary capital resources are hard loans, and special development funds and other special fund resources are soft loans.

Grenada: Social Indicators

	Grenada (most recent estimates)	Grenada (15-20 years ago)	Latin American and Caribbean (most recent estimates)
I. Social Indicators of Development			
Demographics			
Population (millions)	0.10	0.09	478.0
Density (population per square kilometer)	296.2	276.2	24.0
Population annual growth rate (percent)	0.6	0.9	1.7
Crude birth rate (per thousand population)	17.8	27.2	23.6
Crude death rate (per thousand population)	7.9	8.2	6.6
Fertility rate	3.6	4.0	2.8
Per capita income (U.S. dollars)	3,630	940	....
Labor force			
Economically active population (millions)	0.036	31.4	196.8
Agriculture (per cent of labor force)	13.8	30.0	25.5
Poverty (percent)			
Population below poverty line	32.1	...	...
Absolute poor	15.2	...	...
Health			
Infant mortality (per thousand)	16.2	14.9	...
Life expectancy at birth (years)	71.6	67.0	69.1
Population per physician	1,258	2,116	1,458
Immunized children under 12 (in percent)			
Measles	86.3	31.0	83.7
Diphtheria	78.2	76.0	80.0
Tetanus	82.6	76.0	80.0
Access to safe water			
Urban	100.0	74.6	89.5
Rural	96.0	...	57.0
Education			
Gross enrollment ratios (percent of school age group)			
Primary	129.5	132.2	109.7
Secondary	53.0	49.9	51.3
Pupil/teacher ratio			
Primary	24.6	27.0	...
Secondary	22.1	21.0	...

Grenada: Social Indicators

	Grenada (most recent estimates)	Grenada (15-20 years ago)	Latin American and Caribbean (most recent estimates)
Illiteracy rate (percentage of population over 15 years)	2.0	...	...
Newspaper circulation (per thousand of population)	21.0	27.0	86.3
Women			
Gross enrollment ratio (per cent of school age group)			
Primary	121.9	130.6	...
Secondary	63.5	55.9	...
Illiteracy rate (per cent of population over 15 years)	2.0	...	...
Life expectancy (years)	74.3	...	72.5
Labor force (percent of total)	51.4	46.8	33.4

Sources: Poverty Assessment Report; Grenada Labor Force Survey 1998, (Draft); A Survey of the Major Developments in the Economy of Grenada, Ministry of Finance, Grenada.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 00/50
FOR IMMEDIATE RELEASE
July 20, 2000

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Grenada

On July 5, 2000, the Executive Board concluded the Article IV consultation with Grenada.[1]

Background

Following a period of virtual stagnation during the late 1980s and early 1990s, the Grenadian economy began to recover in 1995 in response to generally prudent macroeconomic policies and progress in implementing reforms in the public sector and the trade system. Real GDP growth, which was negligible during 1991–93, rose to an average of 3½ percent a year in 1995–97, and accelerated to an estimated 7–8 percent in 1998–99, based on the implementation of large infrastructural projects, and a pickup in demand in the agriculture, manufacturing, construction, and services sectors—particularly tourism, communications and financial services. The economic recovery was accompanied by decreases in unemployment and inflation, and by a marked increase in real incomes. However, social indicators in Grenada remain among the least favorable in the Caribbean region, with 32 percent of the population considered poor.

Imports associated with the implementation of the above-mentioned projects led to a marked widening of the external current account deficit from 7 percent of GDP in 1994–95 to 28 percent of GDP in 1999. Exports have performed well over the past two years reflecting the windfall gains from the increased price of nutmeg as well as output from a new manufacturing plant that exports electronic components to the U.S. market.

[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. 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. In this PIN, the main features of the Board's discussion are described.

Exports of tourism and other services have also registered strong growth. The deficits on current account were financed by inflows of foreign direct investment, official grants and (largely concessionary) loans, and commercial borrowing by the private sector.

The upturn in economic activity contributed to a pickup in the rate of growth of private sector deposits in 1999, while the growth rate of net domestic assets slowed in line with an improvement in fiscal performance, and an easing of credit to the private sector following two years of very strong expansion. Consequently, banking system liquidity increased, and the banks' net foreign asset position strengthened.

During 1995–97, the economic recovery was accompanied by a deterioration in the fiscal position. The deficit of the central government (after grants) widened from less than 1 percent of GDP in 1995 to 6 percent in 1997 as the authorities embarked on an ambitious capital investment program, while at the same time reducing the income tax and raising civil servants' salaries by an average of more than 8 percent in real terms a year in 1996–97. The deficit narrowed to 3 percent and 2½ percent of GDP, respectively, in 1998 and 1999, while central government savings rose sharply to 4½ percent of GDP in 1999, reflecting improved revenue administration, increased fees from offshore financial companies, and efforts to limit the growth of current expenditure. The civil service wage bill rose by an average of less than 4 percent a year during 1998–99 (owing, in part, to a freeze on hiring), and declined to just over 12 percent of GDP, from 13 percent of GDP in 1997. Capital expenditure increased from an average of 9 percent of GDP in 1996–98 to 10½ percent in 1999, reflecting improvements in infrastructure (roads, the port, and health and education facilities), as well as repair and rehabilitation work late in the year following the damage caused by hurricane Lenny.

In the area of structural reform, emphasis in the public sector has been placed on privatization, civil service reform, and on converting selected government agencies into autonomous bodies run on commercial lines. Also, the sugar factory is targeted for privatization, the government retains only minority shares in two commercial banks, and the post office has been converted into an independent, commercial agency. Restructuring the civil service and basing salaries on performance have proved to be difficult, but discussions with the labor unions on these issues are continuing. In the financial sector, the Grenada International Financial Services Authority commenced full operations in January this year, and has started to monitor more closely the operations of the offshore companies. In addition, anti-money laundering legislation came into effect in April 2000; work on the legislative and regulatory framework for a regional capital market for ECCB member countries is being finalized; and a regional stock exchange is scheduled to begin operations in July 2000. In the external sector, the final phase of tariff reductions under the regional common external tariff agreement was completed on January 1, 2000. Most import tariff rates range from 5 percent to 15 percent.

Executive Board Assessment

Directors commended the Grenadian authorities for pursuing policies that have helped to achieve an economic recovery, accompanied by a reduction in unemployment and low inflation. Directors observed, however, that despite these achievements and a recent upturn in per-capita incomes, rates of both unemployment and poverty remain high. They, therefore, welcomed the government's decision to place poverty alleviation at the forefront of its economic program, and expressed support for the strategy that is based on sustaining economic growth and job creation through sound fiscal policies, increased private investment, a revitalization of agriculture and the rural economy, and reforms aimed at improving the efficiency of the public sector.

Directors noted that, in light of the currency union arrangement within the Eastern Caribbean Central Bank (ECCB), fiscal policy has a key role to play in maintaining macroeconomic stability and generating resources to ensure adequate social services and safety nets for the poor. While they welcomed the recent increase in central government saving, Directors said that sustaining a sound fiscal position over the medium term would require continued efforts, including the introduction of a value-added tax and a strengthening of tax compliance. They recommended that measures on the expenditure side focus on limiting the growth of the wage bill, exercising tighter control over government procurement, and avoiding recourse to commercially-financed lease-to-own projects by the public sector.

Directors noted the favorable prospects for increased private investment in tourism, and observed that new investments in other sectors would depend on progress in further divestment of state-owned assets. They also noted that the public sector should not undertake projects that could better be left to the private sector. An adequately-trained work force also is essential, and Directors welcomed the authorities' commitment to provide increased budgetary resources this year for education, skills training, and computerization in schools. In the public sector, Directors encouraged the authorities to press forward with their plan to introduce a civil service pay system based more closely on performance. They also welcomed the authorities' efforts, hopefully with World Bank support, to restructure the civil service.

Directors encouraged the authorities to take steps to improve supervision of offshore banking and other financial transactions, and welcomed the establishment of the Grenada International Financial Services Authority. In particular, it is essential to ensure that the nature and scope of these activities, as well as Grenada's legal and regulatory frameworks, are consistent with international standards. Given the government's limited resources, Directors recommended that prompt approaches be made for technical assistance in these areas to international or regional organizations, bilateral donors, and the ECCB. Directors also expressed concern with the quality of information on the financing of the large current account deficits in recent years—particularly with regard to the substantial size of largely unidentified private capital inflows, and the difficulties experienced in reconciling debt stocks and flows. Directors urged the authorities to work promptly, in collaboration with the ECCB staff, to clarify the nature and origin of these capital inflows.

Directors observed that continued weaknesses in Grenada's statistical base adversely affect the authorities' ability to monitor and analyze macroeconomic developments, and to take timely action to maintain stability and growth. They recommended that the authorities seek technical assistance to improve the scope and timeliness of statistics, and to ensure that adequate resources are made available to the statistics office.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report for the 2000 Article IV consultation with Grenada is also available.

Grenada: Selected Economic Indicators
(Annual percentage changes, unless otherwise indicated)

	1995	1996	1997	1998	Est. 1999
Real sector					
Nominal GDP	5.5	6.6	6.9	8.2	7.4
Real GDP	3.1	3.0	4.8	6.8	8.2
Consumer price index 1/	2.1	3.2	0.9	1.2	1.0
Unemployment rate	19.0	17.5	17.0	16.0	14.0
Central government finances 2/					
Revenue and grants	28.2	28.9	26.9	30.0	30.5
Expenditure	28.8	32.7	33.1	33.1	33.0
Current	23.0	23.0	24.4	23.9	22.5
Capital	5.8	9.7	8.7	9.2	10.5
Current account balance	2.2	2.1	-0.3	1.3	4.6
Overall balance	-0.6	-3.8	-6.2	-3.1	-2.5
Money and interest rate					
Net domestic assets of the banking system 3/	-5.8	13.9	18.6	11.4	7.8
Public sector	-1.6	2.5	3.2	-1.4	-5.0
Private sector	4.9	10.5	15.4	14.4	11.1
Liabilities to the private sector	9.4	9.1	11.8	11.8	13.9
Average prime rate (percent per year)	10.0	10.0	9.8	10.0	10.0
External sector					
Current account balance 2/	-9.2	-15.7	-21.9	-26.3	-28.4
Public external debt 2/	27.3	26.3	25.7	25.9	26.3
Public external debt service ratio (in percent of exports of goods and nonfactor services)	5.7	6.7	5.4	5.3	5.7
Real effective exchange rate (depreciation -)	-2.0	1.8	3.4	-2.2	2.4

Sources: Grenada authorities; and IMF staff estimates.

1/ End of period.
2/ In percent of GDP.
3/ In percent of initial stock of liabilities to the private sector.