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GRENADA

December 2015

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; AND STAFF REPORT

In the context of the Third Review Under the Extended Credit Facility, Request for Modification of Performance Criteria, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's Lapse-of-Time basis, following discussions that ended on August 27, 2015, with the officials of Grenada on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 10, 2015.
- A **Staff Supplement** updating information on recent developments.

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

Letter of Intent sent to the IMF by the authorities of Grenada*
Memorandum of Economic and Financial Policies by the authorities of Grenada*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 15/538
FOR IMMEDIATE RELEASE
November 25, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under Extended Credit Facility Arrangement for Grenada, and Approves US$2.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Grenada's economic performance under a program supported by a three-year arrangement under the Extended Credit Facility (ECF). The completion of the review enables the disbursement of the equivalent of SDR 2 million (about US$2.7 million), bringing total resources made available to Grenada under the arrangement to the equivalent of SDR 8.04 million (about US$11 million). The Board's decision on the third review was taken on a lapse of time basis[1].

The ECF arrangement in the amount equivalent to SDR 14.04 million (then about US$21.7 million, or 120 percent of Grenada's quota at the IMF) was approved by the Executive Board on June 26, 2014 (see Press Release No. 14/310).

Grenada's economic performance under the authorities' home-grown program is on track and has remained strong. All performance criteria for end-June 2015 were met and all structural benchmarks for the third review were implemented.

Half-way into the authorities' three-year reform program, fiscal sustainability and growth prospects are gradually improving. The authorities are on track to achieve the first primary surplus in a decade. Supported by the recent private debt exchange, the debt-to-GDP ratio is projected to decline to 90 percent at end 2015, down from 107 percent in 2013. Economic growth is projected to remain robust at about 3.5 percent (at market prices) in 2015, reflecting expanding agriculture output and solid external demand for Grenada's tourism services.

Continued implementation of the authorities' structural reform agenda is critical to improve Grenada's long term fiscal prudence and growth prospects. The new Fiscal Responsibility

[1] The Executive Board takes decisions without a meeting when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Act will help ensure that medium term fiscal objectives are in line with debt reduction goals and ultimately debt sustainability. While the overhaul of the fiscal policy framework is now close to completion, fiscal discipline in the long term relies on its timely implementation. Reform of the public sector during the remainder of the program will be essential to safeguard the fiscal adjustment gains attained thus far and ensure a sustainable reduction in the government's personnel expenditure. Continued focus on strengthening the banking system remains essential for stability and will contribute more effectively to promoting private sector growth. Going forward, attention on growth and competitiveness reforms will help solidify the success of structural reforms so far and contribute to boost employment.

INTERNATIONAL MONETARY FUND

GRENADA

November 10, 2015

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Extended Credit Facility Arrangement. The arrangement was approved on June 26, 2014 and the second review completed on June 29, 2015. Disbursements equivalent to SDR 6.04 million (about US$9 million) have been made to Grenada so far under the arrangement and the equivalent of SDR 2 million (about US$3 million) will be made available upon Executive Board completion of the third review.

Debt Restructuring. A debt exchange with Grenada's largest private creditor group is scheduled to conclude on November 12, 2015. The deal includes a 50 percent principal haircut of Grenada's external commercial bonds. Half of the principal reduction is to be provided upon completion of the exchange, while the remainder will be provided following completion of the sixth review of the ECF-supported program. Once fully executed, the agreement will reduce Grenada's public debt by 11 percent of projected 2017 GDP. The authorities are scheduled to meet with the Paris Club in November 2015 and expect to finalize negotiations with remaining creditors in 2016.

Program Performance. Overall program implementation remains strong. All quantitative performance criteria for the third review were met. All structural benchmarks for the third review were implemented. The authorities advanced reforms to ensure the transparent and sustainable management of the Citizenship-By-Investment revenues, strengthen the fiscal policy framework, and improve public finance management.

Third Review. Discussions focused on measures to meet the 2016 fiscal targets and pro-growth structural reforms. Minor modifications to performance criteria are proposed for the fiscal adjustor to update debt advisory costs related to the restructuring and to make the adjustors for the fiscal performance criteria consistent. Proposed structural benchmarks seek to enhance fiscal sustainability and to strengthen overall growth objectives under the program.

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

Discussions took place in St. George's during August 20-27, 2015. The staff team comprised Nicole Laframboise (head), Xin Li, Saji Thomas (all WHD), Nujin Suphaphiphat (SPR) and Jemma Lafeuillee (local IMF economist) and was supported by Kimberly Beaton (WHD) from IMF headquarters. A representative from the Eastern Caribbean Central Bank participated in the meetings and the team was joined by Kevin Silston (OED).

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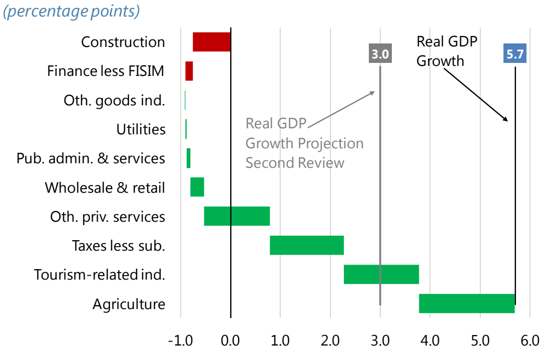
RECENT DEVELOPMENTS AND OUTLOOK

The economic recovery continues to strengthen while macroeconomic imbalances have narrowed alongside fiscal consolidation, an increase in external demand for tourism, and lower oil prices.

1. **The economy has recovered more rapidly than anticipated, fueled by strong growth in agriculture and tourism.** Activity expanded by 5.7 percent (market prices) in 2014, significantly higher than the 3 percent anticipated. The agriculture sector grew by a vigorous 54 percent, contributing 1.9 percentage points to growth. This surge reflects an expansion of capacity as key crops reached maturity after the 2004 hurricane and as reform efforts (¶28) began to yield results.[1,2] An increase in external demand for Grenada's tourism services, supported by the opening of a new resort, fueled robust growth in tourism-related sectors. Final data from the 2014 labor force survey put unemployment at 29 percent. Youth unemployment remains particularly high at about 45 percent.

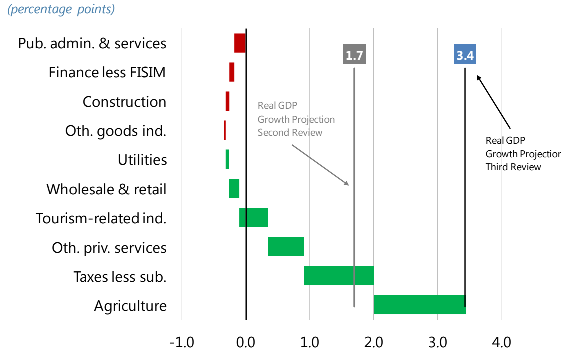
2. **The recovery has maintained momentum.** Growth is now projected at 3.4 and 2.4 percent in 2015 and 2016, respectively, reflecting a stronger expansion in the agriculture sector. The output gap is now expected to close in 2015. Over the medium-term, growth is forecast at 2–2 ½ percent, consistent with potential.

Grenada: Contribution to 2014 Real GDP Growth
(percentage points)



Sources: ECCB.

Grenada: Contribution to 2015 Real GDP Growth Projection
(percentage points)



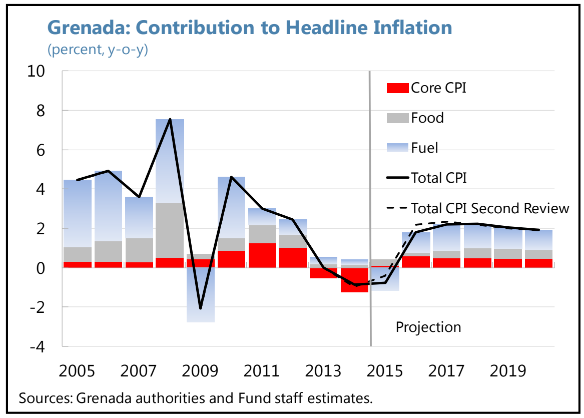
Sources: IMF staff projections.

3. **On average, consumer prices are expected to decline for the third consecutive year.** Prices continued to decline in the first seven months of 2015, falling by 1.4 percent (y/y) in July,

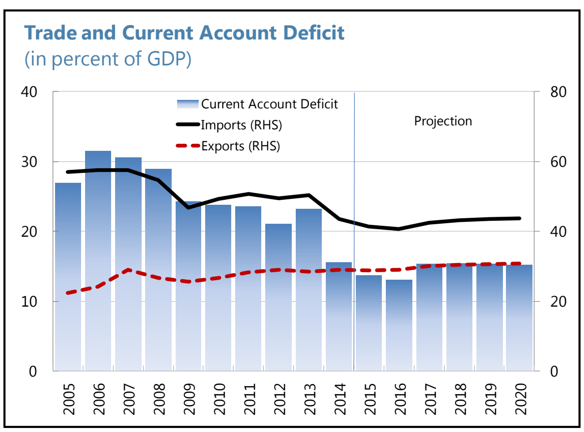
[1] It takes about 13 years for nutmeg trees to reach maturity. Most trees were wiped out in the 2004 hurricane.

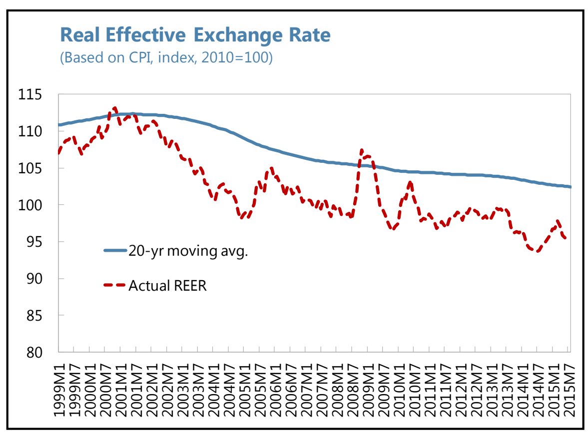
[2] Official statistics may overstate the increase in agriculture production. Growth is estimated based on purchases by the Marketing and National Importing Board (MNIB). MNIB recently expanded the number of farmers from which it purchases, bringing informal activity into the formal sector and possibly generating an overstatement in growth.

as lower world oil prices put downward pressure on fuel prices and still weak domestic demand contained prices of core goods and services. Inflation is expected to return to positive territory by year-end as the output gap closes (Figure 1), but consumer prices are projected to decline by 0.8 percent on an annual average basis for the year. Inflation is expected to average 2.0 percent in 2016 and to stabilize at that level, in line with imported inflation.

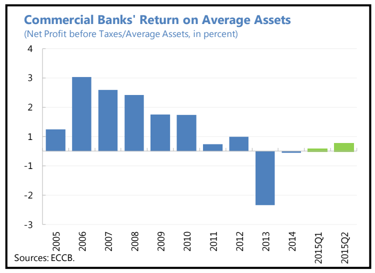


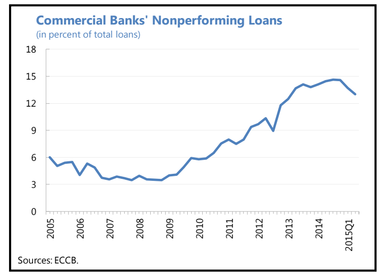
4. The external position continues to strengthen. Supported by robust tourism receipts, lower world oil prices and an unwinding of tourism-related construction, the current account deficit fell to 15.5 percent of GDP in 2014 from 23 percent of GDP in 2013. Similar factors are expected to drive an improvement in the external position in 2015, with the current account deficit projected to decline to 14 percent of GDP. Over the medium term, the current account deficit is forecast to deteriorate somewhat to 15 percent of GDP due in part to higher imports related to increased investments financed through the Citizenship-By-Investment (CBI) program, but also to Grenada's structural reliance on imported goods as a small island economy. The current account deficit would remain adequately financed as the increase in imports associated with expected growth in CBI receipts would be more than offset by higher FDI. As of July 2015, net international reserves remained stable at around 5 months of projected 2016 imports of goods and services. The recent improvement in Grenada's external position has occurred despite a slight appreciation of the real effective exchange rate (REER). As of August 2015, the REER had appreciated by about 2 percent since its mid-2014 trough.

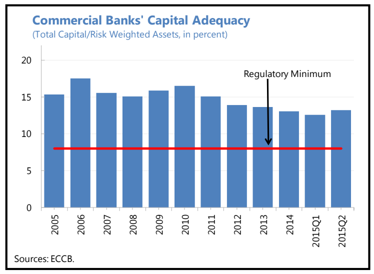


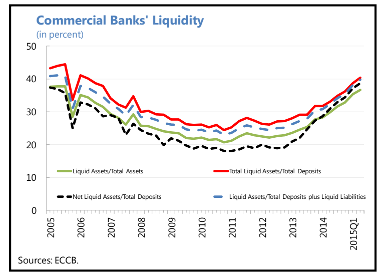


5. Conditions in the financial sector remain challenging. Commercial bank profitability turned positive in the first two quarters of 2015, but remains weak owing to the ongoing contraction in credit and increase in provisions for non-performing assets. There are some early signs of improved profitability as the recent lowering of the regional floor on savings deposit rates by 1 percentage point to 2 percent (effective May 1, 2015) has reduced the cost of funds. `Nonperforming loans (NPLs) remain elevated across both indigenous and foreign-owned banks and stood at 13 percent of total loans for all banks in the second quarter of 2015. Reported capital adequacy remains above the regulatory 8 percent minimum. The capital position of credit unions remained stable around 12 percent of assets—above the regulatory minimum of 10 percent—in the first quarter, though there is significant dispersion across institutions.

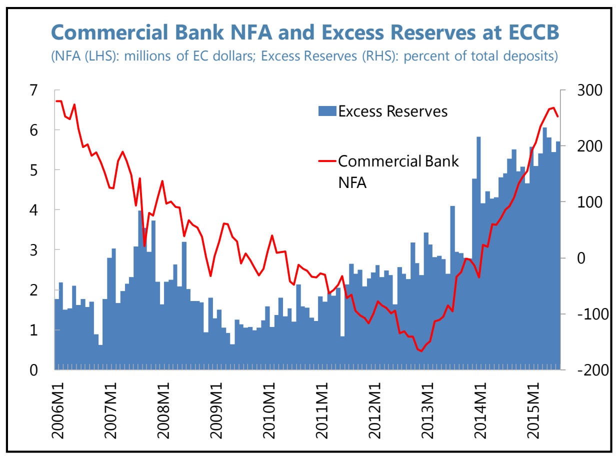








6. Credit is expected to contract again in 2015. Demand for credit has remained weak since the recovery has been driven predominately by external factors and the agricultural sector, traditionally accounting for a small share of bank lending. As a result, private credit contracted by 3.1 percent (y-o-y) in July while bank liquidity continued to rise rapidly. Banks have continued to park excess liquidity abroad, resulting in a further increase in net foreign assets and deposits at the ECCB, pushing excess reserves to historic highs.



7. Grenada continues to negotiate a comprehensive restructuring of its public debt, with varying progress across creditor groups (MEFP¶8)**.**

Private creditors:

- **2025 international bonds:** The formal exchange for the 2025 bonds was launched on October 5th and is scheduled to conclude on November 12th. The creditor committee representing about 76 percent of the bonds announced on October 7 that all of its members would participate in the restructuring, which is above the 75 percent rate needed to trigger the collective action clause and would result in universal participation in the bond exchange. As envisaged, the deal offers a phased 50 percent nominal principal haircut, with half of the haircut taking effect upon completion of the exchange and the remainder upon completion of the ECF arrangement's sixth review. The terms are equivalent to an NPV reduction of

52.5 percent, assuming a 12 percent exit yield— the discount rate used for NPV calculations.[3] The agreement includes sharing of potential receipts from the CBI program after the full principal haircut is granted and includes a clause allowing a delay in debt service following a qualifying natural disaster.

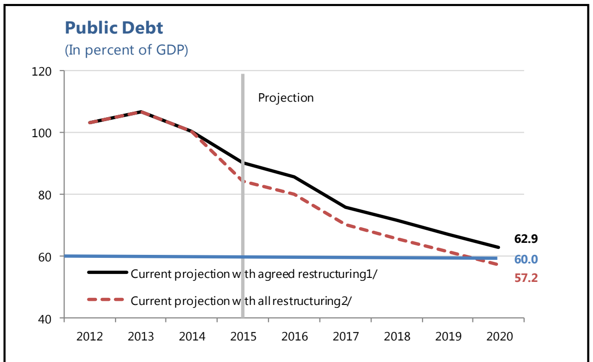
- **Other private creditors**: The government is contacting non-participating creditors from the 2005 debt exchange to restructure outstanding claims of US$5.6 million.[4]

Official bilateral creditors: With the private debt deal now close to completion, Grenada will meet with the Paris Club in mid-November and an Agreed Minute is expected to be reached. The Government continues to engage all non-Paris Club official bilateral creditors.

Domestic creditors: The authorities aim to complete negotiations with domestic creditors in 2016.

Government guaranteed debt: The agreement reached by the Marketing and National Importing Board (MNIB) to restructure its government guaranteed debt, expected to reduce the stock of government guaranteed debt by 0.4 percent of GDP, is expected to be completed by end-2015.

8. Completion of the public debt restructuring remains essential to restore debt sustainability (Annex I). Public debt remains "in distress" absent completion of the restructuring and clearance of arrears to official creditors. After peaking at about 107 percent of GDP in 2013, debt as a percent of GDP is now expected to decline to 90 percent at end-2015, assuming completion of the commercial bond exchange. The restructuring of the commercial bonds, continued implementation of the programmed fiscal consolidation, and ongoing fiscal prudence over the medium-term would return debt to a sustainable trajectory. While uncertainty exists with respect to the ultimate savings from restructuring of other debts, projections by staff based on cautious assumptions indicate that these would help reduce public debt to 57 percent of GDP by 2020, i.e., below the common ECCU target of 60 percent of GDP (text chart).



1/ Agreed restructuring refers to restructuring agreement with commerical bondholders.
2/ All restructuring refers to the remaing creditors, including bilateral official creditors, domestic creditors, and MNIB.

9. Risks to the outlook are now assessed to be balanced. Upside risks have risen and are posed by the potential for a larger demand response to the oil price decline, potential inflows

[3] National Insurance Scheme (NIS) holdings, accounting for 13 percent of face value of the 2025 bonds, has opted to negotiate a parallel agreement that involves only par stock restructuring, hence is excluded from the NPV calculation.

[4] A small portion of creditors holding US$5.6 million (or 0.75 percent of GDP) of the commercial bonds did not participate in the 2005 debt restructuring.

from the CBI program, and a confidence boost following completion of the debt restructuring and continued progress under the authorities' home grown program. Downside risks arise primarily from external sources including natural disasters, a continued modest global recovery, continued appreciation of the U.S. dollar, changes in U.S. monetary policy, and the potential impact from an opening of U.S.-Cuba tourism.

PROGRAM PERFORMANCE REMAINS ON TRACK

Program performance remains strong with all quantitative performance criteria met and structural benchmarks implemented for the third review.

A. Progress Meeting Fiscal Objectives Under the Program

10. Grenada made further progress on the road back to fiscal sustainability. All end-June fiscal performance criteria were met with significant margins (text table) and the authorities achieved the first primary surplus in a decade in the first seven months of 2015. At 1.4 percent of GDP (net of CBI-related revenues so far estimated at 0.4 percent of GDP), the year-to-July primary surplus already exceeded the end-year target of 1.3 percent of GDP owing to strong tax performance across all categories and continued expenditure restraint. In particular, capital spending was successfully aligned with the reduced budget allocations agreed during the second review. In total, this brings the cumulative fiscal adjustment to 5¾ percent of GDP, completing more than two-thirds of the total programmed consolidation.

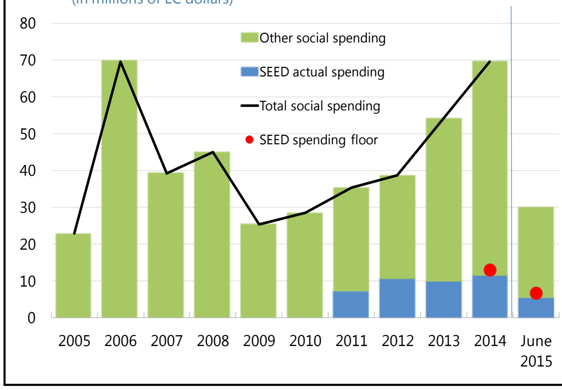
Grenada: Program Monitoring - Quantitative Performance Criteria under the ECF[1/]
(in millions of EC dollars)

	End-June 2015, third review				
	Program	Program Adjusted 1/	Actual	Difference	Status
Performance criteria					
A. Cumulative floor on central government primary balance (EC$ mln) 2/	9	26	34	7	Met
B. Cumulative ceiling on central government primary spending (EC$ mln) 2/	281	301	284	-17	Met
C. Ceiling on stock of central government domestic arrears (EC$ mln)	43	43	34	-10	Met
D. Ceiling on accumulation of external debt arrears (continuous)	0	0	0	0	Met
E. Ceiling on non-concessional external borrowing by the central government (continuous)	0	0	0	0	Met
Indicative targets					
F. Cumulative ceiling on net change in central government and central government guaranteed debt (EC$ mln) 2/, 3/	39	38	-30	-69	Met
G. Floor on social spending by central government (EC$ mln)	6.7	6.7	5.4	-1.3	Not Met
Monitoring					
H. Wage bill target (excluding retroactive payments) 4/	110	110	109	-1	Met
I. Public employment (excluding workers under the IMANI program)	7534	7534	7096	-438	Met

1/ Targets as defined in the Technical Memorandum of Understanding.
2/ From end-December 2014.
3/ Actual does not include financing from CDB on behalf of GSWMA because the loan had not been disbursed.
4/ Wages, salaries, and personnel allowances.

11. The indicative floor on social spending for end-June was missed. Over the review period, the authorities continued to work with the World Bank to improve the targeting of the Support for Education, Empowerment and Development (SEED) program. The delay in the implementation of the new beneficiary information system continued to limit the processing of new applicants into the beneficiary pool, resulting in under spending (by about 0.05 percent of GDP) relative to the programmed indicative floor for end-June 2015. The authorities have since implemented the new system and are increasing the rate of processing of a large list of new applicants (MEFP ¶22). Nevertheless, as the reforms were only recently completed, the end-December 2015 floor may also be missed. In the interim, the authorities have continued to offset the impact of under-spending on SEED with increased spending on other social programs.

Social Spending
(in millions of EC dollars)



12. The government made progress clearing arrears and met all debt-related quantitative performance criteria.

- **Budget expenditure arrears.** At end-June 2015, budget expenditure arrears (excluding arrears on debt under restructuring) were EC$33.6 million, significantly below the program ceiling of EC$43 million. Half of the reduction was due to an on-lending agreement between the Government of Grenada and the Grenada Solid Waste Management Authority (GSWMA) (MEFP¶9). The government remains on track to fully repay budget expenditure arrears by end-December 2015.

Outstanding Arrears

	2014	2015	
	Dec.	Jun.	
	EC$mn	EC$mn	% of GDP
Total Arrears	**288.1**	**280.7**	**10.9**
External Arrears	**174.6**	**192.7**	**7.5**
Multilateral	0.0	0.0	0.0
Official bilateral	40.0	42.7	1.7
Paris Club	11.6	13.5	0.5
Non-Paris Club	28.5	29.2	1.1
Commercial creditors	70.0	85.7	3.3
Unpaid contributions	64.6	64.3	2.5
Budget expenditure arrears	**113.5**	**88.1**	**3.4**
Debt arrears	47.6	54.5	2.1
Supplier arrears	65.9	33.6	1.3

- **External arrears.** Apart from debt under restructuring negotiations, no new arrears were accumulated on external debt. External arrears on the 2025 international bonds will be cleared as part of the debt restructuring agreement. The authorities will meet with the Paris Club in mid November 2015 and seek to regularize Paris Club arrears. The authorities are requesting a comprehensive restructuring of their claims with all non-Paris Club official bilateral creditors on comparable terms.

- **Membership arrears:** The authorities started paying membership arrears to regional and international organizations. Arrears declined slightly in the year to June (text table). They finalized a strategy to clear arrears to these regional bodies (MEFP¶9) and have sought repayment plans with the organizations with the largest arrears balances.

- **New external borrowing:** In 2015, the majority of the external borrowing comes from the newly-issued bonds from the restructured debt with private creditors. The remaining external borrowings include a concessional on-lending project loan from CDB on behalf of GSWMA, as well as exceptional financing from the World Bank, IMF and CDB, which are excluded from the associated performance criterion on zero ceiling of non-concessional borrowing (TMU¶10). Therefore, the performance criterion for end-June was met. The end-December target is also expected to be met.

Summary Table on External Borrowing Program in 2015-16

PPG external debt contracted or guaranteed	2015		2016	
	New debt US million 1/	Present value US million 1/	New debt US million 1/	Present value US million 1/
Sources of debt financing	**221.9**	**209.0**	**49.1**	**36.7**
Concessional debt, of which 2/	20.7	11.5	10.0	4.6
Multilateral debt	20.7	11.5	10.0	4.6
Bilateral debt	0.0	0.0	0.0	0.0
Non-concessional debt (NCD), of which 3/	201.2	197.5	39.1	32.1
Semi-concessional debt 4/	24.2	20.5	39.1	32.1
Commercial terms 5/	177.0	177.0	0.0	0.0
Use of debt financing	**221.9**	**209.0**	**49.1**	**36.7**
Infrastructure	14.5	9.9	0.0	0.0
Budget financing	30.4	22.0	25.4	17.7
Debt restructuring	177.0	177.0	23.7	19.0
Memo items				
Indicative projections				
Year 2017	20.0	16.0		

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold of 35 percent.

3/ NCDs above are excluded from the quantitative performance criterion on zero ceiling of NCD specified in the TMU (TMU¶10)

4/ Debt with a positive grant element which does not meet the minimum grant element. These include financings from IBRD, CDB, and IM

5/ Debt without a positive grant element. Reflect newly-issued commercial bonds resulting from debt restructuring.

B. Structural Reforms

13. The structural reform agenda has continued to advance. In July 2015, the authorities began publishing detailed CBI program statistics, in line with the program's quarterly **structural benchmark**, the first country in the region to do so. In August 2015, the authorities finalized regulations to put in place a governance framework for the National Transformation Fund (NTF), implementing the end-February 2015 **structural benchmark**. These reforms will help to ensure the transparent and prudent management of CBI revenues by putting in place an appropriate framework that will, on the one hand manage fiscal risks from a sudden stop of these flows or those posed by overheating pressures related to a rapid increase in domestic demand, while on the other hand maximizing their impact on potential growth (Annex II). The authorities also finalized the new framework for public finance management (PFM) in September by putting in place regulations for the 2015 PFM Act, implementing the end-June 2015 **structural benchmark**.

POLICY DISCUSSIONS

Discussions focused on completing the programmed fiscal consolidation in 2016 and new structural conditionality that will contribute to raising growth.

A. Cementing a Return to Fiscal Sustainability

Fiscal Consolidation

14. The strong fiscal performance thus far in 2015 bodes well for meeting end-year program targets. Nevertheless, close monitoring and careful management of capital budget execution is needed to safeguard the early gains and secure the 2½ percent of GDP fiscal adjustment programmed for 2015.

15. A further fiscal consolidation of 1.9 percent of GDP is required in 2016 to achieve the 3½ percent of GDP primary surplus target under the program and mandated by the Fiscal Responsibility (FR) Act. The authorities have identified the adjustment measures required to reach this target, the bulk of which (1.7 percent of GDP) have already been adopted. Approval of the 2016 Budget consistent with program commitments and the FR Act (MEFP¶6&11), and its related measures, are proposed new **structural benchmarks** for end-December 2015. To ensure that fiscal consolidation stays on track, the contingent fiscal measures identified earlier in the program will remain in place (MEFP¶7).

Fiscal Adjustment in 2016
(in percent of GDP)

	2016
Total adjustment effort	**1.9**
Already adopted measures	**1.8**
Annual stamp tax increase	0.1
10% VAT on SGU on-campus housing	0.1
Petrol tax increase by EC$1.5/gal	0.6
Reduced government telecom costs	0.1
Wage freeze and waste reduction	0.4
Streamlining capital spending	0.7
Remaining measures	**0.1**
VAT on fee-based banking services	0.1

Grenada's Rule-Based Fiscal Policy Framework

	Phase I	Phase II	Phase III
Overall Objective:	To restore and maintain debt sustainability by establishing a debt ceiling of 55 percent of GDP achieved through a primary balance target implemented with an expenditure rule.		
Period/ Milestone	**2015-2016**	**2017 till debt reaches 55%**	**After debt reached 55%**
Target	ECF-supported homegrown program targets	3.5% primary surplus over the economic cycle	Debt-stabilizing primary surplus over the economic cycle
Rules	2% real expenditure growth cap	2% real expenditure growth cap	2% real expenditure growth cap
Corrective Measures	-	Revenue/expenditure measures if notional deficit exceeds 3% of GDP	Revenue/expenditure measures if debt exceeds 60% of GDP

16. The agreed fiscal adjustment package for 2016 (MEFP¶5 and text table) consists of:

- **Measures already adopted**. These comprise: 1) the annual stamp tax increase along with an increase in the VAT threshold, approved in June 2015; 2) a 10 percent VAT on on-campus student housing at St. George's University, started in August 2015; 3) an EC$1.5 per gallon Petrol Tax increase, implemented in two steps in September and October 2015; 4) a renegotiated telecommunication contract as part of efforts to reduce costs, signed in September 2015; 5) a continued commitment to public sector wage freeze and waste reduction in goods and services spending; and 6) further steps to streamline non-grant financed capital spending. In the interim, the authorities expect additional capital grants in 2016 to compensate this reduction.

- **Remaining measure to be adopted**. The only remaining measure is the VAT on fee-based banking services.

17. Staff and the authorities discussed alternatives to the increase in the petrol tax. With international oil prices projected to remain subdued, retail petroleum product prices are expected to remain lower than during 2013-2014. Nonetheless, high energy prices in Grenada are a key impediment to private sector competitiveness and staff recommended alternative revenue measures that would be more consistent with the focus in 2016 on promoting investment and growth. Options discussed included a tax on gaming and lotteries, application of reassessed property valuations in 2016, a withholding tax on dividends to non-residents, and a reduction in the income threshold for the personal income tax. The authorities were receptive to these suggestions but indicated they were not in a position to implement them in 2016.

Structural Reforms for Fiscal Sustainability

18. Comprehensive reforms put in place since the program began have strengthened Grenada's fiscal policy framework. The challenge is now to steadfastly implement the new framework to ensure that it provides a solid anchor for policy-making in support of fiscal sustainability. The legislative reform underpinning the new policy framework is comprehensive (text table, Table 11), covering public finance management, public debt management, and tax administration and incentives, and includes new fiscal rules to anchor medium-term fiscal

Grenada's Strengthened Fiscal Policy Framework

	Approved by Parliament	Entered into Force	Regulations Entered into Force
Fiscal Policy Framework Reform			
Fiscal Responsibility Act 2015	✓		N/A
Public Debt Management Reform			
Public Debt Management Act 2015	✓		
Public Finance Management Reform			
National Transformation Fund Regulations 2015*	✓		
Public Finance Management Act 2015	✓	✓	✓
Public Procurement and Disposal of Property Act 2014	✓	✓	✓
Tax Administration Reform			
Customs Act 2015	✓	✓	
Tax Administration Act 2015			N/A
Tax Incentive Reform			
Annual Stamp Tax (Amendment) Act 2015	✓		N/A
Income Tax (Amendment) Act 2015	✓		N/A
Investment Act 2014	✓		N/A
List of Conditional Duty Exemptions			N/A
Property Transfer Tax (Amendment) Act 2015	✓		N/A
Property Tax (Amendment) Act			N/A
Value-Added Tax (Amendment) Act 2015	✓		N/A

Note: N/A = Not applicable. *Approved by Cabinet.

sustainability. However, the framework is not fully operational as some elements have not yet entered into force, notably the 2015 Fiscal Responsibility (FR) Act, the 2015 Public Debt Management (PDM) Act, the 2015 National Transformation Fund Regulations, and the tax incentive reform. These critical components should be immediately brought into force and, where required, supporting regulations finalized and brought into force.

19. Completing the tax incentive reform will help safeguard the fiscal position while improving the transparency of the investment environment (Annex III). While major reforms to the tax incentive regime were approved by Parliament, they have not become effective pending completion of the full package of reforms (MEFP¶13). In particular, the amendments to the property tax act and the list of conditional duty exemptions to remove discretion remain pending, with the latter requiring coordination with CARICOM given the regional commitment on external tariffs. Excluding the reform of custom duty exemptions, the authorities have committed to bringing the rest of the tax incentive regime into full force by end-December 2015 (proposed new **structural benchmark**).

20. The framework for public financial management (PFM) in Grenada continues to improve. The results of the 2015 Public Expenditure and Financial Accountability (PEFA) assessment (Annex IV) explicitly acknowledge the contribution that Grenada's strengthened PFM practices have made to improving fiscal outcomes and achieving fiscal targets. Notably, PEFA results highlight improvements to the budget preparation process and oversight of state-owned enterprises (SOEs) and statutory bodies (SBs) as key elements strengthening fiscal discipline. PEFA recommendations for PFM priorities are aligned with commitments under the ECF-supported program (MEFP ¶11). In particular, the new chart of accounts will be implemented for the 2016 Budget to support the proper classification of recurrent and capital spending (end-December 2015 **structural benchmark**). Moreover, the strengthened legislative framework for fiscal policy, once fully operational, should support the implementation of a medium-term, results-oriented budget process and strengthen the authorities' ability to establish and manage multi-year fiscal targets.

21. The authorities' efforts to strengthen tax administration should support achievement of the program's fiscal targets (MEFP ¶15). The new Tax Administration Act is expected to be finalized in line with the end-November 2015 **structural benchmark**. Once in place, the act will provide a critical complement to the already enacted Customs Act and complete the core elements of the legislative framework for tax administration. In consultation with CARICOM, regulations for the Customs Act are being finalized to support implementation of the new Act. The restructuring of the Inland Revenue Department (IRD) to establish separate Large and Medium Taxpayer Service (LMTS) and Small Taxpayers Service (STS) units is progressing. Making these units operational is a proposed new **structural benchmark** for end-December 2015. Tax administration should also be supported by the installation of a peripatetic revenue administration advisor.

22. Implementation of the strategic plan to reform SOEs and SBs has continued. These changes are expected to contribute to improve performance of these institutions and reduce fiscal risks (MEFP¶12).[5] A committee has been established to oversee implementation of the strategy, while oversight responsibility has been centralized within the Ministry of Finance. SOEs and SBs have commenced reporting under the new performance monitoring framework and the government has issued a guidance note on salary negotiations to ensure sustainable wage bill practices. A dividend policy for commercial SOEs is being finalized. Restructuring of individual institutions is commencing with the focus currently on completing the restructuring of two of the largest SOEs, with financial support from the World Bank likely. Looking ahead, revamping the tariff-setting regime of some large commercial SOEs will be critical to strengthening their financial positions, reducing associated fiscal risks, and improving resource allocation in the economy.

23. Public sector modernization is a key pillar of fiscal policy reforms over the medium-term (MEFP ¶16). Progress to initiate the planned strategic review of the public sector and develop a strategy to address costs and efficiency (end-March 2016 **structural benchmark**) has been slow. The authorities have been working on a corporate planning exercise, review of the new employment arrangement framework, and the attrition policy. They are now focusing on the key priorities that will deliver the highest impact in terms of strengthening public sector effectiveness. They intend to enact a new Public Service Bill by mid-2016 and aim to finalize the strategic plan in line with the March structural benchmark, although they indicated that, given capacity constraints, mid or end-2016 appears to be a more realistic timeframe.

24. Reform of the public service is also needed to ensure a sustainable reduction in the public sector wage bill. The authorities' objective is to contain public sector wage expenditure to nine percent of GDP, in line with the FR Act requirement. The savings achieved on the public sector wage bill to date have been driven by: (i) the prevailing nominal wage freeze and (ii) the authorities' attrition policy, under which no more than three of every ten employees departing the public service are being replaced. Recent indications suggest that wage and labor-related pressures are rising. For instance, the public sector labor unions had acceded informally to the current wage freeze, but they recently indicated that no agreement (tacit or formal) was ever reached on the payment of increments (change in career grade) over the period 2014-2016 and are seeking payment of these. Staff indicated that any solution on increments would need to be absorbed within the parameters set under the program for the wage bill and debt targets, as well as those set by the FR Act.

B. Structural Reforms to Support Competitiveness and Growth

25. Grenada's growth strategy is focused on removing impediments to private sector investment. The government recently launched the development of a new National

[5] See Box 2 and Annex III of IMF Country Report No. 15/193 for an overview of the strategic plan.

Development Plan (NDP), focused on the country's long-term development needs (2015-2030). The plan is expected to be finalized by end-June 2016. Grenada's recently finalized Poverty Reduction and Growth Strategy (GPRS) for 2014-18 will serve as a building block for the NDP and is also being factored into the 2016 Budget consultations to help identify and prioritize investment spending (MEFP ¶17). The GPRS also places renewed emphasis on strengthening the business environment and removing impediments to private investment and growth.

26. To improve the ease of doing business, the authorities intend to:

- **Introduce new insolvency legislation.** A bill has been drafted to help establish an efficient and effective legal framework to address insolvencies and enforce contracts, a key factor pulling down Grenada's position in the World Bank's Doing Business Survey from 91 out of 183 countries in 2010 to 126 out of 189 countries in 2015. The bill is expected to be approved by parliament by end-2015 (MEFP ¶18).

- **Reform the Grenada Industrial Development Corporation (GIDC).** A recent assessment of GIDC, conducted with technical assistance from the IFC, recommended a strategic realignment and restructuring to reinforce GIDC's executive capacity as an economic development corporation with investment promotion a priority function of GIDC's broader mandate. In response, the authorities plan to revise the GIDC act to align it with the recommended functions of the Corporation and have Parliament approve the revised act by end-June 2016 (proposed new **structural benchmark**). The restructuring of GIDC is expected to reduce the time and cost of obtaining investment approvals and promote productive investment in Grenada (MEFP ¶18).

- **Create a credit bureau**. The authorities, with their regional partners, are committed to the creation of a regional credit bureau for the ECCU. The associated legislation will be presented to Grenada's parliament once approved by the ECCB monetary council (MEFP ¶18). This should help to improve the functioning of the credit market, which has been considerably impaired in recent years.

27. The authorities have initiated steps to reform labor regulations and strengthen competitiveness. As a small open economy with a fixed exchange rate in a monetary union, a reduction in labor costs—related to both wages and labor regulations—is one of the key instruments available to strengthen competitiveness. With elevated structural unemployment, labor market reforms would complement the anticipated modernization of the public sector and could promote employment growth. The authorities are finalizing planned revisions to the labor code to improve labor mobility and reduce impediments to hiring that go beyond the accepted norms of protecting workers' rights (MEFP ¶19). The parliamentary approval of the new labor code is proposed to be a new **structural benchmark** for end-August 2016. The authorities are also committed to continuing the annual labor force surveys and strengthening the capacity of the statistical office to analyze labor market data. Improved labor statistics will serve as an input in policy decisions on how to improve skills matching and job search.

28. Reforming the regulatory environment for the energy sector remains vital to lowering energy costs. A new Electricity Supply Act is expected to be approved by parliament in early 2016. The new legislation, which underwent a series of public consultations during 2015, is designed to open the energy sector to competition, encourage development of renewable energy, and introduce an independent national regulator to set electricity tariffs *(*MEFP ¶20).[6]

29. Efforts are underway to modernize the agriculture sector. In particular, policies aim to diversify into nontraditional crops, improve productivity, and strengthen the linkages between the agricultural and tourism sectors. In addition to its role in the purchase and export of local produce and sale of inputs to farmers, MNIB now acts as an effective service provider of information on market prices, production planning, product quality, and export standards. These initiatives are expected to strengthen sales to the tourism sector. In order to improve productivity, the authorities have commercialized two government-owned agricultural estates, with three additional estates to be commercialized by 2016. These efforts have already helped to expand agricultural production and strengthen diversification *(*MEFP ¶21).

C. Financial Sector Reforms

30. Grenada aims to build a stronger banking system that will contribute more effectively to promoting investment and growth.[7] With the new Banking Act now legislated across most of the ECCU and approved by Grenada's parliament, the strengthened regional framework for bank resolution and supervision is now in place. The priority has shifted to addressing the results of the regional bank diagnostics. The latter included an asset quality review (AQR) of indigenous banks, viability assessments of individual banks, and a regional assessment of potential mergers and/or groups of assets and liabilities across banks that could be attractive for investors. This exercise is now complete, although the institution-by-institution plans have not been elaborated. The ECCB and national authorities are now consulting on the final estimated capital needs of the banks in question and a detailed strategy is expected this autumn.

31. The final strategy to strengthen Grenadian banks should safeguard fiscal sustainability. Staff and the authorities concurred that it would be premature to determine a final strategy for Grenada's banks at this time and agreed to discuss the issue at the next program review. The authorities' reiterated their commitment to seeking private sector solutions as the first best option to address weaknesses identified. Should private sector solutions not be forthcoming, the authorities committed to working with the ECCB to develop an appropriate

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[6] See IMF Country Report No. 14/196 for additional information.

[7] Republic Bank, a subsidiary of Republic Bank of Trinidad and Tobago, is the largest bank by asset size in Grenada. The Grenada Cooperative Bank (GCB) is the second largest bank by asset size and the sole indigenous bank operating in Grenada, accounting for about 24 percent of total banking system assets. See IMF Country Report No. 14/196, Box 5 for a description of Grenada's financial sector.

strategy that would be consistent with a sustainable fiscal framework and commitments under their IMF-supported program, including the program's goal of debt sustainability (MEFP¶23).

32. Reforms to strengthen regulation and supervision of the nonbank financial sector are continuing. Recommendations of an independent evaluation of the Grenada Authority for the Regulation of Financial Institutions' (GARFIN) operations and supervisory practices, undertaken by CARTAC in early 2015, are guiding reform priorities (MEFP¶24). With respect to the credit union sector, priorities remain focused on strengthening regulation by conducting a credit quality review (with assistance from CARTAC), revising the Cooperative Societies Act in 2016 to raise the minimum capital adequacy requirement and, in cooperation with other members of the Caribbean Association of Credit Union Supervisors, developing a risk-weighted capital adequacy framework for credit unions (MEFP¶26).[8] In the insurance sector, the priority remains to transition supervision to the Eastern Caribbean Financial Services Regulatory Commission (ECFSRC), the planned regional regulator and supervisor of the proposed single insurance market in the ECCU. The ECFSRC is expected to commence operations in early 2017 (MEFP¶25). Finally, with most pension plans in Grenada now registered with GARFIN, offsite supervision of the sector has started and onsite supervision is expected in 2016 (MEFP¶27).

PROGRAM DESIGN AND FINANCING

33. New quantitative performance criteria are proposed for end-December 2016 (MEFP Table 1). The proposed quantitative performance criteria are consistent with achieving a 3.5 percent of GDP primary surplus by the end of the program period, as envisioned at program inception, and with the new rules embedded in the FR Act. Minor technical modifications are proposed to performance criteria to: (i) align the existing adjustor for debt advisory costs (floor on primary balance and ceiling on primary spending) with updated cost estimates, and (ii) to include the existing adjustor on the indicative ceiling on the net change in central government and government guaranteed debt for the reimbursement of CLICO and BAICO policyholders on the floor for the primary balance and ceiling on primary spending—to ensure consistency across fiscal performance criteria. New structural benchmarks are proposed in support of the program's fiscal sustainability and to strengthen overall growth objectives (MEFP Table 2).

34. Financing assurances are in place for the third review. The completion of the debt restructuring with Taiwan Province of China's export-import bank (Eximbank) and the private creditors, along with improvement in the macroeconomic outlook have significantly narrowed financing needs in the baseline. The remaining financing gaps are expected to close over the ECF-program period with exceptional financing (Table 3).

[8] The intent is to raise the minimum level of institutional capital required to 7 percent and the total capital ratio to 12 percent (from 10 percent currently).

35. Grenada's capacity to repay the Fund remains adequate. Debt service to the Fund has declined as a percent of GDP and percent of exports of goods and services, in line with the upward revision to the growth outlook and improvement in Grenada's external position. The disbursement profile remains unchanged. Progress made in debt restructuring will also help strengthen Grenada's capacity to repay the Fund, although, this will continue to depend on timely and strong implementation of the program.

36. Risks to program implementation continue to be managed. With two-thirds of the total programmed fiscal consolidation now accomplished, the authorities are on their way to completing the programmed fiscal consolidation. Completion of the remainder of the programmed fiscal adjustment will be supported by the strengthened fiscal policy framework. However, risks arising from public sector wage pressures, capacity constraints, banking system weakness, and natural disasters remain relevant.

STAFF APPRAISAL

37. The economic recovery is continuing and program performance is strong. Growth surged in 2014 and has remained robust in 2015 owing to expanding agriculture output and solid external demand for tourism. Debt levels have improved notably with progress achieved to restructure Grenada's public debt. However, unemployment remains high and the public is seeking evidence of progress in the form of greater employment opportunities and higher incomes.

38. Grenada is making progress toward fiscal sustainability. Fiscal consolidation has proceeded faster than programmed, with the primary surplus in July already surpassing the end-year target. Revenue performance was driven by implementation of new measures and buoyed by stronger-than-expected growth, while expenditure was kept within the programmed envelope. The recent debt exchange deal with private creditors will help reduce the debt-to-GDP ratio to an estimated 90 percent at end 2015, down from 107 percent in 2013.

39. Follow through on 2016 budget targets is necessary to keep the fiscal consolidation on track and restore fiscal sustainability. The government has elaborated a proposal for the 2016 budget consistent with program commitments and the FR Act. The bulk of adjustment measures have been put in place and remaining measures identified. Implementation of these measures and approval of the budget will be essential to ensure that policy adjustment stays on track to meet medium-term fiscal and program objectives.

40. The authorities are close to finalizing a thorough overhaul of the fiscal policy framework, but follow through at this stage is paramount. Much of the heavy lifting in terms of legislative reforms is done, though civil service reform remains pending. Revised legislation covers PFM, debt management, tax incentives, customs administration and a new rules-based fiscal framework. The next step is to finalize accompanying regulations and bring all of these laws into force. In particular, putting the new tax incentive regime into force, implementing the new chart of accounts, finalizing the Tax Administration Act and putting the large, medium and small tax payer services units into force are key policy priorities in the near term. Once fully in place, the fortified fiscal framework should lock in fiscal discipline in the long term.

41. Debt sustainability remains the medium term anchor of the home grown adjustment program, but is not yet secured. The recent debt exchange deal with Grenada's private bond creditors and completion of the broader restructuring of public debt underway will help lower Grenada's debt stock, but continued fiscal adjustment and prudent fiscal policy over the medium term are needed to restore debt sustainability. In this respect, a critical element for success with regard to long term fiscal prudence in Grenada remains outstanding: public sector reform. Progress to develop a strategy to improve public sector efficiency and effectiveness has been slow. With wage pressures rising, the government needs to place priority on this important reform in order to safeguard progress attained so far, ensure a sustainable reduction in the wage bill, and meet the requirements set out in the FR Act. This reform will also help to raise the quality of public goods and services, thereby contributing to higher growth.

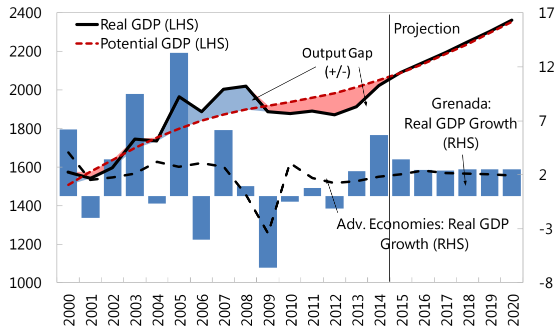
42. Grenada aims to build a stronger banking system that will contribute more effectively to promoting private sector growth. With the new Banking Act now in place across most of the ECCU, priority has shifted to addressing the weaknesses identified in regional bank diagnostics. While the authorities have indicated they will seek private sector solutions, drawing on public resources to meet any capital shortfall would need to fall within a sustainable fiscal framework and meet fiscal commitments and debt targets under the IMF-supported program.

43. Risks to the program are balanced but should be monitored closely. The government's track record, significant accomplishments in fiscal and structural reforms, and the pick-up in growth point to continued success meeting program objectives. The completion of debt restructuring is an important milestone; this allows turning full attention to growth and competitiveness reforms to boost employment. Staff supports the completion of the third review under the ECF-arrangement, the modification of quantitative performance criteria, and completion of the financing assurances review.

Figure 1. Grenada: Recent Economic Developments

The economic recovery has proceeded faster than anticipated, with the output gap expected to close in 2015.

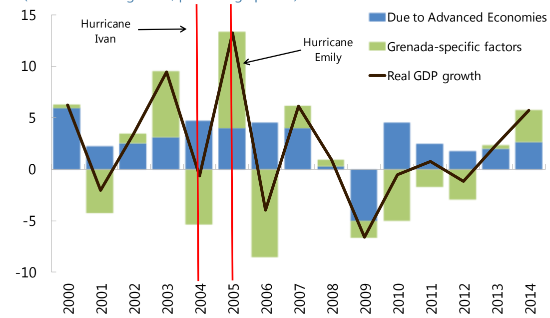
Grenada: Actual and Potential Real GDP
(levels in millions of 2006 EC$ (LHS); growth in percent (RHS))



Sources: Grenada authorities and Fund staff estimates.

The contribution of domestic factors to growth has increased...

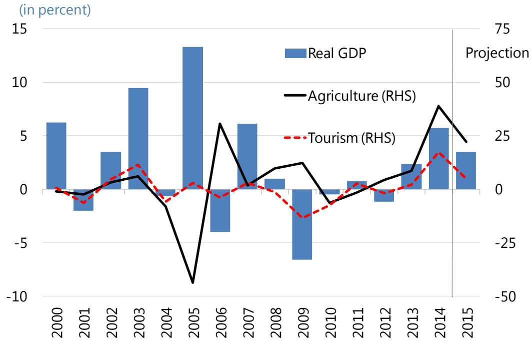
Grenada: Economic Growth 1/
(contribution to growth, percentage points)



Source: Grenada authorities and Fund staff calculations. 1/ Contributions to growth estimated using OLS.

...largely due to strong growth in the agricultural sector.

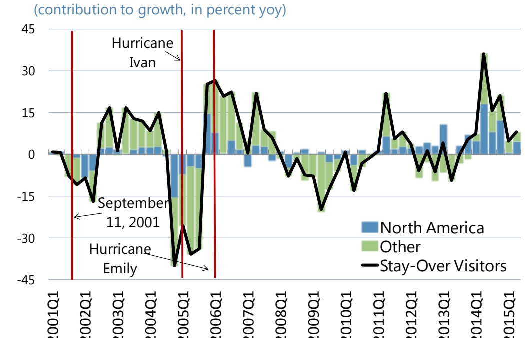
Grenada: Economic Growth
(in percent)



Sources: Grenada authorities and Fund staff estimates.

Tourism arrivals continue to display strong momentum as the recovery in Grenada's key tourism markets has continued.

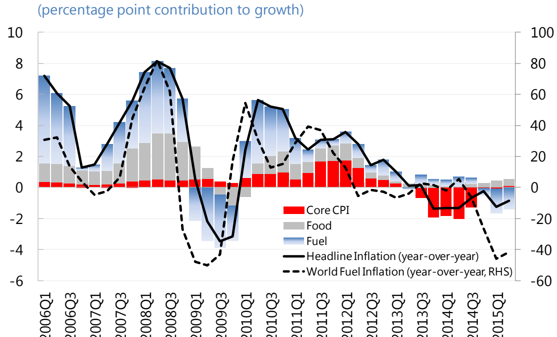
Tourist Arrival Growth by Country
(contribution to growth, in percent yoy)



Source: Caribbean Tourism Organization.

Headline inflation is driven by the decline in global energy prices.

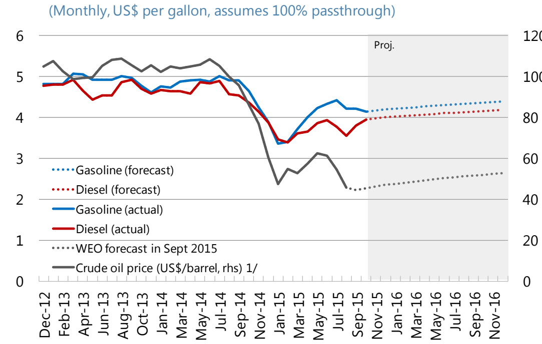
Grenada: Inflation
(percentage point contribution to growth)



Sources: Grenada authorities, Fund staff estimates and WEO.

Despite the recent petrol tax increases, retail petroleum product prices are forecast to remain below their 2013-14 levels.

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

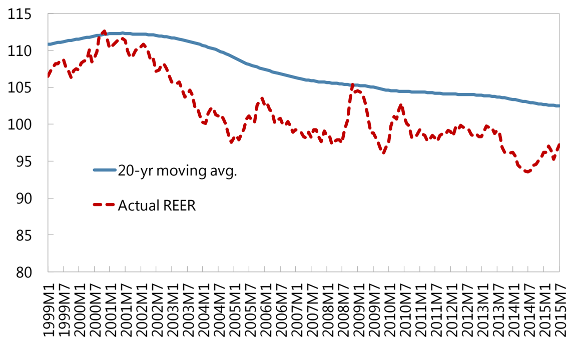


1/ From WEO, simple average of Brent, WTI and Dubai Fateh spot prices.

Figure 2. Grenada: External Developments

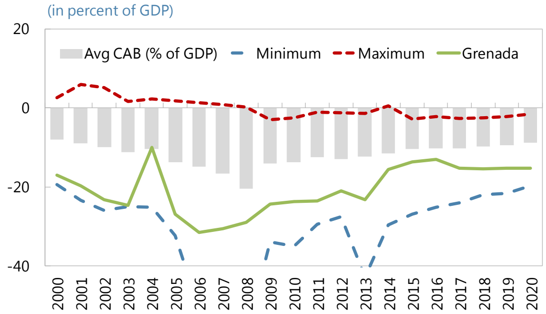
The real effective exchange rate has appreciated by about 2¼ percent since mid-2014 trough.

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



Nonetheless, the external current account deficit improved considerably in 2014, even though the level is relatively high compared to other small-tourism dependent countries...

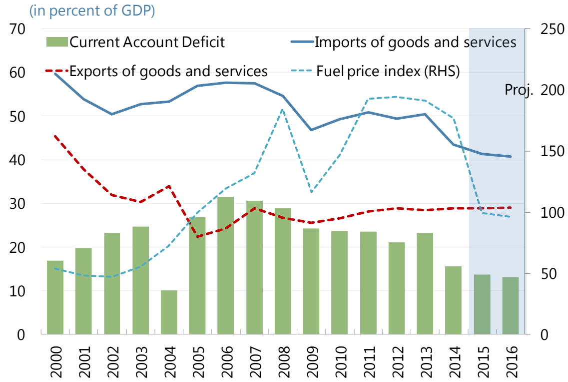
Current Account Balances of Small Tourism-Dependent Countries
(in percent of GDP)



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

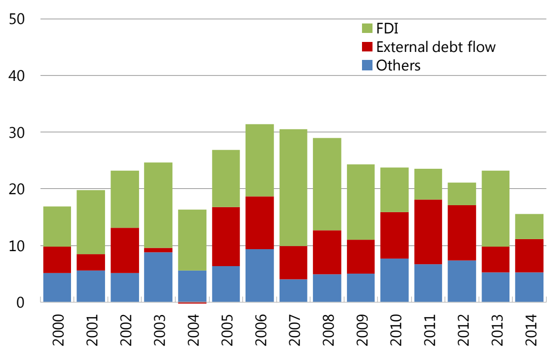
...as Grenada's tourism service exports increased and imports compressed in line with weak domestic demand.

Trade and Current Account Deficit
(in percent of GDP)



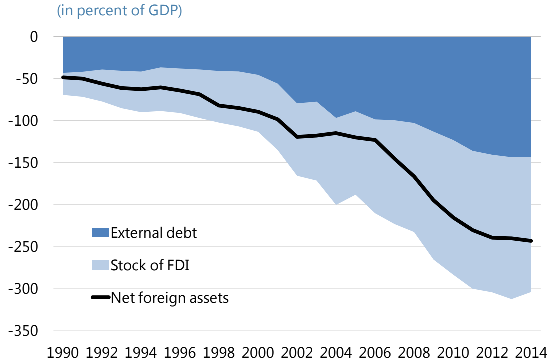
In 2014, the current account deficit was largely financed by FDI, capital transfers, and debt including exceptional financing from IFIs.

Current Account Financing
(in percent of GDP)



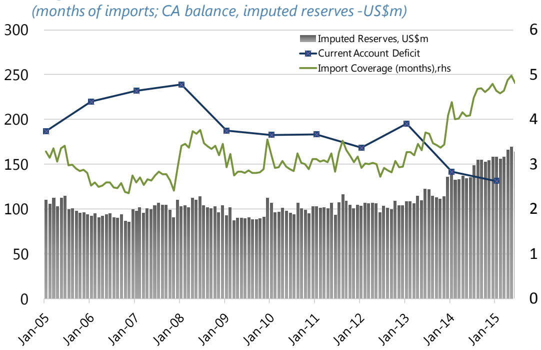
As a result, Grenada's external debt increased slightly in 2014 despite some debt forgiveness from the restructuring of Eximbank's claims on Grenada.

Grenada: Net Foreign Assets
(in percent of GDP)



As of July 2015, imputed reserves maintained around 5 months of prospective imports.

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



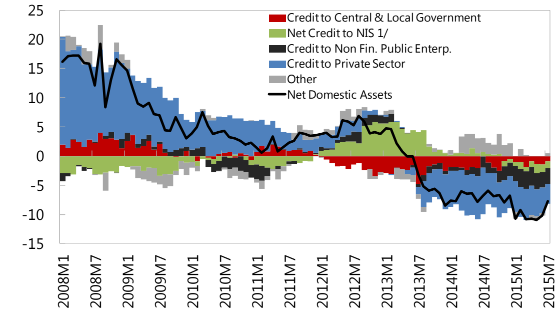
Sources: ECCB and IMF staff estimates.

Figure 3. Grenada: Monetary Developments

Banks' net domestic assets have continued to decline…

Commercial Banks' Net Domestic Assets

(contribution to growth, y-o-y)



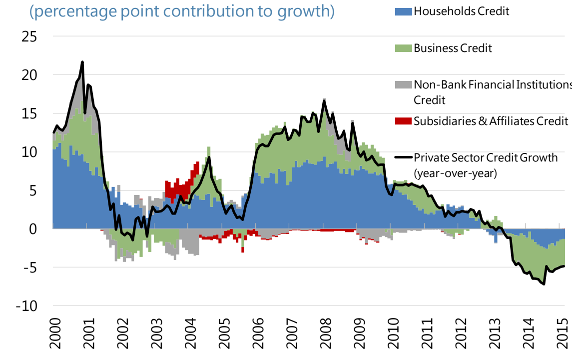
Sources: ECCB

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

…driven by a contraction in credit to the private sector.

Credit growth

(percentage point contribution to growth)

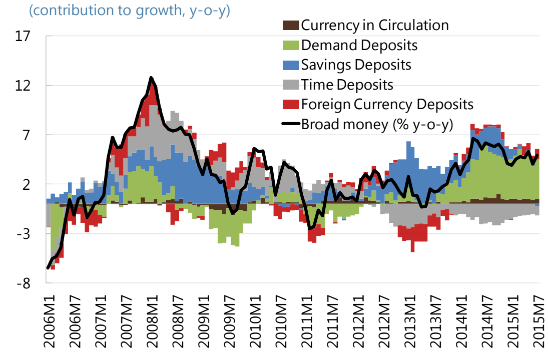


Sources: Grenada authorities and Fund staff estimates.

The contraction in credit has occurred despite a moderate expansion in broad money…

Components of Broad Money Growth (M2)

(contribution to growth, y-o-y)

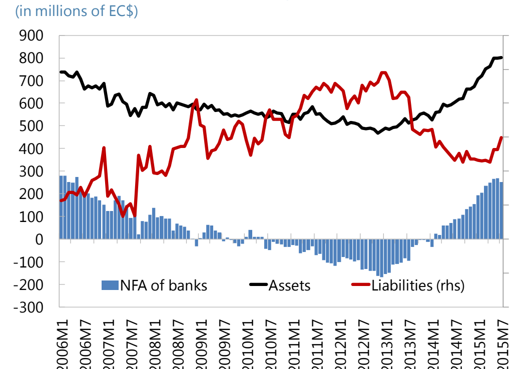


Sources: ECCB and Fund staff estimates.

…as banks have expanded their net foreign assets.

Commerical Banks Net Foreign Assets

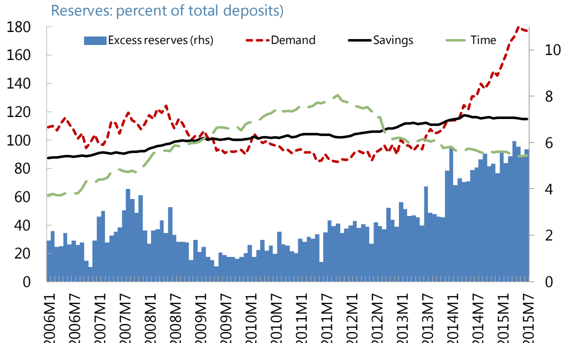
(in millions of EC$)



Banks' excess reserves at the central bank have reached historical highs.

Deposits and Bank Excess Reserves

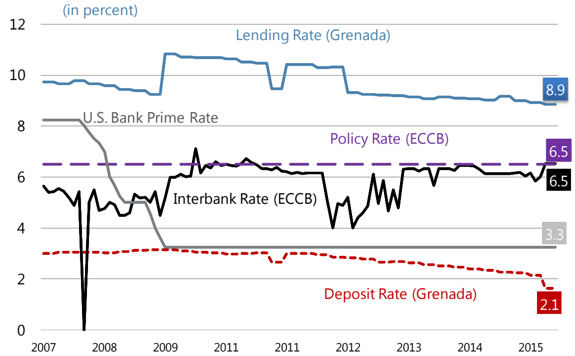
(Deposit: indices, 100=sample average for each deposit type; Excess Reserves: percent of total deposits)



Interest rates have remained stable despite high liquidity in the banking system.

Interest Rates

(in percent)

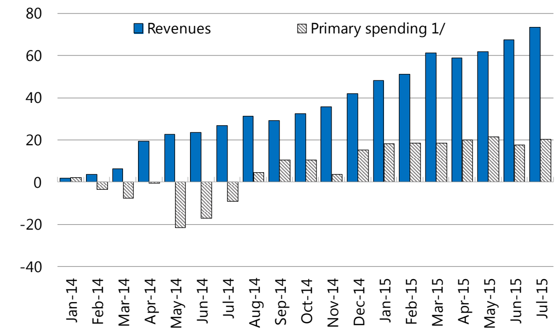


Sources: ECCB and Haver Analytics.

Figure 4. Grenada: Fiscal Developments

Stronger than programmed revenue performance continued, with the majority saved.

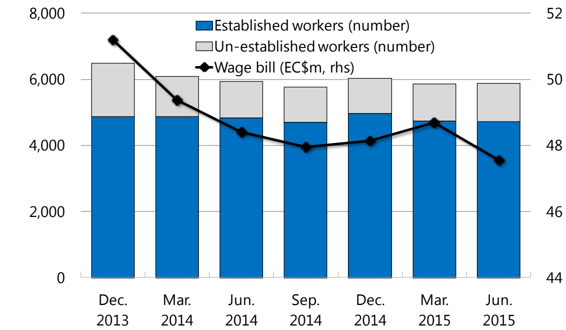
Grenada: Program Projection vs. Actual Outturn
(Cumulative from Jan 2014, outturn minus program, EC$m)



1/ Excludes grant-financed capital expenditure.

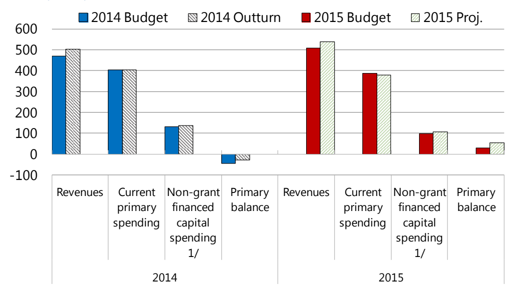
Public employment and personnel expenditure have been successfully cut back through the government's attrition policy.

Grenada: Public Employment and Wage Bill
(Quarterly)



Fiscal consolidation in the second year of the program is expected to outperform the budget again, …

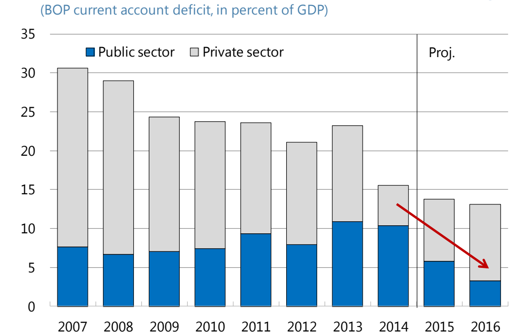
Grenada: Budget Execution
(EC$m)



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

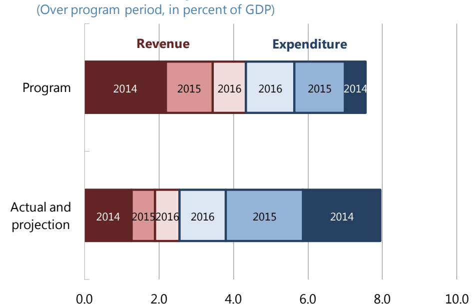
… and to contribute to the projected decline in the current account deficit.

Grenada: Public Sector's Contribution to Rebalancing
(BOP current account deficit, in percent of GDP)



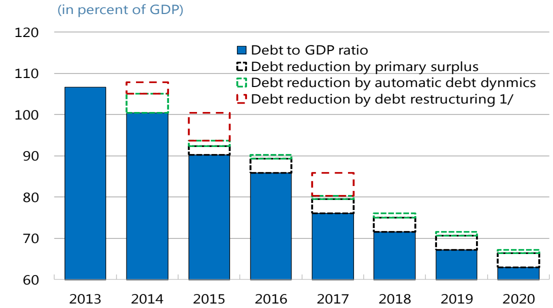
With fiscal adjustment proceeding faster than programmed, the remaining fiscal adjustment to be implemented is smaller than expected.

Grenada: Fiscal Adjustment
(Over program period, in percent of GDP)



The completion of the debt restructuring with its largest private creditor group will help put Grenada's public debt on a firmly downward path.

Grenada: Public Sector Debt
(in percent of GDP)

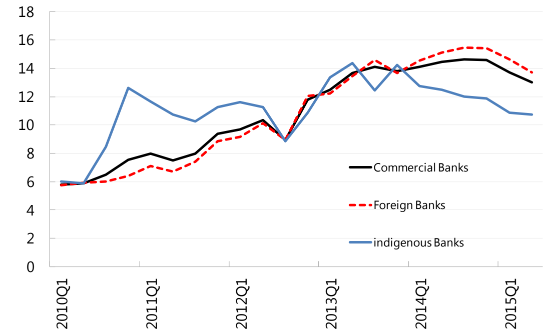


1/ Includes only agreed restructuring.

Figure 5. Grenada: Financial Sector Developments

Nonperforming loans are elevated across the banking system…

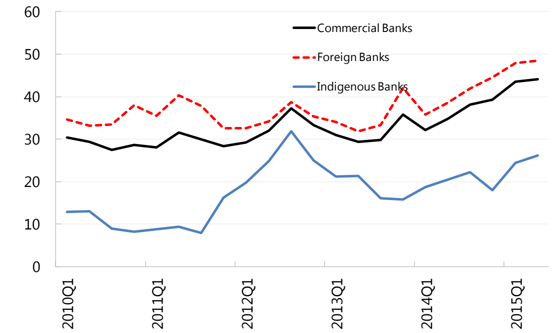
Nonperforming Loans
(in percent of total loans)



Sources: ECCB.

…and provisioning for NPLs is low, particularly for indigenous banks.

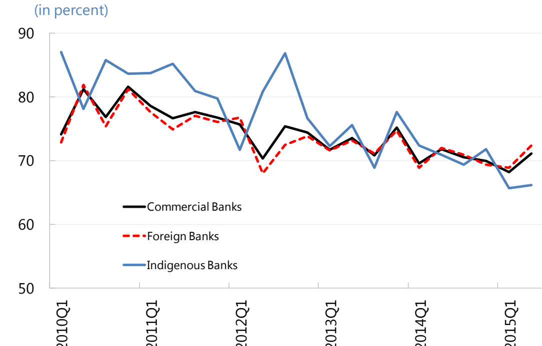
Provisions to Nonperforming Loans
(provisions for loan losses to non-performing loans, in percent)



Sources: ECCB.

Together with lower interest margins relative to gross income…

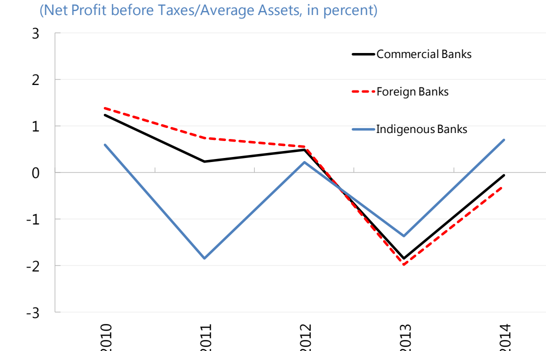
Interest Margin/Gross Income
(in percent)



Sources: ECCB.

…bank profitability, remains weak.

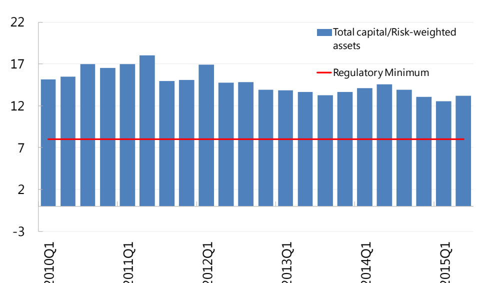
Return on Average Assets
(Net Profit before Taxes/Average Assets, in percent)



Sources: ECCB.

Banks' reported capital adequacy is above the regulatory minimum…

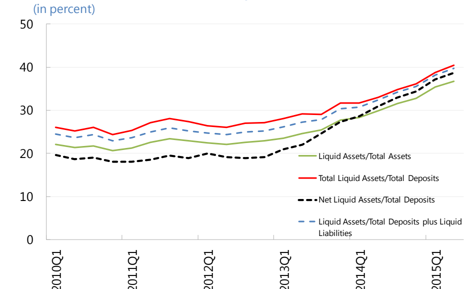
Commercial Banks' Capital Adequacy
(Total Capital/Risk Weighted Assets, in percent)



Sources: ECCB.

… and their liquidity continues to increase.

Commercial Banks' Liquidity
(in percent)



Sources: ECCB.

Table 1. Grenada: Selected Economic and Financial Indicators, 2008-20

	2009	2010	2011	2012	2013	2014	2015		2016	2017	2018	2019	2020
							2nd review 1/			Projections			
	(Annual percentage change, unless otherwise specified)												
Output and prices													
Real GDP	-6.6	-0.5	0.8	-1.2	2.3	5.7	1.7	3.4	2.4	2.4	2.5	2.5	2.5
Nominal GDP	-6.6	0.0	1.0	2.7	5.3	8.2	2.5	5.0	5.0	5.0	5.1	5.1	5.1
Consumer prices, end of period	-2.3	4.2	3.5	1.8	-1.2	-0.6	0.5	0.0	2.1	2.4	2.2	2.0	1.9
Consumer prices, period average	-0.3	3.4	3.0	2.4	0.0	-0.8	-0.4	-0.8	1.8	2.2	2.2	2.0	1.9
Output gap (percent of potential GDP)	-1.7	-3.1	-3.4	-5.7	-4.9	-1.3	-1.1	0.1	0.3	0.4	0.5	0.5	0.4
Real effective exchange rate	-8.8	1.0	1.1	-1.1	-1.8	-0.3	…	…	…	…	…	…	…
(annual average, depreciation -)													
	(In percent of GDP, unless otherwise specified)												
Central government balances (accrual)													
Revenue	22.8	24.6	23.6	20.8	20.9	24.5	24.2	23.9	22.9	23.7	23.8	23.8	23.8
Taxes	17.5	18.7	18.4	18.0	16.6	18.2	19.4	18.9	19.4	19.4	19.4	19.4	19.4
Non-tax revenue 2/	2.0	1.9	1.8	1.7	2.9	2.2	1.6	2.0	1.5	2.3	2.3	2.4	2.4
Grants	3.3	4.0	3.4	1.1	1.4	4.1	3.2	3.0	2.1	2.1	2.1	2.1	2.1
Expenditure	28.0	28.2	28.8	26.7	28.1	29.2	26.6	25.2	22.8	23.4	23.0	22.9	22.7
Current primary expenditure	18.2	18.8	18.6	18.3	17.8	16.4	15.5	14.6	14.0	14.0	14.0	14.0	14.0
Interest payments	2.2	2.2	2.5	3.4	3.3	3.5	3.7	3.5	3.4	3.2	2.7	2.5	2.4
Capital expenditure	7.6	7.3	7.8	5.0	7.1	9.2	7.4	7.0	5.5	6.3	6.3	6.4	6.4
Primary balance 2/	-3.0	-1.5	-2.7	-2.5	-3.9	-1.1	1.3	2.2	3.5	3.5	3.5	3.5	3.5
Primary balance (excl. CBI revenues)	-3.0	-1.5	-2.7	-2.5	-3.9	-1.1	…	1.7	3.5	3.5	3.5	3.5	3.5
Overall balance	-5.2	-3.6	-5.2	-5.9	-7.3	-4.7	-2.4	-1.3	0.1	0.2	0.8	0.9	1.1
Public debt (incl. guaranteed) 3/	91.1	96.9	100.7	103.3	106.7	100.5	96.9	90.2	85.8	76.0	71.6	67.2	62.9
Domestic	27.2	28.0	31.7	35.8	36.7	33.6	31.4	29.4	26.5	24.9	24.5	24.1	23.7
External	63.9	68.9	69.0	67.6	70.0	66.9	65.5	60.8	59.4	51.1	47.1	43.1	39.2
Money and credit, end of period (annual percent change)													
Broad money (M2)	3.0	1.0	0.7	0.7	4.1	4.1	2.5	7.1	5.2	…	…	…	…
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	-5.1	-1.6	-2.0	0.5	…	…	…	…
Balance of payments													
Current account balance, o/w:	-24.3	-23.7	-23.6	-21.1	-23.2	-15.5	-14.9	-13.7	-13.0	-15.3	-15.4	-15.3	-15.1
Exports of goods and services	25.5	26.6	28.2	28.9	28.5	28.9	31.8	28.8	29.0	30.1	30.3	30.6	30.8
Imports of goods and services	46.8	49.2	50.8	49.5	50.4	43.5	43.5	41.4	40.7	42.3	43.1	43.5	43.7
Capital and financial account balances	34.0	24.4	24.4	17.4	23.9	18.3	15.2	15.3	12.1	15.7	16.5	16.2	16.0
Overall balance	-0.2	-2.1	0.1	-1.0	1.1	4.3	0.3	1.6	-0.9	0.4	1.2	1.0	0.9
Overall financing	0.2	2.1	-0.1	1.0	-1.1	-4.3	-3.1	-4.8	-1.7	-0.7	-1.2	-1.0	-0.9
Financing gap 4/	…	…	…	…	…	0.0	2.8	3.2	2.6	0.3	0.0	0.0	0.0
External debt (gross)	113.5	123.4	136.3	141.0	143.9	144.0	143.5	136.1	132.8	122.6	117.4	112.3	107.3
Savings-Investment balance	-24.3	-23.7	-23.6	-21.1	-23.2	-15.5	-14.9	-13.7	-13.0	-15.3	-15.4	-15.3	-15.1
Savings	-0.4	-1.7	-3.7	-4.7	-3.2	1.4	4.7	1.6	1.7	1.9	1.9	2.5	2.6
Investment	23.9	22.0	19.9	16.3	20.0	16.9	19.6	15.3	14.8	17.2	17.3	17.7	17.7
Memorandum items:													
Nominal GDP (EC$ million)	2,082	2,082	2,102	2,160	2,275	2,462	2,419	2,584	2,713	2,848	2,992	3,144	3,303
Net imputed international reserves													
Months of imports of goods and services	3.6	3.1	3.2	2.9	4.1	4.8	4.6	5.2	5.1	4.8	4.8	4.7	4.5

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/ Program forecast from IMF Country Report No. 15/193.

2/ Includes 0.5% of GDP CBI-related non-tax revenue in 2015.

3/ Includes the impact of the in principle debt restructuring agreement reached with the creditor committee for the 2025 bonds.

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

Table 2a. Grenada: Operations of the Central Government
(In EC$ million)

	2009	2010	2011	2012	2013	2014		2015			2016		2017	2018	2019	2020
						Prog.	Act.	Budget	2nd review	Proj.	2nd review	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**473.9**	**512.8**	**496.4**	**449.3**	**474.7**	**564.9**	**602.8**	**721.2**	**585.2**	**616.7**	**607.1**	**621.6**	**674.7**	**711.0**	**749.0**	**786.9**
Revenue	405.6	428.9	425.9	425.6	443.4	459.9	502.3	508.0	508.8	540.3	551.2	565.8	616.0	649.4	684.3	718.9
Tax revenue	363.6	388.3	387.4	387.9	376.8	423.1	448.1	469.8	469.2	488.8	511.7	525.4	551.4	579.2	608.5	639.2
Taxes on income and profits	87.2	78.5	73.9	75.5	66.1	77.9	89.9	95.6	91.7	93.3	97.5	93.9	98.6	103.6	108.8	114.3
Taxes on property	18.8	16.8	14.9	16.4	15.1	21.7	21.3	21.7	20.7	22.6	24.2	22.0	23.1	24.3	25.5	26.8
Taxes on goods and services	144.2	169.7	174.4	174.5	170.5	185.6	193.4	203.1	202.0	212.1	219.3	229.4	240.7	252.8	265.6	278.9
Taxes on international trade	113.3	123.3	124.2	121.5	125.1	137.9	143.5	149.5	154.8	160.9	170.7	180.1	189.0	198.6	208.6	219.2
Nontax revenue	41.8	40.4	38.4	37.6	66.7	36.8	54.2	38.2	39.6	51.5	39.6	40.4	64.7	70.2	75.8	79.6
Grants	68.3	83.9	70.5	23.7	31.3	105.0	100.5	213.1	76.4	76.4	55.9	55.9	58.6	61.6	64.7	68.0
Total expenditure and net lending	**582.7**	**588.0**	**605.2**	**576.3**	**639.6**	**701.2**	**717.7**	**793.2**	**642.6**	**650.4**	**614.1**	**619.1**	**667.7**	**687.5**	**719.6**	**750.3**
Current expenditure	424.9	436.8	442.0	468.0	479.2	485.7	491.0	481.0	464.0	468.3	466.3	470.3	489.2	497.8	518.2	538.7
Wages and salaries	191.2	195.3	231.9	227.2	243.5	250.5	242.4	221.5	219.4	219.4	212.9	219.4	230.2	241.9	254.1	267.0
Pensions and NIS contributions	40.8	41.5	40.7	44.0	46.9	52.9	51.6	48.4	48.9	51.4	50.7	54.0	56.6	59.4	62.3	65.4
Goods and services	86.0	109.2	75.1	86.4	75.9	75.9	72.2	72.4	69.9	70.1	70.3	68.7	72.1	75.7	79.6	83.6
Transfers 1/	60.7	45.8	42.7	36.7	37.6	25.3	37.4	38.4	37.4	36.8	37.4	36.8	38.7	40.6	42.7	44.8
Interest payments	46.3	45.0	51.6	73.6	75.3	81.0	87.3	100.3	88.4	90.5	95.0	91.4	91.6	80.1	79.5	77.8
Capital expenditure and net lending	157.8	151.3	163.2	108.4	160.5	215.6	226.7	312.3	178.6	182.1	147.8	148.8	178.5	189.7	201.4	211.6
Grant-financed	23.4	46.1	65.6	23.0	31.3	105.0	90.6	213.1	76.4	76.4	55.9	55.9	58.6	61.6	64.7	68.0
Non-grant financed	134.4	105.2	97.6	85.4	129.2	110.6	136.1	99.1	102.2	105.7	91.9	92.9	119.8	128.1	136.7	143.6
Primary balance 2/	**-62.6**	**-30.3**	**-57.2**	**-53.4**	**-89.6**	**-55.3**	**-27.6**	**28.2**	**31.1**	**56.9**	**87.9**	**93.9**	**98.6**	**103.6**	**108.9**	**114.4**
Primary balance (excl. CBI revenues)	**-62.6**	**-30.3**	**-57.2**	**-53.4**	**-89.6**	**...**	**-27.9**	**...**	**...**	**44.9**	**...**	**93.9**	**98.6**	**103.6**	**108.9**	**114.4**
Overall balance	**-108.9**	**-75.3**	**-108.8**	**-127.0**	**-164.9**	**-136.4**	**-114.9**	**-72.1**	**-57.4**	**-33.7**	**-7.0**	**2.5**	**7.0**	**23.5**	**29.4**	**36.6**
Public Debt	**1,897.0**	**2,018.0**	**2,116.9**	**2,231.8**	**2,426.7**	**2,521.2**	**2,473.6**	**-**	**2,344.9**	**2,330.8**	**2,352.7**	**2,329.1**	**2,165.5**	**2,142.0**	**2,112.6**	**2,076.0**
Memo items:																
Nominal GDP (EC$ millions)	2,082	2,082	2,102	2,160	2,275	2,265	2,462	2,584	2,419	2,584	2,540	2,713	2,848	2,992	3,144	3,303
Underlying primary balance (EC$ millions) 3/	...	-30.3	-57.2	-53.4	-103.3	-28.9	-28.5		31.1	41.8	87.9	93.9	98.6	103.6	108.9	114.4
Adjustment relative to the previous year (EC$ millions)	*...*	*...*	*-26.9*	*3.8*	*-49.9*	*62.1*	*74.7*		*59.6*	*70.3*	*56.9*	*52.1*	*...*	*...*	*...*	*...*

Sources: Country authorities and Fund staff estimates.

1/ Historical revisions are made to record membership contributions to international and regional organizations on accrual basis for 2009-13, which were previously recorded on cash basis.

2/ The primary surplus in 2015 excludes the debt restructuring fees, amount of which remains uncertain and would be addressed by the adjustors to the primary balance and primary spending targets in the program (TMU¶5&7); the primary surpluses for 2017-19 would include revenue from the Citizenship by Investment program.

3/ Excluding one-off items (windfall revenues and retroactive wage and pension payments).

Table 2b. Grenada: Operations of the Central Government

(In percent of GDP)

	2009	2010	2011	2012	2013	2014		2015			2016		2017	2018	2019	2020
						Prog.	Act.	Budget	2nd review	Proj.	2nd review	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**22.8**	**24.6**	**23.6**	**20.8**	**20.9**	**24.9**	**24.5**	**27.9**	**24.2**	**23.9**	**23.9**	**22.9**	**23.7**	**23.8**	**23.8**	**23.8**
Revenue	19.5	20.6	20.3	19.7	19.5	20.3	20.4	19.7	21.0	20.9	21.7	20.9	21.6	21.7	21.8	21.8
Tax revenue	17.5	18.7	18.4	18.0	16.6	18.7	18.2	18.2	19.4	18.9	20.1	19.4	19.4	19.4	19.4	19.4
Taxes on income and profits	4.2	3.8	3.5	3.5	2.9	3.4	3.7	3.7	3.8	3.6	3.8	3.5	3.5	3.5	3.5	3.5
Taxes on property	0.9	0.8	0.7	0.8	0.7	1.0	0.9	0.8	0.9	0.9	1.0	0.8	0.8	0.8	0.8	0.8
Taxes on goods and services	6.9	8.2	8.3	8.1	7.5	8.2	7.9	7.9	8.3	8.2	8.6	8.5	8.5	8.4	8.4	8.4
Taxes on international trade	5.4	5.9	5.9	5.6	5.5	6.1	5.8	5.8	6.4	6.2	6.7	6.6	6.6	6.6	6.6	6.6
Nontax revenue	2.0	1.9	1.8	1.7	2.9	1.6	2.2	1.5	1.6	2.0	1.6	1.5	2.3	2.3	2.4	2.4
Grants	3.3	4.0	3.4	1.1	1.4	4.6	4.1	8.2	3.2	3.0	2.2	2.1	2.1	2.1	2.1	2.1
Total expenditure and net lending	**28.0**	**28.2**	**28.8**	**26.7**	**28.1**	**31.0**	**29.2**	**30.7**	**26.6**	**25.2**	**24.2**	**22.8**	**23.4**	**23.0**	**22.9**	**22.7**
Current expenditure	20.4	21.0	21.0	21.7	21.1	21.4	19.9	18.6	19.2	18.1	18.4	17.3	17.2	16.6	16.5	16.3
Wages and salaries	9.2	9.4	11.0	10.5	10.7	11.1	9.8	8.6	9.1	8.5	8.4	8.1	8.1	8.1	8.1	8.1
Pensions and NIS contributions	2.0	2.0	1.9	2.0	2.1	2.3	2.1	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Goods and services	4.1	5.2	3.6	4.0	3.3	3.3	2.9	2.8	2.9	2.7	2.8	2.5	2.5	2.5	2.5	2.5
Transfers 1/	2.9	2.2	2.0	1.7	1.7	1.1	1.5	1.5	1.5	1.4	1.5	1.4	1.4	1.4	1.4	1.4
Interest payments	2.2	2.2	2.5	3.4	3.3	3.6	3.5	3.9	3.7	3.5	3.7	3.4	3.2	2.7	2.5	2.4
Capital expenditure and net lending	7.6	7.3	7.8	5.0	7.1	9.5	9.2	12.1	7.4	7.0	5.8	5.5	6.3	6.3	6.4	6.4
Grant-financed	1.1	2.2	3.1	1.1	1.4	4.6	3.7	8.2	3.2	3.0	2.2	2.1	2.1	2.1	2.1	2.1
Non-grant financed	6.5	5.1	4.6	4.0	5.7	4.9	5.5	3.8	4.2	4.1	3.6	3.4	4.2	4.3	4.3	4.3
Primary balance 2/	**-3.0**	**-1.5**	**-2.7**	**-2.5**	**-3.9**	**-2.4**	**-1.1**	**1.1**	**1.3**	**2.2**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Primary balance (excl. CBI revenues)	**-3.0**	**-1.5**	**-2.7**	**-2.5**	**-3.9**	**…**	**-1.1**	**…**	**1.3**	**1.7**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Overall balance	**-5.2**	**-3.6**	**-5.2**	**-5.9**	**-7.3**	**-6.0**	**-4.7**	**-2.8**	**-2.4**	**-1.3**	**-0.3**	**0.1**	**0.2**	**0.8**	**0.9**	**1.1**
Public Debt	**91.1**	**96.9**	**100.7**	**103.3**	**106.7**	**111.3**	**100.5**		**96.9**	**90.2**	**92.6**	**85.8**	**76.0**	**71.6**	**67.2**	**62.9**
Memo item:																
Nominal GDP (EC$ millions)	2,082	2,082	2,102	2,160	2,275	2,265	2,462	2,584	2,419	2,584	2,540	2,713	2,848	2,992	3,144	3,303
Underlying primary balance (% of GDP) 3/	…	*-1.5*	*-2.7*	*-2.5*	-4.5	-1.3	-1.2		1.3	1.6	3.5	3.5	*3.5*	*3.5*	*3.5*	*3.5*
Adjustment relative to the previous year (% of GDP)	…	…	*-1.3*	*0.2*	*-2.1*	*2.7*	*3.4*		*2.5*	*2.8*	*2.2*	*1.9*	…	…	…	…

Sources: Country authorities and Fund staff estimates.

1/ Historical revisions are made to record membership contributions to international and regional organizations on accrual basis for 2009-13, which were previously recorded on cash basis.

2/ The primary surplus in 2015 excludes the debt restructuring fees, amount of which remains uncertain and would be addressed by the adjustors to the primary balance and primary spending targets in the program (TMU¶5&7); the primary surpluses for 2017-19 would include revenue from the Citizenship by Investment program.

3/ Excluding one-off items (windfall revenues and retroactive wage and pension payments).

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

(in millions of EC Dollars)

	2014	2015	2016	2017	2018	2019	2020
Stock of deposits at beginning of the period	**69.5**	**101.5**	**136.1**	**147.8**	**156.1**	**160.4**	**173.7**
Inflows	**706.9**	**1427.2**	**650.7**	**782.7**	**658.6**	**704.4**	**737.2**
Primary surplus		56.9	93.9	98.6	103.6	108.9	114.4
Debt placement	531.3	515.7	556.7	527.6	555.0	595.5	622.8
External	117.0	104.1	131.6	70.0	57.0	57.0	43.7
Domestic	414.3	411.6	425.1	457.5	498.0	538.5	579.0
Arrears accumulation	77.0	28.5					
Debt forgiveness 1/	46.3	153.6	0.0	156.5			
New debt issued under restructuring 1/	52.2	669.5					
Outflows	**674.8**	**1,392.6**	**638.9**	**774.3**	**654.2**	**691.1**	**721.3**
Primary deficit	27.6						
Interest bill	87.3	90.7	91.5	91.7	80.2	79.5	77.9
Scheduled Amortization	432.7	452.0	538.6	517.3	559.8	597.3	629.2
External	37.6	53.8	80.2	82.2	93.9	92.6	84.0
Domestic	395.1	398.1	458.4	435.2	465.9	504.7	545.2
Arrears clearance 2/	127.2	148.2	8.8	8.8	14.2	14.2	14.2
o/w Regularization of arrears	90.8	79.0					
Debt restructuring 1/		701.7	0.0	156.5			
Net cash flow (+surplus/-deficit)	**32.0**	**34.6**	**11.8**	**8.4**	**4.5**	**13.3**	**15.9**
Stock of deposits at the end of the period	**101.5**	**136.1**	**147.9**	**156.3**	**160.7**	**174.1**	**189.9**
Memorandum:							
Overall balance	-114.9	-33.9	2.4	6.8	23.4	29.3	36.4
Central Government Debt	2,354.3	2,216.2	2,214.6	2,051.1	2,027.8	1,998.5	1,962.1
Stock of arrears	288.1	168.6	159.8	151.0	136.8	122.5	108.3
Stock of registered debt	2,066.2	2,047.6	2,054.8	1,900.2	1,891.0	1,876.0	1,853.8

1/ Total restructured amount is EC$823.1 million. Under inflows, this consitutes debt forgiveness and debt restructuring. Under outflows, the counterpart is debt restructuring (EC$706.5 million principal outstanding), interest payable in March and September 2015(EC$42.4 million), and interest arrears (EC$74.2 million).

2/ Remaining stock of arrears in 2015 comprise bilateral debt, contribution arrears to organizations, and domestic debt. They have a corresponding imputed repayment under arrears clearance starting in 2016.

Table 4. Grenada: Public Sector Debt, 2013-15Q2

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

	2013			2014			2015 Q2		
		Percent of			Percent of			Percent of	
	Stock	Total Debt	GDP	Stock	Total Debt	GDP	Stock	Total Debt	GDP
Public Sector debt	898.8	100.0	106.7	917.9	100.0	100.7	904.4	100.0	94.5
Central government debt	849.1	94.5	100.8	872.0	95.0	95.6	860.6	95.2	89.9
Central-government guaranteed debt	49.7	5.5	5.9	45.9	5.0	5.0	43.8	4.8	4.6
External debt	589.8	65.6	70.0	609.8	66.4	66.9	615.8	68.1	64.3
A. Central Government	563.7	62.7	66.9	586.3	63.9	64.3	592.5	65.5	61.9
1. Multilateral	221.1	24.6	26.2	245.1	26.7	26.9	245.6	27.2	25.7
CDB	118.1	13.1	14.0	125.0	13.6	13.7	122.9	13.6	12.8
IDA	54.2	6.0	6.4	66.2	7.2	7.3	68.4	7.6	7.1
IBRD	11.3	1.3	1.3	10.5	1.1	1.1	10.7	1.2	1.1
IMF	27.9	3.1	3.3	29.5	3.2	3.2	26.6	2.9	2.8
Other Multilateral	9.6	1.1	1.1	13.9	1.5	1.5	17.0	1.9	1.8
2. Official bilateral	102.8	11.4	12.2	96.3	10.5	10.6	95.4	10.5	10.0
Paris Club 1/	10.2	1.1	1.2	10.5	1.1	1.1	10.6	1.2	1.1
France	4.2	0.5	0.5	4.4	0.5	0.5	4.6	0.5	0.5
Russian Federation	0.2	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0
U.S.	2.9	0.3	0.3	2.9	0.3	0.3	2.9	0.3	0.3
U.K.	2.9	0.3	0.3	2.9	0.3	0.3	2.9	0.3	0.3
Other	92.6	10.3	11.0	85.9	9.4	9.4	84.8	9.4	8.9
Kuwait	19.0	2.1	2.2	18.0	2.0	2.0	16.9	1.9	1.8
Taiwan Province of China 2/	25.2	2.8	3.0	19.4	2.1	2.1	19.4	2.1	2.0
Trinidad and Tobago	32.9	3.7	3.9	32.9	3.6	3.6	32.9	3.6	3.4
Venezuela	10.0	1.1	1.2	10.0	1.1	1.1	10.0	1.1	1.0
Other Bilateral	5.6	0.6	0.7	5.6	0.6	0.6	5.6	0.6	0.6
3. Commercial debt	199.1	22.2	23.6	199.1	21.7	21.8	199.1	22.0	20.8
US$ 2025 Bonds	193.5	21.5	23.0	193.5	21.1	21.2	193.5	21.4	20.2
Other Bonds	5.6	0.6	0.7	5.6	0.6	0.6	5.6	0.6	0.6
4. External arrears on interests	19.3	2.1	2.3	21.8	2.4	2.4	28.5	3.1	3.0
5. Overdue membership fees	21.3	2.4	2.5	23.9	2.6	2.6	23.8	2.6	2.5
B. Central-government guaranteed	26.1	2.9	3.1	23.5	2.6	2.6	23.3	2.6	2.4
Domestic debt	308.9	34.4	36.7	308.1	33.6	33.8	288.7	31.9	30.2
A. Central Government	285.4	31.8	33.9	285.7	31.1	31.3	268.1	29.6	28.0
1. Treasury bills	120.1	13.4	14.3	125.3	13.7	13.7	123.5	13.7	12.9
RGSM 3/	34.2	4.1	4.1	36.9	4.0	4.1	35.1	3.9	3.7
3 month initial maturity	14.8	1.8	1.8	14.8	1.6	1.6	13.0	1.4	1.4
1 year initial maturity	19.4	2.3	2.3	22.1	2.4	2.4	22.1	2.4	2.3
Private placements	85.9	9.6	10.2	88.4	9.6	9.7	88.4	9.8	9.2
National Insurance Scheme	22.1	2.5	2.6	22.1	2.4	2.4	22.1	2.4	2.3
Petrocaribe Grenada	34.8	3.9	4.1	34.8	3.8	3.8	34.8	3.8	3.6
Other private placements	29.0	3.2	3.4	31.5	3.4	3.5	31.5	3.5	3.3
2. Bonds	91.3	10.2	10.8	91.9	10.0	10.1	92.2	10.2	9.6
EC$ 2025 Bonds	68.1	7.6	8.1	68.1	7.4	7.5	68.1	7.5	7.1
RGSM 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Placements	17.9	2.0	2.1	17.9	1.9	2.0	17.9	2.0	1.9
Other Bonds and FICs	5.3	0.6	0.6	5.9	0.6	0.6	6.2	0.7	0.6
3. Domestic arrears on interests	3.1	0.3	0.4	8.9	1.0	1.0	11.5	1.3	1.2
4. Compensation claims	14.8	1.6	1.8	14.8	1.6	1.6	14.8	1.6	1.5
5. Commercial Bank Loans	10.7	1.2	1.3	8.5	0.9	0.9	7.8	0.9	0.8
6. Overdraft	6.1	0.7	0.7	3.3	0.4	0.4	1.6	0.2	0.2
7. Supplier arrears	30.5	3.4	3.6	24.4	2.7	2.7	12.4	1.4	1.3
8. Other 4/	8.8	1.0	1.0	8.5	0.9	0.9	4.3	0.5	0.4
B. Central-Government Guaranteed	23.6	2.6	2.8	22.4	2.4	2.5	20.6	2.3	2.1
Memorandum items:									
Nominal GDP	842.4			911.8			957.2		

Sources: Grenadian authorities and Fund staff estimates.

1/ Debt service obligations to the Paris Club were rescheduled in May 2006.
2/ New debt issued after restructuring in December 2014
3/ Regional Government Securities Market placements.
4/ Includes unpaid claims < 60 days, and ECCB temporary advance

Table 5. Grenada: Arrears, 2014-15Q2
(In millions of U.S. Dollars, unless otherwise indicated)

	2014				2015 Q2			
	Principal	Interest	US$mln	% of GDP	Principal	Interest	US$mln	% of GDP
Total arrears	**75.9**	**30.8**	**106.7**	**11.7**	**64.0**	**40.0**	**104.0**	10.9
External arrears	**42.9**	**21.8**	**64.7**	**7.1**	**42.9**	**28.5**	**71.4**	7.5
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CDB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IBRD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPEC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EIB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	13.3	1.5	14.8	1.6	13.5	2.4	15.8	1.7
Paris Club	3.8	0.4	4.3	0.5	4.5	0.5	5.0	0.5
France	1.7	0.3	2.0	0.2	2.1	0.3	2.4	0.3
Russia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
UK	1.1	0.1	1.2	0.1	1.0	0.1	1.0	0.1
US	0.8	0.1	0.9	0.1	1.3	0.1	1.4	0.1
Non-Paris Club	9.5	1.0	10.5	1.2	9.0	1.9	10.8	1.1
Algeria	0.6	0.0	0.6	0.1	0.6	0.0	0.6	0.1
Kuwait	1.2	0.1	1.2	0.1	0.2	0.4	0.6	0.1
Libya	5.0	0.0	5.0	0.5	5.0	0.0	5.0	0.5
Taiwan Province of China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trinidad	2.7	1.0	3.7	0.4	3.2	1.4	4.6	0.5
Commercial	5.6	20.3	25.9	2.8	5.6	26.1	31.7	3.3
Unpaid contribution to organizations	23.9	0.0	23.9	2.6	23.8	0.0	23.8	2.5
Budget expenditure arrears	**33.1**	**8.9**	**42.0**	**4.6**	**21.1**	**11.5**	**32.6**	**3.4**
Domestic debt	8.7	8.9	17.6	1.9	8.7	11.5	20.2	2.1
Domestic debt under restructuring	8.7	8.9	17.6	1.9	8.7	11.5	20.2	2.1
ECCB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplier arrears	24.4	0.0	24.4	2.7	12.4	0.0	12.4	1.3

Sources: Grenadian authorities and staff estimates.

Table 6. Grenada: Balance of Payments Summary, 2012-2020

	Est.			Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
				In millions of US dollars					
Current account	**-168.5**	**-195.5**	**-141.8**	**-131.4**	**-131.0**	**-161.0**	**-170.3**	**-177.6**	**-185.1**
Trade balance for goods and services	-164.4	-184.2	-133.1	-120.1	-117.3	-129.3	-141.1	-149.7	-158.5
Net Income	-34.3	-29.6	-34.7	-33.7	-36.7	-55.5	-53.8	-54.4	-55.0
Current transfers	30.3	18.3	26.1	22.5	23.1	23.8	24.6	26.5	28.5
Capital and financial account	**139.1**	**201.4**	**125.4**	**146.4**	**122.1**	**165.4**	**183.3**	**188.8**	**195.3**
Capital transfers	58.6	43.9	82.5	100.9	45.8	117.2	72.9	78.3	82.0
o.w. debt forgiveness 1/	...	...	17.2	48.4	0.0	49.5	0.0	0.0	0.0
Foreign direct investment 2/	31.5	113.1	39.9	62.3	59.7	79.8	84.5	92.9	97.6
Public sector borrowing (net)	5.1	53.8	40.3	-28.0	-4.1	-54.5	-11.3	-12.9	-15.9
NFA of Commercial banks	18.5	-57.0	-62.2	-51.0	-31.3	-14.3	-7.8	-8.2	-8.6
Other private flows	25.3	47.6	25.0	62.2	52.0	37.3	45.0	38.8	40.3
Errors and omissions	21.6	3.6	55.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-7.7**	**9.4**	**39.5**	**15.1**	**-8.9**	**4.5**	**13.0**	**11.2**	**10.2**
Overall financing	**7.7**	**-9.4**	**-39.5**	**-45.7**	**-16.7**	**-7.3**	**-13.0**	**-11.2**	**-10.2**
Change in ECCB NFA	1.9	-31.4	-22.9	-19.6	-11.6	-2.4	-8.0	-8.3	-8.3
Change in Reserve Position with the IMF	-0.5	-0.5	3.4	-4.5	-5.1	-4.9	-5.0	-2.9	-2.0
Change in existing external arrears	6.3	22.5	-20.1	-21.5	0.0	0.0	0.0	0.0	0.0
Financing gap:	**...**	**...**	**0.0**	**30.6**	**25.6**	**2.8**	**0.0**	**0.0**	**0.0**
Exceptional financing:	...	...	0.0	30.6	25.6	2.8	0.0	0.0	0.0
Net use of Fund resources	...	...	0.0	5.6	5.6	2.8	0.0	0.0	0.0
World Bank	...	...	0.0	15.0	10.0	0.0	0.0	0.0	0.0
CDB	...	...	0.0	10.0	10.0	0.0	0.0	0.0	0.0
				In percent of GDP					
Current account	**-21.1**	**-23.2**	**-15.5**	**-13.7**	**-13.0**	**-15.3**	**-15.4**	**-15.3**	**-15.1**
Trade balance for goods and services	-20.6	-21.9	-14.6	-12.5	-11.7	-12.3	-12.7	-12.9	-13.0
Exports of goods and services	28.9	28.5	28.9	28.8	29.0	30.1	30.3	30.6	30.8
Tourism	15.2	14.4	15.7	16.2	16.6	16.8	16.9	17.1	17.2
Student receipts 3/	3.1	3.1	2.9	2.8	2.8	2.8	2.7	2.7	2.6
Imports of goods and services	49.5	50.4	43.5	41.4	40.7	42.3	43.1	43.5	43.7
Mineral fuels	11.4	9.8	8.5	4.8	4.7	5.0	5.2	5.3	5.3
Net income	-4.3	-3.5	-3.8	-3.5	-3.7	-5.3	-4.9	-4.7	-4.5
o.w. Public interest payment	-2.3	-2.4	-2.7	-2.0	-2.0	-1.9	-1.5	-1.4	-1.2
Net current transfers	3.8	2.2	2.9	2.3	2.3	2.3	2.2	2.3	2.3
Capital and financial account	**17.4**	**23.9**	**13.7**	**15.3**	**12.1**	**15.7**	**16.5**	**16.2**	**16.0**
Capital transfers	7.3	5.2	9.0	10.5	4.6	11.1	6.6	6.7	6.7
o.w. debt forgiveness 1/	...	...	1.9	5.1	0.0	4.7	0.0	0.0	0.0
Foreign direct investment	3.9	13.4	4.4	6.5	5.9	7.6	7.6	8.0	8.0
Public sector flows	0.6	6.4	4.4	-2.9	-0.4	-5.2	-1.0	-1.1	-1.3
NFA of Commercial banks	2.3	-6.8	-6.8	-5.3	-3.1	-1.4	-0.7	-0.7	-0.7
Other private flows	3.2	5.6	2.7	6.5	5.2	3.5	4.1	3.3	3.3
Error and Omission	**2.7**	**0.4**	**6.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-1.0**	**1.1**	**4.3**	**1.6**	**-0.9**	**0.4**	**1.2**	**1.0**	**0.8**
Overall financing	**1.0**	**-1.1**	**-4.3**	**-4.8**	**-1.7**	**-0.7**	**-1.2**	**-1.0**	**-0.8**
Change in ECCB NFA	0.2	-3.7	-2.5	-2.1	-1.2	-0.2	-0.7	-0.7	-0.7
Change in Reserve Position with the IMF	-0.1	-0.1	0.4	-0.5	-0.5	-0.5	-0.4	-0.2	-0.2
Change in existing external arrears	0.8	2.7	-2.2	-2.2	0.0	0.0	0.0	0.0	0.0
Financing gap:	**...**	**...**	**0.0**	**3.2**	**2.6**	**0.3**	**0.0**	**0.0**	**0.0**
Exceptional financing:	...	...	0.0	3.2	2.6	0.3	0.0	0.0	0.0
Net use of Fund resources	...	...	0.0	0.6	0.6	0.3	0.0	0.0	0.0
World Bank	...	...	0.0	1.6	1.0	0.0	0.0	0.0	0.0
CDB	...	...	0.0	1.0	1.0	0.0	0.0	0.0	0.0
Memorandum Items:									
Gross external debt	141.0	143.9	144.0	136.1	132.8	122.6	117.4	112.3	107.3
External public and publicly guaranteed debt	67.6	70.0	66.9	60.8	59.4	51.1	47.1	43.1	39.2
Foreign liabilities of private sector 4/	73.4	73.9	77.1	75.4	73.4	71.5	70.3	69.2	68.1
Nominal GDP	800	842	912	957	1005	1055	1108	1164	1223

Sources: Ministry of Finance and Planning; ECCB; and Fund staff estimates and projections.
1/ Debt forgiveness as a result of debt restructuring
2/ After 2016 includes staff's projection of CBI reciepts
3/ Incorporates receipts of students from St Georges University
4/ Comprises foreign liabilities of commercial banks and other liabilities under the "Other investment" item of the financial account.

Table 7. Grenada: Summary Accounts of the Banking System, 2009-16

	2009	2010	2011	2012	2013	2014	Proj. 2015	Proj. 2016
	(In millions of EC dollars; end of period)							
Net foreign assets	283.7	242.3	165.8	113.8	352.4	582.2	772.9	888.9
ECCB	303.4	277.5	282.9	280.8	365.6	427.3	480.3	511.7
Of which: Net imputed reserves	303.4	277.5	282.9	280.8	365.6	427.3	480.3	511.7
Commercial banks (net)	-19.8	-35.2	-117.0	-167.0	-13.2	154.8	292.6	377.2
Assets	549.3	514.5	511.9	478.0	546.2	672.7	806.2	896.5
Liabilities	-569.1	-549.6	-628.9	-645.0	-559.4	-517.9	-513.7	-519.3
Net domestic assets	1,536.4	1,595.1	1,683.8	1,748.5	1,586.3	1,435.8	1,389.2	1,386.1
Public sector credit (net)	-125.8	-173.1	-168.2	-53.3	-57.3	-86.9	-94.4	-101.8
Central government	98.8	110.0	150.4	107.5	52.3	17.3	9.9	2.5
ECCB	-30.5	-7.7	27.9	30.1	17.7	17.0	17.0	17.0
Commercial banks	129.3	117.7	122.5	77.4	34.5	34.5	34.5	34.5
Net credit to rest of public sector	-125.8	-172.6	-168.0	-53.3	-57.3	-104.3	-104.3	-104.3
National Insurance Scheme	-152.4	-165.4	-164.3	-71.1	-63.8	-74.7	-74.7	-74.7
Credit to private sector	1,668.8	1,762.2	1,800.3	1,803.2	1,700.4	1,613.9	1,581.3	1,589.0
Other items (net)	-105.4	-104.5	-98.9	-109.0	-109.1	-91.1	-97.7	-101.1
Broad money	1,820.0	1,837.4	1,849.7	1,862.2	1,938.7	2,018.0	2,162.1	2,275.0
Money	332.3	342.3	325.2	333.3	381.2	466.6	579.6	652.3
Currency in circulation	106.7	98.8	108.7	112.9	115.7	124.1	130.3	136.8
Demand deposits	225.6	243.5	216.5	220.4	265.5	342.5	449.3	515.6
Quasi-money	1,487.8	1,495.1	1,524.5	1,528.9	1,557.6	1,551.4	1,582.5	1,622.6
Time deposits	339.2	371.2	381.4	339.9	318.2	287.1	267.0	253.6
Savings deposits	1,014.4	1,011.6	1,023.1	1,095.9	1,143.1	1,167.9	1,214.4	1,262.9
Foreign currency deposits	134.2	112.3	120.0	93.1	96.2	96.3	101.1	106.1
	(Annual percentage change)							
Net foreign assets	14.0	-14.6	-31.6	-31.4	209.7	65.2	32.8	15.0
Net domestic assets	1.2	3.8	5.6	3.8	-9.3	-9.5	-3.2	-0.2
Public sector credit, net	6.1	37.6	-2.9	-68.3	7.5	51.8	8.5	7.9
Credit to private sector	4.5	5.6	2.2	0.2	-5.7	-5.1	-2.0	0.5
Broad money	3.0	1.0	0.7	0.7	4.1	4.1	7.1	5.2
NFA contribution	2.0	-2.3	-4.2	-2.8	12.8	11.9	9.5	5.4
NDA contribution	1.0	3.2	4.8	3.5	-8.7	-7.8	-2.3	-0.1
Money	-10.0	3.0	-5.0	2.5	14.4	22.4	24.2	12.6
Quasi-money	6.4	0.5	2.0	0.3	1.9	-0.4	2.0	2.5
	(In percent of GDP)							
Net foreign assets	13.6	11.6	7.9	5.3	15.5	23.6	29.9	32.8
Net domestic assets, o.w.	73.8	76.6	80.1	81.0	69.7	58.3	53.8	51.1
Public sector credit, net	-6.0	-8.3	-8.0	-2.5	-2.5	-3.5	-3.7	-3.8
Private sector credit, net	80.1	84.6	85.6	83.5	74.8	65.6	61.2	58.6
Broad money (M2)	87.4	88.3	88.0	86.2	85.2	82.0	83.7	83.8
Money	16.0	16.4	15.5	15.4	16.8	19.0	22.4	24.0
Quasi-money	71.4	71.8	72.5	70.8	68.5	63.0	61.2	59.8
Interest rates (percent per year)								
ECCB policy rate	6.5	6.5	6.5	6.5	6.5	6.5	…	…
US policy rate	0.1	0.1	0.1	0.1	0.1	0.1	…	…
Interbank market rate	6.5	6.2	4.9	6.3	6.4	6.0	…	…
Time deposit rate	4.4	4.3	3.8	3.2	2.7	2.0	…	…
Demand deposit rate	0.3	0.3	0.3	0.5	0.3	0.3	…	…
Weighted average lending rate	10.7	9.5	10.3	9.2	9.1	9.0	…	…

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

Table 8. Grenada: Indicators of Capacity to Repay the Fund, 2014-22
(in millions of SDRs, unless otherwise indicated)

	Actual	Projections							
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Existing Fund credit (stock)									
In percent of quota	174.3	163.7	132.7	103.1	73.4	56.3	44.7	31.7	20.6
In millions of SDRs	20.4	19.2	15.5	12.1	8.6	6.6	5.2	4.0	2.8
In millions of US$	29.7	27.0	22.0	17.1	12.2	9.4	7.4	5.7	4.0
In percent of GDP	3.3	2.8	2.2	1.6	1.1	0.8	0.6	0.4	0.3
Proposed Extended Credit Facility (stock)									
In percent of quota	0.0	17.1	51.2	68.3	68.3	68.3	68.4	58.2	43.7
In millions of SDRs	0.0	2.0	6.0	8.0	8.0	8.0	8.0	7.4	6.0
In millions of US$	0.0	2.8	8.5	11.3	11.3	11.3	11.3	10.5	8.5
In percent of GDP	0.0	0.3	0.8	1.1	1.0	1.0	0.9	0.8	0.6
Outstanding Fund credit (end of period)									
In percent of quota	174.3	180.7	183.9	171.3	141.7	124.6	113.1	89.9	64.3
In millions of SDRs	20.4	21.1	21.5	20.0	16.6	14.6	13.2	11.4	8.8
In millions of US$	29.7	29.9	30.5	28.4	23.5	20.7	18.8	16.2	12.5
In percent of exports of goods and services	11.2	10.8	10.5	9.0	7.0	5.8	5.0	4.1	3.0
In percent of debt service	24.5	27.7	56.0	50.5	39.7	35.4	34.3	29.0	21.2
In percent of GDP	3.3	3.1	3.0	2.7	2.1	1.8	1.5	1.3	0.9
In percent of Imputed Net International Reserves	18.8	16.8	16.1	14.8	11.7	9.9	8.5	7.1	5.3
Fund obligations based on existing credit	1.8	3.2	3.6	3.5	3.5	2.0	1.4	1.2	1.2
Repurchases and repayments	1.8	3.2	3.6	3.5	3.5	2.0	1.4	1.2	1.2
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit	1.8	3.2	3.6	3.5	3.5	2.0	1.4	1.8	2.6
Repurchases and repayments	1.8	3.2	3.6	3.5	3.5	2.0	1.4	1.8	2.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit									
In millions of US$	2.7	4.6	5.1	4.9	5.0	2.9	2.0	2.6	3.8
In percent of exports of goods and services	1.0	1.7	1.8	1.6	1.5	0.8	0.5	0.7	0.9
In percent of debt service	2.2	4.2	9.4	8.8	8.4	5.0	3.6	4.7	6.4
In percent of GDP	0.3	0.5	0.5	0.5	0.4	0.3	0.2	0.2	0.3
In percent of Imputed Net International Reserves	1.7	2.6	2.7	2.6	2.5	1.4	0.9	1.2	1.6
In percent of quota	15.2	27.7	31.0	29.7	29.7	17.4	11.8	14.5	19.3
Net use of Fund credit	2.3	0.8	0.4	-1.5	-3.5	-2.0	-1.4	-1.8	-2.6
Disbursements	4.0	4.0	4.0	2.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.8	3.2	3.6	3.5	3.5	2.0	1.4	1.8	2.6
Memorandum items:									
Exports of goods and services (in millions of US$)	263.9	275.9	291.5	317.0	336.2	356.2	376.2	397.2	419.6
Debt service (in millions of US$)	121.3	107.7	54.6	56.3	59.2	58.5	54.8	55.8	59.1
GDP (in millions of US$)	911.8	957.2	1005.0	1054.8	1108.2	1164.3	1223.2	1285.0	1350.0
Imputed Net International Reserves (in millions of US$)	158.3	177.9	189.5	191.9	200.4	209.8	220.3	228.4	237.0
Quota (in millions of SDR)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	12.7	13.7

Source: Staff estimates and projections.

Table 9. Grenada: Financial Sector Indicators, 2009-2015

	2009	2010	2011	2012	2013	2014	2015	Latest Available
Financial sector indicators								
Regulatory capital to risk-weighted assets	15.9	16.5	15.1	13.9	13.6	13.0	13.2	Jun-15
Regulatory Tier 1 capital to risk-weighted assets	13.8	15.0	13.6	13.2	12.2	11.7	11.3	Jun-15
Nonperforming loans net of provisions to capital	25.2	33.8	50.2	49.7	61.6	59.5	49.2	Jun-15
Nonperforming loans to total gross loans	5.9	7.6	9.4	11.8	13.8	14.6	13.0	Jun-15
Foreign banks	5.8	6.4	8.9	12.0	13.7	15.4	13.7	Jun-15
Sectoral distribution of loans to total loans								
Residents	94.4	95.0	95.9	96.2	96.0	96.3	96.3	Jun-15
Other financial corporations 1/	0.6	0.4	0.5	0.5	0.3	0.2	0.2	Jun-15
General government 2/	9.0	7.6	7.0	5.5	5.3	4.9	4.5	Jun-15
Nonfinancial corporations 3/	28.9	30.6	30.0	31.4	28.9	27.5	28.3	Jun-15
Nonresidents	5.6	5.0	4.1	3.8	4.0	3.7	3.7	Jun-15
Return on assets	1.3	1.2	0.2	0.5	-1.8	-0.1	0.3	Jun-15
Return on equity	12.1	9.2	-2.8	3.1	-22.3	-2.5	4.2	Jun-15
Net interest income to Total income	52.7	53.0	50.9	51.9	50.6	51.1	56.5	Jun-15
Noninterest expenses to gross income	69.2	68.2	85.6	70.0	109.0	86.5	80.4	Jun-15
Liquid assets to total assets	21.7	20.7	22.9	22.9	27.7	32.8	36.7	Jun-15
Liquid assets to short-term liabilities	24.1	23.3	25.4	25.0	29.8	34.9	39.2	Jun-15
Net foreign currency exposure to total capital	37.8	34.7	24.6	37.7	65.2	102.7	152.7	Jun-15
U.S. treasury bill rate (percent per annum)	0.2	0.1	0.1	0.1	0.1	0.0	0.1	Sep-15
Treasury bill rate (percent per annum) 4/	6.5	6.0	6.0	6.0	6.0	6.0	6.0	Oct-15
External sector indicators								
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	Oct-15
REER appreciation (percent change on 12-month basis, end of period)	-8.8	1.0	1.1	-1.1	-1.8	-0.3	-0.2	Aug-15
Gross international reserves of the ECCB (in US$ millions)	898.4	991.8	1,069.2	1,181.1	1,222.4	1,457.1	1,504.0	Mar-15
Gross international reserves to broad money in ECCU countries (percent)	17.4	18.8	19.7	20.5	20.4	23.0	23.0	Mar-15
Public gross external debt (in US$ million)	493.0	531.4	537.4	540.5	589.8	609.8		Dec-14
Public gross external interest payments to fiscal revenue (percent)	5.5	4.7	5.2	8.9	8.0	7.9		Dec-14
Public gross external amortization payments to fiscal revenue (percent)	5.7	7.7	6.0	4.2	7.4	7.9		Dec-14
Public sector indicators	(in percent of GDP)							
Central government overall balance (after grants)	-5.2	-3.6	-5.2	-5.9	-7.3	-4.7		Dec-14
Public and publicly-guaranteed gross external debt	91.1	96.9	100.7	103.3	106.7	100.5		Dec-14

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

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

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

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

Source: Fund staff estimates

1/ Quota is SDR 11.7 million.

Table 11. Grenada: Recent and Ongoing Legislative Reform

	Approved by Parliament	Entered into Force	Regulations Entered into Force
Financial Legislation			
Banking Act 2015	✓	✓	N/A
Cooperative Societies (Amendment) Act			N/A
ECCB Agreement Act**			N/A
Uniform Insurance Act			N/A
Fiscal Legislation			
Fiscal Policy Framework Reform			
Fiscal Responsibility Act 2015	✓		N/A
Public Debt Management Reform			
Public Debt Management Act 2015	✓		
Public Finance Management Reform			
National Transformation Fund Regulations 2015*	✓		
Public Finance Management Act 2015	✓	✓	✓
Public Procurement and Disposal of Property Act 2014	✓	✓	✓
Tax Administration Reform			
Customs Act 2015	✓	✓	
Tax Administration Act 2015			N/A
Tax Incentive Reform			
Annual Stamp Tax (Amendment) Act 2015	✓		N/A
Income Tax (Amendment) Act 2015	✓		N/A
Investment Act 2014	✓		N/A
List of Conditional Duty Exemptions			N/A
Property Transfer Tax (Amendment) Act 2015	✓		N/A
Property Tax (Amendment) Act			N/A
Value-Added Tax (Amendment) Act 2015	✓		N/A
Business Environment Legislation			
Bankruptcy and Insolvency Bill 2015			N/A
Grenada Industrial Development Corporation (Amendment) Act			N/A
Investment Act 2014	✓		N/A
Energy Sector Reform			
Electricity Supply Act			N/A
Public Utilities Regulatory Commission (Amendment) Act			N/A
Labor Code Reform			
Employment (Amendment) Act			N/A
Labor Relations (Amendment) Act			N/A

Note: N/A = Not applicable. *Approved by Cabinet. **Parliamentary consideration is pending receipt of the legislation from the ECCB.

Annex I. Debt Sustainability Analysis[1]

1. **Debt is in distress but prospects are improving.** This Debt Sustainability Analysis (DSA) assessment incorporates the already agreed debt restructurings into the baseline, which includes the restructuring underway with the largest block of private creditors holding the U.S. and E.C. dollar commercial bonds in 2015 (see staff report ¶7). The DSA does not assume any debt restructuring on Paris Club debt, or other bilateral or domestic debt under restructuring negotiations. Compared to the previous DSA, the economic outlook has improved significantly, underpinned by higher than anticipated growth in 2014 and 2015. In the medium term, growth is expected to converge to its potential.

2. **The progress achieved with debt restructuring marks a critical milestone in the restoration of debt sustainability**. After peaking at about 106.7 percent of GDP in 2013, public debt declined to 100.5 percent of GDP in 2014. The reduction in public debt as a percent of GDP in 2014 was significantly larger than the 2.6 percentage point reduction recorded at the second review due mostly to stronger than anticipated growth. Public debt is now expected to decline to 76 percent of GDP by 2017, with the restructuring of debt noted above expected to contribute about 13.5 percentage points of the total reduction in public debt anticipated over 2014-2017.[2]

3. **Continued steadfast implementation of the programmed fiscal consolidation remains essential to put debt on a firm downward path.** This is expected to contribute over 8 percentage points to the improvement in the debt-to-GDP ratio. Improved debt dynamics would account for the remainder of the reduction over the program period. Completion of broader debt restructuring with all remaining creditors, including the Paris Club and domestic creditors, as well as continued fiscal prudence over the medium-term, will be needed to ensure a sustainable debt path. Public domestic debt is equivalent to about 34 percent of GDP and related vulnerabilities need to be monitored closely.

4. **The restructuring of Grenada's public external debt with private creditors has reduced the stock of external debt**. Combined with the programmed fiscal consolidation, the debt restructuring noted above is expected to reduce public external debt to 39.2 percent of GDP by 2020 (compared to 43.2 percent at the second review), from 66.9 percent of GDP in 2014. Nevertheless, the baseline scenario of the DSA update finds that the debt thresholds on the present value of the debt-to-GDP, debt-to-revenue, and debt-to-exports ratios are breached.[3] These breaches are relatively minor and temporary in nature, however, Grenada's external debt would

[1] This DSA update has been cleared by the World Bank.

[2] Including the completion of the restructuring of the US and EC dollar 2025 bonds and with Taiwan Province of China's export-import bank (Eximbank). See Annex II IMF Country Report No. 15/193 for additional detail.

[3] The Country Policy and Institutions Assessment (CPIA) ranks Grenada as a medium performer (the average CPIA in 2012–14 is 3.56).

remain “in distress” until all debt restructuring steps are completed and arrears to official creditors are cleared.

5. **Completion of the debt restructuring with private creditors holding the US and EC dollar commercial bonds will put public and external debt on a firm downward trajectory toward sustainability**. Broader restructuring of all public external debt remains critical to further reducing Grenada’s risk of external debt distress.

Table AI: 1. Grenada: Public Debt Sustainability Framework, 2012-35

(In percent of GDP)

	Actual					Estimate	Projections									
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2021	2014-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	103.3	106.7	100.5			90.2	85.8	76.0	71.6	67.2	62.9	58.6		55.0	55.0	
of which: foreign-currency denominated	67.6	70.0	66.9			60.8	59.4	51.1	47.1	43.1	39.2	36.0		36.5	43.7	
Change in public sector debt	2.6	3.4	-6.2			-10.3	-4.4	-9.8	-4.4	-4.4	-4.3	-4.3		0.0	0.0	
Identified debt-creating flows	1.0	2.0	-5.3			-10.5	-4.4	-9.8	-4.4	-4.4	-4.3	-4.3		0.0	0.0	
Primary deficit	2.5	3.9	1.1	2.4	1.9	-2.2	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.3	0.7	0.9	0.3
Revenue and grants	20.8	20.9	24.5			23.9	22.9	23.7	23.8	23.8	23.8	23.8		23.8	23.8	
of which: grants	1.1	1.4	4.1			3.0	2.1	2.1	2.1	2.1	2.1	2.1		2.1	2.1	
Primary (noninterest) expenditure	23.3	24.8	25.6			21.7	19.4	20.2	20.3	20.4	20.4	20.4		24.6	24.7	
Automatic debt dynamics	0.7	-1.9	-4.6			-1.3	-0.9	-0.8	-1.0	-0.9	-0.9	-0.8		-0.7	-0.9	
Contribution from interest rate/growth differential	2.1	-1.1	-4.1			-0.9	-0.2	-0.4	-0.8	-0.8	-0.7	0.1		-0.5	-0.6	
of which: contribution from average real interest rate	1.0	1.3	1.7			2.4	2.0	1.6	1.1	1.0	0.9	1.6		0.9	0.7	
of which: contribution from real GDP growth	1.2	-2.4	-5.8			-3.3	-2.1	-2.0	-1.9	-1.7	-1.6	-1.5		-1.3	-1.3	
Contribution from real exchange rate depreciation	-1.4	-0.8	-0.5			-0.3	-0.8	-0.4	-0.2	-0.1	-0.1	-0.9		...	...	
Other identified debt-creating flows	-2.2	0.0	-1.9			-7.0	0.0	-5.5	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-2.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other) 6/	0.0	0.0	-1.9			-5.9	0.0	-5.4	0.0	0.0	0.0	0.0		0.0	0.0	
Other	0.0	0.0	0.0			-1.1	0.0	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.7	1.3	-0.9			0.2	0.1	0.0	0.0	0.0	0.1	-0.1		0.0	0.0	
Other Sustainability Indicators																
PV of public sector debt	...	...	84.8			74.0	68.2	59.4	54.9	50.4	46.2	41.8		35.1	36.1	
of which: foreign-currency denominated	...	...	51.2			44.6	41.8	34.5	30.4	26.3	22.5	19.3		16.6	24.8	
of which: external	...	...	51.2			44.6	41.8	34.5	30.4	26.3	22.5	19.3		16.6	24.8	
PV of contingent liabilities (not included in public sector debt)7/	...	...	...			0.2	...	...	...	...	...	...		...	...	
Gross financing need 2/	5.9	7.3	22.1			18.8	19.2	17.3	17.2	17.5	17.5	17.6		17.7	12.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	346.4			310.0	297.9	250.7	230.8	211.4	193.8	175.6		147.2	151.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	415.7			353.9	327.3	274.6	252.7	231.4	212.2	192.2		161.2	166.2	
of which: external 3/	...	...	251.1			213.2	200.4	159.5	140.0	120.8	103.4	88.6		76.1	114.2	
Debt service-to-revenue and grants ratio (in percent) 4/	16.4	15.9	85.8			87.9	98.8	87.7	87.1	88.1	88.2	88.3		71.4	47.1	
Debt service-to-revenue ratio (in percent) 4/	17.3	17.0	102.9			100.4	108.5	96.0	95.3	96.4	96.5	96.7		78.2	51.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	1.7	4.5			1.1	0.8	0.6	0.8	0.8	0.7	0.7		0.6	0.9	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	-1.2	2.3	5.7	1.7	5.6	3.4	2.4	2.4	2.5	2.5	2.5	2.5	2.6	2.5	2.5	2.5
Average nominal interest rate on forex debt (in percent)	2.7	2.6	3.0	2.0	0.6	3.2	3.4	3.3	2.9	2.9	2.8	2.8	3.1	2.8	2.8	2.8
Average real interest rate on domestic debt (in percent)	1.1	1.9	2.3	1.1	2.8	3.1	2.4	2.8	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.0	-1.3	-0.7	-0.7	2.1	-0.5	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.9	2.9	2.4	2.7	2.4	1.5	2.5	2.5	2.5	2.5	2.5	2.5	2.3	2.5	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-12.6	9.1	9.1	0.6	6.0	-12.5	-8.0	6.5	2.9	2.8	2.5	2.5	-1.0	2.6	2.5	3.9

Sources: Country authorities; and staff estimates and projections.

1/ Central government and central government guaranteed debt only.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

6/ Debt relief includes savings from the restructuring agreement reached with Eximbank in 2014 and with the creditor committee representing the majority of creditors for Grenada's 2025 bonds in 2015.

7/ Includes severance costs associated with the restructuring of state-owned enterprises.

Table AI: 2. Grenada: External Debt Sustainability Framework, 2012-35

(In percent of GDP)

	Actual				Historical Average 6/	Standard Deviation 6/	Projections									
	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	2014-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**136.3**	**141.0**	**143.9**	**144.0**			**136.1**	**132.8**	**122.6**	**117.4**	**112.3**	**107.3**		**100.0**	**97.5**	
of which: public and publicly guaranteed (PPG)	69.0	67.6	70.0	66.9			60.8	59.4	51.1	47.1	43.1	39.2		36.5	43.7	
Change in external debt	12.9	4.6	2.9	0.1			-7.9	-3.3	-10.2	-5.2	-5.2	-5.0		0.0	-0.3	
Identified net debt-creating flows	16.9	13.5	2.7	0.2			2.0	0.6	1.4	1.8	1.6	1.7		4.1	2.7	
Non-interest current account deficit	**22.0**	**19.0**	**21.4**	**13.4**	**22.9**	**4.6**	**11.5**	**10.9**	**13.2**	**13.8**	**13.8**	**13.8**		**15.8**	**14.1**	15.3
Deficit in balance of goods and services	22.6	20.6	21.9	14.6			12.5	11.7	12.3	12.7	12.9	13.0		14.5	12.6	
Exports	28.2	28.9	28.5	28.9			28.8	29.0	30.1	30.3	30.6	30.8		31.6	34.3	
Imports	50.8	49.5	50.4	43.5			41.4	40.7	42.3	43.1	43.5	43.7		46.1	46.8	
Net current transfers (negative = inflow)	-3.1	-3.8	-2.2	-2.9	-4.7	2.8	-2.3	-2.3	-2.3	-2.2	-2.3	-2.3		-2.1	-1.7	-2.0
of which: official	-0.9	-1.4	-0.2	-1.1			-0.6	-0.6	-0.6	-0.6	-0.6	-0.6		-0.5	-0.4	
Other current account flows (negative = net inflow)	2.5	2.2	1.7	1.7			1.3	1.5	3.2	3.2	3.2	3.2		3.4	3.3	
Net FDI (negative = inflow)	**-5.5**	**-3.9**	**-13.4**	**-4.4**	**-10.8**	**5.5**	**-4.9**	**-5.9**	**-7.6**	**-7.6**	**-8.0**	**-8.0**		**-8.0**	**-8.0**	-8.0
Endogenous debt dynamics 2/	**0.4**	**-1.5**	**-5.3**	**-8.8**			**-4.6**	**-4.3**	**-4.2**	**-4.3**	**-4.2**	**-4.1**		**-3.7**	**-3.5**	
Contribution from nominal interest rate	1.6	2.1	1.9	2.1			2.2	2.2	2.0	1.6	1.5	1.3		1.1	1.2	
Contribution from real GDP growth	-0.9	1.5	-3.1	-7.6			-4.7	-3.1	-3.0	-2.9	-2.8	-2.7		-2.4	-2.3	
Contribution from price and exchange rate changes	-0.3	-5.2	-4.0	-3.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.9**	**-8.9**	**0.3**	**-0.2**			**-9.8**	**-4.0**	**-11.6**	**-7.0**	**-6.8**	**-6.7**		**-4.1**	**-3.0**	
of which: exceptional financing	0.0	-0.2	-0.7	-3.4			-3.2	-2.6	-0.3	0.0	0.0	0.0		0.0	0.0	
debt restructuring	0.0	0.0	0.0	-1.9			-5.1	0.0	-4.7	0.0	0.0	0.0		0.0	0.0	
capital transfers							-5.5	-4.6	-6.4	-6.6	-6.7	-6.7		-2.1	-2.1	
PV of external debt 4/	...	...	...	128.3			119.9	115.2	106.0	100.7	95.5	90.6		80.0	78.7	
In percent of exports	...	...	...	443.4			416.1	397.2	352.7	332.0	312.1	294.6		253.0	229.6	
PV of PPG external debt	**...**	**...**	**...**	**51.2**			**44.6**	**41.8**	**34.5**	**30.4**	**26.3**	**22.5**		**16.6**	**24.8**	
In percent of exports	**...**	**...**	**...**	**177.0**			**154.6**	**144.1**	**114.8**	**100.2**	**85.9**	**73.2**		**52.4**	**72.5**	
In percent of government revenues	**...**	**...**	**...**	**251.1**			**213.2**	**200.4**	**159.5**	**140.0**	**120.8**	**103.4**		**76.1**	**114.2**	
Debt service-to-exports ratio (in percent)	**5.6**	**7.2**	**6.5**	**12.7**			**14.9**	**14.5**	**13.4**	**12.4**	**11.8**	**10.4**		**7.5**	**6.6**	
PPG debt service-to-exports ratio (in percent)	**4.4**	**6.4**	**5.9**	**12.1**			**14.3**	**13.9**	**12.8**	**11.8**	**11.2**	**9.8**		**7.0**	**6.4**	
PPG debt service-to-revenue ratio (in percent)	**6.1**	**9.4**	**8.6**	**17.1**			**19.7**	**19.4**	**17.8**	**16.5**	**15.8**	**13.9**		**10.2**	**10.0**	
Total gross financing need (Millions of U.S. dollars)	140.8	137.0	82.4	116.1			104.2	92.1	102.2	109.8	109.7	110.7		159.2	215.9	
Non-interest current account deficit that stabilizes debt ratio	9.0	14.3	18.4	13.4			19.4	14.2	23.4	18.9	19.0	18.8		15.8	14.5	
Key macroeconomic assumptions																
Real GDP growth (in percent)	0.8	-1.2	2.3	5.7	1.7	5.6	3.4	2.4	2.4	2.5	2.5	2.5	2.6	2.5	2.5	2.5
GDP deflator in US dollar terms (change in percent)	0.2	3.9	2.9	2.4	2.7	2.4	1.5	2.5	2.5	2.5	2.5	2.5	2.4	2.5	2.5	2.5
Effective interest rate (percent) 5/	1.3	1.6	1.4	1.6	1.9	0.6	1.6	1.7	1.6	1.4	1.3	1.2	1.4	1.1	1.3	1.2
Growth of exports of G&S (US dollar terms, in percent)	7.3	5.2	3.8	9.9	3.5	13.8	4.5	5.7	8.8	6.0	6.0	5.6	6.0	5.7	6.4	5.8
Growth of imports of G&S (US dollar terms, in percent)	4.2	0.0	7.2	-6.4	2.8	11.2	-0.3	3.2	9.2	7.0	6.0	5.7	5.8	5.2	5.2	5.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	37.8	38.7	38.8	37.4	37.4	38.6	36.9	29.7	29.7	29.7
Government revenues (excluding grants, in percent of GDP)	20.3	19.7	19.5	20.4			20.9	20.9	21.6	21.7	21.8	21.8		21.8	21.7	21.8
Aid flows (in Millions of US dollars) 7/	26.1	8.8	11.6	37.2			44.7	40.5	31.5	30.6	31.8	33.0		32.2	52.8	
of which: Grants	26.1	8.8	11.6	37.2			28.3	20.7	21.7	22.8	24.0	25.2		32.2	52.8	
of which: Concessional loans	0.0	0.0	0.0	0.0			16.4	19.8	9.8	7.8	7.8	7.8		0.0	0.0	
Memorandum items:																
Nominal GDP (Millions of US dollars)	778.6	799.9	842.4	911.8			957.2	1005.0	1054.8	1108.2	1164.3	1223.2		1565.4	2563.8	
Nominal dollar GDP growth	1.0	2.7	5.3	8.2			5.0	5.0	5.0	5.1	5.1	5.1	5.0	5.1	5.1	5.1
PV of PPG external debt (in Millions of US dollars)				467.1			426.6	419.9	364.0	336.7	306.1	275.2		259.3	637.8	
(PVt-PVt-1)/GDPt-1 (in percent)							-4.4	-0.7	-5.6	-2.6	-2.8	-2.7	-3.0	1.1	2.2	1.1
Gross workers' remittances (Millions of US dollars)	29.0	29.7	30.5	31.2			31.9	33.1	34.5	36.0	40.4	45.1		55.4	83.5	
PV of PPG external debt (in percent of GDP + remittances)		...	...	49.5			43.1	40.5	33.4	29.4	25.4	21.7		16.0	24.0	
PV of PPG external debt (in percent of exports + remittances)		...	...	158.3			138.6	129.4	103.6	90.5	77.2	65.3		47.1	66.2	
Debt service of PPG external debt (in percent of exports + remittances)		...	...	10.8			12.8	12.5	11.6	10.7	10.1	8.8		6.3	5.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

Table AI:3: Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-35

(In percent)

	Projections								
	2015	2016	2017	2018	2019	2020	2021	**2025**	2035
PV of debt-to GDP ratio									
Baseline	45	42	35	30	26	22	19	**17**	25
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	45	47	45	45	46	46	46	**51**	74
A2. New public sector loans on less favorable terms in 2015-2035 2	45	42	35	31	27	23	20	**21**	36
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	45	45	39	35	30	26	22	**19**	28
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	45	45	44	40	36	32	29	**23**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	45	43	36	32	27	23	20	**17**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	45	42	37	33	29	25	22	**18**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	45	44	42	37	33	28	25	**21**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	45	59	49	43	37	32	27	**23**	35
PV of debt-to-exports ratio									
Baseline	155	144	115	100	86	73	62	**52**	72
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	155	163	149	149	149	151	149	**162**	215
A2. New public sector loans on less favorable terms in 2015-2035 2	155	146	116	102	89	75	65	**66**	104
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	155	144	115	100	86	73	62	**52**	73
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	155	183	210	188	167	148	132	**105**	112
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	155	144	115	100	86	73	62	**52**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	155	147	123	109	94	81	70	**58**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	155	157	156	138	120	104	91	**74**	92
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	155	144	115	100	86	73	62	**52**	73
PV of debt-to-revenue ratio									
Baseline	213	200	160	140	121	103	89	**76**	114
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	213	226	207	208	210	214	211	**235**	339
A2. New public sector loans on less favorable terms in 2015-2035 2	213	203	162	143	125	107	93	**96**	164
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	213	214	181	159	137	117	101	**87**	130
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	213	216	204	184	165	147	131	**107**	124
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	213	205	166	146	126	108	92	**79**	119
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	213	204	171	152	132	115	100	**84**	117
B5. Combination of B1-B4 using one-half standard deviation shocks	213	209	192	171	150	131	114	**96**	129
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	213	283	226	198	171	146	125	**108**	162

Table AI:3: Grenada: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-35(Continued)

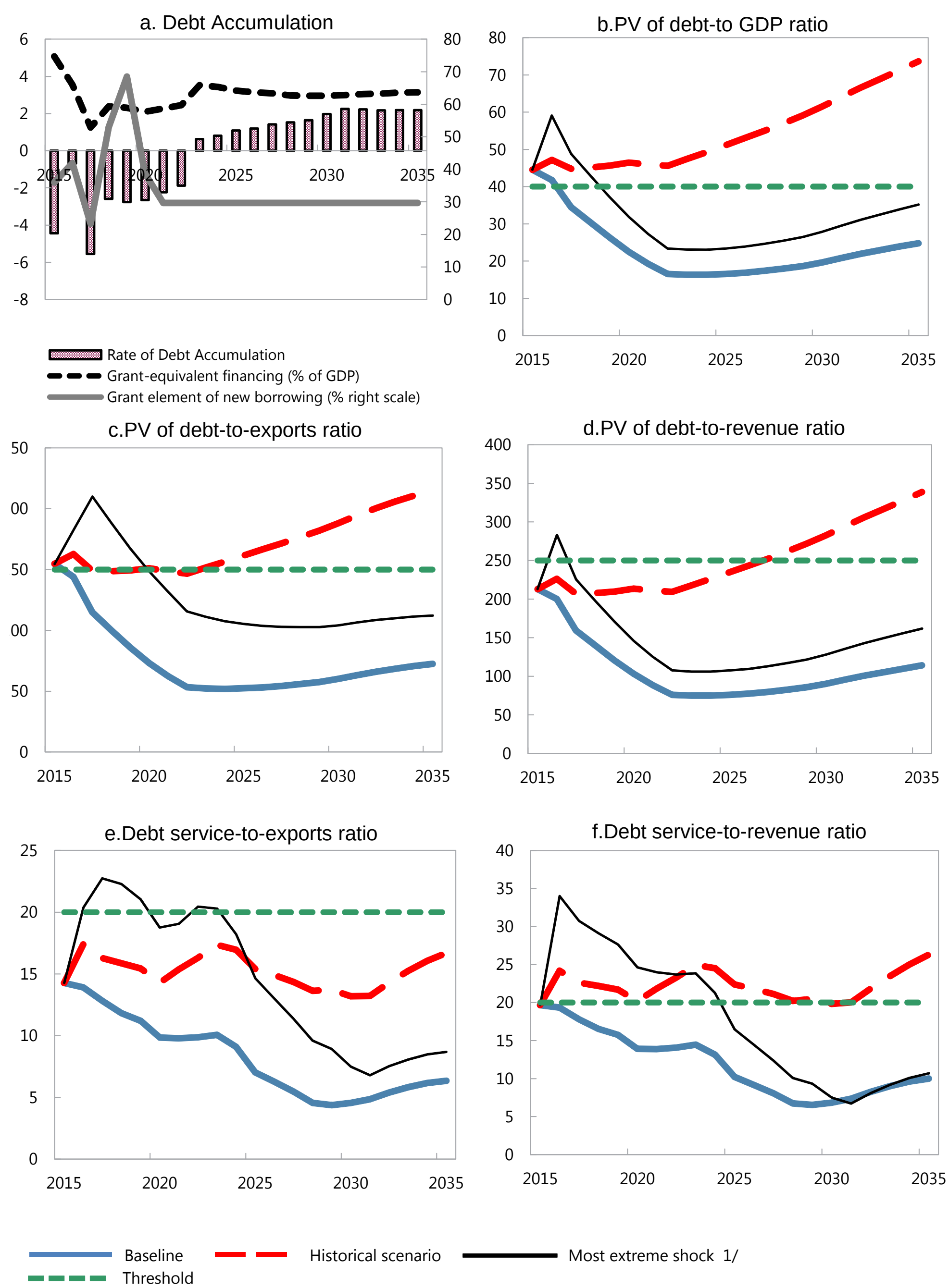
(In percent)

	Projections								
	2015	2016	2017	2018	2019	2020	2021	**2025**	2035
Debt service-to-exports ratio									
Baseline	14	14	13	12	11	10	10	**7**	6
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	14	17	16	16	15	14	15	**15**	17
A2. New public sector loans on less favorable terms in 2015-2035 2	14	17	16	14	12	11	9	**7**	7
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	14	17	16	15	14	12	12	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	14	20	23	22	21	19	19	**15**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	14	17	16	15	14	12	12	**8**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	14	17	16	15	14	13	12	**9**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	14	19	19	19	17	16	15	**11**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	14	17	16	15	14	12	12	**8**	5
Debt service-to-revenue ratio									
Baseline	20	19	18	17	16	14	14	**10**	10
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2015-2035 1/	20	24	23	22	22	20	22	**22**	26
A2. New public sector loans on less favorable terms in 2015-2035 2	20	24	22	19	17	15	13	**10**	11
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	20	26	25	23	22	20	19	**13**	9
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	20	24	22	22	21	19	19	**15**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	20	25	23	22	20	18	18	**12**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	20	24	22	21	20	18	17	**13**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	20	25	24	23	22	20	19	**14**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	20	34	31	29	28	25	24	**16**	11
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	27	27	27	27	27	27	27	**27**	27

Sources: Country authorities; and staff estimates and projections.

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

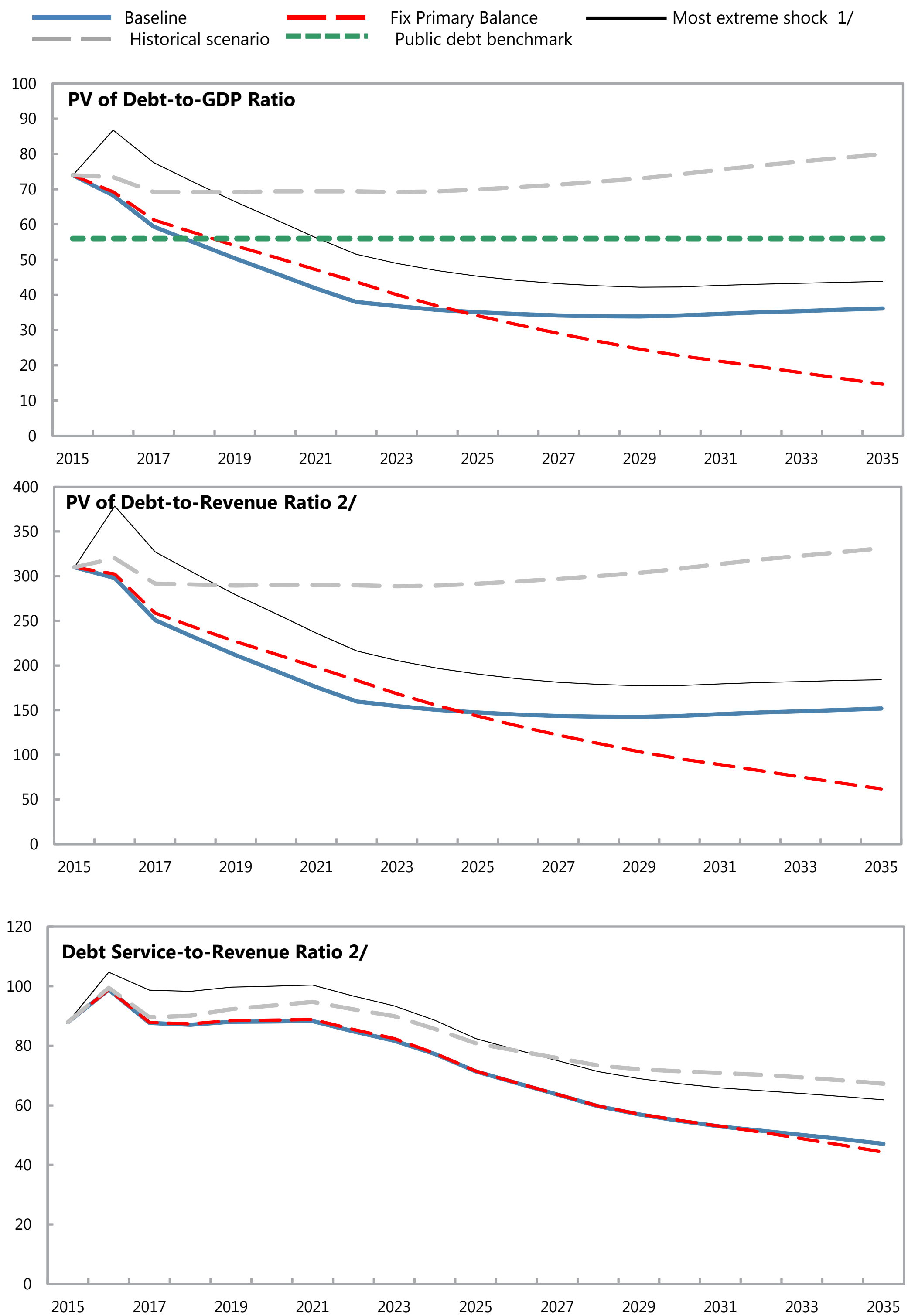
Figure AI: 1. Grenada: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015-35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure AI:2: Grenada: Indicators of Public Debt under Alternative Scenarios, 2015-35 1/ 2/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Annex II. Strengthening the Transparency and Governance of Grenada's Citizenship-By-Investment (CBI) Program[1]

1. **Grenada has taken steps to strengthen its Citizenship-By-Investment (CBI) program.** Launched in 2014, government revenue from the program remains relatively small (about 0.4 percent of GDP during the first half of 2015), but, as the program matures, its revenues have the potential to provide meaningful support to public investment, public finance, and growth, provided the proceeds are managed in a transparent and sustainable manner.[2] To strengthen the governance of their CBI program, the authorities have recently:

Published CBI Program Statistics. The authorities, in July 2015, began publishing quarterly statistics on their CBI program (a structural benchmark under their IMF-supported program), strengthening transparency of the program. Grenada is the only ECCU country with a CBI program publishing statistics on its program.

National Transformation Fund (NTF) Regulations: The authorities, in August 2015, finalized regulations for the NTF, a special public fund into which foreign nationals can make a donation to obtain Grenadian citizenship. The regulations put in place a governance framework for the fund and its investment decisions. As the bulk of government CBI revenues are expected to be received by the NTF, the regulations are a critical component of the government's overall effort to manage fiscal risks from a sudden stop of CBI flows while maximizing their impact on potential growth. The regulations:

- Enhance the transparency of the CBI program by mandating the publication of information on all NTF-financed projects and spending, its financial statements, and annual expenditure plan.
- Clarify the governance framework for the NTF by establishing a Board of Directors and outlining reporting requirements to central government.
- Guard against an unsustainable scaling up of public investment by mandating the use of NTF resources be balanced between debt reduction and transformational investment spending. Consistent with the Fiscal Responsibility (FR) Act (2015), the first 40 percent of total NTF resources must be saved for arrears repayment, debt reduction and contingency financing for natural disaster relief. Moreover, consistent with the authorities' program commitment to clear all budget expenditure arrears by end-2015, the regulations require that the first EC$24 million of NTF revenues in 2015 be devoted to arrears clearance.
- Mitigate potential fiscal risks by fully integrating NTF investment into the central government budget and setting a cap on annual NTF spending.

[1] See IMF Country Report No. 14/363, Annex II for a description of Grenada's CBI program.

[2] Interest is expected to increase as Grenada recently finalized visa waiver agreements with China and the European Union.

- Maximize the impact of CBI revenue on potential growth by: (i) requiring rigorous project evaluation and selection aligned with Grenada's development priorities identified in its GPRS 2014-18 and National Sustainable Development Plan 2030; and (ii) and full integration of NTF projects with Grenada's Public Sector Investment Program (PSIP).

2. **These reforms complement the authorities' existing efforts to ensure the sustainable management of Grenada's CBI program.** The FR Act (2015) also includes important safeguards to mitigate potential fiscal risks from CBI revenues by capping the total sum of CBI program receipts to be used for meeting the primary balance targets at 1.5 percent of GDP.[3] The authorities have also focused on putting in place a strong due diligence framework, with safeguards to prevent financial integrity and security risks, to ensure the program's sustainability. In particular, the authorities have engaged reputable international groups to strengthen the screening of applicants and are holding bilateral discussions with important stakeholders from the international community on collaborative information sharing. Continuation of these efforts, including through effective implementation of the anti-money laundering and combating the financing of terrorism (AML/CFT) framework targeted to applicants and new citizens, will also be critical to ensuring the sustainability of the CBI program.

[3] Effective from 2018. Over the program period, CBI revenues cannot be used to meet fiscal targets.

Annex III. Grenada's Tax Incentive Reform

1. **Grenada has made progress to reform its tax incentive regime to transition to an automatic and rule-based system.** The reform is encompassed in the 2014 Investment Act as well as a series of amendments to the individual tax acts made in June 2015.[1] The Investment Act aims to improve the business environment and enhance Grenada's attractiveness as an investment destination with streamlined investment procedures, codified investment requirements and incentive criteria, and a transformed Grenada Industrial Development Corporation (GIDC) for investment facilitation. Similarly, the legislative amendments removed discretion in the granting of tax incentives and codified specific incentives into Grenada's tax laws.

2. **The tax incentive reform has not been finalized.** The outstanding elements comprise: (1) revamping the customs exemptions regime and (2) removing the Minister's power to remit tax in the Property Tax Act. An important aspect of the customs exemptions reform is to amend Grenada's List of Conditional Duty Exemptions (LCDE), by which considerable concessions have been granted on a discretionary basis. Grenada must coordinate the amendment of its LCDE with CARICOM, which has yet to occur. Timely completion of the reforms will put in place a more efficient and transparent tax incentive system, safeguarding the revenue base and fiscal sustainability. In this regard, the authorities have committed to putting into force the Investment Act and the new tax incentive regime—excluding elements relating to the LCDE—by end-December 2015 (a proposed **structural benchmark** under the program). The new regime, once in effect, will provide for tax relief to priority sectors automatically, via:

Income Tax Act Amendments

Investment Allowance. The Income Tax Act was amended to provide tax relief to investments in priority sectors, including agriculture, education, energy, health, housing, manufacturing, and tourism, providing a 100 percent automatic investment allowance for corporate income tax. In addition, the depreciation allowance permits investors to recover qualifying investment costs before paying corporate income tax on investment profits.

Income Tax Deductions. To stimulate growth in the agricultural sector, a 50 percent corporate income tax deduction was introduced for the cost of research and development. Similarly, to promote skills development, a 50 percent corporate income tax deduction was introduced for training expenditures. These new deductions supplement existing deductions for such expenditures under the Income Tax Act. The period for carrying losses forward was also extended to six from three years to provide investors more time to recover losses.

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[1] See IMF Country Report No. 15/193.

Liberalized Depreciation. To encourage business investment, depreciation rates were increased and allowances extended to all commercial buildings. To encourage investment by small businesses, the depreciation system was liberalized to allow $100,000 of annual capital expenditure deductions.

Property Transfer Tax Act Amendments

The Property Transfer Tax Act was amended to reduce property transfer tax rates on land purchased for priority sector activities by a non-citizen. To promote development of the tourism sector, the property transfer tax on the transfer of a villa or apartment in a tourism complex was also reduced.

Value-Added Taxation (VAT) Amendments

To promote investment in priority sectors, a VAT suspension regime was established for goods imported to carry out a qualifying investment in a priority sector. Under the regime, no VAT is payable upon import, but the taxpayer is required to list the import on the VAT return for the tax period in which the import occurs. This saves the investor from having to pay VAT at the border and later claim an input credit.

Annex IV. Improving Public Finance Management in Grenada: Reform Priorities Identified by the 2015 Public Expenditure and Financial Accountability Assessment

1. **Grenada recently underwent a public expenditure and financial accountability (PEFA) assessment, conducted by CARTAC**. The assessment reviewed the performance of its public financial management (PFM) and identify reform priorities. Overall, the assessment concludes that PFM in Grenada has improved since the last assessment in 2010 and recommends a continuation of ongoing efforts to strengthen PFM in Grenada. The main results of the assessment, as well as a summary of ongoing initiatives to strengthen PFM in Grenada, are summarized in Table 1 by PEFA assessment pillar. Reform priorities are focused in three main areas

Aggregate Fiscal Discipline: The assessment concludes that aggregate fiscal discipline has improved markedly since the government embarked on its home-grown economic reform program, supported since June 2014 by the IMF arrangement under the Extended Credit Facility (ECF). Most notably, the assessment recognizes substantial improvements in the budget preparation process, now supported by the requirements mandated in the 2015 Public Finance Management (PFM) Act, which have strengthened fiscal discipline. Looking ahead, further development of monthly cash flow forecasting linked to budget allocation and commitment controls, will be required to strengthen management of fiscal outcomes. Similarly, while the recent reforms to strengthen oversight of state-owned enterprises and statutory bodies will mitigate fiscal risks, continued improvements in external oversight mechanisms and parliamentary scrutiny of government financial operations are needed to further enhance transparency and accountability. Finally, the mechanisms for the contracting of debt and issuance of government guarantees, reporting of government guaranteed debt, and high quality of debt data all contribute to enhance fiscal discipline but should be complemented by completion and implementation of the authorities' medium-term debt strategy.

Strategic Allocation of Resources: The assessment recommends that the strategic allocation of resources be strengthened by systematically linking the medium-term budget to sector strategies and performance indicators. This would complement the recent removal of special warrants and the limitations placed on the number of supplementary budgets in the 2015 PFM Act to ensure the strategic priorities determined through the budget formulation process remain in place. The Government's strategic allocation capabilities would also be enhanced by including a systematic annual report on the financial operations of extra-budgetary funds, which would provide a more comprehensive view of its operations.

Operational efficiency: A new procurement law (the Public Procurement and Disposal of Public Property Act) was put in place in 2014. However, the assessment concludes that to overcome remaining weaknesses in the procurement system the new law needs to be made operational. The assessment also identifies the need to strengthen accountability mechanisms, including the timeliness of financial statements, to ensure that external audits are effective counter checks of the efficient use of resources. On the revenue side, the assessment recommends strengthening operational efficiency by addressing the accumulation of tax arrears, which undermine the credibility of tax assessments and the principle of equal treatment of taxpayers. The report recognizes the recent removal of the use of discretionary exemptions as an important step in this regard. Consolidation of cash balances would also be important for more efficient liquidity management and improve operational efficiency

2. **Continued improvements in Grenada's PFM practices are expected to be supported by the strengthened legislative framework put in place under the IMF-supported program.** The framework includes the new PFM Act 2015, Fiscal Responsibility (FR) Act 2015, Public Debt Management (PDM) Act 2015, Public Procurement and Disposal of Public Property (PPDPP) Act 2014, and Customs Act 2015, as well as the new Tax Administration Act expected to be legislated in 2015 (see text table on page 12). These Acts are designed to ensure the implementation of a medium-term, results-oriented, budget planning and preparation process and to strengthen the authorities' ability to establish and manage within multi-year fiscal targets. In addition, tax incentive reform has removed discretionary tax exemptions from the various tax acts, and will reduce fiscal risks while supporting operational efficiency.

Table AIV: 1. PEFA Identified PFM Reform Priorities; Ongoing PFM Reform Initiatives in Grenada

PEFA Results and Recommendations	Ongoing PFM Reform Initiatives in Grenada
Pillar I: PFM Out-Turns: Credibility of Fiscal Strategy and Budget	
Acknowledge progress to reduce the deviation of fiscal outcomes from Budget but identifies the need for further improvement in the quality of budget planning and execution as well as revenue forecasting to further reduce disparities.	
Pillar II: Comprehensiveness and Transparency	
The chart of accounts and budget classification should be updated to be consistent with the IMF's Government Finance Statistics Manual (GFSM), in particular to introduce a functional classification of expenditure and ensure the proper classification of recurrent and capital spending.	The Ministry of Finance (MOF) recently completed a review of the CoA (in consultation with CARTAC) to bring it in line with GFSM as recommended. The implementation of the new CoA for the 2016 Budget is a structural benchmark for end-December 2015 under the authorities' ECF-supported program with the IMF.
Basic elements of budget transparency are in place but should be supplemented with additional information to strengthen transparency.	The 2015 PFM Act (completed structural benchmark under the authorities' ECF-supported program with the IMF) aligns the information requirements for Budget documentation to those recommended by the PEFA.
Extra-budgetary operations should be disclosed in the Budget and included in ex-ante and ex-post Budget reports to provide a complete picture of central government operations and show the full impact of policy decisions on fiscal outcomes.	
To support operational efficiency in service delivery, specific performance targets should be included in the Budget and ex post performance assessed against the targets. A systematic evaluation of program performance should be introduced in the context of the annual budget process.	The government has begun to introduce results-based strategic planning, with all Ministries, Departments and Agencies now required to produce corporate plans.
Strengthen the availability of fiscal information to the public and improve the timeliness of its publication.	The 2015 PFM Act requires the timely publication of all fiscal information recommended by PEFA.
Pillar III: Asset and Liability Management	
Acknowledge significant progress made to strengthen central government monitoring of state-owned enterprises (SOEs) and statutory bodies (SBs), but recommends further progress as the reporting of financial statements by these institutions to central government remains incomplete. Concludes that explicit contingent liabilities are appropriately recorded and monitored by central government.	The government, with technical assistance from CARTAC, undertook a review of all SOEs and SBs and formalized a strategic plan to reform the overall regulatory environment of the sector and address specific challenges faced by individual entities (completed structural benchmark under the authorities' ECF-supported program) and has subsequently introduced major reforms to the sector (see Annex III, IMF Country Report No. 15/193). Furthermore, the 2015 PFM Act sets out fundamental financial management principles applicable to the sector; while the 2015 PDM Act specifies new procedures for the issuance of government guarantees for SOE debt; and 2015 FR Act (completed structural benchmark under the authorities' ECF-supported program with the IMF) requires a fiscal risk statement (including risks from SOEs and SBs) to be included in the annual budget.

Table AIV: 1. PEFA Identified PFM Reform Priorities; Ongoing PFM Reform Initiatives in Grenada (continued)

Conclude that capital projects are appropriately assessed and that a suitable framework is in place for government investment decisions; however, progress is needed to ensure that the recurrent costs of capital projects (including donor funded projects) are fully included in the budget. Full life cycle costing should be implemented. Concludes that the Government maintains a complete and accurate database on approved capital projects.	
Central government financial statements should be disclosed in annual financial reports on a timely basis. Records of the government's ownership interest in SOEs are appropriately maintained, but should be complemented by an analysis of asset performance. Recommend strengthening the quality of central government non-financial asset monitoring. A database of property in Grenada is maintained, but there is no regular reporting or analysis undertaken on asset holdings. No other major asset categories are captured in registers.	The SOE reforms will strengthen the monitoring and reporting regime of these institutions as a new performance monitoring framework has been put in place. The new framework will support improved management and disclosure of financial assets as SOEs are now required to disclose a series of financial and non-financial indicators on a regular basis to central government. A draft dividend policy has also been prepared that, once formalized, will ensure that the government receives an appropriate return on its capital investment. The Policy Unit within the Ministry of Finance has recently been given oversight responsibility of the SOEs and their compliance with the new regulatory framework.
Domestic and foreign debt records are complete, accurate, updated and reconciled on a timely basis and comprehensive debt management and statistical reports are produced on a timely basis. Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets and are approved by a single responsible entity.	To strengthen the management of public debt, the government modernized the legislative framework for public debt management with the new PDM Act 2015. The Act establishes the sole authority of the Minister of Finance to contract loans on behalf of the government with the approval of Parliament and to issue central government guarantees for SOE debt. The Act requires the Minister to prepare an annual borrowing plan, consistent with the authorities' Medium-Term Debt Management Strategy (MTDS) and annual cash flow forecast for the public sector. The FR Act sets a limit on government debt at 55 percent of GDP and limits contingent liabilities associated with public private partnerships to less than 5 percent of GDP. A draft MTDS was approved by Cabinet in February 2015 and is expected to be approved by Parliament by end year.
The processes for the disposal of non-financial assets are appropriately enshrined in legislation and sales of non-financial assets are conducted transparently.	The Public Procurement and Disposal of Public Property (PPDPP) Act 2014 outlines a clear policy and procedures for disposal of government assets.
Pillar IV: Policy-Based Planning and Budgeting	
The Budget process appropriately commences with the development of a fiscal strategy document informed by the latest economic projection, but the assessment of macroeconomic risks could be strengthened. Actual fiscal outcomes differ from the original Budget by a significant margin, though this margin has narrowed in the context of the home-grown program.	The PFM Act 2015 requires that a medium-term budget framework paper be included in the Budget, while the FR Act 2015 sets limits on the fiscal strategy that the Government can adopt in its annual budget framework (through the rules-based fiscal policy framework). The PFM Act eliminates the use of special warrants, which in prior years resulted in large in-year adjustments to appropriations, and accounted for a significant share of the disparity between fiscal outcomes and budget.

Table AIV: 1. PEFA Identified PFM Reform Priorities; Ongoing PFM Reform Initiatives in Grenada (continued)

The methodology used to forecast revenues and the assumptions underpinning it are clearly understood, but baseline revenue forecasts should be complemented with an assessment of risk. The Budget should include a discussion of the fiscal impact of revenue policy changes.	The PFM Act 2015 provides for a schedule of information required as a part of the budget documentation that includes inter alia the main policies and programs of the government in the area of taxation, other revenues that have budgetary implications, proposed tax expenditures for the budget year, with details of tax relief and exemptions for the budget year and projected next two fiscal years.
While there are elements of corporate, strategic and development planning, there are few sector strategies in place that remain valid and contain costed action plans that inform the budget process. The reconciliation of top-down and bottom-up approaches in the medium-term budget framework should be extended beyond the current budget year to the forward estimates for outer years.	The Government has launched an initiative to require public agencies to prepare corporate plans, which offer the potential to link development planning, performance management, and budget preparation at the ministry level.
Budget processes in Grenada are conducted according to a clear budget calendar with clear and comprehensive guidance on the preparation of budget submissions. The budget has been approved by the start of the fiscal year in two of the last three years.	
Pillar V: Predictability and Control in Budget Execution	
Revenue administration is facilitated by appropriate information provided to individuals and taxpayers about their obligations and rights concerning payments to the government. However, the assessment of risks to revenue as well as the use of audit and fraud investigation practices should be strengthened. Taxpayer arrears need to be addressed more proactively.	
The predictability of the availability of funds for the commitment of expenditures should be strengthened by consolidating the government's cash balances, strengthening cash flow monitoring and forecasts, and improving communication throughout government on expenditure commitment ceilings.	The Government is developing a cash flow forecasting model.
Procurement processes and transparency should be strengthened.	The 2014 PPDPP Act is expected to improve procurement processes and transparency.
The effectiveness of internal audit, including audit coverage, management response to internal audit findings and compliance of audits with professional standards should be strengthened.	The 2015 PFM Act establishes the requirement for an internal audit unit within each department, agency and other public bodies.
Pillar VI: Accounting, Recording and Reporting	
Bank accounts are reconciled periodically, but the timeliness of reconciliation should be improved. Advance accounts are reconciled annually by the Accountant General, but the outstanding amounts should be collected on a timely basis.	

Table AIV: 1. PEFA Identified PFM Reform Priorities; Ongoing PFM Reform Initiatives in Grenada (concluded)

The quality and timeliness of in-year budget reports should be strengthened to manage progress against budget execution. Detailed budget execution reports are prepared, but the scope of data should be broadened to include information regarding the level of committed expenditure and to present execution reports according to administrative classification as well as the economic classification currently prepared.	
While the coverage of the government's financial statements is broadly appropriate, the timeliness of the reports (the latest financial statements are for the financial year ending December 31, 2012) should be strengthened. The government's financial statements should be prepared in accordance with the International Public Sector Accounting Standards (IPSAS).	
Pillar VII: External Scrutiny and Audit	
Coverage, auditing standards, and timeliness of audits of central government entities is broadly appropriate. However, there is a need for more consistent follow-up to audit recommendations.	
To ensure accountability and promote positive change in public financial management in response to external audit findings, the timeliness of the examination of audit reports by the legislature and issuance of recommendations and follow-up on implementation should be strengthened.	The Public Accounts Committee was reconvened in 2014 and has commenced examination of the Public Accounts.

Appendix I. Letter of Intent

November 3, 2015

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

Dear Madame Lagarde,

Grenada has continued the steadfast implementation of its Homegrown Programme. We have met all quantitative performance criteria and have made progress to restore fiscal and debt sustainability.

In 2015, we expect to achieve the first primary surplus in a decade, while completion of a comprehensive debt restructuring will result in a major reduction in the stock of Grenada's public debt. Substantive legislative reforms have helped to overhaul Grenada's fiscal policy framework and, with the ongoing fiscal consolidation, Grenada is cementing a return to sustainability and growth. We are excited about shifting now to a new phase of reform that will reinforce the macro gains achieved, while advancing reforms to raise productivity, strengthen external competitiveness, and boost employment and growth. Our Government remains fully committed to the programme objectives and is looking forward to following through on the reform agenda.

We request modifications to performance criteria to align the existing adjustor for debt restructuring costs (floor on primary balance and ceiling on primary spending) with updated cost estimates and to include the existing adjustor on the indicative ceiling on the net change in central government and central government guaranteed debt for the reimbursement of CLICO and BAICO policyholders on the floor on primary balance and the ceiling on primary spending to ensure consistency across fiscal performance criteria. Attachment 1 to this letter is a supplement to the June 2014 Memorandum of Economic and Financial Policies that presents performance under the programme and updates the specific policies to meet the programme's ultimate objectives, including the associated quantitative targets and structural benchmarks. Attachment 2 is the updated Technical Memorandum of Understanding.

On the basis of our performance under the programme thus far and our commitment to continued implementation of the programme, our Government requests that the Executive Board of the IMF complete the third review of the arrangement under the ECF and the financing assurances review, as well as approve the proposed new performance criteria for December 2016, the proposed modifications to performance criteria, the proposed structural benchmarks, and the fourth disbursement under the arrangement of the equivalent of SDR 2 million.

We are confident that the policies described in the attached MEFP will serve to achieve our programme's objectives. However, if necessary, our Government stands ready to take any additional measures that may be required. We will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. Our Government will also provide the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis.

We consent to the publication of this letter, and its attachments as well as the related staff report.

Yours truly,

/s/

Dr. The Rt. Hon. Keith C. Mitchell
PRIME MINISTER AND MINISTER OF FINANCE

Attachment I. Memorandum of Economic and Financial Policies for 2015-17

1. **Grenada continues to make important progress to address its fiscal and economic crisis.** On June 29th, 2015, the IMF's Executive Board completed the Second Review of the three-year arrangement under the Extended Credit Facility in support of Grenada's home-grown economic reform programme. Subsequently, overall programme implementation has remained strong. All quantitative targets were met for the third review and progress was made on the structural reform agenda, most notably we have increased the transparency of our citizenship-by-investment (CBI) programme through the publication of detailed programme statistics, put in place the governance framework for the National Transformation Fund (NTF) by approving the NTF regulations, and strengthened public finance management by bringing into force the regulations for the 2015 PFM Act.

2. **The Government remains fully committed to the reform strategy and programme objectives.** The policies outlined in the June 2014 MEFP and the December 2014 and June 2015 Supplements remain valid in full, unless modified below. The quantitative targets that serve as performance criteria and indicative targets under the programme have been extended through December 2016 (Table 1). The structural conditionality under the programme, incorporating modifications and additions as discussed below, is presented in Table 2.

Fiscal Consolidation

3. **The Government achieved the first primary surplus in a decade in the first half of 2015.** At 1.2 percent of GDP, the primary surplus during the first sixth months of 2015 outperformed the programme target by a large margin. The overperformance was driven by continued adjustment efforts with strong tax performance across all categories supported by the stronger than expected recovery in output and employment. At the same time, primary spending was kept within the programmed envelope through strict budget controls and expenditure savings, with capital spending successfully aligned with the revised budget allocations agreed during the second programme review. Notably, public employment and the wage bill were also both below their monitored targets for the first half of 2015. As of June 2015, the Government has undertaken a total fiscal adjustment of 5½ percent of GDP, completing about two-thirds of the total consolidation contemplated under our home-grown programme.

4. **The strong fiscal performance in the first half of 2015 will facilitate achievement of the end-2015 programme targets.** All fiscal adjustment measures for 2015 have been implemented and, as demonstrated by the strong performance in the first half of 2015, have started to yield important revenue gains. As a result, we are on track to achieve the 2015 fiscal targets, with the primary surplus achieved over the first half of 2015 only marginally below the 1.3 percent of GDP primary surplus targeted for the year as a whole. Our main task for the remainder of 2015 will be to continue to closely monitor and manage execution of the capital budget to safeguard the early

gains, secure the 2½ percent of GDP fiscal adjustment programmed for 2015 and achieve the first annual primary surplus in a decade.

5. **While we have made significant progress with our efforts to restore fiscal sustainability, a further fiscal consolidation will be required in 2016 to achieve the 3½ percent of GDP primary surplus target.** Specifically, a fiscal adjustment of 1.9 percent of GDP will be required for 2016. We have already taken important steps to put in place the required fiscal adjustment measures and are committed to completing the adjustment by fully implementing our fiscal adjustment package consisting of:

- **Annual stamp tax increase.** Parliament approved a change to the stamp tax (levied on annual gross receipts of businesses) rate schedule and an increase in the VAT threshold (from EC$120,000 to EC$300,000) in June 2015, to facilitate tax compliance by small businesses. Effective from the 2016 tax year, small businesses with annual gross receipts less than the new VAT threshold will be taxed at the new stamp tax rate of 0.5% (compared to 0.25% before the change) and will be exempted from taxes on business income. Businesses with annual gross receipts larger than or equal to the new VAT threshold will be taxed at a new stamp tax rate of 0.75% (compared to 0.5% before the change). The increase in the stamp tax is expected to generate 0.1 percent of GDP in revenues.

- **VAT on St. George's University on-campus housing.** Full implementation of the new VAT (at 10 percent) introduced on private accommodation (mostly dormitories) at the offshore medical school began in August 2015. This is expected to provide additional revenue of about 0.1 percent of GDP a year.

- **VAT on fee-based financial intermediation services.** While most of financial services are exempt from the VAT, the ones that are remunerated by an explicit fee are taxable. As the recent VAT Act amendment passed by Parliament in June 2015 clarifies the applicability of VAT on fee-based financial intermediation services, the Government is committed to registering all qualified financial institutions and ensuring their tax compliance. We expect this will increase VAT revenue by 0.1 percent of GDP in 2016.

- **Petrol tax increase.** We increased the Petrol tax on diesel and gasoline by EC$1 per imperial gallon in September 2015 and by a further EC$0.50 per imperial gallon in October 2015. The combined tax increase is expected to generate 0.6 percent of GDP in revenues.

- **Government telecommunication cost savings.** The Government negotiated a new telecommunication contract, which was finalized and signed in September 2015 and will result in savings on the Government's telecommunication bill of about 0.1 percent of GDP starting in 2016.

- **Wage freeze and waste reduction.** The Government remains committed to the public sector wage freeze during the programme period and will continue its efforts to reduce wastage in goods and services spending. Together, these efforts are expected to reduce the Government's recurrent spending by 0.4 percent of GDP.

- **Streamlining capital spending.** Further steps will be taken to streamline the Government's non-grant financed capital expenditure, which will contribute to an expenditure saving of 0.7 percent of GDP.

6. **As a proposed new structural benchmark for end-December 2015, we will adopt the measures required to fully implement our fiscal adjustment package for 2016.** We will submit the proposed 2016 budget to Parliament in November which will comprise all the measures noted above, including the remaining one: VAT on fee-based financial intermediation services.

7. **To ensure that the fiscal consolidation remains on track in the face of an uncertain outlook, the Government has identified a number of contingent fiscal measures.** These measures are outlined in the June 2014 MEFP and its December 2014 Supplement and we remain committed to enacting them should fiscal risks materialize.

Debt Restructuring and Regularization of Arrears

8. **The Government has made significant progress in its efforts to finalize agreement across all creditor groups on a comprehensive restructuring of Grenada's public debt**.

Debt to private creditors:

- **2025 International Bonds.** The Government is close to finalizing the restructuring of its U.S. and E.C. Dollar 2025 bonds held by private creditors. The formal bond exchange opened on October 5, 2015 and is scheduled to close on November 12, 2015. The creditor committee announced on October 7 that all of its members will participate, which will ensure universal participation. The restructuring, once fully executed, will result in a 50 percent nominal principal reduction. Half of the principal reduction is to be provided immediately upon closing of the formal exchange and the latter half will be provided in 2017, contingent upon completion of the sixth review of the IMF ECF arrangement. Upon completion of the exchange, the stock of public debt immediately declined by 6 percent of GDP and is expected to decline by a further 5½ percent of GDP when the remainder of the principal reduction is granted. The new bonds have an annual coupon rate of 7 percent and a maturity of 15 years. Interest arrears on the 2025 bonds and interest due in 2015 on the new bonds are capitalized and will not receive a haircut as part of the restructuring agreement.
- Bondholders will receive a portion of revenues that may be generated by Grenada's CBI programme after the expiry of the IMF ECF arrangement. The amount of CBI sharing will depend on the magnitude of the CBI revenue received, but will be capped at 35 percent of the face value of the new bonds (in NPV terms). The revenue sharing will begin only after the second haircut is completed.

- The agreement also includes a hurricane clause which will be triggered by any natural disaster covered by Grenada's CCRIF Policy if the calculated loss to Grenada from an event is greater than US$15 million. If such an event occurs, Grenada may elect to defer payment (either one or two payments depending on the severity of the loss suffered); however, the deferred payment amount will continue to be repayable and will continue to accrue interest.
- **Other private creditors:** Alongside the completion of the debt exchange with the 2025 bondholders, the Government is re-engaging with outstanding creditors of the original commercial bonds that did not participate in the 2005 debt exchange.[1] In particular, the Government, through the fiscal agent for the bonds, is contacting its creditors to restructure the outstanding claims of US$5.6 million.

Bilateral official debt. The Government has tentatively agreed to discuss the treatment of its claims with the Paris Club in mid-November. All other non-Paris Club bilateral official creditors are being contacted to request a comprehensive restructuring of their claims on Grenada.

9. **The Government remains committed to clearing its domestic and external arrears during the programme period**:

- **Debt arrears.** In the context of the ongoing debt restructuring negotiations, the Government is negotiating with its creditors a clearance framework for the existing stock of Government debt arrears. Notably, interest arrears on the 2025 bonds will be capitalized as part of the debt restructuring underway and expected to conclude on November 12. Outside the restructuring process, the Government has not incurred additional arrears and remains committed to staying current on all obligations going forward.

- **Budget expenditure arrears.** The Government has reduced budget expenditure arrears in line with programme targets. Between December 2014 and June 2015, the Government reduced budget expenditure arrears by half, lowering outstanding arrears to EC$33.5 million, almost EC$10 million below the end-June 2015 programme ceiling. In particular, the Government completed an on-lending agreement with the Grenada Solid Waste Management Authority (GSWMA) on June 29, 2015, which resulted in a reduction in budget expenditure arrears of EC$15.7 million.[2] We are committed to clearing all arrears by end-2015, as agreed under the programme. In support of this commitment, we will transfer the first EC$24 million of the annual inflows received by the National Transformation Fund in 2015 to the central government for the settlement of arrears. We are also working to strengthen cash management, including flow forecasting in support of budget execution, implementation of commitment control and our arrears clearance strategy.

[1] In 2005 debt restructuring, a small portion of bonds (US$5.6 million, or ¾ percent of GDP) was unclaimed and did not participate in the 2005 debt restructuring agreement.

[2] The Government obtained a loan from the Caribbean Development Bank in the sum of EC$29 million (US$10.7 million) in June, 2015, of which EC$15.7 million was used to clear the government's budget expenditure arrears to the GSWMA. The remainder of the CDB loan will be lent to GSWMA for the Integrated Solid Waste Management Project.

- **Membership fees** to regional and international organization arrears. The Government has finalized a strategy to repay membership arrears to regional and international organizations. The strategy will involve seeking restructuring agreements with some of the main organizations.

Fiscal Structural Reforms

10. **Our fiscal policy framework has undergone a fundamental transformation to ensure fiscal discipline and lock-in the gains from fiscal consolidation.** Going forward our reform strategy will focus on implementing our new strengthened fiscal policy framework and the reform strategy for state-owned enterprises (SOEs) and statutory bodies (SBs), strengthening tax administration, ensuring the sustainable management of CBI revenue, and completing the modernization of the public sector.

11. **We are focused on strong implementation of our new fiscal policy framework.** To this end, we will:

- Ensure that the 2016 budget is aligned with our commitments under our IMF-supported program as detailed in Table 1 and the new rule-based fiscal policy framework outlined in the Fiscal Responsibility Act of 2015 (proposed new **structural benchmark** for end-December 2015). Specifically, as required by the rules-based framework, the 2016 Budget will target a primary balance of 3.5 percent of GDP and will cap real expenditure growth at 2 percent. Moreover, consistent with the requirement in the legislation to ensure that the ratio of expenditure on the wage bill shall not exceed 9 percent of GDP, the public sector wage freeze will remain in effect and the attrition policy operational. These commitments are consistent with our efforts to reduce debt to a prudent and sustainable level, as required under the new rules-based framework, which establishes a debt ceiling of 55 percent of GDP.

- Adhere to the regulations for the National Transformation Fund (NTF), put in place in August 2015 (implementing the **structural benchmark** for end-February 2015). Specially, as required by the regulations, forty percent of the monthly inflows into the NTF will be saved for general budget financing purposes, including contingency spending, natural disasters and debt reduction. All NTF-financed capital spending will be fully integrated into the Government's public sector investment programme (PSIP) and the central government Budget.

- Put in place the regulations needed to support implementation of the 2015 Public Debt Management (PDM) Act. We will seek technical assistance from the IMF to draft the regulations required for the 2015 PDM Act.

- Strengthen public finance management. The regulations for the 2015 PFM Act, drafted with technical assistance from the IMF, were finalized and brought into force in September 2015 (implementing the **structural benchmark** for end-June 2015). Looking ahead, an important challenge to effective implementation of the new PFM legislation, approved by Parliament in June 2015, will be to strengthen our accounting and auditing framework for public accounts and to prepare a PFM manual to help guide compliance with the new Act. In particular, the 2016

Budget will be prepared in the context of a medium-term fiscal framework based on estimates for the fiscal year and two consecutive years thereafter, which will take into account the economic and development policies consistent with the Government's medium-term economic and fiscal objectives.

- Implement the new Chart of Accounts. We also remain committed to implementing the new Chart of Accounts (COA), which was updated with technical assistance from CARTAC, for the 2016 Budget (end-December 2015 **structural benchmark**). Implementation of the new COA will facilitate fiscal reporting under both the old and new COA to ensure consistency throughout the programme period.

12. **We are focused on implementation of the strategic plan approved by Cabinet in February 2015 to strengthen the financial position of SOEs and SBs.** To this end, we have established a committee to oversee implementation of the strategy—comprised of representatives from the Ministry of Finance and managers of SOEs—and contribute to the monitoring of SOEs. Accordingly, we have delegated the Policy Unit, within the Ministry of Finance, oversight responsibility over SOEs and SBs, including for monitoring compliance with the new reporting requirements that have been established for these entities (including under the 2015 PFM Act) and for implementation of the reform agenda. We are committed to allocating sufficient resources to the Policy Unit to fulfill these important functions. We have made important progress in implementation of the reform agenda:

- **SOE and SB framework reforms.** We have strengthened the regulatory environment in which SOEs/SBs operate. Reporting requirements, including those mandated under the new PFM Act, have been strengthened and clarified to SOEs/SBs in a detailed directive. Moreover, quarterly reporting templates have been distributed to all SOEs/ SBs and quarterly reporting of these entities' critical nonfinancial and financial information to the Ministry of Finance has commenced. To ensure the adoption of sustainable wage bill management practice by SOEs/SBs, the Government has also issued a guidance note on salary negotiation, prepared with technical assistance from CARTAC, to these entities to clarify the employment and compensation practices to which these institutions must adhere. Notably, all statutory bodies receiving subventions from Government are required to adhere to the ongoing public sector wage freeze. We are also committed to issuing a dividend policy, applicable to commercial SOEs by end-2015.

- **Institution-specific reforms**. We have also commenced restructuring of individual SOEs. We anticipate receiving US$5 million in financing from the World Bank to complete the restructuring of Gravel, Concrete and Emulsion Production Corporation and the Grenada Postal Corporation. In addition to our institution-specific reform strategy approved by Cabinet and laid out in the June 2015 MEFP, we are also committed to revamping the tariff-setting regime of the National Water and Sewerage Authority and the Solid Waste Management Authority to resolve revenue weaknesses in these institutions and to provide these institutions with greater revenue certainty given their large forward capital commitments.

13. **We will expeditiously complete the reform of the tax incentive regime to make it more rules-based and transparent and eliminate discretion.** Parliament approved, in June 2015, amendments to the income tax, value added tax, and property transfer tax acts required to implement the new tax incentive regime. We will continue efforts to remove all discretion in our tax incentive regime and, in particular, will remove discretion from the granting of customs duty exemptions after coordination with CARICOM— given our regional commitments on external tariffs. Parliament also approved the Investment Act in November 2014 and the accompanying regulations are expected to be approved by March 2016. We will bring the new tax incentive regime into full force—specifically, the amendments to the income tax, value added, property transfer tax and property tax acts, as well as the 2014 Investment Act—by end-December 2015 (**a proposed new structural benchmark).**

14. **We will continue our efforts to ensure the transparent and sustainable management of CBI receipts.** As of end-June 2015, we have set aside EC$9.4 million of the associated revenues for arrears clearance in line with our commitment to prioritize NTF revenues for arrears clearance. Receipts from Grenada's CBI programme are an asset of the Grenadian people and the Government is committed to ensuring that they are effectively, transparently, and sustainably managed to promote national development. We have started to publish on the Ministry of Finance website all CBI-related statistics, as outlined in the TMU (¶20), on a quarterly basis starting July 31, 2015 (meeting the associated **quarterly structural benchmark)**.

15. **We will continue our efforts to strengthen tax and customs administration.** A new Tax Administration Act drafted with technical assistance from the IMF is being finalized and is expected to be approved by Parliament in line with the **end-November 2015 structural benchmark**. In addition to strengthening the legislative environment for tax administration, we are reforming the Inland Revenue Department (IRD) — with technical assistance from CARTAC and the IMF—to strengthen tax administration. Thus far, our efforts have concentrated on establishing a Large and Medium Taxpayer Service (LMTS) unit to strengthen IRD's capacity and facilitate tax compliance by the largest taxpayers and on strengthening performance management systems and improving information technology. We will complete the establishment and operationalization of the LMTS and Small Taxpayers Service Units by end-December 2015 as a proposed **new structural benchmark**.

16. **Civil service reforms remain critical to improving the efficiency, quality and cost effectiveness of the public sector.** In the context of public sector modernization, the Government has been focused on a comprehensive corporate planning exercise, reviewing the new employment arrangement framework as well as the attrition policy. This has been a significant agenda for the Department of Public Administration and, given capacity constraints, we are now focusing on the key priorities that will produce the highest impact in terms of strengthening public sector organization and effectiveness. In this regard, we intend to enact a new Public Service Bill by mid-2016 and aim to finalize a strategic plan in line with the **end-March 2016 structural benchmark**, although mid-2016 appears a more realistic timeframe.

Structural Reforms to Support Competitiveness and Growth

17. **Strengthening Grenada's competitiveness to improve prospects for growth and job creation remains the main focus of the Government's economic programme**. Our efforts toward a higher, sustainable and more equitable growth path continue to be guided by our Growth and Poverty Reduction Strategy (GPRS) for 2014-18. We have made important progress in implementing our strategy. Notably, the GPRS is being used as the ma in guiding policy document for all Ministries, with its implementation centered on the Government's PSIP, which is being fully aligned with GPRS priorities. We have also taken steps to strengthen the monitoring and evaluation framework for the GPRS, with the Department of Economic and Technical Cooperation within the Ministry of Finance now responsible for ensuring the consistency of the PSIP with the GPRS. Finally, the GPRS will be a key input into Grenada's planned new long-term development plan, the National Sustainable Development Plan 2030, which is expected to be finalized by end-June 2016. A national steering committee, composed of key stakeholders across all segments of Grenadian society, has been constituted to guide development of the plan and is being supported by a technical working group.

18. **Further actions to improve the business environment are critical to enhancing Grenada's growth prospects.** Consistent with the GPRS emphasis on strengthening the business environment, we are committed to unlocking the critical impediments to private sector investment and activity. In this regard, we will:

- Introduce new insolvency legislation. A new Bankruptcy and insolvency bill has been drafted with the assistance of a consultant from the Commonwealth Fund for Technical Cooperation (CFTC). We expect the bill to be approved by parliament by end-2015.

    - Reform Grenada Industrial Development Corporation (GIDC). With assistance from the IFC, we have now completed an assessment of GIDC. Based on these findings, we will implement a strategic realignment and corporate restructuring of GIDC that will focus on reinforcing GIDC's executive capacity as an economic development corporation, with investment promotion to be repositioned as a key function of GIDC's mandate. We will revise the GIDC Act, with assistance from the IFC, to align it with the new functions of the corporation. The parliamentary approval of the revised act is proposed as a new **structural benchmark** for end-June 2016. We believe that the restructuring of GIDC will play a fundamental role in reducing the time and cost of obtaining investment approval and strengthening overall investment allocation in Grenada.

    - Support the creation of an ECCU-wide credit bureau (see below). In line with our GPRS, we are committed to improving access to finance to facilitate investment and growth by strengthening Grenada's financial infrastructure. As such, we are committed to the regional initiative to create an ECCU-wide credit bureau, supported by the ECCB Monetary Council, to strengthen banks' ability to assess credit risk and help improve access to credit. Once approved by the ECCB Monetary Council, we would present the legislation required to create the regional credit bureau to Grenada's Parliament for immediate consideration.

19. **At this stage of our programme, we are elevating our attention to the labour market as a key element of overall efforts to strengthen price competitiveness and growth.** In line with our commitment to modernize the public sector and reduce associated costs (¶16), we will also introduce reforms aimed at promoting employment and lowering labour costs. We will:

- Finalize revisions to the Labour Code. We conducted an extensive review of the 1999 Grenada Labour Code and assessed it against the International Labour Standards and Conventions with the aim of introducing a new, updated Grenada Labour Code consisting of the Employment Act and the Labour Relations Act. The new Labour Code aims to enhance labour mobility and reduces impediments to hiring while ensuring that the system provides adequate protection of workers' rights. The review identified in particular the need to clarify the Labour Code provisions related to the termination of employment, the types of employment contracts, the working week, and specific provisions on overtime, as priority areas to be addressed in the new Labour Code that could contribute to job creation and lowering unemployment. As a proposed new **structural benchmark**, we will seek Parliamentary approval of a new Grenada Labour Code by end-August 2016.

- Strengthen labour market statistics. In support of our efforts to address labour market rigidities, we are continuing our efforts to strengthen labour market statistics in recognition of the important role such statistics serve as an input to policy decisions. In 2013, we introduced a new annual Labour Force Survey (LFS) (conducted also in 2014) and are committed to continuing the survey on an annual basis. In 2015, we will incorporate a new section on multidimensional poverty indicators (including education, health and employment), compiled with assistance from the Oxford Poverty and Human Development Initiative, into the survey, which is expected to be launched in September, with final results expected by the first quarter of 2016. As part of the Regional Labour Market Information System project with the ILO, we will also introduce, in 2015, a new labour demand survey, the Job Opening and Labour Turnover Study, with results expected by year-end. Despite these enhanced efforts, we recognize that a critical gap remains with respect to the availability of information on labour costs and will seek technical assistance from our development partners to address this gap, beginning with the 2016 LFS. To complement efforts to strengthen data availability, we are strengthening the capacity of the Central Statistics Office and are receiving technical assistance from the World Bank to process and analyze labour market data.

20. **Reforms to the regulatory environment for energy remain vital to strengthening Grenada's price competitiveness.** Amendments to the Public Utilities Regulatory Commission Act and a new Electricity Supply Act have been drafted and underwent public consultations in February 2015. Subsequent to the consultations, public comments have been incorporated into the draft legislation, which has been published for a subsequent round of public consultation. We expect the new legislation to be approved in early 2016. The legislation will put in place a new regulatory authority responsible for tariff-setting by establishing a new national regulator, to be supported by

the regional advisory authority (the Eastern Caribbean Energy Regulatory Authority (ECERA) when established, and set the legislative framework to encourage competition in the electricity sector and guide Grenada's transition to renewable energy.

21. **We believe that changes are needed in the agricultural sector to expand capacity, raise productivity, and unlock important growth opportunities for Grenada**. Our efforts to transform the agriculture sector include:

- Integration of the agricultural supply chain into the tourism sector. We recognize the important role that stronger integration of the agricultural supply chain into the tourism sector could play to reduce food imports. Our efforts in this area continue to be spearheaded by the Marketing and National Importing Board (MNIB) and, to this end, Cabinet has approved a policy to strengthen tourism and agribusiness linkages by transforming MNIB into a service provider of information on markets, product quality, and standards. Going forward, our objective is to promote further integration of the agriculture sector with the tourism industry by enhancing the attractiveness of Grenada's agricultural products through further improvements in product quality and the reliability of supply through enhanced production planning.

- Commercialization of government-owned agricultural estates. To enhance production efficiency and improve the supply response to growing market demand, we have focused efforts on the commercialization of about 500 acres of land in four main estates which are being leased to the private sector for strategic agricultural production. We have completed the commercialization of two of the four estates, with the remaining estates expected to be commercialized by 2016. These efforts have already begun to yield dividends in terms of increasing our production base, strengthening the diversification of our products, and increasing exports or nontraditional agricultural products.

22. **We will accelerate our efforts to strengthen social protection.** We have made progress in advancing the reforms of our largest social assistance programme—Support for Education Empowerment and Development (SEED). The new beneficiary system is now installed and undergoing final testing and we have developed a strategy for implementing the system, which was approved by Cabinet in August 2015. Because of system delays, the processing of new applications into the beneficiary pool was delayed and, as a result, we may miss the end-December 2015 indicative floor on social spending. We have resumed the processing of new applicants in September 2015, which would allow for a gradual recovery in spending under the programme. With the reforms to the SEED programme now complete and systems problems addressed, we are committed to maintaining SEED spending at or above the programmed floor for the remainder of the ECF-supported programme in line with our commitment to provide strong social support during the ongoing period of fiscal adjustment.

Financial Sector Reforms

23. **We remain committed to the ECCU regional strategy to strengthen the banking sector and, together with our regional partners, have made significant progress in implementation of the strategy:**

- To promote the stability of the banking system over the medium-term, the ECCB Monetary Council, in February 2015, approved a new legislative framework for bank regulation, supervision, and resolution. Subsequently, Grenada's Parliament, in April 2015, approved the revised Banking Act. As part of the overall package of legislative reforms, we are also committed to the new ECCB Agreement Amendment Act, which must be approved on a country-by-country basis, and will present the Act to Parliament for consideration and approval as soon as the draft legislation is received by the ECCB. With these elements of the legislative framework now in place, the Monetary Council has committed to drafting regionally harmonized legislation to introduce deposit-insurance and reform foreclosure proceedings. In line with our regional commitment, Grenada is committed to putting in place these additional elements of the overall framework for bank supervision, regulation, and resolution as soon as they are approved by the Monetary Council.

- The regional asset quality review (AQR) of indigenous banks, the viability assessments of individual banks, and the regional assessment of potential mergers and/or grouping of assets and liabilities across banks that could be attractive for potential investors are now complete. The results are currently being considered holistically by the ECCB, in conjunction with national authorities, to assess the financial strength of individual banks and determine the final estimated capital needs of each institution. Subsequently, these assessments will be utilized to further elaborate the regional strategy to address banking sector weaknesses on an institution-by-institution basis.

- We remain committed to taking immediate action as necessary to strengthen the financial position of commercial banks operating in Grenada while safeguarding fiscal sustainability. In this regard, we will work with the ECCB to determine an appropriate strategy, in the context of a sustainable fiscal framework consistent with commitments under the IMF-supported programme and resumption of debt sustainability, to address weaknesses identified in the Grenadian banking sector. Private sector solutions will be considered as a first best option to address any weaknesses identified in Grenadian banks.

24. **We continue to strengthen regulation and supervision of the nonbank financial sector.** An independent evaluation of the Grenada Authority for the Regulation of Financial Institutions' (GARFIN) operations and supervisory practices was undertaken by CARTAC in early 2015. The results and recommendations from the assessment of GARFIN will be used to guide our continued efforts to strengthen regulation and supervision of the nonbank financial sector. The draft report acknowledges the significant progress made in strengthening regulation and supervision of the nonbank financial sector since GARFIN was established in 2007, and identifies the need to continue

these efforts by increasing staffing at GARFIN to vest it with sufficient resources to be able to adequately fulfill its oversight responsibilities. We are committed to addressing this resource gap.

25. **We fully support the establishment of the Eastern Caribbean Financial Services Regulatory Commission as the regional regulator and supervisor of the proposed single insurance market in the ECCU.** The process is moving forward as planned with the projected launch date for the single insurance market and single regulator being the first quarter of 2017. We are committed to enacting the new uniform ECCU Insurance legislation once it is finalized. In the interim, GARFIN has continued to strengthen supervision of the sector. On-site examination of insurance companies is ongoing and revised quarterly reporting forms have recently been introduced. GARFIN continues to enhance cooperation with home country regulators in an effort to strengthen consolidated supervision.

26. **GARFIN has taken important steps to enhance supervision in the credit union sector.** This includes implementing risk-based supervision and, with technical assistance from CARTAC, conducting credit quality reviews. To complement these efforts, we are committed to strengthening the legislative framework for regulation and supervision by revising the Cooperative Societies Act in 2016 to enhance credit unions' capital adequacy, among other things. Moreover, we are also committed to issuing the uniform ECCU regulations for the credit union sector which will provide support for the Cooperatives Societies Act. In cooperation with the Caribbean Association of Credit Union Supervisors, CARTAC, and our regional counterparts, we are giving consideration to developing a risk-weighted capital adequacy framework for credit unions.

27. **With regard to pensions, GARFIN has completed registering most of the pension plans in Grenada.** Offsite supervision of pension plans is now ongoing through review of audited financial statements and actuarial reports. Detailed interim reporting forms will be introduced before year end. A training workshop for trustees is also planned in the next coming months. On-site supervision covering areas such as asset/investment quality and corporate governance will commence in 2016.

Programme Monitoring

28. **The programme will be subject to semiannual reviews and semiannual performance criteria, indicative targets and structural benchmarks, as well as continuous performance criteria.** This is set out in Tables 1-2 and in the attached Technical Memorandum of Understanding (TMU). We anticipate that the fourth, fifth, and sixth reviews will take place on or after March 31, 2016, September 30, 2016 and March 31, 2017, respectively, and will require observance of the continuous performance criteria and of the conditionality for end-December 2015, end-June 2016, and end-December 2016, respectively. To facilitate programme monitoring, we are committed to providing detailed statistical information as specified in the TMU. Progress in the implementation of the policies under the programme may be monitored on a quarterly basis through staff visits.

Table 1. Grenada: Quantitative Programme Targets

	2013	2014				2015					2016	
	Dec.	Jun.		Dec.		Jun.				Dec.	Jun.	Dec.
	Act.	Act.	Status	Act.	Status	Prog.	Adj. Prog. 1/	Act.	Status	Prog.	Prog.	Proposed
Performance criteria												
A. Cumulative floor on central government primary balance (EC$ mln) 2/	-90	-2	Met	-28	Met	9	26	34	Met	31	39	94
B. Cumulative ceiling on central government primary spending (EC$ mln) 2/	564	285	Met	630	Met	281	301	284	Met	550	268	526
C. Ceiling on stock of central government budget expenditure arrears (EC$ mln)	86	80	Met	66	Met	43	43	34	Met	0	0	0
D. Ceiling on accumulation of external debt arrears (continuous)		0	Met	0	Met	0	0	0	Met	0	0	0
E. Ceiling on contracting of non-concessional external debt by the central government (continuous, US$ mln)		0	Met	10	Not met	0	0	0	Met	0	0	0
Indicative targets												
F. Cumulative ceiling on net change in central government and central government guaranteed debt (EC$ mln) 2/ 3/		73	Met	48	Met	39	38	-30	Met	66	13	15
G. Floor on social spending by central government (EC$ mln)		6.2	Not met	11.4	Not met	6.7	6.7	5.4	Not met	13.4	7.0	14.0
Monitoring												
H. Wage bill target	227	111	Met	219	Met	110	110	109	Met	220	110	219
I. Public employment target	7755	7168	Met	7515	Met	7534	7534	7096	Met	7484	7434	7384
Memorandum item												
Projected new concessional external debt (US$ mln) 4/										21	10	10

1/ Adjusted for the shortfall in SEED spending, the revenue overperformance, and the capital grant shortfall compared to the program as applicable according to the TMU.
2/ From end-December of the previous year.
3/ Actual does not include financing from CDB on behalf of GSWMA because the loan had not been disbursed.
4/ Debt with a grant element that exceeds a minimum threshold of 35 percent.

Table 2. Grenada: Structural Programme Conditionality

Measure	Timing	Implementation Status
Structural Benchmarks		
Growth- Enhancing Reforms		
1. Parliamentary approval of the revised Investment Promotion Act	November 30, 2014	Met
Fiscal Adjustment Measures		
1. Parliamentary approval of 2015 budget consistent with program commitments	December 31, 2014	Not met, but corrective action taken
2. Parliamentary approval of 2016 Budget consistent with program commitments and Fiscal Responsibility Legislation	December 31, 2015	Proposed
3. Parliamentary approval of fiscal adjustment measures for 2016	December 31, 2015	Proposed
Fiscal Structural Reforms		
1. Parliamentary approval of the revised PFM legislation	August 31, 2014	Met
2. Cabinet approval of a strategic plan for the statutory bodies	October 31, 2014	Met in February 2015
3. Parliamentary approval of the revised legislation on tax incentive regime	November 30, 2014	Met in June 2015
4. Parliamentary approval of the legislation for the fiscal policy framework	December 31, 2014	Met in June 2015
5. Minister of Finance approval of regulations for the National Transformation Fund	February 28, 2015	Met in August 2015
6. Parliamentary approval of a public debt management law	March 31, 2015	Met in June 2015
7. Minister of Finance approval of regulations for the revised PFM legislation	June 30, 2015	Met in September 2015
8. Publication of all citizenship-by-investment statistics on a quarterly basis	Quarterly, beginning July 31, 2015	Met
9. Parliamentary approval of a tax administration act	November 30, 2015	
10. Implementation of the new Chart of Accounts for the 2016 Budget	December 31, 2015	
11. Establishment and operationalization of the LMTS and Small Taxpayers Service	December 31, 2015	Proposed
12. Signing into force of the new tax incentive regime and Investment Act 2014	December 31, 2015	Proposed
13. Cabinet approval of a strategic plan to modernize the public sector	March 31, 2016	
14. Parliamentary approval of the revised GIDC Act	June 30, 2016	Proposed
15. Parliamentary approval of a new Grenada Labor Code	August 31, 2016	Proposed

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Grenada authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets for the programme supported by the arrangement under the ECF. It also describes the modalities for assessing performance under the programme and the information requirements for monitoring this performance. In addition, the TMU specifies the requirements under the continuous structural benchmark with respect to the publication of citizenship-by-investment statistics.

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

I. PERFORMANCE CRITERIA

A. Cumulative Floor on the Central Government Primary Balance

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

- Total revenues and grants will record (i) project grants only to the extent that they have been spent; (ii) half of the budgetary grants (grants not earmarked for capital outlays) will be recorded when received and will be saved to settle supplier arrears (see below), with the remaining budgetary grants treated as project grants and recorded when spent on capital outlays; and (iii) transfers from the National Transformation Fund (NTF) for the settlement of arrears will be recorded as non-tax revenue and treated similarly to the CBI receipts.

- Expenditures will be recorded on an accrual basis, with: (a) budget execution data as reported by the Ministry of Finance (MOF); supplemented by (b) data on unprocessed claims to be collected and reported by the MOF.

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

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

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

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

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

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

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

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

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

ix. Less grants received but unutilized.

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

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

i. Upward by the amount of fees received (non-tax revenues in the budget) from the citizenship-by-investment (CBI) programme and by the amount of transfers from the NTF for the settlement of arrears.

ii. In the event that revenues (excluding the fees from the CBI programme and transfers from the NTF) exceed those projected under the programme, the primary balance target will be adjusted upward by one half of the excess during January-June, to allow for additional capital spending while safeguarding compliance with the annual fiscal targets. The following table shows the accumulated projected revenue and budgetary grants for 2015-16, as well as capital spending, to which the actual outcomes will be compared.

Grenada: Programmed revenues and grants, 2015-16

	2015 [1]	2016 [1]	
	Dec.	Jun.	Dec.
(EC$ millions)			
Non grant revenue	504.4	284.7	565.9
Budgetary grants	0	0	0
Capital spending	176.5	76.5	148.8
o.w. financed by capital grants	77.1	27.9	55.9

[1] Cummulative from end of the previous year.

iii. Upward by half of the amount of budgetary grants received in excess of those projected under the programme.

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

v. Downward for the cost of technical assistance related to public sector modernization reforms less the amount of any grants received for this purpose (up to a cumulative maximum of US$300 thousand).

vi. Downward for the advisor fees related to debt restructuring less the amount of any grants received for this purpose (up to a cumulative maximum of US$5 million) for the end-December 2015 target.

vii. Downward for the cost of severance payments associated with the restructuring of Grenada Concrete Emulsion and Production Corporation and the Grenada Postal Corporation (up to a cumulative maximum of US$4 million).

viii. Downward by the amount paid by the government to reimburse the policy holders of the failed regional insurance companies BAICO and CLICO, less the grant-financed share of these payments.

6. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing. The Government will safeguard the over-performance in revenue achieved in the first half of any year by increasing the capital budget allocations for the last two quarters of the year only up to 2/3 of the over-performance.

B. Cumulative Ceiling on Central Government Primary Spending

7. The primary spending of the central government will be calculated as the sum of revenues and grants that have been utilized minus the primary balance of the central government as measured above in section A. The performance criterion on primary spending will be subject to the same adjustors as applied to the primary balance target as applicable with the exceptions of the adjustors specified in ¶5 points (v), (vi) and (vii). An additional adjustor would apply to the primary spending target to allow for the full use of available project grants and half of the amount of budgetary grants: the target will be adjusted upward by the full amount of additional capital grants, and by the amount of budgetary grants, received and spent on capital outlays in excess of programmed levels (but only up to half of the total budgetary grants received) and will be adjusted downward by half of the shortfall in capital grants compared to the programmed levels to safeguard the fiscal targets (table above). The target will also be adjusted upward by: (i) the cost of technical assistance related to public sector modernization reforms (up to a cumulative maximum of US$300 thousand); (ii) advisor fees related to the debt restructuring, for the end-December 2015 targets only (up to a cumulative maximum of US$5 million); (iii) the cost of severance payments associated with the restructuring of Grenada Concrete Emulsion and Production Corporation and the Grenada Postal Corporation (up to a cumulative maximum of US$4 million), and (iv) the amount paid by government to reimburse the policy holders of BAICO and CLICO.

C. Ceiling on the Stock of Central Government Budget Expenditure Arrears

8. A ceiling is set on the stock of central government budget expenditure arrears equal to EC$0 million at each of end-December 2015, end-June 2016 and end-December 2016. Budget

expenditure arrears are defined as the sum of: (i) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period),or in the absence of a grace period, within 60 days after the due date; (ii) wages, pensions, or transfers (including to the Solid Waste Company), for which payment has been pending for longer than 60 days to domestic or foreign residents; and (iii) interest and amortization payments on domestic debt for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period). Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition. The data will be reported by the Accountant General's office.

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

9. The central government will not incur new arrears in the payment of their external obligations (contracted or guaranteed) at any time during the arrangement. Arrears are defined as a payment of debt which has not been made within the contractually agreed period (taking into account any applicable contractual grace period). Overdue membership fees to regional and international organizations as well as arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or for which the government or the institution with government guaranteed debt is actively and in good faith pursuing a debt restructuring are excluded from this definition. The performance criterion will be applied on a continuous basis under the programme.

E. Ceiling on Contracting of Non-Concessional External Debt by the Central Government (Continuous)

10. The ceiling on non-concessional borrowing will be applied to the contracting or guaranteeing by the central government of medium and long-term external debt (maturity greater than one year). Excluded from the ceiling is borrowing from regional financial institutions or markets (Caribbean Development Bank, the World Bank, and the RGSM) and debt instruments to be issued as part of a debt restructuring. The contracting and guaranteeing of non-concessional external debt will be monitored and reported to the Fund staff by the Debt Management Unit (DMU), after reconciliation with the Accountant General's office, on a monthly basis. The government will undertake to consult with IMF staff on the terms and concessionality of any proposed new debt in advance of contracting such external debt. The performance criterion will be applied on a continuous basis under the programme.

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

12. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.[1] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

II. INDICATIVE TARGETS

F. Cumulative Ceiling on Net Change in Central Government and Central Government Guaranteed Debt

13. The net change in central government and central government guaranteed debt is defined as the difference in the stock of central government and central government guaranteed debt between two specified periods. For programme purposes, the stock of central government and central government guaranteed debt is measured under the disbursement basis.

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

15. The ceiling on the net change in central government and central government guaranteed debt will be adjusted as follows**:**

[1] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the October 2014 World Economic Outlook (WEO).

- Upward by the amount paid by the government to reimburse the policy holders of the failed regional insurance companies BAICO and CLICO, less the grant-financed share of these payments.

- Upward to a maximum amount of 5 percent of GDP to accommodate PPP related expenditures.

- Downward by the amount of nominal debt forgiveness in the case of debt restructuring

- Upward for the cost of technical assistance related to public sector modernization reforms less the amount of any grants received for this purpose (up to a cumulative maximum of US$300 thousand).

- Upward for the advisor fees related to debt restructuring less the amount of any grants received for this purpose (up to a cumulative maximum of US$5 million).

- Upward for the cost of severance payments associated with the restructuring of Grenada Concrete Emulsion and Production Corporation and the Grenada Postal Corporation (up to a cumulative maximum of US$4 million).

16. The data used to monitor the net change in central government and central government guaranteed debt will be provided by the DMU, after reconciliation with the Accountant General's office, on a monthly basis.

G. Indicative Floor on the Social Spending by the Central Government

17. The indicative floor on social spending of the central government will apply only to expenditures incurred by the central government on the SEED programme (Support for Education Empowerment and Development). Spending under the SEED programme will be reported by the Ministry of Finance on a quarterly basis.

H. Memorandum Item: Wage Bill Target

18. The wage bill of the central government will include expenditures incurred by the central government towards the payment of wages, salaries and personnel allowances. This will be reported by the Ministry of Finance on a quarterly basis.

I. Memorandum Item: Public Employment

19. The public employment of the central government will include the established (permanent), unestablished (temporary) workers, and project workers. This will be reported by the Ministry of Finance on a quarterly basis.

III. PUBLICATION OF CITIZENSHIP-BY-INVESTMENT STATISTICS

20. The Ministry of Finance on a quarterly basis beginning July 31, 2015 will supply to the IMF and publish on its external website all CBI-related statistics including, but not limited to: (i) the number of CBI applications received, by type of application (National Transformation Fund (NTF) donation or investment option), (ii) the number of CBI-programme applications approved (NTF donation or investment option), (iii) the number of new citizens under the CBI programme, (iv) the number of CBI-programme applications rejected, (v) the total amount of revenues received into the NTF, (vi) the total amount of CBI programme application fees received by the central government, (vii) total transfers of NTF funds from the NTF to the central government, (viii) total central government spending financed by CBI-programme related revenue (direct central government financing and NTF-financed projects).The data will be reported as outlined in Table 1.

IV. PROGRAMME REPORTING REQUIREMENTS

21. Performance under the programme will be monitored from data supplied to the IMF by the Ministry of Finance and the Central Statistics Office as outlined in Table 1. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 1: Summary of Data to be Reported to the IMF

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

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

INTERNATIONAL MONETARY FUND

GRENADA

November 20, 2015

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

Approved By

Robert Rennhack (WHD) and Bob Traa (SPR)

This supplement provides information that has become available since the staff report (EBS/15/129) was issued. It does not alter the staff appraisal.

The debt exchange with the holders of Grenada's 2025 international bonds was successfully completed. The exchange offer—launched on October 5—attracted 94 percent of creditors of the U.S. dollar 2025 bonds and 100 percent of creditors of the E.C. dollar 2025 bonds (excluding the portion held by Grenada's National Insurance Scheme). The tender level of the U.S. dollar bonds triggered the collective action clause, ensuring universal participation and eliminating the possibility of holdouts. The deal concluded on November 12 when all outstanding 2025 bonds offered were exchanged into new bonds maturing in 2030. The terms of the debt exchange included a principal haircut of 50%, of which half became effective immediately and the remaining to be effective upon completion of the sixth review of the current ECF arrangement. As noted in the Staff Report (EBS/15/129), the agreement includes sharing of receipts from the citizen-by-investment (CBI) program after the full principal haircut is granted, and includes a clause allowing a delay in debt service following a qualifying natural disaster.

A separate restructuring agreement was reached on the E.C. dollar 2025 bonds held by Grenada's National Insurance Scheme (NIS). On November 6, the government agreed with the NIS to restructure their holdings of the 2025 bonds into new long-term debt instruments carrying a 25-year tenor with a 10 year grace period and 3 percent interest rate. There was no principal haircut, but the restructuring terms entail cash flow savings of 63 percent in net present value terms for the government.

Grenada reached an agreement in principle with Paris Club creditors on November 18 to reschedule outstanding Paris Club debts and arrears. The agreement includes a consolidation period from November 2015 to June 2017, with 50 percent of existing arrears (past due principal and interest) to be repaid in cash in two installments in 2016 and 2020. The remaining arrears along with the principal and interest due during the consolidation period will be rescheduled over 20 years with 7 years grace for ODA claims and over 15 years with 8 years grace for non-ODA claims. There was no principal reduction. The agreement also includes a hurricane clause that would allow the creditors to consider further relief in the event of a qualifying natural disaster. The exact rescheduling terms will be agreed bilaterally between Grenada and each of its Paris Club creditors in the coming months.

Restructuring negotiations with remaining creditors have also advanced. The authorities have engaged the new government in Trinidad and Tobago, Grenada's largest official bilateral creditor, and are seeking more favorable terms (i.e. a deeper NPV reduction in the debt to Grenada's benefit) than the Paris Club rescheduling agreement on the two outstanding debts contracted in 2005 and 2013. On domestic debt, the authorities are negotiating with domestic commercial creditors to restructure the majority of outstanding debt on terms comparable to those of the U.S. dollar 2025 bonds restructuring, excluding the sharing of any CBI flows. To reduce rollover risks, the authorities are also planning to convert most of the T-bills issued through private placement into new instruments with longer maturity and lower interest.