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Grenada: First Review Under the Poverty Reduction and Growth Facility Arrangement, Request for Waiver of Performance Criterion, Financing Assurance Review, Request for Rephasing and Extension of the Arrangement, and Request for Augmentation—Staff Report; Staff Supplement; and Press Release on the Executive Board Discussion

In the context of first review under the Poverty Reduction and Growth Facility Arrangement, request for waiver of performance criterion, financing assurance review, request for rephasing and extension of the arrangement, and request for augmentation, the following documents have been released and are included in this package:

- The staff report for First Review Under the Poverty Reduction and Growth Facility Arrangement, Request for Waiver of Performance Criterion, Financing Assurance Review, Request for Rephasing and Extension of the Arrangement, and Request for Augmentation, prepared by a staff team of the IMF, following discussions that ended on April 9, 2008, 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 20, 2008. 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.

- A staff supplement on the join IMF/World Bank debt sustainability analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its July 7, 2008 discussion of the staff report that completed the review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Grenada*
Supplementary Memorandum of Economic Policies by the authorities of Grenada*
Supplementary Technical Memorandum of Understanding*
Preparation Status Report for the Poverty Reduction Strategy Paper
*Also included in Staff Report

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

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GRENADA

First Review Under the Poverty Reduction and Growth Facility Arrangement, Request for Waiver of Performance Criterion, Financing Assurances Review, Request for Rephasing and Extension of the Arrangement, and Request for Augmentation

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by José Fajgenbaum (WHD) and Matthew Fisher (PDR)

June 20, 2008

Context. Grenada's economy has rebounded after the devastating impact of Hurricanes Ivan and Emily, driven by reconstruction, tourism, the 2007 Cricket World Cup, and the development of several major tourism projects.

Use of Fund Resources. On April 17, 2006, the Executive Board approved a PRGF Arrangement for SDR 10.53 million (90 percent of quota) to support the authorities' reform program launched in the context of the 2006 budget (IMF Country Report No. 06/277). SDR 1.56 million (13.33 percent of quota) was disbursed upon Board approval.

Program Performance. The first review was delayed because of the time needed to address an unregulated bank, fiscal slippages, and the slow pace of structural reforms. All quantitative performance criteria at end-June 2006 were met, except for the criterion on the central government primary balance, which was missed by a substantial margin due to capital expenditure overruns, reflecting in part higher-than-anticipated costs of reconstruction. Four of seven structural benchmarks were met, some with delay.

Review. In the attached supplementary Letter of Intent and Memorandum of Economic Policies, the authorities elaborate on their policies for the remainder of 2008 and propose corresponding quantitative and structural performance criteria and structural benchmarks. The authorities request completion of the first review and a waiver for the missed quantitative performance criterion. In addition, given the delay in completing the first review and sharp increases in world food and fuel prices, they request extending the arrangement by one year to 2010, rephasing the remaining disbursements, and augmenting the arrangement, with SDR 2.98 million available upon completion of the first review.

Missions. Staff visited St. George's in December 2007, January 2008, and April 2008 and met with Prime Minister and Minister of Finance Mitchell, Deputy Prime Minister Bowen, Minister of Economic Development Boatswain, Permanent Secretaries Andrews and Antoine, and other senior officials and representatives of the banking and business communities. The mission team comprised Catherine Pattillo (Head), Hunter Monroe, Nkunde Mwase (all WHD), and Dimitri Tzanninis (PDR). Thordur Olafsson (MCM) and Moni SenGupta (LEG) participated in staff visits. Paul Jenkins (OED) joined the missions for the final discussions.

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Executive Summary

While Grenada's outlook remains favorable, economic growth is expected to slow somewhat in 2008—to 3.7 percent— in part due to the projected slowdown in the global economy. Growth in 2007 was 4.3 percent, driven by tourism, the Cricket World Cup (CWC), and expansion of an offshore university. Annual inflation is projected at 7.8 percent for 2008, reflecting rising world fuel and food prices.

The time needed to address the unregulated bank, as well as fiscal slippages and the slow pace of structural reform, delayed completion of the first PRGF review. Capital expenditure overruns in 2006, owing to higher-than-anticipated costs of reconstruction and CWC preparations, led to a primary deficit much higher than the program target, and significant slippages continued into 2007. All quantitative performance criteria for end-June 2006, except that on the primary balance were observed. The authorities are requesting a waiver for the missed performance criterion. Three out of seven structural benchmarks were not met, reflecting, in part, limited implementation capacity. The Country Poverty Assessment (CPA) and preparation of a full PRSP have been delayed for the same reason.

For 2008, the authorities have developed a revised fiscal program, a strategy for the financial sector, and a structural reform program with a realistic timeframe.

- The authorities' fiscal program targets an overall deficit in line with debt sustainability and the availability of financing. Reflecting the fiscal slippages and higher PetroCaribe borrowing, the debt-to-GDP target of 60 percent will now be reached in 2018, two years ahead of the ECCB's target date.

- The government appointed a receiver for the unregulated bank (prior action) and has appealed a recent revocation of the receivership by the High Court. Resolution of the bank through reorganization or the start of the liquidation process will be a performance criterion for November 2008.

- The authorities have made recent progress with structural reforms, and have developed a revised timetable for reforms in 2008. These will focus on steps to improve the investment climate, reform the tax concessions regime, and customs reforms.

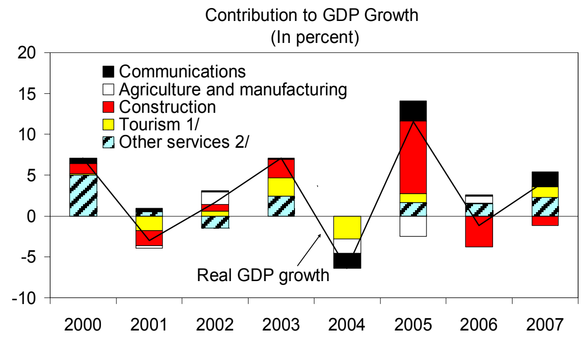
The program entails some risks, particularly with respect to bank restructuring costs, expenditure control, implementation capacity, and natural disasters. While the authorities are committed to adhere to the program, addressing the first three of these risks, staff expressed concern about a proposed large loan from China for a port and marina project because, depending on the loan size and concessionality, it could undermine debt sustainability.

I. PROGRAM CONTEXT

A. Recent Developments and Outlook

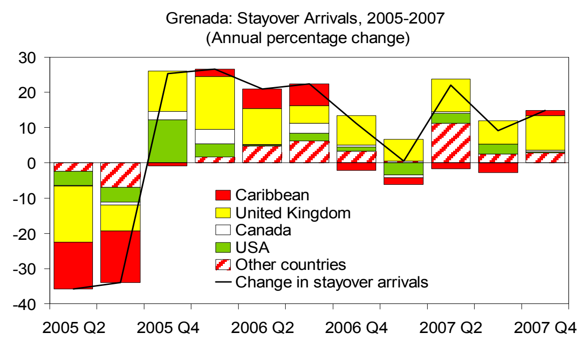
1. **Economic performance has in many respects been positive:**

- **Economic growth has rebounded**. Growth in 2007 rose to 4.3 percent, driven by tourism, the Cricket World Cup (CWC), and expansion of an offshore university.



Sources: Grenada authorities; ECCB; and Fund staff estimates.
1/ Includes wholesale and retail trade, hotels and restaurants, and half of transport.
2/ Includes St. Georges University.

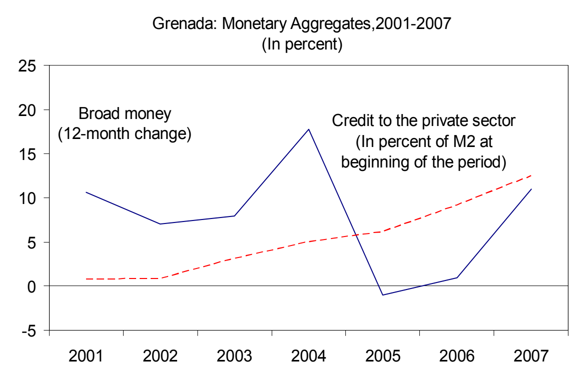
- **The external current account improved marginally in 2007, and strong FDI inflows provided ample financing**. Growth in stayover arrivals of 9 percent helped offset the large shortfall in external grants and decline in transfers. Moreover, competitiveness appears to have improved recently, based on indirect indicators (Figure 1).



Source: ECCB; and Fund staff calculations.

- **The financial soundness indicators of the regulated banking system remain satisfactory**. The capital adequacy ratio was 15.6 percent at end-2007 and the ratio of nonperforming loans to total remained low at 3.5 percent. Deposits grew 11.5 percent during 2007 and credit expanded at 15.1 percent, driven by tourism and personal loans (Figure 2).

- **There was important progress on structural reforms**. The government appointed a receiver for Capital Bank, the unregulated bank, in February 2008. Parliament approved the Executive Agencies Bill to allow creation of a land agency, and the government adopted a comprehensive business plan for customs reforms and took steps toward stronger building standards.



Source: ECCB; and Fund staff calculations.

2. **There are, however, some areas of concern:**

- **Annual inflation has increased sharply,** reaching 8.7 percent in April 2008, reflecting rising world food and fuel prices and U.S. dollar depreciation (Figure 3).

- **Fiscal performance deteriorated further in 2007 despite delays in reaching agreement on a public service wage path**.[1] The slippages largely reflect very high capital expenditure notwithstanding a substantial shortfall (5 percent of GDP) in grants (which had been projected optimistically), and to a lesser extent higher transfers to vulnerable groups. Nevertheless, strong growth helped reduce the debt-to-GDP ratio from 117 percent at end-2006 to 112 percent at end-2007 (Figures 4 and 5).[2]

Fiscal Developments in 2005–08

(In percent of GDP)

		2006		2007		2008	
	2005	Prog.	Actual	Budget	Prel.	Budget	Prog.
Total revenues and grants	**34.8**	**33.3**	**33.7**	**32.8**	**27.3**	**31.5**	**28.9**
Of which							
Revenues	24.3	25.8	25.0	27.0	26.2	26.0	25.2
Grants	10.5	7.4	8.7	5.8	1.1	5.5	3.7
Total expenditures	**34.3**	**35.2**	**40.1**	**35.3**	**35.8**	**36.3**	**32.9**
Current Expenditures	20.4	21.0	21.3	21.5	22.2	22.7	23.4
Of which							
Interest	2.0	2.2	2.1	2.2	2.3	2.7	2.8
Bank restructuring	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Capital expenditures	13.9	14.2	18.8	13.8	13.7	13.6	9.6
Primary balance (excluding grants)	-8.0	-7.1	-13.0	-6.0	-7.3	-7.6	-5.0
Overall balance (including grants)	0.5	-1.9	-6.4	-2.4	-8.5	-4.6	-4.1

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

3. **The political environment for reform is challenging**. The government has a one-vote majority in the Parliament. The Prime Minister has recently called general elections for July 8, 2008.

B. Program Performance

4. **The fiscal position in 2006 deteriorated markedly relative to the program** (Figure 4). The quantitative performance criterion on the central government primary balance (excluding grants) was missed by 1.2 percent of GDP at end-June 2006, largely due to capital

[1] Agreement was reached in January 2008 with public service workers except teachers. The saving for 2007 as a result of this delay was 0.4 percent of GDP.

[2] The ratio declined eight percentage points because of nominal GDP growth; debt creating financing was only three percentage points, as the remainder of the below-the-line deficit was financed by non-debt creating divestment proceeds and drawdown of deposits. Note that all GDP ratios in this report are based on a revised GDP series (see footnote 6).

expenditure overruns associated with higher-than-anticipated reconstruction costs. The resulting overall deficit was financed in part through domestic arrears and a drawdown of deposits, implying that the indicative target on net bank credit to the public sector was missed by a substantial margin.

5. **Implementation of the structural reform program was uneven**.

- Solid progress was made on fiscal measures—the National Reconstruction Levy (NRL), the flexible fuel pricing mechanism, and the enhanced collection of tax arrears—and steps to reduce vulnerabilities with the establishment of the single regulatory agency for nonbank financial institutions, the Grenada Authority for the Regulation of Financial Institutions (GARFIN), and signing up for the World Bank's risk insurance facility (CCRIF).

- The authorities met four of seven structural benchmarks, three with delay. The biggest stumbling block was on tax concessions. The two benchmarks on legislative action regarding tax concessions have been modified and postponed to December 2008.

Status of Structural Benchmarks Under the Program

	Target Date	Status
Stop granting or extending tax holidays	Jan. 2006	Not met
Agree on public service wage path for 2006–08	Apr. 2006	Met in January 2008 (except teachers)
Initiate work to strengthen PSIP process	Jun. 2006	Met in July 2006
Publish information on new tax concessions	Jun. 2006	Met in Sep. 2006
Amend the Income Tax Act	Jun. 2006	Not met
Repeal tax incentives legislation	Jun. 2006	Not met
Initiate comprehensive customs reforms	Aug. 2006	Met

II. Policy Discussions

The authorities underscored their commitment to the program and were eager to move ahead with the needed actions to put the program back on a solid footing.

6. **Economic growth in 2008 is expected to decline somewhat reflecting a less benign external environment**. Growth is projected to fall to 3.7 percent, notwithstanding a pick-up in foreign direct investment. Average inflation is expected to rise to 7.8 percent during 2008 reflecting further increases in world food and fuel prices.

A. Restoring Fiscal and Debt Sustainability

7. **The authorities recognized that corrective action was needed to compensate for the expenditure overruns in 2006 and 2007**. To reduce the projected overall fiscal deficit for 2008, the authorities have agreed to keeping expenditure below budgeted levels.[3] Much of the reduction will fall on capital expenditure, which would fall from the budgeted 13.6 percent of GDP to 9.6 percent of GDP and reflect a more realistic projection of grants. A reduction in capital spending toward historical levels is appropriate as the post-hurricane

[3] The mission to conduct the second review will discuss the nature of a finance circular or other fiscal measures best suited to aid in meeting the program's fiscal targets.

reconstruction is nearly complete. The Ministry will improve control of current and capital expenditure by reviewing proposals to spend above budget allocations before they go to Cabinet, under a new policy that limits the use of special warrants. The authorities have also identified contingent measures to reduce spending if needed to meet program targets. These include limiting grants and subventions while protecting transfers to vulnerable groups, improved targeting, and further rationalizing capital spending. In light of these corrective actions, the authorities request a waiver of the missed June 2006 performance criterion on the primary balance excluding grants.

8. **The authorities have implemented several policies to mitigate the impact of high fuel and food prices costing around 1.2 percent of GDP**. These new measures include: an emergency food basket distribution scheme, increases in transfers to needy elderly persons, expansion of a free transport program for students, suspension of the Common External Tariff on nine basic items, and removal of the customs service charge on selected staples. The mission supported these efforts, also stressing improved targeting. There could be pressure for further government response given continued high food prices.

9. **The 2008 program is fully and sustainably financed, allows for a gradual clearance of arrears, and is consistent with debt sustainability**. The targeted overall deficit of 4.1 percent of GDP, including estimated bank restructuring costs of 1.5 percent of GDP, envisages a substantial fiscal adjustment relative to 2007. As the deficit will be financed largely by the sizable divestment proceeds expected during 2008, the fiscal program would allow for a reduction of public sector debt of 5.6 percentage points of GDP.[4] This would include lowering the expensive overdraft and clearing expenditure arrears. The authorities have already made progress with their fiscal program so far in 2008, using divestment proceeds amounting to 1.5 percent of GDP in the first quarter of 2008 to more than fully finance the overall deficit of 1.2 percent of GDP, allowing for a small net repayment of debt. They will, however, need to slow the pace of capital spending to meet their fiscal targets.

10. **The overarching objective remains placing debt on a sustainable trajectory**. The authorities are now aiming to achieve the 60 percent debt-to-GDP ratio by 2018, two years ahead of the ECCB's regional target date.[5] While the 2007 Article IV active scenario envisaged achievement of this target four years earlier, the delay reflects fiscal slippages and larger PetroCaribe concessional borrowing related to higher fuel prices.[6] A share of

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[4] Divestment proceeds have been received from the sale of land to a tourism project, and around 1.7 percent of GDP is expected in 2008 from sale of government shares in a telecommunications company.

[5] Achieving this target will require a reduction in the overall deficit (including grants) of two percentage points of GDP in 2009 (excluding bank restructuring costs). Further proceeds from divestments that began in 2008, expected to amount to around 3.8 percent of GDP in 2009, would fully finance the deficit. The expected introduction of the VAT and a market-based property tax in 2010 would improve the overall deficit by another percentage point of GDP.

[6] Since the 2007 Article IV consultation (IMF Country Report No. 08/351), the authorities have revised GDP upward to incorporate the contribution of St. George's University, the largest private employer in Grenada, with

(continued)

PetroCaribe's disbursements is being placed in a special account to repay related obligations and the remainder is being transferred to the budget. To ensure sufficient funds for repayment, staff proposed a higher share for the special account than the authorities were planning; the authorities are considering this proposal as they define their investment strategy. Half of divestment proceeds would be used to pay down debt.

11. **Efforts have been stepped up to reform tax administration and improve tax collection, and important tax reforms are planned**. Improved collection of tax arrears is expected to yield 0.6 percent of GDP in 2008, and customs reforms are moving forward. A cadastral survey is expected to be completed this year, and the new property assessments applied from 2010. The authorities plan to announce a date for introduction of a VAT after the elections, and have agreed that VAT-related measures would then be included as structural conditionality (Table 2, supplementary Memorandum of Economic Policies (MEP)).

12. **The authorities are also continuing efforts to improve fiscal transparency**. They will continue to publish information on tax concessions, and obtain public enterprises' audited accounts within four months after the close of the fiscal year.

13. **The government is considering a concessional loan from the Export-Import Bank of China to finance the construction of a port and marina**. The size of the project has not yet been finalized, but could cost as much as US$85 million (13 percent of GDP). The staff cautioned that such a large loan would put the objective of restoring debt sustainability at risk. The Debt Sustainability Analysis shows that the risk of debt distress remains high and there is limited room to borrow, even on concessional terms. The authorities stated that they will continue to explore private sector financing for components of the project. If a feasibility study now underway (conducted by a Chinese firm) does not point to positive net benefits, they will restructure the project before proceeding, and will seek a high level of concessionality.[7] The program will incorporate a new performance criterion with a ceiling on bilateral concessional external debt that will not accommodate the proposed loan at this stage. The ceiling would be revised upward later should the authorities proceed with a loan that does not jeopardize debt sustainability.

B. Reducing Financial Sector Vulnerabilities

14. **In response to the rapidly deteriorating financial condition of the unregulated bank, the government appointed a receiver on February 15, 2008**. The bank (Capital Bank) was highly illiquid and unable to honor deposit withdrawals. The bank has not been in the formal clearing and payments system, and there has been no evidence of contagion. The receiver's report indicates that the bank appears to be insolvent. Total deposits are around

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a revision for 2006 of 7 percent. Under the 2007 Article IV active scenario, and with the revised GDP, the 60 percent of GDP target would be reached in 2014, rather than 2017 as reported in the Article IV staff report based on the previous GDP series.

[7] Based on preliminary information, the grant element would be 37 percent.

EC$21.8 million (1.2 percent of GDP), excluding related party deposits and a large deposit—which is offset by a large investment—and around 70 percent of the 5,800 depositors are small depositors. At least 54 percent of the bank's loan portfolio (to a related party) is nonperforming.

15. **The process of bank resolution has been hampered by several legal challenges to the receivership**. The Minister of Finance proposed reorganization of Capital Bank to the High Court on April 14. On May 7, the High Court ruled in favor of the bank's owner and revoked the receivership. The government has obtained a stay of this decision, and has filed an appeal; the receiver will remain in place pending the outcome of the Appeals Court. On May 14, the bank owner was arrested on charges stemming from an ongoing investigation by the Financial Intelligence Unit.

16. **The authorities have been working on a resolution strategy that protects depositors' interests while minimizing the fiscal cost of bank resolution**. This process may continue to be slowed if legal battles are drawn out. On the positive side, several investors have expressed interest in some form of asset purchase and assumption of liabilities. The government's participation in the restructuring could cost as much as EC$27 million (1.5 percent of GDP) based on the size of the asset deficiency in the bank and other costs; government may also entertain requests for tax credits on portfolio losses, or placement of government deposits. An MCM technical expert has been advising the government on bank resolution. Resolution of the bank through reorganization or starting the process of liquidation is a performance criterion for November 2008. The feasibility of this target depends on how quickly legal difficulties can be surmounted. The government is also considering a transfer of small deposits (under EC$500) to another financial institution.

17. **The authorities are committed to improving regulation and supervision of the non-bank financial sector**. GARFIN has begun offsite monitoring of credit unions and building societies, and will start offsite monitoring of insurance companies in 2008, following amendment of the GARFIN Act in March 2008.

18. **GARFIN is also addressing the problem of unregulated investment schemes;** two public warnings have been issued. If the Eastern Caribbean Securities Regulatory Commission determines that the schemes do not fall under its jurisdiction, or does not make a decision by end-June 2008, GARFIN will act to prevent the existing scheme from taking in new deposits or apply for a cease and desist order from the High Court.

C. Moving Forward with the Structural Reform Program

19. **Structural reform measures in 2008 will focus on enhancing the investment climate, reform of the tax concessions regime, and customs reforms—to improve competitiveness and promote private-sector led growth**.

- To improve the Doing Business Indicators (Figure 6), the authorities will develop an action plan by August 2008 to strengthen specific indicators (benchmark). With World Bank assistance, work is ongoing to make the Grenada Industrial Development

Corporation a one-stop shop for investors. The newly created Ministry of Economic Development and Planning will facilitate timely approval of investment projects.

- Legislation to amend the Income Tax Act, introduce a new Investment Act, and repeal the tax incentives legislation is well advanced and will be submitted to Parliament by December 2008 (Table 2, supplementary MEP). Delays in enacting this legislation have stemmed from the time needed to clarify policy issues and from capacity constraints. The new legislation will provide capital write-offs (a form of investment tax credit) rather than tax holidays.

- Customs reforms will focus on risk management, anti-smuggling and fraud detection. Information sharing with Inland Revenue will also be enhanced, which will facilitate the VAT down the line.

20. **Grenada's PRSP is expected to be completed in November 2009, with support from the World Bank**. In their PRSP preparation status report (which the authorities have submitted separately) the authorities note that the PRSP will build on the findings of the ongoing Country Poverty Assessment, which is expected to be completed in December 2008. The PRSP will facilitate restructuring of some existing social, employment and poverty reduction programs.

III. Program Issues

A. Program Design

21. **Monitoring modalities remain unchanged, while conditionality has been brought in line with implementation capacity**. As a prior action for completion of the review, the authorities have appointed a receiver for the unregulated bank. Quantitative and structural performance criteria and benchmarks are being proposed through December 2008 as shown in Tables 1 and 2 of the attached supplementary MEP. A new ceiling on bilateral concessional debt has been added. The nonconcessional debt ceiling only accommodates a US$3 million loan from the U.S. Export-Import Bank to finance community lighting, for which plans are already advanced.

22. **Reflecting the delay in completing the first review, the authorities have requested that the PRGF arrangement be extended by one year, with remaining disbursements rephased**. The frontloading of disbursements would reflect significant progress on the unregulated bank and with initial structural reforms.

23. **The authorities have requested an augmentation (12.5 percent of quota) of the access under the PRGF arrangement to help mitigate the adverse effects of increases in world food and fuel prices**. These price increases since 2007 are projected to raise total imports by up to US$52.2 million (7.8 percent of GDP) in 2008, of which three quarters will be for fuel. PetroCaribe concessional borrowing will finance half the cost of diesel imports. Overall, the balance of payments is expected to post a deficit of 0.7 percent of GDP, compared with earlier projections of a small surplus. To help cushion the balance of payments impact, the authorities have requested an additional SDR 0.73 million to be

disbursed at the completion of the first review and the remaining SDR 0.73 million at the completion of the second review. The augmentation would bring total access under the program to 102.5 percent of quota, higher than the norm for first-time users of the PRGF of 90 percent of quota, but well below the maximum limit of 140 percent (Table 8). The amount of the augmentation does not materially worsen Grenada's debt profile or its capacity to repay the Fund.

24. **With the proposed augmentation, the program would be fully financed for 2008**. The authorities intend to clear or restructure by end-2008 the remaining EC$10.9 million arrears on maturing unrestructured domestic debt to the nonbank public, incurred in June 2007.

B. Program Risks and Financing Assurances

25. **The program is subject to a variety of risks**. These include:

- There is significant uncertainty over costs of and legal hurdles to bank restructuring.
- Difficulties in expenditure control—particularly in an election year—or another natural disaster could impede fiscal adjustment.
- The possible large loan from China's Export-Import Bank could undermine debt sustainability.
- Capacity constraints could complicate structural reforms.

The program's design addresses these risks through a capped adjustor on bank restructuring costs, tighter controls on special warrants, a new ceiling on bilateral concessional borrowing, and a realistic timetable for structural reforms.

26. **The authorities are continuing to make best efforts to conclude bilateral agreements with the Russian Federation and non-Paris Club creditors and good faith efforts to reach a collaborative agreement with nonparticipating external commercial creditors**. They have signed all but one of the Paris Club bilateral agreements and are working to reach agreement with non-Paris Club creditors on outstanding debt. The government is seeking an out-of-court settlement with Export-Import Bank of Taiwan Province of China (the loan is equivalent to 3.3 percent of GDP).

IV. Staff Appraisal

27. **Considerable progress has been made with the program**. The authorities have introduced politically difficult but critically important fiscal measures; begun strengthening tax and customs administration; improved transparency; initiated a range of reforms, with a unifying theme of enhancing the investment environment and reducing vulnerabilities; and mobilized donor support to finance reconstruction.

28. **However, program implementation was poor, mainly because of large fiscal slippages and difficulties in securing a legal basis to address the unregulated bank**.

These difficulties were partly a result of underestimating the costs of reconstruction following the hurricanes and initial problems with the authorities' first PRGF Arrangement, including limited implementation capacity.

29. **While recognizing these challenges, the government has underscored its commitment to putting the program on a solid footing**. This has been evidenced by the prior action in the financial sector and the agreement to reduced government expenditure in 2008 underpinning this first review. The authorities have also worked closely with staff to develop a revised, realistic timetable for the fiscal and structural reform programs, and are determined to implement them on a timely basis.

30. **Fiscal consolidation remains essential to achieving debt sustainability**. The medium-term fiscal framework is ambitious, and budgetary discipline will be crucial, as the room for maneuver is small, especially if there were another exogenous shock. For 2008, the focus on reducing capital expenditure toward historical levels is appropriate, as the post-hurricane reconstruction is nearly complete. The authorities are taking needed steps to improve expenditure control and prioritization of capital projects. On the revenue side, the key needed reforms are the market-based property tax, and setting a date for introduction of the VAT, following the elections.

31. **The delay in the date by which Grenada reaches the targeted 60 percent debt-to-GDP ratio until 2018 underscores the risks to the authorities' plans to restore debt sustainability**. The authorities' plan to use half of expected divestment proceeds to reduce expensive debt is welcome. Staff cautioned that the authorities should carefully consider plans for a potential large loan from China's Export-Import Bank, which could, depending on the loan size and concessionality, undermine their program's objective of securing debt sustainability. The authorities' continued exploration of private sector financing for the project is appropriate, as is their intention to share the feasibility study.

32. **Staff welcomes the authorities' difficult decision to appoint a receiver for the unregulated bank, and their appeal of the recent revocation of the receivership by the High Court**. While legal obstacles may slow the process, the authorities are committed to deal with these challenges and to work to resolve the bank in a way that appropriately minimizes fiscal costs while protecting depositors. Reorganization, with a clear regulatory strategy, or initiating liquidation will be a structural performance criterion for November 2008.

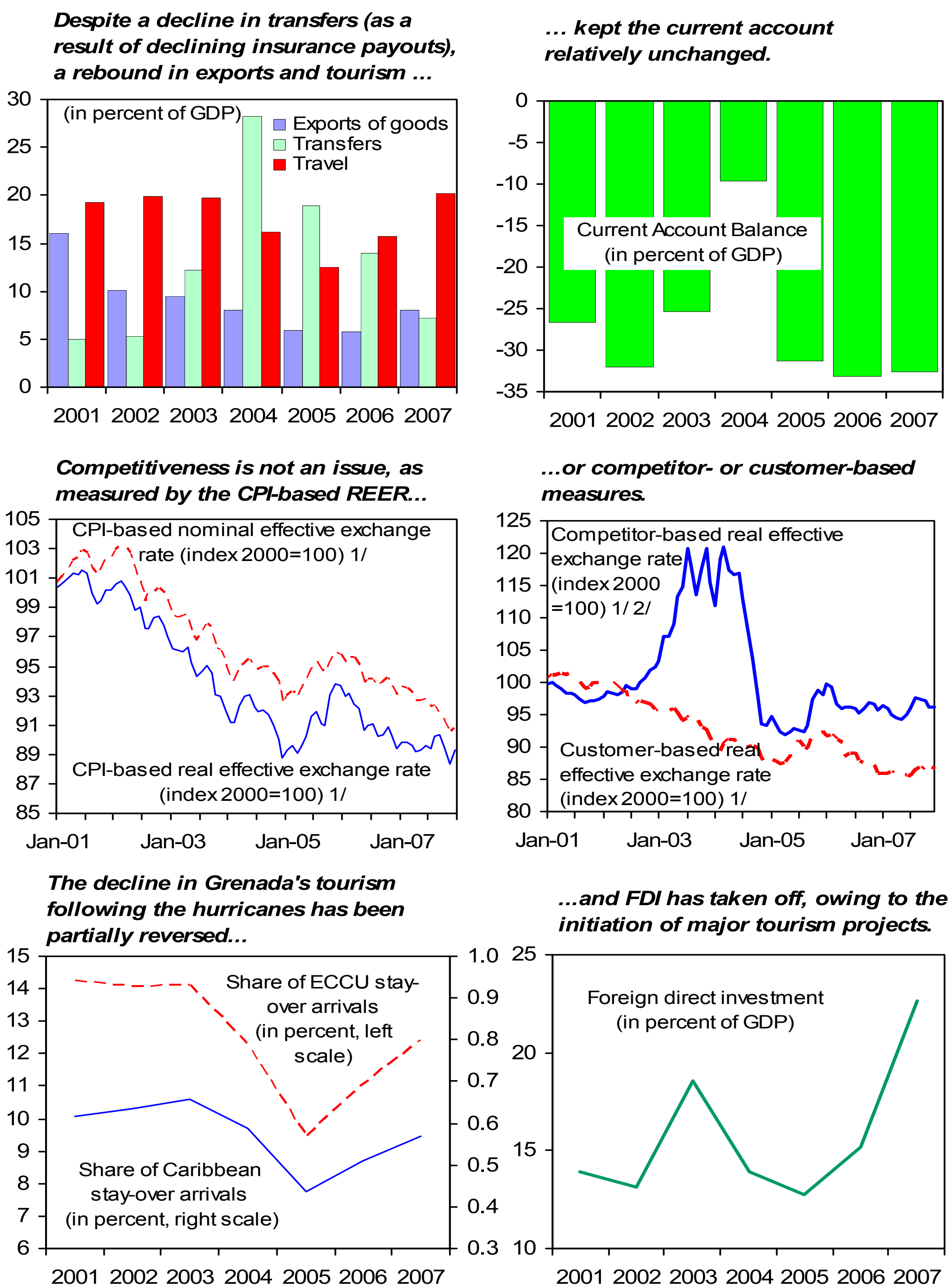
33. **With investors' high level of interest in Grenada at present, this is an opportune time to push through the reforms to improve the investment climate**. The planned shift from tax holidays to capital write-offs, while unlikely to produce much new revenue in the near future, will improve incentives for new investment. This is a difficult step in the context of regional competition for investment.

34. **The program places great emphasis on reducing vulnerabilities**. The authorities' strategy to reduce natural disaster-related risks is welcome. It includes strengthening Building Code enforcement, enacting a new Insurance Act, and participating in the CCRIF.

On the financial sector, building GARFIN's capacity and moving resolutely to address risks from unregulated investment schemes will be important.

35. **Notwithstanding the risks described above, staff supports the authorities' requests for a waiver for the missed performance criterion, completion of the first review, rephasing of disbursements and extension of the PRGF arrangement through April 2010, augmentation, and completion of the financing assurances review**. The authorities are determined to pursue the policies envisaged in the program. Staff support for the requests reflects the authorities' fiscal corrective action, appointment of a receiver for the unregulated bank, initial progress with structural reforms, the burden of food and fuel price shocks, and the authorities' best efforts with bilateral creditors and good faith efforts with nonparticipating external commercial creditors.

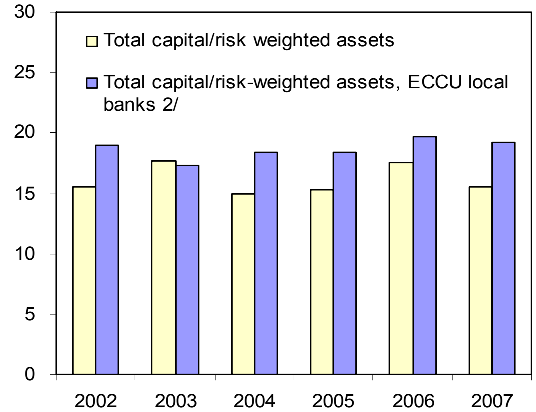
Figure 1. Grenada: Competitiveness Indicators



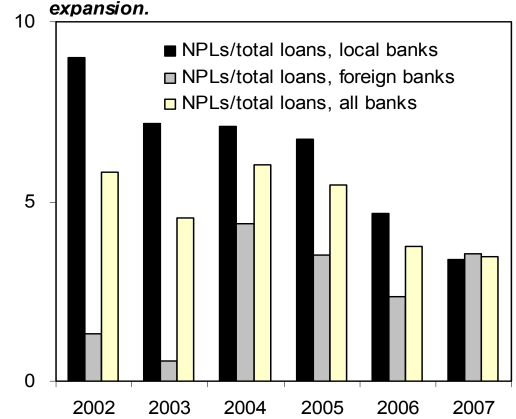
Sources: Grenada authorities; ECCB; Caribbean Tourist Organization; and Fund staff calculations.
1/ An increase (decrease) indicates an appreciation (depreciation).
2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.

Figure 2. Grenada: Banking System Vulnerabilities 1/

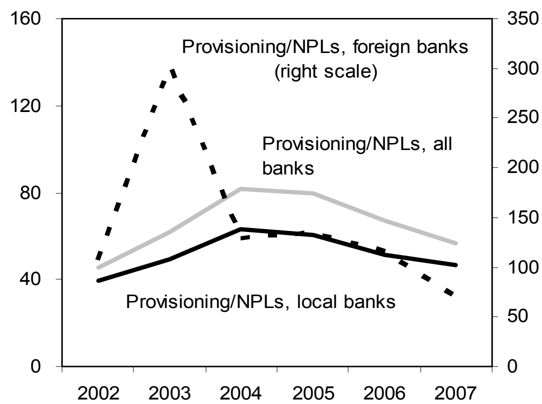
Capital adequacy ratios for local banks have remained strong, but remain below the ECCU average.



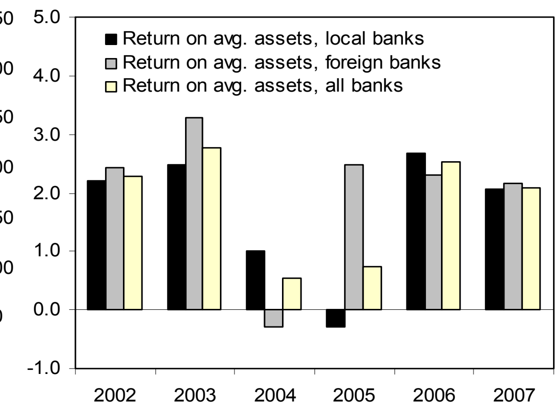
The share of nonperforming loans in total loans of local banks has declined significantly in recent years, partly as a result of the rapid credit expansion.



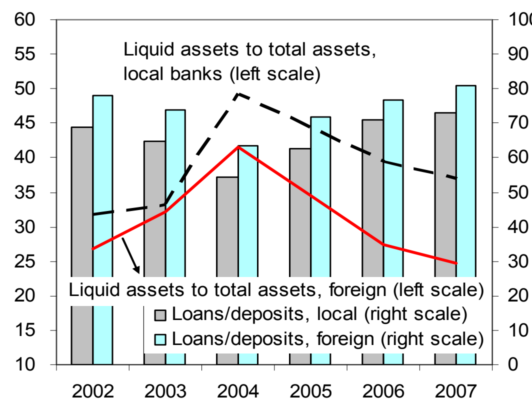
However, the declining trend in provisioning points to the need for vigilance in the banking sector.



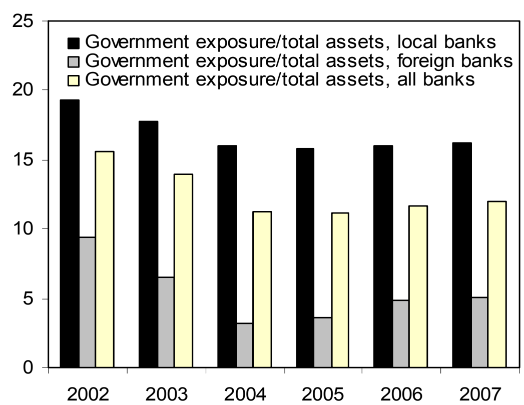
Return on average assets has declined.



Liquidity ratios have fallen as the ratio of loans to deposits has increased.

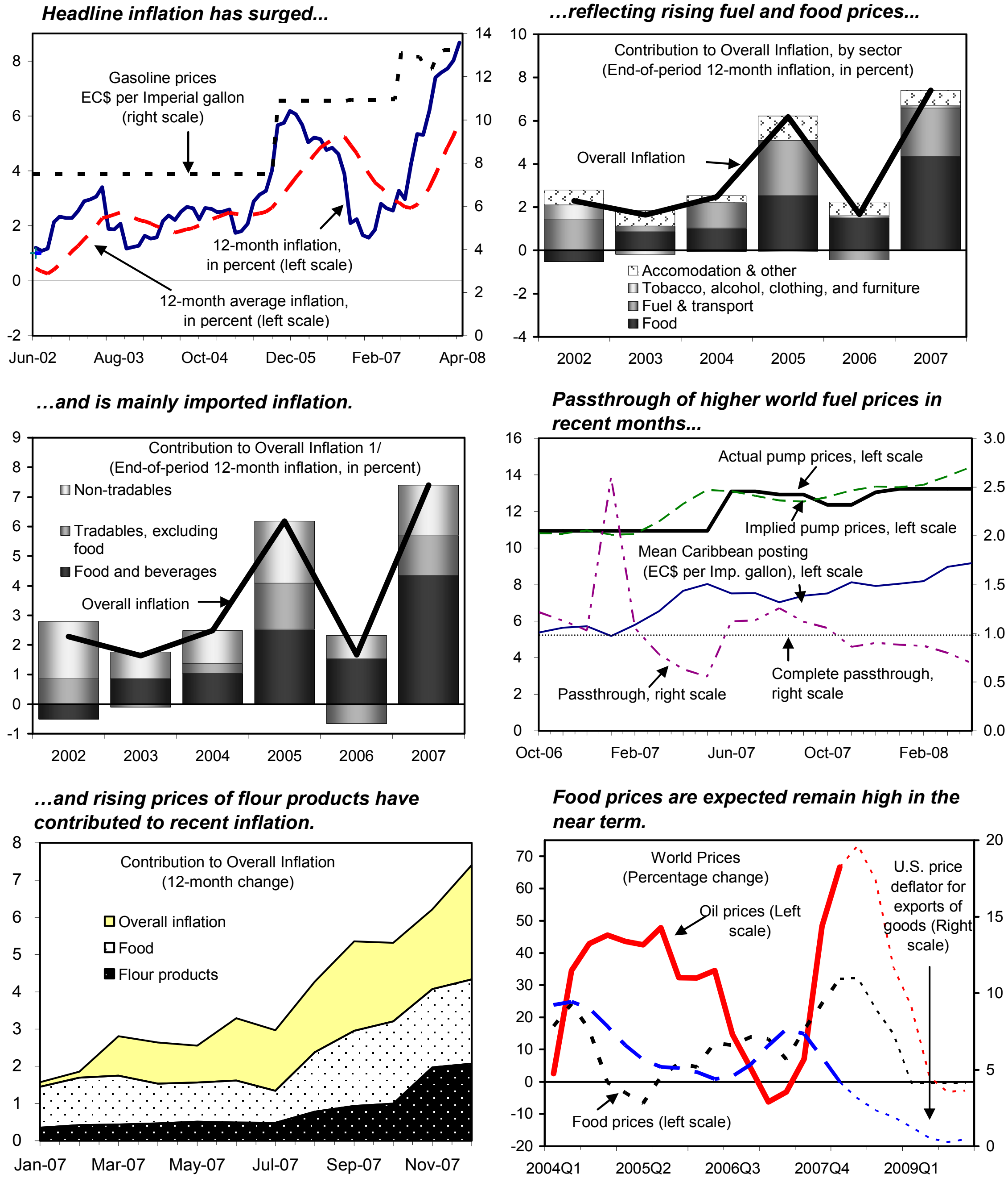


Government exposure of local banks remains high.



Sources: ECCB; and Fund staff calculations.
1/ Prudential indicators are reported by commercial banks, with infrequent onsite verification by the ECCB.
2/ ECCB data for 2007 as of September 2007.

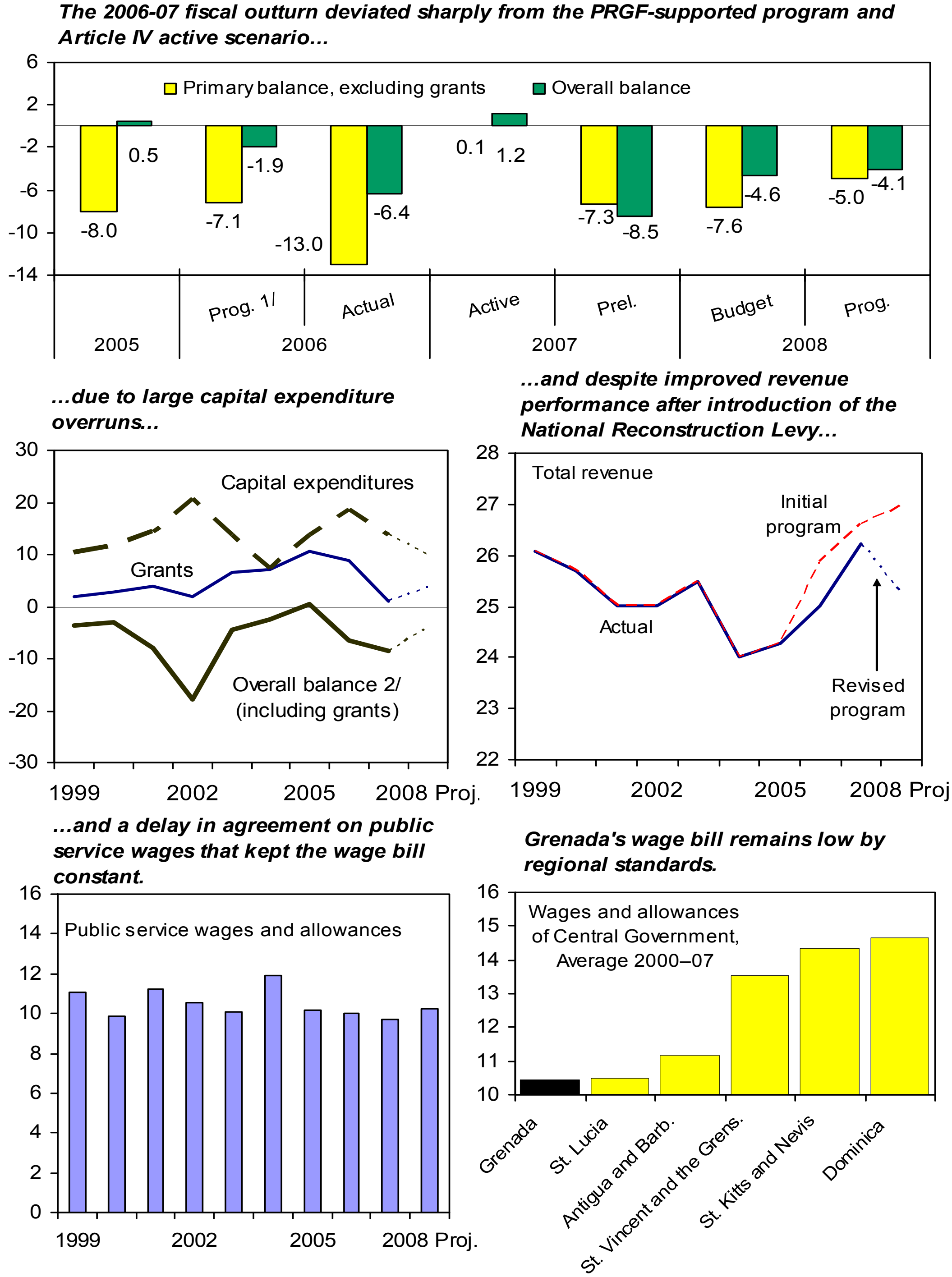
Figure 3. Grenada: Inflation Developments



Source: Grenada authorities; Bloomberg; ECCU; IMF, International Financial Statistics; IMF, World Economic Outlook; and Fund staff calculations.

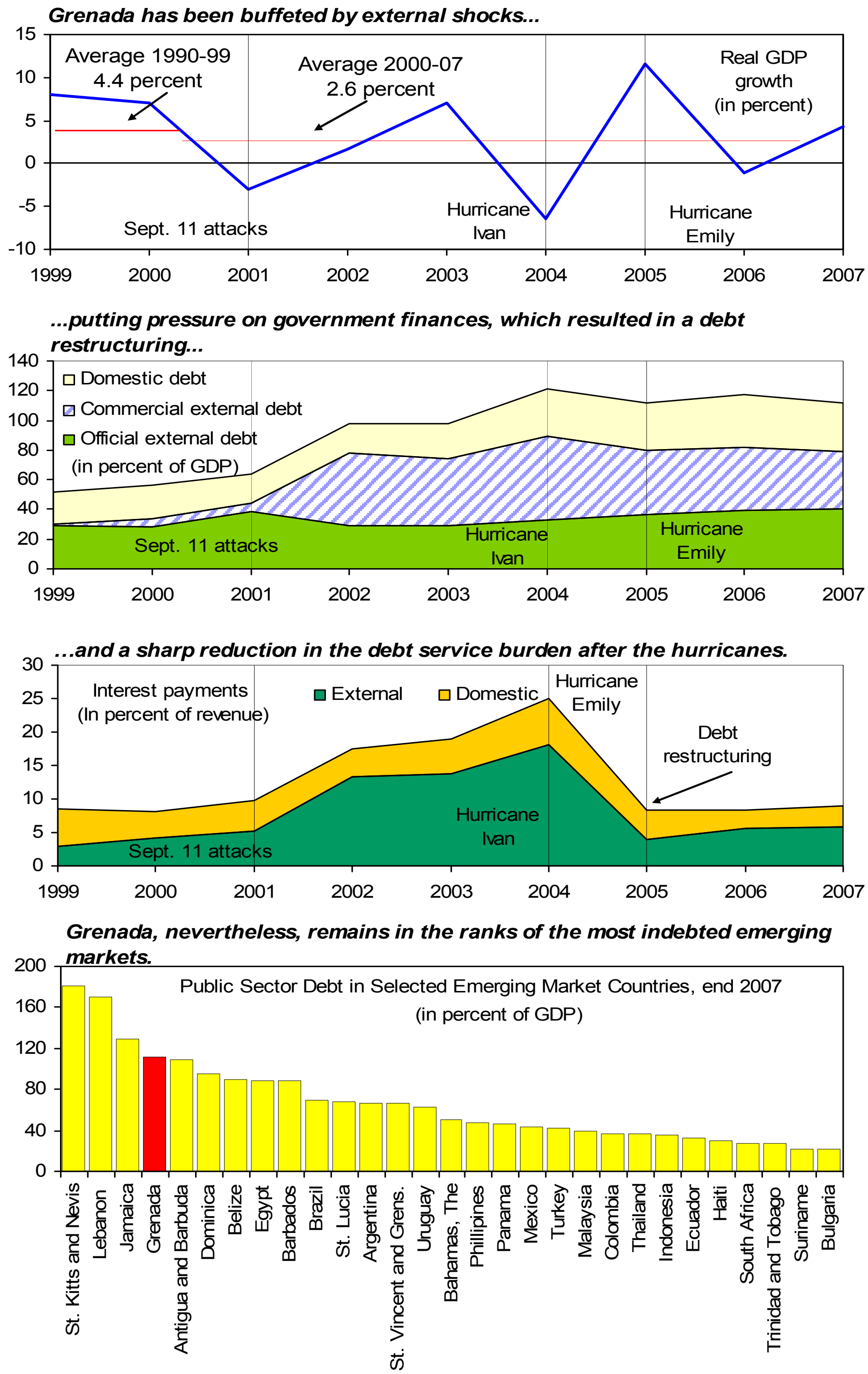
1/ Tradables comprise food, alcoholic drinks and tobacco, fuel and light, clothing and footwear, household and furniture equipment. Non-tradables include medical care and expenses, education, personal services, housing and utilities, and transportation and communication.

Figure 4. Grenada: Fiscal Sector Indicators
(In percent of GDP)



Sources: Grenada authorities; ECCU country authorities; and Fund staff estimates.
1/ Adjusted.
2/ Includes 11.4 percent of GDP paid in 2002 to extinguish lease arrangements.

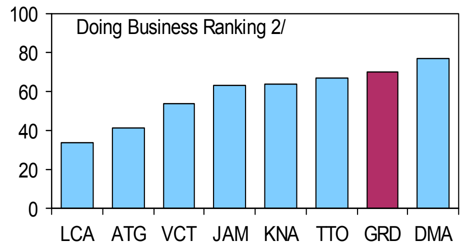
Figure 5. Grenada: Economic Developments



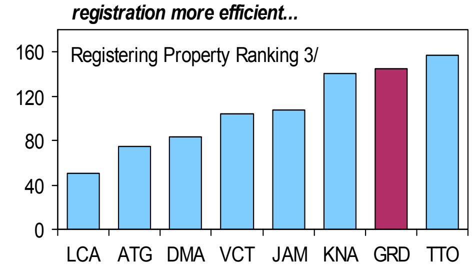
Sources: Grenada authorities; and Fund staff estimates.

Figure 6. Grenada: Doing Business Indicators, 2008 1/

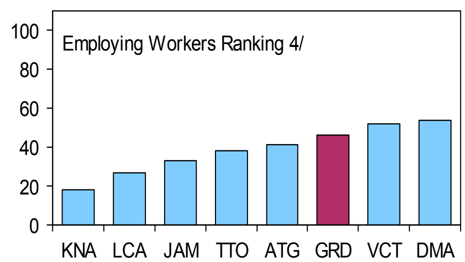
Doing business should be facilitated...



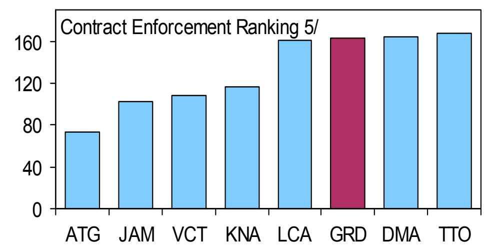
...by making the process of property registration more efficient...



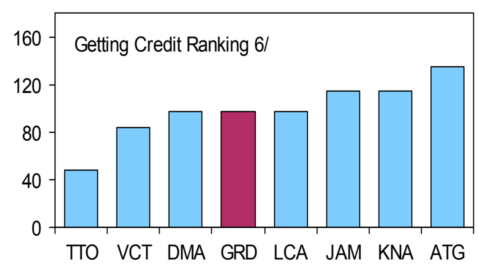
...increase labor flexibility...



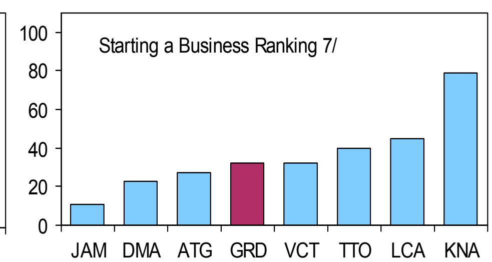
...facilitating commercial contract enforcement...



...enhancing the availability of credit information...



... and removing cumbersome procedures in starting a business.



Source: World Bank, *Doing Business Indicators* (2008).
Note: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), Jamaica (JMA), St. Kitts and Nevis (KNA), St. Lucia (LCA), Trinidad and Tobago (TTO) and St. Vincent and the Grenadines (VCT).

1/ Smaller numbers represent greater ease in doing business. The indicators are comparable across 178 countries.
2/ An overall indicator that captures the regulatory costs of doing business.
3/ Measures the steps, time, and cost involved in registering property.
4/ Measures the flexibility of working hours, restrictions on holiday work, firing costs; and the difficulty of hiring and firing workers.
5/ Measures the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment.
6/ Measures the effectiveness of collateral and bankruptcy laws in facilitating lending; the scope, access, and quality of credit information; and the coverage of public credit registries and private credit bureaus.
7/ Measures the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income.

Table 1. Grenada: Selected Economic and Financial Indicators, 2004–09

Rank in UNDP Human Development Index out of 177 countries (2007/08)	82		Infant mortality rate per '000 births (2005)	17
			Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2004)	73		Poverty headcount index (2000)	32
GDP per capita in US$ (2006)	5,428			

			2006		Est.	Proj.	
	2004	2005	Prog.	Prel.	2007	2008	2009
	(Annual percentage change; unless otherwise specified)						
National income and prices							
Real GDP	-6.4	11.5	6.5	-1.1	4.3	3.7	4.2
GDP deflator	4.5	4.6	4.6	3.1	3.5	6.0	4.7
Consumer prices							
End-of-year	2.5	6.2	2.0	1.7	7.4	6.2	3.9
Period average	2.3	3.5	4.6	4.2	3.9	7.8	4.5
External sector							
Exports of goods	-17.6	-12.4	0.6	-1.7	49.2	-18.4	2.6
Imports of goods	-0.1	32.1	-3.4	-0.7	3.9	11.8	7.8
Merchandise export volume 1/	-42.8	-21.4	-0.6	-14.7	41.2	-16.4	-0.6
Merchandise import volume 1/	-12.4	20.3	-5.0	-10.7	-6.4	0.9	8.3
Current account balance (including grants; in percent of GDP)	-9.7	-31.4	-32.8	-33.1	-32.6	-36.4	-35.1
Terms of trade (deterioration -)	-1.1	3.4	…	5.5	0.5	-5.8	2.9
Real effective exchange rate (end of period, depreciation -)	-3.6	5.6	...	-4.6	0.0	...	...
Banking system							
Net foreign assets 2/	24.9	-12.0	-2.2	-7.5	-1.1	-0.3	1.8
Net domestic assets 2/	-7.2	10.9	10.1	8.4	12.0	8.8	7.2
Of which							
Credit to public sector (net) 2/	-6.8	-0.9	0.0	0.2	1.6	1.3	-0.6
Credit to private sector 2/	5.1	6.2	8.5	9.2	12.5	7.4	7.8
Money and quasi-money (M2)	17.8	-1.0	7.8	0.9	11.0	8.5	9.1
Weighted average deposit rate (in percent)	2.8	2.8	...	3.0	3.0	...	...
Weighted average lending rate (in percent)	10.0	10.2	...	9.7	9.6	...	...
	(In percent of GDP)						
Central government finances 3/							
Total revenue and grants	30.8	34.8	33.3	33.7	27.3	28.9	28.2
Of which							
Grants	7.0	10.5	7.4	8.7	1.1	3.7	2.6
Total expenditure	33.4	34.3	35.2	40.1	35.8	32.9	28.9
Current expenditure	26.0	20.4	21.0	21.3	22.2	23.4	19.9
Of which							
Salaries and allowances	11.9	10.1	10.8	10.0	9.7	10.1	9.3
Capital expenditure	7.4	13.9	14.2	18.8	13.7	9.6	9.0
Bank restructuring	0.0	0.0	0.0	0.0	0.0	1.5	0.0
Primary balance (excluding grants)	-3.6	-8.0	-7.1	-13.0	-7.3	-5.0	-0.7
Primary balance (including grants)	3.4	2.5	0.3	-4.3	-6.2	-1.3	1.9
Current balance	-2.2	3.8	4.9	3.7	4.1	1.8	5.8
Overall balance (including grants)	-2.6	0.5	-1.9	-6.4	-8.5	-4.1	-0.6
Public and publicly guaranteed debt (end-period)	121.3	111.2	117.0	117.2	112.0	106.5	98.7
	(In millions of U.S. dollars)						
Nominal GDP	466.6	549.4	...	562.1	604.9	657.3	716.9

Sources: Ministry of Finance; Eastern Caribbean Central Bank; United Nations, Human Development Report 2007/08; World Bank, WDI 2007; and Fund staff estimates and projections.

1/ Does not include goods procured in ports by carriers.
2/ As a percent of broad money at the beginning of the year.
3/ Measured using above-the-line information.

Table 2a. Grenada: Medium-Term Central Government Finances, 2005–09

(In millions of Eastern Caribbean dollars, unless noted otherwise)

	2005	2006 Prog.	2006 Actual	2007 Budget	2007 Active (IMF Country Report No. 08/351)	2007 Prel.	2008 Budget	2008 Prog.	2009 Proj.
Total revenue and grants	**515.7**	**505.6**	**511.9**	**536.4**	**483.3**	**445.8**	**558.8**	**512.6**	**546.8**
Total revenue	360.1	392.8	379.7	441.2	427.7	428.5	461.1	447.6	496.9
Current revenue	359.8	392.3	379.6	441.1	427.6	428.4	461.0	447.5	496.8
Tax revenue	344.0	362.1	353.5	407.5	387.7	402.8	423.4	414.3	460.2
Taxes on income and profits	57.7	67.2	56.0	65.2	65.3	74.8	73.8	78.9	85.1
Taxes on property	15.4	17.1	22.6	32.1	31.0	29.0	27.7	28.0	30.8
Taxes on domestic goods and services 1/	60.0	69.0	69.0	115.3	69.9	71.3	95.6	78.7	118.9
Taxes on international transactions 1/	210.9	208.9	205.9	194.9	221.7	227.7	226.3	228.6	225.3
Nontax revenue	15.8	30.1	26.0	33.6	39.9	25.6	37.6	33.2	36.6
Capital revenue	0.3	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants 2/	155.6	112.8	132.2	95.2	55.6	17.3	97.7	65.0	50.0
Total expenditure	**508.9**	**534.2**	**608.9**	**576.2**	**464.4**	**585.2**	**644.6**	**584.7**	**559.3**
Current expenditure	303.0	318.1	323.1	350.7	335.2	362.1	402.8	414.7	385.1
Current primary expenditure	273.1	285.1	291.6	314.1	297.2	324.0	355.0	365.7	336.2
Salaries and allowances	150.3	164.1	152.5	167.2	164.9	158.4	188.9	179.6	179.6
Wages and salaries	134.7	145.2	135.3	147.3	147.2	140.7	167.5	160.2	161.1
Personnel allowances	15.6	18.9	17.1	19.9	17.7	17.7	21.4	19.4	18.5
Goods and services	68.2	58.4	71.1	69.5	66.7	84.6	77.5	75.5	70.0
Interest 3/	29.9	33.0	31.6	36.6	38.0	38.1	47.8	49.1	48.9
Domestic	15.8	9.3	9.9	12.2	11.7	13.0	18.4	19.6	18.3
Foreign	14.0	23.7	21.6	24.4	26.3	25.1	29.4	29.4	30.6
Transfers and subsidies	54.6	62.6	68.0	77.4	65.6	81.0	88.6	83.6	86.6
Bank restructuring 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.0	0.0
Capital expenditure	206.0	216.1	285.8	225.5	129.2	223.1	241.8	170.0	174.2
Current balance	56.8	74.2	56.5	90.4	92.4	66.3	62.5	32.8	111.7
Primary balance (excluding grants)	-119.0	-108.5	-197.6	-98.4	1.3	-118.6	-135.7	-88.1	-13.6
Primary balance (including grants)	36.6	4.4	-65.4	-3.2	56.9	-101.4	-38.0	-23.1	36.4
Overall balance (excluding grants)	-148.8	-141.5	-229.2	-135.0	-36.7	-156.7	-179.2	-137.1	-62.4
Overall balance (including grants)	6.7	-28.7	-97.0	-39.8	18.9	-139.4	-81.5	-72.1	-12.5
Statistical discrepancy	-42.5	0.0	-27.8	0.0	0.0	8.1	0.0	0.0	0.0
Financing	**35.8**	**28.7**	**124.7**	**30.7**	**-18.9**	**131.3**	**81.5**	**72.1**	**12.5**
Net external financing	69.4	61.1	54.5	-5.3	-36.1	40.2	-6.3	44.4	-26.6
Net amortization	25.7	61.1	54.8	-5.3	-38.1	40.5	-6.3	44.4	-26.6
Disbursements	40.0	83.2	73.8	26.0	46.9	62.7	26.7	70.9	46.7
Amortization	-14.3	-22.0	-19.0	-31.3	-84.9	-22.2	-33.0	-26.5	-73.3
Change in government assets	43.7	0.0	-0.3	0.0	0.0	-0.3	0.0	0.0	0.0
Net domestic financing	-32.2	-32.5	30.2	0.0	-59.2	69.7	30.0	-19.8	-32.0
ECCB (net)	-0.6	-31.5	-5.8	0.0	-15.0	12.6	0.0	0.0	0.0
Commercial banks (net) 5/	-31.6	0.0	33.5	0.0	-22.8	54.4	30.0	-8.8	-32.8
Domestic debt	0.0	-1.0	2.5	0.0	-21.4	2.7	0.0	-11.0	0.8
Divestment/privatization proceeds	0.0	0.0	8.8	35.9	107.3	36.0	57.2	57.0	73.5
Expenditure arrears 6/	-1.4	0.0	31.2	0.0	-30.8	-14.6	0.0	-9.4	-2.4
o/w: excluding arrears from debt exchange	-1.4	0.0	26.6	0.0	-26.2	-19.2	0.0	-14.0	-7.0
Memorandum items:									
Nominal GDP (market prices)	1,483	1,518	1,518	1,633	1,633	1,633	1,775	1,775	1,936
Stock of expenditure arrears 6/	20.6	…	51.8	…	…	37.2	…	27.8	25.4
o/w: excluding arrears from debt exchange	20.6	…	47.2	…	…	28.0	…	14.0	7.0

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

1/ The shift from taxes on international transactions to taxes on domestic goods and services reflects the assumed introduction of VAT in late 2009.
2/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
3/ The 2008 budget figures are adjusted to include interest arrears to nonparticipating creditors in the debt exchange.
4/ Preliminary estimate.
5/ Excludes commercial bank holdings of government paper, which are shown in the following line.
6/ After 2005, includes EC$4.6 million arrears each year on interest to nonparticipating creditors in the debt exchange.

Table 2b. Grenada: Medium-Term Central Government Finances, 2005–09

(In percent of GDP, unless noted otherwise)

		2006		2007			2008		2009
	2005	Prog.	Actual	Budget	Active (IMF Country Report No. 08/351)	Prel.	Budget	Prog.	Proj.
Total revenue and grants	**34.8**	**33.3**	**33.7**	**32.8**	**29.6**	**27.3**	**31.5**	**28.9**	**28.2**
Total revenue	24.3	25.9	25.0	27.0	26.2	26.2	26.0	25.2	25.7
Current revenue	24.3	25.8	25.0	27.0	26.2	26.2	26.0	25.2	25.7
Tax revenue	23.2	23.9	23.3	25.0	23.7	24.7	23.9	23.3	23.8
Taxes on income and profits	3.9	4.4	3.7	4.0	4.0	4.6	4.2	4.4	4.4
Taxes on property	1.0	1.1	1.5	2.0	1.9	1.8	1.6	1.6	1.6
Taxes on domestic goods and services 1/	4.0	4.5	4.5	7.1	4.3	4.4	5.4	4.4	6.1
Taxes on international transactions 1/	14.2	13.8	13.6	11.9	13.6	13.9	12.8	12.9	11.6
Nontax revenue	1.1	2.0	1.7	2.1	2.4	1.6	2.1	1.9	1.9
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 2/	10.5	7.4	8.7	5.8	3.4	1.1	5.5	3.7	2.6
Total expenditure	**34.3**	**35.2**	**40.1**	**35.3**	**28.4**	**35.8**	**36.3**	**32.9**	**28.9**
Current expenditure	20.4	21.0	21.3	21.5	20.5	22.2	22.7	23.4	19.9
Current primary expenditure	18.4	18.8	19.2	19.2	18.2	19.8	20.0	20.6	17.4
Salaries and allowances	10.1	10.8	10.0	10.2	10.1	9.7	10.6	10.1	9.3
Wages and salaries	9.1	9.6	8.9	9.0	9.0	8.6	9.4	9.0	8.3
Personnel allowances	1.1	1.2	1.1	1.2	1.1	1.1	1.2	1.1	1.0
Goods and services	4.6	3.9	4.7	4.3	4.1	5.2	4.4	4.3	3.6
Interest 3/	2.0	2.2	2.1	2.2	2.3	2.3	2.7	2.8	2.5
Domestic	1.1	0.6	0.7	0.7	0.7	0.8	1.0	1.1	0.9
Foreign	0.9	1.6	1.4	1.5	1.6	1.5	1.7	1.7	1.6
Transfers and subsidies	3.7	4.1	4.5	4.7	4.0	5.0	5.0	4.7	4.5
Bank restructuring 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0
Capital expenditure	13.9	14.2	18.8	13.8	7.9	13.7	13.6	9.6	9.0
Current balance	3.8	4.9	3.7	5.5	5.7	4.1	3.5	1.8	5.8
Primary balance (excluding grants)	-8.0	-7.1	-13.0	-6.0	0.1	-7.3	-7.6	-5.0	-0.7
Primary balance (including grants)	2.5	0.3	-4.3	-0.2	3.5	-6.2	-2.1	-1.3	1.9
Overall balance (excluding grants)	-10.0	-9.3	-15.1	-8.3	-2.2	-9.6	-10.1	-7.7	-3.2
Overall balance (including grants)	0.5	-1.9	-6.4	-2.4	1.2	-8.5	-4.6	-4.1	-0.6
Statistical discrepancy	-2.9	0.0	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0
Financing	**2.4**	**1.9**	**8.2**	**1.9**	**-1.2**	**8.0**	**4.6**	**4.1**	**0.6**
Net external financing	4.7	4.0	3.6	-0.3	-2.2	2.5	-0.4	2.5	-1.4
Net amortization	1.7	4.0	3.6	-0.3	-2.3	2.5	-0.4	2.5	-1.4
Disbursements	2.7	5.5	4.9	1.6	2.9	3.8	1.5	4.0	2.4
Amortization	-1.0	-1.5	-1.3	-1.9	-5.2	-1.4	-1.9	-1.5	-3.8
Change in government assets	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	-2.2	-2.1	2.0	0.0	-3.6	4.3	1.7	-1.1	-1.7
ECCB (net)	0.0	-2.1	-0.4	0.0	-0.9	0.8	0.0	0.0	0.0
Commercial banks (net) 5/	-2.1	0.0	2.2	0.0	-1.4	3.3	1.7	-0.5	-1.7
Domestic debt	0.0	-0.1	0.2	0.0	-1.3	0.2	0.0	-0.6	0.0
Divestment/privatization proceeds	0.0	0.0	0.6	2.2	6.6	2.2	3.2	3.2	3.8
Expenditure arrears 6/	-0.1	0.0	2.1	0.0	-1.9	-0.9	0.0	-0.5	-0.1
o/w: excluding arrears from debt exchange	-0.1	0.0	1.8	0.0	-1.6	-1.2	0.0	-0.8	-0.4
Memorandum items:									
Nominal GDP (market prices, EC$ millions)	1,483	1,518	1,518	1,633	1,633	1,633	1,775	1,775	1,936
Stock of expenditure arrears 6/	1.4	…	3.4	…	…	2.3	…	1.6	1.3
o/w: excluding arrears from debt exchange	1.4	…	3.1	…	…	1.7	…	0.8	0.4

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

1/ The shift from taxes on international transactions to taxes on domestic goods and services reflects the assumed introduction of VAT in late 2009.
2/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
3/ The 2008 budget figures are adjusted to include interest arrears to nonparticipating creditors in the debt exchange.
4/ Preliminary estimate.
5/ Excludes commercial bank holdings of government paper, which are shown in the following line.
6/ After 2005, includes EC$4.6 million arrears each year on interest to nonparticipating creditors in the debt exchange.

Table 3. Grenada: Summary Accounts of the Banking System, 2004–09

	2004	2005	2006	Prel. 2007	Projections 2008	2009
(In millions of Eastern Caribbean dollars, end of period)						
I. Consolidated Banking System						
Net foreign assets	**709.0**	**531.6**	**421.5**	**405.6**	**400.6**	**433.5**
Net domestic assets	**775.1**	**937.4**	**1,060.9**	**1,239.1**	**1,383.3**	**1,512.4**
Net credit to the public sector	-18.6	-32.0	-29.0	-5.5	16.6	6.7
Central government	71.6	15.1	44.3	111.3	103.4	68.5
Nonfinancial public enterprises 1/	-185.0	-108.7	-173.1	-116.8	-86.8	-61.8
Credit to private sector	996.7	1,088.3	1,223.9	1,409.2	1,531.3	1,670.3
Other	-203.0	-118.9	-134.0	-164.6	-164.6	-164.6
Liabilities to private sector (M2)	**1,484.1**	**1,469.0**	**1,482.4**	**1,644.7**	**1,783.9**	**1,945.9**
Money	340.5	315.3	309.5	355.8	386.6	421.7
Quasi-money	1,143.7	1,153.7	1,172.9	1,288.9	1,397.3	1,524.2
II. Eastern Caribbean Central Bank						
Imputed net international reserves	**328.6**	**254.4**	**269.4**	**298.2**	**306.7**	**340.8**
Net domestic assets	**-1.1**	**-1.7**	**-7.6**	**5.0**	**51.7**	**59.4**
Base money	**327.6**	**252.7**	**261.9**	**303.2**	**358.4**	**400.2**
Currency held by the public	102.1	105.3	104.5	107.8	117.1	127.7
Commercial bank reserves	225.5	147.5	157.4	195.5	241.3	272.5
III. Commercial Banks						
Net foreign assets	**380.4**	**277.2**	**152.0**	**107.4**	**93.9**	**92.6**
Net claims on ECCB	**223.3**	**134.2**	**152.3**	**175.0**	**174.2**	**197.6**
Net domestic credit	**777.6**	**952.4**	**1,073.6**	**1,254.5**	**1,398.7**	**1,527.8**
Net credit to the public sector	-18.1	-30.3	-21.4	-10.5	11.6	1.7
Credit to private sector	996.7	1,088.3	1,223.9	1,409.2	1,531.3	1,670.3
Other Items (net)	-214.6	-119.7	-128.9	-144.2	-144.2	-144.2
Liabilities to the private sector	**1,381.3**	**1,363.8**	**1,377.9**	**1,536.9**	**1,666.8**	**1,818.1**
(12-month change in percent of M2 at the beginning of the period)						
Consolidated banking system						
Liabilities to private sector	17.8	-1.0	0.9	11.0	8.5	9.1
Net foreign assets	24.9	-12.0	-7.5	-1.1	-0.3	1.8
Net domestic assets	-7.2	10.9	8.4	12.0	8.8	7.2
Credit to private sector	5.1	6.2	9.2	12.5	7.4	7.8
Loans/deposits ratio (in percent)	57.6	66.0	73.2	75.9	...	...

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

1/ Includes the National Insurance Scheme.

Table 4. Grenada: Summary Balance of Payments, 2004–13

				Prov.	Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	(In millions of U.S. dollars)									
Current account balance	**-45.3**	**-172.3**	**-185.9**	**-197.0**	**-239.4**	**-251.7**	**-251.2**	**-239.7**	**-236.7**	**-231.2**
Exports (f.o.b.) 1/	37.5	32.9	32.3	48.2	39.3	40.4	42.8	46.9	51.4	56.5
Imports (f.o.b.)	-226.2	-298.7	-296.6	-308.3	-344.8	-371.6	-377.6	-388.9	-407.2	-425.8
Services (net)	65.5	20.6	31.4	52.5	57.2	79.7	92.4	110.7	130.2	147.0
Of which:										
Travel (net)	75.3	69.1	88.5	121.9	127.2	149.8	165.2	183.0	201.9	221.9
Income (net)	-54.1	-30.7	-31.2	-33.4	-37.2	-41.2	-47.8	-48.3	-52.0	-50.7
Transfers (net) 2/	132.0	103.6	78.3	43.9	46.1	41.0	38.9	39.9	40.8	41.8
Capital and financial account	**71.2**	**179.2**	**193.8**	**189.5**	**234.9**	**261.0**	**225.8**	**234.3**	**241.3**	**224.1**
Capital account (transfers) 2/	22.0	22.7	23.5	24.2	19.8	20.6	20.6	21.5	22.5	23.6
Financial account	49.1	156.5	170.4	165.3	215.1	240.4	205.2	212.8	218.8	200.5
Of which:										
Public sector borrowing	68.3	18.5	28.4	24.7	46.4	39.1	34.4	36.7	38.7	18.8
Of which:										
Public sector amortization	-17.0	-9.0	-10.7	-11.9	-13.5	-30.8	-21.0	-23.6	-25.9	-28.8
Direct investment (net)	65.0	70.2	85.2	137.0	157.4	208.5	167.3	175.1	182.8	189.8
Portfolio investment (net)	30.0	17.8	-0.7	0.6	9.3	9.8	10.4	11.0	11.7	12.4
Other investments (net)	-44.8	59.0	68.2	14.9	15.5	13.9	14.1	13.6	11.5	8.3
Net errors and omissions	24.5	-50.5	-15.9	19.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**50.4**	**-43.7**	**-8.0**	**11.8**	**-4.5**	**9.2**	**-25.4**	**-5.4**	**4.7**	**-7.1**
Available financing	**-50.4**	**43.7**	**8.0**	**-11.8**	**4.5**	**-9.2**	**25.4**	**5.4**	**-4.7**	**7.1**
Change in imputed reserves	-38.5	27.5	-5.6	-10.7	-3.1	-12.6	22.5	5.6	-4.2	7.5
IMF purchases and disbursements	4.3	0.0	2.3	0.0	8.1	5.1	2.5	0.0	0.0	0.0
IMF repurchases and repayments	0.0	0.0	-1.6	-2.2	-1.7	-2.2	0.0	-0.2	-0.5	-0.5
Exceptional financing 3/	0.0	0.0	13.0	1.2	1.1	0.5	0.4	0.0	0.0	0.0
Other	-16.2	16.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
External public sector debt	415.6	437.0	457.2	478.8	511.8	520.1	533.5	546.6	559.4	549.4
	(In percent of GDP)									
Current account balance	**-9.7**	**-31.4**	**-33.1**	**-32.6**	**-36.4**	**-35.1**	**-32.5**	**-28.9**	**-26.7**	**-24.4**
Trade balance	-40.4	-48.4	-47.0	-43.0	-46.5	-46.2	-43.4	-41.2	-40.1	-39.0
Exports of goods	8.0	6.0	5.7	8.0	6.0	5.6	5.6	5.7	5.8	6.0
Imports of goods	-48.5	-54.4	-52.8	-51.0	-52.5	-51.8	-48.9	-46.9	-45.8	-45.0
Service, income, and transfers	30.7	17.0	14.0	10.4	10.0	11.1	10.8	12.3	13.4	14.6
Of which										
Travel (net)	16.1	12.6	15.7	20.2	19.4	20.9	21.4	22.1	22.7	23.4
Capital and financial account	**15.3**	**32.6**	**34.5**	**31.3**	**35.7**	**36.4**	**29.3**	**28.2**	**27.2**	**23.7**
Public sector net borrowing	-0.2	1.7	3.1	2.1	5.0	1.2	1.7	1.6	1.4	-1.1
Direct investment	13.9	12.8	15.2	22.7	24.0	29.1	21.7	21.1	20.6	20.1
Overall balance	10.8	-8.0	-1.4	2.0	-0.7	1.3	-3.3	-0.6	0.5	-0.7
External public and publicly guaranteed debt	89.1	79.5	81.3	79.2	77.9	72.5	69.1	65.9	63.0	58.0
	(Annual percentage change)									
Exports of goods	-17.6	-12.4	-1.7	49.2	-18.4	2.6	6.2	9.5	9.6	9.8
Imports of goods	-0.1	32.1	-0.7	3.9	11.8	7.8	1.6	3.0	4.7	4.6
Travel (net)	-20.5	-8.3	28.1	37.7	4.4	17.7	10.3	10.8	10.4	9.9

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

1/ Re-exports increased sharply in 2007 due to the Cricket World Cup.
2/ Reflects the reclassification of budget grants from capital account transfers to current account transfers.
3/ Includes amounts rescheduled under the May 2006 Paris Club agreement.

Table 5. Grenada: Public Sector Debt, 2007

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

	Stock	Percent of Total Debt	Percent of GDP
Public sector debt 1/	677.6	100.0	112.0
Central government debt	603.2	89.0	99.7
Central-government guaranteed debt	53.9	8.0	8.9
Other public sector debt	20.5	3.0	3.4
External debt	478.8	70.7	79.2
A. Central government	437.1	64.5	72.3
1. Multilateral	154.8	22.9	25.6
CDB	95.0	14.0	15.7
IDA	35.0	5.2	5.8
IBRD	12.0	1.8	2.0
IMF	7.6	1.1	1.3
Other multilateral	5.2	0.8	0.9
2. Official bilateral	82.9	12.2	13.7
Paris Club	19.3	2.8	3.2
Belgium	7.3	1.1	1.2
France	4.3	0.6	0.7
Russian Federation	0.2	0.0	0.0
United Kingdom	4.6	0.7	0.8
United States	2.9	0.4	0.5
Non-Paris Club	63.6	9.4	10.5
Kuwait	17.8	2.6	2.9
Taiwan Province of China	20.3	3.0	3.3
Trinidad and Tobago	17.0	2.5	2.8
Venezuela	2.9	0.4	0.5
Other bilateral	5.6	0.8	0.9
3. Commercial, total	199.4	29.4	33.0
Restructured bonds	193.5	28.6	32.0
Unrestructured bonds	5.8	0.9	1.0
B. Central government guaranteed	21.3	3.1	3.5
Of which:			
Paris Club	7.8	1.1	1.3
C. Other public sector	20.5	3.0	3.4
Domestic debt	198.7	29.3	32.9
A. Central government	166.1	24.5	27.5
Restructured Bonds	68.1	10.1	11.3
Unrestructured bonds	8.5	1.3	1.4
Treasury bills	28.9	4.3	4.8
Commercial bank loans	22.4	3.3	3.7
Overdraft	9.0	1.3	1.5
Domestic arrears	13.8	2.0	2.3
Compensation claims	14.8	2.2	2.4
Other	0.6	0.1	0.1
B. Central-government guaranteed	32.6	4.8	5.4
Memorandum item:			
Nominal GDP	604.9		

Sources: Grenada authorities; and Fund staff estimates.

1/ Includes central government liabilities to the National Insurance Scheme.

Table 6. Grenada: Vulnerability Indicators, 2004–07

	2004	2005	2006	Est. 2007
Real sector indicators				
Real GDP growth (percent)	-6.4	11.5	-1.1	4.3
CPI inflation (period average, in percent)	2.3	3.5	4.2	3.9
Financial sector indicators				
Total capital asset ratio of banks (locally incorporated)	14.9	15.3	17.5	15.6
of which: Tier 1 capital	10.5	12.7	13.2	13.3
Liquid assets/total assets	44.3	37.3	31.5	29.2
Liquid assets/current liabilities	48.2	40.0	34.6	32.3
Total loans/total deposits	57.6	66.0	73.2	75.9
Net liquid assets/total deposits	44.2	35.4	28.6	26.4
Nonperforming loans/total loans	6.0	5.5	3.7	3.5
Locally incorporated banks	7.1	6.8	4.7	3.4
Foreign banks	4.4	3.5	2.4	3.5
Provisions for loan losses /nonperforming assets	81.9	79.4	67.4	56.7
Locally incorporated banks	63.0	60.7	51.5	46.4
Foreign banks	127.8	134.6	114.6	71.2
Gross government claims/total assets	11.3	11.2	11.6	11.9
FX deposits/total deposits	5.6	7.8	5.8	7.7
Net foreign currency exposure/capital (locally incorporated banks)	221.4	138.4	101.4	65.8
Contingent liabilities/capital (locally incorporated banks)	67.7	78.7	72.2	85.8
Ratio of bank's before-tax profits to average assets (percent)	0.5	0.7	2.5	2.1
Broad money (percent change, 12-month basis)	17.8	-1.0	0.9	11.0
Private sector credit (percent change, 12-month basis)	6.8	9.2	12.5	15.1
U.S. treasury bill rate (percent per annum)	1.4	3.2	3.2	3.2
Treasury bill rate (percent per annum) 1/	6.0	6.0	6.5	6.5
External sector indicators				
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7
REER appreciation (percent change on 12-month basis, end of period)	-3.6	5.6	-4.6	0.0
Exports of goods (percent change, 12-month basis)	-17.6	-12.4	-1.7	49.2
Imports of goods (percent change, 12-month basis)	-0.1	32.1	-0.7	3.9
Travel receipts (gross, percent change, 12-month basis)	-18.7	-5.6	31.5	27.2
Current account balance (percent of GDP)	-9.7	-31.4	-33.1	-32.6
Capital and financial account balance (percent of GDP)	15.3	32.6	34.5	31.3
FDI inflows (percent of GDP)	13.9	12.8	15.2	22.7
Gross international reserves of the ECCB (in US$ millions)	632.4	600.8	696.0	764.5
Gross international reserves in months of current year imports in ECCU countries	4.8	3.9	3.8	3.7
Gross international reserves to broad money in ECCU countries (percent)	20.4	20.4	18.6	18.6
Public gross external debt (in US$ million)	415.6	437.0	457.2	478.8
Public gross external debt to exports of goods and services (percent)	45.7	53.4	50.1	37.9
Public gross external interest payments to exports of goods and services (percent)	13.9	6.5	7.5	6.3
Public gross external amortization payments to exports of goods and services (percent)	8.7	6.0	6.6	5.7
Public gross external interest payments to fiscal revenue (percent)	18.7	5.0	6.4	8.0
Public gross external amortization payments to fiscal revenue (percent)	11.7	4.7	5.7	7.2
Gross external financing requirement (in percent of GDP)	13.3	33.0	35.0	34.5
		(In percent of GDP)		
Public sector indicators				
Central government overall balance (after grants)	-2.6	0.5	-6.4	-8.5
Public and publicly-guaranteed gross external debt	89.1	79.5	81.3	79.2

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

1/ Rate on one-year treasury bills.

Table 7. Grenada: Millennium Development Goals, 1990–2005

	1990	1994	1997	2000	2005	
Goal 1. Eradicate extreme poverty and hunger						
Population below $1 a day (percent)	...	...	...	...	...	
Poverty gap at $1 a day (percent)	...	...	...	...	...	
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...	
Prevalence of child malnutrition (percent of children under 5)	...	...	...	...	...	
Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...	
Goal 2. Achieve universal primary education						
Net primary enrollment ratio (percent of relevant age group)	...	...	...	85.8	83.9	1/
Primary completion rate, total (percent of relevant age group)	...	...	...	73.7	93.0	2/
Percentage of cohort reaching grade 5 (percent)	...	...	...	79.0	...	3/
Youth literacy rate (percent ages 15–24)	...	...	...	...	...	
Goal 3. Promote gender equality						
Ratio of girls to boys in primary and secondary education (percent)	...	...	...	97.0	102.0	
Ratio of young literate females to males (percent ages 15–24)	...	...	...	...	...	
Share of women employed in the nonagricultural sector (percent)	38.2	38.5	40.3	41.3	42.7	
Proportion of seats held by women in national parliament (percent)	...	...	20.0	26.7	26.7	
Goal 4. Reduce child mortality						
Immunization, measles (percent of children under 12 months)	85.0	87.0	92.0	92.0	99.0	1/
Infant mortality rate (per 1,000 live births)	30.0	26.0	...	21.0	17.0	1/
Under 5 mortality rate (per 1,000)	37.0	33.0	...	26.0	21.0	1/
Goal 5. Improve maternal health						
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	...	...	
Births attended by skilled health staff (percent of total)	...	...	...	100.0	100.0	
Goal 6. Combat HIV/AIDS, malaria and other diseases						
Prevalence of HIV, total (percent ages 15–49)	...	...	...	...	...	
Contraceptive prevalence rate (percent of women ages 15–49)	...	...	...	...	...	
Number of children orphaned by HIV/AIDS	...	...	...	...	...	
Goal 7. Ensure environmental sustainability						
Forest area (percent of total land area)	12.0	...	...	12.0	12.0	
Nationally protected areas (percent of total land area)	...	...	...	...	...	
GDP per unit of energy use (PPP $ per kg oil equivalent)	...	...	...	...	...	
CO2 emissions (metric tons per capita)	1.2	1.7	2.1	2.0	2.2	3/
Access to an improved water source (percent of population)	97.0	...	...	...	95.0	1/
Access to improved sanitation (percent of population)	97.0	...	...	...	96.0	1/
Access to secure tenure (percent of population)	...	...	...	...	...	
Goal 8. Develop a global partnership for development						
Youth unemployment rate (percent of total labor force ages 15–24)	27.0	45.0	31.5	31.5	...	
Fixed line and mobile telephones (per 1,000 people) 3/	178.3	242.3	301.1	352.0	719.0	1/
Internet users (per 1,000 people)	0.0	0.0	10.0	41.0	182.0	3/
Personal computers (per 1,000 people)	...	...	...	127.1	155	1/

Source: World Development Indicators database.

1/ Data as of 2004.

2/ Data as of 2003.

3/ Data as of 2002.

Table 8. Grenada: Proposed Reviews and Disbursements Under the PRGF Arrangement, 2006–10

Date	Conditions	Disbursement	Percent of Quota	Disbursement date
April 2006	Board approval of PRGF arrangement	SDR 1.56 million	13.33	April 28, 2006
June 2008	Observance of end-June 2006 performance criteria, completion of first review and adopt conditions for second year of the arrangement	SDR 2.98 million 1/	25.48	July 8, 2008 2/
October 2008	Observance of end-June 2008 performance criteria and completion of second review	SDR 2.41 million 1/	20.61	October 15, 2008 2/
April 2009	Observance of end-December 2008 performance criteria, completion of third review, and adopt conditions for third year of the arrangement	SDR 1.68 million	14.36	April 15, 2009 2/
October 2009	Observance of end-June 2009 performance criteria and completion of fourth review	SDR 1.68 million	14.36	October 15, 2009 2/
April 2010	Observance of end-December 2009 performance criteria and completion of fifth review	SDR 1.68 million	14.36	April 15, 2010 2/
Total		**SDR 11.99 million**	102.50	

Source: Fund staff.

1/ Assumes frontloading, as well as augmentation of access of 12.5 percent of quota (SDR 1.46 million), phased equally over the two disbursements expected in 2008.
2/ Expected date of disbursement.

Table 9. Grenada: Indicators of Capacity to Repay the Fund, 2006–15 1/

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections							
Fund obligations based on existing credit										
(in millions of SDRs)										
Principal	1.1	1.5	1.1	1.5	0.0	0.2	0.3	0.3	0.3	0.3
Charges and interest	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit										
(in millions of SDRs)										
Principal	1.1	1.5	1.1	1.5	0.0	0.2	0.3	0.6	1.6	2.2
Charges and interest	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit										
In millions of SDRs	1.4	1.7	1.2	1.6	0.1	0.2	0.4	0.7	1.6	2.3
In millions of US$	2.0	2.7	1.9	2.5	0.1	0.4	0.6	1.1	2.6	3.6
In percent of exports of goods and services	1.2	1.3	0.9	1.1	0.1	0.1	0.2	0.3	0.7	1.0
In percent of debt service 2/	8.7	10.6	6.2	4.7	0.5	1.5	2.0	2.5	5.2	6.5
In percent of GDP	0.4	0.4	0.3	0.3	0.0	0.0	0.1	0.1	0.3	0.3
In percent of Imputed Net International Reserves	2.0	2.4	1.7	2.0	0.1	0.4	0.6	1.2	2.7	3.7
In percent of quota	11.6	14.9	10.3	13.3	0.7	2.1	3.3	5.9	13.9	19.6
Outstanding Fund credit										
In millions of SDRs	6.3	4.9	8.4	10.3	12.0	11.8	11.5	10.9	9.4	7.1
In millions of US$	9.5	7.7	13.3	16.3	18.9	18.7	18.2	17.2	14.8	11.3
In percent of exports of goods and services	5.9	3.7	6.4	7.1	7.5	6.8	6.1	5.3	4.3	3.0
In percent of debt service 2/	41.5	30.4	43.0	31.3	78.0	72.0	58.6	38.8	29.7	20.2
In percent of GDP	1.7	1.3	2.0	2.3	2.5	2.3	2.0	1.8	1.5	1.1
In percent of Imputed Net International Reserves	9.5	6.9	11.7	12.9	18.3	19.1	17.8	18.2	15.3	11.5
In percent of quota	54.0	41.5	71.9	88.1	102.5	101.1	98.5	93.2	79.9	60.9
Net use of Fund credit (millions of SDRs)	0.5	-1.5	4.3	1.9	1.7	-0.2	-0.3	-0.6	-1.6	-2.2
Disbursements	1.6	0.0	5.4	3.4	1.7	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.1	1.5	1.1	1.5	0.0	0.2	0.3	0.6	1.6	2.2
Memorandum items:										
Exports of goods and services (in millions of US$)	162.3	209.0	208.2	230.6	251.1	274.4	299.4	326.4	347.6	369.8
Debt service (in millions of US$) 2/	22.9	25.2	30.9	52.1	24.3	26.0	31.1	44.5	49.8	55.6
Nominal GDP (in millions of US$)	562.1	604.9	657.3	716.9	771.8	829.7	888.0	946.7	1,004.2	1,065.3
Imputed Net International Reserves (in millions of US$)	99.8	110.4	113.6	126.2	103.8	98.1	102.3	94.8	96.9	98.0
Quota (millions of SDRs)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: IMF staff estimates and projections.

1/ Assumes prospective PRGF disbursements of SDR 5.39 million in 2008, SDR 3.36 million in 2009, and SDR 1.68 million in 2010.

2/ Total debt service includes IMF repurchases and repayments.

ANNEX I—SUMMARY OF APPENDICES

Fund Relations

Grenada's outstanding purchases as of end-May 2008 amounted to SDR 3.75 million (32.08 percent of quota). Grenada is a member of the Eastern Caribbean Central Bank (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. The last Article IV consultation was concluded by the Executive Board on September 26, 2007 (IMF Country Report No. 08/351). The next Article IV consultation is expected to take place in August 2009. CARTAC, MCM, and FAD have provided extensive technical assistance. An updated safeguards assessment of the ECCB was undertaken in July 2007 and has not noted any new significant vulnerabilities.

Relations with the World Bank Group[8]

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. There are eight active World Bank projects in Grenada for a net commitment of approximately US$46.61 million: OECS E-government for Regional Integration Program, Grenada Technical Assistance Project, Telecommunications and ICT Development, Public Sector Modernization, Education Reform Project, HIV/AIDS Prevention and Control, the Hurricane Ivan Emergency Project, and the Caribbean Catastrophe Risk Insurance Facility.

Relations with the Caribbean Development Bank[9]

Grenada continued to receive special financing from the Caribbean Development Bank (CDB) for projects intended to facilitate the recovery and reconstruction process; to build capacity; and to assist with poverty reduction. The financing apportioned to Grenada incorporates a blend of the Bank's Special Development Funds (SDF) and ordinary capital resources, designed to yield a concessionary grant element of 35 percent. The main activities include the school rehabilitation and reconstruction project, Project Management Training, and a Country Poverty Assessment.

Statistical Issues

Grenada participates in the Fund's General Data Dissemination System (GDDS). Although data provision is sufficient for program monitoring, significant improvement is needed to facilitate effective surveillance by addressing weakness in coverage, timeliness and frequency of data.

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[8] Adapted from text prepared by World Bank staff in April 2008.

[9] Adapted from text prepared by the Caribbean Development Bank staff in May 2008.

ATTACHMENT I. LETTER OF INTENT

St. George's, Grenada
June 20, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

Since the approval of the PRGF arrangement in April 2006, the economy has continued its recovery from the devastating effects of Hurricanes Ivan and Emily. Our medium-term prospects appear bright, with a number of major tourism projects underway and others in the pipeline. These achievements have been possible thanks to the sacrifice and efforts of the people of Grenada, and with strong support from donors and creditors.

Our Letter of Intent and the Memorandum of Economic Policies (MEP) of March 21, 2006, requesting an arrangement under the Fund's Poverty Reduction and Growth Facility (PRGF), outlined the government's strategy under its home-grown medium-term reform program to enhance growth, alleviate poverty, maintain macroeconomic stability, and reduce vulnerabilities. While the broad objectives and policies for the duration of our economic program remain unchanged from those detailed in the MEP, we have further refined these policies in the context of this first review of the program.

We have made solid progress on fiscal measures, including introducing the politically difficult National Reconstruction Levy, adopting a flexible fuel pricing mechanism, and enhancing our efforts to collect tax arrears. All quantitative performance criteria for end-June 2006 were met, except for the performance criterion on the central government primary balance. As the result of pressing capital spending needs to complete the reconstruction and to achieve our developmental goals, capital expenditure exceeded the targeted level. As a result, this performance criterion and the indicative target on net credit to the public sector at end-June 2006 were missed. Accordingly, we request a waiver for the missed performance criterion. We have adopted a more realistic target for capital spending and tighter expenditure controls for 2008.

We have also made progress with our structural agenda on customs reform, the Public Sector Investment Program (PSIP), and transparency with respect to tax concessions. However, we have needed more time to enact new legislation regarding investment incentives in light of our recent experience with major projects and other policy issues which took time to clarify.

In regard to our aim to reduce vulnerabilities, we have taken steps to mitigate the risks posed by a small unregulated bank by appointing a receiver and are appealing the High Court's decision that the appointment of the receiver was unlawful. Notwithstanding legal obstacles, we are developing a plan to resolve the bank.

We have maintained our best efforts to complete the restructuring of our bilateral debt. We will continue good faith efforts to reach collaborative agreements with the few remaining nonparticipating commercial creditors.

The deterioration in Grenada's terms of trade caused by higher world food and oil prices will raise the import bill significantly in 2008. To help facilitate the adjustment while addressing our additional balance of payments needs, the government requests an augmentation of access under the arrangement in an amount equivalent to SDR 1.46 million (12.5 percent of quota).

Grenada remains committed to the program, and the attached supplement to our MEP presents our policies for 2008 and beyond. These policies are designed to consolidate the gains we have made so far and establish the basis to maintain the growth momentum. Proposed quantitative performance criteria and indicative targets are indicated in Table 1 of the Supplementary MEP; the proposed structural benchmarks and performance criteria are indicated in Table 2. We are committed to working to achieve these program targets, including the fiscal targets. On this basis, the Government of Grenada hereby requests the completion of the first review under the PRGF arrangement and the release of the associated disbursement under the arrangement. Given the delay in completing the first review, we also request an extension of our PRGF arrangement by one year and a rephasing of remaining disbursements. We request the second disbursement, with the augmentation, of an amount equivalent to SDR 2.98 million.

The government will continue to provide the Fund with such information as the Fund may request in connection with progress in implementing the economic and financial policies. The government believes that the policies and measures set forth in our previous MEP and the attached Supplementary MEP will achieve the program's objectives. The government also stands ready to take additional policy measures as appropriate to ensure the attainment of these objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEP, in accordance with the Fund's policies on such consultations. The second review under the PRGF arrangement is expected to be completed by October 15, 2008 and the third review by April 15, 2009.

The government authorizes the Fund to make public the contents of this letter and the attached supplement to the MEP, as well as the accompanying staff report, to facilitate wider access to our policies and to signal the seriousness of our commitment to the program to civil society and the international community.

Yours sincerely,
__________/s/________________
Honorable Keith Mitchell
Prime Minister and Minister of Finance

SUPPLEMENTARY MEMORANDUM OF ECONOMIC POLICIES

1. Grenada has made important progress in implementing its economic program set forth in our Memorandum of Economic Policies (MEP) dated March 21, 2006. Our home-grown economic reform program continues to focus on promoting sustained high economic growth by improving the climate for private investment, putting public finances on a sustainable trajectory; reducing vulnerabilities; and alleviating poverty through more effective social development programs and safety nets. This supplementary MEP refines and updates these policies in the context of the first review of this program.

I. PERFORMANCE UNDER THE PROGRAM

2. **Economic growth has rebounded and prospects are favorable**. Real GDP growth increased to 4.3 percent in 2007, driven by tourism. Looking forward, several major tourism sector projects are coming on-stream. The external current account deficit narrowed during 2007, reflecting an increase in tourism receipts, underpinned by 9 percent growth in stayover visitor arrivals. Annual inflation has increased sharply to an annual average of 3.9 percent in 2007, reflecting the pass-through of rising world fuel and food prices.

3. **We have introduced a number of fiscal reforms to strengthen revenue collection:**

- **National Reconstruction Levy** (NRL)—we introduced this politically difficult measure in 2006 as part of the effort of the Grenadian people to share the burden of filling the large financing gaps which emerged in the aftermath of the hurricanes. The NRL has been streamlined somewhat from that envisaged in our March 2006 MEP.
- **Automatic fuel pricing mechanism**—we adopted this mechanism in October 2006, with adjustments of fuel prices every eight weeks and a specific tax of EC$3 per gallon, taking advantage of falling international prices at the time to reduce the initial impact on the population. This approach allows us to isolate fiscal revenue from fluctuations in international oil prices.
- **Collection of tax arrears**—we created a unit in Inland Revenue to focus on the collection of tax arrears that collected EC$9 million during 2007.

4. **The fiscal position nevertheless deteriorated in 2006, despite a delay in reaching agreement with public service unions on a wage increase, as a result of capital expenditure overruns**. Capital expenditure needed for reconstruction and to achieve our developmental goals was much higher-than-anticipated. In view of these needs, the Cabinet issued special warrants to increase expenditure beyond budgeted levels. As a result, the end-June 2006 performance criterion on the central government primary balance and the indicative target on the change in net credit of the banking system to the public sector were missed by about 1.2 percent and 0.5 percent of GDP,[1] respectively. Moreover, the overall

[1] In 2007, we revised GDP upward to incorporate the contribution of St. George's University, the largest private employer in Grenada. The revision for 2006 was an increase of 7 percent. All GDP ratios below reflect this upward revision.

deficit for 2006 increased to 6.4 percent of GDP (8.2 percent based on below-the-line financing data) compared with 1.9 percent under the program. Ultimately, this additional expenditure had to be financed with unsustainable sources, in particular, overdrafts and the drawdown of bank deposits.

5. **Fiscal slippages continued into 2007**. The overall deficit was 8.5 percent of GDP in 2007 (8.0 percent of GDP below the line), despite delay in reaching agreement on a public service wage path. This compares with a deficit of 2.4 percent of GDP in the 2007 budget. The slippages largely reflect maintaining capital expenditure notwithstanding a substantial shortfall (4.7 percent of GDP) in grants. The shortfall in grants (mostly capital grants) stemmed from: implementation difficulties; overestimation of funds expected in 2007 from a multiyear project; and EU grants held up by delay in completing the first PRGF review. Financing the higher-than-expected fiscal deficit required a drawdown of deposits and partial drawdown of a new EC$25 million syndicated loan facility from the five banks operating in Grenada. We were able to reduce expenditure arrears by EC$19 million.

6. **We have taken measures to improve control of expenditure commitments**. Procedures are now in place for the Ministry of Finance to review proposals for additional spending before they go to Cabinet, thereby strengthening the ministry's oversight over the budget process. In addition, the Cabinet changed its policy in January 2008 in order to limit use of special warrants.

7. **While some progress has been made with our structural reform agenda, we have nevertheless experienced some delays in the implementation of our structural benchmarks for the first review** (see text table).

Status of Structural Benchmarks Under the Program

	Target Date	Status
Stop granting or extending tax holidays	Jan. 2006	Not met
Agree on public service wage path for 2006–08	Apr. 2006	Met in January 2008 (except teachers)
Initiate work to strengthen PSIP process	Jun. 2006	Met in July 2006
Publish information on new tax concessions	Jun. 2006	Met in Sep. 2006
Amend the Income Tax Act	Jun. 2006	Not met
Repeal tax incentives legislation	Jun. 2006	Not met
Initiate comprehensive customs reforms	Aug. 2006	Met

- **Several structural benchmarks have been met**: We have initiated work to strengthen planning and implementation of the Public Sector Investment Program, with assistance from the Caribbean Development Bank (CDB). We have also initiated comprehensive reforms to the Customs Administration, contracting PricewaterhouseCoopers to assist with this effort. In addition, starting in September 2006, information on all new concessions has been made available on the web site of the Grenada Industrial Development Corporation (GIDC). Agreement with public service unions on the 2006–08 wage path was delayed by their concerns on the measurement of inflation; we reached agreement in January 2008 with public service workers except teachers, who account for 38 percent of the wage bill.

- **However, other structural benchmarks have not yet been met**: To strengthen the environment for investment, we intend submit to Parliament legislation to repeal the current incentives legislation and to amend the Income Tax Act over the course of this year. We have, however, granted tax holidays on five occasions: (i) a request for a tax holiday was made in 2005 by a local hotel undergoing extensive reconstruction in the aftermath of the hurricanes, but was only addressed in April 2006; and on the basis of the regional competition for large investments, (ii) tax holidays were subsequently granted in 2006 for Port Louis, in 2007 for the Mt. Hartman (based upon a 2004 agreement) and Levera projects, and in 2008 for the Century project (based upon a 2003 agreement).

8. **Looking ahead, the outlook is favorable**. Economic growth is projected to remain fairly strong at 3.7 percent in 2008, stimulated by the initiation of several major private sector tourism projects. Our plans, as outlined below, should ensure that our fiscal program for 2008 is in line with debt sustainability and fully financed in a sustainable manner.

9. **We remain committed to engaging our external commercial creditors in good faith negotiations**. In February 2007, we issued a press release inviting the few remaining nonparticipating creditors in the debt exchange to come forward and accept the terms and conditions offered to other commercial creditors. We have signed bilateral rescheduling agreements under the Paris Club Agreed Minute with Belgium, France, the United Kingdom, and the United States, and are in contact with the Russian Federation to reach agreement on rescheduling terms. We are in negotiations with the Export-Import Bank of Taiwan Province of China to resolve a lawsuit filed against Grenada related to outstanding debt.

II. Policies during 2008

A. Fiscal Policy

10. **Our 2008 fiscal program targets an overall deficit of 4.1 percent of GDP**. This deficit, along with appropriately prudent fiscal policy in the coming years, will accommodate capital expenditure needed to complete the reconstruction and address pressing development needs, while allowing us to reach our debt target of 60 percent of GDP by 2018, two years ahead of the revised ECCB benchmark date. We will need to reduce capital expenditure relative to the approved 2008 budget to ensure that the fiscal program is financed in a sustainable manner, while reducing expenditure arrears.

Spending

11. **Capital expenditure will fall from the unusually high levels in 2006 and 2007—18.8 percent and 13.7 percent of GDP respectively—to 9.6 percent of GDP in 2008**. This decline reflects completion of the new cricket stadium financed by China in 2006 and the gradual completion of the reconstruction effort. We are committed to achieving our fiscal targets, primarily by reducing capital expenditure below the currently budgeted ratio of 13.6 percent of GDP. This will require exerting tight control over expenditures after last year's large overrun (see below). This targeted level of capital expenditure would be lowered further, however, if grants or divestment proceeds fail to materialize as projected. Conversely, this level could be raised if grants, concessional financing, or divestment proceeds were greater than currently projected. If divestment proceeds exceed the projected amount, we would use half of the additional financing to lower our debt.

12. **We have identified specific contingent measures to reduce spending if needed to meet our targets**. These include limiting grants and subventions while protecting transfers to vulnerable groups, improved targeting, and further rationalizing capital spending.

13. **The 2008 budget provided room for an increase in public sector wages in line with inflation**. As noted above, in January 2008, we reached agreement with public service workers (except teachers) unions on a wage path for 2006–08 in line with inflation and intend to reach agreement with teachers on the same terms. The budget also incorporates lump sum payment of retroactive increases for 2006 and 2007, which will be paid by August 2008. We have commissioned a pay and grade study, financed by a grant from the CDB, to examine options for bringing the pay of public servants in line with that of the private sector, with a report expected by August 2008. We will seek agreement on a wage path for 2009–11 that is in line with inflation.

Revenues

14. **We have delayed introduction of a VAT until after elections, which are due by April 2009**. The January 2007 VAT White Paper announced a rate of 15 percent, with a special rate of 10 percent for hotels. Once we have set a date for VAT implementation, a number of preparatory measures will be needed, including preparing facilities for the VAT staff and operations, passing VAT and Excise Tax Laws, recruiting staff, upgrading relevant IT modules, and adopting transitional procedures for bonded warehouses.

15. **We will continue to employ the automatic fuel pricing mechanism adopted in October 2006, which incorporates adjustments every eight weeks**. This new price mechanism allows us to delink fuel tax revenues from fluctuations in international prices. The new mechanism has been fully implemented since October 2007. We will ensure that domestic fuel prices will continue to be revised every eight weeks in line with changes in international prices.

16. **We have recently created a unit in Inland Revenue focused on the collection of tax arrears**. This unit is expected to collect about EC$12 million during 2008 and will also guard against the accumulation of further arrears in the future. The Ministry of Finance is also taking steps to improve the collection of nontax arrears, including dividends, licenses, and rent.

Fiscal reforms

17. **We have drafted a new Investment Act that will provide capital write-offs rather than tax holidays and ensure a transparent nondiscretionary process for granting tax concessions**. The delay in submitting this legislation to Parliament reflected the need to clarify several policy issues. In particular, we decided to grant additional tax holidays as noted above that were already in the pipeline, and to make the new regime available to all eligible investments rather than only those above a threshold. Following final drafting by the Ministry of Legal Affairs and Cabinet approval, the legislation will be submitted to Parliament by December 2008.

18. **We have gained significant momentum with customs reforms**. We prepared a comprehensive business plan for customs reform in February 2008. The key elements of this plan are a fraud control plan, improving customs systems and procedures, upgrading information technology, and reducing customs clearance times. By September 2008, we will sign a memorandum of understanding on information sharing between Inland Revenue and Customs, and adopt a Fraud Control Program (benchmark). The ASYCUDA computer system, which had been out of service since the hurricanes, resumed operation in February 2007. With the assistance of the World Bank, we plan to move to ASYCUDA World by end-2009, which will improve the interface between Customs and IRD. We are also taking measures to reduce customs clearance from 4 to 1½ days over the next three years.

19. **We will enhance our in-house capability to prioritize capital expenditure**. The CDB has provided training to staff from the Ministry of Finance and line ministries to strengthen our implementation of our Public Sector Investment Program (PSIP) and plans to provide us with further technical assistance to increase our capability to evaluate projects. We will utilize our strengthened capacity in implementation of the PSIP process during the preparation of the 2009 budget.

20. **We will continue to enhance our control over expenditure commitments**. We reduced unpaid claims from EC$47 million (3.1 percent of GDP) at end-2006 to EC$28 million (1.7 percent) at end-2007 and intend to reduce these arrears by half by end-2008. To control expenditure, the Ministry of Finance will carefully review proposals to increase spending before they go to Cabinet and strictly apply the new policy limiting special warrants. In addition, we will ensure that the approval of the Public Tender Board chaired by the Ministry of Finance is obtained for any tender over EC$100,000.

21. **We will complete the cadastral survey in August 2008 as a basis for reassessing the value of property**. Because the last assessment was in 1994, a move to market valuation could raise substantial revenue without changing rates. Based on a sales analysis, we have established average land and property values by region. We will enact a law to allow Inland Revenue to adjust valuations between cadastral surveys. The new valuations would be applied beginning January 1, 2010.

22. **We will redouble efforts to improve fiscal transparency**. We will disseminate quarterly information on the overall fiscal situation and gross financing needs starting July 2008, and publish information on public enterprise finances. In line with the new Public Financial Management Act of May 2007, we will require public enterprises to submit audited financial statements four months after the close of the financial year, as required by law. We remain committed to ensure that all expenditures are reported on the budget. Recruitment of new staff and training for the Audit Department is underway. We will continue to publish newly granted or extended tax concessions.

Financing

23. **Our revised fiscal program for 2008 is now fully financed in an sustainable manner**. In light of our aim to achieve debt sustainability and reduce vulnerabilities, we will refrain from use of nonconcessional external financing (performance criterion) and avoid

reliance on the overdraft facility or arrears. We will clear or restructure remaining EC$10.9 million arrears on unrestructured domestic debt to the nonbank public by end-2008.

24. **We plan an ambitious divestment program for 2008 which will allow us to reduce public and publicly guaranteed debt from 112 percent of GDP at end-2007 to 106.5 percent at end-2008**. We received EC$27 million (1.5 percent of GDP) in January 2008 from the sale of land for the Four Seasons project and expect the remaining EC$50 million (2.8 percent of GDP) at the end of the year or in early 2009. We have also announced plan to sell two-thirds of our shares in Cable and Wireless to the public in two equal lots, the first of which is expected to yield EC$50 million. The timing and terms of the second lot would depend on the experience with the first lot.

25. **We began importing diesel fuel under the PetroCaribe Agreement in October 2007, via a new state-owned company PetroCaribe Grenada Ltd**. Based on May 2008 oil prices, this Agreement could provide concessional financing on the order of 2.5 percent of GDP per year. In light of Grenada's high public debt levels, we will ensure that this additional financing is managed conservatively and does not contribute to concerns about debt sustainability. In particular, PetroCaribe Grenada will set aside in a special account (invested in interest-bearing assets) an amount sufficient to service the loan. The remainder would be transferred to the budget to finance social programs. Moreover, retail fuel and electricity prices would continue to reflect world prices and would not be reduced as a result of the PetroCaribe Agreement.

26. **We are improving our capability to monitor economic developments and program performance**. We have put in place a system for monthly monitoring of below-the-line financing of the central government overall balance, and will update this on a monthly basis. To this end, we will ensure the consistency of Ministry of Finance and ECCB data on the position of the government with the banking system.

27. **We are considering applying for a concessional loan of around US$85 million (13 percent of GDP) from the Export-Import Bank of China to finance a state agency's construction of a port and marina**.[2] We will continue to explore private sector financing for the project. We intend to share the feasibility study with the IMF, as well as the World Bank or the Caribbean Development Bank. Should the study not point to positive net benefits of the project, we would plan to restructure the project before proceeding. We will continue to consult with the Fund staff and will seek a high level of concessionality if we proceed with the loan.

B. Structural Policies

28. **A key objective of our program is to improve the investment climate, taking advantage of recently gained momentum with foreign-financed projects**:

[2] The amount of the loan has not yet been finalized.

- **As we noted above, we expect to submit the new investment legislation to Parliament by December 2008**.

- **A key objective of structural reforms is to improve Grenada's Doing Business Indicators**. We are developing a action plan to improve specific indicators, by August 2008 (benchmark). Three priority areas have been identified: starting a business, registering property, and facilitating trade. Once specific outcome targets have been identified, we will add one of these as a benchmark.

- **We still intend to make the Grenada Industrial Development Corporation (GIDC) a one-stop shop for investors**. However, while the bulk of work on the legal framework has been completed, the process is proving more complex than initially expected, and we are utilizing technical assistance to accomplish this goal. In particular, we will prepare a comprehensive investment strategy by November 2008. In 2009, we will work toward establishing an Investment Facilitation Network, an IT platform which will facilitate communications between all impacting organizations involved in investment and project approval. At the same time, we will work toward strengthening the capacity of the GIDC, Planning Approval, and other associated agencies, a process which will be facilitated by the Ministry of Economic Development and Planning created in 2007 with oversight for all of the above agencies. Ultimately, this should substantially reduce the time required to move from an initial project request to approval.

- To **facilitate land transactions,** we will upgrade the land registry, moving to a fully computerized system, to allow public access, as indicated in ¶14 of our March 21, 2006 MEP. However, we have revised the date for completing this action from end-2006 to 2010, reflecting delays due to the adoption of a new technical approach. We will also continue our work toward establishing a new land agency, with the assistance of the World Bank, following passage of the Executive Agencies Act in February 2008.

29. **To reduce vulnerabilities to natural disasters, we will work toward giving the Building Code force of law**. As a step forward in mandating the Code and associated Guidelines, we brought into force a Construction Quality Assurance Mechanism in November 2007, which involves contractors, engineers, architects, and financial institutions working together. This mechanism entails training, certification, and procedures to assist all stakeholders to ensure that buildings are built to the required standards. We will bring into force the new planning regulations by July 2008, after amending the revised National Development and Control Act (structural benchmark).

30. **We have signed up for the World Bank's Caribbean Catastrophe Risk Insurance Facility**. As a participant in this facility, we began purchasing parametric insurance beginning in June 2007 that pays the government a predetermined amount in case of hurricane or earthquake. The World Bank will pay Grenada's insurance premium in the first year and half the premium for the next two years.

31. **We have prepared a final draft of our National Export Strategy, which has been approved by Cabinet**. The Organization of American States has funded the Export Competency Development Strategy for a two-year period. The World Bank is collaborating with the Ministry of Economic Development and Planning to assist with establishing a Trade Information Network and strengthening the Bureau of Standards. We plan to adapt draft model legislation for the National Export Council. We have negotiated more airlift for passengers and products to North America.

32. **As a key objective of our economic reform program, we will remain focused on reducing poverty and supporting the most vulnerable of our citizens**. During 2008, we plan to maintain the measures introduced with the 2006 budget to cushion the impact of fuel price increases on vulnerable groups: (i) an increase in the monthly transfer to needy elderly persons to EC$150, and (ii) temporary subsidization of the increase in bus fares for tertiary students. To address the high costs of imported foods, following the CARICOM decision, we have suspended for one year the Common External Tariff on the following products: cooking oil, baby formula, baking powder and yeast, and dried breakfast cereals. We have put in place margin controls on the same products and have waived the customs service charge on the import of bulk milk by the Marketing and National Importing Board.

33. **We are also preparing a full PRSP, as follow-up to the interim PRSP at the time of the PRGF program approval**. We had experienced some delays in undertaking an updated Country Poverty Assessment (CPA), implying that we were unable to meet our original goal of completing the full PRSP by October 2007. This poverty assessment, with the assistance of the CDB, is now underway, with results expected by end-December 2008 (benchmark). Thus, we will work with the World Bank, with the aim of finalizing the full PRSP by November 2009. We have separately provided a PRSP Preparation Status Note.

C. Financial Sector

34. **We have enacted the Grenada Authority for the Regulation of Financial Institutions (GARFIN) legislation to help safeguard the soundness of Grenada's financial sector**. This legislation became effective in September 2006 and GARFIN began operation in February 2007, bringing together under one supervisory authority a wide range of financial institutions, including, among others, credit unions, cooperatives, and insurance and offshore companies. We will ensure that the insurance sector, which is offering deposit interest rates above those of commercial banks, follows sound practices and does not pose risks to the financial system, insurance holders, and deposit holders. We intend to enact a new Insurance Act by end-2008.

35. **GARFIN has made progress on the regulation and supervision of nonbank financial institutions**. It has set up a reporting system and begun offsite monitoring of credit unions and building and loan societies; the same process will be undertaken for insurance companies in 2008. For the offshore sector, GARFIN will remove inactive International Business Corporations from the register by May 2008. The amended GARFIN Act came into force in March 2008, making GARFIN the registrar and supervisor of insurance companies and broadening the definition of money services under its jurisdiction. Several pieces of legislation are slated for submission to Parliament in 2008, including the Cooperatives

Society Act, and Money Services Act. The Offshore Banking Act took effect in December 2007.

36. **We are also addressing the problem of unregulated investment schemes** by issuing a public warning on the risks of such schemes and a financial advisory indicating which schemes are operating without a license. If the Eastern Caribbean Securities Regulatory Commission (ECSRC) determines that the scheme does not fall under its jurisdiction, or does not make a decision by end-June 2008, GARFIN will act to prevent the scheme from taking in new client deposits or applying for a cease and desist order from the High Court under the amended GARFIN Act.

37. **In response to the rapidly deteriorating financial condition of the unregulated bank, we appointed a receiver on February 15, 2008**. The bank was highly illiquid and unable to honor deposit withdrawals, and there had been increasing evidence that the bank was likely insolvent. We obtained a court order to appoint the receiver. The Eastern Caribbean Central Bank (ECCB) had reiterated its recommendation to revoke the bank's license, while urging action to safeguard the interests of the depositors.[3] There has been no contagion to the regulated banking system (the bank is not in the formal clearing and payments system) and contagion is unlikely. There is no systemic risk as the bank accounts for a small share of the banking system.

38. **We are determined to move forward to resolve the bank, notwithstanding legal difficulties**. On May 7, the High Court ruled in favor of the bank's owner and found the appointment of the receiver unlawful. We have obtained a stay of this decision and have filed an appeal; the receiver will remain in place pending the outcome of the Appeals Court.

39. **We have maintained a clear communications strategy regarding the bank**. We indicated that while the government is prepared to work with depositors, it cannot commit to compensating depositors until the plan for resolving the bank is in place. We are considering, however, transferring small deposits (under EC$500) to another financial institution. We will refrain from compensating related party depositors. Preliminary indications suggest that total deposits are around EC$21.8 million (1.2 percent of GDP), excluding a large deposit—which is offset by a large investment, and related party deposits, and that around 70 percent of the 5,800 deposits are small deposits. In addition, 54 percent of the bank's loan portfolio (to a related party) is reportedly nonperforming. The receiver's report indicates that the bank appears to be insolvent.

40. **Our strategy to resolve the bank will protect depositors while minimizing costs to the government**. In consultation with the ECCB, we developed a plan for resolution of the bank that was submitted to the High Court on April 14, 2008. The process has been, and may continue to be slower than we anticipated, due to legal challenges. On the positive side, several investors have expressed interest in some form of asset purchase and assumption of

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[3] An ECCB representative observed the initial phase of the receivership.

liabilities. Reorganization or initiating the process of liquidation of the bank would be a performance criterion for November 2008.

Table 1. Grenada: Quantitative Performance Criteria and Indicative Targets, 2006 and 2008

	End-June 2006		End-Dec. 2006		Proposed 2008 Targets		
	Adjusted Target	Actual	Adjusted Target	Actual	End-June	End-Sept. 1/	End-Dec.
Performance Criteria:	(In millions of Eastern Caribbean dollars)						
Central government primary balance excluding grants (floor) 2/3/	-73.3	-92.2	-129.4	-224.1	-45.0	-67.5	-90.0
Stock of central government domestic arrears (ceiling)	22.0	0.8	22.0	7.0	15.0	11.0	7.0
	(In millions of U.S. dollars)						
Contracting and guaranteeing of nonconcessional external debt by the central government with maturity of at least one year (ceiling) 2/	16.0	0.0	16.0	3.9	4.0	4.0	4.0
Stock of external short term debt (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contracting and guaranteeing of bilateral concessional external debt by the central government with maturity of at least one year (ceiling) 2/5/	…	…	…	…	0.0	0.0	0.0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Target:	(In millions of Eastern Caribbean dollars)						
Change in net credit of the banking system to the public sector (ceiling) 2/3/	0.0	7.6	-30.5	3.0	12.0	18.0	24.0

1/ Indicative target.
2/ Cumulative.
3/ See the TMU and supplementary TMU for a description of adjustors.
4/ To be monitored on a continuous basis.
5/ Excludes PetroCaribe.

Table 2. Grenada: Proposed Structural Measures

	Target Date	Comment
Initial Reforms for the First Review		
Appoint a receiver for the unregulated bank		Prior Action. Met in February 2008
Prepare a comprehensive business plan for customs reform 1/	May 2008	Met in February 2008
Reach agreement on public service wage path for 2006–08 1/	June 2008	Partially met in January 2008. Rephased from April 2006
Submit Executive Agency Bill to Parliament, as a step toward establishing a new land agency 1/	August 2008	Enacted in February 2008
Second Review		
Develop an action plan to improve Doing Business Indicators 2/	August 2008	Benchmark
Bring into force new planning regulations, as a first step toward giving the Building Code force of law	July 2008	Benchmark
Develop and begin implementing a customs Fraud Control Plan and sign an MoU on information sharing between customs and Inland Revenue	September 2008	Benchmark
On Investment Act, amended Income Tax Act, and drafts to repeal tax incentives legislation, update with final policy decisions and obtain Cabinet approval	September 2008	Benchmark
Third Review		
Reorganize or initiate liquidation of Capital Bank	November 2008	Performance criterion
Submit to Parliament the Investment Act, the amended Income Tax Act, and repeal of tax incentives	December 2008	Benchmark. Rephased from June 2006
Complete the Country Poverty Assessment	December 2008	Benchmark
VAT-Related Measures 3/		
Complete update of SIGTAS with VAT returns and refunds processing modules		
Enact new VAT and Excise Laws		
Recruit and begin training staff and adopt transitional procedures for bonded warehouses, to ensure smooth implementation of the VAT		

1/ The authorities proposed that two of these three measures would be completed.

2/ Three priority areas have been identified. Once specific outcome targets (for example reducing by a specified amount the number of steps required to start a business) have been identified, one of these will be added as a benchmark for the third review.

3/ Once the timing of VAT implementation is decided, these measures would be included as structural conditionality for future reviews.

ATTACHMENT III. Supplementary Technical Memorandum of Understanding

The Technical Memorandum of Understanding associated with the LOI and MEP of March 21, 2006 remains the operative document for monitoring and reporting requirements and for defining how the quantitative performance criteria and indicative targets, specified in Table 1 of the supplementary MEP, will be interpreted, except for the specific changes in the following:

Section I. In paragraph 4, delete "nonfinancial" and replace the "and Grenada International Financial Services Authority" with the "Grenada Authority for the Regulation of Financial Institutions, and the National Insurance Scheme".

Section II. Replace paragraph 10 with "The floor on the central government primary balance excluding grants will be adjusted as follows:

(i) downward[1] to the extent that grants exceed programmed amounts, as specified in Table 1 below.

(ii) upward to the extent that grants fall short of the programmed amounts, as specified in Table 1 below, by more than EC$10 million through end-June or after.

(iii) downward to the extent that concessional financing from multilateral development banks exceeds programmed amounts, as specified in Table 1.

(iv) upward by an amount equivalent to 50 percent of the shortfall of divestment proceeds from the programmed amount, as specified in Table 1.

(v) downward by an amount equivalent to 50 percent of divestment proceeds in excess of EC$57 million, with a maximum adjustment of EC$32 million. The remaining excess divestment proceeds will be used to pay down debt, targeting more expensive debt first.

(vi) upward to the extent that bank restructuring costs fall short of the programmed amount, as specified in Table 1.

Table 1. Programmed Disbursements of Concessional Loans and Grants, Divestment Proceeds, and Bank Restructuring Costs, 2008
(In millions of Eastern Caribbean dollars, cumulative)

	Q1 Actual	Q2 Prog.	Q3 Prog.	Q4 Prog.
Concessional loans	5.3	14.2	28.5	37.4
Grants disbursements	15.5	26.4	54.1	65.0
Divestment proceeds	27.0	27.0	57.0	57.0
Bank restructuring costs	0.0	0.0	27.0	27.0

[1] Downward adjustment means a higher deficit; upward implies a lower deficit.

Section III. Add "(as specified in Table 1)" at the end of paragraph 12, point (ii).

Section V.A. Replace paragraph 17 with "Excluded from the ceiling are credits from the IMF and credits on concessional terms."

Insert a new section as follows:

"V. C. PERFORMANCE CRITERION ON BILATERAL CONCESSIONAL DEBT WITH AN ORIGINAL MATURITY OF AT LEAST ONE YEAR CONTRACTED OR GUARANTEED BY THE CENTRAL GOVERNMENT

With the definitions given in Section V. A., there will be a ceiling on the contracting or guaranteeing of official bilateral concessional debt, excluding PetroCaribe-related debt."

INTERNATIONAL MONETARY FUND

GRENADA

Debt Sustainability Analysis

Prepared by the Staff of the International Monetary Fund

In consultation with the World Bank Staff

June 20, 2008

*Grenada's debt sustainability outlook has deteriorated relative to the active scenario in the previous debt sustainability analysis (DSA),[1] reflecting fiscal slippages in 2007, the revised fiscal projection for 2008 (including bank restructuring costs), and larger PetroCaribe borrowing as a result of higher fuel prices.[2] The ECCU benchmark of 60 percent for the ratio of nominal public debt to GDP would be achieved in 2018, two years ahead of the target date. Possible additional borrowing from Export-Import Bank of China to finance the construction of the port and marina project could—depending on the loan size and concessionality—undermine efforts to secure debt sustainability. Based on Grenada's 2004–06 average Country Policy and Institutional Assessment (CPIA)[3] rating of "medium," Grenada currently exceeds the thresholds for the ratio of the net present value (NPV) of external debt to GDP and to exports. Under the program, the ratio of the NPV of external debt to GDP will fall below the 40 percent indicative threshold only in 2020. Thus, Grenada is at **high risk** of debt distress.*

I. Context

1. **While Grenada's outlook remains favorable, economic growth is expected to slow somewhat in 2008 (to 3.7 percent), in part due to the projected slowdown in the global economy**. Growth in 2007 was 4.3 percent, driven by tourism, the Cricket World Cup, and expansion of St. George's University. Annual average inflation is projected at 7.8 percent in 2008, reflecting rising world fuel and food prices.

2. **In the aftermath of the hurricanes, the authorities recognized that Grenada's public sector debt was unsustainable, and undertook a collaborative debt restructuring**.

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[1] See IMF Country Report No. 08/351.

[2] The authorities plan to place a share of PetroCaribe's disbursements in a special account to repay related obligations. The gross external debt figures used in this DSA do not net out amounts in the special account.

[3] The World Bank's CPIA rates countries against a set of 16 criteria grouped in four clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions.

- **A highly successful exchange for commercial debt was concluded in November 2005**. Overall participation reached 91 percent of eligible debt, or about US$237 million (about 40 percent of total public debt). The restructuring involved an increase in the maturity of liabilities that implied a reduction of 40–45 percent in net present value terms (for exit yields in the 9–10 percent range), and reduced debt servicing costs by 83 percent during 2005–08.[4]

- **For official debt, a Paris Club agreement was reached in May 2006**. This agreement reduces debt service to Paris Club creditors by more than 90 percent through 2008. The authorities have signed bilateral agreements with all but one Paris Club creditor (Russian Federation), and have been working to reach agreement with non-Paris Club creditors. The government has been seeking an out-of-court settlement with Export-Import Bank of Taiwan Province of China for outstanding liabilities of US$20.3 million (3.4 percent of 2007 GDP).

II. Underlying DSA Assumptions

3. **The baseline (program) scenario is based upon the government's current fiscal policies**.[5] The main assumptions of the DSA are described in the following table and in Box 1.

Grenada: Key Assumptions and Indicators in the DSA, 2007-28

(In percent of GDP, unless otherwise indicated)

	Prelim.	Projections					
	2007	2008	2009	2010	2013	2018	2028
Total revenues and grants	39.3	41.9	41.2	41.0	40.3	39.6	39.1
Primary (noninterest) expenditure	45.5	43.2	39.4	37.7	37.2	37.2	37.1
Primary balance (including grants)	-6.2	-1.3	1.9	3.2	3.0	2.4	2.0
Overall balance	-8.5	-4.1	-0.6	0.7	0.4	-0.8	-0.1
Public debt	112.0	106.5	98.7	93.4	78.8	59.6	35.4
External current account	-32.6	-36.4	-35.1	-32.5	-24.4	-22.7	-21.1
Exports of goods and services	34.6	31.7	32.2	32.5	34.5	35.0	36.0
Real GDP growth (in percent) 1/	4.3	3.7	4.2	4.4	4.2	4.0	4.0
Inflation rate (average; in percent)	3.9	7.8	4.5	3.1	2.3	2.0	2.0

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

[4] The government incurred EC$20.3 million arrears on unrestructured domestic debt to the nonbank public due on June 30, 2007. The government has cleared over half of these arrears, including almost all arrears to individuals. The remainder is owed primarily to insurance companies.

[5] The baseline program scenario assesses the implications of the authorities' program under the PRGF arrangement, which focuses on securing debt sustainability through fiscal consolidation, and on implementing structural reforms. The accompanying Staff Report includes an extensive description of the authorities' program.

Box 1. Baseline Macroeconomic Assumptions (2008–28)

- Real **GDP growth** is projected at above 4 percent a year during 2009–13 and at 4 percent subsequently. In the near term, this growth projection is underpinned by the recent sharp increase in investor interest; the strong growth in Grenada's largest private employer, St. George's University; and the gradual recovery of the agricultural sector. In the longer run, the projection assumes that the authorities undertake the structural reforms needed to sustain growth.

- After rising to 7.8 percent in 2008, annual average **inflation** is projected to fall gradually to 2 percent by 2014, and remain at this level thereafter.

- The **primary balance** (including grants) of the central government improves from the average deficit of 2.2 percent of GDP during 1998–2007 to a surplus of about 2 percent by 2018, consistent with annual capital expenditure of about 8 percent of GDP.

- **Grants** gradually decline from high post-hurricane levels to 1 percent of GDP by 2020, and the interest rate on new borrowing increases from 2 percent through 2010 to about 6 percent by 2028, as concessional financing tapers off; with a discount rate of 5 percent, this implies a negative grant element for new borrowing in later years.

- The projection assumes that Grenada receives **concessional financing** under the PetroCaribe initiative during 2008–12 (paragraph 7 below), and that the grant element is used to finance programs already in the budget, replacing more expensive forms of financing. The interest rate on debt restructured in 2005 increases from 1 percent through 2008 to 9 percent by 2019, in line with the restructuring agreement.

- The **external current account** deficit is assumed to decline gradually from 32.6 percent of GDP in 2007 to about 24 of GDP by 2013 due to strong growth in tourism and a falloff in imports from high post-hurricane levels. Ongoing adjustment of the economy (reflected in a growing share of tourism receipts) would help the current account deficit stabilize at just over 20 percent of GDP in the outer years.[1] **Exports** of goods are assumed to stabilize to their historical norm of 6 percent of GDP by 2013, and remain at this level thereafter. Buoyant net **FDI** flows (averaging 23 percent of GDP in 2008–13, and 16 percent of GDP in the outer years) as well as other non-debt creating inflows (averaging close to 3 percent of GDP over the projection period) would provide most of the financing.

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[1] This current account deficit is consistent with estimates of the current account norm for ECCU countries (see Emilio Pineda and Paul Cashin, *Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union*, IMF Country Report No. 08/96).

III. EVALUATION OF PUBLIC SECTOR DEBT SUSTAINABILITY

Grenada's public debt as of end-2007

4. **Public sector debt fell by 5 percentage points of GDP during 2007 to 112 percent of GDP** (Tables 1 and A1a). External debt accounted for 71 percent of total debt, almost all owed by the central government. Commercial debt accounted for about 40 percent of external debt, and multilateral debt, mostly from the Caribbean Development Bank, accounted for another one-third, with the remainder owed to bilateral (Paris and non-Paris Club) creditors. In NPV terms, public sector debt stood at 108 percent of GDP, reflecting the concessional element of multilateral and restructured debt, and assuming that bilateral debt to non-Paris Club creditors will be restructured on Paris Club terms.

The baseline (program) scenario

5. **Grenada's debt sustainability outlook has deteriorated relative to the previous DSA's active scenario**. The deterioration reflects fiscal slippages in 2007, the revised projection for 2008 (including bank restructuring costs estimated at 1.5 percent of GDP), and larger PetroCaribe borrowing as a result of higher fuel prices. The baseline does not include a proposed loan from Export-Import Bank of China that is discussed below.[6]

6. **As a result, the authorities' nominal debt target of 60 percent of GDP will now be achieved in 2018 under the baseline (program) projection, four years later than in the previous DSA's active scenario.**[7] The NPV of debt falls to 43 percent of GDP by 2028, compared with 35 percent of GDP in nominal terms, reflecting growing commercial borrowing at above the discount rate of 5 percent (Figure 1a). The NPV of public sector debt-to-revenue ratio falls from 275 percent in 2007 to 109 percent in 2028.[8] The debt service-to-revenue ratio would fall from 13 percent in 2007 to 8 percent in 2028, with the ratio rising to 14–17 percent during 2021–25 as restructured debt amortizes.

7. **The baseline projection incorporates debt accumulated under the PetroCaribe Agreement during 2008–12**.[9] Based on current WEO oil prices, this agreement would

[6] The baseline is consistent with the program ceiling on bilateral concessional debt, which does not accommodate this loan.

[7] Since the 2007 Article IV consultation, the authorities have revised GDP upward to incorporate the contribution of St. George's University. The revision for 2006 has been 7 percent. Under the 2007 Article IV active scenario, and with the revised GDP, the 60 percent of GDP target would be reached in 2014, rather than 2017 as reported in the Article IV staff report based on the previous GDP series.

[8] These ratios are stated with revenue inclusive of grants, consistent with Table A1b.

[9] The PetroCaribe agreement extends for a 14-year period, but is assumed to operate for only five years reflecting the possibility that committed concessional financing might not be delivered.

provide concessional financing of 2.5 percent of GDP in 2008.[10] The financing terms are highly concessional, with an interest rate of 1 percent and a maturity of 25 years (including a two-year grace period), implying a grant element of 47 percent**.**

Alternative scenarios and stress tests

Policy scenarios

8. **The debt outlook is highly sensitive to departures from the policy framework assumed in the baseline projections.** In the context of large fiscal slippages in 2006 and 2007, the risks of delaying or not undertaking needed fiscal adjustment, or of proceeding with possible new borrowing are illustrated by the following scenarios.

9. **A scenario in which adjustment still takes place but with a delay of five years would be a significant setback to debt sustainability** (Table A1b, Alternative Scenario A5). If the primary fiscal balance remains at the 2007 level for five years, and delays in structural reforms reduce growth by 0.5 percentage point a year relative to the baseline in the same period, then the NPV of debt to GDP would fall to 55 percent by 2028 (48 percent in nominal terms), rather than 43 percent in the baseline scenario (Figure 1b). The 60 percent of GDP target for nominal debt is reached only in 2024 rather than 2018 in the baseline. The NPV of debt to revenue would fall to 139 percent, rather than 109 percent in the baseline scenario.

10. **Under a scenario in which the primary fiscal balance remains unchanged at the 2008 level throughout the projection period, the authorities would not achieve their nominal debt-to-GDP target of 60 percent of GDP within this period** (Table A1b, Alternative Scenario A2).[11] With an unchanged primary balance, this ratio remains close to 100 percent of GDP, with the NPV of debt-to-GDP ratio rising to 101 percent by 2028 (98 percent in nominal terms).

11. **Proposed borrowing from Export-Import Bank of China in 2009–11 to finance the construction of the port and marina project could—depending on the loan size and concessionality—undermine debt sustainability.** The size and terms of the loan have yet to be finalized, and this scenario assumes a loan amount of US$85 million disbursed over 2009–11 with a 37 percent grant element, no private co-financing, and no impact on growth. With these assumptions, the NPV of debt-to-GDP ratio in 2028 is 50 percent (40 percent in nominal terms; Table A1b, Alternative Scenario A6). The 60 percent of GDP target for nominal debt is reached only in 2021 rather than 2018 in the baseline. If the project raises GDP growth by 0.5 percentage point during 2012–28, the NPV of debt-to-GDP ratio in 2028

[10] The PetroCaribe agreement finances 50 percent of diesel imports (up to a ceiling) when the international price of oil is above US$100 per barrel. The May 2008 WEO oil price baseline projects that oil prices will remain above this level over the medium term.

[11] Incorporating even a small negative impact of an unchanged primary balance on growth, the 60 percent of GDP target for nominal debt would not be achieved in the projection period.

is 45 percent (36 percent in nominal terms), and the 60 percent of GDP target is reached in 2020.

Other scenarios

12. **The outlook is highly sensitive to natural disasters.** Hurricanes Ivan and Emily precipitated a debt restructuring in 2005, and Grenada remains vulnerable to future such events. For example, with a natural disaster in 2009 that would reduce GDP growth to zero for three years, raise growth (compared to the baseline) in 2012–13 during the recovery, and increase the primary deficit by 3 percentage points of GDP during 2009–11, the NPV of debt would be 57 percent of GDP (50 percent in nominal terms), compared to 43 percent in the baseline (Table A1b, Alternative Scenario A4). The 60 percent of GDP target for nominal debt would be achieved only in 2024. Grenada's participation in the World Bank's Caribbean Catastrophe Insurance Facility, which is not incorporated in this analysis, could help cushion the financial impact of further disasters.

13. **Sensitivity analysis also points to vulnerability related to the need to contain expenditure if growth does not materialize**. In Bound Test B1, real GDP contracts by 2.2 percent in 2009 and 2010, the share of fiscal revenue in GDP follows the same trajectory as in the baseline, while expenditure is held constant in nominal terms. In this scenario, the NPV of debt rises sharply to 129 percent of GDP (127 percent in nominal terms), and the 60 percent of GDP target for nominal debt would not be achieved in the projection period. This is the most extreme scenario in 2018 for the ratios of NPV of debt to GDP and to revenue, and for the debt service to revenue ratio (see Figure 1a).

IV. Evaluation of External Debt Sustainability

14. **Grenada currently exceeds the thresholds—based on the Debt Sustainability Framework for Low-Income Countries—for the ratio of the NPV of external debt to GDP and to exports**. Based on Grenada's 2004–06 average CPIA rating of "medium,"[12] the thresholds are 40 percent and 150 percent for the ratios to GDP and exports, respectively, while for 2007, Grenada's ratios were 75 percent and 218 percent, respectively.[13]

15. **Although Grenada's external public debt would fall significantly in the baseline scenario, it would remain above the NPV of debt-to-GDP threshold for an extended period** (Table A2a). The ratio of the NPV of external public debt to GDP would not fall below the 40 percent threshold until 2020, while the NPV of debt to exports would not fall below the 150 percent threshold until 2015 (Figure 2). The debt service-to-exports ratio breaches the 20 percent threshold in 2009 and during 2021–28, the latter reflecting service on restructured debt.

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[12] The previous three-year average (2003–05) CPIA rating for Grenada's performance was "strong." Even with this higher rating, Grenada would still exceed the indicative thresholds for the debt ratios to GDP and exports.

[13] See *Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (Public Information Notice (PIN) No. 05/59 (May 4, 2005))*.

16. **Under a scenario that includes possible borrowing from Export-Import Bank of China, debt dynamics are even less favorable**. The NPV of external public debt to GDP would not fall below the 40 percent threshold until 2023, while the NPV of debt to exports would fall below the 150 percent threshold in 2017, three and two years, respectively, later than under the baseline.

17. **Bound tests show significant sensitivity in the short term, but much less sensitivity by 2028** (Table A2b). Under an alternative scenario with key variables (GDP growth, the current account deficit, and FDI) at historical averages, the NPV of external public debt to GDP ratio would fall to 28 percent by 2028 (Scenario A1), one percentage point higher than in the baseline scenario, and well under the threshold of 40 percent of GDP. Under this scenario, the NPV of debt-to-exports ratio would fall to 77 percent by 2028 (two percentage points higher than in the baseline scenario), while the debt service-to-exports ratio would remain above the 20 percent threshold for most of the projection period (see lower panel of Figure 2). Under a scenario of a natural disaster in 2009, Grenada would face an initially large deterioration in the NPV of debt-to-exports ratio and debt-service-to-exports ratio, and the NPV of external public debt to GDP would fall under the threshold two years later than in the baseline.

V. Conclusions

18. **Owing in large part to fiscal slippages in 2007, Grenada's debt sustainability has deteriorated**. Under the baseline (program) scenario, the analysis indicates that with continued fiscal consolidation Grenada's public debt is sustainable, but vulnerable to shocks. The alternative scenarios underscore that this assessment is contingent on policies to enhance growth and raise the primary fiscal balance. In particular, the potential large loan from Export-Import Bank of China, could—depending on the loan size and concessionality—undermine the authorities' efforts to secure debt sustainability.

19. **On the external front, Grenada is at high risk of debt distress, with key debt indicators above their indicative thresholds**. Under the baseline (program) scenario, a determined and prolonged effort will be required to bring debt down to more sustainable levels. Furthermore, this favorable outcome would be affected adversely by an external shock, such as a hurricane or a decline in tourism, or the possible borrowing from Export-Import Bank of China.

Table 1. Grenada: Public Sector Debt, 2007

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

	Stock	Percent of Total Debt	Percent of GDP
Public sector debt 1/	677.6	100.0	112.0
Central government debt	603.2	89.0	99.7
Central-government guaranteed debt	53.9	8.0	8.9
Other public sector debt	20.5	3.0	3.4
External debt	478.8	70.7	79.2
A. Central government	437.1	64.5	72.3
1. Multilateral	154.8	22.9	25.6
CDB	95.0	14.0	15.7
IDA	35.0	5.2	5.8
IBRD	12.0	1.8	2.0
IMF	7.6	1.1	1.3
Other multilateral	5.2	0.8	0.9
2. Official bilateral	82.9	12.2	13.7
Paris Club	19.3	2.8	3.2
Belgium	7.3	1.1	1.2
France	4.3	0.6	0.7
Russian Federation	0.2	0.0	0.0
United Kingdom	4.6	0.7	0.8
United States	2.9	0.4	0.5
Non-Paris Club	63.6	9.4	10.5
Kuwait	17.8	2.6	2.9
Taiwan Province of China	20.3	3.0	3.3
Trinidad and Tobago	17.0	2.5	2.8
Venezuela	2.9	0.4	0.5
Other bilateral	5.6	0.8	0.9
3. Commercial, total	199.4	29.4	33.0
Restructured bonds	193.5	28.6	32.0
Unrestructured bonds	5.8	0.9	1.0
B. Central government guaranteed	21.3	3.1	3.5
Of which:			
Paris Club	7.8	1.1	1.3
C. Other public sector	20.5	3.0	3.4
Domestic debt	198.7	29.3	32.9
A. Central government	166.1	24.5	27.5
Restructured Bonds	68.1	10.1	11.3
Unrestructured bonds	8.5	1.3	1.4
Treasury bills	28.9	4.3	4.8
Commercial bank loans	22.4	3.3	3.7
Overdraft	9.0	1.3	1.5
Domestic arrears	13.8	2.0	2.3
Compensation claims	14.8	2.2	2.4
Other	0.6	0.1	0.1
B. Central-government guaranteed	32.6	4.8	5.4
Memorandum item:			
Nominal GDP	604.9		

Sources: Grenada authorities; and Fund staff estimates.

1/ Includes central government liabilities to the National Insurance Scheme.

Table A1a.Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2005	2006	2007	Historical Average 1/	Standard Deviation 1/	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 2/	111.2	117.2	112.0			106.5	98.7	93.4	88.5	84.6	78.8		59.6	35.4	
o/w foreign-currency denominated	79.5	81.3	79.2			77.9	72.5	69.1	65.9	63.0	58.0		41.5	19.8	
Change in public sector debt	-10.1	6.0	-5.1			-5.6	-7.8	-5.3	-4.9	-3.9	-5.8		-3.1	-2.2	
Identified debt-creating flows	-18.7	3.3	-1.9			-6.6	-12.0	-7.7	-7.2	-6.0	-5.6		-2.8	-2.0	
Primary deficit	**-2.5**	**4.3**	**6.2**	**2.2**	**4.4**	**1.3**	**-1.9**	**-3.2**	**-3.1**	**-3.0**	**-3.0**	**-2.2**	**-2.4**	**-2.0**	**-2.3**
Revenue and grants	44.8	44.7	39.3			41.9	41.2	41.0	40.6	40.4	40.3		39.6	39.1	
of which : grants	10.5	8.7	1.1			3.7	2.6	2.0	1.9	1.8	1.6		1.2	0.7	
Primary (noninterest) expenditure	42.3	49.0	45.5			43.2	39.4	37.7	37.5	37.4	37.2		37.2	37.1	
Automatic debt dynamics	**-16.3**	**-0.4**	**-5.9**			**-6.2**	**-6.3**	**-4.5**	**-4.1**	**-3.0**	**-2.6**		**-0.4**	**0.0**	
Contribution from interest rate/growth differential	-14.5	-0.2	-5.5			-4.1	-4.3	-3.6	-3.7	-2.7	-2.2		-0.4	0.0	
of which : contribution from average real interest rate	-2.0	-1.5	-0.8			-0.1	0.0	0.6	0.4	1.1	1.2		2.0	1.4	
of which : contribution from real GDP growth	-12.5	1.3	-4.8			-4.0	-4.3	-4.2	-4.1	-3.7	-3.4		-2.4	-1.4	
Contribution from real exchange rate depreciation	-1.7	-0.2	-0.4			…	…	…	…	…	…		…	…	
Other identified debt-creating flows	**0.0**	**-0.6**	**-2.2**			**-1.7**	**-3.8**	**0.0**	**0.0**	**0.0**	**0.0**		**0.0**	**0.0**	
Privatization receipts (negative)	0.0	-0.6	-2.2			-3.2	-3.8	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	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (bank restructuring)	0.0	0.0	0.0			1.5	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 3/	8.7	2.7	-3.2			1.0	4.2	2.4	2.3	2.2	-0.2		-0.2	-0.1	
NPV of public sector debt	**…**	**35.8**	**108.2**			**101.9**	**91.6**	**87.4**	**83.5**	**80.3**	**76.0**		**60.9**	**42.6**	
o/w foreign-currency denominated	0.0	0.0	75.3			73.4	65.5	63.1	60.9	58.6	55.3		42.8	27.1	
o/w external	...	...	75.3			73.4	65.5	63.1	60.9	58.6	55.3		42.8	27.1	
Gross financing need 4/	5.9	12.4	15.4			10.1	6.8	4.6	4.4	4.7	5.3		5.0	2.2	
NPV of public sector debt-to-revenue and grants ratio (in percent)	**…**	**…**	**275.3**			**243.4**	**222.2**	**213.3**	**205.4**	**198.7**	**188.7**		**153.8**	**108.9**	
NPV of public sector debt-to-revenue ratio (in percent)	…	…	282.9			266.7	237.0	224.3	215.3	207.7	196.8		158.7	110.9	
o/w external 5/	…	…	197.0			191.9	169.4	162.0	157.0	151.7	143.1		111.6	70.4	
Debt service-to-revenue and grants ratio (in percent) 4/	**8.1**	**7.8**	**12.6**			**11.5**	**12.2**	**11.0**	**10.8**	**11.8**	**13.9**		**13.5**	**8.0**	
Debt service-to-revenue ratio (in percent) 6/	10.6	9.7	12.9			12.6	13.1	11.6	11.3	12.3	14.5		14.0	8.1	
Primary deficit that stabilizes the debt-to-GDP ratio	7.6	-1.7	11.3			6.9	5.9	2.0	1.8	0.8	2.8		0.6	0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	11.5	-1.1	4.3	4.2	6.4	3.7	4.2	4.4	4.6	4.4	4.2	4.3	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	1.3	1.8	2.0	4.9	3.5	2.3	2.2	2.8	2.8	3.3	3.2	2.8	5.3	6.0	5.4
Average real interest rate on domestic currency debt (in percent)	-1.6	-1.3	-0.8	2.3	3.0	-1.1	-1.0	-0.3	0.1	1.2	1.5	0.1	3.7	3.9	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.2	-0.3	-0.5	-0.3	1.4	…	…	…	…	…	…		…	…	
Change in GDP deflator (in percent)	5.6	3.5	3.2	2.6	1.8	4.8	4.7	3.1	2.8	2.5	2.3	3.4	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	27.3	14.6	-3.3	6.8	11.6	-1.6	-5.0	0.1	4.0	4.0	3.8	0.9	4.0	4.0	4.0
Grant element of new external borrowing (in percent)	…	…	…	…	…	7.7	10.4	5.3	4.9	6.1	2.9	6.2	-3.3	-7.5	-4.3

Sources: Grenadian authorities; and Fund staff estimates and projections.

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

2/ The coverage of public sector is public and publicly guaranteed debt, including debt of public enterprises and the debt of the central government to the National Insurance Scheme.

3/ The residual during 2008-12 reflects PetroCaribe borrowing.

4/ 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.

5/ Revenues excluding grants.

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

Table A1b.Grenada: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028
(In percent)

		Projections						
	2008	2009	2010	2011	2012	2013	**2018**	2028
NPV of Debt-to-GDP Ratio								
Baseline	102	92	87	83	80	76	**61**	43
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	102	95	96	97	99	99	**102**	112
A2. Primary balance is unchanged from 2008	102	95	94	94	95	94	**95**	101
A3. Permanently lower GDP growth 1/	102	93	91	90	90	89	**98**	168
A4. Natural disaster in 2009	102	98	101	104	99	93	**77**	57
A5. Delayed adjustment	102	95	95	96	97	96	**76**	55
A6. With China loan	102	97	96	93	90	85	**70**	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	102	100	107	107	108	107	**112**	129
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	102	100	104	100	96	91	**75**	54
B3. Combination of B1-B2 using one half standard deviation shocks	102	100	106	102	98	93	**77**	56
B4. One-time 30 percent real depreciation in 2009	102	120	115	110	106	102	**86**	68
B5. 10 percent of GDP increase in other debt-creating flows in 2009	102	101	96	92	89	84	**69**	49
NPV of Debt-to-Revenue Ratio 2/								
Baseline	243	222	213	205	199	189	**154**	109
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	243	231	235	239	244	245	**258**	287
A2. Primary balance is unchanged from 2008	243	229	230	232	235	234	**241**	259
A3. Permanently lower GDP growth 1/	243	226	223	221	222	220	**246**	427
A4. Natural disaster in 2009	243	238	245	255	244	230	**194**	146
A5. Delayed adjustment	243	230	233	235	239	239	**191**	139
A6. With China loan	243	235	233	229	222	212	**176**	128
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	243	241	259	261	265	265	**282**	330
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	243	241	254	245	238	227	**190**	139
B3. Combination of B1-B2 using one half standard deviation shocks	243	243	258	249	242	231	**193**	143
B4. One-time 30 percent real depreciation in 2009	243	292	281	271	263	253	**218**	173
B5. 10 percent of GDP increase in other debt-creating flows in 2009	243	245	235	227	220	209	**173**	125
Debt Service-to-Revenue Ratio 2/								
Baseline	12	12	11	11	12	14	**14**	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	12	14	17	19	22	**24**	30
A2. Primary balance is unchanged from 2008	12	12	14	15	17	20	**22**	26
A3. Permanently lower GDP growth 1/	12	12	12	12	14	18	**24**	43
A4. Natural disaster in 2009	12	13	15	16	18	18	**17**	12
A5. Delayed adjustment	12	12	14	16	18	21	**15**	13
A6. With China loan	12	12	11	12	13	15	**15**	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	12	13	15	17	20	23	**26**	34
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	12	12	18	21	17	17	**16**	13
B3. Combination of B1-B2 using one half standard deviation shocks	12	13	17	20	16	17	**16**	13
B4. One-time 30 percent real depreciation in 2009	12	13	13	13	15	17	**18**	13
B5. 10 percent of GDP increase in other debt-creating flows in 2009	12	12	19	14	14	15	**15**	11

Sources: Grenadian authorities and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Table A2a. Grenada: External Debt Sustainability Framework, 2005-28 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical	Standard	Projections									
	2005	2006	2007	Average 1/	Deviation 1/	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
External debt (nominal) 2/	**80.0**	**82.0**	**79.2**			**77.3**	**69.8**	**66.8**	**64.1**	**61.8**	**57.4**		**43.6**	**26.2**	
Change in external debt	-9.4	2.0	-2.8			-1.8	-7.6	-2.9	-2.7	-2.3	-4.4		-2.2	-1.7	
Identified net debt-creating flows	5.1	16.1	4.1			9.8	3.1	8.0	4.9	3.4	1.9		3.4	6.3	
Non-interest current account deficit	**29.6**	**30.9**	**30.4**	**20.2**	**9.4**	**33.8**	**32.4**	**30.7**	**27.2**	**24.7**	**22.6**		**20.3**	**19.5**	20.3
Deficit in balance of goods and services	44.6	41.4	34.3			37.8	35.1	31.4	27.9	25.4	23.5		20.6	17.3	
Exports	27.1	28.9	34.6			31.7	32.2	32.5	33.1	33.7	34.5		35.0	36.0	
Imports	71.7	70.3	68.9			69.5	67.3	63.9	60.9	59.1	58.0		55.6	53.4	
Net current transfers (negative = inflow)	-18.9	-13.9	-7.3	-12.4	6.7	-7.0	-5.7	-5.0	-4.8	-4.6	-4.4		-3.7	-2.0	-2.8
Other current account flows (negative = net inflow)	3.8	3.4	3.3			3.0	3.0	4.4	4.2	3.9	3.5		3.5	4.2	
Net FDI (negative = inflow)	**-12.8**	**-15.2**	**-22.7**	**-14.3**	**3.9**	**-24.0**	**-29.1**	**-21.7**	**-21.1**	**-20.6**	**-20.1**		**-17.6**	**-13.8**	-16.3
Endogenous debt dynamics 3/	**-11.7**	**0.4**	**-3.6**			**-0.1**	**-0.2**	**-1.1**	**-1.2**	**-0.7**	**-0.6**		**0.6**	**0.6**	
Contribution from nominal interest rate	1.8	2.2	2.2			2.6	2.7	1.8	1.7	1.9	1.9		2.3	1.6	
Contribution from real GDP growth	-8.8	0.9	-3.2			-2.7	-3.0	-2.9	-2.8	-2.6	-2.4		-1.7	-1.1	
Contribution from price and exchange rate changes	-4.7	-2.7	-2.6			…	…	…	…	…	…		…	…	
Residual 4/	**-14.6**	**-14.1**	**-6.9**			**-11.6**	**-10.6**	**-10.9**	**-7.7**	**-5.8**	**-6.3**		**-5.6**	**-7.9**	
o/w exceptional financing	0.0	-2.3	-0.2			-0.2	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 5/	...	...	75.3			73.4	65.5	63.1	60.9	58.6	55.3		42.8	27.1	
In percent of exports	...	...	218.0			231.5	203.7	193.9	184.1	173.9	160.3		122.3	75.1	
NPV of PPG external debt	**...**	**...**	**75.3**			**73.4**	**65.5**	**63.1**	**60.9**	**58.6**	**55.3**		**42.8**	**27.1**	
In percent of exports	**...**	**...**	**218.0**			**231.5**	**203.7**	**193.9**	**184.1**	**173.9**	**160.3**		**122.3**	**75.1**	
Debt service-to-exports ratio (in percent) 6/	**12.5**	**14.1**	**12.0**			**14.8**	**22.6**	**9.7**	**9.3**	**10.2**	**13.3**		**17.7**	**23.3**	
Total gross financing need (billions of U.S. dollars)	111.2	111.5	71.9			95.5	75.8	94.3	76.4	67.1	67.0		114.0	324.0	
Non-interest current account deficit that stabilizes debt ratio	39.1	28.9	33.2			35.6	39.9	33.7	30.0	27.1	26.9		22.5	21.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	11.5	-1.1	4.3	4.2	6.4	3.7	4.2	4.4	4.6	4.4	4.2	4.3	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	5.6	3.5	3.2	2.4	1.6	4.8	4.7	3.1	2.8	2.5	2.3	3.4	2.0	2.0	2.0
Effective interest rate (percent) 7/	2.3	2.8	2.9	5.5	2.8	3.6	3.8	2.8	2.7	3.2	3.2	3.2	5.4	6.2	5.4
Growth of exports of G&S (US dollar terms, in percent)	-23.6	9.0	28.8	5.7	18.6	-0.4	10.7	8.9	9.3	9.1	9.0	7.8	6.4	6.4	6.4
Growth of imports of G&S (US dollar terms, in percent)	24.0	0.3	5.4	7.4	10.5	9.6	5.6	2.3	2.5	3.8	4.5	4.7	5.2	6.1	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	7.7	10.4	5.3	4.9	6.1	2.9	6.2	-3.3	-7.5	-4.3
Memorandum items:															
Nominal GDP (in millions of US dollars)	549.4	562.1	604.9			657.3	716.9	771.8	829.7	888.0	946.7		1,271.7	2,294.6	

Source: Fund staff simulations.

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

2/ Includes public sector, and publicly guaranteed external debt.

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

4/ In addition to (i) exceptional financing (i.e., changes in arrears and debt relief), (ii) changes in gross foreign assets, and (iii) valuation adjustments, this item includes capital transfers and other investments (net), which have been substantial historically. For projections, this item also includes the contribution from price and exchange rate changes.

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

6/ Excludes debt service on government-guaranteed and other public sector debt.

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

Table A2b. Grenada: Sensitivity Analyses for Key Indicators of External Public Debt, 2008-28
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
NPV of debt-to-GDP ratio								
Baseline	73	66	63	61	59	55	**43**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	73	70	64	62	62	61	**54**	28
A2. New public sector loans on less favorable terms in 2009-28 2/	73	67	65	64	62	59	**50**	41
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	73	70	72	69	67	63	**49**	31
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	73	73	81	76	70	64	**43**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	73	68	67	65	62	59	**46**	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	73	85	90	82	75	67	**44**	27
B5. Combination of B1-B4 using one-half standard deviation shocks	73	71	77	73	69	65	**48**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	73	92	88	85	82	77	**60**	38
NPV of debt-to-exports ratio								
Baseline	232	204	194	184	174	160	**122**	75
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	232	216	196	187	182	178	**155**	77
A2. New public sector loans on less favorable terms in 2009-28 2/	232	207	200	192	184	172	**142**	114
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	232	204	194	184	174	160	**122**	75
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	232	287	396	363	331	295	**197**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	232	204	194	184	174	160	**122**	75
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	232	263	276	249	223	196	**124**	75
B5. Combination of B1-B4 using one-half standard deviation shocks	232	239	274	257	239	218	**159**	97
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	232	204	194	184	174	160	**122**	75
Debt service-to-exports ratio 6/								
Baseline	15	23	10	9	10	13	**18**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	15	23	12	9	10	14	**27**	25
A2. New public sector loans on less favorable terms in 2009-28 2/	15	23	12	15	20	23	**20**	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	15	23	10	9	10	13	**18**	23
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	15	29	22	33	33	37	**30**	37
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	15	23	10	9	10	13	**18**	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	15	23	22	27	27	28	**19**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	15	26	14	17	17	21	**23**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	15	23	10	9	10	13	**18**	23
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 7/	-2	-2	-2	-2	-2	-2	**-2**	-2

Source: Staff projections and simulations.

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 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Export 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).

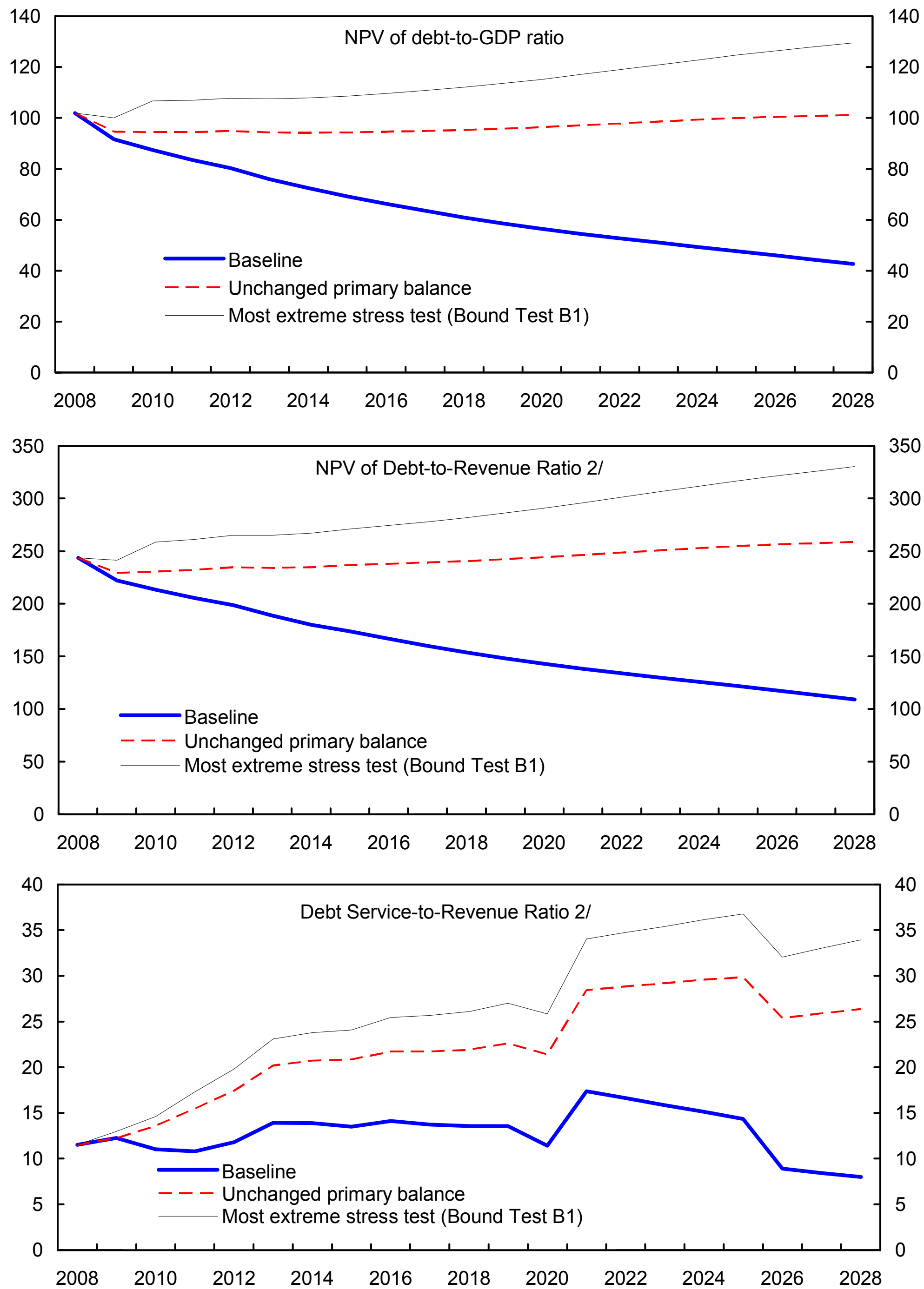
4/ Includes official and private transfers, and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Excludes debt service on government-guaranteed and other public sector debt.

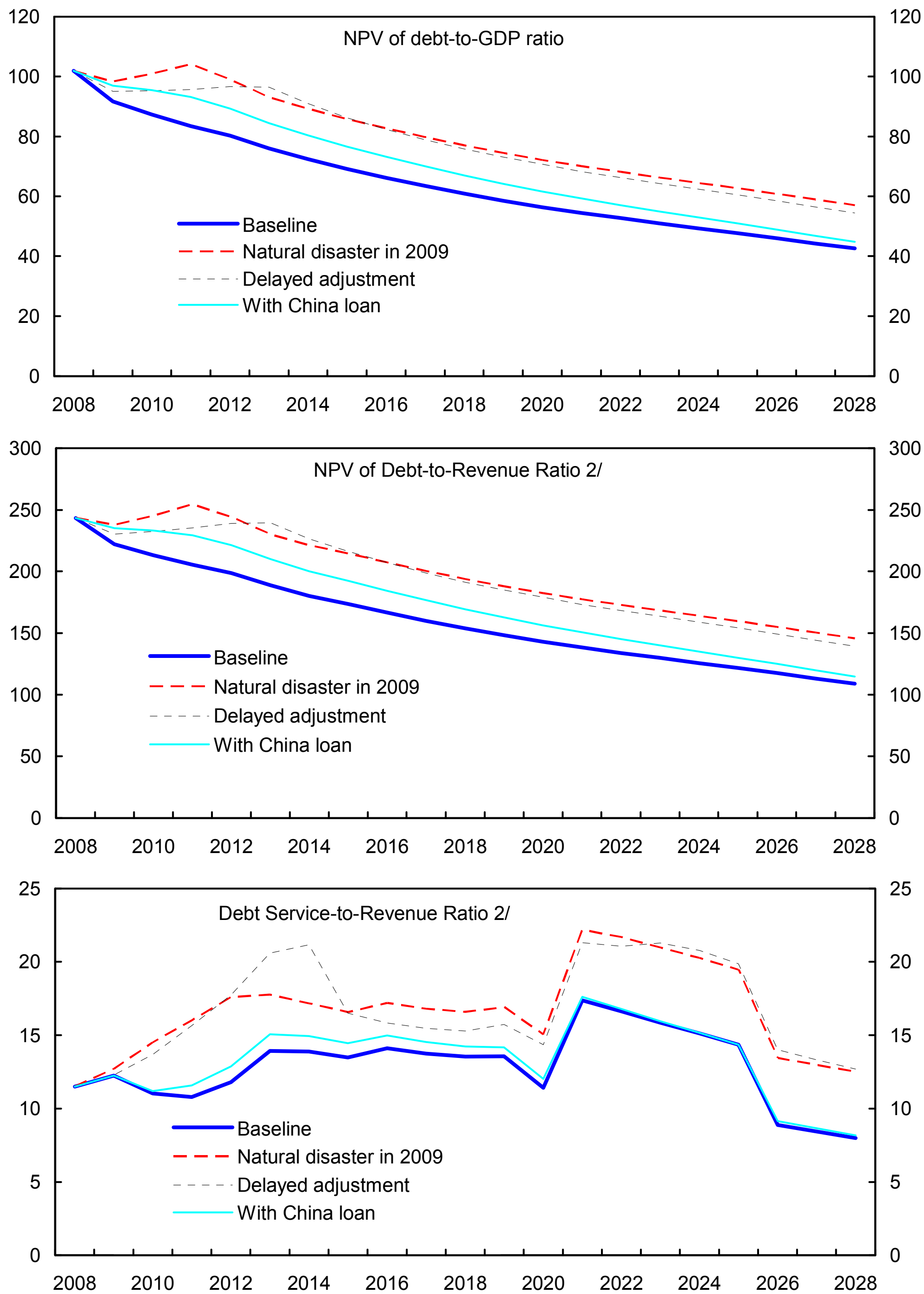
7/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1a.Grenada: Indicators of Public Debt Under Alternative Scenarios, 2008–28 1/
(In percent)



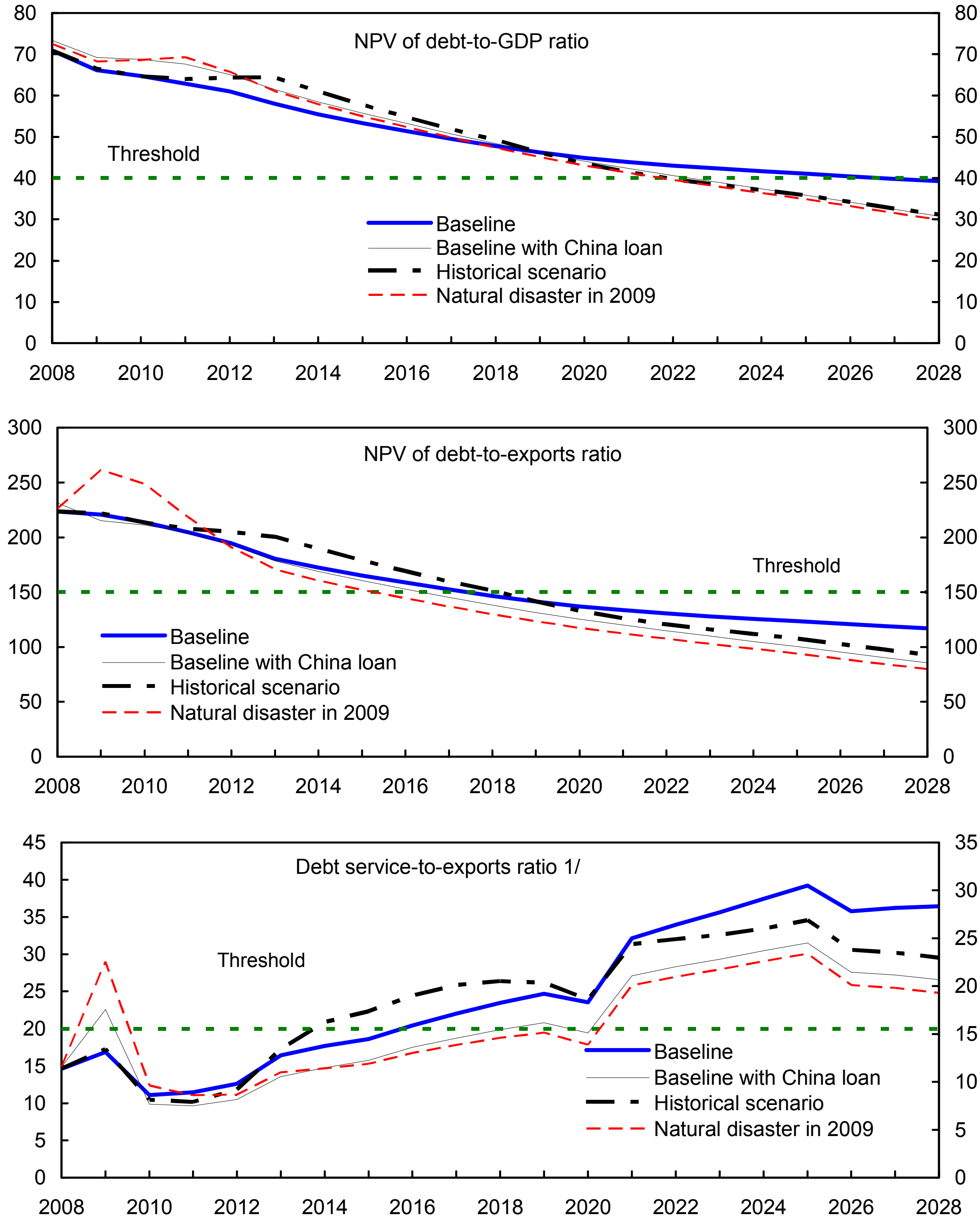
Source: Fund staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

Figure 1b.Grenada: Indicators of Public Debt Under Alternative Scenarios, 2008–28 1/
(In percent)



Source: Fund staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

Figure 2. Grenada: Indicators of External Debt
Under Alternative Scenarios, 2008–28
(In percent)



Source: Fund staff projections and simulations.
1/ Excludes debt service on government-guaranteed and other public sector debt.

INTERNATIONAL MONETARY FUND

GRENADA

Staff Report for the 2008 First Review Under the Poverty Reduction and Growth Facility Arrangement, Request for Waiver of Performance Criterion, Financing Assurances Review, and Request for Rephasing and Extension of the Arrangement and Request for Augmentation

Informational Annex

Prepared by Western Hemisphere Department

June 20, 2008

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Appendices

Appendix I. Grenada: Fund Relations
(As of May 31, 2008)

I. Membership Status: Joined: August 27, 1975;

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11.70	100.00
Fund Holdings of Currency	13.89	118.76
Reserve Position	0.00	0.00

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	0.93	100.00
Holdings	0.07	7.11

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Emergency Assistance	2.19	18.75
PRGF Arrangements	1.56	13.33

V. Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr 17, 2006	Apr 16, 2009	10.53	1.56

VI. Projected Obligations to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2008	**2009**	**2010**	**2011**	**2012**
Principal	0.73	1.46	0.00	0.16	0.31
Charges/Interest	0.06	0.07	0.03	0.03	0.03
Total	0.79	1.54	0.03	0.19	0.34

VII. Implementation of HIPC and MDRI Initiatives: Not Applicable

VIII. Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment under a four-year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

IX. Exchange Arrangement: Grenada is a member for the ECCB, which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. In practice, the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. Grenada accepted the obligations of Article VIII, Sections 2, 3, and 4 in January 1994. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation: Grenada is on a 24-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on September 26, 2007 (IMF Country Report No. 08/351).

XI. 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.

XII. Technical Assistance:

Caribbean Regional Technical Assistance Centre (CARTAC)

CARTAC has provided wide-ranging assistance in developing a Medium-Term Macroeconomic Framework (as part of the Structural Adjustment Technical Assistance Program); preparing to implement a VAT, building upon previous work, including draft VAT/excise laws (prepared by LEG) and a VAT sensitivity study and training/publicity tasks (undertaken with CARTAC/FAD assistance); assisting customs with ASYCUDA/ ASYCUDA++ and with the exchange of information with inland revenue; drafting legislation to establish the single supervisory agency, Grenada Authority for the Regulation of the Financial Institutions (GARFIN) and supporting the newly established agency; and training for nonbank supervisors. CARTAC has also provided substantial assistance in improving the production and dissemination of macroeconomic statistics, including national accounts compilation; rebasing of the consumer price index; initiating work to prepare export-import price indices; training in the processing of trade data; and improving external sector statistics as part of a major CARTAC/ECCB project.

Other Technical Assistance (2007–08):

FAD and LEG have provided extensive assistance in tax policy and administration. In particular, FAD and LEG have assisted in the design and drafting of a VAT and related changes to excise taxes. LEG has also assisted with training for tax officials and with the finalization of the VAT and excise laws. A series of FAD missions have provided further assistance on implementing a VAT and on tax and customs administration more broadly.

Appendix II. Grenada: Relations with the World Bank Group

(As of April 30, 2008)

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY06–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consisted of about US$51.3 million in IDA resources for the four OECS IDA eligible countries. An OECS CAS progress report will be presented to the Board in June 2008.

A. Projects

There are eight active World Bank projects in Grenada for a net commitment of approximately US$46.61 million.

The OECS E-Government for Regional Integration Program is scheduled for Board consideration on May 27, 2008. This project consists of a US$2.4 million loan to Grenada and is designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, health, education, agriculture, tourism, postal, among others that may emerge during the early stages of implementation of Phase 1.

The Grenada Technical Assistance Project, approved on March 13, 2008 for US$2.78 million, has the following development objectives: (i) improve the efficiency and effectiveness of Customs, (ii) improve the efficiency of tax administration and decrease transaction costs of paying taxes and consequently increase tax compliance, (iii) modernize investment promotion, and, (iv) enhance the Government's support to the export sector through improve access to trade information and the strengthening the capacity of the Bureau of standards to provide conformity assessment and quality assurance. The medium-to-long-term direct impact of the project is likely to be substantial, including: better quality service and reduced clearance time at customs; reduced time and lower transaction cost for paying taxes and hence improved compliance; greater access to trade data and quality assurance support for exporters; and increased investments as a result of a more streamlined and faster system for investment approval in Grenada.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) was approved in March 2007 as the world's first ever multi-country catastrophe insurance pool. The bank has approved a US$4.5 million IDA credit for Grenada to finance their contribution to the fund over three years. The Facility will enable governments to purchase catastrophe insurance coverage against adverse natural events, such as a major earthquake or hurricane. The CCRIF allows participating countries to pool their country-specific risks into one, better-diversified portfolio, resulting in a substantial reduction in the premium cost of 45–50 percent.

The Public Sector Modernization Technical Assistance Project, approved in December 2005 for US$3.5 million, assists the Government of Grenada to begin the process of modernizing its public sector. The project has the following components: Component 1) will finance: (i) the strategic review of the proposed organizations and functions for conversion to Executive Agencies status; (ii) the preparation of detailed, modernization and financing plans for each conversion; (iii) the preparation of a Policy Framework for Executive Agencies; and (iv) the preparation of enabling legislation-including the preparation of a draft Executive Agencies bill to be presented to Cabinet and Parliament under Grenada's legal framework. Component 2) will support the strengthening of the Small Business Development Centre (SBDC) of the Grenada Industrial Development Corporation (GIDC) that will provide technical assistance and training to the micro/small segment of the business community. Component 3) will support Grenada in taking the lead to jointly procure select goods and services with other OECS countries. Component 4) will strengthen the Public Sector Reform Unit by providing financial and technical resources and training on key policy areas.

The Telecommunications and ICT Development Project, approved in May 2005 for US$540,000, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the Organization of Eastern Caribbean States (OECS). The project has the following four components: Component 1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Component 2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF). Component 3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure. Component 4) will ensure management and administration of the overall project.

The Hurricane Ivan Emergency Project was approved in November 2004 for US$10 million, with an additional US$9.8 million being added in September 2005. This emergency assistance for Grenada was implemented to respond to the effects of a devastating hurricane that hit the island in September 2004. The project supports the recovery efforts of the government of Grenada through the financing of critical imports and rehabilitation activities in key social sectors.

The Grenada Education Reform Project, approved in June 2003 for US$8.0 million, is a follow-up to an earlier education project. Its objective is to build human capital, with a view to contributing to economic diversification and more sustainable growth. Key objectives are to: (i) increase equitable access to secondary education; (ii) improve the quality of the teaching and learning processes, with more direct interventions at the school level and an increased focus on student-centered learning, and (iii) strengthen management of the education sector and to improve governance of schools.

The HIV/AIDS Prevention and Control Program, approved in July 2002 for US$6.04 million, is funded under the Multi-Country APL for the Caribbean Region. Its objectives are to: (i) curb the spread of the HIV/AIDS pandemic; (ii) reduce the morbidity and mortality attributed to HIV/AIDS; (iii) improve the quality of life for persons living with HIV/AIDS; and (iv) develop a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic. The Bank's support to Grenada under this project amounts to US$6.0 million

B. Economic and Sector Work

The Bank has completed a series of analytical work relating to public sector capacity in the OECS including a number of Public Expenditure Reviews, an Institutional and Organizational Capacity Review and, in late 2007, a Country Fiduciary Assessment. The Bank also prepared an OECS study on Growth and Competitiveness (2005), a Caribbean Air Transport Report (2006), and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007). In addition, an OECS Private Sector Financing Study was completed in early 2008.

Grenada will also benefit from ongoing and planned analytical and advisory activities including the following: A Caribbean Skills and Curriculum Study, a Caribbean Financial Sector and Regulation report, a Caribbean Social Protection Strategy Review, a Trade Integration in the Caribbean: Policy Options for Sustained Growth, Job Creation, and Poverty Reduction report, a CARICOM study on Managing Nurse Migration, and an OECS Tourism Backward Linkages Study. In addition, a Regional Energy Security report is planned.

C. Financial Relations
(In millions of U.S. dollars)

Operation	Original Principal	Available[1]	Disbursed[1]
E-Government for Regional Integration Program	2.40	2.40	0.00
Grenada Technical Assistance Project	1.86	1.97	0.00
The Caribbean Catastrophe Risk Insurance	4.50	2.49	2.44
The Public Sector Modernization Technical Assistance Project	3.50	3.44	0.67
Telecommunications & ICT Development Project	0.54	0.38	0.22
Hurricane Ivan Emergency Recovery Project	19.77	6.66	13.87
Grenada Education Reform Project	8.00	1.79	5.89
HIV/AIDS Prevention And Control Program	6.04	3.65	1.85
Total	**46.61**	**22.78**	**24.94**

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year ending June 30)

	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Total disbursements	1.99	2.46	2.78	6.30	2.77	5.93	4.27	5.83	7.57
Repayments	0.07	0.06	0.06	0.07	0.22	0.63	1.10	1.49	1.58
Net disbursements	1.92	2.40	2.71	6.23	2.55	5.30	3.17	4.35	5.99
Interest and fees	0.08	0.22	0.29	0.39	0.48	0.53	0.65	0.78	0.83

* Figures as of April 30, 2008

Appendix III. Grenada: Relations with the Caribbean Development Bank

(As of April 30, 2008)

A. New Projects and Technical Assistance

Since Hurricane Ivan in 2004, Grenada has benefited from special financing from the Caribbean Development Bank (CDB). The financing apportioned to Grenada incorporates a blend of the Bank's Special Development Funds (SDF) and ordinary capital resources, designed to yield a concessionary grant element of 35%. The SDF, administered exclusively for high-priority development loans, offer loans with longer maturities and grace periods, as well as lower interest rates than those applied in the Bank's ordinary operations.

Schools Rehabilitation and Reconstruction Project

In May 2007, an investment loan of US$7.47 million was approved to assist the Government of Grenada to improve the quality and effectiveness of basic education in Grenada. Its specific objective is the enhancement of the learning and teaching environment through reconstruction and expansion of facilities at one primary and three secondary schools. It also allows for the expansion of technical/vocational and science laboratories in some of the project schools. An institutional strengthening component provides for consultancies services to assist Government enhance the capacity of school principals to plan and manage their resource; and to assess the current programme for training of technical/vocational teachers. The project is expected to benefit the student and staff population of the project schools, some of whom are currently accommodated in inadequate temporary facilities.

Project Management Training

Six public officials from Grenada benefited from a CDB-financed, regional training programme in project management training emphasizing the quality of project design and the efficiency of execution. The training programme awards a postgraduate certification in Project Planning, Appraisal and Management, and is slated to run for three years.

Institutional Strengthening - The Ministry of Communications, Works and Transport

In March 2008, a technical assistance grant of US$466,200 was approved to assist with the establishment of a Project Implementation and Management Unit within the Ministry, and with the conduct of an organizational assessment of the Ministry by consultants with a view to improving project implementation and management capacity.

B. On-going Activities

Loan disbursements continued for projects under implementation. These included capital works to upgrade and rehabilitate physical infrastructure including the road and bridge network; reduce the risk of rock fall and landslip events in the aftermath of natural hazards;

improve the shelter conditions of low-income households through the provision of 116 serviced lots; and facilitate urban re-development.

C. Financial Relations

(As of December 31, 2007)
(In millions of U.S. dollars)

Item	2002	2003	2004	2005	2006	2007
Cumulative total credit approved[1]	112.8	120.7	143.8	169.0	180.1	199.1
Cumulative disbursements[2]	88.6	97.0	99.7	112.8	130.0	143.3
Disbursements						
Ordinary Capital Resources	1.0	4.7	5.8	5.6	3.3	1.0
Special Development Fund	2.5	4.3	3.9	8.4	9.8	7.0
Other Special Fund Resources	1.4	0.1	0.1	0.6	3.9	6.7
Amortization[3]						
Ordinary Capital Resources	0.7	0.8	0.3	1.2	1.5	1.4
Special Development Fund	1.7	1.7	1.7	1.6	1.6	1.0
Other Special Fund Resources	0.2	0.2	0.2	0.2	0.3	0.2
Outstanding debt (end of period)	55.7	61.2	67.1	77.6	91.6	101.8
Interest and Commitment Fees						
Ordinary Capital Resources	1.1	1.1	1.3	1.6	1.9	2.0
Special Development Fund	0.7	0.6	0.6	0.7	0.9	0.3
Other Special Fund Resources	0.2	0.2	0.2	0.2	0.2	1.1

Source: Caribbean Development Bank.

[1] Loans and grants to Government of Grenada.

[2] Including valuation adjustments.

[3] Ordinary capital resources (OCR) are loans on non-concessional terms. Special development funds (SDF) and other special fund (OSF) resources are soft loans. Commitment fees apply only to OCR.

Appendix IV. Grenada: Statistical Issues

Since March 2001, Grenada has participated in the Fund's General Data Dissemination System (GDDS). Its metadata are posted on the Dissemination Standards Bulletin Board, although these have not been certified and updated recently. The metadata include short- and medium-term plans for statistical development. While the dataset provided by the authorities is generally adequate for program purposes, identified discrepancies would need to be increasingly addressed. Some of the outstanding issues are detailed below.

A. Real Sector

There are a number of deficiencies in the real sector statistics. National accounts are provided annually but are subsequent to frequent revisions—major revisions were undertaken in 2007 to extend coverage of national accounts to the offshore university as well as to improve construction activity estimates. GDP by expenditure is available only with long lags, and real GDP estimates for the tourism sector are not computed. The estimation of gross capital formation and sectoral price deflators needs to be improved. There are discrepancies in the foreign trade estimates prepared by the customs department and the Central Statistical Office (CSO), and coverage, consistency, and timeliness of tourism data are limited.

Consumer prices are the only real sector data provided between missions; however these data are subject to frequent revisions. The basket used to compute the consumer price index was last updated in 2000. A producer price index is not available.

Labor statistics are limited and outdated, with 1998 being the most recent year for which data are available. There are no regular wage and unemployment data. Data collected during the 2001 population census are still being processed. The CSO is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics and is also conducting a Country Poverty Assessment, with assistance of the Caribbean Development Bank.

B. Public Finances

The reporting of central government data has improved in recent years, with quarterly data being provided to the ECCB, WHD, and other users in Fund economic classification format with lags of about two months. However, there appear to be inaccuracies in the composition of public expenditure. Moreover, capital expenditures could include current expenditure items, and the nature of expenditures in the Public Sector Improvement Program needs to be scrutinized carefully. In addition, spending on outsourced activities is not broken down into the appropriate categories, but rather grouped into a single category.

The coverage of the rest of the public sector is very limited, and there are no consolidated public sector accounts. There is no systematic reporting of information to the ministry of finance. Annual statements for some public enterprises are provided during Fund missions. It would be useful to institute a mechanism for the regular reporting of financial data pertaining to the rest of the public sector.

The authorities do not report fiscal data for publication in IFS. 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.*

C. Monetary Accounts

The ECCB compiles monthly data on depository corporations (central bank and other depository corporations) and reports the accounts attributable to Grenada to STA using the standardized report forms with a lag of about two months for publication in the *IFS* and the *IFS* Supplement. The ministry of finance does not collect data regularly on finance companies, building societies, and credit unions, which also accept deposits, and on other financial corporations; this may improve with the formation of the Grenada Authority for the Regulation of Financial Institutions. While the dataset provided by the authorities is generally adequate for program purposes, identified discrepancies would need to be increasingly addressed. These include appropriate classification of government indebtedness (in particular, a specific 2005 loan). However, these data inadequacies do not pose problems to program reviews.

Expanding institutional coverage to include all depository corporations and the other financial corporations, such as credit unions and insurance companies, would enhance understanding of savings and credit as well as improve compilation of monetary aggregates. In addition, improved classification of financial instruments and loan categorization would enhance identification of credit flows to different sectors of the economy.

D. Balance of Payments

The ECCB compiles and reports balance of payments statistics on an annual basis, using information collected by the CSO. The 2006 data were finalized in 2008 and are published in the IFS and Balance of Payments Yearbook.

Many of these statistics are based on information collected from surveys, and are not comprehensive. Trade statistics have traditionally been more reliable and available by SITC classification on a quarterly basis. However, reliability and detail of trade statistics have suffered considerably in the aftermath of Hurricane Ivan (September 2004) and reporting is not yet fully back on track.

Enhanced data sources and better compilation procedures are needed to improve the accuracy of balance of payments statistics. Moreover, quarterly balance of payments statistics and international investment position data are not compiled.

E. External and Domestic Debt

The database for government external debt is quite comprehensive, and can be used to provide detailed and reasonably up-to-date breakdowns of disbursements and debt service. However, data availability on domestic debt, government-guaranteed debt, and debt of public enterprises is limited, and there is no data on private external debt.

GRENADA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF JUNE 12, 2008

	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]	Apr 2008	Jun 2008	M	M, with 2- to 3-month lag	A/Q
Reserve/Base Money	Apr 2008	Jun 2008	M	M, with 2- to 3-month lag	A/Q
Broad Money	Apr 2008	Jun 2008	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Apr 2008	Jun 2008	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Apr 2008	Jun 2008	M	M, with 2- to 3-month lag	A/Q
Interest Rates[4]	Apr 2008	Jun 2008	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Apr 2008	Jun 2008	M	M, with 1- to 2-month lag	A/M
Revenue, Expenditure, Balance and Composition of Financing[5]– Central Government	Apr 2008	Jun 2008	M	Q, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Apr 2007	Jun 2008	M/A	Q, with 1- to 2-month lag	A
External Current Account Balance	Dec 2007	Feb 2008	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2007	Feb 2008	A	A, with long lag	A
GDP/GNP	Dec 2007	Apr 2008	A	Staff Mission	A
Gross External Debt[7]	Apr 2008	Jun 2008	Q	Q, with 1-month lag	A/Semi-annual
International Investment Position	NA	NA	NA	NA	NA

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review under PRGF Arrangement with Grenada, Extends Arrangement, and Approves US$4.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Grenada's economic performance under the Poverty Reduction and Growth Facility (PRGF) and approved the disbursement of an amount equivalent to SDR 2.98 million (about US$4.8 million). Given the delay in completing this review and sharp increases in world food and fuel prices, the Board also approved a one-year extension of the PRGF arrangement to 2010. It further approved the rephasing the remaining disbursements and augmenting the arrangement by SDR 1.46 million (about US$2.4 million).

The first review was delayed because of the time needed to address an unregulated bank, fiscal slippages, and the slow pace of structural reforms. The Executive Board also granted the authorities' request for a waiver of a missed 2006 quantitative performance criterion on the central government primary balance, which was missed in part because of higher-than-anticipated costs of reconstruction.

The three-year PRGF arrangement with Grenada was originally approved for a total amount equivalent to SDR 10.53 million (about US$17.1 million) on April 18, 2006 (see Press Release No. 06/75). Following the augmentation, the total amount of the arrangement will be equivalent to SDR 11.99 million (about US$19.4 million).

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"The authorities are to be commended for implementing policies to bring the economic reform program back on track. Grenada's economy has rebounded from the devastation of Hurricanes Ivan and Emily, driven by spending for reconstruction and by tourism. While annual inflation is projected to increase in 2008, reflecting rising world fuel and food prices, medium-term prospects are favorable, given several major tourism projects under way and in the pipeline.

"The authorities have made considerable progress with their reform agenda, including introducing the National Reconstruction Levy and a flexible fuel pricing mechanism, strengthening tax administration, reducing vulnerabilities, and enhancing transparency and the investment environment. However, more progress needs to be made in strengthening fiscal policies.

"Restoring fiscal and debt sustainability remains the centerpiece of the authorities' program. The fiscal program targets an overall deficit for 2008 in line with debt sustainability. The authorities are taking steps to improve expenditure control and strengthen capacity to screen and prioritize capital projects.

"The authorities are working on a resolution strategy for an unregulated bank. The establishment of the Grenada Authority for the Regulation of Financial Institutions (GARFIN) will promote financial sector stability by enhancing supervision of the broader financial sector, including the insurance sector.

"The revised structural reform agenda reflects the authorities' priorities and implementation capacity and will focus in 2008 on enhancing the investment climate, reforming the tax concessions regime, and improving tax and customs administration.

"The authorities remain committed to reducing poverty and improving social indicators. They aim to address the impact of rising world fuel and food prices through targeted assistance to vulnerable groups. The Fund has approved an increase in its financial assistance to Grenada to help with the higher food import bill. Completion of the Country Poverty Assessment in December 2008 will support preparation of the full Poverty Reduction Strategy Paper," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.