May 2010
IMF Country Report No. 10/139

Grenada: Fifth Review Under the Extended Credit Facility, Request for Waivers of Nonobservance of Performance Criteria and Request for a Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurance Review

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on February 10, 2010 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 March 25, 2010. 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.

- Supplement to the staff report.

- A Press Release.

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

Copies of this report are available to the public from

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

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GRENADA

Fifth Review Under the Extended Credit Facility, Request for Waivers of Nonobservance of Performance Criteria and Request for a Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurances Review

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

Approved by Rodrigo Valdés (WHD) and Michele Shannon (SPR)

March 25, 2010

EXECUTIVE SUMMARY

- **Context:** Economic activity contracted significantly in 2009, reflecting a collapse in tourist arrivals and FDI-financed construction, although the pace of decline slowed in the last quarter. The banking system remains well capitalized, although NPLs have increased. The collapse of the Trinidad and Tobago-based CL Financial Group has heightened financial sector uncertainty.
- **Existing Arrangement:** In April 2006, the Executive Board approved a PRGF arrangement with 90 percent of quota (SDR 10.53 million). The Board augmented access to 102.5 percent of quota in July 2008 (first review) and to 140 percent of quota in June 2009 (third review). The fourth review was completed in November 2009. The completion of the fifth review, based on end-November 2009 performance criteria, would release a final disbursement of SDR 1.68 million. Under the new architecture for low-income country lending, PRGF arrangements were converted into ECF arrangements on January 7, 2010. The current ECF arrangement expires on April, 16, 2010.
- **Program performance:** Four of the six quantitative performance criteria for end-November 2009 were met. The primary balance excluding grants target was missed by 3.3 percent of GDP due to higher-than-expected expenditures related to donor-financed capital projects and overruns on current spending associated with a sharp rise in unpaid invoices less than 60 days old. The target on the nonaccumulation of external official arrears was breached in several cases due to the late arrival of external budgetary support, short-term disruptions associated with systems upgrades, and other procedural weaknesses. The authorities are requesting waivers for the missed performance criteria based on their implementation of corrective measures. The structural benchmark on introducing a Value Added Tax (VAT) was met, but establishing a Public Procurement Authority is being delayed until September 2010 to allow additional time to revise the Public Procurement Act in line with international best practices, with TA from the OECD.
- **Proposed Successor Arrangement:** The authorities have requested a successor arrangement (ECF) to continue their comprehensive economic reforms, to reduce vulnerabilities, and to foster economic growth, paving the way for poverty reduction. Proposed access under the arrangement is 75 percent of quota (SDR 8.775 million), with an initial disbursement of SDR 1.275 million (10.9 percent of quota) to become available upon approval of the request.
- **Mission:** A mission visited St. George's during February 1–10, with a follow-up mission on March 8–9, 2010, and met with Prime Minister Thomas, Minister of Finance Burke, Permanent Secretary Antoine, other senior officials and representatives of the private sector, financial sector, the opposition and trade unions. The team comprised Ms. Thacker (Head), Messrs. Monroe and Kang (all WHD), Ms. Kaltani (SPR), and Mr. Rodriguez (FIN). ECCB and CDB staff also participated. Mr. Hockin (OED) joined the follow-up mission.

Contents Page

I. INTRODUCTION

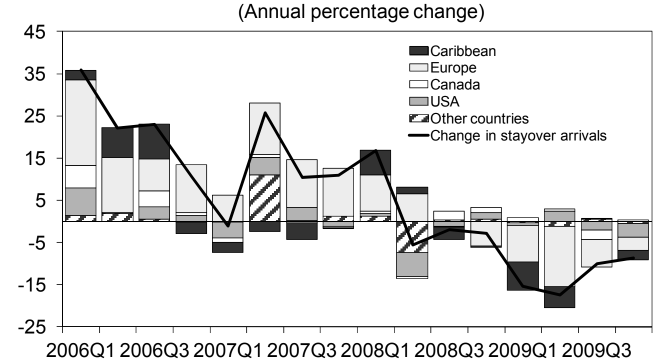
1. **Grenada's significant progress with its home-grown economic program, supported by the Extended Credit Facility (ECF), has been slowed by the global crisis.** Following positive but declining growth in 2007 and 2008, economic activity slowed sharply in 2009, reflecting the strong drag of the global crisis on tourism receipts and FDI-financed construction. As a result, the fiscal situation deteriorated with the debt-to-GDP ratio reaching 122 percent at end-December 2009, up from 102 percent the previous year. In addition, the collapse of the Trinidad and Tobago-based CL Financial Group has increased financial sector uncertainty and may entail fiscal costs.

2. **The current ECF arrangement with the Fund has helped to mitigate the negative impact of the global crisis on Grenada's economy.** This arrangement, which was augmented in 2008 and 2009, together with the grants and concessional resources that it helped mobilize from other development partners, has provided much-needed financing, allowing for countercyclical policy. It has also helped to promote macroeconomic and social stability under difficult circumstances (Box 1).

II. RECENT DEVELOPMENTS

3. **Economic activity contracted significantly in 2009, but the pace of decline slowed in the last quarter.** Real GDP is estimated to have fallen by 7.7 percent, 1.5 percentage points more than anticipated at the time of the fourth review, reflecting a decline in tourist arrivals (stayover arrivals fell 13 percent y/y) and a collapse in FDI-financed construction activity due to financing difficulties (52 percent decline y/y). Tightening financial conditions and an increase in unemployment also undermined domestic demand. However, a slower decline in both the stayover arrivals and FDI-financed construction in Q4 2009 points to a possible bottoming out. The external current account deficit is estimated to have narrowed by more than 10 percentage points of GDP, as a sharp reduction in imports more than offset lower tourism receipts.

Grenada: Stayover Arrivals, 2006Q1–2009Q4
(Annual percentage change)



Sources: Board of Tourism; and Fund staff calculations.

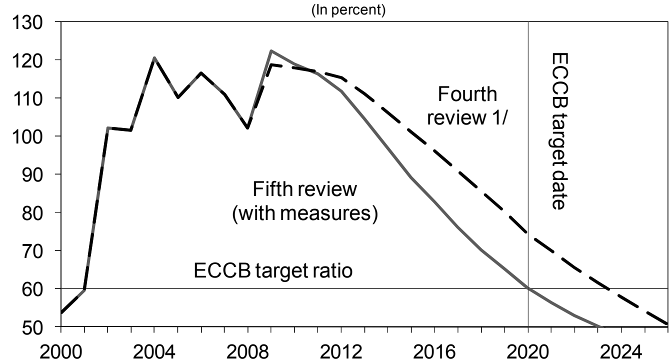
4. **The decline in international food and fuel prices compared with 2008 together with weak domestic demand pushed consumer prices down, with the CPI falling by 2.4 percent (y/y) in December 2009 (Figure 1).** Retail fuel prices have been adjusted on a

four-week cycle in line with international prices, except in November following a major road closure.

5. **Growth of monetary aggregates has slowed and the quality of commercial bank loan portfolio has deteriorated, reflecting the weak economy.** The growth of private sector credit and broad money slowed to 4.1 percent and 3.3 percent, respectively, in the 12 months ending December 2009, compared to 10.2 percent and 4.2 percent, respectively, at end 2008. Capital adequacy ratios remain strong (15.9 percent as of December 2009, Table 10), well above the minimum required ratio of 8 percent. However, the ratio of nonperforming loans (NPLs) to total loans worsened to 5.9 percent at December 2009 from 3.5 percent at December 2008. In addition, banks have in a few cases been offering a six-month moratorium on principal payments on private sector loans, leading to some understating of NPLs. Bank profitability has also declined somewhat in recent months.

6. **The authorities shifted their fiscal stance in 2009 in an effort to deal with the impact of the crisis.** Total revenues were in line with the program projection at the time of the fourth review, but spending was significantly higher than expected owing to faster execution of donor-financed capital projects and some overruns in current spending, the latter reflected in part difficulties with commitment control. As a result, the fiscal stance was expansionary rather than contractionary as originally expected. The public debt-to-GDP ratio, after declining by about 14 percentage points during 2007–08, jumped by more than 20 percentage points to 122 percent in 2009, with about 40 percent of the jump due to lower GDP.

Grenada: Evolution of Debt-to-GDP Ratio
(In percent)



Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Expressed as a percent of revised GDP.

7. **The collapse of the Trinidad and Tobago-based CL Financial Group poses a major risk to financial sector stability, with potential fiscal implications.** Judicial managers for one of its subsidiaries, the British American Insurance Company (BAICO) have concluded that the company is insolvent and recommended the creation of a new company to take over its ECCU operations.[1] Liquidity problems at another subsidiary, Colonial Life Insurance Company (CLICO), belonging to the same group, are still being assessed.

[1] At the regional level, BAICO is estimated to have a negative net worth of some EC$981.5 million (8 percent of GDP).

8. **The government intends to proceed directly with the liquidation of Capital Bank, as soon as the court allows.** Initiating liquidation of this unregulated bank was a performance criterion for the third review, which was met. However, liquidation has been delayed due to legal challenges by the owner. No fiscal costs are expected.

III. Program Performance Under the Current ECF Arrangement

9. **The authorities met four of the six quantitative performance criteria at end-November 2009.**

- **The primary deficit excluding grants (measured below the line for program purposes) was higher than programmed by EC$55 million (3.3 percent of annual GDP).** This reflects a combination of factors, including higher-than-expected expenditures financed by: (i) accelerated external disbursements on donor-financed projects (1.6 percent of GDP).[2] (ii) a run up in unpaid invoices (1.2 percent of GDP), and (iii) proceeds from land sales (0.3 percent of GDP). On the spending side, this mainly reflected higher-than-programmed capital spending and overruns on goods and services (utilities, communications and travel) and on transfers and subsidies. Although unpaid invoices increased, the target for domestic arrears older than 60 days was met by EC$2.5 million (0.2 percent of GDP).

- **Corrective Actions:** The authorities recognize the need to improve control over expenditure commitments. As corrective measures, they will (i) issue a finance circular limiting capital spending to EC$133 million (prior action) in 2010; (ii) conduct quarterly budget reviews (starting in April for Q1) to ensure that spending is adjusted in line with developments in revenues and financing availability; (iii) institutionalize regular meetings (at least quarterly) with line ministries to establish expenditure commitment controls, and (iv) continue to streamline government accounts to move to a Single Treasury Account System according to a schedule to be defined by the first review. In addition, they are working with CARTAC and other donors as part of the overall enhancement of public financial management to institute a comprehensive commitment control system by February 2011 that will restrict spending units from undertaking commitments without authorization.

- **The authorities also missed the continuous performance criterion on nonaccumulation of external arrears, due to several late payments to official**

[2] The authorities also underreported external disbursements in the first half of 2009 by EC$4.7 million, but the performance criterion on the primary balance excluding grants at end-June 2009 was still met.

creditors. Late arrival of external budgetary support,[3] procedural weaknesses, and short-term procedural disruptions related to a software upgrade at the Ministry of Finance together with a move to an electronic funds transfer system with the ECCB contributed to the delays.

- **Corrective Actions:** The authorities have cleared all of these arrears and are taking steps to improve procedures to project external disbursements and execute payments on a timely basis, mainly by strengthening procedures and internal checks between the Debt Management Unit (DMU), the Budget Office, Accountant General's Office and the Treasury. In addition, as discussed below, the DMU will put in place a debt management strategy with MCM assistance.

On the basis of the above corrective actions, the authorities have requested waivers of the missed performance criteria.

Program Performance, end-November 2009

	Prog.	Adjusted	Actual	Margin	In percent of GDP	Status
Performance Criteria:	(In millions of Eastern Caribbean dollars)					
Central government primary balance excluding grants (floor)	-77.9	-80.5	-135.7	-55.2	-3.3	Not met
Stock of central government domestic arrears (ceiling)	25.0	25.0	22.5	2.5	0.2	Met
	(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)	4.0	4.0	0.0	4.0	0.2	Met
Stock of external short term debt (ceiling)	0.0	0.0	0.0	0.0	0.0	Met
Contracting and guaranteeing of bilateral concessional external debt by the central government with maturity of at least one year (ceiling)	0.0	0.0	0.0	0.0	0.0	Met
Central government or guaranteed external arrears accumulation (ceiling)	0.0	0.0	12.2	-12.2	-0.7	Not met
Indicative Target:	(In millions of Eastern Caribbean dollars)					
Change in net credit of the banking system to the public sector (ceiling)	35.2	57.4	-0.2	57.6	3.5	Met

10. **The authorities made important progress in the structural reform area:**

- **A VAT was introduced on February 1, 2010,** despite strong pressure, including from the business community, to delay implementation given the difficult economic environment. The VAT is being levied at a standard rate of 15 percent, with limited

[3] As noted above, project disbursements took place faster than expected. By contrast, external budgetary support was delayed, arriving in December 2009: a US$6.4 million Policy Based Loan (PBL) from the Caribbean Development Bank (CDB) and €10 million in grants from the European Union (EU), of which €5 million came under the Vulnerability Flex (VFlex) facility.

exempt or zero rated items, and with rates for mobile telephone and tourism services at 20 and 10 percent, respectively.

Status of Structural Benchmarks Under the Program

Benchmark	Target Date	Status
Introduce a VAT	February 2010	Met
Establish a Public Procurement Authority	March 2010	Not met; Act being revised

- The government is working with the OECD to revise the Public Procurement Act in line with international best practices. It is now expected that a Public Procurement Department will be fully operational by September 2010, six months later than the original target date.

IV. The Authorities' Program for 2010–2013

11. **In the 2010 Budget Statement, the government reaffirmed its commitment to continue its economic reform program and bring down public debt.** In this context, the authorities have requested Fund support under a new ECF arrangement with the following key objectives:[4]

- **Ensuring fiscal and debt sustainability** by placing the public debt-to-GDP ratio firmly on a downward trajectory, reaching the ECCB recommended target of 60 percent by 2020;

- **Reducing vulnerabilities in the financial system** by strengthening the supervision of both the banking and the nonbanking sector and resolving issues related to the collapse of the CL Financial Group; and

- **Generating high and sustainable growth through structural reforms** that will encourage private sector-led growth; and reducing poverty including by creating a more effective social safety net.

A. Ensuring Fiscal and Debt Sustainability

Fiscal Stance for 2010

12. **The fiscal framework for 2010 calls for a significant adjustment, given both the available financing and the high debt level.** Notwithstanding generous budget support from the CDB, the World Bank (WB), and EU, external disbursements are expected to be

[4] Context for Grenada's reform program is provided by the ECCB's eight point stabilization and growth program, which is focused on: addressing financing gaps, improving the efficiency of revenue and expenditure, improving debt management, using public investment to provide an economic stimulus, strengthening safety nets, addressing the collapse of the CL Financial Group, strengthening indigenous banks, and improving nonbank regulation.

2½ percentage points of GDP lower than last year while grants will fall slightly.[5] Project financing is also expected to decline given its acceleration in 2009. Revenue is projected to remain nearly constant, as the additional yield from introducing a VAT of roughly ½ percent of GDP is expected to be offset by lower taxes on income and profits.[6] Spending will decrease by 7 percent in nominal terms or by percentage points of GDP.

Fiscal Developments in 2007-10

(In percent of GDP)

	2007	2008	2009		2010	
	Actual	Actual	Proj. 1/	Rev.	Budget	Rev.
Total revenue and grants	**27.1**	**29.4**	**28.3**	**28.5**	**29.7**	**28.2**
Revenue	26.0	25.4	24.6	24.4	25.7	24.3
Grants	1.0	4.1	3.6	4.1	3.9	3.9
Total expenditure	**34.9**	**34.5**	**32.9**	**35.1**	**33.8**	**31.1**
Current expenditure	21.4	22.8	24.3	25.6	24.7	23.5
Of which						
Interest	2.1	2.1	3.1	2.8	3.3	3.3
Goods and services	4.8	4.6	4.6	5.2	5.0	4.5
Transfers and subsidies	4.9	5.1	5.2	6.1	4.7	4.7
Capital expenditure	13.5	11.7	8.7	9.5	9.1	7.6
Primary balance (excluding grants) 2/	**-6.9**	**-7.0**	**-5.2**	**-7.9**	**-4.8**	**-3.6**
Overall balance (including grants) 2/	**-7.9**	**-5.1**	**-4.7**	**-6.6**	**-4.2**	**-2.9**
Fiscal impulse	**-6.9**	**-0.5**	**-2.5**	**1.7**	**-3.9**	**-5.0**
Public debt	**111.0**	**102.2**	**116.9**	**122.3**	**…**	**119.1**

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

1/ Corresponds to projections in EBS/09/168 with all ratios expressed as a percent of revised GDP.

2/ Measured above the line.

13. **The fiscal adjustment, although large, remains achievable, supported by work to improve commitment control.** The required reduction in expenditure is expected to come from the following items:

- **Limiting growth in the wage bill.** While noting the need for skilled personnel to implement the government's reform agenda, the authorities agreed to limit the number of new hires and to leave positions unfilled to ensure that the wage bill is contained within program limits;

[5] The authorities expect €9 million grants from the EU over the course of the year, US$8 million from the WB under a Development Policy Loan (DPL) in the first half, and the second PBL tranche of US$6.4 million from the CDB in the second half.

[6] Tax revenues were high in 2009 reflecting one-off revenues (EC$13 million or 0.8 percent of GDP) from the tax amnesty which ended in April 2009.

- **Limiting capital spending.** The authorities acknowledged that lack of financing would limit capital spending, and noted that a finance circular (prior action), including the list of priority projects, would be issued limiting capital spending to EC$133 million. This would help to avoid running up arrears while ensuring that essential projects, especially those that have the highest employment generation potential, are implemented; and

- **Reducing spending on goods and services.** The authorities expect that improved procurement procedures, especially once the Public Procurement Departments is established, use of sole source contracts with suppliers, and tighter controls on travel and other costs would help streamline spending.

14. **The program provides some flexibility given the still difficult economic circumstances, including the uncertainty of a recovery in external demand and high domestic unemployment.** Program adjustors will accommodate all additional grants that may become available, as well as concessional financing of up to an additional 2 percent of GDP. In addition, program adjustors would accommodate higher-than-programmed disbursements on existing donor-financed projects.

Medium-Term Fiscal Consolidation

15. **The Debt Sustainability Analysis (DSA) confirms the conclusion from previous DSAs that Grenada's risk of external debt distress remains high.** Under the baseline projection Grenada exceeds thresholds for the ratio of the present value (PV) of external debt to GDP and to exports, and the debt service-to-exports ratio. The public debt-to-GDP ratio would reach the ECCU target of 60 percent by 2020 if the strong fiscal reform efforts that the authorities are committed to are implemented and there are no major shocks. There are important risks to the debt outlook, including any fiscal costs related to the CL Financial Group and large external borrowing under consideration, as discussed below.

16. **The authorities stressed that their commitment to pursue medium-term fiscal consolidation was critical to achieve the debt reduction objectives**. They agreed with staff that primary surpluses in the range of 2-2½ percent are needed over the medium term to bring down public debt, but emphasized that higher growth remains essential. They agreed that a more aggressive path of fiscal consolidation should hinge on a balanced mix of revenue and expenditure measures. Toward this end, they are adopting a three-pronged strategy: (i) improving revenue performance to generate additional fiscal resources with tax revenues increasing from an estimated 23 percent of GDP in 2009 to 25–25½ in the medium term, (ii) prioritizing and improving the efficiency of spending, including improving public financial management, to bring down current spending from an estimated 25½ percent of GDP in 2009 to 20½ percent of GDP in the medium term while making room for some additional capital spending, and (iii) putting in place a debt management strategy, including

options for seeking further debt rescheduling/forgiveness. The authorities intend to adopt a three-year rolling budget starting in 2011, with explicit annual targets for the public debt-to-GDP ratio, to promote more stable fiscal management.

17. **Progress on the revenue front is expected to come primarily through improved tax and customs enforcement, as the benefits of the new VAT take hold:**

- **Improve VAT compliance.** Following the successful introduction of the VAT, the government will focus on improving compliance and simplifying collections (MEFP paragraph 13), which would yield additional revenue of just over 1 percent of GDP in the medium term.

- **Introduce a market-based property tax.** The introduction of a market-based property tax in January 2011 will also contribute 0.2 percent of GDP.

- **Improve customs collection.** The government is also undertaking an ambitious reform agenda to improve customs tax collections, which is expected to yield additional revenue of over 1 percent of GDP in the medium term. A new Customs Act and upgraded customs technology platform (ASYCUDA World) will permit risk-based inspections and electronic filing while reducing clearance times (MEFP paragraph 15).[7]

18. **On the expenditure side, the following measures will help to rationalize spending:**

- **Improving efficiency of spending**. The Waste Reduction Unit created last year and the Public Procurement Department (to be established by September 2010) should help to cut waste in spending and improve procurement procedures, including greater use of bulk procurement, allowing savings of some 2 percentage points of GDP over the medium term;

- **Limiting wage bill**. Growth in wages will be limited to less than the rate of nominal GDP growth, allowing savings of 2 percentage points of GDP over the medium term. In addition, the civil service review planned for later this year, with the assistance of the World Bank, could help to identify further savings.

- **Enhancing social assistance**. A Social Safety Net Committee is being set up to spearhead reforms to better target the vulnerable groups and streamline social assistance programs (MEFP paragraph 32).

[7] Implementing the pilot of the new customs technology platform (ASYCUDA World) at the main port and establishing a risk management unit and starting training staff are second review structural benchmarks.

19. **The government is putting in place a debt management strategy.** The Debt Coordination Committee has been reconstituted within the Ministry of Finance to improve cash flow management and planning. The authorities are formulating a debt management strategy with clear debt management objectives, including building capacity to perform debt sustainability analysis, with the help of technical assistance from the Fund.[8]

20. **The authorities plan to move ahead with reforms aimed at further improving public financial management.** The authorities are preparing an Action Plan based on the recently completed Public Expenditure and Financial Accountability (PEFA) assessment, with TA from CARTAC and other donors. The Action Plan will include, (i) a formal comprehensive commitment control system to ensure that spending units do not undertake commitments without authorization, (ii) steps to improve the cash management model, and (iii) a timeline for moving to a Single Treasury Account System.

21. **The authorities intend to discuss further debt relief from their bilateral creditors**. The authorities plan to request a stock treatment of their debt from the Paris Club (2.4 percent of total debt) and to ask non-Paris Club official bilateral creditors for similar treatment (8.6 percent of total debt). They are continuing to pursue good faith efforts to reach a collaborative agreement with Grenada's external commercial creditors that did not participate in the 2005 debt exchange, by offering those who have come forward to participate on the terms of the original exchange.[9]

22. **The authorities are still considering a loan from the Export-Import Bank of China to build a luxury hotel.** The authorities believe this project could generate significant economic benefits not only in the short run through boosting the construction sector and creating employment but also by raising the tourism potential of the country over the medium and long term. The staff expressed concern that the loan could set back the authorities' debt reduction objectives, and noted that projects of this nature carry considerable commercial risks that might be better managed by the private sector. The government agreed with staff on the need to ensure that the project is consistent with their aim to achieve debt sustainability. They also emphasized that discussions with strategic investors interested in taking on the project are underway and is the preferred option. Furthermore, they agreed with staff that if the government were to go ahead, it would be critical to: (i) base their decision on an objective assessment of the economic and financial returns of this project from an internationally reputed third party, (ii) secure concessional

[8] Developing a yearly borrowing plan and preparing a debt management strategy outlining clear debt management objectives are second review structural benchmarks.

[9] Participation in the 2005 debt exchange was high at 93 percent for external creditors. Taking into account creditors that came forward subsequent to the 2005 debt exchange, the participation rate is approximately 94 percent.

financing, and (iii) obtain majority private sector participation to limit government exposure and ensure that the prospective benefits would more than offset the associated additional debt servicing burden.

B. Reducing Vulnerabilities in the Financial System

23. **The main financial sector challenge is addressing the problems created by the collapse of the Trinidad and Tobago-based CL Financial Group.** The staff welcomes the ECCU's announced strategy of a regional resolution of these problems aimed at minimizing spillovers, and the initial progress with this strategy:

- **A committee appointed by the ECCU governments is discussing with strategic investors the establishment of a new insurance company which will take over BAICO's ECCU operations.** Staff recommended that the resolution of BAICO adhere to three principles: (i) avoiding systemic contamination; (ii) minimizing the fiscal costs to the extent possible, given the region's high debt levels and related vulnerabilities; and (iii) giving priority to claims up to a low threshold to protect vulnerable groups. To date, the Trinidad and Tobago government has contributed US$50 million. ECCU governments are expected to contribute toward the capitalization of this new company, with each country's share to be defined. The authorities agreed on the need to limit the fiscal costs from any resolution of BAICO through revision of existing terms, including through lowering of interest rates, extending tenors, and converting some liabilities into equity.

- **CLICO has significant liquidity problems and its operations are being downsized**. CLICO is not current with principal or interest payments on deposit-like instruments that it had formerly issued. The Grenadian Authority for the Regulation of Financial Institutions (GARFIN) has therefore put a moratorium on any further issuance of these products. In an effort to address the liquidity problems, its head office in Barbados is divesting some of its assets. The authorities agreed with staff on the need to monitor the situation closely.

- **The authorities agreed with the staff's recommendation to keep the SDR allocation (SDR 10.2 million) as a shared liquidity buffer** for ECCU members against regional financial stresses.

24. **The authorities are continuing their effort to strengthen nonbank regulation to avoid a repeat of the experience with the CL Financial Group.** In particular, they plan to: (i) proclaim the new Insurance Act in March (a prior action for the new successor arrangement), (ii) ensure that insurance companies pledge assets sufficient to cover their insurance liabilities in Grenada in their statutory funds and place these assets under trusteeship so that they are available should the need arise (structural benchmark), and (iii) start onsite examinations of insurance companies and money service businesses in 2010

(structural benchmarks). The mission encouraged the authorities to submit the new Cooperative Society Act to Parliament as early as possible to enhance supervision of credit unions.

25. **The authorities are continuing their efforts to comply with the internationally agreed standard for the exchange of tax information.** Three Tax Information Exchange Agreement (TIEAs) have been signed as of end-February 2010, but it is expected that the remaining nine will be signed by end-March so that Grenada is removed from the OECD's "grey" list. The authorities are also committed to continue efforts to strengthen the framework for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). The offshore financial sector in Grenada is small, and the mission stressed that any plans to reinvigorate the sector should consider the challenges of effective supervision.

C. Generating High and Sustainable Growth and Reducing Poverty

Enhancing growth prospects

26. **The 2010 budget speech underscores the need to diversify the sources of growth and reduce the dependence on tourism.** In particular it identifies the following areas as the most promising nontraditional growth sectors: (i) health and education services, (ii) energy development, (iii) agro-processing, and (iv) information and communication technology, and seeks to encourage private sector-led growth in these areas.

27. **The authorities concurred with the mission that further structural reforms remain critical to improve the business and investment climate for private sector-led growth**. The newly enacted Investment Promotion Act creates a level playing field for domestic and foreign investors by providing equal fiscal incentives to those that are qualified, without significant additional costs to the existing system incentives. The government is continuing its efforts to further reduce the time to start a business, including registering and incorporating a company. In particular: (i) a Special Business and Facilitation Committee is helping investors overcome administrative and other obstacles, (ii) the additional Civil Court, set up recently, is expected to reduce the delays at courts and enhance contract enforcement, and (iii) the separate Registrar of Lands and Deeds, also recently established, will help streamline the procedures to expedite the transfer of property in business transactions. The authorities are also exploring ways to promote the development of the small and medium enterprise sector.

Reducing Poverty

28. **The Country Poverty Assessment (CPA) was completed in December 2009,** with assistance from the CDB. The share of the indigent population fell to 2.4 percent at June 2008, but poverty still remains widespread with 37.7 percent of the population living below the poverty line. The unemployment rate was at 24.9 percent in June 2008, and the

authorities believe that it has increased further to about 30 percent reflecting the sharp decline in economic activity in 2009.

29. **The government shared the mission's view on the need to improve the social safety net.** The recent WB/UNICEF/UNFEM report on Grenada's social safety net indicates that, although the elements of an appropriate safety net are present, there is a need to strengthen and rationalize existing programs. Based on the report's recommendations, the government intends to implement several measures over the new program period, including appointment of the Social Safety Net Committee to spearhead reform efforts and elaborate on an action plan for reforms, including the consolidation of major cash transfer programs. The World Bank is assisting the authorities in this area (MEFP paragraph 32).

30. **The authorities are preparing a full Poverty Reduction Strategy Paper (PRSP), with the assistance of donors, especially the CDB.** The CPA together with an earlier National Development Strategy will form the basis for the PRSP, a draft of which is expected to be completed by September 2010. The authorities agreed to develop a quantitative measure of social spending which will help monitor their efforts to protect the vulnerable groups, in line with requirements of the ECF. While the most recent PRS document is older than the normal 18-month limit, staff considers that the existing poverty reduction and growth strategy still provide adequate guidance for the final review of the current arrangement. The new arrangement will be guided by the new PRSP once it is finalized.

V. PROGRAM MODALITIES

31. **The program will be monitored on a semi-annual basis and is structured as follows:**

- **Access and phasing**. Considering that Grenada's outstanding Fund credit would be 140 percent of quota by the end of the current ECF agreement, staff supports the authorities' request of 75 percent of quota, the relevant norm, to be disbursed in equal amounts.

- **Program monitoring.** Program reviews will be linked to end-June and end-December test dates, with indicative targets for end March and end September.

- **Quantitative performance criteria** These will apply to the primary balance excluding grants; domestic arrears older than 60 days; contracting or guaranteeing of nonconcessional external debt and bilateral concessional debt;[10] short-term external

[10] Grenada is a higher-capacity country under the new debt limits policy and is eligible for more flexible options for concessionality requirements. It was agreed with authorities that such options would be considered in future reviews, in line with expected improvements in the debt management area.

debt ceiling (continuous); and external arrears (continuous). Adjustors will accommodate grants and higher-than-programmed external disbursements on existing donor-financed projects and additional concessional financing of up to 2 percent of GDP.

- **Structural benchmarks:** Structural benchmarks for the first review are proposed principally in the fiscal and financial sectors because of their significance to macroeconomic stability.

Proposed Structural Measures for the Successor Arrangement *

	Comment	Target Date
Prior Actions		
Proclaim the new Insurance Act	Prior Action	End-March 2010
Issue a finance circular limiting capital spending to EC$133 million	Prior Action	End-March 2010
First Review		
Initiate quarterly budget reviews and revise spending targets for any shortfalls in revenues and/or financing, and institute regular meetings with line ministries (at least quarterly) to establish expenditure commitment controls	Structural Benchmark	End-April 2010
Establish an audit division for VAT audits	Structural Benchmark	End-June 2010
Enumerate all government bank accounts and define a schedule for consolidating them and establishing a Single Treasury Account System	Structural Benchmark	End-September 2010
Complete onsite supervision of at least two insurance companies, and establish statutory funds at insurance companies to cover at least 50 percent of their assets (including the largest five companies) and pledge these assets in a Trusteeship to support their local insurance liabilities	Structural Benchmark	End-October 2010
Second Review		
Prepare debt management strategy outlining clear debt management objectives, and develop yearly borrowing plan	Structural Benchmark	End-December 2010
Complete onsite inspection of two major money service businesses	Structural Benchmark	End-December 2010
Institute a comprehensive commitment control system that will restrict spending units from undertaking commitments without authorization	Structural Benchmark	End-February 2011
Integrate all VAT functions with mainstream revenue operations, except audits which will be integrated later	Structural Benchmark	End-February 2011
Implement ASYCUDA World pilot at the main port, and establish a risk management unit in customs and excise department and start training staff	Structural Benchmark	End-March 2011

* See Table 2 in MEFP for macro criticality of above measures.

32. **The program faces significant risks relating to the external outlook, policy slippages, and implementation capacity, as well as the ever-present danger of natural disasters.** Donor support and private inflows to finance the external current account could fall short. Some fiscal reforms may face resistance, and the medium-term adjustment path is ambitious. Limited implementation capacity could delay reforms or undermine data reporting. However, the authorities are mindful of these risks, and their record of following through with reforms and their efforts to improve capacity mitigate these risks.

VI. Staff Appraisal

33. **Grenada was hit particularly hard by the global slowdown and faces difficult immediate and medium-term challenges**. With limited policy flexibility given the currency board arrangement and high debt levels, the outlook remains uncertain, and a sustained recovery depends crucially on the strength of recovery in source countries—the U.S. and the U.K. Moreover, the collapse of the CL Financial Group has heightened financial and fiscal uncertainty and underscored the need to improve nonbank regulation.

34. **Performance under the program was mixed with two end-November 2009 quantitative performance criteria being missed**. The primary balance target in particular was missed by a large margin. Although this was in part due to the higher-than-expected external disbursements on donor-financed projects which helped to counteract the collapse in the private sector, it also reflects slippages in fiscal management. The authorities are taking corrective actions, including issuing a finance circular to contain spending, initiating regular budget reviews, improving expenditure commitment controls and moving toward a Single Treasury Account System. These measures will also help them achieve their target for domestic arrears over 60 days, while bringing down the high expenditure float. Steps are also being taken to improve the monitoring of external disbursements with stronger mechanisms to ensure timely debt service payments.

35. **The government's resolve to proceed with the introduction of a VAT notwithstanding stiff resistance indicates its commitment to structural reforms**. Staff underscored the importance of boosting compliance to ensure that the expected revenue gains are achieved. Staff urges the authorities to establish the Public Procurement Department as scheduled to enhance spending efficiency.

36. **Staff welcomes the authorities' view about the need for fiscal consolidation to reduce the public debt-to-GDP ratio**. The level and rapid rise of public debt underscores the need for a clear fiscal consolidation strategy. In this context, the authorities' three-pronged approach to reduce debt should help to secure medium-term fiscal and debt sustainability. Adopting a three-year rolling budget with explicit annual targets on the public debt-to-GDP ratio will promote more stable fiscal management and provide an anchor for expectations. Crucially, further fiscal slippages should be avoided.

37. **The staff welcomes the authorities' cautious approach to the possible loan from the Export-Import Bank of China to build a luxury hotel.** The government is well aware of the risks to debt sustainability from such a large loan. It is committed to base its decision on an objective assessment of the economic and financial returns of this project from an internationally reputed third party, availability of concessional financing, and majority private sector participation is forthcoming to ensure that the government is not left holding the bill on an ill-designed project.

38. **The authorities need to carefully monitor financial sector vulnerabilities.** Although the banking system remains well capitalized, the quality of commercial bank loan portfolios is deteriorating and should be carefully monitored. Staff welcomes the close cooperation among regional governments to address the troubled CL Financial Group. However, staff urges the authorities to limit fiscal costs by revising existing terms of the deposit-like instruments, including through lowering of interest rates, extending tenors, and converting of some liabilities into equity. Going forward, staff would like to urge GARFIN to conduct onsite supervision and enforce statutory requirements on insurance companies. The government should proceed directly to liquidation of Capital Bank as soon as the court permits.

39. **Staff recognizes the authorities' continued efforts to improve the business and investment climate for private sector-led growth.** In this context, steps to encourage the private sector, including by seeking strategic partners to invest in areas other than tourism could create new drivers of growth and job creation and reduce the dependence of the economy on business cycles of the advanced countries over the medium and long term.

40. **Staff welcomes the government's decision to improve the social safety net** to better protect the vulnerable groups and encourages the completion of the full Poverty Reduction Strategy Paper as early as possible.

41. **The program is subject to a number of risks.** Financing of the external current account deficit, especially projected donor support and higher private inflows, is subject to some uncertainty. Political risks related to the envisaged demanding set of fiscal reforms are also considerable. The limited implementation capacity could delay the completion of some reforms or give rise to slippages in data reporting. Finally, the large fiscal and financial sector challenges in other ECCU countries are another source of risk.

42. **In view of the authorities' corrective actions under the current ECF arrangement and strong commitment to the economic program underlying the proposed ECF arrangement, and notwithstanding the above risks, staff supports the authorities' requests for completion of the fifth review, waivers of nonobservance of performance criteria, and a new three-year arrangement under the ECF, and completion of the financing assurances review.**

Box 1. Stock-Taking of the Current ECF Arrangement

On April 17, 2006, the Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF, previously called PRGF). The program was based on the authorities' home-grown comprehensive medium-term economic reform program which they launched with the 2006 budget. The key objectives were fourfold: promoting sustained high economic growth, restoring fiscal and debt sustainability, reducing vulnerabilities, and alleviating poverty.

The program has been successful in achieving macro stability under difficult circumstances, but moving to higher growth rates has remained a challenge. In the context of repeated adverse shocks—the hurricanes in 2004–05, the world food and fuel price crisis in 2007–08, and the global financial crisis in 2008-09—the program has helped stabilize the economy through various channels: (i) limiting the fiscal deficit, (ii) paving the way for a commercial debt exchange in 2005 and a Paris Club debt rescheduling in 2006, and (iii) catalyzing additional financing from multilateral donors.

- **Average growth has remained below the program target of 4 percent, mainly due to the effects of the global economic slowdown.** Although growth did pick up in 2007 driven by the Cricket World Cup and expansion of an offshore university, the global economic crisis has slowed down growth since then.

- **The debt sustainability outlook has recently deteriorated in the context of the economic slowdown.** A successful debt exchange/rescheduling, together with higher-than-expected nominal GDP growth in 2007–08, helped to reduce the public debt-to-GDP ratio by end 2008 by more than originally expected. However, the severe economic slowdown and higher debt financing in 2009 worsened debt ratios substantially.

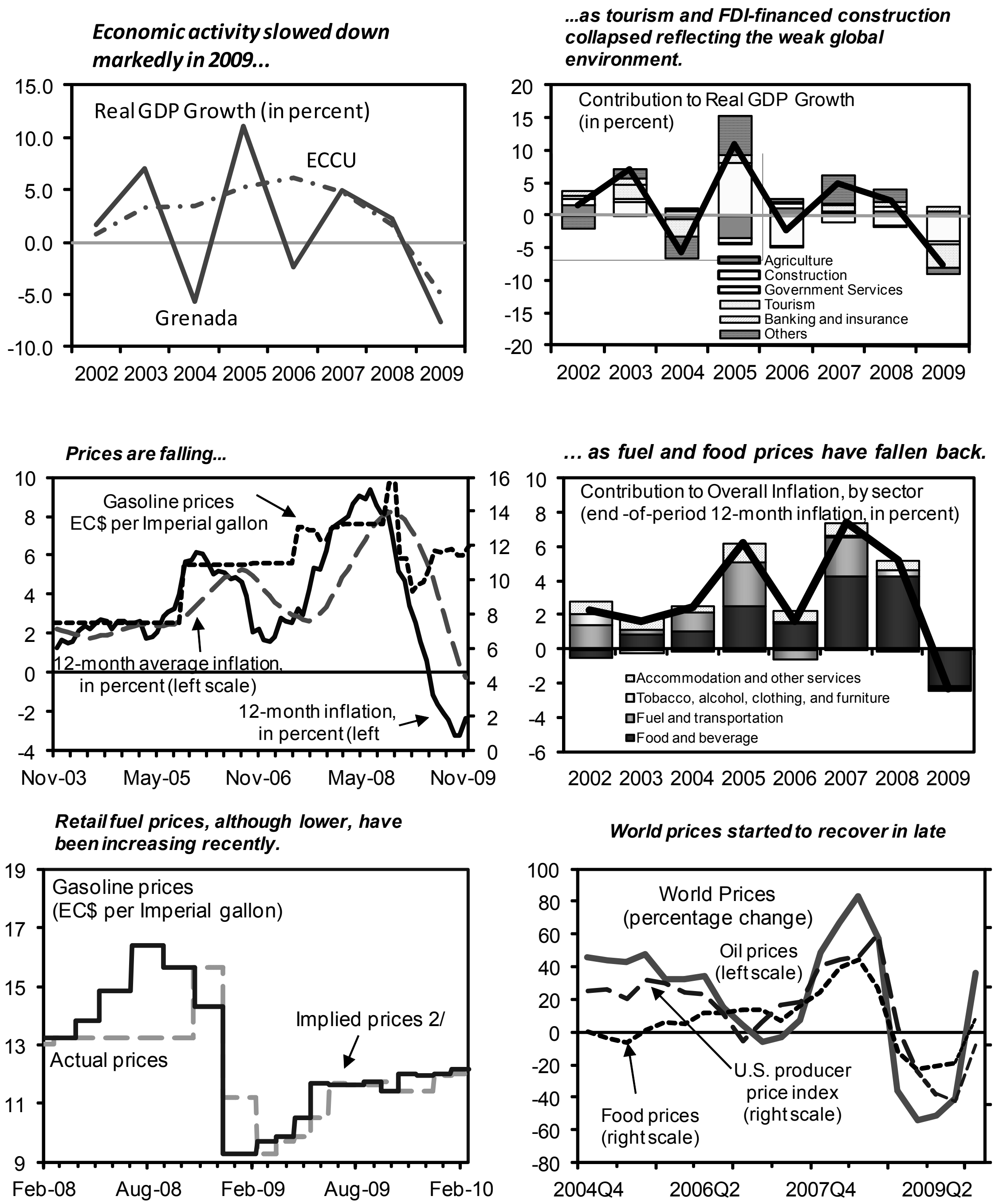
- **The government has strengthened the regulatory framework in the nonbank financial sector.** Grenada was the first among the ECCU Fund members to establish a single regulatory unit to strengthen supervision of the nonbank financial sector and is now the model for the rest of the region. The government also appointed a receiver and initiated liquidation for the unregulated bank (Capital Bank). However, the collapse of the CL Financial Group has heightened financial sector and fiscal uncertainty.

- **Poverty remains widespread, despite the government effort to buffer vulnerable groups from the effects of exogenous shocks.** The government has increased spending on social assistance programs. However, the recently completed Country Poverty Assessment reveals that the poverty ratio increased to 37.7 percent.

Implementation of key structural measures has been mixed reflecting weak institutional capacity. The liquidation of Capital Bank still remains in court partly due to weaknesses in the legal framework and the court's limited experience with such cases. Owing to technical delays in completing the Country Poverty Assessment, the Poverty Reduction Strategy Paper (PRSP) will not be completed before the current program expires.

The program was adapted flexibly in light of the severe external shocks that affected Grenada in 2008 and 2009. The program was extended by one year reflecting the delay in completing the first review. Two program augmentations were approved, first in the wake of the food and fuel price crisis, then to help mitigate the adverse effects of global economic slowdown on tourism and FDI. Total access was brought to the norm of 140 percent of quota for first-time ECF users, from the original access of 90 percent of quota.

Figure 1. Grenada: Growth and Inflation



Sources: Grenada authorities; ECCB; IMF, International Financial Statistics; IMF, World Economic Outlook; and Fund staff calculations.

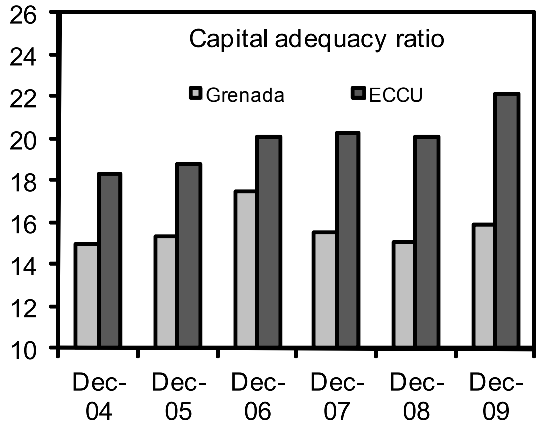
1/ Tradables comprise food, alcoholic drinks and tobacco, fuel and light, clothing and footwear, household and furniture equipment. Nontradables include medical care and expenses, education, personal services, housing and utilities, and transportation and communication.

2/ Prices implied by the automatic pricing mechanism and assuming the EC$3 per gallon specific fuel tax was in place.

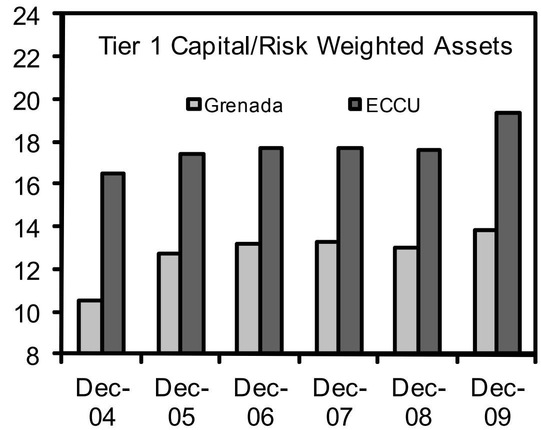
Figure 2. Grenada: Banking System Vulnerabilities

Banking system indicators are mixed, pointing to the need for continued vigilance.

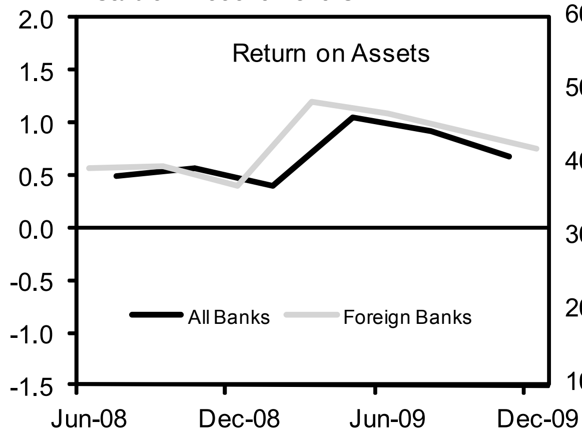
Capital adequacy ratios have remained comfortable...



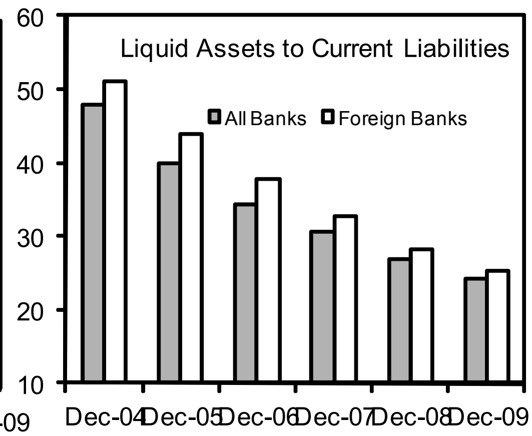
...as, too, has Tier 1 capital…



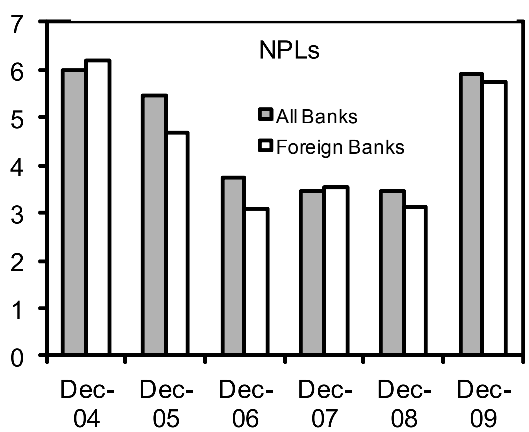
…while bank profitability has been stable in recent months.



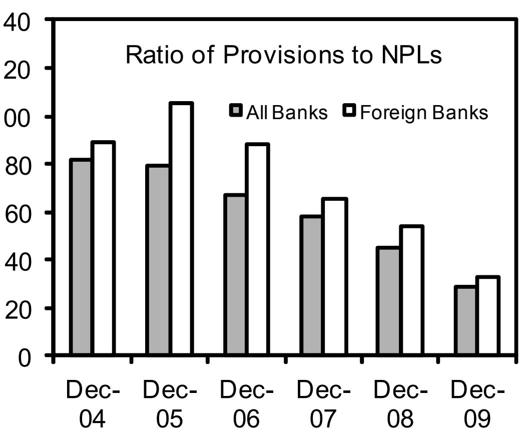
Liquidity conditions have tightened...



...NPL ratios have risen...

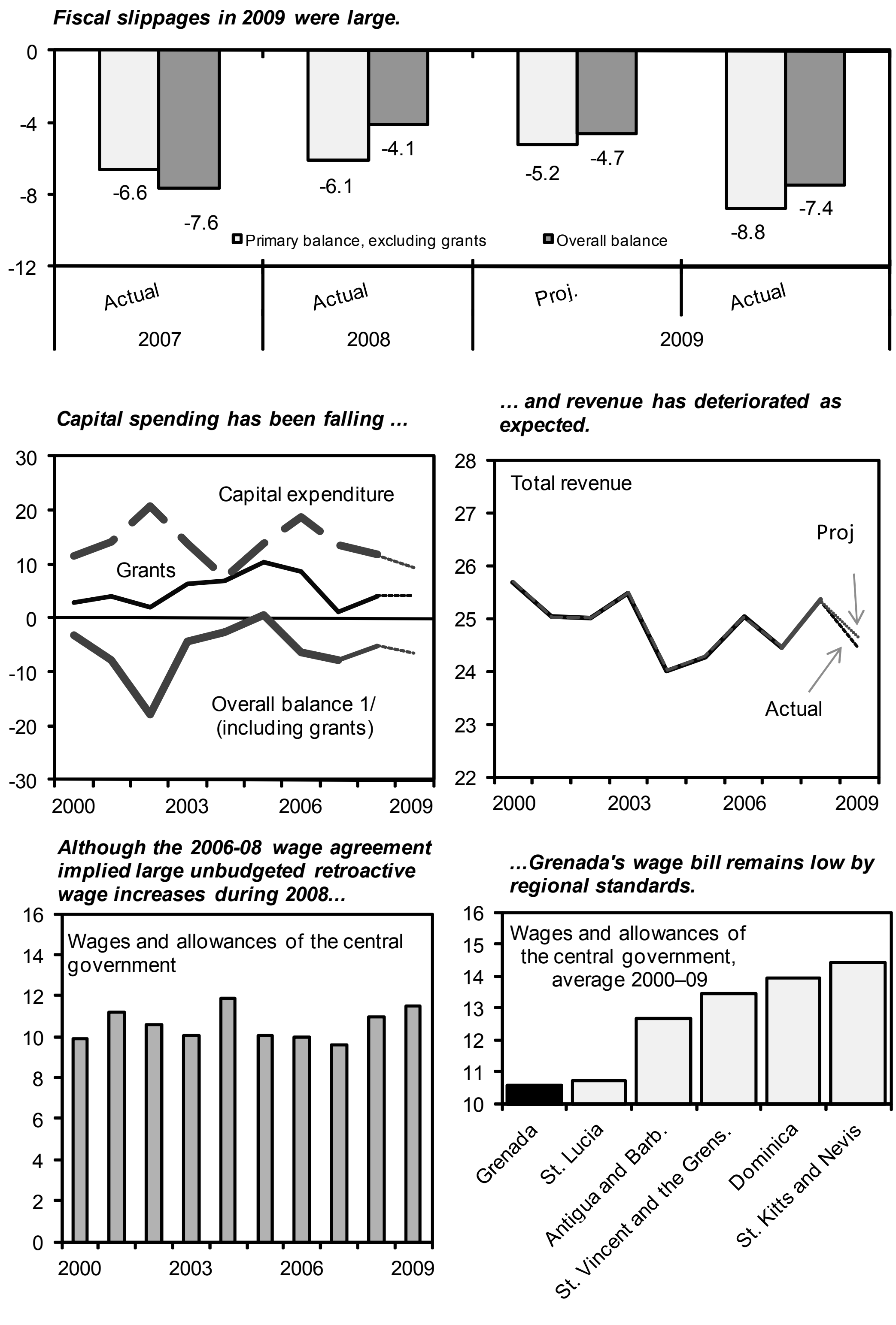


...and provisions have declined.



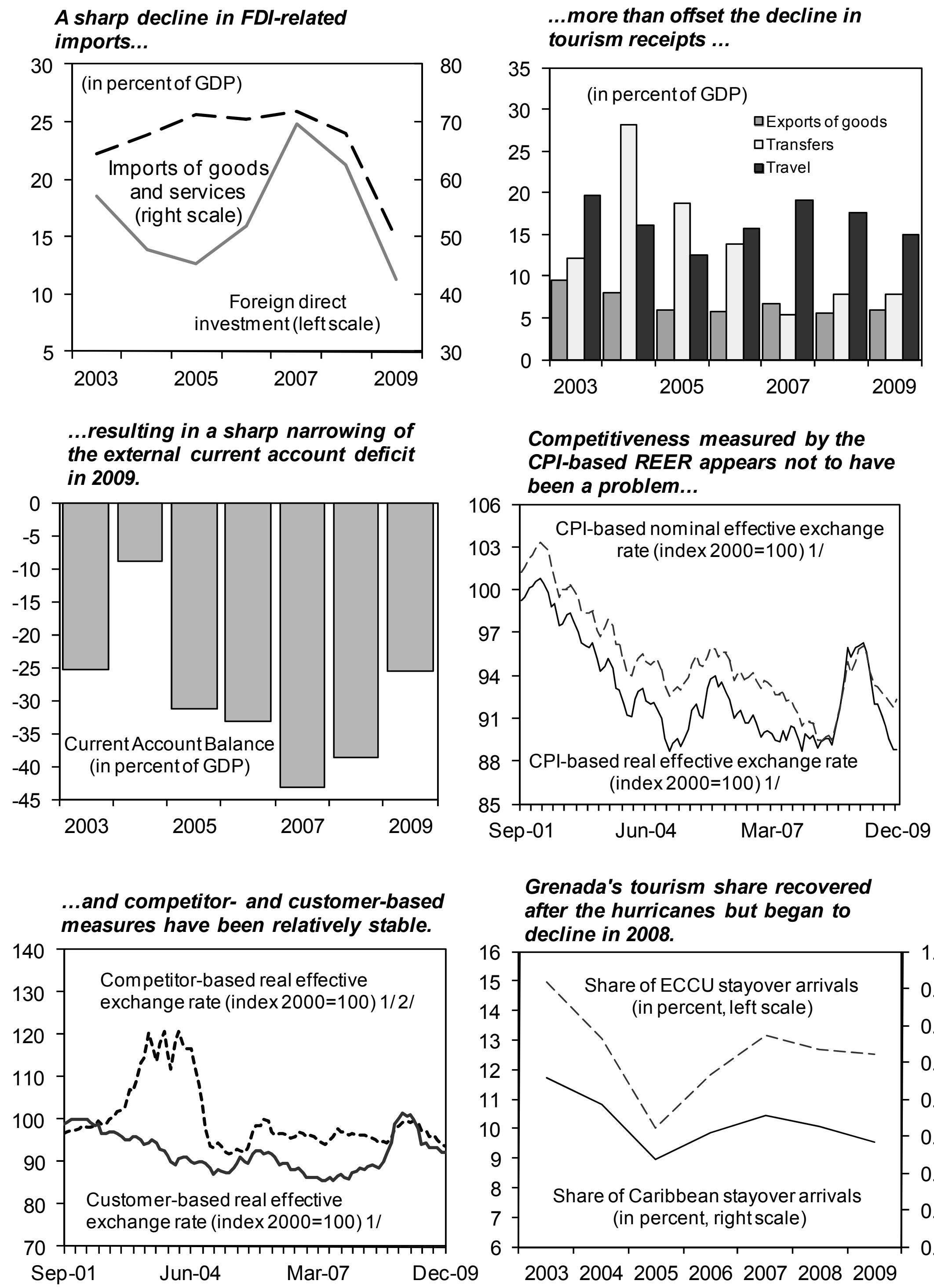
Sources: ECCB; and Fund staff calculations.

Figure 3. Grenada: Fiscal Sector Indicators
(In percent of GDP)



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

Figure 4. Grenada: Competitiveness Indicators

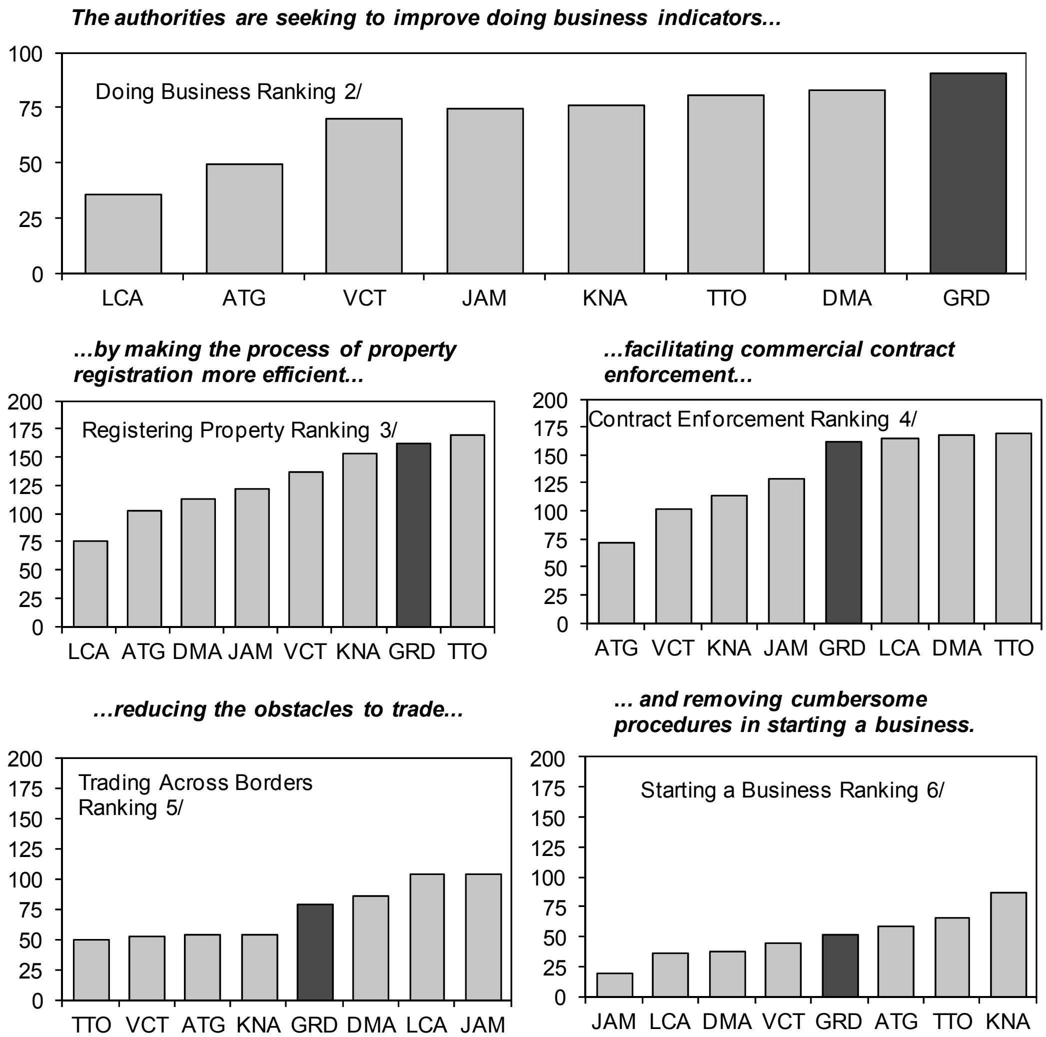


Sources: Grenada authorities; ECCB; Caribbean Tourist Organization; and Fund staff calculations.

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 5. Grenada: Doing Business Indicators, 2009 1/



Source: World Bank, *Doing Business Indicators* (2010).
Note: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), Jamaica (JAM), 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 183 countries covering the period June 2008 to May 2009.
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 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.
5/ Measures the procedural requirements, time, and cost involved for trading a standard shipment of goods by ocean transport for a medium-sized domestically-owned private firm with 60 employees located in the economy's most populous city.
6/ 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, 2007–11

Rank in UNDP Human Development Index out of 179 countries (2008)	86	Infant mortality rate per '000 births (2006)	16
Life expectancy at birth in years (2006)	68	Adult illiteracy rate in percent (2004)	4
GDP per capita in US$ (2007)	5,760	Poverty headcount index (2008)	38

	Est. 2007	Est. 2008	Est. 2009	Proj. 2010	Proj. 2011
	(Annual percentage change; unless otherwise specified)				
National income and prices					
Real GDP	4.9	2.2	-7.7	0.8	2.0
GDP deflator	3.4	10.2	-1.2	3.2	2.0
Consumer prices 1/					
End-of-year 1/	7.4	5.2	-2.4	4.7	2.0
Period average 1/	3.9	8.0	-0.3	3.6	1.9
External sector					
Exports of goods (value)	26.1	-7.4	-1.8	6.1	9.5
Imports of goods (value)	10.6	5.0	-30.5	4.2	8.8
Exports of goods (volume)	16.5	-20.2	17.2	-3.0	6.7
Imports of goods (volume)	0.4	-6.6	-19.7	-2.8	6.2
Current account balance (including grants; in percent of GDP)	-43.2	-38.7	-25.7	-25.0	-26.0
FDI (net, in percent of GDP)	24.8	21.2	11.3	11.5	12.1
Real effective exchange rate (end of period, depreciation -)	0.2	6.6	-6.8	...	...
Banking system					
Net foreign assets 2/	-1.0	-9.3	1.8	-1.9	-3.0
Net domestic assets 2/	12.1	13.4	1.5	6.7	7.8
Of which					
Credit to public sector (net) 2/	1.5	1.0	-1.8	1.2	0.0
Credit to private sector 2/	12.0	10.2	4.1	5.5	9.9
Money and quasi-money (M2)	11.0	4.1	3.3	4.8	4.9
Weighted average deposit rate (in percent)	3.0	3.2	3.0	...	...
Weighted average lending rate (in percent)	9.6	9.2	10.7	...	...
	(In percent of GDP)				
Central government finances 3/					
Total revenue and grants	27.1	29.4	28.5	28.2	28.3
Of which					
Grants	1.0	4.1	4.1	3.9	3.0
Total expenditure	34.9	34.5	35.1	31.1	29.5
Current expenditure	21.4	22.8	25.6	23.5	22.5
Of which					
Salaries and allowances	9.6	11.0	11.5	11.1	10.9
Capital expenditure	13.5	11.7	9.5	7.6	7.0
Primary balance (excluding grants)	-6.9	-7.0	-7.9	-3.6	-1.0
Primary balance (including grants)	-5.8	-3.0	-3.8	0.3	2.0
Current balance	4.6	2.6	-1.2	0.8	2.8
Overall balance (including grants)	-7.9	-5.1	-6.6	-2.9	-1.2
Public and publicly guaranteed debt (end-period)	111.0	102.2	122.3	119.1	116.3
	(In millions of U.S. dollars)				
Nominal GDP	610.3	678.5	614.8	645.2	676.6

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

1/ Corresponds to projections in IMF Country Report No. 10/14 with all ratios expressed as a percent of revised GDP.
2/ Assumes that VAT introduction in February 2010 will increase prices by 3.5 percentage points.
3/ As a percent of broad money at the beginning of the year.
4/ Measured using above-the-line information.

Table 2. Grenada: Central Government Finances, 2007–10

(In millions of Eastern Caribbean dollars)

	Actual	Actual	Proj. 1/	Rev.	Budget	Rev.
	2007	2008	2009		2010	
Total revenue and grants	**445.8**	**538.8**	**469.3**	**473.8**	**516.6**	**491.5**
Total revenue	428.5	464.5	409.2	405.5	448.1	423.6
Current revenue	428.4	464.4	409.1	405.4	448.0	423.5
Tax revenue	402.8	433.8	385.1	379.9	422.1	397.4
Taxes on income and profits	74.8	94.6	89.7	87.2	78.2	78.2
Taxes on property	29.0	26.0	21.4	18.8	18.9	18.9
Taxes on goods and services 2/	71.3	78.7	81.5	76.0	183.3	183.3
Taxes on international transactions 2/	227.7	234.6	192.6	197.9	141.7	116.9
Nontax revenue	25.6	30.6	23.9	25.5	25.9	26.1
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1
Grants 3/	17.3	74.3	60.1	68.3	68.5	67.9
Total expenditure	**575.8**	**631.7**	**546.6**	**582.7**	**589.2**	**542.6**
Current expenditure	352.7	416.8	403.0	424.9	430.2	409.5
Current primary expenditure	318.5	378.7	352.2	378.6	373.5	352.8
Salaries and allowances	158.4	200.8	189.0	191.2	205.7	193.7
Wages and salaries	140.7	180.0	165.3	166.2	177.7	169.4
Personnel allowances	17.7	20.8	23.7	25.1	28.0	24.3
Goods and services	79.1	84.7	77.1	86.0	86.7	78.0
Interest 5/	34.2	38.2	50.8	46.3	56.7	56.7
Domestic	11.5	13.8	14.0	15.1	19.5	19.5
Foreign	22.6	24.3	36.8	31.2	37.2	37.2
Transfers and subsidies	81.0	93.2	86.1	101.4	81.1	81.1
Capital expenditure	223.1	214.9	143.6	157.8	159.0	133.2
Current balance	75.8	47.6	6.0	-19.5	17.8	14.0
Primary balance (excluding grants)	-113.1	-129.1	-86.7	-130.9	-84.4	-62.4
Primary balance (including grants)	-95.9	-54.8	-26.6	-62.6	-15.9	5.6
Overall balance (excluding grants)	-147.3	-167.2	-137.5	-177.2	-141.1	-119.1
Overall balance (including grants)	-130.0	-92.9	-77.4	-108.9	-72.6	-51.1
Statistical discrepancy / gap	4.6	17.4	0.0	-14.6	48.9	0.0
Financing	**125.4**	**75.5**	**77.4**	**123.5**	**23.8**	**51.1**
Net external financing	40.2	44.1	44.1	74.3	23.8	35.0
Net amortization	40.5	40.1	44.1	74.3	23.8	35.0
Disbursements	62.7	65.7	71.5	101.1	52.2	68.8
Amortization	-22.2	-25.6	-27.4	-26.8	-28.4	-33.8
Change in government assets	-0.3	4.0	0.0	0.0	0.0	0.0
Net domestic financing	69.7	0.7	13.3	3.5	0.0	36.9
ECCB (net)	12.6	2.3	0.0	-37.0	0.0	37.0
Commercial banks (net) 4/	54.4	13.3	9.6	19.4	0.0	0.0
Domestic debt	2.7	-14.9	3.7	21.2	0.0	0.0
Of which: Banking system	0.0	2.9	3.6	-6.5	0.0	0.0
Divestment/privatization proceeds	36.0	50.3	2.4	7.3	0.0	0.0
Change in unpaid invoices 5/	-20.5	-19.6	17.6	38.4	0.0	-20.8
Memorandum items:						
Nominal GDP (market prices)	1,648	1,832	1,660	1,660	1,742	1,742
Stock of unpaid invoices 5/	28.8	9.2	26.8	47.6	47.6	26.8
Expenditure arrears (older than 60 days)	…	…	…	24.6	24.6	12.5
Float (less than 60 days)	…	…	…	23.0	23.0	14.3

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

1/ Corresponds to projections in IMF Country Report No. 10/14 with all ratios expressed as a percent of revised GDP.
2/ The VAT introduced on February 1, 2010 is classified exclusively under taxes on goods and services, unlike the Generalized Consumption Tax it replaces. Its introduction is expected to yield an additional 0.5 percent of GDP.
3/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
4/ Excludes commercial bank holdings of government paper, which are shown in the following two lines.
5/ Includes interest arrears to nonparticipating creditors in the debt exchange based on the post-exchange interest rate.

Table 2a. Grenada: Central Government Finances, 2007–10

(In percent of GDP, unless noted otherwise)

	Actual	Actual	Proj. 1/	Rev.	Budget	Rev.
	2007	2008	2009		2010	
Total revenue and grants	**27.1**	**29.4**	**28.3**	**28.5**	**29.7**	**28.2**
Total revenue	26.0	25.4	24.6	24.4	25.7	24.3
Current revenue	26.0	25.4	24.6	24.4	25.7	24.3
Tax revenue	24.4	23.7	23.2	22.9	24.2	22.8
Taxes on income and profits	4.5	5.2	5.4	5.3	4.5	4.5
Taxes on property	1.8	1.4	1.3	1.1	1.1	1.1
Taxes on goods and services 2/	4.3	4.3	4.9	4.6	10.5	10.5
Taxes on international transactions 2/	13.8	12.8	11.6	11.9	8.1	6.7
Nontax revenue	1.6	1.7	1.4	1.5	1.5	1.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0
Grants 3/	1.0	4.1	3.6	4.1	3.9	3.9
Total expenditure	**34.9**	**34.5**	**32.9**	**35.1**	**33.8**	**31.1**
Current expenditure	21.4	22.8	24.3	25.6	24.7	23.5
Current primary expenditure	19.3	20.7	21.2	22.8	21.4	20.3
Salaries and allowances	9.6	11.0	11.4	11.5	11.8	11.1
Wages and salaries	8.5	9.8	10.0	10.0	10.2	9.7
Personnel allowances	1.1	1.1	1.4	1.5	1.6	1.4
Goods and services	4.8	4.6	4.6	5.2	5.0	4.5
Interest 5/	2.1	2.1	3.1	2.8	3.3	3.3
Domestic	0.7	0.8	0.8	0.9	1.1	1.1
Foreign	1.4	1.3	2.2	1.9	2.1	2.1
Transfers and subsidies	4.9	5.1	5.2	6.1	4.7	4.7
Capital expenditure	13.5	11.7	8.7	9.5	9.1	7.6
Current balance	4.6	2.6	0.4	-1.2	1.0	0.8
Primary balance (excluding grants)	-6.9	-7.0	-5.2	-7.9	-4.8	-3.6
Primary balance (including grants)	-5.8	-3.0	-1.6	-3.8	-0.9	0.3
Overall balance (excluding grants)	-8.9	-9.1	-8.3	-10.7	-8.1	-6.8
Overall balance (including grants)	-7.9	-5.1	-4.7	-6.6	-4.2	-2.9
Statistical discrepancy / gap	0.3	0.9	0.0	-0.9	2.8	0.0
Financing	**7.6**	**4.1**	**4.7**	**7.4**	**1.4**	**2.9**
Net external financing	2.4	2.4	2.7	4.5	1.4	2.0
Net amortization	2.5	2.2	2.7	4.5	1.4	2.0
Disbursements	3.8	3.6	4.3	6.1	3.0	4.0
Amortization	-1.3	-1.4	-1.6	-1.6	-1.6	-1.9
Change in government assets	0.0	0.2	0.0	0.0	0.0	0.0
Net domestic financing	4.2	0.0	0.8	0.2	0.0	2.1
ECCB (net)	0.8	0.1	0.0	-2.2	0.0	2.1
Commercial banks (net) 4/	3.3	0.7	0.6	1.2	0.0	0.0
Domestic debt	0.2	-0.8	0.2	1.3	0.0	0.0
Of which: Banking system	0.0	0.2	0.2	-0.4	0.0	0.0
Divestment/privatization proceeds	2.2	2.7	0.1	0.4	0.0	0.0
Change in unpaid invoices 5/	-1.2	-1.1	1.1	2.3	0.0	-1.2
Memorandum items:						
Nominal GDP (market prices, EC$ millions)	1,648	1,832	1,660	1,660	1,742	1,742
Stock of unpaid invoices 5/	1.7	0.5	1.6	2.9	2.7	1.5
Expenditure arrears (older than 60 days)	…	…	…	1.5	1.4	0.7
Float (less than 60 days)	…	…	…	1.4	1.3	0.8
Fiscal impulse	…	…	-2.5	1.7	-3.9	-5.0

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

1/ Corresponds to projections in IMF Country Report No. 10/14 with all ratios expressed as a percent of revised GDP.
2/ The VAT introduced on February 1, 2010 is classified exclusively under taxes on goods and services, unlike the Generalized Consumption Tax it replaces. Its introduction is expected to yield an additional 0.5 percent of GDP.
3/ Includes the transfer to the budget of PetroCaribe financing beyond that needed to repay related debt.
4/ Excludes commercial bank holdings of government paper, which are shown in the following two lines.
5/ Includes interest arrears to nonparticipating creditors in the debt exchange based on the post-exchange interest rate.

Table 3. Grenada: Summary Accounts of the Banking System, 2007–10 1/

	2007	2008	2009	Proj. 2010
	(In millions of Eastern Caribbean dollars, end of period)			
Net foreign assets	**405.6**	**248.8**	**281.0**	**245.9**
ECCB	298.2	281.0	303.4	286.3
Of which: Imputed reserves 2/	298.2	281.0	346.0	327.6
Commercial banks	107.4	-32.2	-22.4	-40.4
Net domestic assets	**1,279.7**	**1,504.9**	**1,531.1**	**1,652.2**
Public sector credit (net)	-12.5	4.4	-27.1	-5.0
Central government	104.3	122.9	98.7	135.8
ECCB	5.0	6.4	-30.6	6.4
Commercial banks	99.3	116.4	129.3	129.3
Net credit to rest of public sector	-116.8	-118.5	-125.8	-140.8
National Insurance Scheme	-112.5	-135.1	-152.4	-167.4
Other	-4.3	16.6	26.6	26.6
Credit to private sector	1,425.2	1,596.7	1,668.8	1,767.9
Other items (net)	-133.0	-96.2	-110.6	-110.6
Broad money	**1,685.3**	**1,753.7**	**1,812.1**	**1,898.2**
Money	376.2	355.5	324.3	314.5
Currency in circulation	107.8	103.4	106.7	103.4
Demand deposits	268.4	252.1	217.7	211.0
Quasi-money	1,309.1	1,398.1	1,487.8	1,583.7
Time deposits	264.5	291.6	339.2	361.0
Savings deposits	915.8	980.6	1,014.4	1,079.8
Foreign currency deposits	128.8	125.9	134.2	142.8
	(Annual percentage change)			
Net foreign assets	-3.8	-38.7	12.9	-12.5
Net domestic assets	16.7	17.6	1.7	7.9
Credit to private sector	14.7	12.0	4.5	5.9
Broad money	11.0	4.1	3.3	4.8
Money	15.6	-5.5	-8.8	-3.0
Quasi-money	9.8	6.8	6.4	6.4
	(Percent contribution compared to M2 at the beginning of the year)			
Net foreign assets	-1.0	-9.3	1.8	-1.9
Net domestic assets	12.1	13.4	1.5	6.7
Public sector credit (net)	1.5	1.0	-1.8	1.2
Of which: Central government	4.4	1.1	-1.4	2.0
Credit to private sector	12.0	10.2	4.1	5.5
Other items (net)	-1.5	2.2	-0.8	0.0
Memorandum item:				
Income velocity 3/	1.2	1.1	1.0	1.0

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

1/ Based on revised definitions of broad money and the private sector.

2/ Incorporates SDR allocation of SDR 10.2 million.

3/ Nominal GDP at market prices divided by liabilities to the private sector.

Table 4. Grenada: Summary Balance of Payments, 2007–15

		Est.		Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of U.S. dollars)								
Current account	**-263.4**	**-262.8**	**-157.9**	**-161.4**	**-176.1**	**-187.5**	**-194.1**	**-201.0**	**-212.9**
Trade balance	-287.2	-306.6	-202.2	-210.1	-228.4	-252.0	-271.8	-293.5	-316.9
Exports (f.o.b.) 1/	40.7	37.7	37.0	39.3	43.0	46.1	49.5	53.4	57.1
Imports (f.o.b.)	-327.9	-344.3	-239.2	-249.4	-271.4	-298.1	-321.4	-346.9	-374.0
Of which: Mineral fuels	-53.6	-74.7	-49.3	-55.7	-64.7	-68.9	-67.4	-67.7	-72.9
Travel (net)	116.8	118.8	91.6	96.6	106.1	117.3	129.7	144.1	159.9
Other services (net)	-80.2	-78.3	-61.1	-59.8	-64.3	-68.1	-72.4	-78.7	-84.7
Income (net)	-45.6	-49.5	-34.3	-36.6	-41.2	-44.7	-46.1	-48.0	-51.1
Transfers (net)	32.8	52.9	48.2	48.6	51.8	60.0	66.6	75.1	79.9
Capital and financial account	**249.1**	**275.0**	**131.0**	**148.3**	**161.1**	**174.5**	**184.6**	**207.7**	**223.8**
Capital account (transfers)	24.1	24.2	25.7	26.6	27.7	28.8	30.1	29.2	29.9
Financial account	225.0	250.8	105.3	121.7	133.4	145.7	154.5	178.5	193.9
Public sector borrowing (net)	17.7	25.0	21.9	21.5	23.3	8.4	-11.0	-12.3	-15.9
Direct investment (net)	151.6	144.1	69.3	73.9	81.8	89.6	99.0	114.1	128.7
Portfolio investment (net)	-2.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Change in NFA of commercial banks	16.5	51.7	-3.6	6.6	15.8	26.9	44.5	55.7	57.7
Other investments (net)	41.6	30.2	18.0	19.8	12.7	21.1	22.3	21.3	20.1
Net errors and omissions	27.3	-25.7	20.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**13.0**	**-13.5**	**-6.5**	**-13.1**	**-15.1**	**-13.0**	**-9.5**	**6.6**	**10.9**
Available financing	**-13.0**	**13.5**	**6.5**	**9.0**	**4.8**	**3.7**	**1.8**	**-6.6**	**-10.9**
Change in NFA	-10.7	6.4	-8.3	6.3	5.0	4.2	2.3	-3.8	-6.0
Change in net imputed reserves	-10.7	6.4	-24.1	6.3	5.0	4.2	2.3	-3.8	-6.0
Of which: due to SDR allocation	0.0	0.0	-15.7	0.0	0.0	0.0	0.0	0.0	0.0
Change in medium- and long-term net liabilities	0.0	0.0	15.7	0.0	0.0	0.0	0.0	0.0	0.0
IMF purchases and disbursements	0.0	8.5	12.0	2.7	0.0	0.0	0.0	0.0	0.0
IMF repurchases and repayments	-2.2	-2.9	-2.3	0.0	-0.3	-0.5	-0.5	-2.8	-4.8
Exceptional financing 2/	0.0	0.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 3/				**4.0**	**10.3**	**9.3**	**7.7**	**0.0**	**0.0**
	(In percent of GDP)								
Current account	**-43.2**	**-38.7**	**-25.7**	**-25.0**	**-26.0**	**-26.2**	**-25.6**	**-24.9**	**-24.8**
Trade balance	-47.1	-45.2	-32.9	-32.6	-33.8	-35.2	-35.9	-36.3	-36.9
Exports of goods	6.7	5.6	6.0	6.1	6.4	6.5	6.5	6.6	6.6
Imports of goods	-53.7	-50.8	-38.9	-38.7	-40.1	-41.7	-42.4	-42.9	-43.5
Travel (net)	19.1	17.5	14.9	15.0	15.7	16.4	17.1	17.8	18.6
Other services (net)	-13.1	-11.5	-9.9	-9.3	-9.5	-9.5	-9.6	-9.7	-9.8
Income and current transfers (net)	-2.1	0.5	2.3	1.9	1.6	2.1	2.7	3.4	3.4
Capital and financial account	**40.8**	**40.5**	**21.3**	**23.0**	**23.8**	**24.4**	**24.4**	**25.7**	**26.0**
Public sector	2.9	3.7	3.6	3.3	3.5	1.2	-1.5	-1.5	-1.8
Private sector	37.9	36.8	17.7	19.6	20.4	23.2	25.8	27.2	27.9
Of which: Direct investment (net)	24.8	21.2	11.3	11.5	12.1	12.5	13.1	14.1	15.0
Overall balance	**2.1**	**-2.0**	**-1.1**	**-2.0**	**-2.2**	**-1.8**	**-1.3**	**0.8**	**1.3**
	(Annual percentage change)								
Exports of goods	26.1	-7.4	-1.8	6.1	9.5	7.2	7.4	7.7	7.0
Imports of goods	10.6	5.0	-30.5	4.2	8.8	9.8	7.8	7.9	7.8
Travel (net)	32.4	1.7	-22.9	5.5	9.9	10.6	10.5	11.1	11.0

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

1/ Re-exports increased sharply in 2007 upon completion of construction related to the 2007 Cricket World Cup.
2/ For 2009 includes debt rescheduling from the Paris Club and Taiwan Province of China--the latter is under negotiation for settlement.
3/ Includes proposed ECF disbursements and possible debt restructuring.

Table 5. Grenada: Public Sector Debt, 2009

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

	Stock	Percent of Total Debt	Percent of GDP
Public sector debt 1/	752.0	100.0	122.3
Central government debt	657.2	87.4	106.9
Central-government guaranteed debt	49.3	6.6	8.0
Other public sector debt	45.5	6.0	7.4
External debt	538.7	71.6	87.6
Central government	474.4	63.1	77.2
Multilateral	192.0	25.5	31.2
CDB	108.4	14.4	17.6
IDA	39.0	5.2	6.3
IBRD	10.8	1.4	1.8
IMF	23.0	3.1	3.7
Other multilateral	10.7	1.4	1.7
Official bilateral	83.0	11.0	13.5
Paris Club	18.3	2.4	3.0
Belgium	7.3	1.0	1.2
France	4.3	0.6	0.7
Russian Federation	0.2	0.0	0.0
United Kingdom	3.7	0.5	0.6
United States	2.9	0.4	0.5
Non-Paris Club	64.7	8.6	10.5
Kuwait	21.8	2.9	3.5
Taiwan Province of China	20.3	2.7	3.3
Trinidad and Tobago	17.1	2.3	2.8
Other bilateral	5.6	0.7	0.9
Commercial, total	199.4	26.5	32.4
Restructured bonds	193.5	25.7	31.5
Unrestructured bonds	5.8	0.8	0.9
Central government guaranteed	18.9	2.5	3.1
Of which			
Paris Club	5.0	0.7	0.8
Other public sector 2/	45.5	6.0	7.4
Domestic debt	213.2	28.4	34.7
Central government	182.9	24.3	29.7
Restructured Bonds	68.1	9.1	11.1
Unrestructured bonds	2.8	0.4	0.5
Treasury bills	36.9	4.9	6.0
Commercial bank loans	25.5	3.4	4.1
Overdraft	16.5	2.2	2.7
Domestic arrears	17.6	2.3	2.9
Compensation claims	14.8	2.0	2.4
Other	0.6	0.1	0.1
Central-government guaranteed	30.4	4.0	4.9
Memorandum item:			
Nominal GDP	614.8		

Sources: Grenada authorities; and Fund staff estimates.

1/ Includes central government liabilities to the National Insurance Scheme.
2/ Includes PetroCaribe-related borrowing.

Table 6. Grenada: Medium-Term Macro Framework, 2007–15
(In percent of GDP unless, otherwise indicated)

		Est.		Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Output and prices (in percent)									
Real GDP growth (in percent)	4.9	2.2	-7.7	0.8	2.0	3.0	3.5	4.0	4.0
GDP deflator (in percent)	3.4	10.2	-1.2	3.2	2.0	2.0	2.0	2.0	2.0
CPI inflation (period average, in percent)	3.9	8.0	-0.3	3.6	1.9	2.0	2.0	2.0	2.0
CPI inflation (end of period, in percent)	7.4	5.2	-2.4	4.7	2.0	2.0	2.0	2.0	2.0
Gross national savings	7.7	9.1	10.3	10.0	9.6	9.9	10.6	11.4	12.0
Public	4.1	5.2	0.7	2.1	3.6	4.5	6.0	7.5	8.5
Private	3.6	3.9	9.6	7.9	6.1	5.4	4.5	3.9	3.5
Gross domestic investment	50.9	47.8	36.0	35.0	35.7	36.2	36.2	36.3	36.8
Public	9.2	6.2	5.0	4.0	3.7	3.7	3.7	3.8	3.8
Private	41.7	41.7	31.0	31.0	32.0	32.5	32.5	32.5	33.0
Central government operations 1/									
Total revenue and grants	27.1	29.4	28.5	28.2	28.3	28.7	29.0	29.3	29.2
Total revenue	26.0	25.4	24.4	24.3	25.3	25.9	26.3	26.8	26.8
Of which: tax revenue	24.4	23.7	22.9	22.8	23.8	24.3	24.7	25.1	25.2
Grants	1.0	4.1	4.1	3.9	3.0	2.8	2.7	2.5	2.4
Total expenditure	34.9	34.5	35.1	31.1	29.5	29.0	28.4	28.4	27.8
Current expenditure	21.4	22.8	25.6	23.5	22.5	22.0	21.4	21.2	20.6
Of which:									
Salaries and allowances	9.6	11.0	11.5	11.1	10.9	10.5	10.2	9.8	9.4
Good and services	4.8	4.6	5.2	4.5	3.8	3.2	3.2	3.2	3.2
Interest payments	2.1	2.1	2.8	3.3	3.2	3.6	3.4	3.6	3.4
Capital expenditure	13.5	11.7	9.5	7.6	7.0	7.0	7.0	7.2	7.2
Primary balance (excluding grants)	-6.9	-7.0	-7.9	-3.6	-1.0	0.5	1.3	1.9	2.4
Primary balance (including grants)	-5.8	-3.0	-3.8	0.3	2.0	3.3	4.0	4.4	4.8
Overall balance (including grants)	-7.9	-5.1	-6.6	-2.9	-1.2	-0.3	0.6	0.9	1.4
Total public sector debt	111.0	102.2	122.3	119.1	116.3	111.8	104.5	96.8	89.1
External debt	78.4	74.6	87.4	87.1	86.4	82.9	76.7	70.1	63.4
Domestic debt	32.6	27.6	34.9	32.0	29.9	28.9	27.8	26.7	25.7
External sector									
Exports of goods	6.7	5.6	6.0	6.1	6.4	6.5	6.5	6.6	6.6
Imports of goods	53.7	50.8	38.9	38.7	40.1	41.7	42.4	42.9	43.5
Travel (net)	19.1	17.5	14.9	15.0	15.7	16.4	17.1	17.8	18.6
Foreign direct investment	24.8	21.2	11.3	11.5	12.1	12.5	13.1	14.1	15.0
Current account	-43.2	-38.7	-25.7	-25.0	-26.0	-26.2	-25.6	-24.9	-24.8
Overall balance	2.1	-2.0	-1.1	-2.0	-2.2	-1.8	-1.3	0.8	1.3
Imputed gross international reserves									
(in millions of U.S. dollars)	112.8	107.1	111.3	105.0	99.9	95.7	93.4	97.2	101.0
(in months of imports of goods and services)	3.4	3.2	3.4	3.2	3.0	2.9	2.8	2.9	3.0
Memorandum items:				(in millions of U.S. dollars)					
Nominal GDP	610	678	615	645	677	715	758	808	860
Total public sector debt	678	693	752	768	787	799	792	782	767
External debt	479	506	539	563	586	594	582	567	547
Domestic debt	199	187	213	205	201	205	210	215	220

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

1/ Measured using above-the-line information.

Table 7. Grenada: Reviews and Disbursements Under the Existing Arrangement, 2006–10

Date	Conditions	Disbursement	Percent of Quota	Availability date
April 2006	Board approval of PRGF arrangement	SDR 1,560,000	13.3	April 15, 2006
July 2008	Observance of end-June 2006 performance criteria, completion of first review and adopt conditions for second year of the arrangement	SDR 2,980,000	25.5	July 15, 2008
December 2008	Observance of end-June 2008 performance criteria and completion of second review	SDR 2,410,000	20.6	October 15, 2008
June 2009	Observance of end-December 2008 performance criteria, completion of third review, and adopt conditions for third year of the arrangement	SDR 3,875,000	33.1	April 15, 2009
October 2009	Observance of end-June 2009 performance criteria and completion of fourth review	SDR 3,875,000	33.1	October 15, 2009
April 2010	Observance of end-November 2009 performance criteria and completion of fifth review	SDR 1,680,000	14.4	February 28, 2010
Total		**SDR 16,380,000**	**140.0**	

Table 8. Grenada: Reviews and Disbursements Under a Successor Arrangement, 2010–13

Date	Conditions	Disbursement	Percent of Quota	Availability date
April 2010	Board approval of ECF arrangement	SDR 1,275,000	10.9	April 17, 2010
November 2010	Observance of end-June 2010 performance criteria and completion of first review	SDR 1,250,000	10.7	November 15, 2010
May 2011	Observance of end-December 2010 performance criteria and completion of second review	SDR 1,250,000	10.7	May 15, 2011
November 2011	Observance of end-June 2011 performance criteria and completion of third review	SDR 1,250,000	10.7	November 15, 2011
May 2012	Observance of end-December 2011 performance criteria and completion of fourth review	SDR 1,250,000	10.7	May 15, 2012
November 2012	Observance of end-June 2012 performance criteria and completion of fifth review	SDR 1,250,000	10.7	November 15, 2012
April 2013	Observance of end-November 2012 performance criteria and completion of sixth review	SDR 1,250,000	10.7	April 15, 2013
Total		**SDR 8,775,000**	**75.0**	

Table 9. Grenada: Indicators of Capacity to Repay the Fund, 2007–16

(In millions of SDRs, unless otherwise indicated)

				Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund obligations based on existing credit	1.7	1.9	1.5	0.0	0.2	0.3	0.3	1.8	3.0	2.8
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.8	2.9	2.8
Charges and interest	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit	1.7	1.9	1.5	0.0	0.2	0.4	0.4	1.8	3.3	3.8
Repurchases and repayments	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.8	3.2	3.8
Charges and interest	0.3	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Fund obligations based on existing and prospective credit										
In millions of U.S. dollars	2.7	3.0	2.4	0.0	0.2	0.6	0.6	2.9	5.1	5.9
In percent of exports of goods and services	1.4	1.6	1.5	0.0	0.1	0.3	0.3	1.2	1.9	2.1
In percent of debt service 1/	10.5	10.0	6.6	0.0	0.9	1.6	1.2	5.0	8.1	7.9
In percent of GDP	0.4	0.4	0.4	0.0	0.0	0.1	0.1	0.4	0.6	0.6
In percent of Imputed Net International Reserves	2.4	2.9	2.1	0.0	0.2	0.6	0.6	2.9	5.2	5.9
In percent of quota	14.8	16.5	13.1	0.0	1.4	3.2	3.2	15.7	28.2	32.4
Outstanding Fund credit (end of period)										
In millions of SDRs	4.9	8.4	14.7	18.9	21.2	23.4	24.4	22.6	19.4	15.6
In millions of U.S. dollars	7.7	13.0	22.9	29.5	33.1	36.5	38.0	35.2	30.2	24.3
In percent of exports of goods and services	4.1	6.8	14.0	17.0	17.6	17.9	17.1	14.6	11.4	8.5
In percent of debt service 1/	30.4	42.6	63.2	113.9	113.7	104.3	76.4	61.9	47.4	32.7
In percent of GDP	1.3	1.9	3.7	4.6	4.9	5.1	5.0	4.4	3.5	2.7
In percent of Imputed Net International Reserves	6.9	12.5	20.4	27.8	32.8	37.8	40.2	36.2	30.5	24.1
In percent of quota	41.5	71.9	125.7	161.6	181.6	200.3	208.4	193.1	165.4	133.4
Net use of Fund credit	-1.5	3.6	6.3	4.2	2.3	2.2	0.9	-1.8	-3.2	-3.8
Disbursements	0.0	5.4	7.8	4.2	2.5	2.5	1.3	0.0	0.0	0.0
Repayments and Repurchases	1.5	1.8	1.5	0.0	0.2	0.3	0.3	1.8	3.2	3.8
Memorandum items:										
Exports of goods and services (in millions of US$)	188.2	191.5	164.1	173.0	188.0	204.4	222.4	242.1	263.9	285.9
Debt service (in millions of US$) 1/	25.2	30.4	36.2	25.9	29.1	35.0	49.8	56.9	63.7	74.4
GDP (in millions of US$)	610.3	678.5	614.8	645.2	676.6	714.9	757.7	807.8	860.1	915.9
Imputed Net International Reserves (in millions of US$)	110.4	104.1	112.4	106.0	101.0	96.8	94.5	97.3	99.1	100.9
Quota	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7

Source: Fund staff estimates and projections.

1/ Total debt service including to the Fund.

Table 10. Grenada: Vulnerability Indicators, 2004–09

	2004	2005	2006	2007	2008	Est. 2009
Real sector indicators						
Real GDP growth (percent)	-5.7	11.0	-2.3	4.9	2.2	-7.7
CPI inflation (period average, in percent)	2.3	3.5	4.2	3.9	8.0	-0.3
Financial sector indicators						
Total capital asset ratio of banks (locally incorporated banks)	14.9	15.3	17.5	15.6	15.1	15.9
Of which : Tier 1 capital (locally incorporated banks)	10.5	12.7	13.2	13.3	13.0	13.8
Liquid assets/total assets	44.0	37.2	31.2	27.6	24.1	21.8
Liquid assets/current liabilities	47.9	40.0	34.2	30.6	26.8	24.1
Total loans/total deposits	57.6	66.0	73.2	75.9	80.0	83.3
Net liquid assets/total deposits	44.2	35.4	28.6	26.4	19.8	18.7
Nonperforming loans/total loans	6.0	5.5	3.7	3.5	3.5	5.9
Of which: Foreign banks	6.2	4.7	3.1	3.2	3.1	5.8
Provisions for loan losses /nonperforming assets	81.9	79.4	67.4	57.7	44.9	28.4
Of which: Foreign banks	89.3	105.7	88.6	65.8	54.3	32.7
Gross government claims/total assets	11.3	11.2	11.6	11.9	12.7	12.3
FX deposits/total deposits	5.6	7.8	5.8	7.7	6.9	6.9
Net foreign currency exposure/capital (locally incorporated banks)	221.4	138.4	101.4	65.7	47.1	37.8
Contingent liabilities/capital (locally incorporated banks)	67.7	78.7	72.2	85.8	68.2	65.7
Ratio of bank's before-tax profits to average assets (percent)	0.5	0.7	2.5	2.1	1.9	0.7
Broad money (percent change, 12-month basis)	20.8	-4.8	0.1	11.0	4.1	3.3
Private sector credit (percent change, 12-month basis)	4.6	8.3	11.5	14.7	12.0	4.5
U.S. treasury bill rate (percent per annum)	1.4	3.2	4.7	4.4	1.5	0.1
Treasury bill rate (percent per annum) 1/	6.0	6.0	6.5	6.5	6.3	6.5
External sector indicators						
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7
REER appreciation (percent change on 12-month basis, end of period)	-3.5	5.9	-4.6	0.2	6.6	-6.8
Exports of goods (percent change, 12-month basis)	-17.6	-12.4	-1.7	26.1	-7.4	-1.8
Imports of goods (percent change, 12-month basis)	-0.1	32.1	-0.8	10.6	5.0	-30.5
Travel receipts (gross, percent change, 12-month basis)	-18.7	-5.4	30.8	27.8	-2.1	-21.4
Current account balance (percent of GDP)	-9.0	-31.3	-33.2	-43.2	-38.7	-25.7
Capital and financial account balance (percent of GDP)	24.0	35.3	35.2	40.8	40.5	21.3
Net FDI inflows (percent of GDP)	13.9	12.7	15.9	24.8	21.2	11.3
Gross international reserves of the ECCB (in US$ millions)	632.4	600.8	696.0	764.5	759.0	800.8
Gross international reserves in months of current year imports in ECCU countries	4.8	3.9	3.8	3.7	3.4	5.2
Gross international reserves to broad money in ECCU countries (percent)	20.4	17.9	18.6	18.6	17.0	17.6
Public gross external debt (in US$ million)	415.6	437.0	457.2	478.7	506.4	537.5
Public gross external debt to exports of goods and services (percent)	44.8	53.0	49.9	41.7	39.0	53.3
Public gross external interest payments to exports of goods and services (percent)	13.7	6.5	7.5	7.2	8.2	9.1
Public gross external amortization payments to exports of goods and services (percent)	8.6	6.0	4.9	8.4	6.9	6.2
Public gross external interest payments to fiscal revenue (percent)	17.5	5.1	6.0	5.8	6.0	6.5
Public gross external amortization payments to fiscal revenue (percent)	11.0	4.7	3.9	6.8	5.1	4.4
	(In percent of GDP)					
Public sector indicators						
Central government overall balance (after grants)	-2.6	0.4	-6.1	-7.9	-5.1	-6.6
Public and publicly-guaranteed gross external debt	88.6	78.9	81.0	78.4	74.6	87.4

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

1/ Rate on 365-day treasury bills.

Annex: Summary of Appendices

Fund Relations

Grenada's outstanding purchases as of end-February 2010 amounted to SDR 14.70 million (125.64 percent of quota). Grenada is a member of the ECCB, which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged at EC$2.70 per U.S. dollar since July 1976. The last Article IV consultation was concluded by the Executive Board on November 4, 2009 (IMF Country Report No. 10/14). CARTAC, MCM, FAD, and LEG have provided extensive technical assistance. A safeguards assessment was completed in 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place.

Relations with the World Bank Group[11]

The World Bank is in the process of elaborating its Eastern Caribbean Regional Partnership Strategy for FY10–14, and it is scheduled to be presented to the Board of the Bank in May 2010. The FY06-09 Strategy supported the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerabilities, by promoting greater social inclusion and strengthening disaster risk management. There are seven active World Bank projects in Grenada for a net commitment of approximately US$25.7 million.

Relations with the Caribbean Development Bank[12]

During 2009, the Caribbean Development Bank (CDB) approved the second Country Strategy Paper (CSP) for Grenada, which outlines the Bank's strategy in Grenada over 2009-11. The resource envelope of US$26 million blends the Bank's resources to yield a 35 percent grant element in conformity with Grenada's debt sustainability borrowing terms. The strategy supports macroeconomic management, access to quality education, access by the poor to basic infrastructure, the social policy framework, agricultural output, road access for rural development, the land use policy framework, and reduction of climate change related risks.

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 weaknesses in coverage, timeliness and frequency data.

---

[11] This paragraph summarizes information from a note prepared by staff from the World Bank in February 2010.

[12] This paragraph summarizes information from a note prepared by staff from the Caribbean Development Bank in March 2010.

Letter of Intent

St. George's, Grenada
March 23, 2010

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

Dear Mr. Strauss-Kahn:

The global financial crisis has hit us hard and derailed our efforts to achieve high and sustained growth, and fiscal and debt sustainability. The two mainstays of our economy—tourism and FDI, principally from the U.S. and U.K.—have been particularly hit in the last two years, given the sharp slowdown in these economies. When we came into government, following the elections in mid-2008, the country was already mired in high debt levels that resulted from large fiscal deficits of previous years. As a result, unlike some countries in the region, we had little fiscal space to address the fallout from the global economic crisis that was affecting Grenada. Against this background, IMF support under the current Extended Credit Facility (ECF) arrangement, together with the grants and concessional resources that it helped to mobilize from our development partners, including the Caribbean Development Bank, the World Bank and the European Union, has been a mitigating factor and helped dampen the negative impact on our economy.

However, while the global economy is showing signs of improvement, we continue to face weak external demand because unemployment in advanced countries remains high and the propensity to spend on tourism and travel is likely to remain low as consumers and corporations in these countries rebuild their battered balance sheets. Therefore, we continue to face a challenging period ahead and expect to see a slow recovery in our tourism and FDI-financed construction sectors, with improvement expected only later in the year. Most importantly, and notwithstanding our concerted efforts to protect the poor and the vulnerable, the Country Poverty Assessment completed last year showed that poverty rate was 38 percent even before the crisis hit, and it has likely risen since. Unemployment rate has been on the rise and is estimated at some 30 percent currently.

In our 2010 Budget Statement, presented to Parliament in mid-January, we laid out our strategy, in line with the ECCB's eight point stabilization and growth program, focusing on resuming sustainable growth, reducing high unemployment and poverty, and restoring fiscal and debt sustainability.

To support our strategy, the government of Grenada hereby requests IMF financial support under a successor ECF arrangement in an amount equivalent to SDR 8.775 million (75 percent of quota) following the expiration of our current ECF on April 16, 2010. This will complement the continued support we are receiving from other development partners. We anticipate that the first review would take place in November 2010 and the second review in May 2011.

We met all but two end-November 2009 quantitative performance criteria. The performance criterion on the primary balance excluding grants was missed by a margin of 3.3 percent of GDP owing to higher-than-programmed project financing from external sources, enabling us to dampen the effect of the global crisis on the economy. We also ran up unpaid invoices due to spending overruns on goods and services and transfers and subsidies, the latter to cushion the impact on the vulnerable groups. Nevertheless, we met the target for domestic arrears over 60 days. We are taking corrective actions to ensure that spending stays within program targets and avoid arrears. In particular, we will issue a finance circular capping capital spending to programmed amounts, and we are working with CARTAC to enhance expenditure commitment controls at line ministries. We are also introducing quarterly budget reviews and taking steps to move to a Single Treasury Account system to closely monitor developments in revenues and expenditure to ensure better fiscal management. We also missed the continuous performance criterion on nonaccumulation of external arrears, due to several factors, including tight liquidity, administrative weaknesses and an upgrade in the electronic funds transfers to the ECCB which caused processing delays. These arrears have now been cleared, and we have put mechanisms in place to avoid such slippages in the future as described in the accompanying memorandum. On this basis, the government of Grenada hereby requests waivers of both the missed performance criteria and completion of the fifth review under the current ECF arrangement.

On the structural benchmarks, we successfully introduced a Value Added Tax (VAT) on February 1, 2010 as scheduled, despite strong rallying by the opposition and the business community to delay the implementation. Establishing a Public Procurement Department has been delayed as we are working with the OECD to revise the Public Procurement Act in line with international best practices. We expect to submit the revised Act to Parliament by June 2010 and to set up the Public Procurement Department by September 2010.

We have been considering a concessional loan from the Export-Import Bank of China to build a luxury hotel in partnership with private investors. In light of our limited financial resources and the need to reinvigorate the tourism sector, which has significant backward linkages to the economy, we believe that this project could generate significant economic benefits not only in the short run by boosting the construction sector and creating employment but also in the medium and long-term by raising the tourism potential of the country. We will seek an objective assessment of the economic and financial returns from this project from an internationally reputed third party and proceed only if prospective benefits outweigh the associated additional debt servicing burden, concessional financing is available, and the private sector has a majority share.

The attached Memorandum of Economic and Financial Policies (MEFP) discusses progress in implementing our current ECF-supported program, and outline our objectives and policies under the successor arrangement that we are requesting. We believe that these proposed policies are sufficient to achieve our program objectives. Nevertheless, we are committed to taking any further measures that may become necessary for achieving the program's objectives. We will consult with the Fund on the adoption of these measures and revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. In this context, once the expected contribution of Grenada to the resolution of BAICO becomes clear, we would consult with Fund staff. We will also continue to provide the Fund any information it may request to monitor and assess the implementation of the economic and financial policies.

In line with our objective of transparency, we intend to make public the contents of this letter, the attached MEFP and Technical Memorandum of Understanding, as well as the accompanying staff report, so that everyone in Grenada as well as the international community have access to our intentions and policies. Therefore, we authorize the Fund to publish these documents on its website once the Executive Board of the Fund approves the successor arrangement.

Yours faithfully,

__________/s/_____________
Honorable V. Nazim Burke
Minister for Finance

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. **This Memorandum marks the continuation of our program relationship with the IMF and describes the economic and financial policies as well as the structural reforms that the government intends to implement in the next few years under a successor Extended Credit Facility (ECF).** We have made important progress in several areas under the current ECF arrangement, especially since the current government came into office in mid-2008. The program with the Fund has complemented our efforts to withstand the impact of the international food and fuel prices in 2007–08 and the global economic and financial crisis in 2008–09 that has hit all countries, both developed and developing countries. The Fund program has helped to catalyze donor support from other International Financial Institutions and reduce our debt service payments through debt restructuring. Despite our concerted efforts, reaching our goals of generating sustainable growth and reducing vulnerabilities has remained elusive given the effect of these adverse exogenous shocks. We would like to continue our program relationship with the IMF under a successor ECF arrangement to help us mitigate the impact of the global economic slowdown, ensure fiscal and debt sustainability, address the fallout from the stresses in the regional financial sector, and pursue our structural reform agenda to lay the groundwork for broad-based economic growth and poverty reduction.

I. Recent Developments and Outlook

2. **Economic activity slowed significantly in 2009 as a result of the drag of the global crisis.** Real GDP is estimated to have declined by 7.7 percent in 2009, after 2.2 percent growth in 2008, reflecting falling tourism receipts and FDI. The construction sector, which has been one of the key drivers for economic growth in recent years, is estimated to have declined by about 50 percent for the year, although the pace of decline slowed in the last quarter of 2009, reflecting higher-than-expected FDI inflows. Prices fell by 2.4 percent in the 12 months to December 2009, reflecting weak domestic demand and lower international food and fuel prices.

3. **External conditions have severely restricted balance of payments inflows.** Stayover arrivals declined by about 13 percent in 2009, and FDI, which peaked at 25 percent of GDP in 2007, is estimated to have fallen to 11 percent of GDP in 2009, with several FDI-financed tourism projects delayed due to financing difficulties. This forced a sharp reduction in imports, narrowing the external current account deficit by more than 10 percentage points of GDP in 2009.

4. **The overall fiscal deficit in 2009 was larger-than-expected, financed by external flows.** Total revenue for 2009 was in line with the program projection at the time of the fourth review, but expenditures were much higher than we anticipated, especially on capital projects. This largely reflected expediting spending on some donor-financed projects. In addition, spending on goods and services was somewhat higher and on transfers and subsidies. In addition, in response to the deteriorating economic environment, we provided temporary tax relief to hotels and guest houses by halving the General Consumption Tax (GCT) from May to December 2009 to support the tourism sector and limit job losses (at an estimated fiscal cost of about EC$3 million, 0.2 percent of GDP). Owing to a lack of resources, we spent only EC$4 million in additional support to airlines and

marketing (less than the EC$10 million originally envisaged). We have received increased budgetary support from multilateral donors. In December 2009, we received a US$6.4 million Policy Based Loan (PBL) from the Caribbean Development Bank (CDB) and €10 million grants from the European Union, part of which was under the Vulnerability Flex facility. However, most of the additional external inflows came in December, leading to an increase in unpaid invoices which jumped from EC$9.2 million at end 2008 to EC$47.6 million at end 2009. Nevertheless, domestic arrears (over 60 days) were kept below the program target of EC$25 million.

5. **Although commercial banks have generally remained resilient, the quality of the commercial bank loan portfolio is deteriorating.** Growth of private sector credit and broad money slowed to 4.5 percent and 3.3 percent, respectively, at end-December 2009, reflecting weak economic activity. The ratio of nonperforming loans (NPLs) to total loans reached 5.9 percent at end-December 2009, and the ratio of provisions to NPLs declined to 28.4 percent. However, the capital adequacy ratio of the banking sector, at 15 percent at end-December 2009, remains well above the prudential norm of 8 percent.

6. **The collapse of the Trinidad and Tobago-based CL Financial Group in January 2009 represents a major risk to financial system stability and fiscal performance**. Two insurance subsidiaries of the CL Financial Group—CLICO International Life Insurance Limited (CLICO) and British American Insurance Company (BAICO)—had been selling deposit-like investment instruments throughout the ECCU in addition to traditional insurance products. CLICO is not current with principal or interest payments on the instruments, and its head office in Barbados, working through a government-appointed committee, has been seeking to divest assets to address its liquidity problems and to then divest CLICO. To address the more serious financial difficulties of BAICO, ECCU governments requested in July–August 2009 that High Courts in each jurisdiction appoint judicial managers to assume control of BAICO's ECCU operations and to conduct a financial review. This review, completed in October, determined that BAICO is insolvent and recommended the creation of a new company to take over its ECCU operations.

7. **Unemployment has trended upward, while poverty remains widespread.** The recently completed Country Poverty Assessment (CPA) reveals that 38 percent of the population lived below the poverty line in June 2008, higher than the 32 percent in 1998 when the previous survey was conducted. The unemployment rate was estimated at 25 percent in June 2009 and we believe that it has increased further to about 30 percent reflecting softening in labor market conditions due to the economic slowdown.

II. Program Performance

8. **We met all but two end-November 2009 quantitative program targets:**

- The target on **the primary balance excluding grants** was missed by a margin of 3.3 percent of GDP. This was, in large part, due to higher-than-programmed project financing from external sources, which enabled us to accelerate some capital projects and thus dampen the effect of the global crisis on the economy. We also accumulated some expenditure arrears due to spending overruns on goods and services and transfers and subsidies, the latter to cushion the impact on the vulnerable groups. We are taking corrective actions to ensure that spending stays within program targets and avoid arrears. In particular, we will issue a finance circular (prior action) capping capital spending to programmed amounts, and we are working with CARTAC to enhance expenditure commitment controls at line ministries. We are also introducing quarterly budget reviews and taking steps to move to a Single Treasury Account System to closely monitor developments in revenues and expenditure to ensure better fiscal management.

- The continuous performance criterion on nonaccumulation of external arrears was missed due to payment delays to some creditors. Late arrival of external budgetary support, procedural weaknesses, and a software upgrade at the Ministry of Finance together with a move to an electronic funds transfer system with the ECCB contributed to the delays. These arrears have now been cleared. While some of these factors were one-off and have subsequently been resolved, to address the administrative weaknesses the Debt Management Unit, in addition to preparing a monthly report of upcoming debt service obligations for the Accountant General's office, will ensure that payments are made by their due dates.

The government of Grenada hereby requests waivers for both of the missed performance criteria.

9. **We continued to make progress on structural reforms.** The introduction of a VAT on February 1, 2010 proceeded smoothly, reflecting our extensive preparations including a public education campaign and meetings with VAT registrants and consumers. Establishing a Public Procurement Department has been delayed as we are working with the OECD to revise the Public Procurement Act in line with international best practice. We expect to submit the revised Act to Parliament by June 2010 and to set up the Public Procurement Department soon thereafter.

III. Objectives and Policies of the Economic Program

10. **The key objectives of our economic program for 2010–2012 are:**

- Ensuring fiscal and debt sustainability by placing the public debt-to-GDP ratio on a firm downward trajectory,

- Reducing vulnerabilities in the financial system by addressing the problems at BAICO and strengthening the supervision of both the banking and the nonbanking financial sector, and

- Generating high and sustainable growth through structural reforms that will encourage private sector-led growth, and reducing poverty by creating a more effective social safety net.

These objectives are essential for addressing the impact of the adverse external shock in the short run while laying the ground work for broad-based economic growth in the medium and long term.

IV. ENSURING FISCAL AND DEBT SUSTAINABILITY

11. **The medium-term fiscal program is underpinned by the need to achieve fiscal and debt sustainability**. Toward this end, we plan to reduce the public debt-to-GDP ratio to the ECCB recommended ratio of 60 percent of GDP by 2020. After declining in 2007 and 2008, this ratio jumped up by more than 20 percentage points of GDP in 2009, reflecting the contraction in GDP and higher domestic and external borrowing. Debt service absorbs some 18 percent of our total revenues and remains a drag on our economy. We therefore plan to adopt a three-year rolling budget from 2011 with explicit annual targets for the debt-to-GDP ratio to ensure that it remains on a downward path.

12. **In light of the difficult economic environment, the fiscal adjustment will be phased in.** In particular, in 2010, external financing is expected to decline, which will limit capital spending. At the same time, we plan to adopt a number of revenue and expenditure measures which will allow the fiscal accounts to swing gradually from an underlying primary deficit excluding grants of 3.6 percent of GDP in 2010 to a primary surplus of 2-2½ percent of GDP by 2015. Providing the surplus is kept at this level thereafter, our public debt will decline sharply to our target of 60 percent of GDP by 2020.

13. **On the revenue side**, **we will focus on improving compliance and simplifying collections**. We successfully introduced the VAT on February 1, 2010. The VAT is being levied at a standard rate of 15 percent, with the exception of mobile and tourism services which are taxed at 20 percent and 10 percent, respectively, and some zero-rated items. The VAT is expected to enhance the coverage and buoyancy of the tax system and will replace the current GCT with rates varying between 0 and 55 percent, the airline ticket tax of 10 percent, and the motor vehicle purchase tax with rates between 5 and 15 percent. We expect that because of the broadening of the tax base due to the VAT, additional revenues of about ½ percent of GDP will be generated, similar to those experienced by other countries in the region. We plan to take the following additional measures to improve revenue performance: (i) continue the taxpayer education and service program to facilitate voluntary compliance in accordance with filing and payment requirements, (ii) integrate all VAT functions with mainstream internal revenue operations, (iii) develop rulings and interpretations capacity to resolve tax matters, (iv) enforce compliance, including by implementing enforcement programs to deal promptly with non-filers and stop-filers, (v) develop audit capacity and conduct audits of VAT refunds, and (vi) establish a single unique Tax Identification Number.

14. **On the expenditure side, sharp cuts will be needed in light of the limited financing available.** To achieve the needed reduction in expenditure, the government is undertaking the following measures: (i) growth in the wage bill will be sharply limited, in part by not filling all positions authorized under the 2010 budget, (ii) goods and services spending will be brought back down, through more favorable government-wide contracts with service providers and improved procurement procedures, (iii) transfers and subsidies spending will also be cut back, including transfers to public enterprises, while protecting transfers to vulnerable groups, and (iv) capital spending will be limited to EC$133 million according to a list of priority projects that has been set forth in a finance circular.

15. **Furthermore, we are also undertaking several reforms to enhance customs collections.** The new Customs Act will be submitted to Parliament by end-March 2010. We are preparing the associated regulations so that we can start implementing the new law as soon as it is passed. We are upgrading our customs technology platform (to ASYCUDA World) and are planning to implement a pilot project at the main port by early 2011. We will also introduce risk-based inspections to improve the efficiency of customs collections. In addition, we plan to go ahead with the market-based property tax as scheduled in January 2011.

16. **We are committed to implementing a prudent medium-term expenditure policy.** Toward this end, we plan to contain current expenditures while making room for capital spending over the medium term to improve the productive capacity of the economy and place growth on a sustained upward trajectory. In particular, we are committed to: (i) containing the wage bill by limiting the growth in wages to less than the growth rate of nominal GDP growth, (ii) reducing the spending on goods and services by improving procurement procedures and reducing waste, and (iii) improving the efficiency of social spending. We continue to work with the World Bank to establish bulk procurement procedures with other OECS countries, and to extend the existing arrangement for pharmaceuticals to other products. The Waste Reduction Unit set up last year is designing plans to rationalize the spending on government vehicles, on travel, telecommunications, and utilities. We will continue to maintain the existing automatic fuel price adjustment mechanism.

17. **We are also taking steps to improve public financial management** by implementing several pieces of public financial management legislation enacted in 2007–08, including the Integrity in Public Life, Prevention of Corruption, Public Finance Management, and Audit Acts. Following the recently completed PEFA assessment, and with technical assistance from our development partners, we plan to develop the PFM Action Plan, which will include: (i) instituting a comprehensive commitment control system using the government's financial management system that captures legal liabilities at the time the commitment is made so that we can avoid overruns in spending and reduce expenditure arrears, (ii) conducting quarterly budget reviews and issuing a finance circular revising spending targets for any shortfalls in revenues and/or financing to prevent overruns and an accumulation of expenditure arrears; (iii) improving the cash management model by enumerating all government bank accounts and define a schedule for consolidating them and establishing a Single Treasury Account System, with technical assistance from donors. We also plan to introduce multi-year budgeting from 2011.

18. **We expect to receive increased budgetary support from multilateral donors in 2010.** We expect to receive total grants amounting to some EC$68 million including €9 million from the EU. The second tranche of US$6.4 million on the PBL from the CDB and US$8 million of the Development Policy Loan (DPL) from the World Bank are also expected to be disbursed in 2010. This support, together with the requested disbursements under the current and successor ECF arrangements, will help ease the adjustment to the current crisis.

19. **The completion of the current ECF arrangement and approval of the successor arrangement could pave the way for additional debt relief by the Paris Club.** Based on our strong

performance under the current ECF arrangement and commitment to the successor arrangement, we will request a stock treatment of our debt from the Paris Club (2.4 percent of total debt). We will also ask non-Paris Club official bilateral creditors for similar treatment (8.6 percent of total debt).

20. **We are continuing best efforts to extend or conclude bilateral agreements with Paris Club creditors and to seek comparable treatment from non-Paris Club creditors**. The Paris Club granted us an extension of debt relief for 2009, broadly in line with the debt relief that it extended in 2006–08. We are continuing to seek an out-of-court settlement, through a new legal counsel in New York, with the Export-Import Bank of Taiwan Province of China, and pursue good faith efforts to reach a collaborative agreement with Grenada's external commercial creditors that did not participate in the 2005 debt exchange, which has had a 94 percent participation rate so far.

21. **We are accelerating our efforts to manage existing debt and better select future liabilities.** In 2009, we established the Debt Management Unit which is in charge of designing and monitoring our overall debt strategy. In addition, we reconstituted the Debt Coordinating Committee within the Ministry of Finance which has been charged with the responsibility of cash flow management and planning. In 2010, we will work with the ECCB and other partners to access support through the Debt Management Program (DEMAS) financed by Canada. In addition, we will also: (i) prepare rolling three-month future debt service payments on a monthly basis, (ii) formulate and pursue an active debt management strategy with clear debt management objectives (e.g. debt sustainability, risk, cost/benefit analysis, and weight of domestic/external instruments), (iii) prepare creditor profiles to assist Government in negotiating new terms of borrowing, (iv) develop a yearly borrowing plan, for both domestic and external borrowing, (v) develop policies and procedures for the approval and issuance of government guarantees and on-lending, and (vi) prepare and publish an annual debt statistical bulletin that covers all debt (including central government and statutory bodies) and all guarantees provided by the government.

22. **The government believes that the policies and measures set forth above will be sufficient to achieve our fiscal and debt targets.** In case of further revenue shortfalls, we would undertake additional measures as needed to meet our fiscal targets, such as reducing spending on goods and services and further rationalizing capital spending. If additional grants and concessional financing are available, we will raise capital expenditure to provide fiscal stimulus.

23. **We have been considering a concessional loan from the Export-Import Bank of China to build a luxury hotel in partnership with private investors**. In light of our limited financial resources and the need to reinvigorate the tourism sector which has significant backward linkages to the economy, we believe that this project could generate large economic benefits not only in the short run by boosting the construction sector and creating employment but also in the medium and long term by raising the tourism potential of the country. We will seek an objective assessment of the economic and financial returns from this project from an internationally reputed third party and embark on this project only if we can secure concessional financing and majority private sector participation and there are clear prospective benefits that can more than offset the associated additional debt servicing burden.

V. Reducing vulnerabilities in the financial system

24. **We are moving forward with addressing the problems created by the collapse of the Trinidad and Tobago-based CL Financial Group.** The Grenadian Authority for the Regulation of Financial Institutions (GARFIN) is in close contact with CLICO-Grenada and has instructed it to halt the sale of investment instruments. Two associated subsidiaries of CL Financial Group in Barbados have been divested and it is expected that the proceeds from this will be used to ease the cash flow problems at CLICO-Grenada.

25. **With regard to BAICO, ECCU governments are discussing plans for a new company with strategic investors to take over BAICO's ECCU operations.** It is expected that the new company will be established within the next few months. While it is almost certain that ECCU governments will need to inject capital, we, together with our regional partners, will try to limit the fiscal costs through revision of existing terms, including lowering of interest rates, extending tenors, and converting some liabilities into equity.

26. **The government is continuing to improve the supervision of the nonbank financial sector through GARFIN**. We intend to proclaim by March 25 the new Insurance Act (prior action), and issue associated regulations in the second quarter. The Money Services Act will also take effect shortly. By September 2010, we will enforce our supervisory powers to ensure that insurance companies representing at least 50 percent of industry assets (including the largest five companies) pledge assets in their statutory funds sufficient to cover their insurance liabilities in Grenada and place these assets under trusteeship so that they are available to cover local liabilities should the need arise. We will complete the onsite supervision of at least two insurance companies by October, and begin onsite supervision of money service businesses in the second half of this year. We will submit the new Cooperative Society Act to Parliament by June 2010 to enhance our ability to supervise credit unions and are planning to update the current law to allow us to better supervise building societies. We also plan to intensify supervision of pension funds this year.

27. **We are continuing our efforts to comply with the internationally-agreed standard for the exchange of tax information.** Even though the offshore financial sector in Grenada is small, we have concluded negotiations on the Tax Information Exchange Agreement (TIEAs) with three countries so far and aim to sign at least 12 TIEAs by end-March 2010 so that we are removed from the OECD's "grey" list. We have recently completed an external assessment of our legal framework for the offshore financial sector, and are cautiously considering whether to reinvigorate this sector in light of the challenges of effective supervision. We will also continue our efforts to strengthen the framework for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

28. **Liquidation of Capital Bank has been delayed because of legal challenges by the bank's owner**. However, the liquidation of Capital Bank will proceed as soon as the Court permits, and we do not expect to take on any associated fiscal costs.

VI. Generating High and Sustainable Growth and Reducing Poverty

29. **While we are now coping with near-term economic challenges, we are also considering developing five key economic sectors in the medium term which we believe will lead our long-term economic growth**: (i) health and education services, (ii) tourism and hospitality services, (iii) energy development, (iv) agri-business, and (v) information and communication technology. We have already started ground work to develop these areas and stand ready to receive all credible investors in these key areas. Our new Investment Promotion Act, enacted in 2009, offers attractive incentives for all local and foreign investors in these areas.

30. **Toward this end, we are giving high priority to improving the business and investment climate for private sector-led growth.** The Investment Promotions Act guarantees the security of investments and creates a level playing field for domestic and foreign investors, allowing both to qualify for fiscal incentives. The Corporate Affairs and Intellectual Property Act, also passed last year, allows for a separate Registrar of Companies. This change and other measures will help to reduce by end-2010 the time to register and incorporate a company from 10 days to 4 days and the time to start a business from 20 days to 10 days. We have established a Private Sector Development Office to implement and oversee our private sector strategy and a Special Business and Facilitation Committee to help investors overcome administrative and other obstacles. We are also promoting the development of the small and medium enterprise sector. In addition, the technology upgrade at customs will reduce the clearance time by half to one day and help facilitate trade. We have also established a Lands and Deeds Registry in line with the recently approved Property Deeds Act and plan to streamline the procedures to expedite the transfer of property in business transactions. In order to reduce the delays at courts and enhance contract enforcement, we have created an additional Civil Court.

31. **The government has taken several measures to mitigate the negative impact of the global economic crisis to vulnerable groups.** We implemented labor intensive programs, such as a de-bushing initiative and a road maintenance program, to provide income support to vulnerable groups as well as increased the benefit amount for cash assistance programs. We also re-introduced a duty free barrel program in December 2009, which lifted the duties on traditional barrels of gifts received from family members abroad.

32. **We are strengthening and rationalizing our social safety net.** The assessment, completed in 2009, indicates that, although the elements of an appropriate safety net are present, there are multiple programs and the objectives are often not clearly defined. Following the recommendations of this assessment, we are appointing a Social Safety Net Committee (SSNC) to spearhead reform efforts and elaborate an action plan for reforms, which will include the establishment of a central registry of beneficiaries, consolidation of major cash transfer programs, establishment of a cash grant unit, development of selection criteria for beneficiaries, and effective functional targeting mechanisms. We are receiving technical assistance from the World Bank on these issues.

33. **The difficult economic developments of the past few years have set us back with respect to achieving our goals on poverty reduction and social development**. The two hurricanes, the food

and fuel price crisis, and the global financial crisis derailed our efforts to achieve the Caribbean-specific Millennium Development Goals (CMDGs) such as halving the proportion of people living below the poverty line and the proportion of persons without access to basic services, ensuring that every child complete primary and secondary schooling up to grade 12, reducing by two-thirds the mortality rate of children under five years of age, and beginning to reverse the spread of HIV/AIDS.

34. **To reinvigorate our efforts at poverty reduction, we are preparing a full Poverty Reduction Strategy Paper (PRSP)**, with the assistance of our development partners, including the IMF, World Bank, and the CDB. The recently completed Country Poverty Assessment together with our earlier National Development Strategy will provide essential information to improve targeting of social programs and develop a comprehensive strategy to improve the lives of our citizens. In particular, we plan to cost the programs and establish clear monitorable targets. We plan to have a draft of the PRSP by September 2010.

35. **In particular, we will focus on five key areas.** These are: (i) building a knowledge-based economy, (ii) macroeconomic management, (iii) mobilization of financial resources, (iv) promotion of domestic entrepreneurship, and (v) enhancement of institutions, in particular in the areas of education, health and social service delivery and social safety net. We will also develop a measure of social spending which will help monitor our efforts to protect the most vulnerable groups and promote social stability, human development and gender equality. The PRSP will incorporate quantitative objectives for social spending, as well as for achieving CMDGs.

36. **The successor ECF and resources it will mobilize from development partners will be instrumental to the achievement of the goals of the PRSP.** By bringing down the public debt-to-GDP ratio, reducing financial vulnerabilities, and stimulating economic growth with the help of our proposed program, we hope to create a stable macroeconomic environment in which to pursue our PRSP objectives and accelerating the achievement of the CMDGs. In particular, fiscal reforms are aimed at ensuring that resources are available to address pressing social needs, and that the budget is formulated and executed in line with our poverty reduction priorities. Furthermore, financial sector reforms would seek to protect the public from further losses due to the failure of financial institutions.

VII. Other Issues

A. Program Monitoring

37. **We will continue to improve our capacity to monitor economic developments and program performance.** We have designated two Ministry of Finance officials as the ECF program coordinators who willd continue to oversee the monitoring of quantitative and structural program targets. We will continue to conduct monthly monitoring of domestic expenditure arrears and below-the-line financing of the primary balance excluding grants. We will also work closely with the ECCB and commercial banks to reconcile data on bank lending to the government on a monthly basis. The proposed performance criteria for end-June and end-December 2010 are specified in Table 1 and further elaborated in the Technical Memorandum of Understanding. Proposed structural benchmarks for the first and second reviews specified in Table 2.

B. Reducing Natural Disaster Vulnerabilities

38. **We will continue to actively participate in regional initiatives to pool climate risks.** Since 2007, we have participated in the World Bank's Caribbean Catastrophic Risk Insurance Facility (CCRIF), the world's first ever multi-country catastrophe insurance pool. The World Bank and CDB financed the premium payments for the year beginning June 2009, and we have budgeted to pay the premium ourselves beginning June 2010.

C. Fiscal Transparency

39. **We are continuing our efforts to improve fiscal transparency**. We will begin disseminating to the public quarterly information (with a one-quarter lag) on the overall fiscal situation and gross financing needs from the second quarter of 2010. In line with the new Public Finance Management Act of 2007, audited financial statements of public enterprises are being shared with Parliament, and we expect to start publication on our website to make them accessible to the public by the second half of 2010. We will also enforce the requirement that public enterprises submit annual business plans within four months of the start of the next financial year. We will continue to publish newly granted or extended tax concessions pursuant to the Investment Promotion Act on a quarterly basis.

Table 1. Grenada: Quantitative Performance Criteria and Indicative Targets, 2009-10

	2009 1/			2010 1/			
	End-Nov.			End-Mar.	End-June	End-Sept.	End-Dec.
	Prog.	Adjusted	Actual	Prop. 2/	Prop.	Prop. 2/	Prop.
Performance Criteria:	(In millions of Eastern Caribbean dollars)						
Central government primary balance excluding grants (floor) 3/ 4/	-77.9	-80.5	-135.7	-11.7	-34.8	-50.7	-62.4
Stock of central government domestic arrears (ceiling)	25.0	25.0	22.5	20.0	15.0	12.5	12.5
	(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) 3/	4.0	4.0	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) 3/ 5/	0.0	0.0	0.0	11.9	11.9	11.9	11.9
Stock of external short term debt (ceiling) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government or guaranteed external arrears accumulation (ceiling) 6/ 7/	0.0	0.0	12.2	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) 3/ 4/	35.2	57.4	-0.2	6.8	13.5	20.3	27.0

1/ Targets for 2009 are under the existing PRGF arrangement, while targets for 2010 are under a possible successor arrangement. Targets are performance criteria unless otherwise indicated.
2/ Indicative target.
3/ Cumulative within each calendar year.
4/ See the TMU and supplementary TMU for a description of adjustors.
5/ Excludes PetroCaribe.
6/ To be monitored on a continuous basis.
7/ All arrears have since been cleared.

Table 2. Grenada: Proposed Structural Measures for the Successor Arrangement

	Comment	Target Date	Macroeconomic Criticality
Prior Actions			
Proclaim the new Insurance Act	Prior Action	End-March 2010	To safeguard the stability of the financial sector
Issue a finance circular limiting capital spending to EC$133 million	Prior Action	End-March 2010	To avoid overruns in spending
First Review			
Initiate quarterly budget reviews and revise spending targets for any shortfalls in revenues and/or financing, and institute regular meetings with line ministries (at least quarterly) to establish expenditure commitment controls	Structural Benchmark	End-April 2010	To avoid overruns in spending and reduce expenditure arrears
Establish an audit division for VAT audits	Structural Benchmark	End-June 2010	To enhance efficiency of revenue collection
Enumerate all government bank accounts and define a schedule for consolidating them and establishing a Single Treasury Account System	Structural Benchmark	End-September 2010	To avoid overruns in spending and reduce expenditure arrears
Complete onsite supervision of at least two insurance companies, and establish statutory funds at insurance companies to cover at least 50 percent of their assets (including the largest five companies) and pledge these assets in a Trusteeship to support their local insurance liabilities	Structural Benchmark	End-October 2010	To safeguard the stability of the financial sector
Second Review			
Prepare debt management strategy outlining clear debt management objectives, and develop yearly borrowing plan	Structural Benchmark	End-December 2010	To improve debt management
Complete onsite inspection of two major money service businesses	Structural Benchmark	End-December 2010	To safeguard the stability of the financial sector
Institute a comprehensive commitment control system that will restrict spending units from undertaking commitments without authorization	Structural Benchmark	End-February 2011	To avoid overruns in spending and reduce expenditure arrears
Integrate all VAT functions with mainstream revenue operations, except audits which will be integrated later	Structural Benchmark	End-February 2011	To enhance efficiency of revenue collection
Implement ASYCUDA World pilot at the main port, and establish a risk management unit in customs and excise department and start training staff	Structural Benchmark	End-March 2011	To modernize customs and improve revenue collection

GRENADA: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) sets out (i) the definitions of quantitative performance criteria and indicative targets as specified in Table 1 of the Memorandum of Economic and Financial Policies that will be used to assess Grenada's performance under the Extended Credit Facility (ECF), and (ii) related reporting requirements to the Fund's Western Hemisphere Department (Table 3).

I. QUANTITATIVE PERFORMANCE CRITERIA

2. Quantitative performance criteria are proposed for June 30, 2010 and December 31, 2010 with indicative targets for March 31, 2010 and September 30, 2010 with respect to:

a. the primary balance excluding grants of the central government;

b. stock of central government domestic arrears older than 60 days;

c. nonconcessional medium- and long-term[13] external debt[14] contracted or guaranteed by the central government; and

d. official bilateral concessional medium- and long-term external debt contracted or guaranteed by the central government, excluding PetroCaribe-related debt.

3. The following quantitative performance criteria are proposed for monitoring on a continuous basis:

a. stock of short-term external debt[15] contracted or guaranteed by the central government;

b. stock of central government and guaranteed external payment arrears to official creditors.

4. Indicative targets are proposed for March 31, June 30, September 30, and December 31, 2010 with respect to net credit of the banking system to the public sector.

---

[13] Medium- and long-term debt indicates debt with an original maturity of at least one year.

[14] External debt is defined as all debt owed to creditors residing outside of Grenada, while domestic debt covers all debt owed to residents of Grenada. For ease of monitoring, all debt issued at the Regional Government Securities Market (RGSM), *irrespective of who holds it,* will be regarded as domestic debt.

[15] Short-term debt indicates debt with an original maturity of less than one year.

II. PERFORMANCE CRITERION ON THE PRIMARY BALANCE EXCLUDING GRANTS OF THE CENTRAL GOVERNMENT

5. The **central government primary balance excluding grants** covers the activities specified in the budget using above-the-line items. Expenditure will include out-of-budget transfers to nonfinancial public enterprises.

6. However, for program purposes, the primary balance excluding grants will be measured from the financing side as the sum of the (i) net domestic financing (ii) net external financing and (iii) domestic and external interest payments on a due basis less (iv) grants (see Table 2 for the detailed list), where:

- **Net domestic financing** of the central government is the sum of (a) net domestic bank financing, (b) net nonbank financing, (c) change in the stock of domestic arrears of the central government, (d) gross receipts from divestment and (e) any exceptional financing, where:

    a. **net domestic bank financing** will be measured by the change in the domestic banking system credit to the central government minus government deposits in the banking system, as reported by the consolidated balance sheet of the monetary authorities[16] and commercial banks. Domestic banking system credit to the central government is defined as the sum of ECCB and commercial banks' financing to the central government. ECCB financing is comprised of treasury bills, debentures, temporary advances and other claims while commercial banks' financing is in the form of loans and advances, treasury bills, and other securities.

    b. **net nonbank financing** will be measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions;[17]

    c. **the change in the stock of domestic expenditure arrears** of the central government will be measured as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, arrears to the oil companies resulting from the fuel price subsidization arrangement, and other forms of expenditures recorded above the line but not paid;

[16] Consolidating the ECCB's balance sheet (excluding the government's IMF operating account) and the government's transactions with the IMF.

[17] Treasury bills will be recorded at face value, except for those held by the banking system which will be recorded on a purchase price basis.

d. **gross receipts from divestment** are defined as proceeds received from any privatization/divestment; and

e. **any exceptional financing** (including rescheduled principal and interest).

- **Net external financing** of the central government is defined as the sum of:

a. net disbursements of project and budget support loans, including securitization;

b. net proceeds from issuance of external debt, other than the Treasury bills and bonds issued on the RGSM;

c. any exceptional financing (including rescheduled principal and interest),

d. net changes in the stock of short-term external debt;

e. any change in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid; and

f. decrease in cash deposits held outside the domestic banking system.

7. The following **adjustors** will apply to the target for the primary balance excluding grants of the central government:

a. If grants exceed the programmed amounts, as specified in Table 1, the target will be adjusted downward[18] accordingly to accommodate the additional grants;

b. If grants fall short of programmed amounts, as specified in Table 1, the target will be adjusted upward by the difference up to a limit of EC$16 million through end-June or after;

c. If concessional financing from external creditors, excluding the IMF and PetroCaribe, exceeds programmed amounts, as specified in Table 1, the target will be adjusted downward accordingly to accommodate the additional concessional financing, with a maximum adjustment of up to EC$32 million; and

d. If project-related external financing exceeds the programmed amounts, as specified in Table 1, the target will be adjusted downward accordingly to accommodate the additional financing.

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

Table 1: Programmed Disbursements of Grants and Concessional Loans in 2010
(EC$ millions)

Quarter	Q1	Q2	Q3	Q4
Grants	3.8	14.6	45.0	67.9
Concessional loans	0.0	24.0	26.5	46.2
Disbursements of already contracted loans	0.0	14.1	15.7	22.7

Source: Grenadian authorities; Fund staff estimates.

Note: Values presented are cumulative.

III. Performance Criterion on the Stock of Central Government Arrears to Domestic Private Parties and Public Enterprises Older than 60 Days

8. **Net changes in central government arrears to domestic private parties and public enterprises** is defined as the sum of all pending payments by the central government for goods and services purchased from these parties, as well as pending interest and amortization payments on domestic debt, that have been outstanding for 60 days or longer. It also includes changes in arrears to the oil companies, which have resulted from the fuel price subsidization arrangement. The definition of domestic payment arrears excludes (i) debt claims that were irrevocably tendered in the debt exchange closed on November 15, 2005 ("the debt exchange"), and (ii) debt claims that were eligible to participate in the debt exchange but have not been tendered.[19]

IV. Performance Criterion on Nonconcessional Medium- and Long-Term External Debt Contracted or Guaranteed by the Central Government

9. The ceiling on nonconcessional medium- and long-term external debt will be applied to contracting or guaranteeing of debt by the central government. The contracting and guaranteeing of debt will be monitored and reported to the Fund staff by the Debt Management Unit and the Accountant General's office on a monthly basis.

10. This performance criterion applies not only to debt as defined in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements" adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009 but also to commitments contracted or guaranteed for which value has not been received:

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some

[19] These include pre-2005 debt held by the Ports Authority and National Insurance Scheme.

future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 10(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

11. Excluded from the ceiling are credits extended by the IMF, PetroCaribe and credits on concessional terms.

12. Concessional terms are defined as terms implying a grant element (in net present value relative to face value) of more than 35 percent, based on the currency- and maturity-specific Commercial Interest Reference Rates (CIRR), published monthly by the OECD.[20]

[20] For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates and for loans with shorter maturities, the six-month average CIRRs published by the OECD will be used as the discount rates. To both the 10-year and 6-month averages, the following margins for differing repayment periods will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20-29 years; and 1.25 percent for 30 years or more.

For the purposes of the program the most recent CIRRs published by the OECD will be used to assess the concessionality of loans.

V. Performance Criterion On Official Bilateral Concessional Medium- and Long-Term External Debt Contracted or Guaranteed by the Central Government

13. With the definitions given in Section IV, there will be a ceiling on the contracting or guaranteeing of official bilateral medium- and long-term debt, excluding PetroCaribe-related debt.

VI. Performance Criterion on the Stock of Short-Term External Debt Contracted or Guaranteed by the Central Government

14. The **short-term external debt** is defined in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements" adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009 (see paragraph 10 above).

15. Import-related credit and pre-export financing secured on export contracts of less than one year maturity, are excluded from the performance criterion on short-term external debt.

16. The ceiling on short-term external debt will be applied on a continuous basis to the stock of short-term external debt contracted or guaranteed by the central government.

VII. Performance Criterion on the stock of Central Government and Central Government Guaranteed External Payment Arrears to Official Creditors

17. **Central government and central government guaranteed external payment arrears** to official creditors are defined as overdue payments (principal or interest) after the expiration of the applicable grace period on debt contracted or guaranteed by the central government. The definition of external payment arrears under the program excludes: (i) debt claims that were irrevocably tendered in the debt exchange, (ii) debt claims that were eligible to participate in the debt exchange but have not been tendered, and (ii) debt claims of official bilateral creditors, including Paris Club creditors, which are under rescheduling or refinancing negotiation.

18. No external payment arrears of the central government and central government guaranteed debt will be allowed in the program. This ceiling will be monitored on a continuous basis.

VIII. INDICATIVE TARGET ON THE NET CREDIT OF THE BANKING SYSTEM TO THE PUBLIC SECTOR

19. The **public sector** is defined as the total of the central government and all public enterprises.[21]

20. **Net credit of the banking system** is measured as the change in credit of the domestic banking system to the public sector net of deposits, as reported by the consolidated balance sheet of the monetary authorities and commercial banks.

21. The change in the net credit of the banking system to the public sector as of the date for the quantitative performance criterion or benchmark is defined as the difference between the stock on the date indicated and the stock on December 31, 2009.

22. The ceiling on net credit of the banking system will be adjusted upward[22]to the extent that grants fall short of programmed amounts up to a limit of EC$16 million through end-June or after, as specified in Table 1.

IX. PERIODIC REPORTING

23. The following data must be reported to the Fund's Western Hemisphere Department on a **monthly basis** for monitoring the program's performance criteria and indicative targets within the end of the third week of the following month:

Fiscal sector

a. Central government budgetary accounts;

b. Central government domestic debt;

c. Current grant inflows;

d. Stock of domestic arrears as on the last day of the month, including unpaid checks issued, stock of unprocessed claims due and invoices pending, arrears to the oil companies, and interest and amortization on domestic debt;

e. Capital expenditure, including revised projections for the remainder of the fiscal year; and

---

[21] Excluded are the Banana, Cocoa, and Nutmeg Associations and the Minor Spices Co-operative Society as these are cooperative entities owned largely by private sector shareholders.

[22] Upward adjustment means higher net domestic credit to the government.

f. Complementing to this monthly report, a detailed overview of expenditures on a project by project basis and the composition of financing will be provided on a quarterly basis within six weeks following the end of the quarter.

Financial sector

a. Monetary survey for Grenada as prepared by the Eastern Caribbean Central Bank.

External and real sectors

b. Detailed (creditor by creditor) external debt report from the Debt Management Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, for the central government and public enterprises;

c. Total disbursements/grant receipts, disaggregated into: (a) budgetary support (by type—either loans or external "bonds" and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants;

d. Copies of loan agreements for any new loans contracted or guaranteed, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans;

e. Stock of external arrears (creditor-by-creditor); and

f. Consumer price index.

All such information will be provided to Fund staff, to the extent possible, within three weeks of the end of each month, except monetary survey which will be delivered by the ECCB to Fund staff within two months.

24. The following data will be reported on an **annual basis** within three months following the end of the year:

Fiscal sector

Financial statements of the public enterprises.

External and real sectors

a. National accounts; and

b. Balance of payments accounts.

25. **Other reporting**: Reports of legislative changes pertaining to economic matters.

Table 2. The Primary Balance excluding Grants
(calculated from below the line)

Domestic Financing	a = b + e + f + g + h + i
Net domestic bank financing (excluding securities)	b = c + d
ECCB	c = c1 + c2 + c3 - c4
Debentures	c1
Temporary advances	c2
Other claims	c3
Government deposits	c4
Commercial Banks	d = d1 - d2
Loans and advances	d1
Government deposits	d2
Securities 1/	e
Net borrowing from nonbank institutions	f
Change in the stock of domestic arrears	g = g1 + g2 + g3 + g4 + g5
Fuel importers 2/	g1
Unprocessed claims and unpaid invoices	g2
Interest arrears to domestic creditors 3/	g3
National Insurance Scheme	g4
Utilities	g5
Gross receipts from divestment (including land sales)	h
Any exceptional financing	i
External financing	j = k + l + m + n + o + p
External loans	k = k1 + k2
Disbursements	k1
Amortization	k2
Net proceeds from issuance of external debt	l
Exceptional financing	m
Decrease in deposits outside the domestic banking system 4/	n
Net changes in short-term external debt	o
External arrears	p = p1 + p2
Interest arrears to external creditors 3/	p1
Other forms of external expenditure arrears	p2
Overall balance including grants	q = a + j
Interest payments	r
Primary balance including grants	s = q + r
Grants	t
Primary balance excluding grants	**u = s - t**

1/ Net changes in holdings of government securities by the ECCB and commercial banks.
2/ Once the government and fuel importers agreed on amount.
3/ Interest arrears to nonparticipating creditors in the debt exchange.
4/ Sinking fund deposits.

Table 3. Summary of Data To Be Reported

Information	Frequency	Reporting Deadline	Responsible Entity
Primary balance of central government excluding grants:			
Net domestic bank financing (ECCB and commercial banks	Monthly	Six weeks after the end of the month	ECCB
ECCB special tranches	Monthly	Same as above	ECCB
Securities	Monthly	15 days after end of the month	Debt Management Unit (DMU)
Net borrowing from nonbank institutions	Monthly	Same as above	DMU
Change in stock of domestic arrears	Monthly		
Unpaid claims	Monthly	Last day of the month	Account General's Office (AG)
Interest arrears to domestic creditors	Monthly	Same as above	AG
Gross receipts from divestment (including land sales)	Monthly	15 days after end of the month	Budget Office (BO)
Exceptional domestic financing	Monthly	Same as above	DMU
External disbursements	Monthly	Same as above	DMU
External Amortization	Monthly	Same as above	DMU
Proceeds from bonds issued abroad	Monthly	Same as above	DMU
Exceptional external financing	Monthly	Same as above	DMU
Deposits outside the domestic banking system	Monthly	Same as above	DMU
Net changes in short-term external debt	Monthly	Same as above	DMU
Arrears on external interest	Monthly	Same as above	DMU
Interest payments	Monthly	Same as above	DMU
Grants	Monthly	Same as above	BO
Net credit of the banking system to the public sector:			
Net claims on government (ECCB net credit to central government, commercial banks net credit to central government	Monthly	Six weeks after the end of the month	ECCB
Net credit to NIS	Monthly	Same as above	ECCB
Net credit to other public sector	Monthly	Same as above	ECCB
Central government arrears accumulation to domestic private parties and public enterprises outstanding for 60 days or longer:			
Unpaid claims	Monthly	Last day of the month	AG
Principal arrears	Monthly	Same as above	AG
External Arrears	Monthly	Same as above	DMU

Table 3. Summary of Data To Be Reported (Cont'd.)

Information	Frequency	Reporting Deadline	Responsible Entity
Creditor by creditor disbursements	Quarterly	15 days after end of the quarter	DMU
Creditor by creditor amortization	Quarterly	Same as above	DMU
Creditor by creditor interest payments	Quarterly	Same as above	DMU
Creditor by creditor outstanding debt stocks	Quarterly	Same as above	DMU
Net changes in the outstanding stock of short-term external debt with original maturity of less than one year contracted or guaranteed by the central governments:			
Creditor by creditor disbursements	Quarterly	Same as above	DMU
Creditor by creditor amortization	Quarterly	Same as above	DMU
Creditor by creditor interest payments	Quarterly	Same as above	DMU
Creditor by creditor outstanding debt stocks	Quarterly	Same as above	DMU
Bilateral concessional debt with an original maturity of at least one year contracted or guaranteed by the central government:			
Creditor by creditor disbursements	Quarterly	15 days after end of the quarter	DMU
Creditor by creditor amortization	Quarterly	Same as above	DMU
Creditor by creditor interest payments	Quarterly	Same as above	DMU
Creditor by creditor outstanding debt stocks	Quarterly	Same as above	DMU
VIII. Nonaccumulation of central government and central government guaranteed external payment arrears:			
Creditor by creditor stock of arrears	Quarterly	Same as above	DMU

INTERNATIONAL MONETARY FUND

GRENADA

Debt Sustainability Analysis

Prepared by the Staff of the International Monetary Fund

In Consultation with the World Bank Staff

March 25, 2010

Grenada's economy contracted by an estimated 7.7 percent in 2009 which together with higher debt financing led to an increase of some 20 percentage points in the public debt-to-GDP ratio to 122 percent. This debt sustainability analysis (DSA) confirms the result from previous DSAs that Grenada's risk of debt distress is high[1] *Under the baseline projections Grenada exceeds thresholds for the ratio of the present value (PV) of external debt to GDP and to exports, and the debt service-to-exports ratio. The government is requesting a successor arrangement under the Extended Credit Facility (ECF) with fiscal and debt sustainability being one of its key objectives. Provided that primary surpluses in the range of 2–2½ percent are achieved over the medium-term, Grenada will achieve the ECCU benchmark of reducing the public debt-to-GDP ratio to 60 percent by 2020, four years before the previous DSA. The debt outlook faces significant risks, including a possible large loan from the Export-Import Bank of China to build a luxury hotel and any contingent liabilities from the collapse of the CL Financial Group.*

I. Context

1. **Economic activity contracted significantly in 2009 driven by a decline in tourist arrivals and a collapse in FDI-financed construction.** Real GDP is estimated to have fallen by 7.7 percent in 2009 after 2.2 percent growth in 2008, but a recovery in both the stayover arrivals and FDI-financed construction in Q4 2009 point to a possible bottoming out with real GDP growth projected at 0.8 percent in 2010. The decline in international food and fuel prices relative to 2008 together with weak domestic demand pushed consumer prices down, with the CPI falling by 2.4 percent (y/y) in December 2009.

2. **Grenada obtained substantial debt relief through a commercial debt exchange in November 2005 and under a Paris Club agreement reached in May 2006.**[2] Nevertheless,

[1] See IMF Country Report No. 09/200.

[2] Bilateral agreements have been reached with all creditors except the Russian Federation. The authorities obtained an extension of the Paris Club agreement through 2009 in May 2009.

the debt service burden is now increasing reflecting the end of the grace period on restructured debt to domestic commercial banks, and the step up in the interest rate on exchanged debt from 1.0 percent during 2006–08 to 2.5 percent in 2009.

3. **The Debt Management Unit (DMU) in the Ministry of Finance, which was established in 2009, is accelerating its efforts to manage existing debt and better select future liabilities.** In 2010, the DMU will work with the ECCB and other partners to access support through the Debt Management Program (DEMAS) financed by Canada. With the help of technical assistance from the IMF, the DMU will also put in place a debt management strategy with clear debt management objectives, including debt sustainability, risk, and cost and benefit analysis. In addition, the Debt Coordinating Committee within the Ministry of Finance was recently reconstituted and has been charged with the responsibility of cash flow management and planning.

4. **The authorities intend to discuss further debt relief with their bilateral creditors.** The authorities plan to request a stock treatment of their debt from the Paris Club (2.4 percent of total debt) and ask non-Paris Club official bilateral creditors for similar treatment (8.6 percent of total debt). They are continuing to pursue good faith efforts to reach a collaborative agreement with Grenada's external commercial creditors that did not participate in the 2005 debt exchange.[3]

II. Underlying DSA Assumptions

5. **The authorities' program supported by a proposed successor ECF underlies the baseline scenario of the current DSA.** The main assumptions under this scenario are described in the following table and in Box 1.

Grenada: Key Assumptions and Indicators in the DSA, 2009–30

(In percent of GDP, unless otherwise indicated)

	Prelim.	Projections					
	2009	2010	2011	2012	2020	2026	2030
Total revenue and grants 1/	41.5	41.2	41.3	41.7	42.0	39.3	38.9
Primary (noninterest) expenditure 1/	44.3	41.2	39.6	38.8	38.2	37.7	37.6
Primary balance (including grants) 1/	-2.8	0.0	1.7	2.9	3.8	1.6	1.3
Overall balance 1/	-6.6	-2.8	-1.2	-0.3	0.7	-0.7	-0.9
Public debt	122.3	119.1	116.3	111.8	60.1	43.7	38.4
External current account	-25.7	-25.0	-26.0	-26.2	-25.5	-22.1	-19.1
Exports of goods and services	31.1	25.4	25.6	26.3	29.7	30.7	31.2
Real GDP growth (in percent)	-7.7	0.8	2.0	3.0	4.0	4.0	4.0
Inflation rate (average; in percent)	-0.3	3.6	1.9	2.0	2.0	2.0	2.0

Sources: Ministry of Finance of Grenada; and Fund staff estimates and projections.
1/ Public sector.

[3] Participation in the 2005 debt exchange was high at 93 percent for external creditors. Taking into account creditors that came forward subsequent to the 2005 debt exchange, the participation rate is approximately 94 percent.

Box 1. Baseline Macroeconomic Assumptions (2010–30)

• Real **GDP** is projected to increase by 0.8 percent in 2010 after collapsing by 7.7 percent in 2009 due to the global crisis which affected tourism and FDI-financed construction. Real GDP growth is projected to gradually return to its potential of 4 percent by 2014 and remain at that potential thereafter. In the longer run, the projection assumes that the authorities undertake the structural reforms needed to sustain growth.

• Reflecting lower food and fuel prices abroad and a slowdown of domestic demand, the consumer price index fell by 2.4 percent in 2009 (end period), and inflation is projected to return to its long-run trend of 2 percent by 2011 and remain at that level subsequently.

• The **primary balance** (including grants) of the public sector returns to a surplus in 2011from a deficit of 2.8 percent of GDP in 2009. The average primary surplus in 2010–15 is projected to be 2.9 percent while it is projected to be 2.5 percent thereafter. This primary surplus reflects fiscal consolidation through revenue and expenditure measures undertaken by the government and supported by the successor ECF arrangement.

• **Grants** gradually decline from high post-hurricane levels to 1.0 percent of GDP by 2030.

• The projection assumes **concessional financing** under the PetroCaribe initiative during 2010–13, and that the grant element is used to finance programs already in the budget, replacing more expensive forms of financing. As concessional financing tapers off, and with a commercial borrowing rate above the discount rate of 4 percent, the grant element of new borrowing turns negative in later years.

• The **external current account deficit** is estimated to have narrowed by more than 10 percentage points of GDP in 2009, as a sharp reduction in imports more than offset lower tourism receipts. In the medium term the current account deficit is assumed to remain broadly flat at about 25 percent of GDP but would narrow to about 19 percent of GDP by 2030 as tourism receipts grow as a share of GDP.[1] **Exports** of goods and services are assumed to average 28.9 percent of GDP in 2010–15 and are projected to average 32.1 percent for the rest of the period as the economic base gradually diversifies. Most of the financing would be provided by **FDI** inflows, averaging 13 percent of GDP in 2010–15 as the economy gradually recovers from the recession and 15 percent of GDP in the outer years, as well as by income and transfers averaging 2.5 percent of GDP over the medium term but which turn into a small negative ratio for the rest of the projection period.

• The projections for real GDP and export growth are higher than historical averages, which were depressed by recent natural disasters and the impact of the September 11, 2001 attacks. The possibility of further natural disasters represents an important risk to the baseline assumptions.

---

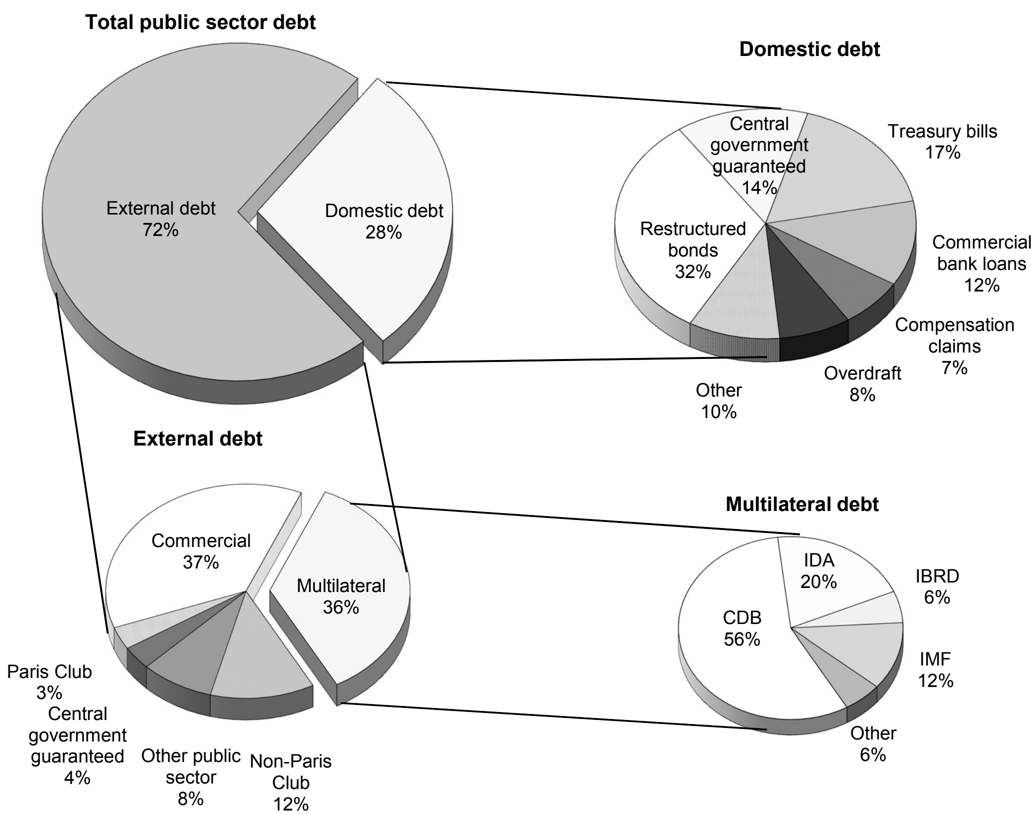
[1] This current account deficit is consistent with estimates of current account norms for ECCU countries (see Emilio Pineda, Paul Cashin, and Yan Sun, *Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union*, WP/09/78).

III. Evaluation of Public Sector Debt Sustainability

Grenada's public debt as of end-2009

6. **The declining trend of the public sector debt was reversed in 2009 as the global crisis hit Grenada.** Public sector debt rose to 122.3 percent of GDP from a ratio of 102.2 percent in 2008 (Tables 1 and A1a). The debt-to-GDP increase was due to a combination of additional domestic and external borrowing by the government to finance an overall deficit of 6.6 percent of GDP and the decline in nominal GDP by 9.4 percent. Over two-thirds of public debt was external, and the majority of the debts were claims by commercial creditors (26.5 percent) and multilateral creditors (25.5 percent) and the rest bilateral creditors. Almost all of public external debt was owed by the central government. The present value of public sector debt in 2009 was 118.6 percent of GDP reflecting the grant element of multilateral and restructured official debt.

Grenada: Public Sector Debt, end-2009
(In percent)



Source: Grenada authorities.

The baseline (program) scenario

7. **Assuming a successful fiscal consolidation and advancement in structural reforms with the support of a successor ECF arrangement, Grenada's debt sustainability outlook is likely to improve significantly.** Despite the rise in the debt-to-GDP ratio in 2009, the government's policy reforms would allow for the debt-to-GDP ratio to be halved by 2020 and to reach the ECCU regional target of 60 percent on schedule. This implies that the 60 percent target will be reached four years earlier than in the previous DSA. The PV of debt falls to 39.2 percent of GDP by 2030 versus 38.4 percent in nominal terms, reflecting new borrowing on nonconcessional terms with an interest rate higher than the discount rate of 4 percent (Table A1a and Figure 1). The PV of public sector debt-to-revenue ratio falls from 285.6 percent in 2009 to 100.7 percent in 2030. [4] The debt service-to-revenue ratio would increase from 14.4 percent in 2009 to 16.4 percent in 2030, with the ratio rising up to 20-21 percent during 2021–25 as restructured debt amortizes.

Alternative scenarios and stress tests

Policy scenarios

8. **Economic underperformance or a lack of fiscal consolidation would drastically set back the goal of debt reduction.** Under a scenario in which real GDP growth and the fiscal balance remain at their historical averages throughout the projection period, the PV of debt-to-GDP ratio would jump to 171.2 percent by 2030 versus 39.2 percent in the baseline. A permanently lower real GDP growth rate which would amount to a potential of 2.7 percent rather than 4 percent in the baseline would have similar implications leading to a rise in the PV of debt-to-GDP ratio to 154.9 percent by 2030, while an unchanged primary balance leads the PV of debt-to-GDP ratio to reach 81.1 percent by 2030.

9. **The authorities are still considering a loan from the Export-Import Bank of China to build a luxury hotel.** The authorities believe that this project could generate significant economic benefits not only in the short run through boosting the construction sector and creating employment but that it could also raise the tourism potential of the country over the medium and long term. The authorities are discussing with additional private investors who may be interested in a joint venture.

10. **The loan from China would need to generate substantial economic growth to be debt neutral.** Although the terms of the possible loan are not clear, we assume for the purposes of analysis that the loan will be disbursed during 2010–12, with two percent interest rate, five years grace, and 20 years maturity. In that case, the debt to-GDP ratio in 2012 once the loan is fully disbursed would be 13 percentage points higher than under the baseline. As a result, achieving the target of reaching a 60 percent debt-to-GDP ratio by

---

[4] These ratios are stated with revenue inclusive of grants, consistent with Table A1a.

2020 without any additional fiscal adjustment would require GDP to grow 2.2 points faster than in the baseline during the years 2013–20.

11. **However, there are substantial risks that the project will not be able to generate such a positive impact.** It is recommended that the government proceed with the project only if it is consistent with debt sustainability. In addition, it would be critical that the government: (i) seek an objective assessment of the economic and financial returns of this project from an internationally reputed third party, (ii) secure concessional financing, and (iii) obtain majority private sector participation to ensure that the prospective benefits would more than offset the associated additional debt servicing burden.

Other scenarios

12. **Another economic contraction in the near future would have major repercussions on the public debt trajectory**. In Bound Test B1, real GDP contracts by 4.7 percent in 2011 and 2012 (a decline that is still lower than the one experienced in 2009), the share of fiscal revenue to GDP follows the same trajectory as in the baseline, while expenditure is held constant in nominal terms. In this scenario, the PV of debt rises sharply to 134.3 percent of GDP in 2012 relative to 109.5 percent in the baseline. By 2030 the PV of debt would be 138.7 percent of GDP rather than 39.2 percent in the baseline. In Bound Test B4, a 30 percent real depreciation in 2011 implies that the PV of debt falls only to 68.9 percent of GDP by 2030. In neither case would the 60 percent of GDP target for nominal debt be achieved in the projection period.

IV. Evaluation of External Debt Sustainability

13. **Grenada continues to exceed thresholds for the ratio of the PV of external debt to GDP and to exports of goods and services.**[5] Based on Grenada's 2006–08 average CPIA rating of "medium," the thresholds are 40 percent and 150 percent for the ratios to GDP and exports, respectively, while for 2009, Grenada's ratios were 83.9 percent and 314.4 percent, respectively.[6] Furthermore, the baseline scenario also exceeds the threshold of 20 percent for the ratio of debt service to exports in 2012–2014 and again in 2021–25.

14. **The external debt ratios are expected to decline below their policy dependent thresholds in the medium term as policy reforms are undertaken** (Table A2a). The ratio of the PV of external public debt to GDP would fall below the 40 percent threshold by 2020, while the PV of debt to exports would fall below the 150 percent threshold in 2018 (Figures 2 and 2a). The debt service-to-exports ratio would only slightly cross the 20 percent threshold in 2012–2014 but then it would remain below it for the rest of the decade. The

[5] Goods exports for Grenada are relatively small, reflecting a low base as well as hurricane damage during 2004–05 to the nutmeg industry.

[6] 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)).

threshold is breached again in 2021–25 as restructured debt amortizes and reverts back for the remaining period.[7] Improvements in policies and institutions could also improve Grenada's capacity to carry debt and hence reduce vulnerabilities; in the debt sustainability framework Grenada would face higher thresholds if CPIA ratings were to increase with policy and institutional progress.

15. **A permanently lower rate of economic growth would put external debt on an explosive path** (Table A2b). Under an alternative scenario with key variables (GDP growth, the current account deficit, and FDI) at historical averages in 2011–30 (primarily with real GDP growth of 1.7 percent rather than 4 percent and a slightly lower net FDI rate of 15 percent), the PV of external public-debt-to-GDP ratio would reach 59.7 percent by 2030 (Scenario A1), a dramatic change from the baseline scenario (see Figure 2a).[8] New public sector loans on less favorable terms during 2011–2030 (Scenario A2, assuming 2 percentage point higher interest rate than in the baseline) would slightly increase the PV of external debt to GDP, but the ratio would still fall below the 40 percent threshold by 2020. Reaching the relevant external thresholds with a small delay would also occur if trade-related variables defer from their projected values (bound tests in A2b).

V. Conclusions

16. **Assuming that the authorities are successful in implementing their policy program supported by a successor ECF arrangement, Grenada's public debt-to-GDP ratio would reach the ECCU's target of 60 percent on time by 2020.** However, such an achievement would come with significant efforts on increasing revenues and restraining spending while guaranteeing a level of public investment necessary to foster economic growth. The debt outlook is sensitive to any delay in recovery, a new downturn, or fiscal slippages that do not generate the projected primary surpluses over the medium term. The fiscal adjustment assumed in this DSA is more ambitious than in the previous DSA, and the risks associated with it are therefore greater. A possible large loan from Export-Import Bank of China could undermine the goal of debt sustainability if it does not generate sufficient economic growth to at least keep the impact on the debt trajectory neutral. The illustrative scenario will hopefully encourage the authorities to very carefully select a viable project associated with a strong impact analysis performed by an independent third party. The debt outlook also faces risks from contingent liabilities related to the collapse of the CL Financial Group.

17. **Grenada's risk of external debt distress remains high, according to indicative thresholds**. The external debt outlook is susceptible to economic growth materializing in the near future. Were this not to be the case, a permanently lower potential growth rate could

---

[7] The analysis excludes flows of private sector external debt, which are believed to be small, due to lack of data. Given this exclusion, the size of the residuals in the baseline scenario is determined by developments in Grenada's BOP e.g., the financing gap, the change in imputed reserves, and other investments (net).

[8] The historical average real GDP growth, which includes post-hurricane recovery years, is higher than average growth projected for the medium term, which is driven by the effect of the global economic slowdown.

lead to an explosive debt path. In the context of the successor Fund arrangement Grenada is likely to approach its bilateral creditors (Paris Club and non-Paris Club) for additional debt relief. A positive outcome in the context would accelerate the timing of debt reverting to more sustainable levels.

Table 1. Grenada: Public Sector Debt, 2009

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

		Percent of	
	Stock	Total Debt	GDP
Public sector debt 1/	752.0	100.0	122.3
Central government debt	657.2	87.4	106.9
Central-government guaranteed debt	49.3	6.6	8.0
Other public sector debt	45.5	6.0	7.4
External debt	538.7	71.6	87.6
Central government	474.4	63.1	77.2
Multilateral	192.0	25.5	31.2
CDB	108.4	14.4	17.6
IDA	39.0	5.2	6.3
IBRD	10.8	1.4	1.8
IMF	23.0	3.1	3.7
Other multilateral	10.7	1.4	1.7
Official bilateral	83.0	11.0	13.5
Paris Club	18.3	2.4	3.0
Belgium	7.3	1.0	1.2
France	4.3	0.6	0.7
Russian Federation	0.2	0.0	0.0
United Kingdom	3.7	0.5	0.6
United States	2.9	0.4	0.5
Non-Paris Club	64.7	8.6	10.5
Kuwait	21.8	2.9	3.5
Taiwan Province of China	20.3	2.7	3.3
Trinidad and Tobago	17.1	2.3	2.8
Other bilateral	5.6	0.7	0.9
Commercial, total	199.4	26.5	32.4
Restructured bonds	193.5	25.7	31.5
Unrestructured bonds	5.8	0.8	0.9
Central government guaranteed	18.9	2.5	3.1
Of which			
Paris Club	5.0	0.7	0.8
Other public sector 2/	45.5	6.0	7.4
Domestic debt	213.2	28.4	34.7
Central government	182.9	24.3	29.7
Restructured Bonds	68.1	9.1	11.1
Unrestructured bonds	2.8	0.4	0.5
Treasury bills	36.9	4.9	6.0
Commercial bank loans	25.5	3.4	4.1
Overdraft	16.5	2.2	2.7
Domestic arrears	17.6	2.3	2.9
Compensation claims	14.8	2.0	2.4
Other	0.6	0.1	0.1
Central-government guaranteed	30.4	4.0	4.9
Memorandum item:			
Nominal GDP	678.5		

Sources: Grenada authorities; and Fund staff estimates.

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

2/ Includes PetroCaribe-related borrowing.

Table A1a. Grenada: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Projections										
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2025	2030	2016–30 Average
Public sector debt 1/	111.0	102.2	122.3			119.1	116.3	111.8	104.5	96.8	89.1		60.1	45.5	38.4	
o/w foreign-currency denominated	78.4	74.6	87.6			87.2	86.6	83.1	76.9	70.2	63.5		37.8	24.5	19.3	
Change in public sector debt	-6.1	-8.8	20.1			-3.2	-2.8	-4.5	-7.3	-7.7	-7.6		-5.0	-2.1	-1.9	
Identified debt-creating flows	-3.1	-8.8	16.7			-2.9	-4.6	-6.2	-7.2	-7.6	-7.5		-4.9	-2.1	-1.1	
Primary deficit	**5.1**	**2.1**	**2.8**	**2.2**	**4.7**	**0.0**	**-1.7**	**-2.9**	**-3.8**	**-4.4**	**-4.7**	**-2.9**	**-3.8**	**-1.6**	**-1.3**	**-2.5**
Revenue and grants	39.1	42.4	41.5			41.2	41.3	41.7	42.0	42.3	42.2		42.0	39.7	38.9	
of which: grants	1.0	4.1	4.1			3.9	3.0	2.8	2.7	2.5	2.4		1.7	1.3	1.0	
Primary (noninterest) expenditure	44.2	44.6	44.3			41.2	39.6	38.8	38.2	37.9	37.5		38.2	38.1	37.6	
Automatic debt dynamics	**-6.0**	**-8.2**	**14.4**			**-2.9**	**-2.6**	**-3.0**	**-3.1**	**-3.0**	**-2.6**		**-0.9**	**-0.3**	**0.3**	
Contribution from interest rate/growth differential	-5.9	-3.5	11.5			-0.7	-1.4	-2.4	-2.8	-2.6	-2.4		-0.8	-0.5	0.1	
of which: contribution from average real interest rate	-0.4	-1.1	3.0			0.3	0.9	1.0	1.0	1.4	1.4		1.7	1.4	1.7	
of which: contribution from real GDP growth	-5.5	-2.4	8.5			-1.0	-2.3	-3.4	-3.8	-4.0	-3.7		-2.5	-1.8	-1.6	
Contribution from real exchange rate depreciation	-0.1	-4.7	2.9			-2.2	-1.2	-0.7	-0.3	-0.4	-0.3		...	...	...	
Other identified debt-creating flows	**-2.2**	**-2.7**	**-0.4**			**0.0**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**		**-0.2**	**-0.1**	**-0.1**	
Privatization receipts (negative)	-2.2	-2.7	-0.4			0.0	-0.3	-0.3	-0.2	-0.2	-0.2		-0.2	-0.1	-0.1	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
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	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Residual, including asset changes	-3.0	0.0	3.4			-0.3	1.8	1.7	-0.1	-0.1	-0.1		-0.1	-0.1	-0.8	
Other Sustainability Indicators																
PV of public sector debt	…	…	118.6			115.8	113.4	109.5	103.0	95.6	88.4		58.3	46.0	39.2	
o/w foreign-currency denominated	…	…	83.9			83.9	83.7	80.8	75.3	69.1	62.8		35.9	24.9	20.0	
o/w external	...	...	83.9			83.9	83.7	80.8	75.3	69.1	62.8		35.9	24.9	20.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	...	
Gross financing need 3/	10.5	7.0	8.8			4.8	4.0	4.5	3.1	2.8	2.4		1.9	6.5	5.0	
PV of public sector debt-to-revenue and grants ratio (in percent	**…**	**…**	**285.6**			**280.9**	**274.4**	**262.4**	**245.3**	**226.3**	**209.4**		**138.7**	**115.9**	**100.7**	
PV of public sector debt-to-revenue ratio (in percent)	**…**	**…**	**316.9**			**310.2**	**295.8**	**281.5**	**261.9**	**240.5**	**221.8**		**144.6**	**119.9**	**103.3**	
Of which : external 4/	…	…	224.3			224.9	218.4	207.7	191.6	173.7	157.5		89.2	65.0	52.9	
Debt service-to-revenue and grants ratio (in percent) 5/	**13.7**	**11.5**	**14.4**			**11.8**	**13.8**	**17.8**	**16.3**	**17.0**	**16.7**		**13.6**	**20.6**	**16.4**	
Debt service-to-revenue ratio (in percent) 5/	14.1	12.7	99.6	36.9		13.0	14.9	19.1	17.5	18.0	17.7		14.2	21.3	16.8	
Primary deficit that stabilizes the debt-to-GDP ratio	11.2	11.0	-17.3			3.2	1.0	1.6	3.5	3.4	3.0		1.2	0.5	0.6	
Key macroeconomic and fiscal assumptions		2.5														
Real GDP growth (in percent)	4.9	2.2	-7.7	1.5	6.1	0.8	2.0	3.0	3.5	4.0	4.0	2.9	4.0	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	2.7	3.1	3.5	5.1	2.8	2.4	2.6	2.7	2.8	3.4	3.4	2.9	4.9	4.6	6.5	5.0
Average real interest rate on domestic debt (in percent)	-0.9	-5.7	5.0	1.2	3.7	-1.5	-0.2	0.8	1.0	1.5	1.7	0.6	2.7	3.5	4.1	3.3
Real exchange rate depreciation (in percent, + indicates depreciatior	-0.2	-6.1	3.5	-1.0	2.7	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.0	8.8	-1.9	3.1	3.0	4.1	2.8	2.6	2.4	2.5	2.4	2.8	2.5	1.5	1.0	1.8
Growth of real primary spending (deflated by GDP deflator, in percer	0.0	0.0	-0.1	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	19.5	12.9	8.4	7.7	7.3	5.7	10.2	5.5	-12.1	-13.2	...

Sources: Grenada authorities; and IMF staff estimates and projections.

1/ The coverage of the public sector is public and publicly guaranteed debt, including debt of public enterprises and the debt of the central government to the public sector.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table A1b. Grenada: Sensitivity Analysis for Key Indicators of Public Debt 2010–30

	Projections								
	2010	2011	2012	2013	2014	2015	**2020**	2025	2030
					PV of Debt-to-GDP Ratio				
Baseline	115.8	113.4	109.5	103.0	95.6	88.4	**58.3**	46.0	39.2
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	115.8	117.4	119.7	120.7	121.6	122.8	**130.6**	150.8	171.2
A2. Primary balance is unchanged from 2010	115.8	114.9	113.6	110.4	106.7	103.4	**89.6**	85.6	81.1
A3. Permanently lower GDP growth 1/	115.8	115.3	113.8	109.9	105.4	101.3	**92.6**	114.8	154.9
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	115.8	123.6	134.3	132.1	128.8	125.6	**115.4**	125.3	138.7
B2. Primary balance is at historical average minus one standard deviations in 2011–12	115.8	121.0	125.8	119.1	111.4	103.9	**72.4**	59.1	51.3
B3. Combination of B1-B2 using one half standard deviation shocks	115.8	123.1	131.4	127.1	121.8	116.6	**96.5**	95.8	99.4
B4. One-time 30 percent real depreciation in 2011	115.8	149.2	144.4	137.0	128.7	120.6	**87.0**	74.4	68.9
B5. 10 percent of GDP increase in other debt-creating flows in 2011	115.8	122.3	118.4	111.7	104.2	96.8	**65.9**	53.1	45.7
					PV of Debt-to-Revenue Ratio 2/				
Baseline	280.9	274.4	262.4	245.3	226.3	209.4	**138.7**	115.9	100.7
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	280.9	284.1	286.6	286.6	286.7	289.5	**307.9**	375.4	433.7
A2. Primary balance is unchanged from 2010	280.9	278.1	272.2	262.8	252.6	245.1	**213.4**	215.9	208.5
A3. Permanently lower GDP growth 1/	280.9	278.9	272.2	261.0	248.7	239.3	**219.2**	287.5	395.2
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	280.9	297.6	318.5	311.5	302.1	295.1	**273.0**	314.4	355.2
B2. Primary balance is at historical average minus one standard deviations in 2011–12	280.9	293.0	301.6	283.6	263.6	246.1	**172.2**	149.1	131.8
B3. Combination of B1-B2 using one half standard deviation shocks	280.9	297.2	313.1	301.0	286.7	274.9	**229.0**	240.9	255.0
B4. One-time 30 percent real depreciation in 2011	280.9	361.2	346.0	326.3	304.5	285.7	**207.0**	187.7	177.0
B5. 10 percent of GDP increase in other debt-creating flows in 2011	280.9	296.1	283.7	266.1	246.6	229.3	**156.9**	133.9	117.5
					Debt Service-to-Revenue Ratio 2/				
Baseline	11.8	13.8	17.8	16.3	17.0	16.7	**13.6**	20.6	16.4
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	11.8	13.9	18.5	17.9	19.5	20.3	**22.0**	40.7	47.1
A2. Primary balance is unchanged from 2010	11.8	13.8	18.0	16.8	17.8	17.9	**16.5**	26.3	25.2
A3. Permanently lower GDP growth 1/	11.8	14.0	18.3	17.1	18.1	18.3	**17.7**	31.2	35.2
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	11.8	14.7	20.6	19.5	20.8	21.1	**20.0**	33.5	35.2
B2. Primary balance is at historical average minus one standard deviations in 2011–12	11.8	13.8	18.6	18.2	18.8	18.3	**15.0**	24.3	19.9
B3. Combination of B1-B2 using one half standard deviation shocks	11.8	14.3	19.8	19.0	20.0	19.9	**17.8**	29.5	28.4
B4. One-time 30 percent real depreciation in 2011	11.8	16.3	24.6	22.8	23.8	23.7	**20.1**	32.5	29.2
B5. 10 percent of GDP increase in other debt-creating flows in 2011	11.8	13.8	18.7	17.5	17.8	17.6	**14.4**	22.6	18.3

Sources: Grenada authorities; and IMF staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Projections										
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2025	2030	2016–30 Average
External debt (nominal) 1/	**78.4**	**74.6**	**87.6**			**87.2**	**86.6**	**83.1**	**76.9**	**70.2**	**63.5**		**37.8**	**24.5**	**19.3**	
o/w public and publicly guaranteed (PPG)	78.4	74.6	87.6			87.2	86.6	83.1	76.9	70.2	63.5		37.8	24.5	19.3	
Change in external debt	-3.2	-3.8	13.0			-0.4	-0.6	-3.5	-6.2	-6.6	-6.7		-4.4	-1.9	-1.0	
Identified net debt-creating flows	12.2	9.6	22.1			12.9	12.3	11.2	9.8	7.9	7.1		8.9	4.3	3.3	
Non-interest current account deficit	**41.1**	**36.6**	**22.8**	**25.0**	**11.2**	**23.0**	**23.9**	**24.0**	**23.4**	**22.5**	**22.5**		**23.6**	**19.2**	**17.8**	21.5
Deficit in balance of goods and services	41.1	39.2	27.9			26.9	27.6	28.4	28.3	28.2	28.1		24.8	18.8	16.9	
Exports	30.8	28.2	26.7			26.8	27.8	28.6	29.4	30.0	30.7		31.8	32.4	32.9	
Imports	71.9	67.5	54.6			53.7	55.4	57.0	57.7	58.2	58.8		56.6	51.2	49.8	
Net current transfers (negative = inflow)	-5.4	-7.8	-7.8	-11.9	6.9	-7.5	-7.7	-8.4	-8.8	-9.3	-9.3		-5.2	-4.4	-3.8	-4.8
o/w official	-1.9	-4.7	-4.8			-4.5	-4.4	-4.5	-4.9	-5.6	-5.7		-2.1	-1.6	-1.2	
Other current account flows (negative = net inflow)	5.4	5.1	2.7			3.6	3.9	4.0	3.9	3.5	3.7		4.0	4.8	4.7	
Net FDI (negative = inflow)	**-24.8**	**-21.2**	**-11.3**	**-15.4**	**4.9**	**-11.5**	**-12.1**	**-12.5**	**-13.1**	**-14.1**	**-15.0**		**-15.0**	**-15.0**	**-15.0**	-15.0
Endogenous debt dynamics 3/	**-4.1**	**-5.7**	**10.6**			**1.4**	**0.5**	**-0.2**	**-0.5**	**-0.5**	**-0.4**		**0.3**	**0.2**	**0.5**	
Contribution from nominal interest rate	2.1	2.2	2.9			2.0	2.2	2.2	2.2	2.4	2.2		1.9	1.2	1.3	
Contribution from real GDP growth	-3.7	-1.5	6.3			-0.7	-1.7	-2.5	-2.7	-2.9	-2.6		-1.6	-1.0	-0.8	
Contribution from price and exchange rate changes	-2.4	-6.3	1.4			…	…	…	…	…	…		…	…	…	
Residual 4/	**-15.4**	**-13.4**	**-9.1**			**-13.3**	**-12.9**	**-14.8**	**-16.0**	**-14.5**	**-13.8**		**-13.4**	**-6.2**	**-4.3**	
o/w exceptional financing	0.0	0.0	-0.8			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
PV of external debt 5/	...	...	83.9			83.9	83.7	80.8	75.3	69.1	62.8		35.9	24.9	20.0	
In percent of exports	...	...	314.4			312.9	301.2	282.6	256.7	230.5	204.5		113.0	76.9	60.9	
PV of PPG external debt	**...**	**...**	**83.9**			**83.9**	**83.7**	**80.8**	**75.3**	**69.1**	**62.8**		**35.9**	**24.9**	**20.0**	
In percent of exports	**...**	**...**	**314.4**			**312.9**	**301.2**	**282.6**	**256.7**	**230.5**	**204.5**		**113.0**	**76.9**	**60.9**	
In percent of government revenues	**...**	**...**	**224.3**			**224.9**	**218.4**	**207.7**	**191.6**	**173.7**	**157.5**		**89.2**	**65.0**	**52.9**	
Debt service-to-exports ratio (in percent)	**15.1**	**14.6**	**19.1**			**15.0**	**17.7**	**22.6**	**20.2**	**20.4**	**19.7**		**14.4**	**22.0**	**16.4**	
PPG debt service-to-exports ratio (in percent)	**15.1**	**14.6**	**19.1**			**15.0**	**17.6**	**22.6**	**20.2**	**20.4**	**19.7**		**14.4**	**22.0**	**16.4**	
PPG debt service-to-revenue ratio (in percent)	**12.3**	**10.7**	**13.6**			**10.8**	**12.8**	**16.6**	**15.1**	**15.4**	**15.1**		**11.4**	**18.6**	**14.2**	
Total gross financing need (Millions of U.S. dollars)	127.6	131.9	102.3			100.3	112.9	128.1	123.1	116.8	116.9		155.6	174.0	165.7	
Non-interest current account deficit that stabilizes debt ratio	44.3	40.4	9.8			23.3	24.5	27.5	29.6	29.1	29.2		28.0	21.1	18.8	
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.9	2.2	-7.7	1.5	6.1	0.8	2.0	3.0	3.5	4.0	4.0	2.9	4.0	4.0	4.0	4.0
GDP deflator in U.S. dollar terms (change in percent)	3.0	8.8	-1.9	3.1	3.0	4.1	2.8	2.6	2.4	2.5	2.4	2.8	2.5	1.5	1.0	1.8
Effective interest rate (percent) 6/	2.7	3.1	3.5	5.1	2.8	2.4	2.6	2.7	2.8	3.4	3.4	2.9	4.9	4.7	6.5	5.0
Growth of exports of G&S (U.S. dollar terms, in percent)	15.9	1.8	-14.3	-1.9	13.7	5.4	8.6	8.7	8.8	8.9	9.0	8.2	7.2	5.9	5.4	6.3
Growth of imports of G&S (U.S. dollar terms, in percent)	10.4	4.3	-26.6	3.3	14.4	3.1	8.2	8.7	7.3	7.6	7.5	7.1	7.3	3.8	2.5	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	19.5	12.9	8.4	7.7	7.3	5.7	10.2	5.5	-12.1	-13.2	-6.9
Government revenues (excluding grants, in percent of GDP)	38.0	38.4	37.4			37.3	38.3	38.9	39.3	39.8	39.8		40.3	38.3	37.9	38.9
Aid flows (in Millions of U.S. dollars) 7/	6.4	27.5	25.3			25.2	20.2	20.2	20.2	20.2	20.2		20.2	20.2	20.2	
o/w Grants	6.4	27.5	25.3			25.2	20.2	20.2	20.2	20.2	20.2		20.2	20.2	20.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.0	3.8	3.3	2.8	2.6	2.4		1.8	0.7	0.5	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			52.0	41.4	40.2	58.5	61.1	68.9		69.4	9.6	8.9	29.6
Memorandum items:																
Nominal GDP (Millions of U.S. dollars)	610.3	678.5	614.8			645.2	676.6	714.9	757.7	807.8	860.1		1179.5	1541.7	2015.8	
Nominal dollar GDP growth	8.1	11.2	-9.4			4.9	4.9	5.7	6.0	6.6	6.5	5.8	6.6	5.6	5.0	5.8
PV of PPG external debt (in Millions of U.S. dollars)	...	...	516.1			541.4	566.2	577.5	570.9	558.0	539.8		424.0	384.5	403.8	
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			4.1	3.8	1.7	-0.9	-1.7	-2.3	0.8	-2.4	0.0	0.1	-0.9

Sources: Grenada authorities; and IMF staff estimates and projections.

1/ The coverage of the public sector is public and publicly guaranteed debt, including debt of public enterprises and the debt of the central government to the public sector.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Derived as [i - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with i = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

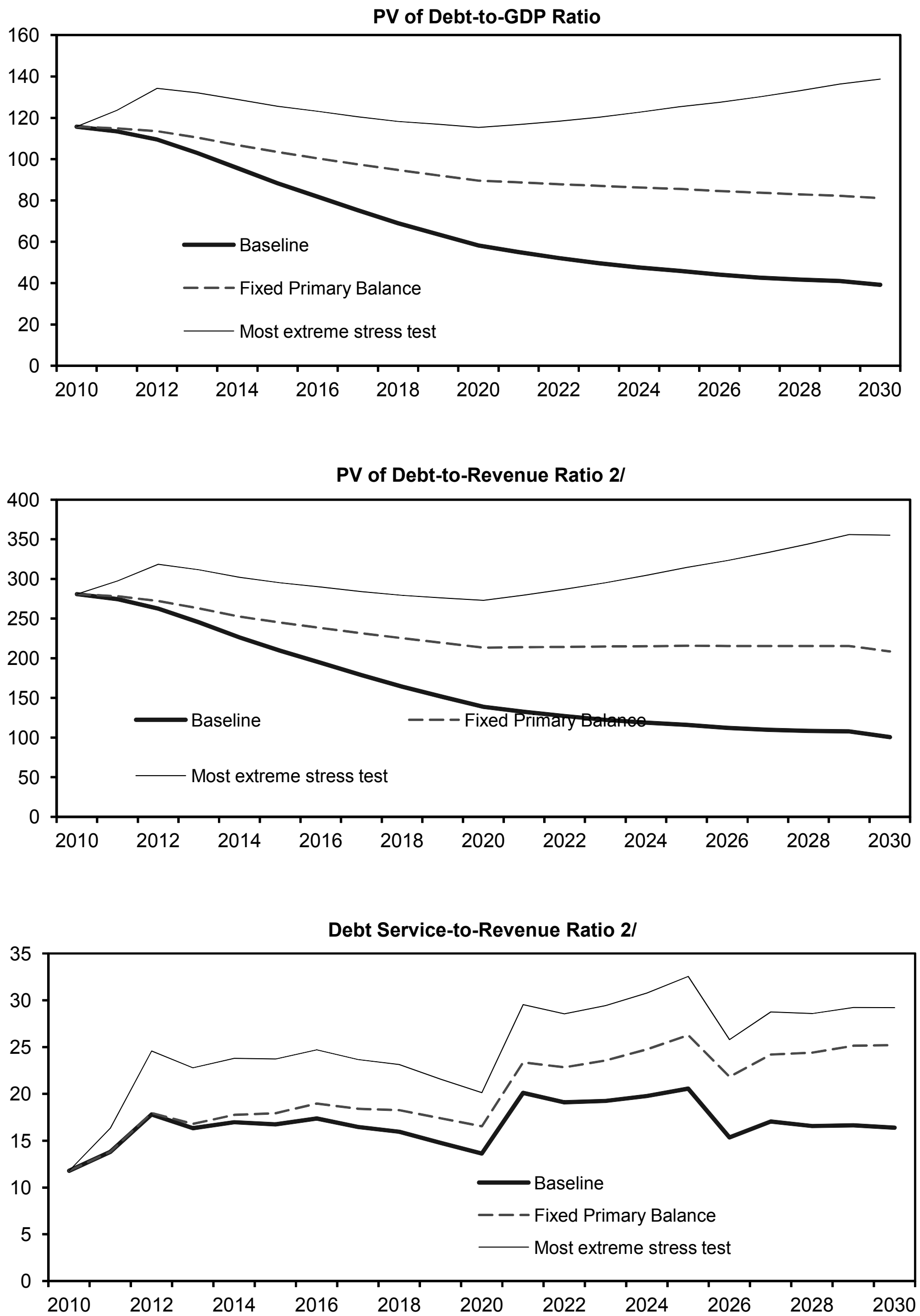
Table A2b. Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30
(In percent)

	Projections								
	2010	2011	2012	2013	2014	2015	**2020**	2025	2030
PV of debt-to GDP ratio									
Baseline	83.9	83.7	80.8	75.3	69.1	62.8	**35.9**	24.9	20.0
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	83.9	80.4	75.3	69.1	64.9	61.7	**41.8**	47.1	59.7
A2. New public sector loans on less favorable terms in 2011–30 2/	83.9	84.5	82.7	77.6	71.5	65.2	**39.1**	29.3	26.8
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	83.9	89.5	93.2	87.0	79.7	72.4	**41.5**	28.8	23.1
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	83.9	90.6	100.2	94.6	87.3	78.8	**42.0**	26.5	20.5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	83.9	85.9	85.0	79.3	72.7	66.0	**37.8**	26.2	21.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 4/	83.9	88.3	91.3	85.7	78.8	71.4	**39.1**	25.8	20.3
B5. Combination of B1–B4 using one-half standard deviation shocks	83.9	92.0	106.2	100.0	92.3	83.5	**45.2**	29.0	22.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	83.9	118.2	114.1	106.4	97.5	88.6	**50.8**	35.2	28.3
PV of Debt-to-Exports ratio									
Baseline	312.9	301.2	282.6	256.7	230.5	204.5	**113.0**	76.9	60.9
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2010-2030 1/	312.9	289.5	263.3	235.3	216.6	201.1	**131.3**	145.2	181.5
A2. New public sector loans on less favorable terms in 2011–30 2/	312.9	304.3	289.3	264.5	238.7	212.4	**123.0**	90.4	81.5
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	312.9	301.2	282.6	256.7	230.5	204.5	**113.0**	76.9	60.9
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	312.9	419.7	581.4	534.1	482.8	425.9	**219.0**	135.6	103.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	312.9	301.2	282.6	256.7	230.5	204.5	**113.0**	76.9	60.9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 4/	312.9	317.8	319.3	292.1	263.0	232.5	**123.0**	79.5	61.6
B5. Combination of B1–B4 using one-half standard deviation shocks	312.9	376.3	476.1	436.5	394.6	348.5	**181.9**	114.6	87.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	312.9	301.2	282.6	256.7	230.5	204.5	**113.0**	76.9	60.9
Debt service-to-exports ratio									
Baseline	15.0	17.6	22.6	20.2	20.4	19.7	**14.4**	22.0	16.4
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009–29 1/	15.0	17.7	22.3	19.5	18.7	17.6	**14.1**	29.8	33.4
A2. New public sector loans on less favorable terms in 2009–29 2/	15.0	17.6	22.1	18.6	17.5	19.1	**13.1**	25.9	25.3
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	15.0	17.6	22.6	20.2	20.4	19.7	**14.4**	22.0	16.4
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	15.0	22.7	39.6	39.1	42.9	47.6	**35.2**	39.0	27.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	15.0	17.6	22.6	20.2	20.4	19.7	**14.4**	22.0	16.4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 4/	15.0	17.6	23.5	22.0	23.6	24.5	**18.1**	22.8	16.6
B5. Combination of B1–B4 using one-half standard deviation shocks	15.0	21.0	33.1	32.4	34.4	37.9	**28.0**	32.9	23.8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	15.0	17.6	22.6	20.2	20.4	19.7	**14.4**	22.0	16.4
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	**-11.4**	-11.4	-11.4

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

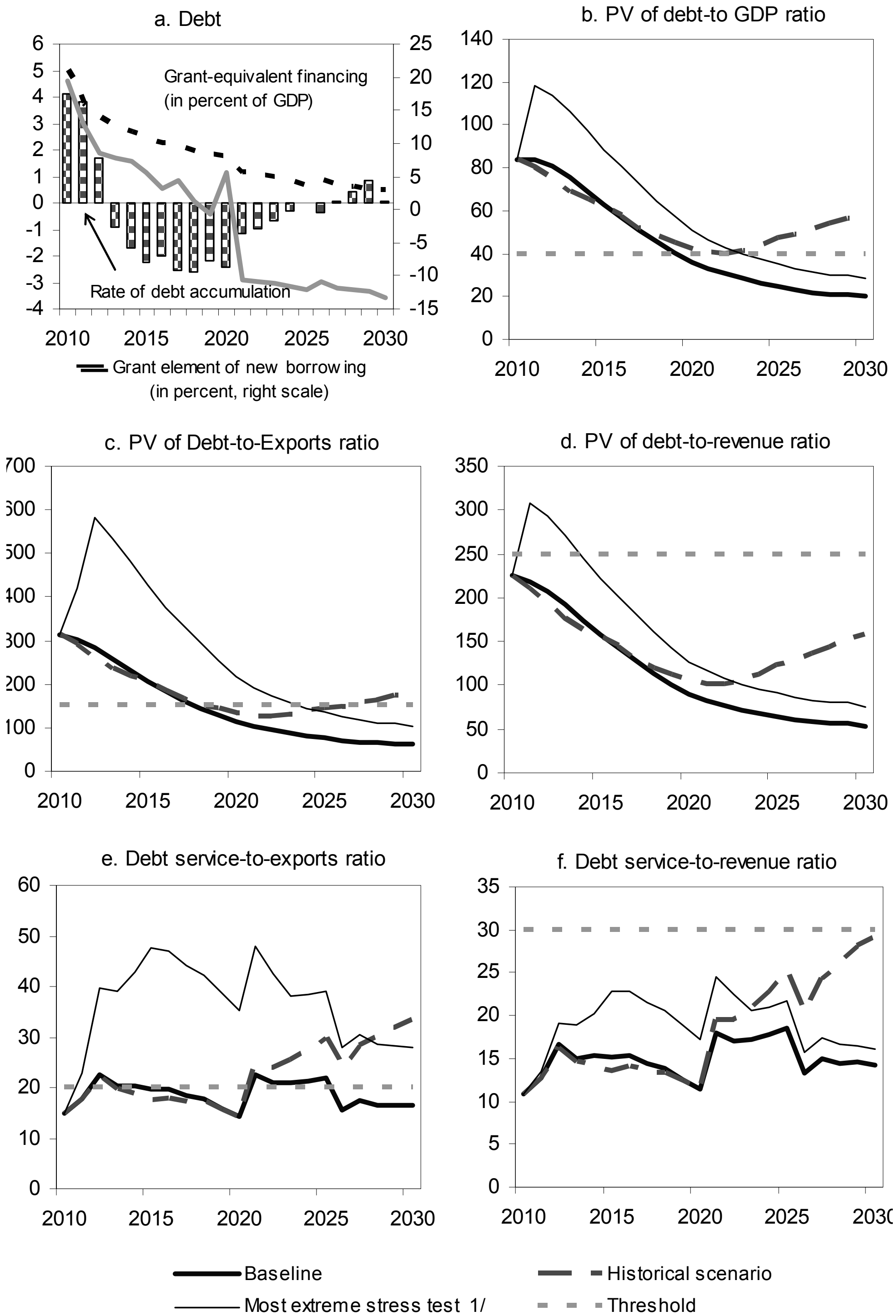
Figure 1. Grenada: Indicators of Public Debt Under Alternative Scenarios, 2010–30 1/



Sources: Grenada authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. It corresponds to real GDP growth at historical average minus one standard deviations in 2010–11 in panels one and two and to a one-time real depreciation of 30 percent in 2010 in panel three.
2/ Revenues are defined inclusive of grants.

Figure 2. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010–30 1/

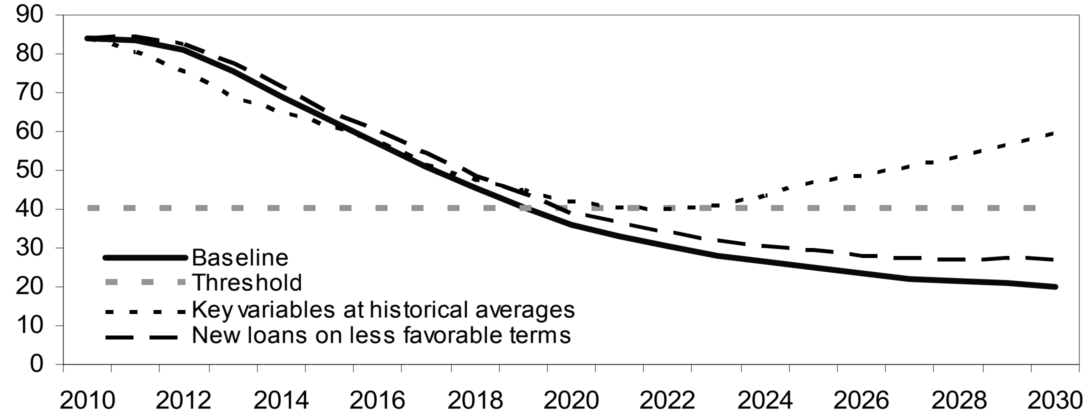


Source: IMF staff projections, and simulations.

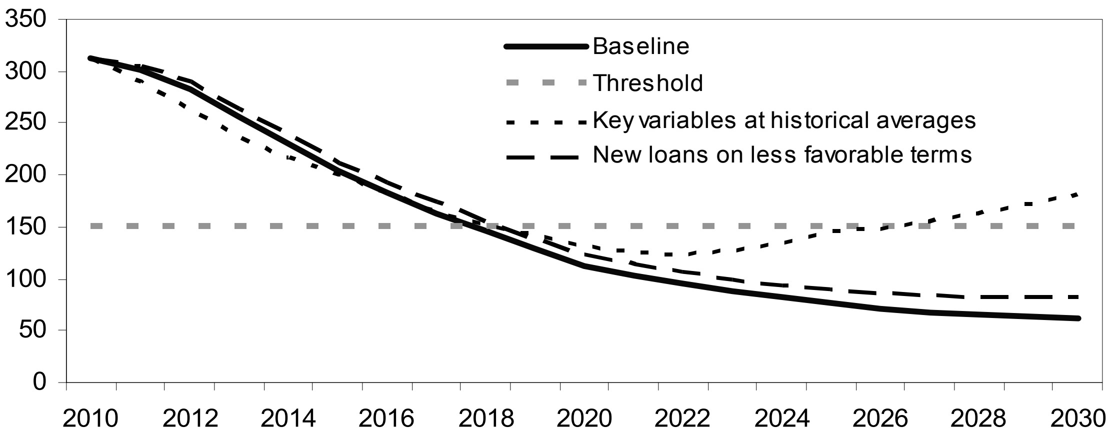
1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a one-time depreciation shock; in c. to an exports shock; in d. to a one-time depreciation shock; in e. to an exports shock and in picture f. to a one-time depreciation shock.

Figure 2a. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010–30 1/

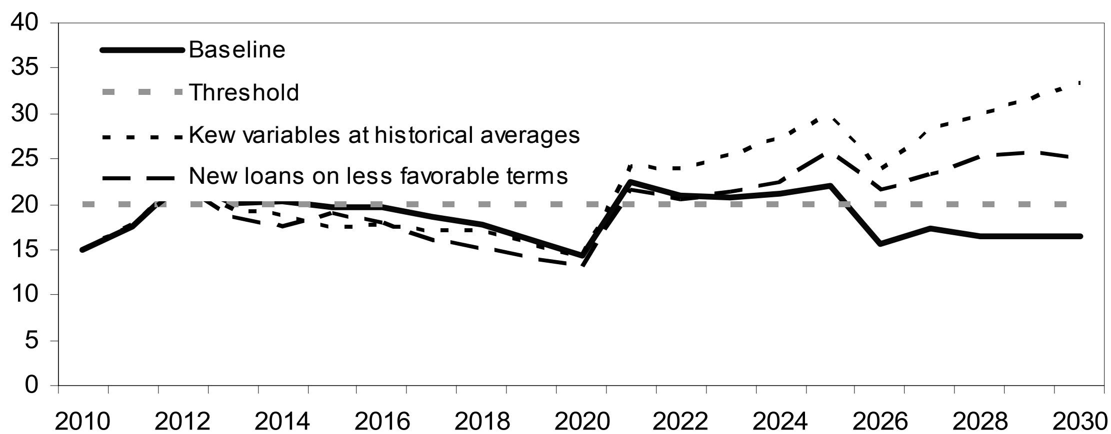
PV of Debt-to-GDP Ratio



PV of Debt-to-Exports Ratio



Debt Service-to-Exports Ratio



Source: IMF staff projections, and simulations.

INTERNATIONAL MONETARY FUND

GRENADA

Fifth Review Under the Extended Credit Facility, Request for Waivers of Nonobservance of Performance Criteria and Request for a Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review

Informational Annex

Prepared by Western Hemisphere Department

March 25, 2010

Contents Page

Appendices

Appendix I. Grenada: Fund Relations
(As of February 28, 2010)

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	11.70	100.00
Reserve Position	0.00	0.00

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	11.17	100.00
Holdings	10.65	95.36

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
ECF Arrangements	14.70	125.64

V. Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr. 17, 2006	Apr .16, 2010	16.38	14.70

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

	Forthcoming				
	2010	**2011**	**2012**	**2013**	**2014**
Principal		0.16	0.31	0.31	1.78
Charges/Interest	0.00	0.00	0.04	0.04	0.04
Total	0.00	0.16	0.35	0.35	1.81

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 November 25, 2009 (IMF Country Report No. 10/14).

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 and with the exchange of information with inland revenue; strengthening customs enforcement and risk management; drafting legislation to establish the single supervisory agency, Grenada Authority for the Regulation of the Financial Institutions (GARFIN) and supporting the newly established agency; and training for nonbank supervisors. CARTAC has also provided substantial assistance in improving the production and dissemination of macroeconomic statistics, including national accounts compilation; rebasing of the consumer price index and

GDP constant prices series and developing new consumption price basket; initiating work to prepare export-import price indices; training in the processing of trade data; and improving external sector statistics as part of a major CARTAC/ECCB project.

Other Technical Assistance (2007–09)

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 as well as with drafting of an investment promotion bill. A series of FAD missions have provided further assistance on implementing a VAT and on tax policy, tax and customs administration and reforms as well as on income tax reform and tax incentives system.

Appendix II. Grenada—Relations with the World Bank Group

(As of February 28, 2010)

The World Bank is in the process of elaborating its Eastern Caribbean Regional Partnership Strategy for FY10-14 and it is scheduled to be presented to the Board of the Bank in May 2010. The interventions elaborated on below were launched under the Bank's Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY06-09. The FY06–09 Strategy supported 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 focused on leveraging available donor grant financing. The OECS countries have confirmed that the objectives under the FY06–09 Strategy remain relevant.

A. Projects

There are seven active World Bank projects in Grenada for a net commitment of approximately US$25.7 million of which US$13.47 million has been disbursed.

The Grenada (OECS) Education Development Project, approved in June 2003 for US$8.0 million as part of a multi-country APL, 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: (i) to increase equitable access to secondary education; (ii) to 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) to strengthen management of the education sector and improve governance of schools. The World Bank has approved additional financing in the amount of US$1.9 million and the project became effective in July 2009. The additional resources will finance the costs associated with scaling up those components curtailed when the original project was restructured after Hurricane Ivan in November 2004, namely improving education quality and strengthening management.

The **OECS Telecommunications and ICT Development Project** was approved in September 2005 for US$541.6 thousand and aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the OECS. The project has the following four components: Component (1) aims to strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistances to revise the regional and national sector legislation, and develop a modem interconnection regime; Component (2) supports the review of the current universal access policy, creation of related guidelines, and provides financial support to establish a Universal Service Fund (USF); Component (3) aims to improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure; and Component (4) supports management and administration of the overall project.

The Public Sector Modernization Technical Assistance Project was approved in December 2005 to support the modernization of Grenada's public sector. The US$3.5 million IDA Credit will finance a project that has the following components: Component 1—(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—support for 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—support for Grenada to take the lead to jointly procure select goods and services with other OECS countries; and Component 4—strengthen the Public Sector Reform Unit by providing financial and technical resources and training on key policy areas.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) was approved in March 2007 as the world's first ever multi-country catastrophe insurance pool. The US$4.5 million IDA Credit will finance Grenada's contribution to the insurance pool over three years. The CCRIF has enabled 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 Grenada Technical Assistance Project was approved on March 13, 2008 as a US$2.8 million IDA Credit. The Project's developmental objectives are: (i) to improve the efficiency and effectiveness of Customs, (ii) to improve the efficiency of tax administration and decrease transaction costs of paying taxes and consequently increase tax compliance, (iii) to modernize investment promotion, and, (iv) to enhance the Government's support to the export sector through improved 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 OECS E-Government for Regional Integration Program was approved by the Board on May 27, 2008. This project consists of a US$2.4 million IDA Credit to Grenada and is designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, education, agriculture, tourism, postal, among others that may emerge during the early stages of implementation of Phase 1.

OECS (Grenada) Skills for Inclusive Growth, was approved on January 15, 2009 for US$3 million IDA Credit which will fund the second phase of the multi-country APL and will support Grenada's efforts to increase the employability of youth through public/private sector partnerships for technical and life skills training that is demand driven. This objective has three intermediate outcomes with associated lines of action: (a) to increase job-related competencies among unemployed youth through the establishment of a competitive training mechanism that supports the financing and delivery of demand driven training; (b) to improve the quality and value of training in Grenada and enhance OECS collaboration in training through the adoption of an occupational standards framework that is validated locally and recognized regionally; and (c) to strengthen institutional capacity to plan, implement, and monitor training.

B. Economic and Sector Work

The Bank has completed a series of analytical studies 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), an OECS Skills Enhancement Policy Note (2006), 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 and the OECS Tourism Backward Linkages Study were completed in 2008. The publication "Caribbean - Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" was released in the fall of 2008.

Grenada will also benefit from ongoing and planned analytical and advisory activities including the following: a CARICOM study on Managing Nurse Migration and a preparatory study aimed at developing a Pan-Caribbean Regional Energy Strategy.

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

Operation	Original Principal	Available[1]	Disbursed[1]
OECS (Grenada) Skills for Inclusive Growth	3.00	2.82	0.38
E-Government for Regional Integration Program	2.40	2.11	0.17
Grenada Technical Assistance Project	1.86	1.59	0.24
The Caribbean Catastrophe Risk Insurance	4.50	0.96	4.48
The Public Sector Modernization Technical Assistance Project	3.50	2.80	1.00
Telecommunications & ICT Development Project	0.54	0.26	0.28
Grenada Education Development Project	9.90	2.14	6.92
Total	**25.7**	**12.68**	**13.47**

[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 February 2010)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Total disbursements	1.99	2.59	2.64	7.28	1.78	6.03	5.22	6.49	7.47	2.22	2.34
Repayments	0.07	0.06	0.06	0.07	0.22	0.63	1.10	1.49	1.62	1.79	0.90
Net disbursements	1.92	2.53	2.57	7.21	1.56	5.40	4.12	5.00	5.85	0.43	1.43
Interest and fees	0.08	0.22	0.28	0.39	0.48	0.53	0.65	0.78	0.82	0.79	0.35

*July 2009—February 2010

Appendix III. Grenada—Relations with the Caribbean Development Bank

A. New Projects and Technical Assistance

During 2009, the Caribbean Development Bank (CDB) approved the second Country Strategy Paper (CSP) for Grenada. In providing the framework of future engagement, this document outlines the Bank's strategy in Grenada over the 2009–11 period, while addressing the key risks to CSP success. The resource envelop of US$26 million (mn), blends the Bank's resources to yield a 35% grant element in conformity with Grenada's debt sustainability borrowing terms. The strategy gives supports to the following country outcomes:

(a) ***Improved macroeconomic management***. In an environment of increased macroeconomic uncertainty, a fast-disbursing Policy-Based Loan of $12.8 million will assist Government to maintain stability and continue its macroeconomic reform agenda;

(b) ***Improved access to quality education services***. The rehabilitation of school infrastructure at all levels has been a key focus in the aftermath of Hurricanes Ivan and Emily which had severely damaged approximately 85% of the school stock. With approximately 1,300 students still accommodated in temporary structures that were designed as short-term measures, CDB is providing financing to support schools rehabilitation, and to upgrade teacher training.

(c) ***Improved access by the poor to basic infrastructure and services through community-driven development***. Continuing the focus of the Basic Needs Trust Fund (BNTF) fifth programme, grant funds are earmarked to reconstruct a number of pre-schools and early childhood education centers.

(d) ***Strengthened social policy framework.*** To address the challenge of persistent high poverty, the Bank will assist in ensuring that a strong, anti-poverty programme framework, policies and action plan are developed and institutionalized. As part of this process, a more systematic and strategic framework for poverty reduction will be developed through the finalization of the Poverty Reduction Strategy (PRS) and Action Plan, and the development of poverty maps.

(e) ***Improved agriculture output through increased agriculture-based incomes***. In light of the challenges of declining output, low productivity and weak supply chain integration in agriculture, which limit job creation and income growth for farmers, CDB will partner with the International Fund for Agricultural Development (IFAD) to support the financing of eligible agricultural sub-projects for new agri-business and agro-processing.

(f) ***Improved road access to support rural development.*** CDB will support the provision of better roads in the northern part of the country to facilitate access for both farm and non-farm investments, including planned tourism developments.

(g) ***Strengthened land use policy framework***. As GOGR encourages spatial development (to rural areas) as part of its strategy to sustain growth, CDB will assist in ensuring that this takes place within a more strategic and systematic context by assisting GOGR to strengthen its legislative and regulatory physical planning framework.

(h) ***Climate change-related risks reduced***. Grenada is vulnerable to the adverse impacts of climate change, underscoring the need to start adapting to this phenomenon. The Bank will support GOGR's request to strengthen its capacity to mainstream climate change into national development planning and key socio-economic sectors

In line with the CSP, new projects/programs approved in 2009 for Grenada include US$8.4 million in budget support, US$5 million for schools rehabilitation, and technical assistance amounting to $625,000 to undertake a road upgrade study.

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

Item	2005	2006	2007	2008	2009	2010*
Cumulative total credit approved[1]	152.6	163.6	171.1	174.8	181.8	194.0
Cumulative disbursements[2]	112.8	130.0	143.3	150.0	163.1	163.1
Outstanding debt (end of period)	77.6	91.6	101.8	106.4	114.0	114.1
Disbursements						
Ordinary Capital Resources	5.6	3.3	1.0	0.5	2.6	0.0
Special Development Fund	8.4	9.8	7.0	3.5	7.9	0.1
Other Special Fund Resources	0.6	3.9	6.7	4.4	0.8	0.1
Amortization[3]						
Ordinary Capital Resources	1.2	1.5	1.4	1.8	2.5	0.1
Special Development Fund	1.6	1.6	1.0	0.7	0.9	0.1
Other Special Fund Resources	0.2	0.3	0.2	0.2	0.3	-
Interest and Commitment Fees						
Ordinary Capital Resources	1.6	1.9	2.0	1.8	1.7	0.1
Special Development Fund	0.7	0.9	0.3	1.1	1.1	-
Other Special Fund Resources	0.2	0.2	1.1	0.4	0.5	-

Source: Caribbean Development Bank
*At January 2010.

[1] Loans to and guaranteed by Government of Grenada (do not include grants).

[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

As of March 25, 2010

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Identified deficiencies need to be addressed in the context of a thorough implementation of the *System of National Accounts 1993* and a revision of the national accounts' base year (currently dating from 1990). The IMF, through the Caribbean Regional Technical Assistance Center, has been providing specialized technical advice to Grenada on the critical area of export-import price indices compilation and dissemination.

National Accounts: 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. There are a number of deficiencies in the real sector statistics. GDP by expenditure is available only with long lags, and real GDP estimates for the tourism sector are not computed. The estimation of gross fixed capital formation and sectoral price deflators needs to be improved.

Price statistics: Consumer prices are the only real sector data provided in between IMF missions. The basket used to compute the consumer price index was last updated in 2000. A producer price index is not available.

Labor statistics: 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 unprocessed. The Central Statistical Office (CSO) conducted a Country Poverty Assessment, with assistance of the Caribbean Development Bank, and is working with the International Labor Organization (ILO) to improve the coverage of labor market statistics.

Government finance statistics: The reporting of central government data has improved in recent years, with 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 limited, and there are no consolidated public sector accounts. Since May 2009, financial information on selected public enterprises began to be published. In line with the new Public Finance Management Act of 2007, public enterprises are required to submit audited financial statements within four months after the close of the financial year.

Monetary statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund. There is a need to improve the institutional coverage that currently only comprises the ECCB and commercial banks. Full implementation of recommendations made by the 2003 and 2005 monetary and financial statistics missions should ensure consistency with international best practice.

While noting some recent improvements, the 2007 data ROSC mission identified the following main shortcomings in the ECCB's monetary statistics: (i) the methodological soundness of monetary statistics can be improved by adopting internationally accepted concepts and definitions, expanding institutional coverage, and revising the classifications of financial instruments and the basis for recording; (ii) transparency can be improved, for example, by releasing monetary data to all users at the same time and strengthening the validation of the disseminated data; (iii) the timeliness of the dissemination of data on broad money and credit aggregates can be improved to meet best international practices; and (iv) the access to officially disseminated data and metadata can be improved. Following the mission's recommendation, the ECCB revised its definition of broad money and the relevant changes have been reflected from the January 2009 monetary statistics.

Balance of payments: The ECCB compiles balance of payments statistics on an annual basis, using information collected by the CSO. The data are reported to the IMF for publication in the IFS and Balance of Payments Yearbook.

The statistics are based primarily on information collected from surveys of establishments; however, these surveys are not comprehensive and the response rates are usually poor. Merchandise trade statistics have traditionally been more reliable and are available by SITC classification on a quarterly basis. The reliability and comprehensiveness of the merchandise trade statistics have suffered considerably in the aftermath of Hurricane Ivan (September 2004) and reporting is mostly fully back on track.

Enhanced data sources and better compilation procedures are needed to improve the accuracy of the balance of payments statistics. Moreover, efforts should be undertaken to compile quarterly balance of payments statistics and the annual international investment position statement.

External and domestic debt statistics: The database for 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.

II. Data Standards and Quality

While Grenada has participated in the Fund's General Data Dissemination System since March 2001, most of the metadata have not been updated since late 2002.	The 2007 regional data ROSC on monetary statistics provides an assessment of the ECCB's monetary statistics.

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

Grenada: Table of Common Indicators Required for Surveillance

As of March 25, 2010

	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]	Jan 2010	Mar 2010	M	M, with 2- to 3-month lag	A/Q
Reserve/Base Money	Jan 2010	Mar 2010	M	M, with 2- to 3-month lag	A/Q
Broad Money	Jan 2010	Mar 2010	M	M, with 1- to 2-month lag	A/Q
Central Bank Balance Sheet	Jan 2010	Mar 2010	M	M, with 1- to 2-month lag	A/Q
Consolidated Balance Sheet of the Banking System	Jan 2010	Mar 2010	M	M, with 2- to 3-month lag	A/Q
Interest Rates[4]	Jan 2010	Mar 2010	M	M, with 1- to 2-month lag	A/Q
Consumer Price Index	Jan 2010	Mar 2010	M	M, with 1- to 2-month lag	A/M
Revenue, Expenditure, Balance and Composition of Financing[5]– Central Government	Jan 2010	Feb 2010	M	Q, with 1- to 2-month lag	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec 2009	Feb 2010	M/A	Q, with 1- to 2-month lag	A
External Current Account Balance	Dec 2009	Mar 2010	A	A, with long lag	A
Exports and Imports of Goods and Services	Dec 2009	Mar 2010	A	A, with long lag	A
GDP/GNP	Dec 2009	Feb 2010	A	Staff Mission	A
Gross External Debt[7]	Dec 2009	Feb 2010	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

Press Release No. 10/133
FOR IMMEDIATE RELEASE
April 2, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$13.3 Million Arrangement Under the Extended Credit Facility for Grenada

The Executive Board of the International Monetary Fund (IMF) today approved Grenada's request for a new three-year arrangement under the Extended Credit Facility (ECF),[1] totaling SDR 8.775 million (about US$13.3 million). Approval of the program makes an initial disbursement of SDR 1.275 million (about US$1.9 million) available immediately.

The new arrangement aims at helping Grenada cushion the effects of the global crisis and support the country's agenda of economic reforms aimed at boosting growth, reducing poverty, strengthening the private sector and the business climate, and reducing vulnerabilities in the financial sector.

The Executive Board also completed the fifth and last review of Grenada's economic performance under the country's previous ECF arrangement, allowing for the immediate disbursement of an amount equivalent to SDR 1.68 million (about US$2.6 million), bringing total disbursements to SDR 16.38 million (about US$24.9 million). The Executive Board also approved the request for a waiver of the missed performance criteria on the primary balance excluding grants and on the non-accumulation of external official arrears.

The three-year ECF with Grenada was approved on April 17, 2006 (see Press Release No. 06/75), and in July 2008 was augmented to SDR 12.0 million (about US$18.2 million) to help mitigate the impact of food and fuel price shocks and extended by one year to April 16, 2010 (see Press Release No. 08/169). The arrangement was augmented again to SDR 16.4 million (about US$24.9 million)

[1] Under the New Architecture of Facilities for Low Income Countries, Poverty Reduction and Growth Facility (PRGF) arrangements were converted into ECF arrangements on January 7, 2010. The ECF has replaced the PRGF as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality.

in June 2009 (see Press Release No. 09/200) to help mitigate the impact of the global downturn and financial turmoil.

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

"The global economic crisis has had a significant adverse impact on Grenada. Economic activity slowed, reflecting sharply weaker tourism receipts and FDI-financed construction, resulting in a deterioration of the fiscal situation. In addition, the collapse of the Trinidad and Tobago-based CL Financial Group has increased financial uncertainty and can have fiscal implications. The authorities are continuing to focus on coping with the impact of the external shocks, while laying the foundation for fiscal consolidation and growth over the medium term. The new IMF arrangement under the Extended Credit Facility will support the authorities' efforts to continue with their economic reform program.

"The authorities have taken appropriate actions to improve expenditure control and ensure timely debt service payments. They are adopting a three-year rolling budget with explicit annual targets on the public debt-to-GDP ratio. To help safeguard debt sustainability, it is important to base the decision on the possible external loan to build a luxury hotel on an objective assessment of the project's returns, availability of concessional financing, and majority private sector participation.

"The banking sector has remained resilient, and the authorities have made important progress in strengthening the capacity for nonbank financial supervision and regulation, including the enactment of the new Insurance Act. They are working closely with regional governments to contain the fallout from the collapse of the CL Financial Group.

"Progress has been made with structural reforms, including introduction of a valued added tax in February 2010. The completion of a Country Poverty Assessment will serve as a basis for preparing a new Poverty Reduction Strategy," Mr. Portugal said.

ANNEX

Recent Developments

Grenada's economic activity contracted significantly in 2009, reflecting a decline in tourist arrivals and a collapse in foreign direct investment (FDI)-financed construction activity, which on a year-on-year basis fell 13 percent and 52 percent, respectively. Tightening financial conditions and increasing unemployment also undermined domestic demand. However, a slower decline in both stay-over arrivals and FDI-financed construction in the last quarter of 2009 suggests that the economy is bottoming out. The current account deficit is estimated to have narrowed by more than 10 percentage points of GDP, as a sharp reduction in imports more than offset lower tourism receipts.

In an effort to ameliorate the impact of the crisis, the authorities expanded public spending by accelerating the execution of donor-financed capital projects and overrunning current expenditure, resulting in an expansionary fiscal stance in 2009. The public debt-to-GDP ratio increased by more than 20 percentage points to 122 percent by the end of the year, with about 8 percentage points due to lower GDP.

Although the banking sector has resisted well the effects of the crisis, maintaining strong capital adequacy ratios (15.9 percent as of December, 2009) well above the minimum required ratio of 8 percent, commercial banks' portfolio has deteriorated. Reflecting the weak economy, the ratio of nonperforming loans to total loans worsened to 5.9 percent in December 2009 from 3.5 percent one year earlier. The main financial sector challenge for the authorities is to address the problems created by the collapse of the Trinidad and Tobago-based CL Financial Group and its potential fiscal implications.

Program summary

In the 2010 Budget Statement the government reaffirmed its commitment to continue its comprehensive medium-term economic reform program with strategic objectives to ensure fiscal and debt sustainability, reduce vulnerabilities in the financial sector, generate high and sustained growth through structural reforms that will support private sector-led growth, and reduce poverty.

The fiscal framework for 2010 calls for a significant adjustment, given both the available financing and the high debt level; the primary deficit excluding grants is expected to improve from 7.9 percent of GDP in 2009 to 3.6 percent in 2010. Although the fiscal adjustment is large, it remains achievable by limiting growth in the wage bill and capital spending, reducing spending on goods and services, and improving commitment control. Over the medium term the program targets a primary surplus excluding grants in the range of 2-2.5 percent of GDP, which would enable the debt-to-GDP ratio to decline gradually to the Eastern Caribbean Currency Union (ECCU) target of 60% by 2020.

For reducing vulnerabilities in the financial sector the authorities are continuing their effort to strengthen nonbank regulation to avoid repeating the experience with the CL Financial Group, comply with the internationally agreed standard for the exchange of tax information, and strengthen the framework for Anti-Money Laundering and Combating the Financing of Terrorism.

With respect to generating high and sustained growth and reduce poverty, the government underscores the need to diversify the sources of growth, by reducing the dependence on tourism and encouraging private sector-led growth in areas such as health and education services, energy development, agro-processing, and information and communication technology. The authorities are committed to continue implementing structural reforms for improving the business and investment climate in favor of stronger private sector participation.

The fiscal framework under the program allows for spending aimed at reducing poverty to support the authorities social development agenda. Based on a recent report by the World Bank, UNICEF, and UNFEM on Grenada, which underscored the need to strengthen and rationalize existing social programs, the government intends to implement several measures, including the consolidation of major cash transfer programs.

Grenada: Selected Economic and Financial Indicators, 2007–11

Rank in UNDP Human Development Index out of 179 countries (2008)	86	Infant mortality rate per '000 births (2006)	16
		Adult illiteracy rate in percent (2004)	4
Life expectancy at birth in years (2006)	68	Poverty headcount index (2008)	38
GDP per capita in US$ (2007)	5,760		

	Est.	Prel.	Proj. 1/	Rev.	Proj.	
	2007	2008	2009		2010	2011
	(Annual percentage change; unless otherwise specified)					
National income and prices						
Real GDP	4.9	2.2	-6.2	-7.7	0.8	2.0
GDP deflator	3.4	10.2	0.7	-1.2	3.2	2.0
Consumer prices 2/						
End-of-year 2/	7.4	5.2	-0.4	-2.4	4.7	2.0
Period average 2/	3.9	8.0	0.2	-0.3	3.6	1.9
External sector						
Exports of goods (value)	26.1	-7.4	-5.7	-1.8	6.1	9.5
Imports of goods (value)	10.6	5.0	-40.1	-30.5	4.2	8.8
Exports of goods (volume)	16.5	-20.2	19.7	17.2	-3.0	6.7
Imports of goods (volume)	0.4	-6.6	-28.3	-19.7	-2.8	6.2
Current account balance (including grants; in percent of GDP)	-43.2	-38.7	-22.1	-25.7	-25.0	-26.0
FDI (net, in percent of GDP)	24.8	21.2	7.0	11.3	11.5	12.1
Real effective exchange rate (end of period, depreciation -)	0.2	6.6	...	-6.8	...	...
Banking system						
Net foreign assets 3/	-1.0	-9.3	-5.1	1.8	-1.9	-3.0
Net domestic assets 3/	12.1	13.4	3.2	1.5	6.7	7.8
Of which						
Credit to public sector (net) 3/	1.5	1.0	-0.8	-1.8	1.2	0.0
Credit to private sector 3/	12.0	10.2	4.1	4.1	5.5	9.9
Money and quasi-money (M2)	11.0	4.1	-1.9	3.3	4.8	4.9
Weighted average deposit rate (in percent)	3.0	3.2	3.1	3.0	...	...
Weighted average lending rate (in percent)	9.6	9.2	10.7	10.7	...	...
	(In percent of GDP)					
Central government finances 4/						
Total revenue and grants	27.1	29.4	28.3	28.5	28.2	28.3
Of which						
Grants	1.0	4.1	3.6	4.1	3.9	3.0
Total expenditure	34.9	34.5	32.9	35.1	31.1	29.5
Current expenditure	21.4	22.8	24.3	25.6	23.5	22.5
Of which						
Salaries and allowances	9.6	11.0	11.4	11.5	11.1	10.9
Capital expenditure	13.5	11.7	8.7	9.5	7.6	7.0
Primary balance (excluding grants)	-6.9	-7.0	-5.2	-7.9	-3.6	-1.0
Primary balance (including grants)	-5.8	-3.0	-1.6	-3.8	0.3	2.0
Current balance	4.6	2.6	0.4	-1.2	0.8	2.8
Overall balance (including grants)	-7.9	-5.1	-4.7	-6.6	-2.9	-1.2
Public and publicly guaranteed debt (end-period)	111.0	102.2	116.9	122.3	119.1	116.3
	(In millions of U.S. dollars)					
Nominal GDP	610.3	678.5	614.8	614.8	645.2	676.6

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

1/ Corresponds to projections in IMF Country Report No. 10/14 with all ratios expressed as a percent of revised GDP.

2/ Assumes that VAT introduction in February 2010 will increase prices by 3.5 percentage points.

3/ As a percent of broad money at the beginning of the year.

4/ Measured using above-the-line information.